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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

A handwritten signature in blue ink, appearing to be "MC", is placed to the right of the "From:" line.

Date: March 1, 2019

Re: February 2019 Economic Report

Attached is a copy of the Office of Legislative Budget Review's February 2019 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 2019 to 2023

February 2019

The Office of Legislative Budget Review, (OLBR), has received Moody's Analytics December 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.

National economic growth remained positive but lost steam in the fourth quarter of 2018. The Commerce Department reported that US Gross Domestic Product grew by 2.6% in the fourth quarter of 2018; down from 3.4% in the third quarter of 2018.¹

In light of the declining economic speed, in January 2019, the Federal Reserve chose to keep interest rates constant, stating that it plans to be patient about future rate hikes in light of global economic and financial developments and muted inflation pressures.² Moreover, as of February 2019, many private economists believe the Fed may raise rates at most only one more time late this year. Additionally, some analysts expect the Fed's next move will be to cut rates as it confronts a slowing economy this year.³

Current national economic forecasts envision 2.3% economic growth on average in 2019. Moreover, a majority of business economists foresee no recession in the United States within the next 12 months.⁴ However, for some the slowdown in economic growth is expected to turn negative in 2020 and 2021. A recent survey by the National Association for Business Economics found that half of those surveyed expect a national recession by the end of 2020 and three-fourths anticipate a recession by the end of 2021.⁵

Moody's Analytics is forecasting a similar economic growth pattern for Nassau County in 2019. They expect positive, albeit slower economic growth in 2019 when compared to 2018. They found that Nassau's economy grew 2.5% in 2018 compared to 2017. Moreover, they are anticipating 2019 economic growth to rise 1.9% from an annual perspective.

Table 1 details the current Moody's Analytics forecast for Nassau County's major economic indices from 2019 to 2023.

¹ The Associated Press, "US Economic Growth Slows to 2.6 Percent Rate in Q4", [LIBN.com](#), February 28, 2019.

² The Associated Press, "Fed Keeps Key Rate Unchanged and Pledges to be "Patient", [LIBN.com](#), January 30, 2019.

³ The Associated Press, "Fed will be "Patient" in Rate Hikes amid Global Growth Woes", [LIBN.com](#), February 22, 2019.

⁴ The Associated Press, "Survey of Economists: U.S. Recession Unlikely within 12 Months", [ABCNews.com](#), January 28, 2019.

⁵ The Associated Press, "Survey: Half of Business Economists see Recession by 2020", [LIBN.com](#), February 25, 2019.

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Table 1

2019 to 2023 Nassau County Economic Forecast					
Forecast Annual Growth Rates*					
	2019	2020	2021	2022	2023
GCP	1.9%	0.4%	2.4%	2.6%	2.1%
Personal Income	3.6%	3.1%	3.7%	4.1%	4.0%
Employed	0.8%	0.1%	0.1%	0.7%	0.7%
Unemployed	-9.1%	4.9%	14.0%	4.3%	0.8%
Unemployment %	3.6%	3.8%	4.3%	4.4%	4.4%
Non Farm Jobs	1.0%	0.3%	0.1%	0.8%	0.7%
New Mortgages	0.6%	-4.3%	6.4%	4.7%	4.8%
Mrt Refinances	16.0%	0.1%	-14.4%	-16.3%	12.5%
Retail Sales	4.3%	1.1%	3.3%	3.9%	2.8%
Median Home Sale Price	3.2%	4.0%	4.8%	4.9%	5.2%
Regional CPI	2.9%	2.8%	3.0%	3.1%	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 1.9% in 2019, 0.4% in 2020, 2.4% in 2021, 2.6% in 2022 and 2.1% in 2023.

Moody's Analytics envisions positive momentum in the local housing market in 2019. They are forecasting mortgage refinancing to increase 16.0% in 2019 and 0.1% in 2020. Additionally, the number of housing market transactions is expected to record positive growth in 2019 with new mortgages increasing 0.6% and median prices rising 3.2%.

Lastly, real personal income growth, adjusted for inflation, is projected to be positive 0.7% in 2019 which will enable the projected 4.3% 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

⁶ The Associated Press, "US Retail Sales Drop Unexpectedly in December", LIBN.com, February 14, 2019.

provided and therefore, more jobs and personal income are being generated.

Mirroring the fourth quarter 2018 slowdown in economic growth, the Commerce Department reported that December retail sales fell 1.2% from November. Moreover, non-store retailers, which include mail-order and e-commerce vendors, saw sales plummet 3.9%.⁶ From an annual vantage point, December 2018 national retail sales increased 2.3% from the prior year.⁷

Moody's Analytics current forecast shows a continuation of the current positive consumption trends from 2019 to 2020. Table 2 details Moody's current quarterly forecast for Nassau County GCP, personal income, and retail sales. All variables forecasted are expected to register positive growth rates in 2019 except for a 0.02% decline in GCP in Q4 2019 and a 0.06% GCP decrease in Q1 2020.

Table 2

Nassau County Consumption Growth by Quarter				
	2019			
	Q1	Q2	Q3	Q4
GCP	0.54%	0.37%	0.16%	-0.02%
Total Personal Income	1.03%	1.03%	0.91%	0.76%
Retail Sales	1.14%	0.82%	0.46%	0.16%
	2020			
	Q1	Q2	Q3	Q4
GCP	-0.06%	0.03%	0.27%	0.52%
Total Personal Income	0.68%	0.68%	0.77%	0.88%
Retail Sales	0.04%	0.13%	0.40%	0.71%

Source: Moody's Economy.com

The fourth quarter 2018 Siena College Research Institute Consumer Confidence Poll found that throughout the metropolitan region, consumer sentiment reached a new high in December at 97.6 points. The new level exceeds the 10-year high set in the previous quarter when the index was at 94.8 points. In the year prior, the consumer

⁷ The Associated Press, "US Retail Sales Drop Unexpectedly in December", LIBN.com, February 14, 2019.

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sentiment index was 93.5. This indicates that there are far more residents who are optimistic about their immediate financial future than those who are pessimistic.⁸ In addition, New York State buying plans increased from the prior quarter in the markets for cars/trucks, consumer electronics, furniture, and homes. This supports Moody’s consumption forecast.

Labor Market

New York State Department of Labor figures show that the Nassau County labor market was strong in December 2018. Positive job growth enticed individuals to enter the labor market. Statistics show that the County’s labor force grew by 0.3% from a monthly perspective and 3.1% from an annual perspective. An itemization of the monthly changes reveals that 1,800 individuals entered the labor force. Of that total, 61.1% or 1,100 individuals were able to secure employment. The other 700 individuals remained unemployed causing the unemployment rate to increase from 2.9% to 3.0% from November 2018 to December 2018.

Looking forward, in 2019, Moody’s is expecting Nassau County to record an 0.8% increase in the number of employed residents coupled with a 9.1% decrease in unemployed residents.

Non-Farm Jobs

From a monthly and an annual perspective, Long Island and State non-farm job growth was positive in December 2018. According to New York State Department of Labor figures, in December 2018 total non-farm jobs increased by 1.3% from the prior year. The strongest annual job growth was in the educational & health services and natural resources, mining and

construction sectors, with 10,300 and 10,100 new jobs respectively. The financial activities sector struggled the most in December 2018; it lost 2,900 jobs from the prior year.⁹

The Associated General Contractors of America also calculated strong construction job growth on Long Island. They found that Long Island gained 10,100 construction jobs, or 13%, in December 2018 when compared to the prior year. This brings the total amount of employed in construction to 89,700 people.¹⁰

Moody’s anticipates that Nassau County will continue to generate positive total non-farm job growth from 2019 to 2023. 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 or unchanged job growth in 2019. The only area with negative annual job growth in 2019 is the retail trade sector.

Table 3

Nassau County Annual Job Growth By Sector, 2019 to 2023					
	2019	2020	2021	2022	2023
Construction	3.1%	0.0%	0.5%	1.6%	0.8%
Education & Health	1.9%	1.0%	0.5%	1.1%	1.1%
Financial Activities	0.0%	-0.1%	-0.2%	0.2%	0.3%
Government	0.3%	0.3%	0.3%	0.6%	0.6%
High Tech	1.7%	1.0%	0.4%	1.2%	1.1%
Leisure and Hospitality	1.2%	0.5%	0.4%	0.8%	0.8%
Professional and Business Services	2.0%	0.5%	0.2%	1.7%	1.3%
Retail Trade	-0.8%	-0.6%	-0.4%	0.1%	0.0%
Total Non-Farm Jobs	1.0%	0.3%	0.1%	0.8%	0.7%

Current trends are forecast to continue with the construction sector recording the strongest annual 2019 job growth of 3.1%.

Real Estate

According to Multiple Listing Service of Long Island figures, Nassau County ended 2018 with a

⁸ “Metro Area Consumer Confidence Hits New High, Poll Finds”, [Newsday.com](http://www.newsday.com), January 8, 2019.

⁹ Mason-Draffen, Carrie, “LI Employment Grew by 17,800 Jobs in December from a Year Earlier”, [Newsday.com](http://www.newsday.com), January 17, 2019.

¹⁰ Winzelberg, David, “Construction Employment Surges on Long Island”, [LIBN.com](http://www.libn.com), January 29, 2019.

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1.3% decrease in closed sales coupled with a 5.8% annual average increase in median closed sale prices. Looking forward, pending sales data suggests that the market may expect to see an uptick in closed sales as three of the last four months have recorded positive growth in pending closed sales. Additionally, the strong price gains have enticed more sellers to the market as Nassau’s inventory level increased 14.5% from an annual perspective. Industry appraisers state that the market remains strong for homes priced near the median. The new tax changes are having a greater impact on the luxury home market.¹¹

Looking forward, Table 4 depicts Moody’s current Nassau County residential housing market forecast by quarter. Moody’s is more pessimistic than the MLSLI pending data suggests. They envision negative annual new mortgages starting in Q2 2019. In contrast, refinances and median sale prices are expected to grow throughout 2019.

Table 4

Nassau County Housing Forecast by Quarter				
2019	Q1	Q2	Q3	Q4
	New Mortgages	0.18%	-0.57%	-1.34%
Refinances	3.08%	1.87%	1.32%	0.94%
Median Sale Price	0.86%	0.92%	0.94%	0.93%
2020	Q1	Q2	Q3	Q4
	New Mortgages	-1.80%	-1.09%	0.21%
Refinances	0.31%	-0.57%	-1.72%	-2.96%
Median Sale Price	0.95%	1.00%	1.09%	1.18%

Source: Moody's Economy.com

A panel of commercial real estate developers expressed optimism for commercial real estate growth on Long Island in the near future. Some

¹¹ McDermott, Maura, “LI Home Prices Rise, but Growing Inventory may Offer Relief to Buyers”, [Newsday.com](#), February 15, 2019.

¹² Winzelberg, David, “Developers Express Optimism for Growth in Commercial Real Estate”, [LIBN.com](#), February 12, 2019.

individuals expect to set some records for rent this year.¹²

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 1.6% in January 2019 from the prior year. Contributing to the increase were higher natural gas and medical care costs which rose 18.9% and 3.7%, respectively from an annual perspective. Residential rents and food prices both increased 2.2% from the previous year.¹³

Looking forward, from an annual perspective, regional consumer prices are expected to rise from 2019 to 2023. 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
2019	0.81%	0.78%	0.73%	0.69%
2020	0.60%	0.69%	0.73%	0.74%
2021	0.76%	0.75%	0.74%	0.76%
2022	0.76%	0.76%	0.75%	0.74%
2023	0.74%	0.74%	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, number of employed residents and consumer price growth. The current

¹³ Madore, James T., “Consumer Price Index Rises in January for Metro Area”, [Newsday.com](#), February 13, 2019.

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Moody’s regional forecast envisions positive annual growth for all of these variables in 2019. Moreover, the 2019 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 fourth quarter of 2018, increased for cars/trucks, consumer electronics, furniture, homes, and major home improvements from a quarterly perspective. Home buying plans had the greatest growth at 73.9% when compared to the prior quarter. None of the buying plans were down this quarter. The quarterly percent change for these categories are shown in Table 6.

Table 6

New York Statewide Buying Plans Survey					
Category	4Q18	3Q18	4Q17	Qtrly %	Yrly %
Car/Truck	24.4	17.0	15.2	43.5%	60.5%
Consumer Electronics	51.1	41.5	44.5	23.1%	14.8%
Furniture	29.6	26.3	27.4	12.5%	8.0%
Home	12.0	6.9	7.6	73.9%	57.9%
Major Home Improvement	20.4	19.0	20.8	7.4%	-1.9%
Total	137.5	110.7	115.5	24.2%	19.0%

Source: Siena College Research Institute

Consumer sentiment in New York State is well above the optimism/pessimism break-even point. Despite stock market volatility, consumers have shown strong confidence in the future of business and the economy. Majority of New Yorkers believe it is a good time to buy big-ticket items and expect a positive 2019 according to Don Levy, SCRI Director.¹⁴

Additionally, the National Retail Federation forecasts that US retail sales should grow between 3.8% and 4.4% in 2019.¹⁵

¹⁴ “Quarterly New York State Index of Consumer Sentiment including Gas and Food Analysis”, [Siena College Research Institute](#), January 8, 2019.

¹⁵ The Associated Press, “Retail Group Forecasts Solid Retail Sales Growth for 2019”, [LIBN.com](#).

Lodging Industry

Table 7 illustrates the average Hotel/Motel occupancy and daily rental rate in Nassau County through January 2019.

Table 7

Nassau Hotel / Motel Statistics					
Average Occupancy Rate					
	Jan-19	Dec-18	Jan-18	Mthly %	Yrly %
Occupancy	64.4%	72.3%	67.8%	-7.9%	-3.4%
Average Daily Rate					
	Jan-19	Dec-18	Jan-18	Mthly %	Yrly %
Rental Rate	\$131.29	\$139.35	\$134.07	-5.8%	-2.1%

Source: Long Island Convention & Visitor's Bureau

From an annual vantage point, the Nassau County tourism industry experienced a weakened demand as average occupancy rates fell 3.4% despite a 2.1% decline in average daily rental rates.

According to a recent report from Discover Long Island, although Long Island is well known by many tourists and business travelers, few know what the region has to offer. It was found that when people are told about Long Island’s beaches, museums, and other attractions, the likelihood they would visit increased to 65% as opposed to 47% when they knew little about the area. Moreover, it was discovered that the number of people who would consider living in Nassau and Suffolk countries rose to 43% when being informed about its amenities.¹⁶

Looking forward, the lodging industry is expected to continue to grow in 2019. Moody’s expects leisure and hospitality employment to grow 1.2% in 2019 and 0.5% in 2020. Growth in

¹⁶ Madore, James T., “Long Island is Well Known But its Attractions Are Not, Study Finds”, [Newsday.com](#), January 17, 2019.

the tourism sector is significant as it plays a major role in sales tax collections on Long Island.

Conclusion

The Nassau County economy grew 2.5% in 2018 according to Moody's Economy.com. The growth was broad based with positive annual sales tax growth, high regional consumer confidence, strong job growth which resulted in positive labor force growth and robust median home price appreciation.

Looking forward, 2019 economic growth at both the national and regional levels is expected to be slower but remain positive from an annual perspective. According to Federal Reserve Chairman Jerome Powell, the US economy should keep expanding at a solid, though somewhat slower pace this year.¹⁷

Monitoring of the economy is critical as any greater than anticipated slowdown in the economy could trigger a recession. Current surveys show that half of the surveyed economists expect a national recession by the end of 2020 and three-fourths anticipate a recession by the end of 2021.¹⁸

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¹⁷ The Associated Press, "Fed Predicts Solid but Slower Growth in 2019", LIBN.com, February 26, 2019.

¹⁸ The Associated Press, "Survey: Half of Business Economists see Recession by 2020", LIBN.com, February 25, 2019.