

CURRENT CONDITIONS INDEX

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Rhode Island began the second quarter in much the same way it ended the first: continued slowing in its rate of economic growth. For the second consecutive month, the Current Conditions Index registered a value of 58, indicating that seven of the 12 indicators improved relative to their values a year ago. In fairness, six indicators had very lofty values to beat from last year, ranging from **Single-unit Permits**, which had increased last April by over 70 percent compared to 2008, to the hourly **Manufacturing Wage** whose improvement year ago was just under 7 percent. Of course, our state's **Unemployment Rate** had also surged one year ago, which actually helped the likelihood of its improving this month.

What we are actually witnessing here, and this was true last month as well, is that in the early stages of a recovery, even though the *levels* of indicators might not be all that strong on a historical basis compared to what they had fallen to, they actually register significant *rates of growth*. The challenge then, as the recovery continues, is to improve more and more from where we had fallen during the depths of the recession. Any plateauing in the overall level of economic activity, as we are now witnessing,

| CCI Indicators - % Change | |
|----------------------------|---------|
| Government Employment | -2.9 |
| US Consumer Sentiment | -3.7 |
| Single-Unit Permits | -10.7 |
| Retail Sales | 4.1 Y |
| Employment Services Jobs | -11.5 |
| Priv. Serv-Prod Employment | 1.6 Y |
| Total Manufacturing Hours | 6.1 Y |
| Manufacturing Wage | 5.0 Y |
| Labor Force | -0.9 |
| Benefit Exhaustions | -10.3 Y |
| New Claims | -32.6 Y |
| Unemployment Rate (change) | -0.8 Y |
| Y = Improved Value | |

results in index values that remain range bound for some time. But there is one consolation: range bound values might not be increases but they're also not decreases. Were it not for increases in food and energy prices, as well as the adverse effects of balancing budgets and dealing with pension crises, this pause in our state's economic momentum might not have occurred. Keep in mind, our experience is not unlike that of the nation at the present time.

In spite of this, several "negative" performances weren't all that negative when placed into this context. **Single-Unit Permits**, which reflects new home construction, had the most difficult comps to beat. They fell by 10.7 percent compared to last April.

US Consumer Sentiment declined by 3.7 percent versus last April, but its value last year was a 10.7 percent increase from 2009. There's a similar story for **Employment Service Jobs**, which had been our "star" performer throughout this recovery. A year ago, this indicator had risen by 26 percent. Compared to that value, **Employment Service Jobs** this April was 11.5 percent lower, registering only its second decline in the last seventeen months. Still, should its trend turn negative that would bode badly for our economy breaking out of the range it has settled at.

Four indicators with difficult "comps" a year ago managed to improve this month. Two of these reflect the ongoing resurgence in manufacturing activity here. **Total Manufacturing Hours** rose by an incredible 6.1 percent, its eleventh improvement in the last twelve months, while the **Manufacturing Wage** increased by 5 percent. **Benefit Exhaustions** fell by another 10 percent in April following a double-digit decline last April, and our **Unemployment Rate** dropped sharply, from 11.7 percent a year ago to 10.9 percent in April. That, however, was not necessarily good news, as our **Labor Force** failed to improve for the third consecutive month, reflecting unemployed persons dropping out of the **Labor Force**, which helps to lower our jobless rate.

Retail Sales rose by 4.1 percent in April, in spite of having risen by 3.7 percent one year ago. **New Claims**, a leading labor market indicator, fell by 32.6 percent this month, its fourth consecutive improvement. **Private Service-Producing Employment** rose by 1.6 percent in April, and **Government Employment** fell sharply, declining by almost 3 percent.



| April Employment (SA, Y/Y) | |
|----------------------------------|-------|
| Gain | 8,000 |
| Loss | 4,000 |
| Net Chg | 4,000 |

THE BOTTOM LINE

Rhode Island's recovery, now fourteen months old, has clearly lost some of its momentum. CCI values for 2011 continue to be lower than they were during the second half of 2010. Headwinds remain, both *cyclical*, most notably the adverse effects of food and energy prices, and *structural*, balancing our state's budget and dealing with pension woes. All of this will prove to be quite a challenge for Rhode Island, as the need to deal with the longer-term, something seldom done here, takes on ever-increasing urgency.

| 58 | | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|----|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| | 2010 | 42 | 58 | 67 | 67 | 75 | 75 | 83 | 83 | 67 | 67 | 75 | 83 |
| | 2011 | 67 | 67 | 58 | 58 | | | | | | | | |