

Economic Outlook: Fourth Quarter 2012

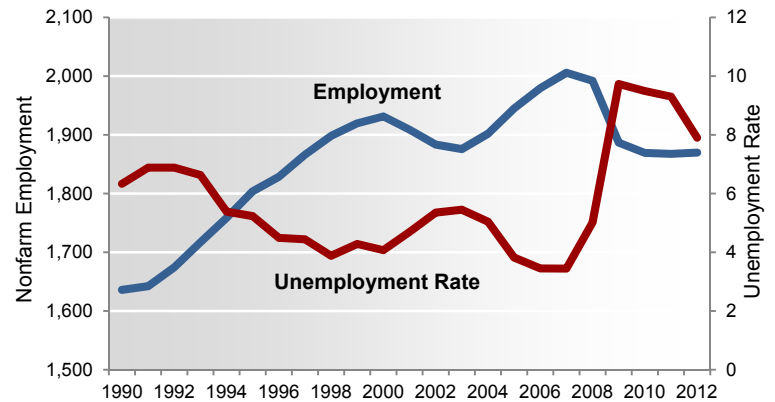
Alabama

Highlights

- Alabama gained 16,300 jobs from September 2011 to September 2012, while the seasonally adjusted unemployment rate dropped from 8.8 to 8.3 percent. Nonfarm payrolls in the state totaled 1,883,200, up from 1,866,900 a year ago.
- The seasonally adjusted number of unemployed fell from 192,667 in September 2011 to 177,848 in September 2012, a decline of almost 15,000. A larger decrease of over 28,000 in the state's civilian labor force contributed to the decline in the unemployment rate.
- Total nonfarm employment is forecasted to increase by 0.8 percent in 2012, or about 15,000 jobs. Businesses in transportation equipment manufacturing; administrative support, waste management, and remediation services; ambulatory health care and social assistance; and food services and drinking place are likely to add the most employees to their payrolls. Alabama employment could rise by around 1.1 percent in 2013.
- Overall, the state's economy is expected to grow by around 1.7 percent in 2012, after an estimated 1.5 percent gain during 2011. Alabama GDP is forecasted to increase 1.8 percent in 2013.
- After rising by 5.0 percent in Fiscal Year 2011, state tax revenues grew 3.8 percent in FY2012. Depending on the pace of economic and payroll employment growth, tax receipts are likely to increase 4.0 percent in the current fiscal year.

Employment. Alabama's September 2012 nonfarm employment totaled 1,883,200, still 143,500 (7.1 percent) below the December 2007 pre-recession peak of 2,026,700. Over the 12-month period ending in September, the state gained a total of 16,300 jobs; goods producing businesses added 3,800 workers, while the service providing sector saw employment increase by 12,500.

Alabama Nonfarm Employment and Unemployment Rate
Employment (Thousands), Unemployment (Percent)



Source: Alabama Department of Labor.

Within the goods producing sector, manufacturing posted a net gain of 7,600 jobs, while construction lost 3,500. Construction sector payroll losses were mainly in building construction (2,000 jobs) and heavy and civil engineering (1,400). Among manufacturers, most job gains were in transportation equipment (3,100), including increases of 1,300 workers employed in motor vehicle manufacturing and 1,700 in parts manufacturing. Primary and fabricated metals added another 1,200 durable goods manufacturing jobs. On the nondurable manufacturing side, employment in textiles and apparel continued to slide, falling by 1,400 from year-ago levels.

Alabama Forecast

(Annual Percent Change)

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

	2010	2011	2012	2013
Real GDP	2.3	1.5	1.7	1.8
range		0.5 to 2.5	1.5 to 3.0	1.5 to 3.5
Employment	-0.8	-0.2	0.8	1.1
range			0.1 to 1.5	0.7 to 2.3
Total Tax Receipts, FY	-2.5	5.0	3.8	4.0
range				3.0 to 7.0

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

Among service providing firms, employment gains during the past year were primarily associated with waste management, administrative support, and remediation services (8,000 jobs); leisure and hospitality (6,400), primarily food services and drinking places; retailing (3,400); other services (3,100); finance and insurance (2,500); healthcare and social assistance (1,000); and wholesale trade (700). Many of these job gains were in sectors of the economy that pay relatively low wages. Some service providing businesses lost a significant number of workers during the 12 months ending in September 2012, including general merchandise stores (2,300 jobs lost); information-related services (1,700); and professional, scientific, and technical services (700).

The government sector continued to account for the largest number of job losses, shedding 11,900 workers between September 2011 and September 2012. Most of the decline in payrolls was in state government (7,000), followed by local governments (3,300), and the federal government (1,600).

Six of Alabama's 11 metropolitan areas added nonfarm jobs during the 12 months ending in September, including Mobile (2,000), Montgomery (1,700), Anniston-Oxford (1,200), Florence-Muscle Shoals (1,000), Decatur (500), and Huntsville (100). However, Gadsden employment was flat, while Tuscaloosa had 3,400 fewer nonfarm jobs in September 2012 than a year ago. Auburn-Opelika metro employment was down 1,800; Birmingham-Hoover lost 1,600 jobs; and employment in Dothan fell by 400. Strong sectors for job growth varied among the metros that added to their payrolls. Most job gains in Mobile were in construction, retail trade, and leisure and hospitality businesses. Montgomery saw strong job growth in professional and business

Alabama Nonfarm Employment Change in Number of Jobs

	Sept 2010 to Sept 2011	Sept. 2011 to Sept 2012
Total Nonfarm Employment	-4,200	16,300
Natural Resources and Mining	500	-300
Construction	-9,500	-3,500
Manufacturing	1,800	7,600
Durable Goods Manufacturing	3,600	6,000
Nondurable Goods Manufacturing	-1,800	1,600
Trade, Transportation, and Utilities	3,500	4,800
Wholesale Trade	300	700
Retail Trade	3,800	3,400
Transportation, Warehousing, Utilities	-600	700
Information	0	-1,700
Financial Activities	1,200	2,900
Professional and Business Services	1,100	7,600
Educational and Health Services	2,100	1,300
Leisure and Hospitality	800	6,400
Other Services	300	3,100
Government	-6,000	-11,900
Federal Government	800	-1,600
State Government	-2,800	-7,000
Local Government	-4,000	-3,300

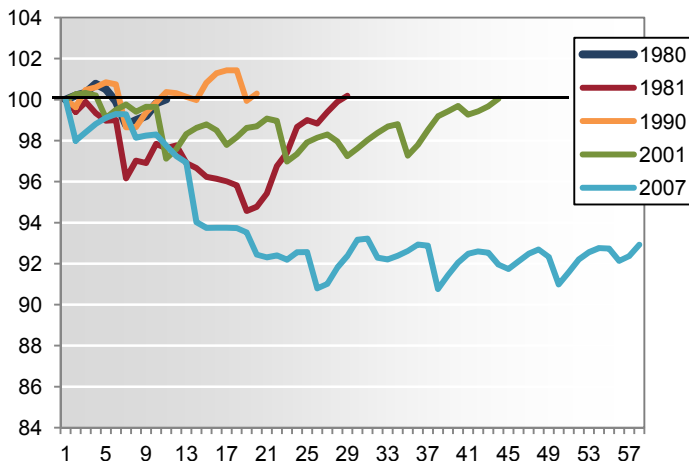
Source: Alabama Department of Labor and Center for Business and Economic Research, The University of Alabama.

services, while Anniston-Oxford's service sector gains were pretty much spread across the board.

Although relatively strong job growth over the past 12 months brought unemployment in the Mobile area down 1.6 percentage points to 8.5 percent, it remains the highest among the 11 metros. Huntsville and Anniston-Oxford posted the lowest metro area unemployment rates in September at 6.4 percent. The unemployment picture is improving generally, with every Alabama metro seeing September 2012 unemployment rates that are lower than both August and a year ago. Among the state's 67 counties, only 15 counties had an unemployment rate of 10.0 percent or higher in September, a vast improvement compared to September 2011 when unemployment was 10.0 percent or above in 32 counties. Unemployment remains highest in Wilcox County at 17.8 percent and lowest in Shelby County at 5.2 percent.

Exports. According to the U.S. Department of Commerce's International Trade Administration, Alabama exports rose from \$8.7 billion during the first six months of 2011 to almost \$10.1 billion for the first half of 2012, an increase of 15.9 percent. Exports to Canada, Alabama's largest trade partner, increased from nearly \$1.6 billion to almost \$2.0 billion. Other major destinations for Alabama exports in the first half of 2012 included China (\$1.36 billion), Germany

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



Source: Alabama Department of Labor.

(\$1.34 billion), Mexico (\$1.0 billion), the United Kingdom (\$422 million), Japan (\$376 million), and Brazil (\$339 million). Shipments of transportation equipment, the state's top export product, rose from around \$2.9 billion in the first half of 2011 to almost \$3.9 billion for the same period in 2012. Other major exports during the first two quarters of 2012 were chemicals (about \$1.4 billion), minerals and ores (\$982 million), primary metals (\$749 million), nonelectrical machinery (\$537 million), paper products (\$459 million), and fabricated metals products (\$330 million).

Tax Receipts. For the fiscal year just ended (FY2012), Alabama's tax revenues of \$8.93 billion were up almost 3.8 percent (\$324 million) from the previous fiscal year. Sales tax revenues rose 4.3 percent (about \$82 million) to almost \$2.0 billion. At around \$423 million, corporate income tax receipts were \$53 million higher than in FY2011, an increase of over 14 percent. Individual income tax revenues rose 4.7 percent, up \$159 million to over \$3.5 billion in FY2012.

For FY2012, appropriations to the Alabama Education Trust Fund, which are primarily funded from income and sales taxes, rose by over \$369 million, or about 7.0 percent, to total around \$5.7 billion. At the same time, appropriations to the state's General Fund, directed toward noneducation-related spending, were up approximately \$146 million to about \$1.6 billion, an increase of 9.8 percent.

Outlook for 2012

Inflation-adjusted Alabama GDP should grow by about 1.7 percent in 2012, with the transportation equipment manufacturing and professional and business services sectors major contributors to output growth. Relatively strong sales of vehicles produced in Alabama are expected to continue, albeit at a slightly slower pace than seen in 2011 or during the first half of this year.

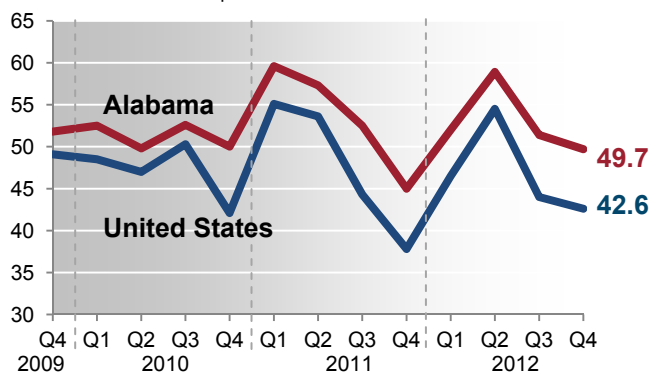
Nonfarm employment for the year is expected to rise by around 0.8 percent, with the addition of about 15,000 net new jobs. Most job gains are in the leisure and hospitality industry (primarily restaurants), social assistance and other healthcare services, retail trade, and transportation equipment manufacturing. However, despite gains seen in payrolls in recent months, the unemployment rate is expected to remain relatively high, as the economy gradually improves and more workers enter the labor force. Any decline in the state's unemployment rate so far this year has been due to both moderate improve-

ment in payrolls and a modest drop in the civilian labor force. This reduction in the labor force could be because of discouraged workers who have given up looking for jobs, workers who have retired, and/or workers who have left the state for employment opportunities elsewhere. With consumer and business spending still sluggish, many employers are likely to remain cautious about hiring workers and making new investments. Uncertainty about external risks, including weakness in Europe and slowdowns in China and other emerging markets, adds to the reluctance of Alabama businesses to increase hiring and investment.

Business sentiment for the fourth quarter of 2012, measured by the Center for Business and Economic Research's *Alabama Business Confidence Index*[™] (ABCI), fell 1.9 points to 48.3, its second consecutive decline. A reading above 50 forecasts expansion, while an index reading below 50 reflects contraction. Business executives have a relatively cautious attitude toward the economic environment generally, with an index for the U.S. economy of 42.6 and an Alabama economy index of 49.7. The Alabama index reading suggests that the state's economic performance will be about the same as in third quarter 2012.

Although business sentiment, as measured by the ABCI, had recovered to its pre-recession level of 56.8 in the second quarter of 2012, it has fallen 8.5 points over the last two quarters. For the fourth quarter of 2012 compared to the third quarter, the outlook for industry sales was down 3.7 points to 51.1, while the profits index fell 2.1 points to 48.6. Payroll employment is expected to remain sluggish in the fourth quarter as the index for hiring fell 1.0 point to 48.7. Amid weak prospects for improvement in demand conditions, both at home and abroad, the index for capital expenditures dipped 1.8 points to 48.9.

Alabama Business Confidence Index[™]
U.S. and Alabama Economies
 Expectations versus Prior Quarter



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

United States

After a 1.7 percent rate of growth in the first half of this year, the pace of economic expansion slowed to around 1.4 percent in the third quarter, primarily due to a slowdown in both exports and business spending. Forecasted U.S. GDP growth of 1.6 percent in fourth quarter 2012 would be only modestly better. Uncertainty about the economic recovery and domestic policies are beginning to have an impact on both business spending and labor markets. At the same time, recession in Europe and slowing emerging market economies have caused a decline in U.S. exports, with a consequent impact on the domestic manufacturing sector. Both exports and the industrial sector have been major drivers of the economic recovery.

The average monthly gain of 226,000 nonfarm jobs seen in first quarter 2012 slowed to 91,000 per month on average during the second quarter. Job growth is estimated to continue around that pace for the remainder of the year. Manufacturing employment fell by 16,000 in September, following the loss of 22,000 jobs in August.

Consumer spending growth is expected to remain sluggish in the near term. Households are still burdened by high debt levels, weak improvement in home prices, and the lack of any substantial and sustainable job growth. Underemployment, including over 580,000 people in part-time jobs who would like full time work, continues to constrain consumer buying power. Overall consumer spending for the fourth quarter will increase by 2.3 percent, with expenditures on durable goods posting a relatively healthy gain of around 6.5 percent. After showing a strong increase early in 2012, primarily due to pent up demand from recent years, motor vehicle and parts sales have slowed considerably in recent months and are expected to increase by less than 1.0 percent in the fourth quarter, for around 14.4 million units on an annualized basis.

In some parts of the county, housing markets seem to be on an upward trend—sales are improving, home prices are gradually rising, and the inventory of unsold homes is falling. Although housing starts are expected to increase by over 20 percent this year, it is difficult to tell how many of the homes are being bought by investors to take advantage of rising prices. In September, according to the U.S. Department of Commerce, construction on new homes and apartments increased at an average annual rate of 872,000 units, up 15.0 percent from August and about 34 percent from year ago levels.

The number of new building permits, an indicator of future construction activity, was up 11.6 percent to an annualized rate of 894,000, the highest level seen since July 2008. Sixty-nine percent of the starts in September were for single family homes at an annualized rate of 603,000, 43 percent above year ago levels. One reason for the surge in housing demand could be the record low interest rates. Still, while housing starts are above the low of 478,000 annualized units seen in April 2009, they remain significantly below the historical average of 1.5 million seen in recent decades.

One of the biggest risks to U.S. economic growth remains the European financial and debt crisis; the Eurozone accounts for almost 18 percent of total U.S. exports. A deeper recession in these economies could have a significant impact in the United States, particularly on the manufacturing sector. Domestically, both household and public debt continues to hinder the ability of the economy to grow at a higher rate. Other challenges come from continued job losses in state and local government, still-distressed housing markets, and continuing credit tightness for consumers and small businesses. Despite these headwinds, the U.S. economy will continue to expand at a modest pace of around 2.0 percent in 2012 with payroll employment growing at a 1.4 percent rate. With exports and business spending no longer major drivers in the recovery, and the fiscal cliff looming, U.S. GDP growth is expected to slow to approximately 1.8 percent in 2013.

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Make plans to join the Center for Business and Economic Research for their 25th annual **Economic Outlook Conference**, January 16, 2013 in Montgomery.

You'll hear the latest take on the U.S. economy from Dr. David Altig of the Federal Reserve Bank of Atlanta. CBER Director, Dr. Sam Addy, will look back at how the national, Alabama, and metro area economies fared in 2012 and present the forecasts for 2013. The luncheon keynote speaker is Dr. David Bronner, CEO of Retirement Systems of Alabama.

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 or call 205.348.6191.

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