Comments by State Economist Dr. Darrin Webb before the JLBC
November 1, 2017

The Mississippi economy is growing at a slow pace, and has struggled to gain momentum since the Great Recession. After a strong performance in 2008, the economy fell 4.1% in 2009 – that was the bottom of the recession. We grew a half of a percent in 2010 before declining another 1.4% in 2011. We had our best post-recession growth in 2012 with a 2.2% gain. This was followed by 0.6% gain in 2013 and 1.2% decline in 2014. We grew 0.3% in 2015 and 0.8% in 2016.

The result of this lack of momentum is that our recovery following the Great Recession has been one of the worst in the nation. Between the bottom of the recession in 2009 and 2016, the state grew only 1.7% compared to the national growth of 14.1%. The southeast region, excluding Mississippi grew 16.9%. Our border states grew 8.2%. These data are for real GDP, if we looked at employment or income, we would see a similar pattern of relatively flat growth over the past seven years. While we believe we are experiencing our third consecutive year of growth in 2017, we expect that growth to be a modest 1.2%. Average employment for 2017 is up only 0.4% through September. We have seen some improvement in recent months, but even if that continues, average employment growth for 2017 will likely be well below the previous few years. Withholdings, which is our best indicator of income growth, reflects modest growth.

The national economy, while performing better than the state's, has not been strong by historical standards. We have not had an annual growth of 3.0% since 2005. In 2016 growth was only 1.5%. Projections for 2017 are for a 2.2% growth rate. We are seeing improvement however. It appears the hurricanes did not diminish third quarter growth as much as feared. The advanced real GDP estimate shows a solid 3.0% growth for the third quarter. This growth included a robust performance by business investment. Consumer confidence is at the highest level since 2000 and small business confidence, while dipping moderately in September, remains at a high level. Holiday shopping projections look promising with growth projections exceeding that observed the previous two years. These are encouraging signs which suggest a more stable pattern of growth in the coming quarters. It is doubtful however that we will soon break the 3.0 percent annual growth barrier. Stronger growth would require a higher rates of capital investment and productivity gains. Growth is also limited by labor supply. Long-term growth will likely remain closer to 2.0%.

The lack of momentum in the state's economy has certainly been evident in the revenue collections for the past few years. There have also been legislative changes which have diminished growth in revenues. In FY 2017, retail sales tax collections fell 0.3%, personal income tax collections grew 0.7%; Corporate tax collections fell 5.4%; total transfers to the General Fund from DOR sources fell 0.4%.

On the surface, transfers to the General Fund look better in FY 2018. For the first quarter, total transfers to the General Fund from DOR sources are up $39.3 million or 3.5% over the year-ago. But the strength of the first quarter is inflated. For example, individual income tax collections include $4.3 million from unclaimed property as well as $10.5 million that was released from the refund account because refunds are below expectations. Insurance premiums include $11 million that was not transferred in June as it should have been. There are a few other smaller items, but these alone reflect $25.8 million. Furthermore, transfers in the first quarter of FY 2017 were artificially deflated by over $20 million due to various anomalies, which adds to the exaggeration of the growth. If we consider the issues for both FY 2017 and FY 2018, we get a real year-over-year growth rate of -0.6%. for the first quarter of 2018.

The revenue estimating group recently met to discuss the FY 2018 and FY 2019 General Fund estimate. As is our custom, we considered the current outlook for the economy, the collections to-date and the impact of legislative changes as we examined each revenue source individually. We specifically noted the items I have just discussed as well as the expectations of a $15 million refund from use tax.

The revenue estimating group recommends no change to the FY 2018 General Fund estimate from the Sine Die estimate. The FY 2018 Sine Die estimate is $5,601.5 million and reflects a 0.9% reduction from the FY 2017 General Fund.

The revenue estimating group recommends a FY 2019 General Fund estimate of $5,600.0 million which is a $1.5 million reduction from expected FY 2018 General Fund. The lack of growth in FY 2019 reflects the concern expressed by several members of the group that the State's economy will continue to grow at a very slow pace as well as the anticipation of lost revenue due to legislative changes.