

ABCI™

ALABAMA BUSINESS CONFIDENCE INDEX

Volume 15, Fourth Quarter 2016

State Business Confidence Remains Steady at the End of 2016

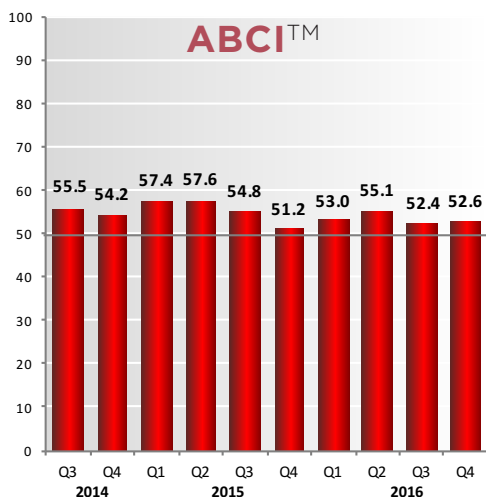
Business confidence increased to 52.6 in the fourth quarter 2016 Alabama Business Confidence Index™ (ABCI) survey, conducted by the Center for Business and Economic Research at the University of Alabama's Culverhouse College of Commerce. The index only gained 0.2 points this quarter, so Alabama's business leaders are predicting the same level of growth as was seen in the third quarter of 2016. Panelists are now slightly more optimistic than they were a year ago when the ABCI registered 51.2.

In the fourth quarter, sentiment continues to regard Alabama's economic prospects more optimistically than the U.S. outlook. Panelists expect the national economy to grow at the same pace with a slight slowdown and have lowered their forecasts for Alabama's economic growth by a small amount. Confidence in the state economy decreased to a still optimistic 52.4, while the national economy index remained the same at the slightly negative 49.0. Both results are very close to the neutral score of 50.0.

Sales, profits, and hiring are expected to perform well in the coming quarter. The sales index is the expected to perform the best of all the industry indicators, with a 1.7-point increase to 56.6. While capital expenditures are still expected to grow in the fourth quarter, the index has decreased 1.4 points to 52.0.

The overall industry outlooks are positive in all categories, but trends within specific industries are mixed. Panelists in construction are by far the most optimistic, and firms in transportation, information, and utilities are also expecting a stronger quarter. Even with a 13.6-point gain, retail trade is still forecast to slow in the coming months, and wholesale trade and manufacturing also have negative ABCI results.

While Huntsville, with an overall ABCI of 49.8, was the only metro to forecast a slower quarter, Birmingham-Hoover also declined 2.8 points to reach a neutral 50.7. Mobile surpassed Montgomery and had the highest confidence among all the large metros with an index of 57.6. Montgomery followed closely with an ABCI of 56.0.



Outlook for Fourth Quarter 2016

	Statewide ABCI	Change from Q3
ABCI	52.6	0.2
National Economy	49.0	0.0
Alabama Economy	52.4	-0.3
Industry Sales	56.6	1.7
Industry Profits	53.9	0.9
Industry Hiring	51.9	0.6
Capital Expenditures	52.0	-1.4

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 Q4 2016 compared to Q3 2016

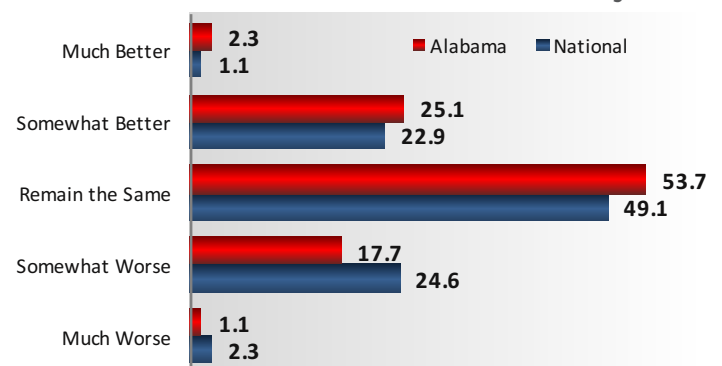
Outlook for U.S. Economy Remains Slightly Negative

Alabama business executives expect U.S. economic growth to be slightly worse than last quarter, with the same index score of 49.0. Only 24 percent of the panelists expect growth in the national economy to be higher than last quarter, while a 49 percent majority expect growth to continue at the same pace, and 27 percent expect a slowdown. This quarter's forecast is 2.6 points below 2015's fourth quarter index.

Panelists from Montgomery are the most optimistic about the national economy with an index of 55.4. Meanwhile, Birmingham-Hoover businesses are expecting the most significant slowdown of the metro areas with a national economic index of 46.1.

The smallest businesses, those employing 0 to 19 workers, have the most positive expectations and do not anticipate a large change in the national economy, while the larger businesses forecast a mildly weaker fourth quarter.

National and Alabama Economy



Percent of ABCI Respondents

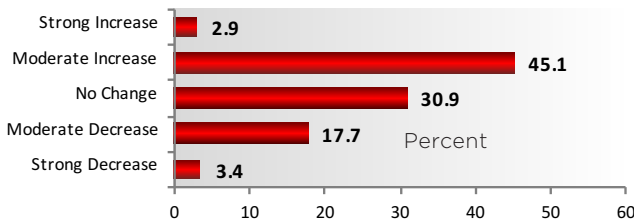
Alabama Economy Forecast Weakens but Remains Positive

With a reading of 52.4, Alabama's economy is expected to see mild growth in the final quarter of 2016. Alabama executives have felt more confident about the state's economy than the national economy for the past 10 years. The state outlook is slightly higher than it was a year ago, and it has now indicated an expanding economy for fourteen consecutive quarters. Still, the Alabama index decreased 0.3 points from the third quarter, though a 53 percent majority of panelists anticipating growth to hold steady at the third quarter pace and 27 percent expecting a stronger performance.

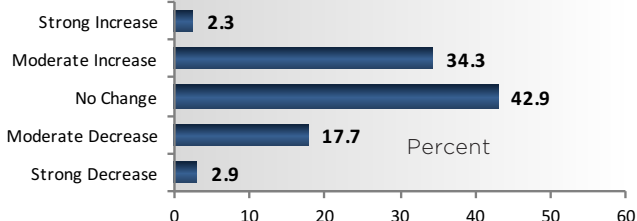
These forecasts are further supported by the Center for Business and Economic Research's updated 2016 economic outlook. CBER expects economic growth in Alabama to decrease from 2.4 percent in 2015 to around 1.7 percent in 2016. Employment growth is expected to slow down from 1.2 percent growth in 2015 to 0.8 percent in 2016. Similarly, CBER anticipates tax revenues to increase 2.1 percent in 2016, compared with last year's growth of 3.3 percent.

Industry Performance Expectations Q4 2016 compared to Q3 2016

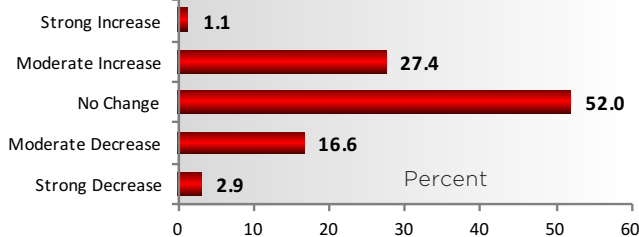
Sales



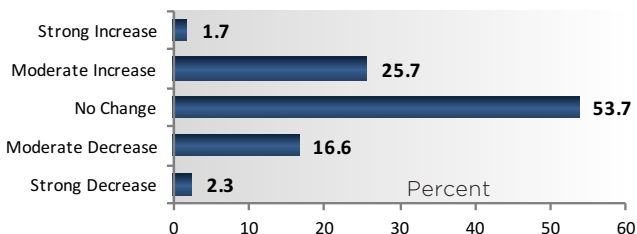
Profits



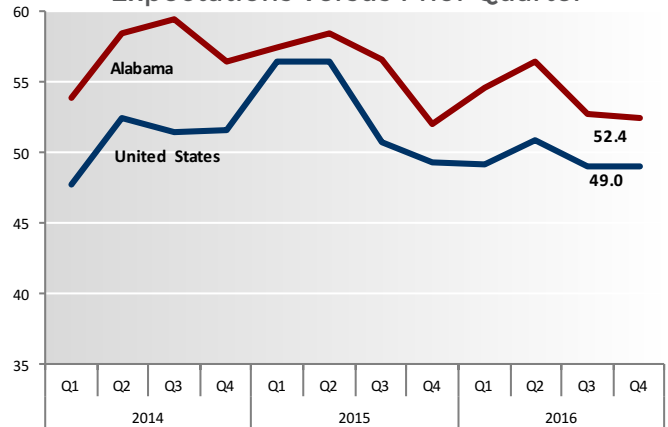
Hiring



Capital Expenditures



National and Alabama Economy Expectations versus Prior Quarter

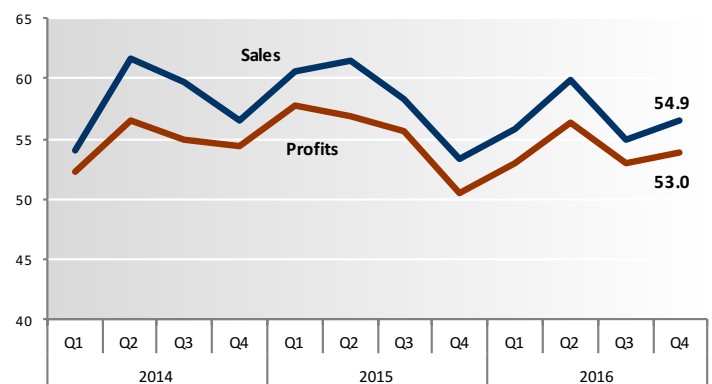


Panelists Expect Accelerated Sales Growth

The sales index gained 1.7 points to reach 56.6 in Q4 2016. About 45 percent of panelists are expecting a moderate rise in sales compared with the third quarter, with an additional 3 percent forecasting a strong increase. Only 20 percent of Alabama businesses anticipate slower sales in the fourth quarter. Construction is the most optimistic about sales, but all industries have positive forecasts except wholesale trade's neutral 50.0 and manufacturing's negative 42.0.

Profits are expected to rise in the fourth quarter, with an index value of 53.9. This is a 0.9 point increase from Q3 2016. About 43 percent of panelists expect to maintain steady profits, while 37 percent expect stronger profits and 21 percent forecast weaker profits for the period.

Sales and Profits Expectations versus Prior Quarter



Mark Your Calendars: 2017 Alabama Economic Outlook Conference is January 12th

The Center for Business and Economic Research will present their 2017 Alabama Outlook and US Forecast in Montgomery on January 12th. Registration begins in November.

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

Pace of Job Growth Expected to Increase Slightly

The state's business executives are expecting mild job gains this quarter with a 0.6-point increase to make the hiring index 52.0. While over half the panelists plan to maintain the current hiring pace, 28 percent expect hiring to expand in the coming quarter. Only 21 percent expect hiring to slow compared to the previous quarter.

Increased hiring in construction; professional, scientific, and technical firms; and healthcare and social assistance is expected to account for many of the job gains in Q4 2016. Businesses in retail, wholesale trade and manufacturing all forecast slower hiring, with retail and wholesale trade expecting the larger decreases in new employment. All of the metro areas except Huntsville expect at least some job growth, with most of the new jobs expected to be in Mobile and Montgomery.

Capital Expenditure Forecasted to Decrease Moderately

Capital spending is expected to remain positive with an index of 52.0, though it has decreased 1.4 points since the previous quarter's survey. Most panelists forecast steady spending, while 27 percent anticipate an increase in their expenditure, and 20 percent are planning for a decrease. This quarter's capital expenditure index is 1.1 points higher than the sentiment recorded one year ago.

The current outlook for capital investment is mostly positive in construction, though general services and finance, insurance, and real estate firms also expect to increase their spending at a moderate rate this quarter. Retail trade is forecasting the largest decrease in spending, and wholesale trade and manufacturing are expecting smaller slowdowns.

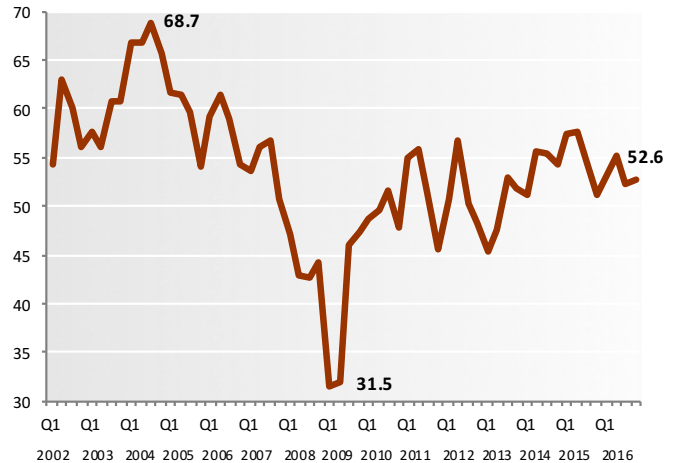
Hiring and Capital Expenditures Expectations versus Prior Quarter



Industries In Depth, Fourth Quarter 2016

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	73.1	42.0	59.4	50.0	57.1	56.6	56.0	56.8	62.1
Profits	69.2	39.8	59.4	37.5	53.6	55.1	56.9	52.3	58.6
Hiring	71.2	47.7	53.1	39.6	42.9	52.9	54.3	54.5	51.7
Capital Spending	65.4	48.9	50.0	47.9	41.1	54.4	51.7	52.3	55.2

ABCI: Remains Cautious in 2016



Construction Continues to have Highest Confidence

For the third consecutive quarter, construction firms are the most optimistic about the economy, with an ABCI reading of 66.3 and strongly positive outlooks for all its component indexes. Transportation, information and utilities regained confidence this quarter with a gain of 7.0 points to reach 55.7, led by forecasts for increased sales, profits, and spending. Despite a 13.6 point gain from the third quarter and expectations for improved sales and profits, executives in retail trade continue to expect a slower quarter with an ABCI of 45.2. Wholesale trade and manufacturing also forecast a worse quarter: manufacturing reported negative outlooks for all its component indexes, and wholesale trade is expecting sales to remain steady while profits and hiring shrink considerably.

ABCI by Industry

	Q4 2016	Change from Q3 2016
Construction	66.3	4.2
Manufacturing	46.4	-6.7
Transportation/Information/Utilities	55.7	7.0
Wholesale Trade	45.5	-4.2
Retail Trade	45.2	13.6
Finance/Insurance/Real Estate	53.1	-1.3
Professional/Scientific/Technical Services	53.3	-1.7
Healthcare/Social Assistance Services	51.5	5.7
All Other Services	56.2	2.5
Statewide	52.6	0.2

ABCI and Component Indexes, Fourth Quarter 2016, by Area

	Statewide	MSA			
		Birmingham-Hoover	Huntsville	Mobile	Montgomery
National Economy	49.0	46.1	47.6	52.2	55.4
Alabama Economy	52.4	52.0	45.7	59.8	58.0
Industry Sales	56.6	53.9	53.4	60.9	58.9
Industry Profits	53.9	50.7	52.4	57.6	57.1
Industry Hiring	51.9	51.3	49.5	56.5	54.5
Capital Expenditures	52.0	50.0	50.0	58.7	51.8
ABCI	52.6	50.7	49.8	57.6	56.0

Mobile and Montgomery More Optimistic than Other Metros

Among the four largest metro areas, Mobile business leaders lead in confidence for fourth quarter prospects with a 5.5 point gain to reach 57.6. Mobile expects increased activity in all components of the survey, forecasting strongest growth in sales and capital expenditures.

ABCI Montgomery also remains positive, reaching 56.0 after a 2.0 point increase from the third quarter. Montgomery businesses are optimistic about strong growth in sales and profits and expect mild growth in capital expenditures.

Birmingham-Hoover business executives forecast a slowing but steady economy with slight growth in the fourth quarter, with a 2.8-point decrease to settle at an area ABCI of 50.7. All industry indexes decreased moving into the fourth quarter except hiring, which saw a small increase. Expectations for capital expenditures and profit in Birmingham-Hoover are neutral, while sales and hiring are going to see slight growth.

Huntsville's ABCI is the only negative metro index after it declined slightly to reach 49.8 in the fourth quarter. Business leaders anticipate positive growth in sales and profits, but they do not expect any change in capital expenditure and forecast a slight decrease in hiring.

ABCI and Component Indexes by Firm Size, Fourth Quarter 2016

	Number of Employees		
	0 to 19	20 to 99	100+
National Economy	50.9	48.6	47.4
Alabama Economy	52.6	51.4	53.0
Industry Sales	56.0	51.9	60.8
Industry Profits	54.3	50.5	56.5
Industry Hiring	53.4	48.1	53.4
Capital Expenditures	50.4	52.8	52.6
ABCI	52.9	50.6	54.0

The Center for Business and Economic Research would like to thank the 175 Alabama business executives who completed the fourth quarter 2016 ABCI survey. This is the 60th 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 2017.

Largest Firms Lead in Confidence

Alabama's largest and smallest businesses grew more confident moving into the fourth quarter, unlike their mid-size counterparts whose ABCI declined. The three sizes all remained positive, though the mid-size group's ABCI is almost neutral.

For large firms, those with 100 or more employees, confidence grew by 2.5 points to reach 54.0. All indicators' indexes increased, except the forecast for the national economy. Executives in large firms feel most optimistic about sales and profits, although all industry indicators were above 52.5.

Alabama's small firms, those with fewer than 20 employees, are also predicting growth in the fourth quarter though they expect slightly less expansion than the large businesses. All of their indicators are positive, and small businesses are the only size of group that expects the national economy to grow. These firms are feeling optimistic about sales, profits, and hiring, and anticipate a steady continuation of last quarter's levels of capital expenditures.

The ABCI registered 50.6 among mid-sized businesses-- those with 20 to 99 employees. The firms have decreased their confidence but expect the economy to continue expand slightly. Their industry indexes all fall between 48.0 and 52.0, as they forecast a mild slowdown of hiring, neutral profit growth, and slight increases in sales and capital expenditures.

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