

Mississippi's Business

February 2013

Monitoring The State's Economy

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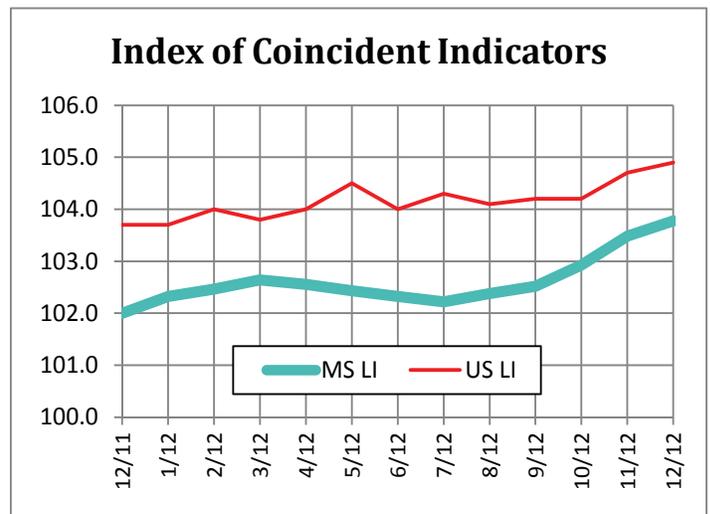
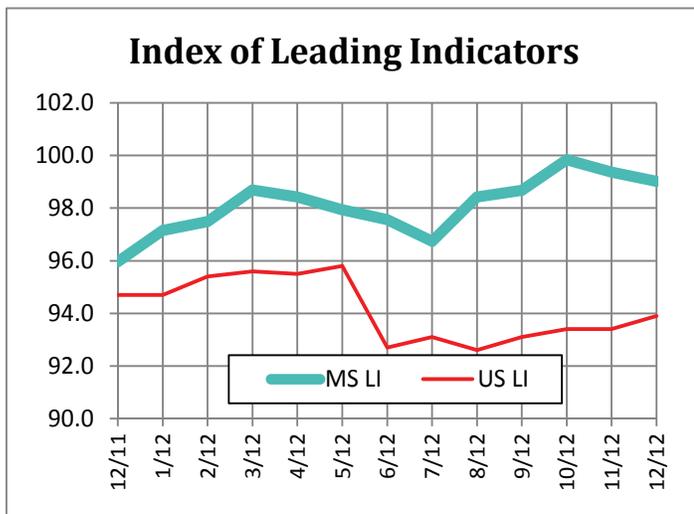
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ECONOMY AT A GLANCE

The Mississippi Index of Coincident Indicators rose for the month of December, while the Index of Leading Indicators fell for the second month. The Coincident Index has risen for five consecutive months. But the two month decline in the Leading Index along with weakness among some of the components suggests the State's recovery is on less than solid ground. The National economy slowed in the fourth quarter more than previously thought. This softening of growth Nationally is likely to play among the leading indicators of Mississippi.

Despite a weak fourth quarter, the National economy appears to be expanding. Economic news has been mostly positive lately. Manufacturing is improving, vehicle sales have remained strong and the housing recovery continues to gradually strengthen. The issue of raising the debt ceiling has been pushed further out, while the Nation still faces the possibility of a spending sequester.

IHS Global Insight thinks the economy can withstand a full sequester, but thinks the more likely scenario is temporary spending cuts in March followed by broader agreement in the second quarter that includes spending cuts and revenue increases. Their baseline forecast for 2013 is for a 1.9 percent growth in real gross domestic product. This is up slightly from the previous month's forecast of 1.7 percent. IHS Global Insight thinks a full sequester occurring in 2013 would shave 0.4 percent off of expected growth. University Research Center estimates that such a move would result in the loss of 7,000 jobs in Mississippi from what they would otherwise be.



The Mississippi Coincident Index is constructed by the Federal Reserve Bank of Philadelphia and re-indexed to 2004. The Index is based on changes in nonfarm employment, the unemployment rate, average manufacturing workweek length and wage and salary disbursements. The Mississippi Leading Index is constructed by the Mississippi University Research Center. The U.S. Indices are both from the Conference Board. All series are indexed to a base year of 2004.

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LEADING AND COINCIDENT INDICATORS, DECEMBER 2012

The **Mississippi Index of Leading Economic Indicators** fell 0.4 percent in December to a level of 99.0. This was the second consecutive decline. Relative to six months prior, the December index was up a strong 3.0 percent annualized rate. Somewhat troubling however is the weakness of three of the five state-level components relative to their level six months prior. The State's economy appears to be growing, but the two month slide and the weakness of some of the components highlight the lack of real upward momentum. The State is not likely to get out of the slow growth mode anytime soon.

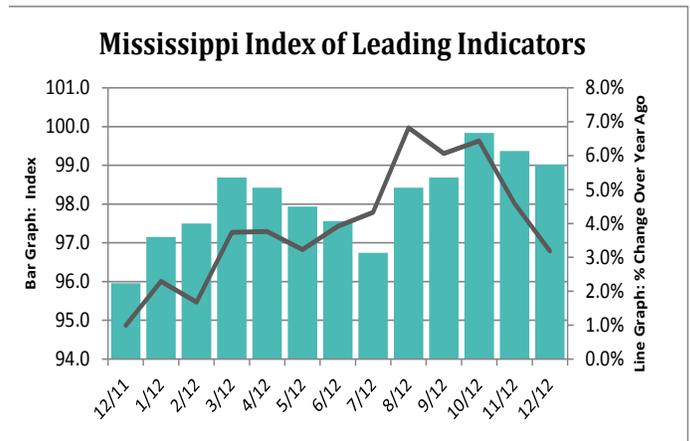
The components of the Leading Index will be discussed in order of their contributions to the December decline. Five components contributed positively to the December index, three contributed negatively.

Following four months of improvement, the **Mississippi Manufacturing Employment Intensity Index**, fell a steep 2.5 percent in December. The decline erased much of the gains of the previous three months. The index is comprised of employment and hours worked. Both components declined in December.

The **U.S. Index of Consumer Expectations**¹ fell 5.6 percent in December. This is based on a three month moving average. Expectations rose in January but not enough to overcome the loss from the previous month. The loss of the payroll tax cut likely factors into a more pessimistic outlook.

Inflation adjusted **Mississippi income tax withholdings**¹ fell 1.5 percent in December. The decline is modest for the series which had increased the previous two months. Despite the December dip, the withholdings data generally show incomes are on the rise in Mississippi. Further evidence of growth is found in the fact that real average weekly earnings in manufacturing were up a sharp 4.9 percent in 2012. This compares to a 1.8 percent gain in 2011.

Mississippi's initial unemployment claims continued to decline after rising in response to Hurricane Isaac. December claims were down 13.0 percent from November and reached the lowest level since December 2007.



The **Mississippi Diesel Fuel Consumption Index**¹ rose a slight 0.9 percent in December. The series has been relatively flat for the past three months after rising in October. Prior to that gain, the series was on a declining trend. The relatively flat growth of the past few months suggests an economy that is holding its own but lacking any real upward momentum.

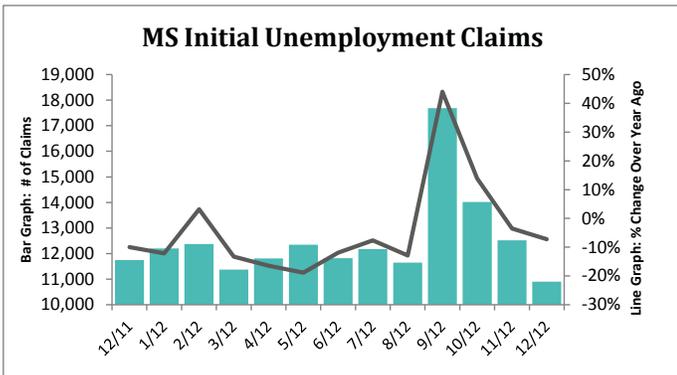
The **U.S. retail sales** rose 0.5 percent in December. The latest report also reveals upward revisions for October and November. Retail sales for the Christmas shopping season were fair, but below the previous two years. Given the high debt levels and the recent increase in payroll taxes, modest retail sales are expected in the coming months.

After a three month decline, the **value of Mississippi residential building permits**¹ rose 9.0 percent in December. The increase recaptures much of the gain lost in November, but remains weak relative to the levels seen in mid-to-late summer. With housing improving across the country, we expect building permits to continue to improve in Mississippi.

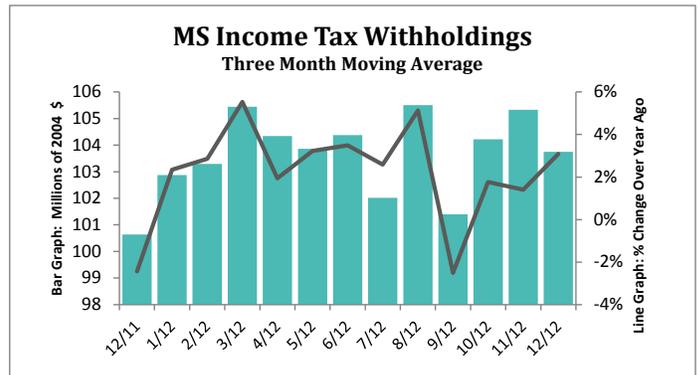
The **Institute for Supply Management Index of U.S. Manufacturing Activity** rose a sharp 2.4 percent in January bringing the index to 53.1. This was the strongest index since April 2012. It is not unusual for the Index to rise sharply in January, which moderates enthusiasm for this latest index. Comments from respondents reveal a continued cautious outlook.

1. Three Month Moving Average

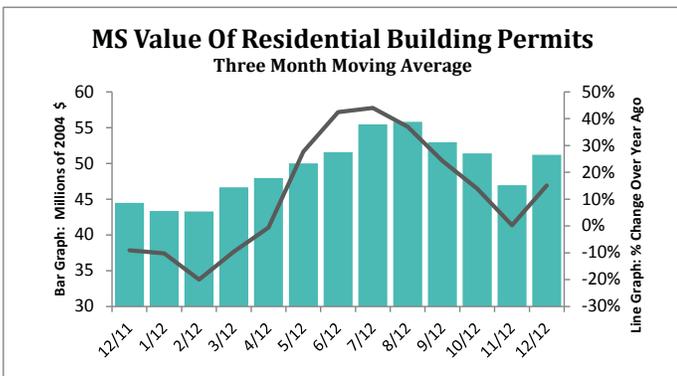
LEADING ECONOMIC INDICATORS



Source: Mississippi Department of Employment Security



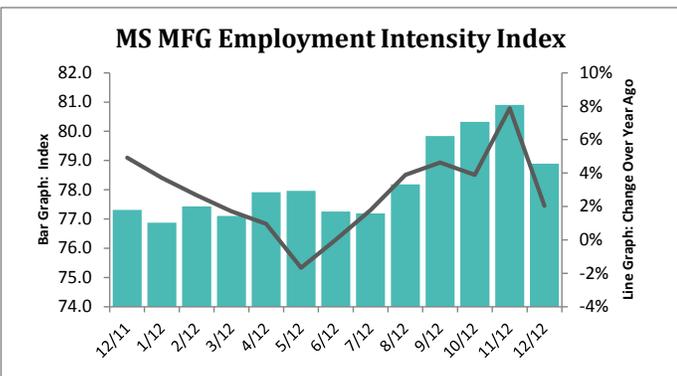
Source: Mississippi Department of Revenue



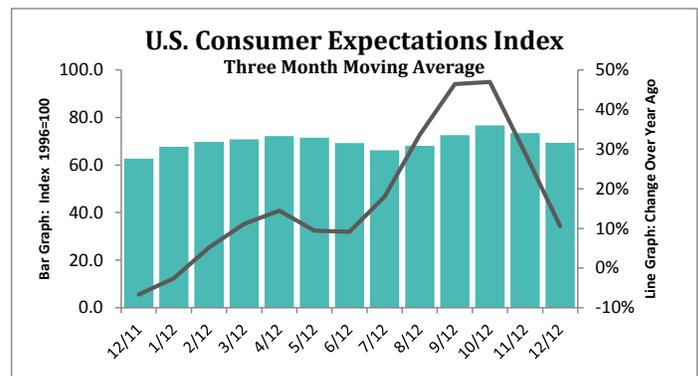
Source: Bureau of the Census



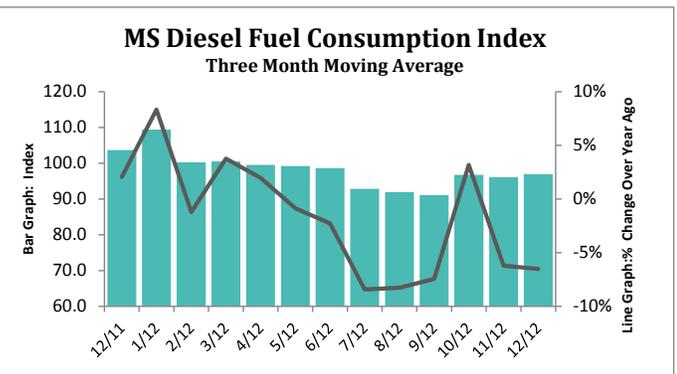
Source: Institute For Supply Management



Source: URC using data from Bureau of Labor Statistics



Source: University Of Michigan



Source: URC using Data from Mississippi Department of Revenue

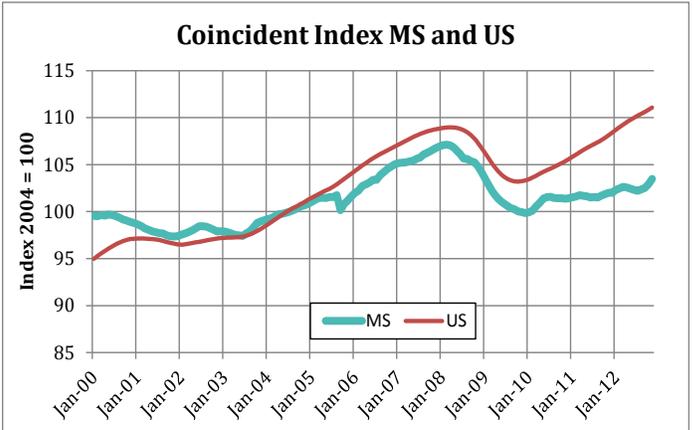
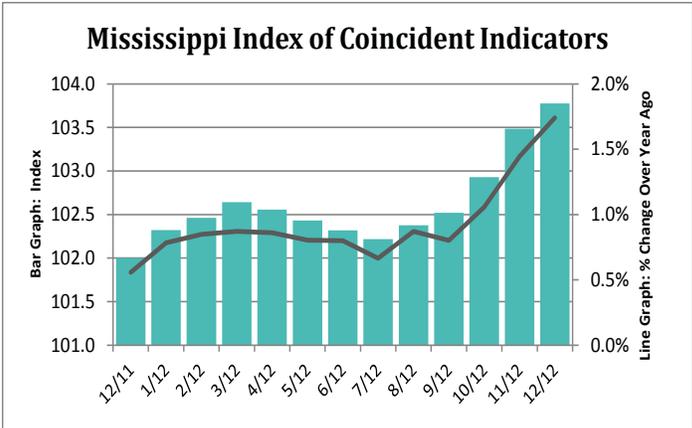


Source: Bureau of the Census

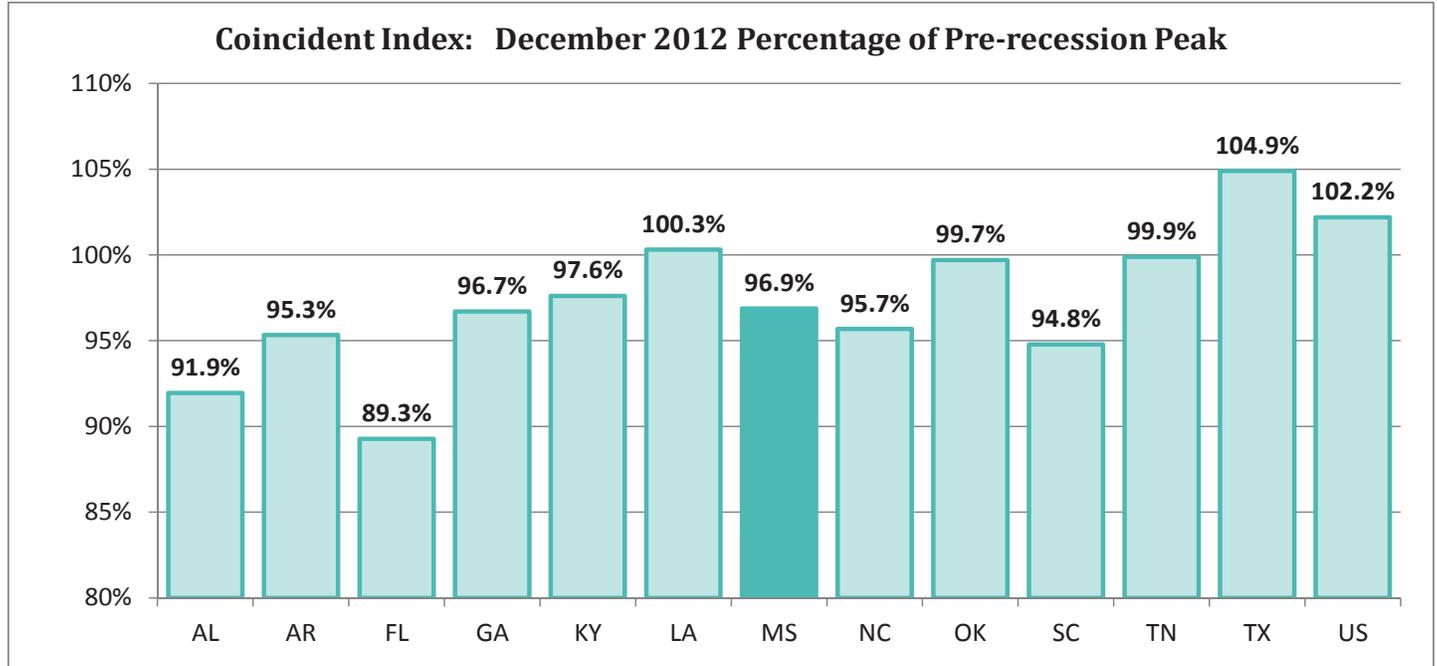
The **Mississippi Index of Coincident Indicators**, rose for the fifth straight month in December, reaching a level of 103.8. The increase occurred despite a slight dip in employment.

The State's economy performed relatively well early in the great recession, but has had a harder time during the prolonged modest recovery. Employment fell during the middle of both 2011 and 2012. In 2011, the economy took a hit from the tragedy in Japan, which impacted the manufacturing supply chain, especially the automotive industry. There was also an oil spike. These slowed the national economy and seemed to have a pronounced impact on the State. Additionally the State was hit by tornadoes and flooding. The State's economy floundered during this period. In 2012, we saw a similarly stagnate state economy as other states continued on their slow road to recovery.

The figure below shows a comparison of the December Index to the pre-recession peak for the 12 Southeastern States and the Nation. States that reach 100 percent of peak have fully recovered from the "Great Recession" at least as measured by the Coincident Index. By this criteria, Louisiana and Texas are fully recovered, and Oklahoma and Tennessee are nearly recovered. Mississippi was at 96.9 percent of its pre-recession peak. The State has been inching upward in this measure for the past several months.



The map on page 5 shows the December index for each state compared to the level three months prior. Mississippi's index rose 1.2 percent. The U.S. average growth was 0.61 percent. Arkansas was the only Southeastern state to see a decline.



National Trends

The U.S. Index of Leading Indicators rose 0.5 percent in December while the Coincident Index rose 0.2 percent. The gain to the leading index was driven by initial unemployment claims and building permits. The strength among the components has also become more widespread in recent months and the six month growth rate has improved. The Conference Board expects growth to continue in the near term.

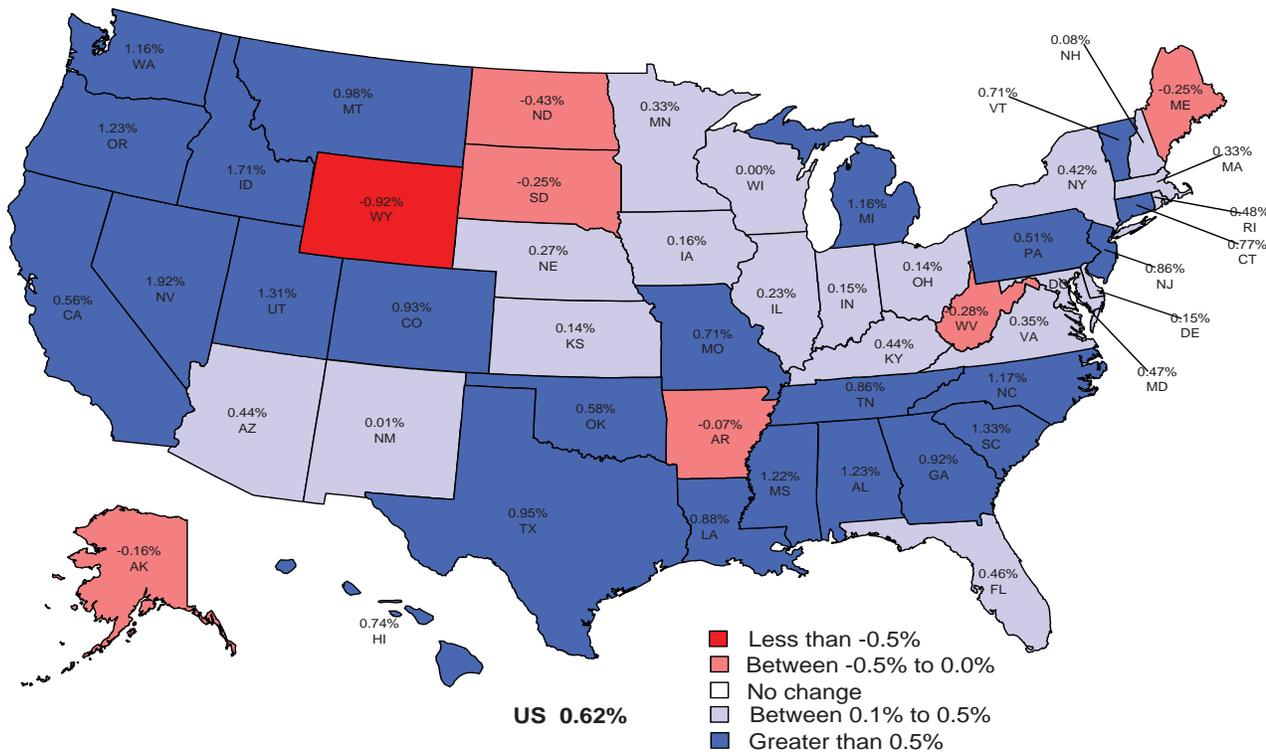
Economic news has been generally positive lately. Manufacturing confidence has improved, and capital goods orders rose sharply in the fourth quarter. Vehicle sales remain strong and the housing sector continues to improve. Consumer and business confidence is low however and the loss of disposable income resulting from the payroll tax hike will curb spending.

Gross domestic product (GDP) growth for the fourth quarter was slower than expected, actually declining 0.1 percent. It was known that the economy slowed; the latest estimate suggests it slowed more than thought. The first quarter will likely show an improvement.

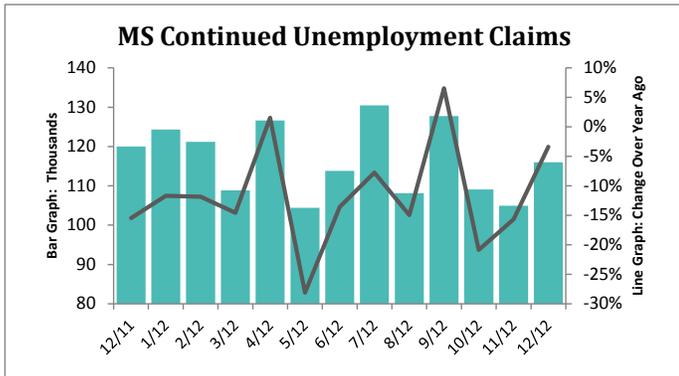
The issue of raising the debt-ceiling has been taken off of the table until mid-May. With accounting maneuvers it could be late summer before it is back on the table.

The spending sequester is still an issue however. These rather dramatic cuts would certainly slow the economy but are not expected to drive us into recession. Originally, sequester was supposed to be so universally disliked that it would force a budget compromise. Instead politicians on both sides seem increasingly comfortable with the idea. While this is probably just posturing for negotiations, the likelihood of significant spending cuts seems high. IHS Global Insight has assumed that a temporary spending sequester goes into effect that is replaced by a broader longer-term package of spending cuts and revenue increases in the second quarter. Under this scenario, the U.S. economy loses about 0.1 percent from its 2013 GDP growth. If the sequester were to go into effect for the rest of 2013, the loss to GDP growth would be 0.4 percent.

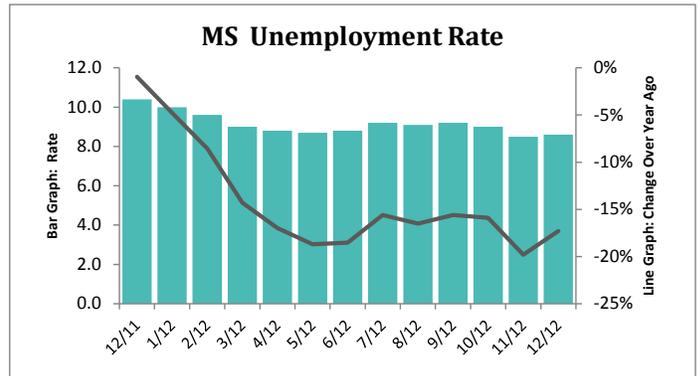
Three Month Growth in The Index of Coincident Economic Indicators, December 2012



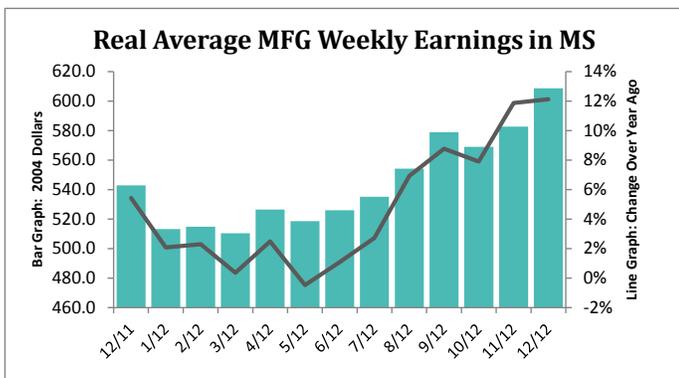
MISCELLANEOUS ECONOMIC INDICATORS



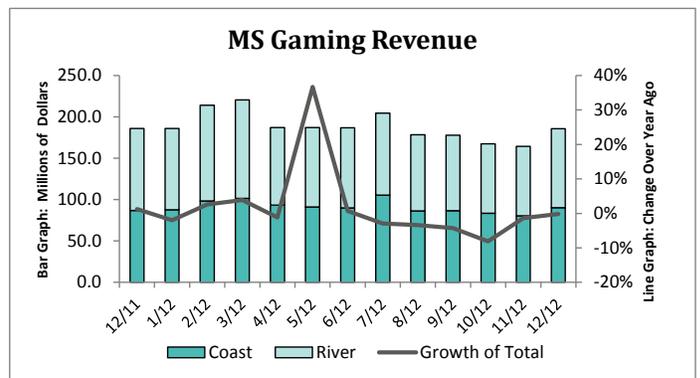
Source: Mississippi Department of Employment Security; Seasonally Adjusted



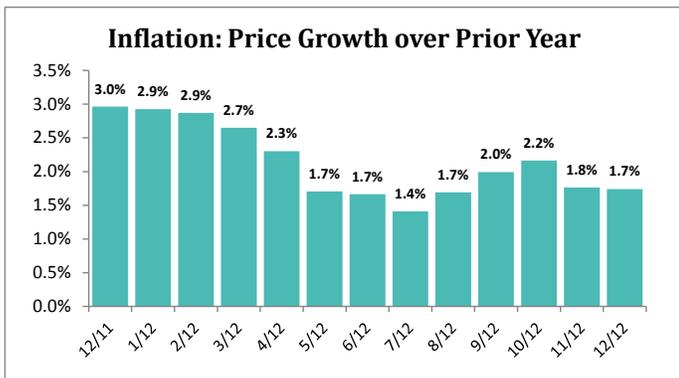
Source: U.S. Bureau of Labor Statistics; Seasonally Adjusted



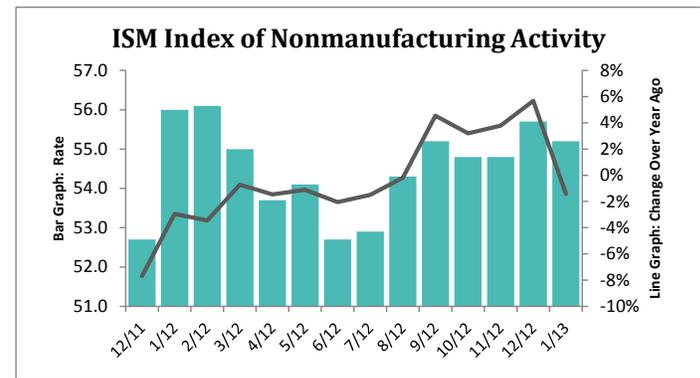
Source: U.S. Bureau of Labor Statistics; Nonseasonally Adjusted



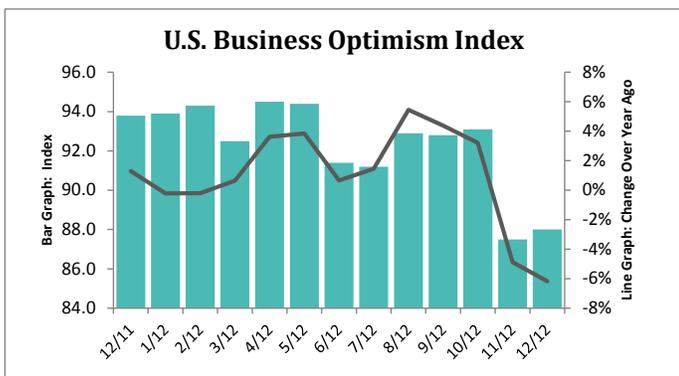
Source: MS Department of Revenue; Nonseasonally Adjusted



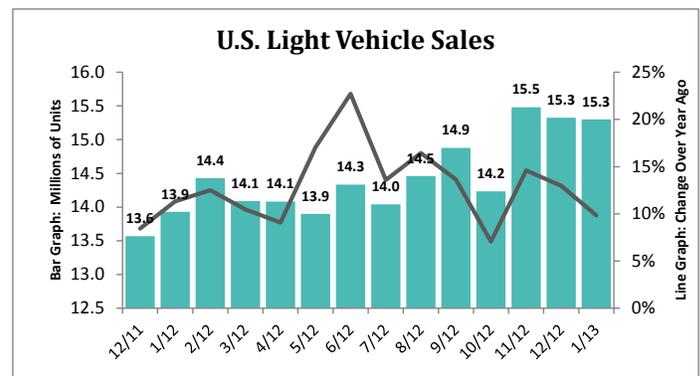
Source: U.S. Bureau of Labor Statistics



Source: Institute For Supply Management



Source: National Federation of Independent Businesses



Source: Bureau of Economic Analysis; Seasonally Adjusted Annual Rate

SELECTED ECONOMIC INDICATORS

Indicator	December		December 2011	Change from		
	2012	November 2012		Last Month	Last Year	
US Index of Coincident Indicators Index 2004=100, Source: The Conference Board	104.9	104.7	103.7	0.2%	1.2%	Economic Indices
MS Index of Coincident Indicators Index 2004=100, Source: Federal Reserve Bank of Philadelphia	103.8	103.5	102.0	0.3%	1.8%	
US Index of Leading Indicators Index 2004=100, Source: The Conference Board	93.9	93.4	94.7	0.5%	-0.8%	
MS Index of Leading Indicators Index 2004=100, Source: University Research Center	99.0	99.4	96.0	-0.4%	3.1%	
MS Initial Unemployment Claims Source: Mississippi Department of Employment Security	10,896	12,519	11,742	-13.0%	-7.2%	Components of the MS Index of Leading Indicators
MS Value Of Res. Building Permits 3 Mo. Moving Average, Millions of 2004 Dollars, Source: Bureau of Census	51.2	46.9	44.5	9.0%	15.1%	
MS Income Tax Withholdings 3 Mo. Moving Average, Millions of 2004 Dollars, Source: MS Department of Revenue	103.75	105.33	100.64	-1.5%	3.1%	
MS MFG Emp. Intensity Index Average workweek length times employment, Indexed 2004 =100, Source: URC using data from Bureau of Labor Statistics	78.9	80.9	77.3	-2.5%	2.1%	
MS Diesel Fuel Consumption Index 3 Mo. Moving Average, Index 2004-100, Source: URC using data from MS Department of Revenue	97.0	96.1	103.7	0.9%	-6.5%	
US Index of Consumer Expectations 3 Mo. Moving Average, Index 1996=100, Source: University of Michigan	69.3	73.5	62.7	-5.6%	10.6%	
US ISM Index of MFG Activity Advanced 1 Month (January Index appears as December), Source: Institute For Supply Management	53.1	50.2	52.9	5.8%	0.4%	
US Retail Sales Millions of Dollars, Source: Bureau of Census	415,695	413,582	396,974	0.5%	4.7%	
US Consumer Price Index 2004=100, Source: URC using data from Bureau of Labor Statistics	121.6	121.9	119.5	-0.3%	1.7%	
MS Unemployment Rate Source: Bureau of Labor Statistics	8.6%	8.5%	10.4%	0.1%	-1.8%	
MS Continued Unemp. Claims Source: Mississippi Department of Employment Security	115,979	104,950	120,012	10.5%	-3.4%	Miscellaneous Indicators
US Mortgage Rates 30 Yr. Conventional, Source: Federal Reserve	3.4%	3.5%	4.0%	-0.1%	-0.6%	
MS Avg. Hourly Wage for MFG Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	55.70	54.80	52.70	1.6%	5.7%	
MS Avg. Wkly Earnings for MFG Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	608.7	582.7	542.9	4.5%	12.1%	
Gaming Revenue	185.8	164.4	186.1	13.1%	-0.1%	
Coast Counties	90.3	80.5	86.9	12.1%	3.9%	
River Counties	95.6	83.9	99.2	13.9%	-3.6%	
Business Optimism Index Index 1986=100, Source: National Federation of Independent Businesses	88.0	87.5	93.8	0.6%	-6.2%	

MISSISSIPPI EMPLOYMENT BY SECTOR

Sector	Relative Share of Total*	December			Change from Prior Month		Change from Prior Year	
		2012	November 2012	December 2011	Level	%	Level	%
Total Nonfarm	100.0%	1,092,500	1,094,000	1,089,000	(1,500)	-0.1%	3,500	0.3%
Mining and Logging	0.8%	9,000	9,200	9,200	(200)	-2.2%	(200)	-2.2%
Construction	4.2%	45,300	46,100	48,000	(800)	-1.7%	(2,700)	-5.6%
Manufacturing	12.5%	136,500	137,200	133,800	(700)	-0.5%	2,700	2.0%
Trade, Transportation & Utilities	19.7%	215,200	217,100	213,800	(1,900)	-0.9%	1,400	0.7%
Retail Trade	12.1%	132,300	133,400	132,200	(1,100)	-0.8%	100	0.1%
Information	1.1%	11,778	11,798	11,777	(20)	-0.2%	1	0.0%
Financial Activities	4.1%	45,078	44,610	44,875	468	1.0%	203	0.5%
Services	35.0%	385,000	383,000	381,500	2,000	0.5%	3,500	0.9%
Professional and Business Services	8.5%	96,500	94,200	94,000	2,300	2.4%	2,500	2.7%
Education and Health Services	12.6%	138,300	137,400	137,800	900	0.7%	500	0.4%
Leisure and Hospitality	10.7%	115,800	116,300	115,400	(500)	-0.4%	400	0.3%
Other Services	3.2%	34,400	35,100	34,300	(700)	-2.0%	100	0.3%
Government	22.6%	244,600	244,900	245,700	(300)	-0.1%	(1,100)	-0.4%

* Relative shares are for the most recent 12 month average.

Source: U.S. Bureau of Labor Statistics

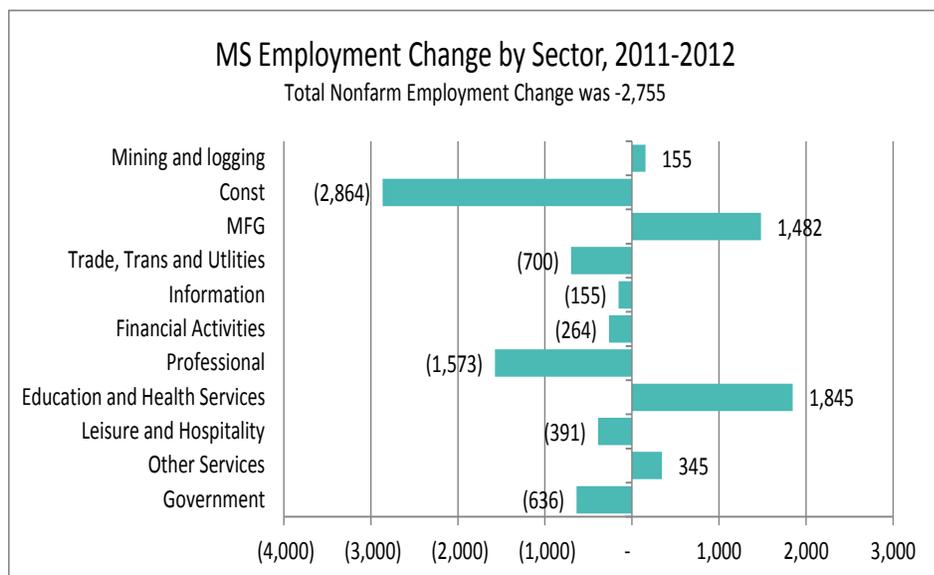
Mississippi Employment Trends

After three months of gains, Mississippi employment fell in December. The decline was relatively small at 1,500 jobs or 0.1 percent, but it highlights the vulnerable nature of the State's recovery.

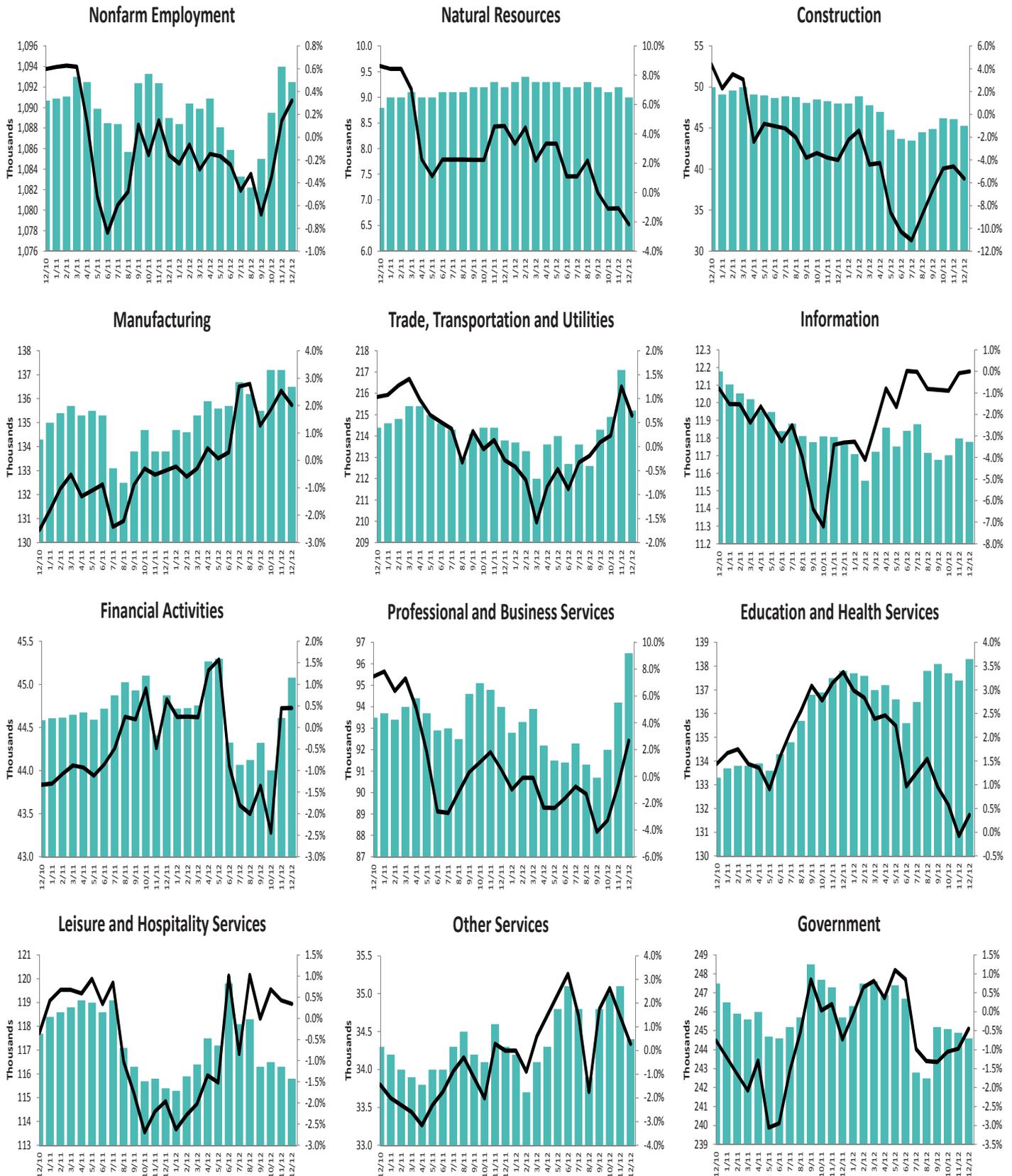
The monthly decline was led primarily by losses in retail trade but significant declines were also observed in other sectors. These are displayed in the table above. The professional and business service sector saw substantial gains for the month.

Relative to the year ago, December employment was up 0.3 percent or 3,500 jobs. Nearly all sectors saw gains relative to the year ago. The only exceptions were construction, government and mining and logging.

The figure below looks at calendar year 2012 compared to 2011. On average, employment declined 0.2 percent or just under 2,800 jobs in 2012. This 2012 marks the fifth year of declining employment in the State. Before the current downturn, Mississippi had never lost employment more than three consecutive years. The average employment for 2012 is the lowest employment since 1995. The graph below depicts where the 2012 declines occurred. The construction sector took the largest hit, followed by professional services. The manufacturing sector along with education and health services saw significant gains.



MISSISSIPPI EMPLOYMENT TRENDS



Left Axis: Bar Graphs - Employment Levels. Right Axis: Line graphs - Annual Growth. Source: U.S. Bureau of Labor Statistics.