Economic Outlook: 4th Quarter 2006

United States

Review. The U.S. economy grew by 4.1 percent in the first half of 2006. However, the economy is showing very visible signs of slowing down. In the second quarter of 2006 the rate of growth was only 2.6 percent, primarily due to slowing housing markets and high energy costs. The second quarter also saw the first decline in business spending in 13 quarters. Business spending decreased by 1.6 percent; the first drop since the first quarter of 2003. Slower growth in the second quarter also reflected a downturn in consumer spending on both durable and nondurable goods and a deceleration in exports. After a flat showing in August, industrial output declined by 0.6 percent in September, reflecting weakness in demand for both automobiles and housing. Lower demand led most manufacturers to cut production.

Consumer spending, which accounts for almost two-thirds of the economy, increased by only 2.6 percent in the second quarter. Expenditures on durable goods declined by 0.1 percent in the second quarter, following a 19.8 percent gain seen in first quarter. Weakness in housing markets also resulted in a decline in spending on household furniture and household equipment. Additionally, the second quarter saw a sharp decline in sales of light trucks. Spending on nondurable goods also dropped sharply in the second quarter. Not surprisingly, spending on fuel oil and coal increased by almost 53 percent, and expenditures for gasoline and oil increased by approximately 69 percent. These cost hikes are among the major factors behind retrenchment in consumer spending on other items and services.

Business spending on equipment and software declined by 1.4 percent in the second quarter of 2006. Expenditures made by firms on communications related equipment really took a hit in the second quarter, experiencing a decline of almost 26 percent. Expenditures made by firms on transportation equipment declined by almost 23 percent. Spending on transportation equipment is an anomaly since it also includes spending on aircraft, which is a highly volatile category. A decline in business spending on some of these items was offset by an increase in spending on industrial equipment.

Employment growth has also slowed down significantly, with both manufacturers and retailers continuing to shed jobs. In the first quarter of 2006, an average of 175,000 jobs was being added each month. In September only 51,000 new jobs were added, most of which were in sectors that pay relatively low wages, like food services, hospitality and tourism related services. Moreover, service providing industries, which have been the main engine of new job creation, are also showing signs of economic slowdown. Service providing businesses expanded at the slowest pace in more than three years in September. The Institute for Supply Management’s index of nonmanufacturing businesses fell to 52.9 in September from 57.0 in August, the lowest reading since April 2003.
Housing markets are also showing signs of weakness in demand. In the second quarter, housing prices rose at their lowest rate since the fourth quarter of 1999. To some extent housing markets and prices have been propped up by adjustable rate mortgages and speculation, with consumers increasingly financing their spending with home equity loans and larger mortgages based on adjustable interest rates. Now that interest rates are beginning to creep up, these mortgage rates have to be adjusted, further putting pressure on household budgets. In the next 18 to 20 months, almost $1 trillion worth of mortgages will be adjusted upward to reflect market interest rates.

With gains in wages not keeping up with the appreciation in housing prices, we expect a significant decline in home sales, particularly in the areas of the country that saw substantial increases in home prices and speculation activity. As of August 2006, sales of new homes had already declined to around 1.05 million from their August 2005 level of around 1.27 million. Also, the drop in the homebuilder’s housing market index from August 2005 to August 2006 was the biggest twelve-month decline ever. The index fell from 33 in August to 30 in September, its eighth consecutive drop. A value below 50 indicates that the majority of home builders consider housing market conditions to be poor.

A measure of sales expectations for the next six months fell to 37 from 41 in August, while the index of current sales dropped to 32 from its August value of 37. All these index readings are at their lowest levels since 1991. Home construction had its biggest decline since the second quarter of 1995. Furthermore, the median price of single family homes fell to $217,000 from $240,000 a year ago. This was the largest year-over-year decline since 1970.

Considering the retrenchment in the economy, the Federal Reserve Bank has left its benchmark short-term rate unchanged at 5.25 percent, reasoning that a slowing economy and the Fed’s two-year campaign to raise rates might be enough to dampen inflationary pressures. The lowering of oil prices at this stage of the economic cycle has also been a big help to the Fed in achieving its objectives. Indeed, the inflation rate has slowed considerably. The data for October will show a third consecutive drop in both consumer and wholesale prices, mainly because of a decline in oil prices. Nationally, the average retail gasoline price was $2.36 a gallon in mid-October, compared with just over $3 at the start of August. Gasoline price declines have given consumers higher disposable incomes to spend on other goods and services.

The easing of oil prices will offset some negatives by putting more money in consumers’ pockets. Although housing markets are expected to remain in a slump for the near future, the decline in energy prices will significantly reduce the risk that the economy will plunge into recession. Third quarter GDP growth is now expected to be around 1.7 percent. If oil prices continue to fall, the economy should grow by 2.6 percent in the fourth quarter.

Consumer spending is now estimated to grow by 3.0 percent and 3.3 percent in the third and fourth quarters, respectively. Nevertheless, consumer spending on durable goods is still forecasted to decline by 1.2 percent in the fourth quarter. A lack of any real wage gains is expected to keep downward pressure on consumer spending. Despite some weakness seen in the second quarter, business spending should begin to pick back up in the third and fourth quarters. Spending by private firms should increase by almost 10 percent in the third quarter and by slightly over 11 percent in the fourth quarter. Spending on computers and peripherals should increase by 23 percent in the third quarter and by 24 percent in the fourth quarter. Most employment gains are expected to be in service providing businesses. The majority of these jobs will be in healthcare related services, professional and business services, and the leisure and hospitality sector, mainly in food services.

Outlook. At this stage of the cycle, the U.S. economy is in no danger of going into a full fledged recession. Instead, it is poised to grow at a modest rate at least for the next three or four quarters. A slowdown in employment growth, together with a slowdown in housing markets, will have a definite impact on consumer purchasing behavior.
The unemployment rate is expected to increase from 4.7 percent in September to 4.8 percent by year end. Imports are forecasted to decline by 3.0 percent and exports by 5.5 percent in the fourth quarter, resulting in an increase in the U.S. current account deficit of almost $863 billion by year end.

Overall prices are expected to increase by 2.8 percent in the third quarter, but could possibly decline by 1.0 percent in the fourth quarter. Despite a decrease in oil prices, the rate of inflation still remains rather high, at around 2.5 percent. That is slightly above the Fed’s target rate of 1 to 2 percent. The Fed will probably resume lowering the Funds rate by March of 2007.

**Alabama**

**Employment.** During the twelve month period ending in September 2006, the state added 26,000 new jobs. Almost 77 percent, or 19,900, of these jobs were added in the state’s eleven metropolitan areas comprised of 28 counties. The remaining 39 counties added 6,100 jobs. The Birmingham-Hoover metropolitan area led the state by adding 5,700 jobs, followed by the Mobile (5,300), Huntsville (4,900), and Montgomery (1,700) metropolitan areas. Most of the jobs added in the Birmingham metro area were in administrative, support and waste management services (1,300); food services and drinking places (1,500); and healthcare and social assistance (1,300). In the Huntsville metro area, the industry group that added the most employees to its payrolls was professional, scientific and technical services (1,100).

The manufacturing sector in Alabama, primarily industries producing durable goods, continues to surprise on the upside. From September 2005 to September 2006, durable goods industries added 4,300 new jobs, most of which were in transportation equipment manufacturing (3,200). This group includes both motor vehicle and aerospace products and parts manufacturing. Firms producing computer and electronic products added 1,100 jobs. Wood products manufacturing gained 700 jobs.
Industries producing nondurable goods, on the other hand, lost 3,500 jobs. During the twelve month period ending in September 2006, almost all these firms in Alabama experienced payroll declines. Other than the 600 jobs added by food processing plants and about 200 added in paper manufacturing, every other nondurable industry category lost jobs. The majority of these job losses were in textiles and apparel, which together shed 3,500 workers from their payrolls. Overall, the state’s manufacturing sector experienced a net gain of 800 jobs.

In September 2006, mining gained 400 jobs while the construction sector added 2,900, primarily in building construction (1,500).

Service providing firms in the state continue to add new jobs. Altogether, from September 2005 to September 2006, these firms added 21,900 to their payrolls, primarily in leisure and hospitality services (4,000); education and health services (5,000); and professional and business services (5,800). High energy prices during the middle of the year had a significant effect on consumer spending, causing payrolls in retailing to remain flat. Within firms that provide professional and business services, most of the jobs added were in administrative and support roles (4,700). Most of the healthcare related jobs were in ambulatory healthcare services (3,200) and social assistance (1,800). Within leisure and hospitality services, most of the new jobs were at food services and drinking places (3,100).

The government sector in the state added 4,500 jobs during the twelve month period ending in September 2006. The increase was primarily within local governments (3,000).

**Tax Receipts.** Alabama experienced remarkable growth in tax revenues during fiscal year 2005-2006. For the fiscal year ending in September 2006, state tax revenues grew by 9.8 percent, or approximately $749 million, over the previous fiscal year, totaling over $8.4 billion. Sales tax revenues rose 6.7 percent to about $1.9 billion, almost $162 million higher than the previous fiscal year. Corporate income tax receipts totaled over $528 million, an increase of nearly 23.5 percent or $101 million. Individual income tax revenues grew 8.9 percent to approximately $3.2 billion, about $265 million higher than the previous fiscal year. Appropriations made to the Alabama Education Trust Fund increased about $527 million to approximately $5.5 billion, an increase of 10.6 percent. Appropriations made to the state’s General Fund rose approximately $192 million, an increase of 13.7 percent, and totaled about $1.6 billion.

**Outlook.** After remarkable growth in the first half of the year, the state’s economy is expected to slow down somewhat for the remainder of 2006. Despite a decline in energy prices, consumers are expected to remain cautious in the near future. The rate of job growth has been slowing in recent months and will continue to do so for the rest of the year. However, the state’s transportation equipment related industries, including both motor vehicle (article continues on page 9)

### Alabama Nonagricultural Employment Change in Number of Jobs

<table>
<thead>
<tr>
<th>Category</th>
<th>September 2005 to September 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Nonagricultural</td>
<td>26,000</td>
</tr>
<tr>
<td>Natural Resources and Mining</td>
<td>400</td>
</tr>
<tr>
<td>Construction</td>
<td>2,900</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>800</td>
</tr>
<tr>
<td>Durable Goods Manufacturing</td>
<td></td>
</tr>
<tr>
<td>Wood Products Manufacturing</td>
<td>900</td>
</tr>
<tr>
<td>Primary and Fabricated Metal Manufacturing</td>
<td>-700</td>
</tr>
<tr>
<td>Machinery Manufacturing</td>
<td>-200</td>
</tr>
<tr>
<td>Computers and Electronic Products Manufacturing</td>
<td>1,100</td>
</tr>
<tr>
<td>Electrical Equipment, Appliance, and Component Manufacturing</td>
<td>200</td>
</tr>
<tr>
<td>Transportation Equipment Manufacturing</td>
<td>3,200</td>
</tr>
<tr>
<td>Motor Vehicle Manufacturing</td>
<td>700</td>
</tr>
<tr>
<td>Furniture and Related Products</td>
<td>-300</td>
</tr>
<tr>
<td>Nondurable Goods Manufacturing</td>
<td>-3,500</td>
</tr>
<tr>
<td>Food Manufacturing</td>
<td>600</td>
</tr>
<tr>
<td>Textile Mills</td>
<td>-700</td>
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<tr>
<td>Textile Product Mills</td>
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</tr>
<tr>
<td>Apparel Manufacturing</td>
<td>-1,700</td>
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<tr>
<td>Paper Manufacturing</td>
<td>200</td>
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<tr>
<td>Plastics and Rubber Product Manufacturing</td>
<td>-100</td>
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<tr>
<td>Trade, Transportation, and Utilities</td>
<td>2,100</td>
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<td>Wholesale Trade</td>
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<tr>
<td>Retail Trade</td>
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<tr>
<td>Transportation, Warehousing, and Utilities</td>
<td>900</td>
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<tr>
<td>Information</td>
<td>-200</td>
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<tr>
<td>Financial Activity</td>
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<tr>
<td>Professional and Business Services</td>
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<tr>
<td>Educational and Health Services</td>
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<tr>
<td>Leisure and Hospitality</td>
<td>4,000</td>
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<tr>
<td>Other Services</td>
<td>600</td>
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<tr>
<td>Government</td>
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<tr>
<td>Federal Government</td>
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<tr>
<td>State Government</td>
<td>1,100</td>
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<tr>
<td>State Education</td>
<td>700</td>
</tr>
<tr>
<td>Local Government</td>
<td>3,000</td>
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Source: Alabama Department of Industrial Relations.
Cautiously Optimistic Outlook Completes Five Years of Survey  Business leaders registered their opinions for the fourth quarter 2006 Alabama Business Leaders Confidence Index® (BLCI) during September, marking the 20th quarter and 5th complete year of the survey. The BLCI of 54.2, down 4.7 points from the third quarter reading, signals a slowing pace of expansion. While the six component indexes remain in positive territory, they all declined during the quarter.

Since the third quarter of 2005, panelists have been more optimistic about prospects for the Alabama economy than for the U.S. economy. This trend continued on the fourth quarter survey and the gap between the two outlooks widened to 8.1 points. Expectations for the state’s economy remain the largest positive contributor to the index. Continuing weakness in the national economy seems to have translated into dampened expectations across Alabama industries in the fourth quarter. Industry component indexes, including outlooks for sales, profits, hiring, and capital expenditures, dropped close to 6 or 7 points from their third quarter 2006 values, indicating that the slowdown will extend to all facets of business activity.

Slow Growth for U.S. Economy  Alabama business leaders correctly anticipated the weakening of the U.S. economy in the third quarter, knocking 6 points off the component index on the third quarter survey. Second quarter 2006 GDP growth is now estimated at 2.6 percent and forecasters expect third quarter growth could come in just under 2 percent. Looking to the fourth quarter, BLCI panelists expect the national economy to experience slow growth—the component index of 51.1 is down 2 points from last quarter, but is still above the neutral point. Fifty marks the division between improving and deteriorating conditions. Consumer spending could be helped by lower energy prices, which also reduce the risk of inflation. However, spending on residential construction is expected to continue to contract. The opinions of Alabama panelists are tilted slightly toward an improving national economy—30.8 percent expect better performance, while 27.8 percent think the U.S. economy will worsen during the fourth quarter.

Strength of Alabama Economy Lifts Index  The Alabama economy continues to lead the six component indexes, coming in at 59.2 for the fourth quarter of 2006. Both the state’s labor force and employment are growing at a faster pace than the nation’s, with unemployment well below the national rate. Just 12.3 percent of panelists think economic conditions in Alabama could worsen during the fourth quarter, while 45.6 percent forecast improvement. Ongoing projects, recent industry announcements, and the upcoming BRAC transfers all support this confidence. Although the pace of job growth has slowed in 2006 compared to 2005, jobs continue to be added, particularly in construction, durable manufacturing (including motor vehicles and aerospace), and services. Total tax receipts were up 9.8 percent for the fiscal year ending September 30, 2006 compared to the previous fiscal year, with corporate income taxes rising 23.5 percent and individual income and sales taxes 9.0 percent.
Job Growth Slowing While Alabama should continue to add jobs in the fourth quarter of 2006, the pace of hiring is likely to slow. The hiring plans component index comes in at 51.7 this quarter, still in positive territory, but down 5.9 points from the third quarter reading. The differential of 7.1 points between the 27 percent of respondents forecasting an increase in hiring in their industry and the 19.9 percent expecting a decline is the smallest in four years. With relatively few sizeable new projects and expansions coming online in 2006 compared to the number of automotive-related jobs, in particular, created in 2005, the pace of job growth in the state has slowed significantly. About 22,100 nonagricultural jobs were created between January and August 2006 compared to 45,800 during the same period of 2005. Hiring plans for the fourth quarter are most robust in professional, scientific, and technical services and in construction. Two-thirds of manufacturing firms surveyed expect to hold hiring at its third quarter level.

Businesses Concerned about Consumer Spending Weakened sales expectations in finance, insurance, and real estate (FIRE) and in manufacturing contributed to a decline of 6.2 points in the sales component index for the fourth quarter of 2006 compared to the third quarter. At 56.0 the index still points to overall sales gains, but at the slowest pace of the last five years. While 46.6 percent of BLCI panelists expect sales in their industry to increase during the quarter, 25.3 percent forecast a decrease. In particular, manufacturing respondents are more likely to feel that sales will decrease. Alabama’s housing market, spared the high rates of price appreciation seen in much of the nation, is expected to remain relatively stable, although a growing supply of homes for sale could affect construction activity. While energy prices have eased somewhat, the lagging effect of higher prices on consumers’ finances could hurt spending.

Labor Costs May Be Cutting into Profits The profits component index slipped to 53.6 in the fourth quarter of 2006—its lowest reading for the year and 5.9 points below the third quarter index. At 40.8 percent, the share of Alabama business leaders expecting profits to rise is the lowest in five years of survey history. While commodity price increases are moderating, rising unit labor costs, slowing productivity gains, and weaker sales could factor into lower profits. Nationally, corporate profits from current production rose just 0.3 percent in the second quarter after an increase of 14.8 percent in the first. Alabama’s low unemployment rate and a shortage of skilled labor confirmed by BLCI panelists on a mid-summer survey suggest that firms may have to raise wages to attract and retain qualified employees. Profit forecasts are lowest in manufacturing and wholesale trade this quarter.

Capital Expenditures Likely to Moderate Capital spending should continue to help propel growth in the Alabama economy in the fourth quarter of 2006, but at a more moderate rate than that seen in the third quarter. The 32.2 percent of panelists forecasting increased investment by their industry this quarter is down from 47.5 percent last quarter and the capital expenditures component index is down 6.8 points to 53.6. While the higher cost of capital factors into investment plans, in Alabama the drop-off may also reflect the completion of a number of large industrial and commercial projects and a lull before work begins on newly-announced projects, including capital investment that will result from the BRAC moves to the Huntsville metro area. For the fourth quarter, transportation, information, and public utilities (TIPU) and other services are expected to see the largest increases in capital spending.
**Strategic Alliances Leverage Capabilities** In today’s globally competitive environment, firms are increasingly looking to the synergies created by collaboration. Studies show that firms with high revenue growth more frequently engage in strategic alliances. Forty-five percent of fourth quarter 2006 BLCI panelists report that their businesses enter into alliances (including joint ventures and partnerships), while an additional 13.4 percent are exploring the possibility. More than 70 percent of panelists’ companies in transportation and warehousing and in information industries currently engage in alliances and over half of firms surveyed in professional, scientific, and technical services utilize such arrangements.

**Do you enter into strategic alliances?**

- Yes: 45.0%
- No: 41.6%
- No, but exploring: 13.4%

**Alliances Expand Horizons** Over 64 percent of Alabama business leaders who replied that their company currently has or is considering alliances cite entering new markets and/or expanding their customer base as a reason. Most firms indicate multiple objectives, with many looking to collaborative agreements with other companies to help them extend their products, services, and competencies. Offsetting costs is a slightly less common factor. Other reasons noted include spreading risk, enhancing compliance, and providing volume discounting opportunities to customers.

**For what reason(s) do you enter into an alliance?**

- Enter new markets/expand customer base: 64.1%
- Extend expertise or competencies: 48.5%
- Extend product lines/services: 44.3%
- Meet client demand for new products/services/functions: 41.9%
- Offset costs: 38.9%
- Other: 3.0%

**Mutual Benefit Important to Healthy Alliances** Constructing an alliance requires identifying goals and expectations and crafting a deal that is fair to both sides. Revenue sharing in proportion to each party’s ownership interest in the alliance is an effective structure since maximizing profit benefits both interests fairly. About 58 percent of Alabama panelists currently involved in or considering an alliance use a revenue sharing agreement. A flat fee percentage is employed in 32.5 percent of alliances, while more than 26 percent are based on per project fees. Several panelists reported creating alliances in joint venture with a nonprofit organization or in a public-private partnership.

**How are your alliances typically constructed?**

- Revenue sharing: 58.1%
- Flat fee percentage: 32.5%
- Project fee basis: 26.2%
- Equity swap: 7.5%
- Other: 6.2%

**What percentage of your overall revenues do strategic alliances represent?**

- 1 to 9 percent: 53.4%
- 10 to 19 percent: 25.2%
- 20 to 29 percent: 5.3%
- 30 to 39 percent: 3.8%
- 40 percent: 2.3%
- Don’t know: 1.5%
- Greater than 40 percent: 8.4%
- 0 percent: 2.3%

**Revenue Growth Measure of Success** The contribution of an alliance to a firm’s revenues is an indicator that can be monitored and compared to goals established for the alliance. Studies show that ultimately most alliances disappoint with higher costs or lower revenues than expected. Over half of survey panelists in firms currently in strategic alliances report that the alliance(s) represent between 1 and 9 percent of their overall revenues. But a fourth realize a 10 to 19 percent share of revenues from alliances, and 17.5 percent attribute 20 percent or more of their firm’s revenues to alliances.

* Panelists could choose multiple responses.
**Alliances Introduce Risk** Involvement with strategic partners can leave a company open to risks in one or more of four broad areas: strategic, operations, reporting, and compliance. Effective management and control is essential to an effective alliance. And it is important to devise an exit strategy. Alabama businesses have put in place a variety of controls to protect their interests. While monthly or quarterly assessments are most often used, measurement against contracted benchmarks is almost as common. More than 27 percent of respondents have a 30-day walk-away policy, while almost as many rely on open book review.

* Panelists could choose multiple responses.

### Component Index by Area, Q4 2006

<table>
<thead>
<tr>
<th></th>
<th>Alabama</th>
<th>MSA</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Q4 2006</td>
<td>Change from Q3</td>
</tr>
<tr>
<td>National Economy</td>
<td>51.1</td>
<td>-2.0</td>
</tr>
<tr>
<td>Alabama Economy</td>
<td>59.2</td>
<td>-1.7</td>
</tr>
<tr>
<td>Industry Sales</td>
<td>56.0</td>
<td>-6.2</td>
</tr>
<tr>
<td>Industry Profits</td>
<td>53.6</td>
<td>-5.9</td>
</tr>
<tr>
<td>Industry Hiring</td>
<td>51.7</td>
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</tr>
<tr>
<td>Capital Expenditures</td>
<td>53.6</td>
<td>-6.8</td>
</tr>
<tr>
<td>BLCI</td>
<td>54.2</td>
<td>-4.7</td>
</tr>
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**Alabama Metros Divided** Although indexes for the state’s largest metro areas all forecast growth in the fourth quarter of 2006, the four divide equally into slow and moderate growth pairs. In the slow growth group, panelists in Birmingham and Montgomery are both anticipating a contraction in hiring during the quarter. Panelists in Huntsville and Mobile are more upbeat, registering positive expectations on every component index. Current and anticipated development is boosting the outlook for these areas.

**A Look into the BLCI** With the fourth quarter 2006 results in, the Alabama BLCI marks five years of survey history. Many thanks to the panelists who have been with us since the survey’s inception and to those who have joined along the way. We welcome back former panelists and encourage new panelists to register and voice their opinions. Hearing from a wide range of firms representing small, midsize, and large businesses across industry sectors and across the state is essential to providing a useful forecast.

Your comments on the survey and the newsletter are always valuable. We also encourage suggestions for topical questions that you would like to have business leaders across Alabama weigh in on. Questions or comments can be emailed to: uacber@cba.ua.edu.

Almost 300 panelists completed the fourth quarter 2006 survey. We hope to have your input and the input of your peers on the first quarter 2007 survey during December. And special thanks to the many panelists who responded to the Quick Poll this summer. A PowerPoint presentation on the top issues facing Alabama and Alabama companies in 2006 is available at: http://cber.cba.ua.edu.

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Analysis provided by Carolyn Trent, Socioeconomic Analyst, Center for Business and Economic Research, The University of Alabama.
manufacturing and aerospace products and parts manufacturing, will continue to add to their payrolls well into 2007. With the new Kia automotive plant just across the state line in Georgia, it is probable that most of Hyundai’s tier one and tier two suppliers will expand and add workers to supply parts for both Hyundai and Kia. As long as consumers remain cautious, retailing payrolls will decline slightly or at the best remain flat. Corporate profits will continue to be healthy, providing a boon for business investment in equipment and software.

Although the housing sector’s recessionary conditions in other parts of the country have not been a major problem in this state, falling housing prices will probably have a significant impact in the Birmingham and Mobile metro areas, where appreciation in home prices was much larger than in the rest of the state. Residential construction is forecasted to decelerate even further in the coming months. The state’s economy is forecasted to grow by approximately 3 percent in the fourth quarter. For the year as a whole, the state’s economic growth is estimated to be in the 3.1 to 3.3 percent range.

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JANUARY 2007

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Alabama Business Wins Publication Award

The Association for University Business and Economic Research (AUBER) has named Alabama Business the winner of the 2006 Publications Award for Newsletters, Brochures, and Other Promotional Materials.

The newsletter was redesigned earlier this year by Sherry Lang, senior graphic designer at CBER. This newsletter is a team effort and the staff members who regularly help with the writing, editing, and production of the newsletter are Carolyn Trent, Ahmad Ijaz, Deborah Hamilton, and Annette Watters.

“This is a significant accomplishment,” said J. Barry Mason, dean of the Culverhouse College of Commerce, which houses CBER. “It underscores the importance of clear and consistent communication in this day and age, and it certainly demonstrates why the state’s business community considers Alabama Business a powerful management and decision making tool.”

AUBER is the professional association of business and economic research organizations in public and private universities. Dr. Carl Ferguson, director of the Center for Business and Economic Research and associate dean for research and technology, said, “We are fortunate to have a professional such as Sherry on our team. Our communication with the business community is vital.”

CBER’s Alabama Economic Outlook, an annual short-term forecast for the state’s economy, has won the AUBER Publications Award for Economic Outlooks four times, in 1987, 1998, 2001, and 2005. In addition, CBER’s website was named the “Outstanding Website of the Year” by AUBER in 2003.
A career marked by singular events

Ferguson recalls his 30 years at UA

Like every career, Carl Ferguson’s 30 years at The University of Alabama have been marked by many singular events. The first was that following graduation with a Ph.D. from the University of Missouri in 1974, his employment search included only one site visit— to The University of Alabama.

“I was so struck by the energy and enthusiasm of Dr. J. Barry Mason, then Chairman of the Department of Management and Marketing, and all of the departmental colleagues, that I could not imagine a more inviting place or one better suited to my professional skills and interests.” Ferguson said. Interestingly, Ferguson not only spent his entire career at UA but he worked for Mason the entire time. “To Dean Mason, my mentor and friend, I would like to say thank you—it has been a most amazing journey.”

Ferguson will retire as associate dean for research and technology, professor of marketing, and director of the Center for Business and Economic Research (CBER), at the end of the year. He has been a voice for education reform, work force development, and the go-to spokesman on the state’s economy.

“Almost immediately after accepting UA’s offer of employment as an assistant professor of marketing, Dr. Mason asked if I would be interested in working in the Center for Business and Economic Research,” Ferguson recalled. “By 1975 the Center had a storied history. Its founding director, Dr. H. H. Chapman, had been a national leader in the development of regional income measurement and an active player in the establishment of what is today the U. S. Department of Commerce, Bureau of Economic Analysis. Not only was I being given the opportunity to work with some of the best and brightest of my marketing peers, now I was being offered the opportunity to work in a center with a national reputation for excellence. It was an inspiring beginning.”

Ferguson said he spent his first five years at UA learning about the economy of Alabama, its people, and its history. “It didn’t take long for my family and me to realize that we had a new home of which we could be proud and we felt very much a part.” Ferguson said.

In addition to the traditional course work in statistics common to most business doctoral programs, Ferguson’s committee at the University of Missouri allowed him to use computer science as his language. Formal training and an aptitude for programming and computing technology have served him well over the course of his career.

“Like many students of my era, all of my training was on IBM mainframe computers,” Ferguson said. “In 1975 The University of Alabama was using a UNIVAC mainframe. This led to many interesting opportunities and challenges. I remember there were remarkably few basic applications available. Working with staff, the first two applications we developed were an address management system to replace an old addressograph machine and a departmental accounting package fondly referred to as DASY to maintain timely information on account balances.”

Driven by an affinity for the role of the computer and a staff willing to take on and master rapidly evolving technologies, CBER had one of the first networks on campus—an IBM Token Ring; in-house and later worldwide email over ARPANET; word processing with Jacquard J500s; computer graphics using Tektronix Computer Graphics terminals; and following the establishment of the Alabama State Data Center, exceptionally large computer-based data holdings.

Another singular event in his career, Ferguson said, was Dr. David Mathews’ return as president of UA in 1977 following a following a leave of absence to serve as President Gerald Ford’s Secretary of Health, Education, and Welfare. “Dr. Mathews understood the need to model and track the economic and demographic changes underway in Alabama. CBER, working with Dr. David Cheng, a Yale-trained College of Commerce economist, appealed to Dr. Mathews to fund the development of the first econometric model of our state. Dr. Mathews approved the request and remained an enthusiastic supporter of the Center until his departure in 1981 to become President of the Kettering Foundation.” Ferguson said.

State econometric models depend on forecasts of national economic conditions. According to Ferguson, at that time one of the best sources of such forecasts was Wharton Econometric Forecasting Associates (WEFA). Founded by Dr. Lawrence Klein (recent Nobel laureate and Professor of Economics at the University of Pennsylvania, Wharton School), WEFA provided essential detailed forecasts of national economic activity by sector. “While attending a WEFA conference in Chicago, I discussed with Dr. Klein the work we were doing at Alabama and invited him to come and visit. He agreed.” Ferguson recalled.

During the course of several meetings, Ferguson and Klein discussed the challenges of developing simultaneous solutions for the Alabama econometric model. The UNIVAC in use at the time could not support most of the
econometric applications commonly used during that period. “After a moment of thought, Klein recalled that the Institute for Advanced Studies in Vienna, Austria was also using a UNIVAC mainframe and that they were developing econometric software to support their efforts.” Ferguson said.

“Before Dr. Klein left campus that day, I had spoken to Klaus Plasser, the senior program analyst at the Institute, and learned that they did indeed have an application called the Interactive Analysis System (IAS) for the management and estimation of simultaneous equation econometric models. Klaus put a distribution tape in the mail the next day and within two weeks we were up and running. Our relationship with the Institute grew over the next several years. Klaus visited us in Alabama; CBER helped distribute IAS to other UNIVAC users across the United States; and Klaus and Dr. Klein introduced us to Project Link—a joint WEFA and United Nations project to tie together national models to create a comprehensive world model.”

Working with graduate students, Dr. Cheng and the CBER staff built what became the Alabama Regional Economic Information System; learned about the strengths and weaknesses of national and state level data; and, most importantly, began to develop a much deeper understanding of the Alabama economy and its people.

In 1978, coincident with the development of the Alabama econometric model, CBER was designated by Governor Wallace as one of the nation’s first U. S. Census Bureau’s state data centers. State data centers were subsequently established in all states to facilitate and advance the use of Department of Commerce data, particularly census data, in support of business and economic development. The concurrent establishment of the Alabama State Data Center and the Alabama Econometric Model worked to solidify CBER as a preeminent data and analytical center for the state.

The Center’s state and regional modeling efforts quickly led to a close working relationship with the Alabama Development Office and the newly created Office of State Planning and Federal Programs, the forerunner of today’s Department of Economic and Community Affairs. Working under contract, CBER produced Alabama’s first Economic Outlook in 1980. The Alabama Economic Outlook and the Regional Economic Information System are two of the Center’s hallmark products today.

Another significant career event occurred in 1981 when Mason suggested that Ferguson look at a new book by Richard Bagozzi titled Causal Models in Marketing. Mason thought Ferguson might find the rigor of the methodology on structural equation modeling (SEM) and its application to marketing research appealing. Although many statisticians contributed to the study of path models and the early conceptualization of the SEM methodology, Dr. Karl Jöreskog of the University of Uppsala (Sweden) is widely credited with the seminal work to fully conceptualize structural equation modeling with latent variables and the development of the LISREL software that empowered this truly revolutionary research methodology.

After reading Bagozzi’s book, Ferguson was convinced that structural equation modeling with latent variables would have a great impact on marketing research. Ferguson attended a workshop Jöreskog was conducting in Washington, D.C. and invited Jöreskog to the University to interact with UA faculty and graduate students and later to conduct forums for marketing scholars from around the country.

Over the course of the next several years, Jöreskog visited UA on numerous occasions, conducting workshops on LISREL and exploratory factor analysis. Jöreskog was so impressed with the early implementation of the mainframe LISREL application at the University, he ask CBER and Ferguson to help him distribute LISREL in the U.S. market.

Jöreskog was also generous with his time and intellectual guidance in support of C&BA graduate students. “Over a career every professor, if they are fortunate, will have a few doctoral students who study and excel far beyond the teacher,” Ferguson said. “I was fortunate to have had two.” Jöreskog agreed to serve on their dissertation committees and ultimately coauthored seminal journal articles with each. “To Karl and these fine young men—now great professors in their own right—I am most grateful.”

Recent years have seen Ferguson’s role expand to include responsibilities for the computing and network technology across the College. CBER continues to be recognized for its Economic Outlook and its regional economic impact studies; the continuing work of the State Data Center; and the new work of the Entrepreneurial Research Network, an initiative to stimulate entrepreneurship across rural Alabama.

“Our current partnership with Compass Bancshares, Inc. is one of which we are particularly proud. Working with representatives from Compass, Center staff and our Compass partners developed the Compass Business Leaders Confidence Index® which is a quarterly measure of economic expectations. The Compass BLCI® is recognized as a leading indicator of state and national economic conditions.” Ferguson said.

“I am blessed with an exceptional family, circle of friends, and colleagues. I offer my heartfelt thanks for all they have done over the years. It has been a most amazing journey.”

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