

Alabama Business

CULVERHOUSE COLLEGE OF COMMERCE AND BUSINESS ADMINISTRATION
CENTER FOR BUSINESS AND ECONOMIC RESEARCH

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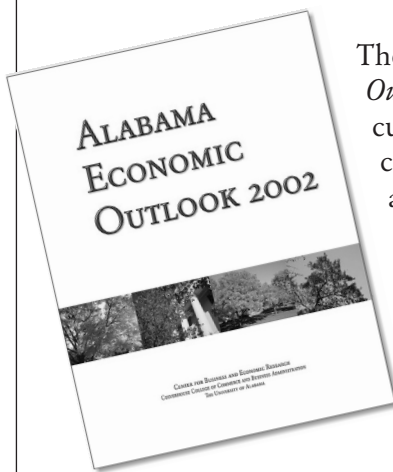
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ALABAMA ECONOMIC OUTLOOK 2002



The *Alabama Economic Outlook 2002* examines current economic conditions and trends and their likely effects on the national and Alabama economies in the coming year.

The Alabama forecast focuses on the short-term outlook for output and employment in the state by sector and presents a look at state revenues. Trends in the state's metropolitan areas are discussed.

The *Alabama Economic Outlook 2002* is the 22nd in an annual series produced by the Center for Business and Economic Research. Copies are \$18 each.

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Economic Outlook Quarterly Update

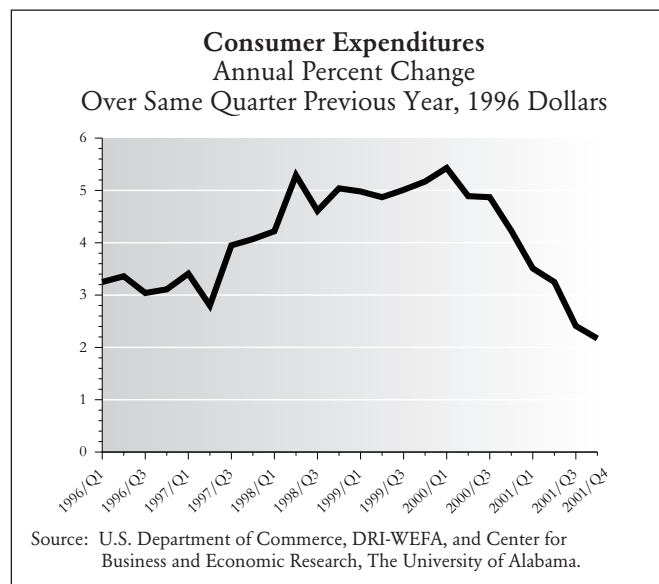
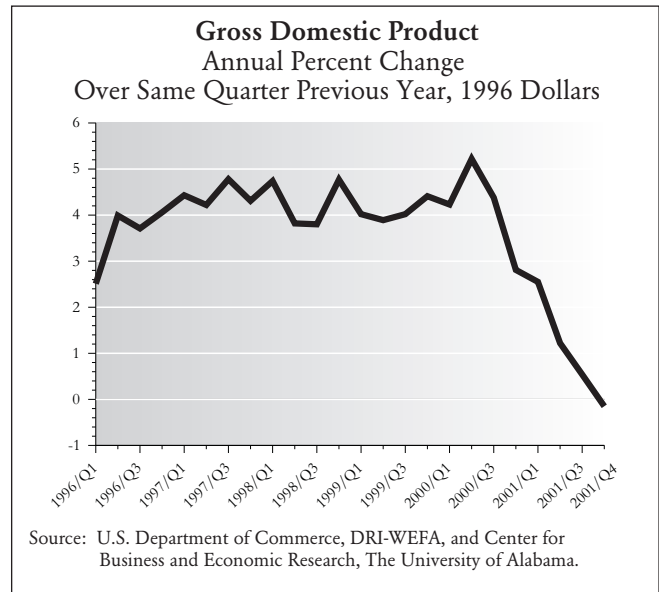
January 2002

United States

Consumers. There are some very visible signs that the U.S. economy is on a path to a modest recovery. Consumer spending has been a big part of the picture. With aggressive price cutting by automobile and other retailers, lower energy prices, mortgage refinancings, and the willingness of consumers to take on further debt, consumer spending actually increased by 5.4 percent in fourth quarter 2001. Instead of paying off some of their debts, which usually happens during recessions, consumers added debt. An explosion in consumer debt in recent years is not confined to the U.S. economy. Consumers all over the developed world have added record amounts of debt in recent years, in some countries even surpassing the debt-to-income ratio in the United States.

Inventories and Production. In the fourth quarter of 2001, firms liquidated inventories at a faster rate than any time since World War II. Inventory cuts in the fourth quarter of 2001 broke the record cuts made in the year's previous three quarters. If spending levels remain on the current track and inventory liquidations are almost over with, it will be just a matter of time before production will have to increase. However, production increases might not be large because consumers really did not cut back on their spending during the downturn, so there is not much pent-up demand for consumer goods. Industrial production has continued its 18-month decline, but that should gradually change. Most of the increased production will be met initially by an increase in number of hours worked rather than an increase in payroll employment.

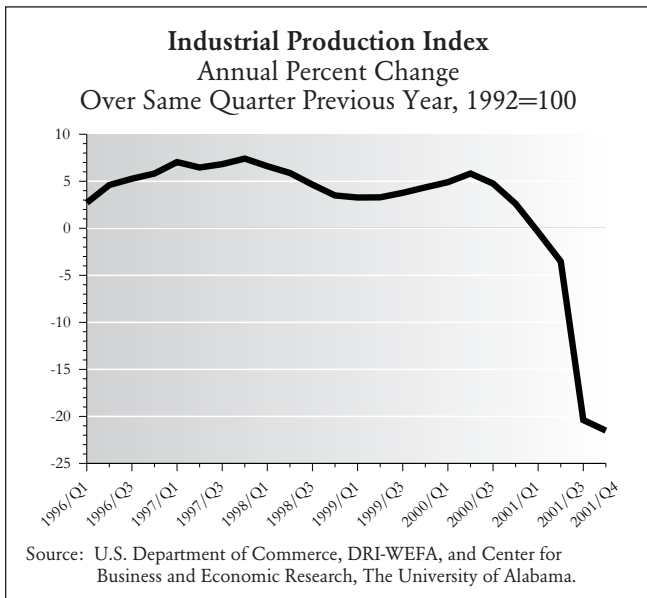
Employment. Although payroll employment is not showing an upturn, employment is a lagging indicator and does not usually show any improvement until an economic recovery is well underway. During the 1990-91 recession, payroll



employment did not turn around until 15 months after the recession had ended.

Employment will continue to shrink at least through the first half of 2002. Most of the employment decline will be in the manufacturing sector, mired with excess capacity and lack of demand in both domestic and foreign markets. For all of last year, manufacturers cut 1.3 million jobs. Currently the capacity utilization rate for manufacturing firms is 72.8 percent, a level not seen in 18 years. Although labor markets are stabilizing, there have been approximately 1.7 million jobs lost since March of 2001, while the unemployment rate has increased from around 4.3 percent at the beginning of the recession to around 5.8 percent in December.

Capital spending. After peaking in 2000, business investment spending has continually declined. That



decline was a major reason for the start of the current recession. Business investment remains weak, despite low interest rates, and is not expected to pick up anytime soon.

Despite gloomy news about employment and capital spending, there are sectors of the economy that are performing well. Both automobile and new home sales continued to rise throughout the recession to complete one of the best years on record. New home sales totaled 900,000 in 2001, surpassing the previous record of 886,000, set in 1998. Combined sales of new and existing homes totaled a record 6.2 million in 2001, exceeding the previous record of 6.1 million, set in 1999, and home builders are optimistic about prospects for the current year. Fourth quarter automobile sales also came in very strong, with 2001 as a whole being the second best year on record. However, some of the increase in vehicle sales was due to incentives and low interest rates offered by manufacturers, which in turn could affect 2002 sales.

The Conference Board's index of leading economic indicators is also indicating a recovery. In November and December the index showed the strongest two-month average gain since 1983. Also, the slope of the yield curve, the difference between long-term and short-term interest rates, is steeply upward. The yield curve is a good predictor of economic cycles and is currently indicating that an economic recovery should be underway. An upward slope of the yield curve indicates an economic recovery, just like the downward sloping yield curve predicted the current recession back in 2000.

Another bright spot in the economy is low inflation, averaging around 1.7 percent in 2001. Although the core rate of inflation (excluding food and energy) continues to decline, rising prices in health care services and food items remain a concern.

Outlook. Our current outlook is for a fairly mild recovery. The national economy is expected to improve slightly in 2002, with consumer spending increasing by approximately 3 percent. The unemployment rate will continue to rise and could possibly reach 6.2 percent. Higher unemployment rates will put a check on prices and will keep wages down. The national economy's strongest growth is expected in health care-related services, residential construction, and government spending, including defense expenditures.

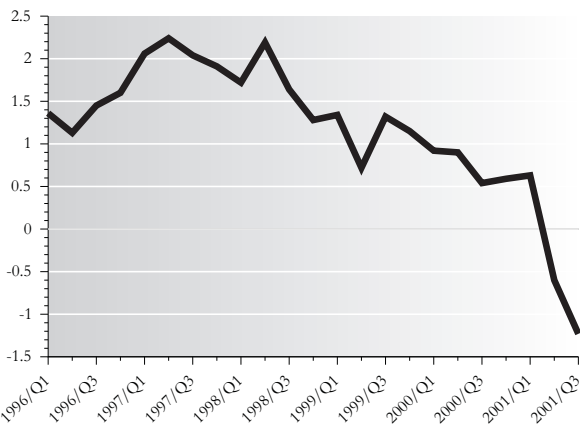
Alabama

Employment. The state continues to lose payroll employment pretty much across the board. From December 2000 to December 2001, the state lost 33,300 jobs. Except for the 700 jobs gained in services and 1,800 jobs in government, all remaining sectors of the economy suffered job losses.

Manufacturing. The manufacturing sector, which accounts for approximately 18 percent of nonagricultural jobs in the state, lost 16,500 jobs from December 2000 to December 2001. Problems with the manufacturing sector include overcapacity and lack of demand in both domestic and international markets. The economic slowdown, which started in the United States, has now become a global concern. In past times, Alabama manufacturing firms could find some recession relief by selling to other parts of the world that were experiencing growth. That avenue is no longer available. Some manufacturers believe they can't sell effectively overseas because of the high value of the U.S. dollar against other major currencies. In our opinion, even if the value of the U.S. dollar declines, it will not significantly impact Alabama's manufacturing exports. Mexico, Japan, and Canada, the state's major trading partners, are also in recession.

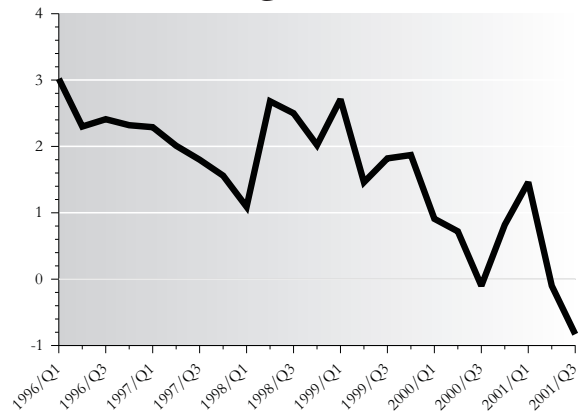
Manufacturing job losses have been spread across every industry except automotive. There were 1,000 new jobs gained in automobile-related production (mainly the Honda plant in Lincoln, Alabama) from December 2000 to December 2001. During the same period, Alabama's other nondurable manufacturers

Alabama Total Nonagricultural Employment
Annual Percent Change
Over Same Quarter Previous Year



Source: Estimates based on Alabama Department of Industrial Relations data.

Alabama Total Wholesale and Retail Trade Employment
Annual Percent Change
Over Same Quarter Previous Year



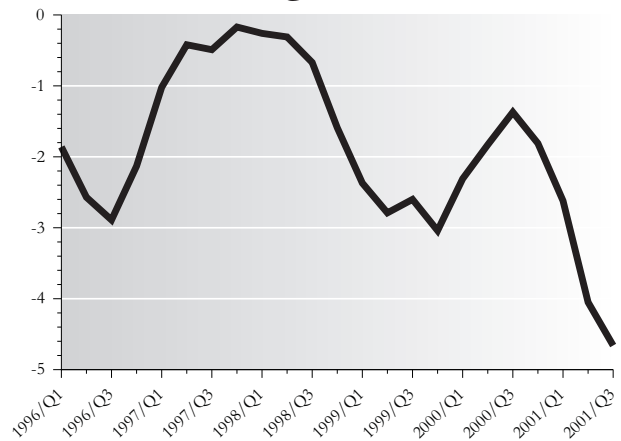
Source: Estimates based on Alabama Department of Industrial Relations data.

lost 7,900 jobs, including 4,400 in textile and apparel plants, 1,000 in paper products, 900 in chemical firms, and another 1,000 in rubber and plastics-related firms. Firms manufacturing durable goods lost 8,600 jobs, including 3,600 in steel manufacturing, 3,700 in electrical and nonelectrical machinery, and 1,200 in lumber and wood products industries.

Services and Retailing. In recent years the services sector, including both health care and computer-related, was one of the fastest-growing segments of the economy. In the late 1990s, services businesses added as many as 8,000 to 10,000 new jobs a year. But this sector has weakened considerably. During the most recent twelve-month period, services-related businesses added 700 new jobs, 300 of which were in health care. Retailing had also been a fast-growing segment of the state's economy, in some instances adding almost 40 to 50 percent of all new jobs in the state. But the sector has suffered recently. Retailers have not been able to raise prices during the recession, and they currently have some overcapacity in the state. From December 2000 to December 2001, the wholesale and retailing sectors together lost 15,000 jobs.

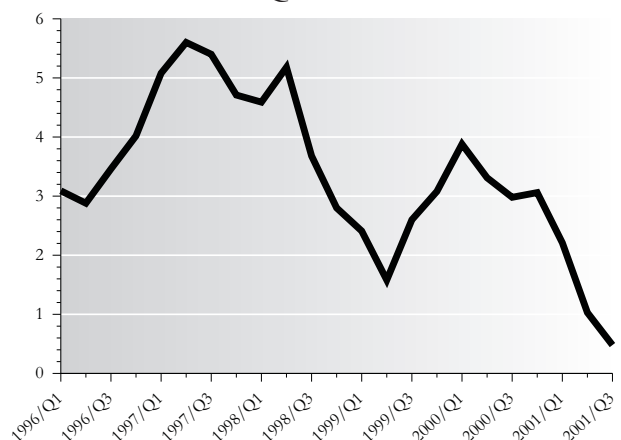
Since most retailing jobs are located in metropolitan areas, most of the job losses have also been in these areas. The Birmingham metro area, Alabama's largest and fastest-growing, has lost 4,700 retailing jobs during the most recent twelve months. Although hesitant consumer spending is partly to blame, the sector is also overbuilt, symptomatic of a nationwide trend in recent years.

Alabama Total Manufacturing Employment
Annual Percent Change
Over Same Quarter Previous Year



Source: Estimates based on Alabama Department of Industrial Relations data.

Alabama Total Services Employment
Annual Percent Change
Over Same Quarter Previous Year



Source: Estimates based on Alabama Department of Industrial Relations data.

Alabama Nonagricultural Employment Annual Change in Number of Jobs

	December 1999 to December 2000	December 2000 to December 2001
Total Nonagricultural	1,400	-33,300
Mining	-600	-400
Construction	600	-1,200
Manufacturing	-9,000	-16,500
Durable Goods	-6,300	-8,600
Lumber Products	-1,500	-1,200
Primary Metals	-2,600	-2,600
Fabricated Metal	300	-1,000
Industrial Machinery	-2,000	-2,200
Electrical Machinery	0	-1,000
Transportation Equipment	-1,600	1,000
Stone, Clay & Glass	0	-200
Nondurable Goods	-2,700	-7,900
Food Products	200	300
Textile Mill Products	-200	-2,200
Apparel	-2,400	-2,200
Paper & Pulp Products	-200	-1,000
Printing & Publishing	600	-700
Chemicals	-600	-900
Rubber and Plasticx	-100	-1,000
TCPU	200	-1,800
Wholesale & Retail Trade	1,500	-15,000
FIRE	-200	-900
Services	6,800	700
Total Government	2,100	1,800
Federal Government	-1,800	-300
State & Local Government	3,900	2,100
State Education	2,900	1,000
Local Education	500	-1,800

Source: Alabama Department of Industrial Relations.

Despite strength in residential housing markets, particularly in metro areas, both commercial and industrial construction have been flat or declining. During the most recent twelve-month period, the state's construction sector lost 1,200 jobs.

Tax Revenues. The slowdown in the economy has affected the state's tax revenues. During the first three months in the current fiscal year, the state's total tax revenues dropped 2.3 percent. Although sales tax revenues increased slightly because of the Christmas season, the most noticeable and surprising event was the decline in income tax revenues. Individual income tax revenues for the first three months of the fiscal year have totaled \$479.2 million, compared to \$504.5 million the previous fiscal year,



a decline of about 5 percent or \$25 million. Corporate income tax receipts have declined by 16.4 percent over the previous fiscal year, totaling \$31.3 million.

Appropriations made to the Alabama Education Trust Fund during the first three months of this fiscal year are about \$14 million below the level experienced in the first quarter of the previous fiscal year. Conversely, tax receipts to the Alabama General Fund have increased approximately \$13.2 million dollars compared to the first three months of the previous fiscal year.

Outlook. Since manufacturing accounts for such a large portion of the state's economy, Alabama economic growth in 2002 depends on the performance of the manufacturing sector. Unfortunately, manufacturing is expected to remain weak at least through the first half of 2002, except for automobile-related industries. Both apparel and textiles industries will lose more jobs. Due to pressure from retailers to cut costs, apparel firms will continue to relocate overseas where production costs are less. Overall, the state economy will grow by 1.0 percent in 2002, while employment is expected to increase by 0.4 percent. The state will see approximately 8,000 net new jobs, primarily in the second half of the year. However, that growth depends on the current economic recovery remaining on track.

Ahmad Ijaz

Selected Economic Indicators

United States	2000/Q2	2000/Q3	2000/Q4	2001/Q1	2001/Q2	2001/Q3
Gross Domestic Product (billions)	9,229.4	9,260.1	9,303.9	9,334.5	9,341.7	9,310.4
Percent Change	5.2	4.4	2.8	2.5	1.2	0.5
30-Year Treasury Bond Rate	6.0	5.8	5.7	5.4	5.7	5.5
3-Month Treasury Bill Rate	5.7	6.0	6.0	4.8	3.7	3.2
Consumer Price Index	171.5	173.0	174.3	176.1	177.4	177.7
Inflation Rate	3.3	3.5	3.4	3.4	3.4	2.7
Housing Starts (millions)	1.6	1.5	1.5	1.6	1.6	1.6
Percent Change	0.8	-8.8	-7.0	-2.5	2.3	6.4
Total Employment (millions)	135.2	135.0	135.6	135.9	135.1	135.0
Percent Change	1.5	1.1	1.0	0.6	-0.0	-0.0
Unemployment Rate	4.0	4.0	4.0	4.2	4.5	4.8

Alabama	2000/Q2	2000/Q3	2000/Q4	2001/Q1	2001/Q2	2001/Q3
Total Nonagricultural						
Employment (thousands)	1,939.8	1,932.3	1,948.6	1,926.3	1,928.1	1,908.5
Percent Change	0.9	0.5	0.6	0.6	-0.6	-1.2
Total Manufacturing						
Employment (thousands)	363.0	361.3	357.8	352.1	348.3	344.5
Percent Change	-1.8	-1.4	-1.8	-2.6	-4.1	-4.7
Durable Goods Manufacturing						
Employment (thousands)	196.1	193.7	191.4	188.2	185.7	183.0
Percent Change	-0.7	-1.5	-2.5	-3.7	-5.3	-5.6
Nondurable Goods Manufacturing						
Employment (thousands)	166.9	167.6	166.4	163.9	162.5	161.5
Percent Change	-3.1	-1.2	-1.0	-1.3	-2.6	-3.6
Total Wholesale and Retail Trade						
Employment (thousands)	447.0	447.2	455.9	445.5	446.5	443.5
Percent Change	0.7	-0.1	0.8	1.5	-0.1	-0.8
Total Services Employment (thousands)	472.2	475.7	476.7	472.9	477.1	478.0
Percent Change	3.3	3.0	3.1	2.2	1.0	0.5
Alabama Unemployment Rate	4.5	4.6	4.6	5.0	4.8	4.9
Initial Benefit Claims (thousands)	18.9	25.7	28.0	37.0	28.0	29.1
Manufacturing Weekly Hours	42.1	41.8	41.7	41.0	40.6	40.5
Total Tax Revenues (millions)	1,683.4	1,441.1	1,351.6	1,471.2	1,730.5	1,452.0
Percent Change	11.1	-0.6	-0.2	-6.8	2.8	0.8
Total Income Tax Revenues (millions)	865.6	617.4	541.9	621.2	832.2	622.7
Percent Change	20.2	-5.0	-2.6	-1.1	-3.9	0.9
Total Sales Tax Revenues (millions)	384.4	378.2	381.4	370.2	381.2	380.3
Percent Change	1.3	1.0	-0.7	-3.5	-0.8	0.6

Note: All percent changes indicate change over same period of the previous year.

Source: U.S. Bureau of Labor Statistics, U.S. Department of Commerce, Alabama Department of Industrial Relations, Alabama Department of Revenue, and Center for Business and Economic Research, The University of Alabama.

Rural Alabama

If Alabamians think rural life consists of a simple existence in a pastoral setting near a small town, they haven't been paying attention for the past 50 years. Rural Alabama has always been more complex than that scenario. The same forces transforming the rest of society are at play in rural areas as well—rapid technological change, global business strategies, shifts in occupational demand, and access to working capital are examples. The economic development strategies for rural areas have to be as sophisticated and aggressive as those for metro areas in order to bring enhanced prosperity to the more sparsely populated parts of the state.

Alabama has 46 of 67 counties in which more than 50 percent of the people live in a rural area. But rural does not mean isolated. Some of Alabama's rural counties (St. Clair, Blount, Limestone, Elmore, Baldwin) are actually part of a federally-defined metropolitan area. Most rural counties contain a small town that is an economic anchor for the local area. Many rural counties have good roads and highways that have reduced the cultural and economic isolation of the past.

Rural also does not necessarily mean agricultural. Farming accounts for 3.3 percent of the total personal income in Alabama's rural counties, from a high of 14.1 percent in Crenshaw County to a low of 0.2 percent in Fayette County. The importance of farming has been declining for decades in rural Alabama; other forces are driving rural growth. Some rural counties that are part of or near growing metropolitan areas have benefited economically from the metro area's growth. Workers in central business districts don't always want to live in the city where they work. Some seek the scenic attractions of rural areas within commuting distance of their jobs. Commercial and real estate development, not agricultural activity, accompany population growth in outlying areas.

Although some rural Alabama areas saw prosperity during the decade of the 1990s, many did not. Many did not have a sufficient pool of workforce skills to attract high wage jobs. Although rural Alabamians have made progress in improving their educational status during the decade, quality jobs



requiring college-educated workers remain more a dream than a reality in much of rural Alabama. Not all industries require advanced educational credentials. But some rural counties do not have infrastructure in place to support new-economy-style industries. For example, rural counties need hospitality services in order to support a vigorous tourism industry, or sufficient technology and transportation infrastructure to attract high wage manufacturing jobs. In some rural areas the population has been aging out of the civilian labor force, while younger workers have moved away.

These problems are not unique to rural Alabama. They are echoed in the rural portions of every state in the union. Leaders of rural areas everywhere voice the same concerns:

- The lack of telecommunications infrastructure and the high cost of local service
- Few residents with skills in high technology
- A lack of start-up business capital
- An unproductive conflict between older, conservative political views and newer, more progressive ones
- Lack of cooperation among governmental bodies
- Lack of legislative support for rural initiatives

Future projections for prosperity in rural areas offer little hope for improvement unless these kinds of concerns are addressed effectively.

Mark Drabenstott, vice president and director of the Center for the Study of Rural America at the Federal Reserve Bank of Kansas City has said that Americans must change the way they view rural communities and these communities in turn must change the way they see themselves. Communities and legislators must rethink rural state and local development policies. He identified four important components of a successful rural policy:

- Development of a broadband communications infrastructure
- Facilitation of rural entrepreneurship
- Conversion from commodity-based to product-based agriculture, and
- Marketing of green space for tourism and residential development.

To follow any of these paths, however, economic leaders should be aware of potential dangers and difficulties.

Creating recreational opportunities and permanent residential communities for those seeking a scenic environment is certainly within the scope and range of many rural Alabama locales. Still, there is some risk in the strategy of recruiting retirees. Rural areas need to be able to provide high quality, accessible health care for a permanent population that moves quickly from active retiree to assisted living status. Rural areas that do not have an excellent health care infrastructure with a working age population trained for and interested in health maintenance occupations should be wary of instituting a vigorous recruitment of senior citizens.

Tourism can also be a two-edged sword. Tourism employment can be very seasonal, and the occupations required to support tourism include a large number of low-wage, low-skill jobs with little or no upward mobility, for example, cashier, housekeeper, counter clerk, short order cook, busboy, janitor, or groundskeeper. Jobs that demand persons with no more than a terminal high school education and some on-the-job training will not raise the average per capita personal income for counties relying primarily on these occupational groups. On the other hand, many communities in Alabama have embraced tourism as a way to restart economic

growth. If a region's assets include a pleasant climate, beautiful scenery, a civilian labor force without advanced technological skills, and properties that are worth visiting, then tourism as part of a development plan makes sense.

Rural areas in every state, including Alabama, have found various strategies that work to revitalize a lackadaisical economy. One is a cooperative arrangement with a local university. When local rural leaders and university leaders team up, the partnership can be a catalyst for economic growth. Universities can be instrumental in bringing applications of new technologies; they can encourage civic involvement; and they can help close the gap between available or potential jobs and worker skills. Every university in Alabama has outreach programs and a great many positive things are now occurring between higher education and rural Alabama. But more is possible.

Every rural region of Alabama has strengths. We are rightly proud of our natural resources, fertile soil, and navigable waterways. But we should not minimize less obvious strengths such as collaborative initiatives among governmental agencies, entrepreneur-supportive education programs, residents with a penchant for innovative thinking, or well-coordinated efforts to attract additional capital. A mindset that dwells on the negatives can overlook the positives. Rural Alabama communities that understand the economic and social forces at work in their areas can use that understanding to develop appropriate development strategies. Just as rural doesn't have to mean isolated or agricultural, rural also doesn't have to mean poor.

Annette Jones Watters

Sources:

The Regional Economy of Upstate New York: Summer Supplement, Buffalo Branch, Federal Reserve Bank of New York, Summer 2001.

U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Information System, 2001.

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Alabama Metropolitan Areas: Tough Times in 2001

Alabama's metropolitan areas struggled alongside the nonmetropolitan counties in 2001. The economic downturn negatively impacted almost every area of the state as total jobs statewide declined for the first time in at least a decade. Statewide nonagricultural employment in December 2001 was 33,300 below December 2000. Alabama's 22 metro area counties lost 18,680 jobs during 2001, while nonmetro counties lost 14,620. Unemployment across the state rose from 4.5 percent in December 2000 to 5.9 percent in December 2001. Both the Decatur and Florence MSAs saw December 2001 unemployment rates above the state average.

It was a tough year for manufacturing, with about half of job losses in this sector. Of the 16,500 net manufacturing jobs lost during 2001, 10,200 were in Alabama's 11 MSAs. Three metro areas—Decatur, Florence, and Gadsden—all of which have above-average employment concentrations in manufacturing, saw jobs decline more than three percent during the year. Wholesale and retail trade also suffered sharp employment cutbacks during

2001. A decline of 15,000 trade jobs statewide between December 2000 and December 2001 amounted to 45 percent of all job losses. Metro areas, generally the retail hubs for nearby rural counties, were hit particularly hard by declines in trade. Only Auburn-Opelika gained trade jobs during the year, while about 11,300 jobs in wholesale and retail trade were lost in the 10 other metro areas.

Declining personal and corporate incomes, as well as sales tax revenues, eroded the funding sources for our public schools and colleges. All areas of the state were hurt as proration reduced state funding for education, threatening the very basis for future job growth.

However, 2001 also brought initiatives and promises of future jobs that gave us hope for a positive direction to the state's economy in 2002. Job declines subsided between November and December 2001 with a net of just 1,400 jobs lost—600 of which were in the metro areas. A number of statewide and local technical training programs were undertaken or expanded in 2001, including Alabama Works, a new public-private partnership providing training and scholarships. Tough times made all areas of the state assess their strengths and weaknesses as they work to improve opportunities for their citizens.

Carolyn Trent

Metropolitan Area Nonagricultural Employment

	December 2001	Change from December 2000		Unemployment Rate (Percent) December 2001
		Number	Percent	
Alabama	1,917,400	-33,300	-1.7	5.9
Anniston	48,400	-900	-1.8	5.5
Auburn-Opelika	46,100	1,000	2.2	3.6
Birmingham	487,500	-6,100	-1.2	3.7
Decatur	58,300	-1,900	-3.2	6.6
Dothan	67,700	-200	-0.3	4.3
Florence	55,000	-1,900	-3.3	9.6
Gadsden	37,900	-1,400	-3.6	5.7
Huntsville	184,800	-2,100	-1.1	3.8
Mobile	230,900	-2,200	-0.9	5.4
Montgomery	166,600	-700	-0.4	4.0
Tuscaloosa	81,800	-2,000	-2.4	3.3

Net Jobs in Metropolitan Areas -18,680
 Net Jobs in Nonmetro Counties -14,620

Source: Alabama Department of Industrial Relations.

Alabama Metropolitan Area Strengths and Weaknesses in 2001

MSA	Strengths	Weaknesses
Anniston	Unique antiterrorism resources; development of Fort McClellan proceeding	Job losses in manufacturing and across most sectors; shrinking labor force; lack of population growth
Auburn-Opelika	Job gains in services and overall; attracting auto suppliers; strong population growth	Manufacturing job losses; underdeveloped retail sector
Birmingham	Strength in medical and other services and government; retail and commercial development; developing biotechnology	Job losses in manufacturing and trade; negative effects of attacks on travel and lodging; stagnant median family income
Decatur	Successful Boeing rocket tests bolster aerospace cluster; retail growth; strong population gains	Cutbacks in core steel, paper, and chemicals manufacturing industries; too few jobs for labor force in area
Dothan	Job gains in services and TCPU; stable total manufacturing jobs; growing aviation cluster	Sharp job losses in wholesale and retail trade; weak population growth
Florence	Coordinated approach to job growth with targeted industry study; services gains	Steep manufacturing job losses in textiles, apparel, and primary metals; declining retail trade employment
Gadsden	Growing services sector, especially health care; active retraining program for laid-off workers	Still hurt by Gulf States Steel closing; further manufacturing job losses; low income levels; shrinking labor force
Huntsville	High-tech emphasis with high income and education; services job gains; retail trade and auto cluster growth	Job losses in high-tech manufacturing and trade; automotive supplier layoffs
Mobile	Strong services emphasis and job growth; expanding retail; broad transportation infrastructure	Job declines in key paper, chemicals, and high-tech manufacturing; labor force growing faster than jobs
Montgomery	Stability from government jobs and IT service firms; plastics and aerospace cluster growth; technology training initiatives	Job losses in retail trade and in textiles and apparel manufacturing
Tuscaloosa	Expanding auto cluster; state and local government job gains; skilled workforce development	Broad-based employment declines, particularly in manufacturing, services, retail trade, and mining

Alabama Business Leaders Confidence Index

Compass Bank, in partnership with the Center for Business and Economic Research, launched the new quarterly Business Leaders Confidence Index (BLCI) in the first quarter of 2002. Between December 1 and December 31, 2001, business leaders from across Alabama completed an online survey that is used to derive the index. Panelists compare their expectations for the upcoming quarter to both the last quarter and the same quarter last year. Expectations for the national and state economies, as well as industry sales, profits, hiring plans, and capital expenditures, are combined into the BLCI.

Across a broad spectrum of Alabama businesses, the consensus expectation is that there will be modest overall economic improvement in the first quarter of 2002 compared to the fourth quarter of 2001. However, business leaders expect economic conditions to remain somewhat worse than a year ago.

Looking at the components of the index, almost half of panelists are optimistic that the U.S. economy will improve moderately in the first quarter of 2002, while about a fourth foresee little change from the fourth quarter of 2001. Expectations for recovery in the Alabama economy are less robust. About 37



percent of business leaders expect the state's economy to show moderate improvement during the first quarter of 2002 compared to the previous quarter, while about a third think the Alabama economy will be flat and 30 percent anticipate a continued decline.

Over half of those surveyed expect sales in their industry to increase during the first quarter, while just over 45 percent think profits will be at least moderately higher than in the fourth quarter of 2001. However, improvements in industry sales and profits will not generally translate into more jobs during the quarter. Fully 60 percent of Alabama business leaders do not anticipate either adding or laying off employees. And Alabama businesses will be cautious about increasing capital spending, with over half expecting no change from fourth quarter 2001 levels. Measured against the first quarter of 2001, only sales are generally expected to be higher.

Carolyn Trent

Complete BLCI results can be found at <http://blcindex.cba.ua.edu>.

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