

The Local Economy in Recession

The National Bureau of Economic Research announced that our nation is in recession and in fact has been since December 2007. This is not surprising to anyone given the gloomy economic headlines that have dominated the news over the past few months.

How is Birmingham's economy faring? Local indicators signal slumping economic activity in the metro area. The table on page 4 shows that a lot of indicators are in the red, with the biggest declines seen in housing (both sales and starts) and the Bloomberg Alabama Index.

The only indicator showing fortitude in this market is nonresidential building, which has been supported by construction projects at local hospitals, schools and businesses. Tax collections and retail sales in Jefferson County and Birmingham have been flat or negative, and have not kept up with inflation, which was 4.9 percent between September 2007 and September 2008.

The *Birmingham Area Economic Index* ("BAE") published quarterly in this newsletter and depicted in the graph on the bottom of page 3, shows declining economic activity. Porter White calculates the BAE Index using local tax collections, electricity consumption, airport passengers and non-farm employment. The tax collection components are adjusted for inflation, which has been a big drag on the index during the past twelve months when prices on many goods and services have jumped.

How is this recession affecting our local economy compared to the recessions of 1990-1991 and 2001? The following table depicts several local indicators and how they fared during the last two recessions (early 1990s and 2001) and how they are faring thus far in this recession.

Perhaps the most alarming change has occurred in initial unemployment claims in our metro area, which were 41.5 percent higher in September 2008 than in

Local Indicators Before and During Recession

Recessions of 1990-1991, 2001, and 2008

	Percent Change, January 1990 vs. January 1991	Percent Change, October 2000 vs. October 2001	Percent Change, September 2007 vs. September 2008
Birmingham MSA Homes Sold	-17.8%	6.0%	-8.7%
Birmingham MSA Median Home Price	6.4%	1.6%	-10.4%
Passengers Boarded at Birmingham Airport	-7.7%	-17.0%	-11.9%
MSA Building Permits for Single-family homes	15.7%	-22.2%	-32.8%
Jefferson County Retail Sales	-10.8%	2.8%	-5.9%
MSA Total Non-Farm Employment	1.1%	-1.1%	-0.1%
MSA Initial Unemployment Claims	19.5%	38.2%	41.5%
MSA Unemployment Rate	0.3%	1.0%	1.5
CPI % Change	5.7%	2.1%	4.9%

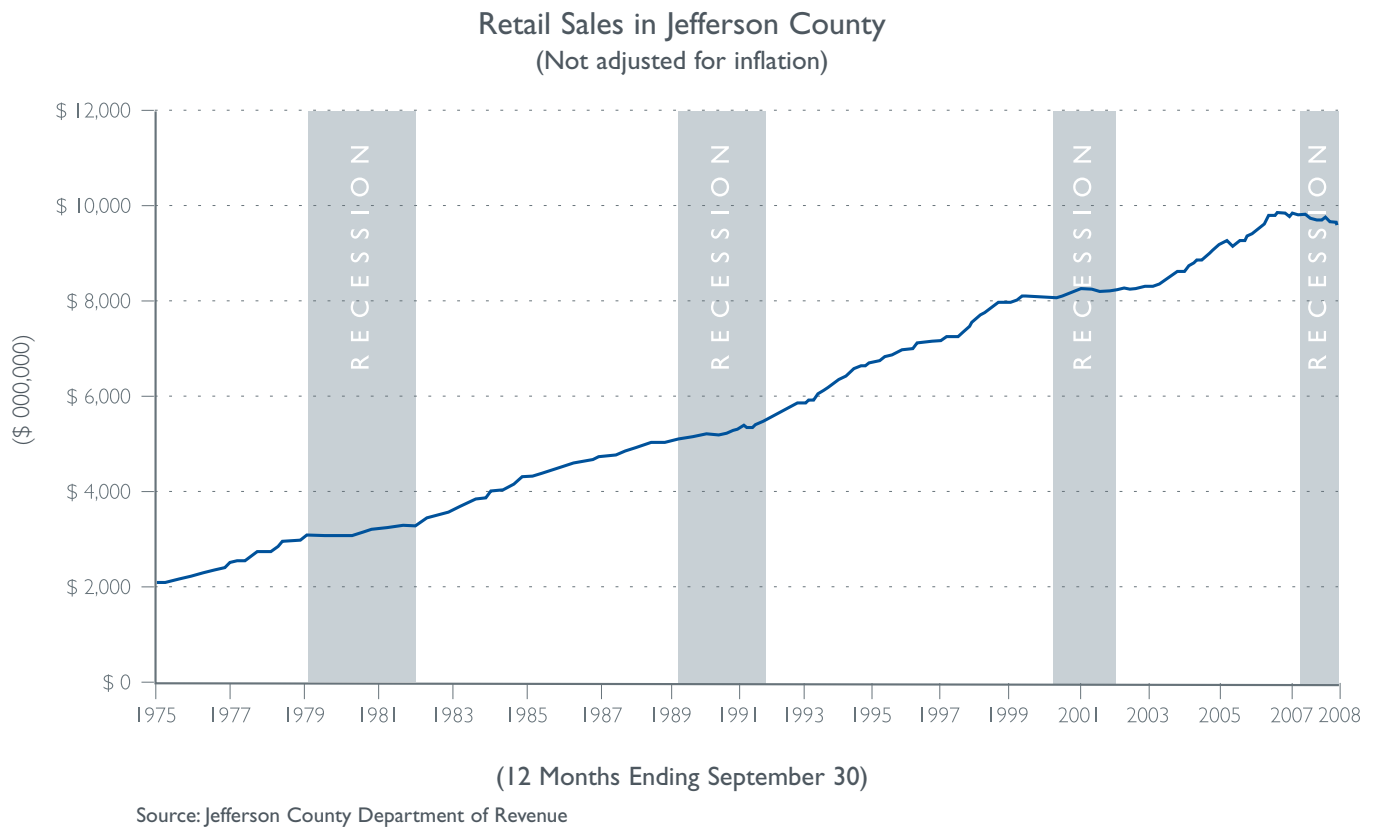
Sources: Alabama Department of Industrial Relations, Bureau of Labor Statistics, Jefferson County Department of Revenue, Birmingham Association of Realtors, Alabama Real Estate Research and Education Center, U.S. Census Bureau, Birmingham Airport Authority. Portions of this table appeared in *Economic Analysis, Metropolitan Birmingham's Economy: January 2002*, an article published by the Birmingham Regional Chamber of Commerce, written by Teresa Percy.

September 2007. The unemployment rate, which jumped from 3.2 percent in September 2007 to 4.7 percent in 2008, depicts a metro area that is not able to absorb a growing workforce. The difference in total employment in this recession thus far is minimal in the Birmingham-Hoover MSA (-0.1%). Job losses were not numerous between September 2007 and September 2008 and primarily concentrated in the goods-producing sectors of manufacturing, construction and mining.

Another remarkable difference between September 2007 and 2008 is the number of single-family home starts, which have been spiraling downward for several quarters.

The rapid growth in home building that occurred throughout much of this decade could not be sustained forever and troubled sub-prime mortgages have affected not only housing but credit markets overall. The housing bubble has burst with devastating effects throughout the country.

The following graphs demonstrate the performance of two local economic indicators throughout several recessions. The first graph depicts retail sales in Jefferson County going back to the mid-1970s. The graph shows the recessions during this time with shaded boxes. It is notable that retail sales in Jefferson County have not fallen as much in the prior three recessions as they have thus far in 2008.

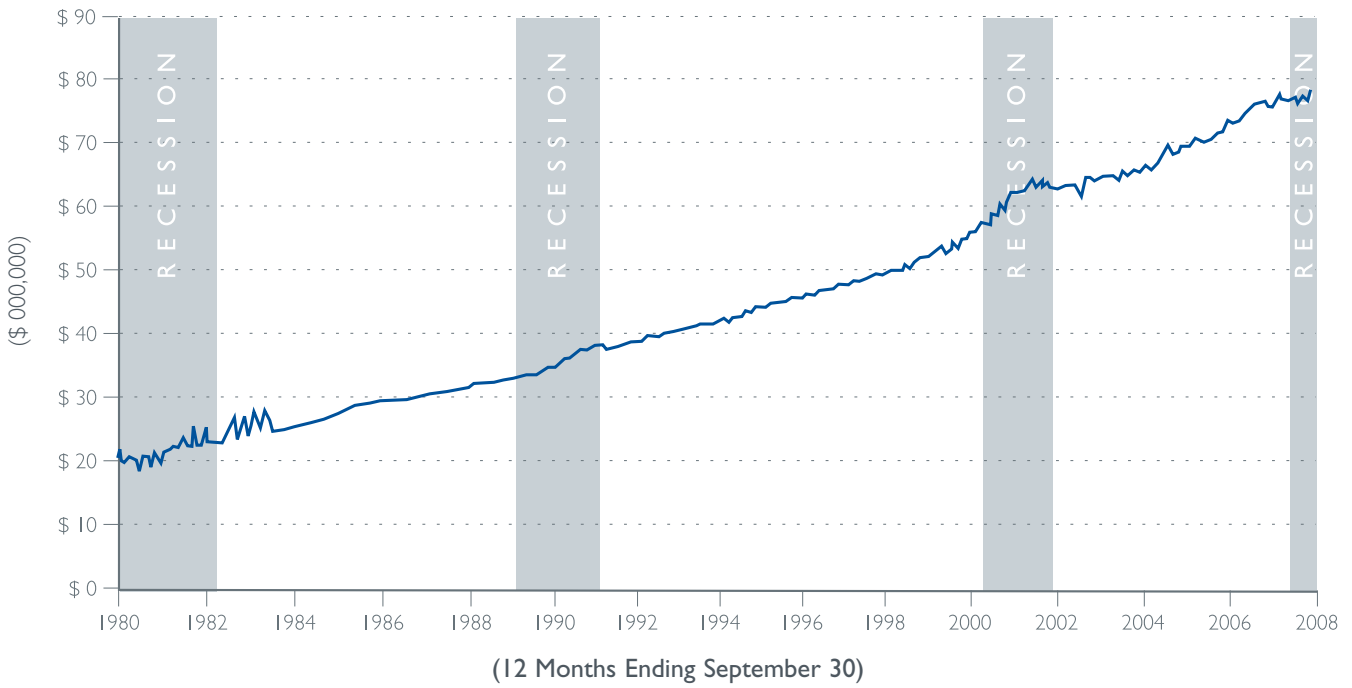


Occupational tax collections in the City of Birmingham are depicted in the next graph. This series extends back to 1980 and also shows the past three recessions. The high variability in the early years has not been explained but could be attributed to different accounting methods or different reporting and payment options that were perhaps tried when the tax was first implemented. Occupational tax collections in Birmingham exclude lawyers, physicians and other professionals but include just about all wage earners and performed well until the 2001 recession, when

they dropped. Occupational tax collections, a proxy for earnings in Birmingham, have slowed somewhat in recent years. Collections continue to increase, although they've not kept up with inflation in the past year.

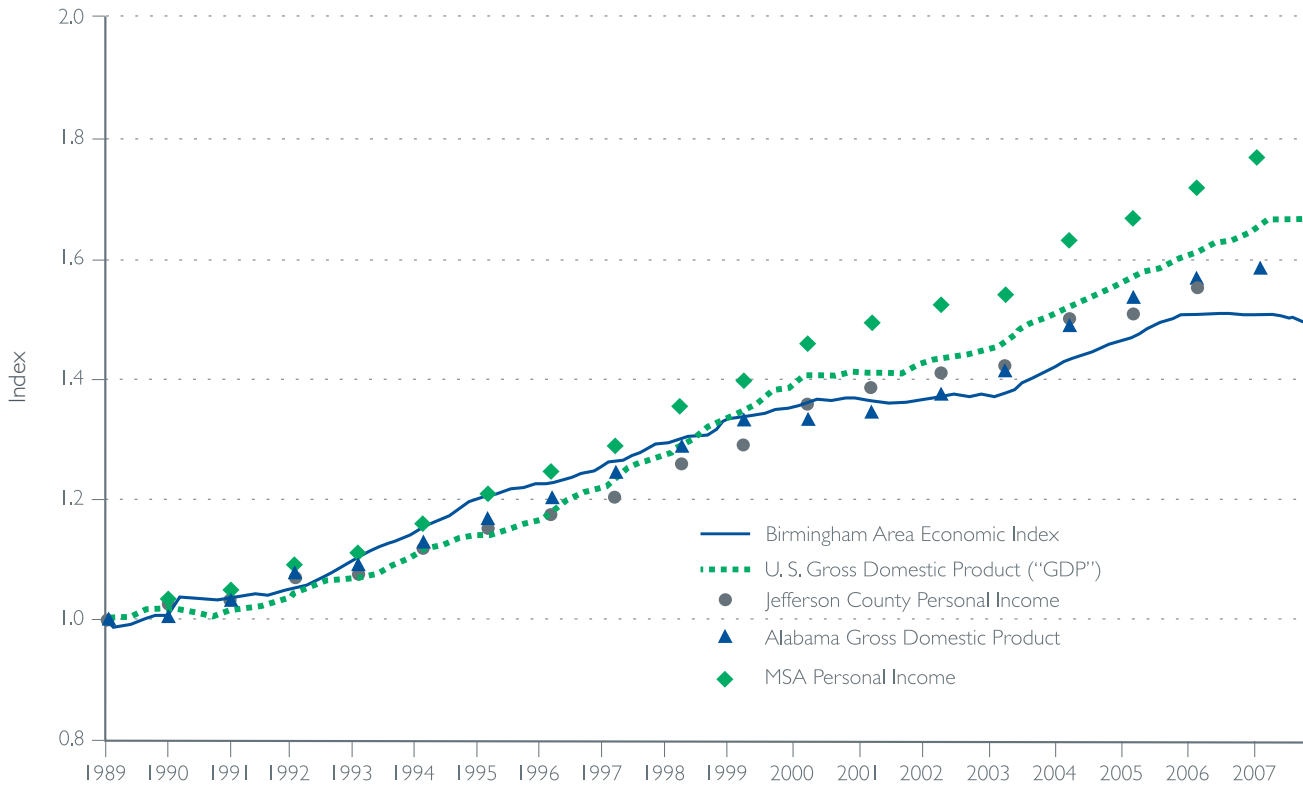
The duration and severity of this recession remains to be seen. Given the poor performance of several local indicators compared to earlier recessions, Birmingham will likely experience more pain than in any period since the Great Depression.

City of Birmingham Occupational Tax Collections (Not adjusted for inflation)



Source: City of Birmingham Finance Department

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
September 2008

	% Change from Previous 12 Months	Twelve Months Ending		Month Ending	
		September 2008	September 2007	September 2008	September 2007
Local Indicators					
Jefferson County Retail Sales (000) (1)	-1.7%	\$9,544,087	\$9,709,479	\$744,677	\$791,144
Jefferson County Hotel Revenues (000)(1)	2.9%	\$198,537	\$193,012	\$16,195	\$17,417
Jefferson County Occupational Tax Collections (000) (1)	2.3%	\$68,523	\$66,980	\$5,304	\$5,403
City of Birmingham Retail Sales (000) (2)	4.4%	\$3,848,050	\$3,687,009	\$239,812	\$259,834
City of B'ham Occupational Tax Collections (000) (2)	0.2%	\$77,424	\$77,266	\$6,391	\$6,556
City of Birmingham Hotel Revenues (000) (2)	-17.8%	\$92,615	\$112,659	\$221	\$174
Birmingham Area Housing Sales (3)					
Total Dollar Sales (000)	-26.5%	\$2,661,773	\$3,623,561	\$214,423	\$261,876
Average Sales Price	-2.6%	\$193,067	\$198,236	\$182,955	\$204,112
Number of Units	-24.6%	13,761	18,244	1,172	1,283
Birmingham MSA Single-Family Housing Starts (4)					
Total Dollar Value (000)	-47.2%	\$487,501	\$922,749	\$30,624	\$50,652
Number of Units	-48.0%	2,805	5,391	180	268
Birmingham MSA Nonresidential Building Contracts (3)					
Total Dollar Value (000)	19.4%	\$1,066,516	\$893,356	\$69,261	\$19,295
Birmingham Airport Passengers Boarded (5)	1.0%	1,603,623	1,587,351	113,849	129,295
Birmingham Division Commercial & Industrial Electricity Sales (GWH) (6)	0.4%	10,007	9,964	859	861
State Indicators					
Alabama Income Tax Collections (7)					
Corporate Tax (000)	8.8%	\$554,498	\$509,862	\$92,065	\$77,881
Individual Tax (000)	2.8%	\$3,608,463	\$3,511,759	\$304,898	\$301,875
Alabama Retail Sales (000) (7)	0.6%	\$57,608,294	\$57,275,279	\$5,064,498	\$4,760,358
Alabama Gasoline Tax Collections (000) (7)	-2.0%	\$404,264	\$412,509	\$34,491	\$36,123

	% Change from Previous Year	Current Year		Previous Year	
		September 2008	August 2008	September 2007	August 2007
City Employment					
Birmingham Unemployment Rate (8)	2.1%	6.4%	6.5%	4.3%	5.0%
Hoover Unemployment Rate (8)	1.1%	3.1%	3.0%	2.0%	2.3%
Birmingham-Hoover MSA Employment					
Goods-Producing Employment (000) (8)	-1.5%	81.5	81.6	82.7	82.2
Service-Providing Employment (000) (8)	0.2%	450.9	450.7	450.2	449.2
Unemployment Rate (8)	1.5%	4.7%	4.7%	3.2%	3.6%
State of Alabama Employment					
Goods-Producing Employment (000) (8)	-2.4%	413.5	414.7	423.8	422.2
Service-Providing Employment (000) (8)	0.5%	1,598.4	1,594.7	1,589.8	1,582.8
Unemployment Rate (8)	1.8%	5.3%	5.3%	3.5%	3.9%
Average Manufacturing Per-Hour Wage (8)	-0.2%	\$15.72	\$15.76	\$15.75	\$15.75
Average Manufacturing Work Week (Hours) (8)	0.0%	40.3	40.3	40.3	40.3
Alabama Indicators					
Bloomberg Alabama Index (9)	-22.6%	312.7	369.2	404.3	393.5
National Indicators					
Consumer Price Index (9)	4.9%	218.8	219.1	208.5	207.9
Unemployment Rate (8)	1.5%	6.0%	6.1%	4.5%	4.6%
S&P 500 Index (9)	-23.6%	1,166.36	1,282.83	1,526.75	1,473.99

(1) Jefferson County Department of Revenue (2) City of Birmingham, Finance Department (3) Alabama Real Estate Research and Education Center (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.