Long Island Association
LEADING LONG ISLAND

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LIA Monthly Economic Report

A Research Report for Directors and Members of the Long Island Association, Inc.

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Recent economic news has offered some pleasant surprises. Most notably, existing home sales rose to their highest level in a year. Inflation remains well in check so that further interest rate hikes do not appear to be on the horizon, which is also good news for the real estate sector.

Despite a very small gain in jobs, most evidence from the labor market points to continued strength.

On Long Island, the labor market continued its expansion while the manufacturing and non-manufacturing sectors expanded modestly.

The National Economy

Just 20,000 jobs were added in March but other labor market news was considerably more positive. There were 211,000 jobless claims during the week of March 23rd which is consistent with continued expansion. The unemployment rate remains low at 3.8 percent and hourly earnings rose at a rate of 3.4 percent year-over-year in February, surpassing expectations.

Both the manufacturing and non-manufacturing sectors grew in February according to the Institute for Supply Management. The rate of growth may be slowing in the manufacturing sector. Both retail sales and durable goods orders rose to levels exceeding expectations.

Inflation remained in check at just 2.1 percent year-over-year, suggesting that further interest rate hikes are unnecessary.

The real estate sector shows some strong signs of improvement as existing home sales rose to 5.51 million units in February. This was an 11.8 percent increase compared to January and the highest number of homes sold since March, 2018.

Consumer confidence declined in February from the previous month but remains at a high level compared to the past five years.

The Long Island Economy

Labor Market

The labor market remained very strong. The unemployment rate was 3.7 percent, its lowest level since 2001. And the number of persons employed was the highest ever for February.

The private sector job count increased by 5,700 between January and February, far better than the typical loss of 1,100 jobs during this time period.

The largest year-over-year jobs gains in February were in:

- Education and Health Services (+11,600)
- Natural Resources, Mining and Construction (+4,500)
- Leisure and Hospitality (+4,000)

Wages grew moderately. In New York State, private sector hourly earnings rose by 2.9 percent year-over-year in February. The largest gains were seen in:

- Other Services (+5.4%)
- Manufacturing (+4.9%)
- Trade, Transportation and Utilities (+4.1%)

All industrial sectors had year-over-year gains in hourly earnings.

Business Conditions

With small businesses comprising almost 90 percent of commercial establishments on Long Island, this is a key sector for economic growth.

The National Federation of Independent Business’ (NFIB) Small Business Optimism Index showed modest improvement in February, increasing by 0.5 points to 101.7. As indicated in the table below, most components of the index improved or were unchanged from the previous month.

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Small Business Optimism

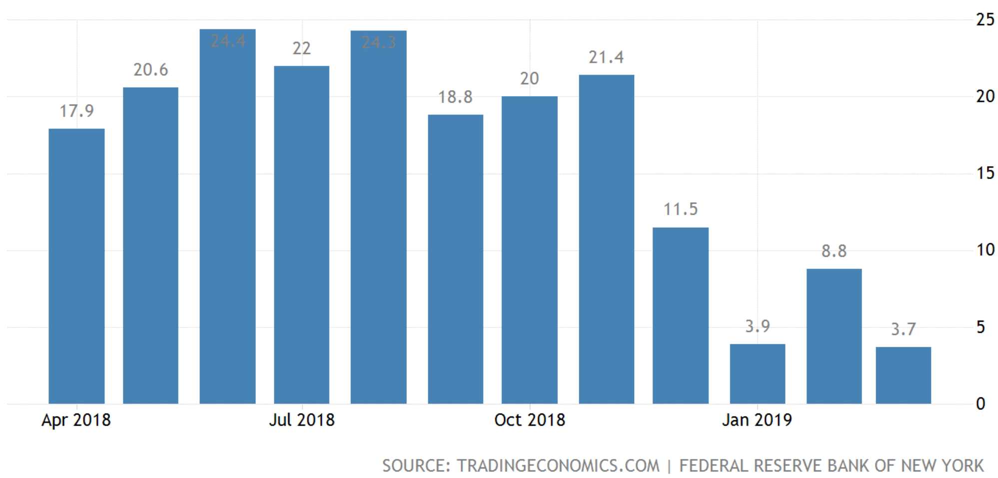
Small Business Optimism Marks Two Years of Continued Historic Readings

Index Component	Net %	Change From Jan.
Plans to Increase Employment	16%	▼ -2
Plans to Make Capital Outlays	27%	▲ 2
Plans to Increase Inventories	1%	— 0
Expect Economy to Improve	11%	▲ 5
Expect Real Sales Higher	16%	— 0
Current Inventory	-2%	▲ 1
Current Job Openings	37%	▲ 2
Expected Credit Conditions	-5%	— 0
Now a Good Time to Expand	22%	▲ 2
Earnings Trends	-9%	▼ -4

NFIB NFIB.com/sboi

Manufacturing firms in New York State reported that business activity expanded only slightly. The general business conditions remained in positive territory but still fell to 3.7, its third consecutive monthly reading below 10. This suggests that growth has remained slower so far this year than it was for most of 2018. Thirty percent of respondents reported that conditions had improved over the month, while twenty-five percent reported that conditions had worsened.

Empire State Manufacturing Index



The service sector showed modest growth according to firms responding to the Federal Reserve Bank of New York's March 2019 Business Leaders Survey. The business activity index fell three points to 10.8, indicating a slightly slower pace of growth than last month. The business climate index declined to -1.3, its near-zero level indicating that, on balance, firms regarded the business climate as normal.

Consumer Sector

Consumer spending in February, as indicated by sales tax collections, rose modestly. Year-over-year sales tax collections increased by 2.44 percent in Nassau County and by 1.82 percent in Suffolk. Given the increase in Internet sales over time, these year-over-year sales tax revenue comparisons may understate actual consumer spending because proportionately fewer purchases incur local sales taxes in later years. Adjusting for this change, estimated year-over-year spending may have risen by 3.40 percent in Nassau County, and by 2.78 percent in Suffolk.

Residential Real Estate

Home sales declined modestly in February. Year-over-year sales fell by 2.4 percent in Nassau County, from 783 to 764 units sold. Sales declined by 2.9 percent in Suffolk, from 1,005 to 976 units sold.

Housing sales prices were unchanged from a year ago in Nassau County, at $505,000. In contrast, home prices rose by 7 percent in Suffolk County, from $355,000 to $380,000.

In a continuing pattern, residential inventories rose by 11.7 percent year-over-year.[1]

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[1] These data include inventory for Nassau, Suffolk, and Queens Counties as separate data for Nassau and Suffolk are unavailable. However, Nassau and Suffolk Counties account for more than 75 percent of these inventories so the patterns described herein should be generally representative of inventory patterns in Nassau and Suffolk Counties.

Commercial Real Estate: Retail Space

Retail space is scarce on Long Island. In fact, Long Island has among the 20 lowest vacancy rates in metropolitan areas nationally. The mean vacancy rate for 2019 is expected to finish at 7.5 percent.

RETAIL SPACE – VACANCY RATE DISTRIBUTION

Low	25th Percentile	Median	75th Percentile	High
0.0%	3.5%	10.1%	18.2%	57.9%

As of February 2019. Source: Reis Reports: www.reisreports.com.

Asking rents for retail space at non-anchor stores in neighborhood shopping centers vary from $16.35 to $58.38 per square foot.

RETAIL SPACE – ASKING RENTS PER SQUARE FOOT
(non-anchor stores at neighborhood shopping centers)

Low	25th Percentile	Median	75th Percentile	High
$16.35	$24.86	$31.01	$37.39	$58.38

As of February 2019. Source: Reis Reports: www.reisreports.com.

Anchor stores at neighborhood shopping centers have significantly lower asking rents as the table below indicates.

RETAIL SPACE – ASKING RENTS PER SQUARE FOOT
(anchor stores at neighborhood shopping centers)

Low	25th Percentile	Median	75th Percentile	High
$13.39	$19.14	$21.74	$25.08	$39.68

As of February 2019. Source: Reis Reports: www.reisreports.com.

Asking rents at the larger community shopping centers are similar to those at neighborhood shopping centers, as may be seen in the two tables below.

RETAIL SPACE – ASKING RENTS PER SQUARE FOOT
(non-anchor stores at community shopping centers)

Low	25th Percentile	Median	75th Percentile	High
$15.21	$27.21	$31.36	$36.90	$46.57

As of February 2019. Source: Reis Reports: www.reisreports.com.

RETAIL SPACE – ASKING RENTS PER SQUARE FOOT
(anchor stores at community shopping centers)

Low	25th Percentile	Median	75th Percentile	High
$11.14	$18.09	$21.39	$28.14	$40.00

As of February 2019. Source: Reis Reports: www.reisreports.com.

Inventory and Absorption[2]

Although shifts in demand for retail space typically trail employment and household figures, it is worth noting that the cumulative impact of economic and demographic trends on Long Island contributed to absorption of negative 9,000 square feet during January and a total of negative 247,000 square feet during the past 12 months. In historical perspective, this recent rate of tenant outmigration is even greater than the annual average since the beginning of quarter 1, 2009 of negative 39,600 square feet. In a long-term context, the January vacancy rate is 1.7 percentage points higher than the 5.9% average recorded since the beginning of quarter 1, 2009. Thus, while vacancy rates remain low, there has been an upward trend during the past twelve months compared to the average in the past decade.

Long Island's Economic Outlook

The labor market was by far the best performing sector of Long Island's economy. This is good news for consumer spending and economic growth going forward. However, other sectors of the economy were less favorable. The business sector improved but only modestly. Growth in consumer spending was modest as well. Still, overall economic conditions, including reduced uncertainty, are favorable for a better second quarter.

[2] Absorption is the rate at which land or buildings will be sold or leased in the marketplace during a predetermined period of time, usually a month or a year. Also called "Market Absorption." The formula for calculating absorption is: Existing Inventory + New Construction - Space Removed from Market.

FOCUS ON… ECONOMIC OUTLOOK: A TALE OF TWO BREXITS

Brexit, the long-awaited withdrawal of the United Kingdom (U.K.) from the European Union (EU), poses potential challenges for the U.S. economy as well as Long Island. But the nature and extent of these challenges depend on the nature and extent of Brexit itself.

A hard or soft Brexit? A *hard* Brexit option would mean that Britain would relinquish its participation in the EU single market and its legal rules. It would also regain full control over its own immigration system, introducing stricter controls on immigration from the EU and elsewhere.

In contrast, a *soft* Brexit would allow for a continuation of some trade, immigration and close cultural linkages with continental Europe although the precise details of a soft Brexit are fluid.

Implications for the U.S. and Long Island. The U.K. is an important trading partner, both at the national level and on Long Island. Nationally, the U.K. is:

- America's seventh largest trading partner in goods.
- Its third largest source of tourism.
- Its top partner in services trade and direct foreign investment.

Moreover, the two nation's financial sectors, centered in New York and London, are intertwined. Therefore, an economic downturn caused by Brexit will affect a sizeable number of American workers whose jobs are tied to the U.K.

The U.K. is also an important trading partner for Long Island. The U.K. was Long Island's 3rd largest export market in 2016. Long Island exported almost $1 billion in goods and services to the U.K. in 2016. And in some earlier years, this figure exceeded $1 billion.

As a result, a hard Brexit would have potentially serious economic consequences for the U.S. overall and for Long Island. It would strengthen the dollar against the British pound, making exports to the U.K. more expensive. Direct foreign investment by the U.K. would also become costlier, leading to declines along this dimension. Finally, a hard Brexit would cost jobs and further economic losses through multiplier effects (e.g. fewer jobs and declining exports mean less spending and lower tax revenues).

Presumably, a soft Brexit would mitigate these adverse effects, perhaps substantially. Recently, the British pound rose to its highest level in almost two years vis-à-vis the dollar when Parliament rejected a hard Brexit. The debate continues as does the uncertainty about the nature and extent of Brexit.