Long Island Association
LEADING LONG ISLAND

This publication is made possible through the support of:

TD Bank
America's Most Convenient Bank®

LIA Monthly Economic Report

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

August, 2018

Prepared by Dr. John A. Rizzo, LIA Chief Economist

Second quarter GDP rose at a very strong pace of 4.1 percent. Both the manufacturing and non-manufacturing sectors continued to expand. But while June unemployment was quite low, wage growth remained sluggish. And home sales declined.

Long Island had its lowest June unemployment rate since 2007. Business conditions and consumer spending were favorable. But, as with real estate nationally, home sales fell.

The National Economy

The economy remains strong in most areas. There were just 217,000 jobless claims during the week of July 21, a figure consistent with an expanding labor market. And more people are reentering the labor force in anticipation of finding jobs. Earnings growth has remained fairly sluggish, however, with an annual growth of 2.7 percent in June, just shy of the annual growth in inflation.

Consumer sentiment is optimistic, which is a good sign for spending and growth going forward. Retail sales grew at a healthy pace of 0.5 percent in June, indicating solid consumer spending.

Despite tariff concerns, the manufacturing sector continued to perform well in June. And the non-manufacturing sector extended its lengthy patterns of expansion.

The real estate market fared less well. There has been a fairly persistent pattern of rising prices in the face of declining sales. Housing supply remains low relative to demand which limits choices for potential home purchasers.

The Long Island Economy

Labor Market

The labor market continued its strong run. The June unemployment rate was 3.8 percent, its lowest level since 2007. And the number of persons employed rose to its highest level ever for June. Labor force participation increased as well, indicating that more people are reentering the labor market in anticipation of finding jobs.

Private sector jobs rose by 19,000 between May and June which is a record increase for this time period. Year-over-year jobs growth was greatest in:

- Natural Resources, Mining and Construction (+6,500)
- Leisure and Hospitality (+4,200)
- Trade, Transportation, and Utilities (+2,800)

In New York State, private sector hourly earnings rose by 3.2 percent year-over-year in June. The strongest gains were seen in:

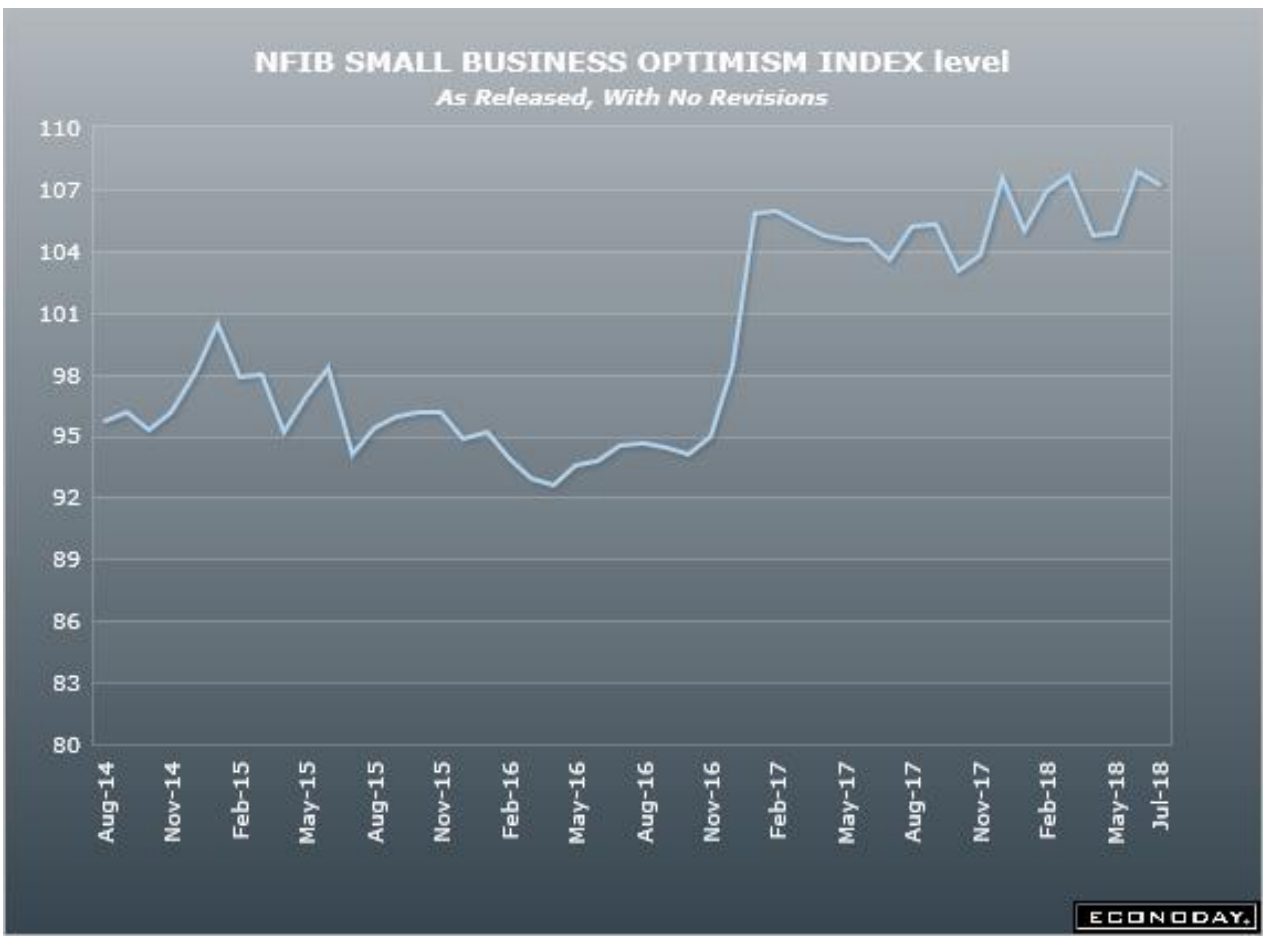
- Goods Producing Industries (+5.9%)
- Manufacturing (+6.5%)
- Leisure and Hospitality (+5.5%)

Business Conditions

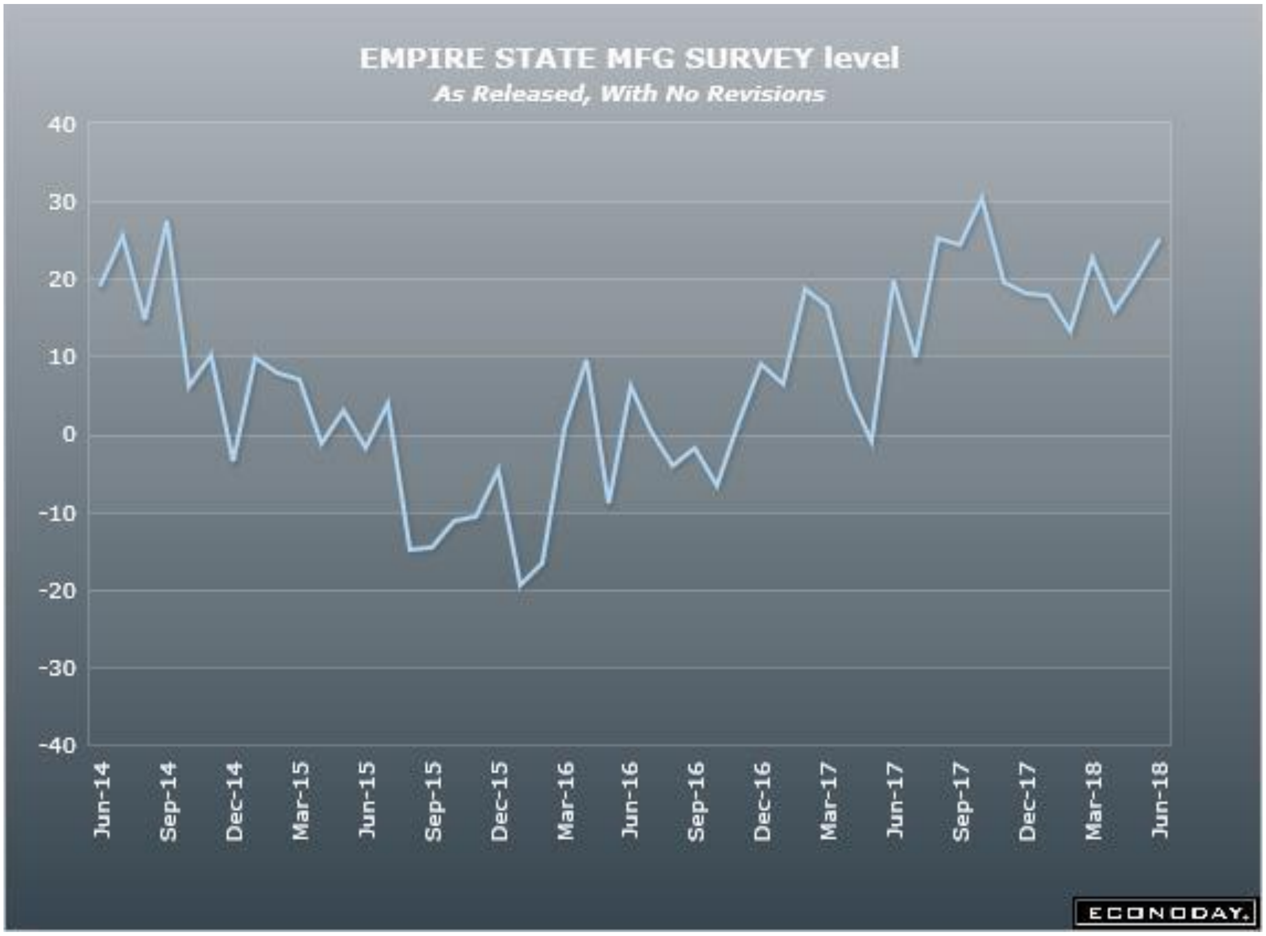
With small businesses comprising almost 90 percent of commercial establishments on Long Island, this is a key sector for economic growth. The National Federation of Independent Business' (NFIB) Small Business Optimism Index fell slightly in June, but remained at historically high levels, as the chart below indicates.

The National Federation of Independent Business' Small Business Optimism Index fell slightly in June but remained at historically high levels. This was the sixth highest reading in the 45-year history of the survey.

The Small Business Optimism Index attained its sixth highest reading in the NFIB survey's 45-year history. Plans to increase employment and inventories were particularly strong components of the index.



Manufacturing results were strong as well. The Empire State Manufacturing Index rose in July, with new orders showing particular strength.



The Federal Reserve Bank of New York's July 2018 Business Leaders Survey indicated that the region's service sector moderated but still remained at levels consistent with strong expansion.

Consumer Sector

Consumer spending as indicated by sales tax collections increased markedly in June. Year-over-year sales tax collections increased by 5.03 percent in Nassau County and by 3.74 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 even more— 6.01 percent in Nassau County, and 4.72 percent in Suffolk. Internet sales trends, and the methodology used to adjust for increasing Internet sales over time, are discussed in the "Focus On" section of the February, 2016 newsletter.

The Real Estate Market

In a continuing pattern, home sale prices increased in June while sales declined. Year-over-year prices rose from $500,000 to $519,000 in Nassau County, an increase of 3.9 percent, and from $362,000 to $376,000 in Suffolk, a gain of 3.7 percent.

Home sales fell by 4.4 percent in Nassau County, from 1,320 to 1,262 units sold. Sales fell by 2.2 percent in Suffolk, from 1,623 to 1,587 units.

But home inventories increased slightly year-over-year which is a somewhat positive sign for sales going forward.[1]

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

The Long Island retail market is comprised of 24.1 million square feet in six geographic concentrations ranging in size from the 7.8 million square foot Brookhaven/East Suffolk submarket to the North Hempstead submarket, which amounts to 1.9 million square feet. In the ten-year period beginning with the second quarter of 2008, the Brookhaven/East Suffolk submarket has experienced the greatest introduction of new inventory, 316,000 square feet, amounting to 54.9% of all new competitive stock added to the market.

The median vacancy rate for office space was 3.1 percent, with a range of 0 percent to 49.5 percent.

Vacancy Rate Distribution— Retail Space

Low	25%	Mean	Median	75%	High
0.0%	0.0%	6.8%	3.1%	10.1%	49.5%

As of June 2018. Source: Reis Reports

Vacancy rates are much lower for newer retail space. This could suggest strong demand but may also reflect a decline in retail space creation as online competition intensifies.

Vacancy Rates by Age of Facility—Retail Space

Year Built	Vacancy Rate
Before 1970	6.8%
1970-1979	12.1%
1980-1989	6.8%
1990-1999	2.7%
2000-2009	0.2%
After 2009	0.0%

As of June, 2018. Source: Reis Reports

The median asking rent for retail space is $30.83 per square foot. But this varies widely, from a low of $15.14 to a high of $53.71.

Asking Rent Distribution—Retail Space

Low	25%	Mean	Median	75%	High
$15.14	$27.16	$27.82	$30.83	$38.81	$53.71

As of June, 2018, Source: Reis Reports

But asking rents do not vary greatly by age of the facility as indicated in the chart below.

Asking Rents by Age of Facility—Retail Space

Year Built	Asking Rents
Before 1970	$33.32
1970-1979	$28.20
1980-1989	$34.17
1990-1999	$29.87
2000-2009	$42.74
After 2009	$38.00

As of June, 2018. Source: Reis Reports

Long Island's Economic Outlook

Economic conditions remain favorable overall. A strong labor market, solid consumer spending and growth in manufacturing and non-manufacturing all bode well for the economy going forward. However, uncertainty regarding the effects of the tariffs and sluggish home sales present challenges.

Focus On: Economic Outlook: A Looming Housing Price Bubble

For some time now, year-over-year home sales prices have increased while actual sales have declined. National figures for new and existing home sales confirm this. Some observers even worry that another housing price bubble- a rapid and unsustainable runup on prices- is on the horizon. With homes being the major purchase for most consumers, this would be harmful for Long Island and elsewhere. A confluence of factors has contributed to declining sales. Clearly, rising mortgage interest rates have given potential home buyers pause. Changes in the deductibility of mortgage interest and property taxes have likely been contributing factors as well.

But why have *prices* continued to rise? Rising mortgage interest rates and greater restrictions on mortgage interest rates and property tax deductions raise the effective cost of buying a home. This would seem to incentivize sellers to lower their asking prices to help offset this rising cost. However, one reason why prices have continued to rise is that the supply of homes on the market is still limited. Typically, a supply that would take six months to clear is considered a balance between supply and demand. But available supply has been less than this for quite some time.

A shortage of labor has also limited the supply of new homes in a number of areas. The home construction sector has faced challenges getting enough workers because labor markets are so tight-- with unemployment low, it is becoming increasingly difficult to find the right types of labor-- as most people are already employed.

On Long Island, the situation is similar to the national experience. In Nassau County, year-over-year sales prices have increased every month for at least the past year. But year-over-year sales have declined for nine of the past twelve months. Year-over-year prices have also increased in each of the past twelve months in Suffolk County. While sales have been more mixed than in Nassau, there is no consistent pattern of growth.

The steady growth in prices in the face of declining sales seems unsustainable. But evidence suggests that home sales inventories are finally starting to rise, both nationally and on Long Island. If this pattern persists, it would help to moderate price increases and stimulate demand, as prospective buyers would enjoy a greater selection of homes to choose from. And increased demand and sales provide greater price support. Together with the overall strength of the economy, fears of a housing price bubble seem premature.