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Rhode Island Current Conditions Index -- September 2013

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CURRENT CONDITIONS INDEX

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Rhode Island ended the third quarter on a fairly positive but mixed note, as there was both good news and bad news about our state's performance. First, the good news: the Current Conditions Index rose from 67 in August to 75 in September, as nine indicators improved overall. Several of those improvements were very substantial changes. The bad good news comes when we contrast our state's performance this year with that last year: for a second consecutive month, and the third time in four months, the CCI failed to exceed its year-earlier value. During the fourth quarter, it is not unreasonable for us to expect to see this pattern repeated every month. This has been a concern of mine for some time now, and I have written about it in the last few reports, for if this does come to pass, as is likely, it would reflect a definite slowdown *in our rate of growth* relative to the end of last year. However, in light of the clear acceleration in the pace of economic activity for Rhode Island as 2012 came to an end, this does not come as much of a surprise. The October CCI results will be quite interesting, as they will reflect not only the fiscal drag from Washington, but the effects of the government shutdown as well.

In light of these uncertainties moving forward, it is informative to examine the performance of the *leading* indicators contained in the CCI. For September, three of the four leading indicators improved in spite of difficult "comps" from a year ago. The only

CCI Indicators - % Change		
Government Employment	0.0	
US Consumer Sentiment	-0.3	
Single-Unit Permits	21.3	Y
Retail Sales	8.1	Y
Employment Services Jobs	3.4	Y
Priv. Serv-Prod Employment	0.9	Y
Total Manufacturing Hours	1.6	Y
Manufacturing Wage	4.5	Y
Labor Force	-1.9	
Benefit Exhaustions	-7.7	Y
New Claims	-7.9	Y
Unemployment Rate (change)	-1.0	Y
Y = Improved Value		

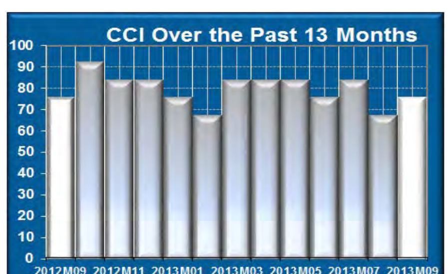
leading indicator that failed to improve, **US Consumer Sentiment**, fell only slightly (by 0.3%), but this relatively small decline occurred relative to a rise of over 33 percent last September.

So, as we move into the last quarter of 2013, our state's momentum may be losing a step or two, but a substantial amount of momentum remains, as attested to by the performances of both the leading indicators contained in the CCI and several of its non-leading indicators. This means we will just have to wait longer to ultimately return to where our state's economy was prior to the Great Recession. Our recent rates of growth applied to the depressed activity levels Rhode Island fell to will continue to generate relatively small changes in the *actual activity levels*.

As stated earlier, three of the CCI's four leading indicators improved in September. The uptrend in **Single-Unit Permits**, a leading indicator of housing, continues, as we have moved well beyond our recession trough (note: the September Permits value is an estimate as the government shutdown has caused a delay in its release until next week). **US Consumer Sentiment** failed to improve for the first time since January. However, it had an extremely difficult "comp" from last September. In spite of this temporary setback, **Sentiment** remains in a well-established uptrend that promises to continue as long as the stock market continues to improve.

The remaining leading indicators 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 3.4 percent in September. Its decline last month was the first in over a year. Like US Consumer Sentiment, this one-month problem does not threaten its longer-term uptrend, something that will be important as we move to the last quarter of this year. **New Claims** for Unemployment Insurance, the most timely measure of layoffs, improved in September, falling by 7.9 percent in spite of a very large decline last year (-25.1%). At present it has no clear trend, which is potentially problematic since a trend of rising layoffs would adversely affect other CCI indicators in coming months. The final leading indicator, **Total Manufacturing Hours**, which measures strength in our manufacturing sector, rose by 1.6%.

Retail Sales remained very strong, growing by 8.1 percent relative to last September. **Private Service-Producing Employment** growth remained below one percent, our state's **Labor Force** declined again (the sixth time), and our **Unemployment Rate** notched a bit higher over the month. Finally, **Government Employment** was unchanged. Has this now reached a bottom?



DLT SEP Employment (SA,Y/Y)

Gain	5,300
Loss	2,100
Net Chg	3,200

THE BOTTOM LINE

The third quarter is apparently an inflection point for the rate of growth in Rhode Island's economy. While September was the second consecutive month for which the CCI failed to beat its year-earlier value, it is not unreasonable to expect this pattern to recur for the remainder of 2013. Let's be clear, however, Rhode Island's rate of growth may well slow during the fourth quarter, but a considerable amount of economic momentum exists at present. In light of this, bizarre assertions suggesting the Rhode Island is closer to neutral than drive are totally without any foundation in actual data.

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	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	83↑	67	75			