



# Alabama Business Confidence Index™

## Validation Analysis

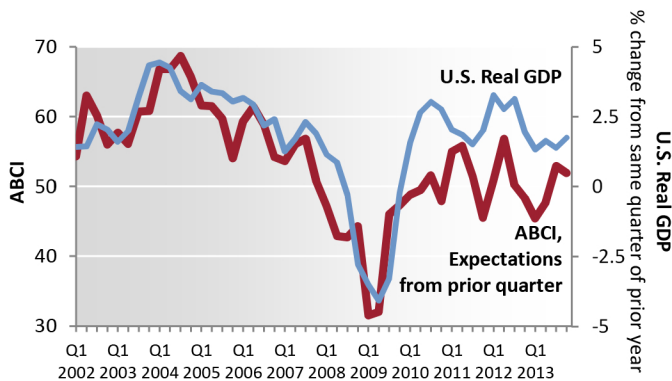
Center for Business and Economic Research, The University of Alabama

### Performance of the Alabama Business Confidence Index

The Center for Business and Economic Research estimates the statewide *Alabama Business Confidence Index™* (ABCI) from an online survey of Alabama business executives. During the month prior to each quarter, researchers gather panelists' expectations for economic prospects and industry performance looking ahead to the upcoming quarter. The fourth quarter 2013 survey conducted in September marked the 48th consecutive quarter of the ABCI. The collected data allows for evaluation of the performance of the ABCI, National Economy, and Alabama Economy indexes against economic indicators including U.S. real GDP, nonfarm employment, and Alabama GDP. The graphs below show strong correlations between indexes and these economic indicators, confirming the predictive significance of the ABCI.

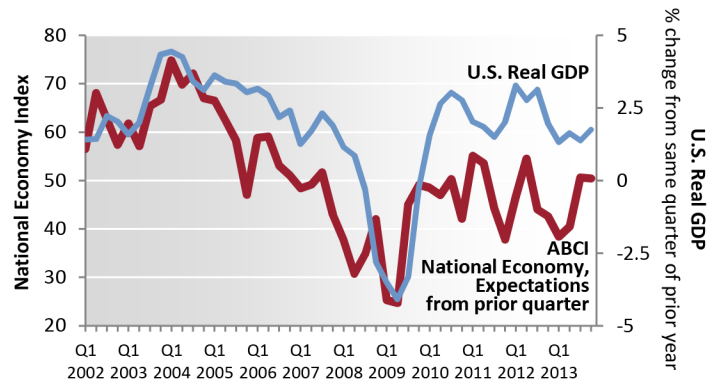
Alabama ABCI Components	
ABCI	
National Economy	
Alabama Economy	
Industry Sales	
Industry Profits	
Industry Hiring Plans	
Industry Capital Expenditures	
For ABCI and component indexes: value above 50 indicates positive outlook value below 50 indicates negative outlook	

ABCI and U.S. Real GDP



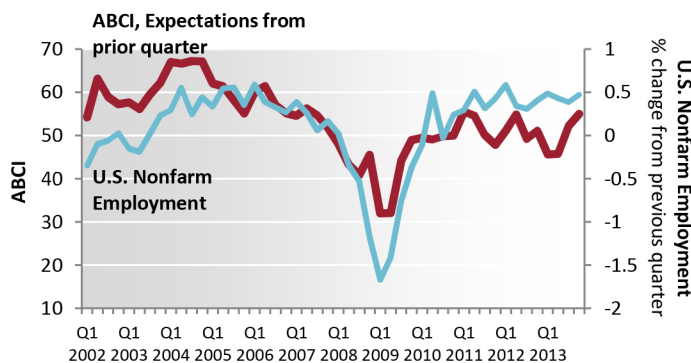
Source: U.S. Bureau of Economic Analysis, IHS Global Insight, and Center for Business and Economic Research, The University of Alabama.

ABCI National Economy and U.S. Real GDP



Source: U.S. Bureau of Economic Analysis, IHS Global Insight, and Center for Business and Economic Research, The University of Alabama.

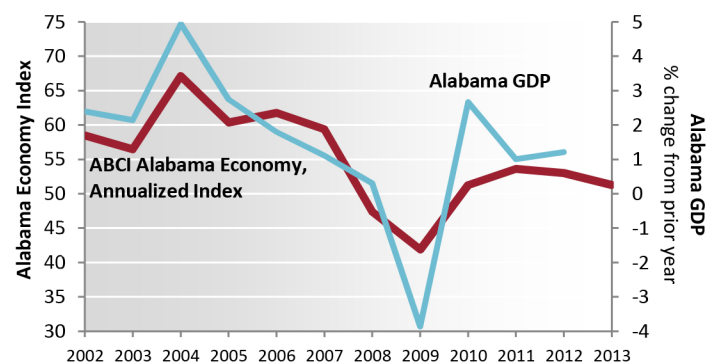
ABCI and U.S. Nonfarm Employment



Note: Seasonally Adjusted Data.

Source: U.S. Bureau of Economic Analysis, IHS Global Insight, and Center for Business and Economic Research, The University of Alabama.

ABCI Alabama Economy and State GDP



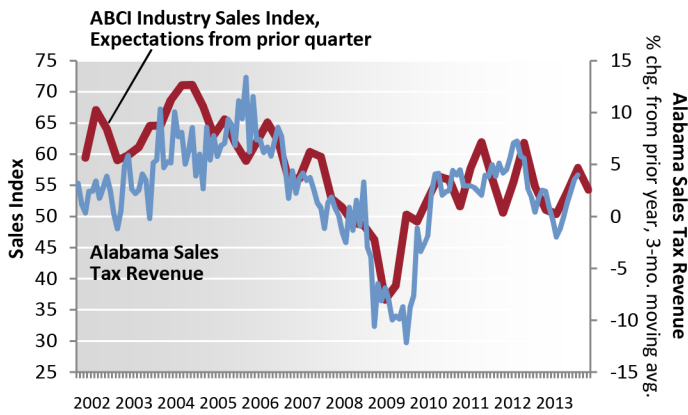
Source: U.S. Bureau of Economic Analysis, IHS Global Insight, and Center for Business and Economic Research, The University of Alabama.

### Performance of ABCI Industry Component Indexes

ABCI industry components are also correlated with respective indicators of the national or state economy. The ABCI Industry Sales index does a good job predicting state sales tax revenue collections, while Industry Hiring forecasts the growth of state nonfarm employment. The Industry Profits index reflects the change in U.S. corporate profits. Meanwhile, ABCI panelists' assessment of upcoming Capital Expenditures indicates the trend of U.S. private fixed nonresidential investment.

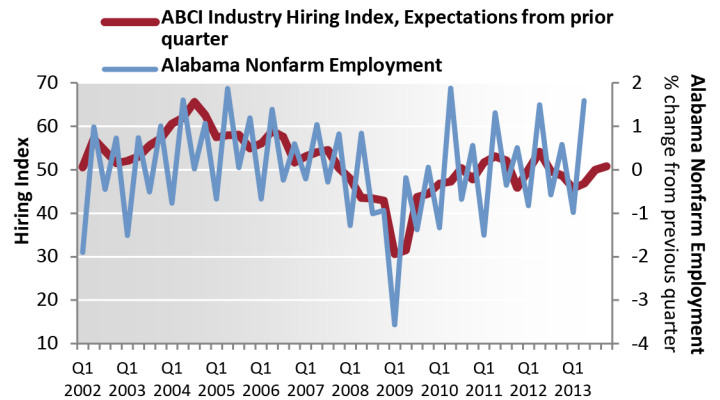
**ABCI Survey Design** The ABCI is a forward-looking survey. Thus, the value of the composite ABCI and each of its six components in a particular quarter measures expectations by Alabama business executives recorded in the prior quarter. Comparing these indexes to relevant historical economic data for that quarter, as shown in the graphs in this analysis, demonstrates the predictive value of the ABCI and its components.

#### ABCI Industry Sales and Alabama Sales Tax Revenue



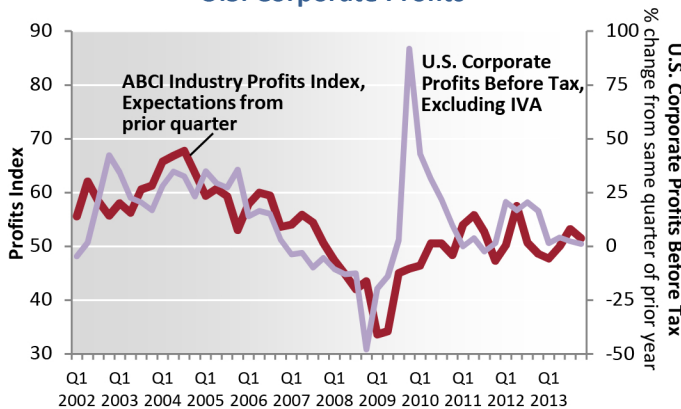
Source: U.S. Bureau of Economic Analysis, IHS Global Insight, and Center for Business and Economic Research, The University of Alabama.

#### ABCI Industry Hiring and Alabama Nonfarm Employment



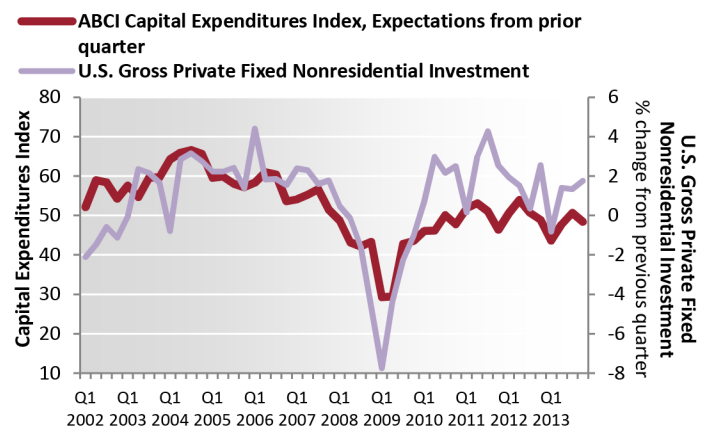
Source: U.S. Bureau of Economic Analysis, IHS Global Insight, and Center for Business and Economic Research, The University of Alabama.

#### ABCI Industry Profits and U.S. Corporate Profits



Note: IVA is inventory validation adjustment.  
Source: U.S. Bureau of Economic Analysis, IHS Global Insight, and Center for Business and Economic Research, The University of Alabama.

#### ABCI Industry Capital Expenditures and U.S. Private Fixed Nonresidential Investment



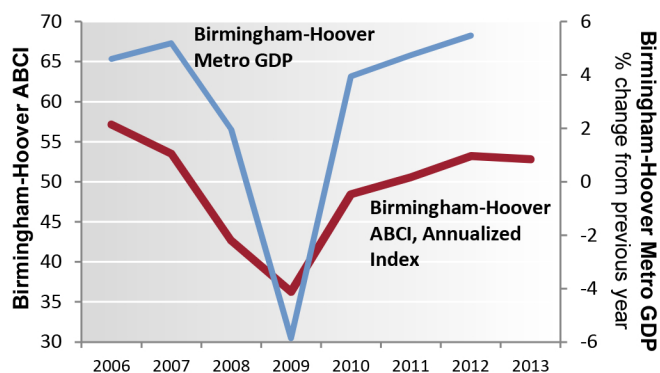
Source: U.S. Bureau of Economic Analysis, IHS Global Insight, and Center for Business and Economic Research, The University of Alabama.

**ABCI Calculation Notes** The ABCI survey measures industry components on a five-part scale: strong increase, moderate increase, no change, moderate decrease, strong decrease. The economic indicators also employ a five-part scale, but the wording is: much better, somewhat better, remain the same, somewhat worse, much worse. These choices are weighted +2, +1, 0, -1, -2. Then the overall ABCI =  $((\sum \text{responses} / \# \text{surveys}) + 12) / 24 \times 100$ . Thus, the ABCI range is 0 to 100, with 50 the neutral point. An index is similarly calculated for each of the six components of the survey.

**Performance of Alabama Business Confidence Indexes for Metropolitan Areas** The Center for Business and Economic Research also estimates an *Alabama Business Confidence Index™* (ABCI) for the state's largest metropolitan areas from the responses of metro business executives to the online survey. The fourth quarter 2013 survey conducted in September marked the 32nd consecutive quarter of the metro ABCI. The gathered data allows for evaluation of the performance of the ABCI for the Birmingham-Hoover, Huntsville, Mobile, and Montgomery metro areas by comparing selected indexes against corresponding metro GDP and nonfarm employment. The following graphs demonstrate correlation between the ABCI metro indexes and trends of metro GDP. Additional graphs show how metro area Industry Hiring indexes effectively predict metro nonfarm employment trends.

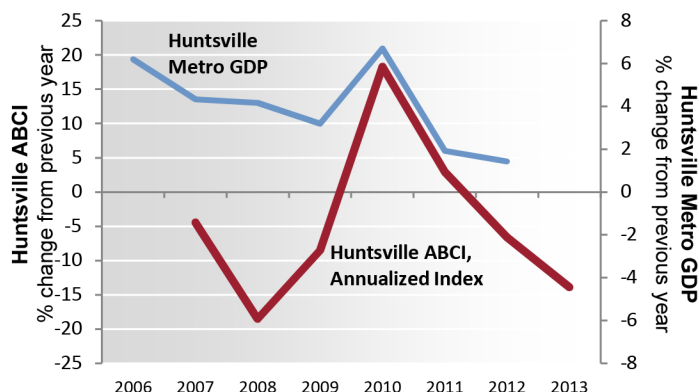
Metropolitan Area ABCI
Birmingham-Hoover
Huntsville
Mobile
Montgomery
For metropolitan area ABCI and component indexes: value above 50 indicates positive outlook value below 50 indicates negative outlook

**Birmingham-Hoover ABCI and Metro GDP**



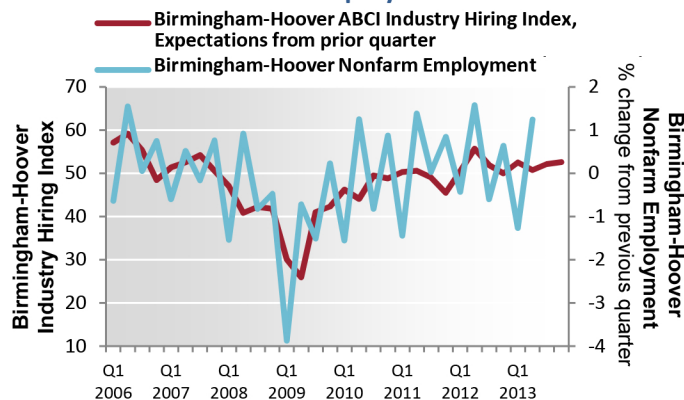
Source: U.S. Bureau of Economic Analysis and Center for Business and Economic Research, The University of Alabama.

**Huntsville ABCI and Metro GDP**



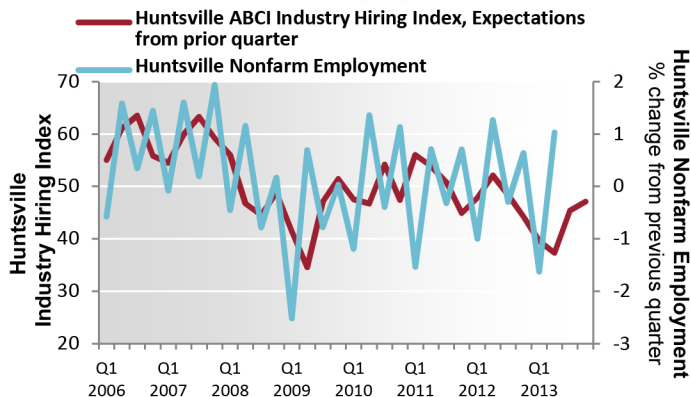
Source: U.S. Bureau of Economic Analysis and Center for Business and Economic Research, The University of Alabama.

**Birmingham-Hoover ABCI Industry Hiring and Nonfarm Employment**



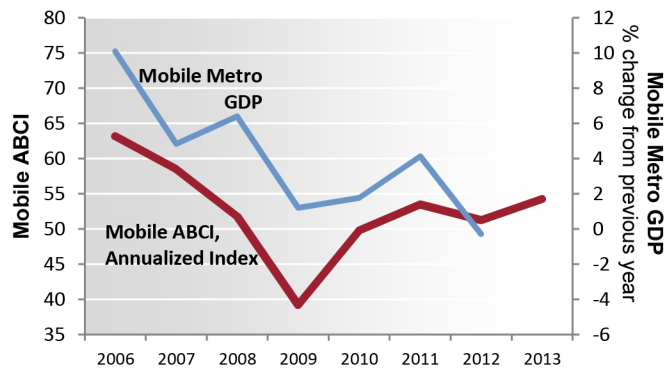
Source: Alabama Department of Labor and Center for Business and Economic Research, The University of Alabama.

**Huntsville ABCI Industry Hiring and Nonfarm Employment**



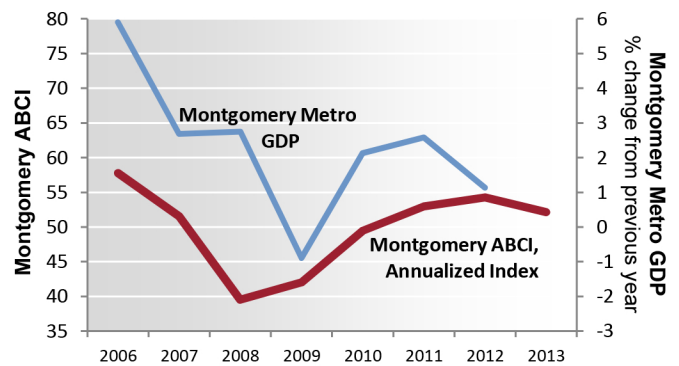
Source: Alabama Department of Labor and Center for Business and Economic Research, The University of Alabama.

### Mobile ABCI and Metro GDP



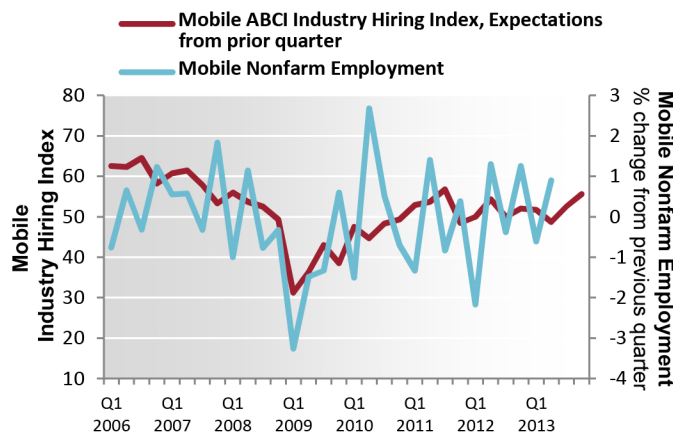
Source: U.S. Bureau of Economic Analysis and Center for Business and Economic Research, The University of Alabama.

### Montgomery ABCI and Metro GDP



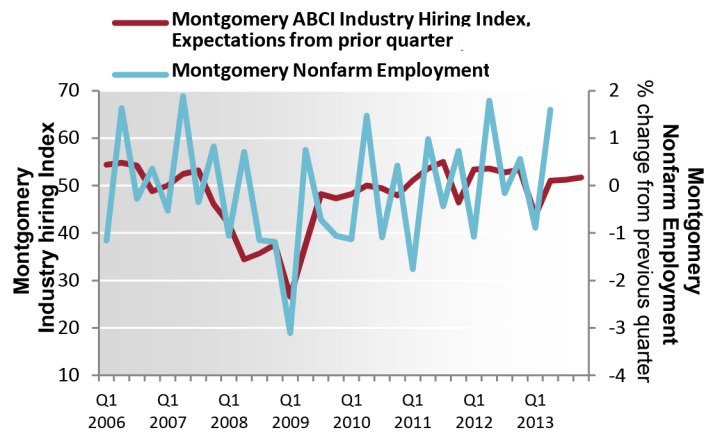
Source: U.S. Bureau of Economic Analysis and Center for Business and Economic Research, The University of Alabama.

### Mobile ABCI Industry Hiring and Nonfarm Employment



Source: Alabama Department of Labor and Center for Business and Economic Research, The University of Alabama.

### Montgomery ABCI Industry Hiring and Nonfarm Employment



Source: Alabama Department of Labor and Center for Business and Economic Research, The University of Alabama

### ABCI Share of Panelists by Industry, 2013 Average (Percent of Total Statewide)

Construction	6.7
Manufacturing	13.1
Transportation/Information/Utilities	7.3
Wholesale Trade	4.9
Retail Trade	4.6
Finance/Insurance/Real Estate	20.0
Professional/Scientific/Technical Services	17.5
Healthcare Services	6.7
All Other Services	17.5

**ABCI Survey Acknowledgement** The Center for Business and Economic Research would like to thank the Alabama business executives who complete the ABCI survey on a regular basis. Survey participation averaged 268 during the four quarters of 2013. We encourage you to sign on at [cber.cba.ua.edu/ABCI](http://cber.cba.ua.edu/ABCI) during the first two weeks of December 2013 to record your opinion about economic prospects and industry performance looking ahead to the first quarter of 2014.

Analysis provided by Viktoria Riiman, Research Associate, Center for Business and Economic Research, The University of Alabama.



For more information visit [cber.culverhouse.ua.edu](http://cber.culverhouse.ua.edu)