Business Confidence Continues to Improve  The Alabama Business Confidence Index™ (ABCI) rose 1.3 points to 47.3 on the fourth quarter 2009 survey of the state’s business executives, conducted during the first two weeks of September. Since the second quarter, the composite ABCI has gained more than 15 points. Given current indications that the recession likely bottomed out in June, the third quarter jump in confidence falls right in line with the beginning of the expansion in GDP and supports the value of the index as a forecasting tool. Still, with the index being a comprehensive measure that looks at employment and profits as well as components of GDP, panelists do not see a more broadly-defined recovery beginning in the fourth quarter.

Alabama business executives feel more optimistic about the outlook for the economy of the state than the nation this quarter, an opinion they have steadily expressed since mid-2005. The Alabama economic outlook is the only one of the six components, equally weighted in the composite ABCI, to pass the expansionary level of 50 this quarter with a value of 51.8. Expectations for the national economy showed the most improvement from the third quarter, up 4.0 points to 49.1. Forecasts for profits, hiring, and capital spending rose modestly, while sales slipped, on the fourth quarter survey.

Among the state’s four largest metro areas, Huntsville’s economy is expected to stabilize in the fourth quarter with an ABCI of 50; Montgomery is close behind with an index of 49.7. The outlook for the Birmingham-Hoover area showed the most improvement, rising 3.2 points to 45.9. Business confidence slipped in the Mobile metro area this quarter, down 2.9 points to 42.9.

U.S. Economy Creeping Out of Recession  At 49.1, the national economy component of the ABCI is at its highest level since falling below 50 as the recession took hold in the fourth quarter of 2007. Up 4.0 points from its third quarter 2009 reading, the index indicates an economy that will be leveling off during the fourth quarter. Looking at the share of panelists forecasting a better or worse performance shows 35.2 percent expecting improvement versus 33.3 percent predicting a continued decline; 31.5 percent of respondents anticipate no change this quarter. More business executives see a potential serious downside than foresee a strong upside to the U.S. economy, however, pulling the index below the expansion point of 50. While forecasters tentatively date the end of the contraction in GDP to June, output gains are juxtaposed against continuing job losses and financial stresses on businesses and consumers that are not likely to be resolved in the fourth quarter. The consensus of ABCI panelists is that the national economy will not quite achieve a more broadly-defined expansion in 2009.
Further Downside to Profits for Many Firms Over 38 percent of Alabama business executives see profits continuing to decline in the fourth quarter, the strongest negative share among the four industry indicators. The component index moved up a slight 0.8 points to 45.8, however, and the 26.5 percent of panelists expecting profits to rise this quarter is at its highest level since the first quarter of 2008. Business profits remain challenged by the quandary that while cost-cutting has improved profits and productivity, it has negatively impacted the ability of consumers to purchase the goods and services being produced. Manufacturers are the most pessimistic about profits in the fourth quarter, with 55.9 percent forecasting a decline and a component index of just 37.5. Almost 53 percent of panelists in transportation, information, and public utilities (TIPU) also anticipate a slide in profits. Construction and other services are the only industry segments forecasting modest improvement in profitability through year-end.

Economic Expansion Expected to Resume in State Alabama’s economy should begin to grow again in the fourth quarter of 2009, according to a consensus of business executives completing the recent ABCI survey. This forecasted expansion marks the first optimistic outlook following six consecutive quarters of negative sentiment. With a reading of 51.8, the Alabama component index is 3.0 points higher than last quarter and clearly indicates expectations for an economy that is growing modestly in the fourth quarter—the survey last predicted growth two years ago in fourth quarter 2007. While 26.5 percent of panelists expect the Alabama economy to perform worse in the fourth quarter, 35.1 percent anticipate that it will do better. Output gains will be uneven across industries though and continuing job losses and other challenges will keep the turnaround from feeling much like a recovery to many firms as well as to most consumers. Declining tax revenues will continue to negatively impact state and local government services and education funding for the near term.

Sales Outlook Slips as Job and Income Challenges Persist On average, businesses across the state expect sales to drop slightly during the fourth quarter of 2009. At 49.2, the sales component index is 1.1 points below its third quarter value of 50.3. While 34.3 percent of respondents anticipate an increase in sales this quarter, 34.7 percent think sales will decrease. Ongoing job losses, declining government revenues, and consumers still challenged by stagnant income, debt burdens, and depleted wealth all contribute to a slightly gloomy outlook for sales. ABCI panelists correctly forecasted the jump in sales seen during the third quarter, which was helped by back-to-school shopping and auto sales spurred by the “cash for clunkers” program. However, the upcoming holiday season is not expected to provide a similar boost. Panelists in finance, insurance, and real estate (FIRE), other services, and construction anticipate improved sales in their industries this quarter. Expectations are most depressed in manufacturing and retail trade, with sales indices just above 42.
Employment Continues to Decline as Recession Ends
ABCI panelists expect employment across Alabama to drop further during the fourth quarter of 2009, although the percentage of businesses adding to payrolls could pick up slightly to 14.2 percent from 12.8 percent in the third quarter. However, 29.6 percent of respondents anticipate job reductions in their industry—almost unchanged from last quarter. Most firms (56.2 percent) expect to maintain current staffing levels. At 44.5, the hiring component index is up 0.8 points from its prior value and has steadily improved from a low of 30.6 in the first quarter of this year. Alabama business executives correctly anticipated the timing of the steepest drop in employment; the state lost 73,000 jobs from December 2008 to March 2009, and a lesser 28,200 from March through August of this year. The hiring index is below 50 for every industry, with no sector planning to add as many jobs as it cuts during the fourth quarter.

Capital Spending Outlook Remains Depressed
Planned capital expenditure has been the weakest industry indicator throughout 2009, coming in at 43.5 on the fourth quarter survey—up 0.7 points from the third quarter. While the share of respondents expecting a strong decrease in investment for their industry has improved from a high of 30 percent in the second quarter to 10.5 percent this quarter, the percentage forecasting an increase slipped to 16.5 percent—down from 20.9 percent last quarter. Although companies may increase their spending on equipment and software this quarter, the downturn in investment in nonresidential structures is expected to deepen, according to forecasting group IHS Global Insight. Alabama firms in construction, FIRE, and professional, scientific, and technical services are the most likely to boost capital investment in the fourth quarter; manufacturing, retail, and TIPU businesses are the least likely.

ABCI Concludes Eighth Survey Year
Fourth quarter 2009 marks the 32nd consecutive quarter that the Center for Business and Economic Research (CBER) at The University of Alabama has measured business optimism and expectations with a voluntary online survey of business executives. This was a very significant year for the Center as we assumed exclusive control of what was originally the Business Leaders Confidence Index® (BLCI) from partner BBVA Compass at mid-year, with the continuing objective of providing a forecasting tool targeted exclusively for Alabama businesses. We look forward to 2010 with the goals of growing our Alabama Business Confidence Index™ (ABCI) panel, conducting a brief poll of our panelists about the utility of the survey and key issues in the state, and providing additional data of value to the state’s businesses on our website at cber.cba.ua.edu.
All Index Components Except Sales Rise  

Panelists do not think sales will keep up the relatively strong pace seen in the third quarter during fourth quarter 2009. The sales index, while still the highest industry indicator at 49.2, is down 1.1 points from its prior reading. All other component indices rose, with the largest increases in general expectations for the U.S. and Alabama economies, up 4.0 and 3.0 points, respectively. Profits, hiring, and capital expenditures are forecasted to continue to decline this quarter, but at a slower rate than in third quarter 2009—all three industry indicators were up just under one point. The weakest outlook is for capital spending, with the current contraction in non-residential building having a sizeable negative impact.

Confidence Varies Among Alabama’s Largest Metro Areas  

Business sentiment improved in the Birmingham-Hoover metro on the fourth quarter outlook, rising 3.2 points to 45.9. The index indicates, however, that local business conditions still point to a modest downturn. Only the sales component index declined, slipping 1.5 points to 46.0. Although improved from last quarter, expectations of area business executives for profits, hiring, and capital spending are all less than 43. While the Birmingham-Hoover ABCI has now been below 50 for nine quarters, it has regained more than 19 points since a low in the second quarter of 2009.

Business executives in the Huntsville metropolitan area forecast a stabilizing economic environment for the fourth quarter of 2009 with an ABCI of 50.0, up 1.7 points from its third quarter reading. Sales of area businesses should pick up moderately—an increase of 5.4 points boosted the sales component index to 56.9. The Huntsville metro could also see a net gain in employment during the fourth quarter—at 51.4, the hiring index indicates modest growth and is up 4.3 points from last quarter. Profits and capital spending are still expected to decrease, although the capital expenditure outlook rose 3.0 points. The Huntsville area ABCI was last above 50 in the first quarter of 2008.

Gauged by business confidence, the Mobile area economy turned down later than the other three major Alabama metros, but may also rebound later. Across all four quarters of 2008, Mobile’s ABCI was the highest of the four metro areas, close to or above the neutral point of 50. However, after a fall of more than 17 points in first quarter 2009, it moved into the bottom half. Mobile was the only metro area to see a decline in fourth quarter 2009, with the ABCI falling 2.9 points to 42.9 and ranking last. Expectations for capital spending and hiring in the fourth quarter are particularly depressed, with the hiring component index falling 4.5 points to 38.5 and the capital expenditures index dropping 6.3 points to 35.4.

Montgomery business executives foresee a relatively stable economy during the fourth quarter of 2009, with the area ABCI up a slight 0.1 points to 49.7. Industry sales is the most robust local indicator—at 56.2, the index is up 1.7 points from the third quarter. The rebound in sales at Hyundai as well as the local impact of Kia’s November start-up could be boosting this outlook. Montgomery is the only area forecasting even modest growth in profits for the fourth quarter. Still, capital spending could continue to decline and the outlook for hiring is slightly below last quarter’s forecast—in negative territory at 47.3. The Montgomery area ABCI has not passed 50 since third quarter 2007.

Thank you to the 220 Alabama business executives who completed the fourth quarter 2009 ABCI survey during the first two weeks of September 2009. We would like to extend a welcome to our new panelists and express our appreciation to those continuing on from the BLMI panel. We encourage you to return for the first quarter 2010 survey during the first two weeks of December and to invite your colleagues to contribute their opinions.

---

**Component Index by Area, Q4 2009**

<table>
<thead>
<tr>
<th>Component</th>
<th>Q4 2009</th>
<th>Change from Q3 2009</th>
<th>Birmingham</th>
<th>Huntsville</th>
<th>Mobile</th>
<th>Montgomery</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Economy</td>
<td>49.1</td>
<td>-4.0</td>
<td>51.8</td>
<td>44.4</td>
<td>42.7</td>
<td>48.2</td>
</tr>
<tr>
<td>Alabama Economy</td>
<td>51.8</td>
<td>3.0</td>
<td>50.0</td>
<td>51.4</td>
<td>50.0</td>
<td>51.8</td>
</tr>
<tr>
<td>Industry Sales</td>
<td>49.2</td>
<td>-1.1</td>
<td>46.0</td>
<td>56.9</td>
<td>45.8</td>
<td>56.2</td>
</tr>
<tr>
<td>Industry Profits</td>
<td>45.8</td>
<td>0.8</td>
<td>42.9</td>
<td>48.6</td>
<td>44.8</td>
<td>51.8</td>
</tr>
<tr>
<td>Industry Hiring</td>
<td>44.5</td>
<td>0.8</td>
<td>42.3</td>
<td>51.4</td>
<td>38.5</td>
<td>47.3</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>43.5</td>
<td>0.7</td>
<td>42.3</td>
<td>47.2</td>
<td>35.4</td>
<td>42.9</td>
</tr>
<tr>
<td>ABCI</td>
<td>47.3</td>
<td>1.3</td>
<td>45.9</td>
<td>50.0</td>
<td>42.9</td>
<td>49.7</td>
</tr>
</tbody>
</table>

Analysis provided by Carolyn Trent, Socioeconomic Analyst  
Center for Business and Economic Research, 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.