CURRENT CONDITIONS INDEX

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Out with 2017, in with 2018. What an extraordinary way to begin this year! We have now received the revised (rebenchmarked) labor market data that show some interesting trends we were not privy to last year. Importantly, these new labor data are <u>*presumably*</u> more highly calibrated with the recently revised GDP growth data for Rhode Island than was the case earlier, meaning they should be more reflective of the actual growth that occurred during the last two years. Based on these labor market data revisions, things appear not only to be as strong as was concluded from the prior data, but even stronger, which alleviated one of my earlier fears, given the two negative growth quarters of 2016 we were comparing to last year. Perhaps even more important, at least to me, is that the monthly deterioration in several key indicators such as payroll employment present in the earlier data were largely (thought not entirely) eliminated with the new data. So, my worst fear, that Rhode Island might not have actually exceeded its prior employment peak of December 2006, is now a moot issue. Thank God!

In my last several reports, I had called attention to the monthly divergences in the trends of the two labor market surveys. The establishment-based (CES) survey, from which payroll employment is obtained, no longer shows the prior monthly deterioration. Instead, there is now an acceleration over the past four months, although from reduced levels associated with rebenchmarking. The household survey, from which we derive our **Unemployment Rate** and related data, tells largely the same story it had prior to data revisions, where monthly deterioration is readily apparent in the most recent four months. ***<u>The most noteworthy development with this survey, however, is its apparent adoption of some bizarre smoothing method</u>***. ***<u>The inevitable result: long stretches with identical values for key indicators</u>***. For example, in 2017, the **Unemployment Rate** remained at 4.4 percent from March through August, before rising to and remaining at 4.5 percent from September through December and into January of 2018. ***<u>For the record: I don't believe these identical value strings for one minute, and neither should you!</u>*** The most likely result of this will be that our **Unemployment Rate** will tend to consistently understate the actual rate when it is rising and overstate it when it is falling. In my field, that's known as "systematic error." I guess it's time for me to dust off my econometric models and report what the values most likely *should* be, absent such bizarre smoothing.

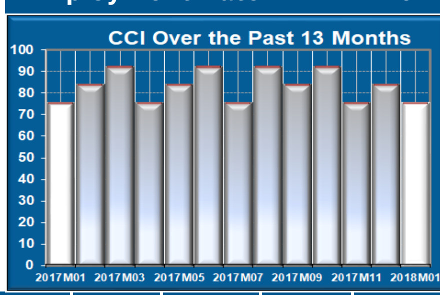
CCI Indicators - % Change		
Government Employment	0.5	Y
US Consumer Sentiment	-2.7	
Single-Unit Permits	-26.8	
Retail Sales	14.3	Y
Employment Services Jobs	5.1	Y
Priv. Serv-Prod Employment	1.1	Y
Total Manufacturing Hours	3.2	Y
Manufacturing Wage	3.4	Y
Labor Force	0.7	Y
Benefit Exhaustions	-6.8	Y
New Claims	4.8	
Unemployment Rate (change)	-0.1	Y
Y = Improved Value		

The Current Conditions Index for January, 75, slipped a bit from the December value of 83, and is well below the string of 92's from August through November. In spite of the upwardly revised CCI values for 2017, this month's value managed to only match the value from last January. Overall, nine of the twelve CCI indictors improved in January, but only two of the five leading indicators contained in the CCI did better. As a consolation, two of the three that failed to improve had difficult comps a year ago.

Employment Service Jobs, a leading labor market indicator, was revised higher throughout much of 2017, responsible for many of the increased CCI values last year. Its recent growth has exceeded 5 percent since July of last year. **Total Manufacturing Hours**, a proxy for manufacturing output, rose by a respectable 3.2 percent, as employment expanded but the workweek contracted slightly. **New Claims**, the timeliest measure of layoffs, *rose* by 4.8 percent, the third time it has failed to improve in the past five months, calling its downtrend into question. **US Consumer Sentiment** failed to improve again in January (-2.7%), following what had been a streak of thirteen consecutive increases. **Single-Unit Permits**, which reflect new home construction, fell sharply in January (-26.8%).

Retail Sales grew by at a double-digit rate in January (14.3%). **Government Employment** rose from its level a year ago, having been revised higher for the final three months last year. **Private Service-Producing Employment** growth remained above one percent and was also revised higher last year. **Benefit Exhaustions**, which reflects longer-term unemployment, fell by 6.8 percent. Our **Unemployment Rate** remained barely below its value a year ago, while our **Labor Force** rose for the seventh consecutive month, while still sustaining its long-term downtrend.

LABOR FORCE:	Jan 2018	Peak (1/2007)
Participation Rate	64.4%	68.6%
Employment Rate	61.5%	65.4%



DLT Jan 2018 Employment (SA,Y/Y)	
Gain	7,700
Loss	1,600
Net Chg	6,100

75		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2017	75↑	83↑	92↑	75↑	83↑	92↑	75↑	92↑	92↑	92↑	92↑	83↑
	2018	75											