Current Conditions Index

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Also available on my web site: http://members.cox.net/lardaro/current.htm

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*Revised

Monthly Highlights

Recently released data on the national economy provided us with a very different picture of economic activity last year. Whereas we were originally led to believe that the national recession was mild and very short, with only one quarter with declining real Gross Domestic Product, we now know that negative growth occurred for three consecutive quarters, resulting in a greater economic loss. As for national economic activity this year, the rate of growth slowed substantially from 5 percent in the first quarter to a mere 1.1 percent in the second quarter.

Rhode Island's economic performance has clearly mirrored the national economy. As the Current Conditions Index showed some time ago, Rhode Island's recession began in January of 2001 and ended in December of that year. As first quarter growth jumped nationally, the CCI rebounded strongly as well, moving above its neutral value of 50 for January through March. The CCI for 2002 peaked in February at 75, with nine of the twelve indicators improving, showing that economic activity here was becoming more broadly based. Since February, however, the CCI has weakened considerably, never rising above its neutral value after March. During the second quarter of this year, as national growth slowed to 1.1 percent, the CCI remained at its neutral value of 50 for both April and May, then fell to 42 (consistent with contraction) in June.

By far the best indicator performance in June was that of **Retail Sales**, which grew at an incredible 6.2 percent. This follows a 6 percent rise in May. Retail sales and segments of the housing market have "carried" our state's economy of late. By segments, I am referring to existing home sales and home prices, both of which continue to outperform anyone's expectations here. While new home construction, or **Single-Unit Permits**, performed very well during the first half of 2002, rising by 9 percent over the first six months of last year, virtually all of the momentum occurred during the first quarter. First quarter permits were 20.1 percent higher than in 2001, while for the second quarter, permits were 2 percent below those of last year. For June, **Single-Unit Permits** were 5.5 percent lower than their value of last June.

CCI Indicators - % Change		
Government	-0.9	
US Consumer Sentiment	-0.1	
Single-Unit Permits	-5.5	
Retail Sales	6.2	Y
Help Wanted	-11.9	
Misc. Service Employ	3.3	Y
Man-Hours Manuf	-2.9	
Manufacturing Wage	1.1	Y
Labor Force	-0.1	
Benefit Exhaustions	55.0	
New Claims	-5.6	Y
Unemployment Rate	-16.3	Y
Y = Improved Value		

The performance of the **Unemployment Rate** also appears to indicate an extremely well performing economy. At 4.1 percent in June, well below both the national rate in June and the Rhode Island value last June, it appears that economic activity here has been surging. Guess again. First, one should never rely solely (or largely) on the unemployment rate to gauge overall activity here. Second, this rate can jump very sharply over very short periods, as it just has: May's rate was 4.7 percent; in June, the rate fell to 4.1 percent. According to the data, between May and June, the number of Rhode Islanders who were working rose, and the number of Rhode Islanders who are unemployed fell, as did the labor force. Thus, the decline in our unemployment rate must have been primarily some combination of out-of-state job gains and increases in self employment. Consider, though, that between May and June of this year, payroll employment in Rhode Island actually *fell, as it did in both of our neighboring states.* And, during this period, the unemployment rate in Massachusetts rose, while in Connecticut it fell very slightly. As a general rule, *when Rhode Island's Unemployment Rate falls at the same time its labor force is declining, look to the trend in the rate to more accurately judge its performance*. This is why I included both the labor force and unemployment rate as separate indicators in the CCI: the improving unemployment rate (+) is offset by the declining labor force (-).

As for the other indicators, labor demand remains very weak, causing difficulties for those currently unemployed. **Help Wanted** fell by 11.9 percent in June, and the number of persons exhausting their Unemployment Insurance Benefits, or **Benefit Exhaustions**, rose by 55 percent. The good news: the flow of persons into unemployment through layoffs, or **New Claims** for Unemployment Insurance, fell again, by 5.6 percent in June; and **Manufacturing Man-hours** declined by 2.9 percent in June. How can falling hours worked in manufacturing be good? June's rate of decrease was the smallest in over a year, equal to about 40 percent of the most recent high (a decline of 7.4 percent in March of this year). And, as has been true for some time now, **Miscellaneous Service Employment** rose at a 3.3 percent rate, providing the vast majority of job gains in June (compared to last June).

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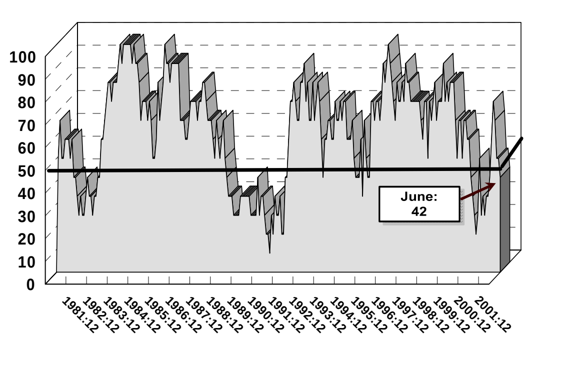

Rhode Island's second quarter performance reaffirms something that all of us who follow this state's economy are all too well aware of: *when the national economy hiccups, Rhode Island's economy stumbles*. This has particularly disturbing implications concerning whether there will be a "double-dip" recession: even if the national economy slows further and barely averts a "double-dip," Rhode Island may well find itself mired once again in recession. This is a very real possibility, one consistent with interpolation of the current CCI trends. At present, I do not think this is what will happen, though. While identifying our engines of *future* growth is difficult, it is equally difficult to find trends that would dramatically weaken our state's economic performance on an ongoing basis *absent a national recession*. Our past failures in amassing a critical mass in "high tech" moderated the severity of the last recession and will likely continue to shield us from other weakness that might occur, for example, if business investment remains weak. But, unfortunately for us, "high tech" is the future, so our upside potential is limited going forward. In light of this, Rhode Island's economic motto at present should probably be: "Short term gain, long-term pain."