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Rhode Island Current Conditions Index — March 2010

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CURRENT CONDITIONS Index

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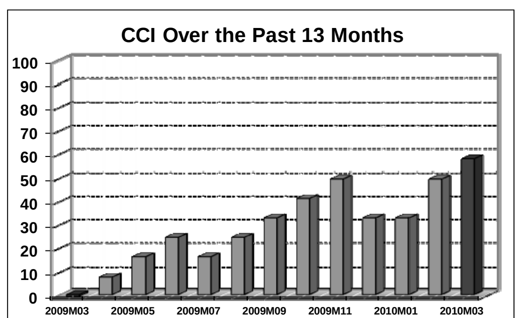
Rhode Island's economic performance in March provided further evidence that its economy was moving ever closer to a cyclical bottom, possibly by June of this year. For March, the Current Conditions Index reached 58, an expansion value, and its highest level since just before the end of the last recovery (in May of 2007). Unfortunately, the massive flooding that occurred in April quickly eliminated any possibility of a cyclical bottom by mid year, shifting the focus instead to whether or not a cyclical bottom will actually be reached in 2010.

Rhode Island's economic momentum was very strong in March, as not only did seven of the twelve CCI indicators improve at substantial rates relative to year earlier levels, but nine indicators improved or were close to doing so on a monthly basis. Perhaps most importantly, a manufacturing rebound appears to now be under way here after a prolonged period of deep decline. **Total Manufacturing Hours** fell by only 1.6 percent, as a surge in the manufacturing workweek (almost an hour and a half) largely offset declining employment. Growth in the **Manufacturing Wage** surged to 5.7 percent annually in March, surely an atypical value, but sustaining a string of growth rates above 2 percent since last October.

Looking at the other March indicator performances, **US Consumer Sentiment** continued to be our "star" performer, rising by 28.6 percent, its twelfth consecutive year-over-year improvement. Once again, **Single-Unit Permits** surged, this month by 63.4 percent compared to a year ago, largely due to a small number of permits last March. So, prior to the flooding, there continued to be virtually no new home construction in Rhode Island. Post-flood rebuilding and repairs will almost certainly boost Rhode Island's housing sector in coming months. Our state's **Labor Force** rose again, increasing by a surprising 2.8 percent. In light of this large of a change, the year-over-year increase of almost 2.5 percentage points in our **Unemployment Rate** becomes less extreme than it might first appear (note: the **Unemployment Rate** fell slightly on a monthly basis). **Retail Sales** rose for the second consecutive month, by 4 percent in March. The total shutdown of Warwick Mall and other retail establishments after the flooding will by itself dramatically lower **Retail Sales** in the coming months. The last two improving indicators reflect different portions of the labor market. **New Claims**, a leading indicator that measures layoffs, fell by a stunning 56.5 percent, its eighth improvement in the last nine months, an indication of slowing layoffs prior to April's flooding. **Benefit Exhaustions**, which reflects long-term unemployment, fell by 6.7 percent in March, only the second time it has improved since June of 2007.

CCI Indicators - % Change		
Government Employment	-1.4	
US Consumer Sentiment	28.6	Y
Single-Unit Permits	63.4	Y
Retail Sales	4.0	Y
Employment Services Jobs	-7.4	
Priv. Serv-Prod Employment	-2.2	
Total Manufacturing Hours	-1.6	
Manufacturing Wage	5.7	Y
Labor Force	2.8	Y
Benefit Exhaustions	-6.7	Y
New Claims	-56.5	Y
Unemployment Rate	23.5	
Y = Improved Value		

Negatives still existed in March. Future job prospects based on **Employment Service Jobs**, a leading labor market indicator, remained discouraging, as these fell 7.4 percent compared to a year ago. In spite of this, this indicator has stabilized on a monthly basis since last March. **Private Service-Producing Employment** declined again, by 2.2 percent, ironically one of its "better" performances in quite some time. Finally, **Government Employment**, driven largely by ongoing budget woes, declined less slowly than it has for some time, falling by another 1.4 percent.



THE BOTTOM LINE

Starting in April, the recent CCI improvements will disappear as the negative effects of the April flooding overwhelm our short-term cyclical momentum. I am dreading the April data, as not only will deterioration in CCI indicators occur, but seasonal adjustment of such atypical data will no doubt add to the confusion. Don't rule out the possibility of bizarre numbers such as an April Unemployment Rate of 14 percent, for example.

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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2009	17	8	0	8	17	33↓	17↓	42	33	42	50	33
2010	33	50	58									