Economic Outlook: Fourth Quarter 2010

Alabama

Employment. The state shed 2,800 jobs in August, significantly better than the 11,200 jobs lost during July. Job losses have narrowed in recent months, with nonfarm employment of 1,866,000 in August 2010 just 4,400 below August 2009, a decline of only 0.2 percent. Alabama nonfarm employment peaked in December 2007 at 2,026,700; the state has lost a total of 160,700 jobs since the recession began in December 2007. Alabama’s not seasonally-adjusted unemployment rate dropped from 10.9 percent in August 2009 to 9.3 percent in August 2010. However, unemployment is still significantly higher than the low point of 2.7 percent in April 2007, prior to the downturn in the housing market and the economy in general.

The 192,825 residents counted as unemployed this August represented a 14.0 percent decline from the number a year ago. Thirty-four of the state’s 67 counties reported unemployment rates of 10.0 percent or above in August, down from 51 a year earlier. Wilcox County’s 21.3 percent unemployment was the highest, while Shelby County had the lowest rate at 6.8 percent. Despite improvement in Alabama’s economy, the job market remains sluggish. There are still a significant number of discouraged workers who have dropped out of the labor force and are not included in the unemployment rate estimates, as well as a number of workers who would like a full-time job but can only find part-time employment.

Employment in goods producing industries was down 5,600, or 1.6 percent, during the year ending in August 2010. Construction firms shed 2,500 jobs (2,900 in construction of buildings and 100 among specialty trade contractors; heavy and civil engineering firms added 500 workers), while manufacturing lost 3,100 workers. It should be noted that these are some of the lowest job losses since the beginning of the recession, indicating that the economy continues to improve gradually, albeit without any major gain in payrolls. Job losses in manufacturing industries slowed considerably this year—firms producing durable goods lost 1,400 jobs, while nondurable goods producing firms shed 1,700 workers. Some durable goods industries gained jobs between August 2009 and August 2010—primary and fabricated metal manufacturing added 1,000 and motor vehicle and parts producers hired 300. Still, most industries lost workers, including: wood products

### Alabama Forecast

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<td>Alabama GDP</td>
<td>-2.1</td>
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<tr>
<td>Nonagricultural Employment</td>
<td>-4.9</td>
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#### Total Nonagricultural Employment

Percent Change Over Same Period Previous Year

![Graph of Total Nonagricultural Employment](image)

Source: U.S. Bureau of Labor Statistics and Alabama Department of Industrial Relations.

### Manufacturing Employment

Percent Change Over Same Period Previous Year

![Graph of Manufacturing Employment](image)

Source: U.S. Bureau of Labor Statistics and Alabama Department of Industrial Relations.
Some service providing businesses are showing signs of a gradual recovery. Overall, the group added almost 1,200 workers during the 12 months ending in August. Retail employment grew by 900, with job gains in general merchandise stores (2,300) and health and personal care stores (400) outpacing losses in most other retail segments. Transportation, warehousing, and utilities firms added 1,100 workers. Employment in educational services grew by 1,300, while ambulatory health care offices added 1,100 jobs. A slight uptick in both business and consumer spending helped the leisure and hospitality industry create 2,200 jobs over the 12-month period through August 2010. Professional and business services lost 2,500 workers, however, despite the addition of 700 in administrative support. The information sector shed 1,500 from its payrolls. Job losses were most severe for financial activities-related firms—employment at finance and insurance businesses fell by 3,400, while real estate and rental and leasing firms shed 1,000 workers. Although the federal government added 4,200 jobs during the year, most were temporary Census jobs, and employment in manufacturing (1,300), computer and electronics manufacturing (800), transportation equipment manufacturing (500), furniture and related products (400), and electrical equipment and appliance manufacturing (300). Payroll losses at nondurable goods producing firms were primarily associated with textiles and apparel industries (1,400), paper manufacturing (400), and food manufacturing (400).

The job picture was mixed among the state’s 11 metropolitan areas over the past year. Birmingham-Hoover’s net loss of 8,300 jobs between August 2009 and August 2010 was the largest, followed by Montgomery (4,700), Mobile (1,700), Auburn-Opelika (1,200), and Gadsden (100). Metro areas in Alabama that gained jobs during the 12-month period included Tuscaloosa (1,400), Huntsville (1,000), Florence-Muscle Shoals (400), and Anniston-Oxford (100). Payrolls in Decatur and Dothan were unchanged. Every metro area saw flat or declining employment in manufacturing. As of August 2010, Huntsville reported the lowest unemployment rate at 7.2 percent; Mobile was the only metro in double digits at 10.2 percent.

Exports. Alabama exports are rebounding in 2010, after falling 22.0 percent from $15.9 billion in 2008 to $12.4 billion in 2009. For the first two quarters of this year, exports totaled $7.3 billion, up almost 33 percent from $5.5 billion during the same period in 2009. Exports to Canada, Alabama’s largest trade partner, declined from $2.9 billion in 2008 to $2.6 billion in 2009, while exports to China, now the state’s second largest export destination, dropped from $817 million in 2008 to $801 million in 2009. Germany, which had been in second place, slipped to third as auto-related exports fell sharply in 2009. Exports to Canada totaled $1.7 billion in the first half of 2010 compared to $1.1 billion for the first two quarters of 2009. Over the same period, shipments to China increased 122.0 percent, rising from $341 million to $756 million. Exports to Germany posted a modest gain to $751 million during the first six months of 2010, from $726 million during the same period in 2009. Transportation equipment, the state’s largest export, jumped from $1.7 billion for the first two quarters of 2009 to $2.3 billion during the same period in 2010. Other major exports during the first six months of 2010 included chemicals ($982 million), minerals and ores ($814 million), machinery ($561 million), paper products ($449 million), and computer and electronic products ($365 million).

Tax Revenues. Even though state tax receipts continue to decline compared to the previous fiscal year, the rate of decline is gradually slowing. For the past fiscal year, (FY) 2009-2010, Alabama’s tax revenues of around $8.2 billion were down 2.5 percent ($206 million) from the same period a year earlier. Sales tax revenues rose 0.9 percent (about $17 million) to approximately $1.8 billion. At $463 million, corporate income tax receipts were $74 million lower compared to FY2008-2009. Individual income tax revenues fell 3.2 percent, down $108 million to about $3.2 billion. Moderating job losses and a gradually improving Alabama economy should help stabilize tax receipts in the coming months. Revenues actually showed a gain in September over August, the first time in recent months.

For FY2009-2010, appropriations to the Alabama Education Trust Fund, which are primarily from income and sales taxes, dropped $23.5 million, or about 0.5 percent, to just over $5.2 billion. At the same time, appropriations to the state’s General Fund, directed to noneducation-related spending, declined by over $301 million to approximately $1.5 billion, a drop of 19.6 percent.

Outlook. After showing signs of a mild recovery during the first half of 2010, economic indicators are now pointing to much slower growth toward the end of the year. Alabama’s GDP is still expected to show an increase this year, up 2.0 to 2.5 percent, adjusted for inflation, compared to 2009. However, a
rebound in jobs is not forecasted for 2010, with payrolls declining by a slight 0.3 percent. The unemployment rate will fall slowly, as improving economic conditions and labor markets lead more residents to enter or re-enter the workforce. Most job growth through year-end and going forward into 2011 is expected to be in service providing businesses. Overall, however, both manufacturing and services are expected to show a net loss in payrolls during the fourth quarter, despite the fact that some industries and service businesses are adding workers.

Business sentiment, measured quarterly by the Center for Business and Economic Research’s Alabama Business Confidence Index™ (ABCI), fell on the fourth quarter survey, after six consecutive quarters of improvement. The index rose from its recession low of 31.5 in the first quarter of 2009 into positive territory at 51.6 for third quarter 2010. Optimism expressed by the state’s business executives that a broad-based recovery would begin in the third quarter faded on the fourth quarter survey, however, pulled down by a sharp drop in expectations for the U.S. economy, which plunged 8.2 points to 42.1. This pessimistic outlook helped drag down the fourth quarter ABCI index by 3.7 points to 47.9. An index value below 50 indicates that businesses are somewhat pessimistic about the economic environment and their prospects during the quarter. While panelists expect modest sales growth in the fourth quarter and a flat economic performance for the state, they anticipate lower profits, hiring, and capital expenditures than in the third quarter.

The course of Alabama’s economic recovery in 2010 and for most of 2011 is not expected to be smooth. Key segments in the rebound will include the state’s automotive industry, healthcare services, and BRAC-related developments in North Alabama driven by Huntsville’s Redstone Arsenal, and in the southeastern part of the state in conjunction with the expansion of Fort Benning, Georgia. But challenges to state funding for services and public education will persist as the effect of the fiscal stimulus fades and tax receipts continue to decline. The biggest risk to a sustainable economic recovery is payroll employment. However, recent modest job gains suggest that the likelihood that the state’s economy will fall back into recession is slight, although not completely out of the picture.

Output from the state’s manufacturing sector is forecasted to increase about 2 percent in the fourth quarter of 2010. Manufacturing employment will lag any growth in GDP, though, and payrolls are expected to decline slightly for the remainder of the year. Motor vehicle manufacturing should continue to rebound, with production forecasted to increase by almost 8 percent in the fourth quarter as demand for cars and light trucks rises in both domestic and overseas markets. Most service-related businesses will see some growth, albeit at a more sluggish pace and without adding any substantial number of new workers to their payrolls, at least during the next few months. Both residential and commercial construction will remain a drag on the economy as developers still face tight lending conditions, frozen securitization markets for loans for major projects, and rising vacancy rates in an already-overbuilt commercial market. Commercial construction is not expected to begin to recover until 2011.

In terms of payroll employment, most sectors of Alabama’s economy will experience a very modest turnaround by 2011. Although transportation equipment and related industries should see modest growth in payrolls this year, most durable goods producers are not expected to add any significant number of jobs until the economic recovery is fully underway. Service providing businesses will generally grow employment, although gains are expected to be tepid. However, many nondurable goods producers will continue to shed workers. Alabama’s
construction industry, and in particular commercial construc-
tion, is not forecasted to add jobs anytime soon. The
state’s total payroll employment is not expected to reach its
prerecession level until 2014 or perhaps even 2015, depending
on the pace of the recovery.

**United States**

**Gross Domestic Product (GDP).** According to the National
Bureau of Economic Research, the longest and deepest recession
since the Great Depression ended in June 2009, 18 months after
it began. The recession wiped out over 8 million jobs, cut 4.1
percent from GDP, and dropped household net worth by almost
22 percent. Although the recovery in GDP got off to a relatively
strong start, with increases of 5.0 percent in fourth quarter
2009 and 3.7 percent in the first quarter of 2010, it slowed
sharply in the second quarter. The second quarter GDP estimate
was revised down from 2.4 to 1.7 percent, as support provided
by inventory rebuilding and the fiscal stimulus continued to
diminish. Positive contributions to GDP growth came from
consumer and business spending, exports, inventory invest-
ments, nonresidential and residential fixed investment, and
federal government spending. Imports, which are a subtraction
in the estimation of GDP, also surged however, and shaved
almost 3.5 percent from second quarter GDP growth, a record
for the post-WWII period.

Real GDP is expected to increase only 1.3 percent in third
quarter 2010 and 2.0 percent in the fourth quarter. For the year
as a whole, GDP is now forecasted to rise approximately 2.5
percent, followed by a gain of around 2 percent in 2011. The
increase in GDP in 2010 will mainly reflect positive con-
tributions from consumer spending (1.5 percent); nonresiden-
tial business spending (5.0 percent); exports (about 12 percent);
and federal government expenditures (3.8 percent). On the
negative side, state and local government spending is forecasted
to drop by around 1.0 percent this year. And imports are
expected to increase by over 12 percent. For the remainder of
2010 and at least the first half of 2011, GDP growth will remain
below its potential rate, coming in at around 1.5 percent less
than its prerecession level.

**Consumer Spending.** The Conference Board’s Consumer
Confidence Index fell to 48.5 in September, its lowest level since
February 2010. Relatively slow growth in consumer spending,
which accounts for approximately 70 percent of U.S. GDP, is one
major reason why the economic recovery has been so sluggish.
After increasing by close to 2 percent during the first six months
of 2010, expenditures are likely to rise 1.9 percent during the
second half of the year. Consumers continue to pare down debt
and are saving almost 6 percent of their disposable income, a far
cry from the zero percent savings rate seen prior to the start of
the recession. From its bottom in early 2009, consumer wealth
has increased by approximately $6.0 trillion, although it remains
about $12 trillion (18 percent) below the mid-2007 peak.
Despite improvement in household balance sheets, a sustained

Following a decline of 3.7 percent in 2009, spending on durable
goods increased by 7.8 percent in the first half of 2010. Durable
goods purchases are expected to rise 5.9 percent during the
third quarter and 5.2 percent in the fourth. For the year as a
whole, expenditures for durable goods should be up 6.5 percent.
The fastest growing segments are expected to be new light
trucks (10.0 percent increase), furnishings and household
equipment (7.0 percent), information processing equipment
(almost 20 percent), computers and peripheral equipment
(about 21 percent), and software and accessories (up 16
percent). Expenditures made on nondurable goods rose 3.1
percent during the first six months of this year and should
increase 0.9 percent in the third quarter and 2.6 percent in the
fourth. While sales of clothing and footwear likely declined
about 1.0 percent in the third quarter, they are expected to rise
5.0 percent in fourth quarter 2010.

**Business Spending.** A surge in corporate profits and business
spending is providing a much needed boost to the economy.
Overall, nonresidential business spending rose almost 13
percent during the first half of 2010. Increases of 5.5 percent
in the third quarter and 2.2 percent in the fourth will bring the
gain in nonresidential fixed investment to almost 5 percent for
the year as a whole. Spending by firms on equipment and soft-
ware, which increased around 23 percent during the first half
of 2010, is expected to be up by over 10 percent in the third
quarter and 6.5 percent for the fourth. Pent-up demand from
cutbacks in spending during the recession is propelling excep-
tionally strong investment in computers and peripherals (up
almost 30 percent) and communications equipment (10.5
percent). After falling 51.1 percent in 2009, expenditures by
firms on transportation equipment will rise almost 59 percent
in 2010. Purchases of industrial equipment are forecasted to
increase by 5.5 to 6.0 percent this year.
Sluggish commercial real estate markets will continue to depress investment in structures—after a decline of almost 15 percent in 2009, spending on structures is forecasted to fall by another 5.0 percent in 2010. Approximately $1.5 trillion of commercial loans will have to be refinanced over the next four to five years, and almost 50 percent of already restructured loans are now delinquent. Commercial construction will remain a drag on the overall economy in 2010 and going forward into 2011.

Residential fixed investment, which includes both home construction and sales, fell by about 23 percent in 2009. The picture has been gradually improving in some parts of the country during 2010. After a 12.3 percent drop in the first quarter, residential fixed investment rose 25.7 percent in the second. However, with the effects of the fiscal stimulus and tax credits diminishing, home construction and sales are expected to drop by over 30 percent in the third quarter, followed by a 3.5 percent decline in the fourth quarter. Housing demand has weakened significantly since the expiration of the homebuyer tax credits. Until we see a strong recovery in payroll employment, housing markets are not expected to show signs of a significant recovery. About 331,000 new homes will be sold in 2010, compared to 374,000 in 2009. Sales of existing homes could fall from around 5.2 million in 2009 to 4.8 million in 2010. Existing home sales plunged 27 percent between June and July, the largest monthly drop since records were first published in 1968. Almost 25 percent of homeowners with mortgages have loans larger than the value of their homes and 65 percent of homeowners with mortgage debt have lost their equity—from 2007 to 2009 almost $6 trillion in home equity was wiped out by falling home prices. Foreclosures and delinquencies also continue to rise.

Employment. The seasonally adjusted U.S. unemployment rate stayed flat in September at 9.6 percent. The number of unemployed now totals approximately 14.8 million; including underemployment, the total is about 24.3 million. The number of part-time workers increased by 612,000 in September, totaling 9.5 million—if we include workers who would like a job but are not looking and those who are working part-time but would rather work full-time, the unemployment rate rose from 16.7 percent to 17.1 percent. Overall employment dropped by 95,000 from August as the federal government cut 77,000 temporary Census-related jobs and local government jobs declined by 76,000. Manufacturing employment remained flat and has been since May, after adding 134,000 jobs during the first five months of the year. The construction sector lost 21,000 workers, largely in nonresidential construction. Healthcare services added 24,000 jobs in September, concentrated in ambulatory healthcare services (17,000), which is one of the fastest growing segments of the economy. Most of the jobs added in professional and business services (24,000) were accounted for by temporary help services. Leisure and hospitality also gained 34,000, mostly in food services and drinking places, but retailers added only 5,700 workers. Other major sectors reporting job losses included information (5,000) and financial services (1,000).

The U.S. economy would have to add 100,000 jobs a month just to hold the unemployment rate at its current level and keep up with population and labor force growth. A sustained economic recovery will require an additional 200,000 to 250,000 jobs each month. Given the slow pace of job creation, payroll employment is expected to be down 0.5 percent in 2010, with the loss of almost 700,000 jobs since 2009.

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