

Current Conditions Index

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Monthly Highlights

The third quarter has not been very pleasant for Rhode Island. After starting off with a modest but above-neutral value of 58 in July, the Current Conditions Index slid back to 42 in August, reflecting the highly uneven pace of this recovery and the underlying weakness that continues to persist. There is *some* good news and a few pockets of strength, mainly retail sales and housing. However, a number of areas continue to display persistent weakness, consistent with the atypical nature of this recovery. While at times it feels like Rhode Island is mired in a recession, this is not the case — we are in the early stages of a recovery. As evidence of this, note how the CCI has bettered its year-earlier values for all but one month of this year. The recession-like feeling results from this recovery becoming less broadly based. The diminished pace of economic activity is indicated by the downward trend in the CCI since February.

First the good news. The strongest indicator in August was, once again, **Retail Sales**, which grew at an incredible 8.9 percent. This beats the surprisingly rapid growth rates of 7.1 in July, 6.2 percent in June, and 5.9 percent in May. Amazingly, year-to-date growth in **Retail Sales** is 7.3 percent ahead of its pace last year. Anyone driving to a mall of late can hardly avoid witnessing this retail sales momentum first hand which continues in spite of weakening **US Consumer Sentiment** (-4.2 percent in August). The other good news for August concerns new home construction. **Single-Unit Permits** rose by 2.2 percent, ending three consecutive months of decline. While this indicator has performed very well *on average* during the first eight months of 2002, up 5.2 percent from the same period last year, this is largely the result of first quarter momentum (mainly in January and February). Consistent with this, construction employment has now fallen every month for the last seven months. Quite obviously, Rhode Island's "true" housing momentum continues to be in existing home sales and home prices.

Should the recent performance of our **Unemployment Rate** be viewed as good news or bad news? While our rate remains below the national rate, it is clearly trending upward. Part of this is the result of rising **Labor Force** growth (+1.7% in August). But, keep in mind that the **Unemployment Rate** is a lagging indicator. So, recent increases should *not* be viewed as negatively as they might appear.

Labor market fundamentals remain very weak. **Help Wanted Advertising** fell by 19 percent in August, continuing a long string of double-digit declines. Year-to-date, this indicator is 22.7 percent below its value for the first eight months of last year. **Benefit Exhaustions**, a measure of long-term unemployment, rose by "only" 30.5 percent in August, their best performance since February. More disturbingly, **New Claims for Unemployment Insurance**, the most timely indicator of layoffs, rose in August for the second consecutive month. Both the number of persons who experienced repeat jobless spells (Additional Claims for UI) and the number of persons continuing to receive Unemployment Insurance (Continued Claims) appear to have resumed upward trends. Thus, layoffs, the recurrence of jobless spells, and long-term unemployment are trending higher, reflecting a weaker pace of economic activity here. While payroll employment growth has slowed, a factor contributing to our present weakness, don't forget that Rhode Island is one of the few states witnessing increases in the number of jobs!

Rhode Island also appears to be losing the recent upward momentum in its manufacturing sector. **Manufacturing Man-hours** fell by 3.6 percent in August, double July's rate of decline. Year-to-date, **Manufacturing Man-hours** are 4.7 percent below their level of last year. Growth in the average **Manufacturing Wage** slowed in July, bringing it to \$12.35 (seasonally adjusted). "On average" manufacturing wages are low, but Rhode Island's manufacturing sector continues to be bifurcated, with large numbers of employees in both "high end" and "low end" manufacturing. The good news is that the "low end" appears to be steadily shrinking. Finally, **Miscellaneous Service Employment**, the primary creator of jobs for Rhode Island of late, saw a slowing of job growth on a year-over-year basis (i.e., compared to the same month one

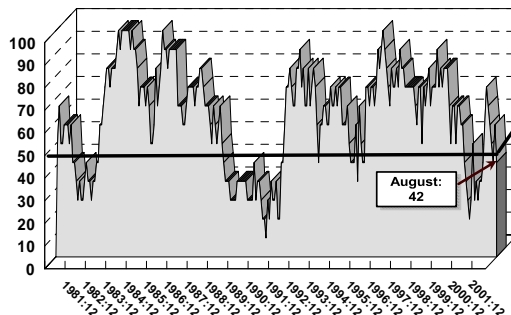
year ago). In terms of consecutive-month performance, though, **Miscellaneous Service Employment** has been declining every month since May.

For too many persons, the current state of Rhode Island's economy can be accurately summarized by focusing solely on a given month's unemployment rate. Using this yardstick, an ambiguous picture emerges: Rhode Island has a below-national rate that has risen sharply of late. I suppose the jobless rate has become "the" economic measure since its underlying basis appears to be easy to understand. Actually, it is more complex than it appears. At present, this *lagging* indicator has been rising, but, given our rising **Labor Force**, this is very likely the result of formerly "discouraged workers" who previously stopped actively seeking employment while unemployed, resuming active job search. While the *actual* jobless status of such persons has not changed (they remain unemployed), once job search resumes, their *statistical* status does change: once again, they are classified as being in the labor force and unemployed, causing the monthly jobless rate to rise. So, the worst possible time to use the unemployment rate as "the" economic indicator is during the early stages of a recovery — where we currently find ourselves.

CCI Indicators - % Change	
Government	-0.3
US Consumer Sentiment	-4.2
Single-Unit Permits	2.2 Y
Retail Sales	8.9 Y
Help Wanted	-19.0
Misc. Service Employ	1.6 Y
Man-Hours Manuf	-3.6
Manufacturing Wage	0.9 Y
Labor Force	1.7 Y
Benefit Exhaustions	30.5
New Claims	0.9
Unemployment Rate	2.1
Y = Improved Value	

	2002	2001
JAN	58	42
FEB	75	33
MAR	67	25
APR	58	17
MAY	50	25
JUN	42	50
JUL	58	25
AUG	42	33
SEP		25
OCT		33
NOV		33
DEC		42

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*Revised