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Rhode Island Current Conditions Index -- January 2015

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The revised labor market data have now been released. They show higher payroll employment, a welcome statistic, and significant declines in our Unemployment Rate throughout much of 2014. This is as good as it has been for a while - our labor market is performing better than it has for some time and we are witnessing the return of a number of key labor indicators to their 2008 levels. That’s the good news.

Unfortunately, Rhode Island employment peaked all the way back in December of 2006 - over eight years ago. As of January, we have now replaced only about two thirds of the jobs lost since that peak. Furthermore, Rhode Island’s labor force has been in a well-defined downtrend since late 2012, which apparently intensified after June of 2014, which helps to explain part of the dramatic recent “improvement” in our state’s Unemployment Rate. Ironically, resident employment was revised lower as well. Because of these two revisions to the household survey, I choose to view the downward revisions to our state’s Unemployment Rate somewhat skeptically.

In light of the newly released labor market data, Current Conditions Index values throughout 2014 were not as satisfactory as we had previously been led to believe. Revised months are indicated at the bottom of this report with arrows. Three months were revised higher while three were lower. While this sounds like a “wash,” it indicates that we failed to sustain the string of 75 values from July through September, attaining that value only once last year, in September. This is the type of economic performance that inevitably emerges from a state such as ours that is in dire need of major structural reforms, most notably to taxes, fees, regulations, energy costs, and the lack of skills of our Labor Force. Fortunately for us, Governor Raimondo is addressing all of these areas in her upcoming budget.

In January, three of the five leading indicators contained within the Current Conditions Index improved. US Consumer Sentiment rose sharply once again in January (+2.1%), its sixth increase following three consecutive declines, helped by declining energy prices and an improving stock market. Employment Service Jobs, which includes temporary employment and is a prerequisite to employment growth, rose in January by 2.1 percent. Based on the revised labor market data, this indicator has now improved for seven consecutive months following a string of declines. New Claims, a leading labor market indicator, fell by 8.2 percent in January, resuming its well-defined downtrend following December’s value that was adversely affected by technical factors.

Total Manufacturing Hours, a measure of manufacturing sector strength, fell by 1.1 percent in January, its second decline in the last three months, the result of a sharp decline in the length of the workweek. Along with this, the Manufacturing Wage declined for the eleventh consecutive time, by a difficult to comprehend 4.0 percent. Single-Unit Permits, a volatile indicator that reflects new home construction, fell by 8.3 percent following improvement last month. Viewed along with our state’s January manufacturing performance, the momentum provided by Rhode Island’s goods-producing sector continues to fluctuate.

Retail Sales improved for the twelfth time in the last thirteen months, increasing by 4.2 percent compared to a year ago, following a 9 percent rise in November and 5.4 percent in December. Private Service-Producing Employment increased by 1.6 percent in January, its most rapid growth rate since last August. Not surprisingly, Government Employment failed to improve again, declining by 0.2 percent for January, remaining around 60,000. Benefit Expirations, which reflects longer-term unemployment, fell by 23.7 percent relative to a year ago.

Finally, Rhode Island’s Labor Force fell for the twenty-first consecutive month (year-over-year) while our Unemployment Rate declined to 6.5 percent.

The recent labor market data revisions contained several positives for Rhode Island, most notably that payroll employment performed better than we thought, returning to 2008 levels. While our jobless rate was revised lower, so too was our labor force, which continues a well-defined downtrend that began in late 2012, responsible for a significant portion of the recent jobless rate declines, especially those since June of last year. On a positive note, our state’s recovery is continuing, aided in large part by national economic momentum. In order for us to shift into a higher gear, we can no longer postpone essential structural reforms that will allow us to grow more rapidly.