BLCI: 2002 in Review

As we approached 2002 with the inaugural Alabama Business Leaders Confidence Index (BLCI) survey, completed in December 2001, the economy was beginning to recover from the downturn of 2001 and the recent impact of terrorism. The BLCI registered 54, with panelists cautiously optimistic that the economy would show improvement in the first quarter of 2002.

In fact, economic gains during the quarter turned out to be stronger than anticipated, with GDP increasing by 5.0 percent. As the second quarter dawned, economists were touting the strength of the recovery and predicting sustained healthy gains. Inventories were turning around, layoffs had ebbed, and consumer and business spending were relatively robust. The second quarter BLCI reflected the optimism of March 2002 with a 63 reading, up 9 points from the first quarter.

However, the second quarter did not play out as expected. Corporate scandals and bankruptcies mounted, business confidence fell, corporate restructuring and productivity gains depressed job growth, and financial markets tumbled. Second quarter GDP growth wound up a weak 1.3 percent. Given this atmosphere, Alabama business leaders were less confident in their overall expectations for third quarter 2002. The BLCI of 60 was just 3 points below the second quarter, however, reflecting optimism that at least a weak recovery was likely to be sustained.

But the U.S. economy continued to reel from repeated shocks, including the new threat of war with Iraq and resulting higher oil prices and the West Coast support shutdown. GDP growth for the third quarter came in at 3.1 percent. In this atmosphere of continuing economic turmoil, Alabama business leaders pulled back their expectations with a fourth quarter 2002 BLCI of 56, four points below the third quarter number. Although still weighted toward continuing economic recovery, panelists are likely convinced that the recovery will plod along slowly for some time. As we entered the fourth quarter, consumers were spending more cautiously, residential construction was beginning to weaken, and jobs remained in short supply.

BLCI Indicators

Seven economic indicators are measured in the quarterly BLCI survey. The following graphs present projected change on each indicator from the previous quarter for the four quarters of 2002. While the survey captures responses on a five-part scale, categories of strong decrease and moderate decrease are combined into decrease, while moderate increase and strong increase are collapsed into increase on these annual graphs.

Pessimism about the course of the U.S. economy was highest on the first quarter 2002 survey, when 46 percent of panelists felt economic activity could decline from fourth quarter levels. By second quarter, over 75 percent felt economic activity was on the upswing. This optimism pulled back in both the third and fourth quarter surveys. By fourth quarter, only 50 percent of respondents were forecasting improvement, while 21 percent expected a decline—still more optimistic than first quarter results.
Panelists generally found it less likely that the Alabama economy would slip. The exception was the second quarter when 10.7 percent predicted a decline in the state economy versus 7.7 percent in the national economy. Expectations pulled back sharply in the fourth quarter, dropping to about 44 percent expecting an increase compared to close to 60 percent in both the second and third quarters. The share of panelists forecasting flat economic activity rose from 19.5 percent in the first quarter to 36.5 percent in the fourth.

After the Federal Reserve dropped interest rates in fourth quarter 2001, the federal funds rate held steady through October. Given uncertainty that a recovery was underway leading into the first quarter, almost 44 percent of respondents expected interest rates to decline. This share fell to 5.6 percent in the second quarter and then rose to 16.2 percent in the fourth. The percentage of panelists predicting no change in interest rates climbed steadily across quarters to 70 percent in the fourth quarter survey.

Industry sales have been the strongest indicator of economic recovery across the four quarters of 2002. The percentage of panelists forecasting sales increases was above 50 percent on each quarterly survey. Expectations of sales gains peaked at 72.2 percent in the second quarter, then retrenched to 51.7 percent in the fourth. Amid indications of weakening consumer spending and continuing weakness in business investment, the share of business leaders forecasting declining sales rose to 16.9 percent in the fourth quarter.

Boosted by productivity gains and cost-cutting measures, profits were rebounding in the first quarter of 2002. As the year progressed, however, corporate profit outlooks were mixed as the recovery progressed slowly. More than half of Alabama BLCI panelists were optimistic that profits would improve.
during each of the first three quarters of 2002. While sentiment continued to be stronger for increase rather than decrease in the fourth quarter, the share of respondents forecasting rising profits in their industry fell sharply to 42.6 percent.

The recovery of 2002 has been dubbed the “jobless” recovery. Still, from second quarter 2002 forward, Alabama business leaders have been more likely to feel that their industry will add rather than cut jobs. As uncertainty about the strength of the recovery grew, however, the share expecting to add jobs fell from 33 percent in the second quarter to 25 percent in the fourth. Throughout the four quarters of 2002, most expected to maintain the status quo on hiring.

While capital spending got off to a strong start in 2002, slumping business confidence and a glut of underutilized capital adversely affected expenditures. Alabama business leaders were less likely to think capital spending in their industry would increase as the year progressed. The share forecasting a gain fell steadily from 44 percent in the first quarter of 2002 to 36 percent in the fourth. Still, far fewer panelists anticipated decreasing rather than increasing spending.

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The BLCI is developed in partnership between Compass Bank and the Center for Business and Economic Research. Complete results can be found at blcindex.cba.ua.edu.