

CURRENT CONDITIONS INDEX

LEONARD LARDARO, URI

Available Online: <http://www.lardaro.com/current.htm>
 Blog: <http://rieconomy.blogspot.com>
 Twitter: @ladardo

VOL XXIII
 NUMBER 9
 AUG 2016

What a difference a quarter makes! Following a totally forgetful second quarter, where we once again witnessed the phenomenon where when the US economy hiccups, Rhode Island's economy falters, we now seem to be regaining the momentum that faded away after the first few months of 2016. July's Current Conditions Index, which was revised higher to 67 based on new **Retail Sales** data, marked our return to expanding economic activity after having been mired in sub-par activity throughout the entire second quarter. Notably, the CCI exceeded its year-earlier value for the first time this year. Then comes August. The CCI rose to 75 from July's upwardly revised 67, to the highest level of 2016. While the CCI for August of this year failed to exceed its value last July, it did manage a tie. So, for two consecutive months now, the CCI has matched or exceeded its year-earlier value, something we all too seldom see. August was the third such occurrence in 2016.

Where we go from here is anyone's guess. Sadly, since our state's elected officials did virtually nothing to improve our state's cyclical performance and its ability to withstand periods of national weakness for so many years, our recent experience should serve as an all too vivid reminder that Rhode Island remains highly vulnerable to national economic weakness. Worse yet, we also tend to benefit less from national economic growth than do most other states. *As asymmetries go, that's pretty ugly!* So, our fate for the remainder of this year, and into the indefinite future for that matter, will be determined almost entirely (and asymmetrically) by national economic momentum.

second time since August of last year (+1.7%). **New Claims**, the most timely measure of layoffs, rose sharply in August (+12.5%), its fifth increase in the last six months. While we cannot and should not rely on increases in **Government Employment** as an engine of our state's cyclical momentum, the same is not true **New Claims**, which is a leading labor market indicator. Sustained cyclical gains require resumption of its prior downtrend.

Looking at the August CCI performance overall, only three of the five leading indicators contained in the CCI improved. However, all three had difficult comps from a year ago. **US Consumer Sentiment** fell by 2.4 percent in August, its eighth decline in the last nine months. **Single-Unit Permits** rose in August (1.2%) for only the second time since April. Its level remained well below 1,000 annual units. **Employment Service Jobs**, which includes temporary employment and is a prerequisite to employment growth, fell slightly in August (-0.1%), but *this was its sixth consecutive decline*. It should be noted that all three of these indicators had difficult comps. The pleasant surprise here was **Total Manufacturing Hours**, a proxy for manufacturing output. It rose in August for the fourth consecutive month, although the impact of job gains were largely offset by a declining workweek.

On a *monthly* basis, our **Labor Force** rose for the third consecutive time, indicating that some unemployed, by resuming job search, are reflected in the **Unemployment Rate** and that its slight *monthly* uptick occurred for an acceptable reason. On an annual basis, our **Labor Force** rose for the first time in twenty-seven months! **Retail Sales** rose by 2.9 percent in August, its second increase in the past six months. **Private Service-Producing Employment** growth accelerated in August, and **Benefit Exhaustions** fell by 7.3 percent.

CCI Indicators - % Change	
Government Employment	1.7 Y
US Consumer Sentiment	-2.4
Single-Unit Permits	1.2 Y
Retail Sales	2.9 Y
Employment Services Jobs	-0.1
Priv. Serv-Prod Employment	1.5 Y
Total Manufacturing Hours	0.5 Y
Manufacturing Wage	4.7 Y
Labor Force	0.4 Y
Benefit Exhaustions	-7.3 Y
New Claims	12.5
Unemployment Rate (change)	-0.2 Y
Y = Improved Value	



Throughout the third quarter thus far, the relative importance of our economic negatives has receded relative to our positives, as our positive momentum factors have once again overtaken the negatives. The asterisk taken from our period of weakness remains: the indicators that weakened were exactly those that historically point to economic slowing. Several of them are still showing some weakness.

For August, nine of the twelve indicators contained in the CCI improved. Two CCI indicators that have been acting atypically did so again this month. **Government Employment**, rose for only the

THE BOTTOM LINE

Following a truly disappointing second quarter, Rhode Island's economy appears to have regained its momentum in the third quarter, as the CCI has once again moved into its expansion range. Where we go from here will be determined almost entirely by the national economy. Hopefully, Rhode Island's second quarter slide will serve as a wakeup call to our state's elected officials that even now, almost ten years after our prior employment peak, we remain far too vulnerable to slowing national activity. Much remains to be done, especially the adoption of numerous structural changes that hopefully will insulate us from our continuing national downdraft potential.

75		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2015	67↑	67↑	67	67↑	67	67↓	58↓	75↓	67↓	50↓	67↓	50↓
	2016	58	67	50↓	42	50	42	67↑	75				