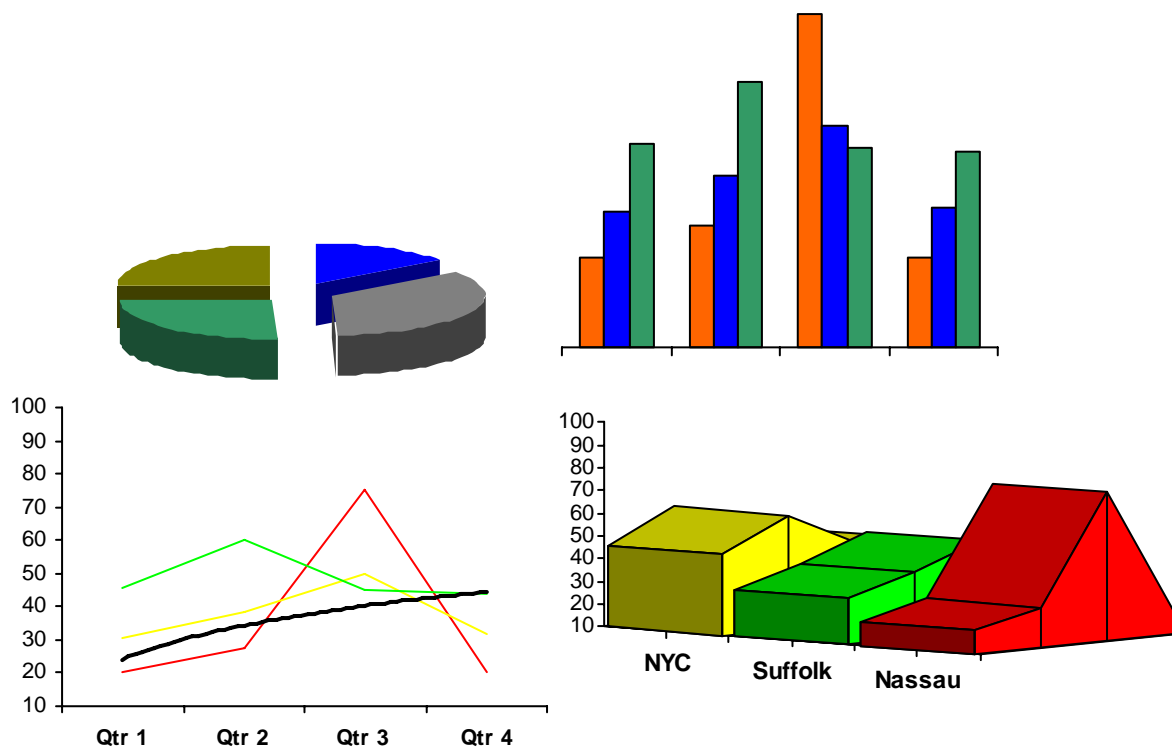




NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Nassau County Economic Indicators & Forecast



August 2006




ERIC C. NAUGHTON
DIRECTOR
OFFICE OF LEGISLATIVE
BUDGET REVIEW

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Inter-Departmental Memo

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

From: 
Eric C. Naughton, Director
Legislative Budget Review

Date: August 21, 2006

Re: August 2006 Economic Report and Forecast

Attached is a copy of the Office of Legislative Budget Review's monthly economic report. Beginning this quarter OLBR is providing a forecast along with the monthly economic indicators report. The forecast will be available on a quarterly basis. These reports are 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 relate to specific events. The data presented are the most current as of the date of circulation and are the most geographically relevant.

cc: Hon. Howard Weitzman, County Comptroller
David Gugerty, Majority Counsel
Joseph Nocella, Minority Counsel
Mark Young, Budget Director
Richard Luke, Executive Director, NIFA
Dan McCloy, Special Assistant Minority
Ed Ward, Special Assistant to Minority
Tom Stokes, Deputy County Executive
Carol Trottere, Majority Press Secretary
Roseann D'Alleva, Majority Finance
Marilyn Gottlieb, Director of Legislative Affairs
Bill Geier, Clerk of the Legislature
Fran Evans, Director of Policy



OFFICE OF LEGISLATIVE BUDGET REVIEW Second Quarter 2006 Economic Report

August 2006

Beginning this quarter, OLBR will provide a forecast along with the monthly economic indicators report. The forecast will be available on a quarterly basis. A forecast will be included for several regional and national economic variables. The forecast should assist the County with its budgetary projections for several major revenue and expense categories. The forecast was obtained from Moody's Economy.com. Moody's Economy.com is a leading independent provider of economic, financial, country, and industry research. The forecast data differ from the monthly data in that it incorporates seasonal adjustment factors.

This report contains the same categories that are in the monthly indicators report. However, at the end of six of the sections a new forecast section is included. Each section provides a summary of the current conditions in that area, a forecast of where the variables in that area will end up in 2006, a projection of the 2007 trends, and a discussion how OLBR sees the projected outcomes impacting County revenue and expense categories.

The economy moved forward at a slow pace in June 2006. From a monthly perspective consumer confidence, resident employment, job growth, and hotel occupancy rates inched upwards. However, from an annual perspective, consumer confidence fell and specific areas of Nassau County recorded declines in annual median home sale prices. As mortgage interest-rates continue to increase, the slowdown in the housing market should continue and impact housing sector employment, retail sales and consumer confidence. Many of these trends continue in the forecast sections.

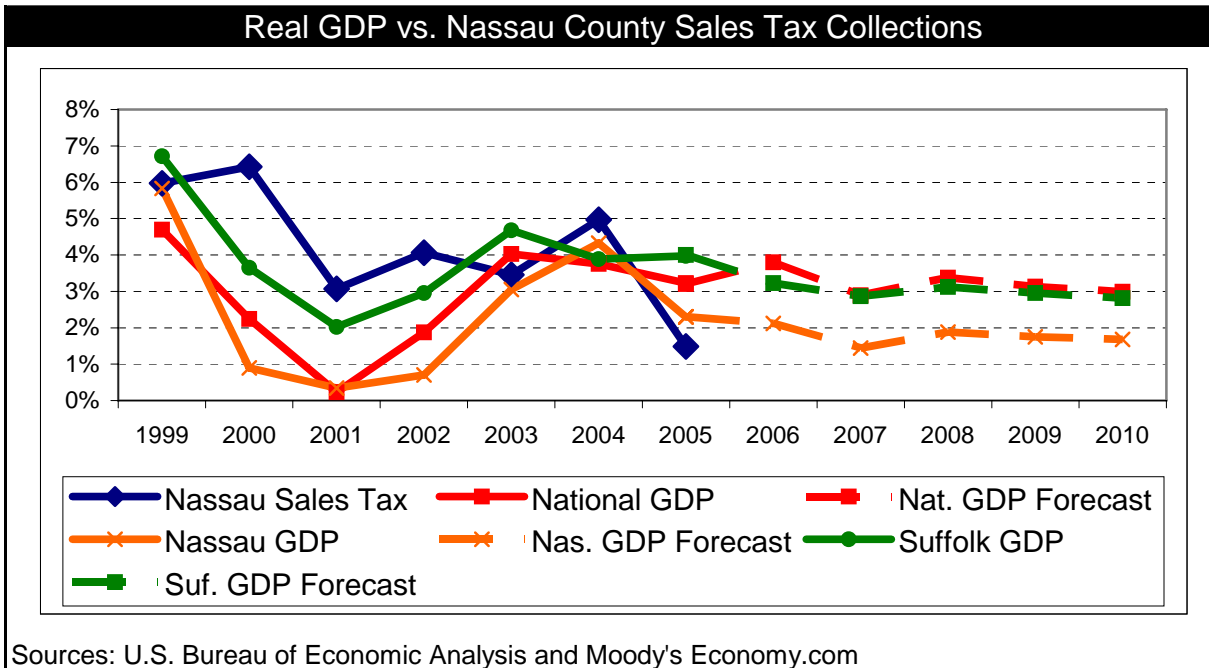
Real GDP

Gross Domestic Product, GDP, is defined as the total market value of all final goods and services produced in a region in a given year. The national index of real GDP is closely monitored by the Federal Reserve. It is considered a crucial piece of evidence required for its job of adjusting interest rates. Analysts stated that when the Federal Reserve chose not to raise rates on August 8, 2006, one of the major reasons for its decision was that the nation's gross domestic product rose at a weaker-than-expected rate in the second quarter of 2006. This ended the Federal Reserve's streak of seventeen interest-rate increases.¹

Brand new to this report is an index of real GDP for Nassau County. In theory, as Nassau County's regional GDP increases, so too should the number of non-farm jobs located in Nassau County. Additionally, as the amount of economic activity increases and more individuals become employed,

¹ "The Fed Pauses", CNN/Money.com, August 8, 2006.

there should be a corresponding increase in County sales tax collections. Indeed, in six of the last seven years, the growth rate recorded in County sales tax collections has surpassed the growth rate seen in the national GDP. This may be seen on the chart below.

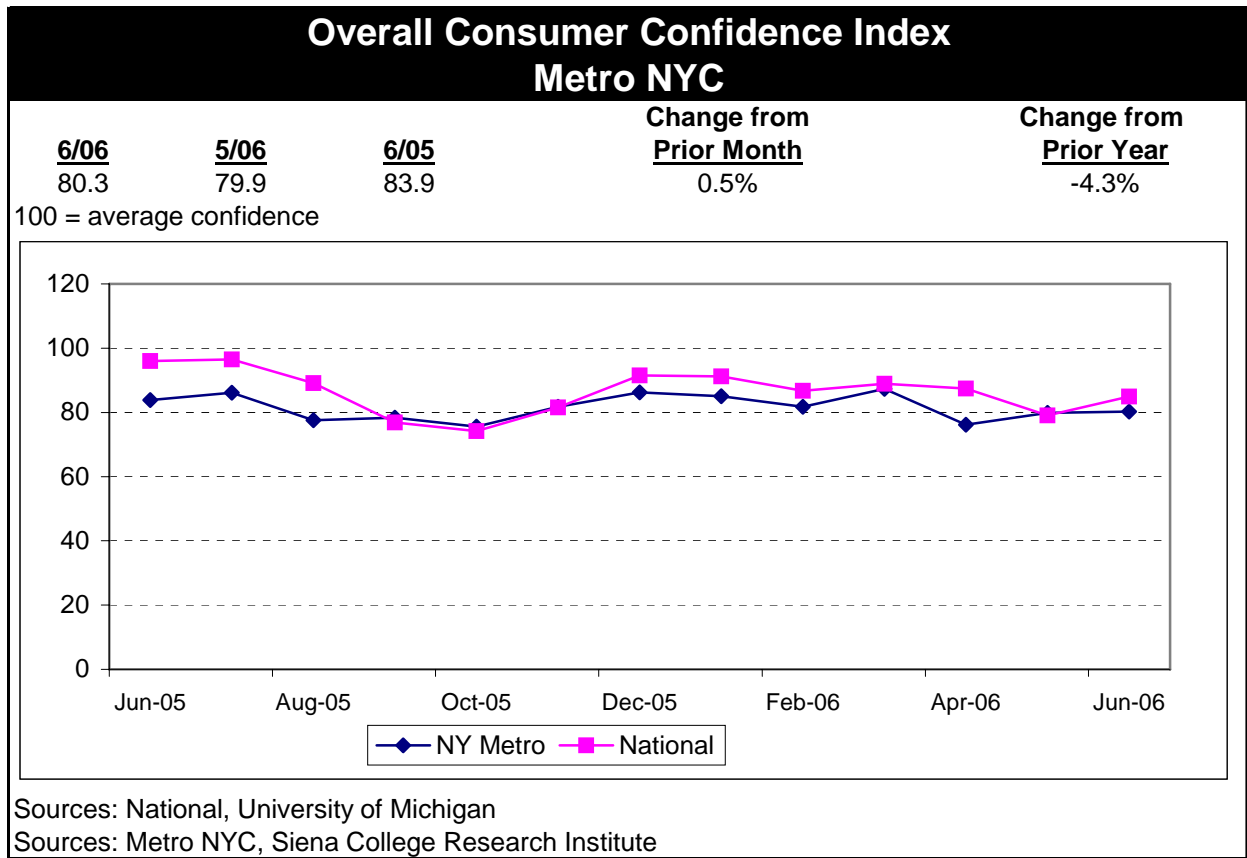


Forecast

The chart above details the forecasted growth rates for year-end 2006 and annual 2007 GDP for Nassau County, Suffolk County and the United States. According to the forecast, all areas surveyed will record modest, positive growth through the end of 2006 in GDP. The forecast 2007 annual growth rates are positive, but not robust by historical standards.

Consumer Confidence Index

In June 2006, consumer confidence increased minimally by 0.5%. Annually, the index fell 4.3%. The chart on the following page details the monthly changes recorded by the national and regional consumer confidence indices over the prior year.



According to Dr. Douglas Lonnstrom, Director of the Siena College Research Institute, “Consumer confidence and buying plans edged up as consumers adjust to three dollar gas. Optimism, measured by future confidence, remains low, and matches the nation’s.”² The table below breaks out consumer confidence into its two component parts, current and future confidence. Both of those indices combine to produce the overall index detailed in the chart above.

Detailed Consumer Confidence Indices Metro NYC

	<u>6/06</u>	<u>5/06</u>	<u>6/05</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Current Consumer Confidence	88.3	87.1	90.9	1.4%	-2.9%
Future Consumer Confidence	75.2	75.2	79.3	0.0%	-5.2%

Source: Metro NYC, Siena College Research Institute

Current consumer confidence is based upon how consumers view the economy at the present time. The future consumer confidence index asks consumers where they see the economy and their personal finances over the next five years. The annual changes in both the current and future indices continue to decline. As seen in the above chart the annual decline in future confidence at 5.2% is more severe than the 2.9% drop in the current confidence index.

² Lonnstrom, Douglas. “NYS Consumer Confidence Up, Slightly.” Siena Research Institute, July 17, 2006.

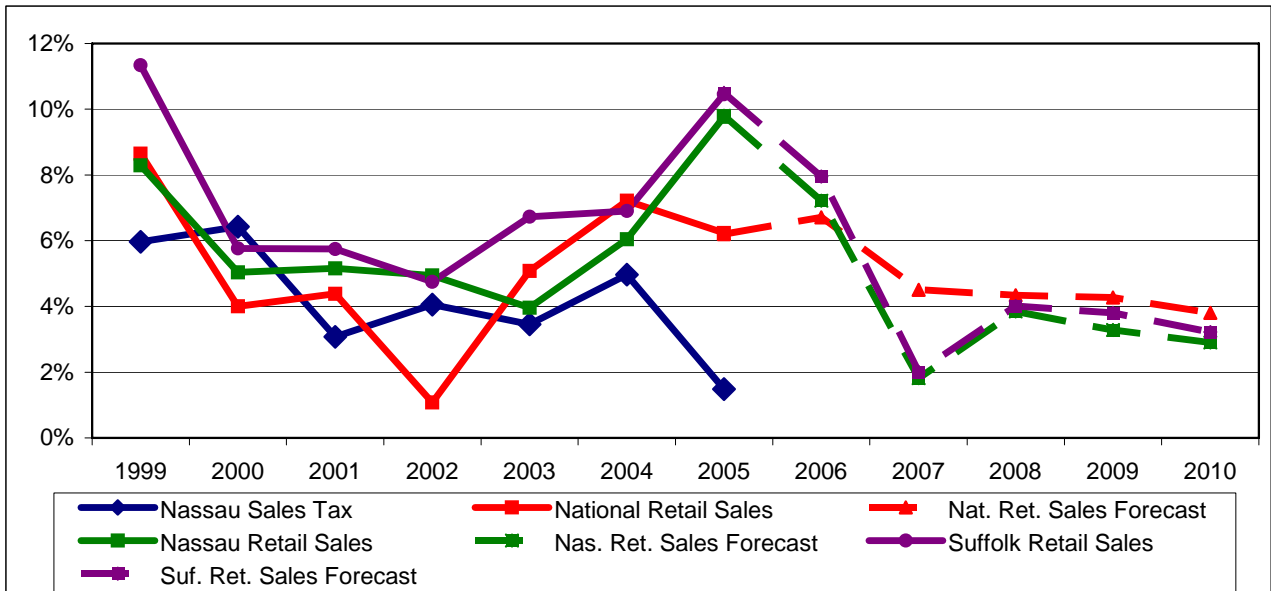
Forecast

Looking forward, the sluggish consumer confidence is expected to continue and result in modest positive increases in retail sales. The table below details the 2006 and 2007 forecast for retail sales and personal income. These two variables are assumed to positively impact County sales tax collections. Through June, Nassau County has collected \$485.3 million in sales tax. That means consumers have spent \$11.4 billion to date on taxable sales in Nassau County. To project the future path of County sales tax collections, retail sales, personal income and consumer confidence are considered.

Growth Forecast for Local and National Personal Consumption			
			
Year-end 2006 Growth Projections			
	Retail Sales	Personal Income	Future Regional CCI
Nassau County	0.8%	0.9%	-7.7%
Suffolk County	0.9%	1.0%	-7.7%
United States	1.0%	1.3%	-8.7%
Annual 2007 Growth Projections			
	Retail Sales	Personal Income	
Nassau County	1.8%	2.4%	
Suffolk County	2.0%	2.5%	
United States	4.5%	5.4%	
Sources: Moody's Economy.com and Siena College Research Institute			

Since retail sales have historically represented 63% of Nassau County sales tax collections, projected Nassau County retail sales may be used as a gauge for future County sales tax collections. The chart on the following page plots County sales tax collections against County retail sales.

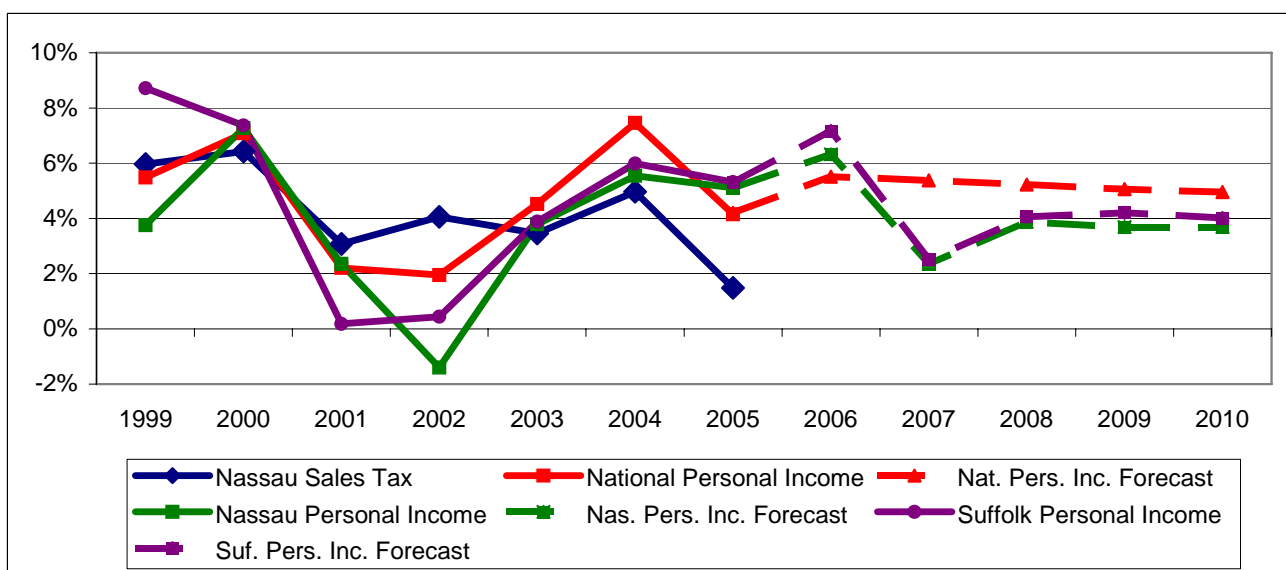
Nassau County Sales Tax Collection Growth compared to Retail Sales Growth



Source: Moody's Economy.com

Since individuals require income to make purchases, as personal income grows so should County sales tax collections. The chart below shows the historical and future relationship between County sales tax collections and personal income growth.

Nassau County Sales Tax Collections Growth compared to Personal Income Growth

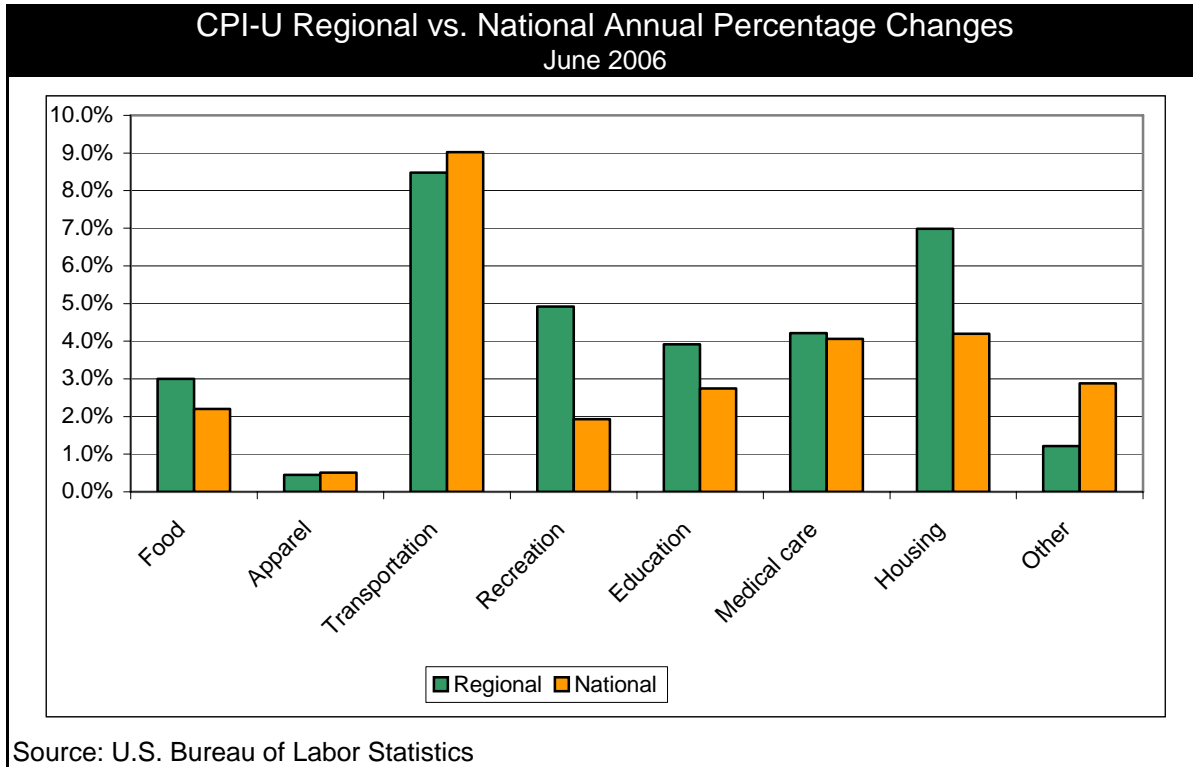


Source: Moody's Economy.com

The last personal consumption variable included in the forecast is consumer confidence. In theory, consumers will purchase more if they are confident in the future of the economy. Hence, growth in consumer confidence should be aligned with growth in sales tax collections.

According to the forecast, all areas surveyed will record marginal, positive growth through the end of 2006 in retail sales and personal income. The fall in consumer confidence appears to be weighing down the projected growth rates for retail sales and personal income.

Consumer Price Indexes



Consumer prices increased both nationally and regionally. The chart above details the annual changes seen in both regional and national consumer price indices. The greatest increase can be found in Transportation which results from continued soaring gas and oil prices. Even though the monthly gasoline change decreased, the annual rate increased significantly by 37%. Following Transportation, the next sizeable increases are Housing and Recreation.

The gasoline price increase has triggered a drop in both retail and dining sales. For the first time in years, the \$70 billion casual dining industry is taking a hit. In response to the high prices, some folks are eating out less while others are trading down to fast food. Some are skipping dessert or ordering less wine.³

The retail industry is facing decreased sales. Retail sales fell for the first time since February as rising gasoline prices took a toll on consumer spending in June. The Census Bureau reported that sales overall fell a surprising 0.1 percent for the month.⁴

According to one energy trader at the investment bank Macquarie, oil prices near records highs are probably here to stay. Originally, energy traders predicted that oil prices may head back to \$70 from

³ Horovitz, Bruce, "Casual dining sites see empty seats." USA Today, July 18, 2006.

⁴ "Retail sales dip into negative territory." CNN Money, July 14, 2006.

the \$75.78 high if progress is made in talks with Iran over its nuclear program. However surging auto sales in China, record gasoline demand in the United States, and the recent shutdown of Alaska's Prudhoe Bay oil field mean that prices probably will not drop significantly. After BP Plc announced the shutdown of Alaska's Prudhoe Bay oil field due to pipeline corrosion and leaks, oil prices jumped more than \$2, surpassing \$77 a barrel. The senior vice president for risk management at Fimat USA Inc. predicts that the oil field shutdown could be the catalyst that brings crude oil over \$80 a barrel.⁵

Consumer Price Indexes					
New York-Northern Jersey-Long Island, NY-NJ-CT-PA region					
	<u>6/06</u>	<u>5/06</u>	<u>6/05</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
US City, CPI-U	202.9	202.5	194.5	0.2%	4.3%
Regional CPI-U	222.6	221.6	210.7	0.5%	5.6%
Core CPI-U (All Items less energy)	225.7	225.3	216.3	0.2%	4.3%
Medical	341.2	340.5	327.4	0.2%	4.2%
Housing	240.6	237.8	224.9	1.2%	7.0%
Gasoline (all types)	232.8	234.1	169.9	-0.6%	37.0%

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

Forecast

On the national level, the Survey of Professional Forecasters, predict inflation will average 3.4% this quarter, an increase of nearly a full percentage point over the previous survey's projection of 2.5%. Inflation will average 2.62% this year (fourth-quarter over fourth-quarter basis), up just 0.22 percentage points from the previous projection of 2.40%. Going forward into 2007 and 2008, forecasters estimate that inflation will rise 2.35%.⁶

Local Area Employment Figures

Long Island's regional employment continued to increase modestly in June 2006. This may be seen in the table on the next page. Both Nassau and Suffolk counties reported over-the-month employment increases of 2.6% and over-the-year employment growth of 2.2%. At the same time, in Nassau County the number of unemployed residents increased by 4.8%, indicating that 1,300 more residents were out of jobs from the previous month. In Suffolk County, similarly, 800 more residents were unemployed as compared to May 2006. As a result, Nassau County saw a 4.0% unemployment rate in June 2006, or a 2.6% escalation over last month. Suffolk County recorded a 3.8% unemployment rate, indicating no change from last month. The monthly increase in Nassau County's unemployment rate, despite its over-the-month employment increase was the result of existing jobs in Long Island not keeping up with the 18,600 new Nassau County job seekers. Nassau residents comprised 48% of the aggregate 38,800 additional Long Island residents that elected to enter the workforce since last month. Long

⁵ Bernstein, James, "Oily Mess: Alaska pipeline shutdown has instant effect, as drivers can expect a 5-cent to 10-cent jump soon." *Newsday.com*, August 8, 2006.

⁶ "Survey of Professional Forecasters: Second Quarter 2006." Research Department Federal Reserve Bank of Philadelphia, May 15, 2006.

Island's unemployed residents totaled 28,500 from Nassau County and 30,600 from Suffolk County in June 2006.

New York City also saw a negligible 0.02% decrease in the number of employed residents during June as compared to last month and a 2.5% rise from June 2005. The City's unemployment rate was 4.9% in June 2006 compared with 4.6% in May 2006 and 5.4% in June 2005. Compared to last month, nearly 19,000 residents chose to enter the New York City labor force. New York City's unemployed residents totaled 28,500 in June 2006. The table below illustrates local area employment postings from both a monthly and an annual perspective.

Comparison of Employment Statistics					
(figures in thousands)					
	<u>6/06</u>	<u>5/06</u>	<u>6/05</u>	Change from Prior Month	Change from Prior Year
<u>Nassau</u>					
Employed	691.8	674.5	676.6	2.6%	2.2%
Unemployed	28.5	27.2	29.1	4.8%	-2.1%
Unemployment rate	4.0%	3.9%	4.1%	2.6%	-2.4%
<u>Suffolk</u>					
Employed	775.3	755.9	758.3	2.6%	2.2%
Unemployed	30.6	29.8	31.9	2.7%	-4.1%
Unemployment rate	3.8%	3.8%	4.0%	0.0%	-5.0%
<u>NYC</u>					
Employed	3,593.8	3,594.6	3,507.1	0.0%	2.5%
Unemployed	184.6	174.8	201.3	5.6%	-8.3%
Unemployment rate	4.9%	4.6%	5.4%	6.5%	-9.3%

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>6/06</u>	<u>5/06</u>	<u>6/05</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Educational & Health Services	199.8	202.2	197.1	-1.2%	1.4%
Financial Activities	81.6	80.6	82.0	1.2%	-0.5%
Government	204.9	203.4	203.7	0.7%	0.6%
Information	29.7	29.5	29.9	0.7%	-0.7%
Leisure & Hospitality	105.8	98.8	104.9	7.1%	0.9%
Manufacturing	86.9	86.4	87.8	0.6%	-1.0%
Natural Resources, Construction & Mining	70.6	68.8	69.6	2.6%	1.4%
Other Services	53.7	53.0	52.9	1.3%	1.5%
Professional & Business Services	164.7	162.0	161.9	1.7%	1.7%
Retail Trade	164.4	161.6	163.4	1.7%	0.6%
Transportation, Warehousing & Utilities	38.4	37.9	37.7	1.3%	1.9%
Wholesale Trade	70.8	70.6	71.7	0.3%	-1.3%
Total	<u>1,271.3</u>	<u>1,254.8</u>	<u>1,262.6</u>	<u>1.3%</u>	<u>0.7%</u>
Source: NYS Department of Labor					

The Long Island job market continued to experience moderate monthly job growth in June 2006, just passing the 1% benchmark. The greatest monthly increases were in the Leisure & Hospital sector, up from last month by 7.1%, adding 7,000 jobs in the one-month period, followed by Natural Resources, Mining and Construction. Within the Leisure & Hospitality sector, Arts, Entertainment and Recreation continued to experience the strongest growth of 14.1% from last month.

As shown in the above table, total non-agricultural jobs in Long Island increased on a yearly basis by 0.7%, or 8,700 jobs to 1,271.3 in June 2006 just missing the 1% benchmark. Although the Island saw losses over the 12-month period in the Wholesale Trade, Manufacturing, Information and Financial

Activities sectors, job gains, which were largest in Transportation, Warehousing & Utilities industry, closely followed by Professional & Business Services sectors, offset these losses. Government employment rose slightly by 0.6% compared to the same time last year. Gary Huth, analyst for the New York State Department of Labor maintains that the tighter labor market offsets slower job growth. “Job seekers”, Huth points out, “may not have a flush amount of opportunities but ...the possibilities are still fairly good.”⁷

The U.S. Bureau of Labor Statistics reported the level of national unemployment claims was near a high of 337,000 in late May, up from 19,000 the previous week suggesting a time of markedly weak job growth. Most recently, three quarters of the way through July, there has been a sharp decline in the number of Americans filing new claims for unemployment benefits, reflecting fewer layoffs in the auto industry. The Department indicated that 304,000 newly laid off workers filed applications for benefits, a drop of 30,000 from the previous week, when claims surged by 20,000, reflective of normal layoffs that occur when the auto industry shuts down production lines for model changeovers. Overall, looking past the volatility, the claims figures are indicative that growth in the labor market is slowing because of a slowing economy. According to *Newsday.com*, analysts believe that employers are putting hiring plans on hold as signs of slowing economic activity are increasing, as compared to the first quarter of the year.⁸

Forecast

Job growth is a useful indicator that economic opportunities are expanding for the County population as a whole. Although Long Island’s regional employment continued to increase modestly in June 2006, with Nassau showing over-the-month increases of 2.6%, the number of unemployed residents in Nassau County increased by 4.8%, raising concerns that the local economy is not generating enough jobs. Similarly, the current national employment environment, as reported by The Labor Department, shows a markedly weak job growth, based on the 337,000 national unemployment claims in late May, up from 19,000 the previous week. The table on the next page predicts future employment trends for 2006 and 2007.

⁷ Huth Gary. Cited in “LI posts .7% growth in employment”, Randi Marshall, staff writer, *Newsday.com*

⁸ Crutsinger, Martin. “Weekly Jobless Claims Decline”, *Newsday.com*, July 20, 2006

Growth Forecast for the Local and National Employment Market



Year-end 2006 Growth Projections

	Employed Residents	Unemployed Residents	Un-Employment Rate	Non-Farm Employment
Nassau County	0.1%	1.0%	0.9%	0.1%
Suffolk County	0.3%	1.2%	0.9%	0.3%
United States	0.3%	0.3%	0.0%	0.4%

Annual 2007 Growth Projections

	Employed Residents	Unemployed Residents	Unemployment Rate	Non-Farm Employment
Nassau County	0.0%	3.8%	3.7%	0.3%
Suffolk County	0.7%	4.6%	3.8%	1.0%
United States	0.7%	5.8%	4.8%	0.8%

Source: Moody's Economy.com

The regional unemployment rate has fallen 2.4% over the past 12 months to 4.0%. On average, over the past 5 years, Nassau County has recorded a 4.3% unemployment rate on a per quarter basis. Looking ahead to 2006 year-end, the table above shows forecasted growth in employed residents remaining relatively slow, yet consistent with the nation. Forecasters expect annual 2007 growth in Nassau County employed residents to remain stagnant, with unemployed residents increasing at a pace of 3.8%. Overall, the outlook suggests that growth in the labor market is slowing because of a slowing economy.

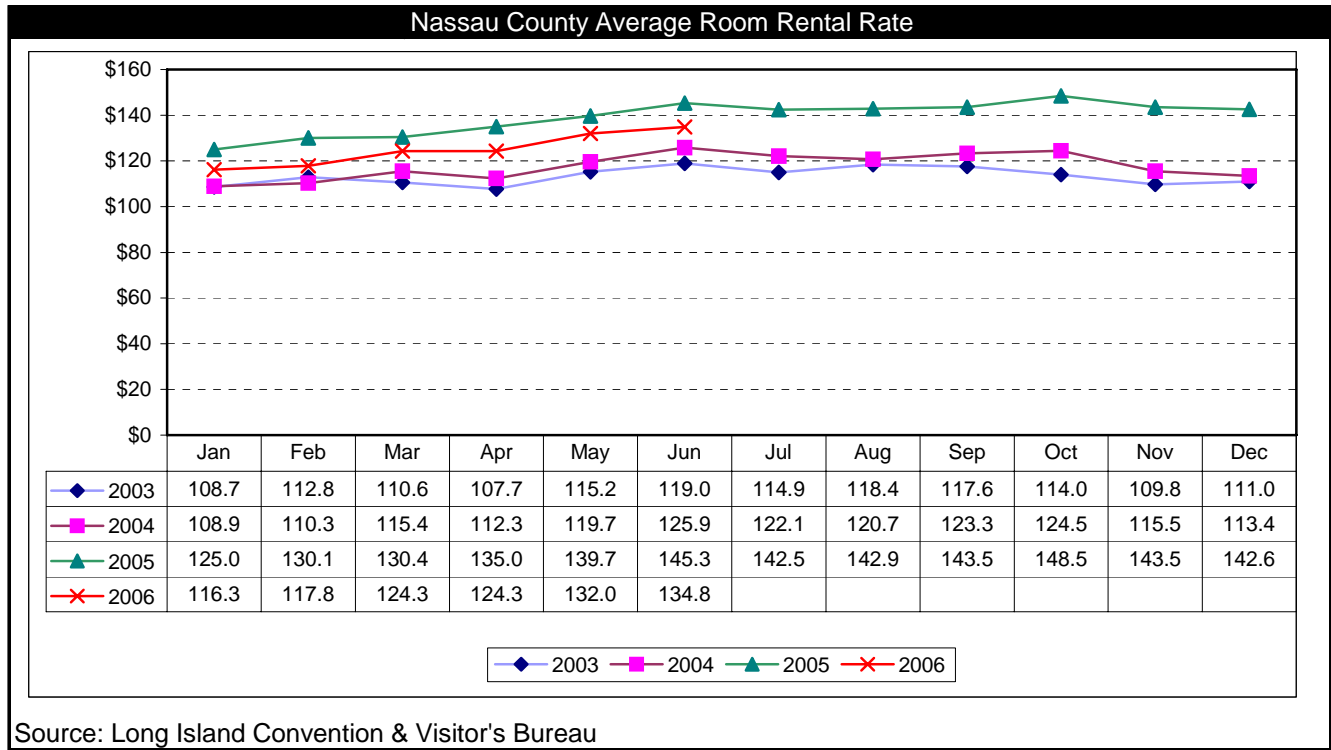
The relatively weak path for job and employment gains may translate into negative economic impacts to the County on several fronts. First, we may see a decrease in sales tax revenues in FY 07 due to less consumer spending. Second, as the number of Nassau County unemployed residents rises, it is likely that demand for County social services will also see an increase. Unemployed residents often end up tapping welfare programs such as Food Stamps, or accumulating debt, both formal debt to banks and informal debt to friends and relatives.

Several economic studies estimate the effect of unemployment on the need for social services. For example, after controlling for policy changes in the Food Stamp Program and welfare system, and variations among economic and demographic characteristics, the Economic Research Service division of the United States Department of Agriculture, Food and Nutrition Service reports that a 1-

percentage-point increase in the unemployment rate led to a 3- to 4-percent increase in food stamp caseload. On a long-term basis, researchers also have found that a 1-percent point increase leads to a 6- to 9-percent increase in caseloads.⁹ The result of higher government transfer payments in the form of welfare and food stamps may decrease spending on productive economic goods, decreasing GDP.

The Lodging Industry

In June 2006, the Nassau County lodging industry continued to move forward as the summer tourism season began to get underway. Average room rental rates increased 2.2% from the prior month, but were down 7.2% from this time last year. Nassau County occupancy rates increased from both a monthly and an annual perspective. The chart below details the average room rental rate charged in Nassau by month over the past four years.

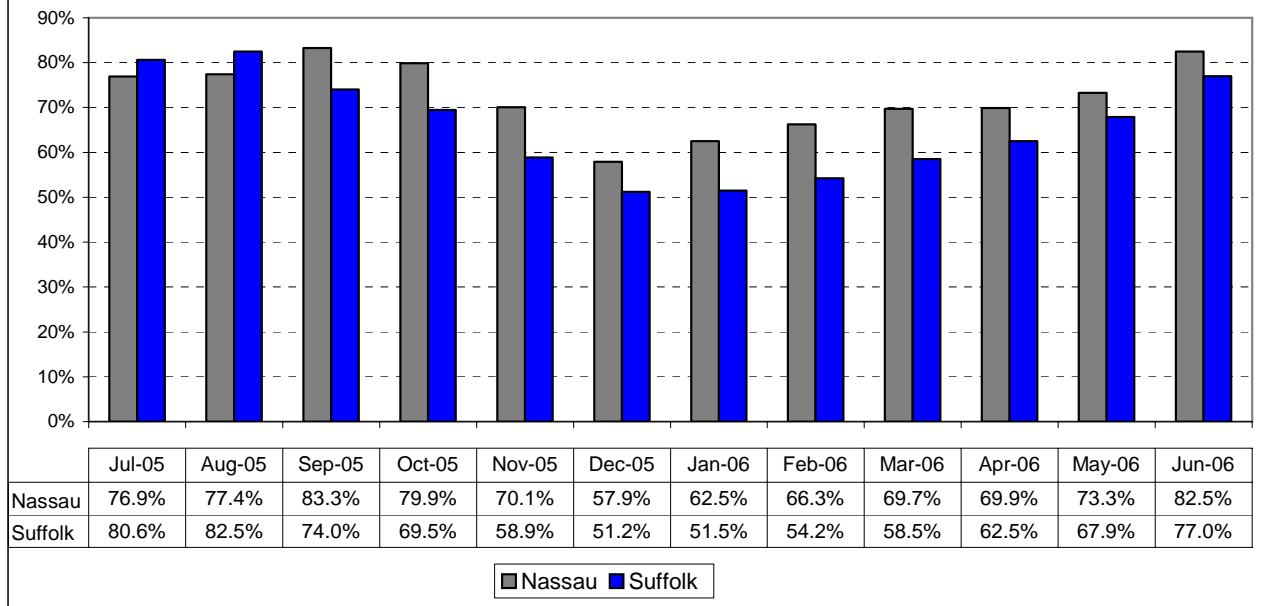


The chart on the next page depicts hotel/motel occupancy rates for both Nassau and Suffolk counties by month over the prior year. Both counties recorded monthly and annual occupancy increases. From a monthly perspective occupancy rates are up 12.6% in Nassau and 13.4% in Suffolk. From an annual vantage point, occupancy rates have increased 1.9% in Nassau and 1.9% in Suffolk. Increased occupancy rates have a positive impact on County Hotel/Motel tax collections and sales tax collections. A recent survey completed by Island Metro Publications found that an average visit to Long Island is comprised of two individuals staying approximately four days who spend roughly \$1,095 during their visit.¹⁰

⁹ U.S. Department of Agriculture, Food and Nutrition Service. *How Unemployment Affects the Food Stamp Program*, September 2002

¹⁰ "Island-Wide Lodging Survey of Overnight Visitors", *Island Metro Publications*, August/September 2005.

Hotel/Motel Occupancy Rates by Month



Source: Long Island Visitor Information Bureau

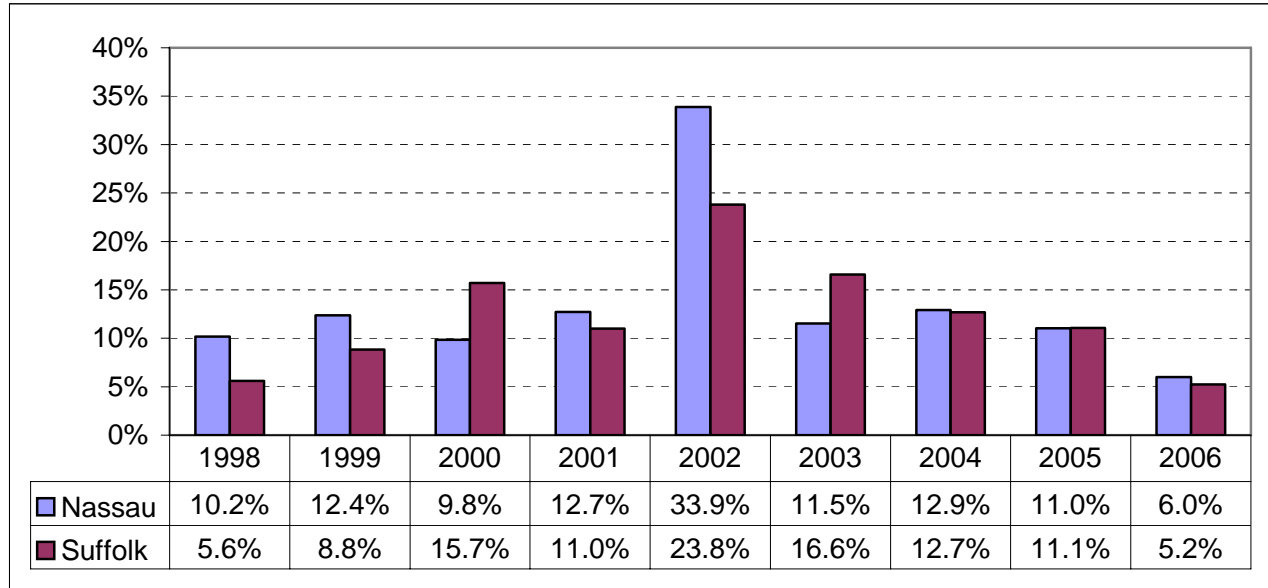
Residential Housing Market

In June 2006, the County-wide residential housing market moved forward. Throughout Nassau County median and average home sale prices increased from both a monthly and an annual perspective. However, the momentum was propelled forward by specific communities since several communities witnessed declines. According to a *Newsday* survey of County service zones, three zones recorded annual median sale price declines and eight zones witnessed an annual decline in closed transactions.¹¹ Sluggishness was evidenced in the annual increase in residential housing inventory. Compared to this time last year there are 75.4% more houses listed for sale in Nassau and 65.0% more houses listed for sale in Suffolk.

The chart on the following page depicts the historical and projected annual home price appreciation rates for Nassau County. If current trends continue, Nassau County will end the year with positive, albeit slow home price appreciation growth. If correct, Nassau and Suffolk counties will experience a nine-year low in terms of home price appreciation in 2006.

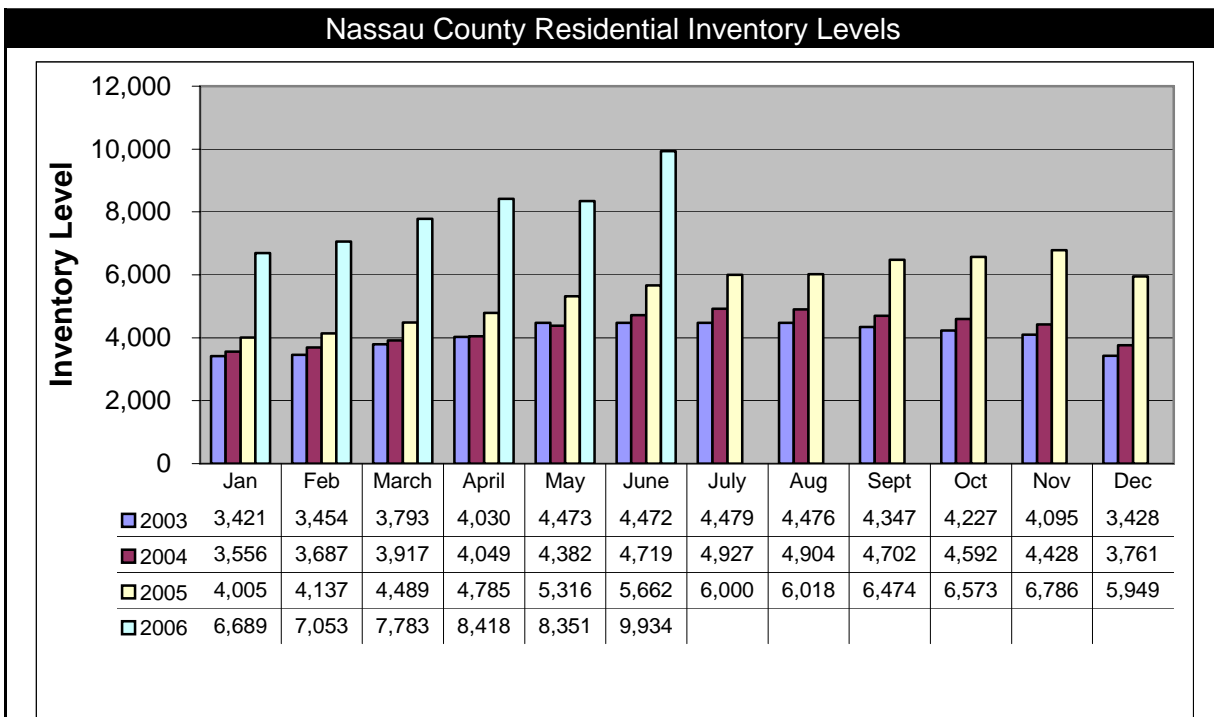
¹¹ Marshall, Randi F., "Prices of Homes Declining in Some LI Areas", [Newsday.com](http://www.newsday.com), July 11, 2006.

Annual Percentage Change in Residential Housing Average Closing Price
 2006 figures are projections based prices through June 2006



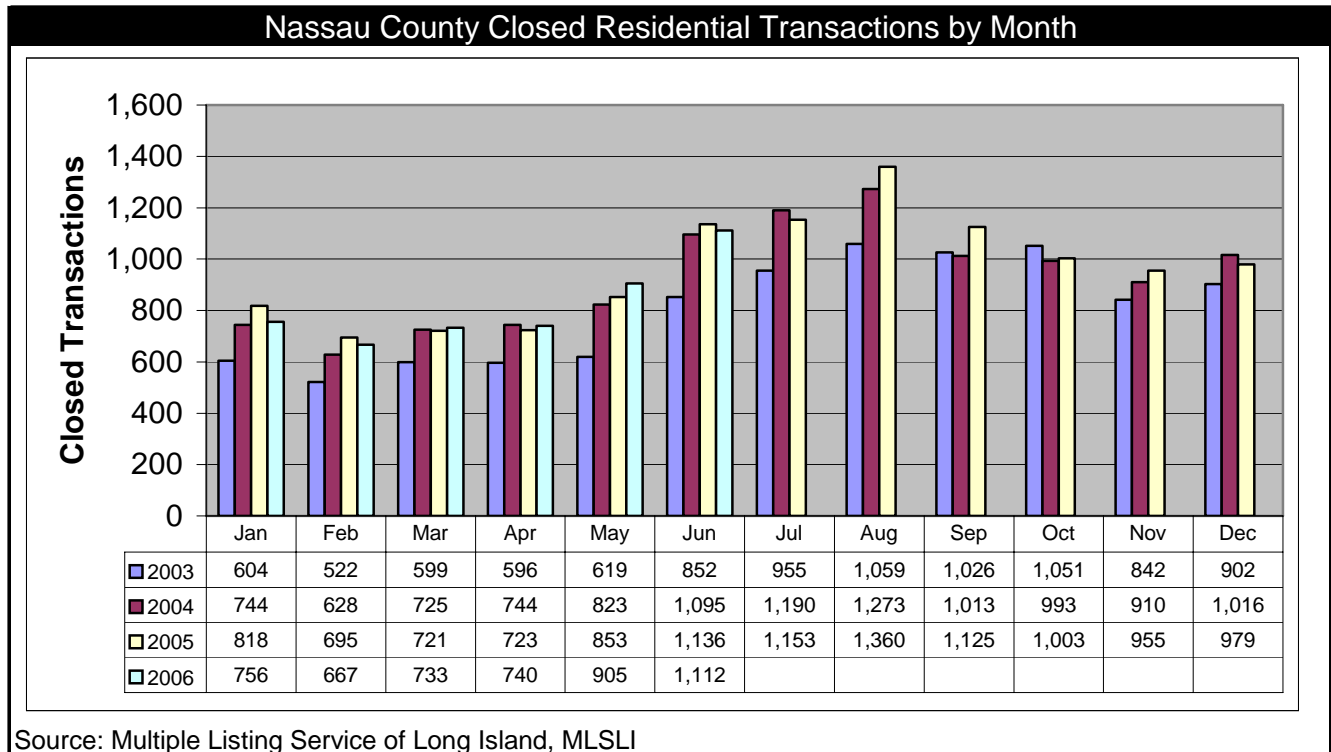
Source: Multiple Listing Service of Long Island

Residential inventory levels continued to escalate in June of 2006. Nassau County residential inventory levels set a record in June 2006, they crossed the 9,000 mark. The chart below records the monthly residential inventory levels seen in Nassau County of the past four years.



Source: Multiple Listing Service of Long Island

The chart below details closed residential transactions in Nassau by month over the past four years. Year-to-date 2006 Nassau County closed transactions totaled 4,913. That is 0.7% less than at this time last year.



Not only will the slowdown in the housing market result in lower County Clerk fee revenues, but also County sales tax collections could be negatively impacted. These impacts are discussed below in the forecast section.

Forecast

As mentioned previously, the current Nassau County housing market is exhibiting slow, yet positive appreciation. However, specific areas have begun to see declines in terms of housing prices and closed transactions. The slowdown is forecast to continue especially since interest-rates are expected to increase throughout the end of 2006 as illustrated by the Mortgage Bankers Association (MBA) forecast which follows.

Mortgage Bankers Association	
Long-Term Mortgage Finance Forecast	
Interest-Rate	
30-Year Fixed Rate Mortgage	
Q1 2006	6.2%
Q2 2006	6.6%
Q3 2006	6.8%
Q4 2006	6.9%
Q1 2007	6.9%
Q2 2007	6.9%
Q3 2007	6.9%
Q4 2007	6.9%
Source: July 12, 2006 MBA Forecast	

The chart on the following page details both the year-end 2006 and annual 2007 forecast for mortgage purchases, mortgage refinancings and median home sale prices in Nassau County, Suffolk County and the United States. Throughout 2006, all areas surveyed are forecast to see a slight increase in median home prices. On Long Island, mortgage purchases and mortgage refinancings are expected to decline throughout the rest of 2006 and in 2007.

The forecasted declines will have an immediate and direct impact on Nassau County Clerk fee revenues which are closely aligned with mortgage refinancings and the number of closed transactions. Higher interest-rates are already impacting 2006 County Clerk fee revenues. OLBR is currently forecasting 2006 County Clerk fee revenue to come in at \$14.8 million, \$1.7 million less than the 2006 budget.

The forecasted mortgage refinancing decline is also expected to have an impact on County sales tax collections. County sales tax revenues could fall as the number of housing-related jobs diminishes and residents have less home equity to tap. Residents have been utilizing their home equity to finance major purchases. As home equity declines individuals will make fewer purchases and the County will collect less sales tax revenue.

Growth Forecast for the Local and National Housing Market



Year-end 2006 Growth Projections

	Mortgage Originations Purchase	Refinance	Median Home Sale Price
Nassau County	-3.3%	-5.8%	0.2%
Suffolk County	-3.3%	-5.7%	0.4%
United States	-1.7%	2.0%	0.7%

Annual 2007 Growth Projections

	Mortgage Originations Purchase	Refinance	Median Home Sale Price
Nassau County	-3.1%	-20.9%	-2.0%
Suffolk County	-3.0%	-21.5%	-1.8%
United States	-8.4%	-26.5%	0.5%

Source: Moody's Economy.com

Conclusion

The economy moved forward at a slow pace in June 2006. Looking forward, growth is expected in the lodging industry as the summer tourism season continues. Hopefully growth in that area will be able to compensate for the anticipated slowdown in the housing market. So far the slowdown in the housing market has been less than anticipated and employment figures have been largely unaffected. Moody's economy.com's forecast reveals that the economy will move forward at a slow pace in most sectors in 2007. However, mortgage purchases and mortgage refinances are expect to decline in 2007. The housing slowdown is expected to be significant. Analysts attribute the slowdown to not only low mortgage interest rates, but also an oversupply of new houses and weak consumer confidence. According to Toll Brothers, the current slump in residential construction is unlike any it has seen in 40 years. They reported weaker-than-expected preliminary quarterly results due to an oversupply of inventory and a decline in confidence.¹²

¹² "Builder: Oversupply Slump Worst in 40 Years", CNN/Money.com, August 9, 2006.