

# CURRENT CONDITIONS INDEX

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What a difference a year makes! We struggled through most of 2016, which was particularly disappointing as we had originally been led to believe things had picked up in the second half of that year. Reality hit with labor market data rebenchmarking, as we discovered that growth never accelerated after all in the second half. Consistent with this is the observed fact, greeted by many here with a sense of alarm, that tax revenue for this fiscal year has consistently lagged the levels that had been expected.

Enter the first quarter of 2017. The three Current Conditions Index readings for this year point to a well-defined and broadly based acceleration in the pace of economic activity from our 2016 doldrums. First, the CCI for March reached all the way to 92, as eleven of the twelve CCI indicators improved relative to last March. When was the last time the CCI reached that level? All the way back in December of 2012! Second, the CCI has exceeded its year-earlier value for all three months of 2017. That's something we almost never see here. Finally, it appears that both portions of our goods-producing sector, new home construction and manufacturing, both with very large multipliers, are finally

temporary employment and is a leading indicator of future employment. It continues to be the greatest disappointment among all revised indicators. Its continuing deterioration suggests the potential for weakening future employment growth.

As alluded to earlier, for the fourth consecutive month, both indicators reflecting Rhode Island's goods-producing sector improved. **Total Manufacturing Hours**, a proxy for manufacturing output, rose by a robust 2.5 percent, although it had a relatively easy comp last March. **Single-Unit Permits**, which reflects new home construction, also rose sharply this month (+16.7%), in spite of a very difficult comp last year.

**US Consumer Sentiment** improved in March (+6.6%), its fifth consecutive increase. **New Claims**, the timeliest measure of layoffs, barely fell in March (-0.7%), for its seventh improvement in the last eight months. It had a fairly easy comp from last year.

**Government Employment** both increased and remained above 60,000, which it has now done for over a year. **Private Service-Producing Employment** growth has been somewhat volatile of late. For the most recent three months, it has risen by 1 percent, close to its highest rate of growth since last July. **Retail Sales** did quite well in March, rising by over 5 percent. **Benefit Exhaustions**, which reflects longer-term unemployment, fell again in March (-7.4%), resuming its longer-term downtrend.

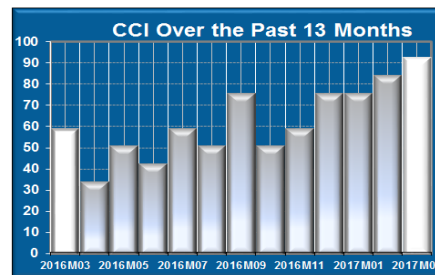
The year-over-year performance of Rhode Island's **Labor Force**, *which I continue to view as a train wreck*, actually improved for March — the first time since April of 2014! So, for March, our **Unemployment Rate** fell for the right reasons. Still, pay no attention to the fact that it remains below the US rate.

CCI Indicators - % Change	
Government Employment	0.3 Y
US Consumer Sentiment	6.6 Y
Single-Unit Permits	16.7 Y
Retail Sales	5.3 Y
Employment Services Jobs	-4.2
Priv. Serv-Prod Employment	1.0 Y
Total Manufacturing Hours	2.5 Y
Manufacturing Wage	4.3 Y
Labor Force	0.3 Y
Benefit Exhaustions	-7.4 Y
New Claims	-0.7 Y
Unemployment Rate (change)	-1.1 Y

Y = Improved Value

working together, on a *consistent* basis, to generate a meaningful foundation for our state's recent momentum. That matters a great deal since it was the precipitous declines in both of these sectors that were at the heart of the shocking decline in our state's economic activity during its last recession. Does this signal that our state's economy has recovered what it lost during the Great Recession? While payroll employment has increased to where we have recovered 99.8 percent of the jobs lost, let's not get too carried away. Our employment rate remains well below where it once was and the trend in our state's Labor Force is nothing short of a train wreck.

The Current Conditions Index for March was 92, higher than any value since 2012 (although at times in the past we thought we attained this), as all but one of the twelve CCI indicators improved. Of the five leading indicators contained in the CCI, four improved, even as all but one had difficult comps a year ago. The sole leading indicator that failed to improve, and has failed to improve for a year now, **Employment Service Jobs**, includes



DLT MAR Employment (SA, Y/Y)	
Gain	5,800
Loss	1,800
Net Chg	4,000

## THE BOTTOM LINE

As this report is being written, there is a great deal of confusion and frustration concerning tax revenue this fiscal year. I have seen its recent behavior described as a "crisis," with some going as far as stating that tax revenue has "plummeted." Neither is appropriate. What is happening is that the slowing of growth in the second half of 2016 resulted in slower tax revenue growth. Based on the 2017 performance of the CCI, we might (key word) well be witnessing an inflection point in our growth rate, so that revenue growth will pick up a bit. *Make no mistake, though, this is not a crisis, it is a warning.* Will our elected officials heed this warning? I doubt it!

92		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2016	50↓	58↓	58↑	33↓	50	42	58↓	50↓	75	50↓	58↓	75↓
	2017	75	83	92									