

# Mississippi's Business

June 2012

Monitoring The State's Economy

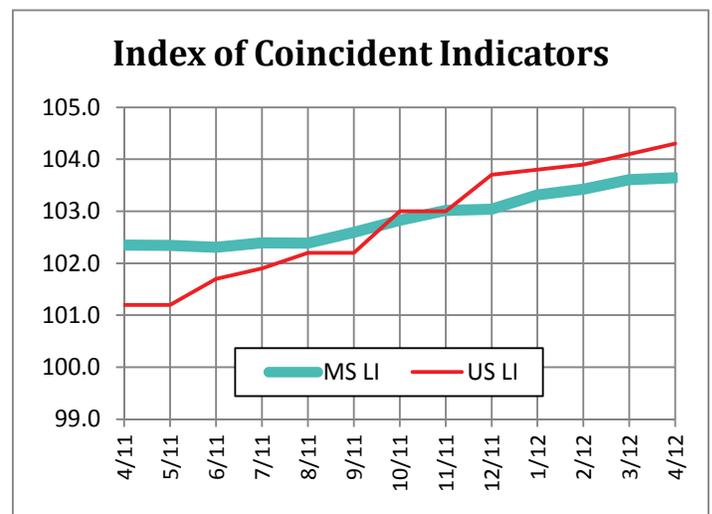
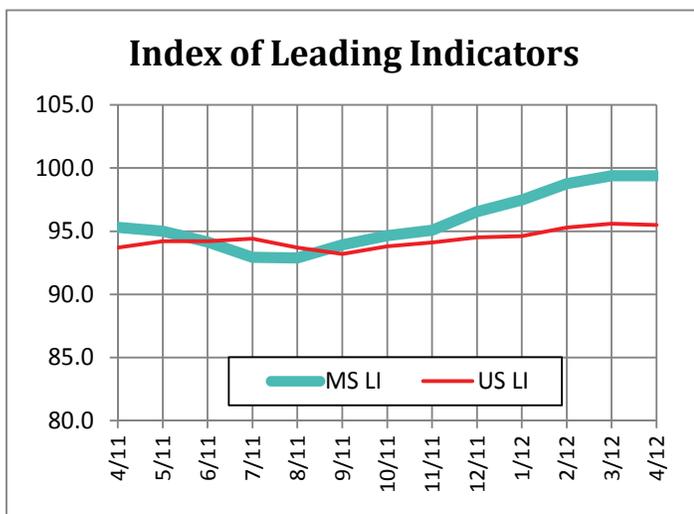
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## ECONOMY AT A GLANCE

Mississippi's Index of Leading and Coincident Indicators were unchanged in April. The state's economy appears to be losing momentum from the first quarter growth. The Bureau of Economic Analysis reports real gross domestic product declined 0.8 percent in 2011. Some have taken this to indicate the state entered a recession last year. There is no official definition of a state level recession. In our view the state's economy essentially stalled in 2011 but did not go into a recession. The decline in real GDP is of concern, but it should be noted that this is a preliminary number based on limited data and methodology. It will be revised in June 2013. The declining GDP figure is discussed in more detail on page 4.

While we do not believe the State is in a recession, we recognize that the economy is far from robust. In fact, the 2012 economy is shaping up to look very similar to that of 2011. Nationally, the economy is slowing as well. Employment growth, consumer spending and income growth are sluggish at best. We expected the national economy to slow as the effects from the inventory build up toward the end of 2011 and the boost from warmer weather in the first quarter gave way to the fundamental weaknesses in the economy. The parade of negative economic news is concerning nonetheless. Adding to the worry is the deteriorating conditions in Europe. It remains to be seen what will come from all of this, but a protracted European recession seems inevitable. One bright spot in the U.S. economy is the lower fuel prices. With the global economy slowing, we expect fuel prices to continue to trend down through the summer. This will give a much needed boost to consumers in the coming months.



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, APRIL 2012

The **Mississippi Index of Leading Economic Indicators** was unchanged in April from the revised March figure. This marked the weakest monthly change since the index declined in August 2011. The six-month growth rate was a strong 10.0 percent in April, but this rate was down from the previous two months. The apparent loss of momentum is troubling.

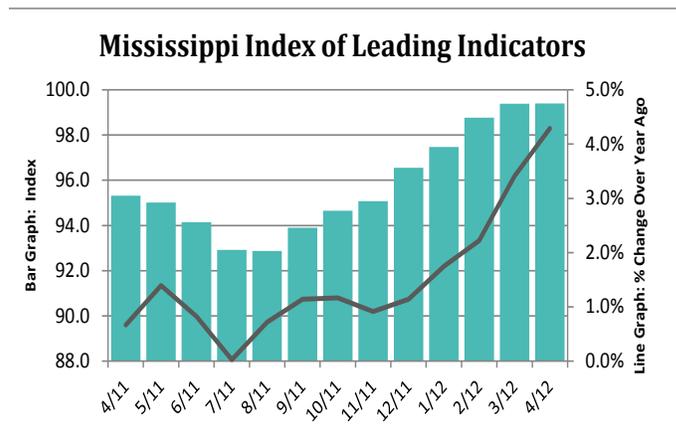
The National economic news has been particularly disappointing lately and it is apparent that growth has cooled. The flat April Leading Index suggests the State is losing momentum from that experienced in the first quarter. This is not really a surprise. The economy is fundamentally weak under the weight of the sluggish housing market, the uncertain fiscal and regulatory environment, a slowing global economy and the troubles in Europe. A slow growing economy is always vulnerable to shocks that can send it into a recession. That said, there is nothing within the indicators to suggest a recession is imminent. The economy is slowing however.

Four out of eight components contributed positively to the April Index. Four contributed negatively. Most indicators showed only modest change.

**The flat April Leading Index suggests the State is losing momentum from that experienced in the first quarter.**

The **Mississippi Manufacturing Employment Intensity Index** rose 1.6 percent for the month of April. Manufacturing employment and hours worked rose in April. The gain more than offset the decline that occurred in March bringing the April 2012 index to its highest point since May 2011. Despite the gain the index has been relatively flat since late 2010.

The **U.S. Index of Consumer Expectations**<sup>1</sup> rose a modest 1.9 percent in April. This was very similar to the gain in March. Although the index has risen for



seven consecutive months, the growth has weakened in recent months. The preliminary numbers for June show a substantial decline in expectations as we move into the summer months.

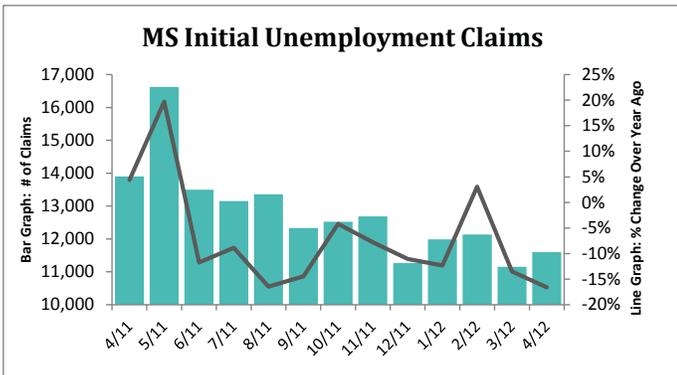
The **Mississippi Diesel Fuel Consumption Index**<sup>1</sup> rose a modest 1.1 percent in April over March. The gain was small relative to the large decline that occurred in March. Prior to the decline the series had risen for three consecutive months. The March and April Index are the lowest since November 2011.

The **value of Mississippi residential building permits**<sup>1</sup> rose a negligible 0.3 percent in April over March. The series has been relatively flat since November 2011. Housing remains one of the weakest sectors of the economy.

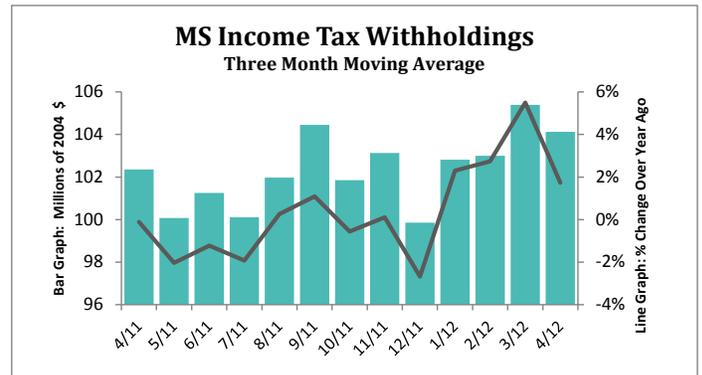
**U.S. Retail Sales** fell 0.2 percent in April. Preliminary data show the declining trend continued into May. Consumers are curtailing their spending. Some of the decline is due to lower sales at gas stations as a result of price reductions. But building supply stores also took a substantial hit as did several other sectors. With the slower job gains and nearly nonexistent income growth it is not surprising to see consumers cut back. In a separate but related report, light vehicles sold in May were an annualized 13.7 million units. For 2012 sales have averaged 14.3 million units.

1. Three Month Moving Average

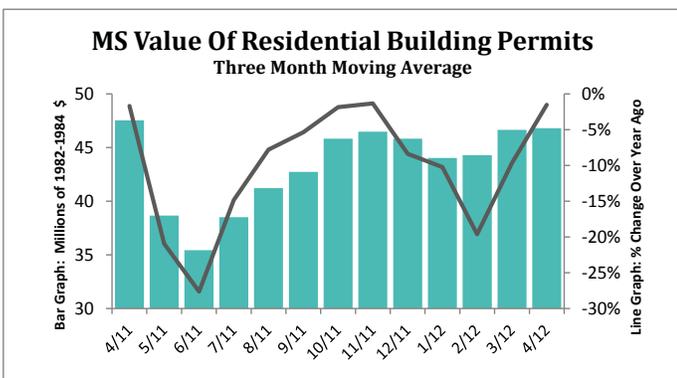
### LEADING ECONOMIC INDICATORS



Source: Mississippi Department of Employment Security



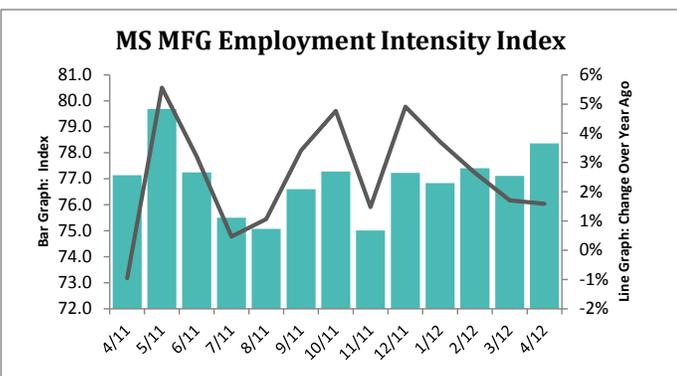
Source: Mississippi Department of Revenue



Source: Bureau of the Census



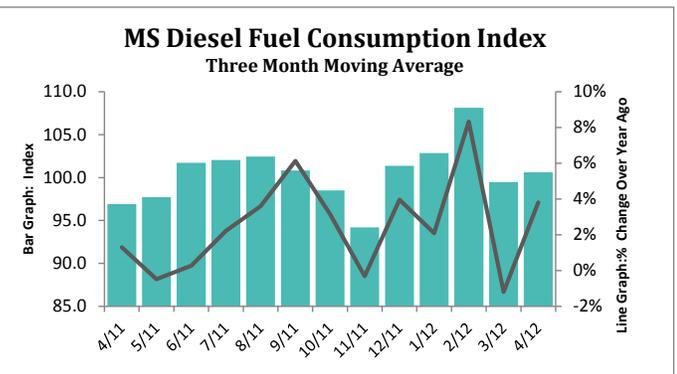
Source: Institute For Supply Management



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

**Mississippi's initial unemployment claims** rose 4.0 percent in April relative to March. The gain is relatively small and does not significantly alter the general downward trend that has been taking place in this series. The continued claims series is similarly trending downward, although in April there was an increase in continued claims.

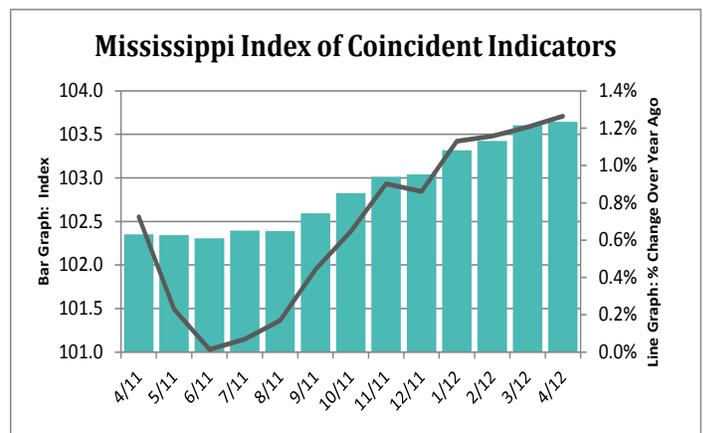
Inflation adjusted **Mississippi income tax withholdings**<sup>1</sup> fell 1.2 percent. The decline is relatively small and follows a sharp rise in March. Generally, the series has shown improvement in recent months. Withholdings have been above the year ago level for the past four months.

The **Institute for Supply Management Index of U.S. Manufacturing Activity** fell to 53.5 in May. This is concerning as it suggests a weakening in a sector that has been fueling growth. Digging into the details of the index shows a clear slowdown in production. The nonmanufacturing index has fallen in recent months as well.

The **Mississippi Index of Coincident Indicators** was 103.6 in April, unchanged from the downwardly revised March level. Since July 2011, the index has risen seven months and remained unchanged in three. The growth relative to six months prior dropped to 1.6 percent, the weakest gain since December 2011. The index was above the prior year's level by 1.2 percent.

The figure below shows a comparison of the April 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". Louisiana, Oklahoma and Texas have fully recovered. Mississippi was at 96.3 percent of the peak. Kentucky and Tennessee are ahead of Mississippi.

The map on page 5 shows the relative performance of the fifty states. The March index is compared to the level three months prior. All fifty states showed improvement.

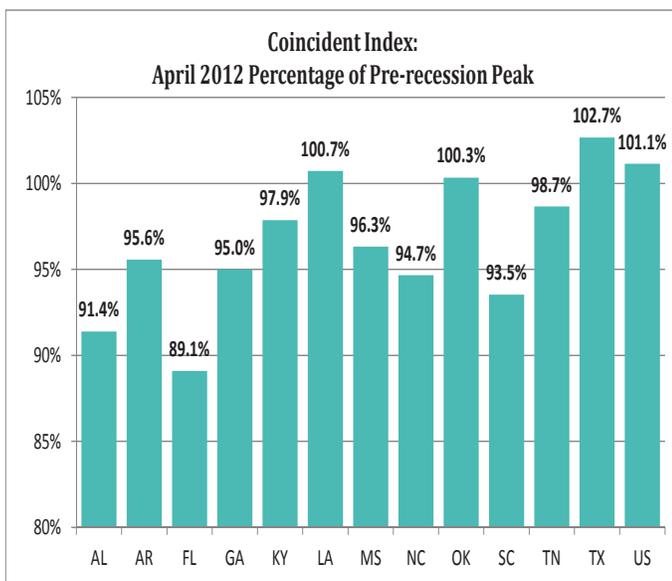


Mississippi saw a relatively slow growth of 0.3 percent. The U.S. average was 0.8 percent.

### PRELIMINARY ESTIMATES SHOW MS REAL GDP DECLINED IN 2011

The Bureau of Economic Analysis (BEA) recently released preliminary estimates for 2011 Gross Domestic Product (GDP) by state. GDP attempts to quantify the total value added of all goods and services produced within a given economy. It is estimated by measuring payroll, profits and taxes by industry.

The preliminary estimates are based on a more limited data set than is used for the final data as well as an abbreviated methodology. Historically, BEA did not release these estimates, opting instead for the more complete analysis with an 18 month lag. In an attempt to reduce the lag time, BEA began the abbreviated methodology. It is important that we keep these limitations in mind as we consider the recent findings.



According to the preliminary estimates, Mississippi experienced a 0.8 percent decline in real GDP in 2011, making last year's growth the second worst in twenty years. According to the BEA, 2011 was a worse year for growth than 2001. In 2001 the state lost 2.0 percent of its employment. In 2011, the loss was only 0.1 percent. We believed that the Mississippi economy essentially stalled in 2011 but did not contract. This is based on our tracking of the Mississippi Index of Coincident Indicators (MSCI) as well as monitoring the economy throughout the year. Admittedly, the MSCI is more sensitive to employment trends than is the GDP data. But the gap between the 2011 GDP growth and that of MSCI seems especially large (See figure at the top of page 7).

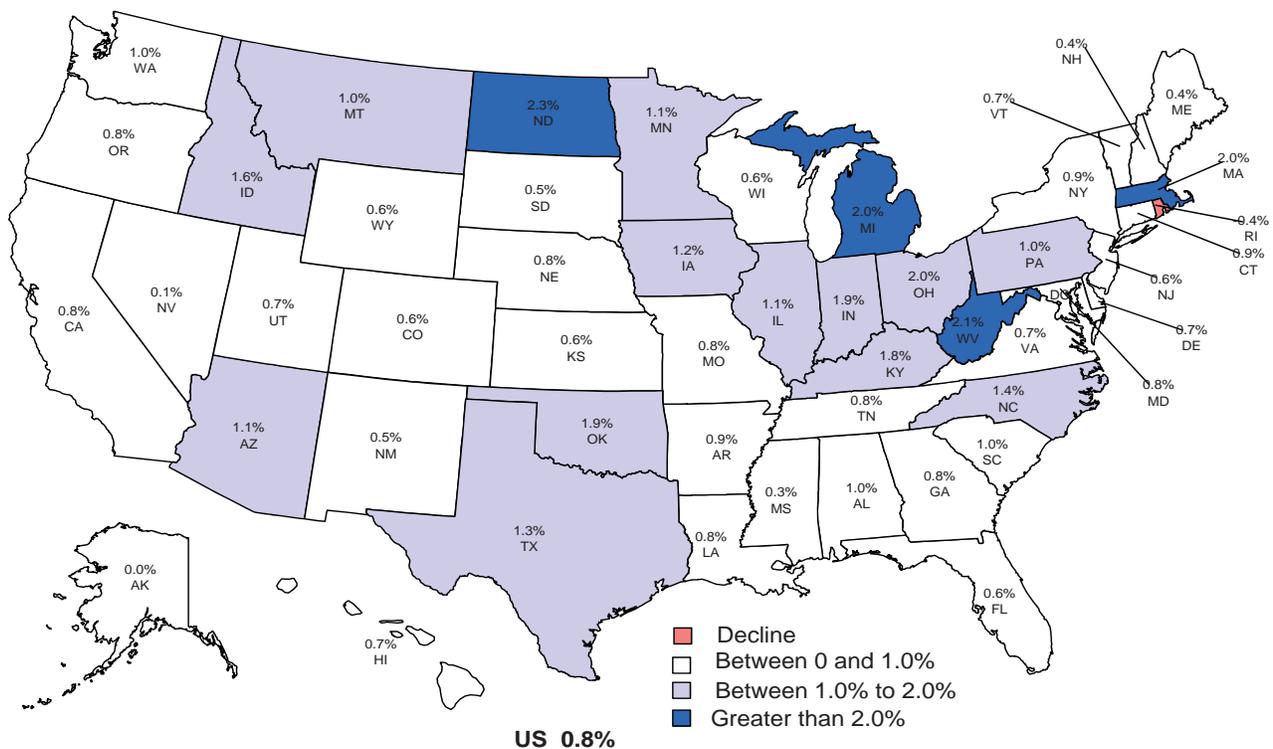
We know that 2011 was not a good year economically. Like the rest of the Nation, the State experienced the fallout from the spike in oil prices, the supply disruptions from the disasters in Japan and the general economic malaise that characterized 2011. Additionally, Mississippi endured tornados and flooding which left over half of the counties designated as disaster areas. These issues clearly took a toll on the state. The

economy may have even dipped at various points in the year. But it seems less likely that the State experienced the severe downturn depicted by the GDP data.

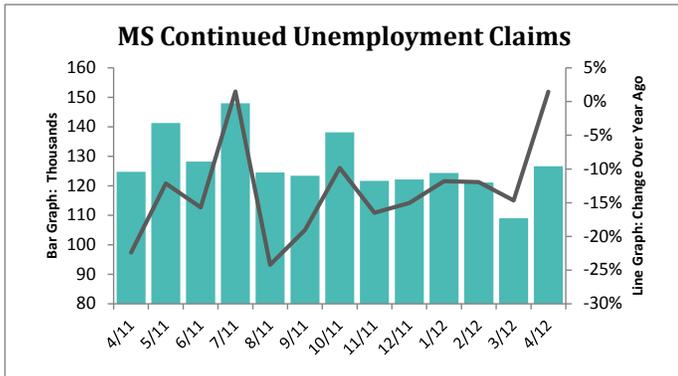
It is possible that the methodology used by BEA to adjust for inflation is exaggerating the decline. In nominal terms, Mississippi saw a 2.4 percent gain. This was well below the 3.9 percent observed nationally, but was positive nonetheless. In order to adjust for price changes, BEA uses National industry level price deflators to adjust state GDP data by industry. The price adjusted GDP data is then summed across industries to get the total price adjusted GDP. There are no price deflators that are state specific. BEA assumes each state endures the same level of inflation within a given industry. The results can be remarkable.

For example, nominal GDP for Mississippi agriculture rose 7.7 percent. After adjusting for inflation, the Mississippi agriculture GDP declined 16.2 percent. The sharp rise in commodity prices is blamed for the dramatic change. The relatively large share of agriculture in Mississippi means this steep price increase greatly affects total real GDP. Similarly, the state saw a dra-

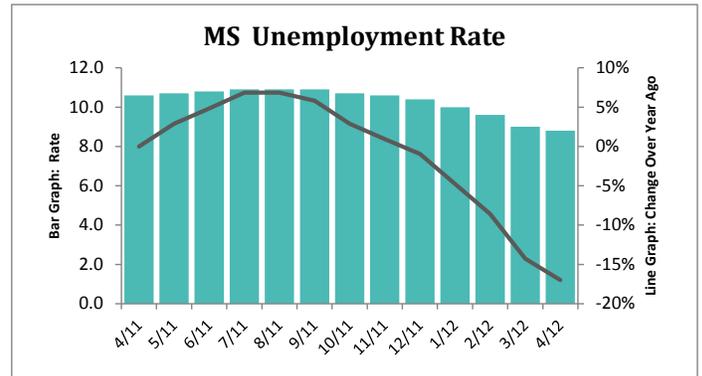
Three Month Growth in The Index of Coincident Economic Indicators, April 2012



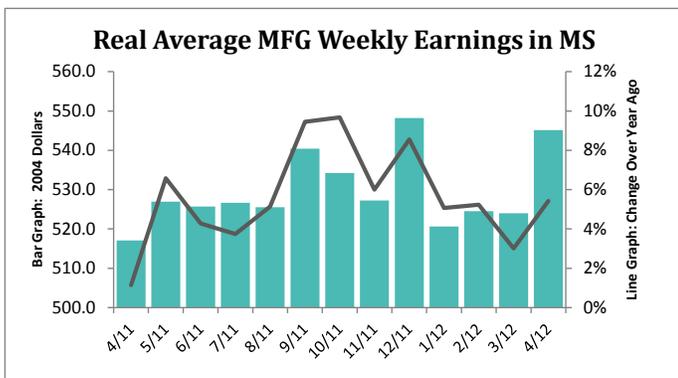
MISCELLANEOUS ECONOMIC INDICATORS



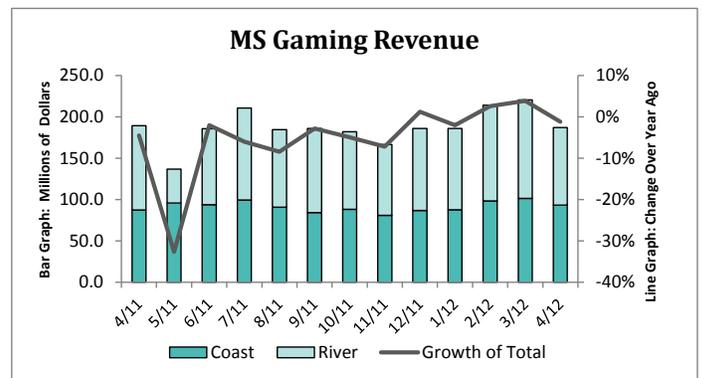
Source: Mississippi Department of Employment Security; Seasonally Adjusted



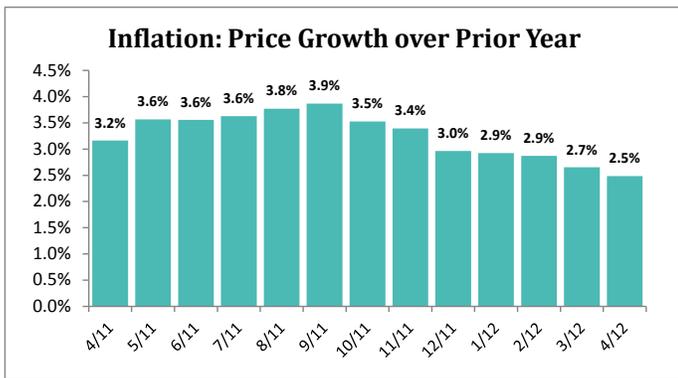
Source: U.S. Bureau of Labor Statistics; Seasonally Adjusted



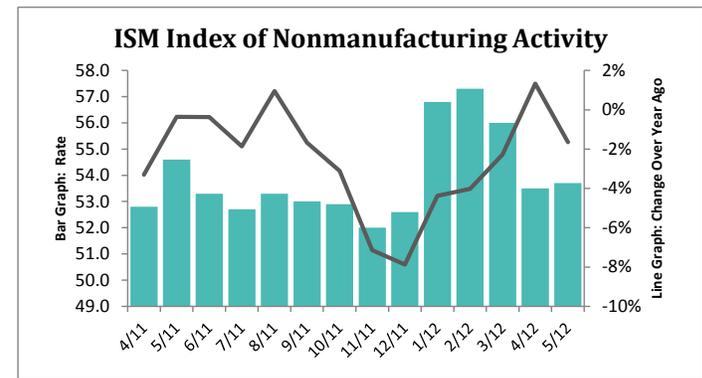
Source: U.S. Bureau of Labor Statistics; Nonseasonally Adjusted



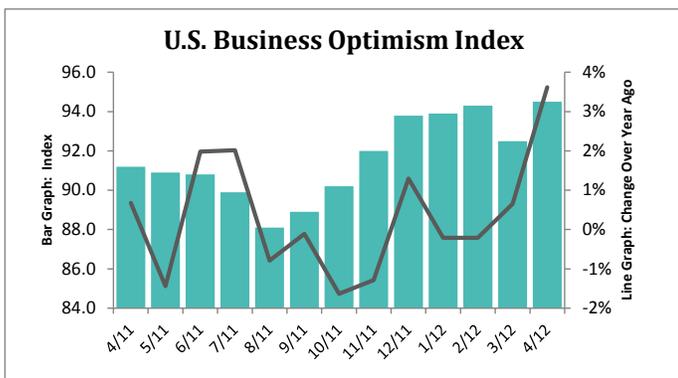
Source: MS Department of Revenue; Nonseasonally Adjusted



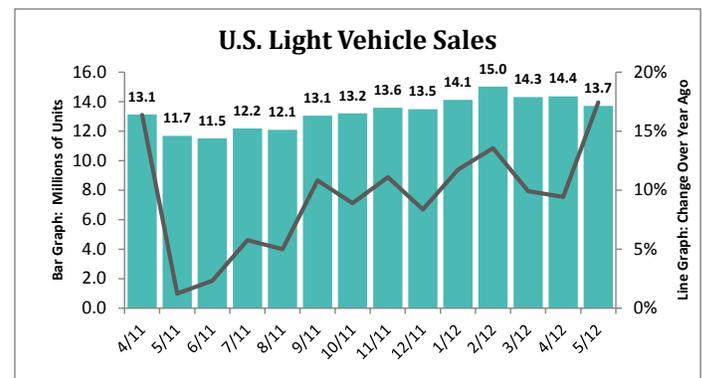
Source: U.S. Bureau of Labor Statistics



Source: Institute For Supply Management



Source: National Federation of Independent Businesses



Source: Bureau of Economic Analysis; Seasonally Adjusted Annual Rate

matic decline in nondurable goods manufacturing resulting from higher petroleum prices.

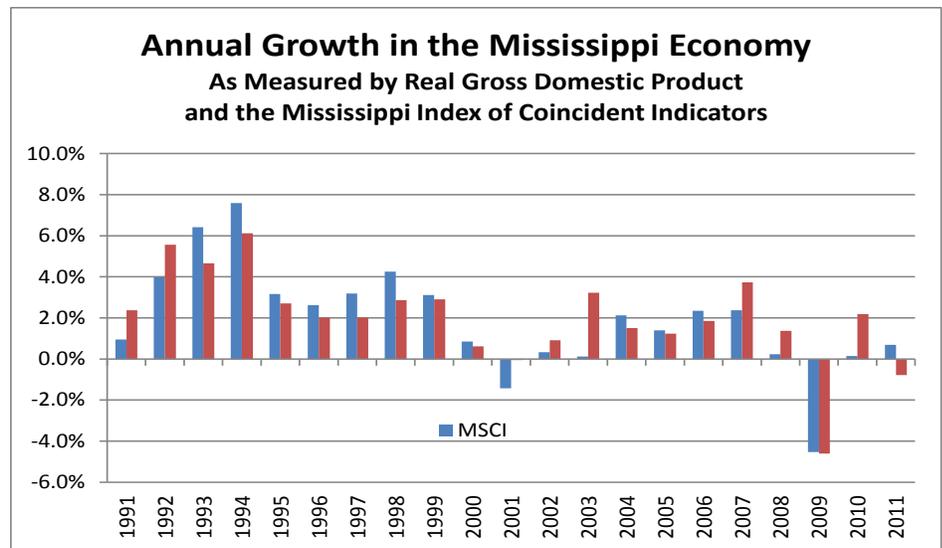
When we sum across all industries these sectors with large price gains greatly affect Mississippi real GDP. Had Mississippi's average price deflator been equal to that of the Nation, the State's real GDP data would have reflected flat growth. This is not to say that BEA is in error in their analysis, only to point out that much of the problem is price driven. Furthermore it is unclear if actual Mississippi prices were equal to that of the Nation as assumed by the methodology.

Of course price gains are not the only reason for decline in GDP. In nominal terms, the state saw significant declines in GDP from the utilities sector and the arts entertainment and recreation sector. The state also experienced extremely slow growth in the government sector in nominal terms. Once adjusted for inflation,

### National Trends

The U.S. Index of Leading Indicators declined 0.1 percent in April relative to March. This was the first decline in seven months. Half of the components contributed to the decline. The Coincident Index gained 0.2 percent for the month.

Economic news has been decidedly negative in recent weeks. Employment growth has fallen. Monthly gains have been below 100,000 for the past two months. Consumer spending is slowing. With very little income growth and high debt levels, there is little hope that for a dramatic improvement in spending. Conditions in Europe have deteriorated and a prolonged recession for Europe seems inevitable.



real GDP in government experienced a decline. The state saw significant declines in local government activity in 2011. Additionally there was a dramatic reduction in government spending due to the ending of the stimulus funding.

Given these issues, it is possible that real GDP did in fact decline in 2011. We suspect the decline was more moderate than the preliminary estimate indicate. Fur-

The one bright spot is lower oil prices. With a slower global economy we expect prices to continue to improve in the coming months. This will give support to the growth in the second half of 2012.

Dubbed the "fiscal cliff" or "tax-magedden" the Nation faces dramatic government spending cuts accompanied by rising taxes at the end of the year. It is unlikely these issues will be resolved before the election and little hope of a long-term solution before the end of the year. It is more likely some last-minute temporary fix is enacted which will push the problem on to the next congress and president. This ensures the high degree of uncertainty will continue into 2013. It is likely that these issues are

already reducing risk-taking and will further erode sentiment as we move through the year.

IHS Global Insight gives a 20 percent probability of a recession. This is unchanged from the previous few months. They site the trouble in Europe as the greatest downside risk.

We are also concerned with the low income growth. Year-over-year income growth is essentially flat. It is highly unusual that a recession would not accompany such poor income growth. With the slowdown in the global economy and the fundamental weakness of the domestic economy, we are concerned about the economy going forward.

## SELECTED ECONOMIC INDICATORS

Indicator	April		April 2011	Change from		
	2012	March 2012		Last Month	Last Year	
<b>US Index of Coincident Indicators</b> Index 2004=100, Source: The Conference Board	104.3	104.1	101.2	0.2%	3.1%	Economic Indices
<b>MS Index of Coincident Indicators</b> Index 2004=100, Source: Federal Reserve Bank of Philadelphia	103.6	103.6	102.4	0.0%	1.2%	
<b>US Index of Leading Indicators</b> Index 2004=100, Source: The Conference Board	95.5	95.6	93.7	-0.1%	1.9%	
<b>MS Index of Leading Indicators</b> Index 2004=100, Source: University Research Center	99.4	99.4	95.3	0.0%	4.3%	
<b>MS Initial Unemployment Claims</b> Source: Mississippi Department of Employment Security	11,593	11,150	13,898	4.0%	-16.6%	Components of the MS Index of Leading Indicators
<b>MS Value Of Res. Building Permits</b> 3 Mo. Moving Average, Millions of 2004 Dollars, Source: Bureau of Census	46.8	46.6	47.5	0.3%	-1.5%	
<b>MS Income Tax Withholdings</b> 3 Mo. Moving Average, Millions of 2004 Dollars, Source: MS Department of Revenue	104.13	105.39	102.36	-1.2%	1.7%	
<b>MS MFG Emp. Intensity Index</b> Average workweek length times employment, Indexed 2004 =100, Source: URC using data from Bureau of Labor Statistics	78.4	77.1	77.1	1.6%	1.6%	
<b>MS Diesel Fuel Consumption Index</b> 3 Mo. Moving Average, Index 2004-100, Source: URC using data from MS Department of Revenue	100.6	99.5	96.9	1.1%	3.8%	
<b>US Index of Consumer Expectations</b> 3 Mo. Moving Average, Index 1996=100, Source: University of Michigan	72.1	70.8	63.0	1.9%	14.5%	
<b>US ISM Index of MFG Activity</b> Advanced 1 Month (March Index appears as February), Source: Institute For Supply Management	53.5	54.8	60.4	-2.4%	-11.4%	
<b>US Retail Sales</b> Millions of Dollars, Source: Bureau of Census	405,287	406,200	383,810	-0.2%	5.6%	Miscellaneous Indicators
<b>US Consumer Price Index</b> 2004=100, Source: URC using data from Bureau of Labor Statistics	121.4	120.5	118.3	0.8%	2.7%	
<b>MS Unemployment Rate</b> Source: Bureau of Labor Statistics	9.0%	9.6%	10.5%	-0.6%	-1.5%	
<b>MS Continued Unemp. Claims</b> Source: Mississippi Department of Employment Security	108,953	121,089	127,706	-10.0%	-14.7%	
<b>US Mortgage Rates</b> 30 Yr. Conventional, Source: Federal Reserve	3.9%	3.9%	4.8%	0.0%	-0.9%	
<b>MS Avg. Hourly Wage for MFG</b> Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	56.00	57.30	57.30	-2.3%	-2.3%	
<b>MS Avg. Wkly Earnings for MFG</b> Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	524.0	524.5	508.7	-0.1%	3.0%	
<b>Gaming Revenue</b>	220.4	214.1	212.1	3.0%	3.9%	
<b>Coast Counties</b>	101.6	98.4	96.9	3.3%	4.8%	
<b>River Counties</b>	118.8	115.7	115.2	2.7%	3.1%	
Nonseasonally adjusted, Millions of Dollars, Source: MS Department of Revenue						
<b>Business Optimism Index</b> Index 1986=100, Source: National Federation of Independent Businesses	92.5	94.3	91.9	-1.9%	0.7%	

MISSISSIPPI EMPLOYMENT BY SECTOR

Sector	Relative Share of Total*	Employment			Change from Prior Month		Change from Prior Year	
		April 2012	March 2012	April 2011	Level	%	Level	%
<b>Total Nonfarm</b>	<b>100.0%</b>	<b>1,090,700</b>	<b>1,089,900</b>	<b>1,092,500</b>	<b>800</b>	<b>0.1%</b>	<b>(1,800)</b>	<b>-0.2%</b>
Mining and Logging	0.8%	9,300	9,300	9,000	-	0.0%	300	3.3%
Construction	4.4%	47,000	47,800	49,100	(800)	-1.7%	(2,100)	-4.3%
Manufacturing	12.3%	136,100	135,300	135,300	800	0.6%	800	0.6%
Trade, Transportation & Utilities	19.6%	213,800	212,000	215,400	1,800	0.8%	(1,600)	-0.7%
Retail Trade	12.1%	132,800	130,800	133,600	2,000	1.5%	(800)	-0.6%
Information	1.1%	11,884	11,693	11,977	191	1.6%	(93)	-0.8%
Financial Activities	4.1%	45,283	44,773	44,691	510	1.1%	592	1.3%
Services	35.0%	380,600	381,400	381,200	(800)	-0.2%	(600)	-0.2%
Professional and Business Services	8.6%	92,100	93,900	94,400	(1,800)	-1.9%	(2,300)	-2.4%
Education and Health Services	12.5%	137,100	137,000	133,900	100	0.1%	3,200	2.4%
Leisure and Hospitality	10.7%	117,100	116,400	119,100	700	0.6%	(2,000)	-1.7%
Other Services	3.1%	34,300	34,100	33,800	200	0.6%	500	1.5%
Government	22.6%	246,900	247,600	246,000	(700)	-0.3%	900	0.4%

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

Source: U.S. Bureau of Labor Statistics

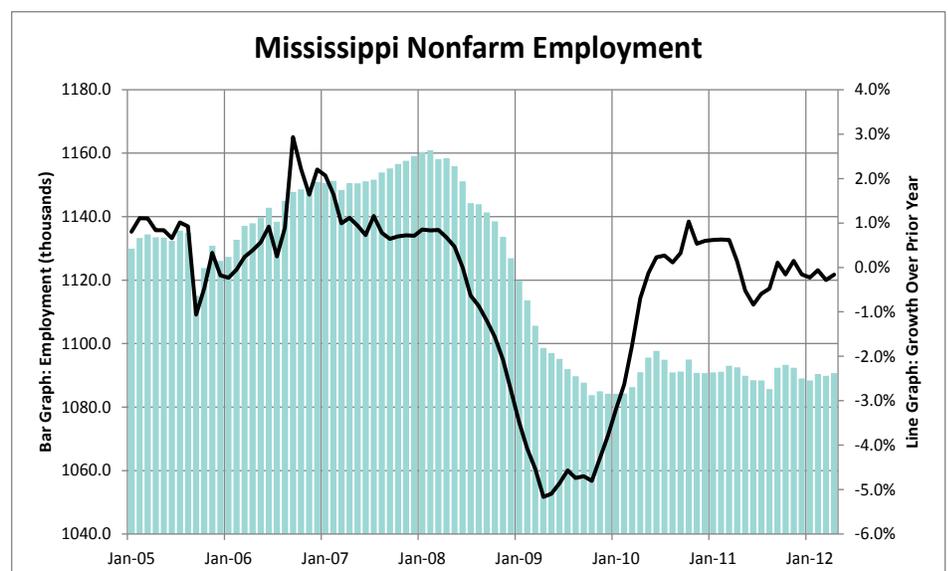
Mississippi Employment Trends

Mississippi nonfarm employment rose a modest 800 jobs or 0.1 percent in April relative to March. The gain more than restored the loss in March. Gains in manufacturing were offset by declines in construction. Gains in trade transportation were offset by declines in professional business services.

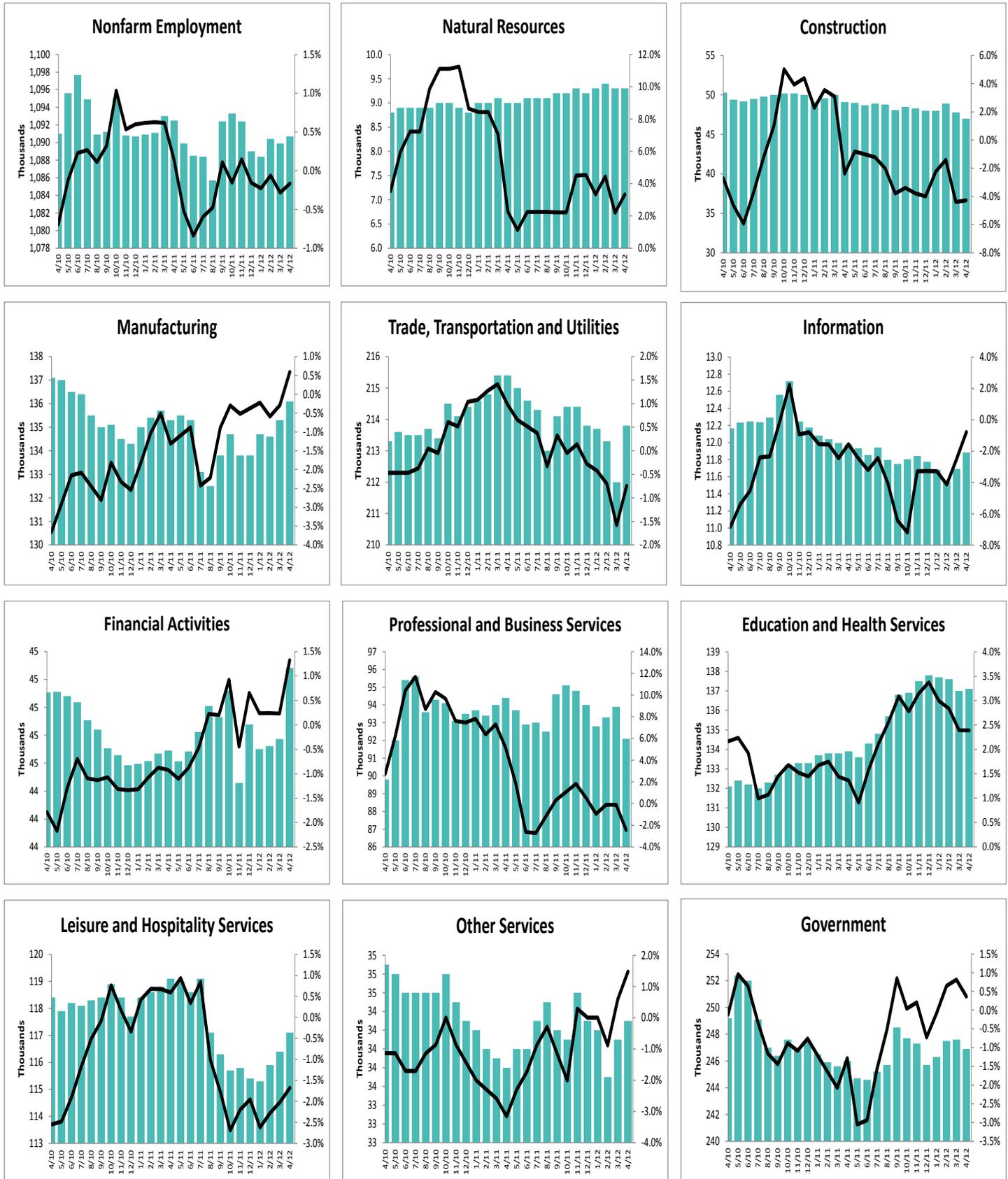
These monthly fluctuations mask the fact that employment in the state is nearly stagnant. The figure to the right shows that the Mississippi employment situation has only modestly improved since the depth of the recession. Between February 2008 and October 2009, the state lost over 77,000 jobs. While the Nation has been officially out of recession since June 2009, the State remains over 70,000 jobs below the February 2008 peak.

Relative to the year ago, employment was down 1,800 jobs or 0.2 percent. Employment has declined relative to the year ago in ten of the past twelve months.

Individual sector trends are available on page 10. A few trends of note include the gradual improvement in manufacturing employment. This industry has added jobs in five of the past eight months. The April employment level for manufacturing was the highest since July 2010. Also notice that after a sharp uptick in 2010, government jobs have been relatively flat. Leisure and hospitality employment has risen for three consecutive months.



MISSISSIPPI EMPLOYMENT TRENDS



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