

# ABCI™

ALABAMA BUSINESS CONFIDENCE INDEX

Volume 16, Second Quarter 2017

## Business Confidence Continues in Second Quarter of 2017

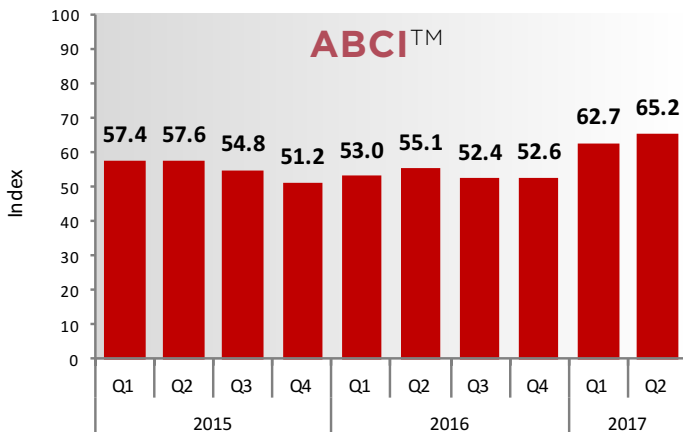
Business confidence increased to 65.2 in the second quarter 2017 Alabama Business Confidence Index™ (ABCI) survey, which was conducted by the Center for Business and Economic Research at the University of Alabama's Culverhouse College of Commerce. The ABCI gained 2.5 points to reach 65.2 for the second quarter as business leaders throughout the state continue to forecast growth with confidence.

Confidence in the national and statewide economy remain high moving into the second quarter of 2017. The national economic index dropped 0.1 points to rest at 69.7 this quarter, and the Alabama economic index gained 1.9 points to reach 67.6. Both indexes are still more than 10 points above their 3-year averages.

Sales, profits, hiring and capital expenditures are also expected to perform well in the second quarter of 2017. Alabama businesses are most confident forecasting increased sales in the coming quarter with an index of 67.2. Even the lowest index, hiring, reached a 10-year peak at 60.7 in the Q2 2017 survey.

The overall industry outlooks are positive in most categories with fairly high confidence in growth with 6 of the 9 industry ABCIs above 62. Panelists in the "all other services" category, which includes professionals in education, the arts, recreation and accommodation, and businesses in wholesale trade are the most optimistic about growth in the second quarter, with ABCIs above 70 and strong confidence in increasing sales. Panelists in healthcare and social assistance expect a continuation of last quarter's growth, while business leaders in transportation, information and utilities are expecting a slight slowdown compared with their performance in the first quarter of 2017.

Business sentiment in Alabama's four largest metro areas remains very optimistic, with all metros forecasting growth in the second quarter of 2017. ABCI Mobile and ABCI Birmingham-Hoover show the strongest confidence with overall index scores of 65.5, but even the lowest metro ABCI, which was recorded in Montgomery, reached 63.6 this quarter.



## Outlook for Second Quarter 2017

	Statewide ABCI	Change from Q1
ABCI	65.2	2.5
National Economy	69.7	-0.1
Alabama Economy	67.6	1.9
Industry Sales	67.2	3.8
Industry Profits	64.2	3.0
Industry Hiring	60.7	3.1
Capital Expenditures	61.9	3.4

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 Q2 2017 compared to Q1 2017

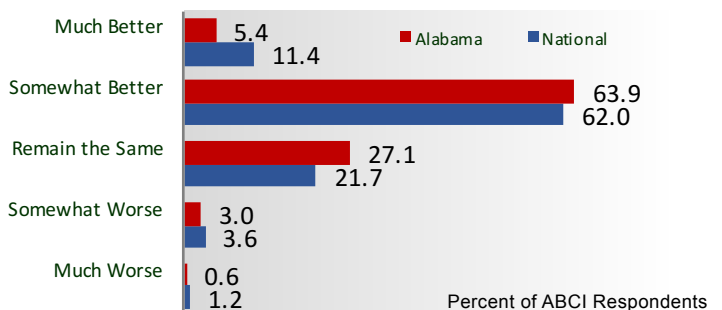
### Confident Outlook for U.S. Economy

Alabama business executives remain confident about U.S. economic growth in the coming quarter with a national index of 69.7. This is just a 0.1 decrease from the 10-year high of 69.8 that was seen in Q1 2017. Over 70 percent of panelists predict a better national economy in Q2 2017, while 21.7 percent expect conditions to remain the same and less than 5 percent anticipate a worse economic performance compared to the first quarter of 2017.

Birmingham-Hoover, Mobile and Montgomery all had national economy indexes around 70, indicating strong confidence in the nationwide economy in the coming quarter. While Huntsville's index was slightly lower at 66.5, business leaders in the metro are still optimistic about the prospect of growth in the national economy in the second quarter of 2017.

Mid-sized businesses, those employing between 20 to 99 workers, and large businesses, those with greater than 100 employees, have the most positive expectations for the national economy with indexes slightly over 71 for the second quarter. However, smaller businesses also have high levels of confidence in the U.S. economy with an index of 67.3 for Q2 2017.

## National and Alabama Economy

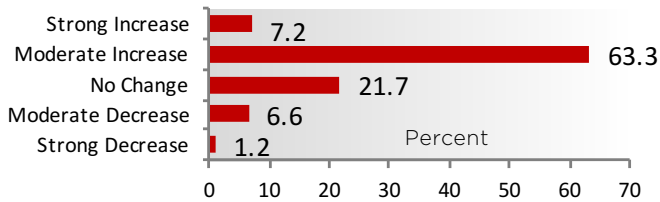


## Strong Confidence in Alabama Economy

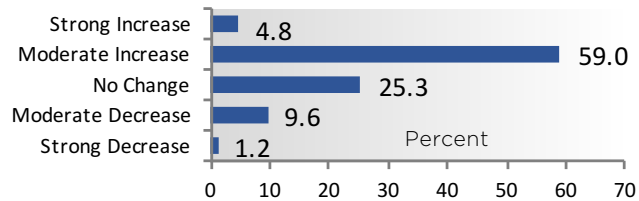
In general, Alabama business leaders have increased their expectations for the statewide economy this quarter, with the Alabama economy index gaining 1.9 points to reach 67.6 this quarter. This is the second consecutive quarter that the Alabama economy index has reached a ten-year high and the sixteenth consecutive quarter that Alabama business leaders have expected growth in the statewide economy. Just under 70 percent of panelists forecast growth in the Alabama economy in the coming quarter, and 27.1 percent expect the economy to continue moving at the same pace as the previous quarter. Only 3.6 percent of Alabama business leaders anticipate a worse outlook for the state in the second quarter of 2017. The statewide economic index slightly decreased in Huntsville, Mobile and Montgomery but remained fairly confident at or above 64.9 in all of the metro areas.

These forecasts are further supported by the Center for Business and Economic Research's 2017 economic outlook. CBER expects the Alabama economy to expand by 2.0 percent in 2017, an increase from the 1.3 percent seen in 2016. Employment growth is expected to rise 1.2 percent in 2017 after growing 1.0 percent in 2016. With a stronger statewide economic growth in 2017, CBER expects tax receipts to increase 2.5 percent in 2017.

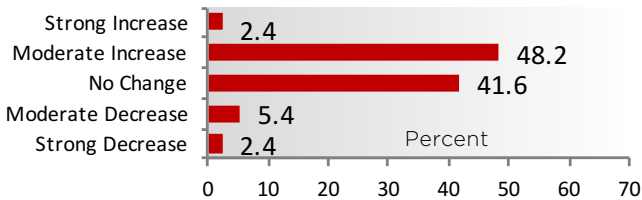
### Sales



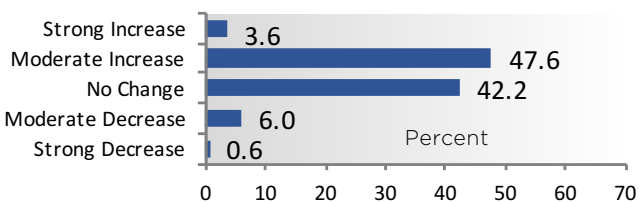
### Profits



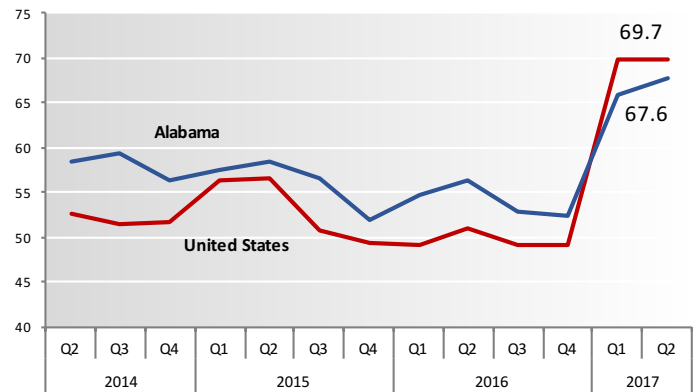
### Hiring



### Capital Expenditures



## National and Alabama Economy Expectations versus Prior Quarters



## Continued Confidence in Industry Sales

The ABCI sales index gained 3.8 points to reach a confident 67.2 in Q2 2017. Slightly more than 70 percent of panelists are expecting an increase in sales compared with the first quarter, while fewer than 8 percent expect a decrease in their sales. The remaining 21.7 percent forecast no major change moving into the second quarter of 2017.

Most industries in the state are expecting growth in sales in the coming quarter with 6 of the 9 industries indicating strong confidence with sales index values greater than 63. "All other services" are the most optimistic about sales with an index of 73.5, while transportation, information and utilities have the lowest index of 45.8, indicating mild expectations for slower sales than was seen in Q1 2017.

## Sales and Profits Expectations versus Prior Quarters



### Metro Area Analysis and ABCI History

The Center for Business and Economic Research prepares quarterly forecasts of business confidence for the state and for the Birmingham-Hoover, Huntsville, Mobile, and Montgomery metro areas. Detailed results by industry are only included in the statewide ABCI analysis.

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

### Expectations for Profits Remain High

Panelists confidently forecast an increase in profits with an index of 64.2 for the second quarter of 2017. This is a 3.0-point increase from the first quarter profit index and the highest the profit index has reached since 2004. Over 63 percent of panelists expect profits to increase in the coming quarter, 25.3 percent forecast no change, and 10.8 percent anticipate a decrease in profits compared to last quarter.

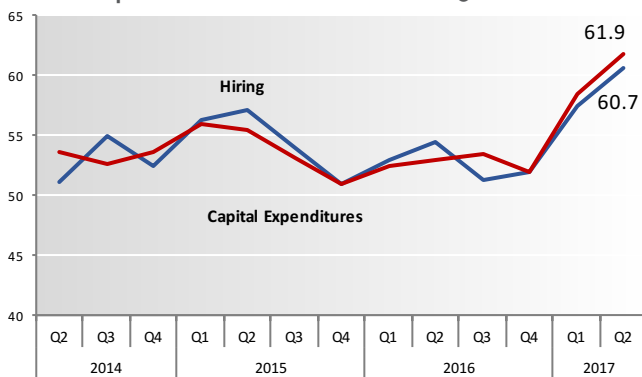
Wholesale trade has the highest confidence in increased profits at 71.3, though most industries also indicated fairly high confidence in increasing profits compared to the previous quarter. Professionals in healthcare and social assistance and also in retail trade are not expecting much growth in profits compared to the previous quarter, instead, they are largely anticipating no change from the previous quarter's levels of profit growth. Transportation, information and utilities forecast a decrease in profit growth compared to the first quarter of 2017 with an index of 37.5.

### Job Growth Expected throughout the State

While the hiring index continues to be lower than the other industry indexes at 60.7, the hiring index reached a ten-year high in the second quarter of 2017. Around 50 percent of panelists expect to increase hiring compared with the previous quarter, and another 41.6 percent do not forecast a major change in hiring. The remaining 7.8 percent of business leaders expect to decrease hiring compared to the previous quarter.

For the second consecutive quarter, panelists in professional, scientific and technical services lead in confidence with a hiring index of 66.7. Professionals in wholesale trade, manufacturing and the general services categories also indicated strong optimism regarding job growth in their businesses. Decreased hiring is expected in healthcare and social assistance with an index of 44.4, as well as in transportation, information and utilities with an index of 45.8.

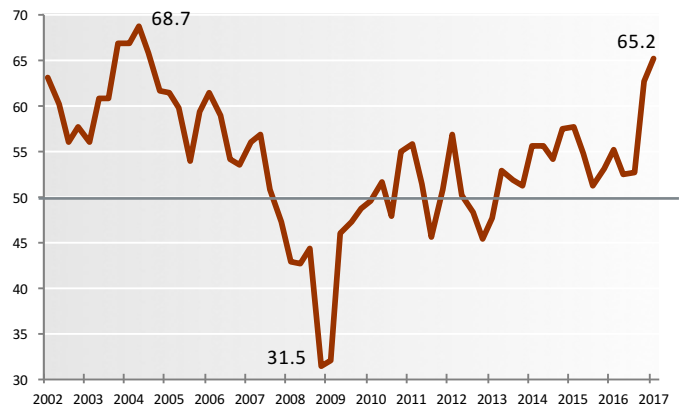
Hiring and Capital Expenditures Expectations versus Prior Quarters



### Industries In Depth, Second Quarter 2017

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	63.6	68.2	45.8	76.9	47.2	63.6	68.3	52.8	73.5
Profits	65.9	68.2	37.5	73.1	50.0	65.9	63.3	50.0	71.3
Hiring	59.1	64.8	45.8	65.4	50.0	59.1	66.7	44.4	66.2
Capital Spending	61.4	62.5	58.3	63.5	58.3	61.4	64.2	44.4	66.2

### ABCI: Optimistic in 2017



### Capital Expenditure Expected to Increase

Capital spending is expected to grow in the coming quarter with an index of 61.9. For the second consecutive quarter, Alabama business leaders reached levels of confidence in capital spending that have not been recorded since 2006. Slightly more than 51 percent of panelists expect to increase their capital spending in the coming quarter, while only 6.6 percent are forecasting a decrease compared to the first quarter of 2017. The remaining 42.2 percent are not anticipating a change in their capital expenditure levels in the second quarter of 2017.

The majority of the industries surveyed expect to increase their capital spending in the coming quarter with varying levels of confidence. The highest indexes were in professional, scientific and technical services with 64.2 and all other services with an index value of 66.2. Wholesale trade; manufacturing; finance, insurance and real estate; and construction all had indexes above 60 indicating moderate confidence in capital expenditure growth. Only healthcare and social services expect to decrease capital expenditures compared to the first quarter of 2017 with an index of 44.4.

### ABCI by Industry

	Q2 2017	Change from Q1 2017
Construction	62.9	57.9
Manufacturing	68.2	67.7
Transportation/Information/Utilities	48.6	60.1
Wholesale Trade	71.5	61.7
Retail Trade	56.0	59.7
Finance/Insurance/Real Estate	62.9	57.9
Professional/Scientific/Technical Services	67.1	66.3
Healthcare/Social Assistance Services	50.0	57.6
All Other Services	70.1	58.8
Statewide	65.2	62.7

## ABCI and Component Indexes, Second Quarter 2017, by Area

	MSA				
	Statewide	Birmingham-Hoover	Huntsville	Mobile	Montgomery
ABCI	65.2	65.5	63.7	65.5	63.6
National Economy	69.7	70.5	66.5	70.8	69.6
Alabama Economy	67.6	67.4	64.9	69.4	66.3
Industry Sales	67.2	67.4	67.6	69.4	63.0
Industry Profits	64.2	63.6	63.3	65.3	62.0
Industry Hiring	60.7	61.4	59.0	59.7	62.0
Capital Expenditures	61.9	62.9	61.2	58.3	58.7

## Industry Confidence Strengthens for Most

Six of the nine industry categories had ABCIs above 62 for the second quarter of 2017, but wholesale trade and all other services lead in confidence with indexes of 71.5 and 70.1 respectively. Business leaders in wholesale trade have the most confidence in increased sales and profits in the coming quarter with index values of 76.9 and 73.1; and professional, scientific and technical services feel most optimistic about increasing hiring and capital expenditures compared to the first quarter of 2017 with index values of 66.7 and 64.2.

The “all other services” category had the most dramatic increase in confidence from the first quarter of 2017 with a 11.3-point gain to reach 70.1 this quarter. Business leaders in this category are expecting growth in all components of the survey with strong confidence, with sales and profits indexes in the 70s and hiring and capital expenditures indexes above 65.

Business confidence in transportation, information and utilities fell 11.5 points this quarter, making it the lowest industry ABCI at 48.6. An index of 50 indicates expectations for a continuation of the previous quarter’s growth, so an overall ABCI of 48.6 suggests that business leaders in the industry are expecting a slight slowdown from the previous quarter’s growth. Panelists in transportation, information and utilities are still expecting growth

## ABCI and Component Indexes by Firm Size, Second Quarter 2017

	Number of Employees		
	0 to 19	20 to 99	100+
ABCI	63.4	66.7	66.2
National Economy	67.3	71.5	71.1
Alabama Economy	66.2	68.6	68.5
Industry Sales	66.5	69.8	65.9
Industry Profits	62.3	66.3	64.7
Industry Hiring	56.2	64.5	62.9
Capital Expenditures	61.9	59.3	63.8

in capital expenditures with mild confidence, but they anticipate a decrease in profit growth with moderate confidence and a slowdown on sales and hiring with less certainty.

## Firm ABCIs Decrease but Remain Confident

Alabama firms continue to expect growth with fairly strong confidence moving into the second quarter of 2017. All three size categories had ABCIs between 63 and 67 and optimistic forecasts for the national and statewide economies compared with the first quarter of 2017. Mid-sized firms, those with 20 to 99 employees, had the highest ABCI at 66.7 after a 3.9-point gain from the previous quarter. These businesses had higher confidence in sales, profits and hiring with index readings of 69.8, 66.3 and 64.5, respectively. Mid-sized firms were slightly less optimistic about increased capital expenditures with an index of 59.3.

For large businesses, those with 100 or more employees, confidence decreased by 1.7 points to reach a still confident 66.2 this quarter. At 63.8, confidence in increased capital expenditures was the strongest of the three firm sizes, but large firms are also feeling optimistic about the national and statewide economies and an increase in industry sales compared to last quarter.

The ABCI registered 63.4 among small firms, those with fewer than 20 employees, after a 0.5-point decrease from the first quarter of 2017. These firms are still feeling confidence about the national and statewide economies with indexes of 67.3 and 66.2, respectively. Small firms are fairly confident about increased industry sales with an index of 66.5, but are not as optimistic about hiring, with an index of 56.2.

**The Center for Business and Economic Research would like to thank the 166 Alabama business executives who completed the second quarter 2017 ABCI survey. This is the 62nd consecutive quarter this report has been recorded, and it would not have been possible without your participation.**

**Be sure to log in during the June 1-15 survey window to record your opinions about economic prospects and industry performance looking ahead to the third quarter of 2017.**

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](http://cber.cba.ua.edu/ABCI).  
For information on the Center for Business and Economic Research, visit [cber.cba.ua.edu](http://cber.cba.ua.edu).