

CURRENT CONDITIONS INDEX

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Rhode Island's economy is now at a point where it is difficult to avoid discussing whether or not it is in a recession. All of this began with the release of the updated labor market data which was, to put it kindly, horrendous. What became readily apparent was that the labor market's actual behavior was far less strong than what we had come to believe. And this pertained to both labor market surveys.

My Current Conditions Index reflected this as it shows a well-defined *downward* trajectory since late summer of last year, moving to a neutral value of 50 in December than settling into contraction territory for all but one month of 2023. May was no exception, as the CCI remained at 33 with only four of twelve indicators improving relative to a year ago and only one of its five leading indicators improving. Worse yet, the CCI has now failed to exceed its year-earlier value for nine consecutive months.

Looking at various economic variables, *both* employment measures are falling relative to a year ago (chart next page), the performances of both pandemic period "star" performers in the CCI, **Retail Sales** and **Total Manufacturing Hours**, have

CCI Indicators - % Change	
Government Employment	2.7 Y
US Consumer Sentiment	1.5 Y
Single-Unit Permits	-24.2
Retail Sales	1.0 Y
Employment Services Jobs	-13.5
Priv. Serv-Prod Employment	-2.1
Total Manufacturing Hours	-3.0
Manufacturing Wage	1.5 Y
Labor Force	-0.8
Benefit Exhaustions	47.4
New Claims	1.4
Unemployment Rate (change)	0.0
Y = Improved Value	

deteriorated noticeably. **Employment Services Jobs**, reflective of "temps" is now in a downtrend, **New Claims**, which shows layoffs, has moved to an *uptrend*, our **Labor Force** is now declining yearly, **Single-Unit Permits**, or new home construction, is in

a double-digit downtrend, and the list goes on and on.

The difficulty I face in making a recession assessment is the fact that unlike any previous time where our state's economy has slowed like this, there are significant parts of our economy that are far stronger than they have historically been at this point. Why? Massive monetary and fiscal stimulus nationally, over a billion dollars received by our state's government which helped produce budget surpluses, capital gains by individuals, and savings accumulated during the pandemic lockdown. So, individuals and companies overall are in a much stronger position than would normally be the case at this point.

What is the effect of this? It causes aggregate economic data, which show the behavior of variables *on average*, to be misleading, as there is greater-than-normal variability in those same variables. So, while in the aggregate some variables show weakness or declines, parts of what make up those same variables (ex: sales at retail stores) continue to do quite well.

Segments of Rhode Island's economy, those impacted by the higher end of the income spectrum, continue to do quite well. However, the same is becoming increasingly less true for average to below-average income Rhode Islanders.

I conclude that while Rhode Island's economy has clearly weakened overall, *based on aggregate numbers*, we have not declined to the extent we would have if we were approaching "typical" recession. But, you might ask, how could we even think that Rhode Island is possibly in or near a recession with such a low **Unemployment Rate**? That's easy. Rhode Island's official **Unemployment Rate** is virtually meaningless as an indicator of the strength of our economy. A far preferable measure, my **Participation-Adjusted Unemployment Rate**, remains above 5 percent, as the long-run downtrend in labor force participation that began here in December of 2006 does not downwardly bias its value.

So, to accurately characterize Rhode Island's current economic condition, I find it necessary to invent a new term, as I have done so many times in the past (like FILO). I do *not* believe Rhode Island is in a recession similar to those of the past. I view our current climate as Rhode Island being in a **STATISTICAL RECESSION**. It is quite possible that we might bounce back and forth into and out of this economic state, since at this point, the strength from the earlier mentioned factors has yet to disappear. When conditions return to their typical state, we will see whether or not we have in fact dodged a typical recession. However, looking at a broad range of economic indicators for Rhode Island, I see relatively few areas of strength in the *aggregate data*. According to one definition of a recession (this was designed for the national economy), Sahm's Recession Indicator, Rhode Island is in a recession (see page 3).

Sadly, Rhode Island's current economic performance is entirely consistent with our state's history of the **FI** portion of **FILO**: When the national economy slows, Rhode Island's economy goes down faster and farther. Apparently what we are witnessing is an evolution of **FILO**.

LABOR FORCE:	MAY 2023	Peak (1/2007)
Participation Rate	63.1%	68.5%
Part Adj Unem %	5.4%	
Employment Rate	61.2%	65.1%

CCI Over the Past 13 Months	
2022M05	2023M05

JOB CHURN	
DLT MAY 2023 (SA,Y/Y)	
Gain	2,800
Loss	4,900
Net Chg	-2,100

33		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2022	83↑	75	67↓	75↑	75↑	67	75	83↓	83↓	67↓	58↓	50↓
	2023	42↑	58	42	33	33							

May Labor Force Results (Repeated from last month)



Len Lardaro @ladardo · 4h

RI's May Unemployment Rate is the same as it was a year ago (3.0%). Only in RI: Resident Employment fell by 4,100 yet we have an unchanged jobless rate! You can thank our declining labor force. Our elected officials hide behind this rate knowing nobody looks at employment!

Labor Force - Unemployment Data

RHODE ISLAND

Seasonally Adjusted
(in thousands)

	May 2023	Apr 2023	May 2022	Year-Over Year Change
Civilian Labor Force	568.4	566.7	572.7	-4.300
Resident Employment	551.6	549.7	555.7	-4.100
Unemployment	16.8	17.0	17.0	-0.200
Seasonally Adjusted Rate	3.0%	3.0%	3.0%	

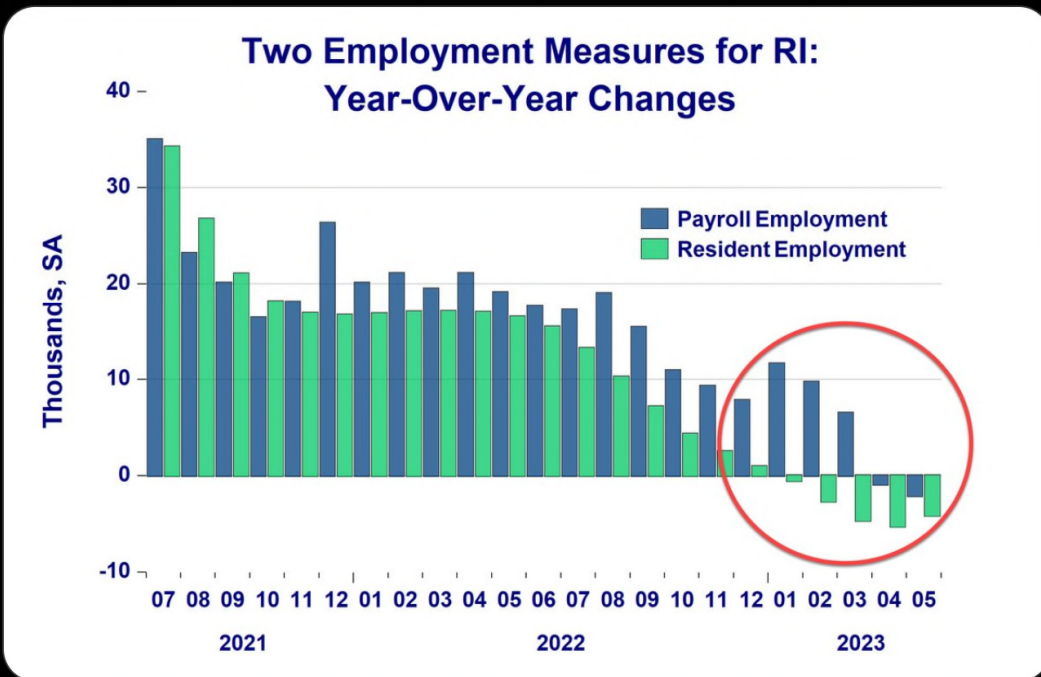
SOURCE: Rhode Island Department of Labor and Training

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Len Lardaro @ladardo · 3h

Only in Rhode Island: A sustained unemployment rate of around 3% when both employment measures are declining relative to a year ago.



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One way to test for a recession (condition adapted from the national economy)

One definition of when a recession occurs is Sahm's Rule:

Sahm Recession Indicator signals the start of a recession when the three-month moving average of the national unemployment rate (U3) rises by 0.50 percentage points or more relative to its low during the previous 12 months.
(Source: Wikipedia)

For Rhode Island, I tested to see if this condition is satisfied using the participation-adjusted unemployment rate I publish each month.

The 3-month moving average of the participation-adjusted rate has risen more than 0.5 percentage points from its low over the last twelve months (June of 2022).

Applying this to Rhode Island (it is actually designed for the US economy), Sahm's indicator would indicate that Rhode Island is in a recession.

	Participation-Adjusted Rate	
	3-Month Moving Average	Difference Jun-22
Jan-22	6.02	
Feb-22	5.66	
Mar-22	5.29	
Apr-22	4.95	
May-22	4.71	
Jun-22	4.59	---
Jul-22	4.66	0.07
Aug-22	4.91	0.31
Sep-22	5.26	0.67
Oct-22	5.61	1.01
Nov-22	5.84	1.24
Dec-22	5.93	1.34
Jan-23	5.91	1.31
Feb-23	5.88	1.28
Mar-23	5.86	1.27
Apr-23	5.82	1.23
May-23	5.67	1.08

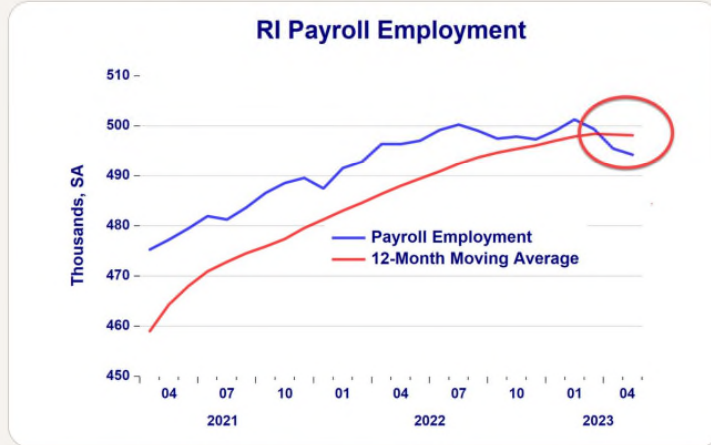
Minimum of past 12 months





Len Lardaro @ladardo · 14h

2/ The employment data for RI are giving somewhat of a mixed picture. Payroll employment (# of RI jobs) has now fallen below its 12-month moving average -- a very bad sign, and has fallen on a monthly basis every month since February.

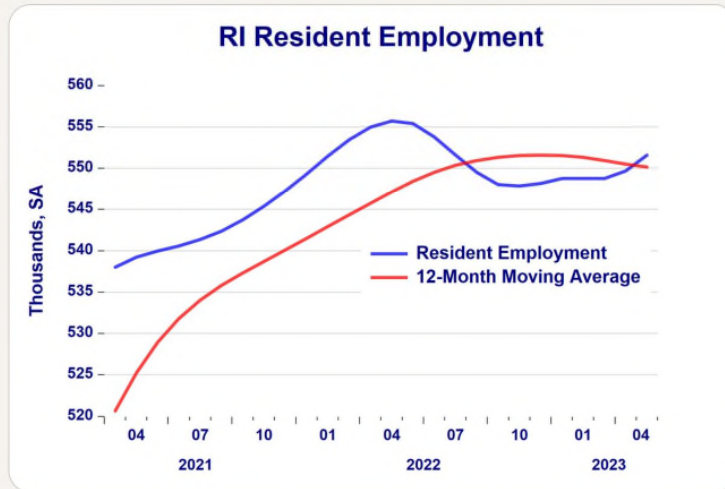


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3/ RI Resident employment (# of employed RI residents, either in-state or out-of-state) had been doing badly but has begun to improve, now moving above its 12-month moving average (but falling year-over-year for two months).



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