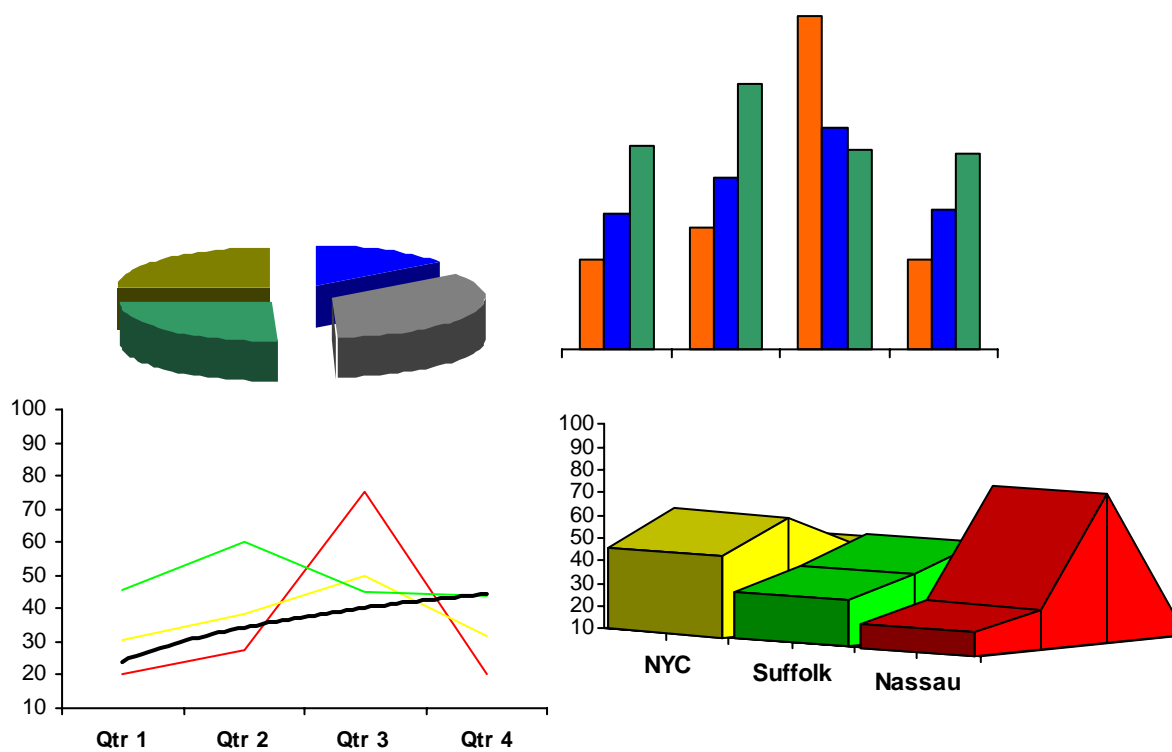




NASSAU COUNTY LEGISLATURE

Office of Legislative Budget Review

Nassau County Economic Indicators



May 2004




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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: May 26, 2004

Re: May 2004 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
Sharon Commissiong, Majority Counsel
Mike Deegan, Minority Counsel
Mark Young, Budget Director
Richard Luke, Executive Director, NIFA
Dan McCloy, Special Assistant Minority
Sal Guajardo, Majority Finance
Art Gianelli, Deputy County Executive, Finance
Ed Ward, Special Assistant to Minority
Carol Trottere, Majority Press Secretary
Marilyn Gottlieb, Director of Legislative Affairs
Bill Geier, Clerk of the Legislature

May 2004 Monthly Economic Report

The Nassau County economy continued to gain momentum in April 2004. Strengthening was seen in the number of new entrants to its labor force, the increase in employed residents, the strong non-farm job gains and the continued acceleration in the number of closed real estate transactions. The employment increases coupled with income tax refunds resulted in strong first quarter earnings reports. Yet, at the same time, consumers have had to contend with increased utility prices and higher mortgage interest rates. These divergent forces contributed to a decline in consumer confidence. More data is required to see the extent to which increased gas prices and mortgage interest rates will dampen the pace of the economy.

Local Area Employment Figures

Comparison of Employment Statistics					
figures in thousands					
	<u>4/04</u>	<u>3/04</u>	<u>4/03</u>	Change from <u>Prior Month</u>	Change from <u>Prior Year</u>
<u>Nassau</u>					
Employed	686.3	683.1	687.4	0.5%	-0.2%
Unemployed	27.8	30.0	25.1	-7.3%	10.8%
Unemployment rate	3.9%	4.2%	3.5%	-7.1%	11.4%
<u>Suffolk</u>					
Employed	729.1	725.7	730.3	0.5%	-0.2%
Unemployed	34.2	38.3	31.0	-10.7%	10.3%
Unemployment rate	4.5%	5.0%	4.1%	-10.0%	9.8%
<u>NYC</u>					
Employed	3,381.0	3,390.0	3,376.0	-0.3%	0.1%
Unemployed	263.0	299.0	298.0	-12.0%	-11.7%
Unemployment rate	7.2%	8.1%	8.1%	-11.1%	-11.1%
<u>Nation</u>					
Employed	138,423.0	137,691.0	137,424.0	0.5%	0.7%
Unemployed	7,837.0	8,834.0	8,501.0	-11.3%	-7.8%
Unemployment rate	5.4%	6.0%	5.8%	-10.0%	-6.9%

Source: New York State Department of Labor

In April 2004, the labor market moved forward in that all areas surveyed except for New York City saw a rise in resident employment from a monthly perspective. Simultaneously, the number of unemployed residents and the unemployment rate fell from the prior month.

From an annual perspective, on Long Island the labor force has grown. The pace of job creation has not kept up with the pace of new entrants and thus, the number of employed residents is down and the number of unemployed residents is up.

Compared to this time last year, New York City’s labor force has decreased 0.8%. Therefore, the decreases seen in it’s unemployment rate and number of unemployed residents is a function of both less people looking for work and some residents gaining employment.

Throughout the nation, the civilian labor force has grown 0.2% from this time last year. These new entrants have caused both the number of employed and unemployed to grow. The net effect of these forces resulted in a decreased national unemployment rate.

Nassau-Suffolk Nonagricultural Employment

Nonagricultural Employment Nassau-Suffolk Area figures are in thousands					
	<u>4/04</u>	<u>3/04</u>	<u>4/03</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
Natural Resources, Construction & Mining	63.9	60.2	62.8	6.1%	1.8%
Manufacturing	86.8	86.3	88.5	0.6%	-1.9%
Wholesale Trade	73.4	73.5	72.6	-0.1%	1.1%
Retail Trade	160.4	158.8	157.9	1.0%	1.6%
Transportation, Warehousing & Utilities	35.6	35.9	35.9	-0.8%	-0.8%
Information	28.0	28.3	29.0	-1.1%	-3.4%
Financial Activities	84.0	83.6	82.4	0.5%	1.9%
Professional & Business Services	152.3	149.1	151.5	2.1%	0.5%
Educational & Health Services	196.9	198.1	194.2	-0.6%	1.4%
Leisure & Hospitality	90.4	86.1	88.2	5.0%	2.5%
Other Services	50.8	50.6	50.6	0.4%	0.4%
Government	206.3	206.0	203.0	0.1%	1.6%
Total	1,228.8	1,216.5	1,216.6	1.0%	1.0%
Source: NYS Department of Labor					

April 2004 saw non-agricultural employment grow by 1% from both a monthly and an annual perspective. The Long Island region added 12,300 jobs from last month and 12,200 jobs from last year.

Some of the job gains may be attributed to seasonality since the greatest monthly gains were in the Natural Resources, Construction & Mining and Leisure & Hospitality sectors which typically pick up steam in the spring and summer months. However, the magnitude of the gains gives credence to analyst predictions that this summer would be a hot one for tourism. NYC & Co. is forecasting a 5% increase in the number of people visiting New York City this summer.¹ Additionally, the Travel Industry Association is projecting summer travel to be up 3.2% from last summer.² These forecasts were made with the assumption of higher gas prices. Experts felt that higher gas prices would not stop one from taking a vacation, but may result in shorter trips or increased use of more fuel-efficient cars.³ An increase in tourism would be good for County hotel/motel and sales tax collections.

The Professional & Business Services and Retail Trade sectors also experienced monthly job gains of 1% or more.

From an annual perspective, the Leisure & Hospitality sector has seen the greatest job gains. Following the Leisure & Hospitality sector in terms of job gains were the Financial Activities and Natural Resources, Construction & Mining sectors.

Consumer Confidence Index

The chart on the next page shows, Consumer Confidence experienced a monthly decline both regionally and nationally in April 2004. From an annual perspective, consumer confidence increased regionally and nationally. The Siena Research Institute attributed the slight decline to the consumer being whip-sawed. “There is good news one day, bad the next. Jobs are up but so are energy prices; the stock market is fluctuating; interest rates are low but threatening to rise; corporate earnings are decent but may bring inflation.”⁴

Coinciding with the decline in consumer confidence, April 2004 retail sales similarly fell from March 2004. Economists were anticipating a decline since March’s figures were so high. However, the decline was greater than anticipated.⁵ The consumer started out 2004 strong, job growth began to accelerate just as income tax refunds were received. However, consumer prices have been growing in tandem with rising mortgage interest rates. The end result of these forces is unknown and is causing retailers to question whether their strong first quarter 2004 earnings are achievable in future quarters.⁶

¹ Incantalupo, Tom and Jamie Herzlich, “Big Plans for a Hot Tourism Season”, Newsday, May 17, 2004.

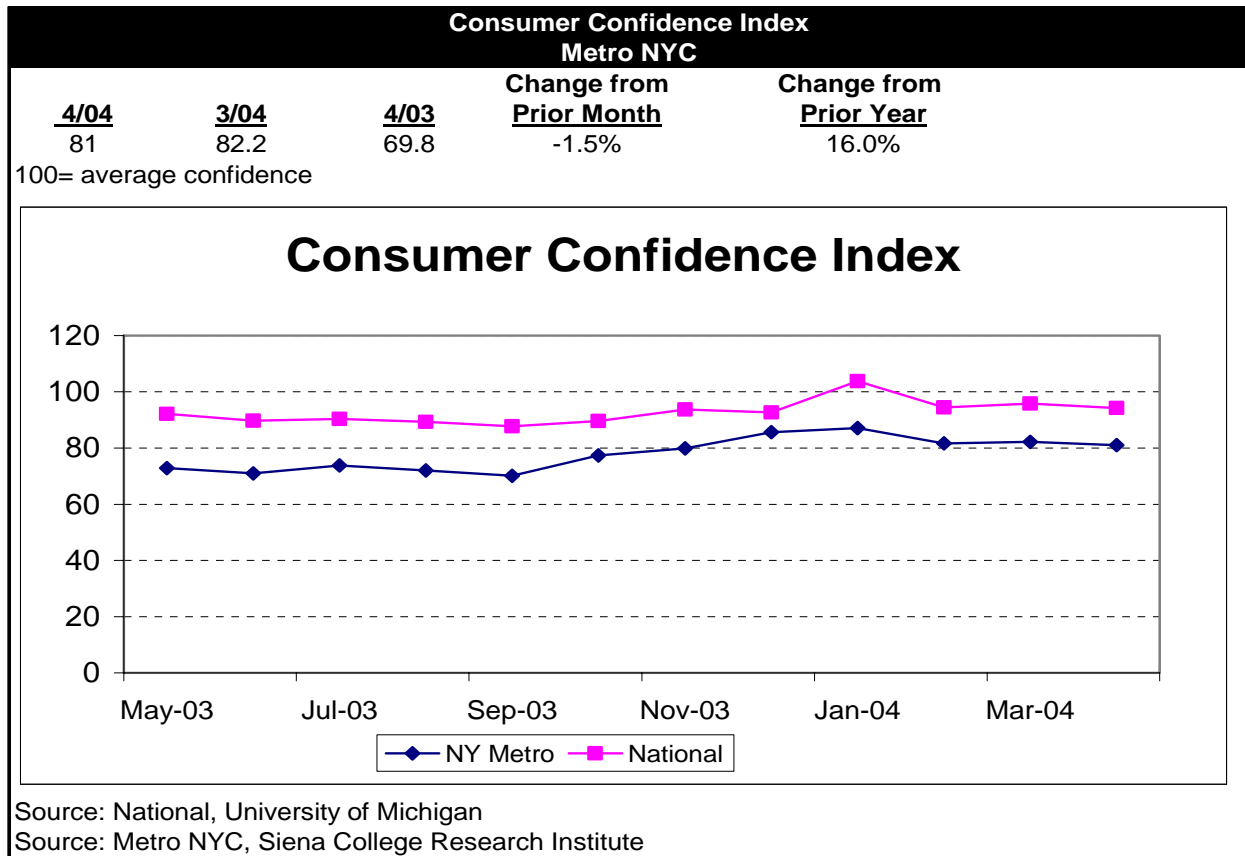
² Schneider, Mike, “Experts: Gas Prices Won’t Stop Travel”, 1010wins.com, May 20, 2004.

³ Same as above.

⁴ Lonnstrom, Douglas, “New York Consumer Confidence for April”, The Siena College Research Institute, May 5, 2004.

⁵ “Retail Sales Slow”, CNN/Money.com, May 13, 2004.

⁶ Grant, Lorrie, “Retailers Ring Up Bright Sales, but Future Looks Cloudy”, USAToday.com, May 18, 2004.



Consumer Price Indexes

Consumer Price Indexes New York-Northern Jersey-Long Island, NY-NJ-CT-PA region					
	<u>4/04</u>	<u>3/04</u>	<u>4/03</u>	<u>Change from Prior Month</u>	<u>Change from Prior Year</u>
US City, CPI-U	188.0	187.4	183.8	0.3%	2.3%
Regional CPI-U	204.0	203.4	196.7	0.3%	3.7%
Core CPI-U (All Items less energy)	211.7	211.1	204.1	0.3%	3.7%
Medical	317.1	317.2	305.8	0.0%	3.7%
Housing	216.2	214.6	206.7	0.7%	4.6%
Gasoline (all types)	138.7	136.1	128.8	1.9%	7.7%

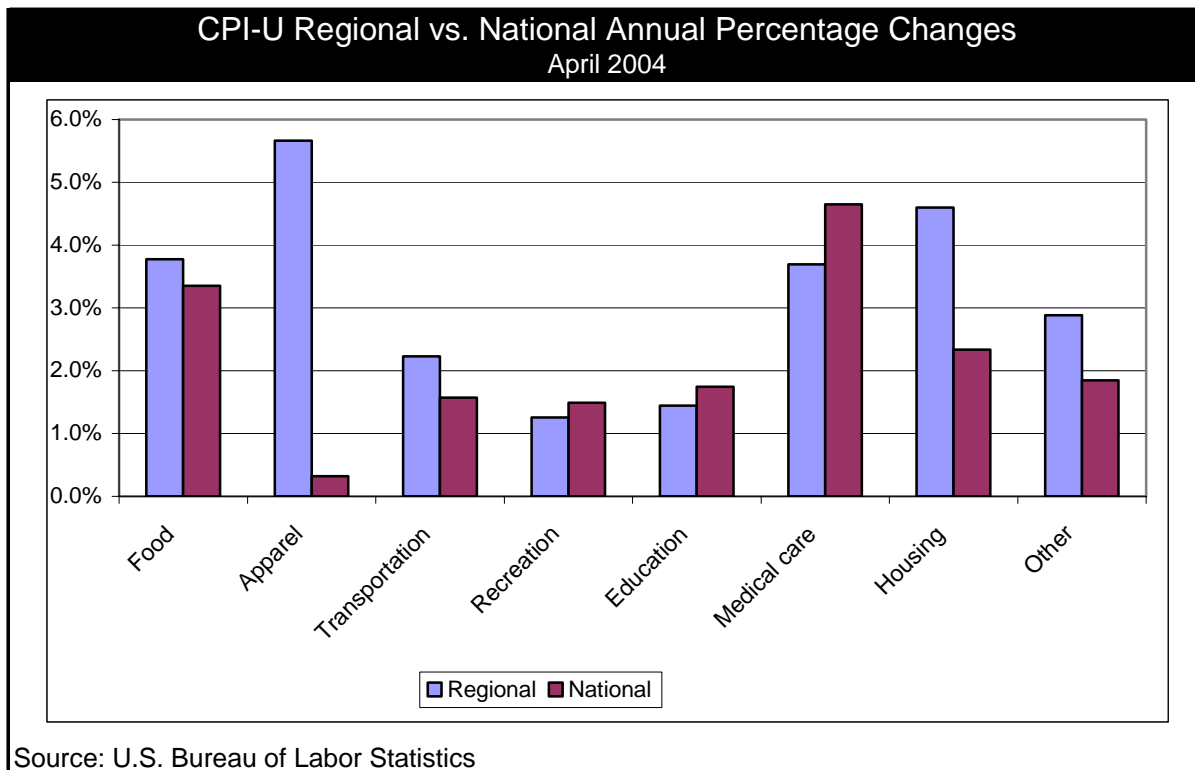
Source: Bureau of Labor Statistics, figures are not seasonally adjusted

April 2004 saw prices appreciate both regionally and nationally from a monthly and annual view point.

From a monthly perspective, prices appreciated at the same pace regionally and throughout the nation. Increases in the housing, transportation and recreation sectors propelled the regional monthly all-items index up. Fueling the increase in the regional transportation index was the 1.9% monthly increase in

the regional gasoline (all types) index. The increase in the price of gas is expected to continue in future months. Analysts estimate that gas could rise another 10% in coming months.⁷ This increase is already affecting consumer behavior patterns. People are beginning to arrange car pools for their drive to work.⁸ A survey by the National Retail Federation found that consumers plan to spend less on clothing and groceries and delay major purchases, such as appliances and cars, because of gas prices.⁹

Annual regional appreciation outpaced that experienced throughout the nation. The chart below details the annual appreciation rates by sector for both the regional and national economy. The greatest increase was in the price of regional apparel. Trailing regional apparel in terms of annual price escalation was the national price of medical care and the regional price of housing. As mentioned in last month's report, regional apparel prices were introduced this year at the high end of the range and are being judged relative to 2003's clearance pricing.



Residential Housing Market

Nassau County's residential housing market continued to expand this month. Median and average closing prices are up from this time last year, the number of closed transactions in Nassau registered another annual increase of more than 20%, and residential inventory was tight.

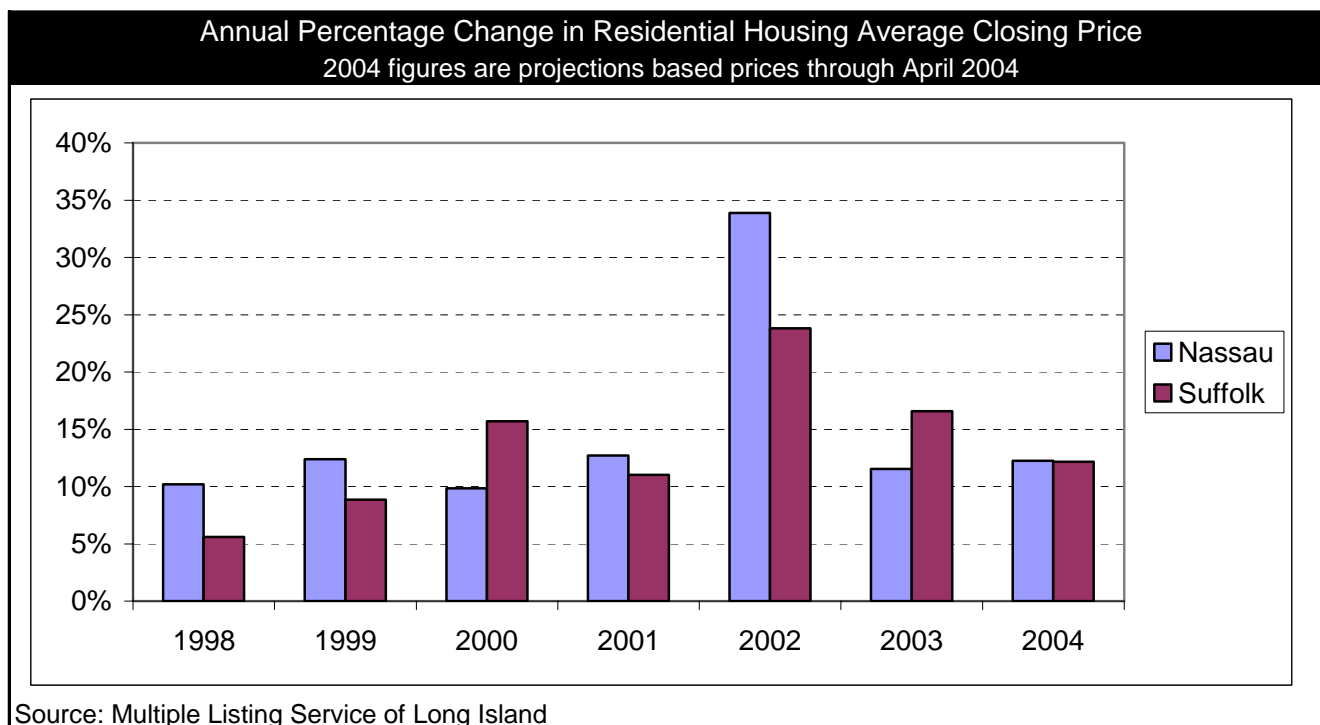
If current growth rates continue, Nassau and Suffolk Counties will end the year with a 12.2% increase in average residential closing prices. Nassau's current average closed residential sale price is \$483,200 and its median closed residential sale price is \$400,000. In Suffolk County the average price is

⁷ Incantalupo, Tom and Tania Padgett, "Gas Prices at another Record High", *Newsday*, May 6, 2004.

⁸ Bernstein, James, "Rising Gas Prices, Brakes on Spending", *Newsday*, May 19, 2004.

⁹ Grant, Lorrie, "Retailers Ring Up Bright Sales, but Future Looks Cloudy", *USAToday.com*, May 18, 2004.

\$385,900 and the median price is \$335,000. The chart on the next page details the annual appreciation rates seen in average residential sale prices for Nassau and Suffolk since 1998.



Nassau County is experiencing tremendous growth in the number of closed transactions. April 2004 marked the eighth month in a row in which the number of closed transactions in Nassau grew by more than 20% on an annual basis. If current trends continue, Nassau will end the year with an increase in closed transactions of 22.4%. Such an increase would be the greatest increase seen in Nassau during the past seven years. Suffolk County is also experiencing strong growth in its number of closed transactions. If current trends continue, Suffolk would see an 11% increase in its number of closed transactions. The chart on the next page details the historic annual growth rates seen in the number of closed transactions for Nassau and Suffolk County.

Whether the current growth rates seen in closed real estate transactions are sustainable in the future if mortgage interest rates continue to rise is a subject of current debate. According to some the recent surge in closed transactions is a function of people trying to lock in low interest rates before they rise.¹⁰ If true, the current growth spurt would cease as interest rates rise. However, others theorize that the current growth in non-agricultural employment growth will support higher interest rates and enable the current level of real estate transactions to continue.¹¹ A study done for the National Association of Realtors which analyzed sudden interest rate jumps over the past 25 years found that “sales only appear to decline measurably if rates rise in excess of 2 percentage points and if rates reach 9 percent or higher.”¹² The direct effect of interest rate increases on home prices was not easily discernable.¹³

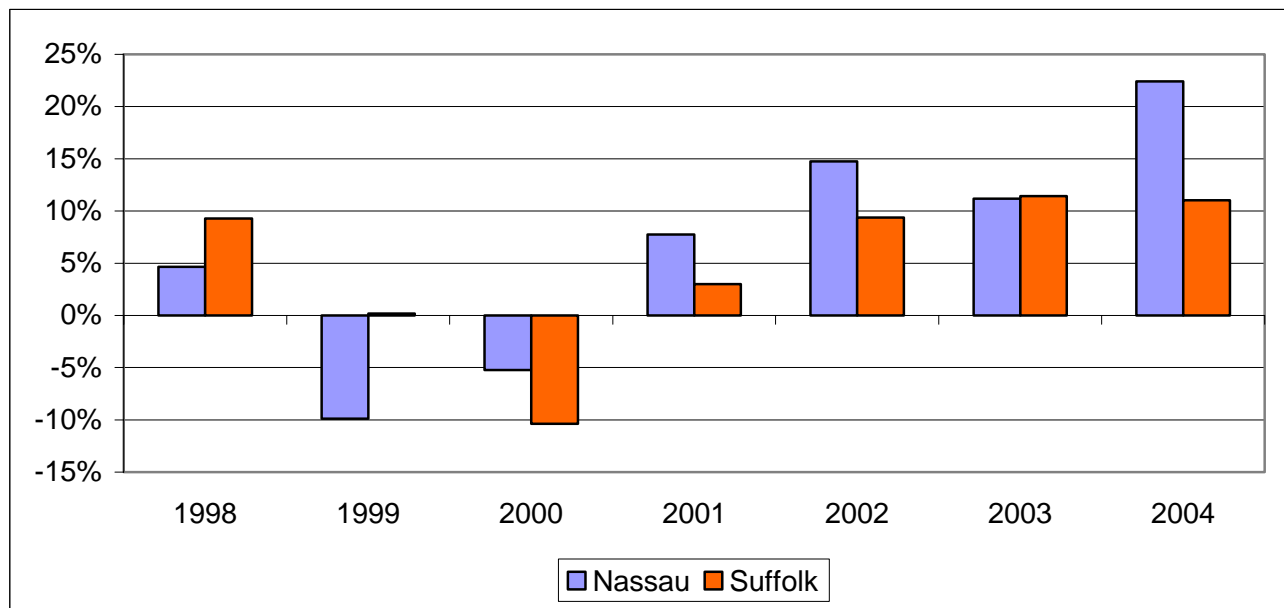
¹⁰ “Fence-Sitters Lift Mortgage Demand”, CNN/Money.com, May 5, 2004.

¹¹ “Refinancing Demand Falls 13%”, CNN/Money.com, May 12, 2004.

¹² Roel, Ronald E., “Buyers & Cellars, What else is bustin’ out all over?”, Newsday.com, May 14, 2004.

¹³ Same as above.

Historic Annual Percentage Change in Closed Residential Transactions
2004 figures are projections based on year-to-date April 2004 numbers.



Source: Multiple Listing Service of Long Island (MLSLI)

Residential inventory levels were tight in both Nassau and Suffolk Counties. In Nassau, residential inventory levels were up 0.47% from this time last year. In Suffolk County, residential inventory levels fell 2.65% from this time last year.

Conclusion

The regional economy continued to gain momentum in April 2004. More residents are employed and more jobs are available. However, as typically happens in a recovery, prices have increased in tandem with jobs. More data is required to see if the newly created jobs will generate enough income to enable consumers to keep up with the increasing prices.