

THE RHODE ISLAND ECONOMIC OUTLOOK AND FORECAST: REEXAMINING THE MANUFACTURING SECTOR

CURRENT ECONOMIC OUTLOOK

Rhode Island still lags behind other states in New England when looking at major economic indicators such as growth of the gross state product and the unemployment rate. However, the state gained some strength in 2013. Seven of the state's thirteen employment sectors experienced growth in 2013 including manufacturing which has added 400 new jobs. Overall, the Rhode Island economy is slowly regaining momentum as indicated by a significant drop in the unemployment rate from 10.6 % in March of 2012 to 9.1% in March 2013, a robust increase in taxes revenues, and employment gains in key industries. The Real Gross State Product (RGSP), which measures the total economic output of the state, is estimated to have increased 1.8% in 2012. The Rhode Island Current Economic Indicator (CEI) for the first quarter of 2013 increased at an annual rate of 1.6%.¹ Comparing the NEEP spring 2013 forecast with the NEEP fall 2012 forecast shows that the long-term forecast for both the unemployed rate and nonfarm employment has improved causing the unemployment rate to decrease much faster than expected in the fall 2012. The long term outlook has, thus, improved.

FORECAST HIGHLIGHTS

Rhode Island's Real Gross State Product (RGSP) is forecasted to reach \$44.9 billion in 2013, an increase of 1.1% compared to 2012 Real GSP of \$44.5 billion. By 2017, RGSP is forecasted to be \$49.7 billion. The annual growth rate of gross state product is forecasted at 2.2% from 2012 to 2017 compared to 0.0% from 2007 to 2012. This growth rate is, however, slower than the 3.2% growth rate for the New England area and 3.3% for the United States.

Real per capita income is expected to increase to \$39,110 in 2013 from \$38,903 in 2012, an increase of 0.5%. In 2017, real per capita income is expected to be \$44,796. The annual growth rate of real per capita income is forecasted to be 2.9% from 2012 to 2017 compared to 0.3% from 2007 to 2012.

The Rhode Island labor force is forecasted to be 562,000 in 2013 as compared to 560,000 in 2012, an increase of 0.3%. By 2017, the labor force is forecasted to be 577,000. From 2012 to 2017, the annual growth rate of the labor force is forecasted to be 0.6% as compared to an annual growth rate of -0.5% from 2007 to 2012. The unemployment rate is expected to be 9.2% in 2013, 8.1% in 2014 and 6.1% in 2017.

Average total nonfarm employment is forecasted to be 466,200 in 2013 as compared to 465,300 in 2012, an increase of 900 jobs. The annual growth rate of employment is forecasted to be 1.1% from 2012 to 2017 as compared to -1.1% from 2007 to 2012. Rhode Island's nonfarm employment is forecasted to be 471,100 in 2014 and 491,500 by 2017.

Most of the new jobs created in Rhode Island from 2013 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 growth in manufacturing, trade,

¹ The Rhode Island CEI is produced by the Center for Global and Regional Economic Studies at Bryant University.

transportation and utilities, information services and government employment. The median price of a home was \$223,500 in 2013 and is expected to be \$231,100 in 2014 and \$243,300 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%, and the growth rate is forecasted to be 3.0% from 2012 to 2017.

It is forecasted that there will be 1,330 housing permits issued in 2013 as compared to 792 in 2012. From 2012 to 2017, the annual growth rate in housing permits is expected to be 16.7%, as compared to a decline of 16.4% per year from 2007 to 2012. In 2017, it is forecasted that about 1,700 housing permits will be issued.

The population in Rhode Island is forecasted to be 1.052 million, an increase of 2,000 people from 2012. By 2017, the population is forecasted to be 1.060 million. From 2012 to 2017, the annual growth rate in population is forecasted to be 0.2% 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 2.4% during this time period. The age cohorts, 0-4 and 25-44 are the other population segments showing growth from 2012 to 2017.

EMPLOYMENT

Revised employment figures released by the Bureau of Labor Statistics and the Rhode Department of Labor and Training show that total nonfarm employment in Rhode Island was 466,900² in 2013 Q1, compared to 465,300 jobs in 2012 Q1, and 459,500 jobs in 2011 Q1. The revised figures show that the Rhode Island labor market performed slightly better than previously reported. However, there is still a long way to recover the jobs lost during the 2007 recession.

The NEEP spring 2013 forecast suggests that Rhode Island's job market will add jobs at a moderate pace over the next few years and will continue trailing job creation in New England and in the rest of the nation. From 2012 to 2017, the annual growth rate of employment is forecasted to be 1.1% in Rhode Island, compared to 1.4 in New England and 1.9% in the United States. Rhode Island's nonfarm employment is expected to be 471,100 in 2014, 480,500 in 2015, and 491,500 in 2017. The 2017 employment forecast is still below the peak employment level of 495,700 in 2006 Q4.

Another sign of improvement in the Rhode Island labor market is the significant drop in the unemployment rate to 9.1% in March 2013, from a peak rate of 11.9% in 2010 Q1. The drop in the unemployment rate, however, is explained by i) modest in-state job creation, ii) a stagnant labor force, and iii) an increase in the number of Rhode Islanders who have jobs out-of-state. The total number of employed workers (in-state and out-of-state) increased from 497,000 in 2011 Q3 to 507,600 in 2013 Q1. The labor force decreased from 560,900 in 2011 Q3 to 560,600 in 2013 Q1.

Job creation is expected to be moderate in outer years, which will cause the unemployment rate to stay above the national average until the end of the forecast horizon in 2017. The unemployment above is forecasted to be 8.1% in 2014, 7.1 in 2015 and reach 6.1% in 2017.

² The NEEP forecast was finalized before 2013 Q1 official figures were released and reports a slightly different figure.

Employment levels in manufacturing, construction, information, and trade, transportation and utilities have significantly declined since the recession hit the economy in 2007. In addition, the forecast indicates that any job creation that will take place in these industries will not be enough to lift the employment levels back to pre-recession levels until 2017. Manufacturing employment is expected to hover around just 41,000 by 2015/2016, compared to 50,800 in 2007. Construction is forecasted to employ 15,200 workers by 2014 and 16,700 by 2016, compared to 22,200 in 2017. Employment in trade, transportation, and utilities is forecasted to hover around 75,000 between 2015 and 2017, compared to 79,800 in 2007. The information industry has also experienced a decline in employment levels since the 2008 recession and the growth prospect is not encouraging in this sector. Information employed 10,600 workers in 2007 and is expected to employ just under 10,000 workers by 2015/2016

Employment in education and health services increased from 99,200 in 2007 to 103,600 in 2013 Q1. Employment in education and health services is forecasted to be 105,000 in 2014 and 109,700 in 2017. From 2012 to 2017, employment in education and health services is expected to grow by 1.1%. 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 has returned to pre-recession levels. In 2007, 51,500 workers were employed in leisure and hospitality, compared to 51,900 in 2013 Q1. Employment in leisure and hospitality services is forecasted to grow at an annualized rate of 2.2% between 2012 and 2017. Leisure and hospitality is expected to add 4,400 jobs from 2013 to 2017. This puts leisure and hospitality among the fastest growing industries in Rhode Island.

Economic activity in professional and business services has also returned to pre-recession levels and employment is at 56,900 workers in 2013 Q1, compared to 56,100 in 2007. Employment in professional and business services is forecasted to grow at an annualized rate of 2.0% from 2012 to 2017. This represents an increase of 4,800 jobs during the forecast horizon.

Financial services is still recovering the jobs lost during the recession, but the growth prospects has improved in this sector. In Rhode Island, financial services employed 32,100 workers in 2013 Q1, compared to 34,900 workers in 2007. The number of jobs in this sector is forecasted to be 34,400 in 2016 and 35,100 in 2017. From 2012 to 2017, employment in financial services is forecasted to grow at an annualized rate of 2.1%.

In Rhode Island, the high Tech industry shrank by about 1000 jobs since the 2008 recession. The NEEP Forecast, however, suggests high tech jobs will increase from 22,000 in 2013 Q1 to 24,300 in 2017. From 2012 to 2017, the Rhode Island high tech industry is expected to grow 1.7% per year, compared to 1.9% in New England.

HOUSING

In Rhode Island, housing and construction activities are still below healthy levels. In 2012, only 792 were issued in the state, compared to about 3,000 permits in 2006. The housing market, however, is slowly improving and housing construction is expected to increase in outer years. Housing permits will increase to just over 1,300 in 2013, and then hover around 1800 permits from 2014 to 2017. From 2012 to 2017, housing permits are expected to grow 16.7% compared to a decline of 16.4% per year from 2007 to 2012.

The median price of a home in Rhode Island has been between \$210,000 and \$220,000 since 2009, which is significantly less than a peak median price of \$287,000 in the first quarter of 2007. Lower

housing price has 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 4.1 in 2013 Q1, compared to 5.5 in 2006. The housing affordability index in Rhode Island is forecasted to linger around 4 and stay above the U.S. average until 2017.

The median housing price is expected to increase modestly until 2016. The median price is forecasted to be \$231,100 in 2014, 234,000 in 2015 and 243,300 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 9,700 in 2013 Q1. This represents a significant improvement in housing sales in Rhode Island over the last year. The NEEP forecast indicates that sales of existing houses will increase 3.5% per year from 2012 to 2017, compared to a decrease of 5.3% between 2007 and 2012.

DEMOGRAPHICS

The current forecast makes just minor adjustments to demographic trends discussed in the NEEP Fall 2012 forecast. Rhode Island's total population is expected to grow just 0.2% from 2012 to 2017, which represents an increase of 8,000 people in the state. 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 significantly to under 500 people in 2012, but the state is still losing workers to other states. This trend is expected to persist over outer years. There is also evidence that most people leaving the state are those who hold college degrees who are looking for better opportunities in other states.

The composition of the population deserves attention. The age cohort 65 and older is the segment of the population showing the greatest growth from 2012 to 2017. Population in this age cohort is expected to grow at an annualized rate of 2.4% during this period. The age cohort 5 to 19 years old is expected to decrease at a rate of 1.3% per year. The age cohort 25-44 is forecasted to increase 0.7% while the age cohort 45 – 64 years is forecasted to decrease 0.3%. Hence, the size of the working-age population is expected to stay roughly constant during the forecast horizon.

Overall, the state has an aging workforce with an increasing number of baby-boomers retiring or leaving the workforce. This will create job opportunities in every employment sector for high school and college graduates. The aging of the population also puts significant strain on services to senior citizens and the state budget to support these services. The state's investment in vocational and higher education will have to increase to provide the skilled workers needed for manufacturing and other sectors of the economy.

SNAP-SHOT OF THE RHODE ISLAND MANUFACTURING SECTOR

Manufacturing represents about 9% of all jobs in the state and about 8% of the total output of the state. The average wage of a job in manufacturing was \$66,629 in 2011 as compared to the average wage with all other jobs at \$46,375. Manufacturing jobs provided higher pay than jobs in construction, transportation and warehousing, retail trade, real estate, professional and technical services, educational services, health care and social assistance, arts, entertainment and recreation, hospitality and food services. In 2013 there are 40,100 people employed in manufacturing. By 2017, it is forecasted that there will be 40,800 people working in manufacturing.

There are 1,554 manufacturing companies in Rhode Island with 373 of these companies employing 20 to 249 workers and 25 companies employing more than 250 workers and over 1,000 companies employing less than 20 workers. The major manufacturing sectors include food, printing, chemical, plastics and rubber products, fabricated metal products, machinery and computer, textile and

electronic products and equipment. In shipments in dollars, the two largest manufacturing sectors are fabricated metal products and chemicals. Chemical and primary metal manufacturing were the two largest exporters in dollars in exports in 2011.

MANUFACTURING'S IMPORTANCE TO ECONOMIC DEVELOPMENT

Manufacturing was one of the major economic sectors that played an important part in the growth of the U.S. economy after the 2007 recession. This did not happen in Rhode Island. Manufacturing jobs in Rhode Island decreased from 50,800 in 2007 to 40,300 in March 2013 Q1. The decline in jobs was due to a number of factors including the lack of skilled workers, the high-cost structure in the state, and companies leaving the state due to poor economic conditions.

During this same time period, manufacturing employment increased in the United States by more than 500,000 jobs with manufacturing employing over 12 million workers in 2012. Some of this increase was due to higher labor costs in countries like China making it less competitive to manufacture in these countries and making it easier to return manufacturing to the United States. In China, from 2008 to 2012, labor costs rose over 80% and are expected to continue growing. Factors such as transportation and energy costs, currency fluctuations and being close to major customers also brought back manufacturers to the United States.

There is a manufacturing skills gap, or a shortage of 80,000 to 100,000 skilled manufacturing workers in the United States. A gap also exists in Rhode Island. The U.S. Department of Labor reports that the percentage of manufacturing workers aged 55 to 64 years and the share of workers older than 65 years have both significantly increased since 2000. The median age of the manufacturing workforce rose from 40.5 years in 2000 to 44.1 years in 2011. The educational attainment of the labor force employed in manufacturing in Rhode Island is significantly lower than that of competing states (MA, CT and NH). This puts Rhode Island on a disadvantaged position in terms of competitiveness in manufacturing.

In Rhode Island, there has been little population growth since 2007, with the fastest growing age cohort in 2013 being age 65 and up. This means that there will be a smaller workforce available for manufacturing. This will affect those companies wanting to grow and companies looking to relocate. With over 1,000 manufacturing companies in Rhode Island with less than 20 employees, some of these firms may close once owners retire since they may have no buyers or successors.

The state legislature is considering a number of initiatives to support manufacturing. They include Innovate RI –to provide technical assistance to small companies to compete for federal grants and matching grants and loans; Manufacturing internships and apprentices – to allow students to train during school hours in approved programs and Capital Expansion Manufacturing Jobs Credits- to allow companies that make major capital investments to be paid back a portion through credits on new jobs. These initiatives may not be enough to create the manufacturing jobs needed to revitalize manufacturing.

States with a focused approach to revitalizing manufacturing and that are willing to make the investment time and financial resources have been able to retain and grow their manufacturing businesses. They also have been able to attract foreign manufacturers and American companies who are re-shoring their manufacturing and bringing it back to the United States by offering incentives.

There are advantages and opposition of using public funds as incentives to attract and retain businesses. The advantage is that the incentives add jobs for specific industries, the opposition is

that the funds may be used to better the economic situation for everyone in a state. For each incentive offered, there needs to be a cost/benefit analysis, transparency and accountability. Unfriendly business states with higher tax rates and more cumbersome rules and regulations are unable to compete with states providing incentives such as low-tax rates, building ready land, job-creation tax credits, workforce training programs, local tax abatements, tax credits for machinery purchases and grants for site development. These states often have the infrastructure to support manufacturing such as deep-water ports, good interstate highways systems, strong community colleges and universities, lower energy costs and good airports.

The geographic location of Rhode Island places the state in a strong position to grow its manufacturing sector. To make Rhode Island a center for manufacturing will require raising the skill level of the work age population as well as having a more business-friendly entrepreneurial environment.

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