

CURRENT CONDITIONS Index

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The slowing pace of the national economy continues to pose a number of challenges for Rhode Island. Rhode Island's overall economic performance this year has clearly been downhill after an initial show of strength in January. That month, the Current Conditions Index reached its most recent high of 75, as nine of twelve indicators improved. Following that, the CCI fell to 58 during March and April, as seven indicators improved, and has struggled to remain above its neutral value of 50 ever since.

The CCI fell to 42 in August, below its neutral value of 50, which was its July value, as only five of twelve indicators improved. For the fourth consecutive month, the CCI has failed to exceed its value one year earlier.

There were a few impressive indicator performances in August. And two of the non-improving indicators were right "on the edge," which leads me to view this month's results as more of a neutral to slightly positive reading.

The best performer, **Benefit Exhaustions**, which measures long-term unemployment, fell by over 24 percent in August, essentially nullifying its sharp rise in July and resuming its significant downward trend. Layoffs, as measured by **New**

CCI Indicators - % Change	
Government Employment	0.0
US Consumer Sentiment	-8.1
Single-Unit Permits	-16.4
Retail Sales	-5.6
Employment Services Jobs	0.1 Y
Priv. Serv-Prod Employment	0.7 Y
Total Manufacturing Hours	-1.8
Manufacturing Wage	2.2 Y
Labor Force	1.0 Y
Benefit Exhaustions	-24.2 Y
New Claims	0.4
Unemployment Rate	9.8

Y = Improved Value

Claims for Unemployment Insurance, rose very slightly in August, by only 0.4 percent. This indicator can be viewed as being essentially "flat," given its typical monthly changes.

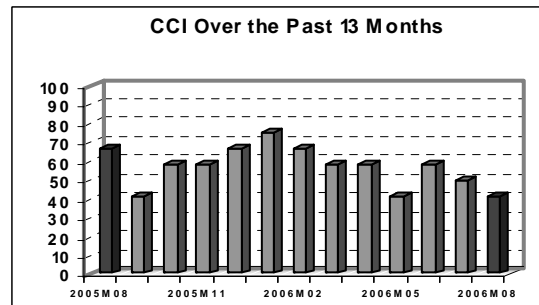
Rhode Island's manufacturing sector continues to generate conflicting signals. The **Manufacturing Wage** rose by 2.2 percent, the eight consecutive month for which wage growth has been at or above 2 percent. But **Total Manufacturing Hours** fell by 1.8 percent, which, ironically, is one of its better performances over the past year. This combination points to

the likelihood that labor shortages are beginning to push up the **Manufacturing Wage**.

Retail Sales were very disappointing in August, falling by 5.6 percent compared to one year ago, its fourth decrease in the last six months. Not surprisingly, this decline has been accompanied by significant decreases in **US Consumer Sentiment**, which fell by 8.1 percent in August, and it reflects continued weakness in the housing sector. For August, new home construction, as measured by **Single-Unit Permits**, fell by a whopping 16.4 percent compared to a year ago. August market its fifth consecutive double-digit decline

Employment Service Jobs, which includes the demand for "temps," grew by only 0.1 percent in August, another clear deceleration from its rate of growth in the prior four months. Along with this, **Private Service-Producing Employment** growth remained below a one-percent rate (+0.7%) in August, while **Government Employment** was unchanged.

Finally, while **Labor Force** growth remained fairly strong, rising by 1.0 percent in August, our **Unemployment Rate** jumped all the way from 5.1 percent last August to 5.6 percent this August. It has remained well above both the national rate and far from the level consistent with full employment here (of 4.2%) for some time now.



THE BOTTOM LINE

The fairly strong pace of economic activity Rhode Island witnessed in the first quarter is rapidly becoming little more than a fond memory. At present, Rhode Island's economy continues its struggle to remain in "first gear." Clearly, several parts of our economy are performing well. Unfortunately, these continue to be largely offset by weakness in other areas.

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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2005	50	67	50	50	42	75	58	67	42	58	58	67
2006	75	67	58	58	42	58	50	42				