

Comments Before the JLBC September 13, 2019

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I will begin with an overview of the national economy followed by the State.

We expect a 2.3% growth in Real GDP for the U.S. for 2019. If realized, this would be slightly below the 2.5% rate that BEA reports for 2018. IHS Markit is projecting trend GDP growth of 2% over the next decade. So, 2019 is above trend. Due to the recently enacted Bipartisan Budget Act of 2019 as well favorable financial conditions they expect we will continue above trend in 2020 with a growth rate of 2.1%. However, the economy is expected to transition to below trend growth for the 2021-2024 period. The slowdown is driven largely by waning fiscal stimulus and lagged effects from the recent tariff action.

In terms of 2019, we have seen a moderation of growth in several variables.

The Average monthly job gain for the first eight months of 2019 is 158,000. This is down significantly from the rate in CY 2018 of 223,000. We did have a couple of especially low months in 2019 that is dragging the average down, but even gains of the past three months are well below what we observed in 2018.

The ISM Manufacturing Index has declined for five consecutive months. In August it dropped below 50 for the first time since 2016 with a level of 49.1. Most of the components of this index showed weakness. New orders, production and employment all went below 50. A level below 50 for this index signals that the U.S. manufacturing industry is in a contraction phase. It doesn't signal a recession, but it does mean that MFG will not be supporting growth. It is also worth noting that MFG is relatively important to the MS economy.

Consumer Sentiment has weakened in 2019, although the measure remains high historically speaking. We saw some weakness at the first of the year due to the government shut down. Then we saw a steep decline in August where it reached the lowest level since late 2016. The August decline was most likely driven by the declining stock market and the uncertainty created by the trade war. Until the most recent volley, the tariffs have targeted sectors which played relatively small role in the overall economy. More recently consumer goods are being targeted which adds to the unease. Google searches for "recession" and "next recession" have been on the rise in recent weeks, suggesting people are growing cautious.

We are also seeing less optimism on the part of small businesses as evidenced by the National Federation of Independent Business Optimism Index (NFIB). Again, it remains on the high side when judged by history, but it has been obviously weaker this year than in 2018. Business leaders express less optimism regarding future hiring and expectations for an improved economy going forward.

Turning to Mississippi: We believe 2019 will be our fifth year of consecutive growth. Some of those years the growth was small, but it was positive. The BEA estimates that the first quarter of 2019 was the fifth consecutive quarter of growth and we believe real GDP has continued to increase since that time. Growth in 2019 however is damped by the flooding that has taken place. While the full economic impact of this event will not be known for some time, our preliminary estimate is that it shaves 0.3 of growth from the 2019 real GDP. Taking that into account, we project the state will expand at a pace of 0.9% in 2019. That is just below the 1.0% growth in 2018 as reflected by the BEA estimates. Our current forecast reflects a 1.2% growth for CY 2020. Again, that is for Real GDP in MS.

Our MS leading indicators are trending below the year ago. This is partially due to the slow down at the National level. The ISM index that I mentioned earlier is one of the components as is the Consumer Sentiment index, both of which have fallen recently. But we have all seen weakness in the state components. For example, we are seeing initial unemployment claims rising, signaling increased layoffs in the state. The level remains low, but it has risen in 8 of the last 9 months.

Manufacturing workweek length has declined this year as well. It remains above 40, but just slightly. Manufacturing employment has been flat.

Through August, real withholdings are 1.6% below the year ago level suggesting at the very least income growth remains slow.

According to the BLS current estimates, employment in 2019 is averaging 1.2% ahead of 2018. That's similar to what we experienced in 2015 and 2016 and much stronger than what was reported in 2017 (0.5%) and 2018 (0.3%). The BLS data reflects growth in most sectors, with leisure and hospitalities adding the most jobs. That is primarily eating places. The second highest job gains have been in Business services, or temp jobs. The largest decline has been in construction, but that was primarily due to a weak first quarter. Construction employment has risen in recent months. These Data are subject to revisions.

To recap, both the US and the MS economy continue to expand. It looks like neither will reach the growth this year that was observed last year. We see signs of slowing growth in both the state and the Nation. The risk of recession is elevated, but our forecast and that of the national forecasters continue to show no recession. We will have another recession at some point; but at this time there is no reason to believe we are in a recession nor do we believe one is imminent.