

# ABCI™

ALABAMA BUSINESS CONFIDENCE INDEX

Volume 15, Second Quarter 2016

## State Business Confidence Improves as 2016 Continues

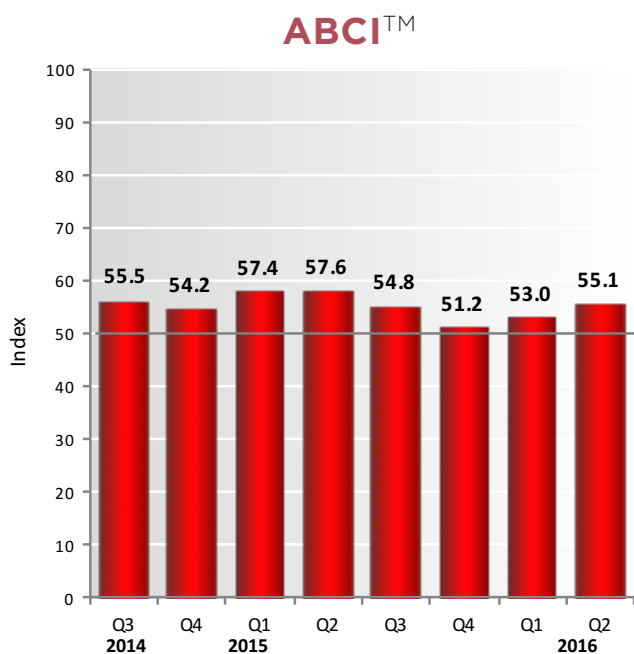
Business confidence rose to 55.1 on the second quarter 2016 *Alabama Business Confidence Index™* (ABCI) survey, conducted by the Center for Business and Economic Research in UA's Culverhouse College of Commerce. The index rose 2.1 points to mark the highest showing since the second quarter of 2015. Panelists remain somewhat less optimistic than a year ago when the ABCI registered 57.6.

Panelists continue to see expansion in the Alabama economy, but are less optimistic about the national economy. Confidence in the state economy rose to a quite confident 56.4, while the national economy index remained near the neutral mark at a barely positive 50.9.

Every industry indicator moved higher on the survey and all continue to remain positive. The sales index again tops the list at 59.8, while expectations for capital expenditures, hiring, and profits all remain in easily positive territory.

Overall, firms in finance, construction, miscellaneous services, and professional services are the most optimistic this quarter, all posting index levels of 56.0 or more. Retailers, however, continue to see the economic environment as a negative.

The largest four metro areas all posted positive readings as confidence remains at least moderately high in all four major metros. Confidence increased in all metro areas except Mobile, with the biggest gain seen in Birmingham-Hoover. Montgomery enjoys the highest confidence among the large metros with an index of 57.3.



## Outlook for Second Quarter 2016

	Statewide ABCI	Change from Q1
ABCI	55.1	2.1
National Economy	50.9	1.6
Alabama Economy	56.4	1.8
Industry Sales	59.8	4.0
Industry Profits	56.3	5.7
Industry Hiring	54.5	1.5
Capital Expenditures	53.0	0.6

Index above 50 indicates positive outlook.  
Index below 50 indicates negative outlook.

## Business Environment Expectations Q2 2016 compared to Q1 2016

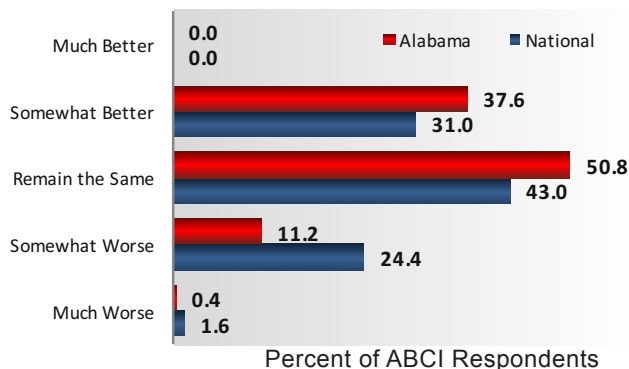
### Outlook for U.S. Economy Improves

The national economy index rose 2.1 points to 50.9, an increase over the previous two quarters. Only 26 percent of the state's business executives expect U.S. economic growth to be lower than last quarter and another 43 percent think growth will continue at about the same pace. This most recent U.S. reading represents a 5.6 point drop from only a year ago.

Panelists from Mobile are the most optimistic about the national economy, while respondents from Huntsville are again the least enthusiastic about the national scene.

Large businesses, those employing 100 or more, were the most optimistic about the national picture, with a tepidly positive reading of 51.6. Medium-sized businesses, those employing 20 to 99 employees, have the most pessimistic view of the national stage with a mildly negative reading of 49.3.

## National and Alabama Economy



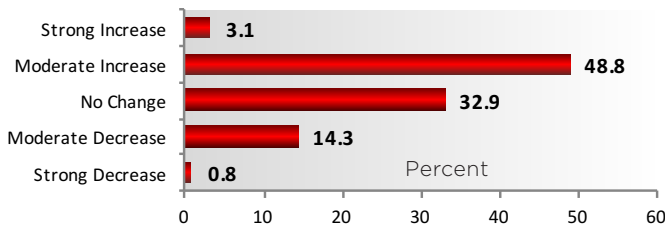
## Slightly Stronger Growth Forecasted for Alabama Economy

Business executives expect the state's economy to continue its expansion in the second quarter of 2016. At 56.4, the index is up 1.8 points from last quarter, but down 2.0 points compared to a year ago. Almost 38 percent of panelists expect stronger economic growth this quarter and approximately 51 percent expect the state's economy to perform about the same as last quarter.

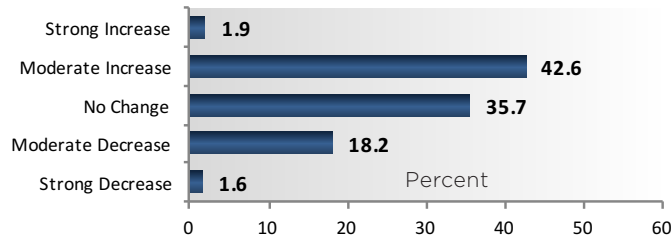
The mixed, but mostly positive sentiment of ABCI panelists in a broad range of industries supports the recent 2016 forecast from the Center for Business and Economic Research. CBER expects the state's economic growth to slow down slightly from 2.4 percent in 2015 to 2.3 percent this year. Employment growth is forecasted to decelerate from around 1.2 percent in 2015 to 1.0 percent in 2016, while tax revenues are forecasted to rise 2.7 percent in FY2016 compared to last year's 3.3 percent increase.

### Industry Performance Expectations Q2 2016 compared to Q1 2016

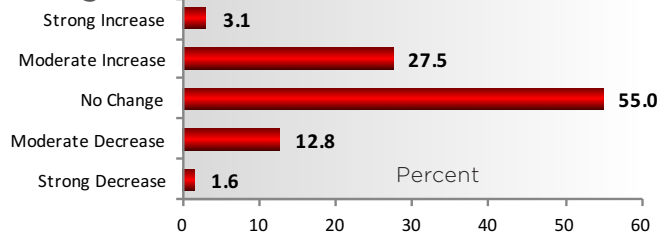
#### Sales



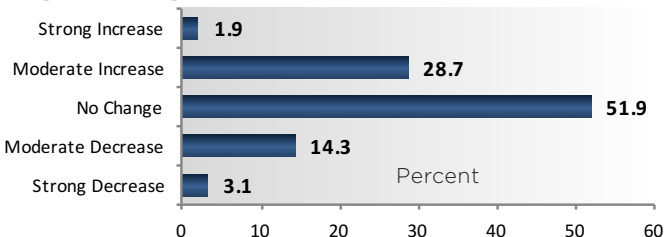
#### Profits



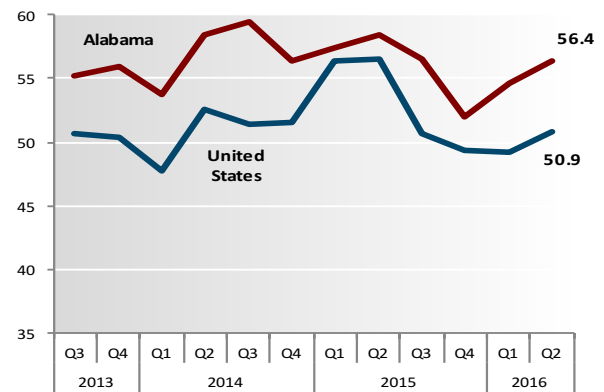
#### Hiring



#### Capital Expenditures



## National and Alabama Economy Expectations versus Prior Quarter

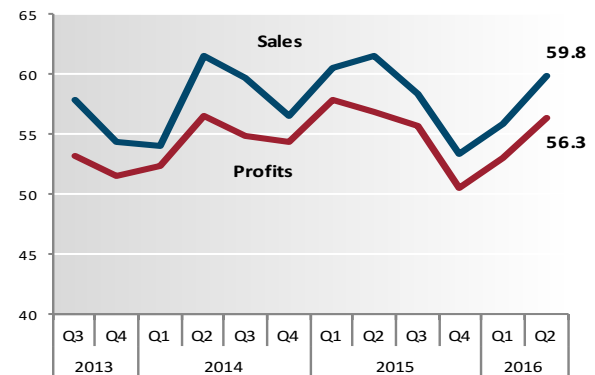


## Panelists Expect Accelerated Sales Growth

The statewide sales index gained 4.0 points this quarter, rising to a strongly positive 59.8 - the best showing of the four industry indicators this quarter. About 52 percent of panelists see sales improving, while 33 percent expect sales in their industry to remain the same as last quarter's levels. Only 15 percent of the panel forecasts a decrease in sales for the second quarter. Construction firms, along with finance, insurance, and real estate businesses are the most confident of stronger sales, while firms engaged in retail trade are the most pessimistic.

Profits may also rise during the second quarter. The index value of 56.3 represents a 5.7 point increase from its first quarter reading. About 36 percent of panelists expect to maintain steady profits, while 45 percent of respondents expect profit trends to be better than last quarter and 20 percent forecast weaker profits for the period.

### Sales and Profits Expectations versus Prior Quarter



## 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>.

## Pace of Job Growth Expected to Continue

The state's business executives are signaling moderate job gains this quarter. The hiring index rose 1.5 points to 54.5 with 55 percent of firms planning to maintain the current pace of hiring and 31 percent expecting to increase hiring over last quarter's level. Only 14 percent of respondents expect to hire at a slower pace.

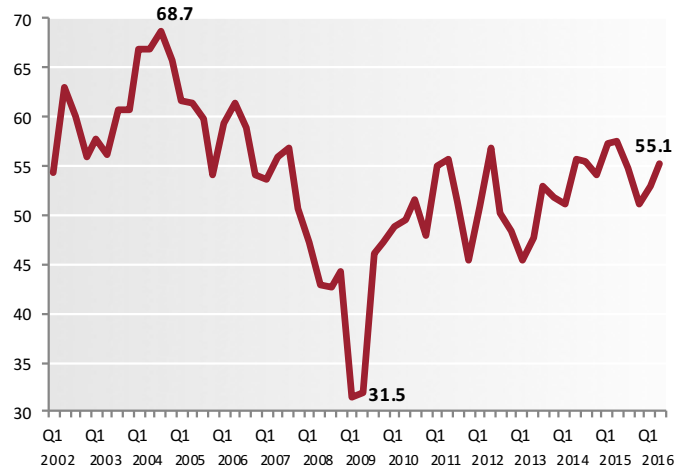
Increased hiring among construction, finance, and miscellaneous service firms account for many of the expected job gains. Only retail trade, wholesale trade, and healthcare firms are forecasting a fall-off in hiring. All metro areas are expected to experience job growth, but gains in Huntsville and Montgomery employment could be slightly better than those of the state's other large metro areas.

## Modest Gains Forecast for Capital Expenditures

Capital spending growth will only slightly improve in the second quarter of 2016. The index gained less than a point to 53.0. Over half of panelists (52 percent) expect to maintain investment at current levels, while over 30 percent anticipate increased spending compared to last quarter.

The outlook for capital investment is the most positive in healthcare, which scored a healthy 57.1. Firms in the transportation, information, and utilities sector are also likely to see the increased investment, while businesses in wholesale trade are the least optimistic about capital spending.

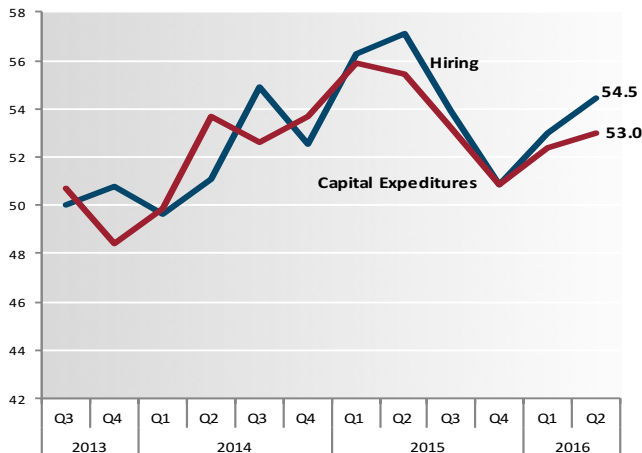
## ABCI: Optimism Rebounds in Q2



## Construction Confidence Remains High

Construction firms are the most optimistic this quarter, with an ABCI reading of 58.6 based on strongly positive outlooks for sales and hiring. Confidence is also strong among financial services firms with the continued expectation of increased sales contributing to an overall index of 58.2. Retail trade and healthcare reported the lowest confidence with pessimistic readings of 45.4 and 49.7, respectively. Decreased hiring and profits can be expected for companies in both of these sectors.

## Hiring and Capital Expenditures Expectations versus Prior Quarter



## ABCI by Industry

	Q2 2016	Change from Q1 2016
Construction	58.6	0.3
Manufacturing	53.7	-1.0
Transportation/Information/Utilities	53.5	0.3
Wholesale Trade	52.2	0.7
Retail Trade	45.4	-3.3
Finance/Insurance/Real Estate	58.2	-1.1
Professional/Scientific/Technical Services	55.7	-1.0
Healthcare Services	49.7	-0.7
All Other Services	56.1	-0.8
Statewide	55.1	2.1

## Industries In Depth, Second Quarter 2016

Component Index	Construction	Manufac.	Transp./Info./Utilities	Wholesale Trade	Retail Trade	Fin./Insur./Real Estate	Prof./Sci./Technical	Healthcare	All Other Services
Sales	64.5	59.0	54.2	57.4	50.0	66.3	59.4	51.8	58.5
Profits	55.3	54.9	51.4	51.5	47.5	61.3	59.4	44.6	57.9
Hiring	60.5	52.8	51.4	48.5	45.0	57.1	54.4	48.2	57.3
Capital Spending	52.6	52.1	55.6	48.5	52.5	52.5	53.8	57.1	53.7

## ABCI and Component Indexes, Second Quarter 2016, by Area

	Statewide	MSA			
		Birmingham-Hoover	Huntsville	Mobile	Montgomery
National Economy	50.9	51.2	50	52.9	51.9
Alabama Economy	56.4	55.8	55.9	58.6	58.8
Industry Sales	59.8	57.3	59.4	60	62.5
Industry Profits	56.3	54.2	56.9	57.1	56.9
Industry Hiring	54.5	54.6	55.9	53.6	55.6
Capital Expenditures	53.0	52.7	52.8	49.3	58.1
<b>ABCI</b>	<b>55.1</b>	<b>54.3</b>	<b>55.2</b>	<b>55.2</b>	<b>57.3</b>

### Confidence Increases in Most Metro Areas, to at least Moderately Positive in All

Among the largest four metro areas, Montgomery business leaders are the most confident about second quarter prospects, enjoying a 1.6 point increase to a very confident 57.3 led by a very confident outlook for sales and capital spending.

Mobile's outlook remains confident at 55.2, despite a 2.1 point drop from last quarter. Area indexes for sales and profits remain very strong at 60.0 and 57.1, respectively. Capital spending expectations fell 4.7 points, however, to a now negative 49.3.

Huntsville business sentiment rose 2.2 points to 55.2 lead by strong expectations for sales and profits after a 5.4 point jump in the latter's index. Only the national economy is seen as potentially troublesome, coming in at a neutral 50.0. All other measures were easily positive.

ABCI Birmingham-Hoover gained 3.8 points to 54.3 buoyed by positive readings in every category — especially in sales, which gained 5.7 points to rise to 57.3. Birmingham-Hoover executives remain confident about the prospects for the Alabama economy with a second quarter reading of 55.8.

### ABCI and Component Indexes by Firm Size, Second Quarter 2016

	Number of Employees		
	0 to 19	20 to 99	100+
National Economy	50.8	49.3	51.6
Alabama Economy	54.5	58.1	56.9
Industry Sales	62.6	62.2	55.5
Industry Profits	59.6	56.8	52.7
Industry Hiring	55.3	58.1	50.8
Capital Expenditures	53.4	55.7	50.5
<b>ABCI</b>	<b>56.0</b>	<b>56.7</b>	<b>53.0</b>

The Center for Business and Economic Research would like to thank the 258 Alabama business executives who completed the second quarter 2016 ABCI survey. This report from the 58th consecutive quarter of the ABCI survey would not be 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 2016.

### Confidence Improves Broadly for Small and Medium Sized Firms

Almost every indicator shows at least moderate optimism for each of the three groups categorized by number of employees. Small and medium sized businesses are more confident than last quarter as they evaluate their second quarter 2016 prospects.

Alabama businesses employing between 20 and 99 have the highest ABCI at 56.7, up 4.2 points compared to first quarter 2016. These medium -sized firms are the most optimistic about sales, hiring, and the state economic environment, but are least optimistic about the national economy as that index fell into negative territory at 49.3.

The ABCI registered 56.0 among small firms - those with fewer than 20 employees. These firms remain the most optimistic about sales and profits, but are barely positive in their outlook for the national economy.

For large firms, those with 100 or more employees, confidence fell 1.2 points this quarter to a still positive 53.0. Nevertheless, all indicators remain positive, particularly with regards to sales and the state economy, which is strongly positive with a reading of 56.9.

Analysis provided by Gregg Bell, Ph.D., 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)