

ABCI™

ALABAMA BUSINESS CONFIDENCE INDEX

Volume 17, First Quarter 2018

Strong Confidence Moving into the First Quarter of 2018

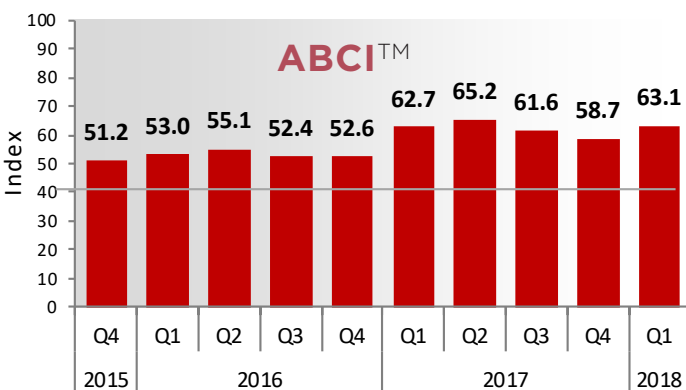
After a small decrease in confidence in Q4 2017, Alabama business leaders expressed high expectations for the first quarter 2018 in the Alabama Business Confidence Index™ (ABCI) survey, which was conducted by the Center for Business and Economic Research at the University of Alabama's Culverhouse College of Commerce. The ABCI increased 4.4 points to reach a strongly confident 63.1 for the first quarter. All component indexes increased also, indicating strong expectations for continued growth in all of the survey categories.

Confidence in the national and statewide economies grew moving into the first quarter of 2018. The national economic index is 66.8 after increasing 6.3 points, and the Alabama economic index gained 2.6 points to reach 63.0. Since Q1 2017, both indexes have registered above 60, indicating sustained confidence in growth for the national and statewide economies.

Alabama businesses also expect growth in sales, profits, hiring and capital expenditures in the first quarter of 2018. The highest industry ABCI is in sales with an index of 64.7, followed closely by profits and hiring. Capital expenditures had the lowest index, but at 59.9, it still signals that businesses are expecting high growth.

The ABCIs for all industry categories grew this quarter, and six of the nine registered above 60, indicating strong confidence moving into Q1 2018. Panelists in manufacturing have the highest expectations for growth with an ABCI of 66.5, followed closely by professional, scientific and technical services with an index of 66.0. Only transportation, information and utilities has a neutral index at 49.0, indicating expectations for a continuation or slight contraction in Q4 2017's levels of growth.

This quarter, ABCIs in all four of Alabama's largest metro areas were above 60, indicating strong confidence in the quarter's economic prospects. In Q1 2018, Mobile had the highest ABCI at 69.1, led by high expectations for their industry indicators. Montgomery was slightly above statewide expectations with an ABCI of 63.9; Huntsville and Birmingham-Hoover were below with ABCIs of 62.9 and 61.0, respectively.



Outlook for First Quarter 2018

	Statewide ABCI	Change from Q4
ABCI	63.1	4.4
National Economy	66.8	6.3
Alabama Economy	63.0	2.6
Industry Sales	64.7	5.9
Industry Profits	62.9	5.0
Industry Hiring	61.4	4.3
Capital Expenditures	59.9	2.5

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

Business Environment Expectations Q1 2018 compared to Q4 2017

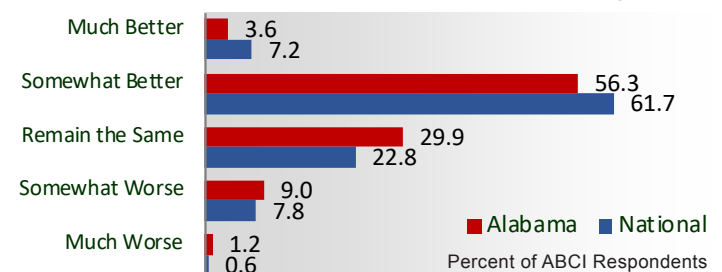
Positive Outlook for U.S. Economy

First quarter expectations for the U.S. economy remain very confident at 66.8 after a 6.3-point increase from Q4 2017. This is the fifth consecutive quarter the index has been over 60, so the compounded expectations for growth remain high moving into 2018. Almost 69 percent of Alabama business leaders are anticipating better conditions in the coming quarter, while 22.8 percent forecast a continuation of Q4 2017's national conditions. Only 8.4 percent of panelists expect U.S. business conditions to worsen compared to the previous quarter.

Alabama's metro areas all expect better national economic conditions in the coming quarter, and for the second consecutive quarter, Mobile leads in confidence with an index of 69.1. The other three metros in the survey also have strong confidence in the U.S. economy with Birmingham-Hoover having the lowest at 65.8.

Most businesses, regardless of size, are feeling very confident about the national economy moving into the first quarter of 2018 with index values above 66. Small businesses, those with 19 or fewer employees, have the highest confidence an index of 67.1; followed closely at 66.7 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 66.4.

National and Alabama Economy



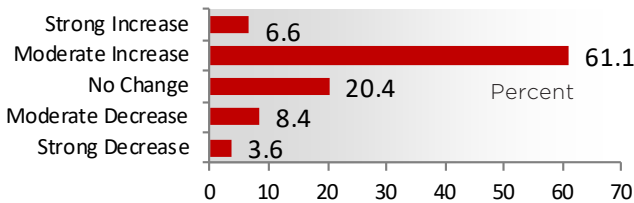
Strong Confidence In Alabama Economy

Alabama business executives remain confident about statewide economic growth in the coming quarter with an index of 63.0. This is the fifth consecutive quarter with an Alabama economy index over 60, communicating very high confidence in economic conditions improving compared to the previous quarters. At 59.9 percent, a majority of panelists predict a better Alabama economy in Q1 2018, while 29.9 percent expect conditions to remain the same, and 10.2 percent anticipate a worse economic performance compared to the fourth quarter of 2017.

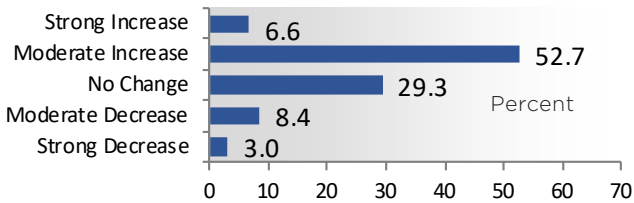
Montgomery had the highest Alabama economic outlook at 64.3. However, confidence in the statewide economy remained strong in the three other metro areas, with the lowest indexes still registering at 61.8 in Birmingham-Hoover and Mobile. Even though the Alabama economy index values have decreased since their peak in Q2 2017, business leaders throughout the state continue to expect a strong performance from the statewide economy.

Forecasts from the Center for Business and Economic Research support components of this outlook. CBER expects the Alabama economy to expand by 2.4 percent in 2018, compared to the 2.2 percent growth in 2017. Employment growth is expected to remain steady with 1.3 percent growth seen in 2017 and the same levels forecasted for 2018. CBER expects tax receipts to increase by 3.1 percent in FY 2018, a slight decrease in the rate of growth from the 4.2 percent tax receipt growth in FY 2017.

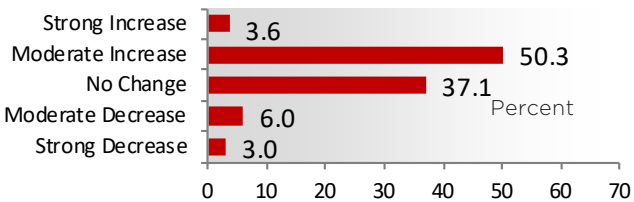
Sales



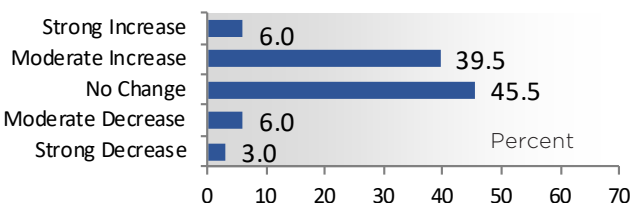
Profits



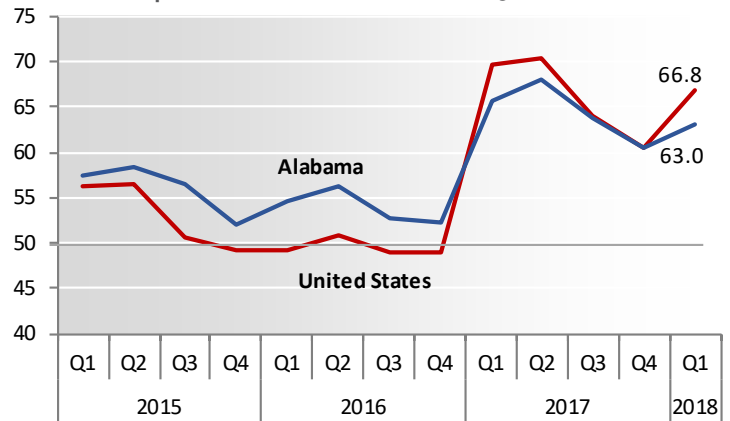
Hiring



Capital Expenditures



National and Alabama Economy Expectations versus Prior Quarters

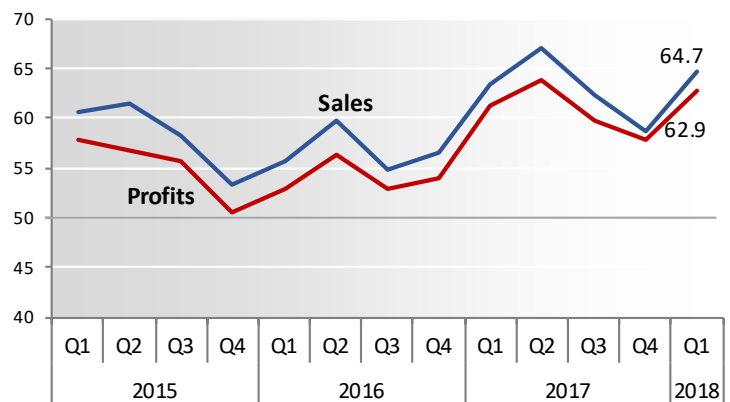


Continued Confidence in Industry Sales

Sales are expected to continue growing in the coming quarter with an index of 64.7 after a 5.9-point increase from Q4 2017. Like the other indexes, confidence in sales has been high since the first quarter of 2017, and after decreases in Q3 and Q4, it has increased to the mid-60s again indicating high expectations for growth. At 67.7 percent, just over two-thirds of panelists forecast an increase in their sales figures; 20.4 percent expect no change; and 12.0 percent anticipate a decrease in sales compared to the previous quarter.

For the second consecutive quarter, panelists in professional, scientific, and technical services lead in confidence for increased sales with an index of 72.2 for Q1 2018. Manufacturing, along with healthcare and social assistance, follow closely with indexes of 68.1 and 66.7, respectively, indicating strong expectations for growth. No industries expect a decrease in sales in Q1 2018, but transportation expects a continuation of the previous quarter's levels with an index of 50.0.

Sales and Profits Expectations versus Prior Quarters



Mark your Calendars: March 1, 2018 | 2017 ABCI Panelist Poll Results

The Center for Business and Economic Research will be releasing the results of the 2017 ABCI Panelists Poll on March 1, 2018. Topics covered include top economic concerns facing the state and the different uses of the ABCI.

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

Growth in Profits Expected

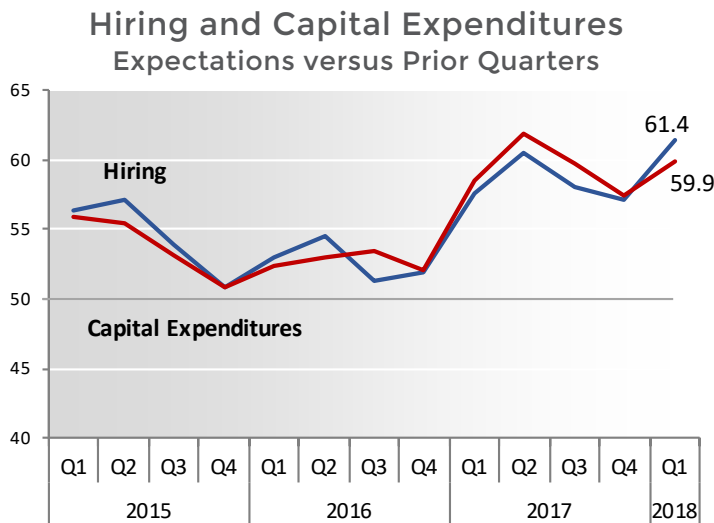
The ABCI profits index increased 5.0 points to reach a very confident 62.9 in Q1 2018. At 59.3 percent, more than half of all panelists are expecting an increase in profits compared with the fourth quarter, while 11.4 percent are anticipating a decrease in their profits. The remaining 29.3 percent forecast no major change moving into the first 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 very strong confidence with profits index values greater than 61. Business leaders in professional, scientific, and technical services are the most optimistic about profits with an index of 68.8, while transportation, information and utilities has the lowest index at a neutral 50.0, indicating expectations for similar levels of profits as Q4 2017.

Hiring Forecast Remains Positive

The statewide index for hiring reached 61.4 in Q1 2018 after increasing 4.3 points. While 53.9 percent of panelists expect hiring to increase, only 9.0 percent expect a decrease in hiring from Q4 2017's levels. The remaining 37.1 percent of Alabama business leaders do not forecast a major change in hiring compared to the previous quarter.

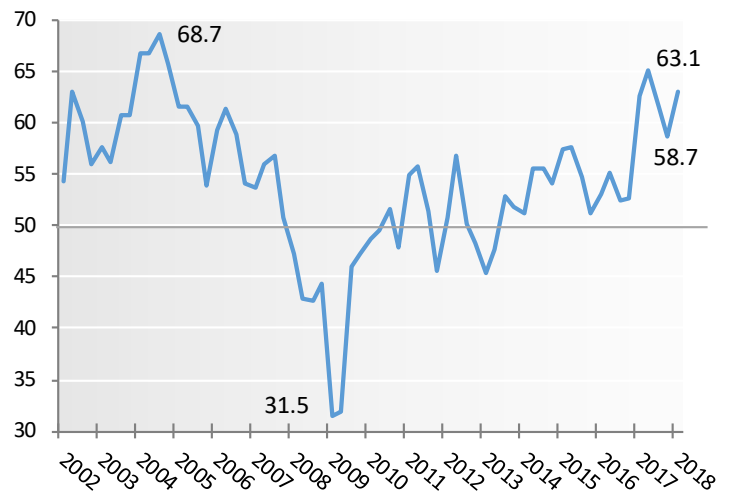
Like in the sales and profits indexes, panelists in professional, scientific, and technical services lead in confidence for increased hiring with an index of 68.1. Business leaders in transportation, information, and utilities are the least optimistic about hiring levels, with an index of 43.8 indicating moderately confident expectations for a decrease compared to Q4 2017's rate of growth. Healthcare and social assistance have a neutral outlook at 50.0, and the remaining industries all indicated moderate to strong confidence with indexes between 55.6 and 65.6.



Industries In Depth, First 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	53.1	68.1	50.0	63.6	58.3	64.6	72.2	66.7	60.6
Profits	62.5	64.7	50.0	61.4	55.6	66.0	68.8	66.7	54.8
Hiring	65.6	64.7	43.8	59.1	55.6	59.0	68.1	50.0	59.6
Capital Spending	68.8	64.7	56.3	54.5	52.8	64.6	56.3	58.3	55.8

ABCI: Confident Start to 2018



Confident Outlook for Capital Expenditures

Panelists forecast an increase in capital expenditures with an index of 59.9 for the first quarter of 2018. While this is the lowest of the component indexes, it still indicates strong confidence in higher levels of capital spending compared to the previous quarter, with 45.5 percent of panelists expecting an increase in their capital spending. Another 45.5 percent forecast no change in their capital expenditures compared to Q4 2017, and only 9.0 percent of business leaders anticipate a decrease in capital expenditures.

Business leaders across industries expect increases in capital expenditures with varying degrees of confidence moving into Q1 2018. Construction had the highest capital expenditures index at 68.8, indicating strong confidence in capital expenditures growth, while retail trade had the lowest index at 52.8, indicating mild confidence in growth compared to the previous quarter.

ABCI by Industry

	Q1 2018	Change from Q4 2017
Construction	64.1	4.5
Manufacturing	66.5	5.9
Transportation/Information/Utilities	49.0	0.1
Wholesale Trade	60.6	4.1
Retail Trade	58.8	16.1
Finance/Insurance/Real Estate	64.4	5.7
Professional/Scientific/Technical Services	66.0	3.5
Healthcare/Social Assistance Services	62.5	4.2
All Other Services	59.8	1.9
Statewide	63.1	4.4

ABCI and Component Indexes, First Quarter 2018, by Area

	Metropolitan Statistical Areas (MSA)				
	Statewide	Birmingham-Hoover	Huntsville	Mobile	Montgomery
ABCI	63.1	61.0	62.9	69.1	63.9
National Economy	66.8	65.8	66.5	69.1	69.0
Alabama Economy	63.0	61.8	62.8	61.8	64.3
Industry Sales	64.7	58.6	65.4	76.5	65.5
Industry Profits	62.9	59.2	63.3	73.5	63.1
Industry Hiring	61.4	59.2	63.8	61.8	61.9
Capital Expenditures	59.9	61.2	55.9	72.1	59.5

Positive Outlook for Alabama Industry

No industry ABCI saw a significant decrease moving into Q1 2018, and the majority had an increase greater than 4.0 points, communicating greater confidence compared to Q4 2017. For the second consecutive quarter, manufacturing and professional, scientific, and technical services had the highest industry ABCIs at 66.5 and 66.0, respectively. Panelists in the professional, scientific, and technical services category had the highest component indexes in sales (72.2), profits (68.8), and hiring (68.1), while construction led in capital expenditures confidence for a second consecutive quarter with an index of 68.8.

Retail trade had the highest increase in their ABCI, gaining 16.1 points to reach 58.8 and indicating expectations for growth. This comes after two quarters of expectations for slower economic activity, as indicated by ABCIs below 50. Business leaders in retail trade are expecting gains in all of the component indexes with the highest being sales at 58.3.

Business confidence in transportation, information and utilities registered at an almost neutral 49.0 after decreasing 0.1 points, making it the lowest industry ABCI for the quarter. After strong expectations for growth in Q1 2017, the transportation ABCI has been hovering around 50, fluctuating between mild expectations

for growth and contractions. Current component indexes for this industry register vary, with its hiring index at 43.8 and capital expenditures index at 56.3.

Firm ABCIs Increase Moving into 2018

Businesses of all sizes throughout the state are expecting growth with strong confidence moving into the first quarter of 2018. Large firms, those with 100 or more employees, had the highest ABCI at 63.4 after a 3.6-point increase from Q4 2017. These firms had especially high confidence in the national economy (66.4). Industry profits, sales, capital spending, and the Alabama economic index were all above 63.0. The lowest index was hiring at 60.9.

The ABCI registered 63.1 among small firms, those with fewer than 20 employees, after a 2.8-point increase from Q4 2017. While expectations remained strongly confident overall, confidence in the national economy (67.1) and industry sales (66.4) were especially high this quarter. Hiring and capital expenditures had the lowest index values for small firms at 60.7 and 58.6, respectively, still indicating a forecasted increase compared to the previous quarter.

Mid-sized firms, those with 20 to 99 employees, had the highest increase in their ABCI this quarter, gaining 7.3 points to reach 62.7. Like the other sized firms, leaders of mid-sized companies had high confidence in the national economy compared to the previous quarter, but also expected positive conditions in the Alabama economy (63.7) and industry growth, especially in sales (63.7) and hiring (63.1).

ABCI and Component Indexes by Firm Size, First Quarter 2018

	Number of Employees		
	0 to 19	20 to 99	100+
ABCI	63.1	62.7	63.4
National Economy	67.1	66.7	66.4
Alabama Economy	62.5	63.7	63.2
Industry Sales	66.4	63.7	63.2
Industry Profits	63.2	61.3	63.6
Industry Hiring	60.7	63.1	60.9
Capital Expenditures	58.6	57.7	63.2

The Center for Business and Economic Research would like to thank the 167 Alabama business executives who completed the first quarter 2018 ABCI survey. This is the 65th consecutive quarter this report has been recorded, and it would not have been possible without your participation.

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

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