

Current Conditions Index

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

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Monthly Highlights

The pace of Rhode Island's recovery continues to slow, as the Current Conditions Index has now declined every month since February, reaching its neutral value of 50 for May. While there is no doubt that Rhode Island is currently in a recovery, it, like the nation, continues to experience slow and uneven growth that at times gives the outward appearance of being in a recession. In other words, Rhode Island's economy is performing better *statistically* than most people give it credit for. Interestingly, some commentators, both nationally and locally, have begun to classify current economic conditions as being a "jobless recovery." How soon people forget: the last recovery, which lasted 10 years and was the longest in history, was described using exactly the same label back in 1992.

It's not difficult to see why this ambiguity about current economic performance persists: the stock market continues to be bearish, many laid off persons are experiencing difficulty finding new jobs, and the unemployment rate is rising. But, let's not forget the more positive aspects: Rhode Island's **Unemployment Rate**, at 4.7 percent in May, was well below the national rate of 5.8 percent; **Retail Sales** continue to rise sharply (+5.9% in this May compared to one year ago); and the housing market remains very strong in terms of both home sales and housing prices. In other words, anecdotal indicators of how well Rhode Island is doing can be quickly obtained by either visiting a shopping mall, observing the amount of traffic going into and out of Providence each business day, or noting how long a nearby home that is for sale remains unsold.

The greatest weakness by far continues to be in the labor market. However, some portions of the labor market are stronger than others. Consider that labor demand, in terms of **Help Wanted Advertising** continues to be extremely weak. This indicator has fallen at a greater-than-20-percent annual rate for all but one month over the last year. As a result, the number of persons with continuing UI claims rose significantly (+11.7% compared to last May), and the number of **Benefit Exhaustions** rose at a 42.4 percent rate in May. While the existence of extended benefit entitlement is affecting both of these indicators, there is reason to believe that they would have risen even without such added entitlement. How much, though, is difficult to ascertain. Ironically, in spite of such weak labor demand, the flow of persons into unemployment continues to slow. **New Claims for Unemployment Insurance**, the most timely measure of first-time layoffs available, fell at a 6 percent rate in May. Even the number of persons experiencing "repeat" jobless spells declined in May: additional UI claims fell by 13.8 percent, their third consecutive double-digit decline. While Rhode Island's **Labor Force** grew by 0.5% compared to last May, its **Unemployment Rate** remained unchanged at 4.7 percent, well below the national rate once again, but as has been true traditionally, the highest jobless rate of any New England state.

Overall job growth (payroll employment) was a surprising 1.2 percent in May. The largest portion of these job gains occurred in **Miscellaneous Service Employment**, which rose at a hefty 3.9 percent annual rate. The basis for this gain was greater employment in the categories "Health Services" and "Other Services" which more than offset job loss in Business Services (which includes "temps"). **Miscellaneous Service Employment** has been the best-performing job category for some time now, rising at 2.3 percent or greater annual rates for the last year. **Government Employment** fell (on a seasonally adjusted basis) by 0.8 percent in May for only its second decline since last August. And, it has become more evident that construction employment, which is related to the "hot" housing market here, is continuing its downward trend — it has now declined for six of the last seven months. New home construction for May, in terms of **Single-Unit Permits**, fell by 4.6 percent, its first decline since October of last year. While existing home sales remain high by historical standards, new home construction remains fairly weak. The May value was a 2,138 annual rate, well below the high values over the past several years.

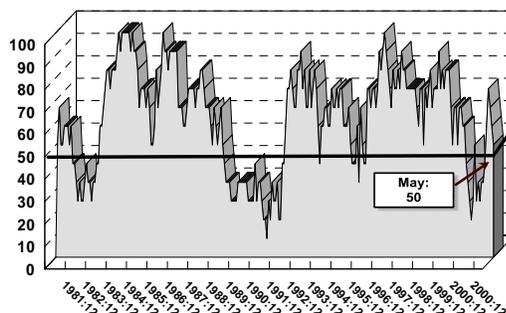
Rhode Island's manufacturing sector continued to experience weakness in May, as **Manufacturing Man-hours** fell at a 4.3 percent annual rate. Most of this was concentrated in durable goods production. The good news is that this is a far slower rate of decline than those we witnessed over the past year, when declines at times reached as high as 7.3 percent (in March of this year). **Manufacturing Wage** growth has also slowed of late, falling to 0.9 percent in May. For May, the average hourly wage in Manufacturing for Rhode Island was \$12.29 — which is comparable to the levels experienced nationally back around 1995.

The fact that the CCI has fallen back to its neutral value does not indicate the Rhode Island is either in a recession or that a recession is imminent. Instead, the slowing of the CCI should be viewed as a vivid reminder of the fact that we are in the early stages of a slow and uneven recovery. Significant improvements in the overall pace of economic activity in Rhode Island are not likely to occur for some time. So, as far as our current economic "acceleration" is concerned, this stage of the recovery is guaranteed not to cause whiplash.

CCI Indicators - % Change	
Government	-0.8
US Consumer Sentiment	5.2 Y
Single-Unit Permits	-4.6
Retail Sales	5.9 Y
Help Wanted	-25.5
Misc. Service Employ	3.9 Y
Man-Hours Manuf	-4.3
Manufacturing Wage	0.9 Y
Labor Force	0.5 Y
Benefit Exhaustions	42.4
New Claims	-6.0 Y
Unemployment Rate	0.0
Y = Improved Value	

	2002	2001
JAN	58	42
FEB	75	33
MAR	67	25
APR	58	17
MAY	50	25
JUN		50
JUL		25
AUG		33
SEP		25
OCT		33
NOV		33
DEC		42

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*Revised