Economic Outlook: Third Quarter 2011

Alabama

**Highlights**

- The state lost 9,500 nonfarm jobs from June 2010 to June 2011, although the number of jobs increased by 800 between May and June.

- On a seasonally-adjusted basis, the unemployment rate rose from 9.3 percent in June 2010 to 9.9 percent in June 2011, with the number of unemployed increasing by about 16,200 to 213,975.

- The state’s civilian labor force grew by a seasonally-adjusted 46,083 over the past 12 months, including about 6,300 additions in June. However, with the labor force growing faster than jobs, unemployment has been rising.

- For 2011 as a whole, total nonfarm employment is forecasted to increase by 0.7 percent, a net gain of approximately 13,000 jobs. Most of the job growth was realized early in the year; only modest payroll gains are expected in the second half of 2011.

- Alabama’s economy grew by 2.0 percent in 2010 and is forecasted to expand by about 2.5 to 3.0 percent in 2011.

- After declining by 2.5 percent in fiscal year 2009-2010, total tax receipts are expected to increase by approximately 2.5 to 4.0 percent for the current fiscal year.

**Employment.** The state has continued to make modest gains in payrolls in recent months, although the pace of job gains slowed significantly in May and June, mirroring the national trend. Despite an improving economy, however, across the longer period of June 2010 to June 2011 Alabama nonfarm employment dropped by 9,500. Some of the job losses counted in June can be attributed to the loss of business entities in the April 27th tornadoes. During the 12-month period ending in June 2011, the state’s goods producing sector shed 2,400 jobs while service providing firms saw a net loss of 7,100 workers. Most of the job losses among goods producing industries were in construction-related firms (3,300), particularly building construction (2,100). However, construction employment rose by 500 in June and should pick up further as the tornado recovery progresses. Within the service providing sector, job losses over the past year were predominantly in government (13,500), wholesale trade (1,000), information (900), and educational services (800).

**Alabama Forecast**

| Probability: forecast (60 percent) and range (90 percent) |
|----------------|----------------|----------------|
|                | 2010 | 2011 | 2012 |
| Real GDP       | 2.0  | 2.8  | 2.7  |
| range          | 2.5 to 3.5 | 2.5 to 3.0 |
| Employment     | -0.9 | 0.7  | 1.0  |
| range          | 0.4 to 1.7 | 0.5 to 2.4 |
| Total Tax Receipts, FY | -2.5 | 2.5  | 3.2  |
| range          | -2.0 to 4.0 | 3.0 to 3.5 |

Source: Center for Business and Economic Research, Culverhouse College of Commerce, The University of Alabama.
Manufacturing employment results were mixed. From June 2010 to June 2011 durable goods producing industries added 1,100 workers, including 2,400 in transportation equipment and 400 in primary and fabricated metals. However, the remaining durable goods industries experienced losses over the year, including 600 jobs in computer and electronic product manufacturing, 600 in furniture-related industries, and 500 in machinery manufacturing. Nondurable goods manufacturers lost 800 workers compared to year-ago levels; the 100 jobs added in plastics and rubber products were the only gain. Textiles and apparel employment continued to decline, with 2,700 jobs lost during the last year.

During the 12 months ending in June 2011, 6,600 or 69 percent of all job losses were within the 27 counties that comprise the state’s 11 metro areas. The employment picture varied considerably; the Birmingham-Hoover metro added 1,900 jobs from June 2010 to June 2011, while Auburn-Opelika gained 1,200, Florence-Muscle Shoals and Tuscaloosa each added 500, and employment in Anniston-Oxford rose by 200. Job losses in professional and business services and government were a large part of the Montgomery metro’s 3,300 employment decline. All remaining Alabama metro areas experienced a net loss of jobs; Mobile shed 1,400 over the past year, Dothan 1,300, Huntsville 300, Decatur 200, and Gadsden saw employment decline by 100. At 11.8 percent, the Mobile area had the highest unemployment rate in June, while Huntsville’s was the lowest at 8.9 percent. Among the state’s 67 counties, 49 saw unemployment at 10.0 percent or above in June. Wilcox recorded the highest rate of 23.4 percent, while Shelby County’s unemployment was the lowest at 7.7 percent.

**Exports.** From first quarter 2010 to first quarter 2011, Alabama exports rose $809 million to $4.2 billion, an almost 24 percent increase. At $814 million, exports to Canada, Alabama’s largest trade partner, were down $5 million from a year earlier.
Exports to China, the state’s second largest and fastest growing export destination, surged 56 percent over the year, rising from $418 million to more than $654 million. Other major trading partners included Germany ($424 million in exports during first quarter 2011), Mexico ($361 million), Japan ($211 million), and the United Kingdom ($131 million). Shipments of transportation equipment, the state’s largest export, rose from $1.1 billion in first quarter 2010 to $1.5 billion in the first quarter of 2011. Other major exports in the first quarter included chemicals ($559 million), minerals and ores ($531 million), non-electrical machinery ($266 million), paper products ($261 million), and primary metals ($219 million).

**Tax Revenues.** The state’s tax receipts continue to show significant improvement compared to the previous fiscal year. For the first nine months of the current fiscal year (FY2011), Alabama’s tax revenues of around $6.6 billion were 5.3 percent, or $334 million, higher than for the same period a year earlier. Sales tax revenues rose 3.1 percent (about $43 million) to approximately $1.4 billion. However, at around $280 million, corporate income tax receipts were $64 million lower than in the first nine months of FY2010. Individual income tax revenues rose 5.8 percent, up $146 million to about $2.6 billion. State tax revenues have shown consecutive monthly increases since the start of the current fiscal year.

For the first nine months of FY2011, appropriations to the Alabama Education Trust Fund, which are primarily funded from income and sales taxes, increased by approximately $138 million, or 3.6 percent, to total about $4.0 billion. During the same period, appropriations to the state’s General Fund, directed towards noneducation-related spending, climbed by over $158 million to approximately $1.0 billion, an increase of 18.0 percent.

**Outlook.** After showing relatively steady growth in the first quarter of 2011, the state’s economy seems to have slowed down slightly toward the middle of the year, primarily due to weakness in consumer spending in the face of higher energy and food prices and to the lack of any sustainable increase in payrolls. For the second half of 2011 Alabama GDP is expected to grow by 2.0 to 2.5 percent, followed by a 2.5 to 3.0 percent increase in 2012. Most statistical evidence suggests that the state’s economy will be able to sustain any negative shocks without reverting back into recession. Total tax revenues could rise 2.5 to 4.0 percent in FY2011, followed by a 3.0 to 3.5 percent increase in the upcoming fiscal year.

We have revised the 2011 payroll employment forecast we issued last quarter down from 0.8 percent to around 0.7 percent, with about 12,000 to 13,000 jobs created this year. The rebound in jobs is expected to be gradual. As the economy improves more people will enter or re-enter the labor force, causing the unemployment rate to stay relatively high on into 2012. Large manufacturing firms, particularly in transportation equipment manufacturing and steel, as well as service providing employers, will be major economic drivers for the remainder of 2011 and 2012. As tornado recovery progresses, construction employment should also rebound.

Business sentiment for the third quarter of 2011, measured by the Center for Business and Economic Research’s Alabama Business Confidence Index™ (ABCI), declined 4.4 points to 51.4, indicating slower economic growth this quarter. Component indexes for the U.S. and Alabama economies fell sharply; a drop of 9.3 points brought the U.S. reading below the neutral level of 50 at 44.3, while the state index slipped 4.8 points to 52.5—a much more positive outlook than for the nation. Indexes for industry sales, profits, hiring, and capital expenditures all declined on the third quarter outlook. Most businesses are generally more skeptical about their prospects for the remainder of the year than they were earlier in 2011.

Positive developments should bolster the state’s outlook in the near term. Expansions and upgrades at Alabama’s Honda, Hyundai, and Mercedes automotive manufacturing plants will be in progress during the second half of 2011, lending an air of optimism to the state’s industrial sector. Developments in Mobile’s shipbuilding industry and in steel production and service firms locating near ThyssenKrupp indicate continuing manufacturing growth.

Other encouraging signs as we move through the third quarter include a strong coastal tourist season, job gains in professional and business services, and the start of work on Norfolk Southern’s Alabama Intermodal Center near Birmingham. BRAC-mandated moves to Huntsville’s Redstone Arsenal are nearing conclusion, with the Army Materiel Command dedicating their new headquarters in mid-June. The Huntsville area continues to see a stream of new and expanding professional, scientific, and technical service firms, while growth is ongoing at the HudsonAlpha Institute. Despite the current environment of economic uncertainty, business executives completing the ABCI survey in June see the state’s economy improving modestly in the third quarter.

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United States

In the face of weak growth in consumer spending and anemic job gains, the pace of growth in the U.S. economy slowed to just 0.9 percent in the first half of 2011, down from the 2.9 percent gain seen in 2010. Only 18,000 jobs were added in June, the weakest gain in almost a year, while unemployment rose from 9.1 percent to 9.2 percent. GDP growth is expected to accelerate to about 3.0 percent in the second half of 2011. The number of unemployed now totals over 14.0 million, including individuals who are underemployed or would like a full-time job, but can only find part-time work; unemployment for these workers rose to 16.2 percent in June. The average unemployed person has been out of work for 40 weeks. If we add about 2.5 million discouraged workers who have dropped out of the labor market, the unemployment picture would look much worse.

Currently only 64.2 percent of potential workers are either in the workforce or looking for a job, the lowest labor force participation rate in about 25 years. Still, unemployment is high and, at the current pace of job creation, it will be 2020 before we return to employment levels seen prior to the start of the recession. With high debt levels, tight credit conditions, still-weakening housing markets, high food and energy prices, and stimulus benefit checks running out, consumers are not in a position to power the recovery.

In the second half of 2011 the U.S. economy is expected to grow by around 3.0 percent, for an overall increase in GDP for the year of 2.0 percent. Even though both core and headline inflation rates have elevated in recent months, lack of any signs of wage rate inflation should keep these in check. After rising 4.7 percent in the first half of 2011, inflation is likely to climb just 1.7 percent in the second. In June the Institute for Supply Management’s Index of Manufacturing increased to 55.3, indicating a modest pace of recovery for the nation’s industrial sector. The improved forecast for the second half of this year is based on the industrial sector returning to a more stable pattern of growth, increases in business spending to fully take advantage of depreciation allowances before year-end, some improvement in consumer spending, and a slight decline in oil prices.

Consumer expenditures on durable goods are expected to rise approximately 10 percent during the second half of 2011, while spending on motor vehicles and parts could increase about 11 percent. Sales of furnishings and durable household equipment are forecasted to increase by just over 8.5 percent. Clothing and footwear sales will rise about 3.0 percent. Record profits and cash on hand, together with pent-up demand and the expiration of depreciation allowances, could push business spending up almost 18 percent during the remainder of 2011. Sales of computers and peripherals are expected to increase by over 30 percent, while business spending on transportation equipment is forecasted to rise about 23 percent. If the nation’s manufacturing sector continues on a path toward a sustainable and modest recovery, sales of industrial equipment could increase almost 36 percent. However, weakness in commercial real estate markets, largely due to relatively high vacancy rates resulting in an increase in delinquencies and consequent tighter lending conditions, will constrain investments in commercial and healthcare structures, at least through the remainder of 2011.

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