



BRIEFING



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Q3 2014

Rhode Island's Economy Continues to Grow at Moderate Pace

The Rhode Island Current Economic Indicator (CEI) for the third quarter of 2014 increased at an annualized rate of 2.3 percent, compared to an expansion of 3 percent in the second quarter and 2.1 percent in the first quarter. The Rhode Island Leading Economic Indicator projects the next quarter growth rate of the Rhode Island CEI. The CEI is forecast to expand at an annual growth rate of 2.5 percent in the fourth quarter of 2014. Overall, the Rhode Island economy is projected to expand 2.4 percent in 2014, compared to 1.4 percent in 2013 and 1.3 percent in 2012. The faster growth rates in 2014 contributed to reduce unemployment in the Ocean State. Rhode Island's unemployment rate dropped to 7.6 percent in the third quarter of 2014, compared to 9 percent and 9.5 percent in the first quarter of 2014 and the first quarter of 2013, respectively.

The U.S. Gross Domestic Product (GDP)

increased at an annualized rate of 3.5 percent in the third quarter, compared to an increase of 4.6 percent in the second quarter of 2014 (the fastest rate since the first quarter of 2006). The Regional Current Economic Indicator indicates that the New England economy grew at an annualized rate of 2.2 percent in the third quarter, compared to 2.4 percent in the first quarter.

FIGURE 2 provides a long-term perspective of economic growth in Rhode Island compared to New England and in the nation. While the pronounced impact of the 2008 Great Recession on Rhode Island's economy persists, it is evident that since 2011 the economic outlook has improved for Rhode Island.

"Over the past few quarters, Rhode Island's economy appears to have grown faster than New England, but not as fast as the nation. However, the state's overall employment status

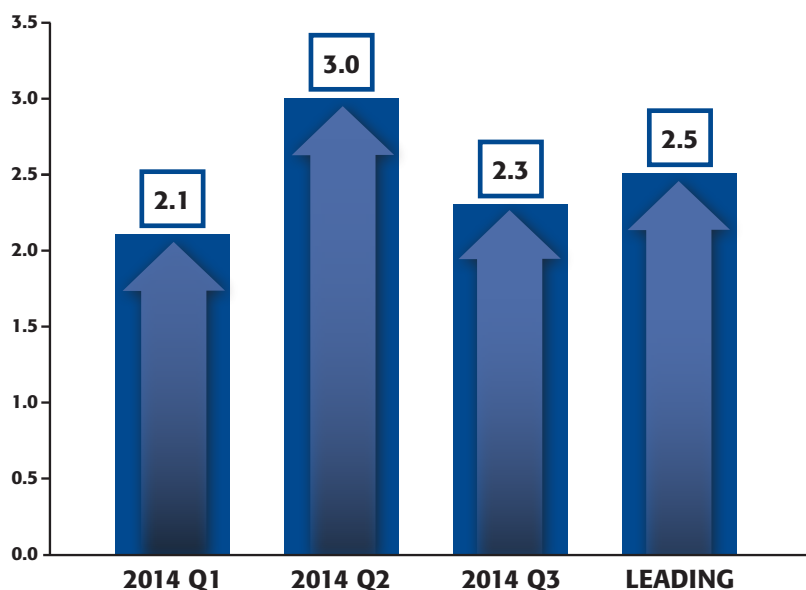
has yet to return to pre-recession levels. This trend is in contrast to the national employment status, which has recovered beyond pre-recession levels," noted John C. Simmons, Executive Director of RIPEC. Simmons added: "Moving forward, growth is predicted to remain above 2.0 percent, at 2.5 percent. However, there is an opportunity for the next governor to restructure and reposition the state's economy."

Internal factors impact growth

This issue of the Rhode Island *Briefing* incorporates changes to the calculations of the index that are designed to improve its predictive power. In particular, data for industries that are usually less subject to the business cycle were also incorporated into the index.

Eight of eleven *internal* factors included in the CEI positively affected the Rhode Island

FIGURE 1: RHODE ISLAND ECONOMIC INDICATOR, Q3 2014



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.



Current Economic Indicator (CEI) in the third quarter. General sales and gross receipt taxes, a proxy for the state aggregate demand, increased 0.6 percent (*seasonally adjusted*) in the third quarter compared to an expansion of 5.9 percent in the second quarter and a contraction of 1.3 percent in the first quarter. Seasonally adjusted initial unemployment claims decreased 5.1 percent in the third quarter, compared to a decrease of 9.2 percent in the second quarter. Real total wages and salary disbursements increased 2.3 percent (annualized rate) in the third quarter, 4.1 percent in the second quarter, and 8.6 percent in the first quarter of 2014. Overall, these aggregate indicators all point to an improved labor market and stronger economy.

Several industries experienced job growth in the third quarter of 2014 (all figures below are annualized rate). Employment in professional and business services industry increased 7.2 percent in both the third and second quarters and 4.1 percent in the first quarter of 2014. Employment in financial services increased 10.6 percent in the third quarter and 3.4 percent in the second quarter of 2014. Trade, transportation, and utilities services employment increased 0.9 percent in the third quarter, 0.7 percent in the second quarter, and 1.5 percent in the first quarter of 2014. Employment in manufacturing expanded 1.7 percent in the third quarter, 0.7 percent in the second quarter, and 0.6 percent in the first quarter of 2014. Employment in education and health care stayed roughly constant in the third quarter, compared to a decline of 3.7 percent in the second quarter and an increase of 2.4 percent in the first quarter of 2014.

The job count decreased in the following industries: employment in construction decreased 6.8 percent in the third quarter, compared to an increase of 22 percent in the second quarter and 6.1 percent in the first quarter. Employment in leisure and hospitality services decreased 3.1 percent in the third quarter and 0.7 percent in the second quarter of 2014, reversing a trend of continued job growth started in 2010. Employment in information services decreased 1.4 percent in the third quarter, compared to an expansion of 1.4 percent in the second quarter of 2014.

Data Revisions and Corrections

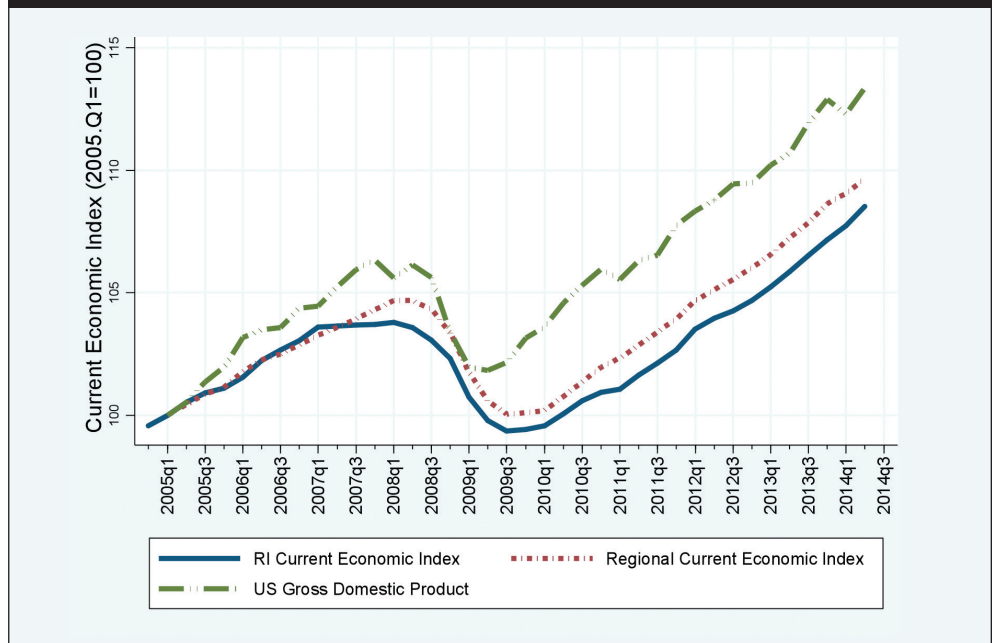
This Briefing incorporates revisions to employment figures and to the U.S. GDP data. It also incorporates changes to the index methodology that are designed to improve its predictive power. These revisions have resulted in changes to the Rhode Island CEI released in previous Briefings.

TABLE 1: PERFORMANCE OF KEY ECONOMIC VARIABLES

VARIABLE	2013.Q4	2014.Q1	2014.Q2	2014.Q3
Rhode Island Current Economic Indicator (RI CEI)	2.1	2.1	3.0	2.3
Components of the RI CEI:				
Regional Economic Conditions	2.9	1.5	2.4	2.2
National Economic Conditions	3.5	-2.1	4.6	3.5
Construction Employment	-2.5	6.1	22.0	-6.8
Manufacturing Employment	5.8	0.6	0.7	1.7
Trade, Trans. and Utilities Employment	1.1	1.5	0.7	0.9
Information Services Employment	-7.3	-2.7	1.4	-1.4
Prof. and Bus. Services Employment	0.0	4.1	7.2	7.2
Financial Services Employment	-4.1	0.9	3.4	10.6
Leisure and Hosp. Employment	3.8	7.6	-0.7	-3.1
Education and Health Services Employment	.07	2.4	-3.7	0.1
Real Wage and Salary Disbursements	1.2	8.6	4.1	2.3**
Avg. Weekly Initial Unemployment Claims*	-7.7	16.9	-9.2	-5.1
General Sales and Gross Receipt Taxes*	-2.8	-1.3	5.9	0.6

Figures are annualized percentage changes from previous quarter. All data series are seasonally adjusted.
* Variable is not annualized. ** Estimation.

FIGURE 2: ECONOMIC INDICATORS: RI, US, AND REGIONAL 2005 – 2014



- 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