

CURRENT CONDITIONS INDEX

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As the third quarter progresses, there is both good news and bad news about the performance of Rhode Island's economy. The good news is that the July Current Conditions Index's value was revised higher, from 75 to 83. The bad news is that the CCI for August declined to 67, as only eight of twelve indicators improved relative to their values one year ago. Furthermore, August was only the second month this year for which the CCI failed to exceed its year-earlier value (June was the other). My primary concern moving forward, which I have written about for several months now, is that the CCI for the remainder of this year will very likely fail to beat last year's values, which would reflect a clear slowdown *in our rate of growth* relative to the end of last year. This should not come as a complete surprise given the clear acceleration in the pace of economic activity for Rhode Island as 2012 came to an end. Sadly, but not surprisingly, the combination of fiscal drag from Washington and the government shutdown should only make these yearly divergences worse.

At times like this it is informative to look at the performance of the *leading* indicators contained in the CCI. For August, all four of these had difficult "comps" from a year ago. Only two, however, were able to improve relative to those comps. Don't expect this to be the last time we encounter this phenomenon.

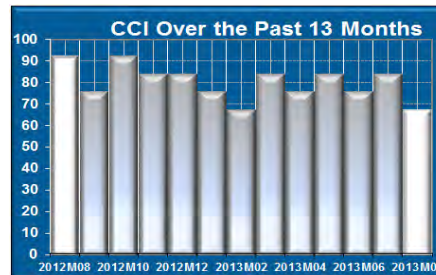
Let me reiterate an important point that will become ever-more relevant that is related to the seeming paradox of how our state's economy can be showing good momentum yet fail to return to where it was in 2006 and 2007. *Current levels of economic activity depend on both the rates of growth we are experiencing and the prior activity levels themselves.* Rhode Island's economy was extremely hard hit during The Great Recession, so, when our recent rates of growth are applied to these depressed activity

spite of this setback, Permits have now settled into a range of 70+ each month. **US Consumer Sentiment** improved for the seventh consecutive month in August, rising 10.7 percent. Expect to see it began to weaken, given our nation's fiscal dysfunction.

The remaining leading indicators are related to the labor market. The first of these, **Employment Service Jobs**, which includes temporary employment, a prerequisite to overall employment growth, fell for the first time in over a year. It registered a decline of 2.1 percent relative to its 5 percent rise last August. While this indicator has generally improved since last April, its slowing rate of improvement coupled with an August decline calls into question whether it will sustain its uptrend. **New Claims** for Unemployment Insurance, the most timely measure of layoffs, appears to now be in an uptrend (note: we want this to decline), as it has now risen for five of the last seven months. A trend of rising layoffs will adversely affect other CCI indicators in coming months, most notably **Retail Sales**. The final leading indicator, **Total Manufacturing Hours**, which measures strength in our manufacturing sector, barely rose (by 0.6%). Its recent performance has been spotty in light of stronger global economies that boost exports and a weakening US economy.

Retail Sales remained strong, growing at 6.2 percent relative to last August (which had a 9% improvement). **Private Service-Producing Employment** growth remained below one percent (that could be faulty data). Our state's **Labor Force** declined again (the fifth time), but was distorted by seasonal adjustment problems concerning students. Our **Unemployment Rate** notched higher over the month, as the **Manufacturing Wage** rose by "only" 4.4 percent. Finally, **Government Employment** rose for the first time in quite a while.

CCI Indicators - % Change	
Government Employment	0.7 Y
US Consumer Sentiment	10.7 Y
Single-Unit Permits	-1.0
Retail Sales	6.2 Y
Employment Services Jobs	-2.1
Priv. Serv-Prod Employment	0.7 Y
Total Manufacturing Hours	0.6 Y
Manufacturing Wage	4.4 Y
Labor Force	-1.6
Benefit Exhaustions	-18.2 Y
New Claims	7.5
Unemployment Rate (change)	-1.3 Y
Y = Improved Value	



DLT AUG Employment (SA,Y/Y)	
Gain	5,300
Loss	3,600
Net Chg	1,700

THE BOTTOM LINE

levels, we continue to see relatively small changes in the *actual level* of economic activity. As our rate of growth is slowing, it will now take even longer to return to where we were pre-recession.

As stated earlier, two of the CCI's four leading indicators improved in August. The uptrend in **Single-Unit Permits**, a leading indicator of housing, continues, although this indicator failed to improve in August (last August its rate of growth was 34%). In

In all likelihood, the third quarter will mark the inflection point for the rate of growth in Rhode Island's economy. August was the second month for which the CCI failed to beat its year-earlier value. It is not unreasonable to expect this pattern to recur for the remainder of 2013. Add federal fiscal dysfunction to our state's long-term fiscal non-function and the result is hardly encouraging. Let's hope Rhode Island's Secretary of Commerce, whoever that is, will be every bit the superhero that the job description for that position requires!

67		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2012	67↑	58↑	58	67↑	67↑	83↑	58↑	92↑	75↑	92↑	83↑	83↓
	2013	75	67	83	75↑	83	75	83↑	67				