

CURRENT CONDITIONS INDEX

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May provided further evidence consistent with the likelihood that Rhode Island has entered the early stages of a recovery from the pandemic, which unlike recessions that are cyclical in nature, was literally a forced shutting down of our state's economy. This recovery, or perhaps restoration, has already shown itself to be vastly different from the ways we typically emerge from recessions, as we not only have monetary policy helping us move forward, but massive amounts of fiscal stimulus as well which in total should help us sustain our current momentum. Hopefully, this will translate into a somewhat truncated **LO** (from **FILO**), but that is not at all certain at this point.

For the second consecutive month, the Current Conditions Index exceeded its neutral value of 50, rising from 75 in April all the way to 92 in May, as all but one indicator improved — ironically **Government Employment** (-1.9%). Not surprisingly, these two expansion levels occurred relative to year-earlier CCI levels of 8, which translated into extremely easy "comps." For a host of the May CCI indicators, they were compared to prior declines of 20 percent or more. As I noted last month, our state's economy had fallen so far a year ago, it was virtually impossible for it to decline much further, which is how recoveries typically start.

In spite of this, a number of indicators have moved well beyond the depths they reached last year, which by itself is encouraging. But as these aggregate values (hopefully) continue to improve in coming months, we will not be returning to "normal," as it existed prior to the pandemic. There will be a new normal, in some ways better and other ways not as desirable as where we had been. The loss of many small businesses, structural changes in the way firms produce their goods and services (more automation), worker attitudes and a host of other factors lie ahead for us. So, as we move toward where we were *statistically*, gaps in what

| CCI Indicators - % Change | |
|----------------------------|---------|
| Government Employment | -1.9 |
| US Consumer Sentiment | 14.8 Y |
| Single-Unit Permits | 41.3 Y |
| Retail Sales | 3.7 Y |
| Employment Services Jobs | 26.7 Y |
| Priv. Serv-Prod Employment | 15.5 Y |
| Total Manufacturing Hours | 22.5 Y |
| Manufacturing Wage | 4.6 Y |
| Labor Force | 3.3 Y |
| Benefit Exhaustions | -14.1 Y |
| New Claims | -49.2 Y |
| Unemployment Rate (change) | -7.1 Y |

Y = Improved Value

exists or how things are done will remain. *Aggregate numbers tend to conceal important compositional changes.*

At any rate, several of the May statistics were stunning. Job gains (see right table) are now vastly larger than losses, as we restored 55,700 jobs in May relative to a loss of only 1,700 compared to last May. Rhode Island's manufacturing sector turned in an extraordinary performance, as both the manufacturing workweek and weekly hours rose sharply, producing a 22.5 percent improvement in **Total Manufacturing Hours**, moving it above its value in February of 2020 when the pandemic hit.

As is always the case, when an economy improves, not everything

performs as well as the overall "number" would appear to indicate. **Retail Sales**, which has been our star indicator throughout the pandemic, improved at a far slower rate than other indicators (+3.7), falling from its recent peak during the pandemic and beginning to weaken in terms of monthly changes. Ditto for our state's **Labor Force**, which has begun to decrease on a monthly basis for several months, remaining well below where it had been during the pandemic. This, of course, is somewhat good news for Rhode Island, as a weakening **Labor Force** has always been a key ingredient in reducing our state's **Unemployment Rate**. Because of this, recent reductions in our state's **Unemployment Rate** should be viewed suspiciously, although for far too many people in this state are naive enough to believe it is THE single indicator of our economic performance.

This brings us to the performance of the *Monthly* CCI, which after posting a series of expansion values, fell to 42 in May, a contraction value as only five of its twelve indicators improved. Clearly, this is only a contraction value for a single month, and it must be viewed cautiously. IF this pattern were to persist, it would raise the possibility of an uneven overall recovery, as momentum improves then moderates. This is the pattern I expect to occur, as Rhode Island's elected officials have done virtually nothing to improve our business climate (we are now 46 out of 50 on the CNBC survey).

To summarize: From all appearances, Rhode Island's economy is continuing to move toward a period of consistent but uneven expansion and with that the end (statistically at least) of the pandemic-induced recession.

| CCI Indicators - Monthly % Change | |
|-----------------------------------|--------|
| Government Employment | -0.5 |
| US Consumer Sentiment | -5.7 |
| Single-Unit Permits | -28.5 |
| Retail Sales | -20.5 |
| Employment Services Jobs | 2.1 Y |
| Priv. Serv-Prod Employment | 1.0 Y |
| Total Manufacturing Hours | 1.9 Y |
| Manufacturing Wage | 1.3 Y |
| Labor Force | -0.3 |
| Benefit Exhaustions | 7.1 |
| New Claims | 94.9 |
| Unemployment Rate (change) | -0.5 Y |

Y = Improved Value

| LABOR FORCE: | MAY 2021 | Peak (1/2007) |
|--------------------|----------|---------------|
| Participation Rate | 62.3% | 68.6% |
| Employment Rate | 58.7% | 65.4% |



| JOB CHURN DLT MAY 2021 (SA, Y/Y) | |
|--|--------|
| Gain | 55,700 |
| Loss | 1,700 |
| Net Chg | 54,000 |

| 92 | | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|----|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
| | 2020 | 67↓ | 67↓ | 25↓ | 8 | 8 | 25 | 17↓ | 25 | 17↓ | 17 | 25 | 25 |
| | 2021 | 25 | 17 | 42 | 75 | 92 | | | | | | | |