

Mississippi's Business

September 2012

Monitoring The State's Economy

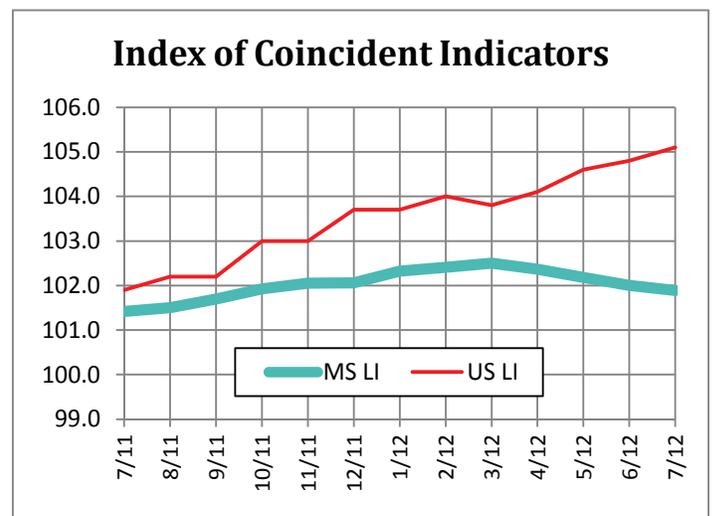
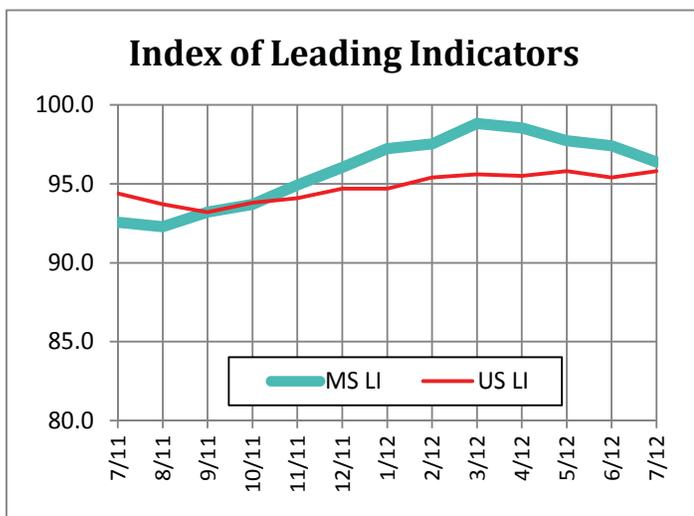
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ECONOMY AT A GLANCE

The Mississippi Index of Coincident Indicators fell in July for the fourth consecutive month. The Mississippi Index of Leading Indicators fell for the fourth month as well. The State appears to have gone into a recession during the second quarter. Data are limited, but early signs are that the Mississippi economy has not significantly improved in the third quarter. For the first seven months of 2012, employment in the State was down 0.2 percent relative to the same period of 2011. As of July, Mississippi had the same number of people employed as in the depth of the recession. Several sectors experienced job gains for July, giving hope that growth could resume in the remainder of the year.

The National economy has moderated as well and the outlook for the remainder of 2012 is for slow growth. The housing sector is showing signs of life and light vehicle sales continue at a relatively strong pace. IHS Global Insight has lowered their risk of recession, citing possible actions by the European Central Bank to deal with the sovereign debt problems plaguing Europe. This reduction in risk however, came before the recent violence overseas. Depending upon how long this violence continues, and the degree to which it expands to other areas, the risk to recession could be great. Oil prices have begun to rise which will lead to higher gasoline prices. An extended spike in gasoline prices could have a significant negative impact on the U.S. economy. This is especially true given the low level of income growth the Nation is experiencing. The Fed has announced another round of quantitative easing or QE3. It remains to be seen if this action will have any substantial impact on growth.



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, JULY 2012

The **Mississippi Index of Leading Economic Indicators** has fallen for four consecutive months. The July index of 96.4 was 1.0 percent below the June level. The July Index is the lowest since September 2011. For the first time since October 2011, the index has fallen relative to the level six months prior. Furthermore, the six-month diffusion index has fallen dramatically, indicating the weakness is widespread among the eight components. Six of the eight components deteriorated relative to the prior month.

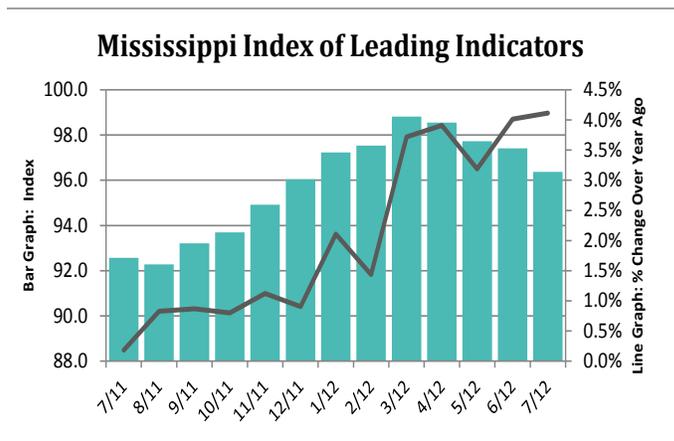
All of these trends point to a weakening economy. As reported last month, the Mississippi Coincident Index suggests the State has been in a recession since April. While the Coincident Index can be argued to be employment driven, the recent trends in the leading index reveals the weakness goes beyond employment. The evidence that the State is currently in recession is mounting.

The components of the Leading Index will be discussed in order of their contributions to the July decline.

The largest contributor to the July decline was the **Mississippi Manufacturing Employment Intensity Index**, which fell a steep 2.1 percent in July relative to June. The index is comprised of employment and hours worked. The July decline was driven by a slower workweek length. Manufacturing employment actually grew for the month. At just a little over 40 hours per week, workweek length was at the lowest level since January 2011.

The **Mississippi Diesel Fuel Consumption Index**¹ dropped 5.6 percent in July relative to June. The three month moving average is at its lowest point since August 2009. The series has declined in five of the last six months with the July decline being the steepest by far.

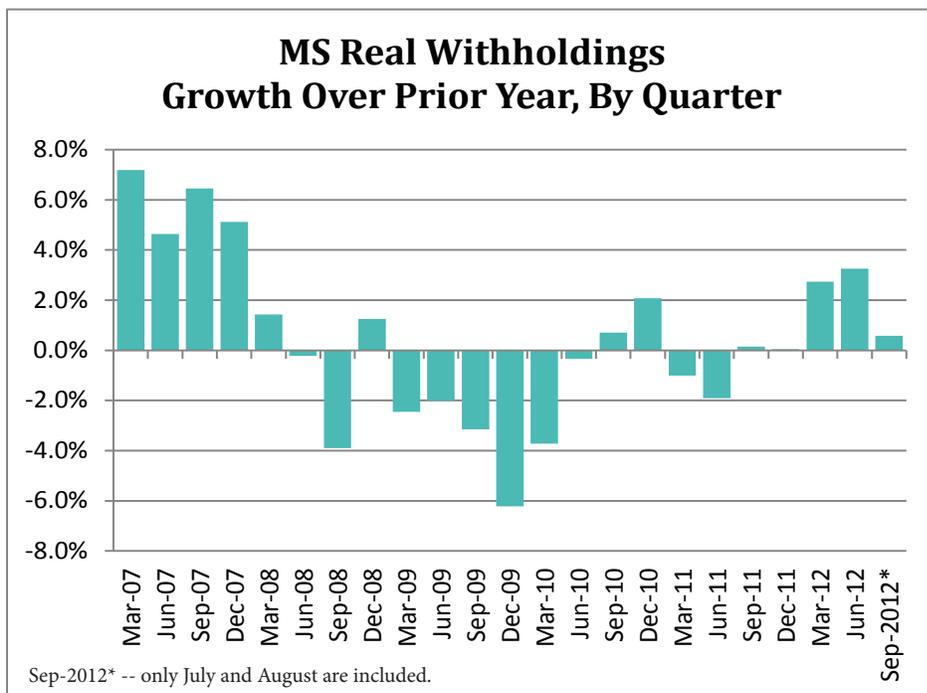
The **U.S. Index of Consumer Expectations**¹ fell 4.4 percent. This



was the third consecutive decline. Rising fuel prices and an expectation of future inflation dampened optimism for the future.

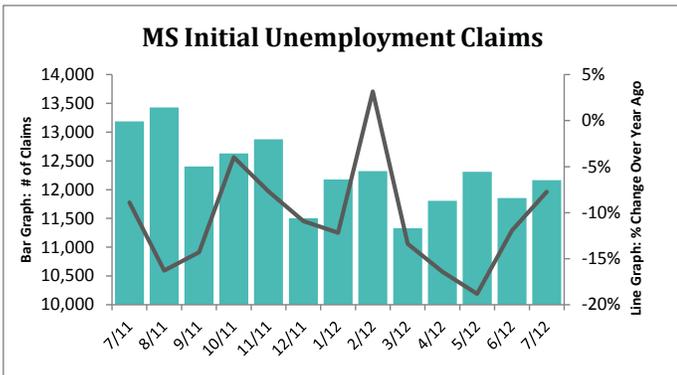
Inflation adjusted **Mississippi income tax withholdings**¹ fell 1.5 percent in July relative to June. This was the third decline in four months. As the figure below shows, growth in withholdings was improved in the first and second quarter, reaching the highest rate since before the recession. But growth has been much more subdued in the first two months of the third quarter.

1. Three Month Moving Average

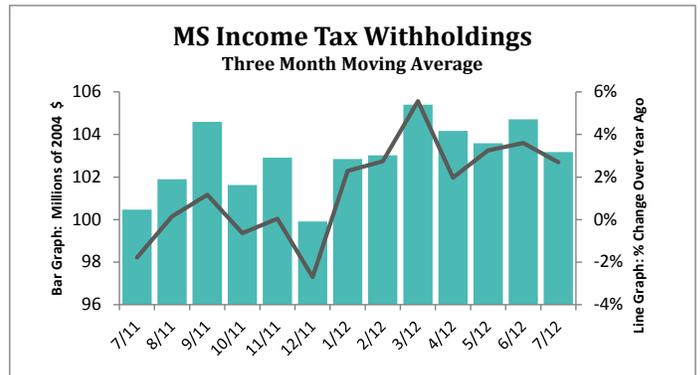


Sep-2012* -- only July and August are included.

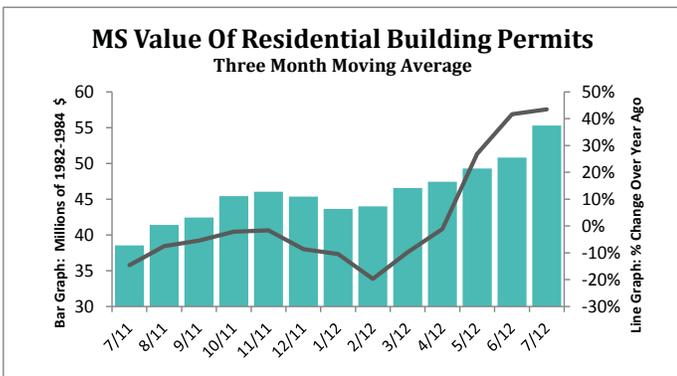
LEADING ECONOMIC INDICATORS



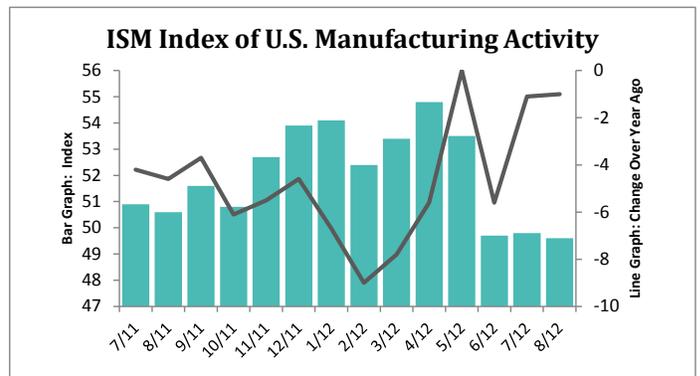
Source: Mississippi Department of Employment Security



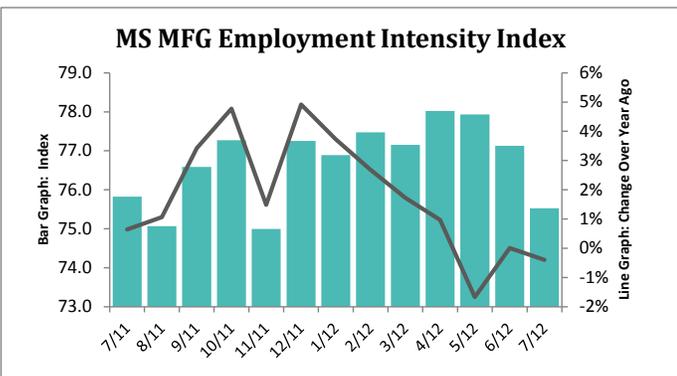
Source: Mississippi Department of Revenue



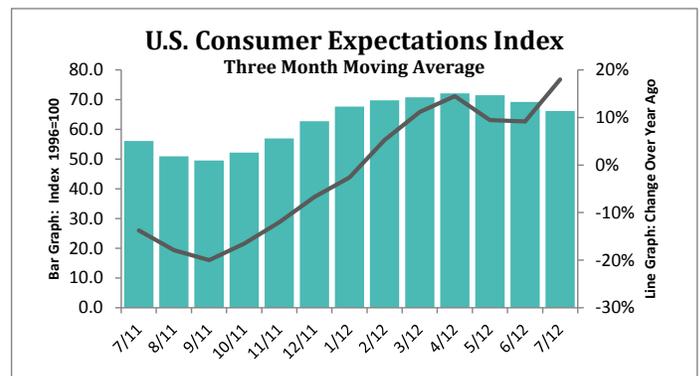
Source: Bureau of the Census



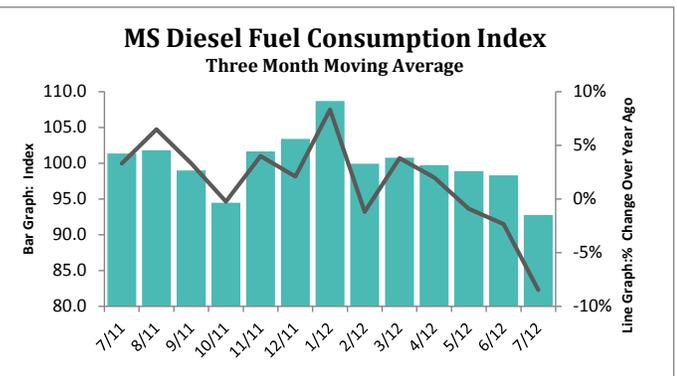
Source: Institute For Supply Management



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

Mississippi's initial unemployment claims rose 2.6 percent in July relative to June. This was the third gain in four months. The series is down relative to a year ago.

The **Institute for Supply Management Index of U.S. Manufacturing Activity** fell slightly to 49.6 in August. The series remains below the threshold of 50 which signifies the industry is contracting. The ISM Nonmanufacturing Index rose and remains above 50.

Two components contributed positively to the July Index: U.S. retail sales and the value of resi-

dential building permits.

The **U.S. Retail Sales** rose 0.8 percent in July. This marked the first gain in four months as consumers had been curtailing spending. Retail sales were particularly weak in June and the July gain could be a payback for that weakness. Growth was fairly widespread among retail sales segments. Furniture sales were particularly strong with a 1.1 percent increase. Building material sales were up 1.6 percent. These gains could be fueled by the modestly improving housing market. In a separate but related report, light vehicle

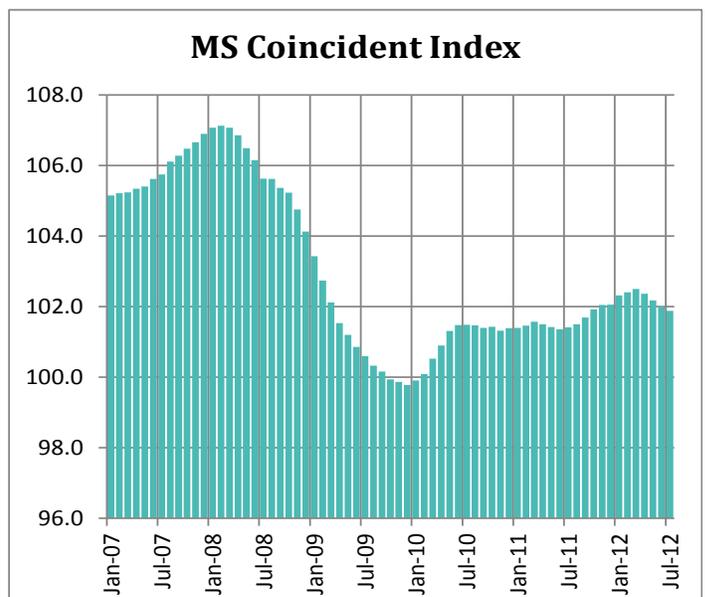
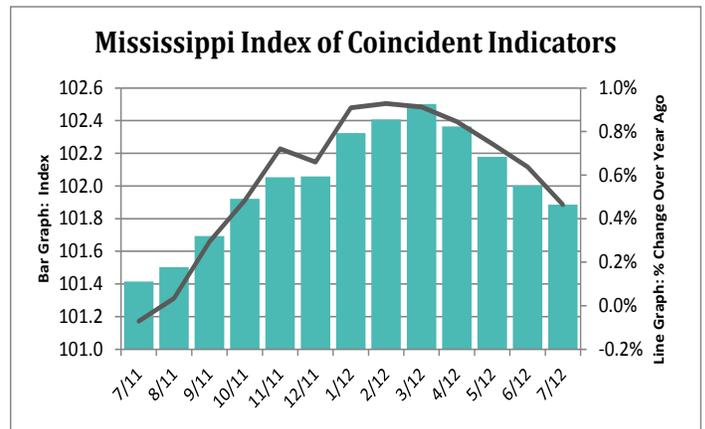
sales remained relatively strong in August with an annualized 14.5 million units sold.

The **value of Mississippi residential building permits¹** rose a strong 8.8 percent in July over June. The series has increased every month for the past six months, but the July increase was the strongest. The series remains well below historical highs but the growth over the past six to eight months have been a marked improvement over previous declining trends. Nationally permits are slowly improving as well.

The **Mississippi Index of Coincident Indicators** was 101.9 in July, down 0.2 percent from an upwardly revised June index. The Index has declined for four consecutive months with a cumulative decline of 0.6 percent. Based on the definition used by researchers at the Federal Reserve Bank of Philadelphia, the Index shows the State to be in a recession. Critics will point out that the index is largely driven by the employment sector and that a jobless recovery is possible. This is a legitimate point. However the deeper and longer a jobs recession persists, the more it affects other segments of the economy. As evidenced by the Mississippi Index of Leading Indicators, other segments of the State's economy are being affected by this downturn.

The figure to the right shows the history of the index since before the recession. Note the steep decline and the lackluster recovery. Recovery was strongest in the first half of 2010, but was relatively flat in the second half of 2010 and through the first half of 2011. Growth improved toward the end of last year. The index has fallen significantly since April. Much of the gain that took place in the latter half of 2011 has now been lost.

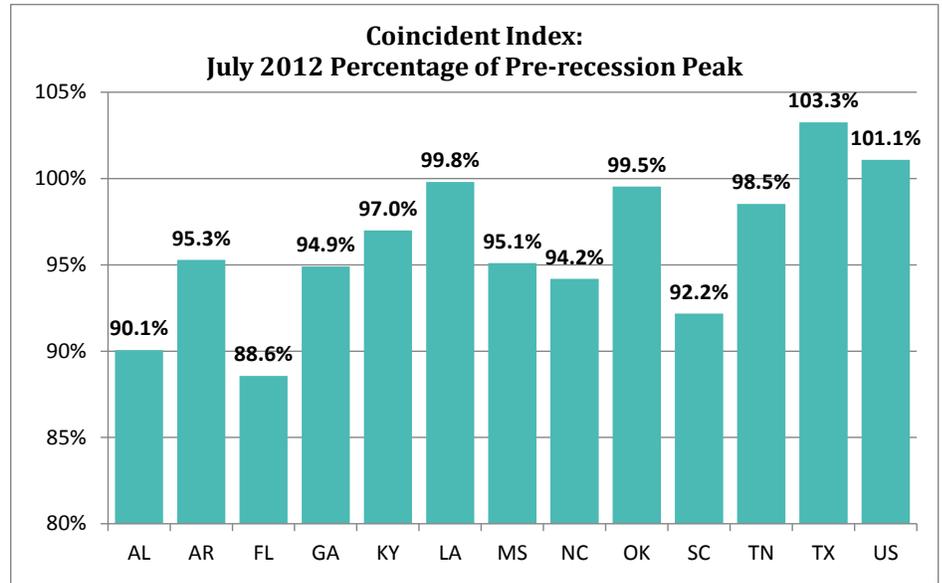
The figure at the top of page 5 shows a comparison of the July index to the pre-recession peak for the 12 Southeastern States and the Nation. States that reach 100 percent of peak have fully recovered from the "Great



Recession". Mississippi was at 95.1 percent of the peak. Arkansas, Kentucky, Louisiana, Oklahoma, Tennessee and Texas are ahead of Mississippi. Georgia is only slightly below Mississippi.

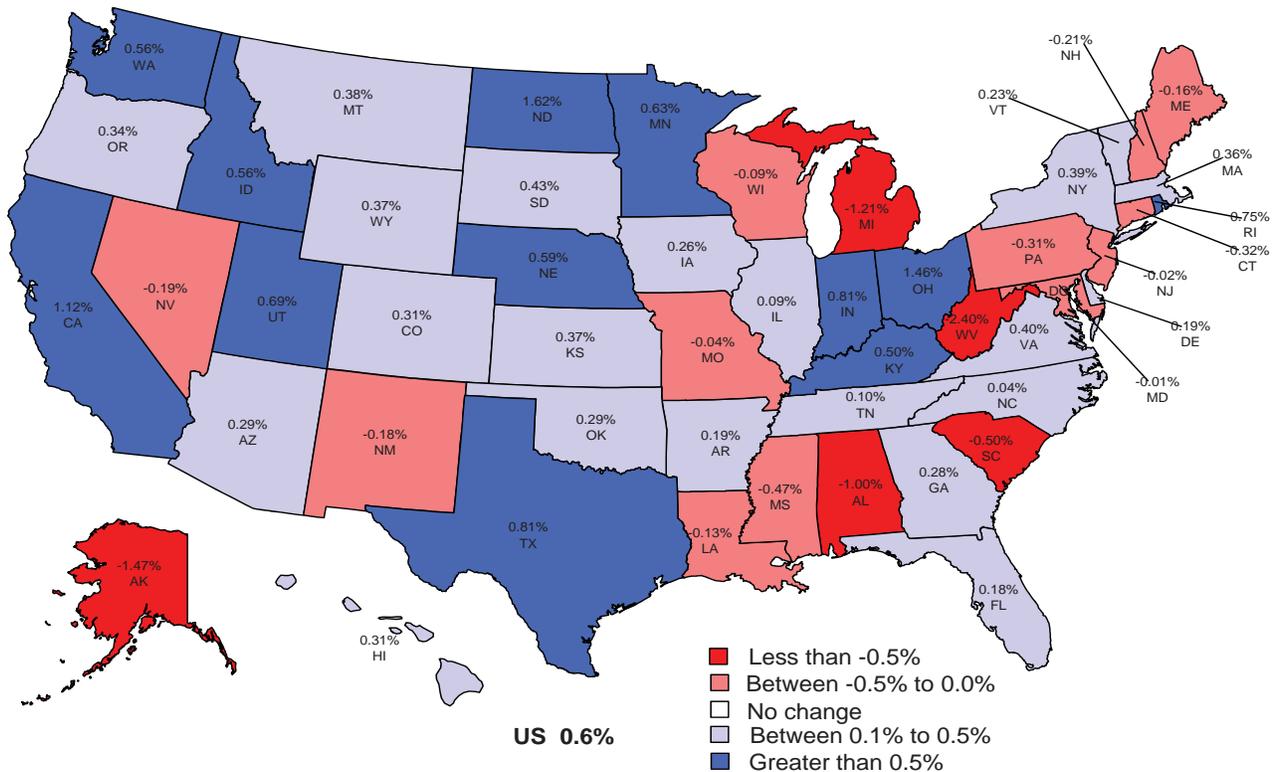
Looking at the data through time shows growth in most southeastern states is beginning to slow and a few like Mississippi are experiencing a decline. These include Louisiana, South Carolina and Alabama.

The declining trend among the states is evident in the graph below which shows the relative performance of the fifty states. The July index is compared to the level three months prior. This map is presented every month and the reader may note the growing num-

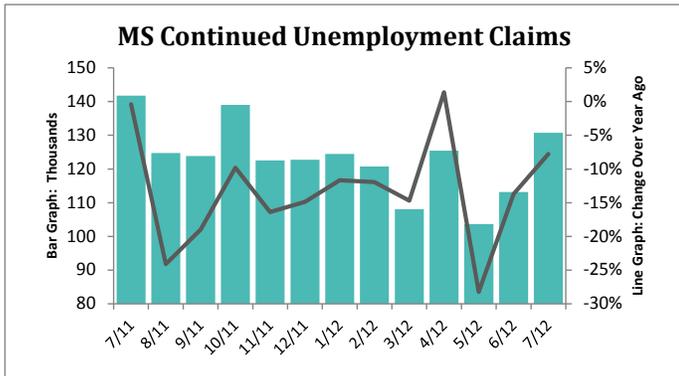


ber of red states and diminishing number of dark blue states. That is, there are fewer states with relatively strong growth and more states actually in decline than in recent months. Interestingly, Alabama, Alaska, Michigan, South Carolina, and West Virginia all are declining at a faster rate than Mississippi. As in previous months, the fastest growing state was North Dakota. The U.S. average growth was a 0.6 percent.

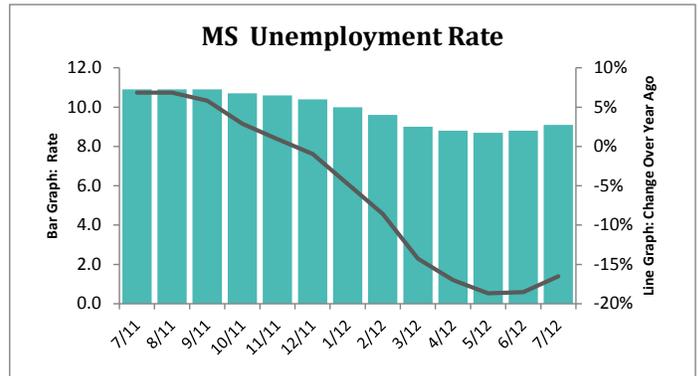
Three Month Growth in The Index of Coincident Economic Indicators, July 2012



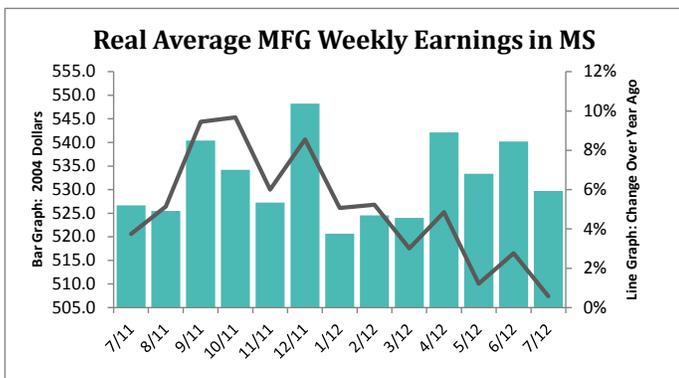
MISCELLANEOUS ECONOMIC INDICATORS



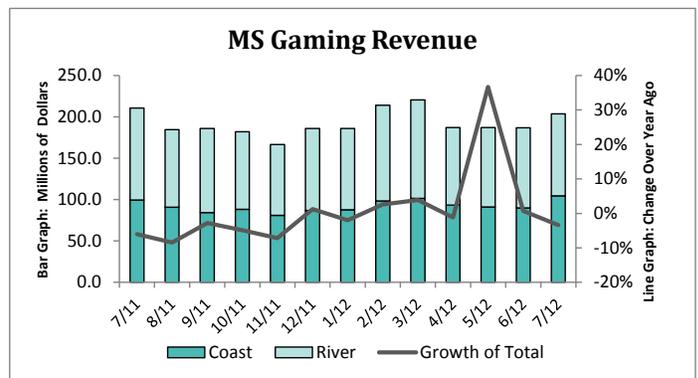
Source: Mississippi Department of Employment Security; Seasonally Adjusted



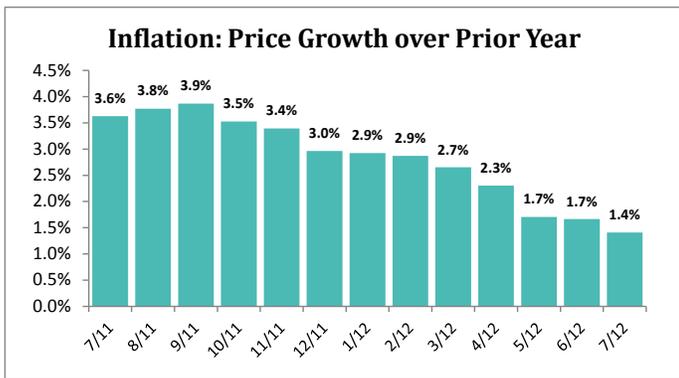
Source: U.S. Bureau of Labor Statistics; Seasonally Adjusted



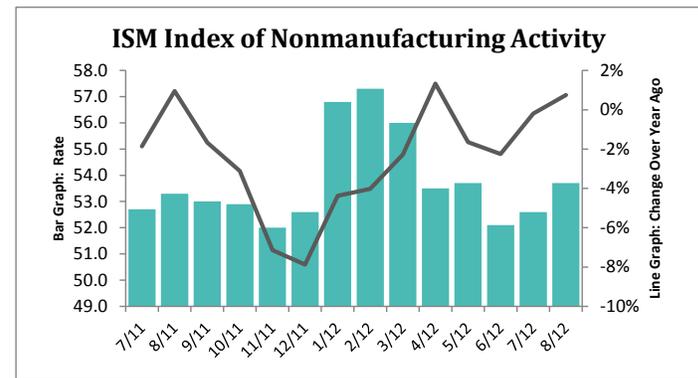
Source: U.S. Bureau of Labor Statistics; Nonseasonally Adjusted



Source: MS Department of Revenue; Nonseasonally Adjusted



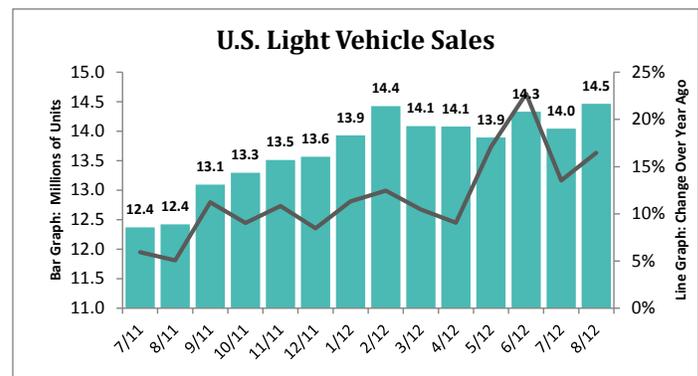
Source: U.S. Bureau of Labor Statistics



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 and Coincident Indicators both increased in July relative to June. The Leading Index rose 0.4 percent while the Coincident Index saw a 0.3 percent gain. The Leading Index has been relatively flat since May. The Conference Board believes the economy will continue to expand in the coming months, but expects growth to be slow.

While the economy appears to be expanding, it has lost momentum and is expected to slow in the second half of 2012. Manufacturing in particular has slowed as evidenced by the ISM Manufacturing Index. Real income continues to grow, but at an anemic rate. Job gains for August were very disappointing, after a relatively strong increase in July.

There are a few bright spots. Light vehicle sales are continuing at a pace above 14 million units per month. Housing is finally showing signs of life. Inventories of unsold homes are falling and home prices are rising. Building permits and housing starts are rising. Much of the growth in housing starts is concentrated in multi-family units.

Consumer spending improved in July. This is viewed more as an anomaly than as a harbinger of things to come. The U.S. consumer faces high debt, low income growth and high unemployment. Additionally, consumer sentiment remains at a low level historically.

Exports and business fixed investments are not expected to fuel growth as they have in the past.

A slowing global economy and uncertainty over the "fiscal cliff" are contributing to this pessimistic outlook.

The fiscal cliff is the term given to the series of spending cuts and tax increases that are scheduled to begin in 2013. The expectation is that this double assault on the economy would send the U.S. economy off a cliff. Most economists expect the lame-duck congress to pass some temporary measure allowing the U.S. to avoid this outcome and pass the problem on to the next congress and the winner of the November presidential election. While this avoids the worst-case scenario, it continues the high degree of uncertainty that has pervaded the recovery.

IHS Global Insight has reduced their risk of recession citing "news of proposed European Central Bank support for sovereign debt". They remain concerned about conditions in Europe and recognized it as one of two major threats to the U.S. recovery. The other risk is a deteriorating Chinese economy. At this point they do not expect either to lead to a U.S. recession, but do expect U.S. growth to soften in the second half of 2012. Their current risk of recession is 20 percent, down from 25 percent the previous month.

This reduction in risk came before the recent troubles in the Middle East and North Africa. The conflicts in that region will certainly raise oil prices, which will add to the risk of recession. Gasoline prices had already been rising.

Rising fuel prices hits U.S. consumers hard, especially during a time of low income growth. It is too early to determine the impact the recent troubles will have on oil prices and the economy. It will depend on how long the violence continues and if it spreads throughout the region.

The Fed has announced another round of quantitative easing (QE3). The Fed will begin purchasing mortgage backed securities at a rate of \$40 billion per month. This effort, along with the continuation of "Operation Twist" means the Fed will be pumping \$85 billion into the economy per month. The Fed believed this activity will give a boost to the fledgling recovery in the housing sector and ultimately raise employment. This round is open ended, meaning the process will continue until the Fed thinks the economy can stand on its own legs.

While the markets seem to enjoy the Fed stimulus, it remains to be seen how effective QE3 will be on economic growth and unemployment. The impact of quantitative easing appears to have diminished with each successive round. One indirect effect will be a declining dollar which will in turn raise oil prices. The Fed hopes that by committing to an open ended stimulus, confidence will increase and lead to greater investment, hiring and spending. These gains presumably will offset the negative impact of rising fuel prices. We will see if this plan works.

SELECTED ECONOMIC INDICATORS

Indicator	July	June	July	Change from		
	2012	2012	2011	Last Month	Last Year	
US Index of Coincident Indicators Index 2004=100, Source: The Conference Board	105.1	104.8	101.9	0.3%	3.1%	Economic Indices
MS Index of Coincident Indicators Index 2004=100, Source: Federal Reserve Bank of Philadelphia	101.9	102.0	101.4	-0.1%	0.5%	
US Index of Leading Indicators Index 2004=100, Source: The Conference Board	95.8	95.4	94.4	0.4%	1.5%	
MS Index of Leading Indicators Index 2004=100, Source: University Research Center	96.4	97.4	92.6	-1.0%	4.1%	
MS Initial Unemployment Claims Source: Mississippi Department of Employment Security	12,163	11,855	13,184	2.6%	-7.7%	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	55.3	50.8	38.5	8.8%	43.5%	
MS Income Tax Withholdings 3 Mo. Moving Average, Millions of 2004 Dollars, Source: MS Department of Revenue	103.18	104.72	100.47	-1.5%	2.7%	
MS MFG Emp. Intensity Index Average workweek length times employment, Indexed 2004 =100, Source: URC using data from Bureau of Labor Statistics	75.5	77.1	75.8	-2.1%	-0.4%	
MS Diesel Fuel Consumption Index 3 Mo. Moving Average, Index 2004-100, Source: URC using data from MS Department of Revenue	92.8	98.3	101.3	-5.6%	-8.5%	
US Index of Consumer Expectations 3 Mo. Moving Average, Index 1996=100, Source: University of Michigan	66.2	69.2	56.1	-4.4%	18.0%	
US ISM Index of MFG Activity Advanced 1 Month (June Index appears as May), Source: Institute For Supply Management	49.6	49.8	50.9	-0.4%	-2.6%	
US Retail Sales Millions of Dollars, Source: Bureau of Census	403,929	400,682	387,932	0.8%	4.1%	
US Consumer Price Index 2004=100, Source: URC using data from Bureau of Labor Statistics	121.3	121.5	119.6	-0.2%	1.4%	
MS Unemployment Rate Source: Bureau of Labor Statistics	9.1%	8.8%	10.9%	0.3%	-1.8%	
MS Continued Unemp. Claims Source: Mississippi Department of Employment Security	130,688	113,148	141,733	15.5%	-7.8%	Miscellaneous Indicators
US Mortgage Rates 30 Yr. Conventional, Source: Federal Reserve	3.5%	3.6%	4.5%	-0.1%	-1.0%	
MS Avg. Hourly Wage for MFG Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	52.60	52.10	52.70	1.0%	-0.2%	
MS Avg. Wkly Earnings for MFG Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	529.7	540.2	526.6	-1.9%	0.6%	
Gaming Revenue	203.6	186.9	210.7	8.9%	-3.4%	
Coast Counties	104.5	89.9	99.5	16.2%	5.1%	
River Counties	99.1	97.0	111.2	2.2%	-10.9%	
Business Optimism Index Index 1986=100, Source: National Federation of Independent Businesses	91.2	91.4	89.9	-0.2%	1.4%	

MISSISSIPPI EMPLOYMENT BY SECTOR

Sector	Relative Share of Total*	July	June	July	Change from Prior Month		Change from Prior Year	
		2012	2012	2011	Level	%	Level	%
Total Nonfarm	100.0%	1,083,800	1,085,900	1,088,400	(2,100)	-0.2%	(4,600)	-0.4%
Mining and Logging	0.8%	9,200	9,200	9,100	-	0.0%	100	1.1%
Construction	4.3%	43,600	43,700	48,900	(100)	-0.2%	(5,300)	-10.8%
Manufacturing	12.4%	136,100	135,700	133,100	400	0.3%	3,000	2.3%
Trade, Transportation & Utilities	19.6%	213,600	212,700	214,300	900	0.4%	(700)	-0.3%
Retail Trade	12.1%	130,700	130,700	132,800	-	0.0%	(2,100)	-1.6%
Information	1.1%	11,884	11,861	11,889	24	0.2%	(5)	0.0%
Financial Activities	4.1%	44,063	44,291	44,874	(228)	-0.5%	(811)	-1.8%
Services	35.0%	382,600	381,900	381,200	700	0.2%	1,400	0.4%
Professional and Business Services	8.6%	92,300	91,400	93,000	900	1.0%	(700)	-0.8%
Education and Health Services	12.6%	137,000	135,600	134,800	1,400	1.0%	2,200	1.6%
Leisure and Hospitality	10.7%	118,500	119,800	119,100	(1,300)	-1.1%	(600)	-0.5%
Other Services	3.2%	34,800	35,100	34,300	(300)	-0.9%	500	1.5%
Government	22.6%	242,900	246,700	245,200	(3,800)	-1.5%	(2,300)	-0.9%

Source: U.S. Bureau of Labor Statistics

Mississippi Employment Trends

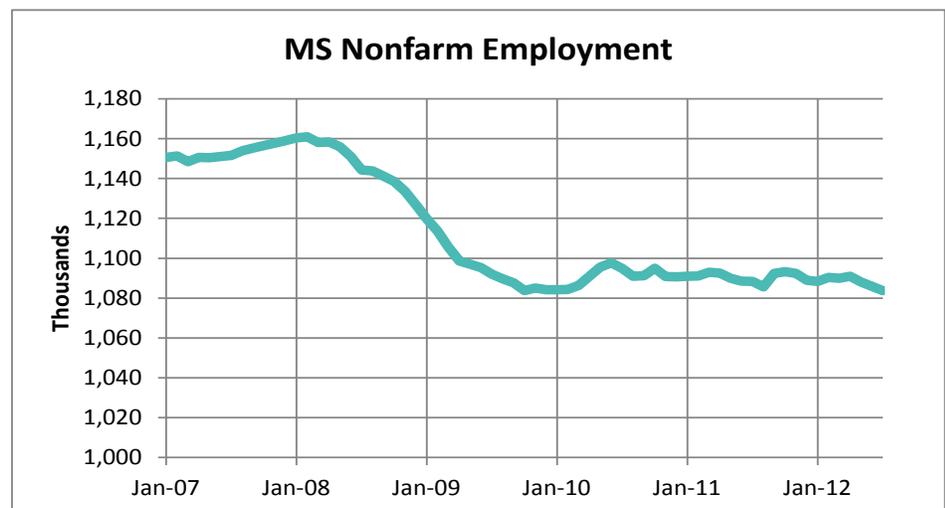
Mississippi lost 2,100 jobs in July relative to June. Monthly declines have occurred in seven of the last twelve months. The series has been below the year ago level for twelve of the last fifteen months.

For calendar year 2012, through July, Mississippi's employment is down 0.2 percent from the same period of 2011. The State experienced a 0.1 percent decline for calendar year 2011. If this declining trend continues through the remainder of 2012, the State will have declined for five consecutive years.

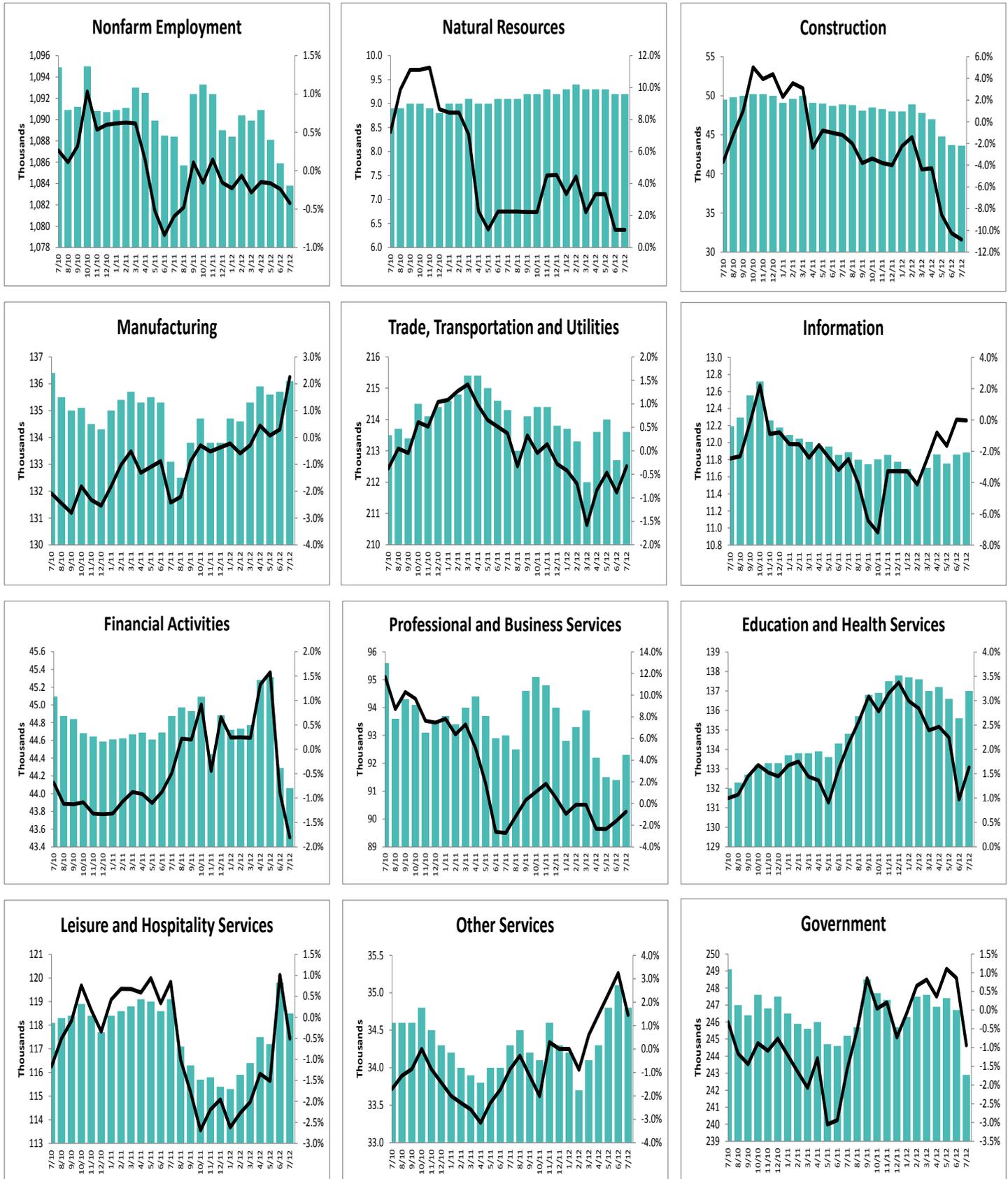
With these declines, employment in Mississippi is now equal to the level observed in the depth of the recession (see figure to the right). The modest gains that have taken place over the past three years have

all disappeared. With the current forecast, it will be 2018 at the earliest before Mississippi has the number of people employed as it did prior to the recession.

The largest declines for July were in government, leisure and hospitality. Not all of the news was negative. Several sectors gained in employment. Education and health services saw a strong gain for the month. Professional and business services and the trade, transportation and public utilities sector also saw gains. The sub-sector of retail trade was flat for the month. Manufacturing and information also added jobs for the month. While construction employment declined, the decline was much less than what the State has experienced the past several months.



MISSISSIPPI EMPLOYMENT TRENDS



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