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## Rhode Island Current Conditions Index — June 2011

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# CURRENT CONDITIONS INDEX

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Available Online: <http://members.cox.net/lardaro/current.htm>

It looks like déjà vu all over again! Until only a few months ago, using labor market data from the prior rebenchmarking, the Current Conditions Index was apparently stuck between values of 50 and 58, leading me to wonder whether this recovery would continue or if Rhode Island's economy was about to stall. Then, in February, the new labor market data were released. I was pleasantly surprised to learn that not only had Rhode Island's economy been in a recovery longer than I had been led to believe, but that the actual levels of economic activity were substantially stronger as well. Now, only a few months after receiving this revised data, Rhode Island finds itself in essentially the same situation we thought it was in prior to the release of the new data.

Clearly, Rhode Island's economy has slowed since the end of the first quarter of this year. And, based on a revision to **Retail Sales** data from last month, the CCI fell to its neutral value of 50 during May. Thankfully, it returned back to 58 in June, but during the

CCI Indicators - % Change	
Government Employment	-3.2
US Consumer Sentiment	-6.4
Single-Unit Permits	-47.5
Retail Sales	1.4 Y
Employment Services Jobs	-8.1
Priv. Serv-Prod Employment	1.9 Y
Total Manufacturing Hours	2.8 Y
Manufacturing Wage	8.7 Y
Labor Force	-1.6
Benefit Exhaustions	-34.8 Y
New Claims	-7.7 Y
Unemployment Rate (change)	-0.8 Y
Y = Improved Value	

second quarter, Rhode Island's *rate* of growth plateaued, moving us uncomfortably close to reaching stall speed. As of June, the CCI has now failed to exceed its year-earlier value for four consecutive months. At times like this, when our state's economy is slowing, it is important to keep in mind that Rhode Island is still in a recovery, and that the current recovery is moving closer to the eighteen month mark. So, Rhode Island does have positive momentum and some margin for error with which to counter whatever weakness lies ahead. The ultimate question, of course, is what happens nationally throughout the remainder of this year.

As I noted in last month's report, the trends in several indicators have changed in ways that will make it more difficult for our rate of growth to increase. Our **Labor Force** has now declined or failed to improve for the last five months, making recent declines in our **Unemployment Rate** somewhat suspect. The number of **Employment Service Jobs**, a leading labor market indicator that

includes "temps," has fallen for the past four months. Along with all of this has been one particular surprise: strength in our state's manufacturing sector. **Total Manufacturing Hours** has now improved for the last twelve months, something I thought I would never see again. And, growth in the **Manufacturing Wage** growth has accelerated to well over five percent for the past two months. Will the substantial momentum provided by this sector continue? Let's hope the dollar doesn't strengthen very much from here.

**Retail Sales** rose by 1.4 percent in June after falling in May. Along with this, **US Consumer Sentiment** fell by 6.4 percent versus last June. It is another indicator whose past momentum appears to be slipping away. **New Claims**, a leading labor market indicator that reflects layoffs, fell by 7.7 percent this month, its sixth consecutive improvement. **Private Service-Producing Employment** rose by 1.9 percent in June, sustaining its highest growth rate in over a year. Sadly, the benefits of its change were somewhat offset by public sector employment weakness. **Government Employment** fell sharply once again, declining by 3.2 percent in June, as budget cuts continued. Our state's **Unemployment Rate** declined dramatically once again, from 11.6 percent one year ago to 10.8 percent in June. That fall, however, was not necessarily good news, as our **Labor Force** fell in part because of unemployed Rhode Islanders dropping out of our **Labor Force**. **Single-Unit Permits**, which reflects new home construction, declined by 47.5 percent in June, while **Benefit Exhaustions**, which reflects long-term unemployment, dropped by almost 35 percent, sustaining its overall downtrend.



May Employment (SA,Y/Y)	
Gain	8,800
Loss	4,300
Net Chg	4,500

## THE BOTTOM LINE

While I continue to believe that the US economy will *not* experience a double-dip recession, the weakening pace of national economic activity has caused me to revise my prediction for Rhode Island. I had previously given a one-in-three chance of a double-dip recession for Rhode Island during fiscal year 2012. I now find it necessary to revise that prediction to a 50% probability that Rhode Island experiences a double-dip recession this fiscal year. I can't remember ever hoping that a forecast I made would prove to be so wrong!

58

		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						