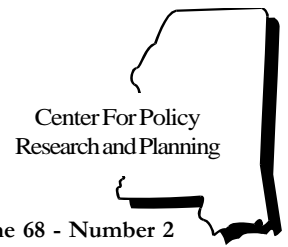


Mississippi's Business



February 2010

Monitoring the State's Economy

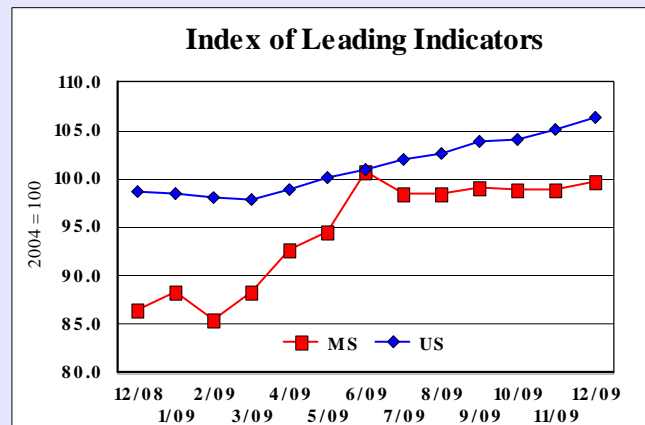
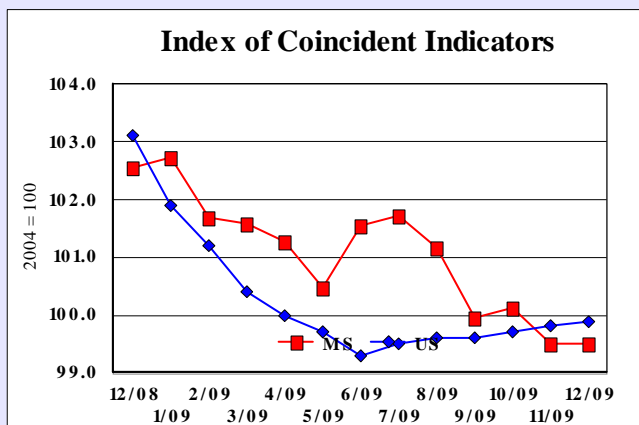
Volume 68 - Number 2

ECONOMY AT A GLANCE

The Mississippi Index of Coincident Indicators was unchanged in December from the November level. Neither employment or withholdings changed substantially for the month. On an annual basis, the state lost 33,700 jobs or 2.9 percent in 2009 relative to 2008. Individual income tax withholdings fell 3.4 percent in 2009 relative to 2008. Retail sales were down 9.3 percent for the same period. The Mississippi Index of Leading Indicators rose 0.9 percent in December relative to January. The index has been relatively flat since the summer. There were three components that pushed the December index up. Two out of the three were national indicators. Improvement in these national indicators is relevant to the state, but improvement in the state level indicators makes a stronger case for growth.

The US Leading and Coincident Indices both gained in December. The Conference Board believes the economy will continue to improve in the near term. Recently released data indicate the U.S. economy ended 2009 on a strong note. The data will be revised, but will likely still show strength, albeit a more moderate pace than currently estimated. The Fed recently raised the discount rate. The action is seen as having little to no impact on most interest rates affecting consumers.

Figure 1. Index of Leading and Coincident Indicators



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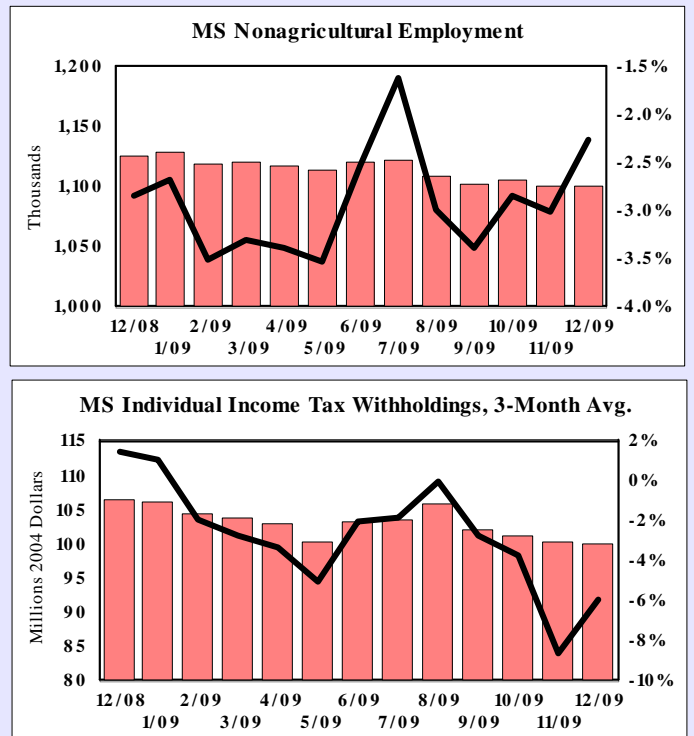
Coincident Index

After a sharp decline in November, the Mississippi Index of Coincident Economic Indicators was unchanged in December. Neither component changed much in December, as seen in Figure 2. The economy appears to have at least temporarily halted its decline. Whether or not this is the bottom remains to be seen.

Figure 3 below gives an historical perspective to the index. The decline since early 2008 has been steep. Since peaking in January 2008, the index has fallen 5.1 percent as of December. The level of the index in December was similar to that observed in late 2003. The implication is that the economic growth that was accumulated between late 2003 and the end of 2007 has disappeared in less than two years.

Nonfarm employment rose a negligible 481 jobs in December. Gains in financial activities, and government were offset by declines in construction, manufacturing and trade. In 2009, the state lost 33,700 jobs or 2.9 percent. Figure 4 shows the breakdown by sector. Manufacturing took the largest hit followed by trade transportation and public utilities. Retail trade is the primary force in this last industrial grouping. Professional and business services accounted for the next largest declines. The only sectors gaining employment for the year were education and health services and government. Within government the largest gains occurred in local government. For more employment trends see figure 5.

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

Figure 3. Mississippi Index of Coincident Indicators

2004 = 100

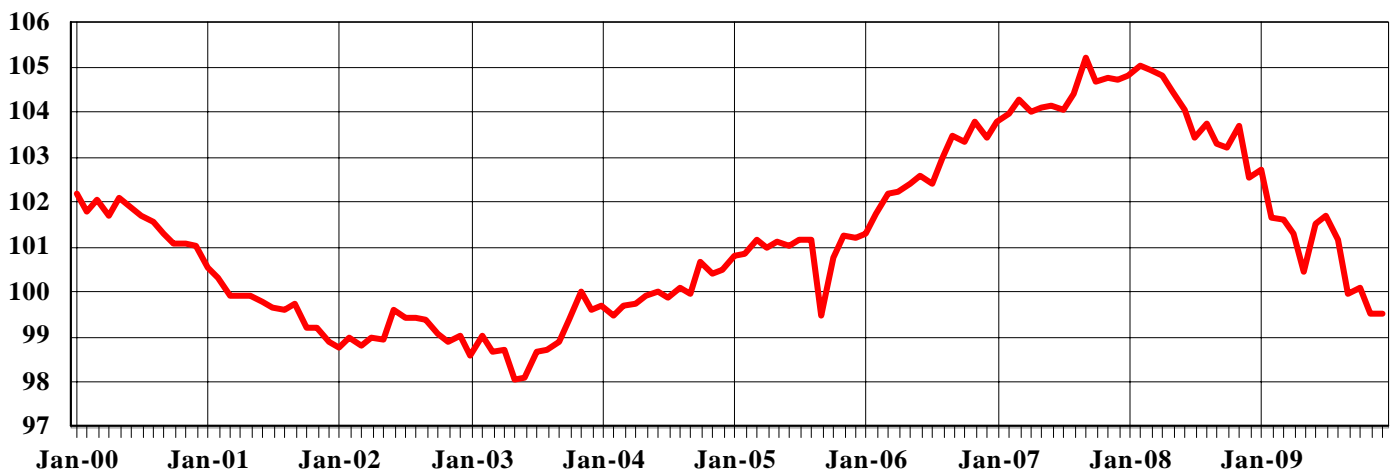


Table 1. Mississippi Employment By Sector

Seasonally Adjusted

	December 2009	November 2009	December 2008	Change from Prior Month Jobs	%	Change from Prior Year Jobs	%
Nonfarm	1,100,805	1,100,323	1,126,273	481	0.0%	-25,469	-2.3%
Natural Resources	9,349	9,372	9,353	-23	-0.2%	-3	0.0%
Construction	52,351	52,610	57,735	-259	-0.5%	-5,384	-9.3%
Manufacturing	144,801	144,803	152,358	-2	0.0%	-7,557	-5.0%
Trade, Transportation and Utilities	209,808	211,336	218,804	-1,529	-0.7%	-8,997	-4.1%
Retail	132,200	134,427	137,697	-2,226	-1.7%	-5,497	-4.0%
Information	13,002	13,034	13,287	-33	-0.3%	-285	-2.1%
Financial Activities	43,456	43,161	45,611	295	0.7%	-2,155	-4.7%
Services	372,952	372,961	375,960	-10	0.0%	-3,008	-0.8%
Professional and Business Services	84,532	85,408	89,641	-876	-1.0%	-5,108	-5.7%
Education and Health Services	132,432	132,263	127,581	169	0.1%	4,852	3.8%
Leisure and Hospitality	119,499	119,476	122,371	24	0.0%	-2,871	-2.3%
Other Services	36,487	35,813	36,367	674	1.9%	120	0.3%
Total Government	253,817	252,499	251,895	1,318	0.5%	1,921	0.8%
Federal Government	26,137	25,973	26,521	165	0.6%	-384	-1.4%
State Government	63,334	63,058	63,133	276	0.4%	201	0.3%
Local Government	164,501	163,453	162,382	1,049	0.6%	2,119	1.3%

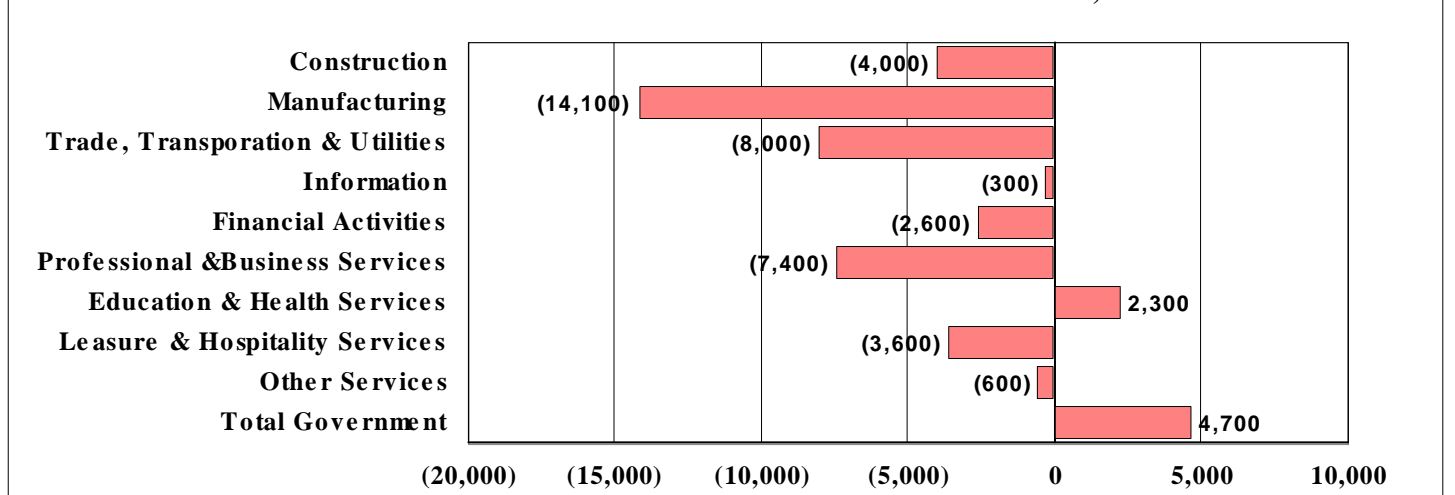
For the three months ending in December, individual income tax withholdings were nearly unchanged with a decline of 0.1 percent. In 2009, withholdings were down 3.4 percent in 2009 after correcting for inflation.

Retail sales, while not a component of the coincident index is a valuable indicator. Inflation adjusted retail sales

were down 9.3 percent for 2009 compared to 2008. Some of this decline reflects a diminishing impact of Katrina rebuilding. But clearly consumers have curtailed spending. The level of spending in 2009 was actually below that observed in 2004 after adjusting for inflation.

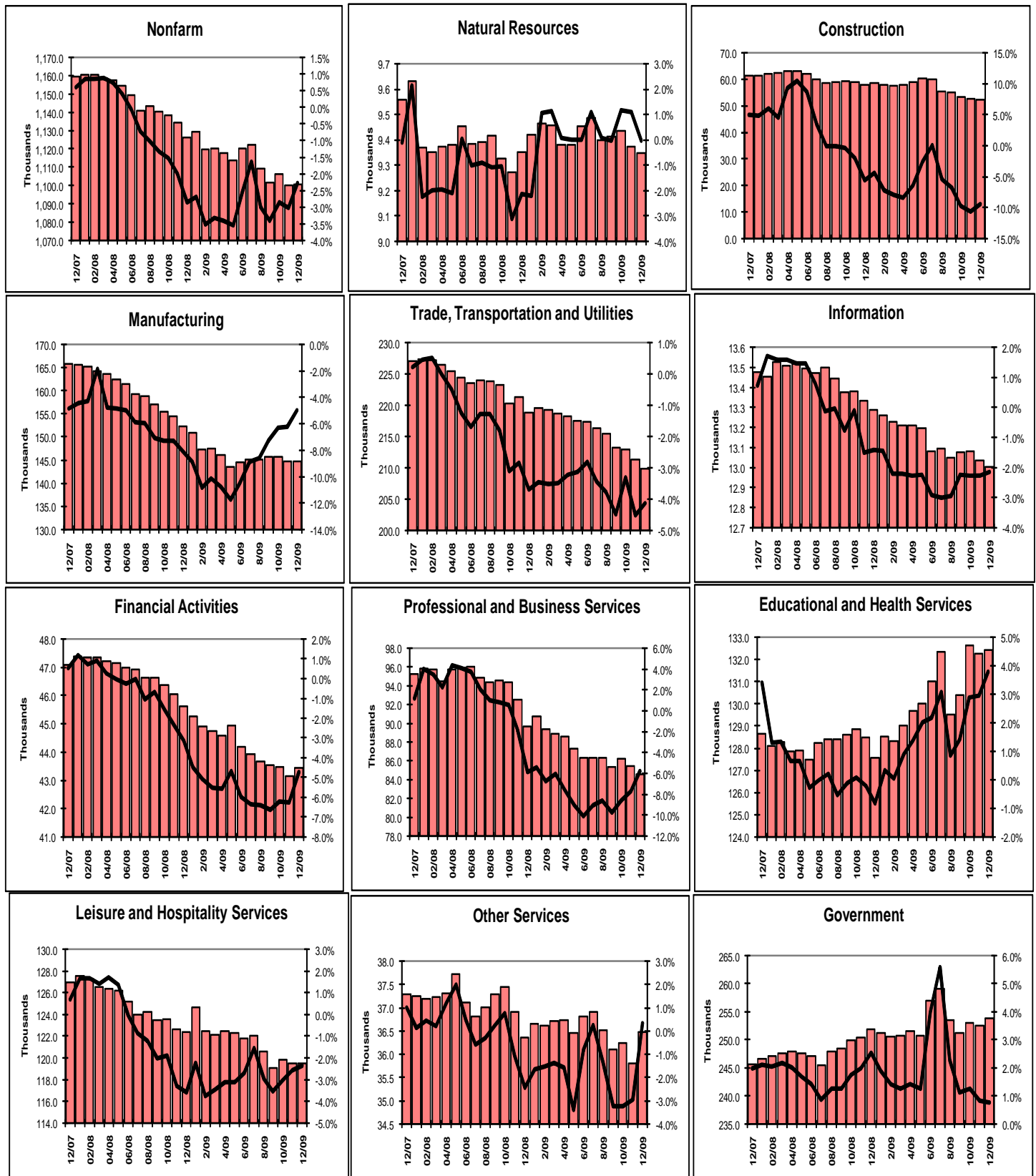
Figure 4. MS Employment Change 2008-2009

Total Job Loss for the Year 33,742



Continued on page 5

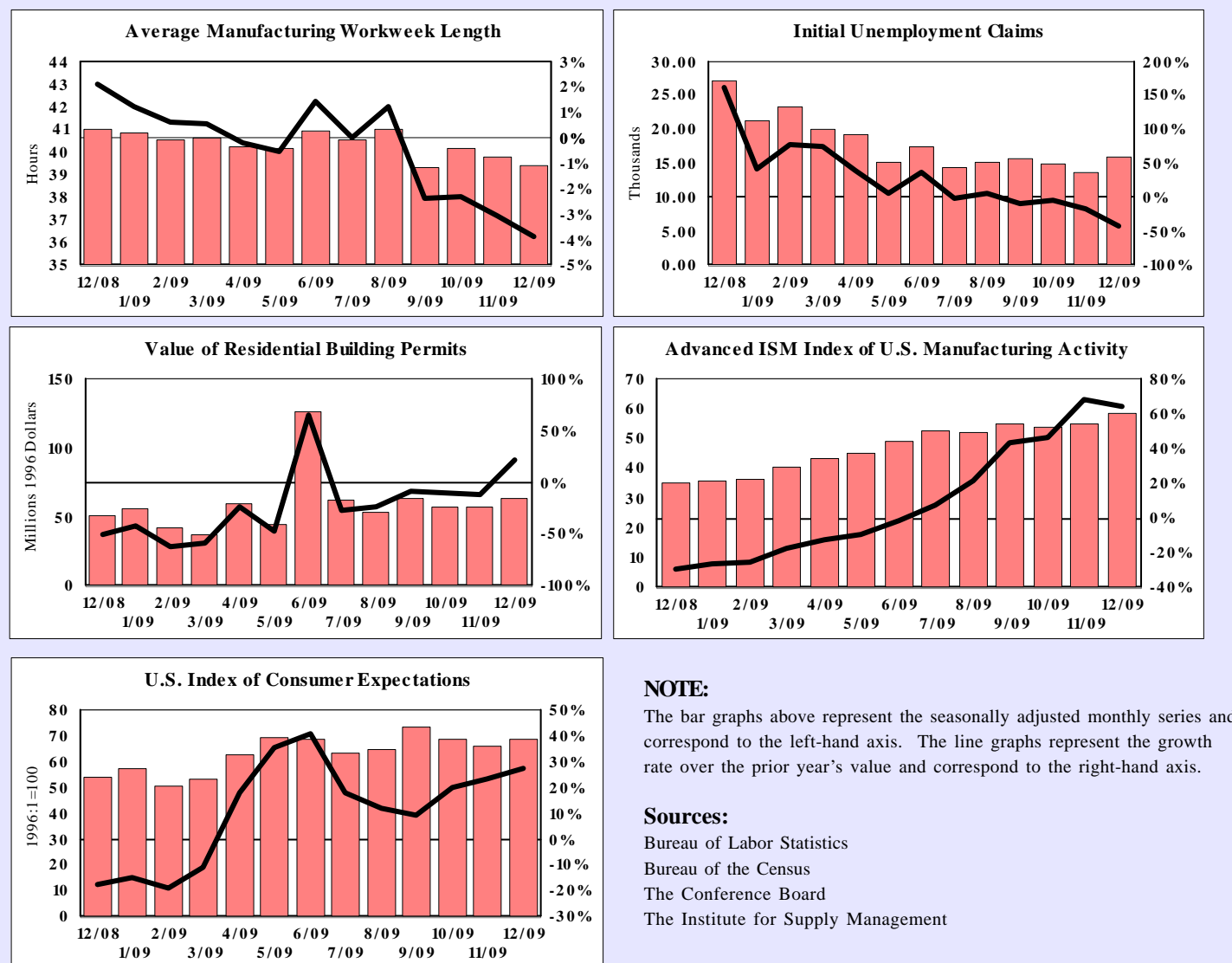
Figure 5. Mississippi Employment Trends



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 6. Mississippi Index of Leading Indicators Components

Leading Indicators

The Mississippi Index of Leading Economic Indicators rose 0.9 percent in December 2009 relative to November. The index has been essentially flat since July 2009. For the first time since March 2009, the growth relative to the prior six-months was negative in December. We do not expect this to continue in the coming months. June 2009 was an especially strong month and the following months were more moderate. Three out of five components drove the monthly gain in the index.

The strongest contributor to the monthly gain was a 3.5 point increase in the Institute for Supply Management Index of U.S. Manufacturing Activity. The index of 58.4

was the highest since August 2004. The gain was driven by production increases as manufacturers seek to rebuild inventories.

The U.S. Consumer Expectations Index rose 2.4 points in December relative to November. The index had fallen in November and the December gain more than made up the decline. The consumer fundamentals remained weak in December, so the increase was a surprise. The Conference Board's February Consumer Confidence Index fell was the lowest level since February 1983.

The value of Mississippi residential building permits rose 11.1 percent in December relative to November. This

series has been relatively flat since July 2009. The December level marked only the third time since April 2007 that the series was above the year ago level. While mortgage rates crept up in December, they remain historically low. Historical housing start data appear in Figure 7. Starts are low by historical standards explaining, in part, the anemic growth in the construction sector in Mississippi. The housing starts are driven by private single-family units which showed growth in the last half of 2009. The gain is tempered by declining multi-family units. A similar pattern is occurring nationally.

Average Mississippi manufacturing workweek length fell to 39.4 hours in December. The decline is the third in four months. The work week length is the shortest since November 2006. The short week suggests manufacturers are having no trouble meeting production demand.

Mississippi initial unemployment claims rose 16.9 percent in December relative to November. The series remains high by historical standards but is well below the year ago level.

U.S. Economy

The U.S. Index of Coincident Indicators rose 0.1 percent in December relative to November. It has increased in five of the last six months. The U.S. Index of Leading Indicators rose a sharp 1.1 percent in December. The index is an annualized 10.8 percent ahead of the level six-months prior. The Conference Board

believes economic conditions will continue to improve in the near term.

Gross Domestic Product (GDP) rose a strong 5.7 percent in the fourth quarter of 2009. This will likely be revised downward but will still show a strong end to 2009. However, much of the gain came from a dramatic reduction in the rate of inventory decumulation. In other words, producers are using up less of their inventories, which suggest they expect demand to increase in the future. It says more about expectations than it does actual production. It is not irrelevant, but it does not reflect what people usually think of when they talk about growth. Furthermore, it means very little if demand does not actually pick up. Consumers are the weak link in the economic outlook. While spending is starting to pick up, growth was a modest 2.7 percent in the fourth quarter excluding new vehicles. Consumers remain heavily in debt, with tight credit and greatly reduced wealth. These factors, combined with the sluggish job market, is likely to continue to dampen sales in the near term.

The Fed recently raised the discount rate by a quarter point. The direct effect is negligible as this rate does not affect the interest rates that matter to consumers. It can mean something indirectly if it is perceived as an indication that other rate increases will come sooner rather than later. The Fed seemed determine to quash such ideas. Most economist think interest rates will remain low at least through the first half of 2010.

Figure 7. Mississippi Private Housing Starts

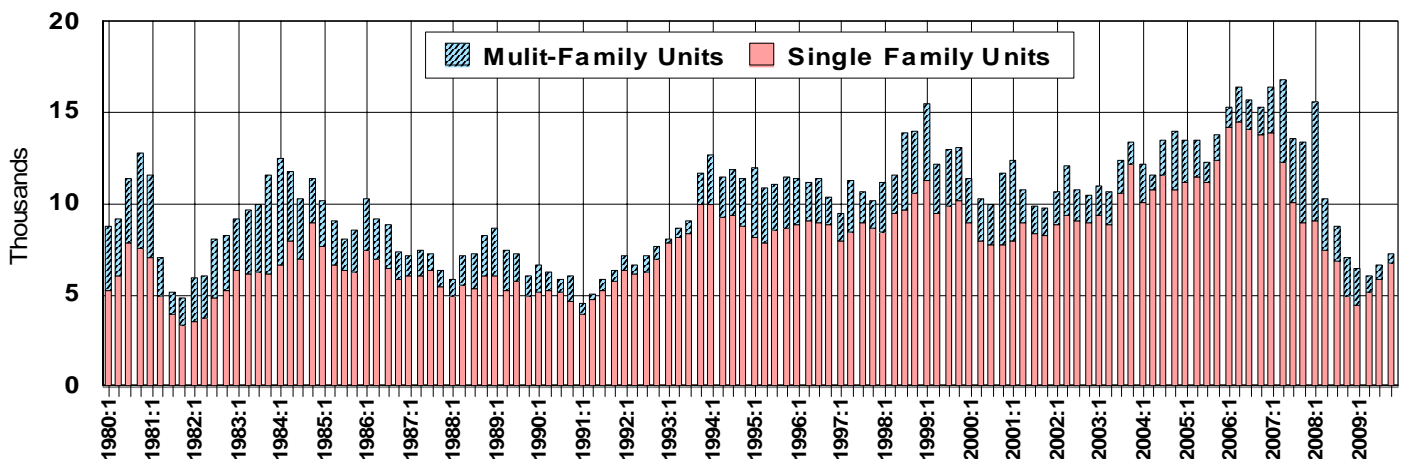
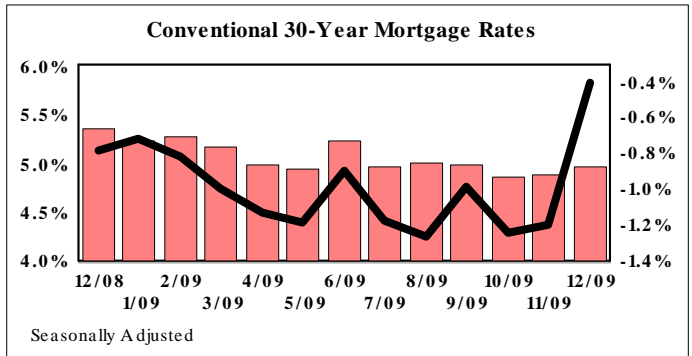
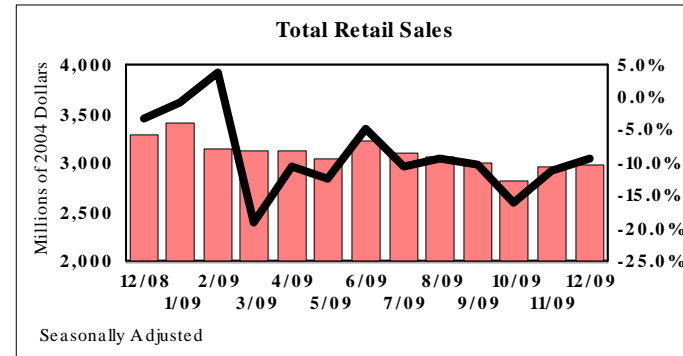
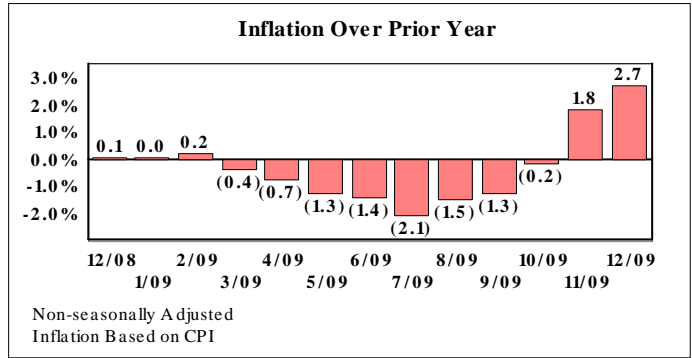
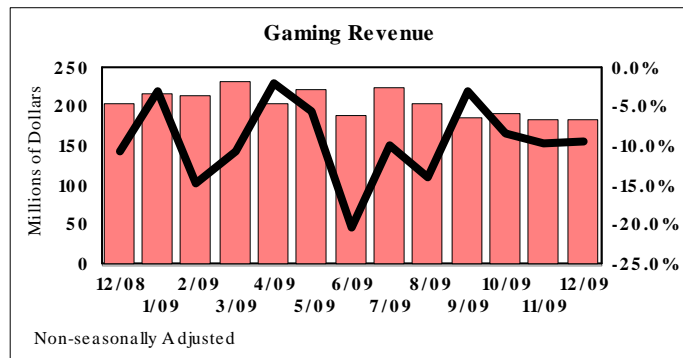
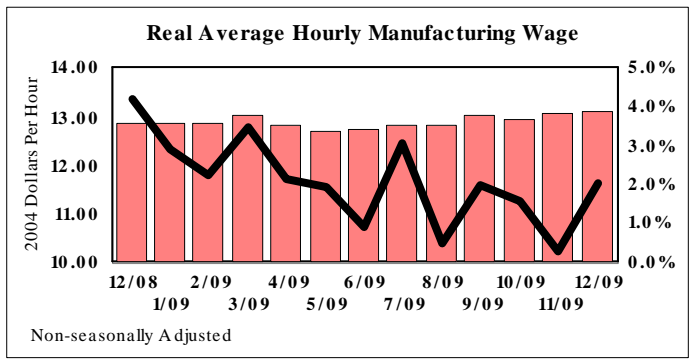
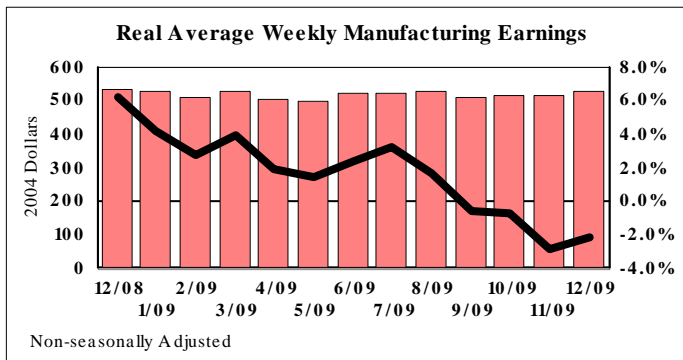
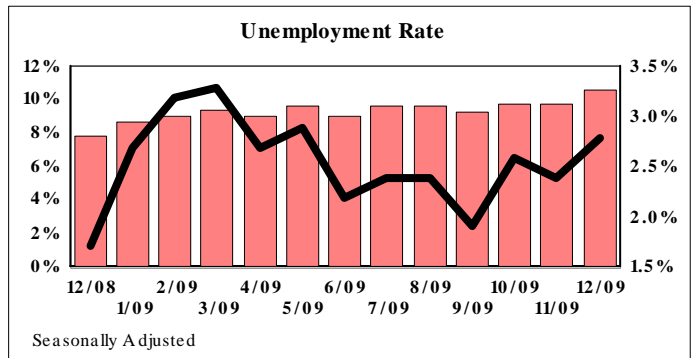
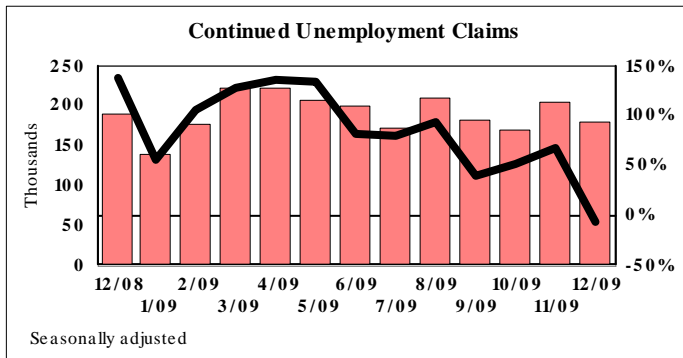


Figure 8. Miscellaneous Indicators



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

SELECTED MISSISSIPPI ECONOMIC INDICATORS

	December 2009	November 2009	November 2008	Percent Change From	
				Last Month	Last Year
Coincident Indicator Index (2004=100)	99.5	99.5	102.5	0.0%	-3.0%
Nonagricultural Employment (thousands)	1,100.8	1,100.3	1,126.3	0.0%	-2.3%
Individual Income Tax Withholdings, 3-Month Average (millions of 2004 \$)	100.1	100.1	106.4	-0.1%	-6.0%
Leading Indicator Index (2004=100)	99.7	98.8	86.5	0.9%	15.3%
Initial Unemployment Claims	16,030	13,707	27,220	16.9%	-41.1%
Value of Residential Building Permits (millions of 2004 \$)	63.1	56.8	51.6	11.1%	22.3%
Average Manufacturing Workweek Length (hours)	39.4	39.8	41.0	-0.9%	-3.9%
Advanced ISM Index of U.S. Manufacturing Activity Index is advanced one month. Thus, the December index is reported for November.	58.4	54.9	35.5	6.4%	64.5%
U.S. Index of Consumer Expectations	68.9	66.5	54.0	3.6%	27.6%
Miscellaneous					
Consumer Price Index U.S. (2004=100)	114.3	114.5	111.3	-0.2%	2.7%
Unemployment Rate (percentage)					
Non-seasonally adjusted	10.3%	9.1%	7.7%	1.2%	2.6%
Seasonally adjusted	10.6%	9.8%	7.8%	0.8%	2.8%
Continued Unemployment Claims	179,405	205,505	191,710	-12.7%	-6.4%
Average Manufacturing Wage (Non-seasonally adjusted)					
Current Dollars per Hour	15.00	14.95	14.31	0.3%	4.8%
2004 Dollars per Hour	13.12	13.05	12.86	0.5%	2.0%
Average Weekly Manufacturing Earnings (Non-seasonally adjusted)					
Current Dollars	604.50	596.51	601.02	1.3%	0.6%
2004 Dollars	528.74	520.83	540.00	1.5%	-2.1%
U.S. Mortgage Rates (30-year conventional)	5.0%	4.9%	5.4%	0.1%	-0.4%
Gaming Revenues (Non-seasonally adjusted)					
Coast counties (millions of current \$)	83.5	87.2	95.5	-4.2%	-12.5%
River counties (millions of current \$)	101.5	98.3	108.8	3.3%	-6.7%
Total	185.0	185.5	204.3	-0.3%	-9.4%
Total Retail Sales (Millions of 2004 \$)	2,993.62	2,969.54	3,293.65	0.8%	-9.1%

Note: The data are seasonally adjusted unless otherwise noted.

Unless otherwise noted all data refer to Mississippi.

MISSISSIPPI'S RELATIVE PERFORMANCE IN THE GREAT RECESSION

The U.S. entered the Great Recession in December 2007. While every state has been affected, not all have been affected to the same degree. Our interest is to know how Mississippi's economy has fared in comparison to that of other states and the southeastern states in particular.

An Historical Perspective on Jobs

Figure 1 offers an historical comparison in terms of job growth for the state, the Southeast and the Nation. While employment does not offer the full picture of an economy, it does provide a valuable and easily understood lens through which to view the relative economic performance of these regions. In figure 1, employment has been indexed to 1990. The index allows a comparison between the state, the southeastern region and the Nation. The relative slopes of the indices allow a comparison of the growth rates, while the levels of the indices compare the performance relative to 1990.

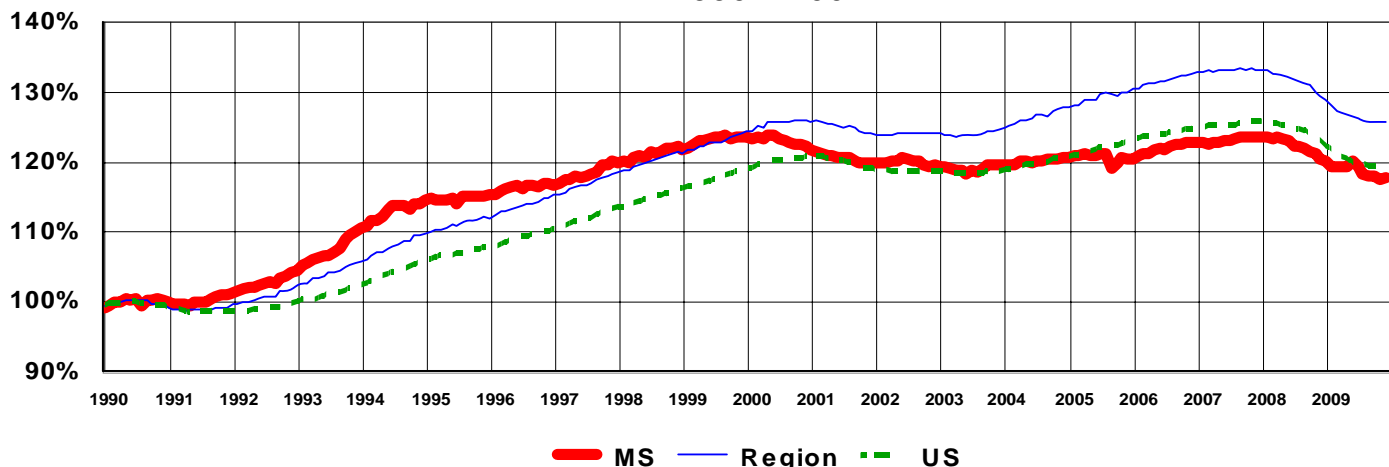
In terms of job growth, Mississippi outperformed both the U.S. and the Southeast in the early 1990s. This was largely due to the introduction of gaming into the state, but the state's manufacturing industry was expanding as well. By July 1994, Mississippi's employment level had grown 13.7 percent since 1990. In the Southeast the growth was only 8.0 percent and in the U.S., the rate was an even slower 4.5 percent. Growth slowed in

Mississippi during the second half of the 1990s relative to the US and the Southeast. This is evident by the relatively smaller slope of the Mississippi index during this period. The North American Free Trade Agreement came into force in 1994 and consequently manufacturing began to decline. The impact of the decline was lessened by the continued growth in gaming and related industries.

Employment peaked in Mississippi in May 2000. By this time the gaming industry was fully matured with fewer new casinos opening. The employment peak for the Southeast occurred in December 2000 and in February 2001 for the Nation. The Nation entered a recession in March 2001. Mississippi had been losing jobs for nearly a year. The trend toward moving production offshore had intensified and the state was rapidly losing manufacturing jobs. The trend was evident in both the Nation and the Southeast, but began earlier in Mississippi due to its relatively large number of low-skill manufacturing jobs.

All three regions lost employment until the June-July 2003 period. The decline during this period was steeper in Mississippi than in either the Nation or the Southeast. In fact, the Southeast had relatively little decline in comparison to the Nation or Mississippi. In June 2003, Mississippi's employment level was 18.4 percent above

Figure 1. MS Employment Compared to Southeast and the US
1990 = 100



the level of 1990. This compares to 18.5 percent for the U.S. and 23.8 percent for the Southeast region. Since the low of 2003, the state has performed relatively similar to that of the nation. The Southeast was not as adversely affected by the slowdown in the 2000-2003 period and grew relatively fast throughout the decade.

In past recessions, the state, with its heavy reliance on low-skill manufacturing jobs, has rebounded relatively fast. With the recession of 2000-2001, the low-skill manufacturing jobs did not return. The result was the state's economy languished for over seven years. It was not until December 2007 that the State had regained all the jobs lost between 2000 and 2003. Both the Nation and the Southeast recovered more rapidly.

In December 2007, the nation entered, what would turn out to be, the worst recession since World War II. Officially the Nation remains in a recession. In terms of job growth, Mississippi and the Nation have followed similar trends in the current recession, both declining at roughly the same rate. Relative to 1990 the Nation was at a slightly higher level because of a more rapid recovery from the 2001 recession. The southeast remained at a much higher level than either the nation or the state. In December 2009, Mississippi employment was 17.7 percent above the level of 1990, while the US was 19.5 percent and the Southeast was 25.7 percent.

Since the recession began in December 2007 the Nation has lost 7.2 million jobs or a 5.2 percent decline. The

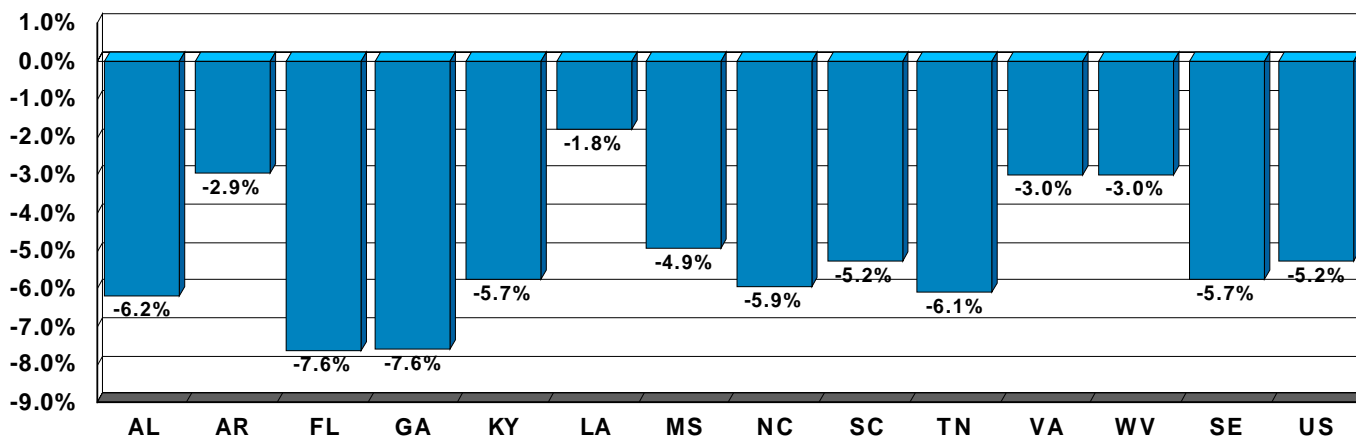
Southeast has lost 1.9 million or 5.7 percent. Mississippi has lost over 56,000 jobs or 4.9 percent. Percentage wise the Southeast has suffered more than the Nation (see Figure 2). This was due largely to Florida and Georgia, both of which were more heavily impacted by the housing bubble. The decline in Mississippi jobs since the recession began is not as severe as most states in the Southeast, but interestingly was deeper than four southeastern states: Arkansas, Louisiana, Virginia and West Virginia. Most of the jobs lost in Mississippi have been in manufacturing. Louisiana, Virginia and West Virginia have a relatively small manufacturing sector.

Wage and Salary Income

Income declines tend to be less pronounced in recessions than job declines. Figure 3 shows wage and salary growth by quarter since 2006 for Mississippi, the Southeast and the Nation. Notice that wage and salary growth did not turn negative until 2008. Notice also that the state has actually performed better than either the Nation or the Southeast. The declining growth during 2009 for the state, the Nation and the region are similar. In the third quarter, the growth in Mississippi, while still negative showed improvement.

Figure 4 shows the growth in first nine months of 2009 compared to that of 2008. Wages and salaries fell 3.5 percent in the Nation and 2.9 percent in the region. In Mississippi, the decline was only 2.4 percent. The same four southeastern states that outperformed the state on jobs did so on wage and salary growth.

**Figure 2. Percentage Decline In Jobs Since the Beginning of the Recession
December 2007 - December 2009**



Tax Revenue

Another good indicator of economic performance is tax revenue. States differ with regard to their tax structure so comparisons are not always easy. But if the question is posed how has the state performed relative to the prior year, and assuming no major tax changes within each state, some general observations can be made.

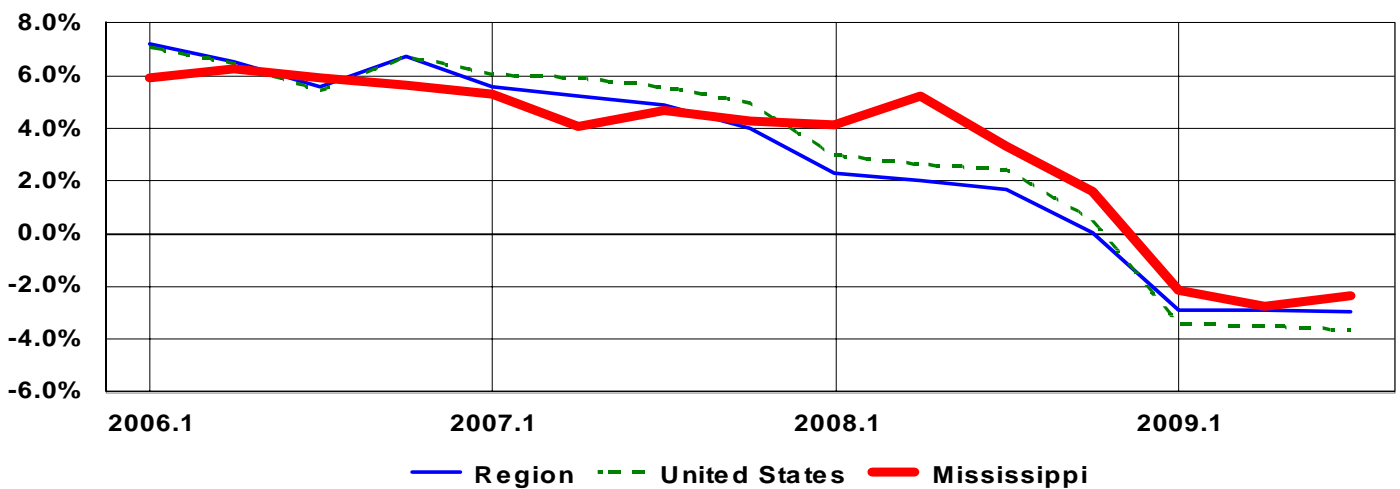
Figures 5-8 show various comparison of tax revenue for the for the first nine months of calendar year 2009 compared to the same period of 2008 for the southeastern states, and the Nation.

Figure 5 shows that with regard to total tax revenue, Mississippi was not as adversely affected in 2009 as was

either the Nation or the Southeast region. In Mississippi, tax revenue declined 8.9 percent in 2009. At the national level the figure was 13.3 percent and the region was 11.1 percent. Generally, this same conclusion is seen for the various other revenue sources. As was the case for jobs and wage and salary income, Arkansas and West Virginia seemed to have weathered 2009 better than did Mississippi in terms of tax revenue. Kentucky also had a less steep decline than the state. Unlike the case of jobs and wage and salary income, Virginia and Louisiana however were more adversely affected than was Mississippi in tax revenue.

Figure 8, shows that with regard to income tax Mississippi was especially better off than either the Nation or

Figure 3. Wage and Salary Growth Over Prior Year



**Figure 4. Wage and Salary Growth 2008-2009
January - September**

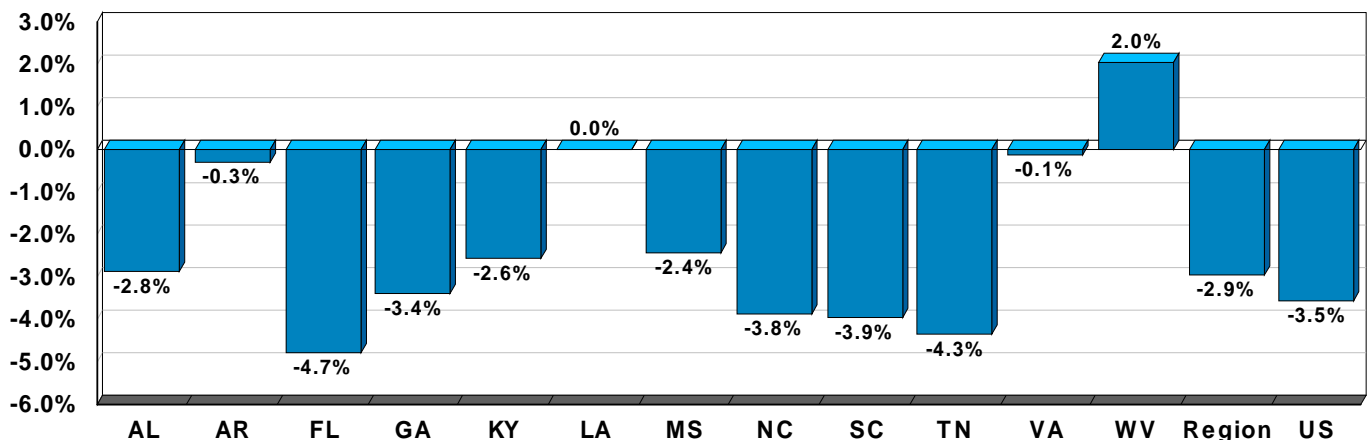


Figure 5. Total Tax Revenue Growth 2008-2009

January - September

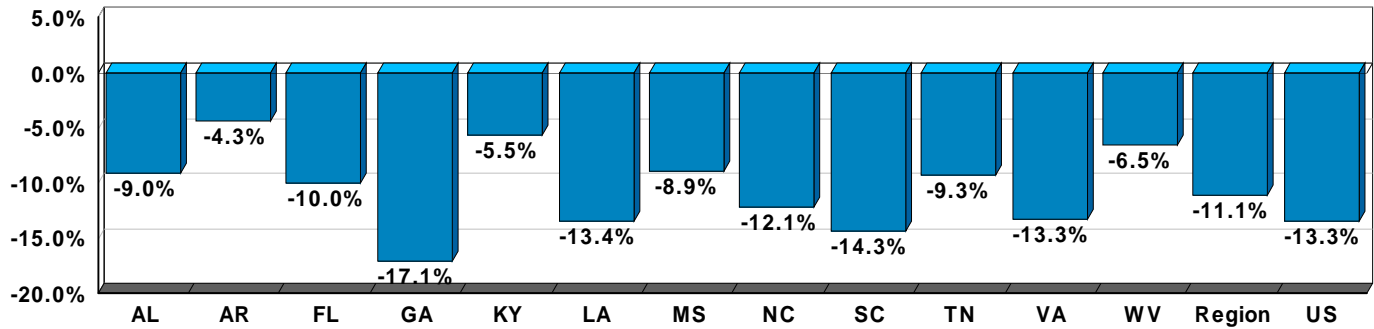


Figure 6. Sales & Gross Receipt Tax Revenue Growth 2008-2009

January - September

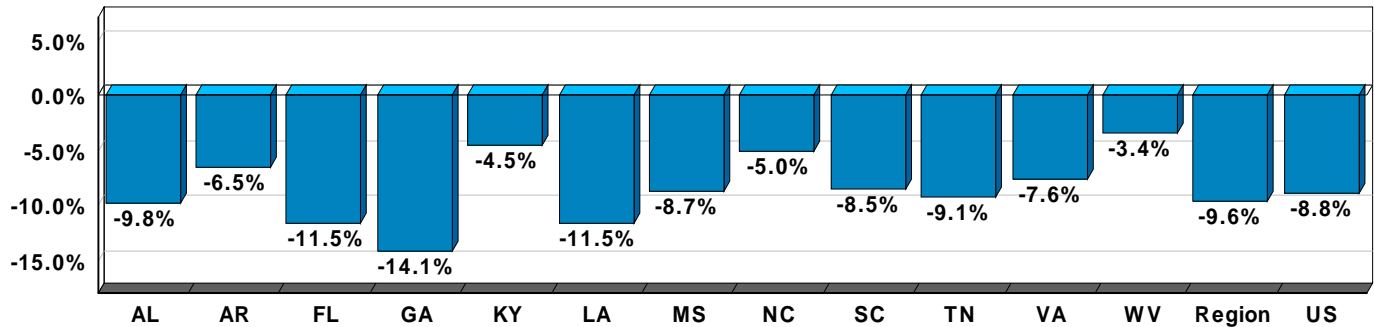


Figure 7. Individual Income Tax Revenue Growth 2008-2009

January - September

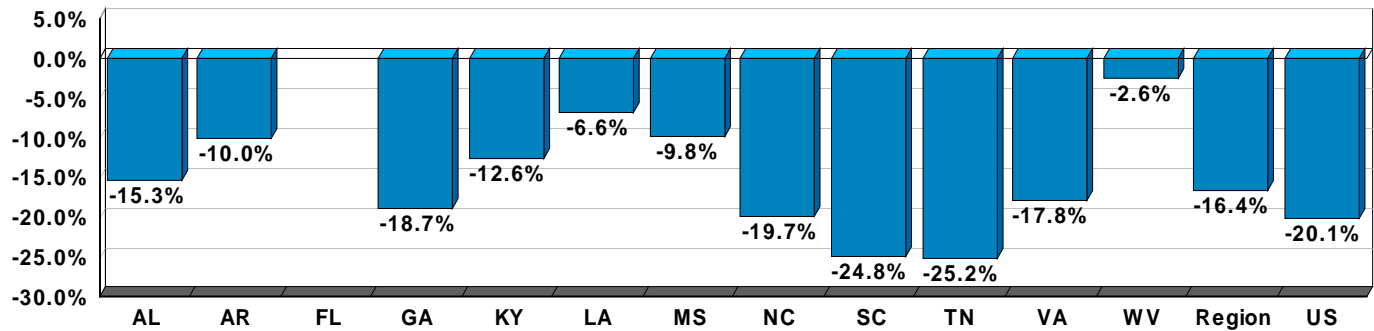
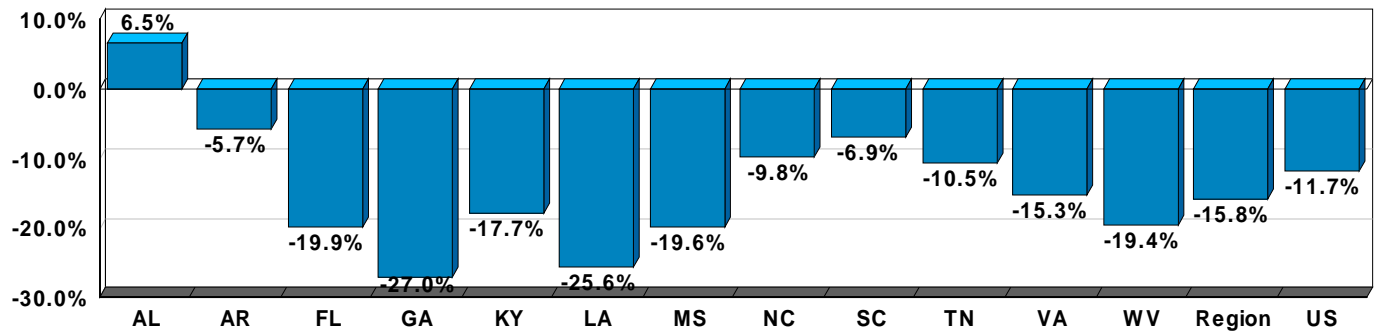


Figure 8. Corporate Income Tax Revenue Growth 2008-2009

January - September



the Southeastern states. This is probably due to the state's relative low income levels, lower wealth and relatively low income tax. Proportionately, fewer citizens actually pay income tax Mississippi than in these other states. So even if employment falls, income tax revenues may remain relatively strong.

With regard to corporate tax revenue, the state has performed much worse than either the Nation or the Southeast. Corporate tax is very volatile. Looking at the growth between 2007 and 2008 Mississippi experienced one of the largest declines among the southeastern states. Seemingly then, Mississippi corporations were slower to feel the effects of the recession than their southeastern counterparts.

Conclusions

The Great Recession of 2007 has been deep and broad-based with every state and industry affected. But, generally, Mississippi has not been as deeply impacted as either the Nation as a whole or the Southeast. In terms of lost jobs, wage and salary income and tax revenue, the state has outperformed the Nation and region. There are at least three general reasons for the state's better than national performance in the Great Recession.

First the weakness of the state's economy going into the recession meant the state had a shorter fall. The state struggled following the 2001 recession and had barely regained the lost ground when the Nation entered the current recession. We see this especially in comparing the State to the Southeastern region. The Southeast was not as deeply impacted by the 2001 recession as the State. In December 2007, when the recession began the Southeast jobs index was at 133.3. In other words, the region had expanded jobs by a third since 1990. Mississippi's job index on the other hand was at 123.7. The state had expanded by less than one-fourth in seventeen years. The Southeast had grown strongly following the 2001 recession, whereas Mississippi had struggled. The strong growth in the Southeast was due largely to the exceptional growth that occurred in Georgia and Florida. These states experienced the housing bubble much more so than the other southeastern states.

Second Mississippi had less exposure to those factors driving the recession. Mississippi did not experience the bursting of the housing bubble to the degree of the rest of the Nation. While prices have fallen in Mississippi in recent years, the declines have been modest. Existing median home prices peaked in 2006 nationally and have since fallen in the neighborhood of 22 percent. The corresponding state figure is less than a 1 percent decline. Furthermore, the recession quickly spread to the financial sector and the state had limited exposure to this industry. Mississippi banks tend to be conservative community banks. These banks were not heavily into mortgages, especially the sub-prime market. They also tended to have less exposure to the mortgage backed securities. Consequently, to date no Mississippi bank has failed during this recession. Going forward, however, Mississippi banks are heavily exposed to commercial lending and some economist think that is the next shoe to drop which will have a direct impact on Mississippi banks.

The final reason the state has performed relatively well has to do with the structure of the state's economy. The largest employer in the state is the government, accounting for nearly 23 percent of the total jobs in the 2009. The national average is only 17 percent. Government jobs tend to be less tied to the business cycle than non-government jobs. In years past, manufacturing was the largest employer in the state and therefore Mississippi tended to go into recessions and come out of recessions much more rapidly. With more of the workforce in government, fewer paychecks are affected by the recession, at least initially. Over time a deep recession will lead to less tax revenue, which can lead to government layoffs. The state is also more dependent on transfer payments, which are also less tied to the business cycle. In 2008, 23 cents out of every dollar in total personal income came from transfer payments in Mississippi. This compares to 15 cents at the national level. At 25 cents, only West Virginia had a higher reliance on transfer payments than did Mississippi.

While the state has been less affected by the Great Recession than the Nation as a whole, it has been deeply impacted. The longer the recession goes on the more deeply Mississippians will be affected.