

Mississippi's Business

April 2013

Monitoring The State's Economy

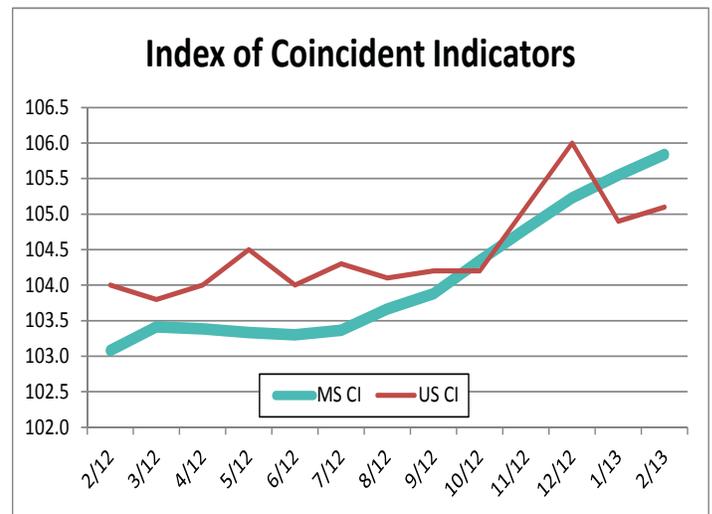
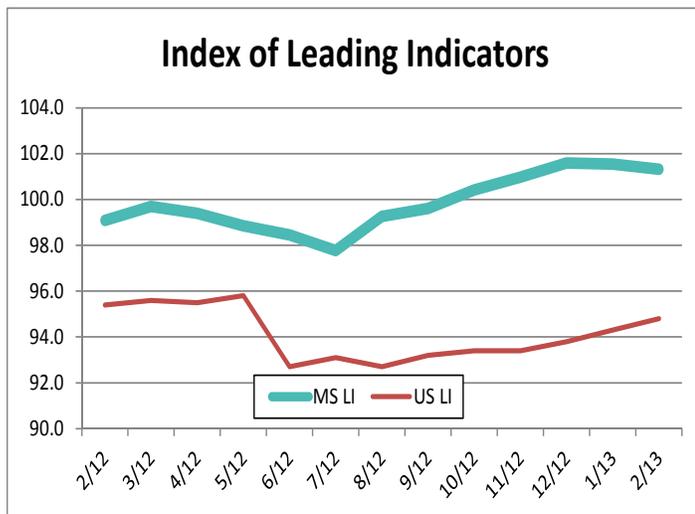
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ECONOMY AT A GLANCE

The Mississippi Index of Coincident Indicators rose for the month of February, while the Index of Leading Indicators fell. This was the seventh gain for the Coincident Index and the second decline for the Leading Index. The State's economy is improving, but the recovery remains fragile. Revised employment figures show growth was much better than previously thought in 2012, but there does appear a softening of momentum as we begin 2013. Income tax withholdings, which grew in 2012 for the first time since 2006, has grown at a much slower pace in the first quarter. Residential building permits fell toward the end of the year and have since made only modest improvement. The Diesel Fuel Consumption Index continues to trend below the year ago level. Manufacturing workweek length remains high however, suggesting Mississippi manufacturers face strong demand for production.

On the National front, both the nonmanufacturing and the manufacturing ISM indices have weakened in recent months. The March employment report was particularly disappointing with a meager 88,000 job gain for the month. This was well below the nearly 200,000 average gain over the previous 6 months. The retail sector was the hardest hit, suggesting the payroll tax hike may have factored into the slowdown. The housing market continues to show signs of improvement. Retail sales were strong in February but this was largely due to continued strong auto sales and higher sales of gasoline due to rising fuel prices. We remain in a slow growth mode which appears to be the new normal. We expect growth to slowly improve through 2013 and into 2014 and 2015.



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, FEBRUARY 2013

The **Mississippi Index of Leading Economic Indicators** has been revised to reflect revisions in component data and a recalibration of adjustment factors. With the revision, the Index fell 0.2 percent in February to a level of 101.3. This was the second consecutive decline after five months of gains. Relative to six months prior, the February index was up 4.1 percent annualized rate. This is a strong growth rate, but does reflect a slowdown from that observed in the previous three months. The economy is growing, but recovery remains fragile.

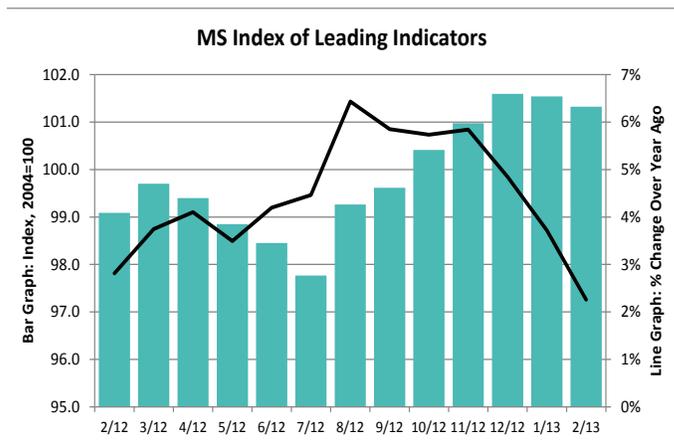
The components of the Leading Index will be discussed in order of their contributions to the February decline. Three components drove the decline while five components contributed positively.

Inflation adjusted **Mississippi income tax withholdings**¹ fell 4.7 percent in February. The decline is rather dramatic and brought the series to its lowest point since September 2012. Relative to the year ago, the series was down 1.8 percent in February. Withholdings growth in 2012 was 3.2 percent for the year. This was the first year of positive gain since 2006 and can be compared to a 0.7 percent decline in 2011. For the first two months of 2013 however, withholdings are up a meager 1.8 percent, suggesting the income growth is moderating.

The **Institute for Supply Management Index of U.S. Manufacturing Activity** fell 5.4 percent in March bringing the index to 51.3. This was the lowest index since December 2012. The decline follows three months of gains. The decline supports the idea of a first quarter slowdown in activity as consumers' pocketbooks are hit with higher payroll taxes.

The **Mississippi Diesel Fuel Consumption Index**¹ fell 0.2 percent in February. The decline was relatively mild and shows a continuation of the nearly flat trend that has persisted since November 2012. More troubling is the fact that the growth relative to the year ago has been negative for eight of the last nine months. The series dates back to mid 1994 and has been persistently below the year ago level only two other times. Both times a national recession followed.

1. Three Month Moving Average



The **Mississippi Manufacturing Employment Intensity Index**, rose a modest 0.1 percent in February. This was technically the seventh consecutive gain for the series, but the index has been nearly flat for the most recent three months. The index is comprised of employment and hours worked. Both components have been on an upward trend, although hours worked dipped in February. Despite the dip, hours worked is at an historically high level of over 43 hours per week after seasonal adjustments.

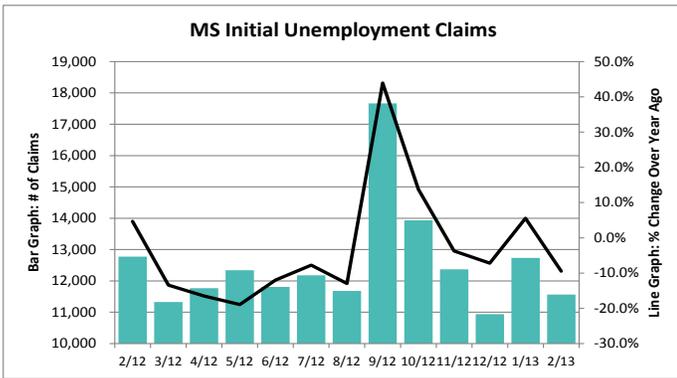
Mississippi's initial unemployment claims fell 9.2 percent in February. The decline erased much of the gain that occurred in January. The series is now more in line with expectations after rising in the aftermath of Hurricane Isaac.

The **value of Mississippi residential building permits**¹ rose 9.0 percent in February. The series is improving after a slide in the closing months of 2012. Nationally, housing is on the mend, but we will not soon return to the pre-recession volume of housing construction.

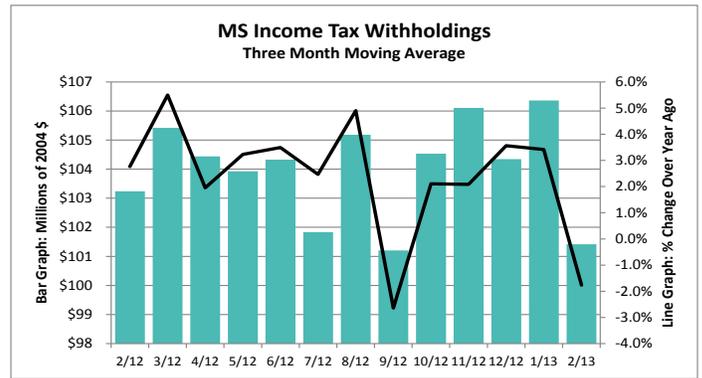
The **U.S. Index of Consumer Expectations**¹ rose 3.5 percent in February. The increase is a small improvement relative to the three months of decline. The series remains low by historical standards.

The **U.S. retail sales** rose a sharp 1.7 percent in February. Much of the growth can be attributed to higher sales at gasoline pumps as fuel prices rose. Auto sales also figured prominently in the monthly gain. Excluding these items yields a much more modest 0.4 percent increase in retail sales.

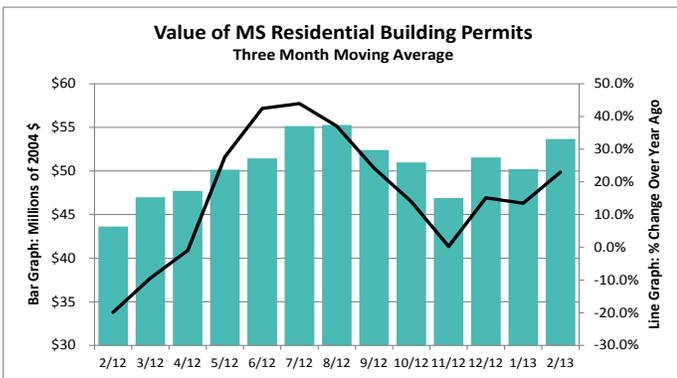
LEADING ECONOMIC INDICATORS



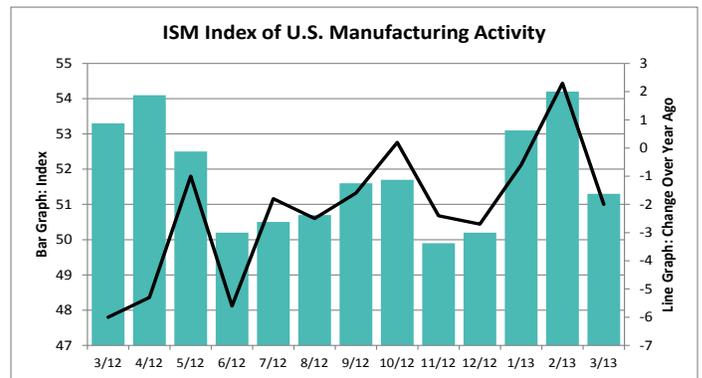
Source: Mississippi Department of Employment Security



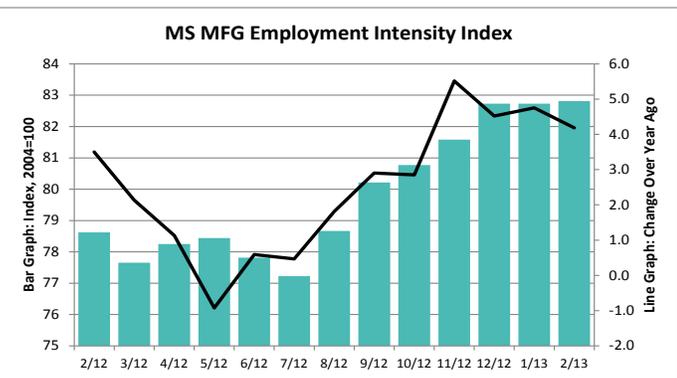
Source: Mississippi Department of Revenue



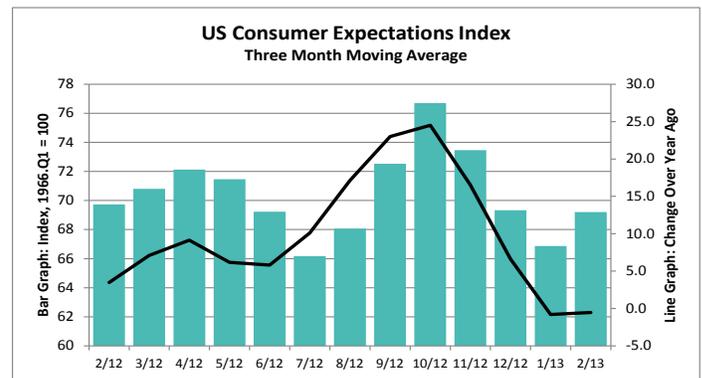
Source: Bureau of the Census



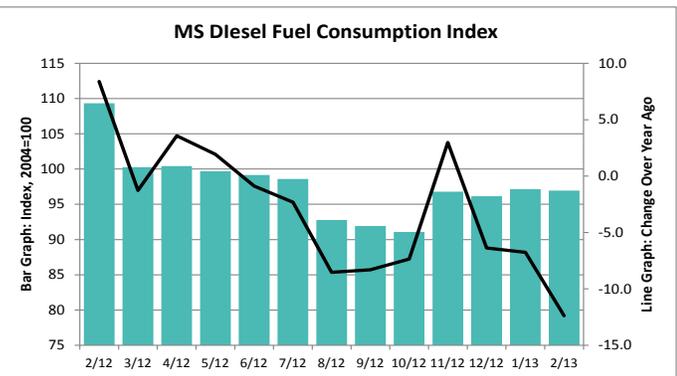
Source: Institute For Supply Management



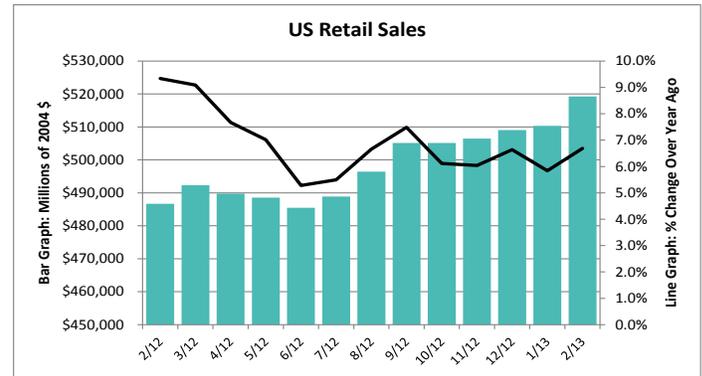
Source: URC using data from Bureau of Labor Statistics



Source: University Of Michigan



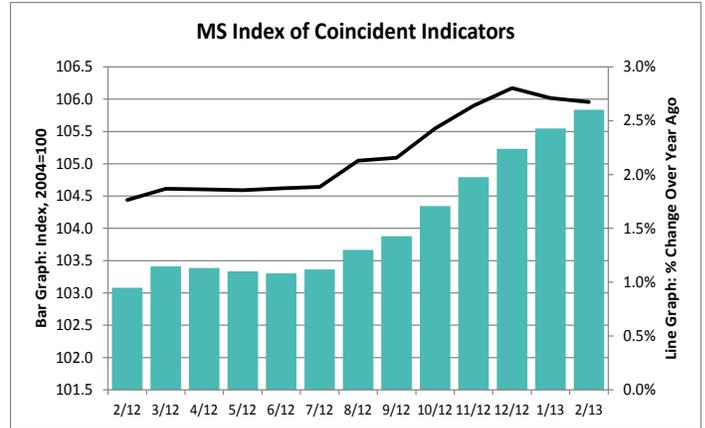
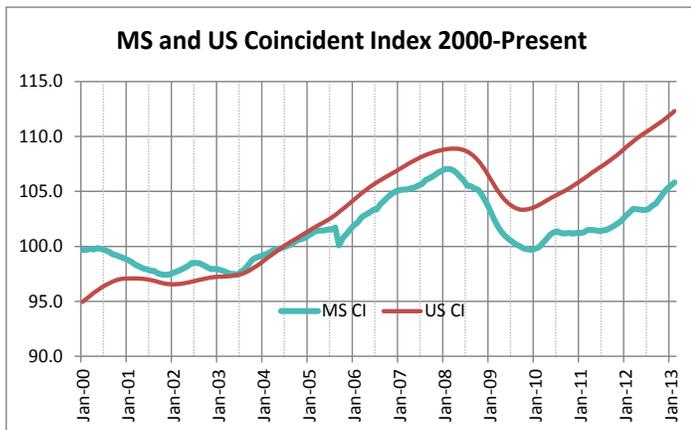
Source: URC using Data from Mississippi Department of Revenue



Source: Bureau of the Census

The recently revised **Mississippi Index of Coincident Indicators**, rose for the seventh straight month in February, reaching a level of 105.8. The index is at the highest level since June 2008. The growth relative to the year ago declined for January and February, yet remained positive.

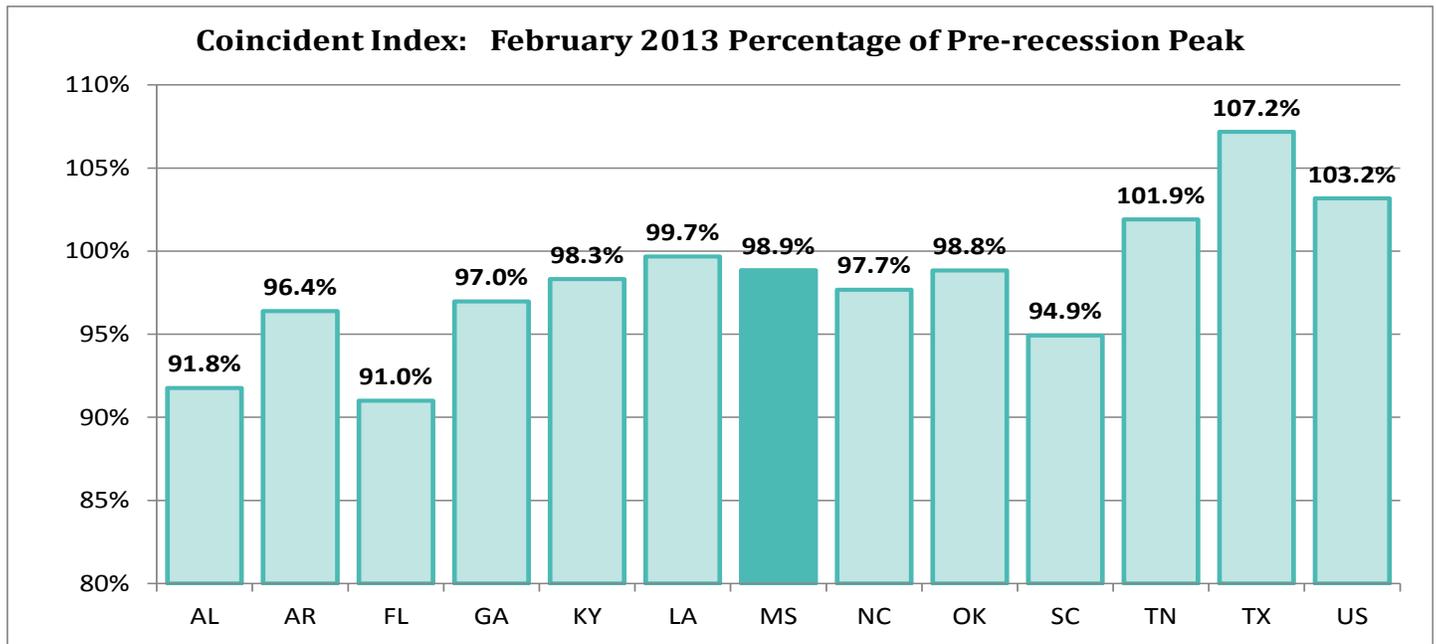
According to the Index, the State's economy strengthened in the latter half of 2012 with an improved labor market. The figure below compares the Mississippi Index with a similar Index for the Nation. Notice that while the Nation has improved steadily since late 2009, the State's recovery stalled between mid 2010 and late 2011. After modest improvement in late 2011, the recovery again stalled in the summer of 2012 before improving in late 2012. The State has suffered several setbacks since recovery began. Because of low income



levels, spikes in gas prices have hit the State especially hard. The devastation from flooding and tornados of 2011 also took a toll.

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. Mississippi was at 98.9 percent of its pre-recession peak in February. During the 2008 recession Mississippi saw less of a decline in its index than other southeastern states, but has also recovered more slowly.

The map on page 5 shows the February index for each state compared to the level three months prior. Mississippi's index rose 1.0 percent. There were four states that declined: Alabama, Illinois, Wyoming and Alaska.



National Trends

The U.S. Index of Leading Indicators rose 0.5 percent and the Coincident Index rose 0.2 percent in February. The Coincident Index had fallen dramatically in January after rising sharply in November and December. The February gain reveals a return to the slow upward trend in the series. The Conference Board expects continued slow growth in the near term.

Real GDP appears to have risen sharply in the first quarter, perhaps as much as 3.8 percent, according to IHS Global Insight. If true, that would be quite an improvement over the 0.4 percent gain in the fourth quarter. But these numbers mask the reality of a slow moving economy. The sharp slowdown of the fourth quarter was largely technical, as was the sharp rise of the first quarter. Moving beyond the down-up-down trends, the economy is poised to grow around 2.0 percent in 2013. Slightly below the 2.2 percent observed for 2012.

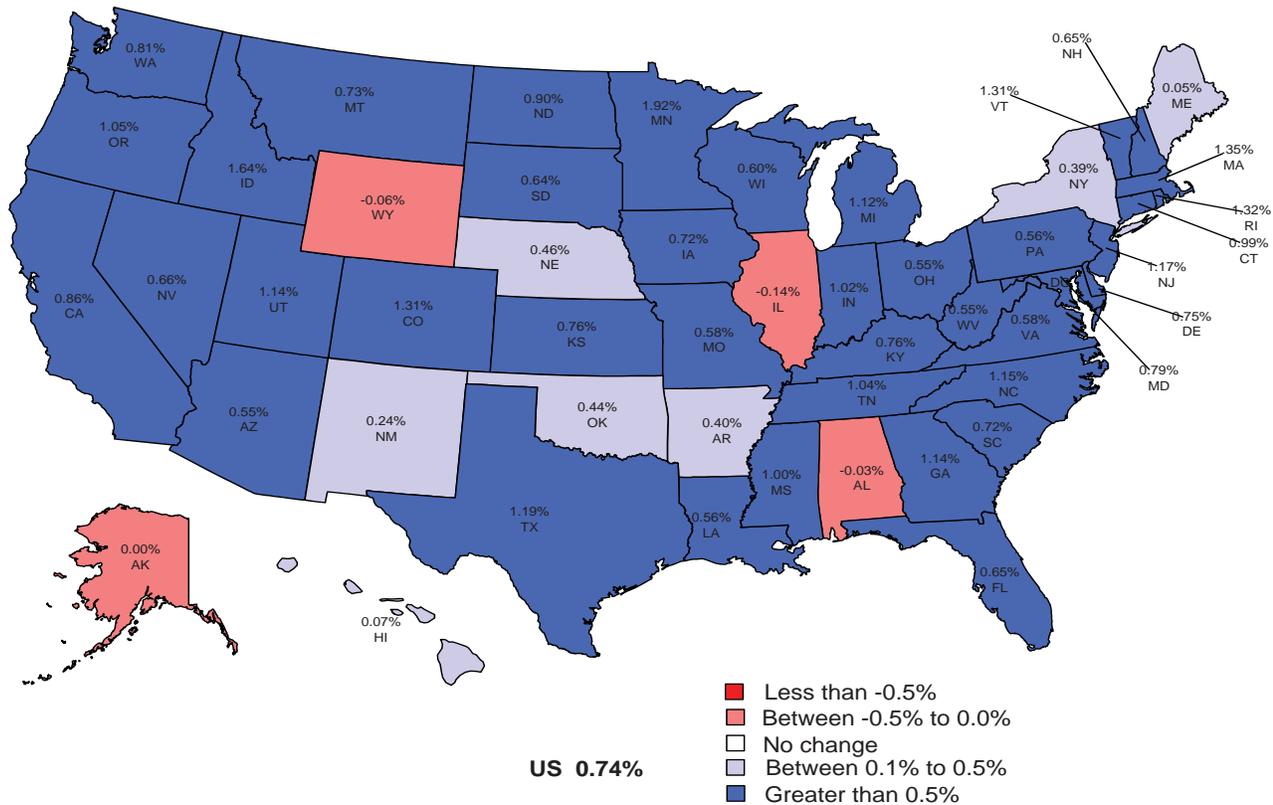
The economy seems fundamentally constrained to a slow growth mode. The high debt levels, the continued

slack in the housing market and the job market, the high level of uncertainty and lack of confidence will all be with us for a long time. To be sure we have seen improvement in some of these areas -- the housing market most notably. But month-to-month or quarter-to-quarter improvement does not change the fact that we have a long way to go before we are back to normal.

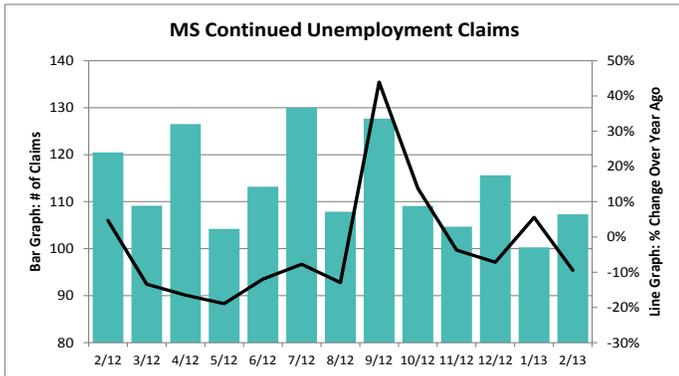
A big source of uncertainty is how the U.S. economy will respond to the full implementation of the Affordable Care Act. Some businesses have announced shifts in their hiring practices -- either fewer hires or a shift to part-time workers. It is not yet clear how widespread such action will be. This uncertainty is a constraining factor itself.

The March employment report was decisively negative with only an 88,000 gain of jobs. This will likely be revised upward as have been the previous two months. But job gains will still likely be below average for the past year. With most of the decline in retail trade, it is likely the slowdown was due in part to the rise in the payroll tax.

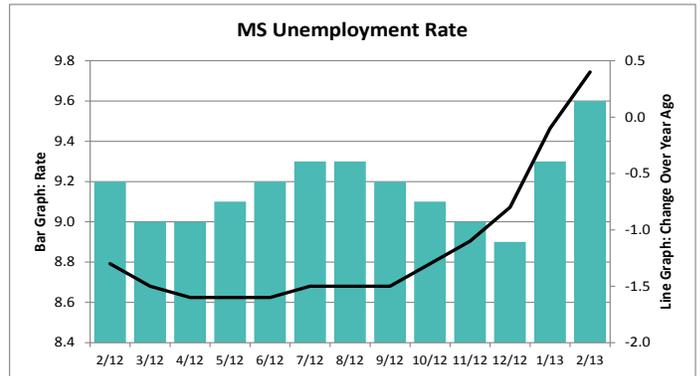
Three Month Growth in The Index of Coincident Economic Indicators, February 2013



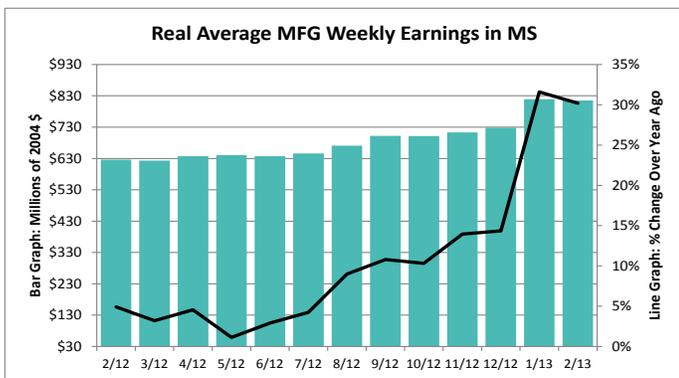
MISCELLANEOUS ECONOMIC INDICATORS



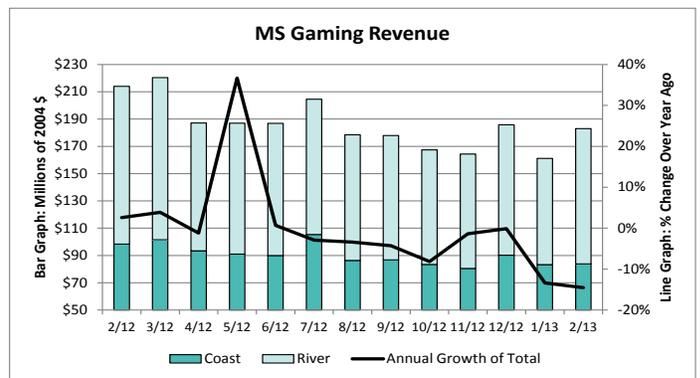
Source: Mississippi Department of Employment Security; Seasonally Adjusted



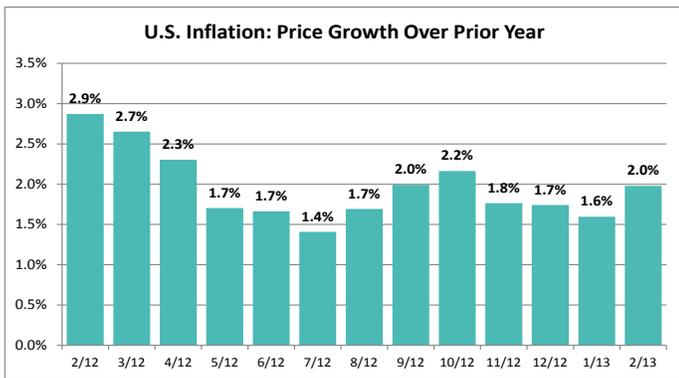
Source: U.S. Bureau of Labor Statistics; Seasonally Adjusted



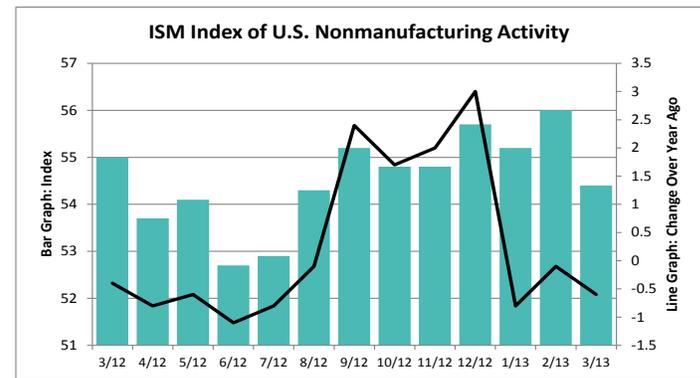
Source: U.S. Bureau of Labor Statistics; Nonseasonally Adjusted



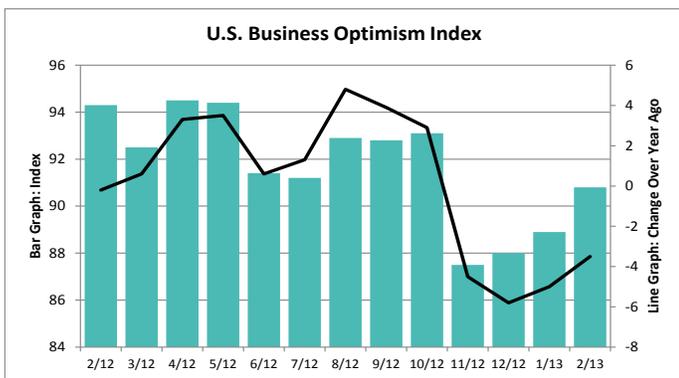
Source: MS Department of Revenue; Nonseasonally Adjusted



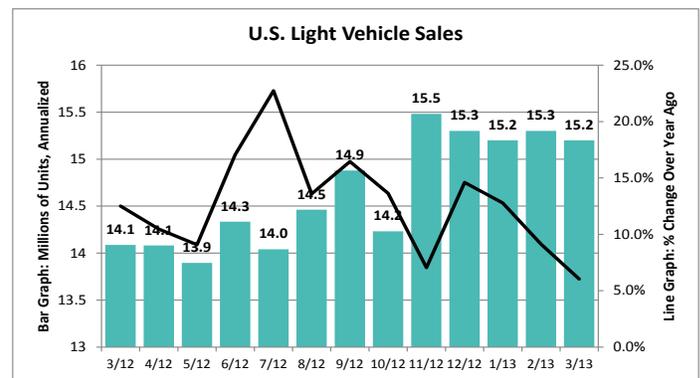
Source: U.S. Bureau of Labor Statistics



Source: Institute For Supply Management



Source: National Federation of Independent Businesses



Source: Bureau of Economic Analysis; Seasonally Adjusted Annual Rate

SELECTED ECONOMIC INDICATORS

Indicator	February 2013	January 2013	February 2012	Change from Last Mo. Last YR.	
US Index of Coincident Indicators 2004=100, Source: The Conference Board	105.1	104.9	104	0.2%	1.1%
MS Index of Coincident Indicators 2004=100, Source: Federal Reserve Bank of Philadelphia	105.8	105.5	103.1	0.3%	2.6%
US Index of Leading Indicators 2004=100, Source: The Conference Board	94.8	94.3	95.4	0.5%	-0.6%
MS Index of Leading Indicators 2004=100, Source: University Research Center	101.3	101.5	99.1	-0.2%	2.2%
MS Initial Unemployment Claims Source: Mississippi Department of Employment Security	11,567	12,734	12,777	-9.2%	-9.5%
MS Value Of Res. Building Permits 3 Mo. Moving Avg., Millions of 2004 Dollars, Source: Bureau of Census	\$53.7	\$50.2	\$43.6	6.9%	23.0%
MS Income Tax Withholdings 3 Mo. Moving Avg., Millions of 2004 Dollars, Source: MS Department of Revenue	\$101.4	\$106.4	\$103.2	-4.7%	-1.8%
MS MFG Emp. Intensity Index Indexed 2004 =100, Source: URC using data from Bureau of Labor Statistics	82.8	82.7	78.6	0.1%	5.3%
MS Diesel Fuel Consumption Index, 3 Mo. Moving Avg. 2004-100, Source: URC using data from MS Department of Revenue	96.9	97.1	109.3	-0.2%	-11.3%
US Index of Consumer Expectations 3 Mo. Moving Avg. Index 1996 q1=100, Source: University of Michigan	69.2	66.9	69.7	3.5%	-0.8%
US ISM Index of MFG Activity Advanced 1 Month, Source: Institute For Supply Management	51.3	54.2	53.3	-5.4%	-3.8%
US Retail Sales Millions of 2004 Dollars, Source: Bureau of Census	\$519,241	\$510,339	\$486,693	1.7%	6.7%
US Consumer Price Index 2004=100, Source: URC using data from Bureau of Labor Statistics	122.9	121.9	120.5	0.8%	2.0%
MS Unemployment Rate Source: Bureau of Labor Statistics	9.6%	9.3%	9.2%	0.3%	0.4%
MS Continued Unemp. Claims Source: Mississippi Department of Employment Security	107,300	100,263	120,486	7.0%	-10.9%
US Mortgage Rates 30 Yr. Conventional, Source: Federal Reserve	3.4%	3.4%	3.8%	0.0%	-0.4%
MS Avg. Hourly Wage for MFG 2004 Dollars, Source: Bureau of Labor Statistics	\$17.0	\$16.9	\$15.3	0.6%	11.7%
MS Avg. Wkly Earnings for MFG 2004 Dollars, Source: Bureau of Labor Statistics	\$815.1	\$819.4	\$626.0	-0.5%	30.2%
Business Optimism Index 1986=100, Source: National Federation of Independent Businesses	90.8	88.9	94.3	2.1%	-3.7%
Gaming Revenue	\$182.9	\$161.2	\$214.1	13.5%	-14.5%
Coast Counties	\$83.8	\$83.3	\$98.4	0.6%	-14.8%
River Counties	\$99.1	\$77.9	\$115.7	27.3%	-14.3%
Nonseasonally adjusted, Millions of Dollars, Source: MS Department of Revenue					

Economic Indices

Components of the MS Index of Leading Indicators

Miscellaneous Indicators

MISSISSIPPI'S 2012 EMPLOYMENT BETTER THAN PREVIOUSLY THOUGHT

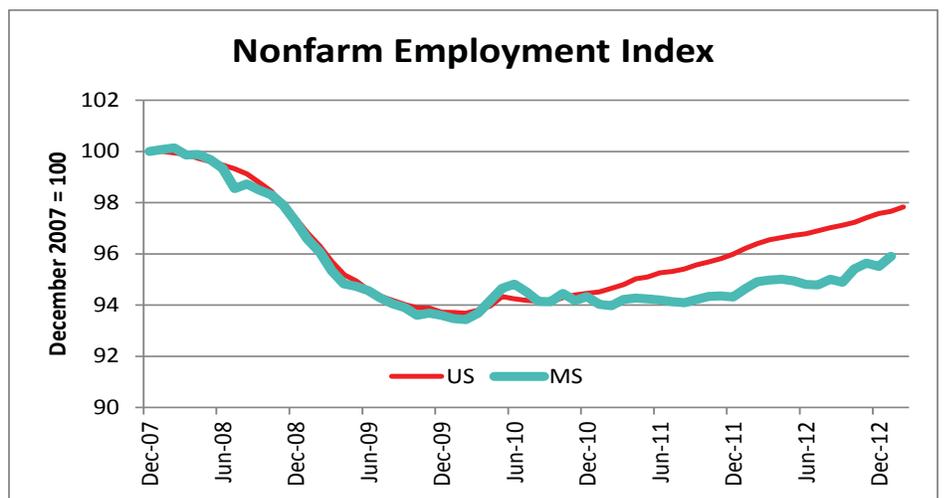
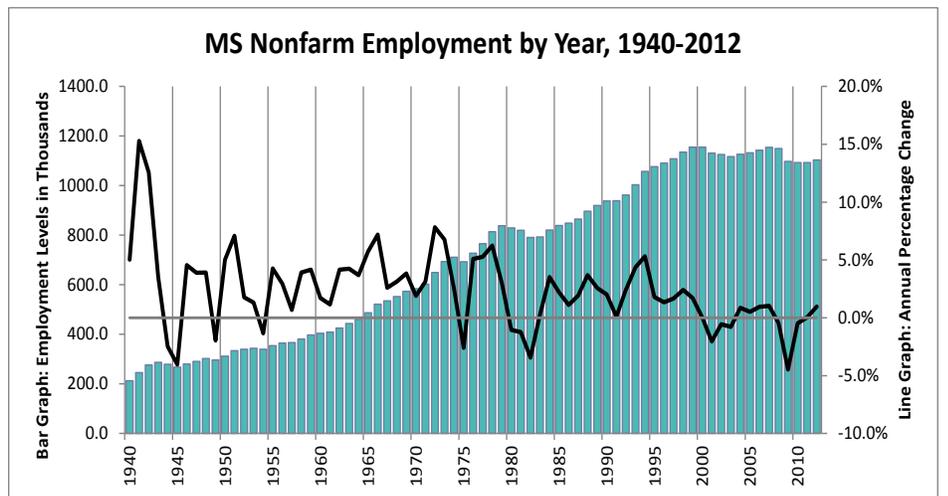
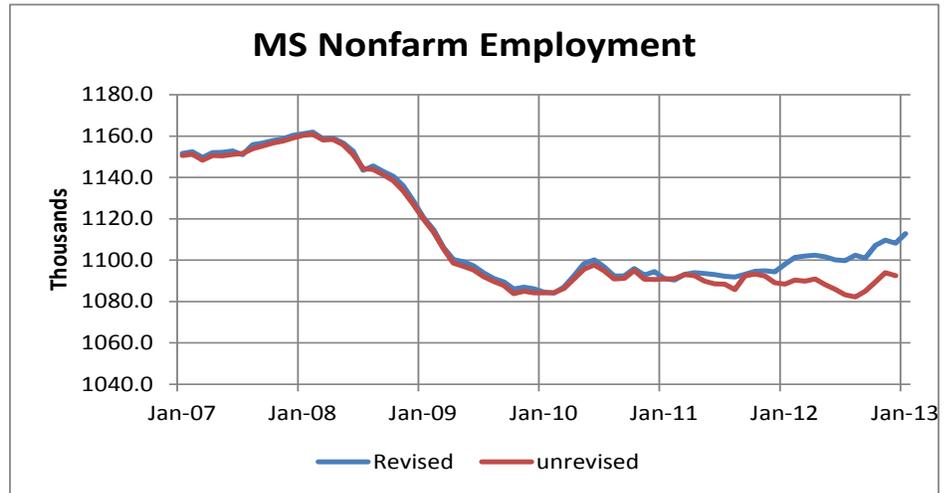
The Bureau of Labor Statistics has revised their employment data. The revisions to Mississippi were substantial.

The top figure to the right shows the revised and unrevised series. Most of the revision occurred in 2012, but there were changes to 2011 as well. Notice that the dip of 2011 and the larger decline in 2012 is much less pronounced with the revised data. The revised data also show a more robust upward trend in late 2012 than previously thought.

The unrevised data showed Mississippi employment declined 0.1 percent between 2010 and 2011 and 0.2 percent between 2011 and 2012. The revised data show flat employment change for 2011 and a 1.0 percent gain in 2012. With the revised data, Mississippi's employment growth for 2012 was on par with that of 2007.

The revised data still reveals a relatively slow recovery, but shows that employment has begun to expand in Mississippi. This is revealed in both lower graphs to the right. The middle graph in particular highlights the relatively flat job growth that has occurred since 2000. The graph shows annual average employment since 1940. Average employment for 2012 was 1,103,400. With the exception of 2009-2011 period, this was the lowest level of employment since 1996.

Employment remains well below the pre-recession peak. The State lost 77,800 jobs or 6.7 percent dur-



ing the great recession. As of January, the State had regained only 28,700 jobs, leaving us 4.2% below the pre-recession peak.

The bottom graph on page 8 compares Mississippi and the U.S. job performance since the great recession. Even with the revisions, Mississippi still lags behind the U.S. in job growth. Much of this can be attributed to the State's failure to grow in 2011 and early 2012. The Nation grew at a rate of 1.7 percent in 2011 while the State saw flat growth. The State was plagued by flooding and

tornadoes during that year in addition to a generally slow economy.

The strong growth in late 2012 is encouraging and suggests a gathering of momentum. It remains to be seen however if this an emerging trend or just wishful thinking.

MISSISSIPPI EMPLOYMENT TRENDS

Mississippi added 5,500 jobs in February. The 0.5 percent increase marks the 5th monthly gain in six months. February's employment level was the highest since January 2009.

The largest number of jobs occurred in the construction sector followed by education and health services and the leisure and hospitality services sectors. Retail trade and other services were the only sectors experiencing a decline.

The gains to construction are remarkable in that they reverse three

months of decline. The revised data show that construction's decline in 2012 was not as dramatic as previously thought, but the sector has lost jobs, nonetheless.

Relative to the year ago, nonfarm employment was up 17,000 jobs in February. Most of these gains were in the professional and business services sector. This sector has been growing strongly on the national level, but the unrevised data showed Mississippi was not seeing that growth. The revised data paints a different picture

with Mississippi's professional and business services sector showing substantial gains since August.

The leisure and hospitality sector also shows a strong growth relative to the year ago. On a percentage basis, the financial activities sector saw significant gains. The State's largest employer, the government, saw a mild gain relative to the other sectors. This sector rose 0.7 percent. The private sector grew over twice that rate at 1.8 percent.

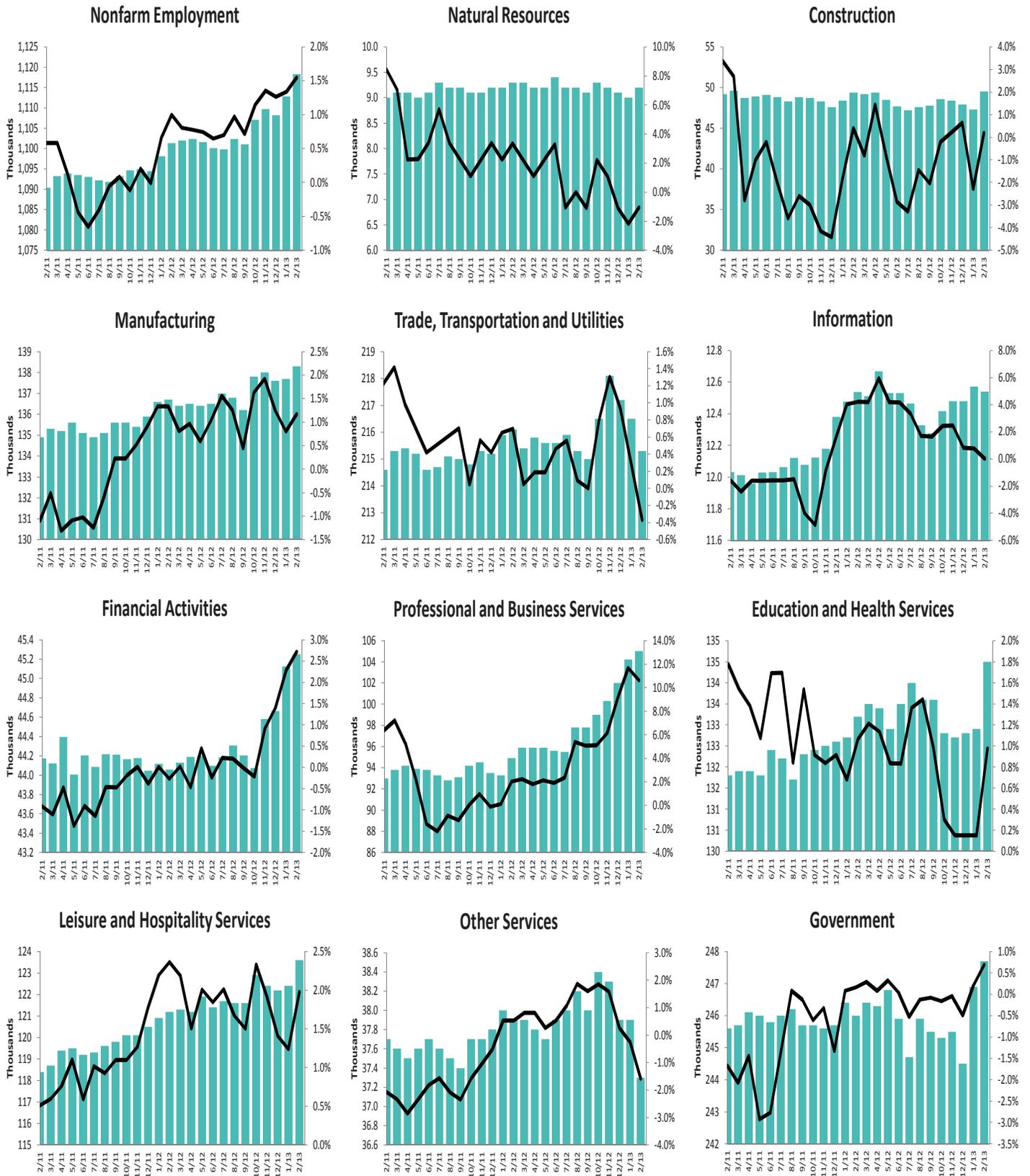
Mississippi Employment by Sector, Seasonally Adjusted

	Relative Share of Total*	February 2013	January 2013	February 2012	Change from Prior Month Level	%	Change from Prior Year Level	%
Total Nonfarm	100.0%	1,118,300	1,112,800	1,101,300	5,500	0.5%	17,000	1.5%
Mining and Logging	0.8%	9,200	9,000	9,300	200	2.2%	(100)	-1.1%
Construction	4.4%	49,500	47,300	49,400	2,200	4.7%	100	0.2%
Manufacturing	12.4%	138,300	137,700	136,700	600	0.4%	1,600	1.2%
Trade, Transportation & Utilities	19.5%	215,300	216,500	216,100	(1,200)	-0.6%	(800)	-0.4%
Retail Trade	12.1%	132,500	133,000	134,000	(500)	-0.4%	(1,500)	-1.1%
Information	1.1%	12,540	12,573	12,538	(32)	-0.3%	2	0.0%
Financial Activities	4.0%	45,254	45,125	44,057	128	0.3%	1,196	2.7%
Services	35.5%	400,400	397,400	387,200	3,000	0.8%	13,200	3.4%
Professional & Business Serv.	8.9%	105,000	104,200	94,900	800	0.8%	10,100	10.6%
Education & Health Services	12.1%	134,500	132,900	133,200	1,600	1.2%	1,300	1.0%
Leisure & Hospitality	11.0%	123,600	122,400	121,200	1,200	1.0%	2,400	2.0%
Other Services	3.4%	37,300	37,900	37,900	(600)	-1.6%	(600)	-1.6%
Government	22.2%	247,700	246,900	246,000	800	0.3%	1,700	0.7%

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

Source: U.S. Bureau of Labor Statistics

MISSISSIPPI EMPLOYMENT TRENDS



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