The Alabama Business Leaders Confidence Index® (BLCI) held steady at 61.5 in the second quarter of 2005. While not as robust as the 2004 average of 67, the current BLCI continues to signal expansion, as it is well above the neutral value of 50. Given the economic rebound in 2004 that was accurately forecasted by the index, Alabama business leaders expect the pace of growth to moderate. Looking at the components of the BLCI, expectations for both the national and Alabama economies pulled back somewhat on the second quarter survey. While most panelists continue to anticipate stronger economic growth, some moved to the position that gains will proceed at the first quarter 2005 pace.

In contrast, expectations for all four industry indicators were up. Sales remained the strongest component of the index, with the share of panelists anticipating a decline in sales in their industry falling from 16.2 percent in the first quarter to 10.1 percent this quarter. Alabama business leaders see the largest downside to profits, with 16.4 percent forecasting a decrease during the second quarter. Job creation and capital spending should continue to support the expansion. Panelists in transportation, information, and public utilities (TIPU) and in construction had the most optimistic second quarter outlooks with industry-specific indexes of around 65, while professional, scientific, and technical services tallied a low reading of 56.

The availability of a qualified workforce is vital to the growth and competitiveness of businesses across Alabama. Providing workers for new and expanding industries as well as replacement workers for existing jobs is an ongoing challenge that will only increase with job growth and the looming retirement of the baby boom generation. BLCI participants were asked to gauge how difficult it is for their firm to hire qualified employees. A substantial 72.5 percent of panelists reported at least some difficulty, including 18.8 percent having great difficulty. Just 19.7 percent of firms are experiencing no difficulty.

Firms with fewer than 20 employees are least likely to have trouble hiring, although 57.5 percent reported some or great difficulty. Businesses in the categories of 20 to 99 and 500 and over employees most often reported great difficulty, at 24.1 and 22.1 percent, respectively. Firms with 100 to 499 employees are the most challenged, with just 13.9 percent seeing no difficulty hiring, 67.8 percent some difficulty, and 14.8 percent great difficulty.

Looking at results by industry, wholesale trade businesses represented by second quarter panelists are finding it hardest to hire employees with the qualifications they need. Just 5 percent report no difficulty, while 25 percent feel they have great difficulty. Health care firms are also hard pressed, as almost 86 percent experience some or great difficulty getting workers.

Businesses have turned to a variety of tools to obtain a workforce with the qualifications they require. Panelists selected all that applied from a list provided and were asked to write in other avenues they have utilized. Alabama firms are most likely to raise entry-level wages...
to attract employees, with 45 percent of respondents saying they have done this. Over 35 percent of panelists reported using in-house training to create the qualified workers they require, suggesting a need for increased cooperation between local educational institutions and businesses to match training to area skill demands. Almost 20 percent of surveyed firms recruit outside Alabama. Partnerships with high schools, community colleges and technical schools, as well as colleges and universities are a way to build a workforce with the right skills. Businesses that reported partnering generally had 100 or more employees. Larger firms most often use the services provided by Alabama Industrial Development Training (AIDT).

Recruiting tools most often written in by survey panelists include word of mouth, advertising (including Internet), employment and temp agencies, hiring contract workers, and hiring from the nontraditional workforce. Several mentioned using current employees to recruit (and even paying incentives) and recruiting from competitors.

The National Economy

Expectations for U.S. economic growth moderated in the second quarter of 2005. While 56.6 percent of Alabama business leaders think growth will accelerate during the quarter, this is the weakest forecast in two years and is well below last quarter’s 67.3 percent. Following gains amounting to 4.4 percent in 2004, GDP growth could slow to 3.7 percent in 2005. High oil prices and rising interest rates impact both businesses and consumers, although the housing market and consumer spending are still holding up. The March NABE Survey cites the federal deficit and health care costs as the largest short- and long-term risks to the U.S. economy. Close to 11 percent of BLCI panelists forecast a slowdown in national economic activity during the second quarter, higher than the negative expectations of the last year and a half. Respondents in TIPU and in wholesale trade are the most positive in their outlook for the national economy, while those in health care are the least optimistic.

The Alabama Economy

Alabama’s economy will continue to pick up the pace of growth in the second quarter of 2005, according to 53 percent of BLCI panelists. The state’s auto industry is a major contributor, as hiring continues toward a late spring production date for Hyundai and as Mercedes prepares to launch its new model during the quarter. Expectations have moderated with sustained job and wage gains and falling unemployment leading more participants to forecast growth continuing at the first quarter pace. Just 7 percent see a possible downside to Alabama’s economy during the quarter. Expansionary expectations are slightly below those for the nation though. While tax revenues are rising, state government continues to face spending pressures for programs including Medicaid and education as well as for employee benefits. Construction, manufacturing, and TIPU panelists are most upbeat about prospects for growth in the state’s economy.
**Industry Sales**

Sales remain the most positive BLCI component, with 65.1 percent of panelists forecasting higher second quarter sales compared to 63.8 percent last quarter. And the share of panelists expecting a decline in sales is down from the previous two quarters. Rising employment and wages pushed personal income up 0.3 percent nationally in February. Spending on nondurables, including furniture, household equipment, and apparel, posted the largest increase. Alabama’s state sales tax collections for March 2005 were 11 percent above March 2004. However, high gas prices as well as rising interest and mortgage rates could dampen spending in the near term. Both the University of Michigan’s *Index of Consumer Sentiment* and the Conference Board’s *Consumer Confidence Index* fell in March. Over three-fourths of retail trade panelists think sales will climb in the second quarter, and almost 73 percent of business leaders in manufacturing and wholesale trade anticipate gains. Expectations are weakest in professional, scientific, and technical services, with 51.4 percent forecasting an increase and 20 percent predicting a decline in sales.

**Industry Profits**

Profit expectations strengthened slightly, with 54.6 percent of Alabama business leaders forecasting an increase in profits in their industry during the second quarter of 2005. The share expecting profits to be about the same as in the previous quarter rose to 29 percent. It seems unlikely that profits can continue to post the double-digit increases seen over the last three years. Higher costs for energy, material inputs, and employee wages and benefits along with rising interest rates and slowing productivity gains may limit businesses’ ability to grow profits. For the second quarter, 62.2 percent of panelists in TIPU and 60 percent of retailers anticipate higher profits. Expectations for profit growth are weakest in health care, with 42.9 percent forecasting an increase, and in professional, scientific, and technical services, where about 44 percent expect an increase and 20 percent a decline in profits. Overall, 16.4 percent of BLCI panelists think profits could weaken during the second quarter of 2005.

**Industry Hiring**

Across the four quarters of 2004, BLCI panelists were most likely to expect hiring to accelerate. The addition of 42,200 wage and salary jobs in the state during the year bears out this projection. Now that job growth has returned, firms are more likely to continue to hire at the present rate than to pick up the pace of hiring. Still, job gains should be strong in the second quarter, as 40.4 percent of Alabama business leaders expect hiring in their industry to accelerate and almost half expect hiring to proceed at the first quarter pace. Just 10.3 percent forecast a decrease. Job opportunities may be most improved in construction, where 57.9 percent of panelists expect an upturn. Health care should be an area of strong growth as 51.4 percent forecast increased hiring this quarter. While just a third of manufacturing firms expect hiring to increase, that compares to about 28 percent on the first quarter survey, and most manufacturing panelists expect no change in hiring. Job gains in professional, scientific, and technical services could slow markedly.
Industry Capital Expenditures

Capital spending should accelerate at the same pace as in the first quarter, according to Alabama business leaders. About 46 percent expect expenditures in their industry to increase during the quarter, while 43.5 percent anticipate no change. Nonresidential construction, which declined nationally during 2001 through 2003 and was essentially flat last year, is expected to pick up modestly in 2005. Spending for equipment and software remains strong with no drop-off evident from firms taking advantage of the expiring bonus depreciation tax break in 2004. Competitive pressures could be a motivating factor for businesses to make capital investments. Capital spending trends are most robust in TIPU, where 66.7 percent expect investment to increase during the second quarter of 2005. Professional, scientific, and technical businesses are least likely to up investment and the most likely to continue to invest at the first quarter rate. Overall, 10.5 percent of survey respondents forecast a decline in capital expenditures.

Industry Capital Expenditures
Q2 2005 compared to Q1 2005

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<th>Percent</th>
<th>Strong Decrease</th>
<th>Moderate Decrease</th>
<th>No Change</th>
<th>Moderate Increase</th>
<th>Strong Increase</th>
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Second quarter sentiment was close to the BLCI for all survey participants in Birmingham and Montgomery. Strong positive expectations among manufacturing panelists in Mobile helped push up that area’s index. And a concentration of firms in professional, scientific, and technical services, which were generally less optimistic this quarter, pulled down the Huntsville index.

BLCI Panelists and MSA Indices

Participation in the BLCI survey continues to grow with a record 542 panelists responding online during March. Manufacturing, professional, scientific, and technical services; and finance and insurance are the industries most frequently represented, accounting for about 40 percent of panelists taking the current survey.

Respondents come from all of Alabama’s 11 MSAs as well as nonmetro counties across the state. About three-fourths of second quarter panelists are from firms located in the four largest metro areas, enabling calculation of an index value for each of these areas.

The BLCI is a Compass on Business initiative created in collaboration with:

For more details on the Alabama Business Leaders Confidence Index, visit www.blci.com/alabama/.
For more details on the Center for Business and Economic Research, visit cber.cba.ua.edu.