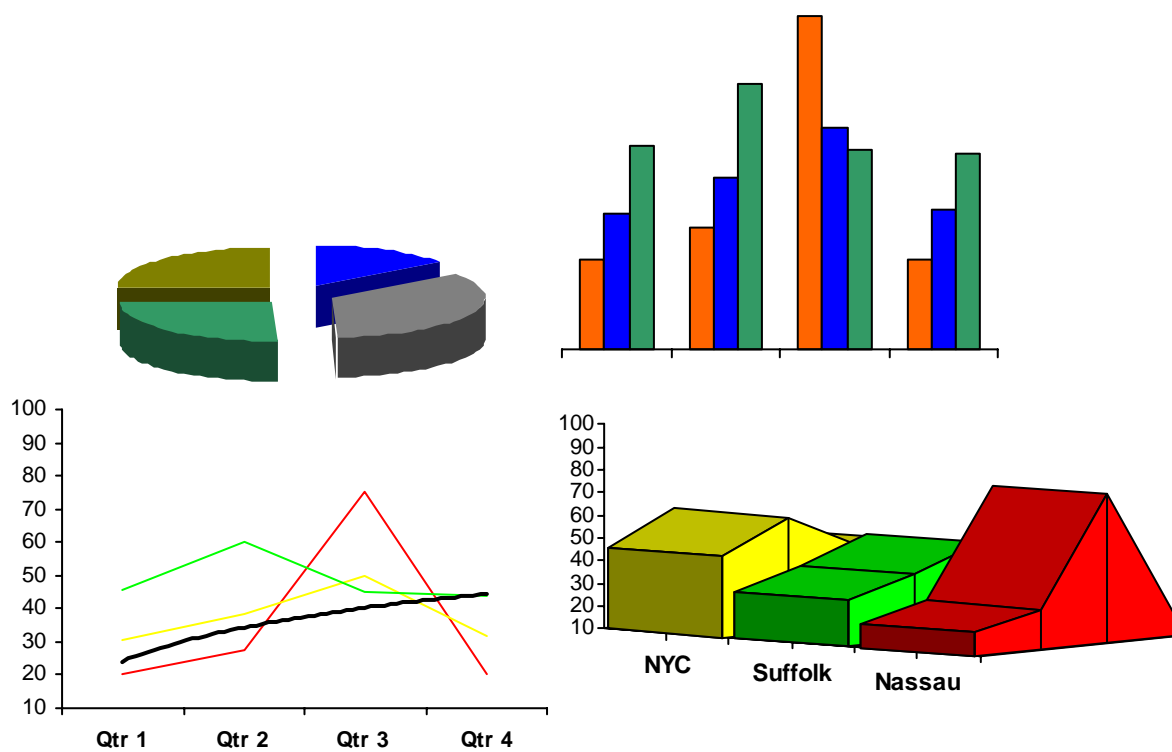




NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Nassau County Economic Indicators



July 2004


ERIC C. NAUGHTON
DIRECTOR
OFFICE OF LEGISLATIVE
BUDGET REVIEW



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Inter-Departmental Memo

To: Hon. Lisanne Altmann, Chairperson
Member of the Budget Review Committee

From:  Eric C. Naughton, Director
Legislative Budget Review

Date: July 29, 2004

Re: July 2004 Economic Report

Attached is a copy of the Office of Legislative Budget Review's monthly economic report. This report is intended to assist the Legislature in making policy decisions and in assessing budgetary forecasts. From time to time it will be modified to include data that relates to specific events. The data presented is the most current as of the date of circulation and is the most geographically relevant.

cc: Hon. Howard Weitzman, County Comptroller
Sharon Commissiong, Majority Counsel
Mike Deegan, Minority Counsel
Mark Young, Budget Director
Richard Luke, Executive Director, NIFA
Dan McCloy, Special Assistant Minority
Dr. Sal Guajardo, Majority Finance
Ed Ward, Special Assistant to Minority
Art Gianelli, Deputy County Executive
Carol Trottere, Majority Press Secretary
Marilyn Gottlieb, Director of Legislative Affairs
Bill Geier, Clerk of the Legislature
Fran Evans, Director of Policy

July 2004 Monthly Economic Report

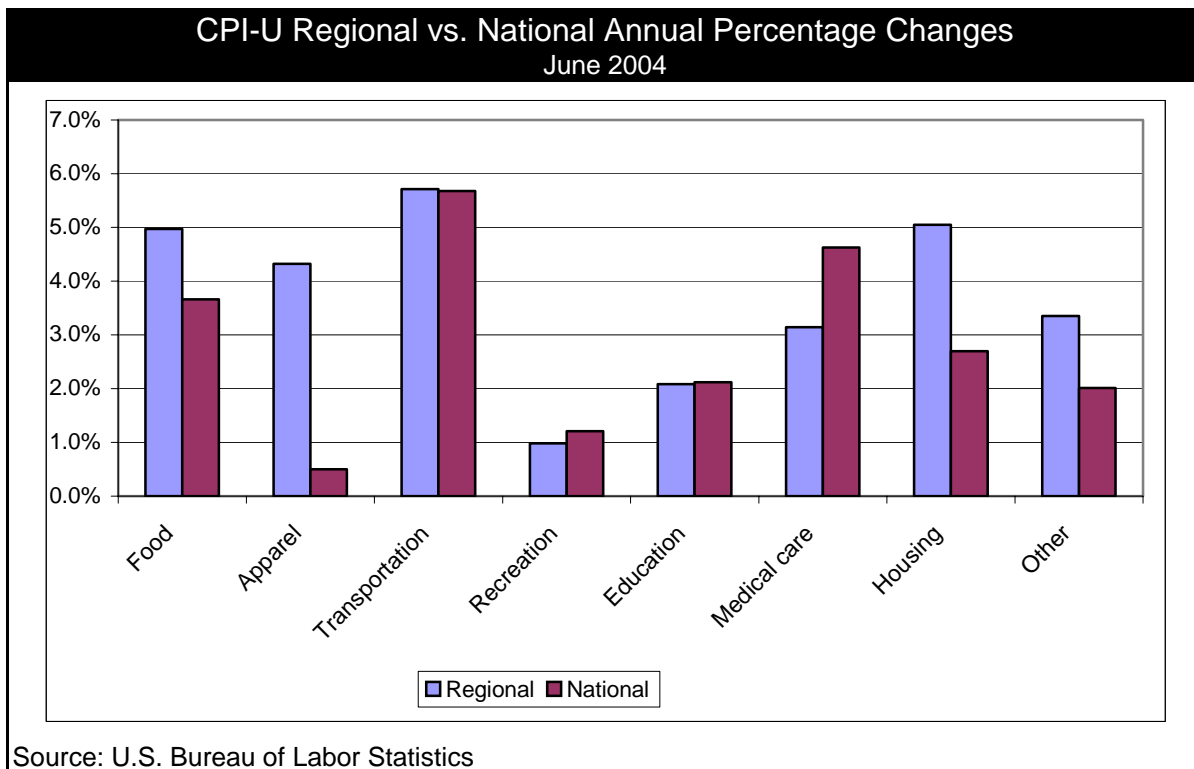
The regional economy moved forward in June 2004. Gains were made on the employment front. However, strong price increases and higher interest rates are dampening consumer spending and impacting regional consumer confidence.

Consumer Price Indexes

Consumer Price Indexes New York-Northern Jersey-Long Island, NY-NJ-CT-PA region					
	<u>6/04</u>	<u>5/04</u>	<u>6/03</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
US City, CPI-U	189.7	189.1	183.7	0.3%	3.3%
Regional CPI-U	206.0	204.4	196.9	0.8%	4.6%
Core CPI-U (All Items less energy)	212.2	211.6	204.5	0.3%	3.8%
Medical	318.1	317.2	308.4	0.3%	3.1%
Housing	218.4	215.6	207.9	1.3%	5.1%
Gasoline (all types)	164.6	153.3	119.4	7.4%	37.9%

Source: Bureau of Labor Statistics, figures are not seasonally adjusted

Consumer prices rose both nationally and regionally in June 2004. The pace of regional price growth exceeded that of the nation. The primary mover behind the consumer price growth was the increase seen in the price of gas. This increase is detailed further in the next section.



Also contributing to the rise in the regional all-items consumer price index were increases in the food, apparel, housing and other sectors. These consumer price increases are having a significant effect on County sales tax revenues. According to the Bureau of Economic Analysis, approximately 63% of the growth in the dollar value of consumer expenditures made since the end of December 2003 can be attributed to increases in the overall price level.

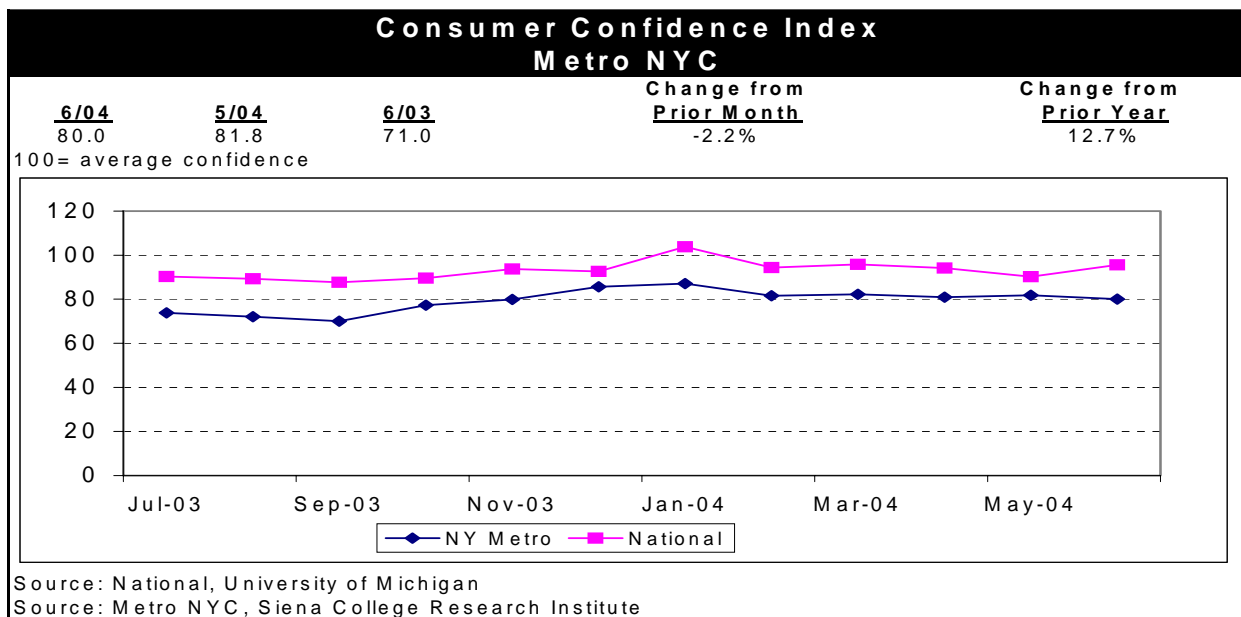
With the CPI-U at 4.6% in June 2004, the 2005 CSEA COLA increase will be 3.5%, the maximum allowed under their current contract. The Office of Management and Budget has increased their multi-year plan to include this increase in 2005 and in the out-years.

Consumer Confidence Index

June 2004 consumer confidence data was mixed. Regionally, consumer confidence fell 2.2% from last month. In contrast, national consumer confidence rose 6.0% from May 2004.

Contributing to the divergence between regional and national consumer confidence is the above average regional consumer price growth. Nationally, gasoline prices are up 1.7% from last month. During the same timeframe regional gasoline prices increased 7.4%. High gas prices were blamed for June’s 1.1% drop in national retail sales.¹ High gas prices have a significant effect on the economy since oil is not just an end product, but also a raw material. Oil is needed to manufacture carpets, tires, plastics and paints. Additionally, gas is used in all deliveries. As such the price of all retail and commercial products are subject to increase as stores are hit with additional fuel surcharges.²

Gasoline prices are significantly higher on Long Island due to a lack of storage and refining capacity as well as a requirement to use a “boutique” blend of gasoline. Currently there are 17 distinct blends of gasoline required across the country by federal and state environmental laws. These blends can not be sold in any region except in the one for which they were designed. Costs are higher for these “boutique” blends since producers lose the economies of scale that come from servicing a large nationwide market.³



¹ Aversa, Jeannine, “Retail Sales See Biggest Drop in 16 Months”, 1010Wins.com, July 14, 2004.

² Foss, Brad, “High Energy Prices Trickle Down Slightly through the Economy”, Thejournalnews.com, July 2, 2004.

³ Incantalupo, Tom, “For NY, “Boutique” Gas Prices”, Newsday.com, June 24, 2004.

Local Area Employment Figures

Comparison of Employment Statistics (figures in thousands)					
	<u>6/04</u>	<u>5/04</u>	<u>6/03</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
<u>Nassau</u>					
Employed	703.4	688.6	703.9	2.1%	-0.1%
Unemployed	29.7	26.6	29.7	11.7%	0.0%
Unemployment rate	4.1%	3.7%	4.1%	10.8%	0.0%
<u>Suffolk</u>					
Employed	747.3	731.5	747.8	2.2%	-0.1%
Unemployed	33.6	30.9	33.0	8.7%	1.8%
Unemployment rate	4.3%	4.1%	4.2%	4.9%	2.4%
<u>NYC</u>					
Employed	3,400.0	3,383.0	3,373.0	0.5%	0.8%
Unemployed	272.0	240.0	289.0	13.3%	-5.9%
Unemployment rate	7.4%	6.6%	7.9%	12.1%	-6.3%
<u>Nation</u>					
Employed	139,861.0	138,867.0	138,468.0	0.7%	1.0%
Unemployed	8,616.0	7,792.0	9,649.0	10.6%	-10.7%
Unemployment rate	5.8%	5.3%	6.5%	9.4%	-10.8%

Source: New York State Department of Labor

June 2004 was a strong employment month for all areas surveyed. From a monthly perspective, all areas recorded an increase in the number of employed residents as well as a labor force increase. Labor force growth was supported by the entrance of students as well as previously discouraged workers. Contributing to the increase seen in the number of unemployed residents is the fact that the economy has not created enough jobs to keep pace with the entrance of students seeking summer employment. According to the Center of Labor Studies at Northeastern University, current teen employment stands at roughly 37%, the lowest level since the Truman administration. The low level of teen employment has been attributed to the fact that teens are competing with out-of-work professionals for jobs.⁴

⁴ Schepp, David, "Tight Job Market Bodes Well for Camps", TheJournalNews.com, July 12, 2004.

Nassau-Suffolk Non-agricultural Employment

Non-agricultural Employment Nassau-Suffolk Area (figures in thousands)					
	<u>6/04</u>	<u>5/04</u>	<u>6/03</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Natural Resources, Construction & Mining	67.5	66.2	66.1	2.0%	2.1%
Manufacturing	86.7	86.9	88.5	-0.2%	-2.0%
Wholesale Trade	74.4	74.0	73.4	0.5%	1.4%
Retail Trade	164.5	162.0	163.1	1.5%	0.9%
Transportation, Warehousing & Utilities	36.3	36.5	36.5	-0.5%	-0.5%
Information	28.1	28.2	29.2	-0.4%	-3.8%
Financial Activities	85.0	84.2	84.2	1.0%	1.0%
Professional & Business Services	156.5	154.6	155.3	1.2%	0.8%
Educational & Health Services	195.7	197.9	191.7	-1.1%	2.1%
Leisure & Hospitality	103.0	95.6	100.2	7.7%	2.8%
Other Services	51.9	51.6	51.1	0.6%	1.6%
Government	207.6	206.4	203.1	0.6%	2.2%
Total	<u>1,257.2</u>	<u>1,244.1</u>	<u>1,242.4</u>	<u>1.1%</u>	<u>1.2%</u>
Source: NYS Department of Labor					

The Long Island region recorded strong job growth in June 2004. From both a monthly and an annual perspective job growth was above the 1.0% mark indicative of healthy job growth.

The greatest job growth from both a monthly and an annual perspective was in the leisure & hospitality sector. Job increases in this sector give credence to the projection of the Travel Industry Association of America, that domestic travel this summer will be strong, up 3.2% from last year. Such an increase would be the busiest travel season in four years.⁵ Indeed, airline loads, the percentage of occupied seats, were at record levels in June.⁶

⁵ Schmit, Julie, "Summer Travel Hitting Record Pace", USAToday.com, July 1, 2004.

⁶ Woodyard, Chris, "Airlines Predict Record-Full Sumemr", USAToday.com, July 11, 2004.

Job growth was widespread, with nine of the twelve sectors surveyed exhibiting annual increases. Seven of the twelve sectors surveyed saw annual job increases of 1.0% or more.

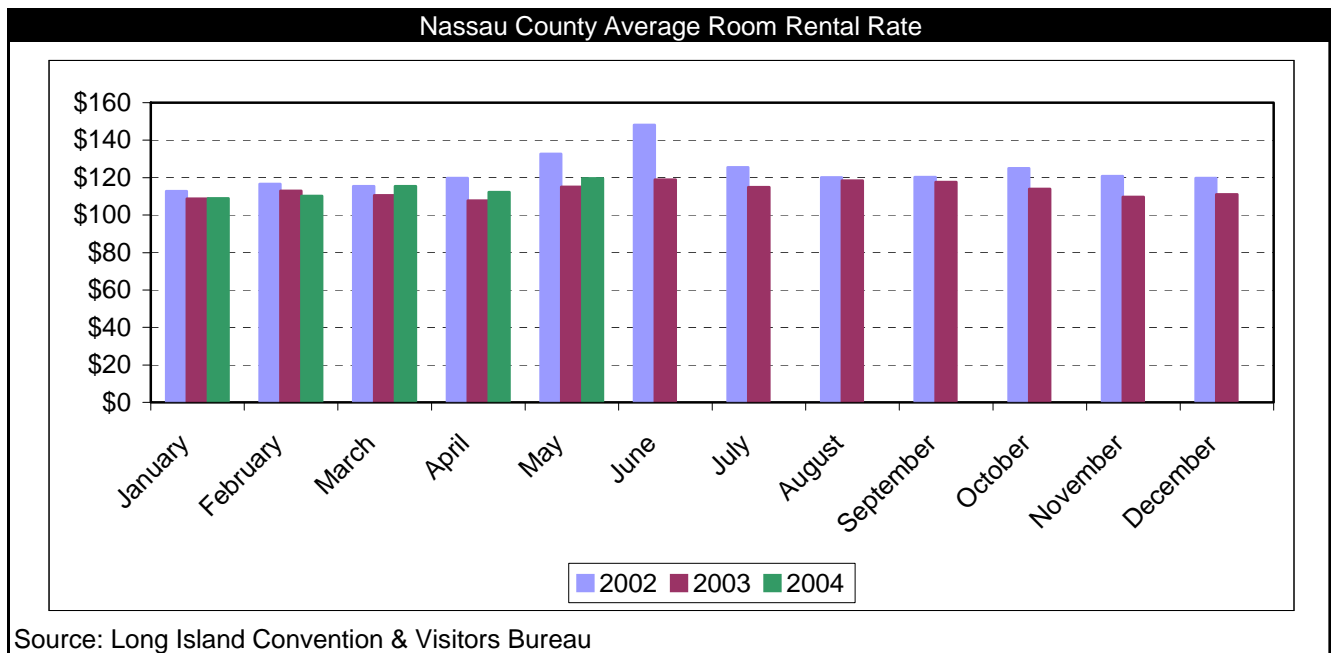
Amidst the overall job growth specific sectors are recording declines. The information sector is down 0.4% from last month and 3.8% from last year. Moreover, the manufacturing sector is down 0.2% from the prior month and 2.0% from the prior year.

Hotel/Motel Occupancy Rates

The tourism industry on Long Island still seems to be recovering from it’s 2001 levels. Strong tourism demand was noted above in the significant job gains made in the leisure & tourism sector. Hoteliers seem to be taking this opportunity to not only hire additional personnel, but also to raise room rates.

Average room rental rates in Nassau County have seen annual increases in each of the past three months. From an annual perspective, average room rental rates in Nassau County have increased 3.9%. The chart below details the average Nassau County room rental rates by month since 2002.

Similar pricing trends may be seen in Suffolk County. Compared to June 2003, average room rental rates in Suffolk County are up 3.1%. Moreover, Suffolk has witnessed annual increases in their average room rental rate during the past three months.

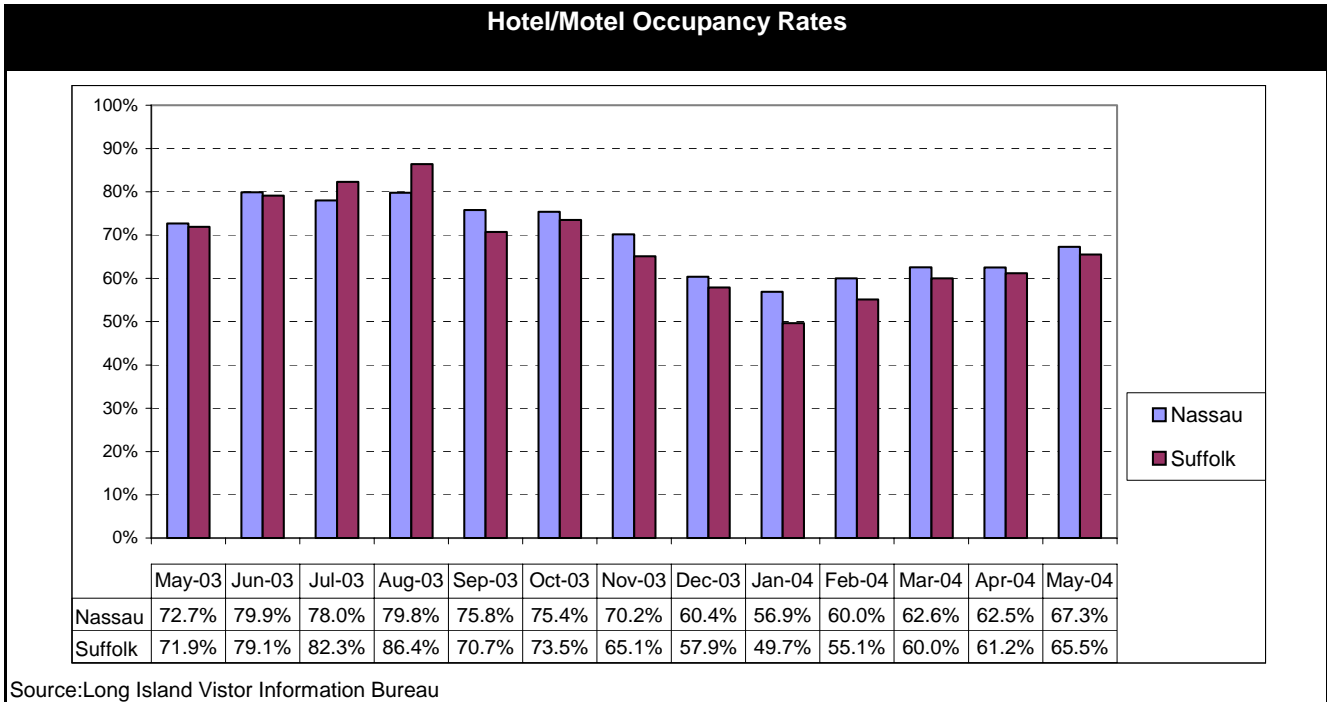


Annual hotel/motel occupancy rates have been moving in the opposite direction of average room rental rates. In Nassau County May 2004 Occupancy rates were down 7.4% from the prior year.

Nassau County Hotel / Motel Occupancy Rate					
	<u>5/04</u>	<u>4/04</u>	<u>5/03</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Occupancy Rate	67.3%	62.5%	72.7%	7.7%	-7.4%

Source: Long Island Convention and Visitors Bureau

Suffolk County experienced a similar decline in hotel/motel occupancy rates. Compared to this time last year, hotel/motel occupancy rates are down 8.9%. The chart below details hotel/motel occupancy rates in Nassau and Suffolk Counties over the past twelve months.



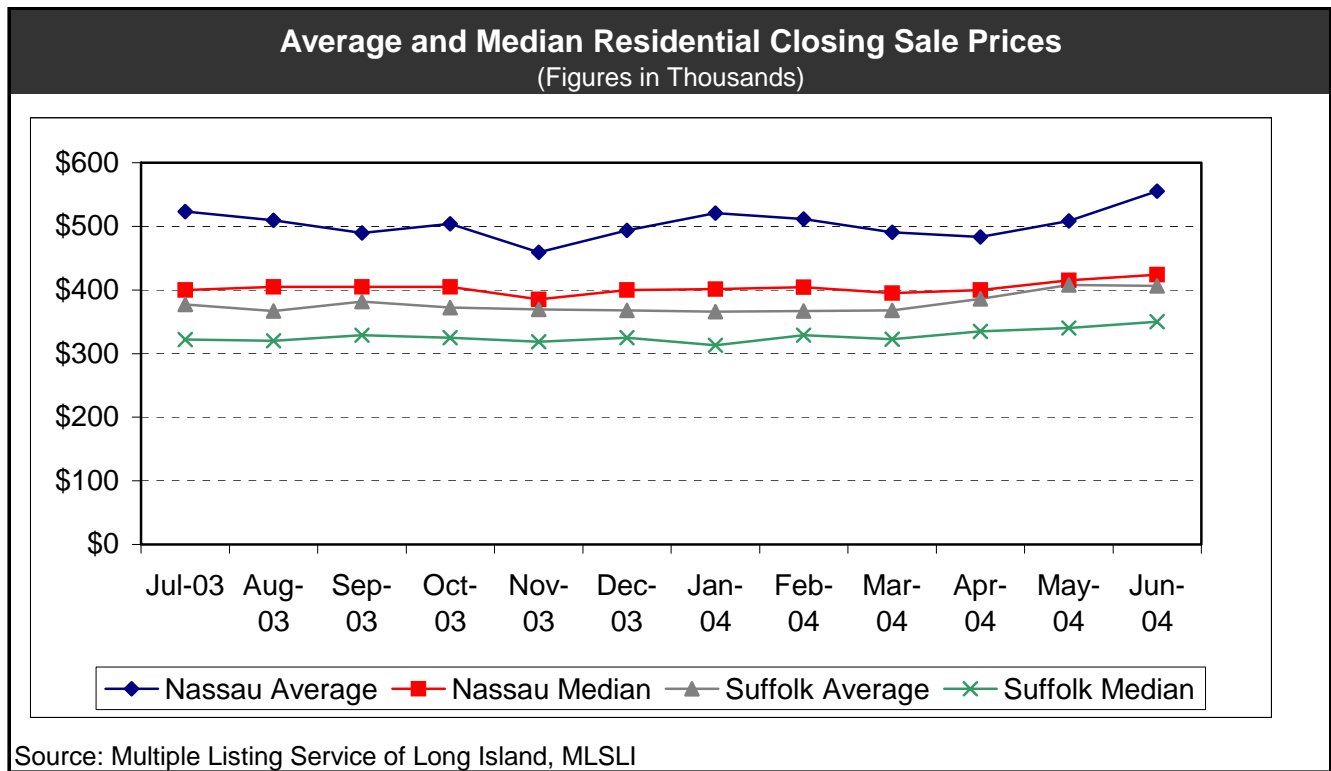
Residential Housing Market

Long Island’s residential housing market remained strong in June 2004. Closing prices and transactions registered strong annual percentage increases. However, signs were present that the rate of growth may be slowing down.

Average closing prices in Nassau County are up 17.5% from this time last year. In Suffolk County, average closing prices have increased 16.5% from June 2003. Yet, from a monthly perspective, average closing prices in Suffolk County fell 0.3%. Analysts have been expecting the rate of residential price appreciation to decline in the future. The most recent Federal Reserve study projects a 2.6% increase in nominal prices for existing homes over the next three years, if U.S. disposable income and short-term interests rise according to Wall Street expectations. Others contend that tight supply conditions coupled with historically low mortgage rates will enable nominal home prices to rise 15% over the next three years.⁷ More data is required to see if the rate of housing price appreciation is

⁷ “Fed Study: House-Price Growth to Slow”, USAToday.com, July 14, 2004.

beginning to decline since median closing sale prices in Suffolk County rose roughly 3% from last month.

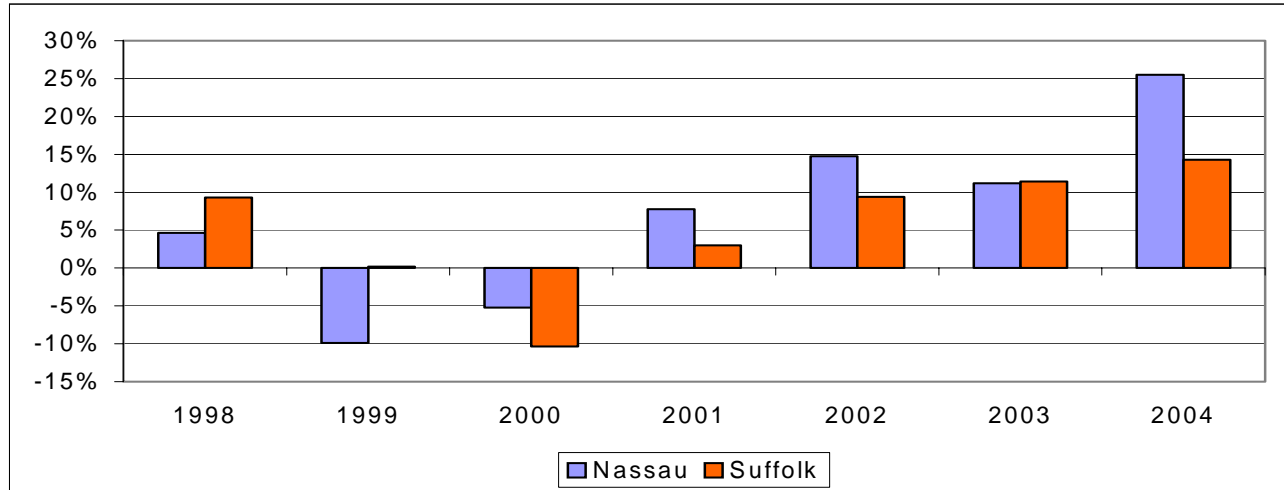


The number of closed transactions on Long Island continued to see record growth. In Nassau County, the number of closed transactions in June was up 25.5% from the prior year. The number of closed transactions in Suffolk County increased 14.3% from June 2003. The chart on the next page reveals that if these growth rates continue, Nassau and Suffolk will end the year with a record level of closed transactions.

The most recent mortgage data reveals that these rates may dampen in the future. According to the Mortgage Bankers Association, new applications for U.S. mortgages fell for the week ending July 16, 2004 by 4%.⁸

⁸ "Mortgage Demand Continues to Cool", Money.com, July 21, 2004.

Historic Annual Percentage Change in Closed Residential Transactions
 2004 figures are projections based on year-to-date June 2004 numbers.



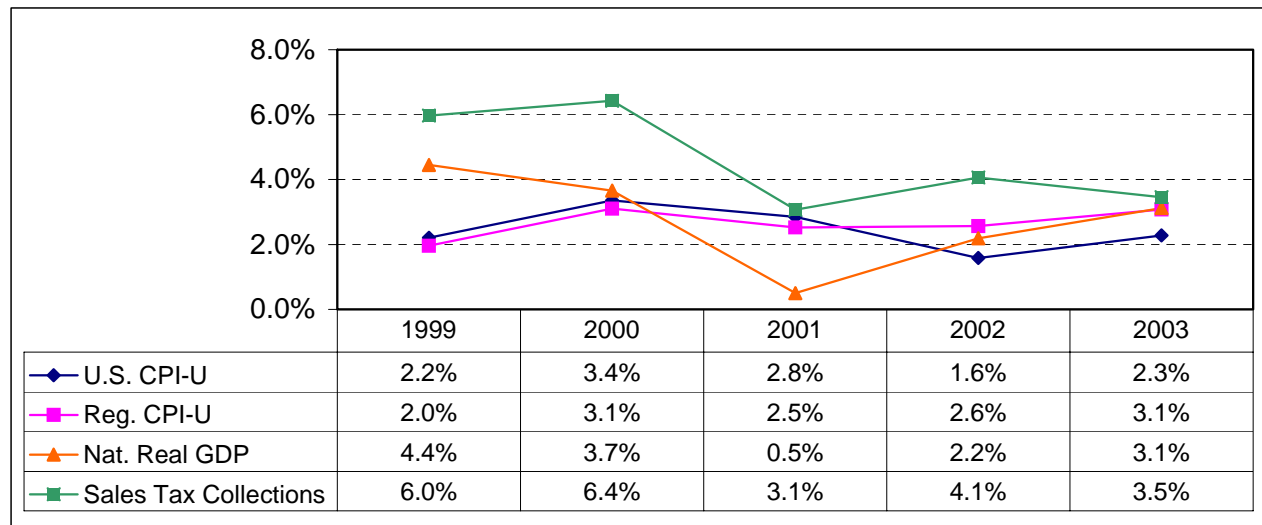
Source: Multiple Listing Service of Long Island (MLSLI)

Residential inventory levels increased on Long Island in June. Nassau County’s residential inventory level grew by 5.5% from the prior year and 7.7% from the prior month. In Suffolk County residential inventory levels increased 6.7% from June 2003 and 6.8% from May 2004.

Conclusion

The regional economy moved forward at a slower pace in June 2004. Gains were made on the employment front, but higher prices seem to be diminishing consumer spending and regional consumer confidence. Analysts projected slower growth during the second half of 2004. Even with the expectation of more subdued growth, national GDP is forecasted to end the year up 4.6% and national CPI is forecasted to end the year up 2.7%.⁹ Over the past five years, the growth rate of County sales tax collections has surpassed the growth rates recorded by both of these indices.

Five Year History of Annual CPI, GDP and Sales Tax Growth



Sources: U.S. Bureau of Labor Statistics and the Federal Reserve Bank of St. Louis

⁹ “Survey of Professional Forecasters, Second Quarter 2004”, Federal Reserve Bank of Philadelphia, May 24, 2004.