CURRENT CONDITIONS INDEX

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The third quarter ended with a whimper, as the Current Conditions Index for September rose back to its neutral value of 50, as only six of the twelve CCI indicators improved. While that's hardly cause for celebration, at least September's CCI was better than the contractionary reading of 42 for August.

For the entire third quarter, the CCI averaged 50 — flat economic activity. Perhaps more disturbing is the fact that *September marked the seventh consecutive month for which the CCI failed to meet or exceed its year-earlier value*. At this point, I think it is safe to conclude that Rhode Island is no longer *near* stall speed, the conclusion I reached in last month's report: we are now pretty much "dead in the water." Yet in spite of this lack of positive momentum, I remain unconvinced that Rhode Island's economy has actually entered a period of contraction. In other words, ***as bad as the data are, I do not believe that Rhode Island has fallen into a recession at the present time***. However, I have now upgraded my assessment of the likelihood that Rhode Island falls into a recession this fiscal year from 50 to 60 percent.

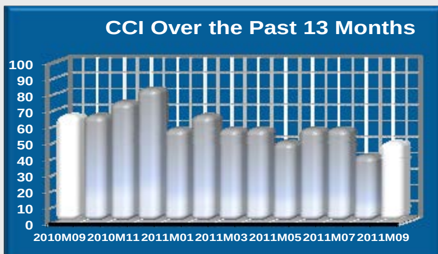
September's data reveal yet another very weak economic performance. Not only did half of the CCI indicators fail to improve, several of the improving indicators displayed a continued loss of momentum. Worse yet, two of the improving indicators should be viewed with extreme skepticism. First for the bizarre.

The **Manufacturing Wage** surged by 16.3 percent in September, on top of increases of 14.7 percent in August and 12.7 percent in July. Rhode Island's **Manufacturing Wage** had been at levels around a decade behind the US average. At this pace, that gap should be entirely eliminated by the end of this year! Our state's **Unemployment Rate** fell to 10.5 percent in September, in spite of declines in both payroll and resident employment. This was in large part due to yet another decline in our state's **Labor Force**. View this jobless change with a rather large "grain of salt."

CCI Indicators - % Change		
Government Employment	-2.8	
US Consumer Sentiment	-12.7	
Single-Unit Permits	-16.7	
Retail Sales	17.2	Y
Employment Services Jobs	-2.1	
Priv. Serv-Prod Employment	0.7	Y
Total Manufacturing Hours	0.02	Y
Manufacturing Wage	16.3	Y
Labor Force	-2.8	
Benefit Exhaustions	-9.1	Y
New Claims	29.7	
Unemployment Rate (change)	-1.0	Y
Y = Improved Value		

Among the remaining indicators that improved, **Private Service-Producing Employment**, while still growing, continued to grow more slowly, falling below one percent growth this month. Unfortunately, much of the benefit from even this slower change was offset by yet another sharp decline in **Government Employment** (-2.8%). The questions concerning this indicator are when and at what level will it ultimately stabilize? **Total Manufacturing Hours**, a mainstay of this recovery was effectively flat in September, rising by 0.02 percent. Still, this indicator has risen, albeit at ever-decreasing rates for fifteen consecutive months. **Retail Sales** surged by 17.2 percent in September, its third improvement in the last four months, in spite of the continuing deterioration in **US Consumer Sentiment**, which fell again at a double-digit rate (-12.7%). Finally, **Benefit Exhaustions**, a reflection of longer-term unemployment, improved again, but at a slower rate (-9.1%).

Among the remaining indicators, **Employment Service Jobs**, a leading labor market indicator, fell by 2.1 percent in September, although its level may well have bottomed. **Single-Unit Permits,** which reflects new home construction, declined by 16.7 percent in September, after two months of improvement. Clearly, new home construction here remains at very depressed levels. Finally, **New Claims**, a leading labor market indicator that indicates layoffs, rose by 29.7 percent, its third consecutive failure to improve. We may well have moved into a period of rising layoffs, a trend that could seriously undermine our future economic momentum.



September Employment (SA,Y/Y)

Gain	4,200
Loss	4,200
Net Chg	0

THE BOTTOM LINE

While I still believe that Rhode Island is in a recovery, the *rate of improvement* in overall economic activity during the third quarter moderated to the point of a virtual standstill. September marked the nineteenth month of this recovery, reflecting that a fair amount of healing has occurred. But Rhode Island remains saddled with a long list of structural negatives that will only mitigate any future momentum that emerges. Rhode Island's margin for economic error has now effectively disappeared.

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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	42	58	67	67	75	75	83	83	67	67	75	83
2011	67	67	58	58	50↓	58	58↓	42	50			