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Rhode Island Current Conditions Index -- October 2013

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CURRENT CONDITIONS INDEX

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Rhode Island began the fourth quarter by continuing its positive, though not exactly stunning, momentum. Once again, there was both good news and bad news concerning Rhode Island's economic performance. First, the good news: the Current Conditions Index rose from 67 (revised down) in September to 75 in October, as nine of its twelve indicators improved. Importantly, several of those improvements were quite stunning. The bad good news emerges when we contrast our state's performance this year with that in 2012: for a third consecutive month, and the fourth time in five months, the CCI has failed to exceed its year-earlier value. I strongly suspect that this will be the dominant pattern throughout the fourth quarter. If this conjecture proves correct, which I believe it will, we will experience a slowing *in our rate of growth* relative to the end of last year. One could argue that the late-2012 acceleration confronts us this year with a difficult "comp," which is true. However, as our state's current rate of growth is not terribly rapid (Rhode Island's growth rate in real state GDP for 2012 was only 1.4%), the test of how robust this recovery will ultimately prove to be will be defined by our ability to *accelerate* rather than sustain growth rates comparable to what we observed at the end of 2012. Fortunately, the US economy is growing more rapidly, which will clearly benefit Rhode Island.

One hint of future momentum can be inferred from the October performance of the *leading* indicators contained in the CCI. For October, four of the five leading indicators improved in spite of difficult "comps" from a year ago. The only leading indicator that failed to improve, **US Consumer Sentiment**, fell sharply (-11%), but this was heavily influenced by a one-two punch: the

CCI Indicators - % Change		
Government Employment	-0.5	
US Consumer Sentiment	-11.0	
Single-Unit Permits	61.3	Y
Retail Sales	0.0	Y
Employment Services Jobs	4.2	Y
Priv. Serv-Prod Employment	1.4	Y
Total Manufacturing Hours	2.4	Y
Manufacturing Wage	3.0	Y
Labor Force	-2.1	
Benefit Exhaustions	-35.3	Y
New Claims	-8.9	Y
Unemployment Rate (change)	-0.9	Y
Y = Improved Value		

combination of the government shutdown and its rise of over 37 percent last October. While October was the second consecutive decline for **Sentiment**, it remains in a well-defined uptrend that will likely continue as long as the stock market continues to rise.

So, while our state's economic momentum appears to be slowing a bit, substantial momentum remains, based on the performances of both the leading indicators contained in the CCI and several of its non-leading indicators. Sadly, this means it will take longer for us to return to our prior peak in economic activity. Welcome to our world! Our elected officials have yet to fully grasp that success in a post-manufacturing economy requires consistent and persistent effort to make improvements to a state's economy, not merely waiting for things to "turn around."

All of the remaining leading indicators improved in October. The uptrend in **Single-Unit Permits**, a leading indicator of housing, continued with a vengeance, rising 61.3 percent relative to last October. Clearly, Rhode Island's housing sector is continuing to move well beyond its recession trough. **Employment Service Jobs**, which includes temporary employment, a prerequisite to overall employment growth, rose by a healthy 4.2 percent in October. It has declined only once in over a year and it remains in a clear uptrend. **New Claims** for Unemployment Insurance, the most timely measure of layoffs, improved in October, falling by 8.9 percent in spite of a very large decline last year (-9.8%). Unlike the leading indicators discussed earlier, this indicator is *not* in a well-defined downtrend at present. Should it begin to rise, it would threaten our state's future momentum, since a trend of rising layoffs would adversely affect other CCI indicators in coming months, most notably **Retail Sales**. The final leading indicator, **Total Manufacturing Hours**, which measures strength in our manufacturing sector, rose by 2.4 percent in October. This indicator has improved for ten of the last twelve months, something I never thought I would see again, especially as one of the foundations of our recovery's momentum.

Retail Sales was flat, growing by only 0.003 percent relative to last October. **Private Service-Producing Employment** growth finally moved above one percent (+1.4%), our state's **Labor Force** declined yet again (the seventh consecutive time), and in spite of this, our **Unemployment Rate** was flat over the month. Finally, **Government Employment** edged down a bit.

DLT OCT Employment (SA,Y/Y)	
Gain	6,400
Loss	900
Net Chg	5,500

THE BOTTOM LINE

As the fourth quarter begins, Rhode Island's economy is at a turning point of sorts: an inflection point in terms of overall momentum relative to late 2012. The CCI has now failed to exceed its year-earlier value for three consecutive months, a pattern I expect to recur for the remainder of 2013. Slower growth doesn't necessarily mean the floor is about to cave in (strange hearing that coming from me!), since a fair amount of momentum remains and it should benefit from the accelerating pace of national activity. If, and when, our elected officials institute meaningful changes we will be able to avoid inflection-based realities such as what we now face. The key word is "if."

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	83↑	67	67↓	75		