

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

From: Maurice Chalmers, Director  
Office of Legislative Budget Review

Date: April 25, 2014

Re: First Quarter 2014 Economic Report

Attached is a copy of the Office of Legislative Budget Review's first quarter 2014 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.



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## OFFICE OF LEGISLATIVE BUDGET REVIEW

### The Regional and National Economic and Fiscal Forecast for 2014 to 2018

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First Quarter 2014

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Nationally, 2013 Gross Domestic Product (GDP) third and final estimate figures show the economy grew 1.9% for the full 2013 year with fourth quarter growth at 2.6%. Fourth quarter growth slowed from the more robust third quarter 4.1%. The decline largely reflects a steep decline in gross private inventory investment. The biggest part of the economy, consumer spending, grew at a 3.3% in the fourth quarter, which was the strongest quarter to quarter growth since the fourth quarter of 2010.<sup>1</sup> The growth in consumer spending was driven by increased expenditures on health care and utilities from the colder winter which left “less to spend on a variety of consumer goods and services whose sales are indicative of a healthier economy.”<sup>2</sup> Economists are mixed as to whether 2014 will bring notable growth given the slowdown in the later part of 2013.

Based on Moody’s Analytics Forecast, the local economy appears to be moving in a positive direction along with the nation. Moody’s forecast has Nassau’s Gross County Product growing 2.3% in 2014, 3.7% in 2015, 2.7% in 2016, 1.8% in 2017, and 1.5% in 2018. It also forecasts growth in other economic indicators such as personal income, employment, retail

sales and median home sale price. The one exception is mortgage refinances.

The local housing market recovery appears to have slowed over the winter due in part to the severe weather from freezing temperatures and multiple snowstorms. Activity was down in the first quarter, however, the upcoming spring buying season performance will be a more helpful tool to forecast the annual expected performance.

Moody’s forecast reflects new mortgages to record double digit growth and median sale prices to rise in 2014. Higher sales volume coupled with increasing sale prices should be a positive indicator for the market. However recent activity, when February is compared to March, saw both home sale prices and closed homes decline.

Table 1 on the following page details the Moody’s Economy.com forecast for Nassau County.

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<sup>1</sup>U.S. Bureau of Economic Analysis “Gross Domestic Product: Fourth Quarter and Annual 2013 (Third Estimate) Corporate Profits: Fourth Quarter and Annual 2013.” News Release March 2014.

<sup>2</sup>Bartash, Jeffry, “U.S. fourth quarter GDP nudged up to 2.6%.” [Marketwatch](#). March 27, 2014.

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**Table 1**

2014 to 2018 Nassau County Economic Forecast Forecast Annual Growth Rates*					
	2014	2015	2016	2017	2018
GCP	2.3%	3.7%	2.7%	1.8%	1.5%
Personal Income	4.3%	6.7%	6.1%	4.5%	3.8%
Employed	1.7%	3.2%	2.6%	1.0%	0.0%
Unemployed	-14.9%	-5.3%	-1.1%	-1.3%	-0.1%
Unemployment %	5.1%	4.7%	4.5%	4.4%	4.4%
Non Farm Jobs	0.8%	1.8%	1.4%	0.6%	0.1%
New Mortgages	26.0%	16.6%	-1.5%	1.7%	13.1%
Mrt Refinances	-63.4%	-32.6%	-15.8%	35.6%	40.3%
Retail Sales	3.6%	4.8%	2.7%	2.8%	2.8%
Median Home Sale Price	3.2%	4.0%	2.2%	2.2%	2.1%
Regional CPI	2.1%	2.7%	2.9%	3.1%	2.9%

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

According to the current forecast, Nassau County personal income growth continues to exceed regional price growth in 2014. This will allow consumers to sustain their current level of spending. The forecasted growth, however, was revised down to 4.3% in 2014 from the previous quarter estimate of 6.0% along with retail sales growth (3.6% in 2014 from 4.5%). Resident employment growth is forecast to be positive from 2014 through 2017 with 2018 flat. The 2014 non-farm job growth is projected grow at 0.8%, which is slower than the January forecast of 1.6%.

For the remainder of the year, economic growth as measured by the Gross County Product (GCP) is forecast to pick-up speed as the year progresses. Strong growth in mortgage originations, median home sale prices, and personal income are supporting the projected positive economic growth. This will have to be followed closely as the most recent Siena College Research Institute poll indicates that New Yorkers' may have diminished expectations for 2014. The following sections provide a detailed look at each forecasted economic variable.

## 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.

According to the Commerce Department, March 2014 national retail sales increased 1.1% from the prior month. Compared to the same month the previous year, sales increased 3.8%.<sup>4</sup> The growth was largely driven by automotive sales. March results are better than the previous two months which experienced growth of 0.7% in February and negative growth of -0.7% in January, month to month. Excluding auto sales, March month to month growth was a smaller 0.7%. It is believed that the particularly cold winter may have contributed to the lower sales activity as “consumers were burdened by unexpected heating costs and holiday debt, and were daunted by a series of storms.”<sup>5</sup> Credit Suisse analyst wrote that “we are inclined to view March strength as part of a normalization from a very weak winter, particularly December and January.”<sup>6</sup>

Although nationally, retail growth may be showing signs of recovery, Long Island does not appear to have benefited fully from this trend. As discussed in the sales tax section, sales tax receipts are likely to show collection weakness in the first quarter when compared to the previous year. This may indicate a weaker consumption environment for the region when compared to the nation as the first quarter 2013 profited a great deal from Superstorm Sandy recovery efforts.

According to Moody's Analytics April 2014 forecast, retail sales are expected to be positive

<sup>4</sup> US Census Bureau News. “Advance Monthly Sales For Retail and Food Services March 2014.”

<sup>5</sup> Hsu, Tiffany, “Surging Retail Signals an Economy on the Upswing.” *Los Angeles Times*. April 14, 2014.

<sup>6</sup> Ibid.

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through 2015 although the pace of growth will moderate. Table 2 details Moody’s current forecast for Nassau County income, GCP and retail sales. All variables forecast are expected to register positive growth rates in 2014 and 2015.

**Table 2**

Nassau County Consumption Growth by Quarter				
2014				
	Q1	Q2	Q3	Q4
GCP	0.53%	0.66%	0.82%	0.96%
Retail Sales	0.56%	0.62%	0.96%	1.32%
Total Personal Income	1.03%	1.23%	1.46%	1.65%
2015				
	Q1	Q2	Q3	Q4
GCP	1.00%	0.96%	0.87%	0.74%
Retail Sales	1.43%	1.32%	1.03%	0.69%
Total Personal Income	1.73%	1.74%	1.70%	1.61%

Source: Moody's Economy.com

According to the most recent Sienna Research Institute’s Consumer Sentiment Report, March “consumer sentiment fell for the second consecutive month in New York as resident endured storms, cold temperatures and those related heating bills.”<sup>7</sup> The poll showed overall consumer sentiment across the nation decreasing 1.6 points, despite retail sales growth reported by the U.S. Commerce Department. New York overall consumer sentiment decreased 2.4 points in March. Lonnstrom notes that “nationally, consumers took a step back this month as well. While the overall and current indices are higher nationally than in New York, here at home, we continue to be more optimistic about the future than is the nationwide sample.”<sup>8</sup> The overall sentiment reading includes both the current and future sentiment readings.

<sup>7</sup> Lonnstrom, Douglas, “Long Hard Winter Takes Toll; Sentiment Down for 2<sup>nd</sup> Month in a Row.” Sienna Research Institute. April 2, 2014.

<sup>8</sup> Ibid.

### Labor Market

The nation’s unemployment rate remained unchanged at 6.7% in March. During the month, the average number of unemployment applications filed dropped to the lowest level in almost seven years.<sup>9</sup> Since applications are a proxy for layoffs, the decrease suggests that employers expect stronger economic growth in the coming months and are holding onto their workers.<sup>10</sup>

The Long Island unemployment rate decreased to 5.7% in March from 6.2% in February and 6.6% in the prior year. Eventhough, the rate dropped below 6.0%, the year over year 0.9% point decline is the smallest drop that occurred in months.<sup>11</sup> The moderating drop has been attributed to weaker job growth reports for the month.

As reflected in Table 3, the labor market conditions for the employed are expected to remain positive through 2017. Moody’s is forecasting a 1.7% increase in the number of employed residents in 2014. Nassau’s unemployment rate is expected to continue to decline through 2018. The current forecast has the average annual County unemployment rate falling to 4.7% in 2015, 4.5% in 2016, 4.4% in 2017 and 4.4% in 2018.

**Table 3**

Nassau Labor Market Projected Annual Growth Rates					
	2014	2015	2016	2017	2018
Total Employed	1.7%	3.2%	2.6%	1.0%	0.0%
Total Unemployed	-14.9%	-5.3%	-1.1%	-1.3%	-0.1%
Average Unemploy %	5.1%	4.7%	4.5%	4.4%	4.4%

Source: Moody's Economy.com

The out-year forecast for Nassau’s labor market reflects continued annual declines in resident unemployment coupled with positive growth in

<sup>9</sup> The Associated Press. “Unemployment Applications dip 32,000.” The Long Island Business News. April 10, 2014.

<sup>10</sup> Ibid.

<sup>11</sup> Mason-Draffen, Carrie, “LI Jobless Rate drops to 5.7% in March, state reports,” Newsday, April 22, 2014.

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resident employment. Table 4 details the quarterly rates for 2014 and 2015 in Nassau County.

**Table 4**

Nassau Labor Market By Quarter, 2014 and 2015				
Forecast Quarterly Growth Rates*				
2014				
	Q1	Q2	Q3	Q4
Total Employed	0.33%	0.41%	0.59%	0.77%
Total Unemployed	-3.97%	-3.19%	-2.48%	-1.79%
Average Unemployment %	-4.05%	-3.39%	-2.87%	-2.40%
2015				
	Q1	Q2	Q3	Q4
Total Employed	0.87%	0.89%	0.85%	0.76%
Total Unemployed	-1.18%	-0.73%	-0.42%	-0.24%
Average Unemployment %	-1.94%	-1.54%	-1.22%	-0.95%
*Unemployment % Details Annual Average				
Source: Moody's Economy.com				

### **Non-Farm Jobs**

Nationally, U.S. employers added 192,000 jobs in March, slightly below February's total of 197,000.<sup>13</sup> This is an improvement from the December and January readings that were negatively impacted from snowstorms and freezing temperatures. March's national employment figure is a good sign that the economy is rebounding from the downturn brought on by the harsh and cold winter.

Another positive indicator for the nation's employment industry is the increase in the number of U.S. posted job openings. The number of job openings is up 2.9% to 4.2 million in February compared to the previous month and is a sign that hiring will likely improve in the months ahead.<sup>14</sup>

Regionally, the job market is posting gains but at a sluggish pace for the first quarter of 2014. According to the New York State Department of Labor figures, the total non-farm job growth for the Nassau-Suffolk region increased by 1.0% in March from the prior month and 0.8% from the prior year.<sup>15</sup>

Long Island added only 10,600 more jobs in March than it had a year earlier, which represents the smallest monthly employment gain over the past year.<sup>16</sup> This compares to 13,600 posted in February and 17,500 in January, the fastest growing month in 2014.

The slowdown provides evidence of a slowing job market on the Island. The decelerating job gains can be attributed to comparing job data from 2013 which is boosted by post Super storm Sandy rebuilding. As mentioned previously, the freezing temperatures and multiple snowstorms on the Island had a negative impact on the job growth.

The strongest job growth continues to occur in the lower-wage paying job sectors. The Trade, Transportation, and Utilities led the year over year jobs increases with 7,700 new jobs, followed by Education and Health Services with 5,700 jobs, and Leisure and Hospitality with 1,600 jobs.

Meanwhile, the government sector posted the biggest decline with 3,500 job losses, which is primarily related to public school layoffs.<sup>17</sup> The Professional and Business Services sector experienced 1,300 job losses, followed by the Financial Activities sector with 900 and the

<sup>13</sup> The Associated Press. "U.S. Employers add 192,000 Jobs, Rate Stays at 6.7%. The Long Island Business News. April 4, 2014.

<sup>14</sup> The Associated Press. "U.S. Employers Advertised More Open Jobs in February. Long Island Business News. April 8, 2014.

<sup>15</sup> Current Employment Statistic by Industry, Data for Nassau-Suffolk, NY Metropolitan Division, New York State Department of Labor, March 2014.

<sup>16</sup> Mason-Draffen, Carrie, "Long Island Job Creation Slowest in a Year." Newsday, April 17, 2014.

<sup>17</sup> Ibid.

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Natural Resources, Mining and Construction sector with 200 losses.

The construction industry is in danger of not having enough people to keep up with demand for building projects as workers age and more teens are pushed to go to college. There is continued concern regarding the potential shortage of skilled workers as an increasing number of contractors say they are having difficulty hiring more experienced workers. According to a recent survey conducted by The Associated General Contractors (AGC) of America, two-thirds of 800 surveyed construction firms report that they are having a hard time finding qualified workers to fill key positions, such as Project Managers, Supervisor positions and Equipment Operators.<sup>18</sup>

Nassau County is expected to generate positive total non-farm job growth from 2014 to 2018. As Table 5 details, Nassau is currently forecast to record five year growth of 4.7% through 2018. Table 5 provides a detail of the growth forecast for eight sectors. The Education and Health, the Construction and the Technology sectors are projecting the strong out-year growth. Meanwhile, the Government sector is expected to generate annual declines form 2014 through 2018 and the Retail Trade sector is expected to register negative job growth in 2017 and 2018.

**Table 5**

Nassau County Annual Job Growth By Sector, 2014 to 2018						
	2014	2015	2016	2017	2018	5 Yr.
Construction	1.7%	5.8%	3.1%	0.7%	0.1%	11.4%
Education & Health	4.4%	2.7%	2.6%	1.7%	1.0%	12.4%
Financial Activities	-2.2%	1.3%	1.7%	0.6%	-0.5%	0.8%
Professional and Bus Services	-0.2%	2.6%	2.0%	1.1%	0.1%	5.7%
Retail Trade	-0.2%	1.3%	0.2%	-1.0%	-0.7%	-0.3%
Government	-2.4%	-0.8%	-1.2%	-0.7%	-0.5%	-5.6%
Leisure and Hospitality	2.4%	2.1%	2.1%	1.6%	0.6%	8.8%
High Tech	0.7%	3.2%	3.3%	2.3%	1.4%	10.9%
<b>Total Non-Farm Jobs</b>	<b>0.8%</b>	<b>1.8%</b>	<b>1.4%</b>	<b>0.6%</b>	<b>0.1%</b>	<b>4.7%</b>

## Housing

Over the past two years, the national and local housing markets have exhibited a number of encouraging indicators. Last year, for example, the convergence of job growth, record low mortgage interest rates, and large pent up demand contributed to a rise in sales volume and home prices.<sup>19</sup> But, as OLBR cautioned in the *Fourth Quarter 2013 Economic Report and Preliminary 2014 Economic Forecast*, both markets have the potential to experience a backslide in 2014. The National Association of Realtors, Moody's Analytics, and the Multiple Listing Service of Long Island (MLSLI) have reported several measures that could indicate a potential negative downturn in both the national and local housing markets. For example, the pace of existing home sales nationwide dropped in February to the lowest rate since July 2012<sup>20</sup>. Pending home sales across the country were down in February for the eighth consecutive month.<sup>21</sup> Industry experts cite extreme weather,

<sup>19</sup> Walter Molony, "December Existing Home Sales Rise, 2013 Strongest in Seven Years", National Association of Realtors, January 23, 2014.

<sup>20</sup> Walter Molony, "February Existing Home Sales Remain Subdued," National Association of Realtors, March 20, 2014.

<sup>21</sup> Walter Molony, "February Pending Home Sales Continue Slide," National Association of Realtors, March 27, 2014.

<sup>18</sup> "Optimism Returns, The 2014 Construction Hiring and Business Outlook." January 2014. The Associated General Contractors of America.

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rising mortgage interest rates, tight inventory, and stagnant wage growth among the causes for the housing market’s sluggish performance in the First Quarter<sup>22</sup>.

However, OLBR is hesitant to draw too firm a conclusion about the state of the housing market based on First Quarter results. January and February are traditionally among the weakest months for sales in the housing market. Analysts often attribute this slowdown to winter weather and the aversion many families have to making a move during the school year<sup>23</sup>. On Long Island, real estate brokers report a downturn in buyer activity resulting from the severe weather this winter.<sup>24</sup> The spring buying season will help to determine whether or not the First Quarter represents a true setback to the housing market.

Table 6.0 details the monthly and annual changes in Nassau home sales and prices.

**Table 6**

Nassau County Housing Actuals					
2014 Current	Mar-13	Feb-14	Mar-14	Mthly %	Yrly %
Closed Home Sales	665	628	587	-6.5%	-11.7%
Median Sale Price	380,000	395,500	387,000	-2.1%	1.8%
2014 Pending	Mar-13	Feb-14	Mar-14	Mthly %	Yrly %
Contract Sales	1,022	663	938	41.5%	-8.2%
Median Contract Price	405,000	400,000	410,000	2.5%	1.2%
Source: Multiple Listing Service of Long Island, Zone Activity Report					

On a month-to-month basis, closed home sales fell 6.5%, from 628 homes closed in February to

<sup>22</sup> Lorraine Woellert and Jeanna Smialek, “Builders in U.S. Begin Work on Fewer Homes than Forecast,” Bloomberg, April 16, 2014.

<sup>23</sup> Josh Boak, “New Home Sales in February Hit Slowest Pace in Five Months,” The Associated Press: The Big Story, March 25, 2014.

<sup>24</sup> David Winzelberg, “Long Island Home Sales Plunge in February,” Long Island Business News, March 11, 2014.

587 closed in March. Median sales prices declined 2.1% during this time. From an annual perspective, closed home sales fell 11.7% from 665 homes closed last March to 587 closed during the month. Median sale prices increased 1.8% over the course of the last year.

MLSLI’s pending contract figures are supposed to indicate market performance over the next six months. Pending sales rose 41.5% from 663 contracts signed in February 2014 to 938 in March 2014. Median contract sales prices climbed 2.5% in March. On an annual basis, contract sales declined 8.2% from 1,022 contracts signed in March 2013 to 938 last month. Median contract prices climbed 1.2% during this time.

MLSLI attributes the tepid First Quarter performance to severe winter weather and a shortage of homes on the market in December, January, and February. MLSLI anticipates an active spring buying season.<sup>25</sup> Overall, closed home sales grew 3.1% during the First Quarter compared to the same time last year. Pending home sales fell 12.6%, from 2,538 contracts signed during the First Quarter 2013 to 2,219 contracts in the First Quarter of this year.

The pending sale figures also supports Moody’s forecast for strong growth in mortgage originations and a steady rise in median sale prices in 2014.

Table 7.0 details the projected quarterly changes for the Nassau County housing market in terms of new mortgages, mortgage refinancing, and median home sale prices in 2014 and 2015.

<sup>25</sup> Tricia Chirco, “Nassau County Market Updates March 2014”, Multiple Listing Service of Long Island, April 8, 2014.

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**Table 7**

Nassau County Housing Forecast by Quarter				
2014				
	Q1	Q2	Q3	Q4
New Mortgages	4.08%	3.53%	4.39%	5.28%
Refinances	-27.05%	-33.43%	-32.64%	-17.32%
Median Sale Price	0.73%	0.84%	1.01%	1.13%
2015				
	Q1	Q2	Q3	Q4
New Mortgages	5.01%	3.80%	1.89%	-0.04%
Refinances	3.07%	11.04%	4.70%	-4.65%
Median Sale Price	1.12%	1.00%	0.79%	0.57%

Source: Moody's Economy.com

New mortgage originations are forecasted to grow steadily in 2014 and through the third quarter of 2015. Originations begin to taper off over the latter half of next year.

Mortgage interest rates remain near historic lows.<sup>26</sup> Refinances continue their precipitous decline in 2014. Moody's expects this trend to reverse starting in the First Quarter of 2015. These are good forecasts to monitor since the County Clerk collects mortgage recording tax fees on new and refinanced mortgages.

Median sales prices are expected to exhibit slight growth in all quarters surveyed. Price growth may have been greater, if not for the coming influx of foreclosures onto the auction market in New York State. More foreclosed homes are expected to hit the market in New York State over the next year or so as the Court system winds through its backlog of filings. The State's lengthy foreclosure process is cited as one of the reasons why prices grew only 3.7% in the Fourth Quarter of 2013, compared to 7.7% in the rest of the country.<sup>27</sup>

Another explanation for New York's suppressed price growth is the limited role that investors play in the local market. Normally, institutional

<sup>26</sup> Lorraine Woellert and Jeanna Smialek, "Builders in U.S. Begin Work on Fewer Homes than Forecast," *Bloomberg*, April 16, 2014.

<sup>27</sup> Prashant Gopal, "Foreclosures Surging in New York-New Jersey Market," *Bloomberg*, February 26, 2014.

investors (those investors buying 10 or more homes per year) satiate the added supply generated by an increase in foreclosure auctions. However, investors tend to avoid Long Island's housing market due to its high labor, material, home price, and property tax costs, as well as the region's strict rental guidelines. From 2011 to 2013, institutional investors accounted for 6.1% of all homes purchased across the country. During this same time, 0.9% of all home purchases in Nassau were made by institutional investors.<sup>28</sup> These investment barriers are unlikely to change on Long Island, therefore Nassau's housing market will have to be revitalized by individual buyers.

Not only do individual buyers in Nassau bear high cost (i.e. price, materials, labor, taxes) but they are also confronted with the following obstacles that transcend geography: rising mortgage interest rates, stringent credit requirements, and stagnant wage growth.<sup>29</sup> Despite these hurdles, Siena College's *Real Estate Sentiment Report* released in April shows that New Yorkers, especially suburban and upstate residents, see the present as a "solid and secure" time to be in the real estate market<sup>30</sup>. Hopefully, now that the negative effects of the cold winter has gone, this sentiment will be reflected in the spring buying season and transition into a positive year for Nassau's housing market.

### Prices

The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households. As of March 2014, the US Bureau of Labor Statistic's

<sup>28</sup> Maura McDermott, "LI Home Prices Dissuading Investors," *Newsday*, March 5, 2014.

<sup>29</sup> Lorraine Woellert and Jeanna Smialek, "Builders in U.S. Begin Work on Fewer Homes than Forecast," *Bloomberg*, April 16, 2014.

<sup>30</sup> Dr. Don Levy, "New York State Consumer Real Estate Sentiment Scores", Siena College Research Institute, April 17, 2014.

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regional, all-items index for the Northern New Jersey-Long Island region reflects that consumer prices have increased 0.4% from a monthly and 1.3% from an annual perspective. The small monthly increase is due to a rise in prices for energy, food and other items including apparel and housing.<sup>31</sup>

Increased consumer prices are expected from 2014 through 2018. The quarterly forecast for regional consumer prices from 2014 through 2018 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
<b>2014</b>	0.62%	0.70%	0.63%	0.63%
<b>2015</b>	0.66%	0.67%	0.68%	0.70%
<b>2016</b>	0.71%	0.73%	0.76%	0.76%
<b>2017</b>	0.77%	0.75%	0.74%	0.74%
<b>2018</b>	0.73%	0.71%	0.71%	0.70%

Source: Moody's Economy.com

### **Sales Tax Predictors**

Sales tax revenue accounts for approximately 42% of the County’s five major funds revenue budget, making it an important trend to monitor and forecast. Common predictors that help forecast sales tax growth are personal income, consumer price index, and employment levels. Another key statistic to follow is Retail sales performance as they have historically constituted 54.5% of County sales tax collections.<sup>32</sup> Many indicators suggest that the County will experience economic growth in 2014, which translates into sales tax revenue

<sup>31</sup> “Area prices up 0.4% over the month and 1.3% over the year.” Consumer Price Index, New York-Northern New Jersey-March 2014, March 2014 Issue

<sup>32</sup> New York State Department of Taxation and Finance. “Taxable Sales and Purchases County and Industry Data for March 2010 – February 2011.” August 2012.

growth. However, actual year-to-date collections are down in the County.

National retail spending advance estimates show growth in March following weak performance in the previous three months.<sup>33</sup> The harsh winter weather likely inhibited retail sales activity in the early part of 2014. The Bureau of Labor Statistics March report showed 192,000 net new jobs were created while the unemployment rate remained unchanged at 6.7% nationally.<sup>34</sup> Although employment levels have not improved significantly, the Chief Financial Economist at Bank of Tokyo-Mitsubishi UFJ, Chris Rupkey, believes that “this is not a fragile economy. The linchpin of economic growth, the consumer is back and with the consumer’s help, growth will be even faster in 2014.”<sup>35</sup>

On a more local level, Moody’s Analytics forecasts all three of the previously mentioned indicators for sales tax will improve, or at least remain flat, over the next five years. However, the most recent Siena Research Institute (Siena) Consumer Sentiment Survey indicates that overall consumer sentiment across the State declined 2.4 points in March of 2014 when compared to the previous month (the nation saw a 1.6 point decline).<sup>36</sup> Currently, 88.5% of New York State residents plan to make a large purchase over the next six months. That is up from 78.4% the previous month. Table 9 details the intentions of Long Island residents to make large purchases over the next six months, as presented by Siena Research Institute. Consumer electronics and major home

<sup>33</sup> US Census Bureau News. “Advance Monthly Sales For Retail and Food Services March 2014.”

<sup>34</sup> Bureau of Labor Statistics, U.S. Department of Labor. “The Employment Situation.” March 2014.

<sup>35</sup> Reuters. “Bullish U.S. retail sales brighten growth outlook.” Reuters.com. April 14, 2014.

<sup>36</sup> Lonnstrom, Dr. Douglas, “Long Hard Winter Takes Toll; Sentiment Down for 2<sup>nd</sup> Month in a Row.” Siena Research Institute. April 2, 2014.

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improvement plans experienced the largest growth with 4.5 point increase followed by furniture (3.6 point increase). However, plans to purchase a care and home both declined (2.4 points and 0.1 points, respectively).

**Table 9**

% of NY Residents Who Plan to Make a Major Purchase in the Next Six Months		
	Feb-14	Mar-14
Car or Truck	14.1%	11.7%
Consumer Electronics	28.6%	33.1%
Furniture	18.3%	21.9%
Home	3.9%	3.8%
Home Improvement	13.5%	18.0%
<b>Buying %</b>	<b>78.4%</b>	<b>88.5%</b>
Source: Siena College Research Institute		

The leading indicators may be optimistic but year-to-date sales tax revenue performance has not been positive. The County's year-to-date distribution from New York State is down 14.8% when compared to the same period in 2013. Nassau County is not alone however, NYSAC reports that "sales tax revenues have largely stagnated across much the state over the past six months. Counties have seen virtually no growth in their sales tax receipts compared to the prior year. In fact, 27 counties in both the last quarter of 2013 and the first quarter of 2014 saw sales tax collections drop compared to the same period in the prior year."<sup>37</sup> Leading drivers for the decline are likely that Fiscal 2013 was an artificially high collection year as it captured the rebuilding efforts from Superstorm Sandy and the harsh winter weather of the last several months depressed buying.

### **Lodging Industry**

In the *Fourth Quarter 2013 Economic Report and Preliminary 2014 Economic Forecast*, OLBR cited Long Island Convention &

<sup>37</sup> New York State Association of Counties. April 16, 2014. Sales Tax Revenues Continue to Lag, Press Release.

Visitors' Bureau (LICVB) statistics that demonstrated significant annual declines in occupancy and average rental rates. For example, December occupancy rates dropped 22.3% from the previous year. As time continues to pass, the distortive effect of Hurricane Sandy's on Nassau's lodging industry is waning.

According to LICVB statistics, the average occupancy rate in February 2014 stood at 66.9%, a 12.3% decline from the same month in 2013. Average rental rates during this time declined \$7.07 from \$140.80 in February 2013 to \$133.73 in February 2014. This March, the average occupancy rate stood at 71.4%, an 8.7% decline from the rate in March 2013. Average rental rates during this time declined \$0.87 from \$136.58 in March 2013 to \$135.71 last month. As occupancy levels and rental rates normalize from the peak level experienced after Sandy, OLBR expects hotel/motel tax collections to decline correspondingly. The FY 14 Adopted Budget for Nassau County's hotel/motel tax collections is \$3.8 million, a decrease of about \$1.2 million from FY 2013 actual proceeds.

### **Conclusion**

The regional economy grew but at a slow pace in the first quarter of 2014. Part of the economic restraint can be attributed to comparing artificially high economic data from 2013 which was boosted by post Super storm spending recovery. Also the harsh cold winter with freezing temperatures and snowstorms had a negative impact on the economy. The bad weather has weakened the job market, housing activity and consumer sentiment. Long Island posted job gains but at a decelerating pace. March's employment figure represents the smallest monthly gain in over the past year. Local housing activity declined in the month of March as closed home sale prices fell 11.7% and median home sales price by 2.1%. Consumer sentiment fell for the second

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consecutive month in New York. In addition, sales tax revenue performance has stagnated across much of the state.

Despite the weakened activity, the economy is still projected to grow. GDP is projected to expand in 2014. Pending home sales, which indicate the market performance over the next six months rose 41.5% from February to March. In addition, other localities that didn't benefit from Super storm Sandy recovery spending continue to recognize retail sales growth.

*Prepared by:*  
*The Office of Legislative Budget Review*  
*Helen M. Carlson, Deputy Director*  
*Jessica A. Lamendola, Assistant Director*  
*Tyler Barbieri, Legislative Budget Analyst*