

Current Conditions Index

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

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Monthly Highlights

After a trying economic year, 2002 may well have begun with a bang. The Current Conditions Index for January was 58 — marking the first time the CCI has risen above its neutral value of 50 since December of 2000! While above-50 values such as that for January are indicative of expanding economic activity here, the question now is whether a recovery has actually begun. Certainly this is a difficult call based only on a single month's CCI value. However, in light of the overall strength of national economic activity, and given the historically close linkages between economic momentum here and the pace of the national economy, there is a very good (i.e., better than 50-50) chance that what we are witnessing is indeed the early stages of a recovery.

Seven of the twelve CCI indicators improved in January, something we have not witnessed for a year. After recalculating the CCI based on the most recently revised labor market data, we see a slightly different pattern for the pace of economic activity in Rhode Island than what we were led to believe based on the earlier data. *For Rhode Island, the recession began in January of 2001, not in March as was previously thought* (see table on left), as CCI values failed to exceed the neutral value of 50 for every month in 2001. While CCI values for all but one of the first seven months were revised downward, values in the last quarter were revised higher, hovering closer to 50 than the original values had.

The two indicators that have been Rhode Island's best performers of late, **Single-Unit Permits** and **Retail Sales**, posted significant gains in January. **Single-Unit Permits**, which reflect new home construction, rose at a stunning 37.6 percent rate compared to last January. Along with this, construction employment increased by 13.8 percent to 21,000, which is only 800 less than its peak in the "good old days" of the 1980s (September 1988). These gains are, no doubt, partly the result of unusually warm weather and a rush by borrowers to obtain favorable mortgage rates before they begin to rise. But permits have increased every month since August of last year, so this is part of an ongoing trend. **Retail Sales** rose by 5.3 percent, an impressive performance in light of all the discounting that continues to occur in the retail sector. Like the nation, retail sales in Rhode Island remained strong throughout the recession, which has helped us minimize the cyclical weakness we have experienced. The other indicators that improved in January were **Government Employment** (+0.3%), fueled by job gains in local education, **Miscellaneous Service Employment** (+2.6%), which rose despite a large drop in Business Services (which includes "Temps" employment), the **Labor Force** (+0.6%), good news after sharp downward revisions for most of last year, the **Manufacturing Wage** (+0.8%), a welcome sign in light of severe job contraction in that sector, and, the best news for last, **New Claims** for UI fell by 17.1%, their first improvement since January of 2001. Hopefully, this decline in the number of **New Claims** will mark the beginning of a downward trend in the number of layoffs by Rhode Island firms.

There were areas of weakness as well in January. Labor demand, in terms of **Help Wanted**, remained well below its value a year ago (-31.5%). **Manufacturing Man-Hours** fell by 7.4 percent in January, its sharpest decline in over a year, as Rhode Island's manufacturing job base continues to contract. Our **Unemployment Rate** rose from 4.2 percent last January to 5.0 percent this January. While this is a significant rise, Rhode Island's jobless rate remains below that of the nation. And long-term unemployment, as reflected by **Benefit Exhaustions**, rose by 28.8 percent in January, continuing a string of double-digit increases that began last August. These results point to a slowing of the pace of layoffs but ongoing difficulties being experienced by persons who are already unemployed. The pace of economic activity will ultimately determine how quickly, and to what extent, weakness in Rhode Island's labor market can be eliminated.

As for the predictions I made last month, almost all have unfortunately been validated by the newly revised data. **Unemployment Rates** for 2001 were indeed revised higher, with a 2001-low of 4.2 percent occurring in January. For the year as a whole, rates were generally in the range of between 4.7 and 5.0 percent (December). Payroll employment was revised to indicate decreases (year-over-year) for the last three months of 2001. Finally, **Manufacturing Man-hours** were sharply lower in 2001 than the original data indicated, reflecting a more severe contraction in Rhode Island's manufacturing sector than we were earlier led to believe. For every month since June of 2001, **Manufacturing Man-hours** contracted by rates of at least 5.5 percent, reaching as high as 7.2 percent in October. The January 2002 value is even worse than this, a decline of 7.4 percent. Accompanying this weakness, the **Manufacturing Wage** was revised slightly higher, the result of losses in the low-end portions of Rhode Island's manufacturing sector.

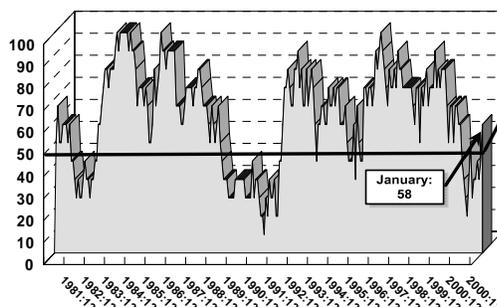
CCI Indicators - % Change	
Government	0.3 Y
US Consumer Sentiment	-2.0
Single-Unit Permits	37.6 Y
Retail Sales	5.3 Y
Help Wanted	-31.5
Misc. Service Employ	2.6 Y
Man-Hours Manuf	-7.4
Manufacturing Wage	0.8 Y
Labor Force	0.6 Y
Benefit Exhaustions	28.8
New Claims	-17.1 Y
Unemployment Rate	19.0

Y = Improved Value

2002 2001

JAN	58	42*
FEB		33*
MAR		25*
APR		17*
MAY		33*
JUN		50*
JUL		25*
AUG		33
SEP		33*
OCT		42
NOV		33*
DEC		42*

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The primary factor that was responsible for limiting the severity of Rhode Island's recession, a rather minor presence in high technology, will also limit our upside potential during this recovery, since "high tech" is, unfortunately for us, the future. Now is the critical time for Rhode Island to reinvent itself so that it can alter its status of being a perpetual lagging economy, surviving largely on whatever momentum it can attain based on growth in the national and regional economies. What we desperately need is meaningful and systematic policy, not wish lists. Luckily, this is an election year, so perhaps we can begin the long process we need to flourish in the (hopefully) new recovery that has just begun.

*Revised