

# CURRENT CONDITIONS INDEX

LEONARD LARDARO, URI

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Up until last month, it appeared that Rhode Island's economy had already seen the long awaited acceleration in activity come and go. Clearly, we improved at the end of 2011, which provided us with momentum through the first quarter of 2012. Then, this economic momentum began to slow, placing us in the situation with higher levels of many indicators, but their overall rate of growth was decelerating, a possibility that could potentially move our state's economy to stall speed at some point in the future. But the August results show some real strength and quite possibly a re-acceleration in Rhode Island's economic momentum moving forward. So, any discussion of the potential for reaching "stall speed" should be put on the backburner at this point.

For August, eight of the twelve CCI indicators showed improvement, giving a monthly CCI value of 67 using the "official" data that we know is flawed. Based on my simulations, the more correct CCI value for August is 75 (or possibly 83, but that's too close a call). What I find most encouraging for August is the fact that all of the non-survey based indicators, which don't suffer from the flaws currently plaguing most of the labor market data, showed significant improvement, something that doesn't occur very often enough here.

Ironically, the "official" labor market data continue to show an economy that fell off a cliff about a year ago, with payroll employment now declining on a year-over-year basis for twelve of

momentum just as the US economy is. For both, this is occurring as Europe remains mired in recession and Asian growth has slowed. Monetary policy lags (6-12 months) preclude recent monetary changes by the Fed and ECB from directly causing this momentum, other than positively influencing confidence and investor appetite for risk.

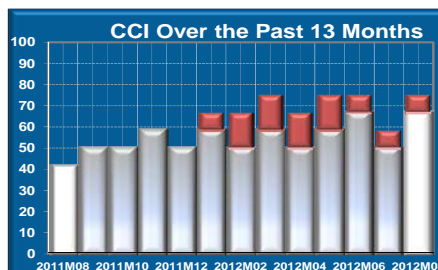
In light of all of this, what do we actually know about Rhode Island's August economic performance? Rhode Island's recovery is now 30 months old and we are NOT flirting with a double-dip recession. Looking at the non-survey based indicators, **Retail Sales** remains surprisingly strong, rising by 9.2 percent in August, its eleventh increase in the past twelve months. **US Consumer Sentiment** jumped by over 30 percent, buttressed no doubt by recent stock market activity and actions by the Fed. Layoffs, in terms of **New Claims** for Unemployment Insurance, fell by 28.2 percent in August, its eighth improvement in the last nine months. On the other end of the spectrum, **Benefit Exhaustions**, reflective of longer-term unemployment, also fell sharply, resuming its downward (improvement) trend. New home construction, based on **Single-Unit Permits** also rose sharply. This indicator appears to have bottomed several months ago, with relatively slow (by historical standards) increases through time.

Finally, our manufacturing sector appeared to show strength, as **Total Manufacturing Hours** jumped by 3.4 percent, if we can believe the surge in the workweek (over one hour), and, growth in our **Manufacturing Wage** "slowed" to "only" 7.8 percent.

CCI Indicators - % Change	
Government Employment	-2.3
US Consumer Sentiment	33.8 Y
Single-Unit Permits	35.3 Y
Retail Sales	9.2 Y
Employment Services Jobs	-7.0
Priv. Serv-Prod Employment	-0.8
Total Manufacturing Hours	3.4 Y
Manufacturing Wage	7.8 Y
Labor Force	-1.5
Benefit Exhaustions	-34.8 Y
New Claims	-28.2 Y
Unemployment Rate (change)	-0.7 Y
Y = Improved Value	

the last thirteen months. Let me renew my challenge to anyone using that data to conclude anything other than the existence of a double-dip recession here. Ironically, though, the "official" labor market data, which typically become more negative starting around this time of year are becoming less so, indicating that the measurement error might now have changed direction. Go figure!

So, the potential re-acceleration reflected in the August data may be showing that Rhode Island's economy is gaining some



**DLT August Employment (SA, Y/Y)**

Gain 4,500?  
Loss 7,300?  
Net Chg -2,800?

## THE BOTTOM LINE

As just about everyone in this state apparently missed the re-acceleration in the pace of economic activity that occurred at the end of 2011 through the first quarter of this year, the good news is that if this month's trends hold, and that is not at all certain, we might now see more rapid growth than what occurred in the second quarter. Either way, the levels of key labor market variables are higher than what the "official" data would have us believe, so we at least have some margin for error should growth slow.

67/ 75		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2011	50	67	67	58	50	58	67	42	50	50	58	50/ 58
	2012	58/ 75	50/ 67	58/ 75	50/ 75	58/ 67	67/ 75	50/ 58	67/ 75				