

Economic Outlook: Second Quarter 2014

Alabama

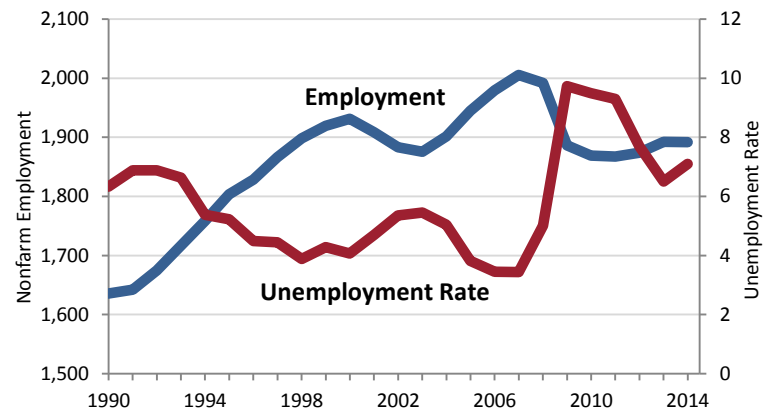
Highlights

- The state gained 16,300 nonfarm jobs from February 2013 to February 2014. Nonfarm employment totaled 1,897,700 in February 2014, up from 1,881,400 a year ago.
- On a seasonally-adjusted basis, the number of unemployed Alabamians fell from 142,885 in February 2013 to 137,256 in February 2014. A decline in the labor force from 2,141,678 to 2,133,675 helped lower the seasonally-adjusted unemployment rate from 6.6 percent to 6.4 percent.
- Total Alabama nonfarm employment is forecasted to increase by about 1.3 percent in 2014, with transportation equipment manufacturers, professional and business services, and leisure and hospitality-related businesses adding the most workers to their payrolls.
- Overall, the state's economy is estimated to grow by approximately 2.4 percent in 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 3.5 to 4.0 percent in FY2014.

Employment. After peaking at 2,026,700 in December 2007, Alabama nonfarm employment totaled 1,897,700 in February 2014. While the state continues to make modest gains in payrolls, jobs remained 129,000 (6.4 percent) lower than at the start of the recession. Over the 12-month period ending in February 2014, the state added a net of 16,300 jobs, an increase of 0.9 percent. Payroll gains among goods producing firms totaled 2,600 while service providing businesses gained 13,100 workers.

Alabama Nonfarm Employment and Unemployment Rate

Employment (Thousands), Unemployment (Percent) 1990-2014



Source: Alabama Department of Labor.

Although the state's construction sector saw its workforce decline from a peak of 112,700 in 2007 to just 79,100 in 2013, employment is stabilizing and some segments are beginning to add workers. Building construction firms gained 1,100 jobs from February 2013 to February 2014, but payrolls in heavy and civil engineering construction fell by 600 and specialty trade contractors lost 1,100 jobs. Overall, manufacturing industries added 3,700 workers during the most recent 12 months, while the mining sector lost 500 jobs.

Employment in durable goods industries rose by 2,600. Job gains were associated with motor vehicle and parts manufacturing (2,800); wood products manufacturing (500); primary and fabricated metals manufacturing (200); and electrical equipment, appliance, and component

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	0.5	1.3	1.0
range			0.5 to 1.8	0.7 to 2.0
Total Tax Receipts, FY	3.8	4.0	3.5	4.5
range			3.0 to 5.0	3.5 to 6.0

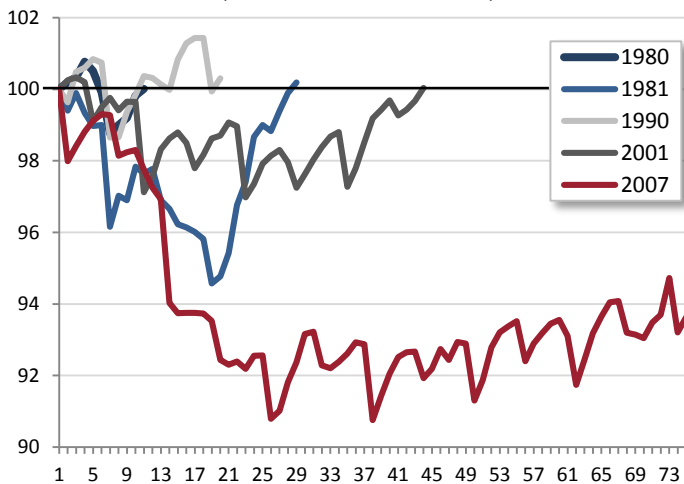
Source: Center for Business and Economic Research, The University of Alabama.

manufacturing (200). While manufacturers of aerospace products and parts lost 300 jobs over the past year, employment rebounded by 400 in February 2014. Nondurable goods manufacturers experienced a net gain of 1,100 jobs, with the plastics and rubber products and food manufacturing industries each adding 200 workers. Textile mills, textile product mills, and apparel manufacturers continued to lose jobs, shedding 1,300 workers over the 12-month period ending in February.

Tax Receipts. During the first six months of the current fiscal year (FY2014), Alabama's total tax revenues were up by 1.7 percent, an increase of \$78.2 million from the same period in the previous fiscal year. Individual income tax receipts rose 2.7 percent to over \$1.7 billion, while corporate income taxes were down 10.7 percent to \$185.2 million. Sales tax collections totaled about \$1.0 billion, an increase of \$16.5 million (1.7 percent) compared to the first six months of FY2013.

For the first six months of FY2014, appropriations to the Alabama Education Trust Fund increased 2.3 percent (\$62.1 million) to approximately \$2.8 billion. However, appropriations of around \$812 million to the state's General Fund were 2.4 percent (\$19.9 million) lower than in the first six months of the previous fiscal year.

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



Source: Alabama Department of Labor.

Outlook for 2014

Manufacturing and services employers will continue to be the state's major economic drivers in 2014. These include firms in industries such as automotive manufacturing, aerospace, tourism, healthcare, and biotechnology. Real Alabama gross domestic product (GDP), which is the total value of goods and services produced in the state, should grow at a faster pace than

Alabama Nonfarm Employment Change in Number of Jobs

	Feb 2012 to Feb 2013	Feb 2013 to Feb 2014
Total Nonfarm Employment	19,300	16,300
Natural Resources and Mining	-300	-500
Construction	-800	-600
Manufacturing	7,300	3,700
Durable Goods Manufacturing	6,200	2,600
Nondurable Goods Manufacturing	1,100	1,100
Trade, Transportation, and Utilities	1,800	3,900
Wholesale Trade	400	1,400
Retail Trade	-800	3,500
Transportation, Warehousing, Utilities	2,200	-1,000
Information	-600	-300
Financial Activities	2,200	1,500
Professional and Business Services	2,500	3,200
Educational and Health Services	4,900	1,900
Leisure and Hospitality	4,100	5,600
Other Services	-800	400
Government	-1,000	-2,500
Federal Government	-700	-2,100
State Government	-900	2,200
Local Government	600	-2,600

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

the 1.9 percent increase seen in 2013. The state's GDP is forecasted to rise 2.4 percent in 2014 to around \$163 billion. Gains in output could be substantially higher than this average for manufacturers of motor vehicles and parts, primary and fabricated metals, wood products, and electrical equipment and appliances. In the service providing sector, output growth will be strongest among professional and business services firms, particularly those engaged in administrative support, waste management, and remediation services. The healthcare and social assistance sector is also expected to see output increase at a relatively faster pace.

Nonfarm employment is forecasted to rise by 1.3 percent during 2014, with about 25,000 jobs added across the state. The largest percentage increases in employment are likely to be with motor vehicle and parts and other transportation equipment manufacturers. However, most hiring will be in services, where broad-based gains could result in around 18,000 additional jobs, providing the state's economy continues to expand at its current pace. Retailers could account for 3,500 to 4,000 of these job gains. While most job growth is expected to be in the private sector, state government-related entities are forecasted to add a modest number of workers.

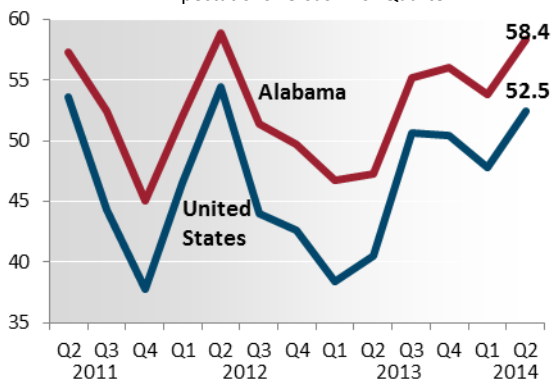
These employment gains may not reduce the state's unemployment rate, however. An accelerating economy could bring more currently-discouraged workers back into

the labor market, keeping the unemployment rate at or above its present level through the end of the year.

With the state's economy expected to grow at a slightly higher rate in 2014 than in 2013, an increase of 3.5 to 4.0 percent in tax revenues is forecasted for FY2014. Total 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 1.5 percent (\$30 million). Assuming the current pace of economic growth, appropriations to the Education Trust Fund are expected to rise 2.5 percent to about \$5.8 billion. The General Fund could see an increase in appropriations of around 0.5 percent for the fiscal year ending in September 2014.

Gradually improving economic conditions are reflected in business sentiment for the second quarter of 2014, measured quarterly by the Center for Business and Economic Research's *Alabama Business Confidence Index™* (ABCI). At 55.6 the overall ABCI is 4.4 points higher than in the first quarter and significantly above the reading of 47.7 a year ago. Most survey panelist are more optimistic about the state's economy than the U.S. economy. The index for Alabama increased 4.6 points to 58.4, while the national economy outlook rose 4.7 points to 52.5. An index value above 50 reflects a positive outlook and a reading below 50 signals a weakening economy. The index for industry sales climbed 7.5 points to 61.6 and expectations for profits rose 4.2 points to 56.5. Given the recent slow pace of economic growth, Alabama businesses remain relatively cautious about hiring and capital investments this quarter. The index for industry hiring was up only 1.5 points to 51.1, while the index for capital spending improved 3.8 points to 53.7.

U.S. and Alabama Economies
Expectations versus Prior Quarter



Overall, the Alabama economy will continue to grow in 2014, expanding at a modest but slightly faster pace than in 2013. However, most payroll gains will be concentrated in a few sectors. Job growth generally is expected to remain relatively sluggish, mirroring the national trend.

Monthly Employment Indicators (February 2014)

	Not Seasonally Adjusted	Seasonally Adjusted
Alabama		
Civilian Labor Force	2,133,675	2,133,976
Percent Change from Year Ago Level	-0.3%	-0.9%
Absolute Change from Year Ago Level	-8,003	-19,954
Employed	1,977,600	1,996,720
Percent Change from Year Ago Level	-0.5%	-0.7%
Absolute Change from Year Ago Level	-9,889	-14,325
Unemployed	156,075	137,256
Percent Change from Year Ago Level	1.2%	-3.9%
Absolute Change from Year Ago Level	1,886	-5,629
Unemployment Rate	7.3%	6.4%
Unemployment Rate (Feb. 2013)	7.2%	6.6%
U.S. Unemployment Rate		
Unemployment Rate (Feb. 2013)	7.0%	6.7%
Unemployment Rate (Feb. 2014)	8.1%	7.7%

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

United States

Real U.S. GDP rose at an annual rate of 2.6 percent in the fourth quarter of 2013, down from 4.1 percent in the third quarter. As a whole, though, the second half of 2013 was actually the fastest growing six-month period in a decade and certainly the fastest pace of expansion since the recession ended in June 2009. Personal consumption expenditures, exports, and business spending were the primary contributors to this growth, offsetting the negative contributions from federal government spending, imports, and residential fixed spending, including both home construction and sales.

Consumer spending, which accounts for almost 67 percent of the U.S. economy, increased by 3.3 percent in fourth quarter 2013, up from 2.0 percent in the third quarter, for the fastest pace seen in nearly three years. Spending on services rose 3.5 percent in the fourth quarter, up significantly from 0.7 percent in the third quarter. Healthcare was the fastest growing segment of services expenditures. However, the 2.8 percent increase in spending on durable goods was weaker than the third quarter gain of 7.9 percent. Business spending rose 5.7 percent in the fourth quarter, compared to 4.8 percent in the third. Expenditures on equipment increased 10.9 percent compared to 0.2 percent for the previous quarter. U. S. exports posted a strong 9.5 percent increase in the fourth quarter, up from 3.9 percent in the third.

One the negative side, federal government spending fell 12.8 percent in the fourth quarter—much steeper than the 1.5 percent decrease seen in the third quarter. Residential investment declined 7.9 percent during fourth

quarter 2013. Imports, which are a subtraction in the calculation of GDP, rose 1.5 percent.

U.S. nonfarm employment increased by 192,000 in March 2014. January and February payroll numbers were revised up by a combined 37,000 to 144,000 and 197,000, respectively. The unemployment rate remained steady at 6.7 percent. Although the U.S. economy has gained back almost all the jobs lost during the recession (about 8.8 million), labor markets have significantly changed in recent years. Since the recession, the civilian labor force has expanded by almost 2.0 million. However, payrolls in federal, state and local government have declined by almost 535,000. A greater share of the workforce is now employed in jobs that are temporary in nature, or in relatively low-wage jobs in industries including healthcare and social assistance and leisure and hospitality. The number of jobs in manufacturing and construction remain significantly below prerecession levels.

In March there were 7.4 million people working part-time who would prefer a full-time job, an increase of 225,000 from February. Although the labor force participation rate (the share of working-age adults who have a job or are looking for work) increased to 63.2 percent in March, the figure remains near a 35-year low. While some of the decline in participation may be because of retiring baby boomers, it is also due to discouraged workers dropping out of the labor force. If we include individuals who would like to work full-time but can only find part-time employment, the overall unemployment rate would be 12.7 percent in March. Furthermore, many jobs that have been added since the end of the recession are temporary. In March alone, 28,500 (15 percent) of the jobs added were temporary in nature and more than 2.8 million (2.5 percent) of all jobs were categorized as temporary, compared to 1.7 million in August 2009. The share of relatively lower wage jobs among total nonfarm jobs is much higher now than it was a decade ago.

An excessive buildup in inventories from the second half of 2013 is likely to impede economic growth early in 2014. The U.S. economy is expected to expand about 1.8 percent during the first half of the year, followed by growth of around 2.5 percent in the second half. Nonfarm employment is forecasted to rise 1.6 percent for the year, just slightly below the 1.7 percent gain seen in 2013. Rising material costs and weakness in housing permits, together with lower builder optimism, are likely to be reflected in slower growth in home construction and sales. Residential investment is expected to increase by around 6.5 percent in 2014, down from 12.2 percent in 2013.

If labor markets continue to improve at their current pace, total consumer spending will increase about 2.5 percent in 2014, faster than the 2.0 percent rate seen in

2013. Real (inflation-adjusted) consumer spending on durable goods could rise around 4.0 percent, while spending for services is expected to increase 2.3 percent. Still, stagnant wages, modest employment gains, and a still relatively high level of consumer debt continue to influence the pace of both consumer demand and business spending. While consumer confidence and sentiment indexes have improved over the past year, they remain at levels associated with cautious spending and are significantly below levels seen prior to the beginning of the recession. Overall business spending is expected to increase around 5.5 percent in 2014, up from 2.7 percent in 2013.

Major risks to the U.S. forecast include a significant slowdown in economic growth in China and other emerging markets, with a resultant dampening effect on exports. The other primary risk involves the current Russia-Ukraine crisis. The Federal Reserve is now expected to keep the federal funds rate in the 0.0 to 0.25 range at least until 2017, considering the continuing sluggish growth in domestic labor markets.

In summary, inventory accumulation is expected to slow down in the first half of the year, creating a drag on GDP growth due to expected production cutbacks. Payrolls are only forecasted to increase modestly again in 2014, with the unemployment rate averaging around 6.5 percent. Despite these headwinds, the U.S. economy is expected to continue to improve in 2014, at a relatively faster pace than was seen in 2013.

Consumer Sentiment Index



Source: University of Michigan.

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Articles reflect the opinions of the authors but not necessarily those of the staff of the Center, the faculty of the Culverhouse College of Commerce, or the administrative officials of The University of Alabama.