



Economic Outlook Update: NOVEMBER 2016

ALABAMA HIGHLIGHTS

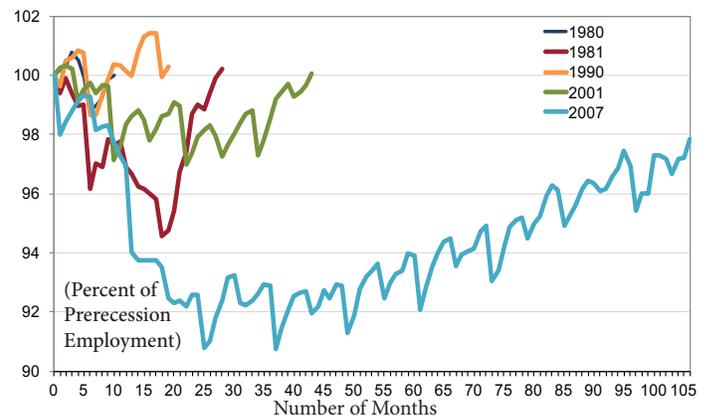
- The State gained 24,500 jobs from October 2015 to October 2016 while the seasonally adjusted unemployment rate declined from 6.1 percent to 5.7 percent. This brought total nonfarm employment to 1,982,400.
- Seasonally adjusted unemployment, based on the household survey, dropped from 131,421 in October 2015 to 123,892 in October 2016. During this period, labor force increased from 2,142,579 to 2,182,384 which tends to push the unemployment rate higher; however, the job growth over this period was strong enough to negate the effects of increasing labor force on unemployment rate.
- 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 1.4 percent in 2016, below the 2.3 percent rate of growth seen in 2015.
- After increasing by only 4.0 percent in fiscal year 2014-2015, state tax revenues grew by 1.2 percent in FY2016 and are forecasted to increase by 1.5 percent in FY2017.

EMPLOYMENT

After peaking in December 2007 at 2,026,700, the state currently employs 1,982,400 nonfarm workers, or 44,300 below its level prior to the beginning of the recession. The state gained a net of 24,500 jobs over the twelve-month period ending in October 2016. While most of the gains were in services providing firms (20,700) employment levels within goods-producing firms also

rose 3,800. Despite an improvement in both residential and commercial construction activity in the state, overall employment in construction-related firms fell by 2,200 over the twelve-month period ending in October 2016. All major construction sector employers shed workers: specialty trade contractors (1,000); heavy and civil engineering (700); and building construction (500). Employment levels in the mining and logging industry remained flat from year ago levels. However, overall manufacturing industries in the state gained 6,500 net new jobs. From October 2015 to October 2016, durable goods manufacturing industries in the state added 2,200 jobs while producers of nondurable goods added 4,300. Manufacturing job gains were primarily associated

Alabama Employment Level Compared to the Beginning of Each Recession



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

with wood products manufacturing (1,200); electrical equipment, appliance and component manufacturing (800); animal slaughtering and processing manufacturing (900); motor vehicle parts manufacturing (600); aerospace products and parts manufacturing (200); and furniture and related products manufacturing (200). The number of jobs in machinery manufacturing remained flat while all remaining industries shed workers. Textiles and apparel plants lost a

Alabama Forecast (Annual Percent Change)

(Percent change)	2014	2015	2016	2017
Real GDP	2.0	2.3	1.4	1.8
range			0.5 to 3.0	1.0 to 3.5
Employment	1.1	1.2	1.0	0.9
range			0.8 to 1.5	0.5 to 1.5
Total Tax Receipts, FY	1.3	4.0	1.2	1.5
range				1.0 to 3.5

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

total 600 jobs, and fabricated and primary metals lost 200.

Among service-providing firms, job gains were predominantly associated with retail trade (9,400), mainly general merchandising stores (3,100); government entities (5,300); financial activities (5,200); professional, scientific and technical services (4,200); healthcare and social assistance (2,600); educational services (900); and transportation and warehousing (700). Payrolls in the wholesale trade sector lost 2,400 workers while the accommodation and food services industry lost 1,200.

Job gains in the state's metro areas (28 counties) totaled 20,000 while non-metro areas (39 counties) had a net gain of 4,500 jobs. During the twelve-month period ending in October 2016, among the state's 12 metropolitan areas, job gains were experienced in Birmingham-Hoover (4,500); Huntsville (3,200); Mobile (2,500); Auburn-Opelika and Daphne-Fairhope-Foley (1,900 each); Tuscaloosa (1,800); Montgomery (1,700); Decatur and Dothan (700 each); Florence-Muscle-Shoals (600); Gadsden (300); and Anniston-Oxford-Jacksonville (200). As of October 2016, the Mobile metro area had the highest unemployment rate at 6.9 percent while Auburn-Opelika metro area had the lowest at 5.1 percent. Among the state's 67 counties, five counties had an unemployment rate of 10.0 percent or above, one more than this time in 2015. Wilcox had the highest county unemployment at 13.8 percent (compared to 13.3 percent a year ago) while Shelby's was the lowest at 4.5 percent (compared to 4.0 percent at the same time last year). Among the major cities in the state, as of October 2016, Vestavia Hills had the lowest unemployment rate at 4.0 percent (3.6 percent a year ago) while Selma had the highest at 10.3 percent (compared to 10.1 percent a year ago). ■

Alabama Nonfarm Employment

Change in Number of Jobs

	October 2014 to October 2015	October 2015 to October 2016
Total Nonagricultural	22,000	24,500
Mining and Logging	-800	-500
Construction	100	-2,200
Manufacturing	2,500	6,500
Durable Goods Manufacturing	1,000	2,200
Nondurable Goods Manufacturing	1,500	4,300
Trade, Transportation and Utilities	5,600	8,200
Wholesale Trade	1,100	-2,400
Retail Trade	4,000	9,400
Transportation, Warehousing and Utilities	500	1,200
Information	-700	300
Financial Activities	200	5,200
Professional and Business Services	4,800	0
Educational and Health Services	3,400	3,500
Leisure and Hospitality	7,000	-1,800
Other Services	1,600	0
Government	-1,700	5,300
Federal Government	-700	900
State Government	200	2,100
Local Government	-1,200	2,300

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

EXPORTS

State exports increased from \$9.4 billion during the first six months of 2015 to \$10.2 billion during the first six months of 2016, an increase of about \$778.1 million. Annual exports in 2015 dropped \$123.4 million to total \$19.3 billion. Canada remained the state's largest export market in 2015 with exports totaling \$4.1 billion. During the first six months of 2016, exports totaled slightly over \$2.06 billion, a decline from approximately \$2.11 billion during the first six months of 2015. Over the last five 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. Compared with the same time period in 2015, exports to China in the first six months of 2016 increased by \$118 million to reach \$1.5 billion. By comparison, exports to Mexico and Germany during the first six months of 2016 totaled approximately \$1.4 billion and \$1.1 billion, respectively.

The transportation equipment manufacturing sector continues to remain the state's largest exporter. From 2014 to 2015, exports from this sector rose \$634 million to \$9.3 billion. During the first six months of 2016, transportation exports from Alabama totaled almost \$5.4 billion, an increase of \$1.2 billion from the \$4.2 billion that was measured during the same period a year ago. For the first six months of 2016, other major exports from the state included chemicals (\$986 million), primary metals (\$728 million), nonelectrical machinery (\$540 million), paper products (\$540 million), computer and electronic products (\$279 million), fabricated metals products (\$242 million), and mineral and ores (\$220 million). A slowdown in the economies of the state's trading partners continues to have an impact on local manufacturers, resulting in slight declines in overall exports ~~industries~~ first six months of 2016 compared to same period the year before, consequently causing slower payroll growth in affected

TAX RECEIPTS

During the first month of the current fiscal year (FY2017), total tax revenues were up by 23.1 percent, an increase of about \$150 million from the same period in the previous fiscal year. Total tax revenues were up 1.2 percent in FY2016, totaling about \$9.9 billion. After increasing by 3.6 percent (\$4.1 billion) in FY2016, for the first month of the current fiscal year, individual income tax receipts rose 20.4 percent to approximately \$217 million while corporate income taxes were down 17.2 percent, totaling about \$15.8 million. Sales taxes were up 2.9 percent, totaling over \$189 million, compared to \$184 million in the previous fiscal year for the same period. FY2016 saw an increase of 3.9 percent in sales taxes, totaling \$2.2 billion.

Also during the first month of FY2017, appropriations to the Alabama Education Trust Fund dropped 7.1 percent (\$29.4 million) to approximately \$384 million, compared to the same period the previous fiscal year. Appropriations were up by 0.4 percent, or \$24.5 million, totaling \$6.1 billion in FY2016. Appropriations to the state's General Fund during the first month of the current fiscal year rose 5.1 percent, or \$8.1 million, compared to the same period of the previous fiscal year, totaling approximately \$167.1 million. For FY2016, ending in September, annual total appropriations for general fund were down 0.7 percent, totaling approximately \$1.8 billion. ■

OUTLOOK FOR 2016

According to the most recent data available on state GDP, Alabama's economy grew by 0.5 percent in the first quarter 2016. The state economy is expected to expand by about 1.0 percent for the whole of 2016. Payroll gains in transportation equipment manufacturing along with professional, scientific and technical services; retailing; and healthcare and social assistance will continue to remain the state's major economic drivers for the remainder of 2016 and at least through the first half of 2017. Above-average growth is expected in motor vehicle parts manufacturing, motor vehicle and parts dealerships, administrative support services, real estate and rental and leasing services, administrative support and waste management, educational services, and healthcare and social assistance. Alabama's gross domestic product (GDP) - the total value of goods and services produced in the state - grew at a slightly slower rate in 2016 compared to 2015. Relative output gains could be substantially higher for manufacturers of motor vehicles and parts and other transportation equipment related industries. Among service-providing sectors, output gains will be strongest among professional, scientific and technical 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 1.0 percent, adding approximately 20,000 to 25,000 jobs for the year. Employment in service-providing firms will rise at a much faster pace than good producing sectors, such as construction, mining and logging and manufacturing. The unemployment rate is expected to remain around its current level in the near future, but if the economy begins to accelerate at a much faster pace than we have seen in recent months, it could encourage even more currently discouraged workers to enter the labor market, which could serve to push the unemployment rate slightly higher. At this stage of the recovery, however, the probability of such a scenario is fairly low. State revenues for the first quarter of FY2017 are forecasted to rise by around 1.5 percent.

Overall, the state's economy will continue to expand at its current annual pace (around 0.5 to 1.0 percent) at least through the first quarter 2017. Overall business sentiment for the fourth quarter of 2016 as measured by the Center for Business and Economic Research's quarterly Alabama Business Confidence Index™ (ABCI), was up 0.2 points to 52.6. Most of the survey panelists were more optimistic about the state's economy than the U.S. economy, despite a drop in the Alabama index of 0.3 points to 52.4. The index for the national economy remained flat at 49.0. An index reading above 50.0 indicates that the business community expects an expansion while a reading below 50.0 signals a contracting economy. The index reading for the fourth quarter of 2016 showed mixed results for the measures included in the survey. The indexes for industry sales and profits were down 1.7 and 0.9 to 56.6 and 53.9, respectively. The index for hiring rose 0.6 points to 51.9 while the index for expected business investment registered 52.0 for the fourth quarter, 1.4 points below the previous quarter. For the detailed results of the index please go to (http://cber.cba.ua.edu/abci/results/ABCI_Q4_2016.pdf).

The state's economy will continue to grow at a moderate pace over the next few months. Although payroll

growth did show some slowdown during the first half of the year, it seems to have recovered during the second half. The state's economy will grow by 1.0 percent for the year and by about 1.2 percent in 2017. ■

UNITED STATES

Gross Domestic Product (GDP). The U.S. economy grew by 3.2 percent in the third quarter, the fastest pace seen in two years with the revised data showing stronger consumer spending than was previously estimated. GDP growth in the third quarter was higher than the estimated 2.9 percent, which makes it much faster than the growth seen in the first two quarters of 2016 (0.8 and 1.4 respectively).

In 2016, the economy is expected to grow at a modest 1.5 percent, down from 2.6 percent growth in 2015, which was the best performance in the seven years since the Great Recession ended in mid-2009.

While GDP growth is expected to slow, analysts still expect the Federal Reserve to boost a key interest rate at their meeting later this month. It would mark the first rate hike since the Fed boosted its benchmark rate by a quarter-point a year ago.

Consumer Spending. The latest look at GDP, the second of the three estimates from the government, showed that consumer spending grew at a 2.8 percent rate in the third quarter, a better performance than the originally estimated 2.1 percent increase. Still, consumer spending, which accounts for 70.0 percent of economic activity, grew more quickly in the second quarter, gaining 4.3 percent compared with the third quarter's slower 2.8 percent. Consumer spending is expected to increase by 2.8 percent in the fourth quarter and 2.6 percent for the year. Expenditures on durable goods rose 11.6 percent in the third quarter while spending on nondurable goods dropped 0.6 percent. With improving personal income and payrolls, spending on durable goods will increase by about 6.0 percent in the fourth quarter. Spending on nondurable goods, such as food, shelter and apparel is forecasted to rise by 2.5 percent in the fourth quarter. Expenditures on services grew by 3.0 percent in the second quarter, 2.5 percent in the third quarter, and are expected to increase about 2.3 percent in the fourth quarter. Christmas retail sales are expected to rise 3.0 percent from the previous year, slightly below the 3.2 percent increase in 2015 holiday sales, and significantly below the 4.8 percent in 2014. However, online retail sales will increase by about 10.0 percent to 11.0 percent this year.

Investment. Inflation-adjusted nonresidential business spending declined by 0.9 percent in the third quarter, following the 1.1 percent decline in the second quarter. However, this spending is expected to increase by over 7.0 percent in the fourth quarter. Business spending on equipment should rise by approximately 10.0 percent in the fourth quarter - after a 2.9 and 4.8 percent drop seen in the second and third quarters respectively. Inflation-adjusted residential fixed investment, which includes both home construction and sales, will rise by about 3.0 percent in the fourth quarter, following 4.4 and 7.7 percent drop experienced in the previous two quarters. Sales of existing homes will total 5.3 million units in 2016, up from 5.2 million units in 2015, while new home sales are expected to be around 596,000 units, also up from 502,000 units in

2015. Currently, one of the weakest sectors of the economy is investment in mining and petroleum structures, after dropping by 31.5 percent in the third quarter and 57.4 percent in the second quarter, this hard-hit sector is expected to experience a significant increase in the fourth quarter. Investment in commercial and healthcare related structures rose by 25.8 percent in the third quarter, following a 12.6 percent increase from the second quarter. These investments are expected to rise by about 2.5 to 3.0 percent in the fourth quarter.

Employment. Total nonfarm payroll employment rose by 161,000 in October, and the unemployment rate was little changed at 4.9 percent. Thus far in 2016, employment growth has averaged 181,000 per month, compared with an average monthly increase of 229,000 in 2015. Employment was up in health care, professional and business services, and financial activities. The unemployment rate, at 4.9 percent, and the number of unemployed persons, at 7.8 million, did not change significantly in October. Both measures have shown little movement since August 2015. Healthcare employment rose by 31,000 in October. Within the industry, employment growth occurred in ambulatory healthcare services (19,000) and hospitals (13,000). Over the past 12 months, healthcare has added 415,000 jobs. Employment in professional and business services continued to trend up in October (43,000) and has risen by 542,000 over the year. Over the month, a job gain occurred in computer systems design and related services (8,000). Employment in management and technical consulting services also rose by 5,000.

Employment in other major industries, including mining, construction, manufacturing, wholesale trade, retail trade, transportation and warehousing, information, leisure and hospitality, and government, essentially remained flat or changed little over the month. The American economy is finally creating more middle-income jobs, a significant change from earlier in the recovery, when hiring was strongest at the bottom and top of the wage scale. Between 2013 and 2015, employers added nearly 2.3 million workers earning from \$30,000 to \$60,000 a year, primarily in fields like education, construction, transportation and social services. That was roughly 50.0 percent more than in either the high-wage or low-wage categories during the same period. According to the Fed research, nearly 7.6 million jobs were created from 2010 to 2013, and only about a fifth fell into the middle-tier category. The largest number of the created jobs were in lower-paid sectors like food preparation and health care support. Overall payroll growth in 2016 is forecasted to be 1.7 percent with unemployment rate inching down to 4.7 percent by the end of the year. ■

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Alabama Real GDP
(Percent Change from Preceding Period)

Industry	2014Q1-Q2	2014Q2-Q3	2014Q3-Q4	2014Q4-2015Q1	2015Q1-Q2	2015Q2-Q3	2015Q3-Q4	2015Q4-2016Q1
All industry total	0.9	1.3	-0.4	0.9	-0.4	0.8	0.4	0.5
Private industries	1.1	1.6	-0.4	1.2	-0.5	1	0.4	0.6
Agriculture, forestry, fishing, and hunting	-1.2	0.3	-1.9	29.8	-8	-1.6	-5.3	15.1
Mining	0.9	-0.4	3.6	-1	2.4	6.2	-1.7	-2.3
Utilities	2.8	3.5	3	4.4	-15.6	6.9	-1.7	-2.3
Construction	-1.2	0.1	1.8	-2	0.6	2.6	1.5	2.3
Manufacturing	-0.8	-0.8	0.6	-0.3	1.4	1.8	0.7	0.5
Durable goods manufacturing	0.1	1.3	1.1	-0.8	2.4	2	0.3	-0.1
Nondurable goods manufacturing	-2.1	-3.7	-0.1	0.5	0	1.5	1.3	1.5
Wholesale trade	1.2	2.8	-0.1	0.7	2.1	-1.2	1.1	-0.5
Retail trade	1.4	1.2	0	-0.4	1.1	1.9	0.2	1
Transportation and warehousing	1.6	2.8	-0.1	-8.1	3.4	1.1	-0.6	-2.7
Information	1.3	-0.8	4.8	-0.3	0.8	-2.2	2.6	0.8
Finance and insurance	6.2	1.9	-3	6.7	-4.6	-2.1	-0.9	0.8
Real estate and rental and leasing	1	5.5	-6.1	3.8	-1.1	-0.8	1	0.7
Professional, scientific, and technical services	1.2	1.6	0	-1.2	2.1	1.4	1.1	1.1
Management of companies and enterprises	9	9.2	-4.5	6	-7.6	-0.1	1.7	1.2
Administrative and waste management services	2.9	1.7	2.1	-3.2	2.9	1.1	0.9	-0.2
Educational services	-1.1	1.3	0.7	-2.4	-0.6	2.3	-0.2	0.2
Health care and social assistance	1.3	1.3	0.8	2.2	-1.5	2.3	0.2	0.9
Arts, entertainment, and recreation	0	1.7	0.8	11.6	-10.7	3.7	1.3	-1.5
Accommodation and food services	2.1	1.6	0.1	-0.3	-0.6	0.7	0.4	-1
Other services, except government	1.7	1.1	0.2	-0.4	0.9	-0.5	1.1	-0.3
Government	0	0	-0.5	-0.8	-0.1	0.1	0	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.