Economic Outlook: Second Quarter 2012

Alabama

Highlights

- The state added 4,500 jobs from February 2011 to February 2012, while the seasonally adjusted unemployment rate dropped from 9.3 to 7.6 percent. Nonfarm payrolls in the state totaled 1,857,800 in February 2012, up slightly from 1,853,300 a year ago.

- On a seasonally-adjusted basis, the number of unemployed declined from 204,496 in February 2011 to 162,939 in February 2012. However, a larger drop in Alabama’s civilian labor force during the same period accounted for all of the improvement in the unemployment rate; total employment of the state’s residents actually fell during this time.

- We expect nonfarm employment to increase by 1.1 percent in 2012, with the addition of at least 20,000 jobs. Most gains will be in transportation equipment manufacturing, primary and fabricated metals, professional and business services, educational and health services, and food services and drinking places.

- The state’s economy is forecasted to grow by approximately 2.5 percent in 2012, slightly higher than the 2.2 percent rate of growth seen in 2011.

- After increasing by 5.0 percent in Fiscal Year 2010-2011, state tax revenues are expected to grow 3.0 to 4.0 percent in FY2012, depending on the pace of economic and payroll growth.

Employment. Alabama nonfarm employment saw a prerecession peak of 2,026,700 in December 2007, but was 168,900 below that level at 1,857,800 in February 2012. Over the 12-month period ending in February the state gained a total of 4,500 jobs; goods producing businesses lost 2,900 workers while the service providing sector gained 7,400. Among goods producing industries, manufacturing added 4,100 jobs while construction shed 7,400. Construction sector payroll losses were spread across the board, including building construction (1,400), heavy and civil engineering construction (2,400), and specialty trade contractors (3,600). In manufacturing the only two industries experiencing net growth in payrolls were transportation equipment (3,100), largely motor vehicle parts manufacturing (2,000), and primary and fabricated metals (1,500). Textile and apparel industries shed 1,600 jobs over the past year and now employ just over 14,000 Alabama workers.

For service providing firms, employment gains between February 2011 and February 2012 were primarily associated with educational and health services, professional and business services, and food services and drinking places.

Alabama Forecast

(Annual Percent Change)

| Probability: forecast (60 percent) and range (90 percent) |
|-------------|-----------------|--------|--------|--------|
|             | 2010      | 2011      | 2012      | 2013      |
| Real GDP    | 2.1       | 2.2       | 2.5       | 2.7       |
| range       | 1.5 to 3.0 | 2.0 to 3.5| 1.8 to 3.7|
| Employment  | -0.9      | -0.1      | 1.1       | 1.5       |
| range       | -0.5 to 1.6| 0.5 to 2.0| 0.7 to 2.3|
| Total Tax Receipts, FY | -2.5     | 5.0       | 3.5       | 4.0       |
| range       | 2.5 to 6.0 | 3.0 to 7.0|            |

Source: Center for Business and Economic Research, The University of Alabama.
services and leisure and hospitality (5,300 jobs each), retail trade (3,800), professional and business services (2,700 jobs), other services (1,600), and the financial sector (1,200 jobs). Over the same period, government entities lost a total of 10,500 jobs, including 6,200 positions associated with state government and 3,400 local government workers. About 43 percent of state and local government job losses during the past 12 months were in the education field. Other Alabama service providing businesses that saw job declines include general merchandise stores (1,700), banking (1,100), and information (900). In terms of payrolls, the fastest growing services segments in the state were administrative support and waste management and remediation services, healthcare and social assistance, and accommodation and food services. However, a number of these jobs pay relatively low wages.

Six of Alabama’s 11 metropolitan areas experienced job gains between February 2011 and February 2012, including Birmingham-Hoover (900), Mobile (800), Florence-Muscle Shoals (600), Decatur (500), Auburn-Opelika (400), and Gadsden (300). Payrolls in Dothan were flat, while four metros lost jobs— Huntsville employment was down 4,000, Montgomery (2,000), Anniston-Oxford (900), and Tuscaloosa (300). As of February 2012, Mobile had the highest metro area unemployment rate at 9.0 percent while Auburn-Opelika’s rate was the lowest at 6.4 percent. Although all of the state’s 67 counties experienced a significant decline in unemployment rates from year-ago levels, 22 counties saw unemployment at

![](attachment:image.png)

Level of Employment Compared to the Beginning of the Recession (Number of Months)

Source: Alabama Department of Industrial Relations.

10.0 percent and over in February. Wilcox County had the highest rate of 16.9 percent while Shelby County’s was the lowest at 5.6 percent. At this time last year, however, 36 counties faced unemployment rates of 10.0 percent or higher.

**Exports.** According to the U.S. Department of Commerce’s International Trade Administration, Alabama exports rose 15 percent in 2011 to $17.9 billion. At that level, exports accounted for 10.4 percent of the state’s GDP. Exports to Canada, Alabama’s largest trade partner, increased from $3.2 billion in 2010 to $3.3 billion in 2011. Other major destinations for Alabama exports in 2011 were China ($2.3 billion), Germany (approximately $2.0 billion), Mexico ($1.7 billion), Japan ($716 million), Brazil ($660 million), the United Kingdom ($594 million), and South Korea ($523 million). Shipments of transportation equipment, the state’s top export product, increased by $784 million to $6.1 billion in 2011. Other major exports in 2011 were chemicals ($2.3 billion), minerals and ores ($2.2 billion), machinery ($1.2 billion), primary metals ($1.1 billion), paper products ($1.0 billion), and computer and electronic products ($630 million).

**Tax Receipts.** For the first six months of the current fiscal year (FY2012), Alabama’s tax revenues totaled around $4.4 billion, up 3.5 percent or slightly over $149 million from the same period a year earlier.
Sales tax revenues climbed 6.6 percent (about $52 million) to approximately $985 million. At around $185 million, corporate income tax receipts were $38 million higher than in the first six months of FY2011, an increase of over 25 percent. Individual income tax revenues rose 2.3 percent, up $37 million, to about $1.6 billion.

During the first six months of FY2012, appropriations to the Alabama Education Trust Fund, which are primarily funded from income and sales taxes, rose by almost $113 million (4.4 percent) to about $2.7 billion. At the same time, appropriations to the state’s General Fund, directed towards noneducation-related spending, increased by approximately $303 million to about $650 million, a 46.7 percent gain.

**Outlook for 2012**

Inflation-adjusted Alabama GDP is forecasted to increase by about 2.5 percent this year, with transportation equipment manufacturing one of the fastest growing industries. Relatively strong sales of vehicles produced in Alabama should continue well into 2012. Nonfarm employment is expected to rise 1.1 to 1.2 percent with about 20,000 to 25,000 jobs added during the year. Most job gains will be in business and healthcare-related services, food services, and primary and fabricated metals and transportation equipment manufacturing.

The state’s unemployment rate is not likely to fall much from its current 7.6 percent as an improving economy leads more workers to enter or re-enter the labor force. Declines in the unemployment rate so far have been due to both a moderate improvement in payrolls and a drop in the civilian labor force. Reductions in the labor force could be due to discouraged workers who have given up looking for a job, workers who have retired, or workers who have moved out of the state for employment opportunities elsewhere. And with consumer and business spending still sluggish, most employers are likely to remain cautious about new hiring and investment in the second quarter.

Business sentiment for the second quarter of 2012, measured by the Center for Business and Economic Research’s *Alabama Business Confidence Index™* (ABCI), rose 6.0 points to 56.8, indicating a moderately optimistic outlook for both the state and U.S. economies as well as for business performance; a reading above 50 forecasts expansion. The overall business sentiment index (ABCI) is now back to its prerecession level of 56.8 recorded in the third quarter of 2007. Executives are generally more optimistic about the Alabama economy, with an index of 58.9, than the U.S. economy, at 54.5. On the second quarter 2012 ABCI survey, the index for industry sales rose 6.2 points to 61.8, while profits expectations were up 7.3 points to 57.5. However, despite improving sales and profits, both capital spending and hiring by the state’s businesses are only expected to rise modestly; the outlook for hiring registered 54.1 and the capital expenditures index was 53.9.

**United States**

After expanding at a modest pace through most of 2011, the U.S. economy picked up some steam in the fourth quarter, with inflation-adjusted GDP growth of 3.0 percent the strongest of the last six quarters. Still, overall growth for the year was below its long-term potential and below the pace of consistent growth needed to bring down the unemployment rate. The fourth quarter acceleration in growth also reflected an increase in inventory investment which is an addition to the overall GDP.

The U.S. economy added 227,000 net new jobs in February, the third consecutive month of gains over 200,000. Business services took the lead in job growth with the addition of 82,000 jobs, followed by health services (49,000), and leisure and hospitality (44,000). Manufacturing added 31,000 jobs, less than the 52,000 jobs gained in January. The manufacturing sector posted its 32nd straight month of growth, with the Institute for Supply Management’s Index continuing to indicate expansion, up from 52.4 in February to 53.4 in March. However, government
sector employment declined by 6,000 in February; since August 2008 state and local governments across the country have shed approximately 650,000 jobs.

Following growth of around 1.9 percent in the first quarter of 2012, the U.S. economy is forecasted to expand by approximately 2.0 percent in the second quarter. Consumer spending growth is expected to pick up slightly from the 1.5 percent pace seen in the first quarter to around 2.5 percent in the second. Deep discounts offered by retailers late in 2011 and on into 2012 contributed to an increase in spending on durable goods of 16.1 percent in fourth quarter 2011 and 9.6 percent in first quarter 2012. This pace of growth is forecasted to slow, however, in the coming months.

Overall business spending is expected to increase by 4.5 percent in the second quarter, while spending on equipment and software will rise by 6.0 percent. Expenditures for information processing equipment should be relatively strong, increasing almost 12.5 percent, and, with the manufacturing sector growing at a good pace, spending on industrial equipment is likely to rise by over 13 percent. Investment in commercial and healthcare-related structures will remain one of the weakest spots in the economy with no growth anticipated for the second quarter. Although the economy is expected to continue to add jobs at an average pace of around 150,000 to 200,000 in the coming months, the unemployment rate is forecasted to remain stubbornly high at slightly over 8.0 percent.

One of the biggest risks to economic growth here at home remains the European financial crises and debt burdens; if the European economies were to slide into recession, that could have a significant impact on U.S. economic growth. The United States faces a number of domestic challenges—both household and public debt is hindering the ability of the economy to grow at a higher rate; state and local governments continue to shed workers; housing markets remain distressed; and credit for both consumers and small businesses is still hard to obtain. Despite these headwinds, the U.S. economy will continue to grow at a modest pace in 2012 with slightly better payroll gains than seen in 2011.

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**Housing Starts for Single-Family Homes**  
Annual Percent Change over Same Period Previous Year

**Consumer Sentiment Index**

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