What has the COVID-19 pandemic done to Mississippi's economy?

J. Corey Miller, State Economist
February 28, 2022

As state economist I have reported most of the usual economic statistics from the past two years, but I have not addressed this particular question at length. I would like to use this platform today to discuss what the data have told and continue to tell us about the effects of COVID-19 on the state's economy and our reactions to these effects.

Before I get into the economic data, I want to note that to date COVID-19 has claimed the lives of over 12,000 Mississippians. There's no way to adequately measure the impact on families and our society of this loss of life, and I don't mean for my comments about the economy to diminish the human toll of COVID-19.

In the broadest economic terms, Mississippi's economy contracted 1.8 percent in 2020 as measured by real gross domestic product (GDP). That percentage change in real GDP ranked 10th among all states and was considerably less than the decrease in U.S. real GDP in 2020 of 3.4 percent. In comparison, the only two states where real GDP did not contract in 2020 were Utah and South Dakota, as the economies of both states managed to expand by 0.1 percent. The largest contractions in real GDP occurred in Hawaii and Nevada, where real GDP shrank 10.8 percent and 7.4 percent, respectively. Both states rely heavily on tourism, a sector that received outsized impacts from COVID-19.

Payroll employment in Mississippi decreased 4.3 percent in 2020, similar to the decrease in employment the state experienced in 2009 during the Great Recession. U.S. payroll employment, in contrast, fell 5.8 percent in 2020, well above the decrease that occurred in 2009. More specifically, employment in the state's Accommodation and Food Services sector plunged 13.1 per cent in 2020, the largest decrease among all major sectors. Every major sector in the Mississippi economy experienced a decrease in employment in 2020. In addition, the number of people in the labor force in Mississippi decreased 1.6 percent in 2020 and the labor force participation rate fell to 55.1 percent, down from 56.0 percent in 2019.

Despite the contraction in output and the decline in employment, personal income in Mississippi actually increased 7.4 percent in 2020, up from the 3.1 percent growth in 2019. This gain was the largest annual increase for the state since 1994. The reason was primarily a 26.4 percent increase in transfer payments, which included various forms of assistance from the federal government through the CARES Act and subsequent legislation.

The data I mentioned indicate that while the Mississippi economy suffered a shock from the pandemic in 2020, the damage was considerably less compared to the economies of most states and the U.S. I think three main factors were responsible for this difference. One was the timing and duration of lockdowns in the state. The shutdowns in Mississippi were mostly during the period other parts of the country experienced their most severe outbreaks of COVID-19 and the state was among the first to fully reopen, impacts on the rate of COVID-19 infections notwithstanding. Another factor is the orientation of the Mississippi economy compared to other states and the U.S. Smaller shares of output and employment in the state's economy are found in service sectors compared to the U.S. economy, and these were the sectors most negatively impacted by COVID-19. Relative to the U.S. economy, more of Mississippi's economy is found in traditional production sectors such as manufacturing as well as government, both of which were affected relatively less by COVID-19. Typically, the production sectors of an economy are hit harder during a recession. In 2009 and 2001 decreases in the output of these sectors contributed to the larger contractions in Mississippi real GDP compared to U.S. real GDP.

Third, the increase in personal income in Mississippi of 7.4 percent ranked 12th among all states and was affected by the relatively large increase in transfer receipts. Although most states in fact experienced larger percentage increases in transfer receipts than did Mississippi, these transfers led to outsized impacts on personal income because of the relatively low levels of income in the state. Thus, the transfers from the federal government likely lifted the Mississippi economy more than in most states.

Where does Mississippi's economy stand in early 2022? In terms of real GDP, the state surpassed its pre-recession high—which was actually in the fourth quarter of 2019—in the first quarter of 2021. This recovery is considerably better compared to the Great Recession. The high in the state's real GDP prior to the Great Recession occurred in the second quarter of 2008 and was not surpassed prior to the 2020 recession. On an annual basis real GDP for Mississippi in 2021 should exceed the 2008 level for the first time. URC's latest forecast is the annual increase in Mississippi real GDP in 2021 was 4.5 percent, which if correct will mark the largest annual growth since 2003. We currently project real GDP for the state will expand 1.5 percent in 2022, less than in 2021 but still well above the trend in the years prior to 2020.

Employment in Mississippi increased 2.2 percent in 2021, which was the largest annual increase since 1998. However, that number will likely change when the Bureau of Labor Statistics completes its annual revisions to employment data next month. Through December the state had recovered 91.0 percent of the jobs lost in 2020, a higher rate than the 84.0 percent of jobs recovered for the U.S. Nevertheless, 13,600 fewer people in the state were employed as of December compared to February 2020, a 1.2 percent difference. Moreover, 24,000 fewer people were in the labor force in Mississippi as of December compared to the pre-recession monthly high in October 2019, a 1.9 percent decrease. The labor force participation rate reached 56.1 percent in February of 2021, the same as the pre-recession rate in February 2020. However, the rate maintained a downward trend in the following months and as of December was 55.2 percent. For the state's labor market to fully recover considerable progress therefore remains. Following recessions the labor market in Mississippi can take much longer to return to its pre-recession levels compared to the U.S., as many people in the state are marginally attached to the labor force. After the end of the Great Recession, payroll employment in the state did not surpass its pre-recession high that occurred in January 2008 until January 2020, a full twelve years later. Employment should return to its pre-recession level much sooner after the downturn in 2020 compared to the Great Recession, although some sectors in the state likely will take longer than others. URC's latest forecast is employment in Mississippi will grow 1.3 percent in 2022, less than in 2021 but considerably more than in recent years.

According to our most recent forecast personal income in Mississippi likely grew 7.1 percent in 2021, slightly less than in 2020 but well above the trend of the last decade. We project transfer payments increased 8.3 percent in 2021, well below the 2020 increase but still much larger than in recent years. Our forecast for 2022 is the change in personal income in the state will be relatively flat as the transfers from the federal government fade. We do estimate Mississippi saw wage growth of 6.9 percent in 2021, the largest in a number of years, but that most of the gains in real terms were eroded by higher inflation. We anticipate a similar situation for wages in 2022, with nominal growth of 6.7 percent.

Speaking of inflation, the Consumer Price Index (CPI) increased 4.7 percent in 2021, its largest annual increase since 1990. Inflation is expected to remain a challenge to the state and national economies in the short term, as our latest forecast of the change in the CPI for all of 2022 is an increase of 4.5 percent. Higher gasoline prices in particular impact the Mississippi economy as the state's residents drive more vehicle miles than those in almost all other states.

In summary, COVID-19 and the related recession left its mark on the Mississippi economy, but the damage was less than in most states and considerably less compared to the Great Recession. Real

GDP for the state has already surpassed its precession level and personal incomes surged in the past two years following historic transfer payments from the federal government. However, payroll employment in the state remains below its 2019 level and will not likely surpass this level for some time. Both the labor force and labor force participation remain below their late 2019 levels. Concerns about the economy over the short term include the relatively high rates of inflation and the potential monetary policy responses to it, the slowdown in economic growth as the recovery matures and federal transfer payments fade, and what the next phase of the pandemic will look like.

Thank you for your time and I will be glad to take any questions.