MISSISSIPPI'S BUSINESS

Center For Policy Research and Planning

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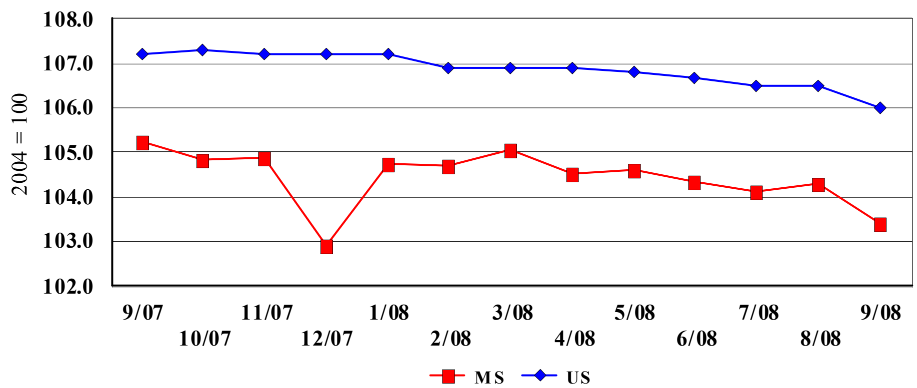
ECONOMY AT A GLANCE

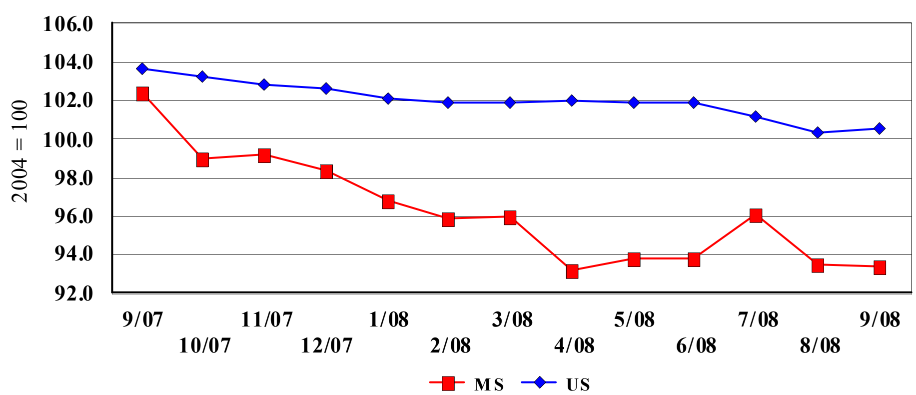
The Mississippi Index of Coincident Indicators fell sharply in September relative to August. The growth relative to the level six months prior is the lowest since 2001. Employment in the state is falling dramatically. The unemployment rate is the highest since 1992 and climbing. While no official definition of a state recession exists, it seems clear the state's economy is contracting. The leading indicators offer little indication of a near term turn around. The only real bright spot among the indicators is the manufacturing workweek which has trended upward since April.

The national economy appears to be in a recession, although the agency responsible for dating recessions has yet to make that pronouncement. It seems to be a question of when the recession began rather than whether or not we are in a recession. We expect this recession to be considerably worse than either the 2001 or 1991 recessions. The most likely comparison is the recession of the early 1980s. Risk is growing that it could be even worse. Declining oil prices are helping consumers and another stimulus package is in the works. The large influx of liquidity into the system will help recovery as well. The Fed has been very responsive and another rate cut is highly likely.

Index of Coincident Indicators



Index of Leading Indicators



MISSISSIPPI'S BUSINESS

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Coincident Index

The Mississippi Index of Coincident Economic Indicators fell 0.9 percent in September relative to August to a level of 103.4. This was the steepest monthly decline since December 2007. The Index was an annualized 3.2 percent below the level six months prior in September; the steepest six month decline since March 2001. All three of the components of this index contributed to the monthly decline.

Nonagricultural employment declined 0.3 percent or slightly more than 4,000 jobs in September relative to August. This was the largest monthly decline since July 2007. The state has lost employment every month except January since November 2007. Since January, 2008 the state has lost over 16,000 jobs or 1.4 percent of the total. This precipitous decline rivals that observed in 2001, in which the state lost 1.5 percent of its jobs between January and September.

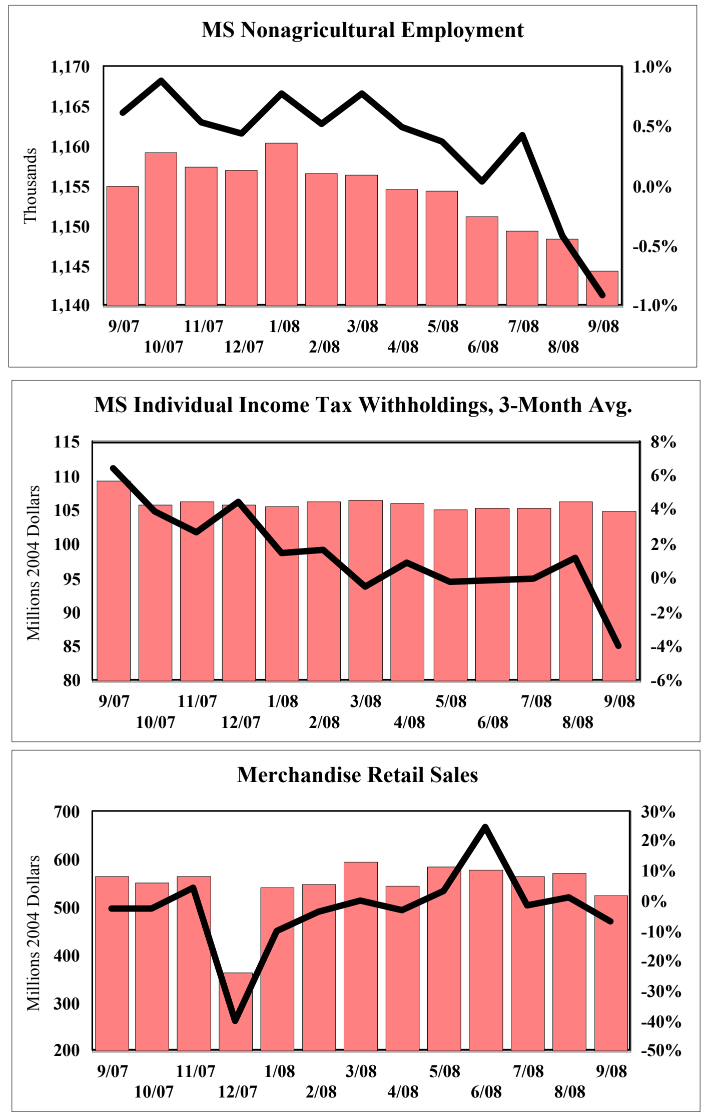
The graphs on page 4 show that many sectors have been trending downward in seasonally adjusted employment. The major sectors have experienced the largest percentage declines. Manufacturing has declined 2.4 percent between January and September. Construction has declined 2.9 percent for the same period. Retail trade has declined 1.0 percent. The largest percentage decline occurred in the leisure and hospitality industry which lost 4.4 percent. Government employment has fallen 2.2 percent, the bulk of which was due to local government employment declines. The government declines have occurred in recent months; government employment had been relatively stable through July.

The three-month average of individual income tax withholdings was down 1.3 percent in September relative to August after correcting for inflation. The decline erased the gain made in August. In September, the series was 0.5 percent below the January level. Comparing the first nine months of 2008 to that of 2007, withholdings are up a negligible 0.04 percent. In 2007 over 2006, the growth was 5.0 percent.

Inflation adjusted merchandise retail sales were down 8.3 percent in September relative to August. For the first nine months of 2008, merchandise sales are essentially flat with the level of 2007. Total retail sales declined 3.3 percent for the same period. Merchandise retail sales are from department stores.

After a substantial increase in sales following Katrina, growth has slowed. The graphs on the bottom of page 3 show both total and merchandise retail sales by quarter,

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.

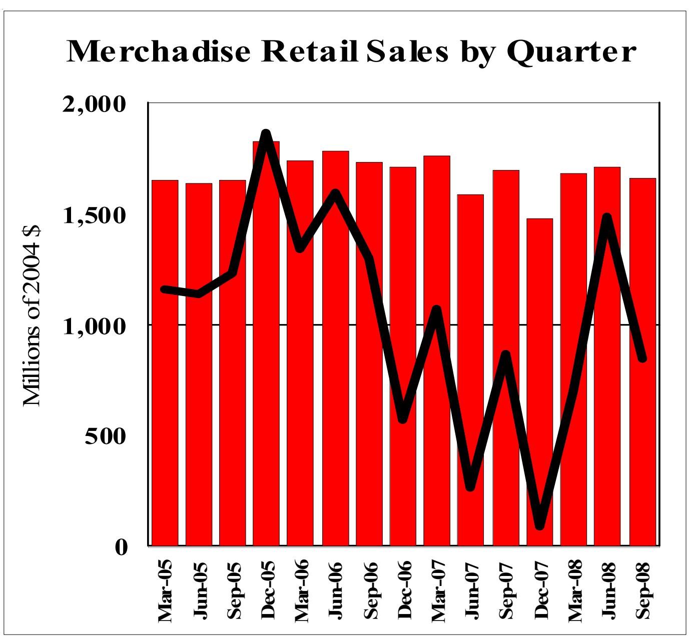
Mississppi Employment By Sector
Seasonally Adjusted

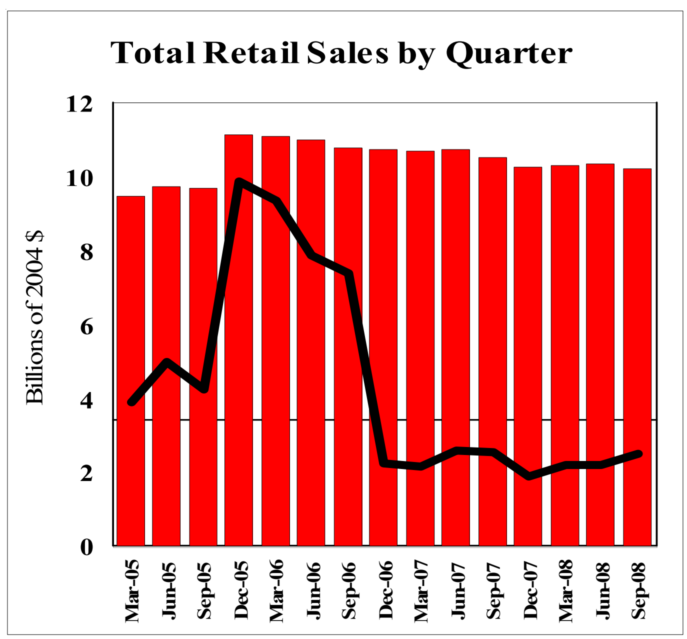
	September 2008	August 2008	September 2007	Change from Prior Month Jobs	%	Change from Prior Year Jobs	%
Nonfarm	1,144,419	1,148,433	1,154,933	-4,014	-0.3%	-10,514	-0.9%
Natural Resources	9,944	9,791	9,538	152	1.6%	406	4.3%
Construction	57,530	58,063	58,242	-534	-0.9%	-713	-1.2%
Manufacturing	162,899	163,414	169,462	-515	-0.3%	-6,563	-3.9%
Trade, Transportation and Utilities	227,141	227,337	227,550	-196	-0.1%	-409	-0.2%
Retail	140,996	141,149	141,944	-153	-0.1%	-948	-0.7%
Information	13,277	13,171	13,372	106	0.8%	-95	-0.7%
Financial Activities	46,898	46,555	46,886	343	0.7%	12	0.0%
Services	385,039	386,550	385,255	-1,511	-0.4%	-216	-0.1%
Professional and Business Services	96,317	96,783	95,760	-466	-0.5%	557	0.6%
Education and Health Services	127,900	128,945	126,560	-1,045	-0.8%	1,340	1.1%
Leasure and Hospitality	123,000	123,634	125,734	-634	-0.5%	-2,733	-2.2%
Other Services	37,822	37,189	37,201	633	1.7%	620	1.7%
Total Government	241,704	243,527	244,687	-1,823	-0.7%	-2,983	-1.2%
Federal Government	25,781	25,985	25,977	-204	-0.8%	-196	-0.8%
State Government	59,019	58,855	59,298	164	0.3%	-279	-0.5%
Local Government	156,544	158,417	159,061	-1,873	-1.2%	-2,517	-1.6%

along with the quarterly growth over the prior year. Total retail sales growth has been negative every quarter since December 2006. Notice however, that despite the decline, the level of total retail sales remained above the pre-Katrina level through the third quarter of 2008. Merchandise retail sales have been below the year ago level for six out of the last eight quarters. In the second quarter of 2008, merchandise retail sales were 7.4 percent above the year ago level. This spike was likely the result of the economic stimulus package.

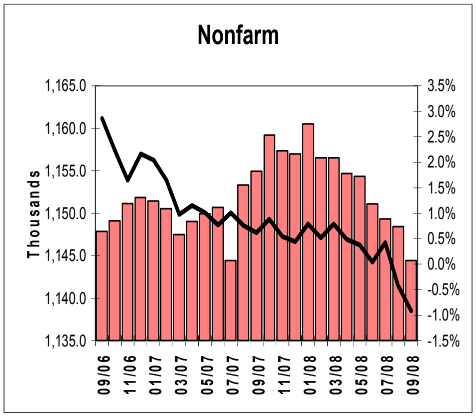
Leading Indicators

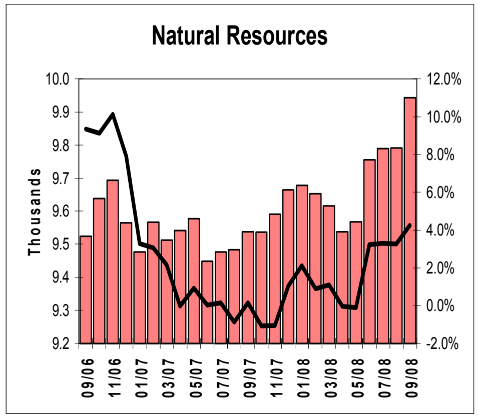
The Mississippi Index of Leading Economic Indicators was 93.4 in September, 0.1 percent below the August level and 8.9 percent below the year ago level. The monthly decline is small. After a dramatic decline between July 2007 and April 2008, the index

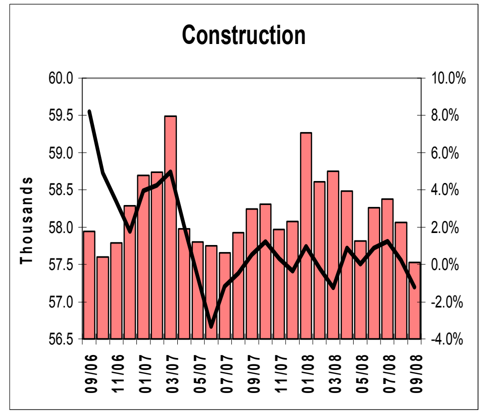


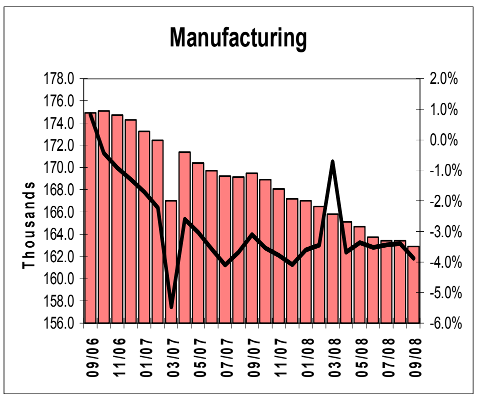


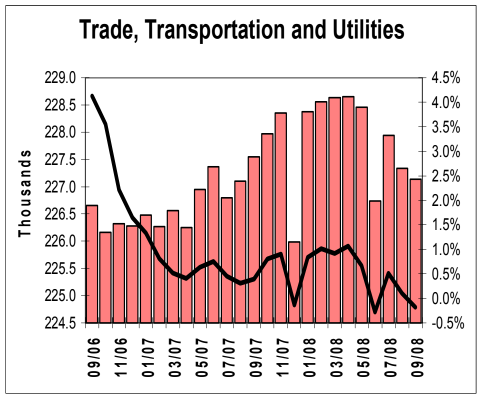
Mississippi Employment Trends

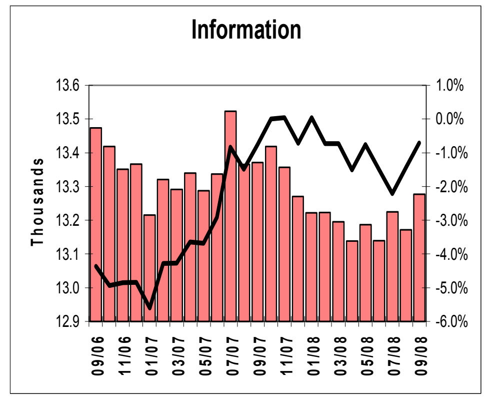


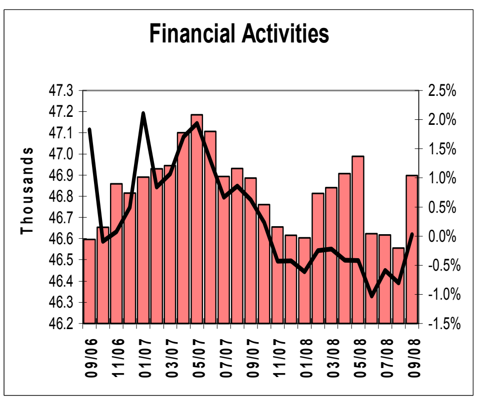


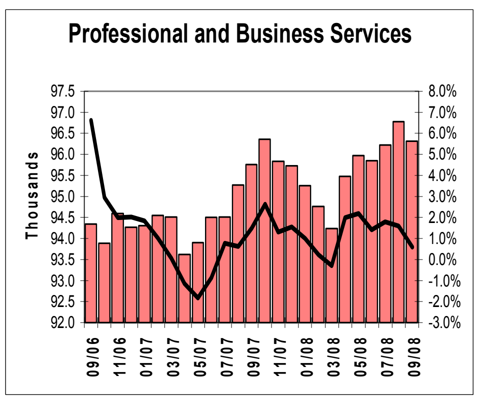


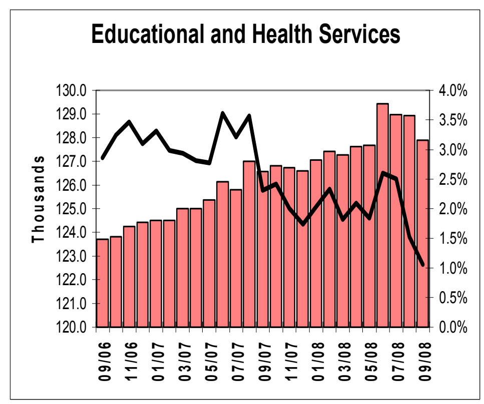


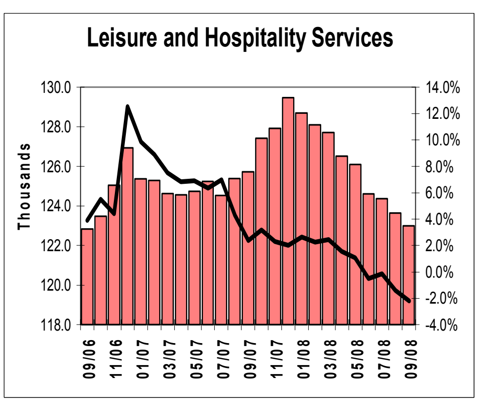


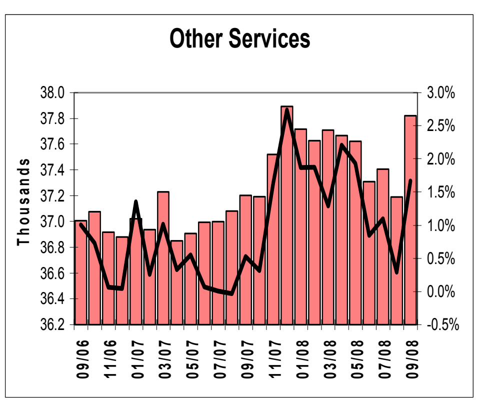


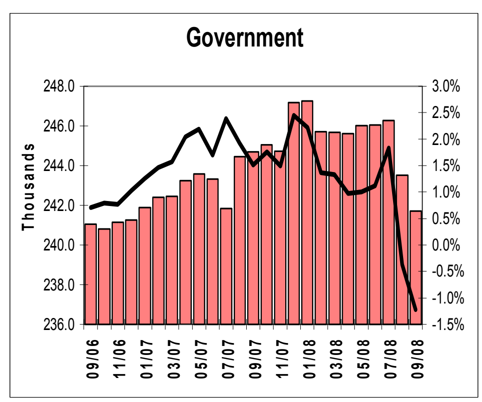












Note: The Bar Graphs above represent seasonally adjusted monthly employment and correspond to the left-hand axis. The line graphs represent the growth over the prior year's value and correspond to the right-hand axis.

Source: Department of Mississippi Employment Security and IHL.

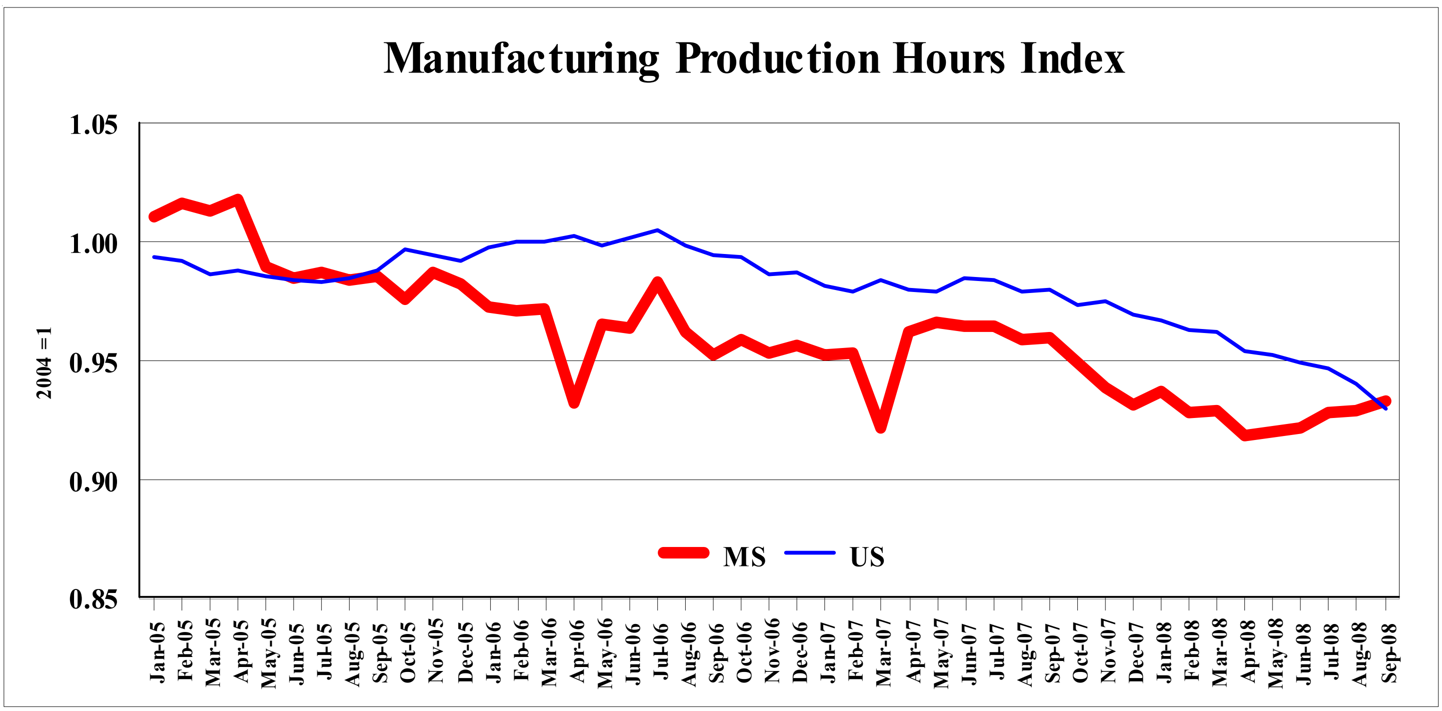
has been relatively flat for four of the last five months. The one exception has been a spike which occurred in July. With this one exception, the index appears to be in the bottom of an U shape, awaiting the upward turn. The evidence for upward tendency in the index is sparse, but does exist to give fuel to the optimists fire. Three out of the five components contributed positively to the September index.

Interestingly, the value of residential building permits rose 8.7 percent in September relative to August. The increase is small for this volatile series. The series remained a strong 37.2 percent below the year ago. Permit values have fallen every month except one since May 2007.

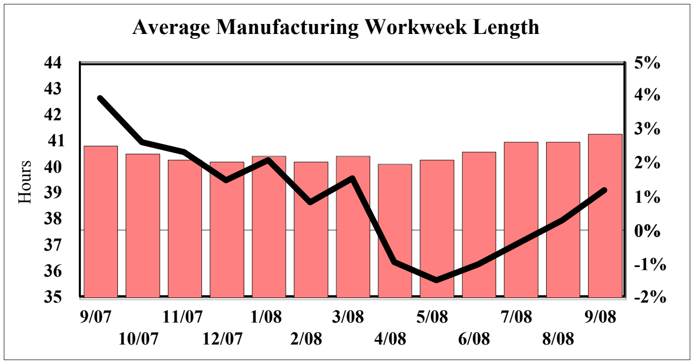
The U.S. Index of Consumer Expectations rose 16.1 percent in September relative to August. The increase was likely driven by declining gasoline prices. Since September, the series has declined, probably due to the abundant negative financial news.

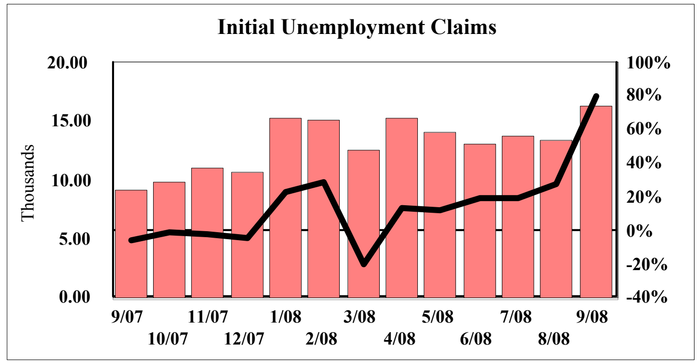
The brightest news among the leading indicators is found in the Mississippi Manufacturing workweek length. This series increased to a strong 41.3 hours in September, the longest workweek since June 2002. Furthermore, the series has been trending upward since hitting a low in April 2008. To be sure the series could just as quickly turn down, but it is a welcomed sign for those looking for something positive in the economy. An upward move in the manufacturing workweek length suggest that employers face growing demand for their product. Fueled by the increased overtime, average weekly earnings have been rising as well. During this same period, employment has continued to fall, but less dramatically than in the past. By multiplying the average workweek length by the manufacturing employment, a measure of total manufacturing production hours is obtained. The Figure below depicts this measure for both Mississippi and the US. Notice that since April, the Mississippi index has risen modestly while the national index has continued to fall.

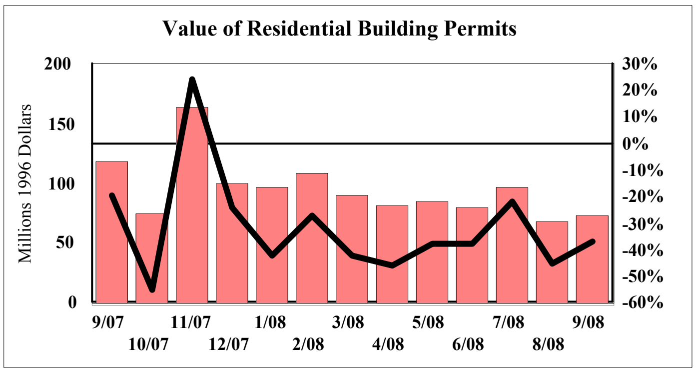
In contrast to the Mississippi hours data, the Institute for Supply Management (ISM) Index of U.S. Manufacturing Activity paints a bleak picture for manufacturing. The ISM index fell to 38.9 in October. This is the lowest level since the early 1980s. Manufacturers faced restrictive credit which led to many cutting employment and production. The free-fall of this index demonstrates the manner in which the financial crisis is spreading to

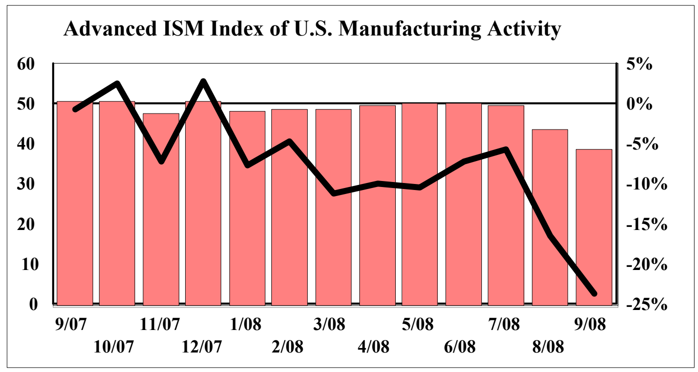


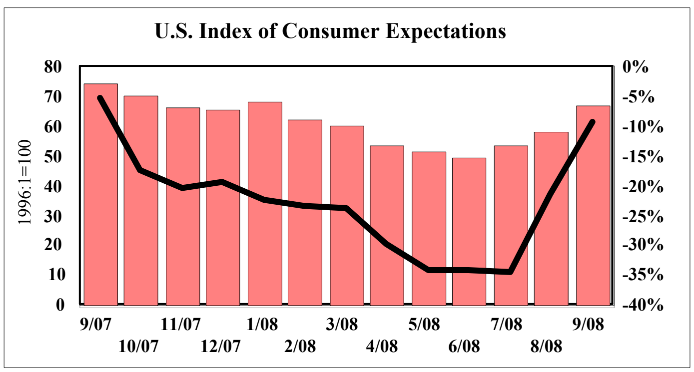
Mississippi Index of Leading Indicator Components











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 rest of the economy. It is difficult to reconcile the upward trend in production hours among Mississippi manufacturers and the dramatic downward trend of the ISM index. We will continue to explore this issue.

Mississippi initial unemployment claims rose 21.8 percent in September relative to August. The increase was relatively large for this series and represents almost 3,000 additional claims for the month. Relative to the year ago the initial claims were up 80.8 percent or 7,328 more claims in September 2008 than in September 2007. Continued claims have trended up as well and were above the year ago level by 48,786 claims or 12.8 percent. The unemployment rate has been elevated since May. In September the unemployment rate was 7.8 percent. With the exception of the immediate months following Katrina, this was the highest level since October 1992.

The unemployment rate is not generally a good indication of the strength or weakness of the economy. Often in downturns, the unemployment rate will remain artificially low due to discouraged workers leaving the workforce. Conversely, in periods of prosperity, many will return to the workforce in anticipation of finding a job and actually push the unemployment rate artificially higher. As a recent example despite a sluggish economy between 2000 and 2003, Mississippi unemployment never got above 7.0 percent. Between June 2000 and June 2001, the civilian labor force fell dramatically in Mississippi. However while employment has generally declined since November 2007 the civilian labor force remained on an upward trend until May 2008. Since May, the labor force has contracted, but mildly. Because the current downturn is relatively severe and because consumer credit has become tighter, the pressure to find a job may be greater than in the past. As a result, people may continue to look for a job longer than they otherwise would. This will push unemployment higher and may explain in part the 7.8 percent unemployment rate observed in September.

U.S. Economy

The U.S. Index of Coincident Indicators declined 0.5 percent in September relative to August. This was a sharp decline and reflects the weakness of the national economy. A leading factor in the decline was steep declines in industrial production and employment. The six-month growth rate was an annualized decline of 1.7 percent in September The U.S. Index of Leading Indicators increased a slight 0.3 percent. This was the first increase in five months. The six-month growth rate was annualized decline of 2.5 percent in September. The index has been on a downward trend since July 2007. These indices suggest the economy will not soon improve.

The financial crisis is deepening and spreading to other parts of the economy. Households, business and state and local governments are facing tighter credit conditions. Credit is the oil that lubricates the economic machine. Without it, much of the economy slows or stops all together.

The stock market has been volatile, but has trended downward reflecting worries over the future. The Dow Jones is currently below 8,000. The S&P and the Nasdaq have fallen as well. In fact all three fell to their lowest level in five and one half years this week.

Housing starts and prices continue to fall. This sector continues to serve as a drag on the rest of the economy, though the problems are beyond housing now. With the weakness in the rest of the economy, some experts do not expect the housing industry to hit bottom until mid 2009.

Consumers are scaling back purchases dramatically. Real consumption declined 3.1 percent in the third quarter. This was the sharpest decline in 28 years. A similar decline is expected for the fourth quarter. Consumers are getting relief from declining oil prices however. Another stimulus package may put checks in the mail as well. The last checks gave a short boost to the economy, but did not change the trajectory.

With the world economy slowing, exports are now falling. It was only a few months ago we were pointing to exports as the lone bright spot in this economy. The dollar is rising in value as investors look for safety. The effect of this rise is to dull the competitive advantage of U.S. producers which was helping to fuel export demand.

Inflation is no longer a problem. In fact the concern now is for deflation -- the falling of prices. The CPI peaked at 5.6 percent annual growth in July. It is expected to continue to decline perhaps going negative by the third quarter of 2009.

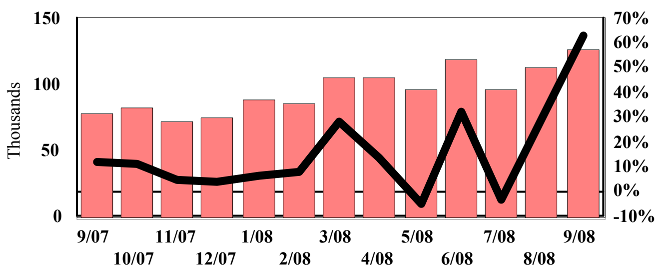
That the U.S. is in a recession is undeniable. What is yet to be determined by the experts is when it began. We expect it to be a deep recession similar to that observed in the early 80s.

Quips and Quotes:

"It's a recession when your neigbor loses his job; It's a depression when you lose yours." -- Harry Truman

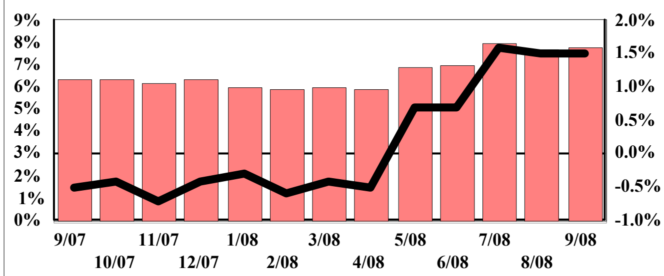
Miscellaneous Economic Indicators

Continued Unemployment Claims



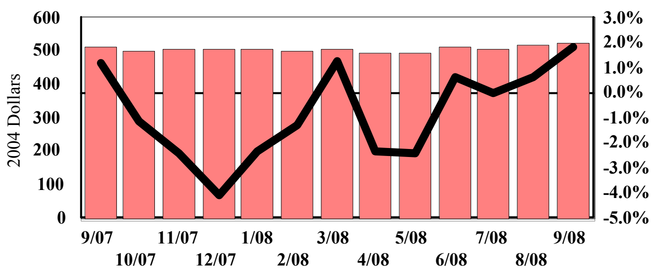
Seasonally adjusted

Unemployment Rate



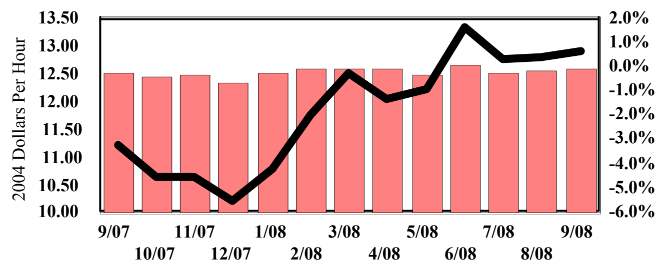
Seasonally Adjusted

Real Average Weekly Manufacturing Earnings



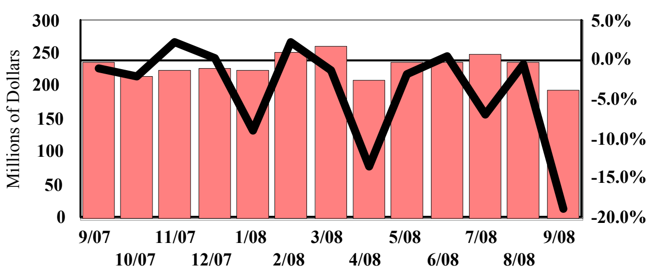
Non-seasonally Adjusted

Real Average Hourly Manufacturing Wage



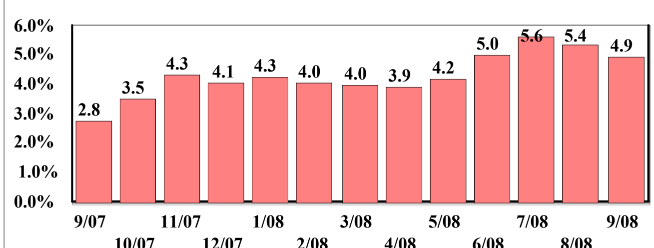
Non-seasonally Adjusted

Gaming Revenue



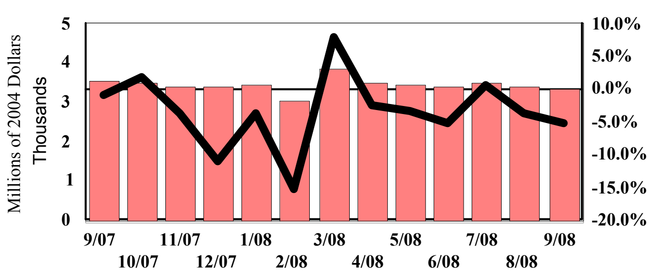
Non-seasonally Adjusted

Inflation Over Prior Year



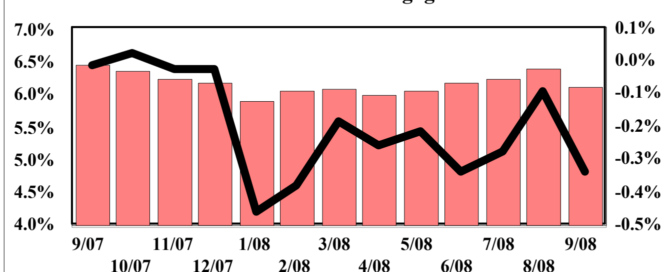
Non-seasonally Adjusted
Inflation Based on CPI

Total Retail Sales



Seasonally Adjusted

Conventional 30-Year Mortgage Rates



Seasonally Adjusted

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

	September 2008	August 2008	August 2006	Percent Change From Last Month	Percent Change From Last Year
Coincident Indicator Index (2004=100)	**103.4**	**104.3**	**105.2**	**-0.9%**	**-1.7%**
Nonagricultural Employment (thousands)	1,144.4	1,148.4	1,154.9	-0.3%	-0.9%
Individual Income Tax Withholdings, 3-Month Average (millions of 2004 $)	104.9	106.3	109.2	-1.3%	-4.0%
Merchandise Retail Sales (millions of 2004 $)	524.5	571.1	564.1	-8.2%	-7.0%
Leading Indicator Index (2004=100)	**93.4**	**93.5**	**102.5**	**-0.1%**	**-8.9%**
Initial Unemployment Claims	16,399	13,460	9,071	21.8%	80.8%
Value of Residential Building Permits (millions of 2004 $)	73.9	68.0	117.7	8.7%	-37.2%
Average Manufacturing Workweek Length (hours)	41.3	41.0	40.8	0.8%	1.2%
Advanced ISM Index of U.S. Manufacturing Activity Index is advanced one month. Thus, the Junel index is reported for May.	38.9	43.5	50.9	-10.6%	-23.6%
U.S. Index of Consumer Expectations	67.2	57.9	74.1	16.1%	-9.3%
Miscellaneous					
Consumer Price Index U.S. (2004=100)	115.8	116.0	110.4	-0.1%	4.9%
Unemployment Rate (percentage)					
Non-seasonally adjusted	7.4%	7.7%	6.1%	-0.3%	1.3%
Seasonally adjusted	7.8%	7.7%	6.3%	0.1%	1.5%
Continued Unemployment Claims	126,511	112,158	77,724	12.8%	62.8%
Average Manufacturing Wage (Non-seasonally adjusted)					
Current Dollars per Hour	14.57	14.55	13.80	0.1%	5.6%
2004 Dollars per Hour	12.58	12.54	12.50	0.3%	0.6%
Average Weekly Manufacturing Earnings (Non-seasonally adjusted)					
Current Dollars	607.57	600.92	568.56	1.1%	6.9%
2004 Dollars	524.54	518.08	515.09	1.2%	1.8%
U.S. Mortgage Rates (30-year conventional)	6.1%	6.4%	6.4%	-0.3%	-0.3%
Total Retail Sales Millions of 2004 Dollars	3,345.86	3,391.77	3,529.78	-1.4%	-5.2%
Gaming Revenues (Non-seasonally adjusted)					
Coast counties (millions of current $)	85.6	112.1	111.4	-23.7%	-23.2%
River counties (millions of current $)	107.7	126.0	127.0	-14.5%	-15.2%
Total	193.3	238.1	238.4	-18.8%	-18.9%

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