



# Economic Outlook Update: January 2018

## ALABAMA HIGHLIGHTS

➤ Alabama gained 32,500 jobs from December 2016 to December 2017, compared to 18,600 jobs gained a year prior. The seasonally adjusted unemployment rate declined from 6.3 to 3.5 percent for the same period. The state employed a total of 2,025,100 nonfarm workers in December of 2017, up from 1,992,600 a year ago. In November of 2017, Alabama had a total 2,028,600 nonfarm workers, the most ever recorded.

➤ Seasonally adjusted unemployment, based on the household survey, dropped from 137,875 in December 2016 to 75,698 in December 2017. During this period, the labor force declined from 2,185,628 to 2,168,761 which also helped push the unemployment rate down.

➤ Total nonfarm employment is forecasted to increase by about 1.3 percent in 2018, with transportation equipment; wood products; plastic and rubber products; leisure and hospitality; furniture and related products; construction; professional and business services; as well as education and health services adding most workers to their payrolls.

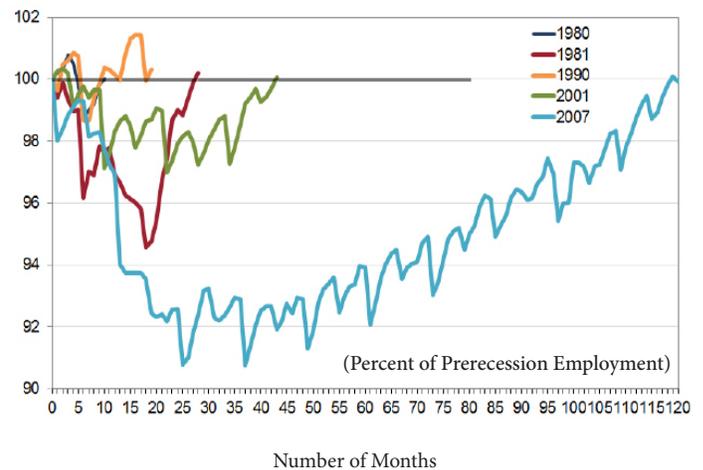
➤ Overall, the state's economy is forecasted to grow by approximately 2.4 percent in 2018, above the 2.2 percent growth rate in 2017.

➤ After increasing by 4.2 percent in fiscal year 2016-2017, state tax revenues are expected to grow by around 3.1 percent in FY2018.

## EMPLOYMENT

In November 2017, Alabama employed 2,028,600 nonfarm workers, surpassing the peak of December 2007 of 2,026,700 workers. However, in December 2017 the nonfarm jobs totaled 2,025,100, just 1,600 below its level prior to the beginning of the recession. Over the twelve-month period ending in December 2017, the state gained a net of 32,500 jobs. The majority of the gains were in services providing firms (20,700); goods producing firms also added 11,800 jobs. While mining and logging industries lost 100 employees, construction payroll grew by 6,100 for the year, with construction of buildings adding 2,400 jobs; specialty trade contractors adding 2,000 jobs; and heavy and civil engineering construction gaining 1,700 jobs.

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



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

Manufacturing industries in the state experienced a net gain of 5,800 workers for the year. From December 2016 to December 2017, durable goods manufacturing had a net gain of 3,900 workers, with gains coming from fabricated metals product manufacturing (1,800); wood product manufacturing (1,400); motor vehicle parts manufacturing (700); primary metal manufacturing and motor vehicle manufacturing (300 each); furniture and related product manufacturing (200); and electric equipment, appliance and component manufacturing (100).

Nondurable goods manufacturing experienced a net gain of 1,900 jobs. Industries experiencing an increase in payroll included plastic and rubber products manufacturing (700); food manufacturing (300); and paper manufacturing (100). Textile furnishing mills as well as apparel manufacturing lost 300 jobs, each.

Among the service providing firms sector, leisure and hospitality experienced the strongest job growth with the addition of 8,700 jobs, followed by education and health services (4,800), and professional and business services (4,600). With the exception of the federal government that shed 600 workers, both state and local governments added 4,700 and 800 workers to their payroll, respectively. Overall, the trade, transportation and utilities sector lost 4,800 jobs over the twelve-month period ending in December 2017, with payrolls in retailing shrinking by 3,700 and transportation, warehousing, and utilities losing 1,300 workers, while wholesale traders added 200 jobs. While overall employment in the financial activities sector shrunk by 200 jobs, the finance and insurance as well as the insurance carriers and related activities industries added 700 and 1,300 jobs, respectively. The information sector payrolls continued to shrink, declining by another 300 jobs over the year ending in December 2017.

## Alabama Nonfarm Employment

Change in Number of Jobs

	December 2015 to December 2016	December 2016 to December 2017
<b>Total Nonagricultural</b>	<b>17,100</b>	<b>32,500</b>
Mining and Logging	-500	-100
Construction	-1,100	6,100
Manufacturing	3,800	5,800
Durable Goods Manufacturing	900	3,900
Nondurable Goods Manufacturing	2,900	1,900
Trade, Transportation and Utilities	-2,600	-4,800
Wholesale Trade	-300	200
Retail Trade	-3,000	-3,700
Transportation, Warehousing and Utilities	700	-1,300
Information	-700	-300
Financial Activities	2,300	-200
Professional and Business Services	1,500	4,600
Educational and Health Services	6,700	4,800
Leisure and Hospitality	5,500	8,700
Other Services	400	3,000
Government	2,800	4,900
Federal Government	600	-600
State Government	-500	4,700
Local Government	2,700	800

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

For the one-year period ending December 2017, ten of Alabama's 12 metropolitan areas experienced job gains: Huntsville (6,200); Daphne-Fairhope-Foley (3,500); Auburn-Opelika (2,600); Tuscaloosa (2,200); Montgomery (1,400); Birmingham-Hoover (1,300); Decatur (1,000); Gadsden (900); Anniston-Oxford-Jacksonville (800); and Mobile (600). While Florence-Muscle Shoals didn't gain any jobs, Dothan metro-area experienced job losses totaling 300. State's non-metro areas gained 12,300 jobs.

As of December 2017, Mobile metro had the highest unemployment rate at 4.2 percent while Huntsville and

Auburn-Opelika metro-areas had the lowest at 2.9 percent each. Among the state's 67 counties, Wilcox County had the highest unemployment rate at 9.5 percent while Shelby's had the lowest at 2.5 percent. Among the major cities in the state, Selma had the highest unemployment rate at 6.3 percent (compared to 10.0 percent a year ago) while Vestavia Hills had the lowest at 2.1 percent (compared to 3.8 percent a year ago).

## TAX RECEIPTS

During the first three months of the current fiscal year (FY2018), total tax revenues were up by 4.3 percent, an increase of \$108.7 million from previous fiscal year. Individual income tax revenues rose 6.4 percent to \$986.7 million while corporate income taxes were up 8.8 percent, totaling \$112.1 million. Sales tax receipts went up by 3.0 percent totaling \$588.2 million, representing an increase of \$17.1 million over the first three months of the previous fiscal year.

Also during the first three months of FY2018, appropriations to the Alabama Education Trust Fund rose 3.3 percent (\$49.0 million) to over \$1.5 billion compared to the same period in the previous year. Appropriations to the state's General Fund during the first quarter of FY2018 were down \$7.0 million totaling \$448.1 million, a decrease of 1.6 percent from the previous year.

## STATE EXPORTS

Alabama exports increased from \$19.3 billion in 2015 to \$20.4 in 2016, an increase of \$1.1 billion. For the first nine months in 2017, exports totaled almost \$16.2 billion, compared to \$15.1 billion during the same period in 2016. Canada remained the state's largest export market with exports totaling \$3.2 billion, compared to \$3.1 billion during the same period in 2016. Exports to China rose again in the first three quarters of 2017 totaling \$2.5 billion, up from almost \$2.2 billion the year before. Exports to Germany totaled \$2.2 billion during the same period in 2017, down from \$2.4 billion in 2016. Other major exports during the same period in 2017 included: Mexico (\$2.1 billion); Japan (\$496 million); Belgium (\$442 million); and South Korea (\$366 million).

The transportation equipment manufacturing sector continues to remain the state's largest exporter. During the first three quarters of 2017, these exports totaled \$8.1 billion, accounting for over 50.0 percent of total state exports. Other major exports from the state included: chemicals (\$1.6 billion); primary metal (\$1.4 billion); minerals and ores (\$1.1 billion); paper (\$784 million); machinery, except electrical (\$531 million); and computer and electrical products (\$378 million). China was the top market for motor vehicles made in Alabama, followed by Canada, Germany, Belgium, and Mexico.

**OUTLOOK FOR 2018**

According to the most recent data available, Alabama’s real GDP grew 4.1 percent in the first quarter, 2.5 percent in the second, and 2.7 percent in the third quarter. The overall economic growth in the state in 2017 was 2.2 percent. In 2018, automotive and primary metal products manufacturing, tourism, healthcare, biotechnology manufacturing and services employers will be Alabama’s major economic drivers.

Real GDP is expected to grow at a slightly higher pace in 2018, increasing by a forecasted 2.4 percent to around \$190.3 billion. Manufacturers of petroleum and coal products; motor vehicles, parts; and primary metals could experience output growth substantially higher than the overall average. In service providing sectors, output gains will be strongest among management of companies and enterprises as well as administrative and waste services. Nonfarm employment is forecasted to rise 1.3 percent in 2018, with about 26,500 jobs added across the state. Within the manufacturing sector, the strongest percentage increases in employment are likely to be seen in motor vehicle and parts and other transportation equipment manufacturers. However, the majority of new jobs will be in services providing businesses.

**Alabama Forecast**

(Percent change)	2016	2017	2018	2019
<b>Real GDP</b>	1.5	2.2	2.4	2.0
<b>Employment</b>	1.4	1.3	1.3	1.1
<b>Total Tax Receipts, FY</b>	1.2	4.2	3.1	2.6
<b>Sales Tax Revenues, FY</b>	3.9	1.8	1.4	1.2
<b>Individual Income Tax Revenues, FY</b>	3.6	3.3	3.0	3.2
<b>Corporate Income Tax Revenues, FY</b>	-26.5	10.3	7.8	5.8
<b>All Other Tax Revenues, FY</b>	1.4	6.1	3.7	2.4
<b>Alabama Education Trust Fund, FY</b>	0.4	4.2	3.1	3.0
<b>Alabama General Trust Fund, FY</b>	-0.7	4.9	1.2	2.0

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

An increase of about 3.1 percent is forecasted for total tax revenues. Sales tax revenues are expected to grow by 1.4 percent in 2018, while individual income tax revenues should experience a solid growth of 3.0 percent. Depending on the performance of state’s economy during the first half of the year, growth in tax revenues could be below the current forecast. While the appropriations to the Education Trust Fund are expected to rise 3.1 percent to about \$6.5 billion in FY2018, the General Fund could see appropriations of approximately \$1.9 billion, representing an increase of 1.2 percent.

Business confidence increased to 63.1 in the first quarter of 2018 Alabama Business Confidence Index™ (ABCI) survey, which was conducted by the Center for Business and Economic Research at the University of Alabama’s Culverhouse College of Commerce. The index gained 4.4 points this quarter, passing 60 for the fourth time since 2006, indicating that businesses are feeling very optimistic about growth in the coming quarter. An index value above 50 indicates positive outlook as compared to the previous quarter.

Panelists continue to see expansion both in the Alabama and U.S. economy, but are more optimistic about the national economy. The outlook for the state economy rose to 63.0, while the national economy index jumped to 66.8. Every industry indicator moved higher on the survey and all remained positive. The sales index again topped the list at 64.7, while expectations for capital expenditures, hiring, and profits all rose to easily positive readings. Overall, firms in professional services, manufacturing, wholesale and retail trade, healthcare and miscellaneous services are the most optimistic this quarter, all posting index levels of 52.8 or more. However, transportation, information and utilities see the economic environment as unfavorable.

Business executives expect the state’s economy to continue to grow in the first quarter of 2018. At 63.1, the index is up 4.4 points from last quarter, and 0.4 point up compared to a year ago. Almost 60.0 percent of panelists expect better to somewhat better economic growth this quarter, while almost 30.0 percent expect the state’s economy to perform about the same as last quarter.

**UNITED STATES**

U.S. GDP grew by 2.6 percent in the fourth quarter, following a 3.2 percent growth in the third quarter 2017, and 3.1 percent in the second quarter. This marked the first time since the second quarter of 2014 that the real GDP grew over 3.0 percent in two consecutive quarters. The economy grew 2.3 percent in 2017, up from 1.5 percent in 2016. The increase in GDP was primarily due to nonresidential fixed investments, consumer spending and exports, while government spending had a slight impact. U.S. exports grew at a faster pace in the fourth quarter (6.9 percent), while imports grew by 13.9 percent, the fastest since the third quarter of 2010, mostly driven by a dollar weakness.

Spending on equipment was up 11.4 percent in the fourth quarter, after increasing 10.8 percent in the previous quarter. After dropping by 4.7 percent in the third quarter, residential investments (including both home construction and sales) increased by 11.6 percent in the fourth quarter. The overall consumer spending rose 3.8 percent in the fourth quarter while spending on durables goods increased by a whopping 14.2 percent; fixed business spending rose 7.9 percent, up from 2.4 percent in the previous quarter.

Having increased by 2.3 percent in 2017, U.S. GDP will increase by 2.4 percent in the first quarter of 2018 and pick up to 2.7 percent in the second quarter as stakeholders respond to tax cuts. As the real disposable income grows due to the recent passage of the Tax Cut and Jobs Act (TCJA), the personal savings rates are expected to grow by 3.9 percent in the first quarter of 2018. The boost in household incomes from the recent tax cuts could contribute to further acceleration in wages, rising asset values and mild inflation. The overall real GDP growth for 2018 is expected to be 2.7 percent. Real consumer spending will increase 2.7 percent in the first quarter of 2018, primarily due to lower personal income tax enacted in the new tax law.

After experiencing a 6.8 percent growth in the fourth quarter of 2017, real nonresidential fixed investment will grow 3.2 percent in the first quarter and 5.5 percent in the second quarter of 2018. Intellectual property products and structures will grow by 5.1 percent and 4.7 in the first quarter of 2018, respectively. By the same token, residential fixed investment is expected to grow by 3.6 percent in the first quarter, but decline by 1.8 percent in the second quarter of 2018. Overall productivity growth was 1.3 percent in 2017, after virtually no growth in 2016, and is expected to grow by 1.5 percent in 2018. As the TCJA cuts the corporate tax rate from 35 percent to 21 percent, along with a number of other provisions, it could altogether lead to additional capital investments in 2018 and beyond.

ambulatory health care services (15,000) and hospitals (12,000).

In December, employment in construction rose by 30,000. In 2017, overall construction employment increased by 210,000, compared to just 155,000 the previous year. Manufacturing employment increased by 25,000 in December 2017, mostly due to the gains in the durable goods industry. In 2017, manufacturing added 196,000 jobs, following a net loss of 16,000 jobs in 2016. Other industries that posted job gains in December 2017 were food services and drinking places (25,000) and professional and business services (19,000). Retail trade lost over 20,000 jobs in December 2017; for the whole year, the industry lost over 67,000 jobs, after gaining 203,000 jobs in 2016.

A renaissance in the manufacturing sector, an increase in national exports, a strong momentum in labor markets, and a continued growth in the fixed investments should help the economy grow at a relatively faster pace in 2018 compared to 2017. After growing 2.3 percent in 2017, the real GDP is expected to grow at about 2.5 percent in 2018, while employment should grow by about 1.5 percent. Various geopolitical events coupled with the future actions taken by the Federal Reserve Bank (expected to raise its Fund Rate three times in 2018) will have a major impact in the future economic performance in the U.S.

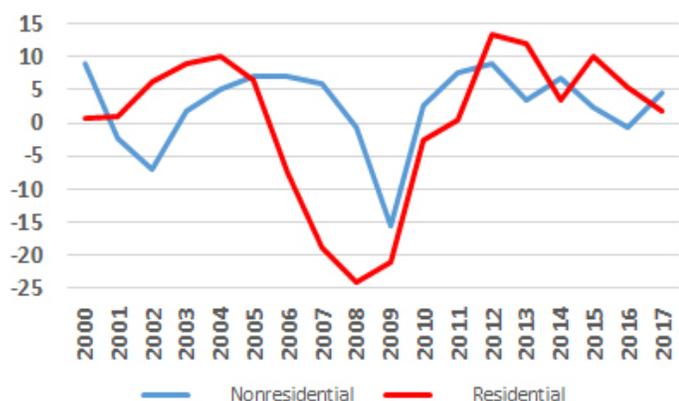
**Samuel Addy, Ph.D.**  
saddy@cba.ua.edu

**Ahmad Ijaz**  
aijaz@cba.ua.edu

**Arben Skivjani**  
askivjani@cba.ua.edu

## Residential vs. Nonresidential Investment

Annual Percentage Change



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

U.S. total nonfarm payroll employment increased by 148,000 in December 2017, and the unemployment rate was unchanged at 4.1 percent. Job gains occurred in healthcare, construction, and manufacturing. Healthcare employment increased by 31,000 over the month and by 300,000 over the year. Two healthcare industries added jobs in December:

## Save the Date!

### ALABAMA STATE DATA CENTER CONFERENCE

### MAY 2018 ■ TUSCALOOSA

CONTACT: srobichaux@cba.ua.edu

## U.S. Real GDP

Annualized Quarterly Percentage Change

	2015				2016				2017			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q2	Q4
<b>Gross domestic product</b>	3.2	2.7	1.6	0.5	0.6	2.2	2.8	1.8	1.2	3.1	3.2	2.6
<b>Personal consumption expenditures</b>	3.7	3.0	2.8	2.7	1.8	3.8	2.8	2.9	1.9	3.3	2.2	3.8
Goods	4.2	4.5	4.4	2.8	2.1	6.0	3.2	4.7	0.7	5.4	4.5	8.2
Services	3.4	2.3	2.0	2.6	1.7	2.8	2.7	2.1	2.5	2.3	1.1	1.8
<b>Gross private domestic investment</b>	13.1	0.8	2.0	-6.2	-4.0	-2.7	2.4	8.5	-1.2	3.9	7.3	3.6
Nonresidential	2.2	2.9	1.5	-5.1	-4.0	3.3	3.4	0.2	7.2	6.7	4.7	6.8
Residential	11.4	11.7	10.6	7.3	13.4	-4.7	-4.5	7.1	11.1	-7.3	-4.7	11.6
<b>Net exports of goods and services</b>	---	---	---	---	---	---	---	---	---	---	---	---
Exports	-4.5	3.7	-4	-2.3	-2.6	2.8	6.4	-3.8	7.3	3.5	2.1	6.9
Imports	6.7	3.3	1.7	0.0	-0.2	0.4	2.7	8.1	4.3	1.5	-0.7	13.9
<b>Government</b>	1.5	3.4	1.2	0.3	1.8	-0.9	0.5	0.2	-0.6	-0.2	0.7	3.0
Federal	1.5	1.8	-1.1	2.5	-1.5	-0.9	1.6	-0.5	-2.4	1.9	1.3	3.5
State and local	1.5	4.5	2.6	-1.1	3.9	-1.0	-0.2	0.6	0.5	-1.5	0.2	2.6

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