



## Economic Outlook: Second Quarter 2015

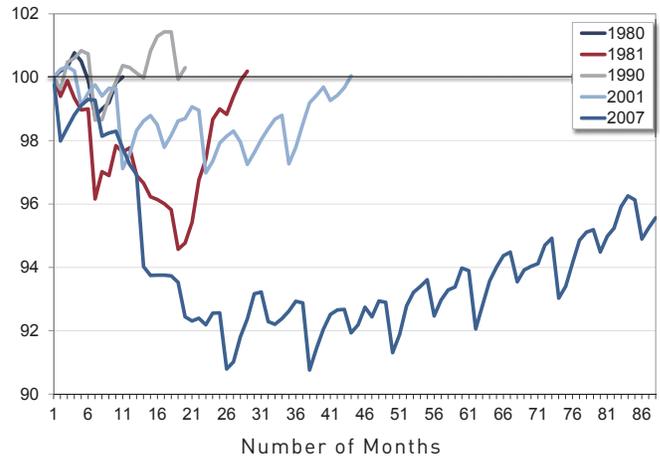
### Alabama

#### Highlights

- The state gained 28,600 jobs from March 2014 to March 2015 as the seasonally adjusted unemployment rate dropped from 7.2 to 5.7 percent bringing total nonfarm employment to 1,936,800.
- Seasonally adjusted unemployment, based on the household survey, declined from 153,979 in March 2014 to 123,100 in March 2015. During this period, the labor force dropped from 2,146,662 to 2,144,906 which also contributed to the lower unemployment rate.
- Total nonfarm employment is forecasted to increase by about 1.5 percent in 2015, with transportation equipment manufacturing; administrative support, remediation and waste management services; healthcare and social assistance; and food services and drinking places adding most to their payrolls.
- Overall, the state's economy is forecasted to grow by approximately 2.5 percent in 2015, higher than the 2.0 percent rate of growth seen in 2014.
- After increasing by only 1.3 percent in fiscal year 2013-2014, state tax revenues are expected to grow by 3.5 percent in FY2015.

**Employment.** After peaking in December 2007 at 2,026,700, the state currently employs 1,936,800 nonfarm workers, or 89,900 below its level prior to the beginning of the recession. The state gradually continues to make gains in payrolls. Last year at this time, nonfarm employment in the state was 118,500 below its December 2007 peak. Over the twelve-month period ending in March 2015, the state gained a net of 28,600 jobs. Within goods producing firms payroll

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



Source: Based on Alabama Department of Labor Data.

gains totaled 1,300 jobs while service providing firms gained 27,300 workers. After losing workers for a number of years, the construction sector in the state is now gradually adding workers. Over the previous twelve months, payrolls in construction increased by 800. Heavy and civil engineering added 600, while building construction gained 400 jobs, however, specialty trade contractors shed 200 workers from their payrolls. Employment levels in the mining and logging industry fell by 800 while overall manufacturing industries in the state gained 1,300 net new jobs. From March 2014 to March 2015 durable goods manufacturing industries in the state added 4,200 workers. Job gains in these industries were associated with motor vehicle parts manufacturing (1,600), primary and fabricated metals industry and motor vehicle manufacturers (1,100 each), wood products manufacturing (300), and furniture and related products (200), while payrolls in

#### Alabama Forecast

(Annual Percent Change)

	2013	2014	2015	2016
Real GDP	2.0	2.0	2.5	2.3
Range			1.0 to 3.0	2.0 to 3.0
Employment	1.0	0.7	1.5	1.1
Range			0.5 to 2.0	0.8 to 1.5
Total Tax Receipts, FY	4.0	1.3	3.5	2.8
Range			2.5 to 4.5	1.5 to 4.0

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

machinery manufacturing remained flat. Aerospace products and parts manufacturing lost 400 jobs, while computer and electronic product manufacturing related industries and electrical equipment, appliance and component manufacturers both lost 100 jobs. Nondurable goods manufacturing in the state experienced a net loss of 2,900 jobs, with only plastics and rubber products manufacturing adding workers (300). Paper manufacturing lost 700 workers while textile mills, textile product mills and apparel manufacturing again shed 900 jobs. Surprisingly, food manufacturers also lost 2,100 net jobs, almost all of those jobs were in animal slaughtering and processing (2,000). A drop of approximately 18.0 percent or \$103 million in food manufacturer's exports from 2013 to 2014 was most likely the reason for cutbacks in production.

Among service providing firms, job gains were predominantly associated with professional and business services (8,400); the fastest growing segment was administrative support, waste management, and remediation services (7,200), followed by professional, scientific and technical services (1,100). Other service sectors with job gains were leisure and hospitality (6,700), mostly in food services and drinking places (4,200); educational and health services (5,700), primarily in health care services and social assistance (3,800); retailing (3,100), mostly in motor vehicle and parts dealers (1,300) and general merchandise stores (900); financial services (900), mostly associated with real estate and rental and leasing (500); and durable goods related wholesalers (600). After consistently losing jobs over the last eight years or so, the information services sector added 100 workers to their payrolls for the period. Government also gained a net of 900 workers, including 600 associated with the state government and 500 with the local government entities, while federal government entities lost 200 jobs.

Job gains in state's metro areas (28 counties) totaled 24,900 while non-metro areas (39 counties) had a net gain of 3,700 jobs. During the twelve month period ending in March 2015, among the state's 12 metropolitan areas, job gains were experienced in Birmingham-Hoover (7,700); Tuscaloosa (4,200); Huntsville (4,000); Montgomery (2,400); Auburn-Opelika (2,200); Mobile (2,100); Daphne-Fairhope-Foley and Dothan (1,200 each); Gadsden and Anniston-Oxford-Jacksonville (400 each). The Florence-Muscle Shoals area experienced a net loss of 1,100 jobs while nonfarm payroll in Decatur fell by 200. As of March 2015, Florence-Muscle Shoals had the highest unemployment rate at 7.0 percent while Auburn-Opelika had the lowest at 4.7 percent. Among the state's 67 counties, only four counties had an unemployment rate of 10.0 percent or above, compared to 12 counties a year ago. Wilcox had the highest at 13.6 percent (compared to 18.6 percent a year ago) while Shelby's was the lowest at 3.9 percent (compared to 5.0

**Alabama Nonfarm Employment**

Change in Number of Jobs

	March 2013 to March 2014	March 2014 to March 2015
Total Nonagricultural	11,800	28,600
Natural Resources and Mining	-700	-800
Construction	500	800
Manufacturing	3,300	1,300
Durable Goods Manufacturing	4,400	4,200
Nondurable Goods Manufacturing	-1,100	-2,900
Trade, Transportation and Utilities	4,000	3,700
Wholesale Trade	0	-100
Retail Trade	3,000	3,100
Transportation, Warehousing and Utilities	1,000	700
Information	-200	400
Financial Activities	600	900
Professional and Business Services	500	8,400
Educational and Health Services	600	5,700
Leisure and Hospitality	4,400	6,700
Other Services	100	600
Government	-1,300	900
Federal Government	-1,700	-200
State Government	1,700	600
Local Government	-1,300	500

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

percent at the same time last year). Among the major cities in the state, as of March 2015, Vestavia Hills had the lowest unemployment rate at 3.6 percent (4.2 percent a year ago) while Prichard had the highest at 9.8 percent (compared to 12.4 percent a year ago).

**Tax Receipts.** During the first six months of the current fiscal year (FY2015), total tax revenues were up by 4.9 percent, an increase of about \$228.0 million from the same period in the previous fiscal year. Individual income tax receipts rose 4.4 percent to approximately \$1.8 billion while corporate income taxes were up 47.2 percent totaling about \$273 million. Sales taxes were up 3.9 percent totaling over \$1.0 billion, an increase of \$39.0 million over the first six months of the previous fiscal year.

Also during the first six months of FY2015, appropriations to the Alabama Education Trust Fund increased 5.8 percent (\$160.3 million) to approximately \$2.9 billion, compared to the same period the previous fiscal year. Appropriations to the state's General Fund during the first six months of the current fiscal year rose 10.3 percent or \$83.7 million compared to the first six months of the previous fiscal year, totaling approximately \$896.0 million.

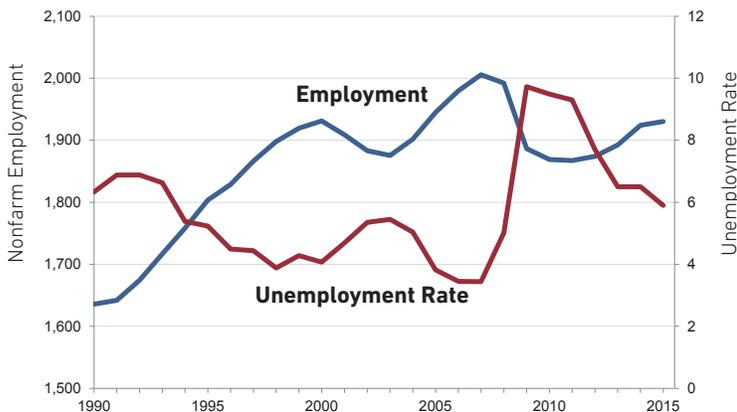
**Outlook for 2015**

Both selected manufacturing industries and services employers will continue to remain the state's major economic drivers in 2015. These include firms in industries such as automotive manufacturing, aerospace, tourism, healthcare, and biotechnology. Alabama's real gross domestic product - GDP, the real value of total goods and services produced in the state, should grow at a faster pace in 2015, increasing by a forecasted 2.5 percent to around \$190.0 billion. Gains in output are expected to be much higher for motor vehicle and parts and other transportation equipment manufacturers, the rate of output growth in these industries could exceed 5.0 percent. 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. Another sector that has shown relatively fast growth in recent months has been professional, scientific and technical services related businesses. These firms, together with the healthcare and social assistance sector of the economy, are also expected to continue to grow at a relatively rapid pace, primarily due to changing demographics and general ageing of the population.

Nonfarm employment is forecasted to rise by approximately 1.5 percent during 2015, with 30,000 to 35,000 jobs added across the state, a significantly faster pace than seen in 2014. The strongest percentage increases in employment are likely to be in motor vehicle and parts and other transportation equipment manufacturers. Most new jobs, however, will be in services, where broad-based gains could result in around 25,000 to 30,000 additional jobs, provided the state's economy continues to grow at its current pace. Most of the job growth is expected to be in the private sector of the economy with state government related entities also forecasted to add a modest number of workers. If the economy continues to grow at its current pace, this could encourage currently discouraged workers to enter the labor market, which could result in a higher unemployment rate by the end of the year.

**Total Annual Nonfarm Employment and Unemployment Rate**

Employment (Thousands), Unemployment Rate (Percent), 1990-2015



Source: Alabama Department of Labor.

**Monthly Employment Indicators**

(March 2015)

	Not Seasonally Adjusted	Seasonally Adjusted
<b>Civilian Labor Force</b>	2,126,470	2,144,906
Percent Change from Year Ago Level	-1.80%	0.00%
Absolute Change from Year Ago Level	-38,494	-1,756
<b>Employed</b>	2,003,430	2,021,806
Percent Change from Year Ago Level	0.00%	1.50%
Absolute Change from Year Ago Level	-581	29,123
<b>Unemployed</b>	123,040	123,100
Percent Change from Year Ago Level	-23.60%	-20.10%
Absolute Change from Year Ago Level	-37,913	-30,879
<b>Alabama Unemployment Rate</b>	5.80%	5.70%
Alabama Unemployment Rate (Dec. 2013)	7.40%	7.20%
<b>U.S. Unemployment Rate</b>	5.60%	5.50%
U.S. Unemployment Rate (Dec. 2013)	6.80%	6.60%

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

With the state's economy expected to grow at a faster pace in 2015 than in 2014, expected overall tax revenues are estimated to increase by 3.5 percent in FY2015. If consumer spending and jobs growth continue on their present trends, the rate of growth could be in excess of 4.5 percent. The current forecast calls for a 3.0 percent increase in sales tax revenues and about 4.0 percent increase in individual income tax revenues.

Improving statewide economic conditions are also reflected by the business sentiment for the second quarter 2015, measured quarterly by the Center for Business and Economic Research's Alabama Business Confidence Index™ (ABCI). The overall index rose 0.2 points to 57.6 from the first quarter and is above the index reading level of 55.6 a year ago. Most of the survey panelists were much more optimistic about the state's economy than the U.S. economy; the index for Alabama increased 1.0 points to 58.4 while that for the national economy rose 0.1 points to 56.5. An index reading above 50.0 reflects expansion and a reading below 50.0 signals a contracting economy. Indexes for industry sales and hiring were also up 0.9 points each to 61.5 and 57.1, respectively. However, Alabama businesses remain relatively cautious about profits and capital expenditures. The index for profits was down 1.0 points to 56.8 while the index reading for capital expenditures was down 0.6 points to 55.4

Overall the state's economy will continue to grow at a slightly faster pace in 2015, at least through the first half of the year. Despite the rapid increase in payrolls seen in some sectors of the economy, overall job growth is expected to remain

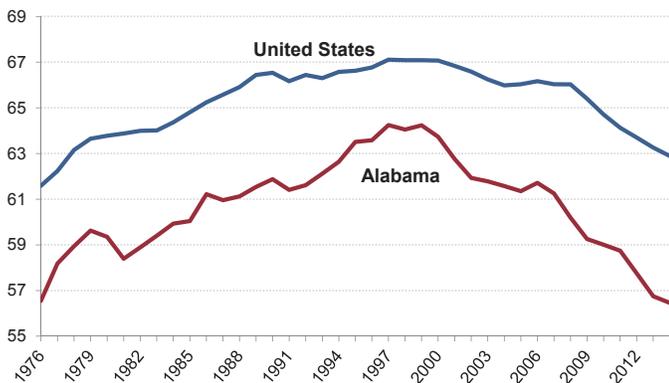
sluggish for some industries, specifically those with higher exposure to international trade, mirroring a national trend.

**United States**

Real GDP, the total value of goods and services, rose at an annual rate of 2.2 percent in the fourth quarter of 2014, down from 5.0 percent in the third quarter. Growth in the fourth quarter was primarily driven by consumer expenditures, nonresidential and residential business spending, exports and state and local government spending. Offsetting positive growth from these sectors were negative contributions from federal government spending, inventory investment and imports. Consumer spending, which accounts for almost 70.0 percent of the U.S. economy grew by 4.4 percent in the fourth quarter, the most since the fourth quarter of 2010. A gradually improving job market and relatively cheaper fuel cost are expected to sustain consumers at least through the first half of 2015. Consumer spending on services increased by 4.3 percent, one of the fastest rate increases since 2000. The current economic recovery will be six years old as of June 2015 and will have lasted 14 months longer than the average expansion since World War II. Since the recovery continues to remain sluggish compared to past expansions, the excesses that generally accompany overheating and thus lead to recession or slowdown have not accumulated. The U.S. economy is forecasted to grow by 1.2 percent in the first quarter of 2015, followed by a 3.4 percent growth in the second quarter; for the year, the rate of growth is expected to be 2.8 percent, compared to 2.4 percent in 2014. Any potential economic slowdown in the first half will be primarily due to falling energy infrastructure investment, declining exports, bad weather or sluggish payroll gains.

U.S. employers only added 126,000 jobs in March. This was one of the weakest periods of job growth since December 2013 and ended a 12-month streak of monthly gains of above 200,000. Still, March was the 54th straight month of employment gains in the U.S. albeit without significant wage gains. Furthermore, most of the long-term unemployed (2.6 million)

**Labor Force Participation Rate**  
(Annual)



Source: Bureau of Labor Statics.

workers have largely missed out on the current job growth. Most of the jobs added in March were in retail, healthcare and professional and business services. A broader version of the unemployment rate, which includes people working part-time jobs because they can't find full-time work was at 10.9 percent, just slightly below the 11.0 percent rate in February.

Growth in the second quarter is expected to be around 3.4 percent with consumer spending rebounding by 3.7 percent, after being hampered by weather effects in the first quarter. Overall, short term outlook for consumers looks fairly bright due to increasing consumer confidence, lower energy prices, low inflation, and increased purchasing power. A strong dollar will also help by exerting downward pressure on imported consumer goods prices.

Business spending is effected both by the stronger dollar and lower energy prices. A significant slowdown in domestic energy productions has led to a drop in industrial production and investment in structures. After a drop of 2.2 percent in the first quarter, business spending will increase by about 4.5 percent in the second quarter, however investment on structures will further decline by another 10.5 percent. Investments on structures in mining and petroleum related industry could fall by another 50.0 percent following a 65.6 percent decline in the first quarter. Overall investment on structures will decline by almost 8.0 percent in 2015.

Residential fixed investment, which includes both home construction and sales, fell by 0.3 percent in the first quarter, however, excluding the bad weather effects from the first quarter, the second quarter looks much more promising for housing starts. Residential fixed investment is expected to rise by approximately 16.0 percent in the second quarter and by about 7.0 percent for the year.

The forecast calls for the first Fed's tightening to occur in September 2015 with Fed Funds rate being 0.75 percent by the end of the year and around 2.0 percent by the end of 2016. The biggest risk to the forecast is the current weakness in the labor markets which could lead to a stall or slowdown in job expansion. This could, in turn, have a significant impact on consumer expectations and spending behavior. There is, however, only a 15 percent probability that the current recovery will stall, at least in the near future. Another risk to the recovery continues to be sluggish household formation rate, which is not expected to improve significantly in 2015.

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