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Inter-Departmental Memo

To: Hon. Vincent Muscarella, Chairman Budget Review Committee
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
Office of Legislative Budget Review 

Date: August 23, 2019

Re: August 2019 Economic Report

Attached is a copy of the Office of Legislative Budget Review's August 2019 economic report. This report is being circulated to assist the Legislature in making policy decisions and in assessing budgetary forecasts.



OFFICE OF LEGISLATIVE BUDGET REVIEW

The Regional and National Economic Forecast for 2019 to 2023

August 2019

The Office of Legislative Budget Review, (OLBR), has received Moody’s Analytics August 2019 forecast of significant Nassau County economic variables. OLBR has compiled, analyzed, and illustrated Moody’s current economic forecast for planning and projecting purposes. Throughout the report, OLBR presents Moody’s forecast and provides its insights.

The national economy grew at 2.1% in the second quarter of 2019. This estimate is down from the first quarter’s 3.1% growth. However, it was better than Wall Street’s projection of 2.0% growth. The positive growth was attributed to strong consumer expenditures.¹ Looking forward, current economic forecasts anticipate continued positive real US GDP growth.

Table 1

National Forecasts of Real US GDP, Aug. 2019 Forecasts				
	2019	2020	2021	2022
Federal Reserve	2.3%	1.9%	2.0%	2.1%
Mortgage Bankers Assn.	2.2%	1.3%	1.4%	
Fannie Mae	2.2%	1.7%		
Average	2.2%	1.6%	1.7%	2.1%

Moreover, Table 2 shows, the risk of a negative quarter of real US GDP has fallen.

Table 2

Risk of a Negative Quarter of Real US GDP		
	Previous %	New %
Third Quarter 2019	13.1%	11.7%
Fourth Quarter 2019	15.8%	14.2%
First Quarter 2020	19.4%	17.6%
Second Quarter 2020	22.8%	21.5%
Third Quarter 2020		26.1%

Source: Federal Reserve Bank of Philadelphia, "Survey of Professional Forecasters"

Additionally, due to low inflation, a dim global outlook and uncertainties caused by trade wars prompted the Federal Reserve to cut interest rates by a quarter-point. This move was made to provide insurance against an economic downturn. They stated that additional cuts may be needed to ensure positive economic growth.²

Locally, Moody’s Analytics projects positive Gross County Product (GCP) from 2019 through 2023. Local economic growth rates are expected to be below those experienced throughout the nation.

Table 3 details the current Moody’s Analytics annual forecast for Nassau County’s major economic indices from 2019 to 2023.

Table 3

2019 to 2023 Nassau County Economic Forecast					
Projected Annual Growth Rates*					
	2019	2020	2021	2022	2023
GCP	1.2%	1.3%	1.7%	2.5%	2.1%
Personal Income	2.6%	1.6%	1.8%	3.1%	3.1%
Employed	1.3%	-0.1%	-0.4%	0.4%	0.5%
Unemployed	-8.4%	8.4%	18.1%	7.9%	2.5%
Unemployment %	3.2%	3.5%	4.1%	4.4%	4.5%
Non Farm Jobs	0.8%	0.5%	0.1%	0.7%	0.6%
New Mortgages	2.1%	-0.9%	4.7%	4.1%	3.2%
Mrt Refinances	81.6%	-19.0%	-16.0%	-27.2%	-13.4%
Retail Sales	4.9%	1.8%	1.9%	3.2%	2.3%
Median Home Sale Price	4.3%	4.2%	3.9%	3.6%	4.2%
Regional CPI	1.4%	2.6%	3.0%	3.2%	3.0%

*Unemployment % Details Annual Average
Source: Moody’s Economy.com

¹ Cox, Jeff, “GDP Slows to 2.1% in Second Quarter but Beats Expectations Thanks to Strong Consumer”, CNBC.com, July 26, 2019.

² The Associated Press, “Fed Cuts Key Rate in First Reduction Since 2008”, LIBN.com, July 31, 2019.

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Looking forward, Moody’s Economy.com currently expects the local economy to move forward in a positive direction for all years surveyed. Moody’s current forecast, see Table 3, has Nassau’s GCP growing 1.2% in 2019, 1.3% in 2020, 1.7% in 2021, 2.5% in 2022 and 2.1% in 2023.

The 2019 labor market is projected to register positive annual momentum with the number of employed residents growing by 1.3% and the number of non-farm jobs increasing by 0.8%.

Positive momentum in the local housing market is envisioned in 2019; with new mortgages increasing 2.1% and median prices rising 4.3%. The mortgage refinancing market is expected to record robust growth of 81.6% in 2019 and then experience four years of negative growth.

Lastly, real personal income growth, adjusted for inflation, is projected to be positive 1.2% in 2019 which will enable the projected 4.9% increase in retail sales.

Looking forward, 2020 is projected to be a sluggish year economically for Nassau County. Moody’s Economy.com is anticipating a decrease in resident employment, a fall in new mortgages, a decline in mortgage refinances and a retreat in consumer purchasing power. However, positive personal income, consumer price, retail sales and non-farm job growth are expected to yield positive 2020 GCP growth of 1.3%.

Consumption

Real GDP is a measure of the goods and services provided within an economy. When it increases, it indicates that more goods and services are being provided and therefore, more jobs and personal income are being generated.

The Commerce Department reported that July 2019 retail sales grew 0.7% from the prior month and 3.4% from the prior year. Strong annual growth was reported in non-store retailers at 16.0%, health and personal care stores at 4.3%, and retail and food services at 3.4%. From a yearly perspective sporting goods and electronics and appliance stores fell 0.5% and 3.5% respectively.

Americans spending more in retail stores and restaurants is a sign that concerns over weakening economic growth and a persistent trade war have yet to lower consumer confidence. Consumer spending, the primary driver of the U.S. economy, appears healthy as other sectors of the economy, such as business investment, have weakened. However, most economists aren’t forecasting a recession due to a strong labor market and consumption.³

Moody’s Analytics current forecast shows a continuation of the current positive consumption trends from 2019 to 2020. Table 4 details Moody’s current quarterly forecast for Nassau County GCP, personal income, and retail sales. All variables forecasted are expected to register positive growth rates in 2019 and 2020.

Table 4

Nassau County Consumption Growth by Quarter				
	2019			
	Q1	Q2	Q3	Q4
GCP	0.31%	0.32%	0.32%	0.32%
Total Personal Income	0.74%	0.71%	0.60%	0.45%
Retail Sales	1.38%	1.19%	0.87%	0.52%
	2020			
	Q1	Q2	Q3	Q4
GCP	0.31%	0.31%	0.32%	0.34%
Total Personal Income	0.35%	0.30%	0.30%	0.34%
Retail Sales	0.29%	0.20%	0.23%	0.34%
Source: Moody's Economy.com				

³ The Associated Press, “US Retail Sales Up Solidly in a Sign of Consumer Optimism”, LIBN.com, August 15, 2019.

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The second quarter 2019 Siena College Research Institute Consumer Confidence Poll found that throughout the metropolitan region, consumer sentiment was at 88.3 in June 2019, roughly unchanged from the prior year and down 8.3% from last quarter. For more detail on consumer buyer plans, see the statewide plans section on page 5.

Labor Market

New York State Department of Labor figures show that the Nassau County labor market was on an upswing in June 2019. From a monthly perspective, Nassau County experienced a 0.4% increase in the labor force coupled with a 0.5% increase in the number of employed residents. Annually, Nassau’s labor force was down 1.3% and the number of employed residents had decreased 0.7%.

Moody’s is expecting 2019 to end the year with a 1.3% increase in the number of employed residents and an 8.4% decline in the number of unemployed residents, reflected in Table 3.

Non-Farm Jobs

From an annual perspective, Long Island non-farm job growth was positive in July 2019. According to New York State Department of Labor figures, in July 2019 total non-farm jobs increased by 0.9% from the prior year. The strongest annual job growth was in the educational & health services and natural resources, mining and construction sectors, with 8,600 and 8,500 new jobs respectively. The professional and business services sector struggled the most in July 2019; it lost 6,800 jobs from the prior year.

The Associated General Contractors of America also calculated strong construction job growth on Long Island. They found that Long Island gained

7,600 construction jobs which equated to 9.0%, growth in June 2019 when compared to the prior year. This brings the total amount of employed in construction to 93,200 people.⁴

New York State Department of Labor figures for July 2019 reflect a loss of 800 jobs in the information technology industry from an annual perspective. However, the Long Island region ranked fifth among momentum markets in CBRE’s annual Scoring Tech Talent Report. The sustained growth of the tech talent pool on Long Island will continue to attract a variety of mid-sized technology firms to open offices here.⁵

Moody’s anticipates that Nassau County will generate positive total non-farm job growth from 2019 to 2023. Table 5 details projected Nassau County job growth by sector. The growth is projected to be mixed with half of the eight sectors surveyed forecast to record positive growth in 2019. The area with the largest declining annual job growth in 2019 is the professional and business services sector, falling 4.2%. Lastly, the construction sector is recording the strongest annual 2019 job growth of 7.6%.

Table 5

Nassau County Annual Job Growth By Sector, 2019 to 2023					
	2019	2020	2021	2022	2023
Construction	7.6%	1.3%	1.2%	2.4%	0.8%
Education & Health	3.9%	1.3%	0.4%	0.8%	0.9%
Financial Activities	-1.0%	0.0%	-0.2%	0.1%	0.2%
Government	-0.1%	0.7%	0.1%	0.6%	0.5%
High Tech	-1.6%	0.9%	0.4%	1.0%	1.0%
Leisure and Hospitality	1.6%	0.1%	0.4%	0.8%	0.8%
Professional and Business Services	-4.2%	0.7%	0.1%	1.6%	1.2%
Retail Trade	0.2%	-0.6%	-0.5%	-0.1%	-0.1%
Total Non-Farm Jobs	0.8%	0.5%	0.1%	0.7%	0.6%

Real Estate

On a year-to-date basis, through July 2019, Multiple Listing Service of Long Island (MLSIL) figures show that Nassau County closed home sales have declined by 1.8%. Despite slowing home sales, the median home sale price grew

⁴ Winzelberg, David, “Long Island Construction employment soars in June”, LIBN.com, July 31, 2019.

⁵ Winzelberg, David, “Report: Long Island among fastest-growing tech markets”, LIBN.com, July 17, 2019.

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3.1%. Looking ahead, pending sales have risen 4.0%, the largest growth this year; suggesting that the County may soon experience positive sales growth.

According to real estate professionals, the \$10,000 cap on deductions for state and local taxes has contributed to the slowdown in the high-end market and spiked demand for starter and mid-priced homes with lower property taxes. Due to increased demand, in June 2019 prices rose 9.5% for homes sold for a median \$280,000 from the prior year. Conversely, high-end properties saw a 2.1% decline in prices in the same period.⁶

Nassau’s inventory levels continue its upward trend according to MLSLI July 2019 data, showing an 8.3% increase compared to the prior year.⁷

Mortgage rates have been declining since the beginning of 2019. Last week, the average interest rate for a 30-year mortgage was 3.6%, the lowest since November 2016; this is said to be positively impacting mortgage refinancings.⁸

Table 6

Nassau County Housing Forecast by Quarter				
	2019			
	Q1	Q2	Q3	Q4
New Mortgages	0.27%	-0.27%	-0.58%	-0.67%
Refinances	24.08%	15.28%	5.00%	-3.88%
Median Sale Price	1.34%	1.43%	1.30%	1.08%
	2020			
	Q1	Q2	Q3	Q4
New Mortgages	-0.51%	-0.12%	0.49%	1.10%
Refinances	-9.20%	-11.15%	-8.96%	-4.37%
Median Sale Price	0.93%	0.88%	0.93%	0.99%

Source: Moody's Economy.com

Looking forward, Table 6 depicts Moody’s current Nassau County residential housing market forecast by quarter. Moody’s is more

⁶ McDermott, Maura, “Cap on tax deductions boosts demand for lower-tax homes as high-end sales stagnate”, [Newsday.com](http://www.newsday.com), August 2, 2019.

⁷ McDermott, Maura, “Suffolk home prices jump 6.7%; Nassau prices up slightly, figures show”, [Newsday.com](http://www.newsday.com), August 14, 2019.

pessimistic than the MLSLI pending data suggests. They envision quarterly decreasing new mortgage growth throughout 2019 leading into 2020.

Moody’s predicts a decline in refinances by the fourth quarter 2019 that will spillover to 2020.

Moody’s currently anticipates positive median sale prices throughout 2019 and 2020.

Although Nassau County’s residential market is experiencing a slowdown in the number of closed sales, its commercial real estate sector is booming. Private equity firms have increasingly taken an interest in Long Island’s office market as it outperforms neighboring markets. According to a Coldwell Banker Richard Ellis report, availability for Long Island office space has declined in the last five years due to heightened demand, especially from healthcare firms. Minimal construction and the flight to quality by tenants is driving rents up that had previously been stagnate for more than a decade.⁹

Prices

The Consumer Price Index (CPI) is a measure of the average change in the prices of goods and services purchased by households over time. U.S. Bureau of Labor Statistics figures show that regional consumer prices were up 1.7% in June 2019 from the prior year. Contributing to the increase were higher medical care and recreation costs which rose 6.2% and 2.9% respectively from an annual perspective. Also, education and communication rose 2.1% and other costs increased 2.0%. The increases were partially offset by decreases in fuels and utilities and apparel costs; which fell 4.1% and 1.4% correspondingly.

⁸ “Mortgage Rates Remain Near Historical Lows”, [Freddie Mac](http://www.freddiemac.com/pmms/), <http://www.freddiemac.com/pmms/>, August 15, 2019

⁹ Winzelberg, David, “Improving Long Island office market attracting new suitors” [LIBN.com](http://www.libn.com), August 2, 2019.

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Looking forward, from an annual perspective, regional consumer prices are expected to rise from 2019 to 2023. For example, regional consumer prices are expected to increase by 0.85% in the third quarter of 2019. The quarterly forecast for regional consumer prices for this period is shown in Table 7.

Table 7

Regional Consumer Price Forecast by Quarter				
	Q1	Q2	Q3	Q4
2019	0.29%	0.34%	0.85%	0.69%
2020	0.57%	0.57%	0.70%	0.73%
2021	0.77%	0.79%	0.78%	0.79%
2022	0.79%	0.77%	0.76%	0.74%
2023	0.74%	0.75%	0.76%	0.76%

Source: Moody's Economy.com

Sales Tax Predictors

Sales tax collections are a significant revenue source for the County, as such it is an important revenue to monitor and forecast. Common predictors of sales tax growth are GCP, personal income growth, growth in the number of employed residents and consumer price growth. The current Moody's regional forecast envisions positive annual growth for all these variables in 2019. The 2019 forecast for personal income growth exceeds the forecast for consumer prices, resulting in increased consumer purchasing power. However, for years 2020 through 2022 Moody's predicts that consumer prices will exceed personal income.

Siena College Research Institute's, (SCRI), survey of New Yorker buying plans in the second quarter of 2019 indicate buying plans have increased for all categories from an annual perspective. Cars/trucks buying plans had the greatest growth at 47.6% when compared to the prior year. Furniture saw the slowest gain at 9.0% from a yearly perspective. Plans for home

improvements set an all-time high on the SCRI survey at 27.8% for June 2019. The quarterly and annual percent change for these categories are shown in Table 8.

Table 8

New York Statewide Buying Plans Survey					
Category	Jun. 19	Mar. 19	Jun. 18	Qtrly %	Yrly %
Car/Truck	21.1	23.7	14.3	-11.0%	47.6%
Consumer Electronics	46.5	49.4	40.3	-5.9%	15.4%
Furniture	30.2	33.9	27.7	-10.9%	9.0%
Home	8.6	10.5	7.4	-18.1%	16.2%
Major Home Improvement	27.8	23.2	21.6	19.8%	28.7%
Total	134.2	140.7	111.3	-4.6%	20.6%

Source: Siena College Research Institute

Consumer sentiment in the metropolitan area is well above the optimism/pessimism break-even point. However, it has declined over the last two quarters. According to Dr. Doug Lonnstrom, SCRI Founding Director, declining sentiment is driven more by current rather than future outlook perhaps by tariffs, trade wars, stock market volatility or the start of the 2020 campaign.¹⁰

Looking ahead, the forecast annual resident employment declines in 2020 and 2021 coupled with the projected 2020 through 2022 fall in purchasing power are expected to put downward pressure on sales tax collections. However, downward pressures may be offset by the continued growth in GCP.

Lodging Industry

All eight of Long Island's Industrial Development Agencies (IDAs) and Discover Long Island are teaming up to launch a new marketing campaign. The agencies are applying for a National Grid grant to fund the collaborative effort with the goal of attracting new businesses and retaining current ones. The campaign, "BeLONG on Long Island", aims to target new consumer and business attraction markets to raise awareness of Long Island as an ideal place to visit, conduct business or relocate. Efforts

¹⁰ "Quarterly New York State Index of Consumer Sentiment including Gas and Food Analysis", [Siena College Research Institute](#), July 2, 2019.

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include market-wide advertising, digital and print marketing and collateral, lead generation initiatives, social activations, fulfillment endeavors and more. The proposed budget is \$100,000, with regional IDAs contributing \$50,000 and the National Grid grant donating the remaining \$50,000. Research confirms that Long Island is a brand with strong name recognition and increasing visitation leads to more favorable perception and increased economic opportunities according to Kristen Jarnagin, president and CEO of Discover Long Island.¹¹

Looking forward, the lodging industry is expected to continue to grow in 2019. Moody's expects leisure and hospitality employment to grow 1.6% in 2019 and 0.1% in 2020. Growth in the tourism sector is significant as it plays a major role in sales tax collections on Long Island, reflected in Table 5.

Conclusion

The Nassau County economy is in a delicate position. The County experienced positive momentum in resident employment, labor force growth, home sale prices and consumer prices.

Moreover, Nassau County was among New York State's ten counties with the lowest unemployment rates¹²; and the Long Island region ranked fifth among momentum markets in CBRE's annual Scoring Tech Talent Report. The sustained growth of the tech talent pool on Long Island will continue to attract a variety of mid-sized technology firms to open offices here.¹³

However, there are downward pressures which could potentially diminish the forecast positive

economic growth. One area to monitor is the local housing market. July 2019 represented the second month in which Nassau experienced an annual decline in the number of home sales. This trend is expected to reverse as the number of pending sales increased by 14.0% in July 2019.

Secondly, Moody's is currently anticipating a fall in consumer purchasing power from 2020 to 2022. Hence, monitoring the economy is critical as any greater than anticipated slowdown in the economy could trigger a recession. The August 2019 Survey of Professional Forecasters by the Federal Reserve Bank of Philadelphia found an 11.7% risk of a negative quarter of real GDP in the third quarter of 2019. The fourth quarter's risk was assessed at 14.2%.

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¹¹ Winzelberg, David, "IDAs and Discover Long Island Join in Marketing Effort", LIBN.com, July 19, 2019.

¹² Ocasio, Victor, "Labor Dept- LI's July Unemployment Rate Falls Slightly from July 2018", Newsday.com, August 20, 2019.

¹³ Winzelberg, David, "Report: Long Island among fastest-growing tech markets", LIBN.com, July 17, 2019.