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Rhode Island Current Conditions Index — June 2012

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Rhode Island ended the second quarter on a rather mixed note. While the “official” labor market data continue to depict an economy that is not only falling off the proverbial “cliff,” but that has entered into a double-dip recession, a news release from the Governor’s office, based on analysis from the Department of Labor and Training, stated that employment here is not actually falling, as the DLT monthly data continue to show, but has actually been increasing for some time now (the release covered the first quarter of 2012). Apparently, this came as a big surprise to much of this state’s media, even though the errors with the “official” labor market data were publicly acknowledged by the DLT months ago and I have been discussing all of this regularly in my Current Conditions Index reports. Recall, this data divergence caused me even though the errors with the “official” labor market data were publicly acknowledged by the DLT months ago and I have been discussing all of this regularly in my Current Conditions Index reports. Recall, this data divergence caused me to begin providing two CCI values each month — one based on the “official” data and the other using my simulated labor market values.

What do we actually know overall about Rhode Island’s current economic performance? Rhode Island’s economy continues to be in a tepid recovery that began in February of 2010, now 28 months old. While economic reality here is far better than what the “official” data show, the non-flawed data indicate that this recovery displayed some loss of momentum during the second quarter that will likely continue moving forward. It is important to note, however, that even using the flawed “official” labor market data, the Current Conditions Index never gave a recession signal. Furthermore, based on my simulations (the other CCI values listed), Rhode Island’s economy has been able to sustain some of the momentum it gained during the second half of 2011, although this that momentum has begun to erode based on the performances of several key individual indicators.

According to my econometric models, there were three noteworthy but problematic indicator changes in June. First, payroll employment, which has been rising for some time now on a yearly basis (albeit at declining rates) actually declined. Second, this employment weakness translated into an uptick in Rhode Island’s monthly Unemployment Rate from my projection of a 10.7 percent rate in May to 10.8 percent in June. Finally, the rate of growth in a very important labor market indicator, Private Service-Producing Employment, has slowed dramatically over the past two months, barely increasing in June.

The surprising overall strength in Rhode Island’s economy is best seen through the performances of the CCI’s non-survey-based indicators: all five improved in June. Retail Sales increased by 3.5 percent compared to last June, its tenth consecutive improvement (note: this value was estimated for this report). As noted in past reports, some of our retail strength is weather related, and some is derived from the skilled Rhode Islanders we rent out to neighboring states who bring their income home with them. Along with this, US Consumer Sentiment rose once again, but by only 1.1 percent. New home construction, based on Single-Unit Permits, remained highly volatile, rising by 14.6 percent relative to last June. This indicator may well be about to trend higher. Finally, New Claims for Unemployment Insurance, a leading labor market indicator that reflects layoffs, fell by a healthy 14.4 percent, while Benefit Exhaustions, which reflect long-term unemployment, declined by 6.9 percent.

Manufacturing also did well, as Total Manufacturing Hours rose sharply, while growth in our state’s Manufacturing Wage continued to be among the most rapid on the planet.

While pace of economic growth in Rhode Island slowed a bit in the second quarter, the June CCI shows that a surprising amount of momentum remains based on the performance of its non-survey based indicators. If, later this year, the pace of the US economic activity accelerates, this will bode well for Rhode Island. Even if the US slows, dragged down by Europe’s recession and slower Asian growth, our momentum since the second half of 2011 will serve as a welcome buffer against possibly dramatic downside declines.