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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

A handwritten signature in black ink, appearing to be "ECN", written over the printed name of Eric C. Naughton.

Date: May 14, 2007

Re: May 2007 Economic Indicators Report

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Attached is a copy of the Office of Legislative Budget Review's May 2007 Economic Indicators report. This report is intended to assist the Legislature in making policy decisions and in assessing budgetary forecasts. The data presented are the most current as of the date of circulation and are the most geographically relevant.

cc Hon. Howard Weitzman, County Comptroller  
Mark Young, Budget Director  
Richard Luke, Executive Director, NIFA  
Dan McCloy, Special Assistant Minority  
Tom Stokes, Deputy County Executive  
Roseann D'Alleva, Majority Finance  
Fran Evans, Director of Policy



# MAY 2007 ECONOMIC INDICATORS REPORT

## NASSAU COUNTY OFFICE OF LEGISLATIVE BUDGET REVIEW

### HIGHLIGHTS:

- Average closed home sale prices in Nassau fell 2.3% from this time last year. (p. 1)
- The slowdown in the housing market is being exacerbated by the crisis in the subprime lending market. (p. 2)
- National retail sales grew 0.3%, the slowest rate seen in five months. (p. 3)
- No regional declines were witnessed in resident employment. (p. 4)
- Consumer prices are up 2.9% on average from this time last year. (p. 5)
- Consumer confidence fell regionally and nationally from a monthly perspective. (p. 6)

March 2007 was not without its economic bumps for the nation and the County. Nationally, real GDP for the first quarter of 2007 was 1.3%. This GDP increase was far below expectations and the weakest reading recorded since 2003.<sup>1</sup> Looking forward, nationally, the index of leading indicators fell 0.5%. The decline was attributed to sluggish manufacturing and weakness in the housing market. The decline is seen as foreshadowing changes in the economy three to six months in

<sup>1</sup> Aversa, Jeannine, "Economy Grows at 2.5 Percent Pace in 4Q", [Newsday.com](#), March 29, 2007.

advance.<sup>2</sup> Regionally, slow growth was recorded in the housing and consumer confidence indicators.

### Residential Housing Market

March 2007 was a slow month for Nassau's residential housing market. From an annual perspective, average closed sale prices decreased roughly 2.3% and median closed sale prices were unchanged. Inventory levels were up roughly 19% from the prior year and the number of closed transactions increased 2.8% from March 2006. The housing market slowdown will negatively impact County Clerk fee revenues, of which roughly 70% are attributable to housing market transactions.

The housing slowdown is being felt nationwide. Economists also suggest that the housing market correction will continue until the second quarter of 2008 for our region. The slowdown is receiving additional momentum from the crisis in the subprime mortgage market. About two dozen subprime mortgage lenders across the country have failed. The failures are a result of high delinquency and foreclosure rates among subprime borrowers.<sup>3</sup> Recently, the crisis has begun to impact prime borrowers. On April 9, 2007, American Home Mortgage Investment warned of lower earnings after taking a hit on higher quality debt. The

<sup>2</sup> "Leading Indicators Fall 0.5%, Bigges Drop in a Year", [USAToday.com](#), March 22, 2007.

<sup>3</sup> Bernstein, James, "Mortgage Market in Turmoil", [Newsday.com](#), March 13, 2007.

company took a loss on securities rated AA, A or BBB.<sup>4</sup> The foreclosed properties will place additional inventory on the market, causing sale prices to fall. Moreover, due to the subprime bank failures, other mortgage institutions are tightening their underwriting standards. The tighter underwriting standards curb demand while increasing supply. All totaled, regional home sale prices will continue to fall until the excess inventory is eliminated. According to Senator Charles Schumer, by the end of 2008 as many as 8,378 families in Nassau County are at risk of losing their homes which they obtained with the aid of a subprime mortgage. That represents roughly 1.8% of Nassau County's 2005 housing stock.

The magnitude and duration of the failure in the subprime mortgage market is directly related to the manner in which the lending institutions handle the properties that are in default. If the lenders become aggressive and foreclose on all default properties quickly, the magnitude and duration of the crisis will be worse since it will be difficult for the market to absorb all of the properties at once. If the lenders work with the borrowers and provide them with avenues to refinance their loans, the magnitude and duration of the crisis will be lessened. There is evidence that lenders will opt for the second path due to new programs being instituted by Fannie Mae and Freddie Mac. During recent testimony, Fannie Mae's chief executive officer unveiled a new effort entitled, "Home Stay", which is designed to offer more consumer-friendly subprime products that will provide stable financing alternatives going forward. The goal is to enable the borrowers to shed subprime mortgages before the payments spike. Fannie Mae hopes to have these programs up and running by mid-summer.<sup>5</sup>

<sup>4</sup> "Mortgage Mess: Now it's Prime Time", [BusinessWeek.com](http://BusinessWeek.com), April 9, 2007.

<sup>5</sup> "Fannie, Freddie to Offer Subprime Help", [CNN/Money.com](http://CNN/Money.com), April 17, 2007.

**Chart 1**  
Nassau County Closed Residential Transactions by Month  
Through March 2007

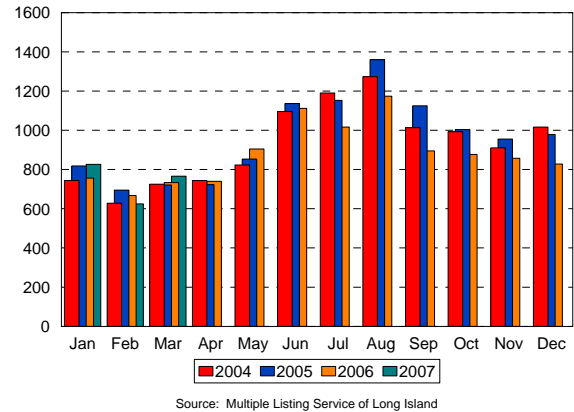
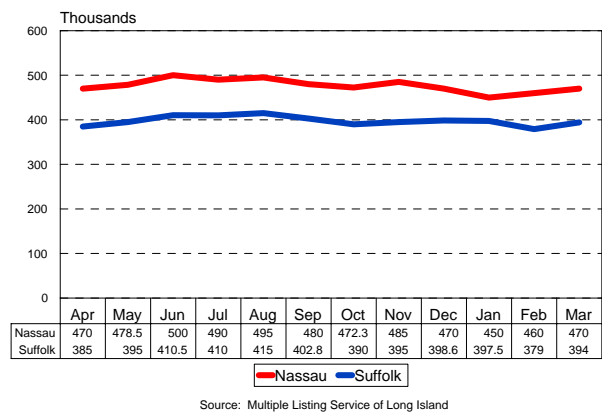


Chart 1 details the number of closed residential transactions in Nassau County by month since 2004. March's 766 number was the highest number of closed transactions recorded in March over the past five years. Year to date, the number of closed transactions has increased 2.8% from this time last year.

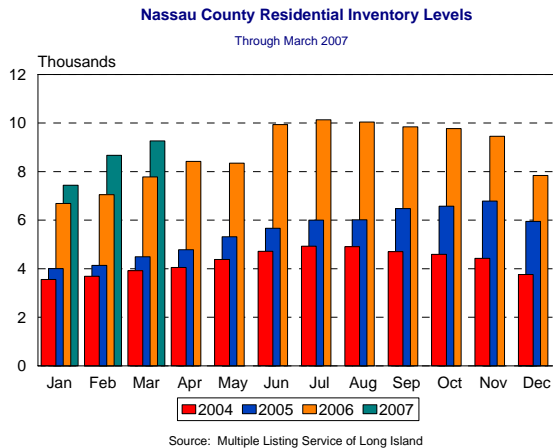
**Chart 2**  
Monthly Closed Residential Median Price in Nassau and Suffolk



As mentioned previously, the current housing market slowdown is causing both median and average closed prices to soften. March 2007's average closing price of \$593,200 is 2.3% below March 2006's average closing price. Moreover, March 2007's median closing price of \$470,000 is equal to March 2006's median closing price. Experts are expecting the downward trend to continue. The National Association of Realtors expects a 0.7% decline in median sale prices of existing homes nationwide. This would be the first time, since

the group began tracking sales data, that the median home price fell nationwide. Moreover, the CEO of KB Home, a new home builder in the western and southern markets of the US is expecting the housing slump to get worse.<sup>6</sup>

**Chart 3**



Nassau residential inventory levels have increased by 18.9% since March of last year. In Suffolk County residential inventory levels have risen 20.2% from March 2006. Inventory levels have also increased from a monthly perspective. Inventory levels rose 6.8% and 5.2% in Nassau and Suffolk Counties respectively from the previous month. Rising inventory levels are indicative of a slowing housing market, since it is taking longer for homes to sell.

## Personal Consumption

Despite the onset of tax refund season and increased personal income, consumer spending increased a marginal 0.3% in March 2007. This was the slowest consumer spending rate seen in five months. Much of the spending increase was paid for out of income since the nationwide consumer borrowing rate fell in February 2007.

According to the IRS, as of March 23, 2007, the average taxpayer refund was \$2,771, an

<sup>6</sup> "Home Prices to Fall for First Time in 2007", [CNN/Money.com](http://CNN/Money.com), April 11, 2007.

increase of 3.2% from 2006. These tax refunds have only started to impact consumer spending. According to the Commerce Department, retail sales jumped 12% to 20% in March, April and May compared to February.<sup>7</sup>

Concurrent with the start of tax refund season, personal income rose 0.7%, consumer spending rose 0.3%<sup>8</sup> and retail sales rose 0.7%.<sup>9</sup> However, since February 2007 the consumer borrowing rate fell to 1.5% from last month's 3.3%, many of the consumer purchases were financed with income rather than debt.<sup>10</sup>

This trend of using income rather than debt to finance consumer purchases can be expected to continue. It seems that the high delinquency rates recorded in subprime mortgages is infiltrating delinquency rates in other subprime loans. The motorcycle industry provides an example of the previously mentioned purchasing trends. Troubles with subprime loans caused Harley-Davidson stock to decline more than 15%. Harley-Davidson finances roughly half of the motorcycles that it sells and the losses suffered on these loans caused the previously detailed stock decline. Due to the stock price decline, Harley-Davidson has tightened its lending standards which will negatively impact sales growth.<sup>11</sup> If other retailers experience similar increased delinquency rates and consequently tighten their underwriting standards, it can be expected that individuals will have to make more purchases with income or opt to make fewer purchases.

In the auto industry it seems that individuals are electing to make fewer purchases. In April

<sup>7</sup> Fetterman, Mindy, "For Many, Tax Refund Spells 'Fun'", [USAToday.com](http://USAToday.com), April, 4, 2007.

<sup>8</sup> "Consumer Spending Rises by Slowest Amount in 5 Months", [USAToday.com](http://USAToday.com), April 30, 2007.

<sup>9</sup> "Consumers Keep Buying in March", [USAToday.com](http://USAToday.com), April 16, 2007.

<sup>10</sup> "Consumers Borrowed Less Freely in February", [USAToday.com](http://USAToday.com), April 6, 2007.

<sup>11</sup> Brush, Michael, "How Harley Stock Could Roar Back", [MSN/MoneyCentral.com](http://MSN/MoneyCentral.com), April 4, 2007.

2007, sales of new cars and trucks fell 7.6% from the prior year. A weak housing market and high gas prices were seen as contributing to the decline in new car and truck sales.<sup>12</sup>

### Consumer Shopping Update

Forrester Research just completed its study entitled, “The State of Retailing Online 2007”. The study found that more individual are shopping online and forgoing trips to the mall. Online sales including travel grew 25% from 2006. Online purchases now represent 6% of total retail sales. Online sales including travel are projected to grow 18% in 2007. Since many of these purchases are exempt from taxation, this growth hurts county sales tax collection.

“Online Clothing Sales Surpass Computers, According to Shop.org/Forrester Research Study”, [NRF.com](http://NRF.com), May 14, 2007.

### Local Area Employment Figures

From a regional perspective, the number of County residents that were employed increased marginally by 0.6% from February 2007, contributing to a decrease in the unemployment rate from 3.9% to 3.5%. Similarly, in Suffolk County and New York City, the unemployment rate decreased from 4.3% to 3.9% and 5.1% to 4.4% in March. March unemployment rate dropped to 4.4% from 4.5% in February, the lowest level since October. Employment data look even stronger from an annual viewpoint. In Nassau County the unemployment rate decreased by 12.5%. On an annual basis, the unemployment rate also dropped by 9.3% in Suffolk County and 17% in New York City.

<sup>12</sup> Healey, James R., Chris Woodyard, and Sue Kirchhoff, “Auto Sales Pull into the Pit”, [USAToday.com](http://USAToday.com), May 1, 2007.

Table 1 details monthly and annual changes seen in regional resident employment, resident unemployment and unemployment rates.

**Table 1**

Comparison of Employment Statistics (figures in thousands)					
	3/07	2/07	3/06	+/- Prior Month	+/- Prior Year
<b>Nassau</b>					
Employed	660.8	656.7	660.7	0.6%	0.0%
Unemployed	24.1	26.5	27.6	-9.1%	-12.7%
Unemployment	3.5%	3.9%	4.0%	-10.3%	-12.5%
<b>Suffolk</b>					
Employed	743.9	739.2	743.8	0.6%	0.0%
Unemployed	29.8	33.5	33.3	-11.0%	-10.5%
Unemployment	3.9%	4.3%	4.3%	-9.3%	-9.3%
<b>NYC</b>					
Employed	3,634.0	3,634.0	3,609.0	0.0%	0.7%
Unemployed	166.0	194.0	203.0	-14.4%	-18.2%
Unemployment	4.4%	5.1%	5.3%	-13.7%	-17.0%

Source: NYS Department of Labor and US Bureau of Labor Statistics

### Nassau-Suffolk Non-agricultural Employment

From a monthly vantage point, Long Island non-agricultural job growth once again surpassed the 1% mark in Long Island, which is indicative of a healthy economy. From an annual perspective, Long Island non-agricultural employment increased by 0.9%. From both a monthly and annual perspective, job gains were experienced in nine of the twelve industries surveyed. Over the year, the total increase in private jobs was 1.2%, or 2,300 more jobs, for a total in March 2007 of approximately 1.2 million non-farm jobs. However, according to [Newsday.com](http://Newsday.com), “the buoyancy [of these figures] pales when compared with the yearly averages of more than 27,000 new jobs in the late 1990’s”.<sup>13</sup>

Table 2 below depicts regional job growth by employment sector on Long Island.

<sup>13</sup> Masson-Draffen, Carrie, “New gains for LI job market”, [Newsday.com](http://Newsday.com), March 29, 2007

**Table 2**

Non-agricultural Employment Nassau-Suffolk Area (figures in thousands)					
	3/07	2/07	3/06	+/- Prior Month	+/- Prior Year
Educational & Health Services	206.3	203.6	202.8	1.3%	1.7%
Financial Activities	78.6	78.2	79.4	0.5%	-1.0%
Government	202.6	202.1	201.6	0.2%	0.5%
Information	29.9	30.0	29.5	-0.3%	1.4%
Leisure & Hospitality	90.3	87.0	88.8	3.8%	1.7%
Manufacturing	84.2	84.0	85.8	0.2%	-1.9%
Natural Resources, Construction & Mining	67.1	64.2	65.0	4.5%	3.2%
Other Services	51.7	51.0	51.6	1.4%	0.2%
Professional & Business Services	162.2	159.3	158.0	1.8%	2.7%
Retail Trade	157.8	157.2	156.7	0.4%	0.7%
Transportation, Warehousing & Utilities	35.1	35.2	35.7	-0.3%	-1.7%
Wholesale Trade	72.3	73.0	72.0	-1.0%	0.4%
<b>Total</b>	<b>1,238.1</b>	<b>1,224.8</b>	<b>1,226.9</b>	<b>1.1%</b>	<b>0.9%</b>

Source: NYS Department of Labor

On an annual and monthly basis, Natural Resources, Construction & Mining experienced the greatest positive change of 4.5% and 3.2% respectively. From last month, growth in the Leisure & Hospitality sector followed with a strong growth of 3.8%. Annually, Professional & Business Services, Educational & Health Services, and the Information sectors showed growth of 2.7%, 1.7% and 1.4%, respectively, as well.

Of the total twelve sectors surveyed, the Manufacturing sector recorded the greatest annual job decline for the third month in a row. As indicated in our previous report, the decline was expected to continue as three companies had announced cuts resulting in the probability of job losses for as many as 1,000 workers. These job cuts are significant since manufacturing jobs are high-paying and

support 2.36 secondary jobs in industries such as retail.<sup>14</sup>

National employment data reflect a net gain of only 88,000 jobs in April, which is less than the 177,000 new jobs in March. This increase reflects the smallest gain in jobs since November 2004, when only 65,000 jobs were added.<sup>15</sup> Further, taking into consideration the 90,000 job gain in February of this year, for the first time since 2003, the increase in jobs falls short of the 100,000 mark in two of the three most recent months.

## Consumer Price Indexes

**Table 3**

Consumer Price Indexes New York-Northern New Jersey-Long Island, NY-NJ-CT-PA Region					
Index	3/07	2/07	3/06	Monthly %	Annual %
US City, CPI-U	205.4	203.5	199.8	0.9	2.8
Regional CPI-U	224.6	223.1	218.2	0.7	2.9
Core CPI-U (All Items less energy)	229.3	228.8	223.6	0.2	2.5
Medical	357.7	354.4	338.6	0.9	5.6
Housing	244.0	242.7	233.4	0.6	4.6
Gasoline (all types)	198.3	173.8	184.0	14.1	7.8

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

Table 3 above shows that overall consumer prices increased both nationally and regionally in March 2007. The regional price increase outpaced that seen nationally by 0.1%. The national monthly increase was the greatest seen since April 2006.<sup>16</sup>

Chart 4 below reveals that regional increases in Medical Care, Housing, Education and Food propelled the all-items index up. Regionally,

<sup>14</sup> Mason-Draffen, Carrie, "Producing Job Cuts", [Newsday.com](http://Newsday.com), March 4, 2007.

<sup>15</sup> Isidore, C., "April job growth: slowest since '04", [CNMMoney.com](http://CNMMoney.com), May 4, 2007

<sup>16</sup> "Consumer Prices Surge as Energy Prices Jump", [USAToday.com](http://USAToday.com), April 17, 2007.

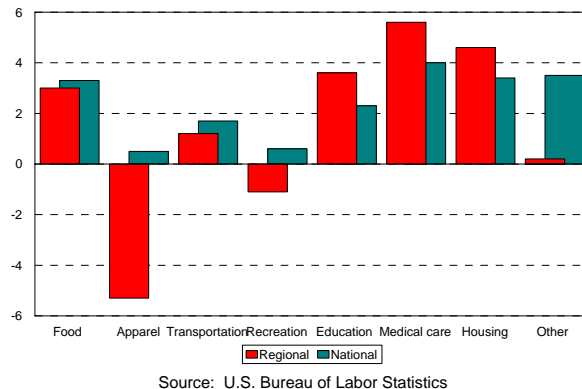
Apparel and Recreation exhibited a decrease from this time last year. Nationwide, no indexes exhibited annual declines.

Looking forward, experts anticipate medical care and gasoline costs to increase.

Medical care costs have risen since insurers have been shifting more costs onto patients. Patients are now responsible for higher co-payments and deductibles. These increases are seen as a way to control health care spending. A recent study by The Access Project, an advocacy group that researches medical debt, found that annual or lifetime “caps” on benefits, extra charges for “out of network” care, and complex billing systems are additional factors associated with medical debt. Medical costs have been shifted onto patients to such a large extent that even individuals with health insurance are filing for bankruptcy.<sup>17</sup>

Energy market analysts are beginning to revise their gas price forecasts for the remainder of 2007. According to one analyst, gas prices could increase further and hit \$4 in some locations this summer. Geopolitical tensions and refinery outages are seen as causing pump price to rise.<sup>18</sup> Despite steady gasoline prices, motorists can expect the price of driving a car to increase this year as insurance, licensing, and financing charges are projected to rise. AAA found that when all costs are taken into account, the average cost of driving 15,000 miles a year works out to 52.2 cents a mile.<sup>19</sup>

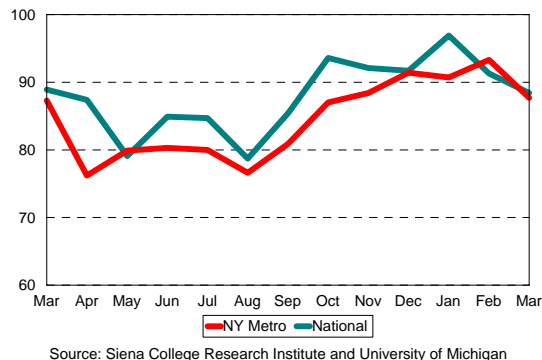
**Chart 4**  
CPI-U Regional vs. National Annual Percentage Change  
March 2007



## Consumer Confidence Index

In March 2007, regional and national consumer confidence decreased from a monthly perspective. However, from an annual perspective, regional consumer confidence increased 0.5%, while national consumer confidence declined 0.6%. The chart below details the monthly changes seen in both regional and national overall consumer confidence.

**Chart 5**  
Overall Consumer Confidence Index  
Metro NYC vs. National



Compared to last month, regional consumer confidence fell 6.0%. Throughout the nation, consumer confidence decreased 3.2% from the prior month.

<sup>17</sup> Appleby, Julie, “Report: Even the Insured have Trouble Paying Bills”, [USA Today.com](http://USA Today.com), March 21, 2007.

<sup>18</sup> Hargreaves, Steve, “Watch Out: Here Comes \$4 Gasoline”, [CNN/Money.com](http://CNN/Money.com), April 26, 2007.

<sup>19</sup> Woodyard, Chris and James R. Healey, “AAA: Most Costs of Auto Ownership Rise this Year”, [USA Today.com](http://USA Today.com), March 26, 2007.

**Table 4**  
**Detailed Consumer Confidence Indices**  
 Metro NYC

Index	3/07	2/07	3/06	Monthly %	Annual %
ICC	92.1	95.9	93.2	-4.0	-1.2
ICE	84.9	91.7	83.4	-7.4	1.8

Source: Siena College Research Institute

Table 4 details the Metro NYC consumer confidence by its two component parts, current (ICC) and future (ICE) confidence. Both of these indices combine to produce the overall index detailed in the chart above. The above detailed indices mirror the monthly and annual trends seen in the overall index. Both current and future confidence measures reveal negative growth from a monthly perspective.

Not only are consumers confident about future economic prospects, but so are small and mid-sized business owners. According to the Vistage CEO Confidence Index, CEO's are anticipating an economic expansion to continue for the remainder of 2007, despite the current uncertainties emanating from the housing slump, high energy prices and record consumer debt.<sup>20</sup>

## The Lodging Industry

Nassau's lodging industry recorded strong, positive growth in March 2007. From a monthly perspective, occupancy rates have risen 17.4%. Much of the increase may be attributed to seasonality since occupancy rates typically rise from February to March. From an annual perspective, occupancy rates rose 5.3%. Table 5 below records the monthly and

<sup>20</sup> "Survey: CEOs Bullish on Better Economy", [CNN/Money.com](http://CNN/Money.com), March 13, 2007.

annual changes in Nassau County occupancy rates.

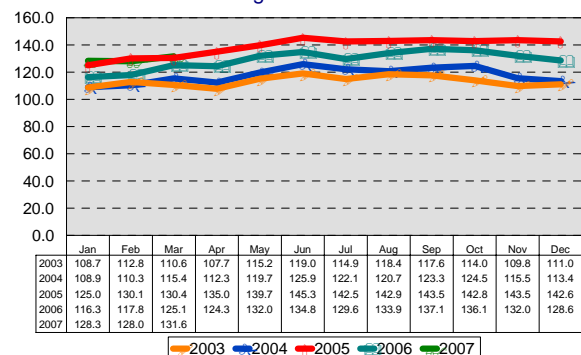
**Table 5**  
**Nassau County**  
 Hotel / Motel Occupancy Rate

Index	3/07	2/07	3/06	Monthly %	Annual %
Occupancy Rate	70.9%	60.4%	67.3%	17.4%	5.3%

Source: Long Island Convention and Visitors Bureau

Higher occupancy rates will positively impact Nassau County Hotel/Motel Tax collections. The increased occupancy rates reflect robust demand since experts have opined that Nassau County has been the recipient of excessive hotel/motel building. Since 1999, the Long Island region has absorbed 20 new hotels. Industry analysts were expecting the new hotels to place downward pressure on Nassau County occupancy rates.

**Chart 6**  
**Nassau County Average Room Rental Rate**  
 Through March 2007



Source: Long Island Convention and Visitor's Bureau

Chart 6 details average room rental rates in Nassau by month over the previous four years. From a monthly perspective average room rental rates have risen 2.8%. From an annual perspective, average room rental rates have increased 5.2%.



## Conclusion

Nassau County's economy was weak in March 2007. High gas prices coupled with a slowing housing market appear to be impacting retail sales and consumer confidence. Looking forward, experts opine that the high gasoline prices will impact not only consumers, but also businesses. Businesses that deal in non-necessities are expected to be the hardest hit.<sup>21</sup>

*Prepared by:*  
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<sup>21</sup> Incantalupo, Tom, "Pain at the Pump May Hurt LI Business", [Newsday.com](http://www.newsday.com), May 3, 2007.