

Alabama Economic Outlook 2011



Center for Business and Economic Research
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Huntsville



Activity related to the 2005 Base Realignment and Closure (BRAC) decision to bring the Missile Defense Agency, the Army Materiel Command, and several other agencies to Redstone Arsenal was the largest driver of

economic development in the Huntsville metro area during 2010. With completion of all moves mandated by September 2011, BRAC will continue to dominate this year. About 1,900 federal government employees were added between October 2009 and October 2010, giving the sector a 9.3 percent share of nonfarm employment compared to the state's 3.0 percent. That does not count the many contractors doing work for the U.S. government in areas including national defense and space exploration. Changing emphases in both segments cost Huntsville's dominant professional, scientific, and technical services business sector about 1,400 jobs during the year. With 31,400 employees, these firms accounted for 14.9 percent of the metro's total in October 2010. Retailers and education and health service providers each added around 400 jobs over the 12 months.

Total nonfarm employment in the Huntsville metro averaged 209,000 for the first 10 months of 2010, about the same as in 2009, but 2.5 percent (5,300 jobs) below the 2008 annual peak of 214,300. Unemployment stood at 7.2 percent in October, lowest among the 11 metro areas and down from 7.9 percent a year earlier. Huntsville's labor force grew 4.4 percent between October 2009 and October 2010 for the largest gain of the metros, while the number of employed residents rose a larger 5.3 percent. The many engineering, science, and technical jobs make average wages the highest in the state—the 2009 average of \$46,220 amounted to 106 percent of the U.S. and 123 percent of the Alabama average.

Huntsville's resilience during the recession and subsequent recovery, its diversified base of technical employment and advanced manufacturing, and the growing federal government and contractor presence put the area on the radar of numerous rankings during 2010. The city came in at #3 among the Milken Institute's "Best Performing Cities 2010" in terms of creating and sustaining jobs; at #8 on *Forbes* list of "Best Places for Business and Careers;" and was selected as 7th among attractive metro area business locations by *Area Development*. Projecting job growth averaging 2.8 percent annually from 2008 through 2013, Moody's Economy.com ranked Huntsville 2nd of 387 metros. This was close to IHS Global Insight's forecast of 2.7 percent annual employment gains through 2015. Looking back over deals during the last

15 years, *Southern Business & Development* placed Huntsville at the top of mid-market metros among "250 Best Places in the South to Locate Your Company." The area's culture of innovation was recognized with *Entrepreneur* putting Huntsville at the top of its "Small Towns, Big Opportunities" list. A highly educated population, favorable cost of living, and quality of life also factor into many of these ratings, including *Relocate America's* selection of Huntsville as #1 among the "Top 10 Best Places to Live in 2010," Kiplinger.com's pick as one of "10 Great Cities for Raising a Family," and *Money/CNN.com's* listing among the 25 most affordable places to buy a home.

With 4,600 federal military and civilian jobs at salaries averaging \$80,000 and even more contractor positions expected, as well as around \$450 million in military construction on Redstone Arsenal, the economic impact of the 2005 BRAC law is enormous. Construction, recruiting, and personnel relocations continued in 2010, with the final wave in 2011 leading up to the September deadline. Reports at midyear indicated that about 55 percent of BRAC hires were from outside the North Alabama area, a welcome sign to the many professional and technical services firms who need to maintain their own specialized workforces.

Movement of the Army Materiel Command (AMC) is the most challenging as this procurement arm of the Army must keep up global operations while relocating almost 1,400 employees; the move is expected to be complete by July. Bringing Redstone's first four-star general and an annual budget of more than \$49 billion, transfer of the AMC will raise the profile of the base and increase air traffic and hotel occupancy as the many suppliers visit AMC. Huntsville's Harris IT planned to add about 30 employees for work at AMC's new headquarters, slated to open this summer. In non-BRAC moves, the Army Contracting Command and the Expeditionary Contracting Command will also relocate to Redstone Arsenal, bringing about 235 civilian and 80 military positions. The U.S. Army Security Assistance Command, which handled foreign military sales totaling \$23.9 billion in 2009, has finished moving personnel and will occupy its new headquarters building in 2011. Defense Acquisition University, in Huntsville since 2002, has expanded facilities and faculty and staff to serve a growing demand for advanced training in military procurement and contracts.

Transferring the headquarters of the Missile Defense Agency (MDA) to Huntsville expanded the area's already-robust missile research and development emphasis. BRAC adds 2,248 positions to the 2,591 MDA employees already at Redstone; about 4,400 jobs were in place in December 2010 at salaries averaging \$108,000. One new Von Braun MDA office building is already occupied and a final one is slated for completion in April. With an almost entirely civilian workforce, the Missile Defense Agency will be recruiting about 200 college graduates annually into its Career Development Program as it looks to fill

retirements and add to staff. The already-large number of area firms that work on MDA contracts continues to grow, and a number of companies with a local presence won new contracts during 2010. Among these are Northrop Grumman and a team including Boeing, Lockheed Martin, Harris, Colsa, and others with a five-year \$577 million contract to develop the Integrated Air and Missile Defense Battle Command System (IBCS) that could create around 300 jobs. APT Research will add more than 100 employees to provide engineering and support services to MDA, while Lockheed Martin plans to hire 200 in engineering and support at its new Medium Extended Air Defense System battle management and test facility. Companies including Bastion Technology and Kratos were awarded contracts for MDA engineering and support services and CSC will be working on MDA infrastructure and deployment services.

With the culmination of an influx of BRAC personnel and their families rapidly approaching, the Huntsville area is facing the challenges of providing adequate infrastructure, particularly in terms of roads and schools. Office space to support contract activity at Redstone Arsenal should not be a problem though—the Redstone Gateway Office Park on 470 acres at Gate 9 began site preparation late in 2010 and should have its first office building ready by the end of 2011. Developed as a joint venture by LW Redstone with infrastructure under the auspices of the City of Huntsville, the park is expected to include as many as 52 large office buildings for up to 15,000 government workers and contractors, two hotels, retail space and restaurants, an academic campus, and an outdoor concert venue.

2010 was a year of flux for another pillar of the Huntsville economy, NASA's Marshall Space Flight Center (MSFC) and the many area firms that work on MSFC projects, due to new priorities for space exploration and research. While some initiatives, such as extending the life of the International Space Station, completing the shuttle missions, and developing a new heavy-lift rocket are positives for Marshall, about 1,500 Huntsville contractors and 700 government workers at MSFC were involved in the scuttled Constellation manned space exploration program. Although the continuing budget resolution maintains the program through early March, NASA sharply curtailed funding for Constellation last July with the resulting layoff of around 500 people working for area contractors on the program. Jacobs Engineering and its subcontractors shed an estimated 300 employees in July and around 175 in October when further funding cuts were made. Boeing also terminated as many as 200 Constellation workers. NASA funding is expected to increase in the 2011 budget and MSFC, which turned 50 in 2010, will work on new missions, such as helping commercial companies develop rockets and cargo ships that would have come from Constellation. Huntsville companies, including Media Fusion, Millennium Engineering and

Integration, and SAIC were among those awarded NASA contracts in 2010.

Manufacturing has a significant presence in the Huntsville metro; at 26,600 in October 2010, employment amounted to 12.6 percent of the nonfarm total. Jobs fell by 500 over the past year as Continental Automotive systems moved to close down its Huntsville plant—employment at the plant dropped from 1,280 in September 2009 to just 250 in mid-November 2010. Business picked back up this year at Toyota’s engine plant; start-up of 4-cylinder engine production in summer 2011 will bring annual capacity to over 500,000 engines and create more than 200 jobs. Navistar Diesel recalled its employees who had performed nonprofit work for three months instead of being laid off. Norris Cylinder opened in the bankrupt Taylor-Wharton plant, while Huntsville’s Wolverine Tube is restructuring under Chapter 11 bankruptcy. Athens saw growth in its manufacturing sector: an expansion at Custom Polymers PET added 60 jobs; the new MAI manufacturing plant will employ 30 making insulation and ventilation systems; and Pilkington North America will supply glass assemblies to Honda.

Both high-tech manufacturing and service industries continued to grow in 2010. Raytheon will build its new missile plant to produce the Standard Missile-3 and the SM-6 on Redstone Arsenal in two phases, with hiring beginning in 2011 and employment expected to reach 300. Madison’s Griffin Aerospace rolled out its first production of the Army’s M9M-171A Broadword unmanned Aircraft system during the year. And Science Engineering Services is expected to add 70 employees for work on Apache helicopters. A new facility for Huntsville-based Dynetics will include both office space and space for prototype development and low-rate production; construction should be complete in 2012 and employment is expected to grow by about 350 over three years. Vector Aerospace’s new office will provide support for U.S. Army aviation operations at Redstone with MRO services. MicroTech and Summit 7 Systems are among companies setting up offices in Huntsville during the past year. Analytical Services completed a second building with plans to add about 100 employees, while CSC consolidated many of its employees in a new headquarters at Bridge Street Town Centre. Looking to use software developed by Integraph as its core platform, Swedish company Hexagon AB is acquiring the company in a \$2.1 billion deal. And the many federal contracts awarded for national defense research, service, and IT needs will help support this segment of Huntsville’s economy during 2011.

Huntsville’s HudsonAlpha Institute of Biotechnology continued to grow in size and stature, adding new researchers and companies over the past year. The significance of the research conducted at the Institute was evidenced by the acquisition of Clariant by GE’s healthcare unit for \$580 million. In other biotech developments, Endo Pharmaceuticals purchased

Population

	7/1/2009	2008 to 2009		
		Number Change	Percent Change	Net Migration
Alabama	4,708,708	31,244	0.7	16,363
Anniston-Oxford	114,081	659	0.6	497
Auburn-Opelika	135,883	2,778	2.1	1,993
Birmingham-Hoover	1,131,070	7,924	0.7	3,975
Decatur	151,399	1,055	0.7	571
Dothan	142,693	1,247	0.9	822
Florence-Muscle Shoals	144,238	412	0.3	435
Gadsden	103,645	210	0.2	254
Huntsville	406,316	9,088	2.3	7,077
Mobile	411,721	2,589	0.6	691
Montgomery	366,401	805	0.2	-1,130
Tuscaloosa	210,839	1,937	0.9	1,063

Source: U.S. Census Bureau, Population Estimates Division.

Huntsville-based Qualitest for \$1.2 billion. Local institutions of higher education worked to forge ties with both government and private companies in order to provide graduates with relevant skills and experience. Construction could begin in 2011 on the University of Alabama in Huntsville’s (UAH) Center for Systems Studies that will fill a unique role of looking at how complex systems interact on government and commercial projects. Both Birmingham’s Southern Research Institute and Auburn University opened research offices in Huntsville in 2010.

The Huntsville metro sees a moderate amount of retail in-shopping, according to data from the 2007 Census of Retail Trade, with retail sales per capita of \$13,314 amounting to 108 percent of the Alabama average. Bridge Street Town Centre added several businesses during the year, including Atlanta-based Blue MedSpa and Jos. A. Bank. Construction got underway on a SpringHill Suites at the Constellation development that will open early in 2011; work on a Residence Inn by Marriott should get underway next. The area’s grocery business saw the closing of two Southern Family Markets and their replacement by Star Super Market, as well as the opening of natural foods grocer Earth Fare. Graham and Company reported retail vacancy rates in the area of around 11 percent in 2009, with a sizeable amount of vacant big box space.

Employment in financial services was stable during the past 12 months. Deposits in FDIC-insured banking institutions rose 1.6 percent during the year ending June 30 and, at \$7.2 billion, amounted to 8.8 percent of the statewide total. Data security operations for financial service companies could be a target for future development; the Boyd Co. gave Huntsville a top ranking for cost and potential and cited UAH’s National Center for Excellence in Information Assurance. Health services saw modest growth, with Huntsville Hospital

working on the first office building in its planned Hampton Cove Medical Park. In April the hospital broke ground on its \$65 million Madison Hospital, slated to open in 2012. Ticket prices and passenger boardings at the Huntsville International Airport were improved by the start-up of AirTran service in late May. Freight service grew during the year and Panalpina added flights from Huntsville to Hong Kong and Sao Paulo. Efforts by the city of Huntsville and Big Spring Partners to revitalize the downtown area proceeded in 2010, with renovations to the Von Braun Center and the Huntsville Museum of Art ongoing. The downtown canal project was completed with dedication of Rotary Plaza and a Sculpture Trail launched late in the year.

At 2.3 percent, population growth in the Huntsville metro was the strongest in the state during the year ending July 1, 2009—the addition of an estimated 9,088 new residents brought the total to over 406,300. Median family income rose slightly faster than the statewide average of 0.6 percent from FY2009 to FY2010; with income of \$68,000, Huntsville was the only area above the U.S. median. Building of homes and apartments in preparation for BRAC left excess inventory during 2010 as many BRAC transfers and new hires were not yet in place. Around 1,600 apartment units were added in 2008 and 2009, with another 564 under construction in 2010 and two more projects ready to start. As builders became more cautious, another six projects for around 2,000 units were put on hold and no new multi-family units were permitted during the first 10 months of 2010. Development of single-family homes proceeded at the same pace as in 2009, with 1,885 units permitted through October. Housing prices as registered by the FHFA House Price Index slipped a better than average 0.9 percent from third quarter 2009 to third quarter 2010.