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Inter-Departmental Memo

To: Hon. Howard J. Kopel, Chairperson Budget Review Committee
All Members of the Nassau County Legislature

From: Helen M. Carlson, Deputy Director *HC*
Office of Legislative Budget Review

Date: May 12, 2017

Re: May 2017 Economic Report

Attached is a copy of the Office of Legislative Budget Review's May 2017 economic report. This report is being circulated to assist the Legislature in making policy decisions and in assessing budgetary or planning forecasts.



OFFICE OF LEGISLATIVE BUDGET REVIEW

The Regional and National Economic Forecast for 2017 to 2021

May 2017

The Office of Legislative Budget Review, (OLBR), has received Moody's Analytics May 2017 forecast of significant Nassau County economic variables. OLBR has compiled, analyzed and illustrates Moody's current economic forecast for planning and forecasting purposes. Throughout the report, OLBR presents Moody's forecast and provides its insights.

The US economy faced several headwinds in the first quarter of 2017. These include stagnant wage growth, high debt levels, rapid retail store closings, and a late disbursement in income tax refunds. Figures from the US Bureau of Labor Statistics show that in March 2017, real average weekly earnings were unchanged from March 2016.¹ The New York Federal Reserve predicted that total household debt will reach its previous 2008 peak of \$12.68 trillion in 2017.² Credit Suisse reported that year-to-date, first quarter 2017 retail store closings have already surpassed the prior, 2008 record.³ Lastly, in an attempt to combat fraud, the government issued income tax refunds later.⁴

Collectively, these forces contributed to the 0.7% first quarter 2017 US real gross domestic product, (GDP), growth. That represented the slowest quarter of growth since the first quarter of 2014.⁵ Economists are expecting growth to accelerate for the remainder of the year. According to Mark Zandi, chief economist at Moody's Analytics, "there are a lot of tailwinds behind consumers going into the spring, including low unemployment, better wage growth, high consumer confidence and record stock prices".⁶

Locally, according to Moody's Analytics, Nassau's economy grew 2.8% in the first quarter 2017 compared to first quarter 2016. Moody's data reveals that Nassau's first quarter 2017 economic growth was broad based, with positive growth recorded in non-farm jobs, housing purchases, tourism jobs and total retail sales.

Table 1, on the next page, details the current Moody's Analytics forecast for Nassau County's major economic indices from 2017 to 2021.

¹ "Real Earnings – March 2017", U.S. Department of Labor, April 14, 2017.

² Fottrell, Quentin, "Half of US Working Families are Living Paycheck to Paycheck", NYPPost.com, April 5, 2017.

³ Wattles, Jackie, "Stores are Closing at an Epic Pace", CNN/Money.com, April 22, 2017.

⁴ Mutikani, Lucia, "U.S. Retail Sales Fall for Second Straight Month on Weak Automobiles", Reuters.com, April 14, 2017.

⁵ Chandra, Sho, "U.S. Economy Grew 0.7% in First Quarter, Slowest in Three Years", Bloomberg.com, April 28, 2017.

⁶ The Associated Press, "US Economy Likely Slowed Last Quarter, But Rebound Expected", LIBN.com, April 28, 2017.

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Table 1

2017 to 2021 Nassau County Economic Forecast					
Annual Growth Rates*					
	2017	2018	2019	2020	2021
GCP	2.1%	1.9%	1.7%	1.2%	1.8%
Personal Income	4.1%	4.6%	4.6%	3.8%	3.2%
Employed	-0.1%	0.3%	0.0%	-0.1%	0.0%
Unemployed	-1.4%	-2.1%	7.3%	8.4%	6.7%
Unemployment % *	3.8%	3.8%	4.0%	4.3%	4.6%
Non Farm Jobs	1.6%	0.6%	0.7%	0.6%	0.3%
New Mortgages	3.8%	2.0%	-9.1%	-3.1%	3.9%
Mrt Refinances	-48.1%	-63.1%	23.6%	-19.1%	6.0%
Retail Sales	2.0%	4.2%	3.7%	2.4%	2.8%
Median Home Sale Price	6.7%	2.7%	2.0%	2.5%	4.1%
Regional CPI	2.5%	3.2%	3.6%	3.3%	3.1%

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

Looking forward, Moody's Analytics currently expects the local economy to move forward in a positive direction for all years surveyed. Moody's current forecast has Nassau's Gross County Product (GCP) growing 2.1% in 2017, 1.9% in 2018, 1.7% in 2019, 1.2% in 2020, and 1.8% in 2021.

Correlating with the projected 2017 interest rate increases Moody's Analytics forecasts mortgage refinancings to decrease 48.1% in 2017.

The number of housing market transactions is expected to record positive growth in 2017 with new mortgages increasing 3.8% and median prices rising 6.7%.

From 2017 to 2021, personal income growth is expected to exceed consumer price growth; thus, on a real basis individuals will have more income available and greater buying power.

The major area of concern for 2017 is resident employment growth, Moody's is currently forecasting negative -0.1% resident employment

growth for 2017. Two forces may be seen as contributing to this forecast. Robust online sales may be seen as contributing to the decline in resident employment. Online sales growth may be viewed as having a dis-employment effect since decreased foot traffic leads to store closures. As mentioned previously, current national retail store closings have exceeded their prior annual record in the first quarter of 2017.⁷ Secondly, analysts attributed the February 2017 decline in Long Island resident employment to a large number of retirees leaving the workforce.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.

Nationally, according to the Commerce Department, March 2017 national retail sales fell 0.2% from the previous month. This represented the second straight monthly national retail sales decline since February 2017 when retail sales fell 0.3% from January 2017. Delayed personal income tax refunds were cited as the cause of the decrease.⁹

The current Moody's Analytics forecast shows retail sales are expected to record positive growth throughout 2017 and 2018. Table 2 details Moody's current forecast for Nassau County personal income, GCP and retail sales. All variables forecast are expected to register positive annual growth rates in 2017 and 2018 as well.

⁷ Wattles, Jackie, "Stores are Closing at an Epic Pace", CNN/Money.com, April 22, 2017.

⁸ Mason-Draffen, Carrie, "Long Island Jobless Rate Inches up for the First Time Since Oct.," Newsday.com, March 28, 2017.

⁹ Mutikani, Lucia, "U.S. Retail Sales Fall for Second Straight Month on Weak Automobiles", Reuters.com, April 14, 2017.

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Table 2

Nassau County Consumption Growth by Quarter				
	2017			
	Q1	Q2	Q3	Q4
GCP	0.39%	0.34%	0.39%	0.47%
Total Personal Income	1.04%	1.07%	1.11%	1.12%
Retail Sales	0.32%	0.44%	0.71%	1.00%
	2018			
	Q1	Q2	Q3	Q4
GCP	0.51%	0.52%	0.50%	0.47%
Total Personal Income	1.12%	1.13%	1.16%	1.18%
Retail Sales	1.16%	1.20%	1.16%	1.04%

Source: Moody's Economy.com

The first quarter 2017 Siena College Research Institute Consumer Confidence Poll found that throughout the metropolitan region, consumer confidence has risen 3.2% from the prior quarter and 1.9% from an annual perspective.¹⁰ This supports Moody's consumption forecast.

Labor Market

Nassau's labor market seems to be in transition. Despite having one of the lowest unemployment rates in the State, it recorded its sixth straight month of an annual decline in the number of employed residents. Analysts theorize that this is due to retirees leaving the workforce.¹¹

Looking forward, the current trend is expected to continue. From an annual vantage point, Nassau County is expected to record a decrease in both the number of employed residents as well as the number of unemployed residents.

Non-Farm Jobs

From an annual perspective, Long Island non-farm job growth was positive in March 2017. According to New York State Department of

Labor figures, total non-farm jobs increased by 1.5% compared to March 2017. The strongest job growth was reported in the education and health services sector. The financial activities, manufacturing, and construction sectors lost jobs from an annual perspective.¹²

Some of the construction industry loss may be attributed to completion of on-going projects as well as rising interest rates which may make projects unviable. Dodge Data & Analytics figures recorded a 43.0% annual decline in the value of future regional construction contracts.¹³

Nassau County is expected to generate positive total non-farm job growth from 2017 to 2021. Table 3 details projected Nassau County job growth by sector. The growth is projected to be broad based with seven of the eight sectors surveyed forecast to record positive job growth.

Table 3

Nassau County Annual Job Growth By Sector, 2017 to 2021					
	2017	2018	2019	2020	2021
Construction	0.8%	0.3%	2.3%	0.8%	-0.6%
Education & Health	2.8%	1.1%	1.2%	1.2%	0.8%
Financial Activities	-0.8%	-0.1%	0.0%	0.0%	0.0%
Government	0.7%	0.4%	0.6%	0.6%	0.7%
High Tech	1.8%	1.4%	1.4%	1.2%	0.8%
Leisure and Hospitality	0.8%	0.8%	0.8%	0.7%	0.6%
Professional and Business Services	2.8%	1.8%	1.6%	1.1%	0.6%
Retail Trade	1.5%	-0.7%	-0.5%	-0.5%	-0.3%
Total Non-Farm Jobs	1.6%	0.6%	0.7%	0.6%	0.3%

In 2017, the strongest job growth, above 2.0%, is expected to occur in the education and health services and professional and business services sectors. In 2017, the financial activities sector is expected to lose jobs. Despite the contract value drop, Moody's expects current contract levels to be sufficient to raise Nassau County construction jobs 0.8% in 2017.

¹⁰ "Quarterly New York State Index of Consumer Sentiment including Gas and Food Analysis", [Siena College Research Institute](#), April 5, 2017.

¹¹ Mason-Draffen, Carrie, "Long Island Jobless Rate Inches up for the First Time Since Oct.", [Newsday.com](#), March 28, 2017.

¹² Mason-Draffen, Carrie, "Long Island Job Market Lost Steam in March, State Data Shows", [Newsday.com](#), April 20, 2017.

¹³ Madore, James T., "Metro Area Construction Contracts Down 43% in March, Report Says", [Newsday.com](#), April 28, 2017.

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Real Estate

All types of real estate experienced healthy growth during the first quarter of 2017 in Nassau County.

Multiple Listing Service of Long Island (MLSIL) March 2017 figures reveal strong demand for Nassau’s housing market. According to real estate experts, inventory levels are at the lowest levels seen in ten years; driven down by strong buyer demand. Fueling the demand are individuals moving out of New York City where housing values have soared. Demand is especially strong for entry level and midrange homes along the train lines.¹⁴

MLSIL figures reveal from an annual perspective, Nassau County median closed sale prices have increased 9.3%. Moreover, the number of closed sales has fallen 1.7% from March 2016. According to Jonathan Miller of Miller Samuel Appraisals, there would be more sales growth if there were more supply.¹⁵

Table 4

Nassau County Housing Forecast by Quarter				
2017				
	Q1	Q2	Q3	Q4
New Mortgages	0.04%	-0.02%	0.67%	1.37%
Refinances	-15.17%	-17.99%	-21.65%	-25.44%
Median Sale Price	2.24%	2.10%	1.52%	0.82%
2018				
	Q1	Q2	Q3	Q4
New Mortgages	1.33%	0.54%	-0.91%	-2.41%
Refinances	-27.60%	-25.19%	-11.71%	9.54%
Median Sale Price	0.38%	0.21%	0.30%	0.48%

Source: Moody's Economy.com

Looking forward, Table 4 depicts Moody’s current Nassau’s residential housing market

¹⁴ McDermott, Maura, “LI Home Buyers, Scant Supply Drove Prices Up 4% in Quarter”, [Newsday.com](#), April 27, 2017.

¹⁵ Winzelberg, David, “Lack of Supply Slows LI Home Sales”, [LIBN.com](#), April 27, 2017.

forecast by quarter. Moody’s envisions positive annual new mortgage growth in 2017 (Table 1, page 1), as negative second quarter 2017 growth is expected to be more than offset by positive second half 2017 growth.

Mortgage refinances are expected to decrease each quarter through the third quarter 2018 as interest rates are expected to rise.

Scarce supply and strong demand are similarly resulting in higher rent and sale prices in Long Island’s industrial property market. E-commerce warehousing and distribution companies as well as companies relocating from Queens and Brooklyn are seen as driving the demand.¹⁶

Robust demand was also recorded in the commercial office market. Nassau County’s vacancy rate was down from the prior year and was said to be at its lowest point in 16 years. The growth was driven in part by massive expansion in the healthcare sector. Positive growth is expected in this market through 2017.¹⁷

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. Regional consumer prices were up 2.3% in March 2017 from the prior year; close to the five year high. Higher gasoline, medical care and residential rents were seen as the prime factors behind the increase. Compared to the prior year pump prices were up 27.4%, natural gas prices rose 11.2%, medical costs increased 4.2% and residential rents rose 2.5%.¹⁸

Looking forward, regional consumer prices are expected to rise from 2017 to 2021. The

¹⁶ Winzelberg, David, “Prices Soar for LI Industrial Real Estate”, [LIBN.com](#), April 19, 2017.

¹⁷ Winzelberg, David, “Hopeful Signs”, [LIBN.com](#), May 2, 2017.

¹⁸ Madore, James T., “Metro Area Prices Rise at Nearly Fastest Rate in 5 Years”, [Newsday.com](#), April 14, 2017.

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quarterly forecast for regional consumer prices for this period is shown in Table 5.

Table 5

Regional Consumer Price Forecast by Quarter				
	Q1	Q2	Q3	Q4
2017	0.72%	0.81%	0.67%	0.71%
2018	0.80%	0.85%	0.88%	0.90%
2019	0.91%	0.90%	0.88%	0.84%
2020	0.81%	0.80%	0.80%	0.78%
2021	0.77%	0.76%	0.75%	0.75%

Source: Moody's Economy.com

Sales Tax Predictors

Sales tax collections are a significant revenue source for the County, as such it is an important revenue to monitor and forecast. Common predictors of sales tax growth are GCP, personal income growth, consumer price growth, and resident employment levels.

Excluding resident employment levels, the current Moody's regional forecast envisions positive annual growth for all of these variables in 2017. Moreover, the 2017 forecast for personal income growth exceeds the forecast for consumer prices, resulting in increased consumer purchasing power.

Siena Research Institute's survey of New Yorker buying plans over the next six months supports Moody's forecast for positive 2017 retail sale growth.

Table 6

New York Statewide Buying Plans Survey					
Category	1st Qtr 17	4th Qtr 16	1st Qtr 16	Qtrly %	Yrly %
Car/Truck	18.5	14.6	15.8	26.7%	17.1%
Consumer Electronics	42.7	46.3	39.7	-7.8%	7.6%
Furniture	30.0	24.4	25.4	23.0%	18.1%
Home	10.1	8.8	6.3	14.8%	60.3%
Major Home Improvement	20.8	22.0	20.1	-5.5%	3.5%
Total	122.1	116.1	107.3	5.2%	13.8%

Source: Siena College Research Institute

Table 6 shows that New Yorkers' overall buying plans have increased 13.8% from the prior year, and 5.2% from the prior quarter. This should positively impact 2017 sales tax collections.

Lodging Industry

Historically, the first quarter is the slowest travel season when occupancy rates and average rental rates are at the lowest levels recorded during the year. Table 7 illustrates the average hotel / motel occupancy and daily rental rates in Nassau County for the first quarter from 2013 to 2017. Compared to 2016, average occupancy rates are down 0.9 percentage points and average daily rental rates have fallen 1.3% during this time.

Table 7

First Quarter	Average Occupancy Rate	Average Daily Rate
2013	81.60%	\$141.31
2014	66.07%	\$134.04
2015	68.00%	\$133.44
2016	70.07%	\$133.73
2017	69.17%	\$132.04

Source: Long Island Convention & Visitors' Bureau

However, more data is required to determine the market trend since year-to-date April 2017 Nassau's hotel / motel tax collections are up from April 2016 and NYS Department of Labor figures show that regional leisure and hospitality jobs have risen 0.1% from an annual perspective.

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Market research firm STR, expects demand to remain strong in the future.¹⁹ Moreover, Moody's is currently forecasting positive 0.8% employment growth in the County's hospitality and leisure sector.

Conclusion

The Federal Reserve left interest rates unchanged in May 2017 as they noted that the economy slowed sharply during the first quarter. They stated that they expect the slump to be transitory. Industry experts anticipate two more interest rate increases this year.²⁰ The expected rebound was given support by the April 2017 job growth figures which recorded 211,000 new non-farm jobs and a 17 year low in the national unemployment rate.²¹

The projected national economic rebound should positively impact County revenue streams.

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¹⁹ Solnik, Claude, "LI Hotel Biz Heats Up," Long Island Business News, September 14, 2016.

²⁰ The Associated Press, "Fed Leaves Rates Unchanged but Signals Further Hikes Ahead", LIBN.com, May 3, 2017.

²¹ Mutikani, Lucia, "U.S. Job Growth Rebounds Sharply, Unemployment Rate Hits 4.4 Percent", Reuters.com, May 5, 2017.