

Porter, White & Company

Birmingham Area Economic Report

Q3 2016, Number 10

I. Overview

This is the tenth edition of the Porter, White & Company *Birmingham Area Economic Report*, which is published quarterly. The report places the Birmingham area economy in a state, regional and national context, and focuses on the following statistical series: (A) number of people employed, (B) retail sales, (C) occupational tax collections, (D) airport enplanements and (E) commercial and industrial electricity sales.¹ Each series is sensitive to changes in economic conditions as evidenced by historical declines during and after national recessions; each has analogs at the city, county, MSA, state or national levels; and each is available reasonably soon after the end of the applicable month.

The charts below show a snapshot of local report findings. Local data is shown from September 30, 2015 to September 30, 2016. The relative performance compared to national trends is presented using data through June 30, 2016 (rather than September 30, 2016) due to a lag in the data. Changes in retail sales and occupational tax collections are calculated in constant dollars (net of inflation). If calculated on nominal dollars, percentage changes would be different.

Figure 1: Local Area Trend
(Q3 2015-to-Q3 2016 Change)²

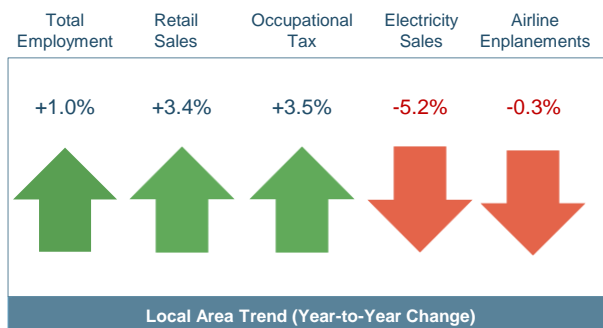
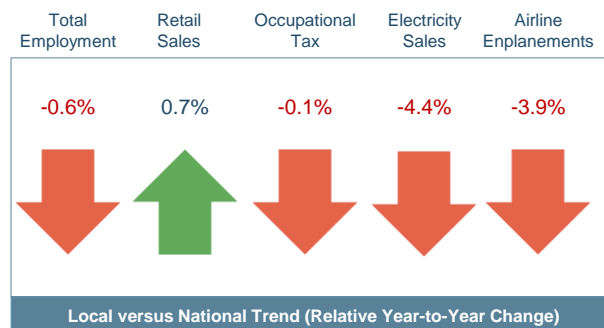


Figure 2: Local versus National Trend
(Relative Q2 2015-to-Q2 2016 Change)



The Birmingham economy continues to improve steadily, as evidenced by continued growth in three of the five categories above; however, the Birmingham area and the State of Alabama have not quite recovered from the Great Recession as measured by number of persons employed pre- and post-recession. The data underlying the charts is discussed in greater detail in Section IV of this report. To avoid getting lost in a sea of numbers, Sections I, III and IV of this report concentrate on the same set of statistics every quarter. Section II presents additional discussion and economic statistics that will be reported less frequently.

II. Lagging Job Growth

Growth in jobs is the most important economic indicator. Job growth leads to increased family income, in-migration of population, larger tax revenues without increasing tax rates, and economic well-being. Preferably new jobs are well paid, in stable industries, and generated by businesses with good and stable market position. Alabama and the Birmingham-Hoover MSA have been recruiting jobs, but they have been losing them at about the same rate as they have been gaining them. While some point to international outsourcing as a likely culprit, many of the Birmingham-Hoover's comparable MSAs have found ways to replace lost jobs and add new ones. The following charts show the change and breakdown of goods producing and service providing jobs since 1990 for Birmingham and a few of its comparable MSAs.

Figure 3: Goods Producing Jobs by MSA³

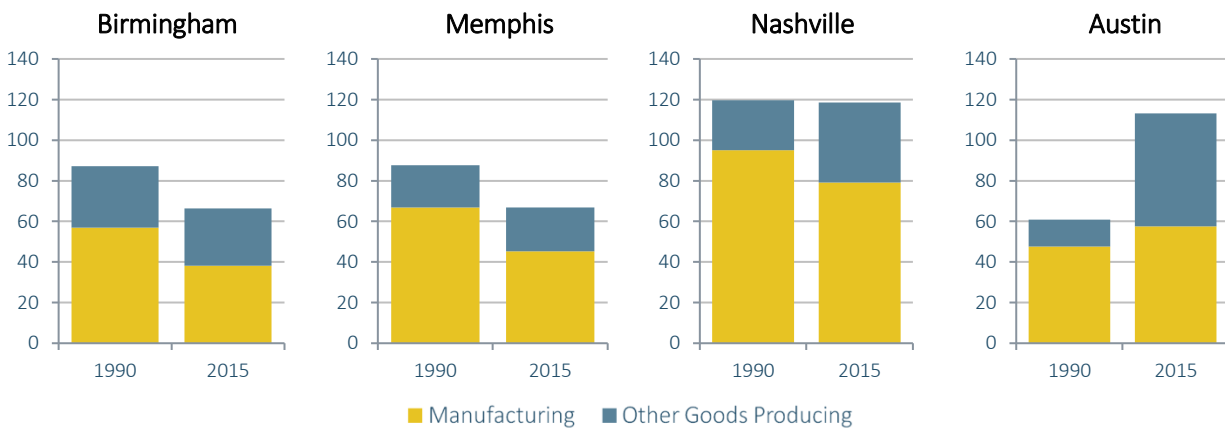
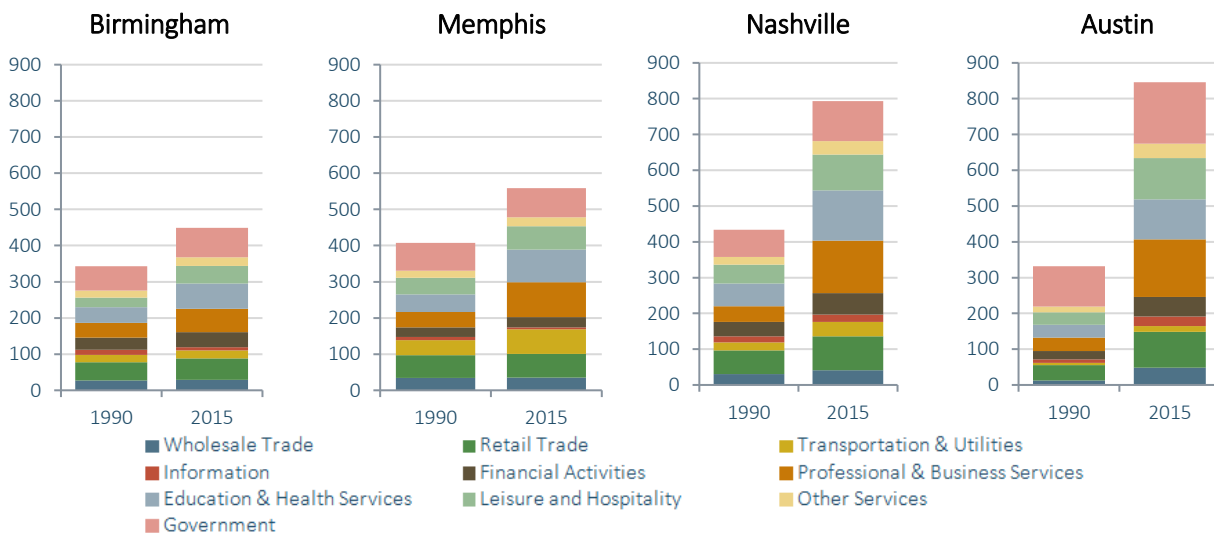


Figure 4: Service Producing Jobs by MSA⁴



Birmingham, Memphis, and Nashville all experienced similar declines in manufacturing jobs over the past 25 years; however, Nashville has replaced its manufacturing jobs with other goods producing jobs (construction, mining, logging, etc.). Austin, on the other hand, has almost doubled its goods producing jobs, growing both manufacturing and non-manufacturing goods producing jobs. Growth in service-related jobs does not paint a better picture for Birmingham.

Similarly sized to Austin in 1990, Austin has added over 500,000 service jobs, while Birmingham has added slightly above 100,000 jobs. In more recent periods, job losses remain particularly severe in manufacturing and construction. The Birmingham-Hoover MSA has lost approximately 9,000 construction jobs and 6,000 manufacturing jobs from 2006 to 2015. Major employment gains in health services (approximately 7,700 jobs) and leisure and hospitality (approximately 4,900 jobs) have replaced some of the goods producing jobs, but the replacement of value-added manufacturing jobs with low-paying service jobs is an economic loss. Job numbers in this report come from the Bureau of Labor Statistics via the FRED database maintained by the Federal Reserve Bank of St. Louis. While there is always the possibility of error in economic statistics, material error is less likely where, as here, the numbers are gathered over a long period of time and are made available for peer review by economists and the public.

While the Birmingham-Hoover MSA has lagged many comparable MSAs, job growth has not uniformly impacted the individual counties that make up the Birmingham-Hoover MSA. Shelby County and St. Clair County have experienced substantial jobs gains over the last fifteen years, while Jefferson County and Blount County remain depressed below historical levels. The following charts illustrate the job growth in each county of the Birmingham-Hoover MSA.

Figure 5: Total Employment by County – Birmingham-Hoover MSA⁵

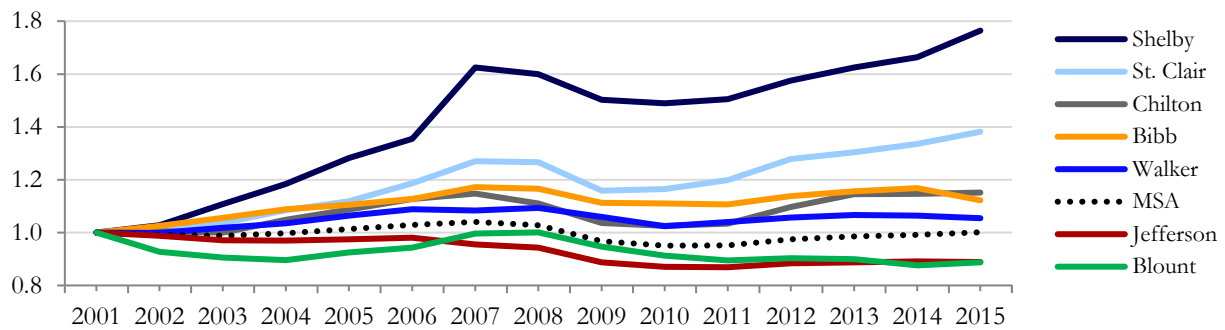


Figure 6: Service Providing Employment by County – Birmingham-Hoover MSA⁶

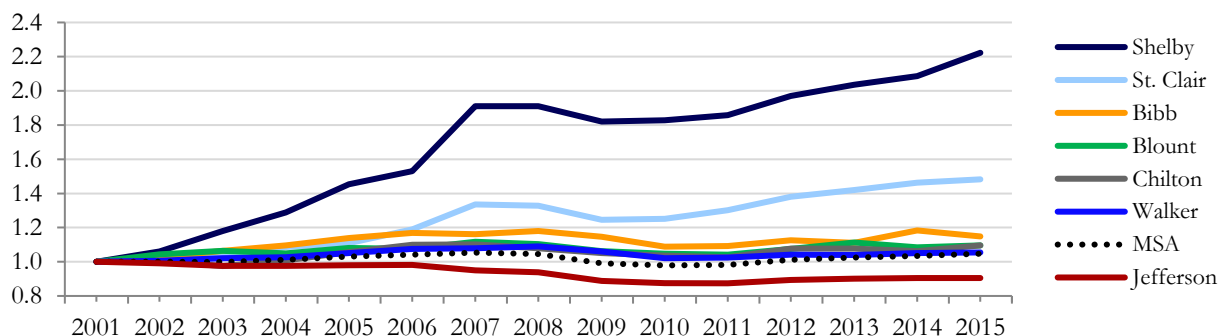
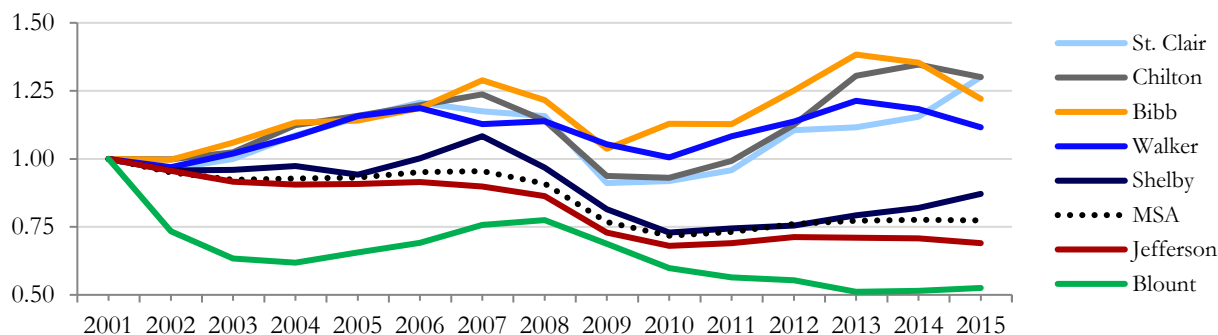


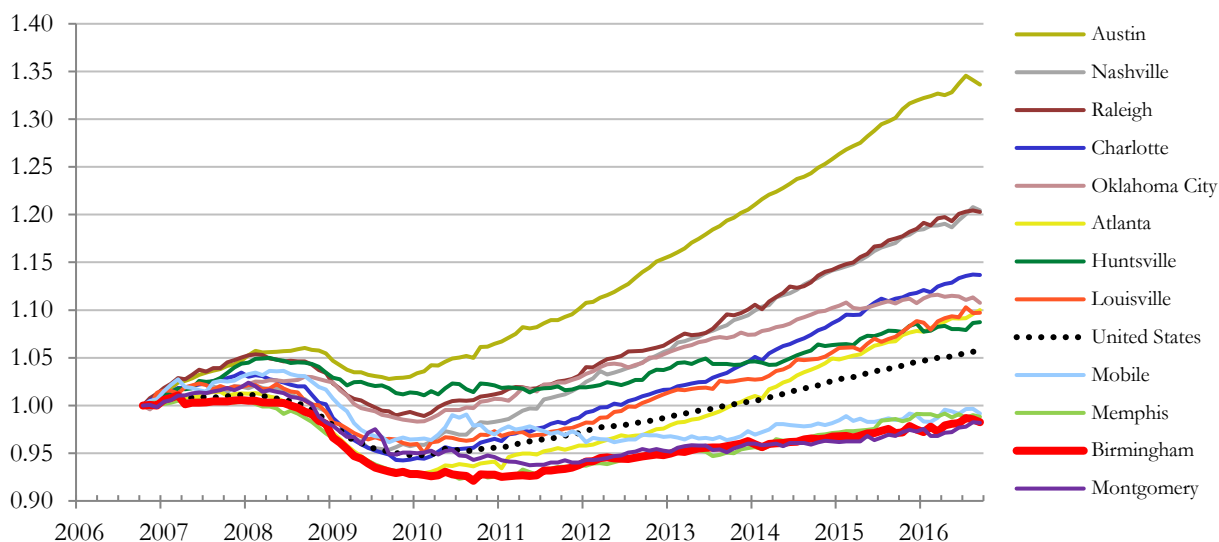
Figure 7: Goods Producing Employment by County – Birmingham-Hoover MSA⁷



III. State and Local Employment Activity Ending September 30, 2016

Employment, and the change in number of people employed, is the most important indicator of the health of an economy. People move or return home to a place that offers them meaningful jobs. The chart below is sorted based on total employment growth over the last 10 years from October 2006 to September 2016 (Austin – largest growth, Montgomery – smallest growth).

Figure 8: Total Employment – Birmingham-Hoover MSA Comparison⁸

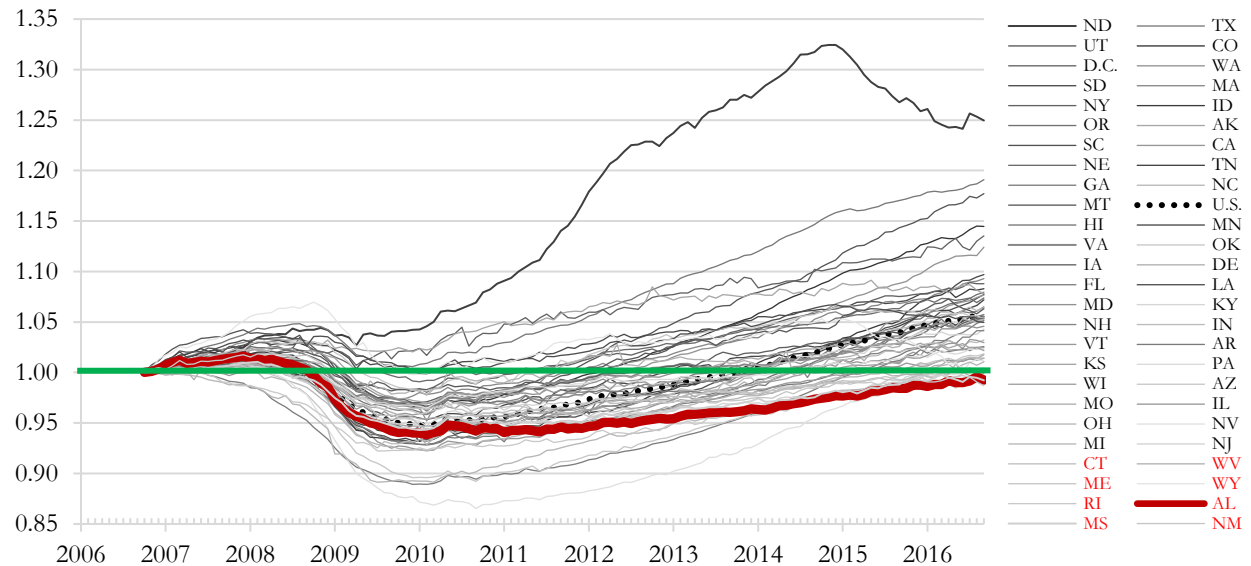


The Birmingham-Hoover MSA has lagged comparable regional MSAs. Three MSAs (Austin, Raleigh, and Nashville) never fell below 2006 employment levels during the recession. Four MSAs (three of which are located in the state of Alabama) have not yet reached October 2006 employment levels.

As shown in the figure below, the state of Alabama has lagged 47 states in total employment growth over the past 10 years from October 2006 to September 2016. The chart is sorted by total employment growth since October 2006, moving from left to right down the legend (largest –

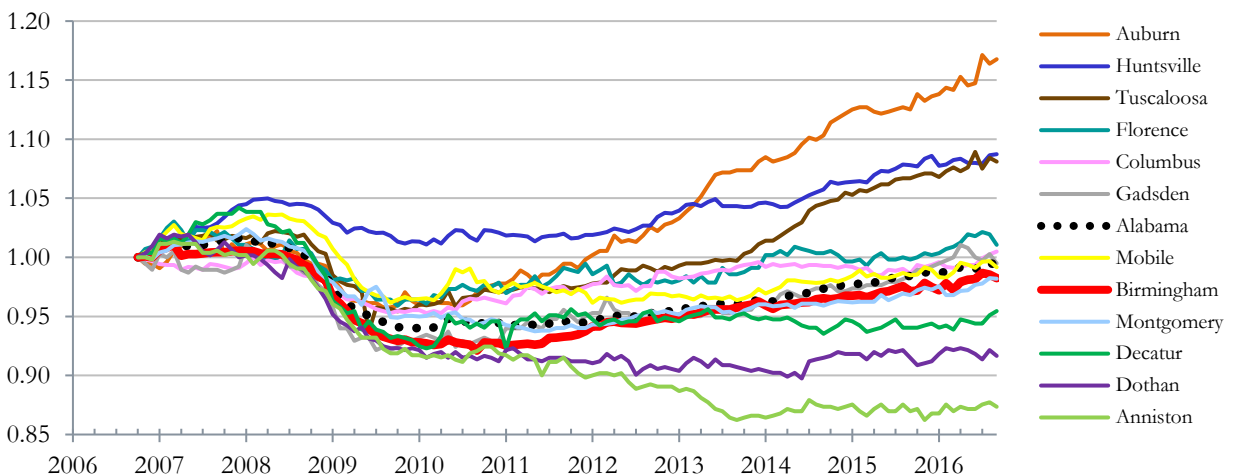
North Dakota, 2nd largest – Texas, smallest – New Mexico). The states that are listed in red remain below October 2006 employment levels. All eight of these states are separated by less than 1%.

Figure 9: Total Employment – State of Alabama Comparison⁹



Within the state of Alabama, the Auburn-Opelika MSA has seen the largest total employment growth, while Anniston-Oxford MSA has seen the largest decline. The chart below is sorted by total employment growth over the last 10 years since October 2006. Only five MSAs in Alabama (Auburn, Huntsville, Tuscaloosa, Florence, and Columbus) have reached October 2006 levels. In general, Birmingham-Hoover MSA employment growth has been about the same as Alabama’s which has lagged the U.S.

Figure 10: Total Employment – Comparison of Alabama MSAs¹⁰



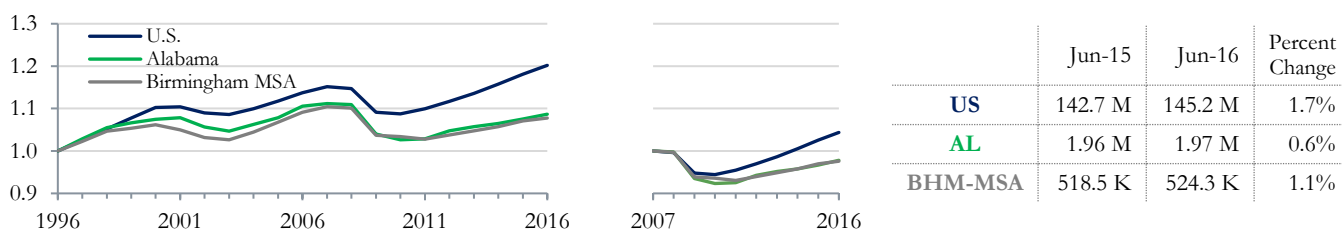
IV. Local Birmingham Area Economic Activity Ending June 30, 2016

In an effort to provide timely access to local and national economic data, we have updated our report to provide comparative national statistics to local economic indicators on a one quarter lag. This section places the Birmingham area economy in a state, regional and national context, and focuses on the following statistical series: (A) number of people employed, (B) retail sales, (C) occupational tax collections, (D) airport enplanements and (E) commercial and industrial electricity sales.

A. Employment

As of June 30, 2016, the number of people employed in the United States had recovered to the previous high level. In the Birmingham-Hoover MSA and the State of Alabama, however, the number of people employed has not reached full recovery, and the rate of growth is lagging behind the U.S. as a whole.

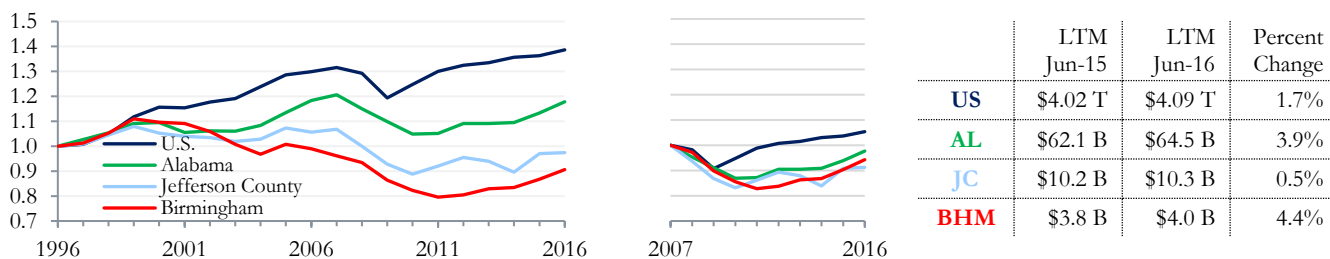
Figure 11: Total Employment – Birmingham-Hoover MSA, State of Alabama, and U.S.¹¹



B. Retail Sales

Retail sales are important in Alabama as a sign of economic activity and an important source of governmental revenue from sales taxes. For the recent 12 months period, Alabama, as well as Jefferson County and Birmingham MSA, have outpaced the rate of growth of the U.S., using personal consumption of durable and non-durable goods (omitting personal services) as the analog for U.S. sales. Retail sales in the City of Birmingham and Jefferson County remain below 1996 levels. The City of Birmingham’s retail sales have outpaced the state and national economy over the prior twelve months.

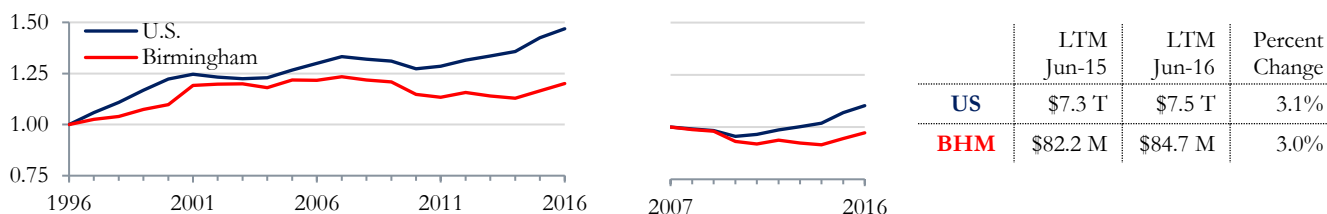
Figure 12: Retail Sales – Birmingham, Jefferson County, State of Alabama and U.S.¹²



C. Birmingham Occupational Tax

The occupational tax in the City of Birmingham has been on a gradual downward trend in real terms since about 2007, but it shows signs of increasing in the recent period, nearing the pre-recession levels. The Birmingham occupational tax lagged behind but generally followed the trend of U.S. wages from 1996 to 2007 and then declined along with U.S. wages through 2010. Over the last twelve months, Birmingham occupational tax collections increased 3.0%, which still lagged the United States. U.S. wages are used as a proxy for a U.S. occupational tax in the absence of comparable real data.

Figure 13: City of Birmingham Occupational Tax Collection¹³

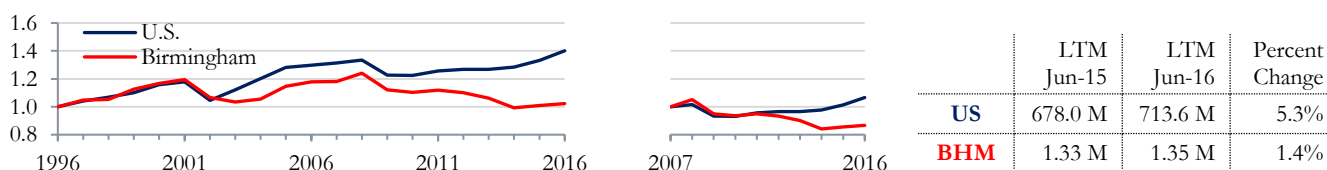


D. Airport Enplanements

Data on airport enplanements are relevant indicators of economic activity. However, a number of factors influence airport enplanements other than local economic activity. These factors include airline consolidations resulting in route changes that reduce service and competitive airline ticket prices from other surrounding airports.

For a number of years, Birmingham enplanements followed national trends, diverging after 2010 as national enplanements continued modest increases while Birmingham enplanements experienced a marked decline. Over the last twelve months, Birmingham-Shuttlesworth International Airport’s enplanements have appeared to stabilize with modest increase of 1.4%, while the total domestic enplanements in the U.S. increased 5.3%.

Figure 14: Passenger Enplanements – Birmingham-Shuttlesworth International Airport and U.S.¹⁴

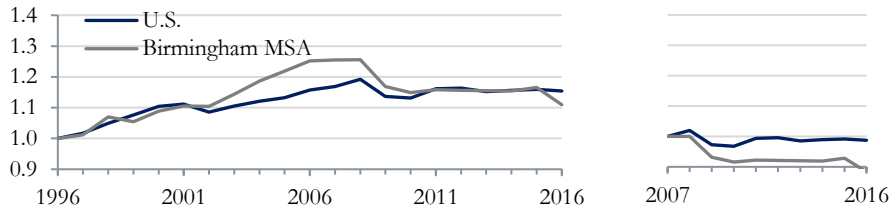


E. Commercial & Industrial Electricity Sales

Economic growth leads to, and is frequently enabled by, increased consumption of electricity. From 1996 up to the beginning of the recent recession, Alabama Power booked increases in commercial and industrial electricity sales from the company’s Birmingham division (roughly comparable to the area covered by the Birmingham-Hoover MSA) at a higher rate than the nation as a whole. Commencing with the recession, however, the company’s Birmingham division experienced a larger reduction in consumption than was recorded for the U.S. as a whole. Over the last

twelve months, the Birmingham division's electricity consumption has declined by 4.8%, while the U.S. consumption declined slightly over the same time period. Electricity data has not been adjusted for cooling days.

Figure 15: Commercial & Industrial Electricity Sales (MW-Hrs) – Birmingham Division and U.S.¹⁵

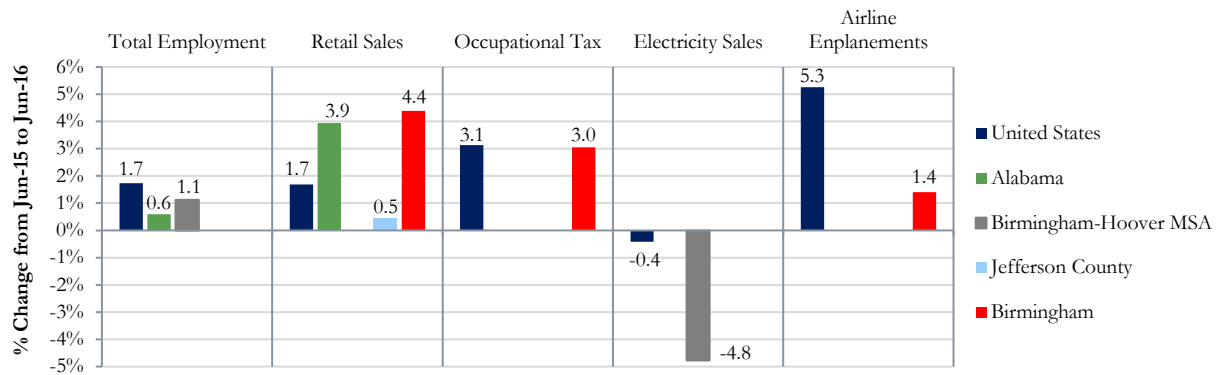


	LTM Jun-15	LTM Jun-16	Percent Change
US	2.31 B	2.30 B	-0.4%
BHM-MSA	9.3 M	8.9 M	-4.8%

V. Summary

Changes in the selected statistics over the last two years (ending June 30th) are summarized in the graph below.

Figure 16: Comparative Economic Summary by Area



We publish these statistics with the expectation that they will draw comment and constructive criticism, which are both welcome.

Michael C. Stone, CFA, AM
Mary Meadows Livingston, CFP®

¹ In Section IV of this report, statistics are collected for the City of Birmingham, Jefferson County, the Birmingham-Hoover MSA (includes Jefferson, Shelby, Bibb, Blount, Chilton, St. Clair and Walker counties), the State of Alabama and the United States. Each set of statistics is presented in three time series, the first two series being expressed in 20 year and ten year graphs, with numbers indexed to the beginning year of each graph and dollars converted to June 30, 2016 constant dollars. A ten year period is selected so as to include years before as well as after the most recent recession. The third series consists of the last two twelve month periods ending on June 30 of 2015 and 2016 with dollars converted to June 30, 2016 constant dollars. Thus, we present a 20 year perspective, a ten year perspective and a two year perspective.

² Local area is defined as the following for each category: Total Employment (Birmingham-Hoover MSA), Retail Sales (average of City of Birmingham and Jefferson County), Occupational Tax (City of Birmingham), Electricity Sales (Birmingham-Hoover MSA), and Airline Enplanements (Birmingham Airport).

³ *Figure 3.* Federal Reserve Economic Data (FRED); U.S. Department of Labor, Bureau of Labor Statistics, “Current Employment Statistics – CES,” www.bls.gov/data (accessed November 1, 2016).

⁴ *Figure 4.* Federal Reserve Economic Data (FRED); U.S. Department of Labor, Bureau of Labor Statistics, “Current Employment Statistics – CES,” www.bls.gov/data (accessed November 1, 2016).

⁵ *Figure 5.* Federal Reserve Economic Data (FRED); U.S. Department of Labor, Bureau of Labor Statistics, “Current Employment Statistics – CES,” www.bls.gov/data (accessed November 1, 2016).

⁶ *Figure 6.* Federal Reserve Economic Data (FRED); U.S. Department of Labor, Bureau of Labor Statistics, “Current Employment Statistics – CES,” www.bls.gov/data (accessed November 1, 2016).

⁷ *Figure 7.* Federal Reserve Economic Data (FRED); U.S. Department of Labor, Bureau of Labor Statistics, “Current Employment Statistics – CES,” www.bls.gov/data (accessed November 1, 2016).

⁸ *Figure 8.* Federal Reserve Economic Data (FRED); U.S. Department of Labor, Bureau of Labor Statistics, “Current Employment Statistics – CES,” www.bls.gov/data (accessed January 24, 2017).

⁹ *Figure 9.* Federal Reserve Economic Data (FRED); U.S. Department of Labor, Bureau of Labor Statistics, “Current Employment Statistics – CES,” www.bls.gov/data (accessed January 24, 2017).

¹⁰ *Figure 10.* Federal Reserve Economic Data (FRED); U.S. Department of Labor, Bureau of Labor Statistics, “Current Employment Statistics – CES,” www.bls.gov/data (accessed January 24, 2017).

¹¹ *Figure 11.* Federal Reserve Economic Data (FRED); U.S. Department of Labor, Bureau of Labor Statistics, “Current Employment Statistics – CES,” www.bls.gov/data (accessed January 24, 2017).

¹² *Figure 12.* U.S. personal consumption (goods) is used as a proxy for U.S. sales. U.S. Department of Commerce, Bureau of Economic Analysis. “Table 2.3.5. Personal Consumption Expenditures by Major Type of Product.” <http://www.bea.gov/iTable/iTable.cfm?ReqID=9&step=1#reqid=9&step=1&isuri=1> (accessed January 24, 2017); Alabama Department of Revenue “Monthly Revenue Abstracts,” <http://revenue.alabama.gov/datapress-abstract.cfm> (accessed January 24, 2017); Jefferson County Department of Revenue (personal communication, January 10, 2017); City of Birmingham Finance Department, “City of Birmingham Financial Report,” *Monthly Blue Books*, 1996-2016.

¹³ *Figure 13.* U.S. Wages is used as a proxy for national occupational tax collection. U.S. Wages are estimated for the third quarter of 2015. Bureau of Labor Statistics, U.S. Department of Labor, “Quarterly Census of Employment and Wages,” www.bls.gov/cew (accessed January 24, 2017). City of Birmingham Finance Department. “City of Birmingham Financial Report.” *Monthly Blue Books*. 1996-2016.

¹⁴ *Figure 14.* Birmingham Airport Authority, “BHM Monthly Statistical Reports,” <http://www.flybirmingham.com/aboutbhm-reports.shtml> (accessed January 24, 2017); U.S. Department of Transportation, Bureau of Transportation Statistics, “U.S. Air Carrier Traffic Statistics,” BTS.gov. <http://www.rita.dot.gov/bts/acts> (accessed January 24, 2017).

¹⁵ *Figure 15.* U.S. Energy Information Administration (EIA), “Independent Statistics and Analysis,” <http://www.eia.gov/electricity/data.cfm#sales> (accessed January 24, 2017); Alabama Power Company (personal communication, January 10, 2017). Data has not been adjusted for cooling days.