

MAURICE CHALMERS
DIRECTOR
OFFICE OF LEGISLATIVE
BUDGET REVIEW



NASSAU COUNTY LEGISLATURE
1550 FRANKLIN AVENUE, ROOM 126
MINEOLA, NEW YORK 11501
(516) 571-6292

Inter-Departmental Memo

To: Hon. Howard J. Kopel, Chairperson Budget Review Committee
All Members of the Nassau County Legislature

From: Maurice Chalmers, Director
Office of Legislative Budget Review

Date: September 5, 2014

Re: Mid-Year 2014 Economic Report

Attached is a copy of the Office of Legislative Budget Review's mid-year 2014 economic report. This report is being circulated to assist the Legislature in making policy decisions and in assessing budgetary or planning forecasts. The data included is the most current as of the date of issuance. Additionally, the data is the most geographically relevant.



OFFICE OF LEGISLATIVE BUDGET REVIEW

The Regional and National Economic and Fiscal Forecast for 2014 to 2018

Mid-Year Report 2014

The national economic outlook is expected to strengthen as we move through the second half of 2014. The 2014 Gross Domestic Product (GDP) second quarter estimate figures show GDP increased at an annual rate of 4.2%. This is notable as the second quarter growth accelerated following the decline of 2.1% (revised) in the First Quarter of 2014. The biggest drivers were personal consumption expenditures (PCE), nonresidential fixed investment, and private inventories growth. PCE grew 2.5% and as the biggest part of the economy, consumer spending, it can be an important gauge of the overall economy.¹ The largest drivers of PCE growth were increased expenditures on durable goods, such as motor vehicles and parts along with furnishings and durable household equipment. The next largest area of growth, nonresidential fixed investment, contributed 1.3% of the 4.2% quarterly growth rate. This was followed by private inventory which contributed 1.4% of the 4.2% quarterly growth rate. Dan North, Chief Economist at Euler Hermes North America believes that the second estimate is “nothing earth shattering. More importantly, since the economy contracted 2.1% in the First Quarter of this year the large jump is payback and in the first half of 2014 the economy gained just 1.0%. North expects Third and Fourth Quarter GDP to gain around 3.0% which would round out to an uninspiring

roughly 2.0% growth for the year.”² Economists are mixed as to whether the remainder of 2014 will bring notable growth but positive signals continue to exist.

Based on Moody’s Analytics Forecast, the local economy appears to be moving in a positive direction along with the nation. Moody’s forecast has Nassau’s Gross County Product growing 1.8% in 2014, 3.7% in 2015, 2.5% in 2016, 1.9% in 2017, and 1.5% in 2018. Moody’s had previously forecast 2014 GCP would increase 2.3%. It also forecasts growth in other economic indicators such as personal income, employment, retail sales and median home sale price. The one exception is mortgage refinances.

The local housing market has improved following the slow First Quarter activity. Housing activity was down in the First Quarter due in large part to the particularly harsh winter weather. The Second Quarter experienced an increase in pending sales which is expected to continue for the remainder of the year.

Moody’s forecast reflects new mortgages to record double digit growth and median sale prices to rise in 2014. Higher sales volume

¹United States Bureau of Economic Analysis “Gross Domestic Product Second Quarter 2014,” News Release, August 28, 2014.

²Sharf, Samantha, “U.S. GDP Grew 4.2% In The Second Quarter 2014, Up From Prior Estimate,” Forbes.com, August 28, 2014.

The Regional and National Economic and Fiscal Forecast for 2014 – 2018

coupled with increasing sale prices should be a positive indicator for the market.

Table 1 details the Moody's Economy.com forecast for Nassau County.

Table 1

2014 to 2018 Nassau County Economic Forecast					
Forecast Annual Growth Rates*					
	2014	2015	2016	2017	2018
GCP	1.8%	3.7%	2.5%	1.9%	1.5%
Personal Income	2.7%	5.5%	5.8%	4.6%	3.4%
Employed	0.6%	3.1%	2.8%	1.1%	0.0%
Unemployed	-14.6%	-5.5%	-5.4%	-6.0%	-0.7%
Unemployment %	5.1%	4.7%	4.3%	4.0%	4.0%
Non Farm Jobs	0.3%	1.8%	1.8%	1.0%	0.2%
New Mortgages	17.2%	22.0%	2.3%	2.9%	15.3%
Mrt Refinances	-56.8%	-18.8%	-23.7%	2.1%	37.2%
Retail Sales	2.2%	4.7%	2.6%	2.4%	2.2%
Median Home Sale Price	0.9%	4.0%	2.3%	2.0%	2.2%
Regional CPI	2.2%	2.8%	3.0%	3.3%	3.3%
*Unemployment % Details Annual Average					
Source: Moody's Economy.com					

According to the current forecast, Nassau County personal income growth continues to exceed regional price growth in 2014. This will allow consumers to sustain their current level of spending. The forecasted growth, however, was revised down to 2.7% in 2014 from the April estimate of 4.3% along with retail sales growth (2.2% in 2014 from 3.6%). Resident employment growth is forecast to be positive from 2014 through 2017 with 2018 flat. The 2014 non-farm job growth is projected to grow at 0.3%, which is slower than the April forecast of 0.8%.

For the remainder of the year, economic growth as measured by the Gross County Product (GCP) is forecast to continue to increase as the year progresses. Growth in mortgage originations, median home sale prices, and personal income are supporting the projected positive economic growth. The following sections provide a detailed look at each forecasted economic variable.

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.

According to the Commerce Department, July 2014 national retail sales were essentially unchanged when compared to the previous month. Compared to the same month the previous year, sales increased 3.7%.³ When motor vehicles and parts are excluded, the growth was 0.1% compared to the previous month and a 3.1% growth compared to the previous year. Although the year over year growth was positive, “job growth has yet to stoke the type of wage gains needed to boost household purchases, a sign the economic expansion will probably not sustain the second-quarter pickup into the end of the year.”⁴ Retail sales and GDP growth has improved from the First Quarter when severe winter weather reportedly depressed these figures.

The Moody's Analytics July 2014 forecast shows retail sales are expected to be positive through 2015. Table 2 details Moody's current forecast for Nassau County income, GCP and retail sales. All variables forecast are expected to register positive growth rates in 2014 and 2015.

³ US Census Bureau News, “Advance Monthly Sales For Retail and Food Services,” July 2014.”

⁴ “Worst Retail Sales Showing in Six Months in Slow Start to Third Quarter,” www.Bloomberg.com, August 13, 2014.

The Regional and National Economic and Fiscal Forecast for 2014 – 2018

Table 2

Nassau County Consumption Growth by Quarter				
2014				
	Q1	Q2	Q3	Q4
GCP	0.42%	0.60%	0.81%	0.98%
Retail Sales	0.08%	0.20%	0.70%	1.26%
Total Personal Income	0.57%	0.75%	1.03%	1.30%
2015				
	Q1	Q2	Q3	Q4
GCP	1.02%	0.96%	0.83%	0.67%
Retail Sales	1.50%	1.43%	1.11%	0.72%
Total Personal Income	1.46%	1.52%	1.53%	1.49%

Source: Moody's Economy.com

According to the most recent Sienna Research Institute’s (SRI) Consumer Sentiment Report, July 2014 expectations for New York State are down when compared to the previous month and to July 2013. Dr. Doug Lonnstrom, SRI founding director, believes “more New Yorkers say that they are worse off financially than a year ago and continue to be mixed about the future. As we enter the dog days of summer, consumers remain unsure about the true temperature of the economy.”⁵ The poll showed overall consumer sentiment across the nation decreased 0.7 points and New York State overall consumer sentiment decreased 5.3 points in July. The overall sentiment reading includes both the current and future sentiment readings. Although the monthly Sienna sentiment report does not address Long Island specifically, the Metro New York City area experienced an overall 3.4 point decrease.

Labor Market

The nation’s unemployment rate ticked up in July to 6.2% from 6.1% last month. The New York Times reports that “Many Economists viewed the slight rise as a modestly encouraging sign, because more people reported that they

⁵ Lonnstrom, Douglas, “The String is Broken: After Three Months of Gains, New York Takes a Big Drop,” Sienna Research Institute. August 6, 2014.

were looking for work, suggesting that many of them were seeing greater job opportunities”.⁶ During the last week in July, the four week average for unemployment benefit applications fell by 3,500 to 297,250, the lowest average since April 2006.⁷ Since applications are a proxy for layoffs, the decrease indicates companies are cutting fewer jobs.

The Long Island unemployment rate fell to 5.3%, down 1.0% points from a year ago, but remained relatively unchanged from last month’s rate. The rate remains well below the New York State’s rate of 6.8% and the nation’s rate of 6.2%. Economists have suggested that the low rate on Long Island may be attributed to people dropping out of the workforce. The number of unemployed people who say they are looking for work but are unable to find work, plunged by 15,800 to 80,800 year-over-year. Meanwhile, the number of employed Long Island residents increased year-over-year by a mere 500 to 1.44 million.⁸ Shital Patel, a Labor Market Analyst at the New York State Department of Labor, attributes the drop in the unemployment rate on Long Island to either discouraged workers who are no longer seeking employment or a delayed effect of unemployment benefits since someone has to be actively searching for work to claim unemployment benefits.⁹

As reflected in Table 3, the labor market conditions for the employed are expected to remain positive through 2017. Moody’s is forecasting the number of employed residents to increase by 0.6% in 2014, 3.1% in 2015, 2.8% in 2016, and 1.1% in 2017. Nassau’s unemployment rate is expected to continue to

⁶ Searcey, Dionne, “More Rejoin Labor Force, Jobless Rate Up to 6.2%,” The New York Times. August 1, 2014.

⁷ Boak, Josh, “U.S. jobless aid applications rise to 302,000,” U.S. News. July 31, 2014.

⁸ McDermott, Maura, “LI Jobless Rate in July Falls to 5.3%,” Newsday. August 19, 2014.

⁹ Solnik, Claude, “LI Employment Rate Stays under 5%,” Long Island Business News. July 22, 2014.

The Regional and National Economic and Fiscal Forecast for 2014 – 2018

decline through 2017. The current forecast has the average annual County unemployment rate falling to 4.7% in 2015, 4.3% in 2016, 4.0% in 2017 and 4.0% in 2018.

Table 3

Nassau Labor Market Projected Annual Growth Rates					
	2014	2015	2016	2017	2018
Total Employed	0.6%	3.1%	2.8%	1.1%	0.0%
Total Unemployed	-14.6%	-5.5%	-5.4%	-6.0%	-0.7%
Average Unemploy % Change	5.1%	4.7%	4.3%	4.0%	4.0%

Source: Moody's Economy.com

Non-Farm Jobs

Nationally, U.S. employers extended solid hiring in July by adding 209,000 jobs, after surging by 298,000 in June. July marked the sixth straight month that employment expanded by more than 200,000 jobs, a stretch not seen since 1997.¹⁰ The continued job growth is a sign that the US economy is rebounding after shrinking at the start of the year from the winter storms and freezing temperatures, but some headwind remains.

According to the New York State Department of Labor figures, the total non-farm job growth for the Nassau-Suffolk region decreased by 1.1% in July from the prior month and 1.2% from the prior year. The Island added 15,000 more jobs, compared to July of last year. This increase was little changed from the 15,100 year over year gain in June.¹¹

The Education and Health Services sector, one of the Island's lower wage categories, led the increases, with 7,300 more jobs than a year ago. Other sectors that produced strong growth include the Trade, Transportation & Utilities

with 6,900 jobs, followed by the Professional & Business Services sector with 4,500 jobs, the Natural Resources, Mining and Construction with 4,200 jobs, and Retail Trade with 4,200 jobs.

The growth in the Construction and Professional & Business Services Industries are encouraging since they tend to be higher paying job sectors. The strength in the Construction Industry may be attributed to downtown-revitalization construction and hotel projects.¹²

Meanwhile, the Government sector posted the biggest decline with 3,000 job losses, which is primarily related to public school layoffs. The Island's highest paying sector, Financial Activities which includes banking, insurance and real estate, experienced 2,100 losses due mostly to bank consolidations and mortgage operation cutbacks.¹³

Nassau County is expected to generate positive total non-farm job growth from 2014 to 2018. As Table 4 details, Nassau is currently forecast to record a five year growth of 5.1%. Table 4 provides the detail of growth forecast for eight sectors. The Construction, Education & Health, and High Technology sectors are projecting the strongest out-year growth. Meanwhile, the Retail Trade sector is expected to register negative job growth annually through 2018. The Government sector is expected to generate annual declines in 2014, 2015, and 2018. The Financial Activities is projected to record an annual decline in 2014, but positive growth each year up to 2017.

¹⁰ Mutikani, Lucia, "U.S. Job Growth Cools, Unemployment Rate Rises to 6.2%," Reuters.com, August 1, 2014.

¹¹ Mason-Draffen, Carrie, "Long Island Adds 15,000 Jobs in July from a year earlier," [Newsday](http://Newsday.com), August 14, 2014.

¹² Ibid

¹³ Ibid.

The Regional and National Economic and Fiscal Forecast for 2014 – 2018

Table 4

Nassau County Annual Job Growth By Sector, 2014 to 2018						
	2014	2015	2016	2017	2018	5 Yr.
Construction	1.2%	5.8%	3.2%	1.3%	0.3%	11.9%
Education & Health	2.1%	3.0%	3.0%	2.1%	1.1%	11.3%
Financial Activities	-1.1%	1.5%	1.9%	1.0%	-0.3%	2.8%
Government	-2.0%	-0.3%	0.1%	0.1%	-0.1%	-2.2%
High Tech	-1.7%	4.0%	4.0%	2.8%	1.5%	10.6%
Leisure and Hospitality	1.1%	2.3%	2.4%	1.8%	0.6%	8.2%
Professional and Bus Services	0.1%	3.4%	2.8%	1.8%	0.3%	8.4%
Retail Trade	-1.2%	-0.2%	-0.1%	-1.1%	-0.9%	-3.6%
Total Non-Farm Jobs	0.3%	1.8%	1.8%	1.0%	0.2%	5.1%

Housing

Negative trends in the national and local housing markets that OLBR reported on in the First Quarter 2014 Economic Forecast report began to reverse in the Second Quarter. In June, existing home sales nationwide rose to the highest rate since October 2013.¹⁴ Although pending home sales across the country slipped in June, this decline was preceded by three months of steady growth.¹⁵ Average mortgage interest rates remain low.¹⁶ Potential buyers are still faced with barriers to the market (i.e. stagnant wage growth, tight supply and credit conditions), but the National Association of Realtors expects moderate growth in the national housing market as prices moderate and supply increases.¹⁷

Locally, the reversal of these trends are less apparent. Close examination of Multiple Listing Service of Long Island (MLSIL) statistical report demonstrates that Nassau's

¹⁴ Adam DeSanctis, "Existing Home Sales up in June, Unsold Inventory Shows Continued Progress," National Association of Realtors. July 22, 2014.

¹⁵ Adam DeSanctis, "Pending Home Sales Slip in June," National Association of Realtors. July 28, 2014.

¹⁶ The Associated Press, "Average U.S. 30-year mortgage rate flat week-over-week," Newsday. July 24, 2014.

¹⁷ Adam DeSanctis, "Existing Home Sales up in June, Unsold Inventory Shows Continued Progress," National Association of Realtors. July 22, 2014.

housing market has improved since its poor First Quarter performance. Pending home sales in Nassau declined steeply in the First Quarter of this year by 13.0%, or 2,200 homes entering contract, when compared to the First Quarter 2013. Pending sales recovered in the Second Quarter 2014, but volume was 1.6% lower than the Second Quarter 2013.

MLSIL's pending contract figures are supposed to indicate market performance over the next six months. As a result the overall decrease in sales volume in the Second Quarter is likely a result of the decrease in contract sales in the First Quarter. Industry experts attributed the slow First Quarter to extreme winter weather¹⁸. Current MLSIL closed home and contract sales data supports that assertion. Table 5 details the monthly and annual changes in Nassau home sales and prices.

Table 5

Nassau County Housing Actuals					
2014 Current					
	Jul-13	Jun-14	Jul-14	Mthly %	Yrly %
Closed Home Sales	1,219	996	1,099	10.3%	-9.8%
Median Sale Price	435,000	430,000	439,000	2.1%	0.9%
2014 Pending					
	Jul-13	Jun-14	Jul-14	Mthly %	Yrly %
Contract Sales	1,134	1,179	1,133	-3.9%	-0.1%
Median Contract Price	425,000	435,000	430,000	-1.1%	1.2%

Source: Multiple Listing Service of Long Island, Zone Activity Report

On a month-to-month basis, closed home sales climbed 10.3%, from 996 homes closed on in June to 1,099 closed in July. Median sales prices rose 2.1% during this time. On an annual basis, July's closed home sales were 9.8% lower than in July 2013. Median sales prices edged up 2.1% over the course of the last year. The strong month-to-month performance indicates that Nassau's housing market has moved beyond the rough winter. It is not clear if this is genuine growth or the release of pent up

¹⁸ David Winzelberg, "Long Island Home Sales Plunge in February," Long Island Business News. March 11, 2014.

The Regional and National Economic and Fiscal Forecast for 2014 – 2018

demand from the First Quarter. The mixed annual performance is evidence that other factors, such as tight credit conditions and escalating flood insurance costs, continue to weigh the market down.¹⁹

MLSLI's pending sales data is an indicator of future market performance. Pending sales slipped 3.9%, from 1,179 contracts signed in June to 1,133 in July 2014. Median contract prices dipped 1.1% in July. On an annual basis, contract sales volume is down 0.1%, from 1,134 homes in contract last July to 1,133 homes in contract in July 2014. Median contract prices rose 1.2%, from \$425,000 last July to \$430,000 in July 2014.

Overall, Second Quarter contract sales volume is down about 1.5% from the Second Quarter of 2013. Over the next six months, home sales are likely to grow at a stronger pace than earlier this year but still below that of last year. Sales prices should continue to appreciate. The pending sales figures also support Moody's forecast for strong growth in mortgage originations and a steady rise in median sale prices over the next 18 months.

Table 6 details the projected quarterly changes for the Nassau County housing market in terms of new mortgages, mortgage refinancing, and median home sale prices in

Table 6

Nassau County Housing Forecast by Quarter				
	2014			
	Q1	Q2	Q3	Q4
New Mortgages	1.21%	1.40%	3.85%	6.42%
Refinances	-24.02%	-28.05%	-24.11%	-8.92%
Median Sale Price	-0.07%	0.14%	0.59%	1.06%
	2015			
	Q1	Q2	Q3	Q4
New Mortgages	6.96%	5.83%	3.58%	1.20%
Refinances	5.44%	9.03%	2.96%	-5.21%
Median Sale Price	1.26%	1.22%	0.97%	0.65%

Source: Moody's Economy.com

New mortgage originations are expected to grow in all quarters surveyed. Moody's expects refinances to decline precipitously for the remainder of the year. National mortgage interest rates remain low, near 4.13% for a 30 year loan at the end of July.²⁰ Rates hit a record low at the end of 2012, and have hovered between 3.5% and 4.5% ever since.²¹ Qualified homeowners, who would benefit from a refinanced mortgage, would have already taken advantage of low interest rates. This declining trend is expected to reverse in the First Quarter 2015. The County Clerk collects mortgage recording fees on new and refinanced mortgages. This economically sensitive revenue stream will be impacted should Moody's forecast prove correct. Median sales prices are expected to exhibit slight growth in the second half of this year and in every quarter in 2015.

The ill-effects of the housing market's First Quarter performance lessen as time passes. June's contract sales figures and Moody's forecast could indicate that the year may finish stronger than it started.

¹⁹ Maura McDermott, "June Home Sales on LI Slow from Year Earlier," Newsday. July 15, 2014.

²⁰ The Associated Press, "Average U.S. 30-year Mortgage Rate Flat Week-over-Week," Newsday. July 24, 2014.

²¹ Mortgage Rate Survey, "30 Year Fixed Rate Mortgages since 1971," Freddie Mac. July 31, 2014.

The Regional and National Economic and Fiscal Forecast for 2014 – 2018

Prices

The Consumer Price Index (CPI) is a measure of the average change in prices over time of goods and services purchased by households. As of July 2014, the US Bureau of Labor Statistic’s (BLS) regional, all-items index for the Northern New Jersey-Long Island region reflects that consumer prices increased 0.1% from last month but increased by 1.6% compared to last year. According to BLS Chief Regional Economist Martin Kohli, ”attributed the index movement to rising prices for food that were largely offset by declining prices for energy and other expenditures.”²²

Increased consumer prices are expected from 2014 through 2018. The quarterly forecast for regional consumer prices from 2014 through 2018 is shown in Table 7. The annual growth rates may be seen on Table 1.

Table 7

Regional Consumer Price Forecast by Quarter				
	Q1	Q2	Q3	Q4
2014	0.56%	0.77%	0.69%	0.67%
2015	0.69%	0.70%	0.71%	0.72%
2016	0.75%	0.77%	0.80%	0.82%
2017	0.83%	0.83%	0.82%	0.82%
2018	0.82%	0.80%	0.79%	0.78%

Source: Moody's Economy.com

Sales Tax Predictors

Sales tax revenue accounts for approximately 41.8% of the County’s five major funds revenue budget, making it an important trend to monitor and forecast. Common predictors that help forecast sales tax growth are personal income, consumer price index, and employment levels. Another key statistic to follow is retail sales

performance as they have historically constituted 54.5% of County sales tax collections.²³ Although many indicators maintain positive growth forecasts, they have been adjusted down since the beginning of 2014. Actual year-to-date collections are down in the County.

Advance estimates for the July national retail spending were virtually unchanged from the previous month. June recorded a modest 0.2% following stronger performance in the previous three months.²⁴ The July advanced reading is the worst performance in six months. Core retails sales, excludes purchases at gas stations and of vehicles, show July experienced a slightly better 0.1% growth. Following the harsh winter weather in the First Quarter, retail sales activity improved in the Second Quarter. However, the July report shows that the start of the third quarter is shaky and the continuation of the second quarter trajectory is unlikely. Stephen Stanley, Chief Economist at Pierpont Securities LLC believes “There’s no sign of momentum or enthusiasm out of the consumer right now. Income growth continues to be so-so. Employment has picked up in recent months but you’re not seeing the growth in hours worked that would generate big increase in paychecks. I don’t think people have the wherewithal, not to mention the inclination, to ramp it up.”²⁵ Locally, the impact of Superstorm Sandy related purchases throughout 2013 continue to make Long Island sales forecasts for the remainder of 2014 difficult. Retail sales growth for 2014 is not expected to outpace sales activity in 2013.

²² “Area prices up 0.1 percent over the month and 1.6 over the year.” Consumer Price Index, New York-Northern New Jersey-July 2014. July 2014 Issue.

²³ New York State Department of Taxation and Finance. “Taxable Sales and Purchases County and Industry Data for March 2010 – February 2011.” August 2012.

²⁴ US Census Bureau News. “Advance Monthly Sales For Retail and Food Services July 2014.”

²⁵ Bloomberg. “Worst Retail Sales Showing in Six Months in Slow Start to Third Quarter,” www.Bloomberg.com. August 13, 2014.

The Regional and National Economic and Fiscal Forecast for 2014 – 2018

On a more local level, Moody’s Analytics forecasts all three of the previously mentioned indicators for sales tax will improve, or at least remain flat, over the next five years. However, the most recent Siena Research Institute (Siena) Consumer Sentiment Survey indicates that overall consumer sentiment across the State decreased 5.3 points in July of 2014 when compared to the previous month breaking a three month trend of gains (the nation saw a 0.7 point decrease).²⁹ Currently, 87.6% of New York State residents plan to make a large purchase over the next six months. That is down from 90.8% the previous month. Table 8 details the intentions of Long Island residents to make large purchases over the next six months, as presented by Siena Research Institute. Furniture and car or truck plans experienced the largest growth with 2.4 and 1.2 points, respectively. Home purchasing plans increased by 0.8 points. However, plans for both home improvements and consumer electronics declined 6.6 points and 1.0 points, respectively.

Table 8

% of NY Residents Who Plan to Make a Major Purchase in the Next Six Months		
	Jun-14	Jul-14
Car or Truck	11.8%	13.0%
Consumer Electronics	34.1%	33.1%
Furniture	19.7%	22.1%
Home	4.3%	5.1%
Home Improvement	20.9%	14.3%
Buying %	90.8%	87.6%
Source: Siena College Research Institute		

The leading indicators may show a weakening of consumer expectations across the State. Actual year-to-date sales tax revenue performance in Nassau County has not been encouraging. The County’s year-to-date distribution from New York State is down 6.0%

²⁹ Lonnstrom, Dr. Douglas, “The String is Broken: After Three Month of Gains, New York Takes a Big Drop,” Siena Research Institute. August 6, 2014.

when compared to the same period in 2013. Nassau County is not alone however, NYSAC reports that “counties continue to struggle as this important revenue stream sputter”.³⁰ On a cash basis, Counties have seen virtually no growth in their sales tax receipts compared to the prior year. NYSAC reports that “overall 37 counties have experienced negative sales tax growth in one of the last three quarters”³¹. Leading drivers of the decline for Nassau County are likely that Fiscal 2013 was an artificially high collection year as it captured the rebuilding efforts from Superstorm Sandy and the harsh winter weather of the First Quarter 2014 depressed buying.

Lodging Industry

According to Long Island Convention & Visitors’ Bureau (LICVB) statistics, the occupancy rate in Nassau during June 2014 was 83.6%, a 0.2% decline from the rate from June 2013. Average daily rates increased \$6.71 during this time, from \$148.22 in June 2013 to \$154.93 last month. Through the first half of 2014, the average occupancy rate was 73.65% and the average rental rate was \$140.03. Compared to the first six months of 2013, occupancy rates are down 9.6% and rental rates have declined 1.8%. For months after Superstorm Sandy, emergency management and relief agencies paid to house displaced residents in Nassau’s hotels and motels. As a result, occupancy and rental rates were elevated for the better part of 2013. The average first half occupancy and rental rate for 2012, 2013, and 2014 is found in the Table below. While Sandy may have impacted rates at the tail end of 2012 and at the beginning of last year, the first half of 2012 was wholly unaffected by the storm. Comparing first half results from 2012 to first half results from this year reveals that the

³⁰ “Most Counties See Lackluster Sales Tax Collections, Press Release.” New York State Association of Counties. July 16, 2014.

³¹ Ibid.

The Regional and National Economic and Fiscal Forecast for 2014 – 2018

County's lodging industry has sustained some of the gains made in the aftermath of Superstorm Sandy. Compared to the first half of 2012, occupancy rates were up 7.4% and average rental rates were up 8.9% through June 30, 2014.

Table 9

	2012	2013	2014	2012 vs. 2014	2013 vs. 2014
First Half Average Occupancy Rate	68.57%	81.45%	73.65%	7.41%	-9.58%
First Half Average Rental Rate	\$128.56	\$142.52	\$140.03	8.92%	-1.75%

Source: Long Island Convention & Visitors Bureau (LICVB)

As this Office reported in its First Quarter 2014 Economic Forecast report, hotel/motel tax proceeds were expected to be down in 2014 as Sandy's effect on the lodging industry waned. As of June 30, 2014, total hotel/motel tax proceeds were \$997,051, about 15.5% lower compared to the same period last year. Through the first six months of last year, hotel/motel tax proceeds were about \$1.2 million. Although current collections are down from last year, FY 2014 hotel/motel tax proceeds through June 30, 2014 are up 11.9% compared to collections recorded through the first six months of 2012.

Conclusion

The national economy has shown encouraging signs of recovery in the Second Quarter following a disappointing First Quarter 2014. Economists have attributed the First Quarter decline in economic activity to the harsh winter weather. GDP expanded at a 4.2% annual rate after shrinking at a revised 2.1% pace in the First Quarter. Employers continue to extend job growth and hiring expectations remain strong for the second half of the year.

Long Island's economic outlook remains mixed but has improved from the First Quarter. Job growth continues on Long Island at a modest pace. MLSLI July pending sales data indicates that home prices could continue to grow over

the next six months. According to the most recent Sienna Research Institute's Consumer Sentiment Report, July expectations are down when compared to the previous month and prior year. Sales tax continues to be a major area of concern in the County and across New York State. The County's year-to-date sales tax distribution from New York State is down 6.0% compared to the same period in 2013. NYSAC has reported that "overall 37 Counties have experienced negative sales tax growth in their receipts compared to the prior year."

Prepared by:
The Office of Legislative Budget Review
Helen M. Carlson, Deputy Director
Jessica A. Lamendola, Assistant Director
Tyler Barbieri, Legislative Budget Analyst