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Rhode Island Current Conditions Index – October 2011

Leonard Lardaro

University of Rhode Island, lardaro@uri.edu

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CURRENT CONDITIONS INDEX

LEONARD LARDARO, URI

Available Online: <http://www.llardaro.com/current.htm> (NEW URL)
 Blog: <http://rieconomy.blogspot.com>

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The fourth quarter began in much the same way the third quarter ended — with the Current Conditions Index remaining at its neutral value of 50, as only six of the twelve CCI indicators improved in October. More disturbingly, October marked the eighth consecutive month for which the CCI failed to beat its year-earlier value. However, while Rhode Island's economy might still be "dead in the water," a favorable tide capable of helping us gain future momentum might be emerging.

Not all neutral CCI values are the same. If you have followed my analysis of Rhode Island's economy over the years, hopefully you have come to understand that for other than the very best or very worst of times, groups of positive and negative forces are constantly interacting. Whichever of these dominates ultimately determines the overall direction the economy takes. In light of this, you should view October's CCI reading as indicating that on average, compared to a year ago, Rhode Island's economy was neither expanding nor contracting. When we look "under the

CCI Indicators - % Change	
Government Employment	-2.0
US Consumer Sentiment	-9.9
Single-Unit Permits	-23.1
Retail Sales	4.7 Y
Employment Services Jobs	2.5 Y
Priv. Serv-Prod Employment	0.4 Y
Total Manufacturing Hours	-1.22
Manufacturing Wage	17.6 Y
Labor Force	-2.7
Benefit Exhaustions	-5.7 Y
New Claims	3.2
Unemployment Rate (change)	-1.1 Y
Y = Improved Value	

hood" at individual indicator performances and trends, however, not necessarily restricting "comps" to one year ago, a somewhat more optimistic picture emerges: for October, seven CCI indicators were either flat or improved on a monthly basis. And, a number of those point to the likelihood that our ultimate breakout from the neutral range may well be to the upside. Remember, *year-over-year improvement ultimately begins with favorable changes on a monthly basis*.

So, in spite of a bland overall performance, October's data reveal possibly building momentum. Key to this is the performance of three variables. **Retail Sales** rose by 4.7 percent in October, its fourth improvement in the last five months, in spite of the continuing deterioration in **US Consumer Sentiment**, which fell by 9.9 percent. Sustained improvement in this indicator will be a

clear signal that Rhode Island's economy is improving. **Employment Service Jobs**, a leading labor market indicator that includes "temps," rose by 2.5 percent, its first improvement since February. And, while our state's **Unemployment Rate** fell to 10.4 percent in October, its *monthly* decline is more credible than recent decreases, as this occurred with the **Labor Force** rising for the month (of course it continued to decline on a year-over-year basis). Even **Private Service-Producing Employment**, which continues to grow more slowly, was *not* largely offset by further declines in **Government Employment** (-2.0%) this month. Has **Government Employment** here bottomed around 60,000? That will remain to be seen.

Among the disappointments were: **Total Manufacturing Hours**, a mainstay of this recovery, which declined for the first time in almost a year and a half (-1.2%); **Single-Unit Permits**, which reflects new home construction, and perhaps the most volatile of the CCI indicators, declined by 23.1 percent in October, reflecting the reality that little or no new home construction is taking place in Rhode Island; and **New Claims**, a leading labor market indicator that indicates layoffs, which rose by 3.2 percent, its fourth consecutive failure to improve. *If* layoffs have now begun to trend higher, this will offset some future economic momentum and mitigate potential gains from **Employment Service Jobs**.

Finally, the **Manufacturing Wage** surged by 17.6 percent in October, on top of increases of 16.3 percent for September, 14.6 percent in August, and "only" 12.7 percent in July, while **Benefit Exhaustions** improved again but at a slower rate (-5.7%).



THE BOTTOM LINE

While Rhode Island's economy remains stuck in neutral overall, October's data contain some basis for believing that things might begin to improve in the future. The critical indicator to watch is **Retail Sales**. Overall, though, we must abide by the most basic rule of data analysis: never make too much out of a single month's data. Data revisions, especially for labor, could alter this emerging optimism, as October through December employment values are historically those most likely to be changed through rebenchmarking.

50		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	58↓	42	50	50		