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LIA Monthly Economic Report

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

November, 2019

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Manufacturing declined modestly for the second consecutive month, reflecting the escalating trade war with China. The service sector improved but at a slower pace than previously. The labor market, consumer spending, and consumer confidence remained strong which bodes well for the upcoming holiday shopping season.

Labor market conditions and spending were also strong on Long Island and small business owners who constitute the backbone of Long Island's economy remain optimistic and do not anticipate a recession anytime soon.

The National Economy

The manufacturing sector showed a modest contraction in September. The Institute for Supply Management's manufacturing composite index fell to a reading of 47.8 from 49.1 in August. (For this index, 50 is neutral with readings above 50 suggesting expansion and readings below 50 suggesting contraction in manufacturing). The New Export Orders Index continued to contract strongly, feeling the effects of the trade war with China.

But the non-manufacturing sector remained in expansionary territory with a reading of 52.6 percent although this is 3.8 percentage points below the August reading of 56.4 percent. This represents continued growth in the non-manufacturing sector, albeit at a slower rate.

There were 136,000 jobs added in September which was slightly below expectations. The unemployment rate fell to 3.5 percent and jobless claims remained low and consistent with a continued strong labor market.

Inflation held steady at 2.4 percent and October and consumer sentiment increased from the previous month, exceeding expectations. Consumer sentiment about current economic conditions improved markedly which is a good sign for the upcoming holiday shopping season; and retail sales increased by a solid 4.1 percent year-over-year in September.

But the housing market showed continued weakness. Housing starts declined in September, significantly missing expectations. New and existing home sales declined as well.

The Long Island Economy

Labor Market

Long Island's private sector job count decreased by 9,800 between August and September compared to an average loss of 3,500. However, this largely reflected a decline in leisure and hospitality jobs following months of record summer hiring in that sector. Most of those jobs were likely seasonal ones.

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

- Education and Health Services (+11,500)
- Natural Resources, Mining and Construction (+7,500)
- Leisure and Hospitality (+1,800)

Hourly earnings rose by 3.8 percent year-over-year in September.

The largest gains were seen in:

- Leisure and Hospitality (+7.4%)
- Professional and Business Services (+5.4%)
- Trade, Transportation and Utilities (+5.2%)

The September unemployment rate remained low at just 3.4 percent.

Business Conditions

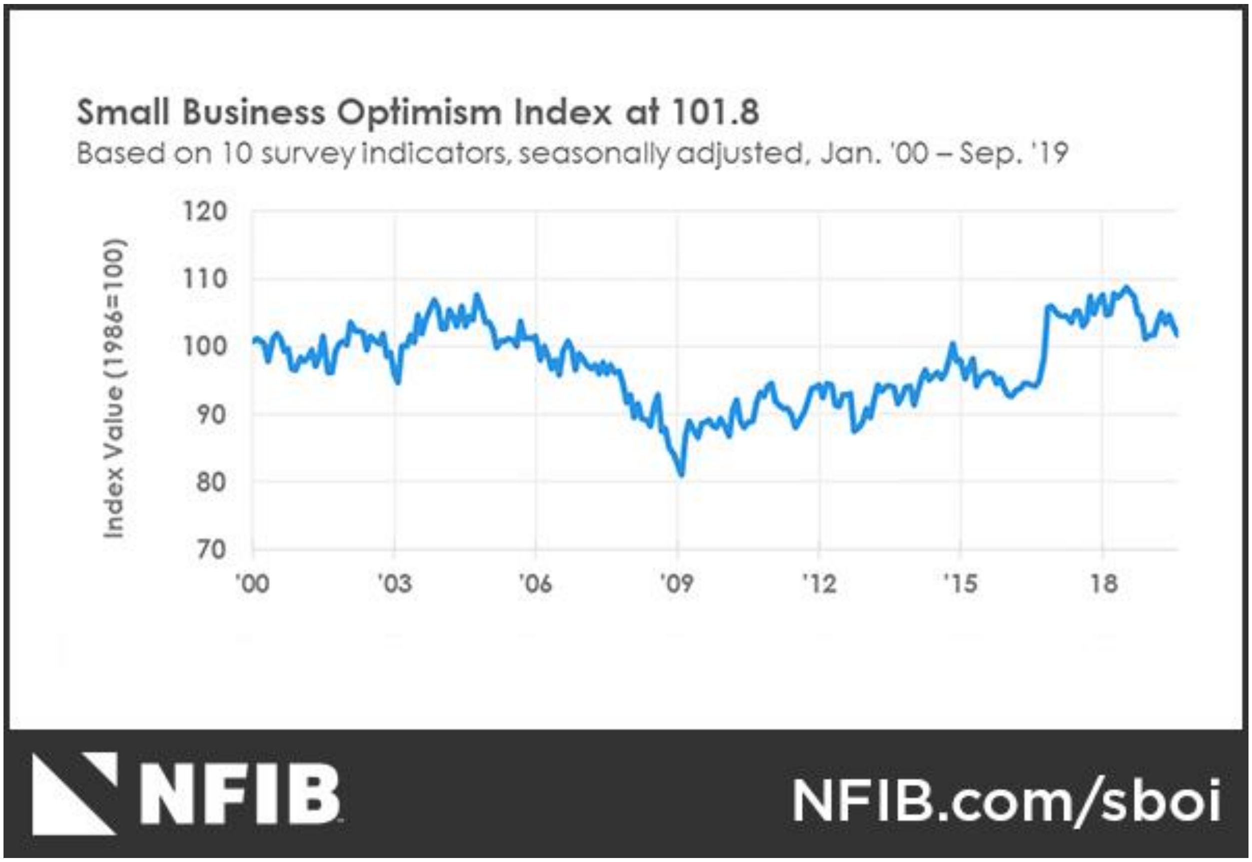
With small businesses comprising almost 90 percent of commercial establishments on Long Island, this is a key sector for economic growth.

"All indications are that owners are eager to do more but they're uncertain about what the future holds and can't find workers to fill the jobs they have open."

The National Federation of Independent Business (NFIB) Small Business Optimism Index fell slightly in September but remained at an historically high level consistent with expansion. The survey shows no sign of a recession and indicated continued job creation, capital spending and inventory investment, all consistent with solid but slower growth.

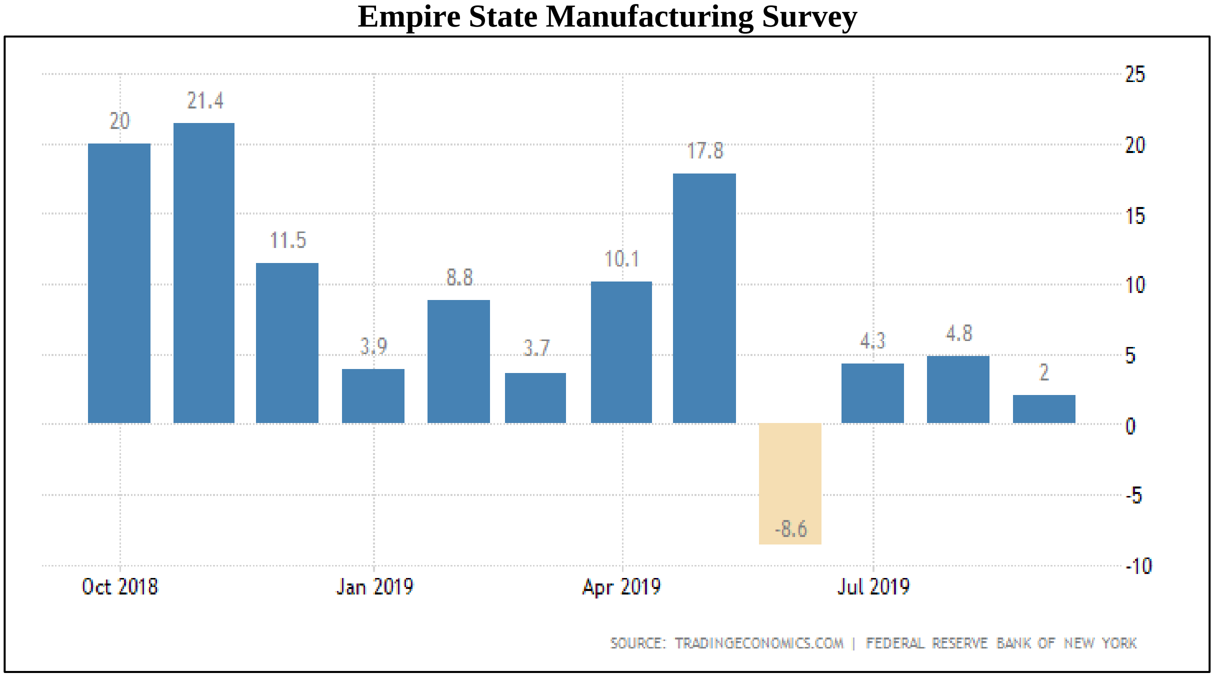
But survey respondents expressed growing uncertainty. As NFIB CEO Juanita Duggan remarked:

"As small business owners continue to invest, expand, and try to hire, they're doing so with less gusto than they did earlier in the year, thanks to the mixed signals they're receiving from policymakers and politicians. All indications are that owners are eager to do more, but they're uncertain about what the future holds and can't find workers to fill the jobs they have open."



The New York Empire State Manufacturing Index rose 2 points from the previous month to +4 in October 2019, beating market expectations of +1. New orders increased slightly and shipments picked up. In addition, employment levels and hours worked both advanced modestly. In terms of the six-month outlook, there was modest optimism that future conditions would improve.

Empire State Manufacturing Survey



Activity in the region’s service sector declined slightly according to firms responding to the Federal Reserve Bank of New York’s October 2019 Business Leaders Survey. The survey’s headline business activity index dropped nine points to -4.3— the first negative reading in more than two years.

Consumer Sector

September consumer spending as indicated by sales tax collections, rose at a solid pace. Spending grew by 9.84 percent year-over-year in Nassau County. Spending rose less rapidly in Suffolk County, increasing by 4.31 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 10.80 percent in Nassau County and by 5.27 percent in Suffolk.

Private Homes

Private home sales were mixed in September. Home sales rose by 9.6 percent in Nassau County, from 1,040 to 1,140 units sold year-over-year. But sales declined from 1,477 to 1,418 units in Suffolk, a drop of 4.0 percent.

Home sale prices grew by a modest 2.9 percent in Nassau County but by a more robust rate of 7.7 percent in Suffolk.

The total number of Long Island residential inventory in August 2019 was 18,568 representing a 5.0% increase over last year.

Apartment Space

Apartment space remains scarce on Long Island relative to demand. The vacancy rate is the sixth lowest among metropolitan areas nationally and the second lowest in the Northeast region behind only Central New Jersey.

Vacancy rates vary from a low of 0.0 percent to a high of 11.5 percent as indicated in the following table.

APARTMENT SPACE – VACANCY RATE DISTRIBUTION

Low	25th Percentile	Median	75th Percentile	High
0.0%	1.8%	3.4%	4.5%	11.5%

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

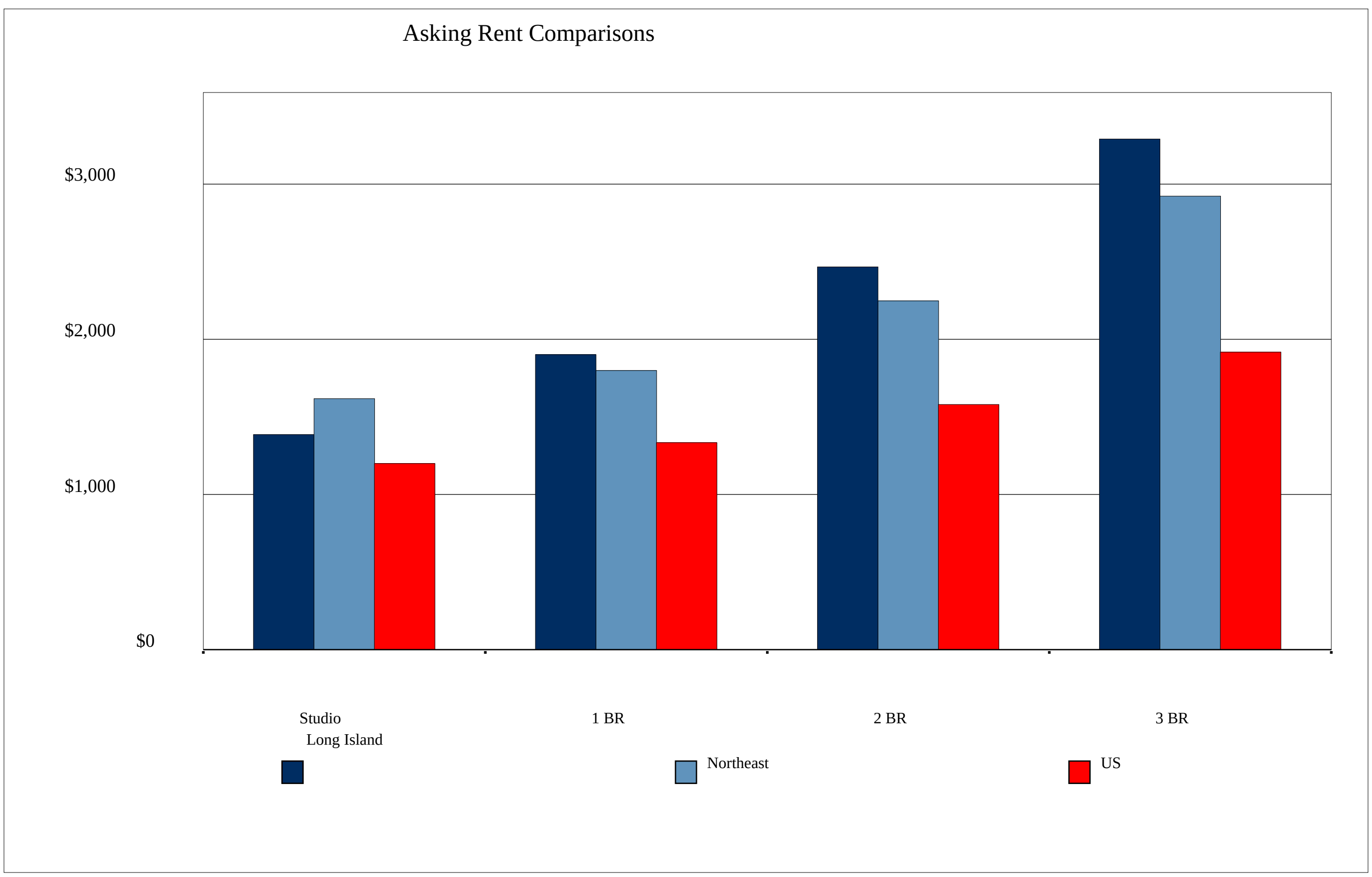
Asking rents for apartment space vary from $1,451 to $3,670 per month.

APARTMENT SPACE – MONTHLY ASKING RENTS

Low	25th Percentile	Mean	75th Percentile	High
$1,451	$1,767	$2,147	$2,424	$3,670

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

Asking rents are high on Long Island relative to the Northeast and nationally as can be seen in the chart below.



Long Island's Economic Outlook

The strong labor market remains the highlight of Long Island's economy. Business conditions are decent, but uncertainty seems to be weighing on business decisions. Consumer spending looks strong, which is a good sign for the upcoming holiday shopping season. The prospects for holiday shopping are considered in greater detail in the *Focus On* section of this report.

Focus On… Holiday Shopping: ‘Tis the Season to be Spending?

Most evidence paints a fairly rosy picture for the all-important holiday shopping season. A recent report by PricewaterhouseCooper finds that consumers are somewhat optimistic about holiday shopping this year with 86% indicating they will spend the same or more this holiday as they did in 2018. On average, consumers say they will spend $1,284 on gifts, travel and entertainment, a modest increase of 2.7% over last year.

But another study from the National Retail Federation (NRF) predicts even more favorable growth in holiday spending— an increase of 3.8 to 4.2 percent.

These are rather divergent forecasts. Which one is likely to prove more accurate? Economic data would seem to support strong growth. The labor market is strong, consumer confidence is high and inflation is low. And the NRF claims to base its predictions on models that take into account important economic indicators. So more and better information on weather forecasts can improve pricing and distribution decisions. The challenge of course is that weather forecasts, like economic forecasts, are not always accurate. But cold weather is considered a key factor that gets consumers into the holiday shopping spirit. And according to the National Weather Service, November is projected to be colder than normal on Long Island. So perhaps the weather will work in concert with strong economic data to make this a green Christmas.

But others have argued that the NRF forecasts are overly optimistic. They point to last year’s numbers as evidence of this. While the NRF forecast growth of 4.3 to 4.8 percent in 2018, holiday spending grew by just 2.1 percent year-over-year in 2018. But the NRF notes that this weaker than expected growth reflected a number of unpredictable events, including a government shutdown, market volatility and an escalating trade war with China.

Critics have also argued that the NRF forecasts fail to take into account one key factor; namely, the weather. A survey of 1,000 executives conducted by IBM and Oxford Economics provides strong support for the importance of weather. The results indicate that failure to take into account weather conditions adversely affects the bottom line. The report states that:

More than half of the executives indicate that at least three revenue metrics are negatively impacted by weather in their organizations, with on-time sales order delivery and forecast accuracy cited as the most negatively impacted.

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