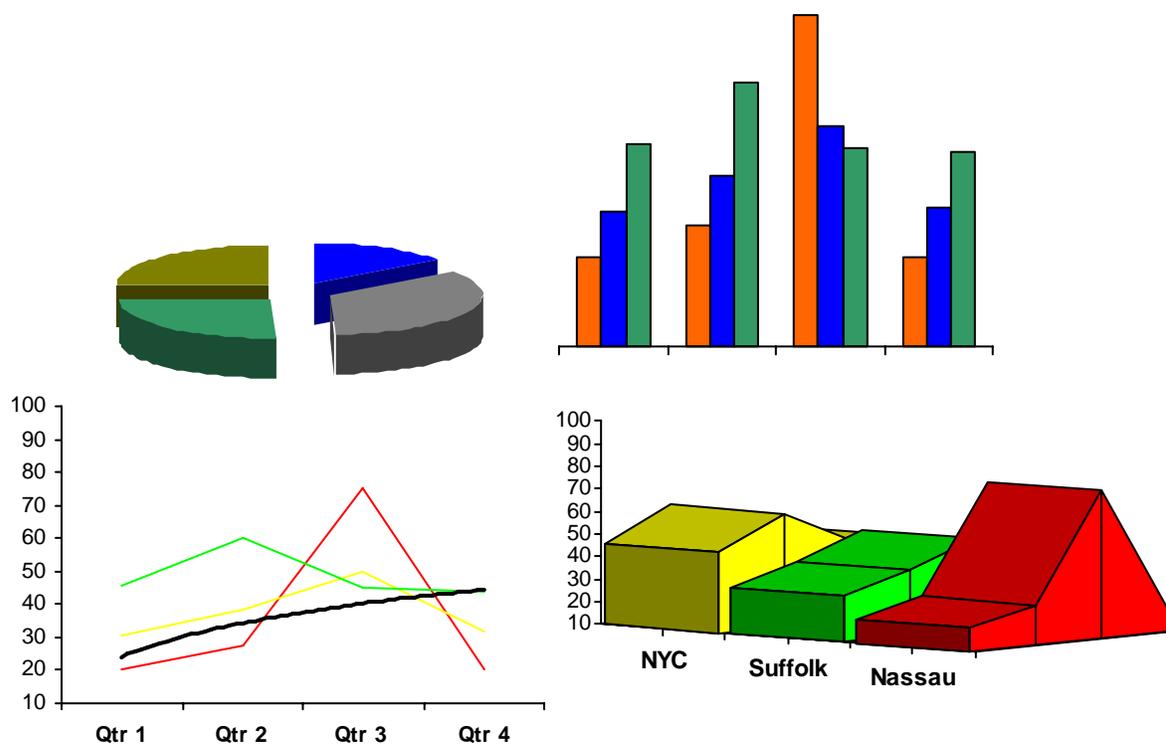




# NASSAU COUNTY LEGISLATURE

## Office of Legislative Budget Review

### Nassau County Economic Indicators



December 2005



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BUDGET REVIEW

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**Inter-Departmental Memo**

To: Hon. Lisanne Altmann, Chairperson  
Members of the Budget Review Committee

From: Eric C. Naughton, Director  
Legislative Budget Review

Date: January 5, 2006

Re: December 2005 Economic Report

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Attached is a copy of the Office of Legislative Budget Review's monthly economic report. This report is intended to assist the Legislature in making policy decisions and in assessing budgetary forecasts. From time to time it will be modified to include data that relates to specific events. 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  
David Gugerty, Majority Counsel  
Mark Young, Budget Director  
Richard Luke, Executive Director, NIFA  
Dan McCloy, Special Assistant Minority  
Ed Ward, Special Assistant to Minority  
Art Gianelli, Deputy County Executive  
Carol Trottere, Majority Press Secretary  
Marilyn Gottlieb, Director of Legislative Affairs  
Bill Geier, Clerk of the Legislature  
Fran Evans, Director of Policy

## December 2005 Monthly Economic Indicators Report

The national economy has been less robust than the Commerce Department previously thought. Third quarter 2005 real GDP was revised down to 4.1% from 4.3%.<sup>1</sup> In spite of the moderation, the Federal Reserve felt that the economy was secure enough to sustain an interest rate increase of 0.25%.<sup>2</sup> Consumers seem to be mirroring the Federal Reserve's measured approach to the economy. Despite a significant fall in gasoline prices, in November consumers held off on making their holiday purchases. Moreover, businesses similarly took a measured approach to hiring. Employment growth in November was positive but below the level indicative of a healthy economy. Lodging was the only industry exhibiting robust growth since indicators showed that housing market growth began to moderate.

### Consumer Price Indexes

<b>Consumer Price Indexes</b>					
<b>New York-Northern Jersey-Long Island, NY-NJ-CT-PA region</b>					
	<u>11/05</u>	<u>10/05</u>	<u>11/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
US City, CPI-U	197.6	199.2	191.0	-0.8%	3.5%
Regional CPI-U	215.3	216.6	207.2	-0.6%	3.9%
Core CPI-U (All Items less energy)	219.7	219.8	213.8	0.0%	2.8%
Medical	331.4	330.3	320.8	0.3%	3.3%
Housing	229.3	230.1	218.4	-0.3%	5.0%
Gasoline (all types)	183.3	213.5	158.7	-14.1%	15.5%

Source: Bureau of Labor Statistics, figures are not seasonally adjusted

Consumer prices fell both nationally and regionally from a monthly perspective in November 2005. The decline was a function of the monthly fall in regional and national gasoline prices. Excluding energy prices, the regional Core CPI-U was unchanged. Nationally, the Core index which excludes energy and gas prices rose 0.2% in November 2005.<sup>3</sup> The decline in gasoline prices may be seen as a result of both greater supply and decreased demand. Prices escalated during the hurricane season when several pipelines and refineries were off-line. Since the pipelines and refineries are now on-line, the supply bottleneck no longer exists. However, the record prices seen as a result of the supply bottleneck has had a lasting impact on driving habits. According to Federal Highway Administration data, the growth in miles driven in the USA, a mostly steep climb for 25 years, has flattened this year as a result of the spike in gas prices. Driving in the summer 2005 through August increased less than 1%, half the usual rate. Such a low growth rate has not been seen since the 1991 recession. The Urban Land Institute found that the demand decline occurred because individuals combined errands, eliminated non-work trips, carpoled, and used mass transit.<sup>4</sup>

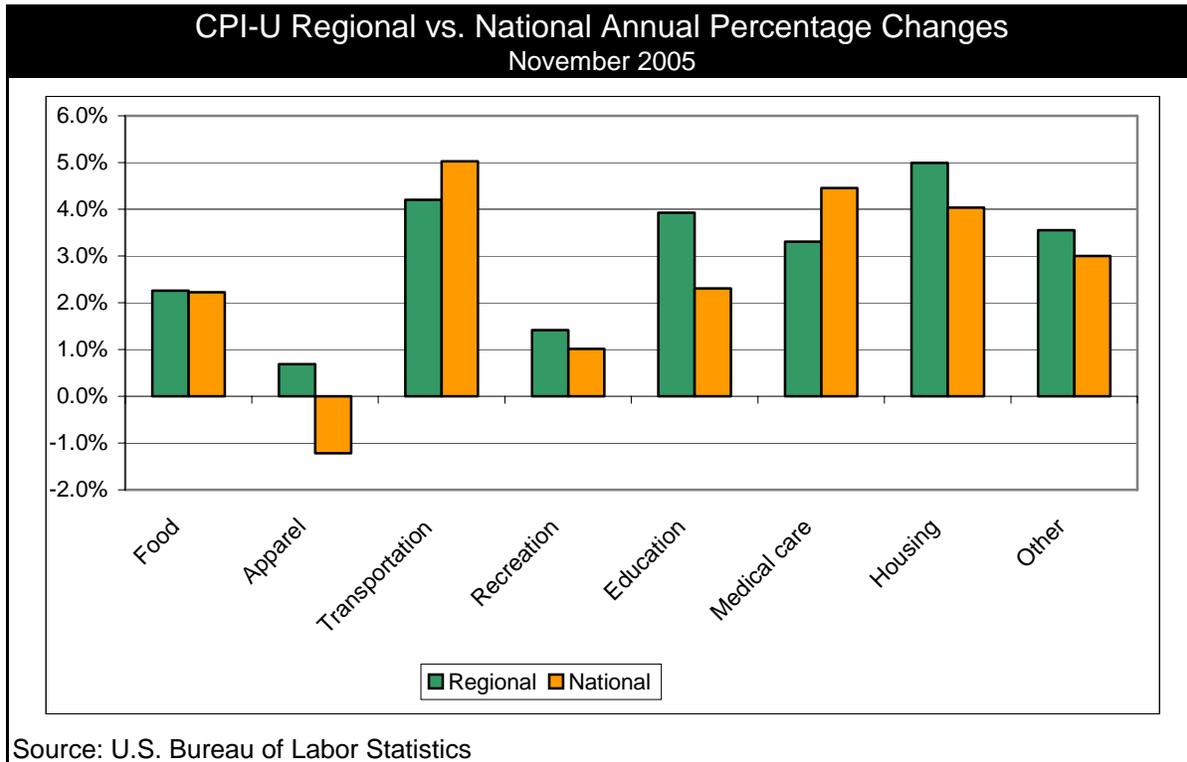
<sup>1</sup> "Economic Growth Revised Lower", [CNN/Money.com](http://CNN/Money.com), December 21, 2005.

<sup>2</sup> La Monica, Paul R., "Fed Raises Rates Again", [CNN/Money.com](http://CNN/Money.com), December 13, 2005.

<sup>3</sup> Isidore, Chris, "CPI Posts Biggest Drop Since 1949", [CNN/Money.com](http://CNN/Money.com), December 15, 2005.

<sup>4</sup> Vanden Brook, Tom and Paul Overberg, "High Gas Prices Alter Driving Habits", [USAToday.com](http://USAToday.com), December 8, 2005.

The chart below details the annual changes seen in both the regional and national consumer price indices. Regionally, the greatest increases were posted in the housing and transportation sectors. Nationally, the transportation and medical care sectors recorded the highest annual growth.



### Consumer Confidence Index

November 2005 saw national and regional consumer confidence rise from a monthly perspective. Dr. Douglas Lonnstrom, Director of the Siena Research Institute, attributed the increase to the fall in energy prices, the end of the hurricane season, mild weather, and strong job growth.<sup>5</sup>

From an annual perspective, our regional consumer confidence has risen 5.8%. Hopefully, the up-tick in consumer confidence will translate into increased retail sales.

However, national consumer confidence was down 12.1% from this time last year and holiday spending was slow. The Commerce Department reports that November retail sales fell short of expectations, recording 0.3% growth instead of the predicted 0.4% growth rate.<sup>6</sup> Additionally, December retail sales were slow. According to America's Research Group, only about 25% of customers had finished their holiday shopping by December 11<sup>th</sup>, down from the prior year's 28%.<sup>7</sup> It is possible that consumers were waiting for discounts. ShopperTrak RCT Corp. suggests that the week after Christmas typically accounts for 10% of holiday sales. However, this year it is predicted to represent 14% of holiday sales.<sup>8</sup> Final sales data will be available in January. After holiday purchases

<sup>5</sup> "New York State Consumer Confidence Bounces Back", Monthly Consumer Confidence Survey, Siena College Research Institute, November 2005.

<sup>6</sup> "November Retail Sales Weaker Than Expected", 1010Wins.com, December 13, 2005.

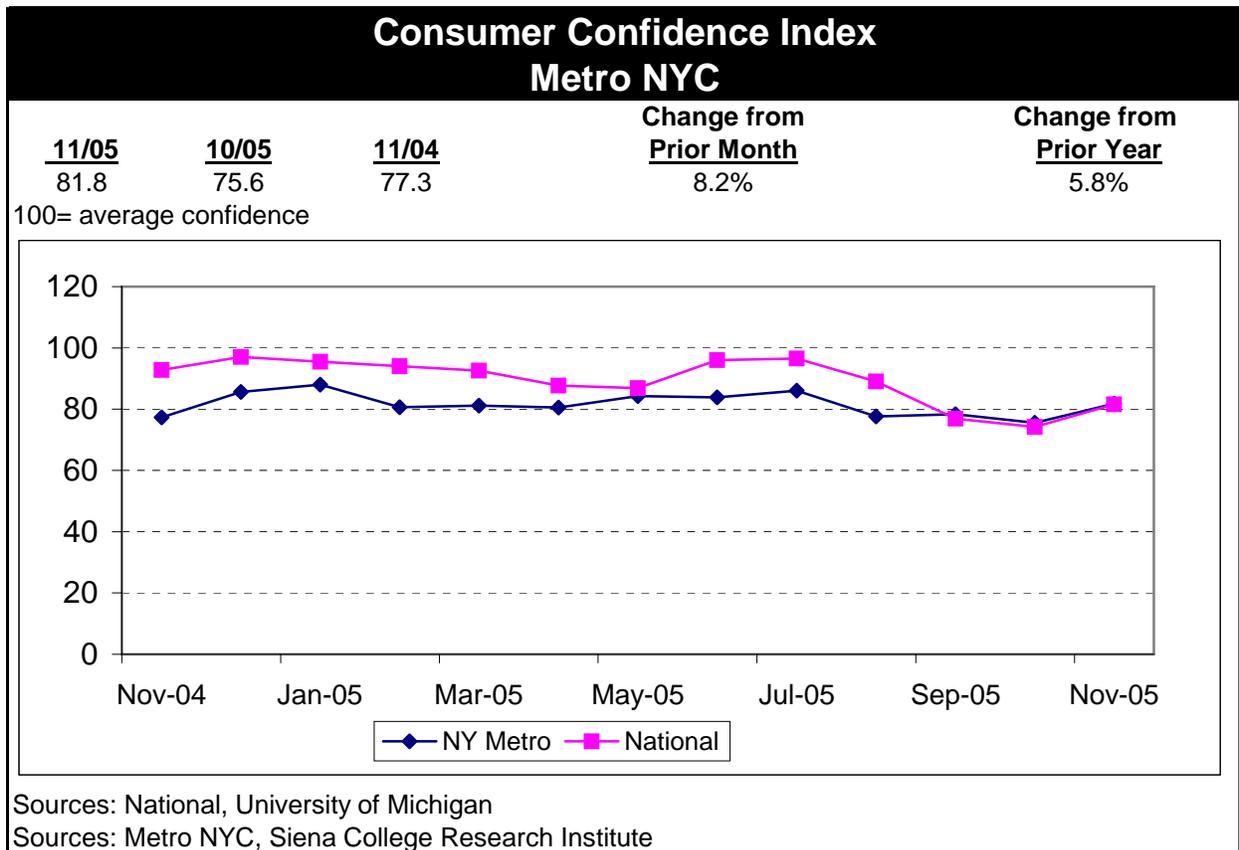
<sup>7</sup> Bhatnagar, Parija, "Where Have All the Shoppers Gone?", CNN/Money.com, December 15, 2005.

<sup>8</sup> Karush, Sarah, "Post-Christmas Sales Keep Shoppers Buying", Newsday.com, December 27, 2005.

at lower prices means less sales tax collections for the County. Had these purchases been made prior to the holidays at market rates the County would have collected more sales tax.

Not only will discount sales curtail County sales tax collections, but the robust growth seen in online sales will also diminish County sales tax collections. According to comScore Networks, online shopping during this holiday season is up 23% from the prior year.<sup>9</sup> Online purchases to a large extent are currently exempt from sales tax.

The chart below depicts the monthly changes seen in both national and regional consumer confidence.



<sup>9</sup> "Online Holiday Shopping Still Strong", [CNN/Money.com](http://CNN/Money.com), December 11, 2005.

## Local Area Employment Figures

The labor market took a step back in November 2005 from a monthly perspective. All areas surveyed experienced a decline in the number of employed residents and an increase in the number of unemployed residents compared to the prior month. Additionally, all areas surveyed recorded a monthly increase in their unemployment rates.

The monthly decrease in resident employment was not significant enough to erase the gains made over the prior year. From an annual perspective, all areas surveyed registered an increase in the number of employed residents and experienced labor force growth. Positive labor force growth is a sign of a healthy economy. Throughout the metropolitan region, all areas posted an annual increase in the number of unemployed residents. In contrast, from an annual perspective, the nation saw a decline in both unemployed residents and the unemployment rate.

<b>Comparison of Employment Statistics</b> (figures in thousands)					
	<u>11/05</u>	<u>10/05</u>	<u>11/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
<b>Nassau</b>					
<b>Employed</b>	668	673.7	666.7	-0.8%	0.2%
<b>Unemployed</b>	29.1	25.8	28.5	12.8%	2.1%
<b>Unemployment rate</b>	4.2%	3.7%	4.1%	13.5%	2.4%
<b>Suffolk</b>					
<b>Employed</b>	745	751.3	743.5	-0.8%	0.2%
<b>Unemployed</b>	33.1	29.3	32.4	13.0%	2.2%
<b>Unemployment rate</b>	4.3%	3.7%	4.2%	16.2%	2.4%
<b>NYC</b>					
<b>Employed</b>	3,502.7	3,541.5	3,503.9	-1.1%	0.0%
<b>Unemployed</b>	235.4	215.2	224.4	9.4%	4.9%
<b>Unemployment rate</b>	6.3%	5.7%	6.0%	10.5%	5.0%
<b>Nation</b>					
<b>Employed</b>	142,968.0	143,340.0	140,581.0	-0.3%	1.7%
<b>Unemployed</b>	7,271.0	6,964.0	7,665.0	4.4%	-5.1%
<b>Unemployment rate</b>	4.8%	4.6%	5.2%	4.3%	-7.7%

Source: New York State Department of Labor and US Bureau of Labor Statistics

## Nassau-Suffolk Non-agricultural Employment

<b>Non-agricultural Employment Nassau-Suffolk Area (figures in thousands)</b>					
	<u>11/05</u>	<u>10/05</u>	<u>11/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Educational & Health Services	204.8	204.1	201.4	0.3%	1.7%
Financial Activities	83.0	83.3	83.2	-0.4%	-0.2%
Government	201.9	199.5	201.6	1.2%	0.1%
Information	29.3	28.8	29.1	1.7%	0.7%
Leisure & Hospitality	95.5	98.1	94.9	-2.7%	0.6%
Manufacturing	89.1	88.8	89.0	0.3%	0.1%
Natural Resources, Construction & Mining	69.2	69.5	68.5	-0.4%	1.0%
Other Services	52.5	52.5	51.5	0.0%	1.9%
Professional & Business Services	160.9	161.3	156.9	-0.2%	2.5%
Retail Trade	169.7	164.2	169.4	3.3%	0.2%
Transportation, Warehousing & Utilities	39.2	39.0	38.6	0.5%	1.6%
Wholesale Trade	72.9	72.6	73.3	0.4%	-0.5%
<b>Total</b>	<b><u>1,268.0</u></b>	<b><u>1,261.7</u></b>	<b><u>1,257.4</u></b>	<b><u>0.5%</u></b>	<b><u>0.8%</u></b>
Source: NYS Department of Labor					

November 2005 was a positive, albeit a slow month on the regional job front. The Long Island region exhibited positive job gains from both a monthly and an annual perspective. However, neither the monthly nor annual job gains attained the 1% growth rate indicative of a healthy economy.

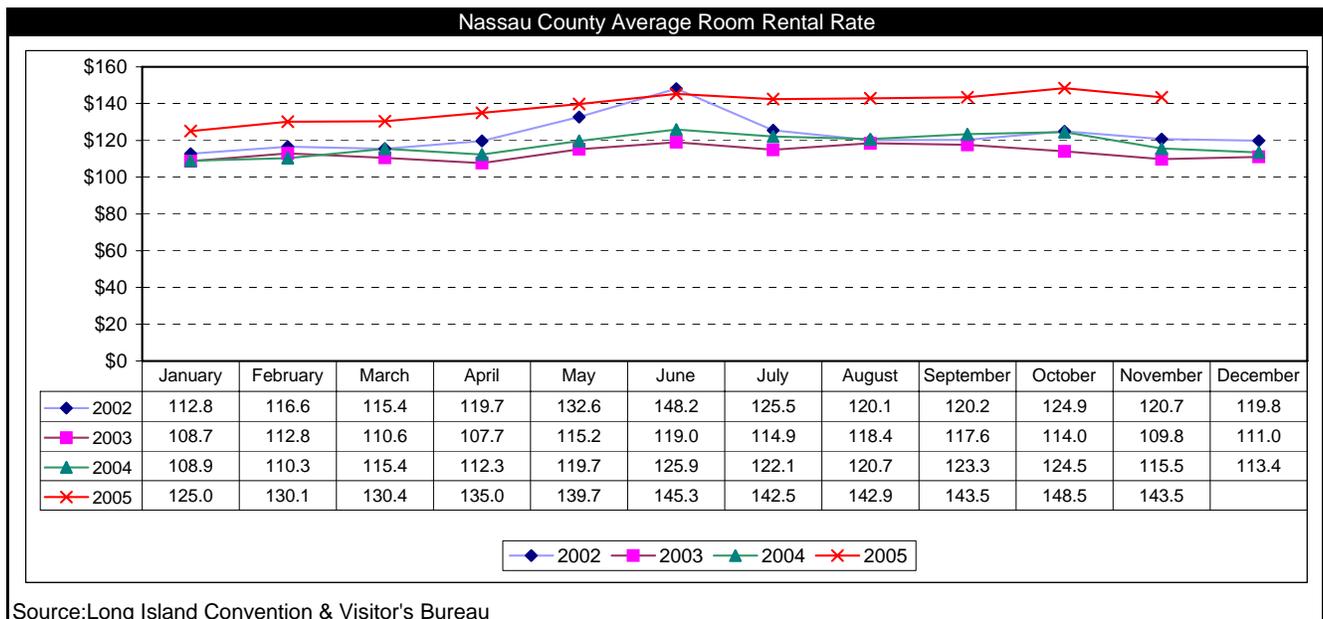
From a monthly perspective, the job gains were well diversified with 8 of the 12 sectors surveyed registering an increase. The greatest gains were in the Retail Trade sector. Gains in that sector are to be expected during the holiday season. The Government and Information sectors also experienced job growth that surpassed 1%. The greatest job losses were in the Leisure & Hospitality sector which typically slows down during the winter months.

From an annual perspective job gains were widespread with 10 of the 12 sectors showing an increase. The greatest annual percentage increase was in the Professional & Business Services sector. Within the Professional & Business Services sector, the greatest job growth was seen in the Administration & Supply and Waste Management & Remediation Services sub-sector. The largest decrease was in the Wholesale Trade sector.

Looking forward, a positive but slow hiring outlook can be expected in the first quarter of 2006. According to Manpower’s quarterly survey of employers, nationwide employers expect to add to their payrolls during the first quarter of 2006. However, looking specifically at the northeast, the survey found a slowing hiring outlook.<sup>10</sup>

**The Lodging Industry**

The tourism industry in Nassau County continued to pick up steam in November 2005. Although, the industry typically records lower occupancy rates during this season, from an annual perspective occupancy rates are up 1.6% from November 2004. Moreover, higher occupancy rates were achieved during a time of increasing average room rental rates and greater hotel room supply.



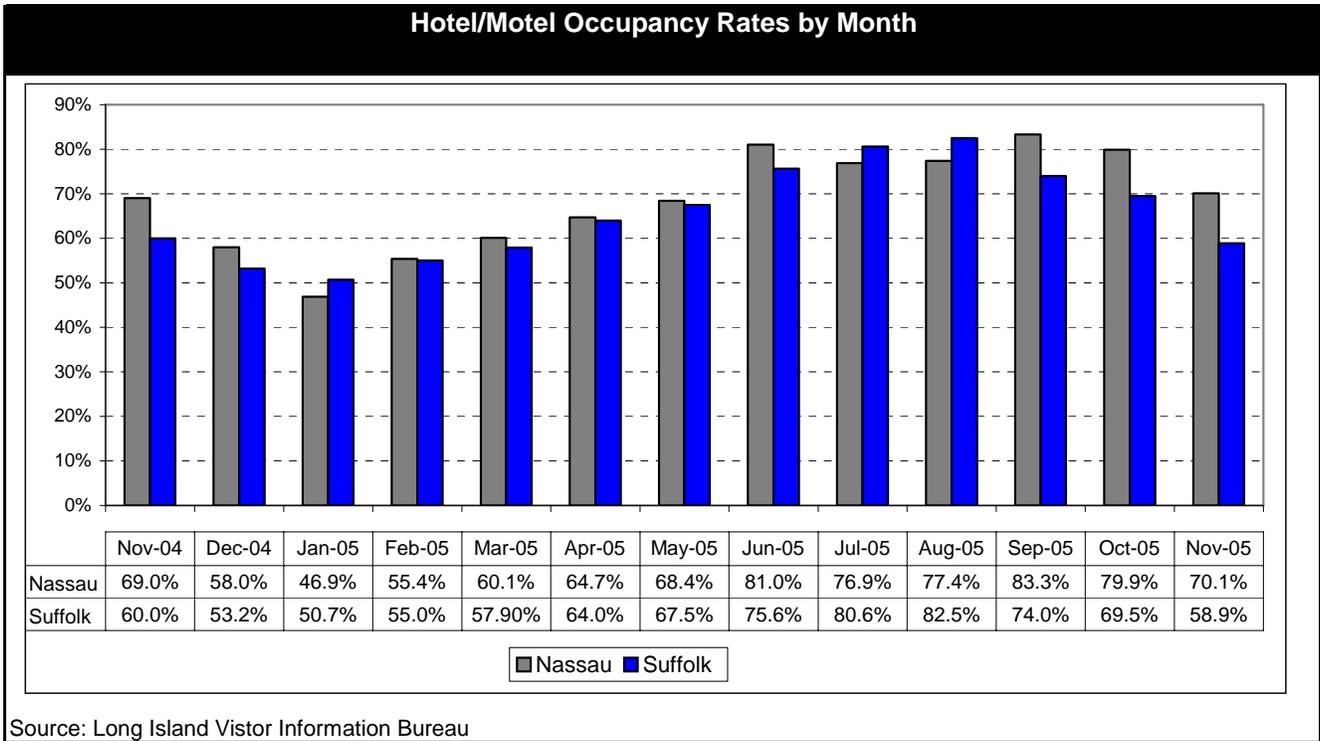
The chart above details average room rental rates in Nassau by month over the previous four years. November 2005’s average room rental rate in Nassau was \$143.48. That was 24.2% greater than November 2004 and was the highest rate seen over the past four years.

<sup>10</sup> “Survey: Hiring Plans Pick Up”, [CNN/Money.com](http://CNN/Money.com), December 13, 2005.

Nassau County Hotel / Motel Occupancy Rate					
	<u>11/05</u>	<u>10/05</u>	<u>11/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Occupancy Rate	70.1%	79.9%	69.0%	-12.3%	1.6%

Source: Long Island Convention and Visitors Bureau

The chart above details hotel/motel occupancy rates in Nassau County from a monthly and an annual perspective. The chart below records Nassau and Suffolk County occupancy rates by month over the past year. In Nassau, occupancy rates decreased on a monthly basis, but were up from an annual perspective. In Suffolk, occupancy rates fell from both a monthly and an annual perspective. Annual increases in occupancy rates reveal robust tourism demand since several new hotels and motels have been built over this time period and average room rental rates have risen.



**Residential Housing Market**

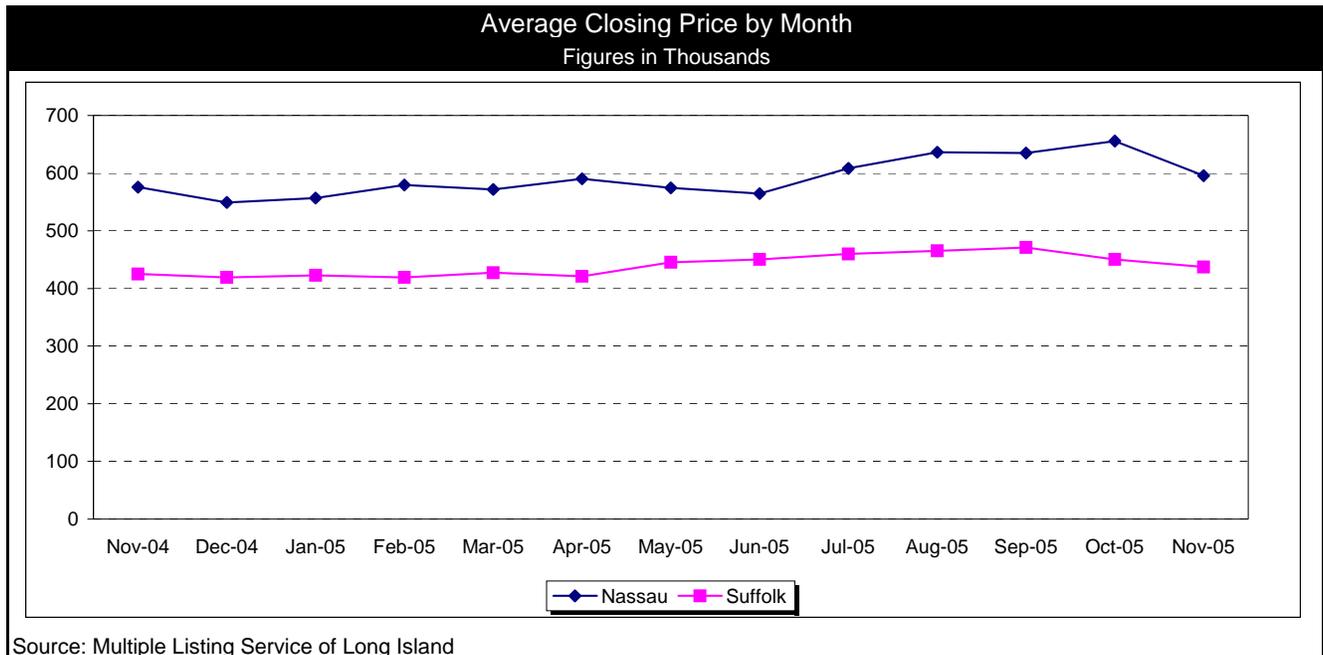
Nationally, the real estate market cooled down in November 2005. According to Mortgage Banker’s Association figures, U.S. mortgage applications fell to a 16-month low, the week ending November 25, 2005. The largest decline was seen in home refinancings.<sup>11</sup> Additionally, the Census Bureau statistics showed that sales of new homes declined 11% nationally in November 2005. The fall was the largest seen in over a decade.<sup>12</sup> In light of the current softening, lenders are cutting back on financing and tightening standards for condominium projects. Lenders are requiring developers to put more of their

<sup>11</sup> “Mortgage Applications Keep Falling”, [CNN/Money.com](http://CNN/Money.com), November 30, 2005.

<sup>12</sup> Isidore, Chris, “New Home Sales Tumble 11 Percent”, [CNN/Money.com](http://CNN/Money.com), December 23, 2005.

own money into projects, sell units faster, and provide proof of experience completing their planned condo projects.<sup>13</sup>

Similar trends were witnessed locally. In November 2005, the residential housing market on Long Island slowed down in terms of price appreciation and inventory levels. Although Nassau housing prices are projected to end the year with an 11.2% annual appreciation rate, from a monthly perspective, average closing prices fell 9.2% in Nassau and 2.9% in Suffolk. The chart below shows the average closing price in Nassau and Suffolk by month over the past year.



The slowdown is also impacting inventory levels. Compared to this time last year, the number of unsold homes in Nassau is up 53.3%. In Suffolk County residential inventory levels have increased 50% from November 2004. The slowdown is expected to continue nationwide throughout 2006. According to the University of California, Los Angeles, Anderson Forecast, the housing market will see a sustained decline next year. They are projecting the slowdown to spread out over several years and result in a loss of 500,000 construction jobs and 300,000 financial sector jobs nationwide.<sup>14</sup>

The slowdown in the housing market is expected to impact a couple of County revenue streams. First, a significant amount of County retail sales were financed through home equity. As prices decline and interest rates rise, not only will there be less equity available for individuals to spend but it will be more expensive to tap into home equity. This will have a negative impact on County sales tax collections. The following two charts depict the percentage and dollar value of County sales tax collections which may be assumed to have been financed through home equity over the past three years. The low estimate assumes that seven cents of every dollar of home equity is spent and that 40% of the home equity funds are used to pay off existing debt. The moderate estimate assumes that 11 cents of every dollar of home equity is spent and that 30% of the home equity funds are used to pay off existing debt. The high estimate assumes that 15 cents of every dollar of home equity is spent and that 26% of the home equity funds are used to pay off existing debt.

<sup>13</sup> “Report: Condo Lending Gets Tighter”, [CNN/Money.com](http://CNN/Money.com), November 29, 2005.

<sup>14</sup> Veiga, Alex, “U.S. Housing Market Seen Declining in 2006”, [1010WINS.com](http://1010WINS.com), December 7, 2005.

<b>Home Equity Funded Sales Tax Collections as a Percentage of Total Sales Tax Collections</b>			
	<b>Low Estimate</b>	<b>Moderate Estimate</b>	<b>High Estimate</b>
<b>2003</b>	3.6%	6.5%	9.4%
<b>2004</b>	5.4%	9.9%	14.3%
<b>2005</b>	7.2%	13.1%	18.9%

The above percentages translate into the following dollar values.

<b>Home Equity Funded Sales Tax Collections in Nassau</b>			
	<b>Low Estimate</b>	<b>Moderate Estimate</b>	<b>High Estimate</b>
<b>2003</b>	31,975,534	58,621,812	84,506,768
<b>2004</b>	50,880,615	93,281,127	134,470,196
<b>2005</b>	68,623,367	125,809,506	181,361,755

The seven cent assumption was derived from a study which analyzed overall US consumption from 1984 through 2000. The later assumptions of 11 and 15 cents were derived from a report completed by the Research staff at the Board of Governors of the Federal Reserve System.<sup>15</sup> The repayment of existing debt estimates came from a study completed by the Joint Center for Housing Studies, Harvard University.<sup>16</sup> Some of the above detailed purchases may be seen as new sales initiated solely because of increased home equity and low interest rates. However, some of the purchases would have been made anyway, the increased home equity merely served as an alternative method of financing.

The exact impact on future County sales tax collections depends upon how the market slows down. According to a study by the Federal Deposit Insurance Corporation, stagnation in home prices is often the most likely outcome. They found that of the 54 boom episodes prior to 1998, 45 did not subsequently bust. In these cases, nominal home prices rose by an average of 2% per year during the five years after the boom ended. They found that the only two major regional episodes of U.S. home price busts since 1978 were associated with rather severe, localized economic shocks that tended to affect major employers.<sup>17</sup> According to the study, the largest bust occurred in Lafayette, LA which saw housing prices decline 40% in the 5 years following a boom.<sup>18</sup>

The above discussion highlights the fact that increased home equity combined with low interest rates have provided consumers with an economical and easily accessible method of finance. In the future, it is higher interest rates which will have a more detrimental impact on sales tax collections. Even, if the housing market experienced no growth over the next few years, studies show that home-owners still have 85% of the increased equity available to spend. The problem is that higher interest rates make it more costly to tap into the equity of one's house since home equity loans are typically adjustable. Higher interest rates will hinder sales tax collections since individuals will be more reticent to use not only their home equity, but also their credit cards. It is possible that a higher percentage of sales tax collections are financed through credit cards. The situation was worsened by the Comptroller of the Currency's recent mandate. The Comptroller of the Currency recently raised the minimum payment

<sup>15</sup> Nothaft, Frank E., "The Contribution of Home Value Appreciation to US Economic Growth", Urban Policy and Research, Vol. 22, No. 1, 23-34, March 2004.

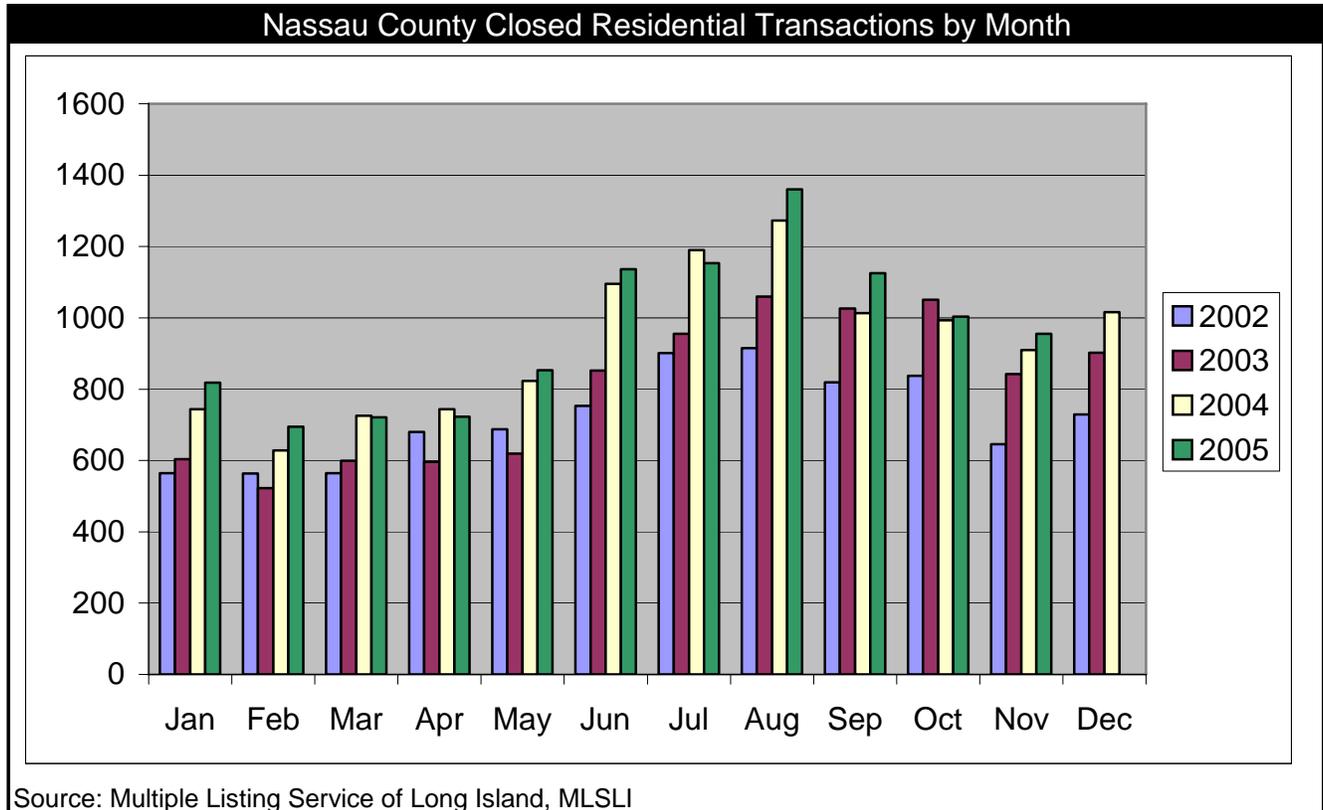
<sup>16</sup> Belsky, Eric, and Joel Prakken, "Housing Wealth Effects: Housing's Impact on Wealth Accumulation, Wealth Distribution and Consumer Spending". Joint Center for Housing Studies Harvard University, December 2004.

<sup>17</sup> "U.S. Home Prices: Does Bust Always Follow Boom?", Federal Deposit Insurance Corporation, April 8, 2005.

<sup>18</sup> Same as above.

on credit cards from 2% to 4% of the outstanding balance. It is estimated that 35 million people nationwide pay only the minimum on credit cards each month.<sup>19</sup>

The other revenue stream that would be negatively impacted by a housing market slowdown would be the County Clerk Fees. The County Clerk’s Office collects mortgage recording fees, deed recording fees and a real estate transfer fees.



The chart above details closed residential transactions in Nassau by month over the past four years. The number of closed transactions in Nassau has increased 10% from a monthly perspective and 4% from an annual perspective. In Suffolk, closed real estate transactions are up 10.4% from the past month and 6.5% from the past year.

**Conclusion**

Economic growth rates appear to be declining from the first half of 2005. Higher interest rates coupled with lower energy prices have left consumers and businesses cautious about purchasing and hiring. From the County’s vantage point, not only will slower economic growth crimp sales tax collections, but since a great deal of this year’s holiday purchases are being made online, County sales tax collections will be limited.

<sup>19</sup> “Warning, Raising the Minimum Payment”, [About.com](http://About.com), May 18, 2005.