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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Third quarter U.S. GDP grew at a solid pace of 3.5 percent, driven by strong consumer spending. Low unemployment and continued expansion in the manufacturing and services sectors were further reasons for optimism, but the real estate market worsened noticeably and could pose a significant threat to continued growth.

The situation was much the same on Long Island. The economy is strong along many dimensions but, with double-digit declines in home sales, the real estate sector may face additional challenges.

The National Economy

The overall performance of the U.S. economy remained strong. Both manufacturing and non-manufacturing sectors showed continued growth. The results were particularly strong in the non-manufacturing sector. The Institute for Supply Management's Non-Manufacturing Index achieved a fourteen-year high in business activity.

The labor market continued its strong and extended run. The unemployment rate remained low as did jobless claims. Some 215,000 jobs were added in October, beating expectations. Consumers were optimistic and reflecting this, consumer spending rose at a robust pace of 4.0 percent in the third quarter of this year.

But the real estate sector appears to have deteriorated further. Sales of new and existing homes fell markedly. September existing home sales were at their lowest level in three years. The effects of rising mortgage interest rates and changes in tax laws limiting the deductibility of property taxes and mortgage interest may be important contributing factors to this.

Both producer and consumer prices remained in check, growing only modestly year-over-year. Given concerns about the real estate market, one could reasonably question the wisdom of a further interest rate hike by the Federal Reserve Bank this year.

The Long Island Economy

Labor Market

Long Island's unemployment rate was just 3.3 percent in September. This is the lowest unemployment rate for September since 1998. And labor force participation and the number of persons employed reached all-time highs for September.

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

- Natural Resources, Mining and Construction (+7,000)
- Leisure and Hospitality (+1,600)
- Education and Health Services (+3,200)

In New York State, private sector hourly earnings rose by 4.4 percent year-over-year in September. There were strong increases almost across the board. The largest gains occurred in:

- Manufacturing (+6.1%)
- Goods Producing Industries (+5.8%)
- Trade, Transportation, and Utilities (+5.0%)
- Professional and Business Services (+5.0%)

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 owners are currently very optimistic about economic conditions.

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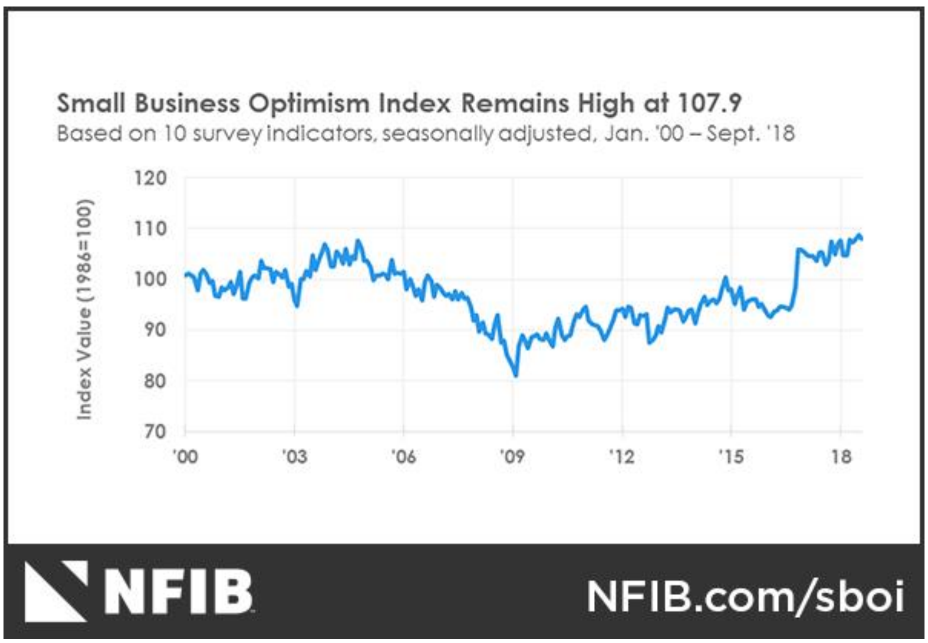
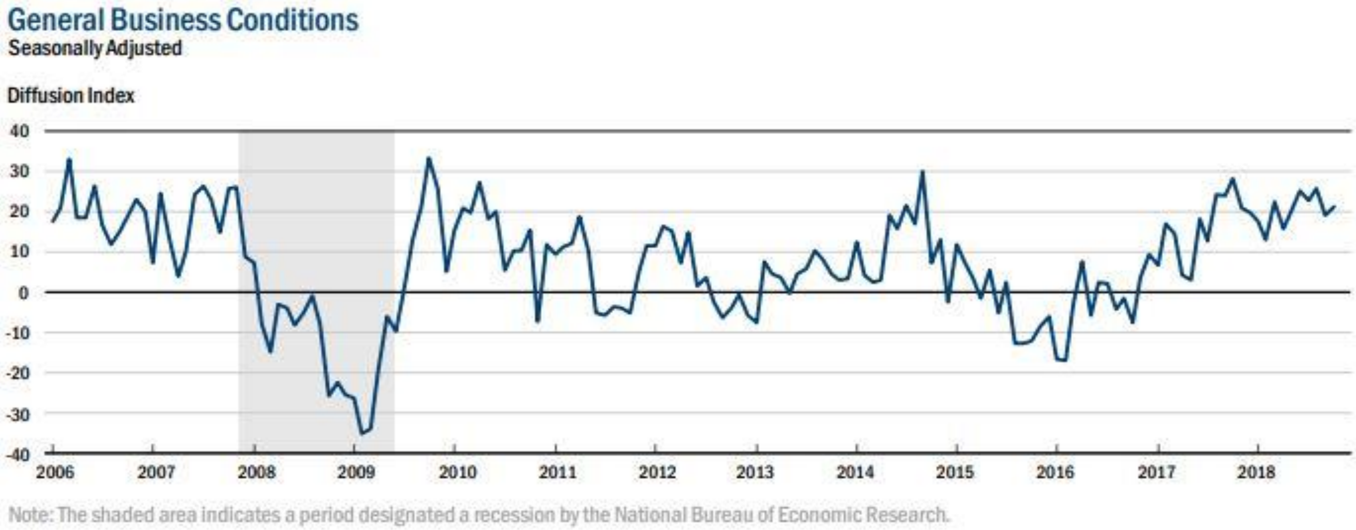
The September 2018 survey showed:

- Actual capital spending rose significantly
- Average employment per firm was solid
- Owners increased their inventories
- Compensation increases rose to record levels



Business activity continued to grow strongly in New York State according to firms responding to the October 2018 Empire State Manufacturing Survey. The index of general business conditions increased by two points, a slightly faster pace of growth than in September. New orders and shipments rose sharply. Delivery times continued to lengthen while inventories remained steady. Labor market indicators pointed to a modest increase in employment levels and no change in hours worked. Small business owners expect both input and selling prices to increase significantly. Firms were optimistic about the six-month business outlook.

Empire State Manufacturing Survey



Source: Federal Reserve Bank of New York

Activity in the region's service sector grew moderately according to firms responding to the Federal Reserve Bank of New York's October 2018 Business Leaders Survey. After reaching its highest level in more than a decade, the survey's headline business activity index fell thirteen points to 9.4 but remained in positive growth territory. The survey indicated that both employment and wage increases were strong in the service sector.

Consumer Sector

Consumer spending, as indicated by sales tax collections, increased markedly in September for Suffolk County but was flat in Nassau. Year-over-year sales tax collections increased by 7.78 percent in Suffolk. 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 - 8.79 percent in Suffolk County, and 1.00 percent in Nassau.

The Real Estate Market

September was a particularly challenging one for Long Island's real estate market, with double-digit declines in sales in both Nassau and Suffolk Counties. Home sales plummeted by 15.1 percent year-over-year in Nassau County, from 1,167 to 991 units sold. Sales fell by 11.2 percent in Suffolk, from 1,593 to 1,415 units sold.

Home sales prices edged up by 2.0 percent in Nassau County, from $490,000 to $500,000. Sales prices rose by 6.0 percent in Suffolk County, from $360,000 to $381,000. The one bright spot was home inventories which rose by 8.2 percent year-over-year. This increases the choices available to prospective buyers which could help to stimulate demand.[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: Office Space

Most office space on Long Island is located in the East Nassau submarket, representing 10.5 million square feet and 24.2 percent of the metropolitan inventory, followed by Western Suffolk, with a 23.7 percent share, and Northwest Nassau with an 18.6 percent share. Since the beginning of the third quarter of 2008, the fastest growing area has been the Northwest Nassau submarket, adding 283,000 square feet over that period, or 41.9 percent of total metropolitan office completions.

Asking rents for office space on Long Island vary more than two-fold, from $16.50 to $39.71 per square foot, with a median of $27.42 per square foot.

OFFICE SPACE – ASKING RENTS PER SQUARE FOOT

Low	25th Percentile	Median	75th Percentile	High
$16.50	$23.35	$27.42	$32.00	$39.71

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

Median vacancy rates for office space on Long Island are among the 20 lowest in metropolitan areas nationally. Vacancy rates for office space vary quite widely, however, from 0.0 percent to 57.9 percent. The median vacancy rate is just 10.1 percent.

OFFICE SPACE – VACANCY RATE DISTRIBUTION

Low	25th Percentile	Median	75th Percentile	High
0.0%	3.5%	10.1%	18.2%	57.9%

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

Long Island's Economic Outlook

There is again much good to say about Long Island's economy. Record low levels of unemployment, robust wage growth, and strong performances in both the manufacturing and service sectors all bode well for the future. But home sales were particularly poor in September. This poses a threat to economic growth going forward, as does recent volatility in the stock market. These issues are discussed more fully in the "Focus On" section of this report.

Focus On: Consumer Sentiment is on the Rise - But Will it Continue?

The latest figures on consumer sentiment for the New York Metropolitan area paint a rosy picture. The Siena College Research Institute's Index of Consumer Sentiment showed sharp increases in September compared to June for overall economic conditions, as well as current conditions and expectations for the future. In fact, the overall index of consumer sentiment reached a multi-year high in September.

And, given that Long Island's unemployment rate was the lowest for September in 20 years while wage growth has been robust, there are many reasons to expect strong consumer spending and economic growth going forward.

But consumer sentiment is a key factor in achieving such favorable outcomes. After all, sentiment drives consumer spending and such spending accounts for almost 70 percent of Gross Metropolitan Product. One might even say; as goes consumer sentiment, so goes the economy.

While Long Island's strong economy suggests otherwise, there are at least two important reasons for concern. First and foremost is the real estate market. The September results for real estate sales on Long Island show double-digit year-over-year declines in both Nassau and Suffolk Counties. Moreover, with rising mortgage interest rates and tax changes limiting the deductibility of real estate taxes and mortgage interest payments, this situation seems unlikely to improve. If such weak demand persists, home values could remain flat or even decline. This poses a threat to consumer confidence because for most consumers their home is the largest component of their wealth.

Another source of concern is the recent volatility in the stock market. Many consumers have stocks in their 401Ks or other retirement plans. And even if they do not plan to spend this money for some time, volatility and dips in the value of these retirement plans are concerning to consumers and very likely affect their spending plans.

Despite high levels of consumer optimism, the Siena Survey also found that plans to purchase a home or make major home improvements were weak in September of this year. If this pattern persists, and volatility in the stock market continues, the favorable direction of Long Island's economy could change.