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Inter-Departmental Memo

To: Hon. Judy Jacobs, Chairperson
Members of the Budget Review Committee

From: Eric C. Naughton, Director
Legislative Budget Review

Date: January 23, 2008

Re: January 2008 Economic Report

Attached is a copy of the Annual 2008 Regional Economic Forecast. This report is intended to assist the Legislature in making policy decisions and in assessing budgetary forecasts. 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
Evan Cohen, Executive Director, NIFA
Eric Eichenlaub, Majority Counsel
Elissa Iannicello, Budget Director
Dan McCloy, Special Assistant Minority
Tom Stokes, Deputy County Executive
Charo Ezdrin, Director of Legislative Affairs
Chumi Diamond, Clerk of the Legislature
Edgar Campbell, Majority Chief of Staff
Roseann D'Alleva, Majority Finance



ANNUAL 2008 REGIONAL ECONOMIC FORECAST

NASSAU COUNTY OFFICE OF LEGISLATIVE BUDGET REVIEW

National and Regional Economic Outlook

Both the national and regional economies are in very precarious positions. Although no one is currently forecasting a national or regional recession, forecasters have been increasing the probability of a recession since a slight shift in the balance could result in a recession. Moreover, both the U.S. Federal Reserve and Federal Government have taken and are contemplating making proactive actions to avoid a recession. On January 22, 2008 the Federal Reserve cut its target for the federal funds rate by three-quarters of a percentage point to 3.5%.¹ Simultaneously, the Federal Government is debating an economic stimulus package to put as much as \$150 billion in refund checks in the hands of consumers. The last time such an economic stimulus package was introduced consumers spent two-thirds of their refund checks. The Federal Government is hoping consumers will react in a similar fashion to this economic stimulus.²

According to Global Insight, it will take two or more shocks to trigger a U.S. recession. There

¹ Wessel, David, "Fed Cuts Key Interest Rate As Recession Fears Well Up", The Wall Street Journal Online, January 22, 2008.

² Waters, Jennifer, "Tax Rebates May Be Used To Cut Debt This Time", The Wall Street Journal Online, January 22, 2008.

is a growing risk that such a scenario may be about to unfold with the combination of the housing/sub-prime crisis and higher oil prices.³ Chart 1 below depicts the current forecasts for national real GDP and the probability that a recession, two quarters of negative GDP, will occur.

Chart 1

Annual 2008 National Economic Growth Forecast

	Global Insight	Federal Reserve Survey	MBAA	Moody's Economy.com
GDP	1.9%	2.5%	1.8%	2.2%
Recession%	40%	20%*	NA	52%

*-Risk of a negative quarter

Consumption

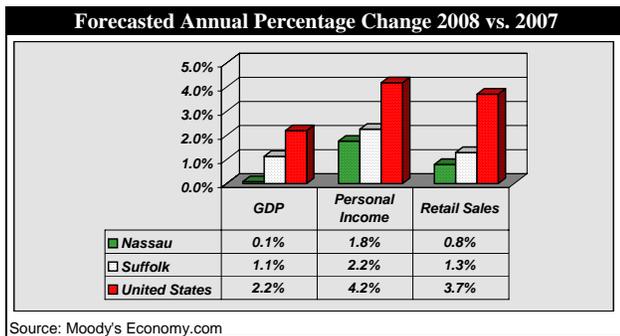
Recent consumer spending has been weak. According to the Commerce Department, December 2007 national retail sales dropped 0.4% from the prior month.⁴ Additionally, in 2007 new vehicles sales totaled 16.1 million nationwide, the lowest sales volume recorded since 1998. It seems that growing unemployment, decreasing home equity, and sluggish real wage growth have crimped consumer spending. It does not appear that this trend will reverse itself in the near future. The American Bankers Association reported that the

³ "Global Economy May Have Tough Year in 2008", CNBC.com, December 11, 2007.

⁴ Somerville, Glenn, "Weak Retail Sales Fuel Recession Fears", Yahoo.com, January 15, 2008.

delinquency rate on a cluster of consumer loans climbed to their highest point since the country's last recession in 2001.⁵ Moreover, the most recent Siena College New York Metro consumer confidence poll reveals that future consumer confidence has fallen 26.2% from the prior year. Chart 2 details the current forecast for annual growth in both regional and national GDP, personal income and retail sales. Despite a negative local housing and employment forecast, no recession is currently expected in 2008. Netting out the projected increase for regional consumer prices, the forecasted increase for real Nassau personal income growth is negative 0.4%.

Chart 2



Housing

The foundation of the current housing market continues to crumble. Multiple Listing Service of Long Island shows that as of December 2007, from an annual vantage point, average Nassau County closing prices have fallen 7.6%, the number of closed transactions has fallen 6.3% and residential inventory levels have risen 7.4%. These declines will dampen both County sales tax collections as well as County Clerk fee revenues.

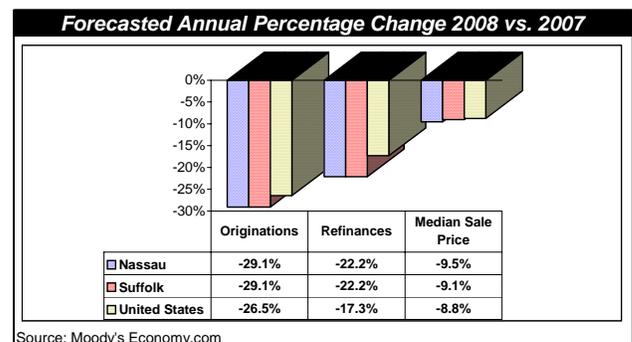
All experts opine that home prices will continue to fall throughout 2008. Moody's Economy.com expects prices to decline through

⁵ "Delinquencies Reach 2001 Recession Levels", CNN/Money.com, January 3, 2008.

early 2009,⁶ Global Insight forecasts declining home prices at least through 2009,⁷ and Merrill Lynch is projecting home prices to be in the doldrums through 2012.⁸ The major factor contributing to the home price sluggishness is the current inventory level and the anticipated future inventory additions caused by the record number of homes entering foreclosure. The tightening of mortgage underwriting standards will further exacerbate the situation.⁹

Chart 3 details magnitudes of the declines projected for Nassau, Suffolk and the United States.

Chart 3



Employment

As of December 2007, from an annual viewpoint, the Long Island employment market added 4,100 jobs, the equivalent of 0.3% job growth. That 0.3% annual growth rate was below the 1.0% mark indicative of a healthy economy. Not only did Nassau County experience sluggish annual job growth, but its unemployment rate increased 19.4% to 3.7% over the past twelve months. Additionally, Nassau County has 1.2% fewer residents employed than it did at this time last year.

⁶ Knox, Noelle, "Ways To Cope Despite Real Estate's Dire Outlook", USAToday.com, January 3, 2008.

⁷ "Global Economy May Have Tough Year in 2008", CNBC.com, December 11, 2007.

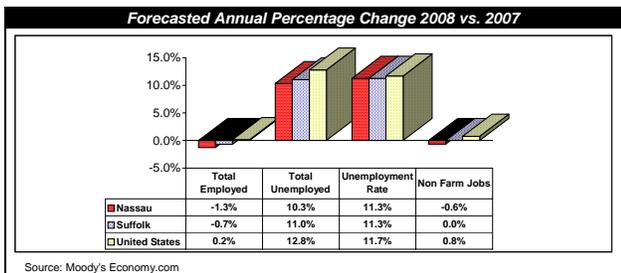
⁸ Knox, Noelle, "Ways To Cope Despite Real Estate's Dire Outlook", USAToday.com, January 3, 2008.

⁹ Same as above.

The sectors which recorded annual job growth greater than 5% were the Health and Personal Care Stores, Telecommunications, Amusement, Gambling, and Recreation Industries, and State Government Hospitals. The sectors which recorded annual job losses greater than 5% were the Utilities and Credit Intermediation and Related Activities sectors.

The sluggish job growth is expected to continue through 2008. Chart 4 below details the current total employed, total unemployed, unemployment rate and non-farm job growth forecast for Nassau, Suffolk and United States. Chart 4 reveals that Nassau is the only area surveyed which is expected to record a decrease in both the number of employed residents and the number of non-farm jobs.

Chart 4



Consumer Prices

As of December 2007, regional consumer prices have risen 3.7% from the prior year. Much of the inflation may be attributed to high energy prices since the regional consumer prices index excluding energy costs recorded 2.6% annual growth in December 2007. Nationally, consumer prices have escalated 4.1% since December 2006. The November and December annual growth rates were the highest recorded in 2007.

The recent escalation in national consumer prices is not expected to continue at the current pace. The forecast annual national consumer price percentage growth rates for 2008 are in the 2.5% to 2.7% range. The Federal Reserve's

Survey of Professional forecasters is projecting 2.5% annual growth in 2008 for national consumer prices. The Mortgage Bankers' Association is forecasting 2.7% annual growth in 2008 for national consumer prices. Moody's Economy.com is currently forecasting regional 2008 consumer price growth to be 2.2% and national consumer price growth to be 2.6%.

Tourism

The tourism industry in Nassau County has exhibited robust growth in the midst of an otherwise stagnant economy. As of December 2007, occupancy rates in Nassau County have risen 7.7% since December 2006. That increase is evidence of robust demand since the occupancy rate increase occurred alongside a 2.6% increase in average room rental rates. Industry experts attribute much of the strong growth to expansion in contractual agreements with airlines that guarantee a certain number of bookings every night regardless of whether the rooms are filled. These contracts occupy approximately 500 rooms a night.¹⁰

Expert forecasts for the Long Island tourism industry differ. According to hotel developer Paul Amoroso, "a tremendous amount of supply is coming on the market just in time for an economic slowdown."¹¹ Nassau County may be more severely impacted by the economic slowdown since it is more dependent on corporate spending. Suffolk County is relatively insulated since it derives more revenues from leisure travel which does not vary as much with changes in the economy. In fact during economic slowdowns, residents begin to look in their own backyards for vacation destinations. This maintains occupancy rates during economic slowdowns.¹²

¹⁰ Wagner, Daniel, "LI Hotels Drawing Guests From Home", *Newsday*

¹¹ Same as above.

¹² Wagner, Daniel, "LI Hotels Drawing Guests From Home", *Newsday.com*, December 17, 2007.

Conclusion

However, others see a brighter future. According to Moke McGowan, head of the Long Island Convention and Visitors bureau, a weak dollar will attract more foreign tourists. In New York City, foreign visitors account for 17% of all tourists and 50% of all visitor spending. Mr. McGowan hopes to entice these visitors to spend a day or two of their trip on Long Island. To accomplish this, his bureau has translated its website into Spanish and German. They anticipate a French version next year. Additionally, Mr. McGowan states that the best opportunity for Long Island is the “Open Skies” agreement between the United States and the European Union. This agreement will commence in March and will allow airlines to compete more vigorously for trans-Atlantic passengers.¹³

The current robust growth seen in Nassau’s tourism industry will help stimulate the overall economy of the County. This catalyst is essential, especially since job, employment, consumer confidence and home sales are expected to experience slow to negative annual percentage growth rates in 2008. The tourism growth will result in increased hotel / motel tax collections.

The regional and national economies are fragile. Any negative occurrence could place the economy in a recession. In fact a recent Fortune Magazine found that more than three in four Americans believe the U.S. economy is already in a recession, or will be sometime in 2008.¹⁴ The housing slowdown and resultant credit crunch have put tremendous stress on economic activity. Recent gas price escalations and declines in consumer confidence have further exacerbated the situation. However, since consumer spending accounts for roughly two-thirds of all economic activity, the fall in consumer confidence may be the worst factor which the economy has to contend with. According to the previously mentioned Fortune Magazine poll, half of those surveyed have cut back their spending already.¹⁵

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¹³ Galant, Richard, “Moke McGowan Seeks to Draw Foreign Tourists to LI”, [Newsday.com](http://www.newsday.com), December 17, 2007.

¹⁴ Isidore, Chris, “Americans: Recessions Near-or Already Here”, [CNN/Money.com](http://www.cnn.com), January 18, 2008.

¹⁵ Same as above.