



Economics Group

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State Coincident Indicators Highlight A Disturbing Trend

The Philadelphia Fed's State Coincident Indexes indicate that 13 states likely fell into recessionary territory in July. The composite 50 state index remains in positive territory, although it lost further ground in July.

Economic Weakness is Evident in More States

State coincident indicators for all 50 states weakened further in July. The number of states in contractionary territory increased to 12, from 10 in June. Thirty-five states remained in positive territory, and eight states remained unchanged for the month. The states that are currently experiencing a contraction are Michigan, Nevada, Alabama, Montana, Illinois, Indiana, Vermont, Virginia, North Carolina, South Carolina, Georgia and Alaska. More states have been added to the list over the past three months, fueling fears that the two-year old recovery is stalling out.

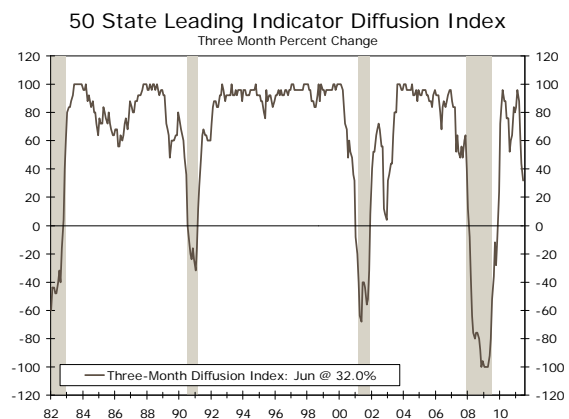
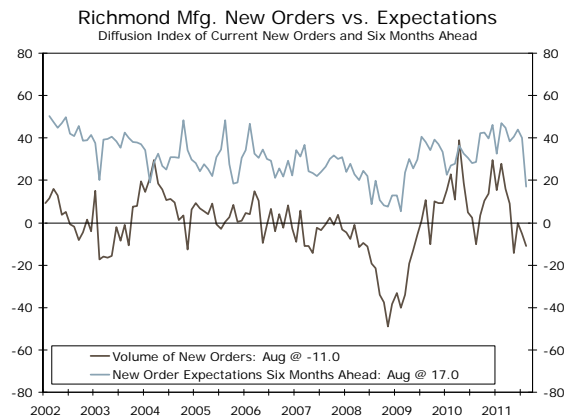
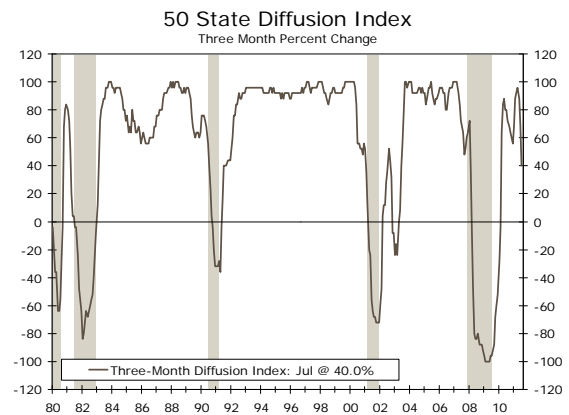
One notable trend is the clustering of states in the South Atlantic Region that have seen their coincident index dip back into negative territory. Virginia, North Carolina, South Carolina and Georgia have all dipped back into negative territory in recent months. The coincident indexes combine state-level data on nonfarm employment, average hours worked in manufacturing, the unemployment rate and inflation adjusted wages and salary disbursements.

Employment conditions have deteriorated, with nonfarm employment declining in each of the past three months in Georgia, and the state's unemployment rate rising back above 10 percent. The Carolinas have also seen conditions deteriorate. The unemployment rate in South Carolina has risen 1.1 percentage points over the past three months to 10.9 percent, which is the third highest jobless rate in the nation. North Carolina is only slightly better off, with the jobless rate climbing 0.4 percentage points to 10.1 percent in July. Conditions are a little bit better in Virginia, where the unemployment rate is currently just 6.1 percent, up from 6.0 percent in June. However, conditions are still weakening. Layoffs announcements have picked up, and nonfarm employment has fallen in each of the past three months.

The driving force behind the slowdown appears to be a persistent deterioration in manufacturing activity. The Mid-Atlantic Business Activity Index from the Federal Reserve Bank of Richmond fell 9 points to -10 in August, which marked the third consecutive drop in the overall index. The shipments, new orders, order backlogs and capacity utilization series have all been negative for the past four months, and expectations for conditions six months from now have also become more guarded.

The Bulk of States are Still in Positive Territory

While the number of states that likely slipped into a recession has increased, 35 states remain in expansion territory. The question is how much longer these states will be able to sustain growth in an environment with domestic and global demand slowing. Our index of state leading economic indicators points to an increasing number of states that are likely to fall into negative territory within the next six months.



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