

CURRENT CONDITIONS INDEX

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So much for a potentially strong start to the third quarter! While the Current Conditions Index originally registered a jump to 67 in July from 58 in June, updated data caused July's value to be revised down to 58 based on **New Claims**, which moved from a slight decrease (improvement) to a small increase. What could possibly be worse? August's CCI value fell all the way to 42, a contraction range reading, as only five of the twelve CCI indicators improved this month. Note that this contraction reading occurred only three months after the neutral reading (of 50) for May. Taken together, these recent CCI values reaffirm what I have been saying for a while now: Rhode Island's economy has definitely slowed over the past several months. In fact, the *set of 2011 CCI values up to this point* are trending lower, as we are have witnessed lower highs and lower lows. However, *this does not indicate that Rhode Island has entered a recession*. It is never advisable to make too much of a single month's data. Were Rhode Island in recession, we would have observed six or more consecutive contraction readings. So, while I continue to believe that there is a 50 percent chance of a recession for Rhode Island this fiscal year, I do not believe we are in a recession at the present time. But the bizarre labor market data for August certainly make this pronouncement considerably more difficult.

The August data reveal a very weak economic performance. Not only did the majority of CCI indicators fail to improve, several that did improve displayed a clear loss of momentum, and two of those should be viewed with skepticism. First for the bizarre.

CCI Indicators - % Change	
Government Employment	-2.6
US Consumer Sentiment	-18.9
Single-Unit Permits	-7.0
Retail Sales	-2.9
Employment Services Jobs	-1.2
Priv. Serv-Prod Employment	1.4 Y
Total Manufacturing Hours	0.8 Y
Manufacturing Wage	14.9 Y
Labor Force	-2.6
Benefit Exhaustions	-9.8 Y
New Claims	13.3
Unemployment Rate (change)	-0.9 Y
Y = Improved Value	

The **Manufacturing Wage** surged by 14.9 percent in August, following a 12.7 percent rise last month. I find such parabolic changes very hard to believe. Our state's **Unemployment Rate** fell to 10.6 percent in August, in spite of a monthly decline of over 6,000 in payroll employment and as both resident employment and our state's **Labor Force** continued to fall. I suggest that you take this jobless change with a major "grain of salt."

Among the other improving indicators, **Private Service-Producing Employment**, while still growing, grew more slowly, at 1.4 percent this month versus 2.4 percent in July. Sadly, the benefits of even this change were offset by yet another sharp decline in **Government Employment** (-2.6%). In what might be some welcome news, however, it appears that this indicator may well be bottoming. **Total Manufacturing Hours**, a mainstay of this recovery, rose again, but by only 0.8 percent in August. Still, this indicator has risen for fourteen consecutive months. Finally, **Benefit Exhaustions**, a reflection of longer-term unemployment, improved again, but at a slower rate that remains very strong (-9.8%).

Of the non-improving indicators, the rate of decline in **Employment Service Jobs**, a leading indicator, "improved" to 1.2 percent in August, its slowest rate since March. **Retail Sales** fell by 2.9 percent in August after four consecutive improvements. This was a reflection at least in part of the continued deterioration in **US Consumer Sentiment**, which fell at a double-digit rate (-18.9%) versus last August. While much of this change is related to the total dysfunction of our nation's legislative branch, its effects nonetheless continue to spill over into other elements of economic activity. **Single-Unit Permits**, which reflects new home construction, fell by 7 percent in August after its first improvement in a while last month. Clearly, its downtrend remains in effect. Finally, **New Claims**, a leading labor market indicator that indicates layoffs, rose by 13.3 percent this month, its second consecutive failure to improve, which could be signaling the beginning of an uptrend in layoffs.



August Employment (SA, Y/Y)	
Gain	5,000
Loss	4,600
Net Chg	400

THE BOTTOM LINE

While this recovery is apparently continuing, the *rate of improvement* in overall economic activity here continues to moderate. As a result, *Rhode Island's economy is now perilously close to stall speed*. August was the eighteenth month of this recovery, reflecting some momentum that can help us in the future. However, if that momentum slips farther away, then absent the structural changes Rhode Island should have made over the past few years, we will be almost entirely at the mercy of national and global trends moving forward.

42		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	50↓	58	58↓	42				