

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

Rhode Island began the third quarter with a bit more upward momentum than it had seen in the prior quarter. During the second quarter, as the nation's economy slowed to just over one percent growth, the Current Conditions Index slid from 58 in April, to its neutral value of 50 in May, then to 42, indicating contraction, in June. While the nation's economy seems to have slowed to a crawl in July, fortunately, the same fate did not exist for Rhode Island, as the CCI rose above its neutral value to 58.

In many ways, Rhode Island's economic performance continues to mirror the national economy. Housing and retail sales continue to do well, while weak labor demand makes it difficult for currently unemployed persons to find jobs.

By far the strongest indicator performance in July was **Retail Sales**, which grew at an incredible 7.1 percent, beating the surprisingly strong rates of 5.9 in May and 6.2 percent in June. Amazingly, year-to-date growth in Retail Sales is 7 percent ahead of its pace last year, driven in large part by a very strong second quarter. Existing home sales and home prices have also continued to exceed all expectations here. And, while new home construction, or **Single-Unit Permits**, has performed very well *on average* during the first seven months of 2002, up 5 percent from last year, this was based largely on first quarter momentum. As I noted in last month's report, large permit growth in January and February have lifted the overall average significantly above what has occurred in the most recent months. In July, for example, **Single-Unit Permits** fell by 14.1 percent from the same month last year, their third consecutive monthly decline. Along with this, construction employment has now fallen for every month since November of last year except January of 2000. Construction employment has now returned to the 18,000 level in July and is 1.7 percent below its year-to-date level last year. Still, compared to previous recessions and the early stages of recoveries, this is far less weakness than has typically existed in the past!

The ongoing performance of Rhode Island's **Unemployment Rate** appears to indicate far greater strength than exists at present. Consider that in July of 2001, Rhode Island had a 4.9 percent **Unemployment Rate**, which fell all the way to 4.2 percent in July of this year. And, our jobless rate has remained well below the national rate for some time now. But, along with this dramatic decline in our **Unemployment Rate**, job growth has remained well below one percent (+0.7% for July), labor demand remains weak (**Help Wanted Advertising** has fallen at double-digit rates every month since last July, and it is down 23% compared to the first seven months of last year), and **Benefit Exhaustions**, a measure of long-term unemployment, rose by 48.6 percent in July, its twelfth consecutive double-digit rise. Clearly, not all of these **Benefit Exhaustion** increases can be explained by the existence of additional weeks of benefit entitlement. And, July saw a surge in the number of persons who experienced repeat jobless spells (Additional Claims for UI rose 35%). As these indicators show, one should never attempt to gauge the health of Rhode Island's economy either entirely or largely on the behavior of its unemployment rate, since this rate can jump or drop very sharply over very short periods. The decline in Rhode Island's unemployment rate is primarily the result of some combination of out-of-state job gains and increases in self employment.

There is other good news, which is related to Rhode Island's manufacturing sector, services, and layoffs. **Manufacturing Man-hours** declined by only one percent in July, their slowest rate of decline in well over a year (they are down 4.8 percent year-to-date). Along with this, **Manufacturing Wage** growth has accelerated, rising to 1.7 percent in July. And, as has been true for some time now, **Miscellaneous Service Employment** continues to increase, rising by 1.9 percent in July. **New Claims** for Unemployment Insurance, the most timely measure of layoffs, fell again in July, by 5.7 percent, continuing a downward trend that began in January of this year.

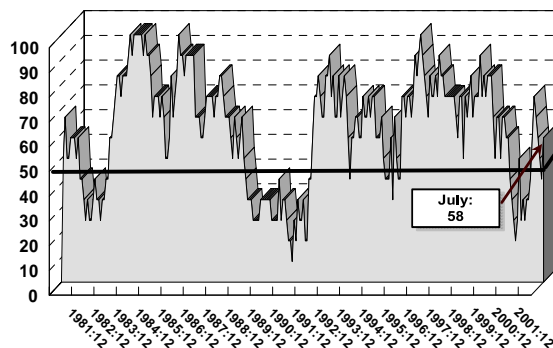
The mixed picture of economic performance that we have lived with for some time now continues. Housing and retail sales, which should have weakened by now, have remained surprisingly strong, with the exception of new home construction. Labor demand remains weak, but at least layoffs appear to be on a downward trajectory. Consumer confidence is faltering a bit, but it remains fairly high. *Statistically*, at least, Rhode Island's economy appears to be doing fairly well, as this perception is driven in large part by a "low" unemployment rate that persons place far too much emphasis upon. Rhode Island's past failures in attaining a critical mass in "high tech" moderated the severity of the last recession and up to now, at least, have shielded us from other weakness that typically occurs during the early stages of a recovery. But, since "high tech" is the future, our upside potential during the next several years is somewhat limited. Continuation of our historically slow growth, along with budget difficulties during the next few years will diminish a noticeable portion of our forward momentum. While our state's motto is: "Hope," our economic motto should become: "Short term gain, long-term pain."

CCI Indicators - % Change	
Government	0.2 Y
US Consumer Sentiment	-4.7
Single-Unit Permits	-14.1
Retail Sales	7.1 Y
Help Wanted	-19.1
Misc. Service Employ	1.9 Y
Man-Hours Manuf	-1.0
Manufacturing Wage	1.7 Y
Labor Force	1.1 Y
Benefit Exhaustions	48.6
New Claims	-5.7 Y
Unemployment Rate	-14.3 Y
Y = Improved Value	

2002 2001

JAN	58	42
FEB	75	33
MAR	67	25
APR	58*↑	17
MAY	50	25
JUN	42	50
JUL	58	25
AUG		33
SEP		25
OCT		33
NOV		33
DEC		42

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*Revised