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Inter-Departmental Memo

To: Hon. Judy Jacobs, Chairperson
Members of the Budget Review Committee

From: Eric C. Naughton, Director
Legislative Budget Review

Handwritten signature of Eric C. Naughton.

Date: July 14, 2009

Re: Regional and National Forecast for July 2009

Attached is a copy of the Office of Legislative Budget Review's Regional and National Forecast for July 2009. This report is intended to assist the Legislature in making policy decisions and in assessing budgetary forecasts. The data presented are the most current as of the date of circulation and are the most geographically relevant.

cc: Hon. Howard Weitzman, County Comptroller
John O'Neill, Budget Director, OMB
Christopher Ostuni, Minority Counsel
Evan Cohen, Executive Director, NIFA
David Gugerty, Policy Director
Dan McCloy, Special Assistant Minority
Tom Stokes, Deputy County Executive
Charo Ezdrin, Director of Legislative Affairs
Chumi Diamond, Clerk of the Legislature
Edgar Campbell, Chief of Staff
Roseann D'Alleva, Majority Finance



OFFICE OF LEGISLATIVE BUDGET REVIEW

The Regional and National Economic and Fiscal Forecast for 2009, 2010 and 2011

July 2009

Nassau's recession is of a greater magnitude than earlier predicted, and its economic recovery will not occur until 2011, according to the July Moody's Economy.com forecast.

In terms of Gross County Product, GCP, 2009's decline is now expected to be 6.2%, up from the prior forecast's estimated decline of 4.2%. In the labor market, Nassau was previously estimated to lose 2.2% of its employed residents, currently Nassau is projected to lose 3.0% of its employed residents in 2009. In the housing market, the number of mortgage originations estimated for 2009 is now expected to decline 40.7%, up from the prior forecast's 38.6% decline.

In April 2009's forecast, real GCP, personal income, and mortgage originations were expected to record positive annual growth in 2010. In the July 2009 forecast, those variables are not expected to record positive growth until 2011.

Not only are the increasing numbers of unemployed residents finding it difficult to make day to day purchases, but also the County's employed residents are finding it difficult to make ends meet since both their pay and work hours are being shortened. Average hourly earnings rose three cents between April and June of 2009. That was the smallest quarterly gain since at least 1964 when the government started tracking the index. Additionally, the average work week fell to 33

hours. At this time last year the average work week was 33.6 hours.¹ These figures will make it difficult for County sales tax growth to improve. Current collections are down 10.1%.

Table 1 below details the current annual forecast for all Nassau County economic variables in 2009, 2010 and 2011. The highlighted growth rates reveal when the index is expected to record positive growth.

Table 1

2009, 2010 and 2011 Nassau County Economic Forecast			
	Annual 2009 %	Annual 2010 %	Annual 2011 %
Real GCP	-6.2%	-0.1%	1.0%
Personal Income	-4.6%	-1.2%	2.0%
Total Employed	-3.0%	-0.5%	1.3%
Total Unemployed	59.8%	13.0%	-11.3%
Nonfarm Jobs	-2.8%	-1.5%	0.9%
Mrt Origins	-40.7%	-10.0%	15.8%
Mrt Refi	77.7%	-44.8%	-34.5%
Home Sales Price	-18.8%	-10.0%	-2.7%
Regional CPI	-0.5%	1.9%	2.7%

Source: Moody's Economy.com

Table 1 above shows that a recovery is not expected in any area until 2011. Even in 2011 non-farm job growth and total employment are only expected to grow roughly 1%, not enough to cause Nassau County to reach its 2008 job and employment levels. That level is expected to be reached in 2013.

¹ Frangos, Alex, "Stagnant Pay Saps Consumers' Ability to Spur Recovery", *The Wall Street Journal*, July 3, 2009.

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Consumption

According to Moody’s Economy.com, Nassau County’s real Gross County Product, GCP is going to be negative throughout 2009 and will turn positive in the third quarter of 2010. Real GDP is a measure of the goods and services provided within an economy. When it declines, it indicates that less goods and services are being provided and therefore fewer jobs and personal income generated.

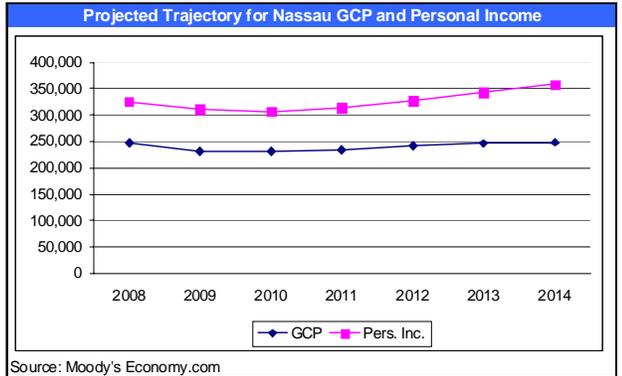
Table 2

Nassau Consumption Growth by Quarter				
2009	Q1	Q2	Q3	Q4
GCP	-5.0%	-7.0%	-7.3%	-5.7%
Pers. Income	-2.9%	-5.0%	-5.7%	-5.1%
2010	Q1	Q2	Q3	Q4
GCP	-3.0%	-0.3%	1.4%	1.7%
Pers. Income	-3.5%	-1.7%	-0.2%	0.7%

Source: Moody's Economy.com

Table 2 details the 2009 Nassau consumption forecast by quarter. A detailed look at the projected real GCP level and personal income levels reveals that Nassau is expected to experience a gradual U shaped recession in terms of personal income which will attain its 2008 level by 2012. The recovery of Nassau GCP is expected to be more linear with GCP only reaching its 2008 level by 2014. The bottom is expected to occur in 2010 for both indicators as seen in Chart 1.

Chart 1



Labor Market

The forecast for the Nassau County labor markets is bleak. According to the New York State Department of Labor, the Nassau County unemployment rate stands at 6.8% for May 2009. This rate is expected to rise throughout 2009 and level off at 8.5% for the first three quarters of 2010. Unemployment rates are expected to continue to climb after the decline in resident employment begins to ebb. This is due to the fact that as the labor market begins to pick up, residents who had dropped out of the labor market will re-enter thereby increasing the unemployment rate.

Table 3

Nassau Labor Market by Quarter, 2009 and 2010				
2009	Q1	Q2	Q3	Q4
Total Unemployed	65.3%	69.7%	62.0%	46.7%
Unemployment %	6.5%	7.3%	7.9%	8.3%
Total Employed	-2.6%	-3.3%	-3.4%	-2.8%
Non-Farm Jobs	-2.2%	-2.9%	-3.2%	-3.0%
2010	Q1	Q2	Q3	Q4
Total Unemployed	30.8%	17.5%	7.5%	0.5%
Unemployment %	8.5%	8.5%	8.5%	8.3%
Total Employed	-1.8%	-0.8%	0.1%	0.6%
Non-Farm Jobs	-2.5%	-1.8%	-1.1%	-0.5%

Source: Moody's Economy.com

Table 3 depicts the current forecast for Nassau County employed residents, unemployed residents, the unemployment rate and non-farm job growth. Nassau County is not expected to see positive growth in resident employment until the third quarter of 2010. The employment gains made in 2010 are not expected to make up for the losses experienced in 2009, leaving Nassau County with a net decrease in resident employment of 0.5% in 2010.

Looking at the actual levels of resident employment reveals that Nassau County will not attain its 2008 level of employed residents until 2013.

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Non Farm Jobs

The Long Island region is not expected to undergo a jobless recovery. Rather, the projected recovery for non farm jobs in Nassau is U shaped. The bottom in the non farm job market is expected to occur during the third quarter of 2010. This means that not only will there be fewer employed Nassau County residents in 2009, but there will be less local jobs for the unemployed residents to apply for. Nassau County is not forecast to surpass its 2008 job level until 2013.

Housing

The Nassau County housing market is still depressed from an annual standpoint. May 2009 Multiple Listing Service of Long Island figures reveal that the median closed sale price is down 9.7% and the year to date number of closed transactions is down 15.5%. From a monthly perspective, the indices recorded positive growth as a result of the start of the spring season. Home sale prices are expected to decline throughout 2009 and 2010. However mortgage originations are expected to register positive growth by the fourth quarter of 2010.

The housing market is projected to make the slowest recovery. Mortgage originations are forecast to make a complete recovery by 2016. Home sale prices are not expected to reach their 2008 levels until 2022.

Table 4 details these quarterly changes for the Nassau County housing market.

Table 4

Nassau Housing Market by Quarter, 2009 and 2010				
2009				
	Q1	Q2	Q3	Q4
Mrt. Originations	-50.6%	-43.6%	-34.5%	-25.8%
Med. Sale Price	-17.2%	-19.6%	-20.0%	-18.3%
2010				
	Q1	Q2	Q3	Q4
Mrt. Originations	-18.7%	-13.0%	-6.9%	0.4%
Med. Sale Price	-15.0%	-11.1%	-7.6%	-5.4%

Source: Moody's Economy.com

The new appraisal rules which went into effect on May 1, 2009 are further exacerbating the decline in the housing market. The new rules require lenders that sell loans to Fannie Mae or Freddie Mac to set up a firewall between appraisers and loan officers to prevent improper influence. To this extent banks are mandated to order a second appraisal on 10% of the loans they sell and warn against accepting the higher of any two valuations. Industry experts claim that these guidelines have led to more conservative valuations and a “chill” in lending.²

Commercial Real Estate

Industry experts consider the commercial market a looming crisis. At a recent Congressional Joint Economic Committee hearing, it was stated that there is about \$700 billion in commercial mortgages that will need to be refinanced by the end of 2010. Due to the current state of the credit markets, there are 5,315 commercial properties in default, foreclosure or bankruptcy. That is more than twice the number that there were at this time last year. The largest concentration of distressed properties is in New York City.³

² Levy, Dan, “Home-Price Recovery May Be Undermined by Appraisals”, Bloomberg.com, June, 24, 2009.

³ Kopecki, Dawn, “Commercial Real Estate Is a “Time Bomb”, Maloney Says”, Bloomberg.com, July 9, 2009.

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Prices

Regional consumer prices are expected to decline from an annual perspective in 2009. In 2010, positive growth is expected to resume for regional consumer prices. The declining consumer prices experienced during 2009 will impact County sales tax collections which are a function of both quantity sold and price paid. Table 10 below details the 2009 and 2010 quarterly forecast for consumer prices.

Table 5

Consumer Prices, 2009 and 2010				
2009				
	Q1	Q2	Q3	Q4
Regional	0.6%	-0.6%	-1.7%	-0.1%
National	-0.2%	-0.9%	-1.9%	0.5%
2010				
	Q1	Q2	Q3	Q4
Regional	0.9%	1.8%	2.2%	2.6%
National	1.5%	1.6%	1.6%	1.9%

Source: Moody's Economy.com

Sales Tax Predictors

Looking forward, all industries are expecting sluggish sales. It appears that consumers lack the desire to spend. Despite the recent rise in local consumer confidence, the June 2009 Siena College Consumer Confidence index showed regional confidence falling 3.6% from the prior month. The lack of confidence will dampen future sales tax collections. According to Big Research.com, 90.7% of consumers say the current economic crisis will impact their lifestyle in some fashion over the next five years.⁴

In predicting sales tax collections, it is important to monitor the market for luxury items since the richest 10% of U.S. households are responsible

⁴ "BIGresearch: Over 90% Say Economic Crisis Will Impact Lifestyle Over Next Five Years", bigresearch.com, March 17, 2009.

for 50% of consumer spending.⁵ A recent Harvard University study confirmed this when it found that in 2005 the top 1% of home owners accounted for more than a third of all remodeling expenditures in the US. They concluded that the recent surge in home improvement spending was driven by a fairly thin share of high-end projects built on debt facilitated by the run-up in housing prices and therefore not sustainable.⁶

According to Bain & Co., a Boston based firm, sales of luxury items are expected to decline 10% in 2009 and will not experience a recovery until 2012.⁷

Table 6 details the industries which contribute the most to County sales tax collections. Growth in these industries is essential for boosting Nassau's collections.

Table 6

Highest Contributing Industries to County Sales Tax		
Industry	Mar 05 to Feb 07	% of Total
Retail Trade Total	23,928,814	56.8%
Motor Vehicles and Parts	5,644,966	13.4%
Accommodation and Food Services	3,807,900	9.0%
General Merchandise	3,706,489	8.8%
Food Services	3,464,094	8.2%
Wholesale Trade	3,105,413	7.4%
Information	2,738,220	6.5%
Clothing (excluding local sales)	2,691,529	6.4%
Building Materials and Garden Equipment	2,357,233	5.6%

Source: New York State Department of Taxation and Finance

Retail trade is suffering. The industry is not expected to start growing again until 2011.⁸ For the upcoming back to school timeframe, the

⁵ Jones, Sandra M., "Luxury Spending Likely to Drop 10% for 2009", chicagotribune.com, June 21, 2009.

⁶ "The Remodeling Market in Transition", [Joint Center for Housing Studies of Harvard University](http://JointCenterforHousingStudiesofHarvardUniversity), February 4, 2009.

⁷ Jones, Sandra M., "Luxury Spending Likely to Drop 10% for 2009", chicagotribune.com, June 21, 2009.

⁸ "Consumers to Remain Practical in 2009 Say Experts", retailcouncilnys.com, Volume 35, Number 2, February 2009.

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National Retail Federation expects total back to school sales to decline 7.7%.⁹ Historically, during the 1993 to 2008 timeframe, back to school sales rose on average 4.7% per year.¹⁰

US motor vehicle sales are expected to decline 24.2% in 2009. The global light vehicle sales market is not forecast to recover until 2012, at which most of the growth will occur in “emerging” markets. The US market is considered saturated.¹¹

The accommodation and food services industry was hoping to avoid the recession as individuals opt for “staycations” when they vacation locally to save money.¹² However, since Nassau County is heavily dependent on corporate travel, Long Island Convention and Visitor Bureau statistics show that current hotel occupancy rates are down 13.2% from the prior year. The occupancy rate decline comes amidst a 7.6% decline in average room rental rates.

Building materials and garden equipment sales are expected to decline in 2009. According to a Harvard University study, households that relocate spend an average of 20-25 percent more on improvements than households that do not move.¹³ Since the number of closed real estate transactions in Nassau is currently down 15.5%, building materials and garden equipment sales are also down.

Given that the most significant sale tax contributing industries are expected to record

annual declines in 2009, it may be assumed that County sales tax collections will follow suit.

Conclusion

The economic forecast for Nassau County in 2009 is worse than previously thought. The recession is expected to be more sizeable and last longer than previously thought. None of the economic indices surveyed are expected to turn around in 2009. It will take even longer for the region to achieve the levels experienced in 2008. The expected full recovery dates are detailed in Table 7 on the following page.

OLBR opines that it is possible for the region to experience a more L-shaped recession in terms of real GCP. This is due to the fact that the County’s previous GCP levels were dependent on home equity spending.

Table 7

Year When Nassau Will Attain It's 2008 Level	
Index	Year
Real GCP	2014
Total Employed Residents	2013
Non-Farm Jobs	2013
Mortgage Originations	2016
Home Sale Prices	2022
Source: Moody's Economy.com	

⁹ Pepitone, Julianne, “Back-To-School Spending to Drop 7.7%”, CNN/Money.com, July 14, 2009.
¹⁰ Jones, Sandra, “Analysts Gloomy on Back-To-School Sales”, chicagotribune.com, July 3, 2009.
¹¹ “Global Light Vehicle Sales to Decline 15% in 2009”, R.L.Polk, May 14, 2009.
¹² Herring, Chris, “New York City Sees Slide in Tourism”, The Wall Street Journal, July 2, 2009.
¹³ “The Remodeling Market in Transition”, Joint Center for Housing Studies of Harvard University, February 4, 2009.

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