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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

A handwritten signature in blue ink, appearing to be "MC", is written over the text of the "From" field.

Date: May 11, 2016

Re: May 2016 Economic Report

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Attached is a copy of the Office of Legislative Budget Review's May 2016 economic report. 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.



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## OFFICE OF LEGISLATIVE BUDGET REVIEW

### The Regional and National Economic Forecast for 2016 to 2020

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May 2016

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The Office of Legislative Budget Review, OLBR, has received Moody's Analytics May 2016 forecast of significant Nassau County economic variables. OLBR has compiled, analyzed and depicted Moody's current economic forecast for planning and forecasting purposes. Throughout the report, OLBR presents the forecast and also provides its insights.

The national economy has been growing at a positive pace. During the January to March 2016 quarter, real US gross domestic product (GDP) grew at 0.5% according to the US Commerce Department. Although positive, the first quarter 2016 pace was the slowest recorded since the fourth quarter of 2014 and slower than the first quarter of 2015. The national shift to slow gear may be attributed to a few major factors.

Nationwide, individuals are opting to save instead of spend. In March 2016, the US personal saving rate rose to 5.4% of after tax income. That was up from February 2016's 5.1% and was the highest percentage recorded in a year.<sup>1</sup> This savings trend is also evident in that Americans are holding onto their cars instead of purchasing a new vehicle. According to IHS Automotive data, the average age of U.S. Vehicles is at a record of 11.5 years old.<sup>2</sup>

Additionally, the prevalence of low-paying jobs and a lack of wage growth are said to be big reasons why so many Americans feel so down about the economic recovery. Among the ten jobs projected to grow the fastest in coming years, half pay less than \$25,000 a year according to the Bureau of Labor Statistics.<sup>3</sup>

Similar trends were witnessed locally. According to Moody's Analytics, Nassau's first quarter 2016 Gross County Product (GCP) rose 0.7% from the prior quarter and 1.6% from the prior year. Moreover, New York State (NYS) Department of Labor Statistics revealed that as of March 2016, Nassau recorded a 3.0% annual increase in employed residents and a 2.0% annual increase in total non-farm jobs.

However, despite the overall positive local economic momentum, it appears that the State also is growing lower paying jobs. NYS Department of Labor Statistics figures show that as of March 2016, all worker private weekly earnings throughout the State were down 0.6% from an annual perspective. The wage sluggishness was widespread with six of the eleven industries surveyed recording annual wage declines. This doesn't appear to be impacting current sales tax collections that are up

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<sup>1</sup> The Associated Press, "US Consumer Spending Inches Up in March", [Long Island Business News](#), April 29, 2016.

<sup>2</sup> Rocco, Matthew, "Toyota, Honda Most Popular Old Cars for Millennials", [FOXBusiness.com](#), April 14, 2016.

<sup>3</sup> Luhby, Tami, "5 of America's Fastest Growing Jobs Pay Less than \$25,000", [CNN/Money.com](#), April 18, 2016.

# The Regional and National Economic Survey and Forecast 2016 – 2020

3.4% through May 5, 2016; but is important to monitor for the future.

Table 1 details the current Moody's Analytics forecast for Nassau County's major economic indices from 2016 to 2020.

**Table 1**

2016 to 2020 Nassau County Economic Forecast					
Annual Growth Rates*					
	2016	2017	2018	2019	2020
GCP	2.2%	1.8%	1.6%	1.1%	1.1%
Personal Income	3.8%	5.1%	4.9%	3.3%	2.5%
Employed	1.9%	-0.2%	-0.2%	-0.1%	0.0%
Unemployed	-7.5%	-0.2%	-2.8%	4.0%	5.8%
Unemployment %	3.9%	3.9%	3.8%	4.0%	4.2%
Non Farm Jobs	0.7%	1.0%	1.1%	0.8%	0.3%
New Mortgages	16.6%	-8.6%	-4.7%	9.1%	8.8%
Mrt Refinances	-7.6%	-56.4%	-37.8%	13.0%	12.2%
Retail Sales	7.6%	6.2%	4.4%	3.4%	2.6%
Median Home Sale Price	3.3%	0.1%	-0.6%	1.4%	3.3%
Regional CPI	2.2%	3.2%	3.7%	3.5%	3.1%

\*Unemployment % Details Annual Average  
Source: Moody's Analytics

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 2.2% in 2016, 1.8% in 2017, 1.6% in 2018, 1.1% in 2019, and 1.1% in 2020.

The housing market is expected to be a source of strength in 2016 with new mortgages increasing 16.6% and median home prices rising 3.3%.

According to Moody's Analytics, mortgage refinancing are expected to decrease 7.6% in 2016 due to expected rising interest rates.

Resident employment is projected to grow 1.9% in 2016.

In 2016, personal income growth is expected to exceed consumer price growth by 1.6 percentage points. Hence, on a real basis individuals will have more income available and greater buying power.

<sup>4</sup> McDermott, Maura, "LI Foreclosure Rate Drops to Lowest Level Since 2010", [Newsday.com](http://www.newsday.com), April 26, 2016.

Another positive development on Long Island is a decrease in the foreclosure rate. According to a recent CoreLogic report, Long Island's foreclosure rate has hit its lowest level since 2010. As of February 2016, 4.67% of all Long Island homes with a mortgage were in foreclosure. That is down 0.64 percentage points from February 2015.<sup>4</sup>

## Consumption

Real GDP is a measure of the goods and services provided within an economy. When it increases, it indicates that more goods and services are being provided and therefore, more jobs and personal income are being generated.

Nationally, according to the Commerce Department, March 2016 retail sales increased 0.1% from the previous month after rising 0.2% in February 2016.<sup>5</sup>

The current Moody's Analytics forecast shows retail sales are expected to be positive throughout 2016 and 2017. Table 2 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 2016 and 2017.

**Table 2**

Nassau County Consumption Growth by Quarter				
	2016			
	Q1	Q2	Q3	Q4
GCP	0.66%	0.67%	0.57%	0.46%
Total Personal Income	0.91%	1.00%	1.12%	1.23%
Retail Sales	2.18%	2.21%	2.00%	1.70%
	2017			
	Q1	Q2	Q3	Q4
GCP	0.38%	0.36%	0.40%	0.44%
Total Personal Income	1.29%	1.32%	1.34%	1.31%
Retail Sales	1.44%	1.27%	1.19%	1.13%

Source: Moody's Analytics

<sup>5</sup> The Associated Press, "US Consumer Spending Inches Up in March", [Long Island Business News](http://www.longislandbusinessnews.com), April 29, 2016.

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According to the most recent Siena Research Institute’s (SRI) Consumer Sentiment Report, in March 2016 the metro NYC consumer confidence overall index rose 1.6% from December 2015 and increased 2.3% from March 2015. According to Dr. Lonnstrom, the founding director of SRI, New York State confidence is at a nine year high due to a belief in an improving tomorrow rather than an assessment of current progress, that while buying plans were down for most major consumer goods, they remain at historically high levels, and that consumers’ overall sentiment is buoyed by no longer feeling the pinch at the pump.<sup>6</sup>

### **Labor Market**

Nassau’s labor market moved forward in March 2016. According to NYS Department of Labor figures, compared to March 2015, the number of employed residents grew by 3.0% or 19,500. This is positive as the employment growth occurred while the labor force grew 2.3%. That means that the annual 0.6 percentage point drop in Nassau’s unemployment rate is due to residents obtaining jobs rather than individuals ceasing their job searches and dropping out of the labor force. Nassau’s March 2016 3.9% unemployment rate tied with Putnam County for the second lowest County unemployment rate in New York State.<sup>7</sup>

### **Non-Farm Jobs**

From an annual perspective, Long Island job growth was positive in March 2016. According to New York State Department of labor figures, total non-farm jobs increased by 2.0% compared to March 2015. As of March 2016, there were 25,000 new non-farm jobs created compared to the prior year.

<sup>6</sup> “Quarterly New York State Index of Consumer Sentiment including Gas and Food Analysis”, [Siena Research Institute](#), April 6, 2016.

<sup>7</sup> Incantalupo, Tom, “Long Island Jobless Rate Falls to 4.2%”, [Newsday.com](#), April 19, 2016.

According to the New York State Department of Labor, almost all major sectors added jobs and five of nine sectors reached record levels of hiring in March.<sup>8</sup> The healthcare industry added 8,300 jobs, the leisure & hospitality industry added 6,300 jobs, the professional & business services industry added 5,500 jobs and the construction industry grew by 2,100 jobs.<sup>9</sup>

Nassau County is expected to generate positive total non-farm job growth from 2016 to 2020. Table 3 details projected Nassau County job growth by sector. In 2016, only the Retail Trade and Construction sectors are expected to lose jobs. From a five years perspective, the Retail Trade sector is the only sector forecast to register a decline in jobs.

In 2016, the strongest job growth, above 2.0%, is expected to occur in the Professional and Business Services and Leisure and Hospitality sectors. Over the next five years those sectors along with the High Tech sector are projected to record job growth above 8.0%.

**Table 3**

Nassau County Annual Job Growth By Sector, 2016 to 2020						
	2016	2017	2018	2019	2020	5 Yr.
Construction	-2.1%	1.8%	2.7%	0.3%	-0.5%	2.2%
Education & Health	1.8%	0.4%	1.0%	1.1%	0.8%	5.2%
Financial Activities	0.3%	1.0%	0.9%	0.6%	0.3%	3.0%
Government	0.7%	0.5%	0.5%	0.4%	0.4%	2.4%
High Tech	1.0%	2.9%	2.2%	1.6%	0.9%	8.5%
Leisure and Hospitality	3.5%	2.7%	2.1%	1.4%	0.7%	10.4%
Professional and Business						
Services	2.5%	4.2%	3.2%	1.8%	0.7%	12.4%
Retail Trade	-3.0%	-1.3%	-0.5%	-0.2%	-0.4%	-5.5%
<b>Total Non-Farm Jobs</b>	<b>0.7%</b>	<b>1.0%</b>	<b>1.1%</b>	<b>0.8%</b>	<b>0.3%</b>	<b>3.9%</b>

Source: Moody’s Analytics

New York metro construction growth has been haphazard in 2016. According to Dodge Data &

<sup>8</sup> Mason-Draffen, Carrie, “Long Island Adds 25,000 Jobs Compared to a Year Ago, Report Says”, [Newsday.com](#), April 14, 2016.

<sup>9</sup> Solnik, Claude, “LI Adds 21.5K Jobs”, [Long Island Business News](#), April 15, 2016.

# The Regional and National Economic Survey and Forecast 2016 – 2020

Analytics, construction starts throughout the region fell 32.0% in February 2016 and subsequently rose 13.0% in March 2016.<sup>10</sup> OLBR will closely monitor this sector. Moody's is currently forecasting negative annual job growth for this sector.

## Housing

The housing market both nationally and locally has been booming. U.S. home sellers in March 2016 sold for an average of \$30,500 more than they purchased for a 17% average gain in price. This was the highest average gain for U.S. home sellers since December 2007.<sup>11</sup>

Multiple Listing Service of Long Island (MLS LI) figures show that March 2016 was a robust month for Nassau's housing market. Five year high levels were reached for closed sales, (934), median closed sale price, (\$430,000), and pending closed sales, (1,230).

Many reasons have been cited for the strong real estate activity, a mild winter, still-low mortgage interest rates, better attitude among prospective buyers, feeling better about the economy,<sup>12</sup> high rental prices and rising New York City home prices.<sup>13</sup>

Table 4 details the actual MLS LI figures.

**Table 4**

Nassau County Housing Actuals					
2016 Current	Mar-15	Feb-16	Mar-16	Mthly %	Yrly %
Closed Home Sales	747	844	934	10.66%	25.03%
Median Sale Price	415,000	440,000	430,000	-2.3%	3.6%
2016 Pending	Mar-15	Feb-16	Mar-16	Mthly %	Yrly %
Contract Sales	955	931	1,230	32.12%	28.80%
Median Contract Price	435,000	429,000	455,000	6.1%	4.6%

Source: Multiple Listing Service of Long Island, Zone Activity Report

On a quarterly basis, closed sales are up 18.3% from the first quarter of 2015 and median sale prices on average have risen 4.5%. The increased equity is enabling residents to trade up their houses,<sup>14</sup> and is contributing to the previously mentioned decline in Long Island foreclosures.

To the extent that residents can tap into this equity to make taxable purchases, County sales tax collections will be positively impacted.

Looking forward, using annual MLS LI's pending sales data as an indicator of future market conditions reveals future positive home price and transaction growth over the next six months. From an annual perspective, March pending sales increased 28.8%.

Table 5 depicts Moody's current Nassau County housing market forecast by quarter. Moody's forecast mirrors MLS LI's positive annual contract sales data, in that Moody's envisions positive new mortgage growth in the first three quarters of 2016. By the fourth quarter of 2016 new mortgage growth is forecast to turn negative as interest rates are expected to gradually rise. Overall, in 2016 new mortgages are expected to show positive annual growth (see Table 1 for annual growth rates).

<sup>10</sup> Winzelberg, David, "NY-Area Construction Starts Rebound", Long Island Business News, April 29, 2016.

<sup>11</sup> Winzelberg, David, "US Home Sellers Get Best Returns in 9 Years", Long Island Business News, April 20, 2016.

<sup>12</sup> Winzelberg, David, "Open For Business", Long Island Business News, April 11, 2016.

<sup>13</sup> McDermott, "LI First Quarter Home Sales Busiest Since 2003", Newsday.com, April 21, 2016.

<sup>14</sup> Same as above.

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**Table 5**

Nassau County Housing Forecast by Quarter				
	2016			
	Q1	Q2	Q3	Q4
New Mortgages	4.75%	2.81%	0.41%	-1.85%
Refinances	-1.85%	-6.51%	-11.66%	-17.04%
Median Sale Price	0.89%	0.68%	0.42%	0.15%
	2017			
	Q1	Q2	Q3	Q4
New Mortgages	-3.24%	-3.76%	-3.41%	-2.43%
Refinances	-21.57%	-24.66%	-24.12%	-18.02%
Median Sale Price	-0.05%	-0.18%	-0.25%	-0.26%

Source: Moody's Analytics

The forecast for median home price appreciation is positive throughout 2016. Home price appreciation is forecast to slow down throughout 2016 and decline in 2017. From an annual perspective price appreciation in 2016 and 2017 is expected to be positive (see Table 1 for annual growth rates).

Not only are rising interest rates expected to dampen housing demand by the end of 2016, but sluggish wage growth is also expected to put downward pressure on both the number of closed sales and closed sale prices. A recent Realty Trac report found that home prices are rising faster than wages in most of the United States, making home ownership increasingly difficult for average Americans.<sup>15</sup> Short of savings and burdened by debt, America's millennials are struggling to afford their first homes. A survey by Apartment List found that 37% of millennial renters have saved nothing at all for a down payment.<sup>16</sup>

## 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.

<sup>15</sup> Dipaola, Steve, "Homeownership Increasingly Difficult for Average American", [Reuters.com](http://Reuters.com), March 24, 2016.

<sup>16</sup> The Associated Press, "Missing Ingredient for Millennials: Down Payment Savings", [Long Island Business News](http://Long Island Business News), April 20, 2016.

For the metropolitan region, March 2016 consumer prices are up 0.2% from the prior month and 0.7% from the prior year. According to the US Bureau of Labor Statistics, (BLS), residential rents, increasing 3.9% year over year, continue to propel the index<sup>17</sup>. The cost of restaurant meals which is up 3.2%, is also contributing to the annual rise. Mitigating the increases is a 1.5% decrease in grocery prices, a 21.8% decline in gasoline prices and a 3.8% drop in electricity prices.<sup>18</sup>

Looking forward, regional consumer prices are expected to rise from 2016 to 2020. The quarterly forecast for regional consumer prices for this period is shown in Table 6.

**Table 6**

Regional Consumer Price Forecast by Quarter				
	Q1	Q2	Q3	Q4
<b>2016</b>	0.92%	0.75%	0.55%	0.80%
<b>2017</b>	0.74%	0.86%	0.89%	0.89%
<b>2018</b>	0.96%	0.92%	0.91%	0.90%
<b>2019</b>	0.87%	0.82%	0.80%	0.76%
<b>2020</b>	0.74%	0.74%	0.74%	0.73%

Source: Moody's Analytics

Although there may be further pressure on prices, summer gasoline prices on Long Island are anticipated to be cheaper than last year, due to well supplied oil inventory levels. According to the President of Lipow Oil Associates, LLC, since oil producers have been unable to reach an agreement on production levels, the oil market will remain oversupplied throughout the summer. This will provide relief at the gasoline pumps.<sup>19</sup>

<sup>17</sup> Madore, James T., "NY Metro Area Prices Edge Up on Rising Rents," [Newsday](http://Newsday), April 14, 2016.

<sup>18</sup> Same as above.

<sup>19</sup> Incantalupo, Tom "Summer Gasoline on LI Likely to be Cheaper than Last Year," [Newsday](http://Newsday), April 19, 2016.

# The Regional and National Economic Survey and Forecast 2016 – 2020

From an annual perspective, as seen in Table 1, regional prices are expected to rise 2.2% in 2016, 3.2% in 2017, 3.7% in 2018, 3.5% in 2019 and 3.1% in 2020.

Moody's expects personal income growth to outpace the regional CPI growth rate from 2016 to 2018. Starting in 2019 regional price growth is expected to completely offset personal income growth. This means that income will not keep pace with inflation and residents will be left with less purchasing power.

## Sales Tax Predictors

In the current Adopted 2016 Budget, excluding inter-fund revenues, sales tax revenue accounts for approximately 38.1% of the County's five Major Funds revenue, making it an important trend 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 includes positive annual growth for all of these variables in 2016. Moreover, the 2016 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 and enable the County to reach the 2016 budget.

Individuals require both the means and motivation to make a purchase. Moody's current forecast expects individuals to have the means. Siena Research Institute's survey of New Yorker buying plans reveals that the motivation to make a major purchase over the next six months has decreased from both a quarterly and an annual vantage point. Table 7 reveals that New Yorkers' overall buying plans have fallen 6.8% from the prior quarter and 2.2% from the prior year. This should negatively impact 2016 sales tax collections.

**Table 7**

New York State Buying Plans					
	Mar-16	Dec-15	Mar-15	Qtrly %	Yrly %
Car/Truck	15.8	16.8	18.9	-6.0%	-16.4%
Consumer Electronics	39.7	43	40.6	-7.7%	-2.2%
Furniture	25.4	27.7	22.5	-8.3%	12.9%
Home	6.3	7.7	8.1	-18.2%	-22.2%
Home Improvement	20.1	19.9	19.6	1.0%	2.6%
Total	107.3	115.1	109.7	-6.8%	-2.2%

Source: Siena Research Institute

Additionally, the previously detailed declines in NYS all worker weekly earnings needs to be monitored as it has the potential to curtail County sales tax collections.

## Lodging Industry

Table 8 uses Long Island Convention and Visitor Bureau data to illustrate current average occupancy and rental rates in Nassau County from a monthly and an annual perspective.

**Table 8**

Nassau Hotel / Motel Statistics					
Average Occupancy Rate					
	Mar-16	Feb-16	Mar-15	Mthly %	Yrly %
Occupancy %	75.70%	70.00%	74.20%	8.14%	2.02%
Average Daily Rate					
	Mar-16	Feb-16	Mar-15	Mthly %	Yrly %
Rental Rate \$	\$135.41	\$133.63	\$137.35	1.33%	-1.41%

Source: Long Island Convention & Visitor's Bureau

Nassau County's First Quarter lodging statistics portend another robust year for hotel/motel tax receipts. Last year, the County exceeded its hotel/motel tax budget by about \$1.5 million. Judging by the growth in average occupancy and the uptick in average daily rate, the County may have the opportunity to repeat its strong FY 15 performance. These figures also support the forecasted 3.5% growth in the County's Leisure and Hospitality jobs this year. While the First Quarter's returns are favorable, the industry's performance during the peak season (Memorial

Day to Labor Day) will ultimately decide the outcome of both the County's hotel/motel tax collection and the size of its Leisure and Hospitality workforce.

### **Conclusion**

Both the national and local economies moved forward in the 2015. The local growth was broad based with the labor, job, residential housing, and hotel occupancies all registering positive annual economic activity.

The momentum was felt by consumers whose confidence levels throughout the metropolitan area were up 2.3% from the prior year.

Moody's is currently forecasting continued positive economic growth, GCP, from 2016 to 2020.

However, there are significant risks to the forecast.

Wage growth has been sluggish and negative in some areas. This could be recurring as many of the newly created jobs have been found to pay relatively low wages.

Much of the current economic momentum has been generated by the housing market which is expected to switch to a slower pace by the end of the year.

Interest rates are expected to gradually increase. Thus, households are expected to contend with higher interest rates, higher consumer prices, and sluggish wage growth. Given these parameters, households are increasingly choosing to save and pay off debt. If these variables do not behave as forecast, overall economic activity, consumer spending and various County revenues streams would be limited.

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