

CURRENT CONDITIONS Index

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Life is never dull when gauging the performance of Rhode Island's economy! During the period earlier this year when our state's economy was in the doldrums, I had concluded that its economic performance was better than it looked statistically. I never dreamed that my assessment would prove to be so correct. For October, the Current Conditions Index jumped all the way to 83, as 10 of the 12 CCI indicators improved. While this was the second consecutive month where we have exceeded last year's value, October's CCI value was its largest since July of 2003. For once, all of the indicators that were either close to improving or were in the midst of negative short-term trends appear to have clicked at the same time.

Two indicators failed to improve in October, while a pair that had been weak for quite a while improved. Over the past year, **Government Employment** has been essentially flat, so October's 1.4 percent decline should come as no surprise. Given the budget deficits we are facing, this indicator should remain weak and possibly decline for several years to come. Similarly, **Total Manufacturing Hours** have been falling consistently since 2000, so its October decline of 1.8 percent is

CCI Indicators - % Change

Government Employment	-1.4
US Consumer Sentiment	26.0 Y
Single-Unit Permits	26.3 Y
Retail Sales	2.8 Y
Employment Services Jobs	2.5 Y
Priv. Serv-Prod Employment	0.7 Y
Total Manufacturing Hours	-1.8
Manufacturing Wage	2.4 Y
Labor Force	1.0 Y
Benefit Exhaustions	-11.5 Y
New Claims	-0.4 Y
Unemployment Rate	-2.0 Y

Y = Improved Value

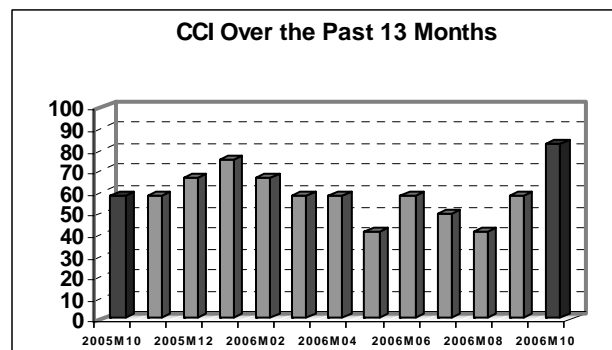
also not surprising. The two pleasant surprises were **Single-Unit Permits**, which reflect new home construction, and **US Consumer Sentiment**. **Single-Unit Permits** rose by 26.3 percent compared to last October, a level almost twice as large as that of September. **US Consumer Sentiment** rose by 26 percent, its second consecutive monthly rise, aided by declining gasoline and energy prices in October.

Two indicators that have shown ongoing strength also continued to improve. **Retail Sales** rose by 2.8 percent in October, sustaining its strong upward trend. Along with

September's rise, **Retail Sales** has shown a great deal of strength during the fall lead up to the holiday season. **Benefit Exhaustions**, which reflects long-term unemployment, continued to improve, falling by a dramatic 11.5 percent in October. This was aided by favorable showings for **Employment Service Jobs**, a labor category that includes "temps," which rose by 2.5 percent in October, and another monthly rise in **Private Service-Producing Employment**, which increased by 0.7 percent. Along with these, there was a slight decline in **New Claims** for Unemployment Insurance, which measures layoffs, its first improvement in three months.

Rhode Island's manufacturing sector continued to generate conflicting signals. The **Manufacturing Wage** rose by 2.4 percent in October, its tenth consecutive increase, and its strongest growth rate in several months. But **Total Manufacturing Hours** fell by 1.8 percent. As I have noted over the past few months, this combination points to the likelihood that labor shortages have begun to emerge that are causing **Manufacturing Wage** growth to accelerate.

Finally, **Labor Force** growth remained well below its rates of growth throughout much of this year, rising by 1.0 percent in October, while our **Unemployment Rate** fell slightly from 5.1 percent last October to 5.0 percent this October.



THE BOTTOM LINE

October's large CCI rise does *not* mean Rhode Island's economy has suddenly gotten much stronger. Instead, growth has accelerated, hopefully to "second gear," which will be a challenge to sustain as the national economy slows and we confront state budget deficits.

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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2005	50	67	50	50	42	75	58	67	42	58	58	67
2006	75	67	58	58	42	58	50	42	58	83		