



Economic Outlook Update: November 2018

ALABAMA HIGHLIGHTS

- The State gained 26,800 jobs from September 2017 to September 2018, while the seasonally adjusted unemployment rate rose slightly from 3.9 percent to 4.1 percent bringing total nonfarm employment to 2,048,000.
- Seasonally adjusted unemployment, based on the household survey, increased from 83,667 in September 2017 to 90,830 in September 2018. During this period, labor force rose from 2,165,752 to 2,207,857, which also tends to push the unemployment rate up.
- Total nonfarm employment is forecasted to increase by about 1.1 percent in 2019, 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 2.0 percent in 2019, slightly below the 2.2 percent in 2018.
- After increasing by 6.5 percent in fiscal year 2017-2018, state tax revenues will increase by about 5.0 percent in FY2019.

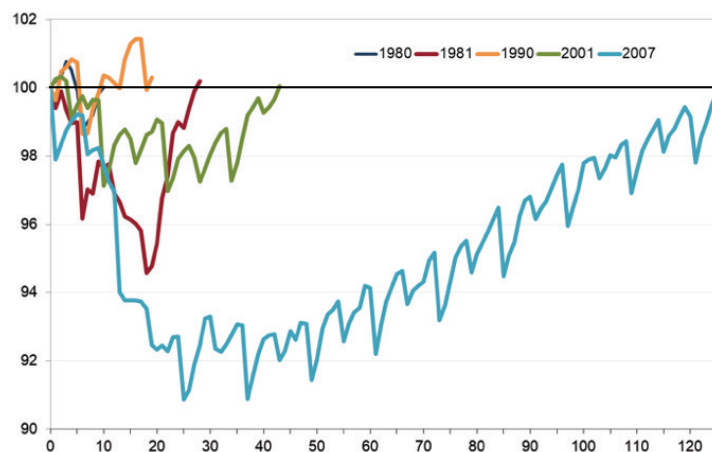
EMPLOYMENT

For the 12-month period ending in September 2018, Alabama nonfarm employment rose by 1.3 percent (26,800) to 2,048,000. This is 21,300 jobs above its December 2007 peak of 2,026,700, prior to the beginning of the great recession. Manufacturing payrolls rose with a net gain of 8,200 jobs over the year, with 4,600 in durable goods and 3,600 in

nondurable goods. Overall, the goods producing sector added 11,200 to their payrolls. Employment in mining and logging increased by 200, while construction added 2,800 net new jobs consisting of 2,500 by specialty trade contractors and 300 within building construction segment. Payrolls in heavy and civil engineering construction remained flat over the twelve-month period ending in September 2018.

Alabama Employment Level Compared to the Beginning of Each Recession

(Number of Months)



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

Also, service providing businesses in the state gained 15,600 jobs over the 12-month period ending in September 2018. Firms in the service sector that posted significant job gains included professional, technical and scientific services (7,200); administrative, support and waste management and remediation services (3,900); ambulatory healthcare services (3,200); restaurants and other eating places (2,600); local government entities (2,500); educational and health services (2,200), transportation and warehousing (1,100); retailing (1,000); information and communications related jobs (800); accommodation and food services (900); nursing and residential care facilities (600). Retailers in the state had a net job gain of 1,000, facilitated by both relatively strong consumer and business spending, despite an intensely competitive environment from both discount stores and the online marketplace.

Job gains in the state's metro areas (28 counties) totaled 23,000 while non-metro areas (39 counties) had a net gain of 3,800 jobs. Among the state's 12 metropolitan areas, job gains were experienced in Huntsville (7,800); Birmingham-Hoover (5,200); Daphne-Fairhope-Foley and Montgomery

(2,600 each); Mobile (1,400); Anniston-Oxford-Jacksonville (1,300); Decatur (700); Gadsden and Tuscaloosa (600 each); Dothan and Florence-Muscle Shoals (300 each). Surprisingly, Auburn-Opelika had a net loss of 200 jobs, primarily due to a net loss of 700 retailing related payrolls. Unemployment rates in the metro areas ranged from a high of 4.3 percent in Mobile to 3.2 percent in Auburn-Opelika. Also, as of September 2018, none of the state's 67 counties had a double-digit unemployment rate. Wilcox County had the highest rate at 9.3 percent (compared to 9.7 percent last year) while Shelby County had the lowest at 2.8 percent (compared to year ago level of also 2.8 percent). Among the major cities in the state, Vestavia Hills had the lowest unemployment rate as of September 2018, at 2.5 percent compared to 2.4 percent

in the government sector will most likely be associated with local government entities. A strong labor market in the state is also reflected in the weekly earnings in the private sector, as the state inches towards a full employment level, despite a relatively strong year in terms of gains in payrolls and a low unemployment rate, average weekly earnings in private enterprises increased by 2.1 percent in 2017. As Alabama inches closer to its full employment level, most businesses will have to raise worker's wages in order to attract additional potential employees. The seasonally adjusted unemployment rate will most likely fall to 3.2 percent by the same time next year, from its current level of 3.6 percent.

Alabama Nonagricultural Employment

(Change in Number of Jobs)

	September 2016 to September 2017	September 2017 to September 2018
Total Nonagricultural	15,900	26,800
Natural Resources and Mining	500	200
Construction	1,200	2,800
Manufacturing	1,400	8,200
Durable Goods Manufacturing	800	4,600
Nondurable Goods Manufacturing	600	3,600
Trade, Transportation and Utilities	-2,300	1,300
Wholesale Trade	100	-400
Retail Trade	-2,100	1,000
Transportation, Warehousing and Utilities	-300	700
Information	0	800
Financial Activities	1,100	-100
Professional and Business Services	7,300	11,500
Educational and Health Services	1,000	2,200
Leisure and Hospitality	3,300	600
Other Services	500	400
Government	1,900	-1,100
Federal Government	-600	-200
State Government	1,200	-3,400
Local Government	1,300	2,500

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

a year ago, while Prichard had the highest at 7.7 percent compared to 7.8 percent a year ago.

Nonfarm employment is forecasted to rise 1.1 percent during 2019 adding close to 26,600 jobs across the state. The strongest percentage increases in employment are likely to be among manufacturers of motor vehicle and parts and other transportation equipment, including aerospace products and parts manufacturing. However, majority of new jobs will be in the service providing businesses, specifically in professional, scientific and technical services; healthcare and social assistance; and food services and drinking places. Job growth in retailing will most likely remain modest in 2019 and could experience a net loss in the second half of the year. Payroll employment growth in federal and state government entities will fall slightly or remain the same. Most of the jobs

TAX RECEIPTS

During fiscal year 2017-2018 (FY2018), which ended in September 2018, total tax revenues were up by 6.5 percent, an increase of about \$669.8 million from the previous fiscal year totaling almost \$11.0 billion. Individual income tax revenue rose 8.6 percent to \$4.6 billion, an 8.6 percent or \$361 million increase while corporate income tax receipts rose 9.8 percent totaling about \$505 million, increasing by \$45 million. Sales tax revenues for the fiscal year were up 4.5 percent or \$101 million totaling almost \$2.4 billion. Also during FY2018, appropriations to the Alabama Education Trust Fund rose 6.7 percent or \$426 million to approximately \$5.8 billion, while appropriation to state's General Fund rose by only 0.2 percent or \$40.1 million to total \$17.6 billion.

With the state's economic growth expected to be slightly slower in 2019 compared to 2018, tax receipts will most likely increase at a slower pace in the FY2019. CBER forecasts an increase of 5.0 percent. Total tax revenue should rise from approximately \$11 billion in FY2018 to \$11.6 billion in FY2019. Individual income tax receipts could increase 6.0 percent (\$274 million), with sales tax collections up 3.0 percent (\$71 million). Given current economic forecasts, appropriations to the Education Trust Fund are expected to rise 4.0, while those to General Fund could see an increase of 0.4 percent in FY2019.

STATE EXPORTS

According to the U.S. Department of Commerce's International Trade Administration, Alabama exports increased by \$1.3 billion or 6.4 percent in 2017 to \$21.8 billion. At that level, exports accounted for approximately 11.7 percent of the state's GDP. For the first half of 2018, exports totaled \$11.0 billion, about 0.9 percent below the first half of the previous year. In 2017, exports from Alabama rose pretty much across the board: export to Canada, the state's largest trading partner totaled (\$4.2 billion); China (\$3.6 billion); Germany and Mexico (about \$2.9 billion each); and Japan (\$700 million). During the first half of 2018, despite all the talk about tariffs, exports from Alabama either stayed flat or dropped very little from the same period in 2017. Exports to Canada during the first half of 2018 compared to the first half of the previous year dropped from \$2.2 billion to \$2.1 billion, exports to Germany fell from \$1.6

Alabama's Top Export Destinations in 2017 (In millions of dollars)



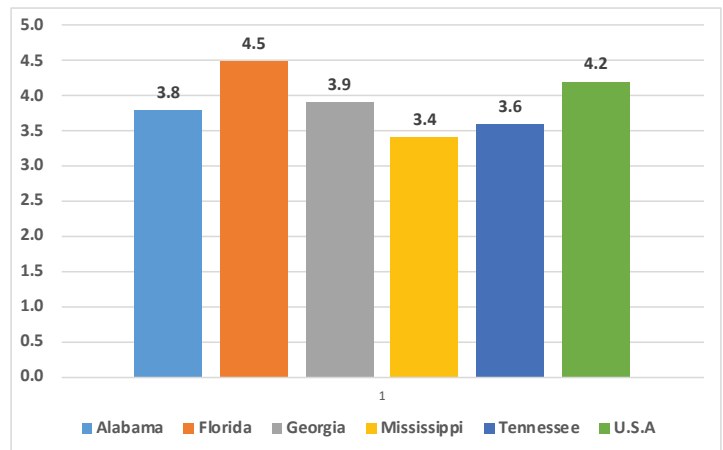
Source: International Trade Administration, U.S. Department of Commerce.

billion to \$1.4 billion, and exports to Mexico fell by \$34.8 million. While export to both China and Japan actually increased during the first half of 2018 compared to first half of 2017. Exports to China rose from \$1.70 billion to \$1.74 billion while exports to Japan rose from \$345 million to \$412 million.

Transportation equipment was the state's top export product in 2017, with shipments rising by 2.4 percent (\$260 million) to almost \$11 billion. Other major exports in 2017 were chemicals (\$2.3 billion); primary metals (\$1.9 billion); minerals and ores (\$1.4 billion); paper (\$1.0 billion); machinery (\$695 million); computer and electronic products (\$523 million); and fabricated metals products (\$322 million). During the first half quarters of 2018, transportation exports totaled \$5.2 billion, down from \$5.6 billion during the first half of 2017.

With most world economies showing signs of a slowdown, state exports will most likely stay flat or decline slightly in the near term, however, transportation equipment and chemicals manufacturers will continue to remain major exporters.

Real GDP Growth Rate in Alabama vs. Neighboring State Second Quarter 2018



Source: U.S. Bureau of Economic Analysis.

general merchandise stores (2.2 percent); motor vehicle and parts manufacturing (2.0 percent); machinery manufacturing (2.0 percent); motor vehicle and parts dealers (2.0 percent); and food services and dining places (1.2 percent). Gains in payroll employment within these industries will most likely be below the increase in output produced by these segments of the economy.

Alabama Forecast

(Percentage change)	2016	2017	2018	2019
Real GDP	1.2	1.3	2.2	2.1
range			1.5 to 2.5	1.0 to 3.0
Employment	1.4	1.0	1.3	1.1
range			0.7 to 1.4	0.6 to 1.5
Total Tax Receipts, FY	1.2	4.2	6.5	5.0
range				2.0 to 5.0

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

OUTLOOK

Real (inflation adjusted) Alabama GDP is expected to grow at a slightly slower pace in 2019, increasing by 2.0 percent to around \$191 billion. The fastest growing segments of the state's economy in 2019 will include: professional, technical and scientific services (8.0 percent); fabricated metals products (almost 8.0 percent); wood products manufacturing (7.0 percent); plastics and rubber products manufacturing (7.0 percent); general freight trucking (7.0 percent); utilities (around 6.0 percent); aerospace products and parts manufacturing (5.0 percent); department stores (4.0 percent); ambulatory healthcare services (3.5 percent); building materials and garden equipment, and supplies dealers (3.5 percent); transportation and warehousing (3.2 percent); textile products mills (3.0 percent); paper products manufacturing (3.0 percent); real estate rental and leasing (2.7 percent); management of companies (2.5 percent);

ABCI

A slight slowdown in economic growth is also being reflected in the business sentiment and expectation index for the fourth quarter, measured quarterly by the Center for Business and Economic Research's Alabama Business Confidence Index™ (ABCI). After showing consistently rising index values, it fell by 3.3 points to 62.5 in the fourth quarter albeit still a very optimistic reading. Alabama businesses' confidence in the statewide economy decreased 4.1 points to register at a confident 65.9 in the fourth quarter 2018 survey. Expectations for the national economic outlook also decreased but remained positive, dropping 6.3 points to reach 62.9 this quarter. This is the eighth consecutive quarter that the two indexes have been above 60, indicating sustained expectations for improved economic conditions.

In Q4 2018, confidence in industry growth also decreased but remained strong with all ABCI industry component

indexes registering at or above 60.3. The highest Q4 2018 industry index is capital expenditure with an index of 62.5, followed by hiring at 61.8 and sales at 61.7. Even the lowest index this quarter, profits, still registered at 60.3, signaling continued confidence in increased profits compared to the previous quarter. When broken up into specific industries, overall, indexes decreased compared to Q3 2018. However, five of the nine industry categories still registered above 60, signaling strong confidence in growth. Panelists in healthcare and social assistance have the highest ABCI at 70.2, followed by professional and scientific services with an index of 67.7. Retail trade had the lowest industry ABCI at 50.7, which indicates expectations for a continuation of the third quarter's levels of growth.

2019, employment will experience a deceleration resulting in a slight uptick in unemployment rate. After increasing by 1.7 percent in the third quarter 2018, payroll will increase by another 1.7 percent in the fourth quarter followed by a 1.6 percent growth in the first quarter 2019.

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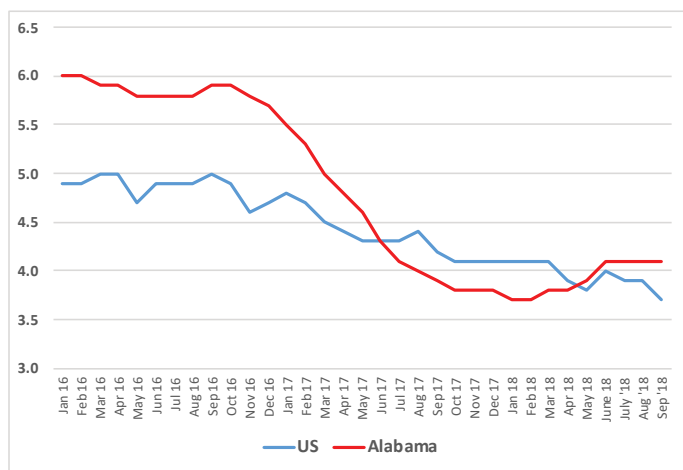
2019 ALABAMA ECONOMIC OUTLOOK CONFERENCE

**January 10, 2019
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\$75 Registration Fee

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Monthly Unemployment Rate in Alabama and the U.S. (Annual Percentage Change)



Source: Bureau of Labor Statistics, U.S. Department of Labor.

current financial condition, level of government spending, and a solid growth in personal income, the U.S. economy will continue to show a relatively strong growth, at least through the first half of the year.

With a steady growth in production, the U.S. economy will continue to show a solid growth in payroll employment, contributing to a further decline in unemployment rate to perhaps 3.4 percent by the second quarter of 2019. However, as the GDP growth tapers down a little in the second half of