

LIA Monthly Economic Report

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

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The U.S. continued its strong performance, with low unemployment, rising wages and continued growth in the business sector. Consumer confidence is at near record highs despite this growth, inflation remained in check. However, the real estate sector has continued to stagnate.

On Long Island, the unemployment rate was its lowest in more than a decade. Both manufacturing and non-manufacturing sectors performed very well. Consumer spending grew substantially year-over-year. But, once again, the real estate sector lagged behind.

The National Economy



The economy is surging on a number of fronts. Consumer confidence attained its highest level in 18 years. The stock market is at record highs. And wages are on the rise, with average hourly earnings increasing by 0.4 percent in August, the largest monthly gain since December 2017.

These favorable results have translated into strong consumer spending. Second quarter spending grew at a brisk pace of 3.8 percent.

The business sector continued its to expand. The Institute for Supply Management's Manufacturing Index showed strong growth in August, well in excess of expectations. New orders rose sharply, posting their highest monthly gains since January of this year.

The labor market also performed very well. Some 201,000 jobs were added in August, topping expectations. And jobless claims remained low.

Despite an economy that is heating up, inflation remained low, rising at just 2.7 percent year-over-year in August. This provides some justification for holding off on further interest rate hikes, the most recent of which occurred in September 2018.

For all of this good news, however, the real estate sector remains a persistent underperformer. Existing home sales were stagnant. And while year-over-year home sales prices grew by 4.7 percent in August, monthly sales prices declined by 1.7 percent in August. The available supply of homes was 4.3 months—well below the 6-month timeline that is considered a balance between supply and demand.

The Long Island Economy

Labor Market



The labor market continued its strong run. The August unemployment rate was 3.8 percent—the lowest level for August since 2007.

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

- Natural Resources, Mining and Construction (+7,200)
- Leisure and Hospitality (+5,000)
- Education and Health Services (+4,300)

In New York State, private sector hourly earnings rose at a healthy pace of 3.8 percent year-over-year in August. The strongest gains occurred in:

- Information (+7.3%)
- Manufacturing (+5.9%)
- Goods Producing (+5.4%)

Business Conditions



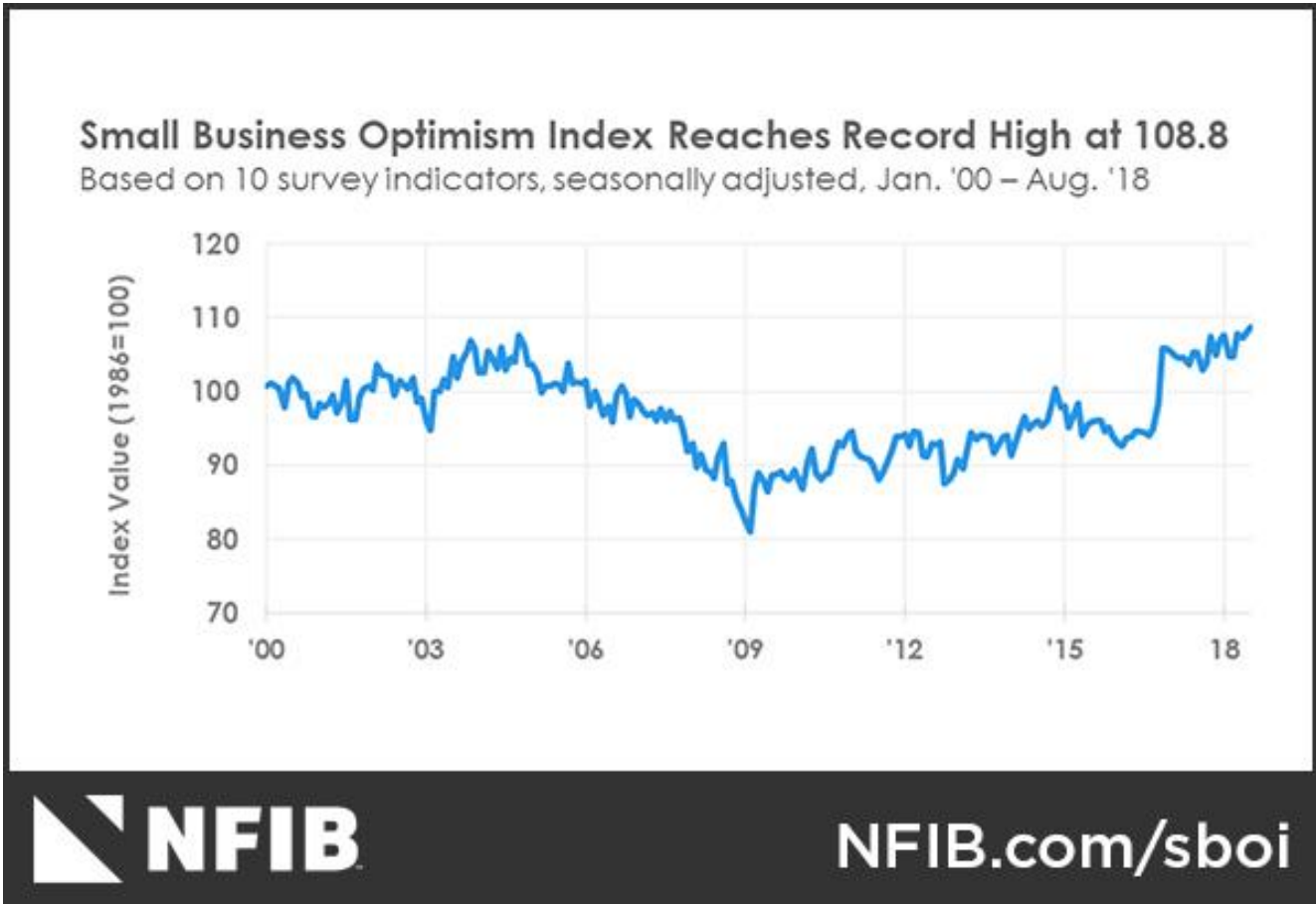
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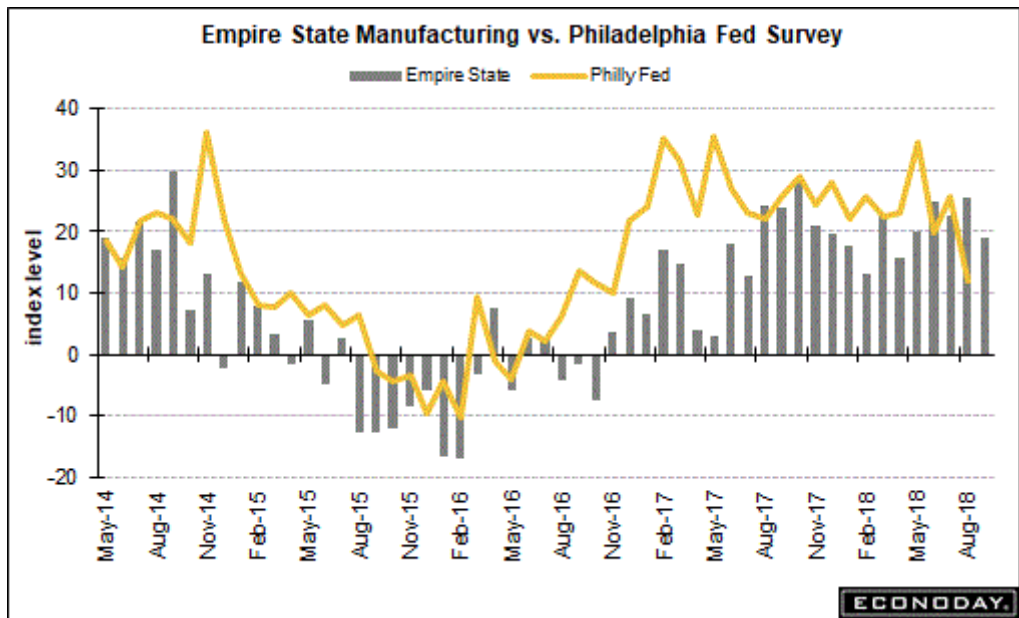
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Plans to increase inventories and capital outlays rose substantially, signaling conviction on terms of sales going forward.

Business owners also reported a record increase in job openings they could not fill which is a positive sign for the strength of the labor market.



The Empire State Manufacturing Survey and the broader Philadelphia Federal Reserve Bank Survey both remained in positive territory, though down from the previous month.



The region’s service sector reported even stronger growth according to the Federal Reserve Bank of New York’s September 2018 Business Leaders Survey. The survey’s headline business activity index attained its highest level in more than ten years. And the business climate index reached its highest level ever, signaling considerable optimism about economic conditions in this sector.

Consumer Sector



Consumer spending as indicated by sales tax collections increased markedly in August. Year-over-year sales tax collections increased by 8.68 percent in Nassau County and by 7.19 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— 9.70 percent in Nassau County, and 8.20 percent in Suffolk. Internet sales trends, and the

methodology used to adjust for increasing Internet sales over time, are discussed in the “Focus On” section of the February, 2016 newsletter.

The Real Estate Market



In a continuing pattern, home sale prices increased in August while sales fell. Year-over-year prices rose from \$512,000 to \$550,000 in Nassau County, an increase of 7.4 percent. The following chart indicates this is the largest growth rate since February 2018.

Home sales prices jumped by 9.2 percent in Suffolk County, its largest gain since May of this year.

Median Home Sale Price—Nassau County

Month	Current Year	Prior Year	% Change
Aug-2018	\$550,000	\$512,000	7.4
Jul-2018	\$540,000	\$520,000	3.8
Jun-2018	\$519,000	\$500,000	3.8
May-2018	\$515,000	\$480,000	7.3
Apr-2018	\$491,250	\$475,000	3.4
Mar-2018	\$500,000	\$467,000	7.1
Feb-2018	\$505,000	\$449,000	12.5
Jan-2018	\$500,000	\$475,000	5.3
Dec-2017	\$495,000	\$469,000	5.5
Nov-2017	\$487,000	\$459,000	6.1
Oct-2017	\$499,000	\$470,000	6.2
Sep-2017	\$510,000	\$465,000	9.7

Source: www.mlsli.com

Median Home Sale Price—Suffolk County

Month	Current Year	Prior Year	% Change
Aug-2018	\$405,000	\$371,000	9.2
Jul-2018	\$390,000	\$365,000	6.8
Jun-2018	\$375,000	\$362,500	3.4
May-2018	\$367,500	\$335,000	9.7
Apr-2018	\$360,000	\$340,000	5.9
Mar-2018	\$352,000	\$329,995	6.7
Feb-2018	\$355,223	\$329,000	8.0
Jan-2018	\$358,500	\$339,000	5.8
Dec-2017	\$360,500	\$335,000	7.6
Nov-2017	\$355,000	\$335,000	6.0
Oct-2017	\$359,999	\$339,000	6.2
Sep-2017	\$360,000	\$349,000	3.2

Source: www.mlsli.com

However, home sales fell by 8.5 percent in Nassau County, from 1,584 to 1,449 units sold. This is the largest rate of decline in more than a year. Similarly, home sales declined by 7.1 percent in Suffolk County which was also its largest rate of decline in more than a year.

Homes Sold—Nassau County

Month	Current Year	Prior Year	% Change
Aug-2018	1,449	1,584	-8.5
Jul-2018	1,281	1,251	2.4
Jun-2018	1,294	1,320	-2.0
May-2018	983	1,017	-3.3
Apr-2018	850	785	8.3
Mar-2018	939	994	-5.5
Feb-2018	773	823	-6.1
Jan-2018	939	961	-2.3
Dec-2017	1,067	1,124	-5.1
Nov-2017	1,043	1,057	-1.3
Oct-2017	1,185	1,121	5.7
Sep-2017	1,166	1,259	-7.4

Source: www.mlsli.com

Homes Sold—Suffolk County

Month	Current Year	Prior Year	% Change
Aug-2018	1,751	1,885	-7.1
Jul-2018	1,599	1,553	3.0
Jun-2018	1,642	1,623	1.2
May-2018	1,397	1,399	-0.1
Apr-2018	1,100	1,091	0.8
Mar-2018	1,143	1,202	-4.9
Feb-2018	1,004	1,022	-1.8
Jan-2018	1,252	1,121	11.7
Dec-2017	1,501	1,463	2.6
Nov-2017	1,468	1,410	4.1
Oct-2017	1,496	1,345	11.2
Sep-2017	1,593	1,446	10.2

Source: www.mlsli.com

Despite the decrease in home sales, home inventories increased by 4.6 percent year-over-year, which is a positive sign for sales going forward¹.

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.

Commercial Real Estate: Flex/R&D Space*



During the past twelve months, asking rents have risen a total of 1.7 percent. Since 2010, the market as a whole has recorded an annual average increase of 1.0 percent. Asking rents for Flex/R&D space on Long Island vary almost four-fold, from \$5.42 to \$21.57 per square foot, with a median of \$10.10 per square foot.

FLEX/R&D SPACE – ASKING RENTS PER SQUARE FOOT*

Low	25 th Percentile	Median	75 th Percentile	High
\$5.42	\$8.09	\$10.10	\$13.34	\$21.57

*As of August 2018. Source: Reis Reports: www.reisreports.com.

Vacancy rates for Flex/R&D space vary quite widely, from 0.0 percent to 69.0 percent. The median vacancy rate is just 1.1 percent.

FLEX R&D SPACE – VACANCY RATE DISTRIBUTION*

Low	25 th Percentile	Median	75 th Percentile	High
0.0%	0.0%	1.1%	22.7%	69.0%

*As of August 2018. Source: Reis Reports: www.reisreports.com.

* Flex/R&D space is defined as an industrial building with a minimum total office percentage of 25% and consisting of either warehouse/distribution and/or specialty industrial space, such as research and development and high-tech space.

Long Island's Economic Outlook



There is far better than bad news for Long Island's economy. The labor markets and the business sector are firing on all cylinders. Consumer spending appears to have accelerated. But, as at the national level, the real estate market continues to stagnate. As homes are the largest source of wealth for most consumers, this is a concerning trend.

Another potential concern is the effects of an emerging trade war with several important trade partners. Available evidence on this issue is discussed in the "Focus On" section of this report.

Focus On: International Trade: Are Trade Wars Really Easy to Win?

Bilateral tariffs between the United States and China are escalating. A trade war seems imminent. Indeed, one could reasonably argue that we are already in the midst of one. Is the United States winning or losing this growing trade confrontation? President Trump has opined that trade wars are easy to win. He appears to believe that winning trade wars means lowering the trade deficit. If so, then by this measure the United States is losing.

Since the implementation of the tariffs, the nation's trade deficit fell sharply in July to \$50.1 billion. Exports of capital goods, consumer goods, and food and animal feed all declined. The July deficit exceeds the average July deficit of \$44.1 billion which should adversely affect the third quarter GDP. On the import side, consumer goods have declined. Other components, including imports of capital goods, have increased.

The trade deficit with China increased to \$36.8 billion. This is not good news for Long Island as China is the third leading country to which Long Island exports. Prior to the implementation of these tariffs, Long Island's exports to China grew by 12.4 percent from 2016-2017. One can anticipate a sharp drop in this rate. And, since Canada and Mexico are Long Island's two most important trading partners, both in terms of exports and imports, rising tensions over tariffs in these countries do not bode well for Long Island's GDP either.

The outcome of this emerging trade war appears to be that GDP will be adversely affected, both nationally and on Long Island. So, by the trade deficit measure, we seem to be losing. The recently announced U.S.-Mexico-Canada trade agreement (USMCA), which replaces NAFTA, is a step in the direction of reducing some of the trade tensions. But this proposed agreement must be approved by Congress and the legislatures in Mexico and Canada and most provisions of the agreement will not take effect until 2020. Moreover, trade tensions with China persist.

This also ignores the fact that a trade war will harm consumers in both trading countries, by raising the cost of goods and threatening their jobs. Therefore, upon closer inspection, it would appear that trade wars are not so easy to win after all.