

THE ECONOMIC SITUATION

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A quarterly report on economic trends.

Fall 1999

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Can It Really Get Better? It Just Did!

In 1982, early in the Reagan Administration, the Economic Report of the President predicted that GDP growth for the next five years would average 4.7%. This was in the hay days of supply-side economics and what many were even then calling the Reagan Revolution. Not many people believed the “rosy scenario.” And sure enough, when the record was generated, the economy failed to hit the projected high speed.

Long after Reagan, with people celebrating the information and Internet revolution, there were new expectations that the nation’s economy would become unleashed, that some kind of new records would be set. This didn’t seem to happen either. After pausing in 1991, the economy took off on a sustained path accompanied by a never-say-die bull market. Still, the pessimists said all the talk about a new economy was just a bunch of hoopla.

For almost 10 years now, economic activity has progressively improved, always with naysayers arguing that tight labor markets would stop it. While the pessimists played with their worry beads and unemployment reached record lows, the word went out: It just doesn’t get any better than this.

Well, the critics were wrong and those who said it doesn’t get any better were wrong as well. Don’t

take my word for it. That source of unassailable truth, the federal government itself, has come down on the side of the new information economy.

The U.S. Department of Commerce has just released a newly revised set of GDP data. Guess what? Just as promised by the first Reagan Administration, GDP rose 4.7% from 1982 to 1987. Then the difference between the old series and new became progressively larger with the newfound growth reaching a peak in 1998. GDP growth from 1Q1991 to 2Q1999 now averages 3.5% instead of 3.1%, and that ain’t hay. Along with the much larger growth came advances in productivity, giving credence to those who believe that a new high-tech world is fundamentally different from the one that spawned it. How sweet it is!

Now this year’s 4.8% third quarter GDP growth doesn’t seem all that outlandish. The soothsayers project fourth quarter GDP growth to hit 4.0%, instead of the 3.0% promised a few months ago. Generally speaking, forecasters are adding a positive tilt to their forecasts. The forecast for 2000 GDP growth comes in at around 3.5%, which is close to what 1999 seems to be generating. But, saying that things got better even when they couldn’t get better isn’t the same as saying we have discovered per-

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petual motion. What happens in credit markets could take a bite of economic pie.

GDP Growth Rates

			<i>Forecast</i>			
			1Q	2Q	3Q	4Q
1997	1998	1999	1999	1999	1999	2000
4.5	4.3	3.7	1.9	4.8	4.0	3.5

Interest Rates?

The relationship between the change in the yield on the 10-year government bond and the change in the Producer Price Index offers some information on future interest rate changes. Back in early 1997, the PPI began an erratic descent that more or less ended in November 1998. In January 1997 the index stood at 133.0. By November 1998, the index was 130.7. The trend reversed in December 1998. And now, in October 1999, the index stands at 134.5.

A somewhat similar picture is seen for the yield on the 10-year bond. On January 24, 1997, the yield was 6.62%. On November 24, 1998, the yield was 4.83%. A 1.7% decline in the PPI was associated with a 27% fall in the 10-year bond yield. When the PPI reversed its path, the bond yield turned north. Now, the bond is yielding roughly 5.97%, which is about 23% higher than the November 24 level. The PPI rose roughly 2.9% in the same time period. The relationship is obviously not perfect, but it is somewhat systematic.

So what?

There are no analysts predicting price deflation for the next 18 months. Most forecasters expect to see the price level rising a bit more, to something like 3.1%, as compared with the recent 2.9%. Most likely, some of the expectations are now included in credit market interest rates. To the extent they are not, we can expect to see the 10-year bond yield to rise to around 6.10% to 6.20% in the next quarter, and no more. Keep your fingers crossed.

Bringing Home the Bacon

The stalwart efforts made by a congressional delegation to bring home the bacon are sometimes referred to as engaging in pork barrel politics. Of course, part of the federal money churn relates to specific programs that are driven by demographic characteristics and the location of such things as military bases. Still, there can be little doubt about the matter. If we don't play the political game, we may end up with a dry platter.

Each year, the Tax Foundation provides a tally on how the individual states have fared in the tax and redistribute game. In 1998 South Carolina ranked 17th from the top. For each dollar sent to Washington in 1998, \$1.25 was returned to the state. We held on to our historic position. In 1988 the state received \$1.24 for each dollar exported. New Jersey citizens are 1998's big losers. They got back \$0.68 for each dollar sent to Washington. Smile next time you see a New Jersey license plate. The champion of pork barrel champions? The District of Columbia. The good folks there received \$6.26 in federal aid for every dollar shipped out. That's enough to make one want to spend a vacation riding the Washington Metro. The chart below shows how states in our region fared.

State 1998 Amount Received Per Dollar in Taxes

Alabama	\$1.41
Florida	1.02
Georgia	0.98
Mississippi	1.61
North Carolina	1.01
South Carolina	1.25
Tennessee	1.19
Virginia	1.51

The South Carolina Economy

The latest S.C. employment data show the workforce expanding at a healthy but somewhat diminished pace. On a year-over-year basis, September employment grew 2.3%, as compared with 2.6% in August and 2.7% in July. Much of the economy's strength has been found in the construction sector, which seems to be holding its own, but, as a result of higher interest rates, not growing. The state's manufacturing economy continues to see job growth in the durable goods sector, but larger job losses in nondurable manufacturing, yielding an overall loss in manufacturing employment.

Following almost explosive growth in 1999's first six months, the number of residential building permits issued in the state fell in September to slightly less than 1900, which is almost the same as the previous year's level. Hurricanes do matter. Some similar softening is seen in major metropolitan areas.

The state's tourism economy, as measured by accommodation tax receipts, also shows the effects of the early fall hurricanes. Tourism activity is strong and rising in the upstate and central midlands, but weaker than last year's level along the coast. Some of the bad weather effects are also seen in state retail sales, which weakened in September.

The state's economy is moving on a solid track that is generating stronger personal and corporate income growth than seen this time last year. An overall assessment of data suggests that economic activity across the next year will again be slightly stronger than that of the nation.

Looking for Heroes and Heroines

Clemson's new entrepreneurship program has sparked an old interest of mine in building a collection of stories about heroes—people who did extraordinary things for extraordinary reasons. Charles Kettering is an example. Known for his creative genius, Kettering founded Detroit Electric Laboratories, fondly known as DELCO, which was

later acquired by General Motors. The electric starter was one of his key inventions. But what led him to tinker with starters? This is where the hero part comes in. A very dear friend of Kettering was killed when his car engine backfired while being started with a hand crank. The friend was not the first one killed by a hand-crank. Starting an automobile was hazardous duty. Kettering swore to find a better way. And he did. He developed an electric starter that made the world a slightly better place, and he built a successful enterprise along the way.

While looking for heroes, I was reminded of a wonderful South Carolina heroine. As with Kettering, most people know her name. Mary McLeod Bethune is a well-known African American born in 1875 and reared by hard-working former slaves near Maysville. Taught the dignity of work by parents who had saved and sacrificed to buy their own land, Bethune persisted in her studies. Against the almost impossible odds of a sharply divided black and white world, she learned her three Rs and competed for and won a scholarship to attend Scotia Seminary in North Carolina. From there, she went to Moody Bible Institute in Chicago. After completing the Moody program, she took a series of teaching positions, first in Augusta, then in Sumter, later to Savannah, and finally to Palatka and Daytona, Florida. It was there, in Florida, that she founded a school that ultimately became Bethune-Cookman College, a highly successful educational enterprise. An advisor to presidents from Coolidge to Truman, Mary McLeod Bethune had that singular entrepreneurial trait: A definiteness of purpose. She knew what she wanted and allowed nothing to stand in her way.

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