

# ABCI™

ALABAMA BUSINESS CONFIDENCE INDEX

Volume 16, Third Quarter 2017

## Business Confidence Remains High Moving into the Third Quarter of 2017

Alabama business leaders report expectations for growth in the third 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 decreased 3.6 points to remain confident at 61.6 for the third quarter, indicating expectations for continued growth in all of the survey categories.

Confidence in the national and statewide economy remain high moving into the third quarter of 2017, building on the two previous quarters' high expectations. The national economic index dropped 5.3 points to 64.5, and the Alabama economic index decreased 3.4 points to 64.2. Both indexes have registered above 60 since the first quarter of 2017, revealing a statewide expectation for strong growth in both the local and national economies.

Sales, profits, hiring and capital expenditures are also expected to continue performing well in the third quarter of 2017. Alabama businesses are most confident forecasting increased sales in the coming quarter with an index of 62.6. Even the lowest index, hiring, remained high at 58.9 in the Q3 2017 survey.

The overall industry outlooks are positive in most categories with fairly high confidence in growth, with 4 of the 9 industry sector ABCIs above 60. Panelists in manufacturing and professional, scientific and technical services are most optimistic about higher growth in the third quarter. Manufacturing business leaders have especially high confidence in the upcoming quarter's sales and profits, while panelists in professional, scientific and technical services expect higher growth in sales and hiring. Retail trade had the lowest ABCI at 46.5, indicating expectations for a slight slowdown compared with their performance in the second quarter of 2017.

Business leaders in Alabama's four largest metro areas remain optimistic, with all metros forecasting growth in the third quarter of 2017. ABCI Montgomery and ABCI Huntsville show the strongest confidence with overall index scores above 62, but even the lowest metro ABCI, which was recorded in Birmingham-Hoover, remained high at 59.1 this quarter.

## Outlook for Third Quarter 2017

	Statewide ABCI	Change from Q2
ABCI	61.6	-3.6
National Economy	64.5	-5.3
Alabama Economy	64.2	-3.4
Industry Sales	62.6	-4.6
Industry Profits	59.6	-4.5
Industry Hiring	58.9	-1.8
Capital Expenditures	59.8	-2.1

*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 Q3 2017 compared to Q2 2017

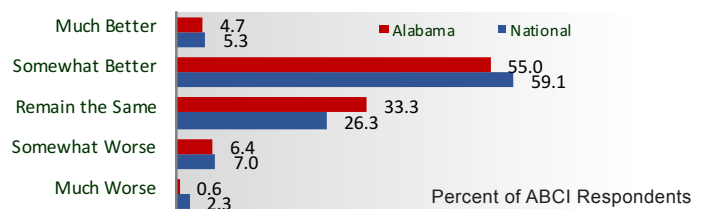
### Confident Outlook for U.S. Economy

Alabama business executives remain confident about U.S. economic growth in the coming quarter with a national index of 64.5. This is the third consecutive quarter that the index has exceeded 60, implying high confidence in improving economic conditions compared to the previous quarter. Just under 65 percent of panelists predict a better national economy in Q3 2017, while 26.3 percent expect conditions to remain the same, and 9.3 percent anticipate a worse economic performance compared to the second quarter of 2017.

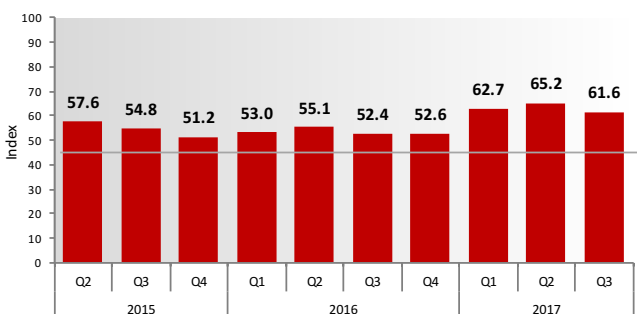
Montgomery's National Economic Outlook was highest at 68.1, but Birmingham-Hoover, Mobile and Huntsville all had national economy indexes above 60. Throughout the state and metro areas, the National Economic Outlook has been high since the Q1 2017 survey. The lower index values this quarter are a continuation of that optimism, with many business leaders still forecasting better conditions or no change from their high expectations or strong performances from the two previous quarters.

Mid-sized businesses, those employing between 20 to 99 workers, have the most positive expectations for the national economy with an index of 66.1. Smaller businesses also forecast a better National Economic Outlook with an index of 65.0, and large businesses follow closely with a national economy index of 62.7. These high values are a continuation of the two previous quarters' optimism.

## National and Alabama Economy



## ABCI™

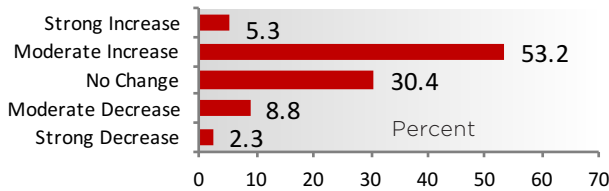


## Strong Confidence in Alabama Economy

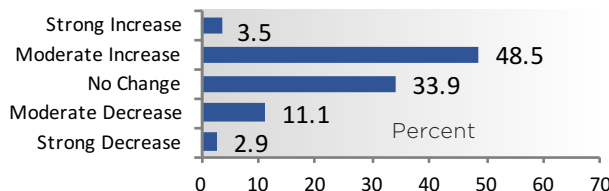
In general, Alabama business leaders are continuing to forecast a strong Alabama Economic Outlook, with the index only losing 3.4 points to remain high at 64.2 this quarter. In Q2 2017, the Alabama economy index reached a ten-year high of 67.6, and in this quarter, 59.7 percent of business leaders throughout the state expect even better statewide economic conditions compared to Q2 2017. Exactly one third expect conditions to remain the same in the coming quarter, and only 7.0 percent expect worse conditions than were seen in the previous quarter. The Alabama Economic Outlook decreased slightly in the four metro areas but remained very confident with the lowest index value in Birmingham-Hoover registering 61.5 and the highest confidence for statewide economic growth compared to the previous quarter occurring in Montgomery with an index of 65.5.

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 1.9 percent in 2017, an increase from the 1.3 percent seen in 2016. Employment growth is expected to rise 1.5 percent in 2017 after growing 1.0 percent in 2016. With a stronger statewide economic growth in 2017, CBER expects tax receipts to increase 3.5 percent in 2017.

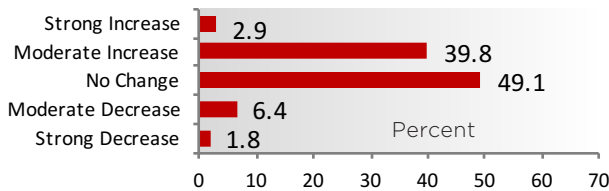
## Sales



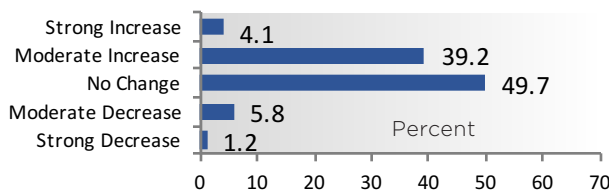
## Profits



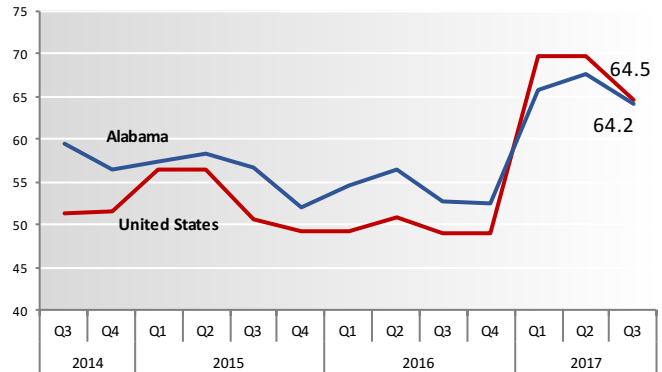
## Hiring



## Capital Expenditures



## National and Alabama Economy Expectations versus Prior Quarters

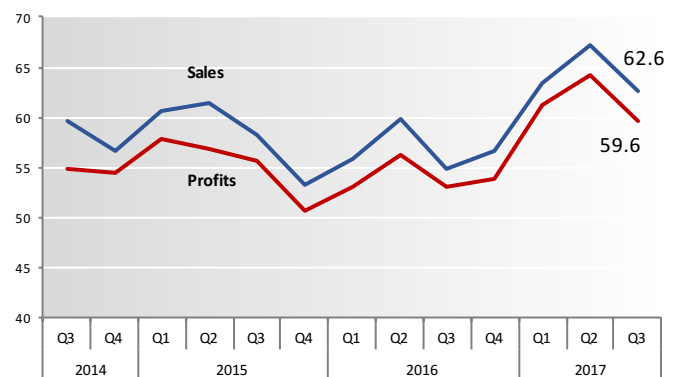


## Expectations for Industry Sales Remain High

The ABCI sales index decreased 4.6 points to remain confident at 62.6 in Q3 2017 after peaking at 67.2 in the previous quarter. Slightly more than 58 percent of panelists are expecting an increase in sales, while 11.1 percent expect a decrease in their sales compared with the second quarter. The remaining 30.4 percent forecast no major change from Q2 2017's levels of sales moving into the third quarter of 2017.

Most industries in the state are expecting growth in sales in the coming quarter: 5 of the 9 industries indicated strong confidence with sales index values greater than or equal to 60.0. Manufacturing is the most optimistic about sales with an index of 71.6, and the "All Other Services" category continues to have high confidence with an index of 67.2. Retail Trade and Healthcare and Social Assistance have the two lowest indexes of 45.8 and 46.9 respectively, indicating mild expectations for slower sales compared to Q2 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>.

### Continued Confidence in Industry Profits

Panelists forecast an increase in profits with an index of 59.6 for the third quarter of 2017. This is a 4.5-point decrease from the second quarter's 13-year peak profit index, meaning Alabama business leaders are still optimistic about profit, even though the index number has decreased. Just over 52 percent of panelists expect profits to increase in the coming quarter, 33.9 percent forecast no change, and 14.0 percent anticipate a decrease in profits compared to last quarter.

Manufacturing has the highest confidence in increased profits at 69.0, though most industries also indicated fairly high confidence in increasing profits compared to the previous quarter. Professionals in construction and in finance, insurance, and real estate are not expecting much growth in profits compared to the previous quarter: they largely anticipate no change from the previous quarter's levels of profit growth. For its second consecutive quarter, transportation, information and utilities forecast a decrease in profit growth compared to the previous quarter with an index of 45.0. Professionals in healthcare and social assistance and retail trade expect a decrease in profits compared to Q2 2017 with the lowest profits indexes of 43.8 and 45.8, respectively.

### Job Growth Forecast Remains Largely Positive

Like the other component indexes, the statewide index for hiring reached a ten-year high in Q2 2017 at 60.7. Moving into the third quarter of 2017, the index remained confident at 58.9, only decreasing by 1.8 points. Just under 43 percent of panelists expect to increase hiring, and another 49.1 percent do not forecast a major change in hiring compared with the previous quarter. The remaining 8.2 percent of Alabama business leaders expect to decrease hiring from the previous quarter's levels.

Panelists in manufacturing lead in hiring confidence with an index of 64.7. For the fourth consecutive quarter, the hiring index for professional, scientific and technical services is above 60, indicating a more prolonged trend of job growth in the industry. Decreased hiring is expected in retail trade with an index of 41.7, as well as in transportation, information and utilities for a second consecutive quarter with an index of 40.0.

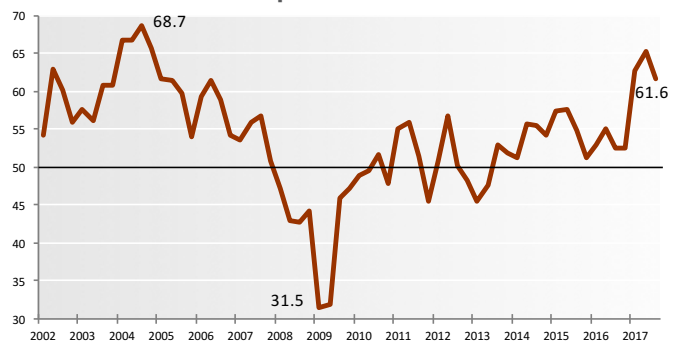
Hiring and Capital Expenditures Expectations versus Prior Quarters



### Industries In Depth, Third 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	53.8	71.6	60.0	62.5	45.8	53.8	64.7	46.9	67.2
Profits	53.8	69.0	45.0	58.3	45.8	53.8	61.8	43.8	63.8
Hiring	59.6	64.7	40.0	58.3	41.7	59.6	64.0	53.1	60.3
Capital Spending	57.7	64.7	60.0	58.3	50.0	57.7	63.2	50.0	62.1

### ABCI: Optimistic in 2017



### Moderately Strong Confidence in Increased Capital Expenditure

Capital spending is expected to continue growing in the coming quarter with an index of 59.8. Though the index value is a 2.1-point decrease from the Q2 2017 index, this is the third consecutive quarter with high capital spending values, indicating a continuation of the increase that began in the first quarter of 2017. Slightly under 50 percent of panelists do not anticipate a change in their capital spending levels compared to Q2 2017, while 43.3 percent expect to increase their capital spending in the coming quarter. The remaining 7.0 percent forecast a decrease compared to the previous quarter's spending.

Overall, none of the industries surveyed expect a decrease from Q2 2017's levels of spending. Most expect to increase their capital expenditure, though with varying levels of confidence. The highest indexes were in manufacturing with an index of 64.7 and professional, scientific, and technical services with an index of 63.2. In the second quarter, healthcare and social services expected to decrease capital expenditures, and the industry now has an index of 50.0, indicating an expectation to continue the previous quarter's lower levels of spending. Moving into the third quarter, retail trade also has a neutral capital expenditure index.

### ABCI by Industry

	Q3 2017	Change from Q2 2017
Construction	56.4	-6.5
Manufacturing	68.1	-0.1
Transportation/Information/Utilities	53.3	4.7
Wholesale Trade	60.4	-11.1
Retail Trade	46.5	-9.5
Finance/Insurance/Real Estate	56.4	-6.5
Professional/Scientific/Technical Services	65.3	-1.8
Healthcare/Social Assistance Services	52.1	2.1
All Other Services	65.2	-4.9
Statewide	61.6	-3.6

**ABCI and Component Indexes, Third Quarter 2017, by Area**

	MSA				
	Statewide	Birmingham-Hoover	Huntsville	Mobile	Montgomery
<b>ABCI</b>	<b>61.6</b>	<b>59.1</b>	<b>62.3</b>	<b>61.9</b>	<b>62.4</b>
National Economy	64.5	61.5	63.9	63.8	68.1
Alabama Economy	64.2	61.5	64.4	65.0	65.5
Industry Sales	62.6	62.2	62.5	63.8	61.2
Industry Profits	59.6	57.7	58.8	62.5	60.3
Industry Hiring	58.9	53.2	64.4	56.3	58.6
Capital Expenditures	59.8	58.3	60.2	60.0	60.3

**Continued Confidence in Most Industries**

In the Q3 2017 survey, all but one of the industry ABCIs are above 50, indicating overall expectations for growth compared to the second quarter. Many of the industry ABCIs were very high last quarter, so most ABCI values decreased from the previous quarter's levels but remained positive. Four of the nine industry categories had ABCIs above 60, showing high levels of confidence for the third quarter of 2017, and only retail trade had an ABCI below 50.

Manufacturing had the highest ABCI with an index of 68.1 after only decreasing 0.1 points from its Q2 2017's ABCI. Panelists in manufacturing led in confidence with the highest values in all component indexes, indicating high expectations for continued industry growth moving into the third quarter. Business leaders in professional, scientific and technical services and "All Other Services" category also remain high this quarter with index values of 65.3 and 65.2 respectively.

Business confidence in retail trade fell 9.5 points this quarter, making it the lowest industry ABCI at 46.5. An index level of 46.5 suggests that business leaders in the industry are expecting a slight slowdown from the second quarter's growth, driven by retail trade's expectations for decreased hiring, profits and sales.

**ABCI and Component Indexes by Firm Size, Third Quarter 2017**

	Number of Employees		
	0 to 19	20 to 99	100+
<b>ABCI</b>	<b>60.5</b>	<b>64.8</b>	<b>60.2</b>
National Economy	65.0	66.1	62.7
Alabama Economy	64.2	64.6	63.9
Industry Sales	60.0	67.7	61.1
Industry Profits	58.8	64.1	57.1
Industry Hiring	57.5	64.6	56.0
Capital Expenditures	57.5	62.0	60.3

**Varying Firm Sizes Still Expect Growth**

Alabama firms expect growth to continue with moderately strong confidence moving into the third quarter of 2017. All three size categories had ABCIs between 60 and 65 and optimistic forecasts for national and statewide economic growth. For the second consecutive quarter, mid-sized firms, those with 20 to 99 employees, have the highest ABCI at 64.8, even after a 1.9-point decrease from the previous quarter's index. These businesses have the highest levels of confidence in all four component indexes: sales came in at 67.7, hiring at 64.6, profits at 64.1, and capital expenditure at 62.0 for Q3 2017.

For small businesses, those with fewer than 20 employees, confidence decreased by 2.9 points to reach a still confident 60.5 in the third quarter survey. At 60.0, confidence in industry sales was the highest among component industry indexes for the group, but small firms are also feeling moderately confident about growth in the other component categories. The index for profits registered 58.8, and the indexes for hiring and capital expenditures both came in at 57.5.

The ABCI registered 60.2 among large firms, those with more than 99 employees, after a 6.0-point decrease from the second quarter of 2017, indicating an expectation for continued growth. These firms are most confident about industry sales and capital expenditures with indexes of 61.1 and 60.3, respectively. Profits and hiring are also expected to increase compared to Q2 2017, with indexes of 57.1 and 56.0 respectively.

**The Center for Business and Economic Research would like to thank the 172 Alabama business executives who completed the third quarter 2017 ABCI survey. This is the 63rd 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 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).