

Mississippi's Business

July 2012

Monitoring The State's Economy

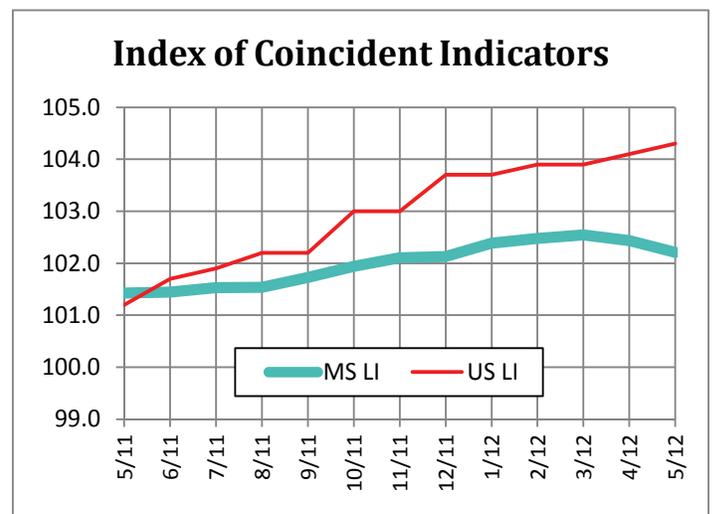
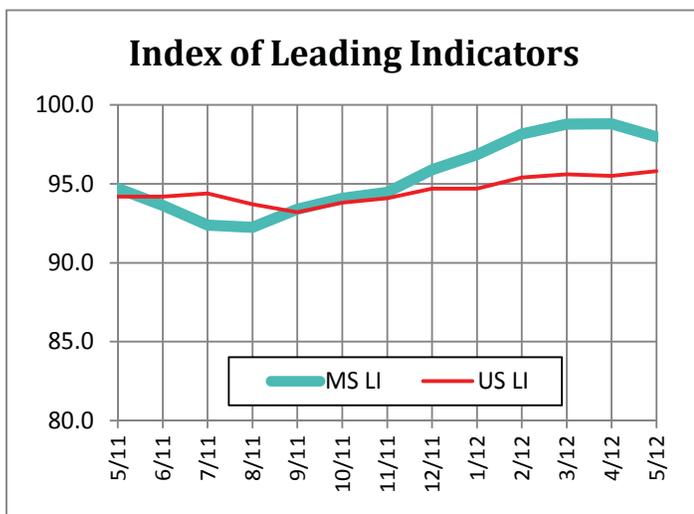
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ECONOMY AT A GLANCE

Mississippi's Index of Leading and Coincident Indicators both fell in May. The April Coincident Index was revised downward giving us two months of decline with a cumulative decline of 0.3 percent. While there is no official definition for a recession, for our purposes, we define a recession as three consecutive declines in the Coincident Index and a cumulative decline of 0.5 percent. In other words, Mississippi may very well already be in recession. The June Index will be reported in next month's Mississippi's Business. If there is a third month of decline of at least 0.2 percent, then Mississippi will have been in recession since April.

Whether or not we are in a recession, the economy has clearly lost momentum. This is true especially for the State, but also for the Nation. The ISM Manufacturing Index has fallen below 50, indicating the industry is contracting. The ISM Nonmanufacturing Index has fallen as well. Consumer spending is slowing and consumer and business sentiment is deteriorating. Of particular concern is recession-level growth in real income. First quarter income data was released at the end of June. Nationally, income growth is essentially unchanged compared to the year ago level. In Mississippi, we have fallen below the year ago for three consecutive quarters. IHS Global Insight has raised their risk of recession to 25 percent from 20 percent. This reflects their concern over the sluggish national economy and the rising risks from external shocks such as Europe and the slowing Asian economies. However, recessions are always difficult to identify before the fact. The December 2007 recession was identified a year after the fact. It is quite possible then that future data will show that the Nation is already in a recession.



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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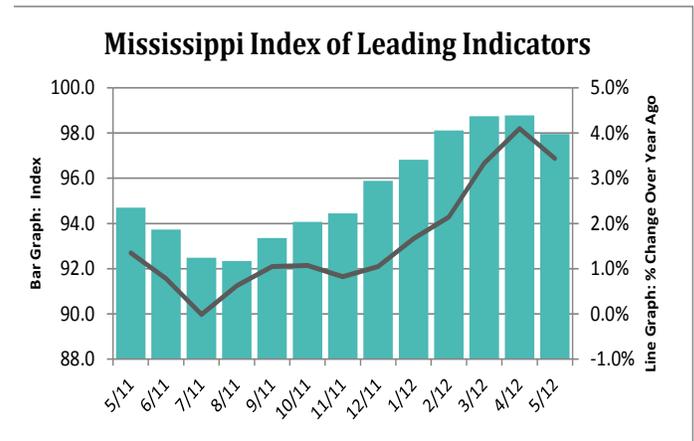
LEADING AND COINCIDENT INDICATORS, MAY 2012

The **Mississippi Index of Leading Economic Indicators** fell a strong 0.8 percent in May relative to the revised April figure. The May index of 98.0 is the lowest since January 2012. While the six-month growth rate remains positive, it is on a downward trend. Last month we stated that the Mississippi economy was losing momentum from the first quarter. Conditions have worsened further with this latest data.

Six out of eight components contributed negatively to the May Index, signifying a broad-based weakness. The indices will be discussed in order of their contributions to the May decline.

The largest contributor to the May decline was a substantial decline in the **Institute for Supply Management Index of U.S. Manufacturing Activity** which fell to 49.7. This is the lowest level since June 2009. An index below 50 indicates the industry is contracting. The forward looking components such as new orders and new export orders were likewise below 50, offering little hope of a turnaround in the coming months. The ISM Nonmanufacturing Index continued to decline in June as well. This series however remained above 50.

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gain is relatively small, it is the second consecutive gain. This is concerning especially since the Nation's weekly unemployment claims have also been trending upward. The continued claims series fell in May after rising in April.

The **U.S. Index of Consumer Expectations**¹ fell a slight 0.9 percent in May. The series enters the leading index as a three month moving average. The individual month's data show considerable weakness in June. In fact the index fell to the lowest level since December 2011. The exceedingly slow growth in employment is certainly a factor in the deteriorating confidence.

The **Mississippi Diesel Fuel Consumption Index**¹ fell 0.9 percent in May over April. The decline was relatively small and follows two months of modest change.

U.S. Retail Sales fell 0.2 percent in May. The decline repeated the loss that occurred in April.

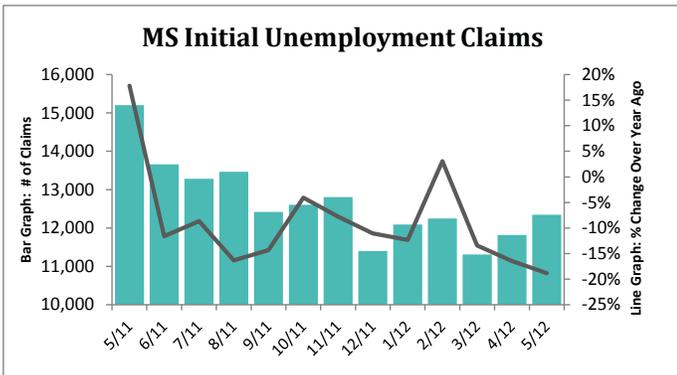
Excluding auto sales shows an even steeper decline of 0.4 percent for May. As reported last month, some of the decline is due to lower sales at gas stations as a result of price reductions. The steep declines in building supplies is possibly payback for the strong sales in the unseasonably warm winter. In a separate but related report, light vehicles sales remained relatively strong in June with an annualized 14.0 million units.

1. Three Month Moving Average

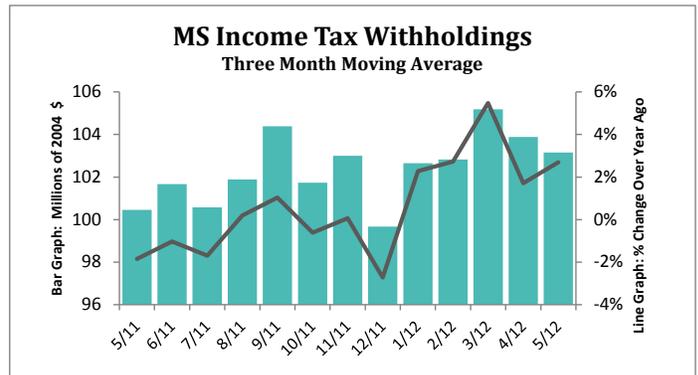
Inflation adjusted **Mississippi income tax withholdings**¹ fell 0.7 percent in May relative to April. This marked the second consecutive decline for the series. The May level was up 2.7 percent above the year ago level. In fact, for the first half of 2012, real withholdings were up 2.7 percent from the same period of 2011.

Mississippi's initial unemployment claims rose 4.5 percent in May relative to April. Although the

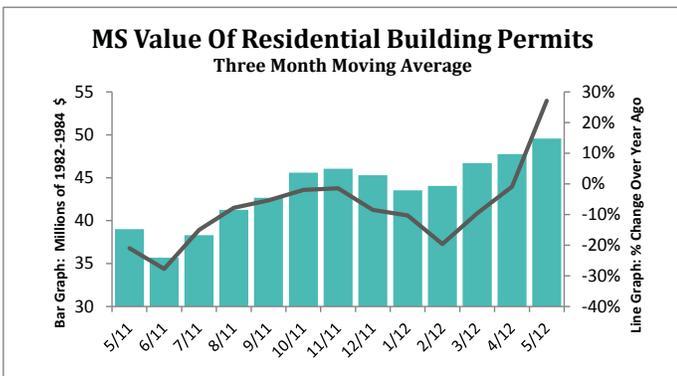
LEADING ECONOMIC INDICATORS



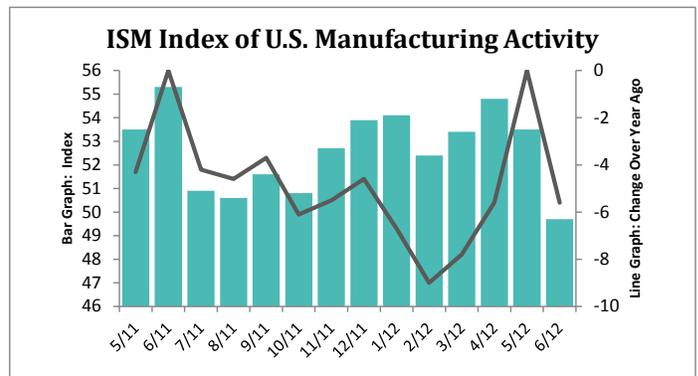
Source: Mississippi Department of Employment Security



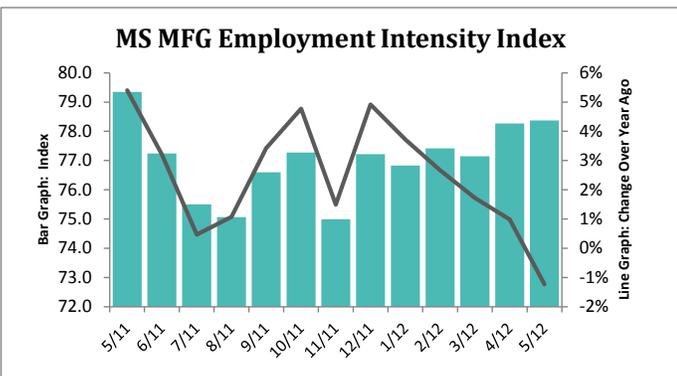
Source: Mississippi Department of Revenue



Source: Bureau of the Census



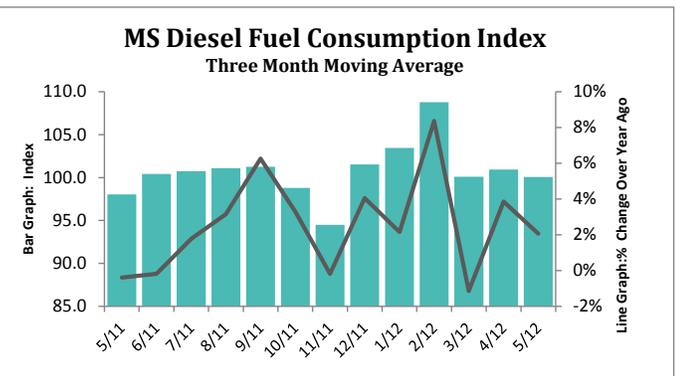
Source: Institute For Supply Management



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

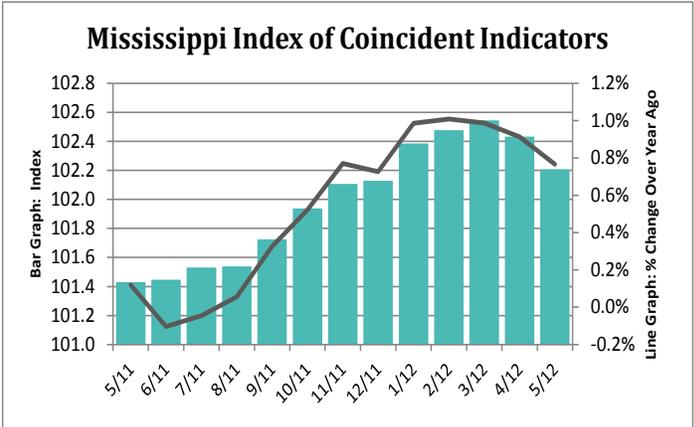
Contributing positively to the May Leading Index was a slight gain of 0.1 percent in the **Mississippi Manufacturing Employment Intensity Index**. Manufacturing employment fell in April but hours worked rose. The index was below the year ago level.

The **value of Mississippi residential building permits¹** rose a negligible 3.8 percent in May over April. This was the fourth consecutive increase, although the gains have all been modest. Building permit have however reached the highest point since February

2011. This level is well below the pre-recession peak. Construction employment for the State is at a 17 year low for the state. Nationally the construction sector (residential and private nonresidential) appears to be making modest improvement.

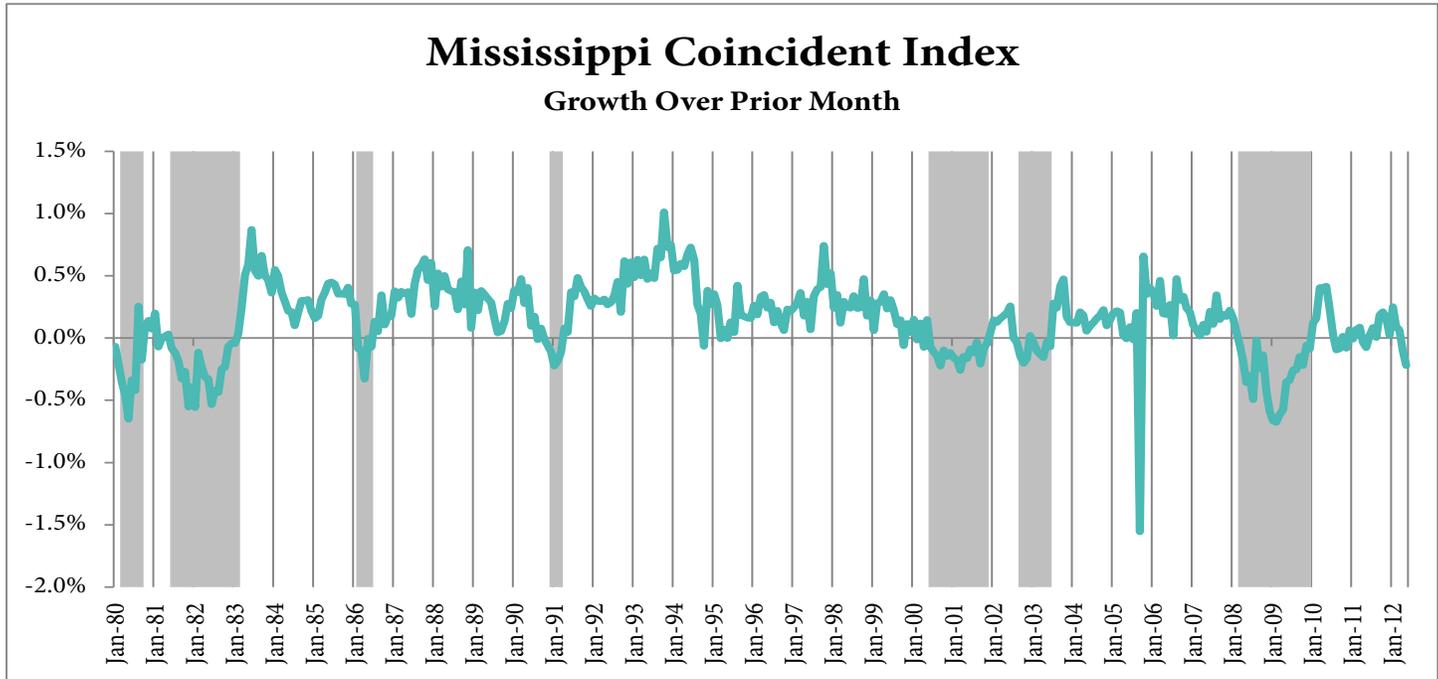
The **Mississippi Index of Coincident Indicators** was 102.2 in May, down 0.2 percent from the downwardly revised April level. With two months of decline, the Index has lost all of the gains that occurred in the first few months of the year. The May index is the lowest since December 2011.

Steep and persistent declines in the Coincident Index are rare and can be an indication of a recession (see the figure below). While there is no official definition of a state level recession, for our purposes we identify a recession as at least three consecutive months of decline in the Coincident Index and a cumulative decline of at least 0.5 percent. This definition follows research done by the Philadelphia Federal Reserve. Using this definition, recessions are identified by the gray areas in the figure below. In 2011, there were occasional dips into the negative territory, but the State never reached the threshold of a recession. The decline of the past two



months, however, comes just short of that threshold. It is possible that the June Index will reveal the State to be in a recession.

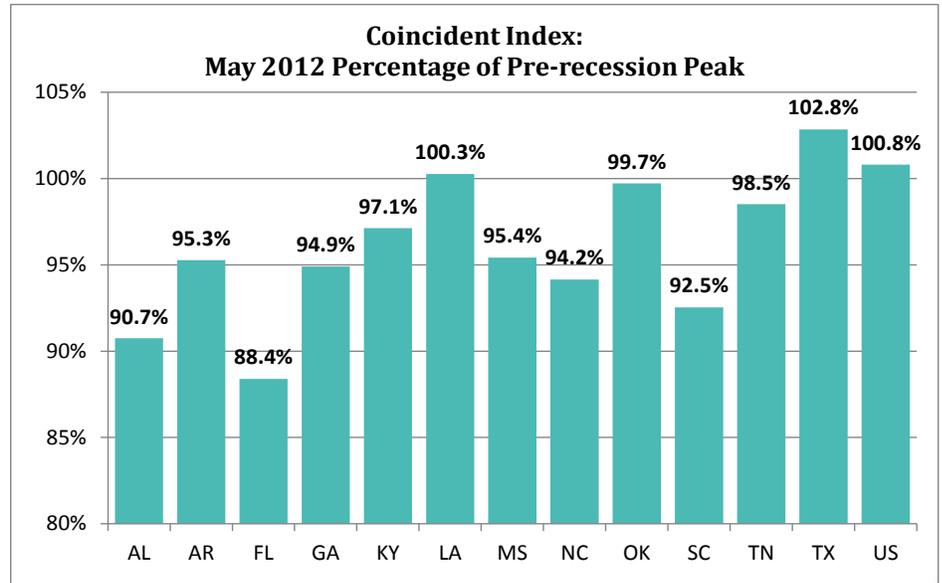
The figure at the top of page 5 shows a comparison of the May index to the pre-recession peak for the 12 southeastern states and the Nation. States that reach



100 percent of peak have fully recovered from the “Great Recession”. Mississippi was at 95.4 percent of the peak. Kentucky, Louisiana, Oklahoma, Tennessee and Texas are ahead of Mississippi. As we predicted in the May issue of *Mississippi's Business*, Arkansas has gained on Mississippi as well.

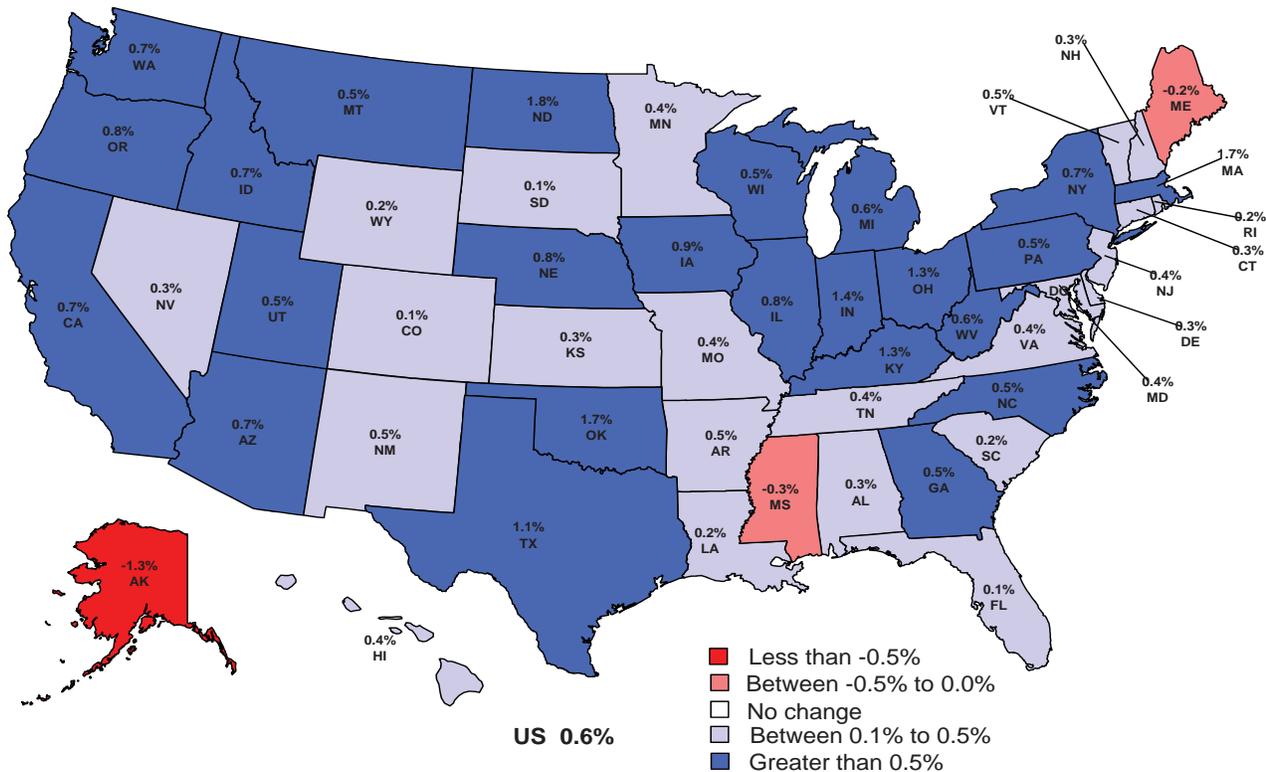
The map below shows the relative performance of the fifty states. The May index is compared to the level three months prior. Mississippi was one of only three states that saw a decline. Only Alaska experienced a steeper decline than Mississippi. The U.S. average was 0.6 percent gain.

The weakness of the State's economy was also evident in recently released income data from

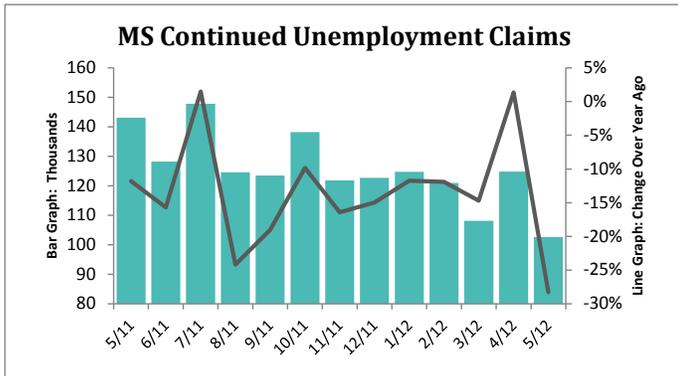


the Bureau of Economic Analysis (BEA). Among the 50 states, Mississippi had the lowest income growth for the first quarter 2012 relative to the fourth quarter 2011 at a 0.3 percent decline. For the Nation, the growth was 0.8 percent. The twelve southeastern states were not far behind the Nation at 0.7 percent. The only other state in which income fell was Kansas. Income was unchanged in Oklahoma. The remaining 47 states saw gains.

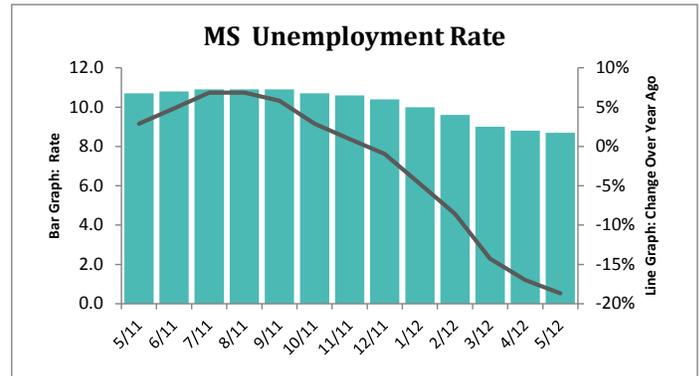
Three Month Growth in The Index of Coincident Economic Indicators, May 2012



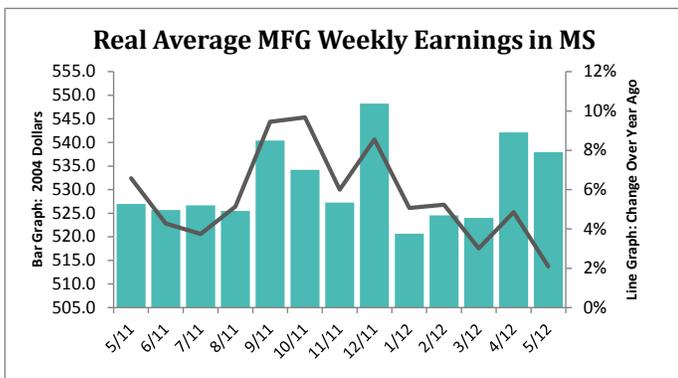
MISCELLANEOUS ECONOMIC INDICATORS



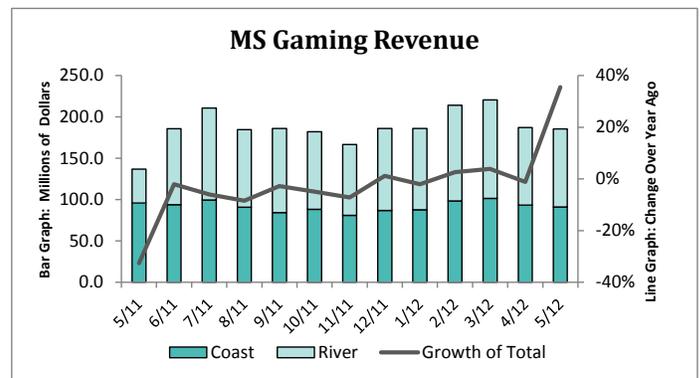
Source: Mississippi Department of Employment Security; Seasonally Adjusted



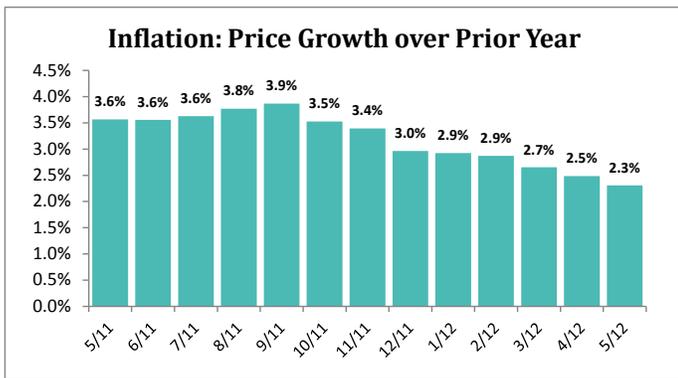
Source: U.S. Bureau of Labor Statistics; Seasonally Adjusted



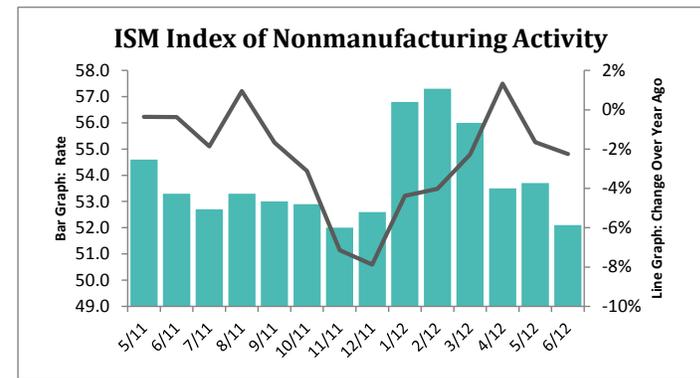
Source: U.S. Bureau of Labor Statistics; Nonseasonally Adjusted



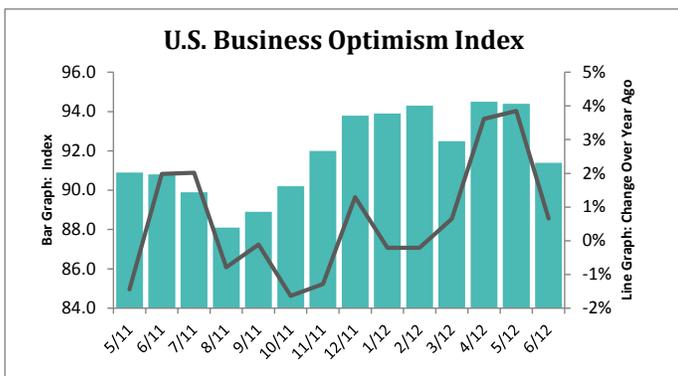
Source: MS Department of Revenue; Nonseasonally Adjusted



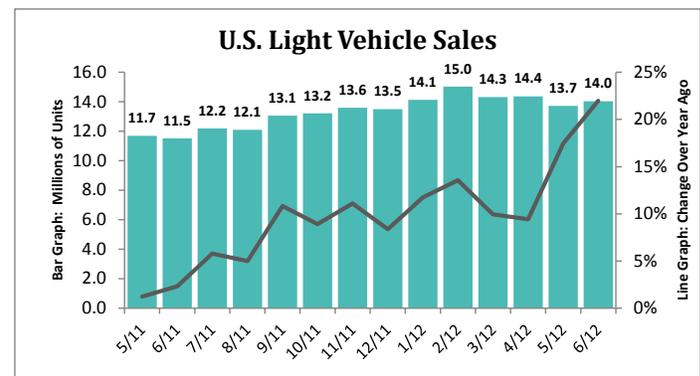
Source: U.S. Bureau of Labor Statistics



Source: Institute For Supply Management

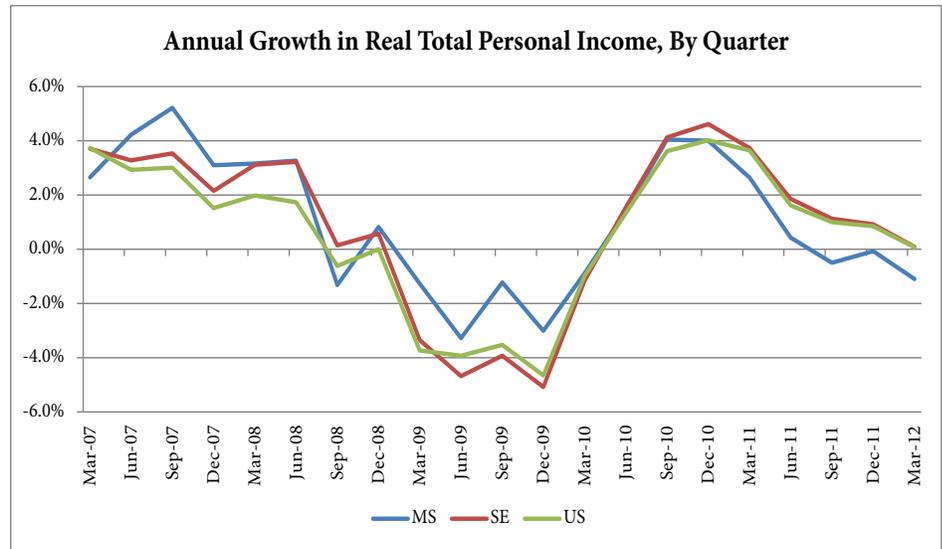


Source: National Federation of Independent Businesses



Source: Bureau of Economic Analysis; Seasonally Adjusted Annual Rate

The sluggish income growth across the country is particularly concerning. The figure to the right shows annual growth in Real personal income. The Nation and the Southeast is nearly flat with the year ago. For the Nation, flat or negative year over year real income growth is characteristic of recessions. Mississippi's income growth has been below the year ago for three consecutive quarters. If we look only at real earnings, the State has seen negative growth for four consecutive quarters.



These trends run counter to the growth evident in the transfers to the State's General Fund. For the fiscal year 2012, which ended in June, the General Fund rose 5.9 percent. This was the strongest growth since 2007, which was fueled by Katrina rebuilding. The details reveal that most of the growth came from corporate tax and individual income tax. Corporations are operating very lean as they continue to resist hiring in the uncertain environment that has characterized the recovery period. Profits are therefore high. The individual income tax collections are more difficult to understand. One possibility is that while there remains

a large group of people without a job and therefore very limited income growth, those who have a job saw their incomes rise substantially in FY 2012. This may be due to overtime or perhaps working a second part-time job. This seems plausible as businesses seek to gain efficiency without adding workers. The weak economy is evident in the sales tax transfers which grew 3.6 percent. In real terms this implies sales expanded a meager 0.6 percent for the fiscal year. In any event, the economic data does not support a continuation of the kind of revenue seen in FY 2012. The State's economy is weakening and may already be in recession.

National Trends

The U.S. Index of Leading Indicators rose 0.3 percent in May relative to April. The May gain more than offset the dip that occurred in April. While the index is rising, the six-month growth rate has weakened the past two months. The Coincident Index gained 0.2 percent for the month.

The National economy is clearly weakening. The ISM Manufacturing Index shows that industry is contracting. The ISM Nonmanufacturing Index shows a relatively weak but expanding industry. As previously mentioned annual real

income growth is already at recessionary levels. Consumer spending has softened. There is some good news in that construction activity has improved and gas prices have trended lower. But overall the National economy is weak.

The National economy is not helped by a weakening global economy. The saga in Europe continues and the Asian economies are slowing. The rising tensions in the Middle East are likewise a perpetual threat. With the National economy growing at such a slow pace, these external shocks are a significant threat to the economy.

The Fed has indicated that Operation Twist (buying long-term government securities and selling short-term securities) will continue through the end of the year. Another round of quantitative easing will probably follow. But these efforts appear to be having diminishing results on growth.

In light of the growing chorus of negative news, IHS Global Insight has raised their recession risk to 25 percent. This may be too optimistic, given the obviously slow economy. In fact, it would not be surprising if future data show the Nation is already in recession.

SELECTED ECONOMIC INDICATORS

Indicator	May	April	April	Change from		
	2012	2012	2011	Last Month	Last Year	
US Index of Coincident Indicators Index 2004=100, Source: The Conference Board	104.3	104.1	101.2	0.2%	3.1%	Economic Indices
MS Index of Coincident Indicators Index 2004=100, Source: Federal Reserve Bank of Philadelphia	102.2	102.4	101.4	-0.2%	0.8%	
US Index of Leading Indicators Index 2004=100, Source: The Conference Board	95.8	95.5	94.2	0.3%	1.7%	
MS Index of Leading Indicators Index 2004=100, Source: University Research Center	98.0	98.8	94.7	-0.8%	3.5%	
MS Initial Unemployment Claims Source: Mississippi Department of Employment Security	12,342	11,814	15,205	4.5%	-18.8%	Components of the MS Index of Leading Indicators
MS Value Of Res. Building Permits 3 Mo. Moving Average, Millions of 2004 Dollars, Source: Bureau of Census	49.6	47.7	39.0	3.8%	27.1%	
MS Income Tax Withholdings 3 Mo. Moving Average, Millions of 2004 Dollars, Source: MS Department of Revenue	103.16	103.89	100.45	-0.7%	2.7%	
MS MFG Emp. Intensity Index Average workweek length times employment, Indexed 2004 =100, Source: URC using data from Bureau of Labor Statistics	78.4	78.3	79.3	0.1%	-1.2%	
MS Diesel Fuel Consumption Index 3 Mo. Moving Average, Index 2004-100, Source: URC using data from MS Department of Revenue	100.1	100.9	98.0	-0.9%	2.1%	
US Index of Consumer Expectations 3 Mo. Moving Average, Index 1996=100, Source: University of Michigan	71.5	72.1	65.3	-0.9%	9.4%	
US ISM Index of MFG Activity Advanced 1 Month (June Index appears as May), Source: Institute For Supply Management	49.7	53.5	53.5	-7.1%	-7.1%	
US Retail Sales Millions of Dollars, Source: Bureau of Census	404,596	405,287	384,249	-0.2%	5.3%	
US Consumer Price Index 2004=100, Source: URC using data from Bureau of Labor Statistics	122.4	122.0	119.6	0.3%	2.3%	
MS Unemployment Rate Source: Bureau of Labor Statistics	8.7%	8.8%	10.7%	-0.1%	-2.0%	
MS Continued Unemp. Claims Source: Mississippi Department of Employment Security	102,574	124,803	143,058	-17.8%	-28.3%	Miscellaneous Indicators
US Mortgage Rates 30 Yr. Conventional, Source: Federal Reserve	3.8%	3.8%	4.6%	0.0%	-0.8%	
MS Avg. Hourly Wage for MFG Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	53.70	53.50	54.60	0.4%	-1.6%	
MS Avg. Wkly Earnings for MFG Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	537.9	542.1	526.9	-0.8%	2.1%	
Gaming Revenue	185.4	187.1	136.8	-0.9%	35.5%	
Coast Counties	91.0	93.4	96.0	-2.6%	-5.2%	
River Counties	94.4	93.7	40.8	0.7%	131.1%	
Nonseasonally adjusted, Millions of Dollars, Source: MS Department of Revenue						
Business Optimism Index Index 1986=100, Source: National Federation of Independent Businesses	94.4	94.5	90.9	-0.1%	3.9%	

MISSISSIPPI EMPLOYMENT BY SECTOR

Sector	Relative Share of Total*	Employment			Change from Prior Month		Change from Prior Year	
		May 2012	April 2012	May 2011	Level	%	Level	%
Total Nonfarm	100.0%	1,088,300	1,090,900	1,089,900	(2,600)	-0.2%	(1,600)	-0.1%
Mining and Logging	0.8%	9,400	9,300	9,000	100	1.1%	400	4.4%
Construction	4.4%	44,500	47,000	49,000	(2,500)	-5.3%	(4,500)	-9.2%
Manufacturing	12.3%	135,200	135,900	135,500	(700)	-0.5%	(300)	-0.2%
Trade, Transportation & Utilities	19.6%	214,000	213,600	215,000	400	0.2%	(1,000)	-0.5%
Retail Trade	12.1%	131,800	132,600	133,100	(800)	-0.6%	(1,300)	-1.0%
Information	1.1%	11,884	11,696	11,977	188	1.6%	(94)	-0.8%
Financial Activities	4.1%	45,247	44,770	44,659	478	1.1%	588	1.3%
Services	35.0%	380,600	381,200	380,300	(600)	-0.2%	300	0.1%
Professional and Business Services	8.6%	91,100	92,200	93,700	(1,100)	-1.2%	(2,600)	-2.8%
Education and Health Services	12.5%	137,200	137,200	133,600	-	0.0%	3,600	2.7%
Leisure and Hospitality	10.7%	117,400	117,500	119,000	(100)	-0.1%	(1,600)	-1.3%
Other Services	3.1%	34,900	34,300	34,000	600	1.7%	900	2.6%
Government	22.6%	247,300	246,900	244,700	400	0.2%	2,600	1.1%

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

Source: U.S. Bureau of Labor Statistics

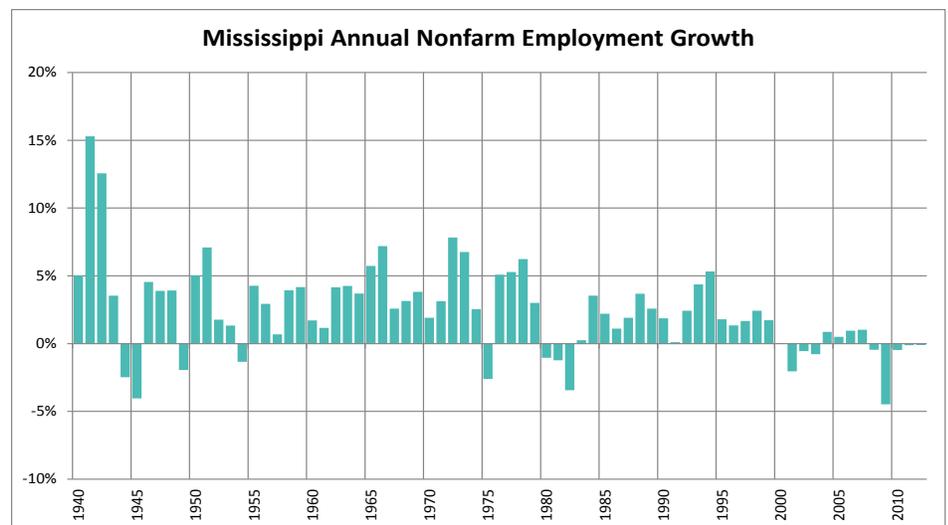
Mississippi Employment Trends

Mississippi nonfarm employment fell a substantial 2,600 jobs in May relative to April. The decline erased all of the gains that occurred in April and brought employment to its lowest level since August 2011. Employment has fallen relative to the prior month for five of the last seven months. The series has been below the year ago level for all but two of the past thirteen months. May employment was 0.1 percent below the year ago. Averaging the first five months of 2012, employment is down 0.1 percent for the year. This is the growth rate observed for the whole of 2011.

Construction employment took the largest hit in May, falling 2,500 jobs or 5.3 percent. The professional and business service sector lost 1,000 jobs or 1.2 percent. Manufacturing, which grew in

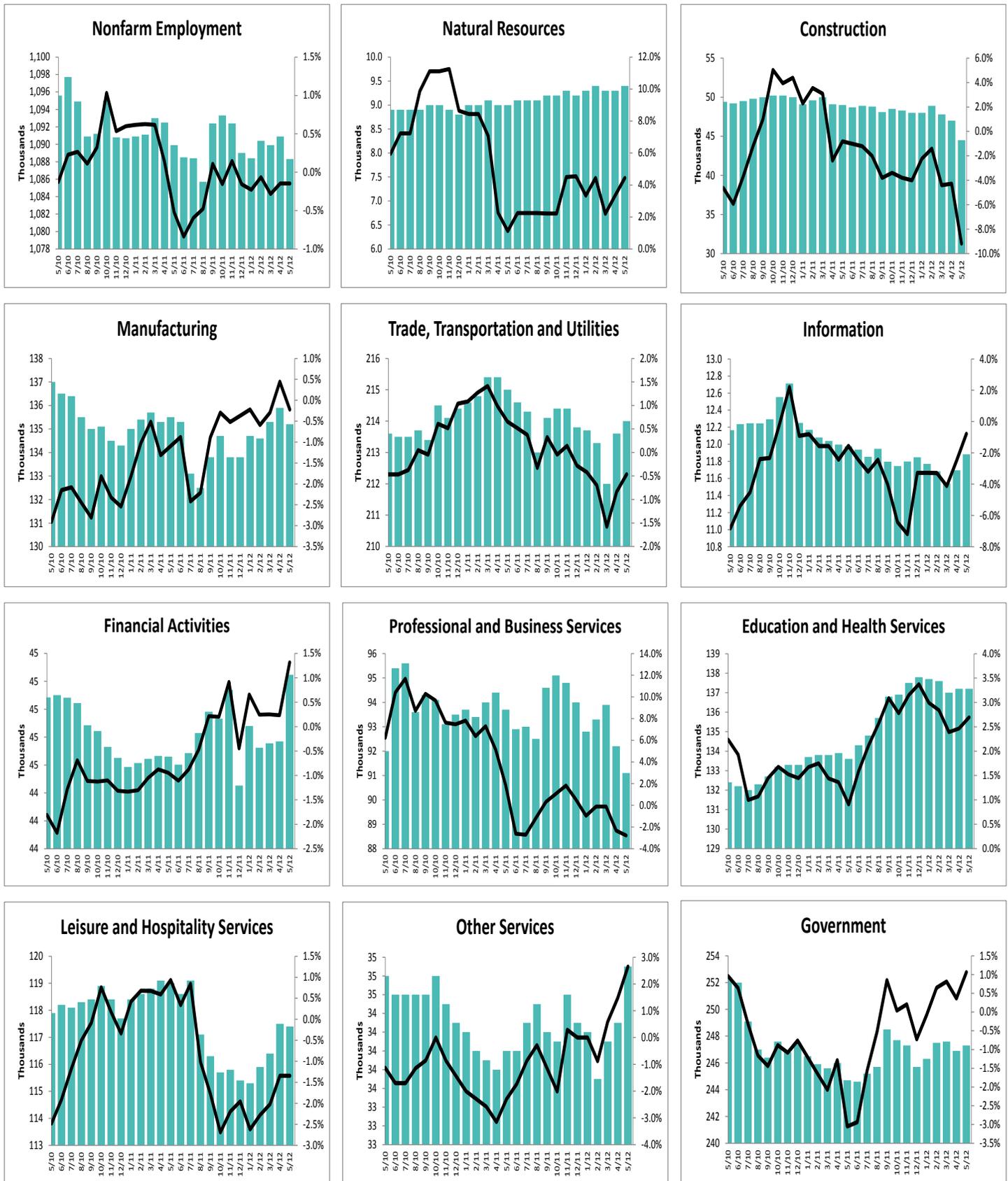
three of the previous four months saw a 700 job decline. The government added 400 jobs while “other services” added 600 and financial activities added 478. There was also a gain of 400 jobs in trade, transportation and utilities, but this was not driven by retail sales which lost 800 jobs.

Employment growth has been weak throughout the recovery as evidenced in the figure below. In fact, growth has been generally sluggish since 2000. The State lost a large number of jobs following NAFTA in 1994. This was less noticed early on as the State enjoyed growth in the casino industry. Once the casino industry reached maturity the State struggled to add jobs and has struggled ever since.



* 2012 growth represents January-May compared to the same period in 2011.

MISSISSIPPI EMPLOYMENT TRENDS



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