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Rhode Island Current Conditions Index – May 2005

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Current Conditions Index

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Also available online: <http://members.cox.net/lardaro/current.htm>

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Monthly Highlights

Rhode Island's second quarter economic performance went from mediocre (58 in April) to bad, as the Current Conditions Index returned to its neutral value of 50 in May. Only six of the twelve CCI indicators improved, and only two of those displayed meaningful changes (the **Labor Force** and our **Unemployment Rate**). The other four improving indicators turned in fairly unimpressive performances.

This month's changes in the **Labor Force** and **Unemployment Rate** were meaningful since Rhode Island now finds itself in one of those periods where an improving **Unemployment Rate** coincides with a rising **Labor Force** — something that is normal for other states but a bit too infrequent for us. May's data also provide further evidence that the troubling declines in our **Labor Force** that occurred during

CCI Indicators - % Change	
Government Employment	0.3 Y
US Consumer Sentiment	-3.5
Single-Unit Permits	-4.8
Retail Sales	-9.4
Help Wanted Advertising	2.4 Y
Priv. Serv-Prod Employment	1.6 Y
Man-Hours Manufacturing	-4.1
Manufacturing Wage	-0.4
Labor Force	1.3 Y
Benefit Exhaustions	12.0
New Claims	-6.5 Y
Unemployment Rate	-15.1 Y

Y = Improved Value

2004 (along with a declining labor force participation rate) have apparently ended. May's 1.3 percent **Labor Force** increase was a healthy gain, the largest since September of 2003.

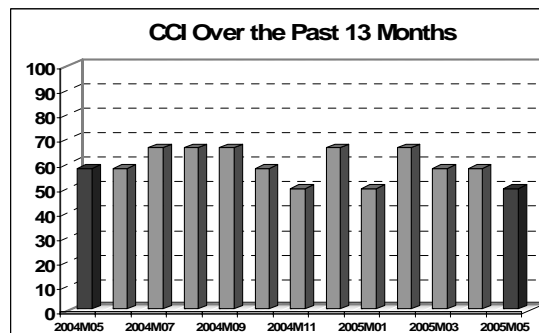
Retail Sales, which has been one of our strongest indicators for quite a while, declined in May, by 9.4 percent. In spite of this one-month statistic, the trend in **Retail Sales** remains positive. Accompanying this decline in **Retail Sales** was yet another fall in **US Consumer Sentiment**, its sixth in the last seven months.

The other elements of the labor market that are captured by the CCI provided a mixed picture. Labor demand, in terms of **Help Wanted Advertising** rose once again in May, by 2.4 percent — an improvement over April. **New Claims**, which represent layoffs, fell by 6.5 percent in May, a marked improvement over its growth last month. Unfortunately,

Benefit Exhaustions, which measure long-term unemployment, rose by 12 percent in May, its third increase in the last five months. Our inability to generate consistent improvements in both **New Claims** and **Benefit Exhaustions** for any period of time thus continues. As of May, neither of these indicators has been displaying an improving trend. For that to occur, labor demand (**Help Wanted Advertising**) will need grow more rapidly, at rates commensurate with levels we witnessed at the beginning of this year.

Government Employment rose in May by 0.3%, returning it to the 66,000 level, which coincides with its recent highs at the end of last year. The growth in **Private Service-Producing Employment** slowed to 1.6 percent in May, marking the third consecutive decline in this rate. This was still a noticeably better performance than that of our goods-producing sector, as weakness in manufacturing intensified in May. Not only did **Manufacturing Man-hours** fall by 4.1 percent compared to last May, the **Manufacturing Wage** *declined* relative to its value last May, dropping below \$13 per hour on a seasonally adjusted basis. Finally, new home construction, as measured by **Single-Unit Permits**, fell less sharply in May, declining by 4.8 percent. This indicator has now fallen every month since last September, a strange occurrence in light of the overall strength in housing here and throughout the nation.

I noted last month that Rhode Island's continued mediocre economic performance in the midst of such strong national economy activity should be viewed as our conundrum. Not only did May's data fail to eliminate the conundrum, if anything, it enhanced that status. Looking forward to the fourth quarter, when I anticipate a further slowing in the pace of national activity, Rhode Island could find itself confronted by some troubling issues. Let's hope that our state's economy recouples with the national economy before the end of the year.



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	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2004	67	67	58	67	58	58	67	67	67	58	50	67
2005	50	67	58	58	50							