

CURRENT CONDITIONS INDEX

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Available Online: <http://www.lardaro.com/current.htm> (NEW URL)
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VOL XX
 NUMBER 4
 MAR 2013

The first quarter ended on a very positive note. After weakening during both January and February, the Current Conditions Index rose back to 83 in March, with ten of its twelve indicators improving. March's performance was a bit better than it might appear at first, since the "comp" for this month, March of 2012, was itself a fairly strong month, as a number of indicators displayed significant changes at that time. Improving upon those values is noteworthy. Hopefully it signals that Rhode Island's slowing pace of economic activity was only short-lived, although we probably won't know for sure until late summer. At any rate, this was a fairly good way to begin the third year of this recovery!

In spite of the monthly fluctuations we witnessed in the first quarter, the CCI did average 75 over that period, a respectable value. And, while the CCI values for each of the first three months this year might be viewed as somewhat discouraging relative to what we saw in the second half of 2012, all three did manage to exceed their year-earlier values.

For March, **Retail Sales**, one of the most critical of the CCI indicators, was able to reverse the loss it experienced last month. On a year-over-year basis, **Retail Sales** rose again, although at a fairly moderate rate. On a monthly basis, however, this indicator appears to be experiencing difficulty breaking out of its recent range. Clearly, high gasoline prices and the lapse of the payroll tax holiday are providing headwinds.

Two other critical indicators, both of which are leading economic indicators, painted a mixed picture in March. **New Claims** for Unemployment Insurance, which reflects layoffs, has begun to

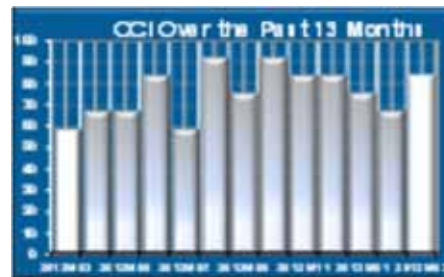
also displaying strength on a monthly basis, so its string of improvements very likely has "legs."

Four other indicators, not all of which are leading indicators, continue to display some positive momentum in March. **Private Service-Producing Employment**, whose growth has slowed of late, has been able to sustain values in excess of 350,000 since December. Rhode Island's goods-producing sector has also displayed a sustained positive uptrend for some time now. In our manufacturing sector, **Total Manufacturing Hours** has fallen only once since last July, while the **Manufacturing Wage** continues to rise at what I believe to be non-credible rates. Perhaps more important is the recent behavior of housing. The uptrend in **Single-Unit Permits** reflects our moving past a bottom in new home construction. While the number of permits has been wildly volatile over the past few years, Rhode Island appears to have settled into a range of about 60+ permits per month, not enough to generate much strength in construction employment, but better than where we were just a few years ago.

While Rhode Island's **Unemployment Rate** fell to 9.1 percent in March, this change is *not* as significant an indicator of Rhode Island's momentum as many here seem to believe. Not only is the **Unemployment Rate** a lagging economic indicator, its monthly declines from 9.9 percent to 9.1 percent have been accompanied by corresponding decreases in our state's **Labor Force**, reflecting the fact that some of our state's jobless residents have dropped out of the labor force and no longer counted among the unemployed.

Finally, **Government Employment**, which continues to decline on a yearly basis, appears to have plateaued around 60,000.

CCI Indicators - % Change	
Government Employment	-1.0
US Consumer Sentiment	2.9 Y
Single-Unit Permits	21.8 Y
Retail Sales	2.4 Y
Employment Services Jobs	4.6 Y
Priv. Serv-Prod Employment	0.7 Y
Total Manufacturing Hours	2.5 Y
Manufacturing Wage	4.5 Y
Labor Force	0.1 Y
Benefit Exhaustions	-26.6 Y
New Claims	8.2
Unemployment Rate (change)	-1.5 Y
Y = Improved Value	



DLT MAR Employment (SA, Y/Y)	
Gain	5,300
Loss	4,600
Net Chg	700

THE BOTTOM LINE

rise on a year-over year basis, an unwelcome development. It has also been trending higher on a monthly basis since the third quarter of last year, which could signal its further lack of improvement in future months. **Employment Service Jobs**, also a leading labor market indicator, reflects temporary employment, often a prerequisite to overall employment growth. This indicator has consistently improved since last April. This March, it rose by a healthy 4.6 percent compared to a year ago. Importantly, it is

March brought a welcome uptick in the pace of economic activity in Rhode Island. After two disappointing months, the Current Conditions Index rose back to 83, as ten of twelve indicators improved, beating difficult "comps" from a year ago. Much of our state's economic momentum over the coming months will be dictated by what happens at the national and global levels. Accordingly, expect somewhat less momentum in the second quarter, which should improve during the second half of this year. However, given Rhode Island's strength in the second half of 2012, will values this year show further improvement over what we witnessed last year?

83		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									