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RE: Is Delaware losing its Spring?

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According to the leading index calculated by the Philadelphia Federal Reserve Bank, Delaware can expect a contraction in the state's economy in the second quarter of 2020. Is there any reason for concern?

Each month the Phila Fed estimates leading indexes for all the states and the nation. A positive index number signals growth ahead while a negative index signals a possible contraction. Delaware has had a negative leading index for 5 straight months now. The last time this occurred was in the summer of 2007, kicking off 21 straight months of contraction—the 2008 recession.

The Fed cites a decline in building permits, an increase in manufacturing delivery times, and a slow Delaware coincident index as the reasons for the negative leading index. Delaware's coincident index growth is slow due to modest gains in payroll employment, an increase in the state's unemployment rate, and a sharp decrease in average hours worked in manufacturing.

A Spring contraction in Delaware would mean slower than anticipated growth in State tax revenue and business dependent on Delaware consumer markets (e.g., residential housing) need to proceed with caution.

How serious will this contraction be? Let's look at the macroeconomic indicators for Delaware.

First output. Delaware's Gross State Product has been substantially underperforming the nation since early 2018 with a negative annual growth rate of 0.1% for the third quarter of 2019. Over the last two years (2017Q2 – 2019Q2) U.S. GDP rose 5.3% while Delaware GSP rose only 0.5%.

Of particular concern, Delaware's cornerstone financial services industry contracted 1.3% in 2019Q3 and has contracted a total of five quarters since the beginning of 2018. Financial services are the state's highest wage industry.

Second, Delaware personal income has been growing slower than the nation since the beginning of 2018. The main weakness has been slower growth in Delaware earnings (primarily wages). Over the last two years earnings by place of work has risen 7.4% in Delaware compared to 10.0% in the U.S.

With respect to jobs, Delaware employment growth has been modestly below the nation over the last two years, with particularly slow growth in the second quarter of 2019…the quarter with the largest additions to jobs. But since August and through November, Delaware's annual employment growth rate has bounced back to 1.5%. Delaware's unemployment rate, however, has risen above the U.S. as the number of Delawareans entering the labor force is growing faster than employment.
So, taking all the macro data into consideration, Delaware can expect a contraction in the Spring of 2020, but not a recession.

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The current projection of surplus state government revenue may be optimistic. The FY 2020 assumed growth rates in employment and earnings are moderately high if a contraction occurs in the Spring.

Businesses that sell primarily to Delaware markets should be cautious about adding staff and buying equipment, watch accounts receivables, pay attention to liquidity, and consider cross training.

The sky is not falling, but a moderate Delaware economy will move ahead even slower.

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