

2017

Rhode Island Current Conditions Index -- May 2017

Leonard Lardaro

University of Rhode Island, llardaro@uri.edu

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CURRENT CONDITIONS INDEX

LEONARD LARDARO, URI

Available Online: <http://www.lardaro.com/current.htm>
 Blog: <http://rieconomy.blogspot.com>
 Twitter: @ladardo

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The first half of 2017 has been very favorable for Rhode Island in terms of its economic momentum. Coming off a very disappointing 2016, most notably a near-flat second quarter, things have definitely picked up since December, as the Current Conditions Index has never gone below a value of 75 over that period.

At this point, it is worthwhile to remind readers what CCI scores represent. The CCI is a broadly based gauge of cyclical economic momentum based on the behavior of twelve economic indicators. Its value each month is the rounded percentage of the twelve indicators that have improved (after seasonally adjusting the data) relative to the same month one year ago. Its neutral value is 50, which reflects that only half of the indicators have improved relative to last year. Values above 50 reflect the fact that more than half of the CCI indicators have improved, which illustrates ongoing economic momentum. Similarly, values below 50, as we saw in Q2 of last year, reflect contraction and a slowing of economic momentum. The simplest way to visualize the CCI score is to think of it as how many "cylinders" of our state's economic engine are operating. The higher the CCI value, the greater is the number of cylinders at work, and the more broadly based is our cyclical momentum.

CCI Indicators - % Change	
Government Employment	0.8 Y
US Consumer Sentiment	2.8 Y
Single-Unit Permits	14.8 Y
Retail Sales	3.2 Y
Employment Services Jobs	-0.9
Priv. Serv-Prod Employment	0.9 Y
Total Manufacturing Hours	4.4 Y
Manufacturing Wage	4.9 Y
Labor Force	0.5 Y
Benefit Exhaustions	-1.5 Y
New Claims	3.5
Unemployment Rate (change)	-1.3 Y
Y = Improved Value	

The Current Conditions Index for May is 83, as ten of the twelve indicators (83.3%) improved. The most significant thing to keep in mind about Rhode Island's economic performance this year is that the higher CCI values represent a *sustained* acceleration in the pace of economic activity compared to last year. While that does not necessarily mean we are now at very high levels of overall activity, it does mean that we have moved well beyond where we were last year. Further evidence is provided by our managing to beat last year's CCI value for each month in 2017, an exceptionally rare accomplishment here.

As always, there are a few caveats to keep in mind. First, the second quarter values last year were very easy to beat. Second, while we appear to be registering fairly sizeable (for us) increases in payroll employment, income tax revenue has been

disappointing, a puzzling combination. It *might* mean payroll employment will be revised lower in February of 2018. Finally, disappointing tax revenue and rising entitlement case loads, *if continued*, will reflect that our recent growth is leveling off.

Of the five leading indicators contained in the CCI, only three improved in May. The two that failed to improve reflect future hiring and layoffs. **Employment Service Jobs**, which includes temporary employment and is a leading indicator of future employment, failed to improve again. Its downtrend is troubling. **New Claims**, the timeliest measure of layoffs, rose in May (+3.5%), its first failure to improve since November. Once again, both goods-producing indicators improved. **Single-Unit Permits**, which reflects new home construction, rose by (14.8%), resuming its uptrend. **Total Manufacturing Hours**, a proxy for manufacturing output, the other goods-producing indicator, rose by a robust 4.4 percent. Lastly, **US Consumer Sentiment** improved in May (+2.8%), its seventh consecutive increase.

Government Employment increased again, remaining above 60,000, which it has now done for over a year. **Private Service-Producing Employment** growth, which has been somewhat volatile of late, remained below one percent in May. **Retail Sales** did well again in May, rising by over 3 percent. **Benefit Exhaustions**, which reflects longer-term unemployment, fell yet again in May, sustaining its long-term downtrend. Finally, our **Labor Force** trend, the *train wreck*, improved a bit in May — three in a row, so for the third time in years, **Unemployment Rate** fell for the right reasons.

LABOR FORCE:	May 2016	May 2017
Participation Rate	64.5%	64.6%
Employment Rate	61.0%	61.9%



DLT MAY Employment (SA,Y/Y)	
Gain	7,500
Loss	400
Net Chg	7,100

THE BOTTOM LINE

Rhode Island appears to be well into restoring the momentum it lost last year. The lingering aftereffects of the 2016 slowdown, notably disappointing tax revenue and rising case loads, will continue to pose a problem for fiscal choices moving forward, assuming state government actually meets to pass a budget. Sadly, the concept of investment-oriented spending appears to be far beyond their grasp.

83		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2016	50↓	58↓	58↑	33↓	50	42	58↓	50↓	75	50↓	58↓	75↓
2017	75	83	92	83	83								