

CURRENT CONDITIONS Index

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Rhode Island's economic woes continued unabated in July, as the Current Conditions Index rose from its all-time low of 0 in June to 17 in July. Only two indicators improved in July, and one of those, the **Manufacturing Wage**, had such a small rate of increase, it was necessary to add a decimal place to its rate of change to show improvement. Some might conclude that since the CCI improved from last month's value, our economy is doing better. Even a cursory examination of how badly the indicators performed in July would quickly put an end to such wishful thinking.

Fallout related to ongoing housing weakness intensified. It is clear from the recent sharp drops in July **Retail Sales** that the rebate checks sent out by the federal government were unable to overcome the ongoing economic weakness we have been experiencing. For July, **Retail Sales** fell by 3.7 percent compared to a year ago, its twelfth consecutive decline. Along with this, **US Consumer Sentiment** declined by 32.3 percent, its fifth consecutive decrease of 20 percent or higher. **Single-**

Wage will be able to sustain its multi-year uptrend. That is an important consideration since at this point, Rhode Island needs all the improving indicators it can get!

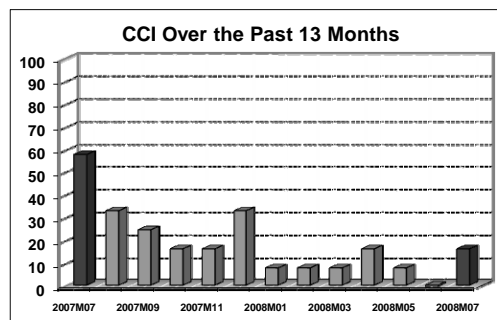
July's labor market data continued to be highly disappointing. Our state's **Unemployment Rate** jumped all the way to a 7.7 percent rate from 5 percent a year ago. And, it isn't finished rising in light of the extended unemployment insurance benefits. Our **Labor Force** failed to improve for the eighth consecutive month, falling by 0.5 percent, as a number of unemployed exited the **Labor Force** and there was a sharp drop in resident employment once again. Payroll employment continued its long decline that began in January of 2007, and **Private Service-Producing Employment** fell by 2.1 percent, its eleventh consecutive fall. **Employment Service Jobs**, a leading labor market indicator that includes temps, registered its sixth consecutive double-digit decline (a fall of 15%), while ironically, **New Claims**, which measures layoffs, improved, becoming the lone bright spot among the CCI indicators. **New Claims** fell by 4.4 percent (we want this to fall), and its value has improved on a month-to-month basis for the past three months. So, the emerging pattern appears to be less hiring and fewer layoffs. Finally, **Benefit Exhaustions**, which reflects long-term unemployment, increased sharply again in July, by 24.8 percent compared to one year ago. Part of this was, however, related to presence of extended benefits.

| CCI Indicators - % Change | |
|----------------------------|--------|
| Government Employment | -2.5 |
| US Consumer Sentiment | -32.3 |
| Single-Unit Permits | -17.9 |
| Retail Sales | -3.7 |
| Employment Services Jobs | -15.0 |
| Priv. Serv-Prod Employment | -2.1 |
| Total Manufacturing Hours | -7.9 |
| Manufacturing Wage | 0.03 Y |
| Labor Force | -0.5 |
| Benefit Exhaustions | 24.8 |
| New Claims | -4.4 Y |
| Unemployment Rate | 54.0 |

Y = Improved Value

Unit Permits, which reflects new home construction, fell by 17.9 percent compared to last July, ironically its "best" performance since February. Based on the behavior of these three indicators, it is readily apparent that ongoing housing weakness continues to be a significant drag on economic activity here.

The other part of our goods-producing sector, manufacturing, also weakened further and faster. As stated earlier, the **Manufacturing Wage**, did rise, although by only 0.03%. But **Total Manufacturing Hours** fell by 7.9 percent compared to last July, as both employment and the length of the workweek fell. As manufacturing weakness here intensifies, as it is nationally, it is no longer clear whether our **Manufacturing**



THE BOTTOM LINE

I have now become very worried about Rhode Island's economy. As both the national and global economies slow, it is readily apparent that Rhode Island has no margin for error in dealing with this heightened weakness, as we have now been in a recession for almost a year. The only bright spot is that we will now be comparing to recession levels for the remainder of this year, which will produce higher CCI values.

| | | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|----|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 17 | 2007 | 50↓ | 50↓ | 42↓ | 42 | 67 | 50↓ | 58↑ | 33 | 25↓ | 17↓ | 17↓ | 33↓ |
| | 2008 | 8 | 8 | 8 | 17 | 8 | 0 | 17 | | | | | |