

# LIA Monthly Economic Report

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

**February 2019**



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



**The labor market shows continued strength, with sharp increases in jobs and earnings. The business sector pulled back from a month ago but remained in expansionary territory. Inflation was well in check at less than 2 percent year-over-year but the housing market remained the weakest sector of the economy.**

**Perhaps most concerning are recent declines in consumer confidence and business confidence which is the result of the partial government shutdown. Continued uncertainty presents a challenge for financial markets, consumer spending and business investment.**

# The National Economy



The labor market was the strongest performer during the past month. Nonfarm payrolls increased by 312,000 in December, one of the largest monthly increases since the economic expansion began. Hourly earnings also rose at a healthy clip of 0.4 percent. This was the largest monthly gain since December 2017. Unemployment remained quite low at 3.9 percent, and labor force participation rose.

Manufacturing expanded more slowly in December, according to the Institute for Supply Management's Manufacturing Index. Nevertheless, the index remained quite positive overall.

Inflation remained well in check, as the December Consumer Price Index rose by just 1.9 percent year-over-year.

Despite this positive news, consumer confidence declined markedly, fueled by the partial government shutdown. And the housing market continued to perform poorly, as existing home sales fell by 6.4 percent year-over-year in December. While new home sales rose markedly, this is small relative to existing home sales and is quite volatile.

## The Long Island Economy

### Labor Market



The labor market continues to soar. The December unemployment rate was just 3.1 percent, the lowest rate since 2000. And both labor force participation and the number of persons employed were at all-time highs for December. This means that more people are searching for jobs—and finding them.

The largest year-over-year jobs gains in December occurred in:

- Education and Health Services (+10,300)
- Natural Resources, Mining and Construction (+10,100)
- Professional and Business Services (+1,500)

Wage growth continues to accelerate. In New York State, private sector hourly earnings rose by 4.8 percent year-over-year in December. The largest gains were seen in:

- Other Services (+6.9%)
- Professional and Business Services (+5.9%)
- Trade, Transportation and Utilities (+5.7%)

## Business Conditions

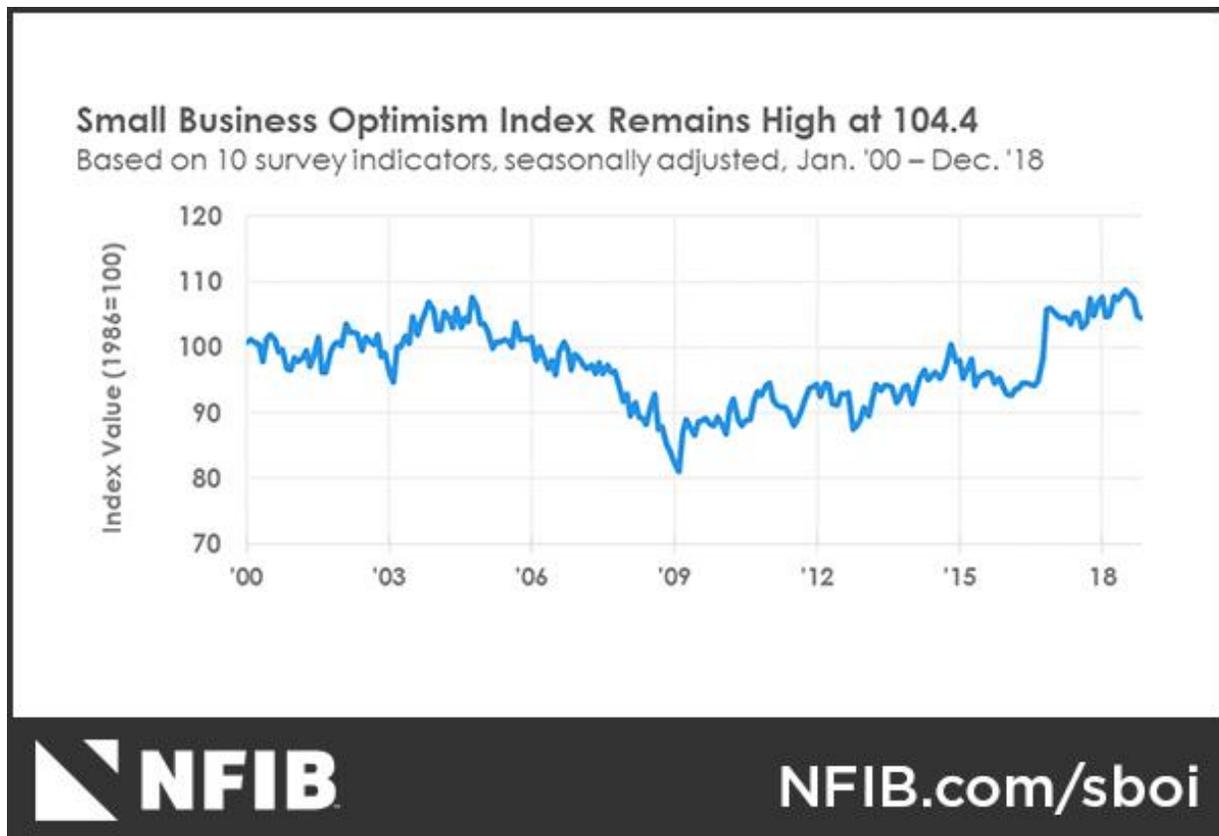


With small businesses comprising almost 90 percent of commercial establishments on Long Island, this is a key sector for economic growth.

Optimism among small business owners declined in

December according to the Small Business Optimism Index. Most of the drop was attributed to a decline in expectations that the economy will improve over the next 6 months. Still, some components of this index remain at historically high levels.

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Manufacturing also slowed though it remained in positive territory. The Empire State Manufacturing Index had its lowest rate of growth since May 2017.

The non-manufacturing sector pulled back as well according to firms responding to the Federal Reserve Bank of New York's January 2019 Business Leaders Survey. The survey's headline business activity index fell to its lowest level since mid-2017. But, on balance, firms regarded the business climate as normal.

## Consumer Sector



Consumer spending in December, as indicated by sales tax collections, increased at a robust pace in Suffolk County and more modestly in Nassau. Year-over-year sales tax collections increased by 7.03 percent in Suffolk County and by 2.88 percent in Nassau. 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: 8.04 percent in Suffolk County, and 3.85 percent in Nassau.

## Residential Real Estate



Home sale prices grew at a moderate pace in December but sales declined sharply. Year-over-year home sales prices increased from \$361,000 to \$380,000 in Suffolk County, a gain of 5.3 percent. Home sales prices grew by 4.0 percent in Nassau County, from \$495,000 to \$515,000. But home sales declined by 6.6 percent, from 1,069 to 998 units sold in Nassau County. And home sales fell from 1,502 to 1,401 units sold in Suffolk County, a decline of 6.7 percent.

Residential inventories showed robust gains once more, growing by more than 11 percent. This increases the choices available to prospective buyers which could help to stimulate demand.<sup>1</sup>

## Commercial Real Estate: Flex/R&D Space



Vacancy rates for Flex/R&D space<sup>2</sup> on Long Island are among the 20<sup>th</sup> lowest nationally. The median vacancy rate is just 0.4 percent. But these rates vary quite widely, from 0.0 to 69 percent.

### FLEX/R&D – VACANCY RATE DISTRIBUTION

Low	25 <sup>th</sup> Percentile	Median	75 <sup>th</sup> Percentile	High
0.0%	0.0%	0.4%	16.2%	69.0%

As of December 2018. Source: Reis Reports: [www.reisreports.com](http://www.reisreports.com).

Asking rents for Flex/R&D space vary almost four-fold, from \$5.55 to \$21.56 per square foot.

<sup>1</sup> 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.

<sup>2</sup> 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.

### FLEX/R&D SPACE – ASKING RENTS PER SQUARE FOOT

Low	25 <sup>th</sup> Percentile	Median	75 <sup>th</sup> Percentile	High
\$5.55	\$8.22	\$10.34	\$13.67	\$21.56

As of December 2018. Source: Reis Reports: [www.reisreports.com](http://www.reisreports.com).

Despite having very low vacancy rates, asking rents for Flex/R&D space on Long Island have not risen faster compared to other areas in the Northeast and nationally, as the table below indicates.

### Flex R&D Space: Comparisons of Asking Rent Growth

	Asking Rent Growth			
	Quarterly			Annualized
	3Q18	2Q18	YTD Avg.	1 Year
Long Island	0.5%	0.5%	0.4%	2.2%
Northeast	0.4%	0.5%	0.4%	2.6%
United States	0.5%	0.4%	0.4%	3.4%
Period Ending	09/30/18	06/30/18	09/30/18	12/31/17

As of December 2018. Source: Reis Reports: [www.reisreports.com](http://www.reisreports.com).

## Long Island's Economic Outlook



The strong labor market coupled with solid consumer spending are positive signs for Long Island's economy. But the housing market continued to perform poorly and business expansion has slowed. The recent government shutdown and uncertainty about whether this will happen again are weighing on almost every sector of the economy. This issue is discussed more fully in the *Focus On* section of this report.

## ***FOCUS ON... ECONOMIC OUTLOOK: A CRISIS IN CONFIDENCE?***

Two of three factors that have weighed on the economy—further interest rate hikes by the Federal Reserve Bank and tariff wars with China—appear to have eased. The Federal Reserve has indicated that it will take a more measured response to any possible rate hikes this year. And trade negotiations with China are making progress.

The partial government shutdown has been temporarily halted. That is certainly good news as well. But there is the imminent possibility that it will recur by the middle of February. Both consumer and business confidence have been rattled by the partial shutdown. The prospect of another shutdown will have ominous consequences for both financial markets and the real economy. And there are almost 26,000 federal government employees who live on Long Island. So, another shutdown would hit many of these people directly, as well as having adverse effects on business.

The best outcome would be that Congress and the President negotiate a deal to end the shutdown permanently. This would help reduce uncertainty, restore confidence and set the stage for further economic growth. But this seems quite unlikely.

However it may happen, it is important for the economy that the government remains open. The partial shutdown caused substantial economic damage and threatens first quarter growth. Given the decline in consumer and business confidence that has already occurred, a further shutdown would have even more serious consequences. This would be first expressed in the financial markets. But significant consumer and business pessimism would likely spill over to the real economy, stunting growth in the second quarter and perhaps beyond. But this doesn't need to happen. And let's hope it does not.