

LIA Monthly Economic Report

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

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Business activity shows continued expansion although at a slower rate than in recent months. The labor market continued to perform well and hourly wages increased at a rate exceeding inflation. Consumer confidence was favorable though it may have been dampened by escalating fears of a trade war with resulting negative impacts on the stock market.

The real estate sector remained weak at the national level but, on Long Island, recent evidence points to an uptick in sales.

The National Economy



Both manufacturing and non-manufacturing sectors continue to expand at a slower rate than in previous months. While economic activity in the manufacturing sector expanded in April, growth was at its lowest level since the fourth quarter of 2016. Also, export orders declined for the first time since February 2016 which is a sign that tariffs are having adverse effects according to the Institute for Supply Management's Manufacturing Survey.

The labor market continued its strong run. In April, the unemployment rate was just 3.6 percent, lower than the expected 3.8 percent. There were only 215,000 initial jobless claims reported at the end of May which is a level consistent with strong expansion. Average hourly earnings rose by 3.2 percent year-over-year in April, exceeding the inflation rate of 2.1 percent.

Consumer sentiment remained positive although it fell from the mid-May reading of 102.4 to 100 by the end of the month which is possibly a reflection of renewed concerns over trade wars and recent declines in the stock market. Retail sales fell by 0.2 percent in April but this follows a large increase of 1.7 percent in March and was consistent with expectations. Durable goods orders were flat in April.

Also, in a continuing pattern, the real estate sector underperformed. Existing home sales fell by 0.4 percent in April, considerably below expectations calling for a 2.7 percent increase. New home sales fell by 6.9 percent in April, also worse than expected.

The Long Island Economy

Labor Market



Long Island's labor market continued to perform well. The April unemployment rate was 3.0 percent, its lowest level in almost two decades and the number of persons employed was the highest ever for April.

The private sector job count increased by 15,500 between March and April, higher than the typical gain of 13,000 jobs during this time period.

The largest year-over-year jobs gains in April were in:

- Education and Health Services (+10,600)
- Natural Resources, Mining and Construction (+5,500)
- Manufacturing (+1,600)

Wages again grew moderately.

In New York State, private sector hourly earnings rose by 2.3 percent year-over-year in April.

The largest gains were seen in:

- Manufacturing (+5.8%)
- Leisure and Hospitality (+4.4%)
- Other Services (+4.4%)

All industrial sectors had year-over-year gains in hourly earnings.

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' (NFIB)

Small Business Optimism Index remained at historically high levels, increasing by 1.7 points in April to 103.5.

As indicated in the table below, nearly every component of the index improved from the previous month.

The The National Federation of Independent Business' (NFIB) Small Business Optimism Index remained at historically high levels, increasing by 1.7 points in April to 103.5.

Small Business Optimism

Small Business Optimism Marks Two Years of Continued Historic Readings

Index Component	Net %	Change From Mar.
Plans to Increase Employment	18%	▲ 2
Plans to Make Capital Outlays	27%	— 0
Plans to Increase Inventories	2%	▲ 3
Expect Economy to Improve	13%	▲ 2
Expect Real Sales Higher	20%	▲ 1
Current Inventory	-4%	▲ 2
Current Job Openings	25%	▲ 2
Expected Credit Conditions	-4%	▲ 3
Now a Good Time to Expand	25%	▲ 2
Earnings Trends	-3%	▲ 5



NFIB.com/sboi

Business activity picked up significantly according to firms responding to the May 2019 Empire State Manufacturing Survey.

The general business conditions index climbed eight points to 17.8, its highest level in six months.

Indexes assessing the six-month outlook indicated that firms were significantly more optimistic about future conditions than they were in April. The New York Empire State Manufacturing Index rose to 10.1 in April from the previous months near two-year low of 3.7. This gain was well above expectations.

Empire State Manufacturing Index



The service sector grew strongly according to firms responding to the Federal Reserve Bank of New York’s May 2019 Business Leaders Survey.

The survey’s headline business activity index climbed ten points to 20.6, its highest level in several months. The business climate index rose nine points to 10.7, indicating that on balance firms regarded the business climate as better than normal.

Firms remained optimistic about the six-month outlook.

Consumer Sector



Consumer spending in April, as indicated by sales tax collections, rose modestly in Nassau County by 2.60 percent. Spending rose at a more robust pace in Suffolk County, increasing by 4.92 percent. 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 5.88 percent in Suffolk County and by 3.56 percent in Nassau

Residential Real Estate



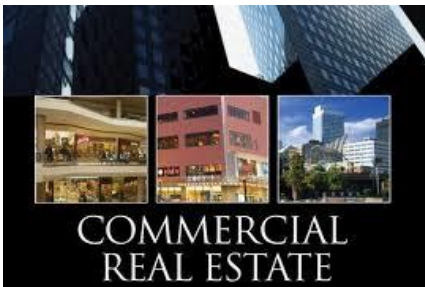
After months of declining year-over-year sales, home sales showed some improvement.

Year-over-year sales rose by 4.4 percent in Nassau County, from 858 to 896 units sold. Sales grew by 7.2 percent in Suffolk, from 1,112 to 1,192 units sold.

Housing sales prices rose by 3.1 percent in Nassau County year-over-year from \$522,000 to \$538,000. Home prices rose by 5.6 percent in Suffolk County from \$360,000 to \$380,000.

In a continuing pattern, residential inventories rose by 15 percent year-over-year.¹

Commercial Real Estate: Office Space



The Long Island office market is comprised of 43.3 million square feet in five geographic concentrations ranging in size from the 10.5 million square foot East Nassau submarket to the Southwest Nassau submarket which amounts to 7.1 million square feet. In the ten-year period beginning with the second quarter of 2009, the Northwest Nassau submarket has experienced the greatest introduction of new inventory, 283,000 square feet, amounting to 41.9 percent of all new competitive stock added to the market.

Vacancy rates for office space is relatively scarce. The May average vacancy rate was 13.4 percent which is the eighth lowest among metropolitan areas nationally and the third lowest in the Northeast.

Vacancy rates ranged from 0.0 percent to 62.4 percent, as indicated in the table below.

OFFICE SPACE – VACANCY RATE DISTRIBUTION

Low	25 th Percentile	Mean	75 th Percentile	High
0.0%	3.7%	13.4%	17.7%	62.4%

As of May 2019. Source: Reis Reports: www.reisreports.com.

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.

Asking rents for office space vary from \$16.60 to \$39.21 per square foot. Over the past three months, asking rents have advanced an average of 0.4 percent.

OFFICE SPACE – ASKING RENTS PER SQUARE FOOT

Low	25 th Percentile	Mean	75 th Percentile	High
\$16.60	\$23.90	\$27.64	\$33.00	\$39.21

As of May 2019. Source: Reis Reports: www.reisreports.com.

Long Island’s Economic Outlook



Business conditions have picked up of late and the labor market was quite strong. The real estate sector finally showed some improvement as well though one month of favorable data does not make a trend. On Long Island and nationally, escalating tariffs and a volatile stock market pose threats to continued growth.

Focus On... The Full Cost of Renting an Apartment on Long Island

Prices for rental apartments vary considerably across Long Island, being higher in Nassau County than in Western Suffolk County and higher in Western Suffolk County than in Eastern. For example, the average asking rental price for apartment space as of May 2019 was:

- \$2,399 in Nassau County
- \$1,856 in Western Suffolk County
- \$1,808 in Brookhaven/Eastern Suffolk County

In part, the notably higher rents in Nassau County reflect shorter commuting times to New York City, which is a significant source of both job and cultural opportunities. As the saying goes, time is money, so spending less time commuting has economic value, which helps to explain why Nassau County commands higher rental prices.

So, the *full* cost of renting an apartment may be viewed as the sum of the money cost of renting the apartment plus the time cost of commuting. One may then ask, what is the *time* cost that equates the full cost of renting an apartment in each of the three submarkets on Long Island mentioned above? Consider a scenario where it takes 2 hours per day to commute from Nassau County to New York City, 3 hours per day from Suffolk, and 4 hours per day from Brookhaven/Eastern Suffolk. One may then compute the breakeven value of an hour of one's time at which the full cost of renting an apartment is equalized across market areas. Comparisons are made between:

- Nassau County vs. Western Suffolk
- Nassau County vs. Brookhaven/Eastern Suffolk

People who value their time at these breakeven levels may be indifferent between renting an apartment in Nassau County vs. Western Suffolk and in Nassau County vs Brookhaven/Eastern Suffolk, respectively, because the full cost of renting will be equal. People who value their time above these levels will likely prefer to rent in Nassau County. It turns out that only people with a relatively low value of their time -- less than \$29.62 per hour -- will potentially prefer to rent in Western Suffolk and incur the longer commuting times. Likewise, only people who value their time at less than \$16.12 per hour would opt to rent in Brookhaven/Eastern Suffolk and incur the still longer commute. Assuming that individuals work an average of 2,000 hours per year:

- Only persons earning less than \$59,236 annually will prefer to rent in Suffolk County than in Nassau
- Only persons earning less than \$32,236 annually will prefer to rent in Brookhaven/East Suffolk than in Nassau

But these results also imply that reductions in commuting time will make more of Long Island accessible to prospective renters. For example, if the commuting time from Western Suffolk to New York City were reduced by one-half hour per day, people with incomes of up to \$118,472 would opt for apartment space in Western Suffolk. And persons with incomes of up to \$42,981 would opt for apartment space in Brookhaven/East Suffolk. This brief analysis highlights the importance of continued efforts to improve rail and other transportation options on Long Island.