

Mississippi's Business

August 2013

Monitoring The State's Economy

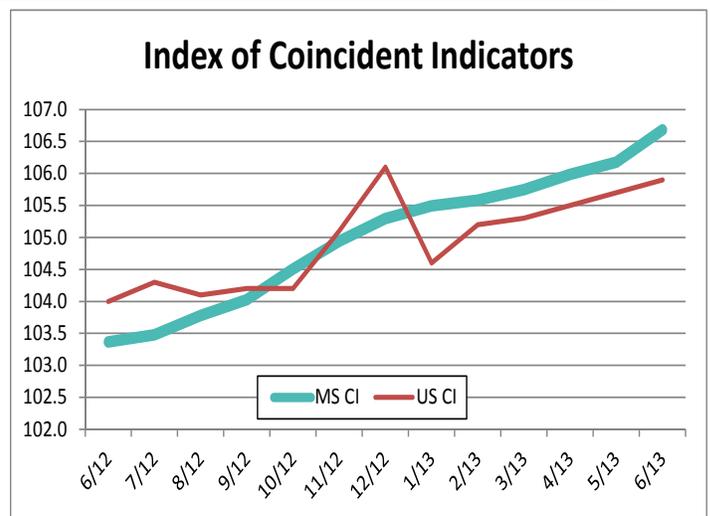
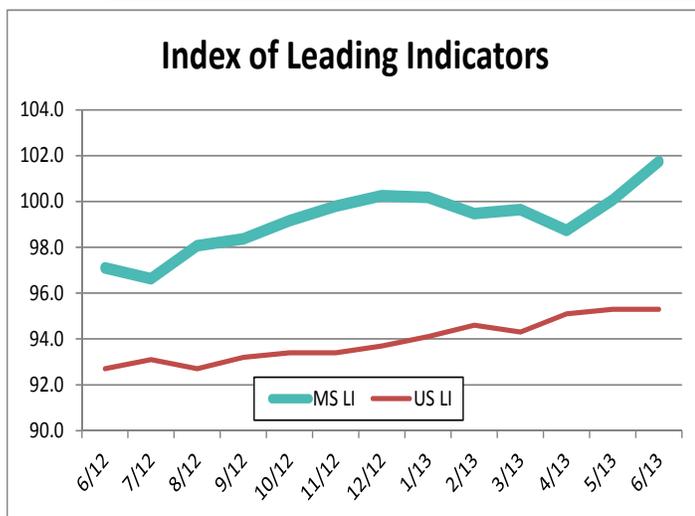
Volume 71 - Number 7

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

ECONOMY AT A GLANCE

The Mississippi Index of Leading Indicators continued its strong upward climb in June. The Coincident Index surged ahead as well. Both indices show a Mississippi economy in full recovery mode. Much of the recovery is in the jobs sector where growth is unprecedented for the post-recession period. Job growth is occurring in most sectors, but the largest gains in June were in leisure and hospitality. This is mostly food services. The gains may be due to improved economic conditions and less pessimism on the part of consumers. Indeed, retail sales in Mississippi appear to have improved in the second quarter. However, withholdings growth softened in the second quarter and diesel fuel consumption continued to trend below the year ago level. These are reminders that the economy still faces challenges. It is also important to remember that the employment data in particular are subject to revisions and may in fact be overstating the improvement.

National job growth is strong as well. The ISM Indices are improving. Housing continues to improve and auto sales are still high. Consumer sentiment is up, as is business confidence. But consumer spending is modest and despite the strong job growth, Real GDP growth is low -- about 1.4 percent for the first half of 2013. Most forecasters do not expect growth to improve much in the second half of 2013. In fact, a recent survey of 41 professional forecasters, done by the Federal Reserve Bank of Philadelphia, showed an expected growth of 1.5 percent for 2013. They further expect very little change in labor market conditions. The bottom line is that the National economy is growing at a slow pace and that will likely continue in the coming months.



The Mississippi Coincident Index is constructed by the Federal Reserve Bank of Philadelphia and re-indexed to 2004. The Index is based on changes in nonfarm employment, the unemployment rate, average manufacturing workweek length and wage and salary disbursements. The Mississippi Leading Index is constructed by the Mississippi University Research Center. The U.S. Indices are both from the Conference Board. All series are indexed to a base year of 2004.

IN THIS ISSUE:

| | |
|--|----|
| Economy at a Glance | 1 |
| Index of Leading Indicators for May 2013 | 2 |
| Index of Coincident Indicators for May 2013..... | 4 |
| National Trends | 5 |
| Mississippi Employment Trends | 8 |
| Economic Momentum Among The States | 10 |

LEADING AND COINCIDENT INDICATORS, JUNE 2013

The **Mississippi Index of Leading Economic Indicators** rose 1.6 percent in June, bringing the index to 101.7, the highest level since February 2008. The six-month growth rate was a strong 3.0 percent while the growth relative to the year ago was 4.8 percent. The Index points to a strengthening State economy.

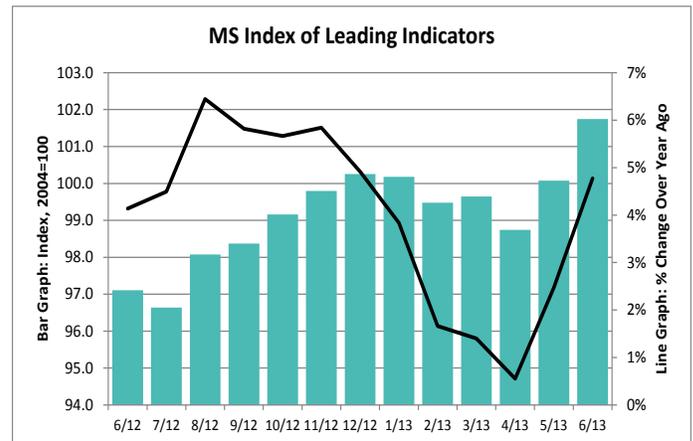
Improvement was widespread with seven components contributing to the June gain and one remaining unchanged. The components of the Leading Index will be discussed in order of their contributions to the June increase.

The **Institute for Supply Management Index of U.S. Manufacturing Activity** continued to improve in July with an 8.8 percent surge. The July index of 55.4 is the highest since June 2011. The details of the index are also positive and suggest the industry will support growth in the second half of 2013. The ISM Nonmanufacturing Index rose as well.

The **U.S. Index of Consumer Expectations**¹ rose 3.9 percent to a level of 76.7 in May. The series has improved for five consecutive months. The average index for June was the highest since October 2012. The National Federation of Independent Businesses (NFIB) Optimism Index declined in June, but has increased for five of the last seven months. The June decline is relatively mild, and the index remains high relative to both the last quarter of 2012 or the first quarter of 2013.

Mississippi Manufacturing Employment Intensity Index has risen for two consecutive months. Before May the index had declined for four consecutive months. The Index rose 1.2 percent in June. It remains well below the level observed in late 2012 or early 2013. The index is comprised of employment and hours worked. Both components improved in June.

Mississippi's initial unemployment claims fell 10.5 percent in June relative to May. This was the second consecutive decline following the spike in April. The number of claims in June is the lowest since December 2007, the month the National recession began. The State's unemployment rate rose sharply in the first two months of 2013, but has declined every month since.



Unemployment in Mississippi remains high relative to the rest of the Nation, but is making marked improvement as employment growth has improved.

U.S. retail sales rose a relatively mild 0.4 percent in June relative to May. The growth was concentrated in auto sales. Fueled by pent-up demand, vehicle sales remain strong with an annualized average of 15.4 million units sold in the first seven months of 2013. Excluding autos, retail sales growth was flat. The slow June sales is further evidence that the National economy softened in the second quarter.

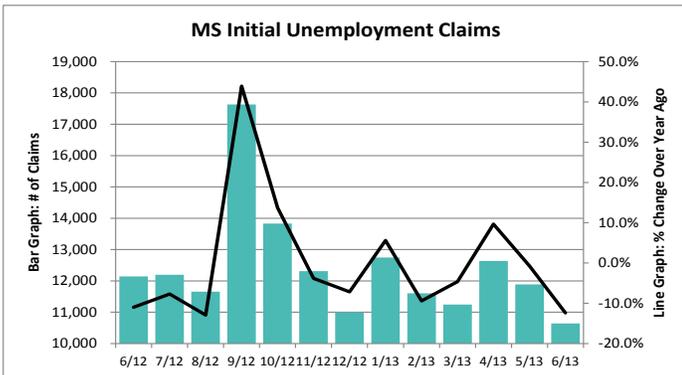
The **value of Mississippi residential building permits**¹ rose 1.1 percent in June, regaining some of the lost ground from the decline in May. Permits are showing modest improvement in Mississippi, but remain well below the pre-recession level. Nationally the housing market is showing remarkable improvement.

Inflation adjusted **Mississippi income tax withholdings**¹ was nearly flat in June with a 0.1 percent increase over May. Withholdings growth has been relatively mild in 2013. For the first seven months of 2013, withholdings are up only 0.4 percent from the same period of 2012 after adjusting for inflation.

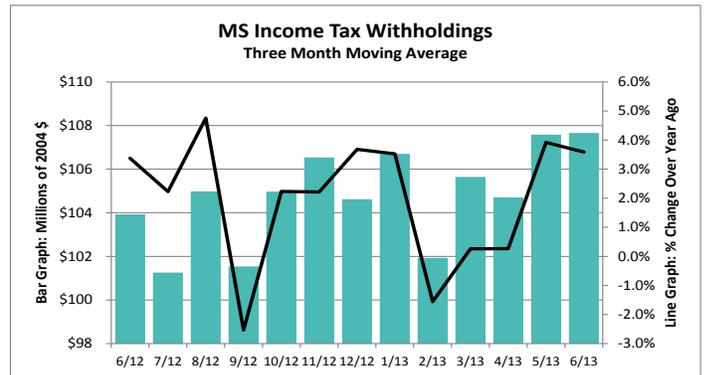
The **Mississippi Diesel Fuel Consumption Index**¹ was unchanged in June. The index has been relatively flat in 2013. The growth relative to the year ago remains negative for the series.

1. Three Month Moving Average

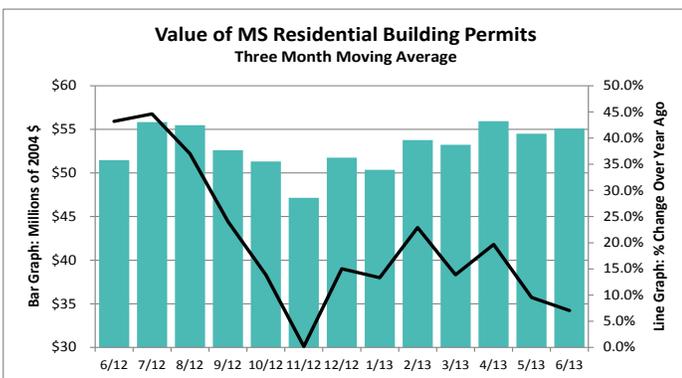
LEADING ECONOMIC INDICATORS



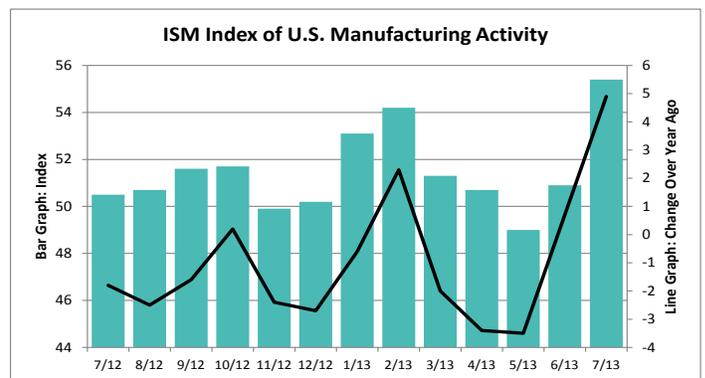
Source: Mississippi Department of Employment Security



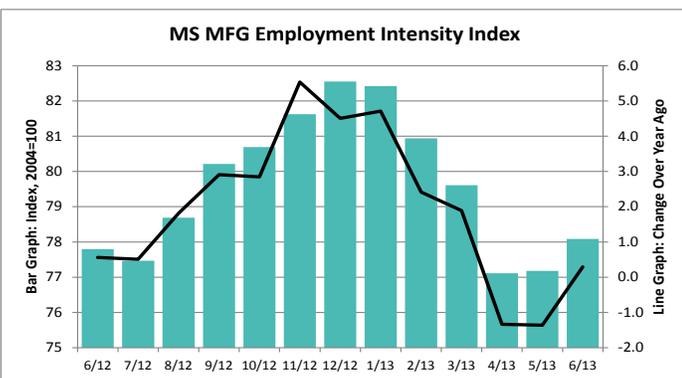
Source: Mississippi Department of Revenue



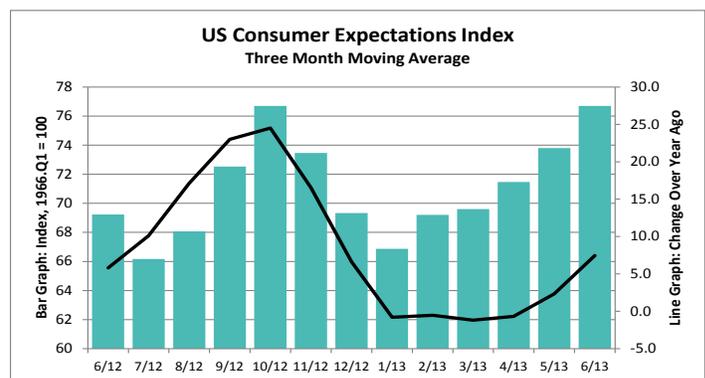
Source: Bureau of the Census



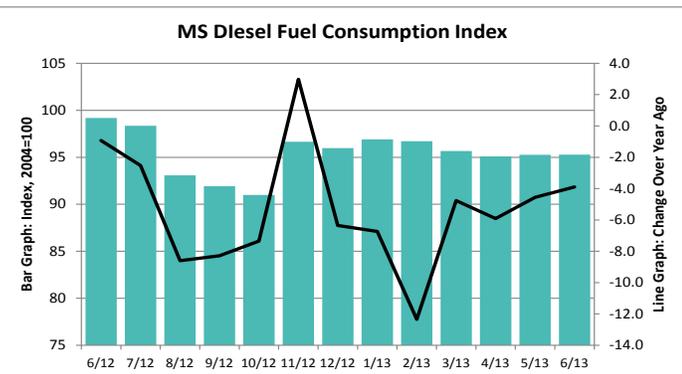
Source: Institute For Supply Management



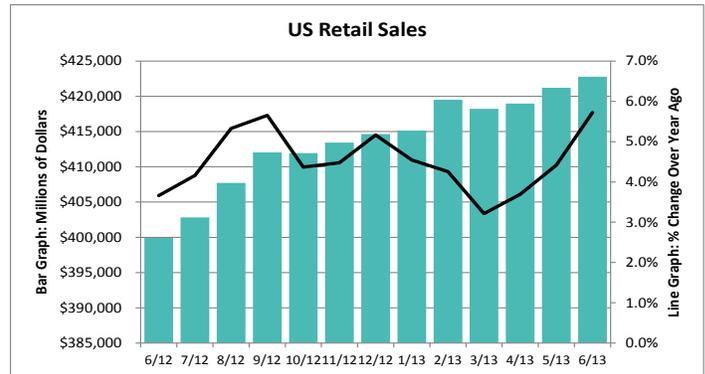
Source: URC using data from Bureau of Labor Statistics



Source: University Of Michigan



Source: URC using Data from Mississippi Department of Revenue

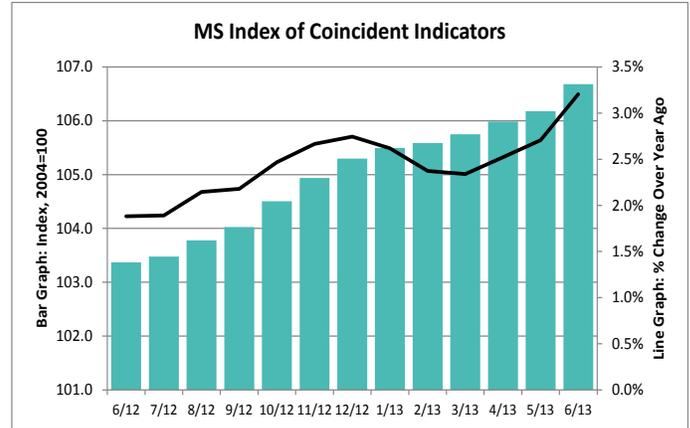


Source: Bureau of the Census

The **Mississippi Index of Coincident Indicators**, for June was 106.7, or 0.5 percent above the revised May index. This was the strongest monthly gain since October 2012. Relative to the year ago, the Index was up 3.2 percent in June. For the first half of 2013, the Index was up an annualized 3.0 percent over the last half of 2012.

The Index reveals an economy that is steadily improving. Undoubtedly much of the growth is being fueled by the enormous gains in employment. But as pointed out last month, the other components are improving as well. Furthermore, Mississippi retail sales, after adjusting for inflation are up and appear to have strengthened in the second quarter. On the other hand, income tax withholdings appear to have softened in the second quarter and diesel fuel consumption remains below the year ago.

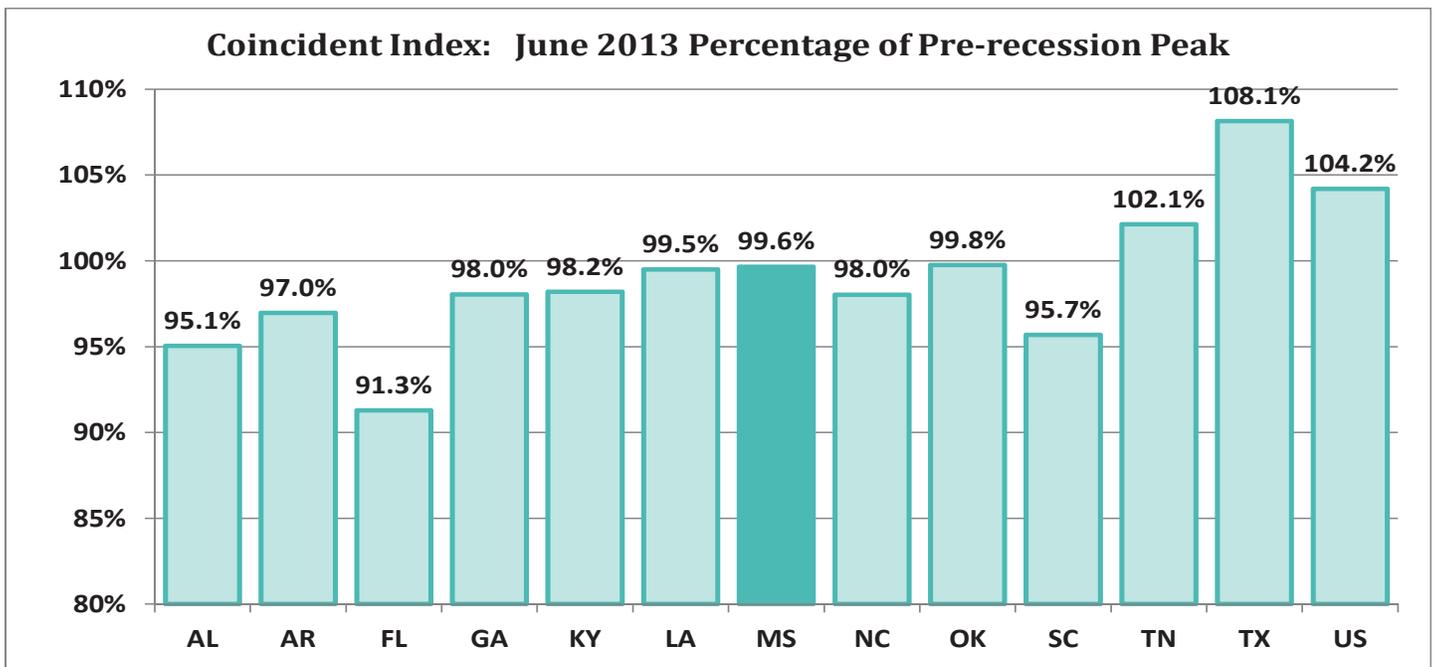
What then can we say about the State's economy? It is improving, and according to the data, doing so at a pace not recently seen. We are not however, eating *rainbow stew*. The national economy is growing at a very modest pace, despite apparent strong job growth. The jobs data have historically faced severe downward revisions. We should then consider the possibility that the economy may not be growing as well as all appears. But even if we take the national economy at face value, its sluggishness will impact the state going forward.



The slowing of withholdings and the sluggish diesel fuel consumption may be the early warning signals of that slow down.

The figure below 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” at least as measured by the Coincident Index. Mississippi Index was at 99.6 percent of its pre-recession peak in June.

The map on page 5 shows the May index for each state compared to the level three months prior. Mississippi's index rose 0.9 percent. The U.S. average growth was 0.7 percent. Most of the Southeastern states are seeing relatively strong gains.



National Trends

The U.S. Index of Leading Indicators was unchanged in June while the Coincident Index increased 0.2 percent. The six month growth rate for the Coincident Index declined in June, reversing the gain the previous month. The Conference Board thinks the widespread strength of the components will buoy the index in the coming months. Taking all of the indices together, they expect the economy to continue to expand in the short-term.

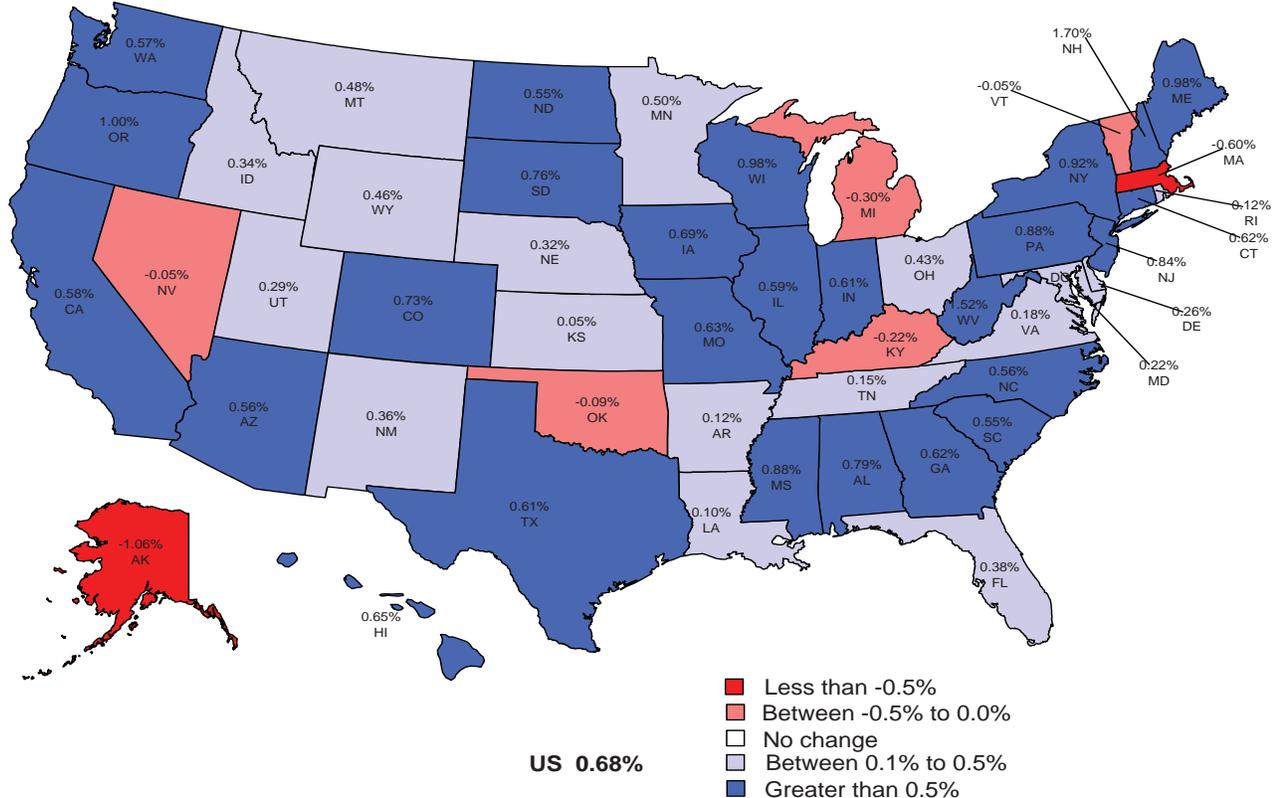
The ISM Manufacturing Index and Nonmanufacturing Index have both improved this summer after declining in the spring. Auto sales have remained strong and the housing recovery continues. Both consumer and business confidence have improved. However, the increased confidence has not translated into higher consumer spending, which has been tepid in recent months.

The U.S. employment growth has been relatively strong. The Nation has added an average of 192 thousand jobs per month during the first seven months of 2013. This

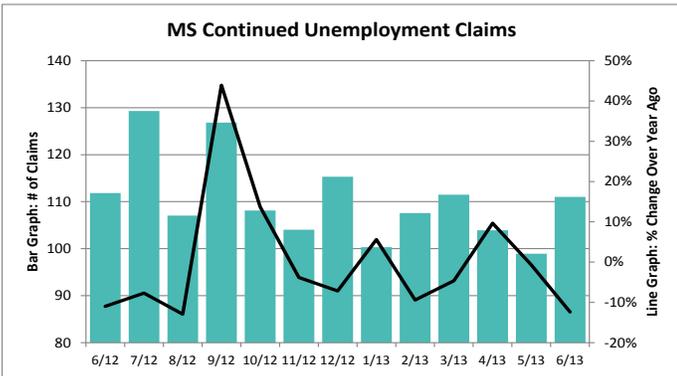
compares to 180 thousand for the same period in 2012 and an even more modest average of 168 thousand in 2011. It is important to remember that these data are subject to revision, and that historically the revisions have been substantial.

It is also worth noting that despite the apparent job gains, the real GDP growth has been very modest. For the first half of 2013, real GDP growth is up a meager 1.4 percent over the year ago level. These data are also subject to revisions and have historically been revised downward. The economy may therefore not be performing as well as suggested by the data, especially the employment data. That said, the economy does appear to be growing as opposed to contracting. The Fed has signaled interest in tapering their bond buying efforts in the coming months. This has not been received well on Wall Street. It is not yet clear how soon this would occur or the impact it would have on the modest level of GDP growth we are now experiencing.

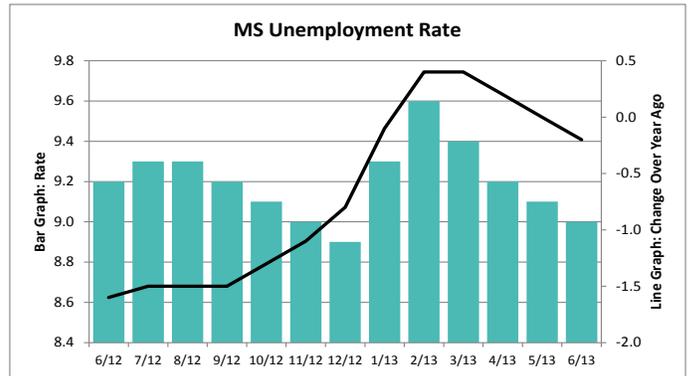
Three Month Growth in The Index of Coincident Economic Indicators, June 2013



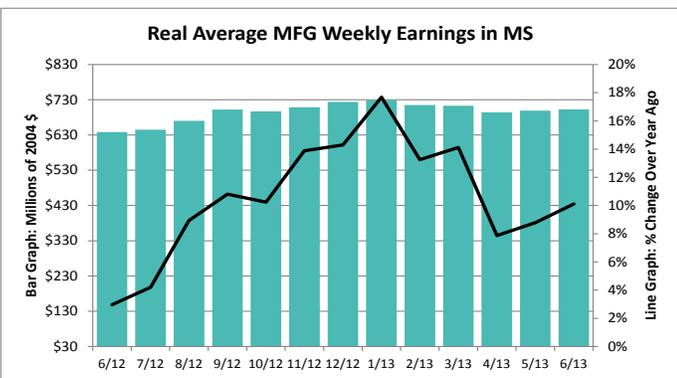
MISCELLANEOUS ECONOMIC INDICATORS



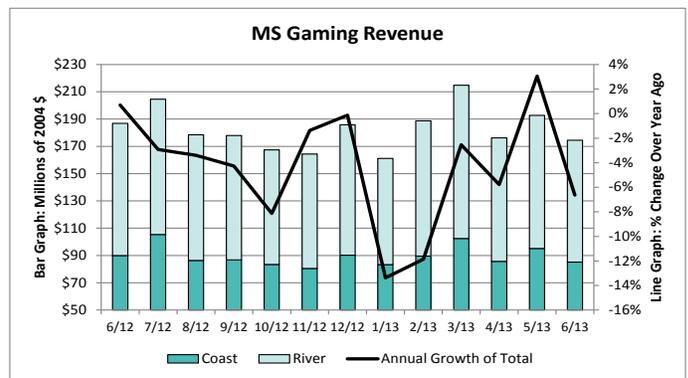
Source: Mississippi Department of Employment Security; Seasonally Adjusted



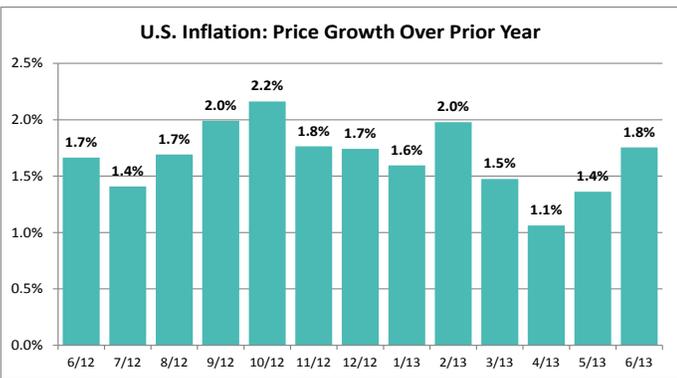
Source: U.S. Bureau of Labor Statistics; Seasonally Adjusted



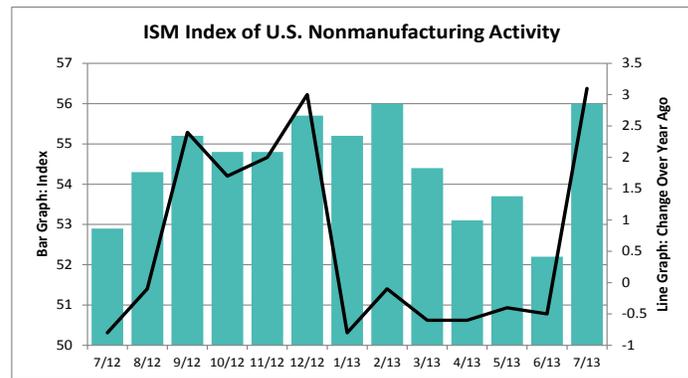
Source: U.S. Bureau of Labor Statistics; Nonseasonally Adjusted



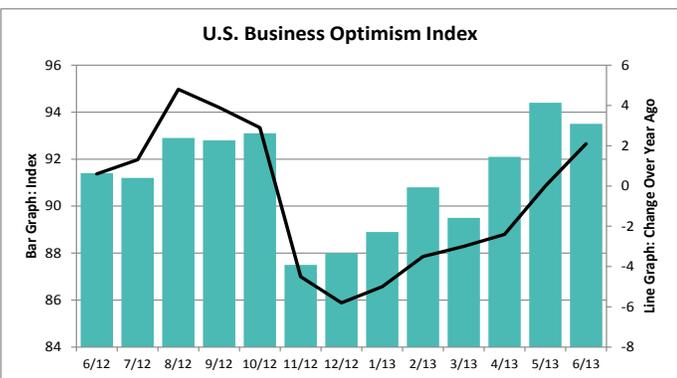
Source: MS Department of Revenue; Nonseasonally Adjusted



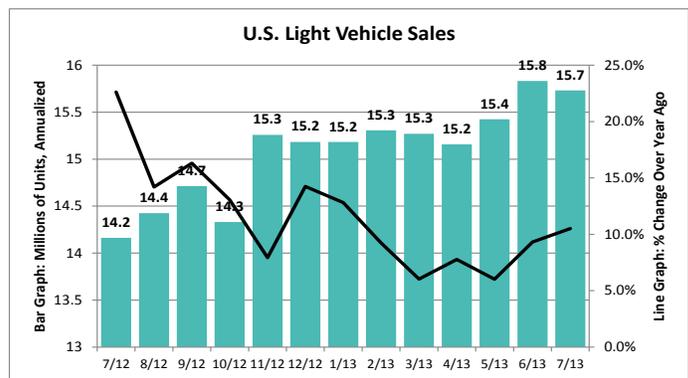
Source: U.S. Bureau of Labor Statistics



Source: Institute For Supply Management



Source: National Federation of Independent Businesses



Source: Bureau of Economic Analysis; Seasonally Adjusted Annual Rate

SELECTED ECONOMIC INDICATORS

| Indicator | June 2013 | May 2013 | June 2012 | Change from Last Mo. Last YR. | |
|--|--------------|-------------|--------------|----------------------------------|--------|
| US Index of Coincident Indicators 2004=100, Source: The Conference Board | 105.9 | 105.7 | 104 | 0.2% | 1.8% |
| MS Index of Coincident Indicators 2004=100, Source: Federal Reserve Bank of Philadelphia | 106.7 | 106.2 | 103.4 | 0.5% | 3.2% |
| US Index of Leading Indicators 2004=100, Source: The Conference Board | 95.3 | 95.3 | 92.7 | 0.0% | 2.8% |
| MS Index of Leading Indicators 2004=100, Source: University Research Center | 101.7 | 100.1 | 97.1 | 1.6% | 4.7% |
| MS Initial Unemployment Claims Source: Mississippi Department of Employment Security | 10,643 | 11,886 | 12,146 | -10.5% | -12.4% |
| MS Value Of Res. Building Permits 3 Mo. Moving Avg., Millions of 2004 Dollars, Source: Bureau of Census | 55.1 | 54.5 | 51.5 | 1.1% | 7.0% |
| MS Income Tax Withholdings 3 Mo. Moving Avg., Millions of 2004 Dollars, Source: MS Department of Revenue | 107.7 | 107.6 | 103.9 | 0.1% | 3.6% |
| MS MFG Emp. Intensity Index Indexed 2004 =100, Source: URC using data from Bureau of Labor Statistics | 78.1 | 77.2 | 77.8 | 1.2% | 0.4% |
| MS Diesel Fuel Consumption Index, 3 Mo. Moving Avg. 2004=100, Source: URC using data from MS Department of Revenue | 95.3 | 95.3 | 99.2 | 0.0% | -3.9% |
| US Index of Consumer Expectations 3 Mo. Moving Avg. Index 1996 q1=100, Source: University of Michigan | 76.7 | 73.8 | 69.2 | 3.9% | 10.8% |
| US ISM Index of MFG Activity Advanced 1 Month, Source: Institute For Supply Management | 55.4 | 50.9 | 50.5 | 8.8% | 9.7% |
| US Retail Sales Millions of Dollars, Source: Bureau of Census | 422,794 | 421,222 | 399,901 | 0.4% | 5.7% |
| US Consumer Price Index 2004=100, Source: URC using data from Bureau of Labor Statistics | 123.6 | 123.3 | 121.5 | 0.2% | 1.8% |
| MS Unemployment Rate Source: Bureau of Labor Statistics | 9.0% | 9.1% | 9.2% | -0.1% | -0.2% |
| MS Continued Unemp. Claims Source: Mississippi Department of Employment Security | 111,035 | 98,940 | 111,821 | 12.2% | -0.7% |
| US Mortgage Rates 30 Yr. Conventional, Source: Federal Reserve | 4.0% | 3.5% | 3.6% | 0.5% | 0.4% |
| MS Avg. Hourly Wage for MFG 2004 Dollars, Source: Bureau of Labor Statistics | 16.92 | 16.96 | 15.49 | -0.2% | 9.2% |
| MS Avg. Wkly Earnings for MFG 2004 Dollars, Source: Bureau of Labor Statistics | 702.61 | 699.04 | 638.09 | 0.5% | 10.1% |
| Business Optimism Index 1986=100, Source: National Federation of Independent Businesses | 93.5 | 94.4 | 91.4 | -1.0% | 2.3% |
| Gaming Revenue | 174.5 | 192.7 | 186.9 | -9.5% | -6.6% |
| Coast Counties | 85.2 | 95.1 | 89.9 | -10.4% | -5.2% |
| River Counties | 89.3 | 97.6 | 97.0 | -8.6% | -8.0% |
| Nonseasonally adjusted, Millions of Dollars, Source: MS Department of Revenue | | | | | |

Economic Indicators

Components of the MS Index of Leading Indicators

Miscellaneous Indicators

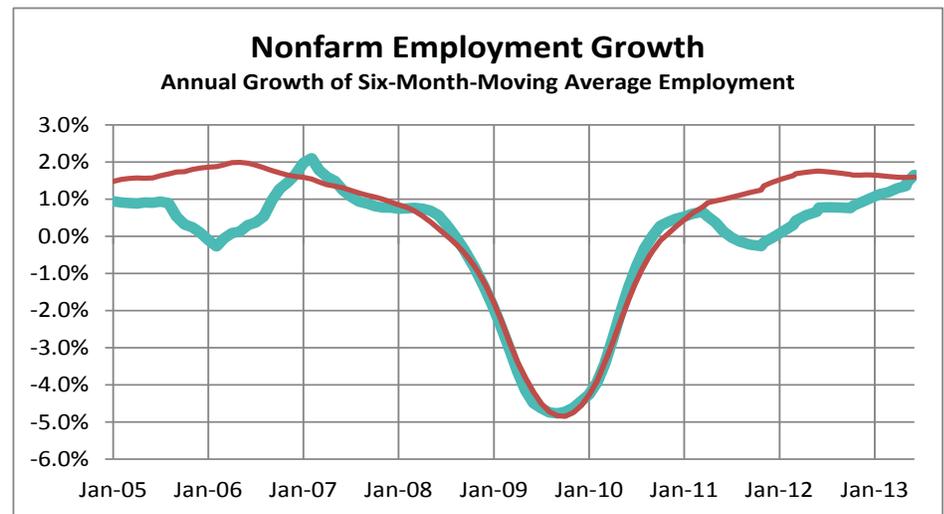
MISSISSIPPI EMPLOYMENT TRENDS

The astonishing employment growth in Mississippi continued in June with a gain of 5,400 jobs or 0.5 percent. The leisure and hospitality sector saw the largest gains with an increase of 3,000 jobs. The growth in this sector is a little surprising given the declining trends in gaming revenue. But most of the jobs were in food services which could be the result of an improved economy.

Other industries seeing substantial gains include retail trade professional and business services, and manufacturing (see table below). Education and health services and government experienced a decline for the month.

On average, during the first six months of 2013, employment was up 1.7 percent above the year

ago. This compared to 1.0 percent growth for the six months ending in December. The figure below shows the annual growth in the six-month moving average employment in Mississippi and the Nation. It reveals that growth is strengthening in the State after declining in 2011. During 2012, growth in the U.S. accelerated. Growth began to improve in 2012 and has continued to accelerate in 2013. Nationally growth flattened beginning in late 2012 and into 2013, allowing Mississippi to reach the national growth rate in recent months.



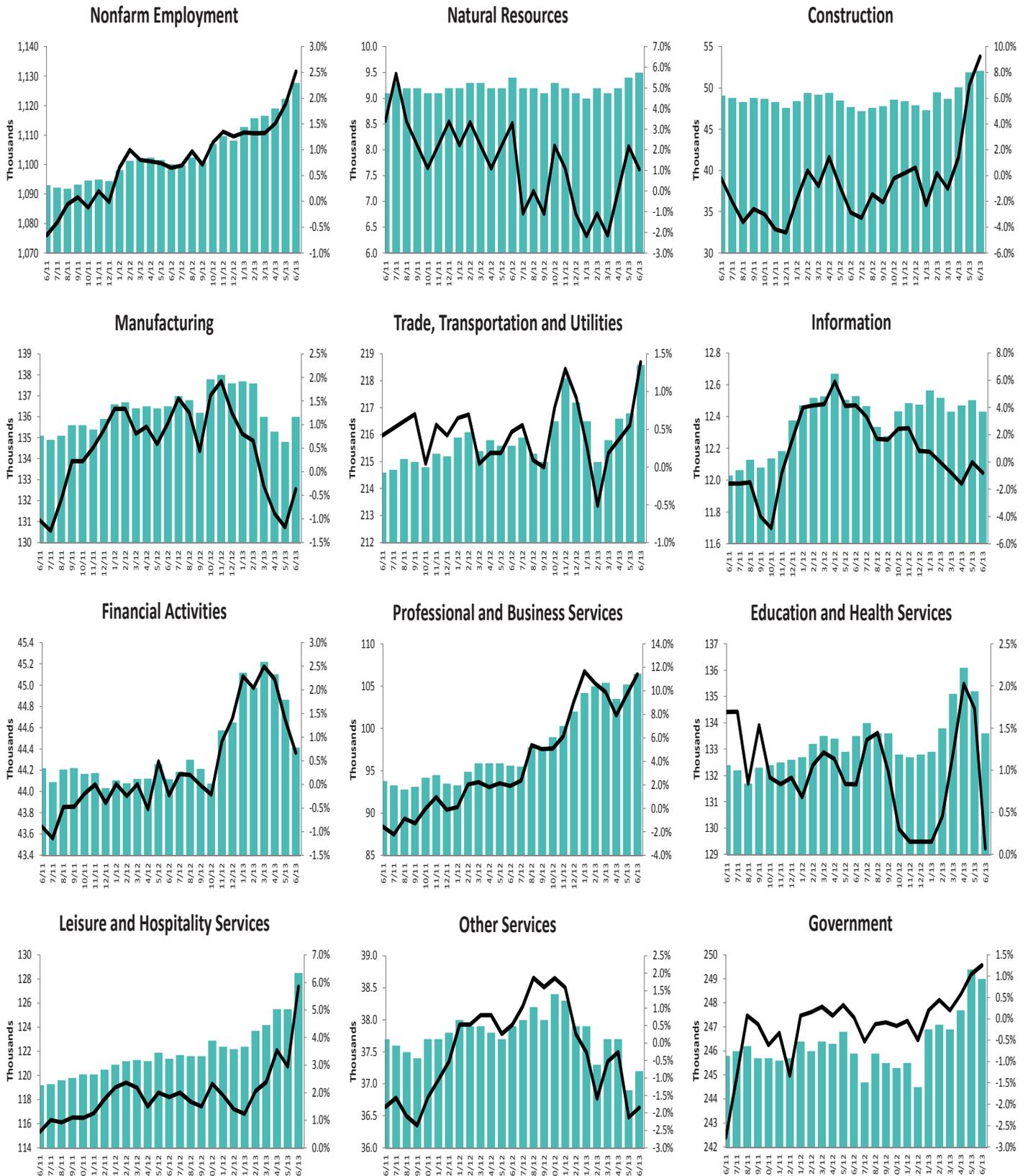
Mississippi Employment by Sector, Seasonally Adjusted

| | Relative Share of Total* | June 2013 | May 2013 | June 2012 | Change from Prior Month Level | % | Change from Prior Year Level | % |
|-----------------------------------|--------------------------|-----------|-----------|-----------|-------------------------------|-------|------------------------------|-------|
| Total Nonfarm | 100.0% | 1,127,800 | 1,122,400 | 1,100,100 | 5,400 | 0.5% | 27,700 | 2.5% |
| Mining and Logging | 0.8% | 9,500 | 9,400 | 9,400 | 100 | 1.1% | 100 | 1.1% |
| Construction | 4.4% | 52,100 | 51,900 | 47,700 | 200 | 0.4% | 4,400 | 9.2% |
| Manufacturing | 12.3% | 136,000 | 134,800 | 136,500 | 1,200 | 0.9% | (500) | -0.4% |
| Trade, Transportation & Utilities | 19.5% | 218,600 | 216,800 | 215,600 | 1,800 | 0.8% | 3,000 | 1.4% |
| Retail Trade | 12.0% | 134,700 | 132,800 | 133,400 | 1,900 | 1.4% | 1,300 | 1.0% |
| Information | 1.1% | 12,433 | 12,504 | 12,531 | (71) | -0.6% | (98) | -0.8% |
| Financial Activities | 4.0% | 44,417 | 44,865 | 44,118 | (448) | -1.0% | 298 | 0.7% |
| Services | 35.7% | 405,800 | 402,800 | 388,400 | 3,000 | 0.7% | 17,400 | 4.5% |
| Professional & Business Serv. | 9.2% | 106,500 | 105,200 | 95,600 | 1,300 | 1.2% | 10,900 | 11.4% |
| Education & Health Services | 12.0% | 133,600 | 135,200 | 133,500 | (1,600) | -1.2% | 100 | 0.1% |
| Leisure & Hospitality | 11.1% | 128,500 | 125,500 | 121,400 | 3,000 | 2.4% | 7,100 | 5.8% |
| Other Services | 3.4% | 37,200 | 36,900 | 37,900 | 300 | 0.8% | (700) | -1.8% |
| Government | 22.2% | 249,000 | 249,400 | 245,900 | (400) | -0.2% | 3,100 | 1.3% |

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

Source: U.S. Bureau of Labor Statistics

MISSISSIPPI EMPLOYMENT TRENDS



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

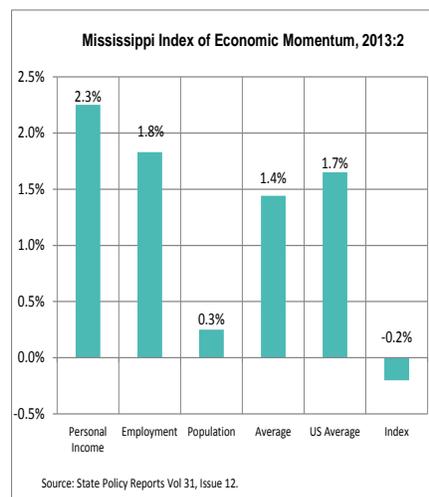
ECONOMIC MOMENTUM AMONG THE STATES

Once each quarter, *State Policy Reports* calculates the Index of State Economic Momentum. This index measures how rapidly each state's economy is gaining or losing momentum relative to the nation as based on the most recent measures of three key components: personal income, employment, and population. Yearly growth of the three components are averaged together and indexed against the national average, which is set at zero.

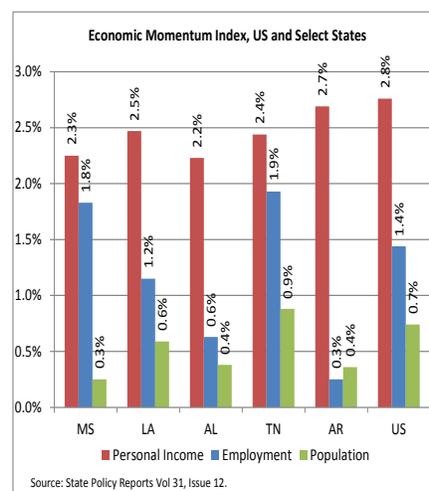
For the second quarter of 2013, most states fell below the national average. This was due in part to the exceedingly strong growth of North Dakota. Although the state is relatively small, growth was almost 3.0 percent higher than the national average, which pulled the national average up. Another factor was that four of the most populous states also exceeded the national average.

Generally, states saw a slowdown in momentum as higher taxes and the impacts of the Sequester began to take a toll on growth. First quarter income growth relative to the year ago fell to 2.8 percent, the lowest annual growth since the first quarter of 2010. Mississippi saw a 2.3 percent growth in income. Employment likewise appeared to have stalled with job gains averaging only 1.4 percent in May 2013 over May 2012 for the Nation, but 1.8 percent for the State. The State seems to have come late to the party on job gains but is now out-pacing the nation. Most states saw strong growth in 2011. Missis-

issippi's job recovery did not begin in earnest until the second half of 2012. In terms of population the Nation saw a 0.74 percent gain between July 1, 2011 and July 1, 2012. Mississippi saw a 0.25 percent growth. The figure below shows Mississippi's performance on each of the three measures along with the Economic Momentum Index for the State and the Nation.



The figure below shows how Mississippi compares to the neighboring states, as well as the national average for each of the components of the Index. Mississippi's strongest performance was in regard to employment.



The *State Policy Reports* also noted the unemployment rates for May 2013. Although the unemployment rate is not a component of the Economic Momentum Index, *State Policy Reports* considers it an important indicator of economic conditions. The U.S. unemployment rate was 7.6 percent while the State was 9.2 percent. Mississippi was one of only three states where the unemployment rate exceeded 9.0 percent. The other states were Nevada and Rhode Island. Although Mississippi has made major strides in employment gains over the past year, there remains much to be done. This seems to be true for much of the Nation. The more populous states tended to have higher than average unemployment rates.

The relative weak numbers in the latest Economic Momentum Index show that much of the Nation experienced a pause in growth in early 2013. Part of the blame lies with the tax increase. But according to the *State Policy Reports*, "... the inability of policy makers in Washington, DC, to develop and communicate a long-term strategy for managing the federal budget had a dampening impact on the economy." They go on to warn that the problem seems poised to repeat itself as the nation approaches its statutory debt limit. "As with the end-of-the-year theatrics in 2012, it may not be the substance of the debates that does damage so much as the spectacle of the nation's leaders playing chicken over the national economy."