

Current Conditions Index

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Also available on my web site: <http://members.cox.net/lardaro/current.htm>

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75

Monthly Highlights

The strong showing by Rhode Island's economy in February, as illustrated by the Current Conditions Index rising to 75, provides further evidence that Rhode Island, like the nation, has moved out of recession. Whereas there is some question as to whether a national recession actually occurred, the evidence for Rhode Island is more unambiguous. However, the recession that did occur here was very mild by historical standards. In fact, "recession" might not be an accurate term to characterize last year's economic performance, in terms of the magnitude of weakness we experienced. I prefer to think of it in slightly different terms. Just like 7-Up was the "Un-cola," I think of last year's economic performance here as the "Un-cession."

February's indicator performance was either good or very bad. The three indicators that failed to improve did very badly, reflecting the ongoing weakness in labor demand.

First for the improving indicators, **Single-Unit Permits** and **Retail Sales** both posted healthy gains in February. **Single-Unit Permits**, which reflect new home construction, rose at a 6.3 percent rate compared to last February. And, while construction employment fell slightly, it remained comfortably above 18,000, among its highest levels of the past several years. Part of the strength in our housing sector is the result of unusually warm weather and a reflection of recent refinancing momentum. The question going forward is how much the upward trend in interest rates will cut into the recent momentum in this sector. **Retail Sales** rose by 1.8 percent in February. While not as impressive an increase as in recent months, this rise reflects a bit more strength than one might think in light of all the retail discounting that continues to occur. Like the housing sector, there is a question of how much longer retail sales in Rhode Island can sustain their recent momentum. In spite of the potentially negative effects of higher interest rates on both of these sectors, though, there is still a fairly high probability that consumer confidence will strengthen over the coming months. For February, **US Consumer Sentiment** improved (compared to the same month last year) for the first time in over a year.

The other indicators that improved in February were **Government Employment** (+0.3%), **Miscellaneous Service Employment** (+2.3%), which rose despite yet another large decline in Business Services (which includes "Temps" employment), the **Labor Force** (+0.8%), and the **Manufacturing Wage** (+1.0%), a welcome sign in light of ongoing severe job contraction in that sector. The best news for this month is that **New Claims** for UI, the most timely reflection available of the extent of layoffs taking place, once again fell, this time at an even greater rate than last month, 5.3%. February marked only the second improvement in this indicator since January of 2001. This is welcome news in light of the fact that almost all of the increases in layoffs that we observed over the past year were at double-digit rates.

The weakness that remains, which is significant, is related to the demand for labor and the job prospects for persons currently unemployed. Labor demand, in terms of **Help Wanted**, remained well below its value a year ago (-28.8%). Along with this, long-term unemployment, as reflected by **Benefit Exhaustions**, rose by 45.8 percent in February, continuing a string of double-digit increases that began last August. The number of persons filing additional claims for UI also rose in February, reflecting ongoing problems the unemployed are experiencing with finding re-employment. The number of continued UI claims was 18.4 percent higher than it was last February as well. Such difficulty becoming re-employment should come as no surprise, as job growth in February was essentially non-existent. This makes the "improvement" in our **Unemployment Rate** a bit puzzling. For February, Rhode Island's Unemployment Rate fell from 4.4 percent a year ago to 4.2 percent this month. While our jobless rate remains well below the national rate, its month-to-month behavior (falling from 5.0% in January to 4.2% in February) is likely to be the latest in a series of "blips" that are eventually revised upward when labor market data are updated. Severe job contraction continued in Rhode Island's manufacturing sector as well, as **Manufacturing Man-Hours** fell by 6.8 percent in February, its sharpest decline in over a year.

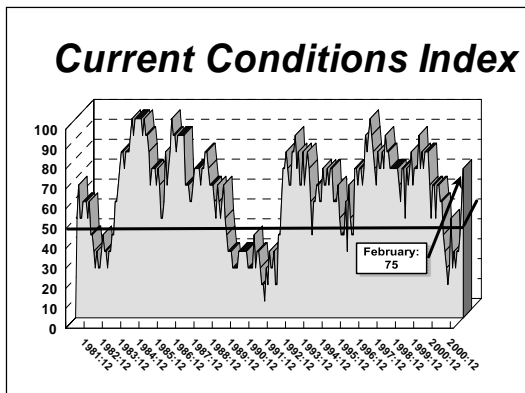
We continue to witness atypical economic times. For February, Rhode Island's payroll employment growth rate was only 0.1 percent — *yet this was the highest growth rate of any New England state!* In fact, Rhode Island was the only New England state whose payroll employment actually rose compared to last February (Maine was second "best" with no growth, while all the other states saw employment declines).

And manufacturing here continues to redefine itself. Yes, manufacturing employment fell sharply compared to last year. And, some firms have either left this state or gone out of business. But, a critical and necessary trend is also taking place: since the vast majority of February's manufacturing job loss occurred in industries with below-average wages, it is reasonable to infer that the remaining (and surviving) firms here are transforming themselves by upgrading the technology of production and management in order to survive. The resulting improvements in productivity are thus likely to be the cause of a large portion of the manufacturing job loss that occurred. The "low end" of Rhode Island's manufacturing base is thus either disappearing or transforming itself into a more economically viable set of entities as we move forward in this recovery. This is good news, even though in the short-term it entails a great deal of hardship for the workers who are displaced.

| CCI Indicators - % Change | |
|---------------------------|--------|
| Government | 0.3 Y |
| US Consumer Sentiment | 0.3 Y |
| Single-Unit Permits | 6.3 Y |
| Retail Sales | 1.8 Y |
| Help Wanted | -28.8 |
| Misc. Service Employ | 2.3 Y |
| Man-Hours Manuf | -6.8 |
| Manufacturing Wage | 1.0 Y |
| Labor Force | 0.8 Y |
| Benefit Exhaustions | 45.8 |
| New Claims | -5.3 Y |
| Unemployment Rate | -4.5 Y |

Y = Improved Value

| | 2002 | 2001 |
|-----|------|------|
| JAN | 58 | 42 |
| FEB | 75 | 33 |
| MAR | | 25 |
| APR | | 17 |
| MAY | | 25 |
| JUN | | 50 |
| JUL | | 25 |
| AUG | | 33 |
| SEP | | 25 |
| OCT | | 33 |
| NOV | | 33 |
| DEC | | 42 |



*Revised