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Inter-Departmental Memo

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

From: Maurice Chalmers, Director
Office of Legislative Budget Review

Date: September 1, 2015

Re: Mid-Year 2015 Economic Report

Attached is a copy of the Office of Legislative Budget Review's (OLBR) Mid-Year 2015 economic report. It utilizes Moody's Analytics current forecast and incorporates OLBR's insights. 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.



OFFICE OF LEGISLATIVE BUDGET REVIEW

The Regional and National Economic and Fiscal Forecast for 2015 to 2019

(Based on Moody's Analytics Current Forecast)

August 2015

The Office of Legislative Budget Review, OLBR, has received Moody's Analytics second quarter 2015 forecast of significant Nassau County economic variables. OLBR has compiled, analyzed and depicted Moody's current economic forecast for informational purposes. The time frame does not include recent events in the stock market; this will be covered in our third quarter review. Throughout the report, OLBR presents the forecast and provides its insights.

The national economy is operating better than initially thought. On July 30, 2015 the US Bureau of Economic Analysis found that the US real Gross Domestic Product (GDP) grew 2.3% in the second quarter and grew 0.6% in the first quarter. The figures were part of the advanced estimate. The increase was attributed to heightened personal consumption expenditures, exports, state and local governmental spending and residential fixed investment.¹ Prior first quarter estimates had the national economy declining 0.2% in the first quarter of 2015.²

Since the economy is on a more solid foundation, an interest rate increase in September 2015 was likely. A recent Reuters poll found that 13 of 19 participants expected

the Federal Reserve Bank to raise rates in September 2015. They anticipated one increase in 2015 with rates being at 0.5% at year-end 2015 and 1.5% at year-end 2016.³ Given the recent fall in the market, that strategy may be rethought.

Table 1

| 2015 Nassau County Economic Indicators | | | | | | |
|----------------------------------------------------------|--------------|--------------|--------------|--------------|--------------|------------------|
| Actuals, Forecast, and Growth Required to Reach Forecast | | | | | | |
| | Jun-15 | May-15 | Jun-14 | Mthly % | Yrly % | Moody's Forecast |
| NYS Private Wages, Avg. Wkly Earnings | \$958 | \$962 | \$962 | -0.4% | -0.4% | 4.1% |
| Nassau Employed Residents, in thousands | 674 | 664 | 668 | 1.5% | 1.0% | 0.5% |
| Nassau Labor Force, in thousands | 705 | 694 | 700 | 1.5% | 0.6% | -0.1% |
| Regional CPI, Index | 262 | 261 | 261 | 0.2% | 0.1% | 1.0% |
| NY Metro Consumer Confidence Index** | 87 | 89 | 80 | -2.3% | 8.1% | NA |
| Non Farm Jobs, in thousands | 1,336 | 1,318 | 1,318 | 1.4% | 1.4% | 0.7% |
| Median Home Sale Price | 440,000 | 435,000 | 429,000 | 1.1% | 2.6% | 4.0% |
| # of Real Estate Sales (New Mortgages) | 1,022 | 841 | 1,023 | 21.5% | -0.1% | 36.1% |

**Consumer Confidence Index is quarterly, current is June 2015, prior quarter is March 2015 and prior year is June 2014
Sources: US & NYS Department of Labor, Siena Research Institute, & Multiple Listing Service of Long Island

Nassau's economy has moved forward in 2015. According to Moody's Analytics, Nassau's Gross County Product (GCP) grew 0.2% in the first quarter of 2015 and 0.3% in the second quarter of 2015. The Nassau economic growth was broad based with the labor market recording monthly and annual non-farm job

¹ "National Income and Product Accounts Gross Domestic Product: Second Quarter 2015 (Advance Estimate)", US Bureau of Economic Analysis, July 30, 2015.

² Mutikani, Lucia, "U.S. Economy Contracts Mildly in First Quarter, but Growth Rebounding", Reuters.com, June 24, 2015.

³ Ahmed, Saqib Iqbal, "Wall Street Now Thinks Fed Hike in September will be 2015's Only Move: Reuters Poll", www.finance.yahoo.com, August 7, 2015.

The Regional and National Economic Survey and Forecast 2015 – 2019

growth, the housing market recording monthly and year to date semi-annual sales growth, the tourism recording both price and occupancy growth and consumer confidence rising 8.1% from the prior year.

Table 1 details the actual year to date changes in several regional and local economic variables. It then compares the current actuals to the forecast annual change.

Additionally, Table 1 reveals one of Nassau’s major obstacles to economic growth is declining wages. New York State (NYS) Department of Labor figures reveal that average private weekly wages in NYS fell 0.4% from both a monthly and a yearly perspective. Stagnant wage growth was also identified in a recent Hofstra University study which found that both regionally and nationally wages have been unchanged over the past 10 years. They found a slight uptick in 2014 with workers earning 75 cents more per hour on average than they did in 2005.⁴

NYS Comptroller DiNapoli had similar findings. He found that although Long Island’s job growth over the past five years was the second fastest in the state, wages did not keep up with inflation. The jobs created on Long Island were in industries that did not pay above average wages.⁵

Table 2 details the current Moody’s Analytics forecast for Nassau County’s major economic indices.

Table 2

| 2015 to 2019 Nassau County Economic Forecast | | | | | |
|----------------------------------------------|--------|--------|--------|--------|-------|
| Forecast Annual Growth Rates* | | | | | |
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| GCP | 1.4% | 2.5% | 2.0% | 1.9% | 1.4% |
| Personal Income | 4.1% | 5.7% | 5.6% | 4.9% | 3.4% |
| Employed | 0.5% | 1.1% | 0.7% | 0.2% | 0.1% |
| Unemployed | -11.0% | -4.0% | -4.1% | -0.6% | 2.2% |
| Unemployment % | 4.2% | 4.0% | 3.9% | 3.8% | 3.9% |
| Non Farm Jobs | 0.7% | 1.7% | 1.7% | 1.2% | 0.6% |
| New Mortgages | 36.1% | 15.5% | -13.7% | -0.1% | 11.9% |
| Mrt Refinances | 12.1% | -20.1% | -51.2% | -33.6% | 37.7% |
| Retail Sales | 1.2% | 5.0% | 4.5% | 3.8% | 3.1% |
| Median Home Sale Price | 4.0% | 1.7% | -0.4% | -0.1% | 2.1% |
| Regional CPI | 1.0% | 3.6% | 3.7% | 3.6% | 3.4% |
| *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 1.4% in 2015, 2.5% in 2016, 2.0% in 2017, 1.9% in 2018, and 1.4% in 2019.

The housing market is expected to be a source of strength in 2015 with new mortgages increasing 36.1% and median prices rising 4.0%.

According to Moody’s Analytics, mortgage refinancing nationally is expected to increase substantially in early 2015, before tapering off towards the end of the year when many expected the Fed to raise rates. This trend is also expected to occur locally with County refinancing activity increasing early in the year, before slowing later in the year and in the out-years.

Resident employment growth is forecast to be positive from 2015 through 2019. In 2015 non-farm job growth is projected to grow at 0.7%.

⁴ Lewkowicz, Jakub, ‘LI Wages are Stagnating, Study says’, Long Island Business News, June 11, 2015.

⁵ Madore, James T., “Long Island Job Growth 2nd Fastest in NY, but Wages didn’t keep up, report says”, Newsday, August 10, 2015.

In 2015, personal income growth is expected to exceed consumer price growth by 3.1 percentage points. Hence, on a real basis individuals will have more income available and greater buying power.

The major areas of concern for 2015 are wage, foreclosure and small business growth. As previously mentioned, New York State Department of Labor figures recorded a monthly and an annual decline in total private all worker weekly earnings throughout the State. Moreover, the NYS Comptroller found that from 2009 to 2014, Long Island wages have not kept pace with inflation.⁶

A recent NYS Comptroller report found that Long Island homeowners had the highest foreclosure rate in New York State. In Nassau roughly one in 40 housing units is in foreclosure. Distressed properties in foreclosure are said to reduce overall property values.⁷ This impacts consumer spending for those in foreclosure, reduces home equity availability for those not in foreclosure and will impact the County's assessed value which limits the County's real property tax and debt limit.

The Long Island economy is heavily dependent on small businesses. Hence anything that will impact them impacts the overall regional economy. Analysts have voiced concern about local small businesses ability to handle new financial obstacles. These include the Affordable Health Care Act which is said to increase health insurance costs, the increase in minimum wages and new federal regulations on overtime pay.⁸

⁶ Madore, James T., "Long Island Job Growth 2nd Fastest in NY, but Wages didn't keep up, report says", Newsday, August 10, 2015.

⁷ "The Foreclosure Predicament Persists", NYS Office of the State Comptroller, August 2015.

⁸ Cantor, Martin, "LI Small Biz Facing Barrage of New Obstacles", Long Island Business News, August 10, 2015.

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's advance monthly sales report, June 2015 retail sales fell 0.3% from the previous month and increased 1.4% from the prior year. From a quarterly perspective, US retail sales were up from the first quarter 2015. A drop in June was anticipated since sales grew 1.0% in May 2015. However, the decline was larger than anticipated. Experts expect strengthening in the second half of the year.⁹ The May 2015 increase was attributed to warm weather inducing consumers to spend.¹⁰

There are signs that consumers are using debt to finance their purchases as consumer credit increased 6.5% in May 2015 from the prior year.¹¹

The current Moody's Analytics forecast shows retail sales are expected to be positive throughout 2015 and 2016. Table 3 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 2015 and 2016.

⁹ The Associated Press, "US Retail Sales Fall in June as Consumers Stay Cautious", Long Island Business News, July 14, 2015.

¹⁰ Bartash, Jeffry, "Retail Sales Surge in May, Point to Revived U.S. Growth", marketwatch.com, June 11, 2015.

¹¹ Ibid.

The Regional and National Economic Survey and Forecast 2015 – 2019

Table 3

| Nassau County Consumption Growth by Quarter | | | | |
|---------------------------------------------|-------|-------|-------|-------|
| 2015 | | | | |
| | Q1 | Q2 | Q3 | Q4 |
| GCP | 0.23% | 0.30% | 0.46% | 0.63% |
| Total Personal Income | 0.89% | 0.97% | 1.17% | 1.37% |
| Retail Sales | 0.00% | 0.21% | 0.68% | 1.19% |
| 2016 | | | | |
| | Q1 | Q2 | Q3 | Q4 |
| GCP | 0.71% | 0.70% | 0.62% | 0.52% |
| Total Personal Income | 1.48% | 1.51% | 1.48% | 1.43% |
| Retail Sales | 1.47% | 1.52% | 1.39% | 1.19% |

Source: Moody's Economy.com

It should be mentioned that Table 3's retail sales quarterly forecast translates to an annual growth rate of 1.2% in 2015. That is 7.65 percentage points lower than the 8.85% sales tax growth required to make the 2015 Adopted Sales Tax Budget.

According to the most recent Siena Research Institute's (SRI) Consumer Sentiment Report, in June 2015 the metro NYC consumer confidence overall index fell 2.3% from March 2015 and increased 8.1% from June 2014. According to Dr. Lonnstrom, the founding director of SRI, "Consumer sentiment slid backwards by a couple of points this quarter while nationally the index rose by three. The Empire State now trails the nation by over 11 points. But, compared to a year ago, New Yorkers are far more positive about their current conditions than they were in 2014, and significantly more optimistic about their personal prospects as well as both the short and long-term future of the state's economy."¹²

Labor Market

The nation's unemployment rate fell to 5.3% in June, the lowest level since April 2008. The nation's rate fell mostly because many people

¹² Lonnstrom, Doug, "Quarterly New York State Index of Consumer Sentiment including Gas and Food Analysis", Siena Research Institute, July 8, 2015.

out of work gave up on their job searches and were no longer counted as unemployed.¹³

According to the NYS Department of Labor figures, Nassau's unemployment rate fell to 4.3%, down 0.4% from last year's rate, and unchanged from last month's rate. June's current unemployment rate represents the lowest rate for the month since 2007, six months before the recession began.¹⁴

The news was positive since the unemployment drop coincided with an increase in employed residents. The number of Nassau employed residents increased by 9,800 from the prior month, and by 6,500 from the prior year to 674,100 in June 2015. This was the fourth month in a row of monthly employed resident growth and the third month in a row of annual employed resident growth.

According to Shital Patel, the Labor Market Analyst for Long Island, June's job figures for Long Island was a good report. The Island has experienced year-over-year growth in the labor force for three months after declines for a year and a half. The year-over-year improvement was not due to a decrease in the labor force, people are possibly re-entering the labor force.¹⁵

Table 4 reveals that the labor market conditions are expected to improve through 2019, with positive increases in the number of employed residents. The number of unemployed residents is expected to decline through 2018. Nassau's unemployment rate is expected to decline through 2018, followed by a 0.1% increase in 2019. The current forecast has the average annual County unemployment rate falling to 4.2% in 2015, 4.0% in 2016, 3.9% in 2017, 3.8% in 2018 and 3.9% in 2019.

¹³ The Associated Press, "US Employers add 223,000 jobs; Jobless Rate Falls to 5.3%, July 2, 2015.

¹⁴ Mason-Draffe, Carrie, "Long Island's Unemployment Rate Continues to Drop." Newsday, July 21, 2015.

¹⁵ Solnik, Claude, LI unemployment rate reaches lowest since 2007", Long Island Business News, July 21, 2015.

The Regional and National Economic Survey and Forecast 2015 – 2019

Table 4

| Nassau Labor Market Projected Annual Growth Rates | | | | | |
|---------------------------------------------------|--------|-------|-------|-------|------|
| | 2015 | 2016 | 2017 | 2018 | 2019 |
| Total Employed | 0.5% | 1.1% | 0.7% | 0.2% | 0.1% |
| Total Unemployed | -11.0% | -4.0% | -4.1% | -0.6% | 2.2% |
| Average Unemploy % | 4.2% | 4.0% | 3.9% | 3.8% | 3.9% |

Source: Moody's Economy.com

Non-Farm Jobs

According to the Labor Department, U.S. nonfarm payrolls rose 223,000 last month after a downwardly revised 254,000 increase in May. This is lower than the 230,000 that polled Economists were expecting. Analysts were expecting a stronger report after very robust May employment figures.¹⁶ The biggest job gains in June came in Professional and Business, Health Care, and Retail sectors. Construction and Government jobs remained unchanged and the mining sector purged jobs. The June job market results were cited by Analysts as being strong enough for the Fed to consider raising interest rates in the fall.¹⁷

Both monthly and annual Long Island job growth was positive in June. According to the New York State Department of labor figures, the total non-farm jobs increased by 1.4% compared to both last month and last year. As of June 2015, there were 18,400 new non-farm jobs created compared to the prior year.

The Education and Health Services sector led the growth with 9,200 jobs from a year ago. Other sectors that produced strong growth include Leisure and Hospitality with 2,700 jobs and Professional & Business Services with 1,400.

Although jobs are increasing, Long Island has a way to go to recover from the Great Recession

¹⁶ Cox, Jeff, "US created 223,000 jobs in June vs. 230,000 expected; unemployment rate at 5.3%," [CNBC.Com](#), July, 2, 2015.

¹⁷ Ibid.

since the strongest job growth continues to occur in lower paying job sectors. Of the 18,300 jobs added from the prior month, 11,500 jobs created from the traditionally lower paying, less full-time and seasonal job sectors.¹⁸ Additionally, some don't consider the newly created 6,100 construction jobs to be permanent.

Further compounding the problem, are the job losses that occurred in the higher paying sectors, including Manufacturing with 500 job losses and Financial Activities with 1,000 losses in June.

Long Island's job growth in the past five years was the second fastest in New York State. A recent report released by the State Comptroller entitled "New York State Employment trends" found that from the time period 2009-2014 Long Island employment grew 4.9%, however wages on the Island did not keep up with inflation.

The report found that while Long Island increased its total employment over this time period, most of the jobs added were in lower paying sectors such as leisure and hospitality and the education and health sector. The region lost jobs in the information and government sectors. As a result, some jobs in industries with wage growth in excess of inflation were replaced with others in industries with wage growth less than the inflation rate.¹⁹

Besides the lower paying sector job growth being a concern, another alarming trend is the declining labor force in New York. According to the same report, from 2009 through 2014, the labor decreased by almost 1.0 percent, while the

¹⁸ Cantor, Martin, "Job growth figures maybe unsustainable on Long Island," [Long Island Business News](#), July 27, 2015,

¹⁹ "New York State Employment Trends", [Office of the State Comptroller](#), August 2015.

The Regional and National Economic Survey and Forecast 2015 – 2019

nation’s labor force increased by 1.2%.²⁰ Both nationally and in New York, the proportion of working age individuals who were in the labor force experienced a sixth annual consecutive drop in 2014. The report attributes the declining labor force participation to broader trends such as an aging population and workers’ difficulty in finding desirable jobs.

Nassau County is expected to generate positive total non-farm job growth from 2015 to 2019. Table 5 details projected Nassau County job growth by sector. In 2015, only Education and Health, Leisure and Hospitality and Professional and Business Services are projected to register positive job growth. From a five year perspective, Nassau is forecast to record non-farm job growth of 5.9%. Over the next five years only the Retail Trade sector is expected to see a decline in jobs.

Table 5

| Nassau County Annual Job Growth By Sector, 2015 to 2019 | | | | | | |
|---------------------------------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 5 Yr. |
| Construction | -1.2% | 6.5% | 4.0% | 2.0% | 0.3% | 11.6% |
| Education & Health | 1.9% | 2.0% | 2.1% | 1.7% | 1.2% | 8.9% |
| Financial Activities | -1.3% | 0.6% | 0.7% | 0.5% | 0.3% | 0.9% |
| Government | -0.1% | 0.7% | 0.3% | 0.2% | 0.3% | 1.5% |
| High Tech | -0.7% | 2.6% | 2.5% | 1.7% | 1.0% | 7.2% |
| Leisure and Hospitality | 2.1% | 2.1% | 2.3% | 1.6% | 1.0% | 9.1% |
| Professional and Business Services | 2.1% | 4.2% | 3.9% | 2.8% | 1.6% | 14.7% |
| Retail Trade | -0.1% | -0.3% | 0.0% | -0.3% | -0.4% | -1.1% |
| Total Non-Farm Jobs | 0.7% | 1.7% | 1.7% | 1.2% | 0.6% | 5.9% |

Moody’s current 2015 forecast of (-1.2%) for construction jobs appears to be contradictory to current conditions and other analytical forecasts. In June, 2,600 construction jobs were added, after 7,200 were produced in May. May’s results represented the biggest one month gain in construction jobs in at least 15 years, since

²⁰ Ibid.

1990.²¹ According to Long Island Business News, construction continues to boom in the New York metropolitan area as the amount of future construction contracts signed in June nearly doubled compared to a year ago. Through the first six months of this year, New York area construction contracts are up 61.0% over the save time period in 2014.²²

According to Moody’s Analytics, their current forecast accounts for the upcoming renovations to the Nassau Coliseum. They expect a bump to construction employment in the latter half of 2015. However, the upswing in the end of 2015 will not be enough to offset the weakness from earlier in the year when struggling homebuilding and severe winter weather contributed to subpar performance in the first half of 2015.

Housing

Federal Reserve Bank of New York figures show that nationwide, new foreclosure notations reached a new 16 year low. Americans are paying down mortgage debt at the same rate they are taking out new loans, leaving overall mortgage debt unchanged from three years ago. Additionally, total borrowing on home-equity lines of credit fell \$11 billion from the prior quarter.²³

Unfortunately, the nationwide decline in foreclosures is not evident in Nassau County. A recent NYS Comptroller report found that between 2014 and 2015 the number of pending foreclosure cases in Nassau increased 18.8%. Currently 2.5% or one in 40 Nassau homes is in

²¹ Solnik, Claude “LI adds Jobs, Boosted by Construction Hiring Spree,” Long Island Business News, June 18, 2015.

²² Winzelberg, David, “New York Area Construction Sizzling This Summer,” Long Island Business News, July 31, 2015.

²³ Rugaber, Christopher S., “US Mortgage Debt little changed even as sales, prices rise”, Newsday, August 13, 2015.

The Regional and National Economic Survey and Forecast 2015 – 2019

foreclosure. This is alarming since not only is the nation going in the opposite direction, but throughout NYS on average cases are up 3.8% and only one in 88 homeowners are in foreclosure.²⁴

Foreclosures have many impacts. Consumer spending declines for those in and out of foreclosure as home equity availability diminishes for all. The County’s full valuation declines which limits the County’s real property tax and debt limit. Additionally, the County will face heightened expenses associated with fighting blight.²⁵

The major cause of the foreclosure problem is stagnant wage growth which has not kept up with inflation. Further complicating the problem is the high cost of owning a house.

According to an analysis by Zillow, Nassau County residents pay the fifth highest property taxes in the Country.²⁶ Moreover, WalletHub found that New Yorkers pay the highest combined State and Local taxes, 39.0% above the Country’s median.²⁷

The NYS Comptroller’s foreclosure report mentions the use of home equity lines of credit, (HELOCs) as contributing to the foreclosure problem. During the housing boom, many took out HELOCs that offered interest-only payments in the early years which reset to higher principal and interest payments in the out years. Individuals then go into foreclosure when their wages don’t support the heightened payment or their home equity isn’t sufficient to

allow for a refinance to a more manageable monthly payment.²⁸

The Nassau County housing market moved forward in terms of housing sales in July 2015 after recording a slight decline in June 2015. Multiple Listing Service of Long Island (MLSIL) figures show that in July 2015 the number of closed home sales rose 8.2% compared to July 2014. From a monthly perspective, closed sales rose 20.9%.

Much of the home sale activity is occurring on Nassau’s south shore. A recent joint report by Douglas Elliman brokerage and Miller Samuel appraisal found that home prices on Nassau’s south shore rose faster this spring than in the overall Long Island real estate market.²⁹

In July 2015, median home prices increased 4.9% from the prior year and 3.8% compared to the prior month. Table 6 details the actual MLSIL figures.

Table 6

| Nassau County Housing Actuals | | | | | |
|-----------------------------------------------------------------------|---------|---------|---------|---------|--------|
| 2015 Current | Jul-14 | Jun-15 | Jul-15 | Mthly % | Yrly % |
| Closed Home Sales | 1,142 | 1,022 | 1,236 | 20.9% | 8.2% |
| Median Sale Price | 435,000 | 440,000 | 456,500 | 3.8% | 4.9% |
| 2015 Pending | Jul-14 | Jun-15 | Jul-15 | Mthly % | Yrly % |
| Contract Sales | 1,123 | 1,461 | 1,307 | -10.5% | 16.4% |
| Median Contract Price | 439,000 | 459,000 | 445,000 | -3.1% | 1.4% |
| Source: Multiple Listing Service of Long Island, Zone Activity Report | | | | | |

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 remainder of 2015. More data is required to see if the pending sale and price data continue to decline.

²⁴ “The Foreclosure Predicament Persists”, [NYS Office of the State Comptroller](#), August 2015.

²⁵ Same as above.

²⁶ Milo, Paul, “7 of the 10 Counties in America with the Highest Property Taxes are in N.J. Study Says”, [NJ.com](#), April 28, 2015.

²⁷ McWhinnie, Eric, “Top 10 States with the Highest Taxes”, [cheatsheet.com](#), June 27, 2015.

²⁸ “The Foreclosure Predicament Persists”, [NYS Office of the State Comptroller](#), August 2015.

²⁹ McDermott, Maura, “Home Prices on Nassau’s South Shore Stronger than Island as a whole, report shows”, [Newsday](#), July 23, 2015.

The Regional and National Economic Survey and Forecast 2015 – 2019

Table 7 depicts Moody’s current Nassau County housing market forecast by quarter. Moody’s forecast mirrors MSLI’s positive annual contract sales data, in that Moody’s envisions robust new mortgage growth, above 6.0% in all quarters in 2015. In 2016, new mortgage growth is forecast to be positive during the first half of the year and then diminish in the second half. Overall, in 2016 new mortgages are expected to show positive annual growth (see Table 2 for annual growth rates).

Table 7

| Nassau County Housing Forecast by Quarter | | | | |
|-------------------------------------------|--------|---------|---------|---------|
| | 2015 | | | |
| | Q1 | Q2 | Q3 | Q4 |
| New Mortgages | 9.59% | 9.37% | 8.28% | 6.50% |
| Refinances | 12.02% | 11.59% | 5.45% | -1.67% |
| Median Sale Price | 1.15% | 1.07% | 0.86% | 0.61% |
| | 2016 | | | |
| | Q1 | Q2 | Q3 | Q4 |
| New Mortgages | 4.27% | 1.70% | -1.23% | -3.84% |
| Refinances | -6.96% | -10.90% | -13.83% | -16.05% |
| Median Sale Price | 0.37% | 0.18% | 0.03% | -0.08% |

Source: Moody’s Economy.com

The forecast for median home price appreciation is positive throughout 2015. In 2016, median home price growth is forecast to be positive through the third quarter. Overall price appreciation in 2016 is expected to be positive (see Table 2 for annual growth rates).

The commercial office market has been sluggish. Recent industry figures reveal that vacancy rates remain in the 12 to 17 percent range; unchanged for several quarters. Meanwhile, year to date the number of square feet that has changed hands has fallen 24.0% from the prior year. The slowdown in the office market was attributed to company consolidation and an increase in telecommuting. Technology is said to be displacing the need for office space.³⁰

³⁰ Winzelberg, David, “Industrial Soars; Office Market still lags”, Long Island Business News, August 10, 2015.

Company consolidation may be seen in the recent boom in mergers and acquisitions on Long Island. This has created the fear that out of state businesses will buy companies here and move jobs elsewhere. In the past month, two of the region’s largest corporations, Pall Corp and Dealtrack Technologies have announced multibillion dollar agreements to be acquired. Since 2003 more than 30 corporations on Long Island that were traded on major stock exchanges have either been bought, moved or folded.³¹

However, demand for industrial space is strong. Asking industrial rents have increased eight percent over the past year. High bay distribution space in Nassau is considered very limited.³²

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. According to the U.S. Bureau of Labor Statistics (BLS), U.S. consumer prices rose 0.3% in June. The slight growth was fueled by increased gasoline, shelter, and food prices. The Core Index, which excludes food and volatile energy prices, grew 0.2% in June.³³

Regionally, consumer prices were up 0.2% from the prior month and 0.1% over the year. According to the BLS, June’s slight growth was attributable to increased energy costs offset by decreased costs for all other items (e.g. medical care, apparel, etc.). The regional all items index

³¹ Ryan, Joe and Schachter, Ken, “Fears of LI Job Losses as Mergers, Acquisitions Spread,” Newsday, June 19, 2015.

³² Winzelberg, David, “Industrial Soars; Office Market still lags”, Long Island Business News, August 10, 2015.

³³ U.S. Bureau of Labor Statistics, “Consumer Price Index Summary,” U.S. Bureau of Labor Statistics, July 17, 2015.

The Regional and National Economic Survey and Forecast 2015 – 2019

excluding food and energy prices increased 1.4% from the prior year.³⁴

Table 8

| Regional Consumer Price Forecast by Quarter | | | | |
|---------------------------------------------|--------|-------|-------|-------|
| | Q1 | Q2 | Q3 | Q4 |
| 2015 | -0.44% | 1.04% | 0.75% | 0.88% |
| 2016 | 0.91% | 0.93% | 0.85% | 0.95% |
| 2017 | 0.90% | 0.89% | 0.90% | 0.90% |
| 2018 | 0.90% | 0.89% | 0.88% | 0.86% |
| 2019 | 0.84% | 0.80% | 0.78% | 0.76% |

Source: Moody's Economy.com

Looking forward, regional consumer prices are expected to increase for the remainder of 2015 and through 2019. The quarterly forecast for regional consumer prices for this period is shown in Table 8.

From an annual perspective, regional prices are expected rise 1.0% in 2015, 3.6% in 2016, 3.7% in 2017, 3.6% in 2018, and 3.4% in 2019. According to Moody's the 2.6 percentage point increase in 2016 and robust price growth from 2017 to 2019 is due to a few factors.

Nassau County's outlook is derived in part from expected growth in the CPI nationally. Inflation is expected to accelerate nationally due to a strengthening job market, an expected pickup in wages, and a gradual increase in oil prices. While the Fed will indeed tighten monetary policy, reining inflation in, the prior considerations are expected to have a much more significant impact.

The growth in prices should be offset by growth in personal income. As seen in Table 2, Moody's expects personal income growth to outpace the regional CPI growth rate from 2015 to 2018. In 2019 regional price growth is

expected to be completely offset by personal income growth.

Sales Tax Predictors

In the Adopted 2015 Budget, excluding inter-fund revenues, sales tax revenue accounts for approximately 38.5% of the County's five Major Funds revenue, making it an important trend to monitor and forecast. Common predictors of sales tax growth are 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 to 2019. Moreover, the 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.

However, there are several threats to positive forecasts.

New York State Department of Labor figures reveal that throughout the State total private industry, all worker weekly earnings fell 0.4% in June 2015 from the prior month and prior year.

Moreover, although the forecast for resident employment is positive, it is not robust in that a marginal 0.5% annual growth rate is expected in 2015.

If the fall in NYS wages continues and resident employment growth does not reach the forecast amount, County sales tax collections would be negatively impacted.

³⁴ U.S. Bureau of Labor Statistics-New York/ New Jersey Information Office, "Consumer Price Index, New York-Northern New Jersey, June 2015," U.S. Bureau of Labor Statistics, July 17, 2015.

The Regional and National Economic Survey and Forecast 2015 – 2019

Table 9

| New York State Buying Plans | | | | | |
|-----------------------------|--------|--------|--------|--------|--------|
| | Jun-15 | Mar-15 | Jun-14 | Mthly | Yrly |
| Car/Truck | 18.9 | 18.9 | 11.8 | 0.0% | 60.2% |
| Consumer | | | | | |
| Electronics | 36.6 | 40.6 | 34.1 | -9.9% | 7.3% |
| Furniture | 26.3 | 22.5 | 19.7 | 16.9% | 33.5% |
| Home | 7 | 8.1 | 4.3 | -13.6% | 62.8% |
| Home | | | | | |
| Improvement | 18.8 | 19.6 | 20.9 | -4.1% | -10.0% |
| Total | 107.6 | 109.7 | 90.8 | -1.9% | 18.5% |

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. However, Siena Research Institute's survey of New Yorker buying plans reveals that the motivation is declining from the first quarter 2015.

Looking forward over the next six months, Table 9 reveals that New Yorker overall buying plans have fallen 1.9% from the prior quarter while increasing 18.5% from the prior year.

It should be mentioned that the National Automobile Dealers Association currently expects 2016 U.S. sales to set a record of 17.46 million. In 2017 U.S. auto sales are expected to decline to 16.65.³⁵ From 2008 to 2013, NYS Department of Taxation and Finance figures reveal that motor vehicles and parts sales have constituted 13.8% of all taxable Nassau County sales.

Lodging Industry

Table 10 illustrates average first half hotel/motel occupancy and rental rates in Nassau from 2011 to 2015.

As table 10 demonstrates, the lodging industry registered positive, marginal growth in terms of

both occupancy and rental rates in the first half of 2015 compared to the first half of 2014. Rental rates rose 0.92%, from \$140.04 in the first half of FY 14 to \$141.32 in the first half of FY 15. Average occupancy rates grew 0.73 percentage points, from 73.65% in the first half of FY 14 to 74.38% in the first half of FY 15.

Table 10

| Year | First Half Average Occupancy Rate | First Half Average Daily Rate |
|------|-----------------------------------|-------------------------------|
| 2011 | 66.63% | \$125.00 |
| 2012 | 68.57% | \$128.56 |
| 2013 | 81.45% | \$142.52 |
| 2014 | 73.65% | \$140.04 |
| 2015 | 74.38% | \$141.32 |

Source: Long Island Convention & Visitors' Bureau

The Long Island Convention & Visitors Bureau anticipated strong growth this summer in total travel and leisure revenues³⁶. To date, demand seems to be strong as rates have risen without dampening occupancy levels. The uptick in each measure bodes well for the County on two fronts. First, the uptick in occupancy and rental rates supports Moody's forecast for 2.1% growth this year in Hospitality and Leisure employment. Second, the lodging industry's performance so far has driven hotel/motel collections up 2.9% through June 30 compared to the same time last year, from \$997,051 over the first half of FY 14 to \$1,025,539 over the first half of FY 15. If the County's lodging industry continues to grow through the traditionally busy summer months, the County could meet not only Moody's employment forecast but also the \$4.2 million hotel/motel tax budget.

³⁵ Woodall, Bernie, and Phil Berlowitz, "Dealer Organization says U.S. Auto Sales to Peak in 2016", Reuters.com, August 4, 2015.

³⁶ Tom Incantalupo, "Long Island Travel Experts expect Stronger Vacation Season," Newsday, May 15, 2015.

Conclusion

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

The momentum was felt by consumers whose confidence levels throughout the metropolitan area were up 8.1% from the prior year.

Moody's current economic forecast includes continued positive economic growth.

There are major risks to keep in mind. Wage growth in NYS was negative from a monthly and annual perspective. Moreover, on Long Island wages have not kept pace with inflation. Despite positive resident employment growth, the jobs that are being created are in lower paying sectors which do not enable residents to keep up with the inflation forecast.

The local foreclosure crisis is not only persistent, but appears to be growing. This could dampen County sales tax revenue and increase County expenses while simultaneously limiting its ability to tax and issue debt. Nassau's high property taxes are exacerbating the problem. According to an analysis by Zillow, Nassau County residents pay the fifth highest property taxes in the Country.³⁷ Moreover, WalletHub found that New Yorkers pay the highest combined State and Local taxes, 39.0% above the Country's median.³⁸

Lastly, recent turbulence in the financial markets has the potential to disrupt Moody's

forecast. The Chinese government devalued the Yuan in August 2015 in response to worse than expected economic growth, resulting in a significant fall in the U.S. stock market. According to Mark Zandi, chief economist at Moody's Analytics, a 1 percent annual drop in China's economy translates to a 0.2 percent pinch to America's economy.³⁹

Although Chinese authorities have taken action to restore investor confidence, continued market instability could spell trouble for Nassau County on two fronts. First, a sustained market downturn would directly affect the local economy, as many Nassau residents are employed by the financial industry. Second, long-term market turmoil could force the State Comptroller to increase municipal contribution rates to the New York State Common Retirement Fund. Any increase to the County's contribution rate could be difficult to absorb.

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³⁷ Milo, Paul, "7 of the 10 Counties in America with the Highest Property Taxes are in N.J. Study Says", NJ.com, April 28, 2015.

³⁸ McWhinnie, Eric, "Top 10 States with the Highest Taxes", cheatsheet.com, June 27, 2015.

³⁹ The Associated Press, "How China's Tremors could weaken the World's Major Economies", Long Island Business News, August 24, 2015.