

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. Howard Kopel, Chairperson Budget Review Committee  
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director  
Legislative Budget Review

A handwritten signature in blue ink, appearing to be "MC", next to the name Maurice Chalmers.

Date: April 18, 2013

Re: First Quarter 2013 Economic Report

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Attached is a copy of the Office of Legislative Budget Review's First Quarter 2013 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.



Nationally, the first quarter 2013 Gross Domestic Product (GDP) growth is strengthening relative to the previous quarter. This is even after the employee's share of social security taxes increased on January 1<sup>st</sup> and automatic government spending cuts went into effect on March 1<sup>st</sup>. The Congressional Budget Office (CBO) has estimated that the combination of tax increases and spending cuts could trim economic growth in 2013 by about 1.5%. The CBO is still predicting a 1.5% growth for 2013.<sup>1</sup>

For the first quarter of 2013 some analysts believe the economy is growing at a rate of roughly 2.5%. This national GDP prediction represents a sharp increase from the 0.4% rise in last year's fourth quarter. The faster pace of growth in GDP reflects several national upbeat indicators, such as decent gains in personal income, consumer spending, housing and business spending. Private sector payrolls also advanced at a moderately faster rate in January and February relative to trend in 2012.<sup>2</sup>

Based on Moody's Economic Forecast, the local economy appears to be moving in a positive direction although at a slow pace. Most of the surveyed economic variables are projected to record positive growth in 2013. Moody's

current economic forecast has Nassau's economy growing 1.5% in 2013, 2.4% in 2014, 3.9% in 2015, 3.3% in 2016 and 2.5% in 2017.

The local housing market appears to be recovering. New mortgages are expected to record double digit growth and median sale prices are also projected to rise. Higher sales volume coupled with higher sales prices is a very positive indicator for the market. Boosted home prices make homeowners feel wealthier which can lead to greater spending.

Table 1 details the Moody's Economy.com forecast for Nassau County.

**Table 1**

2013 to 2017 Nassau County Economic Forecast					
Forecast Annual Growth Rates*					
	2013	2014	2015	2016	2017
GDP	1.5%	2.4%	3.9%	3.3%	2.5%
Personal Income	3.0%	5.6%	6.4%	6.1%	4.6%
Employed	2.1%	0.5%	1.2%	0.9%	0.3%
Unemployed	-12.6%	-10.5%	-14.1%	-9.0%	-5.4%
Unemployment %	6.2%	5.5%	4.7%	4.3%	4.1%
Non Farm Jobs	1.6%	0.3%	2.2%	2.0%	1.2%
New Mortgages	21.3%	25.3%	9.3%	3.9%	8.2%
Mrt Refinances	-42.2%	-65.3%	-29.3%	21.6%	84.8%
Retail Sales	0.6%	2.8%	3.8%	3.2%	3.3%
Median Home Sale Price	4.2%	0.8%	1.3%	3.0%	4.0%
Regional CPI	2.5%	2.7%	2.9%	2.8%	2.7%

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

The rebuilding effort from Superstorm Sandy is forecast to contribute to the 2013 economic growth. As a result of the storm, residential construction contracts have doubled compared to this time last year. This trend is expected to continue as federal relief money flows into

<sup>1</sup> The Associated Press, "Economy Grows Despite Tax Rise and Spending Cuts," The New York Times, March 28, 2013.

<sup>2</sup> "Q1: 2013 US GDP Nowcast Update," The Capital Sector, April 8, 2013.

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Long Island.<sup>3</sup> The economic benefits from this influx of construction activity will be felt across the region in the coming year.

According to the current forecast, Nassau County personal income growth will exceed regional price growth in 2013. This will allow consumers to sustain their current level of spending. Finally, resident employment growth is forecast to be positive from 2013 through 2017. The 2013 non-farm job growth is projected to exceed the 1.0% mark indicative of healthy job growth.

For the remainder of the year, economic growth as measured by the Gross County Product is forecast to increase throughout 2013. Strong growth in mortgage originations, median home sale prices, and total personal income are supporting the projected positive year-end economic growth.

The following sections provide a detailed look at each forecast economic variable.

### 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 the Commerce Department, March 2013 national retail sales decreased 0.4% from the prior month but increased 2.8% above the previous year. The 0.4% decrease, the biggest drop since last June, followed a 1.0% gain in February. For the first quarter as a whole, consumer spending climbed at the fastest pace in two years. Moody's is currently forecasting positive retail sales growth. Since there was a decline in March, economists are forecasting a

pickup in hiring and higher wages to sustain future growth.<sup>4</sup>

For the quarter, robust, general merchandise store sales and discount stores, such as Walmart contributed to the overall retail sales increase. In January, new vehicle registrations rose by 11.5% as Long Islanders replaced thousands of cars destroyed by Superstorm Sandy. The Long Island Association also attributes the increase to more consumers replacing cars they held on to during the recession.<sup>5</sup> February however has seen a decrease.

According to Moody's April 2013 forecast, retail sales are expected to be positive from 2013 through 2017.

Table 2 details Moody's current forecast for Nassau County income, GCP and retail sales. All variables forecast are expected to register positive annual growth rates in all years surveyed.

**Table 2**

Nassau County Consumption Growth by Quarter				
2013				
	Q1	Q2	Q3	Q4
GCP	0.40%	0.43%	0.45%	0.48%
Retail Sales	0.07%	0.19%	0.38%	0.58%
Total Personal Income	0.57%	0.71%	0.99%	1.29%
2014				
	Q1	Q2	Q3	Q4
GCP	0.55%	0.66%	0.84%	0.99%
Retail Sales	0.73%	0.85%	0.94%	0.99%
Total Personal Income	1.47%	1.56%	1.59%	1.57%

Source: Moody's Economy.com

Siena Research Institute's most recent surveys of consumer confidence buying plans show more pessimism. In the first quarter of 2013, Long Island consumer confidence decreased both from a quarterly and an annual perspective. The consumer confidence for Nassau and Suffolk stood at 72.6 in the first quarter, down 1

<sup>3</sup> Winzelberg, David, "Sandy Sends NY-Area Construction Contracts Soaring," Long Island Business News, March 27, 2013.

<sup>4</sup> Kowlaski, Alex, "Retail Sales in U.S. Dropped in March by Most in Nine Months," Bloomberg, April 12, 2013.

<sup>5</sup> Incantalupo, Tom, "Report Shows 11.5% growth for LI Auto Dealers," Newsday, March 20, 2013.

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point from October-December 2012. The Island continues to be one of the regions where the number of people who are pessimistic about their financial well-being exceeds the number who are optimistic. Any reading below an index of 76 points indicates pessimists outnumber optimists.<sup>6</sup>

The pessimistic consumer confidence may be seen in a recent National Retail Federation survey, which reported that Americans celebrated Easter on budget, keeping costs and their shopping list in mind. The survey found that consumers spending on Easter remained flat when compared to last year.<sup>7</sup>

### **Labor Market**

According to the New York State Department of Labor, the Nassau County unemployment rate declined to 7.2% in February from 7.6% in January and dropped 0.1% compared to February 2012. Nassau's rate was the fourth lowest among counties in the state.<sup>8</sup> However, this decline has not been viewed by economists as a positive indicator since it has been attributed to people abandoning the job market.

Labor market conditions are expected to remain positive from 2013 through 2017. Moody's is forecasting a 2.1% increase in the number of employed residents in 2013. Nassau's unemployment rate is expected to continue to decline through 2017. The current forecast has the average annual County unemployment rate falling to 6.2% in 2013, 5.5% in 2014, 4.7% in 2015, 4.3% in 2016, and 4.1% in 2017.

Although the unemployment rate remains high from a historical perspective, it is positive that

<sup>6</sup> Madre, James T. "Long Island Consumers See More Dark Clouds," *Newsday*, April 10, 2013.

<sup>7</sup> Brown, Shari, "Easter Bunny Keeps Frugality in Mind This Year, According to NRF", *National Retail Federation*, March 18, 2013.

<sup>8</sup> Solnik, Claude, "Long Island Unemployment Rate Drops to 7.6%," *Newsday*, April 2, 2013.

the rate is expected to decline and eventually reach 4.1% on an average annualized basis by 2017. The current forecast may be viewed on a quarterly basis in Table 3.

**Table 3**

Nassau Labor Market By Quarter, 2013 and 2014				
2013				
	Q1	Q2	Q3	Q4
Total Employed	0.71%	0.60%	0.35%	0.09%
Total Unemployed	-4.70%	-5.07%	-4.15%	-2.67%
Average Unemployment %	-5.01%	-5.31%	-4.26%	-2.61%
2014				
	Q1	Q2	Q3	Q4
Total Employed	-0.04%	-0.03%	0.12%	0.29%
Total Unemployed	-1.80%	-1.81%	-2.71%	-3.85%
Average Unemployment %	-1.65%	-1.65%	-2.65%	-3.90%
<small>*Unemployment % Details Annual Average</small>				
<small>Source: Moody's Economy.com</small>				

Table 4 details on an annual basis the growth rates in Nassau County.

**Table 4**

Nassau Labor Market Projected Annual Growth Rates					
	2013	2014	2015	2016	2017
Total Employed	2.1%	0.5%	1.2%	0.9%	0.3%
Total Unemployed	-12.6%	-10.5%	-14.1%	-9.0%	-5.4%
Average Unemploy % Change	6.2%	5.5%	4.7%	4.3%	4.1%
<small>Source: Moody's Economy.com</small>					

The out-year forecast for Nassau's labor market reveals continued annual declines in resident unemployment coupled with positive growth in resident employment.

### **Non Farm Jobs**

According to NYS Department of Labor figures, total non-farm job growth for the Nassau-Suffolk region decreased 0.4% from the prior month and increased 1.3% from February 2012.

Based on these labor statistics, from an annual viewpoint, the strongest job growth occurred in the transportation section for couriers and messengers. Growth also occurred in financial activities, professional and business services,

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education and health as well as leisure and hospitality services sectors.

Although the job market has increased on an annual basis, Chief Economist Pearl Kramer of the Long Island Association considers the data worrisome because the gains show the strongest growth in lower paying sectors. Two of long island's lowest paying categories led job growth last month, the trade, transportation and utilities category and the private education and health services category.<sup>9</sup>

Nassau County is expected to generate positive total non-farm job growth from 2013 to 2017. As Tables 1 and 5 detail, Nassau is currently forecast to record five year growth of 7.2% through 2017.

Table 5 provides a detail of the growth forecast for eight sectors. The construction sector is projected to record the greatest job growth. Contributing to the forecast construction job growth is the rebuilding effort. Only the financial activities and government sectors are expected to register negative job growth in 2013.

**Table 5**

Nassau County Annual Job Growth By Sector, 2013 to 2017						
	2013	2014	2015	2016	2017	5 Yr.
Construction	16.7%	-9.6%	6.1%	4.6%	2.6%	20.4%
Education & Health	2.0%	2.9%	3.2%	2.8%	2.0%	12.8%
Financial Activities	-0.6%	-0.7%	2.0%	1.8%	0.7%	3.0%
Professional and Bus Services	2.1%	1.7%	3.6%	3.3%	2.1%	12.8%
Retail Trade	2.3%	-1.0%	0.2%	0.3%	-0.4%	1.4%
Government	-1.9%	-0.5%	0.8%	0.6%	0.4%	-0.5%
Leisure and Hospitality	3.5%	1.8%	2.5%	2.4%	1.7%	11.8%
High Tech	2.2%	1.8%	3.0%	2.8%	2.0%	11.8%
<b>Total Non-Farm Jobs</b>	<b>1.6%</b>	<b>0.3%</b>	<b>2.2%</b>	<b>2.0%</b>	<b>1.2%</b>	<b>7.2%</b>

<sup>9</sup> Mason-Draffen, Carrie, "State: February Job Growth Climbs On LI, But in Lower-Paying Sectors," *Newsday*, March 28, 2013.

All of the sectors except the financial activities and government are projected to record job growth in 2013.

### Housing

For the 1<sup>st</sup> Quarter of 2013, the recovery in the housing market continues on both the national and local levels. Nationwide, house hunters are encountering a competitive market. Strong demand is being met with a shortage of homes, holding sales down but driving prices higher. The shortage of homes is part of the reason why pending contract sales dipped slightly from January's three year high.<sup>10</sup> Climbing prices should spur more homeowners to put their houses on the market, especially those homeowners who see rising prices as an opportunity get out from being underwater on their mortgages.<sup>11</sup>

Current MLSLI figures for Nassau County send a mixed message about the market. Table 6 details the monthly and annual changes in Nassau home sales and prices.

Despite the poor monthly performance, the annual outlook indicates that the market is headed in a positive direction. Sales volume and median sales prices are up over this time last year at 1.6% and 2.2% respectively. The median sale price number, while positive, is deceiving. Growth in median sale price is being held down by a sluggish co-op market. While the residential and condo markets have seen strong gains, the median sale price for co-ops has dropped precipitously, from \$215,000 in February 2012 to \$186,000 this year.

<sup>10</sup> The Associated Press, "Signed Contracts to buy US Homes dip slightly," *Long Island Business News*, March 27, 2013.

<sup>11</sup> Christie, Len, "The home bidding wars are back," *CNNMoney*, April 4, 2013.

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**Table 6**

Nassau County Housing Actuals					
<b>2013 Current</b>					
	Feb-12	Jan-13	Feb-13	Mthly %	Yrly %
Closed Home Sales	580	651	589	-9.5%	1.6%
Median Sale Price	375,000	400,000	383,200	-4.2%	2.2%
<b>2013 Pending</b>					
	Feb-12	Jan-13	Feb-13	Mthly %	Yrly %
Contract Sales	729	738	832	12.7%	14.1%
Median Contract Price	386,000	380,000	385,500	1.4%	-0.1%
Source: Multiple Listing Service of Long Island, Zone Activity Report					

Traditionally, January and February are among the weakest months for sales in the housing market. Therefore, OLBR is hesitant to draw too firm a conclusion about the housing market.

MLSLI's pending contract figures are supposed to indicate market performance over the next six months. This February, where pending contract sales were down across the nation, Nassau saw 12.7% growth in volume as seen in Table 6.<sup>12</sup> Median contract price rose 1.4% in February. Compared to this time last year, contract sales are up 14.1% and median contract price is down -0.1% to \$385,000. On the whole, these developments in the pending contract segment of the housing market are positive indicators that the recovery will continue in Nassau's housing market in 2013.

From a quarterly perspective, Moody's current forecast may be viewed in Table 7. This table details the projected quarterly changes for the Nassau County housing market in terms of new mortgages, mortgage refinancing and median home sale prices in 2013 and 2014.

<sup>12</sup> The Associated Press, "Signed Contracts to buy US Homes dip slightly," Long Island Business News, March 27, 2013.

**Table 7**

Nassau County Housing Forecast by Quarter				
<b>2013</b>				
	Q1	Q2	Q3	Q4
New Mortgages	6.26%	7.37%	7.51%	6.99%
Refinances	-14.90%	-19.76%	-23.14%	-24.79%
Median Sale Price	1.14%	0.89%	0.56%	0.24%
<b>2014</b>				
	Q1	Q2	Q3	Q4
New Mortgages	6.08%	5.06%	3.97%	2.91%
Refinances	-25.27%	-24.21%	-20.27%	-12.66%
Median Sale Price	0.05%	0.00%	0.07%	0.21%
Source: Moody's Economy.com				

Refinances remain down throughout 2013 and 2014 for a number of reasons. Among these reasons are the reality that many homeowners continue to have negative equity in their homes and the fact that mortgage interest rates have been low for an extended period of time. New mortgages and median sales prices are expected to record positive growth throughout 2013 and 2014. However, the positive growth rates are expected to vary.

Moody's is forecasting tremendous annual growth in new mortgage originations and a steady climb in median sales prices in 2013. Pending contract sales data provided by MLSLI lends credence to Moody's forecast.

If the market rebounds in the manner that the Moody's forecast and the MLSLI data indicates, more sales and higher median sale prices will set off a chain of events that will result in positive economic effects to Nassau County. Some of those homeowners underwater will finally be able to sell their homes, which will also help to satiate demand in the housing market. Homeowners on sounder footing will feel wealthier as the equity in their homes appreciates with the market. These homeowners could opt to take advantage of this equity to undertake any number of economic activities, including acting on the buying plans

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described in Table 9 on the next page (i.e. home improvements and furniture purchases).

## Prices

As of February 2013, the US Bureau of Labor Statistic's regional, all-items index reveals that consumer prices have increased 0.6% from a monthly and increased 2.4% from an annual perspective. Contributing to the annual consumer price increase is higher prices for gasoline and other items including shelter and apparel. The 12 month increase was driven by higher prices for shelter.<sup>13</sup>

Increased consumer price is expected from 2013 through 2017. The quarterly forecast for regional consumer prices from 2013 through 2017 is shown in Table 8. The annual growth rates may be seen on Table 1.

**Table 8**

Regional Consumer Price Forecast by Quarter				
	Q1	Q2	Q3	Q4
2013	0.74%	0.28%	0.38%	0.84%
2014	0.64%	0.67%	0.70%	0.74%
2015	0.72%	0.74%	0.70%	0.71%
2016	0.70%	0.71%	0.68%	0.66%
2017	0.66%	0.66%	0.66%	0.67%

Source: Moody's Economy.com

## Sales Tax Predictors

As detailed previously in the Consumption section, although retail sales for March declined 0.4% for the month, the first quarter 2013 spending grew at the fastest pace in two years. It is important to monitor retail sales since historically, they have constituted 54% of County sales tax collections.

Looking forward, Nassau retail sales are now expected to grow. These annual sales forecast may be seen in Table 1.

<sup>13</sup> Consumer Price Index, New York-Northern New Jersey-February 2013, US Bureau of Labor Statistics, February 2013.

Table 9 details the future buyer intentions of Long Island residents. The data was obtained from Siena College Research Institute's quarterly consumer confidence survey. Currently, 68.8% of Long Island residents plan to make a large purchase over the next six months. That is down from January 2013's 76.1% and April 2012's 70.3%.

**Table 9**

% of LI Residents Who Plan to Make a Major Purchase in the Next Six Months			
	1Q12	4Q12	1Q13
Car or Truck	12.7%	12.5%	12.7%
Computer	16.8%	18.2%	14.4%
Furniture	20.4%	23.2%	23.2%
Home	3.1%	3.1%	3.1%
Home Improvement	17.3%	19.1%	15.4%
<b>Buying %</b>	<b>70.3%</b>	<b>76.1%</b>	<b>68.8%</b>

Source: Siena College Research Institute

## Lodging Industry

Hurricane Sandy had a significant impact on Nassau's lodging industry. From an annual vantage point, occupancy rates at hotels and motels increased 19.3 percentage points in February 2013. Average rental rates rose 14.5%. Individuals whose homes are uninhabitable have been living in Nassau's hotels and motels.<sup>14</sup> Looking forward, OLBR anticipates these rates to fall as people move back to their homes and Federal Emergency Management Agency (FEMA) subsidies cease. These trends are positive for both Nassau County Hotel/Motel tax collections and sales tax collections.

## Conclusion

Both the national and local economies appear to be making positive strides. GDP is projected to expand in 2013. During this period, Nassau's consumers should keep ahead of price inflation, as personal income is projected to outpace the regional consumer price index. The local

<sup>14</sup> Madore, James T., "Experts: Sandy Derailed LI Recovery," Newsday, January 25, 2013.

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housing market appears to be recovering, as new mortgages are expected to record double digit growth and median sale prices are also projected to rise.

Despite the promising news, the recovery still faces challenges. Consumer confidence is down and Long Island continues to be one of the regions where the number of people who are pessimistic about their financial well-being exceeds the number who are optimistic. This sentiment was manifested in the flat spending over the Easter holiday and a drop of 7.3 percentage points in Long Islanders' buying plans overall.

*Prepared by:*  
*Helen M. Carlson / Deputy Director*  
*Tyler Barbieri / Legislative Budget Analyst*  
*Deirdre K. Calley / Economist*  
*Office of Legislative Budget Review*