UNIVERSITY
RESEARCH CENTER

Comments before the Joint Legislative Budget Committee
September 24, 2021

Corey Miller, State Economist
University Research Center

Mississippi's economy, like the national economy, continues to recover from the relatively brief but steep recession experienced in 2020. The National Bureau of Economic Research, which sets the unofficial dates of the business cycle, announced in July that the recession that began in February 2020 ended in April 2020, which at two months made it the shortest recession in U.S. history. The U.S. Bureau of Economic Analysis (BEA) reported U.S. real GDP increased at a seasonally-adjusted, annualized rate of 6.3 percent in the first quarter of 2021. In its most recent estimate of the change in real GDP in the second quarter, BEA reported an increase at an annual rate of 6.6 percent as U.S. output surpassed its pre-recession level. Although the estimates of U.S. real GDP in the first two quarters of 2021 indicate the nation's economy is positioned to experience its best annual expansion in decades, they also likely represent the peak of growth for the year.

Forecasting firm IHS Markit, to which URC subscribes, has revised its forecast of U.S. real GDP growth for 2021 down for three consecutive months. The firm believes consumer spending on services slowed considerably in the third quarter because of the surge in COVID-19 cases due to the delta variant. In addition, because of supply-chain issues such as the shortage of semiconductor chips that has curbed production in the automobile industry, IHS Markit has lowered its forecast of inventory investment. Many of the supply shortages currently experienced by the U.S. economy stem from shutdowns in 2020 that stopped or severely curtailed production of goods for several weeks. Other supply-chain disruptions are ongoing as some countries reimpose shutdowns to deal with rising COVID-19 cases, restricting the production and export of some products to the U.S.

U.S. employment growth has been relatively robust in 2021 but also uneven. Through August average monthly employment is up almost 2.0 percent over 2020 and the nation has recovered 76.2 percent of the total jobs lost in March and April of last year. However, while the U.S. added over 1 million jobs in July only 235,000 were added in August. The unexpected slowdown last month likely was at least partly due to the rise in COVID-19 cases caused by the delta variant. The reduction in the forecast for real GDP growth in 2021 likely will push some of the previously expected employment growth into next year. The U.S. labor force participation rate remains depressed from its pre-recession level. The rate was 63.3 percent in February 2020 but as of August 2021 has risen no higher than 61.7 percent. The rate fell by more than is typically associated with a recession for reasons that include–to varying degrees–concerns over COVID-19, the availability of childcare, and emergency unemployment benefits. Some of these concerns persist in 2021, such as the rise in COVID-19 cases due to the delta variant, and likely also include factors such as an increase in early retirements by older workers. Through August little evidence exists to suggest that the expiration of emergency unemployment benefits nationwide will lead to a significant increase in employment.

Once the relatively swift introduction of COVID-19 vaccines began, for several months much of the thinking of economists and others was that the U.S. economy as well as society at large might look similar to its pre-pandemic condition by September of this year. While much progress has occurred, clearly this optimism has not fully materialized. The surge of COVID-19 infections due to the delta variant, the lagging pace of vaccinations, and the continued disruptions of supply chains all indicate more time is required before the U.S. can declare a return to "normalcy." Based on the latest information from IHS Markit, URC forecasts U.S. real GDP will grow at an annual rate of 3.4 percent in the third quarter followed by a 6.2 percent increase at an annual rate in the fourth quarter. As of September, the forecast for the change in U.S. real GDP for all of 2021 is an increase of 5.7 percent. While down from estimates earlier in the year, if this forecast is realized the U.S. economy will experience its largest annual expansion since 1984. Some of the growth previously expected in 2021 has been shifted to the forecast for next year. U.S. real GDP is projected to grow 4.5 percent in 2022, a decline from 2021 but still considerably above the trends of the last two decades.

Given the developments in recent months, I would like to briefly discuss the rise in U.S. inflation. As measured by the Consumer Price Index (CPI) inflation has increased markedly over the last several months. In June, July, and August the value of the CPI was more than 5.0 percent above the level of one year earlier. These increases mark the largest year-over-year growth in inflation on a monthly basis in thirteen years. Moreover, the core CPI–which excludes the most volatile components of food and energy–was 4.5 percent higher in June compared to one year earlier, its largest year-over-year increase since September 1991. The core CPI also was 4.2 percent and 4.0 percent higher on a year-over-year basis in July and August, respectively. Several factors have combined to generate the recent upturn in inflation. One is the supply shortages I previously mentioned, notably for new and used automobiles and construction materials. Another is the surge in consumer demand for some products spurred by the full reopening of the U.S. economy earlier this year that included larger states such as California and New York. The amount of money the federal government has transferred to consumers through COVID-19 assistance and stimulus checks over the past year also has driven this increase in demand. Consumers have been able to continue much of their pre-pandemic spending, shifting some of this spending away from services and more to goods, contributing to price increases. Consumers saved some of their incomes in 2020 and the full reopening of the U.S. economy has released pent-up demand for some goods, also contributing to price increases. These factors have led a majority of economists–but certainly not all–to conclude the recent rise in the price level is temporary. Federal Reserve Chairman Jerome Powell has repeatedly described the increase in inflation as "transitory." The belief is that the factors previously discussed will dissipate and that by the end of 2021 or in early 2022 the rate of inflation will return to its pre-pandemic level or slightly above this level. Concerns with this outlook are the supply-chain disruptions, which appear ongoing, and consumers' inflation expectations, which can become self-fulfilling. The firm IHS Markit in its latest forecast projects an annual rate of inflation for 2021 as measured by the CPI of 4.2 percent, which if realized will mark the largest annual increase since 1990. The rate is expected to decline to 2.4 percent in 2022.

Turning to the Mississippi economy, the state is positioned for relatively strong growth in 2021 as well, although forecasts in recent months also have been revised downward. BEA reported real GDP for the state increased at an annual rate of 6.9 percent in the first quarter of 2021 and that Mississippi surpassed its pre-recession level of real GDP before the U.S. did. However, I believe BEA likely will revise down this estimate. Employment growth in the state, which slowed earlier in the year, picked up in recent months as through August the state has added 6,600 jobs in 2021. Yet the state lost 4,100 jobs last month, most likely related to the increase in COVID-19 cases. Payroll employment in the state as of August was 2.6 percent below the level of February 2020. In addition, as of August Mississippi has recovered 79.7 percent of the jobs lost in March and April of 2020, a higher percentage than the U.S. economy. Mississippi did not lose as many jobs as a share of total employment last year as the U.S. did, contributing to the recovery, and the state's economy fully reopened sooner that the nation as a whole. Both initial and continued unemployment claims in the state, while well below the levels reached in February 2020, remain elevated as of August. The state's labor force participation rate, while still one of the lowest among all states, returned to its pre-recession level in February of 56.1 percent and as of August was at 55.9 percent.

Looking at other indicators, income tax withholdings in Mississippi were up 3.4 percent through the first eight months of 2021 compared to the same period in 2020, an indication of income growth. The state also is expected to experience relatively robust wage growth in 2021. Sales tax revenues in Mississippi from January through July were up 13.2 percent compared to the same period in 2020, an indication consumer spending has been strong. These gains likely were driven in part by transfers from the federal government as well as pent up demand for some items. URC believes the state's economy like the U.S. economy will experience relatively strong growth in 2021 but will slow in the second half of the year. In our latest forecast we estimate real GDP for the state will increase 5.5 percent for all of 2021. If this forecast is realized it will mark the largest annual increase in real GDP for the state since 1994. We expect real GDP will increase 0.9 percent in 2022, essentially marking a return to pre-recession trends. Similarly, URC forecasts payroll employment in the state will grow 1.8 percent in 2021, which would mark the largest annual increase since 1998. We project employment growth will slow to 0.5 percent in 2022. Given the rise in COVID-19 cases in the state due to the delta variant, the employment forecast for 2021 is somewhat tenuous, as some of the growth projected for this year could be delayed until 2022.

In summary, the U.S. and Mississippi economies continue to recover, although this recovery remains uneven. Service sectors, which involve more interpersonal contact, continue to lag production sectors as consumers take precautions following the rise in COVID-19 cases due to the delta variant. We expect relatively strong growth in 2021 before a deceleration to near or slightly above pre-recession trends in 2022. As has been the case for over a year, the virus and society's responses to it continue to dictate the trajectory of the recovery.

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