Alabama Economic Outlook 2012

Huntsville

With the official ending of the 2005 Base Realignment and Closure (BRAC) process on September 15, 2011, the Huntsville metro marked a milestone in its broadening federal defense presence. In total, 4,650 federal military and civilian jobs at an average annual salary of $80,000 were transferred to Redstone Arsenal as a result of BRAC, with over 1,000 of these positions still open in early September. About 59 percent of individuals filling BRAC jobs came from outside the Tennessee Valley, an encouraging sign for the area's professional, scientific, and technical employers, who did not want to lose their knowledge base. Redstone Arsenal saw more than $435 million in new construction to accommodate the 2005 BRAC moves. Contractor growth spurred by BRAC is expected to continue for the next three to five years.

Transfer of more than 2,200 positions raises the Missile Defense Agency's (MDA) area workforce to well over 4,000, with Huntsville serving as the center for development, testing, integration, and fielding for MDA. BRAC also added around 200 positions to the Army Space and Missile Defense Command (AMCOM) headquarters at Redstone. Movement of the headquarters of the Army Materiel Command (AMC) to the Arsenal brought the base's first four-star general, Ann E. Dunwoody, and around 1,350 jobs, with another 340 at the U.S. Security Assistance Command. Huntsville gained 350 non-BRAC positions when the Army Contracting Command and the Expeditionary Contracting Command relocated to Redstone in 2010. In addition, BRAC transferred 300 jobs to the Redstone Test Center, while 75 moved with the Army’s 2nd Recruiting Brigade Headquarters. More than 35,000 now work on Redstone Arsenal in jobs for the Army and for over 50 federal agencies, as well as with private-sector firms.

Growth in the MDA’s presence builds on the Huntsville area’s strength in science and engineering and the already-sizeable community of defense-related research and development contractors. It is also beginning to lead to gains in defense-related manufacturing as evidenced by Raytheon’s $70 million missile plant, under construction on Redstone Arsenal, that is expected to hire more than 200 and begin final assembly and testing of the Standard Missile (SM)-3 and SM-6 in Summer 2012; Raytheon received a $241 million award from the MDA to continue design and development of the SM-3 Block IIA missile and more contractors are expected by 2013. The Rotary Wing Center, opened in 2011 as part of the Redstone Test Center, provides space to work on evaluating new equipment and avionics, as well as proposed upgrades and modifications for military helicopters. A Fixed Wing Project Office also opened recently.

Location of the AMC headquarters and the Army contracting commands at Redstone is helping diversify the Huntsville area’s defense employment, bringing jobs in fields including acquisitions, logistics, and contracts. The University of Alabama in Huntsville (UAH) opened the first Army Acquisition Center of Excellence in 2011 to identify efficiencies that can result in cost savings. Athens State University implemented a curriculum in acquisition and contract management and is collaborating on programs with the Defense Acquisition University, which offers professional development at its new South regional facility in Cummings Research Park.

During the decade that began with the September 11 terror attacks in 2001, the federal defense budget more than doubled to total $708 billion in 2011, while defense contractor revenues rose 78 percent to $386 billion and profits almost quadrupled to $24.8 billion. A heavy economic dependence on federal defense spending carries inherent risks that are accelerating as U.S. involvement in Iraq winds down and Congress focuses on defense spending cuts to reduce the federal budget deficit. Even some positions transferred to Redstone Arsenal with BRAC are slated for elimination, including the AMC losing 72 headquarters jobs by September 30, 2012 and AMCOM shedding 272. Both agencies hope to handle the cuts with voluntary separation and retirement incentives and leaving vacant positions unfilled.
While missile defense is still a priority, missile programs are traditionally in flux and in the current environment funding uncertainties have been magnified. The Medium Extended Air Defense System (MEADS), managed by Lockheed Martin in Huntsville, was not included in the preliminary FY2012 federal budget, despite the nation’s commitment through 2013 to this international project and successful preliminary tests. Emphasis is going to further developing the Patriot system, rather than MEADS, with Raytheon receiving a contract for Patriot engineering services that will bring work to Huntsville. Boeing laid off 130 Huntsville employees last spring due to cutbacks in the Ground-based Midcourse Defense (GMD) program, which it has managed since 2001. Boeing and Lockheed Martin are bidding on further developing and sustaining the GMD program, with both planning to headquarter operations in Huntsville. In new initiatives, Dynetics is working with the Space and Missile Defense Command to test nanosatellites that would relate to Unattended Ground Stations for information sharing in the field.

Challenges to Huntsville’s other major federal employer, NASA’s Marshall Space Flight Center (MSFC), came to the fore in 2010 as federal spending on the space program began to decline, and have been even more acute in 2011. Cancellation of the Constellation rocket program and ending of the space shuttle missions removed several primary roles that MSFC played in recent years. Coupled with delays in funding new missions and slow approval of new contract plans for engineering, scientific, and technical services, cutbacks forced MSFC to layoff around 800 contract employees in 2010; contractor layoffs could reach almost that high in 2011. Most contract jobs lost have been with Jacobs, MSFC’s primary provider of engineering, scientific, and technical services, and its subcontractors, Qualis, ERC Corp., and InfoPro; United Space Alliance has also been impacted. While the mid-September confirmation that MSFC will lead the development of a new heavy lift rocket for NASA was expected to stabilize employment, the Center announced in October that it plans to cut 120 civil servants. Huntsville Space Professionals, an organization that helps laid off aerospace workers find jobs, had around 1,000 members in Fall 2011.

Although hampered by a lack of timely planning and approval, MSFC has a number of projects upcoming or ongoing. NASA is trying to accelerate plans for the new heavy lift rocket, or Space Launch System, aimed for completion in 2017 at a cost of $18 billion. Work with private sector firms, including Pratt & Whitney Rocketdyne, SpaceX, and Orbital Sciences, on development of an upper-stage engine under the Commercial Crew Program (CCP) is ongoing. Boeing, which is a major contractor on CCP, indicated that it is likely to add jobs in Huntsville to work on the Crew Space Transportation-100 spacecraft. Building on expertise in propulsion, the establishment of a National Institute for Rocket Propulsion has been proposed for MSFC. Researchers at UAH have been exploring beamed energy for propulsion as a future direction for MSFC, using laser technology to help lift a craft into orbit. With the Army a major user of space capabilities in warfare, synergistic opportunities exist for future projects.

Research and development firms continue to see prospects for work with NASA and MSFC, with Aerojet, a firm specializing in propulsion and manufacture of rocket motors, expanding its Huntsville workforce in both 2010 and 2011 and engaging in a strategic alliance with Huntsville’s Teledyne Brown Engineering to pursue contracts to manufacture liquid rocket engines for the new heavy lift rocket. Dynetics, teaming with Draper Labs and Teledyne Brown, delivered hot-fire test data for a new “green” rocket being developed for NASA’s use in robotic landers. A new Huntsville company, Stratolaunch Systems, announced in mid-December plans to build and launch rockets from the world’s largest plane. Partners in the firm include Microsoft co-founder Paul Allen, Scaled Composites, SpaceX Technologies, and Dynetics, which will provide technical direction for the program and build the control systems and mating and integration system hardware in Huntsville.

The HudsonAlpha Institute for Biotechnology, opened late in 2007, now comprises 20 associate for-profit biotech companies and 11 faculty investigators and their labs. With work underway on a third research building, HudsonAlpha has provided a successful direction for diversification in the Huntsville area. Clinical lab services firm Kailos Genetics opened at the Institute in 2011, while several firms received new federal funding for their research. HudsonAlpha continues to promote education and outreach through its BioTrain internship program and a new partnership with the University of Alabama at Birmingham’s Genetics and Genomic Sciences graduate program.
In other area biotech developments, Qualitest Pharmaceuticals, specializing in generic drug production and distribution, expanded into a new Cummings Research Park Building in October, with plans for up to 200 new employees by year-end.

Total nonfarm employment in the Huntsville metro averaged 207,700 for the first 10 months of 2011, down a slight 390 jobs from the same period in 2010. However, the number of nonfarm jobs in the metro area in October 2011 was 7,300 below a prerecession total of 214,500 in October 2007, for a loss of 3.4 percent. The area’s civilian labor force added 4,136 workers during the 12 months ending in October 2011, but, with total employment increasing by a lesser 3,210, unemployment rose from 7.1 to 7.4 percent during the period. The Huntsville metro continues to provide more jobs than resident workers, resulting in significant in-commuting. 2012 should be a better year for employment; job growth in the Huntsville metro of 1.3 percent is forecasted, or about 2,700 positions.

From 2005 through 2011, the government sector has been the primary source of job growth in the Huntsville metro area, adding 8,800 jobs over the six years for a 21.0 percent gain. The majority of jobs have been with the federal government, with 5,500 new positions amounting to a 35.7 percent increase. State government employment has been flat over the period, while local governments in the area have added 2,800 jobs. During the 12 months ending in October 2011, Huntsville gained 1,800 government jobs. Professional and business services, which accounted for the second largest number of metro area jobs in October 2011 (behind government), saw employment rise steadily between 2005 and 2009, before flattening out in 2010 and declining in 2011. From October 2010 to October 2011, jobs in professional and business services fell by 2,000 (4.1 percent), with 1,800 of those losses in professional, technical, and scientific services. Funding challenges and program cutbacks are taking their toll on Huntsville’s knowledge workers.

Despite difficult times, new opportunities to work with federal agencies transferred with BRAC as well as new and ongoing federal defense-related contracts continue to attract professional, scientific, and technical firms to Huntsville and to propel expansions at some existing companies, while other firms are taking the opportunity to position themselves for future growth. Scientific and technical companies new to the area in 2011 included Harris Corporation, Terma North America, Audio Visual Systems, Centris Consulting, Frontier Technology, and Stinger Ghaffarian Technologies; Blackhawk Management has announced plans to relocate from Houston. A number of firms moved into new offices, including Aerojet, Altair Engineering, Lockheed Martin, LogiCore, PeopleTec, QuanTech Services, Schafer Corp., Strata-G Solutions, Venturi, and Willbrook Solutions; SES completed a new hangar at Huntsville International Airport, while Wyle finished a drive-in environmental test chamber. Firms closing during the year included Chugach World Services and Thermo Fisher Scientific. Many Huntsville firms received federal contract awards, with most in the defense arena. The federal government awarded 3,128 contracts in other defense (applied/exploratory), research and development, and other scientific and technical categories totaling almost $2.9 billion in FY2011 for work to be performed in Huntsville. Of these contracts, 2,773 were with the Department of Defense and 327 with NASA.

BRAC-related growth is contributing to the Huntsville area’s already-sizeable economy. With current dollar GDP totaling $20.9 billion in 2010, the metro accounted for 12.1 percent of Alabama’s total output of goods and services. Huntsville GDP grew 5.7 percent from 2009 to 2010, second fastest among the metros. However, given constraints on defense spending and with BRAC in place, GDP is forecasted to increase about 3.5 percent during 2012. According to the FDIC, deposits in commercial banks in the Huntsville metro fell 7.9 percent between June 30, 2010 and June 30, 2011. Employment in financial activities was flat during the 12 months ending in October. High levels of education and experience required by many Huntsville area jobs contribute to wages averaging $48,040 in 2010—highest among the 11 metro areas and more than 8 percent above the U.S. average. Median family income rose 4.1 percent in 2011 to $70,800, well above the state and national medians. Metro per capita income ranked second to Birmingham-Hoover in 2010 at $38,523.

With 10.7 percent of area nonfarm workers, the size of the Huntsville metro’s manufacturing sector is below average for the state. Manufacturing employment fell by 800 over the 12 months ending in October 2011 to total 22,100. Huntsville’s Continental Automotive Systems, which ceased production late in 2010, laid off its final 67
employees early in 2011 and prepared the plant to be turned over to owner Chrysler Corporation. Toyota Motor Manufacturing Alabama began four-cylinder engine production in September, completing a $147 million expansion. With employment around 980, Toyota now has the capability of making more than 500,000 4-cylinder and V-6 and V-8 engines annually. The company dealt with nonproduction days due to supply disruptions following the March 11 Japan earthquake and tsunami on into June by allowing workers to participate in plant improvement and training or use leave time. Multifaceted Teledyne Brown Engineering completed a new Advanced Turbine Manufacturing Center, producing turbine engine components, and secured contracts to design and manufacture underwater gliders for the U.S. Navy and a Shallow Water Combat Submersible craft for the Special Operations Command.

In other industrial news, Aladdin Light Lift relocated its 15 employees from Memphis to Huntsville in the summer. Expansion at Turner Medical in Athens should create 40 positions in 2011. And the addition of a second building for lighting display company Futaba Corp. of America could create up to 60 jobs in 2012. Carpenter Technology announced plans for a $500 million Limestone County plant that should open in 2014, with around 200 employees manufacturing specialty metals and engineered products. Steelcase expects to add up to 100 new jobs in Athens, while expansion at Electricfil will add jobs late in 2012. Toyota’s slowdown likely hurt rail cargo shipments from Huntsville’s International Intermodal Center in the first half of the year, although air cargo loading weights rose almost 36 percent with Panalpina’s new service to Hong Kong and Brazil. Industrial vacancies in the Huntsville area increased from 11.6 percent in 2010 to 12.5 percent in the spring of 2011.

Synergies between the public and private sectors are an important part of Huntsville’s success. Redstone Gateway at the main entrance to Redstone Arsenal is being developed as a joint venture by Corporate Office Properties Trust and Jim Wilson & Associates in partnership with the U.S. Army and the Arsenal. Construction of the first building in a planned 4.4 million square feet of office space should be complete by late 2011, with retail, restaurants, and hotels also slated for the site. Contracts to maintain the grounds and provide custodial services at Redstone Arsenal are providing hundreds of jobs to residents with disabilities hired by the Huntsville nonprofit Phoenix; a new contract to produce cargo bags for the Army will add to Phoenix employment. Several initiatives are trying to build on applications of the area’s science and technology expertise—the Energy Huntsville initiative is aimed at excelling in the energy field, while another emphasis is promoting a center for cyber security. The completion of Phase II of the Alabama Robotics Technology Park at Calhoun Community College in Limestone County provides a test facility for robotics for both industrial and military purposes, with PeopleTec the first corporate partner. And a Department of Homeland Security grant to Drake State Technical College will provide instruction in subjects relevant to homeland security.

BRAC relocations and new hires continue to propel population growth in the Huntsville metro, with an estimated 7,000 residents added from July 1, 2009 to July 1, 2010, an increase of 1.7 percent. This growth is straining area infrastructure, making highway improvement projects a priority. Completion of Madison’s James Clemens High School by August 2012 will help relieve school crowding; Madison was Alabama’s fastest growing city over the past decade. Madison Hospital is slated to open at the end of February, creating around 300 jobs. Large defense and space-related conferences held in Huntsville are contributing to hotel occupancy. SpringHill Suites Huntsville Downtown opened in June as the first project in the Constellation mixed-use development. Both a Holiday Inn Express and another SpringHill Suites at Huntsville’s Village of Providence should open in 2012. In November Huntsville sold about $100 million in bonds to finance infrastructure construction, including a $21 million remodel of Butler High School, road construction near Redstone Arsenal and in west Huntsville, public safety structures and equipment, and sewer improvements. The Huntsville area’s retail sector is expanding, although the retail vacancy rate stood at 10.8 percent last spring. The Target-anchored Shoppes at Madison is expected to open in Spring 2012, while Colonial Promenade Huntsville, anchored by Walmart Supercenter, should be complete late in the year. New stores at Bridge Street Town Centre during 2011 included Sephora, a Toys ’R Us/Babies ’R Us Superstore, Soma Intimates, Altar’d State, and Café 153; Bed, Bath, and Beyond should open late in 2012. Both traffic and leasing improved at Madison Square Mall and at Parkway Place during 2011. Jones Valley saw the addition of The Mailbox Store and a Kohl’s, while the big box center across from Madison Square Mall saw space filled by Guitar Center, Powerhouse Gym, and Jo-Ann Fabrics and Crafts. Below the Radar Brewery was slated to open in downtown Huntsville by early 2012. Grocery options grew with the completion of two area Aldi stores.
Tornadoes that hit Alabama on April 27, 2011, destroyed at least 675 homes in Limestone and Madison counties and caused major damage to over 320 structures. The storms also disrupted business and other activity due to extended power outages. Except for repairs completed in 2011, much of the tornado-related rebuilding remains to be done in 2012. From January through September 2011, 3,845 homes were sold in the Huntsville real estate market, down 4.0 percent from the same period in 2010. Prices softened slightly, with the FHFA House Price Index declining 2.9 percent from third quarter 2010 to third quarter 2011. Multi-family capacity in the Huntsville metro must be adequate as no new multi-family units were permitted in the first nine months of 2010 and just 32 were filed in 2011. Building permits for single-family homes were the highest among the metros through September 2011 at 1,599, just 90 below the same period in 2010. Completion of 75 units at the Belk Hudson Lofts in Fall 2012 will add to downtown Huntsville housing options. Huntsville is becoming known as a good place to retire, earning a #12 ranking on CNNMoney.com’s Best Places to Retire, picked as a top choice by Where to Retire, and selected #4 by USAA and Military.com on Best Places for Retirement: Second Careers.