

## Comments to the Joint Legislative Budget Committee September 26, 2024

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In my comments to this Committee in each of the last two years, I stated the U.S. and Mississippi economies were expected to slow the following year. Yet in each of the following years growth exceeded the outlook. This stronger than expected growth is a testament to the resilience of the U.S. economy, especially the U.S. consumer. However, as of mid-2024 we finally see evidence of a slowing U.S. economy, particularly the labor market. According to the U.S. Bureau of Labor Statistics (BLS), the U.S. economy added an average of about 184,000 jobs per month through the first eight months of 2024. This average is down from about 266,000 jobs per month over the same period in 2023. Relatedly, the average number of job openings per month through the first seven months of 2024 according to BLS was just over 8.2 million, down 14% from the same period in 2023 and down 29% from the same period in 2022. While the U.S. job market has clearly loosened over the past 18 to 24 months, it remains largely healthy.

The growth of U.S. real gross domestic product (GDP) in the first half of 2024 exceeded expectations coming into the year. The U.S. Bureau of Economic Analysis (BEA) reported real GDP expanded 2.1% in the first six months of 2024 over the previous year. This growth resulted largely from stronger consumer spending than anticipated in the last quarter of 2023, which positioned the U.S. economy for greater expansion in early 2024. The overall improvement in growth reflects faster rates of immigration than previously estimated, which led to increased demand for housing and more consumer spending. The stronger than expected rate of consumer spending in the first half of 2024 also reflects better household balance sheets than assumed in earlier forecasts.

U.S. inflation, as measured by the Consumer Price Index (CPI), continues to moderate. The CPI increased 4.1% in calendar year 2023, down from the 8.0% annual increase in 2022. Moreover, in August the change in the CPI over the previous twelve months was 2.5%, the lowest year-over-year rate since February 2021. While the rate of inflation has taken some time to fall, in my opinion the Federal Reserve's efforts have been largely successful. This progress in reducing inflation along with the softening of the labor market has led the Federal Reserve to adjust its policy regarding interest rates. The Federal Open Market Committee reduced the federal funds target rate by 50 basis points at its meeting this month, the first decrease since March 2020. One more reduction is anticipated before the end of the year, with additional cuts to the target rate in 2025. In its latest forecast, the firm S&P Global Market Intelligence projects the CPI will increase 2.9% for all of calendar year 2024, followed by a 2.1% increase in the CPI for all of 2025 and a 2.9% increase for all of 2026.

Turning to the Mississippi economy, according to BEA real GDP for the state expanded at seasonally adjusted, annualized rates of 3.4% in the fourth quarter of 2023 and 1.0% in the first quarter of 2024. These rates of growth exceeded forecasts at the end of 2023, much like the forecasts for the U.S. economy. URC projects the state's real GDP increased in the second quarter at an annualized rate of 2.6%, a substantial upward revision from the forecasts at the end of 2023. Through August, the Mississippi economy has added 9,600 jobs in 2024, ahead of the pace through the same period in 2023. However, as I have noted in previous comments BLS will revise employment early next year, which means we may not know the "final" employment numbers for 2024 for several months. Nevertheless, the numbers of initial and continued unemployment claims in the state in the first eight months of 2024 were relatively low as the average monthly value of both measures was below the 2019 average for the

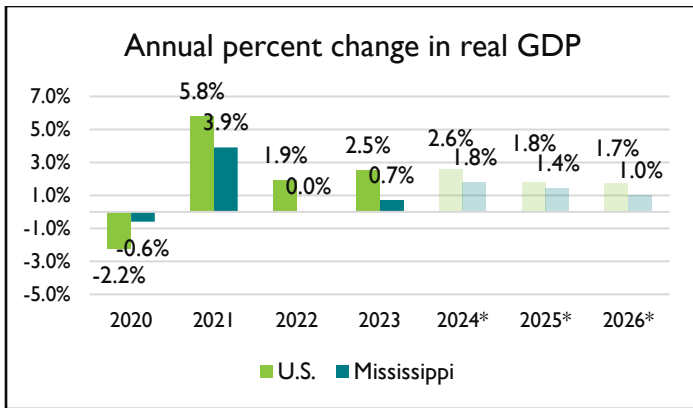
same period. Therefore, the number of unemployment claims indicates an acceleration in layoffs did not occur in the state through the first eight months of the year. The labor force participation rate in Mississippi was 54.4% in August, the lowest among all states but 0.7 percentage point higher than in April of this year. The rate remained 1.9 percentage points below its pre-recession peak in October 2019 of 56.3%.

Sales tax revenues in Mississippi adjusted for inflation from January through August were down 1.4% compared to the same period in 2023. This decrease in real sales tax revenues indicates consumer spending in the state has slowed somewhat compared to last year. The latest forecast by URC is nominal wages and salaries in Mississippi will grow 4.6% in 2024, a smaller rate of growth than in 2023 but still a larger rate than in the years prior to the recession. The increase in wages and salaries in the state in 2024 should exceed this year's rate of inflation. However, moderation in wage growth is expected to continue as the labor market loosens.

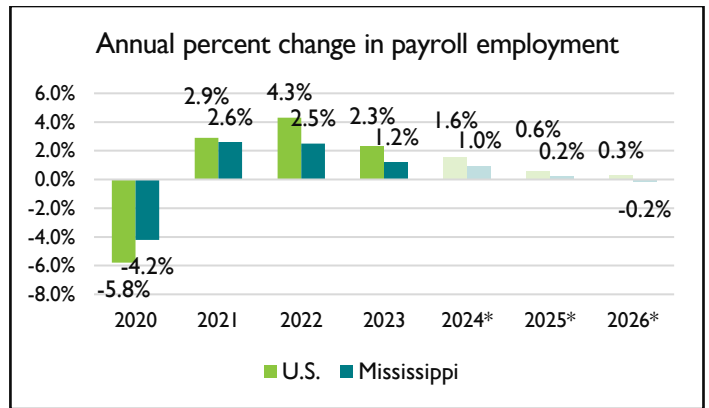
While I have discussed the slowing of the U.S. economy, the odds of a recession occurring in the next 12 months appear relatively low. S&P Global Market Intelligence and most forecasting firms place the odds of a recession at no more than 25%. I believe the so-called "soft landing" scenario—where inflation declines with only a modest increase in unemployment—is very much in play. The base case in the latest forecast from S&P Global is a transition from *above-trend* growth to *below-trend* growth and that this below-trend growth will persist for the next several years. Factors driving this slowdown include the lagged effects of higher interest rates over the past two years, tighter financial conditions (including stricter lending standards), the fading impacts of fiscal support, and a stronger dollar. The latest forecast by S&P Global is U.S. real GDP will expand at a rate of 2.6% in 2024, comparable to 2023. In 2025, as the labor market continues to loosen and the lagged effects of higher interest rates impact the economy, the firm projects U.S. real GDP growth will slow to 1.8% for the year. The firm's forecast for real GDP growth in 2026 is similar at a rate of 1.7%. U.S. payroll employment is forecast to increase 1.6% in 2024, the slowest rate since 2020. In 2025 U.S. employment growth is projected to slow to 0.6%, and by 2026 employment growth is expected to be relatively flat at 0.3%. S&P Global forecasts U.S. real personal income will grow 2.0% in 2024. As inflation continues to ease, the firm estimates U.S. real personal income will increase 3.0% in 2025, followed by another 3.0% increase in 2026.

The latest forecast by URC projects real GDP for Mississippi will increase 1.8% in 2024. Real GDP for Mississippi is forecast to expand 1.4% for all of 2025, followed by a 1.0% increase in 2026. Payroll employment in Mississippi according to URC's forecast will increase 1.0% in 2024. In 2025, payroll employment growth in the state is expected to be relatively flat at 0.2%. URC projects employment in Mississippi will decrease 0.2% in 2026. Employment is anticipated to slow relatively more in Mississippi compared to the rest of the nation because a larger portion of the state's workforce is employed in the Manufacturing sector. Furthermore, Mississippi is a state with a relatively slow-growing population. A population that is not expanding limits both growth in the labor force and the demand for labor-intensive services, which inhibits overall employment growth. Real personal income in Mississippi is expected to increase 2.2% in 2024, slightly higher growth than for the U.S. In 2025, real personal income in Mississippi is projected to increase 2.3%, followed by 2.5% growth in 2026.

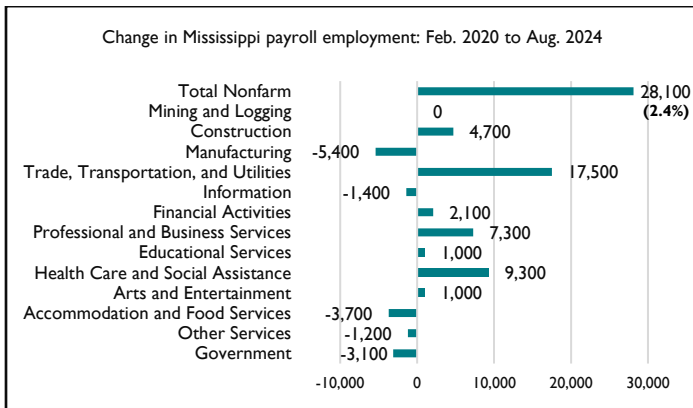
In closing, the U.S. and Mississippi economies are projected to slow in 2025 and beyond, particularly employment. However, barring some shock to the U.S. economy a recession in the next 12 months appears unlikely. Inflation is projected to continue to gradually slow, approaching the Federal Reserve's target of a 2.0% annual rate in late 2026. Thank you for your time and please contact me if I can answer any questions.



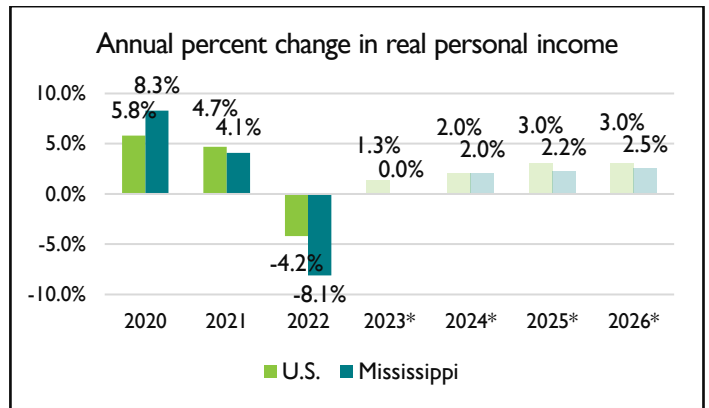
\*Projected. Sources: U.S. Bureau of Economic Analysis, S&PGMI, URC.



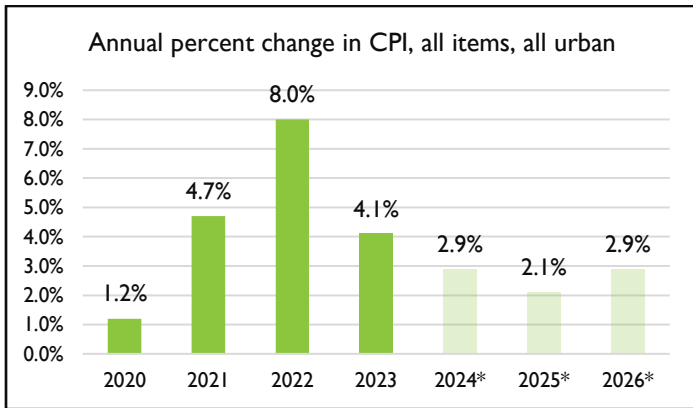
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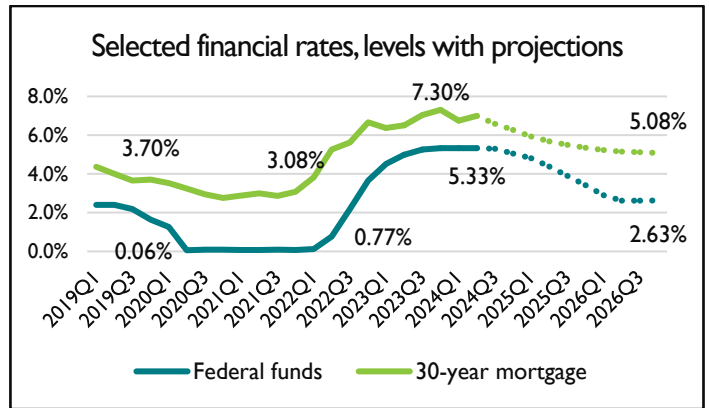
Source: U.S. Bureau of Labor Statistics.



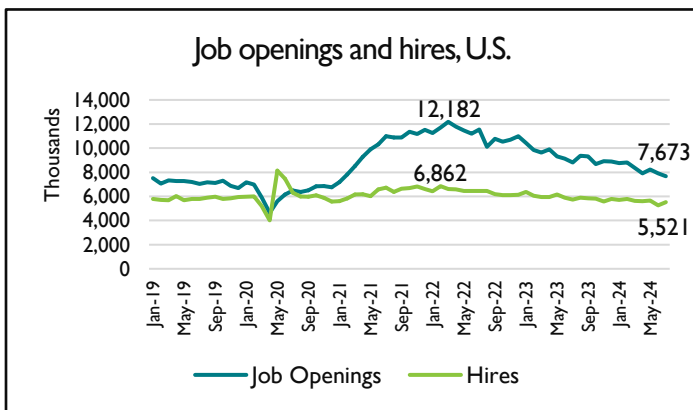
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Sources: Freddie Mac; Federal Reserve Board; S&PGMI.



Source: U.S. Bureau of Labor Statistics.



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