Current Conditions Index

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Also available on my web site: http://members.cox.net/lardaro/current.htm

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	2002	2001
JAN	58	42
FEB	75	33
MAR	67	25
APR	58	17
MAY	42* ↓	25
JUN	33* ↓	50
JUL	50* ↓	25
AUG	50* ↑	33
SEP	58	25
OCT		33
NOV		33
DEC		42

*Revised

Monthly Highlights

The third quarter ended on somewhat of a positive note. After incorporating revisions to layoff data (i.e., **New Claims**), the second quarter, it turns out, was far more precarious than we were originally led to believe. For two months in that quarter (May and June), the CCI fell below its neutral value of 50, indicating a slowing in the pace of economic activity, with possible movement towards contraction. Fortunately, the CCI returned to its neutral value of 50 for both July and August, which is hardly something to cheer about, before rising to 58 in September. The CCI data for the third quarter thus signals the end of Rhode Island's short-lived flirtation with a double-dip recession. For September, seven of the twelve CCI indicators improved.

In spite of how things appear, the CCI's performance indicates that Rhode Island remains in the early stages of a slow and uneven recovery. The atypical nature of this recovery continues to confuse many of the persons analyzing it, including myself. At times, it feels as if Rhode Island is in a recession. But the CCI values this year confirm that Rhode Island's economy has not experienced a sufficiently long duration of contraction to qualify as being in a recession. Were we in a recession, the CCI would have remained below 50 throughout the entire third quarter and for some months beyond (at least six consecutive months of below-50 values are needed for there to be a recession). There are grounds for worry, though, going forward. Our two pillars of economic strength, **Retail Sales**, and Existing Home Sales are weakening. Employment appears to have begun a downward trend. And, the **Unemployment Rate** has been edging up the last few months.

CCI Indicators - % Change		
Government	1.2	Y
US Consumer Sentiment	5.2	Y
Single-Unit Permits	1.7	Y
Retail Sales	1.7	Y
Help Wanted	-16.7	
Misc. Service Employ	1.6	Y
Man-Hours Manuf	-4.2	
Manufacturing Wage	1.1	Y
Labor Force	1.1	Y
Benefit Exhaustions	39.2	
New Claims	26.2	
Unemployment Rate	11.1	
Y = Improved Value		

Retail Sales, which has exceeded anyone's expectations this year, remains at a high level, but its *rate of growth* fell sharply in September. This should not be surprising. **Retail Sales** had posted annual growth rates of 5.9% in May, 6.2% in June, 7.1% in July, and 8.8% in August. September's growth fell to 1.7%, which is still good. Worries about this indicator concern *sequential,* or month-to-month changes — these indicate declines for each of the last two months, with September's value was below the 12-month moving average. While some worry that Christmas shopping this year will be a disaster, based on a supposed collapse of retail sales strength and an abnormally short shopping season, I do not anticipate either a horrible Christmas shopping season (I predict sales to be inflation + 1%), or an imminent collapse of **Retail Sales** in Rhode Island.

Existing home sales fell in the third quarter, the first such decline in quite a while. In spite of this, home prices continued to rise. And, I believe mortgage rates have moved beyond their bottom. So, while existing home sales will likely move horizontally or more slowly upward, this is not a cause for concern, but a necessary ingredient in avoiding a housing bubble. **Single-Unit Permits**, the CCI indicator of new home construction, rose by 1.7% in September, their second consecutive annual increase. To some extent, recent declines are the result of building a smaller number of larger, more expensive homes — hardly a sign of economic distress! It is important to keep in mind that housing sales and new home construction are related to retail sales — moderation in housing activity predictably causes some slowing in the pace of **Retail Sales**.

The last area of weakness concerns the labor market: payroll employment has now declined on a month-over-month basis for the past four months, while Rhode Island's **Unemployment Rate** rose to 5% in September. The survey used to determine payroll employment generally experiences problems in the early stages of recoveries, as it tends to *under*state job gains. In 1995, we were led to believe that a series of declines occurred at the end of the year. Ultimately, these were revised away with the release of the more accurate establishment survey data (rebenchmarking). I have attempted to econometrically replicate the recent payroll employment declines. What I arrived at was a bit more job loss during the recession and a slowing but not decreasing of job growth this year. So, I remain somewhat skeptical about the *alleged* declines in payroll employment of late. Finally, Rhode Island's **Unemployment Rate** has been rising as the rate of growth in its **Labor Force** has accelerated. (+1.1% in September). This too, is typical of the early stages of a recovery — persons who had stopped looking for work often re-enter the labor force, typically as unemployed. When they stopped actively seeking work, they were no longer in either the **Labor Force** or counted among the unemployed. Ironically, this made the Unemployment Rate *lower* during bad times. When these persons resume job search, presumably the result of a greater likelihood of finding a job, they are once again counted in the **Labor Force** and as unemployed — making the **Unemployment Rate** higher. *So, it is strength, not weakness, that is associated with at least part of the rise in the* ***Unemployment Rate****.*

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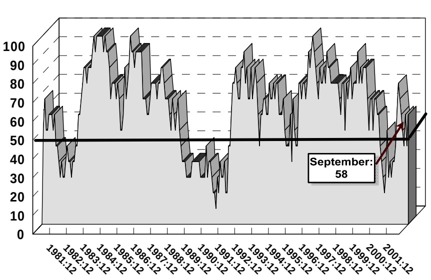

Instead of dwelling on areas of real weakness, primarily labor demand, and pointing out how **Help Wanted Advertising** has fallen at double-digit rates for the last 21 months, or how layoffs (**New Claims**) and **Benefit Exhaustions** continue to perform very badly, I will conclude by noting that *none of the areas of weakness I discussed in detail above (Retail Sales, Existing Home Sales, Payroll Employment, or the Unemployment Rate) are leading economic indicators*. All are either lagging or coincident indicators. So, if my conjectures prove to be correct, the present might not be as bleak as it appears, and it's never advisable to base predictions about the future of the economy on either coincident or lagging indicators. Right now, it is the direction of the national economy that will largely determine the direction and pace of Rhode Island's economy in the next few months.