

Alabama Business

Center for Business and Economic Research, Culverhouse College of Commerce, The University of Alabama

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Fourth Quarter 2005

Economic Outlook: 4th Quarter 2005

United States

Overview. The U.S. economy grew at a 3.6 percent annualized rate in the first half of 2005, with excessive inventories subtracting almost 2 percent from GDP in the second quarter. Hurricane Katrina, and to a lesser degree Rita, dealt a severe blow to the Gulf Coast infrastructure and to the nation's energy sector, particularly natural gas supplies. However, as reconstruction continues we anticipate much stronger growth in the first half of 2006. The U.S. economy is now expected to grow by 3.4 percent in the third quarter and 2.8 percent in the fourth quarter of 2005. The slowdown in the fourth quarter will be because of declining consumer spending as consumers face higher energy costs and rising interest rates.

Although gasoline prices are no longer rising, winter is looming. Higher home heating prices are expected to squeeze consumers in the fourth quarter, and nat-

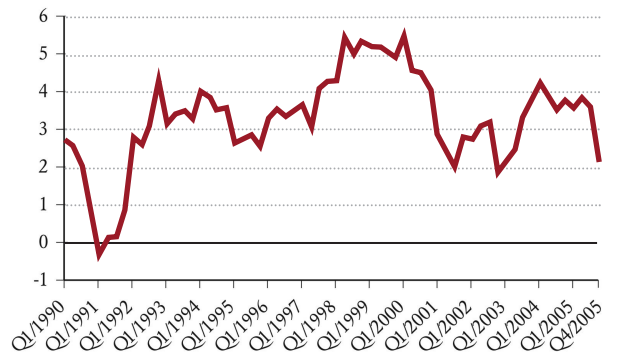
ural gas prices are expected to rise almost 50 percent this winter from their year ago levels. Fortunately, most refinery capacity is coming back online. Gasoline prices will probably come down to around \$2.50 per gallon by the end of the year. But natural gas prices are not expected to decline anytime soon.

Consumer prices surged in September by the largest amount in more than 25 years, as hurricanes Katrina and Rita sent energy prices soaring at the fastest pace on record. We expect these pump prices to be a short-term phenomenon, unlike the gas price increases in the late 1970s and early 1980s. The consumer price uptick of 1.2 percent in September was the biggest monthly advance since March 1980. Between September 2004 and Sep-

tember 2005 consumer prices rose 4.7 percent, the steepest annual increase since 1991. Although high energy prices have added to costs, overall the long-term outlook is for low inflation.

Consumer Spending. High energy costs and rising interest rates are expected to take a toll on consumer spending. Right now household savings are low and household debt is still at record high levels. Consumer spending on

Consumer Expenditures
Annual Percent Change
Over Same Quarter Previous Year, 1996 Dollars



Source: U.S. Department of Commerce, Global Insight, and Center for Business and Economic Research, The University of Alabama.



Gulf of Mexico

urable goods is expected to fall off sharply, from a 7.7 percent increase in the third quarter to a decline of over 10 percent in the fourth. However, the effects of declining consumer spending

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Gross Domestic Product
Annual Percent Change
Over Same Quarter Previous Year, 1996 Dollars



Source: U.S. Department of Commerce, Global Insight, and Center for Business and Economic Research, The University of Alabama.

U.S. Total Nonfarm Payroll Employment Annual Percent Change Over Same Quarter Previous Year



Source: U.S. Department of Commerce, Global Insight, and Center for Business and Economic Research, The University of Alabama.



will be offset by increases in fixed business spending and government spending, both of which remain on solid footing. Business spending on equipment and software is expected to increase by over 12 percent in the fourth quarter, following a gain of approximately 7 percent in the third quarter. Spending on information processing equipment is forecasted to increase approximately 13 percent, with spending on computers and peripherals rising over 30 percent.

Interest Rates. Long-term rates finally have begun to respond to the Fed's monetary tightening. With mortgage rates and other long-term rates inching upward, the housing sector will probably experience a slight decline. According to a Federal Reserve study, households gained extra income of almost \$600 billion in 2004 through refinancing, home sales, and home equity loans. With higher interest rates and slower appreciation of home values, funding for consumer spending from the housing market may be coming to an end.

The Fed began raising rates in June 2004 when the funds rate was 1.0 percent, a 46-year low. Since then the Fed has raised shorter-term rates 11 times over the last 15 months. With higher inflationary pressures in the pipeline, the central bank is expected to continue to raise rates this year. The rate will likely go to 4.25 percent by year-end and will probably pause at 4.5 percent early in 2006.

Employment. The U.S. economy lost 35,000 jobs in September, the first con-

traction since May 2003. Hurricane Katrina may have taken out as many as 230,000 jobs, according to Bureau of Labor Statistics estimates. These were mostly offset by new job creation. The unemployment rate increased slightly from 4.9 percent in August to 5.1 percent in September, its first rise in seven months. Prior to September, on average 191,000 jobs were being added each month. Even in the recent good times for job gains, manufacturing employment has decreased. The September manufacturing job decline of 27,000 was the fourth consecutive monthly drop for factory jobs. The manufacturing sector has shed almost 110,000 jobs this year. September was also a bad month for retailing. After increasing by an average of 18,000 a month during the 12 months ending in August, retailing jobs declined by 88,000 in September, largely as a result of Katrina.

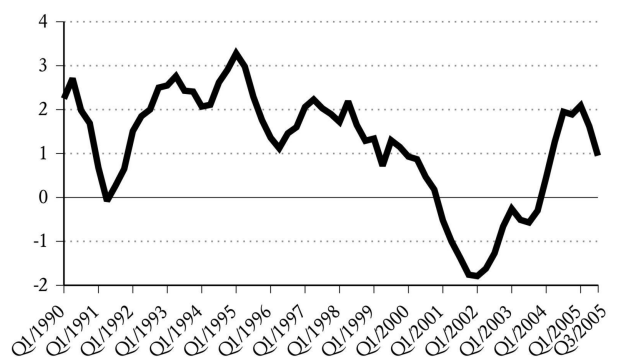
Despite two hurricanes, higher energy prices, and fewer jobs, the manufacturing sector of the U.S. economy remains fairly strong, albeit without payroll gains. The manufacturing index published by the Institute for Supply Management increased from 53.6 in August to 59.4 in September, a 13-month high. A value greater than 50.0 indicates expansion in the sector. On the other hand, the

nation's services industries took a hit in September. The index for the services sector declined to 53.3 in September from 65.0 in August, mainly due to rising costs of raw materials and energy. Employment in these two sectors, services and manufacturing, is expected to remain weak. Most of the new jobs in the remainder of this year will be construction-related.

Alabama

Employment. Scientific and technical services (3,000 new jobs) and administrative and support services (3,000) have been among Alabama's strongest areas for job growth over the last year. There have been employment gains of 4,200 in healthcare and social assistance. From August 2004 to August 2005, restaurants and drinking places also performed well,

Alabama Total Nonagricultural Employment Annual Percent Change Over Same Quarter Previous Year



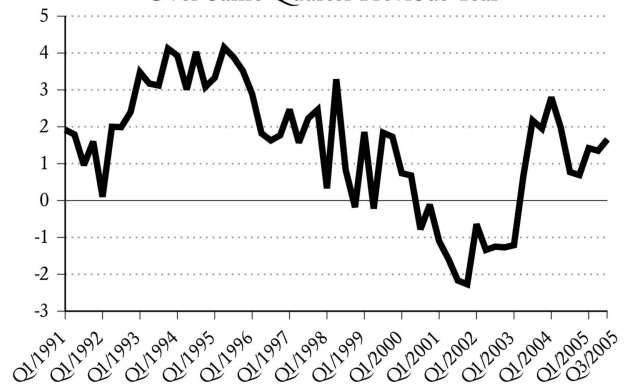
Source: Estimates based on Alabama Department of Industrial Relations data.

Alabama Total Manufacturing Employment
Annual Percent Change
Over Same Quarter Previous Year



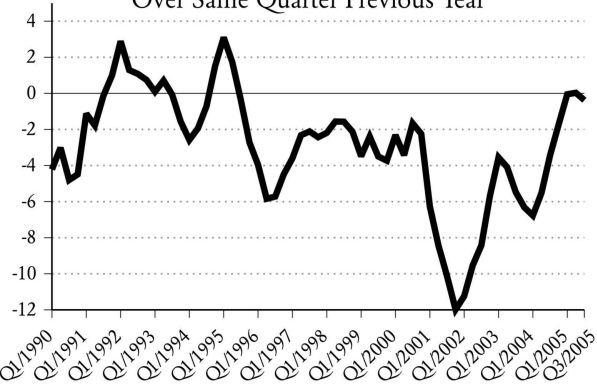
Source: Estimates based on Alabama Department of Industrial Relations data.

Alabama Total Retail Trade Employment
Annual Percent Change
Over Same Quarter Previous Year



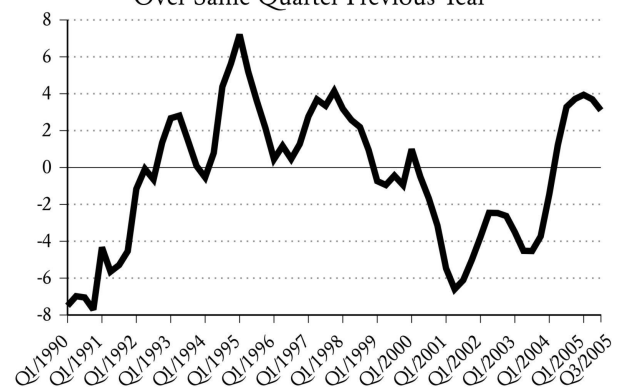
Source: Estimates based on Alabama Department of Industrial Relations data.

Alabama Nondurable Goods Manufacturing Employment
Annual Percent Change
Over Same Quarter Previous Year



Source: Estimates based on Alabama Department of Industrial Relations data.

Alabama Durable Goods Manufacturing Employment
Annual Percent Change
Over Same Quarter Previous Year



Source: Estimates based on Alabama Department of Industrial Relations data.

adding 2,800 new workers. During the same period, firms associated with financial activity in the state lost approximately 1,000 jobs, while the information sector reduced payrolls by 500.

Most of the new jobs were in services, but the state's manufacturing firms also added 4,400 jobs. Transportation equipment manufacturers (primarily motor vehicles) added 4,600 jobs, but businesses producing nondurable goods lost 800 jobs. Other manufacturing industries adding workers to their payrolls were primary metals manufacturing (800); animal slaughtering and processing (500); and plastics and rubber products manufacturing (800). Alabama's construction sector remained strong, adding 2,500 new jobs, almost all in residential construction. Rebuilding from Katrina could boost

Alabama's construction sector for a good while longer.

Of 20,000 jobs added during the 12-month period ending in August, 13,100 were in the state's metro areas, while the remaining 6,900 were in nonmetro counties. The Mobile metro area added the greatest number of jobs (5,100), followed by Montgomery (4,300), Huntsville (3,900), and Tuscaloosa (3,500). The Birmingham metro area netted only 1,300 new jobs, primarily due to the loss of 1,300 jobs in financial institutions and 800 jobs in construction. Most of the jobs added in the Birmingham metro area were in wholesale trade (1,100), food services and drinking places (1,100), and local government (1,100).

Tax Revenues. The state's economy showed significant growth in the second

half of 2004 and that growth has continued throughout the first three quarters of 2005. Tax revenues remain reflective of a strong economy. During fiscal year (FY) 2004-05, tax receipts in Alabama rose approximately 11 percent, increasing by \$749 million over the previous fiscal year, to total \$7.6 billion. Sales tax revenues were up 6.1 percent, or \$103 million, over the previous fiscal year. Both individual and corporate income tax revenues also have shown considerable growth. During FY2004-05, corporate income tax revenues increased almost 43 percent, totaling approximately \$428 million. Receipts from individual income taxes climbed from almost \$2.65 billion to about \$2.95 billion. That was an increase of over 11 percent, or \$302 million, compared to the previous fiscal year.

*Alabama Nonagricultural Employment
Change in Number of Jobs*

	August 2004 to August 2005
Total Nonagricultural	20,000
Natural Resources and Mining	-100
Construction	2,500
Manufacturing	4,400
Durable Goods Manufacturing	5,200
Wood Products Manufacturing	200
Primary Metal Manufacturing	800
Fabricated Metal Product Manufacturing	-300
Machinery Manufacturing	200
Computers and Electronic Products Manufacturing	-300
Electrical Equipment, Appliance, and Component Mfg.	-400
Transportation Equipment Manufacturing	4,600
Motor Vehicle Manufacturing	3,300
Furniture and Related Products	-200
Nondurable Goods Manufacturing	-800
Food Manufacturing	700
Textile Mills	-600
Textile Product Mills	200
Apparel Manufacturing	-100
Paper Manufacturing	-200
Plastics and Rubber Product Manufacturing	800
Trade, Transportation, and Utilities	6,300
Wholesale Trade	200
Retail Trade	3,600
Transportation, Warehousing, and Utilities	700
Information	-500
Telecommunications	-200
Financial Activity	-1,000
Professional and Business Services	6,300
Educational and Health Services	4,100
Leisure and Hospitality	1,300
Other Services	-300
Government	-3,000
Federal Government	100
State Government	-1,200
State Education	-1,000
Local Government	-1,900

Source: Alabama Department of Industrial Relations.

For FY2004-05, appropriations made to the Alabama Education Trust increased over \$514 million, to total \$4.96 billion, an increase of 11.5 percent over the previous fiscal year. Appropriations made to the state's General Fund increased approximately \$122 million, or 9.5 percent, and totaled slightly under \$1.41 billion.

Outlook. As with the national economy, the state's economy is expected to slow down slightly in the fourth quarter. At year-end, employment will have increased 1.5 percent; 25,000 new jobs will have been added. Although most job growth will be in the services sector,

the automotive industry will continue to add jobs at least in the near future. By the end of the year, the automotive sector (both original equipment manufacturers and their suppliers) will have added almost 6,500 jobs since 2004. Other sectors that will be adding jobs in the fourth quarter include construction, retailing, wholesalers, healthcare and other social assistance, administrative and support services, and food services and drinking places. Most jobs probably will be created in the Mobile metro area, as rebuilding ramps up after the two hurricanes.

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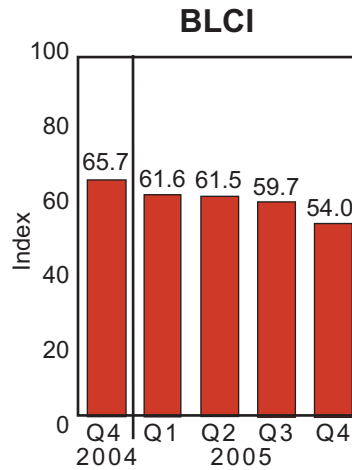
Automotive jobs generally pay above average wages, but most other new jobs in Alabama will pay wages that are lower than the manufacturing average. Employment growth will be slow in some sectors of the economy. Particularly, nondurable goods and some durable manufacturing industries will continue to reduce their payroll employment.

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Hurricane Katrina Has Strong Effect on Expectations

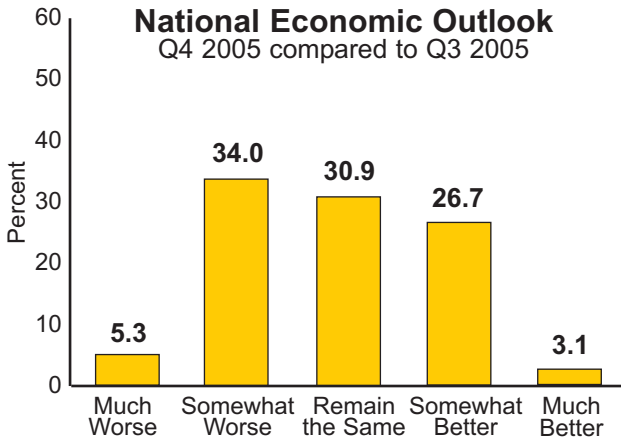
The Alabama Business Leaders Confidence Index® (BLCI) dropped 5.7 points to 54.0 on the fourth quarter 2005 survey, indicating that hurricanes Katrina and Rita will dampen but not derail the current economic expansion. An index value above 50 forecasts growth. Expectations for the U.S. and Alabama economies dipped sharply as disruptions and higher energy prices from Katrina's hit on August 29th were compounded by further damage to energy resources and infrastructure from hurricane Rita on September 24th. On October 12th, six oil refineries in Louisiana and one in Texas with a total refining capacity of 1.9 million barrels per day remained completely shutdown. The natural gas situation is much worse, as almost all supply is from domestic sources. Over 46 percent of wells in the affected region were still shut-in and 15 natural gas processing plants in Louisiana were not active for a loss of almost 8 billion cubic feet of processing capacity per day. Profit growth is expected to weaken as high energy prices cut into income and as hurricane-related losses hurt some firms. Sales and hiring gains will slow modestly this quarter, while capital spending growth is expected to see little effect.



THE OUTLOOK

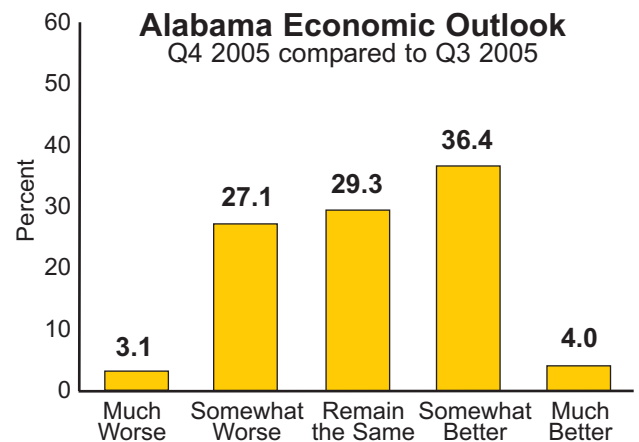
National Economy	47.1	↓
Alabama Economy	52.8	↓
Industry Sales	58.9	↓
Industry Profits	53.0	↓
Industry Hiring	54.9	↓
Capital Expenditures	57.2	↓
BLCI	54.0	↓

Index above 50 indicates expansion.
 ↑ increase from previous quarter
 ↓ decrease from previous quarter

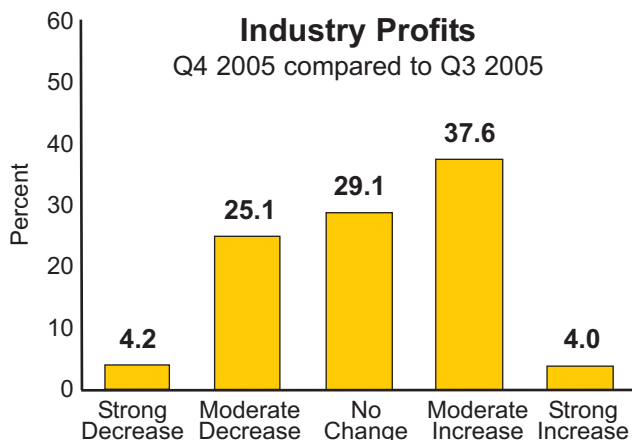
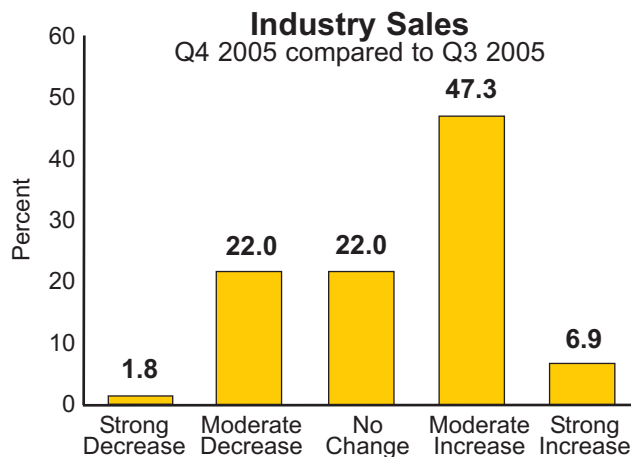


Hurricanes Deal National Economy a Blow At 47.1 the index for the U.S. economy was the only indicator below 50 on the fourth quarter BLCI survey; down 11.2 points from its third quarter value. Although about 30 percent of panelists think the national economy will see improvement in the fourth quarter, a larger 39.3 percent expect economic performance to be below its third quarter level. Second quarter GDP growth amounted to 3.3 percent and the economy appeared to be strengthening through late August. Given the underlying strong fundamentals, forecasting group Global Insight is predicting real GDP growth of 3.4 percent in the third quarter of 2005, slipping to 2.8 percent in the fourth quarter. The GDP forecast for the second half of 2005 is now 0.7 percentage points below the pre-Katrina forecast. Government and private construction spending on hurricane repairs and rebuilding, as well as continued auto production despite slow sales, will account for fourth quarter growth in the U.S. economy. The combination of reconstruction and a recovery in energy production should give a payback in the first half of 2006, adding about 0.6 percentage points to GDP.

Alabama Weathers Storms Better than Nation BLCI panelists were on target with their pre-Katrina forecast of robust growth for the Alabama economy. Unemployment fell to 3.8 percent in August, well below the U.S. rate of 4.9 percent; the state's labor force and employment showed strong gains; and tax collections and other revenues posted steady increases. While the impact of hurricane Katrina will dampen Alabama's economic performance in the fourth quarter of 2005, it will not halt the current expansion. The fourth quarter state economy index of 52.8 remains in positive territory, although it is off almost 10 points from the third quarter. Over 40 percent of panelists expect the state's economy to strengthen during the fourth quarter, but 30.2 percent think it could weaken (compared to just 6.6 percent last quarter). Katrina inflicted damage on Mobile and its port facilities as well as on coastal towns and the state's fishing and seafood processing industry. But the negative effects of hurricane-related disruptions and higher energy prices could be offset by recovery efforts: the state has seen an influx of evacuees; Alabama construction firms are working on FEMA housing projects; the manufactured housing industry has received large orders; and other Alabama companies may play a role in full-fledged rebuilding efforts.

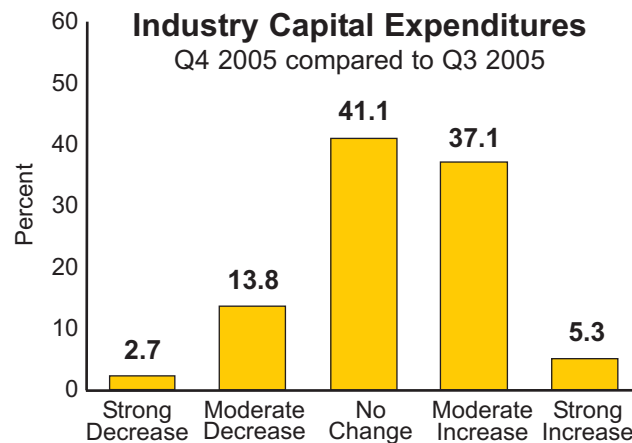


Sales Cool as Energy Costs Cut into Income With a component index of 58.9, industry sales is the strongest BLCI indicator in the fourth quarter. The sales index slipped just 2.9 points from its third quarter value, with 54.2 percent of Alabama business leaders expecting sales in their industry to increase and 23.8 percent anticipating a decline. High gas prices are having a big effect on consumers' discretionary spending. A recent survey by Sperling's Best Places ranked Birmingham as the U.S. metro area hit hardest by higher gas prices, based on income and commuting. The average Birmingham area household with two drivers is expected to spend an extra \$2,400 for gasoline this year compared to last. Higher interest rates, the current negative savings rate, a payback for strong summer auto sales, a weakening housing market, and rising inflation could all put a drag on consumer spending in the fourth quarter. The University of Michigan's *Index of Consumer Sentiment* fell over 12 points to 76.9 in September, its lowest level since October 1992. Alabama panelists in finance, insurance, and real estate (FIRE) and in transportation, information, and public utilities (TIPU) have the weakest sales expectations this quarter.



Energy Prices and Hurricane Damage Crimp Profits Overall profit growth should remain in positive territory, although the profit index declined from 59.4 in the third quarter of 2005 to 53.0 in the fourth. While 41.6 percent of panelists think profits in their industry could increase during the quarter, 29.3 percent forecast a decrease. The largest negative impacts on profits are forecast for FIRE, manufacturing, and TIPU. Rising energy prices hurt many service sector industries including transportation and utility companies, but high natural gas prices particularly impact manufacturers and are compounded by higher raw material costs. Companies are still finding it hard to pass higher costs along to their customers, forcing them to cut expenses or boost productivity to maintain profits. Fourth quarter profit outlooks for the finance and insurance sector in Alabama are dampened by damage to their infrastructure and insurance payouts. Profit growth is expected to be strongest in the construction industry.

Moderate Job Growth Forecast Alabama should see continued job gains in the fourth quarter of 2005 with a hiring plans index of 54.9. While almost half of firms expect fourth quarter hiring to proceed at the third quarter pace, 34.5 percent plan to increase hiring and 17.6 percent expect to cut back on new hires. A drop in the component index of 3.1 points from its third quarter value incorporates the effects of hurricane Katrina, but is also likely due to a return to more normal hiring patterns after heavy staffing in Alabama's auto industry earlier this year. Most manufacturing respondents (52.8 percent) forecast no change in hiring in the fourth quarter, but 30.2 percent think hiring will pick up and just 17.0 percent that it will slow. Construction and other services should be the strongest areas for job growth. Alabama added about 1,400 nonagricultural jobs in August to bring the new job total for the first eight months of 2005 to 20,000. Construction, manufacturing, professional and business services, TIPU, and trade have seen sizeable job gains in 2005.



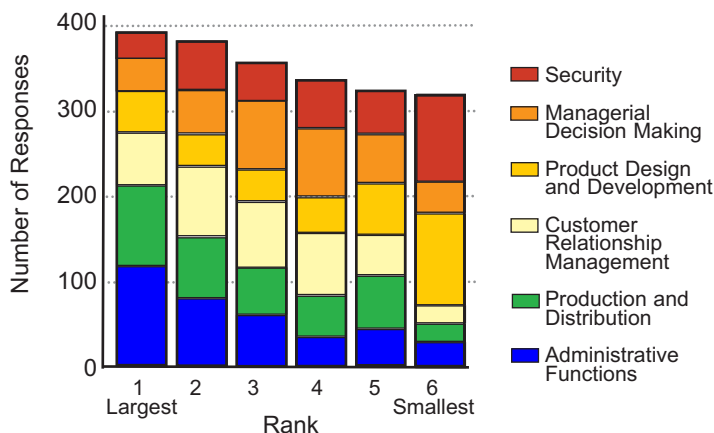
Capital Spending Continues to Support Growth Capital expenditures should be the second strongest pillar supporting economic growth in Alabama in the fourth quarter of 2005. The component index value of 57.2 is down less than one point from the third quarter and clearly indicates a pick-up in spending. After several years of steady profit growth, many firms have ample cash to invest. Global Insight expects spending on business equipment to show double-digit increases for 2005. Nonresidential construction, which has been lagging, should pick up in 2006, in part because of post-Katrina rebuilding. Over the short-term as consumer spending slows, business spending on both high tech and traditional equipment will likely be the primary driver of growth. Over 42 percent of BLCI panelists expect capital investment in their industry to increase in the fourth quarter, while 16.5 percent anticipate some curtailment. Construction, TIPU, retail trade, and other services are forecast to see the strongest increases in capital spending this quarter.

Impact of IT Expenditures on Alabama Businesses This quarter's topical questions query Alabama business leaders about their planned information technology (IT) expenditures for 2006 and their perceptions of the impact of IT investments over the past three years on the cost and quality of their product or service and on revenues.

Administrative Functions Top List of IT Investments

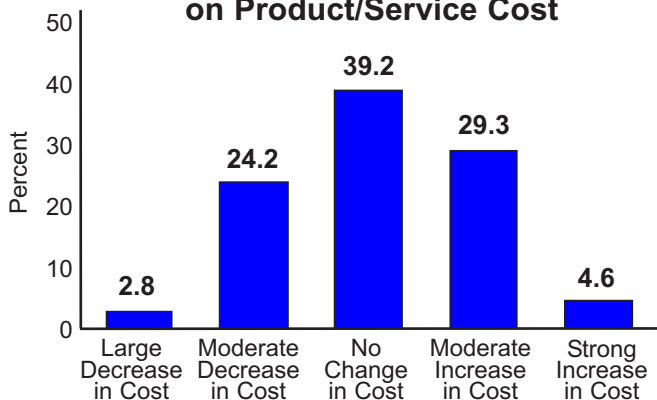
Panelists were asked to rank from 1 to 6 (with 1 being the largest) their planned IT expenditures for 2006 in six categories. Administrative functions (including back office, accounting, payroll, etc.) will receive the largest share of Alabama IT investment dollars in 2006, with 30.4 percent of respondents ranking this as their primary investment and another 21.6 putting it in second place. Expenditures for IT enhancement of their product or service will be the major focus for 24.1 percent of businesses, while 20.4 percent see it as their second priority. Customer relationship management is an IT priority for the 36 percent of respondents ranking it as their first or second largest planned expenditure in the coming year. The category of product design and development comes in fourth, with 12.2 percent expecting it to be their largest expenditure, while managerial decision making trails

Ranking of Planned IT Expenditures for 2006



with 9.6 percent of panelists giving it their highest spending priority. IT spending on security is a relatively low priority, with 8.4 percent assigning security the highest ranking and 51.3 percent ranking it 5, 6, or not at all.

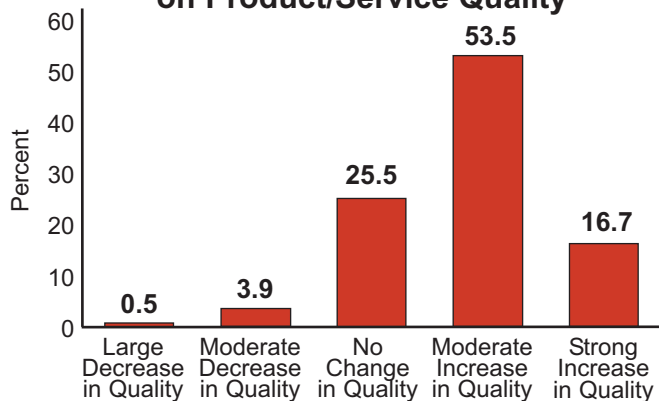
Impact of IT Expenditures on Product/Service Cost



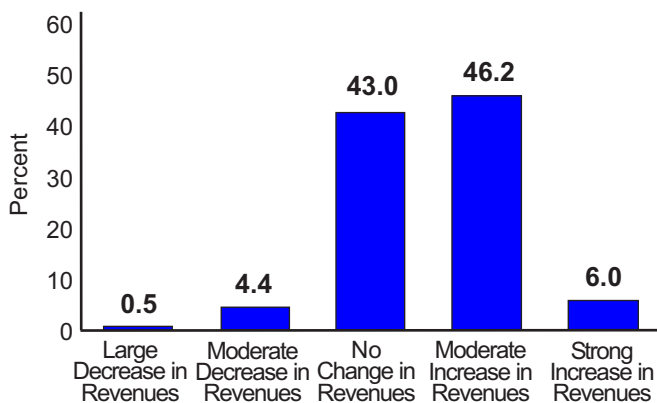
Results Mixed for IT Investment Impact on Cost Alabama business leaders reported mixed results about the relationship between IT expenditures and the cost of producing their product or service. About 39 percent found that efficiencies from IT investments neutralized the cost of the investment. But about a third of panelists experienced increased costs of production due to IT spending over the last three years. A lesser 27 percent were able to decrease production costs as a result of their investments in IT. Firms with annual sales under \$5 million were less likely to see cost savings—just 19 percent reported a decrease in cost and 35 percent an increase. In contrast, 32 percent of firms with sales of \$5 million and above showed a decrease in production costs from IT investment, while about 30 percent saw costs increase.

IT Investments Improve Quality Although IT investments do not generally cut costs of production, they often enhance the quality of a firm's product or service. Seventy percent of fourth quarter BLCI panelists indicated that their company's IT investments over the last three years have improved the quality of the product or service that they offer. Only 4.4 percent of Alabama business leaders experienced a negative IT impact on quality, while about a quarter saw no effect.

Impact of IT Expenditures on Product/Service Quality



Impact of IT Expenditures on Revenues



Relationship between IT and Revenues Positive More than half (52.2 percent) of fourth quarter panelists reported that IT investments have enabled their company to increase the revenues generated by their product or service. IT investment had no effect on revenues for 43 percent of firms surveyed, while just under 5 percent reported a decline in revenues as a result of the last three years of IT spending. Firms with annual sales under \$10 million were more likely than larger companies to see a positive effect—56.4 percent reported increased revenues compared to 47.4 percent of firms with annual sales of \$10 million or more. But only 2.8 percent of larger firms saw revenues decline as a result of IT investments versus 6.4 percent of smaller companies.

BLCI Results Differ by Response Date and Area The fourth quarter BLCI survey was completed by 450 Alabama business leaders throughout the month of September. Just how strongly the uncertainty introduced by hurricane Katrina affected the forecast is seen by breaking down the index values by response date. Panelists who supplied their expectations by September 11, approximately two weeks after Katrina's landfall, were quite pessimistic. As the nation still reeled from the magnitude of the destruction, the BLCI index came in at 48.3, indicating contraction. Looking two weeks farther out, respondents between September 12 and 23 registered a BLCI of 55.1. In the last survey week, the BLCI rose to 59.0, with hurricane Rita having no apparent negative effect. Perceptions of the impact of Katrina on the Alabama economy, in particular, improved significantly from the initial assessment.

Marked metro area differences in the fourth quarter likely reflect a combination of differing expectations and the timing of survey responses. At 55.4, the BLCI for the Birmingham metro area is 1.4 points above the state value as panelists were generally more positive about the national and state economies. Huntsville registered a BLCI of 56.3 with optimism well above average for industry sales, profits, and hiring. In both Birmingham and Huntsville almost half of panelists completed the survey after September 24. Pessimism among panelists in Montgomery where the BLCI was 48.5 could relate to uncertainty about the BRAC decision on Maxwell/Gunter early in the month as well as the fact that a much higher percentage of responses came in before September 12. And, surprisingly, instead of being down about the impact of Katrina, Mobile business leaders were upbeat, recording a BLCI of 61.6.

Component Index by Area, Q4 2005						
	Alabama		MSA			
	Q4 2005	Change from Q3	Birmingham	Huntsville	Mobile	Montgomery
National Economy	47.1	-11.2	50.4	46.3	55.1	38.5
Alabama Economy	52.8	-9.8	55.3	52.1	62.2	47.3
Industry Sales	58.9	-2.9	60.0	63.8	64.7	52.0
Industry Profits	53.0	-6.4	54.0	57.4	58.3	49.3
Industry Hiring	54.9	-3.1	55.5	61.2	64.7	48.0
Capital Expenditures	57.2	-0.9	57.6	56.9	64.7	56.1
BLCI	54.0	-5.7	55.4	56.3	61.6	48.5

*Analysis provided by Carolyn Trent, Socioeconomic Analyst,
Center for Business and Economic Research, The University of Alabama.*



The BLCI is a
Compass on Business
initiative created in
collaboration with:



Please join us in December for our First Quarter 2006 Survey.

For more details on the Alabama Business Leaders Confidence Index, visit www.blici.com/alabama.
For more details on the Center for Business and Economic Research, visit cber.cba.ua.edu.

Selected Economic Indicators

United States	2004/Q1	2004/Q2	2004/Q3	2004/Q4	2005/Q1	2005/Q2	2005/Q3
Gross Domestic Product (billions)	10,612.5	10,704.1	10,808.9	10,897.1	10,999.3	11,089.2	11,182.5
Percent Change	4.7	4.6	3.8	3.8	3.6	3.6	3.5
10-Year Treasury Bond Rate	4.0	4.6	4.3	4.2	4.3	4.2	4.2
3-Month Treasury Bill Rate	0.9	1.1	1.5	2.0	2.5	2.9	3.4
Consumer Price Index	1.866	1.886	1.894	1.910	1.922	1.941	1.965
Inflation Rate	1.8	2.8	2.7	3.4	3.0	2.9	3.8
Housing Starts (millions)	2.1	2.1	2.1	2.1	2.2	2.2	2.2
Percent Change	9.8	8.8	4.1	-2.3	8.0	5.9	3.5
Nonfarm Payrolls (millions)	130.5	131.3	131.7	132.3	132.8	133.4	133.9
Percent Change	0.3	1.1	1.4	1.6	1.7	1.6	1.6
Unemployment Rate	5.7	5.6	5.4	5.4	5.3	5.1	5.0

Alabama	2004/Q1	2004/Q2	2004/Q3	2004/Q4	2005/Q1	2005/Q2	2005/Q3
Total Nonagricultural							
Employment (thousands)	1,873.9	1,902.8	1,905.9	1,923.9	1,913.0	1,933.6	1,923.9
Percent Change	0.5	1.3	1.9	1.9	2.1	1.6	0.9
Manufacturing Employment (thousands)	286.9	290.2	292.3	293.6	293.3	297.1	297.1
Percent Change	-3.8	-1.7	0.3	1.4	2.2	2.1	1.7
Durable Goods Manufacturing							
Employment (thousands)	164.3	167.7	168.9	170.2	170.8	173.9	174.1
Percent Change	-1.5	1.2	3.3	3.7	3.9	3.7	3.1
Nondurable Goods Manufacturing							
Employment (thousands)	122.6	123.2	123.5	123.4	122.5	123.3	123.0
Percent Change	-6.8	-5.5	-3.4	-1.7	-0.1	0.0	-0.4
Wholesale Trade							
Employment (thousands)	76.8	78.1	78.2	78.5	78.4	79.8	80.1
Percent Change	0.4	2.0	1.7	1.2	2.1	2.1	2.4
Retail Trade Employment (thousands)	229.8	231.5	230.8	237.1	233.0	234.6	234.6
Percent Change	2.8	2.0	0.8	0.7	1.4	1.4	1.7
Alabama Unemployment Rate	5.7	5.6	5.6	5.4	5.2	4.2	4.3
Initial Benefit Claims (thousands)	25.9	19.7	23.0	21.7	22.2	18.6	26.9
Manufacturing Weekly Hours	40.4	41.2	39.3	40.6	41.5	40.6	38.9
Total Tax Revenues (millions)	1,755.9	1,892.3	1,617.0	1,761.5	1,929.9	2,150.8	1,780.0
Percent Change	11.5	13.7	8.1	16.2	9.9	13.7	10.1
Total Income Tax Revenues (millions)	720.4	935.9	653.1	727.0	800.3	1,088.8	766.7
Percent Change	4.1	18.3	1.9	13.0	11.1	16.3	17.4
Total Sales Tax Revenues (millions)	413.4	436.9	427.9	436.3	445.6	467.7	457.2
Percent Change	5.1	8.1	8.5	2.7	7.8	7.1	6.8

Note: All percent changes indicate change over the same period of the previous year.

Source: U.S. Bureau of Labor Statistics, U.S. Department of Commerce, Alabama Department of Industrial Relations, Alabama Department of Revenue, and Center for Business and Economic Research, The University of Alabama.

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Alabama and CBER: 75 Years of Change

Seventy-five years is about the average life span of an Alabama resident today. It is also the length of time that the Center for Business and Economic Research has been providing the people of Alabama with socioeconomic data and analysis. While the state's people and economy have changed in many ways between 1930 and 2005, some things haven't changed all that much. Here we take a look at where we were then and where we are now.

Population Shifts. Alabama's 2,646,248 residents in 1930 were 64.3 percent white, 35.7 percent black, and 0.02 percent other races. At the time, the South as a region was a relatively young society—47 percent of Alabama's population was under the age of 20 and just 3.8 percent were 65 and over. And it was largely rural, with 28.1 percent classified as urban compared to 56.2 percent of the U.S. population. But Birmingham was already a city of 259,678 and the cities of Mobile and Montgomery were approaching 70,000. While the state's population increased 12.7 percent between 1920 and 1930, population of Alabama's 25 largest cities and towns grew 39.4 percent.

Juxtapose this with 2004. Alabama's population totals 4,530,182 in the most recent Census estimate, an increase of almost 1.9 million since 1930 for a 71.2 percent gain (about half the U.S. growth rate). Racial composition has shifted to 71.4 percent white, 26.4 percent black, and 2.2 percent other races—the result of the net loss of over 700,000 black residents to out-migration during the 70 years from 1930 to 2000. Movement of blacks out of the state was especially strong during the decades of the 1940s, 50s, and 60s. The state also saw the net loss of about 147,000 white residents due

to migration during this time. While the excess of births over deaths kept Alabama's population growing during each decade, migration losses greatly reduced the growth rate. It was not until the 1990s that the state achieved net immigration of both white and black residents. Many who left were between the ages of 18 and 35, taking away from the state a sizeable share of its younger workers. This out-migration accelerated natural aging trends so that Alabama's population today is relatively old. Twenty-seven percent of the state's 2004 population is under 20, while 13.2 percent is 65 or older (compared to 12.4 percent nationally).

The Rise and Fall of Counties. Alabama was a largely rural society in 1930. The almost 493,000 Alabamians working in agriculture amounted to 48 percent of the state's workforce, which in 1930 was defined as gainful workers aged 10 and over. There were a total of 257,395 farms in the state in 1930 and half of the population resided on rural farmland. Two-thirds of Alabama's farms were classified in the census as "farms of tenants" and 68 percent ranged in size from 20 to 99 acres, while less than 1 percent contained 500 or more acres.

There were centers of urbanization too, but just two counties, Jefferson and Mobile, had more than 100,000 residents in 1930. No county in Alabama's Black Belt region had fewer than 20,000 residents, although nine other counties in the state fell below that size. Agriculture, the location of textile mills in small towns, and the stature of county seats as centers of trade and services all favored the dispersion of the population. And in 1930, it was not so easy to travel. While there were 67,943 miles of roads in the state, just 18,369 were surfaced (mostly with sand, clay, or gravel), and only 592 miles were paved with asphalt or concrete. Vehicle registrations in the state numbered 277,146.

Changes over the next 75 years transformed Alabama from a largely agrarian society to an urbanized, service-oriented economy. In the face of these trends, some counties flourished, while others stagnated or declined. Between 1950 and 1960, the number of farms in Alabama dropped precipitously, with a modest decrease continuing until the 1990s. The Census of Agriculture counted just over 45,000 farms in 2002, 17.5 percent of the 1930 number, although acreage in farmland was about half the 1930 number at close to 9 million acres.

Alabama's Least Populous Counties in 2004

	Population		Change 1930-2004
	2004	1930	
Greene	9,746	19,745	-9,999
Bullock	11,229	20,016	-8,787
Coosa	11,368	12,460	-1,092
Perry	11,522	26,385	-14,863
Wilcox	12,958	24,880	-11,922
Lowndes	13,210	22,878	-9,668
Conecuh	13,453	25,429	-11,976
Crenshaw	13,610	23,656	-10,046
Clay	14,092	17,768	-3,676
Sumter	14,141	26,929	-12,788

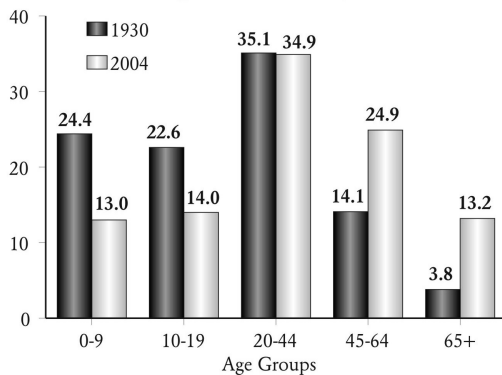
Source: U.S. Census Bureau.

Topics of 75 Years Ago

The inaugural issue of *University of Alabama Business News*, which evolved into *Alabama Business*, was dated November 15, 1930. Looking back over the first year of publication, it is uncanny how familiar some of the topics of the time seem.

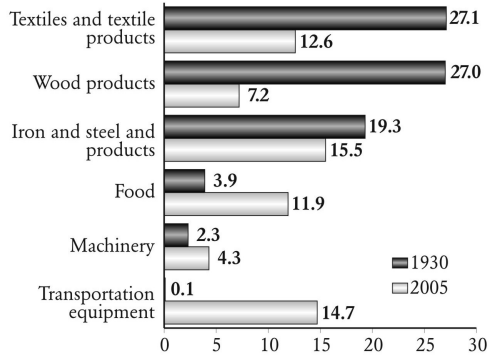
- American industries were setting up "branch factories" overseas. This movement was opposed by the American Federation of Labor as detrimental to American labor and to exports, while others saw it as evidence of the nation's industrial maturity.
- "Motor trucks" were emerging in 1930 as a competitor for rail, taking away rail's most profitable manufactured goods shipments. Since trucking was putting pressure on highway development, it was felt that the trucking industry should bear the burden of highway costs.
- Alabama's economy was more susceptible to economic downturns, with the Great Depression hitting coal and pig iron production hard.
- February 1931 saw the 8th legislative session since adoption of the Alabama constitution of 1901. Regular sessions of the legislature were held only every four years, leaving much work to be done in caucuses and in special sessions called by the governor.
- High schools were urged to emphasize vocational education, including both agricultural and industrial training.
- Alabama generated more than \$1.4 million in FY1928-29 from the newly imposed tobacco tax, with all revenues going to fund education.

Alabama's Aging Population
(percent of total)



Source: U.S. Census Bureau.

Share of Manufacturing Employment Selected Industries (percent of total)



Source: U.S. Census Bureau and Alabama Department of Industrial Relations.

The 2000 Census identified 1.2 percent of Alabama's population as rural farm dwellers, while 55.4 percent resided in urban areas.

The development of the state's highway system and the growth of automobile ownership facilitated the movement of people into, out of, and within Alabama. About 4.6 million registered motor vehicles moved the state's population over 71,624 miles of paved and 22,811 miles of unpaved roads in 2003. This includes 906 miles in the interstate highway system that began in the 1950s and became vital to commerce and economic development. As young blacks left their impoverished rural life in Alabama's Black Belt, few people and little economic activity came in to take their place. Alabama's 10 smallest counties in 2004 include seven from the Black Belt (and one adjoining), all of which saw their populations dwindle by close to half since 1930. All total, the population of 17 counties was below 20,000 in 2004. Early on, the automobile also enabled those who could afford it to move out from a central urban city like Birmingham to the surrounding areas that have become the suburbs. Alabama's fastest growing county from 1930 to 2004 was Shelby County in the Birmingham metro area, which saw a population increase of 500 percent.

Economic Transformation. Alabama's employed workforce in 1930 numbered 1,026,320, including 78 percent of all males aged 10 and over and 25 percent of females. Agriculture, forestry, and fishing was the predominant job sector, employing almost half of Alabama workers. Major crops included cotton and corn. Cotton production for the year totaled 1.4 million bales, ranking the state 4th with 10.1 percent of U.S. production. Almost 35,000 miners extracted about 19 million short tons of coal for 3.3 percent of the nation's production.

Manufacturing was a vital part of the state's economy, employing 120,064 in 2,848 establishments in 1930. Textiles and textile products and the wood products industries each provided about 27 percent of manufacturing jobs, while iron and steel and related products manufacturing accounted for 19.3 percent. Only a few workers were employed in transportation equipment manufacturing in 1930. The top five counties by number of manufacturing wage earners were Jefferson, Etowah, Mobile, Calhoun, and Madison. Average manufacturing wages amounted to 64.6 percent of the U.S. average. Service industries employed about 141,000, or 13.8 percent of all workers, with over 100,000 in domestic and personal service jobs. Trade accounted for about 73,500 jobs—7.2 percent of total employment. Per capita income of \$264 amounted to just 42.6 percent of the U.S. average, ranking Alabama 46th among the 50 states.

Fast-forwarding to the 21st century, Alabama has followed national trends in its shift to a focus on the service sector, although manufacturing still plays a key role. The state's employed civilian workforce of 1,920,189 in 2000 included 63 percent of all males aged 16 and over and 49 percent of females. The 2000 Census found about 29,000 employed in agriculture, forestry, or fishing—a 1.5 percent share of workers that is below the U.S. average of 1.9 percent. Broiler chickens dominate agriculture, with cash receipts of \$2.41 billion in 2004 ranking Alabama 3rd in the nation. Broilers and eggs account for more than half of farm cash receipts, while cattle and calves generate about 10 percent and cotton around 4 percent. Alabama produced 814,000 bales of cotton in 2004, ranking 8th among states. Mining employed 8,044 in 2000, just 23 percent of the 1930 workforce. Coal production of almost 22.4 million short tons in 2004 ranked the state 15th.

Manufacturing remains an important component of the state's economy with 296,700 employees in August 2005. The sector is much more diversified than it was in 1930 and was spread across 4,990 establishments in 2003. Iron and steel together with related products is the largest industry, employing about 46,000, or 15.5 percent of manufacturing workers. Employment in textiles and related products peaked at almost 102,000 in 1976 and has steadily dwindled to 37,500 in August 2005, as production has shifted outside the United States. Transportation equipment is Alabama's new manufacturing

strength, with the recent influx of auto manufacturing boosting industry employment to 43,500. The top five counties ranked by number of manufacturing jobs in 2005 include Jefferson, Madison, Mobile, Morgan, and Tuscaloosa. Alabama manufacturing wages amounted to 83.4 percent of the U.S. average in 2004, a marked improvement over the 1930 ratio.

Services employed 676,700 Alabama workers in 2000, 37.8 percent of the total, in jobs ranging from professional and technical services to education and health services, leisure and recreation, and other services. Another 110,743 employed in finance, insurance, and real estate would have been counted in services in 1930. Thus, the comparative service sector share of 43.6 percent of Alabama employment in 2000 contrasts with 13.8 percent in 1930. The trade sector has also grown substantially—from 8.4 percent of the state's workers in 1930 to 15.8 percent in 2000.

Alabama Per Capita Income, 1930-2004 (current dollars)

	Per Capita Income	Share of U.S.	Rank
1930	\$ 264	42.6 %	47
1940	279	47.0	48
1950	904	60.1	48
1960	1,540	67.9	47
1970	2,957	72.4	48
1980	7,836	77.5	47
1990	15,723	80.7	42
2000	23,764	79.6	44
2004	27,630	83.6	41

Source: Bureau of Economic Analysis, Regional Economic Information System.

As CBER celebrates its 75th anniversary, the economic well-being of both the average Alabamian and the state is showing marked improvement. Per capita income climbed to 83.6 percent of the U.S. average in 2004, moving Alabama's ranking among states up three places in just one year. The year 2005 finds both the labor force and employment on an upward trend and unemployment below the U.S. rate. With a more diversified economy and initiatives in progress to create opportunities for those counties that have been left behind, Alabama is poised for a promising future.

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