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Rhode Island Current Conditions Index -- July 2018

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CURRENT CONDITIONS INDEX

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The third quarter didn't exactly start off with a bang for Rhode Island. While its 2018 economic performance overall has been both hopeful and at times disappointing, things got a bit more dicey in July.

The July Current Conditions Index fell all the way from 83 in June (when ten of twelve indicators improved) to 58, barely above neutral, as only seven indicators showed improvement relative to last July. Not only was the July value the lowest this year, July marked the fifth time this year the CCI has failed to exceed its year-earlier value. What I find perplexing is that the July 2017 CCI wasn't exactly stellar - at 75 it should not have been that difficult to improve upon.

Let's not get too carried away. Remember the first rule of analyzing any economy: *Never place too much weight on values for a single month*. That guidance provides a meaningful context (or more realistically cover) with which to undertake this analysis. First and foremost, we must remember that Rhode Island's economy is continuing to perform at its best levels since the Great Recession. Perhaps the greatest positive for July pertains to what I have referred to as the "left behind" indicators—these continued to gain further ground in July, likely a continuation of the **LO** portion of **FILO** (First In, Last Out of national economic weakness). So *levels* overall are indeed getting better. The Current Conditions Index is a *momentum* index, reflecting how much levels are changing. So, if the July CCI results hold after possible revisions, and more disappointing values follow, an outcome not certain by any means, that would reflect that Rhode Island's rate of growth is beginning to move toward a peak. Not the end of the world, but something we can't entirely dismiss, since with our **FILO** status, our economy peaks anywhere from twelve to eighteen months before the national economy.

CCI Indicators - % Change		
Government Employment	0.0	
US Consumer Sentiment	4.9	Y
Single-Unit Permits	-18.3	
Retail Sales	3.7	Y
Employment Services Jobs	-0.0	
Priv. Serv-Prod Employment	2.9	Y
Total Manufacturing Hours	5.2	Y
Manufacturing Wage	-0.6	
Labor Force	1.3	Y
Benefit Exhaustions	-11.5	Y
New Claims	16.0	
Unemployment Rate (change)	-0.3	Y

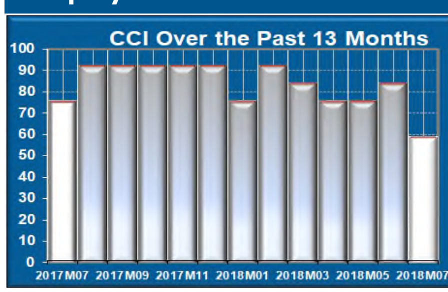
Y = Improved Value

For July, only seven CCI indicators improved. All did so in spite of difficult comps a year ago. As has been true throughout 2018, the "left behind" indicators continued to improve, sustaining uptrends that began in January. The labor force participation rate, the percentage of our resident population in the labor force, rose to its highest level since March of 2016: 64.9 percent. The employment rate, the percentage of the resident population that is employed, attained its highest value since *late 2008: 62.2 percent*. *While both remain well below their prior cyclical highs* (see table below), their July and 2018 performances overall are encouraging. This is significant since payroll employment (the number of jobs in RI) has already surpassed its prior peak, and now resident employment (the number of employed RI residents) is moving ever closer to its prior peak.

Only two of the five leading indicators contained in the CCI improved this month. **New Claims** rose in July (+16.0%), postponing its ability to resume a downtrend. Rhode Island's goods-producing sector's performance was mixed. **Total Manufacturing Hours**, a proxy for manufacturing output, an important element of Rhode Island's strength over the past two years, rose strongly in July (+5.2%) based improvements in both employment and the length of the workweek. **Single-Unit Permits**, which reflect new home construction, decreased again at a double-digit rate (-18.3%), its sixth decline in the past nine months. **Employment Service Jobs**, a leading labor market indicator that includes temporary employment, failed to improve in July, perhaps signaled by its recent slowing growth rates. **US Consumer Sentiment** increased in July (+4.9%), its sixth consecutive improvement. **Retail Sales** grew again (+3.7%), but growth remained below recent double-digit rates. **Government Employment** remained unchanged from its level a year ago. **Private Service-Producing Employment** growth remained above the one percent level, accelerating in July (+2.9%). Finally, **Benefit Exhaustions**, the most timely measure of longer-term unemployment, fell sharply in July (-11.5%).

Finally, more great news for the mindless economy watchers, those for whom the **Unemployment Rate** tells all: The **Unemployment Rate** improved again in July, allaying their fears of the imminent collapse of Western Civilization. Better yet, this was again accompanied by both monthly and annual rises in our **Labor Force**, its thirteenth consecutive year-over-year increase.

LABOR FORCE:	July 2018	Peak (1/2007)
Participation Rate	64.9%	68.6%
Employment Rate	62.2%	65.4%



DLT July 2018 Employment (SA,Y/Y)	
Gain	10,400
Loss	1,200
Net Chg	9,200

58

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2017	75↑	83↑	92↑	75↑	83↑	92↑	75↑	92↑	92↑	92↑	92↑	83↑
2018	75	92	75	75↑	92	83	58					