

Porter, White & Company

Birmingham Area Economic Report

Q1 2015, Number 4

I. Overview

This is the fourth edition of the newly reinstated 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 report findings from March 31, 2014 to March 31, 2015. 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
(Year-to-Year Change)²

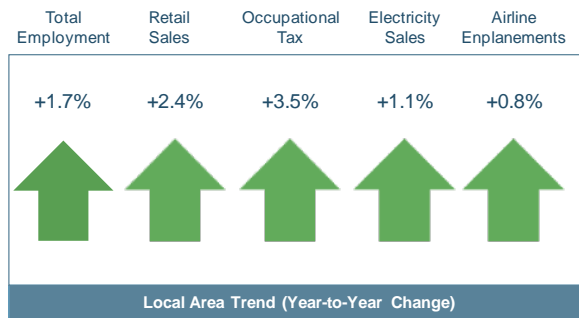
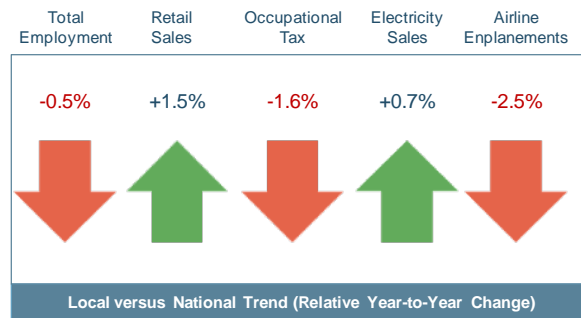


Figure 2: Local versus National Trend
(Relative Year-to-Year Change)



In summary, all categories of the Birmingham area economy grew over the last twelve months ending March 31, 2015, with two categories outpacing the rate of growth of the U. S. economy. This is the best economic report of the reports we have published thusfar. The data underlying the charts is discussed in greater detail in Section III of this report.

To avoid getting lost in a sea of numbers, Sections I and III of this report concentrate on the same set of statistics every quarter. Section II highlights a broader set of employment statistics that will be reported less frequently.

II. Industry Growth

As we've noted in prior reports, jobs drive economic growth. While some jobs are more insulated from national trends (restaurants, entertainment, etc.), local industries are subject to global economic influences (commodity prices, interest rates, government regulations). Industry analyses provide an indicator of future growth in Birmingham jobs. The table below shows the expected U.S. industry growth of some of the Birmingham-Hoover MSA's largest and most important employers. For example, the automotive manufacturing industry experienced a 5.4 percent annualized real growth rate over the last five years and is expected to continue to grow 2.5 percent annually, above inflation. While positive U.S. industry growth indicates that the total industry revenue is expected to grow annually, new market entrants (fueled by a growing industry) may capture the additional growth and leave current companies stagnant or in decline.

Table 1: Estimated U.S. Growth Rates for Large Employers in Birmingham-Hoover MSA³

	Last 5 Years	Next 5 Years		Last 5 Years	Next 5 Years
Banking, Insurance, and Legal			Automotive & Metals Manufacturing		
Commercial Banking	-2.3%	6.0%	Automobile Manufacturing	5.4%	2.5%
Health Insurance	2.9%	3.1%	Steel and Iron Manufacturing	0.5%	0.8%
Life Insurance	1.2%	2.6%	Nonferrous Metal Recycling	12.1%	5.6%
Law Firms	0.8%	1.4%	Scrap Metal Recycling	-3.0%	4.4%
			Metal Pipe and Tubing	8.1%	4.5%
Health Care Services			Other		
Hospitals	3.7%	3.9%	Coal Mining	-4.1%	5.8%
Primary Care Doctors	4.4%	4.1%	Coal & Natural Gas Power in US	0.7%	3.9%
			Commercial Building Construction	6.3%	4.0%
Technology			Meat, Beef & Poultry Processing	5.1%	0.6%
Software Development	4.0%	3.0%			
IT Consulting	2.8%	3.2%			
Biotechnology	5.0%	8.7%			
Wireless Telecommunications Carriers	2.2%	2.2%			

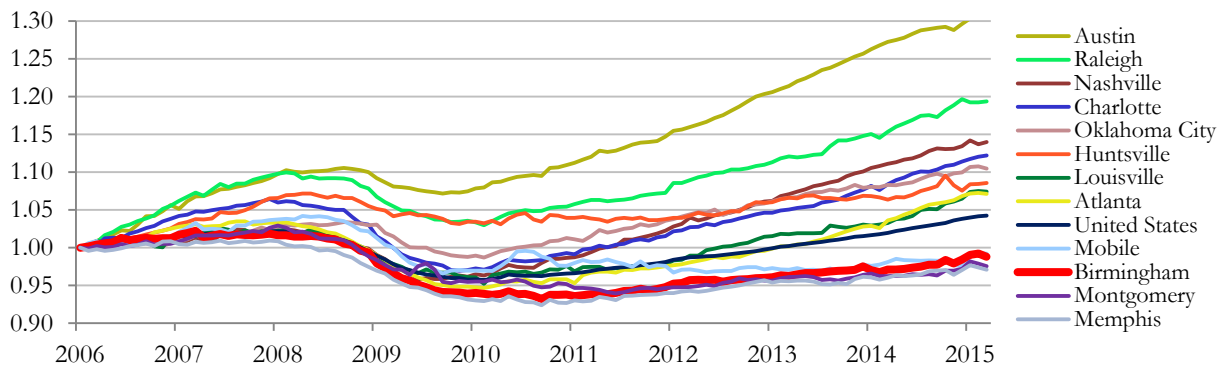
The industry data behind the growth rates in Table 1 is from IBISWorld Industry Reports. Founded in 1971, IBISWorld is the largest provider of U.S. industry reports, covering more than 700 U.S. industries.

III. Birmingham Area Economic Activity for Twelve Months Ending March 31, 2015

A. Employment

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 from January 2006 to March 2015 (Austin – largest growth, Memphis – smallest growth).

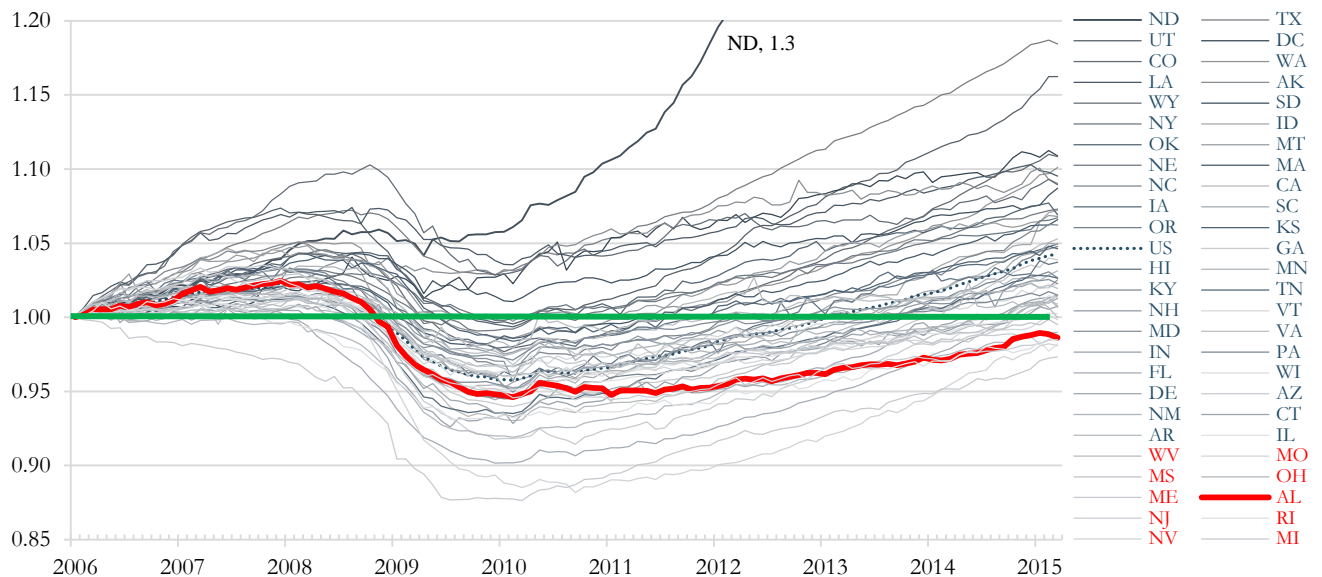
Figure 3: Total Employment – Birmingham-Hoover MSA Comparison⁴



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 January 2006 employment levels.

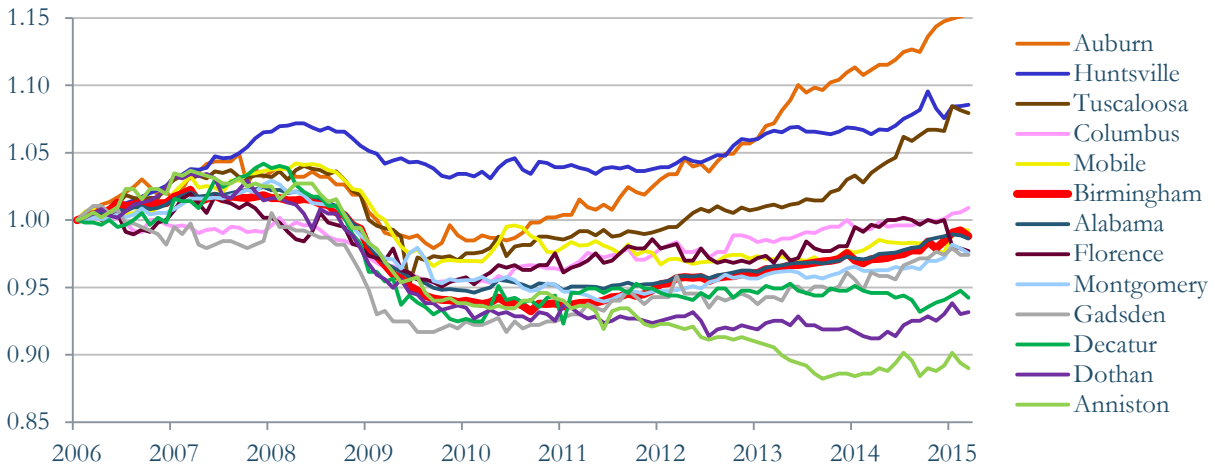
As shown in the figure below, the state of Alabama has lagged 45 states in total employment from January 2006 to March 2015. The chart is sorted by total employment growth since January 2006, moving from left to right down the legend (largest – North Dakota, 2nd largest – Texas, smallest – Michigan). The states that are listed in red have not reached January 2006 employment levels.

Figure 4: Total Employment – State of Alabama Comparison⁵



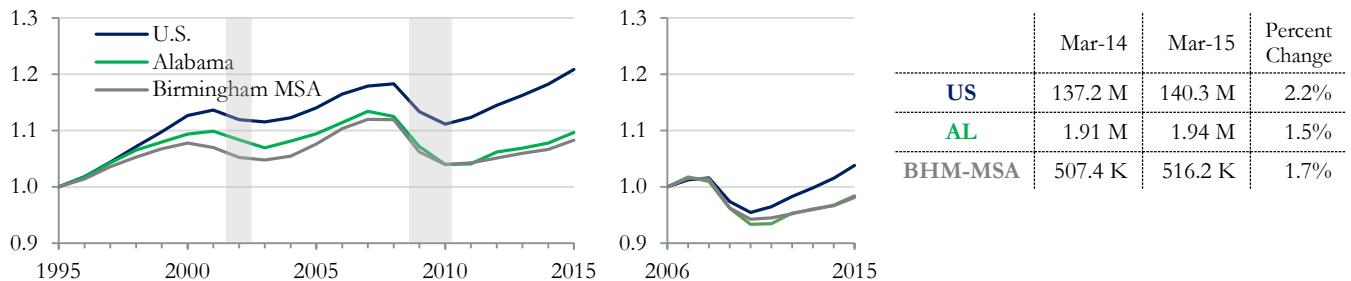
Within the state of Alabama, the Auburn-Opelika MSA has seen the largest total employment growth, while Anniston-Oxford MSA has seen the largest decline. The chart below is sorted by total employment growth since January 2006. Only four MSAs in Alabama (Auburn, Huntsville and Tuscaloosa, Columbus) have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

Figure 5: Total Employment – Comparison of Alabama MSAs⁶



As of March 31, 2015, the number of people employed in the United States had recovered to the previous high level (although the percentage of population in the labor force was still at a post-Depression low). 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 (with employment actually decreasing slightly in the first quarter). The State of Alabama would need to add approximately 40,000 more jobs to reach pre-recession levels (Birmingham-Hoover MSA would need to add approximately 10,000 jobs).

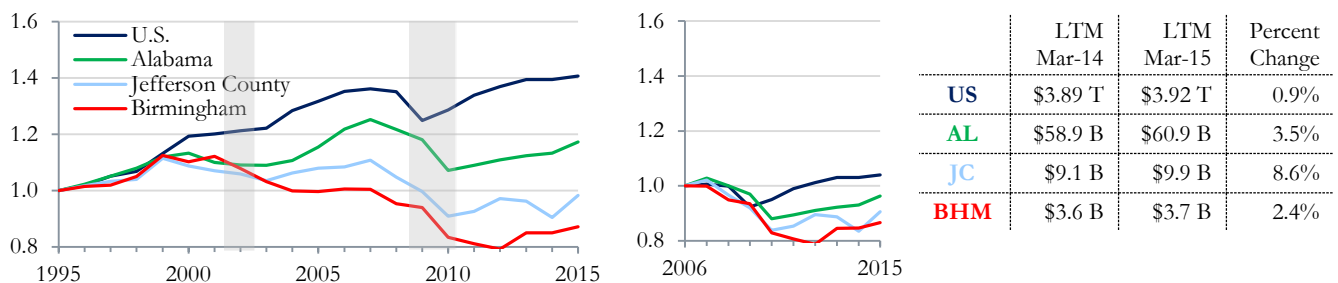
Figure 6: Total Employment – Birmingham-Hoover MSA, State of Alabama, and U.S.⁷



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 remain below 1994 levels, while Jefferson County retail sales are just below 1994 levels. According to the data, Jefferson County shows a very high growth rate over the past twelve months, but it should be noted that some of the growth can be attributed to uneven collections that may not be representative of the actual time period. Unofficial estimates are closer to the growth rate of the state.

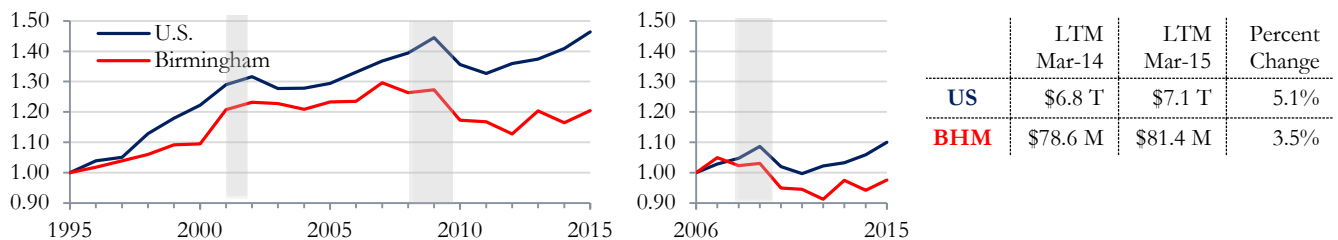
Figure 7: Retail Sales – Birmingham, Jefferson County, State of Alabama and U.S.⁸



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 1994 to 2007 and then declined along with U.S. wages through 2010. Over the last twelve months, Birmingham occupational tax collections increased 3.5%, 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 8: City of Birmingham Occupational Tax Collection⁹

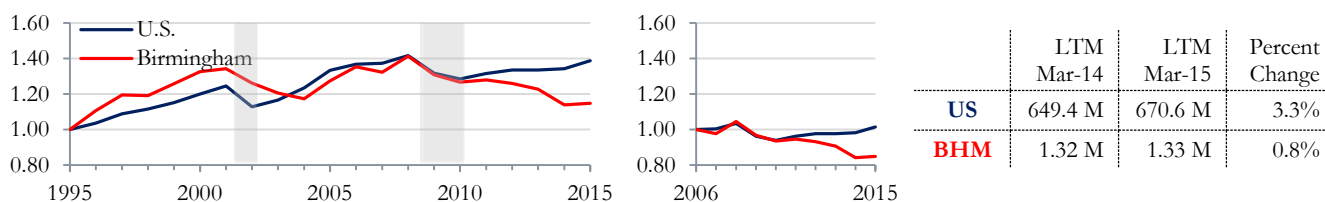


D. Airport Enplanements

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 0.8%, while the total domestic enplanements in the U.S. increased 3.3%.

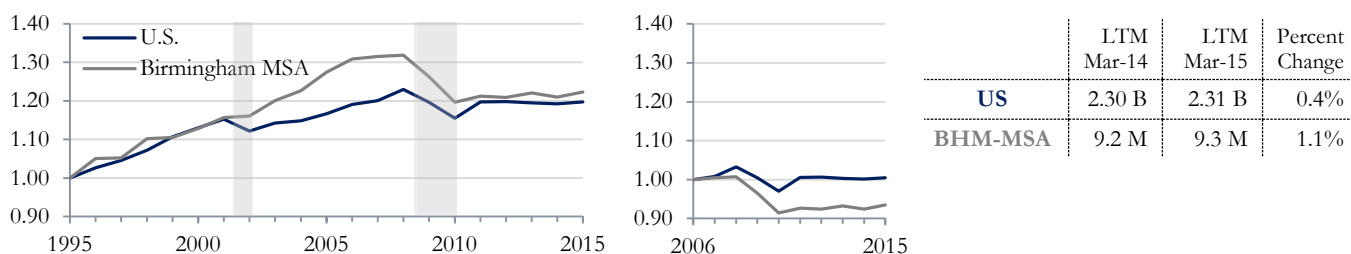
Figure 9: Passenger Enplanements – Birmingham-Shuttlesworth International Airport and U.S.¹⁰



E. Commercial & Industrial Electricity Sales

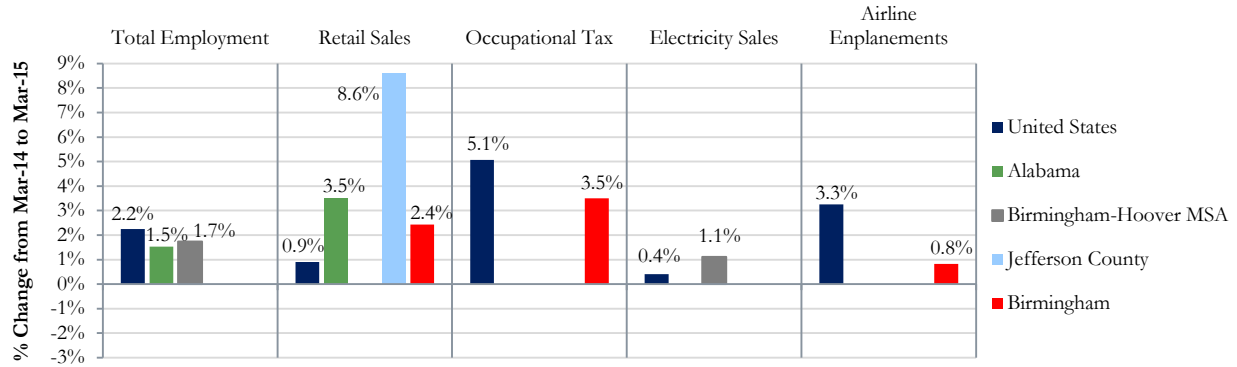
Economic growth leads to, and is frequently enabled by, increased consumption of electricity. From 1994 up to the beginning of the recent recession, Alabama Power booked increases in commercial and industrial electricity sales from the company’s Birmingham division (roughly comparable to the area covered 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 outpaced the U.S. Electricity data has not been adjusted for cooling days.

Figure 10: Commercial & Industrial Electricity Sales (MW-Hrs) – Birmingham Division and U.S.¹¹



IV. Summary

Changes in the selected statistics over the last two years (ending March 31st) are summarized in the graph below.



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

Mary Meadows Livingston, CFP®
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James H. White, III

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¹ In Section III 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 nine year graphs, with numbers indexed to the beginning year of each graph and dollars converted to March 31, 2015 constant dollars. A nine 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 March 31 of 2014 and 2015 with dollars converted to March 31, 2015 constant dollars. Thus, we present a 20 year perspective, a nine year perspective and a two year perspective. Periods of recession are indicated by shadings.

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

³ Table 1. IBISWorld, Industry Reports, www.IBISworld.com (accessed July 22, 2015).

⁴ 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 July 10, 2015).

⁵ 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 July 10, 2015).

⁶ 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 July 10, 2015).

⁷ 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 July 10, 2015).

⁸ Figure 7. 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 May 27, 2015); Alabama Department of

ment of Revenue “Monthly Revenue Abstracts,” <http://revenue.alabama.gov/datapress-abstract.cfm> (accessed May 27, 2015); Jefferson County Department of Revenue (personal communication, May 21, 2015); City of Birmingham Finance Department, “City of Birmingham Financial Report,” *Monthly Blue Books*, 1994-2015.

⁹Figure 8. U.S. Wages is used as a proxy for national occupational tax collection. U.S. Wages are estimated for the first quarter of 2015. Bureau of Labor Statistics, U.S. Department of Labor, “Quarterly Census of Employment and Wages,” www.bls.gov/cew (accessed May 27, 2015). City of Birmingham Finance Department. “City of Birmingham Financial Report.” *Monthly Blue Book*. 1994-2015.

¹⁰Figure 9. Birmingham Airport Authority, “BHM Monthly Statistical Reports,” <http://www.flybirmingham.com/aboutbhm-reports.shtml> (accessed May 27, 2015); U.S. Department of Transportation, Bureau of Transportation Statistics, “U.S. Air Carrier Traffic Statistics,” [BTS.gov](http://www.rita.dot.gov/bts/acts). <http://www.rita.dot.gov/bts/acts> (accessed May 27, 2015).

¹¹Figure 10. U.S. Energy Information Administration (EIA), “Independent Statistics and Analysis,” <http://www.eia.gov/electricity/data.cfm#sales> (accessed June 29, 2015); Alabama Power Company (personal communication, May 20, 2015). Data has not been adjusted for cooling days.