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LIA Monthly Economic Report

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

September, 2020

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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. Jobs have continued to increase on Long Island as the economy gradually reopens. But business activity has been sluggish of late. And consumer sentiment remains tepid. Home sales continued to plunge in July. But pending home sales rose rapidly, raising hopes for a rebound in home sales in the fourth quarter of this year. Much uncertainty remains as students return to school, the race for a coronavirus vaccine continues, and Congress remains deadlocked on the nature and extent of further economic assistance.

ECONOMIC EFFECTS OF THE PANDEMIC: LABOR MARKET

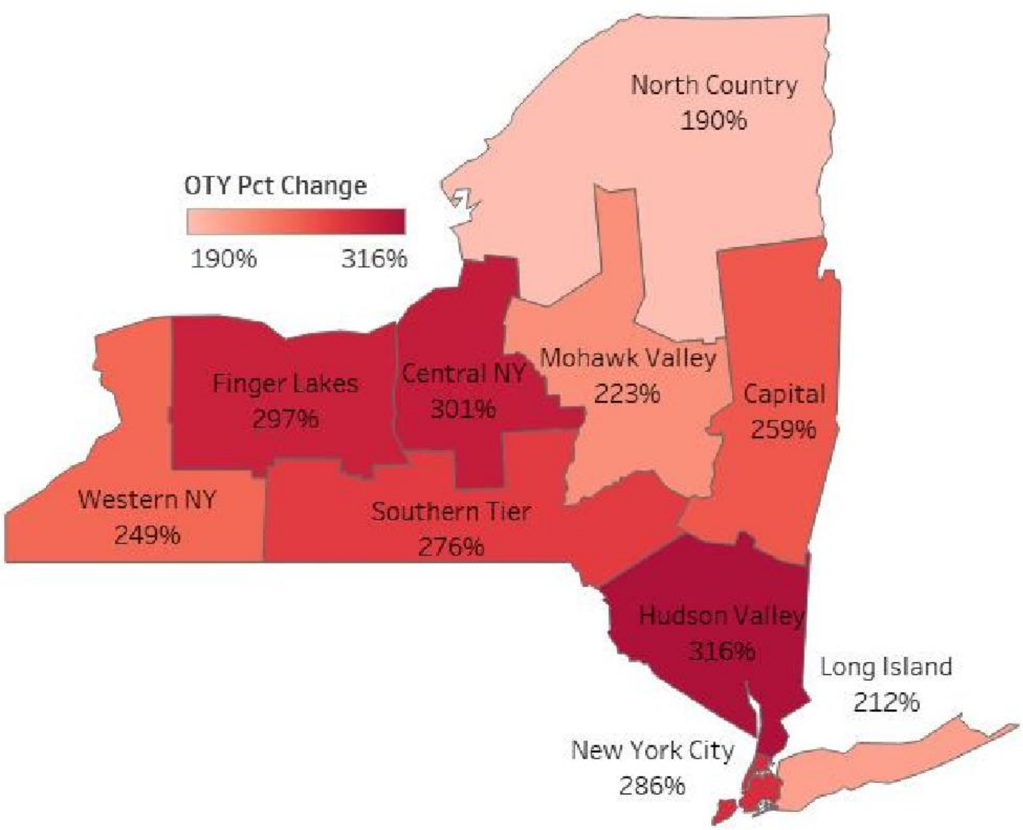
For the week ending August 22, 2020, initial claims for unemployment insurance (UI) increased over the past year by 279% (including out-of-state residents) in New York State. Initial claims for UI increased by a minimum of 190% in each of New York's 10 labor market regions.

Labor market regions with the most rapid over-the-year percentage increase in initial claims included: the Hudson Valley (+316%), Central NY (+301%), the Finger Lakes (+297%), New York City (+286%) and the Southern Tier (+276%). Long Island's increase was 212%. At the same time, initial claims for out-of-state residents grew by 344%.

Initial Claims Data

Over-the-Year Percent Change in Initial Claims by Region: Week Ending 8/22/2020

Source: New York State Department of Labor



The largest percentage increase in unemployment insurance claims occurred in:

- Other Services (+429%)
- Retail Trade (+412%)
- Accommodation and Food Services (+375%)
- Health Care and Social Assistance (+322%)

The July unemployment rate stood at 13.8 percent; some 10 percentage points higher than a year ago. This compares to even higher unemployment rates in New York City (20.0%) and New York State (16.0%).

ECONOMIC EFFECTS OF THE PANDEMIC: BUSINESS CONDITIONS

The National Federation of Independent Business (NFIB) Small Business Optimism Index NFIB's Small Business Optimism Index fell 1.8 points to 98.8 in July, near the survey's historical average. Overall, 4 of the 10 Index components improved, 5 declined, and 1 was unchanged. The NFIB Uncertainty Index increased 7 points to 88. Reports of expected better business conditions in the next six months declined 14 points to a net 25%. Owners continue to temper their expectations of future economic conditions as the COVID-19 public health crisis is expected to continue.

William Dunkelberg, the NFIB's Chief Economist has recently noted:

"This summer has been challenging for many small business owners who are working hard to keep their doors open and remain in business. Small business represents nearly half of the GDP and this month we saw a dip in optimism. There is still plenty of work to be done to get businesses back to pre-crisis numbers."

Small Business Optimism

Abrupt Turn in Small Business Optimism Ends 39-Month Historic Run

Index Component	Net %	Change From June
Plans to Increase Employment	18%	▲ 2
Plans to Make Capital Outlays	26%	▲ 4
Plans to Increase Inventories	4%	▼ -3
Expect Economy to Improve	25%	▼ -14
Expect Real Sales Higher	5%	▼ -8
Current Inventory	1%	– 0
Current Job Openings	30%	▼ -2
Expected Credit Conditions	-5%	▲ 1
Now a Good Time to Expand	11%	▼ -2
Earnings Trends	-32%	▲ 3

NFIB

NFIB.com/sboi

After increasing significantly in July for the first time since the pandemic began, manufacturing activity in New York State grew only slightly in August according to firms responding to the Empire State Manufacturing Survey. The headline general business conditions index fell fourteen points to 3.7, signaling a slower pace of growth than in July. New orders were little changed, and shipments increased modestly. Unfilled orders were down, and inventories declined. Despite these tepid results, firms remained optimistic that conditions would improve over the next six months.

The service sector performed less well. Business activity in the region's service sector declined significantly according to firms responding to the Federal Reserve Bank of New York's August 2020 Business Leaders Survey. Business activity index fell fifteen points to -17.1. The business climate index was little changed at -74.1, indicating that the vast majority of firms still viewed the business climate as worse than normal. The index for future business activity turned negative, falling ten points to -2.8, and the future business climate index fell to -20.4, indicating that firms expected conditions to be worse over the next six months. Capital spending is expected to continue to decline.

ECONOMIC EFFECTS OF THE PANDEMIC: CONSUMER CONFIDENCE AND SPENDING

Consumer sentiment has remained trendless in the same depressed range it has traveled during the past five months. The August figure posted an insignificant gain of just +0.4 points above the April to July average. The small August gain reflected fewer concerns about the year-ahead outlook for the economy although those prospects still remained half as favorable as six months ago. The pandemic has created distinctive consumer reactions to the economy. Since the April shutdown of the economy, a sizable number of consumers thought conditions could hardly get any worse.

Consumer Sentiment Results for August 2020

	Aug 2020	Jul 2020	Aug 2019	M-M Change	Y-Y Change
Index of Consumer Sentiment	**74.1**	72.5	89.8	+2.2%	-17.5%
Current Economic Conditions	**82.9**	82.8	105.3	+0.1%	-21.3%
Index of Consumer Expectations	**68.5**	65.9	79.9	+3.9%	-14.3%

Source: University of Michigan Index of Consumer Sentiment

Continued consumer pessimism has resulted in weak spending. Consumer spending as indicated by sales tax collections declined in July. Sales tax collections dropped by 14.11 percent year-over-year in Nassau County and by 14.26 percent in Nassau. However, these rates of decline were substantially less than in June.

ECONOMIC EFFECTS OF THE PANDEMIC: PRIVATE HOMES

July home sales prices rose by 1.1 percent year-over-year in Nassau County, from $545,000 to $551,250. Sales prices increased from $415,000 to $439,000 in Suffolk County, a gain of 5.8 percent.

Home sales continued their rapid decline, falling by 38.2 percent in Nassau County, from 1,332 to 822 units sold. Home sales fell by 35.7 percent in Suffolk County, from 1,762 to 1,133 units sold.

But as in June, pending home sales grew rapidly, rising by 60.6 percent in Nassau County, from 1,278 to 2,052 units. And pending home sales rose by 55.6 percent in Suffolk County, from 1,664 to 2,590 units.

THE OUTLOOK

Jobs growth is a key to economic recovery. And this is moving in the right direction on Long Island. July employment increased by 33,200, building on top of larger increases in May and June. The largest gains occurred in leisure and hospitality, retail trade, construction and health care. This is good news for Long Island's tourism season which has been hit hard by Covid-19. And with mortgage interest rates at historical lows, new home construction is on the rise.

Growth in spending is critical as consumer spending accounts for approximately two-thirds of GDP. The rise in health care sector jobs may reflect an increase in elective procedures and, possibly, ramping up in anticipation of the need for greater hospital capacity amid concerns of a rise in coronavirus cases as the fall approaches.

But the stock market, a leading indicator of economic conditions, has been quite positive. And Federal Reserve Chairman Jerome Powell has indicated that a two percent average inflation rate target will replace a two percent absolute target. This is significant because it points to the Federal Reserve's willingness to tolerate greater than two percent inflation if the economy is going well. This is a pro-employment decision that bodes well for the labor market going forward.

Of course, many challenges and uncertainties remain. These include uncertainty about the availability and effectiveness of a coronavirus vaccine, how well coronavirus cases will continue to be controlled, and the nature and extent of continued federal assistance. But the labor market is moving in the right direction, albeit from a low pandemic-driven base.