

Economic Outlook: First Quarter 2014

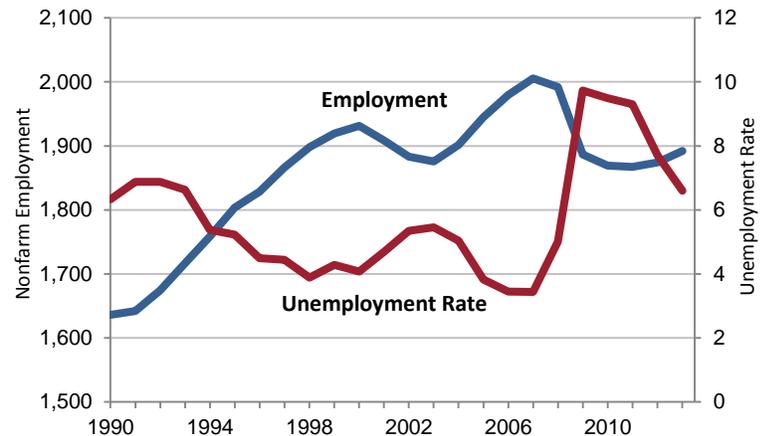
Alabama

Highlights

- The state gained 10,500 jobs between December 2012 and December 2013, an increase of 0.6 percent. Alabama nonfarm employment totaled 1,897,500 in December 2013, up 0.6 percent from 1,887,000 a year earlier.
- On a seasonally adjusted basis, the number of unemployed Alabamians declined from 145,613 in December 2012 to 129,743 in December 2013. The civilian labor force also shrank, falling from 2,150,144 to 2,117,614. This 1.5 percent decrease in the labor force, coupled with a smaller 0.8 percent decline in total employment, helped lower the state's unemployment rate from 6.8 to 6.1 percent during the year.
- Total nonfarm employment is forecasted to increase by about 1.3 percent in 2014, with significant payroll 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 around 2.4 percent during 2014, higher than the 1.9 percent rate of growth seen in 2013.
- After increasing by about 4.0 percent in Fiscal Year 2012-2013, state tax revenues are expected to grow by 4.0 to 4.5 percent in FY2014, depending on the pace of economic and payroll growth. Both of these factors are very much dependent on monetary and fiscal policies set at the national level.

Employment. Although the state continues to mirror the national trend with gradual gains in payrolls, the pace of job growth slowed toward the end of 2013. Nonfarm employment totaled 1,897,500 in December 2013, down by 129,200 jobs (6.4 percent) from a prerecession peak of 2,026,700 in December 2007. Over the 12-month period ending in December 2013, the state gained a net of 10,500 jobs. Goods producing firms saw payroll gains

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



Source: Alabama Department of Labor.

of 6,400, while service providing businesses added only 4,100 workers.

For the first time in nearly six years, Alabama's construction sector employment increased, with a net gain of 400 jobs. Heavy and civil engineering construction firms added 800 workers, while building construction and specialty trade contractors each lost 200 jobs. Manufacturing job gains totaled 5,900 and firms in natural resources and mining added 100 workers to their payrolls.

From December 2012 to December 2013, durable goods producing industries in the state added a total of 2,100 workers. These job gains were associated with motor vehicle parts manufacturing (2,400); primary and fabricated metals manufacturing (400), motor vehicle manufacturing (400), and machinery manufacturing

Alabama Forecast

(Annual Percent Change)

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

	2012	2013	2014	2015
Real GDP	1.3	1.9	2.4	3.1
range			2.0 to 3.2	2.5 to 4.0
Employment	0.7	0.3	1.3	1.0
range			0.5 to 1.8	0.7 to 2.0
Total Tax Receipts, FY	3.8	4.0	4.1	4.5
range			3.5 to 5.6	3.5 to 6.0

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

(100 workers). Other industries associated with producing durable goods products experienced a net loss in payrolls. Nondurable goods manufacturers had a net gain of 3,800 jobs, including 400 workers in plastics and rubber products and 100 in food manufacturing. Textile mills, textile product mills, and apparel manufacturers together shed 1,200 workers during the 12-month period ending in December 2013.

Among service providing firms, the largest job gains over the past year were in retailing (6,600 jobs), including food and beverage stores (1,600), general merchandise stores (900), and motor vehicle and parts dealers (500). The leisure and hospitality sector also saw strong job growth with the addition of 5,600 workers, mostly at food services and drinking places (5,700).

While employment in the state's financial sector grew by 300, most remaining service providing sectors experienced job losses during 2013. Transportation and warehousing firms lost 1,900 jobs and businesses in wholesale trade shed 700 workers. Service providing industries with modest job losses included information (200), educational and health services (200), utilities (100), and professional and business services (100 jobs). Government sector employment fell by 4,900, with 1,200 jobs lost in state government, 2,100 at local government entities, and 1,600 federal government positions.

From December 2012 to December 2013, seven of the state's 11 metropolitan areas posted job gains: Tuscaloosa added 3,300 jobs, Montgomery 2,000, Birmingham-Hoover 1,500, Gadsden 1,100, Florence-Muscle Shoals 800, Dothan 500, and Auburn-Opelika 100. Among the metro areas that shed jobs over the 12-month period, Huntsville lost 1,400, Anniston-Oxford 400, and Decatur 200. Nonfarm payrolls were unchanged in the Mobile metro area. In December 2013, Mobile registered

Alabama Nonfarm Employment Change in Number of Jobs

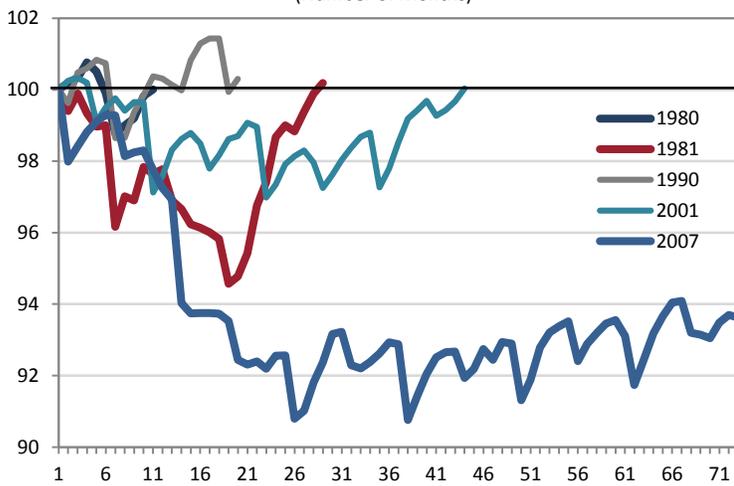
	Dec 2011 to Dec 2012	Dec 2012 to Dec 2013
Total Nonfarm Employment	4,300	10,500
Natural Resources and Mining	-300	100
Construction	-4,600	400
Manufacturing	4,700	5,900
Durable Goods Manufacturing	5,600	2,100
Nondurable Goods Manufacturing	-900	3,800
Trade, Transportation, and Utilities	-3,900	3,900
Wholesale Trade	-400	-700
Retail Trade	-5,300	6,600
Transportation, Warehousing, Utilities	1,800	-2,000
Information	-1,300	-200
Financial Activities	1,300	300
Professional and Business Services	5,100	-100
Educational and Health Services	3,500	-200
Leisure and Hospitality	3,600	5,600
Other Services	600	-300
Government	-4,400	-4,900
Federal Government	-1,100	-1,600
State Government	-4,700	-1,200
Local Government	1,400	-2,100

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

the highest metro unemployment rate at 6.5 percent and Auburn-Opelika had the lowest at 4.7 percent. Despite job losses, Huntsville's unemployment rate was a relatively low 4.9 percent. Among the state's 67 counties, only five had unemployment rates of 10.0 percent and over in December; a year ago 11 counties were in this group. Wilcox County had the highest unemployment rate of 14.2 percent while Shelby County's was the lowest at 3.4 percent.

Exports. According to the U.S. Department of Commerce's International Trade Administration, Alabama exports totaled \$19.3 billion in 2013, down a slight 1.4 percent from the \$19.6 billion in merchandise exported during 2012. At that level, 2013 exports accounted for 12.1 percent of the state's GDP compared to a 12.6 percent share in 2012. Exports to Canada, Alabama's largest trade partner, increased from \$4.0 billion in 2012 to \$4.3 billion (up 8.0 percent) for 2013. Other major destinations for Alabama exports in 2013 were China (\$2.5 billion), Germany (\$2.2 billion), Mexico (\$2.2 billion), the United Kingdom (\$693 million), Japan (\$684 million), and Brazil (\$633 million). While exports to China, Mexico, and the United Kingdom rose during 2013, the value of shipments to Germany, Japan, and Brazil declined compared to 2012.

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



Source: Alabama Department of Labor.

Transportation equipment was the state's top export product in 2013, with shipments rising 8.6 percent to \$8.35 billion and accounting for 43.3 percent of total exports. Other major exports for 2013 were chemicals (\$2.5 billion), primary metals (\$1.46 billion), minerals and ores (\$1.4 billion), nonelectrical machinery (\$879 million), paper products (\$764 million), food manufactures (\$568 million), fabricated metal products (\$557 million), and computer and electronic products (\$517 million).

Chemicals were Alabama's second largest export product, amounting to 12.9 percent of the total, despite slipping 3.2 percent during the year. Primary metals exports rose 3.9 percent and contributed 7.6 percent of 2013 shipments abroad. A steep 21.7 percent drop in exports of minerals and ores moved the industry down to fourth place with 7.2 percent of total exports.

Tax Receipts. For the fiscal year ending in September 2013 (FY2013), the gradual recovery in both business and consumer spending contributed to a 4.0 percent (\$355 million) increase in state tax revenues, boosting the total to \$9.3 billion. During the first four months of the current fiscal year (FY2014), total tax revenues were up by only 1.03 percent, an increase of \$31.2 million compared to the same period in FY2013. While individual income tax receipts declined 1.8 percent to just over \$1.0 billion, corporate income tax payments were up 21.7 percent to \$117.5 million. Sales tax revenues rose 2.3 percent and totaled \$696 million, an increase of \$16 million over the first four months of the previous fiscal year.

Through January of FY2014, appropriations to the Alabama Education Trust Fund increased 2.4 percent (\$41.2 million), to approximately \$1.7 billion, compared to the first four months of FY2013. Over the same period, appropriations to the state's General Fund totaled around \$630 million, a drop of 3.6 percent (\$22.4 million).

Outlook for 2014

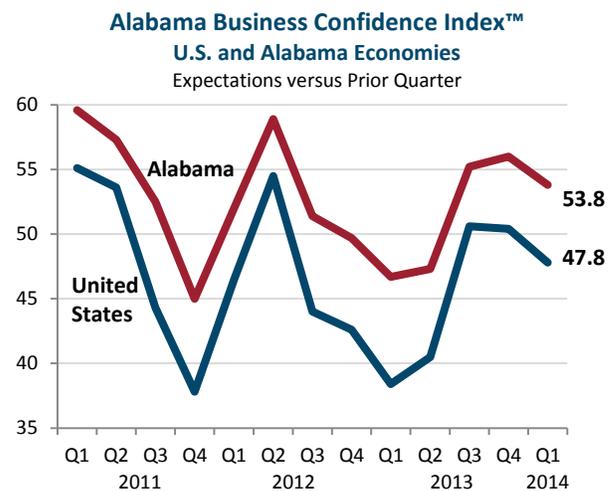
Manufacturing and services employers will be the state's major economic drivers in 2014. These include firms in industries such as automotive manufacturing, aerospace, tourism, healthcare, and biotechnology. Alabama real GDP should grow at a slightly faster pace in 2014, increasing by a forecasted 2.4 percent to around \$163 billion. Gains in output could be substantially higher than this average for manufacturers of motor vehicles and parts and other transportation equipment, petroleum and coal products, fabricated metals, machinery, nonmetallic minerals, and computer and other electronic products. Among service providing industries, output growth will be strongest among professional and business services firms, particularly those engaged in the management of

companies and enterprises and in administrative, support, and waste management services.

Nonfarm employment is forecasted to rise by 1.3 percent during 2014, with about 24,300 jobs added across the state. The largest percentage increases in employment are likely to be with motor vehicles and parts and other transportation equipment manufacturers. However, most new jobs will be in services, where broad-based gains could result in around 20,000 positions, provided the Alabama economy grows at a slightly faster pace than in 2013. Firms in the leisure and hospitality sector, professional and business services, and retail trade are expected to create a significant number of jobs. Local governments are likely to add a modest number of workers during 2014, while the level of state and federal civilian employment will be about the same as last year.

With the state's economy expected to grow at a higher rate in 2014, tax revenues are forecasted to increase about 4.1 percent for FY2014. Total tax revenue should rise from \$9.3 billion to \$9.7 billion. Individual income tax receipts could increase 5.5 percent (\$206 million), with sales tax collections up 1.8 percent (\$36 million). Considering the economic forecasts, appropriations to the Education Trust Fund are expected to rise 3.7 percent to about \$5.9 billion. The General Fund could see appropriations of approximately \$1.7 billion in FY2014, representing an increase of about 1.0 percent.

Business sentiment for the first quarter of 2014, measured by the Center for Business and Economic Research's *Alabama Business Confidence Index™* (ABCI), fell 0.7 points to 51.2. Although down slightly, the reading is positive for a third consecutive quarter and compares to the pessimistic value of 45.4 recorded a year ago. Concerns about the U.S. economy continue to constrain business expectations, particularly in the Huntsville metro area.



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

At 53.8, the Alabama economic outlook for first quarter 2014 is 6.0 points above the outlook for the national economy. The index for industry sales slipped 0.2 points to a moderately optimistic 54.1, while a 1.2 point decline put expectations for hiring in slightly negative territory at 49.6. Job creation is not expected to pick up statewide this quarter. Alabama businesses are slightly more optimistic about profits than they were last quarter, with the index up 0.8 points to 52.3. Capital investment is likely to be level given a neutral index reading of 49.9. Overall, most businesses remain cautiously optimistic about their prospects in the first quarter of 2014.

United States

U.S. real GDP rose 3.2 percent in the fourth quarter of 2013 after growing by 4.1 percent in the third quarter, making it the best six-month period of economic expansion in a decade. Due to weakness in the first half of the year, U.S. economic growth averaged 1.9 percent for 2013 as a whole. Rising consumer spending, together with stronger business expenditures and exports, helped fuel higher GDP growth in the second half of the year.

Consumer spending, which accounts for almost 67 percent of U.S. economic activity, increased by 3.3 percent in the fourth quarter, the fastest pace seen in nearly three years. Business spending rose 3.8 percent, driven by increased investment in equipment. Private inventories added 0.4 percentage points to fourth quarter growth, after contributing 1.6 percentage points in the third quarter. However, this buildup in inventories will likely slow the expansion in the coming months. The forecast for the first quarter of 2014 calls for real GDP growth of around 2.0 percent.

Nonfarm employment rose by 113,000 in January, following a 75,000 gain in payrolls during December. For all of 2013, the U.S. economy added an average of 194,000 jobs per month. However, the pace of job growth has slowed significantly in recent months.

Following relatively strong economic growth in the fourth quarter, the Institute for Supply Management's index of factory activity fell from 56.5 in December to 51.3 in January, indicating a much slower pace of growth in the manufacturing sector. The biggest factor was the sharp drop from 64.4 to 51.2 in the forward-looking new orders index. Indexes for payrolls, production, and sales also declined compared to their December readings. The ISM employment index fell from 55.8 in December to 52.3 in January, indicating slowing job growth in the manufacturing sector.

The U.S. economy is expected to expand at a slightly faster pace in 2014, with real GDP growth of around 2.6 percent. Nonfarm employment will see about the same

Monthly Employment Indicators (December 2013)

	Not Seasonally Adjusted	Seasonally Adjusted
Alabama		
Civilian Labor Force	2,110,725	2,117,614
Percent Change from Year Ago Level	-1.8%	-1.5%
Absolute Change from Year Ago Level	-39,112	-32,530
Employed	1,990,418	1,987,871
Percent Change from Year Ago Level	-0.9%	-0.8%
Absolute Change from Year Ago Level	-18,993	-16,660
Unemployed	120,307	129,743
Percent Change from Year Ago Level	-14.3%	-10.9%
Absolute Change from Year Ago Level	-20,119	-15,870
Unemployment Rate	5.7%	6.1%
Unemployment Rate (Dec. 2012)	6.5%	6.8%
U.S. Unemployment Rate	6.5%	6.7%
Unemployment Rate (Dec. 2012)	7.6%	7.9%

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

1.7 percent increase as in 2013, with the unemployment rate averaging around 6.5 percent. Residential investment is forecasted to climb by over 17 percent as the housing recovery continues to accelerate at a gradual pace. Total real consumer spending on durable goods, nondurable goods, and services is expected to rise by approximately 3 percent to over \$11 trillion in 2014. Stagnant wages, sluggish growth in payrolls, gradually improving home values, and a still relatively high level of consumer debt will continue to influence the pace of consumer demand. Despite improving over the previous year, consumer confidence and sentiment indexes remain at levels associated with cautious spending. Fixed business investment is expected to increase by around 5 percent in 2014, up from 2.6 percent in 2013.

One of the biggest risks to this forecast involves the stagflation now being faced by emerging economies. This combination of slow GDP growth with sharply rising prices is putting downward pressure on their currencies. Resultant increases in interest rates aimed at curtailing falling currencies, in turn, exacerbate weak economic conditions in these countries. China's slowing manufacturing sector could also dampen U.S. exports. Despite these headwinds, the U.S. economy is expected to continue to improve in 2014, growing at a relatively faster pace than was seen in 2013.

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