

CURRENT CONDITIONS INDEX

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As the fourth quarter begins, Rhode Island's economy appears to have regained some of the momentum it had lost earlier this year. The Current Conditions Index for October was 83, tied for its highest value this year (with July), as ten of the twelve CCI indicators improved. Better yet, the CCI bettered its year-earlier value for only the second time this year, as a number of the improving indicators turned in strong performances.

As I have noted in prior months, it is necessary to look "under the hood" at individual indicators and their underlying trends in order to arrive at a meaningful interpretation of Rhode Island's economic performance. After all, some 83 values are better than others. This month, that worry can be cast aside. October's CCI was a "solid" 83. The question moving forward, for which I have no answer, is whether a frequent pattern in Rhode Island's historical behavior will revisit us: The first month of a quarter shows a strong increase which is then followed by weakening performance for the remaining months of that quarter. I don't believe this is a seasonal adjustment issue, so something else is apparently at work. We can also rule out a similar pattern for the national or Massachusetts economies. We'll just have to wait and see how the remainder of 2019 plays out. At least there is substantial momentum for both the US and Massachusetts economies, although it appears to be weakening somewhat.

CCI Indicators - % Change	
Government Employment	0.2 Y
US Consumer Sentiment	-3.4
Single-Unit Permits	1.0 Y
Retail Sales	7.3 Y
Employment Services Jobs	6.4 Y
Priv. Serv-Prod Employment	2.5 Y
Total Manufacturing Hours	-6.1
Manufacturing Wage	1.9 Y
Labor Force	0.02 Y
Benefit Exhaustions	-21.9 Y
New Claims	-10.5 Y
Unemployment Rate (change)	-0.4 Y
Y = Improved Value	

Two factors in Rhode Island's performance that merit particular attention are related to resident employment and our **Labor Force**. While Rhode Island's **Unemployment Rate** has been falling for some time now, recently bottoming at 3.5 percent, behind this misleading trend lies the fact that our **Labor Force** has also been declining on a longer-term basis, both overall and relative to our resident population (i.e., our labor force participation rate has been declining). This, of course, has made it easier to dramatically lower our **Unemployment Rate**. Accompanying this, resident employment (the number of employed RI residents) has remained well below its 2006 value, and until recently, falling overall and relative to our resident population (the employment rate).

To me, the most encouraging trends that have recently emerged relate to both of these. *On a monthly basis*, our **Labor Force** and labor force participation rates have been rising since June. Along with this, resident employment has risen since May, as has the employment rate. *These trends indicate that recent declines in our Unemployment Rate have been occurring for the right reasons and at long last, our Unemployment Rate is behaving the way it is supposed to.* In addition, several other CCI indicators that have been performing badly on a yearly basis have begun to show promising monthly improvements. In the coming months, as the national economy continues to slow, we will see if the **FI** of **FILO** comes into play. The possibility that Rhode Island's economy might have recently passed an inflection point is becoming more likely.

In October, ten of the twelve CCI indicators improved, although some annual weakness remains. The greatest area of concern continues to be manufacturing, where **Total Manufacturing Hours**, a proxy for manufacturing output, fell for the thirteenth consecutive month (6.1%), although the **Manufacturing Wage** rose. **US Consumer Sentiment** failed to improve again, while **Single-Unit Permits**, which reflect new home construction, rose slightly (+1.0%) based on an easy comp. Our **Labor Force** was largely flat (+0.02%) on a yearly basis but has been doing better monthly. Long-term unemployment, as reflected by **Benefit Exhaustions**, improved (fell) at a double-digit rate (-21.9%), but has yet to reestablish a downtrend. **New Claims** for Unemployment Insurance, the most timely measure of layoffs, fell (improved) in October, the fifth time in the last six months.

Retail Sales, continues to be our "star" indicator. For October, it improved by 7.3 percent following a double-digit increase in September. **Employment Service Jobs**, a leading indicator that includes temps, rose impressively in October (+6.4%), its seventh consecutive increase. **Private Service-Producing Employment** rose for a seventh consecutive month (+2.5%). Finally, **Government Employment** increased again in October for the thirteenth time in the last fourteen months, remaining well over 61,000.

LABOR FORCE:	Oct 2019	Peak (1/2007)
Participation Rate	M↑ Y↓ 64.4%	68.6%
Employment Rate	M↑ Y↑ 62.1%	65.4%

DLT Oct 2019 Employment (SA,Y/Y)	
Gain	10,800
Loss	1,900
Net Chg	8,900

83		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2018	75	100↑	83↑	83↑	100↑	92↑	75	67↓	75↑	58↑	83↑	58↑
	2019	75	33↓	58↑	58	58	75	83	67	58	83		