Confidence among Alabama business leaders that quarterly economic growth will accelerate is at its highest level of the two years the survey has been administered. The first quarter 2004 BLCI of 67 is six points above the fourth quarter 2003 consensus and nine points higher than the reading of 58 a year ago. Overall, positive sentiment about the course of both the national and Alabama economies is substantially above last quarter. The outlook for sales is robust, with about 78 percent of panelists forecasting sales increases in their industry. Rising profits will also be a strong contributor to economic activity in the first quarter and over half of BLCI panelists anticipate higher capital expenditures in their industry. Although still the weakest component of growth, the hiring outlook has brightened considerably, with close to half of survey respondents expecting their industry to add jobs during first quarter 2004.

The BLCI is a quarterly online survey completed by business leaders across Alabama who volunteer as panelists. Equal weights are given to expectations for the national and state economies and industry sales, profits, hiring plans, and capital expenditures for the current quarter compared to the previous quarter.

Over 78 percent of Alabama business leaders expect technology needs in their industry to grow in 2004. Rising profits often linked to productivity gains that result from technology investment are helping to create new demand for technology—particularly computers, software, and communications equipment. Technology needs in 2004 are expected to be greatest in services, where 89 percent of industry panelists expect demand to rise. Alabama manufacturers are least likely to see a need for additional technology, with just 53.6 percent anticipating an increase.
The National Economy

Given third quarter 2003 U.S. GDP growth estimated at 8.2 percent and indications that fourth quarter gains should come in above those in the first half of the year, Alabama business leaders are upbeat in their outlook for the national economy early in 2004. Eighty-nine percent of panelists expect the U.S. economy to strengthen in the first quarter, including 13.2 percent anticipating substantial improvement. This compares to about 73 percent forecasting a pickup in the national economy last quarter and contrasts sharply with just 59.6 percent expecting gains a year ago. The first quarter 2004 reading reflects the highest positive sentiment since the inception of the BLCI survey two years ago. Fewer than 3 percent of panelists think a decline in national economic activity is likely during the quarter.

The Alabama Economy

Although not as rosy as the national picture, the Alabama economic outlook for first quarter 2004 offers a marked improvement over fourth quarter 2003 expectations. The 70.9 percent of BLCI panelists forecasting accelerating state economic activity is the highest in survey history. This reading is over 24 percentage points higher than last quarter and compares to just 49 percent expecting gains a year ago. New automobile manufacturer and supplier jobs should begin to kick in this quarter, while jobs in services are expected to pick up and trade employment could build on the relative stability of 2003. Although proposals to trim state budgets will affect both state and local government jobs, these impacts will be felt later in the year. Just 6.8 percent of respondents think the Alabama economy could turn down in the first quarter.

Interest Rates

With the federal funds target rate at just 1.0 percent since June and economic growth strengthening, Alabama business leaders do not see any downside to interest rates in the first quarter of 2004. The majority (55.3 percent) expect interest rates to hold steady through the quarter, while 44 percent think rates could rise. In its December 9, 2003 decision to leave the rate unchanged, the Federal Open Market Committee cited the effectiveness of an accommodative monetary policy coupled with productivity growth in supporting economic activity. Some forecasters think a hike could come in late June, while others expect no change this year.
Industry Sales

BLCl panelists are most optimistic about prospects for first quarter sales growth. Overall, 78 percent anticipate higher sales, a sizeable increase from 67 percent in fourth quarter 2003 and over 22 percentage points higher than a year ago. With consumer spending continuing to support growth, business inventories low, a weak dollar facilitating exports, and business spending on equipment and software coming off a strong performance in 2003, there seems to be a number of avenues for sales growth. Respondents in professional, scientific, and technical services, retail trade, and finance, insurance, and real estate (FIRE) are most optimistic, with over 82 percent forecasting sales gains. Expectations are weakest in transportation, communication, and public utilities (TCPU), where two-thirds see sales gains, but 16.7 percent think sales could decline during first quarter 2004.

Industry Profits

Rising profits should be a strong contributor to the economic equation in the first quarter of 2004. Over 67 percent of Alabama business leaders expect profits in their industry to increase during the quarter, almost 10 percentage points above last quarter and 16 points higher than sentiment a year ago. In many industries, investments in information technology are boosting productivity and consequently increasing profits. This trend is expected to strengthen in 2004. Panelists in finance, insurance, and real estate (FIRE) are most optimistic about profit growth, with almost 75 percent expecting gains. Recent manufacturing productivity gains may leave firms less sure of an upside to profits—57.2 percent of manufacturing industry panelists expect profits to increase in first quarter 2004, while 16.1 percent forecast a decrease. Profit forecasts in construction and TCPU are also seven to nine points below average.

Industry Hiring

Expectations among Alabama business leaders confirm that jobs will likely remain the weakest link in the expansion during the first quarter of 2004. Still, the prospects for job creation are the highest since the survey’s inception in the first quarter of 2002. The 48.5 percent of panelists expecting to increase hiring is almost 13 percentage points higher than last quarter and compares to just 26.9 percent a year ago. Respondents in miscellaneous services are most optimistic about hiring, with 69 percent expecting to add jobs this quarter. Some industries see below average prospects for job growth—as major industrial projects near completion, just 35.7 percent of panelists in construction see hiring increasing. With new automotive industry firms just beginning to hire in the first quarter, continued on next page
41.1 percent of manufacturing panelists think their industry will add jobs. Only 7.4 percent of respondents think jobs in their industry could decline during the quarter—the lowest negative in two years of BLCI surveys.

**Industry Capital Expenditures**

Rising profits and an emphasis on productivity enhancement should contribute to increased capital spending. For the first time in two years, more than half (58.6 percent) of Alabama business leaders expect capital expenditures in their industry to rise during the quarter. This compares with 47.9 percent predicting an increase in fourth quarter 2003 and is 14 percentage points above a year ago. Expectations are highest in health care services, where 76.5 percent of panelists expect investment to increase, followed by miscellaneous services and public administration. Capital investment may be less widespread in professional, scientific, and technical services, with 45.6 percent predicting a rise, and in manufacturing, at 51.8 percent forecasting an increase. Across industries, only 7.4 percent of survey participants expect cuts in capital investment during the first quarter.

**BLCI Panelists**

The Business Leaders Confidence Index panel continues to grow. The number of panelists completing the first quarter 2004 survey was the largest since the inception of the BLCI in first quarter 2002. Participants are from all major industry groups across Alabama’s 11 metropolitan areas and many nonmetro counties and represent a range of small, midsize, and large companies. On the current survey, 15.9 percent of participating firms reported annual sales under $1 million, while 20.3 percent had sales of $1 to $5 million, 36.8 percent were in the $5 to $50 million range, and 27 percent tallied sales over $50 million. Ranked by employment size, one third of first quarter panelists were from firms with fewer than 20 employees, while just over a quarter employed 20 to 99, 22.9 percent reported 100 to 499 workers, and 17.9 percent had at least 500 employees.