

Porter, White & Company

Birmingham Area Economic Report

Q4 2014, Number 3

I. Overview

This is the third 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 December 31, 2013 to December 31, 2014. 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)

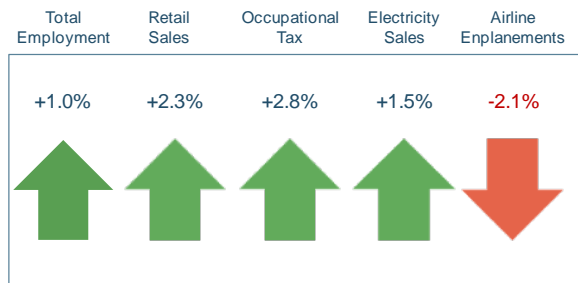
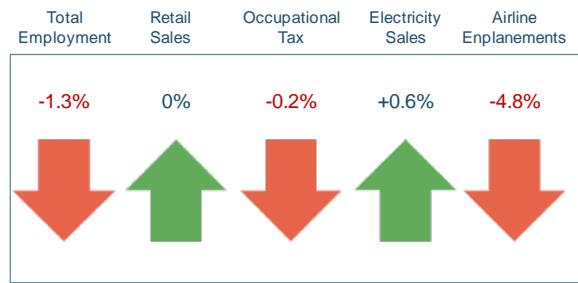


Figure 2: Local versus National Trend
(Relative Year-to-Year Change)



In summary, the Birmingham area economy grew modestly in 2014 but at a rate somewhat below the rate of growth of the U. S. economy. 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. It's All About Jobs

Jobs are the most important indicator of economic conditions. Jobs produce income, attract in-migration and stimulate population growth. Increasing the number and quality of jobs available in a geographical area is absolutely essential to economic growth.

The most important numbers relating to jobs are (i) population of area, (ii) working age population of area, (iii) number of people with jobs, and (iv) size of labor force (number of people with jobs plus those looking for jobs). Analyzing any subset of these numbers can lead to erroneous conclusions.

The following table sets forth the relevant numbers for the Birmingham area.

Table 1: Employment Statistics²

	2011	2012	2013	2014
Birmingham-Hoover MSA				
(i) Population - All	1,131,325	1,134,915	1,140,300	1,142,042
(ii) Population - Working Age (16+)	864,176	857,489	859,388	867,466
(iii) Employed	493,251	499,412	497,718	495,118
(iv) Labor Force	534,591	532,663	527,638	525,123
Unemployment Rate (%)	7.7	6.2	5.7	5.7
Labor Force Participation (%)	61.9	62.1	61.4	60.5
United States				
(i) Population - All	311,582,564	313,873,685	316,128,839	317,199,353
(ii) Population - Working Age (16+)	239,617,000	243,285,000	245,679,000	247,947,000
(iii) Employed	139,869,000	142,469,000	143,929,000	146,305,000
(iv) Labor Force	153,616,000	154,975,000	155,389,000	155,922,000
Unemployment Rate (%)	8.9	8.1	7.4	6.2
Labor Force Participation (%)	64.1	63.7	63.2	62.9

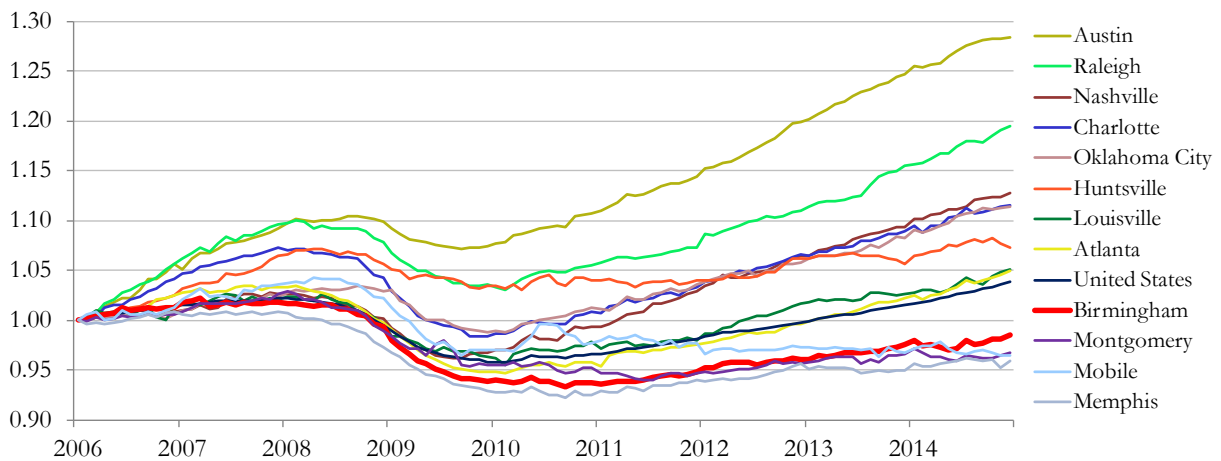
The unemployment rate is calculated by dividing the number of people in the labor force who are not employed by the total labor force (Unemployed/Labor Force). The labor force participation rate is also important, however. It is possible to have a low unemployment rate and a weak economy as a result of a large number of people of working age deciding not to seek work because they are unskilled, frustrated by inability to get jobs, physically unable to work, or for other reasons. The Birmingham area labor force participation rate has been consistently below the national average.

III. Birmingham Area Economic Activity for Twelve Months Ending December 31, 2014

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. In our first quarterly report, we compared the Birmingham-Hoover MSA to the State of Alabama and the United States. In this report, we add to this analysis and compare the employment growth of the Birmingham-Hoover MSA with comparable regional MSAs. The chart below is sorted based on total employment growth from January 2006 to December 2014 (Austin – largest growth, Memphis – smallest growth).

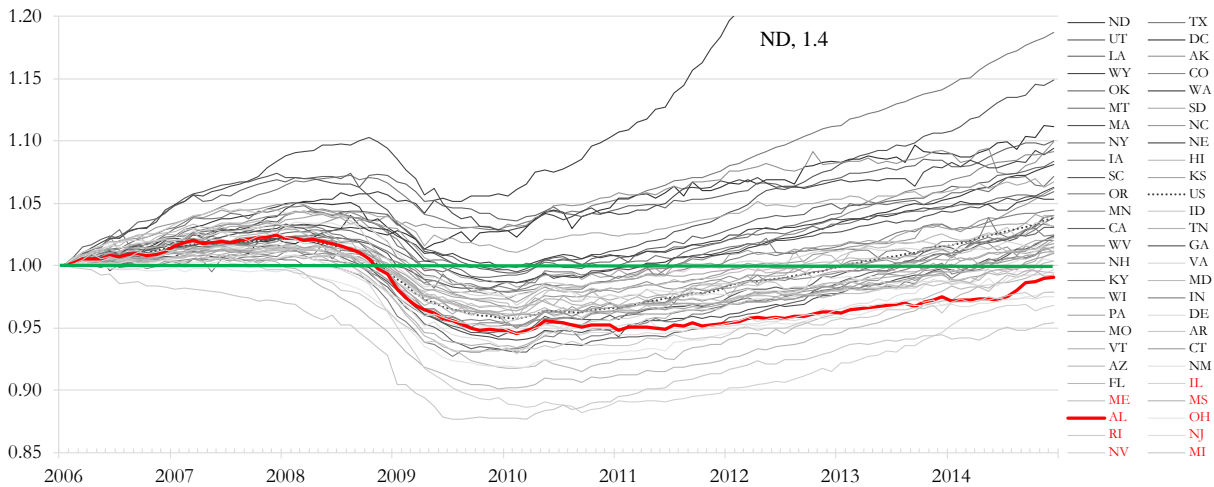
Figure 3: Total Employment – Birmingham-Hoover MSA Comparison³



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.

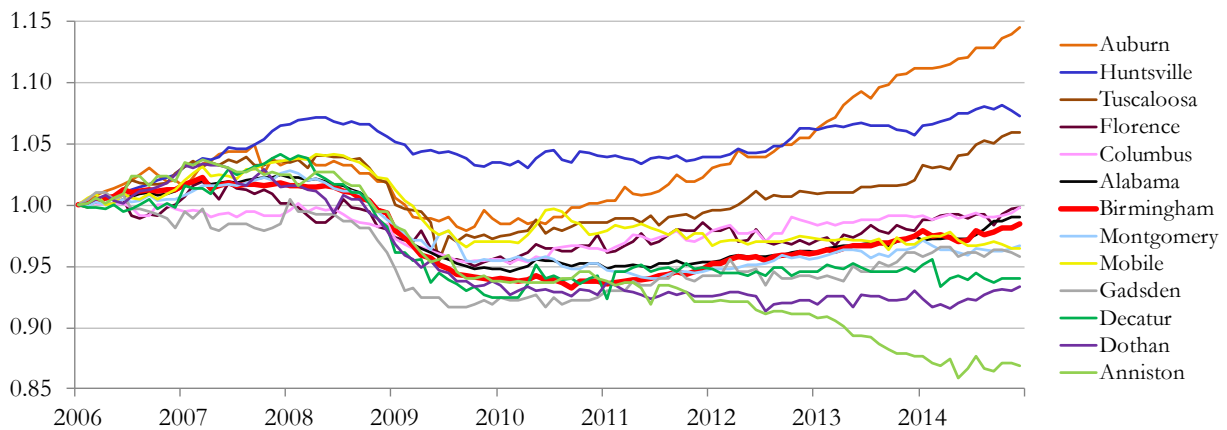
As shown in the figure below, the state of Alabama has lagged 44 states in total employment from January 2006 to December 2014. The chart is sorted by total employment growth since January 2006, moving from left to right down the legend (largest – North Dakota, 2nd largest – Texas, smallest – Michigan). The states that are listed in red have not reached January 2006 employment levels.

Figure 4: Total Employment – State of Alabama Comparison⁴



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 three MSAs (Auburn, Huntsville and Tuscaloosa) 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.

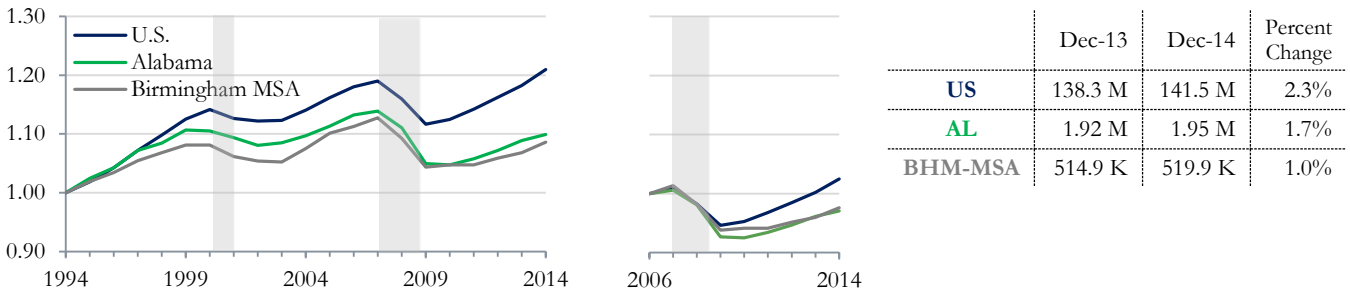
Figure 5: Total Employment – Comparison of Alabama MSAs⁵



The last two recessions have hit the Birmingham-Hoover MSA and Alabama very hard. At the national level, the labor force has shrunk with many people giving up hope of gaining employment, and the recovery in number of people employed has been slower than in any period since the Depression. As of December 31, 2014, 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. At the current annual growth rate of 1.0%, it would take

three years for the Birmingham-Hoover MSA to reach 2006 levels and two years (using current growth rate of 1.7%) for the State of Alabama to reach 2006 employment levels.

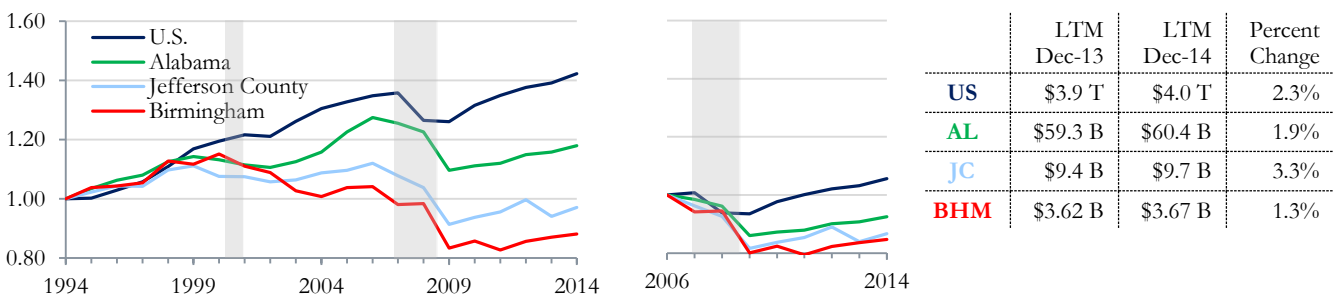
Figure 6: Total Employment – Birmingham-Hoover MSA, State of Alabama, and U.S.⁶



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. Birmingham and Jefferson County have lagged behind Alabama in retail sales growth. Alabama, in turn, has lagged behind 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 have been declining in real terms since 1999 and are currently below 1994 levels. Retail sales in Jefferson County were stagnant from 1999 to 2007 and have since declined back to 1994 levels.

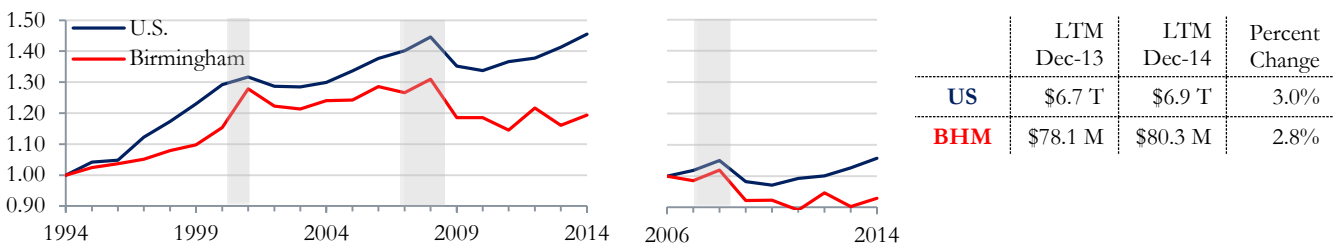
Figure 7: Retail Sales – Birmingham, Jefferson County, State of Alabama and U.S.⁷



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. 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. As U.S. wages increased following 2010, Birmingham occupational tax collections continued on a downward trend. Over the last twelve months, Birmingham occupational tax collections increased 2.8%, 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 Collection⁸

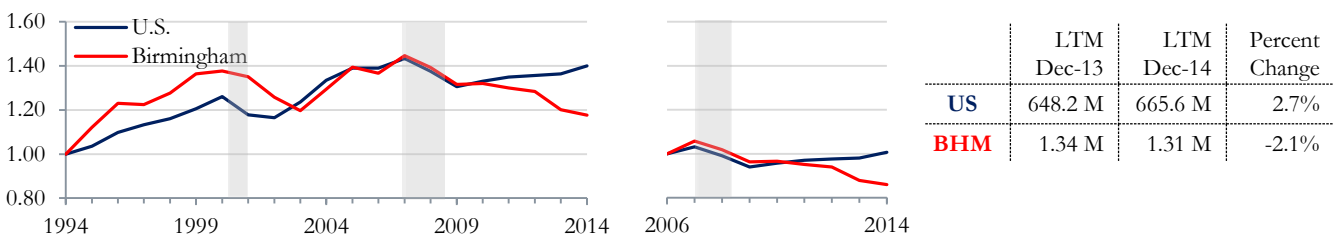


D. Airport Enplanements

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 decreased 2.1%, while the total domestic enplanements in the U.S. increased 2.7%.

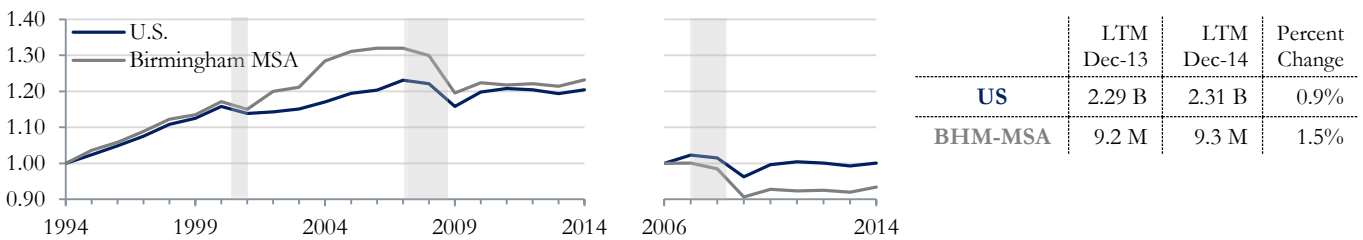
Figure 9: Passenger Enplanements – Birmingham-Shuttlesworth International Airport and U.S.⁹



E. Commercial & Industrial Electricity Sales

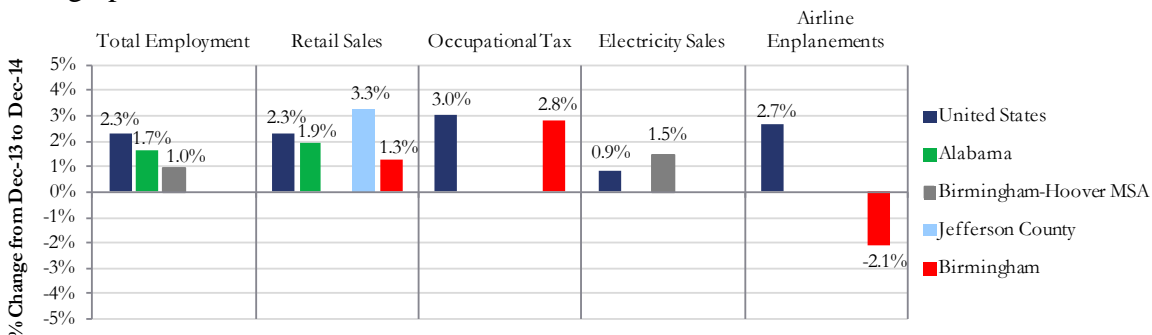
Economic growth leads to, and is frequently enabled by, increased consumption of electricity. From 1994 up to the beginning of the recent recession, Alabama Power booked increases in commercial and industrial electricity sales from the company’s Birmingham division (roughly comparable to the area covered 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.

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



IV. Summary

Changes in the selected statistics over the last two years (ending December 31) 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®
Michael C. Stone, CFA, AM
James H. White, III

¹ In Section II of this report, employment statistics are provided from 2011 to 2014 for the Birmingham-Hoover Metropolitan Statistical Area (MSA) and the United States. Detailed historical data on the MSA population (population ages 16+ not in the workforce) was unavailable prior to 2011. 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 eight year graphs, with numbers indexed to the beginning year of each graph and dollars converted to December 31, 2014 constant dollars. An eight 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 December 31 of 2013 and 2014 with dollars converted to December 31, 2014 constant dollars. Thus, we present a 20 year perspective, an eight year perspective and a two year perspective. Periods of recession are indicated by shadings.

² *Table I.* Bureau of Labor Statistics; Bureau of Economic Analysis; SNL Financial (accessed March 22, 2015).

³ *Figure A.* Federal Reserve Economic Data (FRED); U.S. Department of Labor, Bureau of Labor Statistics, "Current Employment Statistics – CES," www.bls.gov/data (accessed March 12, 2015).

⁴ *Figure B.* Federal Reserve Economic Data (FRED); U.S. Department of Labor, Bureau of Labor Statistics, "Current Employment Statistics – CES," www.bls.gov/data (accessed March 12, 2015).

⁵ *Figure C.* Federal Reserve Economic Data (FRED); U.S. Department of Labor, Bureau of Labor Statistics, "Current Employment Statistics – CES," www.bls.gov/data (accessed March 12, 2015).

⁶ *Figure D.* Federal Reserve Economic Data (FRED); U.S. Department of Labor, Bureau of Labor Statistics, "Current Employment Statistics – CES," www.bls.gov/data (accessed March 12, 2015).

⁷ *Figure E.* 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 March 12, 2015); Alabama Department of Revenue "Monthly Revenue Abstracts," <http://revenue.alabama.gov/datapress-abstract.cfm> (accessed March 12, 2015); Jefferson County Department of Revenue (personal communication, February 9, 2015); City of Birmingham Finance Department, "City of Birmingham Financial Report," *Monthly Blue Books*, 1994-2014.

⁸ *Figure F.* U.S. Wages is used as a proxy for national occupational tax collection. U.S. Wages are estimated for the second quarter of 2014. Bureau of Labor Statistics, U.S. Department of Labor, "Quarterly Census of Employment and Wages," www.bls.gov/cew (accessed March 12, 2015). City of Birmingham Finance Department. "City of Birmingham Financial Report." *Monthly Blue Book*. 1994-2014.

⁹ *Figure G.* Birmingham Airport Authority, "BHM Monthly Statistical Reports," <http://www.flybirmingham.com/aboutbhm-reports.shtml> (accessed March 12, 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 March 12, 2015).

¹⁰ *Figure H.* U.S. Energy Information Administration (EIA), "Independent Statistics and Analysis," <http://www.eia.gov/electricity/data.cfm#sales> (accessed March 12, 2015); Alabama Power Company (personal communication, February 9, 2015).