



# Economic Outlook Update: MARCH 2016

## ALABAMA HIGHLIGHTS

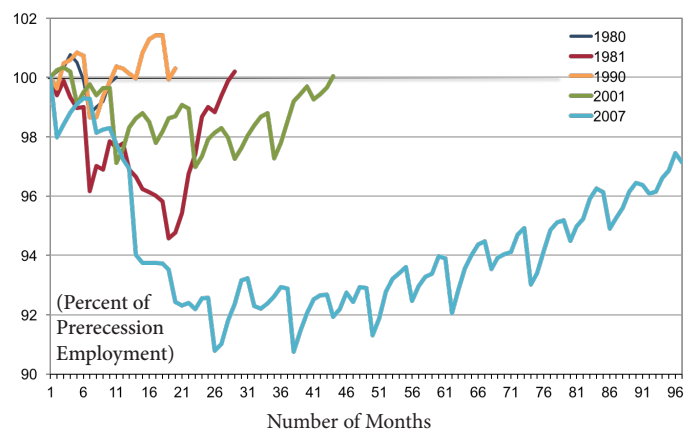
- The State gained 20,600 jobs from December 2014 to December 2015, while the seasonally adjusted unemployment rate rose slightly from 6.1 percent to 6.2 percent. The state employed a total of 1,968,800 workers in December 2015, up from 1,948,200 a year ago.
- The number of seasonally adjusted unemployed, based on a survey of households, also rose from 129,625 in December 2014 to 132,907 in December 2015. During this period, labor force participation increased from 2,130,694 to 2,154,771. This partially explains the slight uptick in the unemployment rate over the twelve month period.
- Total nonfarm employment is forecasted to increase by about 1.0 percent in 2016, with transportation equipment manufacturing, professional and business services, healthcare and related services, and leisure and hospitality sectors adding the most workers to their payrolls, albeit at a slight slower pace than in 2015.
- Overall, the state's economy is estimated to grow by approximately 2.3 percent in 2016. This is at approximately the same pace as seen in 2015 (2.4 percent).
- After increasing by 4.0 percent in fiscal year 2014-2015, state tax revenues are expected to grow by around 3.3 percent in FY2016.

## EMPLOYMENT

After peaking in December 2007 at 2,026,700, the state currently employs 1,968,800 nonfarm workers — 57,900 below its level prior to the recession. Alabama continues to make modest gains in payrolls. Over the twelve month period ending in December 2015, the state

gained a net of 20,600 jobs. Among goods producing firms, payroll employment remained flat while services providing firms gained the entirety of the 20,600 net new jobs. Overall, construction payrolls rose 4,000 for the year, with heavy and civil engineering adding 1,800; specialty trade contractors adding 1,400; and building construction adding 800. Manufacturing industries in the state experienced a net loss of 2,700 workers while mining and other natural resources related firms lost 1,300 for the year.

## Alabama Employment Level Compared to the Beginning of Each Recession



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

From December 2014 to December 2015, durable goods manufacturing had a net loss of 1,600 workers. These losses were associated with primary and fabricated metals (2,200); furniture and related products (200); and machinery manufacturing (100). Industries adding to their payrolls over this period were motor vehicle parts manufacturing (1,300); motor vehicle manufacturing

## Alabama Forecast (Annual Percent Change)

	2014	2015	2016	2017
<b>Real GDP</b>	<b>2.0</b>	<b>2.4</b>	<b>2.3</b>	<b>2.2</b>
range		1.8 to 2.5	1.5 to 3.0	1.0 to 3.5
<b>Employment</b>	<b>1.1</b>	<b>1.2</b>	<b>1.0</b>	<b>0.9</b>
range		1.0 to 1.4	0.8 to 1.5	0.5 to 1.5
<b>Total Tax Receipts, FY</b>	<b>1.3</b>	<b>4.0</b>	<b>3.3</b>	<b>2.5</b>
range			2.0 to 4.5	2.0 to 4.5

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

(300); and wood product manufacturing (200). Payrolls in all remaining industries remained flat. Nondurable goods manufacturing in the state also experienced a net loss of 1,100 jobs, with only plastics and rubber products manufacturing adding 200 workers. All of the remaining industries experienced net losses: food manufacturing (1,300); textile mills, textile product mills, and apparel manufacturing (1,100); and paper manufacturing (100). The pace of job losses quickened during the second half of the year.

In the services providing sector, job gains were predominantly associated with educational and health services (5,100); leisure and hospitality (4,800), mostly in accommodation and food services (4,700); retailing (3,900), mostly in motor vehicles and parts dealers (1,600); professional and business services (2,900), with professional, scientific and technical services adding 1,800 jobs. The state's financial sector also experienced a net gain of 2,400 workers while transportation, warehousing and utilities added 1,700 jobs. Overall, the government sector had a net loss of 200 workers, with payrolls in state government institutions remaining flat, federal government gaining 600 jobs, and local government entities losing 800 jobs.

For the one-year period ending December 2015, the state's metropolitan areas that experienced job gains included Birmingham-Hoover (5,400), Huntsville (2,800), Tuscaloosa (2,500), Daphne-Fairhope-Foley (2,000), Mobile (1,100), Montgomery (900), Auburn-Opelika (700), Decatur (300), Dothan (300), and Anniston-Oxford-Jacksonville (100). Florence-Muscle Shoals lost a net total of 1,300 jobs while employment in Gadsden remained flat. Alabama's non-metro areas gained 5,800 jobs.

As of December 2015, Florence-Muscle Shoals and Mobile metro-areas had the highest unemployment rate in the state at 6.8 percent, while Auburn-Opelika had the lowest at 4.9 percent. Among the state's 67 counties, only five counties had an unemployment rate of 10.0 percent or more; Wilcox had the highest unemployment rate at 15.3 percent while Shelby enjoyed the lowest at 4.1 percent. Among the cities in the state, Selma had the highest unemployment rate at 10.2 percent while Vestavia Hills had the lowest at 3.3 percent. ■

## TAX RECEIPTS

During the first five months of the current fiscal year (FY2016), total tax revenues were up by 1.7 percent, an increase of approximately \$69 million from the same period in the previous fiscal year. Individual income tax receipts rose 4.8 percent to approximately \$1.6 billion while corporate income taxes were down 31.7 percent, totaling \$137 million. Sales tax revenue was up 4.2 percent, totaling approximately \$916 million — an increase of \$37 million over the first five months of the previous fiscal year.

## Alabama Nonfarm Employment

Change in Number of Jobs

	December 2013 to December 2014	December 2014 to December 2015
<b>Total Nonagricultural</b>	<b>24,500</b>	<b>20,600</b>
Mining and Logging	-300	-1,300
Construction	700	4,000
Manufacturing	2,100	-2,700
Durable Goods Manufacturing	5,000	-1,600
Nondurable Goods Manufacturing	-2,900	-1,100
Trade, Transportation and Utilities	3,900	4,500
Wholesale Trade	300	-1,100
Retail Trade	2,200	3,900
Transportation, Warehousing and Utilities	1,400	1,700
Information	-1,000	300
Financial Activities	0	2,400
Professional and Business Services	4,800	2,900
Educational and Health Services	3,100	5,100
Leisure and Hospitality	6,700	4,800
Other Services	1,200	800
Government	3,300	-200
Federal Government	200	600
State Government	2,300	0
Local Government	800	-800

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

Also during the first five months of FY2016, appropriations to the Alabama Education Trust Fund increased 2.3 percent (\$55 million), compared to the same period the previous fiscal year to reach approximately \$2.4 billion. Appropriations to the state's General Fund during the first five months of the current fiscal year dropped 0.03 percent, or \$222,972, compared to the first five months of the previous fiscal year, to total approximately \$717 million. ■

## EXPORTS

State exports declined by about \$70 million from 2014 to 2015, totaling approximately \$19.4 billion. Canada remained the state's largest export market in 2015, despite a drop of \$200 million from the previous year to total \$4.1 billion. Exports to China again rose slightly in 2015 totaling \$3.2 billion, up from \$3.1 billion the year before. Exports to Mexico totaled \$2.9 billion in 2015 compared to \$2.3 billion in 2014. Other major exports in 2015 included: Germany (\$2.5 billion); United Kingdom (\$609.8 million); Japan (\$519 million); and South Korea (\$464 million).

The transportation equipment manufacturing sector continues to remain the state's largest exporter. Exports from this sector rose from \$7.3 billion in 2014 to approximately \$7.8 billion in 2015, accounting for almost 40 percent of total state exports. For the year, other major exports from the state included: nuclear reactors, boilers, machinery, etc., and parts (\$1.8 billion); iron and steel (\$1.1 billion); plastics and related products (\$931 million); mineral and ores (\$893 million); aircraft and parts (\$647 million); and electrical machinery (\$647 million). Canada was the top destination for vehicles made in Alabama, followed by Germany, Mexico, and the United Kingdom. ■

## OUTLOOK FOR 2016

Automotive manufacturing, aerospace, tourism, healthcare, and biotechnology manufacturing and services employers will be the state's major economic drivers in 2016. Real Alabama GDP is expected to grow at a slightly slower pace in 2016, increasing by a forecasted 2.3 percent to around \$192 billion. Gains in output could be substantially higher than average for manufacturers of motor vehicles, parts, and other transportation equipment. In service providing sectors, output gains will be strongest among professional and business services firms, particularly those engaged in architectural, scientific, and technical services and in administrative, support, and waste management services. Nonfarm employment is forecasted to rise 1.0 percent during 2016, with about 20,000 jobs added across the state. Within the manufacturing sector, the strongest percentage increases in employment are likely to be seen in motor vehicle and parts and other transportation equipment manufacturers. The majority of new jobs, however, will be in services providing businesses. An increase of about 3.3 percent is forecasted for total tax revenues. Although this depends on how the state's economy continues to perform during the first half of the year — growth in tax revenues could be below the current forecast.

Business confidence rose to 53.0 on the first quarter 2016 *Alabama Business Confidence Index™* (ABCI) survey, conducted by the Center for Business and Economic Research in UA's Culverhouse College of Commerce. The index increased 1.8 points but closed at its second lowest level since the first quarter of 2014. Panelists are now less optimistic than a year ago when the ABCI registered 57.4. An index value above 50 indicates positive outlook as compared to the previous quarter. Panelists continue to see expansion in the Alabama economy, but are less optimistic about the national economy. The outlook for the state economy rose to a moderately confident 54.6, while the national economy index remained below the neutral mark at a slightly negative 49.2. Every industry indicator moved higher on the survey and all remain positive. The sales index again tops the list at 55.8, while expectations for capital expenditures, hiring, and profits all rose to easily positive readings. Overall, firms in manufacturing, professional services, miscellaneous services and healthcare are the most optimistic this quarter, all posting index levels of 55.0 or more. Retailers, however, continue to see the economic environment as a negative.

Business executives expect the state's economy to continue its expansion in the first quarter of 2016. At 54.6, the index is up 2.6 points from last quarter, but down 2.8 points compared to a year ago. Almost 33.0 percent of panelists expect stronger economic growth this quarter and approximately 53.0 percent expect the state's economy to perform about the same as last quarter.

The mixed sentiment of ABCI panelists in a broad

range of industries supports the recent preliminary 2016 forecast from the Center for Business and Economic Research. CBER expects the state's economic growth to slow from 2.4 percent in 2015 to 2.3 percent this year. Employment growth is forecasted to decelerate from around 1.2 percent in 2015 to 1.0 percent in 2016, while tax revenues are forecasted to rise 3.3 percent in FY2016 compared to last year's 4.0 percent increase.

## UNITED STATES

U.S. GDP grew by 1.0 percent in the fourth quarter, an upward revision of the first estimate of 0.7 percent, but still half the 2.0 percent growth posted in the third quarter, primarily due to downward revision of business inventories which helped offset weaker consumer spending. Economic growth in the second half of 2015 was modest. With global weakness and the concurrent downturn in financial markets, the U.S. economy could be potentially impacted through the first half of the year. The fourth-quarter figure marked the slowest growth in six months, since the economy skidded to a weak 0.6 percent showing in the first quarter last year. That was followed by a solid rebound to 3.9 percent in the second quarter and then the 2.0 percent gain in the third quarter.

Consumer spending grew at a 2.0 percent rate in the fourth quarter, down from an initial estimate of 2.2 percent. Also weighing on growth in the fourth quarter, was a downward revision of government spending to 0.1 percent rate from a previously estimated rise of 0.7 percent. The Conference Board's Consumer Confidence Index also took a hit in February, plunging 5.6 points to 92.2; most likely reflecting the downturn in financial markets and slowing growth in the second half of 2015. The index was at the lowest level since July 2015 and 6.6 points below its level of a year ago. Both present situation and expectations indexes also dropped, the present situation index fell 4.5 points, to 112.1, while the expectations index declined 6.4 points, to 78.9. The expectations index, which measures expected business conditions six months going forward is also at its lowest level since February 2014. However, with rising home values, low energy prices, modest consumer price inflation, relatively strong employment growth, and rising disposable income, outlook for consumer spending is expected to remain relatively stable in 2016. Most research shows the effect of household real estate wealth on real consumer spending is larger than the effect of stock market wealth on spending.

Business capital spending was sluggish during the second half of 2015 for three reasons: the energy sector continued to cut back on expenditures; the manufacturing sector, hit hard by falling exports and exposure to the energy sector, also continued to cut spending; and falling profits and expected weakening in the economy in 2016 resulted in slowing capital expenditures.

The February employment report showed an increase of 242,000 jobs for the month with the

unemployment rate remaining stable at 4.9 percent and average hourly earnings inching lower. Payroll increases were seen in retailing, education and health services, and leisure and hospitality. Manufacturing employment fell by 16,000 for the month while mining dropped 19,000.

Even accounting for revisions in the fourth quarter, GDP growth for 2015 was 2.4 percent, the same as the previous year. The U.S. economy is forecasted to grow by around 2.5 percent in the first half of 2016. For the year as a whole, the expected growth is 2.3 percent. The chance of U.S. economy going into a recession, however, are slightly higher, at 20 percent probability, than the chance of the current recovery gaining momentum, about 15 percent probability. ■

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**2016 U.S. HIGHLIGHTS**

- Overall consumer spending will rise by about 2.9 percent in 2016, with expenditures on durable good increasing by 6.3 percent while nondurables consumption increase by around 2.7 percent.
- Nonresidential fixed investment is expected to rise 2.5 percent in 2016. There will be a significant slowdown in business spending primarily due to the decline in energy sector related spending. Expenditures for information processing equipment should increase by approximately 7.5 percent, while spending on structures is likely to decline by around 2.0 percent. However, expenditures on commercial and healthcare-related structures will rise by over 12.0 percent in 2016.
- Residential fixed investment is forecasted to grow by about 8.5 percent in 2016, with construction on single family homes rising by over 15.0 percent to around \$217 billion. New home sales could rise from 496,000 in 2015 to 588,000 in 2016.
- Total nonfarm payroll employment is estimated to increase by 1.8 percent, below the 2.1 percent rate seen in 2015, while the unemployment rate is expected to average around 4.8 percent.
- The thirty-year effective mortgage rate will average around 4.0 percent in 2016.

**Alabama Real GDP**

(Percent Change from Preceding Period / millions of chained 2009 dollars )

Industry	2014Q1-Q2	2014Q2-Q3	2014Q3-Q4	2014Q4-2015Q1	2015Q1-Q2	2015Q2-Q3
All industry total	1.1	1.5	-0.3	0.6	0.6	0.6
Private industries	1.3	1.8	-0.3	0.9	0.7	0.6
Agriculture, forestry, fishing, and hunting	2.9	6.9	6.5	50	-0.6	3
Mining	-2.9	-1	4.7	-5.3	-3.7	-2.4
Utilities	1.1	2.6	2.7	-3	-3	0
Construction	-1.2	0.1	1.8	-1.8	2.7	2.4
Manufacturing	0.8	0.1	0.6	-1.2	0.1	0.8
Durable goods manufacturing	2.4	2.4	0.9	-2.2	0.2	0.6
Nondurable goods manufacturing	-1.5	-3.2	0.2	0.2	0.1	1.1
Wholesale trade	1.4	2.9	-0.1	0.5	1.3	-1.7
Retail trade	0.7	0.7	-0.2	-0.3	0.9	1.8
Transportation and warehousing	1.7	2.8	-0.1	-7.6	2.6	-0.1
Information	0.6	-1.2	4.7	0	2.8	-0.4
Finance and insurance	5.8	1.8	-2.9	2.5	1.5	-0.2
Real estate and rental and leasing	1.2	5.6	-6	3.3	0.5	0.2
Professional, scientific, and technical services	1.2	1.5	0	-1	1.1	0.8
Management of companies and enterprises	8.9	9.2	-4.3	4	-0.1	0.9
Administrative and waste management services	3	1.7	2.1	-3.3	1	0.7
Educational services	-0.2	1.7	0.9	-0.7	-1	1.3
Health care and social assistance	1.1	1.1	0.6	2	0.5	1.4
Arts, entertainment, and recreation	0.2	1.9	0.6	11.4	-0.5	1.6
Accommodation and food services	0.6	0.7	-0.1	0.1	0.7	0.5
Other services, except government	1.5	1	0.1	-0.4	0.2	-0.2
Government	0.1	0.1	-0.4	-0.8	0.1	0.2

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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.