



NASSAU COUNTY LEGISLATURE
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Inter-Departmental Memo

To: Hon. John Ciotti, Chairman
Members of the Budget Review Committee

From: ^{SA} Steve Antonio
Office of Legislative Budget Review

Date: January 28, 2010

Re: Regional and National Economic Forecast

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

cc: Hon. George Maragos, County Comptroller
Frank Maroney, Nassau County Chief Deputy Comptroller
Evan Cohen, Executive Director, NIFA
John O'Neill, Budget Director
Dan McCloy, Director of Law, Finance & Operations
Tim Sullivan, Deputy County Executive
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OFFICE OF LEGISLATIVE BUDGET REVIEW

The Regional and National Economic and Fiscal Forecast for 2010, 2011 and 2012

January 2010

Although no official determination has been made, some economists believe that the recession ended in July 2009.¹ National real GDP increased 2.2% in the third quarter of 2009 and is expected to increase 4.0% on average in the fourth quarter of 2009. Table 1 below details the current forecast for annual US real GDP growth.

Table 1

Annual US Real GDP Growth Forecast 2009 to 2012				
	2009	2010	2011	2012
Moody's Economy.com	-2.5	2.3	3.8	5.1
The Conference Board	-2.5	2.3	1.8	NA
Fed. Reserve Bank of Philadelphia	-2.5	2.4	3.1	3.3
Mortgage Bankers Association	-0.2	2.7	4.2	3.9
PMI Mortgage Insurance Co.	-0.3	2.7	3.8	NA
Average	-1.61	2.49	3.34	4.12

Locally, growth rates are not expected to be as robust as those registered nationally. Table 2 details the annual growth rates forecast for ten regional economic indicators. The highlighted growth rate for each variable indicates the year in which the variable is expected to begin its recovery.

Real gross County product, GCP, personal income, mortgage originations, retail sales and consumer prices are all projected to record positive growth in 2010.

Positive non-farm job growth is not expected to commence until 2011. In 2011, Nassau County

is expected to see a decline in the number of unemployed residents. Home sale prices are expected to experience the slowest recovery. Positive home sale price growth is not expected to resume until 2012. Due to falling home prices and unchanged or rising mortgage interest rates, the market for mortgage refinancing is expected to decline from 2010 through 2012.

Table 2

2010 to 2012 Nassau County Economic Forecast Forecast Annual Growth Rates			
	2010	2011	2012
GCP	0.5%	1.5%	2.9%
Personal Income	1.0%	2.7%	5.1%
Employment	-0.7%	1.0%	1.9%
# of Unemployed	16.3%	-7.5%	-23.3%
Non Farm Jobs	-0.9%	0.5%	2.3%
New Mortgages	4.1%	6.0%	15.6%
Mortgage Refinances	-11.3%	-22.8%	-16.8%
Retail Sales	0.4%	3.4%	6.6%
Median Sale Price	-11.6%	-3.3%	3.3%
Regional CPI	2.1%	2.4%	2.9%

Source: Moody's Economy.com

The following sections provide a detailed look at each forecast economic variable. If current trends continue, 2010 should be a better year economically than 2009. The index of leading indicators issued by the Conference Board, a non-profit, global business organization, rose in December 2009 for the ninth straight month.

¹ Nicklaus, David, "St. Louis Fed Calls the End of the Recession", stltoday.com, January 18, 2010.

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This implies that the national economy will grow for the first half of 2010.²

Consumption

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. According to Moody's Economy.com, Nassau County's real Gross County Product, GCP is going to be negative through the third quarter of 2010. It will turn positive in the fourth quarter of 2010. GCP is expected to record marginal positive growth throughout 2011.

Table 3

Nassau County Consumption Growth By Quarter				
2010	Q1	Q2	Q3	Q4
GCP	-0.20%	-0.30%	-0.12%	0.19%
Pers. Inc.	0.59%	0.79%	0.71%	0.54%
2011	Q1	Q2	Q3	Q4
GCP	0.44%	0.61%	0.73%	0.78%
Pers. Inc.	0.51%	0.64%	0.93%	1.23%

Source: Moody's Economy.com

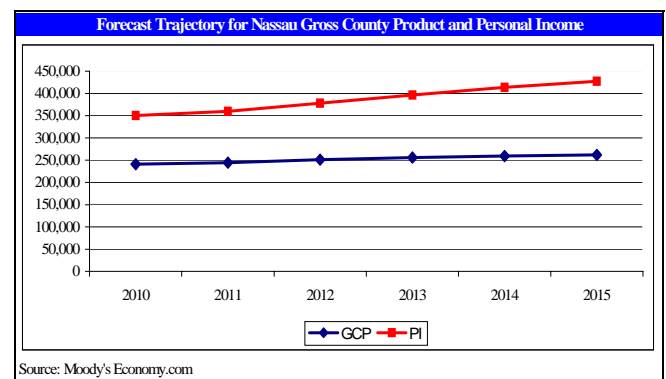
Table 3 details the 2010 and 2011 Nassau consumption forecast by quarter. A detailed look at the projected annual real GCP and personal income growth reveals that Nassau is expected to experience a gradual recovery. Annual personal income growth is expected to be positive, albeit sluggish through 2015. The recovery of Nassau GCP is expected to be less robust, with levels practically unchanged by 2015. Chart 1 details the projected trajectory for these two variables. The GCP figures are in millions and are calculated using year 2000 chained dollars. The personal income figures are also in millions.

² Homan, Timothy R., "Leading Economic Index in U.S. Probably Rose for Ninth Month", Bloomberg.com, January 21, 2010.

Given such sluggish growth rates, it is possible that the recovery may not gain traction until 2011.

Nationwide, some see a 30 to 40 percent chance of a double dip recession occurring. In March, the Federal Reserve is expected to stop purchasing mortgage-backed securities. Some expect this to raise mortgage interest rates and dampen home sales. Such an event could pose a risk to the regional recovery.³

Chart 1



Labor Market

According to the New York State Department of Labor, the Nassau County unemployment rate stands at 6.6% for December 2009. Compared to the prior year, there currently are 15,300 fewer employed residents and 8,500 fewer residents counted in the labor force.

Labor market conditions are expected to remain sluggish throughout 2010 and 2011. Nassau's unemployment rate is expected to rise through the third quarter of 2010, reaching 8.25%. The number of employed residents is expected to fall in the first quarter 2010 and increase slightly through the fourth quarter of 2011. Nassau is not expected to experience a decline in the number of unemployed residents until the fourth quarter of 2010. These projections may be viewed on a quarterly basis in Table 4.

³ Matthews, Steve, "Krugman Sees 30-40% Chance of U.S. Recession in 2010", Bloomberg.com, January 4, 2010.

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Table 4

Nassau Labor Market by Quarter, 2010 and 2011				
2010				
	Q1	Q2	Q3	Q4
Total Employed	-0.08%	0.08%	0.14%	0.16%
Total Unemployed	3.53%	2.00%	0.76%	-0.46%
Unemployment %	8.06	8.20	8.25	8.21
Non Farm Jobs	-0.14%	-0.04%	-0.01%	0.01%
2011				
	Q1	Q2	Q3	Q4
Total Employed	0.22%	0.30%	0.42%	0.53%
Total Unemployed	-1.77%	-3.24%	-4.98%	-6.59%
Unemployment %	8.06	7.79	7.40	6.91
Non Farm Jobs	0.08%	0.20%	0.38%	0.55%

Source: Moody's Economy.com

Table 4 does not capture the true health of the labor market since the unemployment rate does not include those employed part-time for economic reasons or discouraged workers. The underemployment rate, U-6 according to the US Bureau of Labor Statistics, which accounts for those workers, currently stands at 13.4% in New York State. The December 2009 unemployment rate for New York State was 8.8%.

Looking forward, Nassau is not expected to experience a full recovery in terms of resident employment until 2014. By 2014, Nassau County is expected to have more employed residents than it did in 2008.

Non Farm Jobs

The Long Island region is not expected to undergo a jobless recovery. When Nassau's GCP is expected to turn positive in the fourth quarter of 2010, so too will growth in non-farm jobs turn positive. Growth in non-farm jobs is not expected to be robust. Quarterly growth is expected to remain under 1% throughout 2011. These forecast growth rates may be seen in Table 4.

This projection echoes trends seen nationally. According to the US Labor Department, job openings in the U.S. fell in November 2009 to the lowest level recorded in four months.

Employers are reluctant to increase staffing levels.⁴

Housing

The Nassau County housing market is in a precarious position. A recovery seems to be underway, but since it is largely dependent on Federal intervention, it is uncertain how the market will fair once the government supports are lifted. Despite the first-time homebuyer tax credit and numerous federal programs to assist underwater homeowners, Nassau County ended 2009 with a 10.4% decline in closing gross volume, the dollar value of all closed sales in Nassau in 2009. The volume decline is attributable to a fall in home sale prices. On average as of December 2009, average closed home sale prices are down 1.14% from December 2008. The number of closed transactions in Nassau County increased 3.4% from the prior year.

Home sale prices are expected to decline throughout 2010 and into the third quarter of 2011. However, mortgage originations are expected to register positive growth throughout 2010 and 2011. Table 5 details these quarterly changes for the Nassau County housing market.

Table 5

Nassau County Housing Forecast By Quarter				
2010				
	Q1	Q2	Q3	Q4
New Mortgages	0.76%	0.40%	0.34%	0.59%
Med. Sale Price	-3.29%	-2.80%	-2.12%	-1.34%
2011				
	Q1	Q2	Q3	Q4
New Mortgages	1.14%	1.97%	3.06%	3.97%
Med. Sale Price	-0.65%	-0.14%	0.21%	0.50%

Source: Moody's Economy.com

The housing market is projected to make the slowest recovery. Mortgage originations are

⁴ Willis, Bob, "Job Openings in U.S. Fell by 156,000 in November", Bloomberg.com, January 12, 2010.

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forecast to make a complete recovery by 2012. However, home sale prices are not expected to reach their 2008 levels until 2019.

Tight credit standards, rising interest rates and an increase in the number of foreclosed properties nationwide are expected to dampen the housing market forecast.⁵

According to the Mortgage Bankers' Association, tight lending standards have significantly impacted both the residential housing and commercial real estate markets. The organization is expecting mortgage originations to decline 39% nationwide in 2010. Borrowers are expected to have high credit scores and large down payments.⁶

Foreclosure activity appears to be on a decline for Nassau County. This should positively impact the housing market forecast. According to PropertyShark.com, a real estate collection and dissemination firm, new foreclosures in Nassau County fell 62% in the third quarter 2009 from the third quarter 2008.

Commercial Real Estate

Industry experts consider the commercial market to be in worse shape than the residential market. To date, banks have been reluctant to foreclose as vacancy rates have risen and property values have declined. There is more supply than demand and that situation is expected to continue as long as companies shed jobs and consumers cut back on spending.⁷

According to Newmark Knight Frank, a global independent real estate service firm, Nassau's office vacancy rate was 11.2% at the end of

⁵ Christie, Les, "3 Reasons Home Prices are Heading Lower", [CNN/Money.com](#), January 1, 2010.

⁶ Guest, Greta, "Good Credit No Longer Guarantees Home Loan", [Freep.com](#), January 25, 2010.

⁷ Solnik, Claude, "Forecast 2010: Commercial RE", [Long Island Business News](#), December 15, 2009.

2009. That is higher than the 10.6% rate recorded at the end of 2008.⁸

Prices

As of December 2009, the regional, all-items index reveals that consumer prices fell .15% from the prior month and rose 2.32% from the prior year. Marginal, positive consumer price growth is expected for 2010 through 2012. Table 6 below details the 2010 through 2011 quarterly forecast for regional consumer prices.

Economists state that companies will have little success raising prices as a result of the high unemployment.⁹

Table 6

Regional Consumer Price Forecast By Quarter				
	Q1	Q2	Q3	Q4
2010	0.64%	0.44%	0.57%	0.50%
2011	0.61%	0.64%	0.74%	0.72%
2012	0.77%	0.69%	0.72%	0.72%

Source: Moody's Economy.com

Sales Tax Predictors

Looking forward, the National Retail Federation is expecting retail sales growth of 2.5% nationwide in 2010. Their forecast is based upon an improving housing market and increasing consumer confidence.¹⁰ It is important to monitor retail sales since historically they have constituted 57% of County sales tax collections.

Regional retail sales are not expected to be as robust. Table 7, on the following page, details Moody's Economy.com's forecast for Nassau County retail sales by quarter.

⁸ "LI Office Rents, Occupancy Lower in 2009", [Long Island Business News](#), January 21, 2010.

⁹ Homan, Timothy R., "Consumer Prices in U.S. Increased Less Than Forecast", [Bloomberg.com](#), January 15, 2009.

¹⁰ Grannis, Kathy, "NRF Forecasts 2.5% Increase in Retail Sales for 2010", [National Retail Federation](#), January 26, 2010.

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Table 7

Nassau Retail Sales Forecast By Quarter				
	Q1	Q2	Q3	Q4
2010	0.68%	1.03%	0.91%	0.64%
2011	0.57%	0.76%	1.18%	1.62%
2012	1.84%	1.85%	1.70%	1.49%

Source: Moody's Economy.com

In Nassau County, retail sales are expected to register positive growth from 2010 to 2012. By 2012, retail sales are expected to surpass their 2008 level.

Increasing consumer confidence is expected to positively impact Nassau County sales tax collections. Siena College's consumer confidence index showed that as of the fourth quarter 2009, current consumer confidence on Long Island was up 20.1% from the prior year. Moreover, future consumer confidence had increased 21.4%. Their survey of future buying plans had the following results:

Table 8

% of LI Residents Who Plan to Make A Major Purchase in the Next Six Months
13.80% Car or Truck
14.30% Computer
15.30% Furniture
12.30% Home Improvement
4.40% Home

Source: Siena College Research Institute

The auto industry, whose sales have historically represented 13% of County sales tax collections, is expecting sales growth of 10.6%. They cite pent up demand and continued improvements in the credit market as the basis for their forecast.¹¹

¹¹ Isidore, Chris, "Auto Industry Looks to Get Back in Gear", CNN/Money.com, January 4, 2010.

There are several negative forces in the economy that could significantly impact County sales tax collections.

A spike in the price of crude oil would put downward pressure on sales tax collections. New York State Energy Research and Development Authority figures show that for the week of January 11, 2010, fuel oil prices on Long Island have increased 13.7%. Industry experts opine that "Gas is going to continue to go higher because the commodity markets in general seem to be on the run right now". They state that oil could approach \$90 a barrel and that would push gas prices toward \$3 a gallon.¹²

Some economists believe that a spike in gas prices could lead to a noticeable change in consumer spending.¹³ When consumers make fewer trips to the mall there are less purchases made and a subsequent decline in sales tax collections occurs.

Tight credit markets are inhibiting households' ability to finance purchases and if the local credit markets don't loosen up, it will be challenging to record robust sales tax growth.

Since Long Island is home to a high concentration of upper income earners, it is important to monitor the market for jumbo loans. Conditions in this market are said to be worse than in the conventional market. Currently, 12% of U.S. mortgages with principal balances of a million or more were late during the fall of 2009. That is twice the rate for loans under \$250,000 and nearly triple the default rate on million dollar mortgages from the prior year. Currently, lenders are requiring

¹² La Monica, Paul R., "Uh-oh: The Return of \$3 Gas", CNN/Money.com, January 7, 2010.

¹³ Same as above.

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loan-to-value ratios of close to 60% on million dollar loans.¹⁴

Real wage growth is also an important indicator. In a weak economy, with high unemployment and stagnant or falling wages, individuals' lose purchasing power. This is what occurred in 2009. Inflation-adjusted weekly wages fell 1.6% in 2009 nationwide. This was the sharpest drop recorded since 1990.¹⁵ Households are expected to cut back on purchases as their spending power declines. This would negatively impact sales tax collections.

Current debt levels are high due to unemployment and prior purchases. Such high debt levels are seen as a reason for the current jump in consumer bankruptcies nationwide. Bankruptcies are expected to rise throughout 2010.¹⁶ High debt loads and increasing bankruptcies will place downward pressure on sales tax collections.

Lodging Industry

2009 was a difficult year for the local lodging industry. One area where households and businesses have been cutting back expenses is in the travel area. Long Island Convention and Visitor Bureau statistics reveal that on average throughout 2009, average room rental rates fell 5.1% while occupancy rates fell 9.9%. Since the Nassau County industry is heavily impacted by business travel, the local lodging industry should not experience robust growth until the employment market recovers.

¹⁴ Christie, Les, "\$8 Million in Assets – and Can't Get a Mortgage", CNN/Money.com, January 20, 2010.

¹⁵ Crutsinger, Martin, "Consumers are Squeezed as Inflation Outpaces Wages", SFGate.com, January 15, 2010.

¹⁶ Dickson, David M., "Soaring Rate of Bankruptcies Expected to Continue in 2010", The Washington Times, January 8, 2010.

Conclusion

The Nassau County economy is expected to slowly recover in 2010, with five of the forecast variables projected to register positive growth. Three of those variables, personal income, mortgage originations and consumer prices are expected to record growth rates above 1%.

However, it appears that it will take some time before Nassau's economic indicators reach their 2008 levels. This is detailed in Table 9.

Table 9

Nassau County Full Recovery Forecast Projected Year When 2008 Level is Attained	
	<u>Year</u>
Employment	2014
Mortgage Originations	2012
Retail Sales	2012
Non Farm Jobs	2013
Median Sale Price	2019

Source: Moody's Economy.com

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