

# CURRENT CONDITIONS Index

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While the slowing pace of national economic activity continues to pose problems for Rhode Island, our state's economic performance managed to move "out of the doldrums" at the end of the third quarter. The Current Conditions Index for September rose from its sub-par August value of 42 to 58 — back into the expanding activity range, as seven indicators improved. More importantly, the CCI beat its year-earlier value for the first time since April. Ironically, this occurred as two very strong indicator performances were offset by two very poor performances.

The two best performers this month were **Retail Sales** and **US Consumer Sentiment**. **Retail Sales** rose by a strong 9.6 percent in September, following two consecutive months of declines. This was its strongest rate of increase since January. **US Consumer Sentiment** rose by a very healthy 11.0 percent, its first improvement in well over a year. Not surprisingly, both of these indicators are related. In September, falling energy prices gave consumer confidence a much-needed boost, which along with the prospect of improving finances, stimulated **Retail Sales**.

#### CCI Indicators - % Change

Government Employment	-0.3
US Consumer Sentiment	11.0 Y
Single-Unit Permits	-43.4
Retail Sales	9.6 Y
Employment Services Jobs	0.9 Y
Priv. Serv-Prod Employment	0.6 Y
Total Manufacturing Hours	-3.3
Manufacturing Wage	2.7 Y
Labor Force	1.2 Y
Benefit Exhaustions	-6.1 Y
New Claims	20.3
Unemployment Rate	2.0

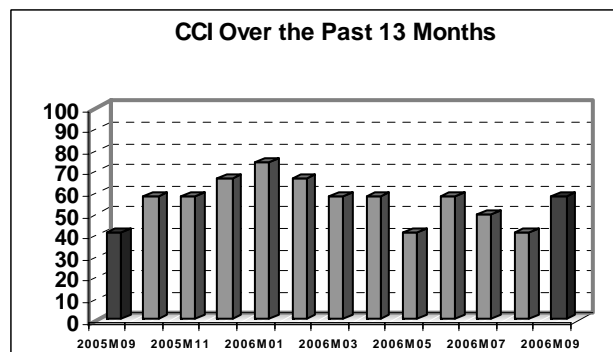
Y = Improved Value

September's worst performers involved housing and labor demand. **Single-Unit Permits**, which reflects new home construction, fell by an amazing 43.4 percent in September, its sixth consecutive monthly decline. *For the entire state, there were only 97 permits in September!* **New Claims** for Unemployment Insurance, which measures layoffs, rose sharply in September, by 20.3 percent. **New Claims** have now risen for four of the last five months, effectively ending its prior downward (improving) trend. On the other end of the layoff spectrum, however, **Benefit Exhaustions**, which reflects long-term unemployment, continued to improve, falling by 6.1 percent in September.

Rhode Island's manufacturing sector continued to generate conflicting signals. The **Manufacturing Wage** rose by 2.7 percent in September, its ninth consecutive increase, and its strongest growth rate in several months. But **Total Manufacturing Hours** fell by 3.3 percent, which was its most rapid rate of decline since June. As noted over the past few months, this combination points to the likelihood that labor shortages are impacting **Manufacturing Wage** growth.

**Employment Service Jobs**, which includes the demand for "temps," grew by only 0.9 percent in September, its rate for the entire quarter. Along with this, **Private Service-Producing Employment** growth remained well below a one-percent rate (+0.6%) in September, and **Government Employment** fell slightly (by 0.3%). For September, Rhode Island's national rank for payroll employment growth was #47.

Finally, **Labor Force** growth remained well below its rates of growth throughout much of this year, rising by 1.2 percent in September. Our **Unemployment Rate** rose slightly from its value last September (from 5.1% to 5.2%), but fell by 0.4 percentage points from its August value. It remains well above both the national rate and far from the level consistent with full employment here (of 4.2%).



#### THE BOTTOM LINE

My suspicion that Rhode Island's actual economic performance was better than it looked statistically, turned out to be correct. We are now firmly in "first gear" and no longer fighting to sustain that status. Let's hope that Q4 is as kind to Rhode Island as the end of Q3 was.

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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2005	50	67	50	50	42	75	58	67	42	58	58	67
2006	75	67	58	58	42	58	50	42	58			