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Inter-Departmental Memo

To: Hon. Norma L. Gonsalves, Presiding Officer
Hon. Kevan Abrahams, Minority Leader
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
Office of Legislative Budget Review

A handwritten signature in blue ink, appearing to be "MC", enclosed in a blue circular scribble.

Date: January 28, 2016

Re: Current Economic Trends and January 2016 Economic Report

Attached is a copy of the Office of Legislative Budget Review's (OLBR) January 2016 economic report. It provides a reading of current economic conditions by utilizing many data sources, such as the Multiple Listing Service of Long Island, the Long Island Convention and Visitor's Bureau, the New York State Department of Labor, and the U.S. Bureau of Labor Statistics. It then provides a forecast of future economic conditions by displaying Moody's Analytics current forecast and comparing it to the current economic forecasts of other economists. This report is being circulated to assist the Legislature in making policy decisions and in assessing budgetary or planning forecasts. The data included is the most current as of the date of issuance. Additionally, the data is the most geographically relevant.

With the receipt of the January 12th sales tax distribution check, the County has received all collections on purchases made through November 2015. On a year-to-date basis, receipts compared to the same time period in 2014 have increased by \$14.3 million or 1.4%. The County will receive two more sales tax distribution checks which will be credited to calendar year 2015 and will be based upon purchases made in December 2015.

Year end 2015 appears to have been solid in economic terms. A strong job market and low gasoline prices helped boost US consumer confidence in December 2015 according to the Conference Board.¹ Local homes sales were robust due to individuals attempting to lock in lower

¹ The Associated Press, "American Consumers Showing More Confidence in Economy", Long Island Business News, January 26, 2016.

interest rates in December 2015.² Lastly, in November 2015 Nassau County car and truck sales increased 7.8% from the prior year according to the Greater New York Automobile Dealers Association. Moreover, a consultant who prepares the report estimates a 9.0% annual gain for the 12 county region in December 2015.³

Should the current economic momentum continue, 2016 County sales tax collections will be positively impacted and it will be easier to reach budget. The current consensus among all economists is that 2016 regional economic growth will be positive. However, differences have emerged as to the magnitude of the positive economic growth. Individuals require both the means and motivation to make a purchase. Should households decide to increase their savings levels or pay down their debt levels, the magnitude of economic growth would be diminished. According to Federal Reserve data, the U.S. personal savings rate has averaged 5.2% in 2015, up from the 4.8% annual average rate in 2013 and 2014.

The following report details these trends and forecasts.

If you should have any further questions, please contact my Office.

cc: Dan McCloy, Director of Law, Finance & Operations
Michele Darcy, Minority Finance

² McDermott, Maura, "LI Home Sales Spike as Buyers Race Interest Rate Rise", [Newsday.com](#), January 13, 2016.

³ Incantalupo, Tom, "LI Auto Registrations Up 5.2% in November, Association says", [Newsday.com](#), January 26, 2016.



OFFICE OF LEGISLATIVE BUDGET REVIEW

The Regional and National Economic Forecast for 2016 to 2020

January 2016

The Office of Legislative Budget Review, OLBR, has received Moody's Analytics January 2016 forecast of significant Nassau County economic variables. OLBR has compiled, analyzed and depicted Moody's current economic forecast for planning and forecasting purposes. Throughout the report, OLBR presents the forecast and provides its insights.

The national economy has been growing at a positive pace. During the July to September 2015 quarter, real US gross domestic product (GDP) grew at 2.0% according to the US Commerce Department.¹ Looking forward, the Atlanta Federal Reserve Bank is estimating fourth quarter 2015 real US GDP to be 0.6%.² On December 16, 2015, picking up on the positive economic growth, the Federal Reserve raised interest rates a quarter of a percentage point for the first time in nearly a decade. This was seen as an indication that the economy is on a solid foundation, and can withstand higher borrowing costs. The Federal Reserve plans to implement gradual increases in the future.³

Locally, according to Moody's Analytics, Nassau's economy grew at a positive rate

throughout 2015. Nassau's Gross County Product (GCP) grew at 0.5% in all quarters of 2015. The Nassau economic growth was broad based. From an annual perspective, New York State (NYS) Department of Labor figures show 4.2% more residents are employed, there are 1.5% more non-farm jobs and average weekly private sector wages have risen 2.1%. US Bureau of Labor Statistics data reveals that regional prices are up 0.7% from the prior year. Siena College's Research Institute found that regional consumer confidence has grown 1.6% from the prior year. Lastly, the increase in the federal funds rate is said to have had a dramatic impact on the local housing market. Attempting to avoid higher interest costs, closed home sales rose 7.4% from an annual perspective and pending home sales grew 18.0%.⁴ This rate of growth is highly unusual for December, typically a sluggish month.

Table 1 details the current Moody's Analytics forecast for Nassau County's major economic indices from 2016 to 2020.

¹ The Associated Press, "US Economy Grew at 2 Percent Annual Rate in Third Quarter", Long Island Business News, December 22, 2015.

² "Atlanta Fed GDPNow: Forecast for 2015:Q4", Federal Reserve Bank of Atlanta, January 15, 2016.

³ Schneider, Howard and Jason Lange, "Fed Raises Interest Rates, Cites Ongoing U.S. Economic Recovery", Reuters.com, December 16, 2015.

⁴ McDermott, Maura, "LI Home Sales Spike as Buyers Race Interest Rate Rise", Newsday.com, January 13, 2016.

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Table 1

2016 to 2020 Nassau County Economic Forecast					
Annual Growth Rates*					
	2016	2017	2018	2019	2020
GCP	2.1%	1.9%	1.7%	1.3%	1.2%
Personal Income	5.2%	5.6%	5.4%	3.7%	2.8%
Employed	0.5%	-0.4%	0.0%	0.2%	0.1%
Unemployed	-3.4%	0.5%	-4.5%	0.1%	3.0%
Unemployment %	4.4%	4.2%	4.3%	4.1%	4.1%
Non Farm Jobs	1.5%	1.2%	1.3%	0.9%	0.3%
New Mortgages	16.5%	-8.6%	-4.7%	9.1%	8.8%
Mrt Refinances	-7.7%	-56.4%	-37.8%	13.0%	12.2%
Retail Sales	7.0%	6.2%	4.5%	3.4%	2.7%
Median Home Sale Price	2.6%	0.2%	-0.1%	1.8%	3.6%
Regional CPI	2.4%	3.5%	3.8%	3.5%	3.1%

*Unemployment % Details Annual Average
Source: Moody's Economy.com

Looking forward, Moody's Analytics currently expects the local economy to move in a positive direction for all years surveyed. Moody's current forecast has Nassau's Gross County Product (GCP) growing 2.1% in 2016, 1.9% in 2017, 1.7% in 2018, 1.3% in 2019, and 1.2% in 2020.

The housing market is expected to be a source of strength in 2016 with new mortgages increasing 16.5% and median prices rising 2.6%.

According to Moody's Analytics, mortgage refinancing are expected to decrease 7.7% in 2016 due to the Federal Reserve raising interest rates.

Resident employment is projected to grow 0.5% in 2016.

In 2016, personal income growth is expected to exceed consumer price growth by 2.8 percentage points. Hence, on a real basis individuals will have more income available and greater buying power.

Other positive Long Island developments include a 1.6 percentage point drop in the percentage of Long Island houses with an

underwater mortgage.⁵ Additionally, personal bankruptcy filings on Long Island have decreased 14.1% from the prior year and almost 50.0% when compared to 2010.⁶

The major areas of concern for 2016 are employment and wage growth. Part of the 3.4% 2016 decrease in unemployed residents may be attributable to individuals retiring and opting to leave the workforce.⁷ Since retired individuals on fixed income curtail their spending, they do not provide the same economic stimulus as an increase in employed residents. Moreover, OLBR questions Moody's 2017 personal income growth forecast of 5.6%. It is unclear how personal income can grow so much when the number of employed residents declines.

Additionally, although most local economists concur with Moody's and anticipate Long Island 2016 GCP to be in the 2.0% to 2.5% range; one independent economist, Thomas Conoscenti, is predicting Long Island GCP growth of 1.0% for 2016 and 2017. He expects the County to dribble along with no big changes in economic activity.⁸

Consumption

Real GDP is a measure of the goods and services provided within an economy. When it increases, it indicates that more goods and services are being provided and therefore, more jobs and personal income are being generated.

⁵ Mc Dermott, Maura, "Underwater Mortgages on LI Coming Up for Air: Report", [Newsday.com](http://www.newsday.com), December 15, 2015.

⁶ Choi, Ann, "Personal Bankruptcy Down on Long Island and Up Nationally", [Newsday.com](http://www.newsday.com), December 7, 2015.

⁷ The Editorial Board, "Fed Interest Rate Hike doesn't Mean Economy has Recovered", [Newsday.com](http://www.newsday.com), December 16, 2015.

⁸ Madore, James T., "LI Economy will Grow Slower than Nation's this Year, Panel Says", [Newsday.com](http://www.newsday.com), January 19, 2016.

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Nationally, according to the Commerce Department, December 2015 retail sales fell 0.1% from the previous month but increased 2.1% from the prior year.⁹

The current Moody's Analytics forecast shows retail sales are expected to be positive throughout 2016 and 2017. Table 2 details Moody's current forecast for Nassau County personal income, GCP and retail sales. All variables forecast are expected to register positive growth rates in 2016 and 2017.

Table 2

Nassau County Consumption Growth by Quarter				
	2016			
	Q1	Q2	Q3	Q4
GCP	0.54%	0.53%	0.50%	0.47%
Total Personal Income	1.34%	1.38%	1.38%	1.36%
Retail Sales	1.93%	1.97%	1.86%	1.67%
	2017			
	Q1	Q2	Q3	Q4
GCP	0.44%	0.44%	0.45%	0.46%
Total Personal Income	1.34%	1.35%	1.41%	1.44%
Retail Sales	1.49%	1.35%	1.26%	1.18%

Source: Moody's Economy.com

According to the most recent Siena Research Institute's (SRI) Consumer Sentiment Report, in December 2015 the metro NYC consumer confidence overall index rose 2.5% from September 2015 and increased 1.6% from November 2014. According to Dr. Lonnstrom, the founding director of SRI, the increase is due to 36.0% of respondents feeling they are better off now than last year and 58.0% of respondents feeling it is a good time to buy big ticket items. Moreover, he expects gas pump savings to continue to be redirected to other consumer purchases.¹⁰

⁹ Mutikani, Lucia, "US Retail Sales Fall; Oil Weighs on Producer Inflation", Reuters.com, January 15, 2016.

¹⁰ "Quarterly New York State Index of Consumer Sentiment including Gas and Food Analysis", [Siena Research Institute](http://SienaResearchInstitute.com), January 11, 2016.

Labor Market

Nassau's labor market moved forward in December 2015. According to NYS Department of Labor figures, compared to December 2014, the number of employed residents grew by 4.2% or 27,100. This is significant as the employment growth occurred while the labor force grew 3.7%. That means that the annual 0.4 percentage point drop in Nassau's unemployment rate is due to residents obtaining jobs rather than individuals ceasing their job searches and dropping out of the labor force.

Non-Farm Jobs

From an annual perspective, Long Island job growth was positive in December 2015. According to New York State Department of labor figures, total non-farm jobs increased by 1.5% compared to December 2014. As of December 2015, there were 19,900 new non-farm jobs created compared to the prior year.

The highest job growth occurred in the Service Providing sector, 14,300 more jobs. The second highest job growth was in the Education and Health Services sector which recorded an annual increase of 12,500 jobs.

Nassau County is expected to generate positive total non-farm job growth from 2016 to 2020. Table 3 details projected Nassau County job growth by sector. In 2016, only the Retail Trade sector is expected to lose jobs. Moreover, from a five years perspective, the Retail Trade sector is the only sector forecast to register a decline in jobs. Since overall retail sales volume is projected to increase (Table 2), this implies that retail sales are expected to be made with less employees.

In 2016, the strongest job growth, above 3.0%, is expected to occur in the Professional and Business Services, High Tech, and Construction

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sectors. Over the next five years those sectors along with the Leisure and Hospitality sector are projected to record job growth above 9.0%.

Table 3

Nassau County Annual Job Growth By Sector, 2016 to 2020						
	2016	2017	2018	2019	2020	5 Yr.
Construction	3.4%	2.5%	3.0%	0.6%	-0.4%	9.2%
Education & Health	1.6%	0.7%	1.3%	1.3%	0.8%	5.7%
Financial Activities	0.4%	1.2%	1.0%	0.7%	0.3%	3.6%
Government	0.6%	0.6%	0.5%	0.4%	0.4%	2.4%
High Tech	3.3%	2.9%	2.2%	1.5%	0.8%	10.7%
Leisure and Hospitality	2.5%	2.9%	2.2%	1.5%	0.7%	9.9%
Professional and Business Services	4.7%	4.4%	3.4%	2.0%	0.8%	15.3%
Retail Trade	-0.8%	-1.2%	-0.3%	-0.2%	-0.5%	-3.0%
Total Non-Farm Jobs	1.5%	1.2%	1.3%	0.9%	0.3%	5.2%

Housing

Multiple Listing Service of Long Island (MLSIL) figures show that 2015 was a strong housing year in Nassau County. There were 11,889 closed transactions, a 9.7% increase from 2014 and the highest number registered since 2002. Moreover, demand was sufficient to allow more sales to close at higher prices. The annual average of the median monthly prices was \$435,120, 3.5% greater than 2014's annual average.

However, prices have yet to reach the prior heights obtained in 2007. Industry experts opine that since the Island is losing high paying jobs and replacing them with lower paid jobs; and since banks are stricter with their lending standards, it is unrealistic to think that the prior highs will be attained now.¹¹

From a monthly perspective, December 2015 was very strong as buyers sought to close sales before interest rates rose significantly.¹² Table 4 details the actual MLSIL figures.

¹¹ McDermott, Maura, "LI Home Prices Still Below Peak in Mid-2000s Boom", Newsday.com, January 22, 2016.

¹² McDermott, Maura, "LI Home Sales Spike as Buyers Race Interest Rate Rise", Newsday.com, January 13, 2016.

Table 4

Nassau County Housing Actuals					
2015 Current	Dec-14	Nov-15	Dec-15	Mthly %	Yrly %
Closed Home Sales	973	897	1,045	16.5%	7.4%
Median Sale Price	425,000	430,000	437,000	1.6%	2.8%
2015 Pending	Dec-14	Nov-15	Dec-15	Mthly %	Yrly %
Contract Sales	810	964	956	-0.8%	18.0%
Median Contract Price	410,000	426,953	440,000	3.1%	7.3%

Source: Multiple Listing Service of Long Island, Zone Activity Report

Inventory levels are said to be at the lowest level seen since at least 2011. In Nassau, it would take 4.9 months to sell all homes currently listed at the current sales pace; a balanced market has a six to eight month supply of homes.¹³

The home price appreciation has enabled home owners to gain equity and come out from being underwater.¹⁴ To the extent that residents can tap into this equity to make taxable purchases, County sales tax collections will be positively impacted.

Looking forward, using annual MLSIL's pending sales data as an indicator of future market conditions reveals future positive home price and transaction growth over the next six months.

Table 5 depicts Moody's current Nassau County housing market forecast by quarter. Moody's forecast mirrors MLSIL's positive annual contract sales data, in that Moody's envisions robust new mortgage growth in the first half of 2016. By the second half of 2016 new mortgage growth is forecast to diminish and turn negative by the fourth quarter as interest rates are expected to gradually rise. Overall, in 2016 new

¹³ McDermott, Maura, "LI Home Sales Spike as Buyers Race Interest Rate Rise", Newsday.com, January 13, 2016.

¹⁴ McDermott, Maura, "Underwater Mortgages on LI Coming Up for Air: Report", Newsday.com, December 15, 2015.

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mortgages are expected to show positive annual growth (see Table 1 for annual growth rates).

Table 5

Nassau County Housing Forecast by Quarter				
	2016			
	Q1	Q2	Q3	Q4
New Mortgages	4.72%	2.79%	0.39%	-1.85%
Refinances	-1.88%	-6.53%	-11.67%	-17.05%
Median Sale Price	0.72%	0.55%	0.34%	0.13%
	2017			
	Q1	Q2	Q3	Q4
New Mortgages	-3.24%	-3.76%	-3.41%	-2.43%
Refinances	-21.56%	-24.65%	-24.10%	-18.01%
Median Sale Price	-0.02%	-0.11%	-0.14%	-0.12%

Source: Moody's Economy.com

The forecast for median home price appreciation is positive throughout 2016. Home price appreciation is forecast to slow down throughout the year. Overall price appreciation in 2016 is expected to be positive (see Table 1 for annual growth rates).

In the commercial real estate market, brokers forecast a strong year for industrial real estate as limited supply and growing demand drive prices higher.¹⁵

Prices

The Consumer Price Index (CPI) is a measure of the average change in the prices of goods and services purchased by households over time.

Regionally, December 2015 consumer prices were down 0.4% from the prior month and up 0.7% over the past year. According to the US Bureau of Labor Statistics, (BLS), December's annual growth was the largest increase since an 0.8% increase in November 2014. The core index which excludes food and energy prices was up 2.1%.

¹⁵ Newsday Staff, "LI Economic Outlook for 2016: Growth Picks Up a Bit of Speed", [Newsday.com](http://www.newsday.com), December 23, 2015.

A 3.8% annual increase in residential rents coupled with a 0.9% increase in groceries and a 1.9% increase in education and communication expenses were the major inflationary forces. Mitigating those increases was a 22.8% decline in motor fuel, a 6.4% decrease in electricity and a 12.0% fall in piped gas service.

Table 6

Regional Consumer Price Forecast by Quarter				
	Q1	Q2	Q3	Q4
	2016	0.69%	0.74%	0.76%
2017	0.84%	0.92%	0.92%	0.92%
2018	0.94%	0.95%	0.93%	0.91%
2019	0.89%	0.83%	0.81%	0.78%
2020	0.76%	0.76%	0.76%	0.75%

Source: Moody's Economy.com

Looking forward, regional consumer prices are expected to rise from 2016 to 2020. The quarterly forecast for regional consumer prices for this period is shown in Table 6.

From an annual perspective, regional prices are expected rise 2.4% in 2016, 3.5% in 2017, 3.8% in 2018, 3.5% in 2019, and 3.1% in 2020.

As seen in Table 1, Moody's expects personal income growth to outpace the regional CPI growth rate from 2016 to 2019. In 2020 regional price growth is expected to be completely offset by personal income growth. This means that income will not keep pace with inflation in 2020 and residents will be left with less purchasing power.

Sales Tax Predictors

In the current Adopted 2016 Budget, excluding inter-fund revenues, sales tax revenue accounts for approximately 38.1% of the County's five Major Funds revenue, making it an important trend to monitor and forecast. The current Adopted 2016 sales tax budget, excluding the deferred piece, would only require 1.5% growth

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above the Office of Management and Budget’s (OMB’s) current 2015 sales tax forecast. Common predictors of sales tax growth are GCP, personal income growth, consumer price growth, and resident employment levels.

The current Moody’s regional forecast includes positive annual growth for all of these variables in 2016. Moreover, the 2016 forecast for personal income growth exceeds the forecast for consumer prices, resulting in increased consumer purchasing power. These forecasts should positively impact County sales tax collections and enable the County to reach the 2016 budget.

However, there are several threats to the forecast.

Although the forecast for resident employment is positive, it is not robust in that a marginal 0.5% annual growth rate is expected in 2016. This is short of the 1.5% growth required to achieve budget.

Additionally, one local economist is projecting 1.0% annual GCP growth in 2016; below the 1.5% growth needed to reach budget.

Table 7

New York State Buying Plans					
	Dec-15	Sep-15	Nov-14	Qrtly	Yrly
Car/Truck	16.8	17.1	13.6	-1.8%	23.5%
Consumer Electronics	43	40.7	44.6	5.7%	-3.6%
Furniture	27.7	22.2	23.8	24.8%	16.4%
Home	7.7	10.4	6.8	-26.0%	13.2%
Home Improvement	19.9	19.3	15.7	3.1%	26.8%
Total	115.1	109.7	104.5	4.9%	10.1%

Source: Siena Research Institute

Individuals require both the means and motivation to make a purchase. Moody’s current forecast expects individuals to have the means. Siena Research Institute’s survey of New Yorker buying plans reveals that the motivation is to make a major purchase over the

next six months is increasing. Table 7 reveals that New Yorkers’ overall buying plans have increased 4.9% from the prior quarter and 10.1% from the prior year. This should positively impact 2016 sales tax collections.

Lodging Industry

Table 8 uses Long Island Convention and Visitor Bureau data to illustrate current average occupancy and rental rates in Nassau County from a monthly and an annual perspective.

Table 8

Nassau Hotel / Motel Statistics					
Average Occupancy Rate					
	Dec-15	Nov-15	Dec-14	Mthly %	Yrly %
Occupancy %	71.0%	76.7%	66.5%	-7.4%	6.8%
Average Daily Rate					
	Dec-15	Nov-15	Dec-14	Mthly %	Yrly %
Rental Rate \$	\$134.50	\$140.70	\$134.57	-4.4%	-0.1%

Source: Long Island Convention & Visitor’s Bureau

Economic theory posits an inverse relationship between price and quantity. Typically, vendors have to sacrifice quantity sold when they raise prices. Hence, Nassau’s tourism industry is experiencing strong demand since vendors recorded a 6.8% annual occupancy increase with price marginally declining.

The monthly decline may be attributed to seasonality as the last months of the year typically have decreased occupancy and rental rates.

Looking forward, continued strong demand is forecast. According to Moody’s, Leisure and Hospitality annual job growth (Table 3) is expected to be positive from 2016 to 2020. Over those five years, the sector is projected to expand by 9.9%.

Conclusion

Both the national and local economies moved forward in the 2015. The growth was broad based with the labor, job, residential housing, and tourism markets all registering positive annual economic activity.

The momentum was felt by consumers whose confidence levels throughout the metropolitan area were up 1.6% from the prior year.

Moody's current economic forecast as well as those of other local economists project continued positive economic growth as measured by GCP.

There are risks to the forecast. Household are expected to contend with two new forces in 2016, higher interest rates and consumer prices. The Federal Reserve raised rate in December 2015 for the first time in nearly a decade. Moreover, in 2015 consumer price inflation was 0.7%; that is expected to be 2.4% in 2016. If wage growth doesn't keep up with these increases households would fall behind and may curtail their spending.

***Prepared by:
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