

CURRENT CONDITIONS INDEX

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There is some very good news for Rhode island: The second quarter of 2016 has ended! And what a quarter it was. While Rhode Island's first quarter performance was fair at best, in the second quarter, things here got decidedly worse. We began the quarter with a March Current Conditions Index value of 42, indicative of contraction, then managed to pull ourselves up to a neutral value of 50 in June. Hope springs eternal, especially when that's your state's motto. Then came the June data: the CCI for June fell back to a contraction value of 42, as only five of the twelve indicators improved relative to June of last year. And while there clearly were positive elements in Rhode Island's June performance, the negatives clearly stood out, overwhelming the momentum generated by our positives. Consider, for example, that payroll employment saw its largest monthly increase in a while: 1,700 higher than the prior month and 3,600 more than last June. Like the nation, Rhode Island experienced a healthy jump in June employment. And on a *monthly* basis, our **Labor Force** rose, indicating that some unemployed Rhode Islanders resumed job search, which allowed them to once again be reflected in the **Unemployment Rate**. For once, at least on a monthly basis, a slight increase in our **Unemployment Rate** occurred for an acceptable reason.

employment and is a prerequisite to employment growth, fell by a hefty 3.7 percent in June, its fourth consecutive decline. Along with this, **New Claims**, a leading labor market indicator that reflects layoffs, rose (+4.1%) in June, although it too had a difficult comp a year ago. **Single-Unit Permits** fell sharply (-26.6%) following a rise of 17.7 percent a year ago. Its level, however, remained well below 1,000 annual units. Finally, **US Consumer Sentiment** fell by 6.3 percent in June, failing to beat a difficult 2015 comp, and sustaining its recent downtrend.

The sole improving leading indicator, **Total Manufacturing Hours**, a proxy for manufacturing output, rose slightly for only a second consecutive time, besting a fairly easy comp last June. Manufacturing employment rose by more than enough (proportionately) to offset the effect of a declining workweek.

Along with this deteriorating performance of several key cyclical indicators I have been highlighting of late, issues remained with most the remaining CCI indicators. Our state's **Labor Force** continued to decrease on a year-over-year basis. June's decrease of 0.5 percent was its *twenty-fifth* such decline. As a result, although its monthly performance was acceptable, Rhode Island's **Unemployment Rate** is still falling for the wrong reasons.

Retail Sales, fell by 0.6 percent in June, its fourth decline in the past five months. The **Manufacturing Wage** rose again in June, by 5.2 percent (back to fantasy land!!!). **Private Service-Producing Employment** saw an acceleration in its growth rate for June (+1.1%), resuming its uptrend. **Government Employment** fell again (-0.7%) in June, while **Benefit Exhaustions**, which reflects longer-term unemployment, fell by 30.5 percent, its best rate of improvement in quite a while.

CCI Indicators - % Change	
Government Employment	-0.7
US Consumer Sentiment	-6.3
Single-Unit Permits	-26.6
Retail Sales	-0.6
Employment Services Jobs	-3.7
Priv. Serv-Prod Employment	1.1 Y
Total Manufacturing Hours	1.5 Y
Manufacturing Wage	5.2 Y
Labor Force	-0.5
Benefit Exhaustions	-30.5 Y
New Claims	4.1
Unemployment Rate (change)	-0.5 Y
Y = Improved Value	

In the broader context of yearly performance, however, Rhode Island didn't do terribly well in June. The 3,600 year-over-year rise in payroll employment represented an increase of only 0.7 percent. While our **Labor Force** did manage to improve on a monthly basis, it continued its very long slide year-over-year. Where all of this comes together is that monthly improvements, if sustained, eventually translate into yearly improvement. Unfortunately, the opposite is also true. The question now for Rhode Island is whether our monthly performance will improve or deteriorate for the remainder of this year. In other words, has our previous cyclical momentum disappeared? Right now we find ourselves stuck at or near neutral. As things nationally appear to be picking up, this might bode well for Rhode Island—hopefully!

Four of the five leading indicators contained in the CCI failed to improve in June, and all of them had difficult comps from a year ago. **Employment Service Jobs**, which includes temporary



DLT JUN Employment (SA,Y/Y)	
Gain	5,500
Loss	1,900
Net Chg	3,600

THE BOTTOM LINE

The second quarter was not a good one for Rhode Island. Once again our state's economy remained stuck in neutral, something that has now occurred for four consecutive months. Not only have we failed to exceed year-earlier CCI values for all but one month this year, key cyclical indicators *as a group* continue to display a very concerning pattern. While there are and have been some bright spots throughout this year, especially June's payroll employment, it is not clear at this point whether we will ultimately be able to sustain more broadly based momentum. It appears that the national economy has begun to improve. That single factor will largely determine our fate.

42		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						