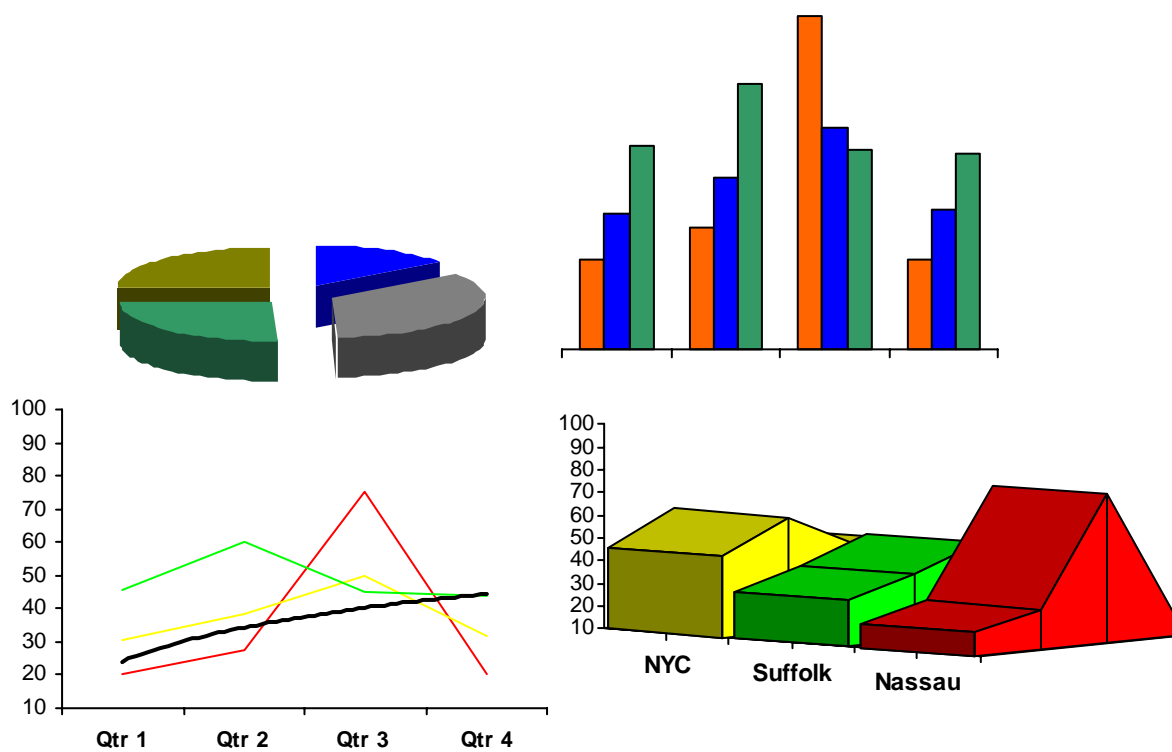




# NASSAU COUNTY LEGISLATURE

## Office of Legislative Budget Review

### Nassau County Economic Indicators



March 2005




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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: April 1, 2005

Re: March 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  
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

## March 2005 Monthly Economic Report

The regional economy was mixed in January 2005. Consumer confidence was up, but retail sales were down. Residential housing prices increased concurrently with an increase in the number of closed real estate transactions. The employment market decreased from a monthly perspective, but recorded healthy growth from an annual perspective. In light of the current information, the Federal Reserve felt the economy was on a secure enough footing to withstand a quarter-point increase in the federal funds rate.<sup>1</sup> Looking forward industry experts expect the economy to end 2005 with national mortgage interest rates in the 6.25% to 6.6% range<sup>2</sup>, national consumer price inflation of 2.3% and gross domestic product increase of 3.6%.<sup>3</sup>

### Consumer Price Indexes

<b>Consumer Price Indexes</b>					
<b>New York-Northern Jersey-Long Island, NY-NJ-CT-PA region</b>					
	<u>1/05</u>	<u>12/04</u>	<u>1/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
US City, CPI-U	190.7	190.3	185.2	0.2%	3.0%
Regional CPI-U	208.1	206.8	199.9	0.6%	4.1%
Core CPI-U (All Items less energy)	215.1	213.6	207.5	0.7%	3.7%
Medical	324.2	322.2	313.1	0.6%	3.5%
Housing	221.4	218.4	211.9	1.4%	4.5%
Gasoline (all types)	147.3	154.2	127.3	-4.5%	15.7%

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

Overall prices increased modestly in January 2005. From a monthly perspective, national prices increased 0.2% from the prior month and 3.0% from last year at this time. Throughout the metropolitan region, prices have escalated faster than those seen throughout the nation. This is important to monitor since many County contracts are tied to our regional index. Compared to last month, overall regional prices increased 0.6% and compared to the previous year, regional prices are up 4.1%.

From an annual perspective, the cost of gasoline has undergone the greatest appreciation. This increase is especially difficult for the Northeast, which is the world's largest market for heating oil. Currently, heating oil inventories are said to be 8% below where they were at this time last year.<sup>4</sup> New York State Energy Research and Development Authority data show that home heating oil prices on Long Island are up 22.4% from the prior year. The increase should continue into the future. On March 16, 2005, a new record was set when the price for U.S. light crude reached \$57.50 on the New York Mercantile Exchange.<sup>5</sup> An increase at this time does not bode well for the future since we have not reached peak driving season. Additionally, even if the price of crude does not rise further, prices at the

<sup>1</sup> "Fed Raises Rate Target Another Quarter-Point to 2.75%", [USAToday.com](http://USAToday.com), March 22, 2005.

<sup>2</sup> Koning, Rachel, "Correct: 6 Percent Fixed-Rate Mortgages in Sight", [CBSMarketwatch.com](http://CBSMarketwatch.com), March 11, 2005.

<sup>3</sup> "Economists Raise 2005 GDP Forecast", [CNN/Money.com](http://CNN/Money.com), February 14, 2005.

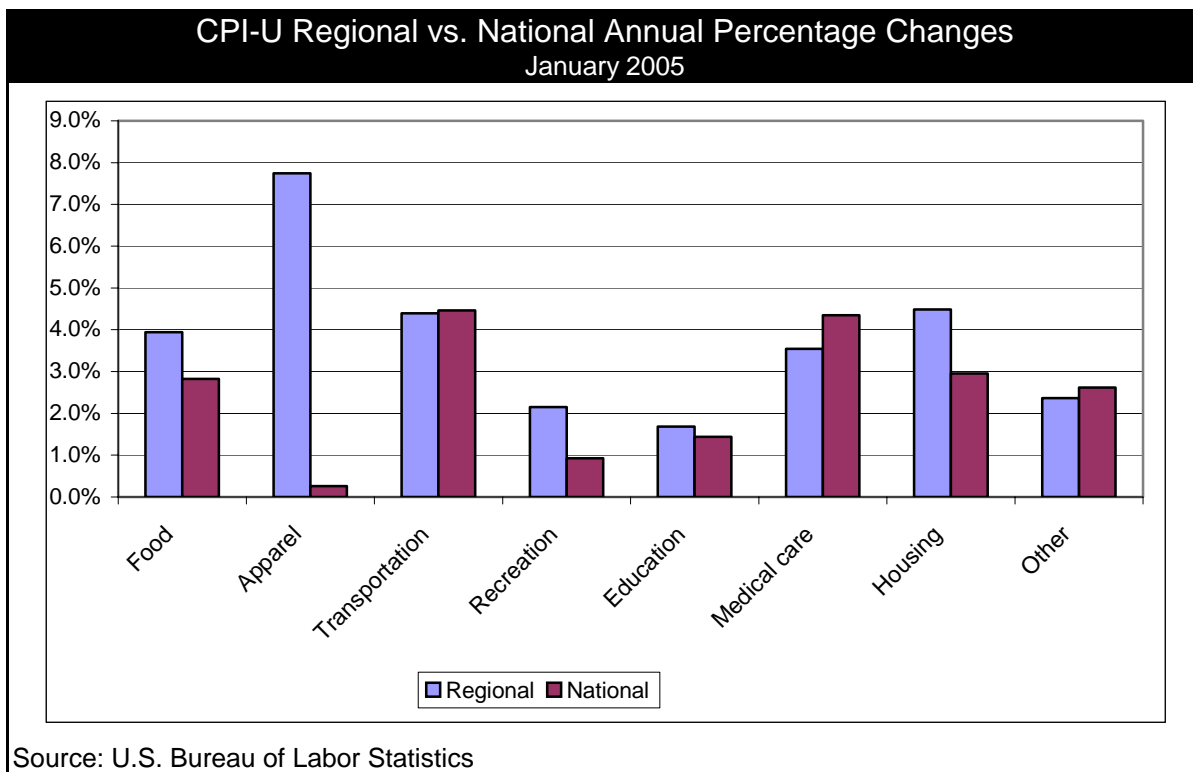
<sup>4</sup> "Oil Inches Back Towards \$55", [CNN/Money.com](http://CNN/Money.com), March 9, 2005.

<sup>5</sup> "Oil Tops \$57 For the 1<sup>st</sup> Time", [CNN/Money.com](http://CNN/Money.com), March 17, 2005.

pump may continue to climb because of required seasonal reformulations.<sup>6</sup> To cut down on pollution, refiners have to add certain additives to gas which gets distributed to New York State.

The chart below compares regional price appreciation to that of the nation. Food, apparel and housing costs were the main drivers causing the regional index to outpace the national index.

High energy prices have impacted consumer spending. Bureau of Economic Analysis figures show that the month of January was difficult for the consumer. Personal consumption figures reveal that consumer spending was unchanged from the prior month on a nominal basis. Moreover, when prices were held constant, consumer spending decreased 0.2%. From a twelve month perspective, the previously mentioned consumer price increases were responsible for 41% of the increase seen in national personal consumption expenditures. This national break-out roughly approximates the growth in County sales tax collections which may be attributed to greater regional prices as opposed to an increase in sales.



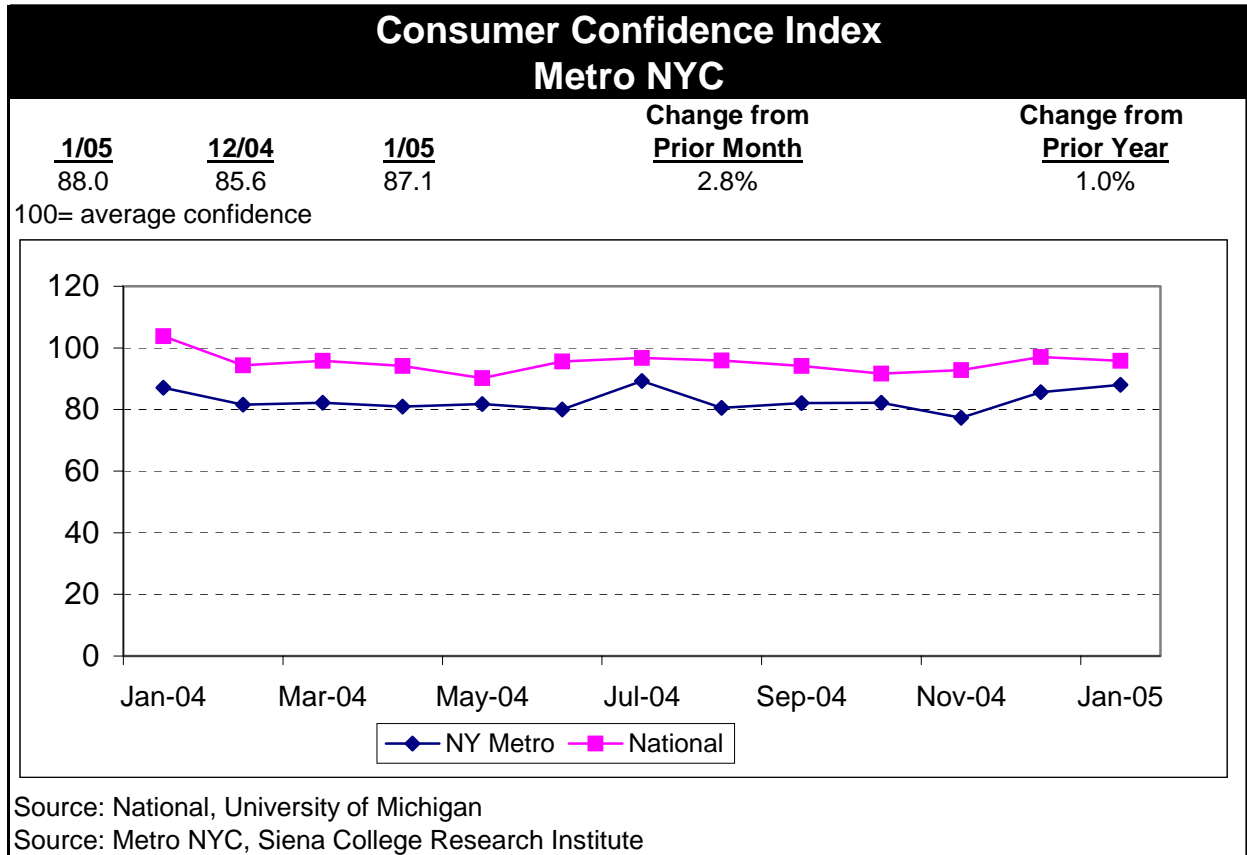
### **Consumer Confidence Index**

The chart on the following page shows that consumer confidence rose regionally from both a monthly and an annual perspective. The national picture was not as bright, recording both a monthly and an annual decrease. Dr. Douglas Lonnstrom, director of the Siena College Research Institute, said, “After three lean years, consumer confidence in New York State started a recovery in 2004 that is continuing into early 2005.” He went on to state that, “This month’s increase is somewhat surprising, since the stock market had a poor month and New Yorkers weathered the cold and high energy prices. On the

<sup>6</sup> “Gas Soars 13 Cents a Gallon”, [CNN/Money.com](http://CNN/Money.com), March 20, 2005.

positive side, the job picture continues to hold steady, and there are good economic forecasts for 2005.”<sup>7</sup>

Coinciding with the decline in national consumer confidence, national indices of consumer spending fell. As mentioned above, Bureau of Economic Analysis figures revealed that consumer spending fell on a real basis in January 2005 from the prior month. Additionally, the Commerce Department’s index of national retail sales similarly recorded a decline in January 2005. National retail sales fell 0.3% in January. The decline represented the weakest showing in five months.<sup>8</sup>



<sup>7</sup> “New York Consumer Confidence for December”, Siena College Research Institute, February 2, 2005.

<sup>8</sup> Crutsinger, Martin, “Retail Sales are Weakest in Five Months”, [1010Wins.com](http://1010Wins.com), February 15, 2005.

## Local Area Employment Figures

January 2005 was a slow month on the employment front. As the chart below shows, compared to the prior month, all areas surveyed saw a decrease in the number of employed residents. Moreover, excluding New York City, all areas surveyed recorded increases in both the number of unemployed residents and the unemployment rate.

From an annual perspective, January 2005's losses were not sizeable enough to erase the gains made over the past twelve months. Indeed, all areas surveyed registered annual increases in the number of employed residents and annual decreases in both the unemployment rate and number of unemployed residents.

Although unemployment rates on Long Island increased from a monthly perspective, they are considered to be indicative of a full-employment economy. A full-employment economy is one in which everyone who wants a job is able to find one.<sup>9</sup>

<b>Comparison of Employment Statistics</b>					
<b>(figures in thousands)</b>					
	<u>1/05</u>	<u>12/04</u>	<u>1/04</u>	<b>Change from Prior Month</b>	<b>Change from Prior Year</b>
<b>Nassau</b>					
Employed	650.5	664.4	641.2	-2.1%	1.5%
Unemployed	30.4	29.0	36.1	4.8%	-15.8%
Unemployment rate	4.5%	4.2%	5.3%	7.1%	-15.1%
<b>Suffolk</b>					
Employed	725.5	740.9	715	-2.1%	1.5%
Unemployed	36.7	33.3	43.1	10.2%	-14.8%
Unemployment rate	4.8%	4.3%	5.7%	11.6%	-15.8%
<b>NYC</b>					
Employed	3,470.0	3,503.0	3,410.0	-0.9%	1.8%
Unemployed	230.0	236.0	315.0	-2.5%	-27.0%
Unemployment rate	6.2%	6.3%	8.4%	-1.6%	-26.2%
<b>Nation</b>					
Employed	138,682.0	140,278.0	136,924.0	-1.1%	1.3%
Unemployed	8,444.0	7,599.0	9,144.0	11.1%	-7.7%
Unemployment rate	5.7%	5.1%	6.3%	11.8%	-9.5%

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

<sup>9</sup> Marshall, Randi F., "LI Manufacturers Make Gains", [Newsday.com](http://www.newsday.com), March 10, 2005.

## Nassau-Suffolk Non-agricultural Employment

<b>Non-agricultural Employment Nassau-Suffolk Area (figures in thousands)</b>					
	<u>1/05</u>	<u>12/04</u>	<u>1/04</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Natural Resources, Construction & Mining	59.7	67.3	59.0	-11.3%	1.2%
Manufacturing	87.4	89.3	86.9	-2.1%	0.6%
Wholesale Trade	72.0	73.7	71.6	-2.3%	0.6%
Retail Trade	160.0	173.9	159.3	-8.0%	0.4%
Transportation, Warehousing & Utilities	37.1	39.0	36.0	-4.9%	3.1%
Information	28.5	29.3	28.6	-2.7%	-0.3%
Financial Activities	83.1	83.8	82.6	-0.8%	0.6%
Professional & Business Services	149.2	157.8	145.4	-5.4%	2.6%
Educational & Health Services	195.8	201.9	192.2	-3.0%	1.9%
Leisure & Hospitality	87.7	94.2	84.2	-6.9%	4.2%
Other Services	50.6	51.4	50.0	-1.6%	1.2%
Government	194.8	202.3	195.7	-3.7%	-0.5%
<b>Total</b>	<b><u>1,205.9</u></b>	<b><u>1,263.9</u></b>	<b><u>1,191.5</u></b>	<b><u>-4.6%</u></b>	<b><u>1.2%</u></b>
Source: NYS Department of Labor					

In January 2005, the non-farm labor market decreased from a monthly perspective. The declines were widespread, with decreases being recorded in every sector. Some of the losses may be attributed to seasonality since the sectors that recorded the greatest declines were also the ones which typically experience a slow-down during the winter, post holiday months.

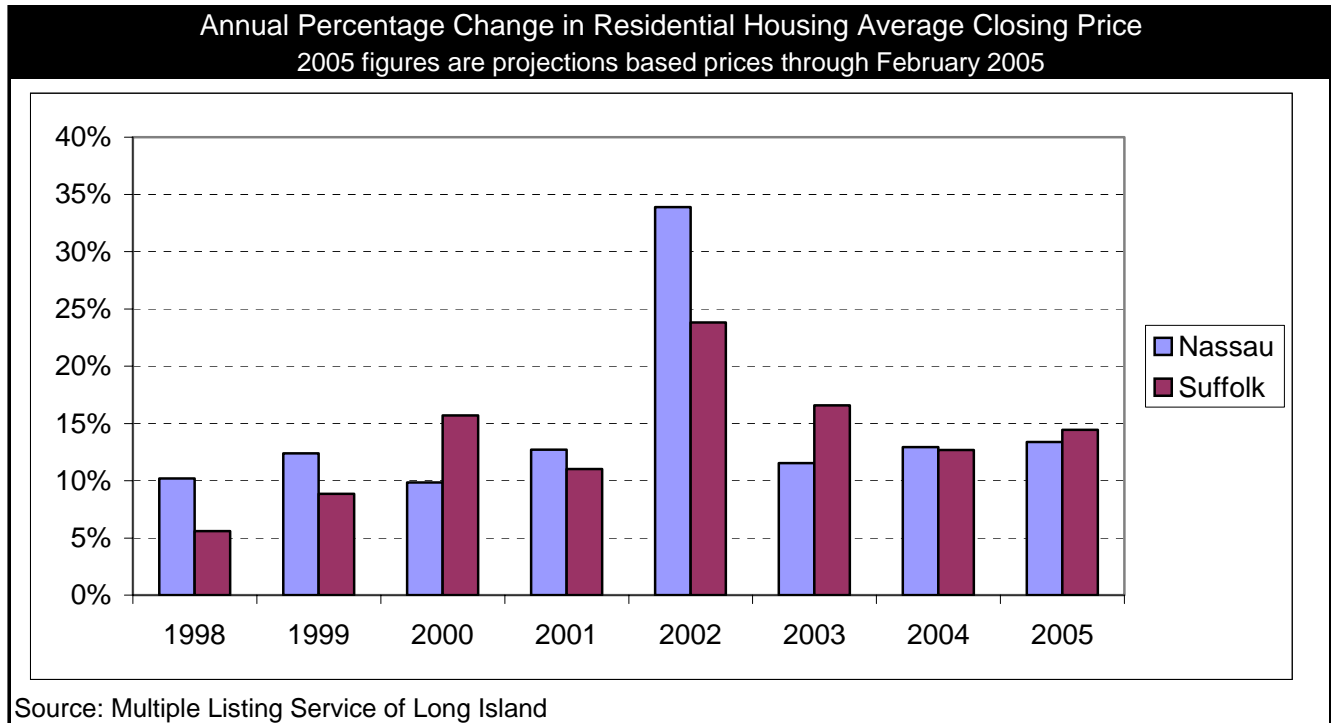
From an annual perspective, the non-farm labor market was strong. Total non-farm employment growth surpassed the 1% mark indicative of a healthy economy. The annual gains were widespread, with ten of the twelve industries surveyed recording annual job increases. Industry analysts took note of the annual job increase recorded in the manufacturing sector. They stated that manufacturing is one of the few sources of jobs for blue-collar workers that also pays high-wage rates.<sup>10</sup> Additionally,

<sup>10</sup> Marshall, Randi F., "LI Manufacturers Make Gains", [Newsday.com](http://www.newsday.com), March 10, 2005.

manufacturing is seen as an industry high in productivity, so that each job has more value than in some other sectors.<sup>11</sup>

### **Residential Housing Market**

The residential housing market on Long Island continued to appreciate in February 2005. All indicators posted increases.



In February 2005, Nassau County recorded a 13.4% annual increase in average closed residential home prices. Suffolk County experienced a 14.4% annual increase in average closed residential home prices. In February 2005, Nassau’s average closing price was \$579,500 and Suffolk’s was \$419,500.

Industry experts have begun to question the sustainability of current housing growth rates and have begun to tighten their lending guidelines to avoid future defaults. PMI Mortgage Insurance Co. informed its network of lenders that it will no longer insure new loans made to borrowers who already have more than four mortgages outstanding or who represent more than \$350,000 worth of “risk exposure” to the company.<sup>12</sup> Since mortgage interest rates are rising and are expected to continue to rise, it is important to monitor changes in lending guidelines to ensure that industry default rates do not rise. This week saw mortgage interest rates average 5.85 percent nationwide. That was the highest national average seen since August 2004. Economists are expecting rates to continue to rise and end the year in the 6.25 to 6.6 percent range.<sup>13</sup>

The chart below details the number of closed transactions in Nassau County by month. In February 2005 there were 695 closed transactions completed. That is down from January 2005’s 818 level and

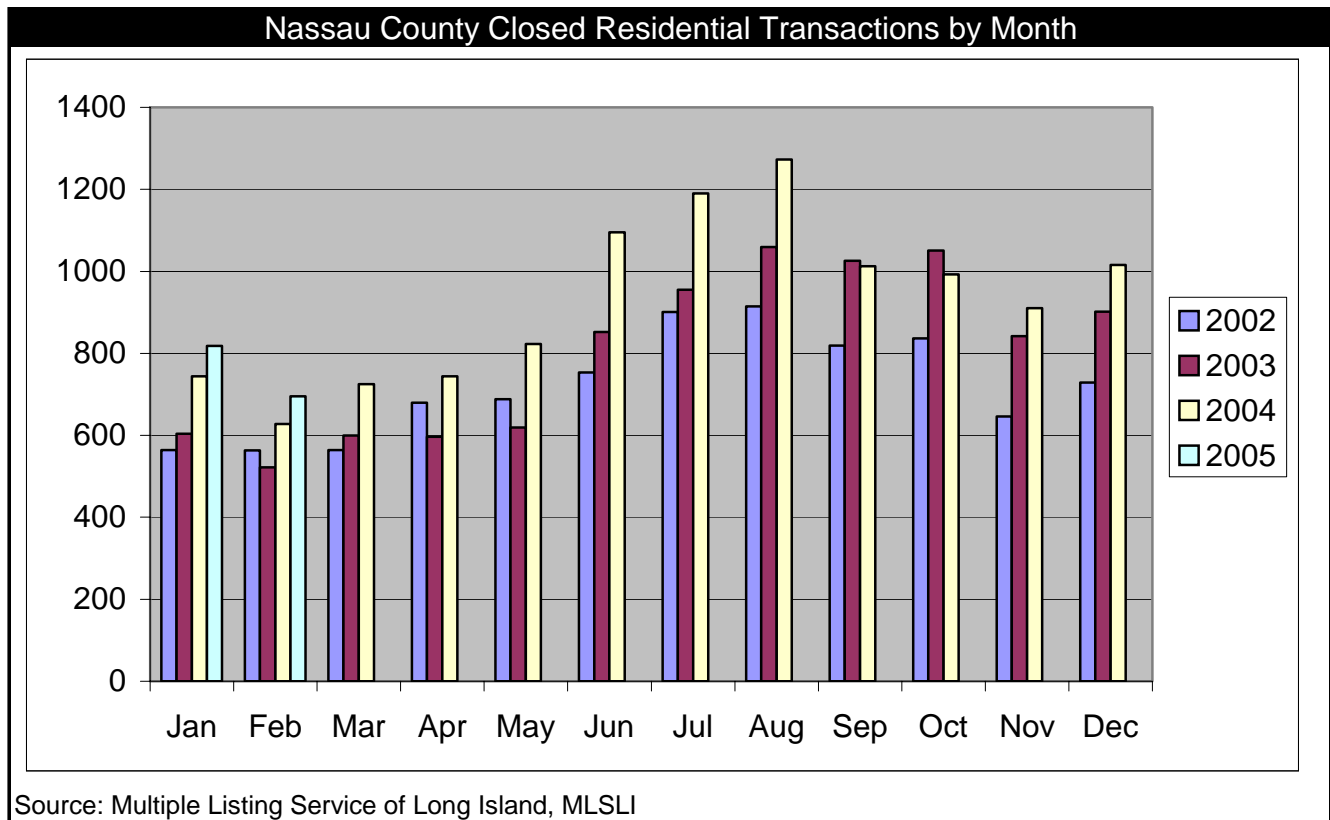
<sup>11</sup> Marshall, Randi F., “LI Manufacturers Make Gains”, [Newsday.com](#), March 10, 2005.

<sup>12</sup> Harney, Kenneth, “Growing Cool to Some Hot Towns”, [Newsday](#), March 11, 2005.

<sup>13</sup> Koning, Rachel, “Correct: 6 Percent Fixed-Rate Mortgages in Sight”, [CBSMarketWatch.com](#), March 11, 2005.



up from February 2004's 628 level. The annual increase in closed transactions will positively impact County Clerk fees.

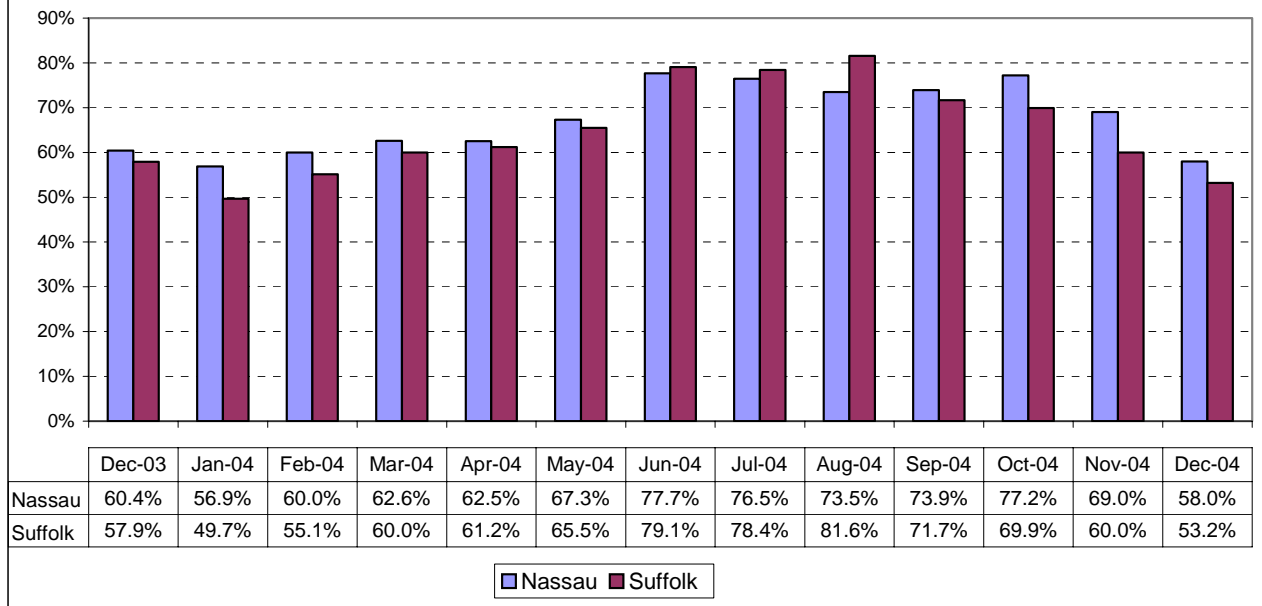


Residential inventory levels rose on Long Island in February from both a monthly and an annual vantage point. Residential inventory levels in Nassau increased by 3.3% from the prior month. Similarly, in Suffolk County residential inventory levels rose 5.3% from January 2005. Both counties recorded annual increases in their inventory levels.

**The Lodging Industry**

In December 2004 the Long Island hotel/motel market saw occupancy rates decline from both a monthly and an annual perspective. Average room rental rates increased in Nassau from the prior year, but decreased in Suffolk. Compared to a year earlier, occupancy rates are down 4.0% and average room rental rates are up 2.2%. Since the area has seen an increase in the number of hotels located within Nassau County occupancy rates from last year are not directly comparable to this year's.

### Hotel/Motel Occupancy Rates



Source: Long Island Visitor Information Bureau

Year-to-date, occupancy rates in Nassau are down 0.37 points and 0.47 points in Suffolk County. However, since the supply of hotel rooms on Long Island has been growing, it is unclear whether higher prices or increased supply is depressing occupancy rates on Long Island.

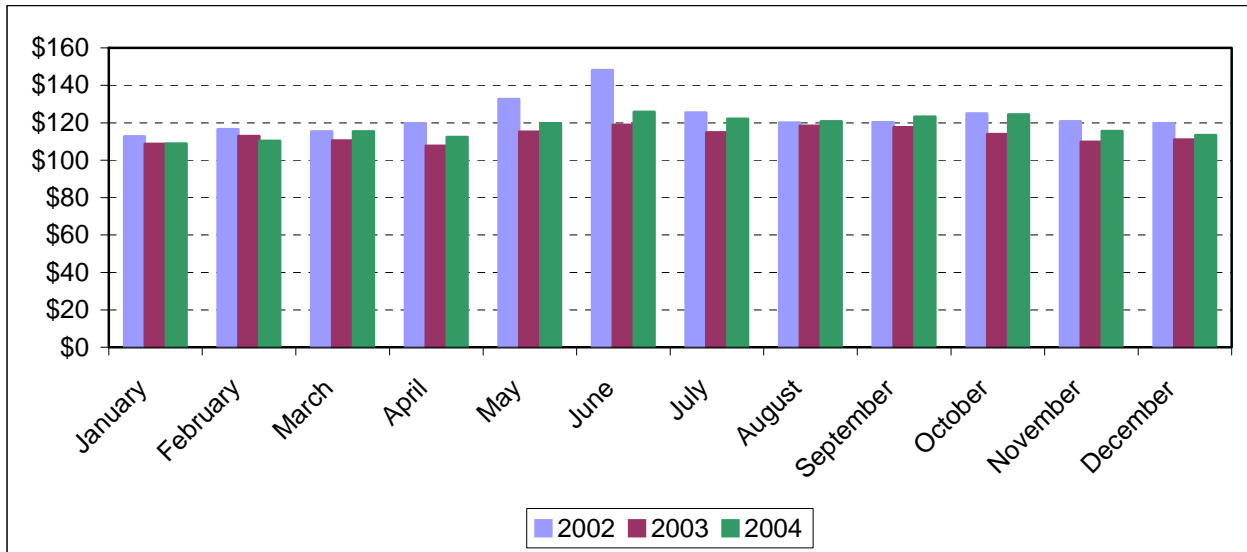
#### Nassau County Hotel / Motel Occupancy Rate

	<u>12/04</u>	<u>11/04</u>	<u>12/03</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Occupancy Rate	58.0%	69.0%	60.4%	-15.9%	-4.0%

Source: Long Island Convention and Visitors Bureau

The chart on the next page shows that average room rental rates on Long Island have increased from the prior year's level in ten of the twelve past months. Compared to this time last year, average room rental rates in Nassau are up 2.2%. In Suffolk County average room rental rates are down 1.3% from last year's level.

Nassau County Average Room Rental Rate



Source: Long Island Convention & Visitors Bureau

### **Conclusion**

The regional labor market lost some steam in January 2005. More data are required to determine if this is a trend or an exception. Some labor market analysts are forecasting sluggish job growth for some time. They cite stiff competition from overseas, high productivity growth, high energy costs and high health care costs as reasons for continued sluggishness in job growth.<sup>14</sup> Job growth coupled with increases in personal income will be necessary for residents to keep up with the increased price level. As stated above, over the past twelve months regional consumer prices have increased 1.1% more than consumer prices seen throughout the nation.

<sup>14</sup> Radwell, Steven, "Job Growth – Is This It?", [CNN/Money.com](http://CNN/Money.com), February 15, 2005.