

CURRENT CONDITIONS INDEX

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The year 2011 ended on a bit of a sour note. While Rhode Island's economy started off the year fairly well, as the Current Conditions Index registered very positive readings through April, in the months that followed Rhode Island's economy began to slip towards stall speed until November. November's CCI reading of 67 held out the prospect that we might at last be breaking out of the neutral range we had been stuck in as the year ended, and as we moved into next year. But December's CCI reading put an end to that speculation, at least *for now*.

For December, the CCI returned to 58, still an expansion value, as seven of the twelve indicators improved. The good news is that Rhode Island's recovery is now 22 months old. The bad news is that the CCI has now failed to exceed its year-earlier value for ten consecutive months. So, the perpetual churning that occurs in any

CCI Indicators - % Change	
Government Employment	-2.3
US Consumer Sentiment	-6.5
Single-Unit Permits	-20.3
Retail Sales	4.1 Y
Employment Services Jobs	-1.1
Priv. Serv-Prod Employment	0.4 Y
Total Manufacturing Hours	2.5 Y
Manufacturing Wage	17.8 Y
Labor Force	-2.3
Benefit Exhaustions	-17.8 Y
New Claims	-17.0 Y
Unemployment Rate (change)	-0.7 Y

Y = Improved Value

economy, with positive and negative forces interacting, continues here. The positives appear to continue holding the upper hand, as the CCI remains above its neutral value of 50. But the ultimate question is how strong that hand is. While it is still too early to make a definitive call about any possible breakout in the coming months, potentially there is a hidden positive — very soon the revised labor market data for 2011 will be released. I have come to believe that these data revisions will show that Rhode Island's economy has actually been performing *better* than we now think. But confirmation is still needed to validate my suspicion.

Therefore, the most logical place to begin analyzing this month's results is with the five non-survey based indicators. Overall, their December performance was positive. The most noteworthy of these, **Retail Sales**, improved yet again (+4.1%) capping a surprisingly strong holiday shopping season. Importantly, the recent strength in **Retail Sales** occurred in spite of declines in **US Consumer Sentiment** (-6.5%). Better yet, on a monthly basis,

US Consumer Sentiment has now improved for four consecutive months and it appears to be gaining momentum along with more favorable national economic statistics and a rising stock market. **New Claims**, a leading labor market indicator that reflects layoffs, fell by 17 percent in December, following five months where it failed to improve. **Benefit Exhaustions**, one measure of long-term unemployment here, fell again, by 17.8 percent. This indicator has been in a downtrend since March of 2010, one month into the present recovery. Finally, **Single-Unit Permits**, which reflects new home construction, perhaps the most volatile of the CCI indicators, declined by 20.3 percent in December.

The remaining seven CCI indicators are all survey-based, so I expect many of their values to be revised soon. Keep in mind that *only their yearly changes matter for CCI values*. Our **Labor Force** continued to perform very badly in December, falling by another 2.3 percent. On a monthly basis it did improve, which makes the November — December rise in our **Unemployment Rate** less of a negative. **Total Manufacturing Hours**, a mainstay of this recovery, jumped sharply (2.5%), as the workweek rose again. The **Manufacturing Wage** surged again by over 17 percent in December, for those who believe in economic miracles. **Employment Service Jobs**, a leading labor market indicator that includes "temps," fell by 1.1 percent, but this should not come as much of a surprise given its very difficult "comp" from last year. *Based on the existing data*, this indicator appears to have bottomed. Finally, **Private Service-Producing Employment** continued to grow, albeit slowly (+0.4%), while **Government Employment** fell once again in December, by 2.3%.



THE BOTTOM LINE

I always view December as "the dark side of the moon" when it comes to economic data here, since, like the astronauts, we too are almost entirely out of touch with what is actually occurring at that time. I expect positive revisions to a number of labor market indicators, but it is not clear what the magnitudes of those changes will be. I truly hope the picture that emerges is materially better than what we have come to believe, since substantial downward revisions would reflect a path far more difficult for us to manage.

58		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2010	42	58	67	67	75	75	83	83	67	67	75	83
	2011	67	67	58	58	50↓	58	58↓	42	50	50	67	58