

Mississippi's Business

October 2012

Monitoring The State's Economy

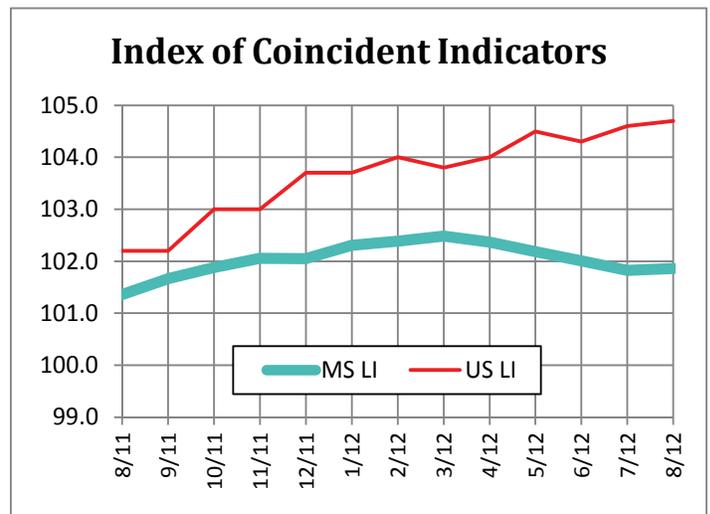
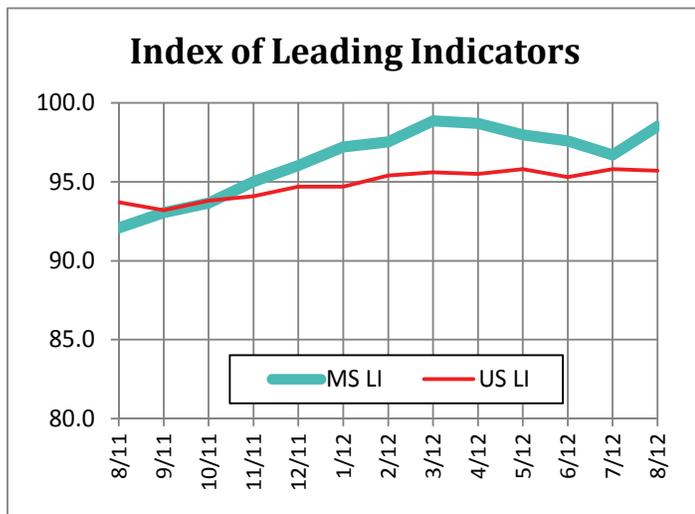
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ECONOMY AT A GLANCE

The Mississippi Index of Coincident and Leading Indicators both rose for the month of August, reversing a four month declining trend. This reversal offers hope that the third quarter will have been an improvement over the second. But even if this is the case, growth remains modest. Employment is perhaps the weakest link in the economy with employment falling for four consecutive months and reaching the lowest level since 1996. Mississippi has not experienced a gain in employment on an annual basis since 2007. The increase in the leading index was strong and broadly supported by seven of the eight components. This suggests that while the State may have slipped into a recession in the early summer months, it was short-lived and relatively mild. Next month's data should confirm if this is, in fact, the case.

The National economy continues to grow at a snail's pace. Employment gains are weak relative to the first quarter, but slightly better than in the second. Business investment is weakening as are exports. These two sectors have helped fuel the recovery, and their current weakness is dampening overall growth. The two brightest spots in the economy remain housing and light vehicle sales. By most any measure the housing sector is improving, although from a low base. Vehicle sales have remained strong in 2012 relative to the previous few years. Beside the global headwinds of Europe and China, the economy faces the uncertainty surrounding the fiscal cliff. This series of tax increases and budget cuts will not likely materialize, but a long-term solution is probably months away. As a result growth will be dampened in early 2013, regardless of the November election results.



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 August 2012	2
Index of Coincident Indicators for August 2012.....	4
National Trends	5
Mississippi Income Growth	7
Mississippi Employment Trends	9

LEADING AND COINCIDENT INDICATORS, AUGUST 2012

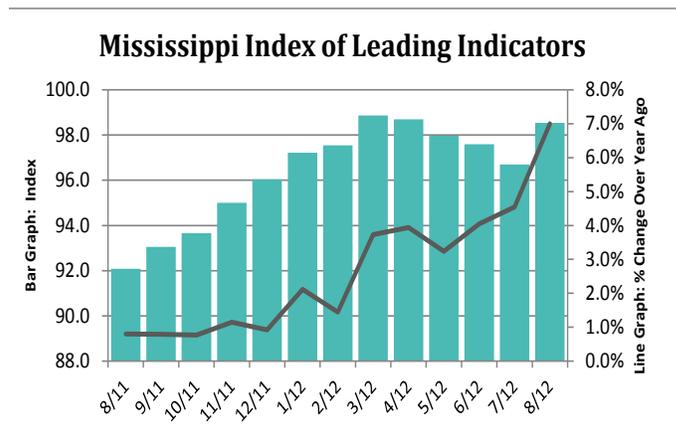
The **Mississippi Index of Leading Economic Indicators** rose sharply in August to 98.5. The unexpected gain follows four months of decline. All but one component showed improvement in August. Relative to the level six-months prior, the index was up an annualized 2.0 percent. The revised six-month growth rate for July was a -1.1 percent. The reversal is surprising. One month does not make a trend but the evidence suggests that the third quarter will prove to have been improved over the second. The components of the Leading Index will be discussed in order of their contributions to the July decline.

After a steep decline in July, inflation adjusted **Mississippi income tax withholdings**¹ rose 3.5 percent in August relative to July. The series had fallen in three of the previous four months and the August gain recaptured all of the lost ground. Large swings in this series can occur for a variety of reasons which have nothing to do with economic conditions. We use a three month average to mitigate this volatility. It will be interest to see if the strong growth observed in September is sustained.

The **Institute for Supply Management Index of U.S. Manufacturing Activity** rose to 51.5 in September. The index shows the U.S. manufacturing industry is once again expanding. The industry has been contracted for the previous three month, according to the index. An index above 50 indicates expansion. While the index is above 50, it remains weak. The ISM Nonmanufacturing Index rose to 55.1, which is the strongest showing since March 2012 for this series.

The **U.S. Retail Sales** rose 0.9 percent in August. This marked the second consecutive gain after three months of decline. Much of the gain was due to gas sales that were driven by rising prices. Excluding gasoline stations, retail sales were a much more modest 0.3 percent. In a separate but related report, light vehicle sales continue at a strong pace. In September, sales were an annualized 14.9 million units sold, the strongest month of sales since March 2008.

The **U.S. Index of Consumer Expectations**¹ rose 2.9 percent in August. Improved conditions in housing and better job numbers have helped expectations.



The **Mississippi Manufacturing Employment Intensity Index**, rose 1.0 percent in August, reversing the declining trend of the previous two months. The increase recaptured much, but not all of the ground lost in the previous two months. The index is comprised of employment and hours worked. The August gain was characterized by a modest dip in employment but a gain in average workweek length.

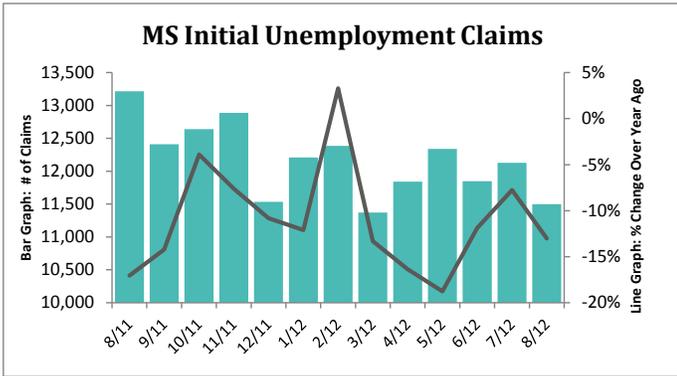
Mississippi's initial unemployment claims fell 5.2 percent in August relative to July. The series is 13 percent below the year ago level. Initial claims have generally moved downward since the recovery began, but moved upward during the summer months.

The **value of Mississippi residential building permits**¹ rose 2.1 percent in August. This was the seventh consecutive gain for this series. Across the U.S. the housing sector is showing improvement. Positive trends are evident in every measure: permits, starts, price and builder confidence all show improvement. While we remain at a very low level historically, the bottom appears to be in the rearview mirror. Pent-up demand is expected to fuel growth in the industry over the next few years.

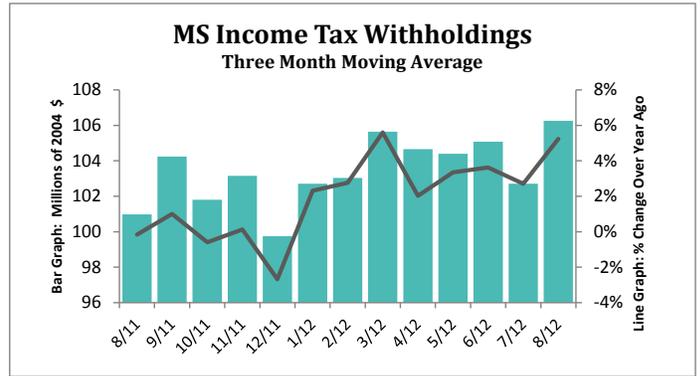
The **Mississippi Diesel Fuel Consumption Index**¹ was the only component contributing negatively to the August index. Although the decline for August was a modest 0.9 percent, it shows continued deterioration in this series. The index has declined in six of the last seven months and is at its lowest level since October 2009.

1. Three Month Moving Average

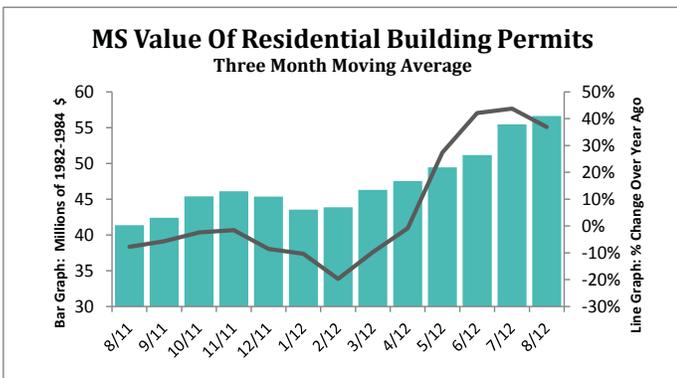
LEADING ECONOMIC INDICATORS



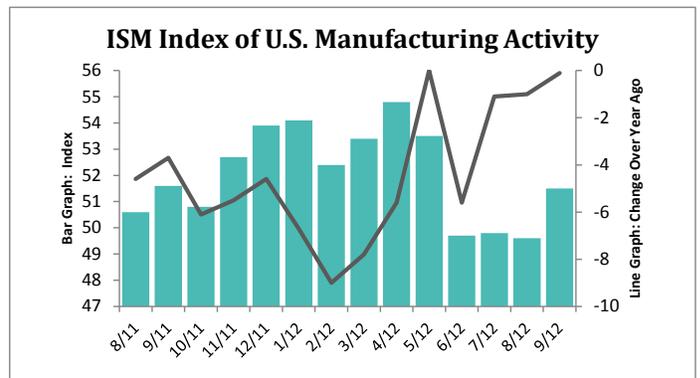
Source: Mississippi Department of Employment Security



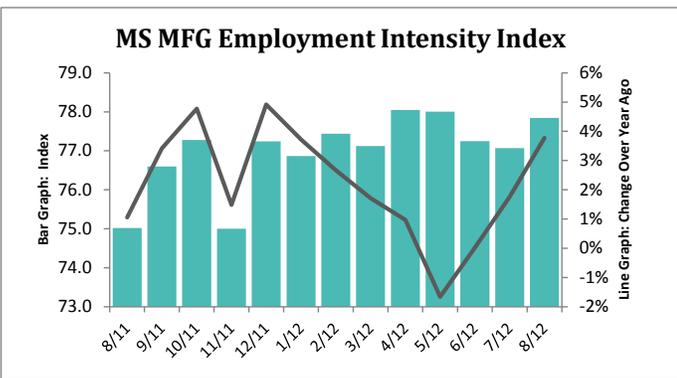
Source: Mississippi Department of Revenue



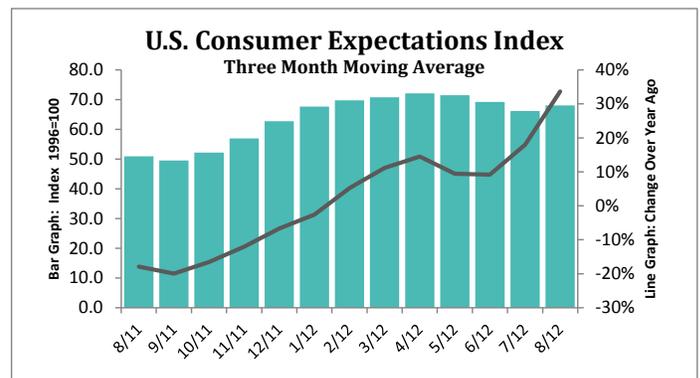
Source: Bureau of the Census



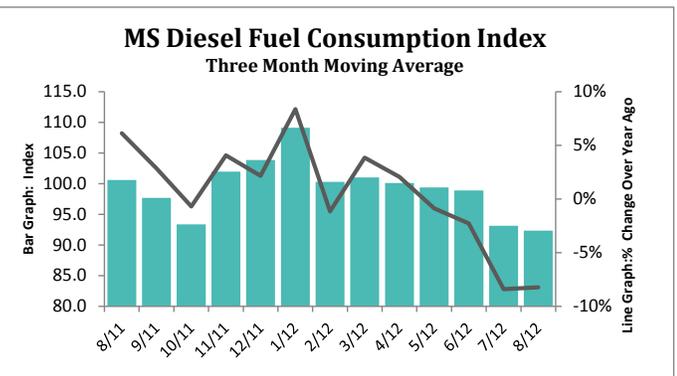
Source: Institute For Supply Management



Source: URC using data from Bureau of Labor Statistics



Source: University Of Michigan



Source: URC using Data from Mississippi Department of Revenue



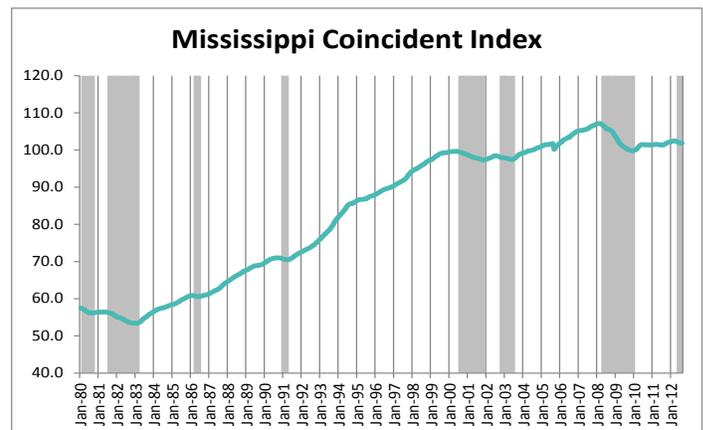
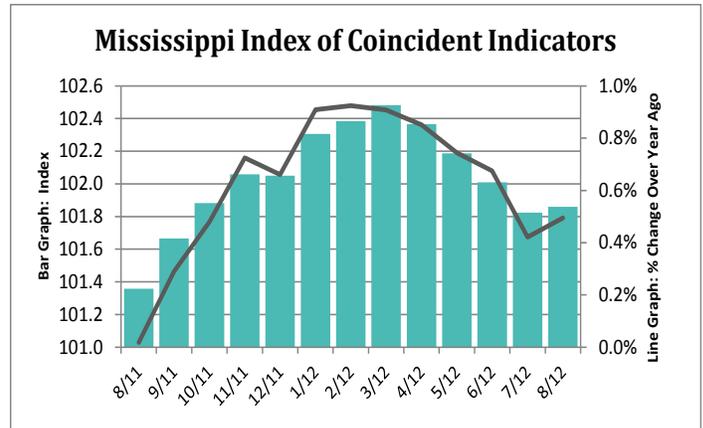
Source: Bureau of the Census

The **Mississippi Index of Coincident Indicators** was 101.9 in August, up a slight 0.1 percent from the July index. The gain followed a four month decline and supports the idea that the economy improved in the third quarter relative to the second. This conclusion is also supported by the August gains in the Mississippi Leading Index. Previously we have said the State slipped into recession. If the index continues to expand, that recession will have proven short-lived and relatively mild.

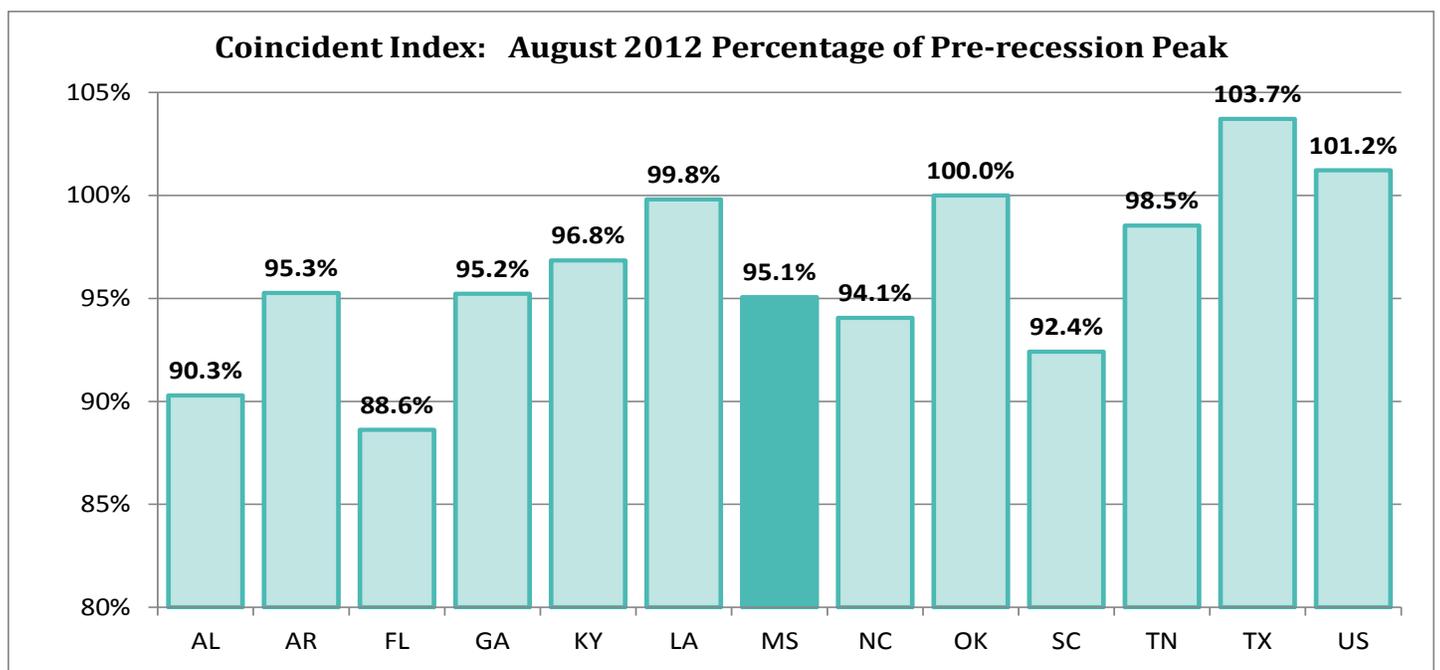
As a reminder, we are using as the threshold for recession a three-month decline in the index with a cumulative decline of 0.5 percent. A decline of this magnitude is rare in the State's history and is suggestive of a serious decline in the State's economy. The graph to the right shows the historical index with the State recessions identified.

The figure below 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, Georgia Kentucky, Louisiana, Oklahoma, Tennessee and Texas are ahead of Mississippi. As noted in previous issues, Mississippi's relative flat performance in 2011 and the declining pattern observed in 2012 has enabled other states to move ahead.

The Map on page 5 shows the August index for each



state compared to the level three months prior. Mississippi fell 0.3 percent while the Nation as a whole gained at a 0.5 percent rate.



National Trends

The U.S. Index of Leading Indicators fell 0.1 percent in August relative to July while the Coincident Indicators rose 0.1 percent. The Leading Index appears to be fluctuating around a flat trend. Conference Board economists Ken Goldstein said “The economy continues to be buffeted by strong headwinds domestically and internationally. As a result, the pace of growth is unlikely to change much in the coming months. Weak domestic demand continues to be a major drag on the economy.”

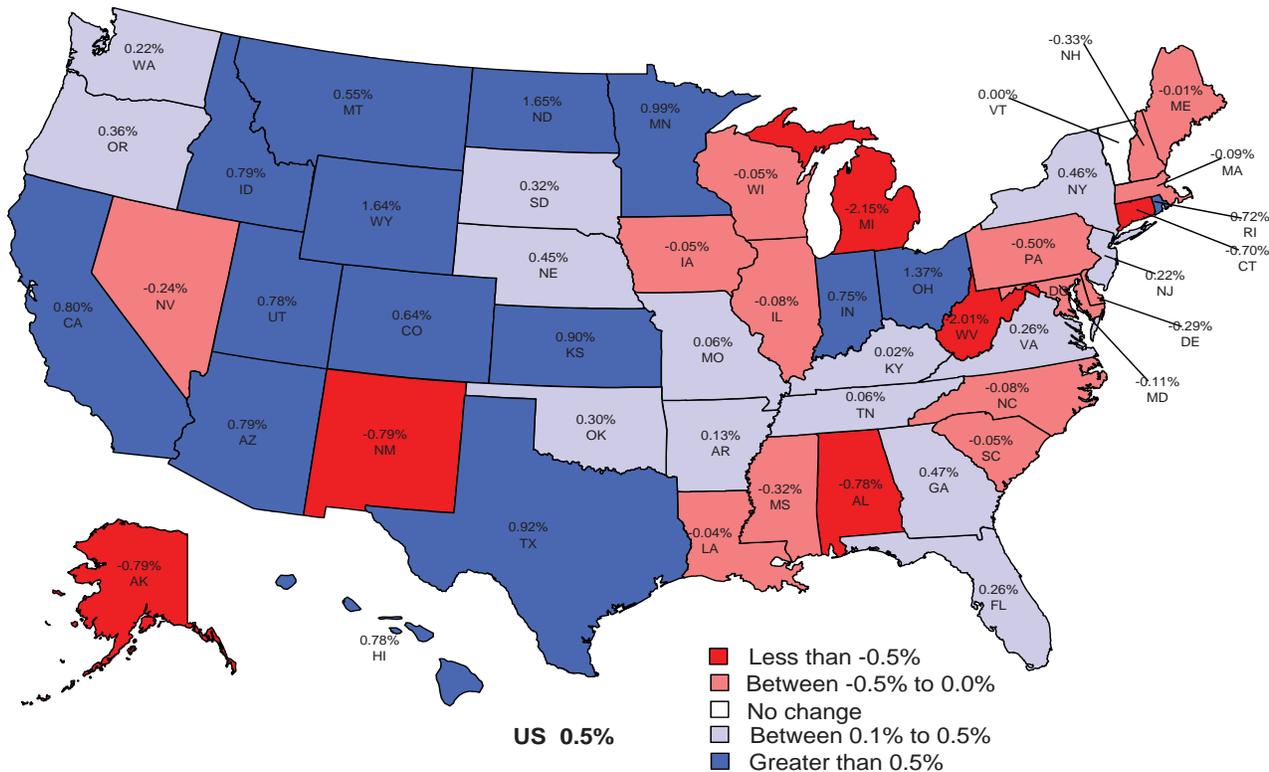
IHS Global Insight sees the economy growing at 1.5 percent for the remainder of the year. They give the probability of recession as 20 percent, unchanged from previous months. Exports and business investment are contributing less to growth and employment growth remains weak. Exports are dampened by the lingering threat surrounding the Eurozone and a slower Chinese economy. Employment gains in the third quarter were

better on average than the second, but well below that observed in the first.

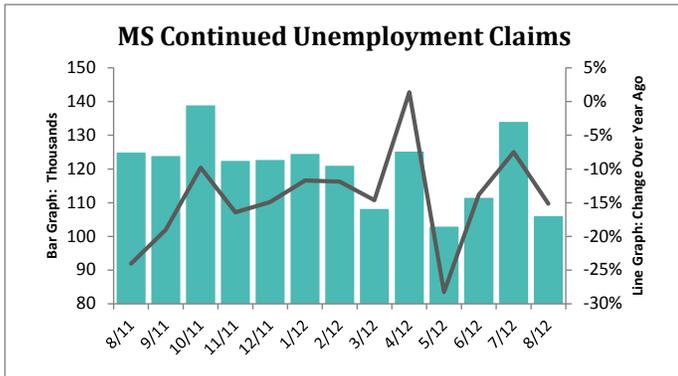
Vehicle sales and housing remain the brightest spots in this economy. IHS Global insight expects these two industries to drive growth in 2014 and 2015. They expect 2013 to be overshadowed with a fog of uncertainty surrounding the fiscal cliff.

The policy uncertainty surrounding the fiscal cliff is likely to be with us through the spring. While it is not believed that we will actually experience the drastic spending cuts and tax increases that are currently on the table, a long-term solution does not appear to be coming any time soon. Regardless of who wins the November elections, dealing with the problem will likely be shifted into the spring. The uncertainty this creates in the economy will only continue to dampen growth.

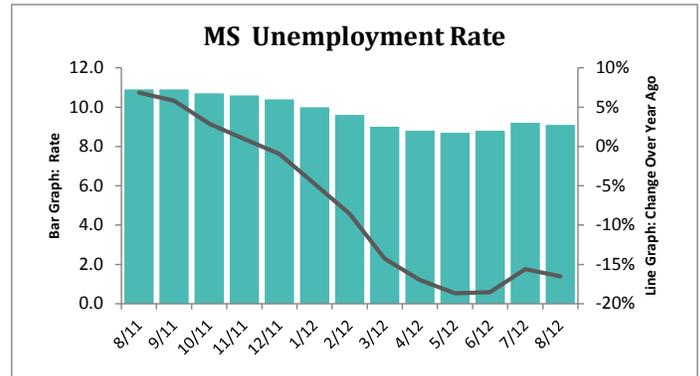
Three Month Growth in The Index of Coincident Economic Indicators, August 2012



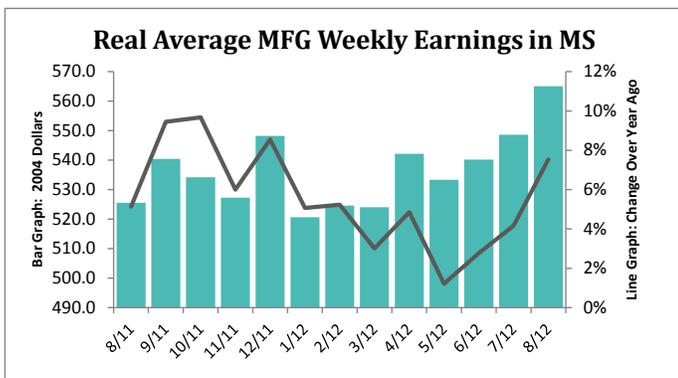
MISCELLANEOUS ECONOMIC INDICATORS



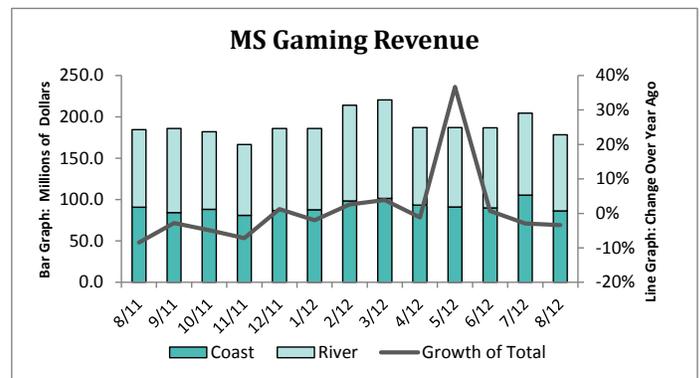
Source: Mississippi Department of Employment Security; Seasonally Adjusted



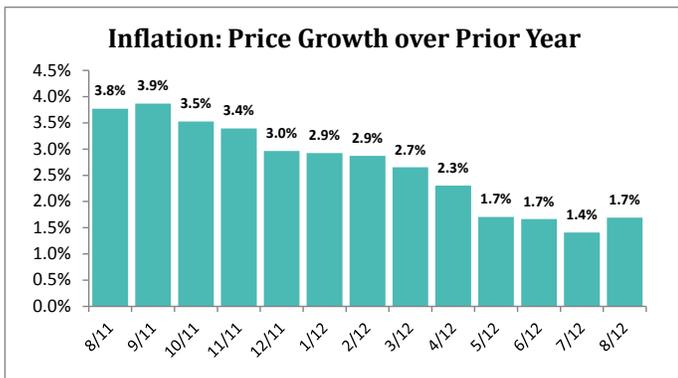
Source: U.S. Bureau of Labor Statistics; Seasonally Adjusted



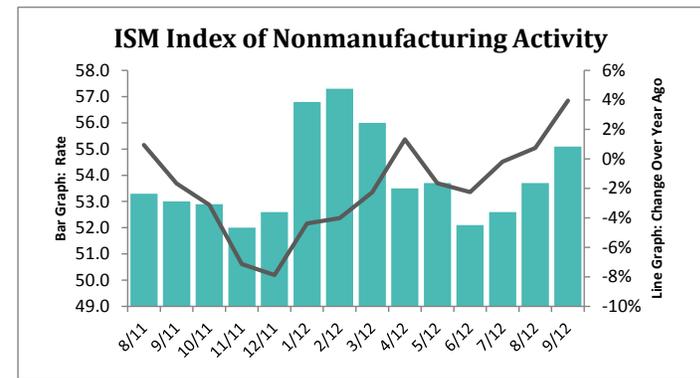
Source: U.S. Bureau of Labor Statistics; Nonseasonally Adjusted



Source: MS Department of Revenue; Nonseasonally Adjusted



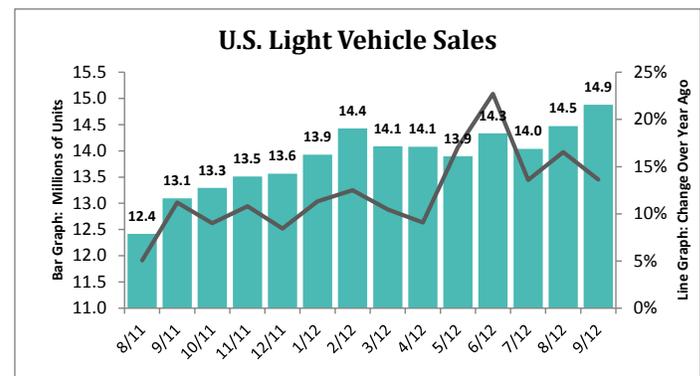
Source: U.S. Bureau of Labor Statistics



Source: Institute For Supply Management



Source: National Federation of Independent Businesses



Source: Bureau of Economic Analysis; Seasonally Adjusted Annual Rate

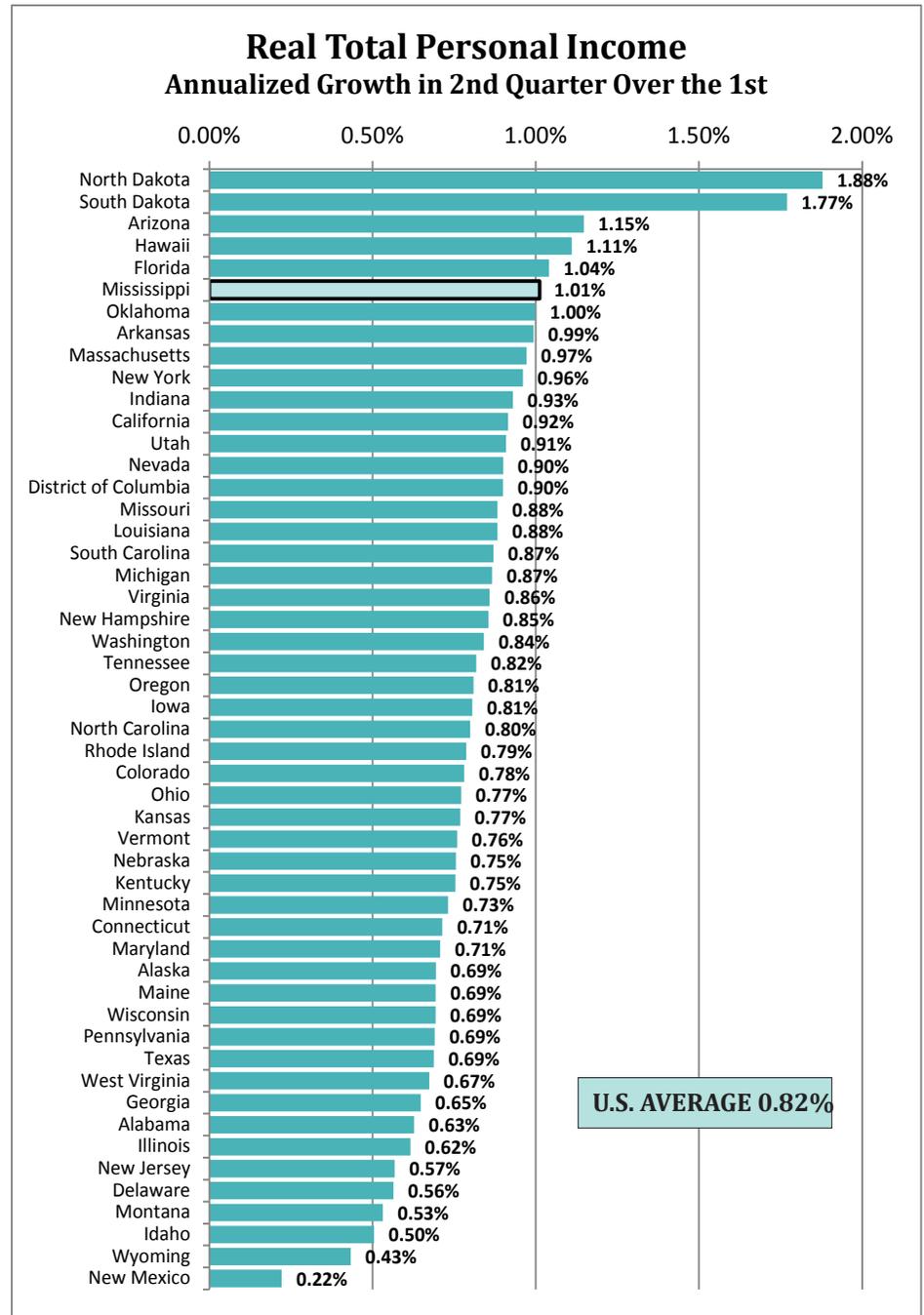
MISSISSIPPI INCOME GROWTH

Recently released data from the Bureau of Economic Analysis (BEA) shows Mississippi had the 6th largest gain in total personal income for the second quarter relative to the first (see figure to the right). The State's real income rose an annualized 1.0 percent for the quarter, compared to the U.S. average of 0.8 percent.

The latest release also included an astounding upward revision to the first quarter growth. Previously, the BEA showed Mississippi's income fell 1.1 percent in the first quarter. The revised data shows the State with 0.4 percent gain for the quarter.

The second quarter growth is surprisingly strong given our own view that the State probably fell into recession during that period. Gains in farm proprietor's income accounted for over 20.0 percent of the total increase. Without this source of income, Mississippi would be ranked 29th instead of 6th in income growth. It is remarkable that a source which represents only 1.0 percent of the total income, could account for over 20.0 percent of the increase. Farm income was the fastest growing source of income for the quarter.

Wage and salary disbursements, which is that portion of income most closely associated with paychecks, rose 2.0 percent in Mississippi. This compares to 2.5 percent Nationally and 2.6 percent among the Southeast States. Mississippi ranked 36th among the fifty states.



Furthermore, Mississippi's second quarter growth was noticeably slower than the 3.9 percent observed in the first quarter.

For the first half of 2012, incomes grew 0.3 percent above the year ago level. Incomes grew 0.9 percent in calendar year 2011, and

1.6 percent in 2010. Mississippi income growth in 2012, was less than half the 0.7 percent rate observed Nationally. The southeast region grew 0.6 percent. Income growth for 2012 is historically low Nationally and regionally.

SELECTED ECONOMIC INDICATORS

Indicator	August	July	August	Change from		
	2012	2012	2011	Last Month	Last Year	
US Index of Coincident Indicators Index 2004=100, Source: The Conference Board	104.7	104.6	102.2	0.1%	2.4%	Economic Indices
MS Index of Coincident Indicators Index 2004=100, Source: Federal Reserve Bank of Philadelphia	101.9	101.8	101.4	0.1%	0.5%	
US Index of Leading Indicators Index 2004=100, Source: The Conference Board	95.7	95.8	93.7	-0.1%	2.1%	
MS Index of Leading Indicators Index 2004=100, Source: University Research Center	98.5	96.7	92.1	1.9%	6.9%	
MS Initial Unemployment Claims Source: Mississippi Department of Employment Security	11,496	12,125	13,217	-5.2%	-13.0%	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	56.6	55.4	41.4	2.1%	36.9%	
MS Income Tax Withholdings 3 Mo. Moving Average, Millions of 2004 Dollars, Source: MS Department of Revenue	106.26	102.71	100.97	3.5%	5.2%	
MS MFG Emp. Intensity Index Average workweek length times employment, Indexed 2004 =100, Source: URC using data from Bureau of Labor Statistics	77.8	77.1	75.0	1.0%	3.8%	
MS Diesel Fuel Consumption Index 3 Mo. Moving Average, Index 2004-100, Source: URC using data from MS Department of Revenue	92.3	93.1	100.6	-0.9%	-8.2%	
US Index of Consumer Expectations 3 Mo. Moving Average, Index 1996=100, Source: University of Michigan	68.1	66.2	50.9	2.9%	33.6%	
US ISM Index of MFG Activity Advanced 1 Month (June Index appears as May), Source: Institute For Supply Management	51.5	49.6	50.6	3.8%	1.8%	
US Retail Sales Millions of Dollars, Source: Bureau of Census	406,748	403,176	388,595	0.9%	4.7%	
US Consumer Price Index 2004=100, Source: URC using data from Bureau of Labor Statistics	122.0	121.3	119.9	0.6%	1.7%	
MS Unemployment Rate Source: Bureau of Labor Statistics	9.1%	9.2%	10.9%	-0.1%	-1.8%	
MS Continued Unemp. Claims Source: Mississippi Department of Employment Security	105,947	133,934	124,879	-20.9%	-15.2%	Miscellaneous Indicators
US Mortgage Rates 30 Yr. Conventional, Source: Federal Reserve	3.6%	3.5%	4.3%	0.1%	-0.6%	
MS Avg. Hourly Wage for MFG Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	53.70	52.60	53.30	2.1%	0.8%	
MS Avg. Wkly Earnings for MFG Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	565.1	548.6	525.5	3.0%	7.5%	
Gaming Revenue	178.4	204.5	184.7	-12.8%	-3.4%	
Coast Counties	86.3	105.4	90.9	-18.1%	-5.0%	
River Counties	92.1	99.1	93.8	-7.0%	-1.9%	
Nonseasonally adjusted, Millions of Dollars, Source: MS Department of Revenue						
Business Optimism Index Index 1986=100, Source: National Federation of Independent Businesses	92.9	91.2	88.1	1.9%	5.4%	

MISSISSIPPI EMPLOYMENT BY SECTOR

Sector	Relative Share of Total*	Employment Level			Change from Prior Month		Change from Prior Year	
		August 2012	July 2012	August 2011	Level	%	Level	%
Total Nonfarm	100.0%	1,081,500	1,083,300	1,085,700	(1,800)	-0.2%	(4,200)	-0.4%
Mining and Logging	0.9%	9,300	9,200	9,100	100	1.1%	200	2.2%
Construction	4.3%	44,700	43,500	48,800	1,200	2.8%	(4,100)	-8.4%
Manufacturing	12.4%	136,400	136,700	132,500	(300)	-0.2%	3,900	2.9%
Trade, Transportation & Utilities	19.6%	212,700	213,600	213,000	(900)	-0.4%	(300)	-0.1%
Retail Trade	12.1%	129,700	130,800	131,900	(1,100)	-0.8%	(2,200)	-1.7%
Information	1.1%	11,721	11,848	11,818	(127)	-1.1%	(97)	-0.8%
Financial Activities	4.1%	44,113	44,038	45,014	75	0.2%	(901)	-2.0%
Services	35.0%	380,000	381,700	379,800	(1,700)	-0.4%	200	0.1%
Professional and Business Services	8.5%	90,700	92,300	92,500	(1,600)	-1.7%	(1,800)	-1.9%
Education and Health Services	12.6%	136,900	136,500	135,700	400	0.3%	1,200	0.9%
Leisure and Hospitality	10.7%	118,500	118,100	117,100	400	0.3%	1,400	1.2%
Other Services	3.2%	33,900	34,800	34,500	(900)	-2.6%	(600)	-1.7%
Government	22.6%	242,600	242,800	245,700	(200)	-0.1%	(3,100)	-1.3%

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

Source: U.S. Bureau of Labor Statistics

Mississippi Employment Trends

Mississippi continued to lose employment in August. The August decline of 1,800 jobs marks the fourth consecutive monthly decline. Employment has been below the year ago for six consecutive months.

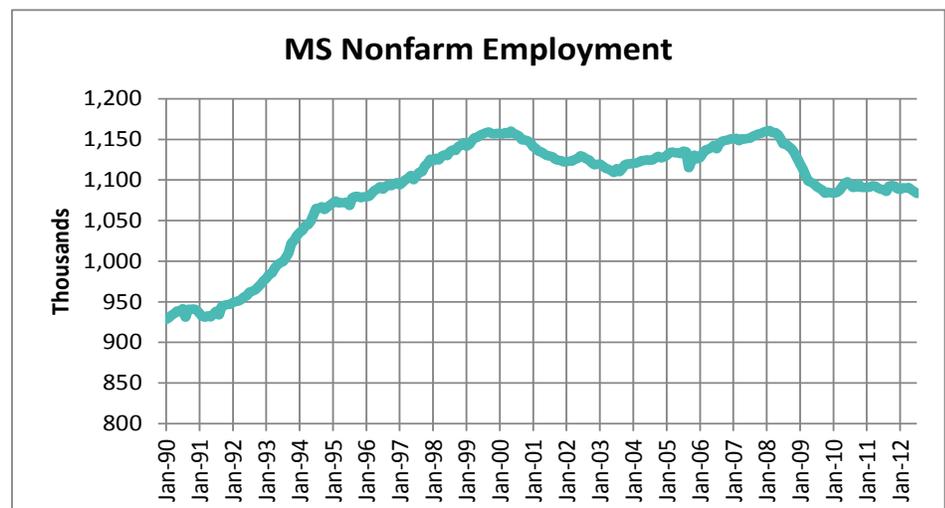
Through August, 2012 employment was 0.2 percent below the same period in 2011. Mississippi has not gained in employment, on an annual basis, since 2007.

For August, the largest declines were in professional and business services and retail trade. Gains were observed in education and health services as well as leisure and hospitality.

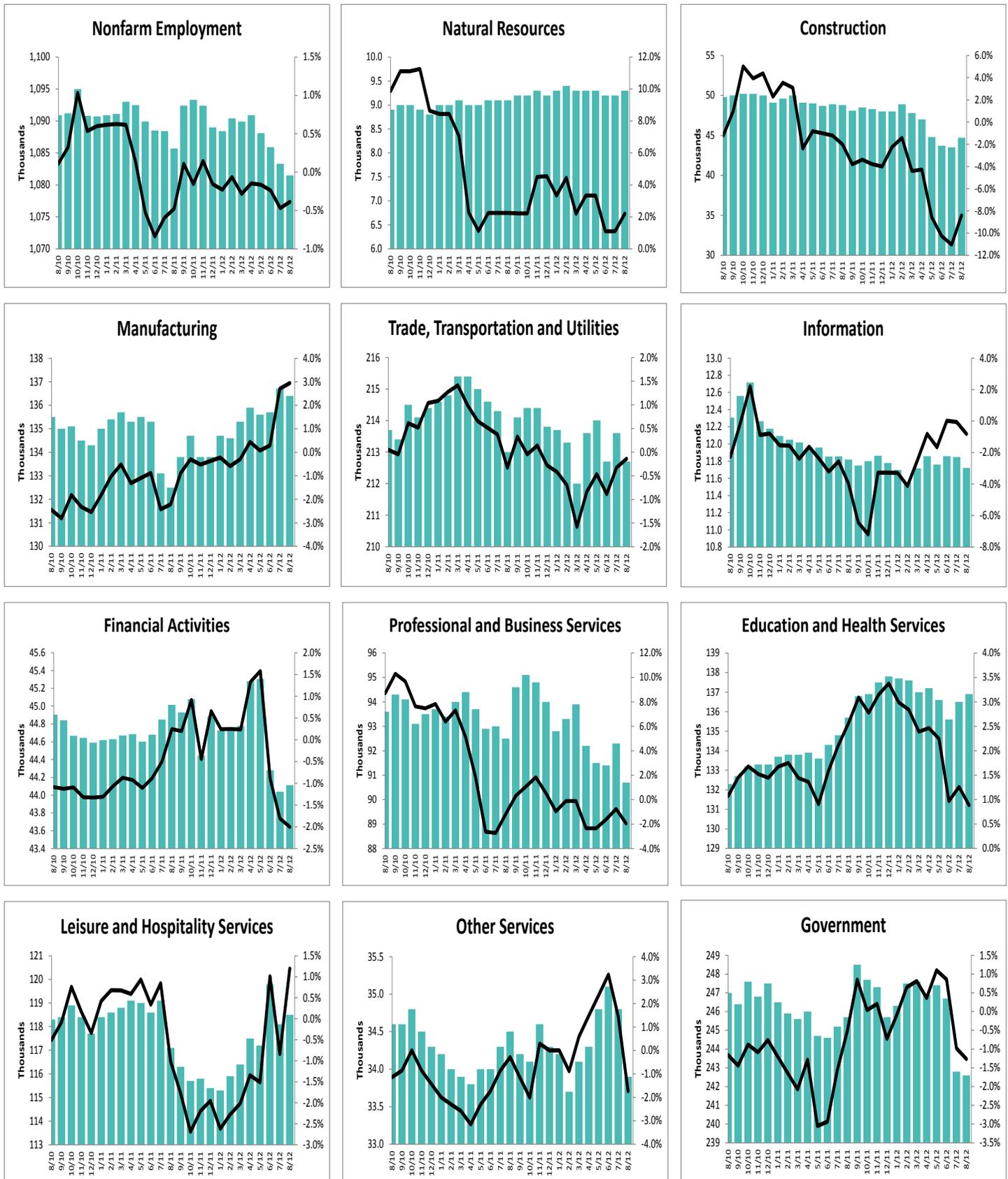
Perhaps most notable is the 1,200 jobs gained in construction. This sector has experienced tremen-

dous declines in the past few years and remains at an historical low. With a strengthening housing sector and low interest rates, perhaps this sector will see gains in the future.

The Figure below shows the historical trend in employment. The anemic recovery is obvious. The State has essentially bumped along a flat trend until 2012 when the meager gains observed since the beginning of the recovery have eroded. The State's employment level in August was the lowest since February 1996. The data are subject to revisions, but it seems unlikely this overall trend will change substantially with revised data.



MISSISSIPPI EMPLOYMENT TRENDS



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