

CURRENT CONDITIONS Index

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Over the past few months, I have been keeping my fingers crossed concerning whether Rhode Island's current recovery would continue. My greatest fears were that either this recovery would stall or worse yet, end abruptly moving us back to where we clearly don't want to be. The December Current Conditions Index reading restored my faith on this front for now at least, as the CCI moved beyond its recent two-month stint with a contraction and a neutral reading. For December, the CCI rose to 58, back in the expansion range, as seven of twelve indicators improved compared to a year ago.

As I noted in last month's report, Rhode Island's recovery might even have more strength and momentum than recent reports indicate, as we will soon see the labor market data revisions going back to late 2009. If the historical pattern for these revisions holds, prior employment data should be revised (rebenchmark) higher, which is my expectation at

CCI Indicators - % Change	
Government Employment	-0.3
US Consumer Sentiment	2.6 Y
Single-Unit Permits	3.1 Y
Retail Sales	8.7 Y
Employment Services Jobs	-12.6
Priv. Serv-Prod Employment	-0.2
Total Manufacturing Hours	1.6 Y
Manufacturing Wage	3.0 Y
Labor Force	-0.2
Benefit Exhaustions	-13.4 Y
New Claims	25.4
Unemployment Rate (change)	-1.2 Y
Y = Improved Value	

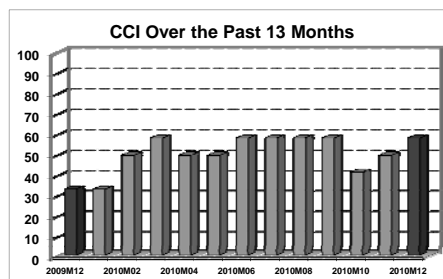
this point. Historically, the December labor market data is often revised, even in "normal" times. Combine this with an economy that has recently shifted into recovery mode, and I don't exactly find myself with a great deal of confidence in the currently available data for December.

There were several very strong performances among the CCI indicators in December. **Retail Sales**, one of the foundations upon which Rhode Island's recovery has been built, improved again, rising by 8.7 percent, capping a strong holiday shopping season. This indicator has now increased for ten of the past eleven months. Another part of our foundation, **US Consumer Sentiment**, rose for a second time after two consecutive decreases. It's uptrend remains in effect. The most amazing story of this recovery to me continues to be strength in our state's manufacturing sector. For December, **Total Manufacturing Hours** rose by 1.6 percent, powered by yet

another increase in the length of the workweek. December marked the fifth consecutive improvement for this indicator, an anomaly for Rhode Island. Along with this, the **Manufacturing Wage** rose again, by 3.0 percent. The other portion of our state's good producing sector, housing, improved this month. **Single-Unit Permits**, which reflects new home construction, rose 3.1 percent in December, but it remains at low levels.

Two other indicators improved in December. **Benefit Exhaustions**, which reflects long-term unemployment, fell by 13.4 percent, its tenth consecutive improvement, while our state's **Unemployment Rate** declined again, from 12.7 percent last December to "only" 11.5 percent this December, partly the result of declines in our **Labor Force**, which fell by 0.2 percent compared to a year ago.

All of the remaining indicators failed to improve. **New Claims**, a leading indicator that measures layoffs, rose by 25.4 percent, partly the result of comparison to a clogged-phone period a year ago. **Employment Service Jobs**, another leading labor market indicator, dropped by 12.6 percent compared to a year ago. **Private Service-Producing Employment** fell again (-0.2%), but its rate of decline has continued to moderate. Finally, **Government Employment** declined by 0.3 percent in December. Expect future declines based on the absence of any future assistance from the federal government.



THE BOTTOM LINE

Through December, the available labor market data point to a very fragile state economy. The potentially good news is that revisions to the recent data will be released soon. Typically, in the early stages of recoveries, revisions are higher, so things weren't as bad as they had appeared to be. I expect that to be the case this time. Hopefully, some earlier CCI values might also be revised higher and things were less bleak than we thought.

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2009

2010

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009	17	8	0	8	17	33	17	42	33	42	50	33
2010	33	50	58	50	50	58	58	58	58	42	50	58