



Economic Outlook Update: June 2018

ALABAMA HIGHLIGHTS

➤ The state added 21,600 nonagricultural jobs from May 2017 to May 2018, compared to 17,800 jobs from May 2016 to May 2017, while the seasonally adjusted unemployment rate declined from 4.6 to 3.9 percent during the same period. Alabama employed a total of 2,042,400 nonagricultural workers in May of 2018, the highest since December 2007.

➤ Seasonally adjusted unemployment, based on the household survey, dropped from 98,713 in May 2017 to 85,634 in May 2018. During this period, the seasonally adjusted labor force increased from 2,168,875 to 2,177,073 which indirectly tends to raise the unemployment rate.

➤ In 2018, total nonagricultural employment is expected to grow 1.0 percent, with transportation equipment; wood products; plastic and rubber products; leisure and hospitality; furniture and related products; construction; professional and business services; and education and health services adding the most workers to their payrolls.

➤ After a moderate growth of 1.3 percent in 2017, state's economy is forecasted to grow 2.1 percent in 2018

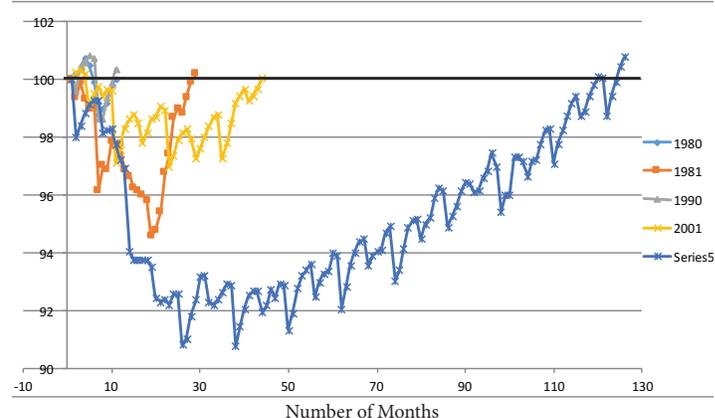
➤ Total state tax revenues are expected to grow 4.1 percent in FY2018 ending in September.

EMPLOYMENT

In May 2018, Alabama employed 2,042,400 nonagricultural workers, the highest since December 2007. Over the one-year period ending in May 2018, the state gained a net of 21,600 nonagricultural jobs. The majority of the gains were in services providing firms (13,900); goods producing firms also added 7,700 jobs. While mining and logging industries added

just 400 employees, construction payroll grew by 2,700 during the twelve-month period, with specialty trade contractors gaining 1,700 jobs; construction of buildings adding 9,000 jobs; and heavy and civil engineering construction adding 100 jobs.

Alabama Employment Level Compared to the Beginning of Each Recession



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

From May 2017 to May 2018 Alabama's manufacturing industries experienced a net gain of 4,600 workers. During the twelve-month period, durable goods manufacturing had a net gain of 3,400 workers, with gains coming from fabricated metals product manufacturing (1,900); wood product manufacturing (1,300); machinery manufacturing (300); primary metal manufacturing and furniture and related product manufacturing (200 each); and motor vehicle manufacturing (100). During the same time period, motor vehicle parts manufacturing lost 1,100 jobs, followed by computer and electronic product manufacturing (200); and aerospace products & parts manufacturing and electric equipment, appliance and component manufacturing each shedding 100 jobs.

Nondurable goods manufacturing gained a net of 1,200 workers, as three subindustries added jobs: plastic and rubber products manufacturing (800); paper manufacturing and textile mills (300 each). Textile product mills and apparel manufacturing each lost 300 jobs. Food manufacturing remained unchanged.

In the private service providing sector, leisure and hospitality industry had the strongest job growth, adding a total of 4,400 new jobs; food and drinking places alone added 3,800 jobs. Robust job growth was observed in professional

and business services (4,000), especially in the architectural, engineering, and related services (4,200). Education and health services added 2,900 jobs, while trade, transportation and utilities gained 400 jobs.

The information industry lost 300 jobs from May 2017 to May 2018, mainly due to the loss of 400 jobs in the telecommunication sector. During the same period, the overall financial activities sector payroll grew by 100, with job gains occurring only in the insurance carriers and related activities (600) and real estate and rental and leasing (300).

While the federal government continued to shed jobs (800), state and local governments added 800 and 2,300 workers, respectively.

Alabama Nonagricultural Employment

(Change in Number of Jobs)

	May 2016 to May 2017	May 2017 to May 2018
Total Nonagricultural	17,800	21,600
Natural Resources and Mining	500	400
Construction	500	2,700
Manufacturing	3,000	4,600
Durable Goods Manufacturing	1,300	3,400
Nondurable Goods Manufacturing	1,700	1,200
Trade, Transportation and Utilities	-2,000	400
Wholesale Trade	0	-2,100
Retail Trade	-1,600	1,600
Transportation, Warehousing and Utilities	-400	900
Information	100	-300
Financial Activities	400	100
Professional and Business Services	4,200	4,000
Educational and Health Services	3,200	2,900
Leisure and Hospitality	4,100	4,400
Other Services	600	100
Government	3,200	2,300
Federal Government	0	-800
State Government	1,900	800
Local Government	1,300	2,300

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

The state's metro-areas added a total of 23,000 jobs during the one-year period ending May 2018. Eleven of Alabama's twelve metropolitan areas experienced job gains: Birmingham-Hoover (7,700); Huntsville (4,700); Tuscaloosa (3,000); Daphne-Fairhope-Foley (2,900); Mobile (2,400); Auburn-Opelika (1,400); Decatur (700); Anniston-Oxford-Jacksonville (500); Dothan (300); Gadsden (200); and Florence-Muscle Shoals (100). Montgomery metro-area lost 900 jobs during the same period, while state's non-metro areas lost 1,400 jobs.

In May 2018, Anniston-Oxford-Jacksonville metro had the highest unemployment rate at 4.5 percent while Daphne-Fairhope-Foley metro-area had the lowest at 3.2 percent. Among the state's 67 counties, Wilcox County had the highest unemployment rate at 8.9 percent while Shelby had the lowest

at 2.7 percent. Among the major cities in the state, Selma had the highest unemployment rate at 6.2 percent (compared to 7.2 percent a year ago) while Vestavia Hills had the lowest at 2.4 percent each (compared to 2.6 percent a year ago).

TAX RECEIPTS

During the first eight months of the current fiscal year (FY2018), total tax revenues increased 3.6 percent, or by \$238.4 million, from same time period of previous fiscal year. Individual income tax revenues rose 5.7 percent to over \$2.6 billion while corporate income taxes declined by 11.6 percent, totaling \$197.4 million. Sales tax receipts increased 3.3 percent, or by \$49.3 million, to almost \$1.6 billion.

Compared to the first eight months of FY2017, appropriations to the Alabama Education Trust Fund rose 5.1 percent (\$214.4 million) to \$4.4 billion during the same time period in FY2018. Appropriations to the state's General Fund during the same time period were down \$7.8 million totaling \$1.2 billion, a decrease of 0.6 percent from the previous year.

STATE EXPORTS

In 2017, Alabama exports increased from \$20.4 billion in 2016 to \$21.7 billion, representing an increase of \$1.3 billion, or 6.4 percent. During the first three months in 2018, the state exported almost \$5.4 billion in goods, compared to \$5.3 billion during the same period in 2016. The transportation equipment manufacturing sector remains state's largest export. During the first quarter of 2018, these exports totaled \$2.5 billion, accounting for 47.0 percent of total state exports. Other major exports from the state included: chemicals (\$626 million); primary metal manufacturing (\$475 million); minerals and ores (\$454 million); paper (\$311 million); machinery, except electrical (\$192 million); computer and electrical products (\$125 million); and fabricated metal products (\$106 million).

Canada continues to remain Alabama's largest export destination with exports totaling over \$1.0 billion, over \$35 million higher than the same period last year. Exports to China in the first quarter of 2018 totaled \$806 million, down from nearly \$900 million the year before. Exports to Germany rose to \$793 million during the same period in 2018, up from \$734 million in 2017. Other major export destinations during the first quarter in 2018 included: Mexico (\$690 million); Japan (\$265 million); Belgium (\$167 million); India (\$165 million); Brazil (\$154 million); and South Korea (\$144 million). China continues to be the top market for motor vehicles made in Alabama, followed by Germany, Canada, Mexico, Belgium, South Korea, Australia, and United Arab Emirates.

OUTLOOK

In 2017, Alabama's real GDP grew by 1.3 percent. Industries that grew the most included mining, quarrying, and oil and gas extraction (38.1 percent); professional and

business services (3.8 percent); information (2.4 percent); and educational services, health care, and social assistance (2.2 percent); wholesale trade (1.8 percent); and retail trade (1.7 percent). Biotechnology, automotive and primary metal products manufacturing, as well as tourism, healthcare, and services industries will lead the way to a stronger economic growth in Alabama in 2018.

Real GDP is expected to grow at a higher pace in 2018, increasing by 2.1 percent to around \$187.4 billion. As the manufacturing industry is gradually making a comeback in Alabama, producers of petroleum and coal products; motor vehicles, bodies and trailers, and parts; and primary metals are expected to experience output growth 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. Nonagricultural employment is forecasted to rise 1.0 percent in 2018 across the state. Within the manufacturing sector, the strongest percentage increases in employment are likely to be seen in transportation equipment and rubber and plastic sectors. Services providing businesses will continue to generate most of the new jobs in the state.

Alabama Forecast

(Percentage change)	2016	2017	2018	2019
Real GDP	1.1	1.2	2.1	2.0
Employment	1.3	1.0	1.0	0.9
Total Tax Revenues, FY	1.2	4.2	3.5	3.1
Sales Tax Revenues, FY	3.9	1.8	2.6	1.4
Individual Income Tax Revenues, FY	3.6	3.3	4.5	3.0
Corporate Income Tax Revenues, FY	-26.5	10.3	7.8	1.0
Alabama Education Trust Fund, FY	0.4	4.2	4.5	3.5
Alabama General Trust Fund, FY	-0.7	4.9	4.0	2.5

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

Total tax revenues are expected to grow by 3.5 percent in 2018 Fiscal Year. Sales tax revenues will grow by 2.6 percent in 2018, while individual income tax revenues should experience a solid growth of 4.5 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. Appropriations to the Education Trust Fund will rise 4.5 percent to about \$6.7 billion in FY2018, while General Fund appropriations could increase by 4.0 percent to \$1.9 billion.

ABCI

Business confidence increased to 64.0 in the second 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 Business. The index gained 0.9 points in this quarter, passing 60 for the fifth time since 2006, indicating that businesses feel very optimistic about growth in the coming quarter. An index value above 50 indicates a positive outlook as compared to the previous quarter.

While all industry indicators remained positive, four of the six increased on the survey. Panelists continue to see expansion both in the Alabama and U.S. economy, but are slightly more optimistic about the state's economy. The outlook for the national economy rose to 66.8, while the state economy index jumped to 68.3, topping the list. Expectations for industry sales and capital expenditures rose to positive readings. However, industry profits and hiring lost 0.6 and 1.4 points, respectively. In general, firms in wholesale and retail trade, professional services, manufacturing, and transportation services are the most optimistic this quarter, all posting index levels of 63.0 or higher.

Business executives expect the state's economy to continue to grow in the second quarter of 2018. At 68.3, the index is up 5.3 points from last quarter. Almost 70.0 percent of panelists expect much better to somewhat better economic growth this quarter, while 28.3 percent expect the state's economy to perform about the same as last quarter.

UNITED STATES

In 2017, U.S. GDP grew at an annual rate of 2.3 percent, up from 1.5 percent in 2016. After increasing 2.9 percent in the last quarter of 2017, GDP grew at a weaker rate of 2.2 percent in the first quarter of 2018. The increase in GDP was supported by a healthy labor market, positive consumer sentiment, increases in household net worth, and continued growth in real disposable income. U.S. exports grew at a healthy pace in the first quarter (4.2 percent), while imports grew by 2.8 percent.

Fixed business spending rose 6.5 percent, compared to 8.2 percent in the previous quarter. Spending on nonresidential structures grew by 14.2 percent, after increasing 6.3 percent in the fourth quarter of 2017. Intellectual property products rose 10.9 percent, after experiencing a meager 0.8 percent growth in the last quarter of 2017. After growing 12.8 percent in the fourth quarter of 2018, residential investments (including both home construction and sales) declined by 2.0 percent in the first quarter. Overall consumer spending rose 1.0 percent in the fourth quarter compared to 4.0 in the previous quarter.

U.S. GDP is expected to grow 4.1 percent in the second quarter of 2018 and 3.1 percent and 3.0 percent in the third and fourth quarter, respectively. The overall real GDP growth for 2018 is expected to be 3.0 percent. Personal savings rates will grow 2.9 percent in the second quarter of 2018, and 2.7 percent in the third quarter. Real consumer spending will increase 3.2 percent in the second quarter of 2018, after increasing just 1.0 in the first quarter, as consumers continue to adjust their spending after the enactment of the new tax law.

Real nonresidential fixed investment is expected to grow 2.0 percent and 7.2 percent in the second and third quarter of 2018, respectively, after growing 9.2 percent in the first quarter. Intellectual property products and structures will grow by 4.1 percent in the second quarter of 2018. After declining 2.0 percent in the first quarter of 2018, residential

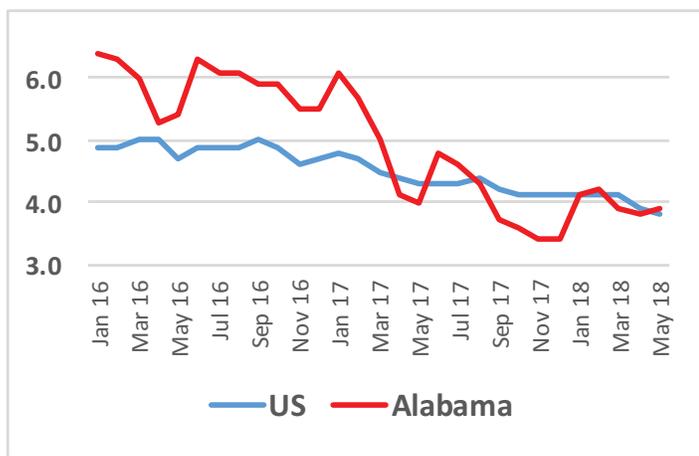
fixed investment is expected to grow by 2.6 percent in the second quarter, and 3.3 percent in the third quarter of 2018. Overall productivity increased by 0.4 percent in the first quarter, but is expected to grow by 3.0 percent in the second quarter of 2018, and 1.7 percent in the third quarter.

During May of 2018, total nonagricultural payroll employment in the U.S. increased by 223,000 and the unemployment rate dropped to 3.8 percent. The majority of industries experienced job gains, including retail trade, healthcare, construction, professional and technical services, transportation and warehousing, and manufacturing. Retail trade employment increased by 31,000 jobs over the month and by 125,000 over the year. Two components of

and garden supply stores (6,000).

The health care industry payroll continued to grow in May, adding 29,000 new jobs; ambulatory health care services alone added 18,000 jobs over the month. Over the past 12 month, overall construction employment has grown by 286,000; in May the industry added 25,000 new jobs. Professional and technical services continued on an upward trend, adding 23,000 jobs, followed by transportation and warehousing (19,000) which over the year has added 156,000 jobs. Manufacturing employers also created 18,000 jobs in May 2018, mostly in the durable goods industry. Over the year, manufacturing employment has risen by 259,000. Payrolls in other industries, including financial activities, information and wholesale trade, experienced little to no change.

Monthly Unemployment Rate in Alabama and the U.S. (Annual Percentage Change)



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

the industry added most of the jobs in this sector in May: general merchandise stores (13,000) and building material

As the U.S. economy continues to expand at a faster pace, it will put increased pressure on an already tightened labor market which will ultimately lead to higher wages and overall prices. In order to curb inflationary pressures, the Federal Open Market Committee of Federal Reserve Bank will most likely increase its federal fund rate beyond 2.0 percent by the end of the year. Even though the probability of a recession in the near term currently stands at 20.0 percent, a number of national and international issues could potentially slow the economic growth in the country. The future of the NAFTA agreement and the H1B work visa program, the effects of the tariffs on steel and aluminum in the country, and the increased recent trade tensions with Europe and China will all be closely watched in the months and years to come, as they all indirectly affect every sector of the economy.

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U.S. Real GDP (Annualized Quarterly Percentage Change)

	Annual			Quarterly								
	2015	2016	2017	2016				2017				2018
				Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Gross domestic product	2.9	1.5	2.3	0.6	2.2	2.8	1.8	1.2	3.1	3.2	2.9	2.2
Personal consumption expenditures	3.6	2.7	2.8	1.8	3.8	2.8	2.9	1.9	3.3	2.2	4.0	1.0
Goods	4.6	3.7	3.9	2.1	6.0	3.2	4.7	0.7	5.4	4.5	7.8	-0.6
Services	3.2	2.3	2.2	1.7	2.8	2.7	2.1	2.5	2.3	1.1	2.3	1.8
Gross private domestic investment	5.2	-1.6	3.3	-4.0	-2.7	2.4	8.5	-1.2	3.9	7.3	4.7	7.2
Nonresidential	2.3	-0.6	4.7	-4.0	3.3	3.4	0.2	7.2	6.7	4.7	6.8	9.2
Residential	10.2	5.5	1.8	13.4	-4.7	-4.5	7.1	11.1	-7.3	-4.7	12.8	-2.0
Net exports of goods and services	---	---	---	---	---	---	---	---	---	---	---	---
Exports	0.4	-0.3	3.4	-2.6	2.8	6.4	-3.8	7.3	3.5	2.1	7.0	4.2
Imports	5.0	1.3	4.0	-0.2	0.4	2.7	8.1	4.3	1.5	-0.7	14.1	2.8
Government	1.4	0.8	0.1	1.8	-0.9	0.5	0.2	-0.6	-0.2	0.7	3.0	1.1
Federal	-0.1	0.0	0.2	-1.5	-0.9	1.6	-0.5	-2.4	1.9	1.3	3.2	1.7
State and local	2.3	1.2	0.1	3.9	-1.0	-0.2	0.6	0.5	-1.5	0.2	2.9	0.8

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 Business, or the administrative officials of The University of Alabama.