

ABCI™

ALABAMA BUSINESS CONFIDENCE INDEX

Volume 15, Third Quarter 2016

State Business Confidence Wanes, but Remains Positive for Third Quarter 2016

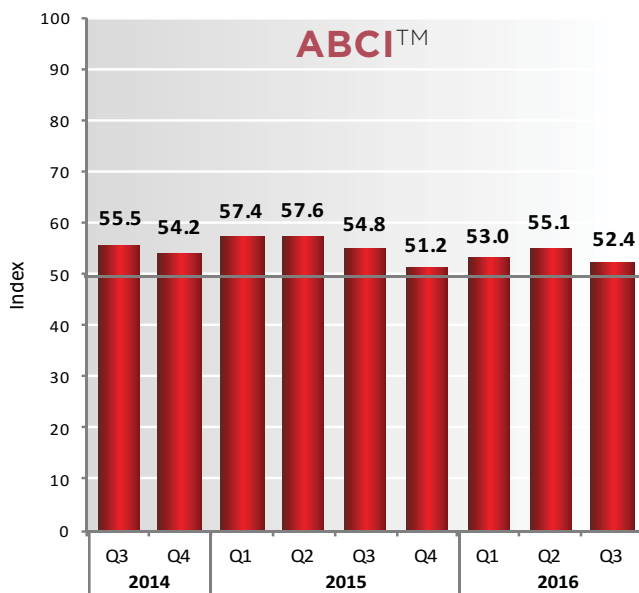
Business confidence declined to 52.4 on the third quarter 2016 *Alabama Business Confidence Index*™ (ABCI) survey, conducted by the Center for Business and Economic Research in UA's Culverhouse College of Commerce. The index lost 2.8 points since the last quarter—exactly the same decline as seen between the second and the third quarter of 2015. Panelists remain less optimistic than a year ago when the ABCI registered 54.8.

Panelists continue to see expansion in the Alabama economy, but are less optimistic about the national economy. Confidence in the state economy decreased to a still confident 52.8, while the national economy index declined to a slightly negative 49.0, remaining somewhat close to a neutral 50.

Every industry indicator moved lower on the survey except for capital expenditures. All of them continue to remain positive. The sales index again tops the list at 54.9, while expectations for capital expenditures, hiring, and profits all remain in easily positive territory.

Overall, firms in construction, professional, scientific, and technical services, as well as in finance, insurance, and real estate are the most optimistic this quarter, all posting index levels of 54 or more. Retailers, however, continue to see the economic environment as a negative.

The largest four metro areas all posted positive readings except for Huntsville that has a neutral index. Confidence decreased in all metro areas, with the biggest loss seen in Huntsville. Montgomery continues enjoying the highest confidence among the large metros with an index of 53.9.



Outlook for Third Quarter 2016

	Statewide ABCI	Change from Q2
ABCI	52.4	-2.8
National Economy	49.0	-1.9
Alabama Economy	52.8	-3.6
Industry Sales	54.9	-4.9
Industry Profits	53.0	-3.3
Industry Hiring	51.3	-3.2
Capital Expenditures	53.4	0.4

Index above 50 indicates positive outlook as compared to last quarter.
Index below 50 indicates negative outlook as compared to last quarter.

Business Environment Expectations Q3 2016 compared to Q2 2016

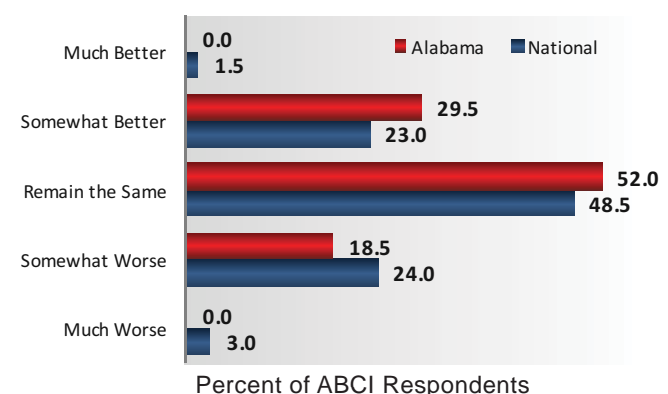
Outlook for U.S. Economy Mixed

The national economy index declined 1.9 points to 49.0, the lowest reading since the first quarter of 2014. About 27 percent of the state's business executives expect U.S. economic growth to be lower than last quarter while almost 49 percent think growth will continue at about the same pace. This most recent U.S. reading represents a 1.7 point drop from a year ago.

Panelists from Montgomery are the most optimistic about the national economy while respondents from Huntsville are again the least enthusiastic about the national scene.

Medium-sized businesses, those employing 20 to 99 employees, were the most optimistic about the national picture, increasing their index to a tepidly positive reading of 50.4. Large businesses, those employing 100 or more, have the most pessimistic view of the national stage with a mildly negative reading of 48.3.

National and Alabama Economy

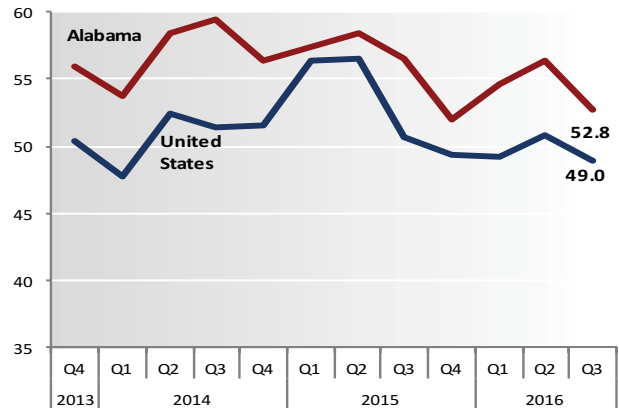


Weaker Growth Forecasted for Alabama Economy

Business executives expect the state's economy to continue its expansion in the third quarter of 2016, albeit at a lower rate. At 52.8, the index is down 3.6 points from last quarter and down 3.8 points compared to a year ago. About 29.5 percent of panelists expect stronger economic growth this quarter and 52 percent expect the state's economy to perform about the same as last quarter.

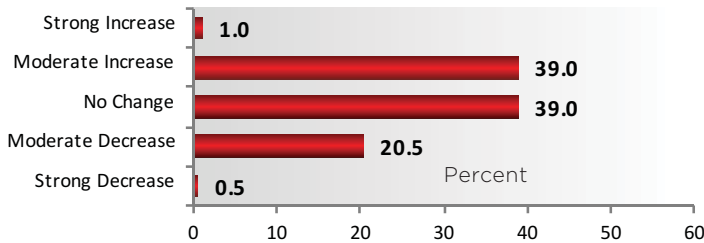
The mixed, but mostly positive sentiment of ABCI panelists in a broad range of industries supports the updated 2016 forecast from the Center for Business and Economic Research. CBER expects the state's economic growth to slow down from 2.4 percent in 2015 to 1.9 percent this year. Employment growth is forecasted to decelerate from around 1.2 percent in 2015 to 1.0 percent in 2016, while tax revenues are forecasted to rise 2.7 percent in FY2016 compared to last year's 3.3 percent increase.

National and Alabama Economy Expectations versus Prior Quarter

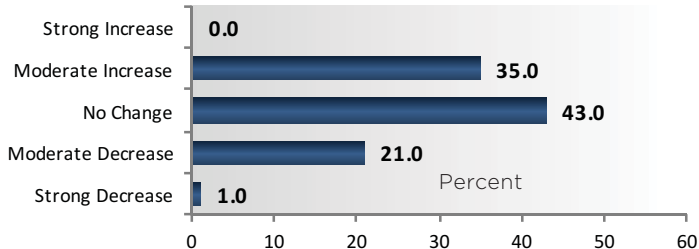


Industry Performance Expectations Q3 2016 compared to Q2 2016

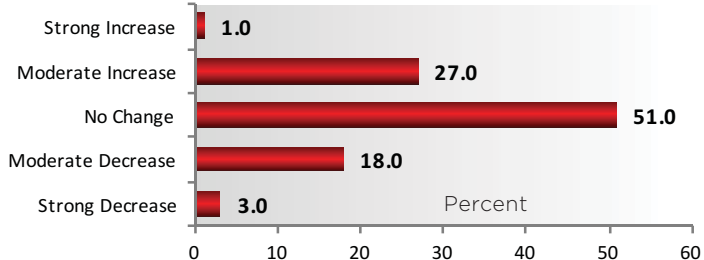
Sales



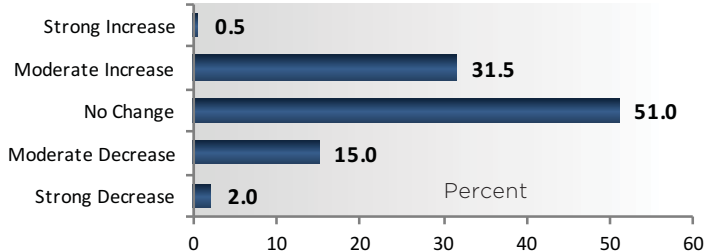
Profits



Hiring



Capital Expenditures

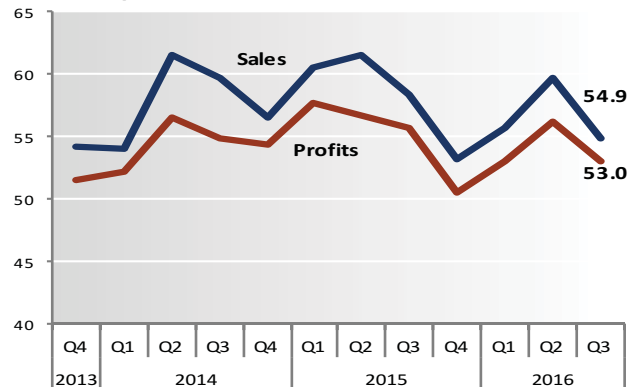


Most Panelists Expect Strong Sales Growth

The statewide sales index lost 4.9 points this quarter, declining to a still positive 54.9. About 40 percent of panelists see sales improving, while 39 percent expect sales in their industry to remain the same as last quarter's levels. Only 21 percent of the panel forecasts a decrease in sales for the third quarter. Construction firms, along with manufacturing and miscellaneous service businesses are the most confident of stronger sales, while firms engaged in retail trade as well as healthcare and social assistance are the most pessimistic.

Profits may also rise during the third quarter. The index value of 53.0 represents a 3.3 point decrease from its second quarter reading. About 43 percent of panelists expect to maintain steady profits, while 35 percent of respondents expect profit trends to be better than last quarter and 22 percent forecast weaker profits for the period.

Sales and Profits Expectations versus Prior Quarter



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>.

Steady Pace of Job Growth Is Expected

The state's business executives continue signaling moderate job gains this quarter. The hiring index declined 3.2 points to 51.3 with 51 percent of firms planning to maintain the current pace of hiring. About 28 percent of respondents expect to increase hiring over last quarter's level while 21 percent of respondents expect to hire at a slower pace.

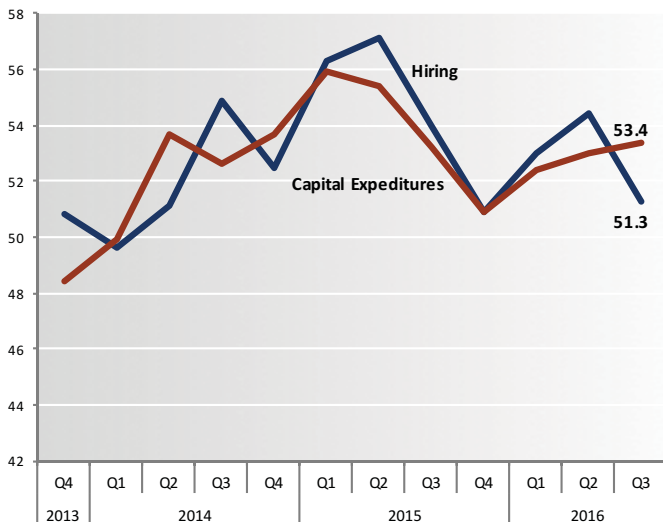
Increased hiring among construction; professional, scientific, and technical services; finance, insurance, and real estate; and manufacturing firms will account for many of the expected job gains. Only retail trade, transportation, information, and utilities, and wholesale trade firms are forecasting a fall-off in hiring. All metro areas are expected to experience job growth. Gains in Huntsville should stay at the last quarter's level while Montgomery employment could be slightly better than those of the state's other large metro areas.

Modest Gains Forecast for Capital Expenditures

Capital spending growth will slightly improve in the third quarter of 2016. The index increased less than a point to 53.4. About half of panelists (51 percent) expect to maintain investment at current levels, while 32 percent anticipate increased spending compared to last quarter.

The outlook for capital investment is the most positive in construction, which scored a strong 68.2. Firms in the professional, scientific, and technical services sector along with the finance, insurance, and real estate industry are also likely to see increased investment, while businesses in retail and wholesale trade are the least optimistic about capital spending.

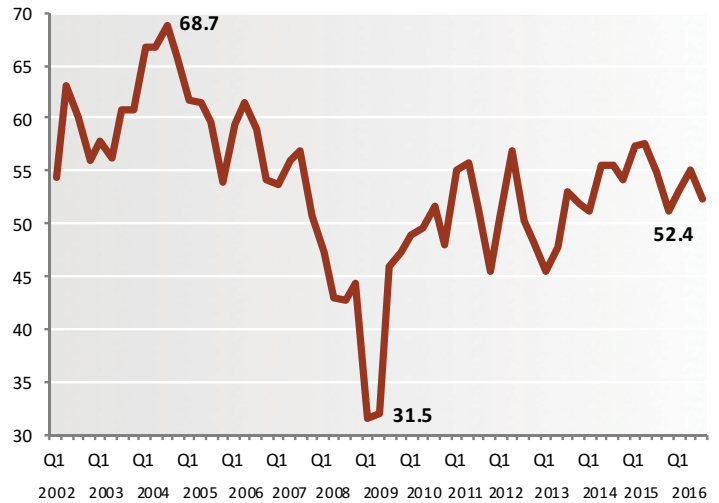
Hiring and Capital Expenditures Expectations versus Prior Quarter



Industries In Depth, Third Quarter 2016

Component Index	Construction	Manufac.	Transp./Info./Utilities	Wholesale Trade	Retail Trade	Fin./Insur./Real Estate	Prof./Sci./Technical	Healthcare/Soc. Assist.	All Other Services
Sales	65.9	57.4	51.6	56.3	35.0	54.2	56.1	46.9	58.1
Profits	59.1	54.6	48.4	54.2	35.0	55.2	56.1	40.6	53.7
Hiring	61.4	53.7	37.5	41.7	32.5	53.6	57.6	50.0	52.2
Capital Spending	68.2	53.7	54.7	45.8	30.0	55.2	55.3	53.1	52.9

ABCI: Remains Cautious in 2016



Construction Confidence Remains Highest

Construction firms are again the most optimistic this quarter, with an ABCI reading of 62.1 based on strongly positive outlooks for all its component indexes. Confidence is also strong among professional, scientific, and technical services firms with the continued expectation of increased hiring and sales contributing to an overall index of 55.1. Retail trade; healthcare and social assistance; transportation, information and utilities; and wholesale trade reported the lowest confidence with pessimistic readings. Decreased hiring can be expected for companies in these sectors except for healthcare and social assistance, while declined profits are expected for companies in these industries except for wholesale trade.

ABCI by Industry

	Q3 2016	Change from Q2 2016
Construction	62.1	3.6
Manufacturing	53.1	-0.6
Transportation/Information/Utilities	48.7	-4.8
Wholesale Trade	49.7	-2.6
Retail Trade	31.7	-13.8
Finance/Insurance/Real Estate	54.3	-3.9
Professional/Scientific/Technical Services	55.1	-0.7
Healthcare/Social Assistance Services	45.8	-3.9
All Other Services	53.7	-2.4
Statewide	52.4	-2.8

ABCI and Component Indexes, Third Quarter 2016, by Area

	Statewide	MSA			
		Birmingham-Hoover	Huntsville	Mobile	Montgomery
National Economy	49.0	49.5	44.9	50.8	52.9
Alabama Economy	52.8	53.8	50.0	55.6	53.7
Industry Sales	54.9	55.8	54.0	54.0	56.6
Industry Profits	53.0	54.8	50.6	48.4	54.4
Industry Hiring	51.3	50.5	50.0	51.6	54.4
Capital Expenditures	53.4	56.3	50.6	52.4	51.5
ABCI	52.4	53.4	50.0	52.2	53.9

Confidence Declines in All Metro Areas, but Remains Mostly Positive

Among the largest four metro areas, Montgomery business leaders remain the most confident about third quarter prospects despite a 3.4 point decrease to a still confident 53.9. Confident outlooks for sales, profits, and hiring lead the metro's index.

Mobile's outlook remains confident at 52.2, despite a 3.0 point drop from last quarter. The area sales index remains strong at 54.0. Profits expectations fell 8.7 points, however, to a now negative 48.4, while capital expenditures increased to a now positive 52.4.

Huntsville business sentiment declined the most losing 5.2 points to a neutral 50.0 due to expectations of no changes in hiring and only slightly positive profits and capital expenditures. The national economy is seen as particularly troublesome, coming in at a negative 44.9. Sales expectations are the highest at 54.0.

ABCI Birmingham-Hoover declined the least—0.9 points to 53.4, supported by positive readings in capital expenditures, which gained 3.6 points to reach 56.3. Birmingham-Hoover executives remain confident about the prospects for sales with a third quarter reading of 55.8.

ABCI and Component Indexes by Firm Size, Third Quarter 2016

	Number of Employees		
	0 to 19	20 to 99	100+
National Economy	48.5	50.4	48.3
Alabama Economy	50.4	55.6	52.4
Industry Sales	56.5	55.2	53.1
Industry Profits	55.0	50.8	53.1
Industry Hiring	54.2	50.0	49.7
Capital Expenditures	55.8	52.4	52.1
ABCI	53.4	52.4	51.4

The Center for Business and Economic Research would like to thank the 210 Alabama business executives who completed the third quarter 2016 ABCI survey. This report from the 59th consecutive quarter of the ABCI survey would not be possible without your participation.

Be sure to log in during the September 1-15 survey window to record your opinions about economic prospects and industry performance looking ahead to the fourth quarter of 2016.

Confidence Declines Broadly, but Remains Moderately Positive for All Firms

Businesses of all sizes are less confident than last quarter as they evaluate their third quarter 2016 prospects. However, almost every indicator shows at least moderate optimism for each of the three groups categorized by number of employees.

Alabama small firms, those with fewer than 20 employees, have the highest ABCI at 53.4, down 2.6 points compared to second quarter 2016. These firms are most optimistic about sales, capital expenditures, profits, and hiring, but are least optimistic about the national economy as that index fell into negative territory at 48.5.

The ABCI registered 52.4 among mid-size businesses—those employing between 20 and 99. These firms remain the most optimistic about sales and state economy, but are neutral in their outlook for hiring and barely positive in the outlook for the national economy.

For large firms, those with 100 or more employees, confidence fell 1.6 points this quarter to a still positive 51.4. All indicators except for national economy and hiring remain positive. The latter index is very close to neutral, so the pace of hiring is expected to decline only slightly from the pace seen last quarter. The outlook for sales and profits is the most positive, with both indexes at 53.1.

Analysis provided by Viktoria Riiman, Socioeconomic Analyst, Center for Business and Economic Research, Culverhouse College of Commerce, The University of Alabama.

For more details on the *Alabama Business Confidence Index*™, visit cber.cba.ua.edu/ABCI
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