

# Mississippi's Business

August 2012

Monitoring The State's Economy

Volume 70 - Number 7

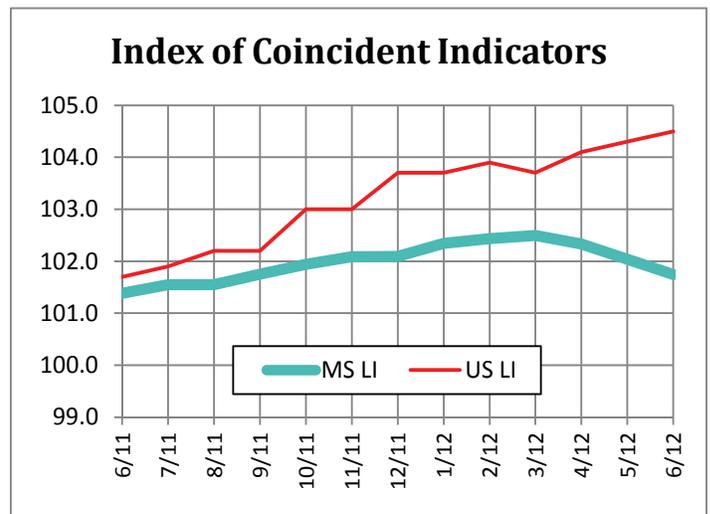
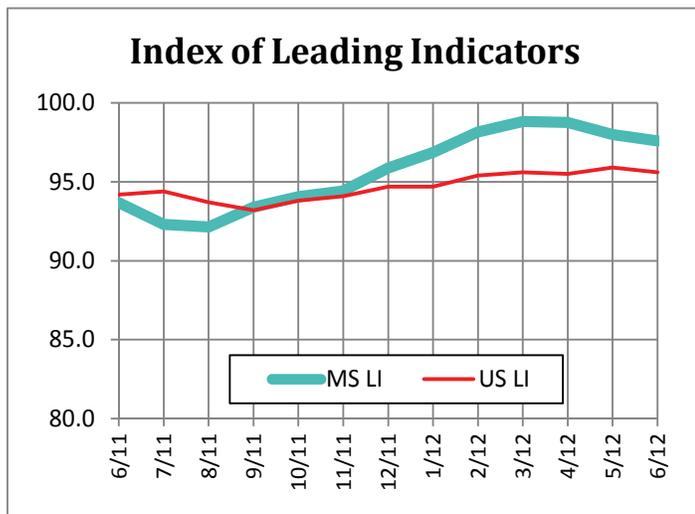
A Publication of the University Research Center, Mississippi Institutions of Higher Learning

## ECONOMY AT A GLANCE

The Mississippi Index of Coincident Indicators fell in June for the third consecutive month. Taken together, the three months of decline represent a 0.7 percent contraction in the Index. This is consistent with a recession based on the criteria\* used by the Philadelphia Federal Reserve, the source for the state level coincident indices. Critics will rightly argue that this index is heavily influenced by employment trends. We can then say that at the very least the State appears to be in a jobs recession. In fact with the jobs lost in June, the state's employment level is only 500 jobs above the level of the lowest point following the 2007 recession. The State has lost employment relative to the year ago for all but two of the past fourteen months. Furthermore, the Mississippi Index of Leading Indicators has fallen for three consecutive months revealing a weakening State economy.

The National economy continues to grow, but it too is weakening. Employment improved in July, but there are few bright spots in this economy. Gas prices, which had been giving consumers a much needed break, are now creeping upward. Consumers have curtailed spending. Vehicle sales remain strong however and there are some signs of life in the housing sector. But this economy has clearly lost momentum. The risk of recession has not changed however. It remains at 25 percent. We expect the National economy to slow in the third quarter and improve modestly in the fourth.

\* Previous research by the Philadelphia Federal Reserve has defined a state level recession as a three month decline in the state's coincident index with at least a 0.5 percent cumulative decline. Based on this definition the State of Mississippi has been in recession since April.



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.

### IN THIS ISSUE:

Economy at a Glance .....	1
Index of Leading Indicators for June 2012 .....	2
Index of Coincident Indicators for June 2012 .....	4
National Trends .....	7
Mississippi Employment Trends .....	9

## LEADING AND COINCIDENT INDICATORS, JUNE 2012

After peaking in March, the **Mississippi Index of Leading Economic Indicators** has fallen for three consecutive months. The June index of 97.6 was 4.6 percent below the May level. The level relative to six months prior remains positive but has declined since February. The index shows the sluggish Mississippi economy is deteriorating further. However not all of the news is negative. For example, those who have a job appear to be earning more.

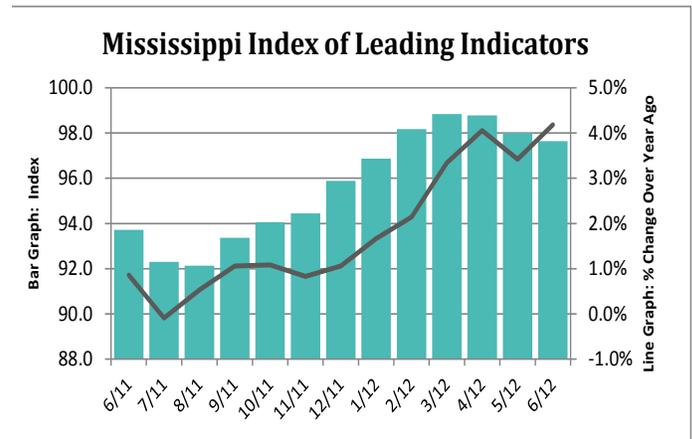
Four out of eight components contributed negatively to the June Index. The indices will be discussed in order of their contributions to the June decline.

The largest contributor to the June decline was the **U.S. Index of Consumer Expectations**<sup>1</sup> which fell a substantial 3.1 percent. The series enters the leading index as a three month moving average. The individual month's data show considerable weakness in both June and July. The July index was the lowest since December. Slow employment and income growth are factors in the diminishing expectations.

The **Mississippi Manufacturing Employment Intensity Index** fell 1.0 percent in June relative to May. Both average weekly hours worked and employment fell in June. In April and May, the index was at its highest point in a year.

**The Index shows the sluggish Mississippi economy is deteriorating further. However not all of the news is negative.**

**U.S. Retail Sales** fell 0.5 percent in June. This marked the third consecutive monthly decline as consumers curtailed spending. The June decline was steeper and more broad than in May. Slow wage growth, high unemployment, dismal global economic news and poor stock market performance are all fueling the declining spending. In a separate but related report, light vehicle sales remained relatively strong in July with an annualized 14.0 million units sold.



The **Mississippi Diesel Fuel Consumption Index**<sup>1</sup> fell 0.8 percent in June relative to May. The three month moving average is at its lowest point since November 2011. The weakness of this series offers further evidence of a slowing economy. Fewer trucks on the roads indicates lower product demand and reduced economic activity.

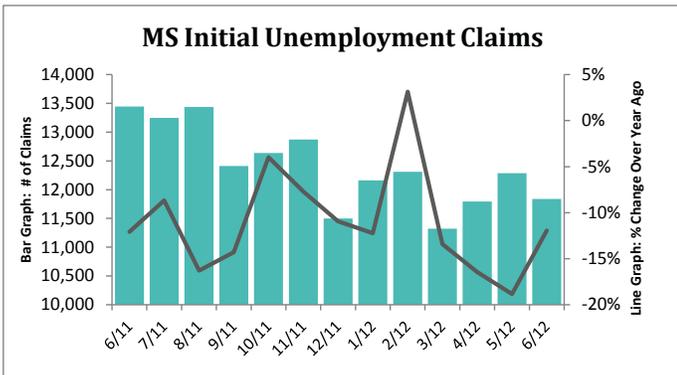
The **Institute for Supply Management Index of U.S. Manufacturing Activity** rose modestly to 49.8 in July. The series remains below the threshold of 50 which signifies the industry is contracting. The ISM Nonmanufacturing Index rose as well but remained below the second quarter average.

**Mississippi's initial unemployment claims** fell 3.7 percent in June relative to May. The decline follows two months of gains. These gains notwithstanding, the series has generally trended downward since early 2011. Mississippi continued claims rose modestly in June following a steep decline in May. That series is trending downward as well.

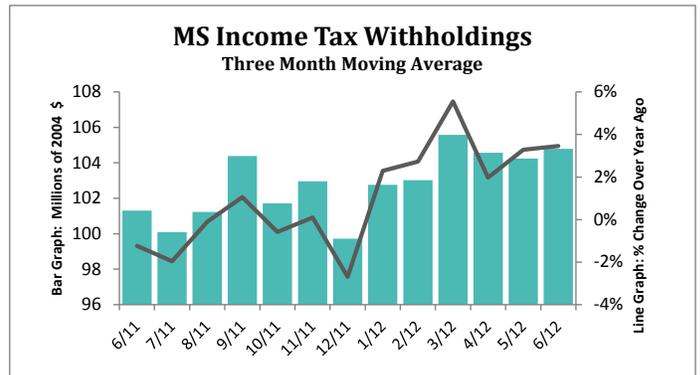
The **value of Mississippi residential building permits**<sup>1</sup> rose 2.6 percent in June over May. This was the fifth consecutive increase. Building permits hit bottom in the second quarter of 2011 and have generally trended upward. They dipped in the first quarter of 2012 but appear to be again on the upward move.

1. Three Month Moving Average

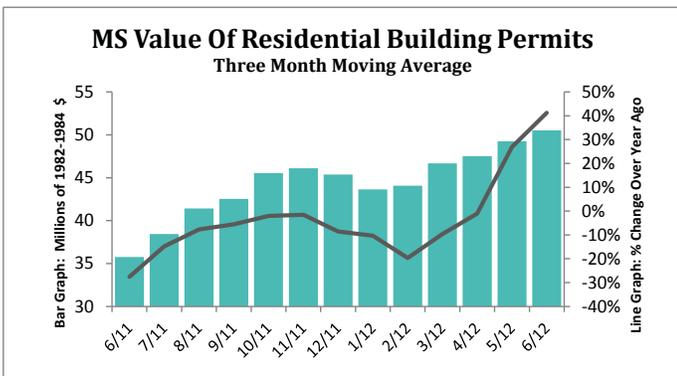
LEADING ECONOMIC INDICATORS



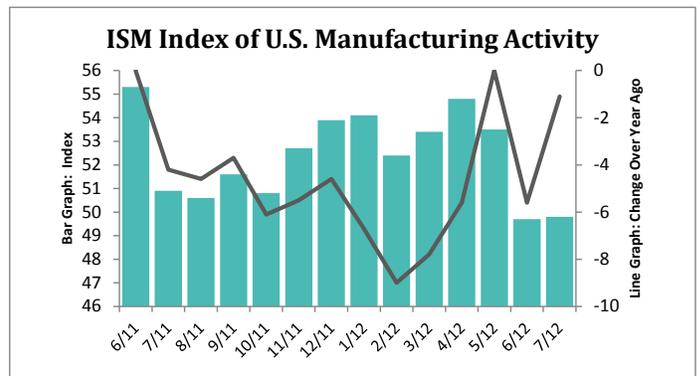
Source: Mississippi Department of Employment Security



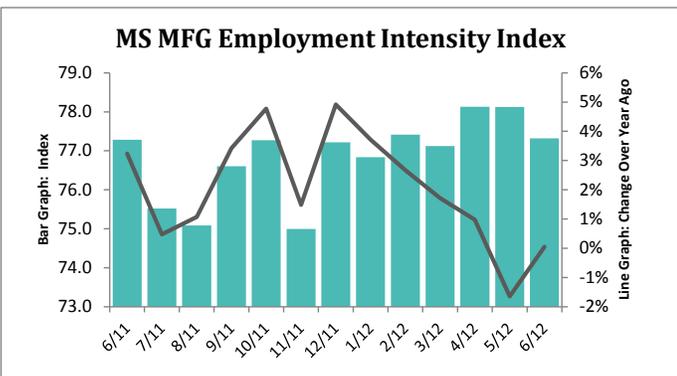
Source: Mississippi Department of Revenue



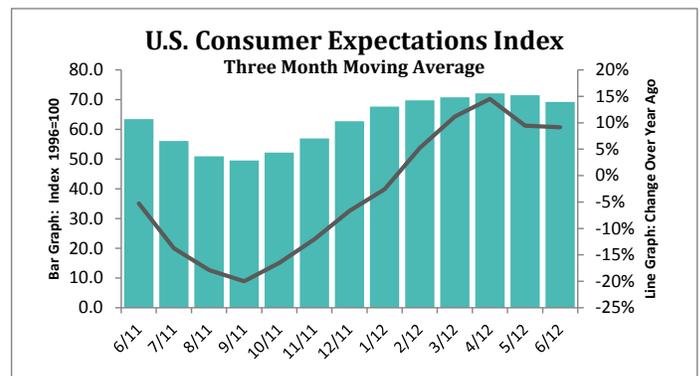
Source: Bureau of the Census



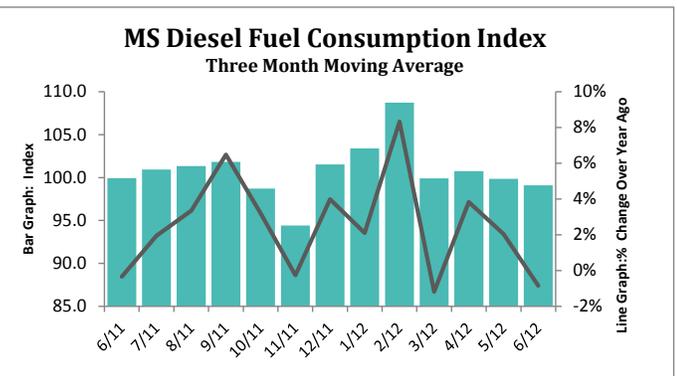
Source: Institute For Supply Management



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

Despite the gains, permits remain well below the pre-recession peak.

Inflation adjusted **Mississippi income tax withholdings**<sup>1</sup> rose a modest 0.5 percent in June relative to May. The series declined the previous two months. Withholdings have shown marked improvement in 2012 over the prior year. For the first seven months of 2012, inflation adjusted withholdings

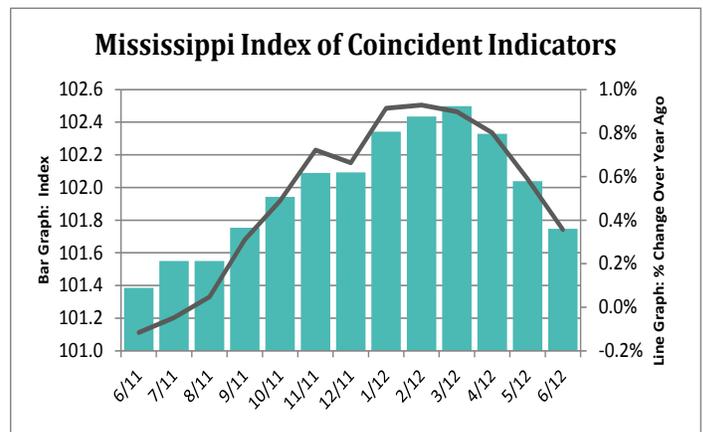
are up 3.9 percent over the same period of 2011. That is the strongest seven month span of growth since early 2008.

It is difficult to reconcile the strong performance in withholdings with the anemic growth in Mississippi employment (see page 9). Either the employment data are understating growth or those who have jobs are making more money.

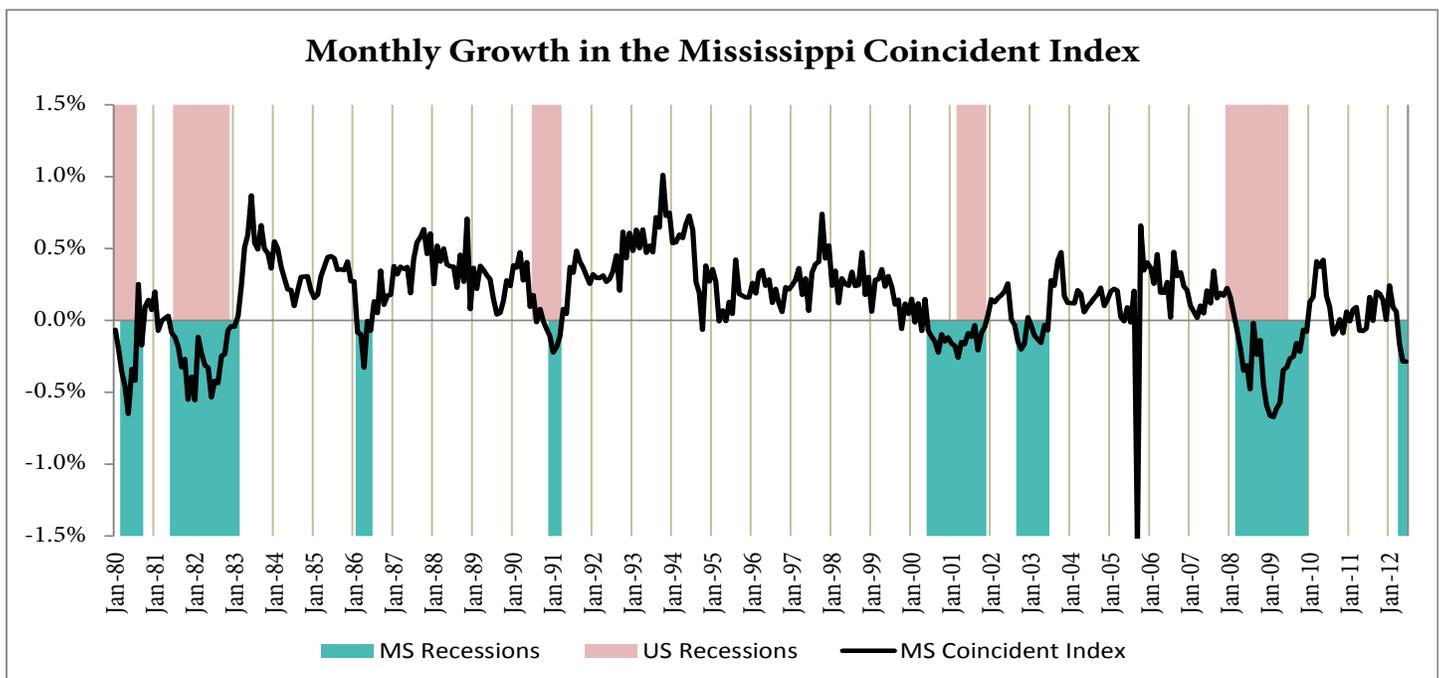
While the first may be taking place to a degree, data suggest the latter is happening. Average hourly earnings of private employment in Mississippi were up 2.0 percent over the prior year, after adjusting for inflation in the second quarter of 2012. This is the strongest growth since first quarter of 2010.

The **Mississippi Index of Coincident Indicators** was 101.7 in June, down 0.3 percent from the May level. The June index is the lowest since August 2011. The Index has now declined for three consecutive months with a cumulative decline of 0.7 percent. While there is no official definition of a recession, this crosses the threshold for a recession as defined by work by economists at the Philadelphia Federal Reserve. Admittedly, the Coincident Index is largely, though not exclusively, driven by employment trends. One might say that at the very least the state is in a jobs recession.

The figure below shows the history of the index along with National and State level recessions. State level recessions are defined using the Coincident Index and

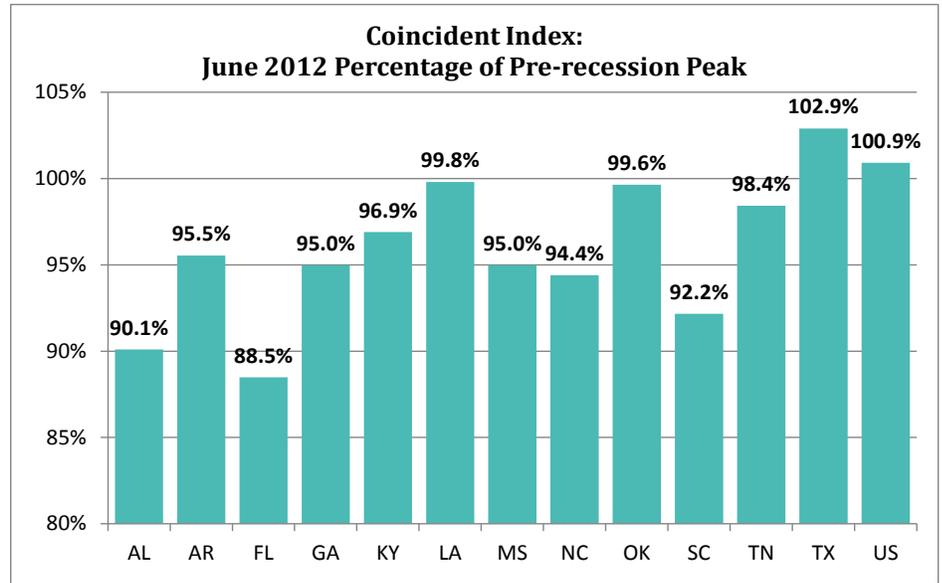


the criteria of the Philadelphia Federal Reserve research. National recessions are defined by the National Bureau of Economic Research.



Notice the weak growth in the index that has occurred in the recent months relative to the historical trends. Such weakness usually accompanies both State and National recessions. In the past 32 years there have been two instances when Mississippi appears to have been in recession and the Nation was not; 1986 and late 2002-2003. It remains to be seen if 2012 will prove to be the third such instance.

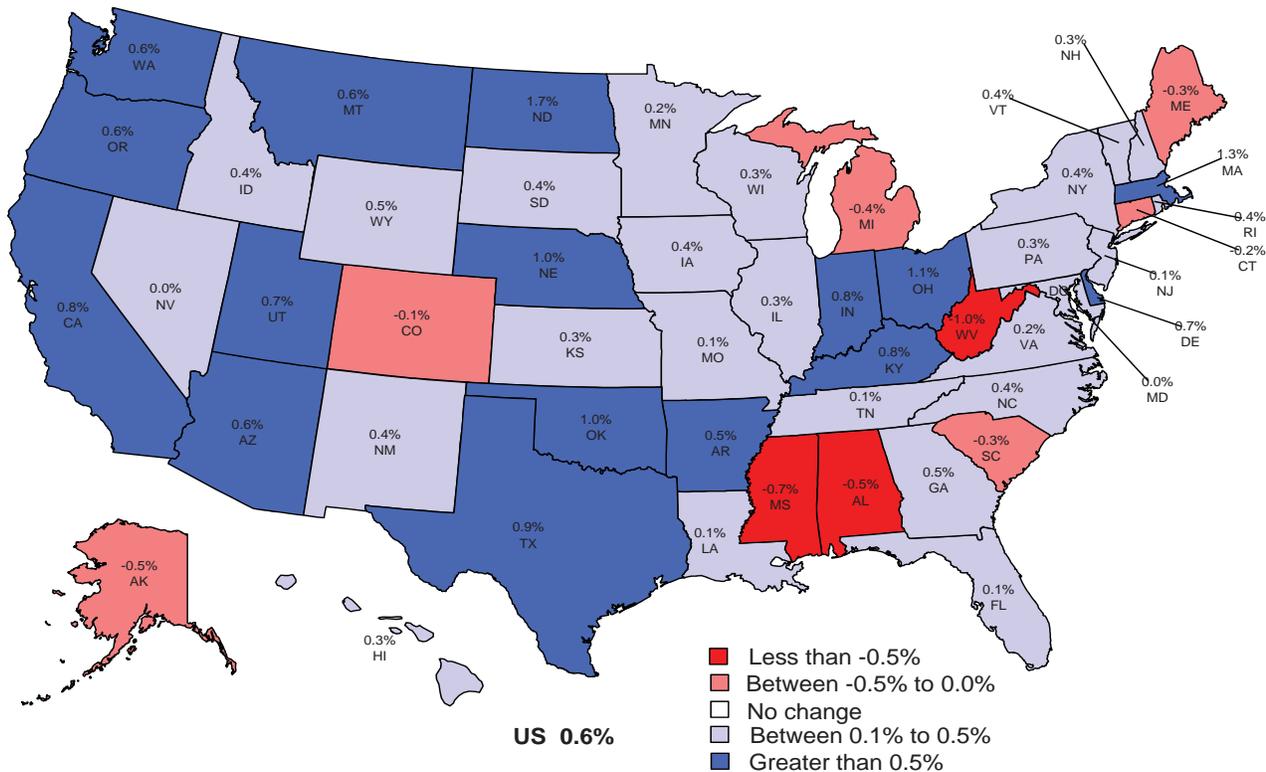
The figure to the right shows a comparison of the June index to the pre-recession peak for the 12 southeastern states and the Nation. States that reach 100 percent of peak have fully recovered from the "Great Recession". Mississippi was at 95.0 percent of the peak. Arkansas, Kentucky, Louisiana, Oklahoma, Tennessee and Texas



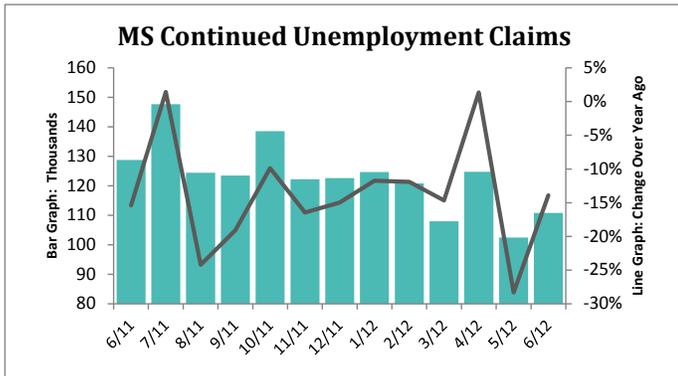
are ahead of Mississippi. Georgia is even with Mississippi. The State is falling behind the region in terms of recovery.

The map below shows the relative performance of the fifty states. The June index is compared to the level three months prior. Notice the increasing number of states in decline. Alabama and West Virginia join Mississippi as the steepest declines. The U.S. average was a 0.6 percent gain

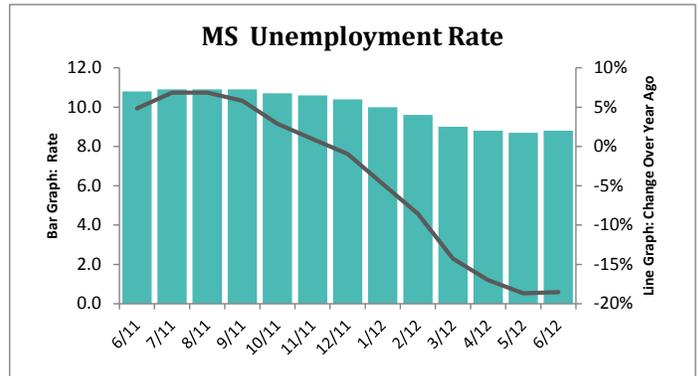
Three Month Growth in The Index of Coincident Economic Indicators, June 2012



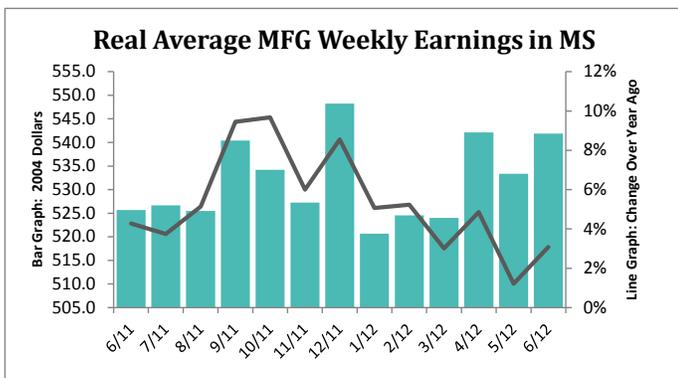
MISCELLANEOUS ECONOMIC INDICATORS



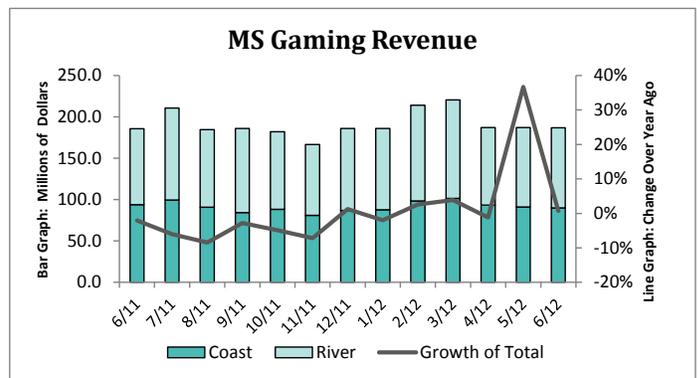
Source: Mississippi Department of Employment Security; Seasonally Adjusted



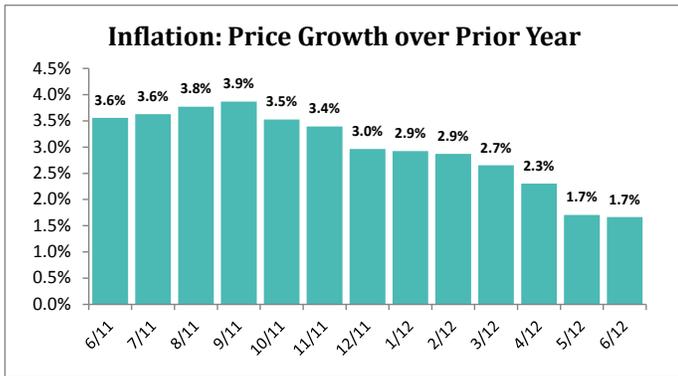
Source: U.S. Bureau of Labor Statistics; Seasonally Adjusted



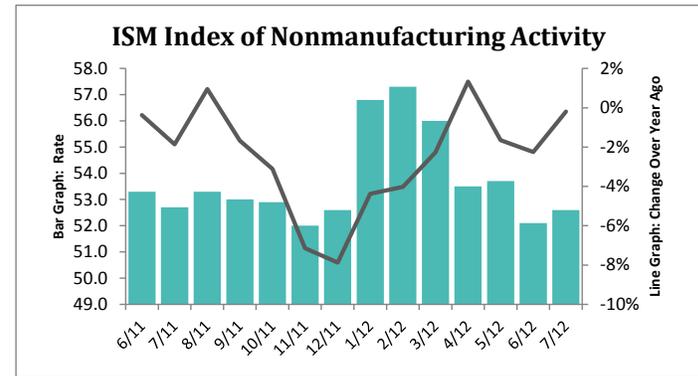
Source: U.S. Bureau of Labor Statistics; Nonseasonally Adjusted



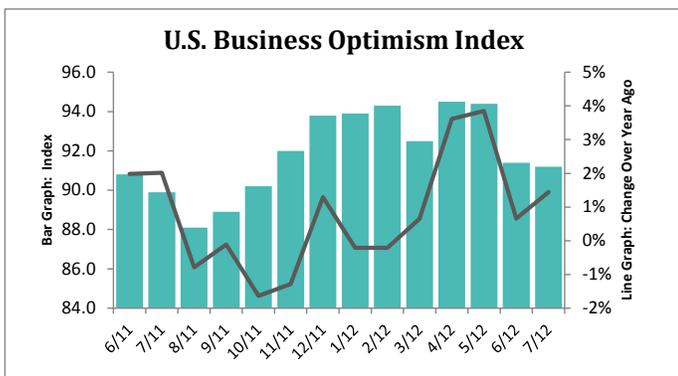
Source: MS Department of Revenue; Nonseasonally Adjusted



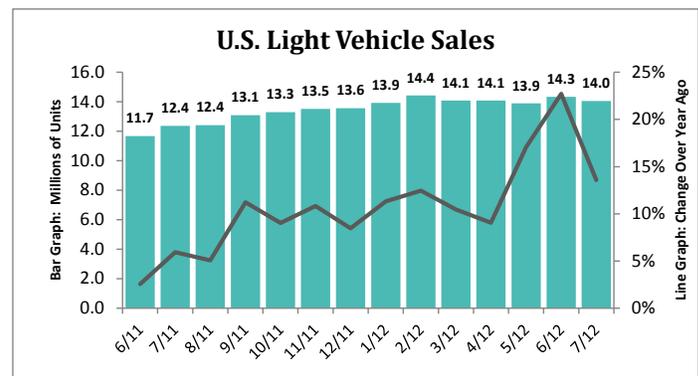
Source: U.S. Bureau of Labor Statistics



Source: Institute For Supply Management



Source: National Federation of Independent Businesses



Source: Bureau of Economic Analysis; Seasonally Adjusted Annual Rate

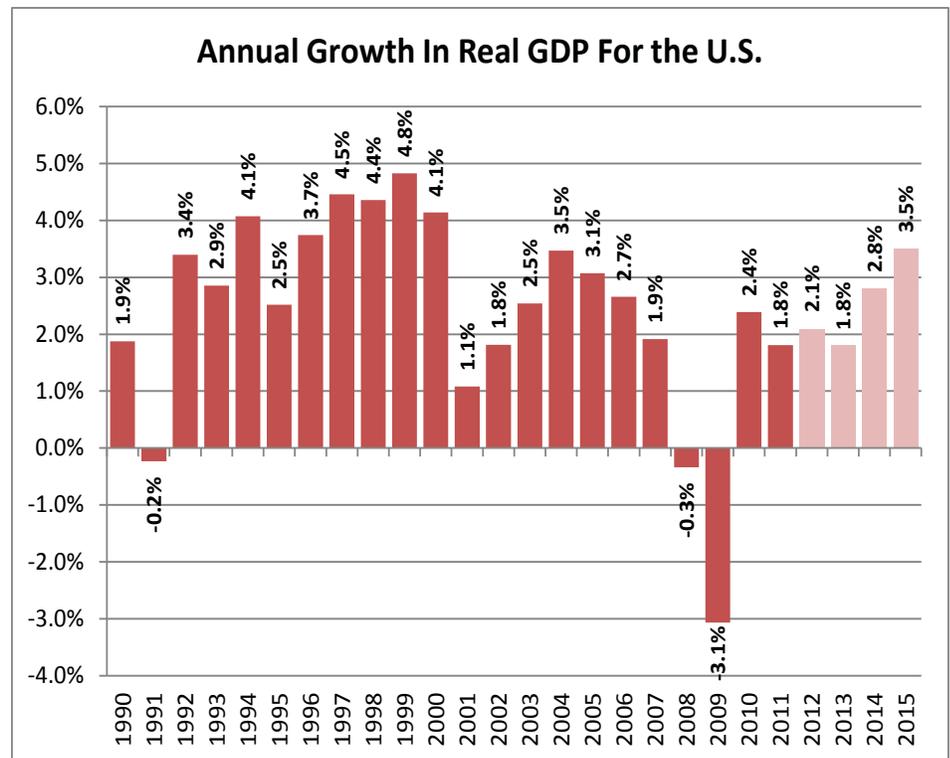
## National Trends

The U.S. Index of Leading Indicators declined for the second time this year in June falling 0.3 percent for the month. Weak building permits, new orders and consumer expectations drove the decline. The U.S. Index of Coincident Indicators rose 0.2 percent. The Conference Board expects slow growth in the near term.

The National economy continues to weaken but remains in an expansion phase. While July employment showed some improvement, there are few other bright spots in the economy. Employment rose 163,000 jobs in July. This was an improvement over the second quarter average monthly gain of 73,000, but well below the first quarter average of 226,000. Some speculate that unseasonably warm weather drove the first quarter gains which were paid back in the second quarter.

The ISM Manufacturing Index continues to show the industry is contracting. Rising pessimism, slow wage growth and sluggish employment gains are dampening consumer spending. Gasoline prices, which had been given households some relief, are again creeping upward. Food prices are also expected to rise as a result of the drought. The stronger dollar and the slowing global economy means slower export growth.

Pent-up demand for housing is building. We are beginning to see some upward movement in price, sales and construction. Business equipment and software spending



Source: Bureau of Economic Analysis and IHS Global Insight. 2012-2015 are IHS Global Insight Projections.

improved in the second quarter. Vehicle sales also remain a bright spot.

The Federal Reserve has indicated that it is ready to do more to help the economy. Some speculate another round of quantitative easing could come before the end of the

The risk of recession has not changed this month, remaining at 25 percent. The forecast is for slower growth in the second half of 2012 with only modest improvement in 2013. Growth is expected to improve in 2014 and 2015 fueled by improvement in

## The forecast is for slow growth in the second half of 2012 with only modest improvement in 2013.

year. IHS Global Insight assumes this will come in the form of \$600 billion concentrated in mortgage backed securities. They do not expect this to have a significant impact on growth.

the housing industry. The figure above shows annual growth in real GDP, along with the current projections through 2015. Growth is not expected to exceed 3.0 percent until 2015.

## SELECTED ECONOMIC INDICATORS

Indicator	June 2012	May 2012	June 2011	Change from	
				Last Month	Last Year
<b>US Index of Coincident Indicators</b> Index 2004=100, Source: The Conference Board	104.5	104.3	101.7	0.2%	2.8%
<b>MS Index of Coincident Indicators</b> Index 2004=100, Source: Federal Reserve Bank of Philadelphia	101.7	102.0	101.4	-0.3%	0.3%
<b>US Index of Leading Indicators</b> Index 2004=100, Source: The Conference Board	95.6	95.9	94.2	-0.3%	1.5%
<b>MS Index of Leading Indicators</b> Index 2004=100, Source: University Research Center	97.6	98.0	93.7	-0.4%	4.2%
<b>MS Initial Unemployment Claims</b> Source: Mississippi Department of Employment Security	11,838	12,287	13,446	-3.7%	-12.0%
<b>MS Value Of Res. Building Permits</b> 3 Mo. Moving Average, Millions of 2004 Dollars, Source: Bureau of Census	50.5	49.2	35.8	2.6%	41.3%
<b>MS Income Tax Withholdings</b> 3 Mo. Moving Average, Millions of 2004 Dollars, Source: MS Department of Revenue	104.80	104.25	101.30	0.5%	3.5%
<b>MS MFG Emp. Intensity Index</b> Average workweek length times employment, Indexed 2004 =100, Source: URC using data from Bureau of Labor Statistics	77.3	78.1	77.3	-1.0%	0.0%
<b>MS Diesel Fuel Consumption Index</b> 3 Mo. Moving Average, Index 2004-100, Source: URC using data from MS Department of Revenue	99.1	99.8	99.9	-0.8%	-0.8%
<b>US Index of Consumer Expectations</b> 3 Mo. Moving Average, Index 1996=100, Source: University of Michigan	69.2	71.5	63.4	-3.1%	9.1%
<b>US ISM Index of MFG Activity</b> Advanced 1 Month (June Index appears as May), Source: Institute For Supply Management	49.8	49.7	55.3	0.2%	-9.9%
<b>US Retail Sales</b> Millions of Dollars, Source: Bureau of Census	401,515	403,445	386,919	-0.5%	3.8%
<b>US Consumer Price Index</b> 2004=100, Source: URC using data from Bureau of Labor Statistics	121.5	121.7	119.5	-0.1%	1.7%
<b>MS Unemployment Rate</b> Source: Bureau of Labor Statistics	8.8%	8.7%	10.8%	0.1%	-2.0%
<b>MS Continued Unemp. Claims</b> Source: Mississippi Department of Employment Security	110,810	102,466	128,741	8.1%	-13.9%
<b>US Mortgage Rates</b> 30 Yr. Conventional, Source: Federal Reserve	3.7%	3.8%	4.5%	-0.1%	-0.8%
<b>MS Avg. Hourly Wage for MFG</b> Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	52.10	53.70	53.30	-3.0%	-2.3%
<b>MS Avg. Wkly Earnings for MFG</b> Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	541.8	533.3	525.7	1.6%	3.1%
<b>Gaming Revenue</b>	186.9	187.0	185.6	-0.1%	0.7%
<b>Coast Counties</b>	89.9	91.0	94.0	-1.2%	-4.3%
<b>River Counties</b>	97.0	96.1	91.6	1.0%	5.8%
Nonseasonally adjusted, Millions of Dollars, Source: MS Department of Revenue					
<b>Business Optimism Index</b> Index 1986=100, Source: National Federation of Independent Businesses	91.4	94.4	90.8	-3.2%	0.7%

Economic Indices

Components of the MS Index of Leading Indicators

Miscellaneous Indicators

MISSISSIPPI EMPLOYMENT BY SECTOR

Sector	Relative Share of Total*	June 2012	May 2012	June 2011	Change from Prior Month		Change from Prior Year	
					Level	%	Level	%
Total Nonfarm	100.0%	1,084,300	1,088,100	1,088,500	(3,800)	-0.3%	(4,200)	-0.4%
Mining and Logging	0.8%	9,200	9,300	9,100	(100)	-1.1%	100	1.1%
Construction	4.4%	44,000	44,800	48,700	(800)	-1.8%	(4,700)	-9.7%
Manufacturing	12.3%	135,400	135,600	135,300	(200)	-0.1%	100	0.1%
Trade, Transportation & Utilities	19.6%	212,000	214,000	214,600	(2,000)	-0.9%	(2,600)	-1.2%
Retail Trade	12.1%	130,300	132,200	132,900	(1,900)	-1.4%	(2,600)	-2.0%
Information	1.1%	11,738	11,884	11,938	(146)	-1.2%	(200)	-1.7%
Financial Activities	4.1%	45,705	45,247	44,602	458	1.0%	1,102	2.5%
Services	35.0%	381,400	380,100	379,800	1,300	0.3%	1,600	0.4%
Professional and Business Services	8.6%	92,000	91,500	92,900	500	0.5%	(900)	-1.0%
Education and Health Services	12.5%	135,000	136,600	134,300	(1,600)	-1.2%	700	0.5%
Leisure and Hospitality	10.7%	119,300	117,200	118,600	2,100	1.8%	700	0.6%
Other Services	3.2%	35,100	34,800	34,000	300	0.9%	1,100	3.2%
Government	22.7%	246,300	247,400	244,600	(1,100)	-0.4%	1,700	0.7%

Source: U.S. Bureau of Labor Statistics

Mississippi Employment Trends

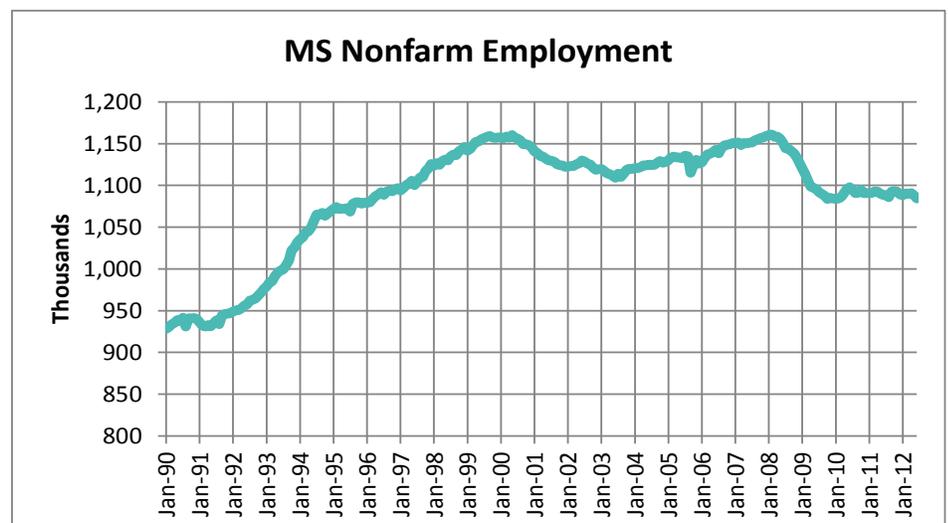
Mississippi lost 3,800 jobs in June relative to May. Employment has fallen relative to the prior month in all but two of the last eight months. The series has been below the year ago level for seven consecutive months and for all but two of the past fourteen months.

The largest declines for June came in retail sales and education and health services. The government sector also saw a substantial decline for the month. Construction continued to shed jobs as well. The leisure and hospitality sector experienced a sizable gain as did professional business services and financial activities.

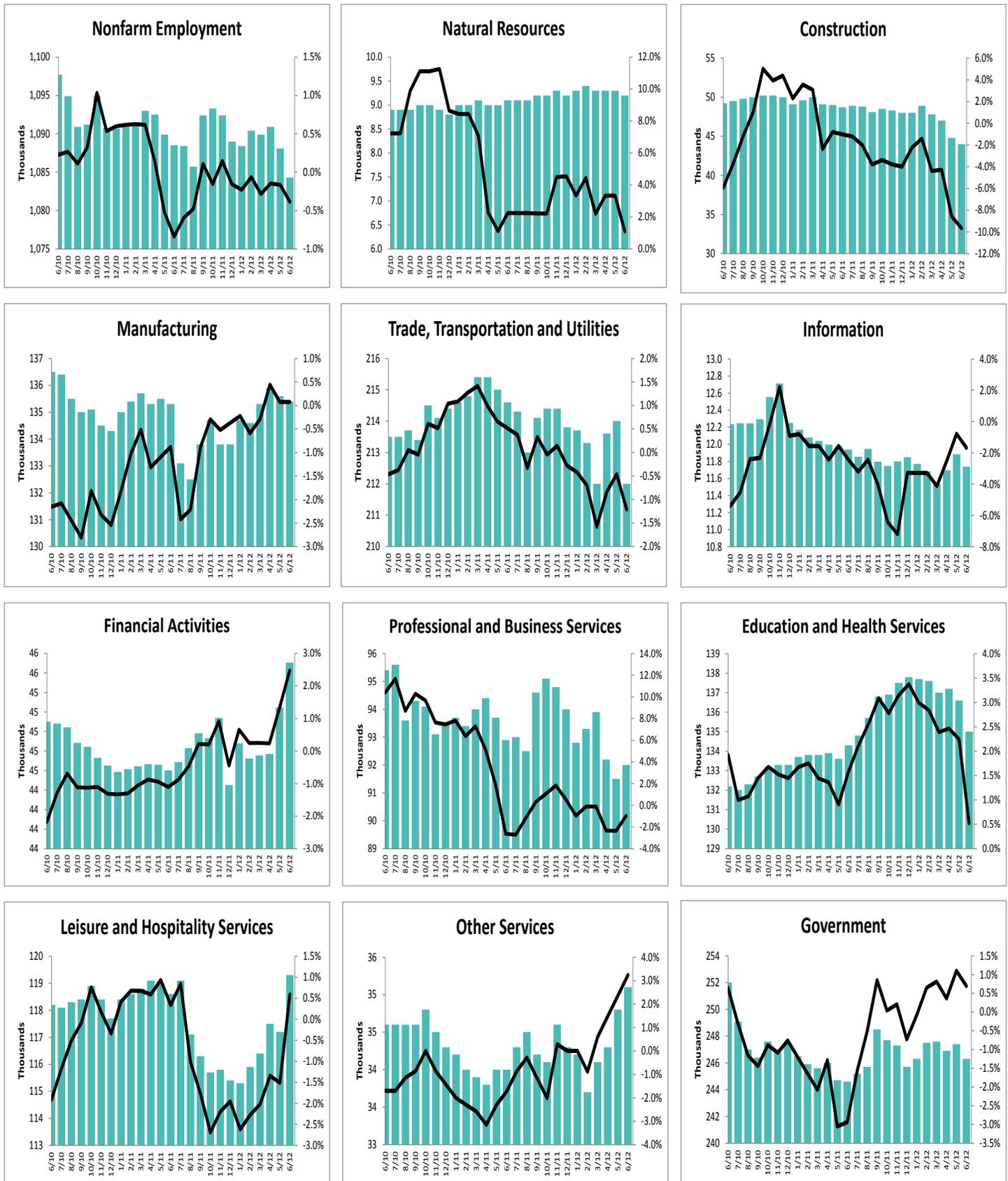
With the June decline, Mississippi employment is nearly as low as in the depth of the recession. The figure to the right shows Missis-

sippi nonfarm employment since 1990. The modest gains that the state has experienced since the end of the recession have by-in-large disappeared. Relative to the historical trends, employment has been essentially flat since 2009. From the peak which occurred in February 2008, to the low which occurred in October 2009, the state lost a total of 77,100 jobs. As of June, the state remained 76,600 below the February 2008 peak. In other words, with the losses that have taken place in recent months, the state is only up 500 jobs from the depth of the recession.

For the first half of 2012, employment has fallen 0.2 percent relative the same period of 2011. In calendar 2011, the state saw a 0.1 percent decline.



MISSISSIPPI EMPLOYMENT TRENDS



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