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Inter-Departmental Memo

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

From: Maurice Chalmers, Director
Office of Legislative Budget Review

AC for MC

Date: August 16, 2017

Re: August 2017 Economic Report

Attached is a copy of the Office of Legislative Budget Review's August 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

August 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.

Nationally, the economy gained traction in the second quarter of 2017. Real US real gross domestic product, (GDP), grew at a 2.6% annual growth rate. That was up from the first quarter’s 1.2% growth rate. Despite the heightened growth, the Federal Reserve opted to leave rates unchanged and said it expected to start winding down its portfolio “relatively soon”. Consumer spending was said to account for the bulk of the growth increase. Business spending on equipment also rose at an 8.2% pace.¹ According to a recent Census Report, overall U.S. retail and food service sales were up 3.8% in the second quarter from an annual perspective. Non-store retailers and Building Material suppliers experienced the most robust sales.²

Locally, according to Moody’s Analytics, Nassau’s economy grew 1.7% in the second quarter 2017 compared to the second quarter 2016. Recent data reveals that Nassau’s second quarter 2017 economic growth was broad based,

with positive annual growth recorded in non-farm jobs, year-to-date home purchases, employed residents and consumer confidence.

Table 1 details the current Moody’s Analytics forecast for Nassau County’s major economic indices from 2017 to 2021.

Table 1

2017 to 2021 Nassau County Economic Forecast					
Forecast Annual Growth Rates*					
	2017	2018	2019	2020	2021
GCP	1.8%	2.1%	1.6%	0.9%	1.9%
Personal Income	2.9%	4.1%	3.8%	3.3%	3.2%
Employed	0.5%	0.5%	0.4%	0.0%	0.1%
Unemployed	-1.0%	-1.2%	-1.9%	6.5%	9.5%
Unemployment %	3.8%	3.8%	3.7%	3.9%	4.3%
Non Farm Jobs	1.6%	0.8%	0.7%	0.4%	0.4%
New Mortgages	14.2%	9.2%	-1.5%	-7.5%	2.3%
Mrt Refinances	-50.3%	-47.6%	-11.9%	15.3%	38.6%
Retail Sales	4.9%	4.4%	3.8%	2.3%	2.9%
Median Home Sale Price	4.7%	3.9%	3.8%	3.6%	4.1%
Regional CPI	1.7%	2.7%	3.6%	3.4%	3.2%

*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 1.8% in 2017, 2.1% in 2018, 1.6% in 2019, 0.9% in 2020, and 1.9% in 2021.

¹ Mutikani, Lucia, “Consumers, businesses lift U.S. Economic Growth in Second Quarter”, Reuters.com, July 28, 2017.

² “Advance Monthly Sales for Retail and Food Services, June 2017”, U.S. Census Bureau, July 14, 2017.

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Correlating with the projected 2017 interest rate increases Moody’s Analytics forecasts mortgage refinancings to decrease 50.3% in 2017.

The number of housing market transactions is expected to record positive growth in 2017 with new mortgages increasing 14.2% and median prices rising 4.7%.

From 2017 to 2019, personal income growth is expected to exceed consumer price growth; thus, in real terms, individuals will have more income available and greater buying power. In 2020, price growth is expected to exceed income growth and in 2021 price and income growth are projected to offset each other.

Two national trends warrant monitoring as they could impact the local economic forecast if they were to take hold throughout the region. Economic research firm Moebs Services found that deposits as measured as a percentage of bank assets were 77.6% in the first quarter of 2017.³ If households opt to save instead of spend, economic momentum would fall.

Second, Wells Fargo and other lenders have begun to reduce exposure to the U.S. auto market as the market is expected to cool due to rising interest rates.⁴ This could dampen regional economic growth.

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.

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.

Table 2

Nassau County Consumption Growth by Quarter				
	2017			
	Q1	Q2	Q3	Q4
GCP	0.50%	0.55%	0.56%	0.54%
Total Personal Income	0.61%	0.68%	0.84%	1.00%
Retail Sales	1.32%	1.30%	1.22%	1.11%
	2018			
	Q1	Q2	Q3	Q4
GCP	0.51%	0.50%	0.49%	0.48%
Total Personal Income	1.07%	1.09%	1.06%	1.00%
Retail Sales	1.02%	0.99%	1.03%	1.05%

Source: Moody's Economy.com

The second quarter 2017 Siena College Research Institute Consumer Confidence Poll found that throughout the metropolitan region, consumer confidence has risen 1.0% from the prior quarter and 3.4% from an annual perspective.⁵ This supports Moody’s consumption forecast.

Additionally, retail analysts are expecting a strong back-to-school season. Apparel analysts for FBR & Co. are anticipating 1% to 3% growth in back-to-school sales. Meanwhile, the National Retail Federation is forecasting back-to-school sale growth of 10.0% fueled by consumer confidence, increased full-time jobs and rising wages. They expect sales by college bound kids to rise by 11.5%.⁶ This similarly supports Moody’s positive consumption forecast.

³ Yu, Roger, “Americans are Hoarding Money in Checking Accounts”, USAToday.com, July 13, 2017.

⁴ Freed, Dan, “Wells Fargo Trims Auto Loans as Market Cools, Risk Overhaul Kicks In”, Reuters.com, July 12, 2017.

⁵ “Quarterly New York State Index of Consumer Sentiment including Gas and Food Analysis”, Siena College Research Institute, July 6, 2017.

⁶ Fickenscher, Lisa, “Retail Group’s Back-to-School Projection Doesn’t Jive with Recent Numbers”, NYPost.com, July 14, 2017.

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Labor Market

Nassau’s labor market is experiencing strong positive momentum. New York State Department of Labor figures show that from both a monthly and an annual vantage point in June 2017, the labor force and the number of employed residents grew. Not all those who entered the labor force were able to obtain employment and therefore the unemployment rate also increased. Labor market analysts state that the labor force growth may be seen as a positive as it could be due to people re-entering the labor force due to perception of a better labor market and more job opportunities. Nassau has the sixth-lowest unemployment rate out of the state’s 62 counties in June 2017.⁷

Looking forward, in 2017, from an annual vantage point, Moody’s is expecting Nassau County to record an increase in the number of employed residents and a decrease in the number of unemployed residents.

Non-Farm Jobs

From a monthly and an annual perspective, Long Island non-farm job growth was positive in June 2017. According to New York State Department of Labor figures, total non-farm jobs increased by 1.5% from May 2017 and 1.6% from June 2016. The strongest annual job growth was reported in the education and health services sector; followed by the leisure and hospitality sector. The financial services sector had the highest job loss figures.⁸

Industry experts expect the job growth to continue. Payroll processor ADP found that businesses added 178,000 jobs nationwide in July 2017. The largest gains were in education, healthcare and shipping. The increase was seen

as sizeable enough to lower the unemployment rate.⁹

Moody’s anticipates that Nassau County will 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 in 2017.

Table 3

Nassau County Annual Job Growth By Sector, 2017 to 2021					
	2017	2018	2019	2020	2021
Construction	1.2%	0.9%	3.2%	0.5%	-0.3%
Education & Health	3.2%	1.4%	1.1%	1.0%	0.8%
Financial Activities	-1.0%	0.0%	-0.1%	-0.1%	0.0%
Government	0.9%	0.5%	0.6%	0.6%	0.7%
High Tech	1.7%	1.5%	1.3%	1.0%	0.7%
Leisure and Hospitality	1.7%	1.2%	0.8%	0.6%	0.6%
Professional and Business Services	2.4%	2.1%	1.6%	0.8%	0.7%
Retail Trade	0.8%	-0.6%	-0.6%	-0.6%	-0.3%
Total Non-Farm Jobs	1.6%	0.8%	0.7%	0.4%	0.4%

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. In the out-years, 2018 to 2021 only the retail trade sector is forecast to shed jobs in all years surveyed.

Real Estate

Multiple Listing Service of Long Island (MLS LI) June 2017 figures reveal positive demand for Nassau’s housing market. On a year-to-date basis Nassau County median closed sale prices have increased 6.4% and the number of closed transactions rose 0.6%. Looking forward, the positive growth is expected to continue as pending closed sales have risen 1.5% on a year-to-date basis.

⁷ Wolkin, Joseph, “LI Unemployment Rate Rises”, LIBN.com, July 25, 2017.

⁸ Mason-Draffen, Carrie, “Long Island Added 21,500 Jobs in June”, Newsday.com, July 20, 2017.

⁹ The Associated Press, “Survey: US Companies Added a Solid 178,000 jobs in July”, LIBN.com, August 2, 2017.

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According to real estate experts, tight supply levels are driving the price increases. According to the appraisal firm Miller Samuel the current supply level represents the lowest spring inventory since at least 2004. It is the limited supply which is resulting in bidding wars and pushing up prices.¹⁰ Fueling the demand are individuals moving out of New York City where prices have soared. Demand is especially strong for entry level and midrange homes in Nassau County up to \$750,000.¹¹

As home sale prices have risen, so too have average rental rates on Long Island. According to Axiometrics, a Dallas based analyst of the apartment and student housing market, the annual effective rent growth rate for Long Island was 3.1% in June 2017. Long Island was said to have a 97.3% occupancy rate, higher than New York City's 96.8% rate and the national 94.9% rate.¹²

Table 4

Nassau County Housing Forecast by Quarter				
2017				
	Q1	Q2	Q3	Q4
New Mortgages	3.10%	2.85%	2.86%	2.82%
Refinances	-19.46%	-24.10%	-24.89%	-20.25%
Median Sale Price	1.45%	1.47%	1.27%	1.00%
2018				
	Q1	Q2	Q3	Q4
New Mortgages	2.50%	1.96%	1.25%	0.42%
Refinances	-13.05%	-6.67%	-4.02%	-3.81%
Median Sale Price	0.83%	0.78%	0.86%	0.95%

Source: Moody's Economy.com

Looking forward, Table 4 depicts Moody's current Nassau's residential housing market forecast by quarter. Moody's envisions positive annual new mortgage growth throughout 2017 and 2018. The future new mortgage growth is expected to be supported by loosening credit standards as interest rate increases are projected to squeeze lender profits.¹³

¹⁰ McDermott, Maura, "Tight Supply Drives Up Home Prices Across Long Island", [Newsday.com](#), July 27, 2017.

¹¹ McDermott, Maura, "LI Home Prices Jump; Nassau Reaches Record Level", [Newsday.com](#), July 13, 2017.

Mortgage refinances are expected to decrease each quarter throughout 2017 and 2018.

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 1.8% in June 2017 from the prior year, and 0.2% from the prior month. According to the U.S. Bureau of Labor Statistics, the increase was attributable to increased shelter, food, and energy prices.

Looking forward, from an annual perspective, regional consumer prices are expected to rise from 2017 to 2021. The 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	0.65%	-0.42%	0.56%	0.82%
2018	0.72%	0.75%	0.85%	0.87%
2019	0.91%	0.90%	0.89%	0.85%
2020	0.83%	0.82%	0.82%	0.80%
2021	0.79%	0.77%	0.77%	0.76%

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.

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

¹² Winzelberg, David, "LI Rents on the Rise, While NYC's Dip", [LIBN.com](#), July 19, 2017.

¹³ Leong, Richard, "U.S. Home Lenders See Leaner Times Ahead: Fannie Mae Survey", June 26, 2017.

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consumer prices, resulting in increased consumer purchasing power.

Siena College Research Institute's, SCRI, 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	2nd Qtr 17	1st Qtr 17	2nd Qtr 16	Qtrly %	Yrly %	
Car/Truck	15.3	18.5	17.6	-17.3%	-13.1%	
Consumer Electronics	44.2	42.7	43.1	3.5%	2.6%	
Furniture	25.0	30.0	31.0	-16.7%	-19.4%	
Home	9.2	10.1	8.4	-8.9%	9.5%	
Major Home Improvement	21.2	20.8	21.9	1.9%	-3.2%	
Total	114.9	122.1	122	-5.9%	-5.8%	

Table 6 shows that New Yorkers' overall buying plans have decreased 5.8% from the prior year, and 5.9% from the prior quarter. Despite the recent decline, Dr. Lonnstrom, the founding director of SCRI, said that consumer sentiment remained substantially above the breakeven point, an indication that the willingness to spend among consumers is strong.¹⁴

Lodging Industry

Table 7 illustrates the average hotel/motel occupancy and daily rental rate in Nassau County for the first half of 2013 to 2017. Demand for rooms was down 1.2% in the first half FY 2017 compared to the first half FY 2016. Prices depreciated 0.9% during this same time period. These trends were relatively stable from the First Quarter FY 2017.

Table 7

First Half	Average Occupancy Rate	Average Daily Rate
2013	81.45%	\$128.56
2014	73.65%	\$142.52
2015	74.63%	\$139.85
2016	77.20%	\$143.46
2017	76.28%	\$142.13

Source: Long Island Convention & Visitors' Bureau

Looking forward, the lodging industry could be in line for a second half upsurge. Moody's upgraded its hospitality and leisure employment from the first quarter to the second quarter, from 0.8% to 1.7% annual growth. A clearer picture of Nassau's lodging industry will develop once July and August data are available.

Conclusion

Overall the economy nationally and locally moved forward in the second quarter of 2017. This positive economic growth is forecast to continue through 2021.

The current economic forecast is delicate and depends on several forces moving in the expected direction with the anticipated momentum. The areas to monitor include, inflation, consumer spending, and employment growth.

The Federal Reserve left interest rates unchanged in July 2017 as they noted inflation has been edging further below the Federal Reserve's target.¹⁵

As mentioned previously, recent indicators reveal that some households are opting to save more income and auto dealers are preparing for a

¹⁴ "Quarterly New York State Index of Consumer Sentiment including Gas and Food Analysis", Siena College Research Institute, July 6, 2017.

¹⁵ The Associated Press, "Fed Keeps Key Interest Rates Unchanged Amid Low Inflation", LIBN.com, July 26, 2017.

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cooling off in the auto market. These forces can put downward pressure on consumer spending.

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