Economic Outlook: First Quarter 2011

Alabama

Highlights

- The state lost 9,500 jobs from November 2010 to December 2010, while the seasonally adjusted unemployment rate rose from 9.0 to 9.1 percent.

- However, from December 2009 to December 2010, Alabama showed modest improvement in payrolls, adding 2,600 net new workers.

- Total nonfarm employment is forecasted to increase by 0.7 percent in 2011, a gain of approximately 13,000 jobs.

- The state’s economy grew by slightly over 2.0 percent in 2010 and is forecasted to expand by about 3.4 percent in 2011.

- After declining by 2.5 percent in fiscal year 2009-2010, total tax receipts are expected to increase by around 1.0 to 2.0 percent in FY2011, depending on the pace of employment growth.

Employment. In December 2007 Alabama’s employment was at its highest level of the decade, with 2,026,700 nonfarm jobs. But as the “Great Recession” that began to grip the nation during that same month caught up with Alabama in June 2008, job numbers began to slip. Two years later, in December 2009, the total of 1,964,400 jobs was 160,700 (-7.9 percent) below that peak. A gradual recovery that was underway in 2010 brought the addition of 2,600 jobs from December 2009 to December 2010, with most of the gains in service providing businesses. Sectors adding to their payrolls during the 12 months ending in December 2010 included wholesalers (1,000); retailers (2,400), mostly general merchandise stores; transportation and warehousing (1,000); healthcare and social assistance (2,000); leisure and hospitality (5,100); and both federal (2,100) and state (1,800) government. However, construction, manufacturing, information, financial activities, and professional and business services firms remained challenged by job losses.

After modest but steady gains through most of the year, the state’s recovery was interrupted by a drop of 9,500 jobs from November to December 2010. Most of the December losses were associated with the restaurant industry (-2,400); administrative support, waste management, and remediation (-2,200); construction (-1,800); and nondurable goods manufacturing (-1,200). Healthcare and social assistance and state government, both of which saw job gains for 2010 as a whole, lost 1,100 and 800 jobs, respectively in December. Buoyed by strong holiday sales, Alabama retailers added 1,200 workers during the month.

Alabama Forecast

| Source: Center for Business and Economic Research, Culverhouse College of Commerce, The University of Alabama. |
Results for the state’s 11 metropolitan areas over the past year were mixed. Montgomery lost 2,000 jobs between December 2009 and December 2010; with losses also in Mobile (-1,700); Birmingham-Hoover and Decatur (-500 each); Dothan (-300); and Anniston-Oxford (-100). Payroll levels in the Auburn-Opelika and Gadsden metro areas were flat. The Huntsville metro saw the strongest rebound during 2010, with a net gain of 1,500 jobs largely driven by 1,900 new federal government positions. Other metro areas posting job gains included Tuscaloosa (700) and Florence-Muscle Shoals (100). The remaining 40 non-metro counties lost a total of 2,800 jobs from December 2009 to December 2010. As of December 2010, Huntsville reported the lowest metro unemployment rate at 7.1 percent, while Mobile had the highest at 9.9 percent.

Among the state’s 67 counties, Wilcox’s December 2010 unemployment rate of 20.0 percent was the highest while Shelby County’s 6.7 percent was the lowest. The recovery is modest but widespread, with the number of employed residents higher than a year ago in every county. Unemployment rates reported in December 2010 were below rates a year ago in all counties except Greene, where the labor force increased faster than employment during the year.

Exports. After falling from $15.9 billion in 2008 to $12.4 billion in 2009, for a loss of 22.0 percent, Alabama exports rebounded in 2010. Exports totaled $11.2 billion for the first three quarters of 2010, up almost 27 percent from $8.8 billion during the same period in 2009. Over this period exports to Canada, Alabama’s largest trade partner, increased from $1.8 billion to approximately $2.5 billion, while shipments to China, currently the state’s third largest trading partner, rose from $528 million to about $1.2 billion, a 127 percent increase. Transportation equipment was the state’s largest export, with shipments jumping from $2.8 billion during the first three quarters of 2009 to almost $3.7 billion for the same period in 2010. Other major exports during the first nine months of 2010 included chemicals ($1.4 billion), minerals and ores ($1.3 billion), machinery ($859 million), paper products ($727 million), and computer and electronic products ($543 million).

Tax Revenues. The state’s tax receipts continue to show gradual improvement. For the first four months of the current fiscal year (FY2011), Alabama’s tax revenues of around $2.9 billion were up 6.3 percent ($170 million) from the same period a year earlier. Sales tax revenues rose 3.95 percent (about $25 million) to approximately $645 million. Individual income tax revenues rose 4.8 percent, increasing $44 million to about $968 million. However, at $94 million, corporate income tax receipts were $40 million lower compared to the first four months of FY2010. An improving Alabama economy should continue to help stabilize tax receipts in the coming months; tax revenues have actually shown positive growth since the beginning of the current fiscal year.

For the first four months of FY2011, appropriations to the Alabama Education Trust Fund, which are primarily derived from income and sales taxes, dropped a slight $226,496, or about 0.1 percent, to just over $1.7 billion. At the same time,
appropriations to the state’s General Fund, directed toward noneducation-related spending, rose by over $13 million to approximately $458 million, an increase of 2.95 percent.

Outlook. While Alabama’s economy showed modest signs of recovery during the second half of 2010, most economic indicators are now pointing toward much more sustainable growth in 2011. The state’s GDP is expected to post an increase of about 3.4 percent in 2011, with payrolls growing by 0.7 percent. The rebound in jobs is expected to be extremely gradual, however, and, as the economy improves, more people will be likely to enter or re-enter the labor force, causing the unemployment rate to stay relatively high through most of the year.

Business sentiment for the first quarter of 2011, measured quarterly by the Center for Business and Economic Research’s Alabama Business Confidence Index (ABCI), rose 7.1 points to 55.0, indicating that the economic recovery should be on firm ground and sustainable in the first quarter; a reading above 50 forecasts expansion. Business executives are more optimistic about the Alabama economy than the U.S. economy this quarter, with index readings of 59.6 and 55.1, respectively. First quarter business sentiment is approaching its pre-recession level of 56.8 recorded in the third quarter of 2007. However, despite improving sales and profits, both capital spending and hiring by firms are only expected to rise modestly.

Key segments in the anticipated economic rebound in 2011 will include the state’s automotive industry; healthcare services; and BRAC-related developments, driven in North Alabama by Huntsville’s Redstone Arsenal and in the southeastern part of the state by 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 continues to fade and growth in payrolls remains lackluster.

United States

U.S. Growth Continues to Improve.
The U.S. economy grew 3.2 percent in the fourth quarter of 2010, with GDP gains largely reflecting positive contributions from consumer spending, exports, and nonresidential business spending. These were partially offset, however, by negative contributions from imports and from private inventory investments. Domestic spending rose by 3.4 percent, boosted mainly by consumer spending. Foreign trade also made a relatively large 3.4 percentage point contribution toward economic growth as imports declined. Inventories subtracted 3.7 percentage points from GDP growth as inventory accumulation slowed substantially.

The key economic driver in the fourth quarter was consumer spending, which accounts for almost two-thirds of the U.S. economy; helped by both holiday sales and relatively strong motor vehicle sales, consumer spending rose 4.4 percent. Overall business spending increased 4.2 percent. Both nonresidential and residential investment spending contributed to GDP gains. Nonresidential investment rose 4.4 percent, while residential investment spending, which includes both home construction and sales, increased 3.4 percent. New lows for home prices drew in more speculative buyers and potential buyers who had been waiting for prices to drop to relatively more affordable levels.

Despite an improving economy, job growth remains subpar; although down from 2.05 million a
year earlier, employers laid off 1.84 million workers during the year ending in December 2010. January 2011 saw the addition of only 36,000 nonfarm jobs. While the construction sector lost another 32,000 jobs, manufacturing had a great month, adding 49,000 jobs for its strongest gain since the beginning of the recovery. Durable goods manufacturers created 62,000 jobs, with most in fabricated metals, machinery manufacturing, and motor vehicle and parts manufacturing. The Institute for Supply Management’s index of manufacturing activity rose from 58.5 in December to 60.8 in January, its highest level since May 2004 and 18th consecutive reading in expansionary territory above 50. The service providing sector added about 32,000 workers during January, primarily in retailing (28,000), and healthcare (11,000). U.S. unemployment fell from 9.4 percent in December 2010 to 9.0 percent in January.

Across 2011, economic activity will continue to expand at a modest pace. The U.S. economy is forecasted to grow by 3.8 percent in the first quarter of 2011 and by slightly above 3.0 percent for the year as a whole. After increasing by 1.8 percent in 2010, consumer spending will rise 3.2 percent in 2011, with expenditures on durable goods up approximately 8.5 percent. Spending on motor vehicles and parts will increase by almost 10 percent, while new motor vehicle sales could rise approximately 5 percent. Sales of furnishings and durable household equipment will climb by over 7 percent in 2011 and clothing and footwear sales are expected to increase around 5 percent.

Given record profits and cash on hand, together with pent-up demand, businesses are expected to continue to spend in 2011. Spending on equipment and software could rise by almost 15 percent, with expenditures for computers and peripherals increasing over 20 percent. With the manufacturing sector growing at a much faster pace than in recent years, spending on industrial equipment will rise by around 18 percent in 2011. Business spending for transportation equipment is forecasted to increase almost 30 percent during the year. However, weakness in commercial real estate markets, largely the result of an increase in delinquencies due to relatively high vacancy rates, will keep investment in structures sluggish; after declining by 14.5 percent in 2010, investment spending on structures is forecasted to decrease approximately 7.5 percent in 2011.

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Detailed Forecast Tables Available

Detailed forecast tables of Alabama GDP and employment are available for purchase from the Center for Business and Economic Research. These tables are updated quarterly and accompany CBER’s annual Alabama Economic Outlook and the quarterly Alabama Business. Tables currently include recent history and the forecasts for 2011 and 2012 for two-digit NAICS industry codes and three-digit manufacturing industries. U.S. forecast assumptions that drive the Alabama forecast are included. Order online at http://cber.cba.ua.edu/publications.html in the CBER Store.

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