Economic Outlook: Second Quarter 2011

Alabama

**Highlights**

- The state gained 10,400 jobs from March 2010 to March 2011. Seasonally adjusted unemployment fell to 9.2 percent, down from 10.0 percent a year ago.

- On a seasonally adjusted basis, Alabama’s civilian labor force was 12,000 workers smaller this March than a year earlier. Over the same 12-month period, the number of unemployed residents declined by about 19,700 to 195,374.

- Nonfarm employment in the state is forecasted to increase by 0.8 percent in 2011, a gain of approximately 14,000 jobs.

- The state’s economy grew by slightly over 2.0 percent in 2010 and is forecasted to expand by about 3.0 to 3.5 percent in 2011, depending on the magnitude of increases in commodity, food, and energy prices this year.

- Following a decline of 2.5 percent in FY2009-2010, total tax receipts are expected to increase by approximately 2.0 percent in the current fiscal year.

**Employment: Mixed Results** Payrolls in Alabama have made modest gains in recent months. After peaking at 2,026,700 in December 2007, employment fell by almost 170,000 during the recession. The jobs picture is slowly improving and from March 2010 to March 2011 Alabama added 10,400 jobs. During this 12-month period, manufacturing gained 1,700 jobs while service providing firms added 9,800 net new workers. Most job creation was associated with the following businesses: administrative support, waste management, and remediation services (8,800); healthcare and social assistance (3,500); accommodation and food services (3,300); transportation equipment manufacturing (2,100), including 900 jobs in motor vehicle parts industries; retailing (1,400); transportation and warehousing (1,000); primary and fabricated metals manufacturing (900); and the federal government (600).

On a year over basis, most job losses in March 2011 were in industries that have seen employment trend down for a number of years. Jobs in the state’s information sector fell by 900 during the last 12 months after dropping almost 30 percent from 2001 to 2010, while apparel and computer and electronic product manufacturing added to their long-term declines, losing 1,100 and 900 workers, respectively. Wholesale trade firms saw employment drop by 800 and financial services lost 700 jobs, continuing contractions that began with the recession. Industries that have seen employment slide since 2008 and experienced further losses from March 2010 to March 2011 include local government entities (-3,100); professional, scientific, and technical services (-2,100); and arts, entertainment, and recreation (-1,200). Alabama’s construction industry, which lost over 24 percent of employment between March 2007 and March 2011, posted a gain of 6,500 workers in February and March.

**Alabama Forecast**

Probability: forecast (60 percent) and range (90 percent)

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<thead>
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<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
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<tbody>
<tr>
<td><strong>Real GDP</strong></td>
<td>2.2</td>
<td>3.0</td>
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<tr>
<td>range</td>
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<td>2.1 to 4.4</td>
<td>2.6 to 4.2</td>
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<tr>
<td><strong>Employment</strong></td>
<td>-1.1</td>
<td>0.8</td>
<td>1.8</td>
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<tr>
<td>range</td>
<td></td>
<td>-0.1 to 1.2</td>
<td>0.5 to 2.5</td>
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<tr>
<td><strong>Total Tax</strong></td>
<td>-2.5</td>
<td>2.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Receipts, FY</td>
<td></td>
<td>-2.0 to 4.0</td>
<td>-1.0 to 3.5</td>
</tr>
<tr>
<td>range</td>
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Source: Center for Business and Economic Research, Culverhouse College of Commerce, The University of Alabama.
The recovery in jobs has been uneven among the state’s 11 metro areas. During the year ending in March 2011, job gains were seen in Mobile (2,500), Tuscaloosa (1,400), Florence-Muscle Shoals (1,300), Auburn-Opelika (900), and Decatur (900). Nonfarm employment declined in Montgomery (-2,600), Dothan (-1,100), Birmingham-Hoover (-300), Huntsville (-200), Anniston-Oxford (-100), and Gadsden (-100). However, every metro except Gadsden, which was flat, added jobs in March and all areas saw unemployment rates drop from March 2010 to March 2011. At 10.0 percent, unemployment in Mobile was the highest of the metros, while Huntsville’s rate was the lowest at 7.5 percent. Among the state’s 67 counties, 36 were still dealing with double-digit unemployment in March; rates ranged from 21.7 percent in Wilcox to 7.0 percent in Shelby County.

**Exports: Boosting the Recovery** Alabama exports rebounded strongly in 2010, rising from $12.3 billion in 2009 to $15.5 billion, for a gain of 26 percent. Shipments to Canada, the state’s largest trade partner, increased from $2.6 billion in 2009 to $3.2 billion in 2010. Exports to China, our second largest and fastest growing export destination, climbed from $801 million to over $1.9 billion, a 142 percent increase. Shipments of transportation equipment, the state’s largest export good, jumped from $4.0 billion in 2009 to $5.3 billion in 2010. Other major exports in 2010 included: chemicals ($2.0 billion); minerals and ores ($1.8 billion); nonelectrical machinery ($1.1 billion); paper products ($940 million); and primary metals ($702 million). Exports of computer and electronic products rose from $604 million in 2009 to $697 million in 2010, while agricultural product exports increased from $287 million to $515 million, an 80 percent gain.

**Tax Revenues: Moving in a Positive Direction** The state’s tax receipts continue to show gradual improvement, with each month of the current fiscal year posting an increase over the same month last year. For the first six months in FY2011, total tax revenues of around $4.3 billion were up 3.5 percent ($145 million) from the same period a year earlier. Sales tax receipts rose 3.7 percent (about $34 million) to approximately $933 million. Individual income tax revenues increased 3.0 percent, up $474 million, to about $1.6 billion. However, at around $148 million, corporate income tax receipts were $54 million lower than in the first six months of FY2010. An improving Alabama economy should continue to stabilize tax receipts in the coming months.
For the first six months of FY2011, appropriations to the Alabama Education Trust Fund, which are primarily funded from income and sales taxes, dropped by a slight $16.5 million, a decrease of 0.6 percent, to total $2.6 billion. At the same time, appropriations to the state’s General Fund, directed toward noneducation-related spending, rose by over $15.7 million to approximately $650 million, an increase of 2.5 percent.

**Outlook: Continuing Modest Improvement**

After a relatively strong showing in the fourth quarter of 2010, the state’s economic growth likely slowed during the first quarter of 2011. Rapidly increasing food and energy prices are constraining broader consumer spending gains this year. However, most evidence suggests that the state’s economy has considerable momentum and will be able to sustain these negative shocks without falling back into recession. We have revised our forecast for Alabama GDP growth in 2011 from around 3.5 percent on our first quarter outlook to about 3.0 percent this quarter, primarily because of higher commodity, food, and oil prices, as well as the temporary effects of Japan’s natural disasters. Curtailed production in Japan is impacting the state’s automotive supply chain, resulting in production cuts at Lincoln’s Honda manufacturing plant and Huntsville’s Toyota engine plant.

Our current forecast has payroll employment increasing by 0.8 percent during 2011, with the addition of approximately 14,000 new jobs. The rebound in jobs is expected to progress gradually this year. An improving economy will lead more residents to enter or re-enter the labor force, causing the unemployment rate to stay relatively high. Large manufacturing firms, particularly in the transportation equipment sector, and the state’s service providing employers will be the major sources of job growth in 2011. Overall, tax revenues are still forecasted to rise 2.0 percent this fiscal year.

Business sentiment for the second quarter of 2011, measured by the Center for Business and Economic Research’s Alabama Business Confidence Index™ (ABCI), rose 0.8 points to 55.8, indicating that the economic recovery should be on firm ground and will continue to be sustainable in the second quarter (a reading above 50 forecasts expansion). However, the index for the national economy slipped 1.5 points to 53.6, while the state economy index declined 2.3 points to 57.3, forecasting continuing economic expansion albeit at a slightly slower pace. Index readings for industry sales, profits, hiring, and capital expenditures all rose in the second quarter and were firmly in positive territory, with expectations for sales the most robust. Alabama business sentiment is gradually approaching its prerecession level of 56.8 recorded in the third quarter of 2007.

Key segments driving the Alabama economy in 2011 will include transportation equipment manufacturing, with strength in both automotive and shipbuilding industries; the state’s steel manufacturing industry; and healthcare services. Mandated completion of BRAC moves by September 2011 will bring additional civilian and military personnel to both Huntsville’s Redstone Arsenal and Fort Benning, Georgia, with positive impacts on the economies of North and Southeastern Alabama. While there are some indications of improvement in the state’s residential housing market, the 1,358 single-family homes permitted in January and February this year is unchanged from the same period in 2010 and just 43 percent of the number in 2007. Furthermore, challenges to state funding for services and public education will persist as the effect of the fiscal stimulus continues to fade and the pace of payroll growth remains modest.

**United States**

After growing 2.9 percent in 2010, the U.S. economy is forecasted to expand by around 2.5 percent in the first half of 2011. A significant slowdown in consumer spending growth in the first quarter (from 4.0 percent in fourth quarter 2010 to 1.5 percent) is the primary reason for the anticipated slower economic growth. Even though the employment picture has improved, the unemployment rate and consumer debt levels remain high and credit conditions are still tight. Furthermore, housing markets are weakening again and rapidly rising food and energy prices place an additional burden on consumers.

Even though the U.S. economy created a monthly average of 188,000 jobs in the first quarter of 2011, relatively high unemployment is likely to be a persistent problem. Adding to the count of the
unemployed those workers who would like a job but are not currently looking and individuals who are working part-time but would like a full-time job, the broader unemployment rate is currently 15.7 percent. The number of workers who have been unemployed for more than 27 weeks remains at over six million. Considering the severity of this recession, the unemployment rate did not go as high as it could have because many unemployed workers dropped out of the labor force. At present only 64.2 percent of the population 16 and over is either in the workforce or looking for a job, the lowest level of labor force participation in about 25 years. Given an excess supply of labor, inflation-adjusted earnings of workers actually fell 1.1 percent in 2010, putting additional downward pressure on consumer spending. At the current pace of job gains, it will be 2019 or 2020 before we return to the employment levels seen prior to the start of the recession.

Housing markets remain the biggest drag on the economy. Home prices slid for the sixth month in a row and are now just slightly above their mid-recession level. The Standard & Poor’s Case-Shiller Home Price index for 20 large cities has fallen 31.8 percent from its peak in 2006, and is only 1.1 points above its spring 2009 low. None of the statistics indicate that the recession in the housing markets is over; prices are forecasted to fall another 5 to 10 percent by mid-2011. At an annual rate of 250,000, new home sales in February were the lowest since data were first collected in 1963. Commercial real estate also continues to experience difficult times. According to real estate research company Reis Inc., vacancy rates for strip malls and other neighborhood shopping centers are expected to be around 11 percent this year, the highest level since 1990.

Economic activity will continue to pick up at a modest pace in 2011. For the year as a whole, the U.S. economy is forecasted to expand by 2.8 percent, with consumer spending growing about 2.5 percent. Expenditures on durable goods will rise approximately 8.5 percent, while spending on motor vehicles and parts could climb by over 13 percent. Sales of furnishings and durable household equipment, as well as clothing and footwear, are forecasted to post moderate gains. Record profits and cash on hand, together with pent-up demand, should contribute to relatively strong business spending. Investment spending on equipment and software will rise by 13.5 percent, while expenditures on computers and peripherals could increase almost 20 percent. With the manufacturing sector growing at a much faster pace than in recent years, spending on industrial equipment could rise by around 18 percent in 2011. Business spending on transportation equipment is also forecasted to increase almost 22 percent. However, high vacancy rates and related delinquencies will keep commercial real estate markets sluggish; after declining by 25.0 percent in 2010, investment in commercial and healthcare structures could fall another 13.5 percent this year.

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