BLCI: 2003 in Review

As the Alabama Business Leaders Confidence Index (BLCI) survey entered its second year, the nation was faced with a number of economic and geopolitical uncertainties. Possible war with Iraq was a primary concern while continued stock market weakness and ongoing job losses were others. The BLCI for first quarter 2003 came in at 58, two points higher than the fourth quarter 2002 reading, as panelists felt optimistic that the U.S. economy would improve during the quarter.

However, GDP growth in the first quarter languished at the 1.4 percent seen in fourth quarter 2002. As Alabama business leaders completed the second quarter survey during March 2003, war with Iraq commenced, but its duration and outcome were unknown. Job losses continued and state and local government fiscal crises began to contribute to layoffs. With growth largely supported by residential construction and consumer spending, panelists’ confidence dropped. The second quarter BLCI of 56 reflected lowered expectations for growth in both the national and state economies.

Economic and geopolitical concerns combined to constrain expectations for the U.S. economy during the first two quarters of 2003. Negatives were at the highest level of the year in the second quarter, when 22.4 percent of panelists felt the nation’s economic activity was likely to slip. By third quarter, Alabama business leaders seemed confident that the U.S. economy was on track for stronger growth, with 71.5 percent registering expectations for increased economic activity.

Both the U.S. and global economies gained momentum in the third quarter of 2003, with U.S. GDP growth expected to reach around 5.6 percent for the quarter. Boosted by tax cuts and the child tax credit rebate, consumer spending was a strong contributor, while residential construction held up despite a jump in mortgage rates. Approaching the fourth quarter, BLCI panelists looked forward to increased federal spending on Iraq, rebounding business investment, and a glimmer of hope that job creation will join the recovery. The BLCI held at the third quarter level of 61, however, as expectations for growth in the Alabama economy dropped with the state tightening spending in the wake of the defeat of the governor’s tax and accountability plan.

BLCI Indicators

The BLCI is a quarterly online survey of Alabama panelists who represent a broad spectrum of businesses across the state. Seven economic indicators are measured in the survey. All of the variables except interest rates are used in computing the index. The following graphs present projected change on each indicator from the previous quarter for the four quarters of 2003. While the survey captures responses on a five-part scale, categories of strong increase and moderate increase are combined into increase, while moderate decrease and strong decrease are collapsed into decrease on these annual graphs.

Economic and geopolitical concerns combined to constrain expectations for the U.S. economy during the first two quarters of 2003. Negatives were at the highest level of the year in the second quarter, when 22.4 percent of panelists felt the nation’s economic activity was likely to slip. By third quarter, Alabama business leaders seemed confident that the U.S. economy was on track for stronger growth, with 71.5 percent registering expectations for increased economic activity. This optimistic outlook continued in the fourth quarter when positive expectations reached a 2003 high of 73.3 percent, while negative sentiment fell to an annual low of 9.4 percent.
BLCI panelists were more cautious in their expectations for the state’s economy throughout 2003. Although major economic developments are on the horizon, Alabama continued to lose jobs, particularly in manufacturing and trade. The state confronted ongoing fiscal crises and, with the defeat of the governor’s tax and accountability plan, was forced to cut spending sharply in the new budget year that began in the fourth quarter. Alabama business leaders’ expectations peaked in third quarter 2003 with just over half of panelists forecasting improvement, but fell in the fourth to 46.4 percent anticipating an increase in economic activity and over 22 percent a decrease.

About two-thirds of Alabama business leaders expected interest rates to hold steady during the first two quarters of 2003. The Federal Open Market Committee (FOMC) agreed with this assessment, leaving the federal funds target rate at 1.25 percent. While over 62 percent still expected interest rates to be unchanged in the third quarter, the 20.2 percent forecasting a decrease was the highest of the year. And the FOMC lowered the rate to 1.0 percent in June. By fourth quarter, with overall economic expectations looking up, the share of panelists feeling interest rates could increase rose to 45.8 percent, the highest level in the two years of BLCI surveys.

Industry profit expectations generally strengthened across 2003, despite a dip in the second quarter as uncertainty concerning the outcome of war with Iraq prevailed. By the fourth quarter, 57.6 percent of Alabama business leaders forecast higher profits for their industry, up from just 46.6 percent in the second quarter. With the economy showing signs of a stronger recovery in the second half of the year, worries that profits would decline dropped—while over 20 percent of panelists felt industry profits could decline in the first half of 2003, negative sentiment fell to an annual low of 13.6 percent by the fourth quarter.
Although still the weakest link in the recovery, the jobs outlook improved during 2003. In all four quarters, the consensus expectation among over half of Alabama panelists was that employment in their industry would be flat. But the possibility of new jobs increased—while just 26.9 percent of respondents to the first quarter survey expected their industry to add jobs, by fourth quarter, this share had risen to 35.8 percent, the highest positive reading in two years of the BLCI survey. And expectations among Alabama business leaders that their industry would shed jobs fell steadily across the year to a two-year low of 7.9 percent in fourth quarter 2003.

With profit forecasts strengthening during 2003, firms appeared to be gradually planning to increase capital investment. While capital spending plans dropped sharply from 44.2 percent anticipating an increase in the first quarter to 37.6 percent in the second, they rebounded to a two-year high of 47.9 percent expecting to increase spending in the fourth quarter. Both accelerated depreciation and attractive prices were giving companies reason to invest in software, computers, and other equipment. The share of panelists feeling that their industry might curtail capital spending rose slightly from a 2003 low of 10.1 percent in the third quarter to 11.8 percent in the fourth.

Carolyn Trent

The University of Alabama
Center for Business and Economic Research
Box 870221
Tuscaloosa, Alabama 35487-0221

Address service requested.