MISSISSIPPI'S BUSINESS

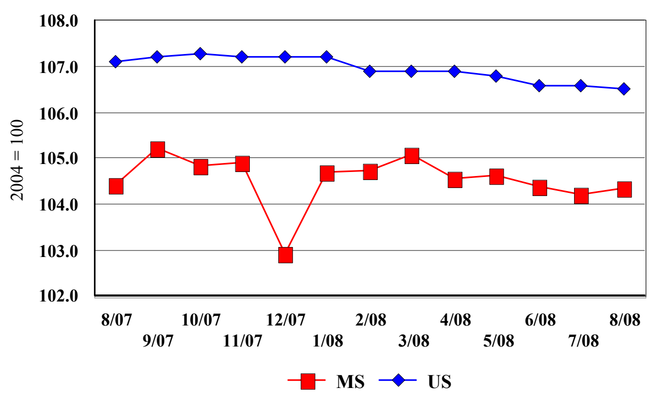
Center For Policy Research and Planning

October 2008 — *Monitoring the State's Economy* — Volume 66 - Number 8

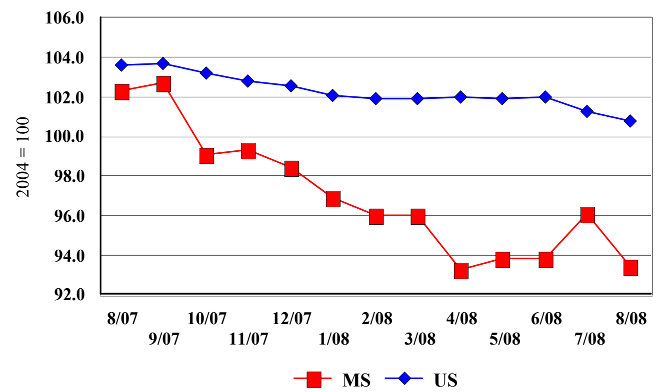
ECONOMY AT A GLANCE

The Mississippi Index of Coincident Indicators rose modestly in August over July. Despite the increase, the index is trending down revealing a slowing economy. The Mississippi Index of Leading Indicators continued to point to a slowing state economy. The national economy is probably already in recession. The outlook is for three quarters of recession, beginning with the third quarter of 2008. The recovery will likely be gradual.

Index of Coincident Indicators



Index of Leading Indicators



POPULATION PROJECTIONS AVAILABLE FOR MISSISSIPPI

The Center for Policy Research and Planning has recently updated its population projections for Mississippi and all 82 counties. These projections are for 2015, 2020 and 2025. The projections are available by age cohort and for white and nonwhite. The projections are only available via the web. The web address is http://www.mississippi.edu/urc/downloads/0922debo.pdf

MISSISSIPPI'S BUSINESS

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In This Issue

Visit us on the web

http://www.ihl.state.ms.us/urc/planning/econdept.htm

The last twelve issues of Mississippi Business are available on our web site. On this web site you will also find copies of some of our other publications, including ***Population Projections***, ***Mississippi Economic Review and Outlook***, and ***The Handbook of Selected Data.*** You will also find links to other useful data sources.

PLEASE NOTE: We did not publish a September issue of Mississippi's Business, due to some problems in our withholdings data. We have addressed the problem by using a three-month moving average of the withholdings data as opposed to a straight monthly series. We have also broadened the Index of Coincident Economic Indicators by adding merchandise retail sales as a component. A graph of the historic series appears on page 3.

Coincident Index

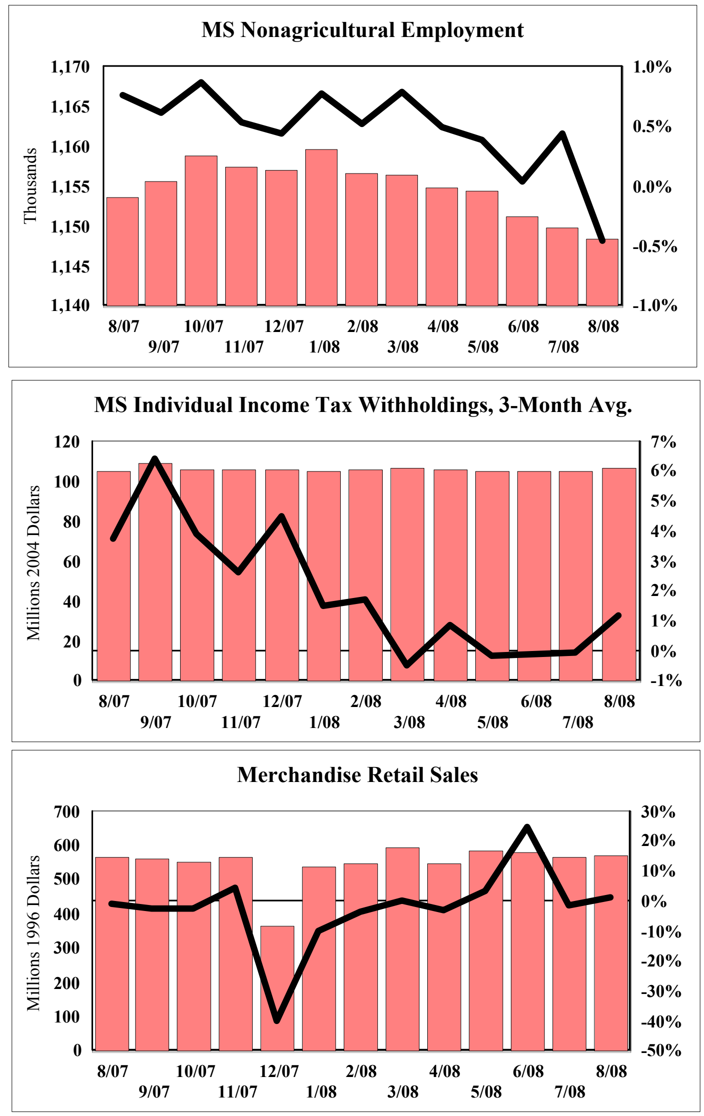
The Mississippi Index of Coincident Economic Indicators rose a modest 0.1 percent in August over July. Despite the small increase, the data suggest a slow state economy. The index has been trending downward since March, rising only in May and August. The index has been below its level six months prior for five of the last six months. Historically, a persistent decline relative to the level six-months prior is associated with a very weak economy. In August, the decline relative to the level six-months prior was an annualized 0.7 percent. Two out of the three components drove the August increase of the Coincident Index.

Nonagricultural employment fell 0.1 percent in August relative to July. Employment has fallen in the state every month except January since November 2007. Between January and August, the state lost 11,299 jobs or a decline of 1.0 percent. Last year between January and August employment grew 2,956 jobs or 0.3 percent. Average employment for 2008 to-date was up a meager 0.2 percent over the same period in 2007. This is remarkably lower than the 1.1 percent gain observed for the same period in 2007 over 2006. With the current economic conditions, we expect 2008 employment growth to be basically flat with 2007 level. The graphs on page 3 show the employment trends by sector.

In August, for only the second time since July 2006, manufacturing employment increased relative to the prior month. With the national manufacturing industry contracting, the upturn is not expected to continue.

After coming back on line following Katrina, the gaming industry enjoyed strong growth fueling a brief boom for the state's leisure and hospitality sector. However, since the beginning of 2008 this sector has lost employment as indicated by the graph on page 5. Gaming revenue in the first eight months of 2008 has slowed, falling 3.8 percent relative to the same period of 2007. The rising fuel prices through the summer along with declining consumer sentiment has negatively impacted tourism.

Mississippi Index of Coincident Indicator Components

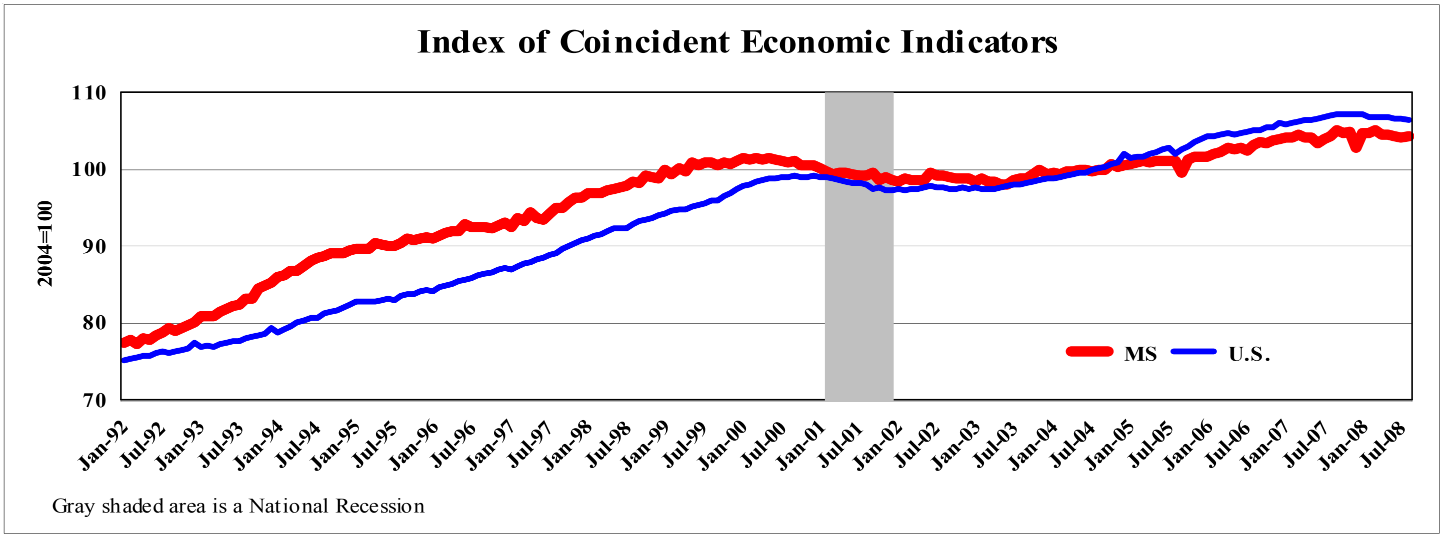


NOTE:

The bar graphs above represent the seasonally adjusted monthly series and correspond to the left-hand axis. The line graphs represents the growth rate over the prior year's value and correspond to the right-hand axis.

SOURCES:

Mississippi Employment Security Commission.
Mississippi State Tax Commission.



The government sector, which had been growing, experienced a dramatic decline of over 3,800 jobs in August relative to July. A closer look at the data reveals the decline was driven by seasonally adjustment of the local government employment. Historically, local government employment increases substantially in August relative to July. This year, however, the increase was relatively mild, thus leading to a decline in the *seasonally adjusted* series.

The three month moving average of individual income tax withholdings increased 1.0 percent in August relative to July. The series has been basically flat during much of 2008. Relative to the year ago, the series has slowed since late 2007. The annual growth rate has been negative for four of the last six months. Looking at the January to August period in 2008 relative to the same period in 2007, the series has grown only 0.5 percent. This compared to a 4.8 percent growth for the same period in 2007 relative to 2006.

Merchandise retail sales increased 1.3 percent in August relative to July. This series includes sales at department stores such as Wal-Mart. The August increase followed two months of decline. For the first eight months of 2008, merchandise retail sales was up 0.9 percent. Looking at total retail sales, there was a noticeable spike in July and August (see page 7). This was likely due to the economic stimulus package.

As indicated by the Mississippi Coincident Index, the state's economy is slowing. This has been taking place since the beginning of 2008. The state's economy is being shaped by at least three factors: (1) the gradual dissipation of the post-Katrina boost (2) a general slowdown in the National economy and (3) the credit crisis in the financial sector.

With everything else being equal, the State's economy would be slowing regardless of what the national economy was doing. The state enjoyed a boom as a result of Katrina related rebuilding. The effects of this boom are still present in the state, but are clearly diminishing.

The national economy was also slowing before the much reported credit crisis. The slowdown was largely due to rising oil prices and a slowing housing market. The only bright spot in the national economy was the export market which was being fueled by a falling dollar. Mississippi is of course affected by these trends.

The credit crisis has had a tremendous impact on the national economy and is being felt in Mississippi as well. In discussing this issue with our readers, most businesses responding said they had not yet experienced any effects of the credit crisis. While some banks have tightened lending standards, this appears to be more on the commercial side rather than to consumers. Some responding said they were more cautious as a result of the negative economic news.

Mississppi Employment By Sector
Seasonally Adjusted

	August 2008	July 2008	August 2007	Change from Prior Month Jobs	%	Change from Prior Year Jobs	%
Nonfarm	1,148,283	1,149,852	1,153,607	-1,569	-0.1%	-5,324	-0.5%
Natural Resources	9,780	9,783	9,472	-3	0.0%	308	3.2%
Construction	58,382	58,410	57,943	-29	0.0%	438	0.8%
Manufacturing	163,934	163,461	169,075	473	0.3%	-5,141	-3.0%
Trade, Transportation and Utilities	227,958	228,026	227,014	-68	0.0%	945	0.4%
Retail	141,666	141,580	141,477	86	0.1%	189	0.1%
Information	13,168	13,222	13,362	-55	-0.4%	-194	-1.5%
Financial Activities	46,381	46,596	46,951	-215	-0.5%	-570	-1.2%
Services	385,891	386,703	385,133	-811	-0.2%	759	0.2%
Professional and Business Services	96,179	96,202	95,436	-24	0.0%	743	0.8%
Education and Health Services	128,591	128,776	127,332	-185	-0.1%	1,259	1.0%
Leasure and Hospitality	123,751	124,323	125,303	-572	-0.5%	-1,552	-1.2%
Other Services	37,371	37,402	37,062	-31	-0.1%	308	0.8%
Total Government	242,506	246,320	244,323	-3,814	-1.5%	-1,818	-0.7%
Federal Government	26,083	26,207	25,878	-124	-0.5%	205	0.8%
State Government	58,757	59,256	59,340	-498	-0.8%	-583	-1.0%
Local Government	157,454	165,438	158,890	-7,985	-4.8%	-1,436	-0.9%

Mississippi banks did not have as much exposure to the sub-prime market as many larger National banks. Housing prices did not balloon in Mississippi as they did in other states. So the effects on Mississippi's economy appear to be less direct, although not less significant. As we move forward and the effects of the credit crisis begin to work their way through the rest of the economy, the national economy will slow further. As this occurs, Mississippi's economy will slow as well.

Leading Indicators

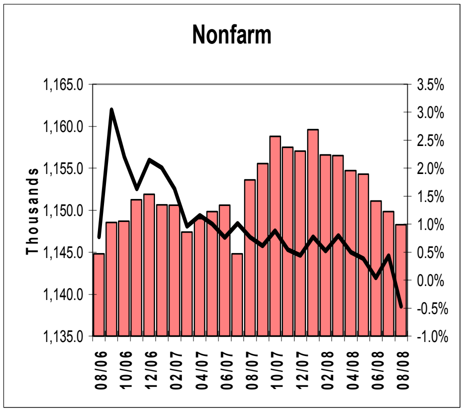
After a sharp increase in July the Mississippi Index of Leading Economic Indicators fell in August to 93.4. The index has been trending downward since September 2007. There are five components to the Index. Two contributed positively to the August index, two negatively and one had no change relative to July.

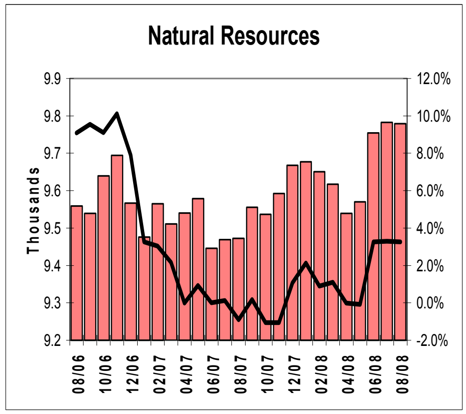
The August Mississippi manufacturing workweek length was unchanged from the July level. The series increased for three consecutive months before stalling at the July level in August.

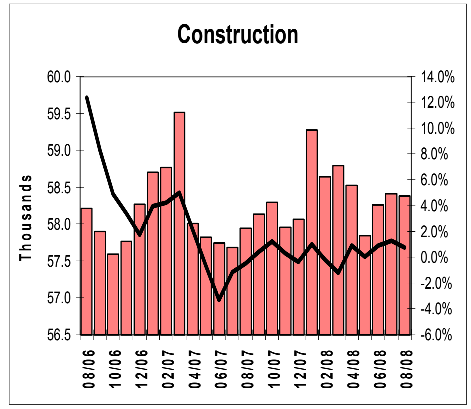
The U.S. Index of Consumer Expectations Index rose 8.2 percent in August over July. This was the second consecutive monthly increase. The improved outlook is likely due to falling fuel prices. Data released since August show expectations continued to improve in September, but early signs point to a decline in October. The latter trend is likely due to the credit crisis and the related negative economic news.

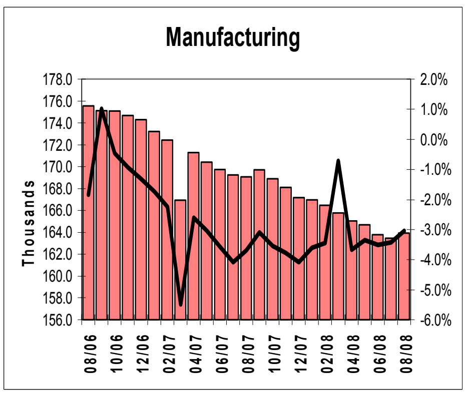
Initial Mississippi unemployment claims fell 3.6 percent in August relative to July. The decline was fairly small, and erases a similar sized gain that occurred in July. The series is high in comparison to the year ago level (up 26.9 percent). The state has seen a marked increase in the seasonally adjusted unemployment rate over the summer months. The Nation has experienced a similar, yet less dramatic, increase. This is likely a product of the cooling economy compounded by an increase in the minimum wage which went into effect in July. Employers anticipating a higher minimum wage in July, would have been more hesitant than in the past to hire those getting out of school for the summer. Mississippi, which has a higher incidence of low-wage jobs than the nation, would be more adversely affected by an up-tick in the minimum wage. The fact that the economy is sluggish makes the negative impacts of a wage hike more likely.

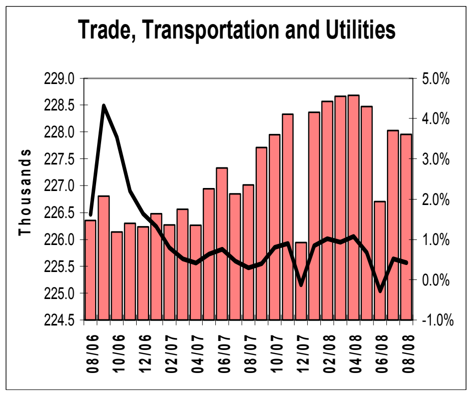
Mississippi Employment Trends

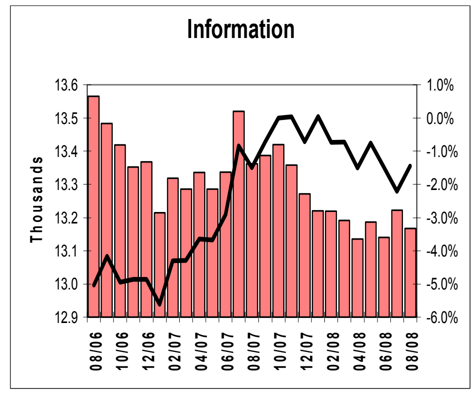


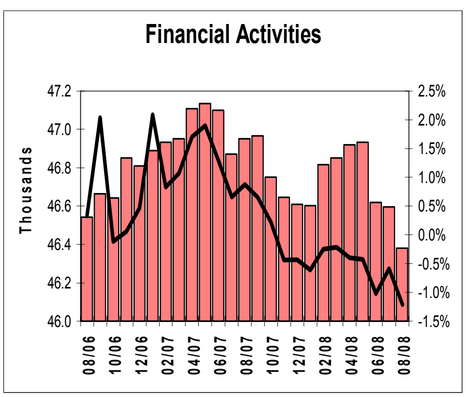


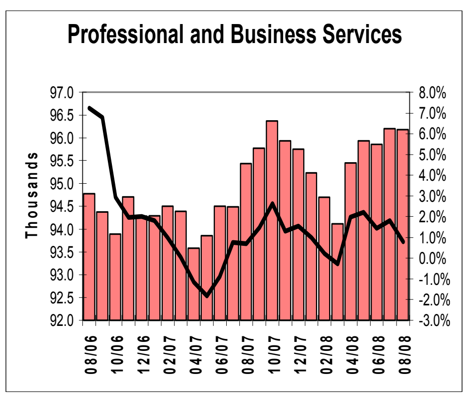


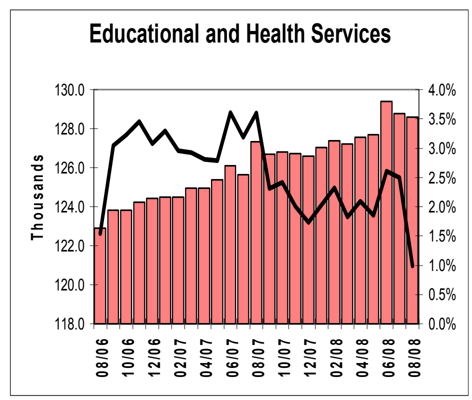


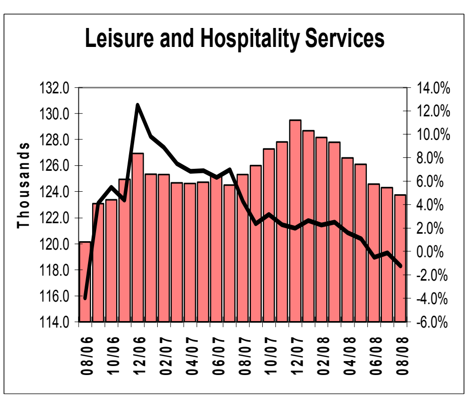


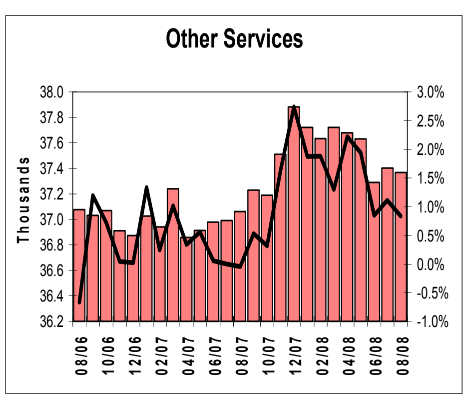


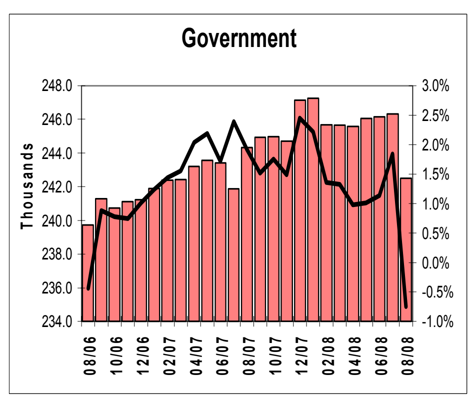








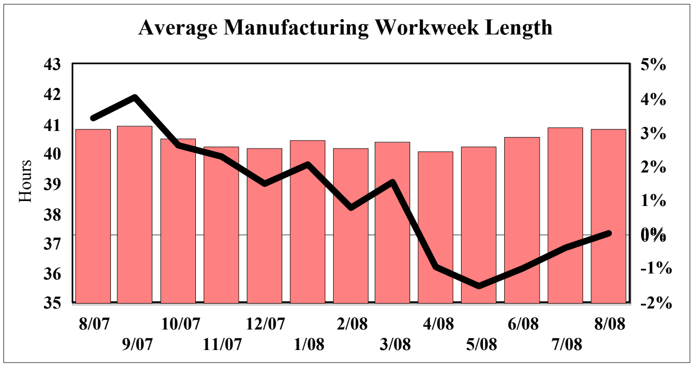


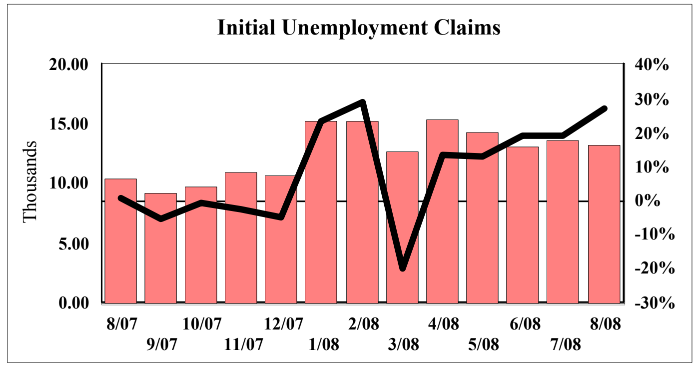


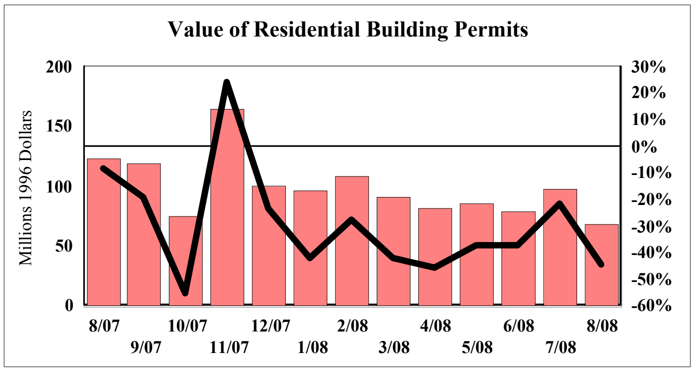
Note: The Bar Graphs above represent seasonally adjusted monthly employment and correspond to the left-hand axis. The line graphs represent the growth over the prior year's value and correspond to the right-hand axis.

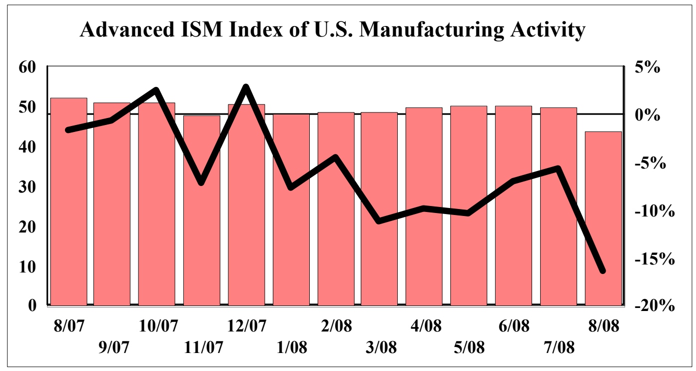
Source: Department of Mississippi Employment Security and IHL.

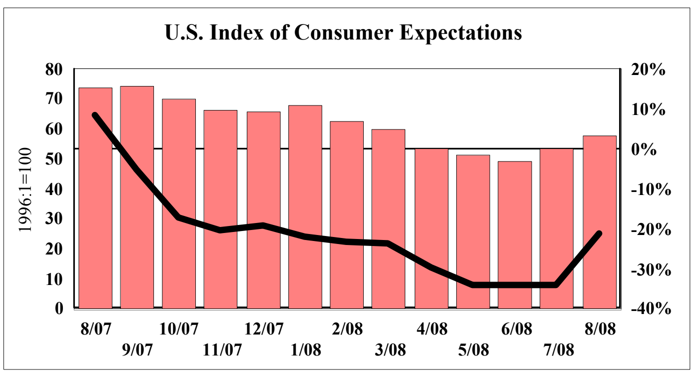
Mississippi Index of Leading Indicator Components











NOTE:
The bar graphs above represent the seasonally adjusted monthly series and correspond to the left-hand axis. The line graph represents the growth rate over the prior year's value and corresponds to the right-hand axis.

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

The Mississippi value of residential building permits declined 30.3 percent in August over July. Values have been trending down for much of the past two years. The August level is the lowest since September 2001. The declining trend is directly related to the U.S. housing problems. But the state is by no means experiencing the dire situation observed in some states. Mississippi, while having the fourth largest share of its mortgages in the sub-prime market during the second quarter of 2008, is doing relatively well in terms of foreclosures, ranking 39th among the states. Mississippi has the highest rate of mortgage delinquencies, but this is more likely due to relative poverty of the state rather than the housing crisis. Delinquency rates are not significantly higher than historical averages. Mississippi did not experience the speculative price increases occurring in some states, and so there was no bubble to burst. While the national average home value fell over 1.0 percent between the second and the first quarter, Mississippi saw a 0.3 percent increase.

The Institute for Supply Management (ISM) Index of U.S. Manufacturing Activity fell dramatically in September relative to August. (The September ISM is used in the August leading index). The September ISM level of 43.5 shows a manufacturing in deep contraction. It is the lowest level since 2001. The troubles in the manufacturing sector may be overstated in the latest ISM Index. There was a machinist strike at Boeing and the hurricanes in September could have affected production for the month. Regardless of these two factors, the industry is weakening.

U.S. Economy

The U.S. Index of Coincident Indicators fell 0.5 percent in August relative to July. The decline relative to the level six-months prior, was down 0.7 percent annualized. The U.S. Index of Leading Indicators fell 0.1 percent. This was the third decline in the last four months. The growth relative to the level six-months prior was 2.1 percent annualized. The Conference Board says the indices continue to point to a weakening economy.

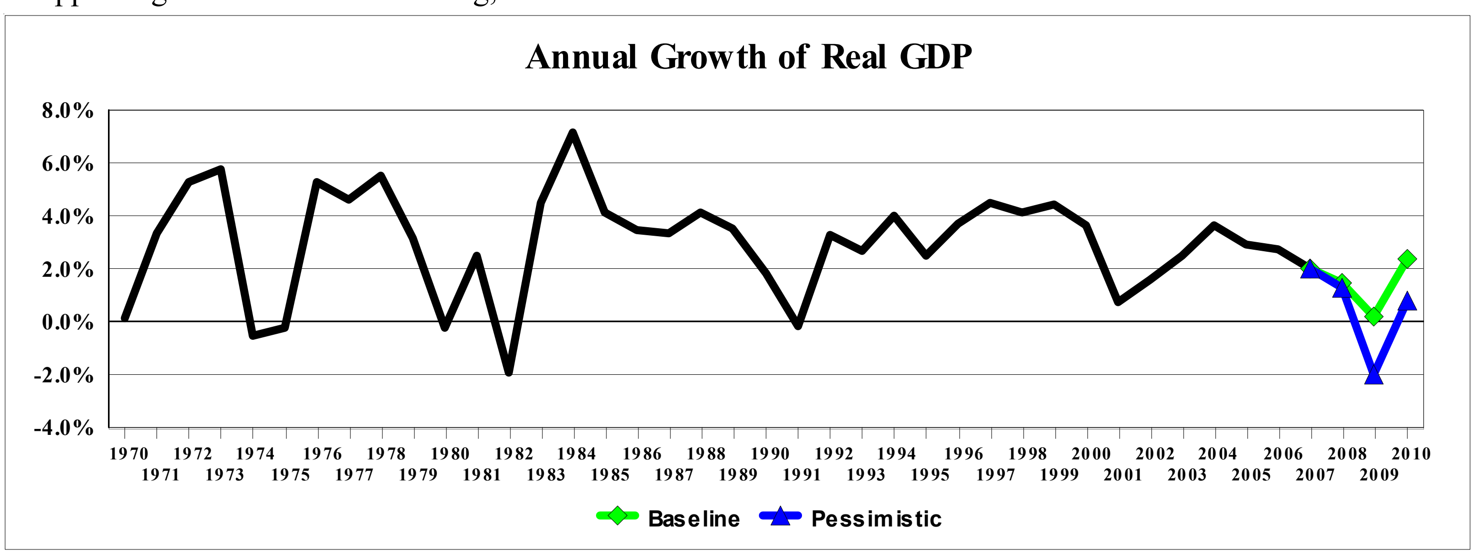
A major force shaping the National economy is the credit crisis in the financial sector. The economy was slowing before the news of this crisis came to light; but that slowdown was due to normal business cycles. The current troubles in the financial sector are systemic and, along with the policies chosen to address them, will have a profound impact on the economy for the foreseeable future. Warren Buffett has called the crisis an Economic Pearl Harbor.

It is increasingly likely that the U.S. is already in recession. Employment, industrial production and income are all trending down. Inflation adjusted consumer consumption declined by 2.8 percent in the third quarter. This is the worst quarter since the end of 1990. The consumer is getting hammered on every side. Employment is down. Real wages are down. Housing wealth is declining. Stock market wealth is disappearing. Debt burdens are rising, while credit conditions are tightening. The only good news for the consumer is the falling gasoline prices.

The question is how deep will the recession be? Even in the best case scenario, the recession will be deeper and longer than the 2001 recession. At the 2008 Mississippi Economic Outlook Conference held in October 16, 2008, Nigel Gault with the forecasting agency Global Insight, said their baseline forecast predicts the Nation will be in recession for three consecutive quarters, beginning with the third quarter of 2008. Historical GDP growth along with Global Insight's baseline and pessimistic forecast is depicted in the graph on the bottom of the page.

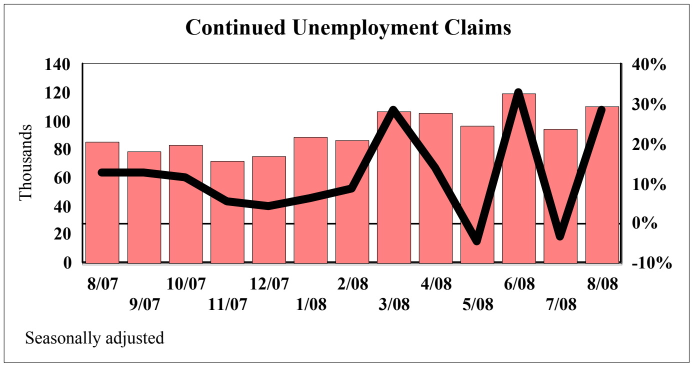
Under the baseline forecast, annual growth in real GDP for 2008 will be 1.5 percent. For 2009, real GDP growth will fall be 0.2 percent. The slow GDP growth expected for 2009 suggests a very slow recovery from a relatively deep recession. Real GDP Growth in 2010 is expected to climb to 2.4 percent. Under such a scenario, unemployment would climb to 7.2 percent in 2009 and 7.4 percent in 2010. Employment for 2009 would fall by 1.0 percent followed by a slow recovery growth of 0.8 percent in 2010. Inflation however would decline from 4.8 percent in 2008 to 1.3 percent in 2009 and 2.1 percent in 2010.

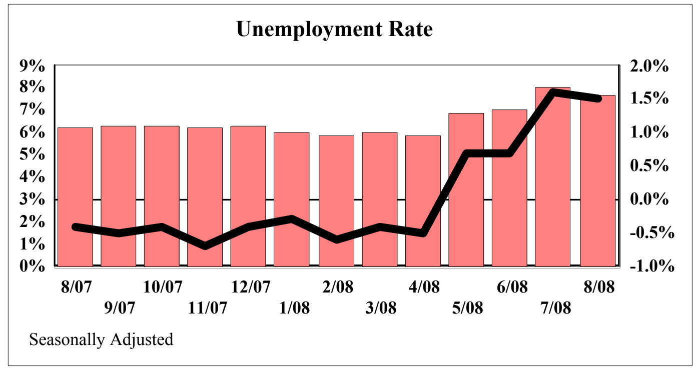
Gault said their pessimistic outlook was becoming increasingly likely. The pessimistic outlook includes a 2.0 percent decline in real GDP in 2009 followed by a modest gain of 0.8 percent in 2010. Under this pesimistic scenario, unemployment would climb to

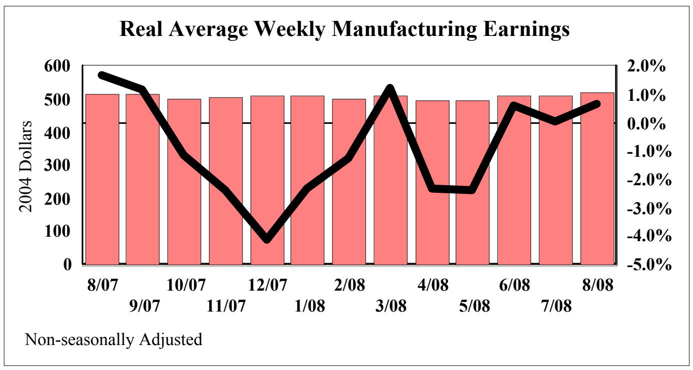


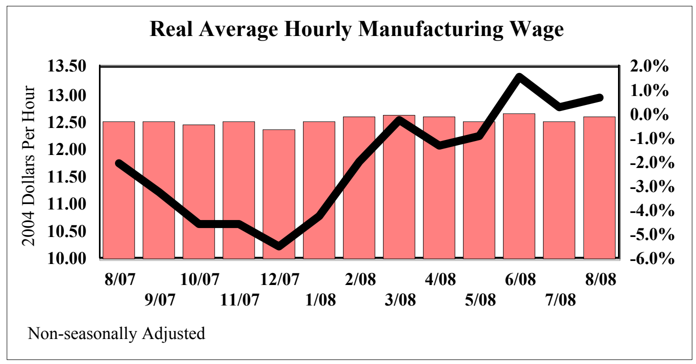
almost 9.0 percent by 2010, while employment would decline as much as 2.1 percent in 2009 followed by a 0.5 percent decline in 2010. Inflation would even be smaller under the pessimistic outlook, only 0.3 percent in 2009 and 2.1 percent in 2010. It is worth noting that recessions are a normal part of the business cycle. We have endured recessions in the past, we will do so again.

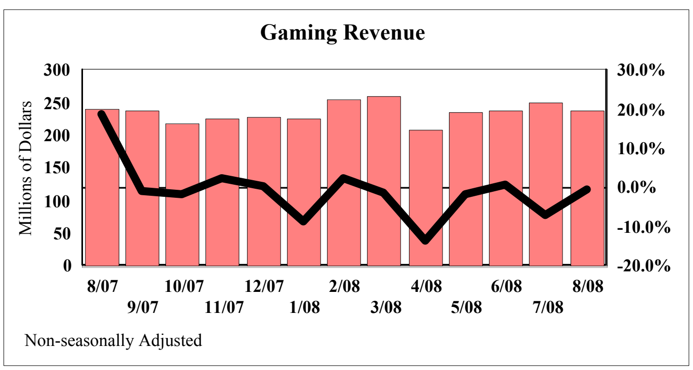
Miscellaneous Economic Indicators

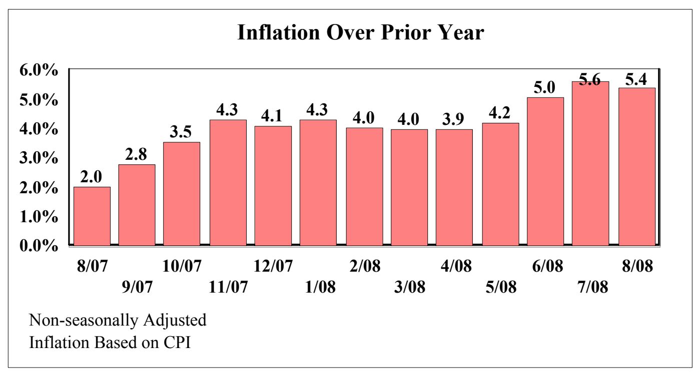


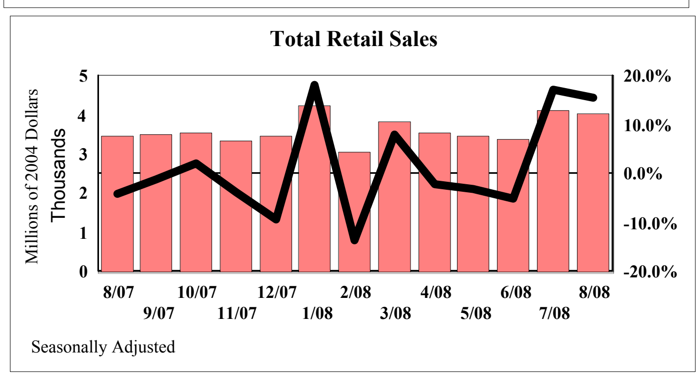


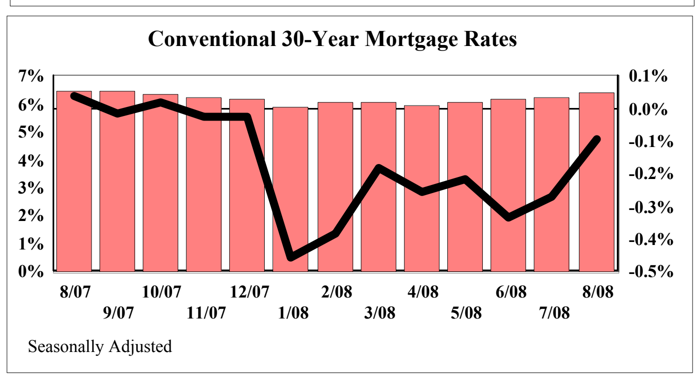












NOTE:

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SOURCES:

Mississippi Employment Security Commission, Mississippi Tax Commission, Mississippi Gaming Commission, Federal Home Mortgage Corporation, Bureau of Labor Statistics.

SELECTED MISSISSIPPI ECONOMIC INDICATORS

	August 2008	July 2008	August 2006	Percent Change From Last Month	Percent Change From Last Year
Coincident Indicator Index (2004=100)	**104.3**	**104.2**	**104.4**	**0.1%**	**-0.1%**
Nonagricultural Employment (thousands)	1,148.3	1,149.9	1,153.6	-0.1%	-0.5%
Individual Income Tax Withholdings, 3-Month Average (millions of 2004 $)	106.3	105.2	105.1	1.0%	1.2%
Merchandise Retail Sales (millions of 2004 $)	572.0	564.6	563.8	1.3%	1.5%
Leading Indicator Index (2004=100)	**93.4**	**96.1**	**102.3**	**-2.8%**	**-8.7%**
Initial Unemployment Claims	13,157	13,652	10,371	-3.6%	26.9%
Value of Residential Building Permits (millions of 2004 $)	67.6	97.0	122.7	-30.3%	-44.9%
Average Manufacturing Workweek Length (hours)	40.8	40.9	40.8	-0.0%	0.0%
Advanced ISM Index of U.S. Manufacturing Activity Index is advanced one month. Thus, the Junel index is reported for May.	43.5	49.9	52.0	-12.8%	-16.3%
U.S. Index of Consumer Expectations	57.9	53.5	73.7	8.2%	-21.4%
Miscellaneous					
Consumer Price Index U.S. (2004=100)	116.0	116.5	110.1	-0.4%	5.4%
Unemployment Rate (percentage)					
Non-seasonally adjusted	7.7%	8.5%	5.9%	-0.8%	1.8%
Seasonally adjusted	7.7%	8.0%	6.2%	-0.3%	1.5%
Continued Unemployment Claims	109,665	94,665	85,361	15.8%	28.5%
Average Manufacturing Wage (Non-seasonally adjusted)					
Current Dollars per Hour	14.59	14.55	13.75	0.3%	6.1%
2004 Dollars per Hour	12.58	12.49	12.49	0.7%	0.7%
Average Weekly Manufacturing Earnings (Non-seasonally adjusted)					
Current Dollars	601.11	592.19	566.50	1.5%	6.1%
2004 Dollars	518.24	508.51	514.64	1.9%	0.7%
U.S. Mortgage Rates (30-year conventional)	6.4%	6.2%	6.5%	0.1%	-0.1%
Total Retail Sales Millions of 2004 Dollars	4,029.91	4,124.72	3,483.00	-2.3%	15.7%
Gaming Revenues (Non-seasonally adjusted)					
Coast counties (millions of current $)	112.1	115.6	108.6	-3.0%	3.2%
River counties (millions of current $)	126.0	133.6	130.7	-5.7%	-3.6%
Total	238.1	249.2	239.3	-4.4%	-0.5%

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