Long Island Association

LEADING LONG ISLAND

This publication is made possible through the support of:

TD Bank

America's Most Convenient Bank®

LIA Monthly Economic Report

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

March, 2018

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

Recent economic performance has been positive overall. Both manufacturing and non-manufacturing sectors continued to expand and the unemployment rate remained near full employment levels. Wages began to accelerate, which bodes well for consumer spending and economic growth going forward. But rising factor input prices and consumer prices may motivate the Federal Reserve Bank to move more aggressively in raising interest rates.

More locally, there is also evidence of accelerating wage growth and a strong labor market. Consumer spending on Long Island was robust.

The National Economy

The labor market continued its strong run. Some 200,0000 jobs were added in January, well in excess of expectations. Unemployment remained low at 4.1 percent. And earnings began to accelerate, growing by 2.9 percent year-over-year and revised upward to 0.4 percent in December. The non-manufacturing sector was particularly strong, as indicated by the Institute for Supply Management's (ISM) non-Manufacturing Index, which reported some of the best conditions in its 20-year history. Although the ISM Manufacturing Index declined slightly in January compared to December, it, too, remained in strongly positive territory.

January housing starts increased at a rapid pace. In contrast, existing home sales fell by 4.8 percent year-over-year, the worst decline since August 2014. And inventories of existing homes for sale remained low.

Consumer prices rose by 0.5 percent, signaling a possible acceleration in inflation. Year-over-year price increases remained tepid, however, at 2.1 percent. Consumer sentiment was strong, a good sign for spending and economic growth. Concerns over rising interest rates have led to increased volatility on the stock market. This issue is discussed more fully in the Focus section below.

The Long Island Economy

Labor Market

Earnings growth headlines the labor market. January private sector hourly earnings rose by 4.0 year-over-year in New York State, a pace well in excess of inflation.

Earnings growth was particularly strong in:

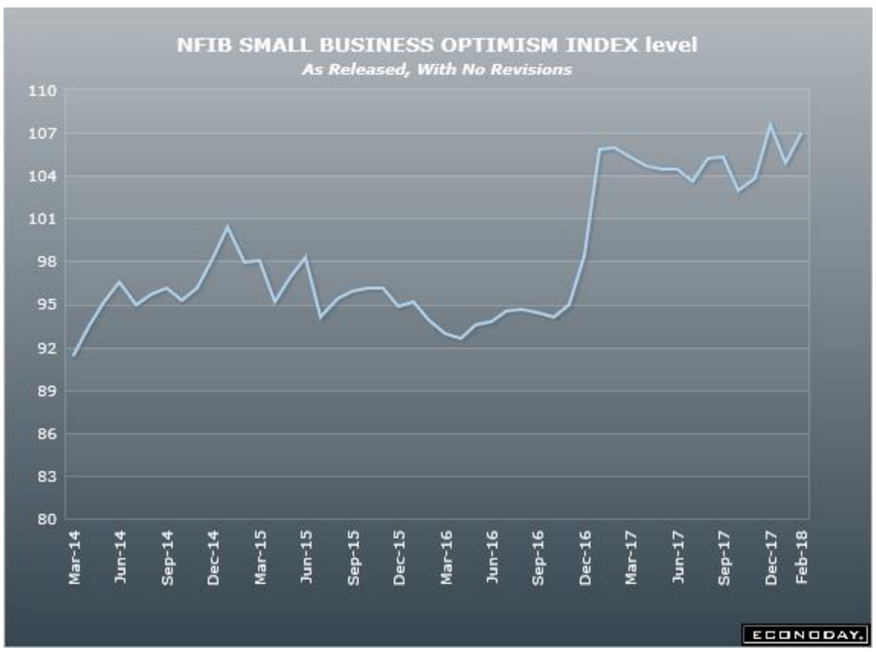
- Information Services (+13.2%)
- Goods Producing Industries (+4.7%)
- Professional and Business Services (+4.3%)

All industry sectors showed year-over-year gains in earnings, with the lone exception being other services, which saw a decline of 0.7 percent.

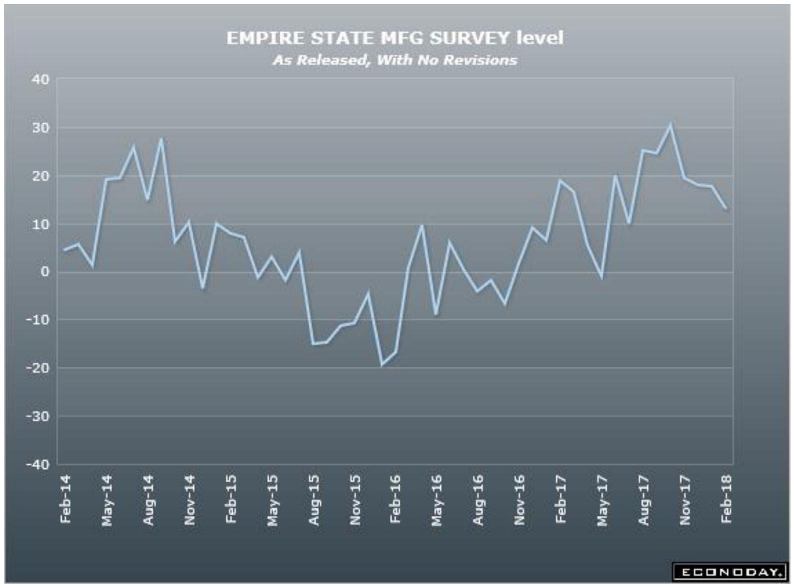
Business Conditions

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' Small Business Optimism Index increased in January, nearly matching its 13-year high seen in November 2017. One important component of the Index concerns the view as to whether now is a good time to expand. That component attained its highest level in the history of the Index.

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' Small Business Optimism Index increased in January, nearly matching its 13-year high seen in November 2017.



Manufacturing continued its expansion, according to the Empire State Manufacturing Survey. Although declining slightly in February, the survey's results remained strongly positive. New orders, shipments and hiring components of the survey were particularly strong. The survey also found that input costs and selling prices accelerated, providing further evidence of rising inflation.



Activity in the region's service sector continued to grow at a solid pace, according to firms responding to the Federal Reserve Bank of New York's February 2018 Business Leaders Survey. The business climate for the service sector is currently regarded as better than normal, and firms were quite optimistic for the six-month outlook. As in the manufacturing sector, both factor input prices and selling prices accelerated.

Consumer Sector

Consumer spending as indicated by sales tax collections increased markedly in January. Year-over-year sales tax collections increased by 5.06 percent in Nassau County and by 10.27 percent in Suffolk. 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— 6.05 percent in Nassau County, and by 11.30 percent in Suffolk. Internet sales trends, and the methodology used to adjust for increasing Internet sales over time, are discussed in the Focus section of the February, 2016 newsletter.

The Real Estate Market

In an increasingly familiar pattern, home prices rose at a healthy clip on Long Island while sales and inventories lagged. Home sales prices increased by 6.0 percent year-over-year in Nassau County, from $475,000 to $503,500. Prices rose by a similar amount in Suffolk-- 5.9 percent-- from $339,000 to $359,000.

But home sales were mixed. While sales increased by 5.5 percent year-over-year in Suffolk County, from 1,121 to 1,183 units sold, sales declined by 5.5 percent in Nassau County, from 959 to 906 units sold.
Inventories continued to exhibit year-over-year declines, falling by 6.3 percent in January.[1]

---

[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.

Apartment Space

Vacancy rates for apartment space are among the 6th lowest in metropolitan areas nationally and the 3rd lowest in the Northeast Census Region. Vacancy rates vary widely, however. The median vacancy rate is 2.3 percent. But, as the table below indicates, 25 percent of facilities have vacancy rates of just 1.1 percent or less.

Vacancy Rate Distribution— Apartment Space

Low	25%	Median	75%	High
0.0%	1.1%	2.3%	4.2%	14.7%

As of January, 2018. Source: Reis Reports

The median asking rent for apartment space is $1,871. But this also varies widely, from a low of $1,350 to a high of $3,560.

Asking Rent Distribution— Apartment Space

Low	25%	Median	75%	High
$1,350	$1,674	$1,871	$2,306	$3,560

As of January, 2018. Source: Reis Reports

Despite having relatively low vacancy rates, asking rents for apartment space have risen in line with growth in the Northeast Census Region and the nation overall, as indicated in the table below.

Asking Rent Growth Comparisons— Apartment Space

	Asking Rent Growth					
	Quarterly			Annualized		
	4Q17	3Q17	YTD Avg	1 Year	3 Year	5 Year
Long Island	0.4%	0.9%	0.6%	2.4%	4.7%	4.2%
Northeast	0.4%	1.3%	0.9%	3.9%	3.9%	3.8%
United States	0.5%	1.3%	1.0%	4.2%	4.7%	4.3%
Period Ending:	12/31/17	09/30/17	12/31/17	12/31/17	12/31/17	12/31/17

Source: Reis Reports

Asking rents are much higher for newer office space, as seen in the chart below.

Asking Rents by Age of Facility—Apartment Space

Year Built	Vac. Rate
Before 1970	$1,978
1970-1979	$1,763
1980-1989	$1,818
1990-1999	$2,151
2000-2009	$2,598
After 2009	$3,037

Source: Reis Reports

Long Island's Economic Outlook

The outlook for Long Island's economy looks positive for the near term. Most sectors of the economy continue to perform well. Consumer spending was particularly strong, which is a favorable indication for economic growth growing forward. But the results for the real estate sector have been mixed.

Focus On: Economic Outlook: A Stock Market Melodrama

Most sectors of the economy are strong. Unemployment remains low nationally and on Long Island. Wages are starting to accelerate. The business sector has continued to expand as well, both in the manufacturing and non-manufacturing sectors. Consumers are optimistic and are spending. As measured by sales tax collections, consumer spending was quite strong on Long Island in January. In fact, spending in Suffolk County grew at the second fastest rate year-over-year of all counties in New York.

All of this good news, as well as recent tax cuts, sent the stock market soaring to new heights in January. But this gave rise to fears of inflation and rising interest rates, and the stock market grew increasingly volatile, plummeting by nearly 3,000 points off of its January high.

While this is unnerving, there is little reason to fear these stock market gyrations unless they spill over to the real economy. As long as consumers and business pay attention to the real economy—jobs, production, and spending—the economy should continue to expand. If stock market volatility saps consumer confidence and spending, however, things could quickly turn worse. But there is little reason for this to happen. Most people hold stocks in their 401K plans. For workers who are not near retirement age, they will not be touching those stocks for many years to come, so that current volatility and recent declines in the market should not be a big concern to them. Indeed, it present a buying opportunity. And those near retirement age should already have investment portfolios that are conservative, with relatively little exposure to stocks. And many people own little or no stocks.

So why the concern? Perhaps because the stock market is seen as a strong indicator of the expected performance of the economy. This is somewhat unfortunate, because things are rarely as good or as bad as the stock market would seem to suggest. In this respect, the stock market can be a bit melodramatic.

Another concern is that the Federal Reserve Bank might act too quickly to ward off inflation, leading to higher interest rates and threatening further growth. But the Federal Reserve has favored a measured response, which should be reassuring. And even if the stock market overreacts to this imagined threat, we shouldn't. Because the real economy is strong.