



BRIEFING



A joint publication of The Center for Global and Regional Economic Studies at Bryant University
and The Rhode Island Public Expenditure Council (RIPEC)

Q4 2016

Rhode Island: Growth stronger than expected in second half of 2016

The Rhode Island Gross Domestic Product (GDP) expanded 2 percent (projected) in the fourth quarter and 3.6 percent in the third quarter, compared to meager 0.2 percent growth in the second quarter and a contraction of 2.8 percent in the first quarter of 2016. The Rhode Island Leading Economic Indicator projects that the state economy will expand at an annual growth rate of 1.9 percent in the first quarter of 2017. The stronger than expected performance of the state's economy in the second half of 2016, particularly in the third quarter, was driven by favorable regional and national economic conditions as well as improvements in the labor market. The unemployment rate reached 5 percent in December 2016, which is as low as the rate observed in June 2007.

The Regional Current Economic Indicator estimates that the New England economy grew at an annualized rate of 2.3 percent in

the fourth quarter of 2016, compared to 3.8 percent in the third quarter, 1.5 percent in the second quarter, and a contraction of 1.4 percent in the first quarter of last year. The U.S. Gross Domestic Product (GDP) increased at an annualized rate of 1.9 percent in the fourth quarter of 2016, compared to 3.5 percent in third quarter, 1.4 percent in the second quarter, and 0.8 percent in the first quarter.

FIGURE 2 shows that Rhode Island's *growth gap* continues to widen compared to the nation's economic performance. The state's economic growth continues to be relatively sluggish because of structural problems related to the labor force (e.g. skills mismatch), the aging of the population compounded by the lack of population growth, and a costly business environment.

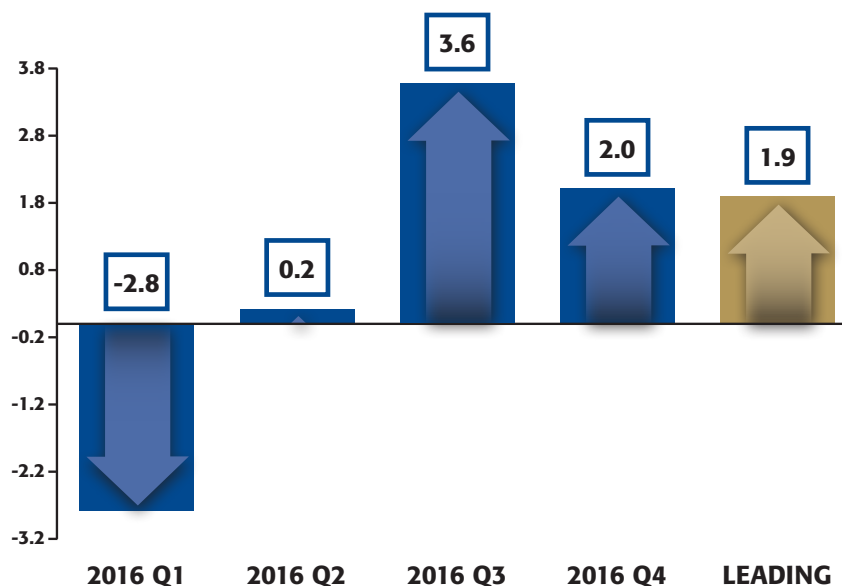
Internal factors impact growth

Five of eleven internal factors that make up

the Rhode Island Current Economic Indicator (CEI) negatively affected economic growth in the fourth quarter. Initial unemployment claims increased 14.9 percent in the fourth quarter, compared to a reduction of 12.1 percent in the third quarter, and an increase of 0.6 percent in the second quarter and 9.8 percent in the first quarter of 2016.

Four major industries experienced job losses in the fourth quarter of 2016. Employment in manufacturing was down 9.2 percent in the fourth quarter, compared to an increase of 1 percent in the third quarter and 3.2 percent in the second quarter of 2016. Employment in information services contracted 6.4 percent in the fourth quarter, compared to an increase of 1.9 percent in the third quarter and decreases of 7.7 percent in the second quarter and 4.5 percent in the first quarter of 2016. The financial service industry experienced job losses in three consecutive quarters.

FIGURE 1: RHODE ISLAND ECONOMIC INDICATOR, Q4 2016



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.

Employment in financial services decreased 2.4 percent in the fourth quarter, 6.6 percent in the third quarter, and 2.4 percent in the second quarter of 2016. Employment in education and health services – the largest industry in the state – decreased 1.4 percent in the fourth quarter, compared to increases of 1.5 percent in the third quarter and 4.4 percent in the second quarter of 2016.

Six internal factors positively affected the Rhode Island Current Economic Indicator (CEI) in the fourth quarter of 2016. General sales and gross receipt taxes, a proxy for the state aggregate demand, increased 1.2 percent (*seasonally adjusted, year-to-year*) in the fourth quarter, compared to an increase of 2.9 percent in the third quarter and a reduction of 2.8 percent in the second quarter of 2016. The expansion in general sales and gross receipt taxes in the fourth quarter suggests that the growth-momentum experienced in the third quarter continued at the end of 2016. Improvements in the labor market have caused real wages and salary disbursements to expand for three consecutive quarters. Real wages and salary disbursements increased 1.8 percent in the fourth quarter, 2.4 percent in the third quarter, and 7.9 percent in the second quarter of 2016.

Economic activity in leisure and hospitality services continues to expand. Employment in this industry increased 14.2 percent in the fourth quarter, compared to an expansion of 4.4 percent in the third quarter, and 1.7 percent in the second quarter of 2016. Trade, transportation, and utilities employment increased 3.2 percent in the fourth quarter, compared to an increase of 4.5 percent in the third quarter and 0.7 percent in the second quarter of 2016. The professional and business services industry continued to expand and now accounts for 13.5 percent of total employment in the state, compared to just over 10 percent in the early 2000s. Employment in professional and business services increased 2.8 percent in the fourth quarter and 3.4 percent in the third quarter, compared to reduction of 4.4 percent in the second quarter of 2016.

The ailing construction industry experienced job growth after two consecutive quarters of job losses. Employment in construction increased 12.9 percent (annualized rate) in the fourth quarter, compared to reduction of 3.9 percent in the third quarter and 26 percent in the second quarter of 2016.

Data Revisions and Corrections

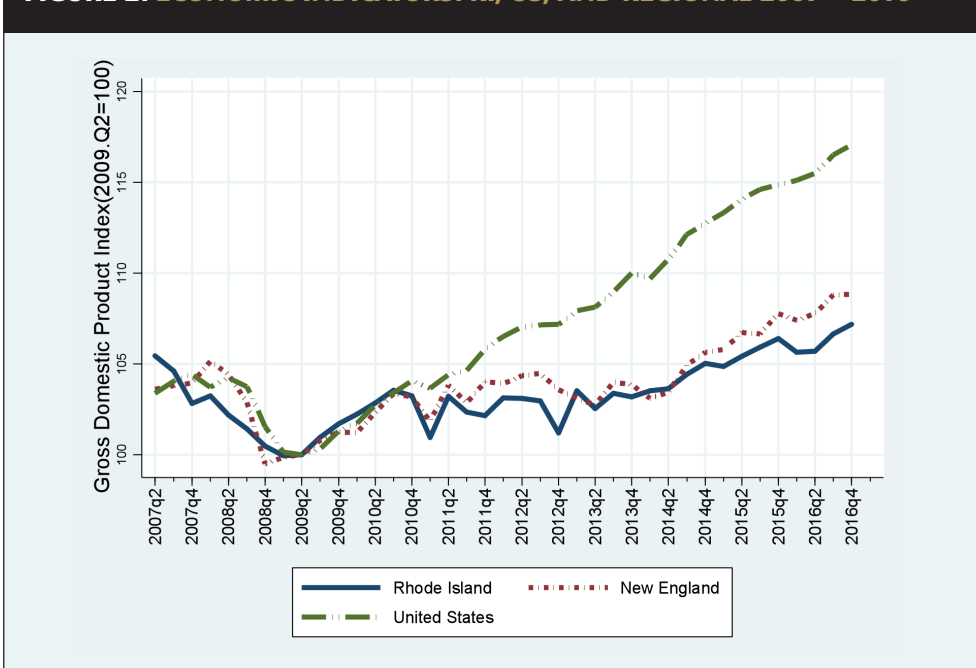
This issue of the Briefing incorporates just-released quarterly GDP data series produced by the U.S. Bureau of Economic Analysis. It also accounts for revisions to employment figures.

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

VARIABLE	2016.Q1	2016.Q2	2016.Q3	2016.Q4
Rhode Island Current Economic Indicator (RI CEI)	-2.8^A	0.2^A	3.6^A	2.0^B
Components of the RI CEI:				
Regional Economic Conditions (GDP)	-1.4 ^A	1.5 ^A	3.8 ^A	2.3 ^B
National Economic Conditions (U.S. GDP)	0.8	1.4	3.5	1.9
Construction Employment	27.4	-26.0	-3.9	12.9
Manufacturing Employment	0.0	3.2	1.0	-9.2
Trade, Trans. and Utilities Employment	-4.3	0.7	4.5	3.2
Information Services Employment	-4.5	-7.7	1.9	-6.4
Prof. and Bus. Services Employment	13.8	-4.4	3.4	2.8
Financial Services Employment	3.2	-2.4	-6.6	-2.4
Leisure and Hosp. Employment	2.1	1.7	4.4	14.2
Education and Health Services Employment	-3.9	4.4	1.5	-1.4
Real Wage and Salary Disbursements	-3.8	7.9	2.4	1.8 ^B
Avg. Weekly Initial Unemployment Claims*	9.8	0.6	-12.1	14.9
General Sales and Gross Receipt Taxes*	2.0	-2.8	2.9	1.2

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 2007 – 2016



- 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