Rhode Island Current Conditions Index -- July 2017

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As the second half of 2017 begins, there is more good news about Rhode Island’s economic momentum. While we did well the first half of this year, we were comparing to an economy in 2016 that was flat, stuck around its level at the end of 2015. The July Current Conditions Index reading is critical, as this is the first post-flat comparison month. Rhode Island passed that test convincingly.

The July Current Conditions Index value remained at 83, as ten of its twelve indicators improved. Importantly, the CCI beat its year-earlier value for the seventh consecutive time this year, a feat that hasn’t occurred for a very long time. Rhode Island is continuing its sustained increase in momentum from levels at the end of 2015 (and thus 2016). While along the way there have been several relatively easy comps from a year ago, the performances of several key indicators have remained strong.

Two economic metrics in particular merit discussion. Both are survey based. The first of these is payroll employment: the number of jobs in Rhode Island. Over the past three months, year-over-year changes in this measure have become noticeably larger. In an attempt to corroborate this, if payroll employment growth is accelerating, we should expect income tax collections to be rising rapidly as well. Using income tax withholding to reflect this, we do in fact observe rapid rates of increase year-over-year which is consistent the recent behavior of payroll employment. So, when the revised labor market data are released next February, expect there not to be downward revisions to payroll data for these months, which means Rhode Island’s finally surpassing its prior employment peak will be validated. The second metric is Rhode Island’s Labor Force. If there is one thing that we left behind in the last recovery, it was our state’s Labor Force, which has displayed a well-defined down trend since January of 2007, something I view as a train wreck—until the last five months that is. On both a monthly and year-over-year basis, our Labor Force appears to be improving since 2017 began. While this might turn out to be correct, we witnessed exactly the same type of behavior prior to the last labor data revisions, which eliminated this improvement. I remain somewhat cautious about accepting the recent improving trend in our state’s Labor Force.

Returning to July’s performance, all five of the leading indicators contained in the CCI improved in July. Even though four had easy comparisons from a year ago, this is still an important part of July’s performance picture. The one indicator whose recent performance has concerned me, Employment Service Jobs, an indicator that includes temporary employment and is a leading indicator of future employment, improved in July for the first time in well over a year. While it remains in a downtrend, the July improvement is potentially very encouraging.

New Claims, the timeliest measure of layoffs, fell once again in July (−5.7%), registering its seventh improvement in the last nine months. Along with this, both of the goods-producing leading indicators contained in the CCI improved. Single-Unit Permits, which reflects new home construction, rose by a stunning 56.8 percent thanks to an extremely easy comp last July. Total Manufacturing Hours, a proxy for manufacturing output, the other goods-producing indicator, rose by a robust 2.6 percent. Finally, US Consumer Sentiment improved in July (−4%), its ninth consecutive increase.

Government Employment rose slightly from a year ago, Private Service-Producing Employment growth accelerated (+1.6%), while Retail Sales fell for the first time since February. Benefit Exhaustions, which reflects longer-term unemployment, rose in July, although its long-term downtrend remains in tact. Finally, our Labor Force trend, our train wreck, improved again in July—five in a row now. As stated earlier, our state’s Labor Force has been improving on both a monthly and year-over-year basis. During this period, assuming that the revised labor market data preserve the current trend, we will finally be able to say that for the fifth time in years, Rhode Island’s Unemployment Rate either fell (relative to a year ago) for the right reasons, or rose based on a rising Labor Force, a far more acceptable trend than what we have observed since our last labor market peak.

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