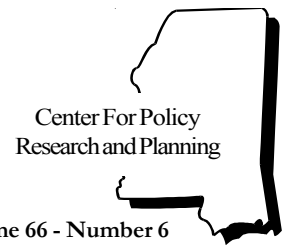


# MISSISSIPPI'S BUSINESS



July 2008

Monitoring the State's Economy

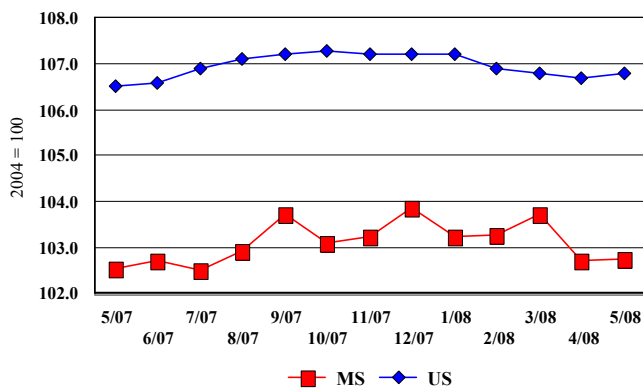
Volume 66 - Number 6

## ECONOMY AT A GLANCE

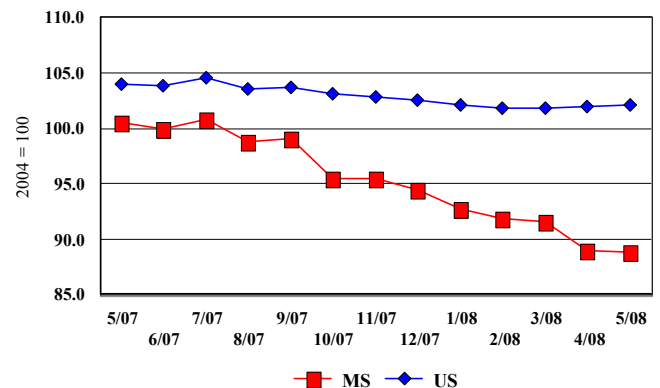
The Mississippi Index of Coincident Indicators was flat in May relative to April. The Index of Leading indicators continued to fall in May, but by less than in recent months. Additionally, the decline in the Leading Index was not as broadly supported as in recent months, offering some room for optimism. The economy remains weak, and the outlook continues to be for a sluggish economy.

The National economy remains weak, but the U.S. Coincident and Leading Indices improved somewhat in May. The troubles in the financial sector are not over and will continue to dampen growth in the second half of 2008. The stimulus package likely boosted growth modestly in the second quarter, but that growth will dissipate. The falling dollar has improved export growth, which has supported the U.S. economy in recent years. With slowing growth globally, export growth may cool in the near future.

Index of Coincident Indicators



Index of Leading Indicators



### MISSISSIPPI'S BUSINESS

Mississippi Institutions of Higher Learning  
University Research Center  
Department of Forecast and Analysis

3825 Ridgewood Road  
Jackson, Mississippi 39211-6453  
Telephone (601) 432-6742  
Fax (601) 432-6994

Darrin M. Webb  
dwebb@ihl.state.ms.us

Now available via e-mail  
Send requests to above address

## In This Issue

<i>Economy at a Glance</i> .....	1
<i>The Falling Dollar</i> .....	9

## Visit us on the web

<http://www.ihl.state.ms.us/urc/planning/econdept.htm>

The last twelve issues of Mississippi Business are available on our web site. On this web site you will also find copies of some of our other publications, including *Population Projections*, *Mississippi Economic Review and Outlook*, and *The Handbook of Selected Data*. You will also find links to other useful data sources.

### Coincident Indicators

The Mississippi Index of Coincident Indicators was 102.7 in May, unchanged from the April level. Mississippi nonagricultural employment fell in May relative to April, while individual income tax withholdings grew.

The index has been below the level six months prior for three consecutive months. This pattern has historically occurred during weak economic periods. The six-month growth rate was negative three months following Hurricane Katrina. The six-month growth rate was negative for eleven consecutive months ending in August 2003 and for 22 consecutive months ending in April 2002. The 2000-2002 slowdown was a particularly long-lasting and deeply declining period.

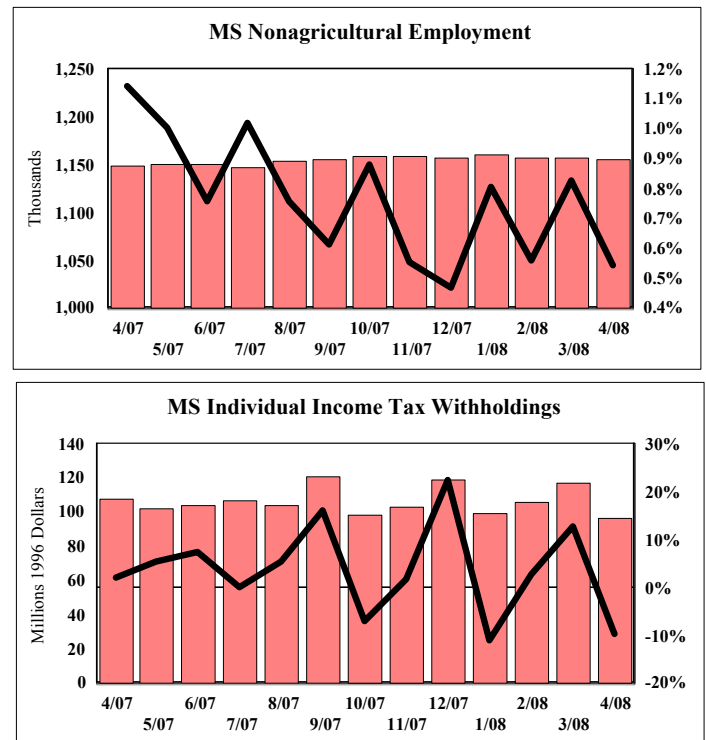
Nonagricultural employment declined 0.2 percent in May relative to April. This represents a decline of 2,047 jobs. Nonfarm employment peaked in Mississippi in January 2008. Since that time the state has lost an average of 1,900 jobs per month. There were 7,607 fewer jobs in Mississippi in May than in January. That represents a loss of 0.7 percent.

Declines in the construction industry accounted for the majority of the jobs lost in May relative to April. This sector lost 992 jobs or 1.7 percent in May. State government accounted for another 744 jobs, or a decline of 1.2 percent from April.

The manufacturing industry continued its decline with a loss of 667 jobs or 0.4 percent. It was recently announced that Whirlpool was closing its plant in Oxford, Mississippi. The company was also closing a plant in Mexico and moving operations to their Tennessee plant. This move is likely tied to the slowdown in the housing market rather than the movement offshore that has occurred to such a large extent in recent years.

Mississippi employment in manufacturing peaked in December 1994 (see figure on the bottom of page 3). The decline in this industry was especially pronounced between mid 1999 and mid 2003 when the state lost over 55,000 jobs in manufacturing.

Mississippi Index of Coincident Indicator Components



#### NOTE:

The bar graphs above represent the seasonally adjusted monthly series and correspond to the left-hand axis. The line graphs represent the growth rate over the prior year's value and correspond to the right-hand axis.

#### SOURCES:

Mississippi Employment Security Commission.  
Mississippi State Tax Commission.

Employment levels were fairly stable between 2003 and 2005, but have declined for the past 3 years.

The decline since 2007 has been steep. On average the employment in manufacturing has declined 5,200 jobs or 3.0 percent for the first five months of 2008 compared to the same period of 2007. The furniture industry has accounted for the largest portion of these lost jobs (2,000 jobs or 8.1 percent). Large declines have also occurred in machinery (700 jobs or 5.5 percent) electrical equipment (700 jobs or 6.7 percent), motor vehicle parts (600 or 9.7 percent) food manufacturing (600 or 3.4 percent), and animal slaughtering (500 or 2.7 percent). Paper manufacturing employment fell 300 jobs or 5.9 percent. Plastic and rubber manufacturing fell 300 jobs or 3.7 percent.

### Mississippi Employment By Sector Seasonally Adjusted

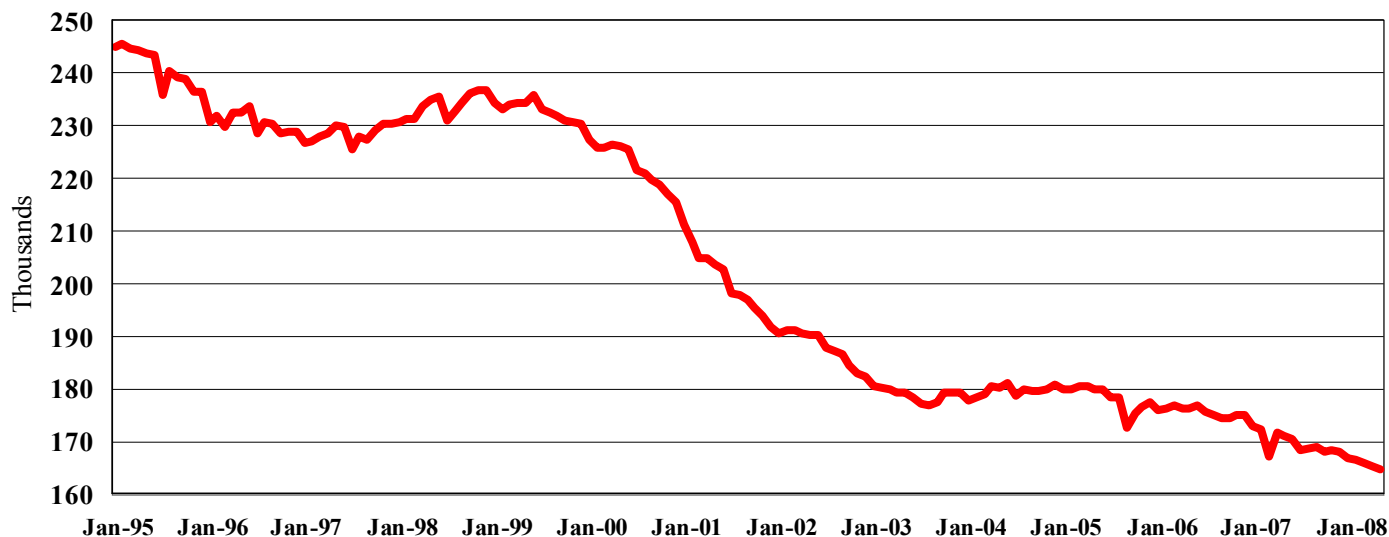
	May 2008	April 2008	May 2007	Change from Prior Month		Change from Prior Year	
				Jobs	%	Jobs	%
<b>Nonfarm</b>	1,152,228	1,154,275	1,149,556	-2,047	-0.2%	2,672	0.2%
<b>Natural Resources</b>	9,543	9,528	9,552	15	0.2%	-9	-0.1%
<b>Construction</b>	57,567	58,558	57,739	-992	-1.7%	-172	-0.3%
<b>Manufacturing</b>	164,388	165,056	170,459	-667	-0.4%	-6,070	-3.6%
<b>Trade, Transportation and Utilities</b>	228,450	228,729	226,953	-280	-0.1%	1,497	0.7%
Retail	142,019	142,401	141,878	-383	-0.3%	141	0.1%
<b>Information</b>	13,098	13,126	13,294	-28	-0.2%	-196	-1.5%
<b>Financial Activities</b>	47,076	46,959	47,161	117	0.2%	-85	-0.2%
<b>Services</b>	387,019	387,120	380,756	-101	0.0%	6,262	1.6%
Professional and Business Services	95,820	95,379	93,911	442	0.5%	1,909	2.0%
Education and Health Services	127,344	127,510	125,300	-166	-0.1%	2,044	1.6%
Leisure and Hospitality	126,210	126,559	124,628	-349	-0.3%	1,582	1.3%
Other Services	37,644	37,672	36,917	-28	-0.1%	727	2.0%
<b>Total Government</b>	244,922	245,392	243,490	-470	-0.2%	1,432	0.6%
Federal Government	25,597	25,670	25,983	-73	-0.3%	-386	-1.5%
State Government	58,800	59,543	59,761	-744	-1.2%	-962	-1.6%
Local Government	160,482	160,022	157,730	460	0.3%	2,751	1.7%

Mississippi individual income tax withholdings rose 4.7 percent in May relative to April, but the series is trending downward. Withholdings for the first five months of 2008 are 1.5 percent below the level for the same period in 2007. In 2007, the annual growth for this five month period was 5.6 percent. This data implies a slowing of income in the state.

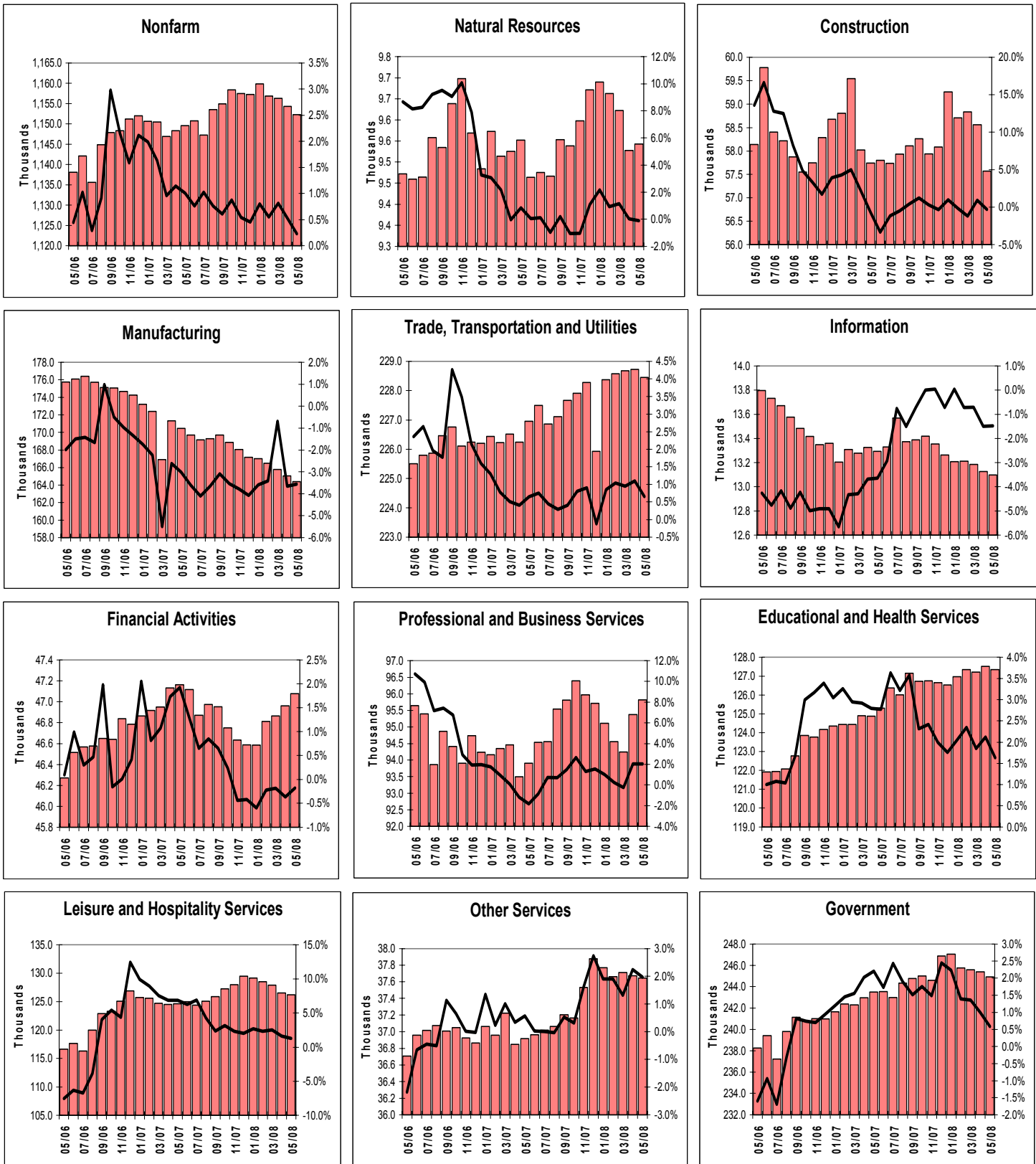
total personal income for the first quarter of 2008 declined 0.3 percent from the previous quarter. This compares to 0.1 percent gain in the 4th quarter of 2007 and 1.8 percent in the 3rd quarter of 2007. The state ranked 47th among the 50 states in terms of growth for the first quarter of 2008. The state's low ranking along with 49th ranked Louisiana was due in part to reduced federal subsidies for Katrina reconstruction. The National average growth in personal income for the 1st quarter was 1.1 percent.

The Bureau of Economic Analysis recently released their estimates for quarterly income. Mississippi's

#### Mississippi Manufacturing Employment



# Mississippi Employment Trends



**Note:** The Bar Graphs above represent seasonally adjusted monthly employment and correspond to the left-hand axis. The line graphs represent the growth over the prior year's value and correspond to the right-hand axis.

**Source:** Department of Mississippi Employment Security and IHL.

### Leading Indicators

The Mississippi Index of Leading Economic Indicators fell 0.2 percent in May relative to April. The May index of 88.8 was the lowest since September 2001. The index has declined for eight of the last nine months (the November 2007 index was flat with October). The index has fallen 4.3 percent since January. It is 11.7 percent below the year ago level. This level of decline points to a continued slowing economy. On the positive side, the monthly decline was small relative to what has been experienced in the last nine months. Also, the decline was driven by only two of the five components. This may suggest a turning point is on the horizon, but it is too early to say for certain.

One of the primary forces behind the May decline in the Leading Index was declining consumer expectations. This series fell to 51.1 in May. The Consumer Expectations Index has declined for the past four consecutive months and for eight of the last ten months. Rising energy and food prices, a volatile stock market, poor employment statistics and limited availability of credit are all contributing factors to low consumer expectations.

The decline in the Leading Index was also the result of falling manufacturing workweek length in Mississippi. Mississippi manufacturers worked an average of 39.7 hours in May. As already indicated this industry has been in decline in Mississippi. The workweek length peaked in July 2007 at 41.3 hours. It has declined for seven of the last ten months.

The Institute for Supply Management (ISM) Index for U.S. Manufacturing Activity inched above 50 in June to 50.2. An index above 50 indicates the U.S. manufacturing industry is expanding. The index had not been above 50 since January. Despite the slight improvement the industry remains weak. The weak dollar is fueling export demand and supporting U.S. Manufacturing. But this increased foreign demand is being met with a weak U.S. economy. Manufacturing employment at the National level has fallen as in the case for Mississippi. The declines nationally have been less steep than in the state in recent months, however.

Initial Unemployment Claims fell a slight 0.2 percent in May relative to April. The series remains elevated for the year, up 12.9 percent. The unemployment rate spiked in May to 6.9 percent, the highest level since November 2006.

The value of residential building permits rose 4.9 percent in May relative to April. The increase was slight for the downward trending series. The series was 37.3 percent below the year ago. For the first five months of 2008, the average value of building permits have been 39 percent below the prior year.

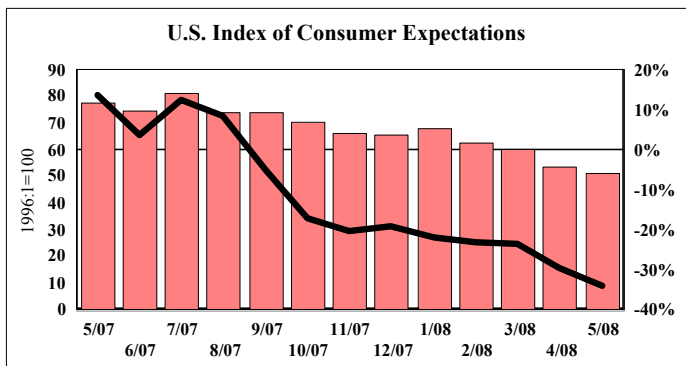
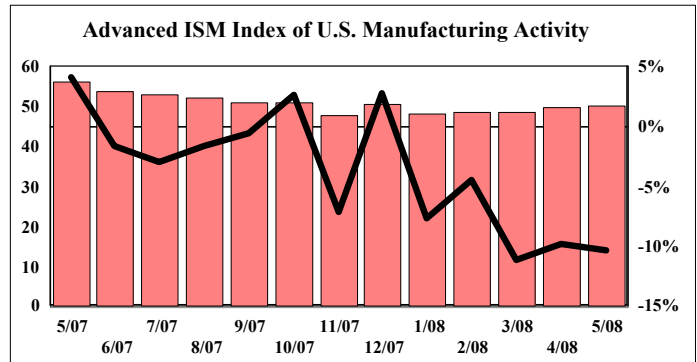
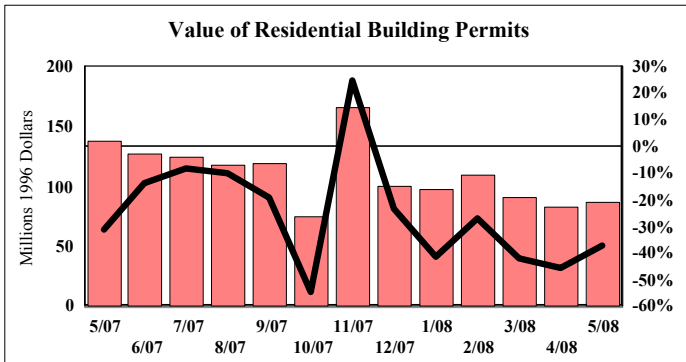
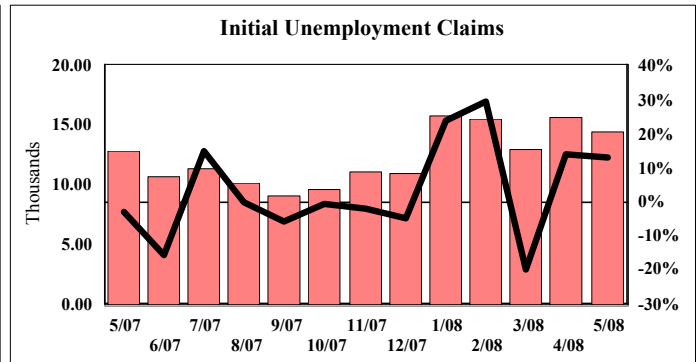
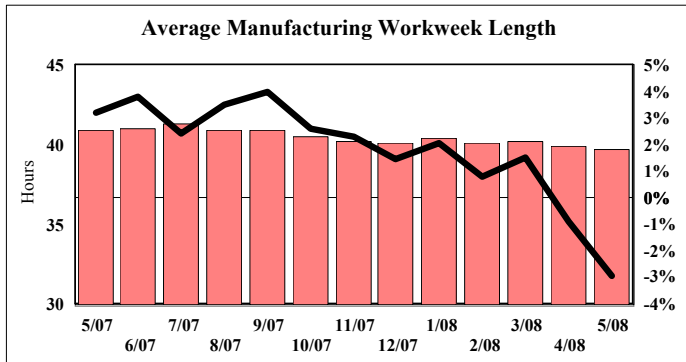
### U.S. Economy

The U.S. Index of Coincident Indicators rose 0.1 percent in May relative to April. This was the first increase in seven months. For the six months ending in May, the Index has fallen an annualized 0.7 percent. This compares to a 0.6 percent annualized gain between July 2007 and January 2008.

The U.S. Leading Indicators increased a slight 0.1 percent in May relative to April. This followed a small increase in April. The six-month growth rate for the period ending in May was an annualized -1.4 percent. This is an improvement from the -4.7 percent for the six-month period ending in January. The near term outlook for the economy is for continued weakness, according to the Conference Board.

Most regions in the U.S. are experiencing slow economies. Employment has fallen 400,000 jobs since the beginning of the year. Despite these losses, real gross domestic product (GDP) has continued to expand, although modestly. The growth in the first quarter was an annualized 1.0 percent. The second quarter may have grown as much as 2.0 percent. This is an improvement but is below the long-term growth trend. U.S. growth has been helped by exports, but the weakening global economy could soften that segment of the economy. Rising prices and a weak economy has the Fed trying to walk a fine line. Although increasingly concerned with inflation, the financial crisis remains problematic. The Fed will likely take a "wait and see what develops" attitude in the coming months. If inflation continues to rise a rate hike will become more likely.

Mississippi Index of Leading Indicator Components



**NOTE:**

The bar graphs above represent the seasonally adjusted monthly series and correspond to the left-hand axis. The line graph represents the growth rate over the prior year's value and corresponds to the right-hand axis.

**SOURCES:**

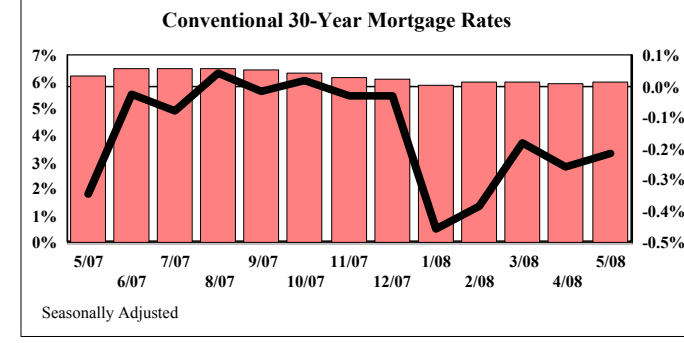
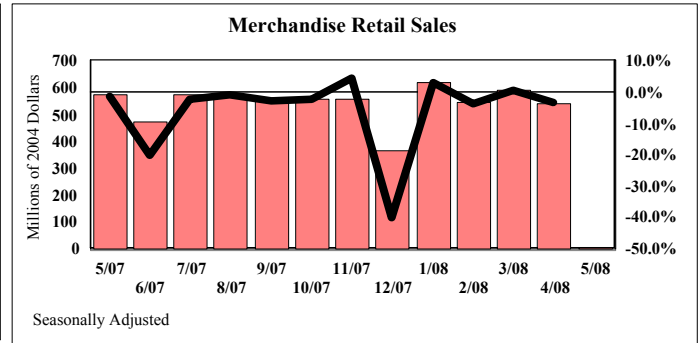
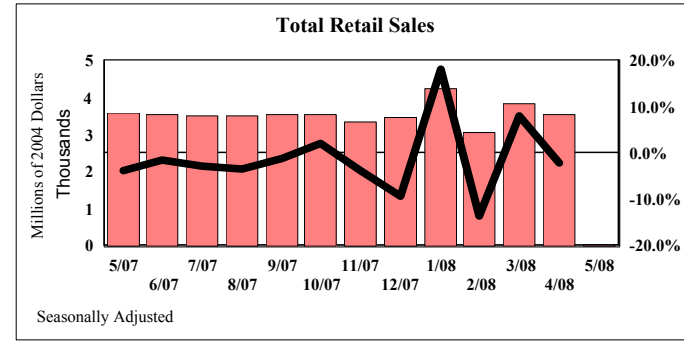
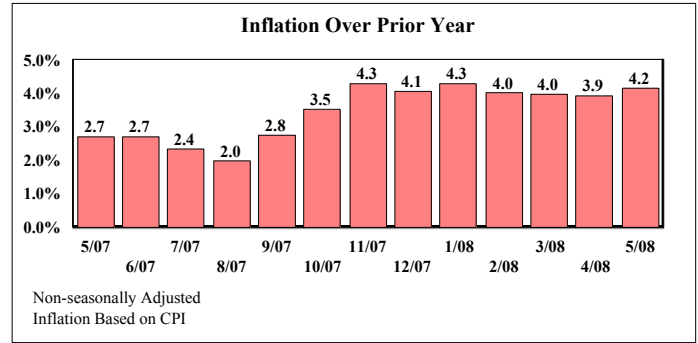
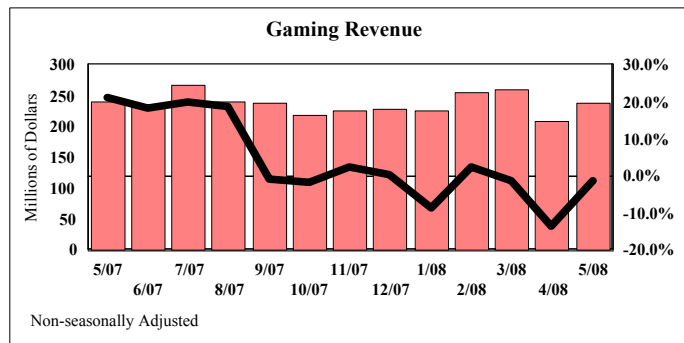
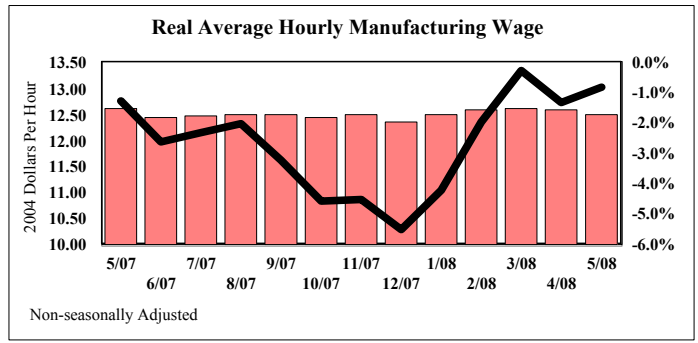
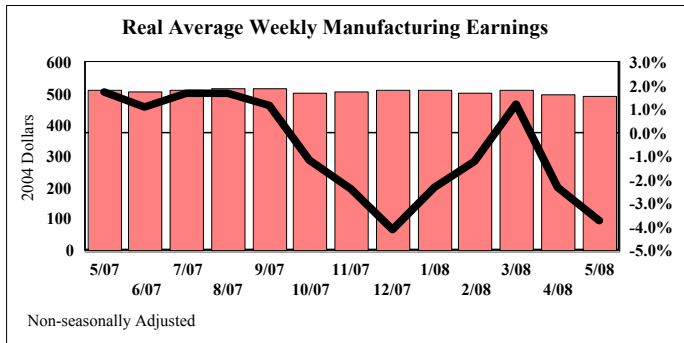
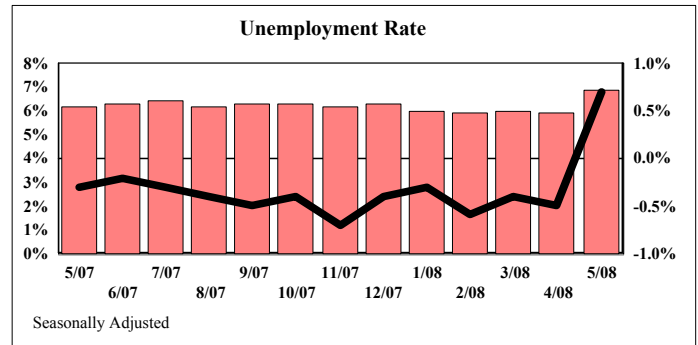
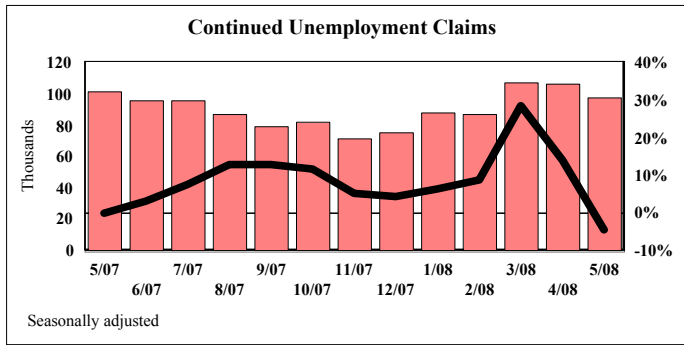
- Bureau of Labor Statistics.
- Bureau of the Census.
- The Conference Board.
- The Institute for Supply Management.

# Quips and Quotes:

*“The Problem isn’t a shortage of fuel,  
it’s a surplus of government.”*

*-- Ronald Reagan*

Miscellaneous Economic Indicators



**NOTE:**  
The bar graphs above represent the monthly series and correspond to the left-hand axis. The line graphs represents the growth rate over the prior year's value and correspond to the right-hand axis.

**SOURCES:**  
Mississippi Employment Security Commission.  
Mississippi State Tax Commission.  
Mississippi Gaming Commission.  
Federal Home Mortgage Corporation.  
Bureau of Labor Statistics.

## SELECTED MISSISSIPPI ECONOMIC INDICATORS

	May 2008	April 2008	May 2006	Percent Change From Last Month Last Year	
<b>Coincident Indicator Index (2004=100)</b>	<b>102.7</b>	<b>102.7</b>	<b>102.6</b>	<b>0.0%</b>	<b>0.2%</b>
Nonagricultural Employment (thousands)	1,152.2	1,154.3	1,149.6	-0.2%	0.2%
Individual Income Tax Withholdings (millions of 2004 \$)	102.0	97.5	102.9	4.7%	-0.9%
<b>Leading Indicator Index (2004=100)</b>	<b>88.8</b>	<b>88.9</b>	<b>100.5</b>	<b>-0.2%</b>	<b>-11.7%</b>
Initial Unemployment Claims	14,432	15,701	12,780	-8.1%	12.9%
Value of Residential Building Permits (millions of 2004 \$)	86.0	82.0	137.2	4.9%	-37.3%
Average Manufacturing Workweek Length (hours)	39.7	39.9	40.9	-0.6%	-3.0%
Advanced ISM Index of U.S. Manufacturing Activity Index is advanced one month. Thus, the June index is reported for May.	50.2	49.6	56.0	1.2%	-10.4%
U.S. Index of Consumer Expectations	51.1	53.3	77.6	-4.1%	-34.1%
<b>Miscellaneous</b>					
Consumer Price Index U.S. (2004=100)	114.7	113.7	110.1	0.8%	4.2%
Unemployment Rate (percentage)					
Non-seasonally adjusted	6.9%	5.6%	6.0%	1.3%	0.9%
Seasonally adjusted	6.9%	5.9%	6.2%	1.0%	0.7%
Continued Unemployment Claims	96,873	105,609	101,421	-8.3%	-4.5%
Average Manufacturing Wage (Non-seasonally adjusted)					
Current Dollars per Hour	14.33	14.30	13.87	0.2%	3.3%
2004 Dollars per Hour	12.49	12.57	12.60	-0.6%	-0.8%
Average Weekly Manufacturing Earnings (Non-seasonally adjusted)					
Current Dollars	561.74	563.42	560.35	-0.3%	0.2%
2004 Dollars	489.79	495.39	508.97	-1.1%	-3.8%
U.S. Mortgage Rates (30-year conventional)	6.0%	6.0%	6.2%	0.1%	-0.2%
Gaming Revenues (Non-seasonally adjusted)					
Coast counties (millions of current \$)	108.4	96.1	104.3	12.8%	4.0%
River counties (millions of current \$)	128.4	112.7	135.6	13.9%	-5.3%
Total	236.8	208.9	239.9	13.4%	-1.3%

Note: The data are seasonally adjusted unless otherwise noted.

Unless otherwise noted all data refer to Mississippi.

## THE FALLING DOLLAR

The value of the U.S. dollar is one of those statistics few of us ever give much consideration, but one that impacts our lives. Among other things, the falling value of the dollar is a one of the reasons gas prices are rising, as oil is priced in U.S. dollars<sup>1</sup>.

A currency's value refers to its relative exchange rate with other currencies. A falling U.S. dollar means, relative to other currencies, the U.S. dollar will buy fewer goods. The obvious implication is that imported goods become more expensive while exports become cheaper. U.S. consumers lose as import prices rise. U.S. exporter gain as their products are relatively cheaper to global consumers.

The value of the U.S. dollar has been declining since 2001. In real terms, it is now at a level not seen since the mid 1990s. The U.S. dollar is falling more relative to some currencies and less relative to others. The figure below depicts an index which compares

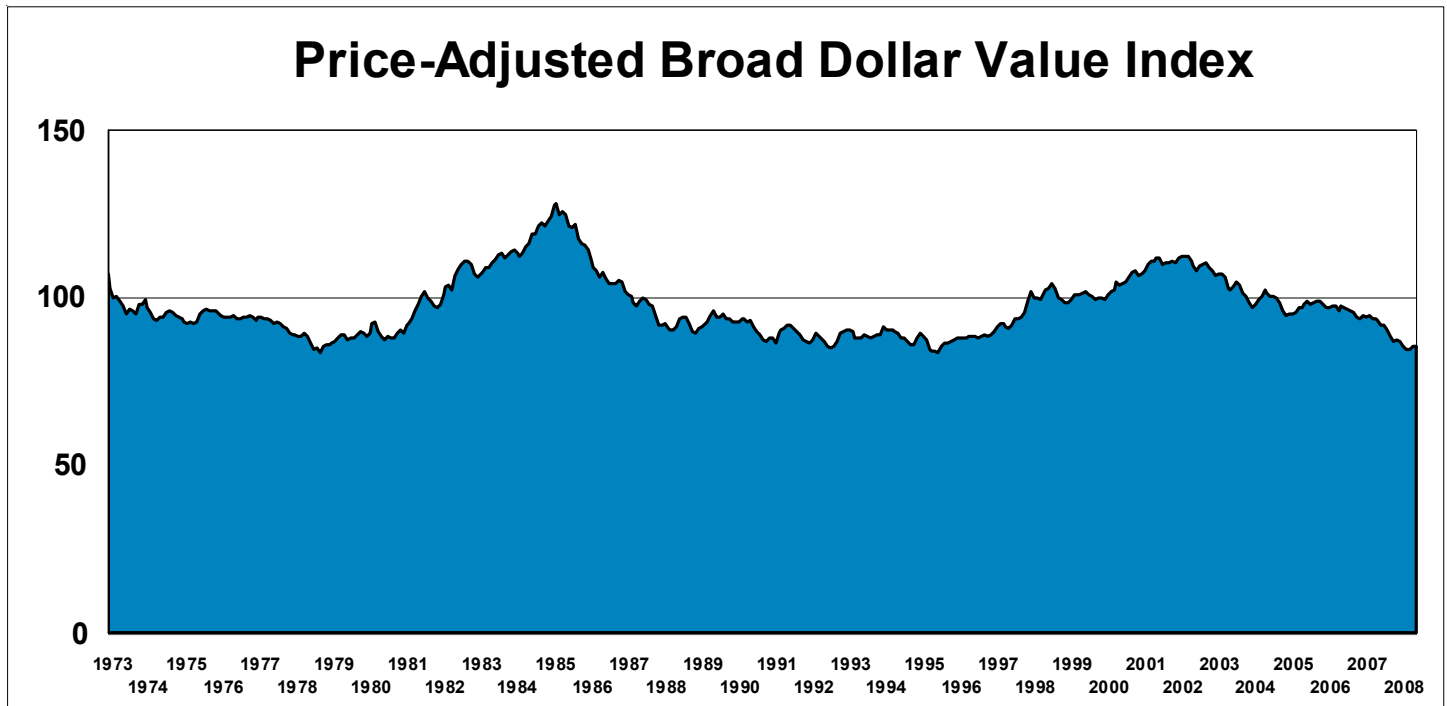
the U.S. dollar to the currencies of a broad range of major trading partners.

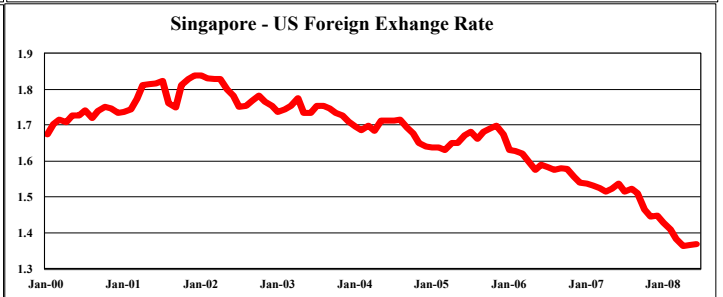
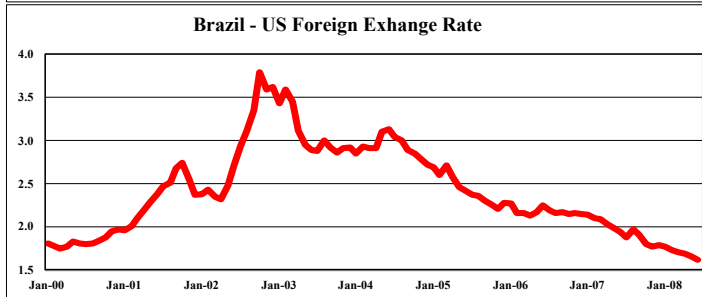
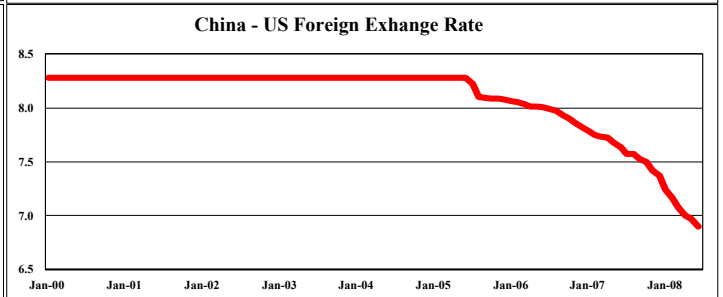
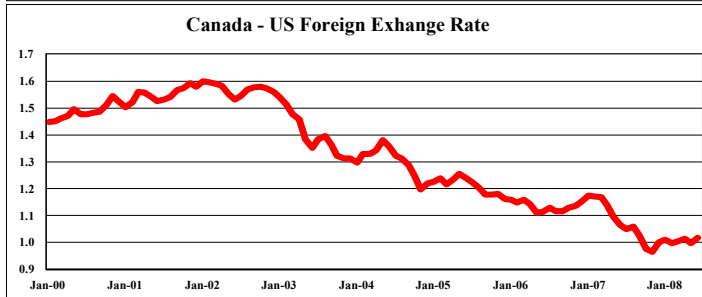
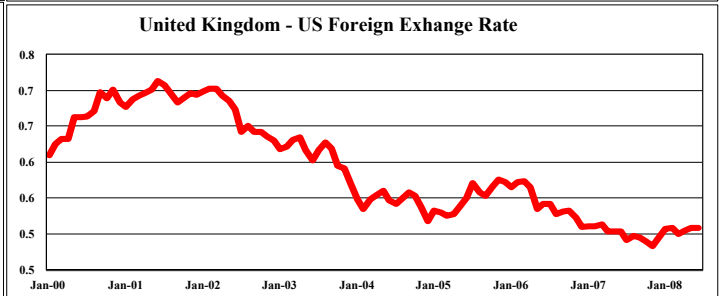
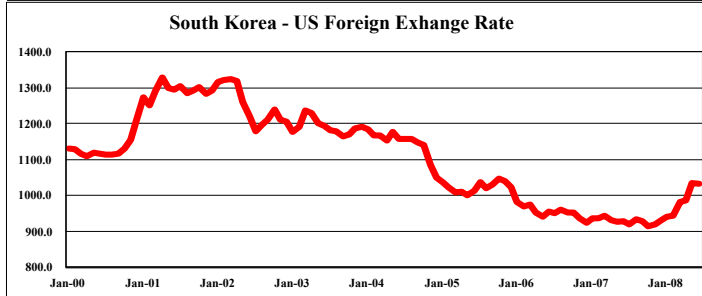
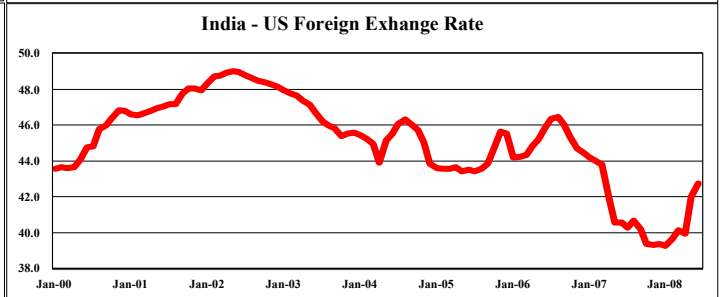
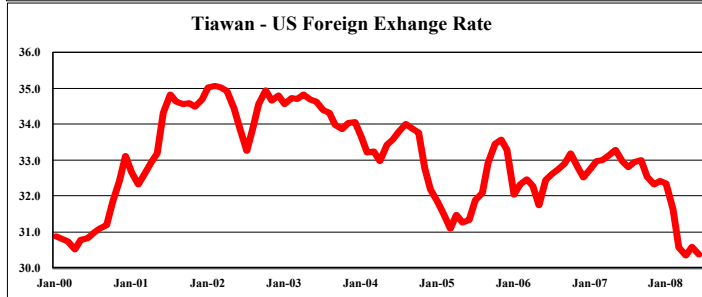
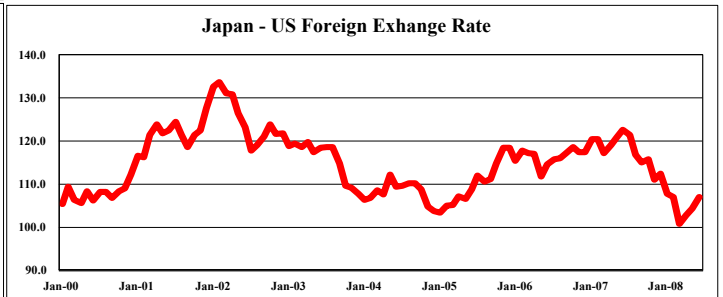
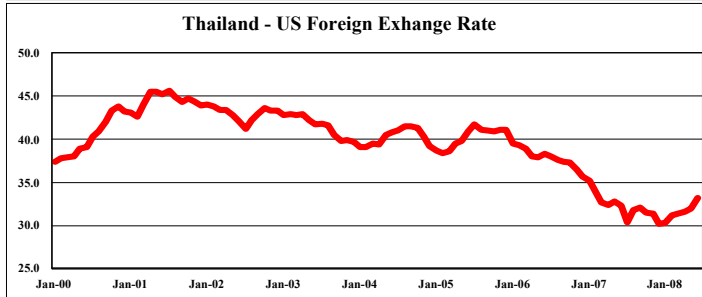
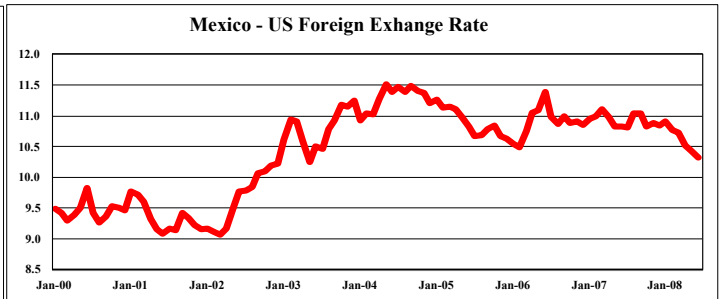
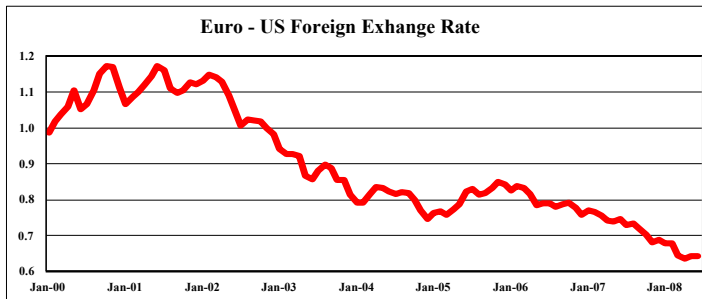
### Why is the Dollar Falling?

There are several factors contributing to the decline of the dollar. Perhaps one of the most significant forces behind the general declining value since 2000 has been the rise of the Euro as a competing currency. As this economic region has established itself, the value of its currency has increased relative to the U.S. dollar. Similarly, the stabilization of the Canadian Economic Union has meant a strengthening of the Canadian Dollar. The figures on page 10 show the relative exchange rate of the U.S. dollar against the currencies of various countries for the period January 2000 to June 2008. Notice that the largest decline has been against the Euro and the Canadian dollar.

The table on page 11 makes this point. This table shows the growth in the value of the U.S. dollar relative to the currency in various countries for the first six months of 2008 relative to first six months in 2000 and 2005. The U.S. dollar fell 37.4 percent against the Euro between 2000 and 2008. It fell 31.4

<sup>1</sup>When the value of the dollar falls, the dollar price of oil must rise in order for the global price of oil to remain constant, everything else being equal.





percent against the Canadian dollar for the same period. Looking at the 2005 to 2008 comparison, the U.S. dollar has fallen dramatically relative to the currency of Brazil.

More recently the declining dollar has been adversely affected by the relatively low interest rates offered by U.S. banks as opposed to foreign banks. Investors, following the greater yield in other countries, have reduced their demand for the U.S. dollar. The low interest rates are a product of the home mortgage problems along with the resulting slow growth in the U.S. economy. The decline in the dollar has been especially steep since the mortgage problems emerged in 2005. The value of the dollar has fallen in recent weeks because it has become increasingly clear that the mortgage problems have not hit bottom. International investors see other economies as safer investments.

There are then two main factors at play with regard to the relative value/exchange rate of the dollar. First is the emerging competition for international investors. That is not going to change, but likely we have seen the largest adjustments to this new era. The dollar will continue to fluctuate based on the ebb and flow of the economies around the world. The second major force is the current economic troubles in the U.S. economy. Relative to the rest of the world, the U.S. economy has been weak over the past two years, making other currencies more attractive investments. Now the Global economy is beginning to feel the pressure from rising energy and fuel prices, making the U.S. verses global economies less disparate. While this does not suggest a rally in the U.S. dollar, the downward slide should subside.

### **The Falling Dollar is a Mixed Bag**

What does the falling dollar mean for the economy? The answer is mixed. On the one hand, it means rising import prices, which hurts the U.S. spending power abroad and contributes to inflation. On the other hand, exports are cheaper which helps domestic producers who sell abroad.

Average Growth in the Value of the Dollar  
Relative to Various Currencies  
January Through June  
2008 compared to 2000 and 2005

	2000 - 2008	2005 - 2008
Brazil	-5.2%	-34.1%
Canada	-31.4%	-18.5%
China	-14.7%	-14.7%
Euro	-37.3%	-16.1%
India	-7.4%	-6.7%
Japan	-1.8%	-1.0%
Malaysia	-15.3%	-15.3%
Mexico	11.8%	-4.2%
Singapore	-18.9%	-15.8%
South Korea	-12.0%	-2.8%
Taiwan	0.7%	-1.4%
Thailand	-17.2%	-19.6%
United Kingdom	-20.6%	-5.2%

The net affect is generally positive. In fact, trade has fueled the small amount of growth the country has been experiencing in recent months. Without trade, the nation would likely be in recession. The outlook for 2008 is that apart from foreign trade, the National economy will be nearly flat. Trade is expected to boost GDP growth 1.4 percent for 2008.

However, the falling dollar is igniting real concern about inflation. The Fed appears to be changing its stance, suggesting that interest rate cuts may have ended and signalling rate increases in the near future. Such action would be designed to help the falling dollar and cool inflation. The Fed must balance concern over inflation with concern with weakening economy.