# Current Conditions Index

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**Also available on my web site: http://members.cox.net/lardaro/current.htm**

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**67**

| | 2002 | 2001 |
|---|---|---|
| JAN | 58 | 42 |
| FEB | 75 | 33 |
| MAR | 67 | 25 |
| APR | 58 | 17 |
| MAY | 42 | 25 |
| JUN | 33 | 50 |
| JUL | 50 | 25 |
| AUG | 50 | 33 |
| SEP | 58 | 25 |
| OCT | 67 | 33 |
| NOV | | 33 |
| DEC | | 42 |

# Monthly Highlights

The fourth quarter began on a positive note, as the Current Conditions Index gained strength, rising to 67. Over the past four months, the CCI has displayed an upward trend after falling into the contraction (below-50) range for both May and June. September's CCI was 58, once again in the "expanding" range, and in October, eight of the twelve indicators improved, several with strong performances. Yet pockets of weakness continue to exist in a slow and uneven recovery. It is safe to say that Rhode Island has not entered into a "double-dip" recession.

Even though mortgage rates have moved past their bottom, and the housing market has lost some of its momentum, as existing home sales move horizontally or more slowly upward, **Single-Unit Permits**, the CCI indicator of new home construction, rose by 5.3% in October, its third consecutive year-over-year increase. Rates of growth have been accelerating. What makes this even more impressive is the fact that at present there are more large, expensive homes under construction, which tends to reduce the number of homes that can be built (and that contractors will start) in a given time frame. It is important to keep in mind that both existing home sales and new home construction are related to retail sales — moderation in housing activity will predictably cause some slowing in the pace of **Retail Sales** at some point.

**Retail Sales** growth has slowed of late, but from amazing rates to very good rates. Overall, **Retail Sales** has exceeded just about anyone's expectations this year. It resumed its recent growth momentum, rising by 3.4 percent in October. Not only does its level remain high (above an $11 billion annual rate), but since May, its *rate of growth* has fallen below 3 percent only once, in September. The amazing growth rates are worth noting. **Retail Sales** posted annual growth rates of 5.9% in May, 6.2% in June, 7.1% in July, and 8.8% in August. While September's growth fell to 1.7%, growth rebounded to 3.4 percent in October. While some might worry about the performance of this indicator on a *sequential*, or month-to-month basis, October's performance ended a string of two consecutive month-to-month declines. And, while some worry that Christmas shopping this year will be a disaster, I predict neither a horrible Christmas shopping season (I predict sales to be inflation + 1%), nor an imminent collapse of **Retail Sales** in Rhode Island.

| CCI Indicators - % Change | | |
|---|---|---|
| Government | 1.2 | Y |
| US Consumer Sentiment | -2.5 | |
| Single-Unit Permits | 5.3 | Y |
| Retail Sales | 3.4 | Y |
| Help Wanted | -16.2 | |
| Misc. Service Employ | 1.2 | Y |
| Man-Hours Manuf | -2.0 | |
| Manufacturing Wage | 0.3 | Y |
| Labor Force | 1.1 | Y |
| Benefit Exhaustions | -12.3 | Y |
| New Claims | -11.6 | Y |
| Unemployment Rate | 8.3 | |
| Y = Improved Value | | |

There continue to be areas of weakness, mainly labor demand and manufacturing. **Help Wanted Advertising**, an indicator of labor demand, continues to fall at double-digit rates. October's decline was 16.2 percent. Year-to-date, **Help Wanted Advertising** is 21.6 percent below its average for the first ten months of last year. Manufacturing here, like the nation, remains weak. **Manufacturing Man-hours** has fallen every month for the last twenty-one months. October's decline (-2.0%) was not as severe as some recent declines, but year-to-date, this indicator remains 4.3 percent below the first ten months of last year. Manufacturing weakness is concentrated in the durable goods area. Along with manufacturing weakness, growth in the **Manufacturing Wage** has slowed to a barely perceptible gain of 0.3 percent in October. What I find mind boggling is how low Rhode Island's average manufacturing wage is: $12.29 (seasonally adjusted). One would have thought that with the "clearing out" of low-end manufacturing, the average wage would have risen to at least $12.50. Apparently, the impact of industry weakness has more than offset the gains from diminishing the "low end."

Rhode Island's **Unemployment Rate** rose in October to 5.2 percent, continuing an upward trend for the past three months (both sequentially and year-over-year). While it might seem that this indicator belongs in the weakness section above, this is not necessarily the case. Why? Because Rhode Island's **Labor Force** has been rising over this period, indicating that along with new entrants to the **Labor Force**, there are re-entrants as well. Both groups typically come into the **Labor Force** as unemployed, tending to push up the rate. As I noted last month, the **Unemployment Rate** is thus a *lagging* indicator, and increases in this rate during the early stages of a recovery are often a reflection of strength, not weakness. Note that year-to-date, Rhode Island's **Labor Force** has risen 0.8 percent above its value through October of 2001.

Another reason for some optimism on the jobless front concerns Unemployment Insurance recipients. **New Claims**, the most timely measure of layoffs, fell (the desired direction of change) by 11.6 percent in October, reversing six consecutive months of increase. Along with this, the number of **Benefit Exhaustions**, a reflection of long-term unemployment, also fell sharply, by 12.3 percent in October, ending fourteen consecutive months of increase. So, the jobless picture is not as bleak as it might appear, especially considering our Unemployment Rate remains below the national rate.

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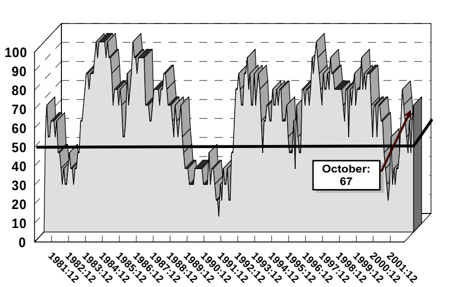


A number of persons appear to be restricting their analysis of Rhode Island's current economic performance to a single indicator, payroll employment, which shows the number of jobs in Rhode Island. Its October value helps to paint an ominous picture — five consecutive months of decline since May. If you believe this economic measure, Rhode Island is now well into the second dip of a "double-dip" recession. Personally, I do not think the current values are accurate, and expect them to be revised upward in February with data rebenchmarking. Why? During the early stages of recoveries, payroll employment often fails to capture self-employment and jobs created by new businesses. The measure that does reflect these, resident employment, has shown a less pessimistic picture — it rose through July then slid only slightly in August. Payroll employment is still rising on a *year-to-year* basis (and +0.6% year-to-date). My best guess is that a large part of the current negative behavior of payroll employment results from the omissions cited above and seasonal adjustment "abnormalities."