Rhode Island Current Conditions Index -- May 2006

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For the past few years, May has not been a kind month for Rhode Island’s economy. Last year, the Current Conditions Index for May fell below its neutral value after two months at 50. This year, while the CCI has performed at least as well as it did for each month last year, in May it once again dropped below its neutral value to 42. Overall, only five of the twelve CCI indicators improved in May. The noteworthy indicator performances in May were Manufacturing Wages and Benefit Exhaustions, which reflect recent manufacturing momentum and improvement in long-term unemployment.

Like the US economy, Rhode Island’s economic momentum is dissipating. Weakness occurred in the same general areas that have become problematic for the national economy. In May, new home construction, as measured by Single-Unit Permits, fell by a whopping 26.8 percent compared to a year ago. May marked the second consecutive month for which this indicator has fallen by over 20 percent. Related to this was weakness in Retail Sales. While Retail Sales only fell by 0.4 percent in May, this was its fourth decline in the last six months. Not surprisingly, US Consumer Sentiment also fell again in May, by 8.1 percent, the eleventh consecutive decline for this indicator.

May’s strongest indicators were related to the labor market. Benefit Exhaustions, which reflects long-term unemployment, fell by 11.8 percent in May, its seventh consecutive monthly improvement. Rhode Island’s average Manufacturing Wage rose by 3.3 percent compared to last May. At $13.45, May’s Manufacturing Wage was well above the $13 level that was so hard for us to surpass last year. Could this recent strength be reflective of the early stages of skilled labor shortages?

While long-term unemployment continues to improve, labor demand and layoffs are showing diminished momentum. New Claims for Unemployment Insurance, a measure of layoffs, rose in May (by 5.1%), its first increase in well over a year. Employment Service Jobs, which includes the demand for “temps,” barely grew in May, continuing a loss of momentum since that began last December.

Private Service-Producing Employment grew at a 1.2 percent rate in May, slightly better than its rate of growth rate last month and consistent with growth rates since last June. Government Employment fell in May, by 0.5 percent, its first decline in six months. Falling Government Employment will most likely be the rule rather than the exception as we move into the new fiscal year. Total Manufacturing Hours continued to decline, but at a diminished rate. For May, Total Manufacturing Hours fell by (only) 2.8 percent, less than half its rate of decrease last month.

Labor Force growth remained strong, rising by 1.8 percent in May. At the same time, our Unemployment Rate jumped from 5 percent last May to 5.5 percent this May, well above the national rate. Ironically, improvement in future jobless rates will likely come at the expense of labor force growth as the national economy continues to slow in coming months.

Rhode Island’s economy weakened in May. Like the nation, diminished momentum in housing has carried over to Retail Sales and US Consumer Sentiment. Labor demand here also appears to be slowing. At this point, let’s not read too much into one month’s set of numbers and await more data.