Alabama Business Confidence Index™

Alabama Business Confidence Turns Positive  The statewide Alabama Business Confidence Index™ (ABCI) rose 5.2 points to 52.9 on the third quarter 2013 survey. That’s the first optimistic reading since third quarter a year ago when the index registered a weakly positive 50.2. The operating environment should not be a drag on business prospects generally this quarter, as both the national and Alabama economy indexes climbed above 50.

All industry indicators also moved higher. Expectations for sales rose to 57.8, forecasting relatively strong gains statewide, while profits will increase moderately. Still, Alabama businesses are signaling that they are not yet ready to add to employment or ramp up capital spending. The pace of hiring will be about the same as last quarter, while investment could increase slightly.

The financial activities sector has the most robust outlook for the third quarter, while firms in construction; transportation, information, and utilities; wholesale trade; and other services are moderately optimistic. Although still mildly positive, manufacturing confidence is down and hiring is expected to slow compared to the second quarter.

Mobile panelists are the most optimistic about their prospects, with an area ABCI of 59. Confidence in the Montgomery metro rose to 56.6, and Birmingham-Hoover businesses registered an improved 54.4. Although up significantly, the Huntsville outlook remains constrained by federal spending cutbacks and the sequester at 45.7.

Business Environment Expectations  Q3 2013 compared to Q2 2013

Modest Uptick in U.S. Economy Forecast  With the sequester now entrenched and no major challenges on the immediate horizon, ABCI panelists on average expect the U.S. economy to perform slightly better in the third quarter of 2013 than in the prior quarter. The national economy index jumped 10.1 points to 50.6, with a net 5.5 percent of business executives anticipating improvement. Still, while employment, housing markets, and some consumer spending have been picking up, civil servant furloughs and cutbacks in federal spending on contracts are negatively impacting the economy this quarter. Panelists in the Huntsville area remain pessimistic about both the U.S. and Alabama economies, with a national economy index of 42.1 and a state index of 44.6.

National and Alabama Economy

<table>
<thead>
<tr>
<th>Percent</th>
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<th>Remain the Same</th>
<th>Somewhat Worse</th>
<th>Much Worse</th>
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Alabama Economy Should Improve in the Third Quarter

Expectations for the state’s economic performance are positive for the first time since third quarter a year ago. The Alabama economy index registered 55.2, up 7.9 points from last quarter. An improved operating environment should help boost prospects for the state’s businesses during the July to September period. Almost 43 percent of executives completing the survey anticipate a better state economy this quarter, while 35.7 percent forecast no change; just 21.6 percent think the economy will fare worse. Employment is rising faster than the labor force, keeping the state’s seasonally-adjusted unemployment rate well below the U.S. rate. And nonfarm jobs continue to climb, fueled by strong hiring in leisure and hospitality and in administrative support.

Industry Performance Expectations
Q3 2013 compared to Q2 2013

Sales

<table>
<thead>
<tr>
<th></th>
<th>Q2 2013</th>
<th>Q3 2013</th>
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</thead>
<tbody>
<tr>
<td>Strong Increase</td>
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<tr>
<td>Moderate Increase</td>
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<tr>
<td>No Change</td>
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<tr>
<td>Moderate Decrease</td>
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</tr>
<tr>
<td>Strong Decrease</td>
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<td>29.0</td>
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Sales and Profit Expectations Rebound

Sales expectations moved higher for a second straight quarter, rising 3.9 points to 57.8. With consumer sentiment and finances improving, 50.6 percent of Alabama business executives are optimistic that sales will increase in the third quarter. That contrasts with just 20.4 percent forecasting a decline. Sales growth should be strongest in the finance, insurance, and real estate sector, where almost 73 percent of panelists expect an increase. Most businesses in wholesale trade; transportation, information, and utilities; and construction also think sales will be higher this quarter. Now that the impact of the sequester is better known, professional, scientific, and technical services firms expect overall industry sales to be about the same as last quarter.

The profits index moved up 3.2 points to 53.2, indicating growth in earnings for the first time since the third quarter of 2012. Over 76 percent of respondents think profits in their industry will be about the same or higher than in the second quarter. Overall, a net 15.7 percent expect profits to increase this quarter. About 58 percent of financial activities firms and half of wholesalers see an upside to profits. However, industry profitability is likely to decrease in professional, scientific, and technical services; retail trade; and healthcare in the third quarter of 2013.

Hiring Plans

<table>
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<tr>
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<th>Q3 2013</th>
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<tbody>
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<td>Strong Increase</td>
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<td>Moderate Increase</td>
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<td>Moderate Decrease</td>
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<tr>
<td>Strong Decrease</td>
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</table>

Sales and Profits

Expectations versus Prior Quarter
Hiring and Capital Spending Outlooks Stabilize  After four consecutive quarters of negative outlook, the hiring component index recovered 3.2 points to a neutral 50 on the third quarter ABCI survey, indicating that the pace of job growth should be about the same as last quarter. Around half of businesses surveyed expect hiring to be flat. However, a positive net 4.7 percent of executives planning to increase hiring is negated by the 5.5 percent expecting to cut back strongly this quarter. Employers in financial activities; transportation, information, and utilities; construction; and other services are the most likely to add jobs this quarter. Manufacturers generally expect to post weaker job growth than in second quarter 2013. Retailers and professional services businesses could see the sharpest reductions in hiring.

The capital expenditures index rose 3.0 points to 50.7, forecasting a slight increase in investment across the state. Almost 27 percent of panelists expect spending to increase and 52.6 percent think the level of investment will be the same as in the second quarter. The third quarter 2013 index matches its reading a year ago. Capital spending is likely to show the strongest gains in the finance, insurance, and real estate and transportation, information, and utilities sectors, followed by wholesale trade. However, businesses in professional, scientific, and technical services; healthcare; and retail trade are likely to see capital spending cut again this quarter.

Manufacturing Weakens, Most Industry Outlooks Improve  Confidence among the state’s manufacturers fell 6.4 points to a mildly optimistic 51.5, with hiring expected to slow in the third quarter. Most other industries posted stronger readings, however. The financial activities sector has the most robust outlook at 61.4, up almost 9 points. Firms in construction; transportation, information, and utilities; wholesale trade; and other services are moderately optimistic this quarter. Although better than in the second quarter, outlooks in professional and healthcare services remain in negative territory at around 46.

<table>
<thead>
<tr>
<th>ABCI by Industry, Third Quarter 2013</th>
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<tbody>
<tr>
<td>change from Q2 2013</td>
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<tr>
<td>Q3 2013</td>
</tr>
<tr>
<td>Construction</td>
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<td>Manufacturing</td>
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<td>Transportation/Information/Utilities</td>
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<td>Wholesale Trade</td>
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<td>Retail Trade</td>
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<tr>
<td>Finance/Insurance/Real Estate</td>
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<tr>
<td>Professional/Scientific/Tech. Services</td>
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<tr>
<td>Healthcare Services</td>
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<td>All Other Services</td>
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Industries in Depth, Third Quarter 2013

<table>
<thead>
<tr>
<th>Component Index</th>
<th>Construction</th>
<th>Manufac.</th>
<th>Transp./Info./Utilities</th>
<th>Wholesale Trade</th>
<th>Retail Trade</th>
<th>Fin./Insur./Real Estate</th>
<th>Prof./Sci./Technical</th>
<th>Healthcare</th>
<th>All Other Services</th>
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<tr>
<td>Sales</td>
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<td>56.2</td>
<td>61.9</td>
<td>62.5</td>
<td>51.9</td>
<td>68.8</td>
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<td>55.4</td>
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<td>63.5</td>
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<td>38.9</td>
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<td>42.9</td>
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Center for Business and Economic Research, The University of Alabama | ABCI™
**Sentiment Rises in All Four Major Metro Areas**  A 7.6 point surge in confidence made Mobile the most optimistic of the state’s large metros as area business executives looked ahead to the third quarter of 2013. ABCI Mobile rose to 59.0; indexes for the U.S. and Alabama economies, sales, and hiring are the highest of the four metro areas. With a 3.3 point increase to 56.6, ABCI Montgomery ranked second. Area executives are very optimistic about the state economy and industry sales and have the highest metro area expectations for capital spending growth this quarter.

Birmingham-Hoover businesses are moderately optimistic in the third quarter; the area’s ABCI rose 1.7 points to 54.4. Sales and profits should show relatively strong gains, and hiring and capital spending are expected to pick up modestly. While not back to positive territory, business confidence in the Huntsville metro is finally improving following four consecutive quarters of decline. Sales could increase slightly, although hiring and capital investment are expected to decline moderately as the effects of the federal sequester continue to negatively impact the area’s economy in the third quarter.

**Largest Firms Most Optimistic, but Confidence Jumps at Smallest Businesses**  Confidence among Alabama businesses employing fewer than 20 rebounded strongly in third quarter 2013, rising 8.2 points to 53.2. Prospects for sales, profits, and hiring are now about the same as for the state’s largest firms. Overall, large and small businesses could see modest job creation this quarter. Firms with 100 or more employees continue to be the most optimistic with an ABCI of 54.3, up 2.9 points. This is the only size category likely to see an increase in capital investment.

Although the outlook for Alabama’s midsize businesses, (20 to 99 employees) is up 4.7 points to a mildly positive 50.6, sentiment is the weakest of the three firm size groupings. Sales are expected to rise moderately, with a modest increase in profits. Concern about the impact of the federal health insurance mandate for 50 or more employee firms may be impacting sentiment in this group. Confidence in the U.S. economy registered 47.1 and both hiring and capital spending are likely to be slightly lower than in the second quarter. Delay of the mandate to 2015 could boost confidence next quarter.

### ABCI and Component Indexes by Area, Third Quarter 2013

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<tr>
<th>Component</th>
<th>Alabama</th>
<th>Metro Areas</th>
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<td></td>
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<tr>
<td>National Economy</td>
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### ABCI and Component Indexes by Firm Size, Third Quarter 2013

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The Center for Business and Economic Research would like to thank the 255 Alabama business executives who completed the third quarter 2013 ABCI survey during the first two weeks of June. This survey marks the 47th consecutive quarter of the ABCI.

We encourage you to sign on at cber.cba.ua.edu/ABCI during the first two weeks of September to record your opinion about economic prospects and industry performance looking ahead to fourth quarter 2013.