

## Economic Outlook: Fourth Quarter 2013

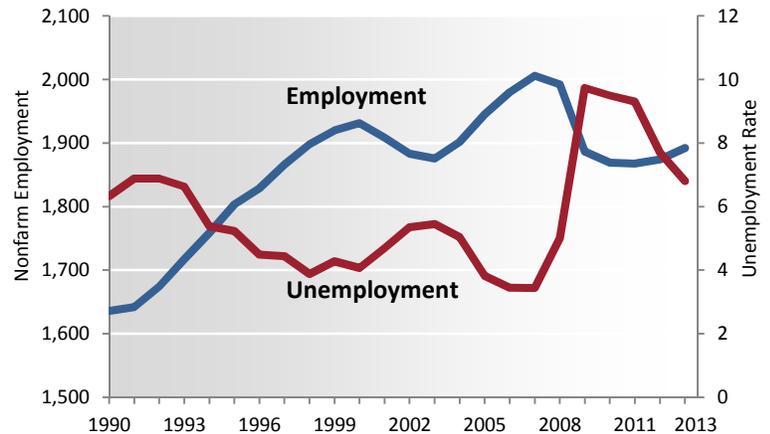
### Highlights

- Alabama added 9,700 nonfarm jobs between August 2012 and August 2013, a 0.5 percent gain that boosted nonfarm payrolls to 1,892,300. Seasonally-adjusted total employment rose from 1,996,530 to 2,015,349. There were 18,819 more employed residents statewide compared to a year ago, a 0.9 percent increase.
- Seasonally-adjusted, the number of unemployed workers declined from 161,435 in August 2012 to 134,367 in August 2013. Over this period, unemployment fell from 7.5 to 6.3 percent. About 70 percent of this drop was accounted for by an increase in total employment, with the remainder due to labor force attrition. The state's civilian labor force of 2,149,716 in August 2013 was down 0.4 percent from a year ago.
- Total nonfarm employment is forecasted to increase by around 1.0 percent in 2013, with the largest gains in transportation equipment manufacturing, professional and business services, health services, retailing, and food services and drinking places. Jobs could be added at a stronger 1.4 percent pace in 2014.
- Overall, the state's economy is estimated to grow by approximately 2.0 percent during 2013, about the same pace or just slightly below the rate of growth seen in 2012. GDP gains could pick up to about 3.0 percent for 2014.
- After increasing by 4.0 percent in fiscal year 2012-2013, state tax revenues are expected to grow by about 4.0 to 4.5 percent in FY2014.

## Alabama

**Employment.** At the prerecession peak in December 2007, Alabama employed 2,026,700 nonfarm workers. In August 2013 nonfarm employment of 1,892,300 was still 134,400 (6.6 percent) below that peak. According to the establishment survey, over the 12-month period ending in August, the state gained a total of 9,700 jobs; job growth in recent months has been below the pace

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



Source: Alabama Department of Labor.

seen in the first half of the year. Goods producing businesses gained 2,800 workers, while the service providing sector added 6,900.

Among goods producing industries, manufacturing added a net 4,300 workers while construction had a net loss of 1,200. Despite some improvement in Alabama's housing markets, construction-related firms experienced job losses across the board: specialty trade contractors shed 700 workers, heavy and civil engineering concerns lost 300, and building construction saw a net loss of 200 workers. Only two of the state's manufacturing industries experienced payroll increases over the 12 months ending in August. Transportation equipment manufacturers added 4,400 employees and plastic and rubber products manufacturing gained 400. Job losses were particularly notable for manufacturers of primary and fabricated

### Alabama Forecast

(Annual Percent Change)

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

|                               | 2011 | 2012 | 2013       | 2014       |
|-------------------------------|------|------|------------|------------|
| <b>Real GDP</b>               | 1.1  | 2.1  | 2.0        | 3.0        |
| range                         |      |      | 1.5 to 3.0 | 2.0 to 4.0 |
| <b>Employment</b>             | -0.4 | 0.7  | 1.0        | 1.4        |
| range                         |      |      | 0.5 to 1.5 | 0.7 to 2.0 |
| <b>Total Tax Receipts, FY</b> | 5.0  | 3.8  | 4.0        | 4.2        |
| range                         |      |      |            | 3.0 to 6.0 |

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

metals (1,100), textiles and apparel (1,000), computer and electronic products (700), wood products (500), furniture (400), and aerospace parts and food (300 each). Both a slowdown in capital expenditures in domestic markets and weaker exports contributed to the drops in payrolls.

Job growth at service providing businesses slowed significantly toward the middle of the year. During the 12-month period ending in August, employment gains were primarily associated with leisure and hospitality (7,800), retailing (1,800), professional and business services (1,100), and educational and health services (500). Service-related sectors that experienced a net loss in payrolls included information (1,000), wholesale trade (600), financial activities (200), and government (400). Businesses engaged in transportation and warehousing shed 2,100 employees over the past year.

Most service jobs added have been in accommodation and food services (5,400); administrative, support, and waste management and remediation services (2,600); retail (1,800); and social assistance (600)—all typically sectors of the economy that pay relatively lower wages and offer fewer benefits. Over the past 12 months, both federal and state government employment have declined by 1,300. In contrast, local government entities gained 2,200 jobs, with about half in education.

From August 2012 to August 2013, job gains were posted by seven of the state's 11 metropolitan areas. The Tuscaloosa metro added 2,000 jobs, followed by Mobile (1,300), Gadsden (800), Dothan (500), Florence-Muscle Shoals (400), Auburn-Opelika (300), and Montgomery (100). Cuts in federal government spending had a significant impact on payrolls in Huntsville, with 1,000 jobs lost in the past year. Huntsville job losses were pretty much across the board; the only sectors that added jobs were

## Alabama Nonfarm Employment Change in Number of Jobs

|  | Aug 2011<br>to Aug 2012 | Aug 2012<br>to Aug 2013 |
|--|-------------------------|-------------------------|
| Total Nonfarm Employment               | 14,300                  | <b>9,700</b>            |
| Natural Resources and Mining           | 200                     | -300                    |
| Construction                           | -1,000                  | -1,200                  |
| Manufacturing                          | 5,900                   | 4,300                   |
| Durable Goods Manufacturing            | 6,200                   | 1,900                   |
| Nondurable Goods Manufacturing         | -300                    | 2,400                   |
| Trade, Transportation, and Utilities   | -100                    | -900                    |
| Wholesale Trade                        | 200                     | -600                    |
| Retail Trade                           | -1,900                  | 1,800                   |
| Transportation, Warehousing, Utilities | 1,600                   | -2,100                  |
| Information                            | -500                    | -1,000                  |
| Financial Activities                   | 900                     | -200                    |
| Professional and Business Services     | 7,500                   | 1,100                   |
| Educational and Health Services        | 2,500                   | 500                     |
| Leisure and Hospitality                | 4,200                   | 7,800                   |
| Other Services                         | 1,600                   | 0                       |
| Government                             | -6,900                  | -400                    |
| Federal Government                     | -2,000                  | -1,300                  |
| State Government                       | -4,800                  | -1,300                  |
| Local Government                       | -100                    | 2,200                   |

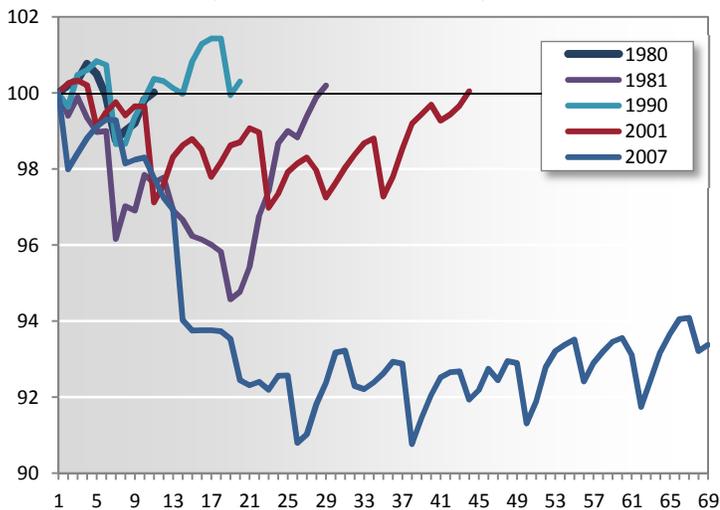
Source: Alabama Department of Labor and Center for Business and Economic Research, The University of Alabama.

transportation equipment manufacturing (100), educational and health services (500), leisure and hospitality (400), and local government (200). The Huntsville metro saw significant employment declines in computer and electronic product manufacturing (900) and professional, scientific, and technical services (1,200). The Birmingham-Hoover metro lost 700 jobs, while Anniston-Oxford shed 300. Payrolls in Decatur were flat over the 12-month period.

As of August 2013, Mobile's unemployment rate of 7.7 percent was the highest among the metro areas, although it was down from 9.1 percent a year ago. Auburn-Opelika had the lowest metro unemployment rate at 5.5 percent, followed by Huntsville with 5.8 percent. Of the state's 67 counties, 11 were still experiencing unemployment of 10.0 percent or above in August. Wilcox County had the highest rate at 16.0 percent while Shelby County's 4.5 percent unemployment rate was the lowest.

**Exports.** According to the U.S. Department of Commerce's International Trade Administration, Alabama exports declined 3.1 percent during the first half of 2013, slipping from \$10.1 billion to \$9.7 billion. This follows a 9.0 percent increase seen between 2011 and 2012. Canada remains Alabama's largest trading partner, with exports rising from approximately \$2 billion in the first six months of 2012 to \$2.2 billion for the same period this

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



Source: Alabama Department of Labor.

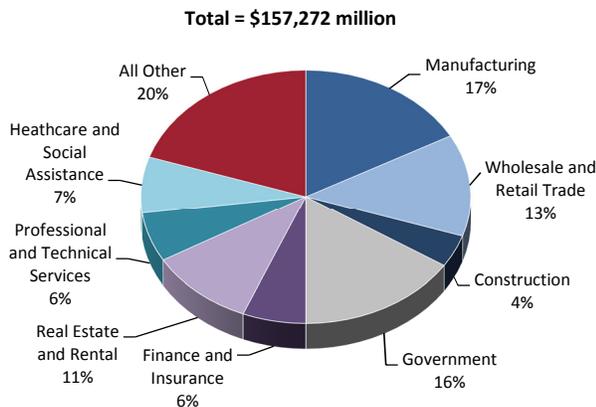
year. Exports to China, now the state's second largest trading partner, dropped from \$1.4 billion to \$1.1 billion for the first half of 2012 compared to the first half of 2013. During the first six months of this year, exports to Germany totaled \$1.1 billion, followed by Mexico (\$1.0 billion), the United Kingdom (\$355 million), and Japan (\$330 million).

In most industries, exports during the first half of this year were below levels experienced in the first half of 2012. However, shipments of transportation equipment, the state's top export product, rose \$205 million to approximately \$4.1 billion. Other major exports in the first six months of 2013 were chemicals (\$1.3 billion), minerals and ores (\$718 million), primary metals (\$677 million), nonelectrical machinery (\$444 million), paper products (\$407 million), fabricated metals (\$351 million), food products (\$304 million), and computer and electronic products (\$256 million).

**Tax Receipts.** For fiscal year (FY) 2013 that ended in September, Alabama's total tax revenues of almost \$9.3 billion were up about 4.0 percent, or around \$355 million, from the previous fiscal year. Sales tax revenues rose 1.6 percent (about \$33 million) to slightly over \$2.0 billion. At around \$451 million, corporate income tax receipts were \$28 million higher compared to FY2012, an increase of 6.6 percent. Individual income tax revenues rose 6.1 percent, up \$216 million to about \$3.8 billion.

For FY2013, appropriations to the Alabama Education Trust Fund, which are primarily funded from income and sales taxes, rose by approximately \$9.0 million, or about 0.2 percent, to total around \$5.7 billion. At the same time, appropriations to the state's General Fund, directed toward noneducation-related spending, increased by \$9.6 million to about \$1.7 billion, a gain of 0.6 percent.

**Share of Total Alabama GDP (2012)**  
Millions of 2005 Chained Dollars (Percent)



Source: U.S. Department of Commerce, Bureau of Economic Analysis.

## Monthly Employment Indicators (August 2013)

|                                     | Not Seasonally Adjusted | Seasonally Adjusted |
|-------------------------------------|-------------------------|---------------------|
| <b>Alabama</b>                      |                         |                     |
| <b>Civilian Labor Force</b>         | 2,159,485               | 2,149,716           |
| Percent Change from Year Ago Level  | -0.2%                   | -0.4%               |
| Absolute Change from Year Ago Level | -3,281                  | -8,249              |
| <b>Employed</b>                     | 2,014,298               | 2,015,349           |
| Percent Change from Year Ago Level  | 1.1%                    | 0.9%                |
| Absolute Change from Year Ago Level | 21,746                  | 18,819              |
| <b>Unemployed</b>                   | 145,187                 | 134,367             |
| Percent Change from Year Ago Level  | -14.7%                  | -16.8%              |
| Absolute Change from Year Ago Level | -25,027                 | -27,068             |
| <b>Alabama Unemployment Rate</b>    | 6.7%                    | 6.3%                |
| Unemployment Rate (August 2012)     | 7.9%                    | 7.5%                |
| <b>U.S. Unemployment Rate</b>       | 7.3%                    | 7.3%                |
| Unemployment Rate (August 2012)     | 8.2%                    | 8.1%                |

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

## Outlook for 2013

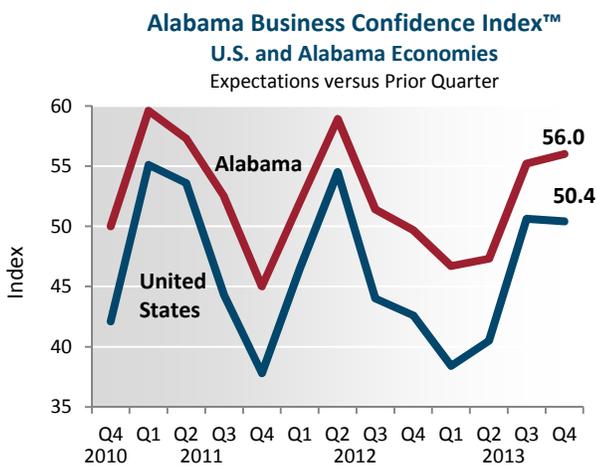
Inflation-adjusted Alabama GDP should increase by about 2.0 percent in 2013, with transportation equipment manufacturing continuing to be one of the fastest growing industries. Pent-up demand and a slowly improving economy, coupled with strong incentives being offered by manufacturers, are the primary drivers of relatively strong sales of vehicles made in the state.

Nonfarm employment is expected to rise about 1.0 percent, with the addition of around 10,000 to 15,000 new jobs. Most job gains will be in transportation equipment manufacturing; food services and drinking places; administrative, support, and waste management and remediation services; and healthcare and social assistance. Gradually improving residential and commercial real estate markets are expected to help regain some of the construction jobs that were lost during recent years. However, with consumer spending still relatively sluggish, payroll gains in the leisure and hospitality sector, including restaurants and other food service establishments, are expected to be weaker than earlier in 2013.

The recent declines in Alabama's unemployment rate have been due to moderate improvement in payrolls, coupled with a decline in the civilian labor force. Labor force attrition results from various factors, including discouraged workers who have given up on looking for a job, workers who have retired, and/or workers who have moved out of the state for employment opportunities elsewhere. In the near term, with sluggish growth in consumer and business spending and continuing fiscal

policy uncertainties, most employers will remain cautious about new hiring and capital spending.

Business sentiment for the fourth quarter of 2013, measured by the Center for Business and Economic Research's *Alabama Business Confidence Index™* (ABCI), dropped 1.0 point to 51.9, staying positive but forecasting modest growth in the fourth quarter. A reading above 50 indicates expansion, while an index value below 50 reflects contraction. While business confidence is higher than the 48.3 recorded a year ago in fourth quarter 2012, it is well below its prerecession level of 56.8 in the third quarter of 2007. Most business leaders are much more optimistic about the Alabama economy than the U.S. economy. The fourth quarter Alabama index registered 56.0, with the U.S. economy index at 50.4.



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

At 54.3 the fourth quarter index for sales expectations is down from 57.8 in the third quarter, but still above the 51.1 reading a year ago. The profits index dropped 1.7 points to 51.5. Hiring is expected to be slightly stronger this quarter than last with the hiring index up 0.8 points to 50.8. Uncertainty is likely curtailing capital expenditure plans—the index fell 2.3 points to 48.4. The financial activities sector is more optimistic about earnings prospects in the fourth quarter compared to the third quarter, while firms in construction, manufacturing, and other services anticipate weaker profits.

Among the metro areas tracked by the ABCI survey, Mobile had the highest confidence index of 58.0 this quarter, followed by Montgomery at 54.3 and Birmingham-Hoover with 53.3. Confidence in these metros was down but still positive for the fourth quarter. Although the Huntsville ABCI edged up 0.1 points to 45.8, area business executives continue to have a moderately negative outlook.

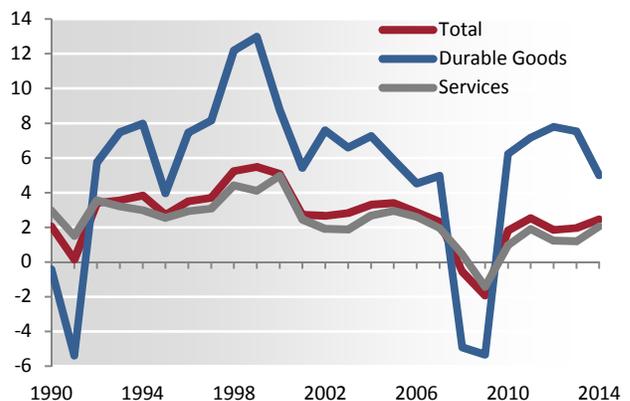
## United States

Real GDP growth for the second quarter of 2013 was revised up to 2.5 percent from an initial reading of 1.7 percent. This revision came as a result of relatively stronger exports and higher inventory accumulation; however, a higher level of inventory accumulation in the second quarter will essentially have a dampening effect on the pace of growth in the third and fourth quarters. Overall, the economy has continued to grow at a sluggish rate during the 16 quarters since the recession's end.

The government shutdown, ongoing as of this writing, is expected to subtract 0.2 percentage points from fourth quarter GDP per week, according to IHS Global Insight. Since 1976 there have been a total of 17 shutdowns lasting a median of five days and impacting about 800,000 workers. As a result of the government shutdown and the loss of government sector contributions toward GDP, fourth quarter output growth is expected to be around 1.6 percent, down from 1.8 percent estimated for the third quarter. Overall, the U.S. economy will grow only about 1.5 percent in 2013.

Consumer spending, which accounts for two-thirds of the U.S. economy, largely drove overall GDP gains in the first quarter of this year, but the pace of spending growth essentially stalled in the second quarter. Overall, consumer spending is estimated to rise by 1.7 percent in the third quarter and 2.0 percent in the fourth for an average of 2.0 percent for the year. Spending could grow a stronger 2.5 percent during 2014. Currently, consumer spending is largely being driven by automobile and computer sales. Light vehicle sales could average around 15.5 million units in 2013, followed by close to 16.0 million units in 2014. Sales of computers and peripheral equipment are expected to increase about 12 percent in both 2013 and 2014. Computer software and accessory sales

### Real Consumer Spending, Annual Percent Change



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

could rise by 7.5 percent in 2013 and 8.6 percent in 2014. Still, growth in consumer spending remains constrained by relatively stagnant wages and tax and debt burdens.

The fact that most of the jobs being added are either part-time or temporary, with many in relatively low wage sectors of the economy suggests that wage growth will continue to be modest. Payrolls in August were up 169,000, but the July jobs data was revised down from 162,000 to only 104,000. The three-month average for the second quarter was around 149,000, significantly below the 207,333 monthly average in the first quarter. Despite a pickup in housing markets, construction employment remained flat. Manufacturers added 14,000 workers during August, mostly in motor vehicle-related industries. Service providing firms created 136,000 jobs, largely in healthcare, food services, and retailing.

Overall, even though the unemployment rate fell to 7.3 percent in August from July's 7.4 percent, the decline was the result of the labor force shrinking faster than employment declined. And if we include workers who want full-time work but can only find part-time employment, the August unemployment rate would be over 14 percent instead of the 7.3 percent reported. Seasonally-adjusted, the civilian labor force declined by 312,000 during the month of August, while 198,000 jobs were lost. Over the 12-month period ending in December 2013, a gain of about 2.4 million jobs is expected; the pace of job growth will be about the same in 2014, with approximately 2.5 million new jobs forecasted. The swings in the labor force from month to month will most likely hold the unemployment rate close to present levels.

Business spending is expected to increase 2.6 percent for 2013 as a whole, down from the 7.3 percent gain seen in 2012. Spending on equipment and software will rise by around 3.5 to 4.0 percent, with the fastest growing sector being communication equipment (up almost 11.0 percent). Expenditures on computers and peripherals are likely to drop by 2.0 to 2.5 percent in 2013. Overall spending on industrial equipment is forecasted to rise approximately 2.5 percent in 2013, following a 5.5 percent increase in 2012. The commercial sector is also expected to remain relatively weak for the remainder of the year, declining by about 0.3 percent. Although the economy will continue to add jobs in the coming months, the pace of job creation is forecasted to be fairly sluggish, with most of the jobs being created in leisure and hospitality, professional and business services, and transportation-related industries.

Major risks to economic growth include continuing weak employment gains, particularly in relatively better paying jobs; higher interest rates choking off the housing recovery; and higher oil prices due to conflict in the Middle East. The cuts in domestic federal government spending will also continue to impede economic growth

for the remainder of 2013. Overall, the U.S. economy is expected to expand at an annual rate of 1.5 percent in 2013, well below the 2.8 percent rate of growth experienced in 2012. Economic growth could pick up to around 2.5 percent in 2014.

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## REMEMBER THE DATE!

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>.

Send your questions to [uacber@cba.ua.edu](mailto:uacber@cba.ua.edu) or call 205.348.6191. Contact Carolyn Trent at 205.348.3589 to inquire about corporate sponsorships.

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