



NASSAU COUNTY LEGISLATURE
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Inter-Departmental Memo

To: Hon. John Ciotti, Chairman
All Members of the Budget Review Committee

SA
From: Steven Antonio
Office of Legislative Budget Review

Date: August 11, 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
John A. Mastromarino, Nassau County Treasurer
Jeff Nogid, Director, OMB
Evan Cohen, Executive Director, NIFA
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Dan McCloy, Director of Law, Finance & Operations
Tim Sullivan, Deputy County Executive
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OFFICE OF LEGISLATIVE BUDGET REVIEW

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

July 2010

Nationally, the economic recovery has lost speed. Second quarter 2010 US real gross domestic product slowed to an annual rate of 2.4%. That marked the slowest rate registered in nearly a year.¹

Economists still anticipate continued sluggish growth rather than another downturn. Some posit that a lost decade scenario, a prolonged period of very weak growth, is more likely than a double dip. Individuals will feel like the recession never ends.² However, given the weak growth, any unforeseen shock has the potential to result in a double dip.

The recession is now estimated to have directly impacted more than half of US working adults. The individuals surveyed report that they are either unemployed, working with a cut in pay, working less hours, or working part time as a result of the recession. This is expected to have lasting consequences on consumer spending.³

On a positive note, the Northeast region, including New York, appear to be recovering from the recession more quickly than states in other regions. A recent PMI Mortgage Insurance Company report details how New York's unemployment rate has gradually declined, its non-farm jobs have shown positive growth in several sectors, its credit conditions

are said to be better than many States, and its new foreclosure rate is lower than the national average.⁴

Table 1

Annual US Real GDP Growth Forecast 2010 to 2013				
	2010	2011	2012	2013
Moody's Economy.com	2.9%	3.6%	5.1%	3.7%
The Conference Board	2.8%	1.9%	NA	NA
Fed. Reserve Bank of Philadelphia	3.3%	3.1%	3.2%	2.9%
Mortgage Bankers Association	2.6%	2.8%	3.6%	NA
PMI Mortgage Insurance Co.	2.6%	3.7%	NA	NA
Average	2.8%	3.0%	4.0%	3.3%

In Table 1 the current projections for US real GDP growth from 2010 to 2013 are detailed. All forecasters are currently projecting positive annual economic growth over the next four years. On average economic growth is expected to strengthen through 2012.

From a County perspective, economic growth is forecast to remain positive through 2012. 2010 is expected to record the lowest level of economic growth. Economic growth is projected to reach 2.9% in 2011. Positive employment, personal income and job growth are expected to result in overall positive 2010 economic growth. These annualized growth rates are detailed in Table 2.

¹ "Economic Growth Slowed to 2.4% Rate in Second Quarter", USAToday.com, July 30, 2010.

² Isidore, Chris, "Lost Decade: The New Threat to the US Economy", CNN/Money.com, July 15, 2010.

³ Fletcher, Michael A., "Poll: Recession Has Hit More than Half of US Workers", Newsday.com, June 30, 2010.

⁴ "The Housing & Mortgage Market Review", PMI Mortgage Insurance Co., Issue 7, Vol. 3, July 2010.

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Table 2

2010 to 2012 Nassau County Economic Forecast			
Forecast Annual Growth Rates			
	2010	2011	2012
GCP	0.7%	2.9%	3.5%
Personal Income	2.6%	3.7%	6.3%
Employed	0.1%	1.0%	1.8%
Unemployed	3.2%	0.9%	-18.1%
Unemployment Rate	7.1%	7.1%	5.8%
Non Farm Jobs	0.6%	1.0%	2.4%
New Mortgages	6.9%	10.3%	12.9%
Mrt Refinances	-13.8%	-31.8%	5.5%
Retail Sales	2.2%	4.1%	5.0%
Median Home Sale Price	-2.5%	-7.6%	5.4%
Regional CPI	2.6%	2.7%	3.8%

Source: Moody's Economy.com

In 2011, personal income growth is expected to exceed the increase in regional prices. This will enable households to increase spending levels and result in retail sales growth of 4.1%. By 2011, overall employment and job growth are expected to reach the 1% mark indicative of healthy growth.

The following sections provide a detailed look at each forecast economic variable. If current trends continue, 2011 should be a better year economically than 2010.

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 July 2010 forecast, Nassau County's real Gross County Product (GCP) is expected to be positive throughout 2010 and 2011.

Compared to the April 2010 forecast, projections for 2010 Nassau County economic growth diminished. Previously 2010 economic growth was projected at 1.6%, it is now expected to register 0.7% for the year. Table 3

details this growth on a quarterly basis. Growth is expected to pick up during the second half of the year.

Table 3

Nassau County Consumption Growth By Quarter				
	2010			
	Q1	Q2	Q3	Q4
GCP	0.29%	0.48%	0.59%	0.64%
Pers. Inc.	0.93%	1.04%	0.93%	0.77%
	2011			
	Q1	Q2	Q3	Q4
GCP	0.70%	0.78%	0.89%	0.96%
Pers. Inc.	0.74%	0.88%	1.17%	1.48%

Source: Moody's Economy.com

The forecast for personal income growth is more robust. Economists now envision annualized 2010 personal income growth of 2.6%, that is up from the prior forecast's 2.3%.

According to the Commerce Department, June 2010 national retail sales fell 0.5% from the prior month. That was the second monthly decline recorded after a seven month string of increases. From an annual perspective, US retail sales had increased 4.8%. The monthly retail sales decline was a function of a 2.3% decline in motor vehicle and parts sales.⁵ Auto industry experts state that sales typically fall from May to June due to the Memorial Day holiday. However, this years' drop was larger than usual. This result was attributed to individuals holding off on making big ticket purchases due to unemployment and lower home values.⁶

Labor Market

According to the New York State Department of Labor, the Nassau County unemployment rate stood at 6.7% in June 2010, up from May's

⁵ Yousuf, Hibah, "Retail Sales Slip For 2nd Straight Month", CNN/Money.com, July 14, 2010.

⁶ "Overall Car Sales Fall in June", Newsday.com, July 1, 2010.

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6.5% and down from June 2009's 7.3%. The increase in the unemployment rate was positive in that it occurred in tandem with an increase in the labor force. One could assume that individuals were opting to re-enter the labor force due to heightened job opportunities. The number of employed residents grew 2.3% from the prior month and 0.29% from the prior year.

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 7.3% at its highest point. Compared to April 2010's forecast, Nassau's unemployment rate will not reach its previously estimated 7.8% height. However, the annual average rate is not expected to decline until 2012. The number of employed residents is expected to increase slightly throughout 2010 and 2011. These projections may be viewed on a quarterly basis in Table 4.

Table 4

Nassau Labor Market by Quarter, 2010 and 2011				
2010				
	Q1	Q2	Q3	Q4
Total Employed	0.21%	0.33%	0.29%	0.20%
Total Unemployed	-1.14%	-1.42%	-0.07%	1.53%
Unemployment %	7.2%	7.1%	7.1%	7.1%
Non Farm Jobs	0.40%	0.47%	0.35%	0.17%
2011				
	Q1	Q2	Q3	Q4
Total Employed	0.18%	0.22%	0.34%	0.47%
Total Unemployed	1.76%	0.60%	-1.82%	-4.47%
Unemployment %	7.2%	7.3%	7.1%	6.8%
Non Farm Jobs	0.11%	0.17%	0.35%	0.56%

Source: Moody's Economy.com

The relatively high number of unemployed residents is said to be placing downward pressure on salaries. Staffing experts state that not only are businesses more cautious about hiring, but are looking for the top talent for what they are willing to pay. They are looking more for price than skills. They are seeing a 10 to 15

percent across the board cut in salaries, except in high growth industries.⁷

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, June 2010 total non-farm job growth for the Nassau – Suffolk region increased 1.2% from the prior month and increased 0.7% from June 2009. The strongest job growth was recorded in the leisure and hospitality sector. It recorded a 7.4% monthly increase and a 3.2% annual increase. Some of the increase may be attributed to commencement of the summer season.

The job growth was not widespread. The seven sectors listed below shed jobs from both a monthly and an annual perspective.

- Specialty trade contractors
- Information
- Financial Activities
- Finance and Insurance
- Professional and Business Services
- Admin. And Supp. And Waste Manage. & Remed. Services
- Educational Services

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. Annual growth in non-farm jobs is expected to grow 0.6% in 2010, 1.0% in 2011 and 2.4% in 2012. Quarterly growth is expected to remain under 1.0% for the remainder of 2010 and throughout

⁷ Ain, Stewart, "Economy, Unemployment Suppresses Area Salaries", Long Island Business News, June 11-17, 2010.

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2011. Positive growth above the 1% mark indicative of a healthy economy is now expected in 2011, in the April 2010 forecast the mark was not anticipated until 2012. These forecast growth rates may be seen in Tables 2 and 4.

Housing

The Nassau County residential housing market is gradually recovering. From a quarterly perspective, houses are selling and at higher prices. Table 5 details the number of closed sales and average closed selling prices for Nassau County during the second quarter of 2010.

Table 5

Nassau County Closed Sales						
	April	May	June	Quarterly Total	Quarterly %	
2010	731	685	1,401	2,817	38.4%	
2009	577	598	861	2,036		
Nassau County Average Closed Sale Price						
	April	May	June	Quarterly Total	Quarterly %	
2010	507,426	482,994	485,763	1,476,183	3.9%	
2009	431,826	482,888	506,523	1,421,237		

Source: Multiple Listing Service of Long Island

During the second quarter of 2010, the number of closed transactions grew by 38.4% from the prior year and average closed sale prices increased 3.9% from an annual perspective. The Federal Governments' various homebuyer credits which ended on April 30, 2010 would be shown in the month of June transactions.

Comparing the second quarter 2010 home sale results to the second quarter 2010 mortgage recording tax collections provides insight into several other developments occurring in the residential housing market.

The mortgage recording tax is collected on all recorded mortgages, either a new origination or a refinance. It is assessed as a percentage of the principal amount of the mortgage. Thus,

collections should increase as more homes sell and as prices increase since most homes are purchased with a mortgage and as home prices increase one would expect the mortgage principal amount to follow suit. However, second quarter 2010 mortgage recording tax collections decreased 19.4% from the second quarter of 2009. Hence, one or more of the following trends could be occurring in the residential housing market.

- Mortgage refinancings have decreased dramatically.
- Lenders are requiring higher down payments.
- Households are choosing to take out less debt.

All three scenarios seem likely. Home refinancings probably have decreased significantly. Mortgage interest rates have been low for an extended time so anyone who wanted to refinance probably has already done so. Additionally, those who did not, may not have the requisite equity. Due to the economic uncertainty, lenders probably are being tighter in extending credit and borrowers are probably trying to limit their household debt.

Looking forward, home sale prices are expected to decline for the remainder of 2010 and throughout 2011. However, mortgage originations are expected to register positive annual growth in 2010 and 2011. Table 6 details these quarterly changes for the Nassau County housing market.

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Table 6

Nassau County Housing Forecast By Quarter				
2010	Q1	Q2	Q3	Q4
New Mortgages	1.35%	1.26%	1.56%	2.05%
Med. Sale Price	0.34%	-0.13%	-1.41%	-2.71%
2011	Q1	Q2	Q3	Q4
New Mortgages	2.49%	2.91%	3.33%	3.54%
Med. Sale Price	-3.09%	-2.46%	-0.78%	1.15%

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.

Prices

As of June 2010, the US Bureau of Labor Statistic's regional, all-items index reveals that consumer prices have decreased from a monthly and increased from an annual perspective. Compared to May 2010, regional consumer prices are down 0.1% and relative to June 2009, regional consumer prices have increased 1.5%. Marginal, positive consumer price growth is expected for 2010 through 2012. The quarterly forecast for regional consumer prices from 2010 through 2012 is shown in Table 7.

Table 7

Regional Consumer Price Forecast By Quarter				
	Q1	Q2	Q3	Q4
2010	0.60%	0.43%	0.50%	0.54%
2011	0.65%	0.77%	0.90%	0.93%
2012	1.01%	0.92%	0.92%	0.90%

Source: Moody's Economy.com

Sales Tax Predictors

As detailed previously, US Commerce Department figures show that June 2010 national retail sales fell 0.5% from the prior month, and increased 4.8% from the prior year. It is important to monitor retail sales since historically they have constituted 54% of County sales tax collections.

Looking forward, Nassau retail sales are now expected to grow 11.2% over the next three years. Table 8 details Moody's Economy.com's January, April and July 2010 forecasts for Nassau County retail sales by year. Over the past three forecasts, the three year growth rate has been increasing. The July 2010 forecast now envisions increasing positive growth in all years with 2012 recording the highest growth rate of 5.0%.

Table 8

Nassau Retail Sales, January vs. April Forecast			
	1/2010 Forecast	4/2010 Forecast	7/2010 Forecast
2010	0.4%	4.1%	2.2%
2011	3.4%	1.7%	4.1%
2012	6.6%	5.2%	5.0%
3 Year %	10.4%	10.9%	11.2%

Source: Moody's Economy.com

Siena College's consumer confidence index showed that as of the second quarter 2010, overall consumer confidence on Long Island was up 3.84% from the prior year. However, compared to the prior quarter, Long Island consumer confidence has fallen 2.7%.

Future consumer confidence fell 3.7 points. According to Dr. Doug Lonnstrom, director of the Siena College Research Institute, "Current consumer confidence climbed this quarter as fewer New Yorkers in most areas now say things are getting worse. But few are ready to spend and in all areas except New York City, large majorities expect bad economic times to persist over the next five years".⁸ Their survey of future buying plans had the following results:

⁸ "Quarterly Consumer Confidence by Nine NY State MSA's", Siena College Research Institute, July 14, 2010.

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Table 9

% of LI Residents Who Plan to Make A Major Purchase in the Next Six Months			
	1/2010	4/2010	7/2010
	Forecast	Forecast	Forecast
Car or Truck	13.8%	11.8%	10.9%
Computer	14.3%	13.2%	15.7%
Furniture	15.3%	18.0%	17.4%
Home	12.3%	3.4%	2.4%
Home Improvement	4.4%	14.1%	16.7%
Buying %	60.1%	60.5%	63.1%

Source: Siena College Research Institute

Overall, compared to the previous two forecasts, 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. The current US savings rate is 4.2% and it is expected to decrease to 4.1% next year.⁹

The number of unemployed residents remains high and is not expected to see a decline until 2012. This scenario will dampen the growth rate experienced in County sales tax collections.

Lodging Industry

The Nassau County lodging industry is an area where both households and businesses have been cutting expenses. Recent Long Island Convention and Visitor Bureau statistics reveal that in June 2010, despite a 13.8% drop in average room rental rates, occupancy rates declined 0.9% from the prior year.

⁹ "A Snapshot of the AP Economy Survey Results", The New York Times, July 29, 2010.

However, although the lodging industry is depressed relative to 2009's levels, the industry is hiring a significant amount of individuals to meet its current demand. New York State Department of Labor figures show that the Accommodations and Food Services sector has boosted its workforce from both a monthly and an annual perspective. Accommodation and Food Services jobs have increased 6.2% from May 2010 and 4.3% from May 2009.

Conclusion

The Nassau County economy continues to recover. However, since many are unemployed and companies are reluctant to hire, US Bureau of Labor Statistics show the average duration of unemployment in the US stood at 32.8 weeks in June 2010. That is down from May 2010's 35.1 weeks level and up from June 2009's 22.5 weeks level. This will dampen the recovery and constrain County sales tax growth.

In table 10, 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 10

Nassau County Full Recovery Forecast	
Projected Year When 2008 Level is Attained	
	Year
Employment	2013
Mortgage Originations	2012
Retail Sales	2011
Non Farm Jobs	2011
Median Sale Price	2020

Source: Moody's Economy.com

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