

Sagging economy worries forecasters

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PROVIDENCE — Very few people seemed to notice what was happening in Room 35 in the State House basement yesterday.

The television cameras weren't on. The seats in the audience were nearly empty.

But the 13 economists and budget analysts gathered in the House Finance Committee room for four hours embarked on a process that will ultimately affect nearly every Rhode Island resident. The analysts — members of the fall Revenue & Caseload Estimating Conference — will decide over the next eight days how much the governor has to spend in next year's budget, which outlines spending for programs such as state subsidized child care, prescription drugs and local education, among countless others.

However, yesterday there was little talk of state programs.

Two economists and a state official helped the group wade through the intricacies of the state and national housing markets, oil prices and regional job growth to develop an official economic forecast for Rhode Island in the coming years.

Officials had hoped for good news.

An economic upturn involving substantial job growth, higher wages and lower energy prices would help close a 2008-09 budget deficit now projected at \$211 million. More income would mean more income taxes, the state's largest revenue stream. And more income also suggests Rhode Islanders would have more to spend, which would create more sales taxes, the state's second-largest revenue stream.

But the economists concluded yesterday that job growth would be relatively flat in the coming fiscal year — up just 1 percent over this year and in line with expectations set last May. Wages and salaries increases across the state will not meet expectations, they said, projected at 3.7 percent instead of 4.1 percent.

“The news is not better than we thought it was in May and in some cases worse,” said House Fiscal Adviser Michael O’Keefe, the conference chairman.

The state's unemployment rate as of September stood at 4.9 percent, higher than both Connecticut (4.5 percent) and Massachusetts (4.4 percent), according to Robert Langlais, assistant director of labor market information for the state Department of Labor and

Training. Job growth has occurred steadily throughout the year, however, peaking at 499,800 jobs last month.

Langlais noted that growth had slowed in recent months, especially in the manufacturing sector, which was down 1,800 jobs since January. That doesn't include 300 layoffs recently announced at Amgen.

There are also fewer jobs in state and local government, Langlais said, noting 400 jobs have been lost this year. That does not include any of the 1,016 positions expected to be eliminated by the governor in the coming months.

Economists largely blamed the declining housing market on sluggish economic growth around the country. Home prices will likely decline through the first half of 2008 before rebounding, according to Dave Iaia, an economist with the firm Global Insight. The result is less housing construction, fewer people borrowing from home equity, and a "mortgage lending crunch," according to the other economist in attendance yesterday, Steve Cochrane, senior managing director for Economy.com, which is owned by Moody's Investors Service.

Cochrane noted that mortgage delinquency rates are at 4 percent in Rhode Island, the highest point in the last 10 years and substantially higher than in Connecticut and Massachusetts and the national average.

The greatest wildcard in the regional and national economy is oil prices.

The economists put the risk of a national recession at between 30 and 33 percent, odds that would increase substantially if oil prices don't fall to around \$75 a barrel. (They exceeded \$94 yesterday.)

At the end of yesterday's conference, there was no conclusion what effect the direction of the economy would have on the state's budget deficit. The conference will continue next week with testimony regarding tax credits, the health of the state's third-largest revenue stream: the lottery, and the number of people being served by state social programs.

"To think that there may be a slowdown in the Rhode Island economy ... it's the last thing we need," said Ellen Frank, chief economist for the Poverty Institute at Rhode Island College. "A lot is going to hinge on what happens over the next week."

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