// MISSISSIPPI'S BUSINESS
Monitoring the state's economy
A Publication of the **University Research Center**, Mississippi Institutions of Higher Learning
DECEMBER 2014
VOLUME 72, NUMBER 12

MISSISSIPPI'S BUSINESS

ECONOMY AT A GLANCE

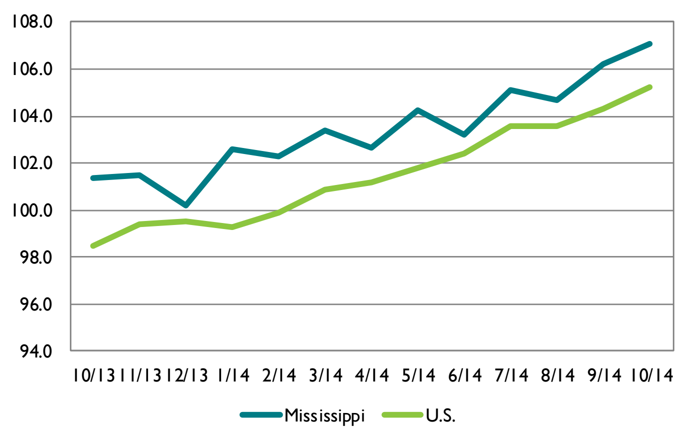
For the first time in over a year, in October the Mississippi Leading Index (MLI) increased for the second consecutive month. As Figure 1 indicates, the MLI rose 0.8 percent in October and its value was 5.6 percent higher compared to one year ago. The value of the MLI is up 8.6 percent over the past six months.

The value of the Mississippi Coincident Index increased by 0.1 percent for the second consecutive month in October as indicated in Figure 2 below. The Index was 1.4 percent higher compared to one year ago. The last month the value of the Index decreased was March.

The second estimate by the U.S. Bureau of Economic Analysis (BEA) of third quarter real U.S. gross domestic product (GDP) released on November 25 indicates real GDP rose 3.9 percent in the third quarter, an increase over the initial estimate of 3.5 percent. Real U.S. GDP over the last six months rose 4.25 percent, representing the most growth for two consecutive quarters since the second half of 2003. While U.S. consumers appear poised for a solid holiday shopping season, falling export demand is expected to cut into fourth quarter growth. Thus, given the contraction in real GDP in the first quarter, the U.S. economy will likely grow slightly more than 2 percent in 2014, similar to its performance in 2013 and 2012.

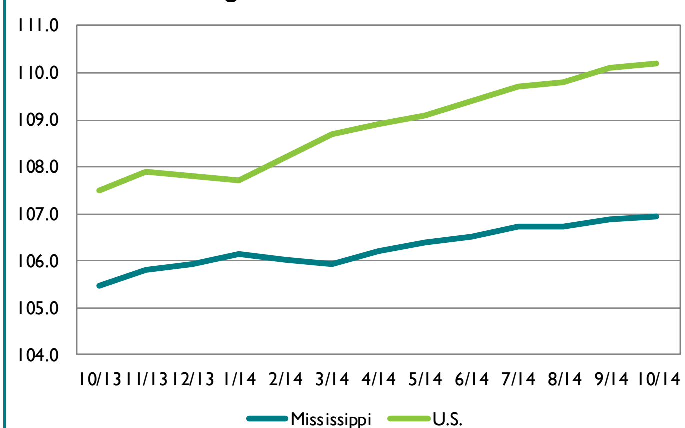
The U.S. Department of Labor reported the U.S. economy added 321,000 jobs in November, well above the expectations of almost all analysts. Employment in September and October was also revised up by 44,000 jobs. Depending on employment growth in December, the U.S. economy is on pace to add more jobs in 2014 than in any year since 1999.

Figure 1. Leading indices



Sources: University Research Center and The Conference Board

Figure 2. Coincident indices



Sources: Federal Reserve Bank of Philadelphia and The Conference Board

Notes: 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 from The Conference Board. All series are indexed to a base year of 2004.

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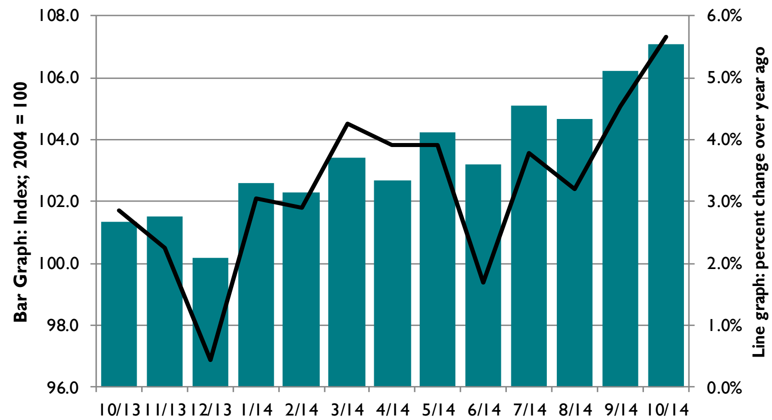
MISSISSIPPI LEADING INDEX, OCTOBER 2014

As seen in Figure 3, the **Mississippi Leading Index of Economic Indicators** (MLI) rose 0.8 percent in October. This increase marked the first time the value of the index increased or decreased for at least two consecutive months since September 2013. The value reached 107.1 and was 5.6 percent higher compared to one year ago.

Five of the eight components of the index contributed positively in October, led by withholdings. Discussion of each component appears below in order of largest to smallest contribution.

Figure 3. Mississippi Leading Index



Source: University Research Center

For the second consecutive month, the value of **Mississippi income tax withholdings** (three-month moving average) rose in October. As indicated in Figure 4, the value increased 3.2 percent from the previous month and was 4.9 percent higher compared to one year ago. The value of withholdings has increased in three of the last four months.

Besting last month's increase, the **University of Michigan Index of Consumer Expectations** (three-month moving average) moved higher by 3.8 percent in October as Figure 5 indicates. The value of the index reached its highest level since March 2007. This level was also up a strong 19.2 percent compared to October 2013. Lower retail gasoline prices nationwide continue to bolster consumers' outlooks. The one-year inflation expectations component of the Index fell for the fourth consecutive month.

As seen in Figure 6, in October the value of the **Mississippi Manufacturing Employment Intensity Index** rebounded strongly from September, rising 1.4 percent. Moreover, compared to one year ago the Index was 5.4 percent higher in October. Employment in manufacturing in Mississippi, average weekly earnings in manufacturing, and the average hourly wage for manufacturing all increased in October, leading to the gain in the Index. Average weekly earnings in manufacturing were up 1.3 percent for the month.

Rebounding from its September decline, **U.S. retail sales** rose 0.3 percent in October as indicated in Figure 7. Sales not including automobiles also rose 0.3 percent. While the gain was more than expected, declining gasoline prices kept sales from increasing more. Compared to October 2013, retail sales were 4.3 percent higher. The year-over-year increase in sales has exceeded 4.0 percent in each month starting in March.

The **Mississippi Diesel Fuel Consumption Index** (three-month moving average) increased in value by 1.6 percent in October as seen in Figure 8. Compared to one year ago, the value was 0.5 percent higher. According to the U.S. Energy Information Administration the average price of a gallon of diesel fuel in October for the Gulf Coast district (which includes Mississippi) was $3.613. This price fell 2.5 percent from September and marked the sixth consecutive monthly decline. The October average price was also 4.8 percent lower than one year ago.

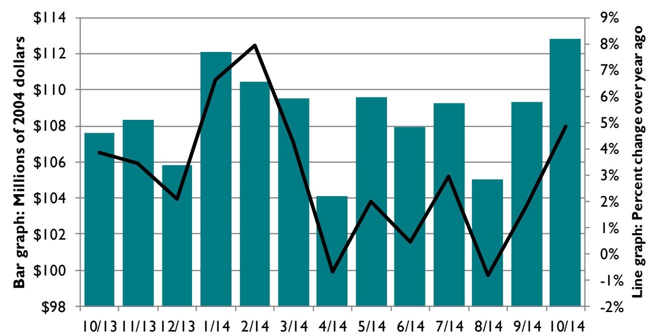
The **Institute for Supply Management Index of U.S. Manufacturing Activity** slipped 0.5 percent in November as Figure 9 indicates. Compared to one year ago the Index remained 3.0 percent higher. The Index has declined in two of the last three months. The pace of hiring in the manufacturing industry has declined from earlier in the year as the Employment component lost 1.0 percent in November. The Production component also fell slightly; however, both New Orders and New Export Orders rose.

Seasonally-adjusted **initial unemployment claims** in Mississippi increased in October for the second consecutive month as seen in Figure 10. Total initial claims rose 4.0 percent to their highest level since July. Initial claims remain 14.1 percent below the value of one year ago, however. Also for the second consecutive month, seasonally-adjusted continued unemployment claims decreased as indicated in Figure 15 on page 6. Continued claims fell 5.4 percent in October and were 25.1 percent below the level of one year ago. As indicated in Figure 16 on page 6,

(Continued on page 4)

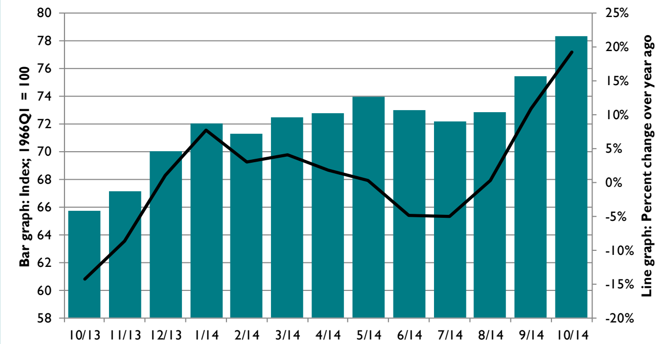
COMPONENTS OF MISSISSIPPI LEADING INDEX, IN FIGURES

Figure 4. Mississippi income tax withholdings
(Three-month moving average)



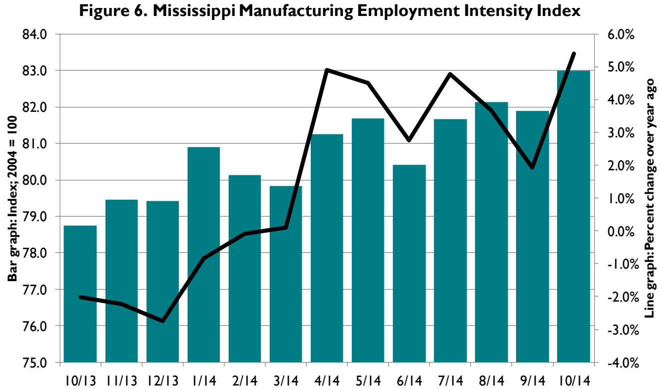
Source: Mississippi Department of Revenue; seasonally adjusted

Figure 5. University of Michigan Index of Consumer Expectations
(Three-month moving average)



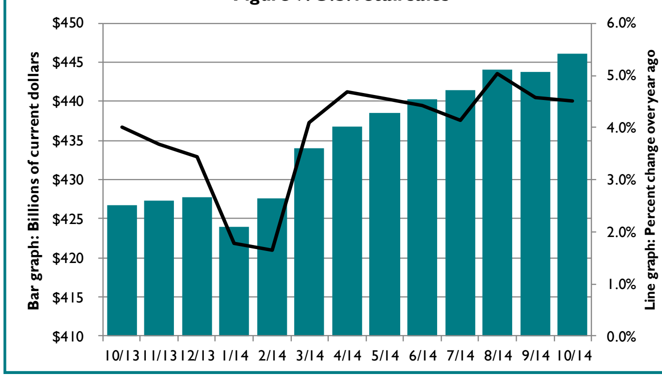
Source: Thomson Reuters/University of Michigan Surveys of Consumers

Figure 6. Mississippi Manufacturing Employment Intensity Index



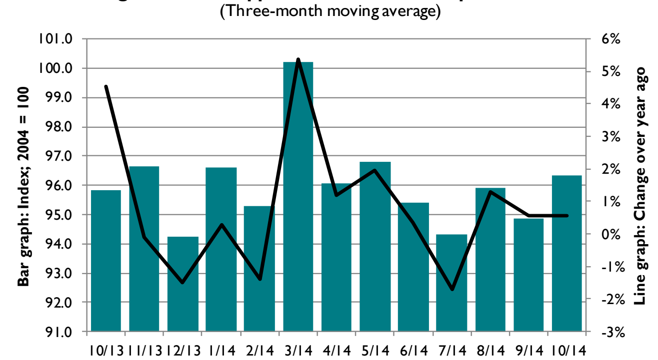
Source: URC using data from Bureau of Labor Statistics

Figure 7. U.S. retail sales



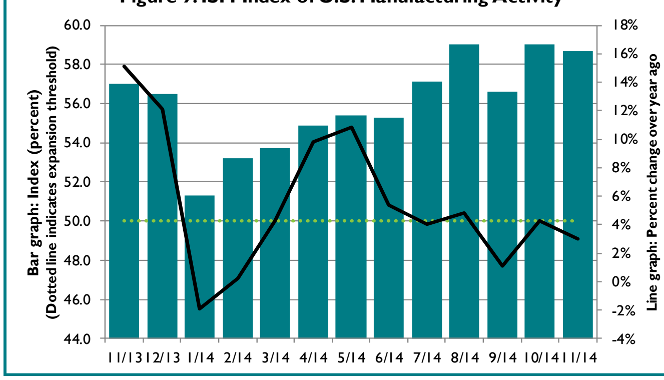
Source: Bureau of the Census

Figure 8. Mississippi Diesel Fuel Consumption Index
(Three-month moving average)



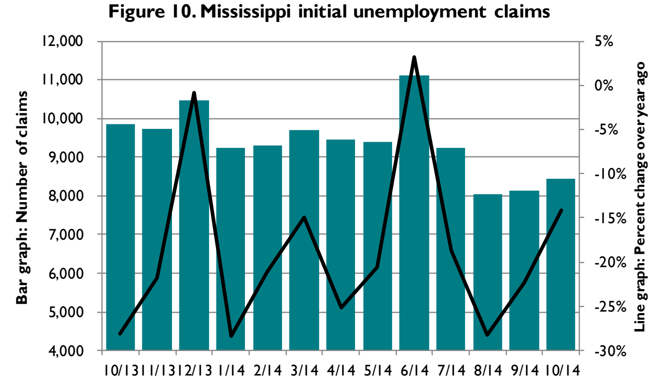
Source: URC using data from Mississippi Department of Revenue; seasonally adjusted

Figure 9. ISM Index of U.S. Manufacturing Activity



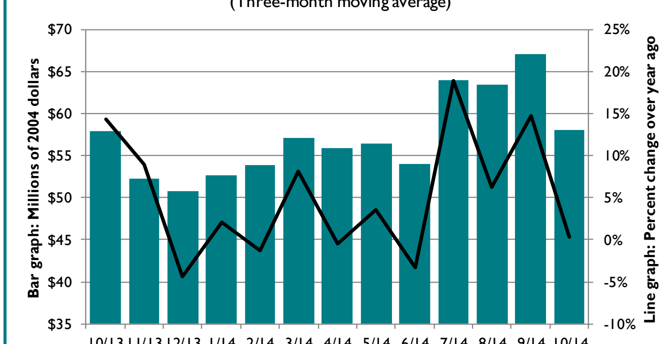
Source: Institute for Supply Management

Figure 10. Mississippi initial unemployment claims



Source: U.S. Department of Labor; seasonally adjusted

Figure 11. Value of Mississippi residential building permits
(Three-month moving average)



Source: Bureau of the Census; seasonally adjusted

MISSISSIPPI LEADING INDEX, OCTOBER 2014 (CONTINUED)

in October the seasonally-adjusted unemployment rate in Mississippi declined by 0.1 percentage points to 7.6 percent.

The **value of Mississippi residential building permits** (three-month moving average) decreased in October, falling 13.4 percent from the previous month. As seen in Figure 11, the value declined to its lowest level since July. The October value of permits remained 0.4 percent higher than one year ago. The seasonally-adjusted number of units for which building permits were issued (three-month moving average) in Mississippi fell 16.7 percent in October. Compared to one year ago this number was 15.5 percent lower. In the U.S. in October, privately-owned housing units authorized by building permits increased 4.8 percent over the revised September estimate. This value was 1.2 percent higher compared to one year ago.

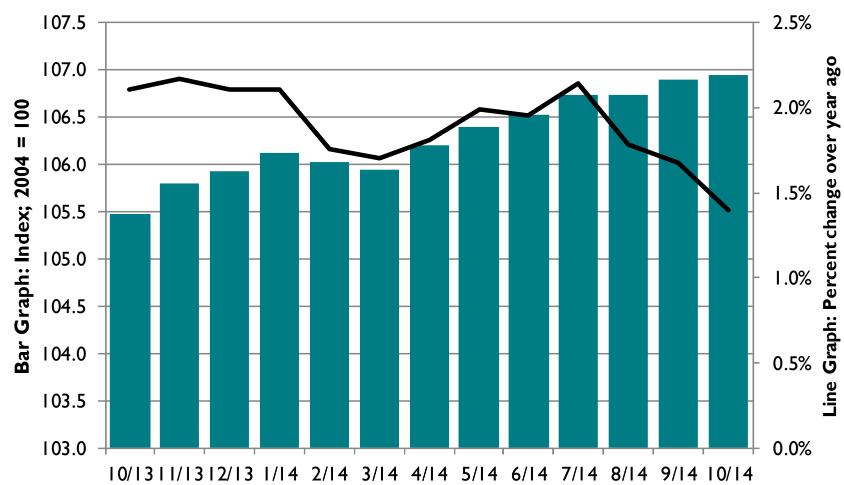
MISSISSIPPI COINCIDENT INDEX, OCTOBER 2014

In October the value of the **Mississippi Coincident Index of Economic Indicators** rose 0.1 percent as Figure 12 indicates. Following data revisions the index increased 0.1 percent for the second consecutive month. The value of the index was 1.4 percent higher than in October 2013.

The value of the Mississippi Coincident Index was at 100.3 percent of its pre-recession peak in October, a slight decrease from the previous month. The only states in the Southeast not fully recovered as measured by their respective coincident indices in October were Alabama and Florida, which have both lagged the other states in the region during the recovery. The value of the index for Texas continued to outpace other southeastern states and the nation as a whole, rising to more than 14 percent of its pre-recession peak in October.

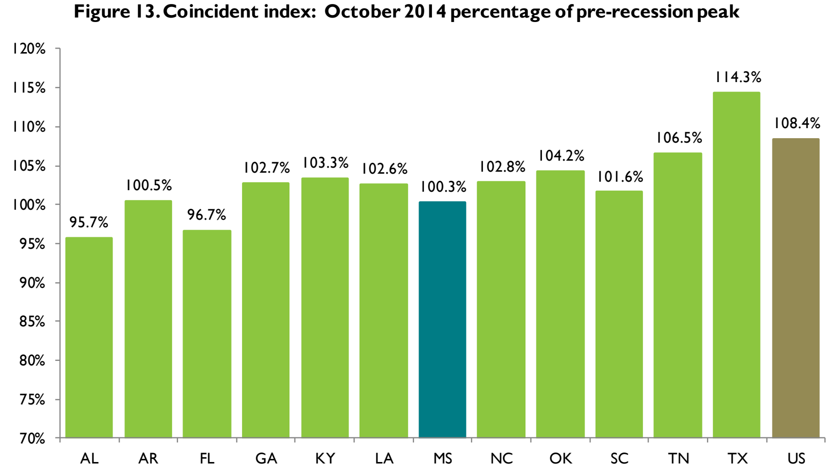
Figure 14 on page 5 indicates the values of the coincident indices in 48 states increased in October compared to July. Mississippi was one of 11 states with an index that increased between 0.0 and 0.5 percent compared to three months prior. The indices of the other 37 states increased more than 0.5 percent in October compared to July. Only the indices for Alaska and Vermont decreased in October compared to three months prior, a trend that has persisted in both states for the past six months.

Figure 12. Mississippi Coincident Index



Source: Federal Reserve Bank of Philadelphia

Figure 13. Coincident index: October 2014 percentage of pre-recession peak



Source: Federal Reserve Bank of Philadelphia

NATIONAL TRENDS

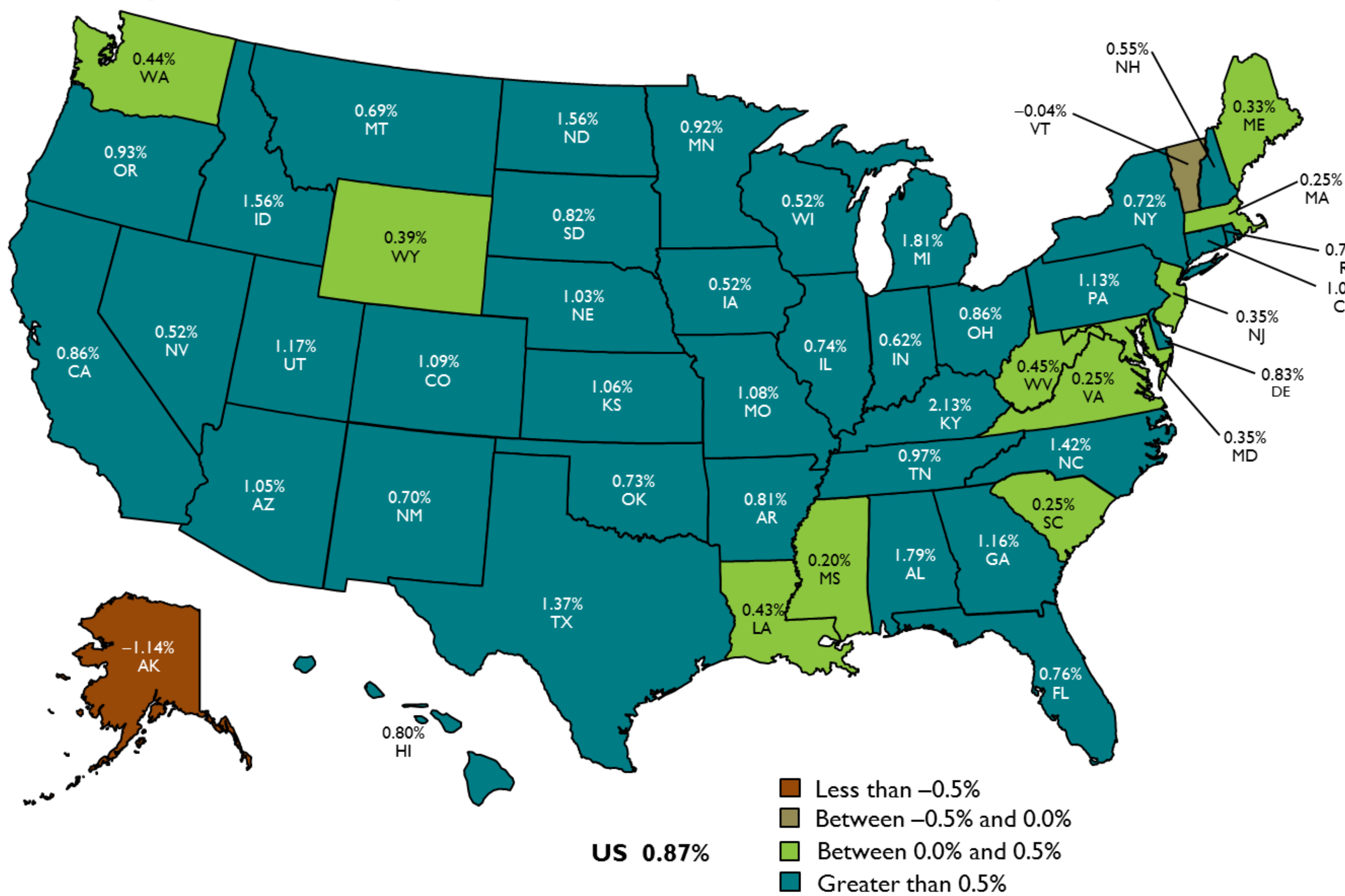
The Conference Board reported the U.S. Leading Economic Index (LEI) experienced another relatively large increase in October, as its value rose 0.9 percent. Compared to October 2013, the value of the LEI was 6.8 percent higher. Other than in August, when the value was unchanged, the LEI has increased in every month since January. Eight of the ten components of the LEI increased in October. Only stock market prices declined while average weekly manufacturing hours were unchanged. Over the past six months the LEI is up 4.0 percent with all ten components advancing.

The value of the U.S. Coincident Economic Index (CEI) as reported by The Conference Board edged higher by 0.1 percent in October. Despite the relatively small gain, October marked the ninth consecutive increase in the value of the CEI. Three of the four components of the CEI increased in October, as the only negative contribution came from industrial production. The value of the CEI rose 2.5 percent from one year ago.

In October, the National Federation of Independent Businesses (NFIB) Small Business Optimism Index recaptured the value it lost the previous month, returning to exactly its August level. The Index rose 0.8 percent in October to 96.1. Compared to one year ago the value of the Index was 4.9 percent higher. The share of firms reporting at least one "hard to fill" position and that plan to increase employment both increased in October. The number of firms that believe now is a good time to expand fell from the previous month, but remained at a six-year high.

The U.S. Federal Reserve may change its guidance regarding interest rates when the Federal Open Market Committee meets later this month. While inflation continues to run below the central bank's target rate of 2.0 percent, some economists believe strong job reports like in November could move up the Federal Reserve's timeline for raising short-term interest rates in 2015. Federal Reserve officials noted last month that action on interest rates primarily depends on the economy's performance.

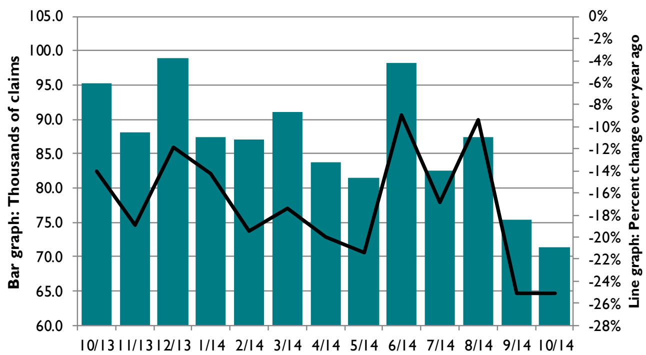
Figure 14. Three-month growth in the coincident index of economic indicators by state, October 2014



Source: Federal Reserve Bank of Philadelphia

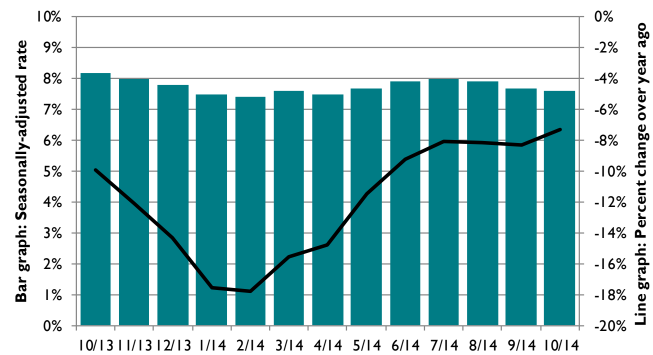
MISCELLANEOUS ECONOMIC INDICATORS, IN FIGURES

Figure 15. Mississippi continued unemployment claims



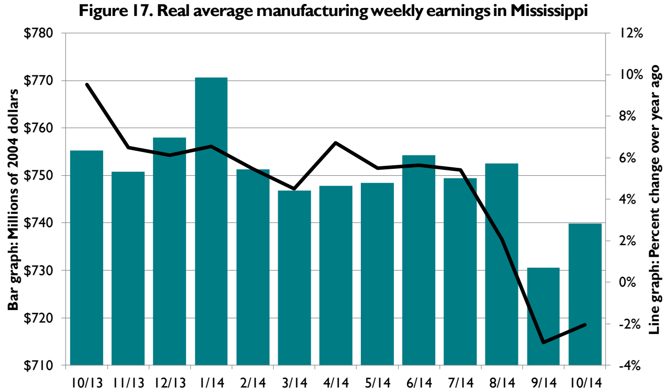
Source: U.S. Department of Labor; seasonally adjusted

Figure 16. Mississippi unemployment rate



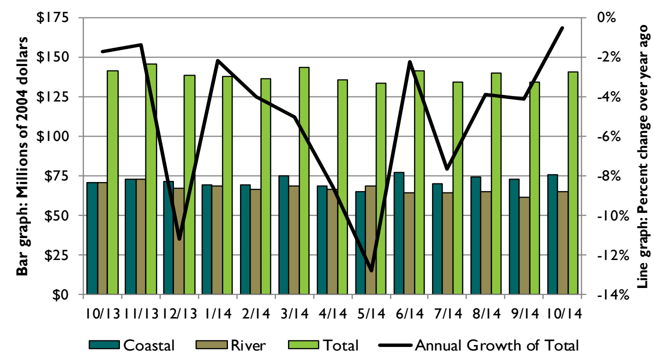
Source: U.S. Bureau of Labor Statistics; seasonally adjusted

Figure 17. Real average manufacturing weekly earnings in Mississippi



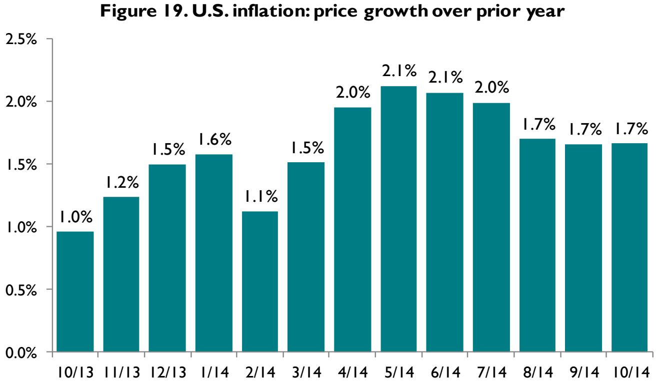
Source: U.S. Bureau of Labor Statistics; non-seasonally adjusted

Figure 18. Mississippi gaming revenue



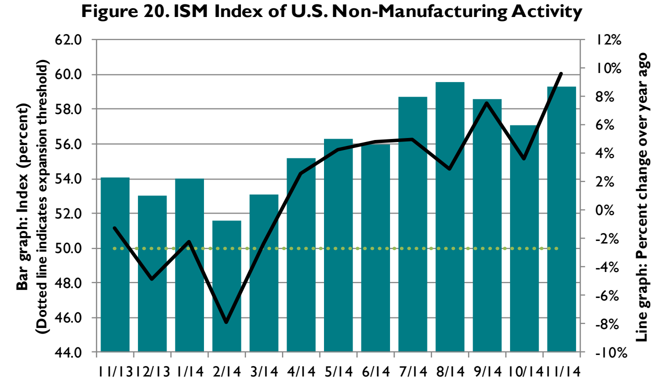
Source: Mississippi Department of Revenue; seasonally adjusted

Figure 19. U.S. inflation: price growth over prior year



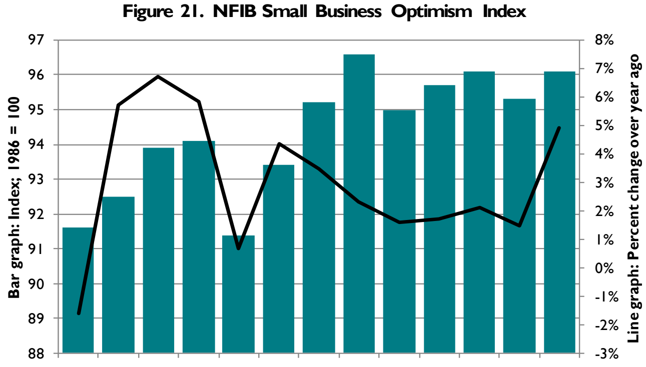
Source: U.S. Bureau of Labor Statistics

Figure 20. ISM Index of U.S. Non-Manufacturing Activity



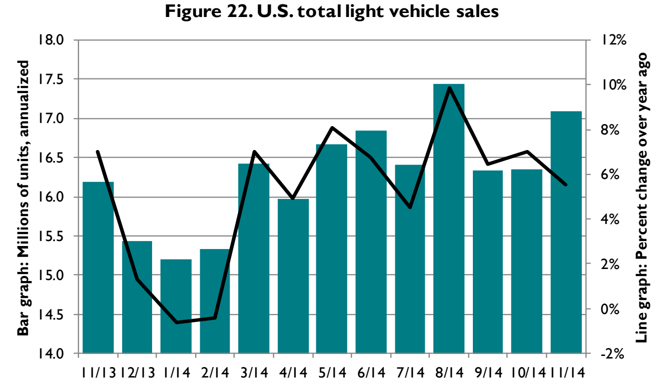
Source: Institute for Supply Management

Figure 21. NFIB Small Business Optimism Index



Source: National Federation of Independent Businesses

Figure 22. U.S. total light vehicle sales



Source: Bureau of Economic Analysis; seasonally adjusted at annual rates

TABLE 1. SELECTED ECONOMIC INDICATORS

Indicator	October 2014	September 2014	October 2013	Percent change from September 2014	Percent change from October 2013	Group
U.S. Leading Economic Index 2004 = 100. Source: The Conference Board	105.2	104.3	98.5	+0.9%	+6.8%	Economic Indices
U.S. Coincident Economic Index 2004 = 100. Source: The Conference Board	110.2	110.1	107.5	+0.1%	+2.5%	
Mississippi Leading Index 2004 = 100. Source: University Research Center	107.1	106.2	101.4	+0.8%	+5.6%	
Mississippi Coincident Index 2004 =100. Source: Federal Reserve Bank of Philadelphia	107.0	106.9	105.5	+0.1%	+1.4%	
Mississippi initial unemployment claims Seasonally adjusted. Source: U.S. Department of Labor	8,455	8,126	9,841	+4.0%	–14.1%	Components of the Mississippi Leading Index
Value of Mississippi residential building permits Three-month moving average; seasonally adjusted; millions of 2004 dollars. Source: Bureau of the Census	58.1	67.0	57.9	–13.4%	+0.4%	
Mississippi income tax withholdings Three-month moving average; seasonally adjusted; millions of 2004 dollars. Source: Mississippi Department of Revenue	112.8	109.3	107.6	+3.2%	+4.9%	
Mississippi Manufacturing Employment Intensity Index 2004 =100. Source: URC using data from Bureau of Labor Statistics	83.0	81.9	78.7	+1.4%	+5.4%	
Mississippi Diesel Fuel Consumption Index Three-month moving average; 2004 = 100. Source: URC using data from Mississippi Department of Revenue	96.3	94.9	95.8	+1.6%	+0.5%	
University of Michigan Index of Consumer Expectations Three-month moving average; index 1966Q1 = 100. Source: Thomson Reuters/University of Michigan Surveys of Consumers	78.5	75.4	65.7	+4.1%	+19.5%	
ISM Index of U.S. Manufacturing Activity *Advanced one month.* Source: Institute for Supply Management	58.7	59.0	57.0	–0.5%	+3.0%	
U.S. retail sales Current dollars, in billions. Source: Bureau of the Census	444.5	443.0	426.5	+0.3%	+4.2%	
U.S. Consumer Price Index 2004 = 100. Source: URC using data from Bureau of Labor Statistics	125.7	126.0	123.6	–0.3%	+1.7%	Miscellaneous Indicators
Mississippi unemployment rate Seasonally-adjusted. Source: Bureau of Labor Statistics	7.6%	7.7%	8.2%	–1.3%	–7.3%	
Mississippi continued unemployment claims Seasonally adjusted. Source: U.S. Department of Labor	71,321	75,419	95,241	–5.4%	–25.1%	
ISM Index of U.S. Non-Manufacturing Activity *Advanced one month.* Source: Institute for Supply Management	59.3	57.1	54.1	+3.9%	+9.6%	
U.S. mortgage rates Seasonally adjusted; 30-year conventional. Source: U.S. Federal Reserve	4.18%	4.09%	4.33%	+2.2%	–3.6%	
Mississippi average hourly wage for manufacturing Seasonally adjusted; 2004 dollars. Source: Bureau of Labor Statistics	17.64	17.56	18.35	+0.4%	–3.9%	
Mississippi average weekly earnings for manufacturing Seasonally adjusted; 2004 dollars. Source: Bureau of Labor Statistics	739.82	730.56	755.27	+1.3%	–2.0%	
NFIB Small Business Optimism Index 1986 = 100. Source: National Federation of Independent Businesses	96.1	95.3	91.6	+0.8%	+4.9%	
U.S. total light vehicle sales Millions of units seasonally adjusted at annual rates. Source: Bureau of Economic Analysis	17.09	16.35	16.19	+4.5%	+5.5%	
Gaming revenue	140.6	134.2	141.3	+4.7%	–0.6%	
Coastal counties	75.9	72.7	70.6	+4.4%	+7.6%	
River counties Seasonally adjusted; millions of 2004 dollars. Source: Mississippi Department of Revenue	64.7	61.6	70.8	+5.0%	–8.6%	

MISSISSIPPI EMPLOYMENT TRENDS

According to the U.S. Bureau of Labor Statistics (BLS), total nonfarm employment in Mississippi decreased slightly in October, falling 0.06 percent. The state's economy lost a net 700 jobs for the month as Table 2 below indicates. However, BLS revised September employment in Mississippi down by 2,200 jobs, a decline of 0.2 percent from the initial estimate. Based on the revised data from BLS, Mississippi's economy has added 3,600 jobs in 2014 through October. Compared to one year ago, employment in the state is up 0.3 percent, essentially flat growth. A majority of sectors in Mississippi incurred job losses in October, although most were relatively small. Mining and Logging experienced the largest percentage decrease, losing 3.3 percent or 200 jobs. The largest absolute decrease in jobs occurred in the Professional and Business Services sector, which lost 1,500 jobs, a decline of 1.5 percent. However, employment in the industry remained 2.1 percent higher compared to one year ago. The Education and Health Services sector added the most jobs in the state in October, increasing by 1,300 positions or 1.0 percent.

Manufacturing continues to be the best-performing sector in the state over the last twelve months in terms of the number of jobs added. Employment in manufacturing is up 4,700 jobs or 3.4 percent compared to one year ago. The major service industries in Mississippi have added a considerable number of jobs over the previous twelve months as well. In total the service sector has increased employment by 4,900 positions. In contrast, the Construction industry has shed 4,200 jobs or 7.7 percent compared to one year ago, making it the state's worst-performing industry in terms of the number of jobs added over the past year. Retail trade has also lost a considerable number of positions in the last twelve months, decreasing by 1,500 jobs or 1.1 percent.

Employment in Government at all levels in Mississippi declined for the second consecutive month in October. After a steady rise in employment over most of 2014, the number of jobs in Government is essentially unchanged from one year ago.

Making predictions about jobs in Mississippi has become more challenging recently given the considerable revisions made by BLS to its state employment numbers over the past few months. However, as noted in previous issues of *Mississippi's Business,* based on recent trends the most likely outcome remains relatively flat job growth for 2014, generally between 0.5 and 1.0 percent.

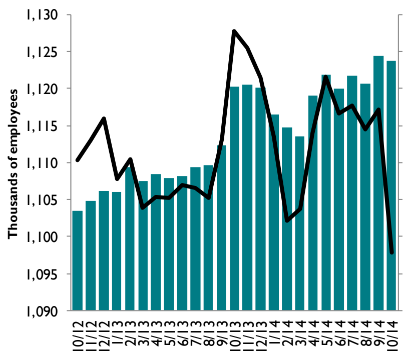
Table 2. Change in Mississippi employment by industry, October 2014

	Relative share of total[a]	October 2014	September 2014	October 2013	Change from September 2014		Change from October 2013	
					Level	Percent	Level	Percent
Total Nonfarm	100.0%	1,123,700	1,124,400	1,120,200	(700)	–0.06%	3,500	+0.3%
Mining and Logging	0.8%	9,500	9,700	9,200	(200)	–2.1%	300	+3.3%
Construction	4.5%	50,200	50,600	54,400	(400)	–0.8%	(4,200)	–7.7%
Manufacturing	12.5%	142,000	141,500	137,300	500	+0.4%	4,700	+3.4%
Trade, Transportation, & Utilities	19.5%	218,300	217,900	219,200	400	+0.2%	(900)	–0.4%
Retail Trade	11.9%	133,600	133,300	135,100	300	+0.2%	(1,500)	–1.1%
Information	1.1%	12,300	12,500	12,900	(200)	–1.6%	(600)	–4.7%
Financial Activities	3.9%	43,000	43,300	43,800	(300)	–0.7%	(800)	–1.8%
Services	35.6%	402,700	402,500	397,800	200	0.0%	4,900	+1.2%
Professional & Business Services	8.8%	100,100	101,600	98,000	(1,500)	–1.5%	2,100	+2.1%
Education & Health Services	12.1%	137,200	135,900	135,200	1,300	+1.0%	2,000	+1.5%
Leisure & Hospitality	11.2%	127,600	127,100	126,000	500	+0.4%	1,600	+1.3%
Other Services	3.4%	37,800	37,900	38,600	(100)	–0.3%	(800)	–2.1%
Government	22.0%	245,700	246,400	245,600	(700)	–0.3%	100	0.0%

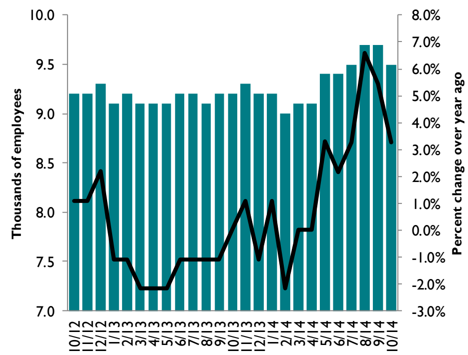
[a]Relative shares are for the most recent twelve-month average. Source: Bureau of Labor Statistics

MISSISSIPPI EMPLOYMENT TRENDS BY SECTOR, IN FIGURES

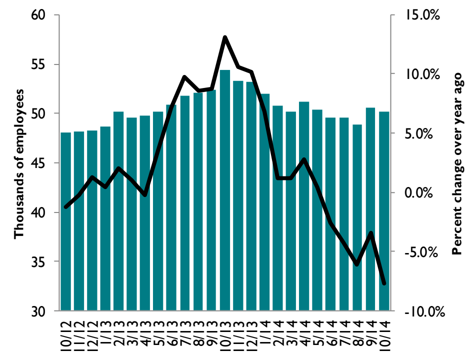
Nonfarm employment



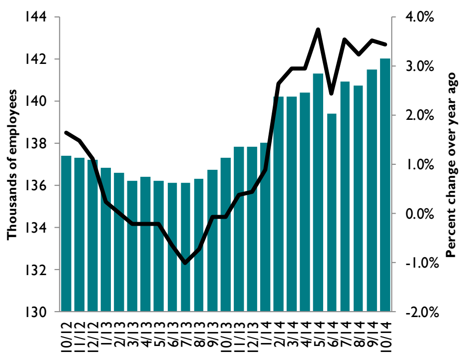
Natural resources



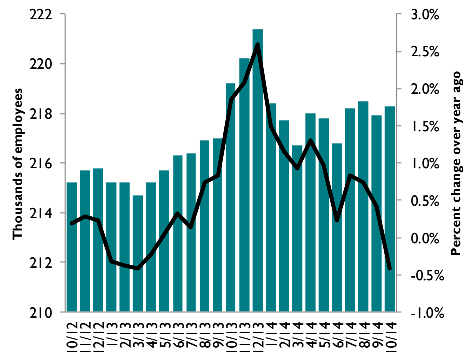
Construction



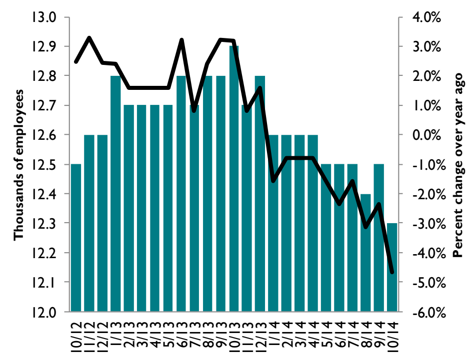
Manufacturing



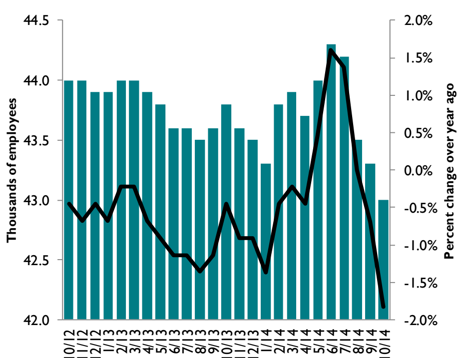
Trade, transportation, and utilities



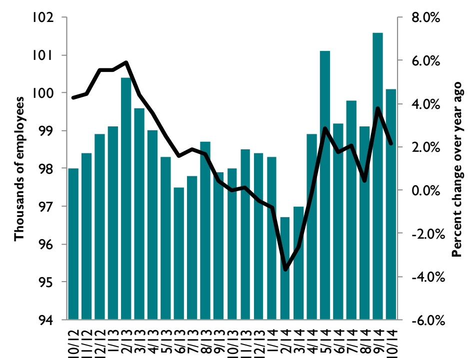
Information



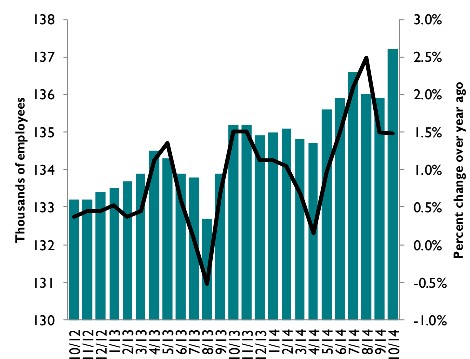
Financial activities



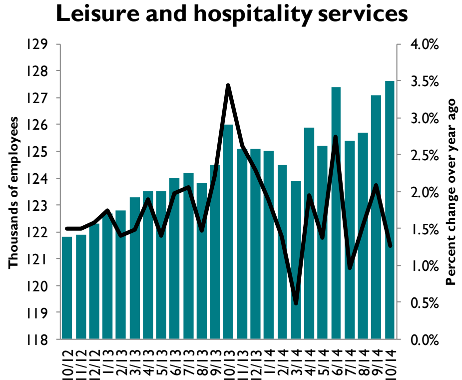
Professional and business services



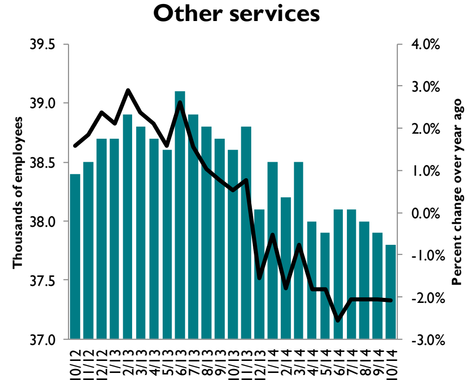
Education and health services



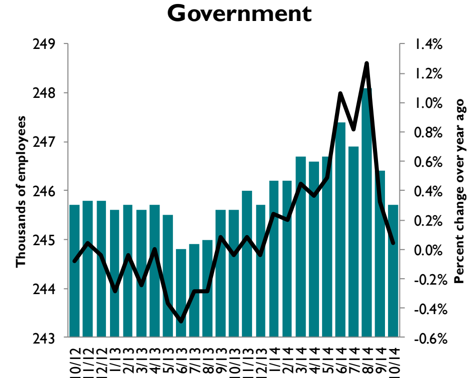
Leisure and hospitality services



Other services



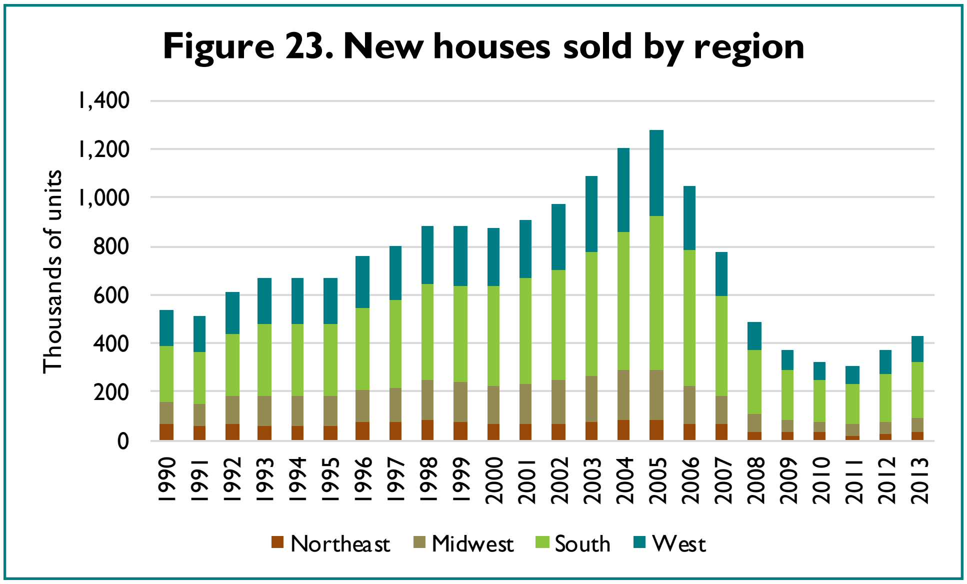
Government



Source: Bureau of Labor Statistics (all figures); seasonally adjusted

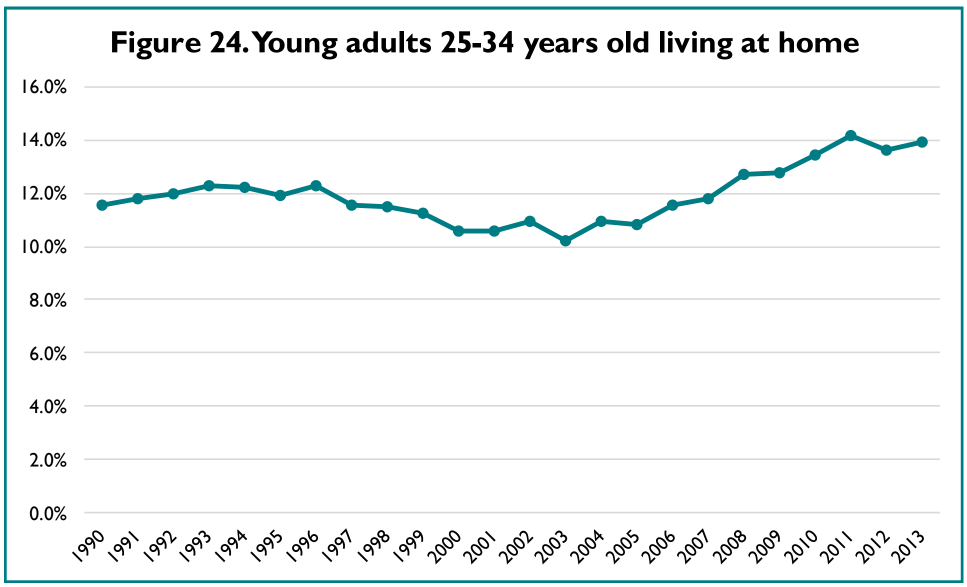
HOUSEHOLD FORMATION IN THE U.S.

The Great Recession was closely linked to the housing crisis that occurred at its onset. Even as the U.S. economy continues to recover five years on, the housing market remains both comparatively and historically weak. As Figure 23 depicts, annual new residential home sales declined every year from 2006 to 2011. Moreover, sales remain well below not only the peak of the so-called housing market "bubble" but also below the levels of all the 1990s. The economic implications of the collapse of the U.S. housing market have been profound, as millions of Americans experienced the loss of or a significant decline in the value of their most important asset. The economies and neighborhoods of a number of major U.S. cities were particularly hard-hit as these urban areas continue to struggle in their recovery.



Source: U.S. Bureau of Economic Analysis

In addition, recent data indicate the emergence of a broader and troubling trend involving the rate of household formation in the U.S. As Figure 24 indicates the number of adults 25-34 years old living with one or both parents has increased steadily over the last decade. Focusing on this group of individuals is essential as they represent a majority of those who form new households. The proportion of adults 18-24 years old who live at home has remained relatively steady over the same period as the Census Bureau counts those in this age group attending college as living at home.



Source: U.S. Bureau of Economic Analysis

Distinguishing between "houses" and "households" in this context is imperative as the two terms do not necessarily coincide. The Census Bureau defines a household as "all the persons who occupy a housing unit as their usual place of residence." Thus, the formation of a new household does not necessarily denote the purchase or construction of a house. Rather, this definition incorporates any number of housing options such as rental properties. However, an immediate and obvious economic implication of a decline in household formation is a reduction in the demand for housing. Such a reduction has a significant economic impact on the local economy and by extension the regional and national economies—regardless of whether the demand represents new and existing houses or rental properties. The point of the data in Figure 24 is that these individuals who live at home are counted as

HOUSEHOLD FORMATION IN THE U.S., CONTINUED

part of current households and are not independently forming new households.

To be sure, part of the decline in household formation in the U.S. results from changes in society and culture. As more young adults get married at a later age, and thereby generally start families at a later age, the rate of household formation slows.

Recent research by economists on the increase in young adults living at home has yielded important consequences and implications. Kaplan (2012) notes that the ability of young adults to live at home with one or both parents serves as a form of insurance against shocks in the labor market. He states that it partly explains the relatively low savings rates among young people with few job skills. In addition, the ability of young adults to live at home raises the reservation wage of younger workers—that is, because these individuals have the option to live at home, they may wait to take a job that meets their desired compensation level. Those without such an option are more likely to take the first job they can find as well as participate in public social insurance programs.

In research specifically related to household formation, Paciorek (2013) finds an aging U.S. population has increased the long-term rate of household formation, a trend he expects to continue. Until the collapse of the housing market, these effects had offset increases in housing costs. However, based on a short-term evaluation the effects of this trend have been offset in recent years by the downturn in the labor market that occurred as a result of the recession. Paciorek's findings indicate the rate of household formation should increase over the next few years as the U.S. economy improves.

Other research indicates potential structural changes occurring in the economy. A recent paper by Dettling and Hsu (2014) investigates the impact of debt on the increase in young adults living at home. They find that changes in debt patterns from 2005 to 2013 account for 30 percent of the rise in young adults living at home, as well as 26 percent of the length of time these individuals spent living at home with one or both parents. These debt patterns include increases in student loan debt and delinquency over the period, but also decreases in credit card debt and automobile loan debt. Thus, the rising costs of attending college have indirectly impacted the rate of household formation in the U.S. However, the group Dettling and Hsu examine is adults 18 to 31 years old, a broader age range than in some studies. Interestingly, they also find that a1.0 percentage point increase in the U.S. unemployment rate is associated with a 0.01 percent increase in the likelihood a young adult moves back home. They view their results as indicating the effects of debt on young adults returning to live with one or more parents are separate from those of the labor market.

In summary, a number of factors continue to impact the rate of household formation in the U.S. As a result, its decline in the last decade was not the result of a single event or trend, but a confluence of events taking place around the same time. The Great Recession and the deterioration of the labor market clearly have influenced the number of new households created since 2008 and these effects continue to occur in varying degrees throughout the country. However, the impacts of other factors on household formation may have longer-term consequences such as the rise in student loan debt. While the cost of attending college in the U.S. has stabilized to some degree over the past two to three years, these costs are likely to continue to increase over time. Changing demographics will affect the rate of household formation as well, but the net impact may not be known for some time. While an aging population will continue to increase the rate of household formation, more young adults will continue to delay marriage and starting families. Despite the long-term demographic trends, recent studies such as the one by Paciorek indicate the rate of household formation should begin to rise over the next several years.

FOR FURTHER READING:

Dettling, Lisa J. and Joanne W. Hsu. *Returning to the Nest: Debt and Co-residence Among Young Adults*. Finance and Economics Discussion Series Working Paper 2014-80. Federal Reserve Board. 2014. Available from: http://www.federalreserve.gov/econresdata/feds/2014/files/201480pap.pdf.

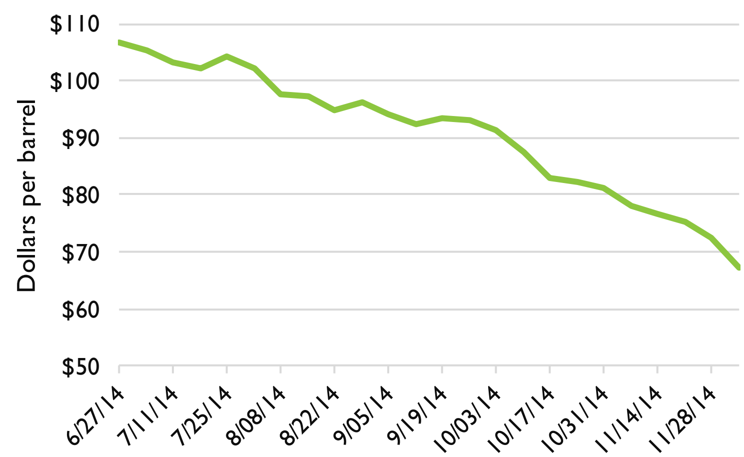
Kaplan, Greg. *Moving Back Home: Insurance Against Labor Market Risk*. Journal of Political Economy (3) 120. 2012: 446-512. Available from: http://scholar.princeton.edu/sites/default/files/kaplan_jpe_2012.pdf.

Paciorek, Andrew D. *The Long and Short of Household For mation*. Finance and Economics Discussion Series Working Paper 2013-26. Federal Reserve Board. 2013. Available from: http://www.federalreserve.gov/pubs/feds/2013/201326/201326pap.pdf.

IMPACT OF FALLING OIL PRICES

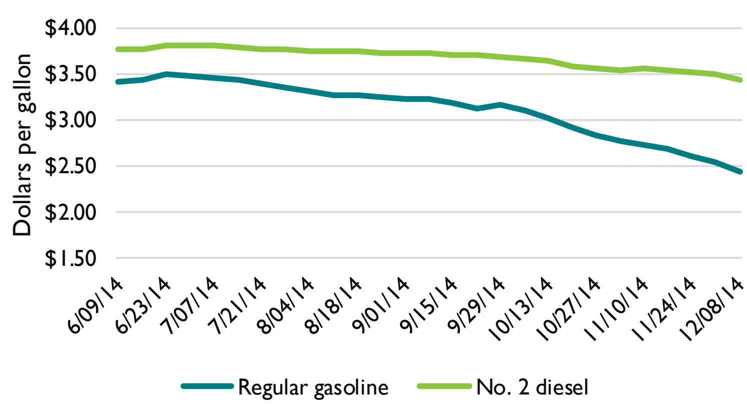
One of the more interesting and positive developments affecting the U.S. economy in recent months is the decline in crude oil prices. As Figure 25 depicts, the price of West Texas Intermediate crude oil—the principle price affecting the U.S. market—fell from $107 per barrel in late June to $67 per barrel as of the first week of December, a four-year low. The $40 per barrel drop represents a decline of 37 percent. More significantly, the fall in crude oil prices has translated to a similar decrease in fuel prices. The price per gallon of regular gasoline has fallen from $3.49 in late June to $2.44 as of the second week of December. The decline represents a 30 percent decrease in price as Figure 26 indicates. Diesel fuel prices have also dropped during the same period, but to a smaller degree.

Figure 25. Weekly West Texas Intermediate crude oil spot price



Source: U.S. Energy Information Administration

Figure 26. Weekly retail fuel prices, Gulf Coast District



Source: U.S. Energy Information Administration

What's driving the decline in petroleum prices? As economists often reply, in short, the answer is supply and demand. U.S. production continues to grow largely as a result of the rise in its output of shale oil. Libya has returned to producing oil, although not without interruptions. Weakening global demand for oil, especially in China, reflects the slowdown in the economies of Europe and Asia. Saudi Arabia and other OPEC members apparently have agreed not to curtail their petroleum output in response. All of these factors, combined with seasonal refinery demand, continue to push prices lower.

As some economists have characterized it, the drop in gasoline prices for consumers effectively acts as a temporary tax cut. Some recent estimates of this tax cut effect are as high as $125 billion. Instead of spending their money on gasoline, consumers are making other retail purchases as data through October indicate spending at restaurants has increased for six straight months. In addition, preliminary surveys suggest consumers plan to spend more on holiday shopping than last year. While the net result of lower oil prices is positive for the U.S. economy, not all sectors benefit. Foremost, the falling price of crude oil reduces the profitability of oil production, shale oil in particular. Estimates of how far the price of oil can drop before it affects shale oil output vary, as the costs of hydraulic fracturing or "fracking" continue to fall. However, most analysts believe investments in shale oil production through 2015 will not be affected by recent declines in prices.

The economic significance of lower gasoline prices is likely greater in Mississippi than in any other state. Mississippians spend 6 percent of their disposable income on gasoline—the largest share of any state. Because most of the state's residents live in rural areas they drive greater distances than residents of more urban states. In addition, a relatively high share of Mississippi's population lives in poverty, and these individuals spend a greater proportion of their disposable income on gasoline. Nationwide, households with the lowest 20 percent of incomes have spent more than 10 percent of their disposable income on gasoline each year since 2010.