

# Current Conditions Index

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## Monthly Highlights

August's economic results are a bit puzzling, especially after a month whose performance seemed to imply a more vibrant pace of economic activity. The August Current Conditions Index fell to 50, its neutral reading, following July's upwardly revised value of 75. While third quarter performance thus far is certainly better than what we witnessed last quarter, it serves as a vivid reminder of just how uneven the pace of economic activity in this recovery continues to be. In contrast to strong performances by a number of indicators in July, the August data showed less strength overall, and a reversal in what had become a welcome trend — declining layoffs.

**Retail Sales** continued its impressive long-term performance in August, rising by 3.4 percent on a year-over-year basis. This indicator has remained well above the \$11 billion level (on a seasonally adjusted basis) since April. Retail strength was accompanied by the second consecutive rise in **US Consumer Sentiment**, which increased by 2% in August, buoyed in part by the rising stock market and a slight moderation in joblessness. July's improvement in **Single-Unit Permits** proved to be short-lived, as the double-digit rise in July (+12.9%) gave way to a double digit decline in August (-14.9%), the ninth decline in the past ten months. For Rhode Island, it appears that **Consumer Sentiment** is more strongly correlated with **Retail Sales** than it is with new home construction (**Single-Unit Permits**). Thus far, higher interest rates have yet to affect either of these indicators as much as historical relationships would indicate.

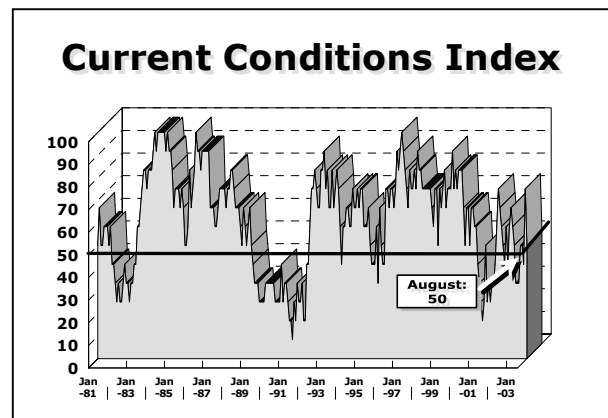
CCI Indicators - % Change	
Government Employment	-0.8
US Consumer Sentiment	2.0 Y
Single-Unit Permits	-14.9
Retail Sales	3.4 Y
Help Wanted Advertising	-8.8
Priv. Serv-Prod Employment	1.1 Y
Man-Hours Manufacturing*	-3.3
Manufacturing Wage*	0.9 Y
Labor Force	1.9 Y
Benefit Exhaustions	-7.9 Y
New Claims	2.2
Unemployment Rate	3.9
Y = Improved Value	
* Denotes not seasonally adjusted	

Weakness in labor demand persists. **Help Wanted Advertising** continued its long string of declines in August. The only good news is that the August's value was the first in quite a while that wasn't a double-digit decline (-8.8%). **New**

**Claims** for Unemployment Insurance, the most timely measure of layoffs, rose in August (by 2.2%), reversing five consecutive months of improvement. While this is a potentially troubling development should the trend reverse on a sustained basis, there is still some good news on the labor demand front. Additional claims for UI, a measure of "repeat" jobless spells, improved in August (the second month with double-digit improvement), continued jobless claims fell, **Benefit Exhaustions**, a reflection of long-term unemployment, declined for the fourth time in the last five months (at least that trend has been sustained!), and Rhode Island's **Unemployment Rate**, while rising slightly compared to last August, remains well below the national rate.

Rhode Island's manufacturing labor market weakened a bit further in July, most notably in the durable-goods sector, as **Manufacturing Man-hours** fell by 3.3%. In spite of this, the **Manufacturing Wage** rose (again) by 0.9%, continuing its trend of slightly less than one percent annual growth. **Private Service-Producing Employment** continued to rise, up 1.1 percent in July, the continuation of a weak stretch that began in April. Finally, ongoing budget difficulties resulted in **Government Employment** decreasing by 0.8% in August, the downside in attempts to balance state and local budgets.

Continuing good news at the national level leads me to expect further improvement in the CCI as we move through the rest of this year. Hopefully, July's performance will end up representing little more than a temporary pause as the effects of substantial monetary and fiscal stimulus continue, the stock market improves, and as firms begin to hire on a larger-scale basis.



		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>50</b>	2002	58	75	67	58	42	33	50	42	50	58	50	33
	2003	33	33	33	50	50	42	75	50				