

ALABAMA BUSINESS[™]

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

Economic Outlook First Quarter 2015

Alabama

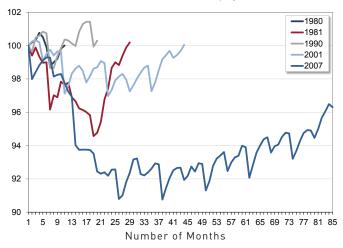
Highlights

- The State gained 31,800 jobs from December 2013 to December 2014, while the seasonally adjusted unemployment rate dropped from 6.1 to 5.7 percent. The state employed a total of 1,951,700 workers in December 2014, up from 1,919,900 a year ago.
- The number of seasonally adjusted unemployed, based on a household survey, declined from 128,633 in December 2013 to 119,777 in December 2014. During this period, labor force participation also dropped from 2,113,897 to 2,102,201, partially explains to the lower unemployment rate.
- Total nonfarm employment is forecasted to increase by 1.7 percent in 2015, with transportation equipment manufacturing, 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 2015, above the 2.0 percent rate of growth seen in 2014.
- After increasing by 1.3 percent in fiscal year 2013-2014, state tax revenues are expected to grow by around 2.5 percent in FY2015.

Employment. After peaking in December 2007 at 2,026,700, the state currently employs 1,951,700 nonfarm workers, or 75,000 below its level prior to the beginning of the recession. Alabama continues to make modest gains in payrolls. Over the 12-month period ending in December 2014, the state gained a net of 31,800 jobs. Within goods producing firms, payroll gains totaled 14,400 while services providing firms gained 17,400 workers. After a slow start at the beginning

Alabama Employment Level Compared to the Beginning of Each Recession

(Percent of Prerecession Employment)



Source: Based on Alabama Department of Labor Data.

of 2014, overall construction payrolls rose 7,200 for the year, with specialty trade contraction adding 3,400; building construction adding 2,400; and heavy and civil engineering adding 1,300. Overall, manufacturing industries in the state gained 7,100 workers while mining and other natural resources related firms added 100 workers for the year. Within the services providing firms sector, job gains were predominantly associated with leisure and hospitality (8,800), most of these from accommodation and food services (8,300); professional and business services (7,000), with administrative support and waste management adding 5,700, while professional and technical services gained 1,200; educational and health services (2,100); job losses in general merchandise and department stores significantly offset the gain of 2,100 jobs within motor vehicle and parts dealers. The state financial sector also experienced a net loss of 1,200 jobs with real es-

Alabama Forecast

(Annual Percent Change)

	2012	2013	2014	2015
Real GDP Range	2.3	2.0	2.0 1.0 to 2.5	2.4 2.0 to 3.5
Employment Range	8.0	1.0	0.7 0.3 to 1.7	1.7 0.8 to 2.0
Total Tax Receipts, FY Range	3.8	4.0	1.3	2.5 1.5 to 4.0

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

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tate and rental and leasing firms losing 700 workers. Overall, the government sector gained 2,600 workers, with state government institutions and local government adding 2,300 and 300 to their payrolls, respectively. Employment associated with the federal government remained flat.

From December 2013 to December 2014, durable goods industries in the state added 6,700 workers. Within these industries, job gains were associated with motor vehicle and motor vehicle parts manufacturing (2,700); primary and fabricated metals manufacturing (2,100); computer and electronics products manufacturing (500); and aerospace products and parts manufacturing (500). Payrolls in machinery manufacturing remained flat while both wood products manufacturing and electrical equipment, appliance, and components manufacturing lost 400 and 200 workers, respectively. Nondurables goods manufacturing in the state also experienced a net gain of 400 jobs, with plastics and rubber products manufacturing and food manufacturing adding 300 and 100 workers, respectively. Textile mills, textile product mills, and apparel manufacturing lost 800 workers during the 12-month period ending in December 2014. The pace of job losses in these industries was, however, far slower than seen in recent years.

For the one-year period ending December 2014, the state's 11 metropolitan areas experienced job gains in Birmingham-Hoover (5,000), Tuscaloosa (3,800), Huntsville (3,200), Auburn-Opelika (1,800), Florence-Muscle Shoals (1,100), Montgomery (300), and Dothan (200). The metro-areas that lost jobs over the same period included Mobile (600), Anniston-Oxford (400), Decatur (300), and Gadsden (100). Alabama's non-metro areas gained 17,400 jobs.

As of December 2014, Florence-Muscle Shoals had the highest unemployment rate in the state at 6.3 percent, while Auburn-Opelika had the lowest at 4.1 percent. Among the state's 67 counties, only four counties had an unemployment rate of 10.0 percent or more, a significant improvement over the same measure one year ago. Wilcox had the highest unemployment rate at 12.5 percent while Shelby enjoyed the lowest at 3.1. Among the major cities in the state, Selma had the highest unemployment rate at 11.0 percent while Vestavia Hills had the lowest at 3.2 percent.

Tax Receipts. During the first four months of the current fiscal year (FY2015), total tax revenues were up by 5.7 percent, an increase of approximately \$175 million from the same period in the previous fiscal year. Individual income tax receipts rose 4.4 percent to approximately \$1.1 billion while corporate income taxes were up 64.1 percent, totaling \$192.8 million. Sales tax was up 3.7 percent, totaling approximately \$721.7 million. This is an increase of \$25.7 million over the first four months of the previous fiscal year.

Also during the first four months of FY2015, appropriations to the Alabama Education Trust Fund increased 8.6 percent

Alabama Nonfarm Employment

Change in Number of Jobs

	Dec 2012 to Dec 2013	Dec 2013 to Dec 2014
Total Nonagricultural	16,700	31,800
Natural Resources and Mining	-600	100
Construction	-2,400	7,200
Manufacturing	3,000	7,100
Durable Goods Manufacturing	2,400	6,700
Nondurable Goods Manufacturing	600	400
Trade, Transportation and Utilities	5,400	-2,600
Wholesale Trade	1,100	-200
Retail Trade	2,300	-2,500
Transportation, Warehousing and Utiliti	es 2,000	100
Information	0	-400
Financial Activities	1,500	-1,200
Professional and Business Services	1,500	7,000
Educational and Health Services	3,300	2,100
Leisure and Hospitality	7,900	8,800
Other Services	-400	1,100
Government	-2,500	2,600
Federal Government	-2,100	0
State Government	1,700	2,300
Local Government	-2,100	300

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

(\$148.2 million) to approximately \$1.8 billion, compared to the same period the previous fiscal year. Appropriations to the state's General Fund during the first four months of the current fiscal year rose 3.2 percent or \$19.5 million compared to the first four months of the previous fiscal year, totaling approximately \$626 million.

Exports. State exports rose \$226.5 million in 2014 to \$19.5 billion. Canada remained the state's largest export market with exports totaling \$4.2 billion in 2014, a drop of \$56.9 million from the previous year. Exports to China again rose very rapidly in 2014, increasing by approximately \$698 million to about \$3.2 billion. Exports to Mexico totaled \$2.3 billion (a \$117 million increase over previous year); Germany \$2.2 billion (a \$69.7 million drop), United Kingdom \$604.23 million (an \$885 million decline), and South Korea \$600.5 million (a \$48 million increase).

Transportation equipment manufacturing sector continues to remain the state's largest export. These exports rose by about \$317.4 million in 2014 to \$8.7 billion, accounting for almost 45.0 percent of total state exports. For the year, other major exports from the state included: chemicals (\$2.5 billion, down almost \$12 million); primary metals (\$1.5 billion, up \$61.9 million); mineral and ores (\$1.4 billion, down \$240 million); and machinery (\$857.1 million, down \$22 million). Canada was the top market for vehicles made in Alabama, with approximately \$2 billion in shipments. China followed with automobile exports totaling \$1.8 billion, a 27.0 percent increase from 2013. Other major markets for Alabama made automobiles were Germany, Mexico, and the United Kingdom.

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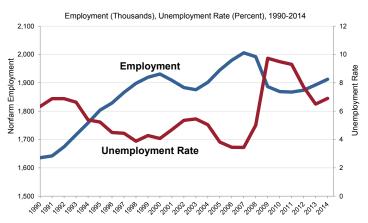
Outlook for 2015

Manufacturing and services employers will be the state's major economic drivers in 2015. These include firms in industries such as automotive manufacturing, aerospace, tourism, healthcare, and biotechnology. However, until uncertainties about federal spending priorities and deficit reduction plans are resolved, Alabama's many private contractors and government facilities engaged in defense-related projects will remain cautious with regard to hiring and investment. Federal civilian employment is expected to decline again in 2015, although output should increase by around 0.7 percent, mostly due to productivity gains. Uncertainties in both domestic and international markets will continue to hamper both business spending and job creation.

Real Alabama GDP is expected to grow at a slightly faster pace in 2015, increasing by a forecasted 2.4 percent to around \$189.5 billion. Gains in output could be substantially higher than average for manufacturers of motor vehicles and parts and other transportation equipment, machinery manufacturing, fabricated metals, computer and other electronic products, and petroleum and coal products. In the service providing sectors, output gains will be strongest among professional and business services firms, particularly those engaged in the architectural, scientific, and technical services and in administrative, support, and waste management services. Output from educational services is also expected to grow at an above average rate in 2015.

Nonfarm employment is forecasted to rise 1.8 percent during 2015, with about 33,800 jobs added across the state. The strongest percentage increases in employment are likely to be seen in motor vehicle and parts and other transportation equipment manufacturers. However, most new jobs will be in services, where broad-based gains could result in around 31,300 positions, provided the Alabama economy continues to expand at a slightly faster pace in 2015. The professional and business services sector and the leisure and hospitality

Total Annual Nonfarm Employment and Unemployment Rate



Source: Alabama Department of Labor.

Monthly Employment Indicators

(December 2014)

	Not Seasonally Adjusted	Seasonally Adjusted
Civilian Labor Force	2,098,563	2,102,201
Percent Change from Year Ago Level	-0.7%	-0.6%
Absolute Change from Year Ago Level	-14,697	-11,696
Employed	1,986,929	1,982,424
Percent Change from Year Ago Level	-0.3%	0.0%
Absolute Change from Year Ago Level	-6,109	-1,840
Unemployed	111,634	119,777
Percent Change from Year Ago Level	-7.1%	-7.6%
Absolute Change from Year Ago Level	-8,588	-9,856
Alabama Unemployment Rate	5.3%	5.7%
Alabama Unemployment Rate (Dec. 201	3) 5.7%	6.1%
U.S. Unemployment Rate	5.4%	5.6%
U.S. Unemployment Rate (Dec. 2013)	6.5%	6.7%

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

sector are also expected to create a significant number of jobs. Local governments are likely to add a modest number of workers during 2015, although federal civilian employment will continue to decline gradually. The faster pace of economic and employment growth forecasted for 2015 will likely encourage more job seekers to enter the labor force, possibly pushing the unemployment rate upward.

With slightly stronger state economic growth expected in 2015, tax receipts should continue to rise. An increase of about 2.4 percent is forecasted. Accordingly, total tax revenue should rise from \$9.4 billion in FY2014 to \$9.6 billion in FY2015. Individual income tax receipts could increase 3.0 percent (\$112 million), with sales tax collections up 2.9 percent (\$60 million). Considering current economic forecasts, appropriations to the Education Trust Fund are expected to rise 2.4 percent to about \$5.9 billion. The General Fund could see appropriations of approximately \$1.7 billion in FY2015, representing an increase of around 2.5 percent.

The Alabama Business Confidence Index™ (ABCI) came in at an optimistic 57.4 on the first quarter 2015 survey. That's 3.2 points higher than last quarter and 6.2 points above the ABCI of 51.2 recorded a year ago. The national economy index jumped 4.8 points to 56.4, the most optimistic outlook for U.S. economic growth since the second quarter of 2006 and a strong turnaround from the negative forecast of 47.8 seen a year ago. Almost 42 percent of the state's business executives expect the U.S. economy to expand at a faster pace than in the fourth quarter and another 39.6 percent think growth will be about the same. Business executives expect Alabama's economy to see solid gains in the first quarter of 2015. At 57.4, the index is up one point from last quarter and up 3.6 points compared to a year ago.

The sales index component of the ABCI rose 4.0 points to a robust 60.6. About 55.0 percent of panelists expect sales in

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their industry to increase compared to fourth quarter levels, while just 14.5 percent forecast a decrease. Every industry anticipates at least a moderate gain. Sales growth should be strongest in manufacturing, wholesale trade, financial activities, and professional services. Profits are likely to rise in all industries except healthcare and retail trade during the first quarter. The index value of 57.8 is 3.4 points above its fourth quarter reading. The state's business executives are signaling solid job gains this quarter. The hiring index rose 3.8 points to 56.3 with 36.5 percent planning to increase the pace and 48.5 percent expecting job growth at about the same level as last quarter. All industries except retail trade should see a pickup in hiring, with professional services posting the largest gain. Capital spending is expected to grow statewide in the first guarter of 2015; the index rose 2.2 points to 55.9. One third of panelists plan to increase investment, while over 54.0 percent anticipate spending at about th+e same level as last quarter. All industries could see at least modest gains, with the largest increases in manufacturing and wholesale trade.

United States

The economic outlook over the next year will be primarily determined by oil prices, overseas economic growth, the value of the U.S. dollar, and domestic labor markets. Some of the advantages of lower gasoline prices may, however, be negated by a significant increase in food prices seen in recent months. Economic growth is expected to accelerate to about 3.0 percent in 2015, up from 2.4 percent in 2014. The pace of employment growth is forecasted to be slightly above the pace of growth seen in 2014; payrolls are expected to rise by 2.2 percent in 2015, with unemployment sliding to 5.5 percent.

Total real (inflation-adjusted) consumer spending on all durable goods, nondurable goods, and services is expected to rise by approximately 3.0 percent to around \$11 trillion in 2015, followed by a 2.9 percent increase to \$11.3 trillion in 2016. Relatively stagnant wages, sluggish growth in payrolls, and a still fairly high level of consumer debt will continue to exert a dampening influence on consumer demand, despite gradually improving home values. While consumer confidence and sentiment indexes have significantly improved over the past year, they remain at levels associated with cautious spending and remain far below pre-recession levels. Consumption could be boosted above this forecast by lower gasoline prices and a stronger job growth, particularly for relatively high paying jobs. If the price of gasoline stays below \$3 per gallon, it could save the average household almost \$380 over the year.

Nonresidential fixed investment is expected to rise 4.6 percent in 2015, below the 6.1 percent pace seen in 2014. Expenditures for information processing equipment should increase by approximately 13.0 percent, while spending on structures is likely to decline by around 5.0 percent, following an 8.0 percent increase in 2014. After declining in recent years,

commercial and healthcare-related investments rebounded in 2014. Despite continued problems with high delinquency rates, excess retail space, skittish securitization markets, high vacancy rates, and relatively tight lending practices in some parts of the country, these business investments rose 7.1 percent and will increase by approximately 10.0 percent in 2015.

Residential fixed investment is forecasted to grow by 10.9 percent in 2015, which will increase it to \$546 billion, well over half the annual peak of more than \$800 billion seen during the housing boom. Construction spending on single-family homes could rise by approximately 17.0 percent to around \$197 billion with single-family housing starts climbing from 637,000 in 2014 to 768,000 in 2015. Even so, the number of housing starts will be significantly less than the number seen in the years leading up to the recession. Average prices for existing homes are expected to increase 1.0 percent in 2015 to \$252,200, while prices for new homes will average \$329,600, down 0.6 percent from \$331,700 in 2014.

Total nonfarm payroll employment rose by 257,000 in January 2015, while the unemployment rate, at 5.7 percent, saw only a slight change. This included upward revisions that indicate 1 million jobs were created in the past three months. Employment gains in January occurred in retail trade, construction, health care, financial activities, and manufacturing. The number of unemployed, 9.0 million, did not change, while the number of people working part-time who would prefer a full-time positions, also remained essentially unchanged at 6.8 million. Despite encouraging payroll data in recent months, labor markets still have a long way to go before they can be considered tight, and this slack is one of the factors that continues to put downward pressure on wages.

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Alabama Economic Outlook 2015

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