

## Economic Outlook: First Quarter 2013

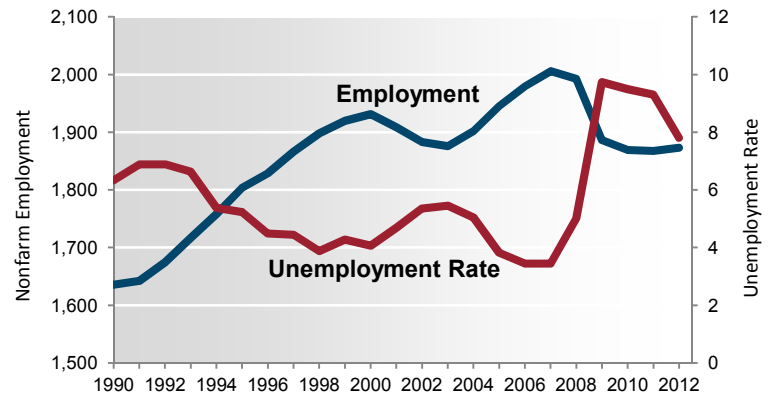
### Alabama

#### Highlights

- Alabama gained 11,300 jobs from December 2011 to December 2012, while the seasonally adjusted unemployment rate fell from 8.5 percent to 7.8 percent. Nonfarm employment totaled 1,882,500 in December 2012, up from 1,871,200 a year ago.
- The number of unemployed declined from 165,639 in December 2011 to 140,897 in December 2012. However, part of the drop in the unemployment rate was due to contraction in the state's civilian labor force; at 2,154,744 in December 2012, it was about 15,100 smaller than a year earlier.
- Total nonfarm employment is forecasted to increase by about 1.0 percent in 2013, with significant job gains in transportation equipment manufacturing, professional and business services, and the leisure and hospitality sector.
- Overall, the state's economy is estimated to grow by 1.5 to 2.0 percent in 2013, about the same pace as in 2012.
- After increasing by about 3.8 percent in Fiscal Year 2011-2012, state tax revenues are expected to grow by 3.0 to 3.5 percent in FY2013, depending on the pace of Alabama's economic and payroll growth.

**Employment.** The state continues to make modest gains in payrolls, mirroring the national trend. After peaking in December 2007 at 2,026,700, nonfarm employment of 1,882,500 in December 2012 was still 144,200 below its level prior to the beginning of the recession. Over the 12-month period ending in December 2012, the state gained a net of 11,300 jobs. Payrolls at goods producing firms increased by 4,000, while service providing businesses added 7,300 workers.

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



Source: Alabama Department of Labor.

Among goods producing industries, job losses were mainly in construction (3,100), including building construction (1,600), specialty trade contractors (800), and heavy and civil engineering (700). Within the service providing sector, job gains were predominantly associated with professional and business services (4,500), including 3,500 workers added by administrative support and waste management and remediation services businesses. The leisure and hospitality sector gained 3,400 workers over the 12-month period, mostly in food services and drinking places (3,600). Educational and health services contributed just 1,200 jobs during the past year. However, the government sector as a whole lost 5,400 workers, including 4,300 jobs with state and local government entities and 1,100 federal government workers.

#### Alabama Forecast

(Annual Percent Change)

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

	2010	2011	2012	2013
<b>Real GDP</b>	2.3	2.0	1.8	1.7
range			1.5 to 3.0	1.5 to 3.5
<b>Employment</b>	-0.8	-0.2	0.7	1.1
range			0.1 to 1.5	0.7 to 2.3
<b>Total Tax Receipts, FY</b>	-2.5	5.0	3.8	3.5
range				2.5 to 6.0

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

From December 2011 to December 2012, durable goods producing industries added 6,100 workers. Strongest gains were seen in transportation equipment manufacturing (3,300) and primary and fabricated metals manufacturing (400). Nondurables goods manufacturers experienced a net gain of 1,500 jobs. Within the service providing sector, firms engaged in financial activities added 1,100 workers. Wholesalers posted a net job gain of 1,800 during the 12 months, but retailers added only 800 jobs as general merchandise stores shed 2,600 workers.

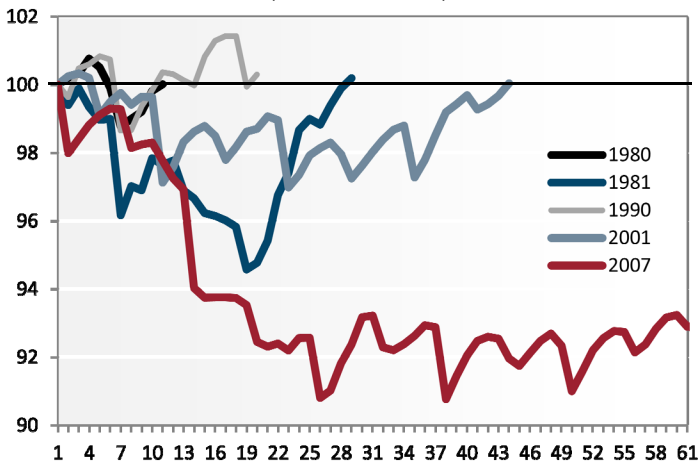
Employment trends for the state's 11 metropolitan areas were mixed during the 12 months ending in December. Seven metros saw job gains, including Montgomery (2,400), Mobile (1,300), Anniston-Oxford (1,100), Florence-Muscle Shoals (800), Decatur (700), Dothan (500), and Gadsden (200). Tuscaloosa posted the largest metro area job loss at 2,400, followed by Auburn-Opelika (600), Birmingham-Hoover (400), and Huntsville (300). In December 2012 the Mobile area had the highest metro unemployment rate at 7.2 percent; Huntsville's was the lowest at 5.5 percent. Among the state's 67 counties, only 11 saw unemployment rates of 10.0 percent and over compared to 16 counties a year earlier. Wilcox County's unemployment was the highest at 15.1 percent, while Shelby County's was the lowest at 4.6 percent.

## Alabama Nonfarm Employment Change in Number of Jobs

	Dec 2010 to Dec 2011	Dec 2011 to Dec 2012
Total Nonfarm Employment	600	11,300
Natural Resources and Mining	200	-500
Construction	-9,100	-3,100
Manufacturing	4,100	7,600
Durable Goods Manufacturing	4,800	6,100
Nondurable Goods Manufacturing	-700	1,500
Trade, Transportation, and Utilities	4,500	2,500
Wholesale Trade	0	1,800
Retail Trade	4,100	800
Transportation, Warehousing, Utilities	400	-100
Information	-800	-2,000
Financial Activities	2,000	1,100
Professional and Business Services	5,900	4,500
Educational and Health Services	3,600	1,200
Leisure and Hospitality	-100	3,400
Other Services	1,100	2,000
Government	-10,800	-5,400
Federal Government	-600	-1,100
State Government	-6,800	-4,200
Local Government	-3,400	-100

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

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



Source: Alabama Department of Labor.

**Exports.** According to the U.S. Department of Commerce's International Trade Administration, Alabama exports rose 15.2 percent in 2011 to \$17.9 billion. At that level, exports accounted for 11.5 percent of the state's GDP, up from a 10.2 percent share in 2010. Exports to Canada, Alabama's largest trade partner, increased from \$3.2 billion in 2010 to \$3.3 billion for 2011. Other major

destinations for Alabama exports in 2011 were China (\$2.3 billion), Germany (about \$2.0 billion), Mexico (\$1.7 billion), Japan (\$716 million), Brazil (\$659 million), and the United Kingdom (\$594 million). Shipments of transportation equipment, the state's top export product, rose 14.2 percent to \$6.0 billion in 2011. Other major exports in 2011 were chemicals (\$2.3 billion), minerals and ores (\$2.2 billion), machinery (\$1.2 billion), paper products (\$1 billion), primary metals (\$1 billion), and computer and electronic products (\$630 million).

For the first nine months of 2012 compared to the same period in 2011, the state's exports climbed from \$13.2 billion to \$14.8 billion, a gain of 12.1 percent. Canada remained our largest trade partner, receiving 19.6 percent of all Alabama merchandise exports during the first nine months of 2012. Exports to Canada totaled \$2.9 billion, up about 21 percent from the same period in 2011. Germany moved slightly ahead of China as the state's second largest export destination; shipments to Germany and to China each totaled around \$1.9 billion. Transportation equipment exports increased 32.2 percent to \$5.1 billion during this period, while shipments of chemicals climbed 10.1 percent; however, exports of minerals and ores dropped 13.7. Primary metals exports jumped a steep 43.0 percent through September 2012.

**Tax Receipts.** For the fiscal year that ended in September 2012 (FY2012), the gradual recovery in both business and consumer spending contributed to a 3.8 percent (\$325 million) increase in state tax revenues, boosting the total to \$8.9 billion. However, during the first four months of the current fiscal year, total tax revenues were up only 2.1 percent, an increase of \$60 million over the same period in the previous fiscal year. Individual income tax receipts rose 5.9 percent to just over \$1.0 billion, but corporate income tax payments dropped 14.6 percent to \$96.6 million. Sales tax receipts were up 0.9 percent to \$680 million, an increase of \$6 million compared to the first four months of FY2012.

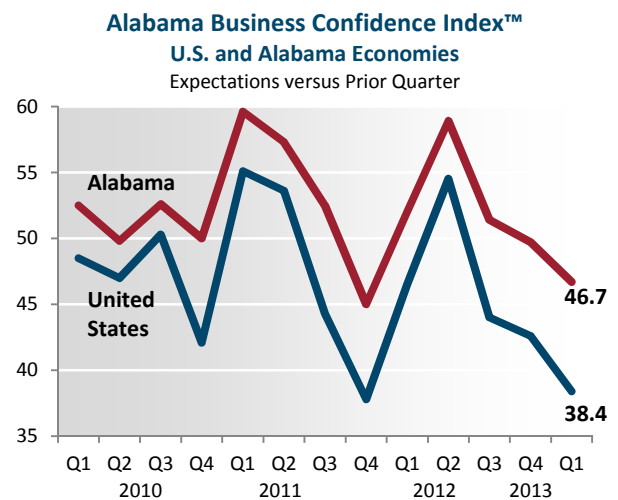
Appropriations to the Alabama Education Trust Fund in the first four months of FY2013 totaled around \$1.7 billion, 2.4 percent (\$41.2 million) lower than in the same period of FY2012. During the same period, approximately \$630 million was appropriated to the state's General Fund, a decrease of 14.5 percent (almost \$107 million) compared to the first four months of the previous fiscal year.

### Outlook for 2013

Real Alabama Gross Domestic Product (GDP) should grow moderately in 2013, increasing by about 1.5 to 2.0 percent. Gains in output could be substantially higher than this average among automotive vehicles and parts manufacturers, as well as for manufacturers of other transportation equipment. Other sectors also expected to show above average output gains include financial activities, administrative and waste management, ambulatory healthcare services, and food services and drinking places. The state's nonagricultural employment is expected to rise by approximately 1.0 percent with about 15,000 to 20,000 jobs added during 2013. Most job gains will be in services, primary and fabricated metals, and transportation equipment manufacturing. However, any significant improvement in payroll employment will encourage Alabamians to enter or reenter the labor force, keeping the unemployment rate at around its current level throughout the year.

Large transportation equipment-related manufacturing and service providing employers will be the major economic drivers in 2013. These include firms in industries such as automotive manufacturing, shipbuilding, steel, tourism, healthcare, and business services. However, until uncertainties about federal budgets and spending priorities as well as deficit reduction plans are resolved, the state's many private contractors and government facilities engaged in aerospace and defense-related projects will remain cautious about hiring or making new capital investments.

Business sentiment for the first quarter of 2013, measured by the Center for Business and Economic Research's *Alabama Business Confidence Index™* (ABCI), fell 2.9 points to 46.4. The index has declined for three consecutive quarters as the state's business executives continue to wait for fiscal uncertainty, particularly at the national level, to abate. Still, most business executives are more optimistic about the Alabama economy than the U.S. economy. The first quarter national economy index reading of 38.4 indicates a marked slowdown in economic activity compared to the fourth quarter of 2012; at 46.7 the Alabama economy index forecasts modestly weaker growth this quarter. Indexes for industry sales (50.4); profits (47.7); hiring (45.7), and capital expenditures (43.5) all fell from the previous quarter, indicating a rather cautious view about economic growth during first quarter 2013. (For a complete ABCI report, go to <http://cber.cba.ua.edu>.)



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

### United States

Real U.S. GDP fell 0.1 percent in the fourth quarter after growing by 3.1 percent in third quarter 2012. The drop in GDP was primarily due to declines in defense spending and inventories, the same two factors that accounted for a relatively strong increase in GDP in the third quarter. Fourth quarter consumer spending growth improved from 1.6 to 2.2 percent, while residential investment showed a sharp increase of 15.3 percent. Nonresidential business spending also rose 8.4 percent, after declining by 1.8 percent in the third quarter. Some of the increase in business spending could have been because of the possible expiration of depreciation allowances at the end of the year, although they were later extended. Exports,

one of the strongest areas of the economy coming out of the recession, fell 5.7 percent in the fourth quarter.

The nation added 157,000 jobs in January 2013, and on the positive side, revised U.S. Department of Labor payroll data show that the economy actually created 335,000 more jobs than was originally estimated for 2012. Still job growth has been relatively sluggish compared to previous recoveries and many of the jobs being added are either part-time or temporary positions that carry few benefits. Uncertainty about the strength of the economic recovery is holding many employers back from hiring new workers.

The U.S. economy is expected to expand by around 1.7 percent in 2013, its third consecutive year of real GDP growth at around 2.0 percent. Continuing stagnation in wages, together with the elimination of the payroll tax cut at the start of this year, is expected to take a significant toll on consumer spending, which accounts for almost two-thirds of the U.S. economy. Real consumer spending is expected to increase by 1.4 percent in the first quarter of 2013, with spending on durable goods rising by only 0.4 percent. Growth in business spending is also expected to be below the levels seen in 2012; an increase of around 3 percent is expected for the first quarter, with spending on equipment and software forecasted to rise by approximately 4 percent. However, residential fixed investment, which includes both home construction and sales, could jump about 15 percent this quarter. A low inventory of homes on the market is pushing up housing prices, while historically low mortgage rates are contributing to increased sales activity. Payrolls are expected to increase modestly again in 2013, with the unemployment rate averaging around 7.5 percent.

Some of the biggest risks to economic growth remain uncertainties in the fiscal policy realm. Although the fiscal cliff deal averted some but not all of the potential tax hikes, other issues such as raising the debt ceiling, sequester-initiated spending cuts, and the federal budget still loom in the coming months. And stagnating wages with sluggish employment growth, combined with an increase in payroll taxes, could have a damaging effect on a recovery that already has weak momentum. Despite these headwinds, the U.S. economy will continue to grow at a modest pace in 2013.

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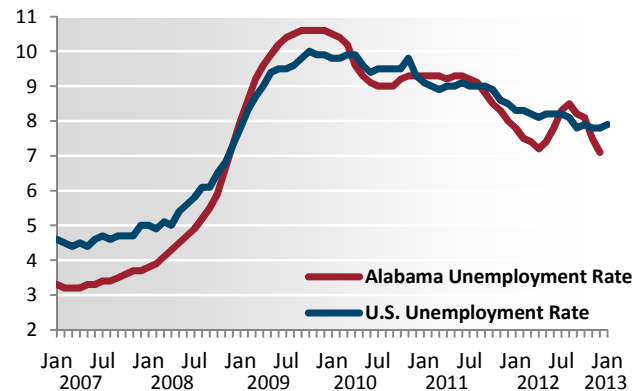
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## Monthly Employment Indicators (December 2012)

	Not Seasonally Adjusted	Seasonally Adjusted
<b>Alabama</b>		
<b>Civilian Labor Force</b>	2,154,744	2,156,955
Percent Change from Year Ago Level	0.7%	0.7%
Absolute Change from Year Ago Level	-15,088	-14,622
<b>Employed</b>	2,013,847	2,004,317
Percent Change from Year Ago Level	0.5%	0.4%
Absolute Change from Year Ago Level	9,654	7,203
<b>Unemployed</b>	140,897	152,638
Percent Change from Year Ago Level	-14.9%	12.5%
Absolute Change from Year Ago Level	-24,742	-21,805
<b>Unemployment Rate</b>	6.5%	7.1%
Unemployment Rate (Dec. 2011)	7.6%	8.0%
<b>U.S. Unemployment Rate</b>		
Unemployment Rate (Dec. 2011)	7.6%	7.8%
Unemployment Rate (Dec. 2011)	8.3%	8.5%

Source: Alabama Department of Labor, Labor Market Information Division.

## Monthly Unemployment Rate, 2007-2013 (Seasonally Adjusted)



Source: U.S. Bureau of Labor Statistics.

## Now Available 2013 Alabama Economic Outlook and Forecast Tables

The *Alabama Economic Outlook 2013* examines current economic conditions and trends and their likely effects on the national and Alabama economies in the coming year.

The Alabama forecast focuses on the short term outlook for output and employment in the state by sector and presents a look at state revenues. Trends in the state's metropolitan areas are also discussed.

Each publication is \$30 (plus \$5 shipping and handling). For more information, call 205.348.6191 or visit our website at: <http://cber.cba.ua.edu>.

