

Nassau County Economic Indicators

2002 Year-End



**Office of Legislative Budget Review
Nassau County Legislature**

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Inter-Departmental Memo

To: Hon. Lianne Altmann, Chairperson
Member of the Budget Review Committee

From: Eric C. Naughton, Director
Legislative Budget Review

Date: February 18, 2003

Re: Year-End Economic Report

Attached is a copy of the Office of Legislative Budget Review's 2002 year-end economic report. The data presented is the most current as of the date of circulation and is the most geographically relevant.

cc: Hon. Howard Weitzman, County Comptroller
Sharon Commissiong, Majority Counsel
Mike Deegan, Minority Counsel
Mark Young, Budget Director
Richard Luke, Executive Director, NIFA
Dan McCloy, Special Assistant Minority
Joah Sapphire, Majority Finance
Art Gianelli, Deputy County Executive, Finance

2002 Economic Indicators Report

The Year in Review

This past year was a difficult one for Nassau County residents. The stock market fell, prices increased, job growth was sluggish, and consumer confidence was down. In Alan Greenspan's U.S. Senate Testimony on February 11, 2003, he stated that the economy's main problem is uncertainty. He attributes the weak economic growth to a lack of business expenditures. He states that financial conditions are sufficiently flexible to facilitate more-vigorous corporate outlays once current geopolitical risks are dealt with.¹

The Dow Jones industrial average ended 2002 down 16.8 %, the worst performance since 1977. The S&P fell 23.4% and the Nasdaq was down 31.5%.²

On Long Island, the technology and telecommunications sectors pulled down the overall corporate performance. The top locally based public companies lost a total of nearly \$1.2 billion or 4% of their combined revenues. In terms of profits and market value, the companies surveyed lost a combined \$1.6 billion. This compares with 2001's profit of \$1.1 billion. Lastly, the combined stock market capitalization or total market value of these companies fell by \$30.3 billion or 42%.³

Helping to maintain the economy was the increase seen in housing values. In 2002, the median closing price on a single-family home in Nassau County was \$350,000, up 12.9% from last year. The median closing price on a co-op/condo was \$195,000, up 12.1% from last year.⁴ The co-op/condo market saw a dramatic increase in sales volume. From 2001 to 2002 the number of co-ops and condos sold in the Nassau-Suffolk area increased 92%, ending the year with 2,276 being sold. Co-ops and condos provided a more affordable housing option as the price of single family houses continued to escalate.⁵ The chart on the next page details the monthly mortgage payment for the median home sale price. From this perspective one can see that lower interest rates have made it possible for individuals to afford more expensive houses. For instance, although the median price of a single-family home increased 12.9% in Nassau County, purchasing this house would cost the homeowner only 7.5% more per month as a result of lower interest rates.

¹ Greenspan, Alan, "Testimony of Chairman Alan Greenspan before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate", Federal Reserve Bank of New York Website, February 11, 2003.

² Joshi, Pradnya, "A Mixed Forecast", Newsday, Sunday, January 5, 2003.

³ Luhby, Tami, "Profits Took a Hit in 2002", Newsday, Sunday, January 5, 2003.

⁴ Feder-Koss, Laura, "Making do with Less", Newsday, Friday, January 31, 2003.

⁵ Same as above.

	2001 Median Home Sale Value	2002 Median Home Sale Value	2001 Monthly Mortgage Pmt.*	2002 Monthly Mortgage Pmt.*	% Change in Monthly Mortgage Pmt.*	% Change in Median Home Sale Value
Queens						
Co-op/Condo	\$100,000	\$117,500	667.32	746.55	11.87%	17.50%
House	\$245,000	\$294,500	1,634.93	1,871.13	14.45%	20.20%
Nassau						
Co-op/Condo	\$174,000	\$195,000	1,161.13	1,238.95	6.70%	12.07%
House	\$310,000	\$350,000	2,068.69	2,223.76	7.50%	12.90%
Suffolk						
Co-op/Condo	\$148,500	\$180,000	990.97	1,143.65	15.41%	21.21%
House	\$232,000	\$282,750	1,548.18	1,796.48	16.04%	21.88%
Westchester						
Condo	\$225,000	\$270,000	1,501.47	1,715.47	14.25%	20.00%
Co-op	\$85,014	\$118,000	567.31	749.72	32.15%	38.80%
House	\$427,984	\$520,000	2,856.02	3,303.87	15.68%	21.50%
Putnam						
Co-op/Condo	\$144,151	\$199,217	961.95	1,265.74	31.58%	38.20%
House	\$262,948	\$330,000	1,754.70	2,096.69	19.49%	25.50%

*Assumes 0% down, 2001 avg. interest rate of 7.03%, 2002 avg. interest rate of 6.55%, on a 30 yr. Fixed mortgage.

**Queens, Nassau & Suffolk figures from Newsday's, January 31, 2003, Real Estate Section

***Westchester & Putnam figures from The Journal News's⁶

The increase in home values led to a refinancing boom and created a positive wealth effect. The Homeownership Alliance completed a study that found that nationwide, 20% of 2002's real gross product growth was a result of home refinancings. That number is up from 17% in 2001. For the Nassau-Suffolk area, 33% of 2002's real gross product growth was a result of home refinancings. In New York City, that number was 47%. In 2002, the Nassau-Suffolk area raised \$3.6 billion dollars from home cash-out refinancings. Details of this study are shown in the chart on the next page. In his recent testimony, Alan Greenspan notes that consumer outlays were financed partly by the extraction of built-up equity in homes. He notes that such activity is bound to contract as average interest rates on outstanding home mortgages converge to those on new mortgages; but adds that simply processing the current backlog of applications will take some time and therefore refinancing originations and cash-outs will be significant through the early part of 2003.

⁶ Gleeson, Jerry, "2 Counties Housing Prices Soar," The Journal News, February 4, 2003.

Cash Raised in Cash-Out Refinancings					
\$ in Billions					
	1998	1999	2000	2001	2002*
Nassau-Suffolk	0.9	0.9	0.7	1.9	3.6
New York	1.3	1.4	1.1	2.7	5.1
United States	64.1	52.5	43.7	101.6	172.1
*2002 figures are estimates based on third quarter data					
Share of Real Gross Product Growth Accounted for by Refinancing					
	2001	2002*			
Nassau-Suffolk	19%	33%			
New York	37%	47%			
United States	17%	20%			
*2002 figures are estimates based on third quarter data					

This refinancing boom was possible due to low interest rates, declining transaction costs, and rising home values.⁷ Assuming constant personal income and stock market wealth, as the economy becomes more dependent on home refinancing, it becomes more susceptible to increases in interest rates. Moreover, since Nassau County had both an increasing percent and a higher percentage of its 2002 economic growth coming from home refinancings than was the case in the rest of the Country we are in a precarious spot since many analysts and our multi-year plan anticipate an interest rate increase in 2003. The low interest rates, declining transaction costs and increasing home values also led to a record level of home sales. Lastly, this refinancing boom had a direct effect on County Revenues. To date in 2002, the County Clerk’s office collected approximately \$11.9 million in fees. The County collects a fee with each recorded mortgage and real estate transfer. That represents a 33% increase from 2001’s collection of \$8.9 million in fees.

While the residential real estate market was a source of strength for the local economy, the commercial real estate market did not fare as well. In 2002, the overall office vacancy rate for Nassau and Suffolk counties was 14%. That number in 2001 was 10.9%. Similarly, average rents for prime office space were down in 2002 from 2001’s levels. In 2002, the average rent per square foot for the Nassau- Suffolk area was \$26.19. In 2001 the average rent per square foot was \$31.⁸ Moreover, industry experts expect real estate industry profits to continue to decline in 2003. A recent poll of metropolitan accountants found that 60% of respondents expect real estate industry profits to decline in 2003. They cite decreased valuations and increased insurance

⁷ “The Economic Contribution of the Mortgage Refinancing Boom”, [Homeownership Alliance and Economy.Com](http://HomeownershipAllianceandEconomy.Com), December 2002.

⁸ Wax, Alan J., “Commercial Real Estate, 2003 Outlook, Sector-by-Sector Analysis”, Newsday, Friday, January 3, 2003.

costs as the reasons for the decline in profits.⁹ Insurance premiums for property, liability and worker's compensation have increased dramatically since September 11, 2001. The findings of a new insurance study that classified the prime terrorist targets within the United States could result in terrorism insurance premiums rising 150% in 2003. The new Insurance Services Office Inc. (ISO) study found that Washington D.C., New York, Chicago and San Francisco are in the top risk tier. Being in the top risk tier means that they are 100 times more likely than the rest of the country to be the target of a terrorist attack.¹⁰

Prices for most sectors of the regional economy were up 3.2% from last year. This increase is greater than that felt in most regions of the country which saw an increase of 2.4%. Prices for medical care ended the year up 4.3% from last year. Prices for housing ended the year up 3.8% from last year. Lastly, the price of gasoline ended the year up 28.1% from last year.

Overall, employment on Long Island was sluggish last year. Annual indicators are mixed but recent numbers reveal upward momentum. The non-agricultural employment figures show a total loss of 3,700 jobs from December 2001. Yet, the local area unemployment figures reveal that 13,900 residents have found jobs from December 2001. When analyzing these numbers recall that the non-agricultural employment figures include Suffolk County and exclude several sectors included in the local area unemployment figures. Both surveys point to recent employment gains. According to the non-agricultural figures, the area gained 6,200 jobs from last month and according to the local area unemployment figures 4,700 residents found jobs from last month.

Correlating with the overall sluggish job growth was a decrease in Long Island Rail Road (LIRR) ridership. Preliminary estimates of annual overall ridership on the LIRR show a decrease of 1.87% from last year. Much of the decline can be attributed to the fact that the unemployment rate of New York City averaged 7.69% in 2002. In contrast the unemployment rate of Nassau County averaged 3.96% in 2002. Overall 2002 ridership on Long Island Bus increased 0.94% from last year. Most of the increase was in their paratransit operations that grew 19.28% from last year. Contributing to the increase in LI Bus ridership is the fact that some Nassau County residents can take LI Bus to Jamaica and pick up the subway to New York City. This costs the individual \$1.50 since one gets a free transfer from bus to train on the metro-card. This is a cost-saving measure used during tough economic times.

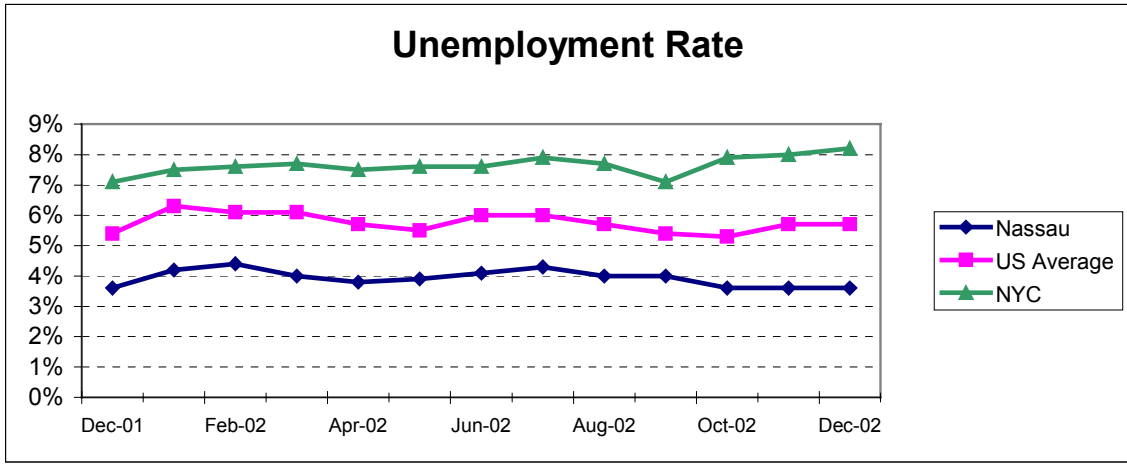
Lastly, the daily average handle on New York Racing Authority races was up 3.5% from last year coming in at \$10,604,210. At Nassau OTB the total handle was up 2.8% from last year and the total handle for all New York State OTBs was up 2.0% from last year. This increase is good for the County since it directly impacts the Belmont admissions tax surcharge, the OTB surcharge, OTB profits, and sales tax revenues. As more people come to view a race they will potentially spend money within the County at other establishments thereby increasing sales and hotel/motel tax revenues.

⁹ Klingbeil, Abigail, "Fifty percent of accountants in poll say state business conditions are poor." The Journal News, Friday, January 10, 2003.

¹⁰ Hsu, Spencer S., "D.C. Disputes Insurance Study Raising Rates for Terrorism", Washington Post, Tuesday, January 7, 2003.

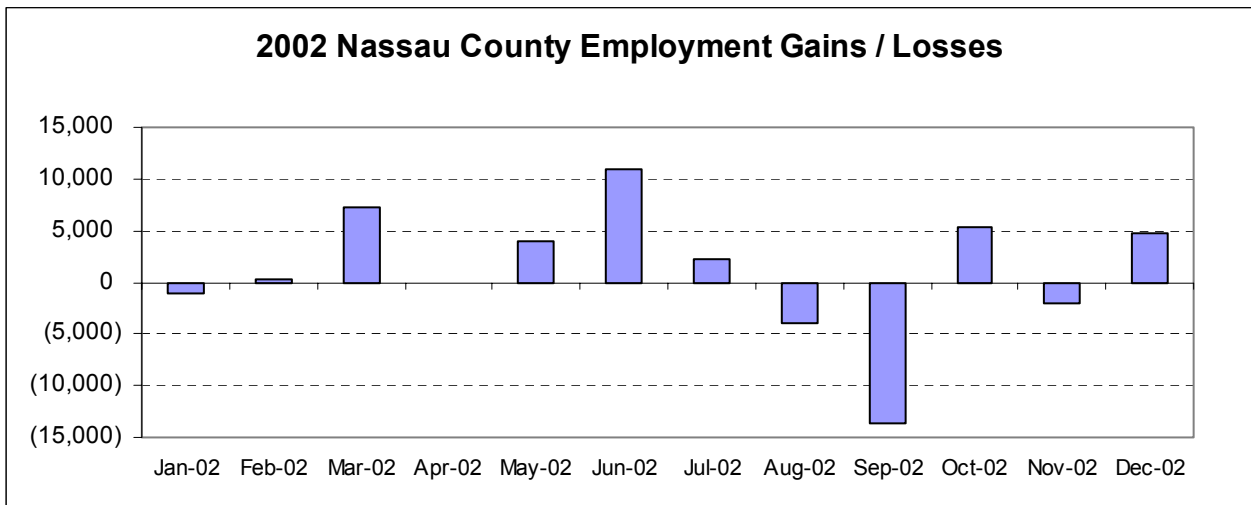
Nassau County Employment Figures
figures are in thousands

	<u>12/02</u>	<u>11/02</u>	<u>12/01</u>	<u>Deviation from Prior Month</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Employed	676.6	671.9	662.7	4.7	0.7%	2.1%
Unemployed	25.2	25.4	24.4	-0.2	-0.8%	3.3%
Unemployment rate	3.6	3.6	3.6	0	0.0%	0.0%



Source: NYS Department of Labor

December 2002 saw Nassau County’s unemployment remain constant at 3.6% from both last month and last year. The constant unemployment rate is a function of a larger labor force. The unemployment rate of the County continues to fare better than that of New York City and the Country as a whole. New York City’s December 2002 unemployment rate reached a 12 month high of 8.2%. Meanwhile, the United State’s unemployment rate ended up at 5.7% in December. That is 0.3% higher than December 2001’s 5.4% unemployment rate. Lastly, in percentage terms, the number of unemployed in Nassau County is up 3.27% from last December while in New York City and the United States that number is 18.0% and 5.0% respectively.



Nonagricultural Employment Nassau-Suffolk Area figures are in thousands					
	<u>12/02</u>	<u>11/02</u>	<u>12/01</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Construction & Mining	63.6	64.7	64.1	-1.7%	-0.8%
FIRE (Finance/Ins./Real Estate)	81.6	81.7	80.2	-0.1%	1.7%
Government	202.1	200.6	199.8	0.7%	1.2%
Manufacturing	102.5	103.2	108.2	-0.7%	-5.3%
Retail Trade	238.3	233.9	239.3	1.9%	-0.4%
Services	419.6	417.5	415.8	0.5%	0.9%
Transportation & Pub. Utilities	59.0	58.3	60.9	1.2%	-3.1%
Wholesale Trade	83.3	83.9	85.4	-0.7%	-2.5%
Total	1,250.0	1,243.8	1,253.7	0.5%	-0.3%

Source: NYS Department of Labor

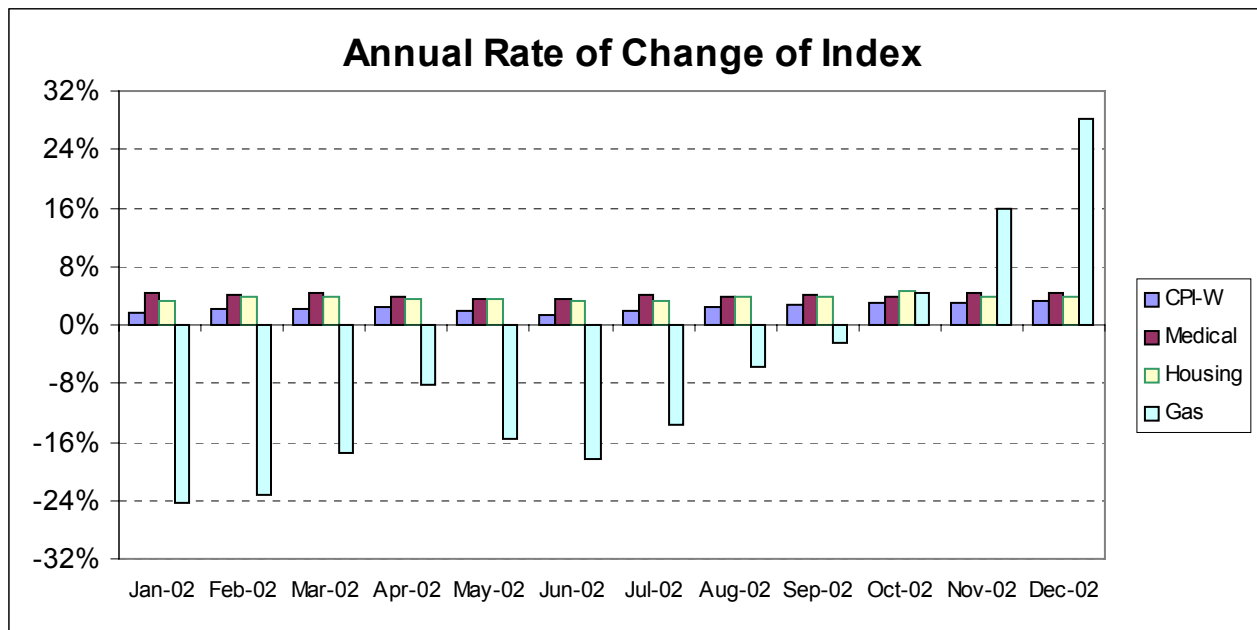
December 2002 witnessed job gains in the Government and Services sectors from both a one month and one year perspective. The sector hit the hardest in 2002 was manufacturing which lost 700 jobs from last month and 5,700 jobs from last year. The Finance, Insurance and Real Estate sector has grown the most from last year by gaining 1,400 jobs. The Retail Trade sector gained the most from last month due to the holiday season.

Consumer Price Indexes New York-Northern Jersey-Long Island, NY-NJ-CT-PA region					
	<u>12/02</u>	<u>11/02</u>	<u>12/01</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
US City, CPI-W	177.0	177.4	172.9	-0.2%	2.4%
CPI-W	188.7	188.8	182.8	-0.1%	3.2%
Medical	302.2	302.2	289.7	0.0%	4.3%
Housing	195.0	194.8	187.9	0.1%	3.8%
Gasoline (all types)	117.6	116.7	91.8	0.8%	28.1%

Source: Bureau of Labor Statistics

Prices for most sectors of both the regional and national economy are up from last year. Within the regional economy, prices are rising more than that experienced throughout the country. The price of all-types of gasoline continued its rapid increase. The price of gasoline was up 28.1% from this time last year, this represents the sharpest increase experienced in the previous twelve

months. The price of housing rose both relative to last month and to last year. Meanwhile the cost of medical care was unchanged from last month and up 4.3% from last year.



Source: Bureau of Labor Statistics

Conclusion

This economic indicators report highlights two important developments which could negatively impact residents' disposable income and therefore sales and entertainment tax revenues. First, since 33% of Long Island's real gross product and 47% of New York City's real gross product was a result of home refinancing any interest rate increase will diminish the capital available to residents to make purchases. Moreover, if the stock market continues to be sluggish or to decline there will be no equity source to continue to support economic growth. Secondly, the 18% annual increase in the number of unemployed New York City residents could dampen sales tax revenues in Nassau County. If Nassau County residents are unable to find work in New York City, they will cut back on household purchases.

On the positive side, it appears that within the past two months the area has been on an upward trend in terms of employment and confidence for Nassau County. Since consumer spending accounts for approximately two-thirds of the nation's gross domestic product, having employed residents who feel confident about the economy's future could mitigate some of the negative influences exhibited by the three developments described above. Lastly, as Alan Greenspan pointed out, uncertainty is the main problem facing the economy. If the geopolitical tensions are settled quickly, economic growth should rebound by the end of 2003.