LIA Monthly Economic Report
A Research Report for Directors and Members of the Long Island Association, Inc.
June, 2020

Prepared by Dr. John A. Rizzo, LIA Chief Economist

This issue of the LIA newsletter assesses the latest economic effects of the coronavirus on Long Island and the outlook going forward. The results for April were grim. April sales tax collections declined by 19.36 percent year-over-year (YoY) in Suffolk County and by 18.56 percent in Nassau. Nassau County anticipates a budget deficit of some $384 million. Suffolk County expects to lose between $469 million and $590 million in revenues this year and incur a total budget deficit of $1.1 to $1.5 billion through 2022.

The real estate sector also cratered, with April YoY sales declining by 31.5 percent in Suffolk County and by 43.9 percent in Nassau. Perhaps most concerning of all was the labor market performance. For the week ending May 23, Long Island experienced the greatest percentage increase in unemployment claims of any region in New York State, growing by a whopping 1,839 percent. Private sector employment plummeted by 253,600 in April.

Despite this, it appears that efforts to contain the virus in New York have largely succeeded, and the gradual reopening of Long Island’s economy should bring some relief going forward.
For the week ending May 23, 2020, initial claims for unemployment insurance increased over the past year by 1,839 percent on Long Island, more than any other region in the state. And in terms of total unemployment insurance claims, Long Island was second only to New York City, with an over-the-year increase of 22,873 claims.


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Statewide industries in New York with the most rapid over-the-year percentage increase in initial claims included:

- Other Services (+2,090%)
- Educational Services (+1,968%)
- Health Care and Social Assistance (+1,812%)
- Retail Trade (+1,359%)
- Transportation and Warehousing (+1,344%).

Private sector payroll employment on Long Island fell by 253,600 in April, after declining by 7,800 in March. The April over-the-month decline was the largest in the history of the current series (which goes back to 1990)
and brought employment to its lowest level since February 1994. Job losses were widespread in April. The largest employment decline occurred in leisure and hospitality, where employment plunged by 70,300, or 62.1 percent.

The April unemployment rate rose to 16 percent, by far the highest level in the history of this series. And the number of the persons employed in April was the lowest going back to 1990. Given the sharp decline in labor force participation, the actual unemployment rate may be substantially greater than 16 percent, as people who exit the labor force are not counted among the unemployed.

ECONOMIC EFFECTS OF THE PANDEMIC: BUSINESS CONDITIONS

The National Federation of Independent Business (NFIB) Small Business Optimism Index provides further insight on the economic impact of COVID-19, as it includes information on current as well as expected economic outcomes. Small business optimism took another dive in April, falling 5.5 points to 90.9. Expectations for sales declined 30 points to a net negative 42 percent. This is the lowest reading in the survey’s 46-year history. The second-lowest reading was net negative 24 percent in April 1980.

Business owners believe the economy will continue to weaken in the near-term, but they expect it to improve over the next six months. As the chart below indicates, nine of the ten Index components declined with just one improving.

William Dunkelberg, NFIB Chief Economist has summarized the situation as follows:

“The impact from this pandemic, including government stay-at-home orders and mandated non-essential business closures has had a devastating impact on the small business economy.”
Manufacturing continued to deteriorate significantly in New York State, according to firms responding to the May 2020 Empire State Manufacturing Survey. Fifteen percent of survey respondents reported that conditions were better in May than they were in April, while 63 percent reported that conditions had worsened.

Although current conditions remained extremely weak, firms grew more optimistic that conditions would improve six months from now. The index for future business conditions rose 22 points to 29.1. The indexes for future new orders and future shipments also posted significant increases.

Activity in the region’s service sector also fell sharply, according to firms responding to the Federal Reserve Bank of New York’s May 2020 Business Leaders Survey. At -75.8, the survey’s headline business activity index was little changed from last month’s record low. Firms were nearly universal in regarding the business climate as worse than normal. Employment levels and wages continued to decline. And in contrast to the results for the NFIB and Empire State Manufacturing surveys, service sector firms were generally pessimistic about the six-month outlook, albeit less so than in April.

ECONOMIC EFFECTS OF THE PANDEMIC: CONSUMER CONFIDENCE AND SPENDING

Consumer sentiment has remained largely unchanged during the past two months, according the University of Michigan’s Consumer Sentiment Index. The CARES relief checks and higher unemployment payments have helped mitigate the economic hardship, but have had little effect on discretionary spending due to consumer uncertainty and limitations on reopening the economy.

As may be seen in the table below, consumer sentiment about current and future economic conditions declined precipitously year-over-year in May.

<table>
<thead>
<tr>
<th>Final Results for May 2020</th>
<th>May 2020</th>
<th>Apr 2020</th>
<th>May 2019</th>
<th>M-M Change</th>
<th>Y-Y Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Index of Consumer Sentiment</td>
<td>72.3</td>
<td>71.8</td>
<td>100.0</td>
<td>+0.7%</td>
<td>-27.7%</td>
</tr>
<tr>
<td>Current Economic Conditions Index of Consumer Expectations</td>
<td>82.3</td>
<td>74.3</td>
<td>110.0</td>
<td>+10.8%</td>
<td>-25.2%</td>
</tr>
<tr>
<td>Index of Consumer Expectations</td>
<td>65.9</td>
<td>70.1</td>
<td>93.5</td>
<td>-6.0%</td>
<td>-29.5%</td>
</tr>
</tbody>
</table>

Source: University of Michigan Consumer Sentiment Index

Consumer pessimism has translated into weak spending. Consumer spending as indicated by sales tax collections declined rapidly in April. Sales tax collections declined by 19.36 percent year-over-year in Suffolk County and by 18.56 percent in Nassau.
Year-over-year home prices increased across Nassau, and Suffolk Counties in April. Home sales prices rose by 11.4 percent in Nassau County, from $505,000 to $562,500, and by 11.8 percent in Suffolk, from $380,000 to $425,000. But home sales declined dramatically, falling by 31.5 percent in Suffolk County and by 43.9 percent in Nassau.

Source: www.mlsli.com

THE OUTLOOK
Data documenting the economic fallout of the coronavirus are pouring in and the evidence is grim indeed. The adverse economic and health consequences of a continued shut down are obviously enormous. It is hard to imagine how the economy could withstand more of this or how we could ever return to a shutdown once the economy is reopened. The whole point of the shutdown was to “bend the curve”—to suppress coronavirus cases long enough for the health care system to treat the infected. Well, the curve has been bent. But the economy has been broken in the process. It is therefore imperative that the economy be reopened and that it be reopened sooner rather than later.

The reopening required for economic recovery is occurring with the challenging goals of continuing the virus, protecting employees, and restoring consumer confidence. But reopening must occur in a way that makes financial sense for businesses and that attracts customers. And it is likely that more stimulus is required, including loans to small business, which is the backbone of Long Island’s economy.