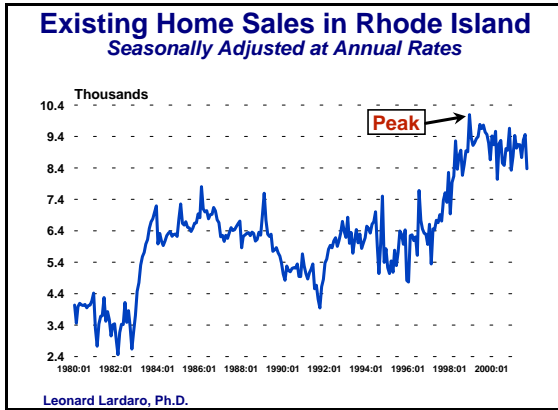


Since we are currently two years past the most recent peak in existing home sales for Rhode Island (see graph below) and the current trend in sales is horizontal to downward, the opposite of its spectacular run during the mid-1990s, the Rhode Island Statewide Multiple Listing Service has decided that it will no



longer release its monthly sales figures. After long discussions with the current leaders of that group it was readily apparent that they view the current trend in monthly sales as giving a misleading picture of the strength of the housing market in this state. While I totally disagree with this reasoning, especially since the quarterly figures they will continue to release (for now at least) also reflect the same pattern as the monthly data, unfortunately, their data is proprietary. So, effective with publication of the October 2001 Current Conditions Index release, existing home sales will no longer be used as one of the twelve CCI indicators.

Existing home sales has been replaced by the University of Michigan Consumer Confidence Index. The new CCI values differ slightly from those based on the original set of indicators, but not by much. Fortunately, the overall pattern of the CCI and its behavior as an indicator of the current state of Rhode Island's economy has remained in tact. The table of historical values on this release has been corrected to provide CCI values that correspond to the new set of indicators. The tables on my Internet site will also be updated accordingly.

Leonard Lardaro
December 2001

Current Conditions Index

LEONARD LARDARO URI

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

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Monthly Highlights

NATIONAL RANK:

Job Growth: #13

Labor Force

Growth: #39

JI Index: #13

	2001	2000
JAN	67	83
FEB	50	83
MAR	42	83
APR	25	58
MAY	42	33
JUN	33	50
JUL	33	50
AUG	33	42
SEP	25	67
OCT	42	58
NOV		67
DEC		67

*Revised

LABOR MARKET:
Jobs Created: 6,000
Jobs Lost: 3,800

Rhode Island's recession continues, now in its eighth month. The CCI for October was 42, higher than September and the largest value since May. Only 5 of the 12 indicators improved in October — two of those just barely. As has been true for some time, **Miscellaneous Service Employment** is the only indicator that has been continually improving. Rhode Island's primary economic momentum is now being derived from the sectors that are sensitive to the ongoing effects of monetary easing and declining gasoline prices: housing and retail trade.

CCI Indicators - % Change	
Government	1.6 Y
US Consumer Confid	-21.7
Single-Unit Permits	0.2 Y
Retail Sales	10.2 Y
Help Wanted	-35.1
Misc. Service Employ	1.1 Y
Man-Hours Manuf	-6.3
Manufacturing Wage	-0.0
Labor Force	0.2 Y
Benefit Exhaustions	37.3
New Claims	27.1
Unemployment Rate	10.8

Y = Improved Value

Single-Unit Permits, which reflect new home construction, rose by a modest 0.2 percent in October, its fifth increase in the last six months. Along with this, construction employment once again rose sharply, at an 8.5 percent annual rate. **Retail Sales** remained well above a \$10 billion annual rate, rising by a hefty 10.2 percent in October. This is noteworthy since **Consumer Confidence** declined at a double-digit rate on a year-over-year basis in October. It was, however, higher than September's atypical value that resulted from the terrorist attacks.

Now for the continuing bad news. Layoffs, job loss, and weak labor demand continue to worsen. In October, **New Claims for Unemployment Insurance**, which reflect layoffs, rose at a stunning 27.1 percent compared to last October. **Help Wanted Advertising**, an indicator of labor demand, fell by 35 percent. This indicator has now fallen at double-digit rates for each of the last ten months. **Benefit Exhaustions**, a measure of the flow of persons into long-term unemployment, rose by 37.3 percent in October, doubling September's rate of growth. Even medium-term unemployment, as measured by Additional UI Claims, shot up in October, rising by 34.6 percent, as ever-increasing numbers of previously re-employed persons continue to find themselves forced into "repeat" jobless spells. **Manufacturing Man-hours** fell at a 6.3 percent annual rate, their highest rate of decline since June of 1999, while the **Manufacturing**

Wage remained unchanged. While both of these indicators reflect the ongoing national recession in manufacturing, what I find potentially disturbing is the possibility that the present data on Rhode Island's manufacturing sector is *overstating* both manufacturing employment and wage growth, and that revisions will make these numbers even worse.

My data worries also extend to the *published Unemployment Rate*. According to the data, the October rate was slightly higher than in September, 4.1 percent versus 3.9 percent, even with a slightly rising **Labor Force**. I continue to believe these rates are *understated* at present based on my own econometric estimates that place September's rate at 4.5 percent and October's rate at 4.6 percent. I find it hard to believe that as the national rate has been rising since July, layoffs here have accelerated dramatically, and job growth has slowed, that our jobless rate would fall from 5.3 percent in July and remain as low as 4.1 percent in October. While it is true that the unemployment rate is a lagging indicator, this low a jobless rate implies that Rhode Island presently finds itself in the midst of a full employment recession! I expect the manufacturing data to be revised *down* when the February revisions are released, and the most recent two jobless rates to be revised higher.

Rhode Island's economy has not "fallen over the edge" or anything even remotely approaching that up to this point. While the CCI did rise a bit in October, any expectation that this is a signal that we have reached the recession trough is clearly premature. Rhode Island's economic performance continues to be weaker than the CCI's monthly value appears to indicate.

This recession will very likely extend into the first half of 2003 based on the destabilizing effects of past legislation: Rhode Island's "ticking time bomb" — Unemployment Insurance "reforms." When the UI Trust Fund is drawn down sufficiently, likely the end of 2002 or early 2003, the taxable wage base for employees (that the UI tax rates are applied to) will increase, raising the cost of labor to Rhode Island employers, intensifying (or renewing) layoffs. At best this will prolonging the current recession. At worst, it will prematurely end the next recovery during its early months.

Current Conditions Index

