Alabama Business Confidence Index™

Center for Business and Economic Research, The University of Alabama
cber.cba.ua.edu

**Most Areas of State Optimistic about Early 2014 Prospects**

Alabama businesses remain cautiously optimistic about their prospects in the first quarter of 2014. Although the Alabama Business Confidence Index™ (ABCI) is down a modest 0.7 points to 51.2, sentiment is positive overall for the third consecutive quarter. That’s a much better outlook than the pessimistic 45.4 recorded a year ago.

Concerns about the U.S. economy continue to constrain business expectations, particularly in the Huntsville metro area. At 53.8, the Alabama economic outlook is 6.0 points above the outlook for the national economy.

Industry sales and profits are expected to improve in the first quarter of 2014; sales gains should be about the same as last quarter and profits growth could be slightly better. However, the pace of hiring and capital spending is not forecasted to pick up statewide.

Businesses in construction, manufacturing, and financial activities have the most positive outlooks for first quarter 2014. Industry sentiment in healthcare; trade; and transportation, information, and utilities is negative overall.

Mobile remains the most optimistic metro area with an ABCI of 56.2 and the strongest outlooks for sales, profits, and hiring. Montgomery confidence is second at 55.4 and all indicators are positive. ABCI Birmingham-Hoover came in at 53.2, with a flat hiring forecast, but moderate gains in other business measures. Huntsville panelists continue to have a negative outlook; area confidence registered 44.9.

**First Quarter 2014 Outlook**

<table>
<thead>
<tr>
<th>ABCI</th>
<th>Change from Q4 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABCI</td>
<td>51.2</td>
</tr>
<tr>
<td>National Economy</td>
<td>47.8</td>
</tr>
<tr>
<td>Alabama Economy</td>
<td>53.8</td>
</tr>
<tr>
<td>Industry Sales</td>
<td>54.1</td>
</tr>
<tr>
<td>Industry Profits</td>
<td>52.3</td>
</tr>
<tr>
<td>Industry Hiring</td>
<td>49.6</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>49.9</td>
</tr>
</tbody>
</table>

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

**Business Environment Expectations**

Q1 2014 compared to Q4 2013

**Business Confidence in U.S. Economy Pulls Back** The outlook for the national economy slipped 2.6 points to 47.8 on the first quarter 2014 ABCI survey, indicating that on average executives expect a modestly worse performance than in the fourth quarter. Still, about 64 percent of panelists forecast no change or some improvement in economic growth this quarter. The U.S. outlook at the start of 2014 is much better than the 38.4 reading going into 2013. While construction and financial activities concerns see the national outlook as a positive, businesses in healthcare; professional, scientific, and technical services; and wholesale trade expect national economic conditions and policies to negatively impact their industries.

**National and Alabama Economy**

<table>
<thead>
<tr>
<th></th>
<th>Much Better</th>
<th>Somewhat Better</th>
<th>Remain the Same</th>
<th>Somewhat Worse</th>
<th>Much Worse</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q4 2013</td>
<td>1.8</td>
<td>33.9</td>
<td>35.7</td>
<td>32.2</td>
<td>1.8</td>
</tr>
<tr>
<td>Q4 2012</td>
<td>1.8</td>
<td>26.9</td>
<td>38.4</td>
<td>32.7</td>
<td>1.8</td>
</tr>
<tr>
<td>Q4 2011</td>
<td>1.8</td>
<td>37.9</td>
<td>38.4</td>
<td>31.7</td>
<td>1.8</td>
</tr>
</tbody>
</table>

First Quarter 2014, Volume 13, Number 1
**State’s Economic Growth Seen Continuing at Modest Pace**

Business executives expect Alabama’s economy to expand modestly in the first quarter of 2014. Although down 2.2 points, the index reads 53.8, with almost 80 percent of panelists anticipating growth at the same or a stronger rate than in the fourth quarter. That’s a much better outlook than the value of 46.7 a year ago and marks the third consecutive quarter of optimism about the direction of Alabama’s economy.

Recent economic data and ongoing developments in manufacturing and other industries support this forecast. Businesses created about 8,000 nonfarm jobs in 2013, total employment rose by almost 10,000, and unemployment improved from 7.3 to 6.6 percent. Still, cutbacks in federal spending and in government employment continue to constrain growth, particularly in the Huntsville area.

**Industry Performance Expectations**

**Q1 2014 compared to Q4 2013**

### Sales

- **Strong Increase**: 2.2
- **Moderate Increase**: 38.3
- **No Change**: 36.6
- **Moderate Decrease**: 19.4
- **Strong Decrease**: 3.5

### Profits

- **Strong Increase**: 2.2
- **Moderate Increase**: 34.8
- **No Change**: 37.4
- **Moderate Decrease**: 21.1
- **Strong Decrease**: 4.4

### Hiring Plans

- **Strong Increase**: 0.9
- **Moderate Increase**: 22.5
- **No Change**: 53.7
- **Moderate Decrease**: 19.8
- **Strong Decrease**: 3.1

### Capital Expenditures

- **Strong Increase**: 3.1
- **Moderate Increase**: 21.6
- **No Change**: 52.9
- **Moderate Decrease**: 16.7
- **Strong Decrease**: 5.7

**Prospects for Sales Steady, Profits Outlook Improving**

Sales are expected to pick up on average at about the same pace as in fourth quarter 2013. The index value of 54.1 indicates moderate improvement; 40.5 percent of panelists forecast an increase in first quarter 2014 sales versus 22.9 percent anticipating a decrease. Alabama’s construction, manufacturing, and financial activities sectors are the most optimistic about prospective sales trends.

The profits outlook brightened slightly this quarter, increasing 0.8 points to 52.3. About 74 percent of respondents expect profit trends to be the same or stronger than in the fourth quarter. Expectations for profits are the highest among firms in construction, manufacturing, and financial activities. However, 25.5 percent of panelists forecast weaker earnings, particularly in healthcare and the transportation, information, and utilities sector.

**From the ABCI Panelists Poll (Nov.-Dec. 2013):**

**How do you use the quarterly ABCI results?**

- General indicator of local/regional outlook: 83.5%
- Compare to personal projections: 62.4%
- Background info for forecasting/planning: 43.5%
- Share results with others: 31.8%
- Decision making/short-term planning: 27.1%

Note: Respondents could choose multiple responses.
Hiring and Capital Investment Not Expected to Pick Up

Only modest job gains are expected in the first quarter of 2014; the index slipped 1.2 points to 49.6. Although CBER forecasts stronger job growth of around 1.3 percent during 2014, business executives are indicating that statewide the pace of hiring is not likely to pick up in the first quarter. Almost 54 percent forecast no change in hiring plans.

Most job creation will be at construction and manufacturing firms, with modest growth in payrolls in retail trade and financial activities. Businesses in healthcare, wholesale trade, and transportation, information, and utilities are pessimistic about employment trends. Among the large metro areas, job prospects should be best in Mobile and Montgomery. Hiring in the Birmingham-Hoover metro should be around its fourth quarter 2013 level, while Huntsville expects further tightening.

With the index at 49.9, capital investment statewide is likely to be about the same as in the fourth quarter. While 52.9 percent of executives surveyed expect no change in capital spending, the 5.7 percent forecasting a strong decrease is keeping the index below 50.

The Huntsville area’s very negative reading of 38.8 is pulling down the statewide average; investment outlooks in the Birmingham-Hoover and Montgomery metros are significantly higher this quarter, while the Mobile forecast is stable. The construction and manufacturing industries should see strong gains in capital spending.

**Hiring and Capital Expenditures**

Expectations versus Prior Quarter

<table>
<thead>
<tr>
<th>Q1 2014</th>
<th>Change from Q4 2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Construction</td>
<td>59.0</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>54.9</td>
</tr>
<tr>
<td>Transportation/Information/Utilities</td>
<td>45.8</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>46.1</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>48.6</td>
</tr>
<tr>
<td>Finance/Insurance/Real Estate</td>
<td>54.4</td>
</tr>
<tr>
<td>Professional/Scientific/Tech Services</td>
<td>49.9</td>
</tr>
<tr>
<td>Healthcare Services</td>
<td>42.3</td>
</tr>
<tr>
<td>All Other Services</td>
<td>51.3</td>
</tr>
</tbody>
</table>

**ABCi by Industry, First Quarter 2014**

**ABCi History: Still Trying to Sustain Momentum**

Industry Outlooks Mixed

Alabama business executives in construction and manufacturing expect moderately strong improvement on all aspects of their business fundamentals during the first quarter of 2014. Sales and profits should be looking up for firms in financial activities; other services; and professional, scientific, and technical services. While the outlook in this last industry is very negative in the Huntsville area, panelists elsewhere are quite optimistic. Industry expectations are generally weak, however, in healthcare; trade; and transportation, information, and utilities this quarter.

**Industries in Depth, First Quarter 2014**

<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>
</tr>
</thead>
<tbody>
<tr>
<td>Sales</td>
<td>63.5</td>
<td>57.4</td>
<td>43.1</td>
<td>50.0</td>
<td>44.4</td>
<td>56.6</td>
<td>54.4</td>
<td>48.2</td>
<td>56.1</td>
</tr>
<tr>
<td>Profits</td>
<td>61.5</td>
<td>56.6</td>
<td>43.1</td>
<td>48.3</td>
<td>47.2</td>
<td>56.6</td>
<td>51.3</td>
<td>39.3</td>
<td>53.0</td>
</tr>
<tr>
<td>Hiring</td>
<td>55.8</td>
<td>56.6</td>
<td>44.4</td>
<td>41.7</td>
<td>52.8</td>
<td>51.0</td>
<td>48.1</td>
<td>37.5</td>
<td>50.0</td>
</tr>
<tr>
<td>Capital Spending</td>
<td>57.7</td>
<td>57.4</td>
<td>50.0</td>
<td>40.0</td>
<td>47.2</td>
<td>52.6</td>
<td>48.1</td>
<td>39.3</td>
<td>47.0</td>
</tr>
</tbody>
</table>
Mobile and Montgomery Metros Most Optimistic

At 56.2 confidence is highest in the Mobile area for the third consecutive quarter. ABCI Mobile slipped 1.8 points from its fourth quarter reading, however, as sentiment about the U.S. economy fell almost five points and other indicators were flat or declined slightly. Area firms are quite positive about sales and profits and are the most optimistic about hiring. Montgomery’s index rose 1.1 points to 55.4 as the capital investment outlook moved up 6.2 points and outlooks for the U.S. economy, profits, and hiring improved.

Birmingham-Hoover business executives remain optimistic—the area ABCI is about the same as in the fourth quarter at 53.2. Although hiring prospects are now flat, expectations for sales, profits, and capital investment all improved. Huntsville’s business community does not yet foresee a rebound—the area ABCI is only 44.9, a decrease of 0.9 points from last quarter. Concerns about the impact of U.S. government spending on area businesses continue to depress Huntsville outlooks. Firms are likely to put capital investments on hold this quarter—that component index for Huntsville dropped 3.2 points to just 38.8.

Small Business Optimism Jumps

The state’s small businesses with fewer than 20 employees eclipsed the larger firms as the most optimistic about their first quarter 2014 prospects. Overall confidence climbed 3.5 points to 54.5 with every indicator positive and, with the exception of capital spending, higher than for larger firms. Small businesses are the likely job creators this quarter, with a net 12.8 percent planning to boost hiring.

Midsize businesses, employing 20 to 99, and large firms with 100 or more employees saw parallel declines in confidence looking at first quarter prospects. Expectations for the national and Alabama economies fell by more than four points and the overall ABCIs slipped around 2.6 points. Hiring could slow this quarter, while investment trends will be mixed.

Still, the state’s large businesses have a slightly positive outlook overall with an ABCI of 50.9 and expectations for mild improvement in sales, profits, and capital spending. Midsize firms are modestly negative in their outlooks, as indicated by an ABCI of 48.1. Their evaluation of the national economy is very negative this quarter.

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

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