



Alabama Business Confidence Index™

Center for Business and Economic Research, The University of Alabama

cber.cba.ua.edu

Confidence Declines Slightly, but Indicators Stay Positive

The Alabama Business Confidence Index™ (ABCI), from UA's Center for Business and Economic Research, continues to indicate moderate optimism statewide at 54.2. Still, the index is down 1.3 points, with significant declines in forecasts for the Alabama economy, sales, and hiring.

Sentiment continues to be higher about prospects for the Alabama economy compared to the U.S. outlook in the fourth quarter. At 56.4, the Alabama economy index forecasts a moderate uptick in activity, while the U.S. economy reading of 51.6 indicates slight improvement.

Trends in sales and profits look positive across all industries, with both indexes indicating moderate growth compared to third quarter levels. However, a decline in the hiring index indicates weaker job gains. Strong growth in investment expected in some areas of the state boosted the capital expenditures index to 53.7 this quarter.

While all industry outlooks are positive this quarter, trends are mixed. Panelists in construction continue to be the most optimistic, while sentiment also improved in healthcare and other services and retail trade. In other industry sectors, confidence is not as strong as last quarter.

With sizeable improvement in Mobile's business confidence this quarter, the ABCI readings for Mobile and Montgomery came out on top at 58.7. Birmingham-Hoover confidence weakened to a still-optimistic 53.9. However, Huntsville area sentiment turned slightly negative at 49.7.

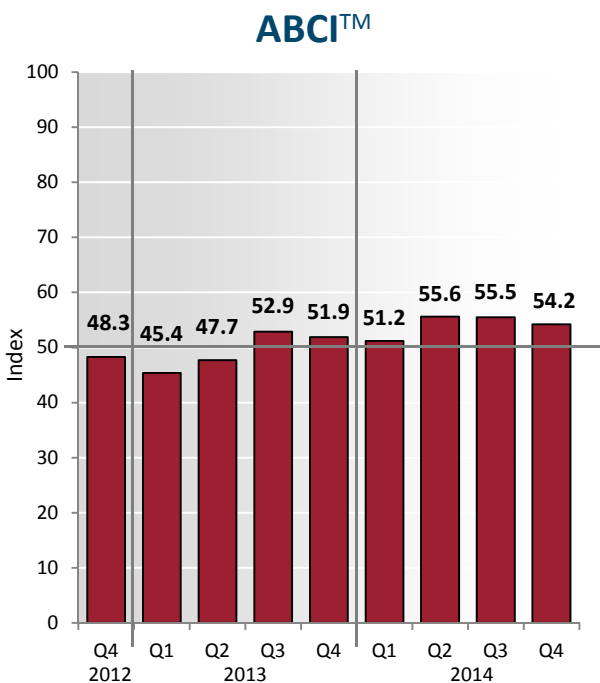
Fourth Quarter 2014 Outlook		
	Alabama	Change from Q3 2014
ABCI	54.2	-1.3
National Economy	51.6	0.2
Alabama Economy	56.4	-3.0
Industry Sales	56.6	-3.1
Industry Profits	54.4	-0.5
Industry Hiring	52.5	-2.4
Capital Expenditures	53.7	1.1

Index above 50 indicates positive outlook.
Index below 50 indicates negative outlook.

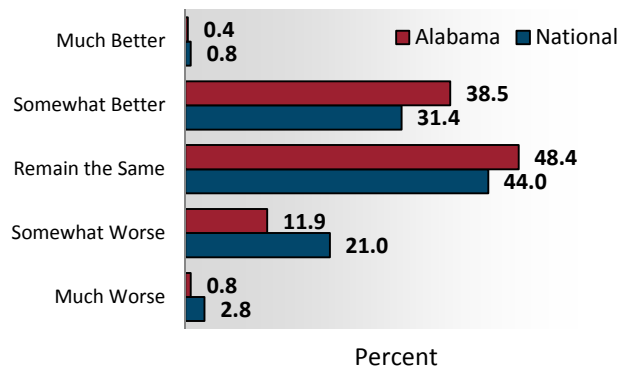
Business Environment Expectations Q4 2014 compared to Q3 2014

Outlook for U.S. Economy Holds Steady Alabama business executives expect U.S. economic growth to be slightly better than last quarter. Forecasting group IHS Economics forecasts GDP growth of 3.0 percent in fourth quarter 2014, led by strong gains in jobs, final sales, and total consumption. However, slow wage gains, weak labor force growth and declining participation, and below-trend household formation could constrain growth.

Among all firms, 44 percent of panelists expect the U.S. economy to perform about the same as last quarter and a positive net 8.4 percent anticipate stronger growth. However, businesses in professional services; healthcare; retail trade; and transportation, information, and utilities have mildly negative outlooks for the economic environment at the national level in the fourth quarter.



National and Alabama Economy

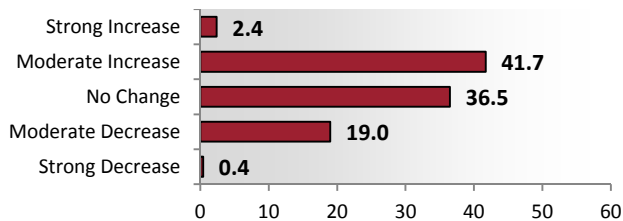


Alabama Economy Forecast Remains Upbeat With a reading of 56.4, the state's economy is expected to see moderate growth in the final quarter of 2014. Alabama executives have felt more confident about the state than the national economy for the past 10 years. The state outlook is about the same as a year ago and has now indicated an expanding economy for six straight quarters. Still, the index is down 3.0 points from the third quarter as the largest share of panelists (48.4 percent) anticipate growth holding steady at the third quarter pace.

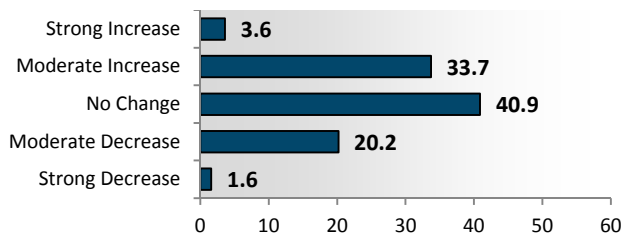
Over the past year, however, the state's economic performance has been mixed. Total nonfarm employment in August was 1.0 percent (19,500 jobs) higher than a year earlier. But labor force data indicates that both the state's civilian labor force and the number of employed residents fell and the unemployment rate rose over the same period. While most sectors continue to add jobs, retail trade and government have posted sizeable losses in the past year.

Industry Performance Expectations Q4 2014 compared to Q3 2014

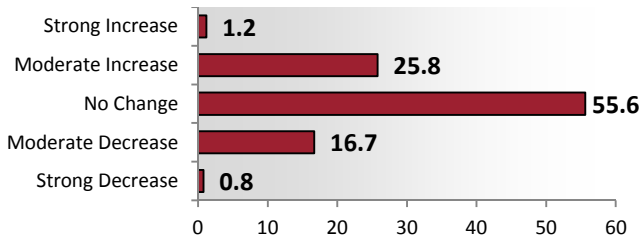
Sales



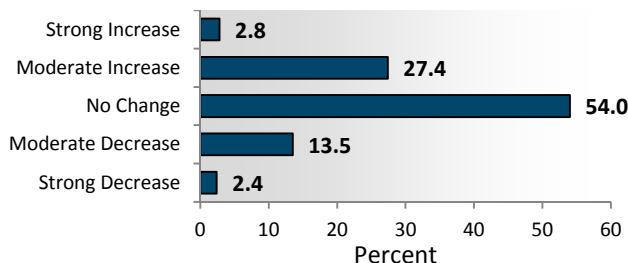
Profits



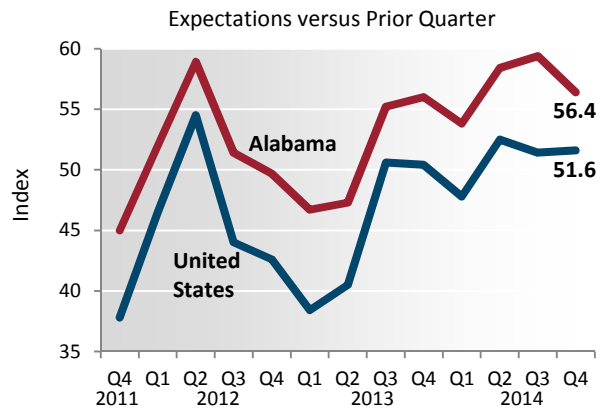
Hiring Plans



Capital Expenditures



U.S. and Alabama Economy

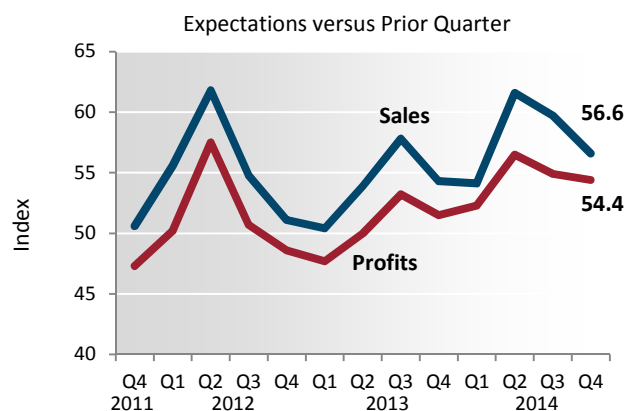


Every Industry Sees Sales and Profits as Stable or Growing

Industries in the fourth quarter 2014 ABCI survey all have positive expectations for sales. Strongest gains should be in construction, healthcare, retail trade, and other services. Overall, however, the sales index of 56.6 is 3.1 points lower than last quarter, with 44.1 percent of panelists forecasting an increase and 19.4 percent a decrease. The outlook for profits is positive and about the same as last quarter at 54.4; 37.3 percent of firms expect an increase and about 41 percent anticipate level earnings.

Construction companies are very optimistic about sales and profits this quarter. The weakest forecasts for profits are among businesses in wholesale trade and professional, scientific, and technical services, where earnings growth should be about the same as in the third quarter. Healthcare businesses are feeling much better about their bottom line this quarter.

Sales and Profits



Save the Date—Details Coming Soon!

The Center for Business and Economic Research will host its annual *Economic Outlook Conference* on January 15, 2015 in Montgomery.

Tentative speakers include:

- Dr. Samuel Addy, CBER, The University of Alabama
- Dr. David Altig, Federal Reserve Bank of Atlanta
- Mr. Jo Bonner, The University of Alabama System
- Dr. Ira Harvey, Financial Affairs, The Univ. of Alabama

Job Growth Seen Continuing at a Slower Pace After a strong uptick last quarter, business expectations for hiring moderated on the fourth quarter outlook, falling 2.4 points to 52.5. Almost 56 percent of panelists expect to maintain hiring at the third quarter level and a net 9.5 percent anticipate an increase in jobs. The conservative hiring forecasts from the quarterly ABCI survey are in line with Alabama’s slow rebound in jobs since the recession.

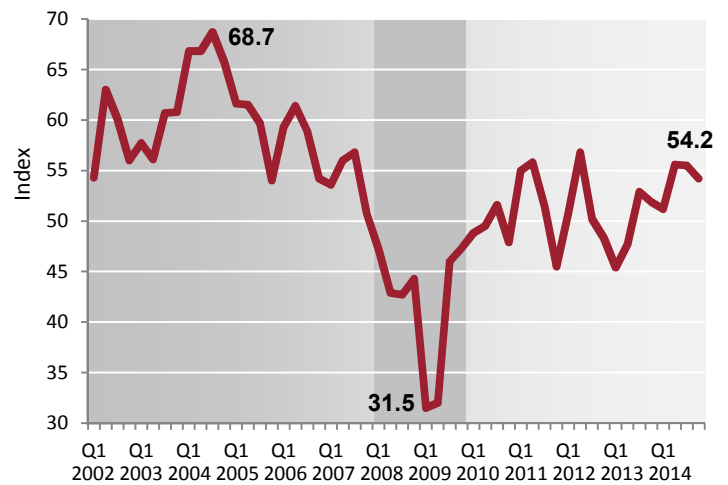
The strongest job gains in the fourth quarter of 2014 are likely to come from construction, other services, and manufacturing. Businesses in healthcare and professional services could add a limited number of jobs this quarter. However, firms in wholesale trade; financial activities; and transportation, information, and utilities could see modest reductions in employment. Mobile and Montgomery should have the strongest job gains this quarter.

Capital Spending Forecast Improves as Mobile Area Jumps

The outlook for capital expenditures moved up 1.1 points to 53.7, remaining in positive territory for a third consecutive quarter. Fifty-four percent of panelists expect to maintain current investment levels in the fourth quarter and a net 14.3 percent anticipate increasing spending.

Compared to the third quarter, capital investment should be level or growing in every industry. Construction, retail trade, other services, manufacturing, and healthcare could post at least moderate increases. Mobile is likely to see a strong uptick in capital spending, while investment growth in Montgomery will remain strong. However, Huntsville panelists expect a modest decline in spending.

ABCI™ History: Slow and Uneven Recovery



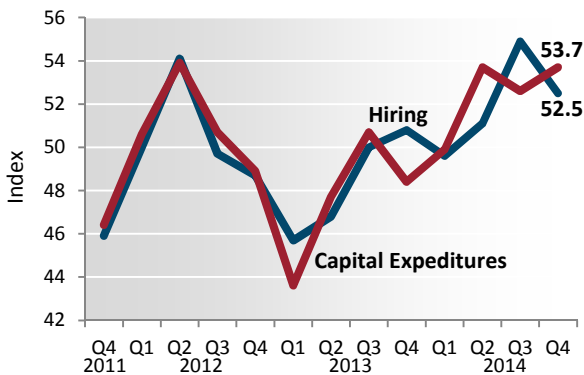
Every Industry Outlook Positive, but Trends are Mixed

Panelists in construction are the most optimistic again this quarter, with the index up 1.8 points to 65.6. Sentiment among healthcare sources is the most improved—the industry ABCI rose 4.9 points to 54.9. Healthcare panelists expect strong sales gains, with a moderate increase in profits and investment and a modest uptick in hiring. The retail trade industry also anticipates a better quarter.

Although all indicators are still positive, confidence slipped 4.1 points in manufacturing. Sentiment also fell in transportation, information, and utilities and in financial activities as hiring expectations turned negative.

Hiring and Capital Expenditures

Expectations versus Prior Quarter



ABCI by Industry, Fourth Quarter 2014

	Q4 2014	Change from Q3 2014
Construction	65.6	1.8
Manufacturing	53.9	-4.1
Transportation/Information/Utilities	52.8	-4.8
Wholesale Trade	52.3	-1.0
Retail Trade	52.5	3.7
Finance/Insurance/Real Estate	53.3	-3.3
Professional/Scientific/Tech Services	51.6	-1.2
Healthcare Services	54.9	4.9
All Other Services	56.2	0.4

Industries in Depth, Fourth Quarter 2014

Component Index	Construction	Manufac.	Transp./Info./Utilities	Wholesale Trade	Retail Trade	Fin./Insur./Real Estate	Prof./Sci./Technical	Healthcare	All Other Services
Sales	70.0	53.4	53.6	53.1	60.0	53.9	55.2	61.4	61.3
Profits	70.0	52.7	54.8	50.0	57.5	53.4	50.5	54.5	56.9
Hiring	65.0	54.7	48.8	48.4	50.0	49.0	51.6	52.3	55.6
Capital Spending	65.0	54.1	53.6	50.0	57.5	52.0	50.0	54.5	55.6

ABCI and Component Indexes by Area, Fourth Quarter 2014

	Alabama	Metro Areas			
		Birmingham	Huntsville	Mobile	Montgomery
National Economy	51.6	52.1	47.1	51.7	57.4
Alabama Economy	56.4	54.7	54.0	59.3	60.8
Industry Sales	56.6	57.2	51.8	64.0	58.1
Industry Profits	54.4	55.5	47.4	60.5	59.5
Industry Hiring	52.5	51.3	49.3	56.4	55.4
Capital Expenditures	53.7	52.5	48.5	60.5	60.8
ABCI	54.2	53.9	49.7	58.7	58.7

Executives Most Optimistic in Mobile and Montgomery

Looking at fourth quarter 2014 ABCI survey results, trends in business confidence among Alabama’s four largest metro areas are mixed. Mobile saw a 3.2 point uptick in its outlook to 58.7, matching Montgomery as the most optimistic metro. ABCI Montgomery was about the same as last quarter. Both metro areas anticipate strong growth in capital spending as well as sales and profits in the fourth quarter. Mobile and Montgomery are also the most likely to pick up the pace of job growth this quarter.

Birmingham-Hoover businesses are not quite as optimistic as last quarter. The area ABCI declined 3.0 points to 53.9 and all components of the index declined. In particular, prospects for job growth are much weaker than last quarter. Amid uncertainty about the FY2015 federal budget and the government operating under a continuing resolution, Huntsville business sentiment slipped back into negative territory, falling 3.7 points to 49.7. Area business executives are feeling negative about prospects for the U.S. economy and for industry profits, hiring, and capital spending in the fourth quarter.

Confidence at Midsize Firms Improves; Small and Large Businesses Post Declines

Alabama businesses employing 20 to 99 are the most optimistic this quarter. The group’s ABCI rose 2.4 points to 55.2 and every component of the index is positive and higher than last quarter. These firms expect relatively strong sales growth, with a moderate uptick in profits. They are also the most likely to create jobs in the fourth quarter—the hiring index rose 1.9 points to 56.3. Capital spending increases will be modest.

Confidence among the state’s large firms, employing 100 or more, stayed positive at 54.9 despite a 3.0 point decline. All components of the group’s ABCI except capital expenditures dropped significantly compared to the third quarter. In particular, hiring growth is expected to be modest, although sales and profits could post moderate increases. These businesses are the most likely to ramp up capital spending with the index up 2.1 points to 56.4.

Small businesses employing fewer than 20 are the least positive—business confidence fell 2.3 points to 52.5. The group’s hiring outlook turned slightly negative at 49.4. Still, sales and profits are expected to improve moderately.

ABCI and Component Indexes by Firm Size, Fourth Quarter 2014

	Number of Employees		
	0 to 19	20 to 99	100 and over
National Economy	50.0	51.4	52.8
Alabama Economy	53.9	58.1	57.2
Industry Sales	55.1	59.2	56.2
Industry Profits	54.5	54.2	54.4
Industry Hiring	49.4	56.3	52.3
Capital Expenditures	51.8	51.8	56.4
ABCI	52.5	55.2	54.9

The Center for Business and Economic Research would like to thank the 252 Alabama business executives who completed the fourth quarter 2014 ABCI survey during the first two weeks of September. This report from the 52nd consecutive quarter of the ABCI survey would not be possible without your participation! Be sure to log in during December 1-15 to record your opinions about economic prospects and industry performance looking ahead to the first quarter of 2015.

Analysis provided by Carolyn Trent, Socioeconomic Analyst, Center for Business and Economic Research, The University of Alabama.



For more details on the Alabama Business Confidence Index™, visit
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