



BRIEFING



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Q4 2014

Rhode Island's Economic Growth Slows

The Rhode Island Current Economic Indicator (CEI) for the fourth quarter of 2014 increased at an annualized rate of 1.8 percent (slower than the 2.5 percent previously projected), compared to an expansion of 2.4 percent in the third quarter and 2.7 percent (revised down) in the second quarter. The CEI estimates that the Rhode Island economy expanded 2.2 percent in 2014, compared to 1.4 percent in 2013 and 1.3 percent in 2012. The Rhode Island Leading Economic Indicator projects that the state economy will expand at an annual growth rate of 2 percent in the first quarter of 2015.

Economic growth in Rhode Island has trailed the national rate. The U.S. Gross Domestic Product (GDP) increased at an annualized rate of 2.6 percent in the fourth quarter, compared to an increase of 4.6 percent in the second quarter and 5 percent in the third quarter of 2014. The Regional Current Economic Indicator indicates that the New England economy grew

at an annualized rate of 3 percent in the fourth quarter, compared to 2.3 percent in the second and third quarters of 2014.

FIGURE 2 tracks growth since the recession started in late 2007 and is normalized to compare the economic recovery since the recession ended in the second quarter of 2009. It shows that while national GDP returned to pre-recession levels by mid-2010, in Rhode Island GDP did not return to pre-recession levels until the first quarter of 2013. This suggests that the Rhode Island economy is recovering at a much slower pace than the rest of the nation.

John Simmons, Executive Director of the Rhode Island Public Expenditure Council remarked: "the CEI forecast indicates the Rhode Island economy has slowed and is trending lower than the national economy, which is a sign that the state economy has inherent weaknesses. The employment

recovery is still not robust enough to support the economy, but there are signs that spending within the state is improving."

Internal factors impact growth

Only five of 11 *internal* factors included in the CEI positively affected the Rhode Island Current Economic Indicator (CEI) in the fourth quarter. This denotes a significant shift compared to the third quarter when eight indicators positively contributed to growth in the state.

General sales and gross receipt taxes, a proxy for the state aggregate demand, increased 0.5 percent (*seasonally adjusted*) in the fourth quarter compared to an expansion of 0.6 percent in the third quarter and 6 percent in the second quarter. Real total wages and salary disbursements increased 5.6 percent (annualized rate) in the fourth quarter and 2.2 percent in the third quarter.

Three major industries experienced job

FIGURE 1: RHODE ISLAND ECONOMIC INDICATOR, Q4 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 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.



growth in the fourth quarter of 2014 (all figures below are annualized rate). Employment in education and healthcare increased 3.2 percent in the fourth quarter, which counterbalanced a decline of 3.7 percent in the second quarter (and no growth in the third quarter) of 2014. Employment in manufacturing continued to improve with an expansion of 3.6 percent in the fourth quarter, compared to 1.7 percent in the third quarter and 0.7 percent in the second quarter of 2014. Leisure and hospitality services reversed two consecutive quarters of job losses (second and third quarters) with a 6 percent expansion in employment in the fourth quarter. The employment level in leisure and hospitality services reached its highest historical level in the fourth quarter of 2014.

The job count stayed constant or decreased in five major industries. Employment in financial services did not increase in the fourth quarter, compared to an increase of 10.6 percent in the third quarter and 3.4 percent in the second quarter of 2014. Employment in construction decreased 6.2 percent in the fourth quarter and 4.6 percent in the third quarter. These figures contrast with an increase of 22 percent in the second quarter of 2014. Employment in the professional and business services industry – which had consistently increased since 2010 – decreased 10.6 percent in the fourth quarter, compared to an increase of 7.2 percent in the third and second quarters of 2014. Trade, transportation, and utilities services employment decreased 0.7 percent, compared to an increase of 0.5 percent in the third quarter and 0.7 percent in the second quarter of 2014. The information services industry has struggled since the end of the recession and sustained job losses during 2014. Employment in information services decreased 4.5 percent in the fourth quarter.

Despite the uneven performance across industries, Rhode Island's labor market condition has improved causing the unemployment rate to drop from 9.4 percent in the fourth quarter of 2013 to 7.1 percent in the fourth quarter of 2014. However, the state's unemployment rate continues to be above the regional and national averages and the seasonally adjusted initial unemployment claims increased 3.9 percent in the fourth quarter, compared to a decrease of 5 percent in the third quarter and 9.2 percent in the second quarter.

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.

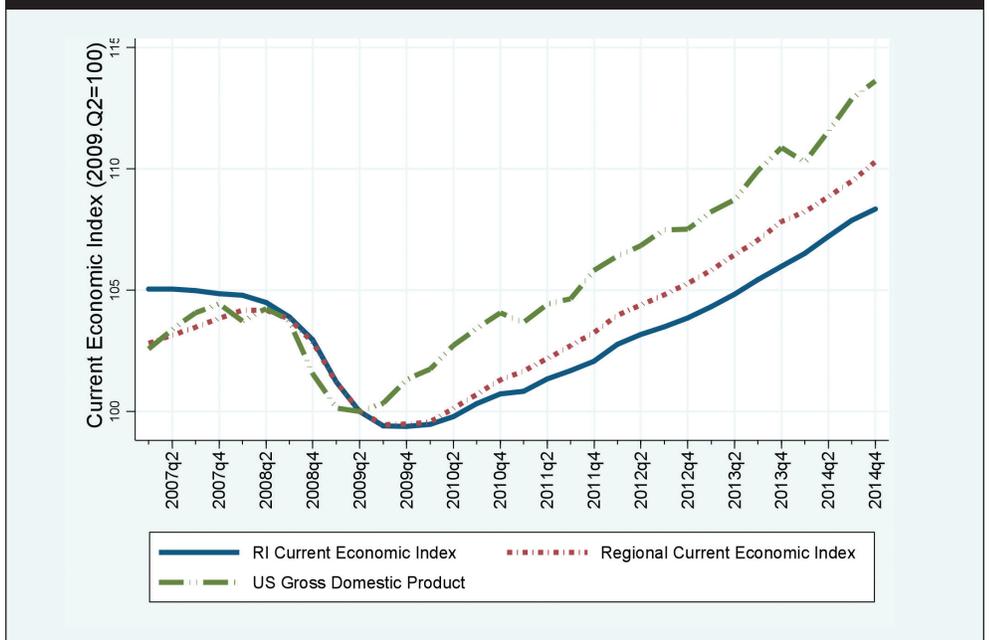
TABLE 1: PERFORMANCE OF KEY ECONOMIC INDICATORS (% CHANGE)

VARIABLE	2014.Q1	2014.Q2	2014.Q3	2014.Q4
Rhode Island Current Economic Indicator (RI CEI)	2.0	2.7	2.4	1.8
Components of the RI CEI:				
New England Economic Growth	1.5	2.3	2.3	3.0
U.S. Gross Domestic Product	-2.1	4.6	5.0	2.6
Construction Employment	6.1	22.0	-4.6	-6.2
Manufacturing Employment	0.6	0.7	1.7	3.6
Trade, Trans. and Utilities Employment	1.5	0.7	0.5	-0.7
Information Services Employment	-2.7	1.4	0.0	-4.5
Prof. and Bus. Services Employment	4.1	7.2	7.2	-10.6
Financial Services Employment	0.9	3.4	10.6	0.0
Leisure and Hosp. Employment	7.6	-0.7	-3.1	6.0
Education and Health Services Employment	2.4	-3.7	0.0	3.2
Real Wage and Salary Disbursements	8.6	-1.9	2.2	5.6**
Avg. Weekly Initial Unemployment Claims*	17.2	-9.2	-5.0	3.9
General Sales and Gross Receipt Taxes*	-1.3	6.0	0.6	0.5

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