

# CURRENT CONDITIONS INDEX

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What an incredible way to end 2012! The Current Conditions Index for December rose all the way to 92 — its highest level since November of 2003. It is now abundantly clear that Rhode Island's economic performance during the fourth quarter was its strongest in terms of overall *momentum* (not levels, though) for quite some time. The fourth quarter average for the CCI was 80.7 using the flawed labor market data, and 86 with my estimates of how the numbers will be changed with the release of the rebenchmarked data. More importantly, though, the labor market data apparently became less flawed as 2012 progressed, so for December, and hopefully future months, a single CCI value accurately characterizes Rhode Island's economic performance.

For December, *eleven of the twelve* CCI indicators improved. A number of these turned in relatively strong performances. The sole indicator that failed to improve was **Government Employment**, which reflects the effects of ongoing fiscal consolidation. While that indicator hasn't improved since August of 2010, it might soon bottom if the momentum gains registered in the fourth quarter are sustained. At any rate, Rhode Island's recovery was 34 months old as of December.

What all of this indicates is that during the fourth quarter, none of the strong monthly performances we witnessed were "one month wonders." What we saw unfolding was a trend of more broadly

Island's economy continues to improve, driven by this added momentum, the *levels* of key variables like payroll employment remain well below the values they attained during the last recovery. We remain about six percent below our last employment peak, which explains the persistence of high unemployment here. According to the fourth quarter CCI performance, we are moving towards our prior peak *more rapidly*.

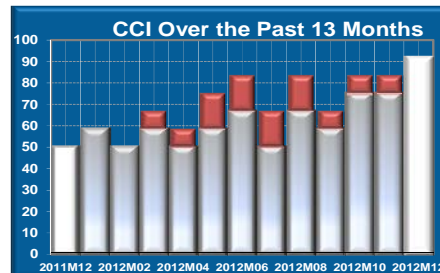
For December, all five of the non-survey-based indicators improved. **Retail Sales** sustained its recent strength, registering a strong 3.2 percent growth rate versus last December, its twelfth increase in the past fourteen months. Along with this, **US Consumer Sentiment** rose once again (+4.2%), helped by improvement in the national economy. **Benefit Exhaustions**, reflective of longer-term unemployment, barely fell, but its downward (improvement) trend remains intact. New home construction, based on **Single-Unit Permits**, surged by 35.1 percent, as home construction continues to move beyond its recent bottom. In spite of this, levels remain extremely subdued by historical standards, partly the result of the sustained declines in our state's population. Finally, layoffs, in terms of **New Claims** for Unemployment Insurance, fell sharply in December (4.9%), reversing last month's increase.

Apparently the flawed labor market data became less problematic as 2012 ended. So, while its levels remain inaccurate, year-over-year changes have become more accurate, which explains improvements in key indicators like the **Labor Force**, **Private Service-Producing Employment**, and **Employment Service Jobs**. Manufacturing activity, though, has sustained its strength, as **Total Manufacturing Hours** rose by 3.7 percent, and our **Manufacturing Wage** growth slowed to "only" 4.8 percent.

CCI Indicators - % Change	
Government Employment	-1.8
US Consumer Sentiment	4.2 Y
Single-Unit Permits	35.1 Y
Retail Sales	3.2 Y
Employment Services Jobs	8.4 Y
Priv. Serv-Prod Employment	0.8 Y
Total Manufacturing Hours	3.7 Y
Manufacturing Wage	4.8 Y
Labor Force	0.7 Y
Benefit Exhaustions	-0.1 Y
New Claims	-4.9 Y
Unemployment Rate (change)	-0.8 Y
Y = Improved Value	

based economic activity that continued to increase our state's economic momentum. *It is now safe to conclude that as 2012 ended, Rhode Island's economy shifted into a higher gear.*

In light of this recent momentum, it is important reiterate the distinction between levels of economic activity and rates of growth. The Current Conditions Index is a *momentum* indicator. As such, its values reflect how broadly based economic activity is (i.e., the greater the number of improving indicators, the more broadly based is economic activity, indicating greater underlying momentum). It does *not* focus on the *levels* of the various indicators. So, as 2012 ended, we witnessed a broadening of economic activity that produced greater momentum, as reflected by *the rates of change* in the CCI indicators and our state's economy. This says nothing about current levels. So, while Rhode



DLT DEC Employment (SA, Y/Y)	
Gain	3,600?
Loss	2,700?
Net Chg	900?

## THE BOTTOM LINE

Ironically, as Rhode Island turned in its best quarterly performance in quite a while, its jobless rate became tied for highest in the nation. Governor Chafee's budget proposals, many of which were investment oriented, constitute a critical *first step* in helping Rhode Island end its association with such horrendous statistics. They are, however, only a first step. Ironically, we have yet to take this step, since our legislature hasn't passed any of these measures, even as Massachusetts continues to make competitive changes to its economy. Sustaining our positive momentum will require us to change.

92		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2011	50	67	67	58	50	58	67	42	50	50	58	50/58
	2012	58/75	50/67	58/75	50/75	58/67	67/75	50/58	67/75	50/58	75/83	75/83	92