

Mississippi's Business

December 2013

Monitoring The State's Economy

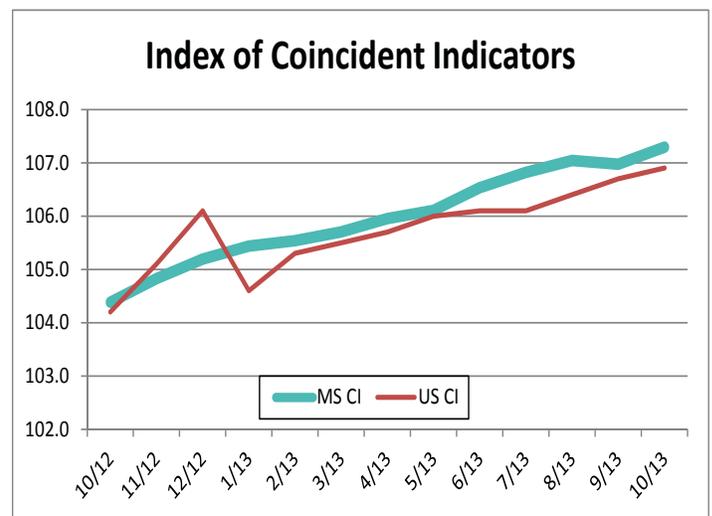
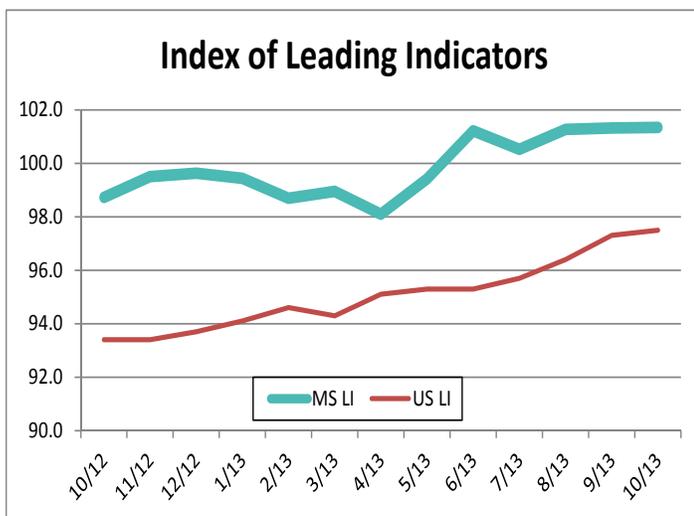
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ECONOMY AT A GLANCE

The October Mississippi Index of Leading Indicators remained at the same level of the previous two months. Declines in building permits, manufacturing workweek length and consumer expectations offset gains in other components for the month of October. The Mississippi Index of Coincident Indicators rose in October, more than overcoming the slight dip that occurred in September. However, the growth relative to the year ago has softened over the past few months. Additionally, the year-over-year growth in personal income less transfer payments has slowed substantially through 2013. Employment, which has been anemic for over a decade, remains the brightest spot in the state's economy. Given the slow income growth, many of these jobs are likely low paying. This is consistent with national trends as well.

According to recently released GDP data, growth of the national economy improved in the third quarter relative to the second. However the improvement was largely technical and will likely be lost going forward. The U.S. economy was evidently struggling to gain momentum before the government shutdown and was certainly not helped by the loss of activity during the shutdown. We therefore expect a rather modest growth for the fourth quarter. Growth is expected to improve in 2014 as the housing recovery resumes. National employment trends have improved in recent months which if continued, will give a boost to consumer spending in 2014. Retail sales growth during the Christmas shopping season is expected to be positive, but slower than that observed in 2012. Consumer sentiment is relatively low as is income growth.



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 2013

The October **Mississippi Index of Leading Economic Indicators** stood at 101.3, the same level as the previous two months. In fact, except for a steep dip in July, the index has largely been unchanged since June. The essentially flat index portends little economic momentum in the near term.

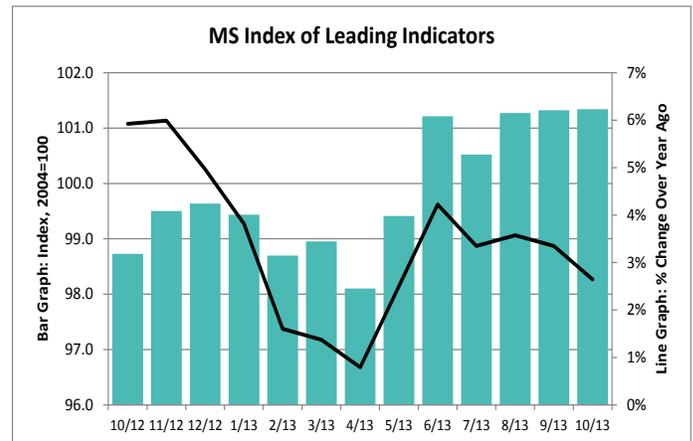
Of the eight components of the Index, five contributed positively to the October Index, while three contributed negatively. The components will be discussed in order of positive contribution.

Inflation adjusted **Mississippi income tax withholdings**¹ rose 1.3 percent in October over September. It was the third gain in as many months. Relative to the year ago, withholdings were up 4.1% in October. For the first eleven months of 2013, withholdings were up 3.1 percent over the year ago level. In 2012, the growth rate was 4.3 percent for the same period.

The **Institute for Supply Management Index of U.S. Manufacturing Activity** rose to a level of 57.3 in November. This was the highest level since April 2011. The Index appears surprisingly strong in light of other surveys which show a relatively weaker manufacturing sector. Hard manufacturing data such as business investment in durable goods and nondefense capital goods orders also suggest the ISM index may be overstating the recovery of this sector. The ISM Index of Nonmanufacturing Activity fell in November.

U.S. retail sales rose 0.4 percent in October. Excluding autos, sales were a much more modest 0.2 percent. Consumer spending remains relatively modest. Low consumer sentiment and weak income growth are having a dampening effect. In light of these issues, retail sales during the 2013 Christmas shopping season is expected to be positive but below that of 2012. Light vehicle sales continue at a strong pace. Sales had moderated in September and October, possibly due to the shutdown, but roared back in November.

The **Mississippi Diesel Fuel Consumption Index**¹ rose 1.3 percent in October. It was the second consecutive monthly gain. The October index was the highest since November 2012.



Mississippi's initial unemployment claims fell 2.7 percent in October. On average, claims are down 10.7 percent in 2013 relative to 2012. Continued claims are down 11.6 percent for the same period.

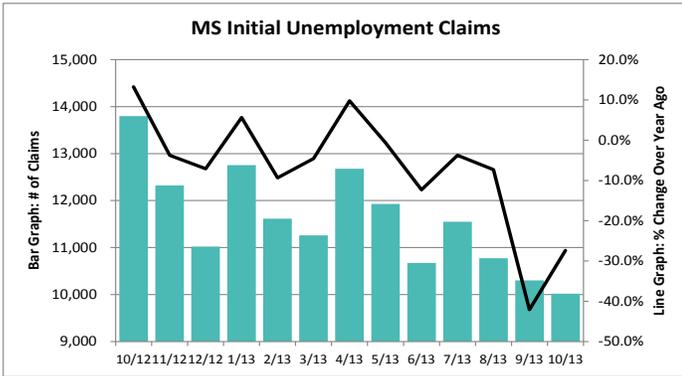
The **value of Mississippi residential building permits**¹ fell 2.2 percent in October. It was the second consecutive monthly decline; neither decline was significantly large. The value of residential building permits for the first 10 months of 2013 was 12.7 percent above 2012. Nationally the industry dipped in the late summer, but remains on a path of recovery.

The **Mississippi Manufacturing Employment Intensity Index** fell 1.1 percent in October. The decline follows two months of gains. The index has two components: average weekly manufacturing hours worked and employment. The October decline was due to a shorter manufacturing workweek length. The number of people employed in manufacturing rose for the month.

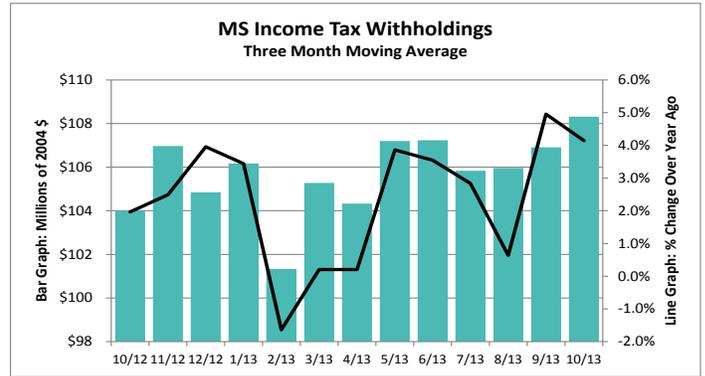
The **U.S. Index of Consumer Expectations**¹ fell a strong 3.4 percent in October to a level of 65.7, the lowest level since December 2011. Slow job and income growth have certainly factored in the decline, but Washington gridlock and the shutdown really troubled consumers. Congress is working to find a budget deal and a longer-term rise in the debt ceiling before the Christmas break. If successful this will help sentiment. In fact, the preliminary December Index shows dramatic improvement. If gridlock continues, sentiment will likely decline.

1. Three Month Moving Average

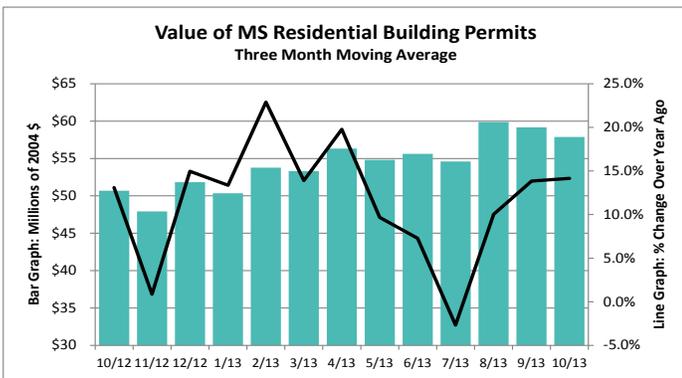
LEADING ECONOMIC INDICATORS



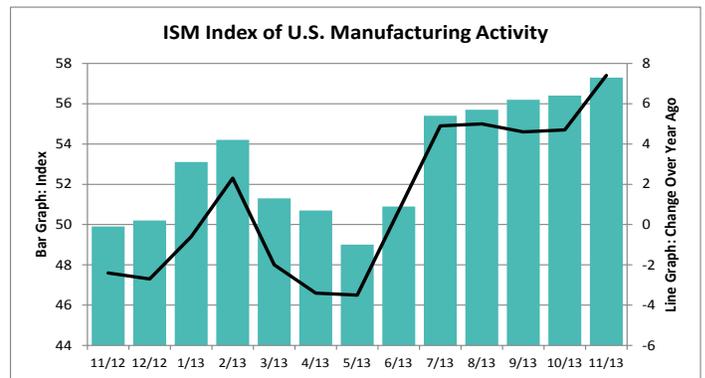
Source: Mississippi Department of Employment Security



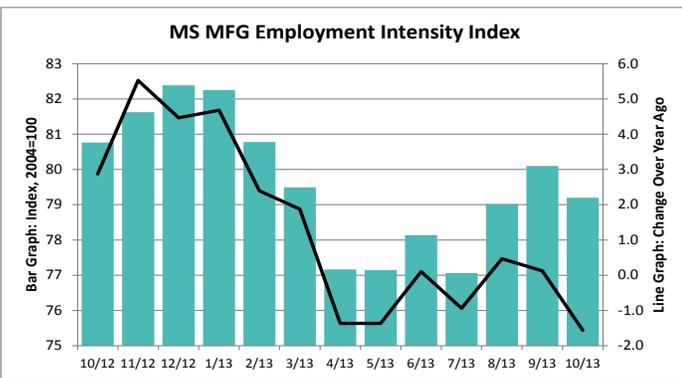
Source: Mississippi Department of Revenue



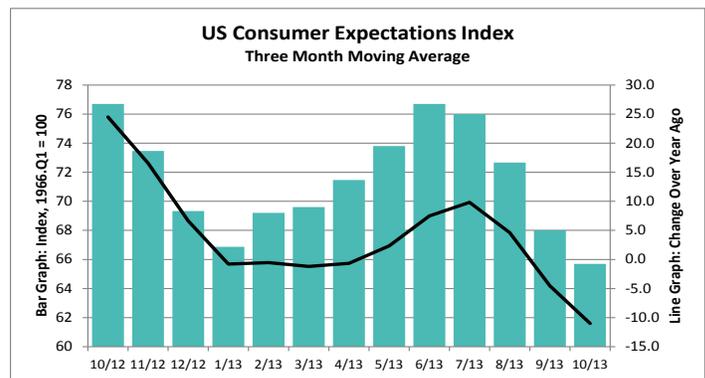
Source: Bureau of the Census



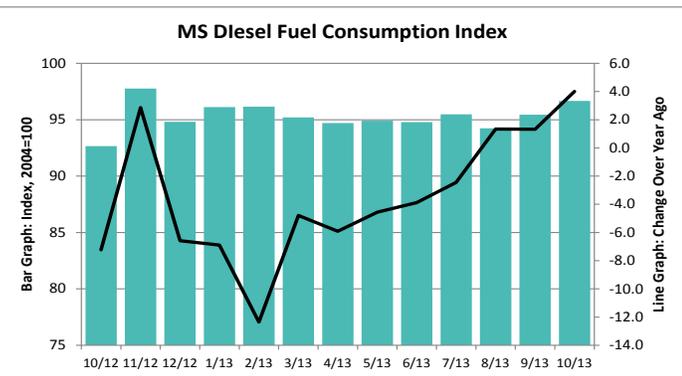
Source: Institute For Supply Management



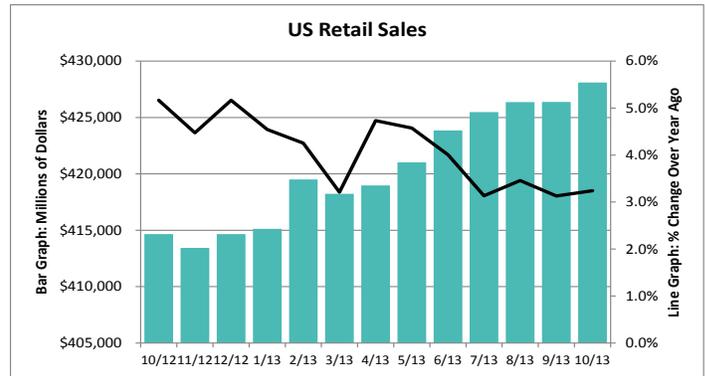
Source: URC using data from Bureau of Labor Statistics



Source: University Of Michigan



Source: URC using Data from Mississippi Department of Revenue

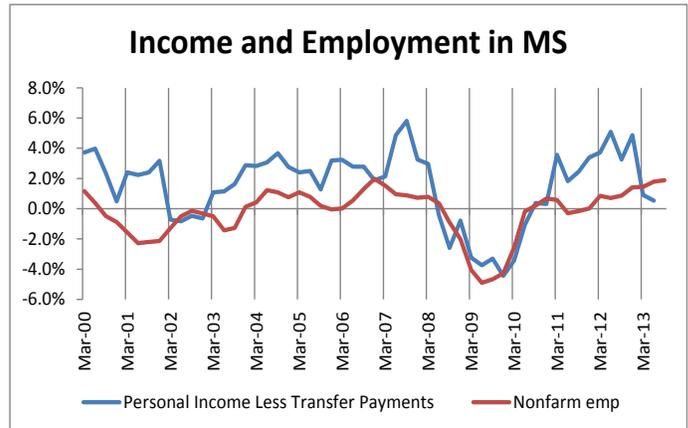
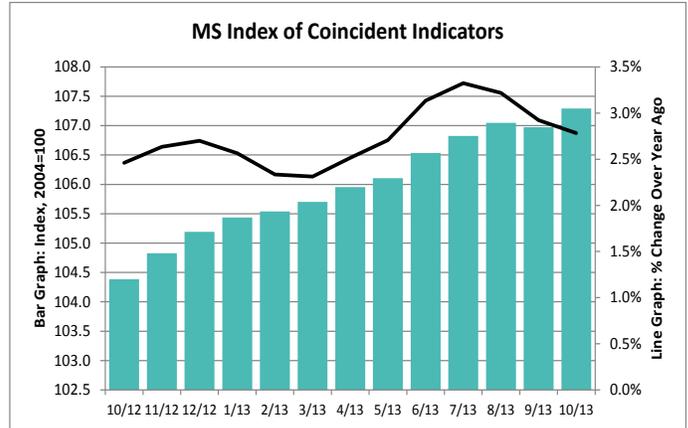


Source: Bureau of the Census

The **Mississippi Index of Coincident Indicators**, for October was 107.3, or 0.3 percent above the September Index. The gain more than recovered the slight decline that occurred in September. Relative to the year ago, the Index is up 2.8 percent. The annual growth rate has softened over the past three months suggesting some loss of momentum. The economy continues to grow at a modest pace nonetheless.

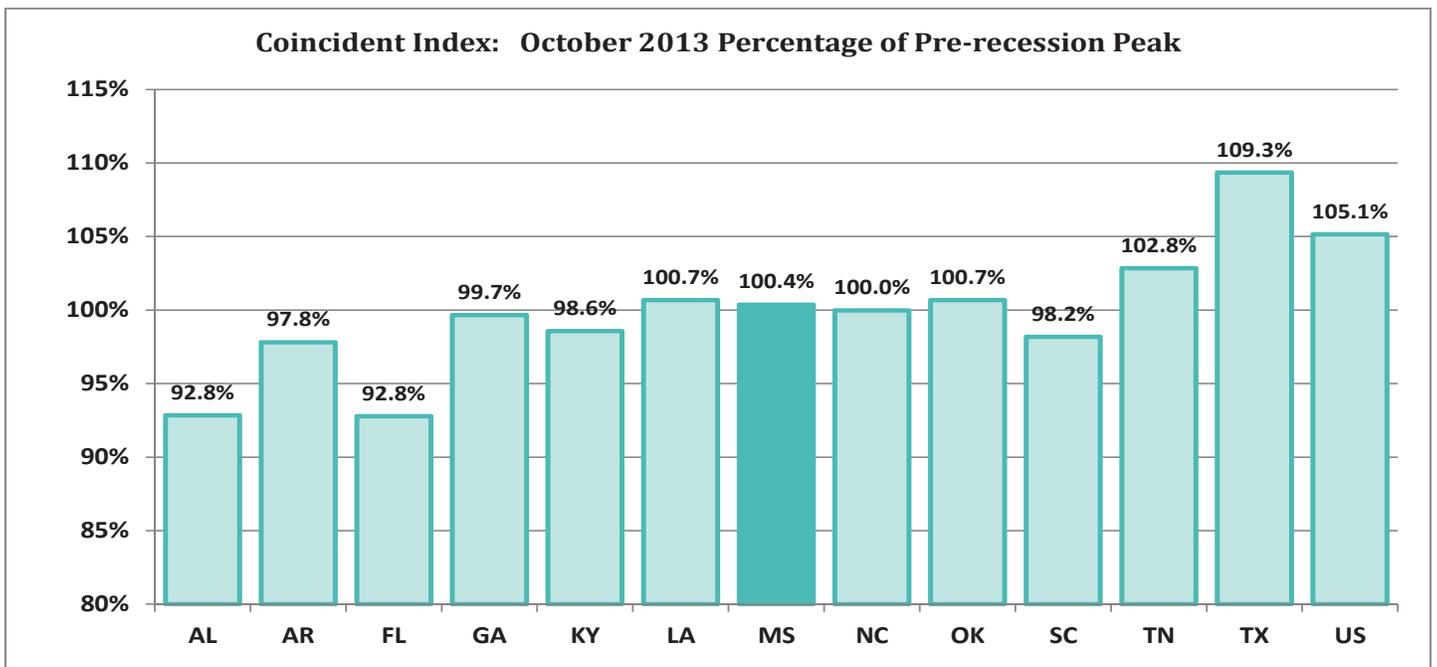
The Coincident Index is primarily an indication of the state's labor market. It is useful then to compare employment trends to income trends. The bottom graph to the right shows year-over-year growth for income less transfer payments and nonfarm employment for Mississippi by quarter. Notice that employment growth has continued to improve in 2013 but income growth has fallen substantially. As we have stated in previous issues, many of the jobs added in 2013 have been low-paying. This might explain the divergence of the trends. It is also worth noting that income growth is the lowest since 2010. We expect this has improved at least somewhat in the latter half of 2013.

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" at least as measured by the Coincident Index. Six southeastern states have regained their pre-recession



Coincident Index peak. Mississippi is at 100.4 percent of its peak.

The map on page 5 shows the October index for each state compared to the level three months prior. Mis-



Mississippi's index rose 0.44 percent. This was down from that observed a few months ago. The U.S. average growth was 0.7 percent. Most of the southeastern states are seeing relatively strong gains but Alabama declined relative to the period three months prior. Alaska, Montana, Ohio and Wyoming have also declined.

National Trends

The U.S. Index of Leading and Coincident Indicators each rose 0.2 percent in October. The Conference Board continues to expect growth through the end of 2013 and a possible gain in momentum in 2014.

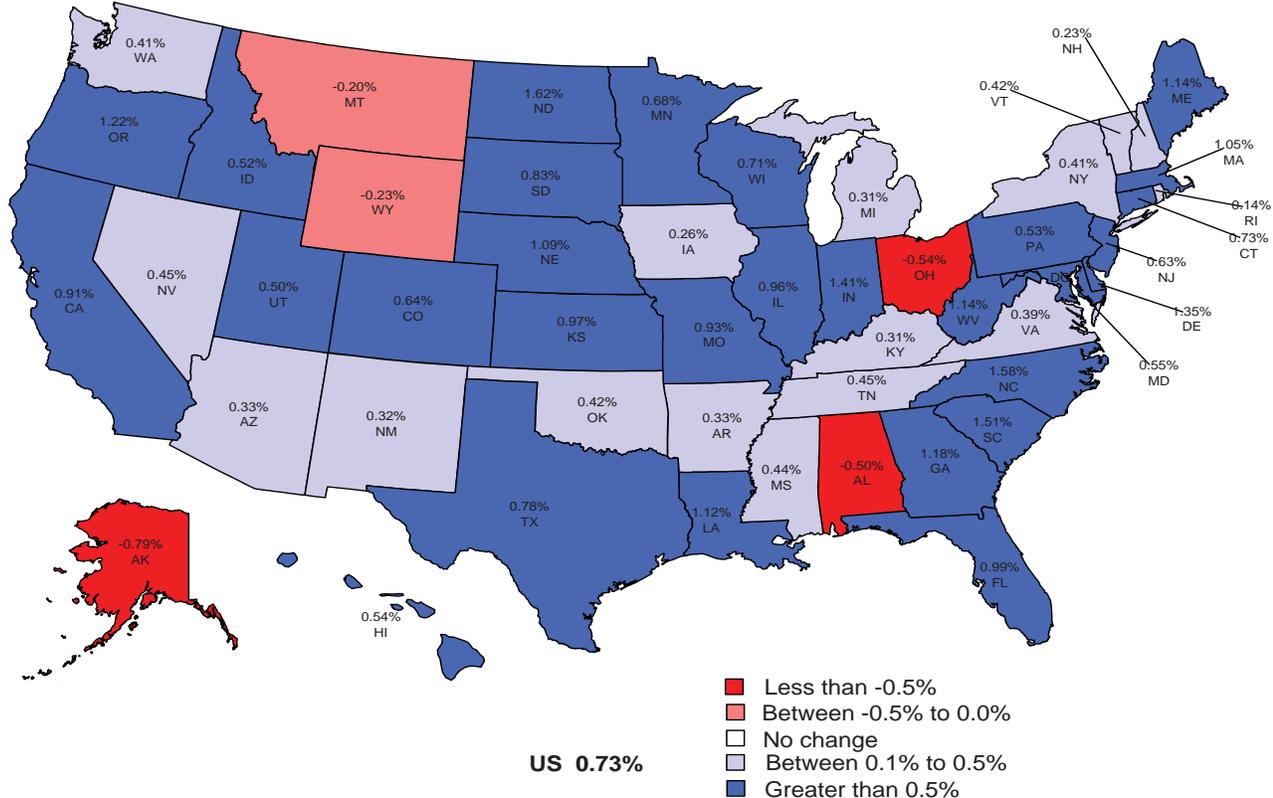
The Bureau of Economic Analysis (BEA) released a revised estimate for the third quarter real GDP growth. This most recent estimate shows improvement in the third quarter relative to the second. BEA estimates the economy expanded 3.6 percent in the third quarter and 2.5 percent in the second quarter. The acceleration was largely due to inventory accumulation. The economy will therefore give up some growth going forward.

Without the inventory buildup, real GDP grew 1.9 percent in the third quarter. This was slower than the 2.1 percent observed in the second quarter. The economy was obviously struggling to gain momentum before the government shut-down in October. We can therefore expect a fairly weak fourth quarter GDP estimate.

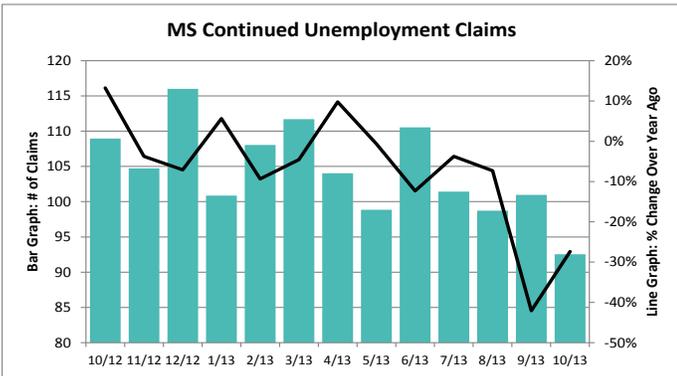
Growth is expected to improve in 2014. Pent-up housing demand is expected to drive a revival in this sector giving a boost to the overall economy. Recent employment figures have shown an uptick that, if continued, will give rise to improved consumer spending.

If employment continues to improve, there will be increased pressure for the Fed to begin tapering. This could be as early as January. It is not likely to begin however until after some settlement is reached concerning the budget and the raising of the debt-ceiling. Congress is currently negotiating a deal they hope to complete before their Christmas break. IHS Global Insight does not expect the tapering to have a significant impact on interest rates.

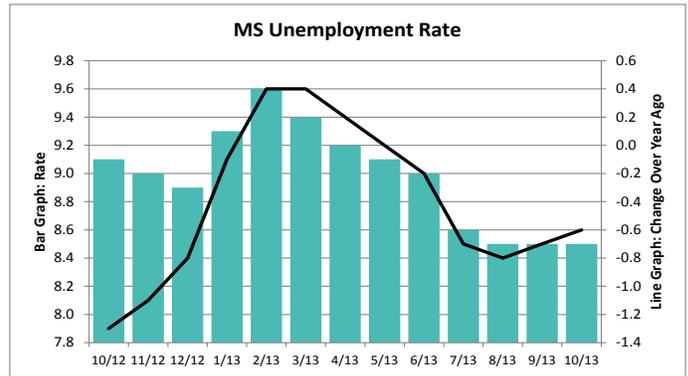
Three Month Growth in The Index of Coincident Economic Indicators, October 2013



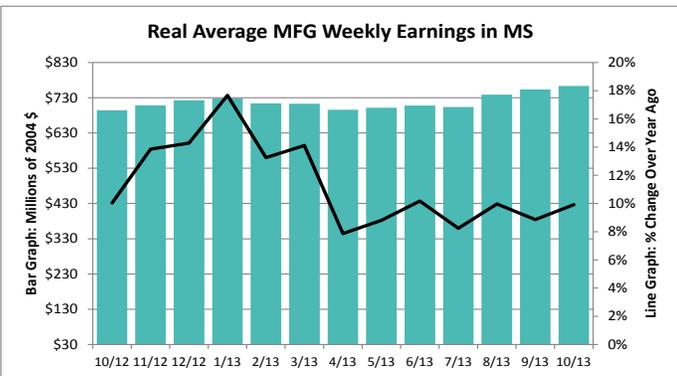
MISCELLANEOUS ECONOMIC INDICATORS



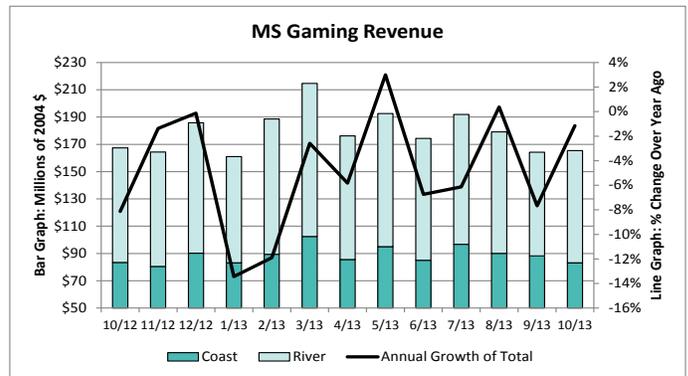
Source: Mississippi Department of Employment Security; Seasonally Adjusted



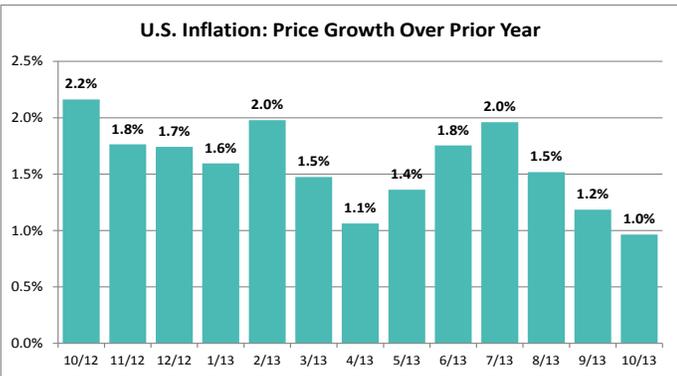
Source: U.S. Bureau of Labor Statistics; Seasonally Adjusted



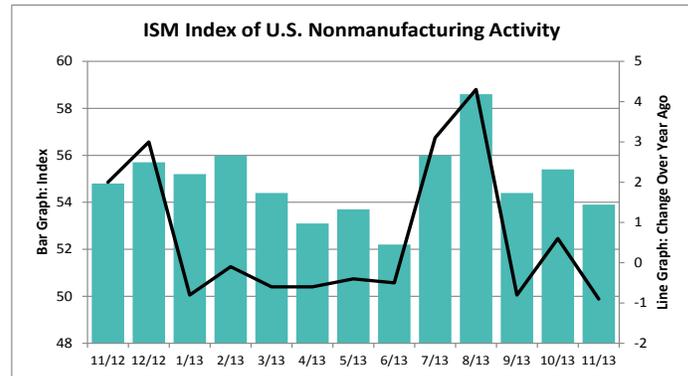
Source: U.S. Bureau of Labor Statistics; Nonseasonally Adjusted



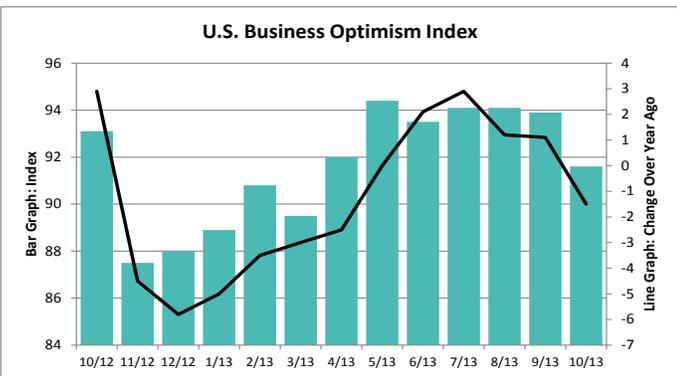
Source: MS Department of Revenue; Nonseasonally Adjusted



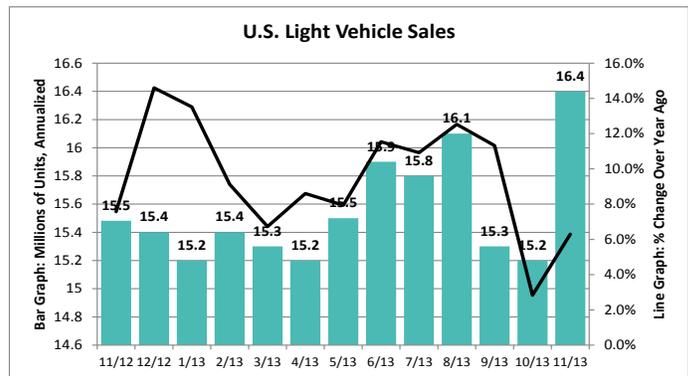
Source: U.S. Bureau of Labor Statistics



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 2013	September 2013	October 2012	Change from Last Mo. Last YR.	
US Index of Coincident Indicators 2004=100, Source: The Conference Board	106.9	106.7	104.2	0.2%	2.6%
MS Index of Coincident Indicators 2004=100, Source: Federal Reserve Bank of Philadelphia	107.3	107.0	104.4	0.3%	2.8%
US Index of Leading Indicators 2004=100, Source: The Conference Board	97.5	97.3	93.4	0.2%	4.4%
MS Index of Leading Indicators 2004=100, Source: University Research Center	101.3	101.3	98.7	0.0%	2.6%
MS Initial Unemployment Claims Source: Mississippi Department of Employment Security	10,020	10,301	13,800	-2.7%	-27.4%
MS Value Of Res. Building Permits 3 Mo. Moving Avg., Millions of 2004 Dollars, Source: Bureau of Census	57.9	59.2	50.7	-2.2%	14.2%
MS Income Tax Withholdings 3 Mo. Moving Avg., Millions of 2004 Dollars, Source: MS Department of Revenue	108.3	106.9	104.0	1.3%	4.1%
MS MFG Emp. Intensity Index Indexed 2004 =100, Source: URC using data from Bureau of Labor Statistics	79.2	80.1	80.8	-1.1%	-1.9%
MS Diesel Fuel Consumption Index 3 Mo. Moving Avg. 2004=100, Source: URC using data from MS Department of Revenue	96.7	95.4	92.7	1.3%	4.3%
US Index of Consumer Expectations 3 Mo. Moving Avg. Index 1996 q1=100, Source: University of Michigan	65.7	68.0	76.7	-3.4%	-14.3%
US ISM Index of MFG Activity Advanced 1 Month, Source: Institute For Supply Management	57.3	56.4	49.9	1.6%	14.8%
US Retail Sales Millions of Dollars, Source: Bureau of Census	428,099	426,369	414,652	0.4%	3.2%
US Consumer Price Index 2004=100, Source: URC using data from Bureau of Labor Statistics	123.6	124.0	122.5	-0.3%	1.0%
MS Unemployment Rate Source: Bureau of Labor Statistics	8.5%	8.5%	9.1%	0.0%	-0.6%
MS Continued Unemp. Claims Source: Mississippi Department of Employment Security	92,536	100,975	108,947	-8.4%	-15.1%
US Mortgage Rates 30 Yr. Conventional, Source: Federal Reserve	4.4%	4.6%	3.5%	-0.2%	0.8%
MS Avg. Hourly Wage for MFG 2004 Dollars, Source: Bureau of Labor Statistics	18.45	17.77	16.50	3.9%	11.9%
MS Avg. Wkly Earnings for MFG 2004 Dollars, Source: Bureau of Labor Statistics	763.37	753.84	694.48	1.3%	9.9%
Business Optimism Index 1986=100, Source: National Federation of Independent Businesses	91.6	93.9	93.1	-2.4%	-1.6%
Gaming Revenue	165.5	164.3	167.4	0.7%	-1.1%
Coast Counties	83.2	88.2	83.5	-5.6%	-0.3%
River Counties	82.3	76.1	83.9	8.1%	-2.0%
Nonseasonally adjusted, Millions of Dollars, Source: MS Department of Revenue					

Economic Indicators

Components of the MS Index of Leading Indicators

Miscellaneous Indicators

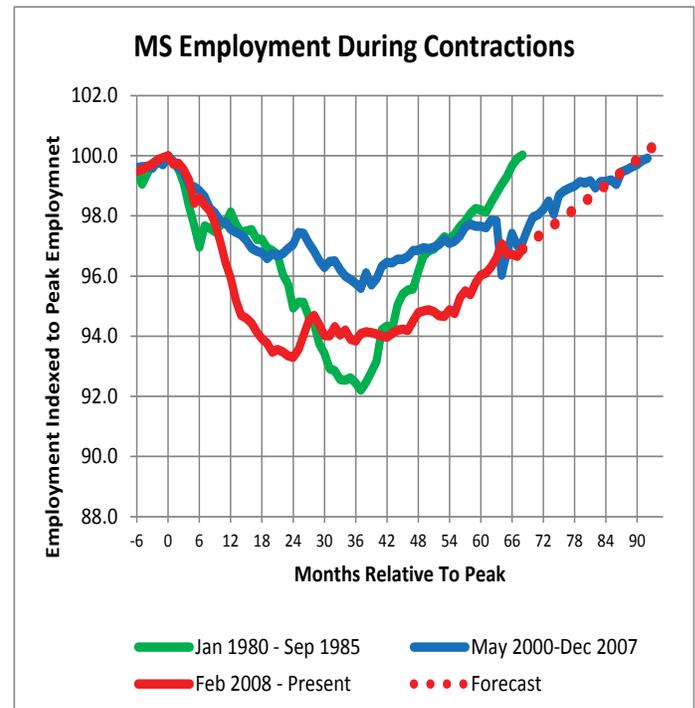
MISSISSIPPI EMPLOYMENT TRENDS

Mississippi employment rose 2,700 jobs in October or 0.2 percent. The state had experienced relatively strong growth in jobs until a sharp decline in July. Jobs remained flat in August before declining again in September. The October gain recovers over half of the 4,800 jobs lost in the late summer.

The October increase was concentrated in construction (1,900) and manufacturing (1,200 jobs). These gains were offset by large declines in professional and business services (1,300 jobs). Manufacturing employment has increased in four of the last five months after declining sharply in March, April and May. The October level of employment is almost on par with the level of February 2013. Construction has been a source of growth for much of 2013.

The graph to the right compares the current job cycle to the one occurring in the 1980-1985 period and the one occurring in the 2000-2007 period. The X-axis gives the month relative to the peak of the jobs cycle (month 0). The Y axis represents the percent of peak employment by month. When the index reaches 100, all jobs lost during the job cycle are restored. Under

the current URC forecast, the state will have gained all of the jobs lost in the Great Recession by the second half of 2015. This jobs cycle would then be as long as the 2000-2007 cycle.



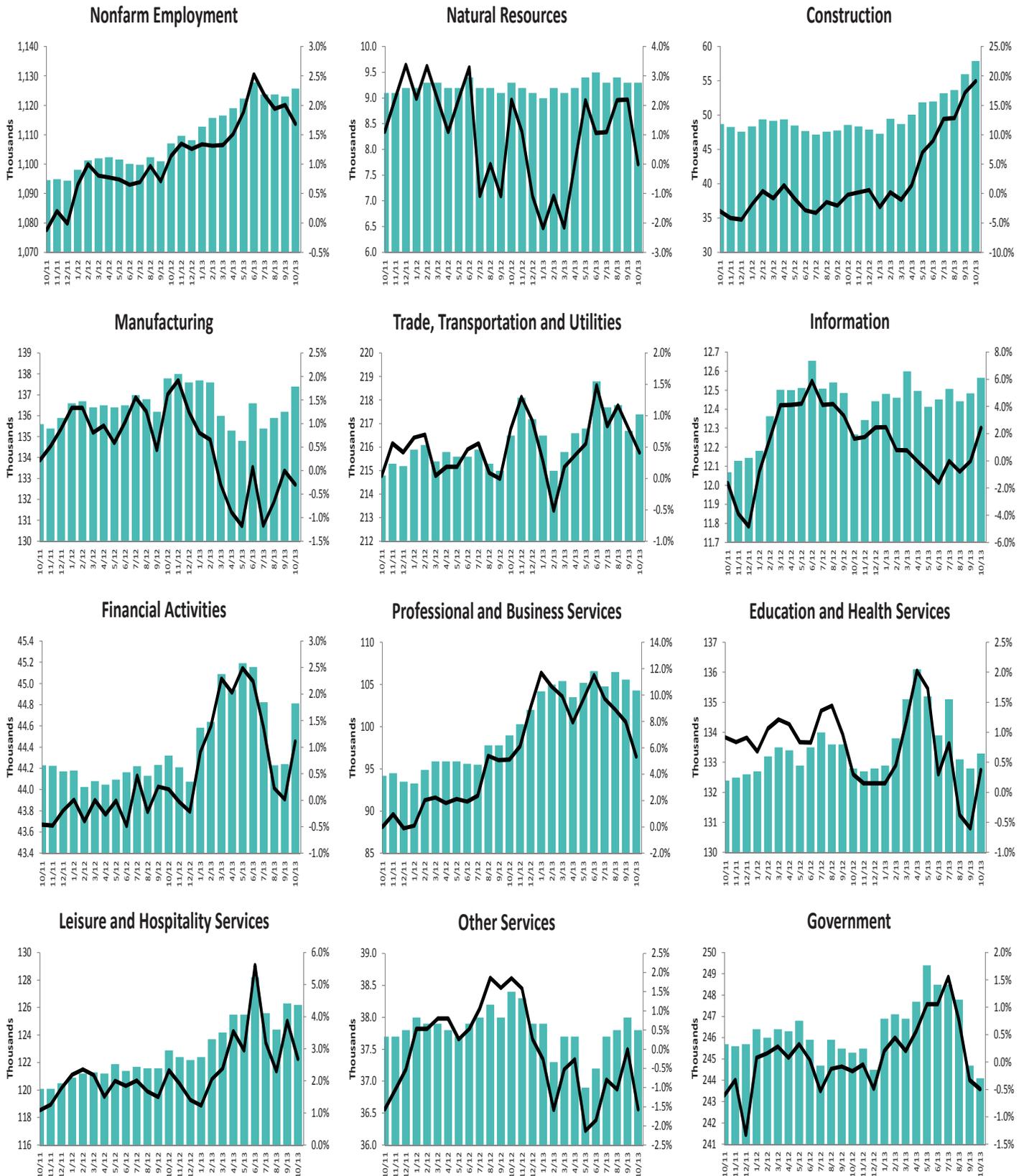
Mississippi Employment by Sector, Seasonally Adjusted

	Relative Share of Total*	October 2013	September 2013	October 2012	Change from Prior Month Level	%	Change from Prior Year Level	%
Total Nonfarm	100.0%	1,125,800	1,123,100	1,107,100	2,700	0.2%	18,700	1.7%
Mining and Logging	0.8%	9,300	9,300	9,300	-	0.0%	-	0.0%
Construction	4.6%	57,900	56,000	48,600	1,900	3.4%	9,300	19.1%
Manufacturing	12.2%	137,400	136,200	137,800	1,200	0.9%	(400)	-0.3%
Trade, Transportation & Utilities	19.4%	217,400	216,700	216,500	700	0.3%	900	0.4%
Retail Trade	11.9%	134,400	133,600	133,100	800	0.6%	1,300	1.0%
Information	1.1%	12,567	12,484	12,268	82	0.7%	299	2.4%
Financial Activities	4.0%	44,813	44,242	44,322	572	1.3%	491	1.1%
Services	35.8%	401,600	402,700	393,100	(1,100)	-0.3%	8,500	2.2%
Professional & Business Serv.	9.3%	104,300	105,600	99,000	(1,300)	-1.2%	5,300	5.4%
Education & Health Services	12.0%	133,300	132,800	132,800	500	0.4%	500	0.4%
Leisure & Hospitality	11.1%	126,200	126,300	122,900	(100)	-0.1%	3,300	2.7%
Other Services	3.4%	37,800	38,000	38,400	(200)	-0.5%	(600)	-1.6%
Government	22.1%	244,100	244,700	245,300	(600)	-0.2%	(1,200)	-0.5%

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

Source: U.S. Bureau of Labor Statistics

MISSISSIPPI EMPLOYMENT TRENDS



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