

Current Conditions Index

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

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Monthly Highlights

	2002	2001
JAN	58	42
FEB	75	33
MAR	67	25
APR	58	17
MAY	42	25
JUN	33	50
JUL	50	25
AUG	50	33
SEP	58	25
OCT	67	33
NOV	58	33
DEC	50	42

2002 ended for Rhode Island much as it did for the nation — with a loss of momentum. Like the US, Rhode Island has been unable to sustain upward movements in our rate of economic growth. While 2002 was a far better year than 2001, the post-recession pattern of a slow and uneven recovery continues. The good news, at least, is that Rhode Island continues to be in a recovery. The CCI bettered its year-earlier level for every month of 2002 except June. Sadly, though, the CCI for December slid back to its neutral value of 50 after showing potential some momentum in October (at 67).

In *relative* terms, Rhode Island ended 2002 performing about as well as it ever will. Job growth for December ranked it #8 nationally, one of only 22 states to actually experience job growth compared to December of last year, the most rapid job growth of any New England state. Personal income growth since 2000 has generally exceeded the national rate. **Retail Sales** continue to astound. Our **Unemployment Rate** remains well below the national average (although it has returned to its “long run equilibrium” of highest in New England). Home price inflation in Rhode Island is among the most rapid (in percentage terms) of any state. Wow!

The two “star” economic performers in December were **Retail Sales**, which “slowed” to a 5.9 percent annual rate of growth, and job growth. Recent **Retail Sales** growth rates have been quite amazing, especially the 10.6 percent rate in November. For the year, **Retail Sales** grew by a very strong 6.6 percent. What makes this performance so striking is that it has occurred during a period where **US Consumer Sentiment** has been weak or declining (generally since June). Part of our retail strength is a by-product of housing momentum. While existing home sales have recently been declining, partly the result of lack of supply, the level of sales remains high by historical standards. The apparent large decline in **Single-Unit Permits** in December (-17%) can also be explained in terms of bad weather and a tendency for developers to build fewer houses that are larger. So, in spite of the *statistical* behavior of these two indicators of the housing market, sufficient momentum remains to fuel retail demand as home buyers stock and replenish furnishings. The other “star performer,” discussed above, is payroll employment growth. December’s rank of #8 nationally was actually a decline from #6 in November!! This pace of job growth has occurred as job gains continue to slow but job loss fades even faster, making the difference between these, the monthly job change figure, equal to 3,700 in December. Of course, with the release of next month’s labor market data comes the annual “rebenchmarking,” so some of this relative strength might vanish as the result of data revision.

The same areas of weakness continue to persist. Labor demand remains problematic. **Help Wanted Advertising** for December fell to its lowest level since December of 1991 (and November of 1982 prior to that). Note that both prior occurrences of this value were at the ends of deep recessions. I guess this might be construed as good news, as perhaps this indicator reflecting that labor demand here is bottoming out. It is still too early to tell, though. For the year, **Help Wanted Advertising** is down by 20.5 percent. Long-term unemployment, as measured by **Benefit Exhaustions**, also continues to increase at double-digit rates. The December rise was 15.3 percent, which is actually tame by comparison to some of the earlier increases (ex: +67.1% in April). Rhode Island’s manufacturing sector continues to show weakness. **Manufacturing Man-hours** ended the year falling at accelerated rates (-2.7% in December). For the year, **Manufacturing Man-hours** declined by 4 percent, with the greatest amount of weakness occurring in the cyclically sensitive durable goods portion. Along with this manufacturing sector weakness, growth in the average **Manufacturing Wage** slowed to near zero (this is also true for all of 2002). The problem here is that Rhode Island’s manufacturing wages are so far below both national and New England levels that their stagnation lengthens the duration until we begin to close the gap with other states. Finally, **Miscellaneous Service Employment** growth slowed to less than one-percent in December (but up 2.2% for the year). It is barely adding more jobs (year-over-year) than is **Government Employment**, an unusual occurrence that I noted last month, which might disappear with rebenchmarking.

Rhode Island is doing about as well in *relative* terms as it will ever do. Unfortunately, unless something changes, this position will soon prove to be unsustainable, as the other states once again pass us by. I am very optimistic that many of the ingredients for sustainability can be found in Governor Carcieri’s State of the Union address. **FINALLY**, someone has defined Rhode Island’s dominant economic niche! The emphasis the Governor intends to place on education, skills, and training should go a long way toward making this a less costly state to do business in. Of course, tax changes are also needed, but this will likely occur in future months. After all, there’s only so much a Governor can do in 28 days!

CCI Indicators - % Change	
Government	1.9 Y
US Consumer Sentiment	-2.6
Single-Unit Permits	-17.0
Retail Sales	5.9 Y
Help Wanted	-23.5
Misc. Service Employ	0.9 Y
Man-Hours Manuf	-2.7
Manufacturing Wage	0.1
Labor Force	1.5 Y
Benefit Exhaustions	15.3
New Claims	-28.2 Y
Unemployment Rate	8.0
Y = Improved Value	

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