

MAURICE CHALMERS
DIRECTOR
OFFICE OF LEGISLATIVE
BUDGET REVIEW



NASSAU COUNTY LEGISLATURE
1550 FRANKLIN AVENUE, ROOM 126
MINEOLA, NEW YORK 11501
(516) 571-6292

Inter-Departmental Memo

To: Hon. Vincent Muscarella, Chairperson Budget Review Committee
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
Office of Legislative Budget Review 

Date: August 10, 2018

Re: August 2018 Economic Report

Attached is a copy of the Office of Legislative Budget Review's August 2018 economic report. This report is being circulated to assist the Legislature in making policy decisions and in assessing budgetary forecasts.



OFFICE OF LEGISLATIVE BUDGET REVIEW

The Regional and National Economic Forecast for 2018 to 2022

August 2018

The Office of Legislative Budget Review, (OLBR), has received Moody's Analytics July 2018 forecast of significant Nassau County economic variables. OLBR has compiled, analyzed, and illustrated Moody's current economic forecast for planning and projecting purposes. Throughout the report, OLBR presents Moody's forecast and provides its insights.

The national economy is in "great shape" according to the Federal Reserve. Based on this assessment, they felt that interest rates no longer needed to be at historically low levels and in June 2018 interest rates were increased a quarter point to the 1.75% to 2.0% range. They opined that two additional interest rate increases were intended in the remainder of 2018.¹ This sentiment was confirmed in August 2018 when they left the benchmark interest rate unchanged, while planning for two more increases in 2018, resulting in a combined four rate hikes in 2018. They were optimistic about the strong labor market, balanced economic risks, and inflation reaching the Fed's 2.0% target.²

These forecasts were further supported when national economic growth registered its best rate since 2014. Second quarter 2018 real US gross domestic product, (GDP), grew at a 4.1% annual

growth rate; up from the 2.2% first quarter 2018 growth rate. The driving forces behind this increase were rises in exports, government expenditures, and consumer spending.³

The strong economic growth is expected to trickle down to the local level. A recent attorney-accountant panel stated that last year's tax law changes combined with a generally favorable business climate could lead to an economic boom on Long Island. The reduction in the corporate tax rate from 35.0% to 21.0% has resulted in companies converting to C-corps, selling their businesses, expanding their businesses, increasing research and development, deciding not to leave New York and opting to come to New York. They highlighted tourism and manufacturing as industries ripe for foreign investment. Lastly, they felt that the recent Supreme Court decision which said that states may charge tax on purchases made by out-of-state vendors will benefit New York.⁴

Moody's Analytics current economic forecast supports the previously detailed local economic growth. They found that Nassau's economy grew 0.6% in the second quarter 2018 compared to the first quarter. From an annual perspective,

¹ Long, Heather, "Federal Reserve Bumps Up Interest Rate, Signals Two More Hikes Likely in 2018", [The Washington Post](#), June 13, 2018.

² The Associated Press, "Fed Keeps Key Rate Unchanged While Signaling Future Hikes", [LIBN.com](#), August 1, 2018.

³ Cox, Jeff, "Second-quarter GDP jumps 4.1% for best pace in nearly four years", [CNBC.com](#), July 27, 2018.

⁴ Starzee, Bernadette, "Boom Time Ahead for Long Island?" [LIBN.com](#), July 30, 2018.

The Regional and National Economic Survey and Forecast 2018 – 2022

Nassau’s economy grew 2.2% from 2017’s second quarter level.

Table 1 details the current Moody’s Analytics forecast for Nassau County’s major economic indices from 2018 to 2022.

Table 1

2018 to 2022 Nassau County Economic Forecast					
Forecast Annual Growth Rates*					
	2018	2019	2020	2021	2022
GCP	2.2%	1.5%	0.2%	2.6%	2.7%
Personal Income	3.8%	3.2%	2.8%	3.4%	3.7%
Employed	-0.3%	0.8%	0.1%	0.1%	0.8%
Unemployed	-0.5%	-8.6%	4.7%	11.0%	3.4%
Unemployment %	4.1%	3.8%	3.9%	4.3%	4.5%
Non Farm Jobs	1.3%	1.0%	0.2%	0.2%	0.8%
New Mortgages	3.2%	1.3%	-7.2%	7.3%	5.8%
Mrt Refinances	-8.9%	-9.2%	5.6%	4.5%	-0.9%
Retail Sales	6.3%	4.1%	1.2%	3.5%	3.8%
Median Home Sale Price	4.3%	3.3%	3.6%	5.5%	5.2%
Regional CPI	2.3%	3.2%	2.9%	3.0%	3.0%

*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 2.2% in 2018, 1.5% in 2019, 0.2% in 2020, 2.6% in 2021 and 2.7% in 2022.

Correlating with the projected 2018 interest rate increases, Moody’s Analytics forecasts mortgage refinancing to decrease 8.9% in 2018 and 9.2% in 2019.

The number of housing market transactions is expected to record positive growth in 2018 with new mortgages increasing 3.2% and median prices rising 4.3%.

Lastly, real personal income growth, adjusted for inflation, is projected to be positive 1.6% in 2018 which will enable the projected 6.3% increase in retail sales.

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.

Current consumer spending is positive and strong. The Commerce Departments’ monthly retail trade and food services report showed a 0.4% increase in sales from May to June and a 0.5% revised increase from April to May. Moreover, Disposable Personal Income (DPI) increased 0.4% from May to June.⁵

Moody’s Analytics current forecast shows a continuation of the current positive consumption trends from 2018 to 2022. Table 2 details Moody’s current quarterly forecast for Nassau County personal income, GCP, and retail sales. All variables forecasted are expected to register positive growth rates through the third quarter 2019.

Table 2

Nassau County Consumption Growth by Quarter				
	2018			
	Q1	Q2	Q3	Q4
GCP	0.61%	0.63%	0.62%	0.55%
Total Personal Income	1.04%	1.03%	0.96%	0.86%
Retail Sales	1.61%	1.56%	1.48%	1.32%
	2019			
	Q1	Q2	Q3	Q4
GCP	0.42%	0.25%	0.05%	-0.11%
Total Personal Income	0.76%	0.70%	0.66%	0.65%
Retail Sales	1.08%	0.79%	0.46%	0.18%

Source: Moody’s Economy.com

The second quarter 2018 Siena College Research Institute Consumer Confidence Poll found that throughout the metropolitan region, consumer

⁵ The Associated Press, “Consumer Spending Posts Solid Gains in June”, LIBN.com, July 31, 2018.

The Regional and National Economic Survey and Forecast 2018 – 2022

sentiment fell 1.0% from the prior quarter, but remained well above the breakeven point when optimism and pessimism are balanced. In addition, New York State buying plans increased from the prior quarter in the markets for cars/trucks, consumer electronics, furniture, and homes.⁶ This supports Moody’s consumption forecast.

Labor Market

June 2018, New York State Department of Labor figures show a strong Nassau County labor market. From a monthly perspective, the number of employed residents grew 2.4% and the labor force grew 2.7%. According to John A. Rizzo, an economics professor at Stony Brook University and chief economist for the Long Island Association trade group, the numbers indicate “that more people are re-entering the labor force in anticipation of obtaining jobs.”⁷

Looking forward, in 2018, Moody’s is expecting Nassau County to record an 0.3% decrease in the number of employed residents coupled with a 0.5% decrease in unemployed residents. This trend is expected to reverse in 2019 when employment is projected to grow 0.8%.

Non-Farm Jobs

From a monthly and an annual perspective, Long Island non-farm job growth was positive in June 2018. According to New York State Department of Labor figures, in June 2018 total non-farm jobs increased by 1.5% from the prior month and 1.1% from the prior year. The strongest annual job growth, above 5.0%, was reported in the Transportation, Warehousing, and Utilities, Natural Resources, Mining, and Construction, and State Government Education sectors. In level

terms, the construction and tourism sectors recorded the highest number of job growth, 6,500 and 4,200 respectively.⁸

Dodge Data & Analytics similarly found robust construction growth. They found that New York area construction starts more than doubled in June 2018 from an annual view point. They attributed much of the growth to a huge increase in nonresidential building.⁹

Moody’s anticipates that Nassau County will continue to generate positive total non-farm job growth from 2018 to 2022. Table 3 details projected Nassau County job growth by sector. The growth is projected to be broad based with six of the eight sectors surveyed forecast to record positive job growth in 2018. The two areas with negative annual job growth in 2018 are the high tech and financial activities sectors.

Table 3

Nassau County Annual Job Growth By Sector, 2018 to 2022					
	2018	2019	2020	2021	2022
Construction	5.8%	3.4%	-0.6%	0.8%	1.7%
Education & Health	0.5%	1.6%	0.9%	0.5%	1.1%
Financial Activities	-1.1%	0.1%	-0.1%	-0.2%	0.3%
Government	0.3%	0.3%	0.2%	0.4%	0.6%
High Tech	-0.8%	1.6%	0.9%	0.4%	1.2%
Leisure and Hospitality	2.7%	1.0%	0.5%	0.5%	0.9%
Professional and Business Services	2.2%	2.1%	0.2%	0.4%	1.9%
Retail Trade	1.5%	-0.4%	-0.6%	-0.4%	0.1%
Total Non-Farm Jobs	1.3%	1.0%	0.2%	0.2%	0.8%

Current trends are forecast to continue with the construction sector recording the strongest annual 2018 job growth of 5.8%.

⁶ “Quarterly New York State Index of Consumer Sentiment including Gas and Food Analysis”, [Siena College Research Institute](#), July 11, 2018.

⁷ Mason-Draffen, Carrie, “Long Island Unemployment Rate Falls to 3.8% in June”, [Newsday.com](#), July 24, 2018.

⁸ Mason-Draffen, Carrie, “Long Island Gains 15,600 Jobs; Employment Remains at Record Level”, [Newsday.com](#), July 19, 2018.

⁹ Winzelberg, David, “Construction Starts Soar”, [LIBN.com](#), July 26, 2018.

The Regional and National Economic Survey and Forecast 2018 – 2022

Real Estate

The Nassau County residential real estate market is in transition. Rising interest rates, tax changes, historically low inventory levels, rising sale prices, and a decline in migration from New York City have slowed Nassau County sales activity.¹⁰ June 2018 Multiple Listing Service of Long Island (MLS LI) figures reveal an annual 3.9% increase in median sale prices, a 4.4% annual decline in the number of home sales and a 2.5% annual fall in pending home sales.

Splitting the Long Island residential real estate market into two segments, starter homes and luxury homes, it was found that prices have increased sharply for the more affordable homes and fell at the top of the market. Moreover, on average starter homes sold in 5.1 months, while luxury homes on average took 17 months to sell.¹¹

Looking forward, Table 4 depicts Moody’s current Nassau County residential housing market forecast by quarter. Moody’s envisions positive annual new mortgage and sale price growth throughout 2018.

Table 4

Nassau County Housing Forecast by Quarter				
2018				
	Q1	Q2	Q3	Q4
New Mortgages	1.75%	2.37%	2.18%	1.46%
Refinances	4.25%	6.24%	2.59%	-2.34%
Median Sale Price	1.11%	1.06%	0.98%	0.88%
2019				
	Q1	Q2	Q3	Q4
New Mortgages	0.54%	-0.54%	-1.81%	-2.79%
Refinances	-5.04%	-5.32%	-2.98%	0.58%
Median Sale Price	0.79%	0.73%	0.70%	0.73%

Source: Moody's Economy.com

¹⁰ Winzelberg, David, “Back in Balance”, [LIBN.com](#), July 24, 2018.

¹¹ McDermott, Maura, “LI Starter Homes Snapped Up While Luxury Sales Slow, Report Shows”, [Newsday.com](#), July 26, 2018.

¹² Starzee, Bernadette, “Fed Raises Rates Amid Confidence in Economy”, [LIBN.com](#), April 4, 2018.

In 2018, mortgage refinances are expected to start decreasing in the fourth quarter. These decreases correlate with the Federal Reserve’s projection of additional interest rate increases in 2018.¹²

The Nassau County rental market is experiencing robust demand from empty nesters and young professionals. According to real estate experts, developers are rushing to meet this local demand, where average Nassau County rents have risen 3.2% from the prior year and 27.0% over the last five years.¹³

Compared to the growth seen in home sale prices and average rental rates, Long Island has recorded relatively stagnant wage growth creating an affordability crunch for many.¹⁴

Lastly, bolstered by strong job figures, the Long Island office real estate market saw its vacancy rate fall to 10.8% in the second quarter 2018, the lowest level seen since the first quarter 2005. Additionally, leasing activity increased 23.0% from an annual perspective.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. U.S. Bureau of Labor Statistics figures show that regional consumer prices were up 2.1% in June 2018 from the prior year. Contributing to the increase were energy and food prices. Energy prices rose 12.3% and food prices rose 2.4%, respectively, over the past year. The largest drop in consumer prices, from a monthly view, was

¹³ McDermott, Maura, “LI rents rising as developers struggle to meet demand for apartments”, [Newsday.com](#) July 13, 2018.

¹⁴ Same as above.

¹⁵ Winzelberg, David, “Office Vacancy Rate Drops to 13-Year Low”, [LIBN.com](#), July 31, 2018.

The Regional and National Economic Survey and Forecast 2018 – 2022

from clothing, which decreased 5.1% in June 2018.¹⁶

Looking forward, from an annual perspective, regional consumer prices are expected to rise from 2018 to 2022. 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
2018	0.81%	0.16%	1.04%	0.77%
2019	0.81%	0.83%	0.77%	0.71%
2020	0.61%	0.71%	0.76%	0.75%
2021	0.76%	0.74%	0.74%	0.74%
2022	0.74%	0.75%	0.75%	0.74%

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, and consumer price growth.

The current Moody's regional forecast envisions positive annual growth for all of these variables in 2018, see Table 1 on page 2. Moreover, the 2018 forecast for personal income growth exceeds the forecast for consumer prices, resulting in increased consumer purchasing power.

Siena College Research Institute's, SCRI, survey of New Yorker buying plans in the second quarter of 2018, increased for cars/trucks, consumer electronics, furniture, and homes from a quarterly perspective. However, buying plans were down for major home improvements compared to the

¹⁶ Solnik, Claude, "Long Island Consumer Prices Edge Up", LIBN.com, July 12, 2018.

¹⁷ "Quarterly New York State Index of Consumer Sentiment including Gas and Food Analysis", Siena College Research Institute, July 11, 2018.

prior quarter. The quarterly percent change for these categories are shown in Table 6.

Table 6

New York Statewide Buying Plans Survey					
Category	2Q18	1Q18	2Q17	Qtrly %	Yrly %
Car/Truck	14.3	13.6	15.3	5.1%	-6.5%
Consumer Electronics	40.3	38.2	44.2	5.5%	-8.8%
Furniture	27.7	27.4	25.0	1.1%	10.8%
Home	7.4	7.1	9.2	4.2%	-19.6%
Major Home Improvement	21.6	22.4	21.2	-3.6%	1.9%
Total	111.3	108.7	114.9	2.4%	-3.1%

Source: Siena College Research Institute

Consumer sentiment in New York State is considered over the optimism/pessimism break-even point. Consumers have shown strong confidence in the future of business and the economy according to Dr. Lonnstrom from SCRI.¹⁷

Looking forward, the Supreme Court ruled that states can force online shoppers to pay sales tax.¹⁸ It has been estimated that this could generate \$160.0 million for the State annually and \$160.0 million for County governments annually. However, to start collecting these revenues, passage of State legislation is required.¹⁹

Lodging Industry

Table 7 illustrates the average Hotel/Motel occupancy and daily rental rate in Nassau County through June 2018.

Table 7

Nassau Hotel / Motel Statistics					
Average Occupancy Rate					
	Jun-18	May-18	Jun-17	Mthly %	Yrly %
Occupancy %	89.6%	84.3%	86.0%	6.3%	4.2%
Average Daily Rate					
	Jun-18	May-18	Jun-17	Mthly %	Yrly %
Rental Rate \$	\$ 172.82	\$ 154.13	\$ 163.67	12.1%	5.6%

Source: Discover Long Island

¹⁸ The Associated Press, "Supreme Court Rules States can Collect Tax From Online Sales", LIBN.com, June 21, 2018.

¹⁹ Mahoney, Joe, "New York Counties Hopeful as High Court Expands Tax Authority over Web Sales", Niagara Gazette, June 21, 2018.

The Regional and National Economic Survey and Forecast 2018 – 2022

The Nassau County tourism industry experienced strong demand as both occupancy and rental rates increased from both a monthly and an annual perspective. Analyst point out that the increases were significant as they occurred alongside cool and rainy weather, rising gas prices, and political turmoil.²⁰ Additional demand is being spurred from international travelers. Awareness of Long Island was said to be growing in Australia and Canada due to the partnership between Discover Long Island and NYC & Co., New York City’s primary tourism bureau.²¹

Looking forward, the lodging industry is expected to continue to grow in 2018. Moody’s expects leisure and hospitality employment to grow 2.7% in 2018 and 1.0% in 2019. Growth in the tourism sector is significant as it played a major role in sales tax collections in 2017. A recent report found that tourists spent \$5.9 billion on Long Island in 2017. These monies were said to be divided evenly between Nassau and Suffolk counties.²² This implies that tourism spending accounted for roughly 10% of all Nassau County sales tax collections in 2017. The positive trend of the lodging industry should further increase sales tax collections.

Conclusion

Strong and broad based economic growth was recorded in the second quarter of 2018. This positive economic growth is forecast to continue through 2022.

Positive job growth was enticing people to enter the labor force. Increased employed residents and wage growth has given consumers the confidence and means to complete retail sales. Combining these forces with corporate tax changes and

increased marketing efforts has resulted in some predicting an economic boom on Long Island. There are three areas which must be monitored; if they were to increase momentum above plan, they have the potential to diminish the forecast positive economic growth. These factors include increased interest rates, housing affordability, and increased automation. A recent report found that Long Island ranked second in the state in terms of the number of jobs at high risk of automation.²³

***Prepared by:
The Office of Legislative Budget Review***

*Deirdre K. Calley, Deputy Director
Helen M. Carlson, Deputy Director
Dawn Wood-Jones, Sr. Budget Analyst
Linda Guerreiro, Sr. Budget Analyst
Lamartine Pierre, Budget Analyst
Mitchell Seidler, Budget Analyst*

²⁰ Incantalupo, Tom, “Strong Economy Expected to Drive Tourism on LI Despite Rising Gas Prices”, [Newsday.com](http://www.newsday.com), May 18, 2018.

²¹ Madore, James T., “Officials Say NYC Partnership is Raising LI’s Tourism Profile Overseas”, [Newsday.com](http://www.newsday.com), July 26, 2018.

²² Madore, James T., “Tourists Spent \$5.9 Billion on Long Island in 2017, Report Finds”, [Newsday.com](http://www.newsday.com), July 31, 2018.

²³ Mason-Draffen, Carrie, “Study: Long Island has More Than 180,000 Jobs at High Risk from Automation”, [Newsday.com](http://www.newsday.com), June 14, 2018.