

CURRENT CONDITIONS INDEX

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Rhode Island's economy performed fairly well during the first two months of 2016. Since then, it has underperformed even the moderate-at-best year of 2015. The Current Conditions Index for May "improved" somewhat, moving from 42 in April, a contraction value, back to its neutral value of 50. While the Verizon strike negatively impacted the April value to some extent, ironically, the new data showed that **Single-Unit Permits** actually failed to improve in April (viewed as a negative), offsetting the strike-related impact on **New Claims**. So, for the most recent three months, the CCI has failed to exceed its neutral value - a troubling trend, to state it mildly. Put all of this into context, at present, we find ourselves increasingly unable to sustain even what has to be viewed as the rather modest pace of economic activity last year. Should this slowing continue, we might ironically come to view 2015 as a "strong" year. I guess everything really is relative!

That Rhode Island's economy is slowing should come as no surprise, given that the US economy has also been faltering somewhat over the past few months. However, the word "faltering" means very different things for the US and Rhode Island. The US economy is still growing, albeit below its long-term trend. For Rhode Island, the recent values of the Current

Manufacturing Hours, a proxy for manufacturing output, to rise slightly for only its third increase in over a year. Along with this, **New Claims**, a leading labor market indicator that reflects layoffs, rose (+3%) in May, although it had a difficult comp a year ago. Finally, **Retail Sales**, the CCI's star performer for several years, declined by 5.4 percent in May, its worst performance in over a year. It has now declined for four of the past five months.

Overall, three of the five leading indicators contained in the CCI improved in May. Two of those had fairly easy comps from a year ago. Of the remaining leading indicators, **Single-Unit Permits** rose sharply (+19.4%) coming off a decline of 15 percent in 2015, although its level remained below 1,000 annual units. **US Consumer Sentiment** rose by 4.8 percent in May, ending a string of five consecutive declines.

Even with this moderating performance of the key cyclical indicators I have been focusing on of late, issues remained with several other indicators. Our state's **Labor Force** continues to decrease. May's decline of 0.7 percent was its *twenty-fourth* year-over-year decline. As a result, Rhode Island's **Unemployment Rate** continues to fall largely for all the wrong reasons.

One pleasant surprise this month was another increase in the **Manufacturing Wage**, which grew by 2.6 percent versus last May, only its third increase in a very long time. **Private Service-Producing Employment**, an indicator whose growth rate had accelerated of late, actually decreased in May (-0.1%). **Government Employment** fell yet again, by 0.8 percent in May, but remained at 60,000. Finally, **Benefit Exhaustions**, which reflects longer-term unemployment, fell by 2 percent, its slowest rate of improvement in several years.

CCI Indicators - % Change	
Government Employment	-0.8
US Consumer Sentiment	4.8 Y
Single-Unit Permits	19.4 Y
Retail Sales	-5.4
Employment Services Jobs	-8.8
Priv. Serv-Prod Employment	-0.1
Total Manufacturing Hours	0.7 Y
Manufacturing Wage	2.6 Y
Labor Force	-0.7
Benefit Exhaustions	-2.0 Y
New Claims	3.0
Unemployment Rate (change)	-0.7 Y
Y = Improved Value	

Conditions Index indicate that we have shifted gears, so to speak. If there are five gears, Rhode Island finds itself downshifting from third potentially into second gear. The transition (clutching), of course, is the string of neutral values (equal to 50).

The good news, if there is any, is that the pronounced deterioration in the performances of several key indicators that is consistent with declining cyclical momentum appears to have moderated a bit in May. The question remains: Has our state's cyclical momentum disappeared?

Employment Service Jobs, which includes temporary employment and is a prerequisite to employment growth, fell by a hefty 8.8 percent in May, its third consecutive decline. Manufacturing employment rose (albeit barely), which was enough to offset the effect of a declining workweek, allowing **Total**



DLT MAY Employment (SA,Y/Y)	
Gain	3,900
Loss	2,800
Net Chg	1,100

And THE BOTTOM LINE

Rhode Island's economic performance continues to be concerning, as the Current Conditions Index has now failed to move into its expanding range (above 50) for three consecutive months. As national growth moderates, Rhode Island is slowing more than the US, once again displaying our asymmetry with national growth: we respond instantly to national weakness but far less so to increasing national growth. Should our recent weakness continue, we will begin to increasingly experience the ill effects of our state's elected officials doing virtually nothing until very recently. It is imperative at this point that we both continue and accelerate these structural changes.

50		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2015	67↑	67↑	67	67↑	67	67↓	58↓	75↓	67↓	50↓	67↓	50↓
	2016	58	67	50↓	42	50							