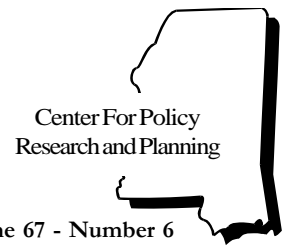


# Mississippi's Business



June 2009

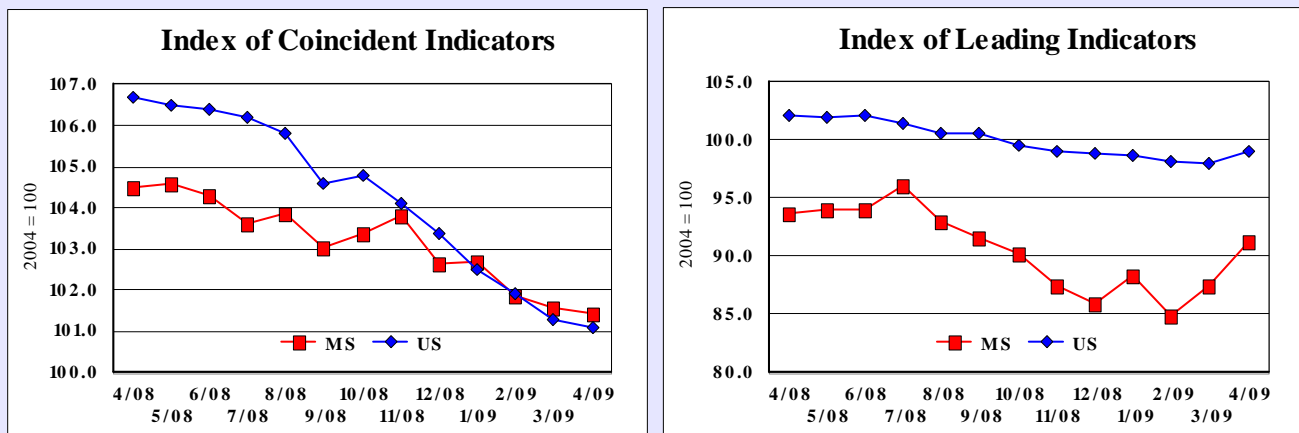
Monitoring the State's Economy

Volume 67 - Number 6

## ECONOMY AT A GLANCE

The Mississippi Index of Coincident Indicators continued to decline in April (figure 1). The small gain in employment that occurring in March was more than erased in April. The State appears to be shedding jobs faster in the current downturn than those occurred in either 1980s or 2000. On a positive note, the Mississippi Index of Leading Indicators rose for the second consecutive month and was above the level six-months prior for the first time since September 2007 (figure 1). This suggest there could be some improvement in the coming months. But there is reason for concern as the underlying structure for real and sustainable growth appears to be lacking. See *Green Shoots on Stony Ground* on page 9 for more on this. The National Indices show a pattern similar to the State. The Conference Board thinks the contraction in activity will moderate in the coming months. This would be consistent with many forecasters who expect the recovery to begin in the second half of 2009. But most of these forecasters acknowledge the growth will be modest and will not translate into job gains this year.

**Figure 1. Index of Leading and Coincident Indicators**



### MISSISSIPPI'S BUSINESS

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An **Index for Mississippi Consumer Sentiment** is now available from Mississippi State University College of Business. The Index can be viewed at The following site: <http://www.economywatch.msstate.edu/>  
Visit us on The Web: <http://www.ihl.state.ms.us/urc/planning/econdept.htm>

**Coincident Index**

The Mississippi Index of Coincident Economic Indicators was 101.4 in April, 0.2 percent below the March level. The April index was an annualized 3.8 percent below the level of October 2008. Two of the three components contributed to the decline (figure 2).

The one positively contributing component was merchandise retail sales which rose 3.5 percent in April relative to March. The increase did not completely erase the decline which occurred in March. Total retail sales continued to decline in April.

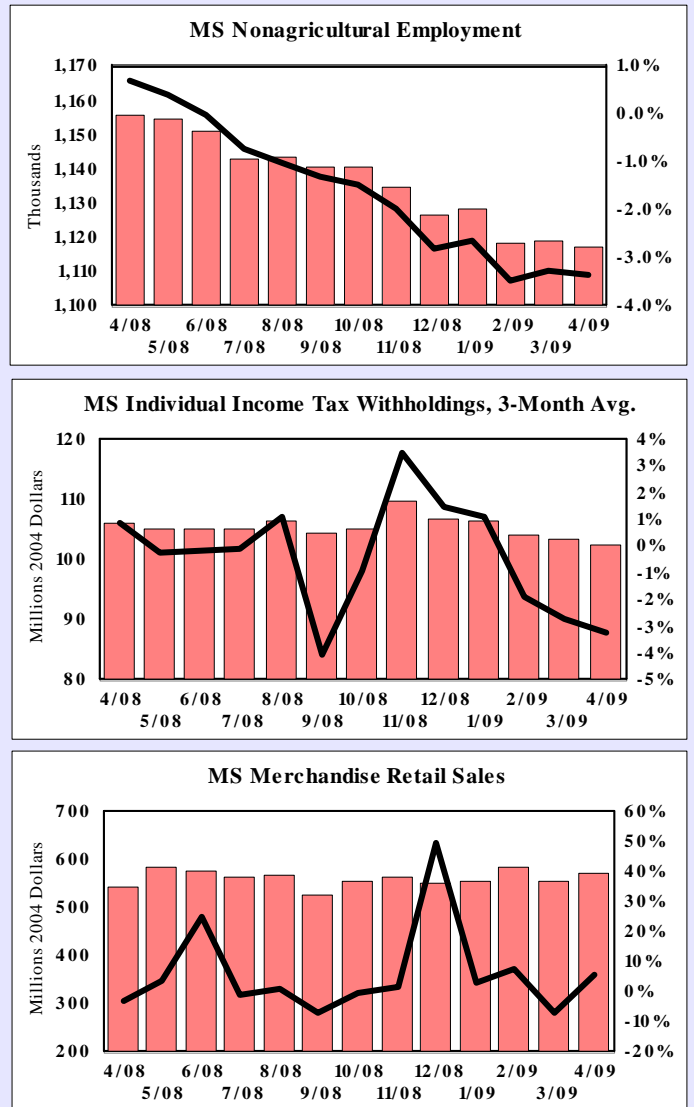
The three month moving average of Mississippi individual income tax withholdings fell 0.9 percent in April relative to March. The decline was the fifth consecutive decline. Withholdings were 3.3 percent below the year ago level. This series suggest Mississippians are feeling the "Great Recession" in their paychecks.

Mississippi employment fell 1,861 job or 0.2 percent in April relative to March. The decline erased almost three times the number of jobs gained in March. Mississippi has lost over 38,000 jobs since April 2008. Job erosion is expected to continue through the remainder of 2009.

Table 1 and figure 3 show employment data by sector. The bulk of the job losses continues to be in the manufacturing sector. Leisure and hospitality sector also experienced continued loss. Relatively large gains occurred in construction, education and health services, and federal government.

Figure 4 compares the current downturn in Mississippi jobs to that which occurred in 1980 and 2000. The data show the percentage decline from peak employment by the number of months into the downturn. The current downturn in employment began in January 2008. By April 2009, with 17 months into the contraction, Mississippi had lost 3.6 percent of its peak employment. This is much steeper than in either the 1980 contraction (2.5 percent) or the 2000 contraction (3.0 percent) by the 17th month. In both the 1980 and 2000 contraction, employment hit bottom in

**Figure 2. Mississippi Index of Coincident Indicators Components**



**NOTE:**

The bar graphs above represent the seasonally adjusted monthly series and correspond to the left-hand axis. The line graphs represent the growth rate over the prior year's value and correspond to the right-hand axis.

**Sources:**

Mississippi Department of Employment Security  
Mississippi State Tax Commission

the thirty-eighth month. In the 1980-1985 cycle, the bottom was a decline of 7.8 percent from the peak employment. Once employment began to improve, peak employment was regained by the 69th month. In the 2000-2007 cycle, the bottom was 4.5 percent below the peak, but recovery was much slower, taking 92 months\*.

\* Technically, the State has not yet regained the May 2000 peak employment. The December 2007 employment was slightly below this level. The difference is statistically insignificant however, and a new downward trend clearly began following the December 2007 level.

Table 1. Mississippi Employment By Sector

Seasonally Adjusted

	April 2009	March 2009	April 2008	Change from Prior Month		Change from Prior Year	
				Jobs	%	Jobs	%
<b>Nonfarm</b>	1,117,191	1,119,052	1,155,727	-1,861	-0.2%	-38,536	-3.3%
<b>Natural Resources</b>	9,376	9,453	9,363	-78	-0.8%	13	0.1%
<b>Construction</b>	58,239	57,301	62,921	938	1.6%	-4,682	-7.4%
<b>Manufacturing</b>	145,850	147,355	163,124	-1,504	-1.0%	-17,274	-10.6%
<b>Trade, Transportation and Utilities</b>	218,529	218,528	225,198	1	0.0%	-6,669	-3.0%
<b>Retail</b>	137,783	137,529	140,305	254	0.2%	-2,521	-1.8%
<b>Information</b>	13,208	13,203	13,506	5	0.0%	-298	-2.2%
<b>Financial Activities</b>	44,476	44,712	47,167	-236	-0.5%	-2,691	-5.7%
<b>Services</b>	376,737	376,512	387,219	225	0.1%	-10,482	-2.7%
<b>Professional and Business Services</b>	88,794	88,852	95,646	-58	-0.1%	-6,852	-7.2%
<b>Education and Health Services</b>	129,513	128,796	127,725	717	0.6%	1,788	1.4%
<b>Leisure and Hospitality</b>	121,727	122,173	126,580	-446	-0.4%	-4,852	-3.8%
<b>Other Services</b>	36,702	36,691	37,269	12	0.0%	-566	-1.5%
<b>Total Government</b>	250,948	250,468	247,526	480	0.2%	3,422	1.4%
<b>Federal Government</b>	26,926	26,210	26,301	716	2.7%	626	2.4%
<b>State Government</b>	62,553	62,496	60,467	57	0.1%	2,086	3.4%
<b>Local Government</b>	161,229	161,385	160,509	-156	-0.1%	720	0.4%

If employment in Mississippi declines by the same percentage as it did in the 1980-1985 cycle, the state will lose another 48,000 jobs on top of the nearly 42,000 lost already in the current contraction. This may not happen. In the 1980s the state had far more low-skill manufacturing jobs which historically respond quickly to the ups and downs of the business cycle. This explains in part the relatively rapid recovery following the 1980 contraction compared to that of 2000. The manufacturing jobs lost between 2000 and 2003 did not come back. Relatively speaking Mississippi's manufacturing sector is now more capital intensive. So while we will shed jobs, we may not lose as many as in the 1980s.

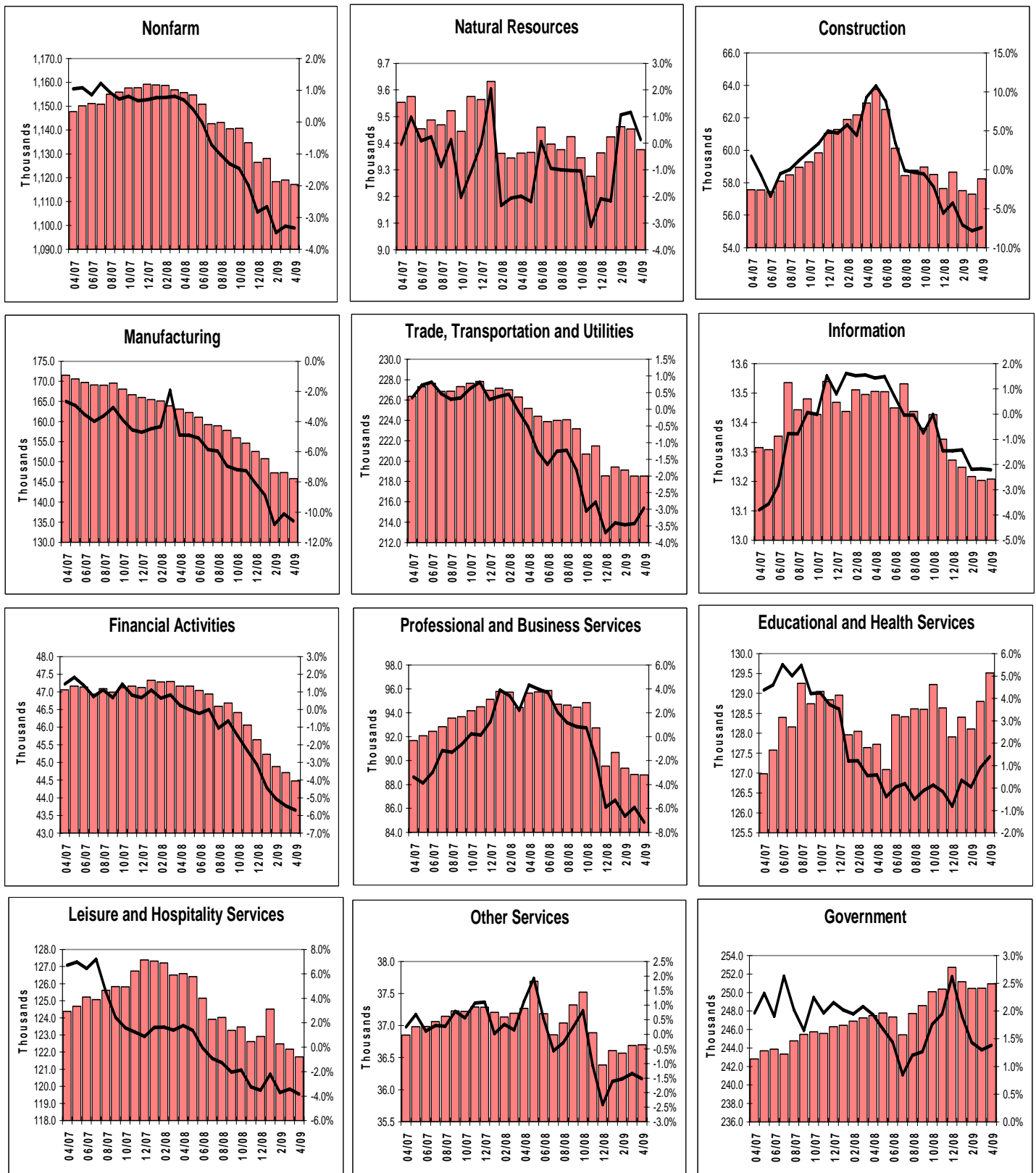
On the other hand most analyst view the "shock" to the economy from the bursting of the housing bubble to have a greater negative impact on the economy than anything that has occurred since World War II. Forecasters have predicted the current downturn to be the worst since the great depression, especially in regard to jobs. If these assessments are correct, Mississippi and the Nation have a long way to go before we begin to grow jobs and a much longer period before we regain peak employment - even if we do not lose as many jobs as in the 80s.

### Leading Indicators

The Mississippi Index of Leading Economic Indicators was 91.4 in April, up a strong 4.2 percent from the March level. This was the second consecutive increase. The increase was broadly supported by four out of five components. Furthermore, for the first time since September 2007, the six-month growth rate was positive.

The index is pointing to improvement in the Mississippi economy. This is in keeping with both National and state forecasters who expect positive growth in the second half of 2009. While an upturn in the leading index is encouraging, these trends do not indicate how strong the growth will be or how long it will last. Most forecasters are expecting slow growth once recovery begins. Some forecasters anticipate a double dip recession. This occurred in the 1980s. Furthermore, a recovery does not always translate into new jobs. After the 2001 recession the Nation entered into a jobless recovery where the overall economy expanded but jobs continued to decline. This trend was pronounced in Mississippi where employment followed a declining trend for 37 months. While Mississippi may be seeing

**Figure 4. Mississippi Employment Trends**

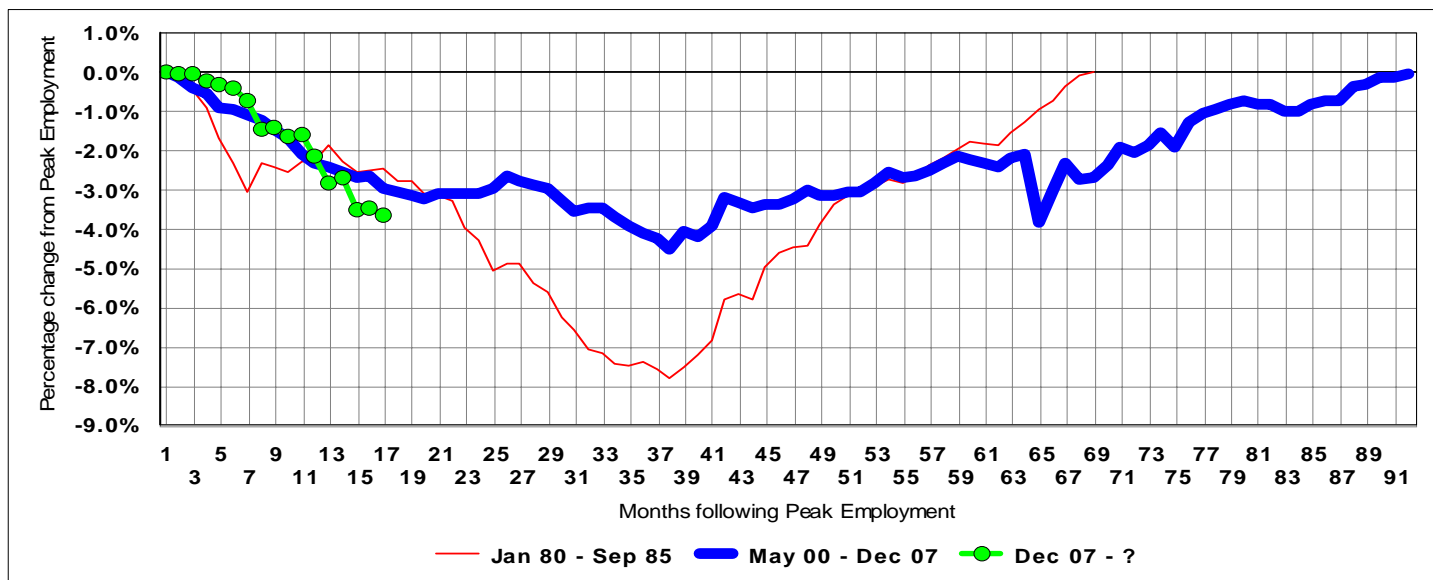


**Note:** The Bar Graphs above represent seasonally adjusted monthly employment and correspond to the left-hand axis.

The line graphs represent the growth over the prior year's value and correspond to the right-hand axis.

**Source:** Department of Mississippi Employment Security and IHL.

Figure 4. Percentage Decline From Peak Employment in Mississippi



some “green shoots”, these shoots have a good chance of withering and dying. (See Green Shoots on Stony Ground on page 9).

The strongest contributor to the April increase in the Leading Index was improved consumer expectations. This National index rose an astounding 17.9 percent. Fueling the increase was lower gasoline prices, a rally in the stock market and declining interest rates. But the biggest factor was probably increased transfer payments and lower withholding tax payments. Consumers face continued declines in employment and rising fuel prices. These will undermine expectations going forward.

The second largest contributor the April Index was a spike in the value of residential building permits in Mississippi. Fueled by falling mortgage rates, the series increased 60.5 percent from March. Despite the increase the series remained well below the year ago.

The May Institute for Supply Management (ISM) Index of U.S. Manufacturing Activity rose 6.7 percent from the April level. The index stood at 42.8, below the 50 threshold which shows the industry continues to contract.

Initial unemployment claims fell 2.5 percent in Mississippi for the month of April. The decline was minor, and barely impacted the April Leading Index. Initial claims

remain 40.6 percent above the year ago level. Continued unemployment claims increased for the month and remain almost 140 percent above the year ago level.

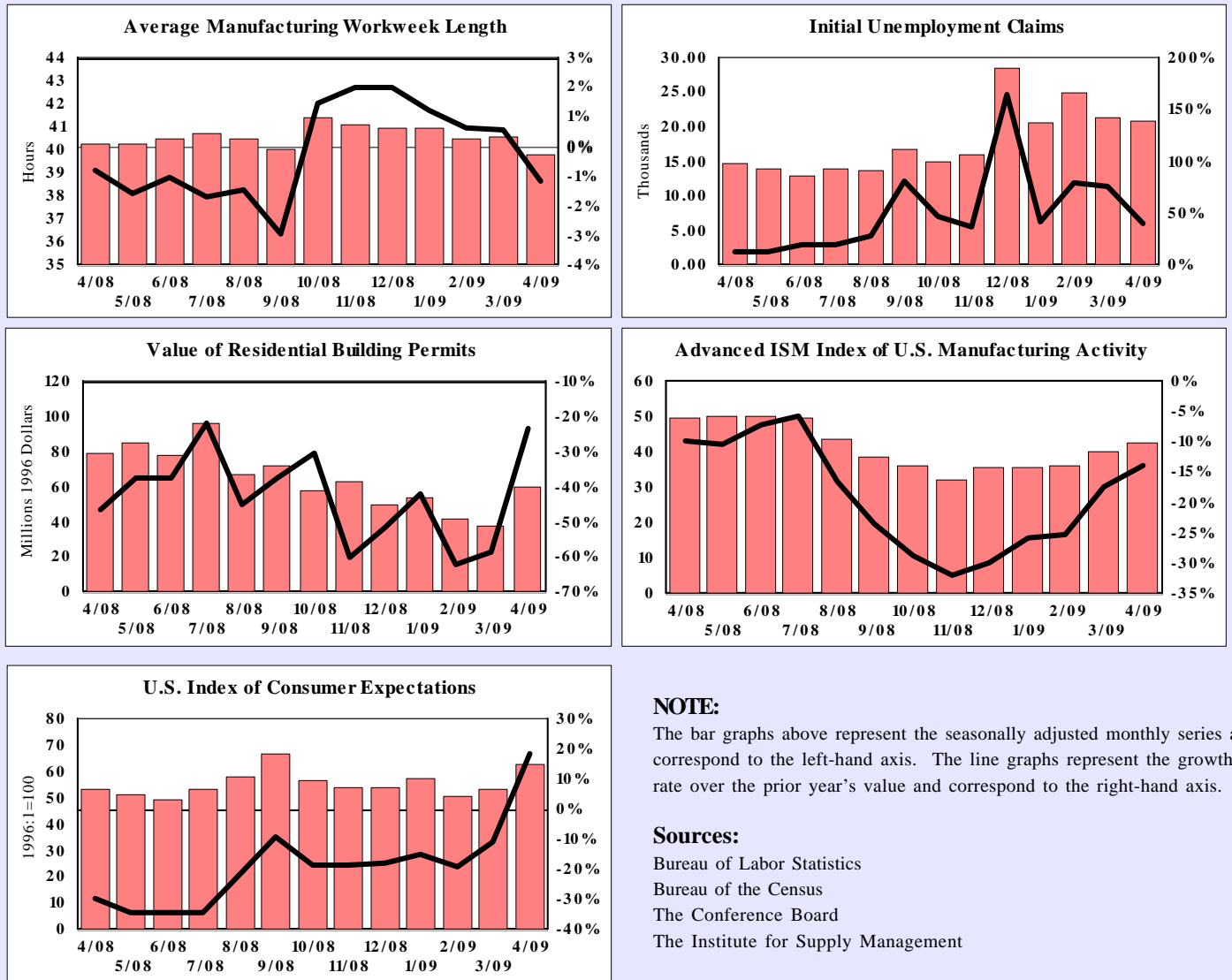
The one factor contributing negatively to the April Leading Index was Mississippi manufacturing workweek length which declined to 39.8 hours after adjusting for seasonality. This marked the first time the series has fallen below 40 since March 2007.

### U.S. Economy

The US Index of Coincident Indicators fell 0.2 percent in April. Continued declines in both employment and industrial production were behind the decrease. The index was an annualized 6.9 percent below the level six-months prior. The series has been declining since late 2007 with the more recent months falling sharply.

The U.S. Index of Leading Indicators increased 1.0 percent. This first increase in seven months was large and broadly supported by the components. The increase was driven by stock prices, the interest rate spread, consumer expectations, initial unemployment claims, the average workweek length and supplier deliveries. Relative to the level six months prior, the April index was down only 1.2 percent. While negative, it shows improvement from recent months. The Conference Board anticipates continued contraction in the near term, but becoming less severe in the coming months.

**Figure 5. Mississippi Index of Leading Indicators Components**

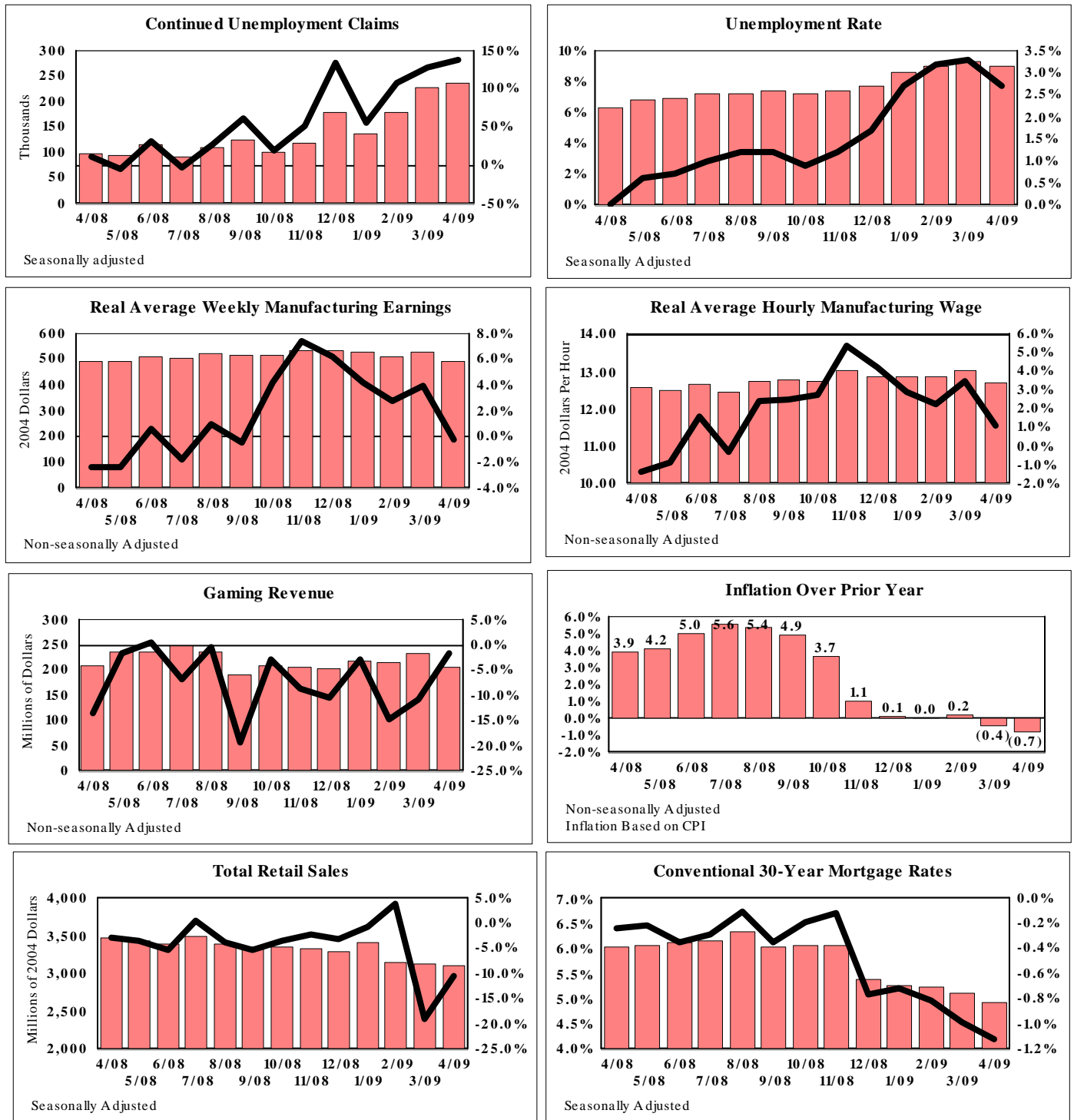


## Quips and Quotes:

*“Liberty is an opportunity for doing good, but this is only so when it is also an opportunity for doing wrong”*

-- F.A. Hayek

**Figure 6. Miscellaneous Indicators**



**NOTE:**

The bar graphs above represent the monthly series and correspond to the left-hand axis. The line graphs represent the growth rate over the prior year's value and correspond to the right-hand axis.

**Sources:**

- Mississippi Employment Security Commission
- Mississippi Tax Commission
- Mississippi Gaming Commission
- Federal Home Mortgage Corporation
- Bureau of Labor Statistics

## SELECTED MISSISSIPPI ECONOMIC INDICATORS

	April 2009	March 2009	April 2008	Percent Change From Last Month Last Year	
<b>Coincident Indicator Index (2004=100)</b>	<b>101.4</b>	<b>101.6</b>	<b>104.5</b>	<b>-0.2%</b>	<b>-3.0%</b>
Nonagricultural Employment (thousands)	1,117.2	1,119.1	1,155.7	-0.2%	-3.3%
Individual Income Tax Withholdings, 3-Month Average (millions of 2004 \$)	102.6	103.6	106.1	-0.9%	-3.3%
Merchandise Retail Sales (millions of 2004 \$)	573.8	554.4	542.1	3.5%	5.8%
<b>Leading Indicator Index (2004=100)</b>	<b>91.2</b>	<b>87.5</b>	<b>93.8</b>	<b>4.2%</b>	<b>-2.7%</b>
Initial Unemployment Claims	20,815	21,358	14,805	-2.5%	40.6%
Value of Residential Building Permits (millions of 2004 \$)	60.2	37.5	78.7	60.5%	-23.4%
Average Manufacturing Workweek Length (hours)	39.8	40.6	40.3	-1.9%	-1.2%
Advanced ISM Index of U.S. Manufacturing Activity Index is advanced one month. Thus, the January index is reported for December.	42.8	40.1	49.6	6.7%	-13.7%
U.S. Index of Consumer Expectations	63.1	53.5	53.3	17.9%	18.4%
<b>Miscellaneous</b>					
Consumer Price Index U.S. (2004=100)	112.9	112.6	113.7	0.2%	-0.7%
Unemployment Rate (percentage)					
Non-seasonally adjusted	8.6%	9.4%	5.6%	-0.8%	3.0%
Seasonally adjusted	9.1%	9.4%	6.4%	-0.3%	2.7%
Continued Unemployment Claims	238,727	228,456	99,515	4.5%	139.9%
Average Manufacturing Wage (Non-seasonally adjusted)					
Current Dollars per Hour	14.35	14.68	14.30	-2.2%	0.3%
2004 Dollars per Hour	12.71	13.04	12.57	-2.5%	1.1%
Average Weekly Manufacturing Earnings (Non-seasonally adjusted)					
Current Dollars	558.22	596.01	563.42	-6.3%	-0.9%
2004 Dollars	494.46	529.25	495.39	-6.6%	-0.2%
U.S. Mortgage Rates (30-year conventional)	4.9%	5.1%	6.0%	-0.2%	-1.1%
Total Retail Sales Millions of 2004 Dollars	3,121.07	3,132.51	3,481.15	-0.4%	-10.3%
Gaming Revenues (Non-seasonally adjusted)					
Coast counties (millions of current \$)	92.7	101.9	96.1	-9.0%	-3.6%
River counties (millions of current \$)	112.8	130.9	112.7	-13.8%	0.0%
Total	205.4	232.8	208.9	-11.7%	-1.6%

Note: The data are seasonally adjusted unless otherwise noted.

Unless otherwise noted all data refer to Mississippi.

## GREEN SHOOTS ON STONY GROUND

By Darrin Webb, Ph.D.

Jesus spoke a parable about seeds sown on various soils. In one case, seeds were sown on stony ground. The seeds germinated and it appeared as if there was life, but once the sun rose, the plants died because the seeds were not planted in good soil. The illustration serves as a metaphor for my view of the current economic situation.

Ever since FED Chairman Ben Bernanke declared seeing "green shoots" in the economy, people have been discussing whether or not we have begun to recover from the recession. So far, the green shoots have largely been evidenced by some data that suggests that the economy is not contracting as fast as it was. It is positive news, but only in the sense that the seeds have germinated and not an indication of continued growth.

There is an uneasiness in the U.S. business world about the future. Things like riots in Iran, threats from North Korea and apparent shifts in global relations contribute to this uneasiness, but are nothing new for the economy. If these were the only things happening, these green shoots might take hold and grow. But there are at least four developments that are changing the rules of the game and creating uncertainty about business investment and, thereby, putting the recovery at risk: These are (1) increased government involvement in the market place; (2) a vitiation of contract law; (3) astronomical increases in government debt, coupled with a reduction in tax revenue and (4) the Fed's expansion of power. The weakness of the overall economy, coupled with these systemic changes makes a double dip recession and continued job declines a real possibility.

The government now owns much of GM; it has a strong and growing presence in the banking and finance industry; and it appears to be poised to enter the health care industry. The government has no profit incentive and an effectively limitless checkbook. It competes with a private sector, for which it sets the rules. Historically, the government has not been very efficient in its undertakings.

The GM bondholders entered into contracts with the understanding that should bankruptcy occur, they would be paid first. The government set aside these contracts during the GM bankruptcy. Similarly, in an effort to stem foreclosures, Congress has pushed for "safe harbor" provisions for servicers of mortgages. These are the entities that collect payments on behalf of the actual investors. The safe harbor provisions protect the servicers from litigation by investors should the servicers follow the interest of the borrower or the government rather than follow their contractual obligation to the investor. By allowing participants to ignore contractual obligations, a precedent is being set that will lead to higher priced contracts and diminished investment.

The government faces a budget nightmare with rising obligations from the expansion of government while revenues dramatically contract. The result is rapidly growing debt and the inevitability of increased taxes. While Washington assures the Nation that only the "rich" will be taxed, the definition of rich will surely need to be expanded going forward in light of the increased obligations and revenue shortfalls.

There is also a growing sense of uncertainty brought about by the unprecedented moves by the Fed (buying of commercial paper, direct lending to nonbank entities, and the never before seen expansion of monetary policy). Again, one can argue that uncertainty is common in economics, but the magnitude of what we've seen raises red flags about inflation, interest rates, dollar devaluation and in general what the economic landscape will look like.

These trends could discourage business investment and dampen potential growth. Without business investment a double dip recession seems possible. The recessions of the 1980s were followed by strong growth. But this growth occurred in a pro-business and pro-investment environment.

The uncertainty of the future and hesitancy to enter the market is not limited to large investors. Consumers have curtailed spending. Judging from Mississippi Tax Commission reports available online, ([www.mstc.state.ms.us/info/stats/175sw.htm](http://www.mstc.state.ms.us/info/stats/175sw.htm)), Mississippi consumers are spending money on perceived necessities and are avoiding big ticket items. For example, department store sales are up, but furniture sales are down. New and used car sales are down dramatically. Sales at bars and beer parlors are down, but package store sales are up, suggesting Mississippians are opting for the less expensive option of drinking at home. Consumers are still spending money on movie theaters and restaurants. Perhaps this trend suggests that while the economy has slowed, and optimism is down, things are not dire or

desperate. Rather, the consumer recognizes the seriousness of the economic situation and has curtailed shopping for those things which can easily be put off without much disruption to their lifestyle. Given the large decline in casino revenue, it appears gamblers are doing less betting as well. Again, this is in keeping with a consumer that is cautious of the future.

Perhaps there are green shoots, but they are planted on stony ground and may not survive the hostile climate of the present economy. In Mississippi the troubles are compounded by a less skilled workforce. The state struggled to recover from the 2001 recession; we will find the current crisis a greater struggle.

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## MISSISSIPPI BANKS CONTINUE TO HOLD THEIR OWN RELATIVE TO THE NATION

Guest Columnist Brandon Roberts, Ph.D.

After posting substantial losses in the last quarter of 2008, FDIC insured banks nationwide reported aggregate earnings of \$7.6 billion in the first quarter of 2009. Although in positive territory, the figures represent a 60% decline from a year prior when banks reported net income of \$19.3 billion. The figures represent a meager return on assets (ROA) of 0.25 percent. This compares to a 0.68 percent ROA a year prior, and 1.24 percent and 1.38 percent in 2007 and 2006, respectively (see figure 1).

Commercial banks in Mississippi continued to outperform banks nationwide in the first quarter of 2009. This is true with respect to asset quality, income, and reserves for loan losses. Only 8% of commercial banks in Mississippi failed to show a profit in the first quarter compared to over 21% of banks nationwide.

### Income & Earnings

Mississippi banks reported aggregate earnings of \$82.3 million in the first quarter of 2009, representing a 0.58 percent ROA (see Figure 1). This was about ½ of the

first quarter profit in the previous year, but still twice that of banks nationwide. Although growth in loan volume was 1/3 of that of the previous year, it was still twice that of the Nation (figure 2). The net interest margin, the spread between interest paid on deposits and interest collected on loans has historically been higher for Mississippi banks than the Nation overall, and this trend remained intact. This measure was 3.75 percent for Mississippi compared to 3.43 percent for the Nation (figure 3).

### Asset Quality

Although banks in Mississippi have experienced losses from a slowing economy and the collapse of the real estate market, loan performance remains better than the Nation. The rate of loans charged off was three times higher for banks nationwide than banks in Mississippi. As a percent of all loans, 0.65 percent had been charged off as of the first quarter of 2009 compared to 2.01 percent nationwide (figure 4). The rate of charged off loans has risen steadily over the last four years, however, and was nearly twice as high as a year earlier.

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Loans in serious delinquency status (loans that are 90 days or more past due or are no longer accruing interest) have risen substantially over the last four years for Mississippi's banks, but the rate as a percentage of all loans is still less than ½ of the Nation. As a percentage of all loans, the figures were 1.57 percent for Mississippi banks compared to 3.72 percent for the Nation (figure 5).

### Loan Loss Provisions

Provisions for loan losses have declined in Mississippi and nationwide. As a percent of loans in serious delinquency, loan loss provisions are lower than they have been in over a decade. For Mississippi banks, loan loss provisions as a percent of loans in serious delinquency was 161.5 percent in the first quarter of 2008 and 114.0 percent in the fourth quarter of 2008. This figure dropped below 100% to 94.6 percent in the first quarter of 2009, but this was still substantially higher than banks nationwide with only 70.1 percent (figure 6).

### Isolated Problems

Despite the better performance of Mississippi banks relative to the Nation, the first quarter figures were not without some dark spots. Of the 90 commercial banks, seven showed a loss in the first quarter. In the aggregate, these losses were substantial, totaling over \$43 million. This equates to over 50.0 percent of first quarter earnings. Relative to the size of the banks, the losses were also significant; however, 97.0 percent of the total was confined to just two institutions. This suggests that individually banks are still working through the effects of the financial meltdown, a faltering real estate market, and a weakened economy.

### Outlook

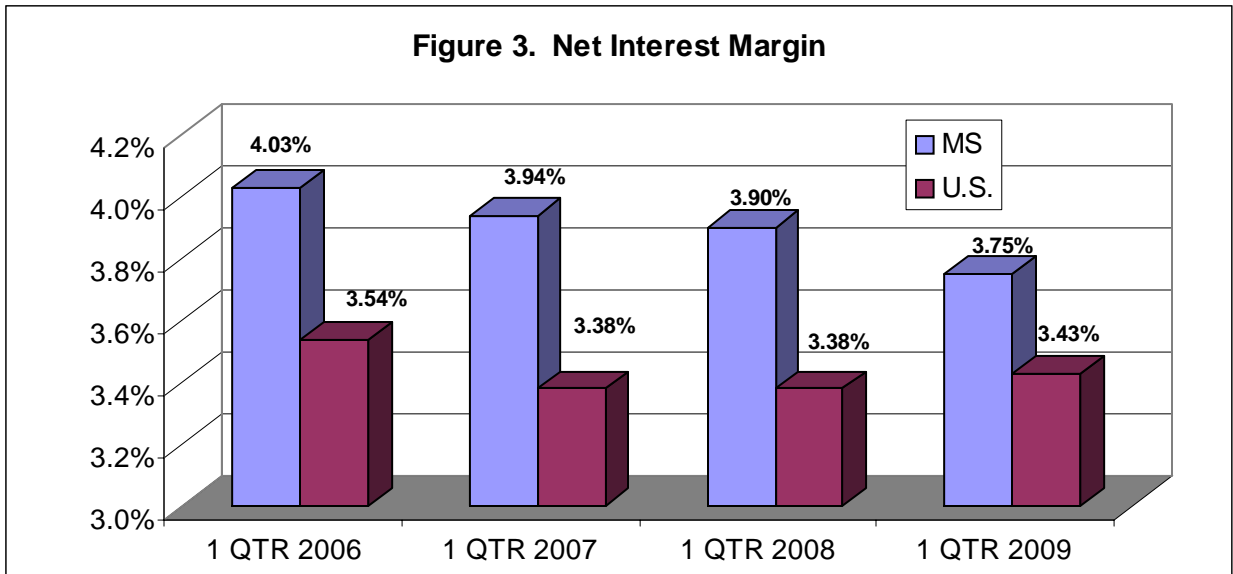
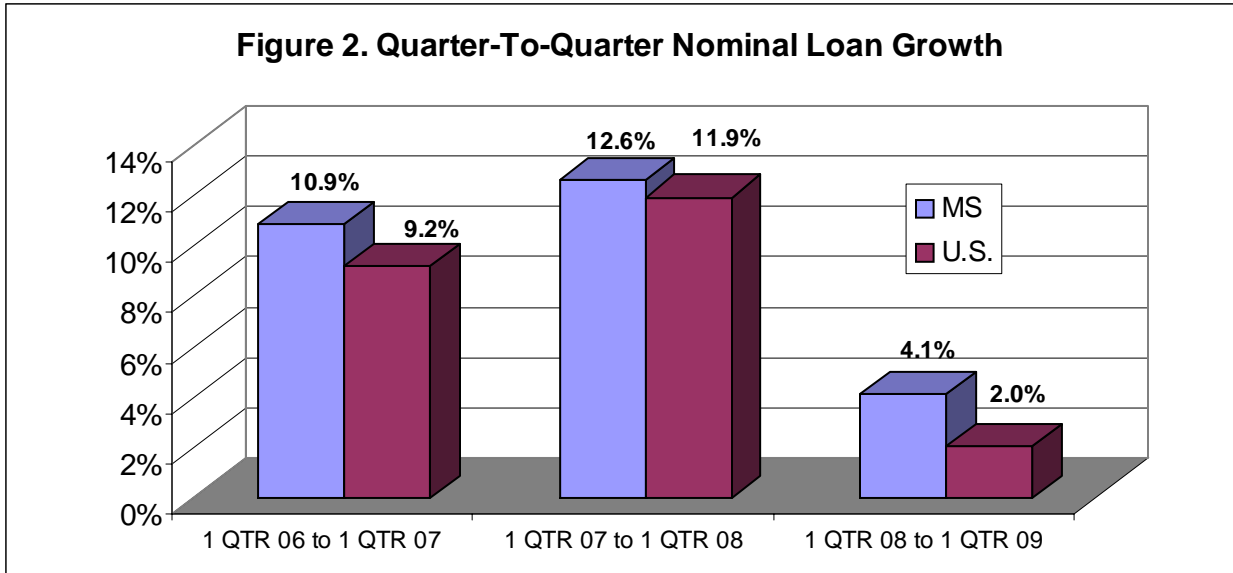
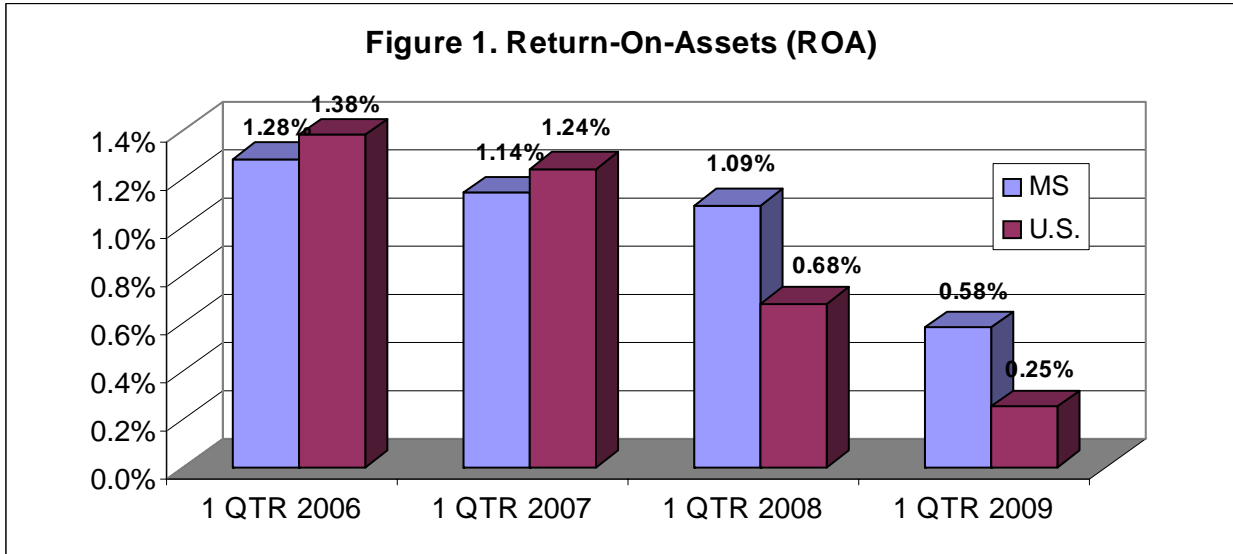
The FDIC is forecasting another challenging year for financial institutions. Predicting more bank failures, they have increased their list of "problem" banks from 252 to 306. Still, financial firms represented in the stock market have experienced somewhat of a rebound. Also, banks that were subjected to the Fed's so-called "stress tests" have shown little difficulty in raising additional funds, suggesting some perception of improvement in the financial sector.

In the March issue we discussed the additional deposit insurance fee the FDIC was going to assess insured banks. The agency has agreed to lower the fee substantially from what was originally proposed, and has also included exemptions for bank's Tier 1 capital. This will lower the impact of the total assessment to less than ½ of the anticipated best-case scenario, but the agency has signaled that an additional assessment later in the year is possible.

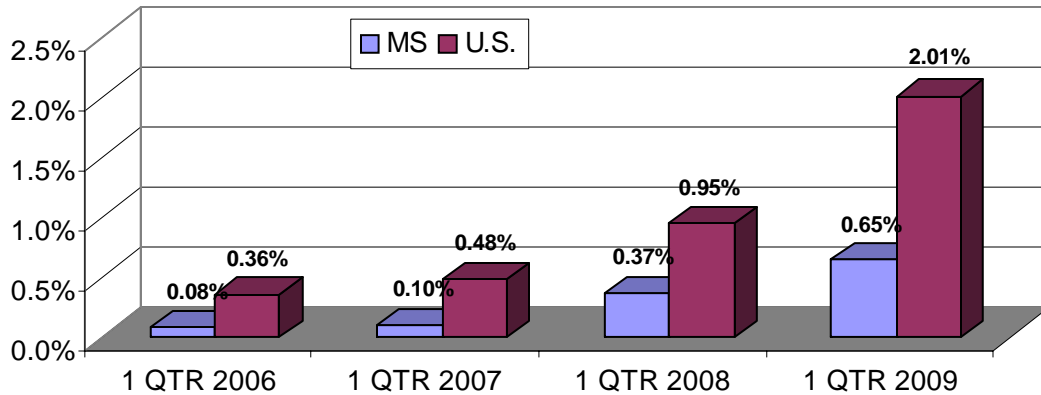
Although Mississippi banks are demonstrating significant resilience, pressures will likely continue to mount through this year and possibly into 2010. Sagging loan volume and loan loss set-asides will continue to exert downward pressure on bank earnings in the short term. Although the effects of the housing bubble have been mild in our state, conditions continue to deteriorate and now have begun to significantly affect commercial sectors. Much of this impact is set to unfold and will likely pose substantial challenges for some institutions over the next 12 – 18 months. General economic conditions, such as unemployment, will also continue to impair loan performance of all credit types.

Banks are additionally plagued by the interaction of the economy and financial markets in that they feedback into each other. For example, weakness in loan performance results in tightened credit which in turn can slow the economy which then further weakens loan performance. This translates into a repeating spiral which will eventually reach equilibrium, but it is still unclear when this will occur.

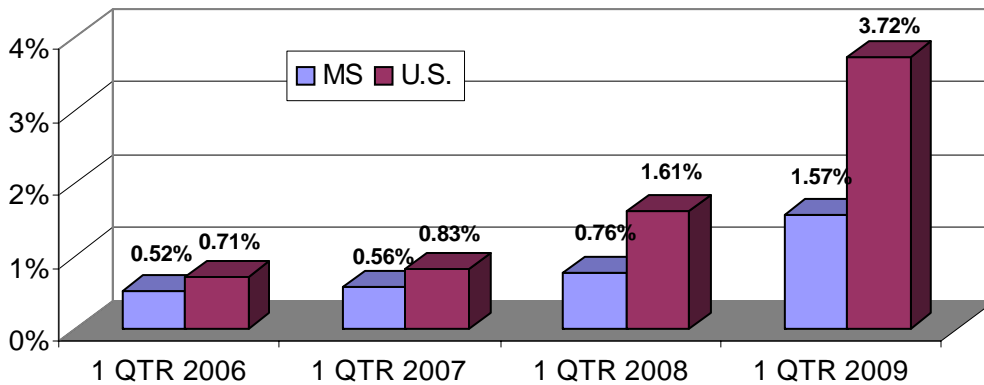
There are many variables that could influence the performance of the industry over the next several quarters, many of which are impossible to predict. It is clear, however, that the outlook for the industry will not significantly improve until the economy stabilizes and begins to revive.



**Figure 4. Net Charge-Offs to Loans**



**Figure 5. Loans in Serious Delinquency as a Percent of Loans**



**Figure 6. Loan Loss Provisions as a Percent of Loans in Serious Delinquency**

