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Rhode Island Current Conditions Index — July 2007

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CURRENT CONDITIONS Index

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Rhode Island's economy began the third quarter with what appears to be a disappointing economic performance. For July, the Current Conditions Index fell to 50, its neutral value, as only six of its twelve indicators improved. Ironically, even through the CCI fell from its value last month, it has now surpassed its year-earlier value for the third consecutive month. ***A careful examination of the data for this month reveals that Rhode Island's economy has actually remained in "first gear."*** Of course the media has adopted the view that Rhode Island's economy is in "neutral," but that is based on the assessment of someone who relied almost entirely on faulty or misleading indicators: the unemployment rate, which is a lagging indicator; and a very small monthly change in payroll employment that was far from being statistically significant. In other words, a vivid example of "*what not to do*" when analyzing our state's economy.

The July performances of two indicators warrant discussion. The first, which appears to be the worst-performing indicator, is **New Claims** for Unemployment Insurance. This indicator, which reflects layoffs, rose by 32.4 percent from its value last July (we want layoffs to decline). However, its "comp" last July was atypically low, a decline of almost 20 percent from its year -earlier value. And, some Social Security recipients can now collect Unemployment Insurance, which further clouds the value of this indicator. So, while **New Claims** didn't improve in July, a more realistic assessment is that there was not a terribly large rise, meaning there is no alarming "signal" about a rise in layoffs in July's data.

CCI Indicators - % Change

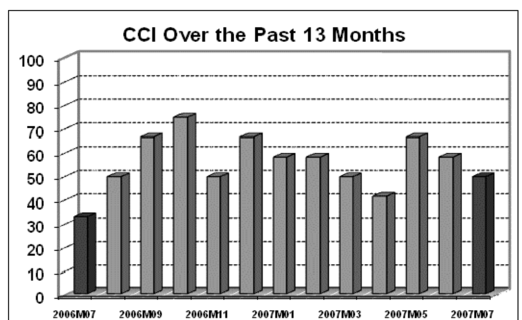
Government Employment	-0.5	
US Consumer Sentiment	6.8	**Y**
Single-Unit Permits	-8.5	
Retail Sales	2.1	**Y**
Employment Services Jobs	3.2	**Y**
Priv. Serv-Prod Employment	2.3	**Y**
Total Manufacturing Hours	-5.3	
Manufacturing Wage	4.4	**Y**
Labor Force	-0.6	
Benefit Exhaustions	0.8	
New Claims	32.4	
Unemployment Rate	-3.8	**Y**

Y = Improved Value

That assessment is backed up by the performance of several labor market indicators. First, **Private Service Producing Employment** grew by 2.3 percent in July, an acceleration from the prior month. There was a similar story for **Employment Service Jobs**, a leading labor market indicator, which includes "temps." Its 3.2 percent increase in July was also an acceleration from June. Finally, **Benefit Exhaustions**, which reflects long-term unemployment, only rose slightly in July, by 0.8 percent, its smallest rate of increase since March. Based on all of this, Rhode Island's labor market did not decline all that much through July as national activity has slowed. It does remain sluggish, through.

The second indictor whose July performance needs to be discussed is **Single-Unit Permits**, which reflects new home construction. For July, this indicator fell by 8.5 percent, which appears to signal a great deal of weakness in new home construction. But this indictor has moved back and forth consistently through the last year or so. In other words, a decline in **Single-Unit Permits** for a single month doesn't carry the weight that many persons assume it does.

Beyond this, manufacturing turned in a mixed performance again, as **Total Manufacturing Hours** fell by 5.3 percent, an accelerating decline, while the **Manufacturing Wage** grew by 4.4 percent, its most rapid rate of increase since December of 2001. Our **Unemployment Rate** fell from 5.2 percent one year ago to 5 percent in July as our **Labor Force** fell slightly (by 0.6%). Finally, **Retail Sales** grew by 2.1 percent as **US Consumer Sentiment** rose sharply, by 6.8 percent.



THE BOTTOM LINE

While Rhode Island remains in "first gear," upcoming events, especially a slowing national economy and balancing persistent state budget deficits, will make it increasingly difficult for us to sustain current levels of momentum. Hopefully we will retain our ability to fall relatively less than the nation, but dealing with our large budget deficits might cost us the ability to do so.

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