Business Confidence Stabilizes  The Alabama Business Leaders Confidence Index® (BLCI) edged up half a point from its record low last quarter.  At 32.0, however, panelists are clearly in agreement that the recession will continue at least through midyear.  The myriad of problems in the national economy weigh most heavily on business confidence.  In the second quarter topical questions, survey participants rank stability in the financial markets, stronger consumer confidence, and recovery of the housing market as the three factors that will exert the greatest impact on U.S. economic recovery.

U.S. Economic Outlook Continues to Slip  BLCI panelists expect the U.S. economy to sink a little deeper into what is being termed the “Great Recession” during the second quarter of 2009.  The national component index fell 0.6 points to 24.7, with almost 29 percent of Alabama business leaders expecting the economy to perform much worse this quarter compared to around 25 percent on the first quarter survey.  Overall, 79.3 percent anticipate worsening conditions and just 7 percent forecast improvement during the second quarter.  With two components of GDP—consumer spending and investment—on the downslide, the injection of additional federal spending from the $787 billion stimulus package is critical to turning the economy around.  Relief provided to individuals and businesses should begin to take effect during the second quarter, helping counter the recent steep declines in jobs, business investment, and the financial health of state and local governments.

Alabama Economy Hit Hard in the First Quarter  While Alabama managed to outperform the nation throughout 2008, the tide turned for the worse in 2009.  The state lost a total of 44,000 jobs during January and February 2009; unemployment climbed to 8.4 percent in February compared to the U.S. rate of 8.1 percent.  The BLCI component index for the state reflects the growing downturn, slipping 0.6 points to 33.2 for the second quarter of 2009.  Panelists are more optimistic about the recovery of the state’s economy than they are about the nation’s—although 66 percent expect conditions to deteriorate through midyear, just 12.6 percent feel the Alabama economy will get much worse.

Dear panelists and readers:
As of the Q2 2009 survey, BBVA Compass is concluding the Alabama BLCI.  Your input has been invaluable and we have appreciated your continued participation.  Moving forward, we will be providing you with economic forecasting and business articles through the US Regional Watch which can be found at www.compassbank.com.

The University of Alabama will be assuming continuing responsibility for the survey beginning with the third quarter of 2009.  Look for information from them soon concerning the Alabama Business Confidence Index and visit their website at cber.cba.ua.edu.

As always, we wish your business much success in the months ahead.
Torrent of Layoffs Could Slow Many Alabama companies that had managed to hold onto their workforce through 2008 loosened their grip in 2009. Auto manufacturers and suppliers, in particular, generally let their temporary workers go at the start of the year and some released permanent employees. Unemployment across the state jumped from 6.5 percent in December to 7.8 percent in January, double the level just one year ago. Cutbacks spread to service businesses as well, with employment in services falling 1.6 percent between December and February. BLCI panelists forecast slightly smaller job losses during the second quarter of 2009—although deep in negative territory at 31.5, the hiring component index is up 0.9 points from its first quarter reading. Fewer panelists forecast workforce reductions in their industry this quarter—57.4 percent versus 62.8 percent last quarter—while 36.6 percent anticipate no change. But almost no firms will be hiring; just 6.0 percent expect to increase employment in the second quarter. Construction and TIPU are the least pessimistic about hiring, while wholesale trade and FIRE are the most.

Outlook for Sales Improves Moderately Although remaining in negative territory at 38.9, the sales component index turned up 2.3 points on the second quarter 2009 survey. Sales will continue to contract, but the pace is expected to slow as recovery payments to individuals begin to arrive, boosting personal income during the quarter. While 57.8 percent of respondents expect sales to decrease, 22.3 percent forecast an increase—up from 19.2 percent in the first quarter. This coincides with positive movement in the Reuters/University of Michigan’s Index of Consumer Sentiment, which rose one point in March. Sales expectations by industry have changed markedly from last quarter, with panelists in manufacturing, construction, retail trade, and transportation, information, and public utilities (TIPU) the most optimistic, and respondents in healthcare; professional, scientific, and technical services; and finance, insurance, and real estate (FIRE) the most pessimistic about prospects for the second quarter.

Slide in Profits to Slow Slightly Weak demand and pricing pressures will continue to depress profits; almost 63 percent of Alabama panelists expect profits in their industry to decrease during the second quarter of 2009. The profits component index improved 0.6 points to 34.2 this quarter, with the 17.4 percent of respondents anticipating an increase in profits higher than the 13.7 percent on the first quarter survey. Profit expectations were last above the neutral point of 50 in the fourth quarter of 2007, with a reading of 50.6. Nationally profits fell by the largest percentage in more than 50 years during fourth quarter 2008, posting a decline of 37 percent compared to the same quarter a year earlier. While all industry sectors anticipate a drop in profits during second quarter 2009, the outlook is weakest in healthcare, FIRE, and other services, which includes accommodation and food service businesses. The quarterly decline in profits is forecasted to be less severe in manufacturing, construction, retail and wholesale trade, and TIPU.

Capital Spending Remains Depressed Most firms will further scale back their capital investment during the second quarter of 2009—at 29.4, this component is almost unchanged from the previous quarter’s record low and remains the weakest of the four industry indicators that contribute to the BLCI. Nationally, businesses are pulling back on equipment spending, while investment in nonresidential structures is suffering from overcapacity and lack of financing. The recovery package will provide some relief, helping boost state and local government capital spending. The 64.2 percent of panelists expecting to reduce capital investment this quarter is just below last quarter, but the share forecasting a strong decrease is up from 27.6 to 30.0 percent. A slightly higher percentage of respondents expect their industry to increase investment in the second quarter—10.4 percent compared to 8.3 percent last quarter. Manufacturing, TIPU, and other services firms are most likely to make capital investments; spending will be most depressed in wholesale trade and FIRE.
Topical Question Series: The U.S. Economic Recession and Recovery

The focus this quarter is on key components of the U.S. recession and recovery, with special attention to the expected impact of the economic stimulus package generally and on Alabama companies, in particular.

**Financial Markets, Consumers, and Housing Key to Recovery** Panelists are generally in accord about the top three factors that will most impact the U.S. economic recovery. Problems in the financial sector weigh heavily on the minds of Alabama business leaders—over 86 percent see stability in the financial markets as essential to a rebound. Consumer spending, which in recent years has accounted for at least 70 percent of GDP, is also critical; close to 79 percent expect stronger consumer confidence to be a key element in the recovery. Problems in the housing sector are closely intertwined with financial markets and spending; about 70 percent of respondents place recovery of the housing market among the top three factors. Reduction in the number of unemployed could be viewed as a natural result of getting the first three factors back on track; although jobless numbers continue to mount, this is a top three choice of just 36.7 percent. In listing other significant factors, panelists are divided on the role of the federal government—some favor greater government intervention while others want to see less federal spending. Devaluation and stability of the dollar, eliminating stock derivatives, cutting taxes, and positive news are also on the list.

### When do you think each challenge will be resolved?

<table>
<thead>
<tr>
<th>Challenge</th>
<th>1st half 2009</th>
<th>2nd half 2009</th>
<th>1st half 2010</th>
<th>2nd half 2010</th>
<th>2011 or later</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stability in financial markets</td>
<td>10.8%</td>
<td>18.9%</td>
<td>16.3%</td>
<td>20.1%</td>
<td>34.2%</td>
</tr>
<tr>
<td>Stronger consumer confidence</td>
<td>9.7%</td>
<td>15.8%</td>
<td>14.7%</td>
<td>19.3%</td>
<td>30.2%</td>
</tr>
<tr>
<td>Recovery of housing market</td>
<td>7.2%</td>
<td>13.7%</td>
<td>12.0%</td>
<td>16.6%</td>
<td>31.5%</td>
</tr>
<tr>
<td>Reduction in number of employed</td>
<td>8.1%</td>
<td>15.2%</td>
<td>14.3%</td>
<td>19.1%</td>
<td>32.3%</td>
</tr>
<tr>
<td>Stability in commodity prices</td>
<td>8.6%</td>
<td>15.5%</td>
<td>14.0%</td>
<td>18.3%</td>
<td>32.6%</td>
</tr>
</tbody>
</table>

*Panelists were asked to select the top three factors.

### Industry Impact of Economic Stimulus Generally Positive

The 2009 American Recovery and Reinvestment Act enacted by Congress provides an estimated $787 billion in funding, with an estimated $561 billion in place by the end of 2010 (excluding Alternative Minimum Tax relief) and a total of $690 billion committed by the end of 2011. Included in the package are personal tax cuts and transfer payments, state and local transfers, infrastructure spending, and corporate tax cuts (largely in the form of accelerated bonus depreciation). Just over half of Alabama BLCI panelists expect the economic stimulus to have a generally slight, but positive impact on businesses in their industry. Another 30.8 percent feel that it will have no impact. However, 18.6 percent of those surveyed think that the package will have a negative effect on their industry. More than half of respondents in construction, FIRE, TIPU, manufacturing, and other services see the stimulus as a positive for their industry. Panelists in professional, scientific, and technical services; healthcare, and retail trade are the least optimistic about the benefits for their industries.

### Economic Recovery to Stretch Well Past 2010

There is general agreement that the problems facing the U.S. economy are deep-seated and that full recovery will take years. Asked when they think each of five economic challenges will be resolved, panelists see slight progress by mid-2009, with possibly the beginning of some stability in financial markets, more stable commodity prices, and a slight improvement in consumer confidence. Financial markets are expected to stabilize during the second half of 2009 and the first half of 2010, according to 68.5 percent of respondents; about 21 percent don’t expect stability until past mid-2010. Consumer confidence should also return to a healthy level during either the last half of 2009 or the first half of 2010, although over 28 percent are more pessimistic about the timeframe. Commodity price issues are also likely to be resolved in this time period. Alabama business leaders are not optimistic about timing of a recovery in the housing market, with most anticipating a rebound in 2010 (58.3 percent) and almost 24 percent expecting it to fall in 2011 or later. Jobs, which are usually a lagging indicator, are largely seen as returning during 2010 (61.5 percent), although 21.8 percent don’t expect unemployment to fall to acceptable levels until 2011 or beyond.

### What impact will the economic stimulus package have on your industry?

- **None**: 30.8%
- **Slight positive**: 43.4%
- **Significant positive**: 7.2%
- **Slight negative**: 11.8%
- **Significant negative**: 6.8%
Stimulus Impact Expected to Be Weaker in Alabama
Business leaders in the state do not expect their companies to receive as large a boost as their industries in general from the economic recovery package. Just 39.1 percent foresee a (largely slight) positive impact, well below the 50.6 percent forecasting a benefit for their industry. A comparable 18.6 percent expect the stimulus to have a negative impact on their industry and, more specifically, their company. But 42.3 percent of Alabama businesses do not anticipate any effect from the economic recovery provisions; this compares to 30.8 percent not expecting an impact in their industry. More than a third of Alabama panelists in manufacturing, retail trade, FIRE, TIPU, and other services do not think the stimulus will make a difference at their firm. This share reaches 50 percent or more in professional, scientific, and technical services and in healthcare. Still, 64 percent of construction companies, 47 percent of businesses in other services, and close to 42 percent of manufacturing, FIRE, and TIPU firms foresee a positive impact.

For the first time in recent BLCI history, panelists in the Montgomery metro area are the least pessimistic—at 38.5 their index is up 8.3 points from the first quarter. With the stimulus package providing a major boost to the large state government sector and Hyundai faring better than many automakers, Montgomery businesses are seeing a more stable economic environment. While Huntsville’s index of 36.5 is about the same as last quarter, panelists see growing weakness in hiring and capital spending despite improvement in sales. And, although BRAC growth continues, a new administration brings concerns about the future direction of missile defense and aerospace spending.

The BLCI for the Mobile metro area rose 1.6 points in the second quarter, but is in third place at 34.9. The outlook for the state’s economy fell noticeably and several projects in the area involving the ThyssenKrupp stainless plant as well as other industries have been put on hold due to the economy. Birmingham-Hoover is the only metro area to see a decline in its BLCI this quarter—the index slipped 2.8 points to 26.8. Pessimism extends to all parts of the economy, with every component index reading well below the other three major metro areas. A large exposure to the financial, real estate, and retail sectors contributes to the poor assessment and even the area’s medical services and research sector has been hit with layoffs.

Thank you to the almost 300 Alabama business leaders who completed the second quarter 2009 BLCI survey during the first two weeks of March 2009. Please join The University of Alabama in the first two weeks of June for the third quarter 2009 survey.

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.