

ABCI™

ALABAMA BUSINESS CONFIDENCE INDEX

Volume 17, Third Quarter 2018

Alabama Businesses Forecast Growth with High Confidence for Third Quarter

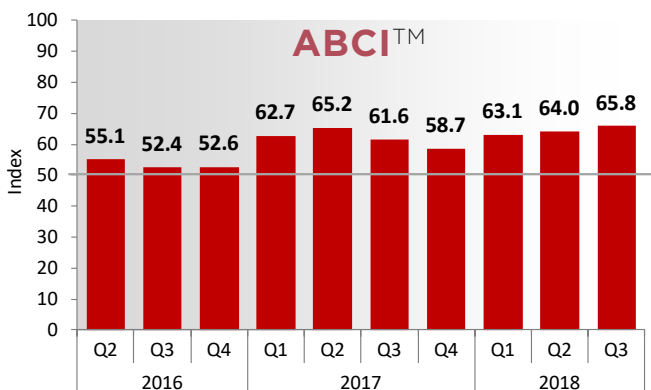
Alabama business leaders continue to feel confident heading into the third quarter 2018. This data comes from the *Alabama Business Confidence Index™* (ABCI) survey, which is conducted quarterly by the Center for Business and Economic Research at the University of Alabama's Culverhouse College of Business. The ABCI increased 1.8 points to reach a very confident 65.8 for Q3 2018, spurred on by high expectations for the statewide and national economies.

Business confidence in the statewide economy increased 1.7 points to reach a very confident 70.0 in the third quarter 2018 survey. Expectations for the national economic outlook also grew, gaining 2.3 point to reach 69.1 this quarter. Both indexes grew significantly at the beginning of 2017, dropped slightly in Q3 and Q4 2017, and then resumed an upward climb, all the while remaining above 60 for the past 7 quarters.

Confidence in growth also remained high for the industry component indexes of the ABCI, with all registering at or above 61 in Q3 2018. The highest industry index is in sales at 66.1, followed by profits at 64.6, and capital expenditures at 63.6. Even the lowest index this quarter, hiring, still registered at 61.4, signaling continued confidence in hiring growth.

Confidence remains strong for most industries in Q3 2018, with seven of the nine registering above 60. Panelists in construction have the highest ABCI at 72.3, followed closely by professional, scientific, and technical services with an index of 68.3. For a second consecutive quarter, retail trade had the lowest index this quarter at 53.1, which still indicates mild confidence for an increase in growth compared to Q2 2018.

Metro ABCIs are very confident in Q3 2018, with all registering above 60 since the start of 2018. After a 3.2-point increase, Huntsville had the highest metro ABCI in Q3 2018 at 67.0. Montgomery and Mobile followed with ABCIs of 66.5 and



Outlook for Third Quarter 2018

	Statewide ABCI	Change from Q2
ABCI	65.8	1.8
National Economy	69.1	2.3
Alabama Economy	70.0	1.7
Industry Sales	66.1	1.3
Industry Profits	64.6	2.3
Industry Hiring	61.4	1.4
Capital Expenditures	63.6	2.0

*Index above 50 indicates positive outlook as compared to last quarter.
Index below 50 indicates negative outlook as compared to last quarter.*

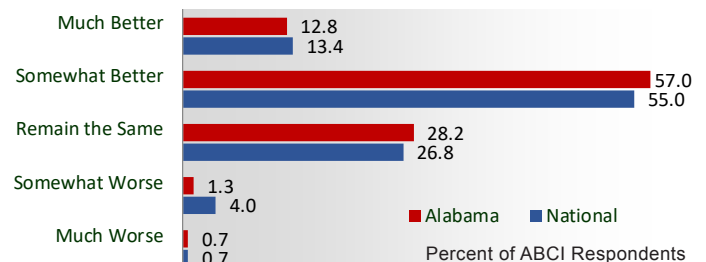
65.6, respectively, falling just below statewide expectations. Birmingham-Hoover had the lowest metro ABCI for the second consecutive quarter but was still very confident at 62.8.

Business Environment Expectations Q3 2018 compared to Q2 2018 Optimistic U.S. Economic Outlook

Third quarter expectations for the national economy remain very confident at 69.1 after a 2.3-point increase from Q2 2018. This is the seventh consecutive quarter that panelists have reported high confidence in improving economic conditions with the U.S. economy index over 60. A 68.4-percent majority of panelists predict a better national economy in Q3 2018, while 26.8 percent expect conditions to remain the same, and 4.7 percent anticipate a worse economic performance compared to the second quarter of 2018.

Montgomery had the highest national economic outlook at 73.9. However, confidence in the U.S. economy remains strong in the three other metro areas, with the lowest index still registering at 66.0 in both Huntsville and Birmingham-Hoover. This continuation of 2017's high levels of confidence indicate positive expectations for improving national economic conditions from business leaders throughout the state's metro areas.

National and Alabama Economy



Strong Confidence in Alabama Economy

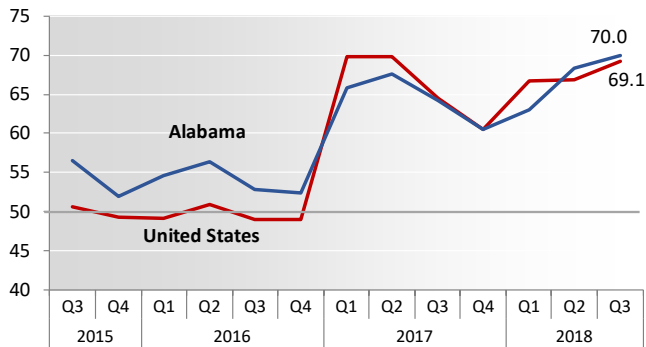
Confidence in the Alabama economy grew 1.7 points to reach a record high of 70.0. The Alabama Economic Outlook is also the highest component index in Q3 2018's survey. At 69.8 percent, a large majority of Alabama business leaders are anticipating better conditions in the coming quarter, while 28.2 percent forecast a continuation of Q2 2018's statewide conditions. Only 2.0 percent of panelists expect Alabama's business conditions to worsen compared to the previous quarter.

All four of the metro areas expect better statewide economic conditions in the coming quarter, with Huntsville leading in confidence with an index of 73.7. The other three metros in the survey also have strong confidence in the statewide economy with the lowest Alabama economic outlook still registering at 66.0 in Birmingham-Hoover.

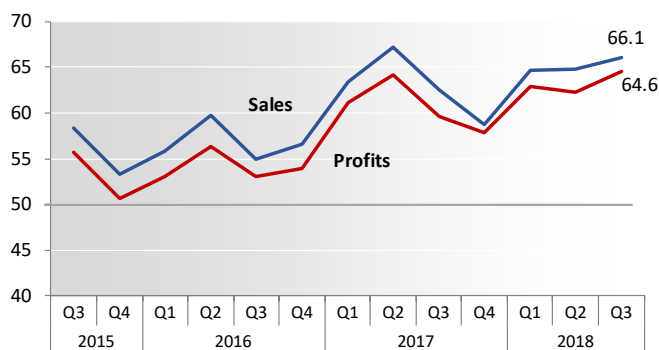
Most businesses, regardless of size, are feeling very confident about the Alabama economy moving into the third quarter of 2018, with index values above 69. Like in Q2 2018, small businesses, those with 19 or fewer employees, have the highest confidence index at 70.8; followed at 69.6 by mid-sized businesses, those employing between 20 to 99 workers; and large businesses, those with greater than 100 employees, with a national index of 69.3.

These forecasts are further supported by the Center for Business and Economic Research's 2018 economic outlook. CBER expects the Alabama GDP to grow 2.2 percent in 2018, an increase from the 1.3 percent seen in 2017. Employment growth is expected to rise 1.0 percent in 2018 similar to the 1.0 percent growth seen in 2017. With stronger statewide economic growth this year, CBER expects tax receipts to increase 4.5 percent in 2018.

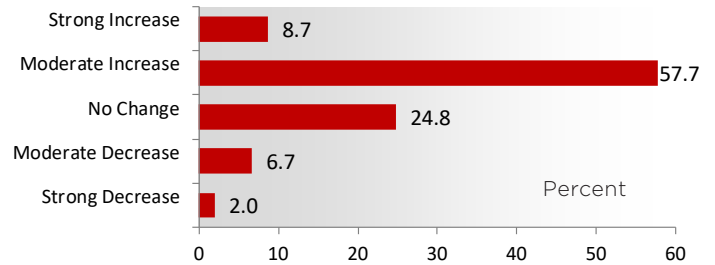
National and Alabama Economy Expectations versus Prior Quarters



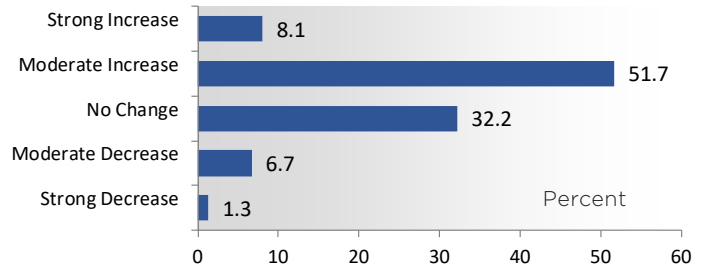
Sales and Profits Expectations versus Prior Quarters



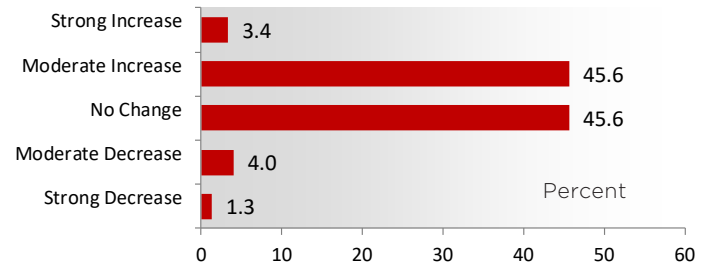
Sales



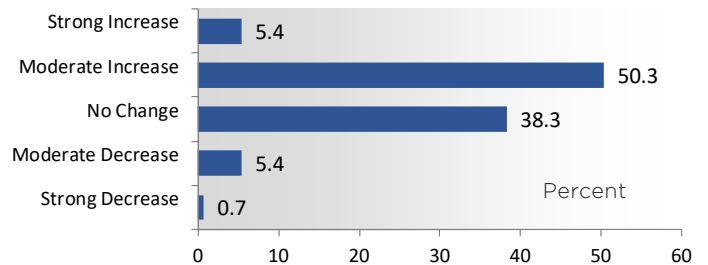
Profits



Hiring



Capital Expenditures



Growth Expected in Sales

Sales are expected to continue growing in the coming quarter with an index of 66.1 after a 1.3-point increase from Q2 2018, making it the highest of all the industry indexes. At 66.4 percent, about two-thirds of panelists forecast an increase in their sales figures; 24.8 percent expect no change; and 8.7 percent anticipate a decrease in sales compared to the previous quarter.

Professionals in construction led in confidence for increased sales with an index of 77.3 for Q3 2018. Wholesale trade and professional, scientific and technical services panelists also strongly expect sales to increase compared to Q2 2018, with respective indexes of 75.0 and 70.2. Professionals in retail trade and healthcare and social services had the lowest sales indexes at 56.3, an index level that suggests moderate confidence in growth. No industries expect a decrease in sales in Q3 2018.

Confident Outlook for Increased Profits

Expectations for industry profit growth remained high in the third quarter, registering at 64.6 after increasing 2.3 points from Q2 2018. At 59.8 percent, more than half of all panelists are expecting an increase in profits compared with the second quarter, while only 8.0 percent are anticipating a decrease in their profits. The remaining 32.2 percent forecast no major change moving into the third quarter of 2018.

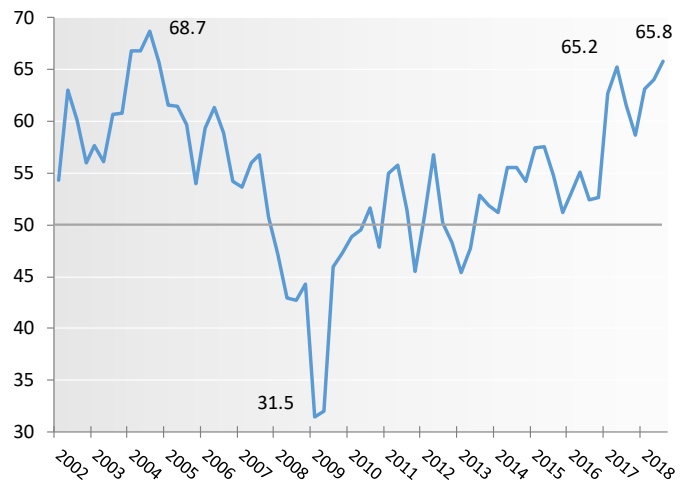
Most industries in the state are continuing to expect growth in profits in the coming quarter with six of the nine industries indicating strong confidence with profits index values greater than 60. Like the sales index, business leaders in construction are the most optimistic about profit growth with an index of 77.3, while retail trade had the lowest index at a neutral 50.0, indicating expectations for a continuation of Q2 2018's levels of profits.

Hiring Forecast Remains Positive

After a 1.4-point increase, the statewide index for hiring grew to a confident 61.4 in Q3 2018. While this is the lowest of the component indexes, it still indicates strong confidence in higher levels of hiring compared to the previous quarter, with 49.0 percent of panelists expecting an increase in hiring. Only 5.3 percent expect a decrease in hiring from the previous quarter's levels, and the remaining 45.6 percent do not forecast a major change in hiring in the coming quarter.

Again, panelists in construction led in confidence for increased hiring with an index of 65.9. This is the second consecutive quarter this industry has led in hiring confidence. Business leaders in retail trade and transportation, information, and utilities are the least optimistic about hiring levels, both registering at a neutral index of 50.0, indicating expectations for similar levels of hiring as seen in Q2 2018.

ABCI: Continued Confidence in Q3 2018

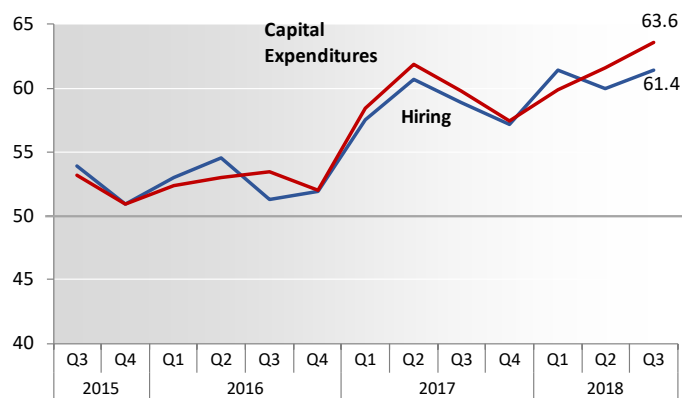


Confidence in Capital Expenditures Continues

With an index of 63.6 after a 2.0 percent increase, Alabama business leaders confidently forecast an increase in capital expenditure this quarter. At 55.7 percent, just over half of panelists expect an increase in their capital expenditure. A group of 38.3 percent forecast no change in their capital expenditure compared to Q2 2018, and 6.1 percent of business leaders anticipate a decrease.

Business leaders across industries expect increases in capital expenditure with varying degrees of confidence moving into Q3 2018. Like all of the other industry indexes this quarter, construction had the highest capital expenditure index at 70.5, indicating very strong confidence in capital expenditure growth, while retail trade had the lowest index at 43.8, forecasting a decrease in Q2 2018's levels of capital expenditure with moderate confidence.

Hiring and Capital Expenditures Expectations versus Prior Quarters



ABCI by Industry

	Q3 2018	Change from Q2 2018
Construction	72.3	10.4
Manufacturing	67.3	-0.7
Transportation/Information/Utilities	56.9	-3.5
Wholesale Trade	68.2	-2.6
Retail Trade	53.1	2.1
Finance/Insurance/Real Estate	65.8	2.4
Professional/Scientific/Technical Services	68.3	4.0
Healthcare/Social Assistance Services	61.5	-1.6
All Other Services	64.9	2.5
Statewide	65.8	1.8

Industries In Depth, Third Quarter 2018

Component Index	Construction	Manufac.	Transp./Info./Utilities	Wholesale Trade	Retail Trade	Fin./Insur./Real Estate	Prof./Sci./Technical	Healthcare/Soc. Assist.	All Other Services
Sales	77.3	60.7	61.1	75.0	56.3	65.8	70.2	56.3	65.0
Profits	77.3	61.9	58.3	75.0	50.0	67.5	66.3	56.3	60.8
Hiring	65.9	64.3	50.0	56.3	50.0	61.7	65.4	59.4	60.8
Capital Spending	70.5	65.5	52.8	59.4	43.8	66.7	64.4	68.8	61.7

ABCI and Component Indexes, Third Quarter 2018, by Area

	Metropolitan Statistical Areas (MSA)				
	Statewide	Birmingham-Hoover	Huntsville	Mobile	Montgomery
ABCI	65.8	62.8	67.0	65.6	66.5
National Economy	69.1	66.0	66.0	71.9	73.9
Alabama Economy	70.0	66.0	73.7	71.9	69.3
Industry Sales	66.1	62.2	69.2	63.5	65.9
Industry Profits	64.6	62.8	67.9	61.5	60.2
Industry Hiring	61.4	59.0	62.2	61.5	62.5
Capital Expenditures	63.6	60.9	62.8	63.5	67.0

Most Industries Expecting Growth in Q3 2018

Most industries are feeling confident about growth moving into Q3 2018, with ABCIs above 61.0 in seven of the nine industry groupings. This quarter, construction had the highest industry ABCIs at 72.3 and highest component indexes for all categories: sales (77.3), profits (77.3), hiring (65.9), and capital expenditures (70.5). Professionals in wholesale trade were also feeling very confident about increased sale and profits this quarter with indexes of 75.0 in both categories, but were less confident about increased hiring and capital expenditures with indexes below 60.0.

Construction also had the highest increase in its ABCI from Q2 2018, gaining 10.4 points to reach 72.3. This is building on sustained high confidence, with construction's ABCI registering above 60 since Q1 2018.

Though retail trade's ABCI gained 2.1 points, the industry group has the lowest ABCI for the second consecutive quarter with the lowest component indexes in all four categories. After moderate expectations for declining profits and forecasts for steady sales, hiring, and capital expenditures in Q2 2018, professionals in the field are feeling slightly more optimistic heading into Q3 2018. For the current quarter, retail trade panelists expect an improvement in sales with moderate confidence (56.3), a continuation of the previous quarter's levels of profits (50.0) and hiring (50.0), and moderate confidence in contracted capital expenditures (43.8).

ABCI and Component Indexes by Firm Size, Third Quarter 2018

	Number of Employees		
	0 to 19	20 to 99	100+
ABCI	66.1	65.6	65.6
National Economy	69.5	69.0	68.8
Alabama Economy	70.8	69.6	69.3
Industry Sales	66.5	64.3	67.2
Industry Profits	64.8	66.1	63.0
Industry Hiring	62.7	60.1	60.9
Capital Expenditures	62.3	64.3	64.6

Firm ABCIs Remain Confident

Businesses of all sizes throughout the state continue to expect growth with strong confidence moving into the third quarter of 2018. Small firms, those with fewer than 20 employees, had the highest Q3 2018 ABCI at 66.1. Business leaders in small businesses were most optimistic about growth in the national and statewide economies with indexes of 69.5 and 70.8, respectively. They were also more confident about increasing hiring than mid-sized and large businesses throughout the state.

Mid-sized firms, those with 20 to 99 employees, and large firms, those with more than 100 employees, both had ABCIs of 63.0 for the quarter. Mid-sized firms were more confident than their counterparts about increased profits with an index of 66.1. However, hiring was ultimately mid-sized businesses' lowest component index, and the Alabama economic outlook was the highest at 69.6.

Large firms, those with 100 or more employees, expressed confidence in growth with their ABCI of 65.6, a 1.1-point increase from Q2 2018. While expectations remained strongly confident overall, confidence in industry sales (67.2), the national economy (68.8), and the Alabama economy (69.3) were especially high this quarter. Hiring and profits had the lowest index values for large firms at 60.9 and 63.0, respectively, still indicating expectations for increase compared to the previous quarter.

The Center for Business and Economic Research would like to thank the 149 Alabama business executives who completed the third quarter 2018 ABCI survey. This is the 67th consecutive quarter this report has been recorded, and it would not have been possible without your participation.

Be sure to log in during the September 1-15 survey window to record your opinions about economic prospects and industry performance looking ahead to the fourth quarter of 2018.

All current and historical ABCI newsletters can be found at <http://cber.cba.ua.edu/abci>.

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For more details on the *Alabama Business Confidence Index*™, visit cber.cba.ua.edu/ABCI.
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