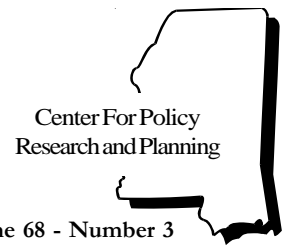


Mississippi's Business



April 2010

Monitoring the State's Economy

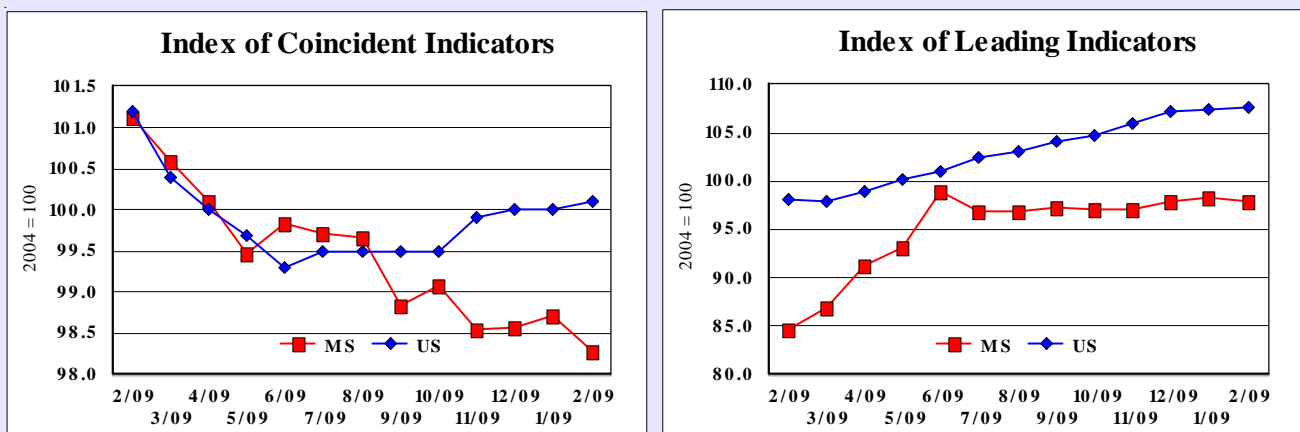
Volume 68 - Number 3

ECONOMY AT A GLANCE

The Mississippi Index of Coincident Indicators fell 0.4 percent in February from the January level. This decline continues the downward trend that has occurred since the first quarter of 2008. The state's economy appears to still be contracting, although perhaps at a slower pace than in previous months. The Mississippi Index of Leading Indicators fell 0.4 percent in February from January, continuing the generally flat trend since mid 2009. Over the last two years, there has been a 6.3 percent decline in jobs and 6.5 percent decline in individual income tax withholdings. The latter is a proxy for income levels. With a recession this deep, it will take the state years to fully recover.

Unlike the state, the Nation appears to be in a moderate recovery. The US Leading and Coincident Indices both continued their upward trend in February. The Conference Board believes the economy will continue to improve in the near term.

Figure 1. Index of Leading and Coincident Indicators



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Coincident Index

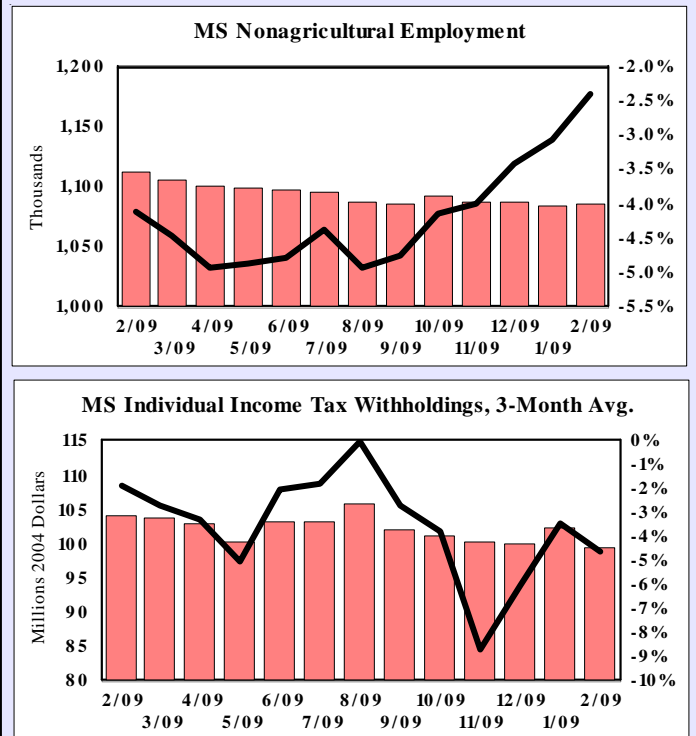
The Mississippi Index of Coincident Economic Indicators fell to 98.3 in February. This was a 0.4 percent decline relative to the prior month. The two components of the index were split in their contribution to the February level (see Figure 2).

The index has been trending downward since early 2008 with the steepest fall occurring in the spring of 2009. The previous two months saw some modest gains, but this was all lost with the February decline. Relative to the level of six-months prior, the index is down an annualized 2.8 percent. While still declining relative to the year ago, the worst of the decline appears to be in the past. However, once actual growth begins, the depth of this contraction means it will be years before the state returns to the pre-recession levels of economic activity.

Figure 3 shows the annual growth in the coincident index for both Mississippi and the United States. In 12 out of the past 15 years, the Nation has outperformed the State in growth. The exceptions have been in the past three years when the nation was hit harder than the state by recession.. However, based on figure 1 on page 1, the Nation appears to be pulling out of the recession more quickly than the state.

Mississippi nonagricultural employment rose a modest 0.2 percent or 1,700 jobs in February relative to

Figure 2. Mississippi Index of Coincident Indicators Components



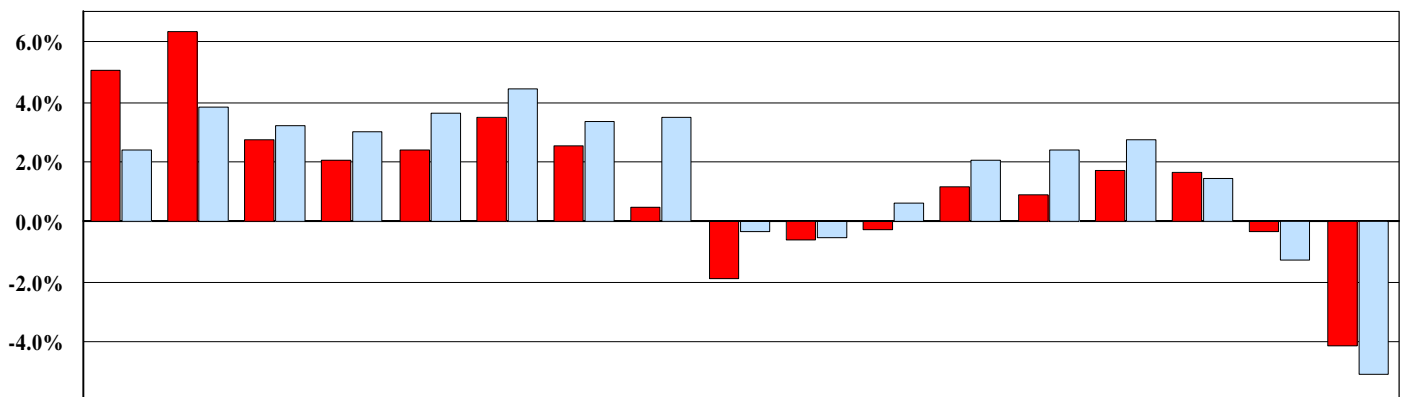
NOTE:

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:

U.S. Bureau of Labor Statistics
Mississippi State Tax Commission

Figure 3. Annual Growth in the Index of Coincident Economic Indicators



	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
■ MS	5.1%	6.4%	2.7%	2.1%	2.4%	3.5%	2.5%	0.5%	-1.9%	-0.6%	-0.2%	1.2%	0.9%	1.7%	1.7%	-0.3%	-4.1%
□ US	2.4%	3.8%	3.2%	3.0%	3.6%	4.5%	3.3%	3.5%	-0.3%	-0.5%	0.6%	2.1%	2.4%	2.7%	1.4%	-1.2%	-5.1%

January. Despite the gain, the series remained 2.4 percent or 26,500 jobs below the year ago in February (see Table 1). Since peaking in February 2008, the state had lost 74,100 jobs or 6.3 percent as of February 2010.

Mississippi employment is still declining but at a slower and improving rate. For example, during the second quarter of 2009 the employment was below the year ago by over 56,000 jobs compared to the 26,500 the state was down in February from a year earlier. This trend of declining at a lower rate holds across most sectors as evidenced in Figure 4. Only two sectors are actually growing relative to the year ago: (1) education and health services and (2) government.

Individual income tax withholdings fell 3.0 percent in February relative to January. The series has been trending down since 2008. Like employment, withholding have fallen dramatically during the course of the recession. For the three months ending in February 2010, withholdings were 6.5% below the level of the similar period ending in February 2008.

While not a component of the Mississippi Coincident Index, Mississippi retail sales are another good indicator of the current economy. Retail sales showed some surprising strength in February, rising 5.6 percent relative

to January. Retail sales have risen three out of the last five months over the prior month. Compared to a year ago, retail sales were down only 0.8 percent in February. This represented the smallest decline since the series dropped below the year ago level in March 2009. This strengthening of retail sales is an encouraging sign for the state's economy since consumer spending has represented the weakest link the recovery.

Leading Indicators

The Mississippi Index of Leading Economic Indicators fell 0.4 percent in February relative to January. The decline is relatively small and essentially maintains the flat trend that has occurred since July 2009. This trend suggests the economy will not change significantly from its current path in the coming months.

Mississippi average manufacturing work week length fell to 39.2 hours from 39.6 hours in February relative to January. The decline erases the increase which occurred in January and brings the series to the lowest level since October 2006. A declining workweek length says manufacturers are having no trouble meeting production demand.

The inflation adjusted value of residential building permits in Mississippi fell 9.5 percent in February relative to January. The series fell dramatically after

Table 1. Mississippi Employment By Sector

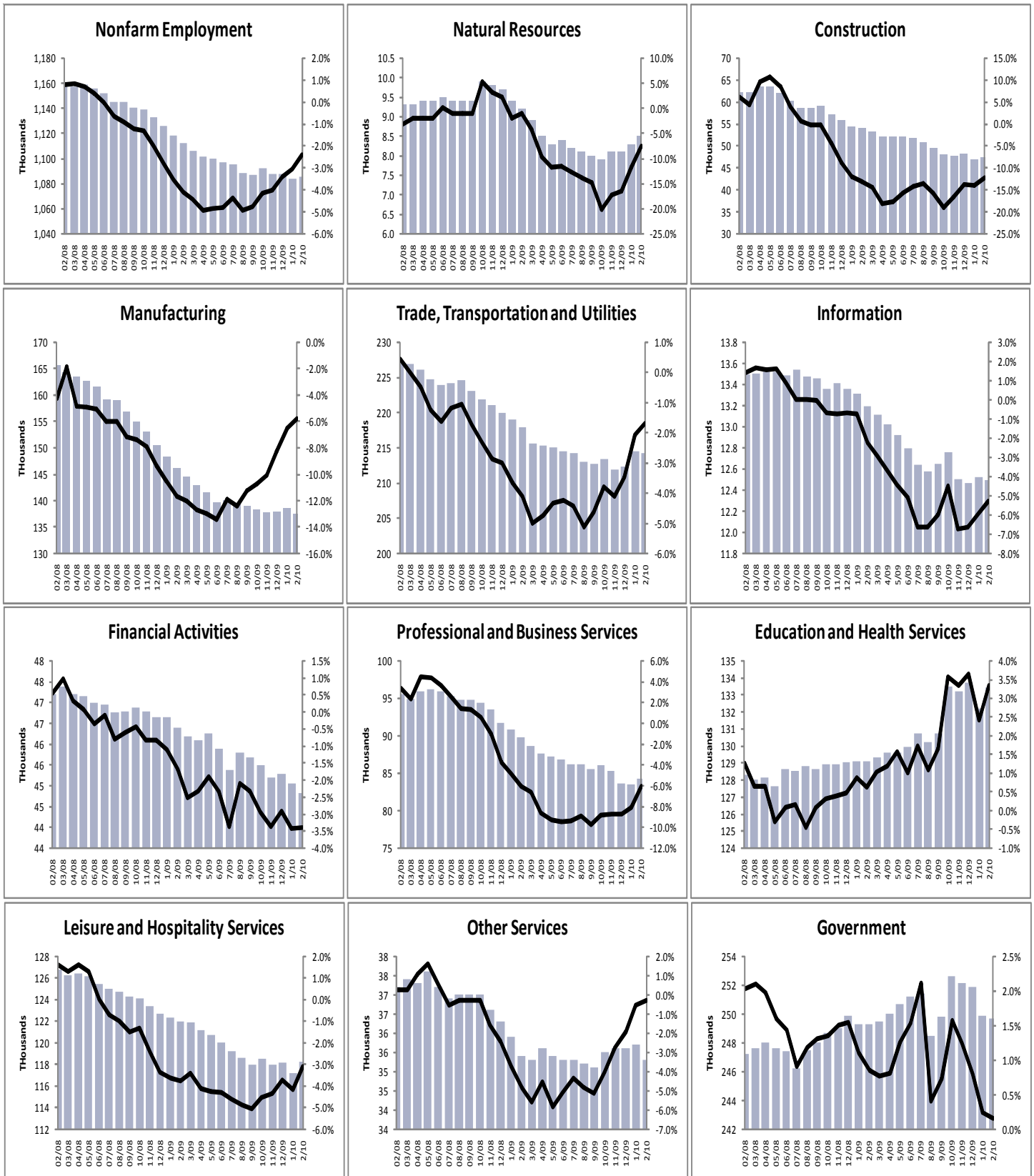
Seasonally Adjusted

	February	January	February	Change from		Change from	
	2010	2010	2009	Prior Month	%	Prior Year	%
Total Nonfarm	1,085,500	1,083,800	1,112,000	1,700	0.2%	(26,500)	-2.4%
Mining and Logging	8,500	8,300	9,200	200	2.4%	(700)	-7.6%
Construction	47,400	46,800	54,000	600	1.3%	(6,600)	-12.2%
Manufacturing	137,500	138,500	146,000	(1,000)	-0.7%	(8,500)	-5.8%
Trade	214,200	214,400	217,900	(200)	-0.1%	(3,700)	-1.7%
Retail Trade	133,400	133,300	134,800	100	0.1%	(1,400)	-1.0%
Information	12,493	12,514	13,188	(21)	-0.2%	(695)	-5.3%
Financial Activities	44,810	45,036	46,390	(226)	-0.5%	(1,579)	-3.4%
Services	371,100	368,500	376,200	2,600	0.7%	(5,100)	-1.4%
Professional and Business Services	84,200	83,400	89,700	800	1.0%	(5,500)	-6.1%
Education and Health Services	133,400	132,200	129,100	1,200	0.9%	4,300	3.3%
Leisure and Hospitality	118,200	117,200	122,000	1,000	0.9%	(3,800)	-3.1%
Other Services	35,300	35,700	35,400	(400)	-1.1%	(100)	-0.3%
Government	249,700	249,900	249,300	(200)	-0.1%	400	0.2%

Source: U.S. Bureau of Labor Statistics. Employment data from the information and financial activities industries were seasonally adjusted by the Center for Policy Research and Planning.

Continued on page 5

Figure 4. Mississippi Employment Trends

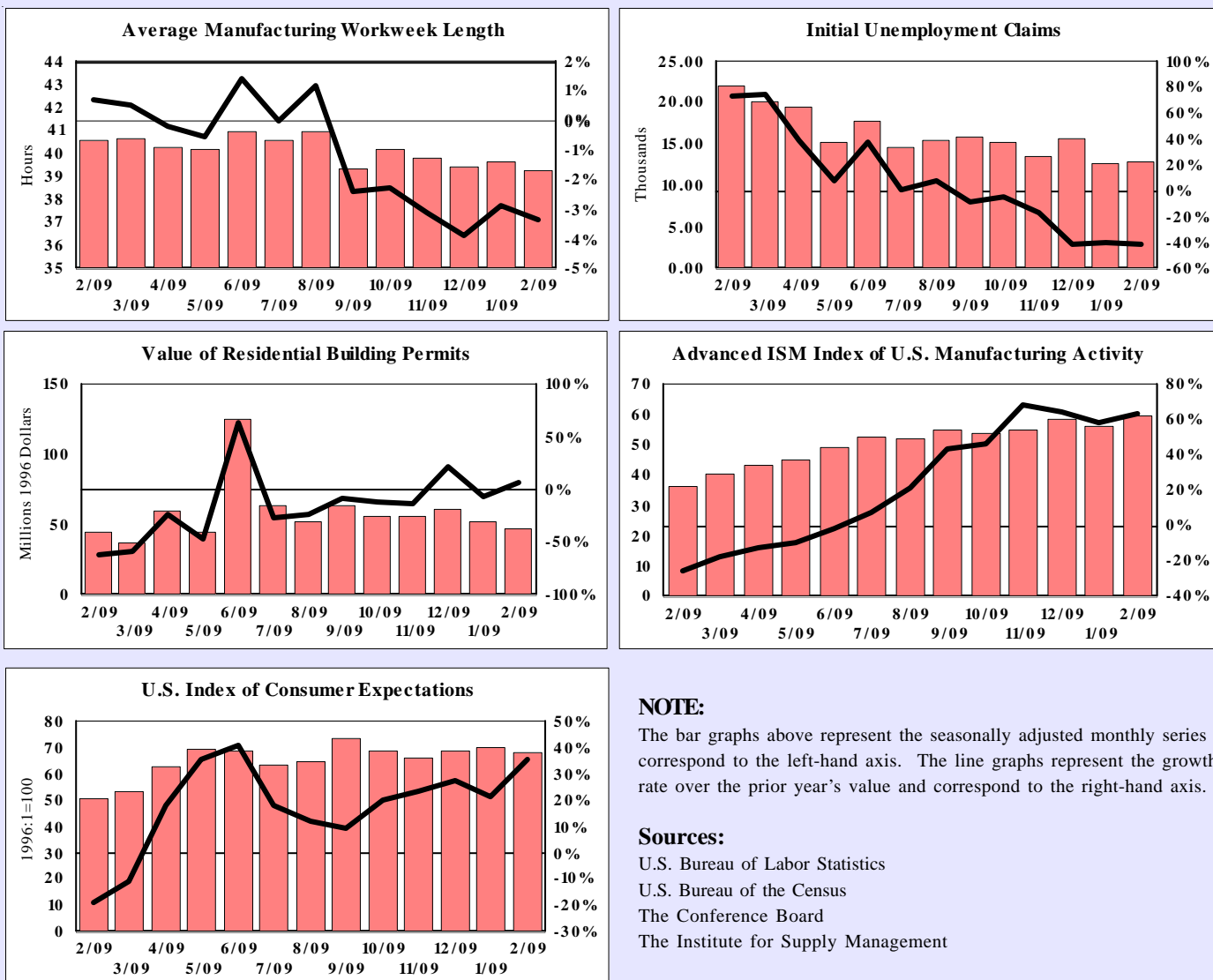


Note: The Bar Graphs above represent seasonally adjusted monthly employment and correspond to the left-hand axis.

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

Source: U.S. Bureau of Labor Statistics. Seasonal adjustment of the financial activities and Information industries done by IHL.

Figure 5. Mississippi Index of Leading Indicators Components



hitting a peak in 2006. For the six months ending in February, the permit values are roughly 60 percent below the similar period ending in February 2006. However, a trough seems to have been reached in March 2009. It is worth noting that this trough represented the lowest level of permits since 1992. After hitting bottom in March 2009, the series rose modestly for a few months, but aside from a very unusual spike was essentially flat through September 2009. The series has trended down modestly since September 2009. This latter decline may reflect the unusually cold weather the state experienced this past winter.

The U.S. Index of Consumer Expectations fell to 68.4 in

February from 70.1 observed in January. Expectations rose the previous two months. The February decline was modest and did not erase much of the two previous month's gain.

Mississippi's Initial Unemployment claims rose 2.2 percent in February relative to January. The increase is small for this volatile series. Claims have been trending downward since early 2009 but remain above the pre-recession level. For example the February level of claims is 12 percent above the average number for 2007, the year leading up to the recession. Continued claims are even higher. The February level of continued claims is 93 percent above the average for 2007. This suggest

that while the job losses have improved in recent months, they remain high by historical standards and the number of people actually receiving unemployment benefits is especially high.

The only component contributing positively to the February index was the ISM Index of U.S. Manufacturing Activity which rose 3.1 points to 59.6. After falling dramatically early in the recession, the index has been on an upward trend since November 2008. The index broke the important threshold of 50 in August 2009. An index above 50 suggest the industry is in an expansion. An index below 50 says the industry is contracting. In recent months the increases have become more moderate. Still the ISM Index points offers an encouraging outlook for the manufacturing sector.

U.S. Economy

The U.S. Index of Coincident Indicators rose 0.1 percent in February relative to January. Relative to the level six months prior, the index was up an annualized 1.2 percent. The U.S. Index of Leading Indicators rose a sharp 0.1 percent in February. The index is an annualized 8.9 percent ahead of the level six-months prior. The Leading Index has risen dramatically for nearly a year. The Conference Board believes economic conditions will continue to improve in the near term.

There is growing optimism among economist that the recovery that is believed to have begun in the third quarter of 2009, is sustainable. The U.S. manufacturing

industry appears to be growing and this growth is beginning to spread to the service sector according to the ISM Non-Manufacturing Index.

U.S. Employment, which has declined all but two months since January 2008, saw a 162,000 job gain in March 2010 relative to February. In terms of percentage gain, the increase was a small, less that 0.2 percent. But it does offer an encouraging turn from the previous trends as evidenced by figure 6. In January 2009, the nation lost 779,000 jobs relative to the December 2008 level. Over the course of the next few months, the Nation was losing on average well over a half of a million jobs per month. More recently job changes have been flat. The March increase marks the largest monthly gain in employment since March 2007. The tremendously large number of jobs lost over the course of the past two years, means it will be years before the Nation's employment level returns to the pre-recession level.

The recovery will likely be a slow improvement. There are both short-term and long-term encumbrances to economic growth. In the short run the economy has to overcome the deep hole created by the recession. This is evidenced in the employment picture, but the picture could be duplicated with regard to most segments of the economy. Additionally, there remains a great deal of uncertainty regarding the future and this will constrain investments in the short-term. In the long-term the Nation faces a mountain of debt and rising taxes, both of which will curtail growth..

Figure 6. U.S. Employment Change From Prior Month

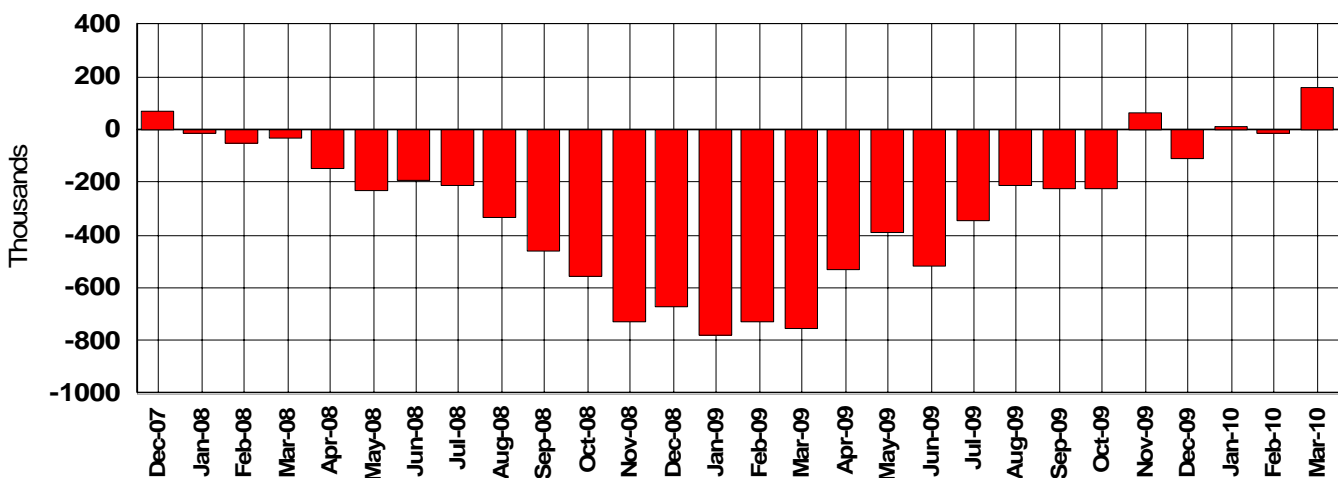
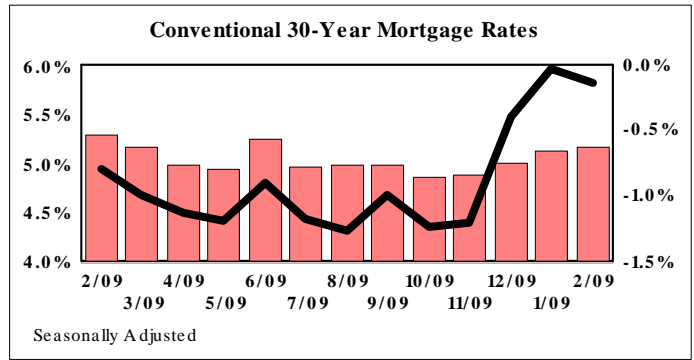
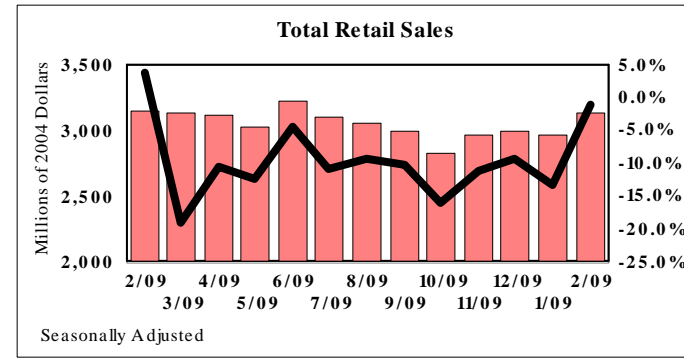
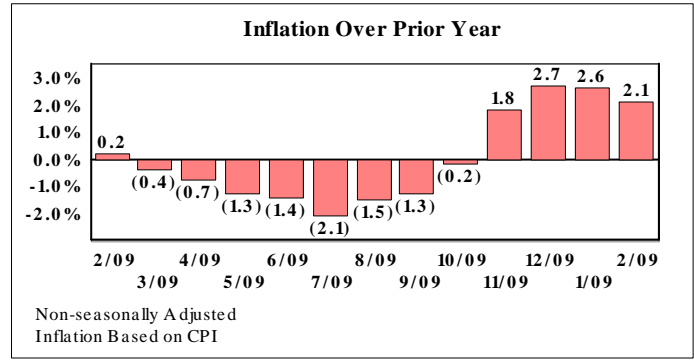
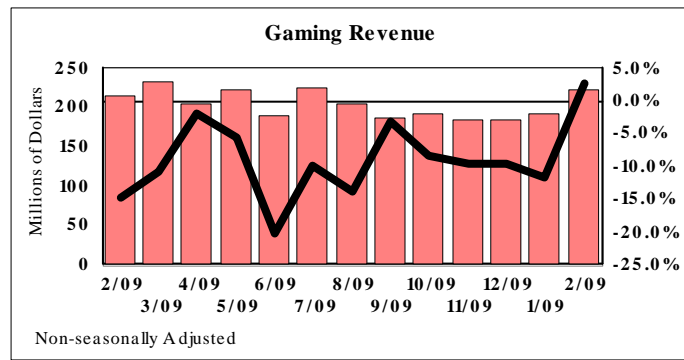
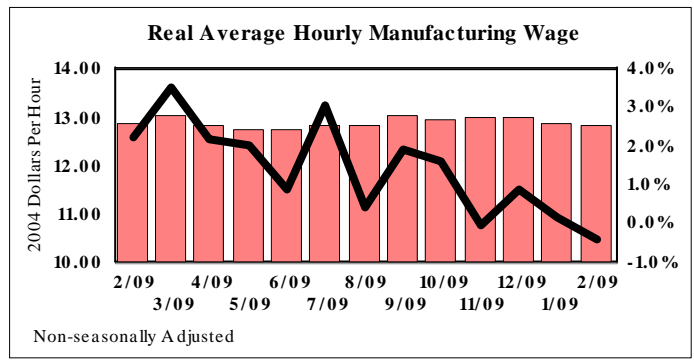
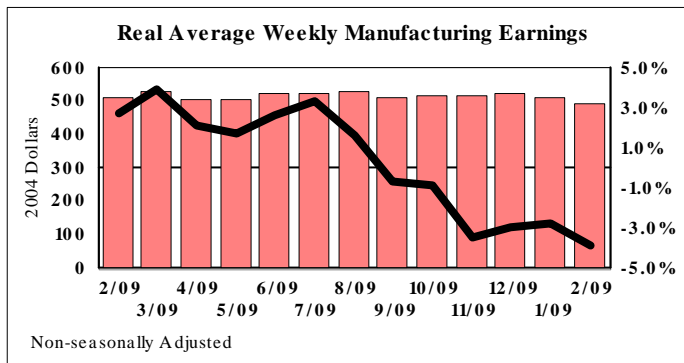
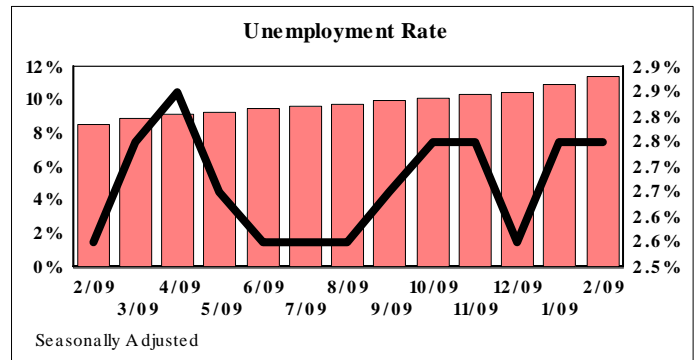
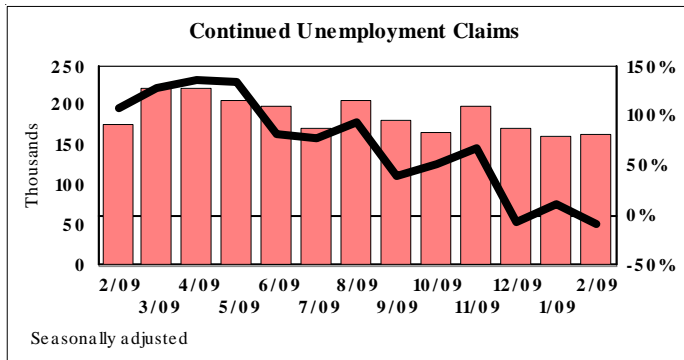


Figure 7. Miscellaneous Indicators



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

	February 2010	January 2010	February 2009	Change From Last Month	Change From Last Year
Coincident Indicator Index (2004=100)	98.3	98.7	101.1	-0.4%	-2.8%
Nonagricultural Employment (thousands)	1,085.5	1,083.8	1,112.0	0.2%	-2.4%
Individual Income Tax Withholdings, 3-Month Average (millions of 2004 \$)	99.4	102.4	104.2	-3.0%	-4.7%
Leading Indicator Index (2004=100)	99.4	99.8	86.6	-0.4%	14.7%
Initial Unemployment Claims	13,009	12,729	22,130	2.2%	-41.2%
Value of Residential Building Permits (millions of 2004 \$)	47.6	52.6	44.8	-9.5%	6.1%
Average Manufacturing Workweek Length (hours)	39.2	39.6	40.6	-1.0%	-3.4%
Advanced ISM Index of U.S. Manufacturing Activity Index is advanced one month. Thus, the March index is reported for February.	59.6	56.5	36.4	5.5%	63.7%
U.S. Index of Consumer Expectations	68.4	70.1	50.5	-2.4%	35.4%
Miscellaneous					
Consumer Price Index U.S. (2004=100)	114.7	114.7	112.3	0.0%	2.1%
Unemployment Rate (percentage)					
Non-seasonally adjusted	12.0%	12.1%	8.8%	-0.1%	3.2%
Seasonally adjusted	11.4%	11.0%	8.6%	0.4%	2.8%
Continued Unemployment Claims	164,204	162,740	179,083	0.9%	-8.3%
Average Manufacturing Wage (Non-seasonally adjusted)					
Current Dollars per Hour	14.70	14.78	14.45	-0.5%	1.7%
2004 Dollars per Hour	12.81	12.88	12.86	-0.6%	-0.4%
Average Weekly Manufacturing Earnings (Non-seasonally adjusted)					
Current Dollars	567.42	591.20	578.00	-4.0%	-1.8%
2004 Dollars	494.49	515.34	514.51	-4.0%	-3.9%
U.S. Mortgage Rates (30-year conventional)	5.2%	5.1%	5.3%	0.0%	-0.1%
Gaming Revenues (Non-seasonally adjusted)					
Coast counties (millions of current \$)	95.8	90.5	99.6	5.8%	-3.9%
River counties (millions of current \$)	126.6	101.8	116.9	24.4%	8.3%
Total	222.3	192.3	216.5	15.6%	2.7%
Total Retail Sales (Millions of 2004 \$)	3,133.44	2,966.77	3,160.16	5.6%	-0.8%

Note: The data are seasonally adjusted unless otherwise noted.

Unless otherwise noted all data refer to Mississippi.

CONDITIONS AND OUTLOOK FOR MISSISSIPPI BANKS: PART I

Guest Columnist Brandon Roberts, Ph.D.

In previous issues, we have tracked the performance of Mississippi's commercial banks relative to banks across the nation. In this issue, we again review some of the current key performance indicators and also delve a little deeper into some of the specific challenges that remain for the banking industry and other financial institutions. We focus on one of those challenges in this article and will explore others in subsequent issues.

Overview

As noted previously, Mississippi banks have weathered the economic and financial turmoil much better than banks nationwide. This has been constant through the financial crisis and economic downturn, and has been reflected in stronger earnings, lower levels of loans losses, and better asset quality. Although Mississippi banks have consistently fared better based on performance measures, the numbers have weakened over the past year. This means that although Mississippi banks

are better off overall than their counterparts nationwide, they have been impacted by the crisis. This impact has largely been a function of the financial crisis, the subsequent economic downturn, bank regulatory policy, and legislative initiatives. The governmental response to the issues in financial industry both legislatively and in terms of policy will likely have longer run consequences as well. The consequences and implications for both the industry and the economy will be discussed in more depth in later issues.

Current Performance

Table 1 below provides a summary of the key aggregate indicators such as return on assets, charged-off loans, and non-performing loans for Mississippi's commercial banks compared to commercial banks nationwide. As shown, the figures for Mississippi banks have continued to weaken since 2006 along with the nation but are still much stronger than the U.S. figures. For example,

Table 1. Key Banking Indicators

	Mississippi			
	Dec 2006	Dec 2007	Dec 2008	Dec 2009
% With No Profit	2.17%	5.49%	12.22%	16.85%
% With Earnings Increases	76.09%	53.85%	36.67%	39.33%
ROA	1.28%	1.16%	0.86%	0.46%
Chargeoffs as a Percent of Loans	0.16%	0.23%	0.58%	1.00%
Earnings-To-Net Chargeoffs Ratio	18.23	12.15	4.38	2.11
Non-Performing Loans	0.53%	0.66%	1.25%	2.52%
Loss Allowances as % of Non-Performing Equity Capital	237.92%	182.77%	110.55%	62.53%
	9.94%	10.20%	10.33%	10.33%
	U.S.			
	Dec 2006	Dec 2007	Dec 2008	Dec 2009
% With No Profit	7.54%	11.20%	23.38%	29.38%
% With Earnings Increases	59.07%	51.61%	36.06%	39.03%
ROA	1.33%	0.93%	0.13%	0.09%
Chargeoffs as a Percent of Loans	0.41%	0.62%	1.32%	2.57%
Earnings-To-Net Chargeoffs Ratio	9.02	5.25	2.06	1.45
Non-Performing Loans	0.80%	1.33%	2.95%	5.53%
Loss Allowances as % of Non-Performing Equity Capital	144.41%	101.20%	77.76%	59.20%
	10.21%	10.23%	9.38%	11.07%

Brandon A. Roberts is a banking industry economist and President of Premier Insights, Inc., a consulting firm serving the financial industry. He holds a Ph.D. from the University of Texas and is an associate member of the Mississippi Banker's Association.

earnings as reflected in return on assets (ROA) indicate commercial banks nationwide showed virtually no profit in 2009. Conversely, Mississippi banks reported positive aggregate earnings although significantly lower than recent levels. Also, loan losses as reflected in charged-off loans have continued to increase for banks in Mississippi, but the amount as a percent of all loans is still less than half the national level.

This is positive; however, the year-end level of charged-off loans for Mississippi banks reached 1.0 percent of loans. Since ROA has tended to be within the 1.0 and 1.5 percent range over the last decade, a figure of 1.0 percent or more will cut sharply into earnings and is not sustainable over the long term.

Immediate Challenge

- Non-Performing Assets & Recoveries

The banking industry has a number of remaining challenges. While the industry in Mississippi is in better shape than the nation, they nonetheless will be affected by these challenges. One immediate threat to Mississippi's banks and banks nationwide is the potential for additional deterioration in asset quality.

As shown in the aforementioned table, non-performing loans (loans that are 90 days or more past due or are no longer accruing interest) are now 2.5 percent of all loans for commercial banks in the state. Although this figure on a relative basis is less than half of the corresponding national average, it represents nearly \$1 billion in loans. Further, this figure has been growing each quarter and has doubled from the year prior. The majority of loans that move into non-accrual or 90 days or more past due status will end up in some type of collection or foreclosure process. This is clearly problematic for a couple of reasons.

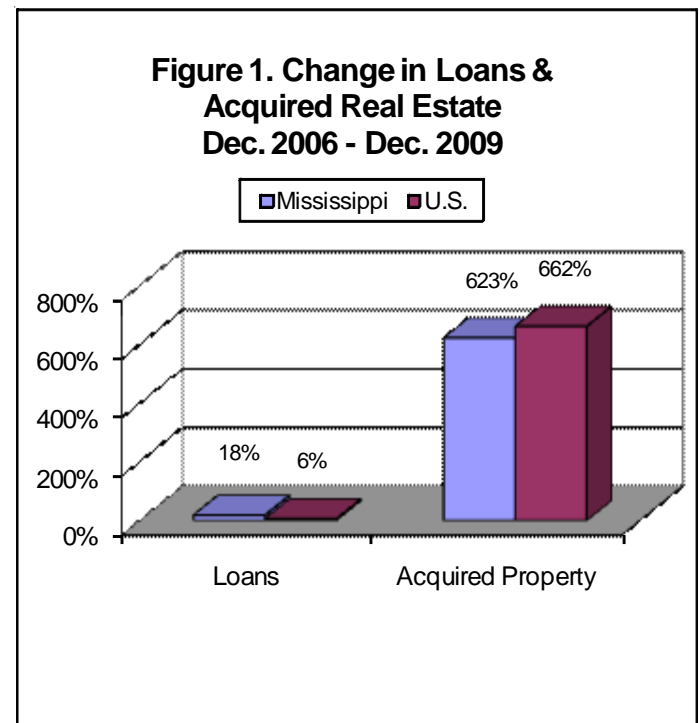
First, the process of collecting loans that are no longer viable is costly for the bank and places a significant demand on resources. Additionally, it often results in the bank charging off all or a significant portion of the loan balance which negatively impacts earnings and capital. Secondly, even if the debt is fully secured by collateral (such as real estate), the bank must still liquidate the property. This will prove increasingly challenging in the

months ahead because of a soft real estate market and the growing volume of foreclosed properties on the market. This is further compounded by weakened economic conditions and tightened lending standards which equates to fewer potential buyers. There can also be significant costs associated with maintaining acquired properties if the institution is forced to hold them over an extended period of time.

As Figure 1 shows, the volume of foreclosed property being held by commercial banks in both the U.S. and the state, increased by over 600 percent between December of 2006 and December of 2009. By comparison, loan volume grew by only 18 percent in the state. As of December 2009, commercial banks in the state were holding \$433 million in acquired property. Because there is a significant and growing portion of loans that are past due or in non-accrual status, the volume of acquired property will likely continue to grow in the coming months.

Delinquencies By Loan Type

As shown in Figure 2, one-half of all acquired property stemmed from loans that were for construction or land development. The subsequent table shows the percent of loans that were non-performing (90 days or more past due or non-accrual) by type of loan. As shown, the



delinquency rates are highest in this category as well, suggesting that there will be further weakening in this classification of loans. The fundamental question is how much additional deterioration can be expected and over what span of time. Because the level of delinquencies and acquired property has continued to grow each quarter, it seems clear the bottom has not yet been reached.

Industry Capacity to Absorb Losses

One measure to gauge the level of bad assets an institution can sustain, is to evaluate total non-performing assets as a percent of total bank capital. This is simply the ratio of bad assets to the cash the bank has available

to cover losses. History has shown that when this ratio is close to 1.0 or when non-performing assets approach 100 percent of capital, an institution has a high probability of failure.

The median for this measure for Mississippi banks was 19 percent as of December 31, 2009, with only a few banks at or near the 100 percent level. This suggests that in the aggregate, the banking industry in the state can absorb further declines in asset quality without experiencing mass failures.

Banks will face other obstacles in the future, namely stemming from regulatory and policy initiatives. These will be presented and discussed in Part II.

Figure 2. Real Estate Held to be Sold as of December 31, 2009

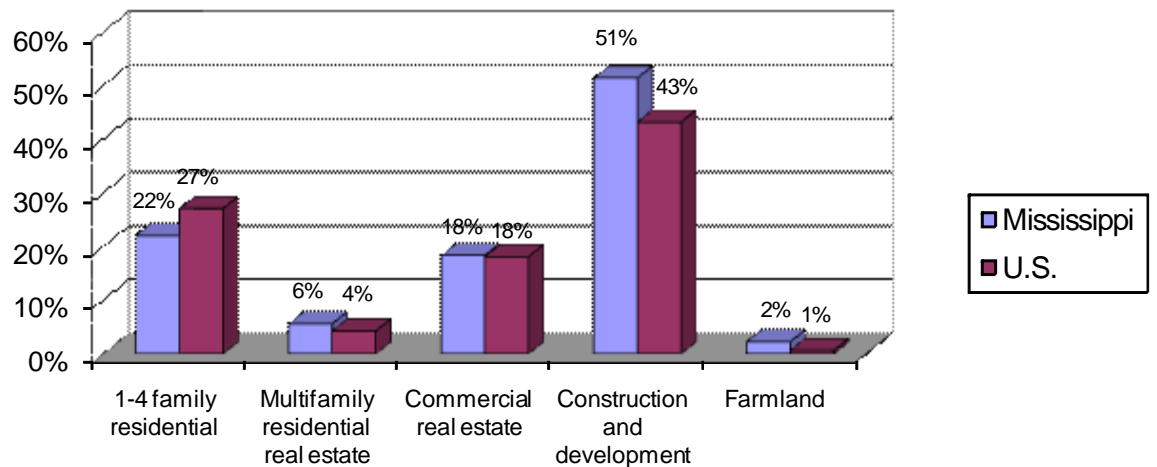


Table 2. Percent of Loans classed as Non-Performing by Type

	Mississippi	U.S.
All real estate loans	3.08%	7.53%
Construction and development	7.09%	16.15%
Commercial real estate	1.93%	3.91%
Multifamily residential real estate	2.42%	4.99%
1-4 family residential	2.61%	8.02%
Home equity	1.50%	1.87%
All other family	2.84%	10.43%
Commercial & industrial loans	0.94%	3.47%
Loans to individuals	0.83%	2.25%
Credit cards & related plans	2.21%	3.55%
Other loans to individuals	0.74%	1.41%
All other loans & leases	0.29%	1.67%