

# LIA Monthly Economic Report

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

**December 2018**



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



Consumer spending was strong which is a good sign for the upcoming holiday shopping season. Business conditions and the labor market continued to perform well but rising interest rates threaten an already shaky real estate market. The stock market has shown increased volatility as well. Given the continued modest inflation rate, it is not clear that further interest rate hikes by the Federal Reserve would serve the economy well.

The situation of strong economic growth was much the same on Long Island. And, while the real estate sector continued to lag behind the rest of the Long Island economy, there are some signs of improvement. In particular, inventories rose substantially. This should increase consumer choice, potentially providing a much-needed boost to demand.

# The National Economy



The national economy saw continued expansion on several fronts. Third quarter consumer spending was strong and bodes well for fourth quarter growth. Retail sales were solid as well, rising by 0.8 percent in October.

Jobless claims remained low at 237,000 for the week of November 24. And the unemployment rate was just 3.7 percent. October wages rose by 3.1 percent year-over-year.

Inflation remained modest, rising by 2.5 percent year-over-year in October and falling energy prices are a good sign for travel during the holiday season.

On a less positive note, the stock market has fallen and shown considerable volatility. This likely comes in response to trade uncertainty, especially with China, and concerns about rising interest rates.

The main negative news remains the real estate sector. Existing home sales were disappointing with October sales dropping by 5.1 percent year-over-year. There was also disappointing news for new home sales. The supply of homes on the market remains low, with just 4.3 months of inventory available. A 6-month period for homes to sell is considered a balance between supply and demand. Low availability of home inventory reduces consumer choice which could further threaten demand. Rising mortgage interest rates, which result from Federal Reserve interest rate hikes, are only making matters worse.

## The Long Island Economy

### Labor Market



Long Island's unemployment rate was just 3.1 percent in October. This is the lowest unemployment rate for October since 1999. And labor force participation and the number of persons employed reached all-time highs for October.

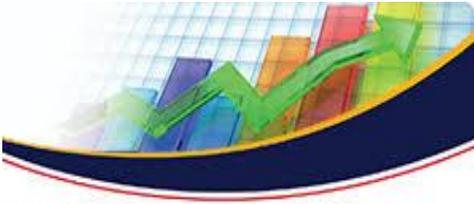
The largest year-over-year jobs gains in October occurred in:

- Natural Resources, Mining and Construction (+7,300)
- Education and Health Services (+4,700)
- Leisure and Hospitality (+2,600)

In New York State, private sector hourly earnings rose by 2.4 percent year-over-year in October. The largest gains were seen in:

- Goods Producing Industries (+6.5%)
- Manufacturing (+5.0%)
- Construction (+4.9%)

## Business Conditions



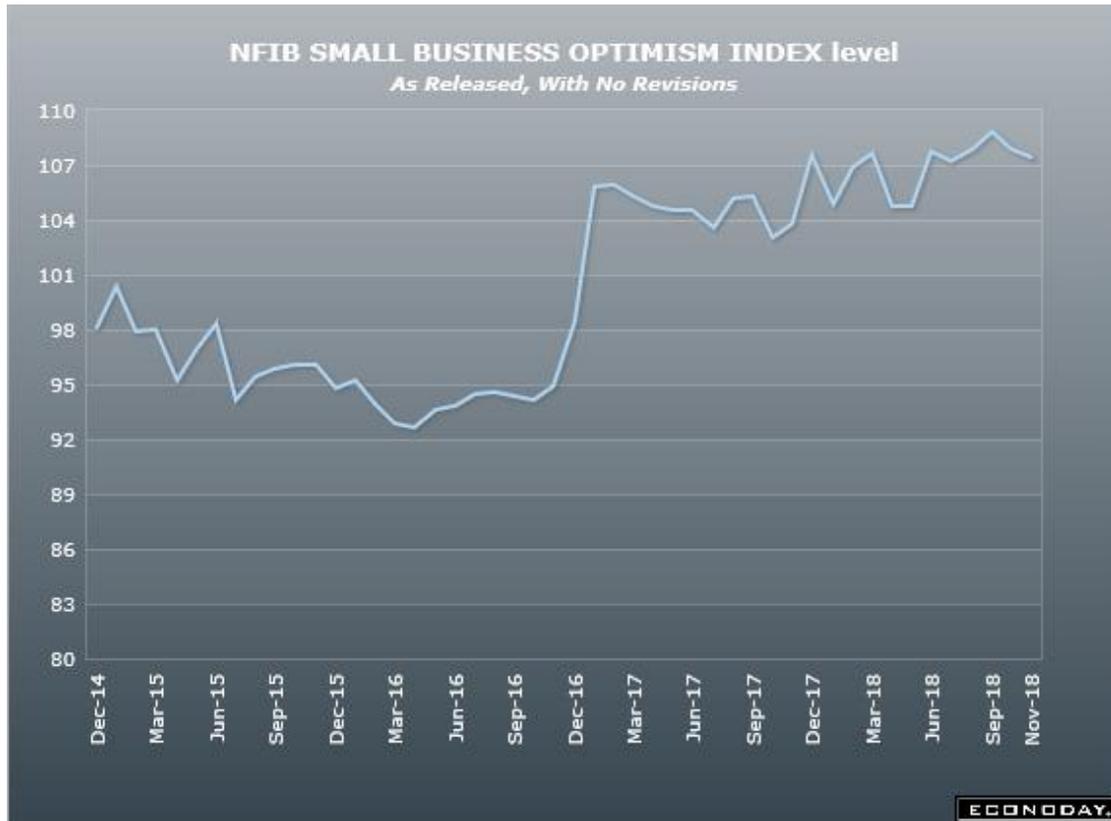
With small businesses comprising almost 90 percent of commercial establishments on Long Island, this is a key sector for economic growth.

### Business Conditions >

According to the Small Business Optimism Index, business optimism remained at near record levels in October-107.4 points, just 1.4 points from the 45- year record high set in August. There was a slight decline in business owners' sentiment that now is the right time to invest. Still, this component of the index remained strong.

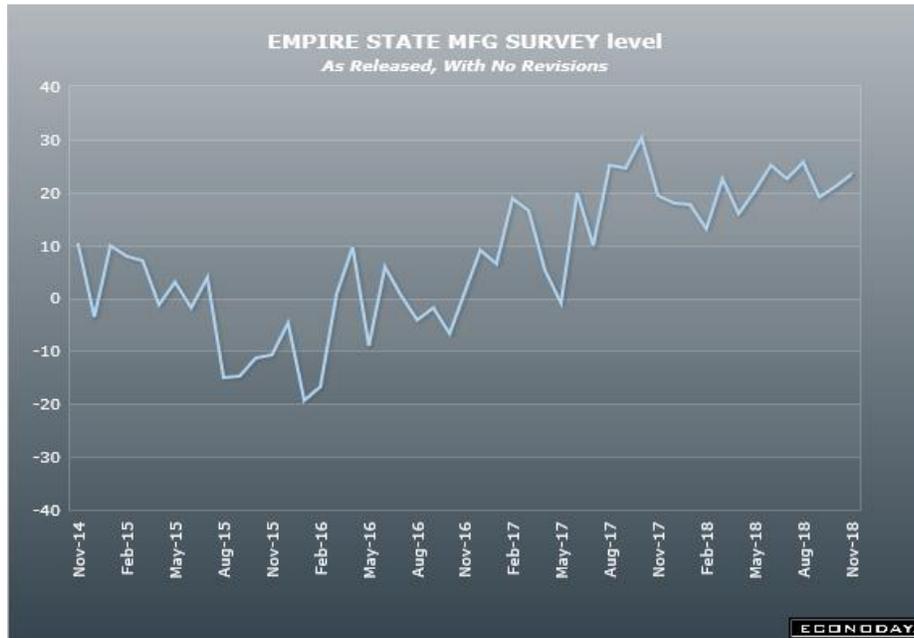
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Source: Econoday

Manufacturing continued to expand according to the Empire State Manufacturing Index. The index rose to a level of 23.3, exceeding expectations. Strong gains were seen in inventories, hiring and shipments.



Source: Federal Reserve Bank of New York

In contrast, activity in the region’s service sector expanded only modestly according to the Federal Reserve Bank of New York’s November 2018 Business Leaders Survey. The survey’s overall business activity index was little changed at 8.6.

## Consumer Sector



Consumer spending, as indicated by sales tax collections, increased modestly in October. Year-over-year sales tax collections increased by 2.32 percent in Suffolk County and by 0.30 percent in Nassau. 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: 3.24 percent in Suffolk County and 1.24 percent in Nassau.

## The Real Estate Market



The real estate sector showed signs of improvement in October, especially in Suffolk County. Year-over-year home sales prices increased from \$359,999 to \$389,360, a gain of 8.2 percent. This was the largest growth rate since May of this year. Home sales jumped by 6.7 percent, from 1,495 to 1,595 units sold. This was the largest gain in sales since January, 2018. Home sale prices rose by 5.2 percent in Nassau County, from \$499,000 to \$525,000 but home sales declined by 2.6 percent, from 1,186 to 1,155 units sold.

On a more positive note, inventories once again increased, growing by 10.8 percent. This increases the choices available to prospective buyers which could help to stimulate demand.<sup>1</sup>

<sup>1</sup> 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.

## Commercial Real Estate: Retail Space



Retail space is scarce on Long Island. In fact, Long Island has among the 20 lowest vacancy rates in metropolitan areas nationally. Vacancy rates for office space vary quite widely, however, from 0.0 percent to 57.9 percent. The median vacancy rate is 10.1 percent.

### RETAIL SPACE – VACANCY RATE DISTRIBUTION

Low	25 <sup>th</sup> Percentile	Median	75 <sup>th</sup> Percentile	High
0.0%	3.5%	10.1%	18.2%	57.9%

As of October 2018. Source: Reis Reports: [www.reisreports.com](http://www.reisreports.com).

Asking rents for retail space at non-anchor stores in neighborhood shopping centers vary from \$16.35 to \$54.66 per square foot.

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

Low	25 <sup>th</sup> Percentile	Median	75 <sup>th</sup> Percentile	High
\$16.35	\$24.91	\$31.04	\$37.30	\$54.66

As of October 2018. Source: Reis Reports: [www.reisreports.com](http://www.reisreports.com).

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)

Low	25 <sup>th</sup> Percentile	Median	75 <sup>th</sup> Percentile	High
\$13.33	\$18.93	\$21.70	\$25.00	\$39.48

As of October 2018. Source: Reis Reports: [www.reisreports.com](http://www.reisreports.com).

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)

Low	25 <sup>th</sup> Percentile	Median	75 <sup>th</sup> Percentile	High
\$15.28	\$27.12	\$31.50	\$37.30	\$46.35

As of October 2018. Source: Reis Reports: [www.reisreports.com](http://www.reisreports.com).

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

Low	25 <sup>th</sup> Percentile	Median	75 <sup>th</sup> Percentile	High
\$11.19	\$18.01	\$21.08	\$28.00	\$46.68

As of October 2018. Source: Reis Reports: [www.reisreports.com](http://www.reisreports.com).

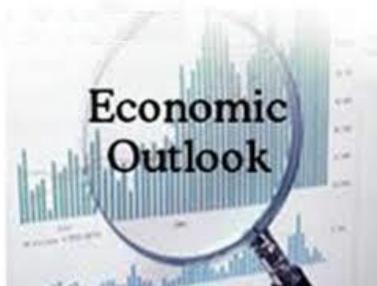
Retail space on Long Island is relatively old. More than 50 percent of retail inventory was built prior to 1980 and just 1 percent of inventory has been built after 2009.

**DISTRIBUTION OF RETAIL INVENTORY BY AGE  
(neighborhood and community shopping centers)**

Year Built	Percent
Before 1970	24%
1970-1979	28%
1980-1989	27%
1990-1999	13%
2000-2009	7%
After 2009	1%
All	100%

Source: Reis Reports: [www.reisreports.com](http://www.reisreports.com).

**Long Island’s Economic Outlook**



Once again, there is mostly good news about the Long Island economy. Strength in the labor market and business sector continue. The housing sector has shown some improvement though this sector remains relatively weak. Despite tepid consumer spending in October, strong consumer optimism and favorable economic conditions overall point to a favorable holiday spending season. The prospects for holiday shopping are discussed in greater detail in the “Focus On” section below.

## ***FOCUS ON: HOLIDAY SHOPPING ON LONG ISLAND: WILL IT PASS OR FAIL?***

Given Long Island's strong economy, many observers anticipate a strong holiday shopping season. While this may be true, many factors affect consumer spending, including economic, psychological and demographic characteristics. This impacts the amount and type of consumer spending as well. Examining these factors, and evaluating how Long Island's economy compares to them, provides insight into the nature and amount of consumer spending to expect.

First, the economic factors such as employment, wages, prices and interest rates. Long Island's historically high level of employment and low unemployment are strong indicators of spending growth because of job security and the greater opportunity to find employment in a tight labor market. While wage growth has been less robust, it is certainly not so low as to thwart spending gains. Thus, on these factors Long Island's economy scores an A.

Prices are relatively high on Long Island which might discourage spending. But incomes are high as well which probably offsets these costs, at least for the average consumer. However, this is neither great news nor is it particularly bad news. I would give this variable a B.

Interest rates are a different matter, however. Rising interest rates discourage spending, especially on large ticket items like housing and cars. The cost of housing is made particularly challenging in states with relatively high real estate prices like Long Island, due to new limits on the deductibility of property taxes and mortgage interest rate deductions. I would grade this area a C.

Consumer confidence is an important psychological factor affecting spending. Here, Long Island's economy fares well because recent evidence from the Siena Research Institute points to high consumer confidence. So here we have another A.

In terms of demographic factors, an interesting study by Pricewaterhouse Coopers found that high income millennials, parents of millennials and persons residing in metropolitan areas are most likely to maintain or increase their holiday spending. Long Island has a high percentage of millennials living at home, reflecting the high cost of housing and shortage of affordable apartment space. While this is in itself not a good thing, it does lower millennials' cost of living significantly, leaving them more discretionary income to spend on holiday shopping. Long Island is a metropolitan area as well, so this might be a B+.

Averaging these factors, the overall grade comes out to about a B+. This is very good, but not great, news for holiday spending. The spending should be more favorable for smaller ticket items rather than large ticket items like housing and cars because the latter are often purchased on credit and thus vulnerable to the effects of rising interest rates.

And, last but not least, Long Island's communities dress their towns well for the holiday season. While this is more difficult to quantify, it is certainly a plus to put people in the holiday spirit. Happy holidays to all.

Click to view the full [\*2018 Holiday Outlook Report\*](#).