

ABCI™

ALABAMA BUSINESS CONFIDENCE INDEX

Volume 17, Second Quarter 2018

Confidence Remains High for Alabama Businesses in the Second Quarter

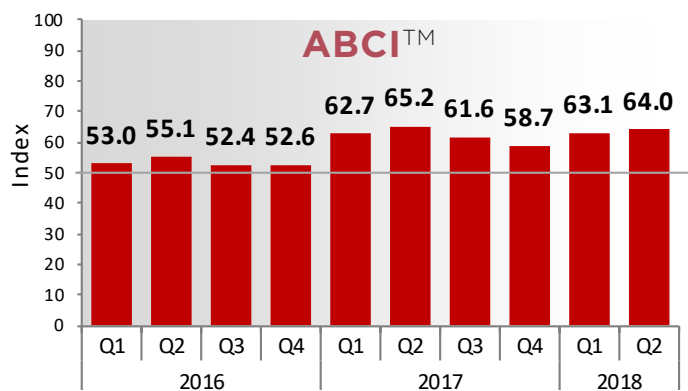
Alabama business confidence remains high heading into the second quarter 2018. This data comes from the Alabama Business Confidence Index™ (ABCI) survey, which is conducted quarterly by the Center for Business and Economic Research at the University of Alabama's Culverhouse College of Commerce. The ABCI increased 0.9 points to reach a very confident 64.0 for Q2 2018, thanks in part to a significantly increased Alabama economic outlook.

Alabama businesses' confidence in the statewide economy gained 5.3 points to reach a very confident 68.3 in the second quarter 2018 survey. Expectations for the national economic outlook remained high after gaining less than 0.1 point to stay at 66.8 this quarter. Both indexes grew significantly at the beginning of 2017 and have remained above 60 for the subsequent 6 quarters. This indicates sustained confidence in growth for both the national and local economies.

Confidence in growth also remains high for the industry component indexes of the ABCI, with all registering at or above 60 in Q2 2018. The highest industry index is in sales with an index of 64.9, followed by profits at 62.3 and capital expenditures at 61.6. Even the lowest index this quarter, hiring, still registered at 60.0, signaling continued confidence in hiring growth.

Confidence remains strong for most industries when broken down by category in Q2 2018, with eight of the nine registering above 60. Panelists in wholesale trade have the highest ABCI at 70.8, followed closely by manufacturing with an index of 68.0. Retail trade had the lowest index this quarter at 51.0, indicating very mild confidence for an increase in growth compared to Q1 2018.

Metro ABCIs are very confident in Q2 2018, with all remaining above 60 since the start of 2018. Even after a decrease in its ABCI, Mobile had the highest metro ABCI for the third consecutive quarter, at 65.8 in Q2 2018. Huntsville and Montgomery followed with ABCIs of 63.8 and 63.5, respectively, falling just below statewide expectations. Birmingham-Hoover had the lowest metro ABCI this quarter at 62.5.



Outlook for Second Quarter 2018

	Statewide ABCI	Change from Q1
ABCI	64.0	0.9
National Economy	66.8	0.1
Alabama Economy	68.3	5.3
Industry Sales	64.9	0.2
Industry Profits	62.3	-0.6
Industry Hiring	60.0	-1.4
Capital Expenditures	61.6	1.7

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

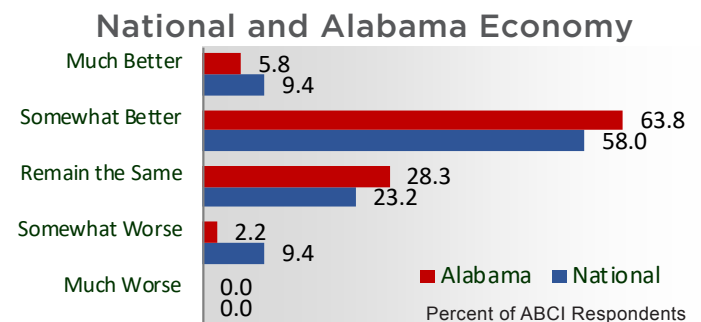
Business Environment Expectations Q2 2018 compared to Q1 2018

Strongly Positive Alabama Economic Outlook

Confidence in the Alabama economy grew 5.3 points to reach 68.3, making it the highest component index in Q2 2018's survey. This is the sixth consecutive quarter the index has been over 60, so the compounded expectations for growth are very high moving into Q2 2018. At 69.6 percent, a large majority of Alabama business leaders are anticipating better conditions in the coming quarter, while 28.3 percent forecast a continuation of Q1 2018's national conditions. Only 2.2 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 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 66.0 in Birmingham-Hoover.

Most businesses, regardless of size, are feeling very confident about the Alabama economy moving into the second quarter of 2018, with index values above 67.5. Small businesses, those with 19 or fewer employees, have the highest confidence index at 69.2; followed at 67.9 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 67.6.



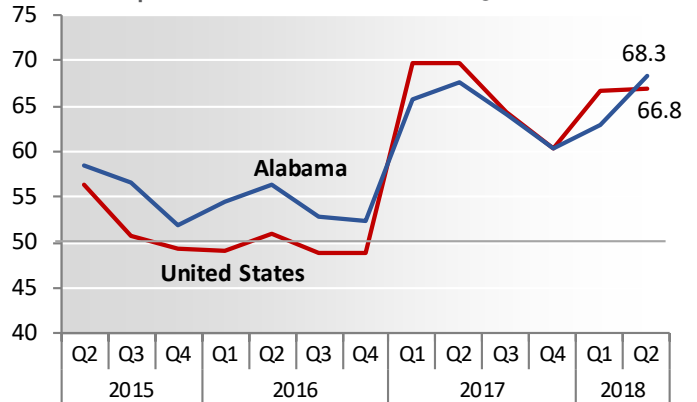
These forecasts are further supported by the Center for Business and Economic Research's 2018 economic outlook. CBER expects the Alabama GDP to grow 2.5 percent in 2018, an increase from the 2.4 percent seen in 2017. Employment growth is expected to rise 1.3 percent in 2018 after growing 1.0 percent in 2017. With stronger statewide economic growth this year, CBER expects tax receipts to increase 3.1 percent in 2018.

Continued Confidence in U.S. Economy

Second quarter expectations for the national economy remain very confident at 66.8 after a less than 0.1-point increase from Q1 2018. This is the sixth consecutive quarter that panelists have reported high confidence in improving economic conditions with U.S. economy indexes over 60. A 67.4-percent majority of panelists predict a better Alabama economy in Q2 2018, while 23.2 percent expect conditions to remain the same, and 9.4 percent anticipate a worse economic performance compared to the first quarter of 2018.

Huntsville had the highest national economic outlook at 67.4. However, confidence in the U.S. economy remains strong in the three other metro areas, with the lowest index still registering at 65.2 in Mobile. This continuation of first quarter 2018'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 Expectations versus Prior Quarters

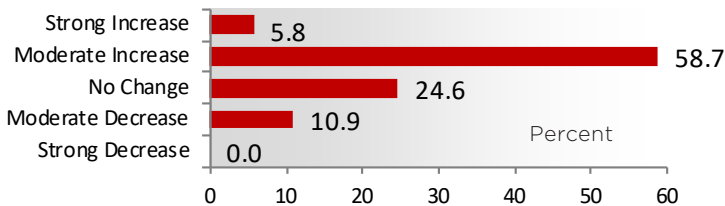


High Expectations for Industry Sales

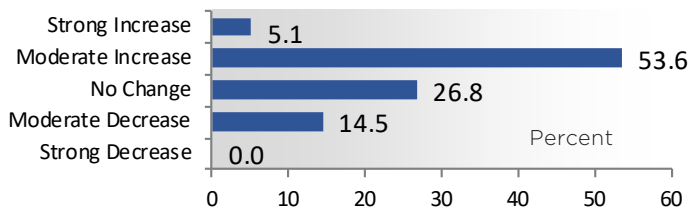
Sales are expected to continue growing in the coming quarter with an index of 64.9 after a 0.2-point increase from Q1 2018. Like the other indexes, confidence in sales has been high since the first quarter of 2017. After small decreases in Q3 and Q4 of 2018, the sales index has increased to the mid-60s again indicating high expectations for growth. At 64.5 percent, just under two-thirds of panelists forecast an increase in their sales figures; 24.6 percent expect no change; and 10.9 percent anticipate a decrease in sales compared to the previous quarter.

Panelists in wholesale trade lead in confidence for increased sales with an index of 75.0 for Q2 2018. Manufacturing and professional, scientific, and technical services also strongly expect sales to increase compared to Q1 2018, with respective indexes of 68.0 and 65.4. No industries expect a decrease in sales in Q2 2018, but retail trade expects a continuation of the previous quarter's levels with an index of 50.0.

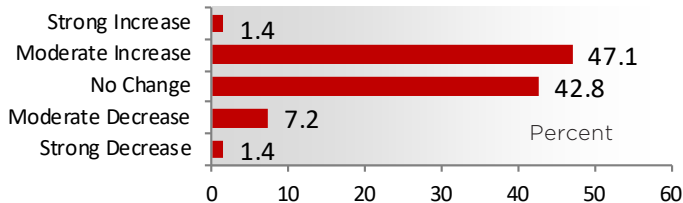
Sales



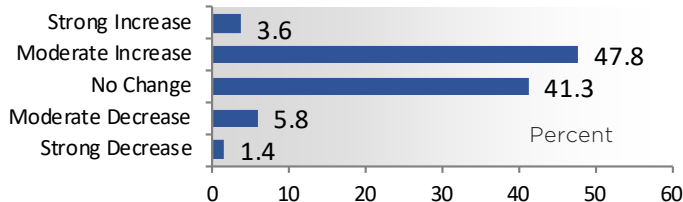
Profits



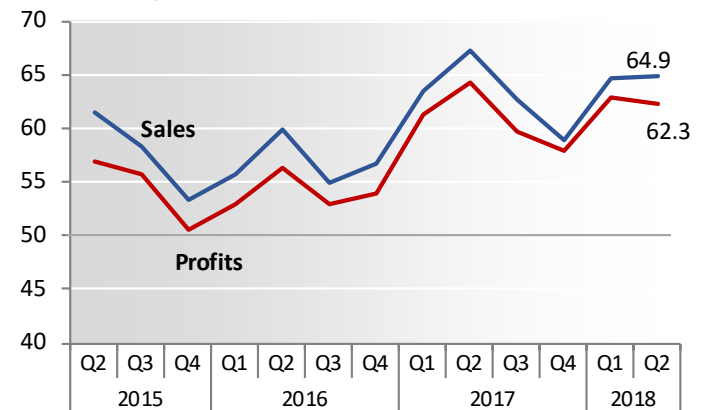
Hiring



Capital Expenditures



Sales and Profits Expectations versus Prior Quarters



Mark your Calendars: May 17, 2018 Alabama State Data Center Conference

The Center for Business and Economic Research will host speakers from the U.S. Census Bureau at the University of Alabama. Presentations will cover topics including Census Data Tools, Rural Geography, the Economic Census, and more. Lunch will be included.

To register, email Morgan Tatum Cordle at mbtatum@cba.ua.edu.

Profit Forecast Remains Optimistic

Confidence in industry profit growth remained high in the second quarter, registering at 62.3 after decreasing 0.6 points from Q1 2018. At 58.7 percent, more than half of all panelists are expecting an increase in profits compared with the first quarter, while 14.5 percent are anticipating a decrease in their profits. The remaining 26.8 percent forecast no major change moving into the second quarter of 2017.

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 62. Business leaders in wholesale trade are the most optimistic about profit growth with an index of 71.9, while retail trade had the lowest index at 37.5, indicating expectations for decreased levels of profits compared to Q1 2018.

Confident Outlook for Increased Hiring

The statewide index for hiring is a confident 60.0 after decreasing 1.4 points from Q1 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 48.6 percent of panelists expecting an increase in hiring. Only 8.7 percent expect a decrease in hiring from the previous quarter's levels, and the remaining 42.8 percent do not forecast a major change in hiring in the coming quarter.

Panelists in construction and finance, insurance, and real estate lead in confidence for increased hiring with indexes of 64.3. Business leaders in retail trade are the least optimistic about hiring levels with a neutral index of 50.0, indicating expectations for similar levels of hiring as seen in Q1 2018.

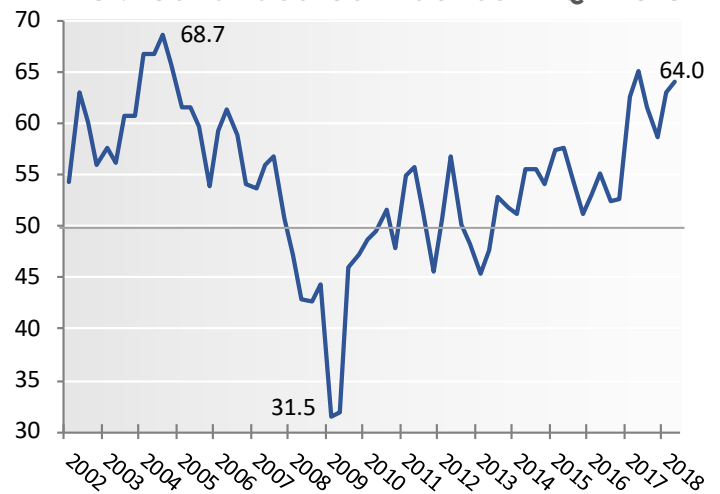
Hiring and Capital Expenditures Expectations versus Prior Quarters



Industries In Depth, Second 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	68.0	62.5	75.0	50.0	53.6	65.4	59.4	66.0
Profits	64.3	63.0	62.5	71.9	37.5	64.3	63.5	53.1	58.0
Hiring	64.3	64.0	54.2	59.4	50.0	64.3	59.6	62.5	60.0
Capital Spending	60.7	65.0	62.5	68.8	50.0	60.7	59.6	62.5	60.0

ABCI: Continued Confidence in Q2 2018



Positive Forecast for Capital Expenditures

Panelists confidently forecast an increase in capital expenditure with an index of 61.6 for the second quarter of 2018 after a 1.7 percent increase. At 51.4 percent, just over half of panelists expect an increase in their capital expenditure. A group of 41.3 percent forecast no change in their capital expenditure compared to Q1 2018, and 7.2 percent of business leaders anticipate a decrease in capital expenditure.

Business leaders across industries expect increases in capital expenditure with varying degrees of confidence moving into Q2 2018. Wholesale trade had the highest capital expenditure index at 68.8, indicating strong confidence in capital expenditure growth, while retail trade had the lowest index at 50.0, forecasting a continuation of the previous quarter's levels. The remaining industries all indicated fairly strong confidence in increased hiring with indexes between 59.6 and 65.0.

ABCI by Industry

	Q2 2018	Change from Q1 2018
Construction	61.9	-2.2
Manufacturing	68.0	1.5
Transportation/Information/Utilities	60.4	11.5
Wholesale Trade	70.8	10.2
Retail Trade	51.0	-7.8
Finance/Insurance/Real Estate	61.9	-2.2
Professional/Scientific/Technical Services	64.3	-1.7
Healthcare/Social Assistance Services	63.0	0.5
All Other Services	62.3	2.6
Statewide	64.0	0.9

ABCI and Component Indexes, Second Quarter 2018, by Area

	Metropolitan Statistical Areas (MSA)				
	Statewide	Birmingham-Hoover	Huntsville	Mobile	Montgomery
ABCI	64.0	62.5	63.8	65.8	63.5
National Economy	66.8	66.7	67.4	65.2	66.2
Alabama Economy	68.3	66.0	68.8	68.5	67.6
Industry Sales	64.9	62.5	64.6	69.6	63.2
Industry Profits	62.3	60.4	59.7	67.4	60.3
Industry Hiring	60.0	58.3	61.8	60.9	61.8
Capital Expenditures	61.6	61.1	60.4	63.0	61.8

Alabama Industries Remain Confident

Most industries feel confident about growth moving into Q2 2018, with ABCIs above 60.0 in eight of the nine categories. This quarter, wholesale trade has the highest industry ABCI at 70.8 and highest component indexes for sales (75.0), profits (71.9), and capital expenditures (68.8). Panelists in construction and finance, insurance, and real estate led in hiring with indexes of 64.3.

Transportation, information, and utilities had the highest increase in their ABCI, gaining 11.5 points to reach 60.4. After having the lowest industry expectations for Q4 2017 and Q1 2018, business leaders in this category are now forecasting increases in sales (62.5), profits (62.5), and capital expenditures (62.5) with strong confidence. Professionals in transportation, information, and utilities also expect hiring to increase this quarter with an index of 54.2. Though this is index is not as high as the other components, it is a significant increase in expectations compared to the industry's Q1 2018 hiring index of 43.8.

Business confidence in retail trade registered at 51.0 after decreasing 7.8 points, making it the lowest industry ABCI for Q2 2018. After moderate expectations for growth in the previous quarter, panelists in retail trade have predicted a contracting growth rate in profits (37.5), and a continuation of Q1 2018's levels of sales, hiring, and capital expenditures in the current quarter with indexes of 50.0 in each category.

ABCI and Component Indexes by Firm Size, Second Quarter 2018

	Number of Employees		
	0 to 19	20 to 99	100+
ABCI	63.1	64.5	64.5
National Economy	68.3	67.3	64.9
Alabama Economy	69.2	67.9	67.6
Industry Sales	62.5	69.2	63.8
Industry Profits	61.5	61.5	63.8
Industry Hiring	57.7	60.3	62.2
Capital Expenditures	59.6	60.9	64.4

Optimistic Outlook for Firms of All Sizes

Businesses of all sizes throughout the state continue to expect growth with strong confidence moving into the second quarter of 2018. Large firms, those with 100 or more employees, and mid-sized firms, those with 20 to 99 employees, both had ABCIs of 64.5 for the quarter. Large firms were more confident than their smaller counterparts in capital expenditures (64.4), profits (63.8), and hiring (62.2). However, hiring was ultimately their lowest component index and the Alabama economic outlook was the highest at 67.6.

Mid-sized firms, those with 20 to 99 employees, expressed confidence in growth with their ABCI of 64.5, a 1.8-point increase from Q1 2018. While expectations remained strongly confident overall, confidence in industry sales (69.2) and the Alabama economy (67.9) were especially high this quarter. Hiring and capital expenditure had the lowest index values for mid-sized firms at 60.3 and 60.9, respectively, still indicating expectations for increase compared to the previous quarter.

The ABCI for small firms, those with fewer than 20 employees, remained at 63.1 for Q2 2018. Like the other sized firms, leaders of small companies had high confidence in the statewide economy (69.2) and the national economy (68.3). Small firms had the lowest confidence for all four industry indicators, but with the lowest being hiring at 57.7, growth is still expected with moderate confidence. The other three industry components ranged from 59.6 to 62.5 this quarter.

The Center for Business and Economic Research would like to thank the 138 Alabama business executives who completed the second quarter 2018 ABCI survey. This is the 66th 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 2018.

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 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.