

LIA Monthly Economic Report

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

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Most recent economic news has been positive. The labor market continued its long and robust run. Consumer spending and business conditions have been solid if unremarkable and inflation is well in check with both consumer and producer price indices rising only modestly. But there is growing evidence that the real estate sector is weakening. Rapidly rising housing costs in many metropolitan areas are causing concerns of an impending price bubble. The recent cut in interest rates by the Federal Reserve should help reduce mortgage interest rates which would be a positive development for the real estate sector.

Unfortunately, the increase in tariffs on China escalates the trade war which could threaten economic growth. While recent economic news for Long Island has been largely positive, June housing prices rose rapidly year-over-year as home sale prices dropped substantially. The prospects for Long Island's real estate sector are discussed more fully in the "Focus On" section of this report.

The National Economy



The labor market rebounded strongly in June. Some 224,000 jobs were added, far exceeding expectations and roughly three times the jobs added in May. The unemployment rate was 3.7 percent and hourly earnings rose by 3.1 percent year-over-year.

The manufacturing sector slipped slightly compared to the previous month according to the Institute for Supply Management's (ISM) Manufacturing Survey. However, it remained at a level consistent with expansion. The ISM Non-manufacturing Survey also indicated expansion but less than during the prior month.

Inflation remained well in check. The Consumer Price Index rose by 2.1 percent year-over-year in June while the Producer Price Index grew by just 1.7 percent.

Consumer spending, which represents nearly 70 percent of GDP, was strong in June, rising by 0.4 percent compared to the previous month and far exceeding expectations. Consumer sentiment remained solid.

On the other hand, following a modest increase in May, existing home sales declined in June as did building permits and housing starts. One bright spot was a strong increase in new home sales. The decline in existing home sales reflects a persistent shortage in supply and rising prices. The median price rose by 4.3 percent year-over-year in June to \$285,700, an all-time record. The recent interest rate cut by the Federal Reserve should help the real estate sector, however, as this will likely lead to lower mortgage interest rates.

While the stock market has been quite strong of late, recent tariff increases on China has rattled the market, threatening consumer confidence and economic growth.

The Long Island Economy

Labor Market



Long Island's labor market continued to perform well. The June unemployment rate was 3.2 percent, its lowest level in almost two decades and the number of persons employed was the highest ever for June.

The private sector job count increased by 15,900 between April and May, exceeding the typical gain of 13,800 jobs during this time period.

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

- Education and Health Services (+11,400)
- Natural Resources, Mining and Construction (+4,300)
- Manufacturing (+1,500)

Wage growth accelerated in June.

In New York State private sector hourly earnings rose by 4.9 percent year-over-year in June.

The largest gains were seen in:

- Professional Business Services (+7.5%)
- Leisure and Hospitality (+6.2%)
- Other Services (+6.2%)

The continued strong growth in leisure and hospitality wages is a positive sign for the tourism season.

Business Conditions



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

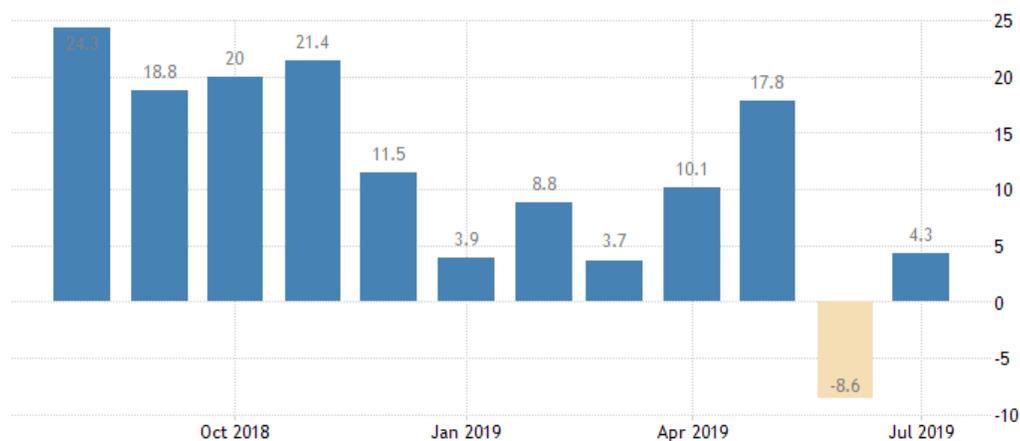
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Business activity rebounded in New York State according to firms responding to the July 2019 Empire State Manufacturing Survey. The general business conditions index climbed out of negative territory, rising thirteen points to 4.3. This was an increase of almost 13 points from May, the largest monthly gain in more than 2 years.

Empire State Manufacturing Index



SOURCE: TRADINGECONOMICS.COM | FEDERAL RESERVE BANK OF NEW YORK

Growth in the region's service sector increased modestly according to the Federal Reserve Bank of New York's July 2019 Business Leaders Survey.

Consumer Sector



Consumer spending in June, as indicated by sales tax collections, rose modestly in Nassau County by 2.50 percent. Spending rose at a more robust pace in Suffolk County, increasing by 3.22 percent. 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 3.46 percent in Nassau County and by 4.18 percent in Suffolk.

Residential Real Estate



Home sales fell sharply in June. Sales declined from 1,313 to 1,128 units in Nassau County, a drop of 14.1 percent. Similarly, sales fell from 1,666 to 1,478 units in Suffolk, a decline of 11.3 percent.

But home sales price continued to rise, increasing by 6.0 percent in Nassau County from \$519,000 to \$560,000. And home sales prices rose by 8.0 percent in Suffolk, from \$375,000 to \$405,125.

The total number of Long Island residential inventory in June 2019 was 19,150, representing an 11.6 percent increase over last year.¹

Commercial Real Estate – Flex/R&D Space



Vacancy rates for Flex/R&D² space is among the 20 lowest in metropolitan areas nationally. The median vacancy rate as of June was just 0.4 percent. This rate varied widely from 0 to 84.2 percent as shown in the following table.

¹ This data includes 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.

² Flex/R&D: An industrial building with a minimum total office percentage of 25% and consisting of either Warehouse/ Distribution and/or specialty industrial space, such as Research & Development and High-Tech space.

VACANCY RATES – Flex/R&D

Low	25 th Percentile	Mean	75 th Percentile	High
0.0%	0.0%	0.4%	12.6%	84.2%

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

The median asking rent was \$10.48 per square foot as of June. This varied from a low of \$5.76 to a high of \$20.22.

ASKING RENTS -- Flex/R&D

Low	25 th Percentile	Median	75 th Percentile	High
\$5.76	\$8.59	\$10.48	\$13.43	\$20.22

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

Long Island's Economic Outlook



The
economic
outlook

The labor market continued its long and strong run and business conditions solidified. Consumer spending appears to have improved as well but sharply rising real estate prices coupled with declining sales are concerning. In many areas of the country analysts warn of an impending housing bubble. Is Long Island headed in this direction as well? This issue is discussed in the “Focus On” section of this report.

***Focus On...* Rising Home Prices and Declining Sales: Is Another Housing Bubble on the Horizon?**

Housing prices have risen sharply in recent years but are now starting to falter in a number of metropolitan areas, including New York City, Seattle, Los Angeles, Boston and San Francisco. In Seattle, for example, housing prices approximately doubled between 2012 and 2018. Since that time, they have flattened out which some see as evidence that the market has peaked and that this rapid increase in home sales prices is unsustainable. In other words, there is a housing bubble that is bound to burst.

Long Island, by contrast, has yet to witness such rapid price increases followed by stagnant prices. Instead, price increases have been more gradual and have not shown signs of peaking. This suggests that, if a housing bubble will occur, Long Island is further from such a situation compared to many other metropolitan areas.

What are some signs of a housing bubble and what is their relevance for Long Island? Some warning signs include:

- Granting mortgages to poorly qualified buyers
- Granting highly leveraged loans
- Home prices rising faster than salaries
- Rising interest rates

Given the relatively high cost of real estate on Long Island, low down payment loans to buyers with poor credit histories would seem to be fairly uncommon. And mortgage interest rates have declined and may fall further given the latest interest rate cuts by the Federal Reserve. But, on Long Island and elsewhere, home sales prices have outpaced wage increases, making housing more unaffordable. On balance, the warning signs of an impending housing bubble appear less severe on Long Island than in many other metropolitan areas where housing prices have skyrocketed. But that doesn't mean it won't happen, only that if it does, it will take longer and any correction should be less severe.