

# Economic Outlook: Fourth Quarter 2011

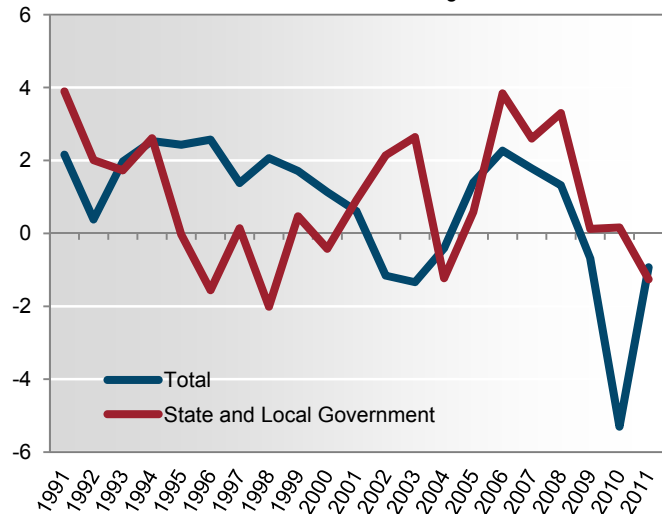
## Alabama

### Highlights

- Alabama lost 4,600 jobs between August 2010 and August 2011, while the seasonally adjusted unemployment rate rose from 9.1 to 9.9 percent.
- The seasonally adjusted number of unemployed Alabama residents totaled 213,412 in August 2011, up by 20,876 from a year earlier.
- For 2011 as a whole, total nonfarm employment is forecasted to increase by 0.8 percent, a net gain of approximately 20,000 jobs. Payroll gains have slowed substantially toward the second half of this year, mirroring the national trend.
- The state's economy grew 2.0 percent in 2010 and is forecasted to expand by about 1.5 to 2.0 percent in both 2011 and 2012.
- After declining by 2.5 percent in Fiscal Year 2010, total tax receipts increased 5.0 percent for FY2011 that ended September 30th; a 3.5 to 4.0 percent increase is forecasted for the current fiscal year.
- Following growth of 3.0 percent in 2010, the U.S. economy will expand by 1.4 percent in 2011 and by 1.8 percent in 2012. Nationally, payroll employment is forecasted to grow by 0.9 percent during 2011 and 1.0 percent in 2012.

**Employment.** Although the state has continued to make modest gains in payrolls in 2011, the pace of those gains slowed toward the second half of the year, mirroring the national trend. After peaking in December 2007 at 2,026,700, Alabama nonfarm employment stood at 1,864,000 in August 2011, a loss of 162,700 jobs since the recession began. Over the 12-month period ending in August, goods producing businesses lost 4,900 jobs, while service providing firms gained 300. Job losses among goods producing industries were mainly in construction

**Alabama Nonfarm Employment**  
Annual Percent Change



Source: Alabama Department of Industrial Relations.

(5,800), primarily building construction (3,200) and specialty trade contractors (3,000).

Manufacturers of durable goods added 2,400 jobs during the past year, with transportation equipment manufacturing posting a gain of 3,000 jobs, including 900 at auto parts manufacturers. However, all other major durable goods categories saw modest job declines. Nondurable goods manufacturers lost a total of 2,000 jobs between August 2010 and August 2011; textiles and apparel employment continued to shrink with a decline of 2,200. Only paper and plastics and rubber products showed even slight job gains during the period.

### Alabama Forecast

(Annual Percent Change)

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

	2010	2011	2012
<b>Real GDP</b>	<b>2.0</b>	<b>1.9</b>	<b>2.0</b>
range		1.1 to 2.8	1.7 to 3.2
<b>Employment</b>	<b>-0.9</b>	<b>0.8</b>	<b>1.5</b>
range		0.1 to 1.7	0.5 to 2.4
<b>Total Tax Receipts, FY</b>	<b>-2.5</b>	<b>5.0</b>	<b>3.8</b>
range			2.0 to 6.0

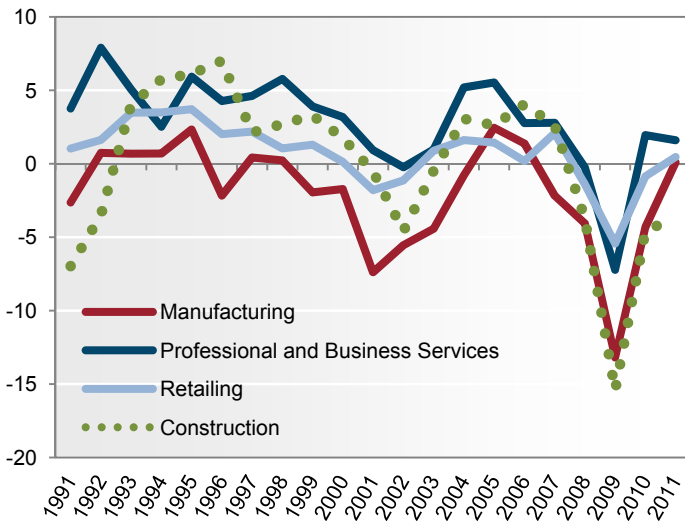
Source: Center for Business and Economic Research, Culverhouse College of Commerce, The University of Alabama.

In the service providing sector, job growth was predominantly associated with retail trade (3,400), helped by the addition of 1,300 positions at motor vehicles and parts dealers; professional and business services (4,000), including 4,700 workers added by administrative support, waste management, and remediation services; and leisure and hospitality (3,700), where 3,100 jobs were added at food service and drinking places. Still, department stores lost 500 jobs and architectural and engineering services businesses laid off 1,000. Over the same 12-month period, the government sector lost 6,300 workers, including 5,900 jobs at state and local government entities. Surprisingly, healthcare and social assistance, which did not suffer major payroll losses during the recession, experienced a net loss of 4,400 jobs in the past 12 months. Although the financial activities sector saw employment decline by just 200 overall, employment at insurance carriers and related firms was down 1,600.

## Alabama Nonfarm Employment Change in Number of Jobs

	Aug 2009 to Aug 2010	Aug 2010 to Aug 2011
Total Nonfarm Employment	-4,400	-4,600
Natural Resources and Mining	0	500
Construction	-2,500	-5,800
Manufacturing	-3,100	400
Durable Goods Manufacturing	-1,400	2,400
Nondurable Goods Manufacturing	-1,700	-2,000
Trade, Transportation, and Utilities	1,800	3,900
Wholesale Trade	-200	-400
Retail Trade	900	3,400
Transportation, Warehousing, Utilities	1,100	900
Information	-1,500	-700
Financial Activities	-4,400	-200
Professional and Business Services	-2,500	4,000
Educational and Health Services	800	-4,800
Leisure and Hospitality	2,200	3,700
Other Services	700	700
Government	4,100	-6,300
Federal Government	4,200	-400
State Government	-1,400	-2,600
Local Government	1,300	-3,300

**Alabama Employment in Manufacturing, Professional and Business Services, Retailing, and Construction**  
Annual Percent Change



Source: Alabama Department of Industrial Relations.

During the August 2010 to August 2011 period, Alabama's metropolitan area employment fell by 7,400, while the 39 nonmetro counties gained 2,800 jobs. Only three of the 11 metros added jobs: Birmingham-Hoover gained 1,000; Florence-Muscle Shoals 900; and Auburn-Opelika employment grew by 800. Nonfarm employment fell by 3,800 in the Montgomery area; the Mobile metro lost 1,800; Tuscaloosa 1,600; and Huntsville shed 1,100 jobs. Smaller metros also lost workers, with declines of 700 in Gadsden, 600 in Decatur, 400 in Anniston-Oxford, and 100 in Dothan. At 11.2 percent, Mobile had the highest metro area unemployment rate, while

Source: Alabama Department of Industrial Relations, and Center for Business and Economic Research, The University of Alabama.

Huntsville unemployment was the lowest at 8.1 percent. Among the state's 67 counties, 36 had unemployment rates of 10.0 percent or over, down from 49 in June. Unemployment continued to be the highest in Wilcox County at 22.3 percent and lowest in Shelby County at 6.8 percent.

**Exports.** For the first six months of 2011, Alabama exports totaled \$8.7 billion, an increase of almost 21 percent from the same period a year ago. Exports to Canada, the state's largest trade partner, declined slightly, from \$1.7 billion to \$1.6 billion. China became Alabama's second largest export destination; exports to China rose from \$733 million for the first six months of 2010 to \$1.2 billion for the same period in 2011, a 61.5 percent increase. Other major trading partners include Germany (\$864 million in total exports during the first half of 2011), Mexico (\$749 million), Japan (\$390 million), and the United Kingdom (\$251 million).

Shipments of transportation equipment, the state's largest export, rose from \$2.3 billion in the first half of 2010 to over \$2.9 billion in the first half of 2011. Other major exports in the first half of this year included: chemicals (\$1.1 billion), minerals and ores (\$1.1 billion), nonelectrical machinery (\$572 million), paper products (\$552 million), and primary metals (\$466 million). With world economies slowing down

significantly in the second half of 2011, exports are generally expected to pull back from their current levels. Still, exports to China and other emerging markets are likely to continue to increase at a brisk pace.

**Tax Revenues.** The state's tax receipts have shown consistent improvement in every month of the fiscal year (FY2011) that ended on September 30th. Compared to FY2010, total tax revenues of around \$8.6 billion were up 5.0 percent, or \$408 million. Sales tax receipts rose 3.6 percent (about \$67 million) to approximately \$1.9 billion. Individual income tax revenues increased 5.1 percent, up \$164 million to about \$3.4 billion. However, at around \$369 million, corporate income tax receipts were 20.0 percent (\$94 million) lower than last fiscal year, despite the fact that corporations earned record profits in 2011. Unless the state's economy slips into another recession, tax receipts should continue to improve in the current fiscal year.

Appropriations to the Alabama Education Trust Fund, which are primarily from income and sales taxes, increased by approximately \$88 million (1.7 percent) in FY2011 to total \$5.2 billion. During the same period, appropriations to the state's General Fund, directed towards noneducation-related spending, rose by about \$260 million to approximately \$1.5 billion, an increase of about 21 percent.

**Outlook.** After growth of 2.0 percent in 2010 and relatively steady but modest gains in the first half of 2011, Alabama's economy is expected to slow down slightly in the second half, primarily due to weakness in consumer spending, particularly on durable goods or big ticket items. For the second half of 2011 the state's economy is expected to grow approximately 1.5 percent. Most statistical evidence suggests that the state will likely be able to sustain any negative economic shocks without reverting back into recession. However, the chances of both the U.S. and Alabama dipping into another recession are much higher now than they were at the beginning of the year. Economic growth is expected to remain below or around 2.0 percent for 2012 with sluggish employment gains.

Payroll employment for the current year will increase by between 0.8 and 1.0 percent, with a gradual rebound that will add approximately 20,000 to 25,000 new jobs. However, as the economy improves, more people will enter or re-enter the labor force, causing the unemployment rate to stay relatively high into 2012. Large manufacturing firms, particularly in transportation equipment and steel, and service

providing employers will be the major economic drivers for the remainder of 2011 and 2012.

Total tax revenues are forecasted to rise around 3.0 to 3.5 percent in FY2012. However, if hiring picks up with a consequent increase in consumer spending, we could very well see tax receipts grow by approximately 5.0 percent.

Business sentiment for the fourth quarter of 2011, measured by the Center for Business and Economic Research's *Alabama Business Confidence Index*<sup>™</sup> (ABCI), declined another 5.9 points to 45.5, forecasting a slowdown in economic activity. An index reading above 50 indicates expansion. Expectations for the business environment moved sharply lower; the U.S. economy index fell 6.5 points to 37.8, while the Alabama economy index slid 7.4 points to 45.0. Business executives are more pessimistic about prospects for the national economy than the state outlook. Index readings for industry sales (50.6), profits (47.3), hiring (45.9), and capital expenditures (46.4) all declined for the fourth quarter of 2011 compared to the third quarter. Only sales are expected to improve this quarter. Businesses are generally much gloomier about their prospects now than they were at the beginning of the year.

As the fourth quarter of 2011 unfolds, ongoing and upcoming industrial projects in the automotive, steel, and shipbuilding sectors should contribute to manufacturing employment. Retail businesses will also be hiring as they approach the holiday season. And, after beginning slowly, tornado rebuilding should pick up this quarter. Initiatives to grow the state's innovation economy in biotechnology and other segments will continue to put the state on a course toward a more sustainable future through diversification. But until uncertainties about federal budgets and deficit reduction plans are removed, areas like Huntsville and the many contractors statewide that rely heavily on federal defense and space research and development funding will be cautious in hiring and investment.

## United States

GDP readings for the first half of 2011 show a much deeper recession than was previously envisioned and a much weaker recovery. Second quarter GDP growth was revised up from 1.0 to 1.3 percent; this follows growth of just 0.4 percent in the first quarter. The increase in GDP was primarily due to nonresidential investment, consumer spending, exports, and federal government spending; this could indicate further weakness though as the federal stimulus

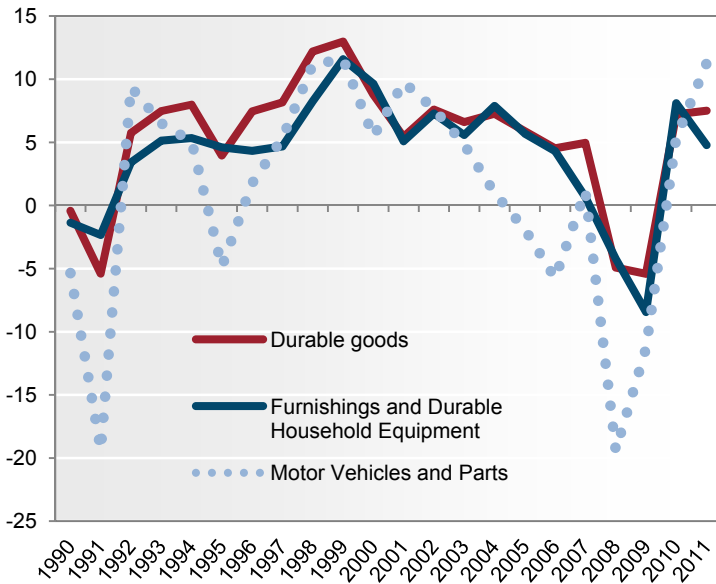
fades and the world economy struggles to stay out of another recession. State and local government spending, inventories, and imports all had negative contributions to GDP in the second quarter. Current trends indicate GDP growth of around 1.4 percent for 2011 as a whole—cause for concern as historical evidence shows that the U.S. economy generally slips into a recession within 12 months if annual GDP growth falls below 2.0 percent. 2012 is not expected to be much better, with economic growth of 1.5 to 2.0 percent.

Manufacturing, one of the key sectors that helped pull the nation out of recession, is now showing signs of a global slowdown. The Institute for Supply Management's new orders index, an indicator of future production, remained at 49.5 in September, just below the level of 50 that divides expansion and contraction.

Consumer spending increased just 0.7 percent during the second quarter of 2011, down from 2.1 percent in the first quarter. High levels of consumer debt, labor market uncertainties, and weak housing markets are contributing to lethargic consumer spending. Household debt levels are currently at 112 percent of annual personal income; in order to bring the ratio

wiping out any gains from payroll tax cuts. Housing remains weak and home prices are still falling in most markets. At the current pace of sales, homebuilders are expected to sell 300,000 to 400,000 new homes in 2011 compared to an annualized rate of 1.2 million during the peak of the housing boom, despite the fact that mortgage rates are at their lowest levels in nearly 60 years. The Reuters/University of Michigan *Consumer Sentiment Index* and the Conference Board's *Consumer Confidence Index* were both at recession levels in September and have steadily declined over the past three or four months.

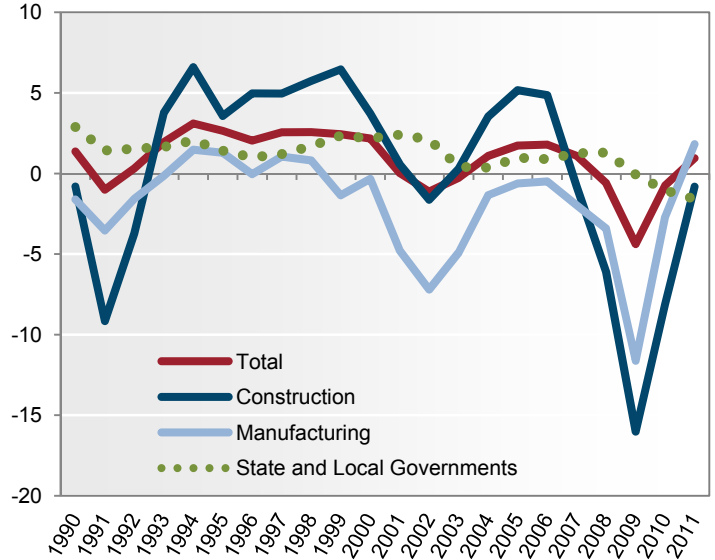
**Consumer Spending**  
Annual Percent Change



Source: U.S. Department of Commerce and IHS Global Insight.

down to the 1990s level of 84 percent, annual personal income will have to grow by almost \$4 trillion, a highly unlikely scenario considering the fact that inflation adjusted wages of workers are either stagnant or falling. Furthermore, high food and energy prices continue to burden household budgets,

**U.S. Nonfarm Employment**  
Annual Percent Change



Source: U.S. Department of Commerce and IHS Global Insight.

The U.S. economy added 103,000 jobs in September (including the 45,000 Verizon workers who were on strike in August) with the unemployment rate unchanged at 9.1 percent. Job growth for August was revised from zero up to 57,000 jobs. Most of the job gains were in professional and business services (48,000), including 53,000 jobs in temporary help services; since September 2009 this sector has added 897,000 workers to its payrolls. Healthcare created 44,000 jobs in September, while nonresidential construction added 26,000. Manufacturing lost 13,000 jobs and retailing shed 9,000. Government employment continued to decline as local government jobs fell by 35,000 in September, including 24,400 workers in public education. Since September 2008, local government payrolls have fallen by 535,000.

With extended unemployment benefits scheduled to expire at the end of this year, there are still 14.0 million people out of work, including 6.2 million (44.6 percent) who have been searching for a job for six

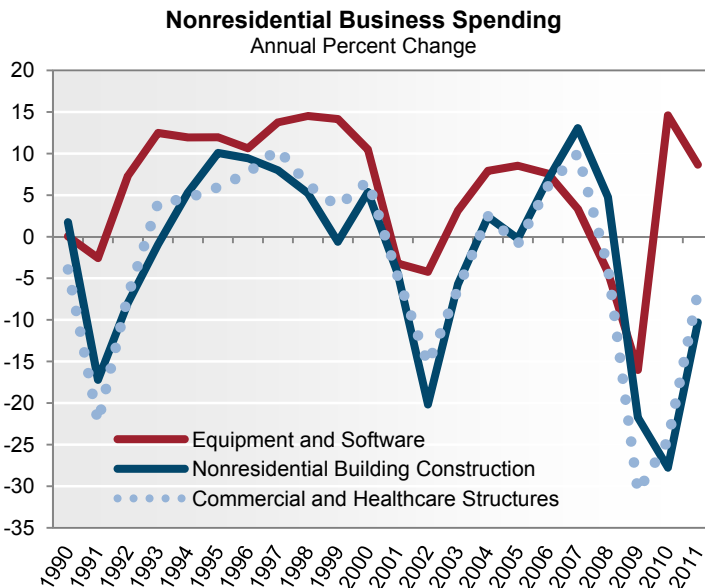
months or longer. Adding workers who are looking for full-time but can only find part-time work and discouraged workers who have given up looking for a job, the U.S. unemployment rate in September was 16.5 percent. Currently, only 64.2 percent of Americans aged 16 and over are either in the workforce or looking for a job, the lowest level of labor force participation in about 25 years.

Consumer spending, which accounts for almost two-thirds of the U.S. economy, is expected to increase just 1.8 percent in the second half of 2011 and around 2.0 percent in 2012, constrained by weak hiring and continuing high unemployment. Purchases of durable goods should fare better, rising about 4.5 to 5.0 percent in the second half of this year and about 5.0 percent in 2012, with a stronger 5.5 percent increase in spending on motor vehicles

up demand and reduction or expiration of certain depreciation allowances this year and next, business spending on equipment and software is expected to rise around 10 percent in 2011 and 7 percent in 2012. Expenditures for computers and peripherals could climb 17.5 percent in 2011 and 14.0 percent next year. However, investment in commercial and healthcare-related structures is expected to decline by 5.0 percent in 2011 and grow just 2.0 percent in 2012. Nationally, the office vacancy rate of 17.4 percent is significantly higher than the 12.5 percent seen before the recession. Residential fixed investment, including both home construction and sales will remain weak for the remainder of this year. However, after six straight years of decline, we could see the beginning of a modest turnaround in residential investment during 2012.

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Source: U.S. Department of Commerce and IHS Global Insight.

and parts in the last six months of this year. Expenditures for furnishings and durable household equipment are forecasted to increase close to 3.0 percent. However, purchases of clothing and footwear could slip 0.5 percent in 2012, after growing around 2.0 percent in 2011.

Most GDP growth in the second half of 2011 and in 2012 is expected to be accounted for by nonresidential business investment. With record profits and cash on hand (nearly \$2 trillion), together with pent-

### Save the Date!

Make plans to join the Center for Business and Economic Research for their annual **Economic Outlook Conference**, January 12, 2012 in Montgomery.

The Center will look back at how the national, Alabama, and metro area economies fared in 2011 and present the forecasts for 2012. And you'll also hear the latest take on the economy from David Altig of the Federal Reserve Bank of Atlanta.

Registration begins soon. You can find more information on our website at <http://cber.cba.ua.edu>. Send your questions to [uacber@cba.ua.edu](mailto:uacber@cba.ua.edu) or call 205.348.6191.

### Award-Winning Publication

*Alabama Business*™ is the recipient of the 2011 Award of Excellence in Publications in the Electronic Publications category from the Association for University Business and Economic Research.

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