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CENTER FOR BUSINESS AND ECONOMIC RESEARCH, CULVERHOUSE COLLEGE OF COMMERCE, THE UNIVERSITY OF ALABAMA

Economic Outlook: Third Quarter 2015

Alabama

Highlights

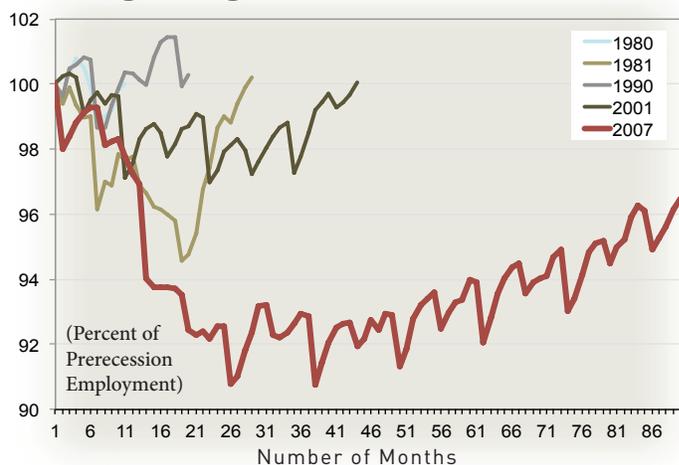
- The State gained 23,500 jobs from June 2014 to June 2015, as the seasonally adjusted unemployment rate dropped from 6.8 percent to 6.1 percent. The state employed a total of 2,032,508 workers in June 2015, up from 1,991,011 a year ago.
- The number of seasonally adjusted unemployed, based on the much smaller household survey, declined from 144,605 in June 2014 to 132,906 in June 2015. Civilian labor force in the state rose from 2,135,616 to 2,165,414 during this period. An expanding labor force generally results in an increase in the unemployment rate.
- Total nonfarm employment is forecasted to increase by about 1.3 percent in 2015, with transportation equipment manufacturing, professional and business services, and leisure and hospitality related businesses adding the most to their payrolls.
- The state's economy is estimated to grow by approximately 2.2 percent, slightly higher than the 2.0 percent growth rate seen in 2014.
- After increasing by about 1.3 percent in fiscal year 2014, state tax revenues are expected to grow by around 4.0 percent in fiscal year 2015.

Employment

After peaking in December 2007 at 2,026,700, the state currently employs 1,952,800 nonfarm workers - 73,900 below its pre-recession level, as the state continues to make gradual gains in payrolls. Over the twelve-month period ending in June 2015, the state gained a net 23,600 jobs, 2,500 from goods producing firms and 21,100 from services providing firms. The state's construction industry added

4,000 workers during the twelve-month period ending in June 2015, with both building construction and specialty trade contractors adding 1,600 jobs each while heavy and civil engineering construction related firms added 800 to their payrolls. Overall, manufacturing industries in the state experienced a net loss of 600 jobs, primarily due to the 1,200 jobs lost in nondurable goods producing industries. Durable

Alabama Employment Level Compared to the Beginning of Each Recession



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

goods producing businesses, however, added 600 jobs. Manufacturing has experienced above average growth in payrolls in recent years. The current downturn is most likely due to inventory build-up from earlier in the year along with slowing demand in overseas markets.

From June 2014 to June 2015, durable goods industries in the state added 600 workers. Job gains within these industries were associated with motor vehicle parts manufacturing (1,300), motor vehicle manufacturing (700), wood product manufacturing (200), and furniture and related products manufacturing (100). Payrolls in the remaining durable goods producing firms fell with primary and fabricated metals

Alabama Forecast (Annual Percent Change)

	2013	2014	2015	2016
Real GDP	2.0	2.0	2.2	2.5
range			1.5 to 3.0	2.0 to 3.0
Employment	1.0	0.7	1.3	1.4
range			0.5 to 2.0	0.8 to 1.5
Total Tax Receipts, FY	4.0	1.3	4.0	3.7
range			2.5 to 4.8	1.5 to 4.0

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

manufacturers losing 400 workers, mainly due to a drop in the price of raw steel, excess capacity, and competition both in domestic and international markets. Computer and electronic product manufacturing also lost workers, as did aerospace products and parts manufacturing (200 each). Electrical equipment, appliance and component manufacturing and machinery manufacturing lost 100 jobs each. Nondurables goods manufacturing experienced a net loss of 1,200 jobs during the twelve month period ending in June 2015. The only two industries to add to their payrolls were plastic and rubber products manufacturing (200) and textiles furnishing mills (100). All remaining industries producing nondurable goods experienced net job losses with animal slaughtering and processing firms losing 1,500 workers. Textile mills and apparel manufacturing had a net loss of 800 workers while paper manufacturing lost 100 jobs.

Within the services providing firms, job gains were predominantly associated with healthcare and social assistance (5,200); accommodation and food services (4,500); administrative support, waste management and remediation services (3,500); motor vehicle and parts dealers (2,000); general merchandise stores (1,100), finance and insurance (1,100); information (800); and transportation and warehousing (500). Over the twelve month period ending in June 2015, wholesale trade related businesses had a net loss of 1,700 workers. Meanwhile in professional and business services, computer system design and related services laid-off 1,000 workers and professional, scientific and technical services had 600 fewer workers compared to a year ago. Payrolls in the government sector rose by 2,700 from June 2014 to June 2015.

Among the state's 12 metropolitan areas, job gains were experienced in Birmingham-Hoover (6,900), Huntsville (3,700), Tuscaloosa (2,700), Daphne-Fairhope-Foley (1,800), Montgomery (1,800), Auburn-Opelika (1,200), Dothan (900), Gadsden (700), and Anniston (300). Metro-areas that lost jobs over the twelve months ending in June 2015 included Florence-Muscle Shoals (1,200), Mobile (700), and Decatur (100). The Florence-Muscle Shoals metro-area had the highest unemployment rate at 8.1 percent while Daphne-Fairhope-Foley had the lowest at 5.5 percent. Among the cities in the state, Selma had the highest unemployment rate at 13.1 percent and Vestavia Hills had the lowest at 4.0 percent. County unemployment rates also continued to vary significantly in June 2015, from a high of 16.1 percent in Wilcox County to Shelby County's statewide low of 4.6 percent.

Tax Receipts

During the first nine months of the current fiscal year (FY2015), total tax revenues were up 4.1 percent, an increase of about \$293 million from the same period in the previous fiscal year. Individual income tax receipts rose 5.1 percent to approximately \$3.1 billion while corporate income taxes were up 21.2 percent to total \$426 million, up from \$352 million in the previous fiscal year. Improvement in both business and consumer spending resulted in a 3.7 percent increase in sales taxes. For

Alabama Nonfarm Employment

Change in Number of Jobs

	June 2013 to June 2014	June 2014 to June 2015
Total Nonagricultural	14,400	23,600
Natural Resources and Mining	-600	-900
Construction	100	4,000
Manufacturing	3,100	-600
Durable Goods Manufacturing	5,300	600
Nondurable Goods Manufacturing	-2,200	-1,200
Trade, Transportation and Utilities	3,500	2,100
Wholesale Trade	200	-1,700
Retail Trade	2,200	3,100
Transportation, Warehousing and Utilities	1,100	700
Information	-800	800
Financial Activities	1,000	1,100
Professional and Business Services	2,500	3,200
Educational and Health Services	1,100	6,800
Leisure and Hospitality	5,000	4,900
Other Services	200	-500
Government	-700	2,700
Federal Government	-1,000	200
State Government	600	2,000
Local Government	-300	500

Source: Alabama Department of Labor, Labor Market Information Division, and Center for Business and Economic Research, The University of Alabama

the first nine months of the fiscal year, sales tax receipts totaled \$1.6 billion, an increase of \$57 million over the first nine months of the last year.

For the same period, appropriations to the Alabama Education Trust Fund increased 3.8 percent (\$162.3 million) to \$4.5 billion, compared to the same period last year. Appropriations to the State General Fund during the first nine months of the current fiscal year increased by 6.1 percent or \$73.3 million compared to the first nine months of the previous fiscal year, totaling approximately \$1.3 billion.

Exports

The state exports rose from \$4.6 billion during the first three months of 2014 to about \$4.7 billion during the first three months of 2015. Annual exports in 2014 increased \$226.5 million to total \$19.5 billion. Canada remained the state's largest export market in 2014 with exports totaling \$4.3 billion. During the first three months of 2015, exports totaled slightly over \$1.0 billion, an increase from approximately \$925 million during the first three months of 2014. Over the last four years, exports to China have risen dramatically, making it Alabama's second largest export market. Exports to China now surpass exports to both Mexico and Germany. From 2013 to 2014, total exports rose \$698 million to total \$3.2 billion. During the first three months of 2015, exports were about \$725 million, up from \$597 million for the same period in 2014. Exports to Mexico and Germany during the first three months of 2015 totaled approximately \$695 million and \$504 million respectively.

The transportation equipment manufacturing sector continues to remain the state's largest exporter. From 2013 to 2014, these exports rose \$317 million to \$8.7 billion. During the first three months of 2015, transportation exports from Alabama totaled almost \$2.0 billion, up from about \$1.9 billion for the same period a year ago. For the first three months of 2015, other major exports from the state included chemicals (\$590 million), primary metals (\$487 million), mineral and ores (\$278 million), nonelectrical machinery (\$227 million), and paper products (\$175 million). A general slowdown in the economies of the state's trading partners continues to have an impact on local manufacturers, resulting in a slight decline in some exports during the first three months of 2015 compared to the same period the year before.

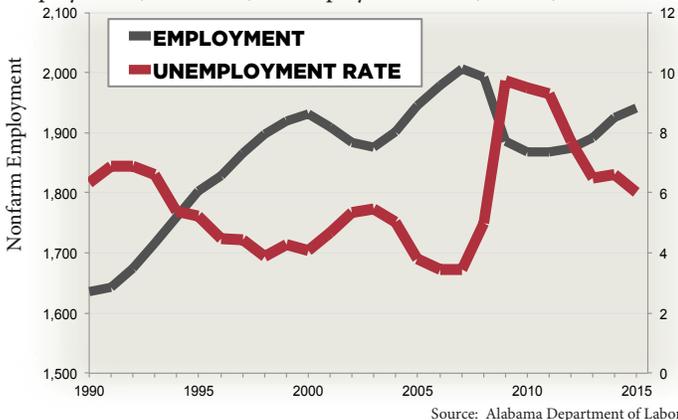
Outlook

Automobile and parts manufacturing along with certain segments of the services sector will continue to remain the state's major economic drivers in 2015. These include industries such as aerospace, tourism, healthcare, biotechnology, and the leisure and hospitality sector (particularly food services). Alabama's gross domestic product (GDP) - the total value of goods and services produced in the state - should grow at a slightly faster pace in 2015 compared to 2014, increasing by a forecasted 2.2 percent to around \$189 billion. Gains in output could be substantially higher than this for manufacturers of motor vehicles and parts and other transportation equipment related industries. Among service providing sectors, output gains will be strongest among professional and business services firms, particularly those engaged in administrative support, waste management services and remedial services. The healthcare and social assistance sector of the economy is also expected to grow at a relatively faster pace.

Nonfarm employment is forecasted to rise by 1.3 percent, adding 25,000 jobs across the state during 2015. The strongest percentage increases in employment are likely to be associated with 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 20,000 additional jobs, provided the state's economy continues to grow at its current pace. Most job growth is expected to be in the private sector of the economy with employment gains among state government related entities forecasted to be modest. If, however, the economy begins to accelerate at a much faster pace, it could encourage additional numbers

Total Annual Nonfarm Employment and Unemployment Rate

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



Monthly Employment Indicators

June 2015

	Not Seasonally Adjusted	Seasonally Adjusted
Civilian Labor Force	2,177,237	2,165,414
Percent Change from Year Ago Level	0.3%	1.4%
Absolute Change from Year Ago Level	7,522	29,798
Employed	2,032,258	2,032,508
Percent Change from Year Ago Level	1.2%	2.1%
Absolute Change from Year Ago Level	23,919	41,497
Unemployed	144,979	132,906
Percent Change from Year Ago Level	-10.2%	-8.1%
Absolute Change from Year Ago Level	-16,397	-11,699
Alabama Unemployment Rate	6.7%	6.1%
Alabama Unemployment Rate (June 2014)	7.4%	6.8%
U.S. Unemployment Rate	5.5%	5.3%
U.S. Unemployment Rate (June 2014)	6.3%	6.1%

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

of currently discouraged workers to enter the labor market, which could result in a slightly higher unemployment rate. State tax revenues are forecasted to increase by about 4.0 percent for FY2015.

Overall, the state's economy will continue to expand at its current pace (around 2.0 percent) in the second half of the year, although we could see a slight slowdown as indicated by business sentiment for the third quarter 2015 as measured by the Center for Business and Economic Research's quarterly Alabama Business Confidence Index™ (ABCI). The overall index was down 2.8 points to 54.8 - below the 55.5 index reading of a year ago. Most of the survey panelists were relatively more optimistic about the state's economy than the U.S. economy. The index for Alabama dropped 1.8 to a still confident 56.6, while the index for the national economy declined 5.8 points to a barely positive 50.7. An index reading above 50.0 indicates expansion while a reading below 50.0 signals a contracting economy. The indexes for industry sales and profits were down 3.2 and 1.1 points to 58.3 and 55.7, respectively. The index for hiring also declined 3.2 points to 53.9. Alabama businesses are, however, relatively more optimistic about capital spending. The index for expected business investment registered 53.2 for the third quarter of 2015, 2.2 points above the previous quarter. For the detailed results of the index please go to (http://cber.cba.ua.edu/abci/results/ABCI_Q3_2015.pdf).

Overall, the state's economy will continue to grow at a moderate pace in 2015. Although payroll growth has shown some slowdown, it will likely improve over the second half, with some sectors of the economy showing above average rates of growth. The state's economy is expected to grow by 2.0 to 2.5 percent in the second half of the year, compared to the 2.5 to 3.0 percent growth expected for the U.S. economy.

United States

The U.S. economy grew by 2.3 percent in the the second quarter. The first quarter decline of 0.2 percent was revised to a 0.6 percent increase. The U.S. economy will grow by about 2.5 to 3.0 percent in the second half of 2015. Most of the growth is expected to be from domestic consumption with exports to Europe, China and other trading partners contributing

only modestly. Sluggish labor force and productivity growth, together with a low labor force participation rate produced a 1.5 to 3.0 percent GDP growth. This is below its historical level of potential growth and may be the new norm. Economic growth since the end of the recession in 2009 continues to remain sluggish as the U.S. economy continues the weakest recovery since World War II.

Consumer Spending

Consumer spending, which accounts for almost two-thirds of the U.S. economy, increased 2.9 percent in the second quarter, and is expected to increase by 3.0 percent for the remainder of the year. Expenditures on durable and nondurable goods rose 7.3 and 3.6 percent in the second quarter, respectively. With improving personal income, spending on durable goods will increase by 7.5 to 8.0 percent in the third and fourth quarters. Spending on nondurable goods, such as food, shelter and apparel is forecasted to rise by 4.0 percent and 3.8 percent in the third and fourth quarters, respectively. Expenditures on services increased by 2.1 percent in the second quarter and will increase 2.5 percent in the third quarter, followed by a 2.4 percent increase in the fourth quarter.

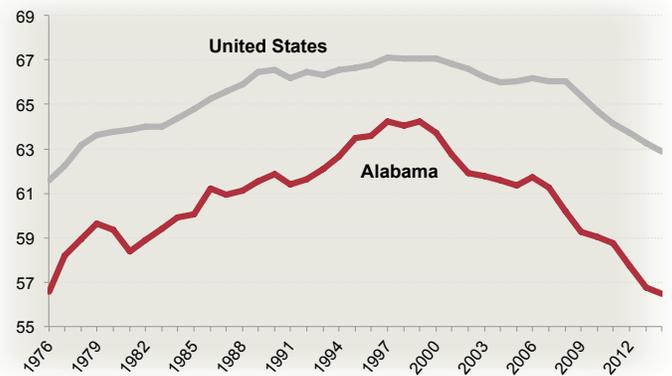
Investment

Inflation adjusted nonresidential business spending declined by 0.6 percent in the second quarter but should increase 5.0 percent in the third quarter, followed by 6.5 percent in the fourth quarter. Business spending on information processing equipment should rise by approximately 10.0 percent in the second half of the year – after a 4.1 percent drop in the second quarter. Real residential fixed investment, which includes both home construction and sales, will rise by about 10.0 percent in the second half of the year. The sale of existing homes to first-time home buyers reached a five year high in May. The \$5.35 million unit annual rate is the highest level of first time purchases since June 2010. New home sales also reached an annual rate of 546,000 units - a seven year high. One of the weakest sectors of the economy is currently the energy sector. Mining and petroleum related investment on structures dropped 44.5 percent in the first quarter of 2015 and dropped another 68.2 percent in the second quarter. For the remainder of the year, these investments could drop another 15.0 to 20.0 percent and no real turnaround is expected until perhaps the second quarter of 2016.

Employment

Payroll employment increased by 223,000 in June, contributing to a three-month average increase of 221,000 in the second quarter of 2015. Job growth is expected to be around a monthly average of 200,000 for the remainder of the year. However, with wages barely staying ahead of price level changes and most of the jobs coming from low-wage sectors of the economy, economic growth will remain modest. Another remaining concern is the low level of labor productivity. Employment in professional and business services increased by 64,000 in June, with temporary help services adding 20,000 jobs. Other sectors that added jobs were engineering services and computer design and related services (4,000). Health care added 40,000 jobs in June, most of which were in ambulatory care services (23,000), hospitals (11,000), and nursing and residential care facilities (7,000). Employment in health care has grown by an average of

Labor Force Participation Rate (Annual)



Source: Bureau of Labor Statics.

34,000 per month over the prior 12 months. Retailers have added about 300,000 jobs over the year, gaining 33,000 jobs in June -10,000 of these in general merchandise stores. Payrolls in financial activities increased by 20,000. These sectors have added 159,000 jobs over the year, with the insurance industry accounting for about half of the gains. Employment in food services and drinking places continued to rise in June (30,000) and has increased by 355,000 over the year.

Payrolls in mining related industries dropped 4,000 in June. During the last six months the sector has lost 71,000 workers with most of the losses among support activities. Employment in other major industries: construction, manufacturing, wholesale trade, information, and government, showed little or no change in June.

Summary

The U.S. economy is forecasted to grow at a slightly faster pace in the second half than it did in the first. Payroll growth will continue to average around 200,000 per month, which should help consumer demand. Consumers will remain cautious, however, as most of the jobs added will be in the low wage sectors. The Federal Reserve Bank will most likely raise interest rates after their September meeting. The increase in interest rates is, however, expected to be very slow depending on the reaction of some sectors of the economy to tighter monetary policy - particularly housing and durable goods spending. Cutbacks in mining and petroleum related capital spending will continue to remain a drag on the economy, however these appear to be bottoming out. Any new investment on energy related structures will continue to remain muted. With both stock prices and home prices rising, household net worth reached \$84.9 trillion in the first quarter, surpassing its 2007 prerecession peak by 25.0 percent, 12.0 percent in inflation adjusted terms, which should continue to provide stimulus to consumer spending for the near future.

Samuel Addy, Ph.D.

saddy@cba.ua.edu

Ahmad Ijaz

aijaz@cba.ua.edu

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