

ABCI™

ALABAMA BUSINESS CONFIDENCE INDEX

Volume 14, Fourth Quarter 2015

State Business Confidence Weaker as the End of 2015 Nears

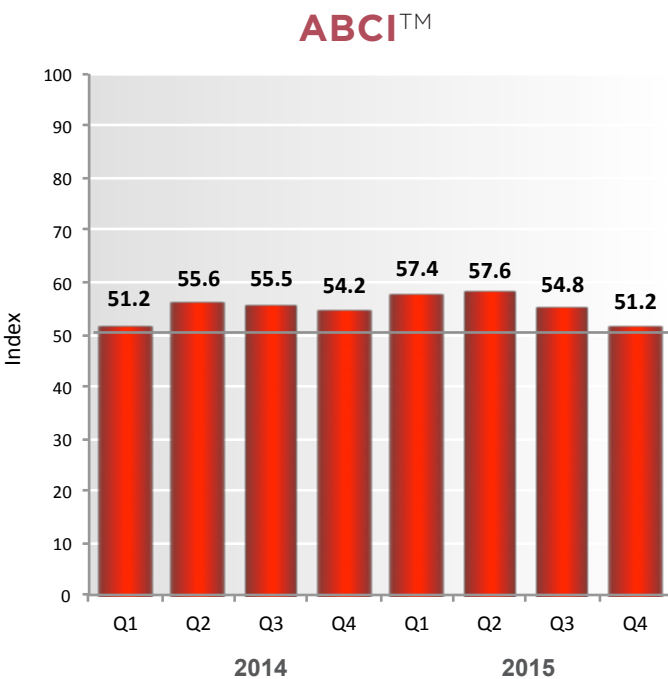
Business confidence fell to 51.2 on the fourth quarter 2015 *Alabama Business Confidence Index™* (ABCI) survey, conducted by the Center for Business and Economic Research in UA's Culverhouse College of Commerce. The index fell 3.6 points to its lowest level since the same reading for the first quarter of 2014. Panelists are now somewhat less optimistic than a year ago when the ABCI registered 54.2.

Panelists continue to see slow expansion in the Alabama economy, but are less optimistic about the national economy. Confidence in the state economy fell to a still positive 52.0, while the national economy index dipped below the neutral mark to a slightly negative 49.3.

Every industry indicator moved lower on the survey, but all remain positive, if only slightly so. The sales index again tops the list at 53.3, while expectations for capital expenditures, hiring, and profits all fell to barely positive readings.

Overall, firms in construction are the most optimistic this quarter, while professional services continue to have robust outlooks for sales and hiring. Retailers, however, continue to see the economic environment as a negative - particularly as regards profits and hiring.

While only Huntsville, with an overall ABCI of 48.9, crossed into negative territory, confidence declined in all of the state's four largest metro areas. Montgomery confidence remains highest among the large metros with an index of 54.2, followed closely by Mobile with 53.9. Birmingham - Hoover registered 51.4.



Fourth Quarter 2015 Outlook

	Alabama	Change from Q3
ABCI	51.2	-3.6
National Economy	49.3	-1.4
Alabama Economy	52.0	-4.6
Industry Sales	53.3	-5.0
Industry Profits	50.6	-5.1
Industry Hiring	50.9	-2.3
Capital Expenditures	50.9	-5.7

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

Business Environment Expectations Q4 2015 compared to Q3 2015

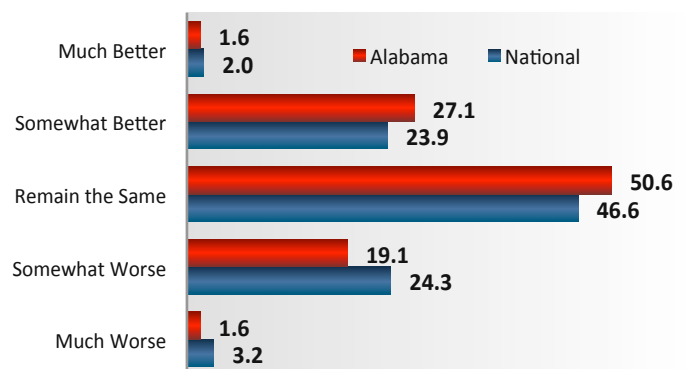
Outlook for U.S. Economy Weakens

The national economy index declined 1.4 points to 49.3, 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 47 percent think growth will continue at about the same pace. This most recent U.S. reading represents a 7.2 point drop from only two quarters ago.

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

The largest businesses, those employing 100 or more, were the most optimistic about the national picture, with a moderately confident reading of 52.1. The smallest businesses, those employing fewer than 20 employees, have the most pessimistic view of the national stage with a negative reading of 46.9.

National and Alabama Economy



Percent of ABCI Respondents

Weaker Growth Forecasted for Alabama Economy

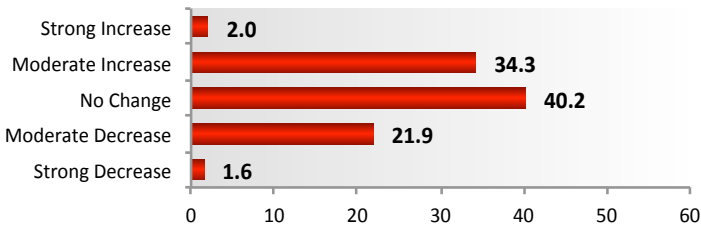
Business executives expect the state's economy to continue its expansion in the fourth quarter of 2015, albeit at a weaker pace. At 52.0, the index is down 4.6 points from last quarter and down 4.4 points compared to a year ago. Less than 29 percent of panelists expect stronger economic growth this quarter and approximately 50 percent expect the state's economy to perform about the same as in the third quarter.

The mixed sentiment of ABCI panelists in a broad range of industries supports the recent preliminary 2015 forecast from the Center for Business and Economic Research. CBER expects the state's economic growth to improve from 2.0 percent in 2014 to 2.3 percent this year. Employment growth is forecasted to accelerate from around 0.7 percent in 2014 to 1.2 percent in 2015, while tax revenues rose 4.0 percent compared to a 1.3 percent increase last year.

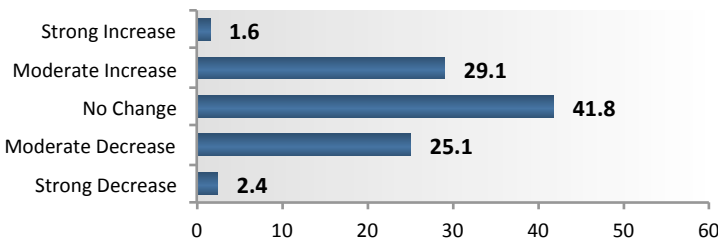
Industry Performance Expectations

Q4 2015 compared to Q3 2015

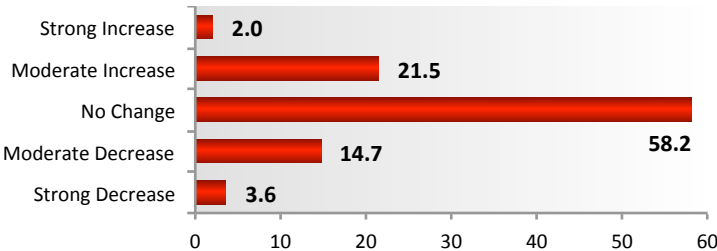
Sales



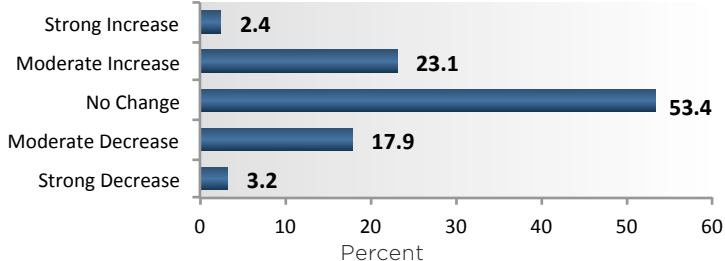
Profits



Hiring Plans

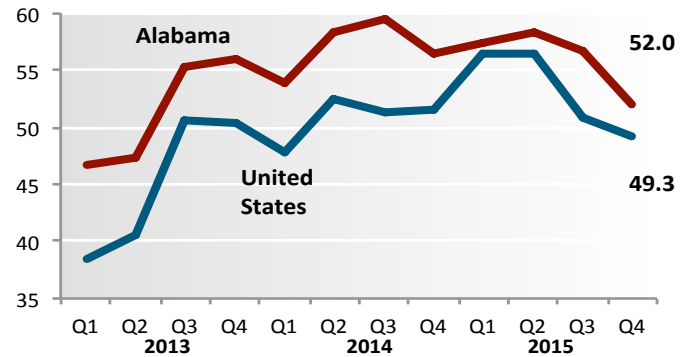


Capital Expenditures



National and Alabama Economy

Expectations versus Prior Quarter



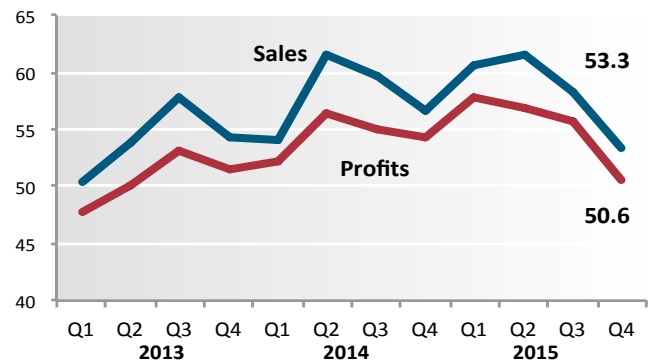
Panelists Expect Continued Sales Growth

The sales index lost 5 points, falling to a still moderately positive 53.3 - the best showing of the four industry indicators this quarter. About 40 percent of panelists see sales holding steady, while a fairly strong 36 percent expect sales in their industry to rise compared to third quarter levels. Only 24 percent of the panel forecasts a decrease in sales for the fourth quarter. Construction firms and professional, scientific and technical businesses are the most confident of stronger sales, while transportation, information, and utilities companies and manufacturing concerns are the most pessimistic.

Profits may rise weakly during the fourth quarter. The index value of 50.6 represents a 5 point fall from its third quarter reading. About 42 percent of panelists expect to maintain steady profits, while 31 percent of respondents expect profit trends to be better than last quarter and 27 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>.

Pace of Job Growth Expected to Slow as 2015 Ends

The state's business executives are signaling tepid job gains this quarter. The hiring index fell 2.3 points to 50.9 with 58 percent of firms planning to maintain the current pace of hiring and 24 percent expecting to increase hiring over last quarter's level. Only 18 percent of respondents expect to hire at a slower pace, however.

Increased construction hiring accounts for many of the expected job gains. Wholesale trade and professional, scientific, and technical services are also forecasting greater personnel needs. Businesses engaged in manufacturing; transportation, information, and utilities; retail trade; wholesale trade; and financial activities should also see a slowdown in hiring. All metro areas are expected to experience at least some job growth; gains in Montgomery could be slightly better than the state's other large metro areas.

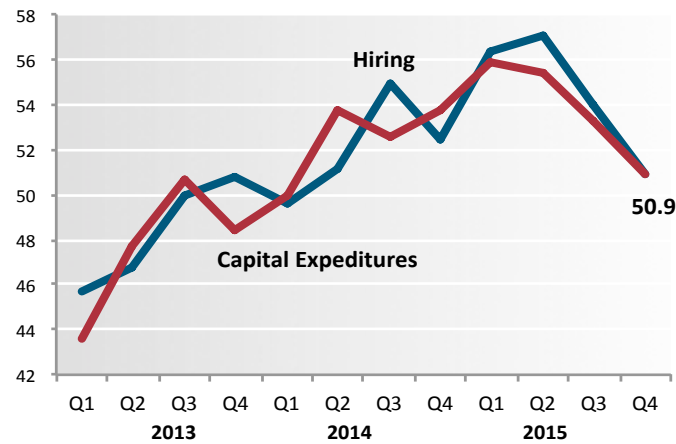
Modest Gains Forecast for Capital Expenditures

Capital spending growth will be slow in the fourth quarter of 2015. The index fell 5.7 points to echo the hiring index at 50.9. Over half of panelists expect to maintain investment at current levels, while almost 26 percent anticipate increased spending compared to last quarter.

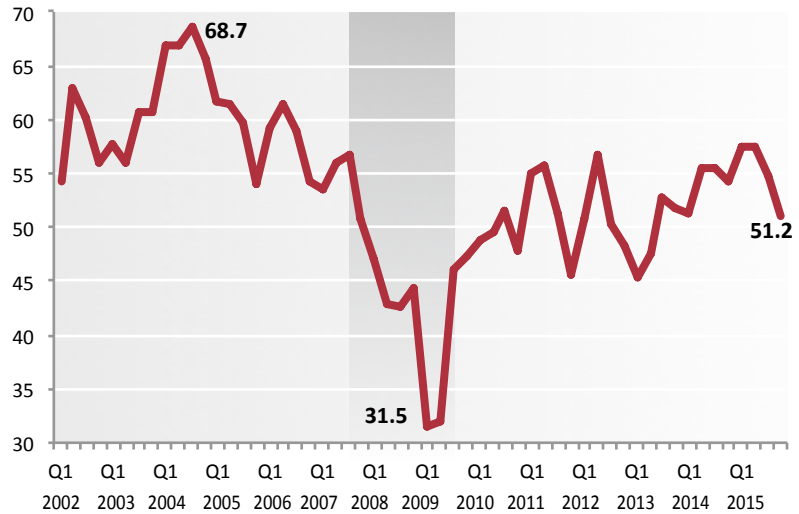
The outlook for capital investment is the most positive in construction, which scored a robust 67.3. Firms in professional, scientific, and technical services are also likely to see a pickup in investment, while businesses in manufacturing, wholesale trade, and healthcare are the least optimistic about spending.

Hiring and Capital Expenditures

Expectations versus Prior Quarter



ABCI: Optimism Wanes as 2015 Ends



Construction Confidence Remains High

Construction firms are the most optimistic this quarter, with an ABCI reading of 64.1 based on strongly positive outlooks for sales, profits, hiring, and capital spending. Confidence is also strong in professional, scientific, and technical services in expectation of increased sales with an overall index of 54.0. Manufacturing; retail trade; transportation, information, and utilities; and wholesale trade reported the lowest confidence - all of which are well below 50. Decreased hiring can be expected for these industries based on poor projected sales in manufacturing and transportation businesses and lowered profits among firms in retail trade and wholesale trade.

ABCI by Industry

	Q4 2015	Change from Q3
Construction	64.1	6.5
Manufacturing	46.7	-5.1
Transportation/Information/Utilities	47.7	-5.2
Wholesale Trade	48.6	-4.6
Retail Trade	44.7	2.6
Finance/Insurance/Real Estate	50.2	-8.3
Professional/Scientific/Technical Services	54.0	-4.4
Healthcare Services	51.8	-3.0
All Other Services	52.7	-1.1

Industries In Depth, Fourth Quarter 2015

Component Index	Construction	Manufac.	Transp./Info./Utilities	Wholesale Trade	Retail Trade	Fin./Insur./Real Estate	Prof./Sci./Technical	Healthcare	All Other Services
Sales	65.4	48.5	47.2	51.7	52.3	51.3	58.5	57.1	53.5
Profits	65.4	45.6	50.0	45.0	43.2	50.4	53.7	48.2	51.7
Hiring	63.5	45.6	45.8	53.3	43.2	47.9	55.5	50.0	54.1
Capital Spending	67.3	44.1	51.4	48.3	50.0	50.8	53.0	48.2	50.6

ABCI and Component Indexes by Area, Fourth Quarter 2015

	MSA				
	Alabama	Birmingham	Huntsville	Mobile	Montgomery
National Economy	49.3	49.5	45.7	51.8	55.2
Alabama Economy	52.0	51.6	48.7	58.5	52.9
Industry Sales	53.3	52.6	53.0	53.7	56.4
Industry Profits	50.6	52.1	45.3	56.1	52.9
Industry Hiring	50.9	51.0	50.7	50.6	54.7
Capital Expenditures	50.9	51.6	50.0	52.4	52.9
ABCI	51.2	51.4	48.9	53.9	54.2

Confidence Declines in All Metro Areas, but Remains Mostly Positive

Among the largest four metro areas, Montgomery business leaders are again the most confident about fourth quarter prospects, despite a 3.2 point drop to a still confident 54.2. Indexes for sales, hiring, and spending are all the highest of the four metro areas tracked by the survey.

Mobile’s outlook saw a slight 0.4 dip to a still confident 53.9. Area indexes for the state economy and industry profits remain very strong at 58.5 and 56.1, respectively. However, hiring expectations fell 4.4 points to 50.6, forecasting only a slight increase in job growth.

ABCI Birmingham-Hoover fell 1.7 points to 51.4. Despite the fact that both are still solidly positive, area business executives have significantly diminished outlooks for the state economy and industry sales for the last quarter of 2015. Other industry readings point to only slight improvements or a steady-state economy.

Huntsville business sentiment dipped back into negative territory, falling 6.2 points to 48.9, brought down by poor profit expectations, despite a strong sales index. Only the sales confidence index remains solidly positive as other readings have neared the neutral value of 50.0.

Confidence Declines Broadly, but Remains Highest for Large Firms

Even as most indicators continue to show at least moderate optimism for each of the three groups categorized by number of employees, businesses of all sizes are less confident than last quarter as they evaluate their fourth quarter 2015 prospects.

Alabama businesses employing 100 or more have the highest ABCI at 52.1, down 3.2 points compared to third quarter 2015. Large firms are most optimistic about sales, profits, and the economic environment. These firms are also slightly more likely to add jobs this quarter, despite a fall in the hiring index to 51.3.

The ABCI registered 50.8 among midsize firms - those with 20 to 99 employees. These firms remain the most optimistic about the state economy, but are less enthusiastic about the national scene and their own profits.

For small firms, those with fewer than 20 employees, confidence fell 6.9 points this quarter to an almost neutral 50.4. All indicators remain positive, if only timidly so, with the exception of profit prospects, which dipped into negative territory with a reading of 48.9.

ABCI and Component Indexes by Firm Size, Fourth Quarter 2015

	Number of Employees		
	0 to 19	20 to 99	100+
ABCI	50.4	50.8	52.1
National Economy	46.9	48.5	52.1
Alabama Economy	50.8	52.7	52.6
Industry Sales	55.1	51.9	52.6
Industry Profits	48.9	49.2	53.1
Industry Hiring	50.3	51.1	51.3
Capital Expenditures	50.6	51.5	50.8

The Center for Business and Economic Research would like to thank the 251 Alabama business executives who completed the fourth quarter 2015 ABCI survey. This report from the 56th consecutive quarter of the ABCI survey would not be possible without your participation.

Be sure to log in during the December 1-15 survey window to record your opinions about economic prospects and industry performance looking ahead to the first 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
 For information on the Center for Business and Economic Research, visit cber.cba.ua.edu