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LIA Monthly Economic Report

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

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Recent economic news has been mixed. At the national level, manufacturing posted solid results but the non-manufacturing sector declined slightly. The labor market remains strong.

Business activity is robust on Long Island and optimism going forward is favorable. Consumer confidence in the New York Metropolitan area is at multi-year highs and this is the true for both current and future economic conditions.

The partial government shutdown has stunted the first quarter growth but, with the shutdown having ended and concerns about trade wars and further interest rate hikes subsiding, the prospects for the remainder of the year look considerably more favorable.

The National Economy

Manufacturing continued to expand. The Institute for Supply Management's (ISM) Survey showed an increase in January manufacturing activity that exceeded expectations. New orders and production were particularly strong. In contrast, the ISM Non-manufacturing Survey declined slightly.

Jobless claims rose slightly to 225,000 for the week ending February 23, 2019 but it is still at a level consistent with a healthy labor market.

Consumer sentiment rose in February which is a good sign for spending going forward. Retail sales increased year-over-year in December, albeit modestly at 2.3 percent. The average year-over-year gain in retails sales for the past 25 years is 4.39 percent.

Inflation remains well in check growing by just 1.6 percent year-over-year in January which suggests that there is little need for further interest rate hikes to ward off inflation.

The housing sector continued to lag as existing home sales fell in January to their lowest level since November of 2015. Housing prices rose from $240,800 to $247,500 year-over-year, an increase of 2.8 percent. Housing stats also performed poorly, falling by 11.2 percent compared to the previous month.

The Long Island Economy

Labor Market

Due to the partial government shutdown, January labor market data are unavailable. The latest labor market figures will be presented in next month's report.

Business Conditions

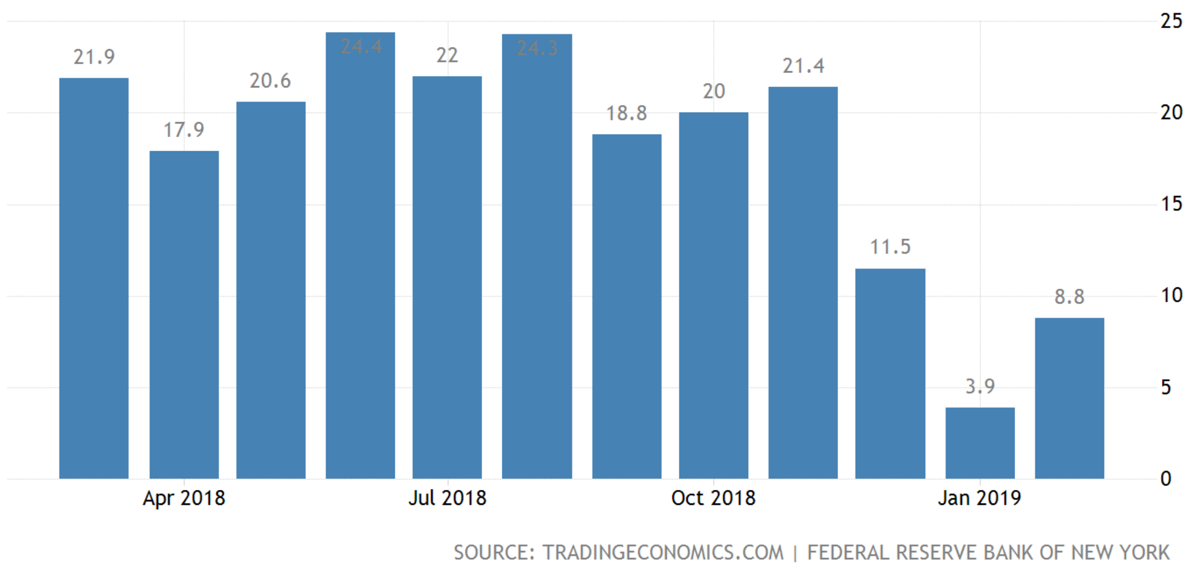
With small businesses comprising of almost 90 percent of commercial establishments on Long Island, this is a key sector for economic growth.

According to the National Federation of Independent Business' (NFIB) Small Business Optimism Index, business optimism declined in January as indicated in the following chart. This is the lowest reading since November of 2016. Much of the decline reflected lowered expectations for sales growth and business conditions in the second half of the year. Business inventory plans also declined.

NFIB Small Business Optimism Index

Manufacturing activity was more favorable. The New York Empire State Manufacturing Index rose in February, beating expectations. New orders and shipments and labor market indicators grew modestly. Moreover, input prices decelerated while prices received attained their highest average level in several months. This suggests that profit margins may be rising. Finally, firms expressed optimism about future conditions.

Empire State Manufacturing Index



The service sector also performed well according to the Federal Reserve Bank of New York's February 2019 Business Leaders Survey. The business climate component of the survey indicated that on balance firms regarded the business climate as better than normal. Firms were also more optimistic about the six-month outlook. The index for future business activity attained its highest level in several months.

Consumer Sector

Consumer spending in January, as indicated by sales tax collections, was relatively flat. Year-over-year sales tax collections increased by 1.44 percent in Nassau County while falling by 1.94 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 2.44 percent in Nassau County, and fallen by just 0.93 percent in Suffolk.

Residential Real Estate

Housing prices continue to rise while sales declined. January home sales prices rose by 5.5 percent in Nassau County from $500,000 to $525,000. Similarly, sales prices increased by 5.8 percent in Suffolk County from $359,000 to $380,000. But year-over-year homes sales declined in Nassau County from 942 to 916 units, a drop of 2.8 percent. This decline was even steeper in Suffolk County where home sales fell from 1,255 to 1,154 units, a decline of 8.0 percent.

Residential inventories continued to grow, rising by 14.4 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 nine-year period beginning with quarter 1 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 on Long Island are among the 20 lowest for metropolitan areas nationally.

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[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.

As may be seen in the table below, the mean vacancy rate is 13.3 percent with a range of 0.0% to 58.0%.

OFFICE SPACE– VACANCY RATE DISTRIBUTION

Low	25th Percentile	Mean	Median	75th Percentile	High
0.0%	3.1%	13.3%	9.8%	17.7%	58.0%

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

Demand for newer office space is high. Vacancy rates are much lower for newer office space built after 2009.

Vacancy Rates by Age

Year Built	Vac. Rate
Before 1970	19.6%
1970-1979	17.3%
1980-1989	13.5%
1990-1999	9.3%
2000-2009	10.5%
After 2009	0.1%
All	13.3%

As of January 2019. Source: Reis Reports: www.reis reports.com

OFFICE SPACE – ASKING RENTS PER SQUARE FOOT

Low	25th Percentile	Mean	Median	75th Percentile	High
$16.47	$23.88	$27.53	$27.67	$32.50	$39.88

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

Mean asking rents vary from a low of $16.47 to a high of $39.88 per square foot. Reflecting the relatively high demand for newer office space, asking rents for office space built after 2009 is the highest, as indicated in the table below.

Asking Rents by Age

Year Built	Asking Rent
Before 1970	$27.24
1970-1979	$26.95
1980-1989	$28.78
1990-1999	$27.29
2000-2009	$27.01
After 2009	$32.84
All	$27.53

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

Long Island's Economic Outlook

Continued expansion in the manufacturing and non-manufacturing sectors provide the best economic news of late and business optimism looks favorable going forward. The housing market continues to underperform, consistent with national trends. Consumer spending appears to have been sluggish of late as well. But this may reflect uncertainty surrounding rising interest rates, potential trade wars and the partial government shutdown. With these headwinds having receded, the prospects for spending going forward may improve.

FOCUS ON… ECONOMIC GROWTH: IS A RECESSION ON THE HORIZON?

Recently, the majority of economists surveyed expect a recession to occur in 2020 or 2021. But what is the evidence to support such beliefs? The economic recovery has been very long and all recoveries must come to an end sometime. But why so soon?

One is hard pressed to find convincing evidence for such dire predictions. Business and consumer confidence are high. Evidence from the Siena Research Institute indicates that consumer confidence in the New York Metropolitan area is at its highest level in more than four years and this is true, not only for current conditions, but future economic prospects as well. In New York State, plans to make major purchases like auto and homes as of December 2018 were at their highest levels in more than four years as well.

Upon reflection, such optimism is not hard to understand. The unemployment rate has been consistently low, wage growth is accelerating and inflation is nowhere in sight. Moreover, concerns about the Federal Reserve continuing to raise interest rates have subsided and it appears that a trade war with China will be averted. The government shutdown has ended and Congress seems determined not to let it happen again. The stock market-- a leading indicator of economic activity-- has risen sharply in recent months.

So, is a recession on the horizon? The major "reason" seems to be that because the recovery has been so long, it must end soon. But why? Where is the evidence? In the absence of such evidence, gloomy predictions run the risk of becoming self-fulfilling prophecies which are surely counterproductive. It seems unwise to worry until good reasons emerge or, as my little niece once remarked to her big brother when they were on the way to the doctor (he was crying about it) "Jeff, don't cry until it hurts!"