

Dissecting the Local Economy

How strong is Birmingham's economy? That is a question Porter, White & Company has tried to answer for its clients over the years. In 1998, Porter, White started publishing a quarterly newsletter *The Birmingham Area Economic Report*, which examines the local economy in depth, tracking over 20 indicators on a monthly basis, and compiling all of this data into a meaningful report.

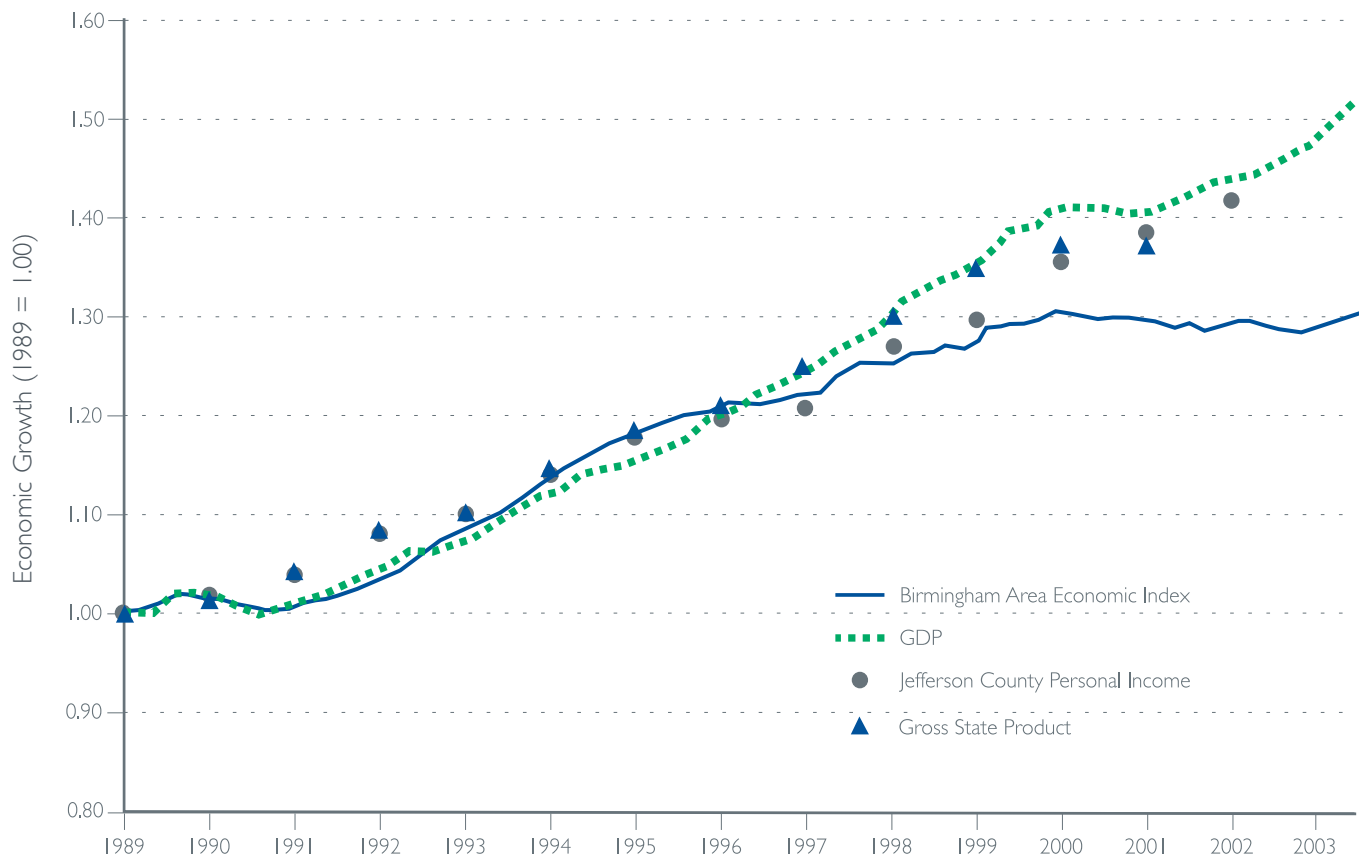
Six of these indicators comprise Porter, White's *Birmingham Economic Index*, a measure that is compared to the nation's Gross Domestic Product (GDP) in our newsletter (see graph below). These six indicators include Jefferson County tax collections on retail sales, occupational wages and hotel revenues, commercial and industrial electricity sales in kilowatt-hours, passengers boarded at the airport, and total nonagricultural employment.

The Index followed the GDP closely during most of the 1990s. In the late 1990s, the local Index began to diverge from the nation's GDP, and the gap continues to widen. In an attempt to confirm that this divergence reflects economic reality we have analyzed trends in total employment for the Birmingham MSA. Total employment is an important economic indicator that, at a national level, closely follows GDP and that, at a local level, should have good correlation with economic trends. Our analysis of local employment over the last several years confirms the disturbing trends reflected in the Birmingham Economic Index

In Figure 2 on page 2, we have indexed total employment from 2000 through May 2004 for the U.S. and the

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Figure 1
Birmingham Area Economic Index



four-county Birmingham MSA. This graph shows that our local economy did not generate as many jobs relative to the nation's economy in 2000 and early 2001, lost more jobs during the recession, and hasn't added as many jobs during the recovery. It should be noted that the Birmingham metro area entered the recent recession with a lower unemployment rate than the state or nation, and the local unemployment rate continues to be lower. Therefore, it could be argued that because we were closer to full employment, we didn't have as much to gain.

When analyzing employment by industry, manufacturing emerges as the biggest drag on employment. The U.S., Alabama, and the Birmingham MSA all lost a lot of manufacturing jobs, but the MSA lost a greater portion of its manufacturing jobs than the state or nation. Figures 3–5 (graphs for the Birmingham MSA, Alabama and the U.S.) depict a sluggish employment picture in the Birmingham metro area over the past three and one-half years, relative to the U.S. Each graph depicts total employment, and employment by major sector. It should be noted that manufacturing is a sub-sector of goods-producing employment. Given the losses in manufacturing jobs, and the

importance of manufacturing in any economy, we included it in the graphs. Each graph has the same scale for comparison.

The relative loss in manufacturing jobs in the MSA might seem counter-intuitive given the surge in auto assembly and related plants that have located in Alabama in the past decade. However, these plants (and most of their Tier One suppliers) are located outside of the four-county Birmingham MSA. This helps explain why the state has not lost as great a percentage of manufacturing jobs as the MSA.

In Talladega and Tuscaloosa Counties (home to Honda and Mercedes) manufacturing jobs have increased since landing the major auto assembly plants. Because employment by sector is measured based on the location of the job, most of the benefit of auto manufacturing in Alabama is not captured in the Birmingham MSA employment numbers.

Another possible explanation for the severe loss of manufacturing jobs in the local area relates to the limitations on air emissions. Due to its "non-attainment" status, Jefferson County cannot attract new manufacturing

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Figure 2
Index of Total Non-Farm Employment
Birmingham MSA versus United States

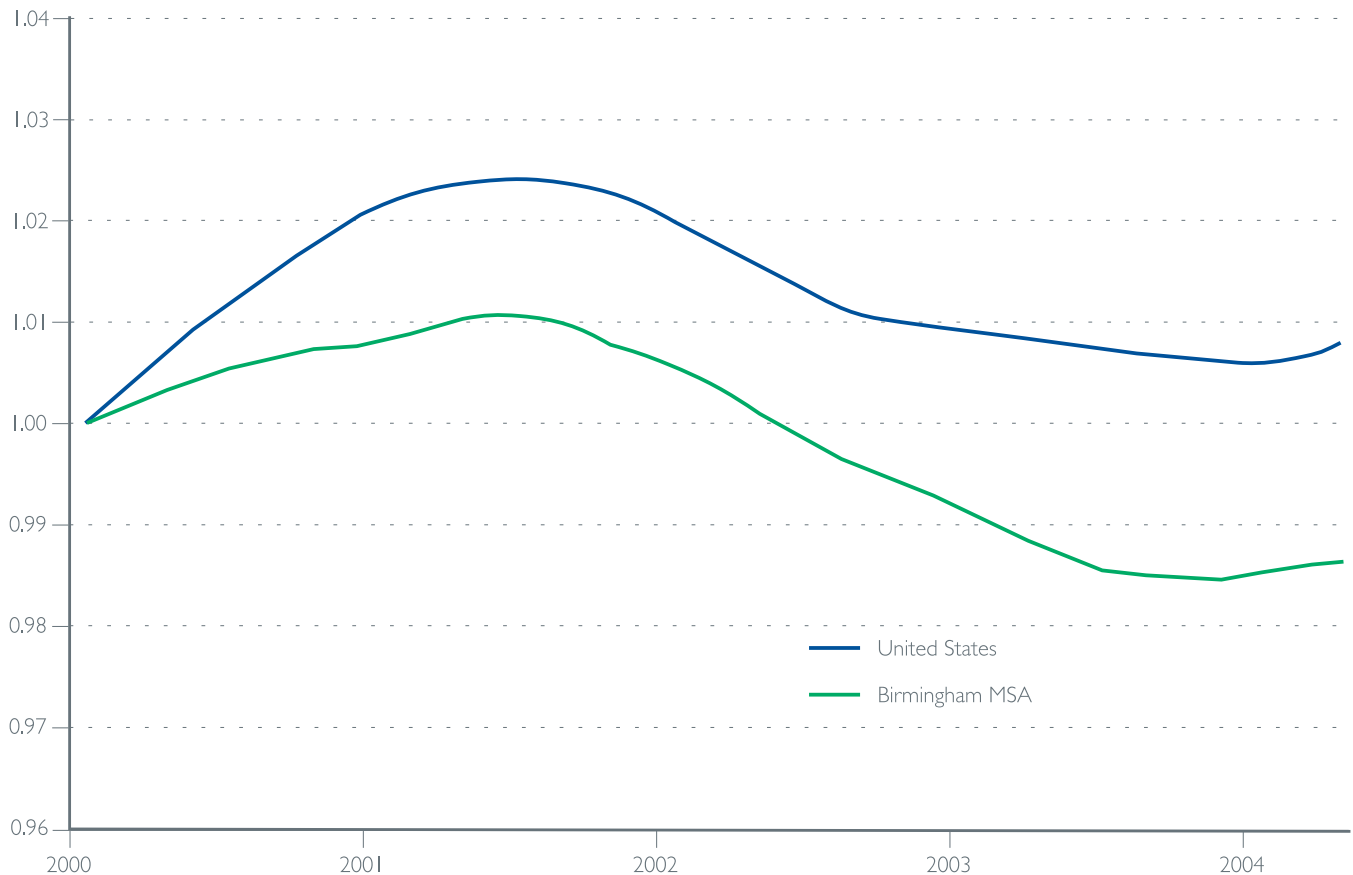


Figure 3
Indices of Employment by Sector
Birmingham MSA

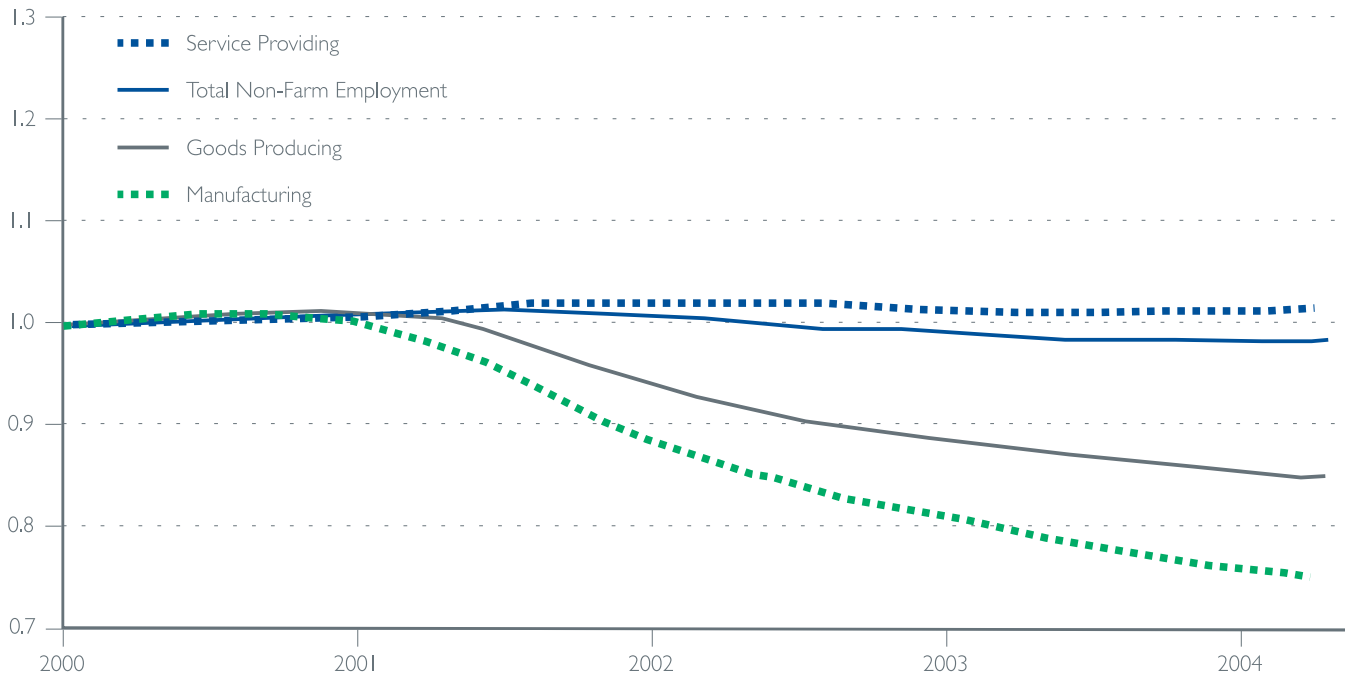


Figure 4
Indices of Employment by Sector
Alabama

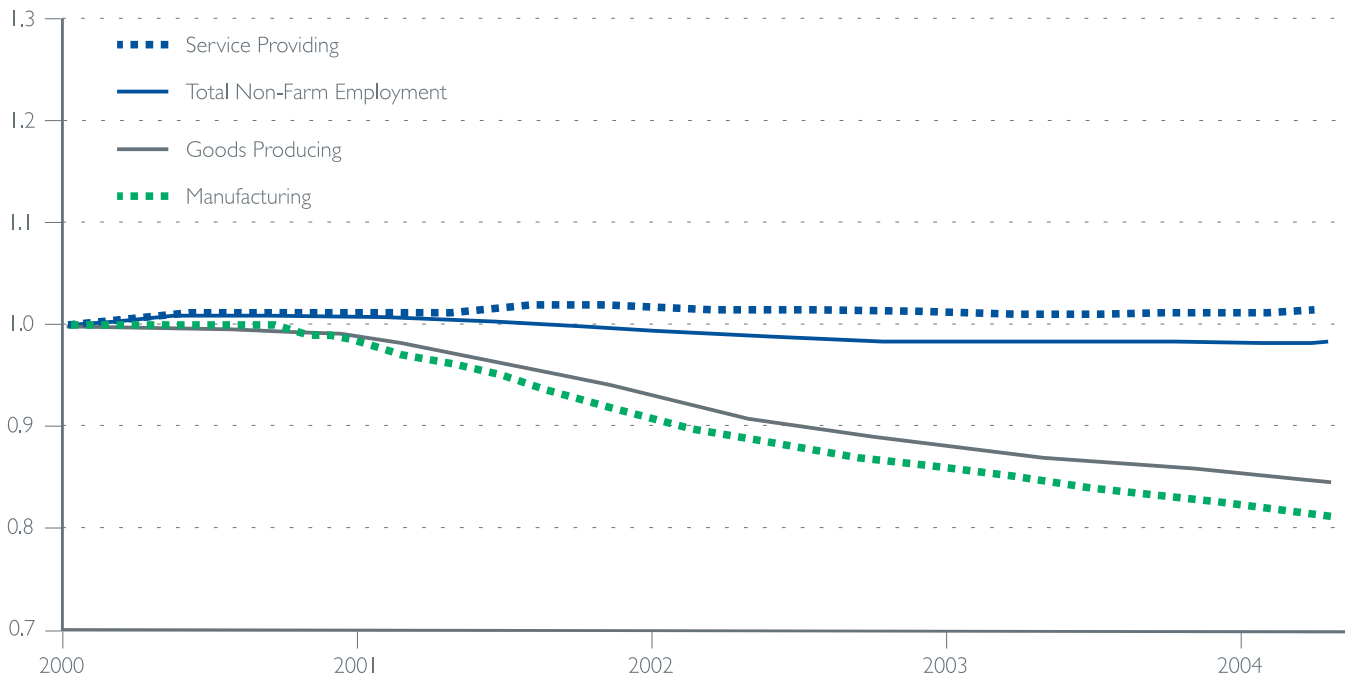
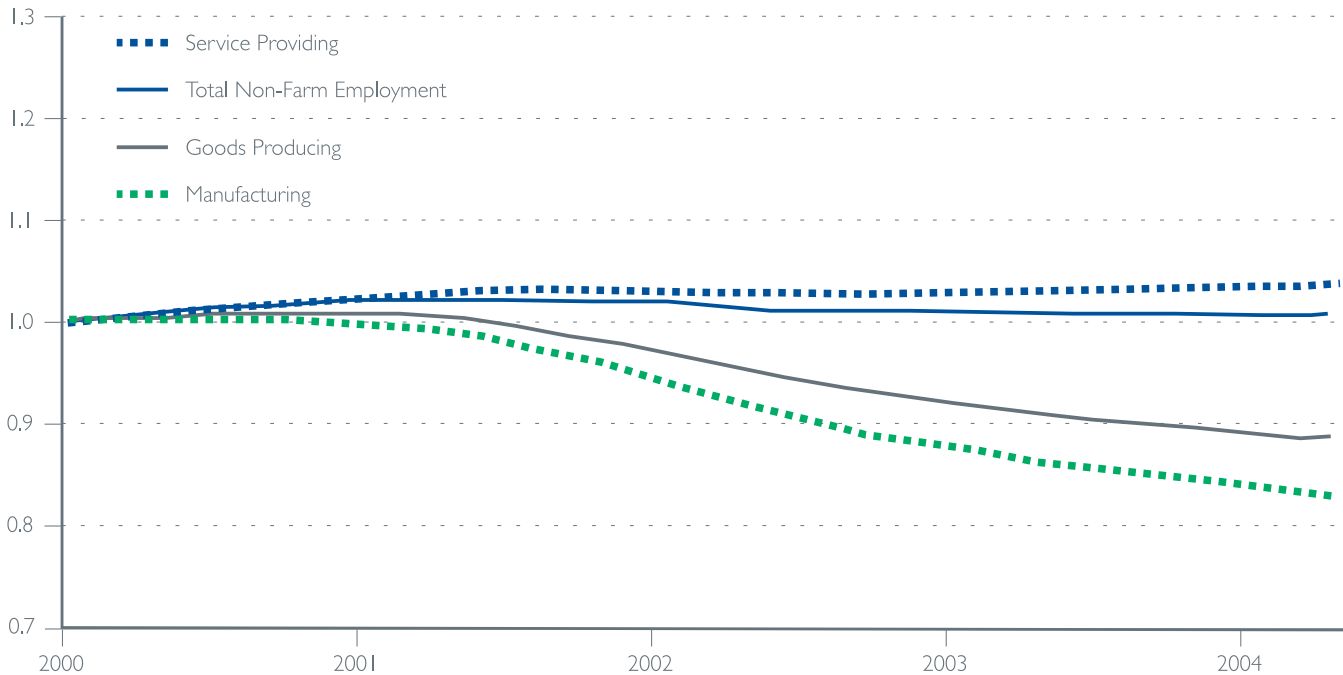


Figure 5
Indices of Employment by Sector
United States



industries or expansions of existing industries that do not meet the strict emission standards imposed on the area.

Goods-producing employment helps to stimulate service-providing jobs, and growth in service-providing jobs in the MSA also lagged the state and the nation. Even when the expanded definition of the MSA is included in the revised employment figures, the metro area will most likely lag behind the country in growth in employment. (The Alabama Department of Industrial Relations has not yet revised its data to include the three counties that were recently added to the Birmingham MSA: Walker, Bibb and Chilton).

One conclusion is clear from the comparison of the three employment graphs: the Birmingham area and the State have not recovered as robustly as the nation from the recent recession. In manufacturing employment, Birmingham has fared worse than Alabama or the U.S.

One indicator that has demonstrated growth comparable to the GDP is Jefferson County Personal Income (depicted in the graph on page one). This measure has outperformed the Index in recent years, but is not available on a timely basis. The Bureau of Economic Analysis (the same government agency that compiles the GDP) releases this data only annually, and it lags by two years, rendering it useless as a current indicator. Personal income data, contrary to Jefferson County occupational tax collections, captures all types of income across all occupations and age groups, as personal income includes unearned income and transfer payments.

The Birmingham Area Economic Index continues to reflect important aspects of our local economy: employment, commercial and industrial growth, travel and leisure, and retail sales. Despite the imperfections of the Index, we continue to believe that it is useful in monitoring trends in the local economy.

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