The optimism of Alabama business leaders indicated by the 2004 BLCI results correctly presaged the strengthening rebound in both the national and state economies. Consumer spending continued to boost sales, job creation resumed, profits posted strong gains, and capital expenditures rose. Nationally, the rate of economic growth was highest in the third quarter of 2004; a peak accurately reflected in the BLCI forecasts.

Survey participants expect the expansion to continue in the first quarter of 2005 but at a slightly slower pace. The BLCI of 62 is down four points from the previous quarter. Given strong gains in every component of the index in 2004, some deceleration in growth toward a long-term trend rate would be expected. Industry sales and profits should post the strongest increases during the first quarter. Although the rate of job creation and capital spending gains will slow, Alabama business leaders predict a net increase in hiring and in capital expenditures. While the index for most industries was close to the overall consensus of 62, panelists in retail and wholesale trade posted a slightly lower 59 for the quarter. Survey participants in transportation, information, and public utilities (TIPU) were most optimistic, tallying a BLCI of 67, while construction panelists came in at 65.

Both public and private businesses of all sizes are faced with the burden of rising health insurance costs. Nationally, premiums climbed 11.2 percent between 2003 and 2004, according to the Kaiser Family Foundation, for a fourth straight year of double-digit increases. Globally, health care expenses impact the competitiveness of U.S. firms. The National Coalition on Health Care found that at 13.9 percent in 2001, the United States spent a larger share of GDP on health care than any other major industrial nation. Costs continue to rise rapidly, with a recent Towers Perrin study of 200 large U.S. firms finding employers planning to spend about 8 percent more on health care costs in 2005—a figure that does not reflect the portion of health insurance costs transferred to the employee.

The BLCI topical question asked Alabama business leaders how their firms are dealing with the rising costs of health insurance. Over half (56.8 percent) shared the increased cost with their employees. Just 25.5 percent absorbed the increase, while 7.7 percent did the opposite by charging the entire increase to their employees. With another 9.3 percent offering reduced benefits or terminating coverage, about three fourths of insured workers at the firms represented in the first quarter 2005 BLCI survey directly felt the negative impact of the rising cost of health insurance.

Survey results show differences in how small, midsize, and large firms handle health insurance cost increases. Among firms with under one million in sales, 14.5 percent...
BLCI panelists generally expect the U.S. economy to continue to expand early in 2005. Over 67 percent forecast improvement in the first quarter, down about five points from last quarter. With the national economy posting the strongest growth rate since 1999 in 2004, gains could moderate in 2005 as the economy settles into a mid-cycle pattern. The growing federal and current account deficits and the falling dollar are cause for concern, although a weak dollar should boost demand for U.S. exports.

Consumer spending growth is likely to be adversely affected by high fuel prices, rising interest rates and inflation, and modest job gains. Expectations for growth in the U.S. economy are widely divergent by industry. Forecasts came in well above average in retail trade, construction, TIPU, and finance, insurance, and real estate (FIRE) and considerably below in wholesale trade, health care, and professional, scientific, and technical services. Overall, just 8.6 percent of survey respondents anticipate a slowdown in the U.S. economy during the first quarter.

Alabama business leaders expect the state’s economy to build on the gains seen in 2004 during the first quarter of 2005. The consensus has weakened slightly, however, with 60.1 percent forecasting an increase in the rate of economic growth in Alabama, down from 68.9 percent last quarter. About 21,500 new jobs were created in the state between November 2003 and November 2004, and strong gains in state tax receipts reflect increases in retail sales as well as individual and corporate incomes during the year. Alabama’s automotive industry will continue to support job and income growth as Mercedes ramps up new model production and Hyundai commences production during the first quarter. But with a higher base for comparison, the pace of growth is likely to moderate. Sentiment varies among industry sectors, however. Expectations of panelists in construction and retail trade are well above average, while respondents in leisure, hospitality, and other services are less optimistic about Alabama’s growth during the first quarter of 2005. Overall, 9.0 percent of all participants think the state’s economic gains could slow.

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Industry Sales
Moving into 2005, Alabama business leaders expect sales growth to moderate from the strong gains forecast in 2004. Sales remains the most positive indicator, although the 63.8 percent anticipating increased sales during the first quarter of 2005 is below 2004 readings ranging from 72 to 80 percent. Rising interest rates and higher prices for energy and other goods are cutting into disposable income, while the stimulus of tax cuts and mortgage refinancing is fading. Spending growth could move back to a more normal range, sustained primarily by income and employment gains. Consumers remained upbeat in December, however, with the Conference Board’s Consumer Confidence Index reaching a five-month high. Sales expectations are robust for panelists in TIPU and health care with over 75 percent forecasting growth. In contrast, fewer than 60 percent of respondents in FIRE, retail trade, and construction expect sales to increase. Concern about the sustainability of spending is evidenced by 16.2 percent of all panelists and 26.5 percent of retail trade respondents thinking sales could decline during the quarter.

Industry Profits
Profit expectations continued to slide from their third quarter 2004 peak when almost 70 percent of Alabama business leaders expected gains. About 53 percent of BLCI panelists forecast higher profits in their industry during the first quarter of 2005, while 18.8 percent think profits could dip. Strong profit gains in 2004 provide a higher basis for comparison moving into 2005. The coupling of higher prices for energy and commodity inputs with softening consumer demand make it difficult to pass along cost increases in the form of higher prices. With producer prices rising faster than prices for consumer goods, corporate profits are negatively impacted. Profits in the retail sector are likely to take the biggest hit, with just 41.2 percent of industry respondents forecasting an increase for first quarter 2005 and 29.4 percent thinking profits will decline. And fewer than half of panelists in wholesale trade, health care, and manufacturing expect first quarter profits to be up, with 30 percent of manufacturers expecting profits to be below fourth quarter 2004 levels.

Industry Hiring
While the pace of hiring growth is expected to slow in the first quarter of 2005, job trends remain a positive indicator of an improving Alabama economy. An estimated 18,400 nonagricultural jobs were created in the state in October and November 2004. In this context, the 48 percent of BLCI panelists anticipating that hiring in their industry will not change during the first quarter of 2005 is a positive indicator. And, with 39.9 percent of Alabama business leaders expecting industry hiring to pick up versus 12.1 percent forecasting a decrease, more jobs should be created during the quarter. Results indicate that job gains are becoming more broad-based. TIPU, which had the weakest hiring expectations last quarter, reported the highest expectations this quarter. More than half of construction industry
panelists also expect hiring to pick up. However, the pace of job creation in manufacturing and trade will slow from the strong increase in the fourth quarter of 2004, with around 27 percent of panelists in these industries predicting an increase and most expecting hiring to continue at fourth quarter levels.

**Industry Capital Expenditures**

Capital spending plans pulled back from the four prior quarters when over 58 percent of panelists expected investment to increase in their industry. At the same time, the share expecting to maintain current investment levels rose. For first quarter 2005, 45.9 percent of Alabama business leaders forecast increased capital expenditures, while 42 percent expect no change. Expiration of the bonus depreciation provision at year-end likely prompted higher investment late in 2004 with a corresponding payback early in 2005. Capital investment in 2005 could also be impacted by a slowdown in consumer spending growth, while an anticipated rise in exports could prompt capacity expansion in some manufacturing firms. Industries where investment was particularly strong in 2004, including manufacturing, health care, and professional, scientific, and technical services, as well as trade, posted below-average expectations for the first quarter of 2005. Panelists from the TIPU and construction industries forecast the strongest gains.

**BLCI Panelists**

The trend of growing participation in the BLCI survey continued with completion of the first quarter 2005 survey. About 430 Alabama business leaders took the online survey, well above a year ago, but off a little from the fourth quarter of 2004 as the response rate in December tends to slip. Panelists reported their views on the probable course of the national and Alabama economies as well as sales, profits, hiring, and capital expenditures in their industry. All of these variables are weighted equally in the BLCI. The question on interest rates, which was never used in calculation of the index, was removed.

Business leaders responding to the survey are drawn from small, midsize, and large companies in Alabama’s 11 metropolitan areas and over 40 nonmetro communities. On the first quarter 2005 survey, a third of participating firms reported sales of under $5 million, while 37.4 percent had sales between $5 and $50 million, and 23.7 percent tallied sales of over $50 million annually. Broken down by number of employees, 29.9 percent of first quarter panelists were from firms with fewer than 20 employees, while 32 percent employed 20 to 99, and 38 percent had at least 100 employees.

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For more details on the Alabama Business Leaders Confidence Index, visit [www.blci.com/alabama/](http://www.blci.com/alabama/).

For more details on the Center for Business and Economic Research, visit [cber.cba.ua.edu](http://cber.cba.ua.edu).

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