This issue of the LIA newsletter continues to monitor and assess the latest economic effects of the coronavirus on Long Island and the outlook going forward. Despite improvements in business conditions and the labor market, Long Island’s economy faces challenges on multiple fronts. Economic activity remains well below 2019 levels. And home sales continued to decline sharply from last year’s levels.

Nevertheless, small business owners express optimism that business conditions will improve. Long Island’s ability to reopen to Phase IV has provided a boost to business activity. And the sharp declines in home sales may be reversing as both Suffolk and Nassau counties report positive year-over-year changes in pending home sales.

But expiring benefits in the CARES package and an impasse in Congress over the amount and composition of the next assistance package threaten the fragile economic recovery on Long Island and across the nation.
Reflecting the partial reopening of Long Island’s economy, private sector payroll employment rose by 71,800 in June following an increase of 40,700 in May. Employment increased in several major industry sectors, with the largest gains in construction, leisure and hospitality, and retail trade. Nevertheless at 980,500 in June, private sector employment is 194,800, or 16.6 percent, lower than in June 2019.

Initial Claims Data

Over-the-Year Percent Change in Initial Claims by Region Week Ending 7/25/2020

Source: New York State Department of Labor

Long Island unemployment claims again rose sharply as of July 25, but in line with a number of other sectors in New York State.

In a continuing pattern, the largest percentage increase in unemployment insurance claims occurred in:

- Educational Services (+768%)
- Other Services (+635%)
- Retail Trade (+600%)
- Health Care and Social Assistance (+528%)
- Accommodation and Food Services (+493%)
The National Federation of Independent Business (NFIB) Small Business Optimism Index increased by 6.2 points in June to 100.6. Eight of the 10 components of the index rose while two declined. On an even more positive note, small business owners continue to be optimistic about future business conditions and indicate they expect the recession to be short-lived.

As NFIB Chief Economist Bill Dunkelberg remarked:

“Small businesses are navigating the various federal and state policies in order to reopen their business and they are doing their best to adjust their business decisions accordingly. We’re starting to see positive signs of increased consumer spending, but there is still much work to be done to get back to pre-crisis levels.”

Manufacturing business activity increased in New York State for the first time in several months according to firms responding to the July 2020 Empire State Manufacturing Survey. The headline general business conditions index rose to 17.2, its first positive reading since February. New orders and shipments also increased, and unfilled orders were steady. Firms remained optimistic about the six-month outlook though less so than in June.
The Federal Reserve Bank of New York’s July 2020 Business Leaders Survey indicates that activity in the region’s service sector held fairly steady. The survey’s headline business activity index climbed thirty-eight points to -1.8. The business climate index rose seven points, but at -75.4, it indicates that the vast majority of firms still viewed the business climate as worse than normal.

Firms anticipate business activity to be higher over the next six months but still expect the business climate to be worse than normal.

**ECONOMIC EFFECTS OF THE PANDEMIC: CONSUMER CONFIDENCE AND SPENDING**

U.S. consumer confidence fell in July amid a flare-up in Covid-19 infections across the country. The Conference Board reported that its consumer confidence index dropped to a reading of 92.6 in July from 98.3 in June.

Lynn Franco, senior director of economic indicators at The Conference Board noted that:

“Large declines were experienced in Michigan, Florida, Texas and California, no doubt a result of the resurgence of COVID-19. Looking ahead, consumers have grown less optimistic about the short-term outlook for the economy and labor market and remain subdued about their financial prospects.”

Consumer pessimism has translated into weak spending. Consumer spending as indicated by sales tax collections declined rapidly in June. Sales tax collections dropped by 26.59 percent year-over-year in Nassau County and by 12.03 percent in Nassau.
ECONOMIC EFFECTS OF THE PANDEMIC: PRIVATE HOMES

Home sales prices rose moderately in June. Sales prices increased from $405,000 to $430,000 in Suffolk County, a gain of 6.2 percent. Prices rose by 3.0 percent in Nassau County, from $548,500 to $565,000.

But home sales continued their sharp declines. Year-over-year sales fell by 38.5 percent in Nassau County, from 1,188 to 731 units sold. Sales fell by 29.2 percent in Suffolk County, from 1,573 to 1,113 units sold.

There is some evidence that the downward trend in home sales may be reversing, however. Pending home sales rose by 20.4 percent in Suffolk County, from 1,649 to 1,986 units. Pending home sales rose by a modest 0.8 percent in Nassau County, from 1,290 to 1,300 units. Still, this is far better than pending home sales in prior months following the pandemic.

THE OUTLOOK

The Long Island economy has shown some improvement, consistent with the gradual reopening of the economy. And while home sales continued to decline sharply, pending home sales have improved, so that the decline may have bottomed out.

But levels of economic activity remain well below pre-pandemic levels. With second quarter U.S. GDP having fallen by 32.9 percent, it is difficult to imagine quarter three GDP not improving from this low base.

And yet, this is a possibility. If the next bailout package is insufficient and if COVID spikes in the autumn, such a worst-case scenario could become a reality. To avoid this, strong federal government assistance to small business, unemployed persons and state and local government is critical. And strict monitoring and control of coronavirus spread is equally important.

New York State and some other states have been able to contain the virus while reopening their economies judiciously. It is very important that other states follow suit in order to prevent the coronavirus spinning further out of control.