



# Economic Outlook Update: MARCH 2017

## ALABAMA HIGHLIGHTS

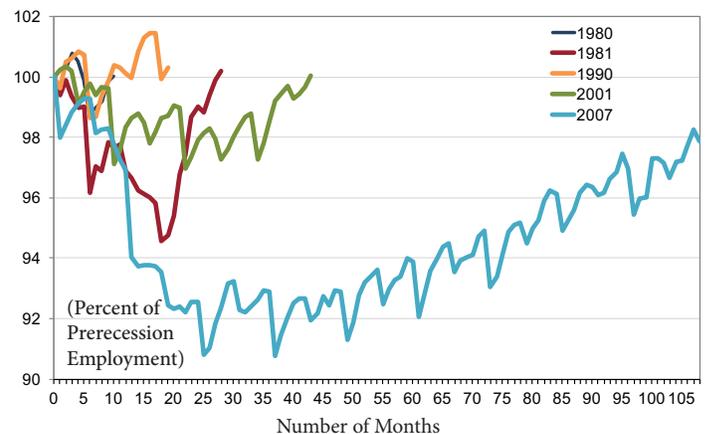
- The State gained 18,600 jobs from December 2015 to December 2016, above the 14,900 jobs gained from December 2014 to December 2015, while the seasonally adjusted unemployment rate dropped slightly from 6.3 percent to 6.2 percent. The state employed a total of 1,983,600 nonfarm workers in December 2016, up from 1,965,000 year ago.
- The number of seasonally adjusted unemployed, based on a household survey, also rose from 126,275 in December 2015 to 128,874 in December 2016. During this period, labor force participation increased from 2,145,546 to 2,181,837 which partially explains why the unemployment rate dropped just slightly from its year ago level.
- Total nonfarm employment is forecasted to increase by about 0.9 percent in 2017, with transportation equipment manufacturing, professional, scientific and technical services, healthcare and related services, and retailing adding the most workers to their payrolls.
- Overall, the state's economy is estimated to grow by about 1.9 percent in 2017, faster than the 1.3 percent in 2016.
- After increasing by 1.2 percent in fiscal year 2015-2016, state tax revenues are expected to grow by around 2.0 percent in FY2017.

## EMPLOYMENT

After peaking in December 2007 at 2,026,700, the state currently employs 1,983,600 nonfarm workers, or 43,100 below its level prior to the beginning of the recession. After a brief slowdown in job growth in the first half of 2016, Alabama's job growth picked up slightly towards the end

of the year and continues to make modest, albeit steady gains in payrolls. Over the 12-month period ending in December 2016, the state gained a net of 18,600 jobs. Within goods producing firms, payroll employment rose by 3,200 while services providing firms gained 15,400 jobs. Overall construction payrolls shrank by 4,700 for the year, with specialty trade contractors losing 1,900 jobs; heavy and civil construction 1,800; and building construction shedding 1,000. Manufacturing industries in the state experienced a net gain of 8,300 workers while mining and logging lost 400 for the year.

## Alabama Employment Level Compared to the Beginning of Each Recession



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

From December 2015 to December 2016, durable goods manufacturing had a net gain of 2,900 workers. These job gains were primarily associated with transportation equipment manufacturing (1,200); and wood products manufacturing (1,000). Machinery manufacturing, primary and fabricated metals manufacturing and electrical equipment manufacturers each added 100 workers, while computers and electronic products manufacturing lost 100 jobs.

## Alabama Forecast (Annual Percent Change)

(Percent change)	2015	2016	2017	2018
<b>Real GDP</b>	<b>1.6</b>	<b>1.3</b>	<b>1.9</b>	<b>2.0</b>
range		1.0 to 2.0	0.5 to 2.0	1.0 to 3.5
<b>Employment</b>	<b>1.3</b>	<b>1.0</b>	<b>0.9</b>	<b>1.1</b>
range			0.5 to 1.5	0.5 to 1.5
<b>Total Tax Receipts, FY</b>	<b>4.0</b>	<b>1.2</b>	<b>2.0</b>	<b>2.2</b>
range			1.5 to 3.5	1.0 to 3.5

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

Nondurables goods manufacturing in the state experienced a net gain of 5,400 jobs, industries experiencing an increase in payrolls included animal slaughtering and processing (1,100); plastics and rubber products manufacturing (400); and paper manufacturing (200). Textile and textile product mills and apparel manufacturers lost 800 jobs.

Within the services providing firms sector, job gains were predominantly associated with professional, scientific and technical services (3,400); retailing (3,200); finance and insurance (2,300); real estate and rental and leasing (1,900); healthcare and social assistance (1,500); computer system design and related services (1,100); and other services (800). Leisure and hospitality, one of the fastest growing segments of the economy during the current expansion, actually experienced a net loss of 1,100 jobs over the twelve-month period ending in December 2016. Overall, the government sector gained 6,600 jobs, with payrolls in state government institutions increasing by 3,300 while local governments added 2,400 to their payrolls.

For the one-year period ending December 2016, the state's metropolitan areas that experienced job gains included, Birmingham-Hoover (4,200); Huntsville (2,600); Auburn-Opelika (2,200); Daphne-Fairhope-Foley (1,300); Mobile and Montgomery (1,200 each); Tuscaloosa (800); Gadsden (300); and Anniston-Oxford-Jacksonville (100). Payrolls in Decatur remained flat while Dothan lost a net of 300 jobs and Florence-Muscle Shoals lost 200. Alabama's non-metro areas gained 5,200 jobs in 2016.

As of December 2016, Mobile metro-area had the highest unemployment rate in the state at 7.1 percent, while Auburn-Opelika had the lowest at 5.0 percent. Among the state's 67 counties, five counties had an unemployment rate of 10.0 percent or more, Wilcox had the highest unemployment rate at 15.6 percent while Shelby enjoyed the lowest at 4.3 percent. Among the major cities in the state, Selma had the highest unemployment rate at 10.1 percent while Vestavia Hills had the lowest at 3.7 percent. ■

## TAX RECEIPTS

During the first four months of the current fiscal year (FY2017), total tax revenues were up by 5.4 percent, an increase of approximately \$176 million from the same period in the previous fiscal year. Individual income tax receipts rose 5.2 percent to approximately \$1.2 billion while corporate income taxes were down 1.0 percent, totaling \$124 million. Sales tax collections were up about 2.0 percent, totaling approximately \$776 million, an increase of \$15 million over the first four months of the previous fiscal year.

Also during the first four months of FY2017, appropriations to the Alabama Education Trust Fund increased 3.9 percent (\$73 million) to approximately \$2.0 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 2.4 percent or

## Alabama Nonfarm Employment

### Change in Number of Jobs

	December 2014 to December 2015	December 2015 to December 2016
<b>Total Nonagricultural</b>	<b>14,900</b>	<b>18,600</b>
Mining and Logging	-800	-400
Construction	0	-4,700
Manufacturing	700	8,300
Durable Goods Manufacturing	-600	2,900
Nondurable Goods Manufacturing	1,300	5,400
Trade, Transportation and Utilities	4,900	800
Wholesale Trade	600	-3,000
Retail Trade	3,000	3,200
Transportation, Warehousing and Utilities	1,300	600
Information	-800	300
Financial Activities	1,100	4,200
Professional and Business Services	1,100	1,900
Educational and Health Services	4,300	1,900
Leisure and Hospitality	6,900	-1,100
Other Services	1,500	800
Government	-4,000	6,600
Federal Government	-200	900
State Government	-1,600	3,300
Local Government	-2,200	2,400

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

about \$15 million compared to the first four months of the previous fiscal year, totaling approximately \$652 million. ■

## STATE EXPORTS

State exports declined by about \$70 million from 2015 to 2016, totaling approximately \$19.4 billion. Canada remained the state's largest export market with exports totaling \$4.1 billion in 2016, a drop of \$200 million from the previous year. Exports to China again rose in 2016 totaling \$3.2 billion, up from \$3.1 billion the year before. Exports to Mexico totaled \$2.9 billion in 2016 compared to \$2.3 billion in 2015. Other major exports in 2016 included: Germany (\$2.5 billion); United Kingdom (\$609.8 million); Japan (\$519 million); and South Korea (\$464 million).

The transportation equipment manufacturing sector continues to remain the state's largest export. These exports rose from \$7.3 billion in 2015 to approximately \$7.8 billion in 2016, accounting for almost 40.0 percent of total state exports. For the year, other major exports from the state included: nuclear reactors, boilers, machinery, etc., and parts (\$1.8 billion); iron and steel (\$1.1 billion); plastics and related products (\$931 million); mineral and ores (\$893 million); aircraft and parts (\$647 million); and electrical machinery (\$647 million). Canada was the top market for vehicles made in Alabama, followed by Germany, Mexico, and the United Kingdom. ■

## OUTLOOK FOR 2017

Automotive manufacturing, aerospace, tourism, healthcare, biotechnology manufacturing and services

employers will be the state's major economic drivers in 2017. Real Alabama GDP is expected to grow at a slightly slower pace in 2017, increasing by a forecasted 1.9 percent to around \$189 billion. Gains in output could be substantially higher than average for manufacturers of motor vehicles and parts and other transportation equipment. 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. Nonfarm employment is forecasted to rise 0.9 percent during 2017, with about 19,000 jobs added across the state. Within manufacturing sector, 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 providing businesses. An increase of about 2.0 percent is forecasted for total tax revenues, however, depending on how the state's economy continues to perform during the first half of the year, growth in tax revenues could be below the current forecast.

Business confidence increased to 62.7 in the first quarter of 2017 Alabama Business Confidence Index™ (ABCI) survey, which was conducted by the Center for Business and Economic Research at the University of Alabama's Culverhouse College of Commerce. Panelists are optimistic moving into 2017: the index gained 10.1 points this quarter, passing 60 for the first time since 2006.

Panelists are more optimistic about growth on both the statewide and national level in the coming quarter. For the first time since Q2 2005, Alabama business leaders regard the U.S. outlook with more confidence than Alabama's. High expectations for growth in the state economy raised the Alabama index to 65.8, and the national economy index saw an even more dramatic rise to reach 69.8 this quarter. Sales, profits, hiring and capital expenditures are also expected to perform well in the first quarter of 2017. Alabama businesses continue to expect sales growth with the highest confidence of all the survey categories with an index of 63.4. Hiring is predicted to grow, though with the lowest index score of the survey categories at 57.6. The overall industry outlooks are positive in all categories with the majority of industries showing more confidence in growth in the first quarter of 2017 than in the previous quarter. Panelists in manufacturing and professional, scientific, and technical services are the most optimistic with overall indices greater than 66. That being said, even the least confident industries still have overall ABCIs greater than 57. The only industry that is not as optimistic in Q1 2017 as in Q4 2016 is construction, though they had the highest index in the Q4 2016 survey and are still expecting growth in the coming quarter with an index of 57.9. All metro areas grew in confidence this quarter, ranging in ABCI indices from 60 to 68 as opposed to Q4 2016's range of 50 to 58. For the second consecutive quarter, Huntsville had the lowest metro area ABCI with an index of 60.3 and Mobile had the highest ABCI at 68.3. Birmingham-Hoover's confidence grew the most, moving into the new quarter with an 11.8-point gain to reach 62.5. ■

U.S. GDP grew by 1.9 percent in the fourth quarter 2016, following a 3.5 percent rate of growth in the third quarter. The increase in GDP was primarily due to consumer spending, private inventory investment, residential and nonresidential fixed investments, and state government spending. Some of these positive contributions were negated by a drop in exports, federal government spending and an increase in imports (which are a subtraction in the estimation of GDP).

Overall consumer spending rose 3.0 percent in the fourth quarter while spending on durables goods increased by 11.5 percent and fixed business spending rose 1.3 percent. Spending on equipment was up 1.9 percent in the fourth quarter, after declining for four consecutive quarters. After dropping for two straight quarters, residential investments (including both home construction and sales) also rose 9.6 percent in the fourth quarter.

After increasing by 1.6 percent annualized rate, U.S. GDP will increase by 2.1 percent in the first quarter of 2017 and slightly over 2.0 percent in the second quarter. After a large inventory accumulation in the second half of 2016, inventory adjustment will most likely be the drag on the economy in the first half of 2017. Overall growth for the year is expected to be 2.3 percent. Real consumer spending will rise 2.7 percent in the first half of 2017, driven primarily by gains in employment, disposable income and increasing net worth, factors most likely to also sustain the current recovery in housing markets.

Business spending picked up in the fourth quarter of 2016 after a slowdown was experienced in the first half, however, the overall growth in capital spending still remains modest by historic levels, which may be the new norm due to a sluggish growth in productivity. Productivity growth was just 0.2 percent in 2016, the ninth weakest reading in nearly 68 years. In terms of business spending, one bright spot is expected to be capital investment in the mining and petroleum sector. After a consistently sluggish growth, investment spending in the sector increased by slightly over 24.0 percent, and will grow by about 35.0 percent in the 2017.

Total nonfarm payroll employment increased by 227,000 in January, and the unemployment rate was little changed at 4.8 percent. Job gains occurred in retail trade, construction, and financial activities. Retail trade employment increased by 46,000 over the month and by 229,000 over the year. Three industries added jobs in January--clothing and clothing accessories stores (18,000), electronics and appliance stores (8,000), and furniture and home furnishings stores (6,000).

Employment in construction rose by 36,000 in January, following little change in December. Residential building added 9,000 jobs over the month, and employment continued to trend up among residential specialty trade contractors (11,000). Over the past 12 months, construction has added 170,000 jobs. Financial activities added

32,000 jobs in January, with gains in real estate (10,000); insurance carriers and related activities (9,000); and credit intermediation and related activities (9,000). Financial activities added an average of 15,000 jobs per month in 2016. In January, employment in professional and technical services also rose by 23,000, about in line with the average monthly gains seen in 2016. Over the month, job gains also occurred in computer systems design and related services (13,000). Employment in food services and drinking places continued to trend up in January (30,000), adding 286,000 jobs over the past 12 months. Employment in health care also continued to trend up in January (18,000), following a gain of 41,000 in December. The industry has added 374,000 jobs over the past 12 months. Employment in other major industries, including mining and logging, manufacturing, wholesale trade, transportation and warehousing, information, and government, showed little change over the month.

A rebound in the energy sector, a growing housing market, pickup in capital spending, and a strong momentum in labor markets should help the economy grow at a relatively faster pace in 2017 compared to 2016. This growth will be seen at least through the first half of the year with an

overall GDP growth of around 2.5 percent for the year with employment growing at 1.5 percent. Federal Reserve Banks will most likely raise the Fed Funds rate at least three times in 2017, with the year-end target expected to be around 1.5 percent. ■

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## Alabama Real GDP

(Percent Change from Preceding Period)

Industry	2014Q4-2015Q1	2015Q1-Q2	2015Q2-Q3	2015Q3-Q4	2015Q4-2016Q1	2016Q1-Q2	2016Q2-Q3
All industry total	-0.5	0.6	2.2	-0.2	2.4	1.1	3.3
Private industries	0.2	0.6	2.6	0.2	2.7	1.4	3.5
Agriculture, forestry, fishing, and hunting	27.6	-10.2	-7.2	-18.2	23.6	0.2	15.1
Mining	-3.8	24.5	19.3	-36.7	-41.5	-19.6	-1.1
Utilities	-38.5	6.7	5.9	-2.3	-3.5	8.4	16.7
Construction	-10.3	6.5	6.1	0.4	30.7	-6.5	-4.4
Manufacturing	3.6	1.2	3.6	-0.7	8.3	2.5	4
Durable goods manufacturing	1.4	6.2	3.8	0.2	8.3	1.6	6.7
Nondurable goods manufacturing	7.1	-6.1	3.4	-2	8.4	3.9	0
Wholesale trade	-0.3	3.5	-1.5	4.1	-4.7	-0.1	6.3
Retail trade	-7.9	9.1	2.4	7.7	-2.9	-2.5	3.5
Transportation and warehousing	-24	3.1	4.4	-7.2	-10.6	16.2	2.8
Information	-3.1	5.1	-2.1	10.7	-6.5	2.7	8.7
Finance and insurance	17.3	-20.5	-5.3	-0.7	-6.8	1.6	8
Real estate and rental and leasing	18.3	-3.6	2.8	-2.2	8.9	3.5	-0.1
Professional, scientific, and technical services	-1.4	5.1	3.3	8.3	-0.4	4.8	2
Management of companies and enterprises	-4.5	-19.4	-1.9	0.7	114.8	-19.5	6.5
Administrative and waste management services	-13.7	8.7	3.8	3.2	-0.7	0.6	0.6
Educational services	-11.4	0	3.2	1.8	-6.1	-3.1	2.3
Health care and social assistance	11.8	0.1	6.8	-0.3	-0.1	3.8	2.5
Arts, entertainment, and recreation	17.4	-26	11.5	5.8	3.8	-6.6	7.8
Accommodation and food services	-6.2	0.7	2.1	1.9	0.3	-0.8	1.9
Other services, except government	-10.3	3.8	-2.3	4.9	-2.2	0.7	4
Government	-3.8	0.4	0.4	-2.2	0.8	-0.5	2.6

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.