Long Island Association
LEADING LONG ISLAND

This publication is made possible through the support of:

TD Bank
America's Most Convenient Bank®

LIA Monthly Economic Report

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

May, 2019

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

In a pleasant surprise, first-quarter gross domestic product expanded by 3.2 percent which was well in excess of expectations. In fact, GDP growth for the first quarter was the strongest start since 2015 which shows the partial government shutdown had less impact than initially feared. The labor market remains strong as well as the business sector. With solid consumer confidence, spending and low inflation, one may anticipate a strong second quarter.

The National Economy

The labor market continued to perform well. Although jobless claims rose to their highest level since September 2017, the level of claims was still low at 237,000. The March unemployment rate was just 3.8 percent and average hourly earnings rose by 3.2 percent year-over-year in April, well in excess of the inflation rate of 2.0 percent.

Consumer sentiment improved modestly and retail sales were robust with the latter rising by 1.6 percent month-over-month in March.

The manufacturing sector continued to expand in March. The Institute for Supply Management's (ISM) Manufacturing Index increased for the 119th consecutive month. The non-manufacturing sector also grew. According to the ISM Non-Manufacturing Survey, this was the 110th consecutive month of expansion in this sector.

The real estate sector showed continued weakness, however March sales of existing homes fell by 5.4 percent year-over-year. Housing starts were also weak. And while new home sales grew by 3.0 percent year-over-year, sales of new homes are small relative to existing home sales.

The Long Island Economy

Labor Market

Long Island's labor market continued its strong run. The March unemployment rate was just 3.5 percent, the lowest for March in 18 years. Moreover, labor force participation and the number of persons employed were the highest ever for March.

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

- Education and Health Services (+11,500)
- Natural Resources, Mining and Construction (+5,100)
- Leisure and Hospitality (+3,000)

Wages grew moderately. In New York State, private sector hourly earnings rose by 3.1 percent year-over-year in March. The largest gains were seen in:

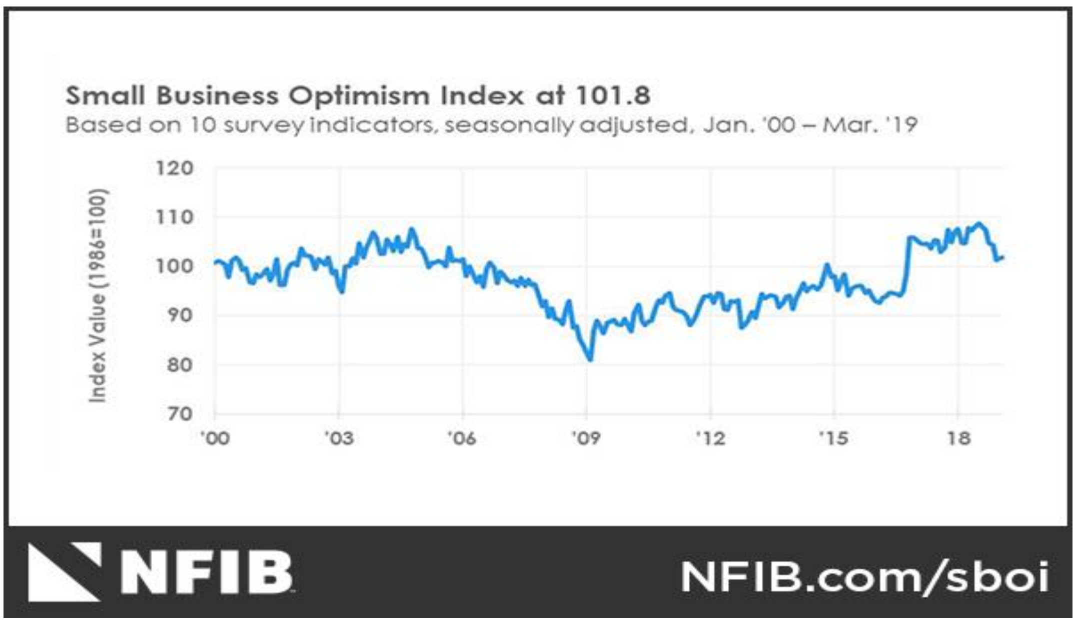
- Manufacturing (+5.9%)
- Leisure and Hospitality (+4.3%)
- Professional and Business Services (+4.2%)

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 to 101.8 in March. This is a historically high reading and indicates that small business remains a strong component of economic growth. The results of the index point to solid growth with no signs of recession on the horizon. The uncertainty component of the index fell substantially as well. Less uncertainty is a favorable sign for business conditions going forward.

The National Federation of Independent Business' (NFIB) Small Business Optimism Index rose to 101.8 in March. This is a historically strong reading and indicates that small business remains a strong component of economic growth.



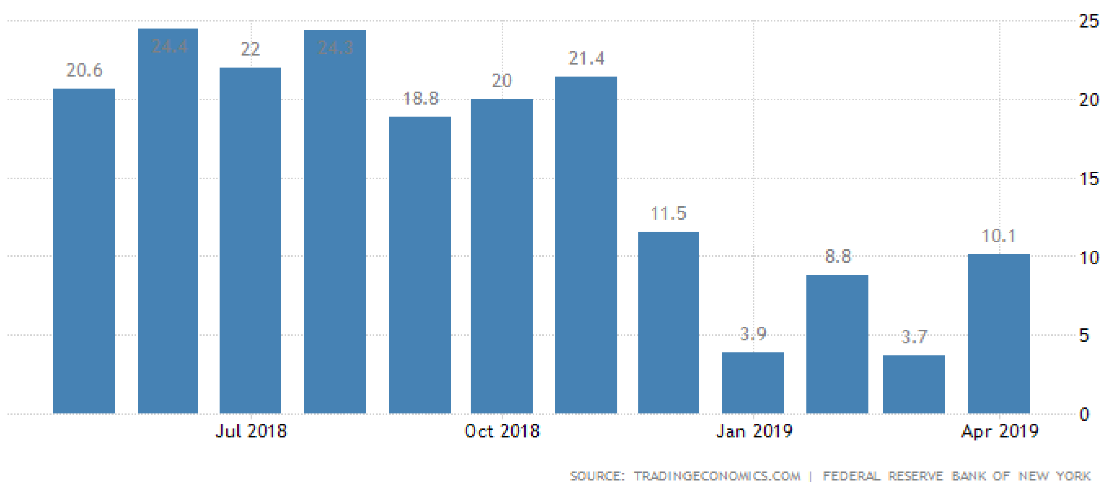
The New York Empire State Manufacturing Index rose to 10.1 in April from the previous month's near two-year low of 3.7. This gain was well above expectations.

Compared to March, increases occurred in:

- New Orders (7.5 vs. 3.0 in March)
- Shipments (8.6 vs. 7.7),
- Delivery times (7.0 vs. 1.4)
- Inventories (8.4 vs. 0.0)

Nevertheless, optimism about the six-month outlook declined to its lowest level in more than three years. The input prices paid and selling price components of the index declined, indicating slower input and selling price growth.

Empire State Manufacturing Index



The service sector expanded modestly according to firms responding to the Federal Reserve Bank of New York's April 2019 Business Leaders Survey. The survey's headline business activity index was little changed at 10.9. As with the Empire Manufacturing Index, the pace of both input price increases and selling price increases slowed noticeably. In contrast to the manufacturing index, survey respondents remained optimistic about the six-month outlook.

Consumer Sector

Consumer spending in March, as indicated by sales tax collections, rose modestly in Nassau County by 0.42 percent. Spending rose at a more robust pace in Suffolk County, increasing by 4.63 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 5.59 percent in Suffolk County and by 1.38 percent in Nassau.

Residential Real Estate

March home sales declined in both Nassau and Suffolk Counties. Year-over-year home sales fell by 8.8 percent in Nassau County, from 942 to 859 units. Sales declined by 5.8 percent in Suffolk, from 1,147 to 1,081 units. Despite this drop in sales, prices continued to rise. In Nassau County, home sales prices increased by 3.4 percent, from $500,000 to $517,000. Home sales prices rose from $352,000 to $372,875 in Suffolk, an increase of 5.9 percent.

The total number of Long Island residential inventory in March 2019 was 16,535 representing a 14.6% increase over last year.[1]

[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.

Commercial Real Estate: Warehouse/Distribution Space

Vacancy rates for warehouse/distribution space are highly skewed. The median vacancy rate is 0.0 percent. But, 25 percent of establishments have a vacancy rate of 16.3 percent or more as indicated in the table below.

WAREHOUSE/DISTRIBUTION SPACE – VACANCY RATE DISTRIBUTION

Low	25th Percentile	Median	75th Percentile	High
0.0%	0.0%	0.0%	16.3%	83.1%

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

Asking rents for warehouse/distribution space vary from $4.91 to $14.12 per square foot. Over the past twelve months, asking rents have advanced a total of 1.6 percent.

WAREHOUSE/DISTRIBUTION SPACE – ASKING RENTS PER SQUARE FOOT

Low	25th Percentile	Median	75th Percentile	High
$4.91	$6.75	$8.08	$10.37	$14.12

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

Long Island's Economic Outlook

The labor market continued to perform well and business conditions improved, albeit modestly. Consumer confidence and spending plans were solid. This points to further economic growth in the near term but, as has been the case for some time now, the real estate sector continues to underperform.

FOCUS ON… LEISURE AND HOSPITALITY: A VICTIM OF ITS OWN SUCCESS?

The tourism season is fast approaching, raising questions about the outlook for this sector. The leisure and hospitality sector is an important component of Long Island's economy, accounting for 10.7 percent of private sector jobs. And, while wages are relatively low in this sector, its sheer size means that it accounts for almost $1 billion in earnings annually.

Tourist spending on Long Island totaled $5.9 billion in 2017 and generated $722 million in tax revenues according to the research firm Tourism Economics. Without this tax revenue, the average Long Island household would need to have paid an additional $776 dollars in taxes to cover the shortfall.

The leisure and hospitality industry are expected to become increasingly important as well. While private sector job growth on Long Island has been projected to be 13.4 percent from 2014-2024, leisure and hospitality jobs are projected to grow by more than 21 percent.

With a strong economy and solid consumer confidence, one can anticipate a favorable tourist season in 2019. Although some potentially significant challenges remain. First, gas prices have been rising. In New York State, 44 percent of respondents to a March 2019 Siena Research Institute survey indicated that gasoline costs were a somewhat serious or very serious concern. This compares to just 29 percent a year ago.

Second, a strong dollar will make travel abroad relatively cheaper, hence more appealing. This also means that travel to the U.S. will be relatively more expensive for many international tourists. International travelers are important as they accounted for 30 percent of tourist spending in New York State in 2017.

Third, the tight labor market means that unfilled jobs in the leisure and hospitality sector are expanding rapidly. In fact, the U.S. Bureau of Labor Statistics estimated there were 353,000 job openings nationally across the leisure and hospitality sector in 2009. By 2018, that number had more than tripled to 1,139,000. In fact, travel leads all industries in open positions.

Finally, the leisure and hospitality sector is expanding worldwide as hotels and airlines focus on emerging tourist destinations. A recent report on tourism by Deloitte notes that:

Popular destinations like New York are competing with a crop of rising stars like Portugal and Vietnam—some of which are growing visitation by 20–30 percent annually.

The Deloitte report concludes that:

While market conditions are generally expected to remain strong in 2019, significant challenges capable of throwing the U.S. travel industry off its growth trajectory loom on the horizon—many the unfortunate growing pains of an expanding industry.

Only time will tell if the "growing pains" of this industry sector will have a significantly negative effect on tourism in the U.S. and Long Island. But overall, economic conditions suggest otherwise.