Alabama’s economy continues to rebound, with job creation beginning to support the recovery. Manufacturing is becoming an engine for growth as new and expanding automotive manufacturers and suppliers add to their workforces in the fourth quarter of 2004 in preparation for bringing production online in the first quarter of 2005. Still, results are mixed across industries as well as areas of the state.

On a daily basis, Alabama firms face a variety of challenges. The BLCI Barometer this quarter asked business leaders to select the single most important problem facing their business today from a list of five: taxes, poor sales, government regulations, quality of labor, and cost/availability of insurance. Quality of labor ranked at the top of the list, with 25.9 percent of panelists citing this as their foremost concern. The workforce is seen as the primary problem in wholesale trade; professional, scientific, and technical services; and manufacturing.

It is tied with cost/availability of insurance in the construction industry.

Poor sales were the most significant concern of 22.2 percent of BLCI panelists, being selected as most important among firms surveyed in retail trade and second for panelists in transportation and second for panelists in manufacturing and wholesale trade; professional, scientific, and technical services; and manufacturing. Cost and availability of insurance came in a close third, ranking as the most important problem for 21.7 percent, including the largest share of fourth quarter respondents in the health care industry and in leisure, hospitality, and other services. Government regulations posed the most significant problem for 17.7 percent of all panelists, and ranked first in FIRE and TIPU and second in the health care industry. Concerns about taxes came in at the bottom of the list, selected as the most important problem by 12.4 percent of Alabama business leaders.

The Alabama Business Leaders Confidence Index® (BLCI) slipped to 66 on the fourth quarter 2004 survey, three points below last quarter’s record-high 69, but still solidly in positive territory. All six indicators that make up the index declined, with the outlook for profits taking the largest dip, followed by expectations for growth in the national economy. Even so, every component except the U.S. outlook remained above year-ago levels, with the overall index five points higher than the 61 registered in the fourth quarter of 2003.

The BLCI was impacted by a much less robust fourth quarter 2004 outlook among firms in the transportation, information, and public utilities industries, where expected growth in sales, profits, and hiring were below average. Robust sales forecasts in construction and health care and strong expectations for profits, hiring, and capital expenditures in Alabama’s manufacturing sector bolstered the index. Capital spending should also be above average for all service industries except health care.
The National Economy

Alabama business leaders expect the U.S. economy to continue to expand in the fourth quarter of 2004. However, the 71.8 percent forecasting an improved national outlook is the lowest reading since third quarter 2003. It represents a drop of eight percentage points from last quarter’s 79.9 percent and comes in slightly below 73.3 percent anticipating an increase a year ago. Strong consumer spending and increases in construction and business equipment spending helped push third quarter GDP growth above 4.0 percent, up from 3.5 percent in the second quarter. However, high energy prices, weak employment and wage gains, and the fading effects of tax cuts and mortgage refinancing are expected to slow growth in consumer spending in the fourth quarter. The share of panelists anticipating a decline in economic activity during the quarter rose slightly to 9.0 percent, compared to 7.0 percent in the third quarter.

The Alabama Economy

BLCI panelists remain upbeat about overall prospects for the Alabama economy. The 68.8 percent of business leaders expecting the outlook to improve in the fourth quarter is the third highest reading in 12 quarters of survey history and contrasts with just 46.4 percent a year ago. New and expanding automotive and supplier plants are bolstering the state’s manufacturing sector, while revenue gains have ameliorated the state budget crisis that was a major concern in fourth quarter 2003. The Alabama outlook was down from last quarter’s 74.3 percent forecasting increased activity, as job gains remain weak and higher energy prices are impacting both businesses and consumers. Few see a downside to the state’s economy in the fourth quarter, however, with just 5.0 percent of Alabama business leaders forecasting a moderate decrease.

Interest Rates

The Federal Reserve pushed the federal funds rate to 1.75 percent on September 21, with a quarter-point increase adding to a comparable hike in August. Citing a diminished risk of inflation, the Fed stated that “output growth appears to have regained some traction and labor market conditions have improved modestly.” Most Alabama business leaders (78.1 percent) expect the Federal Reserve to raise rates again during the fourth quarter. Economic forecasters generally expect the rate to go up another 25 basis points in November and hold steady in December, ending 2004 at 2.0 percent. Twenty percent of BLCI panelists expect interest rates to be unchanged for the remainder of the year. The Federal Open Market Committee meets November 10 and December 14.
Industry Sales

Industry sales expectations continued to slide from their second quarter 2004 peak, although sales remain the strongest component for growth. Seventy-two percent of panelists think sales in their industry will rise during the fourth quarter, down from 79.4 percent last quarter, but above the 67 percent expecting an increase a year ago. Both the University of Michigan’s Consumer Sentiment Index and the Conference Board’s Consumer Confidence Index declined in September as weak employment and wage gains and high energy prices restrained consumer spending. Holiday retail sales are generally expected to come in at or a little above last year’s 3.7 percent increase. At 10.3 percent, the share of survey respondents anticipating a decrease in sales for the fourth quarter is almost double last quarter’s 5.3 percent. The construction industry should see the most widespread sales growth, with over 85 percent forecasting an increase. This contrasts with just 50 percent of panelists in transportation, information, and public utilities (TIPU) expecting fourth quarter sales gains and 22.2 percent expecting a moderate decline.

Industry Profits

While the profit outlook remains positive, profit growth is expected to slow in the fourth quarter of 2004. The 59.6 percent of Alabama business leaders expecting profits in their industry to increase during the quarter represents a retrenchment of 10 percentage points from third quarter’s survey-high reading of 69.8 percent. A number of factors are expected to pull profit levels back toward the long-term average year-over growth rate of 7 percent, including the inability of firms to continue aggressive cost-cutting and a lack of pricing power that keeps high raw material and energy costs from being passed on to the consumer. Among BLCI panelists, fourth quarter profit growth is expected to be strongest in manufacturing and leisure, hospitality, and other services, with about 64 percent predicting higher profits. Expectations are dampened by a more pessimistic outlook among panelists in TIPU, with just 36.1 percent predicting rising profits and 27.8 percent a decline. Overall for the fourth quarter, 13.6 percent of respondents think profits will drop—the largest downside prediction in over a year.

Industry Hiring

The outlook for job creation in Alabama remains strong, with 55.2 percent of panelists expecting an increase in hiring in their industry during the fourth quarter of 2004. While down slightly from third quarter’s 59.5 percent, these two quarters represent the only period in three years of the BLCI survey when over half of respondents predicted hiring gains. A year ago, just 35.8 percent forecasted job growth. Alabama’s job picture is bolstered by the continued growth of its automotive industry. A robust 62.3 percent of manufacturing panelists expect hiring in their industry to increase during the fourth quarter. Expectations for job growth are below average in professional, scientific, and technical services, where 49.3 percent predict gains, and in TIPU with just 44.4 percent anticipating increased hiring. A mixed
performance among retailers is reflected in the dichotomy of an above average share (57.6 percent) expecting to up hiring and a share larger than the survey-average 8.4 percent planning to shed jobs (15.2 percent).

Industry Capital Expenditures

Capital spending has been a key component of economic growth in Alabama, with over 58 percent of panelists forecasting increased investment throughout 2004. At 59.8 percent, the share of respondents expecting capital spending to grow in the fourth quarter is off slightly from 62.7 percent last quarter. Still, the 9.9 percent thinking the increase will be strong is a survey-high share. Software and equipment spending could be robust this quarter assuming the bonus depreciation expires as scheduled at the end of the year. Alabama manufacturers should be the strongest source of increased capital expenditures, with 68.1 percent expecting to increase investment and just 2.9 percent forecasting a decline. Expectations are also above average in professional, scientific, and technical services and in leisure, hospitality, and other services. Growth in capital spending may be weakest in wholesale trade where 48.7 percent of industry panelists forecast a fourth quarter increase.

BLCI Panelists

The fourth quarter 2004 BLCI survey saw strong participation among Alabama panelists. Just under 500 completed the online survey during September, slightly below last quarter’s record response. Respondents reported their views on the probable course of the national and Alabama economies and interest rates as well as sales, profits, hiring, and capital expenditures in their industry. All of these variables except interest rates (which is omitted) are weighted equally in the BLCI Index. Business leaders responding to the survey represent small, midsize, and large companies in Alabama’s 11 metropolitan areas and over 40 nonmetro communities. On the fourth quarter survey, 31.8 percent of participating firms reported annual sales under $5 million, while 39.2 percent had sales between $5 and $50 million, and 24.2 percent tallied sales of over $50 million annually. Broken down by number of employees, 31.8 percent of fourth quarter panelists were from firms with fewer than 20 employees, while 30.1 percent employed 20 to 99, and 38.1 percent had at least 100 employees.