

# CURRENT CONDITIONS INDEX

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Rhode Island began the third quarter on a very positive note, as the pace of activity during the second quarter was sustained. The performance of Rhode Island's economy for July was quite good, with the Current Conditions Index registering a value of 75, as nine of 12 indicators improved. Importantly, the overall strength of most of the *leading* indicators contained in the CCI has continued through all of this year (including July), which is a welcome occurrence as we enter the final half of the year.

Importantly, the primary negative from last month was eliminated in July — the CCI once again beat its value from a year ago. So, only once this year, June, has the CCI failed to beat its year-earlier level. Given the strength we witnessed starting in August of last year, we may well witness several more months where the CCI is unable to exceed its prior-year values, which will reflect a slowing in our rate of growth. Let's cross that bridge when we get to it. For now, we should be focusing on all of the positive news contained in this month's data along with Rhode Island's economic performance thus far in 2013.

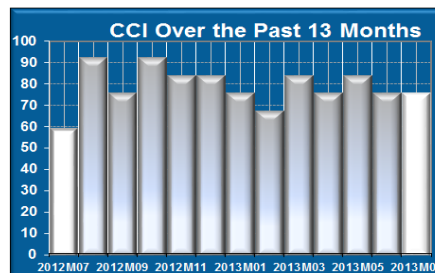
Before doing this, let me to reiterate a point I made last month. Many remain confused by the seeming paradox of how a state's economy showing such momentum can remain so far below where it was back in 2006 and 2007. The answer, plain and simple, is that *current levels of economic activity depend on both the rates of growth we are experiencing and the prior activity levels themselves*. During The Great Recession, Rhode Island's overall economy along with many of its indicators, declined greatly, about as far, if not farther, than just about any other

strong "comps" from a year ago. The uptrend in **Single-Unit Permits**, a leading indicator of housing, continued, reflecting further movement beyond its trough. Permits rose 6 percent in July and have now settled into a range of 70+ each month. **US Consumer Sentiment** improved for the sixth consecutive month in July, rising 17.7 percent.

The remaining leading indicators are related to the labor market. The first of these, **Employment Service Jobs**, which includes temporary employment, a prerequisite to overall employment growth, rose by 1.5 percent in July. While this indicator has consistently improved since last April, its rate of improvement has clearly slowed of late. **New Claims** for Unemployment Insurance is the most timely measure of layoffs. It recently appeared to be returning to a downtrend, but this change is not apparent at present. New Claims rose by 2.2 percent in July, its fourth increase in the last six months. Declining layoffs will be critical if Rhode Island is to continue improving as we move through the second half of the year. The fourth of the CCI's leading indicators, **Total Manufacturing Hours**, which measures strength in our manufacturing sector, jumped by a very healthy 4.1 percent, driven by higher employment and the workweek.

**Retail Sales** remained strong, growing at just over 5 percent. **Private Service-Producing Employment** continues to be problematic, as it has now been stuck below a one percent rate for seven of the last ten months. Our state's **Labor Force** declined, but July values were distorted by seasonal adjustment problems concerning students returning to school. The **Unemployment Rate** remained unchanged for July, while our **Manufacturing Wage** rose by "only" 0.8 percent. Finally, **Government Employment** was unchanged in July. Has it now bottomed? Perhaps.

CCI Indicators - % Change	
Government Employment	0.0
US Consumer Sentiment	17.7 Y
Single-Unit Permits	6.0 Y
Retail Sales	5.3 Y
Employment Services Jobs	1.5 Y
Priv. Serv-Prod Employment	0.9 Y
Total Manufacturing Hours	4.1 Y
Manufacturing Wage	0.8 Y
Labor Force	-0.8
Benefit Exhaustions	-27.5 Y
New Claims	2.2
Unemployment Rate (change)	-1.6 Y
Y = Improved Value	



DLT JUL Employment (SA,Y/Y)	
Gain	4,500
Loss	3,800
Net Chg	700

## THE BOTTOM LINE

The economic news for the beginning of the third quarter here is very good. Better yet is what I believe is actually occurring. Yes, it's that time again — time for me to restart my econometric models of the Rhode Island labor market. The results of my simulations indicate that payroll employment in July was approximately 2,000 higher than the "official" number. And, employment actually rose slightly over the June number, it didn't fall, as the published data show. Along with this rise in employment, my models suggest that the correct July **Unemployment Rate** for Rhode Island was 8.6 percent, not 8.9 percent. Not huge differences, but better than the "official" data.

state. So, our recent rates of growth applied to these depressed activity levels continue to generate relatively small changes in the *actual level* of economic activity here. Don't expect this to change any time soon! Rhode Island has yet to undertake the hard work required to reinvent itself and to make its economy more competitive. Recent organizational changes will do virtually nothing return us to where we once were.

All four of the CCI's leading indicators turned in strong performances this month. Three of them did so in spite of very

75		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2012	67↑	58↑	58	67↑	67↑	83↑	58↑	92↑	75↑	92↑	83↑	83↓
	2013	75	67	83	75↑	83	75	75					