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Both the U.S. and Mississippi economies have slowed in 2022. The U.S. Bureau of Economic Analysis (BEA) reported U.S. real gross domestic product (GDP) contracted at a seasonally adjusted, annualized rate of -1.6 percent in the first quarter of this year. In its most recent estimate of the change in U.S. real GDP in the second quarter, BEA reported a decrease at an annualized rate of -0.6 percent. A contraction in real GDP for at least two consecutive quarters is often referred to in the press as a recession. Typically, this event can be used as a rule of thumb because contractions in real GDP are usually associated with decreases in other economic activity. The National Bureau of Economic Research (NBER), which sets the unofficial dates of the business cycle, loosely defines a recession as a "significant decline in economic activity spread across the economy lasting more than a few months, normally visible in production, employment, real income, and other variables." Through the first eight months of 2022, we did not observe declines in these measures other than real GDP. The U.S. economy added an average of 438,000 jobs per month from January through August. Real personal consumption expenditures increased at annualized rates of 1.8 percent and 1.5 percent in in the first and second quarters, respectively. Despite relatively high inflation, real personal income was essentially unchanged in July compared to January. Therefore, the NBER is unlikely to declare that the U.S. entered a recession in January 2022.

Nevertheless, the forecasting firm IHS Markit, to which URC subscribes, has revised its forecast of U.S. real GDP growth for 2022 down in six of the last nine months. The U.S. economy has slowed since the end of 2021 as pent-up demand and federal transfer payments both faded. Economic growth was expected to decelerate in 2022 but Russia's invasion of Ukraine and supply chain issues resulting from China's "zero COVID" policy have exacerbated this slowdown. In addition, to combat rising inflation the Federal Reserve began aggressively raising the federal funds rate target in 2022, which already has slowed interest rate-sensitive sectors such as housing. Despite these headwinds the U.S. economy remains resilient thus far, most notably in terms of consumer spending. While the risk of recession is clearly elevated, in the forecasts of IHS Markit the base case for the U.S. economy in 2022 and 2023 remains positive but modest growth.

The U.S. economy continues to add jobs at a relatively brisk pace in 2022. Through the first eight months of the year, the U.S. added over 3.5 million jobs, compared to over 4.4 million jobs over the same period in 2021. Notably, U.S. payroll employment surpassed the February 2020 level for the first time in August. Yet many employers continue to experience difficulties in finding workers. The U.S. labor force participation rate in August was 62.4 percent, a full percentage point below the February 2020 level of 63.4 precent. Economists continue to search for explanations for the depressed rate of participation. Factors related to the pandemic, such as the virus itself, the need to care for children or other family members, and federal transfer payments have largely subsided. Nonetheless, some recent analyses suggest "long COVID-19" may continue to prevent a number of individuals from participating in the labor force. Other causes, such as an increase in early retirements and reduced immigration during the pandemic, likely remain factors. Regardless of the cause, employers have raised wages to attract more employees, which has contributed to the increase in inflation.

Speaking of inflation, prices in the U.S. in 2022 remain historically elevated. In calendar year 2021 the Consumer Price Index (CPI) increased 4.7 percent, which was the largest annual increase since

1990. The twelve-month change in the CPI was 7.0 percent or more in each of the first eight months of calendar year 2022. In June, the twelve-month change in the CPI was 9.1 percent, the largest such increase in over forty years. As prices quickly began to rise in mid-2021, a majority of economists and their economic models–including those of the Federal Reserve–predicted the price increases would be short-lived because they resulted primarily from transitory factors. This account proved wholly incorrect, as some of these factors and high prices remain over a year later. The supply chain issues that many economists thought would be quickly resolved continue to exert upward pressure on prices in the U.S. and other countries. While consumption behavior is slowly returning to a more typical pattern, compared to before the pandemic U.S. consumers continue to purchase more goods relative to services, straining some supply chains. Leaders in China are maintaining a "zero COVID" policy, which often brings industrial production in some regions of the country to a standstill. These shutdowns in production have limited the amount of manufactured goods exported from China on which many of the world's economies have come to rely. Furthermore, Russia produces around 10 percent of the world's oil and since its invasion of Ukraine most countries no longer purchase Russian oil, which pushes prices higher and contributes to the overall increase in the price level. Finally, the Federal Reserve did not raise its benchmark federal funds rate until early 2022, a delay that central bank leaders admitted likely contributed to the run up in prices. In its latest forecast the firm IHS Markit projects an annual rate of inflation of 8.1 percent for calendar year 2022 as measured by the CPI, which if realized will mark the largest annual increase since 1981. As the Federal Reserve continues to raise interest rates through the end of this year, IHS Markit expects the annual rate of inflation as measured by the CPI to moderate to 3.9 percent in 2023.

As I mentioned, Mississippi's economy has slowed in 2022 as well. BEA reported real GDP for Mississippi contracted in the first quarter at an annualized rate of -1.3 percent. URC's latest forecast is the state's real GDP also decreased in the second quarter at an annualized rate of -1.0 percent. Through the first eight months of 2022 employment growth in the state has stalled. The state has lost 3,700 jobs through August in 2022, compared to the first eight months of 2021 when 12,500 jobs were added. Nevertheless, total payroll employment in Mississippi was 1.0 percent higher in August 2022 than in August 2021. Payroll employment in the state as of August remains below the February 2020 level by 10,900 jobs. The labor force participation rate in Mississippi, while still one of the lowest among all states, was 55.3 percent in August, compared to its pre-recession peak in September 2019 of 56.2 percent. Both initial and continued unemployment claims in the state have risen in recent months but remain at relatively modest levels, similar to those in 2019.

Real income tax withholdings in Mississippi were 2.5 percent higher through the first eight months of 2022 compared to the same period in 2021. As in 2021, the state is expected to experience relatively strong nominal wage growth in 2022, but on an annual basis the increase in wages likely will be less than the increase in inflation. Sales tax revenues in Mississippi adjusted for inflation from January through August were down less than 1 percent compared to the same period in 2021. This data suggests consumers in the state have largely maintained their spending despite the rise in inflation.

The base cases in the short- to medium-term forecasts for the U.S. and Mississippi economies continue to reflect relatively lackluster growth but no recession. The probability of the pessimistic scenario, which denotes a mild recession in 2023, stands at 35 percent. This probability is down somewhat from recent months but remains elevated. An economic shock in the coming months, such as a natural disaster or geopolitical event, most likely would tip the U.S. economy into recession. Regardless, the firm IHS Markit expects U.S. real GDP to resume growth in the third and fourth quarters of 2022. The firm's latest forecast is U.S. real GDP will expand 1.7 percent in 2022, followed by

0.9 percent growth in 2023. Growth in U.S. real GDP is expected to improve to 1.3 percent in 2024. IHS Markit projects U.S. payroll employment will grow 4.0 percent in 2022, the largest expected growth in many years. The firm forecasts 0.9 percent growth in U.S. employment in 2023, followed by a 0.5 percent decrease in employment in 2024. U.S. real personal income is projected by IHS Markit to decline 3.0 percent in 2022. IHS Markit forecasts U.S. real personal income will increase 1.3 percent in 2023 and 1.9 percent in 2024.

URC forecasts real GDP for Mississippi will increase 0.7 percent in 2022, 0.6 percent in 2023, and 0.8 percent in 2024. These rates of expansion are similar to the growth rates the state's economy experienced in the years prior to the recession in 2020. The latest forecast for payroll employment in Mississippi is an increase of 2.0 percent in 2022. However, the state will have to add a considerable number of jobs in the remaining months of the year to realize this forecast. URC projects employment in Mississippi will decrease 0.2 percent in 2023 and will decrease 0.7 percent in 2024. These decreases, along with the low to flat rates of growth in U.S. employment, likely will occur once the Federal Reserve completes its increases in interest rates, presumably by early 2023. Real personal income in Mississippi is expected to decrease 5.8 percent in 2022. While nominal wages in the state are forecast to increase 8.3 percent in 2022, a higher rate than in 2021, nominal transfer payments from the federal government are projected to fall 13.3 percent. Real personal income in Mississippi is projected to increase 0.9 percent in 2023 and 1.5 percent in 2024, similar to the rates that the state experienced in the years prior to the recession in 2020.

In summary, the U.S. and Mississippi economies have slowed and the risk of recession is elevated, but not the base case. Inflation remains historically high but may have peaked. The Federal Reserve will continue to raise interest rates to reduce demand, which should bring down inflation. However, higher interest rates likely will slow what has been a tight U.S. labor market. Finally, while COVID-19 remains a public health concern, its direct economic impacts are expected to diminish compared to the previous two and a half years.

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