Mississippi's Business

Center For Policy Research and Planning

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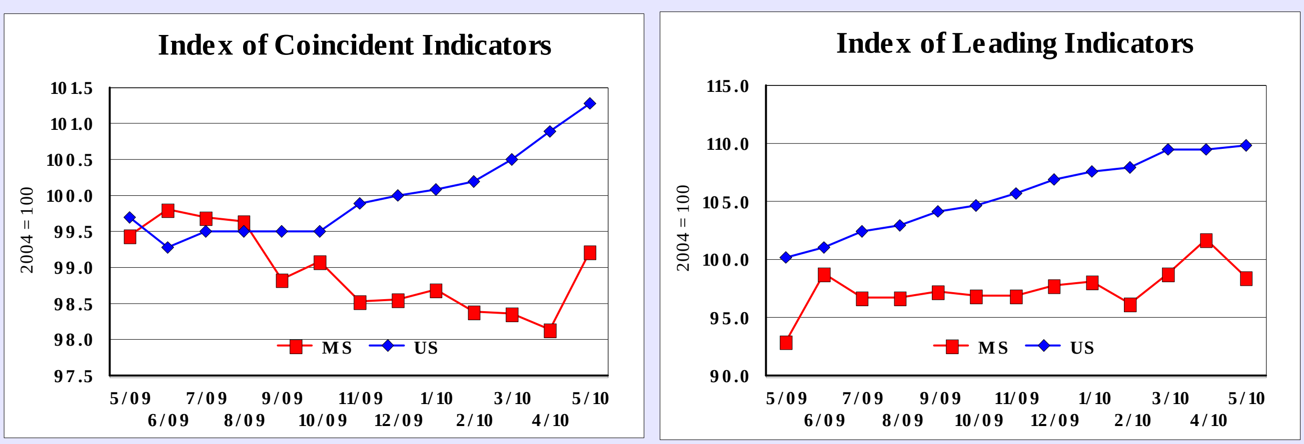
ECONOMY AT A GLANCE

The Mississippi Index of Coincident Indicators rose sharply in May. The increase was supported by both components of the index. While much of the employment gains were temporary Census jobs, the private sector saw substantial gains as well. However, the Mississippi Index of Leading Indicators fell dramatically in May, pointing to a slowing economy in the coming months.

The National economy appears to be losing momentum. The jobs reports from the past few months have been very disappointing. The June report in particular saw a sizable decline in payroll employment. The manufacturing sector, which has fueled much of the growth of the past several months is slowing. The housing sector remains weak and there is growing concern on the part of both businesses and consumers. Retail sales started the year off strong, but fell in May and June as consumers returned to their cautious spending habits. The European financial troubles are expected to have only limited direct impact on the U.S. economy. This could change if the troubles begin to spread. One indirect effect has been a strengthening dollar, which is taking a toll on exports.

National forecasters are expecting real GDP growth of around 2.5 percent in the second half of 2010. This is much slower than the 3.8 percent thought to have occurred in the first half of the year. The annual growth for 2010 is expected to be around 3.1 percent followed by a slower 2.7 percent in 2011. The depth of the recession and the outlook of slow growth means it could take several years for the economy to regain the ground lost over the past two years.

Figure 1. Index of Leading and Coincident Indicators



GET OUR LATEST FORECAST. The Mississippi Economic Review and Outlook for June 2010 was recently released. You can find this on the Web:
http://www.mississippi.edu/urc/downloads/review/outlook_June2010.pdf

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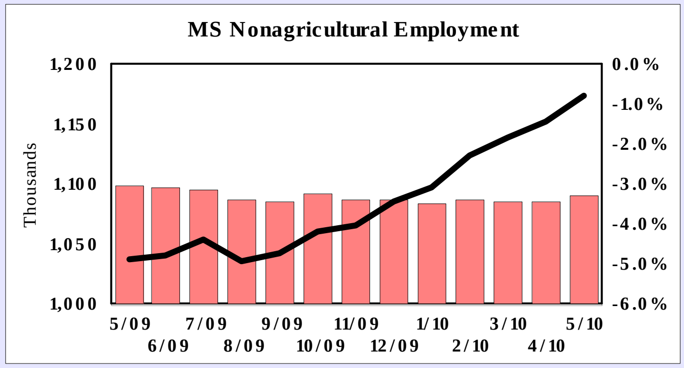
Coincident Index

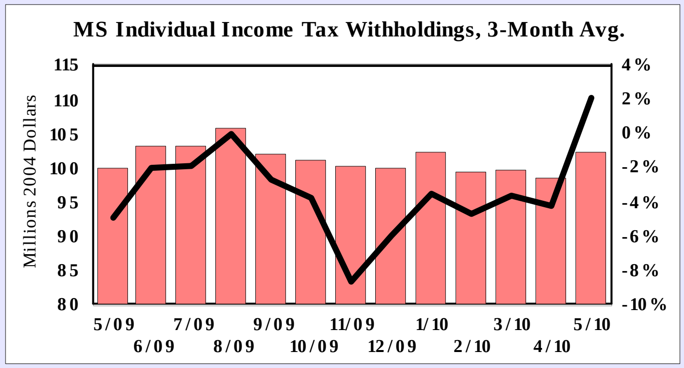
The Mississippi Index of Coincident Economic Indicators rose a sharp 1.1% in May over the revised April figure. The index of 99.2 was the highest since August 2009. With few exceptions, the index has been on a downward trend since the spring of 2008. The strong increase in May was a welcome departure from that trend. The May index was an annualized 1.2 percent above the level of November. This marked the first positive six-month growth rate since April 2008.

The big question is whether or not the growth is sustainable. Growth at the national level has moderated in recent months, and the Mississippi Index of Leading Economic Indicators fell in May. It is therefore likely that the sharp increase in May's Coincident Index will not be repeated for June. But that does not mean that the State will give up all of the gains achieved in May. The National recovery has weakened but the economy continues to expand. At this point, it is likely the State will follow a similar path of very modest growth.

Nonfarm employment rose an astounding 5,400 jobs or 0.5 percent in May relative to April. The increase was the largest since August 2006. Half of the increase was due to government jobs, primarily Federal jobs. These are likely temporary Census workers. But private sector jobs rose a strong 2,700 jobs. Manufacturing employment rose 1,000 jobs or 0.7 percent

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.

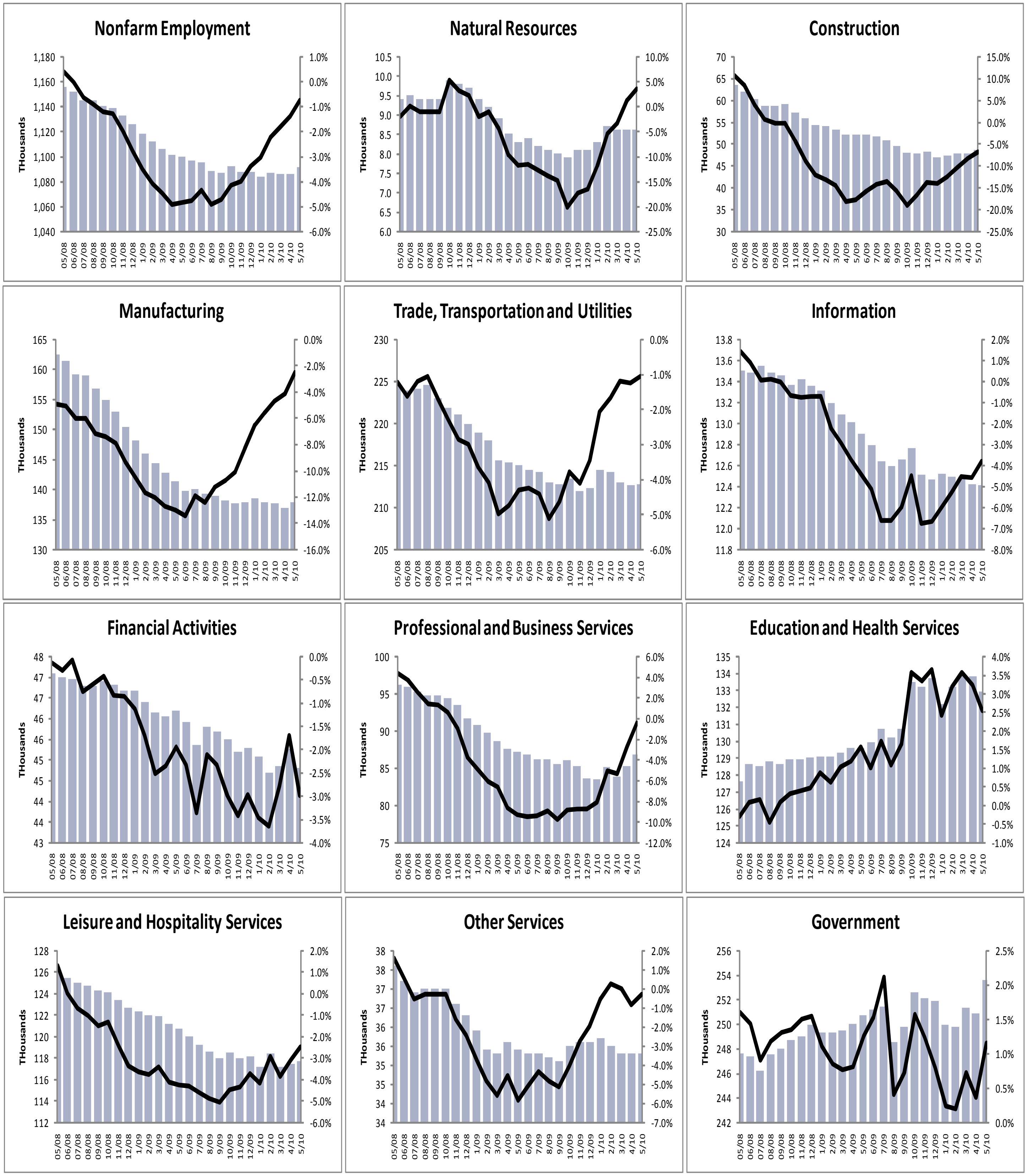
Sources:
Mississippi Department of Employment Security
Mississippi State Tax Commission

Table 1. Mississippi Employment By Sector

Seasonally Adjusted

	May 2010	April 2010	May 2009	Change from Prior Month Level	Change from Prior Month %	Change from Prior Year Level	Change from Prior Year %
Total Nonfarm	1,091,200	1,085,800	1,099,500	5,400	0.5%	(8,300)	-0.8%
Mining and Logging	8,600	8,600	8,300	-	0.0%	300	3.6%
Construction	48,600	47,700	52,100	900	1.9%	(3,500)	-6.7%
Manufacturing	137,800	136,800	141,400	1,000	0.7%	(3,600)	-2.5%
Trade	212,700	212,600	215,000	100	0.0%	(2,300)	-1.1%
Retail Trade	132,200	132,400	133,600	(200)	-0.2%	(1,400)	-1.0%
Information	12,410	12,415	12,903	(5)	0.0%	(493)	-3.8%
Financial Activities	44,790	45,262	46,174	(473)	-1.0%	(1,385)	-3.0%
Services	372,700	371,700	372,900	1,000	0.3%	(200)	-0.1%
Professional and Business Services	86,800	85,200	87,200	1,600	1.9%	(400)	-0.5%
Education and Health Services	132,900	133,800	129,600	(900)	-0.7%	3,300	2.5%
Leisure and Hospitality	117,700	117,400	120,700	300	0.3%	(3,000)	-2.5%
Other Services	35,300	35,300	35,400	-	0.0%	(100)	-0.3%
Government	253,600	250,900	250,700	2,700	1.1%	2,900	1.2%

Figure 3. 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.

and construction added 900 jobs or 1.9 percent. Professional and business services added 1,600 jobs or 1.9 percent. Employment in nearly every sector remains below the year ago level. The exceptions are mining, education and health services, and government.

For the three months ending in May, Mississippi individual income tax withholdings were up 0.5 percent over the three months ending in April. The series was also above the year ago level for the first time since January 2009. Preliminary data indicate the growth continued into June as well.

Leading Index

The Mississippi Index of Leading Economic Indicators fell a steep 3.3 percent in May relative to April, to a level of 98.5. The series had risen four out of the previous five months, with the gains in March and April pushing the index to its highest level since September 2007. The May index was well above the average from 2009 and was 5.9 percent higher than the year ago level. The May decrease was broadly supported, with four out of five components pushing the index downward. The depth and breadth of the decline suggests the State will probably see moderating growth in the coming months.

The strongest contributor to the May index was a shorter manufacturing workweek length. Mississippi manufacturers worked an average of 40.3 hours in May relative to 41.7 hours in April. April was the longest workweek length for Mississippi manufacturers since October 1998. The May decline was then not a surprise.

As already noted, the employment among Mississippi manufacturers rose in May, but this was not enough to offset the loss of hours worked. Figure 4 shows the Manufacturing Production Hours Index. This index is constructed by multiplying manufacturing employment by average hours worked. That series is then indexed to the average for 2000. The result is a measure of total production hours.

The Production Hours Index has trended downward since the end of 2007, but was moving up from the February low in March and April. For May, the series declined but did not erase all of the gains from the previous 2 months. In fact, the May index is above the average of the previous six months. Historically speaking however, production hours are low. Mississippi manufacturers have been hit hard in this recession. They appear to be showing some signs of growth relative to the prior six months, but remain at a low level historically.

The Institute for Supply Management Index (ISM) shows U.S. manufacturing activity has cooled. The June index, which is used in the Mississippi Leading Index for May, was 56.2, down sharply from the previous level of 59.7. The index remains above 50 indicating the industry continues to expand although at a slower pace.

Figure 4. MS Manufacturing Production Hours Index

2000 = 100

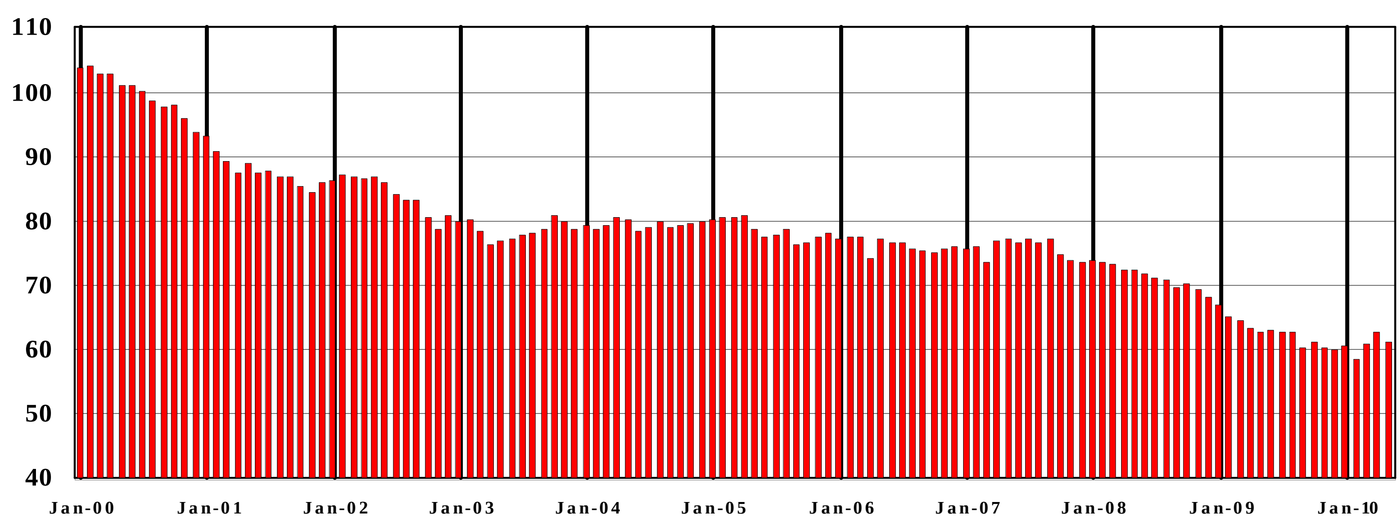
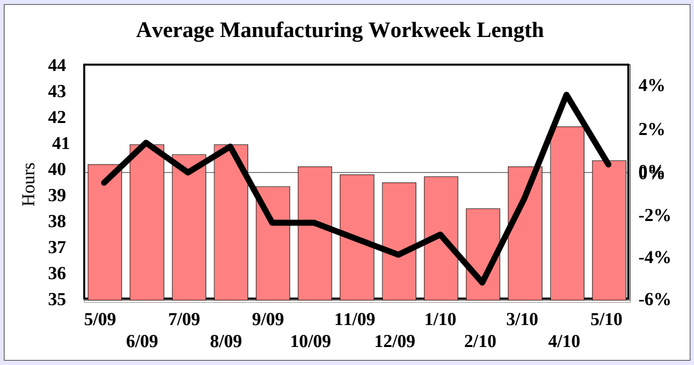
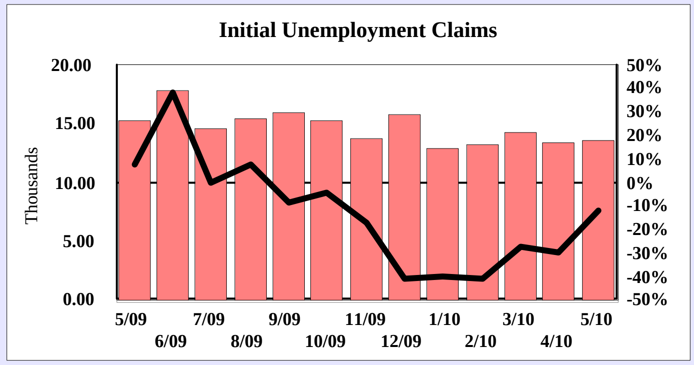
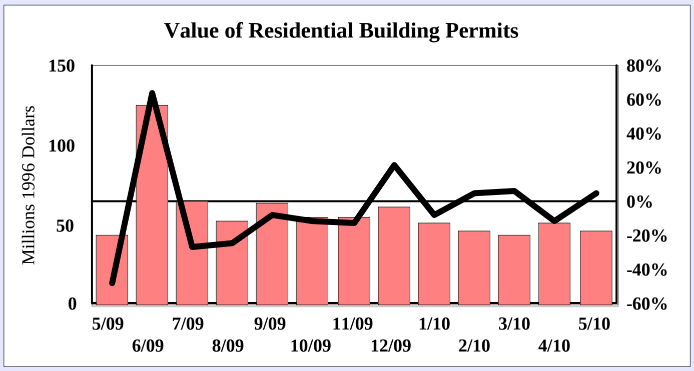
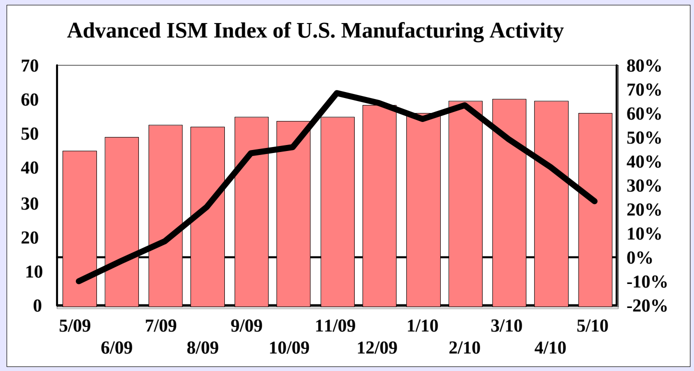


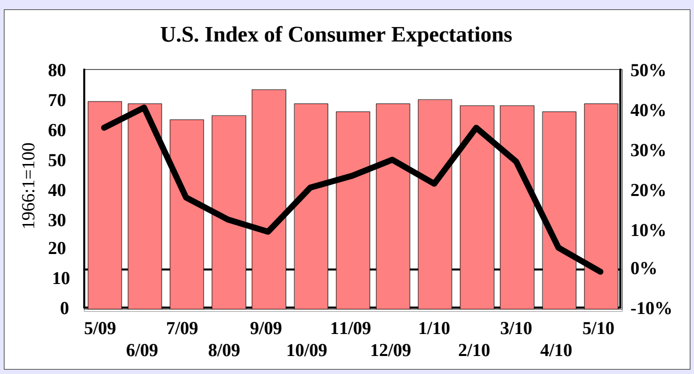
Figure 5. Mississippi Index of Leading Indicators Components











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

The decline in the ISM Index is a reminder that much of the recovery has been due to manufacturers helping to rebuild inventories and not growth in final demand. The ISM report also suggests that the financial troubles in Europe may be affecting exports. The new export orders component of the ISM index fell below 60 for the first time since February.

Mississippi value of residential building permits fell 10.9 percent in May over April. The decline is not particularly noteworthy. The series fell precipitously throughout 2007 and 2008 and has remained at a low level since. Interestingly, permits are up slightly from the year ago level. Nationally, the housing market remains weak.

Initial unemployment claims rose a modest 1.3 percent in the state for the month of May. The increase is negligible. Claims were 12.0 percent below the year ago. Continued claims have followed a similar pattern of being flat on a monthly basis and yet being well below the year ago. The level of claims, both initial and continued, remains above the level observed in the months leading up to the recession.

The one positively contributing component to the index was the U.S. Consumer Expectations Index. The May index was 3.5 percent higher than that observed in April. The series rose in May after declining for three months. But the monthly gain was minor and the index actually dipped below the year ago. Consumers remain very cautious. While consumer spending rose in the first quarter, perhaps fueled by pent-up demand, sales were lackluster in April and May. Stubbornly high unemployment, a volatile stock market and even the oil spill has consumers in the dumps.

U.S. Economy

The U.S. Index Coincident Economic Indicators rose 0.4 percent in May relative to April. The index was an annualized 2.8 percent above the level six months prior. The series has been improving since November 2009 with the pace of growth increasing in recent months. The U.S. Index of Leading Economic Indicators rose 0.4 percent in May relative to April. The series has been trending upward for over a year, but its six month growth rate has moderated recently. The Conference Board says their indices point to continued recovery, but at a more moderate pace than during the first half of 2010.

The June jobs report gave further evidence of a slowing National economy. June payrolls fell 125,000 jobs as temporary Census jobs were eliminated. Compounding the problem, both workweek length and hourly wages fell, driving consumer income down. Perhaps most discouraging was the feeble 9,000 job increase in manufacturing in June. This compares to a 32,000 increase in May. As already noted the ISM Index shows a moderating manufacturing sector.

June saw the second consecutive decline in U.S. retail sales. The weakness goes beyond auto sales. The volatile stock market and the continued weak labor market has pushed confidence lower.

Small businesses are less optimistic about the future as well. The Optimism Index from the National Federation of Independent Businesses fell 3.2 points in June. The decline erased the prior month's gain. In previous recessions, this index has bounced back above 100 within a couple of quarters of the trough. This time, however, the index has not been above 93 since January 2008. Most experts think the nation has been in recovery since the third quarter of 2009.

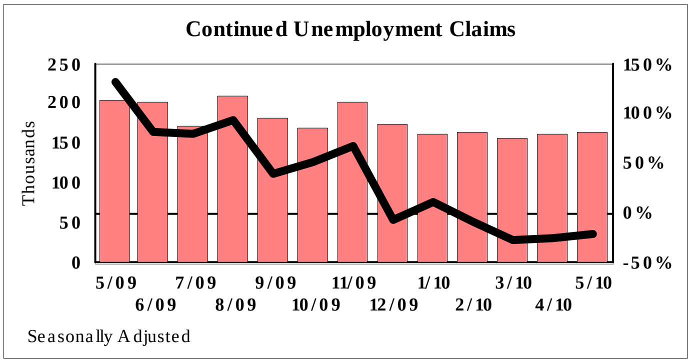
Deflation rather than inflation is emerging as a concern. Commodity prices are trending down as is core inflation and wages. This will exacerbate the fiscal problems for those state and local governments that rely on sales tax to fill their coffers.

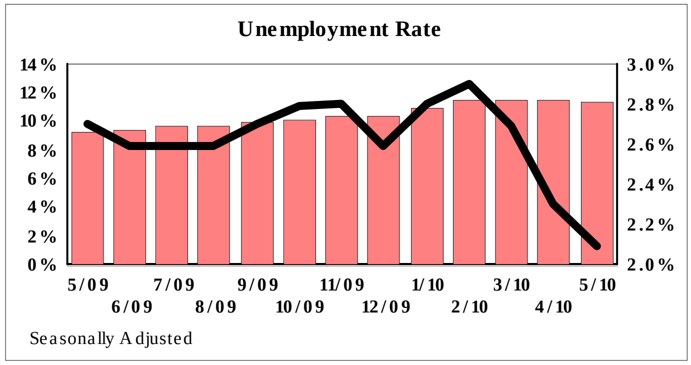
All of these trends show an economy that is losing momentum. While the recovery appears to be real and widespread, it has not really reached a point where it is driven by sustainable final demand. Much of the growth occurring in the second half of 2009 was borrowed from the future through such programs as cash-for-clunkers and the housing credit. The inventory buildup has been supporting growth as well, but with wary consumers, it is losing force. Productivity gains have allowed businesses to do more with less, which has allowed higher output without gains in employment. Normally, this would be a short-term solution and new hires would soon follow, but uncertainty about the future is keeping business from expanding payrolls.

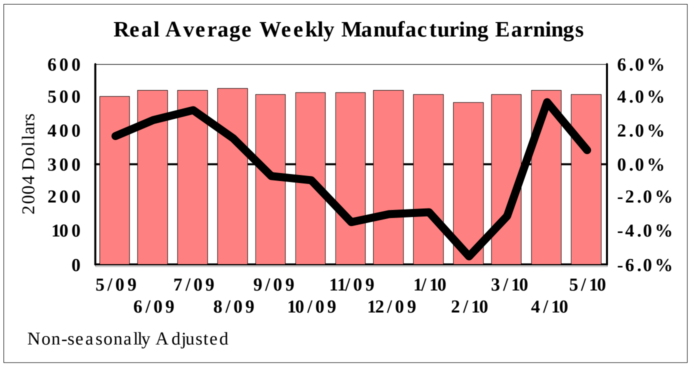
Uncertainty, on the part of both businesses and consumers, remains the greatest hinderance to growth. The depth of the recession, the loss of wealth, the persistent high unemployment, the growing fiscal problems in state and local government, the growing national debt, and expanding Federal authority have all compounded to make people unsure of the future. The European debt problems are only the latest events to add to the uncertainty. While the U.S. has limited exposure to the European problems, there is the threat that the financial troubles will spread and increase this exposure. The value of the dollar has been pushed upward by these events and that is taking a toll on exports. When uncertainty is high, businesses do not expand and consumers do not spend.

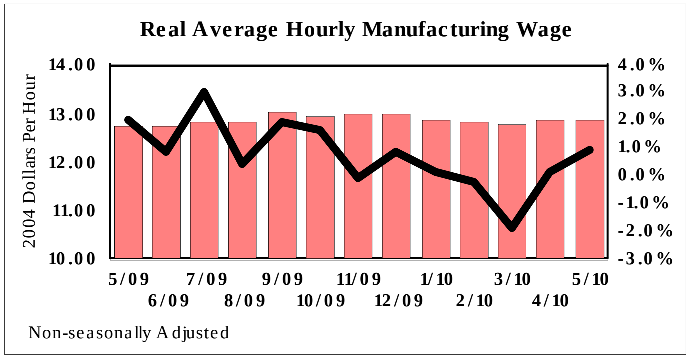
Forecasters, including the Fed, have lowered their expectations for the second half of 2010. While the first half of 2010 may have grown as much as 3.8 percent, forecasts for the second half of 2010 are around 2.5 percent. A double-dip is viewed as a risk, but is not expected at this time.

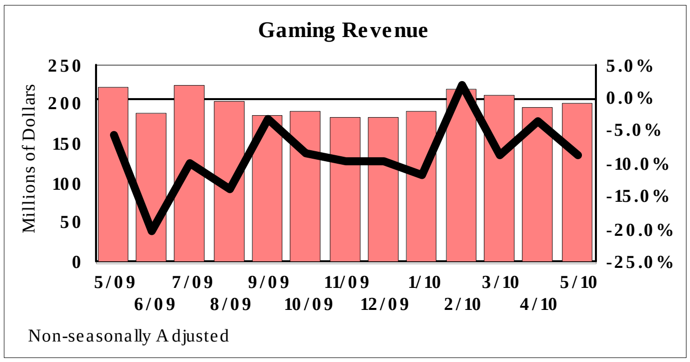
Figure 6. Miscellaneous Indicators

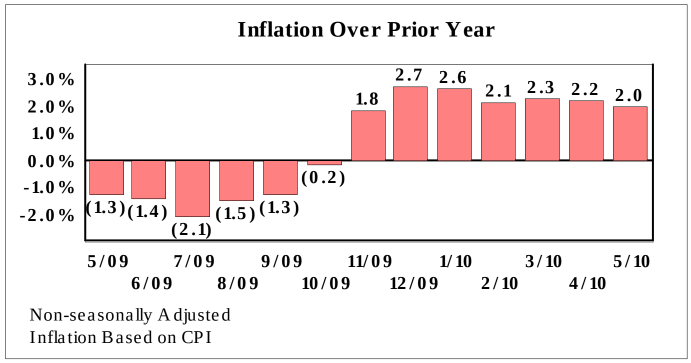


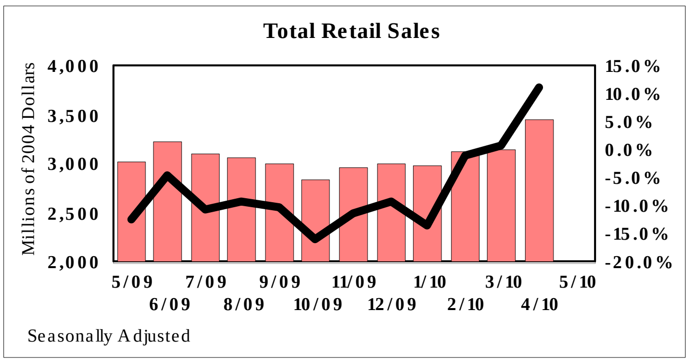


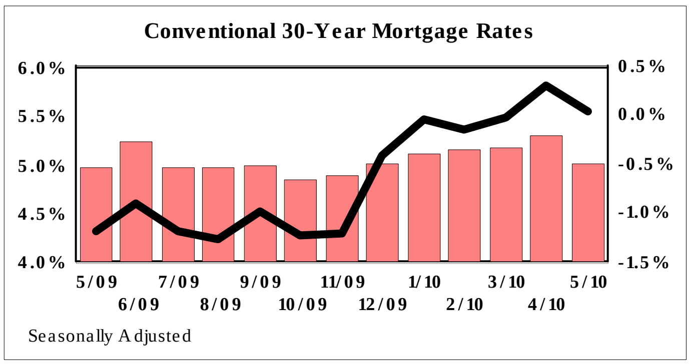












NOTE:
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Sources:
Mississippi Department of Employment Security
Mississippi Tax Commission
Mississippi Gaming Commission
Federal Home Mortgage Corporation
Bureau of Labor Statistics

SELECTED MISSISSIPPI ECONOMIC INDICATORS

	May 2010	April 2010	May 2009	Change From Last Month	Change From Last Year
Coincident Indicator Index (2004=100)	**99.2**	**98.1**	**99.5**	**1.1%**	**-0.2%**
Nonagricultural Employment (thousands)	1,091.2	1,085.8	1,099.5	0.5%	-0.8%
Individual Income Tax Withholdings, 3-Month Average (millions of 2004 $)	102.2	98.4	100.1	3.8%	2.1%
Leading Indicator Index (2004=100)	**98.5**	**101.9**	**93.0**	**-3.3%**	**5.9%**
Initial Unemployment Claims	13,512	13,344	15,362	1.3%	-12.0%
Value of Residential Building Permits (millions of 2004 $)	45.7	51.3	43.3	-10.9%	5.6%
Average Manufacturing Workweek Length (hours)	40.3	41.7	40.2	-3.2%	0.4%
Advanced ISM Index of U.S. Manufacturing Activity Index is advanced one month. Thus, the June index is reported for May.	56.2	59.7	45.3	-5.9%	24.1%
U.S. Index of Consumer Expectations	68.8	66.5	69.4	3.5%	-0.9%
Miscellaneous					
Consumer Price Index U.S. (2004=100)	115.5	115.4	113.2	0.1%	2.0%
Unemployment Rate (percentage)					
Non-seasonally adjusted	11.2%	10.7%	9.5%	0.5%	1.7%
Seasonally adjusted	11.4%	11.5%	9.3%	-0.1%	2.1%
Continued Unemployment Claims	164,722	162,348	205,973	1.5%	-20.0%
Average Manufacturing Wage (non-seasonally adjusted)					
Current Dollars per Hour	14.84	14.85	14.41	-0.1%	3.0%
2004 Dollars per Hour	12.85	12.87	12.73	-0.1%	0.9%
Average Weekly Manufacturing Earnings (non-seasonally adjusted)					
Current Dollars	589.15	604.40	572.08	-2.5%	3.0%
2004 Dollars	510.05	523.65	505.28	-2.6%	0.9%
U.S. Mortgage Rates (30-year conventional)	5.0%	5.3%	5.0%	-0.3%	0.0%
Gaming Revenues (non-seasonally adjusted)					
Coast counties (millions of current $)	95.4	92.5	97.7	3.1%	-2.4%
River counties (millions of current $)	107.9	105.7	125.0	2.1%	-13.7%
Total	203.2	198.2	222.7	2.5%	-8.7%

	April 2010	March 2010	April 2009	Percent Change From Last Month	Percent Change From Last Year
Total Retail Sales (millions of 2004 $)	3,458.36	3,159.70	3,105.39	9.5%	11.4%

Note: The data are seasonally adjusted unless otherwise noted.
Unless otherwise noted all data refer to Mississippi.