Comments before the JLBC June 15, 2020
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The National Bureau of Economic Research (NBER), is the agency tasked with officially dating peaks and troughs of the business cycle. A "peak" occurs when GDP reaches its highest point before a contraction begins; A "trough" represents the lowest point before an expansion begins. On June 8, the NBER declared February 2020 as the end point of the longest running expansion in U.S. history. It lasted 128 months.

This designation means that the nation officially entered a recession in March 2020. This recession will likely be the shortest on record but also the deepest since the Great Depression. IHS Markit, a national forecasting agency to which we subscribe, believes the recession ended in April and that recovery began in May. Other forecasting firms have reached this conclusion. IHS Markit estimates a peak-to-trough decline in U.S. real GDP of 16%. If correct, it represents the deepest peak-to-trough decline since the 27% drop that occurred over four years between 1929 and 1933. The COVID19 recession occurred over two months as we effectively slammed on the breaks of the economy.

Again, we think recovery began in May as governments began to relax restrictions associated with COVID19 outbreak. We were previously expecting a slightly longer recession, but the data suggest we have hit bottom and have begun to improve. Both consumer sentiment and small business confidence have risen. Unemployment claims, while still exceedingly high, are trending down. Air travel stands at 84% below one year ago; previously air travel was 96% below one year ago. Hotel revenues were 65% below one year earlier in the first week of June, a significant improvement from the 84% and 71% below the year prior in mid-April and May, respectively.

Perhaps the biggest news of all came from the jobs report that was released by the Bureau of Labor Statistics (BLS) on June 5. That report showed a staggering gain of 2.5 million in employment across the nation. Nearly every forecaster was expecting a large decline in employment based on the unemployment claims data. Evidently, a significant number of people went back to work in May.

You may have heard about some issues with the BLS surveys. These issues are primarily associated with the residence-based survey and therefore deal with the unemployment rate. BLS' establishment survey from May, from which we get our jobs data, while also having some sampling issues, is generally regarded as a reasonable estimate of the employment situation. People are primarily skeptical of the decline in the unemployment rate reflected in the report. We do not use the unemployment rate to forecast tax revenue; we are far more interested in what is happening to the number of jobs. The bottom line is that the national economy appears to be recovering, and our outlook for growth in the second half of 2020 is stronger than previously expected. We believe the State's is also improving, and that like the nation, our growth in the second half of 2020 will be stronger than previously estimated.

Last month, when I appeared before the Senate Appropriations Committee, I assumed a longer recession and slower growth in the second half of this year. Additionally, we now have a better understanding of actual revenue collections during the shut-down period. If you followed my presentation last month, you may recall I warned that revenue data available at that time was not helpful in projecting the FY 2020 or FY 2021 General Fund. At the end of May we were able to get a clearer picture of how Mississippi tax revenue will fare in the recession.

A few things were noteworthy. First, retail sales tax transfers, while down relative to one year ago, held up surprisingly well. Transfers in May, which reflect sales made in April, were down only 7.5% from the year ago. This strength may have to do with the panic buying, the stimulus checks, and the increased unemployment compensation. Regardless, in the depth of the recession, retail sales tax held up better than previously expected. Income tax withholdings were also relatively strong for both April and May. For the two months together, withholdings were down only 5%. Transfers from income tax were down substantially, but primarily because of the shift in the filing date. Other states have also experienced better-than-expected withholdings numbers. I suspect we can attribute this robustness to significant support from the Payroll Protection Program. Corporate and use taxes have both performed relatively well, which we have seen throughout the year, but we expected more of a hit during the recession. With only one month of collections left in FY 2020 we feel that even a decline in these revenue sources will be less dramatic than previously assumed.

After considering the economic outlook and trends in each revenue sources, we are recommending the FY 2020 General Fund estimate be changed to $5,652.7 million or $205.7 million below the Sine Die estimate or $343.5 million below the revised estimate adopted in November 2019. We recommend a FY 2021 General Fund Estimate of $5,690.7 million or $274.8 million below the estimate adopted in November 2019. Included in this recommendation is an estimate for the money that will be collected in July, that would have been collected in FY 2020 had we not changed the filing date. DOR estimates that amount as $275 million.

Again, I realize this recommendation, while certainly not optimistic, is not as pessimistic as that presented last month. I maintain that both the revenue data and the economic data support the less pessimistic outlook. I would also like to mention that the economy has suffered a substantial hit, and the expected path to full recovery remains long. There also remains many unknowns, particularly regarding an additional federal stimulus and possible second wave of infections. Either development could potentially alter our outlook substantially.