Economic Outlook: Third Quarter 2009

Alabama

Employment. During the 12-month period ending in May 2009, the state lost 96,100 nonagricultural jobs, a 4.8 percent decline since May 2008. Goods producing industries (mining, construction and manufacturing) shed 54,400 jobs, while service providing firms laid off 41,700. A total of 208,917 out of work Alabamians drove the unemployment rate to 9.8 percent, up from 9.0 percent in April. The rate was 4.7 percent a year ago, with 102,200 people unemployed. Thirty-five of the state’s 67 counties saw double-digit unemployment in May. The rate was highest in Wilcox County at 23.9 percent and lowest in Shelby at 6.6 percent. If residents who would like to work but are discouraged about job prospects and not looking and workers who would like full-time but can only find part-time employment are counted, the state’s labor underutilization rate would be much higher than its 9.8 percent unemployment rate.

From May 2008 to May 2009, Alabama’s manufacturing sector 34,700 workers and construction lost 19,800. Except for an 800-job gain in aerospace products and parts, every other manufacturing industry lost jobs. Job losses amounted to 22,700 for durable goods manufacturing—mainly in transportation equipment (6,700), including 3,000 at motor vehicle and parts manufacturers; primary and fabricated metals (3,900); wood products (3,200); furniture and related products (2,500); machinery manufacturing (1,900); and electrical equipment and appliance manufacturing (1,500). Nondurable goods industries saw job losses primarily in textiles and apparel (6,900), food manufacturing (1,300), plastic and rubber products (1,200), and paper manufacturing (1,100).

All service providing businesses except health services saw reductions in payroll employment from May 2008 to May 2009. Healthcare and social assistance gained 4,100 jobs, including 2,200 in physicians’ offices and 500 in nursing and residential care facilities. Educational services lost about 100 positions. The leisure and hospitality industry shed 3,800 workers—1,800 in full-service restaurants and the rest in limited-service restaurants, other eating and drinking places, and in the hotel and lodging industry. Until last year leisure and hospitality establishments, specifically eating and drinking places, were among the fastest growing businesses in the state, but a sharp drop in consumer spending and business travel has taken its toll. The decline in consumer spending also contributed significantly to a 3,200-job loss in retail businesses between May 2008 and May 2009, with motor vehicle and parts dealers accounting for 2,600. More car dealers are expected to shut down in the coming months, bringing additional payroll reductions.

Alabama Forecast Summary

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<th>Percent</th>
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<tr>
<td></td>
<td>2009</td>
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<tr>
<td>Alabama GDP</td>
<td>-3.0</td>
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<tr>
<td>Nonagricultural Employment</td>
<td>-3.3</td>
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<tr>
<td>Total Tax Revenue</td>
<td>-4.5</td>
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Note: Tax revenue is on a fiscal year basis.
In recent years professional and business services has been one of the fastest growing sectors of the Alabama economy. Over the past year, however, payrolls have declined by 19,500, with 16,400 jobs lost in administrative, support, and waste management and remediation services. Other service providing industries that lost jobs include wholesale trade (6,400); other services (5,100); transportation, warehousing, and utilities (3,500); information (1,400); and financial activities (500). Government shed 2,300 jobs, including 1,600 in local education.

The state’s 11 metro areas lost 44,780 jobs (47 percent of all losses) from May 2008 to May 2009, while the 40 nonmetro counties saw 51,320 jobs disappear. Job loss numbers were highest in the four largest metro areas including Birmingham-Hoover (19,600), Montgomery (5,300), Huntsville (5,100), and Mobile (3,300). Every metro saw job declines, ranging from Decatur (2,900), Tuscaloosa (2,500), Anniston-Oxford (2,200), Dothan (1,700), Florence-Muscle Shoals (1,100), and Gadsden (1,000), down to Auburn-Opelika (800). Unemployment rates have increased significantly from year-ago levels. In May 2009 Decatur saw the highest unemployment—10.7 percent compared to 4.2 percent a year earlier. Huntsville had the lowest rate at 7.2 percent, which compares to May 2008 unemployment of 3.2 percent. Unemployment across the metro areas averaged 8.9 percent in May 2009, more than twice the 4.1 percent recorded in May 2008. Metro area payroll employment declined across both goods producing and service providing industries. Manufacturing, construction, retailing, professional and business services, and food services and drinking places were hit particularly hard.

Exports. Alabama exports declined from $3.8 billion in first quarter 2008 to $2.8 billion in first quarter 2009, a drop of 26.4 percent that was slightly below the 28.7 percent decline in total U.S. exports. During first quarter 2009, exports to Germany—the state’s largest trading partner—totaled $382 million compared to over $812 million during the same period a year ago. While exports to China were essentially flat, the global recession has caused exports to all other major trading partners in first quarter 2009 to be significantly below the same period a year ago. Transportation equipment, the state’s largest export, dropped from $1.3 billion in the first quarter of 2008 to $829 million in the first quarter of 2009. Exports of chemical manufacturers fell from approximately $647 million to about $358 million, while those of machinery manufacturers declined from $278 million to $147 million.

Tax Revenues. State tax revenues continue to show significant weakness, primarily due to reduced consumer and business spending. For the first nine months of the current fiscal year which ends in September, tax revenues totaled $6.5 billion, down 6.2 percent or about $425 million from the first nine months of the previous fiscal year. Sales tax revenues of $1.37 billion were 9.1 percent lower (about $137 million). At $391 million, corporate income tax receipts were 11.25 percent, or $49.6 million, below the same period last fiscal year. Individual income tax revenues have declined by 8.2 percent ($232 million) to approximately $2.6 billion. Appropriations to the Alabama Education Trust Fund decreased by 8.7 percent, or about $388 million, to $4.1 billion. Revenue going into the state’s General Fund declined by $194 million to slightly over $1.1 billion, a drop of 14.8 percent.

Outlook. Alabama’s economy will continue to weaken in the third quarter, although the pace of decline will be much more moderate than the sharp drops seen in fourth quarter 2008 and the first half of 2009. Real GDP is forecasted to decrease by 3.0 percent for all of 2009, followed by a 1.5 percent increase in 2010. Payroll employment will continue to fall across nearly every sector of the economy. However, the pace of job losses should decelerate going forward. Nonagricultural employment is expected to decline by 3.3 percent this year and by 0.3 percent in 2010. The unemployment rate will continue to rise throughout 2009, with a possible peak in the first half of 2010, before we see any significant improvement in payrolls. Total tax revenue for the current fiscal year is expected to drop by 4.5 percent. For the next fiscal year, which starts in October 2009, tax revenues are estimated to increase by 1.2 to 1.6 percent.
The state is facing the same challenges as the rest of the nation, despite the fact that Alabama’s economy fell into recession almost seven months later than the U.S. economy. Significant slowdowns in consumer and business spending, tight lending conditions, and weakness in both commercial and housing markets will continue to negatively impact the state’s economy at least through the third quarter of 2009. Early signs of stabilization in economic conditions are expected toward the end of 2009 or perhaps early in 2010. Manufacturing, wholesale and retail trade, residential and commercial construction, professional and business services, and the leisure and hospitality sector will continue to experience payroll losses under the current adverse economic conditions.

By the third and fourth quarters of 2009, we will also begin to see an impact from the federal stimulus and stabilization funding allocated by the American Recovery and Reinvestment Act of 2009, whose major goal is to provide a boost to the economy in the short run without damaging its long-term growth prospects. Major aspects of the federal funding include: support for consumer spending through personal tax cuts and transfer payments; depreciation allowances on new business investments; tax credits for home purchases to create some stability in the housing markets; increased funding to state and local governments to prevent further cuts in spending; and an increase in infrastructure spending channeled through the state. However, the downside risk of the stimulus is the potential for increases in both inflation and interest rates that could further choke both business and consumer spending before any benefits of the package are realized.

**United States**

**GDP.** U.S. GDP decreased by 5.5 percent in the first quarter of 2009, following a 6.3 percent decline in the fourth quarter of 2008. The U.S. economy continues to contract at the steepest pace in nearly 50 years. The decrease in real GDP (output) has largely been due to declines in exports, business spending on equipment and software, nonresidential and commercial investment, and residential investment. Positive contributions to GDP have come from consumer spending and a decline in imports. June marked the 20th month of the current recession which began in December 2007. Finally, as we enter the third quarter, it looks like the economy might bebottoming out, at least in terms of output. Labor market recovery is not expected in 2009, however, even though output stabilization and perhaps slight growth is likely in the second half of the year.

We expect output to decline by 2.0 to 2.5 percent in the second quarter and to show flat to 0.5 percent growth in the third quarter, followed by a 0.9 to 1.4 percent rate of growth in the fourth quarter. For the year, GDP is forecasted to decline by 3.0 percent; it could increase 1.0 to 1.5 percent in 2010. Tight credit conditions and rising long-term interest rates will hinder any rapid recovery. The upturn in GDP is expected to be very slow, with the unemployment rate peaking at around 10.5 percent in the first half of 2010. The U.S. economy should begin to respond to expansionary monetary and fiscal policies in late 2009 and the first half of 2010, barring external shocks. However, consumer spending will remain constrained and businesses will continue to cut payrolls and investments. Despite an increase in oil prices, inflation is expected to stay subdued at least through this year. The economy will see only a modest rebound in 2010 and is not expected to fully recover until falling home prices and mounting job losses come to an end. The biggest risks to the economy include the rising federal government deficit, interest rates, and energy prices.

**Consumer Spending.** The Reuters/University of Michigan Index of Consumer Sentiment rose from 68.7 in May to 70.8 in June, its strongest reading since February 2008. The personal savings rate jumped to 6.9 percent in May, up from 5.6 percent in April, reaching its highest level in 15 years; the savings rate was close to zero in early 2008. After declining for two consecutive quarters, consumer spending showed a 1.4 percent annualized increase in the first quarter of 2009, reflecting a 9.5 percent gain in durable goods spending and a 0.9 percent increase in expenditures on services. However, consumer spending was down 1.4 percent compared to the same quarter last year.

Rising unemployment, tight credit conditions, and significant declines in household wealth are all contributing to a sluggish recovery in consumer spending, as households struggle to rebuild savings and reduce debt burdens. For the year as a whole consumer spending is expected to decline by 0.8 to 1.0 percent, with expenditures for durable goods falling by over 5 percent and nondurable goods purchases down about 3 percent. Consumer spending is forecasted to increase by 1.5 to 2.0 percent in 2010. The biggest threats to growth in consumer spending, which accounts for almost 70 percent of the U.S. economy, are the potential for rising interest rates and higher oil prices. Rising interest rates could choke off any recovery in housing markets, further deteriorating household wealth, while higher oil prices would erode purchasing power.

**Nonresidential Business Spending.** Total nonresidential business spending, which includes expenditures on structures...
as well as on equipment and software, dropped by 37.3 percent in the first quarter of 2009. Spending on structures fell 42.9 percent, while purchases of software and equipment declined 33.7 percent. Business spending will continue to fall for the remainder of this year; for 2009 as a whole the drop is forecasted to approach 19 percent. Expenditures on equipment and software are expected to decline by over 15 percent in the second quarter, followed by a 4 to 5 percent decline in the third quarter. If the slowdown in the U.S. economy begins to moderate, spending on equipment and software could recover in the fourth quarter, increasing by 5 to 6 percent. For all of 2009 spending on equipment and software is forecasted to decline by about 20 percent; spending could increase by 7.0 percent in 2010.

Business spending on structures will continue to fall well into 2010. Expenditures on structures are expected to decline 18.0 percent in 2009 and by around 15 percent in 2010, primarily due to the sharp contraction in commercial real estate markets and to tight lending conditions for new commercial developments. Delinquency rates on commercial real estate loans are climbing rapidly and will continue to increase. Commercial mortgages valued at almost $3.5 trillion are approaching renewal dates and, with the value of commercial properties plunging, this sector could see the same fate as the residential housing market, where mortgagees have difficulty financing or meeting loan conditions.

**Residential Investment.** Residential investment, which includes home construction and sales, dropped by almost 39 percent in the first quarter of 2009—its 13th consecutive quarterly decline. Total real residential investment, adjusted for inflation, slipped from $383 billion in first quarter 2008 to $293 billion in first quarter 2009, a decline of 24.0 percent. For 2009 residential investment is forecasted to drop by almost 23 percent. Conditions in housing markets have not been this bad since the 1930s. Median home sale prices have declined from $207,900 in June 2008 to $173,000 in June 2009, a 17.0 percent decrease that is one of the largest since data were first collected in 1968. Prices are expected to keep falling as rising unemployment pushes more households into foreclosure. The recent slight increase in home sales is largely due to first-time homebuyers taking advantage of low prices and the $8,000 tax credit before it expires at the end of 2009. While home prices are expected to fall well into 2010, the residential real estate market could see a 10.0 percent increase in sales in 2010, depending on interest rates and the level of home inventory.

**Employment.** Since the beginning of the current recession in December 2007, about 6.5 million workers have lost their jobs. The unemployment rate has almost doubled to 9.5 percent, 4.6 percentage points higher than it was when the recession began. Although nonagricultural payroll employment fell by 467,000 in June, this was significantly below the monthly average of 691,000 jobs lost in the first quarter of 2009. The total number of unemployed reached 14.7 million in June, while the long-term unemployed (those jobless for 27 weeks or more) rose to 4.4 million, triple the number at the start of the recession. Job losses continue to be spread across all major sectors of the economy. Manufacturing employment dropped by 136,000, with four industries accounting for more than half of the job losses: motor vehicles and parts (27,000), machinery manufacturing (14,000), fabricated metal products (18,000), and computer and electronic products (16,000). Other segments of the economy that lost jobs included: construction (79,000), professional and business services (118,000), leisure and hospitality services (39,000), wholesale and retail trade (37,000), and financial activity (27,000). Healthcare employment increased by 21,000. Construction has lost 1.3 million jobs since the recession began, while professional and business services have shed 1.5 million jobs.

Even if GDP starts to improve this year, employment will continue to fall with payrolls down 3.5 percent for the year. The employment situation is not expected to turn the corner until the first half of 2010, with payrolls declining by a much smaller 0.5 percent for the year. U.S. unemployment will peak at 10.0 to 10.5 percent by mid-2010. Even after this peak, the decline in the unemployment rate will be very slow as most economic growth will depend on productivity and capacity utilization rather than on the labor force. Gains in payroll employment are expected in education and health services, particularly healthcare and social assistance. An increase in professional and business service jobs is also forecasted for 2010. Significant job growth for temporary workers will be the key factor that signals a turnaround in payroll employment. We do not expect the economy to reach its pre-recession levels of employment until 2012 or more likely 2013.

**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.**

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