Economic Outlook
4th Quarter 2008

United States

Overview. The U.S. economy grew at a faster pace during the second quarter of 2008 than was initially reported—the rate of growth was revised up from 1.9 percent to 2.8 percent. For the first half of the year, the economy expanded at an average annual rate of 1.9 percent. Exports were a major contributor in the second quarter, accounting for 1.5 percentage points, or more than half, of the increase in GDP. Other minor contributors were personal consumption expenditures; nonresidential structures; and federal, state, and local government spending. The decline in business investment, including residential investment, subtracted 1.7 percentage points from GDP growth in the second quarter.

Despite recent strong export gains, the July U.S. trade deficit surged to its highest level in 16 months, primarily due to high oil prices. With an economic slowdown now expanding to other parts of the globe, demand for American exports may decline slightly during the second half of 2008, although a drop in oil prices could keep the trade deficit from widening. While U.S. GDP grew in the first half of the year, payrolls have been slashed every month for a loss of 764,000 jobs through September. The unemployment rate climbed from 5.0 percent in December 2007 to 6.1 percent in September 2008.

Over the next two or three quarters, the U.S. economy will continue to struggle under mounting job losses, relatively high price levels, and crises in the financial and housing markets, causing both consumers and businesses to remain cautious about spending. A strengthening U.S. dollar could provide some relief from import price inflation. In the second quarter of 2008, consumer spending grew 1.7 percent, while business investment declined 12.0 percent. With both consumer and business spending dropping significantly, corporate profits fell 8.3 percent in the second quarter from the same period in 2007, the sixth consecutive quarterly decline in profits and the worst quarter for businesses since the third quarter of 2001. Corporate profits earned in the domestic market were down 35.3 percent, while those earned overseas were up 9.0 percent.

The $160 billion fiscal stimulus package, in the form of tax rebates and bonus depreciation, has supported the economy during the second and much of the third quarter, but we expect economic growth to be negative in both the fourth quarter of 2008 and the first quarter of 2009. Overall, the U.S. economy is now estimated to grow by 1.2 percent in the third quarter and decline by a slight 0.2 percent in both fourth quarter 2008 and first quarter 2009. Credit conditions are expected to remain tight for consumers and businesses, making it more difficult for firms to obtain credit lines for any expansion projects. Furthermore, both industrial production and consumer spending are expected to decline in the third quarter, and the unemployment rate is expected to continue to rise during the remainder of the year; the economy seems to be deteriorating much faster now than it was a few months ago.

Consumer Spending and Inflation. Despite a recent drop in oil prices, inflationary pressures continue to affect both consumer spending and business investment; the inflation rate is expected to average above 5.0 percent in the second half of this year. The Consumer Price Index fell 0.1 percent in August, following increases of 1.1 percent and 0.8 percent in June and July, respectively. Still, year over year prices were up 5.4 percent, just below July’s 17-year high of 5.6 percent. Overall, consumer spending rose 1.2 percent in the second quarter, following a 0.9 percent increase in the first quarter. With the stimulus provided by the tax rebates fading, payroll losses mounting, relatively high rates of inflation, and loss of wealth in the financial markets, consumer spending is expected to slow significantly in the coming months—to the point of experiencing a decline for the first time since the 1990-91 recession.

Consumer spending on durable goods fell by 2.8 percent in the second quarter, mainly due to a drop of 23 percent in motor vehicle and parts sales; spending on new light trucks was down almost 48 percent. Expenditures for nondurable goods were up 3.9 percent, primarily due to high food and energy prices. Prices of nondurable goods have increased at the fastest pace on a year-over-year basis since July 1981, the start of the 1981-82 recession. Wholesale prices have also risen at their fastest pace in 27 years; producer prices were 9.6 percent higher in August than a year ago. Inflationary conditions have serious consequences for consumer spending—in July the average U.S. worker earned 3.1 percent less than a year earlier after adjusting for cost of living increases. The sharp decline in consumer spending is also evident in retailing jobs; from July 2007 to July 2008 retailers shed approximately 223,000 workers.
Consumer spending is now estimated to decline by 0.3 percent and about 1.0 percent during the third and fourth quarters of 2008, respectively. Expenditures on durable goods, those generally requiring financing from financial institutions, will remain particularly weak over the next three quarters. After decreasing by 2.5 percent during the second quarter of 2008, purchases of durable goods are expected to drop by nearly 5.0 percent in the third quarter, followed by declines of 12.5 percent and nearly 1.0 percent in fourth quarter 2008 and first quarter 2009, respectively.

Business Spending. Tight lending and slowing demand conditions have had serious ramifications for business spending, despite a bonus depreciation allowance aimed at lowering taxes for business capital investment during 2008. Overall, business spending dropped 11.5 percent in the second quarter—nonresidential business investment increased 2.5 percent, while spending on equipment and software decreased 5.0 percent. Residential fixed investment, which includes both home construction and sales, dropped by 13.3 percent, its 10th consecutive quarterly drop. Spending on equipment and software could increase by over 13 percent in the fourth quarter as businesses take advantage of expiring depreciation allowances. Residential fixed investment, on the other hand, could see a decline of over 20 percent in the fourth quarter, and is not expected to show any signs of recovery until at least the second half of 2009 or perhaps even 2010.

Employment and Industrial Production. Industrial output dropped 1.1 percent in August, the biggest decline in nearly three years, while capacity utilization decreased from 79.7 in July to 78.7 in August. Output of motor vehicles and parts plummeted another 11.9 percent in August over the previous month, and is down 20.7 percent from a year ago. The Institute for Supply Management (ISM) index fell from 49.5 in August to 43.5 in September. The index of new orders, an indicator of future activity in the industrial sector, dropped from 48.3 in August to 38.8 in September—the largest decline since 1984. Due to a stronger U.S. dollar, the export index fell 5 points to 52.0, after rising for 69 consecutive months. Despite strong exports, manufacturing continues to lose jobs; the ISM employment index dropped from 49.7 in August to 41.8 in September, indicating a steeper contraction. Falling prices brought the ISM inflation index for commodities down to 53.5 in September, significantly below its post-1979 peak of 91.5 in June.

Manufacturing has lost 533,000 jobs since July 2007, while construction has shed 429,000. In September alone, manufacturing employment declined by 51,000, the ninth consecutive monthly loss. Payroll gains were experienced in education and health care industries in September, with the addition of 25,000 workers. However, around 35,000 administrative workers lost their jobs during the month. Over the past 12 months alone, the number of unemployed has increased by 2.2 million to total 9.5 million. Payroll employment is forecasted to drop by 0.5 percent in the third quarter, followed by declines of 0.7 and 0.3 percent in the fourth quarter of 2008 and first quarter of 2009, respectively.

Housing. Housing markets remain the biggest drag on the economy—high levels of home inventories, falling home prices, and foreclosures continue to have a negative effect and, as recent statistics indicate, we do not expect to see a recovery until the second half of 2009 or perhaps even 2010. The S&P/Case Shiller Home Price Index dropped a record 15.4 percent in the second quarter of the same period a year ago. The 20-city index fell 16.3 percent for July 2008 compared to July 2007, the highest monthly drop since the index began in 2000. Both declines in housing prices and increases in foreclosures continue to set records, even surpassing those set during the Great Depression. Since the start of the subprime crisis last year, banks and securities firms have written off over $500 billion in losses and, if the housing market continues to deteriorate, these losses could total over $1.3 trillion. From 2005 to early 2007, approximately $2.5 trillion in subprime and Alt-A mortgages were originated, out of which about $1.3 trillion are illiquid.

Housing activity declined for the 16th consecutive month in August, dropping 2.3 percent to approximately $358 billion; activity is off 41 percent from its peak of $607 billion in the fourth quarter of 2005 and was 4.7 percent lower than a year ago. A Federal Reserve report notes that, faced with sharply tightening lending conditions, mortgage lenders originated 10.4 million mortgages in 2007, 25 percent fewer than in 2006. According to the National Association of Realtors, the supply of existing single-family homes rose to a 23-year high of 1.1 months in June. Home vacancy rates are now 1.1 percentage points above the normal rate of 1.7 percent—with 0.1 percentage points representing 75,000 homes, the excess supply is about 825,000 units.

Housing starts fell 11.0 percent in July and are now expected to remain well below one million units annually in both 2008 and 2009. The July annualized rate of 965,000 units represents the slowest pace of building in 17 years. Housing permits, a reliable gauge for future activity in home construction, fell to a rate of 937,000 in July, a 17.7 percent drop from June. Monthly single-family building permits are now 69.2 percent below their peak in September 2005. Permits for single-family home construction totaled $84,000 in July, the fewest since an annualized low of $23,000 in August 1982, when the U.S. economy was in the midst of a recession. Housing starts are expected to bottom out late in 2008, hitting a 61-year low, while housing prices may not hit bottom until sometime in 2009.

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Business Confidence Weak but Improving

Alabama’s Business Leaders Confidence Index® (BLCI) moved up 1.6 points to 44.3 in the fourth quarter of 2008. Increases in the component indexes for the U.S. and state economies were largely responsible for the improvement. It will be interesting to see if the BLCI is predictive, with the financial crisis that came to a head in the third quarter and the resulting government plan helping mark a low point in the economic downturn. The index remains in negative territory, however, where it has been for all four quarters of 2008. Although Alabama’s economic performance is still above the nation’s, the gap between the component indexes narrowed to six points this quarter, down from more than 15 points just two quarters ago. Expectations for sales and hiring moved lower, while forecasts for profits and capital expenditures improved from the third quarter.

Panelists weighed in on the topic of health insurance costs and trends. Just under half reported 2008 premium increases of 6 to 10 percent, while almost 28 percent were hit with more than a 10 percent increase and about a quarter saw premiums rise less than 6 percent. Firms most often shared the higher costs with their employees, although almost a third absorbed the entire increase. Over 70 percent felt that their employees were relatively satisfied with their health plan. Alabama business leaders generally see employer-provided health insurance prevailing into the future.

U.S. Economic Decline Continues

The U.S. economy is expected to continue the downturn that Alabama BLCI panelists date as taking hold in the fourth quarter of 2007. While the component index rose a sizeable 7.2 points to 42.0, it remains in negative territory; 48.8 percent of respondents expect national economic conditions to worsen this quarter, while just 21.8 percent foresee improvement. Since our fourth quarter survey closed on September 15, most panelists weighed in well before the deepening U.S. financial crisis and government response became apparent. While exports are continuing to support the economy, weakness in the housing and financial markets weighs heavily on the fourth quarter outlook. With the effect of the federal stimulus package largely over, growing job losses, and declining household net worth, consumer spending is not expected to help revive the economy this quarter.

Alabama Forecast Moves Closer to Neutral

The assessment by Alabama business leaders of the course the state’s economy will take in the fourth quarter of 2008 moved up 2.8 points to 48.0. More panelists feel the outlook will worsen than improve this quarter (32.9 percent versus 25.0 percent), but this share is smaller than on the second and third quarter surveys and the percent forecasting improvement is up over the same period. About 42 percent think conditions in the state will be the same as last quarter. Recent cutbacks in production and hours at Mercedes and Honda show the effects of the worst year for light vehicle sales since 1993. But many of the state’s colleges and universities are seeing record enrollments this fall and major projects including BRAC, National Alabama Railcar, and ThyssenKrupp are on track, with construction and hiring ongoing. Alabama added 13,000 jobs between January and August 2008; August unemployment of 4.9 percent was well below the U.S. rate of 6.1 percent.
**Sales Expectations Slip Further**  More than 43 percent of Alabama panelists forecast a decline in sales in their industry during the fourth quarter of 2008, while 32.3 percent expect sales to improve. At 46.3, the sales component index is down 2.3 points from third quarter 2008. Six consecutive quarters of decline have dropped the index by 23 percent from a peak of 60.3 in the second quarter of 2007. This parallels the downward trend in the national consumer sentiment and confidence indices. Consumers are likely to remain cautious about spending in the fourth quarter as high energy and food prices, coupled with weakness in the U.S. economy, eat into their finances. With a component index of 57.6, professional, scientific, and technical services is the only industry forecasting sales gains; many of these firms work in national defense and medical areas. Over half of panelists in construction and finance, insurance, and real estate (FIRE) anticipate a decline in sales this quarter.

**Industry Sales**

Q4 2008 compared to Q3 2008

<table>
<thead>
<tr>
<th>Percent</th>
<th>Strong Decrease</th>
<th>Moderate Decrease</th>
<th>No Change</th>
<th>Moderate Increase</th>
<th>Strong Increase</th>
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<tbody>
<tr>
<td>5.5</td>
<td>37.8</td>
<td>24.4</td>
<td>30.7</td>
<td>1.6</td>
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**Weak Economy Continues to Dampen Profits**  Profit expectations stabilized in the fourth quarter of 2008, with the component index of 43.5 up 1.5 points from the third quarter and some panelists moving from forecasting a decline to anticipating no change. However, the share expecting profits in their industry to increase saw its sixth consecutive quarterly decrease, falling from 43.6 percent in the second quarter of 2007 to just 23.6 percent this quarter. Growing weakness in the economies of major trading partners could begin to negatively impact profits from exports in the fourth quarter. Profits are expected to be weakest in construction, with a component index of 38.0 and about 61 percent forecasting a decline; the profits index for FIRE and transportation, information, and public utilities (TIPU) came in at around 39.5. Professional, scientific, and technical services businesses are the most optimistic about profits with a component index of 53.8.

**Industry Profits**

Q4 2008 compared to Q3 2008

<table>
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<tr>
<th>Percent</th>
<th>Strong Decrease</th>
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<th>Strong Increase</th>
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</thead>
<tbody>
<tr>
<td>5.9</td>
<td>39.8</td>
<td>30.7</td>
<td>21.6</td>
<td>2.0</td>
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**Job Declines Likely as Firms Cut Back on Hiring**  The hiring component index fell to a new low of 42.9, down 0.5 points from the third quarter, as Alabama firms are increasingly scaling back new hires or reducing their workforces. Just 15.4 percent of panelists expect businesses in their industry to add workers in the fourth quarter—the lowest share in seven years of the BLCI survey and the fifth consecutive quarterly decline. More than twice as many companies (37.0 percent) plan to reduce their workforces or cut back on hiring, while 47.6 percent expect to maintain current staffing levels during the fourth quarter. Alabama nonagricultural employment fell for the first time this year in July, although the number of jobs was still 11,900 above the July 2007 total. Tight state funding was impacting education jobs across the state. Fewer than 6.5 percent of firms are planning to hire in the construction, FIRE, and retail trade industries. Jobs will be most available in professional, scientific, and technical services.

**Industry Hiring Plans**

Q4 2008 compared to Q3 2008

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<thead>
<tr>
<th>Percent</th>
<th>Strong Decrease</th>
<th>Moderate Decrease</th>
<th>No Change</th>
<th>Moderate Increase</th>
<th>Strong Increase</th>
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<tr>
<td>8.3</td>
<td>28.7</td>
<td>13.8</td>
<td>1.6</td>
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**Capital Spending Remains Tight**  The capital spending component index was up 1.2 points to 43.3 in the fourth quarter of 2008, as the share of companies expecting an increase rose to 20.5 percent, up from 18.8 percent in the third quarter. However, twice as many firms (40.9 percent) planned to cut back on capital investment, the fifth quarterly downside increase in a row. While year-end expiration of the bonus depreciation provisions of the tax stimulus could boost fourth quarter spending, the current economic downturn is making businesses much more cautious about investing in equipment and structures. Although Alabama is seeing ongoing construction for major projects, weakness in consumer demand and tight credit are generally curtailing new retail and office construction. About 62 percent of panelists in retail and 52.2 percent in wholesale trade forecast a decline in capital investment this quarter. More than 27 percent of respondents in TIPU, manufacturing, and professional, scientific, and technical services expect an increase.

**Industry Capital Expenditures**

Q4 2008 compared to Q3 2008

<table>
<thead>
<tr>
<th>Percent</th>
<th>Strong Decrease</th>
<th>Moderate Decrease</th>
<th>No Change</th>
<th>Moderate Increase</th>
<th>Strong Increase</th>
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<tr>
<td>9.4</td>
<td>31.5</td>
<td>38.6</td>
<td>17.3</td>
<td>3.2</td>
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Workers Generally Satisfied with Health Insurance

Over 71 percent of Alabama business leaders completing the survey this quarter believe that their workers are somewhat or very satisfied with the affordability and quality of their health insurance, including 26.5 percent who feel their employees are very satisfied. Another 17.6 percent think their workforce is dissatisfied and just over 8 percent can’t gauge employee satisfaction. The share of companies perceiving their employees as being somewhat or very dissatisfied with cost and quality of the health insurance provided decreases with increasing firm size—6.9 percent of large, 14.1 percent of mid-sized, and 20.9 percent of small businesses indicate some degree of dissatisfaction.

Employer health premiums across the U.S. increased an average of 6.1 percent in 2007; the preliminary estimate for 2008 is around 5.7 percent, according to the Mercer consulting firm. With the average premium for a family of four close to $12,100 and the price of single coverage over $4,400 in 2007, business leaders are faced with the dilemma of how to manage and contain their benefit costs.

Many Firms Share Cost Increase with Employees

Over 89 percent of Alabama businesses represented in the fourth quarter survey either absorbed entirely or shared the increased cost of health insurance with their employees in 2008. Just 4.7 percent shifted the entire increase to the employee and 3.7 percent reduced benefits offered. The 57.7 percent of companies sharing the increase is comparable to the 59 percent tally on Mercer’s recent survey. Among Alabama respondents, this percentage rises with size of firm—48.4 percent of small businesses (fewer than 50 employees), 64.5 percent of midsize companies (50 to 250 workers), and 79.3 percent of large employers (more than 250 employees) reported sharing health insurance cost increases. Very small firms (with fewer than 25 employees) are much more likely to absorb the entire cost increase than are large ones—46.4 percent versus 17.2 percent. No panelists reported that they discontinued coverage.

Premium Increases Most Often in 6 to 10 Percent Range

Health insurance premiums rose between 6 and 10 percent for 46.5 percent of Alabama businesses in 2008. However, the range of cost increases was wide—25.7 percent of firms completing the fourth quarter survey reported an increase between 0 and 5 percent, while 18 percent saw premiums rise 11 to 20 percent, and almost 10 percent faced an increase of greater than 20 percent. There was considerable variation in the distribution of premium increases by size of firm: 44.8 percent of large businesses saw premiums rise 5 percent or less in 2008, compared to 29.7 percent of midsize companies and 20.3 percent of small firms. The percent reporting that premiums went up between 6 and 10 percent was very similar across firm size at around 46 to 48 percent. But small businesses were much more likely to see steep price hikes—20.9 percent with fewer than 50 employees indicated premiums rose 11 to 20 percent and 16.3 percent of respondents with less than 25 workers saw an increase in costs greater than 20 percent.

How much did your health insurance premiums increase in 2008?

<table>
<thead>
<tr>
<th>Increase Range</th>
<th>Percent</th>
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<tbody>
<tr>
<td>0-5%</td>
<td>21%</td>
</tr>
<tr>
<td>6-10%</td>
<td>46.5%</td>
</tr>
<tr>
<td>11-20%</td>
<td>9.8%</td>
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<tr>
<td>21% or more</td>
<td>0.0%</td>
</tr>
<tr>
<td>25.7%</td>
<td>0.0%</td>
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Employers Likely to Continue to Provide Health Insurance

Most Alabama panelists expect the employer-provided model to continue as the future of health insurance; only 5.3 percent anticipate that large-scale reform will free companies of this role. But the trend of businesses shifting more of the cost to their workers will persist, according to about 60 percent of business leaders surveyed. However, 14.3 percent think that employers will scale back or discontinue coverage due to rising costs. Around 17 percent of respondents predict that consumer-directed health plans, such as HRAs or HSAs, will become more common—these plans often have lower premiums and higher deductibles than traditional plans. Promoting wellness is one way to keep health costs down and almost 10 percent of panelists see more firms having health management plans for their employees in the future.

How do you envision the future of employer-provided health insurance?*

- Will survive as is, but cost will be volatile: 24.1%
- Employers will shift more of cost to employees: 60.4%
- Employers will scale back or discontinue coverage: 14.3%
- Lower-cost consumer-directed plans more prevalent: 17.1%
- Large-scale reform will eliminate employer role: 5.3%
- Employers will have more health management plans: 9.8%
- Other: 1.6%

*Panelists could choose more than one response.

Component Index by Area, Q4 2008

<table>
<thead>
<tr>
<th></th>
<th>Alabama Q4 2008</th>
<th>Change from Q3 2008</th>
<th>Birmingham</th>
<th>Huntsville</th>
<th>Mobile</th>
<th>Montgomery</th>
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<tr>
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<td>42.0</td>
<td>7.2</td>
<td>41.3</td>
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<td>40.4</td>
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<td>55.9</td>
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<td>54.4</td>
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<td>-0.5</td>
<td>41.8</td>
<td>48.8</td>
<td>49.3</td>
<td>37.5</td>
</tr>
<tr>
<td>Capital Expenditures</td>
<td>43.3</td>
<td>1.2</td>
<td>43.4</td>
<td>42.9</td>
<td>47.8</td>
<td>34.6</td>
</tr>
<tr>
<td>BLCI</td>
<td>44.3</td>
<td>1.6</td>
<td>43.2</td>
<td>45.6</td>
<td>50.5</td>
<td>38.8</td>
</tr>
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Alabama BLCI by Component and Area

While the national economy component index saw the most improvement this quarter, the indicator for the state economy also moved up. Results for the industry component indexes were mixed—the outlooks for profits and capital expenditures improved modestly; industry sales tallied the highest value, despite posting the largest decline; and, after a modest decrease, hiring expectations were the weakest of the four.

The BLCI for the Mobile metro moved up 1.0 point to 50.5, with panelists expecting the area’s economy to expand slightly in the fourth quarter. ThyssenKrupp is adding to construction employment for its new steel mill and continues to screen and train future employees. However, it now looks like re-award of the Air Force tanker contract may be years away. Of the Huntsville metro area’s four industry indicators, only the hiring component improved, moving closer to neutral at 48.8. Huntsville has seen the strongest job growth of the four major metros over the August 2007 to August 2008 period. The area’s BLCI of 45.6 was up 3.0 points from the third quarter as the government sector continues to grow with accelerating BRAC construction and hiring.

Birmingham metro area panelists raised their expectations for the U.S. and state economies and for industry profits and capital spending in the fourth quarter, with the BLCI of 43.2 up 1.8 points from the third quarter. The metro’s large health sector lends stability, but recent cut-backs at Mercedes and Honda will affect the area’s automotive supplier industries, with reduced hours cutting into the disposable income of workers at these plants. Montgomery respondents were the most pessimistic on all six components—the area’s BLCI of 38.8 was just 0.7 points above the third quarter reading. However, the government sector is holding up, Hyundai is maintaining production, and major new retail stores will be opening in the fourth quarter.

Thank you to the more than 250 Alabama business leaders who helped close out the seventh year of the BLCI by completing the fourth quarter 2008 survey during the first two weeks of September. Please weigh in on the outlook for the first quarter of 2009 during the first two weeks of December at www.blci.com/alabama.

Analysis provided by Carolyn Trent, Socioeconomic Analyst, Center for Business and Economic Research, The University of Alabama.
Alabama

Exports. The relatively lower value of the U.S. dollar during the first half of 2008 significantly boosted Alabama exports. State exports totaled $7.8 billion through June, 7.8 percent higher than for the same period in 2007. While exports to Germany dropped slightly during the first six months of the year, the country remains the state’s largest trading partner with export shipments totaling over $1.7 billion. Other major export destinations included: Canada ($1.5 billion), Mexico ($430 million), China ($408 million), and the United Kingdom ($403 million). Exports to these five countries totaled almost $4 billion, or 51 percent of total state exports.

During the six-month period ending in June 2008, transportation equipment exports declined by 4.6 percent compared to the same period in 2007 and totaled approximately $2.9 billion. Primary metal manufacturers saw strong export growth, with the value of shipments rising from $253 million in the first half of 2007 to almost $465 million in the first half of 2008. However, a growing global slowdown coupled with a gradually strengthening U.S. dollar could negatively impact the state’s exports during the second half of the year.

Employment. Alabama’s unemployment rate jumped from 3.6 percent in August 2007 to 4.9 percent in August 2008. As of August 2008, there were 107,670 people unemployed statewide, a 36 percent increase from August 2007 when the total number of unemployed was 79,119. Six of the state’s 67 counties—Bullock, Chambers, Dallas, Lowndes, Perry and Wilcox—saw unemployment above 10 percent. Chambers County had the highest unemployment rate, 14.3 percent compared to 5.9 percent a year earlier, primarily due to the closing of WestPoint Home operations. Shelby County posted the lowest unemployment rate at 3.6 percent, up from 2.6 percent in August 2007.

During the 12-month period ending in August 2008, the state gained a total of 5,500 new jobs, significantly below the 27,700 net new jobs added during the 12-month period ending in August 2007. The state’s 11 metropolitan areas, comprised of 28 counties, gained 10,400 jobs, while the remaining 39 counties experienced a loss of 4,900 jobs. The Huntsville metro area led the state with a gain of 4,900 jobs, followed by Mobile (1,400), Birmingham-Hoover (1,200), and Montgomery (1,000). Most of the new jobs in the Huntsville metro were in professional and business services (2,300) and the government sector (1,100). Mobile saw significant job gains in both construction (600) and professional and business services (600). Payroll increases in the Birmingham-Hoover metro were concentrated in local government entities (1,500). However, the area’s manufacturing firms lost 1,100 jobs between August 2007 and August 2008, while the slowdown in consumer spending caused retailers to shed around 900 workers. Employment at food services and drinking places, which in recent years have created most of the jobs in the Birmingham-Hoover area, was flat. Most smaller metro areas also added jobs: Auburn-Opelika (900), Anniston-Oxford (500), Florence-Muscle Shoals and Tuscaloosa (400), and Decatur (200). However, Gadsden lost 400 jobs during the year ending in August and Dothan saw jobs slide by 100.

Statewide, manufacturing firms experienced job losses totaling 8,300 for the 12-month period ending in August 2008. Except for 900 jobs added in aerospace products and parts, every other manufacturing industry was flat or shed workers. The largest payroll losses were in textiles and apparel (3,200) and furniture and related products (1,200). Construction employment in August was about 1,100 above a year ago, with most of the jobs in heavy and civil engineering construction. Overall, service providing firms gained 12,800 jobs, with professional and business services adding 5,300 and government 5,500, mainly in local government entities. The state’s wholesale trade and financial sectors each gained 700 jobs, while information added 500. Full service restaurants shed 1,200, contributing to flat payrolls in leisure and hospitality for the first time in recent years. Retailers across the state lost 700 workers through August.

Tax Receipts. Total tax receipts slowed significantly in the current fiscal year. During the first 11 months of the fiscal year ending in September 2008, state tax revenues grew by 2.4 percent, or approximately $190 million, to total around $8.2 billion. The slowdown in consumer and business spending has had a significant impact on Alabama’s sales tax revenues, which declined by 0.05 percent to about $1.8 billion, almost $1 million below the previous fiscal year. Corporate income tax receipts of slightly over $462 million represent an increase of 7.1 percent ($31 million) above the same period last year. Individual income tax revenues grew 2.9 percent to approximately $3.3 billion, about $94 million higher than for the same 11 months a year ago. Appropriations made to the Alabama Education Trust Fund rose by about $86 million to approximately $5.3 billion, an increase of 1.3 percent. The state’s General Fund has seen appropriations rise a more substantial $193 million, an increase of 13.5 percent that brought the total to slightly over $1.6 billion.

Outlook. Both Alabama consumers and businesses are expected to remain cautious for the rest of 2008; relatively high prices for food, energy, and other commodities, as well as the continuing slump in housing markets will have a significant effect on both economic growth and payrolls. The state’s economy is at best predicted to grow around 1.0 to 1.5 percent through the end of the year. Increasing home foreclosures and declining housing starts and home sales are not expected to turn around in 2008 and could continue through the first half of 2009. Both the residential and commercial real estate industries will remain soft over the next two or three quarters.

As evidenced by Alabama payroll employment, the rate of increase in job growth has slowed significantly in recent months and is expected to continue to decline. By year-end, the state’s unemployment rate could be as high as 5.5 percent. Alabama’s transportation equipment manufacturing industry, which includes motor vehicle manufacturers and their suppliers, has been adversely affected by slowing demand, with resulting cuts in production and worker hours. However, despite a weakening economy statewide, some parts of the state, particularly the Huntsville area in north Alabama, will continue to experience significant increases in both payrolls and economic growth.

Sam Addy  Ahmed Ijaz
saddy@eba.ua.edu  aijaz@eba.ua.edu

Articles reflect the opinions of the authors but not necessarily those of the staff of the Center, the faculty of the Culverhouse College of Commerce, or the administrative officials of The University of Alabama.
Top Issues for the State and Industry in 2008

Alabama BLCI panelists were asked to list their top concerns for the state and for their industry in 2008 on a poll conducted by Compass Bank in late May. Respondents saw the broad issue of the economy as their top concern at the state level, while availability and retention of a trained and/or experienced workforce was the primary focus for businesses. The top issues below are listed in rank order:

Top State Issues
1. Economy/economic downturn
2. Fuel/energy costs
3. Workforce development
4. Education
5. Ineffective leadership/government
6. Tax structure
7. Attracting industry/jobs

Top Industry Issues
1. Finding and retaining qualified workers
2. Fuel/energy costs
3. Business slowdown
4. Economy/economic downturn
5. High commodity prices
6. Availability of credit
7. Government regulation

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The BLCI is a collaborative effort between Compass Bank and The University of Alabama’s Center for Business and Economic Research to provide local and relevant information to Alabama businesses. Your participation will help make the BLCI an even better economic resource. Please join today!

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Copies of this publication as well as other socioeconomic data resources are available on the Center website: http://cber.cba.ua.edu

The University of Alabama
Center for Business and Economic Research
Box 870221
Tuscaloosa, Alabama 35487-0221

Address service requested.