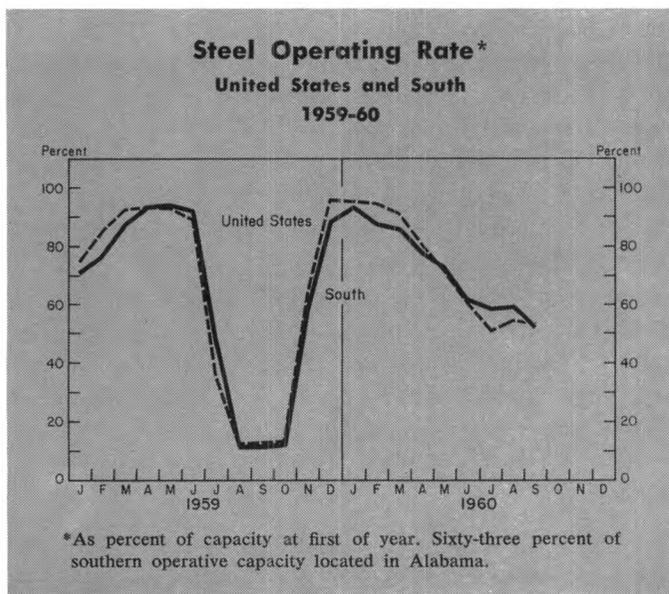


When we think of Alabama's manufacturing, we think of steel. And if one walks into a steel mill these days, he sees blast furnaces working far below capacity or not at all. As the chart shows, steel mill activity in the South and in the nation had reached near capacity by January this year, following the nation-wide strike. Thereafter, because the nation's steel users had accumulated inventories excessive of needs despite the strike, demand declined. Accordingly, less and less of capacity was used as 1960 progressed, and fewer and fewer workers were employed in steel mills and in mining bituminous coal. Between January and September, employment in these areas dropped by about 6,000, or 2.5 percent of Alabama's total manufacturing employment.



We can overemphasize the effect of this year's declines in steel production on Alabama's whole economy, however. Although the steel industry has suffered as severely in Alabama as elsewhere in the nation, total nonfarm employment in Alabama has for nearly a year hovered about the high level reached in July 1959, just before the strike. Manufacturing employment also has held up over that time. Total manufacturing payrolls have dropped sharply only since July. Bank debits—a measure of spending by individuals, businesses, and governments—and department store sales show a rising tendency in recent months. The amount of outstanding loans at member banks has stabilized at record levels.

Just what has kept Alabama as a whole on top, economically speaking? Compare the economy of Alabama with that of a state dominated by one or two industries. The answer is diversity. Iron and steel production employ only 5 percent of Alabama's active labor force. Even in Birmingham, the South's steel capital, over 80 percent are otherwise employed. Thus, although employment in steel and related areas declined, high and rising demands

Diversity Sustains

in both local and national markets sustained other kinds of economic activity in the state.

Within manufacturing, moderate employment gains during 1960 in fabricated metals, apparel, food processing, and stone, clay, and glass, have approximately offset the decline in steel. Manufacturing employment of other types has changed little or declined only slightly. Moreover, employment in such other nonagricultural sectors as services, trade, and construction has increased more than seasonally in recent months.

Construction activity has been spurred in 1960 by a higher rate of plant building and extension than in 1959. These plants are creating new job openings in more than half of Alabama's 67 counties. They will produce steel fabrications, and also such widely differing commodities as plastic webbing, surgical supplies, windows, and paint, thus contributing further to Alabama's diversification. We might add that producers' optimism reflected in such capital investment is partly responsible for sustaining the present level of activity.

Gains in nonmanufacturing employment are not entirely attributable to private demands, however. Increasing public needs have kept the trend in state and local government employment moving steadily upward, contrary to the tendency for private sectors to taper off. The rising trend was noticeable this summer when more governmental jobs were filled, partly offsetting the seasonal decline in school employment. Civilian employment by the Federal Government increased only slightly during the same period, except in April when 2,500 Census workers were temporarily hired.

According to estimates prepared by this Bank, a 5-percent increase in personal income accompanied the higher employment levels recorded in the first eight months of 1960 over the first eight months of 1959. Increased earnings rates in some nonfarm sectors were responsible for part of this gain.

Farm income has not changed appreciably from last year, however, judging from cash receipts data. During the first seven months of 1960, livestock receipts were somewhat above the comparable months in 1959, but due to unfavorable weather in February and March crop receipts were lower.

The increase in personal income as a whole gave a boost to spending at retail concerns, too. On the basis of sales tax receipts data, total sales were estimated to advance 7 percent in the January-July period 1960 over the same period 1959. Food sales, accounting for over 17 percent of total retail sales, gained by nearly 14 per-

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cent. Automotive sales, about 13 percent of retail sales, were up by 4 percent. The rise in auto sales is reflected in a small increase in the number of new auto registrations. Department store sales, according to actual sales data, show revived strength since April.

All this should not suggest that steel declines have failed to leave their imprint on Alabama's economic landscape, or that there are no other sources of weakness. Cities directly affected by steel lay-offs—Birmingham, Anniston, and Gadsden—have suffered declines in non-farm employment from pre-strike levels.

In Birmingham, cutbacks in production at a major aircraft plant in late 1959 magnified employment losses from a year ago. Since June, over 6 percent of Jefferson County's civilian labor force was unemployed, even though the available labor force itself declined considerably. This was above the state's ratio of about 5 percent. Repercussions of reduced employment in Birmingham have been severely felt in the demand for new houses. Contracts awarded for residential construction were off 29 percent during the first eight months of this year from that period in 1959, almost twice the decline observed for the nation.

In Anniston and Gadsden, spending, as suggested by percentage increases in bank debits, rose substantially less than in other areas of the state during the first nine months this year over the same 1959 period.

Signs of softness in Alabama's economy are observed not only in production and employment, but in consumer spending as well. A sharp upturn in time deposits early this year, accompanied by a continued strong uptrend in savings and loan capital, possibly indicates that greater portions of income increases are being saved instead of spent. (A similar upward movement of liquid savings is observed nationally.) In that case the impact of increased income on further spending and employment would be smaller than in the recent past.

We have shown that Alabama can prosper in spite of low levels of steel operation. Nevertheless, the importance of steel to Alabama should not be underestimated. Production losses were severe enough during last year's strike to cause noticeable dips in total employment and income. If expected completion of steel inventory liquidations accompanied by new-plant construction and the production of autos and producers' durable equipment should materialize, an element of optimism is in sight for Alabama's near economic future. It will be necessary, however, to watch developments in other sectors as well.

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