

Mississippi's Business

December 2012

Monitoring The State's Economy

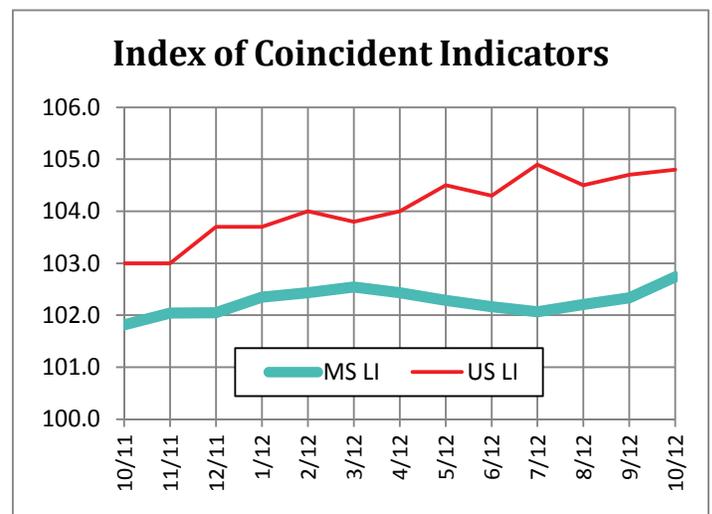
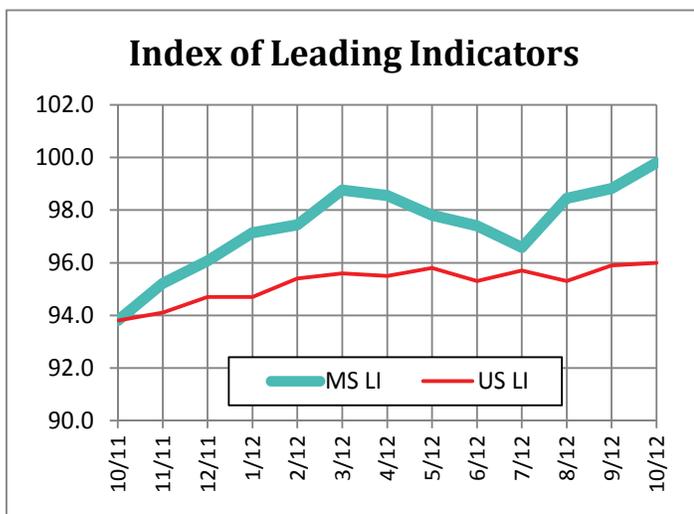
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ECONOMY AT A GLANCE

The Mississippi Index of Coincident and Leading Indicators both rose for the month of October. Employment rose for the second consecutive month in October. Manufacturers are working longer hours and employing more people. Construction employment is rising as well. The Diesel Fuel Consumption Index, which had been trending down rose in October. The State's economy is improving from the doldrums of summer but appears to be growing at a modest pace. We expect the State to end 2012 with a Real GDP growth rate of 0.5 percent. Growth is expected to rise to 1.0 percent in 2013. Historically, this is slow growth.

The National economy has moderated in the fourth quarter. This is due in part due to technical issues. Much of the growth in the third quarter was driven by federal spending and inventory accumulation which is not recurring in the fourth quarter. However, the softening of the economy is apparent in other indicators as well. Retail sales fell in November, the ISM Manufacturing Index fell below 50 again, and confidence among small business has plummeted. Citing slower sales and earning and making fewer plans to hire or invest in capital equipment, small businesses registered their lowest Optimism Index since March 2009. In terms of the our outlook for improvement in the economy, they had their lowest rating in the history of the survey. Fear over the fiscal cliff probably factored into their pessimism as did the prospect of higher taxes and increased regulations. Despite these set-backs the National economy is expected to improve in 2013 as the housing sector and vehicle sales gain momentum. Growth in 2013 will likely be below 2.0 percent however.



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, OCTOBER 2012

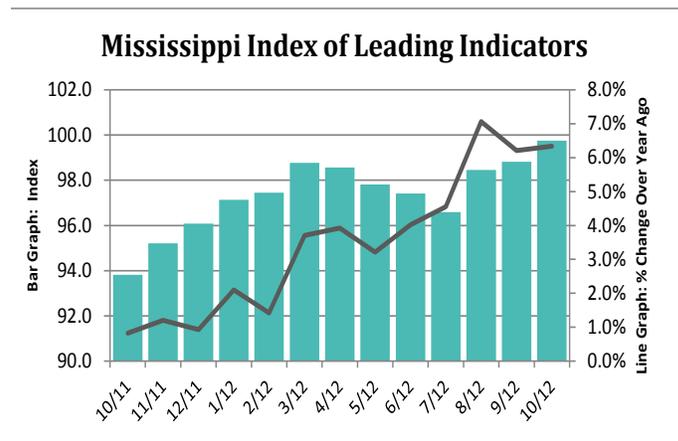
The **Mississippi Index of Leading Economic Indicators** rose for the third month in October reaching a level of 99.8. This is the highest level since April 2008. Relative to six months prior, the October index was up an annualized 2.5 percent. The State has clearly improved from the contraction that took place over the summer. However, Hurricane Sandy is distorting several reports both positively and negatively making an accurate reading on the economy difficult. But, even considering these issues, the economy appears to be growing at a modest pace. The components of the Leading Index will be discussed in order of their contributions to the October gain.

Inflation adjusted **Mississippi income tax withholdings**¹ rose 2.6 percent in October. The increase regains some of the ground lost in September. The series has been oscillated around a generally flat trend since the beginning of the recovery.

The **U.S. Index of Consumer Expectations**¹ rose 5.7 percent in October. This was the third consecutive gain. However, the series enters the Leading Index as a three month moving average, and the latest gain was driven largely by a strong increase in October. Expectations declined in November, and the preliminary data shows further weakness in December, leading to a likely decline in next month's report. Fear and uncertainty over the fiscal cliff is undermining confidence. Furthermore, economic data has turned relatively more negative in the past few weeks.

The **Mississippi Diesel Fuel Consumption Index**¹ rose a strong 6.3 percent in October. The series has trended down during much of 2012. The October gain reversed much of the decline from the previous months resulting in the highest index since June 2012.

The **Mississippi Manufacturing Employment Intensity Index**, rose a modest 0.4 percent in October. The index is comprised of employment and hours worked. The October gain was characterized by a gain in average workweek length as well as employment. A rising workweek length suggests manufacturers face growing demand for their product.



Mississippi's initial unemployment claims fell 20.1 percent in October. The series was artificially high in September due to Hurricane Isaac. Because of the extraordinary nature of the recent trends, initial claims were not included in the calculation of the September or October Index of Leading Indicators.

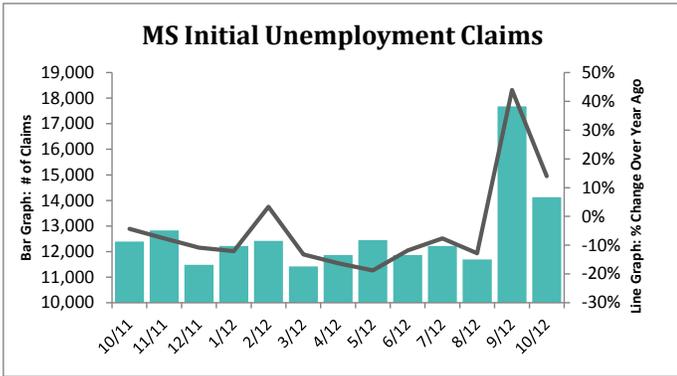
The **U.S. Retail Sales** fell 0.3 percent in October. The series had increased in the previous three months. The decline could be in part due to Hurricane Sandy as well as fall-off from sales from the introduction of the iPhone 5. In a separate but related report, light vehicle sales rose in November to an annualized 15.5 million units. November sales were likely helped by replacement vehicle purchases following Sandy.

The **value of Mississippi residential building permits**¹ fell 2.6 percent in in October. This was the second consecutive decline which followed seven months of gain. The series enters the Leading Index as a three month moving average. The weak September number is weighing down the average. The series will likely strengthen in the coming months given the general improving track record observed nationally.

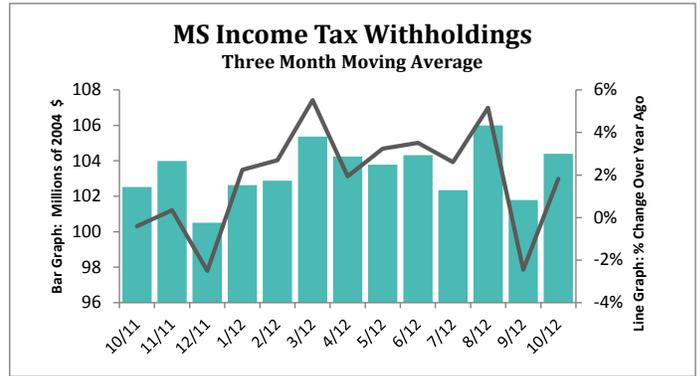
The **Institute for Supply Management Index of U.S. Manufacturing Activity** fell a markedly 4.3 percent to 49.5. With an index below 50, the industry is again contracting after a brief shallow two month expansion. The index may have been affected by Hurricane Sandy. However as noted in last month's issue there has been weakness present among the underlying components.

1. Three Month Moving Average

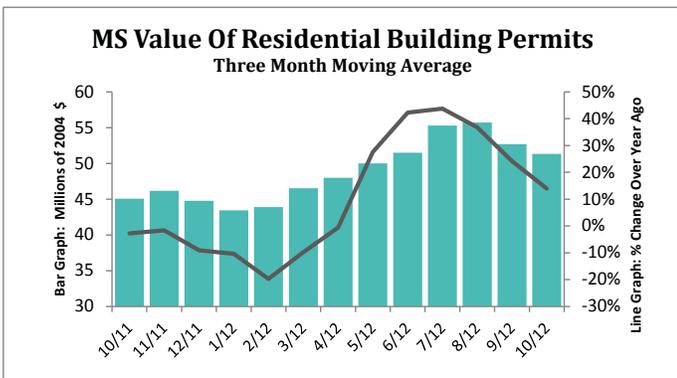
LEADING ECONOMIC INDICATORS



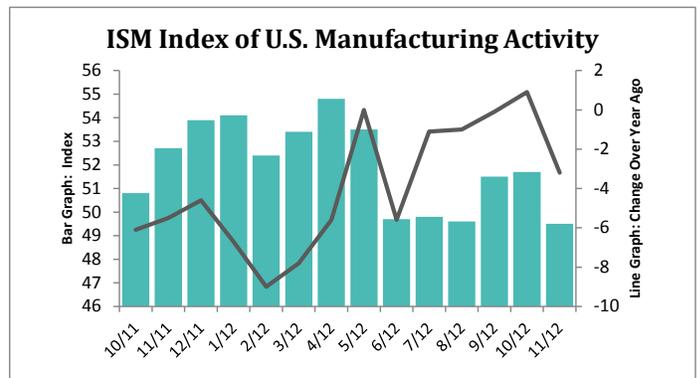
Source: Mississippi Department of Employment Security



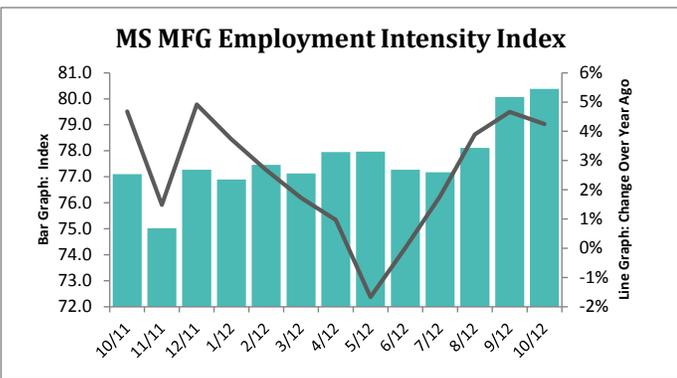
Source: Mississippi Department of Revenue



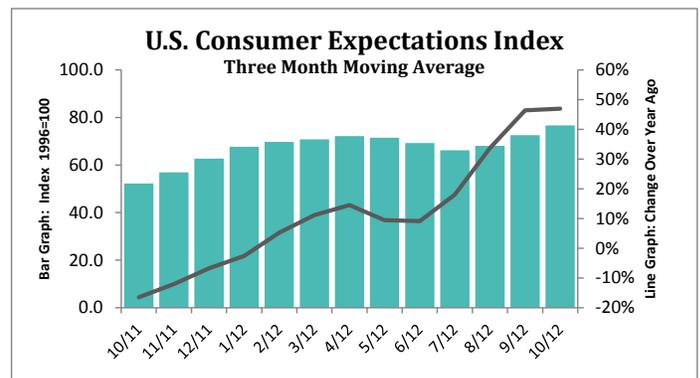
Source: Bureau of the Census



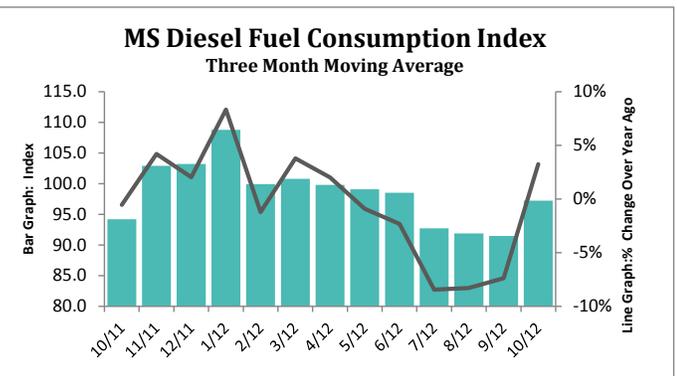
Source: Institute For Supply Management



Source: URC using data from Bureau of Labor Statistics



Source: University Of Michigan



Source: URC using Data from Mississippi Department of Revenue

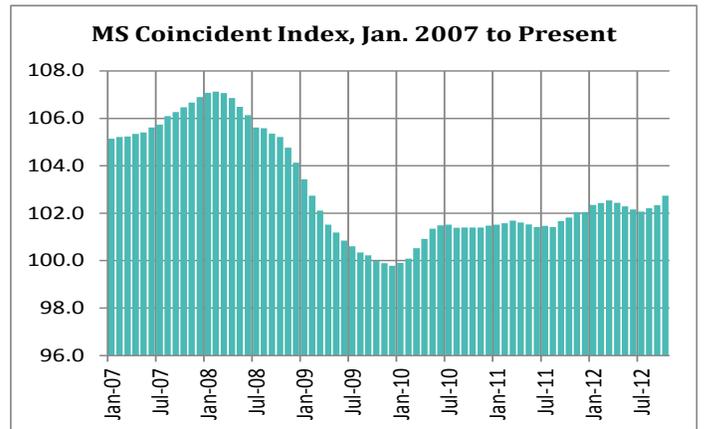
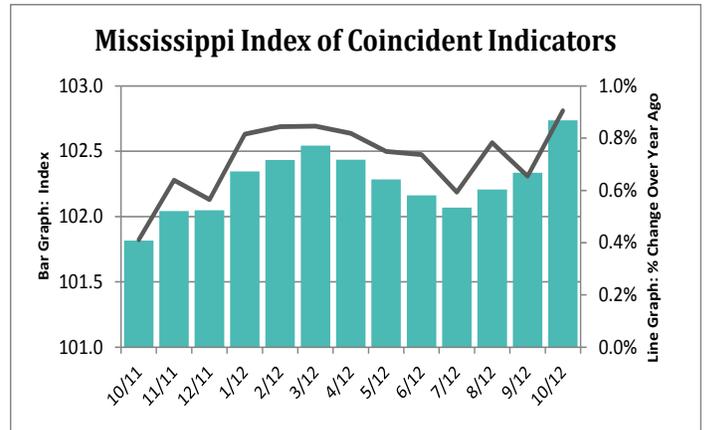


Source: Bureau of the Census

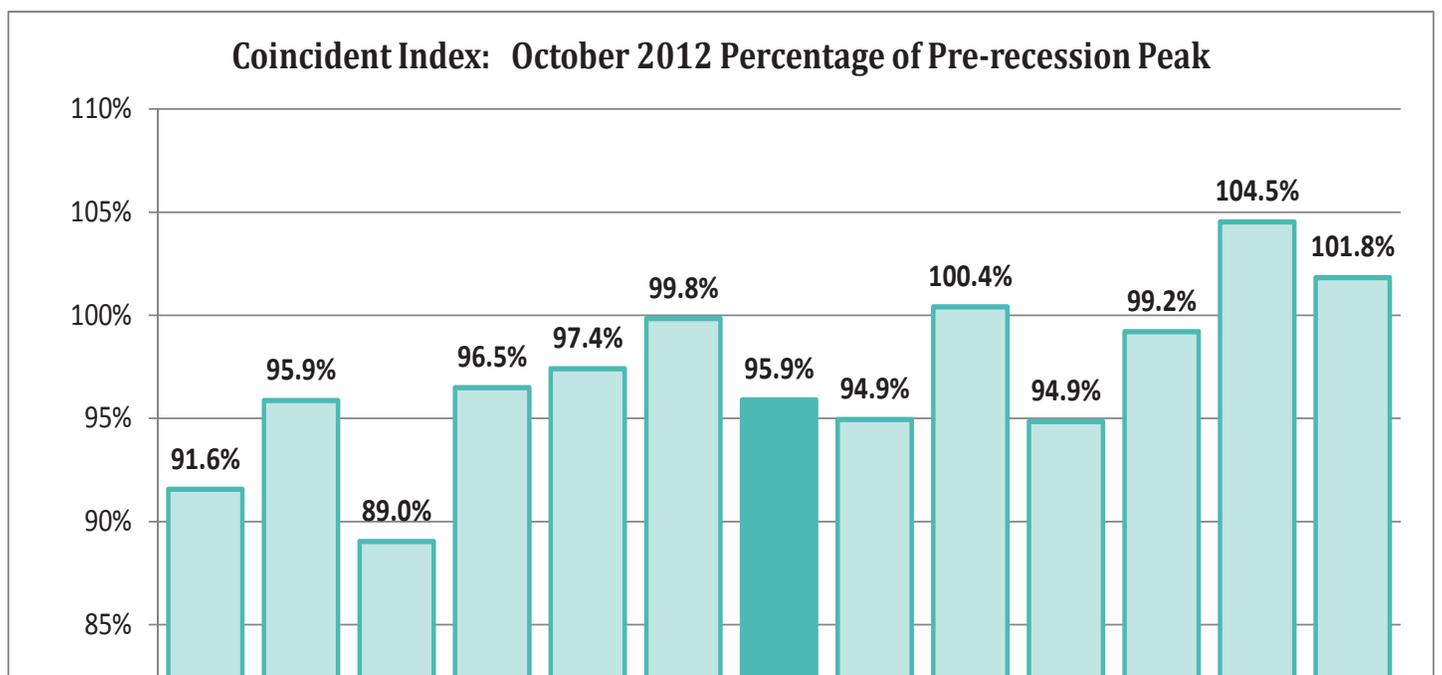
The **Mississippi Index of Coincident Indicators** continued to improve in October, reaching a level of 102.7, the highest level since February 2009. This marked the third monthly increase. The strong 0.4 percent October gain is remarkable given the sluggishness of the past year. It will be interesting if this strength continues in the coming months. It does appear that the employment situation is improving after deteriorating greatly during the summer months. The unemployment rate has fallen and average manufacturing work week length is improving as well. These are three of the four components of the Coincident Index. The lower figure to the right puts the index into perspective of the great recession and the recovery period. The level of activity remains greatly below the pre-recession peak. The recovery, including the recent gains, has been relatively flat.

The figure below shows a comparison of the October 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 95.9 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 October index for each state compared to the level three months prior. Mis-



issippi's index rose 0.65 percent. This was ahead of Arkansas and Louisiana but behind other southeastern states. The National index rose a similar 0.6 percent. The map shows more improvement among the states than was evident during the summer months.



National Trends

The U.S. Index of Leading Indicators increased 0.2 percent in October while the Coincident Index rose 0.1 percent. The Conference Board expects continued slow growth in the coming months.

Growth has softened in the fourth quarter relative to the third. IHS Global Insight expects a meager 0.5 percent gain. The third quarter was revised up to 2.7 percent. Much of this growth however was due to federal spending and inventory accumulation. This will not be duplicated in the fourth quarter. Housing continues to show improvement and auto sales were especially strong in November. However real income less transfer payments has declined for three consecutive months and retail sales declined in November.

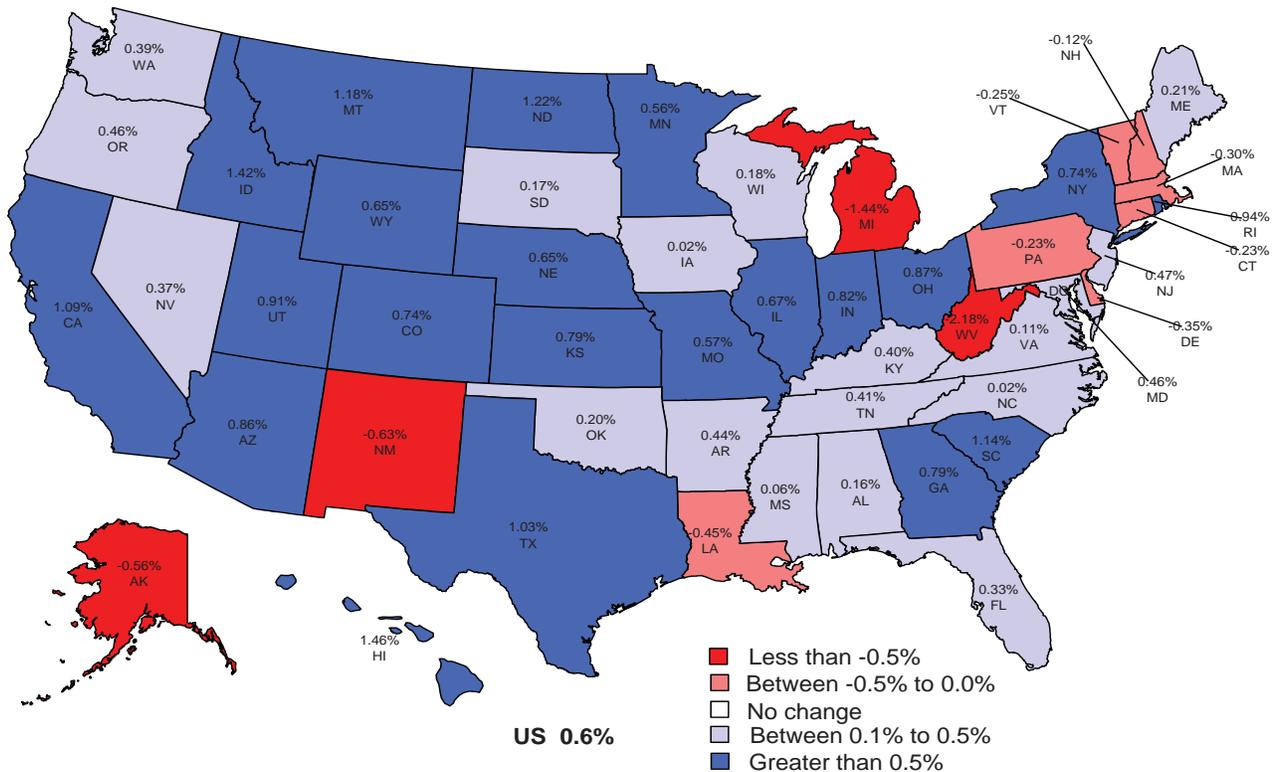
Growth is expected to be slightly slower in 2013 than in 2012 as the uncertainty over the fiscal cliff dampens growth early in the year. While economists still expect an agreement on the fiscal cliff, it will not come soon enough or be comprehensive enough to avoid casting a shadow over early 2013 growth. IHS Global Insight

expects growth for 2013 to be 1.9 percent compared to an expected 2.2 percent for 2012. Growth is expected to accelerate as we move through the year and into 2014 as housing and vehicle sales gain momentum.

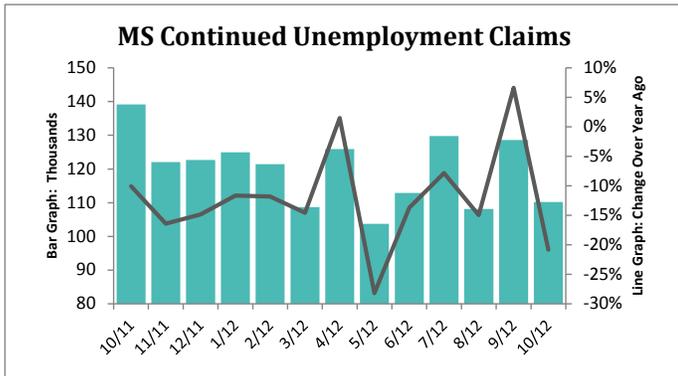
The Optimism Index by the National Federation of Independent Businesses plunged in November. The index of 87.5 is the lowest since March 2009. This index reflects attitudes of small businesses, many of whom file their business income as personal income. Many of these will likely fall into the highest tax brackets and therefore expect their tax burden to rise. Respondents also reported slowing earnings, sales and plans for hiring. The share of respondents expecting the economy to improve in the coming months reached the lowest level since the survey began. This survey reveals the growing concern that many have over the economy. The Consumer Sentiment Index has likewise declined recently.

Risk of recession remains at 20 percent. This assumes the fiscal cliff is avoided. If the across-the-board tax rates increase then a recession is probable.

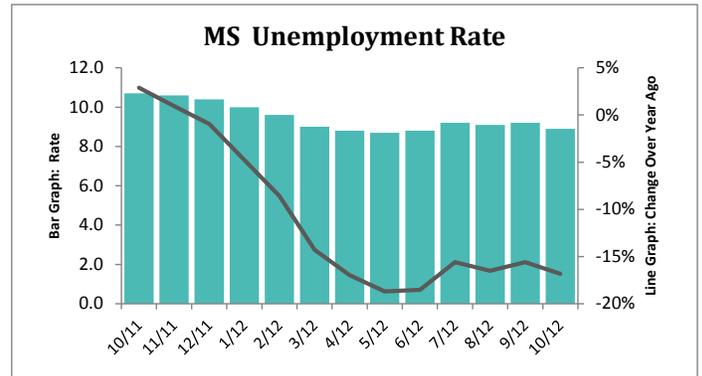
Three Month Growth in The Index of Coincident Economic Indicators, October 2012



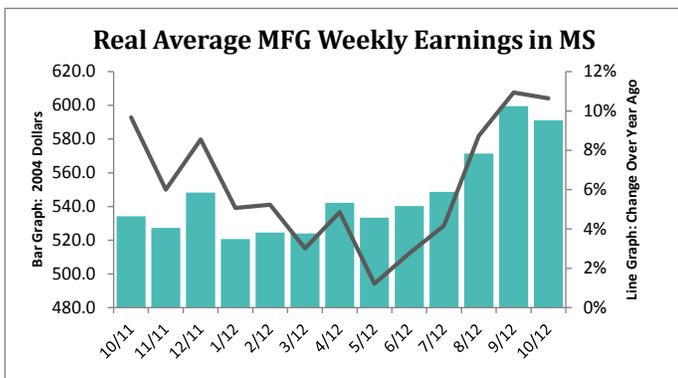
MISCELLANEOUS ECONOMIC INDICATORS



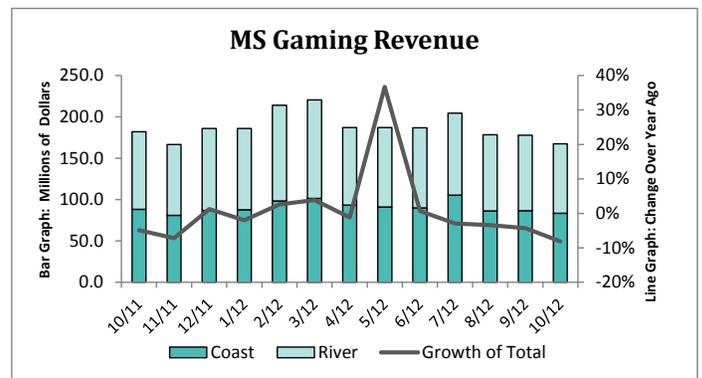
Source: Mississippi Department of Employment Security; Seasonally Adjusted



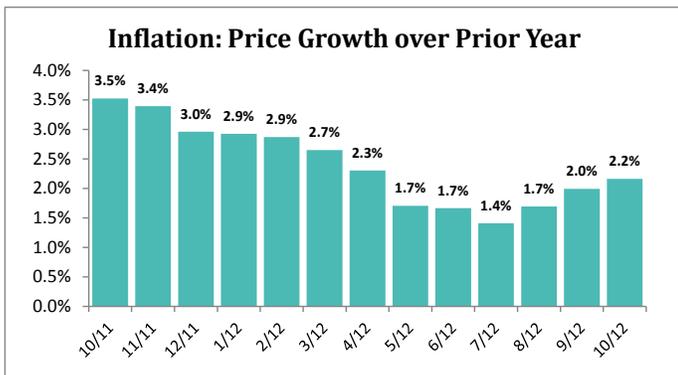
Source: U.S. Bureau of Labor Statistics; Seasonally Adjusted



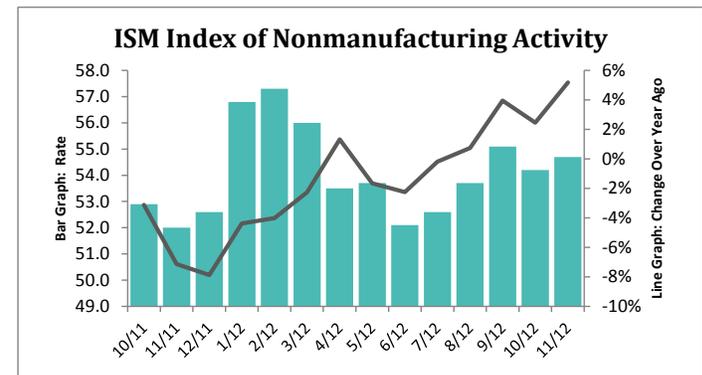
Source: U.S. Bureau of Labor Statistics; Nonseasonally Adjusted



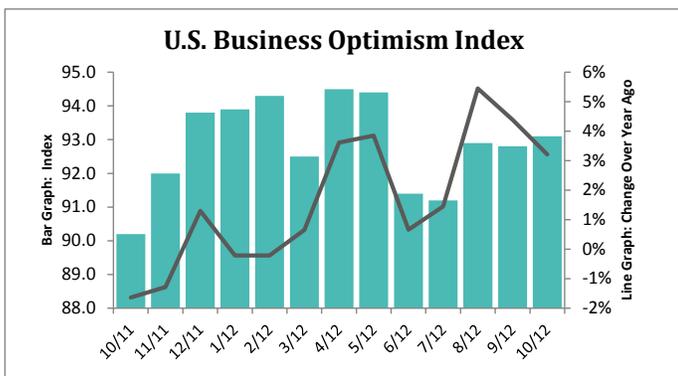
Source: MS Department of Revenue; Nonseasonally Adjusted



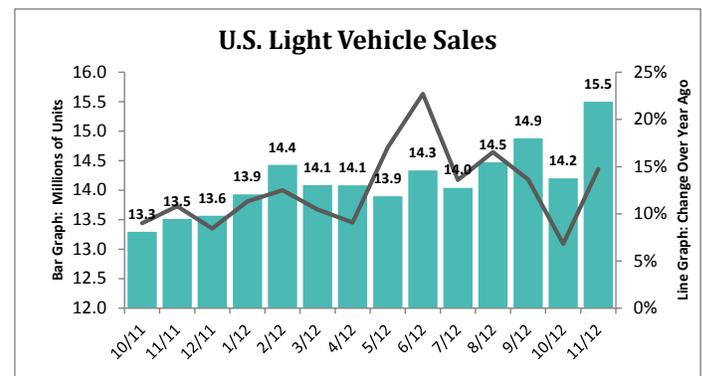
Source: U.S. Bureau of Labor Statistics



Source: Institute For Supply Management



Source: National Federation of Independent Businesses



Source: Bureau of Economic Analysis; Seasonally Adjusted Annual Rate

SELECTED ECONOMIC INDICATORS

Indicator	October	September	October	Change from		
	2012	2012	2011	Last Month	Last Year	
US Index of Coincident Indicators Index 2004=100, Source: The Conference Board	104.8	104.7	103	0.1%	1.7%	Economic Indices
MS Index of Coincident Indicators Index 2004=100, Source: Federal Reserve Bank of Philadelphia	102.7	102.3	101.8	0.4%	0.9%	
US Index of Leading Indicators Index 2004=100, Source: The Conference Board	96.0	95.9	93.8	0.1%	2.3%	
MS Index of Leading Indicators Index 2004=100, Source: University Research Center	99.8	98.8	93.8	1.0%	6.4%	
MS Initial Unemployment Claims Source: Mississippi Department of Employment Security	14,121	17,678	12,388	-20.1%	14.0%	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	51.3	52.7	45.0	-2.6%	13.9%	
MS Income Tax Withholdings 3 Mo. Moving Average, Millions of 2004 Dollars, Source: MS Department of Revenue	104.40	101.79	102.53	2.6%	1.8%	
MS MFG Emp. Intensity Index Average workweek length times employment, Indexed 2004 =100, Source: URC using data from Bureau of Labor Statistics	80.4	80.1	77.1	0.4%	4.3%	
MS Diesel Fuel Consumption Index 3 Mo. Moving Average, Index 2004-100, Source: URC using data from MS Department of Revenue	97.2	91.5	94.2	6.3%	3.2%	
US Index of Consumer Expectations 3 Mo. Moving Average, Index 1996=100, Source: University of Michigan	76.7	72.5	52.2	5.7%	46.9%	
US ISM Index of MFG Activity Advanced 1 Month (June Index appears as May), Source: Institute For Supply Management	49.5	51.7	50.8	-4.3%	-2.6%	
US Retail Sales Millions of Dollars, Source: Bureau of Census	411,591	412,869	396,407	-0.3%	3.8%	
US Consumer Price Index 2004=100, Source: URC using data from Bureau of Labor Statistics	122.5	122.5	119.9	0.0%	2.2%	
MS Unemployment Rate Source: Bureau of Labor Statistics	8.9%	9.2%	10.7%	-0.3%	-1.8%	
MS Continued Unemp. Claims Source: Mississippi Department of Employment Security	110,166	128,559	139,123	-14.3%	-20.8%	Miscellaneous Indicators
US Mortgage Rates 30 Yr. Conventional, Source: Federal Reserve	3.5%	3.6%	4.2%	-0.1%	-0.7%	
MS Avg. Hourly Wage for MFG Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	54.20	55.10	52.90	-1.6%	2.5%	
MS Avg. Wkly Earnings for MFG Nonseasonally adjusted, 2004 Dollars, Source: Bureau of Labor Statistics	591.1	599.5	534.2	-1.4%	10.6%	
Gaming Revenue	167.4	177.9	182.2	-5.9%	-8.1%	
Coast Counties	83.5	86.7	88.2	-3.8%	-5.4%	
River Counties	83.9	91.2	93.9	-8.0%	-10.6%	
Business Optimism Index Index 1986=100, Source: National Federation of Independent Businesses	93.1	92.8	90.2	0.3%	3.2%	

MISSISSIPPI EMPLOYMENT BY SECTOR

Sector	Relative Share of Total*	October			Change from Prior Month		Change from Prior Year	
		2012	September 2012	October 2011	Level	%	Level	%
Total Nonfarm	100.0%	1,089,300	1,085,000	1,093,300	4,300	0.4%	(4,000)	-0.4%
Mining and Logging	0.9%	9,100	9,200	9,200	(100)	-1.1%	(100)	-1.1%
Construction	4.3%	46,300	44,900	48,500	1,400	3.1%	(2,200)	-4.5%
Manufacturing	12.4%	137,400	135,500	134,700	1,900	1.4%	2,700	2.0%
Trade, Transportation & Utilities	19.6%	214,700	214,300	214,400	400	0.2%	300	0.1%
Retail Trade	12.1%	131,300	131,200	132,300	100	0.1%	(1,000)	-0.8%
Information	1.1%	11,661	11,653	11,773	8	0.1%	(112)	-1.0%
Financial Activities	4.1%	43,972	44,326	45,066	(354)	-0.8%	(1,094)	-2.4%
Services	35.0%	381,100	379,900	381,800	1,200	0.3%	(700)	-0.2%
Professional and Business Services	8.5%	92,000	90,700	95,100	1,300	1.4%	(3,100)	-3.3%
Education and Health Services	12.6%	137,600	138,100	136,900	(500)	-0.4%	700	0.5%
Leisure and Hospitality	10.7%	116,500	116,300	115,700	200	0.2%	800	0.7%
Other Services	3.2%	35,000	34,800	34,100	200	0.6%	900	2.6%
Government	22.6%	244,900	245,200	247,700	(300)	-0.1%	(2,800)	-1.1%

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

Source: U.S. Bureau of Labor Statistics

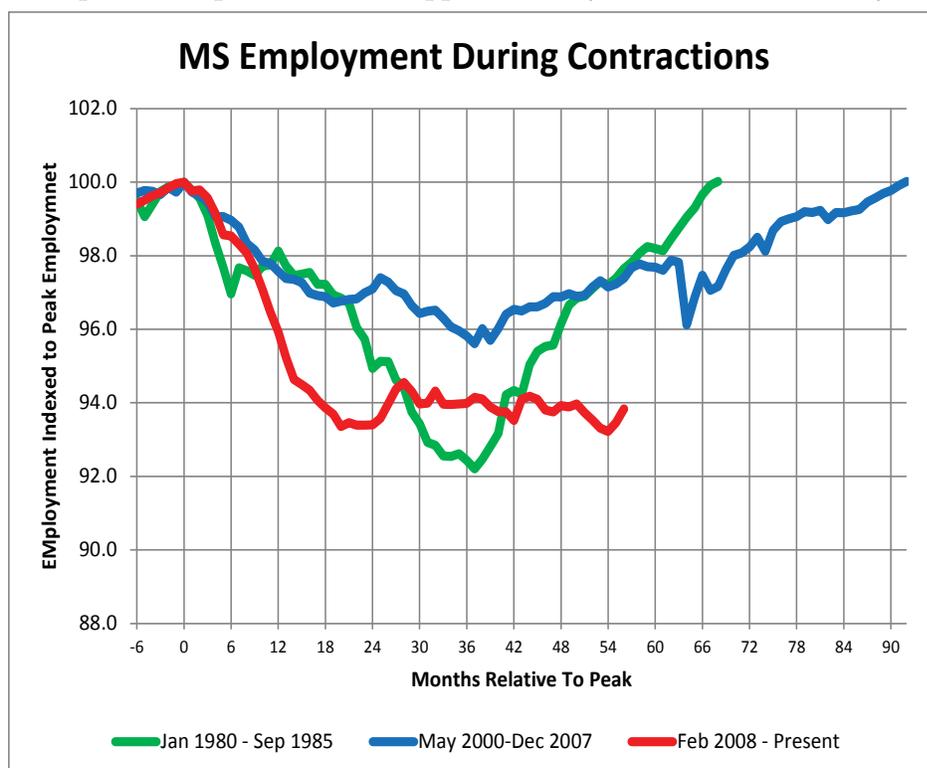
Mississippi Employment Trends

Mississippi employment rose for the second consecutive month in October. Gains were seen in construction, manufacturing and professional and business services.

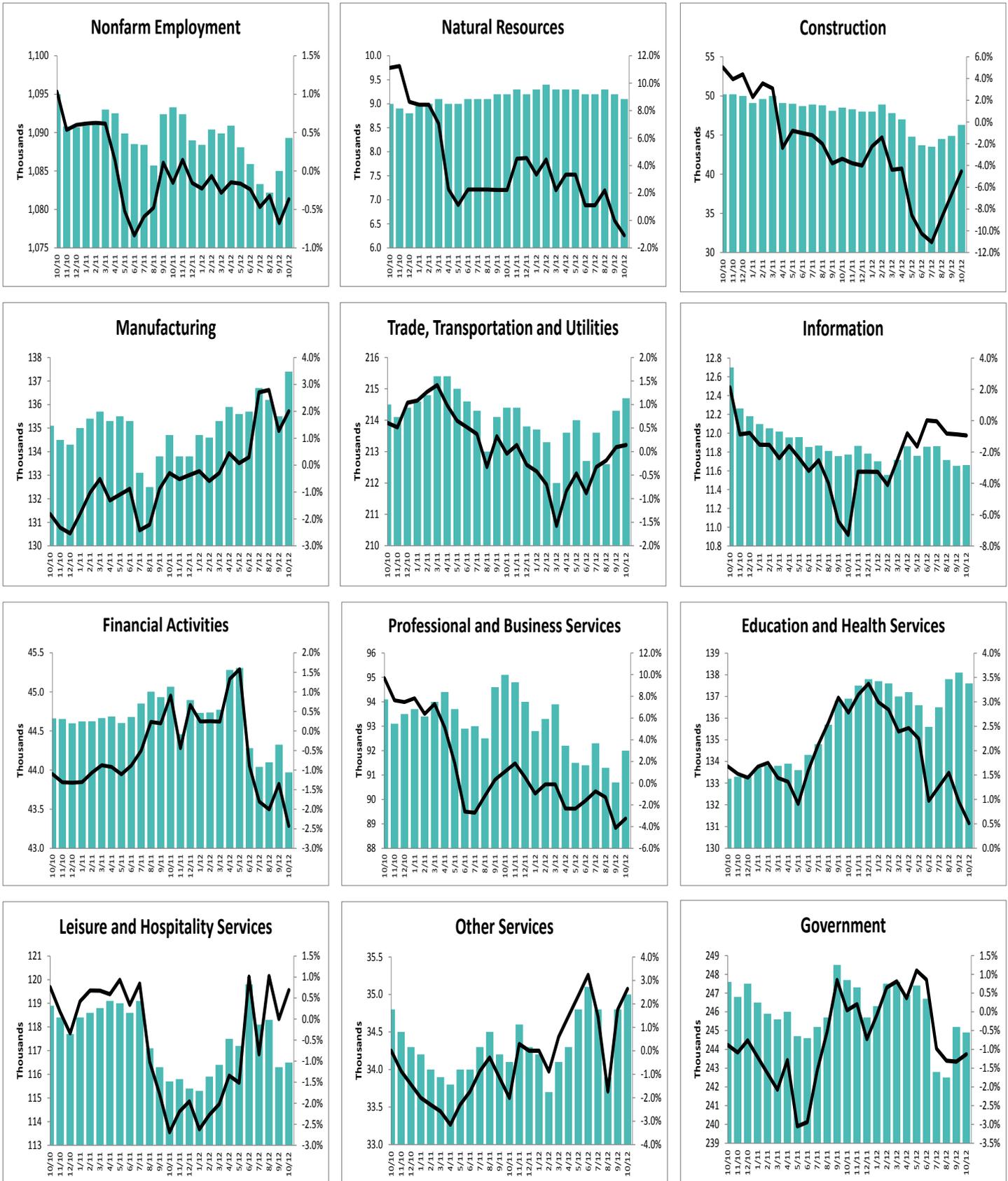
Despite the gains, the average employment for 2012 was 0.2 percent below the same period in 2011. For 2012, Mississippi has the same number of people employed as in 1996.

The figure to the right shows that the current jobs contraction is considerably worse than that observed in the 1980s or the 2000s. The graph shows employment indexed to the peak level of the cycle. The X-axis shows the months relative to the peak, with peak employment occurring in month 0. An index of 100 is full recovery.

In the 1980s, employment followed a V-shaped recovery and full recovery occurred within 68 months of the peak. In 2000 full recovery took 92 months. We are in the 56th month of the current cycle, and employment is at 94 percent of peak. In both of the prior cycles employment was closer to 98 percent of peak. The State appears to be years from full recovery.



MISSISSIPPI EMPLOYMENT TRENDS



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