

Comments Before the JLBC By Darrin Webb
September 19, 2013

The U.S. Economy continues to expand at a slow pace. Gross Domestic Product or GDP is a measure economist use to discuss growth in the overall economy. It is an estimate of the output of goods and services generated by labor and property within the Nation. It is most often cited in inflation adjusted dollars. This is called real GDP. For the first half of 2013, Real GDP was up 1.6% over the same period of 2012. That is relatively slow growth. For example in 2012, we grew 2.8% which was below long-term average growth (well above 3.0%). At 1.6%, the 2013 growth is slightly below the growth of CY 2011. We grew 1.8% that year. This gives you some perspective of where we are historically.

As we look more specifically at 2013 growth has slowed through the year. For example, during the first quarter, the nation added on average 207 thousand jobs per month. During the second quarter the average fell to 182 thousand jobs. For the first two months of the third quarter the Nation has added only 136 thousand jobs per month. Consumer spending has also been generally mild in 2013. Consumers remain somewhat cautious. However, pent-up demand has led to improved spending in some areas. Vehicle sales in particular continue to be one of the brightest spots in the economy. In 2013 vehicle sales are running at an annualized rate of 15.6 million units. For comparison purposes, consider that in 2009 the average was around 10 million units.

Housing continues to show improvement, however new home starts have cooled a bit in response to upwardly creeping interest rates. Rates have risen because it appeared the Fed was poised to begin tapering their quantitative easing. Yesterday the Fed announced that pumping would continue. They did this because the economy remains weak. They also downwardly revised their growth estimates for this year and next.

Despite the softening of growth in housing starts, we expect the housing sector will continue to contribute significantly to growth for the remainder of this year and over the next two years. This is based on improved household formation and pent-up demand. Export growth is also expected to continue to improve and help support growth. So the outlook is generally positive, although growth is expected to be modest.

There are threats to this outlook for economic growth. The renewed troubles in the Middle East have resulted in upward pressure on oil prices. This appears to be temporary and relatively mild, but there is always the threat of escalation. An additional threat to the economy is for continued political discord in Washington. In the coming months, policy makers face decision over the 2014 budget, the debt ceiling and a long-term solution to the sequester issue. In the past, Washington has appeared incapable of addressing fiscal issues and this has resulted in, at times, a dramatic loss of consumer and business confidence and that has in turn affected the economy. The lackluster employment growth, especially among higher paying jobs is also a threat.

Despite these threats, we expect real GDP growth in 2013 to be about what we have seen thus far, around 1.6%. We expect real GDP growth to gradually strengthen as we move into 2014 and beyond. We are forecasting a growth of 2.6% for 2014 and 3.3% in 2015.

Turning to the Mississippi economy, it appears we are outpacing the Nation. As I said, the National economy is growing at a pace of about 1.6% in 2013. We think Mississippi's

growth is closer to 1.9%. We are especially seeing improved employment growth. Mississippi has added around 25 thousand jobs in the last twelve months. If you look at it on an average basis, and compare the first seven months of 2013 to the same period of 2012 we are up 1.7%. For comparison purposes, consider that in 2009 the state experienced a 4.5% decline in employment; in 2010, a 0.5% decline; in 2011, no change in employment; In 2012, the state saw its first increase since the recession when we experienced a 1.0% growth in employment; and as I said we are currently growing at 1.7%. So the state has really been slow to the party when it comes to job growth, but remarkable improvement has been made in the last twelve months. Employment did dip in July. This is not too surprising given the moderation of growth that is taking place nationally.

While the employment growth has been remarkable and certainly welcomed after the sluggishness of the past few years, it probably overstates the general improvement in the economy. For example, inflation adjusted income tax withholdings are growing at a more modest pace in 2013 than in 2012 (0.7% versus 2.2%). I suspect that many of the jobs being added in the state are relatively low paying and possibly part-time and that is why we can have strong job growth but relatively modest income growth. It also appears that many of the jobs being added may be temporary jobs, which strengthens the argument that the employment data are overstating the recovery.

Residential building permits have also slowed in recent months. I think this is more of a pause in growth rather than a return to declining trends, but it does reflect the moderation of growth that I believe is taking place in the State. Construction employment growth actually remains robust. It is likely that non-residential construction is outpacing residential construction. We have also seen a fairly dramatic decline in manufacturing work-week length. This series is still somewhat high, but not what we were seeing at the first of the year.

So the story that emerges from the data is that the State's economy has grown relatively strong over the past year, but we have probably slowed from that pace. We do expect growth to continue, just not at the pace we have been seeing. I expect real GDP growth for the state in 2013 to be around 1.8 percent. That is again faster than the nation. As we move into 2014, growth is expected to accelerate, but I don't expect it to continue to outpace the nation. We are projecting a growth rate of 2.4% for 2014. Mississippi's growth, like the Nation, will likely continue to improve in 2015. We expect real GDP growth in Mississippi to reach 3.0% in 2015.

So to summarize, the national economy is growing, but at a slow pace. Growth has moderated through the year especially with regard to job gains. We expect the Nation to continue to expand at a modest pace with growth strengthening in 2014 and 2015. The state appears to be out-pacing the Nation in 2013. We too have seen some cooling of growth, but we expect to end the year with a growth rate that is ahead of the Nation. Like the Nation we expect Mississippi's economy will continue to strengthen in 2014 and 2015, but at a pace that is slightly below the Nation's.