

CURRENT CONDITIONS INDEX

LEONARD LARDARO, URI

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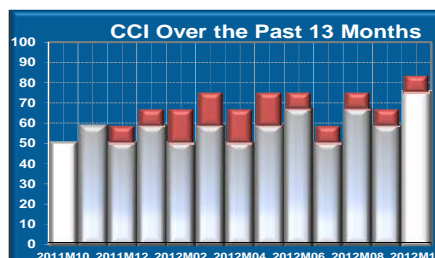
What a great way to begin the fourth quarter! Rhode Island's economic performance in October was its strongest in a long, long time. Even using the flawed "official" labor market data, the Current Conditions Index registered a score of 75. Overlooking the labor data inaccuracies, the more correct score for October is either 83 or quite possibly 92, depending on whether **Employment Services Jobs** actually rose. Even our state's **Labor Force** rose in October (first time since the end of 2010)!

Clearly, Rhode Island's economy shifted into a higher gear in October. This is highly significant for several reasons. First, the pace of activity here had been rather uneven over the past six months, so it had only been possible to conclude that *on average* our economic momentum was being sustained through time, although at times during that stretch one had to wonder. October's strong performance means that it is more likely that we *should* be moving away from the weaker monthly performances of late. This brings me to a second point: I used the word *should* because we have to be careful not to place too much weight on the performance for a single month, and more importantly, our ability to sustain this momentum will largely be determined by the outcome of the fiscal cliff negotiations. Should the US fall over the dreaded cliff *and remain there for some time*, then Rhode Island, like almost every other state, will inevitably be drawn into the abyss of a national recession. I seriously doubt that we will either go over the cliff or if so, remain there for very long. I must

October, (at least) nine of the twelve CCI indicators improved. All five non-survey-based indicators, those that don't suffer from the flaws currently plaguing the "official" labor market data, showed substantial improvement versus one year ago. **Retail Sales** resumed its uptrend in a very impressive fashion, registering a strong 6.4 percent growth rate versus last October, its tenth increase in the past twelve months. Along with this, **US Consumer Sentiment** once again surged by over 30 percent, helped by improvement in the national economy. Layoffs, in terms of **New Claims** for Unemployment Insurance, fell by 9.7 percent in October, its ninth improvement in the last year. On the other end of the spectrum, **Benefit Exhaustions**, reflective of longer-term unemployment, also fell at a double-digit rate (-15.1%), sustaining its downward (improvement) trend. New home construction, based on **Single-Unit Permits**, surged by 27.5 percent in October, providing further evidence that it reached a bottom several months ago. In spite of this, its levels remain subdued, a feature that will likely persist as long as our state's population continues its decline that began in mid-2004.

Finally, our state's manufacturing sector appears to be sustaining strength, if we can believe the data, with **Total Manufacturing Hours** rising by a healthy 3.2 percent, while growth in our **Manufacturing Wage** slowed to "only" 5.6 percent. Contrary to the "official" labor market data, I believe that **Private Service-Producing Employment** actually rose for October, which gives the alternative CCI value of 83. The same might well be true for **Employment Services Jobs**, which would give an upward bound for the October CCI value of 92.

CCI Indicators - % Change	
Government Employment	-1.8
US Consumer Sentiment	36.1 Y
Single-Unit Permits	27.5 Y
Retail Sales	6.4 Y
Employment Services Jobs	-2.3
Priv. Serv-Prod Employment	-0.6
Total Manufacturing Hours	3.2 Y
Manufacturing Wage	5.6 Y
Labor Force	0.1 Y
Benefit Exhaustions	-15.1 Y
New Claims	-9.7 Y
Unemployment Rate (change)	-0.8 Y
Y = Improved Value	



DLT OCT Employment (SA, Y/Y)	
Gain	2,500?
Loss	5,000?
Net Chg	-2,500?

confess, though, that I am not a Child Psychologist. Finally, whatever happens with the fiscal cliff, Rhode Island has both a margin for error (our momentum has been better than we had been led to believe based on the flawed labor market data) and an uptick in momentum as the dreaded deadline approaches. In spite of this, some effects of uncertainty surrounding the fiscal cliff have already begun to adversely affect businesses here, something that makes the October CCI even more significant.

As of October, Rhode Island's recovery was 32 months old. For

THE BOTTOM LINE

Last month I concluded that: "In spite of the uneven pace of overall economic activity here during the past six months, *on average*, reasonably strong momentum has been sustained ... The issue now shifts to which way our momentum will move as we come ever closer to the end of this year ..." For October Rhode Island received a very positive answer — its economy showed its strongest momentum in quite some time. Rhode Island's economy has shifted into a higher gear for now. We now await what the fiscal cliff holds for us.

75/ 83		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2011	50	67	67	58	50	58	67	42	50	50	58	50/ 58
	2012	58/ 75	50/ 67	58/ 75	50/ 75	58/ 67	67/ 75	50/ 58	67/ 75	50/ 58	75/ 83		