

Mississippi's Business

November 2012

Monitoring The State's Economy

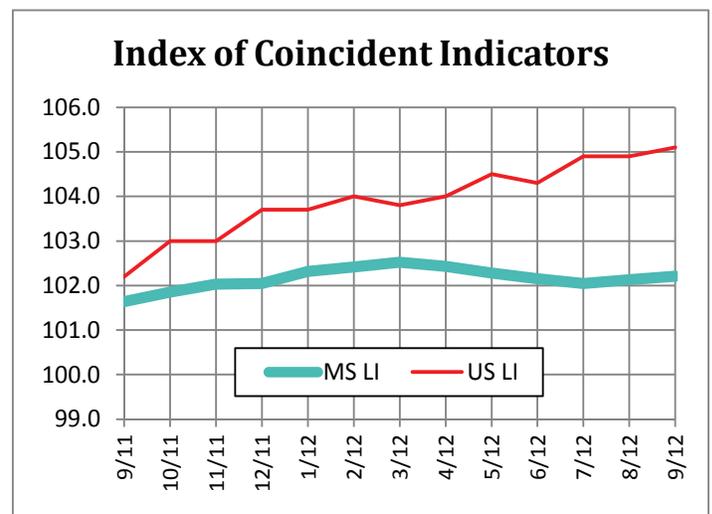
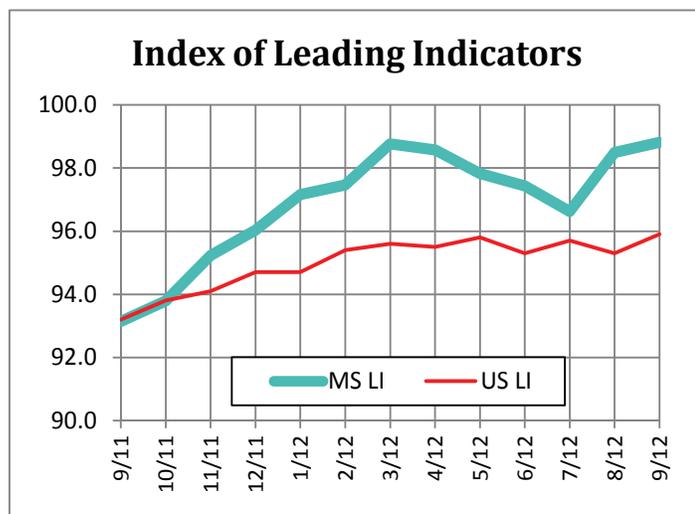
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ECONOMY AT A GLANCE

The Mississippi Index of Coincident and Leading Indicators both rose for the month of September. In the case of the Coincident index, the growth trend is not yet strong enough or long enough to establish that the State is out of recession. However, we appear to be headed in that direction. Despite a gain in September, employment remains the weakest segment of the State's economy. Through the first nine months of 2012, employment was down 0.2 percent relative to 2011. On average, the State has the same number of people employed in 2012 as it did in the mid 1990s. The State's economy has been essentially flat throughout this recovery. Generally speaking, surrounding states appear to be improving at a faster pace.

The National economy also continues at a slow pace. With the same House, Senate and White House, the election didn't change anything in Washington. However, with the elections behind us, Washington can now address the looming "Fiscal Cliff". A compromise of some sort seems possible, but the particulars of the deal remain unclear. The Nation faces a real threat of further credit down-grading, so finding a real solution is important. The election effectively took off the table repeal of either Obamacare or Dodd-Frank. This eliminates some but not all of the uncertainty surrounding these laws. The regulations are still being written. The increased regulatory environment will also dampen growth in much of the economy. The Nation's housing sector continues to improve and vehicle sales remain relatively strong. Continued improvement in these sectors will improve growth, but growth above 3.0 percent is not anticipated until 2015.



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, SEPTEMBER 2012

The **Mississippi Index of Leading Economic Indicators** rose in September to 98.8. This was the second consecutive gain after four months of decline. The September index was up an annualized 0.1 percent over the March index. Two months of gain is encouraging and supports the idea that the State's economy is improving relative to the second quarter. Growth remains modest however. The components of the Leading Index will be discussed in order of their contributions to the July decline.

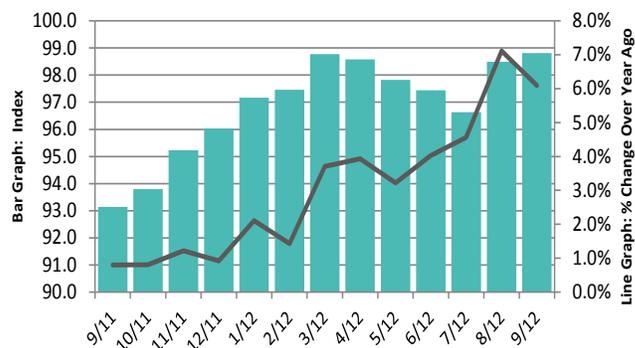
The **U.S. Index of Consumer Expectations**¹ rose 6.6 percent in September. The series enters the Leading Index as a three month moving average. The latest single month data show that expectations were at their highest level since 2007 in October. Improvements in the housing sector and improved employment reports are buoying confidence.

The **Mississippi Manufacturing Employment Intensity Index**, rose 2.1 percent in September. The index is comprised of employment and hours worked. The September gain was characterized by a decline in employment but a gain in average workweek length. A rising workweek length suggests manufacturers face growing demand for their product.

The **U.S. Retail Sales** rose 1.1 percent in September; the third consecutive monthly gain. The September gain was fueled by the sale of the new I-Phone. Also contributing to growth over the past three months have been rising gasoline prices. Department store sales declined for the month. Light vehicle sales were weaker in October than in previous months. October sales were an annualized 14.2 million units compared to 14.9 million in September. The October decline may have been payback for the strong September sales.

The **Institute for Supply Management Index of U.S. Manufacturing Activity** rose a modest 0.4 percent in October to 51.7. It was the second monthly gain for the series and the second month above 50. Among the components, the new orders index rose significantly, implying stronger growth in the coming months. On the other hand new exports weakened. The ISM Non-manufacturing Index declined to 54.2.

Mississippi Index of Leading Indicators



The **Mississippi Diesel Fuel Consumption Index**¹ fell 0.8 percent in September. The series has trended downward all year, declining in seven of the past eight months. Slower diesel fuel consumption suggests fewer trucks on the road and therefore slower economic activity.

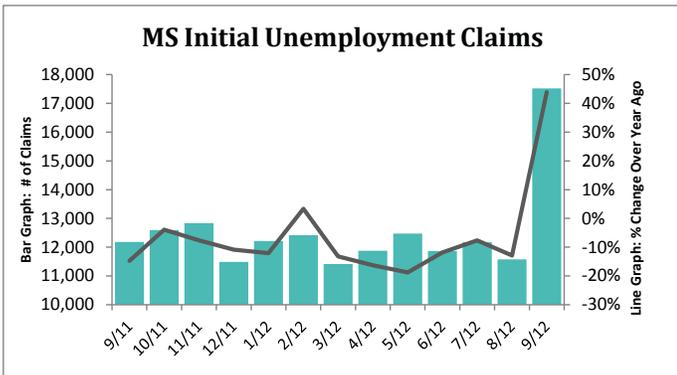
The **value of Mississippi residential building permits**¹ fell 5.2 percent in September. This was the first decline in the series since January. Housing has been improving across the Nation. The decline for September may be a brief lull in an upward trend. It is important also to remember that while the sector is improving, we remain at a very low level. Thus far in 2012, there has been an average of 456 permits issued per month in Mississippi. In 2006, the average was 1,272 permits per month.

Inflation adjusted **Mississippi income tax withholdings**¹ fell 3.6 percent in September, giving up the gains made in August. Looking at this series on an historical basis reveals that withholdings while improved modestly over 2012, have been essentially flat throughout the recovery period. This reflects the relatively flat economy in the State.

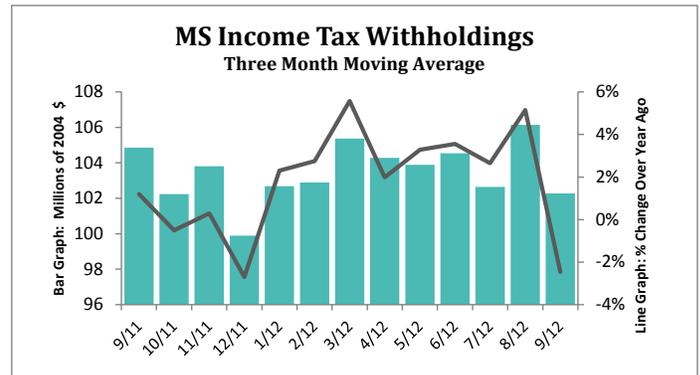
Mississippi's initial unemployment claims rose a staggering 51.3 percent in September. The gain was driven by Hurricane Isaac. We expect the series to show more normal levels in the coming months. Because of the extraordinary nature of the gain, initial claims were not included in the calculation of the September Index of Leading Indicators.

1. Three Month Moving Average

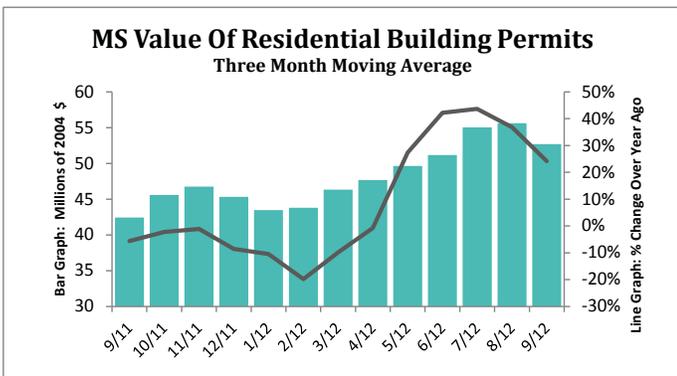
LEADING ECONOMIC INDICATORS



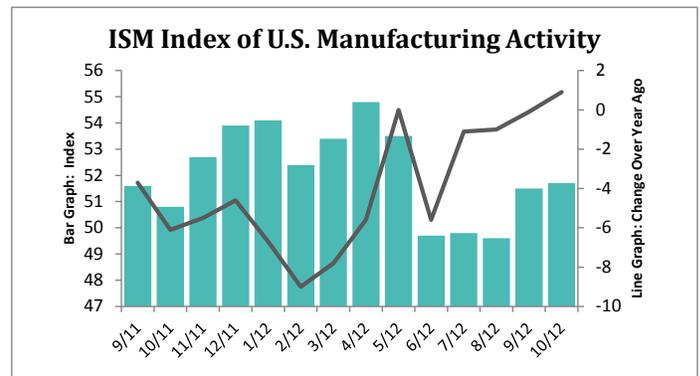
Source: Mississippi Department of Employment Security



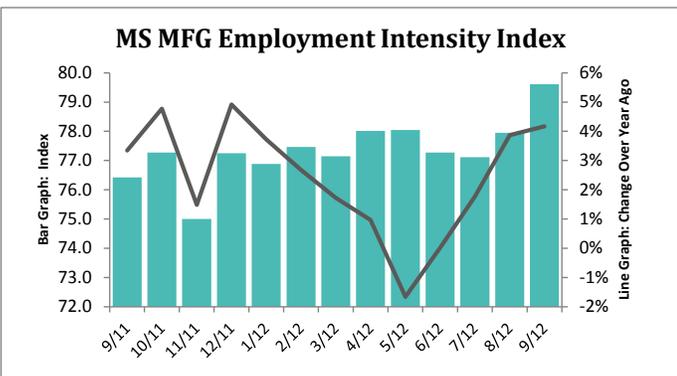
Source: Mississippi Department of Revenue



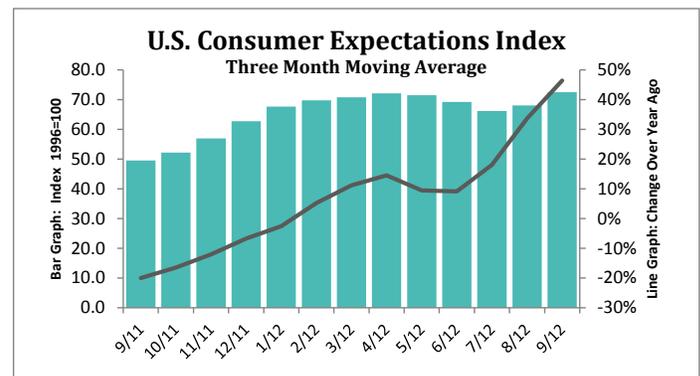
Source: Bureau of the Census



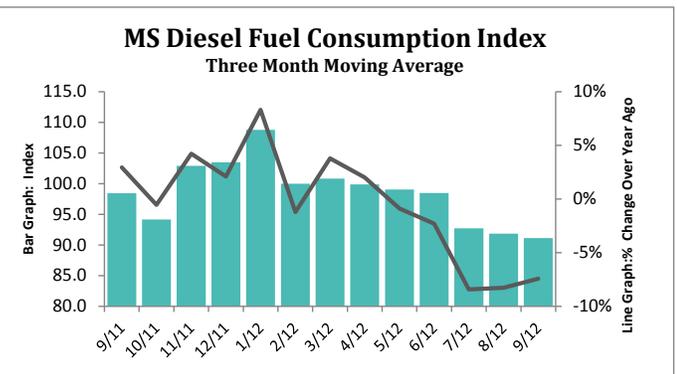
Source: Institute For Supply Management



Source: URC using data from Bureau of Labor Statistics



Source: University Of Michigan



Source: URC using Data from Mississippi Department of Revenue

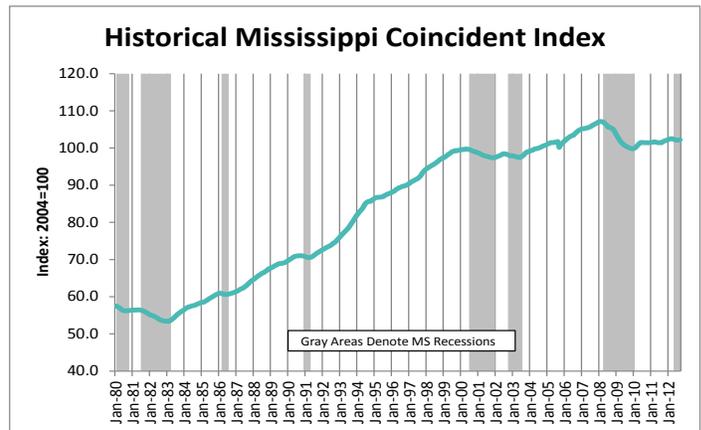
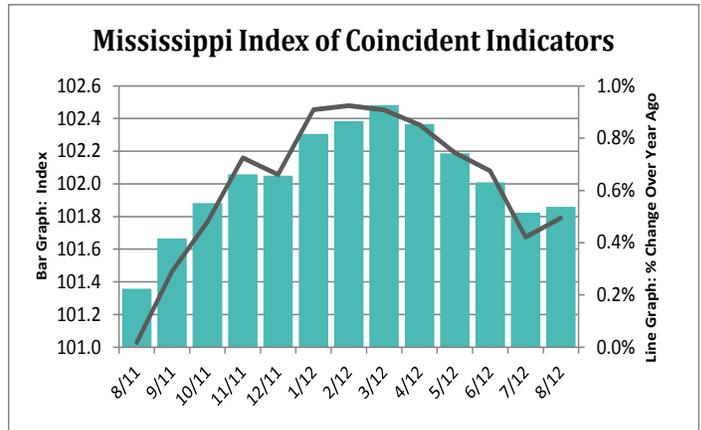


Source: Bureau of the Census

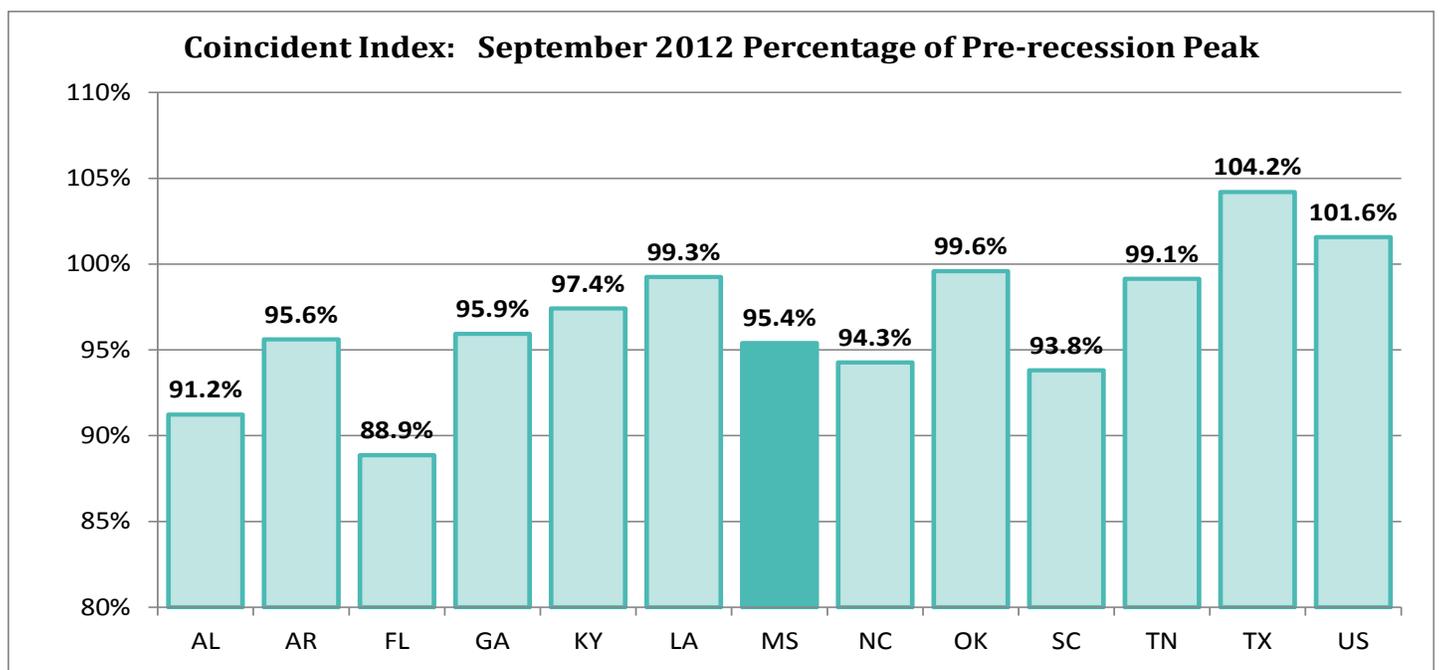
The **Mississippi Index of Coincident Indicators** was 102.2 in September, up 0.1 percent from the August index. The index has risen for two months with a cumulative gain of 0.2 percent. This brief and modest improvement is not sufficient to say that the State has exited the recession which began in April, but continued improvement next month could lead to that conclusion.

We are using as the threshold for recession a three-month decline in the index with a cumulative decline of 0.5 percent. This is relatively rare and therefore goes beyond the normal ebb and flow of the economy. In the case of 2012, it is the result of an economy that is barely growing. The University Research Center (URC) anticipates that real GDP will be up a meager 0.4 percent for 2012. Growth is expected to improve in 2013, but only to 1.6 percent. This forecast is presented in the URC quarterly publication *Mississippi Outlook*, which is available at www.mississippi.edu/urc/economics.

The figure below shows a comparison of the September 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 95.4 percent of the peak. Mississippi is further along the road to recovery than Alabama, Florida, North Carolina and South Carolina, as measured by the Coincident Index. These other states were hit harder in the Great Recession than Mississippi.



The Map on page 5 shows the September index for each state compared to the level three months prior. Mississippi was essentially flat relative to three months prior, rising only 0.06 percent. The National index rose 0.6 percent.



National Trends

The U.S. Index of Leading Indicators increased 0.6 percent in September relative to August while the Coincident Index rose 0.2 percent. The Leading Index has been relatively flat since March while the Coincident Index has been rising. The Conference Board expects no significant change in economic growth.

The November elections leaves the Nation with essentially the same House, Senate and White House. A good baseline forecast would then be more of the same, i.e. slow growth. There is one fundamental difference however, the housing market appears to have finally found a bottom and is now beginning to improve. This industry has been a major drag on the economy and has dampened the recovery. The pace of recovery should increase as the housing industry continues to improve.

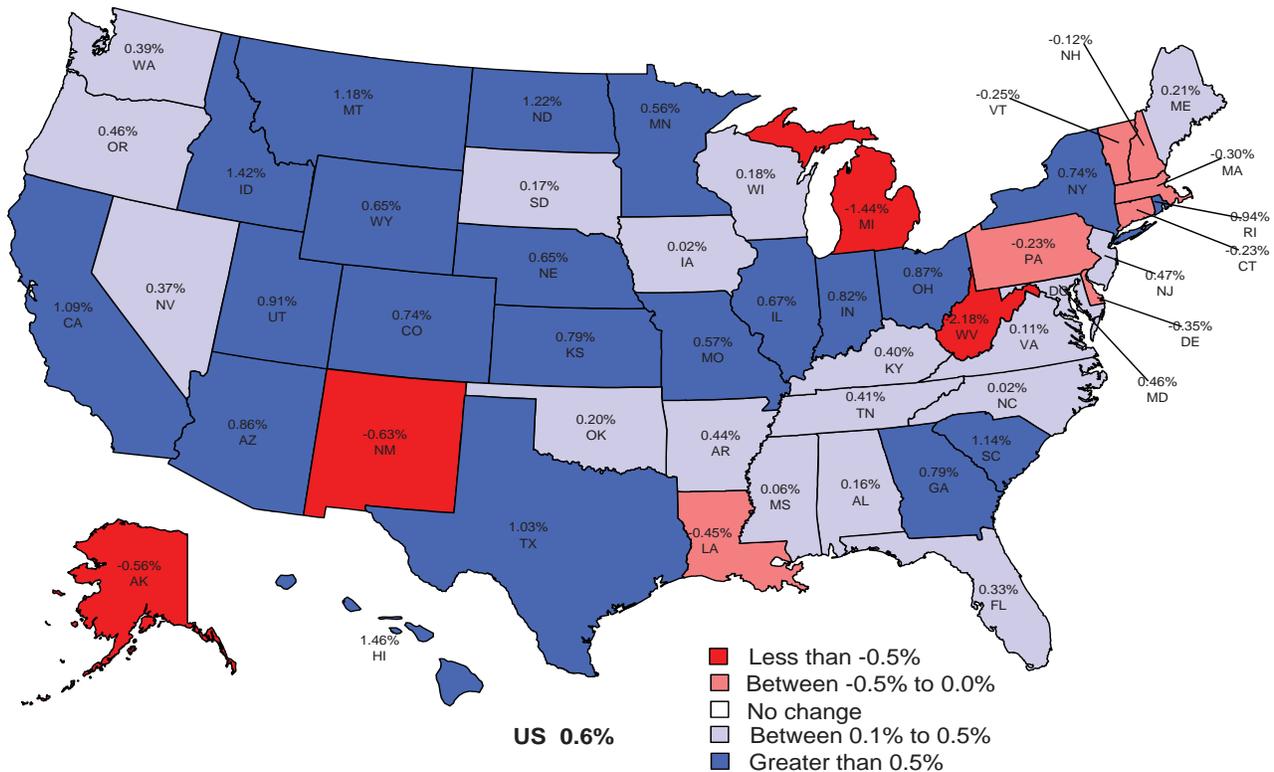
Moderating this growth however, is the continued uncertainty surrounding the "Fiscal Cliff". Growth is expected to be slow in 2013 as Washington wrestles with how to address the Nation's long-term debt problems. This issue is not insignificant as the U.S. faces a real threat of further down-grading of its credit rating.

The uncertain fiscal policy also dampens growth through the inability of individuals, especially businesses, to make long-term economic plans. Corporations' willingness to hold large amounts of cash gives tangible evidence of the uncertain investment environment.

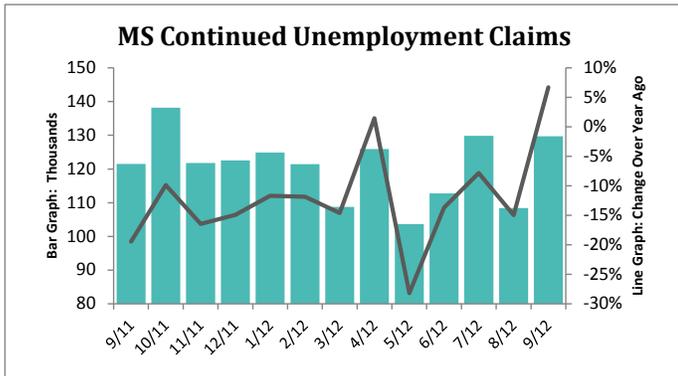
The election did settle one source of uncertainty however, both the Patient Protection and Affordable Care Act (Obamacare) and the Dodd-Frank Wall Street Reform and Consumer Protection Act will continue as planned. These large sweeping pieces of legislation will affect virtually every aspect of the economy. Not all of the uncertainty created by these laws has disappeared. Much of the regulations associated with the laws are still being written. In the case of Dodd-Frank, many of the regulations are being challenged in court, ensuring continued uncertainty.

The increased regulatory environment itself will also dampen growth. Regulations by their very nature, limit the activity of the market. The bottom line is slow growth is likely with us for the foreseeable future, despite improvements in the housing sector.

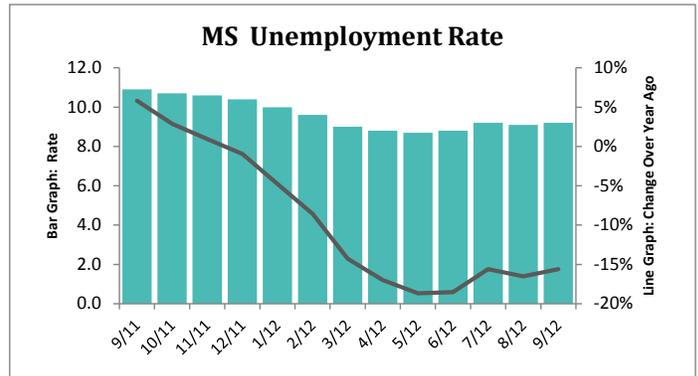
Three Month Growth in The Index of Coincident Economic Indicators, September 2012



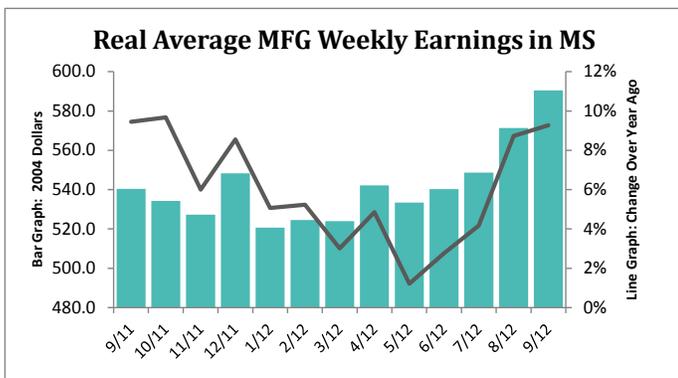
MISCELLANEOUS ECONOMIC INDICATORS



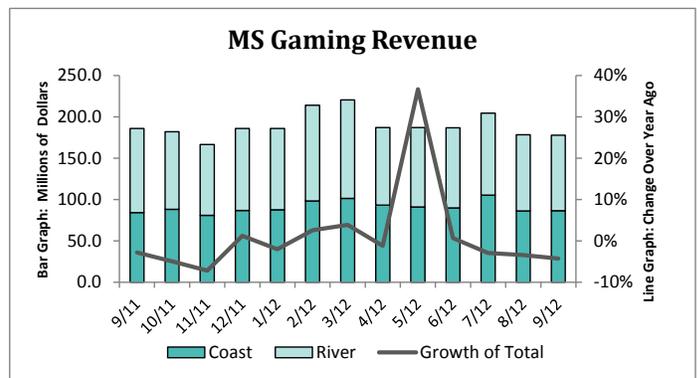
Source: Mississippi Department of Employment Security; Seasonally Adjusted



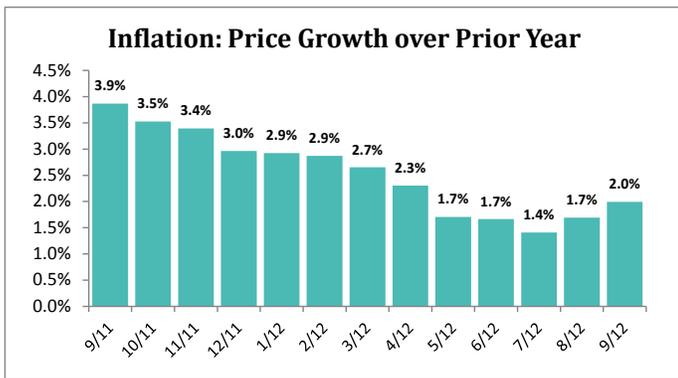
Source: U.S. Bureau of Labor Statistics; Seasonally Adjusted



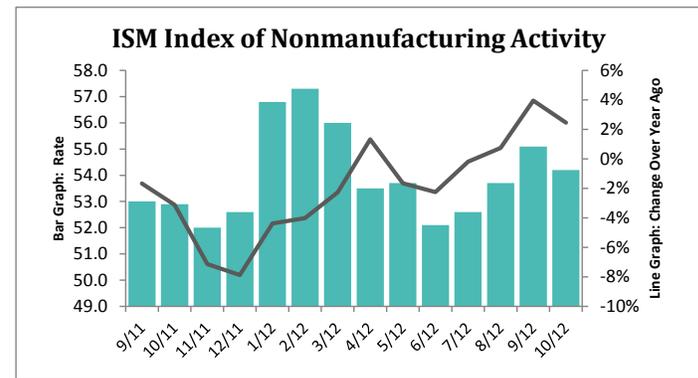
Source: U.S. Bureau of Labor Statistics; Nonseasonally Adjusted



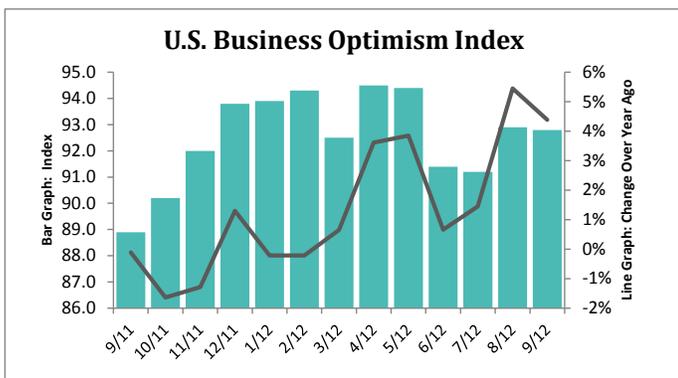
Source: MS Department of Revenue; Nonseasonally Adjusted



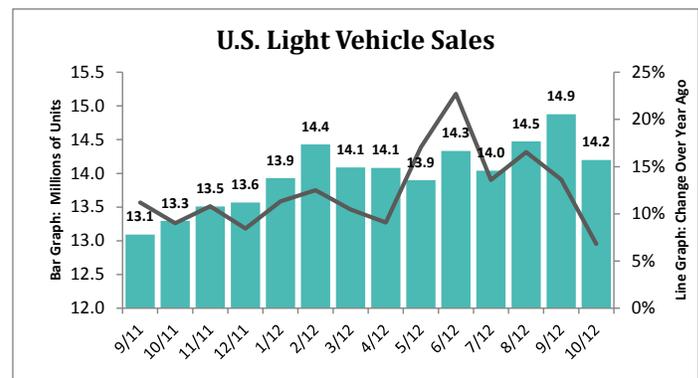
Source: U.S. Bureau of Labor Statistics



Source: Institute For Supply Management



Source: National Federation of Independent Businesses



Source: Bureau of Economic Analysis; Seasonally Adjusted Annual Rate

SELECTED ECONOMIC INDICATORS

Indicator	September	August	September	Change from		
	2012	2012	2011	Last Month	Last Year	
US Index of Coincident Indicators Index 2004=100, Source: The Conference Board	105.1	104.9	102.2	0.2%	2.8%	Economic Indices
MS Index of Coincident Indicators Index 2004=100, Source: Federal Reserve Bank of Philadelphia	102.2	102.1	101.6	0.1%	0.6%	
US Index of Leading Indicators Index 2004=100, Source: The Conference Board	95.9	95.3	93.2	0.6%	2.9%	
MS Index of Leading Indicators Index 2004=100, Source: University Research Center	98.8	98.5	93.1	0.3%	6.1%	
MS Initial Unemployment Claims Source: Mississippi Department of Employment Security	17,518	11,576	12,177	51.3%	43.9%	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	52.7	55.6	42.4	-5.2%	24.2%	
MS Income Tax Withholdings 3 Mo. Moving Average, Millions of 2004 Dollars, Source: MS Department of Revenue	102.27	106.15	104.86	-3.6%	-2.5%	
MS MFG Emp. Intensity Index Average workweek length times employment, Indexed 2004 =100, Source: URC using data from Bureau of Labor Statistics	79.6	77.9	76.4	2.1%	4.2%	
MS Diesel Fuel Consumption Index 3 Mo. Moving Average, Index 2004-100, Source: URC using data from MS Department of Revenue	91.1	91.8	98.4	-0.8%	-7.4%	
US Index of Consumer Expectations 3 Mo. Moving Average, Index 1996=100, Source: University of Michigan	72.5	68.1	49.5	6.6%	46.4%	
US ISM Index of MFG Activity Advanced 1 Month (June Index appears as May), Source: Institute For Supply Management	51.7	51.5	51.6	0.4%	0.2%	
US Retail Sales Millions of Dollars, Source: Bureau of Census	412,939	408,250	391,913	1.1%	5.4%	
US Consumer Price Index 2004=100, Source: URC using data from Bureau of Labor Statistics	122.5	122.0	120.1	0.4%	2.0%	
MS Unemployment Rate Source: Bureau of Labor Statistics	9.2%	9.1%	10.9%	0.1%	-1.7%	
MS Continued Unemp. Claims Source: Mississippi Department of Employment Security	129,684	108,402	121,517	19.6%	6.7%	Miscellaneous Indicators
US Mortgage Rates 30 Yr. Conventional, Source: Federal Reserve	3.6%	3.6%	4.2%	0.0%	-0.6%	
MS Avg. Hourly Wage for MFG Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	55.10	53.70	53.00	2.6%	4.0%	
MS Avg. Wkly Earnings for MFG Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	590.5	571.4	540.4	3.3%	9.3%	
Gaming Revenue	177.9	178.4	185.9	-0.3%	-4.3%	
Coast Counties	86.7	86.3	84.3	0.4%	2.8%	
River Counties	91.2	92.1	101.6	-0.9%	-10.2%	
Nonseasonally adjusted, Millions of Dollars, Source: MS Department of Revenue						
Business Optimism Index Index 1986=100, Source: National Federation of Independent Businesses	92.8	92.9	88.9	-0.1%	4.4%	

MISSISSIPPI EMPLOYMENT BY SECTOR

Sector	Relative Share of Total*	September			Change from Prior Month		Change from Prior Year	
		September 2012	August 2012	September 2011	Level	%	Level	%
Total Nonfarm	100.0%	1,085,400	1,082,200	1,092,400	3,200	0.3%	(7,000)	-0.6%
Mining and Logging	0.9%	9,300	9,300	9,200	-	0.0%	100	1.1%
Construction	4.3%	44,800	44,500	48,100	300	0.7%	(3,300)	-6.9%
Manufacturing	12.4%	135,200	136,200	133,800	(1,000)	-0.7%	1,400	1.0%
Trade, Transportation & Utilities	19.6%	214,000	212,600	214,100	1,400	0.7%	(100)	0.0%
Retail Trade	12.1%	130,700	130,000	132,500	700	0.5%	(1,800)	-1.4%
Information	1.1%	11,645	11,709	11,750	(64)	-0.5%	(105)	-0.9%
Financial Activities	4.1%	44,322	44,096	44,929	225	0.5%	(607)	-1.4%
Services	35.0%	380,900	381,300	381,900	(400)	-0.1%	(1,000)	-0.3%
Professional and Business Services	8.5%	91,000	91,300	94,600	(300)	-0.3%	(3,600)	-3.8%
Education and Health Services	12.6%	139,300	137,800	136,800	1,500	1.1%	2,500	1.8%
Leisure and Hospitality	10.7%	115,800	118,300	116,300	(2,500)	-2.1%	(500)	-0.4%
Other Services	3.2%	34,800	33,900	34,200	900	2.7%	600	1.8%
Government	22.6%	245,200	242,500	248,500	2,700	1.1%	(3,300)	-1.3%

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

Source: U.S. Bureau of Labor Statistiscs

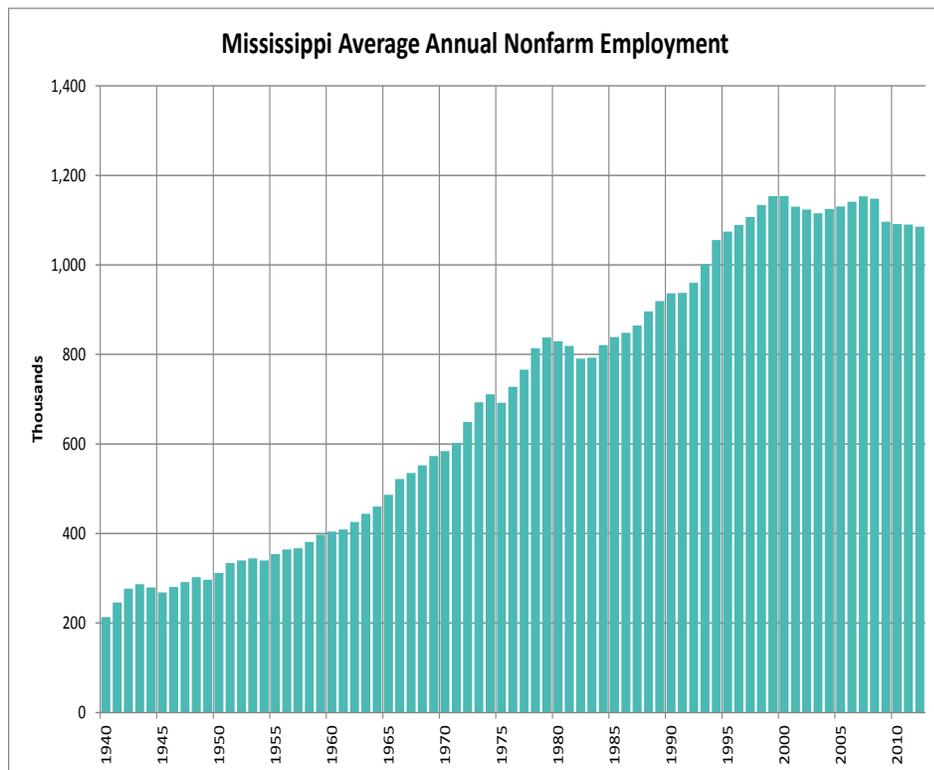
Mississippi Employment Trends

Mississippi employment rose in the month of September. This was the first monthly gain since April 2012. The 3,200 jobs gained were concentrated in government, with the private sector rising only 500 jobs. Construction rose by 300 jobs and trade, transportation and utilities added 1,400. Education and health services added 1,500 jobs. Offsetting these increases were large declines in manufacturing (1,000) and leisure and hospitality (2,500).

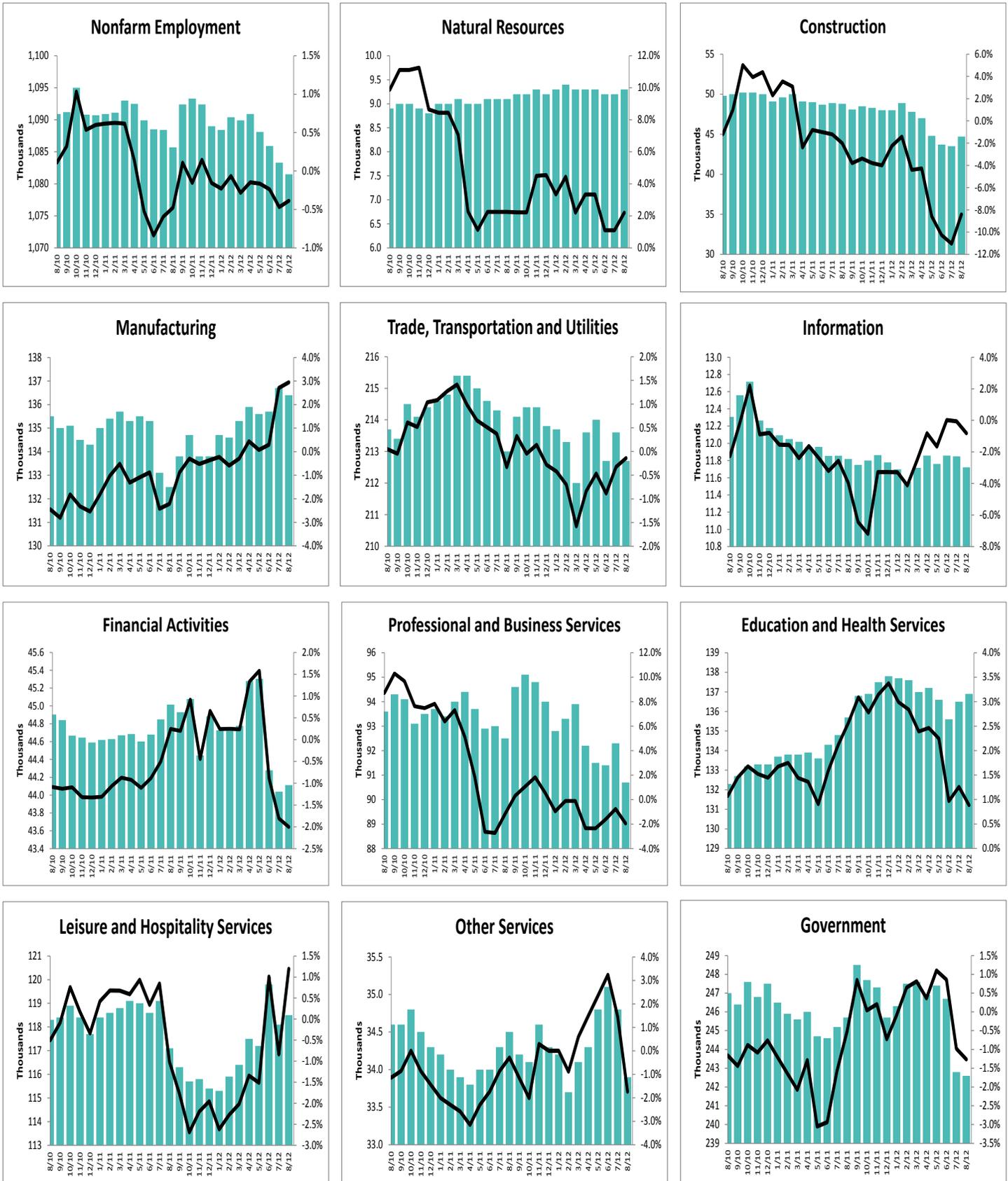
For the first nine months of 2012 employment was 0.2 percent below the same period in 2011. Mississippi has not gained in employment, on an annual basis, since 2007.

The figure to the right shows annual growth in employment since

1940. The slide in employment over the past five years is unprecedented. Mississippi employment in 2012 is roughly the same it was in the mid 1990s. While the data are subject to revision, it is doubtful the general trend will be altered significantly with revision.



MISSISSIPPI EMPLOYMENT TRENDS



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