State Business Confidence Improves as 2016 Begins

Business confidence rose to 53.0 on the first 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 increased 1.8 points but is at its second lowest level since the first quarter of 2014. Panelists are now less optimistic than a year ago when the ABCI registered 57.4.

Panelists continue to see expansion in the Alabama economy, but are less optimistic about the national economy. The outlook for the state economy rose to a moderately confident 54.6, while the national economy index remained below the neutral mark at a slightly negative 49.2.

Every industry indicator moved higher on the survey and all remain positive. The sales index again tops the list at 55.8, while expectations for capital expenditures, hiring, and profits all rose to easily positive readings.

Overall, firms in manufacturing, professional services, miscellaneous services and healthcare are the most optimistic this quarter, all posting index levels of 55.0 or more. Retailers, however, continue to see the economic environment as a negative.

The largest four metro areas all posted positive readings, even as confidence declined by almost a point in Birmingham. Confidence increased in Huntsville and Mobile, while Montgomery confidence remains the same as last quarter. Mobile enjoys the highest confidence among the large metros with an index of 57.3.

Business Environment Expectations Q1 2016 compared to Q4 2015

Outlook for U.S. Economy Remains Weak

The national economy index declined 0.1 points to 49.2, the least optimistic outlook since the first quarter of 2014. Only 26 percent of the state’s business executives expect U.S. economic growth to be higher than last quarter and another 46 percent think growth will continue at about the same pace. This most recent U.S. reading represents a 7.3 point drop from only two quarters ago.

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

The largest businesses, those employing 100 or more, are the most optimistic about the national picture, with a neutral reading of 50.0. The smallest businesses, those employing fewer than 20 employees, have the most pessimistic U.S. outlook with a negative reading of 47.7.

National and Alabama Economy

<table>
<thead>
<tr>
<th>Percent of ABCI Respondents</th>
<th>Alabama</th>
<th>National</th>
</tr>
</thead>
<tbody>
<tr>
<td>Much Better</td>
<td>0.8</td>
<td>0.8</td>
</tr>
<tr>
<td>Somewhat Better</td>
<td>25.1</td>
<td>31.7</td>
</tr>
<tr>
<td>Remain the Same</td>
<td>46.3</td>
<td>52.9</td>
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<tr>
<td>Somewhat Worse</td>
<td>14.7</td>
<td>25.9</td>
</tr>
<tr>
<td>Much Worse</td>
<td>0.0</td>
<td>1.9</td>
</tr>
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</table>
**Slightly Better Growth Forecasted for Alabama Economy**

Business executives expect the state’s economy to continue its expansion in the first quarter of 2016. At 54.6, the index is up 2.6 points from last quarter, but down 2.8 points compared to a year ago. Almost 33 percent of panelists expect stronger economic growth this quarter and approximately 53 percent expect the state’s economy to perform about the same as last quarter.

The mixed sentiment of ABCI panelists in a broad range of industries supports the recent preliminary 2016 forecast from the Center for Business and Economic Research. CBER expects the state’s economic growth to slow from 2.4 percent in 2015 to 2.3 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 3.3 percent in FY2016 compared to last year’s 4.0 percent increase.

**Industry Performance Expectations**
Q1 2016 compared to Q4 2015

**Sales**
- Strong Increase: 2.7%
- Moderate Increase: 39.4%
- No Change: 37.8%
- Moderate Decrease: 18.5%
- Strong Decrease: 1.5%

**Profits**
- Strong Increase: 2.3%
- Moderate Increase: 33.2%
- No Change: 40.2%
- Moderate Decrease: 22.8%
- Strong Decrease: 1.5%

**Hiring Plans**
- Strong Increase: 0.4%
- Moderate Increase: 28.6%
- No Change: 54.8%
- Moderate Decrease: 15.1%
- Strong Decrease: 1.2%

**Capital Expenditures**
- Strong Increase: 1.2%
- Moderate Increase: 26.6%
- No Change: 54.1%
- Moderate Decrease: 17.0%
- Strong Decrease: 1.2%

**National and Alabama Economy Expectations versus Prior Quarter**

**Panelists Expect Accelerated Sales Growth**

The statewide sales index gained 2.5 points this quarter, rising to a strongly positive 55.8 - the best showing of the four industry indicators this quarter. About 42 percent of panelists see improving sales, while 36 percent expect their industry’s sales to remain the same as last quarter’s levels. Only 20 percent of the panel forecasts a decrease in sales for the first quarter. Healthcare firms and professional, scientific and technical businesses are the most confident of stronger sales, while firms engaged in retail trade are the most pessimistic.

Profits are expected to rise modestly during the first quarter. The index value of 53.0 represents a 2.4 point increase from its fourth quarter reading. About 40 percent of panelists expect to maintain steady profits, while 36 percent of respondents expect profit trends to be better than last quarter and 24 percent forecast weaker profits for the period.

**From the 2015 ABCI Panelists Poll**

How do you use the ABCI quarterly results?
- General indicator of local/regional economic outlook: 82%
- Compare personal projections to others' viewpoints: 54%
- Background information for forecasting/planning: 41%
- Economic development decision making/short-term planning: 32%
- Share results with others: 31%

All current and historical ABCI newsletters can be found at [http://cber.cba.ua.edu/abci](http://cber.cba.ua.edu/abci).
**Pace of Job Growth Expected to Increase as 2016 Begins**

The state’s business executives are signaling moderate job gains this quarter. The hiring index rose 2.1 points to 53.0 with 55 percent of firms planning to maintain the current pace of hiring and 29 percent expecting to increase hiring over last quarter’s level. Only 16 percent of respondents expect to hire at a slower pace.

Increased hiring among manufacturers and professional, scientific, and technical firms account for many of the expected job gains. Only retail trade and wholesale trade are forecasting drop-offs in hiring. All of the four largest metro areas expect to experience at least some job growth, while gains in Montgomery and Huntsville employment could be slightly better than those of the state’s other metro areas.

**Modest Gains Forecasted for Capital Expenditures**

Capital spending growth will improve in the first quarter of 2016. The index gained a point and a half to almost echo the profits index at 52.4. Well over half of panelists (54 percent) expect to maintain investment at current levels, while almost 28 percent anticipate increased spending compared to last quarter.

The current outlook for capital investment is most positive in manufacturing, which scored a healthy 56.3. Firms in healthcare and transportation, information, and utilities are also likely to see increased investment, while businesses in retail trade and professional, scientific, and technical services are the least optimistic about capital spending.

**Manufacturing Firms Regain Confidence**

Manufacturing firms are the most optimistic this quarter, with an ABCI reading of 55.3 based on strongly positive outlooks for sales, hiring, and capital spending. Confidence is also strong in healthcare and professional, scientific, and technical services with the continued expectation of increased sales contributing to an overall index of 55.0 for each. Retail trade reported the lowest confidence with a very pessimistic reading of 39.1. Decreased hiring, sales, profits, and capital spending can be expected for these companies during the post-holiday retail slowdown.
ABCI and Component Indexes by Area, First Quarter 2016

<table>
<thead>
<tr>
<th></th>
<th>MSA</th>
<th>Statewide</th>
<th>Birmingham</th>
<th>Huntsville</th>
<th>Mobile</th>
<th>Montgomery</th>
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<tbody>
<tr>
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<td>49.2</td>
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<td>Industry Profits</td>
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<td>51.6</td>
<td>59.7</td>
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<tr>
<td>Industry Hiring</td>
<td>53.0</td>
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<td>54.3</td>
<td>54.0</td>
<td>55.9</td>
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<tr>
<td>Capital Expenditures</td>
<td>52.4</td>
<td>50.8</td>
<td>52.0</td>
<td>54.0</td>
<td>54.6</td>
<td></td>
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<tr>
<td>ABCI</td>
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Confidence Increases in Most Metro Areas to at Least Moderately Positive for All

Among the largest four metro areas, Mobile business leaders are the most confident about first quarter prospects, enjoying a 3.4 point increase to a very confident 57.3. Mobile’s indexes for sales and profits are the highest of the four metro areas tracked by the survey. Montgomery’s outlook held steady at a still confident 55.7. Area indexes for sales and hiring remain very strong at 59.2 and 55.9, respectively. Profit expectations are strong, as well, posting a 2.4 point gain to 55.3.

ABCI Birmingham-Hoover fell 0.9 points to 50.5. Despite this, the area has positive readings in every category except the national economy outlook, which lost 3.9 points to 45.6. Birmingham-Hoover executives are the most confident about the prospects for the Alabama economy with a first quarter reading of 52.0.

Huntsville business sentiment rose back into positive territory, gaining 4.0 points to 52.9, lead by strong expectations for sales after a 4 point jump in that index. Only the national economy is seen as troublesome, coming in at a negative 48.4. All other measures were positive, if only tepidly so, in some cases.

Confidence Improves Broadly, Remains Highest for Large Firms

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

Alabama businesses employing 100 or more have the highest ABCI at 54.2, up 2.1 points compared to fourth quarter 2015. Large firms are again the most optimistic about sales, profits, and the state economic environment. These firms are also slightly more likely to add jobs this quarter, as the hiring index rose 2.3 points to 53.6.

The ABCI registered 52.5 among midsize firms - those with 20 to 99 employees. These firms remain the most optimistic about the state economy and sales, but are less enthusiastic about the national economy.

For small firms, those with fewer than 20 employees, confidence rose 1.8 points this quarter to a firmly positive 52.2. All indicators are positive, with the exception of the national economy, which remains in negative territory with a reading of 47.7.

ABCI and Component Indexes by Firm Size, First Quarter 2016

<table>
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<tr>
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<th>Number of Employees</th>
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<tr>
<td></td>
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<tr>
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The Center for Business and Economic Research would like to thank the 259 Alabama business executives who completed the first quarter 2016 ABCI survey. This report from the 57th consecutive quarter of the ABCI survey would not be 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 2016.

Analysis provided by Gregg Bell, Ph.D., 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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