



ABCI™

ALABAMA BUSINESS CONFIDENCE INDEX

Center for Business and Economic Research, The University of Alabama | Volume 14, Third Quarter 2015

State Businesses Remain Confident Despite Weaker Prospects Going into Q3 2015

Business confidence fell to 54.8 on the third quarter 2015 Alabama Business Confidence Index™ (ABCI) survey, conducted by the Center for Business and Economic Research in UA's Culverhouse College of Commerce. The index fell 2.8 points to its lowest level since the fourth quarter of 2014. Panelists are slightly less optimistic than a year ago when the ABCI registered 55.5.

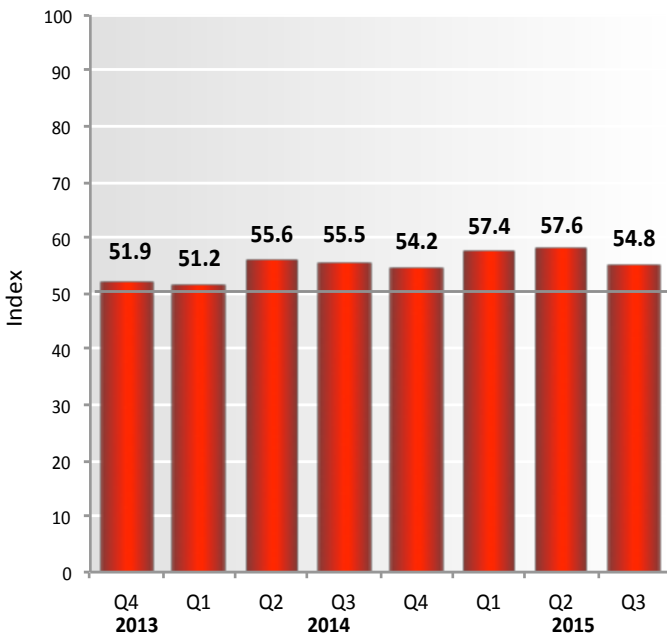
Both the U.S. and Alabama economies are expected to see growth this quarter, although panelists are much more optimistic about prospects for the state's economy. The national economy index of 50.7 is 5.9 points below the state economy index value of 56.6. A hiring index of 53.9, down 3.2 points, forecasts somewhat weaker job growth.

Most industry indicators moved lower on the third quarter. The finance, insurance, and real estate industry index is the highest at 58.5. Panelists were least optimistic about retail trade, as indicated by a further loss of 7.5 points from last quarter to a pessimistic 42.1.

Firms in professional, scientific, and technical services; construction; and healthcare services are also optimistic this quarter. Construction has a robust outlook for profits, while wholesale trade and professional, scientific, and technical services have the strongest expectations of higher sales.

Montgomery confidence remained on top among the large metros, despite a 2.7 point drop to 57.4. Mobile's ABCI fell 4.8 points to 54.3 on the prospect of weaker capital expenditures, hiring, and industry sales.

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Third Quarter 2015 Outlook

	Alabama	Change from Q2
ABCI	54.8	-2.8
National Economy	50.7	-5.8
Alabama Economy	56.6	-1.8
Industry Sales	58.3	-3.2
Industry Profits	55.7	-1.1
Industry Hiring	53.9	-3.2
Capital Expenditures	53.2	-2.2

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

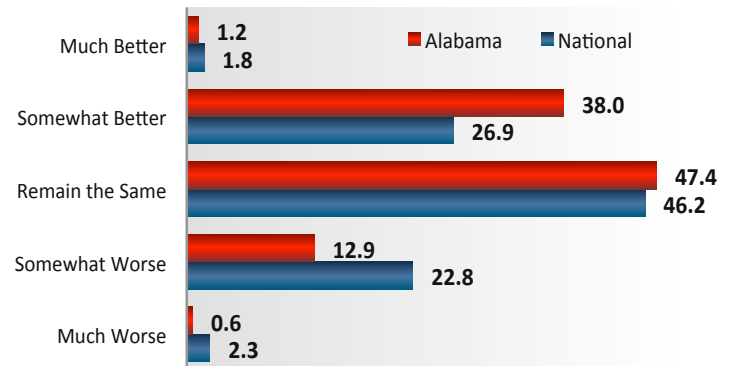
Business Environment Expectations Q3 2015 compared to Q2 2015

Outlook for U.S. Economy is Mixed as Confidence Wanes

The national economy index lost a substantial 5.8 points, falling to 50.7, the least optimistic outlook since the first quarter of 2014. About 28.7 percent of the state's business executives expect U.S. economic growth to be higher than last quarter, while 46.2 percent think it will remain at similar levels. Still, the U.S. outlook for the third quarter of 2015 continues the turnaround from the negative reading of 47.8 for the first quarter of 2014.

Panelists in finance, insurance, and real estate; construction; and professional, scientific, and technical services are the most optimistic about the U.S. economy. The national outlook is worst among businesses in retail trade with a very pessimistic reading of 30.6. Wholesale trade and manufacturing are also moderately pessimistic.

National and Alabama Economy



Percent of ABCI Respondents

Slightly Weaker Growth Forecast for Alabama Economy

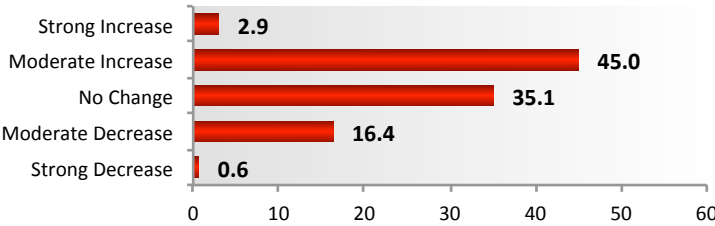
Business executives expect the state's economy to continue a moderately strong expansion in the third quarter of 2015. At 56.6, the index remains robust, despite a 1.8 point drop from last quarter. This represents a 2.8 point decline from a year ago. Only 13.5 percent of panelists forecast weaker economic growth this quarter and 47.4 percent expect the state's economy to perform about the same as in the second quarter.

The positive sentiment of ABCI panelists in a broad range of industries supports the current 2015 forecast from the Center for Business and Economic Research. CBER expects the state's economic growth to improve from 2.0 percent in 2014 to 2.3 percent this year. Employment growth is forecasted to accelerate from around 0.7 percent in 2014 to 1.4 percent in 2015, while tax revenues could rise 4.0 percent compared to a 1.3 percent increase last year.

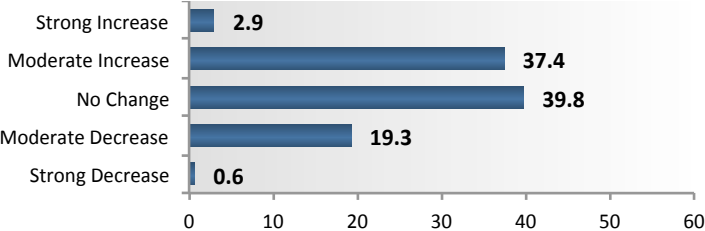
Industry Performance Expectations

Q3 2015 compared to Q2 2015

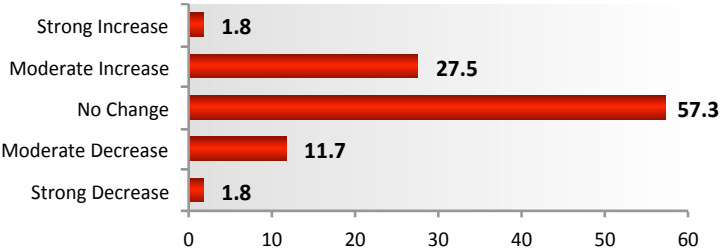
Sales



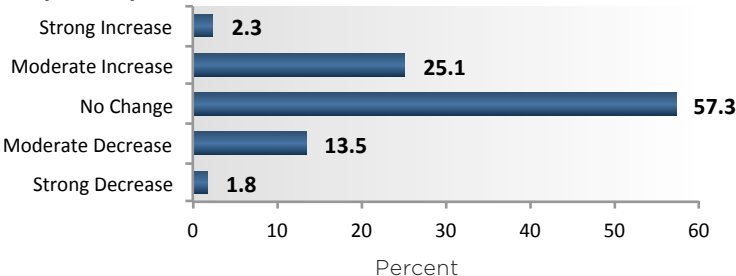
Profits



Hiring Plans

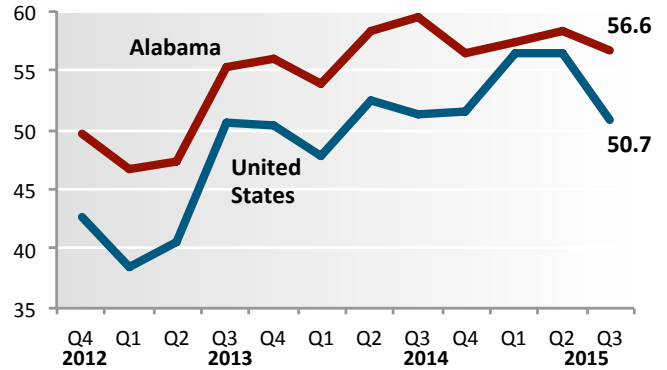


Capital Expenditures



National and Alabama Economy

Expectations versus Prior Quarter



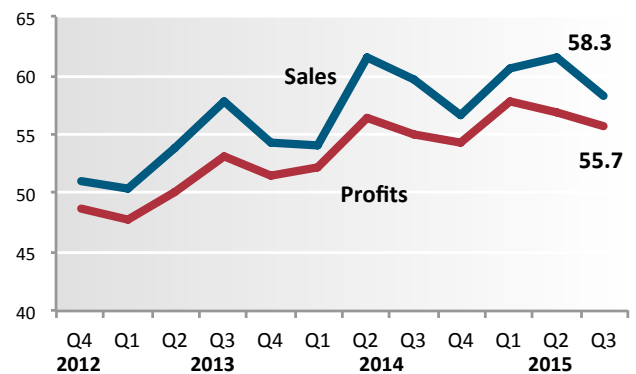
Despite Cooling, Industry Indicators Remain Strong

Among the four industry indicators, only the capital expenditures index posted an increase this quarter, rising 1.2 points to an optimistic 56.6. The sales index is at 58.3 and about 48 percent of panelists expect sales to rise compared to second quarter levels, while just 17 percent forecast a decrease. Every industry except retail trade anticipates at least a moderate gain; sales growth this quarter should be strongest in professional, scientific, and technical services; wholesale trade; and financial activities.

Profits are likely to improve in all industries except retail trade. Still, the index value of 55.7 is 1.1 points below its second quarter reading. A healthy 80 percent of respondents expect profit trends to be the same or better than last quarter and only 20 percent forecast weaker profits. Profits should show the largest gains among professional, scientific, and technical services firms.

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 Slow in Q3 2015

The state's business executives are signaling weaker job gains this quarter. The hiring index fell 3.2 points to 53.9 with 29.3 percent of firms planning to increase the pace of job growth and 57.3 percent expecting to hire at about the same level as last quarter. The hiring index remains higher than one year ago.

Every industry except retail trade should see an increase in hiring during the third quarter. Job gains are expected to be strongest among construction firms. Businesses in healthcare and financial activities should also see sizeable increases. All metro areas are expected to experience job growth, although gains in Birmingham-Hoover could be somewhat weaker than last quarter.

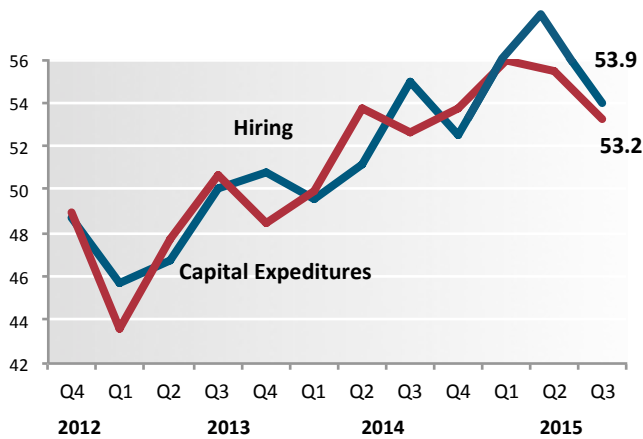
Solid Gains Forecast for Capital Expenditures

Capital spending should grow statewide in the third quarter of 2015; the index fell 2.2 points to 53.2. Over 27 percent of panelists expect to increase investment, while more than 57 percent anticipate spending about the same as last quarter.

The outlook for capital investment is positive in every industry except construction and retail trade. Firms in healthcare and manufacturing are likely to see the largest pickup in investment, followed by businesses in finance, insurance, and real estate; professional, scientific, and technical services; wholesale trade; and transportation, information, and utilities. The Birmingham-Hoover and Montgomery metro areas are forecasted to see the strongest increases, while prospects for capital spending are most diminished in the Mobile metro area, although the index is still positive at 52.0.

Hiring and Capital Expenditures

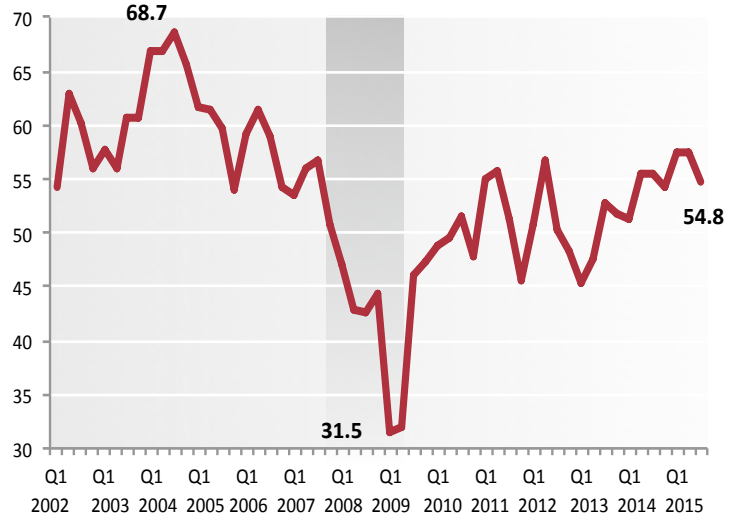
Expectations versus Prior Quarter



Industries In Depth, Third Quarter 2015

Component Index	Construction	Manufac.	Transp./Info./Utilities	Wholesale Trade	Retail Trade	Fin./Insur./Real Estate	Prof./Sci./Technical	Healthcare	All Other Services
Sales	59.1	54.8	55.8	61.5	50.0	60.9	67.0	53.8	55.2
Profits	61.4	51.0	55.8	51.9	44.4	60.3	62.5	53.8	52.1
Hiring	59.1	51.0	53.8	50.0	41.7	56.4	54.5	57.7	55.2
Capital Spending	47.7	54.8	51.9	51.9	47.2	54.5	53.4	55.8	54.2

ABCI: Solid Improvement in 2015



Optimism Prevails in All Industries Except Retail Trade

Firms in professional, scientific, and technical services; finance, insurance, and real estate; and construction are the most optimistic this quarter, with ABCI readings of 57 or above. Confidence is most improved in professional, scientific, and technical services. Most industries, however, have weaker outlooks for this quarter. Retailers, in particular, see the economic environment as a negative for their business in the third quarter and anticipate a flat or declining performance in every measured area. Construction firms expect to decrease capital spending.

ABCI by Industry

	Q3 2015	Change from Q2
Construction	57.6	-0.8
Manufacturing	51.8	-9.6
Transportation/Information/Utilities	52.9	-6.8
Wholesale Trade	53.2	-1.8
Retail Trade	42.1	-7.5
Finance/Insurance/Real Estate	58.5	0.7
Professional/Scientific/Technical Services	58.3	3.7
Healthcare Services	54.8	-2.6
All Other Services	53.8	-6.2

ABCI and Component Indexes by Area, Third Quarter 2015

	MSA				
	Alabama	Birmingham	Huntsville	Mobile	Montgomery
National Economy	50.7	48.8	52.2	50.0	54.5
Alabama Economy	56.6	55.2	58.1	57.0	56.3
Industry Sales	58.3	55.8	60.3	56.0	62.5
Industry Profits	55.7	51.7	57.4	56.0	59.8
Industry Hiring	53.9	51.2	52.9	55.0	58.0
Capital Expenditures	53.2	55.8	50.0	52.0	53.6
ABCI	54.8	53.1	55.1	54.3	57.4

All Metro Areas Remain Optimistic, Despite Weaker Outlooks

Montgomery business confidence remained on top looking ahead to the third quarter of 2015, despite a 2.7 point decrease that put the area ABCI at 57.4. Montgomery is the most confident among the metros areas about prospects for sales, profits, and hiring. The area outlook for the Alabama economy is strong at 56.3.

Mobile firms remain positive, but are less optimistic about every industry indicator this quarter. The outlook for capital expenditures fell 7.8 points, with the metro ABCI down 4.8 points to 54.3.

ABCI Huntsville fell 2.4 points to 55.1. Area business executives have tempered outlooks for the economy and every aspect of their industry performance except profits, which rose 3.8 points to 57.4. Prospects for industry sales, in particular, remain strong in Huntsville, despite a one point drop to 60.3.

Birmingham-Hoover saw only a slight dip in its overall index to a still optimistic 53.1. Despite strong sales and capital expenditure forecasts, Birmingham-Hoover executives are the least optimistic of the four large metros with lowered expectations for hiring and the national economy.

Confidence Declines Somewhat for Small and Medium-Sized Firms

As they evaluate their third quarter 2015 prospects, medium-sized businesses are less confident than last quarter. These firms of 20 to 99 employees remain optimistic about every facet of the economy surveyed, though less so than last quarter. The largest firms, those with 100 or more employees, are still the least optimistic on all indicators. The smallest businesses, those with fewer than 20 employees, downgraded their assessments for every indicator except profits.

Alabama businesses employing 100 or more have the lowest ABCI at 55.3, down less than one point compared to second quarter 2015. Still, these firms are at least moderately optimistic about the economy and all facets of industry performance except capital expenditures.

The ABCI was highest among small firms, businesses that employ less than 20 employees, registering 57.3.

Despite these fluctuations, employers of all sizes showed strong confidence overall going into the third quarter, bolstered by strong sales numbers, particularly for small and medium-sized businesses.

ABCI and Component Indexes by Firm Size, Third Quarter 2015

	Number of Employees		
	0 to 19	20 to 99	100+
National Economy	51.4	51.9	54.7
Alabama Economy	57.3	56.6	56.0
Industry Sales	59.1	62.2	54.9
Industry Profits	56.8	56.1	54.5
Industry Hiring	54.1	55.1	53.0
Capital Expenditures	53.2	58.2	49.6
ABCI	57.3	56.1	55.3

The Center for Business and Economic Research would like to thank the 171 Alabama business executives who completed the third quarter 2015 ABCI survey during the first two weeks of June. This report from the 55th consecutive quarter of the ABCI survey would not be possible without your participation.

Be sure to log in during September 1-15 to record your opinions about economic prospects and industry performance looking ahead to the fourth quarter of 2015.

Analysis provided by Gregg Bell, Ph.D., Research Associate, 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