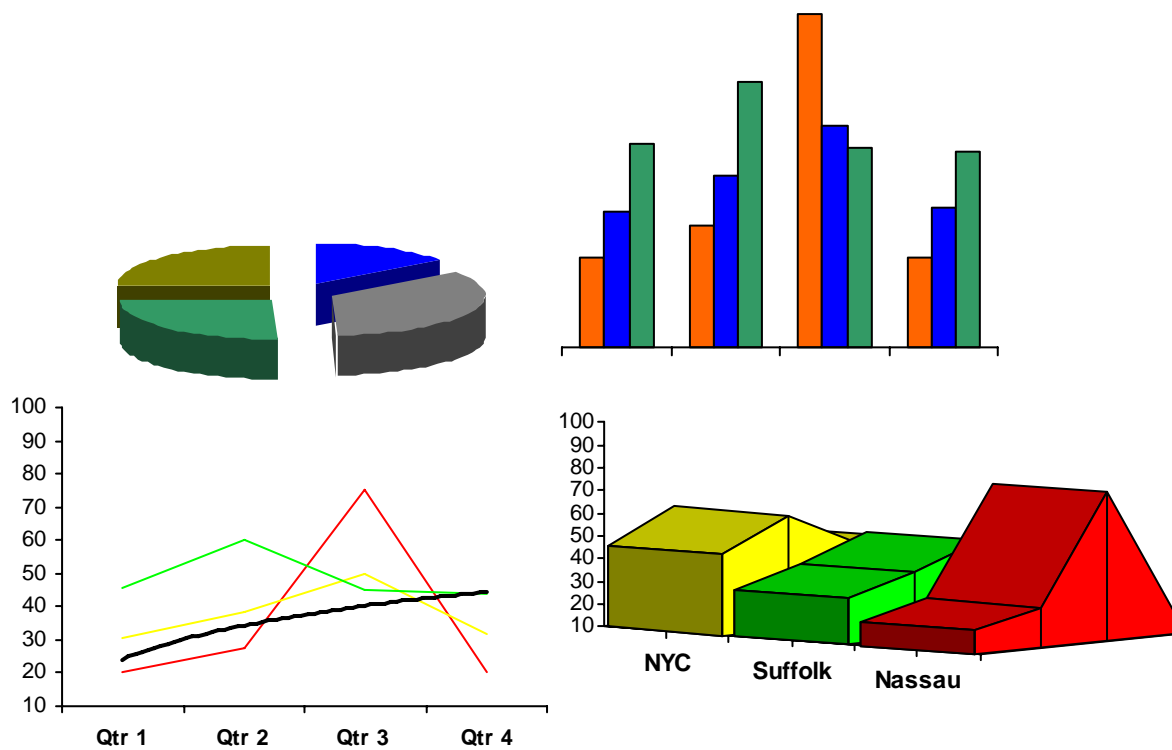




NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Nassau County Economic Indicators



May 2005




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BUDGET REVIEW

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Inter-Departmental Memo

To: Hon. Lianne Altmann, Chairperson
Members of the Budget Review Committee

From:  Eric C. Naughton, Director
Legislative Budget Review

Date: June 10, 2005

Re: May 2005 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
David Gugerty, Majority Counsel
Mike Deegan, Minority Counsel
Mark Young, Budget Director
Richard Luke, Executive Director, NIFA
Dan McCloy, Special Assistant Minority
Sal Guajardo, Ph.d., 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

May 2005 Monthly Economic Report

The national economy cannot get on track. After a slow first quarter, April 2005 saw the addition of 274,000 new jobs. Unfortunately that pace could not be maintained in May. The initial May 2005 figures took a step back from April's level, with only 78,000 new jobs being added. Locally, the region saw the addition of 9,800 new jobs from the prior month and 14,600 new jobs from the prior year.¹ Excluding consumer confidence, all other indicators surveyed moved forward in April 2005. Demand was strong in the tourism and housing markets as evidenced by increasing average room rates and average closing prices. Additionally, regional consumer prices were unchanged from the prior month. In contrast, consumer confidence took a step back both regionally and nationally. More data are required to assess the future direction of both the national and regional economies.

Consumer Price Indexes

Consumer Price Indexes					
New York-Northern Jersey-Long Island, NY-NJ-CT-PA region					
	<u>4/05</u>	<u>3/05</u>	<u>4/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
US City, CPI-U	194.6	193.3	188.0	0.7%	3.5%
Regional CPI-U	212.5	212.4	204.0	0.0%	4.2%
Core CPI-U (All Items less energy)	218.8	219.4	211.7	-0.3%	3.4%
Medical	325.9	326.2	317.1	-0.1%	2.8%
Housing	227.4	228.5	216.2	-0.5%	5.2%
Gasoline (all types)	170.4	155.2	138.7	9.8%	22.9%

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

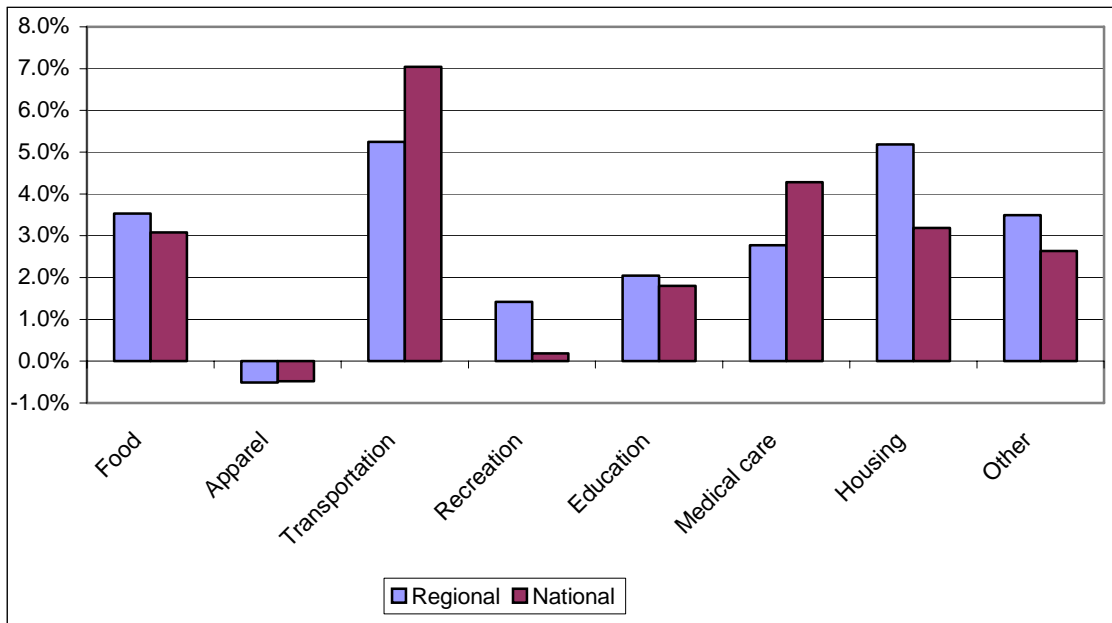
April 2005 was a tame month from an inflation perspective. Regional consumer prices were unchanged from this time last month. Moreover, core, medical, and housing prices all decreased from the prior month. From an annual perspective, all sectors except apparel recorded an increase in prices.

From a national perspective, consumer prices are up 3.5% from the previous year and 0.7% from the previous month. The chart below details annual consumer price changes from both a national and a regional perspective.

¹ "Jobs Growth Weak", CNN/Money.com, June 3, 2005.

CPI-U Regional vs. National Annual Percentage Changes

April 2005



Source: U.S. Bureau of Labor Statistics

The greatest increase was in the Transportation sector. Propelling the Transportation sector index higher was the increase seen in the price of gasoline. From a regional perspective, gasoline is up 22.9% from the prior year. From a national perspective, the price of gasoline is up 24.2%. According to Federal Reserve Chairman Alan Greenspan, “The effect of the current surge in oil prices, though noticeable, is likely to prove less consequential to economic growth and inflation than in the 1970s.”²

Consumer Confidence Index

Consumer confidence fell both regionally and nationally from both a monthly and annual perspective in April 2005. Dr. Douglas Lonnstrom, Director of the Siena College Research Institute, found April’s figures a bit strange since consumer confidence was down at the same time that all buying plans were up. He said, “Two things are happening. Buying plans were low in February and March due to large heating bills and climbing gasoline prices, but consumers are adjusting as the heating season ends. Also, current confidence is more than 15 points higher than future confidence, so consumers are willing to start spending again.”³

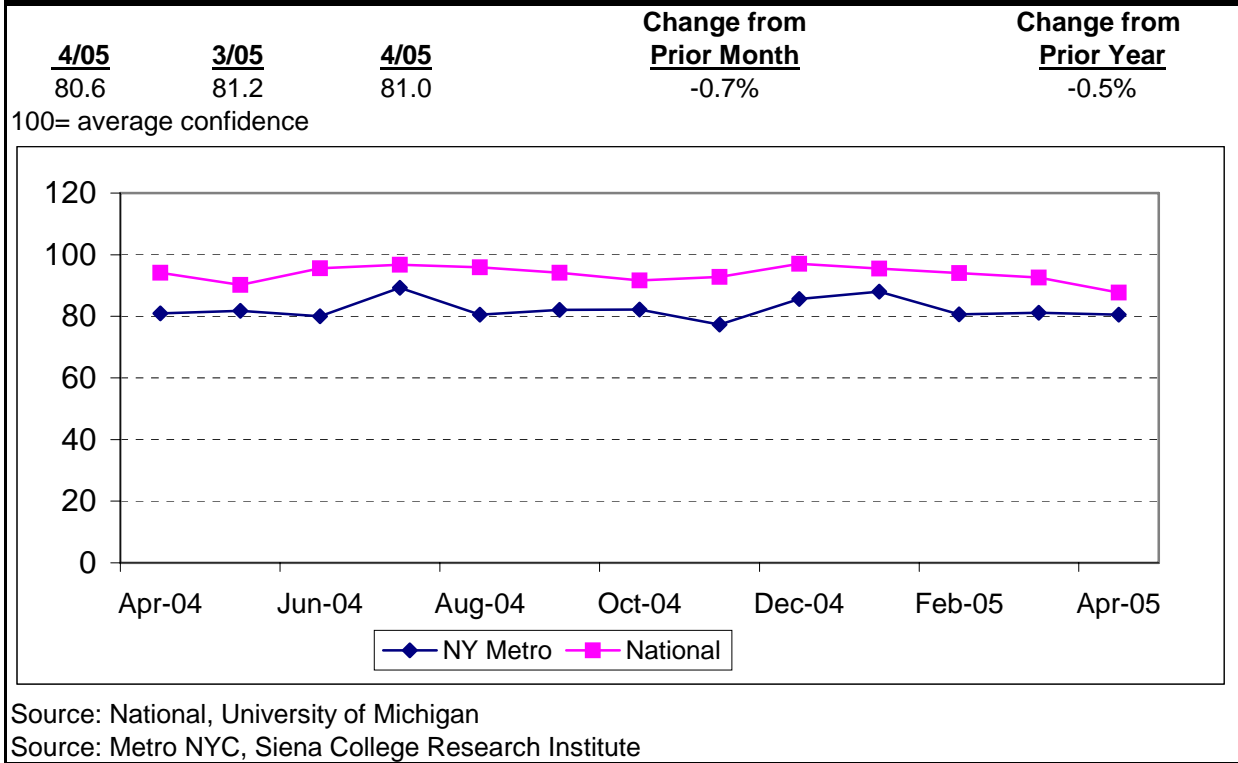
The most recent April 2005 Commerce Department statistics on retail sales corroborate Dr. Lonnstrom’s finding that buying plans were down in February and March but will recover in the coming months. According to the Commerce Department, April 2005 retail sales increased 1.4% from the prior month. That represented the strongest showing in six months. Analysts were expecting an 0.8% increase in April.⁴

² Aversa, Jeannine, “Greenspan: Economy to Weather Oil Prices”, 1010Wins.com, May 20, 2005.

³ “New York State Consumer Confidence Hits 18 Month Low”, Siena College Research Institute, May 6, 2005.

⁴ “Retail Sales Rise a Strong 1.4% in April”, USAToday.com, May 12, 2005.

Consumer Confidence Index Metro NYC



It is very important to monitor the method individuals use to make their purchases since online retail sales are still largely untaxed and are expected to increase this year. According to Forrester Research Inc., online retail sales will rise 22% this year. The highest growth is expected in the travel, cosmetics and jewelry markets.⁵

Local Area Employment Figures

April 2005 was a strong employment month. From an annual perspective, all areas surveyed saw an increase in resident employment coupled with a decrease in the unemployment rate and the number of unemployed residents. Excluding New York City, similar trends were recorded from a monthly perspective.

All areas surveyed recorded both annual and monthly increases in their labor force. Labor force growth is seen as an indicator of a growing economy. Strong employment figures will help residents cope with the increase recorded in consumer prices. The chart on the next page details changes in resident employment figures by area.

⁵ "Online Retail Sales Seen Up 22%", CNN/Money.com, May 24, 2005.

Comparison of Employment Statistics
(figures in thousands)

	<u>4/05</u>	<u>3/05</u>	<u>4/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
<u>Nassau</u>					
Employed	660.2	653.1	647.7	1.1%	1.9%
Unemployed	25.5	27.3	30.0	-6.6%	-15.0%
Unemployment rate	3.7%	4.0%	4.4%	-7.5%	-15.9%
<u>Suffolk</u>					
Employed	736.2	728.3	722.3	1.1%	1.9%
Unemployed	29.0	32.1	34.5	-9.7%	-15.9%
Unemployment rate	3.8%	4.2%	4.6%	-9.5%	-17.4%
<u>NYC</u>					
Employed	3,511.9	3,506.0	3,435.9	0.2%	2.2%
Unemployed	201.4	197.3	263.2	2.1%	-23.5%
Unemployment rate	5.4%	5.3%	7.1%	1.9%	-23.9%
<u>Nation</u>					
Employed	140,939.0	139,759.0	138,423.0	0.8%	1.8%
Unemployed	7,335.0	7,986.0	7,837.0	-8.2%	-6.4%
Unemployment rate	4.9%	5.4%	5.4%	-9.3%	-9.3%

Source: New York State Department of Labor and US Bureau of Labor Statistics

Nassau-Suffolk Non-agricultural Employment

Non-agricultural Employment Nassau-Suffolk Area (figures in thousands)					
	<u>4/05</u>	<u>3/05</u>	<u>4/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Natural Resources, Construction & Mining	64.7	61.9	64.0	4.5%	1.1%
Manufacturing	88.1	88.7	87.7	-0.7%	0.5%
Wholesale Trade	72.1	72.4	71.8	-0.4%	0.4%
Retail Trade	158.2	158.4	158.5	-0.1%	-0.2%
Transportation, Warehousing & Utilities	37.2	37.1	36.4	0.3%	2.2%
Information	28.6	28.6	28.7	0.0%	-0.3%
Financial Activities	83.6	83.8	83.2	-0.2%	0.5%
Professional & Business Services	157.9	152.8	154.0	3.3%	2.5%
Educational & Health Services	200.4	200.8	197.0	-0.2%	1.7%
Leisure & Hospitality	94.7	91.1	90.5	4.0%	4.6%
Other Services	51.3	51.3	50.7	0.0%	1.2%
Government	201.0	201.1	200.7	0.0%	0.1%
Total	<u>1,237.8</u>	<u>1,228.0</u>	<u>1,223.2</u>	<u>0.8%</u>	<u>1.2%</u>
Source: NYS Department of Labor					

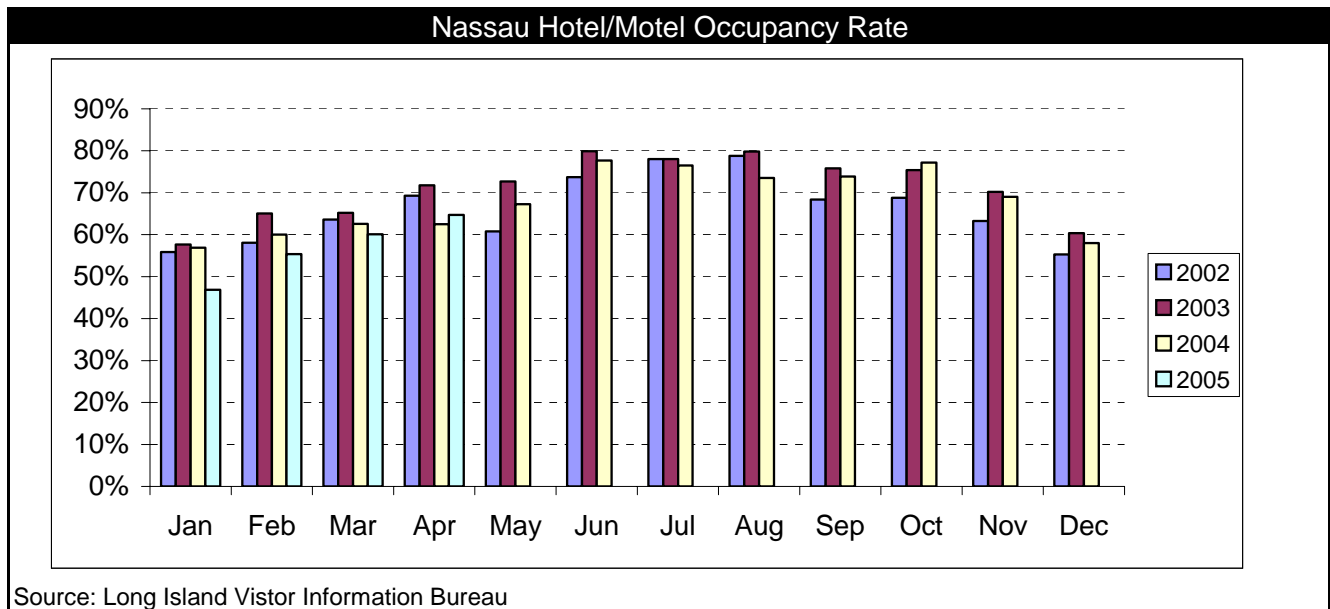
The Long Island region recorded strong job growth in April 2005. Total job growth was above the 1% mark, indicative of healthy growth, from an annual perspective. The annual job growth was diverse with ten of the twelve sectors recording increases.

Monthly job growth was positive but below the 1% mark. Five of the twelve sectors analyzed recorded monthly job declines. The strongest monthly job growth was in the Natural Resources, Construction and Mining sector. This sector has been growing regionally for the past five years. According to New York State Department of Labor figures the Natural Resources, Construction and Mining sector comprised 5.0% of all local jobs in 2000. In 2004 that percentage had grown to 5.3%. Not only has the construction industry been growing regionally, but nationally, the residential construction now accounts for 5.8% of gross domestic product. That is up from 4.6% in 2000. Analysts have expressed concern about this growth since the tech sector comprised 4.8% of gross

domestic product in 2000 before the collapse of the tech industry. Moreover, some see housing-driven growth as distorting the economy since such growth benefits low-tech commodity sectors rather than high-tech industries which are America's competitive strength.⁶

The Lodging Industry

Analysts are expecting demand in the hospitality industry to be strong this summer. In spite of high gasoline prices, threats of terrorism and a weak dollar, Americans feel free to travel. According to the European Travel Commission, a record 14 million Americans will visit Europe this year. This strong demand has resulted in high travel costs. According to AAA's survey of domestic lodging costs, lodging for a family of four domestically costs nearly 4% more than this time last year.⁷



The chart above details hotel/motel occupancy rates in Nassau County over the past five years. April 2005 occupancy was greater than that seen in 2004, but still below those seen in the previous years. Due to fact that several new hotels and motels have been built over this time frame, trends in occupancy rates cannot be used to draw conclusions about the health of the industry.

Nassau County Hotel / Motel Occupancy Rate					
	<u>4/05</u>	<u>3/05</u>	<u>4/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Occupancy Rate	64.7%	60.1%	62.5%	7.7%	3.5%

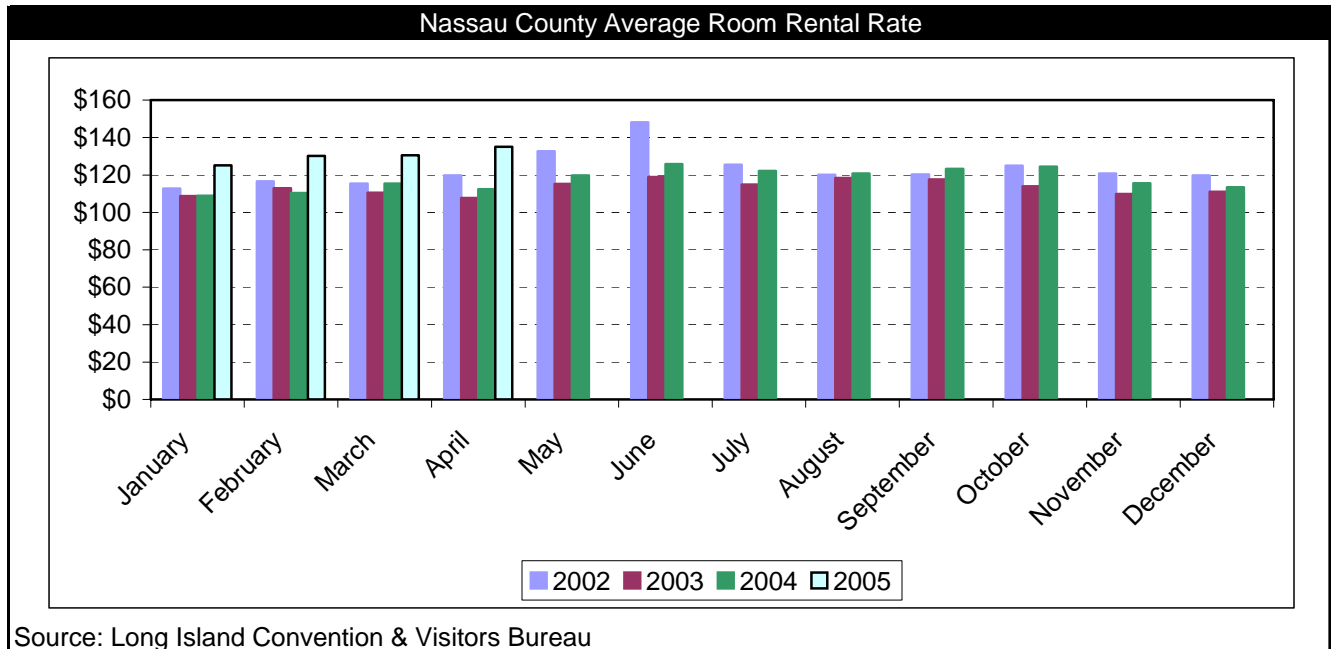
Source: Long Island Convention and Visitors Bureau

The chart on the next page shows average room rental rates in Nassau over the previous four years. Average room rental rates in April 2005 were 4.3% greater than the prior year. The price increase may

⁶ Mandel, Michael J., "The Cost of all Those McMansions", *Business Week*, June 6, 2005.

⁷ Christie, Les, "Summer Travel: Fares, Room Rates Spike", *CNN/Money.com*, May 4, 2005.

be seen as part of the national trend mentioned previously. The fact that hotels and motels have been able to raise their rates during a time of increasing supply, shows that robust demand exists for the County lodging industry.



Residential Housing Market

The local housing market continues to appreciate. In April 2005, the average closing price of a home in Nassau was 22.2% higher than in April 2004. Fueling the price appreciation is the fact that mortgage interest rates have remained low despite increases in short-term interest rates made by the Federal Reserve.⁸

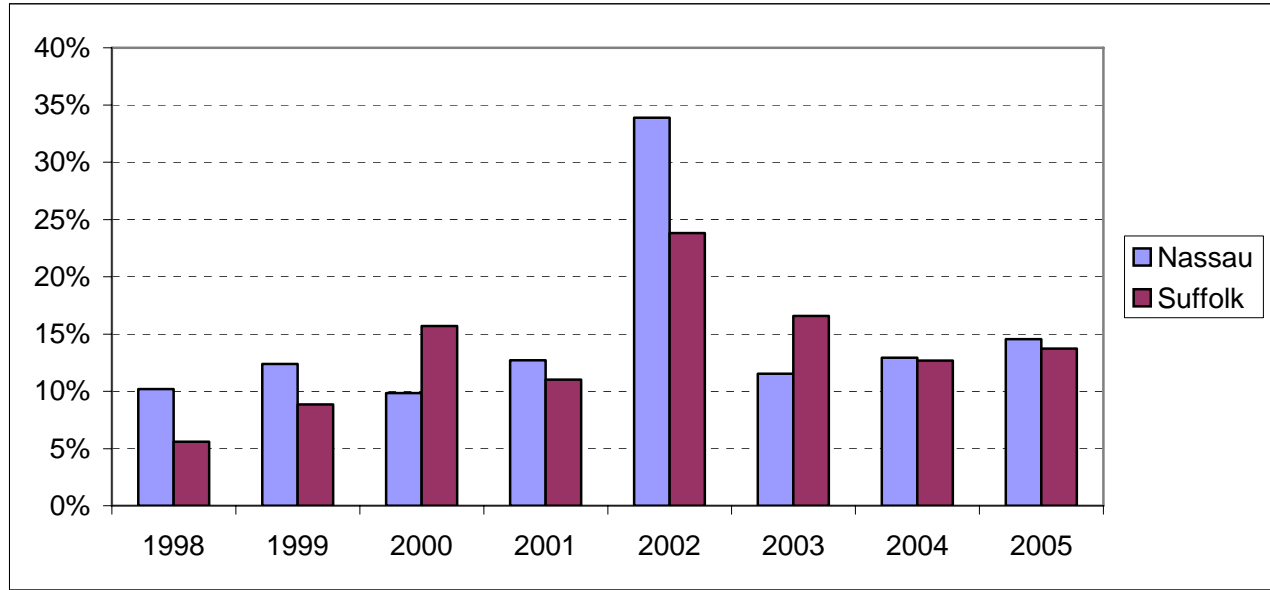
According to experts, there are downsides to high real estate prices. High prices are seen as keeping buyers out of the market, making it harder for firms to attract workers in pricey markets and breeding high consumer debt and speculative buying. Evidence of consumer stress may be seen in the growth of the adjustable-rate mortgage industry and the increase seen in the average debt to income ratio of a typical home. Adjustable-rate mortgages carry lower-interest rates during their first years and then rise in tandem with the market. The lower initial interest rates enable some to enter a more pricey market. Historically, adjustable-rate mortgages represented 20% of the home finance market. Currently, they comprise more than a third of the home finance market. Additionally consumer stress may be seen in the increase in the typical debt to income ratio. According to Goldman Sachs, a typical existing home costs 3.5 times a median family income. That is up from the longstanding 2.7 ratio.⁹

⁸ Isidore, Chris, "Home Sales Soar to Record", CNN/Money.com, May 24, 2005.

⁹ Kirchoff, Sue, "Bubble or not, High Home Prices can Hurt", USAToday.com, May 11, 2005.

Annual Percentage Change in Residential Housing Average Closing Price

2005 figures are projections based prices through April 2005

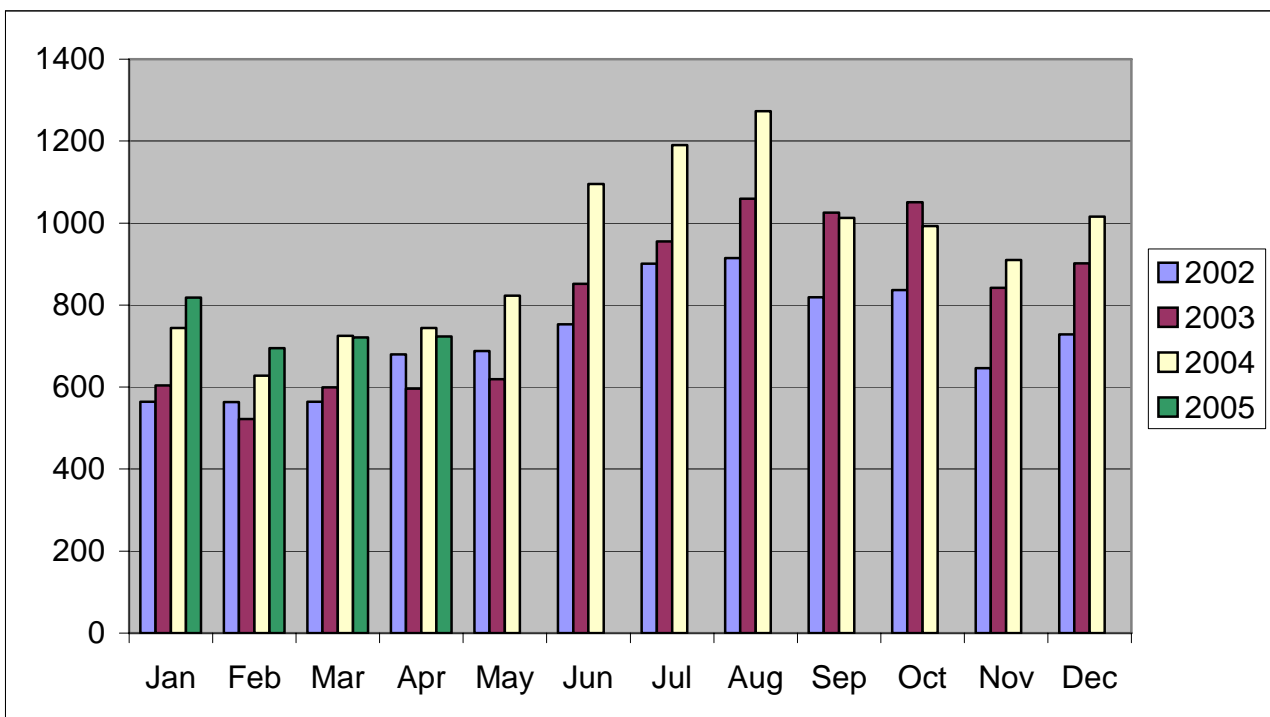


Source: Multiple Listing Service of Long Island

In April 2005, Nassau's average closing price was \$590,500 and Suffolk's was \$451,000.

The chart below details the number of closed transactions in Nassau County by month. In April 2005 there were 723 closed transactions completed. That represents a 2.8% decline from April 2004.

Nassau County Closed Residential Transactions by Month



Source: Multiple Listing Service of Long Island, MLSLI

Residential inventory levels rose on Long Island in April from both a monthly and an annual vantage point. Residential inventory levels in Nassau increased by 6.7% from the prior month. In Suffolk County residential inventory levels rose 8.9% from April 2005. Both counties recorded annual increases in their inventory levels.

Conclusion

Our regional economy moved forward April 2005. Regional employment grew and prices remained constant. Moreover, strong demand and low interest-rates have enabled hotel and home owners to raise their prices. However, consumer confidence took a step back. More data is required to see if interest-rates will rise in reaction to the moves taken by the Federal Reserve. If interest-rates and consumer prices rise, some economic momentum could be lost.