At the national level the real estate sector finally showed some signs of recovery with home sales rising in excess of expectations. The labor market continued its strong run but manufacturing declined as it felt the adverse effects of the trade war with China. While spending was strong, there was pessimism among consumers and the business community about future economic conditions.

The situation was somewhat different on Long Island. At the national level, the labor market and spending were strong. Manufacturing fared somewhat better with continued modest expansion but the real estate sector continued to underperform.
The National Economy

Manufacturing experienced a rare decline in August. The Institute for Supply Management’s (ISM) Manufacturing Index contracted for the first time in almost three years. There was a marked decline in business confidence. Trade with China remains a concern. The New Export Orders Index declined substantially. In contrast, the service sector, which is less affected by the trade issues with China, continued to expand.

The labor market showed continued strength. The average hourly earnings rose by 3.2 percent year-over-year in August and by 0.4 percent compared to July, exceeding expectations. The unemployment rate remained low at 3.7 percent. Jobless claims were also low and consistent with a labor sector that continues to expand.

The August Consumer Price Index rose by 2.4 percent year-over-year while the Producer Price Index increased by just 1.8 percent. Thus, inflation has remained in check.

Retail sales rose by 0.4 percent in August compared to July, exceeding expectations. August durable goods orders rose by a robust rate of 0.5 percent month-over-month but consumer confidence declined in August compared to July, raising some concerns about spending going forward.

There was welcome news from the real estate sector. August building permits and housing starts both rose in excess of expectations. Existing home sales also increased while home sales prices rose 5.0 percent year-over-year.

The Long Island Economy

Labor Market

Long Island’s unemployment rate remained low. The August unemployment rate was 3.7 percent, near historical lows for this time period. As in July, however, both labor force participation and the number of persons employed declined modestly compared to the previous year. When people leave the labor force, they are no longer counted as unemployed. Long Island’s private sector job count decreased by 9,500 between July and August, far higher than the average loss of 1,700 during this time period.

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

- Education and Health Services (+7,400)
- Natural Resources, Mining and Construction (+6,000)
- Leisure and Hospitality (+3,900)

Wage growth picked up in August. In New York State, private sector hourly earnings rose by 3.9 percent year-over-year.
The largest gains were seen in:

- Trade, Transportation and Utilities (+5.8%)
- Professional and Business Services (+5.7%)
- Leisure and Hospitality (+4.4%)

The continued 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 National Federation of Independent Business (NFIB) Small Business Optimism Index fell 1.6 points to 103.1. However, as may be seen in the chart below, this reading was still quite high by historical standards. But optimism declined regarding future business conditions.

Business activity was little changed in New York State according to firms responding to the September 2019 Empire State Manufacturing Survey. The headline General Business Conditions Index fell by three points to 2.0 but remained in positive territory.
Business activity was little changed in New York State according to firms responding to the September 2019 Empire State Manufacturing Survey. The headline General Business Conditions Index fell by three points to 2.0 but remained in positive territory. However, as with the NFIB Survey, optimism about future conditions deteriorated noticeably.

### Empire State Manufacturing Survey

![Empire State Manufacturing Survey Chart](chart)

Activity in the region’s service sector also grew modestly according to firms responding to the Federal Reserve Bank of New York’s September 2019 Business Leaders Survey. But once again, there was pessimism about future business conditions.

### Consumer Sector

August consumer spending, as indicated by sales tax collections, rose at a solid pace. Spending grew by 3.96 percent year-over-year in Nassau County. Spending rose more rapidly in Suffolk County, increasing by 5.59 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 4.92 percent in Nassau County and by 6.55 percent in Suffolk.
Residential Real Estate

The real estate sector fared poorly in August. In Nassau County, home sales declined by 12.0 percent year-over-year, from 1,501 to 1,321 units sold. Home sales fell from 1,835 to 1,744 units in Suffolk County, a drop of 5.0 percent. Year-over-year home sales prices rose by just 1.0 percent in Nassau County and by 3.8 percent in Suffolk.

The total Long Island residential inventory in August 2019 was 18,418 units representing a 5.8% increase over last year.¹

Commercial Real Estate: Retail Space

Retail space remains scarce on Long Island. Long Island has among the 20 lowest vacancy rates in metropolitan areas nationally. As indicated in the tables below, the median vacancy rate is just 2.2 percent for neighborhood shopping centers and 2.9 percent for community shopping centers.²

<table>
<thead>
<tr>
<th>RETAIL SPACE – VACANCY RATE DISTRIBUTION (neighborhood shopping centers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
</tr>
<tr>
<td>-----</td>
</tr>
<tr>
<td>0.0%</td>
</tr>
</tbody>
</table>

As of August 2019. Source: Reis Reports: [www.reisreports.com](http://www.reisreports.com).

<table>
<thead>
<tr>
<th>RETAIL SPACE – VACANCY RATE DISTRIBUTION (community shopping centers)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
</tr>
<tr>
<td>-----</td>
</tr>
</tbody>
</table>

¹ This data includes 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.

² A community shopping center is a retail property offering a wider range of apparel and general merchandise than a neighborhood center.

Asking rents for retail space at non-anchor stores in neighborhood shopping centers vary from $15.85 to $59.59 per square foot.

**RETAIL SPACE – ASKING RENTS PER SQUARE FOOT**
(non-anchor stores at neighborhood shopping centers)

<table>
<thead>
<tr>
<th>Low</th>
<th>25th Percentile</th>
<th>Median</th>
<th>75th Percentile</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15.85</td>
<td>$25.18</td>
<td>$31.73</td>
<td>$38.05</td>
<td>$59.59</td>
</tr>
</tbody>
</table>


Anchor stores at neighborhood shopping centers have significantly lower asking rents as the table below indicates.

**RETAIL SPACE – ASKING RENTS PER SQUARE FOOT**
(ANCHOR STORES AT NEIGHBORHOOD SHOPPING CENTERS)

<table>
<thead>
<tr>
<th>Low</th>
<th>25th Percentile</th>
<th>Median</th>
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<tr>
<td>$13.80</td>
<td>$19.48</td>
<td>$22.48</td>
<td>$25.21</td>
<td>$38.24</td>
</tr>
</tbody>
</table>


Asking rents at the larger community shopping centers are similar to those at neighborhood shopping centers as may be seen in the two tables below.

**RETAIL SPACE – ASKING RENTS PER SQUARE FOOT**
(non-anchor stores at community shopping centers)

<table>
<thead>
<tr>
<th>Low</th>
<th>25th Percentile</th>
<th>Median</th>
<th>75th Percentile</th>
<th>High</th>
</tr>
</thead>
<tbody>
<tr>
<td>$15.65</td>
<td>$27.90</td>
<td>$32.09</td>
<td>$37.55</td>
<td>$46.57</td>
</tr>
</tbody>
</table>


**RETAIL SPACE – ASKING RENTS PER SQUARE FOOT**
(ANCHOR STORES AT COMMUNITY SHOPPING CENTERS)

<table>
<thead>
<tr>
<th>Low</th>
<th>25th Percentile</th>
<th>Median</th>
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<th>High</th>
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<tr>
<td>$14.44</td>
<td>$18.62</td>
<td>$22.27</td>
<td>$28.58</td>
<td>$41.16</td>
</tr>
</tbody>
</table>

A continued strong labor market, solid consumer spending and modest expansion in the business sector are positive signs. But the real estate sector continued to perform poorly. As at the national level, confidence about future economic conditions has declined. Possible reasons for this decline in confidence are discussed in the Focus On section of this report.

**Focus On... A Crisis in Confidence?**

The business community has become increasingly pessimistic about future economic conditions. And this comes in the face of an economy that shows continued strength, both at the national level and on Long Island. What are the reasons for this change in outlook? Three possibilities that have been considered are:

- The impending impeachment proceedings
- The ongoing trade war with China
- Recessionary fears

There is little evidence or reason to believe that impeachment proceedings will have much effect on the economy. The stock market fell substantially following the Nixon impeachment proceedings but rose considerably following Clinton’s. More importantly, there is no economic reason why it should affect the real economy. It may raise concerns, but one can’t really point to how or why it should have a meaningful effect.

The trade war with China is a different story, however. There is good economic reason why this could have adverse effects. And there is evidence that these impacts have already been felt as trade between both countries has declined. But because both sides seem to be losing, there is reason to expect that some sort of agreement will be worked out. And in an election year, a strong economy is important for any presidential incumbent. That is an added incentive for a deal to be struck.

The third, and perhaps most ominous threat, is fear of an impending recession. A growing percentage of economists predict that a recession will occur by 2020 or 2021. But evidence of this is murky at best. What is evident, however, is that it is having a chilling effect on the business community’s outlook. As Juanita Duggan, CEO of the National Federation of Independent Business put it:

“In spite of the success we continue to see on Main Street, the manic predictions of recession are having a psychological effect and creating uncertainty for small business owners throughout the country. Small business owners continue to invest, grow, and hire at historically high levels, and we see no indication of a coming recession.”

Even if a recession does occur in the next year or two, “expert” predictions of it in the absence of convincing evidence seem irresponsible, especially when the immediate impact will be to stoke uncertainty and fear. Without meaningful evidence, such predictions are about as credible as the goblins and witches that may haunt us this Halloween.