



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 2018

The Rhode Island Economy is stagnant and growth in the state is slower than in peer economies

The Rhode Island GDP seems to have reversed course after two quarters of strong growth. GDP is projected to have increased only 0.2 percent in the fourth quarter of 2018, compared to 2.9 percent in the third quarter, 2.8 percent in the second quarter, and 0.4 percent in the first quarter of 2018. The projected weak GDP performance in the fourth quarter together with no cumulative economic growth between the third quarter of 2017 and the first quarter of 2018 caused job creation to slow down significantly in 2018. Despite the weak GDP growth in 2018, there was a drop in the unemployment rate to 4 percent in December of 2018 from to 4.4 in December of 2017.

There are signs of an economic slowdown in Rhode Island in the near term. The Rhode Island Leading Economic Indicator projects that the state economy will not expand in the first quarter of 2018. It is important to highlight that while eight of eleven internal factors that comprise the Rhode Island Current Economic Indicator (CEI) positively affected economic growth in the fourth quarter of 2018, there are also indications of growth barriers in manufacturing and leisure and hospitality as well as some concerns that the labor market might

not have enough steam to continue to expand and add jobs (see below).

The Regional Current Economic Indicator estimates that the New England economy grew at an annualized rate of 0.8 percent in the fourth quarter of 2018, compared to 3.3 percent in the third quarter, 3.7 percent in the second quarter, and 2.9 percent in the first quarter of 2018. In addition, the U.S. Gross Domestic Product (GDP) increased at an annualized rate of 2.6 percent in the fourth quarter, compared to 3.4 percent in third quarter, 4.2 percent in the second quarter, and 2.2 percent in the first quarter of 2018.

The Rhode Island economy has been unable to close the “growth gap” and has consistently underperformed compared to the New England region and the nation (see Figure 2). The relatively slow growth of the Rhode Island’s economy since the end of the recession and the start of the recovery in 2010 is associated with internal structural problems that have yet to be addressed.

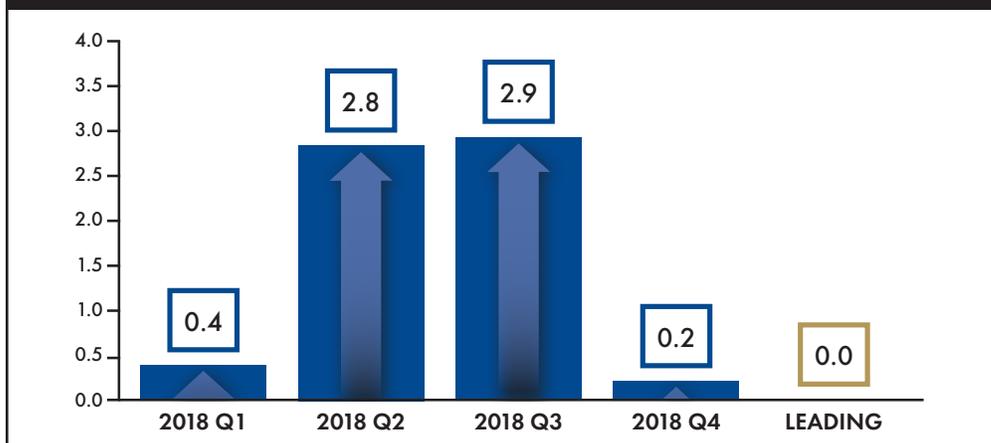
Rhode Island’s demographics is one such structural problem. An aging labor force, slow population growth, and out-migration of highly

skilled individuals are all factors that negatively impact the quality of the state’s labor force and may serve to magnify the existing mismatch between labor supply and demand. Additionally, although the state has made progress on national business and economic climate rankings in recent years, Rhode Island is still perceived as unfriendly to business. The state also suffers from a lack of business and enterprise clusters that generate economies of scale, which ultimately limits the state’s potential to attract new businesses. Taken together, these structural issues have limited Rhode Island’s recovery and growth since end of the Great Recession.

Internal factors impact growth

Eight of eleven internal factors that comprise the Rhode Island CEI positively affected economic growth in the fourth quarter of 2018. General sales and gross receipt taxes, a proxy for the state aggregate demand, increased 5.9 percent (*seasonally adjusted, year-to-year*) in the fourth quarter of 2018, compared to an average increase of 7 percent in the first three quarters of 2018 and 3.4 percent in 2017.

FIGURE 1: RHODE ISLAND ECONOMIC INDICATOR, Q4 2018



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.

Real wages and salary disbursements increased 1.1 percent (*annualized rate*) in the fourth quarter of 2018, compared to an increase of 2.6 percent in the third quarter and a reduction of 3.1 percent in the second quarter of 2018. Employment in education and health services – the largest industry in the state – increased 2.9 percent (*annualized rate*) in the fourth quarter, 0.4 percent in the third quarter, and 2.5 percent in the second quarter of 2018, compared to a decrease of 0.9 percent in the first quarter of the year.

The construction industry has expanded and managed to sustain job creation in 2018. Employment in construction increased 2.7 percent (*annualized rate*) in the fourth quarter of 2018, compared to no growth in the third quarter and an expansion of 0.8 percent in the second quarter and 16.8 in the first quarter of 2018. Trade, transportation, and utilities services employment increased 3 percent (*annualized rate*) in the fourth quarter of 2018, compared to no growth in the third quarter and a decline of 0.4 percent in the second quarter of 2018. Employment in professional and business services increased 0.6 percent (*annualized rate*) in the fourth quarter of 2018, compared to 2.5 percent in the third quarter and 1.8 percent in the second quarter of 2018.

Employment in financial services increased 0.8 percent (*annualized rate*) in the fourth quarter of 2018, compared to decreases of 0.5 percent in the third quarter and 1.8 percent in the second quarter of 2018. Employment in information services is still below pre-recession levels, but the sector has depicted signs of recovery with two consecutive quarters of growth. Employment in information services increased 7 percent in the fourth quarter and 9.3 percent in the third quarter of 2018, compared to a decline of 8.5 percent in the second quarter of 2018.

There was a contraction in employment in the manufacturing and leisure and hospitality industries in Rhode Island in the fourth quarter of 2018. Sustainable job creation in manufacturing continues to be difficult in Rhode Island. Employment in manufacturing decreased 4.2 percent (*annualized rate*) in the fourth quarter of 2018, 3.2 percent in the third quarter, and 2.9 percent in the second quarter of 2018. Leisure and hospitality services added more than 8,000 jobs since the end of the Great Recession. The potential for further employment growth in this industry, however, might be limited. Employment in leisure and hospitality services decreased 11 percent in the fourth quarter

of 2018 (*annualized rate*), compared to an increase of 2.3 percent in the third quarter and 1.1 percent in the second quarter of 2018.

Initial unemployment claims – which gauge the direction of the labor market and unemployment rate – took an unexpected turn and increased 18.9 percent in the fourth quarter of 2018. However, this indicator has been volatile and should be taken

into consideration together with other indicators to gauge the labor market in Rhode Island.

Data Revisions and Corrections

This issue of the Briefing incorporates revisions to employment data by the U.S. Bureau of Labor Statistics and to the quarterly GDP data produced by the U.S. Bureau of Economic Analysis.

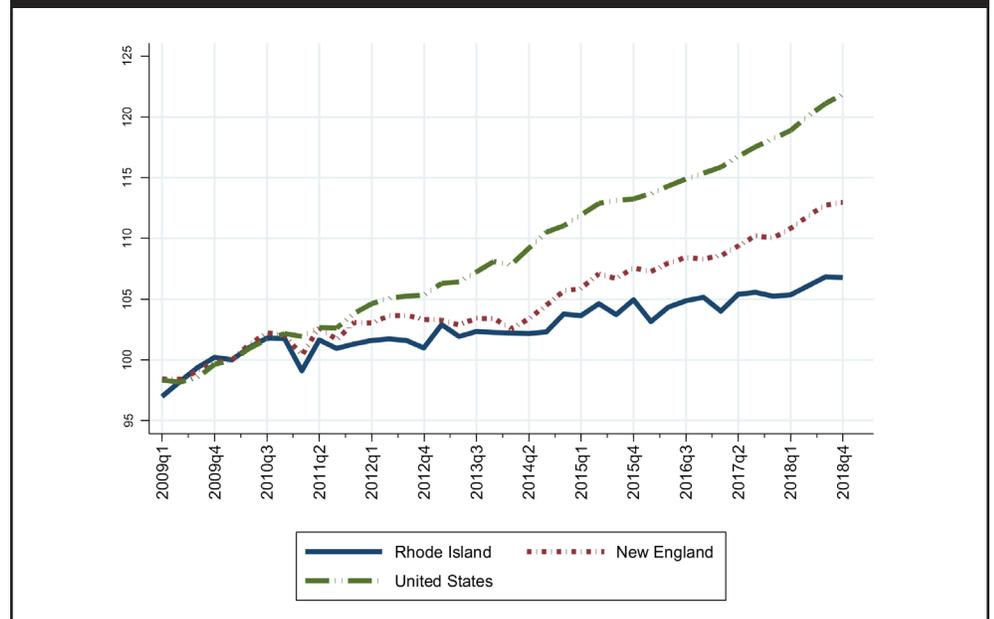
TABLE 1: PERFORMANCE OF KEY ECONOMIC INDICATORS (% CHANGE)

VARIABLE	2018.Q1	2018.Q2	2018.Q3	2018.Q4
Rhode Island Current Economic Indicator (RI CEI)	0.4 ^A	2.8 ^A	2.9 ^A	0.2 ^B
Components of the RI CEI:				
Regional Economic Conditions (GDP)	2.9 ^A	3.7 ^A	3.3 ^A	0.8 ^B
National Economic Conditions (U.S. GDP)	2.2	4.2	3.4	2.6
Construction Employment	16.8	0.8	0.0	2.7
Manufacturing Employment	2.6	-2.9	-3.2	-4.2
Trade, Trans. and Utilities Employment	1.6	-0.4	0.0	3.0
Information Services Employment	-8.3	-8.5	9.3	7.0
Prof. and Bus. Services Employment	1.2	1.8	2.5	0.6
Financial Services Employment	-1.6	-1.8	-0.5	0.8
Leisure and Hosp. Employment	2.1	1.1	2.3	-11.0
Education and Health Services Employment	-0.9	2.5	0.4	2.9
Wage and Salary Disbursements	3.2	-3.1	2.6	1.1
Avg. Weekly Initial Unemployment Claims*	-20.5	18.5	-15.2	18.9
General Sales and Gross Receipt Taxes*	7.9	6.0	7.0	5.9

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 2009 – 2018



- 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