



Economic Outlook Update: JULY 2016

ALABAMA HIGHLIGHTS

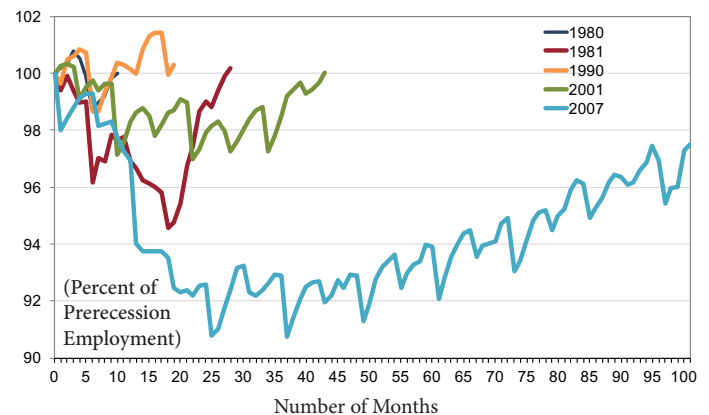
- The State gained 20,000 jobs from May 2015 to May 2016 while the seasonally adjusted unemployment rate remained at 6.1 percent bringing total nonfarm employment to 1,976,300.
- Seasonally adjusted unemployment, based on the household survey, increased from 130,722 in May 2015 to 132,106 in May 2016. During this period, the seasonally adjusted labor force increased from 2,142,493 to 2,183,041 which contributed to the unemployment rate remaining flat over the twelve month period.
- Total nonfarm employment is forecasted to increase by about 1.0 percent in 2016, with professional, scientific and technical services; 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 1.9 percent in 2016, below the 2.4 percent rate of growth seen in 2015.
- After increasing by 4.0 percent in fiscal year 2014-2015, state tax revenues are expected to grow by around 2.7 percent in FY2016.

EMPLOYMENT

After peaking in December 2007 at 2,026,700, the state currently employs 1,976,300 nonfarm workers, or 50,400 below its level prior to the beginning of the recession as the state continues to make gains in payrolls. Over the twelve-month period ending in May 2016, the state gained a net of 20,000 jobs. Within goods

producing firms payroll gains totaled only 600 jobs while services providing firms added 19,400 workers. Despite an increase in construction activity in the state, overall employment in construction related firms fell over the twelve month period ending in May 2016. Although building construction added 400 workers, specialty trade contractors and heavy and civil engineering construction lost 600 and 400 workers respectively. Employment levels in the mining and logging industry also fell by 1,200 while overall manufacturing industries in the state gained 2,400 net new jobs. From May 2015 to May 2016, durable goods

Alabama Employment Level Compared to the Beginning of Each Recession



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

manufacturing industries in the state lost 800 workers. Job gains in these industries were associated with wood products manufacturing (1,000), motor vehicle parts manufacturing (400), and aerospace products and parts manufacturing (200). Electrical equipment, appliance, and component manufacturing experienced no change in employment. All of the remaining industries producing

Alabama Forecast (Annual Percent Change)

(Percent change)	2014	2015	2016	2017
Real GDP	2.0	2.4	1.9	2.1
range		1.8 to 2.5	1.5 to 3.0	1.0 to 3.5
Employment	1.1	1.2	1.0	0.8
range		1.0 to 1.4	0.8 to 1.5	0.5 to 1.5
Total Tax Receipts, FY	1.3	4.0	2.7	2.4
range			1.5 to 4.0	2.0 to 4.5

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

durable goods experienced a net loss in payrolls, most prominently, the primary and fabricated metals industry lost a total of 1,300 jobs during the twelve month period ending in May. Unexpectedly, nondurable goods manufacturing in the state experienced a net gain of 3,200 jobs, with animal slaughtering and processing alone adding 700 workers. Plastics and rubber products manufacturing added another 1,000 to their payrolls, while paper manufacturing added 100.

Among service providing firms, job gains were predominantly associated with retailing (5,000); professional, scientific and technical services (4,300); administrative support, waste management, and remediation services (2,600); finance and insurance (2,400); ambulatory healthcare services (2,000); food services and drinking places (1,800); real estate and rental and leasing (1,600); and hospitals (1,300). Information related services providers shed another 800 workers while overall losses in government sector were 1,900.

Nonfarm payroll gains in state's metro areas (28 counties) totaled 17,100 while non-metro areas (39 counties) had a net gain of 2,900 jobs. During the twelve month period ending in May 2016, among the state's 12 metropolitan areas, job gains were experienced in Birmingham-Hoover (5,300); Huntsville (2,700); Daphne-Fairhope-Foley (2,100); Mobile (1,800); Tuscaloosa (1,500); Auburn-Opelika (1,400); Gadsden (1,000); Montgomery and Florence-Muscle Shoals (800 each); and Dothan (200). Nonfarm employment in Anniston-Oxford-Jacksonville metro area declined by 500 from May 2015 to May 2016, while payrolls in Decatur remained flat. As of May 2016, Anniston-Oxford-Jacksonville and Mobile metro areas had the highest unemployment rates at 6.5 percent, while Auburn-Opelika and Huntsville had the lowest at 5.0 percent. Among the state's 67 counties, only three counties had an unemployment rate of 10.0 percent or above, compared to five counties a year ago. Wilcox had the highest at 13.5 percent (compared to 15.0 percent a year ago) while Shelby's was the lowest at 4.2 percent, the same as last year. Among the major cities in the state, as of May 2015, Vestavia Hills had the lowest unemployment rate at 3.6 percent (4.0 percent a year ago) while Selma had the highest at 10.3 percent (compared to 11.2 percent a year ago). ■

TAX RECEIPTS

During the first nine months of the current fiscal year (FY2016), total tax revenues were up by 2.4 percent, totaling \$7.7 billion, an increase of about \$181 million from the same period in the previous fiscal year. Individual income tax receipts rose 4.0 percent to approximately \$3.2 billion while corporate income taxes were down 21.0 percent, totaling \$336.6 million. Sales taxes were up 4.5 percent totaling about \$1.7 billion, an increase of about \$71 million over the first nine months of the previous fiscal year.

Alabama Nonfarm Employment

Change in Number of Jobs

	May 2014 to May 2015	May 2015 to May 2016
Total Nonagricultural	26,900	20,000
Mining and Logging	-400	-1,200
Construction	1,100	-600
Manufacturing	5,100	2,400
Durable Goods Manufacturing	4,500	-800
Nondurable Goods Manufacturing	600	3,200
Trade, Transportation and Utilities	6,200	4,600
Wholesale Trade	800	-1,200
Retail Trade	4,100	5,000
Transportation, Warehousing and Utilities	1,300	800
Information	-100	-800
Financial Activities	700	4,000
Professional and Business Services	5,300	7,300
Educational and Health Services	3,200	5,200
Leisure and Hospitality	5,800	500
Other Services	600	500
Government	-600	-1,900
Federal Government	-400	200
State Government	1,500	-900
Local Government	-1,700	-1,200

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

Appropriations to the Alabama Education Trust Fund increased approximately 3.0 percent (\$133.2 million) to approximately \$4.6 billion during the first nine months of FY2016, compared to the same period the previous fiscal year. Appropriations to the state's General Fund during the first nine months of the current fiscal year increased only 0.6 percent or \$7.6 million compared to the first nine months of the previous fiscal year, totaling approximately \$1.3 billion. ■

OUTLOOK FOR 2016

Transportation equipment and wood products related manufacturing, and services providing employers will continue to remain the state's major economic drivers in 2016. These include firms in industries such as automotive manufacturing, aerospace, tourism, healthcare, real estate rental and leasing, administrative support and remediation services, and biotechnology. Alabama's real gross domestic product - GDP or the real value of total goods and services produced in the state - should grow at a slightly slower pace in 2016, increasing by a forecasted 1.9 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 is professional, scientific and technical services. 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 1.0 percent during 2016, with 20,000 to 25,000 jobs added across the state, below the pace of payroll growth seen in 2015. 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 providing business firms, where broad-based gains could result in around 15,000 to 18,000 additional jobs, provided the state's economy continues to grow at its current pace, with some improvement in the second half of the year. 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 more currently discouraged workers to enter the labor market, which could result in keeping the unemployment rate at its current rate or a slight increase. With the state's economy expected to grow at a slightly slower pace in 2016 than in 2015, expected overall tax revenues are estimated to increase by 2.7 percent in FY2016. The current forecast calls for a 4.0 percent increase in sales tax revenues and about 3.7 percent increase in individual income tax revenues.

A slight slowdown in economic conditions are also reflected by the business sentiment for the third quarter 2016, measured quarterly by the Center for Business and Economic Research's Alabama Business Confidence Index™ (ABCI). The overall index dropped 2.8 points to 52.4 from the second quarter and is below the index reading level of 54.8 a year ago. Most of the survey panelists were more optimistic about the state's economy than the U.S. economy; still, the index for Alabama fell 3.6 points to 52.8 while that for the national economy dropped 1.9 points to 49.0. An index reading above 50.0 reflects expansion and a reading below 50.0 signals a contracting economy as compared to last quarter. Indexes for industry sales and profits were also down 4.9 and 3.3 points each to still positive 54.9 and 53.0, respectively. Alabama businesses remain relatively cautious about hiring. The hiring index was down 3.2 points to 51.3 while the index for capital expenditures was up 0.4 points to 53.4. For a complete report on Alabama Business Confidence Index, go to (web site here).

Overall the state's economy will continue to grow at a slightly slower pace in 2016 compared to 2015, at least through the first half of the year; growth should pick up modestly in the second half. 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

As of July 2016, the current economic recovery is now seven years old and will have lasted 26 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. However, there are some signs on the horizon that the economy may be headed for a slowdown; the probability of a recession is now around 20.0 percent for 2017. First-quarter growth was revised up from 0.8 percent (second estimate) to 1.1 percent (third estimate), the first estimate, published two months ago, was 0.5 percent. Personal consumption growth was revised down from 1.9 percent to 1.5 percent while the decline in nonresidential fixed investment was revised from 6.2 percent to a 4.5 percent drop. Growth in consumer spending, which accounts for more than two-thirds of economic activity in the United States, was revised down to a 1.5 percent rate, the slowest pace in two years. Consumer spending was previously reported to have increased at a 1.9 percent rate.

Export growth was also revised up from -2.0 percent, a 0.3 percent increase. Imports, which dropped by 0.5 percent, are a subtraction from GDP, and therefore had a positive contribution to the overall economic growth. The private sector's before tax earnings also rose 1.8 percent compared to the previous estimate of 0.3 percent. Economic growth in the first quarter was constrained by a strong dollar and sluggish global demand. GDP growth was also hampered by inventory correction and low prices resulting in significant cuts in capital expenditures. First-quarter business spending on software, research and development was revised to show an increase of 4.4 percent compared to a 0.1 percent decline first reported, business spending on equipment also fell 8.7 percent. Overall, business spending took off 0.6 percent from the first quarter GDP growth.

Payroll (seasonally adjusted) employment in June increased by 287,000, significantly higher than the 11,000 reported for May. However, the average monthly change is still significantly below the average of 229,000 jobs a month added in 2015. The seasonally adjusted unemployment rate in June rose to 4.9 percent, mainly due to an increase in labor force by 414,000 and an increase in the number of unemployed, which went up by 347,000 to 7.8 million.

In June, job growth occurred in leisure and hospitality (59,000), healthcare and social assistance (58,000), professional and business services (38,000), retailing (30,000), and financial activities (16,000). Employment in other major industries, including construction, manufacturing, wholesale trade, transportation and warehousing, and government showed little or no change in June.

Second-quarter real GDP growth will come in around 2.0 percent with the economy growing at an annualized rate of about 1.9 percent for 2016. Personal consumption expenditures are estimated to grow by 4.0 percent in the second quarter and by about 2.7 percent for 2016.

2016 U.S. HIGHLIGHTS

Currently, business spending is being affected by both a relatively stronger dollar and lower energy prices. A significant slowdown in domestic energy productions has led to a drop in industrial production, investment in structures, and capital spending. Business spending is estimated to increase by only 1.0 percent in the second quarter, however investment on structures will decline further by another 5.0 percent. Overall business spending will either remain flat or increase very little in 2016. Overall spending on structures will drop by about 3.5 percent for the year. Residential fixed investment, which includes both home construction and sales, rose by 15.6 percent in the first quarter but is forecasted to fall by around 3.0 percent in the second quarter. Residential investment will rise by approximately 8.0 percent in 2016. The forecast calls for no Fed action on interest rates in September. The next increase in Fed Funds rate will most likely be at their mid-December meeting, depending on economic conditions. The biggest risk to the forecast is the current sporadic 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 a 20.0 percent probability that the current recovery will stall, at least in the near future. ■

- Overall consumer spending will rise by about 2.7 percent in 2016, with expenditures on durable good increasing by 5.1 percent while nondurables consumption increase by around 2.9 percent.
- Nonresidential fixed investment is expected to rise 0.2 percent in 2016. There will be a significant slowdown in business spending primarily due to the decline in energy sector related spending. Expenditures for information processing equipment should increase by approximately 4.5 percent, while spending on structures is likely to decline by around 3.4 percent. However, expenditures on commercial and healthcare-related structures will rise by over 12.5 percent in 2016.
- Residential fixed investment is forecasted to grow by about 8.0 percent in 2016, with construction on single family homes rising by over 10.0 percent to around \$208 billion. New home sales could rise from 502,000 in 2015 to 581,000 in 2016.
- Total nonfarm payroll employment is estimated to increase by 1.7 percent, below the 2.1 percent rate seen in 2015, while the unemployment rate is expected to average around 4.8 percent.
- The thirty-year effective mortgage rate will average around 3.6 percent in 2016.

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Alabama Real GDP

(Percent Change from Preceding Period / millions of chained 2009 dollars)

Industry	2013Q4-2014Q1	2014Q1-Q2	2014Q2-Q3	2014Q3-Q4	2014Q4-2015Q1	2015Q1-Q2	2015Q2-Q3	2015Q3-Q4
All industry total	-0.5	0.9	1.3	-0.4	0.9	-0.4	0.8	0.4
Private industries	-0.7	1.1	1.6	-0.4	1.2	-0.5	1	0.4
Agriculture, forestry, fishing, and hunting	-6.6	-1.2	0.3	-1.9	29.8	-8	-1.6	-5.3
Mining	0.3	0.9	-0.4	3.6	-1	2.4	6.2	-1.7
Utilities	-3.4	2.8	3.5	3	4.4	-15.6	6.9	-1.7
Construction	1.5	-1.2	0.1	1.8	-2	0.6	2.6	1.5
Manufacturing	-2.2	-0.8	-0.8	0.6	-0.3	1.4	1.8	0.7
Durable goods manufacturing	-4.9	0.1	1.3	1.1	-0.8	2.4	2	0.3
Nondurable goods manufacturing	1.8	-2.1	-3.7	-0.1	0.5	0	1.5	1.3
Wholesale trade	-1.8	1.2	2.8	-0.1	0.7	2.1	-1.2	1.1
Retail trade	0.8	1.4	1.2	0	-0.4	1.1	1.9	0.2
Transportation and warehousing	-0.1	1.6	2.8	-0.1	-8.1	3.4	1.1	-0.6
Information	1.1	1.3	-0.8	4.8	-0.3	0.8	-2.2	2.6
Finance and insurance	5.4	6.2	1.9	-3	6.7	-4.6	-2.1	-0.9
Real estate and rental and leasing	-1.9	1	5.5	-6.1	3.8	-1.1	-0.8	1
Professional, scientific, and technical services	-1.7	1.2	1.6	0	-1.2	2.1	1.4	1.1
Management of companies and enterprises	-14	9	9.2	-4.5	6	-7.6	-0.1	1.7
Administrative and waste management services	0.5	2.9	1.7	2.1	-3.2	2.9	1.1	0.9
Educational services	3.4	-1.1	1.3	0.7	-2.4	-0.6	2.3	-0.2
Health care and social assistance	0.4	1.3	1.3	0.8	2.2	-1.5	2.3	0.2
Arts, entertainment, and recreation	-1.2	0	1.7	0.8	11.6	-10.7	3.7	1.3
Accommodation and food services	2.6	2.1	1.6	0.1	-0.3	-0.6	0.7	0.4
Other services, except government	0.2	1.7	1.1	0.2	-0.4	0.9	-0.5	1.1
Government	0.7	0	0	-0.5	-0.8	-0.1	0.1	0

Source: U.S. Department of Commerce, Bureau of Economic Analysis.

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.