

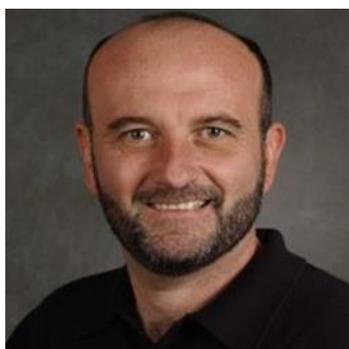
# LIA Monthly Economic Report

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

**December, 2019**



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



Evidence from the business sector was mixed, with manufacturing declining modestly but the service sector showing continued growth. Consumer spending and the labor market were strong, which is a good sign for holiday shopping. The real estate sector showed some positive signs as well.

Economic conditions on Long Island largely mirrored the performance at the national level. As small businesses form the backbone of Long Island's economy, their performance remains critical to continued economic growth.

# The National Economy

The labor market remained strong with an unemployment rate of just 3.6 percent. There were 213,000 jobless claims during the week ending September 21st, a number that is consistent with continued expansion of the labor market sector.

The manufacturing sector again declined slightly, according to the Institute for Supply Management's (ISM) manufacturing index. But the ISM non-manufacturing index rose and remained in positive territory.

Consumer spending was solid in October. Retail sales rose by 0.3 percent month-over-month, exceeding expectations and durable goods orders grew by 0.6 percent. Although consumer confidence declined slightly, it remained at a historically high level.

Inflation remained low with the consumer price index rising by 2.3 percent year-over-year, while the producer price index increased by just 1.1 percent.

There was also some positive evidence from the real estate sector. Building permits increased markedly in October and new home sales were robust, exceeding expectations. October housing starts and existing home sales were little changed from the previous month.

## The Long Island Economy

### Labor Market



Private sector jobs rose by 8.5 percent on Long Island between September and October. This is more than double the average gain of 3,600 jobs during this time period.

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

- Education and Health Services (+11,200)
- Natural Resources, Mining and Construction (+5,900)
- Leisure and Hospitality (+3,200)

Hourly earnings rose by 2.9 percent year-over-year in October.

The largest gains were in:

- Leisure and Hospitality (+5.5%)
- Other Services (+4.0%)
- Information (+4.2%)

The October unemployment rate remained low at just 3.5 percent.

## Business Conditions



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

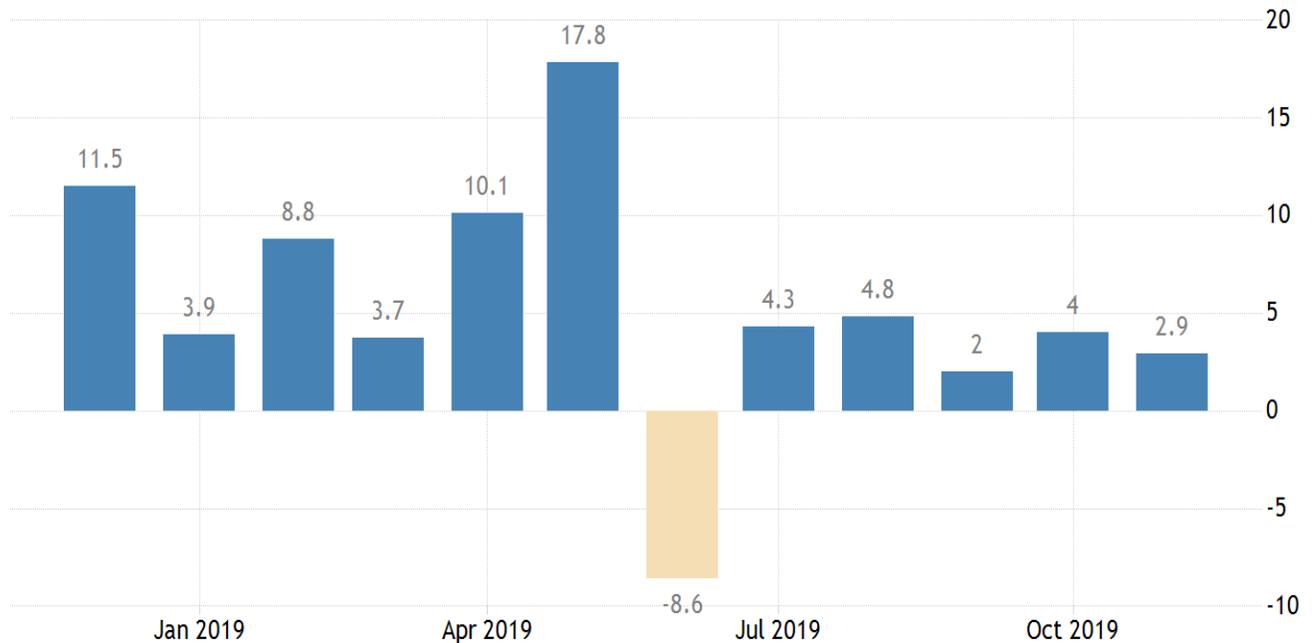
The National Federation of Independent Business (NFIB) Small Business Optimism Index rose 0.6 points to 102.4 in October – slightly

better than expectations for a 102.0 reading. Plans to increase inventories and to make capital outlays improved substantially.

*The National Federation of Independent Business (NFIB) Small Business Optimism Index rose 0.6 points to 102.4 in October – slightly better than expectations for a 102.0 reading. Plans to increase inventories and to make capital outlays improved substantially.*

Business activity changed very little in New York State according to firms responding to the November 2019 Empire State Manufacturing Survey. The general business conditions index came in at 2.9, roughly in line with its level in October. New orders increased slightly, and shipments grew modestly. Delivery times were somewhat shorter and inventories declined. Optimism about the six-month outlook remained modest, while capital spending plans picked up markedly.

**Empire State Manufacturing Survey**



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

After declining last month, activity in the region’s service sector grew slightly, according to firms responding to the Federal Reserve Bank of New York’s November 2019 Business Leaders Survey.

## Consumer Sector



September consumer spending, as indicated by sales tax collections, rose at a solid pace. Spending grew by 6.06 percent year-over-year in Nassau County and by 6.05 percent in Suffolk County. 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 7.02 percent in Nassau County and by 7.01 percent in Suffolk.

## Private Homes



Evidence from the real estate sector was mixed. Home sales prices rose modestly in Nassau County from \$525,000 to \$537,000, a gain of 2.4 percent. Sales prices rose by 5.2 percent in Suffolk County from \$385,000 to \$405,000.

Sales data was less encouraging. Home sales increased by a modest 2.6 percent in Nassau County from 1,221 to 1,253 units sold. But sales declined sharply in Suffolk from 1,679 to 1,508, a fall of 10.2 percent.

## Commercial Real Estate: Warehouse/Distribution Space



Vacancy rates for warehouse/distribution space on Long Island vary widely. While the median vacancy rate is 0.0 percent, 25 percent of establishments have vacancy rates ranging from 16.9 to 87.9 percent.

### WAREHOUSE/DISTRIBUTION SPACE – VACANCY RATES

Low	25 <sup>th</sup> Percentile	Median	75 <sup>th</sup> Percentile	High
0.0%	0.0%	0.0%	16.9%	87.9%

As of October 2019. Source: Reis Reports: [www.reisreports.com](http://www.reisreports.com).

Asking rents for warehouse/distribution space vary from \$5.04 to \$14.96 per square foot.

**WAREHOUSE/DISTRIBUTION SPACE – ASKING RENTS PER SQUARE FOOT**

Low	25 <sup>th</sup> Percentile	Median	75 <sup>th</sup> Percentile	High
\$5.04	\$7.11	\$8.53	\$10.57	\$14.96

As of October 2019. Source: Reis Reports: [www.reisreports.com](http://www.reisreports.com).

Asking rents and vacancy rates also vary by age of the warehouse/distribution space.

As seen in the tables below, asking rents and vacancy rates are higher in space built after 2009.

**Asking Rents by Age of Establishment**

**Vacancy Rates by Age of Establishment**

Year Built	Rent
Before 1970	\$ 9.92
1970-1979	\$ 8.27
1980-1989	\$ 8.52
1990-1999	\$ 8.81
2000-2009	\$10.35
After 2009	\$12.62

Year Built	Vac. Rate
Before 1970	11.1%
1970-1979	14.6%
1980-1989	11.3%
1990-1999	8.8%
2000-2009	5.2%
After 2009	25.8%

As of October 2019. Source: Reis Reports: [www.reisreports.com](http://www.reisreports.com).

**Long Island’s Economic Outlook**



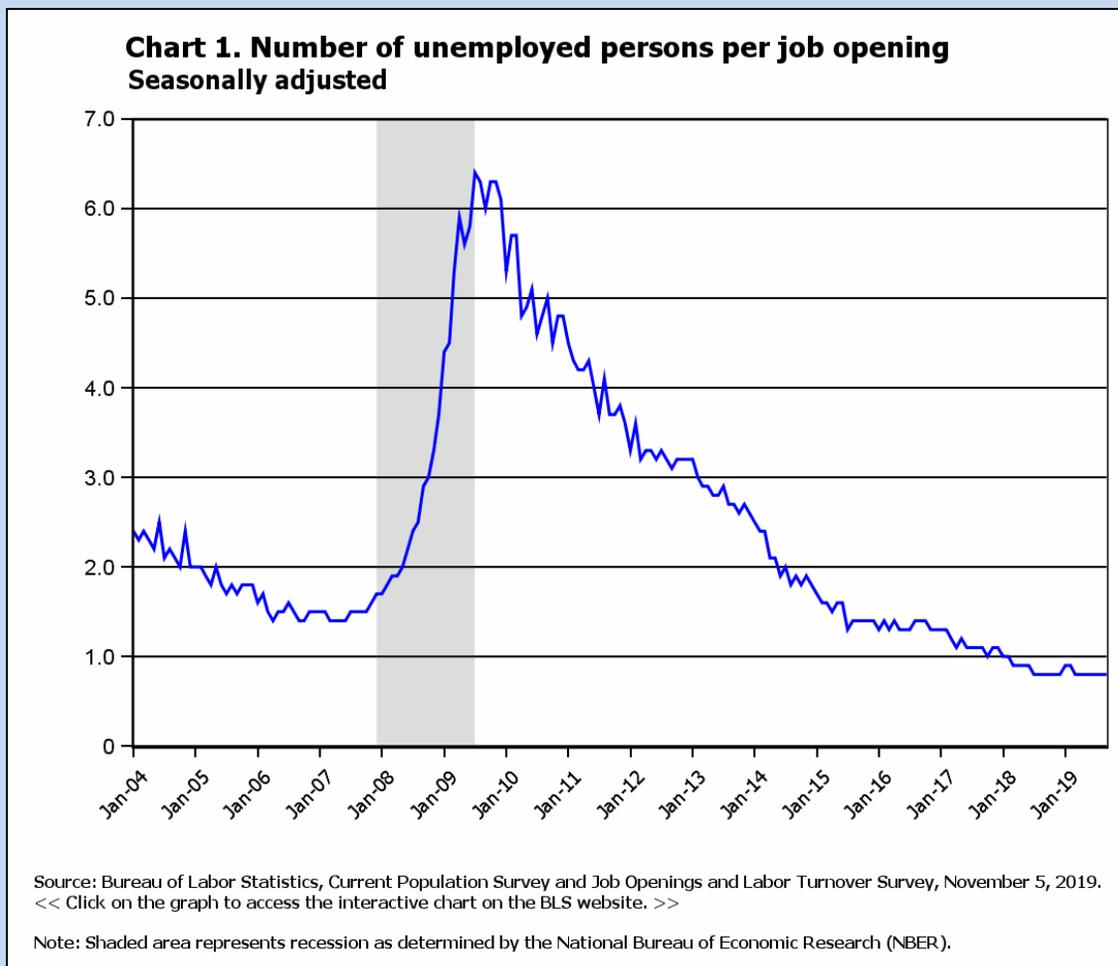
Manufacturing continues to stagnate, with trade uncertainty and tariffs having some adverse effects. And the real estate sector continued to underperform. On the other hand, the labor market remains strong and consumer spending appears to have been robust.

## Focus On... The Labor Shortage... A Threat to Continued Growth?

The unemployment rate nationally and on Long Island has been near historical lows for several years now. Economists generally consider an unemployment rate of 4 percent to be “full employment” because there will always be some workers transitioning into and out of jobs. However, since April of 2018, the unemployment rate on Long Island has been below 4 percent.

Such low unemployment would seem to be an unqualified success. And in many ways, it is. More jobs mean more income which translates into higher consumer spending. And consumer spending accounts for more than two-thirds of GDP.

But something has changed in the labor market. For nearly two years now, the number of job openings has been higher than the number of people looking for work. This is unusual. Since the U.S. Department of Labor began tracking job turnover two decades ago, there have always been more people looking for work than jobs available. That changed for the first time in January 2018, as the chart below indicates.



Almost every industry has a labor shortage. But employers are having a harder time filling blue-collar positions than professional positions that require a college education. The hardest-to-find workers are no longer computer engineers. They are home health care aides, restaurant workers, and hotel staff. The shift is happening because more and more Americans are going to college and getting professional jobs, while many working-class baby boomers are retiring.

This has potentially important consequences for Long Island's health care and leisure and hospitality sectors, both critical to the Long Island economy. The most obvious solution is to increase wages and this is happening to some extent. In October, for example, year-over-year wage gains were the highest in the leisure and hospitality industry in New York State. But increasing wages is made more challenging if it is difficult to pass on these increased labor costs to consumers. And consumers are generally quite price sensitive in their leisure and hospitality purchases. Additionally, many observers contend that wage hikes can only do so much and that an increase in immigrants is needed to fill lower-paying jobs. In those industries, like leisure and hospitality, where the ability to pass on wage increases is challenging, the better solution would seem to be increasing the supply of potential workers.

In any event, a persistent labor shortage growth may be subject to a ceiling effect, so that growth stagnates even while unemployment remains at record or near-record lows. And, while slower growth in the context of an economy that is already at full employment levels is quite different from the situation where unemployment is high, it holds the potential to rattle consumer confidence and equities markets, which could also threaten continued growth.