

Economic Outlook: Second Quarter 2013

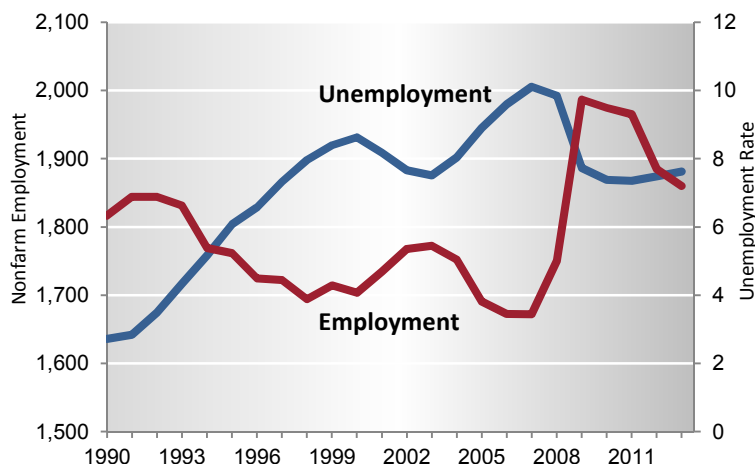
Highlights

- Alabama gained 6,900 jobs between March 2012 and March 2013, an increase of 0.4 percent. According to the establishment survey, nonfarm payrolls in the state totaled 1,887,400 in March 2013, up from 1,880,500 a year ago.
- The number of unemployed workers declined from 154,299 in March 2012 to 148,302 in March 2013. During the same period, the state's civilian labor force grew from 2,144,007 to 2,158,970. An increase of 20,960 employed residents, as reported by the household survey, held the unemployment rate steady at 7.2 percent.
- Total nonfarm employment is forecasted to increase in the range of 0.5 to 1.2 percent during 2013, with businesses in transportation equipment manufacturing, professional and business services, health services, and food services and drinking places adding the largest numbers of jobs.
- Overall, the state's economy is estimated to expand by close to 2.0 percent in 2013, at or slightly below the rate of growth seen in 2012.
- After increasing by 3.8 percent in Fiscal Year 2011-2012, state tax revenues are expected to grow 3.5 percent in FY2013.

Alabama

Employment. Alabama nonfarm employment currently totals 1,887,400, still 139,300 below the prerecession peak of 2,026,700 in December 2007. According to the establishment survey, over the 12-month period ending in March 2013, the state gained a total of 6,900 jobs. Goods producing businesses added 2,800 workers, while the service providing sector gained 4,100. Within the goods producing sector, manufacturers saw a net gain of 5,800 jobs. However, the construction industry had a net loss of 3,100, spread across the board among building

Alabama Nonfarm Employment and Unemployment Rate
Employment (Thousands), Unemployment (Percent)



Source: Alabama Department of Labor.

construction (1,000), heavy and civil engineering construction (1,600), and specialty trade contractors (500). Within manufacturing, payrolls increased in transportation equipment (4,800), plastics and rubber products (500), food (200), and electrical equipment and appliance manufacturing (100). Most remaining manufacturing industries shed jobs over the year. Job losses were reported in textiles and apparel (1,100), aerospace products and parts (700), computer and electronic products (700), primary and fabricated metals (400), paper (300), furniture (300), and machinery manufacturing (200).

Among service providing firms, employment gains were primarily associated with professional and business services and educational and health services (each adding

Alabama Forecast

(Annual Percent Change)

Probability: forecast (60 percent) and range (90 percent)

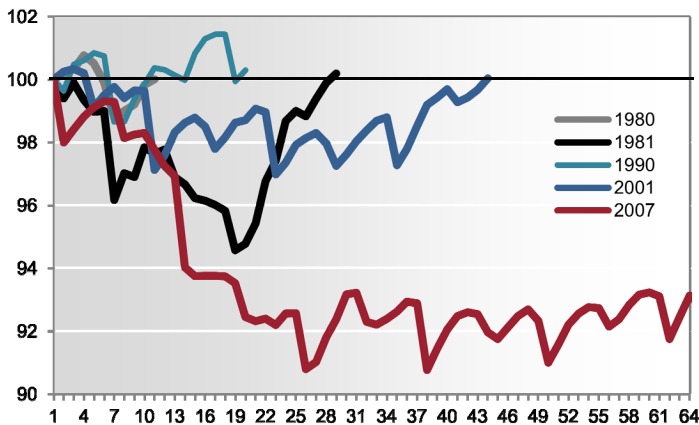
	2011	2012	2013	2014
Real GDP	2.0	1.9	1.8	2.5
range			1.5 to 3.0	2.0 to 3.5
Employment	-0.2	0.5	0.7	1.1
range			0.1 to 1.5	0.7 to 2.3
Total Tax Receipts, FY	5.0	3.8	3.5	4.0
range			2.5 to 5.0	3.0 to 6.0

Source: Center for Business and Economic Research, The University of Alabama.

3,200 jobs), leisure and hospitality (3,000), wholesale trade (2,800), retailing (1,100), and local governments (800). While the job gains are encouraging, growing sectors such as food service and drinking places; ambulatory healthcare and social assistance; and administrative support, waste management and remediation services tend to pay relatively lower wages and offer few benefits, in turn putting downward pressure on wages and thereby restraining consumer and business demand. Over the 12-month period ending in March, a number of other service providing sectors shed significant numbers of jobs. Job losses were seen in state government (5,200); the information sector, including telecommunications (1,800); other miscellaneous services (1,600); professional, scientific, and technical services (1,000); federal government (1,000); insurance carriers (900); real estate and rental and leasing (900); trucking-related transportation services (800); food and beverage stores (500), and general merchandise stores (500 jobs).

Seven of the state's metropolitan areas added jobs from March 2012 to March 2013, including Tuscaloosa (2,900), Mobile (2,800), Montgomery (2,400), Auburn-Opelika (1,700), Birmingham-Hoover (700), Decatur (500), and Florence-Muscle Shoals (300). Metros experiencing job declines over the past year include Dothan (700), Huntsville (600), Anniston-Oxford (200), and Gadsden (200). While Mobile's unemployment rate of 8.0 percent in March 2013 was the highest of the metro areas, it was an improvement from February's 8.9 percent. Auburn-Opelika had the lowest metro unemployment at 5.8 percent, followed by Birmingham-Hoover and Huntsville with 6.0 percent. Although unemployment rates declined in most of the state's 67 counties over the past year, 14 counties are still seeing 10.0 percent or higher unemployment. Wilcox County's 16.4 percent was the highest rate, while Shelby County's was the lowest at 4.7 percent.

Alabama Employment Level Compared to the Beginning of Each Recession
(Number of Months)



Source: Alabama Department of Labor.

Alabama Nonfarm Employment Change in Number of Jobs

	March 2011 to March 2012	March 2012 to March 2013
Total Nonfarm Employment	14,900	6,900
Natural Resources and Mining	400	100
Construction	-1,200	-3,100
Manufacturing	5,100	5,800
Durable Goods Manufacturing	6,300	4,200
Nondurable Goods Manufacturing	-1,200	1,600
Trade, Transportation, and Utilities	2,800	3,600
Wholesale Trade	1,000	2,800
Retail Trade	100	1,100
Transportation, Warehousing, Utilities	1,700	-300
Information	-300	-1,800
Financial Activities	-100	-100
Professional and Business Services	4,000	3,200
Educational and Health Services	2,400	3,200
Leisure and Hospitality	4,400	3,000
Other Services	1,600	-1,600
Government	-4,200	-5,400
Federal Government	-1,200	-1,000
State Government	-2,000	-5,200
Local Government	-1,000	800

Source: Alabama Department of Labor and Center for Business and Economic Research.

Exports. According to the U.S. Department of Commerce's International Trade Administration, Alabama exports rose 9.4 percent in 2012 to \$19.5 billion, an increase of about \$1.7 billion from the previous year. At that level, exports accounted for approximately 11 percent of the state's GDP. Exports to Canada, Alabama's largest trade partner, increased from \$3.3 billion in 2011 to \$3.9 billion for 2012. Other major destinations for Alabama exports in 2012 were Germany (\$2.5 billion), China (\$2.4 billion), Mexico (\$2.0 billion), Japan (\$795 million), the United Kingdom (\$693 million), Brazil (\$641 million), and South Korea (\$467 million). Exports to both Brazil and South Korea were below their 2011 levels.

Shipments of transportation equipment, the state's top export product, rose by \$1.6 billion to \$7.65 billion in 2012, an increase of 27.0 percent. Other major exports in 2012 were chemicals (\$2.6 billion), minerals and ores (\$1.8 billion), primary metals (\$1.4 billion), machinery (\$1.0 billion), paper products (\$882 million), and computer and electronic products (\$588 million).

Tax Receipts. For the first six months of the current fiscal year (FY2013), Alabama tax revenues totaled almost \$4.6 billion, up 3.2 percent, or slightly over \$143 million, from the same period in FY2012. That compares to a 3.5 percent increase seen for the same period a year earlier. Sales tax revenues rose 0.7 percent (about \$6 million) to

approximately \$992 million. During the same six months of FY2012, sales tax revenues climbed 6.6 percent, suggesting that consumers are feeling the impact of higher payroll taxes this year. At around \$207 million, corporate income tax receipts were \$262 million above receipts for the first six months of FY2012, an increase of about 12 percent. Individual income tax revenues rose 4.7 percent, up \$77 million to \$1.7 billion.

For the first six months of FY2013, appropriations to the Alabama Education Trust Fund, which are primarily funded from income and sales taxes, increased by only \$10.7 million or 0.4 percent and totaled about \$2.7 billion. At the same time, appropriations to the state's General Fund, directed toward noneducation-related spending, declined by approximately \$121 million to about \$832 million, a drop of 12.7 percent.

Outlook for 2013

Inflation-adjusted Alabama GDP should grow by about 1.8 percent in 2013, with transportation equipment manufacturing being one of the fastest growing industries. Demand for vehicles produced in Alabama should stay strong in 2013 and production is expected to continue at its current level.

Nonfarm employment is forecasted to rise 0.7 percent during the year, adding between 10,000 and 15,000 jobs. Most job gains will be in business and healthcare-related services and among transportation equipment manufacturers. An improving residential and commercial real estate market could support additional payrolls in primary and fabricated metals and wood products manufacturing. But with sluggish growth in consumer spending, payroll gains in the leisure and hospitality sector, including restaurants and other food service establishments, are expected to be weaker than in 2012.

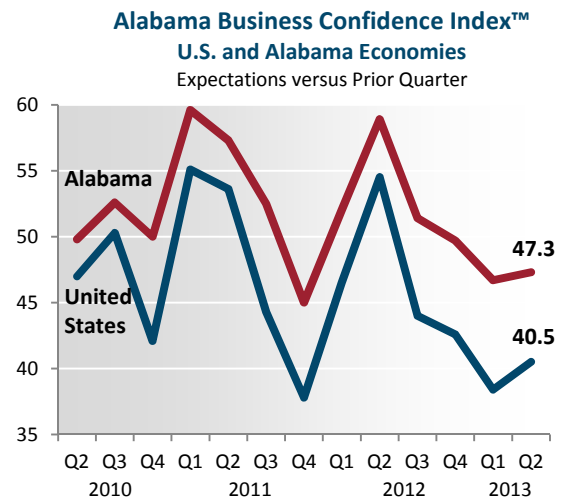
The recent decline in the state's unemployment rate has been due to gradual improvement in payrolls combined with a relatively stable civilian labor force. Seasonally-adjusted unemployment was unchanged at 7.2 percent in March as labor force growth began to pick up, a sign that some previously discouraged workers are beginning to rejoin the workforce. However, with consumer spending and business growth still sluggish, and uncertainties about fiscal policies and the implementation of federal healthcare legislation, most employers will remain cautious about new hiring and capital investment.

Business sentiment for the second quarter of 2013, measured by the Center for Business and Economic Research's *Alabama Business Confidence Index™* (ABCI), rose 2.3 points to 47.7, a slightly negative outlook; a year ago the ABCI reading was an optimistic 56.8. Panelists across the state were most negative about the outlook for the U.S. economy. In the Huntsville metro area, overall

confidence sank to a series low of 35.6. Removing Huntsville from the calculation, the ABCI for the state registered a mildly optimistic 51.8.

For the state as a whole, business executives see the Alabama economy performing much better than the nation's. The index for industry sales expectations rose 3.5 points to 53.9 on the third quarter survey, while the profits component index increased 2.3 points to a neutral 50. However, both hiring and capital investment are likely to be slightly weaker than in the first quarter; the hiring index is at 46.8 and capital expenditures registered 47.7.

Among the metro areas tracked by the ABCI survey, Montgomery had the highest confidence index of 53.3 this quarter, followed by Birmingham-Hoover at 52.7, and Mobile with an ABCI of 51.4. (For ABCI reports on the state and metro areas, go to <http://cber.cba.ua.edu/abci>.)



Source: Center for Business and Economic Research, The University of Alabama.

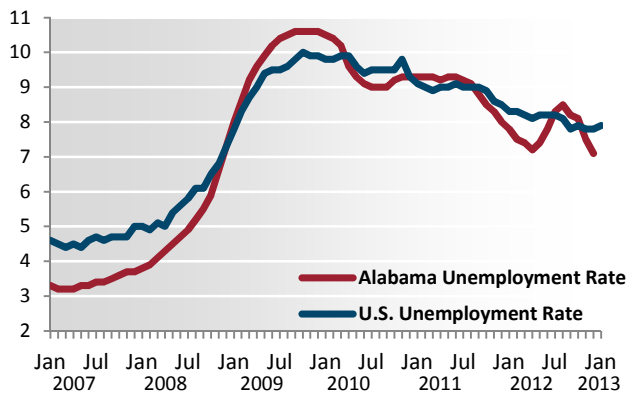
United States

The U.S. economy slowed significantly, growing just 0.4 percent, during the fourth quarter of 2012, after expanding at a modest pace through most of last year. GDP growth accelerated in the first quarter of 2013, with an estimated increase of 2.5 percent. However, gains are forecasted to revert back to about 0.5 percent in the second quarter as the effects of the sequester and higher payroll taxes become more evident. Fourth quarter growth was dragged down by weak increases in private inventories, which bounced back for a positive impact in the first quarter. Slowing inventory accumulation in the second quarter of 2013 is likely to have a negative impact once again.

Other factors pointing to weaker growth in the second quarter include a drop in consumer confidence in March and the biggest decline in orders for durable goods seen

in nearly seven months. According to the U.S. Department of Commerce, orders for durable goods fell 5.7 percent in March and factory output also declined. The Thomson-Reuters/University of Michigan consumer sentiment index's final April reading dropped to 76.4 from a March level of 78.6. The current conditions index fell to 89.9 from 90.7 at the end of last month, while the expectations index dropped from 70.8 to 67.8. The U.S. economy added only 88,000 jobs in March, a significant slowdown from the previous two months. A slight drop in the unemployment rate to 7.6 percent was primarily due to a decline in the labor force.

Monthly Unemployment Rate, 2007-2013
(Seasonally Adjusted)



Source: U.S. Bureau of Labor Statistics.

Consumer spending is expected to increase by about 2.0 percent in the second quarter. Despite slow income growth, consumers are continuing to take on more nonmortgage debt, which could become burdensome for some households. There are positive signs—inflation remains under control, gasoline prices are gradually falling, and housing markets are slowly improving. According to current estimates, business spending was essentially flat in the first quarter of 2013. However, overall business spending could increase by 6.5 percent in the second quarter, while spending on equipment and software is expected to rise by over 10 percent. Expenditures on information processing equipment will be relatively strong, increasing almost 10 percent. Spending on commercial and healthcare-related structures remains a weak spot in the economy and only a 1.6 percent increase is expected in the second quarter.

With modest GDP growth projected for 2013 and still relatively tight lending conditions, particularly for commercial real estate, most businesses are expected to remain cautious in their capital spending and hiring. Although the economy will continue to add jobs in the coming months, the pace of job creation is forecasted to be fairly sluggish, while the unemployment rate will remain around its current level.

Some of the major risks to U.S. economic growth include not only economic conditions here at home, but also the sluggish growth being experienced by major European economies and Japan. There is a high probability that Europe could fall into a deeper recession, which would have serious consequences for the U.S. economy, particularly the manufacturing sector. The cuts in domestic defense spending will also continue to impede economic growth in 2013. Overall the U.S. economy is expected to grow at an annual rate of 2.0 percent in 2013, slightly below the 2.2 percent rate of expansion seen in 2012.

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Monthly Employment Indicators
(March 2013)

	Not Seasonally Adjusted	Seasonally Adjusted
Alabama		
Civilian Labor Force	2,158,970	2,164,497
Percent Change from Year Ago Level	0.7%	0.4%
Absolute Change from Year Ago Level	14,963	8,135
Employed	2,010,668	2,009,426
Percent Change from Year Ago Level	1.1%	0.5%
Absolute Change from Year Ago Level	20,960	9,288
Unemployed	148,302	155,071
Percent Change from Year Ago Level	-3.9%	-0.7%
Absolute Change from Year Ago Level	-5,997	-1,153
Alabama Unemployment Rate	6.9%	7.2%
Unemployment Rate (March 2012)	7.2%	7.2%
U.S. Unemployment Rate	7.6%	7.6%
Unemployment Rate (March 2012)	8.4%	8.2%

Source: Alabama Department of Labor, Labor Market Information Division.

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.