



# 2007 NATIONAL AND REGIONAL ECONOMIC OUTLOOK

## NASSAU COUNTY OFFICE OF LEGISLATIVE BUDGET REVIEW

### HIGHLIGHTS:

- National and regional economic growth will be stymied by housing market declines in 2007. (pages 1-2)
- No recession is in the cards, nationally or regionally, for 2007. (pages 4)
- Preliminary reports reveal that holiday sales were slower than anticipated. (page 4)
- Regional consumer prices fell from a monthly perspective, weighed down by apparel and recreation prices. (page 6-7)
- Long Island currently has more employed residents and more jobs (page 4-6), however the growth rates are rather sluggish and are expected to decline in Nassau in 2007. (page 6)
- The lodging industry is currently experiencing a seasonal slowdown. (page 8)

Analysts are predicting slow but positive economic growth for the nation as a whole in 2007. The housing market is expected to weigh down overall economic growth. The same is expected for the Long Island economy. Economists opine that regional economic growth will be positive, albeit slow, in 2007.<sup>1</sup> The following report details current economic conditions and outlines where analysts see the economy going in 2007.

### Residential Housing Market

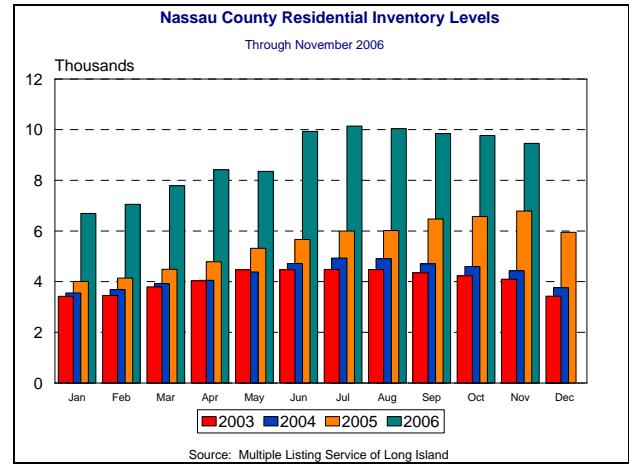
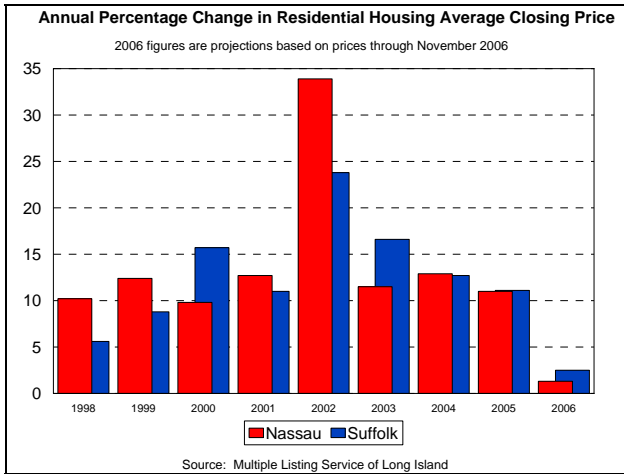
The residential housing market may be seen as the most important sector to watch in 2007. Its predicted decline has caused experts to lower their overall growth projections. Currently, the regional housing market is sluggish. The question is when and if the housing market decline will stop and a rebound will commence.

Sluggishness was evident in the Long Island housing market in November 2006. In Nassau County average and median closing prices fell from an annual perspective while residential inventory levels rose. In Suffolk County, from an annual vantage point, average closing prices rose while median closing prices fell. Additionally, compared to this time last year, residential inventory levels in Suffolk County have risen 35.2%.

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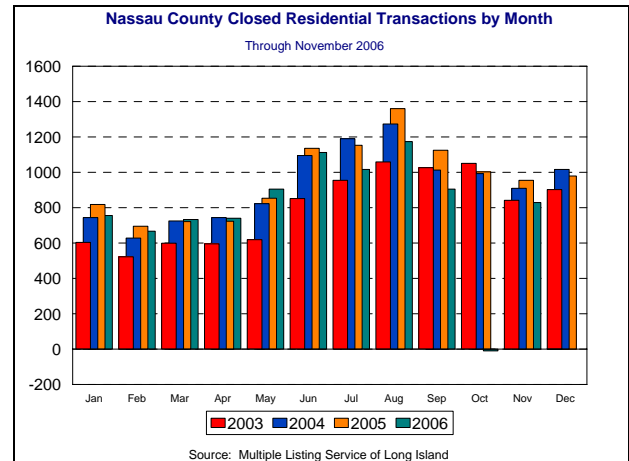
*“Economists opine that regional economic growth will be positive, albeit slow, in 2007.”<sup>1</sup>*

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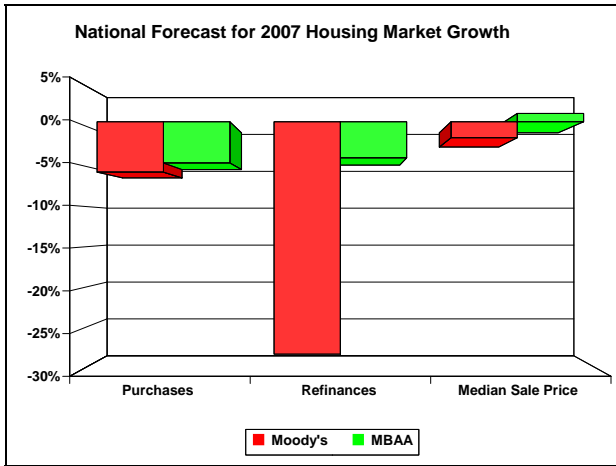
As detailed in the above chart, if current trends continue, Nassau County will end 2006 with a residential housing appreciation rate of 1.3%. In Suffolk County, if current trends continue, residential housing prices should end 2006 having grown 2.5% in terms of average closing prices. These appreciation rates would be the lowest seen in recent years. Some analysts believe that New York City suburban residential housing has actually depreciated over the past year. They claim that official statistics do not reflect the true loss in housing value since they only report on closed sales and fail to consider the homes that have languished on the market for months. They believe that the true value of residential housing in the New York City suburbs has fallen perhaps 10 percent or more since last year.<sup>2</sup>

Residential inventory levels have increased by 39.4% since November of last year, confirming a weakened housing market. In Suffolk County residential inventory levels have risen 35.2% from November 2005. Much of the decline seen since July in residential housing inventory levels may be attributed to seasonality since the winter months are typically the slowest months for the housing market.

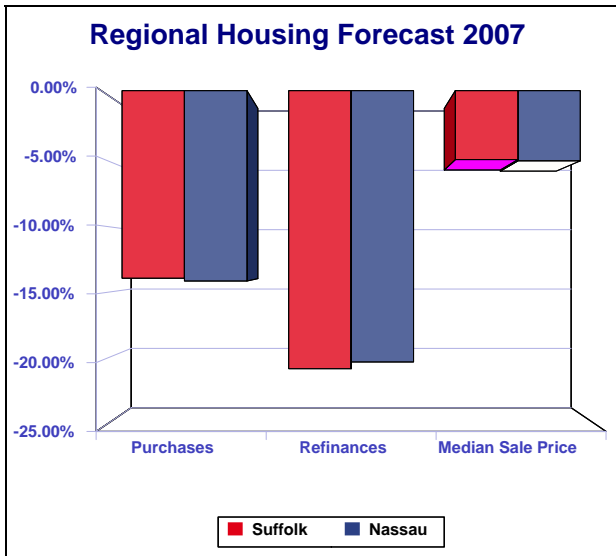


*“The true value of residential housing in the New York City suburbs has fallen perhaps 10 percent or more since last year.”<sup>2</sup>*

Looking forward, the sluggishness is expected to continue both nationally and regionally in 2007. The chart on the following page details the 2007 Moody’s economy.com (Moody’s) and the Mortgage Bankers Association of America (MBAA’s) forecast for the national residential housing market.



Assuming current trends continue, both Moody's and the MBAA are projecting declines nationwide in home purchases and refinances. In terms of home price appreciation, Moody's is expecting median prices to fall 1.9% while the MBAA is anticipating an increase of 1.0% in median home sale prices. Doug Duncan, the chief economist for the MBAA, believes that the housing slump will take until at least mid-2007 and likely late 2007, to work through based on past housing slowdown patterns. He feels that it will take 24 to 30 months from the peak, which he pinpoints as July 2005, to work off the excess real estate inventory before real estate returns to trend lines.<sup>3</sup>



The regional housing market is projected to experience a greater decline in 2007 than that

seen nationally. According to Moody's, 2007 Nassau County home purchases are forecast to decline 14.1%, home refinances are projected to decline 20.1% and median home prices are expected to fall 5.2%. In Suffolk County the anticipated annual declines are 13.9%, 20.6% and 5.1% respectively. The previous chart details these predictions.

The previously detailed housing market decline is having a direct impact on household finances since it is causing home foreclosure rates to rise. As the housing market cools and individuals are unable to sell their home at or above what they owe, foreclosure rates have increased. Another factor causing foreclosure rates to rise is that some lenders try to maintain business in a slower market by approving more marginal borrowers for loans. In New York State the number of households going into foreclosure has increased 4.22% from the prior year.<sup>4</sup>

### Commercial Leasing Market

The office-leasing market on Long Island is expected to record strong positive growth in 2007. Demand is expected to grow as companies find the Manhattan office-lease market too expensive. However, growth rates are expected to be tempered by high real estate taxes, a saturated Melville market and slow job growth.<sup>5</sup>

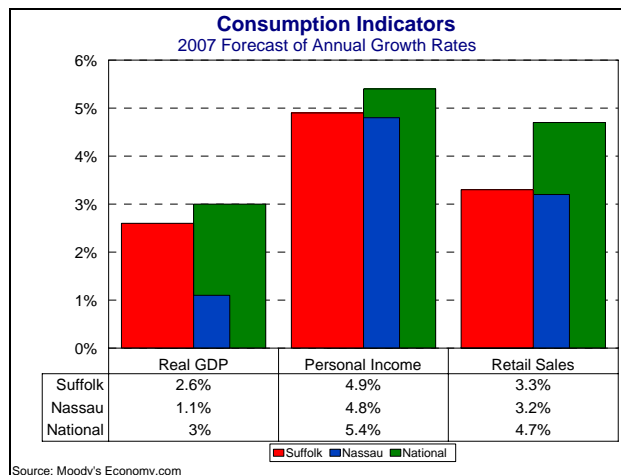
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*Regional commercial demand is expected to grow as companies find the Manhattan office-lease market too expensive.*

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## Personal Consumption

The projected housing market decline is seen as inhibiting personal consumption as measured by real GDP, personal income and retail sales. The chart on the following page records the national and regional forecasts for the previously listed variables.



Nationally experts are predicting 3.0% real GDP growth, 5.4% personal income growth and 4.7% growth in retail sales in 2007.

Nassau County is seen as experiencing the slowest growth throughout the region. Despite a projected 4.8% increase in personal income and 3.2% growth in retail sales, Nassau County's real GDP is forecast to grow 1.1% in 2007. Contributing to Nassau's slow growth is the projected 0.8% decrease in employed residents and the anticipated 14.1% decline in home purchases. For further detail see the labor market and residential housing sections.

The projected inhibited personal consumption growth may be seen as a continuation of the economic lethargy that pervaded 2006 holiday consumer spending. According to Mastercard's Spending Pulse, retail sales rose 3.0% this year compared to last year's level. In 2005, retail sales increased 5.2% from the prior year.<sup>6</sup> The less than anticipated holiday spending could be made up by post-holiday shopping. Last year, 16% of holiday sales

occurred in the week following Christmas. Standard & Poor's believes that retailers will see higher volumes this year by shoppers with gift cards or gift certificates that are looking to take advantage of deep discounts.<sup>7</sup>

The national retail spending trends do not appear to be impacting County sales tax collections. Through November 2006, County sales tax collections have increased 5.2%. However, the increase could have been even greater since online spending continued to grow at a double digit growth rate during the 2006 holiday season. According to comScore Networks, online retail spending surged 26% during the 56 days preceding December 26, 2006. Online sales for the first time exceeded the \$100 billion mark and represented 7% of all U.S. retail spending.<sup>8</sup> Since many purchases made online are not taxed, this growth could hurt County sales tax collections.

## Local Area Employment Figures

November 2006 was a positive month on the job front. All areas surveyed recorded annual employment increases coupled with annual decreases in the number of unemployed residents and the unemployment rate.

From a monthly perspective, the Long Island job market was not able to absorb all of the new entrants. This resulted in increases in both employed and unemployed residents. In New York City, the labor force decreased. This coupled with a fall in employed residents and an increase in unemployed residents caused New York City's unemployment rate to increase 7.3% from the prior month.

The monthly changes in New York City may just be an aberration since the New York City job market is especially strong compared to this time last year. November 2006's New York City labor force reading was the highest November reading recorded since 1989. Not only are there more individuals looking for work in New York City, but a higher

percentage have been able to find work since its current unemployment rate is the lowest seen since April 1988.

## Nassau-Suffolk Non-agricultural Employment

Comparison of Employment Statistics (figures in thousands)					
	<u>11/06</u>	<u>10/06</u>	<u>11/05</u>	<u>+/- Prior Month</u>	<u>+/- Prior Year</u>
<b>Nassau</b>					
Employed	673.5	673	669.4	0.1%	0.6%
Unemployed	23.8	23.2	28.0	2.6%	-15.0%
Unemployment	3.4%	3.3%	4.0%	3.0%	-15.0%
<b>Suffolk</b>					
Employed	754.8	754.2	750.2	0.1%	0.6%
Unemployed	27.7	25.9	31.8	6.9%	-12.9%
Unemployment	3.5%	3.3%	4.1%	6.1%	-14.6%
<b>NYC</b>					
Employed	3,564.4	3,588.9	3,543.5	-0.7%	0.6%
Unemployed	163.1	155.1	223.9	5.2%	-27.2%
Unemployment	4.4%	4.1%	5.9%	7.3%	-25.4%

Source: NYS Department of Labor and US Bureau of Labor Statistics

*The New York City job market is especially strong compared to this time last year. November 2006's New York City labor force reading was the highest November reading recorded since 1989.*

Non-agricultural Employment Nassau-Suffolk Area (figures in thousands)					
	<u>11/06</u>	<u>10/06</u>	<u>11/05</u>	<u>+/- Prior Month</u>	<u>+/- Prior Year</u>
<b>Educational &amp; Health Services</b>	205.7	205.4	204.4	0.1%	0.6%
<b>Financial Activities</b>	81.2	80.8	82.1	0.5%	-1.1%
<b>Government</b>	203.3	201.9	203.1	0.7%	0.1%
<b>Information</b>	29.5	29.3	29.6	0.7%	-0.3%
<b>Leisure &amp; Hospitality</b>	94.6	97.0	93.3	-2.5%	1.4%
<b>Manufacturing</b>	85.9	85.9	87.7	0.0%	-2.1%
<b>Natural Resources, Construction &amp; Mining</b>	69.3	69.8	69.1	-0.7%	0.3%
<b>Other Services</b>	53.0	52.9	52.6	0.2%	0.8%
<b>Professional &amp; Business Services</b>	164.5	164.5	161.1	0.0%	2.1%
<b>Retail Trade</b>	167.0	162.2	168.1	3.0%	-0.7%
<b>Transportation, Warehousing &amp; Utilities</b>	37.8	37.6	38.6	0.5%	-2.1%
<b>Wholesale Trade</b>	71.4	71.4	72.0	0.0%	-0.8%
<b>Total</b>	<u>1,263.2</u>	<u>1,258.7</u>	<u>1,261.7</u>	<u>0.4%</u>	<u>0.1%</u>

Source: NYS Department of Labor

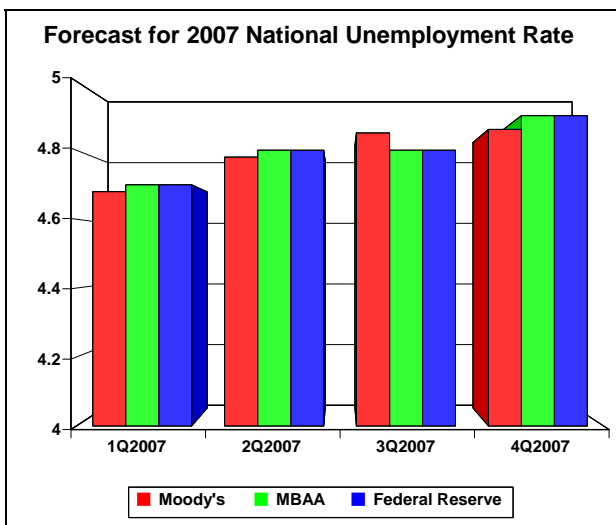
Non-agricultural employment data show a total net gain from both monthly (0.4%) and annual (0.1%) perspective on Long Island. From a monthly perspective the job growth was strong and broad-based with ten of the twelve sectors surveyed registering positive job growth. The two sectors that saw monthly declines typically record declines during the winter months (Leisure & Hospitality and Natural Resources, Construction & Mining).

From an annual perspective, Long Island's job growth was fairly restricted in that half of all sectors surveyed witnessed a job loss. From an annual perspective, only two sectors, Leisure & Hospitality and Professional & Business Services, recorded job growth greater than 1%.

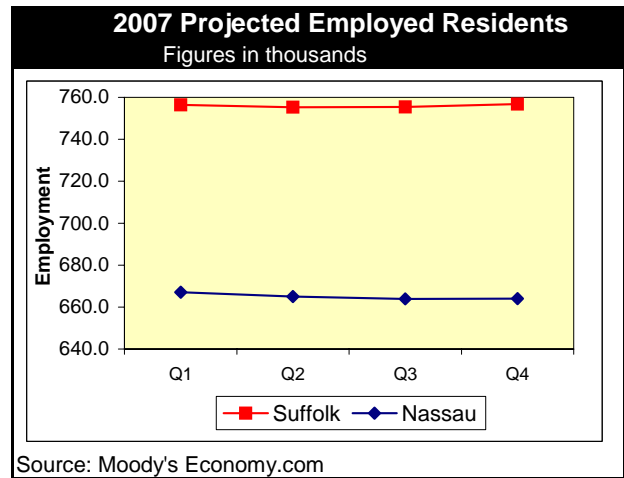
Looking forward, job and employment growth throughout the nation and in Suffolk County is expected to be slow but positive. However, Nassau County is forecast to experience a decline in both employed residents and non-farm job growth. The following charts depict these predictions.

*In 2007, Nassau County is projected to experience a decline in both employed residents and non-farm job growth.*

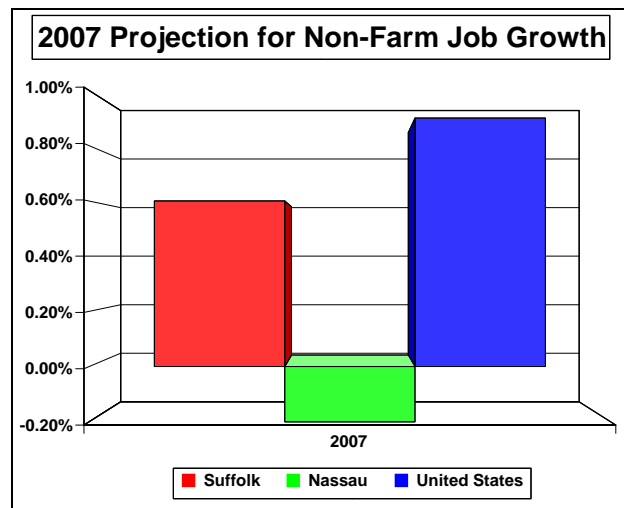
Nationally the unemployment rate is expected to remain fairly constant and average 4.8% for 2007. This may be seen in the chart below.



In 2007, employment growth is expected to follow two separate trends on Long Island. Employment in Suffolk County should decrease during the first half of 2007 and then experience a rebound in the second half. In Nassau County employment is expected to steadily decline throughout 2007. As mentioned previously, this decrease in employed residents is seen as weighing down Nassau County real GDP. The chart below records these divergent trends.



A similar pattern may be seen in forecasts of 2007 non-farm job growth. Although all regions surveyed are expected to miss the 1% mark indicative of healthy job growth, Nassau County is the only region surveyed to experience a decline in jobs. The chart below reveals these job growth projections.



*All regions surveyed are expected to miss the 1% mark indicative of healthy job growth. Nassau County is the only region surveyed to experience a decline in jobs.*

## Consumer Price Indexes

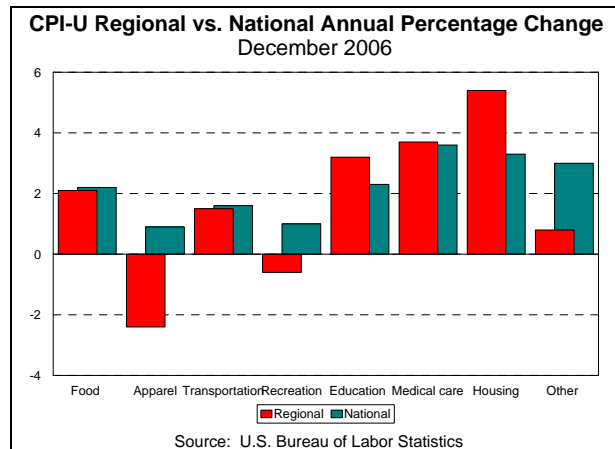
Consumer Price Indexes					
New York-Northern New Jersey-Long Island, NY-NJ-CT-PA Region					
Index	12/06	11/06	12/05	Monthly %	Annual %
US City, CPI-U	201.8	201.5	196.8	0.1	2.5
Regional CPI-U	221.3	220.9	214.2	0.2	3.3
Core CPI-U (All Items less energy)	226.6	227.0	219.1	-0.2	3.4
Medical	345.0	344.4	332.8	0.2	3.7
Housing	240.8	239.7	228.5	0.5	5.4
Gasoline (all types)	180.9	170.6	172.0	6.0	5.2

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

Consumer prices grew 2.5% nationally and 3.3% regionally in 2006. The national annual growth rate was the smallest recorded since 2003. Sluggish energy-price growth was a major factor in keeping overall consumer price growth low. In 2006, energy costs grew 2.9% from the prior year. In contrast, 2005 annual energy cost growth was 17.1% and 2004 annual energy cost growth was 16.6%. Analysts attributed much of energy costs growth sluggishness to the below average temperatures experienced during the second half of 2006. Energy costs actually fell 13.4% during the second half of 2006; after advancing at a 22.8% annual rate in the first half of 2006.<sup>9</sup>

The chart on the next page details the annual changes by sector seen in the consumer price indices both nationally and regionally.

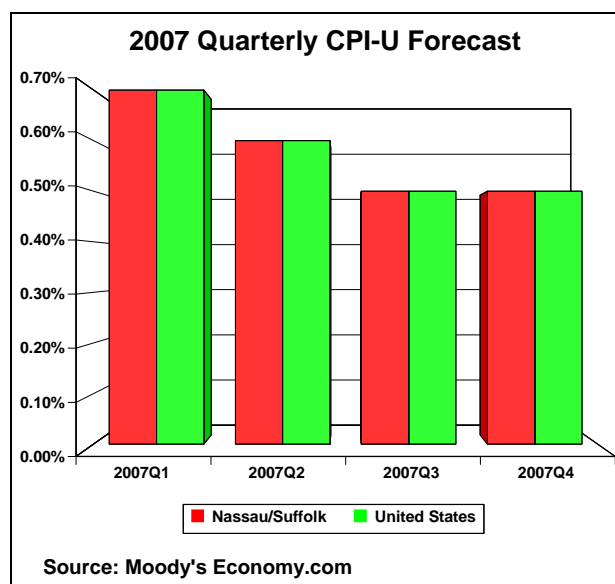
*According to the U.S. Energy Information Administration's most recent short-term regional forecast, current gasoline prices have bottomed out. In 2007, gas prices will rise 21% through June and then fall 12% by December.*



Regionally, apparel and recreation prices put downward pressure on the all-items index by recording annual declines. Regional housing, medical care and educational prices put upward pressure on the all-items index by recording annual growth rates above 3%.

Nationally, all sectors recorded positive price growth. At the national level only medical care and housing costs registered annual growth rates higher than 3%.

Looking forward, consumer prices both nationally and regionally are expected to appreciate 2.4% in 2007. The chart below depicts the quarterly appreciation rates anticipated for consumer prices regionally and nationally in 2007.

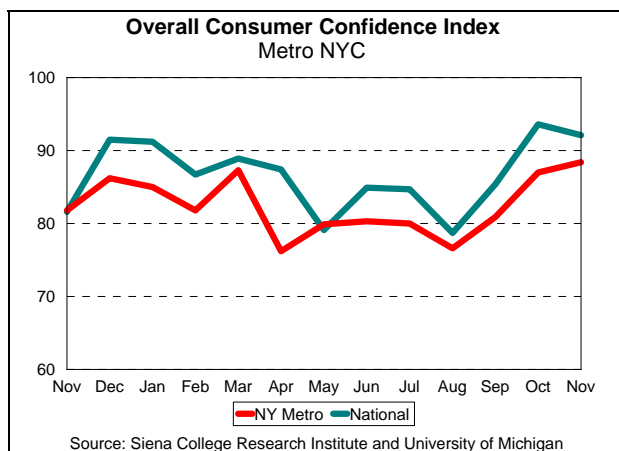


## Consumer Confidence Index

In November 2006, both consumer and business confidence increased.

Metro NYC consumer confidence increased by 1.6%. Annually the index grew by 8.1%. The following chart details the monthly changes recorded by the national and regional consumer confidence indices over the prior year.

Not only are consumers feeling confident about the future, but Long Island business owners are marginally more optimistic about the local economy this year than last year. The Dowling College survey of Long Island business owners found that local executives rated the economy a 6.1 on a scale of 1 to 10. Last year at this time, the local economy rated a 6.<sup>10</sup>



The chart above reveals a steady rise in regional consumer confidence since August 2006. A similar increase occurred nationally, however the regional increase was not able to surpass the consumer confidence level measured throughout the country. The regional increase in consumer confidence should continue through 2007 since the regional future consumer confidence index recorded strong growth. The table in the next column details the Metro NYC consumer confidence by its two component parts, current (ICC) and future (ICE) confidence. Both of these indices combine to produce the overall index detailed in the chart above.

Index	11/06	10/06	11/05	Monthly %	Annual %
ICC	89.0	91.7	87.9	-2.9	1.3
ICE	88.1	83.9	77.8	5.0	13.2

Source: Siena College Research Institute

## The Lodging Industry

	11/06	10/06	11/05	Change from Prior Month	Change from Prior Year
Occupancy Rate	68.7%	74.9%	70.2%	-8.3%	-2.1%

Source: Long Island Convention and Visitors Bureau

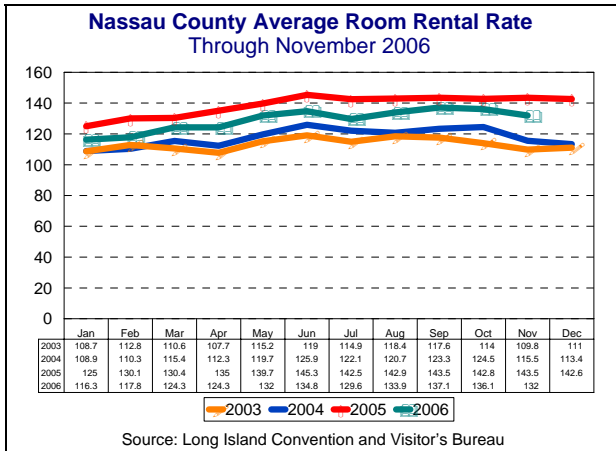
November 2006 showed slowed growth for the tourism industry on Long Island. As the previous section depicted, the Leisure & Hospitality sector witnessed the greatest monthly job decrease of all sectors surveyed. Hotel/motel occupancy rates in Nassau County declined from a monthly and annual viewpoint.

	11/06	10/06	11/05	Change from Prior Month	Change from Prior Year
Rental Rate	\$131.97	\$136.09	\$142.80	-3.0%	-7.6%

Source: Long Island Convention and Visitors Bureau

Over the past year however, rental rates decreased by 7.6%, as seen in the Average Hotel/Motel Room Rental Rate chart above.





The chart above details average room rental rates in Nassau by month over the previous four years. Nassau County's average room rental rate in October 2006 was \$136.1 or lower by close to 0.8% from last year.

## Conclusion

The Long Island regional economy took a step backwards in November in terms of the monthly housing market, but was offset by positive job growth. Going forward, hopefully Nassau County employment will be better than forecast and experience positive employment and job growth. Strong County job growth coupled with New York City's strong job growth would imply additional disposable income to support growth in consumer spending. The robust annual growth rate seen in future consumer confidence provides further support to heightened consumer spending in 2007. The economy as a whole is expected to avoid a recession and experience positive, albeit slow, growth in 2007.<sup>11</sup>

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<sup>1</sup> Bernstein, James, "Slow Growth Expected for LI Economy", Newsday, December 29, 2006.

<sup>2</sup> Leonhardt, David, "What Statistics on Home Sales Aren't Saying", The New York Times, December 6, 2006.

<sup>3</sup> Christie, Les, "Housing Market Pain Not Revealed by Stats", CNN/Money.com, January 11, 2007.

<sup>4</sup> Christie, Les, "Foreclosure Rates Up Big in December", CNN/Money.com, January 17, 2007.

<sup>5</sup> Wagner, Daniel, "LI Office Rentals Seen Strong", Newsday.com, January 30, 2007.

<sup>6</sup> "A Ho-Hum Holiday for Retailers", Businessweek.com, December 26, 2006.

<sup>7</sup> "Post-Holiday Shoppers, Start Your Engines", Businessweek.com, December 28, 2006.

<sup>8</sup> "Online Holiday Spending Surges", CNN/Money.com, December 29, 2006.

<sup>9</sup> Crutsinger, Martin, "Inflation has Best Showing in 3 Years", Businessweek.com, January 18, 2007.

<sup>10</sup> Bernstein, James, "A Little More Optimistic", Newsday.com, January 16, 2007.

<sup>11</sup> Bernstein, James, "Slow Growth Expected for LI Economy", Newsday, December 29, 2006.