



BRIEFING



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Economic Expansion Holding

Rhode Island: Sustaining Growth

The Rhode Island Current Economic Indicator for the first quarter of 2011 increased 1.9 percent (annualized rate). This rate is about the same as in the third and fourth quarters of 2010 as illustrated in **Figure 1** and **Table 1**, suggesting that the economy has sustained much needed economic expansion.

The Rhode Island Leading Economic Indicator forecasts growth in the Current Economic Indicator. The Leading Indicator projects that the economy will expand 1.8 percent (annualized rate) over the next two quarters.

These figures confirm that the state's economy has been expanding, but the labor market has yet to rebound. Economic expansion usually precedes job growth. Job creation will be quite slow in Rhode Island as the current and the short-term rates of economic growth are relatively small.

Regional and national recovery impact

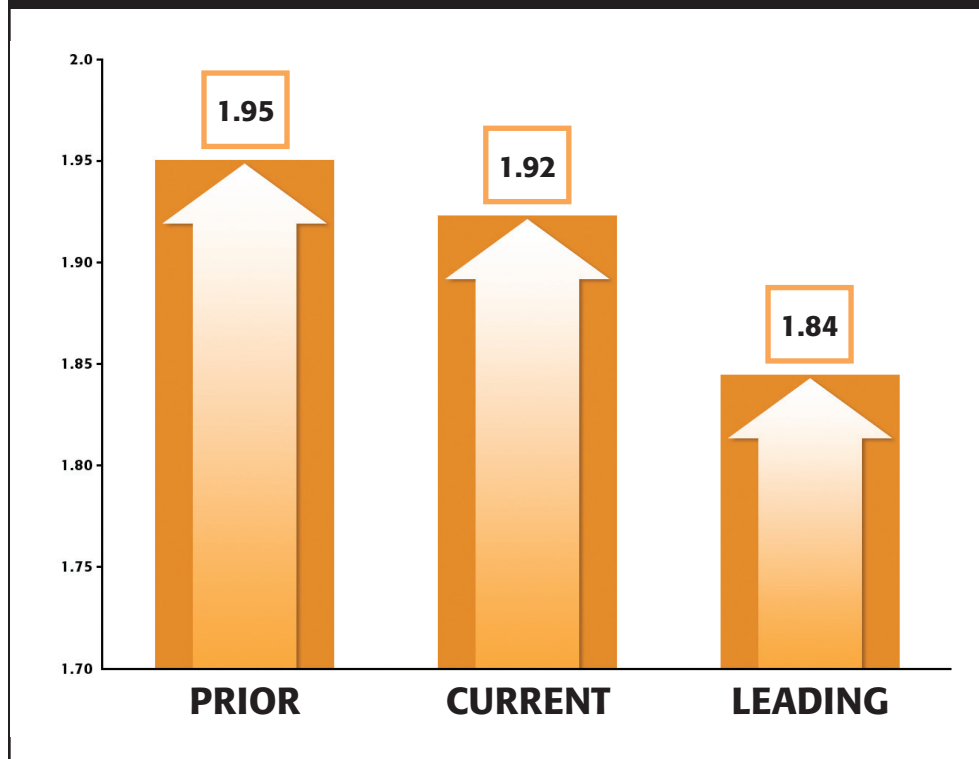
Rhode Island's economy responds to regional and national economic changes. Estimates imply that about one-third of the variations in Rhode Island's economy are explained by regional and national factors. The slowdown in the national

recovery in the first quarter of the year affected Rhode Island. The U.S. Gross Domestic Product (GDP) increased at an annualized rate of 1.8 percent in the first quarter of 2011, compared to 3.1 percent in the fourth quarter of 2010. This decrease in GDP growth was likely caused by increasing food and energy prices.

Rhode Island also benefits from economic growth in other New England states. According to the Regional Current Economic Indicator, the New England economy increased at an annualized rate of 2.1 percent in the first quarter of 2011.

Economic growth in Rhode Island in the first quarter is consistent with the trends observed in New England and the rest of the nation. However, Rhode Island needs to grow faster to create jobs and reduce unemployment.

FIGURE 1: RHODE ISLAND ECONOMIC INDICATOR, 2011 Q1



About the 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 calculated as the six-month (two quarters) ahead growth rate of the Rhode Island CEI. The Prior Economic Indicator is simply the CEI measured two quarters ago.

Internal factors impact growth

Several internal factors usually susceptible to business cycles improved and contributed to the economic expansion in Rhode Island in the first quarter: general sales and gross receipt taxes, serving as a proxy for local aggregate demand, up 2.7 percent (seasonally adjusted annualized rate); total real wages and salary disbursements up 1.7 percent.

The state labor market has stabilized, indicated by a significant decrease in initial unemployment claims and an increase in employment in some sectors. Activity in trade, transportation, and utilities services increased employment 8.7 percent (annualized rate) in Q1 2011. Professional and business services employment increased 7.3 percent (annualized rate). Leisure and hospitality services contracted 3.7 percent (annualized rate). Greatly affected by the housing market bust, the construction sector shrank significantly over the last three years. Construction activity has stabilized; the number of jobs in construction stayed constant.

Historical Trend

Figure 2 depicts the Rhode Island Current Economic Indicator compared to the New England Economic Indicator and the United States Real Gross Domestic Product. The effects of the great recession were more severe in Rhode Island than in the region or in rest of the nation and its recovery slower.

Data Revisions and Corrections

In March, the U.S. Bureau of Labor Statistics revised the state employment data, significantly affecting employment estimates in Rhode Island. This revision is incorporated in this issue. We changed the way general sales and gross receipt taxes are calculated by excluding refund adjustments and transfers. The change in general sales and gross receipt taxes reported in Table 1 of 2010 Q4 issue of this *Briefing* were incorrect; Table 1 of the current *Briefing* is correct.

TABLE 1: PERFORMANCE OF KEY ECONOMIC SECTORS

VARIABLE	2010.Q2	2010.Q3	2010.Q4	2011.Q1
Rhode Island Current Economic Indicator	1.63	1.95	1.91	1.92
Components of the RI CEI:				
Regional Economic Indicator	2.28	1.86	1.71	2.14
National Economic Conditions (U.S. GDP)	1.72	2.56	3.11	1.80
Leisure and Hosp. Employment	2.19	5.53	3.80	-3.66
Trade, Trans. and Utilities Employment	-3.24	3.16	4.63	8.74
Prof. and Bus. Services Employment	6.74	-2.71	-2.48	7.30
Construction Employment	-5.63	-3.31	-8.93	0.00
Wage and Salary Disbursements	8.11	3.47	2.58	1.69
General Sales and Gross Receipt Taxes	16.69	-9.72	-0.82	2.69
Avg. Weekly Initial Unemployment Claims*	3.32	-12.20	12.48	-9.84

Figures above are annualized percentage changes from previous quarter. All data series are seasonally adjusted.
*This variable not annualized.

FIGURE 2: ECONOMIC INDICATORS, RI, US, AND REGION FROM 2000

