



BRIEFING



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Q2 2020

Pandemic causes historic contraction of economic activity and employment in Q2 2020

The Rhode Island Gross Domestic Product (GDP) is projected to have experienced a historic contraction of 40.6 percent (annualized rate) in the second quarter of 2020, compared to a reduction of 6.2 percent in the first quarter of 2020, an expansion of 2.2 percent in the fourth quarter of 2019, and an expansion of 1.6 percent in the third quarter of 2019. Rhode Island's economic contraction is more severe than contractions across the region and the nation. The Regional Current Economic Indicator estimates that the New England economy shrank 34.5 percent (annualized rate) in the second quarter of 2020, compared to a contraction of 5.2 percent in the first quarter of 2020, an expansion of 1.8 percent in the fourth quarter of 2019, and an expansion of 2.1 percent in the third quarter of 2019. The U.S. economy also shrank at historically unprecedented rates in the first half of 2020, with

GDP shrinking at an annualized rate of 32.9 percent in the second quarter of 2020 and 5.0 percent in the first quarter of 2020, compared to growth of 2.4 percent in the fourth quarter of 2019 and 2.6 percent in the third quarter of 2019.

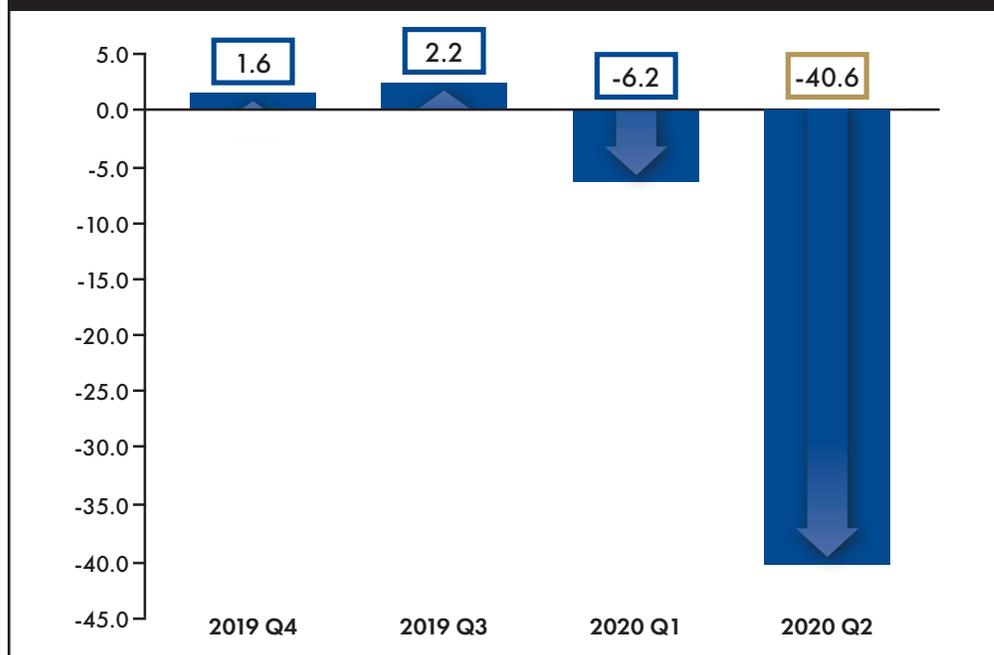
The devastating effects of the COVID-19 pandemic on Rhode Island's economy are particularly noticeable in labor market indicators. Total nonfarm employment decreased from 506,900 jobs in January 2020 to 410,300 jobs in April and then partially recovered by June, increasing to 443,600 jobs. The unemployment rate increased from 3.4 percent in January 2020 to 18.1 percent in April and then declined to 12.4 percent in June. Overall, there were job losses across all private industries in the state and all 11 internal factors that comprise the Rhode Island CEI contributed to reduced economic activity in the second quarter of 2020.

Internal factors impact growth

Business in leisure and hospitality came to a near halt due to the COVID-19 pandemic, causing massive job losses in this sector. Employment in leisure and hospitality reduced by 50.3 percent in the second quarter of 2020, following a reduction of 1.2 percent in the first quarter of 2020. Employment in leisure and hospitality decreased from an average of 59,670 jobs in the first quarter of 2020 to 29,630 in the second quarter of 2020. The reopening of the economy led to the rehiring of some employees in June, but economic activity in leisure and hospitality is still severely curtailed due to the pandemic.

The trade, transportation, and utilities services industry has also been significantly affected by the pandemic. Employment in this sector decreased 14.0 percent in the second quarter of 2020,

FIGURE 1: RHODE ISLAND ECONOMIC INDICATOR, Q2 2020



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.

compared to growth of 0.3 percent in the first quarter of 2020 and 1.6 percent in the fourth quarter of 2019.

Professional and business services is economically important to Rhode Island, but the sector was stagnant prior to the pandemic and suffered major job losses in the second quarter. Employment in professional and business services decreased 12.9 percent in the second quarter of 2020, following a decrease of 0.3 percent in the first quarter of 2020, compared to almost no growth in the fourth and third quarters of 2019.

Education and health services, the largest combined industry and historically one of the most resilient sectors of the Rhode Island economy, also experienced major job losses. Employment in education and health services declined 13.7 percent in the second quarter of 2020, following an increase of 0.2 percent in the first quarter of 2020 and an increase of 1.0 percent in the fourth quarter of 2019.

Financial services, information, and manufacturing industries all experienced single-digit job losses in the second quarter of 2020. Employment in financial services decreased 4.1 percent in the second quarter of 2020, following growth of 0.7 percent in the first quarter of 2020 and a contraction of 0.4 percent in the fourth quarter of 2019. The information services sector — which never recovered from structural changes and the effects of the 2008 Great Recession — experienced job losses amounting to 5.4 percent in the second quarter of 2020, 5.1 percent in the first quarter of 2020, and 0.5 percent in the fourth quarter of 2019. The Rhode Island manufacturing industry marked four quarters of consecutive job losses, adding to a bleak employment situation that has seen the elimination of more than two thirds of the jobs in this sector over the last two decades. Employment in manufacturing shrank 4.4 percent in the second quarter of 2020, 0.3 percent in the first quarter of 2020, 0.6 percent in the fourth quarter of 2019, and 0.3 percent in the third quarter of 2019.

Other important metrics of economic health also were dismal in the second quarter of 2020. Real wages and salary disbursements is estimated to have decreased 8.9 percent in the second quarter of 2020, following a decrease of 0.5 percent in the first quarter of 2020 and an increase of 2.1 percent in the fourth quarter of 2019. General sales and gross receipt taxes, a proxy for aggregate state demand, decreased 18.5 percent (seasonally adjusted, year-to-year) in the second quarter (only includes April and May) of 2020, which

suggests that consumer spending declined substantially in Rhode Island because of the pandemic. Finally, initial unemployment claims — which gauge the direction of the labor market and unemployment rate — continue to be extremely high and indicate that the labor market is far from stabilizing. Initial unemployment claims increased 84.9 percent in the second quarter of 2020 and 379.0 percent in the first quarter of 2020.

Data Revisions and Corrections

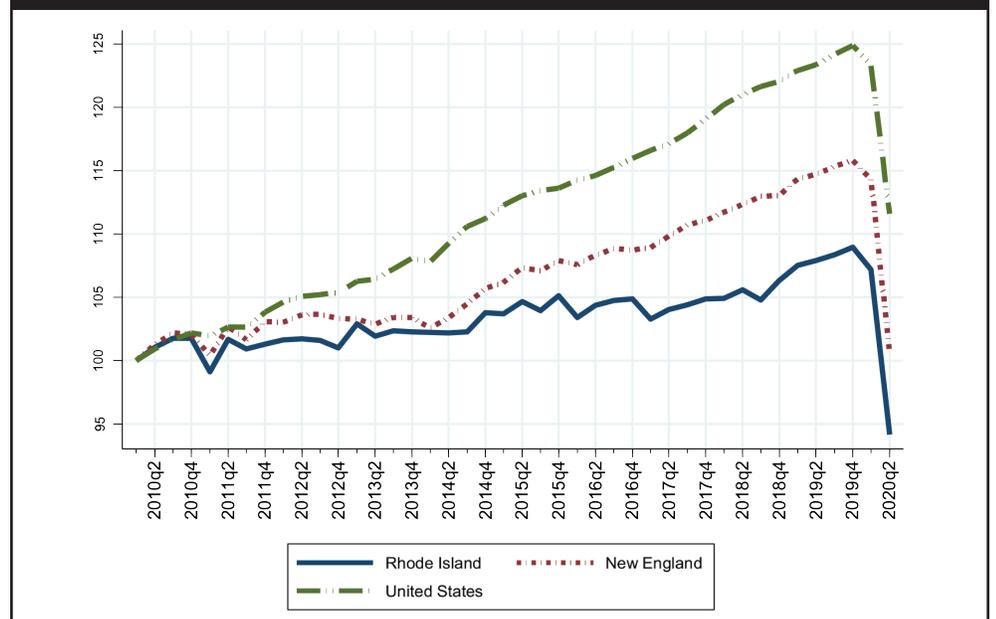
This issue of the *Briefing* presents a growth rate of employment that has not been annualized (standard practice) as annualized figures would be hard to interpret because of the unusually large rate of change observed this quarter. In addition, it incorporates revisions to employment data by the U.S. 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	2019.Q3	2019.Q4	2020.Q1	2020.Q2
Rhode Island Current Economic Indicator (RI CEI)	1.6 ^A	2.2 ^A	-6.2 ^A	-40.6 ^B
Components of the RI CEI:				
Regional Economic Conditions (GDP)	2.1 ^A	1.8 ^A	-5.2 ^A	-34.5 ^B
National Economic Conditions (U.S. GDP)	2.6 ^A	2.4 ^A	-5.0 ^A	-32.9 ^A
Construction Employment	-0.5	-1.7	2.2	-10.8
Manufacturing Employment	-0.3	-0.6	-0.3	-4.4
Trade, Trans., and Utilities Employment	-0.1	1.6	0.3	-14.0
Information Services Employment	2.8	-0.5	-5.1	-5.4
Prof. and Bus. Services Employment	0.1	0.1	-0.3	-12.9
Financial Services Employment	0.6	-0.4	0.7	-4.1
Leisure and Hosp. Employment	0.2	0.6	-1.2	-50.3
Education and Health Services Employment	-0.3	1.0	0.2	-13.7
Wage and Salary Disbursements	-2.9	2.1	-0.5	-8.9
Avg. Weekly Initial Unemployment Claims*	-26.0	19.1	379.0	84.9
General Sales and Gross Receipt Taxes*	7.3	9.2	10.4	-18.5
Total Non-Farm Employment	-0.1	0.5	-0.1	-15.7

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 2010–2020



- 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.
- To learn more about the Center for Global and Economic Studies at Bryant University and about RIPEC: www.bryant.edu/ces | www.ripec.org