

CURRENT CONDITIONS Index

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Rhode Island ended 2006 on a positive note, sustaining the enhanced pace of economic activity that began after the end of the third quarter. The Current Conditions Index for December was 58, with seven of twelve indicators improving. Unlike the past couple of months, however, only three of this month's improving indicators turned in strong performances, while three key labor market indicators turned negative for the second consecutive month.

The strongest performances in December were for **Retail Sales**, **Employment Service Jobs**, and **Total Manufacturing Hours**. Importantly, the latter two are *leading* indicators, pointing to some potential strength as we move into 2007. **Retail Sales** grew by an amazing 9.9 percent

CCI Indicators - % Change	
Government Employment	-1.2
US Consumer Sentiment	0.3 Y
Single-Unit Permits	-24.9
Retail Sales	9.9 Y
Employment Services Jobs	6.1 Y
Priv. Serv-Prod Employment	0.5 Y
Total Manufacturing Hours	4.8 Y
Manufacturing Wage	1.1 Y
Labor Force	0.9 Y
Benefit Exhaustions	3.6
New Claims	3.4
Unemployment Rate	2.0

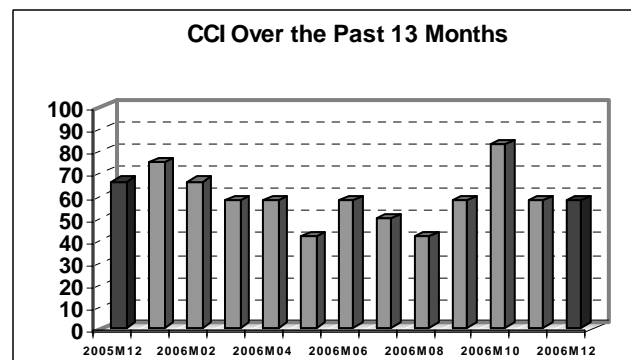
Y = Improved Value

compared to last December, its most rapid rate of growth since January of 2006, signaling a strong end to the holiday shopping season. While some retailing strength was likely related to weather considerations, its rapid rate of growth was also noteworthy since it occurred along with anemic growth in **US Consumer Sentiment** (+0.3%). **Employment Service Jobs**, which includes temporary employees, rose by 6.1 percent, marking its best performance since March of 2005. This sharp uptick in **Employment Service Jobs** growth might signal a more rapid pace of job growth in the coming months. Actually, my work suggests that when rebenchmarking occurs with January data, we will find that employment was actually higher than indicated by the originally released numbers.

In December, Rhode Island's manufacturing sector turned in its first solid performance in years. The **Manufacturing Wage** rose by 1.1 percent in December, its slowest rate of growth in

over a year, but more importantly, **Total Manufacturing Hours** rose by 4.8 percent, its second consecutive increase, a "string" we haven't witnessed since the year 2000. This month's performance by **Total Manufacturing Hours** was driven by an increase in the length of the manufacturing work week which offset a decline in the number of manufacturing employees.

That's where the good news ends. **Government Employment** fell sharply (by 1.2%), **Private Service Producing Employment** growth was very slow, at 0.5 percent, and **Labor Force** growth remained below one percent. More importantly, a critical labor market "pair" failed to improve for the second consecutive month. **New Claims** for Unemployment Insurance, which measures layoffs, rose by 3.4 percent in December, very likely signaling the end of its downward trend in earlier months. On the other end of the layoff spectrum, **Benefit Exhaustions**, which reflects long-term unemployment, increased again, by 3.6 percent in December. Along with all of this, our **Unemployment Rate** rose slightly from 5.1 percent last December to 5.2 percent this December. Finally, December's worst performer was **Single-Unit Permits**, which reflects new home construction. This indicator continued its roller coaster ride, falling by almost 25 percent compared to last December.



THE BOTTOM LINE

The year 2006 will go down as one of contrasts. We started the year with strong momentum, slumped mid-year, then rebounded as the year came to a close. Let's hope momentum remains strong, as major budget balancing will surely take its toll on our state's growth.

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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2005	50	67	50	50	42	75	58	67	42	58	58	67
2006	75	67	58	58	42	58	50	42	58	83	58	58