

Current Conditions Index

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Monthly Highlights

Rhode Island closed out the first quarter on a bit of a sour note. While activity had picked up in February, lifting the Current Conditions Index to 67, Rhode Island, like the nation, experienced a soft patch in March. The CCI for March fell to 58, as seven of the twelve indicators improved. While a value of 58 is not, by itself, a very negative outcome, the performances of several of the improving indicators were weak, making March's value disappointing.

Government Employment fell slightly in March, declining by 0.2 percent, its ninth decline in the past twelve months. While this decrease was less than values we have witnessed in past months, declines of this magnitude or greater are likely to recur in future months. Labor demand, in terms of adjusted **Help Wanted Advertising**, weakened once again in March. The growth rate of this indicator has now fallen from 6.8 percent in January, to 3.3 percent in February and 2.4 percent in March. In spite of slowing labor demand, **Private Service-Producing Employment** increased by 2 percent in March, remaining reasonably close to the high rates of growth attained since January. For the first time in a while, both of the

nationally. Part of this is related by the early date of Easter this year, though. **US Consumer Sentiment** fell by 3.2 percent compared with last March. Like February, this is not really that negative a performance, as the annual growth rate in this indicator last March was 23.6 percent.

Rhode Island's manufacturing sector turned in another weak performance in March. **Manufacturing Man-hours** fell by 6 percent compared to last March, its worst performance since December. This is notable since in the fourth quarter of 2004, Rhode Island's personal income growth was worst in the nation, and durable goods manufacturing income fell by 6.7 percent in that quarter. Apparently some of this weakness has persisted into the first quarter of 2005. **Manufacturing Wage** growth slowed again, to 0.1 percent in March, by far its slowest growth in over a year. Along with this, Rhode Island's average hourly **Manufacturing Wage** remained barely above \$13 on a seasonally adjusted basis (it was \$13.01). New home construction, as measured by **Single-Unit Permits**, fell sharply in March, by 25 percent. Since September, we have witnessed five declines of 18 percent or more. These dramatic declines cannot be explained solely in terms of growth restrictions and weather. Something else is occurring. The good news is that with such small supply increases, housing prices here will likely remain high for some time.

Rhode Island's **Labor Force** finally rose, increasing by 0.2 percent in March. This was the first year-over-year rise in our **Labor Force** since December of 2003. Our **Unemployment Rate** fell sharply from last March but was slightly higher than its value in February.

Rhode Island's near-term fate is tied to the nation moving beyond March's soft spot. Even when this does occur, it is not clear that Rhode Island will keep pace with the nation.

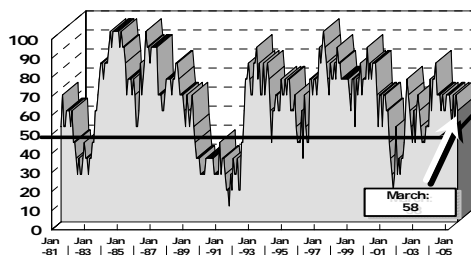
| CCI Indicators - % Change | |
|-----------------------------------|---------|
| Government Employment | -0.2 |
| US Consumer Sentiment | -3.2 |
| Single-Unit Permits | -25.0 |
| Retail Sales | -2.0 |
| Help Wanted Advertising | 2.4 Y |
| Priv. Serv-Prod Employment | 2.0 Y |
| Man-Hours Manufacturing | -6.0 |
| Manufacturing Wage | 0.1 Y |
| Labor Force | 0.2 Y |
| Benefit Exhaustions | -26.2 Y |
| New Claims | -7.5 Y |
| Unemployment Rate | -16.7 Y |

Y = Improved Value

Unemployment Insurance indicators improved. Layoffs, as measured by **New Claims**, fell by a healthy 7.5 percent in March, one of its strongest performances in the past year. **Benefit Exhaustions**, which reflect long-term unemployment, fell even more sharply in March, by 26.2 percent. Like New Claims, this was one of the strongest performances in a year.

Two of what have been our strongest indicators of late, **Retail Sales** and **US Consumer Sentiment**, continued to show weakness. **Retail Sales** fell by 2 percent in March, registering its second decline in the last three months. Clearly, retail weakness here has been mirroring what we have observed

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| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| 2004 | 67 | 67 | 58 | 67 | 58 | 58 | 67 | 67 | 67 | 58 | 50 | 67 |
| 2005 | 50 | 67 | 58 | | | | | | | | | |