UNIVERSITY RESEARCH CENTER

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Good morning. I will begin my remarks to the Committee today with a discussion of the outlook for the national and state economies and conclude with the recommendations of the Revenue Estimating Group for FY2024 and FY2025.

As I noted in my comments to this Committee in September, the U.S. and Mississippi economies continue to perform above expectations in 2023. U.S. real gross domestic product (GDP) expanded at annualized rates of 2.2 percent, 2.1 percent, and 4.9 percent in the first, second, and third quarters of 2023, respectively, according to the U.S. Bureau of Economic Analysis (BEA). The agency also reported in its latest estimate real GDP for Mississippi increased at an annualized rate of 1.7 percent in the first quarter of 2023. URC estimates in its latest forecast real GDP for Mississippi expanded at annualized rates of 1.6 percent in the second quarter and 3.0 percent in the third quarter. This growth is in considerable contrast to the projections by S&P Global Market Intelligence and other forecasting firms coming into 2023, which anticipated a mild recession in the first half of the year. S&P Global estimated growth in real consumer spending would not exceed an annualized rate of 1.0 percent in any quarter of 2023. Instead, BEA reported real consumer spending increased at annualized rates of 3.8 percent in the first quarter, 0.8 percent in the second quarter, and 4.0 percent in the third quarter. This stronger-than-expected growth in consumer spending was responsible for much of the expansion in real GDP that exceeded forecasts through the first three quarters of the year. The growth in consumer spending occurred despite additional interest rate increases by the Federal Reserve. The federal funds rate target reached a range of 5.25 percent to 5.50 percent in August, the highest level in twenty-two years. These higher rates still are expected to slow the U.S. economy, but these effects are taking longer to materialize than most economists anticipated.

S&P Global Market Intelligence projects in its latest forecast that U.S. real GDP will expand 2.4 percent for all of 2023, a slight decrease from the forecast of the previous month. As I stated, the firm expects growth to slow next year. In its latest forecast the firm projects U.S. real GDP will increase 1.4 percent in 2024, followed by another increase of 1.4 percent in 2025. The recent tightening of financial conditions is expected to continue and lead to slower growth starting in the fourth quarter of this year. The U.S. labor market has remained unexpectedly tight in 2023. S&P Global projects U.S. payroll employment will grow 2.4 percent in 2023. However, the firm anticipates the U.S. economy will lose jobs starting in the second quarter of 2024 and that employment for the year will increase only 0.6 percent. Annual U.S. payroll employment is expected to be essentially unchanged in 2025 before returning to growth in 2026.

The Consumer Price Index (CPI) is forecast to increase 4.1 percent for all of 2023. If this projection is realized, this rate of inflation will equal about half of the increase in 2022. It also will mark the third consecutive year with annual inflation of more than 4.0 percent. The effects of higher interest rates are expected to slow demand further in the coming months, and the CPI is projected to increase 2.7 percent for all of 2024. This rate is forecast to ease further to 2.0 percent for all of 2025.

Mississippi's economy, as I mentioned, is projected to grow more in 2023 than was expected coming into the year. URC's latest forecast estimates real GDP for the state will expand 1.3 percent in 2023, which if realized will mark the second largest annual increase since 2012. Employment in the state as of September was essentially unchanged from December 2022 according to latest data from the U.S. Bureau of Labor Statistics (BLS). However, a similar situation existed last year, and BLS later revised up employment data for Mississippi. Through September average monthly initial unemployment claims in the state were down 8.2 percent compared to the same period in 2019, which indicates few layoffs have occurred so far this year. URC projects payroll employment in Mississippi will increase 0.7 percent in 2023. Like the U.S. economy, URC anticipates the Mississippi economy will slow in 2024 and 2025. Our latest forecast expects real GDP for the state will expand 1.1 percent in 2024 and 0.6 percent in 2025. URC forecasts employment in Mississippi will decrease 0.2 percent in 2024 and decrease 0.5 percent in 2025, which reflects in part the weakening of the U.S. labor market as financial conditions tighten in response to higher interest rates. Most notable in the latest forecasts by S&P Global and URC is no recession in the national or state economies is projected through 2025.

The Revenue Estimating Group met a little over a month ago with this economic context in mind to discuss the state's general fund estimates for FY2024 and FY2025. As is our usual practice, the group considered the outlook for the economy and revenue collections to date and discussed each revenue source individually by fiscal year to reach consensus estimates for FY2024 and FY2025.

I will discuss some specific revenue sources. Sales tax revenues continue to grow but at lower rates than in recent years. Sales tax transfers to the general fund were up 3.2 percent through the first four months of FY2024 compared to the first four months of FY2023. Through October sales tax transfers were 5.3 percent higher than the current estimate. Adjusting for inflation, sales tax transfers were down 0.3 percent in the first nine months of CY2023 over the first nine months of CY2022. This relatively small difference indicates consumers in the state have largely maintained their spending despite the increase in prices, which were up 3.7 percent between September 2022 and September 2023. In contrast to sales tax revenues, individual income tax revenues have trended lower. Individual income tax transfers were down 12.1 percent through the first four months of FY2024 compared to the same period in FY2023 and were 5.5 percent below the current estimate. As the members of the Committee are aware, the first reductions in individual income tax rates in the Mississippi Tax Freedom Act of 2022 went into effect in January 2023 and are responsible for much of this decline. However, I will note year-over-year decreases in individual income tax revenues also occurred in November and December of 2022. These decreases likely reflect lower incomes, as personal income in Mississippi fell 0.8 percent in 2022 according to BEA. Personal income in the state declined in 2022 primarily because of a decrease in transfer receipts from the federal government as payments from the CARES Act and other COVID-19-related assistance dissipated. My point is there are likely factors responsible for the lower individual income tax revenues we have observed in addition to the tax cut that began in January. Finally, corporate income tax revenues in the state exceeded $1 billion for the first time in FY2023. Although corporate income tax revenues were down 12.6 percent through the first four months of FY2024 compared to the same period in FY2023, they remained 5.7 percent above the current estimate.

In view of the preceding discussion, the Revenue Estimating Group recommends the FY2024 general fund estimate be changed to $7,641,600,000, a figure that represents a decrease of 0.7 percent over the actual FY2023 general fund. This recommendation is an increase of 1.6 percent or $117,800,000 from the FY2024 *sine die* estimate. The recommendation from the Revenue Estimating Group for the FY2025 general fund estimate is $7,637,100,000, a decrease of 0.1 percent or $4,500,000 below our revised FY2024 general fund estimate.

In summary, the U.S. and Mississippi economies are projected to slow in calendar years 2024 and 2025 as financial conditions tighten and labor markets loosen. This slower economic growth combined with the effects of additional decreases in individual income tax rates should also lead to a slowdown in general fund revenue growth in the current and following fiscal years. Based on this assessment and other factors the Revenue Estimating Group recommends these estimates to the Committee for FY2024 and FY2025.

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