Economic Outlook:
First Quarter 2010

Alabama

Employment. The state lost a total of 65,100 jobs during 2009, putting December nonagricultural employment 3.3 percent below a year ago. Goods-producing industries (mining, construction, and manufacturing) saw payroll losses totaling 42,200, while service-providing businesses shed 22,900 jobs. Alabama’s unemployment rate rose from 10.5 percent in November to 11.0 percent in December; a year ago unemployment stood at 6.5 percent. The number of people counted as unemployed totaled 225,596 in December 2009, a sharp increase from 141,187 a year ago. Fifty of the state’s 67 counties reported unemployment above the national rate of 10 percent in December. Three counties—Dallas, Monroe, and Wilcox—saw rates above 20 percent. Unemployment was lowest in Shelby and Madison counties at 7.6 and 7.7 percent, respectively. If we include individuals who would like a job but are not currently looking (including discouraged workers) and workers who would like full-time work but can only find part-time hours, the state’s December unemployment rate would be much higher than 11.0 percent.

Payroll employment in construction fell by 18,500 during 2009, while manufacturing had a net loss of 23,400 jobs. Aerospace products and parts manufacturing added 500 jobs between December 2008 and December 2009, but every other manufacturing industry in the state experienced a net loss in payrolls. Durable goods producers shed 15,000 workers, while firms producing nondurable goods saw a net loss of 8,400 jobs. Among durable goods manufacturers, job losses were largely in transportation equipment (4,900), primary and fabricated metals (3,200), furniture and related products (2,200), wood products (1,600), and machinery (1,200). In the nondurables goods producing sector, job cuts were concentrated in textiles and apparel (4,400), food (1,000), and paper manufacturing (1,200).

Healthcare and social assistance was the fastest-growing segment of the Alabama economy in 2009, adding 6,700 new workers, including 2,200 in physician’s offices. However, most other service-providing sectors experienced a net decrease in jobs between December 2008 and December 2009. The steepest job cuts were in wholesale trade, where the loss of 6,100 jobs amounted to a 7.7 percent decline. Retailers shed 2,200 workers during the year, a drop of less than one percent. Sharp declines in consumer spending and business travel have

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<th>Alabama Forecast</th>
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<td>2009</td>
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<tr>
<td>Alabama GDP</td>
<td>-2.1</td>
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<td>Nonagricultural Employment</td>
<td>-4.9</td>
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<td>-6.2</td>
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Note: Tax revenue is on a fiscal year basis.

Sharp declines in consumer spending and business travel have
taken their toll on the state’s leisure and hospitality industry, which until the recession was one of the fastest growing sectors. The 4,300 leisure and hospitality jobs lost during 2009 included 1,300 workers in full-service restaurants. Professional and business services has also been a major source of job growth in recent years. However, payrolls fell by 9,600 over the 12 months ending in December, including the net loss of 6,600 jobs in administrative, support, and waste management and remediation services. Other service-providing sectors that experienced a net loss of payrolls during the past year include: transportation, warehousing, and utilities (2,500); financial activities (5,800); information (1,400); and other services (700). The broad government sector, encompassing federal, state, and local entities, gained 2,200 workers.

For 2009 as a whole, the 11 metro areas shed 35,200 jobs—54 percent of all losses in the state, but just 2.3 percent of their total. The loss of 29,900 jobs in the remaining 40 counties amounted to a much larger 6.6 percent decrease. All of the state’s metros lost jobs during the past year. Birmingham-Hoover shed the largest number (15,100); followed by Mobile (3,800), Montgomery (3,400), Decatur (2,900), Tuscaloosa (2,100), Huntsville (1,800), Auburn-Opelika (1,800), Florence-Muscle Shoals (1,600), Anniston-Oxford (1,200), Dothan (1,100), and Gadsden (400). As of December 2009, the average unemployment rate in the state’s metro areas was 10.1 percent compared to 6.2 percent a year ago. Unemployment was highest in Mobile at 11.3 percent, up from 6.4 percent in December 2008. Huntsville’s rate of 8.1 percent was the lowest, although it was still relatively high compared to unemployment of 4.8 percent a year earlier. A common factor in the metro area job losses was that payrolls declined across the board in both goods-producing and service-providing segments of the economy, particularly in manufacturing, construction, wholesale and retail trade, professional and business services, and food services and drinking places.

**Exports.** Alabama exports fell from $12.2 billion in the first three quarters of 2008 to $8.8 billion for the same period in 2009, a drop of 28.0 percent. Exports to Germany, the state’s largest trade partner, slipped from $3.3 billion in 2007 to $3.1 billion in 2008; for the first three quarters of 2009 exports to Germany plummeted almost 50 percent, falling from $2.5 billion to $1.3 billion. Other major export destinations for Alabama products in 2008 included Canada ($2.8 billion, down 6.0 percent from the previous year); Mexico ($1.0 billion, up 29.0 percent); China ($817 million, up 2.0 percent); Japan ($731 million, up 6.0 percent); United Kingdom ($650 million, down 12.0 percent); Brazil ($530 million, up 15.0 percent); and South Korea ($433 million, down 12.0 percent).

Transportation equipment was the state’s top export in 2008 with shipments valued at $5.7 billion, down 4.0 percent from 2007. Over the first three quarters of 2009, transportation equipment exports totaled $2.8 billion, a 37.0 percent drop from the same period in 2008. Other major exports in 2008 included: chemicals ($5.7 billion), mining ($1.2 billion), paper products ($1.0 billion), primary metals ($1.0 billion), manufactured
machinery ($853 million), and computers and electronic products ($633 million).

Tax Revenues. After exhibiting considerable weakness during the fiscal year that ended in September 2009, state tax revenues are showing some stability in the sense that the year-over-year decline during the first three months of the current fiscal year (FY2010) was considerably smaller than that seen in recent prior quarters. Revenues totaled approximately $2.0 billion for the first quarter of FY2010, down 0.4 percent from the same period in FY2009. Sales tax receipts were off 1.1 percent (about $32 million) to around $453 million. At $116 million, corporate income tax payments were 12.2 percent ($13 million) higher than in the first quarter of FY2009. Over the same period, however, individual income tax revenues declined by 1.0 percent ($8 million) to approximately $727 million. Slowing job losses bode well for tax revenues going forward.

For the first three months of FY2010, appropriations to the Alabama Education Trust Fund, drawn primarily from income and sales tax receipts, increased by around $75 million or 6.0 percent to slightly above $1.3 billion. Over the same period, appropriations to the state’s General Fund, largely used for non-education related spending, declined by approximately $77 million to just over $311 million, a drop of 19.8 percent.

Outlook. Alabama’s economy should begin to expand again in 2010, although growth will be sluggish. For the year as a whole, real GDP is forecasted to grow by 1.9 percent. However, payrolls will continue to drop across almost every sector, at least through midyear. Although the pace of job losses should moderate substantially in the second half of 2010, no significant improvement is expected to materialize until late in the year or perhaps even early in 2011. Across 2010 as a whole, nonagricultural employment is forecasted to be flat or drop a slight 0.1 percent. Employment is not expected to reach its pre-recession level until at least 2014. Alabama’s unemployment rate will continue to rise through at least the first half of this year.

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 first quarter 2010 ABCI of 48.8 indicates that a broad-based recovery in both output and employment will likely occur later in 2010. At 52.5, the outlook index for the Alabama economy predicts expansion for the second consecutive quarter since falling below 50 in the first quarter of 2008.

While the Alabama economy fell into recession almost seven months later than the nation, the downturn has been more severe. The road to recovery will see continuing challenges from the slowdown in consumer and business spending, tight lending conditions, and weak commercial and residential real estate markets that will dampen growth, at least through the first quarter of 2010. The biggest risk to the forecast is the length and depth of the current recession, which as of this writing seems to be gradually abating, although some sectors continue to decline.

While output in Alabama’s manufacturing sector is expected to grow 3.7 percent in 2010, employment will continue to lag; payrolls are expected to decline 1.9 percent with the loss of about 4,750 jobs. Motor vehicle production is forecasted to increase 5.9 percent during the year as demand for light trucks and automobiles rises slightly, resulting in modest growth in payrolls for transportation equipment and related industries. However, most of the industries classified in nondurable goods manufacturing as well as durable goods industries tied to the downturns in residential and commercial building will continue
to post declines. Although the outlook for the residential real estate market is improving, commercial construction will remain a drag on the state’s economy as developers face tight lending conditions, frozen securitization markets for commercial loans, and rising vacancy rates in an already-overbuilt market. Commercial construction is not expected to recover until 2011. The construction industry as a whole could lose about 6,500 jobs this year, concentrated in the commercial sector.

Most service-related businesses will see some output growth in 2010, albeit at a sluggish pace and without any substantial job gains. Although a number of service-providing sectors are likely to begin to add workers during the year, employment growth in these firms is expected to be very tepid. Professional and business services could create around 2,000 new jobs as pent-up demand is gradually unleashed; however, the change in payrolls will be significantly below the kind of growth experienced before the recession. The leisure and hospitality sector, which includes accommodation and food services, will add approximately 2,000 new jobs, while educational and health services could gain 3,700 workers.

Tax revenues are likely to decline again in FY2010, albeit at a much slower pace than was experienced during the previous fiscal year. Under our most optimistic scenario, if the economy gets back on a solid footing, total receipts will increase by 0.5 to 1.5 percent. A baseline scenario of sluggish growth without any significant improvement in payrolls has tax revenues declining by 1.0 to 2.0 percent. However, under our most pessimistic scenario, if the recession drags on, total tax revenues could drop by 2.0 to 3.5 percent.

**United States**

**Output.** U.S. GDP increased by 2.2 percent in the third quarter of 2009, following an average decline of 3.6 percent during the first half of the year. GDP is now estimated to have grown by 5.7 percent in the fourth quarter. Despite the recovery seen in the second half of 2009, for the year as a whole U.S. economic output declined by around 2.4 percent. Improvement in the economy since midyear was primarily due to rebuilding of depleted inventories, exports, federal government spending, and business spending on equipment and software.

The nation’s manufacturing sector expanded at its fastest pace in more than three years in December, its fifth straight monthly gain, as production rose to rebuild inventories depleted during the depths of the recession. The Institute for Supply Management’s index of manufacturing activity stood at 55.9 in December, up from 53.6 in November. The new orders index rose for the sixth consecutive month and, at 65.5, indicates continued expansion, at least for the foreseeable future. However, the manufacturing activity index is still 13 percentage points below where it was prior to the recession. The employment index ticked up as well, with an increase from 50.8 in November to 52.0 in December suggesting that manufacturers cut back so severely on jobs and hours that they have little choice but to add to and/or retain existing workers as they increase production. Readings above 50 indicate that the sector is expanding, as has been the case for five straight months.

As the inventory rebuilding cycle winds down, we expect GDP to grow by 2.5 percent in first quarter 2010, followed by approximately 2.0 percent growth in the second quarter. For the year as a whole, U.S. economic growth will average around 2.5 percent. Economic recovery is expected to proceed at a modest pace throughout 2010.

**Consumer Spending.** Consumer spending, which typically accounts for around 70 percent of U.S. GDP, rose 2.8 percent in the third quarter of 2009 and is expected to have increased 1.7 percent in the fourth quarter. Expenditures are forecasted to grow about 2.0 percent in the first quarter of 2010 and to average about the same rate for the year as a whole. While spending on computers and peripherals will be relatively strong, expenditures for new autos and household furnishings and equipment are likely to remain distressed early in the year. Rising interest rates, high energy prices, and continuing job losses will keep a check on consumer spending, at least through the first half of 2010.

Expenditures on durable goods are forecasted to increase 3.4 percent in first quarter 2010, following a 1.8 percent decline in the fourth quarter of 2009. Spending on nondurable goods will rise 2.5 percent during the first quarter. If the U.S. economy continues on the path of gradual recovery currently underway, new auto sales are forecasted to rise by over 10 percent in 2010, following a 17.0 percent decline in 2009. Sales of household furnishings and equipment will increase approximately 2 percent in 2010, after falling by over 6 percent in 2009.

**Business Spending.** Investment spending by businesses will remain sluggish for the next two quarters at least, declining by 0.2 percent in the first quarter of 2010. However, spending on
equipment and software should continue the momentum built up in the second half of 2009, with a 10.0 percent increase in the first quarter. Across 2010, investment in equipment and software is expected to rise 8.0 percent, following a decline of almost 17 percent in 2009.

Spending on structures will remain mired in recession—last year’s more than 19 percent decline could be followed by an 18.0 percent drop in 2010. Investment in commercial and healthcare structures will continue to be hit hard, falling by around 20 percent after a drop of over 25 percent in 2009. With delinquency rates on commercial real estate rising rapidly in the face of overbuilt retail space, frozen securitization markets for commercial real estate loans, high vacancy rates, and tighter lending conditions, business spending on structures will remain weak for the foreseeable future.

After falling for four straight years, residential fixed investment is expected to rise by 5 to 6 percent in 2010. The improvement will be in single family homes only, however, with multi-unit construction remaining weak. As rising unemployment pushes more people into foreclosure, downward pressure on home prices will keep the housing markets from any kind of sustained recovery until job growth resumes. After three months of increases, sales of existing homes fell by 16.7 percent in December, the steepest decline in at least 40 years. Residential sales activity in 2009 was primarily spurred by the $8,000 tax credit for the first-time homebuyers. Continuation of the credit through the first quarter of 2010 will help residential construction rise by 5.8 percent this year.

Employment. Since the recession began in December 2007, 7.2 million jobs have been lost, including 1.6 million jobs in construction and 2.5 million in manufacturing. By the time employment begins to grow again, job losses will likely have reached between 8.5 and 9.0 million. After dropping by 3.7 percent in 2009, payroll employment is expected to decline a further 0.5 percent in 2010. Given weakness in the commercial sector, construction employment will fall by almost 9 percent in 2010, following an approximately 14 percent decline in 2009. Employment in manufacturing industries fell 13.0 percent in 2009 and is forecasted to drop by over 3 percent in 2010.

The biggest risk to payroll employment is a very weak or prolonged recovery or another downturn, in which case unemployment will continue to rise. Without a turnaround in labor markets, both consumer and business spending will grow at a very modest pace in 2010. Job growth is a necessary condition for any sustained economic recovery.

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