CURRENT CONDITIONS INDEX

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VOL XXVI
NUMBER 1
DEC 2018

Rhode Island closed out 2018 on a rather downbeat note. After beginning the year with fairly strong economic performances during several months, things noticeably deteriorated in the second half. Negatives changes increasingly emerged, gaining significance relative to positive factors, causing the magnitudes of changes in various indicators to slip quite a bit. Most notably, during one month, the Current Conditions Index registered a contraction value (42 in October). Even with an upgrade to November's value (from 58 to 67 based on **Single-Unit Permits**), the CCI only managed to exceed year-earlier values for two months throughout all of 2018. The CCI ended the year with a neutral value of 50, a decrease from November yet another confirmation of a decelerating Rhode Island's economy.

Evidence of a slowing Rhode Island economy is becoming increasingly abundant. Our state's **Labor Force** reached its most recent peak in August, along with labor force participation rate, the percentage of the working-age population in the **Labor** Force. Both have trended downward on a monthly basis since that time, indicating that a number of the second-half improvements in our state's **Unemployment Rate** occurred for the wrong reasons. Related to this is the behavior of our employment rate, the percentage of our working-age population that is employed. That rate had been stuck at 62.3 percent since August, then slipped to 62.2 percent in December, remaining well (5%) below its prior cyclical peak of 65.4 percent all the way back in January of 2007! One of the most disturbing trends concerns **New Claims**, the timeliest measure of layoffs. These have now risen for *four of the most recent six months*, reflecting the likelihood that a trend of rising layoffs may well be occurring. **Total Manufacturing Hours**, a proxy for manufacturing output, has now declined for the most recent three months. The **Manufacturing Wage** has fallen for the most recent four months. The list of disappointments goes on and on.

CCI Indicators - % Change		
Government Employment	-0.2	
US Consumer Sentiment	2.6	Y
Single-Unit Permits	-4.9	
Retail Sales	10.8	Y
Employment Services Jobs	1.7	Y
Priv. Serv-Prod Employment	2.0	Y
Total Manufacturing Hours	-4.3	
Manufacturing Wage	-1.5	
Labor Force	0.9	Y
Benefit Exhaustions	14.7	
New Claims	11.3	
Unemployment Rate (change)	-0.6	Y
Y = Improved Value		

Unless labor market data rebenchmarking reverses many of these disturbing changes, the debate concerning whether Rhode Island is moving ever closer to a recession cannot be dismissed. Since we are **FILO**, and the national and global economies are slowing, continually monitoring our state's economic condition has become more important than it has been in a long time.

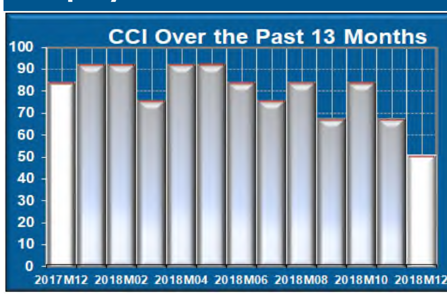
For December, only six of the twelve CCI indicators improved. Individual indicator performances were generally weaker than November, and only two of the five leading indicators contained in the CCI improved. Since the recent May high, the CCI has not gone straight down. But having two of the three fourth-quarter CCI values either in the contraction or neutral range is a cause for concern.

New Claims, as stated earlier, performed badly in December, rising at a double-digit rate (+11.3%), its fourth increase in the last six months. Rhode Island's goods-producing sector's performance was very disappointing yet again in December. **Total Manufacturing Hours**, which reflects manufacturing output, fell for the third consecutive month (-4.3%). Along with this, the **Manufacturing Wage** declined again (-1.5%). **Single-Unit Permits**, which reflect new home construction, fell for the sixth time in the last seventh months (-4.9%) (my estimate since data is still unavailable due to the government shutdown). **Employment Service Jobs**, a leading labor market indicator that includes temporary employment, improved again (+1.7%) but at a slower rate than November. **US Consumer Sentiment** rose in December (-2.6%) for the first time in three months.

As noted earlier, both of the "left behind" indicators, the employment rate and the labor force participation rate, failed to improve again in December. Both remain well below their prior cyclical highs (see table). It is quite possible that neither will surpass their prior highs during this entire cycle.

Retail Sales grew very strongly again in December (+10.8%), **Government Employment** fell from its level a year ago for a fourth consecutive month (-0.2%), **Private Service-Producing Employment** growth rose by 2 percent, and **Benefit Exhaustions**, the timeliest measure of longer-term unemployment, rose sharply in December (+14.7%). The **Unemployment Rate** remained below 4 percent, driven largely by a **Labor Force** that fell for the third consecutive time on a monthly basis.

LABOR FORCE:	Dec 2018	Peak (1/2007)
Participation Rate	64.7%	68.6%
Employment Rate	62.2%	65.4%



DLT Dec 2018 Employment (SA,Y/Y)	
Gain	8,200
Loss	1,100
Net Chg	7,100

50	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	75↑	83↑	92↑	75↑	83↑	92↑	75↑	92↑	92↑	92↑	92↑	83↑
2018	75	92	75	75↑	92	83	75	83↑	67	42	67↑	50