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Rhode Island Current Conditions Index – December 2007

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CURRENT CONDITIONS Index

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Rhode Island ended 2007 on a bittersweet note. While the Current Conditions Index improved from its recent low values, it remained in the declining range, nonetheless.

The Current Conditions Index for December was 42 — in the contracting range for the fifth consecutive month (after posting a neutral value in July). Recession performance continues. And, while recessions have stages, Rhode Island may well have begun the transition from the early to middle recession stages as 2007 ended. This might not be apparent in the data available as of the time of this report, but labor market data will soon be “rebenchmarked.” *My econometric analysis of labor market data points to the strong likelihood of a downward revision to payroll employment.* As misery loves company, I have altered my assessment of the US economy. Based on the recent behavior of a number of national indicators, most notably the stunning drop in service sector activity, I now believe that the US is either in a recession that began in late December, or about to enter a recession period.

Rhode Island’s economic weakness continued to be spread across most sectors in December. While two of the CCI’s leading indicators improved in December, consistent improvement in them is very unlikely. **Single-Unit Permits**, which measures new home construction, rose by 26.4 percent

5.5 percent. It is quite possible that its 2007 values might soon be revised higher. Our **Labor Force** barely grew in December (+0.1%), as its decelerating growth continued.

Other than **Permits** and **New Claims**, the CCI’s other two leading indicators failed to improve again in December. **Employment Service Jobs**, which includes “temp” positions, fell again at a double-digit rate again in December (-11.6%), its fifth consecutive monthly decline and a long way from its string of double-digit increases that extended from October 2006 through March of 2007. **Total Manufacturing Hours**, declined at an accelerating rate in December (-3.9%), signaling intensifying weakness in that sector. Both employment and the workweek fell, which is consistent with a declining capacity utilization rate in manufacturing. One irony continued: despite the overall weakness in Rhode Island’s economy and in **Total Manufacturing Hours**, the **Manufacturing Wage** grew at its fastest rate in years (+4.5%), signaling ongoing skill *shortages* in manufacturing!

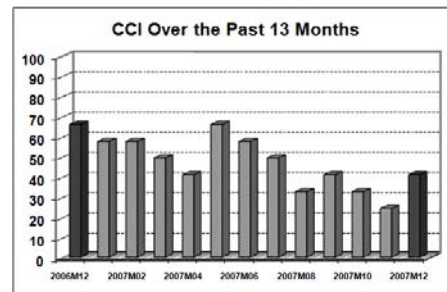
Other indicators continued to turn in disappointing performances. **US Consumer Sentiment** fell by 17.6 percent in December, while the end of a so-so holiday shopping season caused **Retail Sales** weakness to accelerate, as it declined at a double-digit rate (-11%). **Private Service-Producing Employment** growth remained sluggish (+1.2%), and **Government Employment** fell yet again, by 0.5 percent.

CCI Indicators - % Change	
Government Employment	-0.5
US Consumer Sentiment	-17.6
Single-Unit Permits	26.4 Y
Retail Sales	-11.0
Employment Services Jobs	-11.6
Priv. Serv-Prod Employment	1.2 Y
Total Manufacturing Hours	-3.9
Manufacturing Wage	4.5 Y
Labor Force	0.1 Y
Benefit Exhaustions	24.9
New Claims	-4.3 Y
Unemployment Rate	7.8

Y = Improved Value

compared to last December. Large inventories of unsold homes will continue to hurt **Permits** in coming months. And **New Claims**, a measure of layoffs, also improved (it fell) for only the second time in the last year. Further improvement there is not something we will see very soon in a recession climate.

Labor market weakness continued. The **Unemployment Rate** failed to improve for the second consecutive month, rising to



THE BOTTOM LINE

Based on the data available up to this point, 2007 was a bad year for Rhode Island’s economy. Not only did it slip into recession during late summer, the annual average for the CCI was in the declining range (47). Rebenchmarked labor market data will soon be released. While there will likely be some changes to CCI values, expect the overall pattern to remain.

42		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
		2006	58	58	58	42	33	50	33	50	67	75	50
2007	58	58	50	42	67	58	50	33	42	33	25	42	