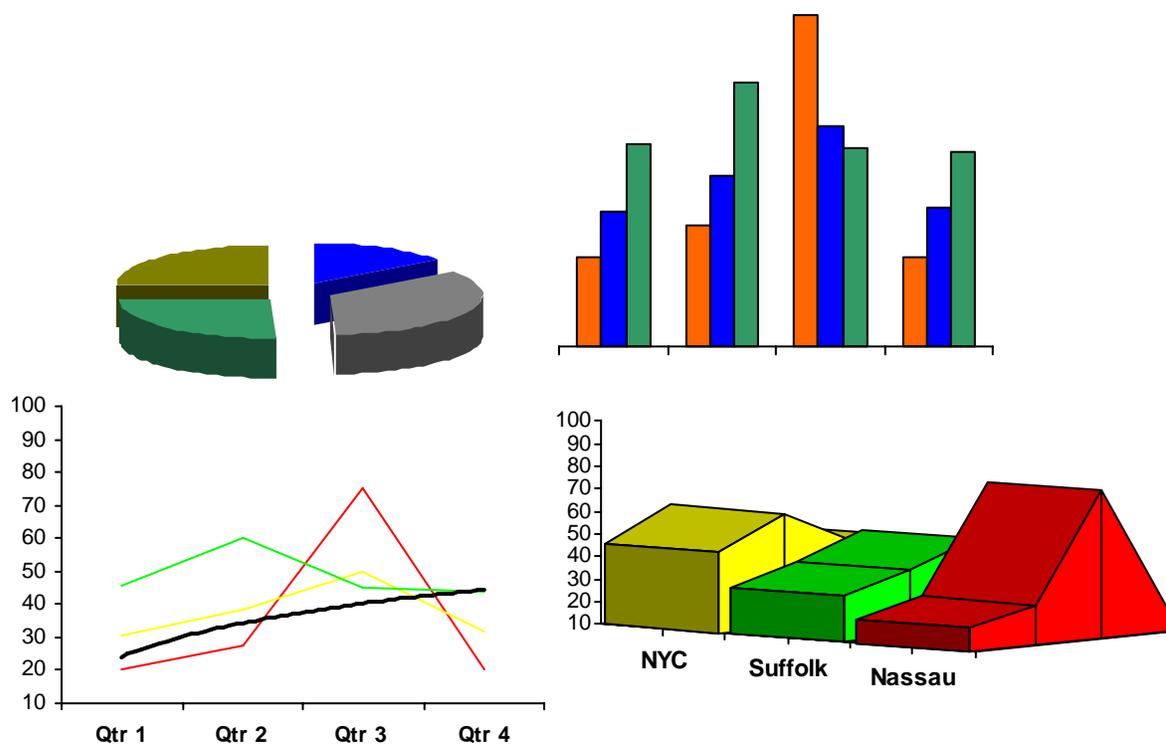




NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Nassau County Economic Indicators



June 2005



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BUDGET REVIEW

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Inter-Departmental Memo

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

From:  Eric C. Naughton, Director
Legislative Budget Review

Date: July 1, 2005

Re: June 2005 Economic Report

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
Mike Deegan, Minority Counsel
Mark Young, Budget Director
Richard Luke, Executive Director, NIFA
Dan McCloy, Special Assistant Minority
Sal Guajardo, Ph.d., Majority Finance
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

June 2005 Monthly Economic Report

Regionally our economy is experiencing healthy growth. Regional inflation was tame, the employment market was strong, the housing sector seems to be on solid ground, consumer confidence rose and the local tourism industry is experiencing robust growth. However, the national economy is following a different path. National consumer confidence fell from a monthly perspective, parts of the national housing market appear to be overextended, and the Conference Board's Index of Economic Indicators fell 0.5%.¹ The Conference Board's Index of Economic Indicators is designed to predict the future path of the national economy.

Consumer Price Indexes

Consumer Price Indexes					
New York-Northern Jersey-Long Island, NY-NJ-CT-PA region					
	<u>5/05</u>	<u>4/05</u>	<u>5/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
US City, CPI-U	194.4	194.6	189.1	-0.1%	2.8%
Regional CPI-U	211.4	212.5	204.4	-0.5%	3.4%
Core CPI-U (All Items less energy)	217.5	218.8	211.6	-0.6%	2.8%
Medical	325.9	325.9	317.2	0.0%	2.7%
Housing	224.4	227.4	215.6	-1.3%	4.1%
Gasoline (all types)	171.4	170.4	153.3	0.6%	11.8%

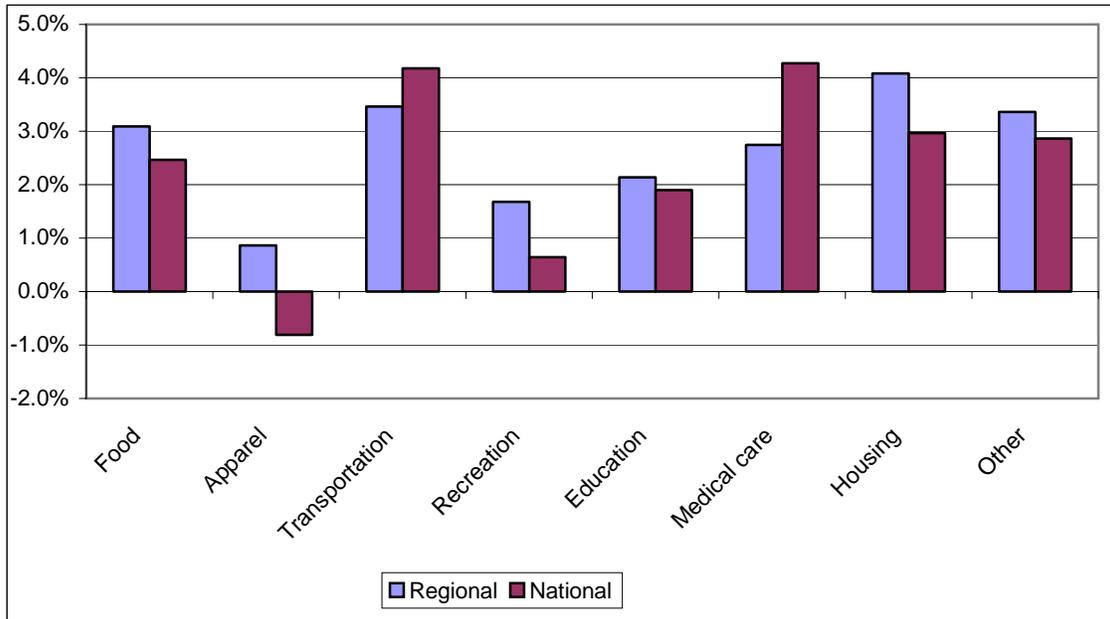
Source: Bureau of Labor Statistics, figures are not seasonally adjusted

National consumer prices recorded their first monthly decline in ten months in May 2005. From an annual perspective, overall consumer prices were up 2.8% nationally in May 2005.

Regionally, prices similarly declined from a monthly perspective. Monthly decreases in the Education and Communication, Other Goods and Services, and Housings sectors made the decrease in the all-items index possible. Annually, overall regional prices were up 3.4% from the prior year. All sectors analyzed contributed to the annual consumer price increase.

¹ "Leading Indicators Down in May", CNN/Money.com, June 20, 2005.

CPI-U Regional vs. National Annual Percentage Changes May 2005



Source: U.S. Bureau of Labor Statistics

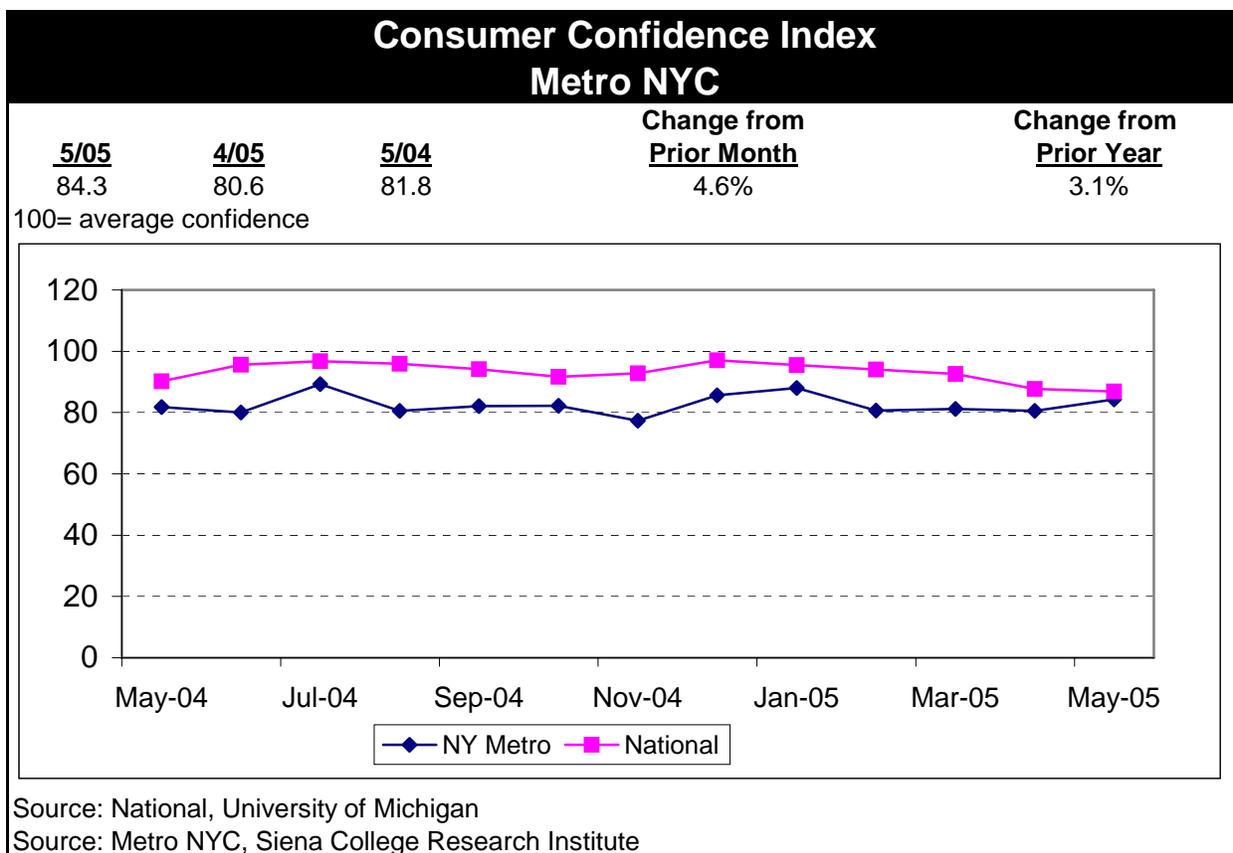
The chart above details the annual changes seen in the consumer price indices both nationally and regionally. Nationally Apparel prices were the only sector to record a decrease. The Medical Care and Transportation sectors recorded the greatest increases. Regionally, the Housing sector witnessed the greatest appreciation.

Consumer Confidence Index

May 2005 consumer confidence increased regionally, but fell nationally from both a monthly and an annual perspective. The divergent paths taken between national and regional confidence is echoed below in the discussion of the housing market.

Coinciding with the decline in national consumer confidence, economists are expecting a slowdown in national consumer spending. Economists cite high energy prices, rising interest rates and an easing in the housing boom as factors contributing to a slowdown in consumer spending.² Indeed, the most recent May 2005 Commerce Department statistics show a 0.5 percent decrease in national retail sales. This decline represented the first decline in nine months. Analysts attributed the decline to a fall in auto sales and gasoline prices.³

Hopefully, the increased regional consumer confidence and strong employment figures described below will enable us to avoid the projected national decline in consumer spending.



² "Slowdown in Consumer Spending Looms", CNN/Money.com, June 17, 2005.

³ "Wholesale Prices Dip, Retail Sales Slip", 1010Wins.com, June 14, 2005.

Local Area Employment Figures

May 2005 was a strong employment month. From an annual perspective, all areas surveyed saw an increase in resident employment coupled with a decrease in the unemployment rate and the number of unemployed residents. The robust job-growth recorded regionally has caused individuals to re-enter the labor force. Excluding New York City, all areas surveyed registered both monthly and annual increases in their labor force.

The employment market in New York City is not as strong as that on Long Island or that seen throughout the nation. It was the only area surveyed to witness a monthly decline in resident employment. Additionally, New York City's labor force shrank from the prior month.

Comparison of Employment Statistics					
(figures in thousands)					
	<u>5/05</u>	<u>4/05</u>	<u>5/04</u>	Change from Prior Month	Change from Prior Year
Nassau					
Employed	666.1	663	650.1	0.5%	2.5%
Unemployed	27.1	25.5	29.4	6.3%	-7.8%
Unemployment rate	3.9%	3.7%	4.3%	5.4%	-9.3%
Suffolk				Change from Prior Month	Change from Prior Year
Employed	742.9	739.3	725	0.5%	2.5%
Unemployed	29.9	29.0	32.6	3.1%	-8.3%
Unemployment rate	3.9%	3.8%	4.3%	2.6%	-9.3%
NYC				Change from Prior Month	Change from Prior Year
Employed	3,500.6	3,511.9	3,427.1	-0.3%	2.1%
Unemployed	205.3	201.4	246.1	1.9%	-16.6%
Unemployment rate	5.5%	5.4%	6.7%	1.9%	-17.9%
Nation				Change from Prior Month	Change from Prior Year
Employed	141,591.0	140,939.0	138,867.0	0.5%	2.0%
Unemployed	7,287.0	7,335.0	7,792.0	-0.7%	-6.5%
Unemployment rate	4.9%	4.9%	5.3%	0.0%	-7.5%

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

Nassau-Suffolk Non-agricultural Employment

Non-agricultural Employment Nassau-Suffolk Area (figures in thousands)					
	<u>5/05</u>	<u>4/05</u>	<u>5/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Natural Resources, Construction & Mining	66.6	64.9	66.1	2.6%	0.8%
Manufacturing	88.3	88.1	87.8	0.2%	0.6%
Wholesale Trade	72.4	71.7	72.4	1.0%	0.0%
Retail Trade	160.7	158.8	160.7	1.2%	0.0%
Transportation, Warehousing & Utilities	37.9	37.4	37.2	1.3%	1.9%
Information	28.8	28.6	28.8	0.7%	0.0%
Financial Activities	84.0	84.0	83.4	0.0%	0.7%
Professional & Business Services	159.8	157.5	155.7	1.5%	2.6%
Educational & Health Services	201.4	200.4	197.1	0.5%	2.2%
Leisure & Hospitality	100.0	94.4	97.5	5.9%	2.6%
Other Services	51.8	51.2	51.1	1.2%	1.4%
Government	202.3	200.5	202.5	0.9%	-0.1%
Total	<u>1,254.0</u>	<u>1,237.5</u>	<u>1,240.3</u>	<u>1.3%</u>	<u>1.1%</u>
Source: NYS Department of Labor					

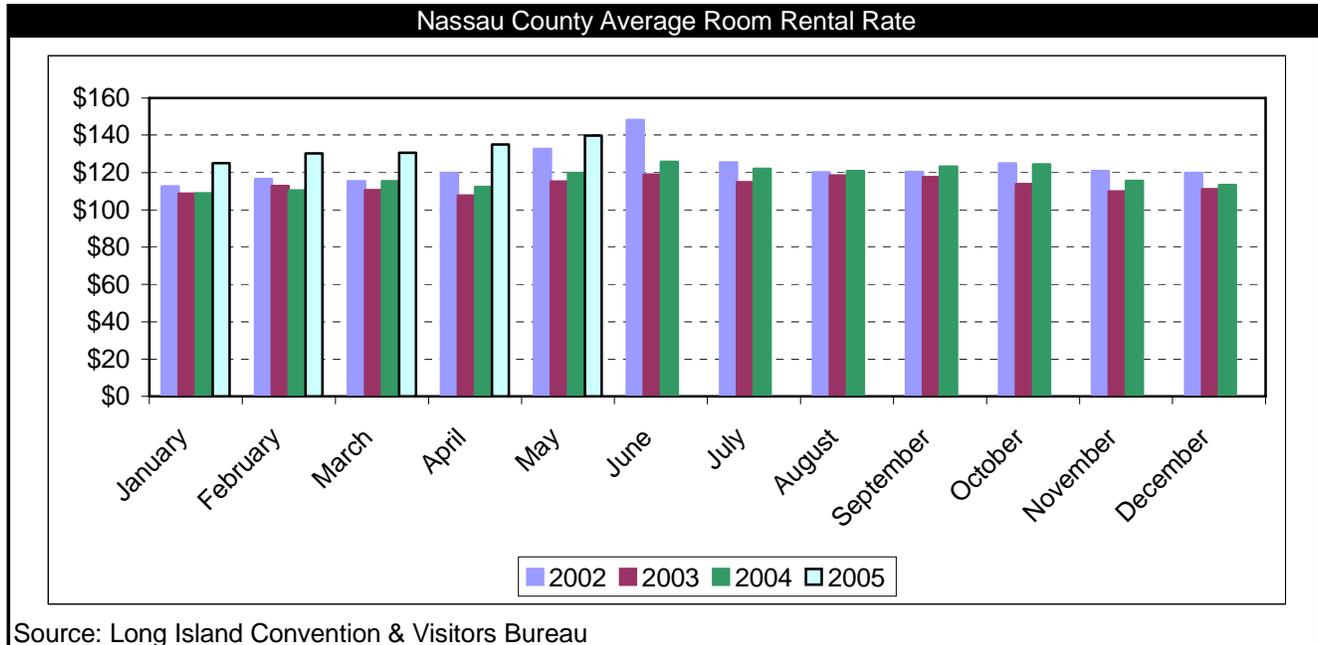
May 2005 was a momentous month, all sectors surveyed recorded a monthly job increase. Excluding the Government sector, all areas surveyed saw an annual job increase also. Moreover, total job creation was above the 1% mark indicative of healthy growth from both a monthly and an annual perspective.

The Leisure & Hospitality sector registered the greatest monthly and annual job increase. Following the Leisure & Hospitality sector in terms of monthly job increases was the Natural Resources, Construction & Mining sector. Much of the gains in these sectors may be attributed to seasonality since the summer season tourism and construction season starts to pick up in May.

From an annual perspective, the Government sector was the only sector to witness a job loss.

The Lodging Industry

The summer tourism season got off to a strong start in May 2005. In spite of an increased supply of hotel rooms, hotel/motel occupancy in Nassau County was up from an annual perspective. Additionally, due to heightened demand the average room rental rate recorded a four-year high in May 2005.



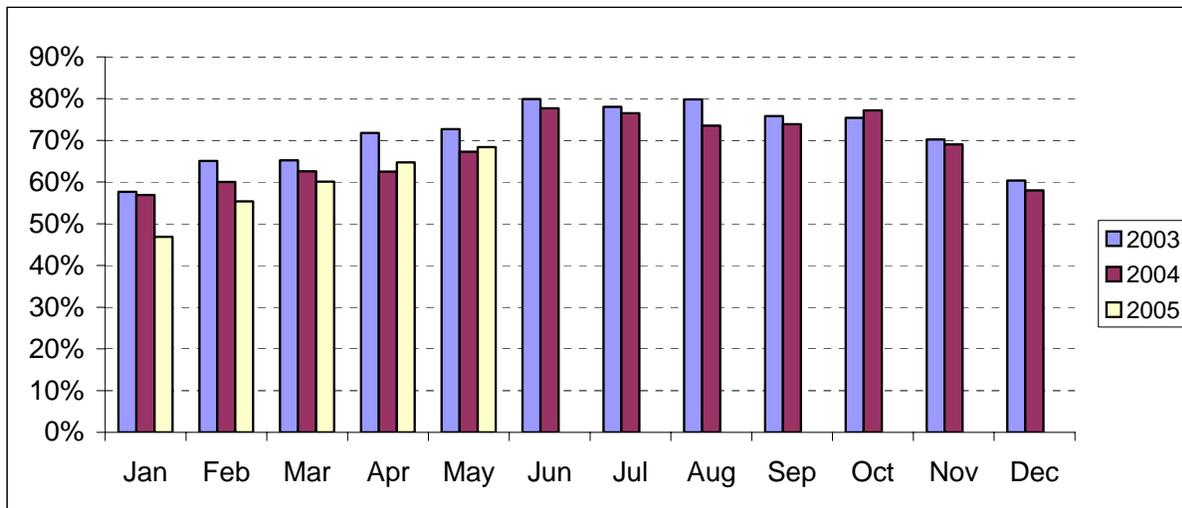
The above chart details average room rental rates in Nassau by month over the previous four years. Average room rental rates in May 2005 were 16.8% greater than the prior year and 3.5% greater than the prior month. The significant annual price increase coupled with the fact that hotel and motel occupancy rates increased during a time of increasing supply, show that strong demand exists for Nassau's lodging industry.

Nassau County Hotel / Motel Occupancy Rate					
	<u>5/05</u>	<u>4/05</u>	<u>5/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Occupancy Rate	68.4%	64.7%	67.3%	5.7%	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 on the next page records Nassau County occupancy rates by month over the past four years. May 2005 occupancy was greater than that seen in May 2004, but still below May 2003's level. Due to the fact that several new hotels and motels have been built over this time frame, occupancy rates are not directly comparable to those of the previous years.

Nassau Hotel/Motel Occupancy Rate



Source: Long Island Visitor Information Bureau

Residential Housing Market

The local housing market continues to grow. In May 2005, the average closing price of a home in Nassau was 13.1% higher than in May 2004. Inventory levels and closed transactions also recorded increases from both a monthly and an annual perspective. The continued growth in the housing sector has led experts to debate whether or not a housing bubble exists. Recent reports are mixed one finds a solid foundation to the rise in property values, while others contend that up to 60% of the country's real estate is overvalued.⁴ A detailed look at regional data show that our regional housing market is on a solid foundation.

According to a recent Harvard University study, no slowdown in the housing market is expected due to an expanding economy, regulatory constraints and a limited supply of land for development. They state that easy credit, low interest rates, affluent baby boomers buying second homes and the continued growth of immigration are fueling the housing boom.⁵

In contrast the most recent UCLA Anderson Forecast finds that the red-hot housing market will slow later this year, hurting U.S. economic growth, but not pushing the nation into a recession. They state that home equity gains and income gains will not be strong enough to provide a big boost to spending in the future. Additionally, they do not expect business spending or stronger exports to pick up the slack.⁶

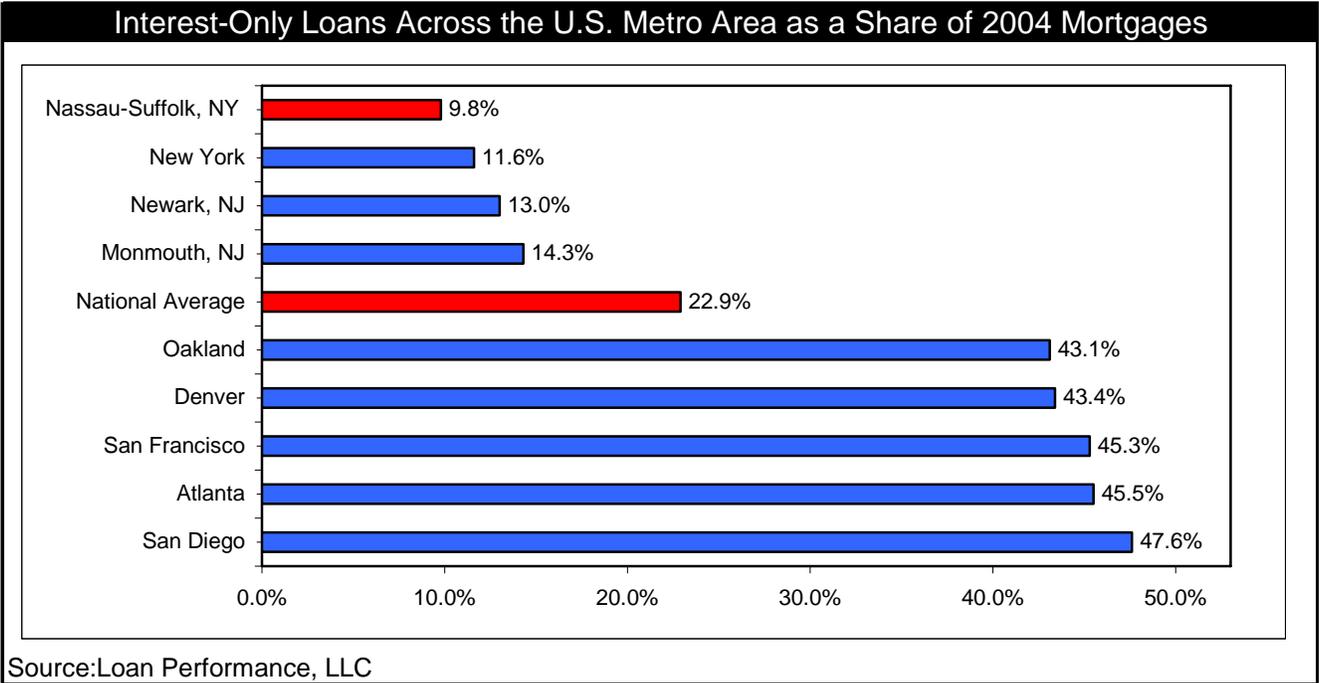
An analysis of the easy credit or non-traditional financing available to potential home buyers reveals that our region may not be situated on a housing bubble. Interest-only loans are currently being made across the country. With these loans, a borrower is only required to make interest payments during the first few years of the loan. After the initial interest-only period, the borrower is required to start making principal payments. Once principal payments commence, a borrower's monthly payment can jump by as much as 50%. According to analysts, these loans tend to be most popular in overheated

⁴ Kirchoff, Sue, "Economic Forecast: Housing Market to Slow this Year", USAToday.com, June 21, 2005.

⁵ "Housing Market Boom Seen Continuing", CNN/Money.com, June 13, 2005.

⁶ Kirchoff, Sue, "Economic Forecast: Housing Market to Slow this Year", USAToday.com, June 21, 2005.

markets, where buyers are looking for every trick to make their monthly payments affordable. According to David Liu, a mortgage strategist for UBS in New York, after similar products were introduced in the red-hot California market in the late 1980's, they ultimately incurred a default rate that was three times as high as conventional mortgages when the local economy went into recession in the early 1990's.⁷ The chart below details the percentage of all 2004 mortgages that were interest-only by metropolitan area. Our region's 9.8% share was one of the lowest in the Country. Moreover, it was 13.1 percentage points below the national average of 22.9%. Thus, the price appreciation seen throughout our local region seems to be on a solid foundation.

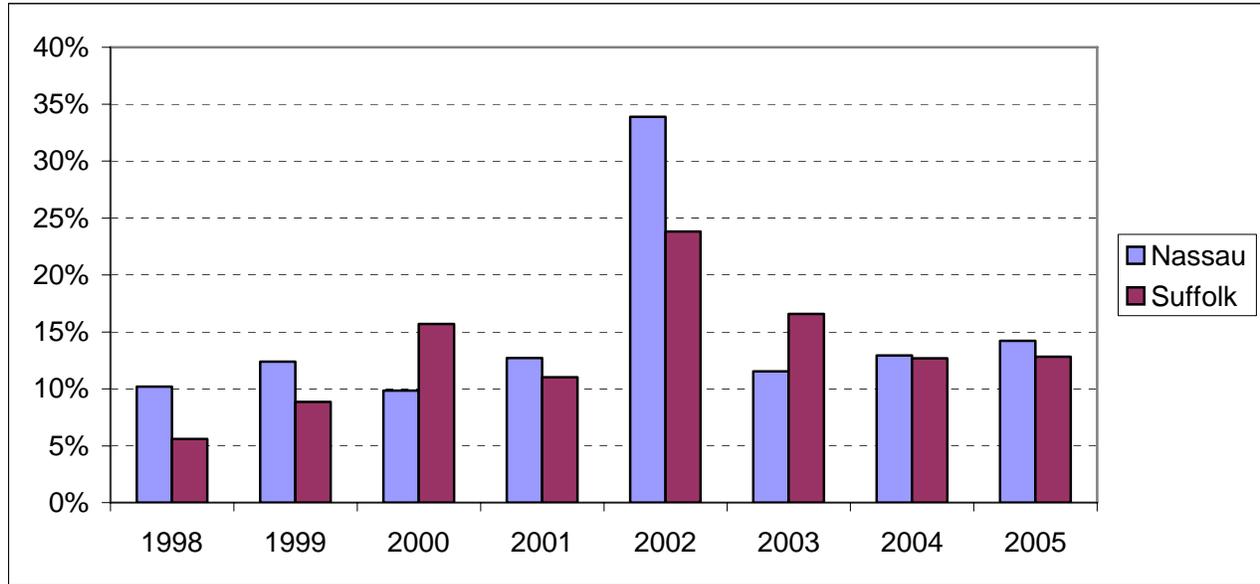


The chart on the next page details the projected annual residential home price appreciation for both Nassau and Suffolk Counties. If current trends continue, real estate in Nassau County would end the year 14.2% higher than the previous year. In Suffolk County residential home prices are projected to end the year 12.8% higher than they did in 2004.

⁷ Foust, Dean, "The Mortgage Trap", *Business Week*, June 27, 2005.

Annual Percentage Change in Residential Housing Average Closing Price

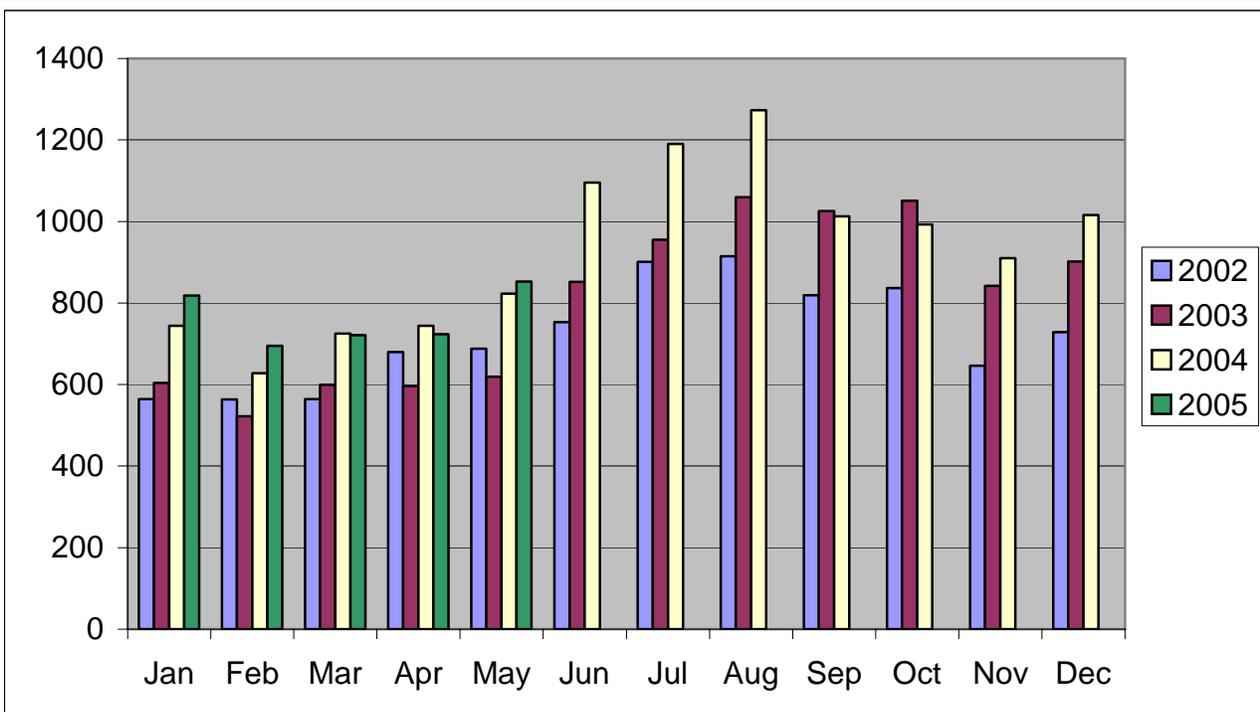
2005 figures are projections based prices through May 2005



Source: Multiple Listing Service of Long Island

The number of closed transactions in Nassau County for the month of May was at a four year high. The County saw 853 transactions close. That represents a 3.6% increase from May 2004 and an 18.0% increase from April 2005. The chart below details the number of closed transactions by month in Nassau County over the past four years.

Nassau County Closed Residential Transactions by Month



Source: Multiple Listing Service of Long Island, MLSLI

Residential inventory levels rose on Long Island in May 2005 from both a monthly and an annual vantage point. Residential inventory levels in Nassau increased by 11.1% from the prior month. In Suffolk County residential inventory levels rose 6.8% from April 2005. Both counties recorded annual increases in their inventory levels.

Conclusion

Our regional economy moved forward in May 2005. Regional employment, tourism and housing were robust. The national economy seems to be plotting a different course. Looking forward, OLBR will be watching to see if the economic trends experienced nationally, filter down to our regional economy.