

CURRENT CONDITIONS INDEX

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The revised labor market data for Rhode Island were both very disappointing and concerning. The household survey, from which the **Labor Force**, resident employment and the **Unemployment Rate** are derived registered large negative changes for the second half of 2022, with the exception of the **Unemployment Rate**. Along with a mind boggling (secular) downtrend in the Labor Force participation that extends all the way back to late 2006, the official (naïve) **Unemployment Rate** fell all the way to 3.1 percent in January, even as resident employment, the number of employed Rhode Island residents, was revised lower and was in a downtrend throughout the second half of last year. Ironically, the economic statistic I was most worried about, payroll employment, the number of jobs in Rhode Island, which had remained well below its pre-pandemic level, did not see dramatically lower values, as changes were relatively minor. It remains, however, well below its pre-pandemic high, has fallen back to an earlier peak in December of 2006, and has trended downwards since last August. Along with all of this, Current Conditions Index values for much of last year were revised: There were three upward revisions and six downward revisions, almost all of which occurred since August.

In an attempt to put this all together, [Rhode Island's economy has performed badly since late summer, ending 2022 with a neutral value of 50 then moving into the contraction range with a value of 33 in January of 2023.](#) January's economic performance ended a long string of improvements in the CCI, where it had remained in the expansion or neutral ranges since June of 2021.

CCI Indicators - % Change	
Government Employment	-1.3
US Consumer Sentiment	-3.6
Single-Unit Permits	-25.5
Retail Sales	-0.7
Employment Services Jobs	-11.7
Priv. Serv-Prod Employment	1.7 Y
Total Manufacturing Hours	-0.3
Manufacturing Wage	3.6 Y
Labor Force	-0.6
Benefit Exhaustions	-27.7 Y
New Claims	18.2
Unemployment Rate (change)	-0.4 Y
Y = Improved Value	

The list of disappointing indicator performances is unfortunately rather long. Consider the leading indicators contained in the CCI. Layoffs, in terms of **New Claims** has begun to rise over the past two months. New home construction, based on **Single-Unit Permits**, has also been declining for some time now. **Total Manufacturing Hours**, an indicator that did extremely well during the pandemic and afterwards, has now begun to falter, declining in January (-0.3%). **US Consumer Sentiment** has also been falling since July of 2021. **Employment Services Jobs**, which includes temps and leads future changes in employment, has now declined on a monthly basis for seven consecutive months and twice based on year-earlier values.

Beyond these, the one statistic that I feared would eventually go

negative has, at least for now: **Retail Sales**. While this has been declining in *real* terms for some time, in January it fell relative to a year ago *in dollar terms* for the first time since June of 2020. Remember, this is not a survey-based statistic.

As has now become all too apparent, the monthly CCI's behavior along with weakness in the leading indicators contained in the CCI correctly signaled that problems were in our future. As it turns out, unbeknownst to us, we were already experiencing these issues throughout most of the second half of 2022. It took data revisions to make this more readily apparent. So the inevitable question emerges: Has Rhode Island prepared itself for a slowing economy? Sadly, the answer is no. While a few measures were implemented during the pandemic and post-pandemic period, our structural deficiencies remain, even after receiving massive amounts of federal money and registering large budget surpluses.

In this report and on my Twitter feed (@ladardo) I have documented numerous instances where key economic indicators of our state's economy are either moving in the wrong direction or are actually falling. More concerning to me is the fact that a number of these are leading economic indicators. All of this began to take hold and to dominate overall performance around August of last year. Will the performances of these variables turn around and begin a period of sustained improvement? Possibly, but I'm not willing to bet on that possibility given national trends, especially monetary and financial tightening.

The recent behavior of Rhode Island's economy in light of the new data suggests the *possibility* that we are either moving toward or have begun to enter a recession. At this point, it is far too early to make that determination. Clearly, data will be revised, hopefully higher, and new data might be stronger. But that is not at all certain given the combination of a slowing national economy and monetary tightening, many of whose effects we have yet to feel. Working against us is the fact that Rhode Island has historically suffered from FILO (**F**irst **I**n, **L**ast **O**ut). So, we *could* be witnessing **FI**, which is not entirely unrealistic to assume. Let's hope not. Unfortunately, we won't know this for a while.

LABOR FORCE:	JAN 2023	Peak (1/2007)
Participation Rate	62.9%↓	68.5%
Part Adj Unem %	5.9%↑	
Employment Rate	60.9%↓	65.1%

JOB CHURN	
DLT JAN 2023 (SA,Y/Y)	
Gain	11,000
Loss	1,800
Net Chg	9,200

33		Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
	2022	83↑	75	67↓	75↑	75↑	67	75	83↓	83↓	67↓	58↓	50↓
	2023	33											