

CURRENT CONDITIONS INDEX

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Rhode Island's enhanced economic momentum continued in August, as we are now well on the way to restoring the economic growth trajectory we were on at the end of 2015. The August Current Conditions Index value remained at 83, as ten of its twelve indicators improved. Importantly, the CCI beat its year-earlier value for the eighth consecutive time this year, a feat that hasn't occurred for a very, very long time. In absolute terms, the outperformance of our state's economy relative to each month last year is very impressive, something we almost never see here. In relative terms, we have been comparing to a somewhat flat economy in the first two quarters of 2016. That is why the most recent two months, July and August, provide us with "fresh" data, in the sense of being post-flat economy results. Thus far, Rhode Island has impressed in the third quarter, even though comps have not exactly been all that difficult.

I continue to pay particular attention to two economic statistics, both of which are survey based. The first of these, payroll employment, represents the number of jobs in Rhode Island. Over the past four months, year-over-year changes in this measure have become noticeably larger, at just under two percent on an annual basis in August. In an attempt to corroborate this, I have sought to ascertain whether the recent employment trend is consistent with the behavior of income tax withholding, which is not survey based. If the sudden surge in payroll employment growth is to be believed, I expect withholding to be rising rapidly as well. While that was the case

CCI Indicators - % Change	
Government Employment	-1.0
US Consumer Sentiment	7.8 Y
Single-Unit Permits	83.2 Y
Retail Sales	8.6 Y
Employment Services Jobs	0.0
Priv. Serv-Prod Employment	2.2 Y
Total Manufacturing Hours	6.7 Y
Manufacturing Wage	4.2 Y
Labor Force	0.7 Y
Benefit Exhaustions	-28.0 Y
New Claims	-14.6 Y
Unemployment Rate (change)	-1.0 Y
Y = Improved Value	

for May through July, it is *not* true for August: Payroll employment growth appeared to surge to 1.9 percent (annually) in August, but income tax withholding actually *fell* by 0.3 percent (both seasonally adjusted). So, while it is very likely that payroll employment growth has accelerated recently, it is reasonable to expect that its growth might not be as favorable as existing data now show. Of course, we will have to wait until data revisions in February to be sure.

The second metric is Rhode Island's **Labor Force**. If there is one thing that we left behind in the last recovery, it was our state's

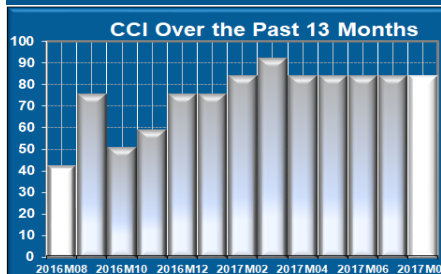
Labor Force, which has displayed a very well-defined down trend since January of 2007, something I view as a train wreck—until the last six months that is. On both a monthly and year-over-year basis, our **Labor Force** appears to have been improving since 2017 began. While this might turn out to be correct when data revisions are made, it might also prove to be "déjà vu" all over again — we witnessed exactly the same pattern last year, which was ultimately revised away. Until proven otherwise, I remain somewhat skeptical about the recent improving trend in our state's **Labor Force**.

Returning to August's performance, four of the five leading indicators contained in the CCI improved, although all had very easy "comps" a year ago. The one indicator whose recent performance continues to concern me, **Employment Service Jobs**, an indicator that includes temporary employment and is a leading indicator of future employment, failed to improve again in August. It has now improved only once (July) since March of 2016. Clearly, this indicator remains in a downtrend.

New Claims, the timeliest measure of layoffs, fell once again in August (-14.6%), registering its eighth improvement in the last ten months. Along with this, both of the goods-producing leading indicators contained in the CCI improved significantly. **Single-Unit Permits**, which reflects new home construction, rose by an amazing 83.2 percent, thanks in part to an easy comp last August. **Total Manufacturing Hours**, a proxy for manufacturing output, the other goods-producing indicator, rose by a robust 6.7 percent (also an easy comp). Finally, **US Consumer Sentiment** improved in August (+7.8), its tenth-consecutive increase.

Government Employment fell slightly from a year ago (-1.0%). **Private Service-Producing Employment** growth accelerated (+2.2%), while **Retail Sales** rose by a healthy 8.6 percent after falling last month. **Benefit Exhaustions**, which reflects longer-term unemployment, fell by 28 percent in August, as its long-term downtrend remains intact. Finally, our **Labor Force** trend, Rhode Island's *train wreck*, improved again in August — six in a row now. Once again, our **Unemployment Rate** fell (relative to a year ago) for the right reasons.

LABOR FORCE:	Aug 2017	Peak (1/2007)
Participation Rate	64.6%	68.6%
Employment Rate	61.9%	65.4%



DLT AUG Employment (SA, Y/Y)	
Gain	11,600
Loss	2,300
Net Chg	9,300

83		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2016	50↓	58↓	58↑	33↓	50	42	58↓	50↓	75	50↓	58↓	75↓
	2017	75	83	92	83	83	83	83	83				