



BRIEFING



A joint publication of The Center for Global and Regional Economic Studies at Bryant University
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Q2 2019

Faster Growth than projected in Q1 2019, but overall GDP performance is still sluggish

The Rhode Island Gross Domestic Product (GDP) is projected to have expanded 1.7 percent in the second quarter of 2019, compared to 2.2 percent in the first quarter of 2019, 1.0 percent in the fourth quarter of 2018, and a contraction of 5.7 percent in the third quarter of 2018. GDP growth in the first quarter of 2019 was higher than projected in the previous issue of this *Briefing*. Consistent with previous forecasts, GDP growth is projected to be sluggish and increase 1.5 percent in the third quarter of 2019.

Structural problems persist for Rhode Island; the state's GDP growth continues to be slower than that of the New England region and the nation, widening the "growth gap" in 2019 (see Figure 2). The Regional Current Economic Indicator estimates that the New England economy grew at an annualized rate of 1.8 percent in the second quarter of 2019, compared to 2.5 percent in the first quarter of 2019, 1.7 percent in the fourth quarter of 2018, and 3.3 percent in the third quarter of 2018. The U.S. GDP increased at an

annualized rate of 2.1 percent in the second quarter of 2019, compared to 3.1 percent in the first quarter of 2019, 1.1 percent in the fourth quarter of 2018, and 2.9 percent in the third quarter of 2018.

Rhode Island's weak GDP performance contrasts to overall improvement in its labor market. Total nonfarm employment grew from 495,200 jobs in January 2019 to 502,200 jobs in June, an increase of 7,000 jobs. The unemployment rate dropped to 3.6 percent in June 2019, compared to 4.0 percent in January 2019. In addition, seven of eleven internal factors that comprise the Rhode Island Current Economic Indicator (CEI) positively affected economic growth in the second quarter of 2019. However, economic activity and employment in manufacturing and professional and business services contracted in the second quarter of 2019.

The persistent slow growth of GDP together with recent growth in employment indicates that Rhode Island faces a *productivity problem* that

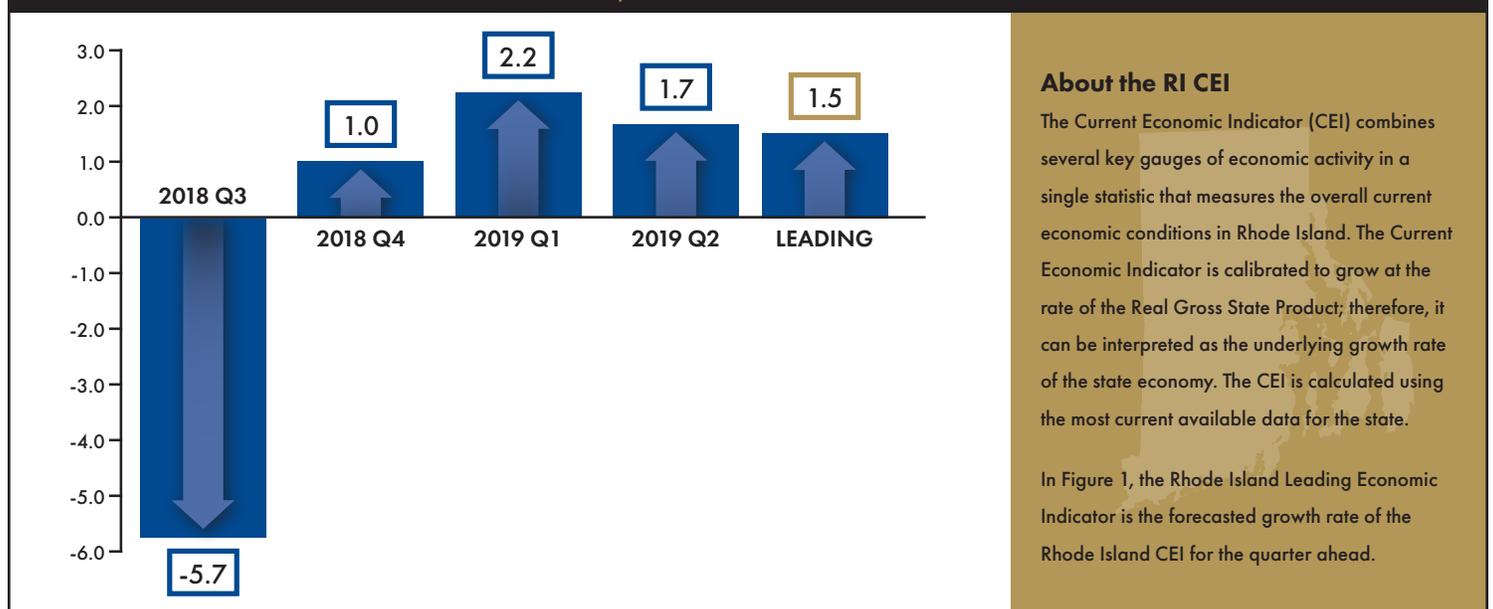
has negatively affected key industries, including manufacturing, professional, scientific and technical services, information services, and transportation services. Rhode Island needs a long-term strategy that fosters productivity growth in the state.

Internal factors impact growth

Seven of eleven internal factors that comprise the Rhode Island CEI positively affected economic growth in the second quarter of 2019. General sales and gross receipt taxes, a proxy for aggregate state demand, increased 5.9 percent (*seasonally adjusted, year-to-year*) in the second quarter (only includes April and May) of 2019. On average, it increased 6.3 percent over the last 4 quarters. These figures suggest that despite headwinds, consumer spending continues to increase in Rhode Island.

Leisure and hospitality experienced strong job growth and expanded 10.3 percent (*annualized rate*) in the second quarter of 2019. The recent job

FIGURE 1: RHODE ISLAND ECONOMIC INDICATOR, Q2 2019



About the RI CEI

The Current Economic Indicator (CEI) combines several key gauges of economic activity in a single statistic that measures the overall current economic conditions in Rhode Island. The Current Economic Indicator is calibrated to grow at the rate of the Real Gross State Product; therefore, it can be interpreted as the underlying growth rate of the state economy. The CEI is calculated using the most current available data for the state.

In Figure 1, the Rhode Island Leading Economic Indicator is the forecasted growth rate of the Rhode Island CEI for the quarter ahead.

creation was enough to offset two consecutive quarters of job losses. Employment in leisure and hospitality grew from 57,300 jobs in January 2019 to 59,400 in June, an increase of 2,100 jobs. However, current employment levels are the same as observed in the third quarter of 2018.

Employment in construction increased 6.3 percent (*annualized rate*) in the second quarter of 2019, compared to an increase of 4.9 percent in the first quarter of 2019 and 2.7 percent in the fourth quarter of 2018. Employment in financial services increased 5.7 percent (*annualized rate*) in the second quarter of 2019 and 2.3 percent in the first quarter of 2019, compared to an increase of 0.8 percent in the fourth quarter of 2018 and a decrease of 0.5 percent in the third quarter of 2018.

Employment in education and health services increased 7.7 percent (*annualized rate*) in the second quarter of 2019, compared to a decrease of 0.1 percent in the first quarter of 2019, an increase of 2.9 percent in the fourth quarter of 2018, and an increase of 0.4 percent in the third quarter of 2018. Trade, transportation, and utilities services employment increased 3.8 percent (*annualized rate*) in the second quarter of 2019, compared to no employment change in the first quarter of 2019 and an increase of 3.0 percent in the fourth quarter of 2018.

The information services sector has been unable to reverse a downturn that started in the mid-2000s and has resulted in the loss of more than 3,000 jobs since 2006. Despite of a positive performance in the second quarter of 2019, there is virtually no job growth in Rhode Island's information services industry over the last 12 months.

Four of eleven internal factors that comprise the Rhode Island CEI negatively affected economic growth in the second quarter of 2019. The manufacturing industry continued to shed jobs, shrinking 6.2 percent (*annualized rate*) in the second quarter of 2019. Employment growth in manufacturing faces headwinds across the nation, but Rhode Island has been losing manufacturing jobs at a disproportionately faster rate since the 2008 Great Recession. The recent performance of professional and business services is also worrisome. Employment in professional and business services decreased 1.2 percent (*annualized rate*) in the second quarter of 2019 and 9.7 percent in the first quarter of 2019, compared to an increase of 0.6 percent in the fourth quarter of 2018 and an increase of 2.5 percent in the third quarter of 2018.

Despite total employment growth, real wages and salary disbursements decreased 1.0 percent (*annualized rate*) in the second quarter of 2019,

compared to a decrease of 1.9 percent in the first quarter of 2019 and an increase of 11.8 percent in the fourth quarter of 2018. The lack of growth in real wages is directly related to the state's low labor productivity problem indicated above.

Initial unemployment claims – which gauge the direction of the labor market and unemployment rate – increased 27.3 percent in the second quarter of 2019, compared to a decrease 20.1 percent in the first quarter of 2019. Initial unemployment

claims have been particularly volatile over the last two years in Rhode Island, suggesting that the labor market is inherently volatile in the state.

Data Revisions and Corrections

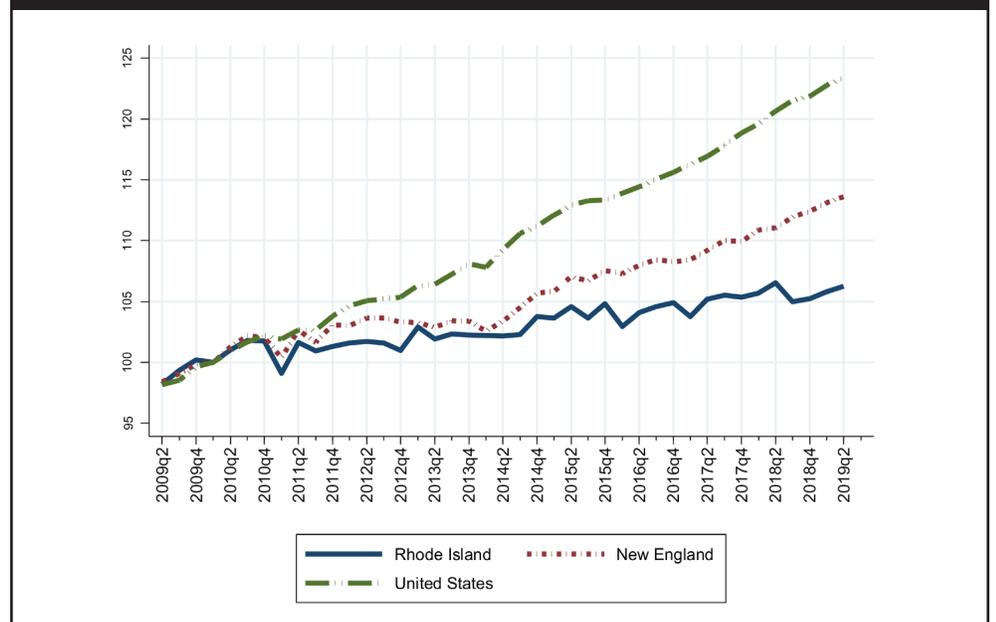
This issue of the Briefing incorporates revisions to employment data by the U.S. Bureau of Labor Statistics and to the quarterly GDP data by the U.S. Bureau of Economic Analysis.

TABLE 1: PERFORMANCE OF KEY ECONOMIC INDICATORS (% CHANGE)

VARIABLE	2018.Q3	2018.Q4	2019.Q1	2019.Q2
Rhode Island Current Economic Indicator (RI CEI)	-5.7 ^A	1.0 ^A	2.2 ^A	1.7 ^B
Components of the RI CEI:				
Regional Economic Conditions (GDP)	3.3 ^A	1.7 ^A	2.5 ^A	1.8 ^B
National Economic Conditions (U.S. GDP)	2.9	1.1	3.1	2.1
Construction Employment	0.0	2.7	4.9	6.3
Manufacturing Employment	-3.2	-4.2	0.6	-6.2
Trade, Trans. and Utilities Employment	0.0	3.0	0.0	3.8
Information Services Employment	9.3	7.0	-6.5	12.0
Prof. and Bus. Services Employment	2.5	0.6	-9.7	-1.2
Financial Services Employment	-0.5	0.8	2.3	5.7
Leisure and Hosp. Employment	2.3	-11.0	-1.9	10.3
Education and Health Services Employment	0.4	2.9	-0.1	7.7
Wage and Salary Disbursements	-8.4	11.8	-1.9	-1.0
Avg. Weekly Initial Unemployment Claims*	-10.5	17.6	-20.1	27.3
General Sales and Gross Receipt Taxes*	7.0	5.9	6.4	5.9

Figures are annualized percentage changes from previous quarter. All data series are seasonally adjusted.
* Variable is not annualized. ^A Actual GDP growth from the U.S. BEA. ^B GDP growth estimate.

FIGURE 2: ECONOMIC INDICATORS: RI, US, AND REGIONAL 2009 – 2019



- The Rhode Island Economic Briefing is published quarterly by The Rhode Island Public Expenditure Council and the Center for Global and Regional Economic Studies at Bryant University. For information, contact Edinaldo Tebaldi, Ph.D., at etebaldi@bryant.edu.
- The Current and Leading Economic Indicators are revised periodically to incorporate changes in the data used to calculate the index.
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