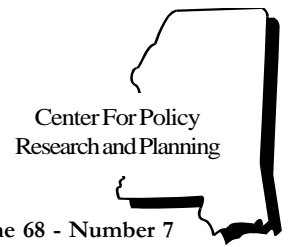


Mississippi's Business



August 2010

Monitoring the State's Economy

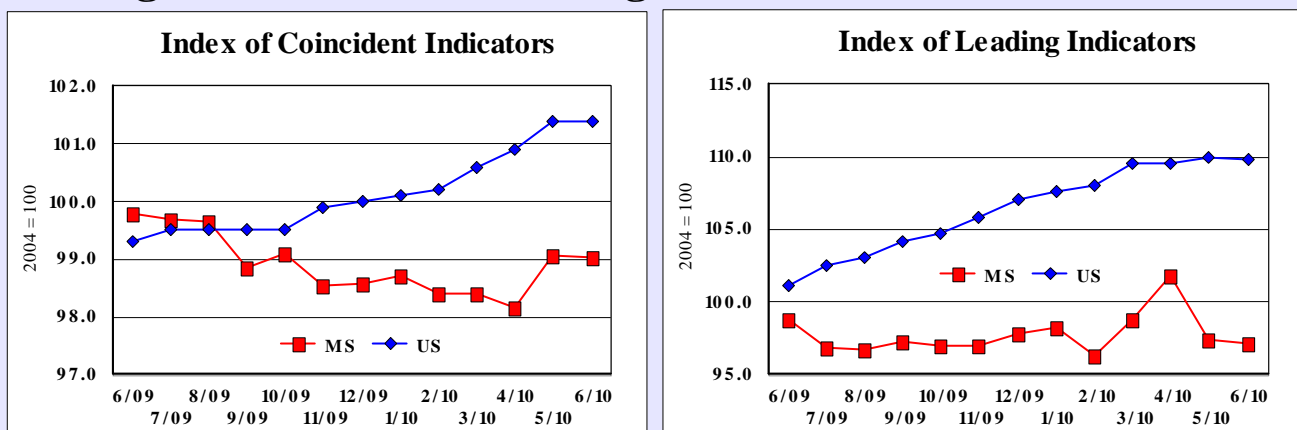
Volume 68 - Number 7

ECONOMY AT A GLANCE

The Mississippi Index of Coincident Indicators was essentially unchanged in June and the Mississippi Index of Leading Indicators fell only a modest amount. The economy appears to be losing momentum. While income tax withholdings data showed a slight increase, employment declined. However, retail sales in the state appear to be improving. Activity in the U.S. manufacturing industry has waned in recent months. This sector has helped fuel the recovery through inventory rebuilding. Unfortunately, there appears to be insufficient demand to sustain that growth. While the industry is expanding, activity has cooled.

With inventory accumulation weaker and the trade deficit larger than previously thought, growth in GDP is expected to be revised downward toward 1.0 percent. GDP growth in the remainder of 2010 is likely to be below 2.0 percent. A double-dip recession is still considered unlikely, but the risk has increased. With the loss of momentum, the economy is more vulnerable to shocks.

Figure 1. Index of Leading and Coincident Indicators



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MISSISSIPPI'S BUSINESS is a publication from the Mississippi Institutions of Higher Learning Department of Forecast and Analysis. 3825 Ridgewood Road, Jackson, Mississippi 39211; Telephone (601) 432-6742; Fax (601) 432-6117. To receive Mississippi's Business contact Darrin Webb at the above phone number or email: dwebb@mississippi.edu. Visit us on the Web: <http://www.ihl.state.ms.us/urc/planning/econdept.htm>

Coincident Index

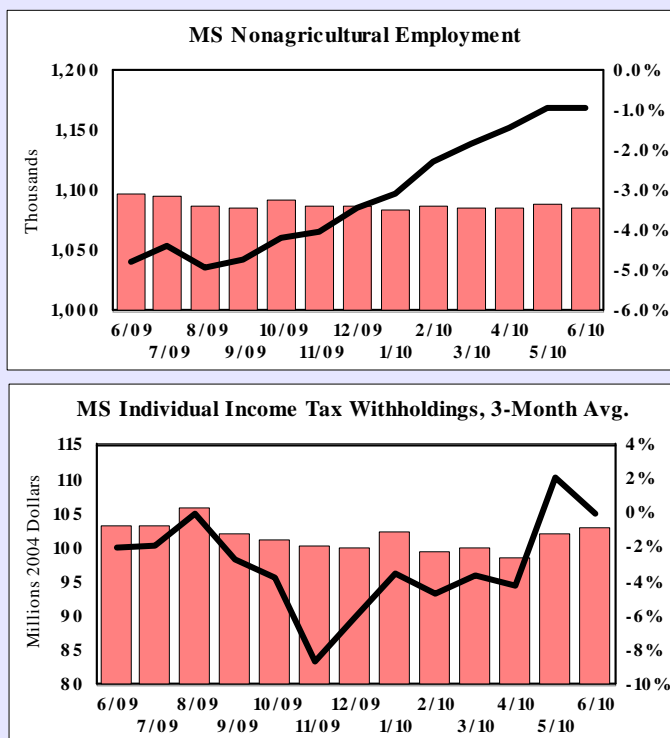
The Mississippi Index of Coincident Economic Indicators of 99.0 was essentially unchanged in June relative to May. The index had spiked in May on the strength of both employment and withholdings gains. We cautioned in last month's issue that with the national economy moderating and the Leading Index declining the Coincident Index would not repeat the May jump. The Mississippi indicators suggest the state's economy, like the Nation, has lost some of its momentum.

The three month moving average of Mississippi income tax withholdings rose 1.0 percent in June relative to May. This was the second consecutive gain for the series, although the June increase was considerably weaker than the May increase. The series was down 0.1 percent relative to the year ago.

Nonfarm employment fell 3,000 jobs or 0.3 percent in June relative to May. The sector experiencing the greatest decline was education and health services, followed by manufacturing and construction. Professional and business services continued its upward climb; as did leisure and hospitality services, other services and government. The data appear below in Table 1 and trends can be observed on page 3.

Short and long-term employment trends are presented on page 4. Employment growth for the second quarter

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:

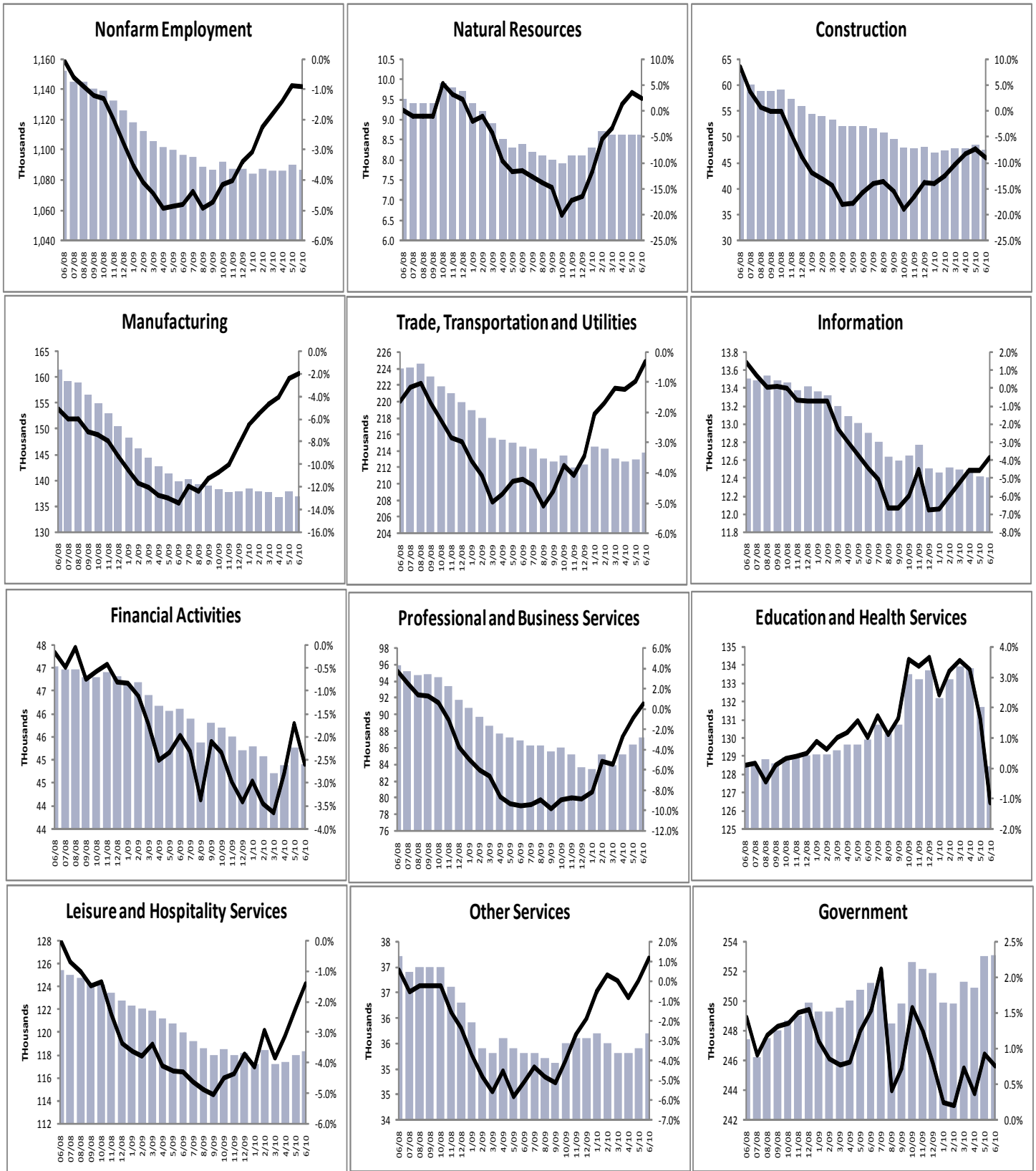
Mississippi Department of Employment Security
Mississippi State Tax Commission

Table 1. Mississippi Employment By Sector

Seasonally Adjusted

	June 2010	May 2010	June 2009	Change from Prior Month Level	Change from Prior Month %	Change from Prior Year Level	Change from Prior Year %
Total Nonfarm	1,086,600	1,089,600	1,096,700	(3,000)	-0.3%	(10,100)	-0.9%
Mining and Logging	8,600	8,600	8,400	-	0.0%	200	2.4%
Construction	47,400	48,300	52,100	(900)	-1.9%	(4,700)	-9.0%
Manufacturing	136,900	137,900	139,700	(1,000)	-0.7%	(2,800)	-2.0%
Trade	213,700	212,900	214,400	800	0.4%	(700)	-0.3%
Retail Trade	132,400	132,400	133,400	-	0.0%	(1,000)	-0.7%
Information	12,402	12,411	12,897	(9)	-0.1%	(495)	-3.8%
Financial Activities	44,907	45,272	46,101	(365)	-0.8%	(1,194)	-2.6%
Services	369,600	371,500	372,000	(1,900)	-0.5%	(2,400)	-0.6%
Professional and Business Services	87,200	86,400	86,800	800	0.9%	400	0.5%
Education and Health Services	128,400	131,700	129,900	(3,300)	-2.5%	(1,500)	-1.2%
Leisure and Hospitality	118,300	118,000	120,000	300	0.3%	(1,700)	-1.4%
Other Services	35,700	35,400	35,300	300	0.8%	400	1.1%
Government	253,100	253,000	251,200	100	0.0%	1,900	0.8%

Figure 3. 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: U.S. Bureau of Labor Statistics. Seasonal adjustment of the financial activities and information industries done by IHL.

of 2010 relative to the prior quarter and the prior year is presented in table 2 and figure 4. In figure 4, the vertical axis measures the short term trends, while the horizontal axis measures the long term trend for each sector. An industry appearing in quadrant 1, is growing in the short term and the long term and is therefore expanding. An industry appearing in quadrant 3, in which both short and long term growth is negative is contracting. Industries appearing in quadrant 2, are growing in the short term but not the long term and are considered improving. Industries in quadrant 4 are slipping as they are growing in the long-term but declining in the short term. Only two sectors are expanding: mining and logging and government. There are three industries contracting: trade, manufacturing and information. Education and health services are improving as are other services. All other sectors are slipping.

Table 2: MS Employment Momentum, By Sector

	2nd Qtr Growth Over	
	Prior Qtr	Prior Yr
Mining and Logging	0.8%	2.4%
Construction	1.2%	-8.2%
Manufacturing	-0.6%	-2.9%
Trade	-0.4%	-0.9%
Information	-1.0%	-4.1%
Financial Activities	0.3%	-2.2%
Professional and Business Services	2.6%	-1.1%
Education and Health Services	-1.4%	1.2%
Leisure and Hospitality	0.3%	-2.3%
Other Services	-0.1%	0.1%
Government	0.8%	0.7%

Mississippi retail sales are improving. Figure 5 shows the Mississippi consumers expanding purchases for both the first and second quarter of 2010. Second quarter sales were above the level of the prior year. This has not occurred since September 2006.

Leading Index

The Mississippi Index of Leading Economic Indicators fell a modest 0.3 percent in June relative to May, to a level of 97.2. After rising sharply for two months, the index has now fallen for two months. The June decline was much less dramatic than the May decline. The volatility over the past four months appears to be driven largely by fluctuations in the manufacturing sector. Three out of five components contributed to the June decline.

Mississippi initial unemployment claims rose a sharp 15.8 percent in June relative to May. There were over 16,000 new claims for the month. The series has increased for four out of the last five months. The June level was the highest in a year. Interestingly, the continued claims have been on a downward trend in 2010, although they remain high historically. This reflects the sticky nature of continued claims and the volatility of initial claims. While initial claims represent the number of people requesting unemployment benefits, continued claims show the number actually receiving benefits. The Institute for Supply Management (ISM) Index of

Figure 4. MS Employment Momentum By Sector

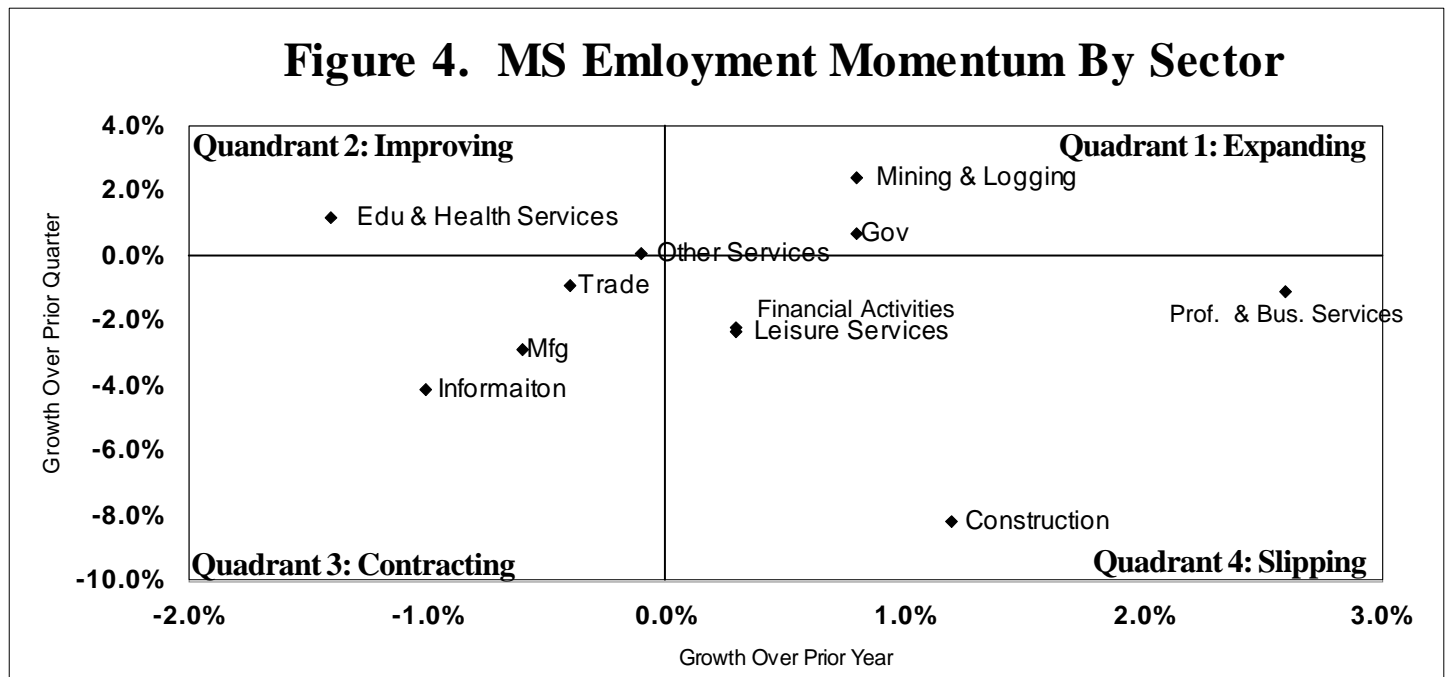


Figure 5. Real MS Retail Sales, Seasonally Adjusted

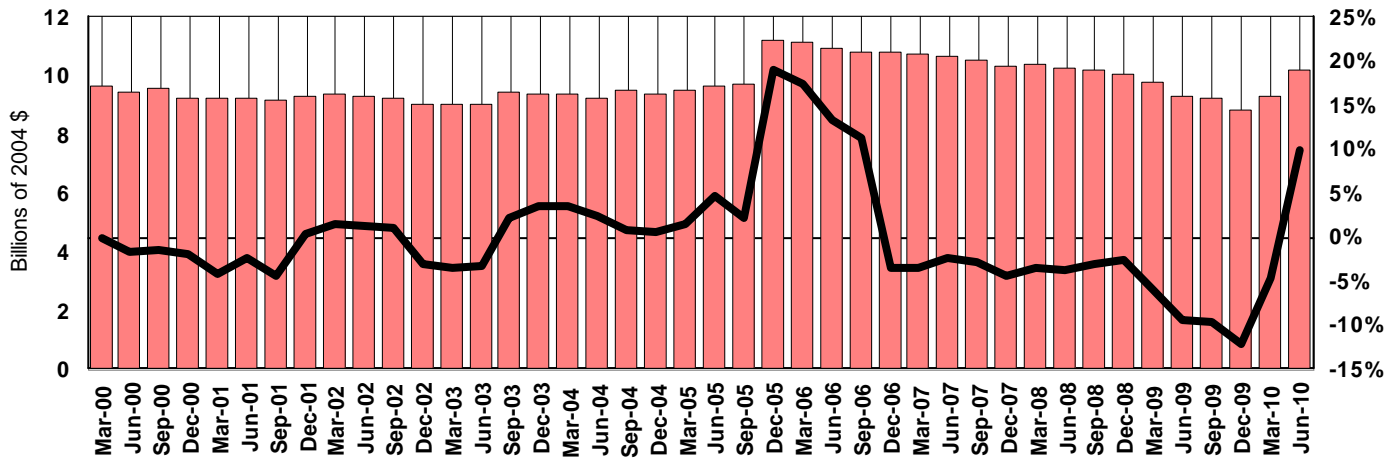
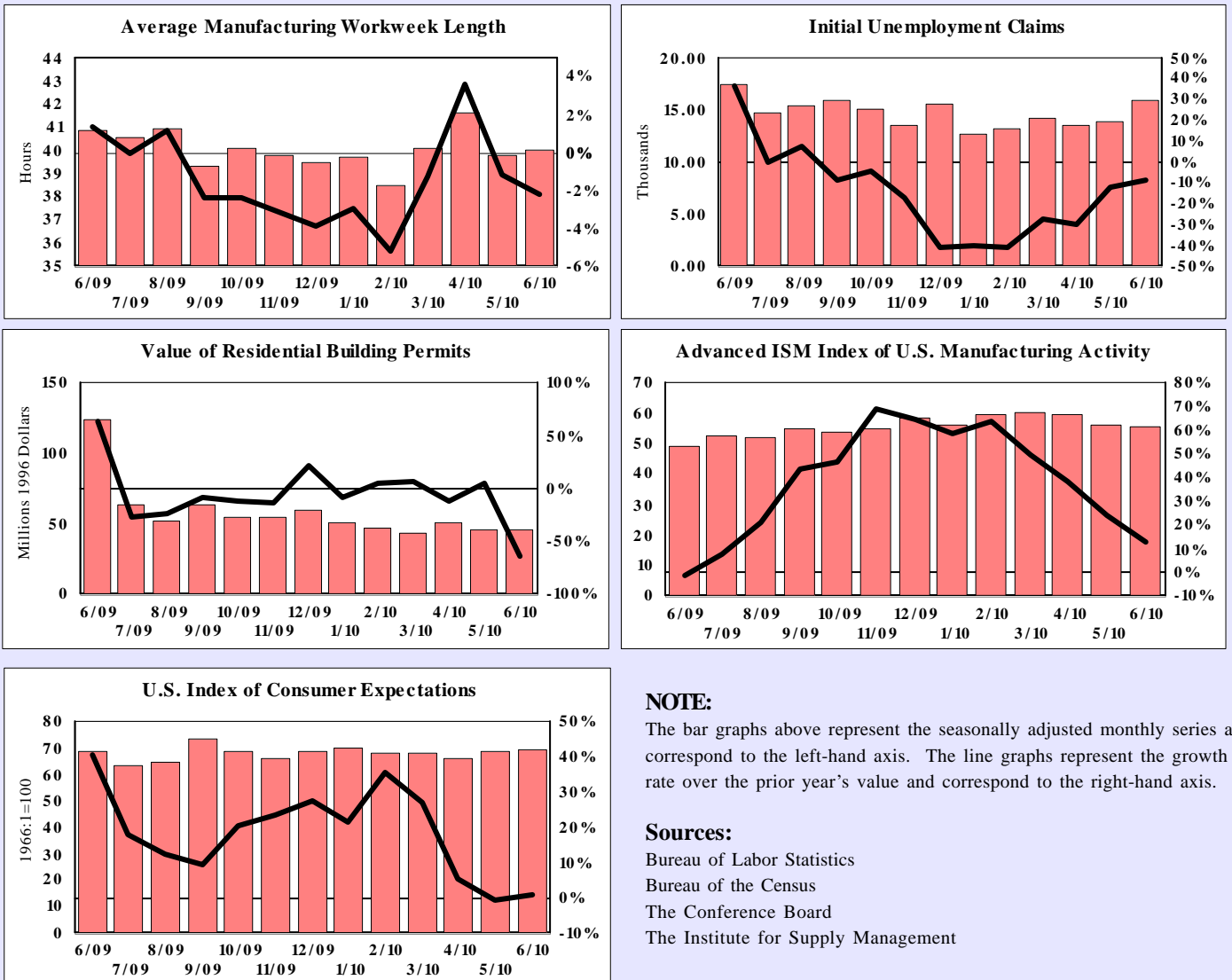


Figure 6. Mississippi Index of Leading Indicators Components



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:

- Bureau of Labor Statistics
- Bureau of the Census
- The Conference Board
- The Institute for Supply Management

U.S. Manufacturing Activity fell to 55.5 in July, the lowest level since December 2009. This marked the third consecutive monthly decline. The index was above 50, indicating the U.S. manufacturing sector remains in an expansionary phase. But the industry has clearly lost momentum in recent months. The manufacturing sector has been a driver in the recovery as production picked up to rebuild inventories. But this inventory build up has not been followed by growing demand. In fact, the new orders index has declined 12.2 points over the past two months. The import index fell substantially in July as well.

The value of Mississippi residential building permits fell a slight 1.1 percent in June relative to July. The series has been flat for much of the past year. Nationally, the housing sector continues to struggle. In Mississippi, building permits are well below their historical peak. The average level of building permits in the first six months of 2010 was almost 70 percent below the level observed in the same period of 2006.

Average Mississippi manufacturing workweek length rose slightly to 40.0 hours in June, from 39.8 in May. The change is not significant.

The U.S. Index of Consumer Expectations rose one point to 69.8 in June relative to the level of May. While the series has improved from the trough observed in 2008, it is considerably lower than that observed prior to the recession.

We have constructed a Mississippi Diesel Fuel Consumption Index. The historical series appears in figure 7 and more recent trends appear in figure 8. With Mississippi being a major thoroughfare for the trucking industry, it is believed that diesel fuel consumption will give a timely indicator of economic activity. The index trended up in April and May, but declined in June, giving further indication of a moderating state economy.

U.S. Economy

The U.S. Index of Coincident Indicators was unchanged in June. The U.S. Index of Leading Indicators fell in June. This was the second decline in three months.

Growth in GDP for the second quarter will be revised down, possibly to around 1.0 percent. The boost that has come from inventory rebuilding has waned in response to a lack of demand. Consumers remain cautious with spending growth only 1.6 percent in the second quarter. Likewise, businesses are reluctant to hire. On the other hand, businesses are spending on equipment and software, which was up 21.9 percent in the second quarter. Businesses are probably addressing replacement needs that have been neglected over the past two years.

With the loss of momentum, the economy is even more vulnerable to shocks. While a double-dip recession remains unlikely, the probability has increased to an uncomfortable level. IHS Global Insights says there is a one in four chance of a double-dip.

Figure 7. MS Diesel Fuel Consumption Index

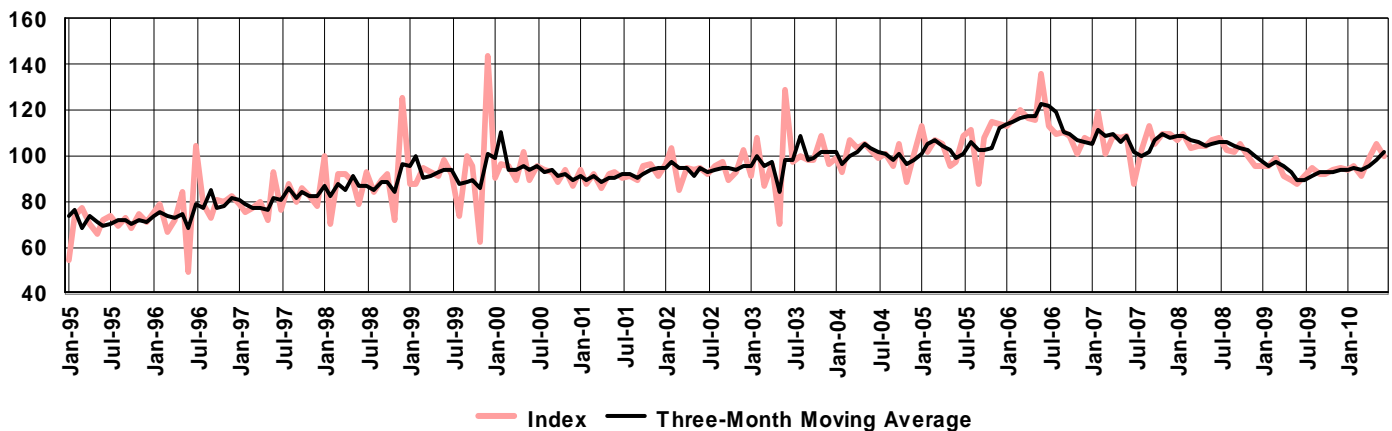
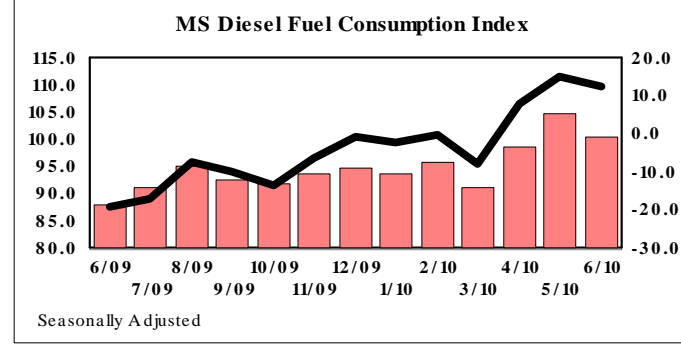
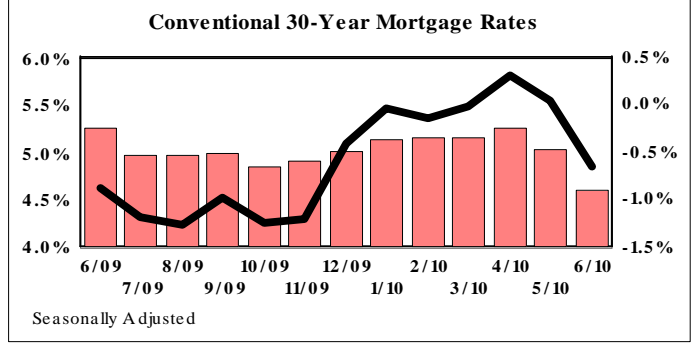
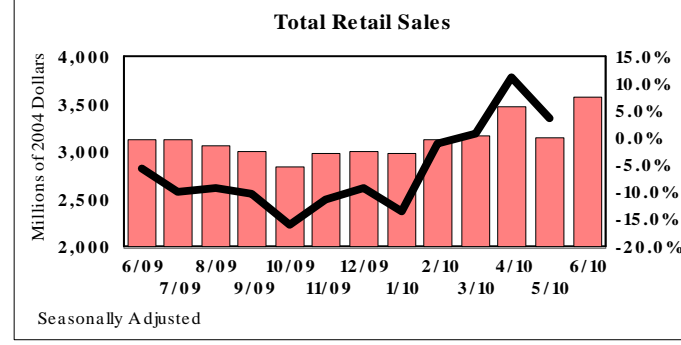
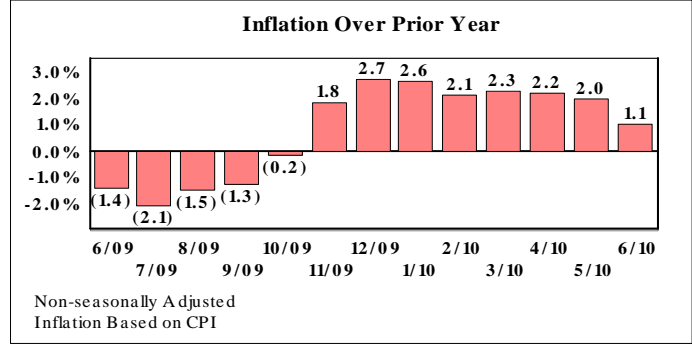
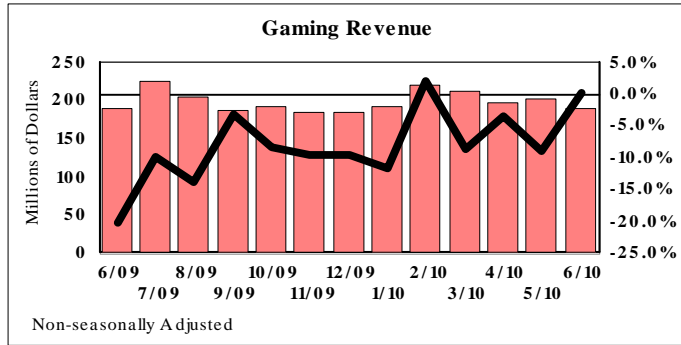
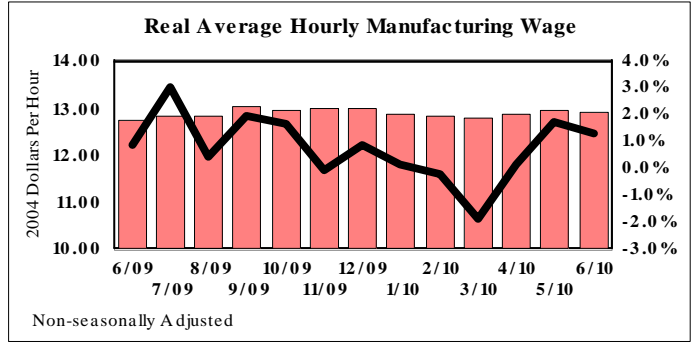
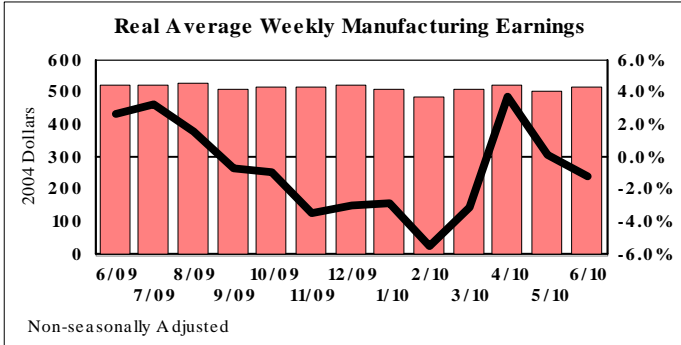
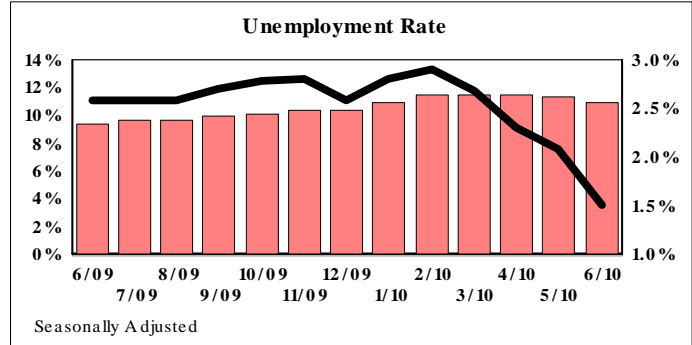
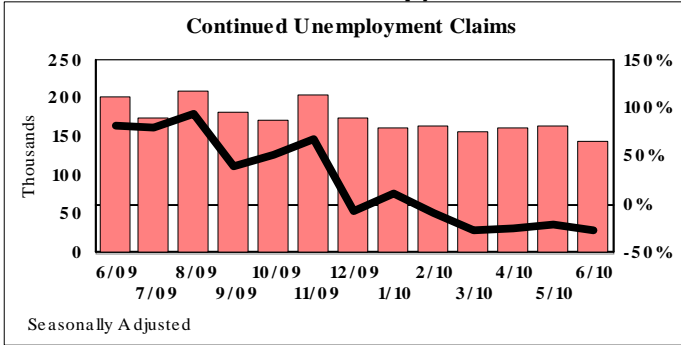


Figure 8. Miscellaneous Indicators



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 Department of Employment Security
- Mississippi Tax Commission
- Mississippi Gaming Commission
- Federal Home Mortgage Corporation
- Bureau of Labor Statistics
- University Research Center

SELECTED MISSISSIPPI ECONOMIC INDICATORS

	June 2010	May 2010	June 2009	Change From	
				Last Month	Last Year
Coincident Indicator Index (2004=100)	99.0	99.1	99.8	-0.0%	-0.8%
Nonagricultural Employment (thousands)	1,086.6	1,089.6	1,096.7	-0.3%	-0.9%
Individual Income Tax Withholdings, 3-Month Average (millions of 2004 \$)	103.0	101.9	103.0	1.0%	-0.1%
Leading Indicator Index (2004=100)	97.2	97.5	98.8	-0.3%	-1.7%
Initial Unemployment Claims	16,038	13,849	17,545	15.8%	-8.6%
Value of Residential Building Permits (millions of 2004 \$)	45.5	46.0	124.2	-1.1%	-63.4%
Average Manufacturing Workweek Length (hours)	40.0	39.8	40.9	0.6%	-2.2%
Advanced ISM Index of U.S. Manufacturing Activity Index is advanced one month. Thus, the August index is reported for June.	55.5	56.2	49.1	-1.2%	13.0%
U.S. Index of Consumer Expectations	69.8	68.8	69.2	1.5%	0.9%
Miscellaneous					
Consumer Price Index U.S. (2004=100)	115.4	115.5	114.2	-0.1%	1.1%
Unemployment Rate (percentage)					
Non-seasonally adjusted	11.1%	11.3%	10.1%	-0.2%	1.0%
Seasonally adjusted	11.0%	11.4%	9.5%	-0.4%	1.5%
Continued Unemployment Claims	146,430	164,405	202,214	-10.9%	-27.6%
Average Manufacturing Wage (non-seasonally adjusted)					
Current Dollars per Hour	14.91	14.95	14.57	-0.3%	2.3%
2004 Dollars per Hour	12.92	12.94	12.76	-0.2%	1.3%
Average Weekly Manufacturing Earnings (non-seasonally adjusted)					
Current Dollars	597.89	584.55	598.83	2.3%	-0.2%
2004 Dollars	518.12	506.06	524.40	2.4%	-1.2%
U.S. Mortgage Rates (30-year conventional)	4.6%	5.0%	5.3%	-0.4%	-0.7%
Gaming Revenues (non-seasonally adjusted)					
Coast counties (millions of current \$)	87.3	95.3	84.2	-8.4%	3.7%
River counties (millions of current \$)	102.3	107.8	105.0	-5.1%	-2.5%
Total	189.6	203.1	189.2	-6.6%	0.2%
Total Retail Sales (millions of 2004 \$)	3,582.93	3,152.62	3,132.95	13.6%	14.4%

Note: The data are seasonally adjusted unless otherwise noted.

Unless otherwise noted all data refer to Mississippi.

THE ECONOMIC MOMENTUM INDEX FOR THE STATES

By Pete Walley

One method to judge the relative economic performance trends of each state in the recovery from the great recession is to develop an index of economic momentum based on three key measures of economic vitality – personal income growth, employment growth and population growth. The three measures are averaged for each state, then expressed as a percentage above or below the national average. Mississippi is slightly below the center of the pack at 0.13 percent below the nation's average. The Index appears in figure 1 on page 10.

The state with the best economic momentum is Alaska at 1.34 percent above the national average while the worst performing state is Nevada, 1.3 percent below the national average. Apart from these two states, all other states are within 1.0 percent of the national average

States in the southeastern US that are performing better than the national average include Kentucky, South and North Carolina and Texas. Alabama and Tennessee have positive performance relative to the US while Florida and Georgia are performing significantly worse relative to the US. Mississippi, Arkansas and Louisiana are performing worse than the US but are faring better than the two most populous states in the southeastern US.

What is causing the variations in states' performances based on the three measures of growth – personal income, employment and population?

Personal Income

For the nation, personal income growth improved to 1.9 percent in the second quarter of the year, a switch from negative 0.98 percent in the first quarter of the year – a signal that the nation's economy has begun to expand. A state's personal income must increase about 1.0 percent per year on average to cover population growth and about 0.5 percent to cover price inflation for a total of 1.5 percent (on average annually). Mississippi's personal income growth from the first quarter of 2009 to first quarter of 2010 was 2.8 percent, significantly above

the national average. Mississippi was among the twenty states that grew at the fastest pace since the great recession began. The state was especially helped by transfer receipts from the American Recovery and Reinvestment Act of 2009 (ARRA).

Employment

While the US employment situation remains bleak and the national economy continuing to lose jobs, the rate of loss of jobs nationally has slowed to -0.1 percent with 21 of the states actually adding jobs. Mississippi's change in employment from June 2009 to June 2010 was a -0.9 percent, ranking 43rd out of the 50 states. The state's unemployment rate for June 2010 was 11% with 5 states having higher unemployment rates.

Population

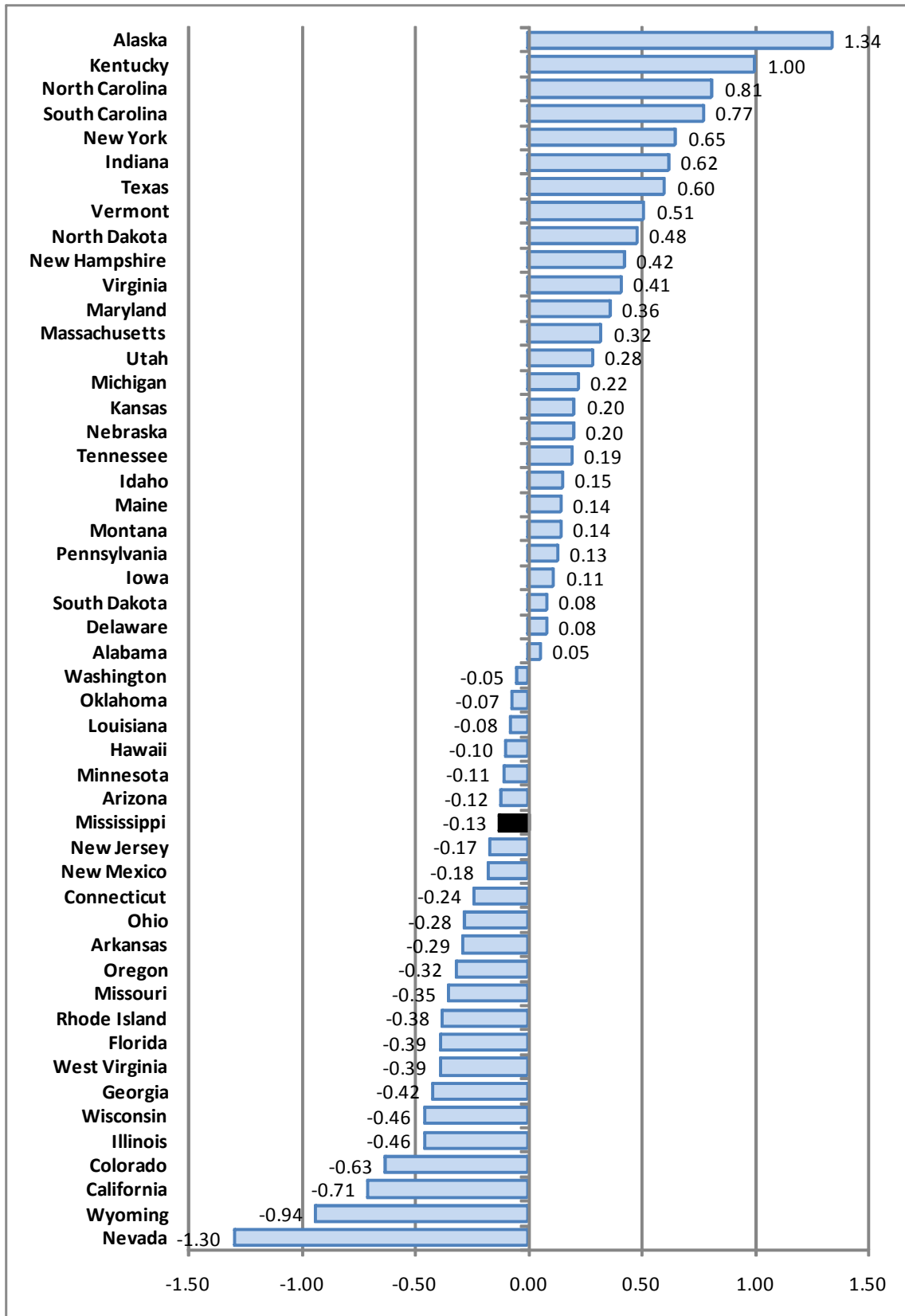
The final component of the index of state economic momentum is change in state population. While the nation's population is estimated to have grown 0.9 percent between July 2008 and July 2009, Mississippi's population growth for that period was 0.4 percent, ranking 41st of the 50 states.

Conclusion

The positive news is that the national economy is showing improvements as measured by the index of state economic momentum compared to the last several quarters. The ARRA funds seem to have been effective in improving personal income, helping with state budgets, and encouraging employment. The bad news is that ARRA funding will be ending soon suggesting that current improvements in economic momentum cannot be taken for granted.

Data and some analysis was taken from the *States Policy Reports*, vol. 28, Issue 12, June 2010. The Momentum Index was developed by Hal Hovey with the Federal Funds Information for the States. Their Web Site is www.ffis.org.

Figure 1. The Economic Momentum Index



Source: State Policy Reports, Volume 28, Issue 12 and The University Research Center.

BENEFITS OF HIGHER EDUCATION IN MISSISSIPPI: SURVEY RESULTS FOR 2005-2008

By Barbara J. Logue, Ph.D.

Education levels in Mississippi were at an all-time high in 2008, according to recently released data from the U.S. Census Bureau's American Community Survey.¹ Nearly one in five residents (19 percent) ages 25 and over now has a Bachelor's or higher degree and nearly half (47.5 percent) have had at least some college experience, up to and including an Associate degree.

Most people believe that the years they spend in school, and the financial sacrifices they (or their parents) make to further their education, will pay off when they enter the work force. In today's world, there is no doubt that education is the key to a good job and a more secure life. The information in this report was derived from unpublished data collected through the American Community Survey for the 2005-2008 period. The data refer to Mississippi residents in the prime working ages, 25 to 59. Most of the people in this age range have completed their formal education, and few have retired. The table shows some key relationships between formal schooling and selected work-related factors.

Labor Force Participation

Labor force participation rates rise dramatically with increases in formal education. Whereas less than half of people with less than a 9th grade education (41.7 percent) were in the work force, more than eight in ten (85.2 percent) of those with a Bachelor's or higher degree participated.

There are several reasons for the observed relationship between education and jobholding. First, there is more demand for better educated workers, due both to the kinds of jobs characteristic of a modern economy and employers' perception of the better educated as more reliable and disciplined workers. Second, more education indicates a capacity and willingness to learn even more, facts that are important to employers making hiring decisions on the basis of anticipated productivity. Third, more educated individuals usually have to forego more income by not working, compared to less educated people, and so have more incentive to work. In fact, people with more education tend to have longer work lives than the less educated, despite having spent more time in school.²

Table 1. **SELECTED CHARACTERISTICS OF PRIME WORKING-AGE MISSISSIPPIANS
(AGES 25 TO 59) BY LEVEL OF EDUCATION, 2006 - 2008.**

Characteristic	< 9 Years	9-12 Years, No Diploma	High School Diploma	Some College (No degree)	Associate Degree	B.A. Degree or Higher
Percent in labor force	41.7	54.6	69.9	76.7	81.2	85.2
Percent working full-time	27.2	37.5	53.3	60.1	65.6	73.8
Percent unemployed	6.4	8.2	5.6	4.5	3.4	2.2
Percent with work disability	39.9	20.1	13.1	9.4	6.9	4.1
Percent attending school	1.2	1.7	1.2	7.5	8.5	6.6
Percent in poverty	39.6	33.3	18.5	13.3	9.3	4.8
Median earned income for full-time workers (2008 dollars)	\$24,285	\$25,460	\$28,719	\$32,539	\$35,899	\$46,458
Number	53,472	130,087	408,591	300,473	117,909	269,832

SOURCE: U.S. Census Bureau, American Community Surveys for 2005-2007 (work disability) and 2006-2008 (all other variables), Public Use Microdata Files, Mississippi.

Full-Time Work

Substantial increases occur in the fraction of prime-age adults who work full time, year round, as educational attainment rises. Whereas only about one in four of the least educated work full time, year round, nearly three in four of the most educated people do so. Again, opportunity costs help explain the difference, with the more educated standing to lose more income by working only part time. Moreover, the kinds of jobs held by more educated workers tend to be less sensitive to seasonal and cyclical changes. The kinds of jobs available to the unskilled and less educated, in contrast, tend to be more seasonal or cyclical, with demand falling off in certain seasons or certain phases of the business cycle. Agricultural laborers and retail sales jobs are good examples of such work.

Unemployment

Greater demand for more educated workers helps explain the observed tendency for unemployment rates to fall as educational attainment rises. The sole exception is those having less than nine years of formal education. More educated people who do happen to lose their job due to downsizing or other reasons may have an easier time finding a new job than their less educated counterparts. They have greater flexibility in what they have to offer a potential employer, better communication skills (both oral and written), a more efficient network of contacts, and are better able to present themselves well in a job interview. The less educated, in contrast, may suffer from reading deficiencies, poor oral and written communication skills, low self-esteem, and poor self-presentation. In an economy that is shifting away from manual labor toward more intellectual pursuits, the job-finding dilemmas are obvious.

Health Issues

Work disability refers to the presence of a health condition, whether physical or mental, that makes it difficult for a person to hold down a job or run a business. As the table shows, work disability among prime working-age Mississippians decreases consistently and dramatically as educational attainment rises. Good health is a prerequisite for both school achievement and labor force participation. By the same token, poor health is a significant deterrent to education and hence limits labor force activity both directly and indirectly.

More education contributes to one's ability to work in ways that go beyond the choice of whether to work or not. The better educated are less likely to engage in risky personal behaviors such as smoking, failure to fasten seatbelts, a high-fat diet, and lack of exercise. They tend to be more attentive to occupational safety rules and accident prevention. They try to prevent medical problems from arising in the first place (through screening tests for high blood pressure, for example), seek medical attention promptly when it is needed, and follow doctors' instructions more carefully than their less educated counterparts.³ As a result, their ability to work, and to work full-time, is enhanced. Moreover, the jobs available to the better-educated are more likely to require mental skills than physical stamina, so even if physically handicapped they are better able to remain in the work force.

School Attendance

When it comes to seeking more schooling, the table shows some interesting results: adults *with* more education show an inclination to obtain yet *more* education. People with some college (no degree), those with Associate degrees, and people who had already earned a Bachelor's degree were far more likely to be attending school during the survey period than the less educated. Thus those who are already educationally advantaged are likely to become more so. By upgrading their education, these people are likely to increase their chances of finding a good job, earning more income, and becoming eligible for job-related benefits such as health insurance and pension plans. Rapid changes in technology suggest that those who continue to upgrade their knowledge and skills will remain competitive in the job market.

Poverty

It can come as no surprise that the prevalence of poverty varies dramatically along the educational spectrum. Among those with less than a 9th grade education, four in ten had incomes below the poverty level at the time of the survey. In sharp contrast, only one in 21 (4.8 percent) in the most educated category was classified as poor. Poverty rates were intermediate for the remaining education subgroups.

Median Earnings

"The expectation of future economic success" is one of the most compelling reasons that students opt to attend college.⁴ The table indicates that, among persons working full time, an increase in median earnings accrued to each additional increment of formal education. High school graduates earned, on average, over \$4,400 more than people who failed to finish 9th grade and over \$3,000 more than high school dropouts. The biggest earnings gain occurred between those with an Associate degree and those with a Bachelor's or higher degree. The average earnings gap between these two groups exceeded \$10,000.

Conclusion

The overarching significance of education, or the lack of it, in explaining labor force participation and other aspects of personal well-being is clear from the data in this report. Education is the major factor in raising the quality of life of Mississippians now and in the future. At the same time, society gains from investments in education as poverty and unemployment rates decline, health improvements occur, and more educated citizens contribute to their communities as taxpayers, voters, and volunteers.⁵

NOTES:

1. For background information on the American Community Survey, see Barbara J. Logue, "The 2010 Census and the American Community Survey," *Mississippi Economic Review and Outlook*, June 2010, pp. 42-45.
2. Murray Gendel, "Short Work Lives, Long Retirements Make Saving Difficult," *Population Today*, May/June 2002.
3. Jonathan S. Feinstein, "The Relationship between Socioeconomic Status and Health: A Review of the Literature," *Milbank Quarterly* 71 (1993): 279-322.
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STAGGERING STATISTIC!!!

Based on the data presented in Table 1 on page 11, roughly 35% of Mississippi's working age population, that dropped out of school before getting a diploma, ended up living in poverty. If three buddies drop out together, one of the three will live in poverty.

