

# CURRENT CONDITIONS INDEX

LEONARD LARDARO, URI

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Rhode Island's economic outlook in May is similar to that from April: the current tepid recovery is continuing, although signs of a loss of momentum have become more readily apparent. The good news is that Rhode Island is still in the recovery that began in February of 2010, which as of May reached its 27<sup>th</sup> month. The concerning news is that like the US, our rate of improvement has slowed.

In discussing this, I am not referring to the questionable "official" labor market data currently being released by the DLT. According to those figures, payroll employment here has now either declined or remained unchanged on a year-over-year basis for ten consecutive months. I challenge anyone who chooses to believe those numbers to reach any conclusion other than that Rhode Island has already entered a double-dip recession. In fact, even the DLT has admitted publicly that a number of those published year-over-year employment declines never occurred — they will be eliminated when the data are revised in coming months.

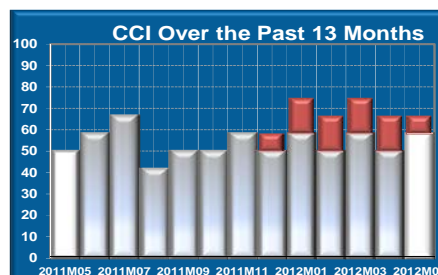
Fortunately, if we focus on more accurate data and the Current Conditions Index, which is a broadly based index, it is clear that some of the momentum we witnessed as 2011 ended and we

On a year-over-year basis, four of the five non-survey-based CCI indicators improved. Only three of the five showed improvement on a monthly basis, though. **Retail Sales** surged by 9.9 percent compared to last May, its ninth consecutive improvement. To some extent this is weather related. The skilled Rhode Islanders we rent out to neighboring states who bring their income home with them also directly impacts this indicator. Overall, such substantial **Retail Sales** momentum argues against making any recession call. Along with this, **US Consumer Sentiment** rose once again, by 6.1 percent. New home construction, based on **Single-Unit Permits**, remained highly volatile, rising by 15.5 percent relative to last year. While some of the recent improvement is weather related, based on anecdotal evidence, a number of factors that suggest this indicator may well be about to trend higher. **New Claims** for Unemployment Insurance, a leading labor market indicator that reflects layoffs, rose by 8.6 percent, ending a string of five improvements in the last six months. Should layoffs now begin to trend higher, this will no doubt challenge the viability of this recovery. Finally, **Benefit Exhaustions**, which reflect of long-term unemployment, dropped by 26.6 percent, remaining in a downtrend.

In spite of "official" labor market data, my models say that Rhode Island's **Unemployment Rate** remained at 10.7 percent in May, while our state's **Labor Force** continued its decline. Our state's manufacturing sector did well, as **Total Manufacturing Hours** improved and the **Manufacturing Wage** "slowed" to only a 17.3 percent annual rate of growth, based on "official" data.

CCI Indicators - % Change	
Government Employment	-1.0
US Consumer Sentiment	6.1 Y
Single-Unit Permits	15.5 Y
Retail Sales	9.9 Y
Employment Services Jobs	-7.3
Priv. Serv-Prod Employment	-1.0
Total Manufacturing Hours	2.3 Y
Manufacturing Wage	17.3 Y
Labor Force	-1.2
Benefit Exhaustions	-26.6 Y
New Claims	8.6
Unemployment Rate (change)	-0.3 Y
Y = Improved Value	

moved into 2012 has begun to fade. While the pace of economic activity here isn't all that great, my econometric models show that payroll employment has slowed to an annual growth rate of around 0.3 percent. The Current Conditions Index for May, based on the "official" data, shows a reading of 58, once again in the expansion range. *The other displayed value, 67, is the likely value when the "official" data are eventually revised.* Based on those alternate values, the CCI has now moved from values around 75 down to 67. As I have noted for several months now, it is the *persistence* of these expansion range CCI values that matters the most for now.



DLT May Employment (SA, Y/Y)	
Gain	1,900?
Loss	5,600?
Net Chg	-3,700?

## THE BOTTOM LINE

I keep hearing many of our state's leaders say things like "When the recession is over ..." and "When things turn around ..." These persons are badly out of touch with our state's economic reality. Rhode Island is in a recovery and has been so since February of 2010. Things have already turned around — this is it! They need to acknowledge the sad reality that we're more likely to continue slowing from here, not magically get better. This would be a very good time for them to finally begin implementing needed changes.

58/ 67		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2011	50	67	67	58	50	58	67	42	50	50	58	50/ 58
	2012	58/ 75	50/ 67	58/ 75	50/ 75	58/ 67							