Economic Outlook: Fourth Quarter 2009

Alabama

Employment. During the 12-month period ending in August 2009, the state lost 99,100 nonagricultural jobs, a decline of 5.0 percent. The loss of 11,100 jobs during the month of August was the largest since 40,600 jobs were shed in January of this year; monthly job totals have consistently been below year-ago levels since June 2008. Alabama’s job losses have been steeper than the national decline of 4.4 percent during the past 12 months—the state’s above-average dependence on manufacturing (14.3 percent of the total in 2008 versus the U.S. share of 9.8 percent) is a contributing factor. Goods producing industries (manufacturing, mining, and construction) saw payroll losses totaling 54,500 during the past 12 months, while service providing firms lost 44,600 jobs.

Alabama’s unemployment rate rose from 10.2 percent in July to 10.4 percent in August; this compares to U.S. unemployment of 9.7 percent. A year ago the state’s unemployment was a percentage point below the nation’s rate at 5.2 percent. The number of residents counted as unemployed totaled 217,306 in August 2009, a sharp increase from 112,558 a year ago. Forty-eight of the state’s 67 counties reported an unemployment rate of 10 percent or higher in August. Unemployment was above 21 percent in Wilcox and Dallas counties, while Shelby and Madison counties saw the lowest rates at 7.6 percent. If workers who would like a job but are not currently looking and those who would like full-time work but can only find part-time hours are included, the state’s effective unemployment rate would be much higher than 10.4 percent.

Among goods producing industries, the construction sector shed 21,800 workers from August 2008 to August 2009, while manufacturing saw a net loss of 32,600 jobs. Aerospace products and parts manufacturing added 700 workers during this time, but every other manufacturing industry experienced a drop in payrolls. Durable goods producers shed 21,600 workers while those producing nondurable goods had a net loss of 11,000 jobs. Within durable goods manufacturing, job losses were concentrated in the transportation equipment sector (7,200), with 4,000 of the cuts in motor vehicle and parts manufacturing; primary and fabricated metals (4,300); wood products manufacturing (2,400); furniture and related products (2,400); and machinery manufacturing (1,600). Textiles and apparel bore the brunt of job losses among nondurable goods producers, dropping 6,000 workers during the 12 months.

Alabama Forecast

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<thead>
<tr>
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<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>Alabama GDP</td>
<td>-3.0</td>
<td>2.0</td>
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<tr>
<td>Nonagricultural Employment</td>
<td>-3.3</td>
<td>-0.2</td>
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<tr>
<td>Total Tax Revenue</td>
<td>-6.2</td>
<td>1.0</td>
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Note: Tax revenue is on a fiscal year basis.

Nonagricultural Employment

Manufacturing Employment

Manufacturers of food, plastics and rubber products, and paper each saw over 1,000 jobs vanish.
Health care and social assistance has been the bright spot among service providing firms, creating 6,300 jobs during the 12-months ending in August. Although hospitals lost 500 jobs, ambulatory health care services added 5,900 and nursing and residential care facilities gained 900. Alabama saw a net increase of around 900 federal government employees, although employment in the broad government category declined by 2,200. The contraction in state and local government revenues resulted in the loss of 1,600 state-funded education positions and 1,700 local government-funded education jobs. Employment in educational services also fell by 800 during the year.

Business and professional services, a sector that grew rapidly in the state during recent years, was hit hard over the last 12 months as white collar job losses intensified. Administrative, support, and waste management and remediation services shed 13,500 jobs, while professional, scientific, and technical services lost 4,900. The addition of 1,900 administrative and support workers in August 2009 suggests an improving outlook for business services. Financial activities, which lost 4,300 jobs statewide over the past year, saw a drop of 2,300 in finance and insurance employment during August.

Declines in consumer discretionary spending and business travel continued to take a toll on the leisure and hospitality industry. Between August 2008 and August 2009, businesses across the state shed 5,000 workers, with a net loss of 2,900 at food services and drinking places including 1,700 jobs in full-service restaurants. Retail businesses are still being adversely impacted by the decline in consumer spending; over the past 12 months retailers in the state have cut their payrolls by 4,900, including 1,400 jobs lost in August. Motor vehicle and parts dealers saw the steepest loss of 2,300 jobs—with more car dealers destined to shut down in the coming months, employment will continue to shrink. Wholesale trade employment seems to have stabilized in August, after declining by 6,200 during the last year. Alabama firms in transportation and warehousing have lost 3,900 workers since August 2008.

The state’s 11 metro areas accounted for 48 percent of the total net job decline (47,400 jobs) from August 2008 to August 2009, while the remaining 40 counties lost 51,700 jobs. With 1,477,400 jobs in August, the metro areas provided 78 percent of Alabama’s employment opportunities. Nonmetro counties have been hardest hit during the recession—they suffered 52 percent of job declines over the past year, but had just 22 percent of all nonagricultural jobs. Among the metro areas, the largest job loss for the 12 months ending in August was recorded in Birmingham-Hoover (18,100), followed by Montgomery (6,000), Huntsville (5,100), Tuscaloosa (3,900), Mobile (3,200), Decatur (2,300), Auburn-Opelika (2,200), Florence-Muscle Shoals (2,000); Anniston-Oxford (1,900), Dothan (1,800); and Gadsden (900). Unemployment within the metro areas climbed sharply from an average of 5.3 percent in August 2008 to 10.1 percent in August 2009; rates in Birmingham-Hoover and Decatur more than doubled. In August 2009, Decatur had the highest metro unemployment at 11.2 percent, while Huntsville’s rate of 8.0 percent was the lowest.

Exports. Alabama exports declined from $7.98 billion in the first half of 2008 to $5.5 billion for the same period in 2009, a drop of 31 percent. Exports to Germany, the state’s largest trading partner, totaled $752 million, less than half the $1.7 billion exported in the first six months of 2008. The global recession had a significant negative impact on shipments to all of our major trading partners, despite a severe drop in the value of the U.S. dollar. Comparing the first half of 2008 to the same period in 2009, exports of transportation equipment, the largest category for the state, declined from $2.9 billion to $1.7 billion; manufactured chemicals exports dropped from about $1.2 billion to $635 million, while machinery exports slid from $446 million to $342 million. Exports of paper products, primary metals, and computer and electronic products all declined modestly.

Tax Revenues. State tax revenues continue to show significant weakness in the face of sluggish consumer and business spending and income growth and mounting job losses. For the fiscal year which ended September 30th (FY2008-2009), state tax revenues totaled $8.4 billion, down 6.2 percent or
about $560 million from the previous fiscal year. Sales tax revenues declined 9.9 percent (about $166 million) to close to $1.8 billion. At $537 million, corporate income tax receipts were 3.0 percent or $17 million lower. Individual income tax revenues fell 7.8 percent in FY2008-2009, or $286 million, to approximately $3.3 billion. For the fiscal year just ended, appropriations to the Alabama Education Trust Fund, which come primarily from income and sales taxes, decreased by $698 million (11.8 percent) to just over $5.2 billion, while those to fund mostly noneducational spending through the state’s General Fund declined by $249 million to slightly over $1.5 billion, a drop of 13.9 percent.

Outlook. Alabama’s GDP is expected to begin to expand again during the fourth quarter, although the rate of growth will be sluggish. For all of 2009, however, real GDP is forecasted to decline by around 3.0 percent. An increase of about 2.0 percent is expected in 2010. While payroll employment will continue to drop across almost every sector, the pace of job losses will moderate going forward. Nonagricultural employment is now expected to decline by around 3.3 percent during the current year and by 0.2 percent for 2010. The unemployment rate will continue to rise through the remainder of 2009, with a possible peak in the first quarter of 2010. Any significant improvement in payrolls is not expected to materialize until the second half of 2010 or even perhaps early in 2011. Total tax revenues for FY2009-2010 are estimated to be around 1.0 to 1.5 percent higher than in the previous fiscal year, depending on GDP growth and the timing of a turnaround in payroll employment.

Business sentiment, measured quarterly by the Center for Business and Economic Research’s Alabama Business Confidence Index™ (ABCI), has steadily improved since a low of 31.5 in the first quarter of 2009. The fourth quarter 2009 ABCI of 47.3 indicates that a broad-based recovery which includes both output and employment will not be achieved this quarter. However, at 51.8, the outlook for the Alabama economy predicts expansion for the first time since the first quarter of 2008 and supports our forecast of GDP growth in the fourth quarter. While Alabama’s economy fell into recession almost seven months later than the U.S. economy, the downturn has been severe and the state faces the same challenges as the nation on the road to recovery. Significant slowdowns in consumer and business spending, tight lending conditions, and weakness in both commercial and residential real estate markets will continue to dampen growth in the state’s economy at least through the first quarter of 2010. However, recent trends are pointing toward possible stabilization in economic conditions across the state toward the end of 2009 or early in 2010. Building permits for single-family homes were up 1.2 percent for July and August 2009 compared to the same period in 2008, while the number of multi-family structures permitted during the first eight months of the year was 2.5 percent higher than in 2008. Strong sales at Hyundai have production there back to levels not seen since 2008; Honda added 100 temporary workers in late summer, with Accord production and strong Pilot sales; while Mercedes is expanding its body shop and has a new hybrid...
coming out. Industrial recruitment is proceeding apace and the first successes of the new white collar job incentives are being seen. Modest production is underway at the National Alabama railcar plant, while start-up of the Kia plant nearby in Georgia will have a positive impact on the Alabama economy in the fourth quarter. Meanwhile, the Huntsville area continues to see a growing federal government contractor presence.

In the fourth quarter of 2009, we will begin to see more of an impact from the federal stimulus and stabilization funding allocated by the American Recovery and Reinvestment Act of 2009. Nationwide, of about $500 billion to be allocated to states as tracked on Recovery.gov, 62 percent had been committed as of the first of October, with 35.8 percent of the announced funds paid out. Of Alabama’s announced $3.393 billion share to date, 92.4 percent was available and 27.5 percent had been paid out by October. Most funding is in the form of grants; through the end of August the largest awards (detailed on stimulus.alabama.gov) had been granted to Education, Transportation, Medicaid, and the Governor’s Office, although several of these awards had not been made available at that time. Nationally, the largest funding sources have been the departments of Health and Human Services, Labor, and Education and the Social Security Administration. Other aspects of the stimulus include support for consumer spending through personal tax cuts and transfer payments, depreciation allowances on new business investments, and credits for purchases by first-time homebuyers.

**United States**

**Output.** U.S. GDP decreased 0.7 percent in the second quarter of 2009, following a 6.4 percent decline in the first quarter as the economy contracted at the steepest pace in nearly 50 years. The second quarter drop in real GDP was primarily due to inventory adjustments and to weakness in business and consumer spending, residential investment, and exports. Positive contributions to output came from federal, state, and local government spending and from a decline in imports. September marked the 23rd month since the recession began in December 2007, but it looks like the economy might have bottomed out sometime in mid-summer. The release of third quarter data will make this more definitive. However, if the nation did experience modest positive growth in the third quarter, it would only be in terms of output without any recovery in labor markets.

Manufacturing has been one of the most severely impacted sectors during this recession; both output and employment have declined by about 15 percent. With manufacturing activity showing signs of improvement for three consecutive months (as indicated by the Institute for Supply Management (ISM) Manufacturing Index), we expect the U.S. economy to begin to stabilize and even grow modestly in the second half of 2009. The ISM manufacturing new orders index climbed to 54.2 in September from 49.9 in August as firms rebuilt depleted inventories. The ISM Services Index moved back into expansionary territory in September at 50.9, up from 48.9 for the previous month; this was the first reading above 50 since August 2008. However, the economic recovery in the second half of 2009 is primarily being driven by tax breaks and government spending. Consumer spending will not be able to rebound and help support a sustainable recovery without significant improvement in employment conditions.

We expect GDP to grow by over 3.0 percent in the third quarter, followed by an increase in the range of 2.0 to 2.5 percent during the fourth quarter. For the year as a whole, GDP is forecasted to decline by around 2.5 percent. An increase of 1.5 to 2.0 percent is likely 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 continuing to rise to a peak of 10.0 to 10.5 percent in the first half of 2010. Finally, the economy is beginning to respond to expansionary monetary and fiscal policies. However, consumers remain the biggest drag on the recovery, which in turn affects business spending and employment growth. Inflation will stay subdued this year, but will gradually pick up in 2010.

**Consumer Spending.** The savings rate has been rising at levels not seen in over 15 years, reflecting the frugality of consumers and suggesting how fragile any economic recovery will be without the support of consumer spending, which accounts for almost 70 percent of U.S. GDP. The Conference Board’s Consumer Confidence Index fell from 54.5 in August to 53.1 in September, reflecting fears about rising unemployment and job security. Tight credit conditions and the decline in household wealth are contributing to a somber mood for consumers.

After dropping in the second half of 2008, consumer spending showed a 0.6 percent annualized increase in the first quarter of 2009. Spending fell 0.9 percent in the second quarter, however, with a 5.6 percent decrease in durable goods purchases and a 1.9 percent reduction in expenditures for nondurable goods. Consumer spending is expected to rise 2.1 percent in third quarter 2009 and 1.4 percent in the fourth quarter; a spending decline of about 1.0 percent anticipated for 2009 as a whole.
would include a 5.0 percent decrease in purchases of durable goods and a 1.5 percent reduction in spending on nondurables. Rising interest rates and higher energy prices are the biggest threats to forecasted gains of 1.5 percent in the first half of 2010. Spending on durable goods will show an increase of over 15 percent in the third quarter, largely due to increased auto sales resulting from the “cash for clunkers” program and to home sales stimulated by the $8,000 tax credit for first time homebuyers. With the clunkers program over and the tax credit running out, sales are expected to fall around 9 percent in the fourth quarter. Spending on durable goods is not expected to recover during the first half of 2010, dropping by 0.5 percent.

**Nonresidential Business Spending.** Total nonresidential business spending slid 9.6 percent in second quarter 2009, its fourth consecutive quarterly decline. Spending on structures fell 17.3 percent, while purchases of software and equipment decreased 4.9 percent. A further decline in the total of around 0.5 percent in the third quarter should give way to a 2.0 to 2.5 percent gain in the fourth. For all of 2010, nonresidential business spending is forecasted to increase only about 1.0 percent. Although expenditures for equipment and software will rise by slightly over 8 percent in the third quarter of 2009 and more than 14 percent during the fourth quarter, for the year as a whole equipment and software purchases are expected to be at least 16 percent below 2008. The momentum of the second half of 2009 should continue in 2010, with spending for equipment and software up around 10 percent.

Business spending on structures, particularly commercial construction, will fare much worse, declining by about 20 percent in 2009 and by over 16 percent in 2010. Little improvement is expected until 2011. Commercial construction and mining and petroleum drilling will bear the brunt of the downturn. Delinquency rates on commercial real estate loans are climbing rapidly in the face of overbuilding of retail space, frozen securitization markets for commercial real estate loans, high vacancy rates, and tight lending practices. Commercial mortgages valued at almost $3.5 trillion are approaching renewal dates and, with the value of commercial properties plunging, this market may hold the same fate as the residential housing market, where mortgagees have difficulty financing or meeting loan conditions.

**Residential Investment.** Residential investment, including both home construction and sales, dropped 23.3 percent in the second quarter of 2009, its 14th consecutive quarterly decline. Adjusted for inflation, the total fell from $462.9 billion in second quarter 2008 to $344.4 billion in second quarter 2009, a 26.0 percent decline. Across 2009, residential investment is forecasted to drop almost 21 percent. The sector could begin to recover with a 10.0 percent increase in 2010, depending on interest rates and the level of inventory of homes for sale. Conditions in housing markets have not been this bad since the 1930s and prices are expected to keep falling as rising unemployment pushes more households into foreclosure. By some estimates, 1.8 million borrowers will lose their homes this year compared to 1.4 million last year. Many homebuyers who bought at the peak of the housing bubble with interest only loans are about to have their loans reset. In the next 12 months, $71 billion of interest only loans will reset, followed by another $100 billion in the following 12 months, and by an estimated $400 billion after mid-2011. Recent increases in home sales are primarily due to first time homebuyers taking advantage of low prices and the $8,000 tax credit before it expires on December 1. Housing prices and the sector generally could begin to recover modestly in 2011 as the economy improves and inventories are reduced.

**Employment.** Since the beginning of the current recession in December 2007, almost 7.2 million workers have lost their jobs and the unemployment rate has risen to 9.7 percent; long term revisions will likely show job losses totaling almost 8.0 million. If we include workers whose hours have been cut and those who can only find part-time work, the unemployment rate is currently around 17 percent. September 2009 saw a decline in the labor force of 571,000, indicating an increase in discouraged workers who have given up on finding a job. Nonfarm payrolls fell by 263,000 in September compared to a revised August decline of 201,000. Construction (-64,000), government (-53,000), manufacturing (-51,000), and retailing (-38,500) shed the most jobs. Ongoing budget crunches have cost state and local governments 160,000 jobs over the last four months, including 47,000 jobs in September—29,000 of which were in state and local education. Health care was the only bright spot, adding 19,000 jobs during the month. Although jobs losses have slowed from an average of 645,000 monthly from November 2008 to April 2009 to 307,000 per month from May to September 2009, a turnaround in payrolls is not in sight. The U.S. unemployment rate will continue to inch toward double digit levels last seen in June 1983, seven months after a severe recession that ended in November 1982.

Even if output begins to grow in the second half of 2009, employment will continue to fall. Payrolls are now forecasted to decline by 1.3 to 1.5 percent during the fourth quarter of 2009, followed by a 0.6 percent decline in the first quarter of 2009. In the coming months, economic growth will depend primarily on increases in productivity and on government spending. U.S. unemployment will peak at between 10.0 and 10.5 percent by the first half of 2010. Even after the peak, the decline in the unemployment rate will be very slow. Most of the growth in payroll employment will be in educational and health services, particularly in health care and social assistance. Job gains in professional and business services are also forecasted for 2010. Significant increases in demand for temporary workers will be the key factor signaling a turnaround in payroll employment. We are not expecting the economy to reach its pre-recession levels of employment until 2013 or perhaps even 2014.

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**Alabama Business Fourth Quarter 2009 | 5**