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Rhode Island Current Conditions Index -- September 2019

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CURRENT CONDITIONS INDEX

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Rhode Island's third quarter economic performance appears at first glance to be disappointing, as the Current Conditions Index fell from its highest value for the year thus far, 83 in July, to 67 in August then down to a barely expanding value of 58 in September. While *statistically* this appears to reflect a clear weakening in Rhode Island's third quarter economic momentum, a closer, more in-depth look reveals that things are not necessarily as weak as one would conclude by merely focusing on the overall CCI numbers.

The CCI's values each month are derived by looking at year-over-year (yearly) changes in each of its twelve indicators after seasonally adjusting the data. What drives changes in yearly values? Underlying trends in month-to-month (monthly) changes. And it is in this distinction between the two sets of values that I find grounds for some optimism in the recent performance of Rhode Island's economy.

At present, a number of individual CCI indicators are performing badly on a yearly basis, most notably our **Labor Force**, **Total Manufacturing Hours** and **Benefit Exhaustions**. Yearly weakness in the latter two are particularly worrisome, as these reflect trends where manufacturing continues to trend lower while longer-term unemployment has of late been trending higher. Obviously, these are not unrelated.

CCI Indicators - % Change		
Government Employment	0.7	Y
US Consumer Sentiment	-7.2	
Single-Unit Permits	53.1	Y
Retail Sales	10.7	Y
Employment Services Jobs	8.2	Y
Priv. Serv-Prod Employment	2.1	Y
Total Manufacturing Hours	-5.8	
Manufacturing Wage	3.2	Y
Labor Force	-0.1	
Benefit Exhaustions	16.0	
New Claims	3.1	
Unemployment Rate (change)	-0.3	Y
Y = Improved Value		

Lurking behind problematic yearly performances are several promising monthly trends, which could ultimately reverse yearly weakness should they be sustained in the coming months. Most notable among these is Resident Employment, the number of employed Rhode Island residents. While this remains well below its 2006 level, it has now risen for every month since May. Ditto for the Employment Rate and Labor Force Participation Rate. Professional and Business Service employment has also strengthened monthly since May.

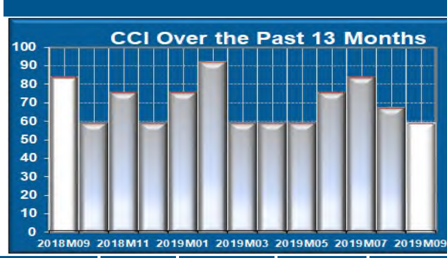
Last month, I raised the possibility that Rhode Island's economy might be at an inflection point, where our negatives begin to wane in relative importance, resulting in more favorable ongoing economic performance. I continue to believe in that possibility while fully grasping that Rhode Island's short-term fate rests almost entirely with the performances of the Massachusetts and national economies. Will Rhode Island remain in second gear or upshift into third gear? Time will tell.

In September, seven of the twelve CCI indicators improved with many displaying strong performances while at the same time the indicators failing to improve displayed substantial weakness. The CCI failed to exceed its year-earlier value again, as only two of the five leading indicators contained in the CCI improved.

Our state's **Labor Force** improved again on a monthly but not yearly basis for the fourth consecutive time since January. Long-term unemployment, as reflected by **Benefit Exhaustions**, failed to improve (rose) at a double-digit rate and its trend has turned positive (we want negative). **New Claims** for Unemployment Insurance, the most timely measure of layoffs, rose in September after falling four consecutive months. **Retail Sales**, our "star" indicator for quite some time now, improved at a double-digit rate in September. **Employment Service Jobs**, a leading indicator that includes temps, increased impressively in September (+8.2%), its sixth consecutive increase. Yet another bright spot was the growth in **Private Service-Producing Employment**, which rose for a sixth consecutive month (+2.1%). Finally, **Government Employment** increased again in September for the twelfth time in the last thirteen months, remaining well over 61,000.

My greatest concern continues to be the performance of our goods-producing sector, the most highly cyclical element of our economy. While the **Manufacturing Wage** rose (+3.2%), **Total Manufacturing Hours**, a proxy for manufacturing output, fell by 5.8 percent, its twelfth consecutive decline, while **Single-Unit Permits**, a measure of new home construction, surged by over 50 percent (very weak comp), but remains in a downtrend. **US Consumer Sentiment** failed to improve again, which could impact **Single-Unit Permits** and **Retail Sales** in the future.

LABOR FORCE:	Sep 2019	Peak (1/2007)
Participation Rate	M↑ Y↓ 64.3%	68.6%
Employment Rate	M↑ Y↓ 62.0%	65.4%



DLT Sep 2019 Employment (SA,Y/Y)	
Gain	9,800
Loss	2,600
Net Chg	7,200

58	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2018	75	100↑	83↑	83↑	100↑	92↑	75	67↓	75↑	58↑	83↑	58↑
2019	75	33↓	58↑	58	58	75	83	67	58			