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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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The U.S. economy continued to perform well on several fronts. The labor market was robust, consumer confidence high and the business sector solid. But in what is now a persistent pattern, the real estate sector lagged behind.

A similar trend occurred on Long Island. There was favorable economic news in every major sector except for real estate.

The National Economy

The economy saw multi-year highs on two fronts. Unemployment claims remained very low. In fact, the four-week average is down 1,500 to 212,250, its lowest level since December of 1969. Reflecting the strong labor and stock markets, consumer confidence attained its highest reading since October of 2000. Consumers expressed particular confidence in their ability to find a job and their income expectations.

Both personal income and spending showed solid gains in July. Retail sales grew by 0.5 percent, easily topping expectations. The July Consumer Price Index rose by 2.9 percent year-over-year.

The business sector performed well, particularly in manufacturing. And the business community expressed optimism regarding economic conditions.

The housing market continued to underperform relative to other sectors of the economy. Existing home sales fell for the fourth consecutive month. Home sales prices also fell in July compared to June. The supply of existing homes on the market dropped as well but the supply of new homes increased sharply, offering some hope for a recovery in this sector.

The Long Island Economy

Labor Market

The July unemployment rate was just 3.9 percent. That is the lowest level for July since 2001. And the number of persons employed reached its highest level ever for July.

Long Island's private sector job count declined by 5,500 between June and July, slightly more than the typical average job loss during this time period. But 2,000 construction jobs were added, leading to a record high employment in this sector.

Year-over-year jobs growth was greatest in:

- Natural Resources, Mining and Construction (+6,800)
- Leisure and Hospitality (+4,600)
- Education and Health Services (+2,600)

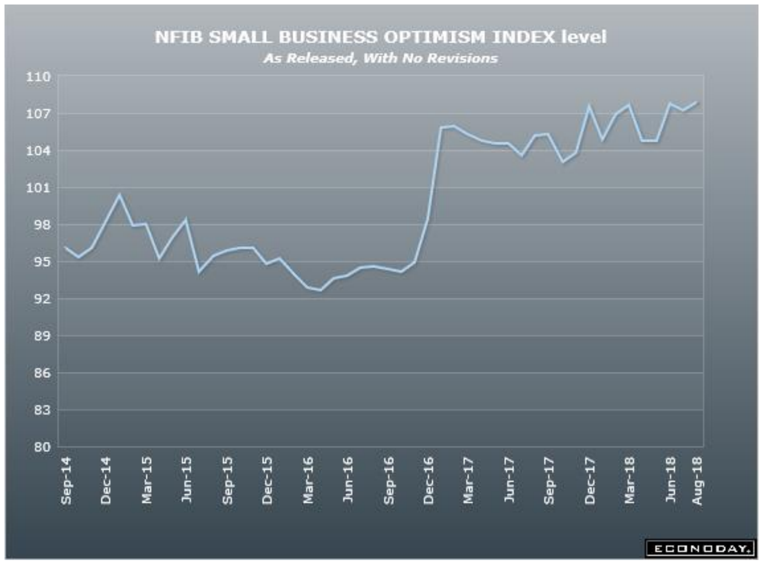
In New York State, private sector weekly earnings rose by 2.7 percent year-over-year in July. The strongest gains were seen in:

- Manufacturing (+7.8%)
- Goods Producing Industries (+6.5%)
- Construction (+5.1%)

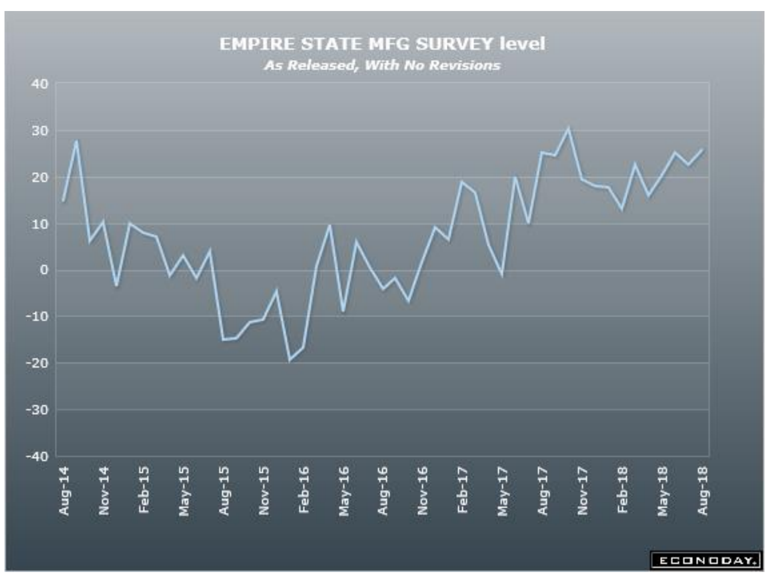
Business Conditions

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' Small Business Optimism Index rose to its second-highest level in the 45-year history of this index. Business owners anticipated a substantial increase in sales and jobs.

Expectations for future business conditions were also favorable.



Manufacturing continued its strong run. The Empire State's Manufacturing Survey increased signficantly in August, exceeding expectations. New orders, hiring and expectations about future economic conditions were all positive. This suggests that concerns over potential tariff wars have declined. But inflation appears to be on the rise. Both production costs and the selling prices of goods are increasing.



The service sector remained strong as well, according to the Federal Reserve Bank of New York's August Business Leaders Survey. The business climate is considered to be better than normal, but, as in the manufacturing sector, input prices appear to be on the rise. In contrast, increases in selling prices have slowed.

Consumer Sector

Consumer spending increased as indicated by sales tax collections in July. Year-over-year sales tax collections grew by 4.73 percent in Nassau County and by 1.58 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 - 5.71 percent in Nassau County, and 2.52 percent in Suffolk.

The Real Estate Market

Both Suffolk and Nassau Counties saw home sales prices increase while sales continued to lag. In Suffolk County, year-over-year home sales prices rose by 6.8 percent, from $365,000 to $390,000. Home sales prices rose from $520,000 to $540,000 in Nassau County, a gain of 3.8 percent.

Home sales declined once again but only slightly. Sales fell from 1,553 units to 1,551, a drop of 0.1 percent in Suffolk County. Nassau County saw a 0.5 percent decline, from 1,251 units to 1,245.

On a more positive note, July home inventories increased by a solid 2.7 percent year-over-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.

Apartment Space

Available apartment space remains scarce. The July vacancy rate was the tenth lowest among metropolitan areas in the U.S. and the third lowest in the Northeast. The median vacancy rate for apartment space was 3.0 percent, with a range of 0 percent to 18.7 percent.

Vacancy Rate Distribution— Apartment Space

Low	25%	Mean	Median	75%	High
0.0%	1.6%	3.5%	3.0%	4.5%	18.7%

As of August 2018. Source: Reis Reports

Vacancy rates are markedly higher for newer apartment space, as the table below demonstrates.

Vacancy Rates by Age of Facility—Apartment Space

Year Built	Vacancy Rate
Before 1970	2.9%
1970-1979	2.5%
1980-1989	2.4%
1990-1999	1.6%
2000-2009	3.6%
After 2009	6.7%

As of August, 2018. Source: Reis Reports

The median asking rent for apartment space is $1,907. But this varies widely, from a low of $1,407 to a high of $3,524.

Asking Rent Distribution—Apartment Space

Low	25%	Mean	Median	75%	High
$1,407	$1,707	$2,110	$1,917	$2,317	$3,524

As of August, 2018, Source: Reis Reports

Asking rents are much higher for newer apartments built after 2009. This might help explain why vacancy rates are higher in these apartments.

Asking Rents by Age of Facility—Apartment Space

Year Built	Asking Rents
Before 1970	$1,997
1970-1979	$1,788
1980-1989	$1,809
1990-1999	$2,217
2000-2009	$2,493
After 2009	$3,196

As of August, 2018. Source: Reis Reports

Long Island's Economic Outlook

Long Island's economy remains in good shape with strength in manufacturing, services and jobs. Consumer spending is solid as well. However, the real estate sector continues to lag behind. And there is evidence suggesting that inflation is on the rise. Rising inflation poses challenges to workers unless their earnings at least keep pace with inflation. But earnings growth has been quite uneven across industries. The possible reasons for this are discussed in the "Focus On" section of this report.

Focus On: Economic Outlook-Why Is Wage Growth Slow?

For some time, it has been noted that overall wage growth has been modest. This has puzzled observers, given low unemployment rates that have persisted for many months now. Government mandates such as health insurance requirements under the Affordable Care Act, increases in property taxes and other fees have raised the cost of doing business, limiting the ability to increase wages. Nevertheless, some critics have argued that companies have simply retained more profits for themselves, rather than sharing it with their workers. But is this really the case?

A glance at changes in weekly earnings by industry in New York State provides some telling evidence to the contrary. While overall earnings have increased by a modest 2.7% year-over-year, there is great variation across industries. In particular, weekly earnings growth is notably greater in manufacturing and other goods-producing industries, while it lags in service industries.

Both sectors are experiencing growing input costs. The difference is that the goods-producing sector is better able to pass on these increases to consumers. As noted earlier in this report, for example, results from the Empire State Manufacturing Survey indicated that sales price growth was high, while evidence from the services sector—the Business Leaders Survey—revealed a deceleration in sales prices. This suggests that consumers are less sensitive to price increases in goods-producing industries overall. One needs a refrigerator but can make do without dining at restaurant for example.

Both hours worked and hourly earnings have risen in goods-producing industries relative to the service sector. This indicates that demand has been relatively strong in goods-producing industries as well. When demand in this sector is stronger and the ability to pass on input cost increases greater, we see that workers' earnings increase at a robust pace. But when, as appears to be the case in the service sector, these favorable conditions are weaker, we observe modest earnings growth.

Weekly Earnings by Industry - New York State

Industry	**July 2018**		**July 2017**	**Percent Year**
Total Private	$1,045.30		$1,018.06	2.7%
Goods Producing	$1,273.41		$1,195.48	6.5%
Construction	$1,447.02		$1,376.77	5.1%
Manufacturing	$1,087.80		$1,009.21	7.8%
Private Service Providing	$1,021.14		$997.00	2.4%
Trade, Transportation, and Utilities	$855.31		$826.90	3.4%
Information	$1,665.92		$1,624.68	2.5%
Financial Activities	$1,695.94		$1,687.98	0.5%
Professional and Business Services	$1,380.94		$1,321.99	4.5%
Education and Health Services	$841.37		$825.60	1.9%
Leisure and Hospitality	$562.04		$542.54	3.6%
Other Services	$860.66		$846.54	1.7%

Source: New York State Department of Labor