Long Island Association

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LIA Monthly Economic Report

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

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Strong consumer spending and continued expansion in the labor market were the most positive signs for the national economy. Both manufacturing and non-manufacturing sectors continued to perform well. The Long Island economy mirrors this overall economic strength.

Consumer spending was robust and there was little evidence of inflation. But consumer confidence has declined amid growing concerns about an economic slowdown and increased uncertainty over tariff wars, further interest rate hikes and the partial government shutdown.

The National Economy

The national economy saw continued expansion on several fronts. There was continued strength in the labor market with no evidence of accelerating inflation. The Consumer Price Index rose by just 2.2 percent year-over-year. The unemployment rate remained low at 3.7 percent. Some 155,000 jobs were added which was on the low end of expectations.

The business sector continued to perform well, with the manufacturing and non-manufacturing sectors continuing to expand, according to surveys conducted by the Institute for Supply Management.

There was some improvement in the real estate sector recently, as existing home sales rose by 1.9 percent in November which beat expectations but sales were down by 7.0 percent year-over-year. Median home sales prices also rose by 1.9 percent in November to $257,700. And prices rose by 4.2 percent year-over-year. But supply remained quite low, falling by 5.9 percent year-over-year. There is currently just 3.9 months' supply of homes on the market, limiting consumer choice and threatening demand.

Third quarter consumer spending was strong which bodes well for fourth quarter growth. Spending on durable goods rose by 0.9 percent in November. To a large extent, spending on durable goods is discretionary. And consumers increase discretionary spending when they are confident about economic conditions. Retail sales were solid as well, rising by 0.8 percent in October. Despite this, consumer confidence appears to be declining. The Conference Board's Consumer Confidence Index fell in November by the largest amount since June 2015. And a declining and increasingly volatile stock market poses a further threat to consumer confidence.

The Long Island Economy

Labor Market

The labor market continued its very strong run. Long Island's unemployment rate was 3.0 percent in November. This was the lowest unemployment rate for November since 1998. And both labor force participation and the number of persons employed were the highest ever for November.

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

- Education and Health Services (+7,200)
- Natural Resources, Mining and Construction (+6,800)
- Leisure and Hospitality (+3,400)

Wage growth is accelerating. In New York State, private sector hourly earnings rose by 4.1 percent year-over-year in November. The largest gains were seen in:

- Manufacturing (+5.7%)
- Trade, Transportation, and Utilities (+4.9%)
- Leisure and Hospitality (+4.8%)
- Goods Producing Industries (+4.8%)

Business Conditions

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

Small business optimism declined in November. While it remained in positive territory, there were growing concerns about finding qualified new employees, given the tight labor market. Finding qualified workers were considered the top challenge for 25 percent of respondents; a record for the survey. Optimism fell to its lowest level in seven months. Expectations that the economy will improve declined as did expected sales.

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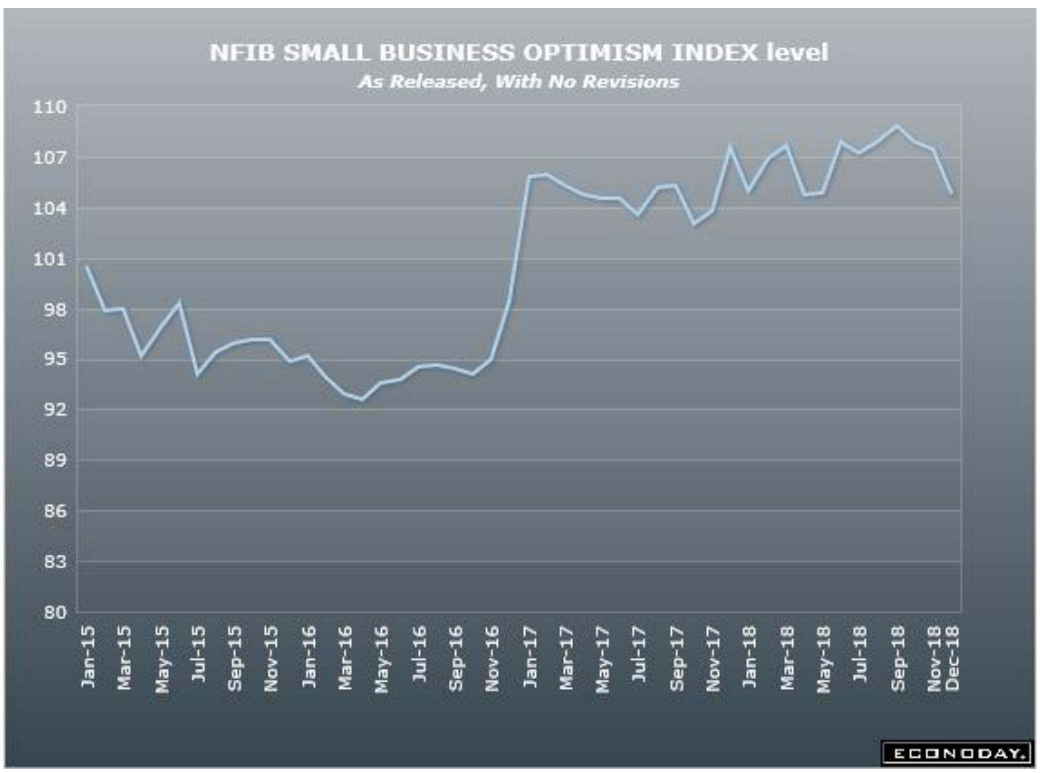

Source: Econoday

Although the manufacturing sector continued to expand, the pace of growth declined. The Empire State manufacturing index fell to its lowest level in 19 months, although still remaining in positive territory. Two components of the index-new orders and shipments-experienced sharp declines.

The regional service sector grew modestly in December according to the Federal Reserve Bank of New York's December 2018 Business Leaders Survey. But, as with manufacturing, the pace of growth slowed. Optimism declined going forward as the business climate component fell to its lowest level in more than a year.

Consumer Sector

Consumer spending, as indicated by sales tax collections, increased modestly in November. Year-over-year sales tax collections increased by 1.43 percent in Suffolk County and by 2.04 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: 2.38 percent in Suffolk County, and 2.99 percent in Nassau.

The Real Estate Market

Residential Real Estate

Home sale prices grew substantially in November. Year-over-year home sales prices increased from $355,000 to $380,000 in Suffolk County, a gain of 7.0 percent. Home sales prices grew by 7.8 percent in Nassau County, from $487,000 to $525,000. In contrast, home sales were mixed. Home sales increased from 1,043 to 1,092 units sold in Nassau County, a gain of 4.7 percent. This was the largest percentage gain since April 2018. In contrast, home sales fell from 1,472 to 1,371 units sold in Suffolk County, a decline of 6.9 percent.

Residential inventories again showed robust gains, increasing by 11.2 percent. This increases the choices available to prospective buyers which could help to stimulate demand.[1]

Apartment Space

Apartment space remains scarce on Long Island. In fact, Long Island has the 10th lowest vacancy rate in metropolitan areas nationally and the lowest vacancy rate in the Northeast. Vacancy rates vary from 0.0 percent to 18.7 percent. The median vacancy rate is 3.1 percent.

APARTMENT SPACE – VACANCY RATE DISTRIBUTION

Low	25th Percentile	Median	75th Percentile	High
0.0%	1.9%	3.1%	4.6%	18.7%

As of November 2018. Source: Reis Reports: www.reisreports.com.

Asking rents for apartment space vary almost three-fold, from $1,379 to $3,610 per month.

[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.

APARTMENT SPACE – ASKING RENTS PER MONTH

Low	25th Percentile	Median	75th Percentile	High
$1,379	$1,730	$1,918	$2,339	$3,610

As of November 2018. Source: Reis Reports: www.reisreports.com.

Asking rents are substantially higher for newer apartment space built after 2009, as the table below indicates.

DISTRIBUTION OF ASKING RENTS BY AGE OF FACILITY

Year Built	Asking Rent
Before 1970	$2,014
1970-1979	$1,811
1980-1989	$1,817
1990-1999	$2,194
2000-2009	$2,522
After 2009	$3,197

As of November 2018. Source: Reis Reports: www.reisreports.com.

Long Island's Economic Outlook

Despite overall strength in Long Island's economy, there are growing concerns of an economic slowdown. Confidence is threatened by a host of factors, including increased volatility in the stock market, concerns over tariff wars with China, the Federal Reserve's interest rate policy and the partial government shutdown.

Whether these are truly valid concerns or reflect an overreaction to current uncertainty will have important implications for the economy in 2019, both on Long Island and nationally. These issues are discussed more fully in the "Focus On" section of this report below.

FOCUS ON… ECONOMIC OUTLOOK: BETTING ON THE REAL ECONOMY

By most measures, the real economy— that part of the economy concerned with producing goods and services, as opposed to that part of the economy concerned with buying and selling on the financial markets — is performing well. Unemployment is near historical lows, consumer spending is strong and the business sector continues to expand.

Yet, a variety of factors threaten growth in 2019. Potential tariff wars, rising interest rates, the partial government shutdown, fears of a global slowdown and an increasingly volatile stock market are shaking consumer and business confidence.

Predicting economic performance in 2019 hinges on how important these threats really are and how long they are likely to persist. Despite alarming headlines in much of the current business news, most of these factors may not be all that important and not likely to persist unless consumers and business think they are. While a full trade war—especially with China—would have dire consequences for both economies, it is precisely that bilateral danger that should prevent this from occurring. And rising interest rates is something the Federal Reserve can keep in check by avoiding further rate hikes in 2019. Given a lack of inflation and dimming expectations about future economic conditions, it would seem reasonable for the Federal Reserve to reconsider its hawkish policies.

The partial government shutdown will likely end soon after Congress reconvenes. And fears of a global slowdown and the volatile stock market feel more like a reaction to the pervasive uncertainties than an objective reading of the real economy. China’s manufacturing index fell by a tiny amount in December amid fears of a potential trade war which, as argued above, seems quite unlikely to occur. This has sent the stock market into a tailspin. But one has to ask why. Has China’s economy changed so much so soon? And is a full-blown trade war likely to occur?

Only if the aforementioned threats continue to adversely affect the *psychology* of the market—making consumers and the business sector increasingly pessimistic—would there be a serious problem. Uncertainty leads consumers and business to reduce their spending plans. And this can create a crisis itself, leading to a fall in production and consumption.

Economic growth depends upon two factors:
1. actual production and spending (the real economy) and
2. the psychology of the market—how optimistic one is about the future.

Certainly, current events and policy concerns affect the psychology of the market. But, so should the performance of the real economy. And the real economy is doing fine by many accounts, both on Long Island and nationally. Betting on the real economy seems more reasonable and accurate than caving in to concerns, many of which are likely temporary or even imaginary. So, one might anticipate growth of about 2 percent for Long Island and nationally. Growth may be slower in the first two quarters of 2019 as the uncertainties mentioned above take some time to get resolved. But after that, the strength of the real economy should reassert itself, leading to stronger economic growth in the second half of 2019.