United States

Overview. The U.S. economy grew at a faster pace during the second quarter of 2008 than was initially reported—the rate of growth was revised up from 1.9 percent to 2.8 percent. For the first half of the year, the economy expanded at an average annual rate of 1.9 percent. Exports were a major contributor in the second quarter, accounting for 1.5 percentage points, or more than half, of the increase in GDP. Other minor contributors were personal consumption expenditures; nonresidential structures; and federal, state, and local government spending. The decline in business investment, including residential investment, subtracted 1.7 percentage points from GDP growth in the second quarter.

Despite recent strong export gains, the July U.S. trade deficit surged to its highest level in 16 months, primarily due to high oil prices. With an economic slowdown now expanding to other parts of the globe, demand for American exports may decline slightly during the second half of 2008, although a drop in oil prices could keep the trade deficit from widening. While U.S. GDP grew in the first half of the year, payrolls have been slashed every month for a loss of 764,000 jobs through September. The unemployment rate climbed from 5.0 percent in December 2007 to 6.1 percent in September 2008.

Over the next two or three quarters, the U.S. economy will continue to struggle under mounting job losses, relatively high price levels, and crises in the financial and housing markets, causing both consumers and businesses to remain cautious about spending. A strengthening U.S. dollar could provide some relief from import price inflation. In the second quarter of 2008, consumer spending grew 1.7 percent, while business investment declined 12.0 percent. With both consumer and business spending down substantially, corporate profits fell 8.3 percent in the second quarter from the same period in 2007, the sixth consecutive quarterly decline in profits and the worst quarter for businesses since the third quarter of 2001. Corporate profits earned in the domestic market were down 35.3 percent, while those earned overseas were up 9.0 percent.

The $160 billion fiscal stimulus package, in the form of tax rebates and bonus depreciation, has supported the economy during the second and much of the third quarter, but we expect economic growth to be negative in both the fourth quarter of 2008 and the first quarter of 2009. Overall, the U.S. economy is now estimated to grow by 1.2 percent in the third quarter and decline by a slight 0.2 percent in both fourth quarter 2008 and first quarter 2009. Credit conditions are expected to remain tight for consumers and businesses, making it more difficult for firms to obtain credit lines for any expansion projects. Furthermore, both industrial production and consumer spending are expected to decline in the third quarter, and the unemployment rate is expected to continue to rise during the remainder of the year; the economy seems to be deteriorating much faster now than it was a few months ago.

Consumer Spending and Inflation. Despite a recent drop in oil prices, inflationary pressures continue to affect both consumer spending and business investment; the inflation rate is expected to average above 5.0 percent in the second half of this year. The Consumer Price Index fell 0.1 percent in August, following increases of 1.1 percent and 0.8 percent in June and July, respectively. Still, year over year prices were up 5.4 percent, just below July’s 17-year high of 5.6 percent. Overall, consumer spending rose 1.2 percent in the second quarter, following a 0.9 percent increase in the first quarter. With the stimulus provided by the tax rebates fading, payroll losses mounting, relatively high rates of inflation, and loss of wealth in the financial markets, consumer spending is expected to slow significantly in the coming months—to the point of experiencing a decline for the first time since the 1990-91 recession.

Consumer spending on durable goods fell by 2.8 percent in the second quarter, mainly due to a drop of 23 percent in motor vehicle and parts sales; spending on new light trucks was down almost 48 percent. Expenditures for nondurable goods were up 3.9 percent, primarily due to high food and energy prices. Prices of nondurable goods have increased at the fastest pace on a year-over-year basis since July 1981, the start of the 1981-82 recession. Wholesale prices have also risen at their fastest pace in 27 years; producer prices were 9.6 percent higher in August than a year ago. Inflationary conditions have serious consequences for consumer spending—in July the average U.S. worker earned 3.1 percent less than a year earlier after adjusting for cost of living increases. The sharp decline in consumer spending is also evident in retailing jobs; from July 2007 to July 2008 retailers shed approximately 223,000 workers.

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U.S. Consumer Expenditures on Durable Goods

Consumer Spending and Inflation.
Consumer spending is now estimated to decline by 0.3 percent and about 1.0 percent during the third and fourth quarters of 2008, respectively. Expenditures on durable goods, those generally requiring financing from financial institutions, will remain particularly weak over the next three quarters. After decreasing by 2.5 percent during the second quarter of 2008, purchases of durable goods are expected to drop by nearly 5.0 percent in the third quarter, followed by declines of 12.5 percent and nearly 1.0 percent in fourth quarter 2008 and first quarter 2009, respectively.

**Business Spending.** Tight lending and slowing demand conditions have had serious ramifications for business spending, despite a bonus depreciation allowance aimed at lowering taxes for business capital investment during 2008. Overall, business spending dropped 11.5 percent in the second quarter—nonresidential business investment increased 2.5 percent, while spending on equipment and software decreased 5.0 percent. Residential fixed investment, which includes both home construction and sales, dropped by 13.3 percent, its 10th consecutive quarterly drop. Spending on equipment and software could increase by over 13 percent in the fourth quarter as businesses take advantage of expiring depreciation allowances. Residential fixed investment, on the other hand, could see a decline of over 20 percent in the fourth quarter, and is not expected to show any signs of recovery until at least the second half of 2009 or perhaps even 2010.

**Employment and Industrial Production.** Industrial output dropped 1.1 percent in August, the biggest decline in nearly three years, while capacity utilization decreased from 79.7 in July to 78.7 in August. Output of motor vehicles and parts plummeted another 11.9 percent in August over the previous month, and is down 20.7 percent from a year ago. The Institute for Supply Management (ISM) index fell from 49.5 in August to 43.5 in September. The index of new orders, an indicator of future activity in the industrial sector, dropped from 48.3 in August to 38.8 in September—the largest decline since 1984. Due to a stronger U.S. dollar, the export index fell 5 points to 52.0, after rising for 69 consecutive months. Despite strong exports, manufacturing continues to lose jobs; the ISM employment index dropped from 49.7 in August to 41.8 in September, indicating a steeper contraction. Falling prices brought the ISM inflation index for commodities down to 53.5 in September, significantly below its post-1979 peak of 91.5 in June.

Manufacturing has lost 533,000 jobs since July 2007, while construction has shed 429,000. In September alone, manufacturing employment declined by 51,000, the ninth consecutive monthly loss. Payroll gains were experienced in education and health care industries in September, with the addition of 25,000 workers. However, around 35,000 administrative workers lost their jobs during the month. Over the past 12 months alone, the number of unemployed has increased by 2.2 million to total 9.5 million. Payroll employment is forecasted to drop by 0.5 percent in the third quarter, followed by declines of 0.7 and 0.3 percent in the fourth quarter of 2008 and first quarter of 2009, respectively.

**Housing.** Housing markets remain the biggest drag on the economy—high levels of home inventories, falling home prices, and foreclosures continue to have a negative effect and, as recent statistics indicate, we do not expect to see a recovery until the second half of 2009 or perhaps even 2010. The S&P/Case Shiller Home Price Index dropped a record 15.4 percent in the second quarter of the same period a year ago. The 20-city index fell 16.3 percent for July 2008 compared to July 2007, the highest monthly drop since the index began in 2000. Both declines in housing prices and increases in foreclosures continue to set records, even surpassing those set during the Great Depression. Since the start of the subprime crisis last year, banks and securities firms have written off over $500 billion in losses and, if the housing market continues to deteriorate, these losses could total over $1.3 trillion. From 2005 to early 2007, approximately $2.5 trillion in subprime and Alt-A mortgages were originated, out of which about $1.3 trillion are illiquid.

Housing activity declined for the 16th consecutive month in August, dropping 2.3 percent to approximately $358 billion; activity is off 41 percent from its peak of $607 billion in the fourth quarter of 2005 and was 4.7 percent lower than a year ago. A Federal Reserve report notes that, faced with sharply tightening lending conditions, mortgage lenders originated 10.4 million mortgages in 2007, 25 percent fewer than in 2006. According to the National Association of Realtors, the supply of existing single-family homes rose to a 23-year high of 11 months in June. Home vacancy rates are now 1.1 percentage points above the normal rate of 1.7 percent—with 0.1 percentage points representing 75,000 homes, the excess supply is about 825,000 units.

Housing starts fell 11.0 percent in July and are now expected to remain well below one million units annually in both 2008 and 2009. The July annualized rate of 965,000 units represents the slowest pace of building in 17 years. Housing permits, a reliable gauge for future activity in home construction, fell to a rate of 937,000 in July, a 17.7 percent drop from June. Monthly single-family building permits are now 69.2 percent below their peak in September 2005. Permits for single-family home construction totaled $84,000 in July, the fewest since an annualized low of $23,000 in August 1982, when the U.S economy was in the midst of a recession. Housing starts are expected to bottom out late in 2008, hitting a 61-year low, while housing prices may not hit bottom until sometime in 2009.

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Alabama

Exports. The relatively lower value of the U.S. dollar during the first half of 2008 significantly boosted Alabama exports. State exports totaled $7.8 billion through June, 7.8 percent higher than for the same period in 2007. While exports to Germany dropped slightly during the first six months of the year, the county remains the state’s largest trading partner with export shipments totaling over $1.7 billion. Other major export destinations included: Canada ($1.5 billion), Mexico ($430 million), China ($408 million), and the United Kingdom ($403 million). Exports to these five countries totaled almost $4 billion, or 51 percent of total state exports.

During the six-month period ending in June 2008, transportation equipment exports declined by 4.6 percent compared to the same period in 2007 and totaled approximately $2.9 billion. Primary metal manufacturers saw strong export growth, with the value of shipments rising from $253 million in the first half of 2007 to almost $465 million in the first half of 2008. However, a growing global slowdown coupled with a gradually strengthening U.S. dollar could negatively impact the state’s exports during the second half of the year.

Employment. Alabama’s unemployment rate jumped from 3.6 percent in August 2007 to 4.9 percent in August 2008. As of August 2008, there were 107,670 people unemployed statewide, a 36 percent increase from August 2007 when the total number of unemployed was 79,119. Six of the state’s 67 counties—Bullock, Chambers, Dallas, Lowndes, Perry, and Wilcox—saw unemployment above 10 percent. Chambers County had the highest unemployment rate, 14.3 percent compared to 5.9 percent a year earlier, primarily due to the closing of WestPoint Home operations. Shelby County posted the lowest unemployment rate at 3.6 percent, up from 2.6 percent in August 2007.

During the 12-month period ending in August 2008, the state gained a total of 5,500 new jobs, significantly below the 27,700 net new jobs added during the 12-month period ending in August 2007. The state’s 11 metropolitan areas, comprised of 28 counties, gained 10,400 jobs, while the remaining 39 counties experienced a loss of 4,900 jobs. The Huntsville metro area led the state with a gain of 4,900 jobs, followed by Mobile (1,400), Birmingham-Hoover (1,200), and Montgomery (1,000). Most of the new jobs in the Huntsville metro were in professional and business services (2,300) and the government sector (1,100). Mobile saw significant job gains in both construction (600) and professional and business services (600). Payroll increases in the Birmingham-Hoover metro were concentrated in local government entities (1,500). However, the area’s manufacturing firms lost 1,100 jobs between August 2007 and August 2008, while the slowdown in consumer spending caused retailers to shed around 900 workers. Employment at food services and drinking places, which in recent years have created the most jobs in the Birmingham-Hoover area, was flat. Most smaller metro areas also added jobs: Auburn-Opelika (900), Anniston-Oxford (500), Florence-Muscle Shoals and Tuscaloosa (400), and Decatur (200). However, Gadsden lost 400 jobs during the year ending in August and Dothan saw jobs slide by 100.

Statewide, manufacturing firms experienced job losses totaling 8,300 for the 12-month period ending in August 2008. Except for 900 jobs added in aerospace products and parts, every other manufacturing industry was flat or shed workers. The largest payroll losses were in textiles and apparel (-3,200) and furniture and related products (-1,200). Construction employment in August was about 1,100 above a year ago, with most of the jobs in heavy and civil engineering construction. Overall, service providing firms gained 12,800 jobs, with professional and business services adding 5,300 and government 5,500, mainly in local government entities. The state’s wholesale trade and financial sectors each gained 700 jobs, while information added 500. Full service restaurants shed 1,200, contributing to flat payrolls in leisure and hospitality for the first time in recent years. Retailers across the state lost 700 workers through August.

Tax Receipts. Total tax receipts slowed significantly in the current fiscal year. During the first 11 months of the fiscal year ending in September 2008, state tax revenues grew by 2.4 percent, or approximately $190 million, to total around $8.2 billion. The slowdown in consumer and business spending has had a significant impact on Alabama’s sales tax revenues, which declined by 0.05 percent to about $1.8 billion, almost $1 million below the previous fiscal year. Corporate income tax receipts of slightly over $462 million represent an increase of 7.1 percent ($31 million) above the same period last year. Individual income tax revenues grew 2.9 percent to approximately $3.3 billion, about $94 million higher than for the same 11 months a year ago. Appropriations made to the Alabama Education Trust Fund rose by about $86 million to approximately $5.3 billion, an increase of 1.3 percent. The state’s General Fund has seen appropriations rise a more substantial $193 million, an increase of 1.3 percent that brought the total to slightly over $1.6 billion.

Outlook. Both Alabama consumers and businesses are expected to remain cautious for the rest of 2008; relatively high prices for food, energy, and other commodities, as well as the continuing slump in housing markets will have a significant effect on both economic growth and payrolls. The state’s economy is at best predicted to grow around 1.0 to 1.5 percent through the end of the year. Increasing home foreclosures and declining housing starts and home sales are not expected to turn around in 2008 and could continue through the first half of 2009. Both the residential and commercial real estate industries will remain soft over the next two or three quarters.

As evidenced by Alabama payroll employment, the rate of increase in job growth has slowed significantly in recent months and is expected to continue to decline. By year-end, the state’s unemployment rate could be as high as 5.5 percent. Alabama’s transportation equipment manufacturing industry, which includes motor vehicle manufacturers and their suppliers, has been adversely affected by slowing demand, with resulting cuts in production and worker hours. However, despite a weakening economy statewide, some parts of the state, particularly the Huntsville area in north Alabama, will continue to experience significant increases in both payrolls and economic growth.

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Top Issues for the State and Industry in 2008

Alabama BLCI panelists were asked to list their top concerns for the state and for their industry in 2008 on a poll conducted by Compass Bank in late May. Respondents saw the broad issue of the economy as their top concern at the state level, while availability and retention of a trained and/or experienced workforce was the primary focus for businesses. The top issues below are listed in rank order:

Top State Issues
1. Economy/economic downturn
2. Fuel/energy costs
3. Workforce development
4. Education
5. Ineffective leadership/government
6. Tax structure
7. Attracting industry/jobs

Top Industry Issues
1. Finding and retaining qualified workers
2. Fuel/energy costs
3. Business slowdown
4. Economy/economic downturn
5. High commodity prices
6. Availability of credit
7. Government regulation

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The BLCI is a collaborative effort between Compass Bank and The University of Alabama’s Center for Business and Economic Research to provide local and relevant information to Alabama businesses. Your participation will help make the BLCI an even better economic resource. Please join today!

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Copies of this publication as well as other socioeconomic data resources are available on the Center website: http://cber.cba.ua.edu