

CURRENT CONDITIONS INDEX

LEONARD LARDARO, URI

Available Online: <http://www.lardaro.com/current.htm>
 Blog: <http://rieconomy.blogspot.com>
 Twitter: @ladardo

VOL XXIII
 NUMBER 8
 JUL 2016

The third quarter began in exactly the way we wanted it to: with the Current Conditions Index improving, moving once again into its expansion range (greater than 50). Add to this the good news from last month that the second quarter has ended, and there's a bit more to be upbeat about here.

At this point, it would be premature to begin celebrating and to assume that the prior weakness we experienced is definitely behind us. That may well prove to be correct, but it is far too early to tell. While one point does not a trend make, as the saying goes, it is important to keep in mind that our recent weakness in no way represented our state's economy falling apart, or anything even remotely resembling what happened starting in late 2006. What we experienced was a several month interval where our negatives gained strength relative to the positive momentum factors, overtaking them. The asterisk to this, however, was the pattern of weakening indicators that occurred - exactly the set of indicators that historically have pointed to the likelihood of an economy continuing to slow. Are we out of the proverbial woods? Clearly, performance of the national economy holds our fate.

At this point it is instructive to look at the indicator changes that moved us back into the expansion range of the CCI. Overall, for

However, two of the three non-improving leading indicators did have difficult comps from a year ago. **US Consumer Sentiment** fell by 3.6 percent in July, its seventh decline in the last eight months, no doubt hurt by a very difficult comp last July (+13.4%). **Single-Unit Permits** declined at a double-digit rate (-10.3%) in spite of a very easy comp a year ago. **Employment Service Jobs**, which includes temporary employment and is a prerequisite to employment growth, fell by a surprising 6.1 percent in July. While this was hurt by a difficult comp, it has now declined for five consecutive months. The pleasant surprise here was **Total Manufacturing Hours**, a proxy for manufacturing output. It rose in July for the third consecutive month, although the impact of job gains were largely offset by a declining workweek.

Like the nation, Rhode Island again experienced a healthy jump in July employment. On a *monthly* basis, our **Labor Force** rose, indicating that some unemployed Rhode Islanders resumed job search, allowing them to again be reflected in the **Unemployment Rate**, so on a *monthly* basis, an unchanged **Unemployment Rate** occurred for an acceptable reason. Our **Labor Force** did continue its very long year-over-year decline, though, as July was the twenty-sixth consecutive year-over-year **Labor Force** decline. So, over the longer-term our jobless rate has continued to "improve" for the wrong reasons.

Retail Sales fell by 1.9 percent in July, its fifth decline in the past six months. The **Manufacturing Wage** rose again in July, by 3.9 percent (back to fantasy land!!!). Recent acceleration in **Private Service-Producing Employment** moderated in July as its growth rate slowed to 1.1 percent. **Benefit Exhaustions**, which reflects longer-term unemployment, fell by only 0.5 percent, its slowest rate of improvement in a very long time.

CCI Indicators - % Change	
Government Employment	0.5 Y
US Consumer Sentiment	-3.6
Single-Unit Permits	-10.3
Retail Sales	-1.9
Employment Services Jobs	-6.1
Priv. Serv-Prod Employment	1.1 Y
Total Manufacturing Hours	0.4 Y
Manufacturing Wage	3.9 Y
Labor Force	-0.1
Benefit Exhaustions	-0.5 Y
New Claims	-18.4 Y
Unemployment Rate (change)	-0.4 Y
Y = Improved Value	

July, seven of the twelve indicators contained in the CCI improved versus only five in June. The two indicators that improved this month that failed to improve in June were **Government Employment** (+0.5%), which rose for the first time since August of 2015 and **New Claims** (-18.4%), a measure of layoffs, which improved after three consecutive increases. Clearly, we cannot and should not rely on increases in **Government Employment** as an engine of our state's cyclical momentum. The same is not the case for **New Claims**, however, which is a leading labor market indicator. Further cyclical gains for us will require moderating layoffs.

Beyond this, looking at the July CCI performance in total, only two of the five leading indicators contained in the CCI improved.



THE BOTTOM LINE

While the second quarter for Rhode Island was very disappointing, at least the third quarter began well, as we once again moved into the expansion range. For now, at least, we don't appear to be stuck in neutral. Where we go from here is anybody's guess at this point. Gains in payroll employment over the past two months have been good (+1% for RI is about as well as we typically do). In spite of these gains, we remain almost twenty percent below our prior employment peak. Speaking of that, *mark your calendar: December is the tenth anniversary of our prior employment peak.*

58		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2015	67↑	67↑	67	67↑	67	67↓	58↓	75↓	67↓	50↓	67↓	50↓
	2016	58	67	50↓	42	50	42	58					