

2023
OVERVIEW OF THE
RHODE ISLAND
ECONOMY



The Executive Office of Commerce submits its 2023 Overview of the Rhode Island Economy in accordance with R.I.G.L. § 42-64.19-6(6) which provides that the Secretary of Commerce shall be authorized to “Prepare and submit to the governor, the chairpersons of the house and senate finance committees, and the caseload estimating conference, by no later than April 15 of each year, a comprehensive overview of the Rhode Island economy. The secretary shall determine the contents of the overview and shall determine the important economic data and information that will inform the governor, and the revenue estimating committee on the economic conditions of the state and future issues and forward-looking projects of the Rhode Island economy.”

THE 2023 OVERVIEW OF THE RHODE ISLAND ECONOMY

EXECUTIVE OFFICE OF COMMERCE

THE 2023 OVERVIEW OF THE RHODE ISLAND ECONOMY

TO THE GOVERNOR AND THE GENERAL ASSEMBLY:

Please find within a comprehensive report on the economic outlook for Rhode Island in 2023 and beyond. This report provides a review of our state's economy in 2022, an in-depth analysis of the current economic climate, the potential impact of a national or global economic downturn, and Rhode Island's preparedness for such a situation. It is essential that we consider the information presented in this report as we shape our state's economic policies and strategies moving forward.

Though our economy has rebounded significantly from the effects of the global pandemic, and our state has great momentum, there are growing national concerns about a potential recession. The report discusses the factors contributing to these concerns and details how Rhode Island is preparing for such an eventuality by implementing policies to mitigate economic risks and promoting economic diversification.

As we navigate the uncertain economic landscape, it is crucial that we invest strategically in building economic resilience and sustainable long-term growth. This report suggests prioritizing funding towards small business support, including grants, loans, and technical assistance. Additionally, it emphasizes the importance of workforce development programs to equip Rhode Islanders with the skills needed for in-demand jobs, particularly in technology, healthcare, and green industries.

Furthermore, the report highlights the need for increased housing development to ensure the well-being of our residents. Talent attraction and retention initiatives, such as incentives for businesses and investments in education and research, are also crucial to sustain Rhode Island's economic growth.

Two additional essential components are the digital transformation of government services, as well as access to reliable and affordable broadband for our state's residents and businesses. By modernizing these services, we give Rhode Island a competitive edge.

It is important to recognize the strength and tenacity displayed by the people of Rhode Island in overcoming the challenges posed by the COVID-19 pandemic. With strategic investment and continued determination, we can ensure that our state's economy thrives in 2023 and beyond. I am confident that, together, we can make informed choices that will promote the well-being and prosperity of our state and its residents.

ELIZABETH M. TANNER, ESQ.

SECRETARY OF COMMERCE

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CHAPTER 1

2022 IN REVIEW

In 2022, Rhode Island's economy continued its strong rebound from the COVID-induced downturn in 2020. The state's quarterly real GDP decreased in the first quarter of 2022 but grew steadily thereafter throughout the year, reaching its second-highest point ever recorded by the end of 2022. The largest challenge facing the state's economy in 2022 — as was the case around the country — was high levels of inflation. Nationally, the change in the Consumer Price Index for All Urban Consumers (CPI-U) was 6.5% from December 2021 to December 2022 and the 12-month percentage change for the index reached a high point of 9.1% in June of 2022, a level not seen since the early 1980s. In order to attempt to lower the high rates of inflation, the Federal Reserve raised interest rates seven times in 2022. The Fed raised the target rate range from 0.00% – 0.25% in January 2022 to 4.25% – 4.50% by the end of the year. These interest rate increases had wide-ranging implications across the economy, including in the development and mortgage lending spaces.

The *2022 Annual Overview of the Economy* pointed out positive trends in the labor market at the beginning of the year, with the state's unemployment rate dipping below the national rate. This trend continued throughout the year, and the state's unemployment rate remained lower than the national rate in every month of 2022. Additionally, the state's unemployment rate of 2.9% in April 2022 was the lowest the state had seen since the summer of 1988, 34 years prior. This is an especially strong metric of success given that Rhode Island's unemployment rate at the peak of the pandemic was the 4th-highest of all 50 states at 18.4% (April 2020).

The November 2021 Revenue Estimating Conference (REC) projected that in 2022, Rhode Island total nonfarm employment would reach 494,200. However, total nonfarm employment exceeded those projections, peaking at 500,300 in August and closing the year at 497,400. Moreover, Rhode Island also exceeded the REC's prediction of a 4.4% unemployment rate for the year, with the average unemployment rate across the year coming in at 3.2% and the peak rate of 2022 reaching only 3.4%.

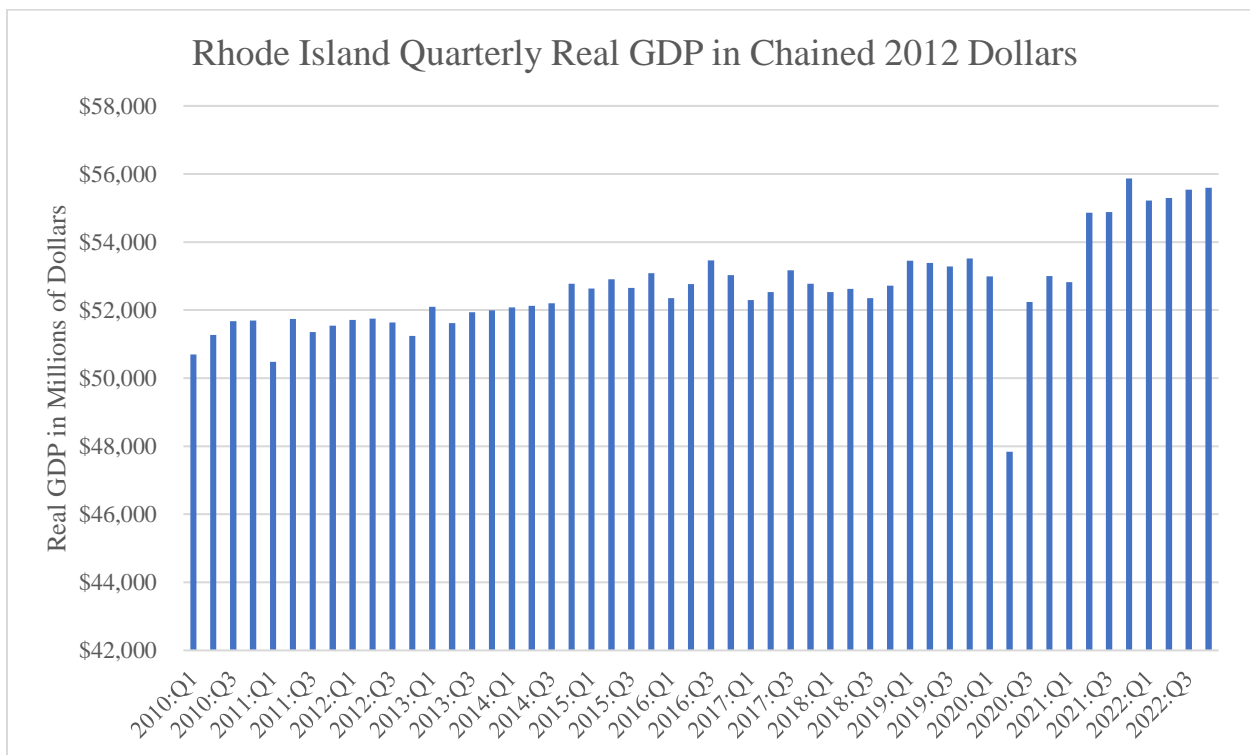
The *2022 Annual Overview of the Economy* highlighted two challenges ahead for Rhode Island, both of which did manifest in a significant way in 2022. The report highlighted the national inflationary environment as well as the declining labor force participation rate and associated labor shortage. Additional information on the Rhode Island labor market and labor force can be found further on in this chapter.

In the international market, Rhode Island's exports fell slightly while imports increased. Despite the slight decrease, exports remain higher than any point prior to 2021 while imports have not yet rebounded to their pre-pandemic levels.

Housing prices continued to rise both in the ownership and rental markets, maintaining the ongoing challenge that Rhode Islanders face in housing affordability. As mentioned above, rising interest rates throughout the year posed an additional obstacle for those looking to purchase a home.

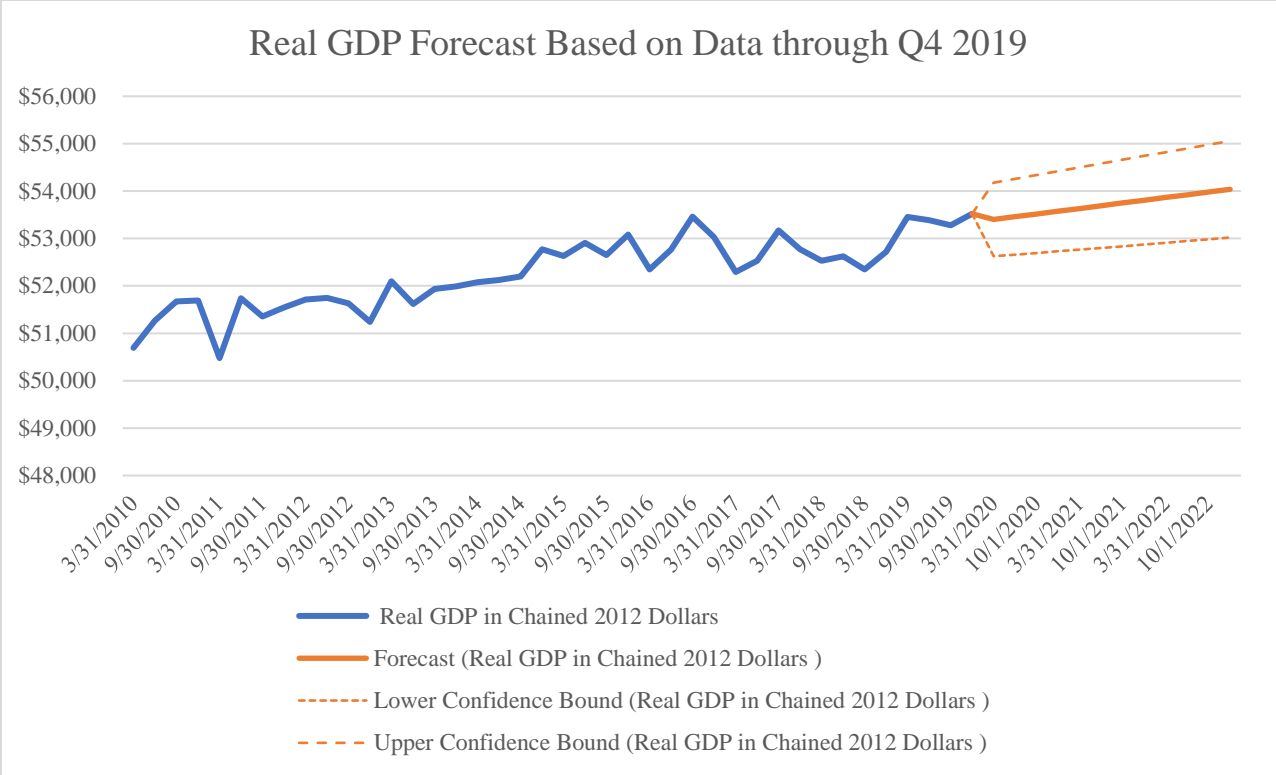
U.S., Regional, and Rhode Island Economic Developments

In 2022, the United States economy (measured as real GDP) grew year over year at a rate of 2.1% with real GDP going from approximately \$19.61 trillion to \$20.01 trillion (chained 2012 dollars). This marks a strong positive annual growth rate despite real GDP declining slightly in both the first and second quarters of the year. The regional economy fared similarly. New England real GDP decreased in the first (-0.6%) and second (-2.8%) quarters before growing by 2.7% in the third quarter and 2.0% in the fourth quarter. Real GDP in Rhode Island decreased by 4.6% in the first quarter from the preceding period (annualized) but then grew by 0.6% in the second quarter, 1.8% in the third quarter, and 0.4% in the fourth quarter. Over the year from 2021 to 2022, Rhode Island’s real GDP grew by 1.5%. This growth rate ranked 32nd among the 50 states and the District of Columbia. As demonstrated in the figure below, the state’s real GDP by the end of 2022 was the second-highest value recorded, second only to the fourth quarter of 2021.



Source: U.S. Bureau of Economic Analysis

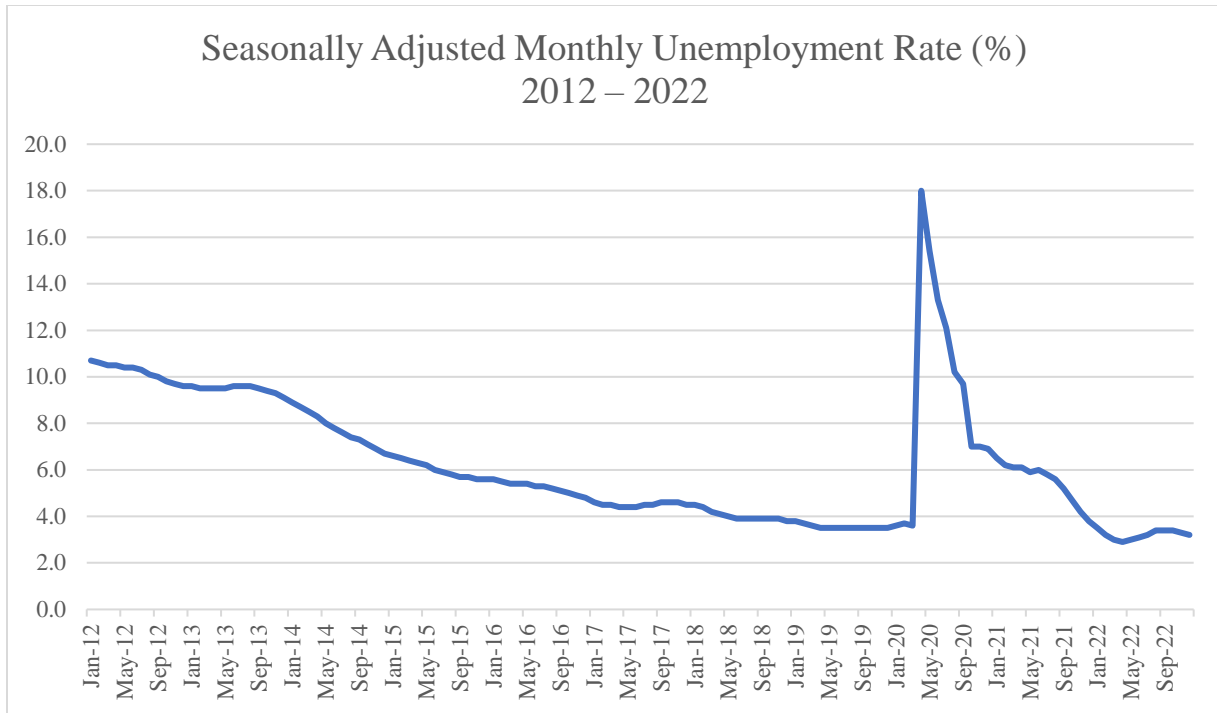
The below chart shows a forecast of future year performance based on real GDP data through the fourth quarter of 2019, the last full quarter of data before the COVID-19 pandemic. The forecast projected that real GDP would reach \$54.038 billion by the end of 2022 while the upper confidence bound of the forecast projected a value of \$55.055. The actual value for real GDP in the fourth quarter of 2022 was \$55.599 billion, outstripping even the upper confidence bound despite the severe impact of the pandemic on GDP growth in 2020.



Source of historical data: U.S. Bureau of Economic Analysis

Labor Market and Workforce

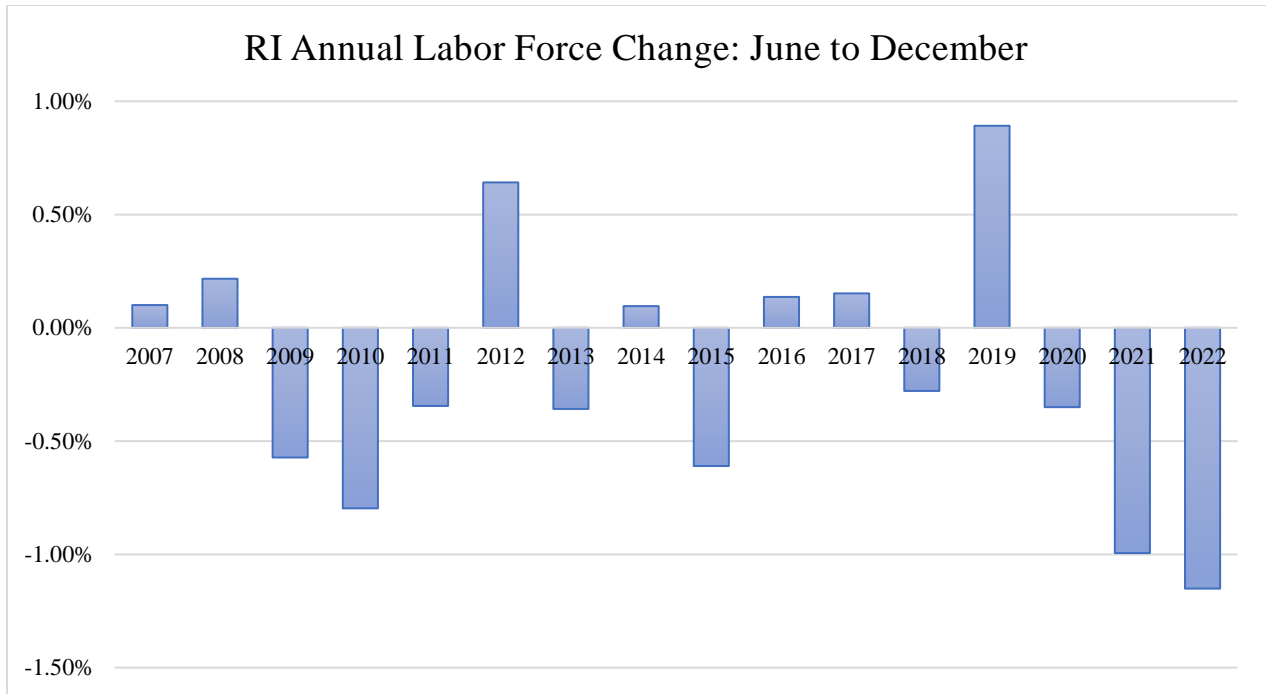
Rhode Island saw near record-low unemployment rates in 2022, decreasing as low as 2.9% in April. The last time the unemployment rate in the state broke 3% was 1988, when it reached 2.7% in both April and May of that year. According to the Rhode Island Department of Labor and Training, through the end of 2022, the state economy recovered 97,800 or 90.5% of the 108,100 jobs lost during the pandemic shutdown. Throughout the year, Rhode Island ranked either third or fourth in New England for the lowest unemployment rate, consistently achieving a lower rate than both Massachusetts and Connecticut. In every month of the year, Rhode Island’s unemployment rate was lower than the national rate, which began 2022 at 4.0% and ended the year at 3.5%.



Source: U.S. Bureau of Labor Statistics

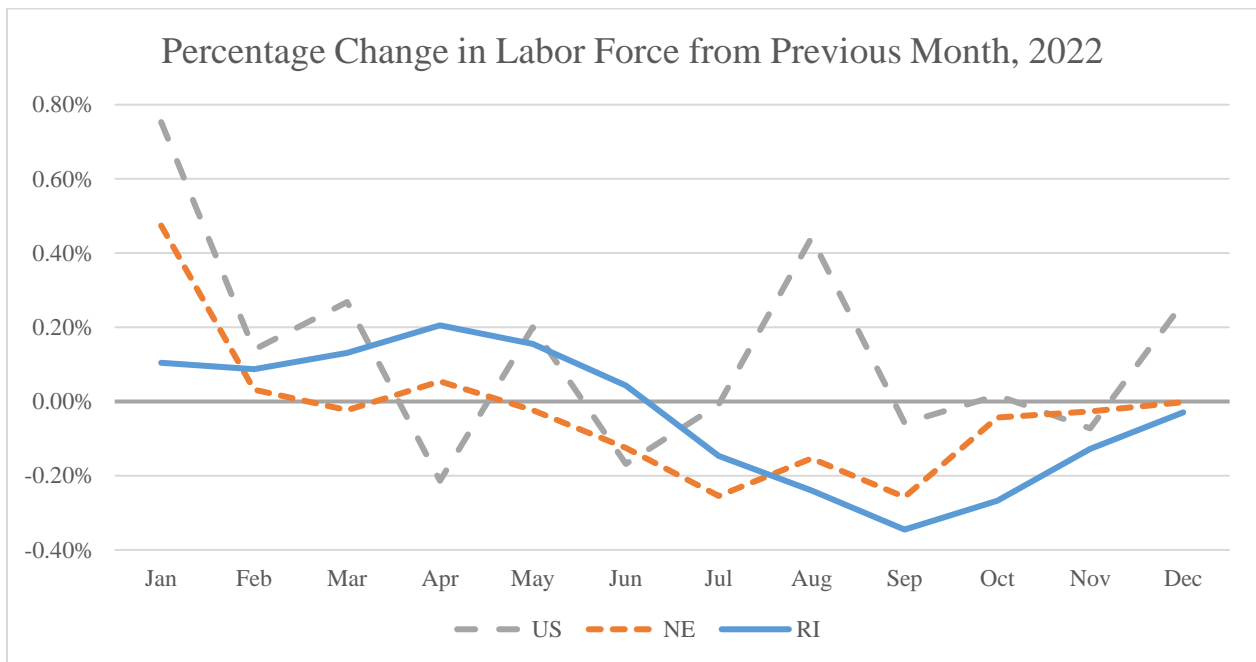
Driving the decrease in the unemployment rate was a decrease in total unemployment in the state throughout the year, decreasing from 20,080 in January 2022 to 18,157 in December, reaching a low of 16,828 in April. However, additional factors also played a role in the state’s low unemployment rate, including a decline over the year in the size of Rhode Island’s labor force as well as a decline in the state’s labor force participation rate. The size of the labor force decreased by just over 3,000 people from 569,398 in January to 566,352 in December. The labor force participation rate declined from 63.3% in January to 62.9% in December, though it reached as high as 63.7% over the summer. This is a common seasonal trend in Rhode Island, with peaks in June and valleys in December/January. However, prior to the pandemic, the last time the labor force in the state was this small was January 2017, when the labor force was 566,288 people. It is difficult to determine what is driving this decrease in the labor force, but some potential factors include increased retirements, outmigration from the state, exacerbated seasonal trends (e.g., more tourism-reliant businesses closing during the off season), or continued effects of the pandemic. The decreasing size of the labor force can make a low unemployment rate seem like a false indicator of strength in that the number of people who are unemployed may not be shrinking because people are getting jobs, but rather it may be shrinking because they are leaving the labor force altogether.

The seasonal decrease in the labor force in 2022 was much larger than in recent history, as demonstrated in the chart below which shows the percentage change in labor force from June to December of the given year. In 2022, Rhode Island experienced a decrease of 1.15%, our single largest change in the period assessed, which looks back to before the Great Recession.



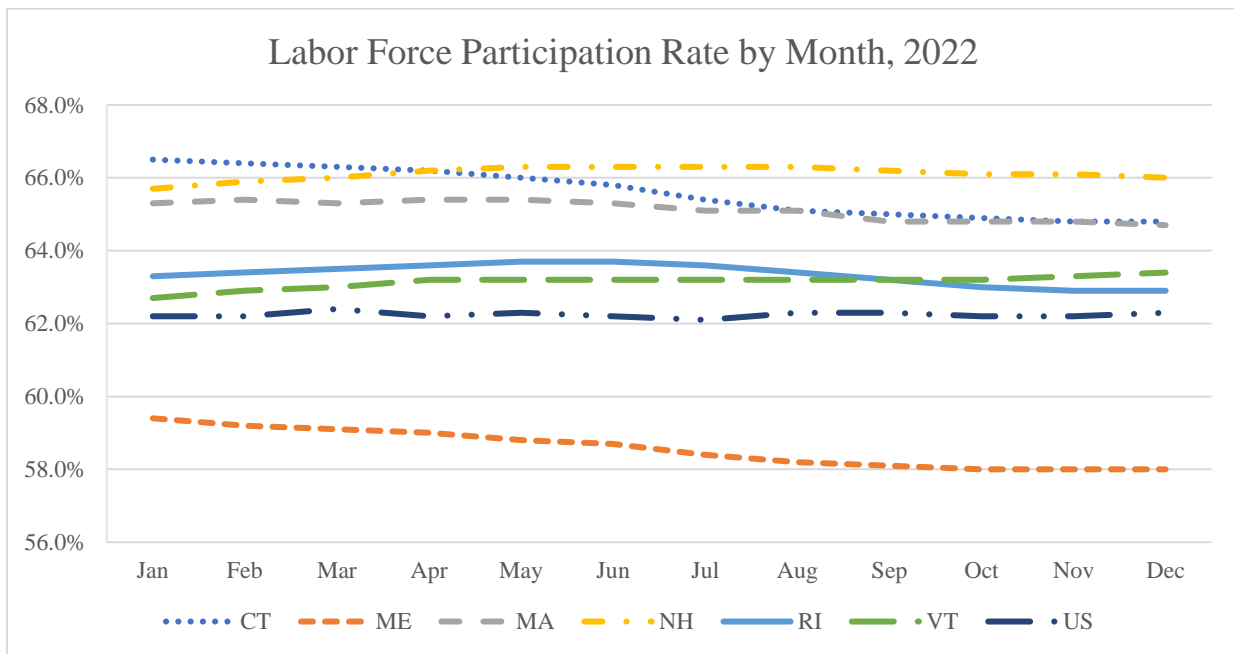
Source: Rhode Island Department of Labor and Training

Rhode Island's seasonality in the size of the labor force generally tracks with the region as a whole. As demonstrated in the chart below, the labor force tends to grow in the first half of the year, leading up to the summer, while shrinking in the fall and toward the end of the year. In 2022, Rhode Island saw better growth in the labor force than the region as a whole in February through July, falling behind the region and shrinking more quickly in August through December.



Source: U.S. Bureau of Labor Statistics

Regionally, Rhode Island’s labor force participation rate ranked fourth in New England for much of the year, before falling to fifth in the region in the last quarter, as demonstrated in the chart below. Rhode Island’s average labor force participation rate across the year was 63.4% which ranked fourth in the region, ahead of Vermont and Maine. However, Rhode Island’s labor force participation rate was consistently higher than the national average in each month, with the nation’s average labor force participation rate coming in at 62.2% in 2022.

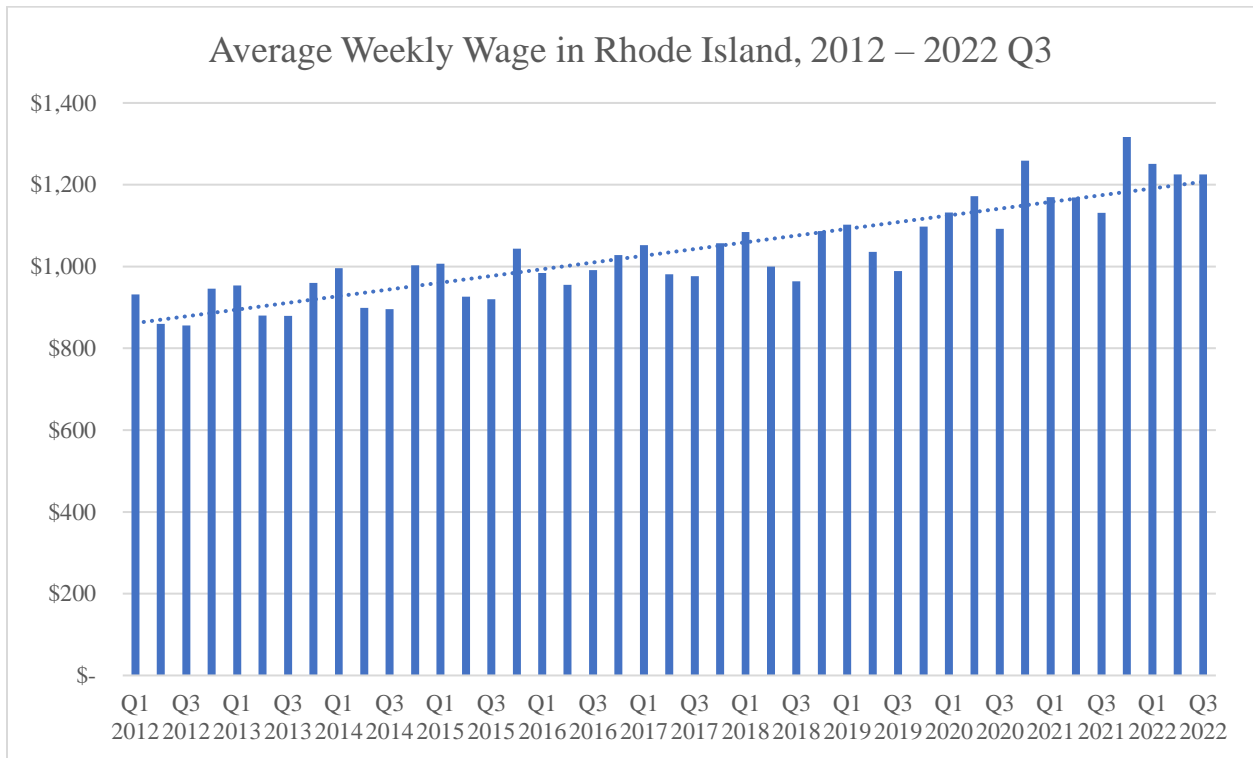


Source: U.S. Bureau of Labor Statistics

In all, total nonfarm employment in Rhode Island ended 2022 at 497,400 jobs. This was an increase of 9,900 jobs or 2.0% from January 2022. One of the industries that experienced the most significant gains in jobs was the leisure and hospitality industry, which was especially hard-hit by the COVID-19 pandemic. This industry gained 1,900 jobs (an increase of 3.5%) between January and December 2022, an increase that was especially driven by the arts, entertainment, and recreation subindustry. Additional industries that performed well this year in Rhode Island included construction (+1,600 jobs or 7.7% between January and December 2022), health care and social assistance (+2,200 jobs or 2.8%), and financial activities (+1,300 jobs or 3.8%).

Total nonfarm employment remains below pre-pandemic levels; December 2022 total employment of 497,400 was down 1.5% compared to December 2019, when the value was 504,800. Of the sectors highlighted above, only construction (+2,500 jobs) and financial activities (+200 jobs) ended 2022 at a higher level than December 2019. The leisure and hospitality industry ended 2022 down 4,000 jobs from December 2019, largely driven by a decrease in the accommodation and food services subindustry (-3,800 jobs). The health care and social assistance subindustry decreased in size by 2,600 jobs from December 2019 to December 2022.

Preliminary data for the first three quarters of 2022 show that average weekly wages have continued to trend upward in Rhode Island, with an average of \$1,234 per week. This is up by \$36 from the 2021 annual average weekly wage of \$1,198. Taken across a whole year, that is an increase of \$1,852.67 in average annual wages. In terms of average weekly wage in the first three quarters of 2022, Rhode Island ranked 20th nationally and 4th in New England, ahead of Vermont (31st) and Maine (34th). Massachusetts and Connecticut ranked 2nd and 5th in the nation, respectively, with average weekly wages of \$1,705 and \$1,554.



Source: U.S. Bureau of Labor Statistics

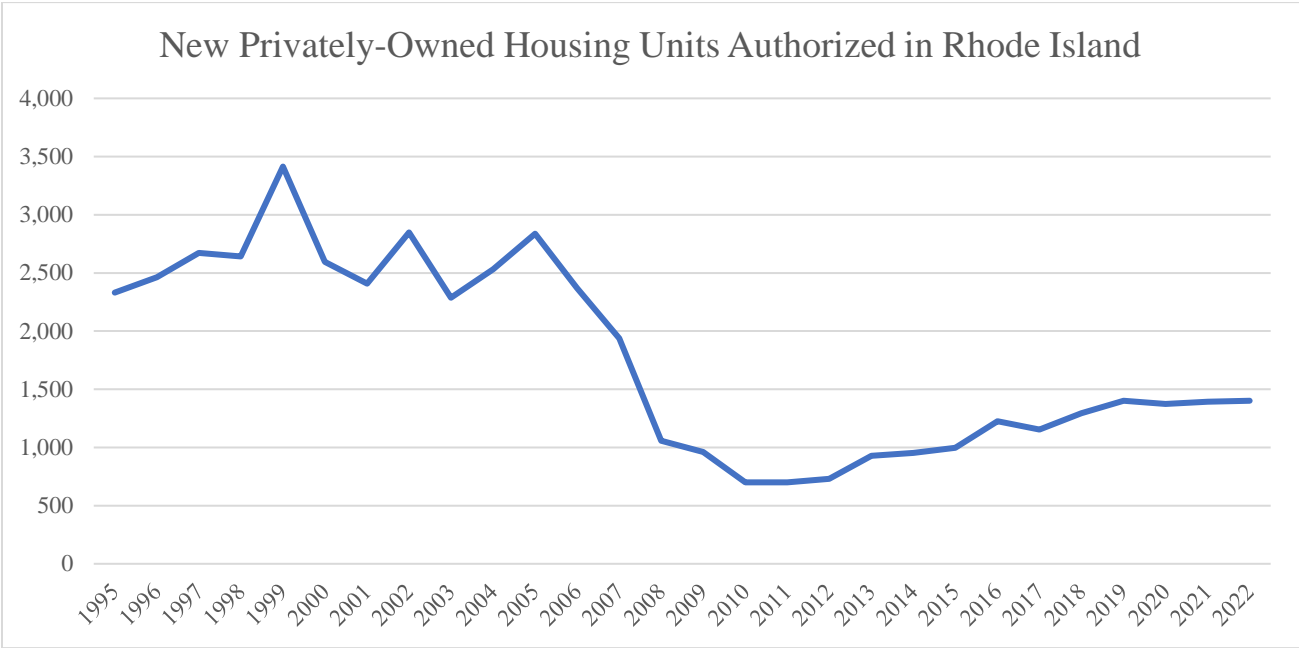
Data regarding Real Per Capita Personal Income (PCPI) in Rhode Island for 2022 is not yet available through the Bureau of Economic Analysis as of April 2023.

Housing Market

The housing market continued its recent upward trend as prices climb and supply is limited. The number of building permits authorized for privately-owned housing units in the state increased very slightly in 2022, from 1,392 in 2021 to 1,401.ⁱ This is the highest value seen since prior to the Great Recession in 2007. However, it remains well below the pre-Great Recession peak of 3,414 reached in 1999. Rhode Island saw an increase of 81.7% over the year in permits authorized for structures with five units or more, going from 126 permits in 2021 to 229 permits in 2022. Permits issued for structures with two units also increased over the year from 148 to 160

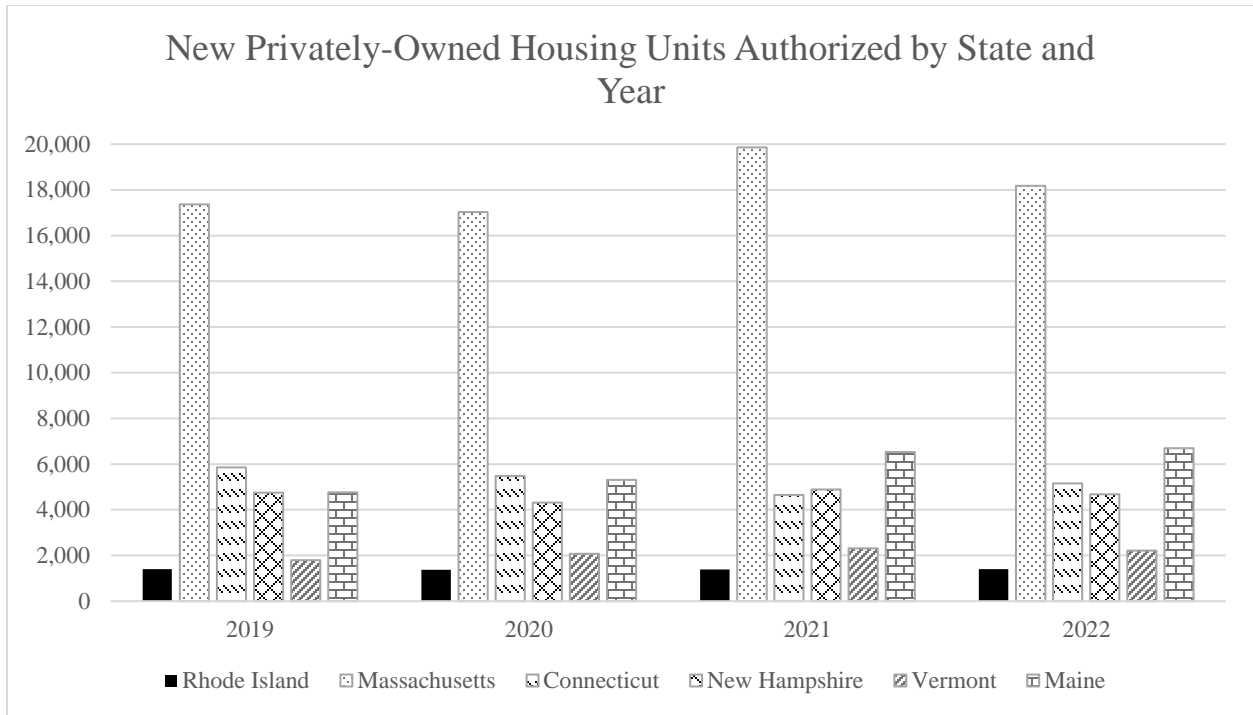
ⁱ Note that the Census Building Permits Survey does not capture building conversions as new housing

permits while single unit structures decreased from 1,033 to 954 permits and structures with three and four units decreased from 85 to 58 permits.



Source: U.S. Census Bureau, Building Permits Survey

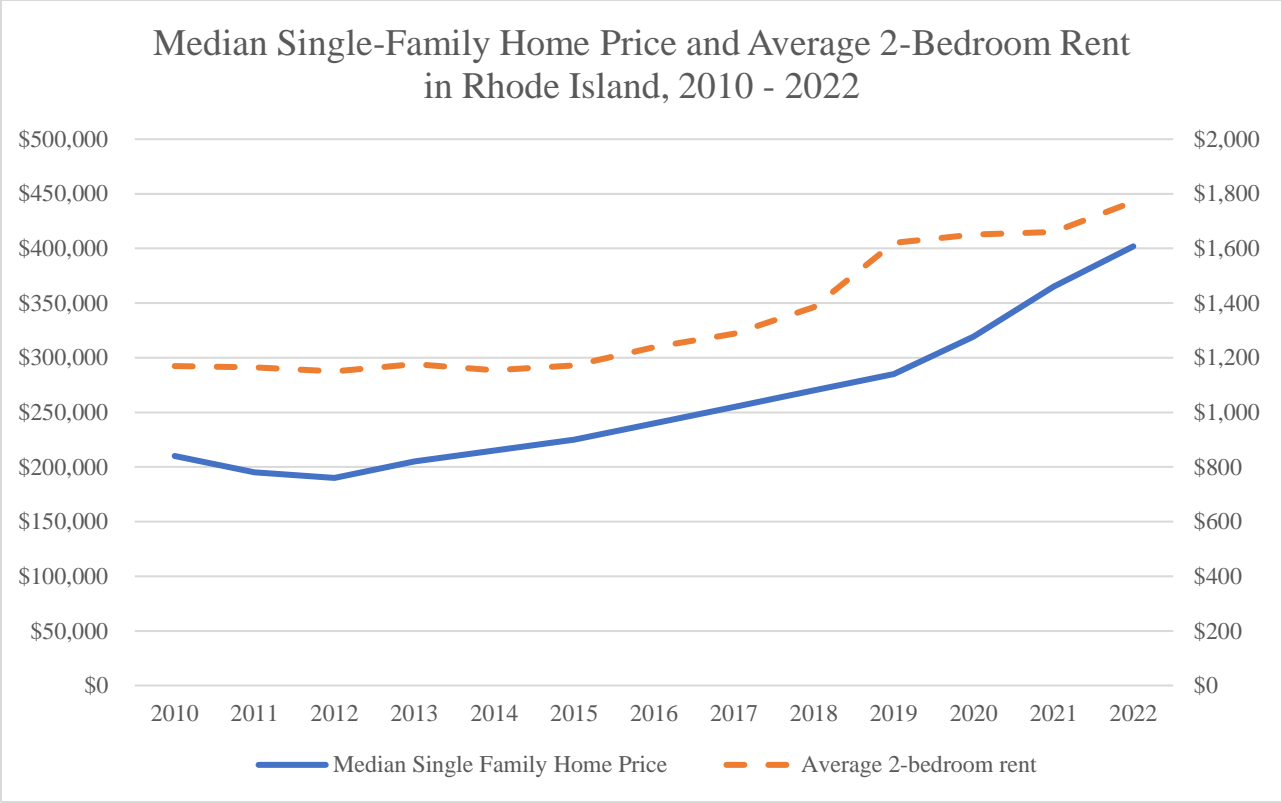
Regionally, Rhode Island lags the rest of New England when it comes to construction of new privately owned housing units. In each of the last four years, Rhode Island has been last in New England, falling below even Vermont despite having a much larger population.



Source: U.S. Census Bureau, Building Permits Survey

Housing prices continued to rise rapidly in 2022. According to the RI Association of Realtors, the median price for a single-family home was \$401,926,¹ representing more than a 10% gain in median price compared to 2021. This was the first time the annual median price for a single-family home in the state had risen above \$400,000. In 2021, the median price for a single-family home was \$365,000 and in 2020, that figure was \$319,250. The median price for a single-family home in Rhode Island has risen every year since 2012, when the price was \$190,000. This marks a decade of rising home prices in the state, during which period the median price has increased by 111.5%. As mentioned in the introduction, rising interest rates in 2022 posed an additional barrier to homeownership for those looking to get a mortgage.

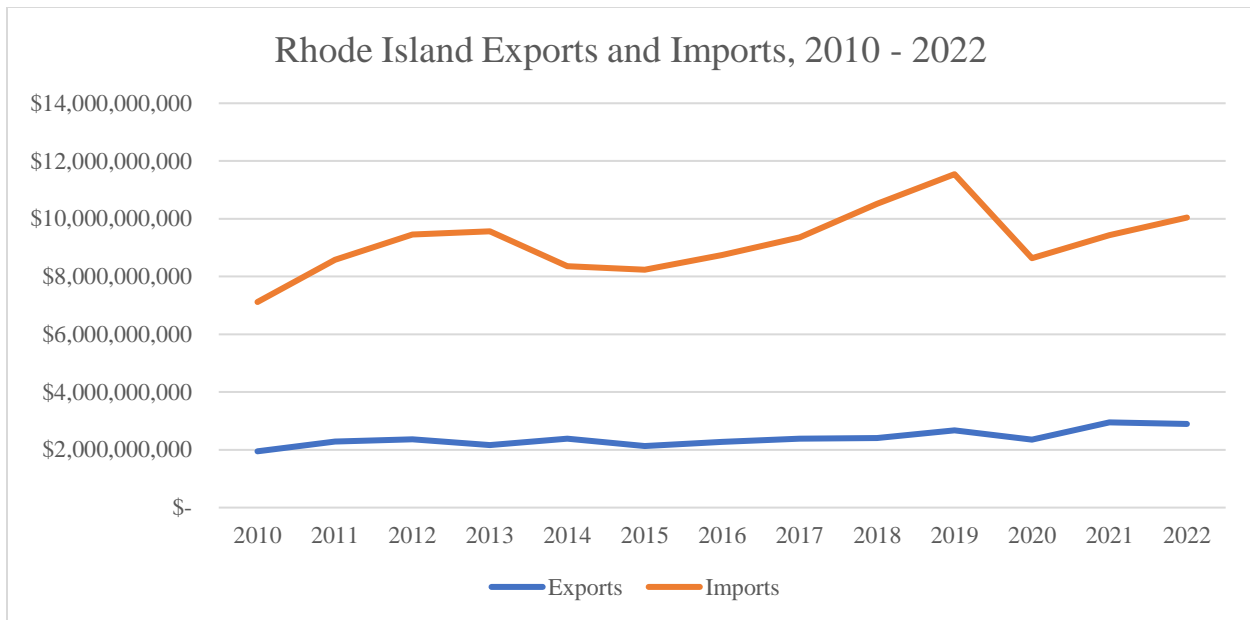
At the same time, prices to rent are also increasing. According to the HousingWorksRI Factbook for 2022, the average 2-bedroom rent in Rhode Island was \$1,771.² In order to afford that rent, a household must earn \$70,840, just below Rhode Island’s median household income of \$74,489 (as of 2021). The average 2-bedroom rent cost in the state for 2022 represents an increase of 6.7% over 2021 and a 54% increase since 2012.



Sources: RI Realtors Association and HousingWorksRI FactBook

International Trade

In the international market, Rhode Island’s exports fell slightly from 2021 levels while imports increased over the year. Despite the slight decrease, exports still remain higher than any point prior to 2021 while imports remain lower than pre-pandemic levels. It is important to note that these figures are not adjusted for inflation, so values can fluctuate significantly from year to year depending on the price of goods. Additionally, international economic conditions such as Russia’s War on Ukraine play a large role in driving these import and export statistics (e.g., the large increase in the value of imports of petroleum and coal products mentioned below). Total imports increased to \$10.04 billion in 2022, up 6.5% from \$9.43 billion in 2021. Exports decreased slightly to \$2.89 billion in 2022, down from \$2.95 billion in 2021, a 1.91% drop. Since 2010, both exports and imports have increased, despite the interruption in global trade in 2020 due to the pandemic. Over the past 12 years, exports have increased by 48.49% while imports have increased by 41.06%.



Source: U.S. Census Bureau, Foreign Trade Division

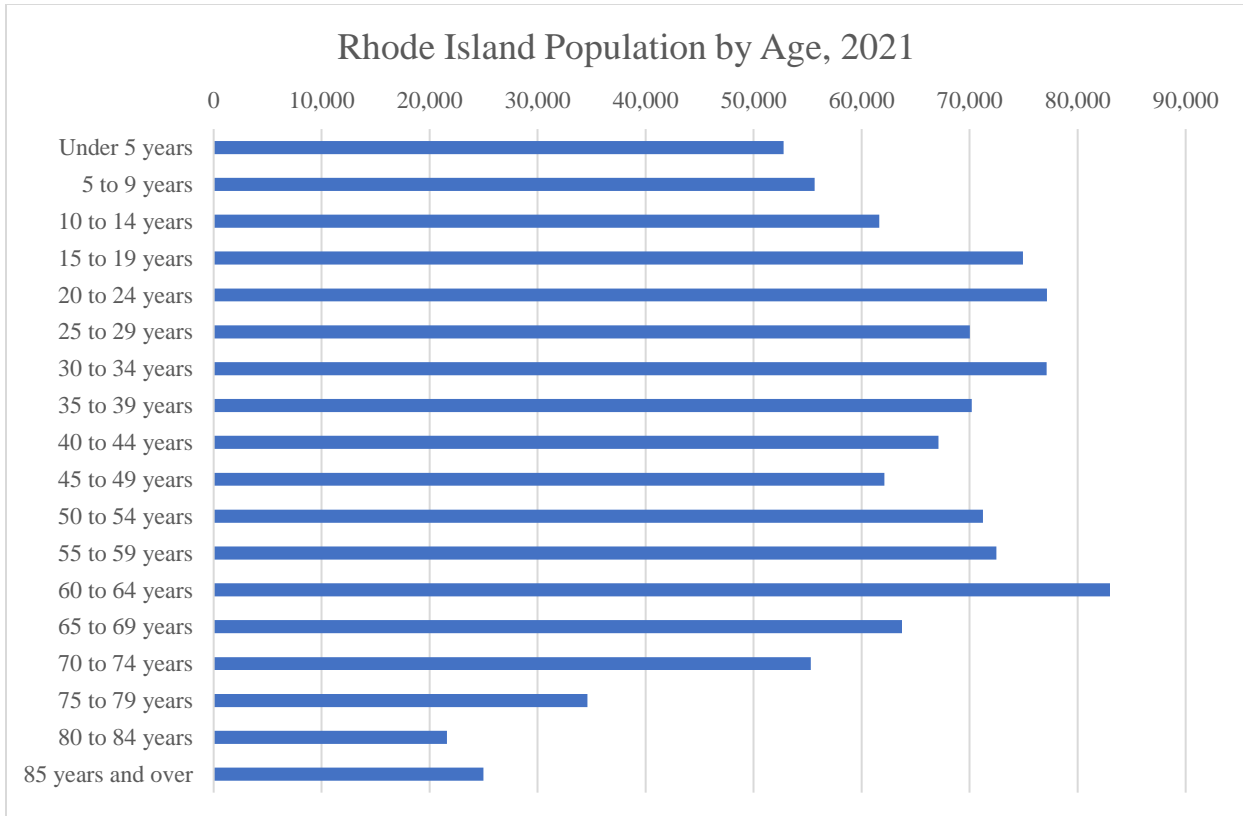
The largest increase in exports by category from 2021 to 2022 were Computer & Electronic Products (+\$47,101,026); Machinery, Except Electrical (+\$34,679,222); and Food & Kindred Products (+\$32,397,069). The largest decreases in exports by category over the year were Waste and Scrap (-\$31,863,796), Primary Metal Manufacturing (-\$28,592,207), and Miscellaneous Manufactured Commodities (-\$21,988,227). The largest overall export categories in 2022 were Waste and Scrap (\$778,441,529), Chemicals (\$544,862,635), and Miscellaneous Manufactured Commodities (\$429,897,631). Rhode Island’s top trading partners in terms of total exports in 2022 were Canada (\$466,590,965), Italy (\$406,332,506), and the Dominican Republic (\$316,113,792).

The largest increase in imports by category from 2021 to 2022 were Petroleum & Coal Products (+\$458,793,885); Transportation Equipment (+\$122,158,747); and Fish, Fresh/chilled/frozen & Other Marine Products (+\$78,122,779). The largest decreases in imports by category over the year were Textile Mill Products (-\$48,275,991); Electrical Equipment, Appliances & Components (-\$28,765,597); and Plastics & Rubber Products (-\$28,000,076). The largest overall import categories in 2022 were Transportation Equipment (\$4,023,009,699), Petroleum and Coal Products (\$2,362,645,045), and Miscellaneous Manufactured Commodities (\$1,390,233,299). Rhode Island’s top trading partners in terms of total imports in 2022 were Mexico (\$1,412,615,016), Germany (\$1,408,169,371), and Canada (\$1,214,749,418).

Population Trends

The modal age range among Rhode Islanders is 60 to 64 years, a cohort which is approaching retirement age. This cohort makes up 7.57% of all Rhode Islanders. 18.27% of Rhode Islanders are 65 or older, while 22.36% of Rhode Islanders are under the age of 20. Combined, these cohorts which are outside of the traditional age of the workforce make up more than 40% of the population of the state. Rhode Island’s aging population poses a long-term

concern for the growth of the economy and may already be driving a decrease in the labor market, as described above. Additionally, an analysis by the Kansas City Federal Reserve demonstrated that demographic trends of an aging population tended to have a negative impact on income tax and sales tax revenue per capita.³ The population trends in the state therefore should be a source of concern for state policymakers from a revenue standpoint as well as a labor force standpoint.



Source: U.S. Census Bureau, American Community Survey

CHAPTER 2

2023 AND BEYOND

Rhode Island's economy has so far continued trends set in 2022 through the first several months of 2023, including a small decrease in the labor force and a decline in the unemployment rate. Nationally, many of the trends of 2022 have also continued, including the inflationary environment. In February, the CPI-U 12-month change was 6%, down slightly from January (6.4%) and significantly lower than the peak in summer 2022, but still higher than the Federal Reserve's target rate. In 2022, the Federal Reserve raised interest rates by 4.25%, and signaled that further rate hikes were likely coming in 2023, given persistent inflation. In the first quarter of 2023, the Fed has already increased rates twice, by a quarter point each time. These increases have raised overnight lending rates to their highest levels since September 2007.

U.S. and Global Projections

Projections regarding the U.S. economy in 2023 tend to forecast lower growth and worse economic conditions in the coming year as the country continues to fight inflation. For instance, the Congressional Budget Office (CBO) forecast for the year, projects a real GDP increase of just 0.1% in 2023, restrained by declining home building and inventory investment.⁴ However, the CBO does project a quick rebound for the U.S. economy, averaging a 2.4% annual growth rate in real GDP from 2024 to 2027. Additionally, the CBO projects that conditions in the labor market will deteriorate, with the unemployment rate rising to 5.1% by the end of the calendar year. The International Monetary Fund (IMF) projected a 1.4% growth rate for the U.S. economy in 2023, though with a rebound anticipated in the second half of 2024. Globally, the IMF projected a 2.9% growth rate for the world economy, down from an estimated 3.4% in 2022.⁵ Continued global inflation and the associated central bank rates as well as the war in Ukraine were cited as significant factors that will likely slow economic growth in 2023.

Growth of Real GDP



Source: Congressional Budget Office

Rhode Island Economic Projections

In Rhode Island, the Revenue Estimating Conference (REC) published the Consensus Economic Forecast in November 2022.⁶ The REC meets twice a year to adopt economic forecasts and revise estimates of revenues, which form the basis for the composition of the state budget by the Governor and General Assembly. The 2022 economic forecast was informed by S&P Global Market Intelligence and the R.I. Department of Labor and Training.

The group projected that total nonfarm employment would decrease slightly over the year, ending 2023 at 494,400. This would represent a decrease of 3,000 jobs (-0.6%) from the December 2022 figure of 497,400. The group also projected that the unemployment rate would reach 4.4% in calendar year 2023, up by 1.2% from the rate of 3.2% in December 2022. The REC revised forecast for revenues for FY23 increased by \$358.9 million to a total of \$5.26 billion for the fiscal year. Revenues for the state in FY24 were estimated at \$5.1 billion, though that figure does not include the hospital license fee (\$179.1 million in FY23) which is enacted annually and therefore cannot be included in the revenue estimate.

November 2022 Consensus Economic Forecast								
Annual Growth	CY 2021	CY 2022	CY 2023	CY 2024	CY 2025	CY 2026	CY 2027	CY 2028
Nonfarm Employment (000's)	479.8	495.7	494.4	493.8	497.5	499.9	501.1	501.1
Nonfarm Employment Growth	4.0	3.3	-0.3	-0.1	0.8	0.5	0.2	0.2
Personal Income (mil.)	\$70,531.5	\$70,949.4	\$73,543.4	\$76,837.0	\$ 80,413.5	\$ 83,961.3	\$87,564.7	\$ 87,564.7
Personal Income Growth	7.3	0.6	3.7	4.5	4.7	4.4	4.3	4.3
Wage and Salaries Income	7.3	7.5	3.6	4.3	5.1	4.7	4.2	4.2
Dividends, Interest and Rent	2.5	4.0	5.7	5.5	3.8	3.5	3.6	3.6
Rates								
Unemployment Rate	5.7	3.2	4.4	5.1	4.8	4.5	4.4	4.4
Consumer Price Index (US)	4.7	8.1	4.2	2.5	2.2	2.2	2.3	2.3
Personal Consumption Growth	12.8	8.2	3.6	3.1	4.0	3.9	3.8	3.8
Housing Starts	1.2	1.1	1.0	1.2	1.3	1.3	1.3	1.3
Annual Growth	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	FY 2026	FY 2027	FY 2028
Nonfarm Employment (000's)	468.4	489.0	497.4	492.3	495.9	498.8	500.6	500.6
Nonfarm Employment Growth	-3.0	4.4	1.7	-1.0	0.7	0.6	0.4	0.4
Personal Income (mil.)	\$68,577.3	\$69,894.6	\$72,290.0	\$75,105.1	\$ 78,606.6	\$ 82,209.5	\$85,746.0	\$ 85,746.0
Personal Income Growth	7.9	1.9	3.4	3.9	4.7	4.6	4.3	4.3
Wage and Salaries Income	4.1	8.7	5.3	3.1	5.2	4.9	4.4	4.4
Dividends, Interest and Rent	-0.3	4.1	4.6	6.1	4.4	3.6	3.5	3.5
Rates								
Unemployment Rate	7.4	4.3	3.4	5.1	4.9	4.6	4.4	4.4
Consumer Price Index (US)	2.3	7.2	6.5	2.9	2.4	2.2	2.2	2.2
Personal Consumption Growth	5.6	11.4	5.6	2.8	3.7	4.0	3.8	3.8
Housing Starts	1.3	1.0	1.0	1.1	1.3	1.4	1.3	1.3

Source: State of Rhode Island Revenue Estimating Conference

U.S. and Rhode Island Performance to Date in 2023

The unemployment rate in Rhode Island remained steady at 3.1% in both January and February 2023, down from 3.2% in December 2022. These figures compare favorably to the national unemployment rate, which was 3.4% in January and 3.6% in February. While the labor force in Rhode Island grew very slightly over the month in January, it fell to 566,098 in February (down by 254 from December 2022 and down 8,195 from February 2020, the month prior to the pandemic). The labor force participation rate in Rhode Island as of February remained unchanged from December 2022 while again outpacing the nation, 62.9% versus 62.4%. The number of employed Rhode Island residents in February 2023 rose to 548,774, up 579 from December 2022 although down 4,505 from February 2020. The number of Rhode Island total nonfarm jobs rebounded significantly in February 2023, adding 1,900 jobs over the month to reach a total of 501,000; the highest for the state since March 2020 when total nonfarm employment was 501,900 just prior to the pandemic. The sectors that drove this month-over-month increase were state government (+800), accommodation and food services (+500) and construction (+400). The sectors that lost the most jobs over the month were health care and social assistance (-300), manufacturing (-200), and management of companies (-200).

Additional Challenges on the Horizon

With many economic forecasters projecting a recession in 2023, Rhode Island must be nimble in responding to economic challenges and ensuring that Rhode Islanders are not left behind. Historically, Rhode Island has fared worse during recessions and in the recovery period immediately following the recession than most other states in the region. For instance, Rhode Island had the highest unemployment rate in the region during the Great Recession and in the years following. Coming out of the COVID downturn, Rhode Island managed to avoid being left behind, with the economy regaining strength in the labor market as described above. Maintaining that momentum is crucial to best withstand a national or global economic downturn.

CHAPTER 3

RECESSION CONCERNS AND PREPARATION

Across the United States, there are growing concerns about a potential recession. This chapter will focus on the current recession outlook, sources of recession concerns, potential impacts of a recession and how Rhode Island is working to prepare. It is important to note that this chapter does not provide economic modeling or forecasting of potential recession impacts. Instead, the economic analysis referenced comes from a variety of think tanks, government agencies, and economists.

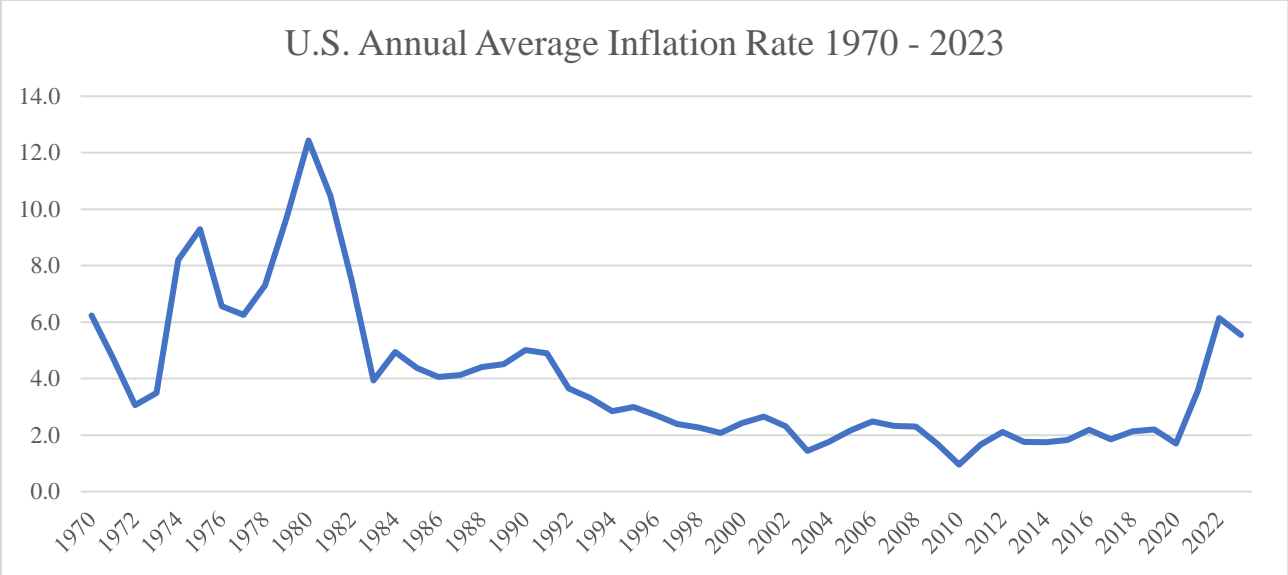
Current Recession Outlook

According to JPMorgan Chase’s 2023 Business Leaders Outlook survey, many U.S. business leaders expect a recession in 2023. 65% of midsize businesses and 61% of small businesses responded yes when asked if they anticipated a recession in the coming year.⁷ These concerns are echoed amongst some economists. In a February 2023 survey by the National Association for Business Economics, 58% of forecasters surveyed said there is a more than a 50% chance of an economic downturn in the next 12 months.⁸

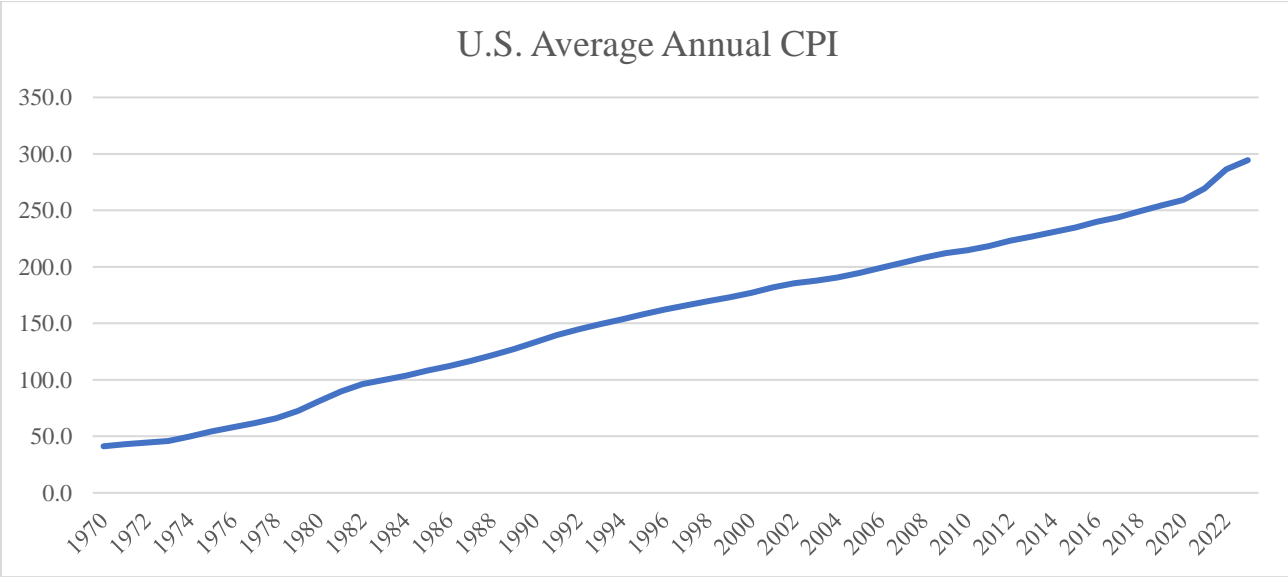
Some analysts are predicting an economic slowdown as opposed to an outright recession. Goldman Sachs’ analysts estimate a probability of 35% that a recession will occur in the next 12 months.⁹ A team of researchers from Indiana University and the University of Missouri predict a slowdown but no recession in the next 12 months.¹⁰

Sources of Recession Concerns

The driving factors behind the slowdown or recession concerns are inflation and high interest rates. Inflation was driven by a combination of factors such as supply shocks, increased household savings leading to increases in demand, and federal stimulus in the form of pandemic relief. The first figure below presents the annual average inflation rate for the United States between 1970 and 2023. The current period of inflation (aligning with the beginning of the pandemic) is second in scale only to that of the late 1970s and early 1980s. The second figure below presents the average annual Consumer Price Index for the United States between 1970 and 2023. Again, this figure shows a relatively large increase in CPI growth during the pandemic relative to recent years. Both figures demonstrate the rising costs that are impacting consumers and producers alike.

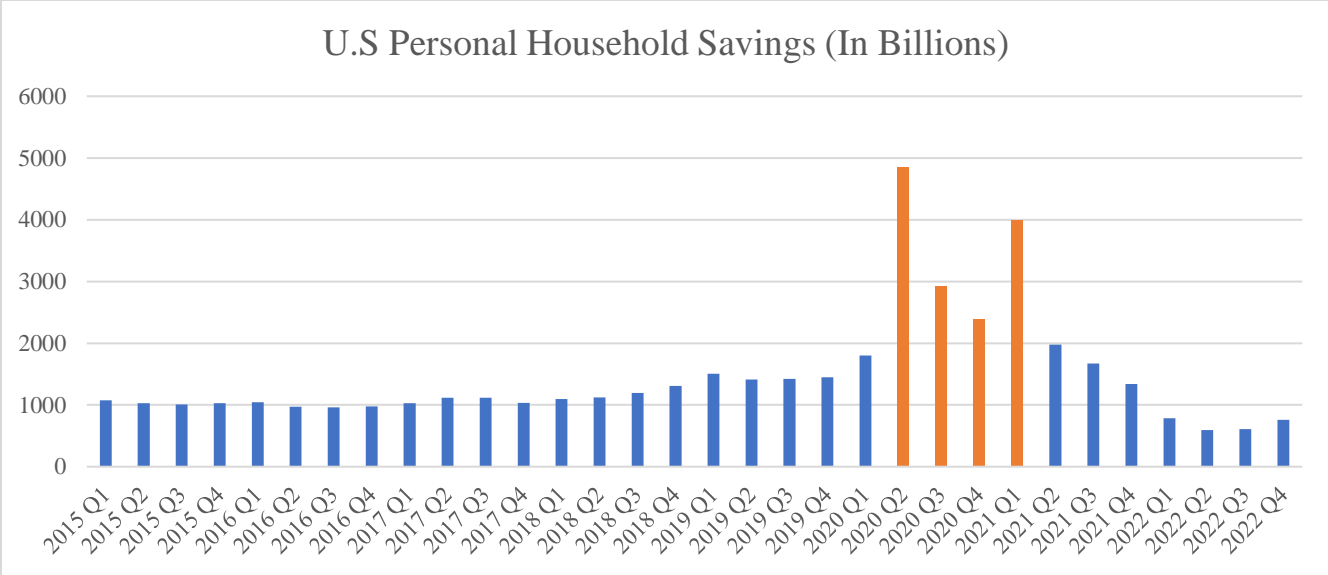


Source: U.S. Bureau of Labor Statistics – CPI for All Urban Consumers measured as a 12-Month Percent Change



Source: U.S. Bureau of Labor Statistics – CPI for All Urban Consumers Wage Earners and Clerical Workers less food and energy

Reduced access to travel and retail along with other changes in consumer behavior during the pandemic led to an increase in personal savings (see figure below). The increase in household savings during pandemic closures led to increased spending when closures ended. According to the Bureau of Economic Analysis, Real Personal Consumption Expenditures increased by 11.9% between 2014 and 2021 demonstrating a significant increase in demand through consumer spending.

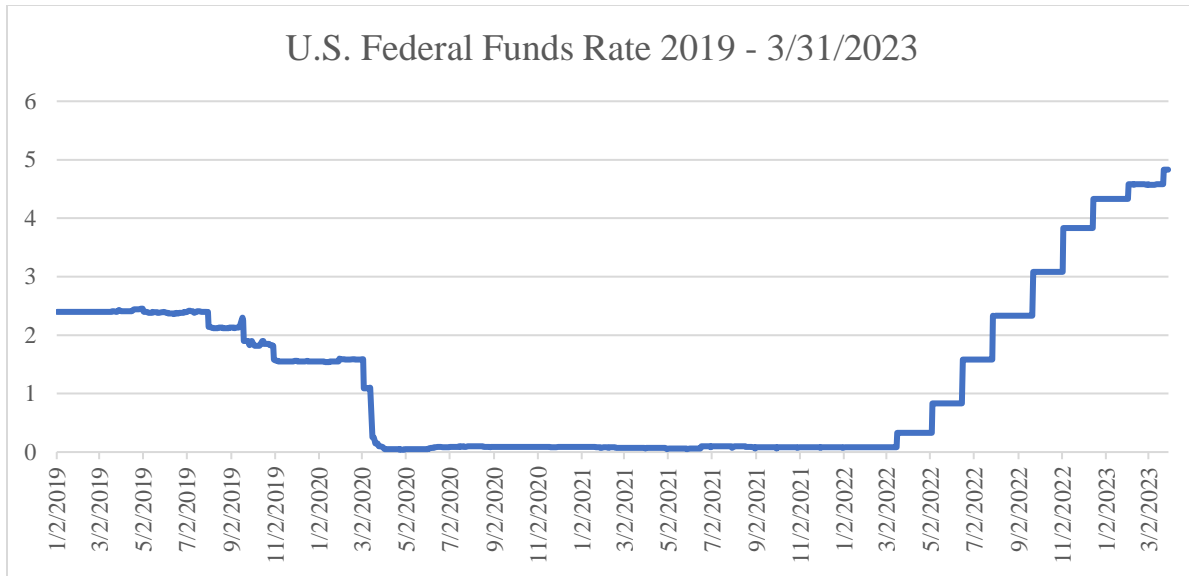


Source: U.S. Bureau of Economic Analysis – Quarterly Personal Household Savings in billions of dollars

The increase in household savings is not solely attributable to pandemic restrictions and closures. The U.S. Federal government invested significant resources into responding to and recovering from the public health crisis. To date the federal government has disbursed \$4.2 trillion in COVID-19 related spending, with \$4.5 trillion obligated.¹¹ These resources provided critical relief to the health sector, households, businesses, states, and industry.

Disruptions to supply chains also led to significant increases in the cost of certain goods and notably energy. An Ernst & Young survey of supply chain executives found that 57% experienced significant supply chain disruptions as a result of the pandemic.¹² The war in Ukraine further exacerbated problems for an already strained global supply chain. Much of Europe relies on Russian and Ukrainian energy and due to the war lost access to those resources. This subsequently raised global demand on energy (particularly natural gas) which increased costs in the U.S.

In response to rising inflation and demand, the Federal government has consistently raised interest rates (see chart below). The basic principle is that rising interest rates will make the cost of borrowing higher which makes saving more attractive. A soft landing for the economy would be when the federal government increases and then decreases rates at the right time to slow inflation but not stall the economy. This is not an easy task. Economists have given mixed reviews of the Federal government’s previous performance in managing inflation.¹³ Two key metrics to monitor as the Federal government attempts a soft landing are GDP and unemployment rate.



Source: Federal Reserve Bank of New York

Rising interest rates have led to several notable issues in the private banking sector. Silicon Valley Bank and Signature Bank both filed for bankruptcy in March of 2023. Both banks had heavily invested in Treasury Bonds underestimating the potential for interest rates to rise as quickly as they have. The banks’ risk assessments and a subsequent run on the banks led to their collapse. These events coupled with the recent acquisition of Credit Suisse by UBS have prompted concerns amongst investors.

How is Rhode Island Preparing?

Some of the root causes of a potential recession are similar to those of previous recessions, such as rising federal interest rates to fight inflation. However, the potential recession is largely the product of the COVID-19 pandemic. This makes for a rather unique set of economic circumstances with outcomes that are difficult to predict.

Any recession leads to a decline in growth and a rise in unemployment. It is important to note that recession impacts are not consistent, varying across industries and demographic groups. It is unclear if a recession will take place and how that recession would impact Rhode Island is also unclear. What is likely is a reduction in available capital for businesses and growth in unemployment.

Though Rhode Island does not have the power to increase federal interest rates or dictate when interest rates are eased, the state should be prepared to respond to a recession. The response to raising unemployment will require upskilling and other workforce development strategies to connect unemployed adults to growing industries. In the 2008 recession, Rhode Island’s construction industry was particularly hard hit. State resources through the Rebuild program could help ameliorate impacts on that industry in particular were it to suffer during a future recession. Additional methods which states can implement to fortify their citizens against a recession are listed below. These include both proactive policies and reactive responses to minimize the adverse impacts of a recession:

- *Education and workforce development*: Invest in education, vocational training, and skill development programs to create a more resilient workforce that can adapt to changing economic conditions.
- *Economic diversification*: Encourage the growth of diverse industries within the state to reduce dependence on a single sector and mitigate the impact of sector-specific downturns.
- *Infrastructure investment*: Invest in infrastructure projects, such as housing, roads, bridges, public transportation, and ports, to create jobs and stimulate economic growth. In the most recent recession, Rhode Island’s construction industry was hit particularly hard. As the state continues to experience limited supply of housing, allocating resources for housing development can help bolster the construction industry in the face of a slowdown and offer critically needed housing.
- *Unemployment benefits*: Strengthen unemployment insurance programs to provide temporary financial assistance to those who lose their jobs during a recession.
- *Social safety net*: Enhance social programs, such as food assistance, housing assistance, and Medicaid, to protect vulnerable populations from the economic downturn.
- *Small business support*: Provide financial assistance and resources to small businesses to help them survive economic challenges and retain employees, including technical assistance programming and access to capital.
- *Fiscal policy*: Implement countercyclical fiscal policies, such as tax cuts to stimulate economic growth and mitigate the impact of a recession.
- *Financial literacy programs*: Promote financial education and literacy programs to help citizens better manage their finances, save for emergencies, and reduce their vulnerability to economic downturns.
- *Emergency savings incentives*: Encourage citizens to build emergency savings through programs that offer tax incentives, matched contributions, or other financial benefits.
- *Minority business community support*: Recognize that economic downturns can and have had different impacts across demographic groups. Utilizing targeted workforce development programming and ensuring access to capital can help prepare the minority business communities.

For the availability of capital, Rhode Island, through the Commerce Corporation, has several programs that provide accessible capital to businesses. These programs include the Small Business Assistance Program, the State Small Business Credit Initiative, the Small Business Loan Fund, and the Small Business Development Fund. While the specifics of these programs differ, their collective goal is the same, making capital available to Rhode Island businesses. These will be critical tools in helping mitigate impacts of a potential recession.

CONCLUSION

In 2022, Rhode Island's economy experienced an impressive rebound from the severe impacts of the COVID-19 pandemic. Over the year, Rhode Island saw near record lows in the unemployment rate and GDP growth exceeding pre-pandemic expectations. Much of this success is attributable to the swift response of the federal government in providing economic stimulus and the state's deployment of those resources in effective ways.

Several factors, primarily related to the COVID-19 pandemic, may contribute to a potential economic slowdown or recession in the near future. Planning for this economic change should be at the center of policymaking as Rhode Island continues to allocate and disburse federal funding from the American Rescue Plan Act. Funding should be prioritized towards helping to build economic resilience and sustainable long-term growth.

Changes in state demographics and the nature of work (e.g., hybrid and remote work) both pose challenges and create opportunities for Rhode Island. In 2022, Rhode Island's labor force shrank. This change could be due to the pandemic, an aging population, migration, or changes in workers' behavior. Investing in workforce development programs and talent attraction and retention programs can help bolster the state's workforce to meet the growing needs of the state's employers.

The pandemic has also fundamentally changed the nature of how business is conducted by many companies. Some workers have returned to the office, but many jobs have remained remote allowing greater flexibility for where business is conducted. This presents an opportunity for Rhode Island to attract new types of businesses to the state. By digitizing government services, the barrier to bringing new business operations can be significantly reduced. As the economy may begin to slow down, working to attract new business will become more competitive and helping streamline processes for businesses could give Rhode Island a real edge.

The COVID-19 pandemic has been a tremendous challenge. Rhode Island's economic recovery in 2022 is a credit not only to the work of legislators and political leaders, but also the hard-working people of the state. The people of Rhode Island have shown strength and tenacity in the face of great adversity. That continued drive for success coupled with strategic investment will help Rhode Island's economy thrive in 2023 and beyond.

NOTES AND REFERENCES

The figures and estimates provided in the 2023 Overview of the Rhode Island Economy are principally based on data accessed in April 2023 and EOC calculations from these data. Generally, labor market data and statistics are from the Rhode Island Department of Labor and Training and U.S. Bureau of Labor Statistics. GDP and personal income data are from the U.S. Bureau of Economic Analysis. Housing market data are from the U.S. Census Bureau surveys, HousingWorks RI, and the Rhode Island Association of Realtors. Population data are from the U.S. Census Bureau. International trade data are from the U.S. Census Bureau's Foreign Trade Division. Data on inflation and interest rates are from the Bureau of Labor Statistics and the Federal Reserve. Unless otherwise noted, all dollar figures are in current dollars and all employment data and statistics are based on seasonally adjusted data.

¹ <https://www.rhodeislandliving.com/RealtorResources/SalesStats/Documents/YE2022Single.pdf>

² [https://www.housingworksri.org/Portals/0/HWRI_HFB22%20\(1\).pdf?ver=x8iA4i0q-Hgls-hp3MQoQ%3d%3d](https://www.housingworksri.org/Portals/0/HWRI_HFB22%20(1).pdf?ver=x8iA4i0q-Hgls-hp3MQoQ%3d%3d)

³ <https://www.kansascityfed.org/documents/933/2013-The%20Impact%20of%20an%20Aging%20U.S.%20Population%20on%20State%20Tax%20Revenues.pdf>

⁴ <https://www.cbo.gov/system/files/2023-02/58848-Outlook.pdf>

⁵ <https://www.imf.org/en/Publications/WEO/Issues/2023/01/31/world-economic-outlook-update-january-2023>

⁶ <https://omb.ri.gov/sites/g/files/xkgbur751/files/2022-11/November%202022%20Revenue%20Estimating%20Conference%20Report.pdf>

⁷ <https://www.businesswire.com/news/home/20230105005028/en/JPMorgan-Chase-Survey-Most-Businesses-Expect-Recession-in-2023>

⁸ https://nabe.com/NABE/Surveys/Outlook_Surveys/February_2023_Outlook_Survey_Summary.aspx

⁹ <https://www.forbes.com/sites/siladityaray/2023/03/16/goldman-raises-us-recession-probability-to-35-in-next-12-months/?sh=7c99128503d3>

¹⁰ <https://news.iu.edu/live/news/28112-new-model-predicts-us-recessions-slowdowns-based>

¹¹ <https://www.usaspending.gov/disaster/covid-19?publicLaw=all>

¹² https://www.ey.com/en_us/supply-chain/how-covid-19-impacted-supply-chains-and-what-comes-next#:~:text=The%20pandemic%20continues%20to,disrupting%20manufacturing%20as%20a%20result

¹³ <https://www.npr.org/2022/07/24/1112770581/inflation-recession-soft-landing-rates-jobs-fed#:~:text=%22We've%20had%2013%20or,Goolsbee%20told%20Weekend%20Edition%20Sunday>