

ABCI™

ALABAMA BUSINESS CONFIDENCE INDEX

Volume 17, Fourth Quarter 2018

Confidence Remains High for Alabama Businesses in the Fourth Quarter

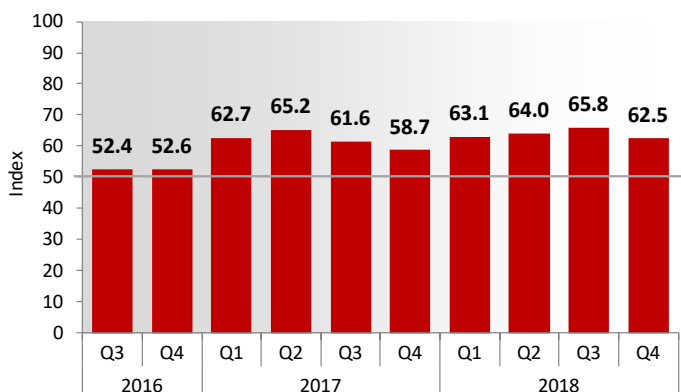
Alabama business confidence decreased heading into the fourth quarter of 2018, though business leaders throughout the state continue to expect growth with high confidence. This data comes from the Alabama Business Confidence Index™ (ABCI) survey, which is conducted quarterly by the Center for Business and Economic Research at the University of Alabama's Culverhouse College of Business. The ABCI decreased 3.3 points to register at a still very confident 62.5 for Q4 2018.

Alabama businesses' confidence in the statewide economy decreased 4.1 points to register at a confident 65.9 in the fourth quarter 2018 survey. Expectations for the national economic outlook also decreased but remained positive, dropping 6.3 points to reach 62.9 this quarter. This is the eighth consecutive quarter that the two indexes have been above 60, indicating sustained expectations for improved economic conditions.

In Q4 2018, confidence in industry growth also decreased but remained strong with all ABCI industry component indexes registering at or above 60.3. The highest Q4 2018 industry index is capital expenditure with an index of 62.5, followed by hiring at 61.8 and sales at 61.7. Even the lowest index this quarter, profits, still registered at 60.3, signaling continued confidence in increased profits compared to the previous quarter.

When broken up into specific industries, overall, indexes decreased compared to Q3 2018. However, five of the nine industry categories still registered above 60, signaling strong confidence in growth. Panelists in healthcare and social assistance have the highest ABCI at 70.2, followed by professional and scientific services with an index of 67.7. Retail trade had the lowest industry ABCI at 50.7, which indicates expectations for a continuation of the third quarter's levels of growth.

Metro ABCIs remain confident in Q4 2018 despite decreases from the third quarter levels, all remain at or above 61.0. After a 1.7-point decrease, Mobile had the highest metro ABCI in Q4 2018 at 63.9. The statewide ABCI for Q4 2018 is 62.5, with



Outlook for Fourth Quarter 2018

	Statewide ABCI	Change from Q3
ABCI	62.5	-3.3
National Economy	62.8	-6.3
Alabama Economy	65.9	-4.1
Industry Sales	61.7	-4.4
Industry Profits	60.3	-4.3
Industry Hiring	61.8	0.4
Capital Expenditures	62.5	-1.1

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

Huntsville and Montgomery below it with ABCIs of 61.7 and 61.5, respectively. Birmingham-Hoover had the lowest metro ABCI for the fourth consecutive quarter, but at 61.0, the metro's business leaders still anticipate growth with confidence.

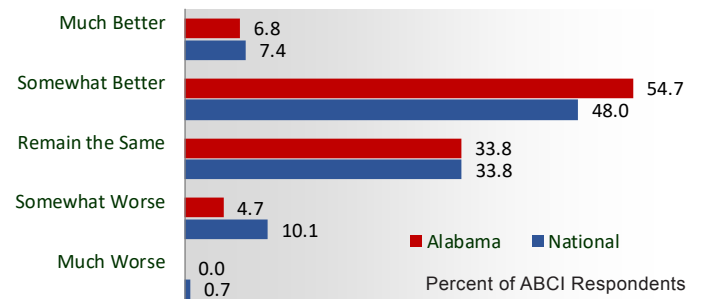
Business Environment Expectations Q4 2018 compared to Q3 2018

Continued Confidence in U.S. Economy

Expectations for the national economy in the fourth quarter remain confident at 62.8 after a 6.3-point decrease from Q3 2018. Alabama business leaders have reported high confidence in improving national economic conditions since Q1 2017. This is the eighth consecutive quarter the U.S. economy index has registered above 60. A 55.4-percent majority of panelists predict a better national economy in Q4 2018, while 33.8 percent expect conditions to remain the same, and 10.8 percent anticipate a worse economic performance compared to the third quarter of 2018.

For the second consecutive quarter, Montgomery had the highest national economic outlook at 71.9. The other metro areas were less optimistic but still confident with their expectations for growth in the fourth quarter of 2018: Birmingham-Hoover registered at 62.1 and Mobile at 61.5. Huntsville had the lowest national economic outlook at 58.3, which still communicates expectations for improving conditions.

National and Alabama Economy



Strong Forecast for Alabama Economy

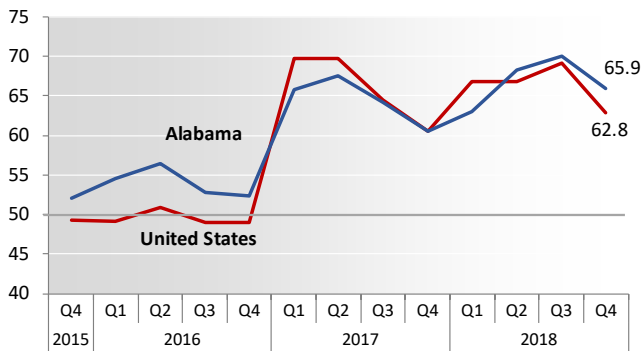
Confidence in the Alabama economy decreased 4.1 points from Q3 2018's record high to reach 65.9 this quarter. For the second consecutive quarter, the Alabama economic outlook is also the highest component index in the survey. At 61.5 percent, the majority of Alabama business leaders are anticipating better conditions in the coming quarter, while 33.8 percent forecast a continuation of Q3 2018's statewide conditions. Only 4.7 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 Montgomery leading in confidence with an index of 68.8. The other three metros in the survey also have strong confidence in the statewide economy with the lowest Alabama economic outlook still registering at 64.4 in Birmingham-Hoover metro area.

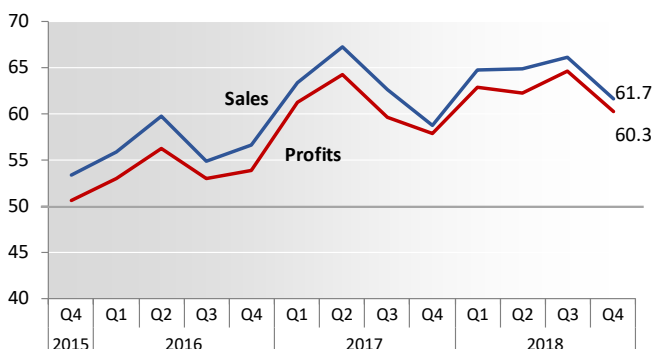
Most businesses, regardless of size, expect improved conditions in the Alabama economy this quarter, with index values above 63. Mid-sized businesses, those employing between 20 to 99 workers have the highest Alabama economic outlook at 68.6; followed at 66.5 by small businesses, those with 19 or fewer employees; and large businesses, those with greater than 100 employees, with a statewide index of 63.2.

These forecasts are further supported by the Center for Business and Economic Research's 2019 economic outlook. CBER expects the Alabama GDP to grow 1.9 percent in 2019, a slight decrease from 2018's 2.0 percent growth. Employment growth is expected to rise 1.0 percent in 2019, similar to the 1.2 percent growth seen in 2018 so far. With continued statewide economic growth this year, CBER expects tax receipts to increase 3.5 percent in fiscal year 2019.

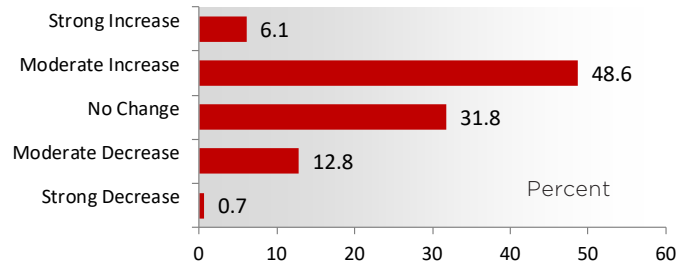
National and Alabama Economy Expectations versus Prior Quarters



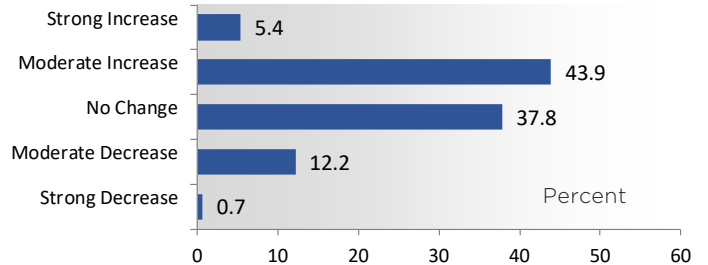
Sales and Profits Expectations versus Prior Quarters



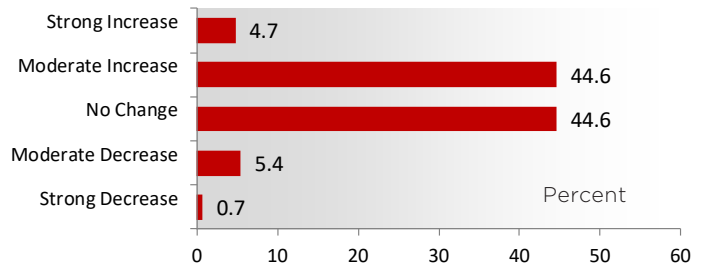
Sales



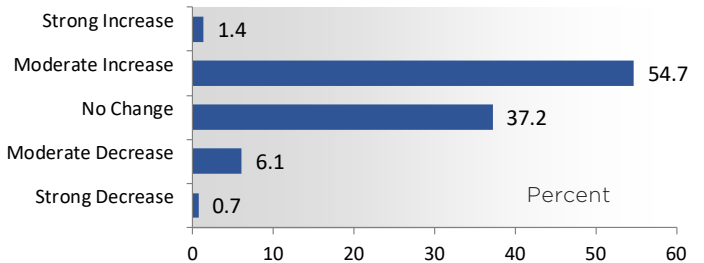
Profits



Hiring



Capital Expenditures



Positive Expectations for Sales

After decreasing 4.4 points, the sales index registered at 61.7 for the fourth quarter of 2018. At 54.7 percent, more than half of all panelists are expecting an increase in sales compared with the third quarter, while only 13.5 percent are anticipating a decrease in their sales. The remaining 31.8 percent forecast no major change moving into the fourth quarter of 2018.

Healthcare and social assistance panelists led in confidence for increased sales with an index of 71.4 for Q4 2018. Business leaders in the "all other services" category and in professional, scientific, and technical services also strongly expect sales to increase compared to Q3 2018, with respective indexes of 69.0 and 67.0. Professionals in retail trade had the lowest sales indexes at 37.5, an index level that suggests moderately confident expectations for lower levels of sales.

Profit Forecast Remains Strong

Profits are expected to continue growing in the coming quarter with an index of 60.3 after a 4.3-point decrease from Q3 2018. While this is the lowest of the component indexes, it still indicates strong confidence in higher levels of profits compared to the previous quarter. At 49.3 percent, almost half panelists forecast an increase in their profits; 37.8 percent expect no change; and 12.9 percent anticipate a decrease in sales compared to the previous quarter.

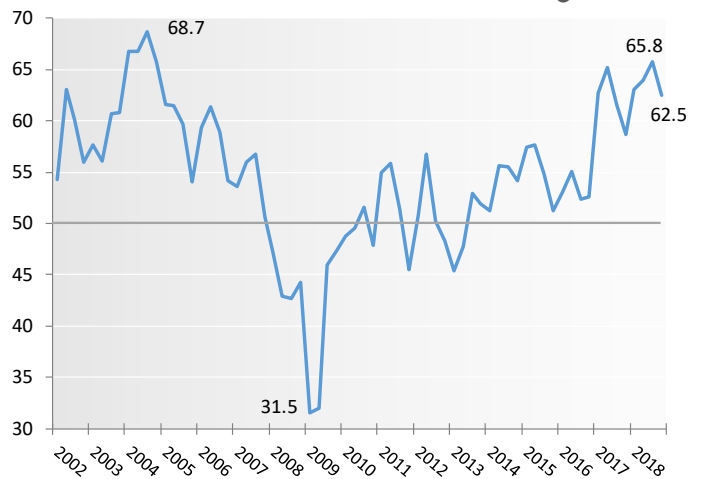
Most industries in the state are continuing to expect growth in profits in the coming quarter with five of the nine industries indicating strong confidence with profits index values greater than 60. Business leaders in professional, scientific, and technical services are the most optimistic about profit growth with an index of 66.1, while transportation, information, and utilities had the lowest index at a neutral 50.0.

Continued Expectations for Hiring

After a 0.4-point increase, the statewide index for hiring reached a confident 61.8 in Q4 2018. At 49.3 percent, just under half of Alabama business leaders expect an increase in their hiring levels compared to Q3 2018. A group of 44.6 percent forecast no change in their fourth quarter hiring, and only 6.1 percent of business leaders anticipate a decrease.

Business leaders across industries expect increases in hiring with varying degrees of confidence moving into Q4 2018. Again, professional, scientific, and technical services had the highest hiring index at 70.5, indicating strong confidence in hiring growth. Retail trade had the lowest index at a neutral 50.0, forecasting a continuation in Q3 2018's levels of hiring with strong confidence.

ABCI: Confidence Continues in Q4 2018

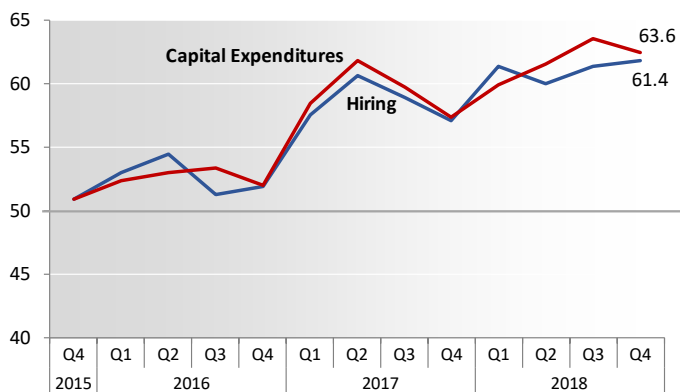


Capital Expenditure Expected to Increase

With an index of 62.5 after a 1.1-point decrease, capital expenditure is the highest industry component index for the fourth quarter survey. A 56.1-percent majority of panelists expect an increase in capital expenditure, while 37.2 percent forecast no major change compared to Q3 2018. Only 6.8 percent expect a decrease in capital expenditure moving into the fourth quarter.

Panelists in professional, scientific, and technical services led in confidence for increased capital expenditure with an index of 67.9, followed closely by five of the other industry categories with indexes above 60. Business leaders in finance, insurance, and real estate are expecting a continuation of Q3 2018's levels of capital expenditure with a slightly positive index of 52.8. Only retail trade expects a contraction in their capital spending compared to Q3 2018 with an index of 45.8.

Hiring and Capital Expenditures Expectations versus Prior Quarters



ABCI by Industry

	Q4 2018	Change from Q3 2018
Construction	59.8	-12.5
Manufacturing	65.2	-2.1
Transportation/Information/Utilities	53.7	-3.2
Wholesale Trade	61.9	-6.3
Retail Trade	50.7	-2.4
Finance/Insurance/Real Estate	56.7	-9.2
Professional/Scientific/Technical Services	67.7	-0.6
Healthcare/Social Assistance Services	70.2	8.8
All Other Services	66.5	1.6
Statewide	62.5	-3.3

Industries in Depth, Fourth 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	53.6	63.8	52.8	64.3	37.5	56.7	67.0	71.4	69.0
Profits	57.1	60.0	50.0	60.7	54.2	59.2	66.1	64.3	61.0
Hiring	62.5	58.8	52.8	57.1	50.0	55.0	70.5	64.3	68.0
Capital Spending	60.7	65.0	52.8	64.3	45.8	58.3	67.9	64.3	66.0

ABCI and Component Indexes, Fourth Quarter 2018, by Area

	Metropolitan Statistical Areas (MSA)				
	Statewide	Birmingham-Hoover	Huntsville	Mobile	Montgomery
ABCI	62.5	61.0	61.7	63.9	61.5
National Economy	62.8	62.1	58.3	61.5	71.9
Alabama Economy	65.9	64.4	66.1	65.4	68.8
Industry Sales	61.7	58.3	61.9	64.4	57.8
Industry Profits	60.3	56.8	59.5	64.4	53.1
Industry Hiring	61.8	60.6	61.3	65.4	59.4
Capital Expenditures	62.5	63.6	63.1	62.5	57.8

Industries Confident in Fourth Quarter

All of the industries surveyed either expect increased growth or a continuation of the previous quarter's levels of growth in the Q4 2018. This quarter, healthcare and social assistance increased 8.8 points to become the highest overall ABCI at 70.2 with the highest industry sales index at 71.4. Professional, scientific, and technical services followed closely with an overall ABCI of 67.7, after only decreasing 0.6 from Q3 2018. This industry category had the highest indexes in profits (66.1), hiring (70.5), and capital expenditures (67.9) in the fourth quarter survey.

For the fourth consecutive quarter, retail trade has the lowest industry ABCI with a neutral index of 50.7 after decreasing 2.4 points from Q3 2018. Though panelists in retail trade expect increased profits (54.2) in the fourth quarter, they have negative forecasts for sales (37.5) and capital expenditures (45.8) compared to the previous quarter. Professionals in the field predict a continuation of hiring levels with an index of 50.0 in Q4 2018.

ABCI and Component Indexes by Firm Size, Fourth Quarter 2018

	Number of Employees		
	0 to 19	20 to 99	100+
ABCI	62.6	64.7	60.7
National Economy	64.7	65.4	59.0
Alabama Economy	66.5	68.6	63.2
Industry Sales	60.3	64.1	61.3
Industry Profits	59.8	61.5	59.9
Industry Hiring	61.2	65.4	59.9
Capital Expenditures	63.4	63.5	60.8

Mid-Sized Firms Most Optimistic

Throughout the state, businesses of all sizes continue to expect growth with confidence moving into the fourth quarter of 2018. Mid-sized firms, those with 20 to 99 employees, had the highest Q4 2018 ABCI at 64.7. Business leaders in mid-sized businesses were more optimistic than in every component index in the survey this quarter. The highest index of these confident forecasts was the Alabama economic outlook at 68.6, while the lowest was in profits at 61.5.

Small firms, those with 20 to 99 employees, expressed confidence in growth with their ABCI of 62.6, a 3.5-point decrease from Q3 2018. While expectations remained strongly confident overall, confidence in the Alabama economy (66.5), the national economy (64.7), and capital expenditure (63.4) were the highest this quarter. Profits and hiring had the lowest index values for mid-sized firms at 59.8 and 60.3, respectively, still indicating expectations for increase compared to the previous quarter.

Large firms, those with 100 or more employees, continue to expect increased growth in Q4 2018 with an ABCI of 60.7. Large firms are still expecting growth this quarter, with all of their indexes registering at or above 59.0. Sales was large businesses' highest component index at 61.3, and the lowest was their national economic outlook (59.0).

Mark your calendars:

The Center for Business and Economic Research will be hosting their annual **Alabama Economic Outlook Conference** **January 10th, 2019** **at the Renaissance Montgomery.**

Registration opens November 14.

For more information, contact Morgan Cordle at mbtatum@cba.ua.edu.

CBER would like to thank the 148 Alabama business executives who completed the fourth quarter 2018 ABCI survey. This is the 68th consecutive quarter this report has been recorded, and it would not have been possible without your participation.

Be sure to log in during the December 1-15 survey window to record your opinions about economic prospects and industry performance looking ahead to the first quarter of 2019. All current and historical ABCI newsletters can be found at <http://cber.cba.ua.edu/abci>.

Analysis provided by Susannah Robichaux, Socioeconomic Analyst, Center for Business and Economic Research, Culverhouse College of Business, The University of Alabama.

For more details on the *Alabama Business Confidence Index*™, visit cber.cba.ua.edu/ABCI.
For information on the Center for Business and Economic Research, visit cber.cba.ua.edu.