

# CURRENT CONDITIONS INDEX

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VOL XIX  
NUMBER 8  
Jul 2012

Available Online: <http://www.lardaro.com/current.htm> (NEW URL)  
Blog: <http://rieconomy.blogspot.com>

Rhode Island began the third quarter with both good news and bad news. The good news is that its economy actually accelerated at the end of 2011 into mid-2012. While the "official" labor market data continue to show an economy that has fallen off a cliff (I challenge anyone using that data to conclude anything other than RI has entered into a double-dip recession), reality has been very different! The bad news is two fold: first, almost nobody in this state realizes that such improvement in levels and acceleration in the pace of activity occurred (unless they have been following this index and my Blog); second, it is now very clear that the pace of activity Rhode Island attained earlier this year has now moderated significantly. Both the CCI values based on the "official" data (the upper value) and my estimation of the actual numbers (the lower number) show that Rhode Island's economy has shifted into a lower gear: the "official" number for July fell to 50 while my estimated value declined to barely expanding, at 58.

So, the question now shifts to which indicators will take the proverbial baton and lead any future improvements? While the US economy has slowed, both the Federal Reserve and the European Central Bank have taken strong steps to avoid significant

CCI Indicators - % Change	
Government Employment	-1.5
US Consumer Sentiment	14.0 Y
Single-Unit Permits	14.2 Y
Retail Sales	-1.6
Employment Services Jobs	-5.0
Priv. Serv-Prod Employment	-2.0
Total Manufacturing Hours	0.1 Y
Manufacturing Wage	11.8 Y
Labor Force	-1.5
Benefit Exhaustions	11.0
New Claims	-2.2 Y
Unemployment Rate (change)	-0.6 Y
Y = Improved Value	

downturns in economic activity during the coming months. One outcome of this, a weakening US Dollar, should help to moderate and hopefully offset some of the recent weakness in our state's manufacturing sector as exports benefit. Unfortunately, there is a rather long lag before dollar depreciation normally translates into significant improvement in US (and Rhode Island) manufacturing.

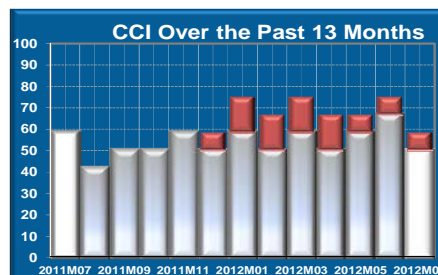
In light of all of this, what do we actually know about Rhode Island's current economic performance? As of July, Rhode Island's tepid recovery that began in February of 2010, now 29 months old, continues to lose momentum, most notably in the areas of manufacturing and retail. For July, **Retail Sales** fell (by 1.6%), its first decline since last August, following real strength over every month prior to July of this year. **Total Manufacturing Hours** barely rose in July (+0.1%), as the workweek declined. Of

course, we are told that our **Manufacturing Wage** is still growing at what is likely the most rapid rate on earth (+11.8%).

In spite of this, things here are now and will remain significantly better than what the "official" data show, especially since the flawed "official" data can be expected to begin showing ever-larger employment declines for the rest of this year. Even for July, we were told that payroll employment fell by an eye-opening 7,300 compared to a year ago. A more accurate reading can be obtained by reversing the sign of the "official" payroll change — overall employment is likely around 7,000 higher than what the "official" data show.

According to my econometric models, while the *level* of payroll employment is higher than the official number, its *rate of growth* over the past two month has slowed to almost a crawl, which raised our **Unemployment Rate** to 10.8 percent, ironically the "official" rate. The difference in outcomes is that that in my models, the rate recently rose to 10.8 percent from 10.7 percent as employment growth slowed, it did not fall from over 11 percent, the "official" trend. Finally, the rate of growth in a very important labor market indicator, **Private Service-Producing Employment**, has slowed dramatically over the past three months.

**US Consumer Sentiment** improved again in July (+14%), as did **Single-Unit Permits**. **New Claims** for Unemployment Insurance, a leading labor market indicator, improved again as well (-2.2%).



DLT July Employment (SA, Y/Y)	
Gain	1,800?
Loss	9,100?
Net Chg	-7,300?

## THE BOTTOM LINE

What a bizarre situation Rhode Island finds itself in — the acceleration in activity that everyone here had been so eagerly awaiting has already occurred and is in the process of disappearing! The most critical question going forward is whether monetary policy will be able to re-accelerate the US and world economies. Even if they do, how much will Rhode Island benefit given its non-competitive tax and cost structure? This would be a very appropriate time for our state's leaders to begin to lead at long last. Stay tuned.

50/ 58		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2011	50	67	67	58	50	58	67	42	50	50	58	50/ 58
	2012	58/ 75	50/ 67	58/ 75	50/ 75	58/ 67	67/ 75	50/ 58					