

Economic Outlook: Third Quarter 2014

Alabama

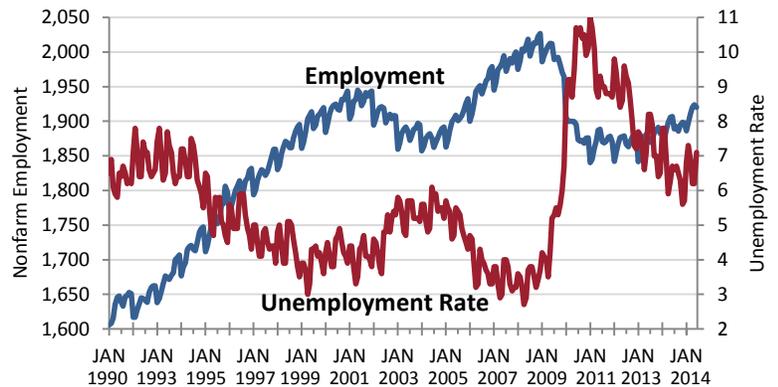
Highlights

- The state gained 5,200 jobs from June 2013 to June 2014, an increase of 0.3 percent. Nonfarm employment amounted to 1,920,400 in June 2014, up from 1,915,200 a year earlier.
- Looking at unemployment data, the number of seasonally adjusted unemployed Alabamians increased from 138,344 in June 2013 to 144,991 in June 2014. While the state's civilian labor force declined 0.1 percent to 2,139,528 during this period, total employment fell by a larger 0.5 percent. Alabama's seasonally adjusted unemployment rate rose from 6.5 to 6.8 percent over the past year.
- Total nonfarm employment is forecasted to increase by about 0.6 percent in 2014, or around 11,500 jobs. Businesses in transportation equipment manufacturing, professional and business services, and the leisure and hospitality sector are expected to add the largest numbers of workers to their payrolls.
- CBER's third quarter forecast revision has the state's economy expanding by an estimated 1.5 percent in 2014, higher than the 0.8 percent rate of growth seen in 2013.
- Following an increase of about 4.0 percent in fiscal year 2012-2013, state tax revenues are expected to grow by less than 1.0 percent in FY2014. A slowdown in individual income tax collections is the primary reason for this weaker forecast.

Employment. While the state continues to make modest gains in payrolls, nonfarm employment of 1,920,400 in June was still 106,300 workers below the December 2007 peak. Over the 12-month period ending in June 2014, the

Alabama Nonfarm Employment and Unemployment Rate

Not Seasonally Adjusted
Employment (Thousands), Unemployment Rate (Percent), January 1990 – June 2014



Source: Alabama Department of Labor.

state gained a net 5,200 jobs, including 2,800 in the goods producing sector and 2,400 among service providing firms.

On the goods producing side, Alabama's construction industry lost 1,100 workers during the past year. Building construction and heavy and civil engineering construction firms added 500 workers each, but specialty trade contractors lost 2,100 jobs. Manufacturing industries gained 3,900 workers overall and payrolls in the mining sector were unchanged. From June 2013 to June 2014, durable goods industries added 3,200 workers. Job gains were associated with motor vehicle parts manufacturing (2,300), primary and fabricated metals (800), and furniture and related products manufacturing (200). Payrolls in the remaining durable goods industries were flat or declined slightly. Nondurable goods manufacturers added

Alabama Forecast

(Annual Percent Change)

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

	2012	2013	2014	2015
Real GDP	2.4	0.8	1.5	2.3
range			1.0 to 2.5	2.0 to 3.5
Employment	0.7	0.5	0.6	1.0
range			0.3 to 1.1	0.7 to 1.5
Total Tax Receipts, FY	3.8	4.0	0.7	2.5
range			0.0 to 2.0	2.0 to 4.0

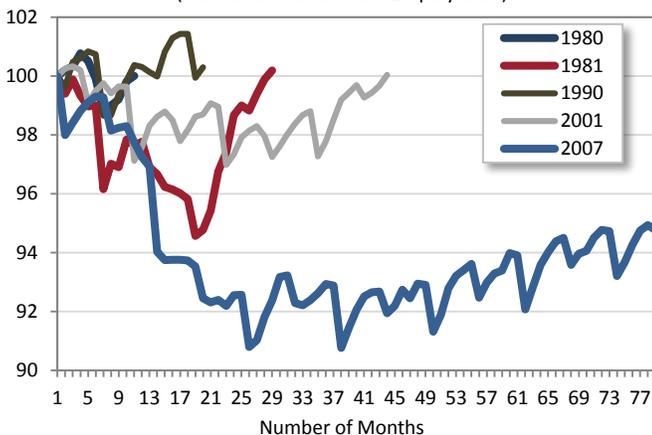
Source: Center for Business and Economic Research, The University of Alabama.



700 jobs—food manufacturing gained 300 workers, and employment in plastics and rubber products manufacturing rose by 200. Textile mills, textile product mills, and apparel manufacturers continued to lose jobs, with employment down by 1,200 during the 12-month period ending in June. Companies in the paper manufacturing sector also lost 1,200 jobs during the past year.

Among service providing firms, job gains were predominantly associated with food services and drinking places (3,700); administrative support, waste management, and remediation services (2,200); social assistance (1,900); and wholesale trade (700). Sectors experiencing a decline in payrolls over the 12-month period ending in June included government (1,800); physician’s offices (1,700); architectural and engineering services (600); retail trade (400), and transportation and warehousing (400). The state’s information industry and financial activity-related businesses each lost about 300 jobs. Within the retailing sector, motor vehicle and parts dealers added 1,200 jobs while general merchandise stores shed 900 workers, including 500 from department stores.

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



Source: Alabama Department of Labor.

Six of the state’s 11 metropolitan areas added jobs between June 2013 and June 2014, including Tuscaloosa (3,100), Birmingham-Hoover (2,300), Huntsville (1,900), Auburn-Opelika (1,500), Gadsden (700), and Florence-Muscle Shoals (700). Metro areas that lost jobs during the past year were Anniston-Oxford (1,600), Decatur (700), Mobile (700), Dothan (500), and Montgomery (500). Mobile had the highest metro unemployment rate at 8.1 percent in June, while Birmingham-Hoover had the lowest at 6.2 percent. Among major cities in the state, Selma’s unemployment rate of 13.9 percent was the highest and Homewood’s 4.3 percent was the lowest. County unemployment rates ranged from 17.2 percent in Wilcox County down to 5.0 percent in Shelby.

Alabama Nonfarm Employment Change in Number of Jobs

	June 2012 to June 2013	June 2013 to June 2014
Total Nonfarm Employment	18,000	5,200
Natural Resources and Mining	-400	0
Construction	500	-1,100
Manufacturing	5,800	3,900
Durable Goods Manufacturing	5,500	3,200
Nondurable Goods Manufacturing	300	700
Trade, Transportation, and Utilities	2,700	-100
Wholesale Trade	100	700
Retail Trade	1,100	-400
Transportation, Warehousing, Utilities	1,500	-400
Information	0	-300
Financial Activities	1,600	-300
Professional and Business Services	1,400	2,300
Educational and Health Services	3,300	900
Leisure and Hospitality	4,800	2,700
Other Services	-800	-1,000
Government	-900	-1,800
Federal Government	-1,500	-1,600
State Government	400	100
Local Government	200	-300

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

Tax Receipts. During the first nine months of the current fiscal year (FY2014) total tax revenues were up by only 0.4 percent, an increase of about \$27 million compared to the same period in FY2013. Individual income tax receipts declined 0.7 percent to approximately \$2.9 billion, while corporate income taxes were down 5.0 percent to \$352 million. Despite a slowdown in the overall economy, sales taxes rose 2.0 percent to around \$1.55 billion, \$31 million more than for the first nine months of the previous fiscal year.

For the first nine months of FY2014, appropriations to the Alabama Education Trust Fund increased 0.7 percent (\$30.4 million) compared to the same period in FY2013 to total approximately \$4.3 billion. FY2014 appropriations to the state’s General Fund through June totaled around \$1.2 billion, down 1.4 percent (\$17.3 million) from last fiscal year.

Exports. Alabama exported merchandise valued at \$4.6 billion during the first three months of 2014, slightly below exports of \$4.7 billion in the same period of 2013. This continues the modest decline seen between 2012 and 2013, when total exports fell from \$19.6 billion to \$19.3 billion. Canada was the state’s largest export market in 2013, receiving shipments valued at \$4.3 billion. It retained that status in the first quarter of 2014,



although exports of \$925 million are lower than the \$954 million total during the same period of 2013. Over the last three years, exports to China have risen dramatically, making it Alabama's second largest export market, surpassing both Mexico and Germany. After declining from around \$2.5 billion in 2012 to \$2.4 billion in 2013, exports to China during the first three months of 2014 were valued at \$597 million, up from about \$592 million during the same period in 2013. Exports to Mexico and Germany totaled \$539 million and \$523 million, respectively, during the first quarter of 2014.

Transportation equipment manufacturers continue to be the state's largest exporters; shipments rose from around \$7.7 billion in 2012 to \$8.4 billion in 2013, an increase of \$678 million. For the first three months of 2014, transportation equipment exports from Alabama were just over \$1.86 billion, down slightly from \$1.88 billion in the same period a year ago. Other major exports in the first three months of this year included chemicals (\$642 million), primary metals (\$349 million), minerals and ores (\$339 million), nonelectrical machinery (\$194 million), and paper products (\$188 million). A general slowdown in the overall economies of the state's trading partners continues to have a negative impact on manufacturing exports.

Alabama Outlook for 2014

Automobile and parts manufacturing and certain segments of the services sector will continue as the state's major economic drivers during 2014. These include firms in industries such as automotive manufacturing, aerospace, tourism, healthcare, biotechnology, and leisure and hospitality (particularly food services). Real Alabama gross domestic product (GDP, or the value of total goods and services produced in the state) should grow at a slightly faster pace in 2014, increasing by a forecasted 1.5 percent to around \$184 billion. Gains in output could be substantially higher than this average for manufacturers of motor vehicles and parts, and for primary and fabricated metals producers. Among service providing sectors, output gains will be strongest among professional and business services firms, particularly those engaged in administrative support, waste management, and remedial services. The healthcare and social assistance sector of Alabama's economy is also expected to expand at a relatively faster pace.

Nonfarm employment is forecasted to rise by 0.6 percent during 2014, with about 11,500 jobs added across the state. The strongest percentage increases in employment are likely to be with motor vehicle and parts and other transportation equipment manufacturers. Overall, manufacturers could add about 3,000 jobs this year. Still, most new jobs will be in services where broad-

Monthly Employment Indicators (June 2014)

	Not Seasonally Adjusted	Seasonally Adjusted
Alabama		
Civilian Labor Force	2,151,577	2,139,528
Percent Change from Year Ago Level	-0.5%	-0.1%
Absolute Change from Year Ago Level	-11,071	-3,065
Employed	1,998,302	1,994,537
Percent Change from Year Ago Level	-0.7%	-0.5%
Absolute Change from Year Ago Level	-14,594	-9,712
Unemployed	153,275	144,991
Percent Change from Year Ago Level	2.4%	4.8%
Absolute Change from Year Ago Level	3,523	6,647
Unemployment Rate	7.1%	6.8%
Unemployment Rate (June 2013)	6.9%	6.5%
U.S. Unemployment Rate	6.3%	6.1%
Unemployment Rate (June 2013)	7.8%	7.5%

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

based gains could result in around 8,000 additional jobs, providing the state's economy expands at a relatively faster pace in the second half of the year. Most of the job growth is expected to be in the private sector, with state government-related entities only forecasted to add a modest number of workers. However, if the economy begins to accelerate at a much faster pace, a larger number of currently-discouraged workers could decide to enter the labor market, resulting in a higher rather than lower unemployment rate by the end of the year. Alabama tax revenues are forecasted to increase by 0.5 to 1.0 percent for FY2014.

Overall, the state's economy is expected to gradually improve during the second half of this year compared to the first half, as indicated by business sentiment for the third quarter of 2014, measured by the Center for Business and Economic Research's *Alabama Business Confidence Index*™ (ABCI). The broad ABCI index was about the same as last quarter at 55.5—above the reading of 52.9 a year ago. Most survey panelists were relatively more optimistic about the state's economy than the U.S. economy. The index for Alabama increased 1.0 point to 59.4, while the national economy index rose 1.1 points to 51.4. An index reading above 50 reflects expansion and a reading below 50 signals a weaker economy.

Among the industry outlook components of the ABCI, the hiring index is the most improved on the third quarter survey, up 3.8 points to 54.9. This is the most optimistic jobs outlook since the index registered 57.6 eight years ago in 2006. Although still strong, industry sales expectations dipped 1.9 points to 59.7. Profits are likely to show moderate improvement in the third quarter, with the index at 54.9, down 1.6 points from last quarter. Capital



spending is the weakest industry component—the index declined 1.1 points to 52.6. Complete survey results are available on the CBER website.

United States

Inflation-adjusted GDP for the U.S. increased 4.0 percent in the second quarter of 2014, after falling by a revised estimate of 2.1 percent in the first quarter. The upturn in real GDP primarily reflected an increase in private inventory investment, exports, personal consumption expenditures, and state and local government spending. Consumer spending increased 2.5 percent in the second quarter, compared with an increase of 1.2 percent in the first. Spending on durable goods rose by 14.0 percent, much better than the increase of 3.2 percent in the prior quarter. Growth in purchases of nondurable goods was unchanged from the first quarter at 2.5 percent.

Expenditures on services increased 0.7 percent in the second quarter, below the first quarter rate of 1.3 percent. Growth in real nonresidential fixed investment improved from 1.6 percent in the first quarter to 5.5 percent in the second quarter. Business spending on equipment rose 7.0 percent, a strong recovery from the first quarter's 1.0 percent decline. Real residential fixed investment increased 7.5 percent in the third quarter, up from 5.3 percent.

The change in real private inventories added about 1.7 percentage points to the second quarter change in real GDP, after subtracting 1.2 percentage points in the first quarter. The first quarter reduction was expected, considering the relatively high level of contribution of private inventories toward GDP growth in the second half of 2013.

Annual revisions showed that the U.S. economy expanded at a 4.0 percent pace in the second half of 2013, the best six-month stretch in 10 years. Looking back over the past five years, including new revisions back to 2011, the quarterly pace of growth has been uneven—not the continued steady growth one would expect during an economic recovery. Overall, economic growth since the recession ended in mid-2009 continues to show the weakest recovery since World War II.

For the first time since 1997, U.S. employers have added an average of more than 200,000 jobs for six straight months. And over the past three months, payroll gains have averaged 245,000. The stronger job growth seen in recent months should support a relatively higher pace of economic growth in the second half of 2014. Still, the lack of wage increases relative to inflation and the reality that many of the jobs being created are in low-wage and temporary sectors of the economy, will continue to constrain the expansion.

Nonfarm employment rose by a seasonally adjusted 209,000 in July. Payroll gains for June were revised up from an initial estimate of 288,000 to 298,000. The labor-force participation rate rose slightly in July, to 62.9 percent compared to 62.8 percent in June, although it remains near its lowest level since the late 1970s. The employment-to-population ratio was unchanged in July at 59 percent. July payroll increases were broad-based, with the addition of 47,000 positions in professional and business services, 28,000 in manufacturing, and 22,000 jobs in construction. Healthcare employers added 7,000 jobs and temp jobs rose by 8,500.

A broad measure of unemployment known as the U-6, which includes people working at part-time jobs because they are unable to find full-time work and people who are marginally attached to the labor force, stood at 12.2 percent in July. That's up slightly from 12.1 percent in June, but down 1.7 percentage points from 13.9 percent a year ago.

Sales of new single-family homes fell 4.9 percent during the first six months of this year compared with the same period in 2013. Commerce Department data show June sales down 8.1 percent from May, even after the May number was revised down from the best figure seen in six years. Slower new home sales could weigh on economic growth and job creation in the second half of 2014, particularly on the creation of high-wage construction sector jobs.

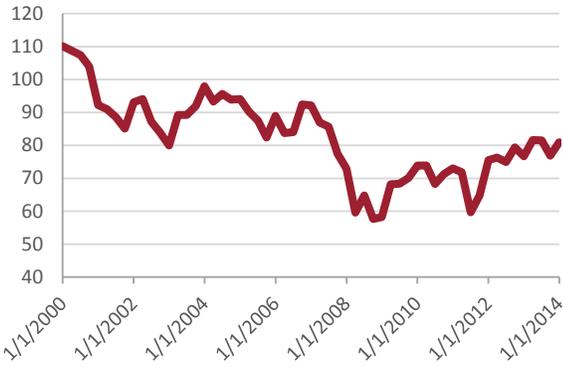
According to the National Association of Home Builders, new home construction before the recession was a major employment and economic growth engine that accounted for close to 5.0 percent of the U.S. economy. In recent years, that contribution has been only around 3.0 percent. While coming out of the recession, the constraint on new home sales was mostly a supply issue, it has now shifted to weakness in demand. Rising existing home prices have brought more properties to the market, thereby creating relatively cheaper competition in the residential housing market. Price increases in the past two years have also put new homes out of reach for some buyers. The \$273,500 median price of a new home in June 2014 is 17.6 percent higher than two years earlier and 22 percent above the year-ago level.

U.S. Outlook for 2014

The U.S. economy is expected to expand at a rate of about 3.0 percent in the second half of 2014. For the year, nonfarm employment is expected to rise 1.8 percent, slightly above the gain of 1.7 percent seen in 2013. Slowing home sales will have some impact on overall residential investment, which includes both new home construction and home sales. Residential



Consumer Sentiment Index



Source: University of Michigan.

investment is expected to increase by 4.5 to 5.0 percent for the year, compared to the 12.2 percent growth seen in 2013.

If the economy continues to add jobs at the current pace, consumer spending should increase about 2.0 percent, roughly the same rate seen in 2013. Expenditures on durable goods could rise 5.6 percent, with a 1.7 percent increase in spending on nondurable goods. Stagnant wages, together with increasing consumer nonmortgage debt, will continue to curtail consumer spending. Overall business spending is forecasted to rise 4.4 percent, following an increase of only 2.7 percent in 2013. The Federal Reserve is expected to keep the federal funds rate in the 0.0 to 0.25 range at least through 2015, given the considerable slack in the economy in terms of both payrolls and GDP growth.

In summary, the U.S. economy is forecasted to grow at a slightly faster pace in the second half of 2014 than it did in the first. Payroll growth will continue to average around 200,000 per month, which should help consumer demand pick up somewhat. However, a sizeable share of job creation is likely to continue to be in relatively low wage sectors, causing many consumers to remain cautious.

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economies heading next quarter?**

**How do your industry's prospects
look for the quarter ahead?**

You are invited to participate in the Alabama Business Confidence Index (ABCI). This forward-looking index gauges business leaders' opinions about economic trends and how their industry will perform in the coming quarter.

Survey dates are March 1-15, June 1-15,
September 1-15, and December 1-15.

Panelists have an exclusive preview of results
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Registration and results are available at
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Results are available statewide and for the
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