

# CURRENT CONDITIONS INDEX

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The first quarter of 2016 wasn't exactly stellar. And, while we had been led to believe that the second half of last year was a period of economic acceleration, as it turned out, data revisions eliminated most of the strength that we thought had occurred. The good news, though, is that Rhode Island has begun 2017 on a highly positive note, reminiscent of the momentum we previously thought we experienced at the end of last year. Better late than never, I guess!

The Current Conditions Index for February was 83, higher than any value in 2016 (although we previously thought we attained this), as ten of the twelve CCI indicators improved. Better yet, the *CCI has now exceeded its year-earlier value for the most recent three months and four of the last six months*. Momentum is definitely accelerating, perhaps back to where we thought it was at the end of last year. Of the five leading indicators contained in the CCI, four improved, although three of those had fairly easy comps a year ago.

The sole leading indicator that failed to improve, **Employment Service Jobs**, includes temporary employment and is a leading indicator of future employment. It was the greatest disappointment among all revised indicators, and it clearly continues to disappoint. The last time this indicator improved was March of 2016. This indicator should be monitored, since its continuing deterioration suggests a weakening in future employment growth.

For the third consecutive month, both indicators reflecting Rhode Island's goods-producing sector improved. **Total Manufacturing Hours**, a proxy for manufacturing output, rose by 0.9 percent, a

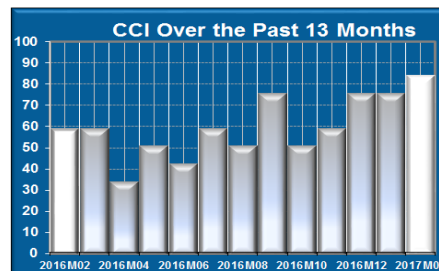
indicator. If mortgage rates continue to rise and the restricted supply of houses on the market causes higher home prices to persist, future strength in this indicator may not materialize.

**US Consumer Sentiment** improved in February (+5.1%), its fourth consecutive increase, something very likely tied to economic optimism that has been associated with the outcome of the presidential election. **New Claims**, the most timely measure of layoffs, fell dramatically in February (-30.2%), its sixth improvement in the last seven months. It had a fairly easy comp from last year.

**Government Employment** continues to remain above 60,000, which it has now done for over a year. Sustaining this level, which had largely been the result of rising federal government employment, was driven by higher state and local government employment in February. **Private Service-Producing Employment** growth has been somewhat volatile of late. For both of the most recent two months, it has risen by 1 percent, which is close to its highest rate of growth since last July. **Retail Sales** did well in February, rising by 2.5 percent compared to a year ago. After rising sharply last month, **Benefit Exhaustions** showed a noticeable improvement in February (-17.8%), resuming its longer-term downtrend.

The year-over-year performance of Rhode Island's **Labor Force**, *which I continue to view as a train wreck*, not only failed to improve during all of 2016, it has yet to improve this year. At least the year-over-year change for February was 0. Improvement hasn't occurred since April of 2014! At least the February **Unemployment Rate** decline, for once, occurred for the right reasons. Pay no attention to its move below the US rate.

CCI Indicators - % Change	
Government Employment	0.3 Y
US Consumer Sentiment	5.1 Y
Single-Unit Permits	22.9 Y
Retail Sales	2.5 Y
Employment Services Jobs	-3.2
Priv. Serv-Prod Employment	1.0 Y
Total Manufacturing Hours	0.9 Y
Manufacturing Wage	5.5 Y
Labor Force	-0.0
Benefit Exhaustions	-17.8 Y
New Claims	-30.2 Y
Unemployment Rate (change)	-0.9 Y
Y = Improved Value	



DLT FEB Employment (SA, Y/Y)	
Gain	8,100
Loss	2,200
Net Chg	5,900

## THE BOTTOM LINE

As national economic momentum is accelerating, so too is that for Rhode Island. There are limits to US growth, though, given that we are close to full employment and monetary tightening will continue. That's not terribly good news for Rhode Island, given our confirmed status as the proverbial canary in the coal mine. While our elected officials obsess over our jobless rate falling below the US rate, they refuse to acknowledge the primary reason for how it got there — a **Labor Force** whose level continues to fall off a cliff. We remain unprepared for slowing US growth. This would be a good time for them to go into crisis mode. The problem is, they don't know how.

deceleration in growth from the prior two months. February's improvement in this indicator emerges partially from a relatively easy comp last February. The main driver of its improvement was a longer workweek. Combine this with the failure of **Employment Service Jobs** to improve and one sees a possible trend where businesses may begin substituting additional hours in place of increasing employment. **Single-Unit Permits** also rose sharply this month (+22.9%), in spite of a very difficult comp last February. February was the third consecutive improvement in this

83		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2016	50↓	58↓	58↑	33↓	50	42	58↓	50↓	75	50↓	58↓	75↓
	2017	75	83										