Title Slide: The economic outlook - including national, state and Revenue

URC economic outlook was released at the end of April; Since that time there has been a new national forecast.

What I am sharing with you today reflects that update -- basically deeper, recession longer to recover

The current situation is unprecedented.

While we have had pandemics before, we have not seen the kind of global response like this before.

Specifically referring to the near global shutdown of the economy.

Both US and MS economies were doing relatively well before the virus.

Slide 2: Consumer and business attitudes

Neither series is as low as during the depth of the Great recession

However, we have never seen this kind of precipitous decline

Air travel at effectively 100% below year ago. Hotel activity down 80% or better;

seated dining down 100%; Movie receipts down 100%; Schools and colleges shift online

Eventually most businesses were closed; Consumer spending fell off a cliff;

There have been significant wealth and employment effects.

Auto sales expected to reach 9.9 million in Q2 (annual equivalent); climb to only 12.9M by 2021.

Before shutdown we were averaging little under 17 million units on an annual basis

Slide 3: Quarterly growth in GDP

A. We have effectively slammed on the breaks for the economy in order to flatten the curve
 the economic consequences of this are staggering.

B. Virtually every Economist agrees that the we have plunged into a deep recession.

1. Chart is Annualized quarterly growth rates.
    a. annualized quarterly growth rates are quarter to quarter growth multiplied by four
    b. reflects what would happen if the quarterly growth continued for four consecutive qtrs.
    c. Allows comparisons to annual growth rates; Most economist use this so you can compare forecast
2. How deep of a decline?
    a. BEA says the National economy began to contract in the first quarter at an annualized rate of 4.8%
    b. The decline is mostly due to shutdowns that began in March
    c. It is the 1st estimate it will certainly be revised.
        i. Measuring the economy depends on incomplete data and revisions come with new information
        ii. We are dealing with very unusual situation now and so the unknowns are greater
        iii. Consequently, the forecast can change as new information becomes available
3. The economy nosedived in the second quarter as shelter-in-place orders spread
    a. While economist differ on the actual number, they agree conditions worsened substantially in the 2nd
    b. IHS Markit estimates a decline of 36.5% in the 2nd qtr. (April estimate was 29%)
    c. Starting to see more opening up across the country, so we see growth beginning in the 3rd qtr., gaining momentum in the 4th and 1st before moving toward somewhat more normal growth in late 21

C. This does include expected impacts from the CARES Act Coronavirus Aid, Relief and Economic Security Act

1. Nearly all economist recognizes this is not a stimulus bill
2. It was designed to preserve the economic infrastructure during the shutdown.
3. “Stimulus checks” will primarily be saved
4. It does give income support to individuals with unemployment compensation. For a state like Mississippi it is a big deal.
5. Another stimulus is possible

Slide 4: GDP levels: we hit bottom in the 2nd quarter

A. Expect some lingering impacts; recognize that virus affects way people think and act & buy

B. Peak-to-trough growth rate is 11.8% decline (2019q4 to 2020q2)

C. Almost triple the decline of the great recession (3.9%)

D. It will be mid 22 before the U.S. economy is back to pre-recession level of GDP

Slide 5: Comparison of this recession to "Great Recession"

A. Chart indexes Real GDP to the pre-recession level marked as Q0;
For Great Recession 2008q2 =100; for current recession 2019q4 = 100

B. Notice the 2008 recession was a more gradual decline; we didn't hit bottom until 4 quarters in.
Also, initial growth after trough was gradual

C. Took us 10 quarters to get back to prerecession level (100%)

D. Current recession, relatively short, and recovery begins rather strong, but still takes us 9 quarters to get to 100

E. Why does recovery take so long? Why not immediate?

1. Very deep, very widespread -- every industry, every region is impacted
2. Much of what has been lost cannot be regained; Especially in services sector; we don't buy two haircuts
3. Attitudes have changed; lingering uncertainty/fear; It took 2.5 Years for air travel to return after 9/11
4. Global recession; no countries can pull others out of recession.

Slide 6: Annual perspective For CY 2020 -7.3%

A. Worst decline on annual basis since period following the WW2 buildup

B. Not as bad as the Great depression (12.9%); In depression we had multiple years of decline

C. CY 2021 +5.1%; CY 2022 4.6%; CY 2023 3.9%

Slide 7: Monthly change in Jobs by month

A. March payrolls fell 881K jobs--- incredible decline; Loss of every job gained since early November

B. April saw a loss of 20 million -- too large to put on same graph; loss of all jobs gained over last decade

C. The job recovery is likely to lag that of GDP.

1. That was the case in 2008 & 2001; Demand for labor depends on the economy coming back in earnest
2. Business will likely take a "wait and see" approach before hiring
3. May see an initial bounce in jobs as economy restarts, but then economic forces take a toll on other sectors
For example, maybe the restaurants rehire, but then manufacturing declines

Slide 8: Percent change in Nonfarm employment annualized quarter.
Down 55.3% in 2nd and another 9.8% in the 3rd; Growth returns in the 4th

Slide 9: Unemployment reaches a high of almost 20% in the 4th quarter before it begins to fall

Slide 10: Oil sector has been hit especially hard

A. Global recession and trade war between Saudi Arabia and Russia has produced a glut of oil

B. Low demand, low prices and dwindling storage capacity

C. If you cannot sell and you cannot store, you shut down production

D. It means less investment in wells and equipment which just makes hinders recovery

E. Expect prices to remain low for some time; 2022 before back up to the $40-50 range

F. For MS we have lot of people employed in the industry in other states, spending here.
Some are already seeing layoffs and pay cuts anecdotal

What does this all mean for MS?

Story basically same but slightly deeper initial impact followed by longer recovery time

Slide 11: Historically, MS underperforms the US

A. We think we fell about 5.3% in the 1st quarter

B. We think for the 2nd quarter we will decline almost 44%

C. Like the nation, we see recovery and fairly robust growth in 3rd quarter which strengthens in 4th

D. We basically follow the pattern of the nation, but with slightly lower growth;

1. In the last recession, the growth was led by large metro areas.
2. This is where the bulk of the economic activity is located -- offers large diverse labor force
3. MS does not have those areas and so was slower to recover; I expect similar pattern with this recession.
4. Still expect very robust growth rates as the recovery goes full steam in 2021.
5. Growth gets into a more settled level of growth in 2022.

Slide 12: With slower growth it takes us longer to get back to pre-recession level.

Pre-recession level of GDP is not achieved until 2020 at the earliest

Is this too pessimistic?

Technically speaking, we have yet to regain the 2008 peak recession.

The 2019Q4 quarter GDP estimates was just under the 2008 peak level

Growth rates in this recovery are expected to be much stronger than in 2008

Slide 13: Historical Real GDP

A. Notice the relatively flat period following the 2008 recession.

B. It was really just in the last couple of years that we began to see growth above 1%; relatively good for MS

C. You can also see the deep decline of 2020 and the recovery period

D. Even by 2022 still below the 2019 level. Again, 2023 at the earliest for full recovery

Didn't run the models out any further as there are just so many things that could affect the forecast.

Positive or negative -- another round of deaths/shutdowns in the fall; Another stimulus.

We can run longer-term scenarios once the outlook comes more into focus

Slide 14: Annual growth rates of Real GDP for a sense of perspective.

A. 7.6% decline, greater than the decline of last recession.

B. A growth of 3.3% projected for 2021. if realized, it will be strongest gain since 2008.

1. Growing from low base so growth rates appear exaggerated
2. If you had $20 and are handed you $10 you have had 50% gain
3. If you have $50 and someone hands you $10 you have had a 20% gain

Slide 15: Employment.

A. Steep decline, slow recovery, for the same reasons as GDP

B. Preliminary April jobs report shows a 117K jobs decline for that month.

1. I would not be surprised to see that revised down; based on unemployment claim data
2. We lost 78K jobs in 2008 over the course of 2 years
3. This recession we lose far more over the course of s a single quarter
4. We are projecting further declines in the second half of 2020.

   As previously stated, while you have some jobs coming back, you will have others leaving

Slide 16: Weekly unemployment claims for 2020

A. Initial claims show people requesting unemployment benefits; they may or may not qualify

B. Continued claims show those actually receiving benefits.

C. Initial claims are shown on left-hand Axis; Continued Claims are on the right

D. We have never seen anything like the increase.

1. Largest weekly increase of last recession for initial claims was 9,420; for continued claims just under 50k
2. At peak Initial claims reached over 45K; and Continued Claims are over 200K currently
3. Initial claims are beginning to fall; still highly elevated as the recession takes a toll on more businesses.

Slide 17: Unemployment rate -- like the nation we approach 20%
In great recession didn't go above 11%; April unemployment was 15.4%
Expect the unemployment rate to remain elevated for some time.

Slide 18: What does this do to revenues

A. These are URC preliminary estimates;
We normally present a consensus estimate from the Revenue Estimating Group
We will presumably meet after the May numbers are in to reach a consensus estimate

B. This estimate reflects the revenue generated given the current economic outlook

C. The Actual revenue data during the pandemic is very limited
The April Revenue report reflects March sales; This was largely before the shutdown
The shift in filing date impacts corporate & Personal income taxes, making data from these sources less useful
Consequently, URC estimate might change after the final May numbers are in.

D. URC estimate for FY 2020 General Fund: $5,131.8 Million
$864.4 million below November estimate. $836 million below FY 2019

E. URCY Estimate for FY 2021 General Fund: $5,598.4 Million
$367.1 million below November estimate or $369 million below FY 2019

F. These estimates reflect DOR's estimate of a shift of $436M from FY 2020 to FY 2021 due to filing date change

G. Without that shift FY 2021 takes the brunt of the revenue hit:
FY 2020 $428.4 million below November Revised estimate
FY 2021 $803 million below November revised

Slide 19: Final comments.

A. The economic outlook is certainly the worst our generation has experienced.
Not depression level, but the steep decline has not been seen since WW2 era

B. There are some mitigating factors that will make it better than it would otherwise be
1. Specifically, the direct payments to individuals in the form of Economic Impact Payments EIP (stimulus checks) and additional unemployment compensation; $600 per week in MS is very good
2. It means that income levels are significantly supported

C. I also wanted to caution you about the forecast
1. Always based on assumptions, but usually we are more certain of our assumptions than this go around
2. We do not know if there will be another round of virus spread in the fall
3. We do not know what any additional stimulus measures might look like.
4. We are making assumptions regarding buying behavior -- we think it is reasonable, but maybe we are too pessimistic… maybe too optimistic
5. The point is that as new information becomes available, the outlook could change substantially
This is our best estimate based on the information available at this point in time.

D. While the numbers may change a bit, I think the basic story remains the same
1. A relative short recession with a long recovery
We expect to take our biggest hit in the 2nd qtr.
We expect conditions to moderate toward the end of the quarter and begin to improve in the 3rd
Growth is expected to strengthen in the 4th with improvements continuing into 2021 and beyond
2. The depth of the recession, the changes to buying habits and the global nature of the recession means full recovery is not immediate. For the US, full recovery is not until mid 2022. For MS 2023 at the very earliest