

## **THE RHODE ISLAND ECONOMIC OUTLOOK AND FORECAST: BOSTON'S IMPACT ON OUR ECONOMY**

### **Current Economic Outlook**

Rhode Island's economy is slowly improving, but the impact of the 2008 Great Recession is still felt throughout the state. The state's economy is growing at a modest rate. The unemployment rate is 9%, the highest rate in New England. There were about 50,000 Rhode Islanders unemployed in October. From 2007 through 2012, median household income declined and the poverty rate increased in the state. As of 2013 Q2, 3.4% of all mortgages, including 12.2% of subprime mortgages were in foreclosure in Rhode Island. Rhode Island's population declined from 2007 to 2012. Young adults with college education are leaving to other states to obtain jobs.

According to a recent study by EMSI, Rhode Island was the only state in the United States that lost middle-wage jobs from 2010 to 2013. Middle-wage jobs are defined as those jobs that pay between \$13.84 and \$21.13 per hour. They generally require less than a bachelor's degree but more than a high school diploma. The study reported that Rhode Island also saw a decline in high wage jobs during this same period meaning all its job growth was in occupations that paid \$13.83 an hour or lower.

Despite these worrisome economic indicators, the state's economy looks better now than did over the four-year period 2008-2012. Net general sales and gross receipt taxes -- a proxy for state aggregate demand -- steadily increased in 2013. The number of jobs based in Rhode Island increased from 459,100 in 2010 to 468,100 in August 2013, and Real Gross State Product expanded 1.4% in 2012 (compared to no growth in 2011). The overall economic outlook is mixed with an array of indicators showing that the state economy faces significant challenges in the years ahead even though a modest recovery is underway in the state.

### **Why Boston is Important to Rhode Island**

Because of the size of the state and its geographic proximity to Massachusetts, thousands of Rhode Islanders commute each day to Massachusetts. Just under 62,000 Rhode Islanders were employed in Massachusetts in 2011, which accounted for 12.3% of the state's employed labor force. Companies in the Great Boston area employ a significant majority of these workers.

Rhode Island is dependent on Boston's business and professional services. Boston's investment companies and venture capital firms support the state's high-tech industry and local entrepreneurship. Boston is a job market for high-paying jobs for graduates of Rhode Island colleges and universities.

Boston is a major financial and technological center with a strong innovation economy. Boston has one of the greatest concentrations of institutions of higher learning and medical facilities in the United States. Many of these colleges, universities and medical facilities have partnerships with organizations and businesses in Rhode Island.

Boston's international airport is the gateway for foreign visitors and tourists coming to Rhode Island. Visitors and tourists support the state's local businesses and the leisure and hospitality industry.

Rhode Island's economic challenge continues to be using the state's assets and capabilities and the region's strengths to attract and retain businesses and create jobs. The state will need to grow significantly faster than the other New England states in job creation if the state wants to keep the graduates of its colleges and universities and lower its unemployment rate. The quality of life makes the state a great place to live because of its location and easy access to Boston.

## **Forecast Highlights**

Rhode Island's Real Gross State Product (RGSP) is forecasted to reach \$45.2 billion in 2014, an increase of 1.8% compared to 2013 RGSP of \$44.5 billion. The annual growth rate of gross state product is forecasted at 1.6% in 2013 and 1.8% in 2014. From 2012 to 2017, RGSP is expected to increase on average by 2%. This rate is lower than the 2.8% growth expected for both the New England region and the U.S. economy during the same time period.

Real per capita income is expected to increase to \$38,349 in 2014 from \$37,813 in 2013, an increase of 1.4%. In 2017, real per capita income is expected to be \$41,278. The annual growth rate of real per capita income is forecasted to be 1.6% from 2012 to 2017 compared with 0.8% from 2007 to 2012.

The Rhode Island labor force is forecasted to be 559,000 in 2014 as compared to 558,000 in 2013, an increase of 0.1%. By 2017, the labor force is forecasted to be 570,000. From 2012 to 2017, the annual growth rate of the labor force is forecasted to be 0.3% as compared to an annual growth rate of -0.5% from 2007 to 2012. The unemployment rate is expected to be 8.6% in 2014, 7.8% in 2014 and 6.1% by 2017. These rates are consistently higher than the average unemployment rate in other New England states.

Total nonfarm employment is forecasted to be 472,800 in 2014 as compared to 467,800 in 2013, an increase of 5,000 jobs. Rhode Island's nonfarm employment is forecasted to be 493,200 by 2017. The annual growth rate of employment is forecasted to be 1.2% from 2012 to 2017 as compared to -1.1% from 2007 to 2012. In New England, total employment is expected to increase by 1.3% per year from 2012 to 2017.

Most of the new jobs created in Rhode Island from 2014 to 2017 will be in construction, financial activities, professional and business services, leisure and hospitality, education and health services and high-tech. The forecast indicates that there will be little or no growth in manufacturing, trade, transportation and utilities, information services and government employment.

The median price of a home is \$229,800 in 2013 and is expected to be \$239,500 in 2014 and \$244,600 by 2017. The annual growth rate of the median price of a home from 2002 to 2007 was 7.3% with the median price of a home being \$277,100 in 2007. From 2007 to 2012, the annual growth rate was -5.4%. The growth rate is forecasted to be 3.1% from 2012 to 2017.

It is forecasted that there will be 1,633 housing permits issued in 2014 as compared to 1,196 in 2013. From 2012 to 2017, the annual growth rate in housing permits is expected to be 19%, as compared to a decline of 17.7% from 2007 to 2012. In 2017, it is forecasted that about 1,747 housing permits will be issued.

The population in Rhode Island is projected to be 1,053 million, an increase of 1,000 people from 2013. By 2017, the population is forecasted to be 1,058 million. From 2012 to 2017, the annual growth rate in population is forecasted to be 0.1% as compared to -0.1% from 2007 to 2012 and -0.2% from 2002 to 2007.

The age cohort 65 and older is the segment of the Rhode Island population showing the greatest growth from 2012 to 2017 with an annualized rate of 2.2% during this time period. The age cohorts, 0-4 and 25-44 are the other population segments showing growth from 2012 to 2017.

## **Real Gross State Product and Income**

Between 2002 and 2012, Rhode Island has experienced growth rates significantly lower than that of the New England Region and the United States. This trend is expected to persist in outer years. The Fall 2013 forecast projects that Rhode Island's RGSP will grow 1.6% in 2013, 1.8% in 2014 and 2.6% in 2015. From 2012 to 2017, RGSP is forecasted to increase 2.0% (annualized rate). Real GDP in the New England region and in the United States is expected to increase 2.8% (annualized rate) during the same time period.

## **Employment**

Nonfarm employment in Rhode Island was 468,300 in 2013 Q3, compared to 465,700 jobs in 2012 Q3 and 462,000 jobs in 2011 Q3. These figures show that the Rhode Island labor market is improving at moderate rates over the last three years. The forecast suggests that Rhode Island's job market will continue trailing job creation in the rest of the nation. From 2012 to 2017, the annual growth rate of employment is projected to be 1.2% in Rhode Island, compared to 1.3% in New England and 1.4% in the United States. Total nonfarm employment is forecasted to be 472,800 in 2014, an increase of 5,000 jobs over the 2013 average. Rhode Island's nonfarm employment is expected to be 480,900 in 2015 and 293,200 in 2017.

After several months of decline, the unemployment rate ticked up in July and reached 9.1% in August 2013. This rate is significantly lower than the peak rate of 11.9% in 2010 Q1 but considerably higher than the rates observed in the late 1990s and early 2000s. The Rhode Island job market still faces significant challenges as demonstrated by the persistently high unemployment rate in the state. Modest job creation in outer years will cause the unemployment rate to stay above the national average until the end of the forecast horizon in 2017. The unemployment rate is forecasted to be 8.6% in 2014, 7.8 in 2015 and 6.1% in 2017.

Employment levels in manufacturing, construction, information, and trade, transportation and utilities are still below pre-recession levels. The forecast suggests that these industries will not recover the jobs lost during the recession until 2017. Employment in manufacturing will hover around 40,000, which is significantly lower than the 50,800 jobs in 2007. Construction is forecasted to employ 15,100 workers by 2014 and 15,800 by 2016, compared to 22,200 in 2007. Employment in trade, transportation, and utilities is projected to be 73,900 in 2014 and 72,200 in 2016 compared to 79,800 in 2007. The information industry employed 10,600 workers in 2007 and is expected to employ 9,300 in 2014 and 9,700 in 2017.

Employment in education and health services increased from 99,200 in 2007 to 103,800 in 2013 Q3. Employment in education and health services is forecasted to be 105,200 in 2014 Q3 and 109,200 in 2017. From 2012 to 2017, employment in education and health services is expected to grow by 1% per year. New England will outperform Rhode Island in terms of employment growth in education and health services at a forecasted growth rate of 1.7% from 2012 to 2017.

Employment in leisure and hospitality services is forecasted to grow at an annualized rate of 2.1% between 2012 and 2017. Leisure and hospitality is expected to add 5,400 jobs from 2013 to 2017. This puts leisure and hospitality among the fastest growing industries in Rhode Island.

Professional and business services employed 59,100 workers in 2013 Q3, compared to 56,100 in 2007. Employment in professional and business services is forecasted to grow at an annualized rate of 2.7% from 2012 to 2017. This represents an increase of 5,700 jobs during the next five years.

In Rhode Island, financial services employed 32,900 workers in 2013 Q3, compared to 34,900 workers in 2007. The number of jobs in this sector is projected to be 36,600 in 2017. From 2012 to 2017, employment in financial services is forecasted to grow at an annualized rate of 3%.

The NEEP forecast indicates that from 2012 to 2017 the high tech industry is expected to grow 1.4% per year, compared to 2% in New England. The high tech industry employed 22,200 workers in 2013 Q3 and is expected to employ 23,900 workers by 2017.

## **Housing**

The Rhode Island housing market and construction industry continues to struggle to recover from the impacts of the implosion of the housing industry in 2007/2008. In 2012, only 731 housing permits were issued in the state compared to about 3,000 permits in 2006. Construction is still operating with a significantly lower number of workers when compared to pre-recession levels. The housing market has stabilized and there are some signs that a slow housing recovery is under way in Rhode Island. Housing construction is expected to increase in outer years with housing permits reaching 1,200 units in 2013, 1,600 units in 2014 and around 1,800 permits each year from 2015 to 2017.

Lower housing prices have caused the affordability index (ratio of median house price to median household income) to improve in Rhode Island. The state's housing affordability index was 4.3 in 2013 Q3. However, this number is slightly higher than the 4.1 observed in 2013 Q1 signaling that housing prices are increasing again in Rhode Island. The housing affordability index in Rhode Island is forecasted to stay above 4 until 2015.

The median price of a home in Rhode Island has increased significantly in 2013 Q3 and is expected to continue increasing-- modestly -- in outer years. The median price is forecasted to be \$239,500 in 2014, \$241,900 in 2015 and \$244,600 in 2017. Sales of existing houses dropped from an average of 13,400 units in 2006 to 8,300 (annualized) units in 2012 Q1 and then increased to 10,500 in 2013 Q3. This represents a significant improvement in housing sales in Rhode Island. The NEEP forecast indicates that sales of existing houses will increase 2.5% per year from 2012 to 2017, compared to a decrease of 5.3% between 2007 and 2012.

## **Demographics**

There are no significant changes in demographic trends in Rhode Island. Rhode Island's total population is expected to grow 0.1% from 2012 to 2017 which represents an increase of 6,000 people in the state. The age cohort 65 and older is the segment of the Rhode Island population showing the greatest growth from 2012 to 2017 with an annualized rate of 2.2% during this time period. The age cohorts, 0-4 and 25-44 are the other population segments showing growth from 2012 to 2017. Net out-migration has been significant from 2005 to 2010 with an average of 5,900 people (net) leaving Rhode Island. Estimates of out-migration have slowed down to 400 people in 2012. Net out-migration is forecasted to continue for people who hold college degrees who are looking for better opportunities in other states.

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