

ABCI™

ALABAMA BUSINESS CONFIDENCE INDEX

Volume 16, Fourth Quarter 2017

Business Confidence Remains High Moving into the Fourth Quarter of 2017

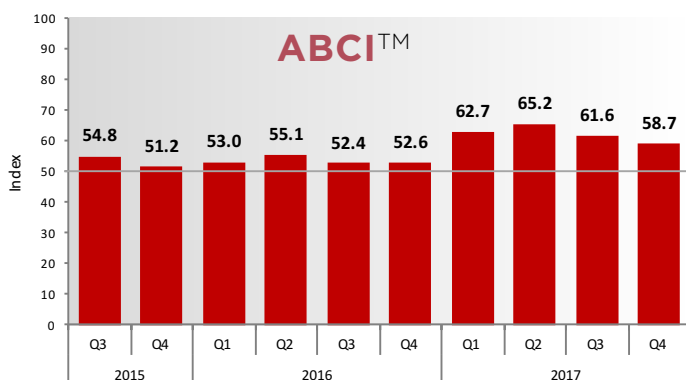
Alabama business leaders report expectations for growth in the fourth quarter 2017 *Alabama Business Confidence Index™* (ABCI) survey, which was conducted by the Center for Business and Economic Research at the University of Alabama's Culverhouse College of Commerce. The ABCI decreased 2.9 points to remain strongly confident at 58.7 for the fourth quarter. All component indexes remained high, indicating expectations for continued growth in all of the survey categories.

Confidence in the national and statewide economies remains high moving into the fourth quarter of 2017, building on the three previous quarters' high expectations. The national economic index was 60.5 after dropping 4.0 points, and the Alabama economic index decreased 3.7 points to 60.5. Both indexes have registered above 60 since the first quarter of 2017, revealing a yearlong 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 fourth quarter of 2017. Alabama businesses are most confident forecasting increased sales in the coming quarter with an index of 58.8. Even the lowest index, hiring, remained high at 57.1 in the Q4 2017 survey.

The overall industry outlooks are positive in most categories with fairly high confidence in growth, with four of the nine industry ABCIs hovering above 59.5. For the second consecutive quarter, panelists in manufacturing and in professional, scientific and technical services have the highest ABCIs at 60.6 and 62.5 respectively. Panelists in transportation, information, and utilities expect a decrease in growth with mild confidence with an ABCI of 48.8, while business leaders in retail trade are expecting another slow quarter with an ABCI of 42.7.

Business sentiment in Alabama's four largest metro areas continued to register as positive in the fourth quarter of 2017. Mobile is forecasting growth with the most confidence with an area index of 62.1. Huntsville and Montgomery followed with ABCIs of 58.3 and 58.0, respectively, indicating moderate to strong confidence in growth compared to the previous quarter.



Outlook for Fourth Quarter 2017

| | Statewide ABCI | Change from Q3 |
|----------------------|----------------|----------------|
| ABCI | 58.7 | -2.9 |
| National Economy | 60.5 | -4.0 |
| Alabama Economy | 60.5 | -3.7 |
| Industry Sales | 58.8 | -3.8 |
| Industry Profits | 57.9 | -1.8 |
| Industry Hiring | 57.1 | -1.8 |
| Capital Expenditures | 57.4 | -2.4 |

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 2017 compared to Q3 2017

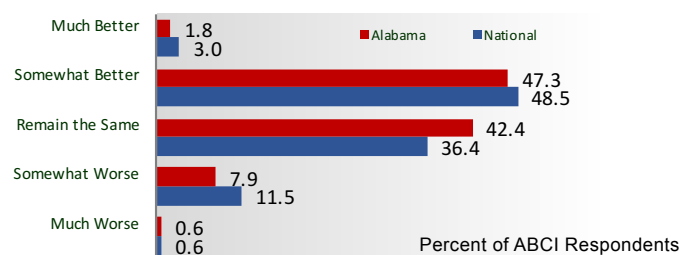
Strong Confidence in U.S. Economy

Alabama business executives remain confident about U.S. economic growth in the coming quarter with a national index of 60.5. This is the fourth consecutive quarter that panelists have reported high confidence in economic conditions improving compared to the previous quarter, with a national index over 60. Just over 51.5 percent of panelists predict a better national economy in Q4 2017, while 36.4 percent expect conditions to remain the same, and 12.1 percent anticipate a worse economic performance compared to the third quarter of 2017.

Mobile had the highest national economic outlook at 63.0. However, confidence in the national economy remained strong in the three other metro areas, with the lowest national economy index still registering at 58.8 in Birmingham-Hoover. Even though the national economy index values have decreased since their peak in Q1 2017, business leaders throughout the state continue to expect a strong performance from the national economy.

Like in Q3 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 over 60 for the fourth quarter. However, smaller businesses continue to have fairly strong confidence in the U.S. economy with an index of 59.8 for Q4 2017.

National and Alabama Economy



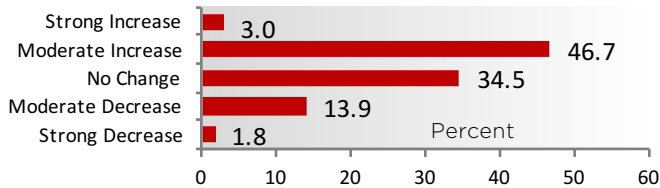
Positive Outlook for Alabama Economy

Fourth quarter expectations for the Alabama economy remain very confident at 60.5, despite a 3.7-point decrease from Q3 2017. This is the fourth consecutive quarter the index has been over 60, so the compounded expectations for growth remain high, even as the index values decrease. Almost 50 percent of Alabama business leaders are anticipating better conditions in the coming quarter, while 42.4 percent forecast a continuation of Q3 2017's statewide conditions. Only 8.5 percent of panelists expect Alabama's business conditions to worsen compared to the previous quarter.

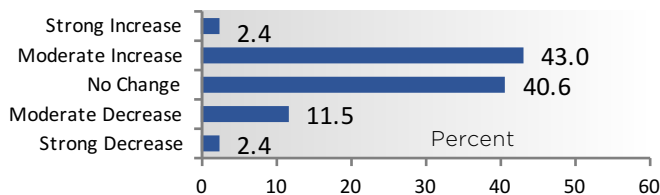
Alabama's metro areas all expect better statewide economic conditions in the coming quarter, but Mobile leads in confidence with an index of 67.4. The other three metros in the survey also have moderate to strong confidence in the statewide economy. Birmingham-Hoover has the lowest Alabama outlook at 56.9.

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 4.0 percent in 2017.

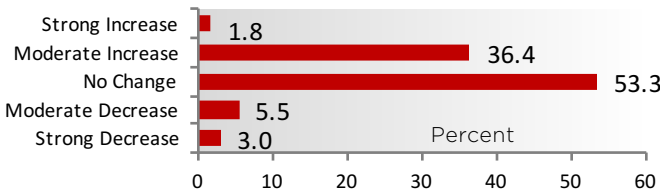
Sales



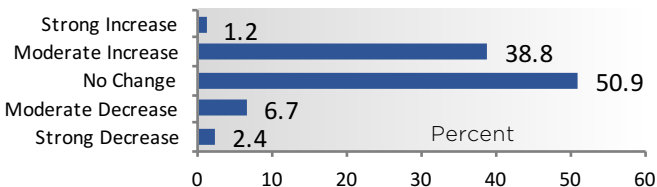
Profits



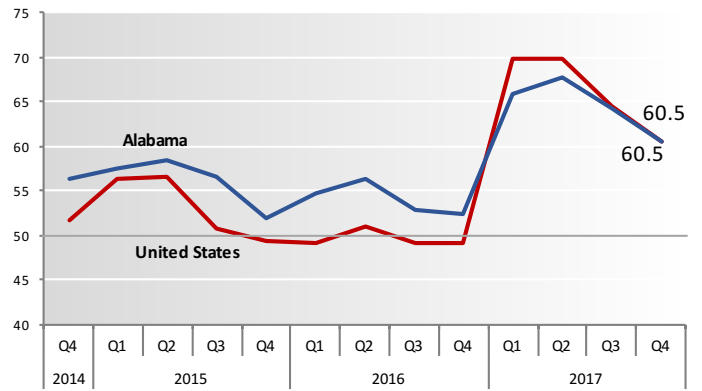
Hiring



Capital Expenditures



National and Alabama Economy Expectations versus Prior Quarters

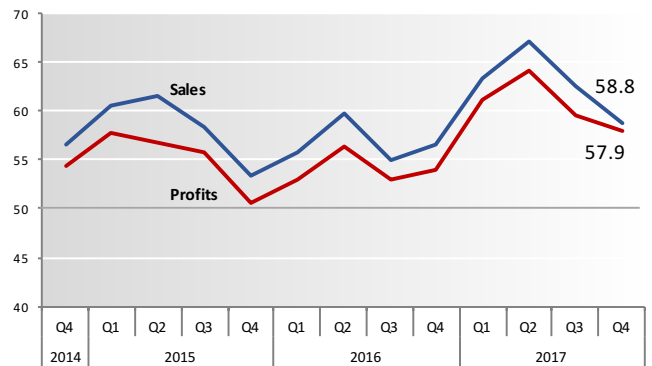


Continued Confidence in Industry Sales

The ABCI sales index declined 3.8 points to reach a still confident 58.8 in Q4 2017. At 49.7 percent, slightly fewer than half of all panelists are expecting an increase in sales compared with the third quarter, while 15.8 percent are anticipating a decrease in their sales. The remaining 34.5 percent forecast no major change moving into the fourth quarter of 2017.

Most industries in the state are continuing to expect growth in sales in the coming quarter with seven of the nine industries indicating moderate to strong confidence with sales index values greater than 55. Business leaders in professional, scientific, and technical services are the most optimistic about sales with an index of 67.0, while retail trade has the lowest index of 43.8, indicating moderate expectations for slower sales than were seen in Q3 2017.

Sales and Profits Expectations versus Prior Quarters



**Mark your Calendars:
2018 Alabama Economic Outlook Conference
is January 11th**

The Center for Business and Economic Research will present their 2018 Alabama Outlook and US forecast in Montgomery on January 11th. Registration begins in November.

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

Expectations for Profits Remain High

The statewide index for profits remained high at 57.9 in Q4 2017 after decreasing 1.8 points. Just under 46 percent of panelists expect profits to increase, and another 40.6 percent do not forecast a major change in profits compared to the previous quarter. The remaining 13.9 percent of Alabama business leaders expect a decrease in profits from Q3 2017's levels.

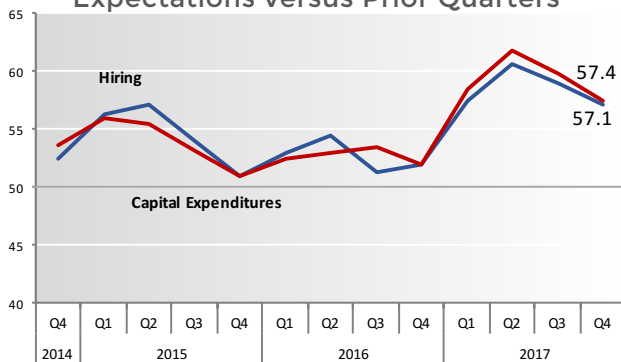
Like in the sales index, panelists in professional, scientific, and technical services lead in confidence for increased profits with an index of 64.3. Business leaders in retail trade are the least optimistic about profit levels, with an index of 37.5 indicating strong expectations for a decrease compared to Q3 2017's levels. Transportation, information, and utilities also had a slightly negative outlook at 46.4, but the remaining industries all indicated moderate to strong confidence in growth with indexes between 54.6 and 58.1.

Confidence in Hiring Continues

Panelists forecast an increase in hiring with an index of 57.1 for the fourth quarter of 2017. While this is the lowest of the component indexes, it still indicates moderate to strong confidence in higher levels of hiring compared to the previous quarter, with 38.2 percent of panelists expecting an increase in their hiring. A 53.3-percent majority forecast no change in their hiring compared to Q3 2017, and only 8.5 percent of business leaders anticipate a decrease in hiring. This is the fourth consecutive quarter with a hiring index greater than 57.

Business leaders in construction; finance, insurance, and real estate; and professional, scientific, and technical services all had hiring indexes greater than 62, indicating strong expectations for hiring growth. Retail trade had the lowest hiring index at 43.8, followed by wholesale trade at 44.4, indicating moderate expectations for decreased hiring growth compared to the previous quarter. Panelists in transportation, information, and utilities expect to continue hiring at the same pace as Q3 2017, and all other industry categories expect an increase in hiring with moderate confidence.

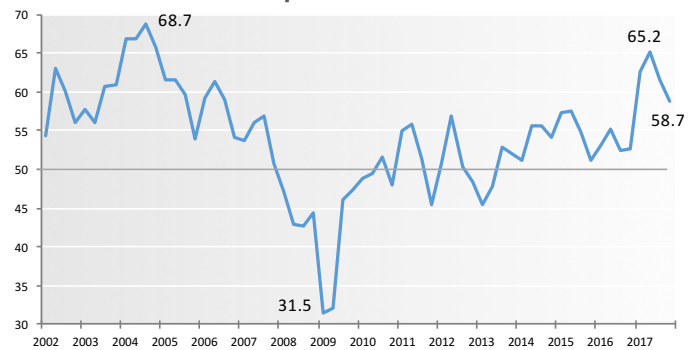
Hiring and Capital Expenditures Expectations versus Prior Quarters



Industries In Depth, Fourth 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 | 60.0 | 58.1 | 50.0 | 55.6 | 43.8 | 60.0 | 67.0 | 57.5 | 56.5 |
| Profits | 57.5 | 58.1 | 46.4 | 55.6 | 37.5 | 57.5 | 64.3 | 57.5 | 54.6 |
| Hiring | 62.5 | 57.3 | 50.0 | 44.4 | 43.8 | 62.5 | 63.4 | 57.5 | 55.6 |
| Capital Spending | 65.0 | 59.7 | 42.9 | 55.6 | 37.5 | 65.0 | 58.9 | 52.5 | 60.2 |

ABCI: Optimistic in 2017



Capital Expenditure Forecast Remains Positive

Capital spending is expected to continue growing in the coming quarter at 57.4, despite a 2.4-point decrease from Q3 2017. Like the other component indexes, the statewide index for capital expenditure reached a ten-year high in Q2 2017 at 61.9, and though it has decreased in the following quarters, it has remained confident in forecasting increasing capital expenditure. Exactly 40.0 percent of all panelists are expecting an increase in their capital spending compared to Q3 2017, 50.9 percent forecast no change, and only 9.1 percent expect to decrease their levels of capital expenditure in the coming quarter.

Panelists in construction and finance, insurance, and real estate lead in confidence for increased capital expenditure with indexes of 65.0 for Q4 2017. Manufacturing and the "all other services" category follow with indexes hovering around 60, indicating strong expectations for growth. Retail trade and transportation, information, and utilities had capital expenditure indexes below 50 at 37.5 and 42.9 respectively, meaning panelists in those industries forecast a decrease in their capital spending growth compared to the previous quarter.

ABCI by Industry

| | Q4 2017 | Change from Q3 2017 |
|--|---------|---------------------|
| Construction | 59.6 | 3.2 |
| Manufacturing | 60.6 | -7.5 |
| Transportation/Information/Utilities | 48.8 | -4.5 |
| Wholesale Trade | 56.5 | -3.9 |
| Retail Trade | 42.7 | -3.8 |
| Finance/Insurance/Real Estate | 59.6 | 3.2 |
| Professional/Scientific/Technical Services | 62.5 | -2.8 |
| Healthcare/Social Assistance Services | 58.3 | 6.3 |
| All Other Services | 57.9 | -7.4 |
| Statewide | 58.7 | -2.9 |

ABCI and Component Indexes, Fourth Quarter 2017, by Area

| | MSA | | | | |
|----------------------|-----------|-------------------|------------|--------|------------|
| | Statewide | Birmingham-Hoover | Huntsville | Mobile | Montgomery |
| ABCI | 58.7 | 54.8 | 58.3 | 62.1 | 58.0 |
| National Economy | 60.5 | 58.8 | 59.7 | 63.0 | 60.2 |
| Alabama Economy | 60.5 | 56.9 | 59.7 | 67.4 | 58.0 |
| Industry Sales | 58.8 | 55.0 | 60.4 | 60.9 | 55.7 |
| Industry Profits | 57.9 | 53.8 | 55.6 | 56.5 | 58.0 |
| Industry Hiring | 57.1 | 50.6 | 59.7 | 60.9 | 58.0 |
| Capital Expenditures | 57.4 | 53.8 | 54.9 | 64.1 | 58.0 |

Expectations for Growth in Most Industries

Though six of the nine industry categories decreased compared to their Q3 2017 levels, most continue to confidently expect growth with indexes above 57.5. Manufacturing and professional, scientific, and technical services had the highest industry ABCIs in this quarter at 60.6 and 62.5. The latter category had the highest component indexes in sales (67.0), profits (64.3), and hiring (63.4). Construction and finance, insurance, and real estate led in capital expenditure confidence this quarter with indexes of 65.0.

Healthcare and social assistance had the highest increase in their index, gaining 6.3 points to reach 58.3 in the fourth quarter survey. After having low expectations for profits and sales in Q3 2017, business leaders in this category are now forecasting increases in those categories with moderate confidence. Hiring is also expected to increase with more confidence this quarter, though panelists in healthcare and social assistance continue to have tepid expectations for increased capital expenditures.

Business confidence in retail trade registered at 42.7 after decreasing 3.8 points, making it the lowest industry ABCI for the second consecutive quarter. After moderate expectations for growth in Q2 2017, panelists in retail trade have predicted contracting growth rates in sales, profits, hiring and capital expenditure in the subsequent quarters. Current component indexes for this industry register in the low 40s, with both

ABCI and Component Indexes by Firm Size, Fourth Quarter 2017

| | Number of Employees | | |
|----------------------|---------------------|----------|------|
| | 0 to 19 | 20 to 99 | 100+ |
| ABCI | 60.3 | 55.4 | 59.8 |
| National Economy | 59.8 | 60.9 | 60.7 |
| Alabama Economy | 62.1 | 56.3 | 62.3 |
| Industry Sales | 63.4 | 52.6 | 59.4 |
| Industry Profits | 59.8 | 52.1 | 60.7 |
| Industry Hiring | 58.9 | 54.2 | 57.8 |
| Capital Expenditures | 57.6 | 56.3 | 58.2 |

sales and hiring indexes at 43.8, and both profits and capital expenditure at 37.5, indicating moderate to strong confidence in the decreased levels of those categories.

Firm ABCIs Decrease but Remain Confident

Alabama firms continue to expect growth with moderate to strong confidence moving into the fourth quarter of 2017. Small firms, those with fewer than 20 employees, had the highest ABCI at 60.3 after a 0.2-point decrease from Q3 2017. These businesses had high confidence in all categories, but especially the Alabama economy (62.1) and industry sales (63.4). The lowest component index for this size of firms was capital expenditure, but even that remained moderately confident at 57.6.

For large businesses, those with 100 or more employees, confidence only decreased by 0.4 points to reach a still strongly confident 59.8. This index comprised of high expectations for growth in the national economy (60.7), the statewide economy (62.3), and industry profits (60.7), as well as moderate to strong confidence in all the other component indexes. The lowest index was hiring at 57.8.

The ABCI registered 55.4 among mid-sized firms, those with 20 to 99 employees, after a 9.4-point decrease from the third quarter of 2017. While expectations remain moderately confident overall, confidence in the national economy is the highest at 60.9, and the highest component index for this size business is capital expenditure at 56.3. Expectations for increasing sales and profits this quarter remain positive but not strongly confident, registering at 52.6 and 52.1 respectively.

The Center for Business and Economic Research would like to thank the 164 Alabama business executives who completed the fourth quarter 2017 ABCI survey. This is the 64th 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 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.