UNIVERSITY RESEARCH CENTER

Comments before Joint Legislative Budget Committee
September 24, 2020

Corey Miller, Economic Analyst
University Research Center

The U.S. and Mississippi economies continue to recover from the extraordinary year that is 2020. In June, the National Bureau of Economic Research–the organization that determines the official dates of the business cycle–declared the economic expansion that began in June 2009 ended in February 2020. This designation signaled the end of the longest period of economic growth in U.S. history and that the nation's economy entered recession in March. The U.S. Bureau of Economic Analysis (BEA) reported U.S. real GDP decreased at a seasonally-adjusted, annualized rate of 5.0 percent in the first quarter of 2020, the first quarterly contraction in six years. In its most recent estimate of the change in real GDP in the second quarter, BEA reported a decrease at an annual rate of 31.7 percent, the largest quarterly contraction in the U.S. economy in over seventy years.

While the 2020 recession is likely one of the steepest on record, it is also likely one of the shortest. Forecasting firm IHS Markit, to which URC subscribes, believes the economy began to show signs of recovery even in April; other forecasting firms believe growth began in May. Indeed, once a number of state economies around the country began to open up in May and June, the U.S. economy exhibited some relatively strong signs of growth. According to the Bureau of Labor Statistics, after more than 22 million jobs evaporated in March and April the economy regained 10.6 million jobs in the four months that followed, around 48 percent of the total lost. U.S. retail sales, which plunged almost 22 percent in March and April, rallied with more than 30 percent growth over the last four months and now exceed the levels of January and February. Much of the growth in employment and consumer spending has been in no small part due to the unprecedented transfers from the federal government through the CARES Act. The economy bounced back over the summer, mostly in June and July, and the duration of the recession was likely the first two quarters of 2020. The latest forecast by URC projects U.S. real GDP expanded in the third quarter at an annual rate of 29.6 percent, almost the same magnitude as the contraction in the second quarter.

Although the reopening of states and the loosening of restrictions has allowed the economy to rebound, the COVID-19 pandemic has not relented. As of August the U.S. has lost over 11 million jobs in 2020 and employment growth has slowed from early summer. Both weekly initial and continued unemployment claims remain elevated. The pent-up demand that consumers had for goods while they were under lockdowns has largely eased. Moreover, most of the transfers provided by the CARES Act ended in July and thus far have not been extended. Consumer sentiment and expectations, as measured by the University of Michigan index, plunged in March and remain little changed. As long as COVID-19 infections persist across the country and consumers are neither permitted to nor are comfortable gathering in public normally, a number of service sectors likely will remain depressed. These are the sectors that include airlines, hotels, restaurants, and most entertainment venues. Therefore, with these factors in mind, forecasters expect growth to slow considerably in the fourth quarter. URC forecasts U.S. real GDP will grow at an annual rate of 2.5 percent in the fourth quarter. This forecast nevertheless assumes increased unemployment benefits of $300 per week will continue through the end of December and a second stimulus check is distributed in October. For all of 2020 URC forecasts the U.S. economy will contract 4.0 percent, the first annual decrease in real GDP since 2009. If this forecast is realized the economy will experience its largest annual decline since 1946. Economic growth is expected to improve in 2021 as the recovery stabilizes. The latest forecast projects U.S. real GDP will grow 3.5

percent for all of 2021, which if realized would mark the largest annual growth since 2005. Importantly, this forecast assumes that a vaccine for COVID-19 is available by the middle of 2021.

Mississippi's economy, in some ways, was not hit as hard by the COVID-19 recession as the U.S. economy. BEA reported the state's real GDP contracted at a seasonally-adjusted, annualized rate of 5.2 percent in the first quarter, similar to the U.S. economy's decrease. However, in terms of employment the state lost 122,400 jobs in March and April, a decline of 10.5 percent, compared to the 14.5 percent decrease in U.S. employment over the same period. Additionally, through August the state's economy has recovered around 71 percent of these lost jobs, while the U.S. economy has recovered about 48 percent as previously mentioned. Reasons for this difference include some of the more populous states were likely more restrictive in their lockdowns than Mississippi and more populous states reached their peak weekly number of COVID-19 infections before Mississippi. Nevertheless, the latest URC forecast projects the state's economy experienced a major contraction in the second quarter at an annual rate of 20.9 percent. As previously mentioned, this decrease compares to the contraction in the U.S. economy in the second quarter of 31.7 percent.

Like the U.S. economy Mississippi's economy rebounded over the summer as it reopened. Sales tax revenues in each of the last three months were higher compared to one year ago, an indication consumer spending in the state has been strong. Income tax withholdings in the state for the first eight months of 2020 are slightly above the same period in 2019. As I mentioned for the U.S. economy, we attribute much of this performance to the federal transfers from the CARES Act, which included additional unemployment benefits, the Paycheck Protection Program, and the $1,200 taxpayer stimulus checks. We expect recession in the Mississippi economy also ended in the second quarter and real GDP for the state expanded in the third quarter at an annual rate of 16.3 percent. While this rate of growth is a little more than half that of the U.S. for the same period, it reflects our expectation that the contraction in the Mississippi economy in the second quarter was smaller than that of the U.S.

URC forecasts the state's economy will slow in the fourth quarter of 2020, particularly as the effects of the CARES Act fade. Employment as of August remains 2.6 percent lower compared to last December and both initial and continued unemployment claims are at historically high levels. The lingering pandemic means some sectors will continue to struggle, and we forecast a slight decrease of 0.7 percent in real GDP for the state in the fourth quarter. For all of 2020, URC forecasts the state's economy will contract 3.0 percent, the first annual contraction since 2011. This decrease is smaller than that forecast for the U.S. The reasons include those mentioned above as well as the fact the COVID-19 recession has hit service sectors the hardest, and service sectors make up a smaller share of Mississippi's economy compared to the U.S. economy, both in terms of output and employment.

We expect the state's economy to expand in 2021 as the recovery stabilizes. URC forecasts Mississippi real GDP will increase 2.6 percent in 2021, which if realized would mark the largest annual growth since 2008. As with the U.S. economy, this forecast assumes the availability of a COVID-19 vaccine by the middle of 2021.

Thank you for your attention. I conclude my remarks and will be glad to take any questions from the members.