



**NASSAU COUNTY LEGISLATURE**  
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**Inter-Departmental Memo**

To: Hon. Peter J. Schmitt, Presiding Officer  
Hon. Diane Yatauro, Minority Leader  
John Ciotti, Chairman  
All Members of the Budget Review Committee

From: SA Steve Antonio  
Legislative Budget Review

Date: April 27, 2010

Re: Regional and National Economic and Fiscal Forecast

Attached is a copy of the Office of Legislative Budget Review's Regional and National Economic and Fiscal Forecast. The data presented are the most current as of the date of circulation and are the most geographically relevant.

cc: Hon. George Maragos, Nassau County Comptroller  
Frank Moroney, Nassau County Chief Deputy Comptroller  
Steve Conkling, Nassau County Treasurer  
Jeff Nogid, Director, OMB  
Evan Cohen, Executive Director, NIFA  
David Gugerty, Policy Director  
Dan McCloy, Director of Law, Finance & Operations  
Tim Sullivan, Deputy County Executive  
Gregory May, Director of Legislative Affairs  
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Edgar Campbell, Minority Chief of Staff



## OFFICE OF LEGISLATIVE BUDGET REVIEW

### The Regional and National Economic and Fiscal Forecast for 2010, 2011 and 2012

April 2010

Both the regional and national economies are doing better than anticipated. Economists have raised their economic growth projections due to stronger than expected consumer spending, corporate profit and resident employment statistics. Although the economy is currently performing better than anticipated, economists caution that the recovery is not considered robust. Comparatively, after the 1981-1982 recession, the economy expanded 7.2%. That type of a V-shaped recovery is not anticipated.<sup>1</sup> Table 1 details the current forecasts for national real gross domestic product, GDP, growth.

**Table 1**

Annual US Real GDP Growth Forecast 2010 to 2013				
	2010	2011	2012	2013
Moody's Economy.com	2.9	3.9	5.1	3.4
The Conference Board	2.6	2	NA	NA
Fed. Reserve Bank of Philadelphia	3.0	2.9	3.4	3.1
Mortgage Bankers Association	2.8	3.9	4.3	NA
PMI Mortgage Insurance Co.	2.9	3.7	NA	NA
<b>Average</b>	<b>2.83</b>	<b>3.27</b>	<b>4.26</b>	<b>3.26</b>

In OLBR's January Economic Outlook Report, US GDP was expected to grow 2.49%, 3.34%, and 4.12% in 2010, 2011 and 2012. Over the next three years, the nation can expect about a half a percentage more economic growth to occur. The additional economic growth is expected to occur in 2010 and 2012.

<sup>1</sup> Chandra, Shobhana, and Rich Miller, "Recovery Tilting to V-Shape as Profits Prompts Growth Revision", [Bloomberg.com](http://Bloomberg.com), April 18, 2010.

Locally, gross county product growth rates are also expected to be greater than previously estimated. That is, in January the three year growth rate for Nassau's GCP was 4.9%. In the March forecast, Nassau's GCP is expected to rise 7.4% over the next three years.

Table 2 details the annual growth rates forecast for ten regional economic indicators. Greater employment, income, new mortgage and retail sales growth may be seen as contributing to the brighter outlook for overall regional economic growth.

**Table 2**

2010 to 2012 Nassau County Economic Forecast			
Forecast Annual Growth Rates			
	2010	2011	2012
GCP	1.6%	2.7%	3.1%
Personal Income	2.3%	3.2%	5.7%
Employed	0.0%	0.9%	1.9%
Unemployed	10.8%	1.2%	-19.0%
Non Farm Jobs	-1.5%	0.8%	2.2%
New Mortgages	2.3%	7.9%	17.7%
Mrt Refinances	-7.2%	-22.6%	-19.6%
Retail Sales	4.1%	1.7%	5.2%
Median Home Sale Price	-11.6%	-1.7%	4.8%
Regional CPI	2.7%	2.8%	3.5%

Source: Moody's Economy.com

In 2010, growing unemployment, decreased non-farm jobs and declining home sales prices are expected to place downward pressure on overall economic activity. Positive annual non-farm job growth is not expected to commence until 2011 in Nassau County. Nassau County is not expected to see an annual decline in the number of unemployed residents until 2012.

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Moreover, home sale prices are expected to experience the slowest recovery. Positive home sale price growth is not expected to resume until 2012. Due to falling home prices and unchanged or rising mortgage interest rates, the market for mortgage refinancing is expected to decline from 2010 through 2012.

The following sections provide a detailed look at each forecast economic variable. If current trends continue, 2010 should be a better year economically than 2009. Additionally, economic activity over the next three years is forecast to be stronger than initially thought.

### 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 Moody's Economy.com's April 2010 forecast, Nassau County's real Gross County Product (GCP) is expected to be positive throughout 2010 and 2011.

**Table 3**

Nassau County Consumption Growth By Quarter				
2010				
	Q1	Q2	Q3	Q4
GCP	0.60%	0.74%	0.72%	0.63%
Pers. Inc.	0.84%	0.94%	0.82%	0.65%
2011				
	Q1	Q2	Q3	Q4
GCP	0.60%	0.63%	0.74%	0.83%
Pers. Inc.	0.61%	0.75%	1.05%	1.36%

Source: Moody's Economy.com

Table 3 details the 2010 and 2011 Nassau consumption forecast by quarter. A detailed look at the projected annual real GCP and personal income growth reveals that Nassau is expected to experience a gradual recovery. A major force behind the improved economic picture is the consumer. Consumer spending accounts for 70% of US economic activity and

according to the US Commerce Department, US personal spending rose 0.3% from the prior month in February 2010. That represented the fifth month of increased personal spending.<sup>2</sup>

Nationwide, the chance of falling back into a recession has diminished. According to Mark Zandi of Moody's Economy.com, the odds that the United States will fall back into a recession are now 15%, down from 25% at the start of 2010.<sup>3</sup>

### Labor Market

According to the New York State Department of Labor, the Nassau County unemployment rate stood at 6.9% in March 2010, down from February's 7.5% and unchanged from the prior year. Compared to the prior year, in March 2010 there were 3,900 fewer employed residents and 4,400 fewer residents counted in the labor force.

Labor market conditions are expected to remain sluggish throughout 2010 and 2011. Nassau's unemployment rate is expected to rise through the second quarter of 2011, reaching 7.8% at its highest point. Compared to January 2010's forecast, Nassau's unemployment rate will not reach its previously estimated 8.25% height. However, the rate will continue to climb through 2011, where previously its descent was expected to occur in 2010. The number of employed residents is no longer expected to fall in the first quarter 2010 and increase slightly through the fourth quarter of 2011. Nassau is not expected to experience a decline in the number of unemployed residents until the second quarter of 2011. These projections may be viewed on a quarterly basis in Table 4.

<sup>2</sup> Sutton, Chavon, "Personal Spending Rises in February", [CNN/Money.com](http://CNN/Money.com), March 29, 2010.

<sup>3</sup> Chandra, Shobhana, "Recovery Tilting to V-Shape as Profits Prompts Growth Revision", [Bloomberg.com](http://Bloomberg.com), April 18, 2010.

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**Table 4**

Nassau Labor Market by Quarter, 2010 and 2011				
2010				
	Q1	Q2	Q3	Q4
Total Employed	0.18%	0.29%	0.25%	0.17%
Total Unemployed	1.36%	0.87%	1.38%	1.89%
Unemployment %	7.5%	7.5%	7.6%	7.7%
Non Farm Jobs	-0.33%	-0.16%	-0.02%	0.10%
2011				
	Q1	Q2	Q3	Q4
Total Employed	0.15%	0.21%	0.36%	0.50%
Total Unemployed	1.39%	-0.06%	-2.44%	-4.91%
Unemployment %	7.8%	7.8%	7.6%	7.2%
Non Farm Jobs	0.22%	0.33%	0.44%	0.53%

Source: Moody's Economy.com

Although, the employment market is projected to gradually recover over the next few years, the recover is unlike previous recoveries in that long-term unemployment is at record levels. A long-term unemployed individual is one who has been unemployed for over six months. Currently, throughout the nation, 44% of the unemployed are considered long-term unemployed. That percentage is the highest registered since the government began computing the index. The length of the current recession, an older workforce and a battered housing market have been cited as explanations for the high percentage of long-term unemployment.<sup>4</sup>

Looking forward, Nassau is not expected to experience a full recovery in terms of resident employment until 2013. By 2013, Nassau County is expected to have more employed residents than it did in 2008.

### **Non Farm Jobs**

According to NYS Department of Labor figures, March 2010 non-farm job growth for the Nassau – Suffolk region increased 1.1% from the prior month and declined 0.4% from March 2009.

The strongest job growth was recorded in the specialty trade contractors, building materials and garden equipment, and arts, entertainment and recreation sectors.

A comeback in home renovations may be seen as contributing to the increase in jobs in the specialty trade contractors sector. According to industry experts, homeowners are beginning to have confidence in the economy, are willing to spend money and are taking a longer-term perspective on their homes. Some contractors on Long Island are currently booked up for the next six months due to pent up demand. Many of these projects are being financed with cash since home-equity financing is still said to be relatively difficult to secure.<sup>5</sup>

The Long Island region is not expected to undergo a jobless recovery. However, given the sluggish projected growth rates, people may feel like it is a jobless recovery. Growth in non-farm jobs is not expected to be robust and is not expected to be positive until the fourth quarter of 2010. Quarterly growth is expected to remain under 1.0% throughout 2011. From an annual perspective, positive growth above the 1% mark indicative of healthy job growth is not forecast until 2012. These forecast growth rates may be seen in Tables 1 and 4.

Long Island's dependence on small businesses may constrain its non-farm job growth. Due to high corporate profits, businesses nationwide are expected to boost hiring. JP Morgan Chase announced that it planned to add to its workforce and CSX Corp. is hiring more workers and bringing back some furloughed workers. Small businesses are being more cautious. According to a recent survey by the National Federation of Independent Businesses,

<sup>4</sup> Isidore, Chris, "No Job for Years and Still Looking", [CNN/Money.com](http://CNN/Money.com), April 21, 2010.

<sup>5</sup> Stout, Hilary, "Renovations Make a Comeback", [NYTimes.com](http://NYTimes.com), March 25, 2010.

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small businesses are not ready to add workers and are still finding it difficult to obtain credit.<sup>6</sup>

### Housing

The Nassau County residential housing market appears to be gradually recovering. Houses are selling, but selling at discounted prices. Multiple Listing Service of Long Island figures show that the current average price paid is 89.5% of the listed price.

For the month of March 2010, the number of closed transactions grew 36.0% from the prior year and 20.1% from the prior month. The Federal Governments' various homebuyer credits which are scheduled to end on April 30, 2010 are contributing to the robust growth in transactions.

Although, median and average closed sale prices are down from an annual perspective, from a monthly perspective median prices have increased 4.5% and average prices have fallen 4.7%.

It is currently estimated that it would take 8.8 months to sell the current supply of homes on the market. That figure is down from 11.4 months three months ago and 10.1 months 6 months ago.

Looking forward, home sale prices are expected to decline throughout 2010 and into the first quarter of 2011. However, mortgage originations are expected to register positive annual growth in 2010 and 2011. Table 5 details these quarterly changes for the Nassau County housing market.

**Table 5**

Nassau County Housing Forecast By Quarter				
	2010			
	Q1	Q2	Q3	Q4
New Mortgages	0.04%	-0.19%	0.14%	0.86%
Med. Sale Price	-3.54%	-3.07%	-2.17%	-1.05%
	2011			
	Q1	Q2	Q3	Q4
New Mortgages	1.76%	2.78%	3.94%	4.75%
Med. Sale Price	-0.12%	0.53%	0.92%	1.14%

Source: Moody's Economy.com

Home sale price growth is expected to be weighed down by foreclosed properties and stringent credit standards especially for jumbo mortgages.

According to RealtyTrac, during the first quarter of 2010, 173 properties on Long Island went into foreclosure. That represented a 23% drop from the fourth quarter of 2009 and a 174.6% increase from the first quarter of 2009.<sup>7</sup>

Experts surmise that throughout the nation, roughly 18% of foreclosures are strategic in nature. That is, individuals are opting to walk away from the house rather than pour money into a house where it will take years for the house to regain its value.<sup>8</sup> Studies have shown that once negative equity exceeds 25% or the mortgage balance is \$70,000 more than the property's current value, owners begin to strategically default.<sup>9</sup>

First American Core Logic figures reveal that the percentage of strategic defaults on Long Island is probably much lower than the 18% registered throughout the nation. This is due to the fact that the Nassau-Suffolk area is

<sup>6</sup> Chandra, Shobhana, and Rich Miller, "Recovery Tilting to V-Shape as Profits Prompts Growth Revision", [Bloomberg.com](http://Bloomberg.com), April 18, 2010.

<sup>7</sup> Yan, Ellen, "Report: Number of Foreclosures Drop on LI", [Newsday.com](http://Newsday.com), April 15, 2010.

<sup>8</sup> Gengler, Amanda, "6 Housing Trends in a Still-Shaky Market", [CNN/Money.com](http://CNN/Money.com), March 24, 2010.

<sup>9</sup> "Underwater Mortgages on the Rise According to First American CoreLogic Q4 2009 Negative Equity Data", [First American Core Logic](http://First American Core Logic), February 23, 2010.

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estimated to have the fewest number of homes with negative equity and the lowest loan-to-value ratio of the top 50 metropolitan areas in the County. On Long Island it is estimated that 7.1% of outstanding mortgages either have negative equity or close to having negative equity. Long Island's current loan-to-value ratio is 45%.<sup>10</sup>

Lending standards for a jumbo mortgage, any mortgage with a principle amount above \$417,000, remain tight. Very often such applicants are required to put 30 to 35 percent down.<sup>11</sup> Despite the restrictions, the Long Island luxury market saw first quarter 2010 transactions increase from an annual perspective.<sup>12</sup>

### Prices

As of March 2010, the US Bureau of Labor Statistic's regional, all-items index reveals that consumer prices have increased both from a monthly and an annual perspective. Compared to February 2010, regional consumer prices are up 0.5% and relative to March 2009, regional consumer prices have increased 2.1%. Marginal, positive consumer price growth is expected for 2010 through 2012. Table 6 below details the 2010 through 2012 quarterly forecast for regional consumer prices.

**Table 6**

Regional Consumer Price Forecast By Quarter				
	Q1	Q2	Q3	Q4
<b>2010</b>	0.68%	0.43%	0.55%	0.60%
<b>2011</b>	0.67%	0.80%	0.87%	0.86%
<b>2012</b>	0.92%	0.83%	0.84%	0.83%

Source: Moody's Economy.com

<sup>10</sup> "Underwater Mortgages on the Rise According to First American CoreLogic Q4 2009 Negative Equity Data", First American Core Logic, February 23, 2010.

<sup>11</sup> Gengler, Amanda, "6 Housing Trends in a Still-Shaky Market", CNN/Money.com, March 24, 2010.

<sup>12</sup> Yan, Ellen, "Median LI Home Closing Price Drops to \$350,000", Newsday.com, April 21, 2010.

### Sales Tax Predictors

US Commerce Department figures show that in March 2010, national retail sales grew 1.6% from the prior month and 7.6% from the prior year.<sup>13</sup> It is important to monitor retail sales since historically they have constituted 54% of County sales tax collections.

Contributing to the strong retail sales growth was a 6.7% annual increase in motor vehicles and parts sales.<sup>14</sup> Strong automobile sales were evident on Long Island. Dealers of almost every brand said that March 2010 sales were the best seen since September 2008. Aggressive promotions and increased credit availability were listed as reasons behind the robust sales. Economists caution that the sales spike may be short-lived as Long Islanders remain worried about their jobs and the reduced value of their homes and investments.<sup>15</sup> Auto sales are significant since historically they have constituted 14% of total collections.

Looking forward, Nassau retail sales are now expected to grow 10.9% over the next three years. Table 7 below details Moody's Economy.com's January and April 2010 forecast for Nassau County retail sales by year.

**Table 7**

Nassau Retail Sales, January vs. April Forecast		
	1/2010 Forecast	4/2010 Forecast
<b>2010</b>	0.4%	4.1%
<b>2011</b>	3.4%	1.7%
<b>2012</b>	6.6%	5.2%
<b>3 Year %</b>	<b>10.4%</b>	<b>10.9%</b>

Source: Moody's Economy.com

<sup>13</sup> Rooney, Ben, "Retail Sales Surge in March", CNN/Money.com, April 14, 2010.

<sup>14</sup> Same as above.

<sup>15</sup> Clancy, Ambrose, "Revved Up", Long Island Business News, April 9-15, 2010.

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In Nassau County, retail sales are expected to register positive growth from 2010 to 2012. Retail sales are expected to surpass their 2008 level this year.

Increasing consumer confidence is expected to positively impact Nassau County sales tax collections. Siena College's consumer confidence index showed that as of the first quarter 2010, current consumer confidence on Long Island was up 13.6% from the prior year. However, compared to the prior quarter, Long Island consumer confidence has fallen 0.15%.

Future consumer confidence fell 1.7 points from the prior quarter. According to Dr. Doug Lonnstrom, director of the Siena College Research Institute, "Most of the gains are in current rather than future confidence. Consumers are saying the worst may be over for now, but with continuing job concerns, health care unknowns and a state budget in chaos, the other shoe may soon drop. Still, pent up demand, tax refunds and a little pocket cash appear to be leading New Yorkers to cautiously buy needed big ticket items over the next six months".<sup>16</sup> Their survey of future buying plans had the following results:

**Table 8**

% of LI Residents Who Plan to Make A Major Purchase in the Next Six Months		
	1/2010	4/2010
	Forecast	Forecast
Car or Truck	13.8%	11.8%
Computer	14.3%	13.2%
Furniture	15.3%	18.0%
Home	12.3%	3.4%
Home Improvement	4.4%	14.1%
Buying %	60.1%	60.5%
Source: Siena College Research Institute		

<sup>16</sup> "Quarterly Consumer Confidence by Nine NY State MSA's", Siena College Research Institute, April 16, 2010.

Overall, compared to the previous forecast, a higher percentage of Long Islanders currently plan on making a major purchase within the next six months.

There are several negative forces in the economy that could significantly impact County sales tax collections.

Households still are carrying a large amount of debt. This debt will constrain future spending and will make it challenging to endure a long unemployment spell.

Not only are households in debt, but corporations and government are also carrying large debt loads. Analysts' state that 2012 will kick off a three-year period in which more than \$700 billion of risky, high-yield corporate debt will begin to come due and has the potential of overloading the debt markets. Others are concerned about the federal government. According to the Treasury Department, the federal budget deficit in 2012 will total \$974 billion, huge by historic standards.<sup>17</sup>

### **Lodging Industry**

The Nassau County lodging industry is recovering gradually. It had been an area where both households and businesses were cutting expenses. However, Long Island Convention and Visitor Bureau statistics reveal that in March 2010, occupancy rates were up 6.4 points from the prior year. However, average room rental rates were discounted \$6.07 to entice individuals. New York State Department of Labor figures show hotels and motels have sufficient confidence in the recovery that they have boosted their workforce from both a monthly and an annual perspective. Accommodation and Food Services jobs have

<sup>17</sup> Schwartz, Nelson D., "Corporate Debt Coming Due May Squeeze Credit", The New York Times, March 15, 2010.

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increased 2.3% from February 2010 and 3.0% from March 2009.

### Conclusion

The Nassau County economy is experiencing a quicker and more robust recovery than that which was previously forecast. However, since unemployment remains high and since long-term unemployment is at historic highs, more data is required to determine if the recovery can sustain its current pace.

In table 9, below, the full recovery year for five 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.

**Table 9**

<b>Nassau County Full Recovery Forecast Projected Year When 2008 Level is Attained</b>	
	<b><u>Year</u></b>
Employment	<b>2013</b>
Mortgage Originations	<b>2012</b>
Retail Sales	<b>2010</b>
Non Farm Jobs	<b>2013</b>
Median Sale Price	<b>2019</b>

Source: Moody's Economy.com

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