

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: March 1, 2018

Re: February 2018 Economic Report

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



OFFICE OF LEGISLATIVE BUDGET REVIEW

The Regional and National Economic Forecast for 2018 to 2022

February 2018

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

Nationally, the economy experienced positive growth in the fourth quarter of 2017. The Commerce Department stated that real U.S. Gross Domestic Product, GDP, grew at 2.6% at the end of 2017; down from 3.2% growth in the third quarter of 2017. The deceleration in economic growth was attributed to strong import growth which is subtracted from overall GDP.¹ Looking forward, the Atlanta Federal Reserve’s GDPNow forecast model found that the U.S. economy is on track to grow at 5.4% in the first quarter of 2018.²

Cognizant of the positive economic growth, the Federal Reserve Bank chose to leave interest rates unchanged. They meet again in March 2018 when most economists expect an interest rate hike. Economists are roughly divided on whether or not rates will rise three or four times in 2018. The rate of inflation is seen as the key

factor determining the future path of interest rates.³

Locally, according to Moody’s Analytics, Nassau’s economy grew 2.6% in the fourth quarter 2017 compared to the fourth quarter 2016. Recent data reveals that Nassau’s fourth quarter 2017 economic growth was broad based, with positive annual growth recorded in non-farm jobs, employed residents, consumer confidence, and average private worker weekly wages in New York State.

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	2.5%	1.2%	0.6%	2.8%	2.5%
Personal Income	3.5%	3.7%	3.1%	3.5%	3.3%
Employed	0.2%	0.4%	0.0%	0.4%	0.9%
Unemployed	1.0%	-3.7%	7.1%	3.1%	0.0%
Unemployment %	4.0%	4.0%	3.9%	4.1%	4.2%
Non Farm Jobs	0.4%	0.6%	0.2%	0.6%	0.9%
New Mortgages	3.3%	-0.7%	-11.4%	8.4%	8.4%
Mrt Refinances	-17.1%	-29.4%	10.2%	16.4%	14.3%
Retail Sales	4.9%	4.0%	1.6%	3.2%	3.6%
Median Home Sale Price	5.8%	-0.7%	1.9%	4.2%	4.8%
Regional CPI	2.4%	3.4%	3.2%	3.1%	3.0%

*Unemployment % Details Annual Average
Source: Moody's Economy.com

¹ “US Economic Growth Slows in Fourth-Quarter on Surging Imports”, Reuters.com, January 26, 2018.

² Leong, Richard, “Atlanta Fed Upgrades U.S. First-Quarter GDP Growth View to above 5 Percent”, Reuters.com, February 1, 2018.

³ The Associated Press, “Fed Leaves Key Rate Unchanged at Yellen’s Final Meeting”, LIBN.com, January 31, 2018.

The Regional and National Economic Survey and Forecast 2018 – 2022

Looking forward, Moody’s Analytics 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 2.5% in 2018, 1.2% in 2019, 0.6% in 2020, 2.8% in 2021 and 2.5% in 2022.

Correlating with the projected 2018 interest rate increases Moody’s Analytics forecasts mortgage refinancings to decrease 17.1% in 2018.

The number of housing market transactions is expected to record positive growth in 2018 with new mortgages increasing 3.3% and median prices rising 5.8%.

From 2018 to 2019, and from 2021 to 2022, personal income growth is expected to exceed consumer price growth; thus, in real terms, individuals will have more income available and greater buying power. In 2020, price growth is expected to slightly exceed income growth.

Two national trends warrant monitoring as they could impact the local economic forecast if they were to take hold throughout the region. Economic research from CNN found that only 39% of Americans can pay for an unplanned expense of \$1,000 or more.⁴ Even with lower unemployment and higher wages, savings are not really increasing. If an unanticipated calamity occurs, most households would not be able to cover the additional expense and overall economic growth may be negatively impacted.

Second, the U.S. auto market is expected to cool due to rising interest rates.⁵ Auto industry sales fell 2% in 2017 and are expected to drop further in 2018. Automobile sales constitute a

significant portion of the County’s sales tax collections. Hence, any decline greater than that which is expected could dampen regional economic growth.

Consumption

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

The current Moody’s Analytics forecast shows retail sales are expected to record positive growth throughout 2018 and 2019. Table 2 details Moody’s current forecast for Nassau County personal income, GCP and retail sales. All variables forecasted are expected to register positive quarterly growth rates in 2018 and 2019 as well.

Table 2

Nassau County Consumption Growth by Quarter				
	2018			
	Q1	Q2	Q3	Q4
GCP	0.7%	0.6%	0.5%	0.4%
Total Personal Income	0.9%	0.9%	1.0%	1.0%
Retail Sales	1.2%	1.2%	1.3%	1.2%
	2019			
	Q1	Q2	Q3	Q4
GCP	0.3%	0.2%	0.1%	0.0%
Total Personal Income	0.9%	0.9%	0.8%	0.7%
Retail Sales	1.1%	0.9%	0.6%	0.3%
Source: Moody's Economy.com				

The fourth quarter 2017 Siena College Research Institute Consumer Confidence Poll found that throughout the metropolitan region, consumer confidence has risen 2.3% from the prior quarter, and 4.5% from an annual perspective.⁶ This supports Moody’s consumption forecast.

⁴ Vasel, Kathryn, “Most Americans Can’t Cover a \$1,000 Emergency”, CNN.com, January 18, 2018.

⁵ Carey, Nick, “Trucks, SUVs shine in mixed U.S. January Sales; Cars Less So”, Reuters.com, February 1, 2017.

⁶ “Quarterly New York State Index of Consumer Sentiment including Gas and Food Analysis”, Siena College Research Institute, January 4, 2018.

The Regional and National Economic Survey and Forecast 2018 – 2022

Additionally, retail analysts anticipated a strong Super Bowl and Valentine’s Day season. It is projected that total planned spending for the Super Bowl will reach \$15.3 billion this year, up 8.5% from the \$14.1 billion spent last year.⁷ Consumers are also expected to spend a near-record of \$19.6 billion on Valentine’s Day this year according to the National Retail Federation.⁸ This similarly supports Moody’s positive consumption forecast.

Labor Market

Nassau’s labor market is experiencing strong positive momentum. New York State Department of Labor figures show that from an annual vantage point in December 2017, the labor force and the number of employed residents grew. Additionally, the unemployment rate also rose from 3.6% in December 2016 to 4.0% in December 2017. Labor force growth may be seen as a positive as discouraged people, who were previously out of the labor force, re-enter the labor force enticed by strong job prospects. This can lead to a temporary increase in the unemployment rate as it takes time for the new entrants to obtain employment. According to the New York State Department of Labor’s February 21, 2018 press release, Nassau had the eighth-lowest unemployment rate out of the state’s 62 counties at 4.0% in December 2017.

Looking forward, in 2018, from an annual perspective, Moody’s is expecting Nassau County to record an 0.2% increase in the number of employed residents and a 1.0% increase in the number of unemployed residents.

Non-Farm Jobs

From a monthly and an annual perspective, Long Island non-farm job growth was positive in December 2017. According to New York State Department of Labor figures, total non-farm jobs

increased by 0.4% on Long Island annually in December 2017. The strongest annual job growth in percentage terms was reported in the Leisure and Hospitality sector; followed by the Transportation and Natural Resources, Mining and Construction sectors. The greatest job losses in percentage terms was recorded in the retail trade sector.

Moody’s anticipates that Nassau County will 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 five of the eight sectors surveyed forecast to record positive job growth in 2018.

Table 3

Nassau County Annual Job Growth By Sector, 2018 to 2022					
	2018	2019	2020	2021	2022
Construction	-1.1%	2.9%	0.0%	1.4%	1.9%
Education & Health	2.0%	1.0%	0.8%	1.0%	1.2%
Financial Activities	-0.8%	-0.1%	-0.2%	0.1%	0.3%
Government	0.3%	0.2%	0.2%	0.7%	0.8%
High Tech	0.5%	1.3%	0.7%	1.0%	1.3%
Leisure and Hospitality	1.0%	0.8%	0.5%	0.8%	0.9%
Professional and Business Ser	0.4%	1.7%	0.2%	1.2%	2.0%
Retail Trade	-1.5%	-0.7%	-0.7%	0.0%	0.1%
Total Non-Farm Jobs	0.4%	0.6%	0.2%	0.6%	0.9%

In 2018, the retail trade, construction and financial activities sectors are projected to lose jobs. In December 2017, the retail trade and financial activities sectors had lost jobs from an annual viewpoint. Moody’s forecast expects a continuation of this trend.

Real Estate

Multiple Listing Service of Long Island (MLS LI) December 2017 figures reveal positive demand for Nassau’s housing market. On a year-to-date basis, on average, median closed sale prices in Nassau County increase 6.8% from the prior year. Over the same time period, closed home sales were basically unchanged. Looking forward, pending home sales ended 2017 up

⁷ NRF's Annual Super Bowl Spending Survey, conducted by Prosper Insights & Analytics.

⁸ NRF's 2018 annual Valentine's Day Spending Survey, conducted by Prosper Insights & Analytics.

The Regional and National Economic Survey and Forecast 2018 – 2022

1.5% from the 2016 level. In 2018, the local housing market is expected to contend with higher interest rates and the unknown effect of the recently enacted federal tax changes.

According to real estate experts, many buyers are eager to complete their purchases before interest rates rise further. They opine that higher borrowing costs haven't deterred many buyers yet, and that 5.0% is the magic number. Once rates rise past 5.0% home buying will diminish as buying power falls.⁹

These forces may be seen in the tight supply levels which are said to be driving price increases. In December 2017, inventory fell sharply by 5.7% in Nassau County. It is the limited supply which is resulting in bidding wars and pushing up prices.¹⁰ The tight inventory levels remained in January 2018. Throughout Long Island, there were 10.2% fewer houses listed than in the prior year.¹¹

Table 4

Nassau County Housing Forecast by Quarter				
2018				
	Q1	Q2	Q3	Q4
New Mortgages	2.3%	3.0%	2.5%	1.3%
Refinances	4.0%	5.5%	-0.6%	-8.4%
Median Sale Price	1.7%	1.2%	0.4%	-0.2%
2019				
	Q1	Q2	Q3	Q4
New Mortgages	0.0%	-1.4%	-3.0%	-4.2%
Refinances	-13.0%	-13.9%	-8.9%	0.2%
Median Sale Price	-0.6%	-0.6%	-0.2%	0.2%

Source: Moody's Economy.com

Table 4 depicts Moody's current Nassau's residential housing market forecast by quarter from 2018 through 2019. Moody's envisions

⁹ McDermott, Maura, "LI Housing Prices Rise, as Buyers Compete for Scare Homes", [Newsday.com](#), February 15, 2018.

¹⁰ McDermott, Maura, "LI Home Prices Jump as Buyers Scramble for Scarce Listings", [Newsday.com](#), January 11, 2018.

positive annual new mortgage growth throughout 2018 with declines throughout 2019.

Mortgage refinances are expected to increase the first two quarters of 2018 before decreasing the last two quarters of 2018 and decreasing through the third quarter of 2019.

Rising interest rates and the federal tax changes are responsible for the projected housing market declines. The federal tax overhaul is expected to reduce tax incentives for homeownership as the state and local tax deduction is capped at \$10,000 and the mortgage interest deduction is limited to up to \$750,000 of new mortgage debt. Industry experts stated that the higher priced areas would feel a stronger impact while the more affordable areas of the County may not feel it all that much. The higher priced homes could see prices fall or at least stop rising, and more buyers will seek out homes with lower property taxes.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. Regional consumer prices were up 1.4% in January 2018 from the prior year, the slowest pace since October 2016. Clothing and education/communications commodities price declines were seen as inhibiting the regional price growth.¹³

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, on the next page.

¹¹ Winzelberg, David, "LI Home Sales in January", [LIBN.com](#), February 7, 2018.

¹² McDermott, Maura, "Tax Bill could Depress Prices on LI Homes with High Property Taxes", [Newsday.com](#), December 19, 2017.

¹³ Madore, James T., "Metro Area Consumer Prices Rose Modestly in January", [Newsday.com](#), February 14, 2018.

The Regional and National Economic Survey and Forecast 2018 – 2022

Table 5

Regional Consumer Price Forecast by Quarter				
	Q1	Q2	Q3	Q4
2018	0.78%	0.72%	0.81%	0.80%
2019	0.86%	0.86%	0.86%	0.81%
2020	0.79%	0.77%	0.77%	0.78%
2021	0.76%	0.75%	0.75%	0.75%
2022	0.75%	0.75%	0.76%	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, consumer price growth, and resident employment levels.

The current Moody's regional forecast envisions positive annual growth for all of these variables in 2018. 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 found that consumer confidence throughout the metropolitan area has increased 2.3% from the prior quarter and 4.5% from the prior year. The heightened confidence has resulted in residents increasing their buying plans 1.9% from the prior quarter.

The recently enacted federal tax changes are expected to increase U.S. workers take-home pay and to result in increased bonuses to workers. Moreover, the low unemployment rate is expected to force many companies to sharply raise pay to keep and attract the workers they need.¹⁴ These factors support Moody's retail sales forecast.

¹⁴ The Associated Press, "As Companies Give Bonuses, Prospect of Pay Gains Still Hazy", LIBN.com, January 10, 2018.

Lodging Industry

Table 6 illustrates the average hotel/motel occupancy and daily rental rate in Nassau County for the months of November and December in 2016 and 2017. From an annual viewpoint the lodging industry experienced strong demand as average occupancy rates grew 0.6% despite a 1.4% increase in average daily rates.

Table 6

Nassau Hotel / Motel Statistics						
Average Occupancy Rate						
	Dec-17	Nov-17	Dec-16	Nov-16	Mthly %	Yrly %
Occupancy %	73.1%	77.8%	72.7%	76.3%	-6.0%	0.6%
Average Daily Rate						
	Dec-17	Nov-17	Dec-16	Nov-16	Mthly %	Yrly %
Rental Rate \$	\$137.99	\$144.74	\$136.03	\$141.83	-4.7%	1.4%

Source: Long Island Convention & Visitor's Bureau

Looking ahead, the lodging industry is expected to continue to record positive growth. Moody's expects hospitality and leisure employment to grow 1% in 2018 and 0.8% in 2019. This growth will positively impact County hotel / motel tax revenues.

Taxi & Limousine Commission

Effective June 29, 2017, New York State approved the operation of Uber and Lyft on Long Island and Upstate. Cab owners say they felt the effect of these ride-hailing services prior to the law change since these services enjoyed certain cost advantages as they were exempt from local regulation. Local regulation mandates the payment of fees as well as taxi stand and off-street parking requirements. However, since the law changed, cab businesses have deteriorated at a rapid pace. Some companies have seen revenues decrease as much as 40%. In response, cab owners said they lost drivers and have had to cut prices. Others have gone out of business.¹⁵

¹⁵ Parrish, Tory, "Lyft and Uber Reshaping Long Island's Transportation Sector", newsday.com, February 16, 2018.

The Regional and National Economic Survey and Forecast 2018 – 2022

Nassau County's Taxi and Limousine Commission, TLC, 2018 budget includes \$1.1 million in revenues, \$0.8 million from fines and \$0.3 million from permits & licenses. OLBR will closely monitor for any shortfalls in these revenues.

Conclusion

Overall the national and local economies moved forward in the fourth quarter of 2017. This positive economic growth is expected to continue through 2022.

The current economic forecast is delicate as it depends on several forces moving in the expected direction with the anticipated momentum. The unknown impact of the federal tax changes and any additional unanticipated interest rate increases could dampen national and local economic growth.

Moreover, as previously mentioned, the lack of household savings and the cooling off in the auto market have the potential to put downward pressure on consumer spending and limit overall economic growth.

Actual FY 17 sales tax collections exceeded budget by \$21.4 million. From the FY 17 year-end figure, the County requires 1.8% growth in FY 18 to reach budget. Current economic forecasts and actual payments support the achievement of the FY 18 budget and it appears possible that the County could even accrue a sales tax surplus in FY 18.

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

***Deirdre K. Calley, Deputy Director
Helen M. Carlson, Deputy Director
Dawn Wood Jones, Senior Budget Analyst
Matthew Kakol, Budget Analyst
Mitchell Seidler, Budget Analyst***