CURRENT CONDITIONS INDEX

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While the third quarter of 2018 was disappointing, the fourth quarter started out in a manner that can only be described as awful. Rhode Island's October economic performance ranks as one of its worst in recent memory. Not only did the Current Conditions Index fall below its neutral value of 50 for the first time since August of 2016, the individual performances of a number of its indicators leave much to be concerned about. Not surprisingly, we failed to exceed the year-earlier CCI value yet again this month. Among the leading indicators contained in the CCI, *none* managed to improve in October. So, the declining trend in CCI values that began in May continued into October. As I noted last month, we are continuing to experience the end of the "sugar high" from prior-year weakness, facing comps that have become increasingly difficult to beat with the inevitable result that our relative economic performance continues to fall to lower values as there are fewer strongly improving indicators.

The good news, and there is a little, is that the CCI trend since the recent May high has not been straight down. The October CCI results pertain to a single month yet continue a disturbing trend. Further confirmation of a true downtrend is still required before we can interpolate longer-term trends. Perhaps the most potentially optimistic note is that historically, labor market values for October through December are those most likely to be altered with rebenchmarking. I'm not so sure we will see that, given that the national economy and those of Europe and Asia are also slowing, and that Rhode Island has richly earned its status as **FILO**. So, the question continues: Are we in the **FI** stage?

CCI Indicators - % Change		
Government Employment	-0.5	
US Consumer Sentiment	-1.9	
Single-Unit Permits	-1.9	
Retail Sales	3.6	Y
Employment Services Jobs	-0.9	
Priv. Serv-Prod Employment	1.3	Y
Total Manufacturing Hours	-0.2	
Manufacturing Wage	-1.8	
Labor Force	0.9	Y
Benefit Exhaustions	-8.3	Y
New Claims	11.3	
Unemployment Rate (change)	-0.7	Y
Y = Improved Value		

No matter how it is viewed, one thing remains clear: Rhode Island's *rate* of growth is continuing to slow. The string of weakening CCI values indicates that the foundation of this recovery is standing on fewer "legs," as our negatives continue to gain relative to our positives.

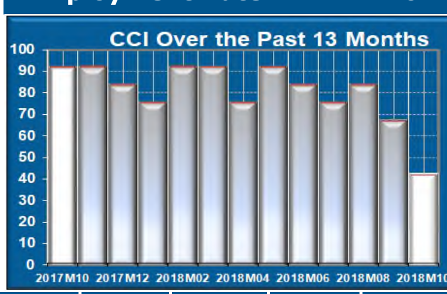
The October Current Conditions Index value is its lowest since August of 2016, 42, *a contraction value*, as only five of its twelve indicators improved relative to a year ago. This was the eighth time this year the CCI has failed to exceed its year-earlier value. Worse yet, though, not one of the five leading indicators contained in the CCI improved this month, although four of the five had difficult comps a year ago.

New Claims, the timeliest measure of layoffs, rose by double digits in October (+11.3%), its third increase in the last five months. Layoffs appear to be in the early stages of what might prove to be an uptrend, a very unwelcome result should it prove to be true. Rhode Island's goods-producing sector's performance was its worst in a while. **Total Manufacturing Hours**, a proxy for manufacturing output, what had been an important part of Rhode Island's recent strength, fell this month (-0.2%). This was its first decline since March, the result of a shorter workweek. The **Manufacturing Wage** fell again in October (-1.8%). **Single-Unit Permits**, which reflect new home construction, continued its recent string of declines (-1.9%), its fifth decline in the last five months. **Employment Service Jobs**, a leading labor market indicator that includes temporary employment, failed to improve for only the second time in four months (-0.9%) after rising both of the prior two months. **US Consumer Sentiment** fell in October (-1.9), challenging its recent uptrend. In light of recent stock market weakness and a strengthening US Dollar, much of the weakness observed with these indicators in October is likely to persist as we move to the end of 2018.

Both of the "left behind" indicators failed to improve in October, as their uptrends that began in January are in question. The labor force participation rate, the percentage of our resident population in the labor force, fell in October (to 64.8 percent). The employment rate, the percentage of the resident population that is employed, has plateaued around 62 percent since May. Sadly, *both remain well below their prior cyclical highs* (see table).

Retail Sales grew again (+3.6%), **Government Employment** fell from its level a year ago for a second consecutive month (-0.5%), **Private Service-Producing Employment** growth slid, while still remaining above one percent (+1.3%), and **Benefit Exhaustions**, the most timely measure of longer-term unemployment, resumed its downtrend in October. The **Unemployment Rate** continued its monthly declines, but so too did our **Labor Force**.

LABOR FORCE:	Oct 2018	Peak (1/2007)
Participation Rate	64.8%	68.6%
Employment Rate	62.3%	65.4%



DLT Oct2018 Employment (SA,Y/Y)	
Gain	7,300
Loss	1,000
Net Chg	6,300

42	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	75↑	83↑	92↑	75↑	83↑	92↑	75↑	92↑	92↑	92↑	92↑	83↑
2018	75	92	75	75↑	92	83	75	83↑	67	42		