



## Expert: Outlook for RI economy mixed despite low unemployment rate

### Anemic growth, older population and lower education levels are key drawbacks

November 15, 2017

By: Ted Nesi

PROVIDENCE, R.I. (WPRI) – An economist who tracks Rhode Island for government leaders has delivered a decidedly mixed report on the health of the state’s economy.

While Rhode Island’s job market “is still relatively solid overall” with unemployment at 4.2%, the prospects for growth are weak and there are a number of reasons for concern, Michael Lynch, a principal economist at the consulting firm IHS Markit, wrote in a report released earlier this month.

“Rhode Island’s private-sector employment growth has been modest thus far in 2017,” Lynch wrote, noting the state added a net 3,700 jobs through September. The picture across industries is “rather complex,” he said, with job losses in some key sectors – health, business services, and finance – offset by gains in wholesale trade, accommodation and food services, manufacturing and construction.

IHS prepares a report on the state’s economy twice a year for the semiannual Revenue Estimating Conference, which develops official estimates of how much Rhode Island leaders can expect in tax receipts when they write the state budget.

Lynch saw little reason for immediate concern about Rhode Island’s job market, with private payrolls and the labor force both growing while claims for unemployment benefits remain stable. But he predicted the jobless rate will rise slightly over the next year as payroll growth slows and the labor force expands.

Through 2022, Lynch predicts Rhode Island payrolls will grow by just 0.4% a year on average, a rate that would rank near the bottom among the 50 states, at 48th.



Zeroing in on two crucial industries – business services and finance – Lynch said that while Rhode Island is home to a number of prominent firms, the two sectors generally put jobs here that are “mid-level and back-office-oriented” or “lower-paying [and] lower-skilled.” The average wages of Rhode Island finance workers, for example, “are only a fraction of those in the major financial centers of New York and Boston, among others, and well below the national average.”

Lynch warned that retail employment is likely to continue to decline in Rhode Island amid an ongoing migration of sales from brick-and-mortar stores to e-commerce. (A recent Bloomberg report showed Rhode Island has lost 7.1% of its retail jobs since 2007, a larger share than any other state.) Rhode Island manufacturing “has been in significant decline for decades,” too, though it “showed some faint signs of life in the post-recession years,” he wrote.

Demographics remain a major headwind for Rhode Island.

“Low population and labor-force growth will drag on overall growth potential,” Lynch warned. “For population growth, in particular, Rhode Island suffers from low birth rates, as well as consistent flows of out-migration as residents choose to move elsewhere.” The latter trend has been partly offset by a rising number of foreign immigrants who move to the state from abroad.

Overall, IHS expects Rhode Island’s population and labor force to grow about 0.1% a year on average of the next 10 years. “This will rank among the lowest in the country,” Lynch noted, and is “reflected in our forecasts for lackluster employment growth.”

Lynch pointed out that Rhode Island’s population is also “slightly older” than the rest of the country, and said the state’s economy will be healthier if it sees “steady growth” in the number of younger residents, particularly those ages 20 to 29.

“This would provide a useful crop of young and well-educated workers ready to enter the labor force and fill vacancies left behind by the aforementioned retirees,” he wrote. “Our forecasts indicate that the state will fail in this area – its 20- to 29-year-old cohort will contract over the next decade.”

Another problem: although Rhode Islanders are more likely to have postsecondary degrees than the national average, “the state falls well short of educational attainment levels in heavy knowledge-based economies like Massachusetts,” Lynch wrote. “This puts the Ocean State at a disadvantage when it comes to growing the presence of its skilled services economy.”

One silver lining: Rhode Island’s housing market is booming, with property values up nearly 8% this past spring compared with a year earlier.

Even that, however, carries a downside – with an “exceptionally low” inventory of homes for sale and a record-low residential vacancy rate, Rhode Island housing costs are on the rise, yet Lynch expects new construction to remain relatively limited in part due to the state’s weak demographics. Builders have also cited heavy regulation and high property taxes as impediments to constructing more homes.