The current economic expansion that began in March of 1991 will be entering its 90th month in August, and is already the second longest peace-time expansion on record. (The longest is the December 1982 to June 1990 expansion.) The question is: How much longer can we realistically expect this expansion to continue? In 1998 Alabama’s economy will continue to grow, but at a slower rate than in the past several years.

Gross State Product Growth

Alabama’s GSP in 1998 was initially expected to increase at about 3.1 percent versus 3.2 percent for the United States. Strongest growth was expected in the construction sector and in the manufacture of both electrical and nonelectrical machinery and motor vehicles. However, the General Motors strike that has impacted the Dephi plants in the state, and the Japanese recession that has impacted the export sector have lowered expectations for manufacturing industries. Although real output of motor vehicles and related industries will rise, it will be down slightly from our initial forecast. We now expect a GSP growth rate of approximately 2.6 to 2.7 percent.

The start of construction on a $400 million Boeing plant near Decatur, together with ongoing highway projects, should help boost output of the state’s construction sector in 1998. Output of Alabama’s wholesale and retail trade sector is expected to grow in 1998, but less than in 1997. Services sector output will be a good bit below the 1997 increase.

Alabama’s Gross State Product (GSP) grew at an average annual rate of 3.4 percent from 1993 through 1997. During the same period, the national average annual growth rate was 3.0 percent for Gross Domestic Product (GDP). Even though Alabama’s growth exceeded the national average during the past few years, the state’s 1998 growth will not match the recent past.

Employment Growth

The Alabama economy is expected to add about 28,500 new nonagricultural jobs in 1998, down from the annual average of 37,738 added from 1993 to 1997.
Anniston

Per capita income in the Anniston MSA grew 3.7 percent between 1995 and 1996, slightly below the 4.2 percent increase statewide. At $18,082, Anniston’s per capita income ranked last among the state’s MSAs, the same ranking that it has held for most of the last ten years. Projections from the Bureau of Economic Analysis (BEA) show a decreasing share of earnings in the Anniston MSA coming from government as the private sector steps in to fill the gap left by cutbacks in federal civilian and military employment. The services sector is expected to see the largest increase, while growth in earnings shares from wholesale trade and finance, insurance, and real estate (FIRE) will also help diversify the area’s economy.

Birmingham

A heavy concentration in high-wage jobs has helped the Birmingham MSA maintain its first place ranking on per capita income among Alabama MSAs. At $24,227, 1996 per capita income was 4.9 percent above the previous year’s level. This above average gain helped push Birmingham MSA per capita income to 99.1 percent of the U.S. average and 120.8 percent of the state average. Birmingham’s per capita income ranked ninety-fourth among the nation’s metropolitan areas. Long-term projections from BEA indicate that the earnings share of the already-small manufacturing sector will be declining, while earnings in FIRE will increase and the services sector will continue its steady growth, keeping gains in per capita income strong.

Decatur

Manufacturing dominated earnings in the Decatur MSA in 1996. However, employment and earnings shares in services, government, and TCPU were well below the statewide average, dampening per capita income. With a per capita income of $20,706 in 1996, up 3.6 percent from 1995, Decatur ranked fourth among the state’s metro areas, the same ranking that it held in 1987. Per capita income has been consistently above the statewide average, coming in at 103.2 percent in 1996, while equaling 84.7 percent of the U.S. total. BEA forecasts of growing income shares in services and FIRE, with continued strong manufacturing earnings, bode well for per capita income growth.

Dothan

In 1996 Dothan’s manufacturing, services, and government sectors contributed almost equal 20 percent shares of nonagricultural employment. Still, services was below the statewide average. And an above-average concentration of employment in trade helped hold down per capita income. With growth of just 3.4 percent between 1995 and 1996, Dothan’s 1996 per capita income reached $19,334, or 96.4 percent of the Alabama average and 79.1 percent of the U.S. average. This slow growth dropped Dothan’s ranking among Alabama’s MSAs from seventh in 1995 to eighth in 1996. BEA long-term earnings projections indicate strong growth in services’ share of nonfarm earnings coupled with a smaller decline in manufacturing’s share of area earnings.

Florence

While about one-fourth of the workforce in the Florence MSA was employed in manufacturing in 1996, slightly more than that number worked in trade. This, coupled with services sector employment share the lowest of the state’s MSAs, has kept per capita income in Florence below the statewide average for the last ten years. Still, the area’s ranking has improved from ninth in 1987 to sixth in 1996. Per capita income in the Florence metro area reached $19,508 in 1996, up a modest 3.3 percent from 1995, to equal 97.3 percent of the Alabama and 79.8 percent of the U.S. average. Over the next 50 years, BEA expects the area’s services sector to generate an increasing share of earnings, while durables manufacturing will decline in importance.
Gadsden

Per capita income in the Gadsden MSA grew very slowly between 1995 and 1996, gaining just 1.5 percent to reach $18,248. At 91.0 percent of the Alabama average and 74.7 percent of the U.S. average, Gadsden’s 1996 per capita income ranked ninth in the state. Over the last ten years, the income gap between Gadsden and the state has widened. In the long-term, BEA expects the services emphasis in Gadsden to increase considerably, while the share of earnings in manufacturing will show a substantial decline. Both retail trade and government are expected to become slightly less important to the area’s economy.

Huntsville

A strong high-tech emphasis in its government, manufacturing, and services sectors has helped the Huntsville MSA achieve the state’s second highest per capita income. At $22,595, Huntsville’s 1996 per capita income was 12.7 percent above the statewide average. Still, the increase of 3.2 percent from 1995 to 1996 fell below the statewide gain of 4.2 percent. Long-term BEA projections indicate continuing growth of the area’s service economy and declining emphasis on federal civilian employment and earnings. That, coupled with decreasing importance of the already-small retail sector, should keep the area’s per capita income well above average.

Mobile

Per capita income in the Mobile MSA averaged $19,508 in 1996. The 4.7 percent increase between 1995 and 1996 helped Mobile move up in the per capita income rankings. Mobile’s 1996 per capita income continued just below the statewide average and was 79.8 percent of U.S. per capita income. While the area’s nonagricultural employment share in services was well above the state average in 1996, trade employment was high also. This, combined with a relatively small manufacturing sector, constrained area per capita income. Projections from BEA indicate an even larger role for services in the future, with manufacturing and trade contributing slightly less to area earnings.

Montgomery

With a 4.2 percent gain in per capita income between 1995 and 1996, the Montgomery MSA preserved the third place ranking that it has held over the last ten years. Average per capita personal income of $21,973 amounted to 109.6 percent of the Alabama and 89.9 percent of the U.S. average. The area’s state government and federal military presences boost personal income. While services is also strong, manufacturing in the Montgomery MSA held the smallest share of nonagricultural employment of any MSA in 1996. In the future, BEA expects services to become even more important, with FIRE also assuming a larger role and government a smaller one.

Tuscaloosa

The Tuscaloosa MSA generated an above-average 4.6 percent gain in per capita income from 1995 to 1996, bringing it to 99.2 percent of the Alabama average. At $19,887, the 1996 figure was 81.4 percent of U.S. per capita income. Over the last decade, the area’s ranking among the ten MSAs has improved from seventh to fifth. Government dominated the area’s nonagricultural employment in 1996, with manufacturing’s share of employment well below the state average. Strengthening of the area’s service economy, in line with BEA projections, and further development of the manufacturing sector should contribute to per capita income growth in the Tuscaloosa MSA.

For more information about these and other Alabama economic indicators, please visit the CBER Internet site at http://www.cba.ua.edu/~cber
As in 1997, the fastest growing sectors are services, trade, and construction. While durable goods producing industries should add approximately 1,700 new jobs, nondurable goods industries will lose close to 2,200 jobs, resulting in a net decline in manufacturing employment. Alabama’s services sector should add the most new jobs in 1998, primarily in business and healthcare-related services. Construction of the Boeing plant, together with other industrial and commercial construction projects in the state’s metropolitan areas, is expected to create 10 percent of total job gains. Employment in wholesale and retail trade is expected to increase in 1998, but not as much as in 1997.

A major factor today in Alabama’s economy is slow growth in the civilian labor force. From 1990 to 1997, Alabama’s population increased by 6.9 percent, low compared to Florida (13.3 percent), Georgia (15.6 percent), North Carolina (12.0 percent), South Carolina (7.9 percent), and Tennessee (10.1 percent). Because relatively fewer people have been moving into Alabama than into our neighboring states, our labor force growth has been constrained. The unemployment rate has been below 3 percent in three of the state’s major metropolitan areas.

Income Growth

While Alabama’s GSP growth and employment growth over the 1993-97 period paralleled U.S. averages, income growth has not kept pace. After recording a growth rate of about 6 percent in 1997, total personal income in Alabama will increase 5.4 percent in 1998. Taking inflation into account, the real rate of growth will be 3.3 percent. By comparison, the U.S. growth rate in personal income for 1997 was 5.8 percent and for 1998 is expected to be 5.6 percent.

A major explanation for this slower growth in personal income is rapid employment growth in services and trade sectors. Almost 82 percent of the approximately 34,560 new jobs created in the state in 1997 were in the trade and services sectors. These sectors have average wages that are below the manufacturing sector. Global competition has also added to the slower growth in personal income. There is pressure on domestic firms to control costs, including wage increases for their workers.

William D. Gunther
Ahmad Ijaz

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