

Comments before the JLBC, September 17, 2018

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I will begin with a brief overview of the U.S. economy and then discuss the Mississippi economy.

According to the most recent estimate from the U.S. Bureau of Economic Analysis (BEA), U.S. real GDP increased at an annualized rate of 4.2 percent in the second quarter of 2018 (2nd qtr over 1st). This increase was the largest quarterly growth since the fourth quarter of 2014. BEA reported the U.S. economy expanded 2.2 percent in CY 2017. That is a moderate rate of annual growth historically but fairly typical since the end of the 2008 recession. Moderate increases in both inflation and wages have occurred in 2018 as labor markets continue to tighten and consumer confidence and spending have been strong. Productivity growth has also improved in 2018, but overall the pace of gains remains modest. Small business confidence is at an historical high and the ISM Index is signaling strength in the Manufacturing sector. The risk of recession—while slightly higher than a year ago—remains relatively low.

The latest forecast by IHS Markit projects U.S. real GDP will increase 2.9 percent in 2018, an annual rate last seen in 2015. The U.S. economy has not experienced annual growth of 3.0 percent or more since 2005, well over a decade ago. While growth in U.S. real GDP is expected to accelerate in 2018 in part from the effects of the Tax Cut and Jobs Act enacted in late 2017, IHS Markit forecasts growth will slow in the third and fourth quarters. The major effects of the tax legislation are expected to dissipate sometime in 2019 and U.S. economic growth is anticipated to return to the trends of recent years.

Mississippi's economy continues to grow at a relatively slow pace. BEA reported real GDP for the state increased at an annualized rate of 0.7 percent in the first quarter of 2018. The preliminary estimate for CY 2017 growth is 0.3 percent. This follows an increase of 2.0 percent in 2016, and a 0.1 percent increase in 2015. I should note that for their preliminary estimate, BEA uses limited data and limited methodology. The number will be revised in the summer of 2019.

Our latest forecast projects the Mississippi economy will expand by 1.8 percent in 2018, a considerable improvement over 2017 but still a relatively modest rate in historical terms. We anticipate annual real GDP growth for the state in the 1.5 to 2.0 percent range for the next two to three years.

Payroll employment in Mississippi grew 0.5 percent in 2017. This annual increase was the smallest gain in six years as employment growth in manufacturing and trade both slowed. The 0.5 percent increase in 2017 followed gains of 1.1 percent in 2016 and 1.2 percent in 2015, the largest annual increases in employment since the late 1990s. We expect job growth in the state will rebound in 2018, as our latest forecast is for growth of 1.4 percent this year. These gains are expected to include an increase in employment in the construction sector, which has declined for the last several years. An acceleration in employment growth in the state began in late 2017 and continued into early 2018, and we anticipate maintaining these gains through the end of the year. While some of the job growth over the last six months occurred in the health care sector, much of it took place in so-called "temp" jobs and in jobs in food services. In addition, both initial and continued unemployment claims in Mississippi remain at historically low levels, an indication few layoffs are taking place.

Income growth in Mississippi was 2.3 percent in 2017, an improvement over each of the previous two years but still below the U.S. increase of 3.1 percent. This growth included increases in farm earnings and gains in earnings from the health care and social assistance sector. Another indicator of income growth, withholdings, was up 3.0 percent through the first eight months of 2018 over the same period in 2017 without adjusting for inflation. Therefore, in real terms the growth was about 1.0 percent. For comparison purposes, we were essentially flat in the first 8 months of 2017 over the same period in 2016. We also have seen some evidence of income growth in a rise in individual income tax receipts. Withholdings growth has been modest in recent years, which has contributed to lackluster tax revenue collections. Both average hourly and weekly manufacturing earnings were down in the first seven months of 2018 compared to the same period last year. Gaming revenue was down through the first seven months of the year compared to 2017, as both coastal and river casino collections decreased during this period.

In summary, I expect Mississippi's economy to continue to grow moderately in the months ahead. The national economy strengthened in the first half of 2018, and a stronger U.S. economy typically provides a lift to the Mississippi economy. Growth in real GDP and employment should improve in 2018 over 2017. Data from BEA for the last three quarters indicate an improvement in income growth relative to previous quarters. The state's economy has struggled to gain momentum in the years since the Great Recession. Growth remains below that of the nation, but we are at least observing continued if relatively small increases in real GDP and employment.

I will gladly answer any questions you may have.