

# CURRENT CONDITIONS INDEX

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VOL XXVII  
NUMBER 10  
SEP 2020

When the pandemic hit in late February and early March, it was readily apparent to me even at that time that Rhode Island had entered into a deep recession, leading me to make a recession call. Waiting for the usual confirmation "signals" was not necessary, since we had never before experienced a forced recession. If one wants to look at what has historically been the recession signal at the state level for Rhode Island, it is six or more consecutive Current Conditions Index values below the neutral value of 50. Guess what? We achieved that point last month. For September, the CCI once again remained below 50, stuck at its recent plateau of 25 for the fourth consecutive month. So, as both determinations show, Rhode Island is in a recession at the present time, and has been in a recession since March. But, unlike all of the cyclical recessions of the past, the levels of numerous indicators didn't just gradually fall to levels below where they had been; they fell much farther and a great deal faster than we had ever witnessed in the past. And I include "in the past" Rhode Island's "mini-depression" of 1991.

What then, will constitute a recovery? How will we be able to identify it when it occurs? A recovery is *not* a return to the levels of activity that existed prior to the recession. In other words, it is not necessarily a return to "normal" times. Instead, it is a sustained period of increasing overall economic activity. This time, since activity levels have fallen so far, we will almost certainly be in a recovery, as things improve on a sustained basis, but at a relatively slow pace. Why? Because Rhode Island's state government has never adequately adapted to the realities of managing a post-manufacturing economy, where economic growth must be continually earned based on informed and

most people will probably remain unconvinced that a recovery is actually occurring.

Measuring the likelihood of our being in a recovery will be most effectively be gauged by following *month-to-month* changes in my CCI. For September, while the CCI based on yearly changes remains convincingly in contraction territory (at 25), the monthly CCI (below) has for the first time since the pandemic began moved into expansion territory, at 67. If we can sustain above-50 values, we will be moving towards or in a recovery. Unlike cyclical recessions, though, we won't need to rely primarily on improving financial conditions. This time, everything hinges on COVID containment, an effective vaccine, fiscal and monetary policy, all of which are beyond Rhode Island's direct control.

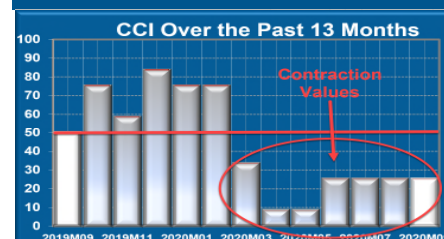
My worry is that two key non-survey based CCI indicators are moving in the wrong direction: Both **Benefit Exhaustions**, which reflects long-term unemployment and **New Claims**, the best measure of layoffs, have begun to once again move higher.

CCI Indicators - % Change	
Government Employment	-2.3
US Consumer Sentiment	-13.9
Single-Unit Permits	-14.5
Retail Sales	6.8 Y
Employment Services Jobs	-29.3
Priv. Serv-Prod Employment	-8.3
Total Manufacturing Hours	-2.6
Manufacturing Wage	4.5 Y
Labor Force	0.8 Y
Benefit Exhaustions	1,974.0
New Claims	546.6
Unemployment Rate (change)	7.0
Y = Improved Value	

CCI Indicators - Monthly% Change	
Government Employment	-1.1
US Consumer Sentiment	6.4 Y
Single-Unit Permits	-5.2
Retail Sales	4.6 Y
Employment Services Jobs	1.5 Y
Priv. Serv-Prod Employment	0.3 Y
Total Manufacturing Hours	3.6 Y
Manufacturing Wage	0.8 Y
Labor Force	3.8 Y
Benefit Exhaustions	139.3
New Claims	29.5
Unemployment Rate (change)	-2.4 Y
Y = Improved Value	

proactive policy, as a state continually strives to improve itself. Purchasing expensive jobs and hiring Brookings to generate studies of what they believe we need to do had clearly failed prior to this recession, as we remained largely stuck at the 2015 level of real GDP. In light of this, I strongly believe that it will take 3-5 years before Rhode Island returns to its pre-pandemic levels of activity (which wasn't exactly much to brag about). Therefore, expect a painfully slow recovery when it does occur, one where

LABOR FORCE:	SEP 2020	Peak (1/2007)
Participation Rate	64.7%	68.6%
Employment Rate	57.9%	65.4%



DLT SEP 2020 Employment (SA,Y/Y)	
Gain	1,400
Loss	36,200
Net Chg	(34,800)

25		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2019	58↓	50↑	58	50↓	50↓	58↓	75↓	67	50↓	75↓	58↓	83↓
	2020	75	75	33	8	8	25↑	25	25	25			