Rhode Island Current Conditions Index — April 2008

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While 2008 has been a very difficult year for Rhode Island’s economy, the second quarter began with signs of possible improvement ahead. The Current Conditions Index for April rose (or should I say doubled) to 17 from its recurring value of 8 for January through March. While only two indicators improved in April, with Retail Sales growing by only 0.01 percent, there were nonetheless signs of hope in this month’s data concerning indicator performances in upcoming months. To understand the basis for this, it is necessary to briefly discuss how improvement in a CCI indicator is calculated.

This determination consists of a two-step process. First, it is necessary to seasonally adjust that indicator, so that values for all months are comparable and seasonality effects are removed. Then, its percent change from the same month one year earlier (called its year-over-year percent change) is calculated. For most indicators, a higher year-over-year percent change indicates improvement. But for several labor market indicators, like the Unemployment Rate, Benefit Exhaustions, or New Claims, lower levels denote improvement.

When year-over-year indicator performances are as bad as they have been for Rhode Island, what can signal better future performances? Indicator performances on a month-to-month basis (i.e., compared to the prior month). Improving month-to-month levels, if sustained, eventually translate into better year-over-year performances. And, the month-to-month performances of several CCI indicators in April may reflect the early stages of better year-over-year performances ahead.

Starting with the year-over-year performances of CCI indicators, six failed to improve at double-digit rates in April (same as March — see the table above). Four of these were labor market indicators. On a year-to-year basis, the performances of Benefit Exhaustions, New Claims, the Unemployment Rate, and Employment Service Jobs were very discouraging, to say the least. New home construction, or Single-Unit Permits, continued to plummet, as did US Consumer Sentiment. The “best” CCI indicator for 2008 has been the Manufacturing Wage, but its growth has slowed.

The more hopeful perspective is the month-to-month performances of five indicators. Single-Unit Permits, which fell by almost 33 percent compared to last April, rose sharply on a monthly basis. Three of the worst-performing labor market indicators, New Claims, Benefit Exhaustions, and Employment Service Jobs which fell at double-digit rates relative to last April also improved compared to March. And, our Labor Force, which continued its string of recent year-over-year declines, grew compared to last month.

The key to halting and ultimately reversing Rhode Island’s current negative economic momentum will lie in its ability to sustain and broaden month-to-month improvements in CCI indicators like we saw in April. While the federal fiscal stimulus should help in this, higher gasoline and food prices combined with a crushing state deficit will make this difficult. Fortunately, from a statistical perspective at least, as this year progresses, our “comps” will become easier to beat, as we eventually compare to recession months in 2007.

April was another disappointing month for Rhode Island, as its recession continued. While many economic indicators are falling at double-digit rates compared to last April, their performance relative to last month may be signaling that our downward momentum is beginning to slow at long last. We still have a long way to go. Our next goal is “dead in the water.”