

# ALABAMA Business & ECONOMIC INDICATORS

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## A Revised Economic Forecast for 1999

### Overview

National economic conditions are showing no signs of a slowdown. In five more months, the current economic expansion will have been the longest since 1854, surpassing the 106-month expansion that began in February, 1961. For the first seven months this year, there were an average of 223,000 jobs created each month, versus a monthly average of approximately 217,000 for the first seven months a year ago. All in all, the U.S. economy is expected to grow at a slightly higher rate in 1999 than in 1998.

However, Alabama's economy is showing signs of slower growth than last year. Growth in gross state product (GSP) for Alabama for 1999 is now expected to be in the 2.7 to 2.9 percent range, versus 1998's estimated 3.3 percent. Total nonagricultural employment growth is expected to be 1.1 percent, versus 2.0 percent last year. There will be 21,000 new jobs created this year instead of our previous expectations of 28,000.

There are four major factors in the slowing pace of economic growth in Alabama for 1999:

- ✓ Significant job losses in manufacturing.
- ✓ A slowdown in consumer spending.
- ✓ Slow growth in the civilian labor force.
- ✓ The concentration of job growth in urban areas only, impeding any economic growth in rural areas.

From June 1998 to June 1999, there were 20,200 net new jobs created in the state. The state's ten metropolitan areas (20 counties, excluding Russell County which is a part of the Columbus, Georgia metro area) gained 22,300 new jobs. The remaining 47 counties collectively lost 2,100 jobs. Most of the new jobs created in the metropolitan areas have been in services or retail trade. Those sectors pay relatively lower wages than manufacturing industries. Among the jobs created from June 1998 to June 1999, 54 percent were in the trade sector (primarily retail trade) and the remaining 46 percent were in services. The job gains in all remaining economic sectors were pretty much negated by manufacturing's job losses.

### Alabama's Manufacturing Jobs

From June 1998 to June 1999, manufacturing industries in Alabama lost approximately 11,100 jobs. That compares to 5,700 jobs lost during the previous 12 months. Most (approximately 8,900) lost jobs occurred in nondurable goods producing firms. These industries included companies producing

- ✓ textiles and apparel;
- ✓ pulp, paper and allied products;
- ✓ chemical products; and
- ✓ rubber and plastics.

However, firms producing durable goods also lost about 2,200 jobs. The lost durable goods jobs occurred in:

- ✓ steel mills producing both fabricated and primary metals;
- ✓ industrial machinery and equipment production; and
- ✓ electronics and other electrical equipment manufacturers.

A slight improvement is expected in both the Asian and European economies during the second half of 1999. Stronger overseas economies cause the U.S. dollar to become relatively weaker. A weaker dollar

expands export opportunities for American companies. Hence, some manufacturing recovery for Alabama is expected, mainly in the durable goods sectors. And with restraints on imported steel, modest improvement in the state's steel industry is also expected.

### Labor Force

Economic growth depends primarily on two basic factors: labor force and productivity. Alabama's labor force, defined as people between the ages of 16 to 65 who are either employed or are actively seeking employment, has grown much more slowly than the national average and more slowly than other Southeastern states. From June 1998 to June 1999, the state's labor force increased by about 0.6 percent, a gain of 13,900 people. During the same period, the U.S. labor force increased 1.3 percent.

A factor contributing to slower growth in the labor force is in-migration, or rather Alabama's lack of it. From 1997 to 1998, the net number of people moving into the state to live was 7,953, compared to an increase of 114,483 into Florida, 59,982 into Georgia, 54,234 into North Carolina, and 23,775 into South Carolina. However, in-migration can be a mixed blessing. It increases the labor force, but it also puts strains on existing infrastructure.

In order to attract new jobs and businesses, the state needs strong infrastructure development. A state that does not maintain and improve its infrastructure has fewer chances of attracting high-wage jobs and businesses. Noncompetitive growth makes it harder for that state to maintain and expand the

amenities that would attract a desirable skilled labor force.

### Consumer Spending

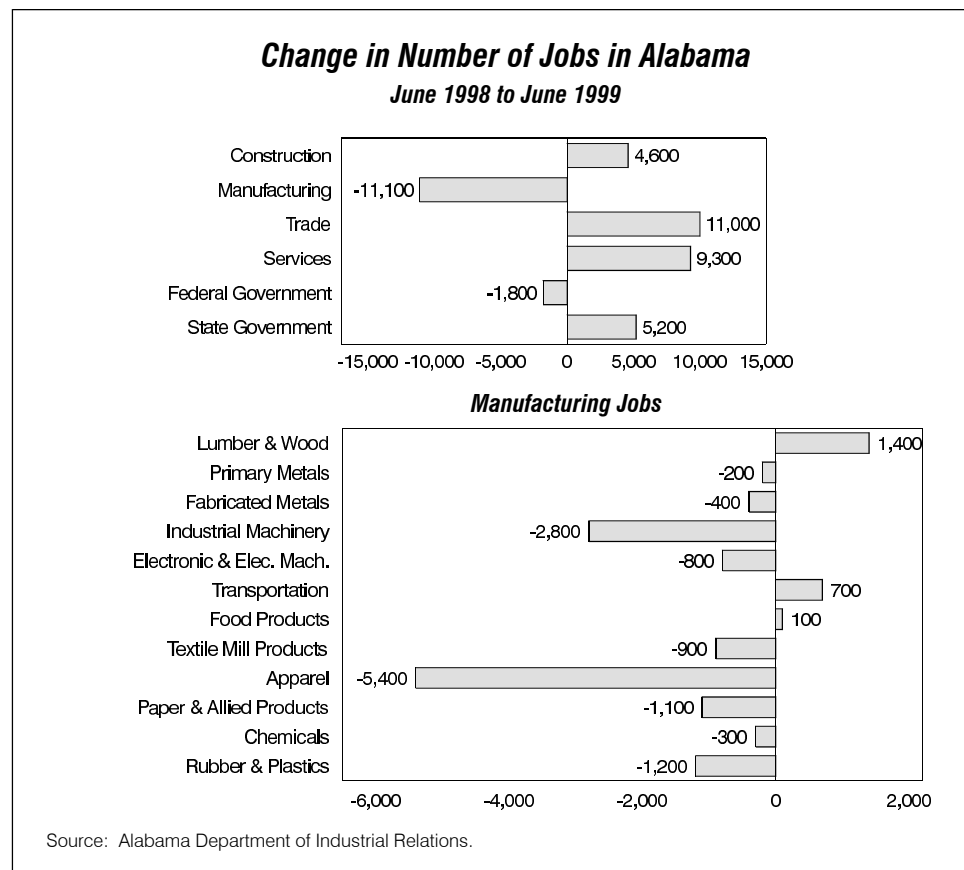
High consumer spending during recent years has been important to employment growth in the state. Consumer spending (as opposed to governmental spending) occurs primarily in retail enterprises. Retail trade has been one of the few job engines in the state recently. In fact, retailing has been a more important part of the Alabama economy than the average for the United States.

From June 1998 to June 1999, of the 20,200 jobs created in the state, 11,000 were in the trade sector (10,000 in retail and 1,000 in wholesale trade), or about 54 percent of new jobs. Nationwide, about 25 percent of new jobs have been in the trade sectors. A retrenchment in consumer spending could be a big blow to the Alabama economy.

The consumer urge to spend has been mostly fueled by higher equity and housing prices, otherwise known as the wealth effect. Recently, valuations in both housing and the stock market have been increasing very quickly, fueling a record-setting frenzy in consumer spending. Another factor affecting consumer spending is that imported goods have been relatively cheap in this country because of a high exchange rate value of the U.S. dollar.

However, there is a limit to how long the U.S. consumer can support these levels of spending. Expected higher interest rates and higher import prices could very well bring the spending spree to an end. Measures of consumer sentiment and consumer confidence are both showing a downward trend. Repercussions from lower consumer spending could prove to be detrimental to Alabama's economic growth.

Ahmad Ijaz



# ***Alabama Housing Affordability Index Second Quarter, 1999***

After setting a record during the first quarter of the year, the Alabama Housing Affordability Index (HAI) declined slightly in the second quarter. The Index, which measures the affordability of existing housing in the state and its ten metropolitan areas, fell to 163.8 from the 166.3 recorded for the first three months of this year. This is still record territory for the Alabama HAI, second only to last quarter's affordability, which was the highest number ever recorded since the Alabama Real Estate Research and Education Center began compiling the index. For the United States, housing affordability also declined during the second quarter, to 134.6, down from 138.0 in the first quarter.

The statewide HAI is the ratio of the state's actual median family income and the family income required to purchase the statewide median-priced home. An index number of 100 indicates that a family earning the median income has just enough buying power to qualify for a mortgage loan on the median-priced, existing single-family home, given standard underwriting criteria. The higher the index, the better, as housing is more affordable. An index number of 163.8 indicates that Alabamians, on average, had more than one and a half times the income needed to acquire the median-priced home. Given the underwriting assumptions used in the construction of the HAI, a family earning the statewide median income of \$42,114 could purchase a home priced at \$163,350, given a 20 percent down payment and a mortgage rate of 7.09 percent. During the second quarter,



the median-priced home in Alabama was only \$99,667.

The median price for an existing, single-family home remained virtually unchanged in the state during the second three months of the year, despite a slight increase in the blended mortgage interest rate from 6.94 percent in the first quarter to 7.09 percent in the second quarter. The statewide median price was \$99,709 during the first quarter. Housing prices increased in seven of the ten metropolitan areas: Anniston, Birmingham, Decatur, Dothan, Huntsville, Montgomery, and Tuscaloosa. Home prices fell in the Florence, Gadsden, and Mobile metro areas. For the first half of 1999, median home prices are up 3.2 percent over the last quarter of 1998.

In contrast to Alabama, the national median house price increased by \$2,400 during the second quarter, to \$133,500.

The state's housing markets have remained remarkably robust over the last half year, reflecting the strong economy, continued growth in employment and wages, and attractively low mortgage interest rates. The strong stock market performance over the last few years has not only significantly increased the nation's net worth, but has also raised the level of consumer confidence to record levels. It is, therefore, not surprising that real estate markets continue to expand. In fact, strong housing demand has been the engine driving the state's and the nation's economies. Whether the housing market will continue to expand will depend upon mortgage interest rates. The anticipated credit tightening by the Federal Reserve could have a major dampening effect on the nation's housing markets. Higher interest rates would reduce housing affordability from the record levels recently achieved.

*Leonard V. Zumpano*

For more information about these and other Alabama economic indicators, please visit the CBER Internet site at <http://cber.cba.ua.edu>

# CENTER FOR BUSINESS AND ECONOMIC RESEARCH

## **Alabama Housing Affordability Index 2nd Quarter of 1999 & 1st Quarter of 1999**

<b>Metro Area/ County</b>	<b>Median Income</b>	<b>Median Price</b>	<b>Loan/Value 80% @</b>	<b>Monthly Payment 7.09%</b>	<b>Annual Payment</b>	<b>Required Income</b>	<b>HA Index 2<sup>nd</sup> Quarter 1999</b>	<b>HA Index 1<sup>st</sup> Quarter 1999</b>
Anniston	\$39,500	\$82,000	\$65,600	\$440	\$5,285	\$21,140	186.8	194.1
Birmingham	47,900	128,493	102,794	690	8,281	33,126	144.6	150.1
Decatur *	46,500	103,450	82,760	556	6,667	26,670	174.3	183.4
Dothan	40,600	92,417	73,934	496	5,956	23,825	170.4	185.9
Florence	40,200	83,900	67,120	451	5,407	21,630	185.8	187.0
Gadsden	35,900	76,800	61,440	412	4,950	19,799	181.3	161.6
Huntsville	54,600	101,333	81,066	544	6,531	26,124	208.9	216.8
Mobile	40,700	112,963	90,370	607	7,281	29,122	139.7	141.1
Montgomery	47,000	100,167	80,134	538	6,456	25,823	181.9	192.7
Tuscaloosa	42,400	113,267	90,614	608	7,300	29,200	145.2	148.7
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Baldwin County	40,700	133,125	106,500	715	8,580	34,320	118.6	118.3
Cullman County	38,200	89,733	71,786	482	5,783	23,133	165.1	148.9
Lee County	43,700	113,533	90,826	610	7,317	29,269	149.3	149.1
Marshall County	38,300	74,333	59,466	399	4,791	19,163	199.8	203.9
Mobile County	40,700	92,800	74,240	498	5,981	23,924	170.1	175.0
Tallapoosa County	37,400	122,952	98,362	660	7,924	31,697	118.0	109.9
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Statewide Average	42,114	99,667					163.8	166.3
US Average	\$46,356	133,500					134.6	138.0

Sources: The Alabama Real Estate Research and Education Center, Culverhouse College of Commerce, The University of Alabama and the Alabama Association of REALTORS®. National data supplied by the Federal Housing Finance Board and Research Division of the National Association of REALTORS®.

\* The Mobile Metro Area, which is made up of Baldwin and Mobile counties, is atypical because of the higher concentration of vacation properties located in Baldwin County. Because these vacation homes have much higher prices than owner-occupied residential properties, the HAI understates housing affordability.

*Alabama Business* is a monthly publication of the Center for Business and Economic Research, Culverhouse College of Commerce, The University of Alabama. Articles reflect the opinions of the authors, but not necessarily those of the staff of the Center, the faculty of the Culverhouse College of Commerce, or the administrative officials of The University of Alabama.

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