

# THE ECONOMIC SITUATION

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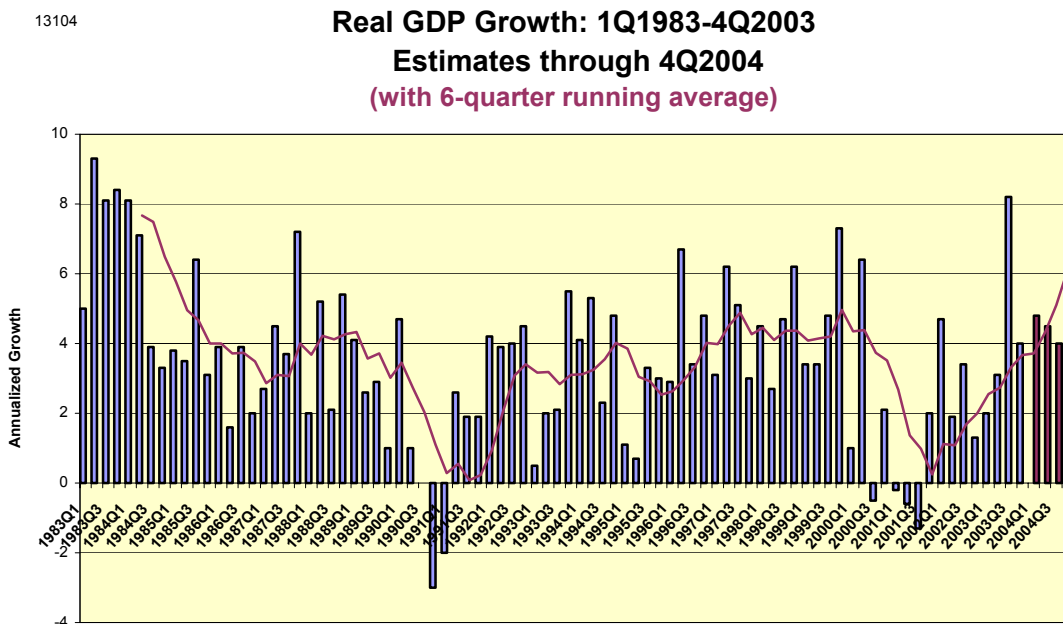
March 2004

- News on GDP growth shows strong future prospects.
- But what about jobs? Is there more to the story?
- Is the U.S. a manufacturing pygmy, or what?
- The uneven transmission of recession across the states.
- A thumbnail 2004 forecast for the nation and South Carolina
- Still looking for heroes.

## First, consider some almost good news!

Following the outstanding 3Q2003 GDP growth of 8.2%, hardly anyone expected 4Q2003 to be more than just average. But the preliminary estimate, 4.1%, came in above the average mark. The number will be revised, most likely slightly higher, but it set the standard for the year just ending. 2003, with all its difficulties, seems to have generated a better than average 4.1% annual growth in GDP.

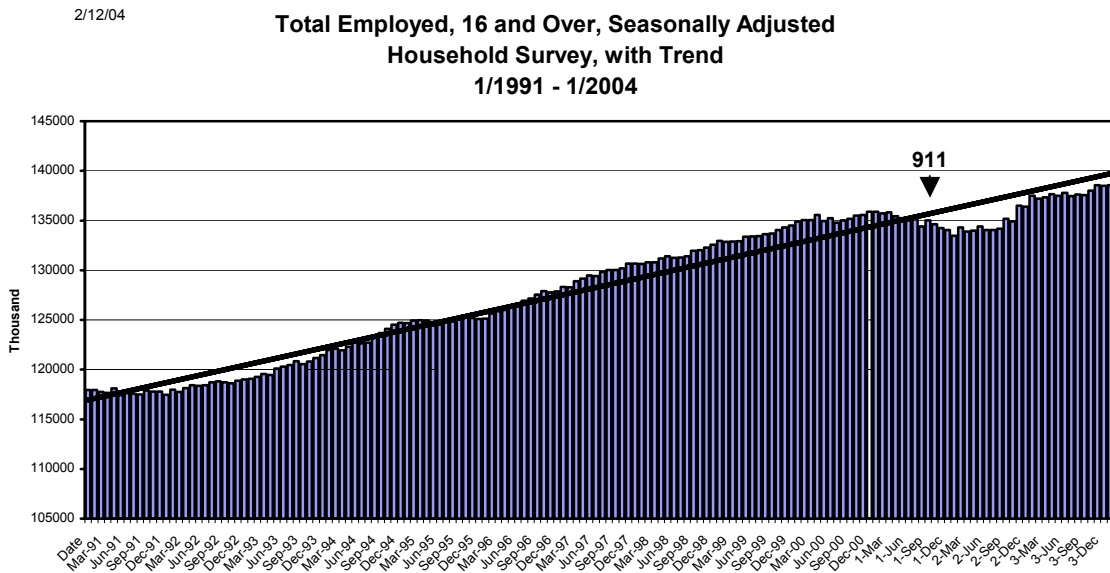
The GDP picture is shown below, along with estimates for the rest of 2004.



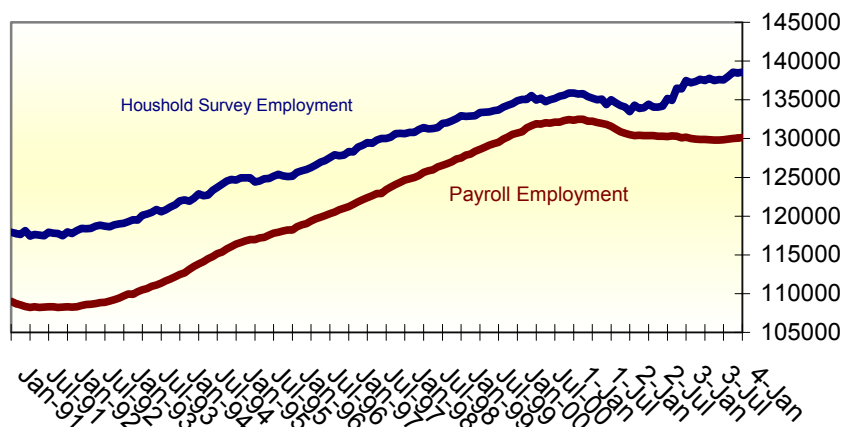
## What happened to the jobs?

Well, all that GDP growth is fine, but what about jobs?

The U.S. Department of Labor maintains two estimates of U.S. employment. As discussed in the December Situation Report, one of the estimates is based on a survey of firm payroll data. The other estimate comes from the monthly household survey, which is also where the much-anticipated monthly unemployment rate originates. The two estimates, one based on about 400,000 firms and the other based on a sample of some 160,000 households, give substantially different employment numbers. The next chart shows total U.S. employment based on the household survey. It indicates that there are more than 138 million people employed in the U.S., more than any time in history, and that there has been a recent positive nudge in the number.



## U.S. Total Employment: 1991 - 2004



The next chart maps both employment estimates. As seen here, the payroll-based total number employed has been frozen in time for months. Indeed, in the Bush years, more than two million jobs have simply evaporated. As suggested last month, the truth of the situation likely lies somewhere between the two estimates. Self-employed individuals, who are not a part of the payroll survey, make up an important component of the difference between the two reports. While this implies that our economy is generating meaningful employment growth, it's pretty clear that the job growth is not taking place in the nation's manufacturing sector.

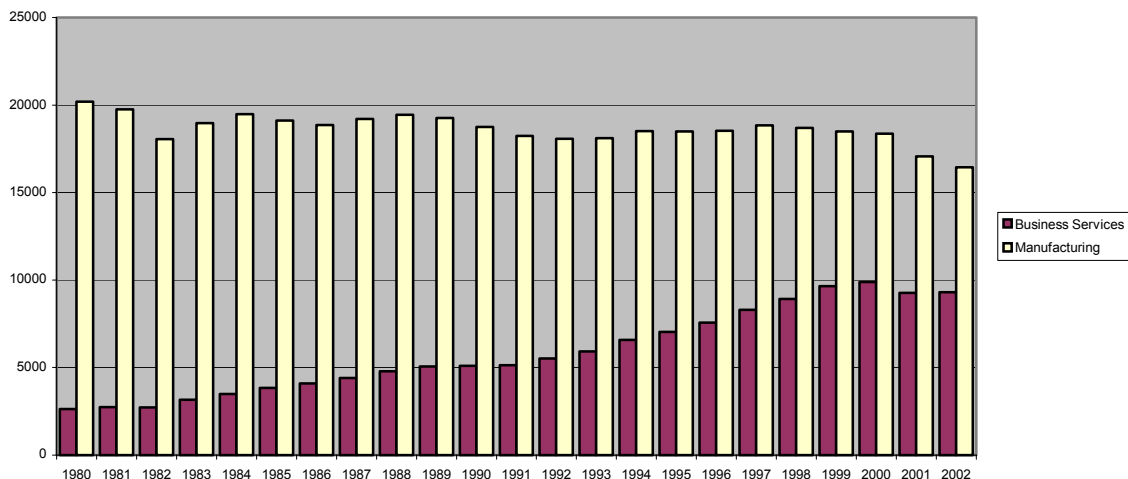
**Factories hire fewer, business services hire more.**

In recent years, manufacturing employment has fallen systematically, while employment in the business services category has expanded, just as systematically. A meaningful part of the business services job growth relates directly to manufacturing layoffs. Many manufacturing firms no longer operate warehouses, maintenance crews, and cafeterias. They contract out for these services.

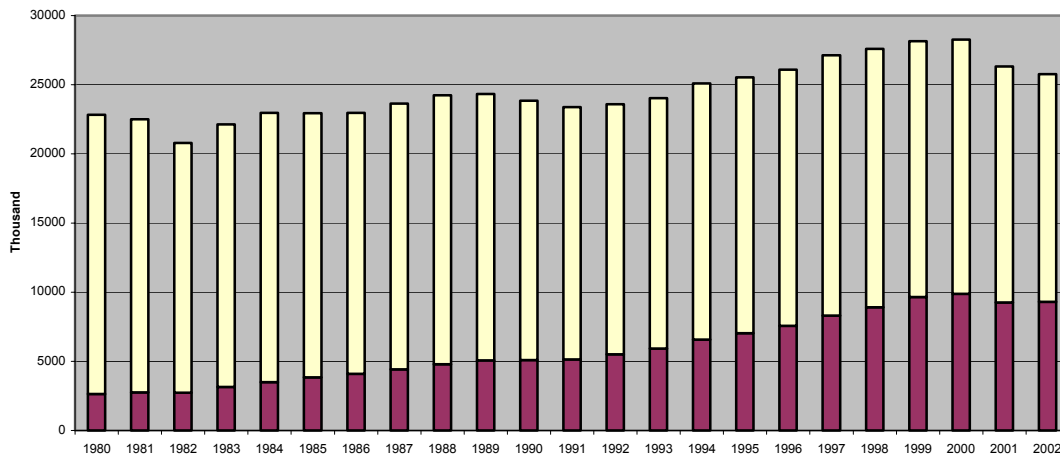
It's an oversimplification, but let's consider what happens when the two economic sectors—manufacturing and business services—are considered together. The next two charts do just that.

The first of these shows total employment for the two sectors, separately. Here we see the decline in manufacturing employment and the rise of business services. The next chart shows the two sectors added together. With this, we see some growth through time. Part of the manufacturing jobs that disappeared, but certainly not all, simply went on another payroll.

**Manufacturing and Business Services Employment, 1980-2002**



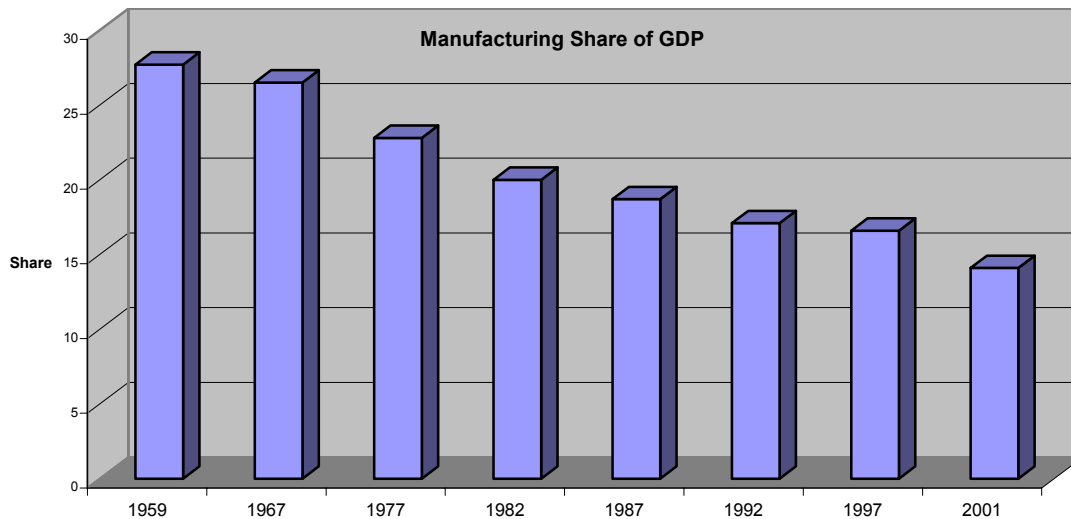
**Total Manufacturing and Total Business Services Employment,  
1980 -2002**



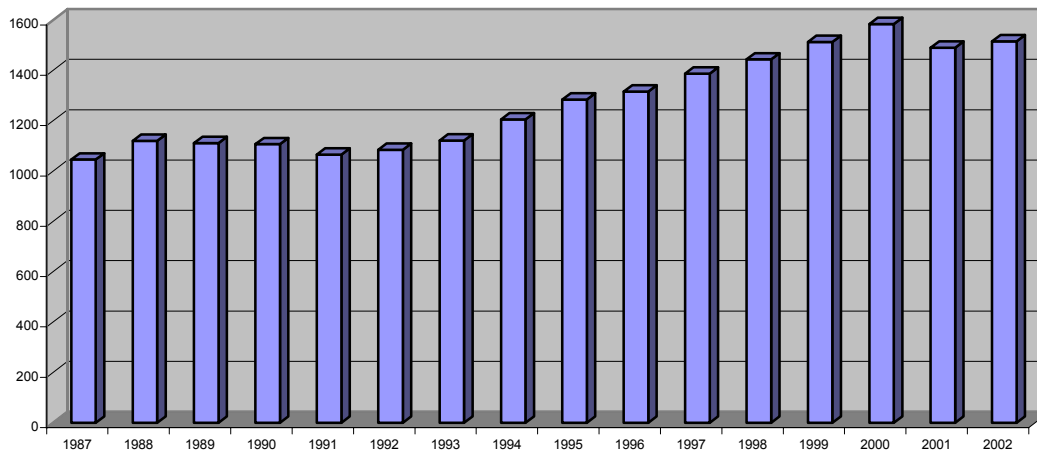
### **Is the U.S. a loser in manufacturing, or what?**

All this discussion of manufacturing employment doesn't get at the matter of manufacturing production or output. We know that it is possible to produce more with fewer workers. After all innovation and the use of labor-saving capital is at the heart of the U.S. economic story. This is why wages in manufacturing are so high. But is America becoming a manufacturing wasteland?

The next two charts address this question. The first of these shows a declining value for the share of GDP accounted for by manufacturing. Yes, growth of the U.S. economy has been driven by services and other sectors, not by manufacturing. The second chart examines the value of manufacturing output for the economy. Here we see the answer to the larger question. With the exception of recession years, we see that the value of output has risen substantially.



**Manufacturing Output**  
 Real Dollars: 1987 - 2002  
 (1996\$ Billions)



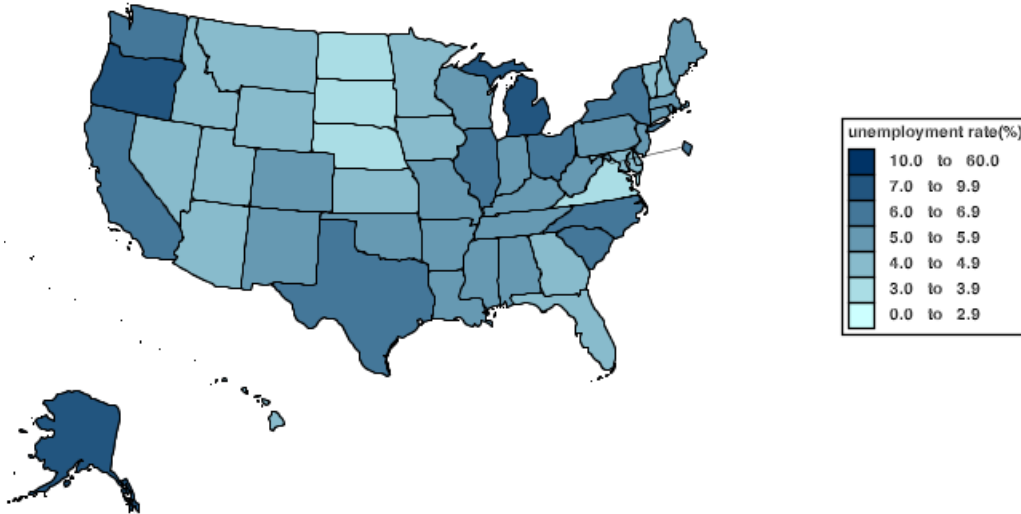
America is a manufacturing wonderland!

**Well, some of America is a manufacturing wonderland.**

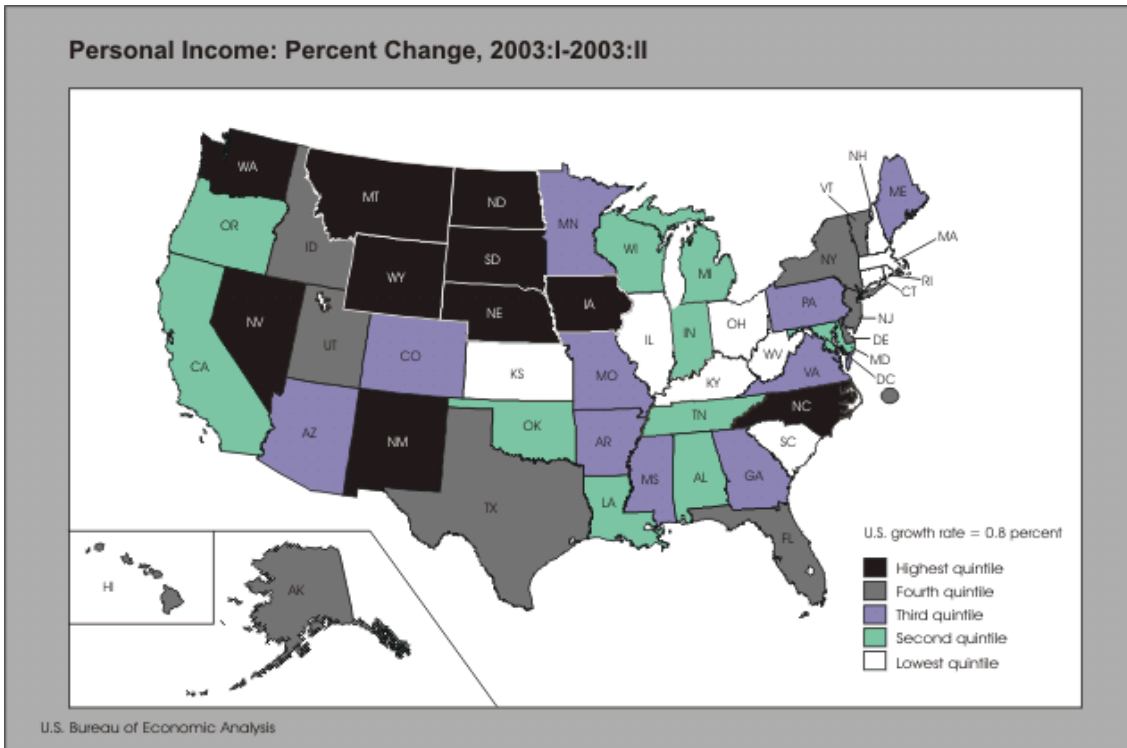
But, not all of it. In fact, those regions of the U.S. that have hardly any manufacturing base are the regions that show the greatest strength. They almost missed out on the recession? And then, there are those regions plagued by the popping dot.com bubble. They are hurting too.

Consider the accompanying U.S. outline map that shows the December unemployment rate by state. The picture is pretty clear. The manufacturing states, which include the two Carolinas, have been hurt much more than the commodity producers west of the Mississippi.

Unemployment rates by State, seasonally adjusted, December 2003



The differential employment effects naturally affect income growth across the states. The next chart shows differential growth in recent total personal income across the states. Note, especially, the weak performance for South Carolina.



### What are the future prospects?

There are at least three ways to consider future prospects. An examination of industries that are hot and those that are not may point to expanding and

contracting activities across counties and states. The next chart shows a ranking of U.S. industries based on their annual production indexes. The higher the index, the hotter the growth of the industry.

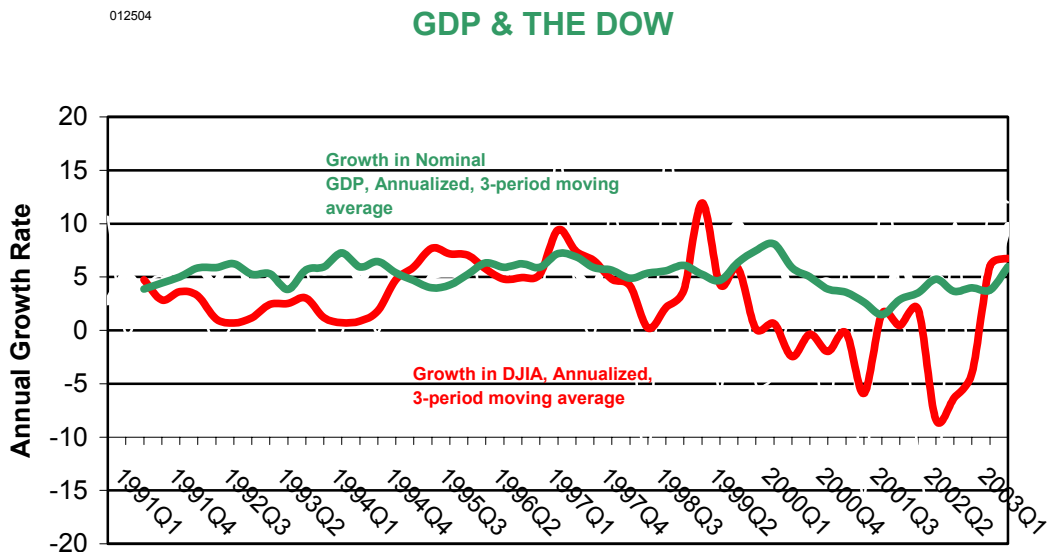
### PRODUCTION-BASED INDUSTRY RANKINGS

1972	1980	1990	2000	2003
Iron/Steel	Iron/Steel	Printing	Computer/EIEC.	Computer/Elec.
Apparel	Apparel	Apparel	Autos	Autos
Fab. Metal	Machinery	Paper	Plast/Rubber	Plast/Rubber
Food	Fab. Metal	Food	Fab. Metal	Fab. Metal
Paper	Paper	Chemicals	Machinery	Food
Machinery	Food	Iron/Steel	Food	Machinery
Chemicals	Chemicals	Fab. Metal	Chemicals	Chemicals
Autos	Printing	Machinery	Printing	Printing
Printing	Autos	Plast/Rubber	Paper	Paper
Plast/Rubber	Plast/Rubber	Autos	Iron/Steel	Iron/Steel

Source: Economic Report of the President, 2004.

The chart shows an interesting pattern of declining and expanding industries. Notice the relative decline of the Iron and Steel, and the rapid rise of autos. The data help in making a forecast about leading U.S. industrial activity in the next few years.

A second approach for discerning the future involves the movement of stock market aggregates, such as the Dow-Jones Industrial Average, which has a nice way of predicting 10 of the last 8 recessions. But hold on. The Dow-Jones may be more accurate than your favorite economist!



This chart maps GDP growth into growth in the Dow-Jones. The gap that existed in 1Q2003 is noteworthy. The Iraq invasion produced an oversold position. (We can say it now!) This closed quickly in 2003. At present, the Dow and GDP are moving neck-and-neck. This suggests that the Dow will perform like GDP this year, which is to say we should see 11,700 on the Dow by yearend.

An examination of a variety of economic forecasts gives a final way to consider economic prospects. The next chart provides something of a consensus for a variety of economic variables.

<b>2004</b>		
The Year Ahead		
(2003 year-end estimates)		
<b>GDP Growth</b>	<b>4.7%</b>	<b>(4.1%)</b>
<b>Inflation (Core)</b>	<b>1.5%</b>	<b>(1.1)</b>
<b>Prime Rate</b>	<b>4.50%</b>	<b>(4.00%)</b>
<b>Unemploy.</b>	<b>5.2%</b>	<b>(5.7%)</b>
<b>Dow-Jones</b>	<b>11,700</b>	<b>(10,600)</b>
<b>Employ Gain</b>	<b>125M/mo.</b>	<b>(0M)</b>
<b>30-Yr. Mort.</b>	<b>6.0%</b>	<b>(5.6%)</b>
<b>Oil</b>	<b>\$27.8</b>	<b>(\$34.6)</b>
<b>Gold</b>	<b>\$313</b>	<b>(\$346)</b>

### **South Carolina's prospects.**

The twin forces of textile decline and the industrial recession are seen in the next chart's count of S.C. manufacturing employment. Notice that manufacturing employment was already declining when the recession's forces hit the state. After 2000 the decline accelerated. By then, all industries—durable and nondurable goods, were affected. Obviously, there were exceptions to this decline to be found among certain firms. BMW's expanding output was one major exception.



### South Carolina: Employment: Manufacturing; SA

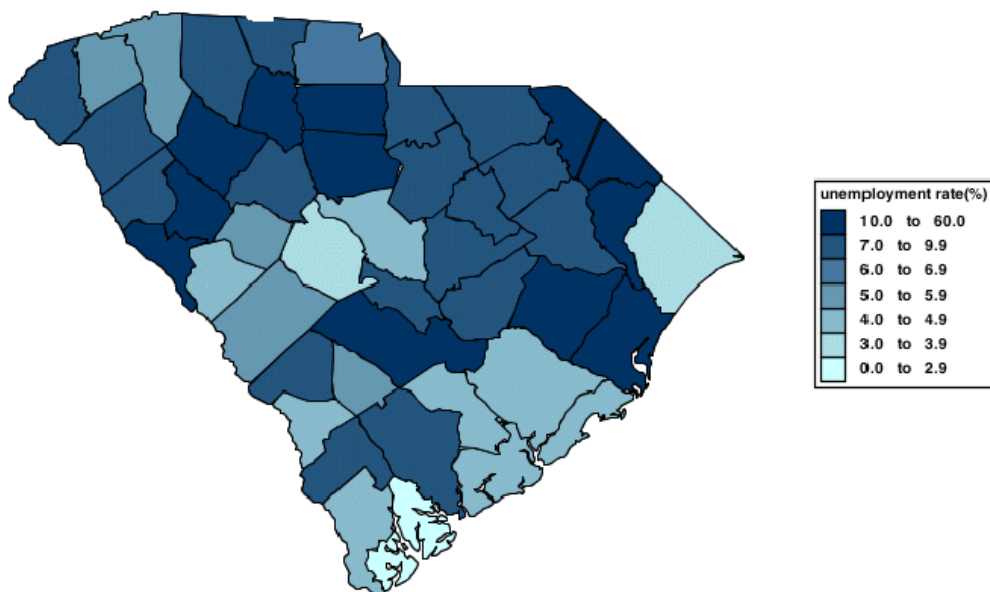


Because of South Carolina's heavy industrial concentration, the negative forces of the manufacturing recession were transmitted to every other sector. Indeed, total employment growth simply stopped. For example, over the last 12 months, just one sector of the state economy registered growth in employment, and that was public utilities and mining.

The transmission of the recession across South Carolina counties is revealed in the next chart, a S.C. county outline map of unemployment rates for November 2003, which are the most recent data. The darker counties have the highest unemployment rates.

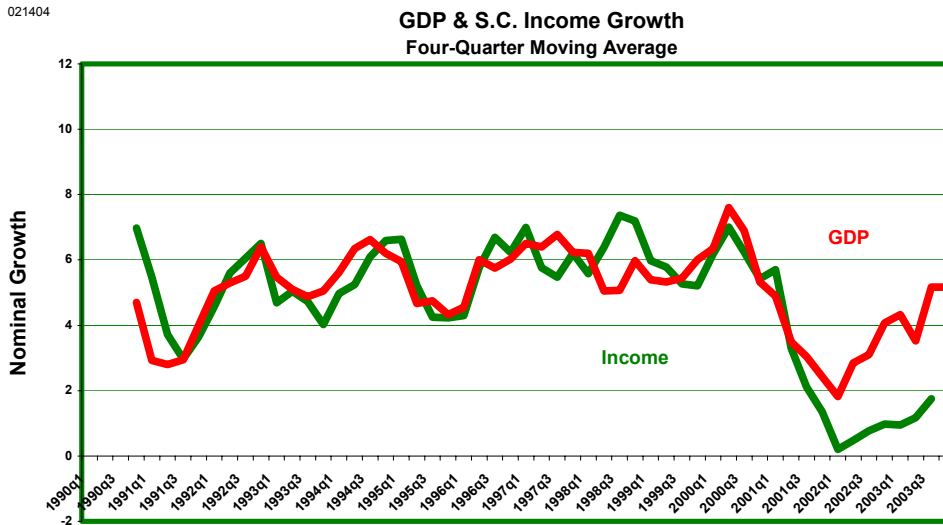
The specialized textile counties, which run from McCormick, Anderson, Abbeville, Greenwood, Laurens, Union, and which touch Greenville and Spartanburg, form a darker swath across the map. Generally speaking, the state's urban areas have performed better. And generally speaking, the coastal counties are stronger than those in the Upstate.

## South Carolina County Unemployment, November 2003.



South Carolina's economy is tied to the nation's economic engine. As indicated in the earlier GDP chart, the nation's economic engine is performing rather well. Following an almost record high growth in 3Q2003, the outlook for the next few quarters is strong. Most forecasters predict that 2004 will show real GDP growth of more than 4.5%. For January 2004, the nation's unemployment rate was 5.6%, with job growth accelerating. South Carolina's unemployment rate is 6.1%, was job growth beginning.

Transmission of GDP growth to growth in S.C. total personal income is shown in the final chart. As seen here, the state's economy has tracked the nation's economy rather closely, until the recent industrial recession. South Carolina's industry specialization formed an economic sand trap that has not been easy to escape.



The data here also show that South Carolina's income engine is accelerating. The GDP forecast for this and next year calling for 4.5% growth promises that South Carolina will be out of the sand trap and back on the greens again.

### **In the eyes of many, he's a new hero.**

Greg Pregracke is a 28-year old man on a mission. Born and reared on the banks of the Mississippi River in the Illinois Quad Cities area, Greg fell in love with the river at an early age. It was later that he decided someone ought to do something about all the trash, junk, and debris that had accumulated along the river's banks. Looking around for someone to blame, and to do a cleanup, he found himself looking in the mirror. With nothing but the shirt on his back and an old pickup truck, he started hustling for the river. He obtained a grant from Alcoa and that under his belt, he formed Living Lands and Waters. The goal? To clean the shores of the Mississippi River.

(Oh, come on, nobody can really do that!)

In 1997, Greg and volunteers cleaned 100 miles of Mississippi shoreline. In 1998 he cleaned another 438 miles. In 1999 he took on the Illinois River and established an Adopt-A-Mississippi River Mile program. Still cleaning the Mississippi using 16 community cleanups, he and his associates, now with a barge they salvaged and a rebuilt tug boat, took on the Ohio River. He and volunteers restored the Ohio shoreline from Owensboro, KY, to Louisville, KY. In 2003, he moved his operation to the Missouri, and in 2004 he will be working on the Potomac. Meanwhile the Mississippi cleanup continues.

In 2002, Greg Pregracke, Rudolph Giuliani, Bill and Melinda Gates, and Likely Tartikoff received the Jefferson Award, America's version of the Nobel Prize for public service. By 2003, he and his many associates had removed 1.6 million pounds of junk and waste from the rivers they had worked.

His organization, Living Land and Waters, is a private firm that relies on private donations of money and work.

Greg Pregracke has shown what one person can do who truly cares about the environment.