Current Conditions Index

LEONARD LARDARO URI

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

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Monthly Highlights

Rhode Island's economic performance in February was, to use a single word, awful. Only four of the twelve indicators that make up the Current Conditions Index improved, the weakest reading since June of last year. This extends the string of consecutive declines in the CCI that began in the fourth quarter of last year — the CCI has now fallen for four consecutive months. More troubling, the CCI has been at or below its neutral value, consistent with economic contraction, for three months now.

If one were to go strictly by the numbers, Rhode Island may actually be in the early stages of the dreaded "double-dip" recession. While the duration of contraction has not yet reached six months, the usual benchmark for a recession to exist, we could be midway through a duration that would ultimately allow the "double-dip" designation to be confirmed.

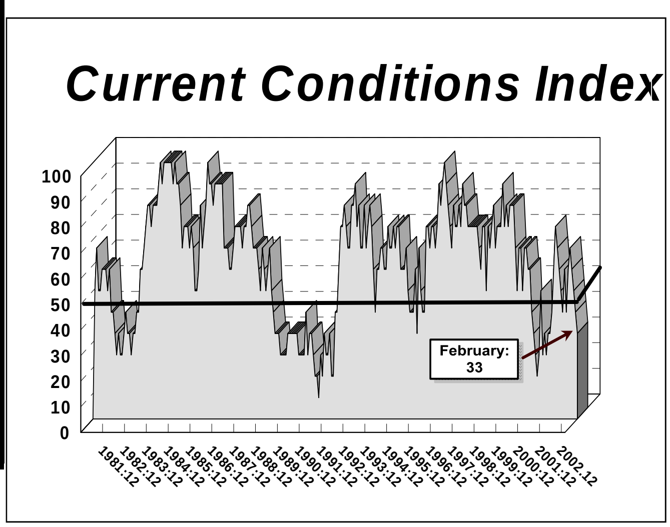
Judgmentally, at least, I do *not* believe that Rhode Island is actually in a recession at present, although I feel less confident in making this determination than I have in quite a while.

First, there is an extremely large amount of "noise" in the available economic data at present. Harsher-than-normal weather in February (and also in January) have caused questionable seasonal adjustment changes in several key economic indicators (ex: **Single-Unit Permits**, an indicator of new home construction, fell 35.6% compared to last February). Also, there were critical uncertainties in the economy in February as the war in Iraq had not yet begun. The progress of the war to date has dissipated many of the "worst case scenario" fears, as witnessed by the stock market's recent run-up. Removal of this uncertainty, while not the cause of all weakness, will clearly help us attain a more sustainable upward direction. Finally, in the midst of the data problems with weather and war comes the institution of an entirely new industrial classification system for labor market data. The North American Industrial Classification System (NAICS), a welcome change that provides far-greater emphasis on service-producing employment, is now used for labor market data. The enormous amount of effort required by the US Bureau of Labor Statistics and the Rhode Island Department of Labor and Training has caused delays in the availability of data. At present, only a relatively small number of employment categories are available in seasonally adjusted form. And, magnitudes for the "old" categories that still exist with NAICS are not the same as they originally were. Consider, for example, that the average **Manufacturing Wage**, one of the CCI indicators, is now forty cents higher with the NAICS classification of employment than it was under the previous classification.

CCI Indicators - % Change		
Government	-0.5	
US Consumer Sentiment	-11.4	
Single-Unit Permits	-35.6	
Retail Sales	1.1	Y
Help Wanted	-18.9	
Priv Serv Prod. Employ*	2.0	Y
Man-Hours Manuf*	-5.2	
Manufacturing Wage*	0.6	Y
Labor Force	3.7	Y
Benefit Exhaustions	6.5	
New Claims	5.4	
Unemployment Rate	4.1	

Y = Improved Value
* Based on non-seas adj data

With this in mind, I will discuss the actual performance of the CCI indicators in February. Of the four indicators that improved, the best performance, by far, was that of the **Labor Force**, which increased by 3.7 percent versus last February. **Retail Sales** rose by 1.1 percent, much smaller than many of the increases in recent months, but a solid gain, nonetheless, especially as **US Consumer Sentiment** fell by 11.4 percent. **Private Service Producing Employment** increased by 2 percent compared to a year ago, a welcome contrast to weakness in manufacturing, as **Manufacturing Man-hours** declined by 5.2 percent. Yet in spite of this decline, the **Manufacturing Wage** did manage to rise by 0.6 percent. Labor demand remained weak as **Help Wanted** fell sharply (again), **Benefit Exhaustions** rose, as did the number of **New Claims for Unemployment Insurance**. The **Unemployment Rate** did rise compared to last February, but it still remained below the national rate.



Rhode Island continues to be affected by many of the trends that are occurring nationally. And, its reliance on the national economy remains substantial. This is unfortunate since many of the shifts in national economic momentum have occurred as the result of two factors — information overload and an atypical sensitivity to global uncertainties. Both markets and analysts alike appear to be placing far too great an emphasis on very "noisy" data employing a perspective that is exceedingly myopic. The result has been heightened volatility at the national level that inevitably filters down to individual states. The *statistical* distortions produced by this unfortunate combination of "noise" and myopia form much of the basis for my doubts that Rhode Island is currently mired in a recession — in spite of what the numbers appear to indicate. My guarded optimism may well prove to be misplaced, however. Only time will tell.