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LIA Monthly Economic Report

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

July, 2019

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Recent economic evidence is mixed. While the labor market remained strong and inflation held in check, business expansion slowed nationally. Consumer spending was up but confidence declined which could portend less spending going forward. Existing home sales showed improvement but new home sales declined sharply.

A similar pattern emerged on Long Island but, most notably, the manufacturing sector contracted for the first time in more than two years. Sluggish manufacturing likely reflects uncertainty over tariffs with China and Mexico and rising production costs due to those tariffs.

The National Economy

Just 75,000 jobs were added in May but this follows a very large gain of 263,000 jobs in April. A similar pattern occurred earlier this year with just 20,000 jobs added in February after 304,000 had been added in January. May average hourly earnings increased at a rate of 3.1 percent, exceeding the inflation rate of 1.8 percent. There were 227,000 jobless claims during the week ending June 22nd which is consistent with continued expansion in the labor market.

The manufacturing sector continued to expand in May although at a slower rate than in the previous month according to the Institute for Supply Management's Manufacturing Survey. The non-manufacturing sector continued to expand for the 112th consecutive month.

Consumer spending, which represents nearly 70 percent of GDP, was strong in May. Retail sales rose at a robust pace of 0.5 percent in May but consumer confidence, while remaining at a relatively high level, fell from the previous month.

Home sales rebounded in May as existing home sales were at a 5.34 million annual pace, exceeding expectations. The median selling price was $277,700, a 4.8 percent annual increase and the 87th straight month of annual price increases. New home sales declined sharply, however.

The Long Island Economy

Labor Market

Long Island's labor market continued to perform well. The April unemployment rate was 3.0 percent which was its lowest level in almost two decades and the number of persons employed was the highest ever for April.

The private sector job count increased by 15,900 between April and May, exceeding the typical gain of 13,800 jobs during this time period.

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

- Education and Health Services (+11,400)
- Natural Resources, Mining and Construction (+4,300)
- Manufacturing (+1,500)

Wages again grew moderately.

In New York State, private sector hourly earnings rose by 3.1 percent year-over-year in May.

The largest gains were seen in:

- Other Services (+7.0%)
- Leisure and Hospitality (+6.5%)
- Information (+6.0%)

The strong growth in Leisure and Hospitality wages is a positive sign for the tourism season.

Business Conditions

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

The index of small-business optimism from the National Federation of Independent Business rose to 105.0 in May, exceeding expectations and remaining at an historically high level.

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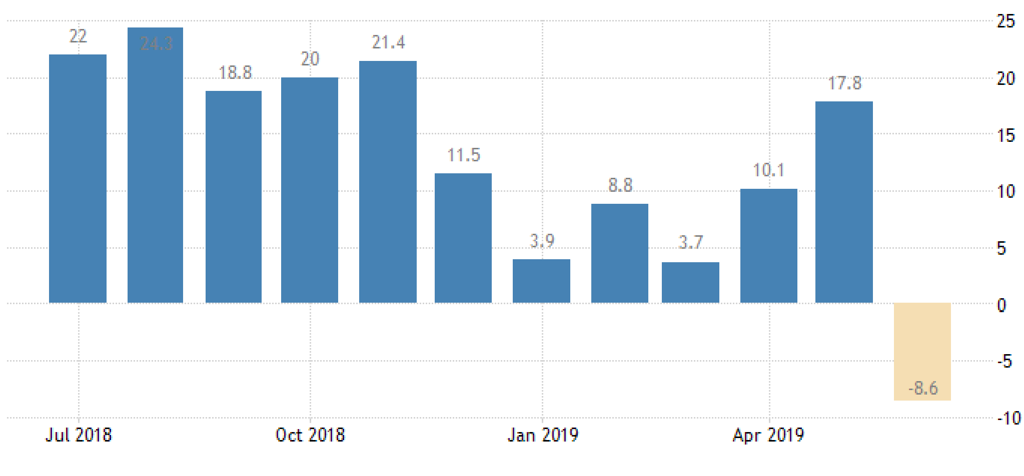
In contrast, manufacturing activity declined substantially in New York. The New York Fed's Empire State Manufacturing Index fell into negative territory for the first time in more than two years. The index incurred a record monthly decline of 26.4 points.

Manufacturing has been hampered by uncertainty over trade policy against China and Mexico and a slowing of activity overseas.

Empire State Manufacturing Index



Growth in the region's service sector slowed according to the Federal Reserve Bank of New York's June 2019 Business Leaders Survey. The survey's business activity index fell fifteen points to 5.8, its lowest level since January.

Consumer Sector

Consumer spending in May, as indicated by sales tax collections, rose modestly in Nassau County by 2.50 percent. Spending rose at a more robust pace in Suffolk County, increasing by 3.22 percent. 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 3.46 percent in Nassau County and by 4.18 percent in Nassau.

Residential Real Estate

Private Homes

Following last month's gains, housing sales slumped. In Nassau County, sales fell slightly from 995 to 985 units sold in May, a drop of 1.0 percent. Sales declined by 4.0 percent in Suffolk, from 1,415 to 1,359 units sold.

Home sales prices rose by 2.9 percent year-over-year in Nassau County, from $515,000 to $530,000. Prices grew at a faster pace in Suffolk, from 365,300 to $390,000, a gain of 6.8 percent.

The total Long Island residential inventory in May 2019 was 18,716 units, representing a 13.3% increase over last year.[1]

Apartment Space

Vacancy rates for apartment space are scarce. The May average vacancy rate was 3.4 percent which is the eighth lowest among metropolitan areas nationally and the fourth lowest in the Northeast.

Vacancy rates varied from 0.0 percent to 11.5 percent as indicated in the table below.

[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 – VACANCY RATE DISTRIBUTION

Low	25th Percentile	Mean	75th Percentile	High
0.0%	1.9%	3.4%	4.4%	11.5%

As of May 2019. Source: Reis Reports: www.reisreports.com.

Asking rents averaged $2,146 as of May. This varied from a low of $1,472 to a high of $3,744. Mean unit prices in the market by apartment size are as follows: studios-$1,364 · one bedrooms-$1,908 · two bedrooms-$2,463 · and three bedrooms $3,176. Since the beginning of the second quarter of 2009, the market as a whole has recorded an annual average increase of 3.5 percent.

APARTMENT– ASKING RENTS

Low	25th Percentile	Mean	75th Percentile	High
$1,472	$1,735	$2,146	$2,440	$3,744

As of May 2019. Source: Reis Reports: www.reisreports.com.

Long Island's Economic Outlook

The labor market remains Long Island's top performing sector. But business conditions appear to have slowed and the real estate sector did not perform well. So economic conditions overall were not as favorable as in the previous report. It is too soon to tell if this reflects an emerging trend or merely a pause within an overall expansionary economy. But a strong stock market, which is a forward-looking indicator, suggests the latter.

Focus On… Addressing the Housing Shortage: Should we use a Carrot or a Stick?

Long Island is a great place to live. Both Nassau and Suffolk Counties score very well on assessments of quality of living. According to a 2019 U.S. News and World Report, Nassau County ranks in the top percentile nationally in terms of public safety, with Suffolk close behind. Both counties rank highly in terms of a number of other dimensions, most notably education, population health and economic conditions. Not surprisingly, however, each county scores relatively low in terms of housing affordability. This reflects both a shortage of single-family homes and apartments. And while household sizes are shrinking, new homes being built still tend to be larger. And most new rental projects tend to have expensive monthly rents. Neither is best-suited to millennials, many of whom would like to rent an apartment or purchase a starter home, but instead must live with a parent or other roommates due to high costs of rental space and new homes.

High production costs and regulatory restrictions make it difficult for developers to build smaller homes and more affordable apartments. This is a challenge that extends well beyond Long Island. Nationally, there is a shortage of affordable housing in many states. A number of possible solutions have been proffered, such as:

- Building smaller but well-designed homes that could be sold for less.
- Converting space in abandoned or underutilized buildings in industrial parks and malls to apartments.
- Giving employers tax incentives to subsidize housing costs for their workers.
- Requiring builders to provide a certain percentage of their units for affordable housing.
- Giving builders tax incentives to develop homes and apartment space.

Building smaller homes would require that consumers accept this as the new norm. But it is not at all clear that they would. Converting abandoned or underutilized space might be helpful but would likely have at most a modest impact in addressing the housing shortage. Employer tax incentives might make existing housing more affordable but would do little to increase the affordable housing stock, which is the crux of the matter.

Thus, the last two options would seem to offer better potential. Both have been implemented in various locations across the nation including here on Long Island as a result of the Balboni-DiNapoli legislation known as the "The Long Island Workforce Housing Act," enacted in 2008. Requiring a certain percentage of low-income housing is a "stick" approach while tax concessions to developers offers a "carrot." The problem with the "stick" approach is that it fails to reduce developers' costs. Tax incentives, on the other hand, could increase the housing stock. And greater incentives for development plans that include affordable housing would increase those types of homes as well.

The greatest cost to our economy might be in failing to address the affordable housing shortage. In order to preserve a vibrant young workforce and to address the housing needs of an increasingly diverse demographic profile on Long Island, these are issues that need to be at the forefront of economic policy making.