Porter, White & Company

Birmingham Area Economic Report

Second Quarter 2009 Volume XII, Number 2

Unemployment in Alabama

If you were to ask someone how to define the unemployment rate, you would most likely be told that it is a measure of the percent of people who don't have a job. It turns out that this is only partly true. The most widely reported unemployment rate is very specifically defined and measured by the Bureau of Labor Statistics ("BLS") and known as "U-3." The BLS actually has six alternative measures of unemployment, from the narrowly defined U-1 through the broadest measure, U-6. The official measure of unemployment (U-3) includes anyone age 16 or older, looking and available for work, who is not currently employed or institutionalized. The following lists the official definitions for all of the unemployment measures:

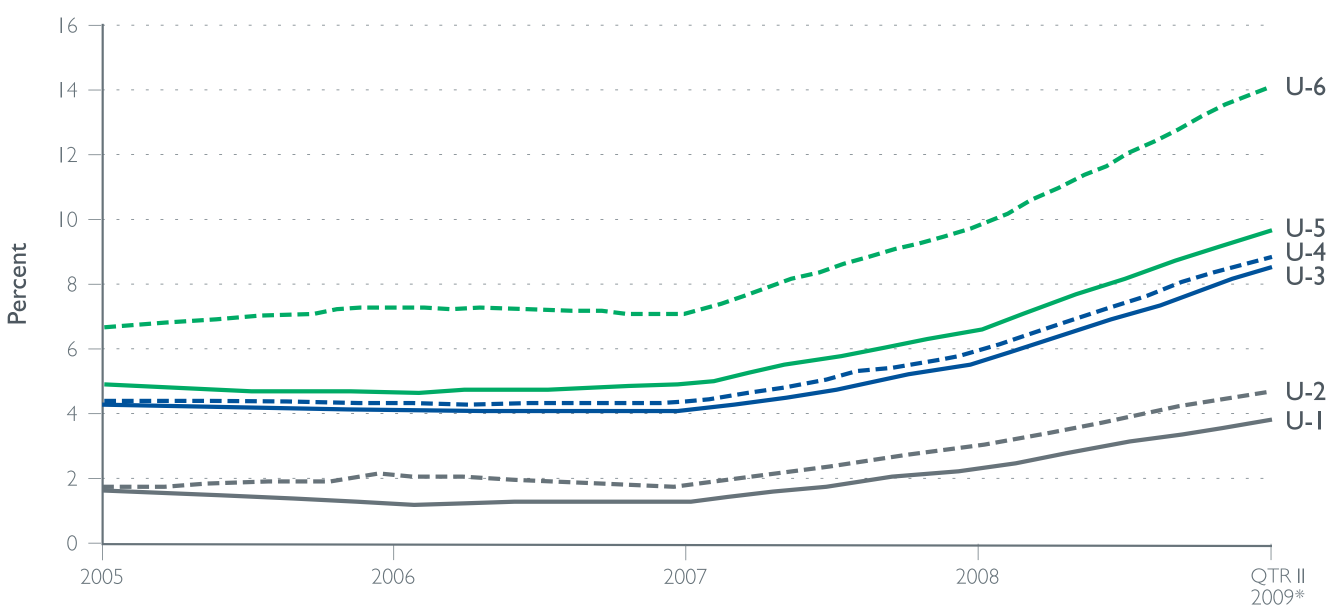
U-1 = People unemployed 15 weeks or longer, as a percent of the civilian labor force. This is also known as the "long-term unemployed."

U-2 = Job losers and people who completed temporary jobs, as a percent of the civilian labor force.

U-3 = The official unemployment rate, or the total unemployed, as a percent of the civilian labor force. This includes all jobless persons who are available to take a job and have actively sought work in the past four weeks. This measure not only includes everyone who once worked and lost a job, but also new entrants, and "re-entrants" into the labor force that cannot find

Continued on page 2

Alternative Unemployment Measures in Alabama



* Four-quarter moving average
Source: Bureau of Labor Statistics

Continued from page 1

a job. This measure also includes people who voluntarily left a job, but are looking for work.

In 1994, the BLS started compiling broader measures of unemployment. These are:

U-4 = The total unemployed, plus discouraged workers, as a percent of the civilian labor force (adding discouraged workers to the civilian labor force). Discouraged workers are those who want to work, are available to work, have searched for work in the past year, but are not currently looking for a job because they feel their search would be fruitless due to job market conditions. Discouraged workers are a subset of "marginally attached workers."

U-5 = U-4 (above) plus all other marginally attached workers, as a percent of the civilian labor force (adding all marginally attached workers to the civilian labor force). Marginally attached workers are neither working nor looking for work, but want to work and are available for a job. These people have also looked for work at some point in the past year. People in this category would include someone who isn't currently looking for work because they don't have child care or transportation.

U-6 = Total unemployed, plus all marginally attached workers, plus total employed part time for economic reasons, as a percent of the civilian labor force (adding all marginally attached workers to the civilian labor force). This group includes a portion of what is called the "underemployed," or those who would like full-time work, but cannot find it. The portion of underemployed not captured in this measure would include those working full-time, but actually qualified for and desiring more highly skilled positions.

The BLS recently published these alternative measures for states for the first time. Similar measures for metropolitan areas are not available. The graph on page 1 depicts the U-1 through U-6 unemployment rates for Alabama for the past several years.

In general, all six measures of unemployment move together over time, and that is certainly the case in the graph on page 1. All of the unemployment measures have more than doubled in Alabama between 2005 and the second quarter of 2009.

In 2007 when the "official" unemployment rate (U-3) was the lowest in Alabama (for the years depicted in the graph on page 1) the difference between the long-term unemployed and those who recently lost jobs or completed temporary jobs (U-1 and U-2), was relatively small. This gap and the gap to U-3 have grown in the last 18 months, highlighting the fact that there are not only more job losses, but also more new entrants and re-entrants into the labor force who cannot find jobs.

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Alternative Measures of Unemployment in Southeastern States

Four Quarters Ending June 2009

(%)

	U-1	U-2	U-3	U-4	U-5	U-6	U-1 vs. U-6 spread
Alabama	3.8	4.7	8.5	8.9	9.7	14.1	+10.3
Florida	4.1	5.4	8.4	8.9	9.6	15.6	+11.5
Georgia	3.8	5.1	8.4	8.8	9.5	14.5	+10.7
Kentucky	3.6	5.0	8.7	9.2	10.2	14.5	+10.9
Mississippi	3.0	4.6	7.9	8.8	9.7	13.9	+10.9
North Carolina	4.2	5.2	8.7	9.1	9.9	14.8	+10.6
South Carolina	4.9	6.1	9.6	10.0	10.9	16.8	+11.9
Tennessee	4.0	5.8	9.0	9.4	10.1	15.7	+11.7

Source: Bureau of Labor Statistics

Continued from page 2

All of the measures of unemployment in Alabama depict the sobering reality of today's job market. The increase between the 2007 unemployment figures to the June 2009 four-quarter moving averages is alarming.

Alabama compared to Other Southeastern States

The table on page 2 compares all of the alternative measures of unemployment in Alabama with other southeastern states.

Alabama's unemployment rate (U-3) is comparable to other southeastern states. What is noteworthy is that the spread between U-1 and U-6 is lower in Alabama, at 10.3, than in any other state included in the table above. In Tennessee, where the percentage of people long-term unemployed (U-1) is comparable to Alabama's, the percent of people in the broadest category of unemployment (U-6), is higher (15.7 in Tennessee versus 14.1 in Alabama). This signals that Tennessee has a greater percentage of its work force looking for work over the short-term, perhaps attributable to more entrants and re-entrants, as well as "underemployed" persons. A big difference occurs between U-1 and U-2 in Tennessee, highlighting that there are more people in Tennessee who recently lost jobs, or completed temporary jobs, than in Alabama.

South Carolina appears to be cursed with the highest unemployment in the region, with all measures higher than any of the other states listed. Florida, Georgia and Alabama have the lowest unemployment rates in the group (U-3), but Florida suffers from much higher broader unemployment (U-6) than Georgia or Alabama, indicating much higher numbers of people who are working part-time involuntarily.

It is important to note that U-3, the official "unemployment rate" in the table on page 2 differs slightly from the rates typically published in this newsletter in the table on page 5. The rates used in this article are four-quarter moving averages, and use different population estimates than the current unemployment statistics cited regularly in this newsletter.

These broader unemployment measures offer more insight into aspects of the job market that aren't always revealed in common media reports. Regardless of the measures used, the picture isn't pretty in this recession.

The Local Economy

Economic activity in the Birmingham area has taken a nosedive, according to Porter White's *Birmingham Area Economic Index,* which is depicted in the graph on page 4. The local index mirrors the experience of the nation's economy, depicted by the Gross Domestic Product ("GDP") in the graph. However, the local index has fallen more sharply in recent months than GDP. As we have mentioned in previous issues of this newsletter, Porter White's local index is not directly comparable to the nation's GDP, so only limited conclusions can be drawn from this comparison.

The table on page 5 depicts all of the indicators tracked in this newsletter, and all continued to post declines for the 12 months ending June 30, 2009. State and local retail sales and occupational and income tax collections declined. Local schools and governments are being forced to shave their expenses in order to meet budget constraints.

The housing market continued to post double-digit declines in homes started and sales of existing units during the 12 months ending in June 2009. New home starts for the 12 months ending June 2009 were just over one-half of what they were for the same period in 2008. The value of nonresidential construction in the metro area declined by nearly 22 percent between June 2008 and June 2009. This sector hasn't suffered as greatly as the residential sector and the economic stimulus money is expected to buoy infrastructure building in the future.

Passengers boarded at the airport declined by over 12 percent for the 12 months ending June 2009, and the lodging sector followed suit, as hotel revenues dropped in the City of Birmingham and Jefferson County.

Energy consumption has declined locally during the 12 months ending in June 2009. Gasoline tax collections declined by 3.5 percent in the County, and nearly two percent in the State. Commercial and industrial electricity consumption also dropped between June 2008 and June 2009.

Unemployment rates in June 2009 were roughly double the levels of June 2008, and job losses permeated both goods-producing and service-providing sectors. Even government jobs that are typically more recession-proof were lost recently in Jefferson County, as the County continued to struggle with its financial crisis.

Job losses in the goods-producing sectors have been heavier between June 2008 and June 2009 than the losses in the service-providing sectors. Over 54,000 goods-producing jobs were lost in Alabama during this time, with the heaviest losses occurring in the manufacturing sector, which had 35,800 fewer jobs in June 2009 than a year earlier. Construction jobs declined by 18,700 during the same time period.

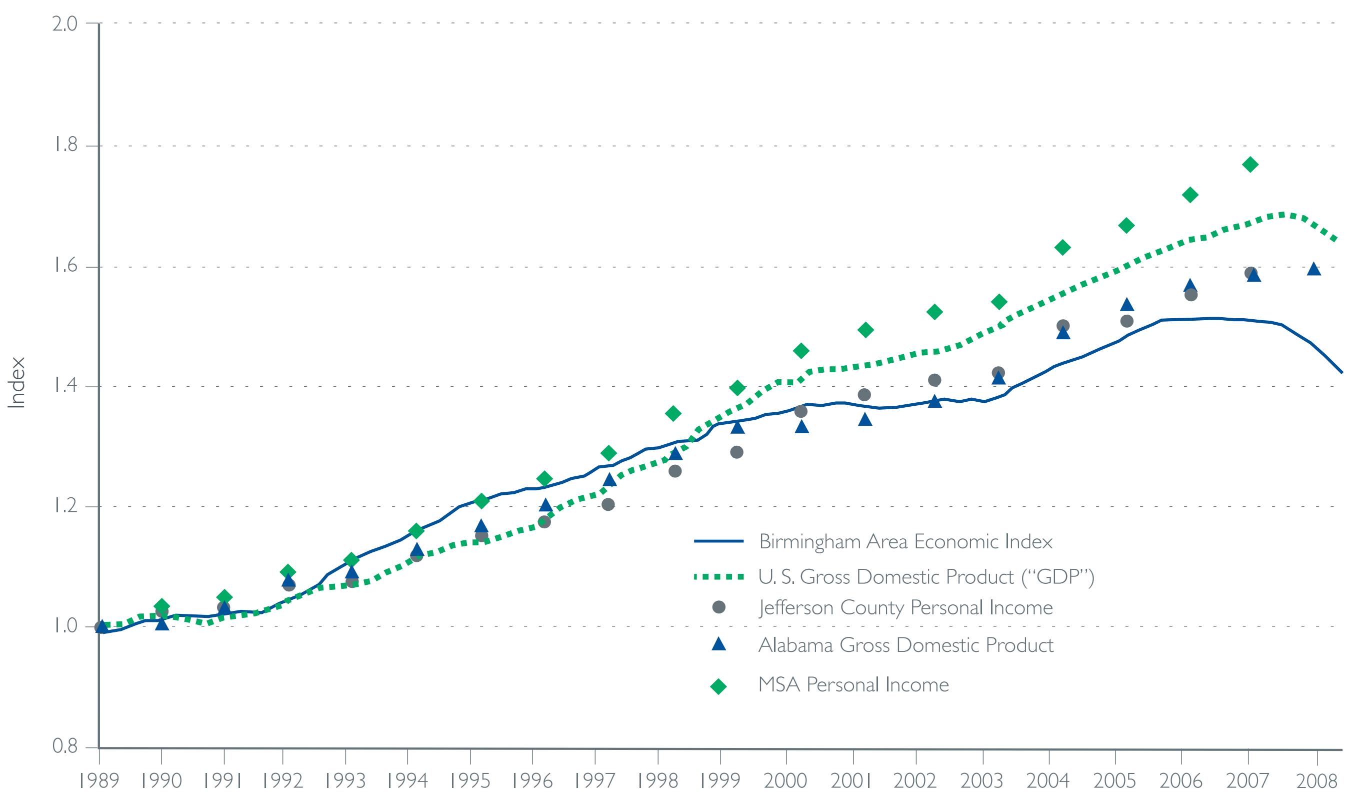
The service-providing sectors shed 39,000 jobs in Alabama between June 2008 and June 2009. In the Birmingham MSA, 3,700 manufacturing jobs and 4,000 construction jobs were lost during the same time period.

The performance of the stock market was abysmal between June 2008 and June 2009 and this was reflected in the poor performance of the Bloomberg Alabama Index and the broader S&P 500 Index, which lost 40.3 percent and 28.2 percent respectively.

The nation's unemployment rate increased by four percent between June 2008 and June 2009, which is less severe than local increases in unemployment during the same period. Inflation, measured by the Consumer Price Index, actually declined by 1.4 percent during the same time period, as lower energy prices more than offset modest increases in food and other prices.

Note: We recognize a sizable discrepancy in retail sales in the City of Birmingham for the individual months of June 2008 and June 2009. The retail sales figures are estimated by Porter White based on tax collections, and the June 2009 tax collection data is preliminary. Additional fiscal year-end adjustments will be made to the June figures and these will be reflected in the 12-months collections figures in the next issue of this newsletter. We expect that the June figures will increase once the City's fiscal year-end adjustments are made.

Measures of Economic Activity



A more detailed description of the BAE Index and issues of this newsletter are available at *http://www.pwco.com/library.html under "Economic Articles."*

Porter, White & Company, Inc.

Birmingham Area Economic Indicators

June 2009

	% Change from Previous 12 Months	Twelve Months Ending		Month Ending	
		June 2009	June 2008	June 2009	June 2008
Local Indicators					
Jefferson County Retail Sales (000) (1)	-8.6%	$8,770,176	$9,592,685	$738,418	$807,120
Jefferson County Hotel Revenues (000)(1)	-8.8%	$179,792	$197,125	$15,495	$18,095
Jefferson County Occupational Tax Collections (000) (1)	-5.6%	$64,250	$68,073	$4,005	$5,429
Jefferson County Gasoline Tax Collections (000) (1)	-3.6%	$4,722	$4,898	$377	$379
City of Birmingham Retail Sales (000) (2)	--8.9%	$3,401,018	$3,733,896	$218,866	$327,778
City of B'ham Occupational Tax Collections (000) (2)	-2.2%	$76,373	$78,061	$5,959	$6,811
City of Birmingham Hotel Revenues (000) (2)	-9.3%	$82,260	$90,697	$5,883	$9,606
Birmingham Area Housing Sales (3)					
Total Dollar Sales (000)	-33.6%	$1,941,714	$2,925,352	$206,372	$246,220
Average Sales Price	-9.7%	$176,872	$195,968	$189,332	$196,504
Number of Units	-27.1%	10,831	14,861	1,090	1,253
Birmingham-Hoover MSA Single-Family Housing Starts (4)					
Total Dollar Value (000)	-48.1%	$302,985	$584,209	$25,892	$36,111
Number of Units	-47.8%	1,775	3,401	149	217
Birmingham MSA Nonresidential Building Contracts (3)					
Total Dollar Value (000)	-21.8%	$787,663	$1,007,589	$81,005	$80,831
Birmingham Airport Passengers Boarded (5)	-12.1%	1,437,077	1,634,409	126,968	144,766
Birmingham Division Commercial & Industrial Electricity Sales (GWH) (6)	-6.9%	9,329	10,022	765	899
State Indicators					
Alabama Income Tax Collections (7)					
Corporate Tax (000)	-7.7%	$503,907	$546,018	$91,531	$99,313
Individual Tax (000)	-6.5%	$3,376,563	$3,611,672	$268,659	$307,685
Alabama Retail Sales (000) (7)	-5.8%	$53,840,691	$57,132,768	$4,422,401	$4,828,815
Alabama Gasoline Tax Collections (000) (7)	-1.8%	$400,085	$407,615	$34,386	$34,348

	% Change from Previous Year	Current Year		Previous Year	
		June 2009	May 2009	June 2008	May 2008
City Employment					
Birmingham Unemployment Rate (8)	5.8%	12.3%	10.6%	6.5%	5.3%
Hoover Unemployment Rate (8)	3.6%	6.5%	5.5%	2.9%	2.2%
Birmingham-Hoover MSA Employment					
Goods-Producing Employment (000) (8)	-9.8%	71.5	70.7	79.3	79.2
Service-Providing Employment (000) (8)	-2.5%	441.5	440.5	452.7	452.0
Unemployment Rate (8)	5.4%	10.1%	8.6%	4.7%	3.8%
State of Alabama Employment					
Goods-Producing Employment (000) (8)	-13.3%	356.5	357.4	411.1	411.2
Service-Providing Employment (000) (8)	-2.4%	1,561.1	1,559.6	1,600.1	1,600.8
Unemployment Rate (8)	5.3%	10.6%	9.3%	5.3%	4.3%
Average Manufacturing Per-Hour Wage (8)	-1.6%	$15.44	$15.41	$15.69	$15.68
Average Manufacturing Work Week (Hours) (8)	-1.5%	39.6	39.5	40.2	40.2
Alabama Indicators					
Bloomberg Alabama Index (9)	-40.3%	232.0	255.5	388.5	409.0
National Indicators					
Consumer Price Index (9)	-1.4%	215.7	213.9	218.8	216.6
Unemployment Rate (8)	4.0%	9.7%	9.1%	5.7%	5.2%
S&P 500 Index (9)	-28.2%	919.32	919.14	1,280.00	1,400.38

(1) Jefferson County Department of Revenue (2) City of Birmingham, Finance Department (3) Alabama Center for Real Estate (4) U.S. Census Bureau (5) Birmingham Airport Authority (6) Alabama Power Company (7) Alabama Department of Revenue (8) Bureau of Labor Statistics (9) Bloomberg Financial Markets.

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