The labor market continued to lead the economy with approximately 266,000 jobs added in November. Consumer sentiment and spending were strong. These factors, coupled with easing of trade tensions with China, sent the stock market into record territory.

Despite sluggish performance in the business and real estate sectors, the overall performance of the economy was favorable.

The situation was much the same on Long Island, with a strong labor market and consumer spending fueling the economy. But, as with the national economy, real estate continued to underperform.
The National Economy

The labor market continued to expand. Some 266,000 jobs were added in November, far in excess of expectations. The unemployment rate declined to just 3.5 percent. Initial jobless claims declined and remained at levels consistent with strong expansion in the labor market.

But manufacturing again declined slightly according to the Institute for Supply Management’s (ISM) manufacturing index. The ISM non-manufacturing index also declined slightly but remained in positive territory.

Evidence on spending was mixed. November retail sales rose by just 0.2 percent month-over-month, missing expectations and durable goods orders were flat but consumer sentiment and spending were strong.

The real estate sector did not perform well as new and existing home sales declined but housing starts rose modestly.

Inflation remained well in check as the consumer price index rose by just 2.1 percent year-over-year.

The stock market ended the year in record setting territory.

The Long Island Economy

Labor Market

Long Island’s private sector job count increased by just 300 jobs between October and November, below the average gain of 3,100. This comes on the heels of a much larger gain in jobs during the previous month.

The unemployment rate was just 3.3 percent in November.

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

- Education and Health Services (+8,000)
- Natural Resources, Mining and Construction (+6,400)
- Leisure and Hospitality (+3,900)

Hourly earnings rose by a modest 1.8 percent year-over-year in November.

The largest gains were in:

- Other Services (+6.2%)
- Manufacturing (+3.3%)
- Financial Activities (+3.0%)
With small businesses comprising almost 90 percent of commercial establishments on Long Island, this is a key sector for economic growth.

Small business owners' confidence in the U.S. economy rose in November, its largest month-over-month gain since May 2018, as owners continued to invest, hire and increase wages, according to the National Federation of Independent Business (NFIB) Small Business Optimism Index.

**NFIB Small Business Optimism Index**

Business activity was little changed in New York State, according to firms responding to the December 2019 Empire State Manufacturing Survey. New orders were also little changed, while shipments grew modestly.

Activity in the region’s service sector grew only slightly, according to firms responding to the Federal Reserve Bank of New York’s December 2019 Business Leaders Survey. And the business climate index remained negative for a fourth consecutive month, indicating that firms regarded the business climate as worse than normal.
**Consumer Sector**

November consumer spending, as indicated by sales tax collections, rose at a solid pace. Spending grew by 5.91 percent year-over-year in Nassau County and by 7.07 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 6.87 percent in Nassau County and by 8.03 percent in Suffolk.

**Private Homes**

Real estate sales declined in November. Sales fell by 9.3 percent in Nassau County, from 1,139 to 1,033 units sold and Suffolk County saw a drop of 7.3 percent in home sales, from 1,443 to 1,338 units sold.

Home sales prices rose modestly in Nassau County from $525,000 to $534,000, an increase of 1.7 percent but prices grew at a faster pace of 6.4 percent in Suffolk County from $376,000 to $400,000.

**Commercial Real Estate: Office Space**

The Long Island office market is comprised of 43.2 million square feet in five geographic concentrations ranging in size from the 10.4 million square foot East Nassau submarket to the Southwest Nassau submarket, which amounts to 7.1 million square feet. In the ten-year period beginning with the fourth quarter of 2009, the Northwest Nassau submarket has experienced the greatest introduction of new inventory, 233,000 square feet, amounting to 55.6 percent of all new competitive stock added to the market.

Vacancy rates for office space on Long Island vary widely. While the median vacancy rate is 9.6 percent, 25 percent of establishments have vacancy rates ranging from 17.2 to 57.1 percent.

**OFFICE SPACE – VACANCY RATES**

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<th>Median</th>
<th>75th Percentile</th>
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<td>9.6%</td>
<td>17.2%</td>
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Asking rents for office space vary from $16.50 to $39.02 per square foot.

**OFFICE SPACE – ASKING RENTS PER SQUARE FOOT**

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**Long Island’s Economic Outlook**

A strong labor market and consumer spending are the brightest sectors of the Long Island economy at present. Manufacturing has declined somewhat, but the small business outlook is quite favorable. The prospects for economic performance in 2020 are discussed more fully in the *Focus On* section of this report.
Focus On... The Outlook for 2020

Most indicators suggest that 2020 will see continued economic strength both nationally and on Long Island. The most obvious indications of this are the continuously strong labor market, solid consumer spending and favorable sentiment among consumers and small business owners. And the stock market has ended the year in record territory.

Although, by some other measures, the outlook would appear to be less favorable. Three factors that may threaten continued economic strength are:

- Weaker economic growth
- A shortage of available labor
- An overvalued stock market

In 2020, economic growth may be the same as or even slightly weaker than in 2019. But, with the U.S. and Long Island economies performing at levels consistent with full employment, more modest growth is not surprising, and should not be taken as a sign of failure but as a ceiling effect. The only danger is if the psychology of the market takes over, misinterpreting modest growth as evidence of an impending recession.

Likewise, a shortage of labor may constrain growth but again, weaker growth in the context of an economy operating at full employment levels is not the same as such growth in an economy with high unemployment.

Finally, as measured by the price-to-earnings (P/E) ratio, the stock market does not appear to be particularly overvalued relative to historical norms, despite a strong run-up in December. But an alternative to the standard P/E ratio analysis—the so-called cyclically adjusted price-to-earnings ratio (CAPE) presents a somewhat different picture. The CAPE is defined as price divided by the average of ten years of earnings (moving average), adjusted for inflation. Higher than average CAPE values are thought to imply lower than average long-term annual average returns. And this ratio stands at its second-highest end-of-year level ever.

So, is a historically high CAPE the fly in the ointment pointing to a weaker stock market and economic outlook? Possibly, but there are many limitations to this measure, most of which reflect that a ten-year history of earnings ignores current changes in business and accounting practices, interest rates and other factors, all of which can affect P/E going forward. Simply put, to its critics CAPE represents historical evidence that may bear little relevance to current or future economic conditions.