

Economic Outlook: Fourth Quarter 2014

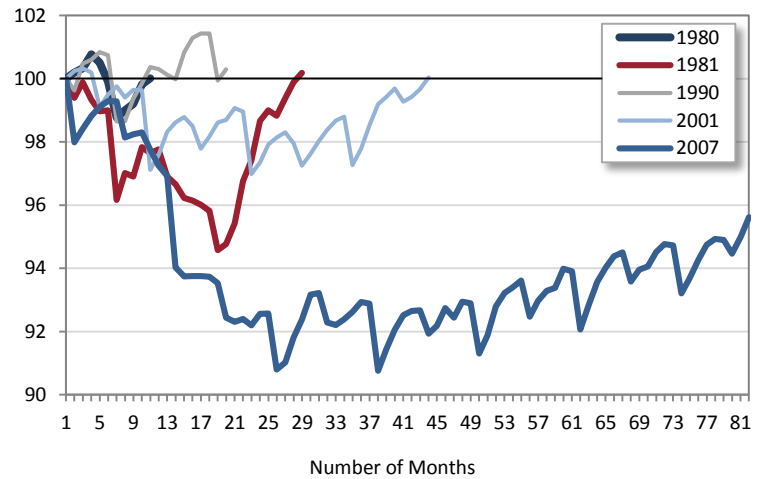
Alabama

Highlights

- The state added 31,600 nonfarm jobs from September 2013 to September 2014, one of the highest payroll gains for a 12-month period since the beginning of the recession in December 2007.
- Seasonally adjusted, total employment of Alabama residents was down 13,161 to 1,978,404 in September 2014. Over the same 12-month period, the labor force also shrank, declining by 9,082 to 2,119,078. With employment falling faster than the labor force, the number of unemployed Alabamians increased from 136,595 in September 2013 to 140,674 in September 2014 and unemployment rose from 6.4 to 6.6 percent.
- Total nonfarm employment is forecasted to increase by around 1.1 percent in 2014, with the addition of 25,000 to 30,000 jobs. Strongest gains will be in transportation equipment-related manufacturing, professional and business services, health services, and food services and drinking places.
- Overall, the state's economy is estimated to expand by 1.5 to 2.0 percent in 2014, a slightly faster pace of growth than in 2013.
- After increasing by 1.3 percent in Fiscal Year 2013-2014, state tax revenues are expected to grow by 1.5 to 2.0 percent in FY2015.

Employment. Compared to its peak of 2,026,700 in December 2007, Alabama nonfarm employment was 88,900 lower at 1,937,800 in September 2014. From September 2013 to September 2014, the state gained a total of 31,600 jobs, one of the fastest paces of job growth in a 12-month period since the U.S. economy dipped into recession in December 2007.

Alabama Employment Level Compared to the Beginning of Each Recession
(Percent of Prerecession Employment)



Goods producing businesses added 11,000 workers during the 12 months ending in September 2014, while service providing firms gained 20,600. Within the goods producing sector, manufacturing added 7,900 workers and construction had a net gain of 2,800. All industries included in the construction sector increased their payrolls, with building construction experiencing a net gain of 1,700. In manufacturing, durable goods producers added 6,400 positions and nondurable goods producers created 1,500 jobs.

Manufacturing industries experiencing payroll increases included: transportation equipment (2,300), primarily in motor vehicle parts manufacturing; primary and fabricated metal (1,200); computer and electronic products (500); animal slaughtering and processing (300);

Alabama Forecast

(Annual Percent Change)

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

	2012	2013	2014	2015
Real GDP	2.4	0.8	1.5	2.3
range			1.0 to 2.5	2.0 to 3.5
Employment	0.7	0.5	1.1	1.2
range			0.3 to 1.5	0.8 to 1.5
Total Tax Receipts, FY	3.8	4.0	1.3	2.0
range				1.5 to 4.0

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



and rubber and plastics (300). Several industries continued to shed jobs, including: paper manufacturing (1,100); textiles, apparel and textile product mills (1,000); electrical equipment appliance and component manufacturing (200); and wood products manufacturing (100). A general slowdown in the global economy was one of the factors responsible for these job losses.

Job growth among service providing businesses also picked up in the second half of this year. For the 12-month period ending in September, employment gains were primarily associated with food services and drinking places (10,000); professional and business services (7,900), largely in administrative support and waste management and remediation services; educational services (1,900); transportation and warehousing (1,100), although trucking-related transportation businesses lost 700 workers; social assistance (1,000); wholesale trade (800); and financial activities (400), with insurance carriers adding around 600 jobs.

The largest job losses in services were associated with retailers (2,000), where results were mixed—while general merchandise stores shed 1,200 workers, motor vehicle and parts dealers added 1,500 jobs. Over the September 2013 to September 2014 period, federal government entities in the state lost 1,000 jobs, but state and local governments added 2,100 workers, with most new jobs likely related to educational institutions.

Most of Alabama's 11 metropolitan areas added jobs from September 2013 to September 2014. The largest job gains were experienced in Birmingham-Hoover and Tuscaloosa, with each metro adding 4,000 jobs. Other areas seeing increases included: Huntsville (2,100 jobs); Auburn-Opelika (1,800); Montgomery (600); Dothan, Gadsden and Mobile (500 each); and Florence-Muscle Shoals (300). However, the Anniston-Oxford area lost 900 jobs and Decatur nonfarm employment fell by 500. At 7.0 percent, Mobile had the highest metro area unemployment rate in September, down from 7.5 percent a year ago, while Auburn-Opelika's was the lowest at 4.5 percent, just slightly below its year-ago level of 4.8 percent.

Although some of the state's 67 counties experienced significant declines in unemployment rates from year-ago levels, eight counties still had rates of 10.0 percent and over. September unemployment was highest in Wilcox County at 13.9 percent, while Shelby County's rate was the lowest at 4.3 percent.

Exports. According to the U.S. Department of Commerce's International Trade Administration, Alabama exports declined slightly during the first half of 2014, slipping from \$9.686 billion during the first half of 2013 to \$9.673 billion. Exports to Canada fell from \$2.2 billion

Alabama Nonfarm Employment Change in Number of Jobs

	Sept. 2012 to Sept. 2013	Sept. 2013 to Sept. 2014
Total Nonfarm Employment	15,500	31,600
Natural Resources and Mining	-700	300
Construction	-200	2,800
Manufacturing	5,000	7,900
Durable Goods Manufacturing	4,400	6,400
Nondurable Goods Manufacturing	600	1,500
Trade, Transportation, and Utilities	3,500	-300
Wholesale Trade	900	800
Retail Trade	1,700	-2,000
Transportation, Warehousing, Utilities	900	900
Information	-100	-300
Financial Activities	300	400
Professional and Business Services	-1,700	7,900
Educational and Health Services	3,000	3,100
Leisure and Hospitality	5,800	9,000
Other Services	100	-300
Government	500	1,100
Federal Government	-1,700	-1,000
State Government	1,700	500
Local Government	500	1,600

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

to \$2.1 billion while exports to China, now the state's second largest trading partner, rose from \$1.2 billion to \$1.5 billion. During the first six months of the year, exports to Mexico totaled \$1.148 billion, Germany (\$1.120 billion), South Korea (\$354 million), the United Kingdom (\$322 million) and Japan (\$287 million).

Shipments of transportation equipment, the state's top export product, rose by \$215 million to approximately \$4.3 billion in the first half of 2014, compared to year-ago levels. Other major exports in the first six months of 2014 were chemicals (\$1.3 billion), primary metals (\$676 million), minerals and ores (\$616 million), nonelectrical machinery (\$438 million), paper products (\$367 million), and computer and electronic products (\$326 million).

Tax Receipts. For Fiscal Year (FY) 2014, which ended in September, Alabama's tax revenues totaled around \$9.4 billion, up 1.3 percent (over \$117 million) from the previous fiscal year. Sales tax revenues rose 2.6 percent (about \$53 million) to approximately \$2.1 billion. At around \$469 million, FY2014 corporate income tax receipts were 4.2 percent higher than FY2013, while individual income tax revenues fell a slight 0.04 percent to about \$3.8 billion.

Appropriations to the Alabama Education Trust Fund in FY2014, primarily funded from income and sales taxes, rose by approximately \$120 million (2.1 percent) to total about \$5.8 billion. At the same time, appropriations to



the state's General Fund, directed toward non-education related spending, grew by \$17.1 million to around \$1.7 billion, an increase of 1.0 percent.

Alabama Outlook for 2014

Inflation-adjusted Alabama GDP should increase by about 1.5 percent in 2014, followed by stronger growth of approximately 2.3 percent for 2015. Nonfarm employment is expected to rise approximately 1.1 percent in 2014, with the addition of about 25,000 to 30,000 new jobs. Most job gains will be in transportation equipment manufacturing; food services and drinking places; administrative support, waste management and remediation services; and healthcare and social assistance.

A gradually improving residential and commercial real estate market is helping the state regain some of the construction jobs that were lost during recent years. However, given relatively sluggish consumer spending and demand conditions, many retailers continue to struggle and to shed jobs. Businesses in the leisure and hospitality sector, which includes restaurants and other food service establishments, are expected to see ongoing growth in payrolls. While some job gains are in higher-wage manufacturing industries, continued strong job gains in sectors of the economy that hire temporary or part-time workers and/or pay relatively low wages contributes to subdued growth in income tax collections and relatively weak consumer demand.

Business sentiment for the fourth quarter of 2014, as measured by the Center for Business and Economic Research's *Alabama Business Confidence Index™* (ABCI), dropped 1.3 points to 54.2, indicating continued modest growth at a slightly slower pace than last quarter. The state's business community is more optimistic than a year ago, when ABCI reading was 51.9. However, business sentiment this quarter is below its prerecession level of 56.8 recorded in the third quarter of 2007. An ABCI reading above 50.0 indicates a positive outlook, while an index value below 50 reflects negative expectations.

Most business leaders remain relatively more optimistic about the Alabama economy than the U.S. economy. For fourth quarter 2014, confidence in the state's economy registered 56.4, while the national outlook reading is 51.6. The index for sales expectations dropped 3.1 points to 56.6, still above the level of 54.3 a year ago. The profits index declined a slight 0.5 points to 54.4. Fourth quarter job trends may not be as strong as in the third quarter—the hiring index is down 2.4 points to a still-positive 52.5. Capital expenditures could pick up modestly, with the index up 1.1 points to 53.7. According to the survey, midsize firms employing 20 to 99 workers are the most optimistic in terms of hiring additional workers and growing sales in the fourth quarter.

Monthly Employment Indicators (September 2014)

	Not Seasonally Adjusted	Seasonally Adjusted
Alabama		
Civilian Labor Force	2,109,922	2,119,078
Percent Change from Year Ago Level	-1.2%	-0.4%
Absolute Change from Year Ago Level	-25,286	-9,082
Employed	1,981,555	1,978,404
Percent Change from Year Ago Level	-0.8%	-0.7%
Absolute Change from Year Ago Level	-15,555	-13,161
Unemployed	128,367	140,674
Percent Change from Year Ago Level	-7.0%	3.0%
Absolute Change from Year Ago Level	-9,731	4,079
Unemployment Rate	6.1%	6.6%
Unemployment Rate (Sept. 2014)	6.5%	6.4%
U.S. Unemployment Rate	5.7%	5.9%
Unemployment Rate (Sept. 2014)	7.0%	7.2%

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

United States

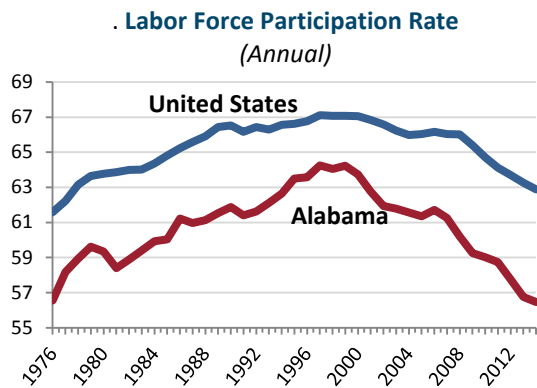
After declining by 2.1 percent in the first quarter of 2014, the U.S. economy expanded at an annual rate of 4.6 percent in the second quarter, an upward revision from an earlier estimate of 4.2 percent and the fastest pace of growth seen in nearly two years. Consumer spending, which accounts for more than two-thirds of economic activity, grew at a 2.5 percent annual rate in the second quarter, twice the 1.2 percent rate of growth seen in the first quarter. However, The Conference Board's Consumer Confidence Index fell 7.4 points in September to 86.0, its lowest level since May.

GDP has expanded at an average annual rate of about 2.2 percent since the end of the Great Recession over five years ago, significantly below the pace of all previous recoveries since WWII. Real GDP is estimated to grow by around 3.5 percent in the third quarter, followed by a 3.0 percent increase for the fourth quarter. For 2014 as a whole, the economy is forecasted to expand by 2.3 percent, followed by growth of 2.5 to 3.0 percent in 2015.

Since the beginning of this year, the U.S. economy has added an average of 227,000 jobs per month, with the unemployment rate at 5.9 percent in September. However, the unemployment rate does not necessarily provide a true picture of the labor markets. With normal growth in the labor force and population, the U.S. economy needs to create around 125,000 jobs a month just to keep up with the increase. Over the past year though, the labor force has grown by only about 390,000



Save the date—Details Coming Soon!



Source: Bureau of Labor Statistics.

Further, since the end of the recession, the labor force participation rate has fallen by 3.0 percent and, at 62.7 percent, is at its lowest level since 1978. If we count the working age population that has given up looking for work, and part-time workers who would rather work full time, the real jobless rate is much higher, perhaps even close to 20 percent. Some of this decline can be attributed to demographics, with many baby boomers taking early retirement due to a lack of job opportunities. Furthermore, also due to limited job opportunities and weak wage growth, many young people of working age are delaying entering the labor force, a trend that has a significant impact on household formation and in turn constrains housing starts and sales.

The national economy will continue to add jobs in the coming months, with the pace of job creation forecasted to remain around 200,000 per month. Most of the jobs created are likely to be in the leisure and hospitality sector and in professional and business services.

Lack of wage growth and the ongoing creation of low wage and part-time or temporary jobs will continue to constrain consumer demand. Consumer spending is estimated to rise by close to 2.0 percent in the third quarter followed by around 3.0 percent in the fourth quarter. Overall growth in consumer spending will be about 2.3 percent in 2014 and 2.8 percent in 2015. At present, consumer spending is primarily being driven by automobile sales and sales of computers and peripherals. New vehicle sales are expected to grow by 5.5 percent for the year, while consumer expenditures on computers and peripherals could increase by 12.0 percent.

Real disposable income, which fell by 0.2 percent in 2013, will rise by approximately 2.5 percent in both 2014 and 2015. Moreover, households are still facing high debt burdens. Despite a decline in overall debt levels in recent years, net nonmortgage consumer debt is on the rise and will continue to grow in 2015. Nonmortgage consumer debt is forecasted to increase from \$3.1 trillion in 2013 to over \$3.3 trillion this year, with its share of disposable income rising from 24.8 percent to 25.3 percent. In addition, a high level of college-related student debt

JANUARY 2015						
SUN	MON	TUE	WED	THU	FRI	SAT
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

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

CBER Director Dr. Sam Addy will look back at how the national, Alabama, and metro area economies fared in 2014 and present the forecasts for 2015. Additional speakers will be announced soon.

We'll let you know when registration is available. Check out information from last year's *Outlook* and conference on our website at <http://cber.cba.ua.edu>.

(over \$3 trillion) dampens both household formation and spending on durables such as household furnishings and automobiles. Stagnant median family incomes are also hampering consumer demand. According to the Census Bureau, as of 2013, median family income has been flat for two years and is currently 8.0 percent below its prerecession level in 2007.

Overall business spending will increase by 6.2 percent in 2014 and by 5.5 percent in 2015. Spending on equipment is expected to climb around 6.7 percent during 2014, although business expenditures for computers and peripherals will drop 1.5 percent. Investment in commercial and healthcare facilities is forecasted to rise by close to 6.0 percent in 2015.

Some of the major risks to economic growth going forward include continuing weak employment gains, particularly in relatively high-paying jobs; further slowdown among global economies; a declining labor force participation rate; and the low level of household formation. On the upside, a drop in energy prices in recent months is expected to provide some relief to consumers. However, lack of growth in federal government spending will curtail both private and state and local government expenditures that depend on federal government programs and contracts.

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