CURRENT CONDITIONS INDEX

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VOL XIX
NUMBER 10
Sep 2012

The third quarter ended on a bit of a sour note. While Rhode Island's economy remained in a recovery the magnitude of which almost nobody in this state seems to fully comprehend, the pace of that recovery tapered off a bit in September following a very strong August. In fact, over the past six months, Rhode Island's economy has apparently been unable to sustain and extend the momentum from months with very strong performances — these have consistently been followed by months with more moderate paces. So, while <u>on average</u>, underlying strength here has been sustained, throughout the past six months a frustrating pattern has emerged where faster-growth months are followed by slower growth the next month.

This pattern can either be good news or bad news as the US faces the dreaded "fiscal cliff" as we move towards December 31. Should our state's recent "stop and go" pattern of more rapid economic growth move more consistently toward "go," we will have a better margin of error should the US fall off the fiscal cliff. Make no mistake — we too would quickly be dragged down along with the US. Should the "stop" pattern come to dominate, obviously we would find our state closer to stall speed even prior to year end.

Either way, the effects of the *possibility* of the fiscal cliff have already begun to adversely affect businesses. Uncertainty surrounding the ultimate outcome has hindered their ability to plan for the future, resulting in their postponing investments in both physical capacity and hiring. Resolution of the fiscal cliff will also involve fiscal policy lags, so the ultimate impact of the changes that emerge will occur throughout the first half of 2013.

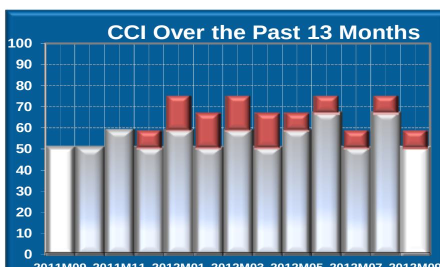
CCI Indicators - % Change		
Government Employment	-2.1	
US Consumer Sentiment	32.6	Y
Single-Unit Permits	-8.8	
Retail Sales	-2.4	
Employment Services Jobs	-5.7	
Priv. Serv-Prod Employment	-0.2	
Total Manufacturing Hours	3.3	Y
Manufacturing Wage	6.5	Y
Labor Force	-0.9	
Benefit Exhaustions	-22.8	Y
New Claims	-24.6	Y
Unemployment Rate (change)	-0.8	Y
Y = Improved Value		

For September, six of the twelve CCI indicators showed improvement, giving a monthly CCI value of 50 using the "official" data that we know is flawed. Based on my simulations, the more correct CCI value for September is 58. In spite of the CCI's decline from August, there is still positive momentum occurring.

Of the five non-survey-based indicators, those that don't suffer from the flaws currently plaguing the "official" labor market data, three showed improvement in September versus five last month. However, one of those indicators, **Retail Sales**, had a very difficult "comp" to beat from a year ago, so its decline this month should not be construed as a reflection of weakness.

So, what do we actually know about Rhode Island's September economic performance? Rhode Island's recovery is now 31 months old. Looking at the non-survey based indicators, even though **Retail Sales** fell by 2.4 percent in September, it remains surprisingly strong, having risen for ten of the past twelve months. **US Consumer Sentiment** once again surged by over 30 percent, helped by recent stock market momentum and actions by the Fed. Layoffs, in terms of **New Claims** for Unemployment Insurance, fell by 24.6 percent in September, its eighth improvement in the last ten months. On the other end of the spectrum, **Benefit Exhaustions**, reflective of longer-term unemployment, also fell at a double-digit rate (-22.8%), sustaining its downward (improvement) trend. New home construction, based on **Single-Unit Permits** fell by 8.8 percent in September, but evidence continues to point to its having reached a bottom several months ago.

Finally, our state's manufacturing sector appears to be showing sustained strength if we can believe the data, with **Total Manufacturing Hours** rising by a healthy 3.3 percent, and growth in our **Manufacturing Wage** slowing to "only" 6.5 percent.



DLT Sept. Employment (SA,Y/Y)

Gain	4,000?
Loss	5,700?
Net Chg	-1,700?

THE BOTTOM LINE

In spite of the uneven pace of overall economic activity here during the past six months, *on average*, reasonably strong momentum has been sustained, no matter what the "official" labor market data continue to show. The issue now shifts to which way our momentum will move as we come ever closer to the end of this year and the potential threat of the US falling off the fiscal cliff. One thing is certain: our state's government has no plan whatsoever for dealing with any unfavorable scenario that might emerge.

67 / 75

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2011	50	67	67	58	50	58	67	42	50	50	58	50 / 58
2012	58 / 75	50 / 67	58 / 75	50 / 75	58 / 67	67 / 75	50 / 58	67 / 75	50 / 58			