

# Current Conditions Index

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Also available on my web site: <http://members.cox.net/lardaro/current.htm>

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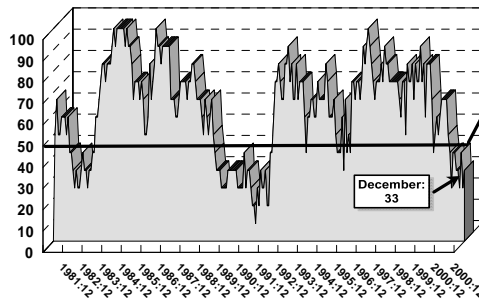
December 2001

# 33

## Monthly Highlights

The year ended on a sour note, as December marked the tenth consecutive month of Rhode Island's current recession. The Current Conditions Index for December rose slightly to 33 from November's 25, with only 4 of the 12 CCI indicators improving. As has been true for a while now, **Miscellaneous Service Employment** is the only consistently improving indicator, albeit by ever-diminishing amounts. New home construction, boosted by a series of interest rate cuts and unseasonably warm weather, managed to sustain its recent momentum as well. The pleasant surprise for December was **Retail Sales**, which rose for the second time in the last five months. Other than these, **Government Employment** was the only other improving indicator, which rose by a strong 1.7 percent, largely attributable to increases in local education employment.

### Current Conditions Index



The interest-sensitive portion of Rhode Island's economy performed better than one would expect in a recession, as **Single-Unit Permits**, which reflect new home construction, rose by an impressive 5.1 percent in December, its seventh increase in the last eight months. Accompanying this was another double-digit rise in construction employment, keeping it above 20,000 for the fourth consecutive month. **Retail Sales** rose by an unexpectedly large 5.1 percent, remaining comfortably above a \$10 billion annual rate. What makes this increase even more impressive is that such a large increase in the dollar value of sales could occur when such heavy discounting was prevalent at the end of the holiday season. While US **Consumer Sentiment** declined compared to last December, at just below a double-digit rate, it actually rose relative to November's value, a potentially encouraging sign for next year's retail performance.

The worst news continues to be related to layoffs and labor demand.

**New Claims for Unemployment Insurance**, the most timely measure of layoffs, rose by 34.2 percent compared to last December. Even more disturbing is the fact that December's **New Claims** were actually above October's levels, which were inflated by the terrorist events in September. **Help Wanted Advertising**, an indicator of labor demand, fell by 30.6 percent in December. *It fell at double-digit rates every month in 2001.* **Benefit Exhaustions**, a measure of the flow of persons into long-term unemployment, rose by 44.4 percent in December, *making them 57 percent higher than their value when the present recession began in March!* Even medium-term unemployment, as measured by Additional UI Claims, shot up by 47.2 percent in December, as ever-increasing numbers of previously re-employed persons continue to find themselves forced into "repeat" jobless spells.

Rhode Island's manufacturing sector, like that of the nation, continued to be in a recession in December. **Manufacturing Man-hours** here fell at a 4.7 percent annual rate, while the average **Manufacturing Wage** declined slightly to \$12.14.

Rhode Island's **Unemployment Rate** rose again in December to 4.8 percent according to published data, while its **Labor Force** declined by 0.6 percent. Based on my own econometric estimates, I continue to believe that published unemployment rates are understated. *My estimates place the December jobless rate at 5.0 percent.*

The good news about December's performance was that the rate of deterioration in Rhode Island's labor market may well be slowing. While **New Claims**, **Additional Claims**, **Continued Claims**, and **Benefit Exhaustions** all surged by at least 34 percent compared to last December, none rose by more than 15 percent compared to last month. **Consumer Sentiment** appears to be moving upwards as well, a very welcome development should it continue.

Now for the bad news: while we will have to wait for the January 2002 labor market data to obtain more accurate (rebenchmarked) estimates of 2001 values, let me predict that unemployment rates for 2001 will be revised upward, while payroll employment will be revised lower. If my "reading of the tea leaves" proves to be correct, I believe that job contraction may well have occurred during the last few months of 2001. Furthermore, I strongly suspect that at present, **Manufacturing Man-hours** is understating the severity of the contraction in Rhode Island's manufacturing sector. And, even with such weakness in manufacturing that would normally result in lower wages, given the ongoing losses of low-end manufacturing firms here, firms paying below-average wages, the **Manufacturing Wage** is at present being understated. I guess that last point would be considered as good news — manufacturing wages here are not lower than 1995 levels nationally. I seriously doubt, however, that those manufacturing workers who have been or will be displaced during this process will find any consolation in this. And, I continue to worry about how well prepared Rhode Island is to deal with the numbers of "high maintenance" unemployed we are likely to see in 2002.

CCI Indicators - % Change	
<b>Government</b>	1.7 Y
<b>US Consumer Sentiment</b>	-9.7
<b>Single-Unit Permits</b>	4.4 Y
<b>Retail Sales</b>	5.1 Y
<b>Help Wanted</b>	-30.6
<b>Misc. Service Employ</b>	0.3 Y
<b>Man-Hours Manuf</b>	-4.7
<b>Manufacturing Wage</b>	-0.1
<b>Labor Force</b>	-0.6
<b>Benefit Exhaustions</b>	44.4
<b>New Claims</b>	34.2
<b>Unemployment Rate</b>	33.3
Y = Improved Value	

	2001	2000
JAN	67	83
FEB	50	83
MAR	42	83
APR	25	58
MAY	42	33
JUN	42	50
JUL	33	50
AUG	33	42
SEP	25	67
OCT	42	58
NOV	25	67
DEC	33	67

\*Revised

**LABOR MARKET:**  
Jobs Created: 6,100  
Jobs Lost: 3,600