



BRIEFING



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

Q2 2016

Rhode Island: Economic growth gap widening

The Rhode Island Current Economic Indicator (CEI) estimates that the state economy contracted at an annualized rate of 1.2 percent in the second quarter of 2016. This follows an expansion of 1.6 percent in the first quarter and 1.7 percent in the fourth quarter, and a contraction of 0.4 percent in the third quarter of 2015. The Rhode Island Leading Economic Indicator projects that the state economy will expand at an annual growth rate of 0.3 percent in the third quarter of 2016.

While these estimates imply a major reversal of the growth and improvements in the labor market that were observed in 2015, several other internal factors and the Leading Economic Indicator suggest that the state economy is not in a recession, yet. This slowdown is, however, consistent with regional and national trends. The Regional Current Economic Indicator estimates that

the New England economy grew at an annualized rate of 0.4 percent in the second quarter of 2016, compared to 1.5 percent in the first quarter and 2.1 percent in the fourth quarter of 2015. The U.S. Gross Domestic Product (GDP) increased at an annualized rate of 1.2 percent in the second quarter of 2016, compared to 0.8 percent in first quarter and 0.9 percent in the fourth quarter of 2015.

Structural headwinds continue to affect the state's economy. The projected negative growth for the second quarter together with slow growth since the end of the Great Recession has caused the "growth gap" to widen significantly (see [FIGURE 2](#)).

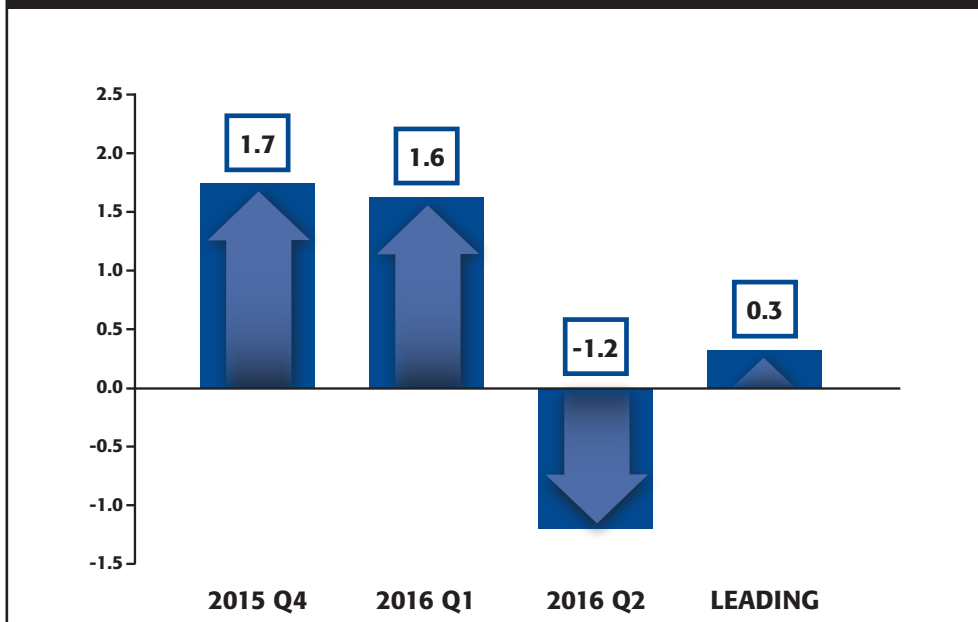
Internal factors impact growth

Six of 11 internal factors that comprise the Rhode Island Current Economic Indicator (CEI) negatively affected economic growth in

the second quarter. General sales and gross receipt taxes, a proxy for the state aggregate demand, declined 2.8 percent (*seasonally adjusted, year-to-year*) in the second quarter, compared to an increase of 2 percent in the first quarter and 1.7 percent in the fourth quarter of 2015. The reduction in general sales and gross receipt taxes represents a significant reversal of positive growth since 2010. In addition, initial unemployment claims increased 3.5 percent in the second quarter of 2016, compared to an increase of 9.6 percent in the first quarter and a reduction of 6 percent in the fourth quarter and 2.4 percent in the third quarter of 2015.

Four major industries experienced a contraction in employment. The professional and business services industry experienced a significant trend reversal: employment in this industry decreased 4.2 percent in the

FIGURE 1: RHODE ISLAND ECONOMIC INDICATOR, Q2 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.



second quarter, compared to an increase of 13.8 percent in the first quarter and 1.5 percent in the fourth quarter of 2015. The construction industry also reversed four quarters of job growth. Employment in construction declined 26 percent (annualized rate) in the second quarter, compared to an increase of 27.4 percent in the first quarter and 14.9 percent in the fourth quarter of 2015. Employment in information services contracted 9 percent in the second quarter, compared to a decline of 4.5 percent in the first quarter and an increase of 1.4 percent in the fourth quarter of 2015. Employment in financial services decreased 3.1 percent in the second quarter, compared to an increase of 3.2 percent in the first quarter and 4.2 percent in the fourth quarter of 2015.

Five internal factors positively affected the Rhode Island Current Economic Indicator (CEI) in the second quarter of 2016. Education and health services, the largest industry in the state, was a bright spot in the second quarter. Employment in education and health services increased 3.7 percent in the second quarter, compared to a decline of 3.9 percent in the first quarter, 0.9 percent in the fourth quarter, and 0.4 percent in the third quarter of 2015. Economic activity in leisure and hospitality services continues to expand. Employment in this industry increased 0.7 percent in the second quarter, compared to an expansion of 2.1 percent in the first quarter and 4.5 percent in the fourth quarter of 2015. Trade, transportation, and utilities services employment increased 1.1 percent in the second quarter, compared to a decrease of 4.3 percent in the first quarter and 1.2 percent in the fourth quarter of 2015. Employment in manufacturing expanded 2.9 percent in the second quarter of 2016 compared to no growth in the first quarter and an expansion of 4.2 percent in the fourth quarter of 2015. Real total wages and salary disbursements increased 0.6 percent in the second quarter, compared an increase of 4.8 percent in the first quarter and 6.7 percent in the fourth quarter of 2015.

Data Revisions and Corrections

This issue of the Briefing incorporates the just-released quarterly GDP data series for states produced by the U.S. Bureau of Economic Analysis. It also accounts for revisions to employment figures. These revisions significantly reduced previously projected growth rates of the CEI released in previous Briefings.

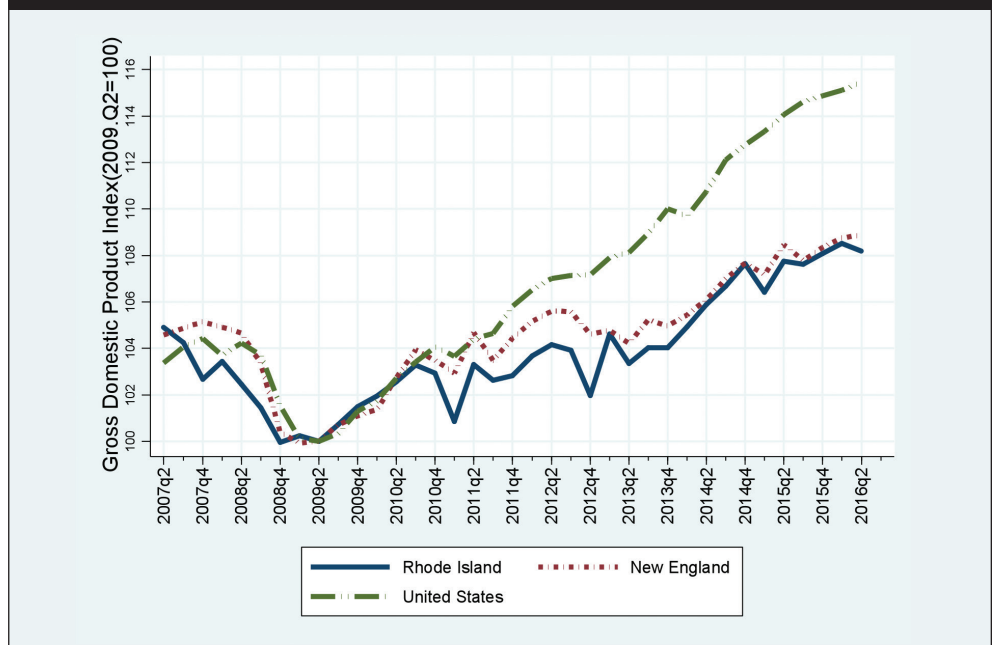
TABLE 1: PERFORMANCE OF KEY ECONOMIC INDICATORS (% CHANGE)

VARIABLE	2015.Q3	2015.Q4	2016.Q1	2016.Q2
Rhode Island Current Economic Indicator (RI CEI)	-0.4^A	1.7^A	1.6^A	-1.2^B
Components of the RI CEI:				
Regional Economic Conditions (GDP)	-2.5 ^A	2.1 ^A	1.5 ^A	0.4 ^B
National Economic Conditions (U.S. GDP)	2.0	0.9	0.8	1.2
Construction Employment	5.6	14.9	27.4	-26.0
Manufacturing Employment	-0.3	4.2	0.0	2.9
Trade, Trans. and Utilities Employment	1.6	-1.2	-4.3	1.1
Information Services Employment	6.7	1.4	-4.5	-9.0
Prof. and Bus. Services Employment	0.8	1.5	13.8	-4.2
Financial Services Employment	-2.4	4.2	3.2	-3.1
Leisure and Hosp. Employment	0.9	4.5	2.1	0.7
Education and Health Services Employment	-0.4	-0.9	-3.9	3.7
Real Wage and Salary Disbursements	-0.6	6.7	4.8	0.6 ^B
Avg. Weekly Initial Unemployment Claims*	-2.4	-6.0	9.6	3.5
General Sales and Gross Receipt Taxes*	5.0	1.7	2.0	-2.8

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