UNIVERSITY RESEARCH CENTER

Comments to the Joint Legislative Budget Committee
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The U.S. and Mississippi economies continue to demonstrate considerable resilience in 2023. As recently as March, both the U.S. and Mississippi economies were forecast to contract in the first half of the year and a mild recession in 2023 was seen as likely. Instead, U.S. real gross domestic product (GDP) expanded at or above a 2.0 percent rate in the first half of 2023 according to the latest estimates of the U.S. Bureau of Economic Analysis (BEA). The agency reported U.S. real GDP expanded at a seasonally adjusted, annualized rate of 2.2 percent in the first quarter of this year; in its most recent estimate of the change in U.S. real GDP in the second quarter, BEA reported an increase at an annualized rate of 2.1 percent. These higher-than-expected estimates resulted primarily from stronger consumer spending in the first quarter and greater gross private domestic investment in the second quarter. Because growth repeatedly exceeded expectations in the first half of this year, the forecasting firm S&P Global Market Intelligence revised its forecast of U.S. real GDP growth for 2023 up for six consecutive months. The above-trend growth in the first half of the year occurred despite the continued aggressive monetary policy by the Federal Reserve. As of September, the federal funds rate target is in a range of 5.25% to 5.50%, the highest level since 2001.

The U.S. economy added an average of 235,500 jobs per month from January through August of this year according to the U.S. Bureau of Labor Statistics (BLS), down from the same period in 2022 but still well above the pace set in 2019. The U.S. labor market remains relatively tight despite some softening since the end of 2022 and continued interest rate increases by the Federal Reserve. Nonetheless, the number of job openings as measured by BLS has fallen more than 20 percent over the last twelve months. The U.S. labor force participation rate in August was 62.8 percent, 0.5 percentage point below the February 2020 rate of 63.3 percent. The rate is unlikely to surpass its pre-pandemic level in the near term as demographics continue to place downward pressure on labor force participation, primarily because of ongoing retirements in the Baby Boom generation.

As I previously mentioned, the Federal Reserve continues to aggressively raise interest rates in its efforts to tame inflation. In calendar year 2022 the Consumer Price Index (CPI) rose 8.0 percent, the largest annual increase since 1981. The Federal Reserve's campaign of raising interest rates, along with other factors, began to impact rising price levels at the end of 2022. As of August, the CPI was up 3.7 percent over the previous twelve months, a much smaller increase than at this time last year but still considerably above the Federal Reserve's goal of 2.0 percent annual growth in inflation. While the price increases in some goods and services have slowed, others remain elevated; in particular rent and owners' equivalent rent remain important contributing factors to ongoing inflation despite interest rate increases. However, increases in rents have begun to decline and should continue to decline in the coming months as new leases and terms go into effect. Sales of new homes could fall in the coming months as well following the latest increases in mortgage rates. Wages and salaries continue to rise at a pace that is higher than the Federal Reserve believes is compatible with its inflation target. For example, the Employment Cost Index, a measure of labor costs produced by BLS that is closely watched by Federal Reserve officials, was up 4.5 percent over the previous twelve months in the second quarter of this year. While this rate was less than in previous quarters, the Federal Reserve prefers to see a twelve-month change in the Employment Cost Index in the range of no more than 3.0 to 3.5 percent. Thus, these factors likely mean the Federal Reserve will not reduce its interest rate targets until well into 2024 and that these decreases will be gradual. S&P Global Market Intelligence currently projects the CPI will increase 4.1 percent for all of calendar year 2023, followed by a 2.7 percent increase in the CPI for all of 2024 and a 2.3 percent increase for all of 2025. Surges in gasoline prices could interrupt the fall in inflation as was observed in the CPI data in July and August.

Mississippi's economy, as I mentioned, expanded more in the first half of 2023 than previously expected. BEA reported real GDP for Mississippi increased in the first quarter at an annualized rate of 1.7 percent. URC forecasts the state's real GDP also increased in the second quarter at an annualized rate of 1.5 percent. At the same time employment in the state has slowed in the first eight months of 2023 according to BLS. Through August the state has lost 8,000 jobs, compared to the first eight months of 2022 when 11,500 jobs were added. However, I will note that BLS initially reported Mississippi lost jobs in the first eight months of 2022 until the agency released revised data earlier this year. We therefore may not know the "final" employment numbers for 2023 for several months. In any event, both initial and continued unemployment claims in the state remain at relatively low levels, below the averages of 2019, which indicates that layoffs in Mississippi did not accelerate from January through August of this year. Payroll employment in the state as of August exceeded the February 2020 pre-pandemic level by 5,300 jobs. The labor force participation rate in Mississippi was 54.3 percent in August, still one of the lowest among all states, and down 2 percentage points from its pre-recession peak in September 2019 of 56.3 percent.

Sales tax revenues in Mississippi adjusted for inflation from January through August were down only 0.5 percent compared to the same period in 2022. This data suggests that consumer spending in the state compared to last year so far remains relatively robust, as the decline in real sales was less than the rise in inflation over the same period. URC's latest forecast is nominal wages and salaries in Mississippi will grow 5.1 percent in 2023, less than the increase in 2022 but still above historical trends. Growth in wages and salaries in the state will likely exceed the rate of inflation by only a small margin at best, however.

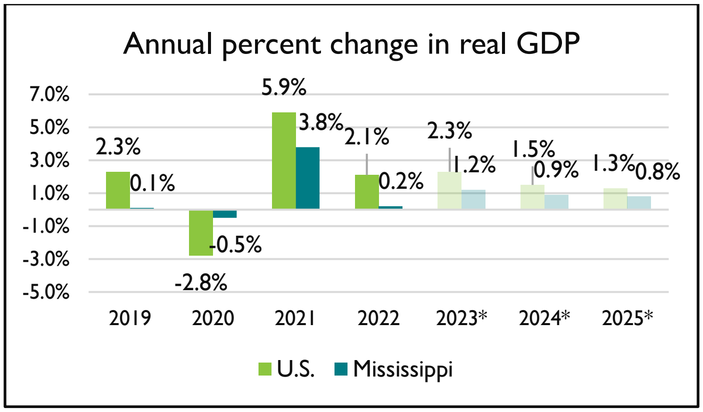
As I noted earlier, the short- to medium-term forecasts for the U.S. and Mississippi economies do not include recession. The base case for the U.S. economy in 2023 is slightly above-trend growth. The firm S&P Global Market Intelligence expects U.S. real GDP will grow at an annualized rate of 4.0 percent in the third quarter of this year. The firm's latest forecast is U.S. real GDP will expand 2.3 percent for all of 2023. S&P Global expects growth to slow in the fourth quarter of this year and into 2024 as the lagged effects of higher interest rates become stronger. The firm's forecast for the change in U.S. real GDP in 2024 is an increase of 1.5 percent, followed by a similar increase in U.S. real GDP of 1.3 percent in 2025. The relatively tight U.S. labor market, a key source of the economy's resilience for more than two years, is expected to loosen substantially over the next twelve to twenty-four months, again due primarily to the effects of higher interest rates working through the economy. The Federal Reserve views the weakening of the labor market as necessary to get inflation down to its target rate by slowing wage growth. S&P Global projects U.S. payroll employment will grow 2.2 percent in 2023, down from 2022 but still above trend. In 2024, employment is expected to increase only 0.2 percent. By 2025, S&P Global forecasts U.S. employment will decrease 0.3 percent before returning to growth in the following year. U.S. real personal income is projected by S&P Global to grow 1.2 percent in 2023, followed by a 2.1 percent increase in 2024 and a 2.1 percent increase again in 2025.

URC's latest forecast estimates real GDP for Mississippi will increase 1.2 percent in 2023, which if realized will mark the second-highest annual growth rate since 2012. Real GDP for Mississippi is expected to expand 0.9 percent for all of 2024, followed by a 0.8 percent increase in 2025. URC forecasts payroll employment in Mississippi will increase 0.9 percent in 2023. However, payroll employment in the state is expected to decrease in 2024 and 2025. URC's latest forecast projects employment in Mississippi will decrease 0.4 percent in 2024 and will decrease 0.8 percent in 2025. As with U.S. employment, this slowdown is expected to occur as the effects of higher interest rates work through the economy. However, employment is expected to decline relatively more in Mississippi because a larger portion of the state's workforce is employed in the Manufacturing sector compared to the rest of the nation. Higher interest rates tend to hit firms in the Construction and Manufacturing sectors harder because these firms must finance relatively large purchases of machinery and equipment over time. Higher rates of interest increase these financing costs, and Construction and Manufacturing firms often attempt to offset these cost increases through layoffs. In addition, Mississippi is a state with a relatively slow-growing population. A lack of an expanding population limits growth in the labor force as well as demand for labor-intensive services, which inhibits overall employment growth.

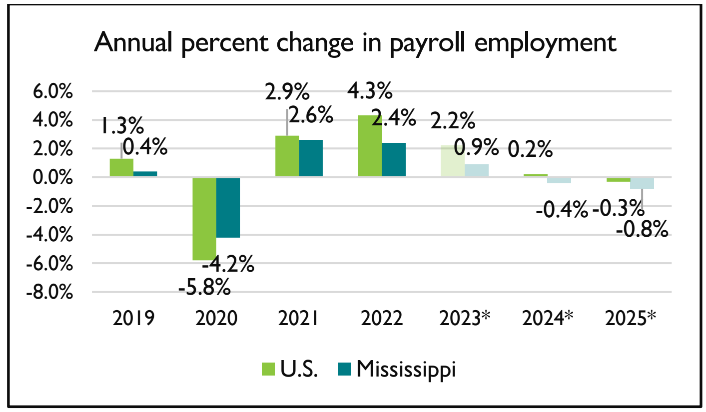
In 2023 real personal income in Mississippi is expected to increase 0.1 percent, as income growth will only slightly exceed the rate of inflation. Real personal income in Mississippi is projected to increase 0.7 percent in 2024 and 1.2 percent in 2025.

Summing up, the U.S. and Mississippi economies are projected to grow slightly above trend in 2023, including employment. This growth is more than was expected coming into this year, and recession is not in the latest forecast. The belated effects of higher interest rates are expected to slow the U.S. and Mississippi economies in 2024 and 2025, however. The weakening of growth means a smaller shock to the U.S. economy–such as an unanticipated geopolitical event or a natural disaster–could result in a recession. U.S. employment is expected to grow marginally in 2024 and decrease slightly in 2025, while employment in Mississippi is forecast to decrease in 2024 and 2025. Inflation is projected to slow to 4.1 percent in 2023 and approach 2.7 percent in 2024 and 2.3 percent in 2025.

Thank you for your attention. I conclude my remarks and will be glad to take any questions from the members.



*Projected. Sources: U.S. Bureau of Economic Analysis, S&PGMI, URC.



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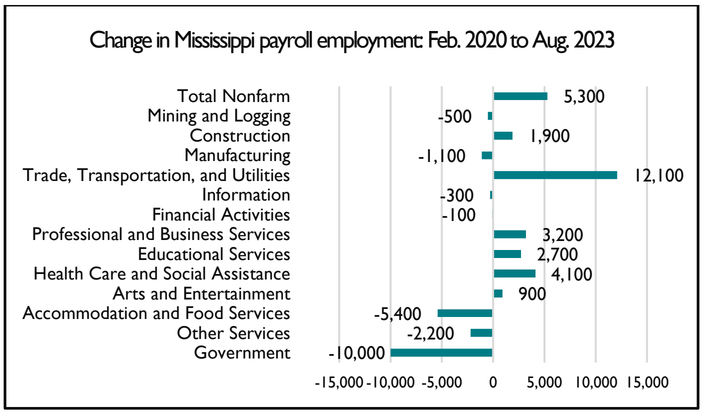
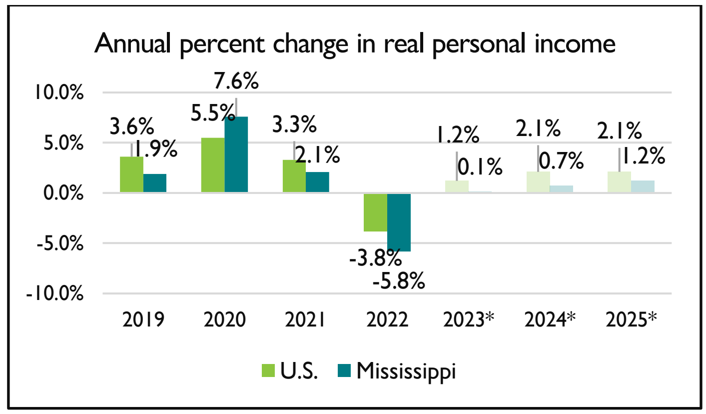
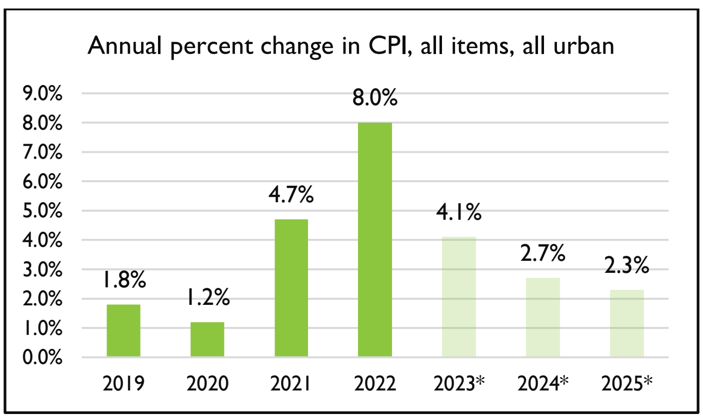


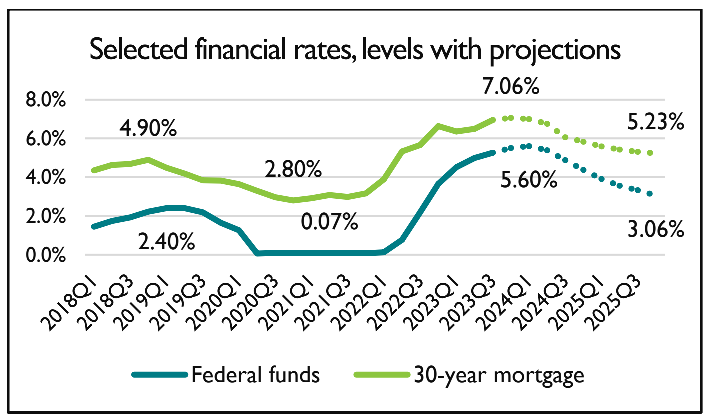
Source: U.S. Bureau of Labor Statistics.



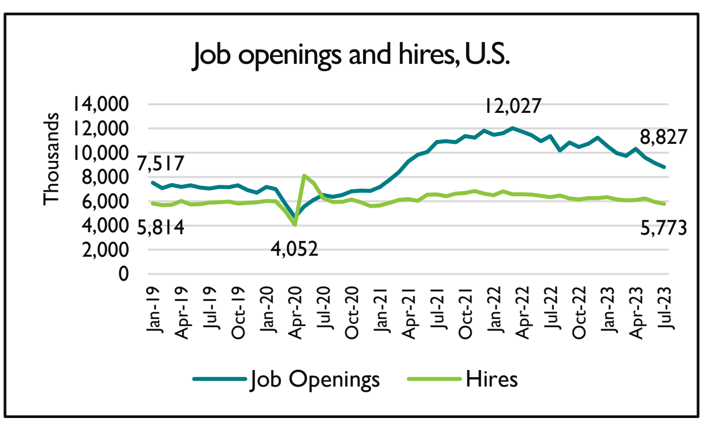
*Projected. Source: U.S. Bureau of Economic Analysis; S&PGMI.



Source: U.S. Bureau of Labor Statistics; S&PGMI.



Source: Federal Reserve Board; S&PGMI.



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