Economic Outlook: Third Quarter 2015

Alabama

Highlights

- The State gained 23,500 jobs from June 2014 to June 2015, as the seasonally adjusted unemployment rate dropped from 6.8 percent to 6.1 percent. The state employed a total of 2,032,508 workers in June 2015, up from 1,991,011 a year ago.

- The number of seasonally adjusted unemployed, based on the much smaller household survey, declined from 144,605 in June 2014 to 132,906 in June 2015. Civilian labor force in the state rose from 2,135,616 to 2,165,414 during this period. An expanding labor force generally results in an increase in the unemployment rate.

- Total nonfarm employment is forecasted to increase by about 1.3 percent in 2015, with transportation equipment manufacturing, professional and business services, and leisure and hospitality related businesses adding the most to their payrolls.

- The state’s economy is estimated to grow by approximately 2.2 percent, slightly higher than the 2.0 percent growth rate seen in 2014.

- After increasing by about 1.3 percent in fiscal year 2014, state tax revenues are expected to grow by around 4.0 percent in fiscal year 2015.

Employment

After peaking in December 2007 at 2,026,700, the state currently employs 1,952,800 nonfarm workers - 73,900 below its pre-recession level, as the state continues to make gradual gains in payrolls. Over the twelve-month period ending in June 2015, the state gained a net 23,600 jobs, 2,500 from goods producing firms and 21,100 from services providing firms. The state’s construction industry added 4,000 workers during the twelve-month period ending in June 2015, with both building construction and specialty trade contractors adding 1,600 jobs each while heavy and civil engineering construction related firms added 800 to their payrolls. Overall, manufacturing industries in the state experienced a net loss of 600 jobs, primarily due to the 1,200 jobs lost in nondurable goods producing industries. Durable goods producing businesses, however, added 600 jobs. Manufacturing has experienced above average growth in payrolls in recent years. The current downturn is most likely due to inventory build-up from earlier in the year along with slowing demand in overseas markets.

From June 2014 to June 2015, durable goods industries in the state added 600 workers. Job gains within these industries were associated with motor vehicle parts manufacturing (1,300), motor vehicle manufacturing (700), wood product manufacturing (200), and furniture and related products manufacturing (100). Payrolls in the remaining durable goods producing firms fell with primary and fabricated metals.

Alabama Forecast (Annual Percent Change)

<table>
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<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
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<tr>
<td>Real GDP</td>
<td>2.0</td>
<td>2.0</td>
<td>2.2</td>
<td>2.5</td>
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<td></td>
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<td></td>
<td>1.5 to 3.0</td>
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<tr>
<td>Employment</td>
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<td>0.7</td>
<td>1.3</td>
<td>1.4</td>
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<tr>
<td></td>
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<td>0.5 to 2.0</td>
<td>0.8 to 1.5</td>
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<tr>
<td>Total Tax Receipts, FY</td>
<td>4.0</td>
<td>1.3</td>
<td>4.0</td>
<td>3.7</td>
</tr>
<tr>
<td></td>
<td>range</td>
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<td>2.5 to 4.8</td>
<td>1.5 to 4.0</td>
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Source: Center for Business and Economic Research, The University of Alabama.
Consumer spending resulted in a 3.7 percent increase in sales taxes. For the first nine months of the fiscal year, sales tax receipts totaled $1.6 billion, an increase of $57 million over the first nine months of the last year.

Within the services providing firms, job gains were predominantly associated with healthcare and social assistance (5,200); accommodation and food services (4,500); administrative support, waste management and remediation services (3,500); motor vehicle and parts dealers (2,000); general merchandise stores (1,100), finance and insurance (1,100); information (800); and transportation and warehousing (500). Over the twelve month period ending in June 2015, wholesale trade related businesses had a net loss of 1,700 workers. Meanwhile in professional and business services, computer system design and related services laid-off 1,000 workers and professional, scientific and technical services had 600 fewer workers compared to a year ago. Payrolls in the government sector rose by 2,700 from June 2014 to June 2015.

Among the state’s 12 metropolitan areas, job gains were experienced in Birmingham-Hoover (6,900), Huntsville (3,700), Tuscaloosa (2,700), Daphne-Fairhope-Foley (1800), Montgomery (1,800), Auburn-Opelika (1,200), Dothan (900), Gadsden (700), and Anniston (300). Metro-areas that lost jobs over the twelve months ending in June 2015 included Florence-Muscle Shoals (1,200), Mobile (700), and Decatur (100). The Florence-Muscle Shoals metro-area had the highest unemployment rate at 8.1 percent while Daphne-Fairhope-Foley had the lowest at 5.5 percent. Among the cities in the state, Selma had the highest unemployment rate at 13.1 percent and Vestavia Hills had the lowest at 4.0 percent. County unemployment rates also continued to vary significantly in June 2015, from a high of 16.1 percent in Wilcox County to Shelby County’s statewide low of 4.6 percent.

During the first nine months of the current fiscal year (FY2015), total tax revenues were up 4.1 percent, an increase of about $293 million from the same period in the previous fiscal year. Individual income tax receipts rose 5.1 percent to approximately $3.1 billion while corporate income taxes were up 21.2 percent to total $426 million, up from $352 million in the previous fiscal year. Improvement in both business and consumer spending resulted in a 3.7 percent increase in sales taxes. For the first nine months of the fiscal year, sales tax receipts totaled $1.6 billion, an increase of $57 million over the first nine months of the last year.

For the same period, appropriations to the Alabama Education Trust Fund increased 3.8 percent ($162.3 million) to $4.5 billion, compared to the same period last year. Appropriations to the State General Fund during the first nine months of the current fiscal year increased by 6.1 percent or $73.3 million compared to the first nine months of the previous fiscal year, totaling approximately $1.3 billion.

Exports

The state exports rose from $4.6 billion during the first three months of 2014 to about $4.7 billion during the first three months of 2015. Annual exports in 2014 increased $226.5 million to total $19.5 billion. Canada remained the state’s largest export market in 2014 with exports totaling $4.3 billion. During the first three months of 2015, exports totaled slightly over $1.0 billion, an increase from approximately $925 million during the first three months of 2014. Over the last four years, exports to China have risen dramatically, making it Alabama’s second largest export market. Exports to China now surpass exports to both Mexico and Germany. From 2013 to 2014, total exports rose $698 million to total $3.2 billion. During the first three months of 2015, exports were about $272 million, up from $597 million for the same period in 2014. Exports to Mexico and Germany during the first three months of 2015 totaled approximately $695 million and $504 million respectively.
The transportation equipment manufacturing sector continues to remain the state's largest exporter. From 2013 to 2014, these exports rose $317 million to $8.7 billion. During the first three months of 2015, transportation exports from Alabama totaled almost $2.0 billion, up from about $1.9 billion for the same period a year ago. For the first three months of 2015, other major exports from the state included chemicals ($590 million), primary metals ($487 million), mineral and ores ($278 million), nonmetallic machinery ($227 million), and paper products ($175 million). A general slowdown in the economies of the state's trading partners continues to have an impact on local manufacturers, resulting in a slight decline in some exports during the first three months of 2015 compared to the same period the year before.

Nonfarm employment is forecasted to rise by 1.3 percent, adding 25,000 jobs across the state during 2015. The strongest percentage increases in employment are likely to be associated with motor vehicle and parts and other transportation equipment related industries. Among service providing sectors, output gains will be strongest among professional and business services firms, particularly those engaged in administrative support, waste management services and remedial services. The healthcare and social assistance sector of the economy is also expected to grow at a relatively faster pace.

Overall, the state's economy will continue to expand at its current pace (around 2.0 percent) in the second half of the year, although we could see a slight slowdown as indicated by business sentiment for the third quarter 2015 as measured by the Center for Business and Economic Research's quarterly Alabama Business Confidence Index™ (ABCI). The overall index was down 2.8 points to 54.8 - below the 55.5 index reading of a year ago. Most of the survey panelists were relatively more optimistic about the state's economy than the U.S. economy. The index for Alabama dropped 1.8 to a still confident 56.6, while the index for the national economy declined 5.8 points to a barely positive 50.7. An index reading above 50.0 indicates expansion while a reading below 50.0 signals a contracting economy. The indexes for industry sales and profits were down 3.2 and 1.1 points to 58.3 and 55.7, respectively. The index for hiring also declined 3.2 points to 53.9. Alabama businesses are, however, relatively more optimistic about capital spending. The index for expected business investment registered 53.2 for the third quarter of 2015, 2.2 points above the previous quarter. For the detailed results of the index please go to (http://cber.cba.ua.edu/abci/results/ABCI_Q3_2015.pdf).

Overall, the state's economy will continue to grow at a moderate pace in 2015. Although payroll growth has shown some slowdown, it will likely improve over the second half, with some sectors of the economy showing above average rates of growth. The state's economy is expected to grow by 2.0 to 2.5 percent in the second half of the year, compared to the 2.5 to 3.0 percent growth expected for the U.S. economy.
only modestly. Sluggish labor force and productivity growth, together with a low labor force participation rate produced a 1.5 to 3.0 percent GDP growth. This is below its historical level of potential growth and may be the new norm. Economic growth since the recession in 2009 continues to remain sluggish as the U.S. economy continues the weakest recovery since World War II.

Consumer Spending

Consumer spending, which accounts for almost two-thirds of the U.S. economy, increased 2.9 percent in the second quarter, and is expected to increase by 3.0 percent for the remainder of the year. Expenditures on durable and nondurable goods rose 7.3 and 3.6 percent in the second quarter, respectively. With improving personal income, spending on durable goods will increase by 7.5 to 8.0 percent in the third and fourth quarters. Spending on nondurable goods, such as food, shelter and apparel, is forecasted to rise by 4.0 percent and 3.8 percent in the third and fourth quarters, respectively. Expenditures on services increased by 2.1 percent in the second quarter and will increase 2.5 percent in the third quarter, followed by a 2.4 percent increase in the fourth quarter.

Investment

Inflation adjusted nonresidential business spending declined by 0.6 percent in the second quarter but should increase 5.0 percent in the third quarter, followed by 6.5 percent in the fourth quarter. Business spending on information processing equipment should rise by approximately 10.0 percent in the second half of the year—after a 4.1 percent drop in the second quarter. Real residential fixed investment, which includes both home construction and sales, will rise by about 10.0 percent in the second half of the year. The sale of existing homes to first-time home buyers reached a five-year high in May. The $5.35 million unit annual rate is the highest level of first-time purchases since June 2010. New home sales also reached an annual rate of 546,000 units—a seven-year high. One of the weakest sectors of the economy is currently the energy sector. Mining and petroleum related investment on structures dropped 44.5 percent in the first quarter of 2015 and dropped another 68.2 percent in the second quarter. For the remainder of the year, these investments could drop another 15.0 to 20.0 percent and no real turnaround is expected until perhaps the second quarter of 2016.

Employment

Payroll employment increased by 223,000 in June, contributing to a three-month average increase of 221,000 in the second quarter of 2015. Job growth is expected to be around a monthly average of 200,000 per month, which should help consumer demand. Consumers will remain cautious, however, as most of the jobs added will be in low-wage sectors. Payrolls in mining related industries dropped 4,000 in June. During the last six months the sector has lost 71,000 workers with most of the losses among support activities. Employment in other major industries: construction, manufacturing, wholesale trade, information, and government, showed little or no change in June.

34,000 per month over the prior 12 months. Retailers have added about 300,000 jobs over the year, gaining 33,000 jobs in June - 10,000 of these in general merchandise stores. Payrolls in financial activities increased by 20,000. These sectors have added 159,000 jobs over the year, with the insurance industry accounting for about half of the gains. Employment in food services and drinking places continued to rise in June (30,000) and has increased by 355,000 over the year.

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The U.S. economy is forecasted to grow at a slightly faster pace in the second half than it did in the first. Payroll growth will continue to average around 200,000 per month, which should help consumer demand. Consumers will remain cautious, however, as most of the jobs added will be in the low wage sectors. The Federal Reserve Bank will most likely raise interest rates after their September meeting. The increase in interest rates is, however, expected to be very slow depending on the reaction of some sectors of the economy to tighter monetary policy—particularly housing and durable goods spending. Cutbacks in mining and petroleum related capital spending will continue to remain a drag on the economy, however these appear to be bottoming out. Any new investment on energy related structures will continue to remain muted. With both stock prices and home prices rising, household net worth reached $84.9 trillion in the first quarter, surpassing its 2007 prerecession peak by 25.0 percent, 12.0 percent in inflation adjusted terms, which should continue to provide stimulus to consumer spending for the near future.

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**Center for Business and Economic Research**

**Labor Force Participation Rate**

(Annual)

![Labor Force Participation Rate Chart]

Source: Bureau of Labor Statics.

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