alabama business™

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

Economic Outlook: Third Quarter 2013

Highlights

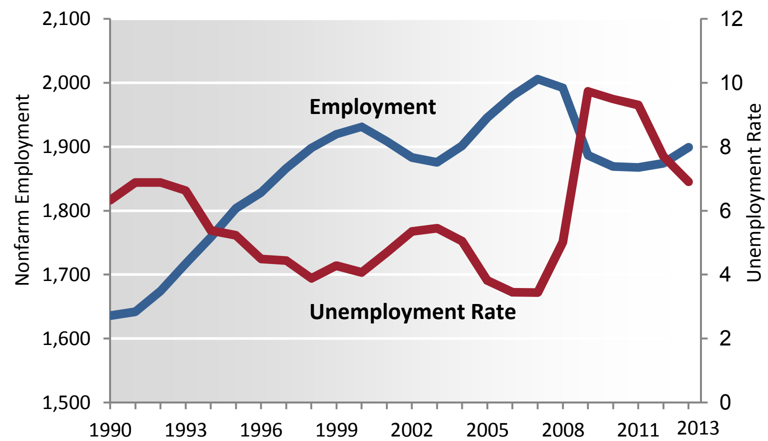
- *The state gained 14,400 nonfarm jobs between June 2012 and June 2013, while seasonally-adjusted total employment rose by 33,990, increasing from 1,995,962 to 2,029,952. According to the establishment survey, nonfarm payrolls in the state totaled 1,909,700 in June 2013, up from 1,895,300 a year ago.*
- *Seasonally-adjusted, the number of unemployed workers fell from 163,982 in June 2012 to 140,148 in June 2013. Although the civilian labor force expanded from 2,159,944 to 2,170,100, total employment grew faster. The state's unemployment rate declined to 6.5 percent in June 2013, down from 7.6 percent a year earlier.*
- *Total nonfarm employment is forecasted to rise between 0.8 and 1.2 percent in 2013. Gains will be strongest in transportation equipment manufacturing, professional and business services, health services, and in food services and drinking places.*
- *Overall, the state's economy is estimated to expand by around 2.2 percent in 2013, about the same as the rate of growth seen in 2012.*
- *After increasing by 3.8 percent in Fiscal Year 2011-2012, state tax revenues are expected to be around 4.0 percent higher in FY2013.*

Alabama

Employment. Nonfarm jobs totaled 1,909,700 in June 2013, 117,000 below the prerecession peak of 2,026,700 reached in December 2007. According to the establishment survey, over the 12-month period ending in June 2013 the state gained a total of 14,400 jobs. Goods producing businesses added 5,300 workers while the service providing sector saw a net gain of 9,100. Among goods producing industries, manufacturing added 3,600 workers and construction had a net increase of 1,700. Construction-related businesses experienced job growth across the board: specialty trade contractors added 1,200 workers, while heavy and civil engineering construction gained 400 jobs and building construction added 100.

Alabama Nonfarm Employment and Unemployment Rate

Employment (Thousands), Unemployment (Percent)



Source: Alabama Department of Labor.

Two industries accounted for all of the net manufacturing job growth during the past year—transportation equipment manufacturers created 4,900 positions, while plastics and rubber products manufacturers added 500. Payrolls in the remaining industries either declined or were flat during the 12-month period ending in June 2013. Sizeable job losses were reported in textiles and apparel and primary and fabricated metals manufacturing (1,000 each); computer and electronic products (800); wood products and food manufacturing (500 each); and in aerospace products and parts and furniture and related products manufacturing (400 each).

Among service providing firms, employment gains between June 2012 and June 2013 were primarily

Alabama Forecast

(Annual Percent Change)

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

	2011	2012	2013	2014
Real GDP	1.1	2.1	2.2	3.2
range			1.5 to 3.0	2.0 to 4.0
Employment	-0.4	0.7	1.0	1.4
range			0.5 to 1.5	0.7 to 2.0
Total Tax Receipts, FY	5.0	3.8	3.8	4.2
range			3.5 to 5.0	3.0 to 6.0

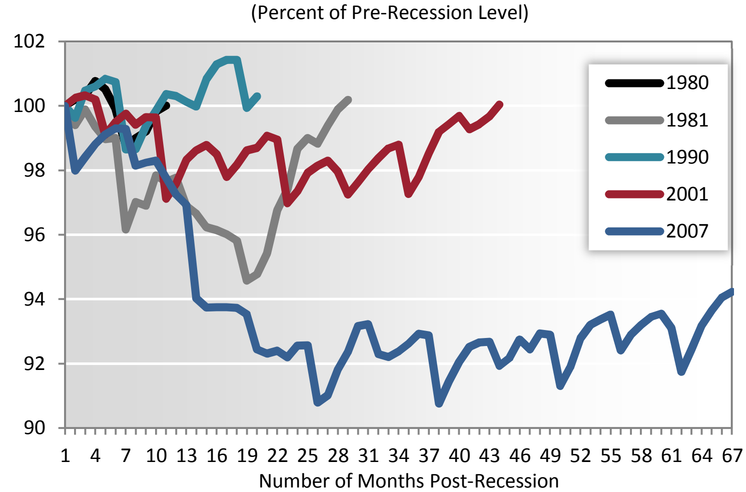
Source: Center for Business and Economic Research, The University of Alabama.

associated with leisure and hospitality (9,500), professional and business services (3,100), health care and social assistance (2,100), and trade (500 in wholesale and 400 in retail). Many of the jobs added were in accommodation and food services (5,900) and in administrative support, waste management, and remediation services (3,800), sectors that pay relatively lower wages, offer limited benefits, and tend to hire temporary or part-time workers. Growth in these types of jobs puts downward pressure on wages, thereby restricting consumer and business demand.

Over the same 12-month period, a number of service providing sectors saw significant job losses, with the largest in state government institutions (2,500) and the information sector including telecommunications (1,100). Financial services; professional, scientific, and technical services; and federal government entities shed 900 jobs each, while firms in educational services and in truck transportation services both lost 800 employees. Relatively sluggish consumer and business spending growth continues to hamper demand for these services.

During the year ending in June 2013, six Alabama metro areas experienced job gains. Nonfarm employment increased in Mobile (2,100), Tuscaloosa (1,900), Montgomery (1,500), Auburn-Opelika (800), Florence-Muscle Shoals (500), and Birmingham-Hoover (100). Metro areas that lost jobs over the same period included Anniston-Oxford (300), Dothan (200), and Huntsville (100), while payrolls in Decatur and Gadsden were flat. Despite relatively strong growth in payrolls, Mobile had the highest metro unemployment rate in June at 7.8 percent—still a considerable improvement over 9.5 percent unemployment a year earlier. Unemployment was the lowest in the Auburn-Opelika area at 5.8 percent, followed closely by Birmingham-Hoover and Huntsville with 5.9 percent unemployment.

Alabama Employment Level Compared to the Beginning of Each Recession
(Percent of Pre-Recession Level)



Source: Alabama Department of Labor.

Alabama Nonfarm Employment
Change in Number of Jobs

	June 2011 to June 2012	June 2012 to June 2013
Total Nonfarm Employment	17,100	14,400
Natural Resources and Mining	100	0
Construction	-1,800	1,700
Manufacturing	5,900	3,600
Durable Goods Manufacturing	6,400	2,200
Nondurable Goods Manufacturing	-500	1,400
Trade, Transportation, and Utilities	2,500	300
Wholesale Trade	1,100	500
Retail Trade	-300	400
Transportation, Warehousing, Utilities	1,700	-600
Information	-500	-1,100
Financial Activities	-200	-900
Professional and Business Services	6,100	3,100
Educational and Health Services	3,300	1,300
Leisure and Hospitality	6,100	9,500
Other Services	1,800	-300
Government	-6,200	-2,800
Federal Government	-1,700	-900
State Government	-4,100	-2,500
Local Government	-400	600

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

While all of Alabama's 67 counties experienced a significant decline in unemployment compared to year-ago levels, 12 counties still saw rates of 10.0 percent and over. Wilcox County had the highest unemployment at 15.8 percent while Shelby County's rate of 4.5 percent was the lowest. Over the past three years, all Alabama counties and metro areas have shown significant improvement in unemployment rates.

Exports. According to the U.S. Department of Commerce's International Trade Administration, Alabama exports declined 2.7 percent during the first three months of 2013 compared to the same period in 2012, slipping from $4.8 billion to $4.7 billion. While Canada remained our largest trading partner early in 2013, China assumed the position of second largest, surpassing both Germany and Mexico. Exports to Canada increased from $925 million in the first quarter of 2012 to around $947 million for the first quarter of 2013. First quarter 2013 exports to China totaled $596 million, followed by Germany ($522 million) and Mexico ($484 million). Exports to all three of these countries were below the levels seen in the first quarter of 2012. Other major trading partners in the first quarter of 2013 included Japan ($173 million), the United Kingdom ($165 million), South Korea ($153 million), and Brazil ($139 million).

Shipments of transportation equipment, the state's top export product, rose $153 million to almost $1.9 billion in the first quarter of 2013, an increase of 0.9 percent compared to year-ago levels. Other major exports in the first quarter of 2013 were chemicals ($677 million), minerals and ores ($372 million), primary metals ($328 million), paper products ($225 million), machinery ($216 million), fabricated metals ($173 million), food products ($143 million), and computer and electronic products ($128 million). Exports of primary metal products and nonelectrical machinery posted steep declines compared to the first quarter of 2012, with both down around 25 percent.

Tax Receipts. In the first nine months of the current fiscal year (FY2013), Alabama's tax revenues totaled around $7.2 billion, up 4.6 percent, or slightly over $315 million, from the same period a year earlier. Sales tax revenues rose 0.9 percent (almost $15 million) to about $1.52 billion, with the weak gain a clear indication that consumers are still very cautious about spending. At around $370 million, corporate income tax receipts were $35 million above the first nine months of FY2012. Individual income tax revenues rose 7.1 percent, up $194 million to about $2.9 billion during the first three quarters of FY2013.

For the first nine months of FY2013 compared to the same period in FY2012, appropriations to the Alabama Education Trust Fund, which are primarily derived from income and sales taxes, rose by only $13.5 million (0.3 percent) to total about $4.3 billion. For the same period, appropriations to the state's General Fund, directed towards noneducation-related spending, declined by approximately $51 million to about $1.2 billion, a drop of 4.1 percent.

Monthly Employment Indicators
(June 2013)

	Not Seasonally Adjusted	Seasonally Adjusted
Alabama		
Civilian Labor Force	2,169,797	2,170,100
Percent Change from Year Ago Level	-0.7%	0.5%
Absolute Change from Year Ago Level	-15,906	10,156
Employed	2,023,217	2,029,952
Percent Change from Year Ago Level	0.9%	1.7%
Absolute Change from Year Ago Level	17,824	33,990
Unemployed	146,580	140,148
Percent Change from Year Ago Level	-18.7%	-14.5%
Absolute Change from Year Ago Level	-33,730	-23,834
Alabama Unemployment Rate	6.8%	6.5%
Unemployment Rate (June 2012)	8.2%	7.6%
U.S. Unemployment Rate	7.8%	7.6%
Unemployment Rate (June 2012)	8.4%	8.2%

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

Outlook for 2013

Inflation-adjusted Alabama GDP should grow by about 2.2 percent in 2013, close to the pace of expansion seen in 2012. Transportation equipment manufacturing will continue to be one of the fastest growing industries. Relatively strong demand for vehicles produced in Alabama is expected to keep production at current levels for the remainder of this year. Nonfarm employment is forecasted to rise 0.8 to 1.2 percent, with the state adding between 15,000 and 20,000 jobs in 2013. Most job gains will be in transportation equipment manufacturing; food services and drinking places; administrative support, waste management, and remediation services; educational services; healthcare and social assistance; and finance and insurance-related services.

Gradually improving residential and commercial real estate markets are expected to help the state regain some of the construction jobs that were lost during recent years. However, given still relatively sluggish consumer spending growth, the pace of payroll gains in the leisure and hospitality sector, including restaurants and other food service establishments, is expected to slow in the second half of this year.

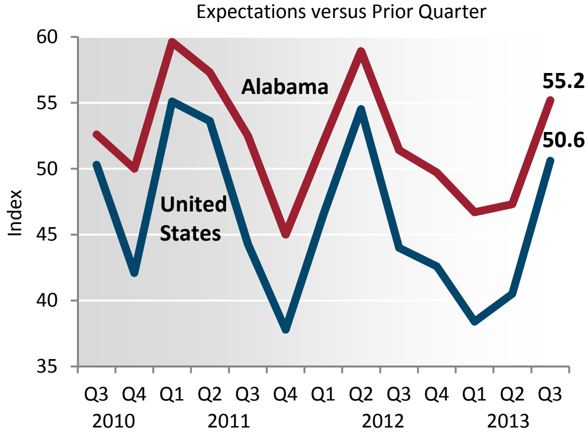
Looking at not seasonally-adjusted data, the recent improvement in Alabama's unemployment rate has been due to moderate employment growth coupled with a slightly larger decrease in the civilian labor force. The loss of almost 16,000 labor force participants over the 12 months ending in June 2013 likely results from a number of factors, including discouraged workers who have given up looking for a job, workers who have retired, and/or workers who have moved out of state for employment opportunities. Sluggish consumer and business spending growth, coupled with uncertainties concerning federal fiscal policies and upcoming implementation of the healthcare legislation, will keep many of the state's employers cautious about new hiring and capital investment during the remainder of this year.

Business sentiment, measured quarterly by the Center for Business and Economic Research's *Alabama Business Confidence Index*™ (ABCI), rose 5.2 points to 52.9 on the third quarter 2013 survey. That's the first time the state's business community has had a positive outlook overall since the third quarter of last year. However, business sentiment has not yet regained the pre-recession level of 56.8 recorded in the third quarter of 2007. Business executives are much more optimistic about prospects for the state than the national economy. An Alabama economy index reading of 55.2 forecasts moderate expansion in the third quarter, while the U.S. economy could perform slightly better than last quarter with the index at 50.6.

Expectations for sales rose to 57.8, up from 53.9 for the previous quarter, but still below the index reading of 61.8 registered a year earlier. The profits index increased 3.2 points to 53.2. Hiring should proceed at about the same pace as in the second quarter, with the index up 3.2 points to a neutral 50. Capital expenditures could pick up slightly—the index rose 3.0 points to 50.7. The financial activities sector showed the most optimism looking ahead to the third quarter, while firms in construction; transportation, information, and utilities; wholesale trade; and other services were moderately optimistic.

Among the metro areas tracked by the ABCI survey, Mobile had the highest confidence index of 59.0 this quarter, followed by Montgomery at 56.6 and Birmingham-Hoover with 54.4. Although confidence rose in every metro, Huntsville area business executives have a moderately negative outlook with a third quarter ABCI of 45.7.

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



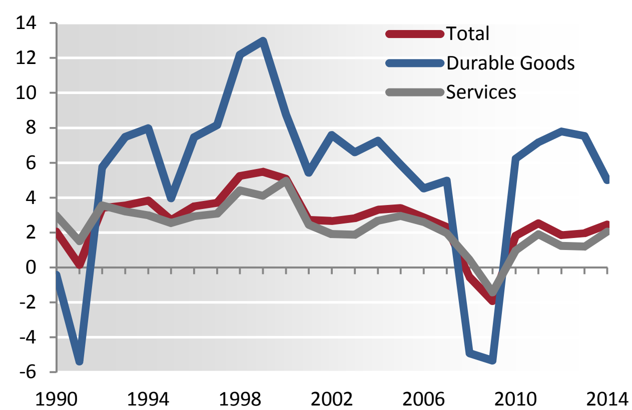
Source: Center for Business and Economic Research, The University of Alabama.

United States

The U.S. economy has now grown for 15 consecutive quarters since the end of the recession, but the rate of growth, at around 2.0 percent, has been among the weakest of any recovery since World War II. After expanding by only 0.4 percent in the fourth quarter of 2012, the economy grew at a slight better pace of 1.8 percent in the first quarter of 2013. Consumer spending, which accounts for two-thirds of U.S. economic activity, largely drove overall gains in the first three months of this year. An increase in housing activity, strong automobile sales, and gradually improving payrolls are some of the current bright spots. However, despite some help from the housing recovery and its effects on wealth and housing-related purchases, the current pace of consumer spending will be difficult to maintain going forward. Consumers face an increase in payroll taxes due to the expiration of Bush era tax cuts and wages remain relatively stagnant. Households have lost approximately 1.0 percent of their disposable income ($12 to $13 billion) this year due to expiration of the payroll tax cut. In spite of recent declines, household debt burdens remain high and net nonmortgage consumer debt is expected to increase from about $2.8 trillion in 2012 to over $3.0 trillion in 2013.

The strength of the recovery is not helped by the fact that many of the jobs being added are part-time or temporary in nature. With a seasonally-adjusted increase of 322,000 in June, 8.2 million Americans are working part-time despite wanting full-time work. If these workers are included, the unemployment rate is 14.3 percent instead of the reported 7.6 percent. Of 195,000 jobs added in June, 75,000 or almost 39 percent were in the leisure and hospitality sector; monthly job growth in this sector has averaged 55,000 so far in 2013. There were one million so-called discouraged workers in June who say they are not currently looking for work because they believe no jobs are available for them. That's an increase of more than 200,000 from a year ago and is one of the reasons why the unemployment rate has dropped. The increase in discouraged workers could be a hurdle for unemployment to reach the target 6.5 percent at which the Fed would likely end its bond-buying program. Currently, about 12 million Americans are counted as unemployed.

Consumer Spending, Annual Percent Change
(Chained 2005 Dollars)



Source: U.S. Bureau of Economic Analysis and IHS Global Insight.

Consumer spending is expected to increase by approximately 1.7 percent in the third quarter, followed by a 2.0 percent rise in fourth quarter 2013. Light vehicle sales will remain a bright spot due to pent-up demand, relatively low interest rates, and manufacturers' discounts. Overall business spending will increase by 5.5 percent in the third quarter and 7.0 percent in the fourth. Spending on equipment and software could rise by about 7.5 percent for the second half of the year. Expenditures on information processing equipment will be relatively strong in the remainder of 2013, increasing by slightly over 10 percent. After consistently declining in recent years, spending on commercial and healthcare-related structures will increase a modest 0.3 percent in the third quarter, followed by a sizeable 5.0 percent increase in the fourth quarter.

Although the economy will continue to add jobs in the coming months, the pace of job creation is forecasted to be fairly sluggish. Most new jobs will be in leisure and hospitality and professional and business services, while employment gains in manufacturing will remain weak due to poor export growth. After growing 1.8 percent in the first quarter of 2013, the U.S. economy is estimated to expand by about 1.6 percent in the second quarter, and around 2.0 percent in the second half of this year. The rate of growth should pick up slightly from the third to the fourth quarter. For 2013 as a whole, real GDP is forecasted to increase by approximately 1.6 percent, compared to 2.2 percent in 2012. Some of the major risks to this forecast include the sluggish growth being experienced by major European economies and Japan. Cuts in domestic spending will also continue to impede economic growth through the remainder of 2013.

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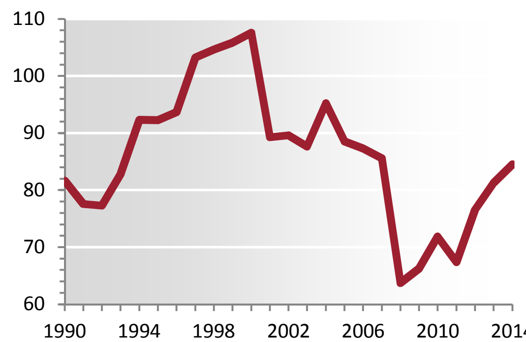
Consumer Sentiment Index, University of Michigan



Source: University of Michigan and IHS Global Insight.

Save the Date!

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Make plans to join the Center for Business and Economic Research for their 26th annual **Economic Outlook Conference** on January 15, 2014 in Montgomery.

The Center will look back at how the national, Alabama, and metro area economies fared in 2013 and present the forecasts for 2014.

We'll let you know when registration is available. Check out information from last year's *Outlook* and conference on our website at http://cber.cba.ua.edu.

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