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Rhode Island Current Conditions Index – October 2015

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CURRENT CONDITIONS INDEX

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What a way to begin the fourth quarter! The Current Conditions Index for October fell all the way to 67, its lowest value since May. This should not come as a complete surprise, however, since the US economy has been slowing, especially manufacturing, which was impacted here as well this month. And, as I have recently noted, monthly (versus yearly) activity levels for a number of CCI indicators have recently begun to deteriorate.

To some extent this reflects an asymmetry Rhode Island has been stuck with for a very long time— when the national economy picks up, we catch up, but only eventually. But when the national economy slows, Rhode Island is impacted almost immediately. Until we make our state's economy more competitive and transition to a greater and more meaningful presence in growth-oriented areas, this asymmetry will unfortunately persist.

While eight of the twelve CCI indicators improved in October, our overall weakness was concentrated in the goods-producing sector. Both manufacturing and construction activity here did not do well in October. Potentially troubling, and something I have yet to be able to understand, is that new home construction, while beyond its cyclical bottom, has not yet entered a well-defined uptrend since the end of last winter's unseasonably cold weather. New home construction, in terms of **Single-Unit Permits**, fell by 15.3 percent compared to last October, rising only three times since April. Less of a surprise, as noted above, is manufacturing

As always, it is critical that we keep all of what is occurring in perspective. While we slowed a bit in October, at least we had something to slow from. It's been a while since we've been able to say that! And, while the officially published labor market data indicate that payroll employment has been declining since July, my simulations indicate those declines are likely to be revised away in February. *My concern moving forward is that both our employment and labor force participation rates have been declining since July.* Worse yet, both rates remain well below recession levels. Once again, our **Unemployment Rate** is falling for the wrong reasons.

Eight of the CCI indicators improved in October, including three of the CCI's leading indicators. Ironically, those three were able to beat difficult comps from a year ago, while the two non-improving leading indicators failed to beat fairly easy comps.

US Consumer Sentiment increased once again, albeit at a slower rate than has been true recently (+3.5%). This was its thirteenth consecutive improvement. **Employment Service Jobs**, which includes temporary employment and is a prerequisite to employment growth, rose by 1.2 percent, well below its recent high rate. Finally, **New Claims**, a leading labor market indicator that reflects layoffs, fell by 16.4 percent in October.

Retail Sales growth slowed to one percent in October, its seventeenth consecutive improvement. **Private Service-Producing Employment** rose by 1.7 percent, yet another indicator with slowing recent growth. **Government Employment** fell again in October (-0.8%). **Benefit Exhaustions**, which reflects longer-term unemployment, declined by 23.9 percent relative to last year. Our **Manufacturing Wage** fell (if you believe this) for the twentieth consecutive time (-2.8%), and our **Labor Force** sustained its recent uptrend on a yearly but *not* monthly basis (+1.1%).

CCI Indicators - % Change	
Government Employment	-0.8
US Consumer Sentiment	3.5 Y
Single-Unit Permits	-15.3
Retail Sales	1.0 Y
Employment Services Jobs	1.2 Y
Priv. Serv-Prod Employment	1.7 Y
Total Manufacturing Hours	-1.2
Manufacturing Wage	-2.8
Labor Force	1.1 Y
Benefit Exhaustions	-23.9 Y
New Claims	-16.4 Y
Unemployment Rate (change)	-1.8 Y
Y = Improved Value	

weakness, reflective of the national trend. **Total Manufacturing Hours**, a measure of manufacturing sector strength, fell by 1.2 percent in October, its fifth decline in the last seven months.

As disappointing as the CCI's October value is, at least it matched the value from one year ago. As such, October marked the eighth month for which the CCI has either matched or exceeded its year-earlier value. While the pace of Rhode Island's current recovery accelerated in the second quarter, as seen in both our 4 percent rate of GDP growth and a breakout in CCI values, the added momentum gained in the third quarter appears to be dissipating.



DLT OCT Employment (SA, Y/Y)	
Gain	8,500
Loss	2,900
Net Chg	5,600

THE BOTTOM LINE

In an inauspicious beginning to the fourth quarter, the Current Conditions Index fell sharply from 83 in September to 67 in October, moving us back to a level we haven't seen since May. The slowdown in national growth, which had been adversely affecting Rhode Island's month-to-month performance, appears to have begun hurting our year-over-year momentum. Fortunately, we should begin to see the economic benefits from the legislation passed in the last session start early next year, which should help us through what might prove to be a rough patch. And, yes, it could be far worse — let's thank God that Rhode Island isn't an oil producing state.

67		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2014	67	67↑	58	58	58	50	67↓	67↓	75	67↑	58	67↓
	2015	58	58	67	58	67	75	75	92	83	67		