



# Economic Outlook Update: August 2017

## ALABAMA HIGHLIGHTS

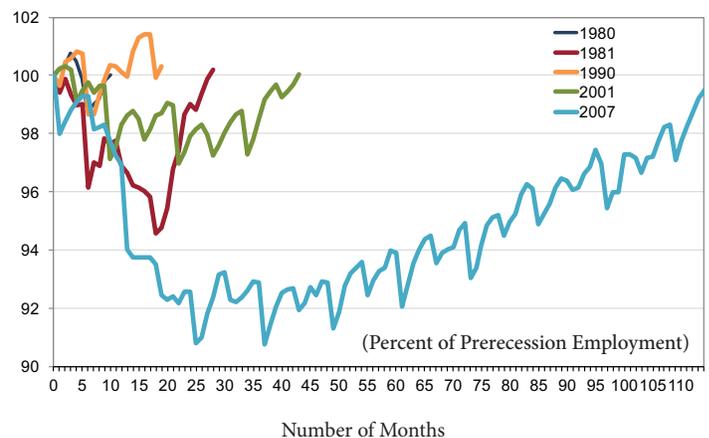
- ▶ The State gained 34,800 jobs from June 2016 to June 2017 while the seasonally adjusted unemployment rate fell from 5.8 percent to 4.6 percent bringing total nonfarm employment to 2,016,400.
- ▶ Seasonally adjusted unemployment, based on the household survey, dropped from 125,000 in June 2016 to 100,376 in June 2017. During this period, labor force increased from 2,165,370 to 2,177,651 which had some impact on slowing down the decline in unemployment rate over the previous twelve months.
- ▶ Total nonfarm employment is forecasted to increase by about 1.5 percent in 2017, with professional, scientific and technical services; architectural and technical services; healthcare and social assistance; accommodation and food services; finance and insurance industry; transportation equipment manufacturing; and wood products manufacturing adding most to their payrolls.
- ▶ Overall, the state's economy is forecasted to grow by approximately 1.9 percent in 2017, above the 1.3 percent rate of growth seen in 2016.
- ▶ After increasing by only 1.2 percent in fiscal year 2015-2016, state tax revenues are expected to grow by around 3.5 percent in FY2017.

## EMPLOYMENT

After peaking in December 2007 at 2,026,700, the state currently employs 2,016,400 nonfarm workers, or only 10,300 below its level prior to the beginning of the recession as the state continues to make steady gains in payrolls. However, it should be noted that over this period the state's labor

force and population has also continued to increase, albeit at a relatively slower pace compared to the period prior to the beginning of the recession. Over the twelve-month period ending in June 2017, the state gained a net of 34,800 jobs. Within goods producing firms payroll gains totaled 9,100 jobs while service providing firms added 25,700 workers. With a pickup in construction activity in the state, overall employment in construction related firms rose over the twelve month period ending in June 2017. Although building construction payrolls remained flat, specialty trade contractors and heavy and civil engineering construction added 2,400 and 1,500 workers respectively.

## Alabama Employment Level Compared to the Beginning of Each Recession



Source: Alabama Department of Labor, Labor Market Information Division.

Employment levels in the mining and logging industry only increased by 300 while overall manufacturing industries in the state gained 4,900 net new jobs. From June 2016 to June 2017, durable goods manufacturing industries in the state added 2,000 workers. Job gains in these industries were associated with wood products manufacturing (1,100), motor vehicle parts (900), fabricated metal products (700), and furniture and related products manufacturing (200).

## Alabama Forecast (Annual Percent Change)

(Percent change)	2015	2016	2017	2018
Real GDP	1.6	1.3	1.9	2.0
range		1.0 to 2.0	0.5 to 2.5	1.0 to 3.5
Employment	1.3	1.0	1.5	1.2
range			0.5 to 1.7	0.6 to 1.5
Total Tax Receipts, FY	4.0	1.2	3.5	3.3
range			2.0 to 4.0	1.0 to 3.5

Source: Center for Business and Economic Research, The University of Alabama.

Payrolls in all remaining industries producing durable goods either remained flat or experienced a net loss, including the loss of 500 jobs within primary metal manufacturing. Surprisingly, nondurable goods manufacturing in the state experienced a net gain of 2,900 jobs, with food manufacturing alone adding 1,400 workers. Plastics and rubber products manufacturing added another 400 to their payrolls, while paper manufacturing added 100. Textiles and apparel industry again experienced a net loss of 700 workers over the twelve month period ending in June 2017.

Among service providing firms, job gains were predominantly associated with food services and drinking places (8,800); professional, scientific and technical services (4,100); other services (3,400); finance and insurance (2,800); administrative support, waste management, and remediation services (2,300); social assistance (1,500); and hospitals (1,300). Due to a weakness in consumer spending and increasing importance of online shopping, retailers shed 1,900 workers. Meanwhile, government entities added 100 net new jobs.

Nonfarm payroll gains in state's metro areas (28 counties) totaled 21,600 while non-metro areas (39 counties) had a net gain of 13,200. During the twelve month period ending in June 2017, among the state's 12 metropolitan areas, job gains were experienced in Birmingham-Hoover (6,700); Huntsville (4,600); Auburn-Opelika (3,000); Montgomery (2,200); Tuscaloosa and Daphne-Fairhope-Foley (2,000 each); Gadsden (700); Dothan (600); and Florence-Muscle Shoals (500). The Mobile metro-area lost 500 jobs while Decatur and Anniston-Oxford-Foley each had a net loss of 100 in payrolls.

As of June 2017, Mobile metro area had the highest unemployment rate at 6.2 percent, while Daphne-Fairhope-Foley had the lowest at 4.3 percent. Among the state's 67 counties, only three counties had an unemployment rate above 10.0 percent: Perry, Clarke, and Wilcox with 10.2 percent, 10.6 percent, and 13.5 percent respectively. Shelby County had the lowest rate at 3.8 percent. Among major cities in the state, Vestavia Hills had the lowest unemployment rate at 3.2 percent (compared to 3.7 percent a year ago) while both Prichard and Selma had the highest rates at 10.1 percent each (down from 11.4 and 11.9 percent a year ago respectively).

## TAX RECEIPTS

During the first ten months of the current fiscal year (FY2017), total tax revenues totaled \$8.7 billion and were up by 4.4 percent, an increase of almost \$370 million from the same period in the previous fiscal year. Individual income tax receipts rose 3.6 percent to approximately \$3.4 billion while corporate income taxes were up almost 10.4 percent, totaling \$376 million. Sales taxes were up 1.8 percent totaling about \$1.9 billion, an increase of about \$33.6 million over the first ten months of the previous fiscal year.

Also during the first ten months of FY2017, appropriations to the Alabama Education Trust Fund increased 3.5 percent

## Alabama Nonfarm Employment

Change in Number of Jobs

	June 2015 to June 2016	June 2016 to June 2017
<b>Total Nonagricultural</b>	<b>22,900</b>	<b>34,800</b>
Mining and Logging	-1,800	300
Construction	2,200	3,900
Manufacturing	2,500	4,900
Durable Goods Manufacturing	1,000	2,000
Nondurable Goods Manufacturing	1,500	2,900
Trade, Transportation and Utilities	1,700	-3,800
Wholesale Trade	0	-100
Retail Trade	1,800	-1,900
Transportation, Warehousing and Utilities	-100	-1,800
Information	-500	-1,100
Financial Activities	100	3,200
Professional and Business Services	5,900	6,900
Educational and Health Services	5,200	6,200
Leisure and Hospitality	7,300	10,800
Other Services	-500	3,400
Government	800	100
Federal Government	300	-300
State Government	0	-1,200
Local Government	500	1,600

Source: Alabama Department of Labor, Labor Market Information Division, and Center for Business and Economic Research, The University of Alabama.

(\$173.6 million) to almost \$5.1 billion, compared to the same period the previous fiscal year. Appropriations to the state's General Fund during the first ten months of the current fiscal year increased 6.8 percent or \$99.3 million compared to the first ten months of the previous fiscal year, totaling approximately \$1.6 billion.

## STATE EXPORTS

Alabama export increased from \$19.3 billion in 2015 to \$20.6 billion in 2016, an increase of \$1.2 billion. During the first three months of 2017, exports totaled \$5.3 billion, compared to \$5.1 billion during the same period in 2016. Exports to major trading partners in 2016 included: Canada (\$4.1 billion); China (\$3.4 billion); Germany (\$3.2 billion); Mexico (\$2.6 billion); and Japan (\$527 million). Although exports to Germany dropped slightly during the first quarter 2017, exports to other major trading partners rose significantly during this period compared to the first quarter of the previous year. Compared to year ago levels, exports to China alone were up \$112 million during the first three months of 2017.

The state's largest export continued to be transportation equipment, with an increase from \$9.3 billion in 2015 to \$10.7 billion in 2016. However, these exports totaled \$2.6 billion during the first three months of 2017, down from \$2.7 billion a year ago. Alabama's other major exports in 2016 included chemicals (\$2.2 billion); primary metals (\$1.5 billion); paper products (\$1 billion); machinery (\$910 million); computer and electronic products (\$556 million); minerals and ores (\$517 million); and agricultural products (\$341 million).

## OUTLOOK FOR 2017

The state's major drivers for the second half of 2017 will be transportation equipment and wood products related

manufacturing, finance and insurance, professional, scientific and technical services, administrative support and waste management, healthcare and social assistance, as well as accommodation and food service. These include firms in industries such as automotive manufacturing, aerospace, tourism, healthcare, real estate rental and leasing, administrative support and remediation services, and biotechnology. Alabama's real gross domestic product - GDP or the real value of total goods and services produced in the state - should grow at a slightly faster pace in 2017, increasing by a forecasted 1.9 percent compared to 1.3 percent in 2016, to around \$189 billion. Gains in output are expected to be much higher for motor vehicle and parts and other transportation equipment manufacturers due to the nature of these industry sectors; the rate of output growth in these industries could far exceed the employment growth. Among service providing sectors, output gains will be strongest among professional and business services firms, particularly those engaged in scientific and technical services and in administrative support, waste management and remedial services, and among healthcare services. Changing demographics and general aging of the population will also present growth opportunities for sectors of the economy engaged in providing services for an aging population.

Nonfarm employment is forecasted to rise by approximately 1.5 percent during 2017, with 25,000 to 30,000 jobs added across the state, above the pace of payroll growth seen in 2016. The strongest percentage increases in employment are likely to be in motor vehicle and parts and other transportation equipment manufacturing. Most new jobs, however, will be in services providing business firms, where broad-based gains could result in around 20,000 to 25,000 additional jobs, provided the state's economy continues to grow at its current pace, with some improvement expected in the second half of the year. Most of the job growth is expected to be in the private sector of the economy with state government related entities also forecasted to add a modest number of workers. If the economy continues to grow at its current pace, this could encourage more currently discouraged workers to enter the labor market, which could result in keeping the unemployment rate at its current rate.

With the state's economy expected to grow at a slightly higher pace in 2017 than in 2016, expected overall tax revenues are estimated to increase by 3.5 percent in FY2017. The current forecast calls for a 2.5 percent increase in sales tax revenues and about 3.5 percent increase in individual income tax revenues.

After a big jump in business confidence index for the state in the first half of the year, the index reading showed a slight drop for the third quarter, however it still remains significantly above the 50.0 threshold level. An index reading above 50.0 reflects expansion and a reading below 50.0 signals a contracting economy. Business sentiment is measured quarterly by the Center for Business and Economic Research's *Alabama Business Confidence Index*™ (ABCI). The overall index dropped 3.6 points from the second quarter to 61.6 and is above the index reading level of 52.4 a year ago. Most of the survey panelists were more optimistic about the national economy than the state's economy. Still, the index

for Alabama fell 3.4 points to 64.2 while that for the national economy dropped 5.3 points to 64.5. Indexes for industry sales and profits were also down 4.6 and 4.5 points to 62.6 and 59.6, respectively.

### ABCI Outlook for Third Quarter 2017

		Change from Q2
ABCI	61.6	-3.6
National Economy	64.5	-5.3
Alabama Economy	64.2	-3.4
Industry Sales	62.6	-4.6
Industry Profits	59.6	-4.5
Industry Hiring	58.9	-1.8
Capital Expenditures	59.8	-2.1

Most Alabama businesses remain relatively cautious about both hiring and capital expenditures. The hiring index was down 1.8 points to 58.9 while the index for capital expenditures was down 2.1 points to 59.8. For a complete report on *Alabama Business Confidence Index*, go to <http://cber.cba.ua.edu/abci/results/ABCI-Q3-2017.pdf>

Overall, the state's economy will continue to grow at a slightly faster pace in 2017 compared to 2016. Despite the rapid increase in payrolls seen in some sectors of the economy, overall job growth is expected to remain sluggish for some industries, specifically those with higher exposure to international trade and facing declining demand conditions in domestic markets.

## UNITED STATES

As one of the longest economic expansions in American history moves close to its ninth year, the overall rate of growth continues to remain around a modest 1.5 to 2.0 percent, a relatively anemic rate of growth compared to past expansions or recoveries. Since the current recovery continues to remain sluggish, the excesses that generally accompany overheating at this stage of the recovery and eventually lead towards a recession or an economic slowdown have not built up. However, there are some signs on the horizon that the economy may be heading for a slowdown, the probability of a recession is now around 25 percent for the second half of 2018. GDP growth for the first quarter 2017 was revised to 1.2 percent while the second quarter annualized rate was 2.6 percent reflecting positive contributions from personal consumption expenditures, nonresidential fixed investment, exports and federal government spending. Consumer spending increased by 2.8 percent following a modest increase of only 1.9 percent in the first quarter. The most significant jump was seen in the consumption of durable goods which increased by 6.3 percent after showing a slight decline in the first quarter. Consumers are again beginning to ramp up debt levels, which in effect could hamper spending in the future. Overall business spending rose 2.0 percent, following 1.2 percent decline in the previous quarter. However, residential investment dropped 6.8 percent after a 11.1 percent increase

in the first quarter. Overall, the economy expanded at an annual rate of 1.9 percent in the first half of 2017, slightly slower than the 2.3 percent average annual gain recorded from 2013 to 2016.

Total nonfarm payrolls increased by 209,000 in July 2017 while the unemployment rate remained at 4.3 percent. The labor force participation rate, at 62.9 percent, changed little in July and has shown only a very slight upward movement over the past year. Job gains were experienced in food services and drinking places, professional and business services, and health care. Employment growth has averaged 184,000 per month in 2017, compared to 187,000 average monthly gains seen in 2016. Payrolls in food services and drinking places rose by 53,000 in July; the industry has added 313,000 jobs over the year. Professional and business services added 49,000 jobs, in line with their average monthly job gain over the prior 12 months. Healthcare employment increased by 39,000, with job gains occurring in ambulatory health care services (30,000) and hospitals (7,000). Overall, healthcare has added 327,000 jobs over the past twelve months. Mining payrolls were almost flat (1,000) and employment in other major industries including construction, manufacturing, wholesale and retail trade, transportation and warehousing,

information, financial activities, and government, showed very little change in July.

The economy is forecasted to grow by around 2.7 percent in the second half of the year, with consumer spending rising by 2.6 percent while business spending increases by about 5.0 percent. As of August 2017, the current expansion is 98 months long, while the average time between the business cycle troughs and the peaks from 1945 to 2009 has been 58.4 months. During this period, the longest recovery was 120 months in the 1990s; generally recoveries do not die of old age but are rather destroyed by policy mistakes or exogenous shocks. Barring any policy mistakes and assuming the rate of inflation remains low despite full employment, the current recovery can go on for a while longer.

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## Alabama Real GDP

(Percent Change from Preceding Period)

Industry	2015:Q2--Q3	2015:Q3--Q4	2015:Q4-2016:Q1	2016:Q1--Q2	2016:Q2--Q3	2016:Q3--Q4	2016:Q4-2017:Q1
All industry total	2.1	0.3	0.8	1.7	1.1	2.2	1.9
Agriculture, forestry, fishing, and hunting	-2.6	-13.5	1.6	20	22.1	-1.5	21.9
Mining	31.3	-33.3	-37.2	-32.3	-6.2	10.4	21
Utilities	8.4	-3.1	-12.9	35.7	41.2	-4.8	-6.4
Construction	6	0.3	28.2	-16	-8.3	0.6	5.2
Manufacturing	1.6	0.8	8.8	-0.6	-2.4	-0.8	5.2
Durable goods manufacturing	3.6	2.6	8.2	-2.7	-6.2	2.3	3.6
Nondurable goods manufacturing	-1.5	-2	9.8	3	4.1	-5.6	7.7
Wholesale trade	-1.1	5.5	-7.7	4.7	5.7	0.8	3.7
Retail trade	3.6	8.4	-1.5	1.8	-6.3	6.1	-4.5
Transportation and warehousing	4.6	-4.6	-10.9	19.7	0.6	4.6	-0.6
Information	1.2	15.5	-11.7	-1.2	10.4	1.5	-0.3
Finance and insurance	-8.6	-2.9	-7.5	5.8	7.5	8.3	-4.2
Real estate and rental and leasing	1.2	-2.8	6.8	2.8	-4.9	4.9	2.9
Professional, scientific, and technical services	2.8	8.2	-2.9	3.5	7.8	4.5	1.2
Management of companies and enterprises	1.1	3.8	62.2	-10.3	-6.6	3.7	-1
Administrative and waste management services	3.7	4.9	-5.4	2.3	-0.2	4.5	4.7
Educational services	3.7	1.8	-6.5	-0.5	1.4	0.9	-1.3
Health care and social assistance	6.2	-0.3	0.5	4.7	3.9	2.2	2.8
Arts, entertainment, and recreation	10.1	9.8	-0.6	5	11.5	7.3	-6.3
Accommodation and food services	3.3	2	0.3	-4.6	-2.2	2.2	1.8
Other services, except government	-1.7	5	-3	-0.4	4.1	1.9	-0.3
Government	1	-2	0.4	0.8	0.4	0.4	1.3

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Articles reflect the opinions of the authors but not necessarily those of the staff of the Center, the faculty of the Culverhouse College of Commerce, or the administrative officials of The University of Alabama.