

Economic Outlook Update: September 2018

ALABAMA HIGHLIGHTS

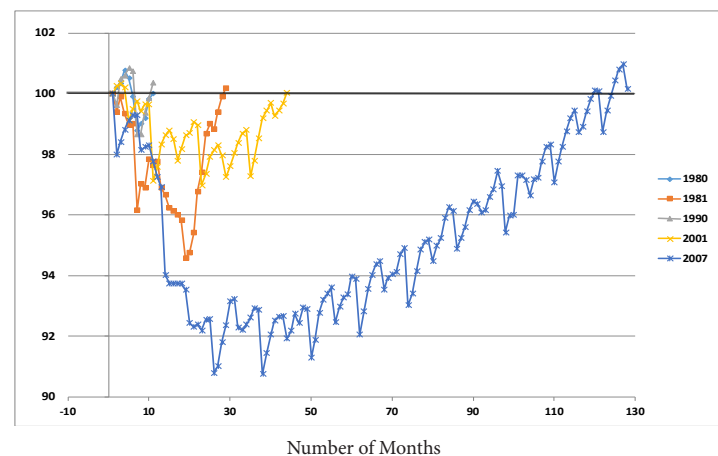
- From July 2017 to July 2018, Alabama added 22,200 nonagricultural jobs, compared to 16,100 jobs from July 2016 to July 2017. The state's nonagricultural payrolls totaled 2,029,800 in July of 2018, while the seasonally adjusted unemployment rate stood at 4.1 percent.
- Seasonally adjusted unemployment, based on the household survey, jumped from 89,858 in July 2017 to 90,987 in July 2018. During the same period, the seasonally adjusted labor force increased from 2,167,264 to 2,196,500, which indirectly tends to raise the unemployment rate.
- In 2018, total nonagricultural employment will grow by 1.0 percent. Plastic and rubber products; wood products; leisure and hospitality; professional and business services; construction; and natural resources will increase payrolls at a faster rate than the other sectors of economy.
- After growing 1.3 percent in 2017, and 1.2 percent in the first quarter of the current year, the state's GDP will see an overall 2.2 percent growth in 2018.
- In the Fiscal Year (FY) 2018 ending in September, total state tax revenues are expected to grow 4.5 percent and 3.5 percent in the following fiscal year.

EMPLOYMENT

In July 2018, Alabama employed 2,029,800 nonagricultural workers. Over the twelve-month period ending in July 2018, the state gained a net of 22,200 nonagricultural jobs. A slight majority of the gains were in services providing firms (12,000), as goods producing businesses added 10,200 jobs.

While mining and logging industries added just 500 jobs, the construction payroll grew by 1,400 during the twelve-month period, with specialty trade contractors adding 1,000 jobs while construction of buildings and heavy and civil engineering construction added 200 jobs each.

Alabama Employment Level Compared to the Beginning of Each Recession



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

From July 2017 to July 2018, the state's manufacturing industries gained 8,300 workers. During the twelve-month period, durable goods manufacturing had a net gain of 5,000 jobs. Employment gains came from fabricated metals product manufacturing (3,100); wood product manufacturing (1,300); machinery manufacturing (300); primary metal manufacturing and aerospace products and parts manufacturing (200 each). During the same period, motor vehicle parts manufacturing lost 800 jobs, followed by furniture and related products manufacturing (300); computer and electronic product manufacturing (200); and electric equipment, appliance and component manufacturing (100).

Nondurable goods manufacturing gained a net of 3,300 workers, as four subindustries gained jobs: plastic and rubber products manufacturing (900); textile mills (400); food manufacturing (300); and paper manufacturing (200). Textile product mills lost 300 jobs, and apparel manufacturing lost 200 jobs.

In the private service providing sector, professional and business services had the strongest job growth, adding a total of 6,700 new jobs; architectural, engineering, and related services alone added 4,900 jobs. Robust job growth was observed in leisure and hospitality industry (5,200), especially in the food services and drinking places (4,400). Education

and health services, and trade, transportation and utilities added 1,500 jobs each.

The information industry recorded 400 new jobs from July 2017 to July 2018, even though the telecommunications subsector lost the same number of jobs. During the same period, the overall financial activities sector payroll grew by 600, with job gains occurring in the insurance carriers and related activities (1,100).

Government owned entities lost 4,700 jobs during the twelve-month period, with the state government leading the way (6,500 lost jobs), followed by the Federal government (300 lost jobs). However, local governments throughout the State of Alabama added 2,100 jobs between July 2017 and July 2018.

Alabama Nonagricultural Employment

(Change in Number of Jobs)

	July 2016 to July 2017	July 2017 to July 2018
Total Nonagricultural	16,100	22,200
Natural Resources and Mining	400	500
Construction	200	1,400
Manufacturing	1,600	8,300
Durable Goods Manufacturing	400	5,000
Nondurable Goods Manufacturing	1,200	3,300
Trade, Transportation and Utilities	-2,700	1,500
Wholesale Trade	-200	-800
Retail Trade	-1,500	100
Transportation, Warehousing and Utilities	-1,000	2,200
Information	100	400
Financial Activities	700	600
Professional and Business Services	6,900	6,700
Educational and Health Services	1,100	1,500
Leisure and Hospitality	5,100	5,200
Other Services	0	800
Government	2,700	-4,700
Federal Government	-400	-300
State Government	1,800	-6,500
Local Government	1,300	2,100

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 22,800 jobs during the one-year period ending July 2018. Job grew in ten of twelve Alabama's metropolitan areas: Birmingham-Hoover (7,500); Huntsville (7,400); Daphne-Fairhope-Foley (2,900); Montgomery (2,100); Mobile (1,300); Decatur (700); Anniston-Oxford-Jacksonville (700); Gadsden (600); Florence-Muscle Shoals (400); and Dothan (300). Both Tuscaloosa and Auburn-Opelika metro-areas lost 800 and 300 jobs respectively, during the same period, while state's non-metro areas lost 600 jobs.

In July 2018, among all metro-areas, Mobile had the highest unemployment rate at 5.4 percent while Daphne-Fairhope-Foley had the lowest at 3.7 percent. Among the state's 67 counties, Wilcox had the highest unemployment rate at 11.2 percent while Shelby had the lowest at 3.1 percent. Of all

major cities in the state, Selma had the highest unemployment rate at 9.3 percent (compared to 10.6 percent a year ago) while Vestavia Hills had the lowest at 2.7 percent each (compared to 2.8 percent a year ago).

TAX RECEIPTS

In the first ten months of the FY2018, total tax revenues increased 4.0 percent, or by \$321.8 million, over same period of the previous fiscal year. Individual income tax revenues rose 7.0 percent to almost \$3.1 billion while corporate income taxes declined by 2.5 percent, totaling \$294.9 million. Sales tax receipts increased 3.9 percent, or by \$73.7 million, to almost \$2.0 billion.

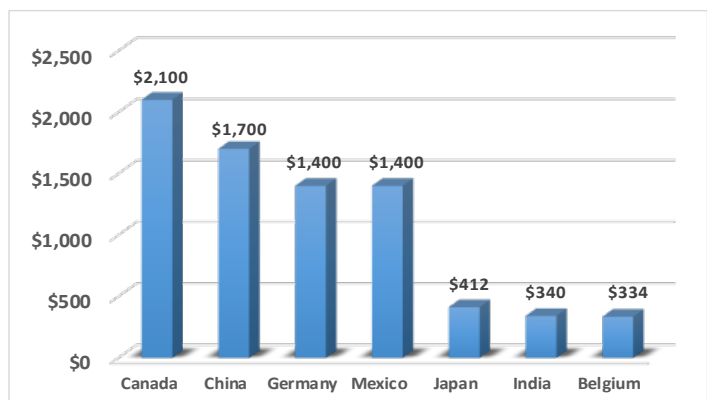
Compared to the first ten months of FY2017, appropriations to the Alabama Education Trust Fund rose 5.9 percent (\$297.9 million) to \$5.4 billion during the same period in FY2018. During the same period, appropriations to the state's General Fund were down \$32.6 million, totaling \$1.5 billion, a decrease of 2.1 percent from the previous year.

STATE EXPORTS

In 2017, Alabama exports grew to \$21.8 billion, representing an increase of \$1.3 billion or 6.4 percent from the previous year. During the first six months in 2018, the state exported over \$11.0 billion in goods, about \$12.0 million below the same period in 2017. The transportation equipment manufacturing sector remains state's largest export; these exports totaled \$5.2 billion during the first quarter of 2018, accounting for 47.1 percent of total state exports. Other major exports from the state included: chemicals (\$1.3 billion); primary metal manufacturing (\$936 million); minerals and ores (\$813 million); paper (\$628 million); machinery, except electrical (\$433 million); computer and electrical products (\$251 million); fabricated metal products (\$205 million); and plastic and rubber products (\$204 million).

Alabama's Top Export Destinations

(in millions of dollars)



Source: International Trade Administration, U.S. Department of Commerce.

Canada continues to lead as Alabama’s top export destination, with exports totaling over \$2.1 billion, over \$110 million lower than during the same period last year. Exports to China in the first half of 2018 totaled \$1.7 billion, up nearly \$32 million from last year. Exports to Germany declined to slightly under \$1.4 billion during the same period in 2018, down from nearly \$1.6 billion in 2017. Mexico remains the fourth largest export destination with export totaling almost \$1.4 billion. Other major export destinations during the first half of 2018 included: Japan (\$412 million), India (\$340 million), Belgium (\$334 million), South Korea (\$303 million), and Brazil (\$280 million). China remains the top market for motor vehicles made in Alabama, followed by Germany, Canada, Mexico, and Belgium.

In an already tight labor market, nonagricultural employment will grow by 1.0 percent in 2018 across the state. The manufacturing sector is expected to have above average growth. Among services industries, leisure and hospitality, professional and business services, and educational and health services will account for most of the new jobs in Alabama.

Total tax revenues will grow by 4.5 percent in Fiscal Year 2018 ending in September, but moderate to a 3.6 percent growth in 2019. Sales tax revenues will grow by 3.5 percent in 2018, and 2.7 percent in 2019, while individual income tax revenues should grow by 4.0 in the current fiscal year, and 3.5 percent in FY 2019. Appropriations to the Education Trust Fund will rise 3.5 percent in 2018, and 3.0 percent in 2019, while General Fund appropriations will increase by 1.0 percent in 2018 and 2019 fiscal years.

OUTLOOK

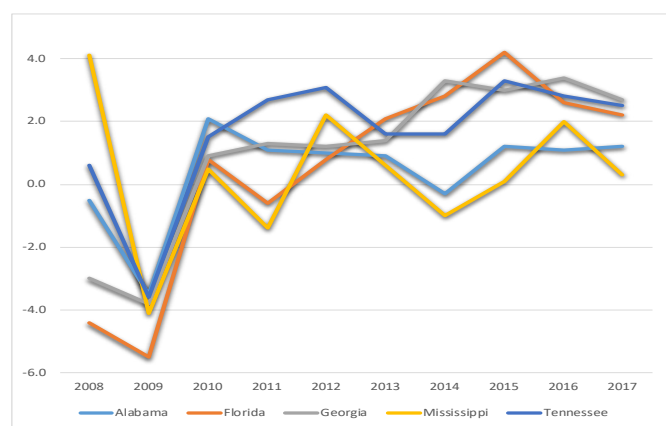
In the first quarter of 2018, Alabama’s real GDP grew by 1.2 percent. Industries that grew the most included information (9.2 percent); transportation and warehousing (5.0 percent); mining, quarrying, and oil and gas extraction (3.4 percent); real estate and rental and leasing (3.3 percent); retail trade (3.2 percent); manufacturing (2.7 percent); and construction (2.2 percent). Among the industries that shrunk in the first quarter, utilities recorded the biggest decline (8.7 percent), followed by agriculture, forestry, fishing, and hunting (4.9 percent); administrative and support and waste management and remediation services (2.5 percent); and arts, entertainment, and recreation (2.3 percent).

Alabama Forecast

(Percentage change)	2016	2017	2018	2019
Real GDP	1.2	1.3	2.2	2.0
Employment	1.3	1.0	1.0	0.8
Total Tax Receipts, FY	1.2	4.2	4.5	3.6
Sales Tax Revenues, FY	3.9	1.8	3.5	2.7
Individual Income Tax Revenues, FY	3.6	3.3	4.0	3.5
Alabama Education Trust Fund, FY	0.4	4.2	3.5	3.0
Alabama General Trust Fund, FY	-0.7	4.9	1.0	1.0

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

Real GDP growth rate in Alabama vs. neighboring states



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

As the national economy continues to gain momentum, Alabama’s real GDP will grow by 2.2 percent in 2018, to around \$187.0 billion. Manufacturing industries of both durable and nondurable goods will see solid gains, with petroleum and coal products manufacturers, plastics and rubber products producers, and motor vehicle, body, trailer, and parts manufacturers leading in gains. In service providing sectors, management of companies and enterprises, administrative and waste services, and health care and social assistance will record above average gains throughout the year.

ABCI

Business confidence jumped to 65.8 in the third 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 1.8 points this quarter, passing 60 for the sixth time since 2006, an indication that businesses are feeling very optimistic about growth in the coming quarter. An index value above 50 indicates a positive outlook as compared to the previous quarter.

All industry indicators remained positive, with industry sales leading at 66.1. Panelists remain very optimistic about both the Alabama and U.S. economy, but are slightly more optimistic about the state’s economy. The outlook for the national economy rose to 69.1, while the state economy index jumped to 70.0, topping the list. Industry sales and industry hiring rose to 66.1 and 61.4, respectively. However, industry profits and capital expenditures saw the biggest gains from the previous quarter survey, jumping to 64.6 (2.3 point gain) and 63.6 (2.0 point gain), respectively. Firms in construction, wholesale trade, professional, scientific and technical services, and manufacturing were the most optimistic in the third quarter, all posting index levels of 64.0 or higher.

Business executives expect the state’s economy to continue to expand in the coming months. At 70.0, the index is up 1.7 points from last quarter. Nearly 70.0 percent of panelists

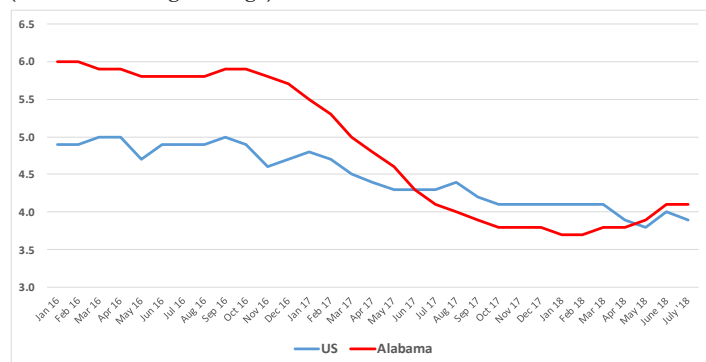
expect somewhat better to much better economic growth this quarter, while 28.2 percent expect the state's economy to perform about the same as last quarter. Only 2.0 percent of the panelist are pessimistic about the future of the state's economy.

UNITED STATES

After growing 2.2 percent in the first quarter of 2018, U.S. GDP in the second quarter grew 4.2 percent, the largest quarterly growth since third quarter of 2014. A strong labor market, a continued positive consumer sentiment, an increase in final sales and a steep decline in inventories gave a major boost to GDP growth, a trend that is expected to continue throughout the remainder of the year. As the U.S. government continues to impose tariffs on a number of imported goods and services, imports shrunk by only 0.4 percent in the second quarter, following an increase of 3.0 percent in the previous quarter. However, exports grew by a whopping 9.1 percent in the second quarter, after growing 3.6 in the first quarter.

Monthly Unemployment Rate in Alabama and the U.S.

(Annual Percentage Change)



Source: Bureau of Labor Statistics, U.S. Department of Labor.

Fixed business spending rose 6.2 percent, compared to 8.0 percent in the previous quarter. Spending on nonresidential structures grew by 13.2 percent, after increasing 13.9 percent in the first quarter of 2018. Intellectual property products rose 11.0 percent, after growing by a whopping 14.1 percent in the previous quarter. After shrinking 3.4 percent in the first quarter of 2018, residential investments (including both home construction and sales) declined by another 1.6 percent in the second quarter. Overall consumer spending rose by a healthy 3.8 percent in the second quarter, compared to a meager 0.5 percent rate in the previous quarter.

U.S. GDP is expected to grow 3.2 in the last two quarters of the year. The overall real GDP growth for 2018 will be 2.9 percent. Personal income will grow 3.6 percent in the third quarter of 2018, and 4.1 percent in the fourth quarter. Real consumer spending will increase 2.6 percent in the third quarter and 2.7 percent in the fourth quarter of 2018. In the third quarter, real disposable income and the saving rate will increase by 1.4 percent and 6.5 percent, respectively.

Real nonresidential fixed investment is expected to grow 5.1 percent and 7.2 percent in the third and fourth quarter of 2018, respectively. Intellectual property products and nonresidential structures will grow by 5.9 percent in the last two quarters of 2018. Residential fixed investment will continue its negative trend, as it is expected to decline by 1.5 percent in the third quarter, but will move into positive territory in the fourth quarter. After overall productivity increased by 2.8 percent in the second quarter, it will grow by 2.0 percent in the third quarter of 2018, and 1.3 percent in the fourth quarter.

During July of 2018, total nonagricultural payroll employment in the U.S. increased by 157,000, significantly below the 203,000 average monthly gains over the previous 12 months. After increasing to 4.0 percent in June, the unemployment rate declined to 3.9 percent in July. Industries that experienced job gains included professional and business services, manufacturing, health care and social assistance, construction, and retail trade.

Professional businesses services accounted for most of the new jobs created in July as it added 51,000 new jobs to the economy in July, and brought its total new jobs to 518,000 over the year. During the month, temporary help services and computer system design and related series added 28,000 and 8,000 new jobs, respectively. Manufacturing industries continue to show signs of revival adding nearly 330,000 new jobs over the past 12 months. In July, manufacturing added 37,000 jobs. New jobs were recorded in transportation equipment (13,000), machinery (6,000), and electronic equipment (2,000).

Health care and social assistance employment continues to edge up. The industry's payrolls grew by 34,000 in July. Hospitals created 7,000 new jobs, while individual and family services added 16,000 jobs. Over the past 12 months, both industry sectors have added 363,000 jobs to the U.S. economy. Construction payroll grew by 19,000 in July, while retail trade added just 7,000 to the payroll, as over 32,000 sporting goods, hobby, book and music stores closed during the month.

The current robust economic expansion that began in June 2009 is on track to become the longest in the U.S. history. However, a number of pressing issues could derail the economy. As the number of available new jobs and personal income have gone up, so have consumer prices which this year are expected to grow by 2.6 percent. This continued inflationary pressure has prompted the Federal Open Market Committee of Federal Reserve Bank to consider increasing its federal fund rate beyond 2.0 percent by the end of the year. Furthermore, tariffs imposed by the U.S. Government on various imported goods could lead to a decline in U.S. exports, such as Alabama made passenger vehicles to China and other European trade partners, which would have a significant negative impact on the economy of our state and beyond. Only time will tell the real economic impact of current trade policies.

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