Business Confidence Grows in First Quarter of 2017

Business confidence increased to 62.7 in the first quarter 2017 Alabama Business Confidence Index™ (ABCI) survey, which was conducted by the Center for Business and Economic Research at the University of Alabama’s Culverhouse College of Commerce. Panelists are optimistic moving into 2017: the index gained 10.1 points this quarter, passing 60 for the first time since 2006.

Panelists are more optimistic about growth on both the statewide and national level in the coming quarter. For the first time since Q2 2005, Alabama business leaders regard the U.S. outlook with more confidence than Alabama’s. High expectations for growth in the state economy raised the Alabama index to 65.8, and the national economy index saw an even more dramatic rise to reach 69.8 this quarter.

Sales, profits, hiring and capital expenditures are also expected to perform well in the first quarter of 2017. Alabama businesses continue to expect sales growth with the highest confidence of all the survey categories with an index of 63.4. Hiring is predicted to grow, though with the lowest index score of the survey categories at 57.6.

The overall industry outlooks are positive in all categories with the majority of industries showing more confidence in growth in first quarter of 2017 than in the previous quarter. Panelists in manufacturing and professional, scientific, and technical services are the most optimistic with overall indices greater than 66. That being said, even the least confident industries still have overall ABCIs greater than 57. The only industry that is not as optimistic in Q1 2017 as Q4 2016 is construction, though they had the highest index in the Q4 2016 survey and are still expecting growth in the coming quarter with an index of 57.9.

All metro areas grew in confidence this quarter, ranging in ABCI indices from 60 to 68 as opposed to Q4 2016’s range of 50 to 58. For the second consecutive quarter, Huntsville had the lowest metro area ABCI with an index of 60.3 and Mobile had the highest ABCI at 68.3. Birmingham-Hoover’s confidence grew the most, moving into the new quarter with an 11.8-point gain to reach 62.5.

Business Environment Expectations Q1 2017 compared to Q4 2016

Optimistic Outlook for U.S. Economy

Alabama business executives have significant confidence in U.S. economic growth in the coming quarter with a national index of 69.8. This comes as a 20.8 gain from Q4 2016’s national index score of 49.0. For the first time in twelve years, expectations for national economy have outpaced those for the state economy, though both reached twelve-year highs in the first quarter of 2017. Almost 75 percent of panelists predict a better national economy in Q1 2017, while 20 percent expect things to remain the same and only 5.2 anticipate a somewhat worse economic performance compared to the last quarter of 2016.

Panelists in Mobile are the most optimistic about growth in the national economy with an index of 75.0, followed closely by Montgomery with a national index of 73.1. Huntsville business leaders had the lowest national index at 67.6, a score that is still well above 50, indicating confidence in U.S. economic prospects.

Mid-sized businesses, those employing between 20 to 99 workers, have the most positive expectations for the national economy with an index of 73.1. However, both smaller and larger businesses also have high levels of confidence in the U.S. economy with indices over 67 for Q1 2017.
Alabama Economy Forecast Strengthens

Expectations for growth in the Alabama economy grew this quarter across all metro areas and the various sizes of firms with an index of 65.8 for the first quarter of 2017. This is the highest confidence level in the Alabama economy since the fourth quarter of 2004. As of this survey, Alabama business leaders have indicated confidence in statewide economic growth for fifteen consecutive quarters. Slightly over 60 percent of panelists forecast growth in Alabama’s economy in the coming quarter, and around 30 percent expect the statewide economic performance to remain the same as in the fourth quarter of 2016. Only 7 percent anticipate a somewhat worse Alabama outlook for the quarter, and no panelists expect a much worse economy.

These forecasts are further supported by the Center for Business and Economic Research’s 2017 economic outlook. CBER expects the Alabama economy to expand by 1.9 percent in 2017, slightly above the 1.3 percent seen in 2016. Employment growth is projected to rise 1.0 percent in 2017, slowing slightly after growing 1.3 percent in 2016. With stronger statewide economic growth in 2017, CBER expects tax receipts to increase 2.0 percent in the coming year.

National and Alabama Economy Expectations versus Prior Quarters

Panelists Confident in Sales Growth

The ABCI sales index gained 6.8 points to reach a confident 63.4 in Q1 2017. Almost 65 percent of panelists are expecting an increase in sales compared with the fourth quarter, and only 16 percent expect a decrease in sales. All industries are expecting growth in industry sales the coming quarter though with varying levels of confidence.

Professional, scientific and technical services had the highest sales index at 70.5 and manufacturing followed closely at 68.8. Only two industries had sales indices lower than 57, but even construction still reached 52.8 and transportation, information, and utilities reached 53.6, indicating expectations for growth though without strong confidence.

Sales and Profits Expectations versus Prior Quarters

Metro Area Analysis and ABCI History

The Center for Business and Economic Research prepares quarterly forecasts of business confidence for the state and for the Birmingham-Hoover, Huntsville, Mobile, and Montgomery metro areas. Detailed results by industry are only included in the statewide ABCI analysis.

All current and historical ABCI newsletters can be found at [http://cber.cba.ua.edu/abci](http://cber.cba.ua.edu/abci).
Profits Expected to Increase

Panelists forecast an increase in profits with confidence index of 61.2 for Q1 2017. This is a 7.3-point increase from the expectations in Q4 2016 and the highest the profit index has reached since 2004. Just under 60 percent of panelists expect their profits to increase in the coming quarter, 26 percent forecast no change, and 17 percent anticipate a decrease in profits compared to last quarter.

Manufacturing has the highest confidence in increased profits this quarter, though all industries indicated expectations for profit growth. Only three industries’ profits indices were below 58, and they were still between 52 and 54, indicating mild confidence.

Job Growth Anticipated throughout State

While the hiring index is lower than the other indicators’ indices, it still shows moderate confidence in job growth with an index of 57.6 for the first quarter of 2017. Around 43 percent of panelists expect to increase hiring compared with the previous quarter, and another 43 percent do not forecast a major change in hiring. The remaining 14 percent of business leaders expect to decrease hiring compared to the previous quarter.

Professional, scientific and technical services lead in confidence with a hiring index of 64.4, while other industries are slightly less confident in increasing hiring this quarter. Only retail trade expects to decrease hiring in the coming quarter with an index of 47.9, and expectations are neutral for hiring in transportation, information and utilities with an index of 50.0.

Capital Expenditure Expected to Grow

Capital spending is expected to grow in the coming quarter with an index of 58.5, indicating the highest level of confidence since 2006. Slightly more than 45 percent of business leaders in the state expect to increase their capital spending in the coming quarter. Around 40 percent expect no change from the last quarter, and the remaining 15 percent expect to decrease their capital expenditure relative to Q4 2016.

All industries in the survey expect to increase their capital expenditure in Q1 2017, but they range from neutral to fairly confident in their forecasts. Manufacturing had the highest confidence in increasing capital spending with an index of 66.1. Retail trade had the lowest confidence, in increasing capital spending compared to the previous quarter with an index of 56.5, which still indicates an anticipation for growth.

ABCi by Industry

<table>
<thead>
<tr>
<th>Component</th>
<th>Construction</th>
<th>Manufac.</th>
<th>Transp./Info./ Utilities</th>
<th>Wholesale Trade</th>
<th>Retail Trade</th>
<th>Fin./Insur./ Real Estate</th>
<th>Prof./Sci./ Technical</th>
<th>Healthcare/ Soc. Assist.</th>
<th>All Other Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>52.8</td>
<td>68.8</td>
<td>53.6</td>
<td>65.6</td>
<td>60.4</td>
<td>65.3</td>
<td>70.5</td>
<td>56.8</td>
<td>57.9</td>
</tr>
<tr>
<td>Profits</td>
<td>52.8</td>
<td>66.1</td>
<td>53.6</td>
<td>62.5</td>
<td>58.3</td>
<td>63.2</td>
<td>65.9</td>
<td>52.3</td>
<td>57.9</td>
</tr>
<tr>
<td>Hiring</td>
<td>58.3</td>
<td>62.5</td>
<td>50.0</td>
<td>57.8</td>
<td>47.9</td>
<td>58.3</td>
<td>64.4</td>
<td>59.1</td>
<td>50.7</td>
</tr>
<tr>
<td>Capital Spending</td>
<td>61.1</td>
<td>66.1</td>
<td>64.3</td>
<td>54.7</td>
<td>52.1</td>
<td>61.1</td>
<td>57.6</td>
<td>54.5</td>
<td>53.9</td>
</tr>
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</table>

Center for Business and Economic Research, Culverhouse College of Commerce, The University of Alabama
Industry Confidence Grows

Manufacturing firms and professional, scientific, and technical services lead in confidence in the first quarter of 2017. Professional, scientific, and technical services had an ABCI of 66.3 and strong confidence in increased sales and profits for the coming quarter. Business leaders in that industry also had the most confidence in increasing hiring with an index of 64.4, though their expectations for capital spending were more moderate.

After low expectations for the fourth quarter of 2016, manufacturers in Alabama are forecasting growth in the coming quarter. Manufacturing firms are expecting a much stronger first quarter performance with a 21.3-point gain on their ABCI from Q4 2016 to reach 67.7, the highest first quarter ABCI of all the industries. Professionals in the field expect growth in all areas of the survey with moderate to high confidence, with all of their index scores ranging from 62.5 to 68.8.

Construction fell from its 3-quarter streak as the most confident industry to having the lowest ABCI this quarter, dropping 8.5 points from its fourth quarter ABCI. However, firms are still expecting growth this quarter with an ABCI of 57.9 but it is with less confidence than was seen in the three preceding quarters.

Alabama’s Firms Gain Confidence

Regardless of firm size, Alabama businesses had strong gains in confidence moving into Q1 2017. All three sizes were positive and had ABCI values between 61 and 64. Smaller firms, those with fewer than 20 employees, had the highest ABCI at 63.9 after an 11-point gain from the previous quarter. These businesses had higher confidence in profit and sales growth with index readings of 63.7 and 67, respectively, and slightly lower confidence in hiring and capital expenditures.

For mid-sized businesses, those with 20 to 99 employees, confidence grew by 12.3 points to reach 62.8 this quarter. At 73.1 and 68.1, respectively, confidence in national and state economic growth was the strongest, but the industry sales and profits indexes were also fairly high. Expectations were the lowest for hiring this quarter with the mid-sized firm index registering a 56.0.

The ABCI registered 61.1 among large firms—those with 100 or more employees. The firms have increased confidence in national and statewide economic growth, with indexes around 68 and 63, respectively. These businesses expect growth in sales, profits, hiring and capital expenditures, though with varying levels of confidence. The sales index is still the highest of the four categories at 60, but the other components of the survey all had indexes greater than 57, indicating moderate confidence.

The Center for Business and Economic Research would like to thank the 192 Alabama business executives who completed the first quarter 2017 ABCI survey. This is the 61st consecutive quarter this report has been recorded, and it would not have been possible without your participation.

Be sure to log in during the March 1-15 survey window to record your opinions about economic prospects and industry performance looking ahead to the second quarter of 2017.