

### Business Confidence Points to Rebound in 2011

Alabama business executives are generally feeling optimistic about prospects for the economy and for their industries as 2011 gets underway. The *Alabama Business Confidence Index™* (ABCI) rose 7.1 points to 55.0, indicating that the recovery will be on firm ground in the first quarter. ABCI is approaching its pre-recession reading of 56.8 recorded in the third quarter of 2007. Confidence had steadily improved from a first quarter 2009 low of 31.5 to 51.5 in the third quarter of 2010, but fell back to 47.9 last quarter.

Both the U.S. and Alabama economies are expected to provide a much better environment for businesses in first quarter 2011, with the state forecasted to outperform the nation. Sales and profits should post solid gains, although hiring and capital spending growth will be modest. Alabama panelists in the finance, insurance, and real estate sector and in transportation, information, and utilities are the most optimistic about the outlooks for their industries. ABCI readings in healthcare and wholesale and retail trade indicate a relatively flat performance this quarter.

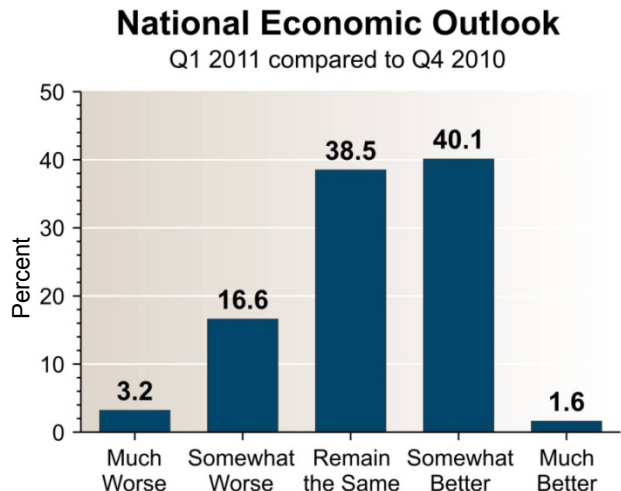
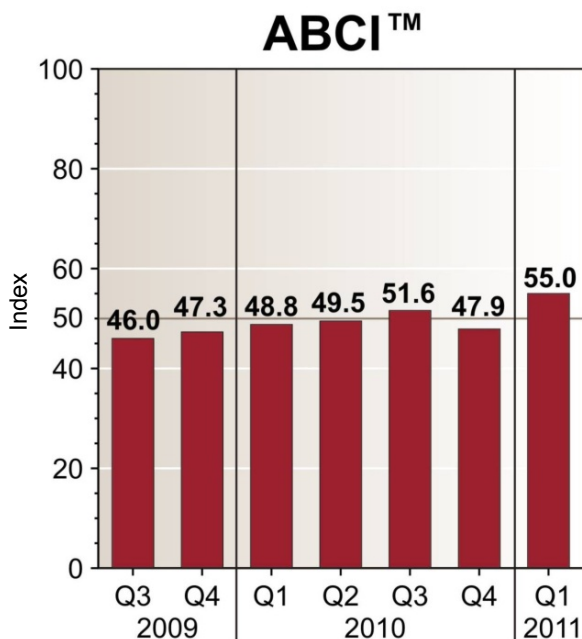
Sentiment is highest in the Huntsville metro area at 60.3 and in Mobile with an ABCI of 58.0; ongoing developments in both areas should boost hiring in the near term. Faced with state government uncertainties and revenue challenges, Montgomery recorded an ABCI of 53.9. Expected weakness in profits, capital spending, and hiring held Birmingham-Hoover area confidence down to 52.2. Across the state, businesses with fewer than 20 employees are the most optimistic and the most likely to create jobs in the first quarter.

First Quarter 2011 Outlook		
	Alabama	Change from Q4
<b>ABCI</b>	<b>55.0</b>	<b>7.1</b>
National Economy	55.1	13.0
Alabama Economy	59.6	9.6
Industry Sales	57.8	6.2
Industry Profits	54.0	5.6
Industry Hiring	51.7	3.9
Capital Expenditures	51.8	4.1

Index above 50 indicates expansion.  
Index below 50 indicates contraction.

**U.S. Economy Regaining Momentum** Confidence in the national economy jumped 13 points to 55.1 on the first quarter ABCI survey. With the uncertainty concerning taxes that clouded the fourth quarter results out of the way, Alabama business executives see the U.S. economic environment as being generally supportive. Almost 42 percent of panelists are more optimistic about the national economy this quarter, while about 20 percent are more pessimistic. The component index is up 6.6 points from its value of 48.5 a year ago, and indicates solid expansion for the first time since third quarter 2007.

The fiscal stimulus included in the December tax package should boost both business and consumer spending throughout 2011, while job creation is picking up moderately. However, credit constraints, weakness in residential and commercial real estate sectors, and persistently high unemployment continue to challenge the recovery. A stronger than expected fourth quarter performance led forecasting group IHS Global Insight to raise their fourth quarter estimate of real GDP growth to 3.8 percent.

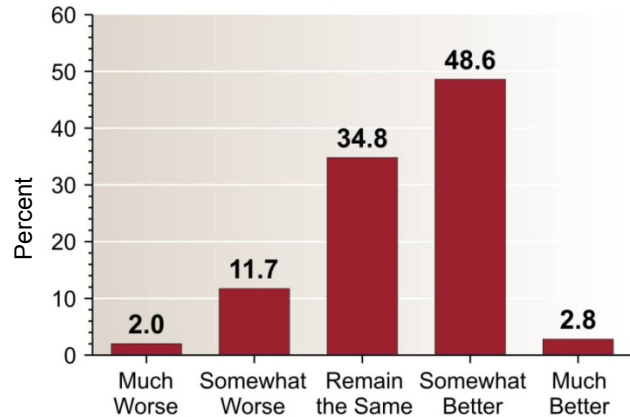


**Alabama Rebound Stronger than U.S.** Business executives expect the Alabama economy to outperform the nation as a whole during the first quarter of 2011. This supports the 2011 forecast from UA's Center for Business and Economic Research of stronger state gains in real GDP during the year. At 59.6 the Alabama economy index is up 9.6 points from the fourth quarter and is 7.1 points above its year-ago value. Over half of panelists expect the state's economy to improve in first quarter 2011, while just 13.7 percent think it will decline.

A number of factors support a rosier outlook for the state. While Alabama fell later, but more steeply into recession during 2008, its rebound in terms of employment has been among the fastest. The state's motor vehicle manufacturing industry is one driver of recovery. Parts of the state are growing from BRAC transfers and other national defense-related projects; aerospace and steel are among other economic drivers. However, governments statewide are challenged by inadequate revenues and the waning federal stimulus.

## Alabama Economic Outlook

Q1 2011 compared to Q4 2010

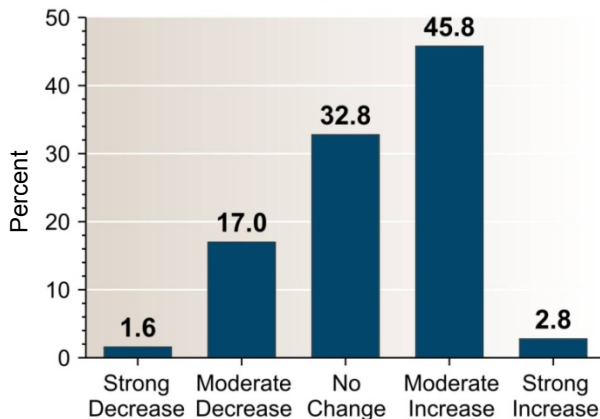


**Sales Growth Leading Recovery** Alabama businesses expect sales to pick up steam during the first quarter of 2011. The sales index registered 57.8 this quarter, 6.2 points above its fourth quarter reading and 5 points better than a year ago. The consumer is coming back—Alabama sales tax revenues were up 4.5 percent year-over-year for the first quarter of FY2011. Fiscal stimulus in the form of the tax cut extension and a cut in employee payroll taxes will help boost consumer spending. Almost 49 percent of firms anticipate higher sales in the first quarter of 2011 versus 18.6 percent forecasting a decrease.

Sales should improve in every industry this quarter, although some gains will be much more robust. Panelists in transportation, information, and utilities (TIU) are the most optimistic with a sales index of 64.1 and about 70 percent expecting growth. Alabama's finance, insurance, and real estate (FIRE) sectors could see marked improvement with optimism about sales at 59.8. An index of 51.6 suggests only modest gains for the state's retailers.

## Industry Sales

Q1 2011 compared to Q4 2010

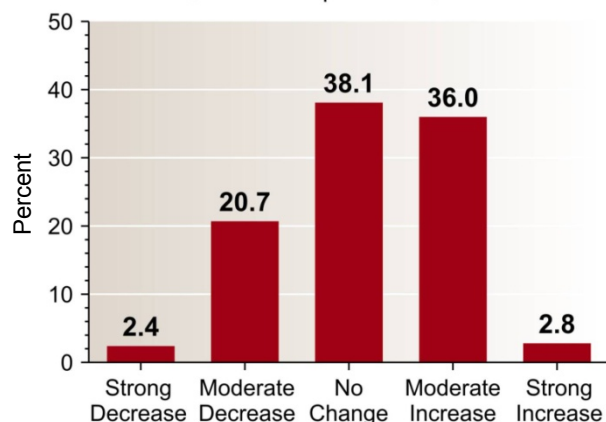


**More Firms See Balance Sheets Improving** Almost 39 percent of ABCI panelists see profits in their industry increasing during the first quarter of 2011. That's a marked improvement from a year earlier, when 26.6 percent forecast earnings growth. At 54.0 the profits component index is up 5.6 points compared to last quarter and 7.6 points from first quarter 2010. Still, more panelists see a potential downside to profits (23.1 percent) than to the other industry indicators. Profit margins in some industries are under pressure from rising energy costs and still-challenged consumers, and profits are likely to moderate for some firms as the level of cost-cutting tapers off.

Businesses in FIRE are forecasting the strongest profit growth with an index of 61.2; profits could be modestly above average in TIU, and in professional, scientific, technical, and other services. An index of just 42.3 for healthcare panelists indicates a moderate decrease in first quarter 2011 earnings. Firms in wholesale and retail trade foresee modestly lower profits this quarter, while profits are likely to be flat in construction and manufacturing.

## Industry Profits

Q1 2011 compared to Q4 2010

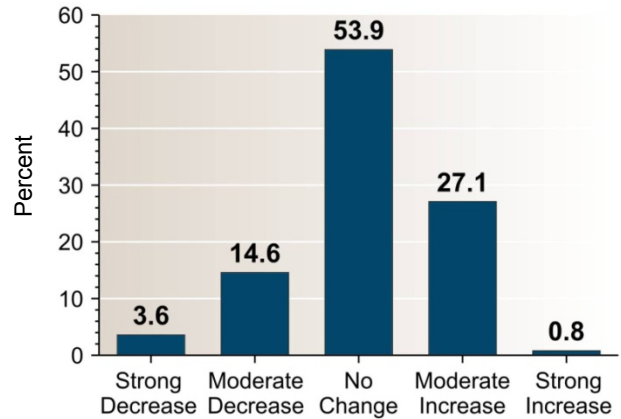


**Modest Recovery in Jobs Emerging** Employment growth should continue at a modest pace during the first quarter of 2011. The hiring index is up almost 4 points to 51.7, its highest level since a value of 54.6 in the third quarter of 2007. Most panelists (53.9 percent) expect to maintain current staffing levels, as has been the case since the third quarter of 2009. More firms will be hiring though—the positive difference of 9.7 percentage points between the 27.9 percent of firms expecting to increase hiring and the 18.2 percent cutting back is good news for job-seekers.

Panelists in TIU and FIRE are the most optimistic about job gains in first quarter 2011, with 34.8 percent of TIU executives planning to increase hiring and 61 percent forecasting no change. About the same share of FIRE respondents expect employment to be stable, while 28.6 percent are likely to add to payrolls. Manufacturing and other services could also see moderate job growth. However, businesses in wholesale and retail trade and healthcare anticipate modest employment declines.

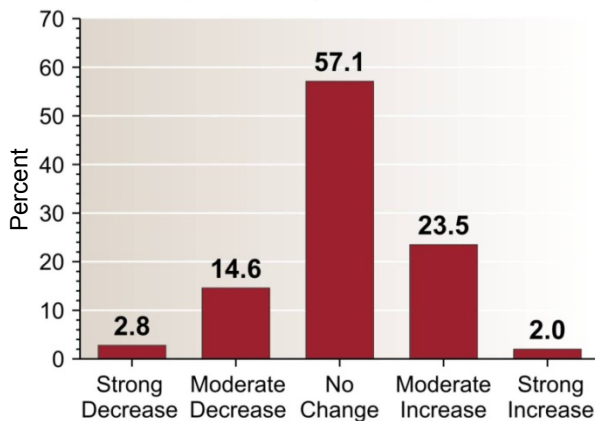
### Industry Hiring Plans

Q1 2011 compared to Q4 2010



### Industry Capital Expenditures

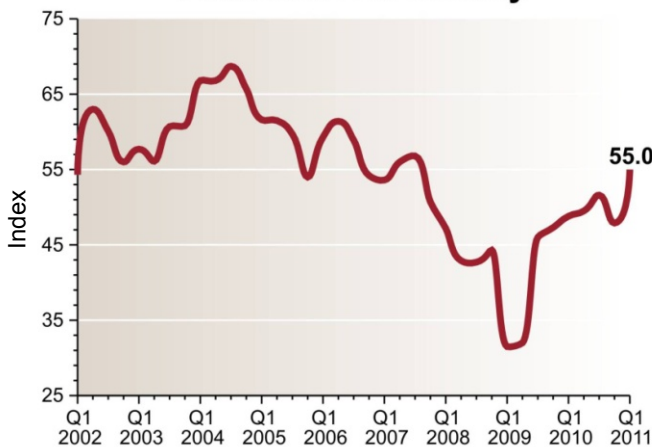
Q1 2011 compared to Q4 2010



**Capital Spending Starting to Pick Up** Alabama is likely to see slight growth in capital spending this quarter, with the component index climbing 4.1 points to 51.8. While most firms (57.1 percent) expect expenditures to be unchanged, the positive difference of 8.1 percentage points between the 25.5 percent forecasting an increase and the 17.4 percent forecasting a decline is the largest since third quarter 2007. Spending will be focused on business equipment and software, spurred by improving sales and profits, replacement needs, and the extension of federal incentives that include full bonus depreciation during 2011. Federal stimulus support for infrastructure construction continues to boost state and local government capital spending.

Capital spending should be most robust among companies in the transportation, information, and utilities sector with an index of 59.8 and above average in FIRE and other services. First quarter 2011 business investment could be weaker than last quarter among the state's professional, scientific, and technical; healthcare; and wholesale trade businesses.

### Alabama BCI History



### ABCI by Industry, First Quarter 2011

Construction	54.4
Manufacturing	52.3
Transportation/Information/Utilities	64.1
Wholesale Trade	49.4
Retail Trade	50.5
Finance/Insurance/Real Estate	58.5
Professional/Scientific/Technical Services	54.0
Healthcare Services	49.7
All Other Services	57.0

## ABCI and Component Indexes by Area, First Quarter 2011

	Alabama	Metro Areas			
		Birmingham	Huntsville	Mobile	Montgomery
National Economy	55.1	52.3	59.5	57.6	52.7
Alabama Economy	59.6	55.9	63.1	64.5	58.7
Industry Sales	57.8	55.6	63.1	61.6	55.4
Industry Profits	54.0	49.7	65.5	58.7	53.8
Industry Hiring	51.7	50.3	56.0	52.9	51.1
Capital Expenditures	51.8	49.3	54.8	52.3	51.6
<b>ABCI</b>	<b>55.0</b>	<b>52.2</b>	<b>60.3</b>	<b>58.0</b>	<b>53.9</b>

### Huntsville and Mobile Businesses Most Optimistic

Panelists in the Huntsville metro see a strong area economy during the first quarter of 2011, with particularly robust expectations for sales and profits. Huntsville's ABCI of 60.3 is 9.5 points better than a year earlier. Economic development successes in Mobile, including ThyssenKrupp's new steel plants, a growing aerospace industry, and recent federal shipbuilding contracts bring positive energy to that area's economy this quarter. Mobile's ABCI registered 58.0, almost 8 points better than in first quarter 2010.

Business confidence in the Montgomery metro came in at 53.9 for first quarter 2011, up 5.3 points from a year ago, but still indicating modest growth. Uncertainty concerning the impact of a new gubernatorial administration as well as state fiscal challenges could be contributing to modest expectations for growth in hiring and capital spending. Businesses in the Birmingham-Hoover metro area are mildly optimistic with an ABCI of 52.2. Birmingham-Hoover panelists forecast only very slight gains in hiring and no improvement in profits or capital expenditures this quarter.

### Very Small Businesses See Best Prospects

With an improving outlook for consumer spending, the state's smallest businesses are the most optimistic in the first quarter of 2011. Panelists from firms with fewer than 20 employees recorded an ABCI of 57.4, 7.1 points above last quarter's value. These small business owners are very optimistic about sales, with a component index of 61.7, and indicate above-average expectations for profits. They also appear more likely to generate new jobs this quarter—29.3 percent of businesses with 0 to 19 employees expect to increase hiring in the first quarter, compared to 23.7 percent of firms with 20 to 99 workers and just 16.7 percent of those employing 100 or more.

Firms employing 20 to 99 are the least optimistic, although their ABCI of 53.4 still indicates improving prospects and performance. Below average expectations for the economy generally and for industry sales are contributing to a weaker forecast from these businesses. Sentiment among executives at Alabama companies employing 100 or more falls in between at 54.4. Midsize businesses have the weakest expectations among the three size categories for both profits and hiring in the first quarter of 2011.

## ABCI and Component Indexes by Firm Size, First Quarter 2011

	Number of Employees		
	0 to 19	20 to 99	100 and over
National Economy	57.0	53.6	54.7
Alabama Economy	63.7	56.2	59.1
Industry Sales	61.7	54.9	57.0
Industry Profits	56.3	53.3	52.9
Industry Hiring	53.7	51.0	50.8
Capital Expenditures	52.0	51.6	51.8
<b>ABCI</b>	<b>57.4</b>	<b>53.4</b>	<b>54.4</b>

The Center for Business and Economic Research would like to thank the 247 Alabama business executives who completed the first quarter 2011 ABCI survey during the first two weeks of December. Your participation allows us to provide a uniquely Alabama forecasting tool that we hope you find valuable. We encourage you to return for the second quarter 2011 survey during the first two weeks of March.

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  
[cber.cba.ua.edu/ABCI](http://cber.cba.ua.edu/ABCI)  
 For information on the Center for Business and Economic Research, visit  
[cber.cba.ua.edu](http://cber.cba.ua.edu)