

CURRENT CONDITIONS INDEX

LEONARD LARDARO, URI

Available Online: <http://www.llardaro.com/current.htm>
Twitter: @ladardo

VOL XXVII
NUMBER 3
FEB 2020

I put off writing this month's Current Conditions Index report since the world had changed so drastically since the February data were released. Seeing a forecast today that I believe is far too optimistic proved to be my motivation for writing this report.

If you look at the performances of the indicators contained within the February Current Conditions Index, things weren't all that bad. The reason is that the labor market surveys are taken in the week that includes the 12th of the month, well before the COVID-19 virus situation became widespread. This was also true for the March data (CCI report in a couple of weeks), although there were signs of the trouble to come.

The forecast I referred to above predicts that the **Unemployment Rate** in Rhode Island will reach 16 percent by the time things here subside and that Rhode Island won't really recover until the end of 2020. Let me elaborate on why I believe this forecast is overly optimistic on both counts.

Rhode Island has had a very low "official" **Unemployment Rate** for some time now. For February, the rate was 3.4 percent.

CCI Indicators - % Change	
Government Employment	1.7 Y
US Consumer Sentiment	7.8 Y
Single-Unit Permits	27.3 Y
Retail Sales	9.9 Y
Employment Services Jobs	-7.2
Priv. Serv-Prod Employment	0.9 Y
Total Manufacturing Hours	-5.4
Manufacturing Wage	-0.6
Labor Force	0.7 Y
Benefit Exhaustions	-13.3 Y
New Claims	-8.1 Y
Unemployment Rate (change)	-0.3 Y
Y = Improved Value	

However, this seemingly low Unemployment Rate is largely the byproduct of a decade-long drop in our state's **Labor Force** that only ended fairly recently. This made tepid job growth appear to be stronger than it actually was by inference (i.e., if the jobless rate has fallen substantially, it must be the result of robust job growth). In fact, the employment series from the same survey as the **Unemployment Rate** (the household survey) remained well below its level in 2006 throughout the entire recovery that just ended, so fewer Rhode Island residents are employed today than fourteen years ago. Ironically, with the COVID crisis, fairly large numbers of our state's residents appear to be rejoining the **Labor Force** (although it didn't show up in February), presumably for them to be able to gain access to various types of government assistance during this crisis. Most of them will enter the **Labor Force** as unemployed. So, even in the first half of 2020, the **Unemployment Rate** will jump sharply. While the

forecast I mentioned anticipates the rate rising as high as 16 percent, I believe that with the recent additions of persons to the **Labor Force**, the rate will most likely move above 20 percent. So, Rhode Island will move from an artificially low **Unemployment Rate** to a distorted high rate that will come down more slowly than it did in the last recovery due to the addition of these persons who will likely remain in the **Labor Force** for some time.

What about Rhode Island recovering by the end of 2020? The industries most affected by the COVID crisis are sadly among the most important in Rhode Island: tourism, hospitality and travel. Not only have these been severely hurt, with future restrictions on numbers of persons allowed publicly and changes in personal preferences for travel and tourism, these will recover far more slowly than most now believe. A crowded beach later this year (if at all), will resemble past crowds on bad-weather days. Even more disturbing, a number of restaurants and small businesses will not survive this crisis. So, the upside possibilities for Rhode Island are well below what they once were. Add to this fiscal realities: in a contractionary period such as this, tax revenues fall (even without the delay to a due date in July) and entitlement spending rises, both of which produce large deficits. Balancing the state budget requires actions that will have the effect of further slowing our rate of growth, making things even worse. Our heavy reliance on gambling revenue will also continue to be a problem. Fiscal problems will therefore be with us for quite some time, and our upside will be more limited than usual, while our downside is also quite worrisome.

Considering all these factors, I don't see Rhode Island's economy returning to where it was for at least one to two years. As Rhode Island is **FILO**, we were not **FI** (first in) to economic weakness this time, as everyone dropped together, but for all the reasons cited above, I believe the **LO** (last out) will sadly prevail. I can't tell you how much I hope I am wrong about this, but only time will tell.

LABOR FORCE:	FEB 2020	Peak (1/2007)
Participation Rate	M↑ Y↓ 64.3%	68.6%
Employment Rate	M↑ Y↑ 61.9%	65.4%

CCI Over the Past 13 Months	
2019M02	50
2019M04	58
2019M06	50
2019M08	75
2019M10	67
2019M12	50
2020M02	75

DLT FEB 2020 Employment (SA,Y/Y)	
Gain	5,900
Loss	1,600
Net Chg	4,300

75		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2019	58↓	50↑	58	50↓	50↓	58↓	75↓	67	50↓	75↓	58↓	83↓
	2020	75	75										