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Experts say R.I. economic outlook grim

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PROVIDENCE — The only solace for these people is that Rhode Island is not alone anymore.

Six months ago, those who gathered in the State House basement for the semiannual Revenue & Caseload Estimating Conference learned that Rhode Island was the only New England state “in recession,” and just one of nine states nationally with that unwelcome distinction.

“You could say Rhode Island has sort of set the trend for the United States,” said Andres Carbacho-Burgos, an economist with Moody’s Economy.com and one of a handful of independent analysts who shared a dismal economic forecast with state budget officials yesterday. “Misery loves company. And Rhode Island has plenty of it.”

Indeed, Moody’s reported yesterday that 27 states are now in recession. Maine now joins Rhode Island. And Moody’s expects Connecticut’s economy to reach recession status by the end of the year.

Even Massachusetts, which is currently listed as having an economy in “expansion,” is expected to be “at risk” in the coming months, Carbacho-Burgos said.

But yesterday’s testimony — at the unofficial start of the fall Revenue & Caseload Estimating Conference — offered few bright spots for a state that depends on the health of its economy to provide public safety and other key services to its citizens, health-care programs for its most vulnerable, and tax relief to overburdened businesses and homeowners.

“The worst is not over by any means,” said Mike Lynch, an analyst with the firm Global Insight. “We see little cause for any optimism.”

Global Insight predicts that Rhode Island’s unemployment rate will continue to exceed 7 percent through the end of next year. The Ocean State’s real estate markets will “continue their period of free-fall well into 2009.” And Global Insight predicts it will take five years before Rhode Island sees employment levels matching “pre-2007 peak employment levels.”

To make matters worse, the economists who testified yesterday acknowledged that their forecasts may be too rosy, given that they were based on month-old data. The firms agreed to update their forecasts on Nov. 7.

“They’ve indicated that we have obvious need to be concerned,” Kevin Madigan, the interim head of the Senate fiscal office, said of yesterday’s testimony. “We continue to

drop in a lot of indicators with no real good sense of when — they mentioned hitting the bottom frequently — when that will happen.”

The consensus yesterday was that Rhode Island is in the midst of the worst economic period since the recession of 1989-1991.

But several state officials noted the downturn of that time was caused chiefly by a housing bust. There were suggestions yesterday that Rhode Island’s current problems are not limited to those related to housing.

“We know that this goes far beyond housing. We’re losing jobs in every category,” said Gary Ciminero, executive director of the House Policy Office.

The state earlier in the month learned it had edged out Michigan for the highest unemployment rate in the country, 8.8 percent, the highest in 16 years. The ranks of the jobless last month swelled to 50,200, the most on record, according to the state Department of Labor and Training.

Job losses affected most sectors: manufacturing (down 6.5 percent since last September), retail (down 3.7 percent), construction (down 3.3 percent), financial activities (down 4.1 percent), professional and business services (down 2.2 percent) and state government (down 7 percent).

Rhode Island is expected to continue to lose jobs through the end of 2010, according to the Moody’s analysis.

All New England states lost private-sector jobs in the year that ended last month; Rhode Island’s private-sector losses, however, dwarfed its neighbors and the national average.

Why is Rhode Island faring so poorly?

Carbacho-Burgos notes that Rhode Island is generally considered “ground zero” for the nation’s housing bust this time around. Because Rhode Island’s median income in recent years was too low to afford the average home, a disproportionate number of Rhode Islanders turned to sub-prime loans to enter the housing market.

Today, Rhode Island’s delinquency rate on first-time mortgages dominates its neighbors and the national average, according to Moody’s.

In addition to housing problems, Moody’s also blames Rhode Island’s weak low-technology manufacturing sector. Carbacho-Burgos cited another contributing factor as well: “I think the state legislature has made some mistakes in running its fiscal policy,” he said, referring to the tax breaks for high earners enacted in recent years.

“As far as I can tell, they did not immediately match [the tax breaks] with spending cuts,” Carbacho-Burgos said. “They’ve had to do that now, so the result is that they’re in the middle of both cutting state and local payrolls and cutting benefits right in the middle of the worst recession since 1991. That’s a serious policy misstep.”

The Revenue & Caseload Estimating Conference is a series of meetings in which the fiscal leaders of the House, Senate and governor’s budget office convene over a two-

week period to determine the economic health of the state. Ultimately, they will decide the size of the state budget deficits for the current and coming fiscal years.

“Whatever the revenues turn out to be, the budget pressure will be immense,” said Russell Dannecker, the recently retired Senate fiscal adviser who attended yesterday’s proceedings representing Rhode Island College’s Poverty Institute.