The Rhode Island Current Conditions Index | Economics

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Rhode Island Current Conditions Index -- June 2013

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CURRENT CONDITIONS INDEX

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The second quarter for Rhode Island turned out to be significantly better than had been anticipated at the beginning of this year, consistent with the second quarter acceleration in the pace of national economic activity. The performance of Rhode Island's economy for June was very good, as the Current Conditions Index registered a value of 75, with nine of 12 indicators improving. Importantly, the overall strength of most of the *leading* indicators contained in the CCI has been sustained over the first half of this year, a positive and welcome sign as we move into the remainder of this year.

The primary negative for this month is the fact that the CCI's value of 75 this June failed to beat last year's level, the first time in 2013 that this has occurred. Given the strength we witnessed during the second half of 2012, this is not likely to be the last time this phenomenon occurs. In spite of this, there continues to be a significant amount of positive news in this month's data as well as for Rhode Island's economic performance in 2013.

Before discussing this month's indicator results, I need to clarify a point that appears to be confusing a number of persons I have spoken to over the past several months: If our state's economy has such strong momentum, why then are we still so far below where we were back in 2006 and 2007? In order to answer this question, it is important to keep in mind that *current levels of economic activity depend on both the rates of growth we have been experiencing as well as the prior activity levels themselves*. This is where Rhode Island finds itself in such a frustrating situation. Rhode Island's economy was hit extremely hard during the last recession, as the level of economic activity here fell about

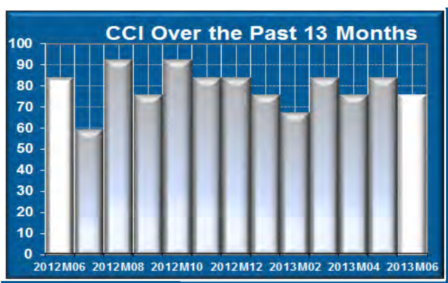
CCI Indicators - % Change		
Government Employment	-0.5	
US Consumer Sentiment	15.0	Y
Single-Unit Permits	25.1	Y
Retail Sales	3.8	Y
Employment Services Jobs	4.6	Y
Priv. Serv-Prod Employment	0.7	Y
Total Manufacturing Hours	-0.2	
Manufacturing Wage	4.5	Y
Labor Force	-0.2	
Benefit Exhaustions	-23.5	Y
New Claims	-19.2	Y
Unemployment Rate (change)	-1.7	Y
Y = Improved Value		

as far, if not farther, than just about any other state. Therefore, satisfactory rates of growth applied to the highly depressed level of economic activity here has resulted in relatively small changes in the *actual level* of economic activity. Welcome to our world!

My greatest concern moving forward is that Rhode Island has failed to do the hard work required to reinvent itself and to make its economy more competitive. The organizational changes instituted during the last legislative session are good, but they fail to deal with our state's most pressing problems. They represent little more than yet another swipe at the symptoms of our state's structural problems, leaving our long-term weaknesses to fester.

Three of the CCI's leading indicators turned in strong performances this month, and all of those did so in spite of very strong "comps." The uptrend in **Single-Unit Permits**, a leading indicator of housing, continued, reflecting further movement beyond its trough. Permits have now settled into a range of about 70+ per month. The remaining leading indicators that improved are related to the labor market. The first of these, **Employment Service Jobs**, which includes temporary employment, a prerequisite to overall employment growth, rose by a healthy 4.6 percent in June. This indicator has consistently improved since last April. The other, **New Claims** for Unemployment Insurance, is the most timely measure of layoffs. It has now moved back into a clearly established downtrend, which is critical if Rhode Island is to continue improving as we move into the third quarter. The fourth of the CCI's leading indicators, **Total Manufacturing Hours**, which measures strength in our manufacturing sector, failed to improve in June, based on a large drop in the workweek.

US Consumer Sentiment improved for the fifth consecutive month in June, while **Retail Sales** remained strong, growing at just under 4 percent. **Private Service-Producing Employment** remained problematic, as it has now been stuck below a one percent rate for seven of the last nine months. Our state's **Labor Force** declined slightly on a monthly basis for the third consecutive time. Along with this, the **Unemployment Rate** remained unchanged for June. Rhode Island's **Manufacturing Wage** jumped by 4.5% for those into fiction, while **Government Employment** continued its lengthy decline.



DLT JUN Employment (SA,Y/Y)

Gain	6,800
Loss	4,800
Net Chg	2,000

THE BOTTOM LINE

The second quarter ended on a positive note, as economic activity remained strong throughout the entire quarter. Moving forward, the headwinds of higher gasoline prices and rising interest rates along with the benefits of decreasing fiscal drag will combine to present us with an important test of how sustainable our state's existing momentum is. While I believe the second half will be stronger at the national level, and to some extent this will benefit Rhode Island, our state's existing engines of growth will likely not be sufficient to allow us to surpass the strong "comps" from the second half of last year.

75

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2012	67↑	58↑	58	67↑	67↑	83↑	58↑	92↑	75↑	92↑	83↑	83↓
2013	75	67	83	75↑	83	75						