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**Inter-Departmental Memo**

To: Hon. Howard Kopel, Chairperson  
Members of the Budget Review Committee

From: Maurice Chalmers, Director  
Legislative Budget Review

A handwritten signature in black ink, appearing to be "M. Chalmers", written over the name in the "From" field.

Date: May 8, 2012

Re: First Quarter 2012 Economic Report

Attached is a copy of the Office of Legislative Budget Review's first quarter 2012 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.



## OFFICE OF LEGISLATIVE BUDGET REVIEW

# The Regional and National Economic and Fiscal Forecast for 2012 to 2016

May 2012

On April 25, 2012, the Federal Reserve opined that the national economy is improving, but not enough to warrant a change in interest rates yet. Federal Reserve members lowered their forecast for national economic growth and agreed that the economy will remain weak enough to warrant ultra-low interest rates “at least through late 2014”.<sup>1</sup>

The Federal Reserve is monitoring several downside risks to the current forecast. These include strains in global financial markets, higher oil prices, a struggling housing market and the expected 2013 “fiscal cliff”. In the beginning of 2013 the Bush tax cuts, the payroll tax cuts and the extended unemployment benefits are all set to end in addition to the government slashing defense and discretionary spending.<sup>2</sup>

At a local level, the economy is moving forward and is expected to continue, albeit at a slow pace. Table 1 details the current forecast for 12 Nassau County economic variables from 2012 through 2016. In all years surveyed, the Gross County Product is forecast to record positive annual growth. Additionally, the number of employed residents, the number of nonfarm jobs, retail sales and regional consumer prices are all currently forecast to experience positive annual growth through 2016.

**Table 1**

May 2012 Nassau County Economic Forecast, annual growth rates					
	2012	2013	2014	2015	2016
Gross County Product	2.64%	2.55%	2.86%	3.08%	2.42%
Employed Residents	0.35%	0.95%	1.09%	0.98%	0.62%
Unemployment Rate Change	-8.11%	-7.03%	-10.66%	-14.29%	-9.83%
Total Nonfarm Jobs	1.04%	0.99%	1.93%	2.21%	1.59%
Mortgage Originations	8.26%	19.46%	18.08%	3.90%	5.97%
Retail Sales	2.52%	3.25%	3.49%	2.71%	2.76%
Median Home Sale Price	-3.69%	1.33%	5.72%	4.46%	2.85%
Disposable Personal Income	3.77%	2.98%	4.99%	5.02%	4.31%
Regional Consumer Prices	2.70%	2.73%	3.19%	3.29%	2.88%
Mortgage Refinances	14.61%	-68.99%	-45.61%	26.91%	25.18%
Construction Jobs	-1.18%	1.25%	3.54%	5.08%	3.96%
Prof. and Bus. Services Jobs	2.75%	2.12%	2.78%	3.27%	2.41%

Source: Moody's Economy.com

Only the markets for mortgage refinancings and construction jobs are expected to record annual decreases. Mortgage refinancings are projected to decline in 2013 and 2014. Some of the economic activity lost on refinancings may be gained in originations which are to post annual growth rates of 19.46% in 2013 and 18.08% in 2014. Jobs in the construction industry are forecast to decline in 2012 by 1.18%. Only construction and government jobs are projected to decline in 2012. All other sectors are forecast to record positive job growth. Moreover, total non-farm growth is expected to be positive and around the 1% mark, indicative of healthy growth in all years surveyed.

<sup>1</sup> Censky, Annalyn, “Federal Reserve Sees Economy Improving”, [CNN/Money.com](http://CNN/Money.com), April 25, 2012.

<sup>2</sup> Same as above.

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**Table 2**

Qrtly. 2012 Nassau County Economic Forecast, growth rates				
	Q1	Q2	Q3	Q4
Gross County Product	0.63%	0.60%	0.61%	0.62%
Employed Residents	0.16%	0.23%	0.25%	0.23%
Unemployment Rate Change	-2.40%	-2.36%	-2.07%	-1.71%
Total Nonfarm Jobs	0.30%	0.28%	0.23%	0.19%
Mortgage Originations	-0.59%	-0.81%	1.18%	3.90%
Retail Sales	0.39%	0.35%	0.51%	0.74%
Median Home Sale Price	-0.98%	-0.69%	-0.39%	-0.06%
Disposable Personal Income	1.15%	1.08%	0.86%	0.63%
Regional Consumer Prices	0.73%	0.61%	0.68%	0.64%
Mortgage Refinances	5.96%	-1.11%	-10.16%	-20.16%
Construction Jobs	-0.43%	-0.33%	-0.11%	0.15%
Prof. and Bus. Services Jobs	0.55%	0.43%	0.43%	0.49%

Source: Moody's Economy.com

Table 2 details the quarterly economic forecast for Nassau County for the remainder of 2012. During the last two quarters of 2012 gross county product, the number of employed residents, total nonfarm jobs, mortgage originations, retail sales and regional consumer prices are all forecast to post positive quarterly growth rates. Only the average unemployment rate, median home sale prices and mortgage refinances are projected to show declining quarterly growth rates during the second half of 2012.

The following sections provide a detailed look at each forecast economic variable. If current trends continue, 2012 should be a better year economically than 2011.

## **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 2012 national retail sales increased 0.8% from the prior month and 6.5% from the prior year.<sup>3</sup>

An early Easter holiday coupled with unseasonably warm weather through much of the country are seen as contributing to the solid March retail sales growth. Looking forward, the National Retail Federation is expecting to see gains through the summer months; but job and weak income growth alongside high gas prices are seen as forcing consumers to make tough, price-sensitive choices.<sup>4</sup>

According to Moody's Economy.com's May 2012 forecast, Nassau County's real Gross County Product (GCP) is expected to be positive from 2012 through 2016.

Table 3 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 four of the five years surveyed, disposable personal income and total personal income are expected to register greater growth than retail sales. One may conclude that individuals plan on saving money and paying off debt.

**Table 3**

2012 to 2016 Nassau County Consumption Forecast					
Annual Growth Rates					
	2012	2013	2014	2015	2016
Disposable Personal Income	3.8%	3.0%	5.0%	5.0%	4.3%
Median Household Income	2.8%	4.0%	4.2%	3.6%	3.3%
Gross County Product	2.6%	2.5%	2.9%	3.1%	2.4%
Retail Sales	2.5%	3.3%	3.5%	2.7%	2.8%
Total Personal Income	2.8%	4.9%	6.3%	5.9%	5.1%
<b>Average Growth</b>	<b>2.9%</b>	<b>3.5%</b>	<b>4.4%</b>	<b>4.1%</b>	<b>3.6%</b>

<sup>3</sup> Thomas, Ian, "Advance Monthly Sales For Retail and Food Services March 2012", U.S. Census Bureau, April 16, 2012.

<sup>4</sup> Schatz, Stephen, "March Retail Sales Growth Marks Positive Start to Spring, According to NRF", National Retail Federation, April 16, 2012.

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The forecast for total personal income growth is the most robust. Economists now envision annualized 2014 total personal income growth of 6.3%.

### **Labor Market**

According to the New York State Department of Labor, the Nassau County unemployment rate stood at 6.7% in March 2012, down from February's 7.2% and up from March 2011's 6.6%. The monthly decrease in the unemployment rate was positive in that it occurred in tandem with a monthly increase in the labor force and resident employment. The number of employed residents grew 0.9% from the prior month and rose 0.3% from the prior year.

Labor market conditions are expected to remain positive, albeit sluggish for the remainder of 2012 and through 2016. Nassau's unemployment rate is expected to decline through 2016. The current forecast has the average annual County unemployment rate falling to 5.7% in 2013, 5.1% in 2014, 4.4% in 2015, and 3.9% in 2016.

The current forecast may be viewed on a quarterly basis in Table 4.

**Table 4**

Nassau Labor Market By Quarter, 2012 and 2013					
2012					
	Q1	Q2	Q3	Q4	
Total Employed	0.16%	0.23%	0.25%	0.23%	
Total Unemployed	-2.41%	-2.29%	-1.96%	-1.59%	
Average Unemployment % Change	-2.40%	-2.36%	-2.07%	-1.71%	
2013					
	Q1	Q2	Q3	Q4	
Total Employed	0.22%	0.23%	0.25%	0.27%	
Total Unemployed	-1.41%	-1.48%	-1.82%	-2.29%	
Average Unemployment % Change	-1.53%	-1.61%	-1.95%	-2.41%	

Source: Moody's Economy.com

Although the unemployment rate remains high from a historical perspective, it is positive that the rate is expected to decline and eventually reach 3.9% on an average annualized basis. Before the recession in March 2007, the Island's

unemployment rate was 3.7%.<sup>5</sup> Table 5 details the forecast annual growth rates for the Nassau County employment market.

**Table 5**

Nassau Labor Market Projected Annual Growth Rates					
	2012	2013	2014	2015	2016
Total Employed	0.35%	0.95%	1.09%	0.98%	0.62%
Total Unemployed	-8.32%	-6.58%	-10.26%	-14.11%	-9.68%
Average Unemployment % Change	-8.11%	-7.03%	-10.66%	-14.29%	-9.83%

Source: Moody's Economy.com

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, March 2012 total non-farm job growth for the Nassau – Suffolk region increased 1.2% from the prior month and increased 1.6% from March 2011. The strongest job growth was recorded in the professional and business services sector which recorded 6.6% annual growth. The financial activities sector posted the second highest annual growth rate of 4.2%

Only the information and government sectors recorded annual declines. The annual declines seen in those sectors were -0.8% and -0.1% respectively.

According to Bohdan M. Wynnyk, Deputy Director of the Department of Labor's Division of Research and Statistics, "What we have recouped now surpasses the total private sector jobs lost during the state's recession in 2008-2009."<sup>6</sup> The strong job growth is said to be responsible for the growth seen in the labor

<sup>5</sup> Mason-Draffen, Carrie, "LI's March Jobless Rate Unchanged From 2011", [Newday.com](http://Newday.com), April 24, 2012.

<sup>6</sup> Solnik, Claude, "Long Island Adds Nearly 20,000 Jobs in March", [Long Island Business News](http://Long Island Business News), April 19, 2012.

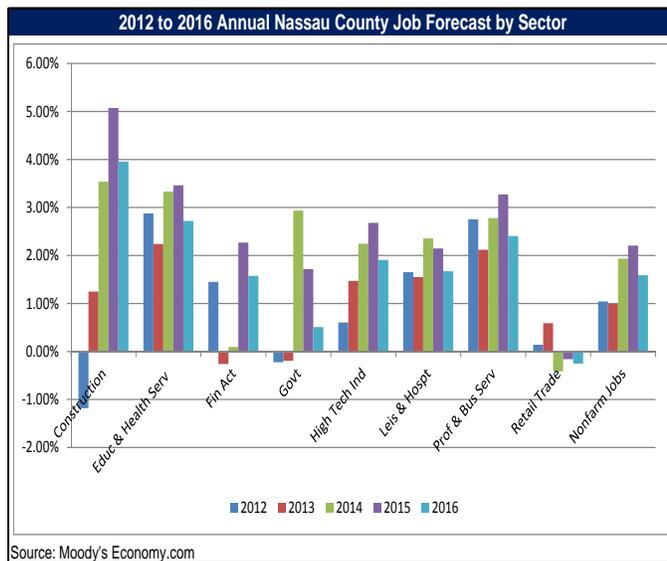
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force detailed previously. Analysts opine that the job growth has lured previously discouraged workers back into the job market.<sup>7</sup>

Nassau County is not expected to undergo a jobless recovery. As Table 6 details, Nassau is currently forecast to record annual nonfarm job growth of roughly 1% or more from 2012 through 2016.

Table 6 provides a detail of the growth forecast for eight sectors.

**Table 6**



Only the education and health services and the professional and business services sectors are expected to record annual job growth of more than 2% in all years surveyed. The high tech industries are projected to record annual growth greater than 2% in 2014 and 2015. Some of the jobs included in these categories should pay wages sufficient for families to afford to live in the area.

<sup>7</sup> Mason-Draffen, Carrie, "LI's March Jobless Rate Unchanged From 2011", [Newsday.com](http://Newsday.com), April 24, 2012.

## Housing

According to current actual data from the Multiple Listing Service of Long Island (MLS LI), the Nassau County residential housing market declined from a quarterly perspective. In the first quarter of 2012 fewer houses sold and those that did sell sold for roughly \$20,000 less on average than they did a year ago. Table 7 details the number of closed sales and median closed selling prices for Nassau County during the first quarter of 2012.

**Table 7**

Nassau County Closed Sales				
	Jan.	Feb.	Mar.	Qtrly. Total
2012	625	567	620	1,812
2011	611	632	651	1,894
Nassau County Median Sale Price				
	Jan.	Feb.	Mar.	Qtrly. Average
2012	386,000	377,500	365,000	376,167
2011	410,000	395,000	385,000	396,667

Source: Multiple Listing Service of Long Island

Looking forward, home sale prices are expected to decline for the next six months. However, mortgage originations are expected to register robust, positive growth over the next six months. This may be seen in the pending sales figures released by MLS LI. Pending sales figures are supposed to show what the market will be like over the next six months. Median pending sale prices decreased 4.8% in March, 3.8% in February and 6.5% in January. Meanwhile, pending sale counts increased 11.3% in March, 31.6% in February and 21.6% in January.

Moody's current forecast mirrors the pending sales data. Table 8 details the projected annual changes for the Nassau County housing market.

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**Table 8**

Nassau County Housing Forecast by Quarter				
2012				
	Q1	Q2	Q3	Q4
New Mortgages	-0.59%	-0.81%	1.18%	3.90%
Refinances	5.96%	-1.11%	-10.16%	-20.16%
Median Sale Price	-0.98%	-0.69%	-0.39%	-0.06%
2013				
	Q1	Q2	Q3	Q4
New Mortgages	5.60%	6.26%	6.16%	5.51%
Refinances	-29.44%	-38.15%	-42.17%	-31.27%
Median Sale Price	0.31%	0.69%	1.10%	1.44%

Source: Moody's Economy.com

During the third and fourth quarters of 2012, new mortgage originations are forecast to see positive growth while median sale prices are projected to decline.

## Prices

As of March 2012, the US Bureau of Labor Statistic's regional, all-items index reveals that consumer prices have increased 0.6% from a monthly and increased 2.6% from an annual perspective.

Positive consumer price growth is expected for 2012 through 2016. The annual forecast for regional consumer prices from 2012 through 2016 is shown in Table 9.

**Table 9**

Regional Consumer Price Forecast by Quarter				
	Q1	Q2	Q3	Q4
2012	0.73%	0.61%	0.68%	0.64%
2013	0.70%	0.67%	0.68%	0.73%
2014	0.80%	0.88%	0.85%	0.82%
2015	0.83%	0.78%	0.77%	0.74%
2016	0.70%	0.68%	0.67%	0.69%

Source: Moody's Economy.com

## Sales Tax Predictors

As detailed previously, US Commerce Department figures show that March 2012 national retail sales increased 0.8% from the

prior month.<sup>8</sup> 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 14.7% from 2012 to 2016. The annual retail sales forecast may be seen in Table 3.

Siena College's quarterly consumer confidence index provides a basis for the predicted positive retail sales growth. The index shows that as of the first quarter 2012, overall consumer confidence on Long Island is up 16.4% from the prior quarter. Compared to the prior year, Long Island consumer confidence has increased 2.8%.<sup>9</sup>

According to Dr. Douglas Lonnstrom, professor of statistics and finance at Siena College, consumers whether looking back, forward or when taking stock of today, are more upbeat than they've been in nearly five years in every single region of the state. New York City and Rochester cracked the breakeven point, and now are more optimistic than pessimistic about their economic conditions. Consumers were found to be remaining cautious, but were ready to return to spending on most items as they did before the recession iced their spending habits.<sup>10</sup>

Table 10 details the future buyer intentions of Long Island residents. The data was obtained from Siena College Research Institute's quarterly consumer confidence survey.

<sup>8</sup> Thomas, Ian, "Advance Monthly Sales for Retail and Food Services March 2012", U.S. Census Bureau, April 16, 2012..

<sup>9</sup> "Quarterly Consumer Confidence by Nine NY State MSA's", Siena College Research Institute, April 11, 2012.

<sup>10</sup> Same as above.

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**Table 10**

% of LI Residents Who Plan to Make a Major Purchase in the Next Six Months			
	3Q11	4Q11	1Q12
Car or Truck	10.2%	12.0%	12.7%
Computer	16.4%	13.9%	16.8%
Furniture	16.2%	16.9%	20.4%
Home	2.4%	2.8%	3.1%
Home Improvement	15.7%	12.5%	17.3%
<b>Buying %</b>	<b>60.9%</b>	<b>58.1%</b>	<b>70.3%</b>

Source: Siena College Research Institute

Overall, compared to the previous two forecasts, a higher percentage of Long Islanders currently plan on making a major purchase within the next six months. Furniture sales are expected to be the greatest over the next six months with 20.4% of residents expecting to buy furniture.

There are two negative forces in the economy that could hamper County sales tax collections, price sensitive shopping and relatively high unemployment.

As mentioned previously, although the National Retail Federation is expecting positive retail sales growth, they are still expecting consumers to be price sensitive. Since sales tax collections are a function of both price and quantity, if consumers make the same number of purchases at lower prices, overall sales tax collections would fall.

Additionally, although the number of unemployed residents is declining, the number remains high from a historic perspective. Moreover, the unemployment figures mask the true pain of the labor market since those who are working part-time because they can't find full-time work are not counted. Both situations will dampen the growth rate experienced in County sales tax collections since those individuals would be curtailing the purchases they make.

## Lodging Industry

The Nassau County Lodging Industry is experiencing strong positive growth. Recent Long Island Convention and Visitor Bureau, LICVB, figures reveal that average occupancy rates in Nassau County are up 14.4% from the prior month and 5.4% from the prior year. The increase in occupancy rates is even more significant in that it occurred while average room rental rates increased 1.8% from both a monthly and an annual perspective.

This robust growth has prompted job growth in the lodging industry. According to New York State Department of Labor figures, as of March 2012, jobs in the accommodation and food services sector were up 1.2% from the prior month and 1.3% from the prior year.

These trends are positive for both Nassau County Hotel/Motel tax collections and sales tax collections.

## Conclusion

The Nassau County economy is experiencing positive growth. The positive growth is expected to continue through 2016 and the average annual unemployment rate is expected to decrease to pre-recession levels by 2016.

Some sectors, nonfarm jobs and consumer confidence, have seen a strong comeback. According to Bohdan M. Wynnyk, deputy director of the Department of Labor's Division of Research and Statistics, "What we have recouped now surpasses the total private sector jobs lost during the state's recession in 2008-2009."<sup>11</sup>

Additionally, the most recent Siena College Quarterly Consumer Confidence index found that New York City and Rochester cracked the

<sup>11</sup> Solnik, Claude, "Long Island Adds Nearly 20,000 Jobs in March", Long Island Business News, April 19, 2012.

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breakeven point, and are now more optimistic than pessimistic about their economic conditions.

There still is some road to cover before a full recovery can be declared. In Table 11, the full recovery year for three forecast economic variables is detailed. The full recovery year is the year in which the forecast variable attains or exceeds the level recorded in 2008.

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**Table 11**

<b>Nassau County Full Recovery Forecast Projected Year When 2008 Level is Attained</b>	
	<b><u>Year</u></b>
Employed	2019
Nonfarm Jobs	2014
Med. Sale Price	2017

Source: Moody's Economy.com

Economists are cautious about the national economy. The Federal Reserve is monitoring several downside risks to the current economic forecast. These include strains in global financial market, higher oil prices, a struggling housing market and the expected 2013 “fiscal cliff”. In the beginning of 2013 the Bush tax cuts, the payroll tax cuts and the extended unemployment benefits are all set to end while the government slashes defense and discretionary spending.<sup>12</sup> It is important to monitor these forces since their impact could trickle down and affect the regional economy.

<sup>12</sup> Same as above.