

# Current Conditions Index

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## Monthly Highlights

Rhode Island's began the fourth quarter on a welcome high note, as the October Current Conditions Index rose to 75, its highest value since February, ending a four-month period where it was stuck at its neutral value of 50. From June through September, Rhode Island was effectively "dead in the water" as areas of strength were largely negated by areas of weakness. There is now a basis for *cautious optimism* as we move toward the end of this year. The recent "soft patch" has apparently ended, even though the individual performances of the newly improving indicators were not terribly strong.

The strongest performers in October were those that have been doing well for a while. **Retail Sales** rose by 7.4 percent compared to last October, assisted by another gain in **US Consumer Sentiment** (+2.7%). Clearly, retail momentum here remains strong. **Benefit Exhaustions**, a measure of long-term unemployment, declined by 18.8 percent — *its sixth double-digit decline in the last seven months*. That improvement was aided by a rise in labor demand, as measured by **Help Wanted Advertising**, which rose (+7.1%), its first improvement since May. Along with this, was a surprising increase in **Manufacturing Man-hours**, which rose by 0.1 percent, its first improvement since February.

### CCI Indicators - % Change

<b>Government Employment</b>	0.2 Y
<b>US Consumer Sentiment</b>	2.7 Y
<b>Single-Unit Permits</b>	-44.2
<b>Retail Sales</b>	7.4 Y
<b>Help Wanted Advertising</b>	7.1 Y
<b>Priv. Serv-Prod Employment</b>	1.1 Y
<b>Man-Hours Manufacturing</b>	0.1 Y
<b>Manufacturing Wage</b>	0.5 Y
<b>Labor Force</b>	-1.5
<b>Benefit Exhaustions</b>	-18.8 Y
<b>New Claims</b>	7.4
<b>Unemployment Rate</b>	-10.0 Y

Y = Improved Value

Ironically, as **Manufacturing Man-hours** finally rose, the **Manufacturing Wage** improved again, but at its slowest rate in over a year (+0.5% on a year-over-year basis), returning it once again to a value barely above \$13 (\$13.01 on a seasonally adjusted basis). **Private Service-Producing Employment** growth accelerated slightly to 1.1 percent. This indicator has now moved well beyond its "weak patch" from April through June. Ongoing budget pressures have dampened growth in **Government Employment**, as this rose by 0.2

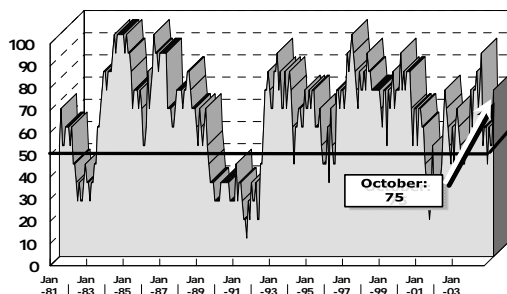
percent in October, only its second increase in the past five months.

October saw several odd indicator performances. The most dramatic of these concerns new home construction, which continued to be highly volatile. **Single-Unit Permits** fell by 44.2 percent on a seasonally adjusted basis compared to last October. Clearly, weather was an important factor in this decline, while local growth restrictions and changing interest rates played relatively minor roles. The "flash point" for interest rates will occur *if and when* mortgage rates rise above 7 percent.

The other unusual indicator performance involves the dramatic string of "improvements" in our **Unemployment Rate**. Compared to July, our jobless rate has fallen dramatically, from 5.8 to 4.5 percent. Accompanying this, our **Labor Force** has continued to decline. Sadly, this large decline in our **Unemployment Rate** cannot be accounted for by substantial increases in either payroll employment or resident employment. Instead, *the change in the Labor Force over this period coincides almost exactly with the fall in the number of unemployed*. Is our Labor Force declining at an alarming rate? No, it is not. What we are observing is a statistical aberration that I expect will be eliminated when the labor market data are revised in February.

While the balance appears to have finally tipped to the positive direction for our state's economy, the performances of the newly added positives are not yet very strong. Ultimately, impetus from the national economy will determine how far above "neutral" our economy will be able to move.

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2003

2004

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2003	42	42	42	50	50	50	75	58	75	75	83	67
2004	75	92	50	58	58	42	58	50	50	75		