

# CURRENT CONDITIONS INDEX

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Rhode Island's economic performance in the third quarter, which I previously characterized as "the un-second quarter," continued as we entered into the fourth quarter. The major disappointment we now know as the second quarter has made way for consistent improvement in our state's momentum since that time. As of July, the Current Conditions Index has risen to values of 67 or higher. For the most recent three months, it has remained at 75, its high of the year thus far. Not only have we effectively erased virtually all of the weakness we experienced earlier this year, we are continuing to see evidence that an acceleration in the pace of our state's economic momentum is occurring. We have now matched or exceeded our year-earlier CCI value for four consecutive months. The acceleration in national growth has been fundamental to Rhode Island moving from its earlier doldrums.

The insight we gained from the second quarter remains, though: When the US economy hiccups, Rhode Island's economy still falters. We apparently have a long way to go before our economy is better insulated from nation economic fluctuations, which should hardly be surprising as we only initiated meaningful reform efforts here a year or two ago. Moving forward, Rhode Island therefore retains its status as the "canary" in the proverbial national economic coal mine, a leading indicator of national economic weakness.

For October, the CCI remained at 75, tied for its highest level this year, as nine of the twelve indicators improved. During this period

| CCI Indicators - % Change  |         |
|----------------------------|---------|
| Government Employment      | 0.2 Y   |
| US Consumer Sentiment      | -3.3    |
| Single-Unit Permits        | -6.1    |
| Retail Sales               | 3.3 Y   |
| Employment Services Jobs   | 2.0 Y   |
| Priv. Serv-Prod Employment | 1.9 Y   |
| Total Manufacturing Hours  | 1.8 Y   |
| Manufacturing Wage         | 6.6 Y   |
| Labor Force                | 0.8 Y   |
| Benefit Exhaustions        | 13.1    |
| New Claims                 | -13.6 Y |
| Unemployment Rate (change) | -0.1 Y  |
| Y = Improved Value         |         |

of accelerating growth there have been two interesting trends. First, after declining on a year-over-year basis for quite a while, **Government Employment** recently began to rise above the level of 60,000 it had been stuck at for some time, largely the result of increasing federal government employment. Second, our **Labor Force** has improved on a year-over-year basis for the most recent three months. What's the big deal? In any other state, such improvement would occur regularly. Not so for Rhode Island, where the **Labor Force** had previously declined on a yearly basis for twenty-six consecutive months, which cast a negative light on our declining **Unemployment Rate** throughout that period.

One of the significant trends for October was accelerating improvement in several of the CCI's leading indicators. Perhaps the most important of these concerns **Employment Service Jobs**, which includes temporary employment and is a prerequisite to employment growth. Its rate of growth rose from 0.1 percent last month to 2 percent in October. **Total Manufacturing Hours**, a proxy for manufacturing output, went from flat last month to an increase of 1.8 percent this month, as the recent declines in the length of the workweek ended. The combination of a longer workweek and rising **Employment Service Jobs** could be signaling the end of the *pattern* of cyclical weakness from Q2. In spite of this, the performance of Rhode Island's goods-producing sector remained mixed as **Single-Unit Permits** fell again in October (-6.1%), even with a very easy comp one year ago. As mortgage rates have now moved above 4 percent and will likely rise further, we might not see improvement in this indicator any time soon.

**New Claims**, the most timely measure of layoffs, fell sharply once again in October (-13.6%), its third improvement in the last four months. **US Consumer Sentiment** declined by 3.3 percent, ending a string of two consecutive improvements. **Retail Sales** rose by 3.3 percent in October (this is my estimate — the RI Dept. of Revenue is now taking longer to release values than it had in the past), its third increase in the past four months. **Private Service-Producing Employment** growth, which had weakened mid year, continued its recent growth acceleration, rising by 1.9 percent in October. **Benefit Exhaustions** failed to improve in October, its first increase in over a year. At this point, it remains valid to say that in spite of this month's value, longer-term unemployment remains contained. Finally, our **Unemployment Rate** fell slightly over both the month and year, to 5.5 percent, quite possibly its trough for this cycle.



| DLT OCT Employment (SA,Y/Y) |       |
|-----------------------------|-------|
| Gain                        | 8,400 |
| Loss                        | 1,800 |
| Net Chg                     | 6,600 |

## THE BOTTOM LINE

As this report is being written, Rhode Island is celebrating the tenth anniversary of its prior payroll employment peak. While we have regained over 90 percent of the total (RI) jobs lost, and private-sector employment has at long last exceeded its prior peak, Rhode Island still isn't close to "being back." Consider resident employment, the number of employed Rhode Islanders: it remains 20,600 below its peak. Our state's employment rate, the percentage of our working-age population that is employed, is currently at only 61.2 percent, versus its peak of 65.4 percent. Much remains to be done. Sadly, economic dissatisfaction here has a genuine basis.

| 75 |      | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec |
|----|------|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|-----|
|    | 2015 | 67↑ | 67↑ | 67  | 67↑ | 67  | 67↓ | 58↓ | 75↓ | 67↓ | 50↓ | 67↓ | 50↓ |
|    | 2016 | 58  | 67  | 50↓ | 42  | 50  | 42  | 67↑ | 75  | 75  | 75  |     |     |