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

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## CURRENT ECONOMIC OUTLOOK

Rhode Island still lags behind the other states in New England when looking at major economic indicators such as 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 400 new jobs. The long-term outlook for Rhode Island is good.

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 jobs.

The state's unemployment rate is higher than the U.S. average and greater than the other New England states. The state is currently considering a number of new economic development initiatives as well as legislation to make the state more business-friendly. These initiatives will have little impact if the state does not increase its investment in promoting Rhode Island as a place to do business. The challenge is to take advantage of Rhode Island's sustainable competitive advantages and make things happen that support and create high paying jobs.

## SNAP-SHOT OF THE RHODE ISLAND MANUFACTURING SECTOR

Manufacturing represents about 9 percent of all jobs in the state and about 8 percent 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.

## FORECAST HIGHLIGHTS

Rhode Island's Real Gross State Product (RGSP) is forecasted to reach \$44.9 billion in 2013, an increase of 1.1 percent 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 percent from 2012 to 2017 compared to 0.0 percent from 2007 to 2012.

Real per capita income is expected to increase to \$39,110 in 2013 from \$38,903 in 2012, an increase of 0.5 percent. 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 percent from 2012 to 2017 compared to 0.3 percent from 2007 to 2012.

The unemployment rate is expected to be 9.2 percent in 2013, 8.1 percent in 2014 and 6.1 percent in 2017.

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 percent. 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 percent as compared to an annual growth rate of -0.5 percent from 2007 to 2012.

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 percent from 2012 to 2017 as compared to -1.1 percent 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, 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 percent with the median price of a home being \$277,100 in 2007. From 2007 to 2012, the annual growth rate was -5.4 percent, and the growth rate is forecasted to be 3.0 percent 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 percent, as compared to an annual growth rate of -16.4 percent from 2007 to 2012. In 2017, it is forecasted that 1,710 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 percent as compared to -0.1 percent from 2007 to 2012 and -0.2 percent 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 percent during this time period. The age cohorts, 0-4 and 25-44 are the other population segments showing growth from 2012 to 2017.

## 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. From 2008 to 2012, manufacturing jobs in Rhode Island decreased from 41,700 to 39,700. The decline in jobs was due to a number of factors including the lack of skilled workers, companies leaving the state and poor business 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 percent 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.

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 who are willing to make the investment in leadership, 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 have a more business-friendly entrepreneurial environment.