

10-2017

Rhode Island Current Conditions Index – October 2017

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Recommended Citation

Lardaro, Leonard, "Rhode Island Current Conditions Index – October 2017" (2017). *The Rhode Island Current Conditions Index*. Paper 166.

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CURRENT CONDITIONS INDEX

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VOL XXIV
 NUMBER 11
 OCT 2017

Rhode Island began the fourth quarter with what appears to be good news about its economic performance: The Current Conditions Index rose from its September value of 75 back to 83, the value it has remained at for most of 2017. In a sense this is a "win," in that we improved from last month's CCI value, which failed to exceed its year-earlier value for the first time this year, to once again moving beyond last year's value in October. But as wins go, this was not terribly pretty. I won't go as far as saying this was an ugly win, but it was disappointing, nonetheless.

Looking at both national and Rhode Island trends, there are several developments that I am becoming increasingly worried about. At the national level, the yield curve, the difference between longer and shorter-term interest rates has flattened noticeably of late. Historically, this signals that a slowing in the rate of national growth will occur in the future. Its predictive record is excellent. The fact that so many in the financial media are convinced that "this time is different," further heightens my concern, as their consensus almost always proves to be wrong. Why does this concern me? Because, as the result of Rhode Island's elected officials doing so little to meaningfully reinvent our state's economy over the years, we remain **FILO** - first in,

since March of 2016. It remains in a downtrend, which bodes badly for future job gains. **New Claims**, the timeliest measure of layoffs, *rose* again in October by 3.1 percent, even with an easy comp from a year ago. It has now risen for two consecutive months, threatening its downtrend and ending a string of eight improvements in the prior ten months. This combination - less employment and higher layoffs *might* be where we are heading! Finally, our state's employment rate, the percentage of the working-age population that is employed, has now fallen for the past three months, hardly a healthy sign. Worse yet, Rhode Island's labor force participation rate, the percentage of working age Rhode Islanders who are in our labor force, decreased again in October, as it has been doing of late. These trends cast doubt on the validity of our unchanged October **Unemployment Rate**.

In assessing the October CCI performance, four of the five leading indicators contained in the CCI improved, and all had relatively easy "comps" a year ago. As stated earlier, **Employment Service Jobs** barely improved. Fortunately, both goods-producing leading indicators contained in the CCI improved again. **Single-Unit Permits**, which reflects new home construction, rose at a double-digit rate, 28.6 percent, thanks in part to an easy comp last October. **Total Manufacturing Hours**, a proxy for manufacturing output, the other goods-producing indicator, rose by 5.2 percent (also a very easy comp). Finally, **US Consumer Sentiment** improved in October (+15.1), its twelfth consecutive increase. Sustaining momentum in our state's goods-producing sector appears to be the primary bright spot in this month's data.

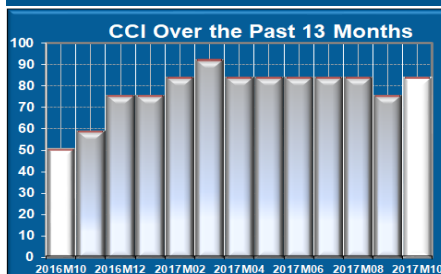
Government Employment was unchanged from a year ago, although its level remained above 60,000. **Private Service-Producing Employment** growth remained sluggish again in October (+0.4), continuing its recent deceleration. **Retail Sales** rose by a healthy 6 percent, its third consecutive increase after either being flat or falling in recent months. **Benefit Exhaustions**, which reflects longer-term unemployment, fell by 3.2 percent in October, its weakest improvement since June. Finally, our **Labor Force** trend, Rhode Island's *train wreck*, barely managed to improve in October, now eight in a row.

CCI Indicators - % Change	
Government Employment	0.0
US Consumer Sentiment	15.1 Y
Single-Unit Permits	28.6 Y
Retail Sales	6.0 Y
Employment Services Jobs	0.1 Y
Priv. Serv-Prod Employment	0.4 Y
Total Manufacturing Hours	5.2 Y
Manufacturing Wage	5.6 Y
Labor Force	0.5 Y
Benefit Exhaustions	-3.2 Y
New Claims	3.1
Unemployment Rate (change)	-0.9 Y
Y = Improved Value	

last out of national weakness. Historically, Rhode Island falters a year or longer before the national economy does. So, we *might* be seeing the beginning of weakness here. Based on what? First, payroll employment here has now declined on a monthly basis for three consecutive months. Second, income-related tax receipts have begun to disappoint. Third, welfare-related caseloads have begun to rise. That three-part combination is a "text book" pattern for slowing economic activity. As I noted last month, it is quite possible that recent payroll employment declines are spurious. We won't know that until the labor market data revisions are released in February. Remember our state's motto!

At the risk of sounding like a commercial, "Wait, there's more." **Employment Service Jobs**, an indicator that includes temporary employment and is a leading indicator of future employment, barely improved in October (+0.1%), for only the second time

LABOR FORCE:	Oct 2017	Peak (1/2007)
Participation Rate	64.4%	68.6%
Employment Rate	61.7%	65.4%



DLT OCT Employment (SA, Y/Y)	
Gain	5,800
Loss	1,200
Net Chg	4,600

83		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2016	50↓	58↓	58↑	33↓	50	42	58↓	50↓	75	50↓	58↓	75↓
	2017	75	83	92	83	83	83	83	83	75	83		