THE ECONOMIC SITUATION

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- **Has the Goldilocks economy returned?**
- **National employment patterns are looking better.**
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- **Looking for heroes: Mr. Ford and his Model T.**
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The economy at mid-year: Has Goldilocks returned?

The June employment numbers released just before July 4th were not quite firecracker hot. Now in the mood of what have you done for me lately, economy watchers lamented the fact that employment growth had fallen to some 116,000 net new jobs, this after several months at twice that level. Perhaps expecting just that sort of criticism, the Bureau of Labor Statistics reminded us that since August 2003, the economy had generated some 1.3 million new jobs. Even manufacturing was waking up.

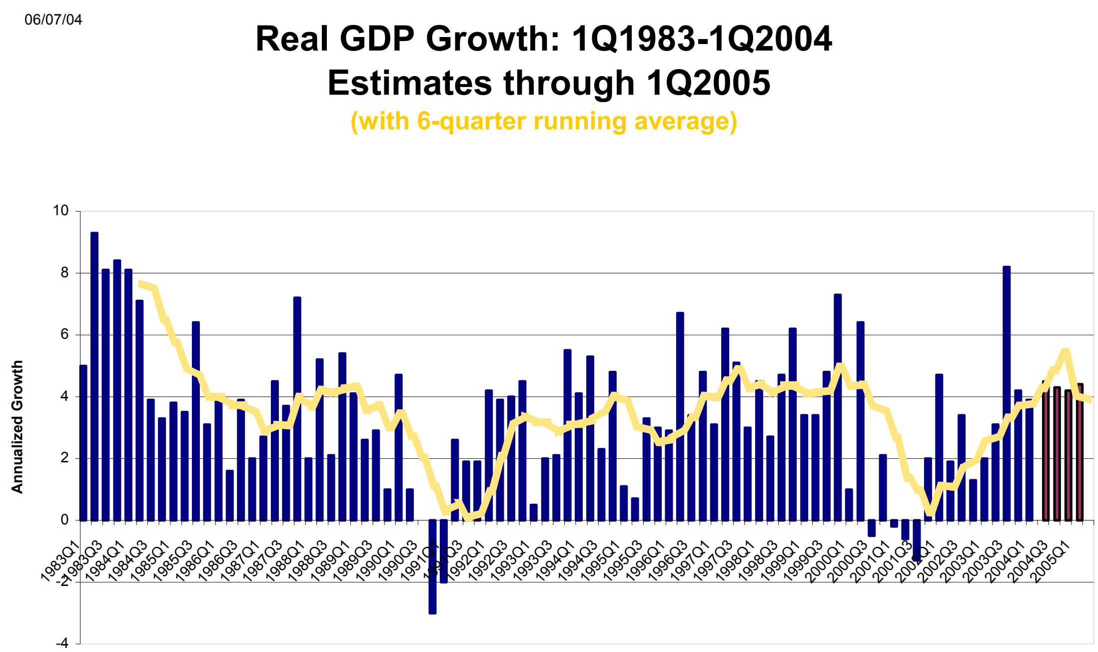
Along with the positive, though weaker, job numbers, came similar data from the Purchasing Managers Association. Their June manufacturing index, down a bit from the previous month, grew for the 13th consecutive month, while their index for the general economy recorded its 32nd consecutive month of positive growth. In all, some 17 industries reported growth. Textiles and apparel were on the positive side of the growth ledger.

The moderating, but still strong, growth reported by the purchasing managers was reflected also in revisions for 1Q2005 GDP growth. The number was revised down from 4.1% real growth to 3.9%. Adding their assessment of the situation, the Wall Street Journal's panel of 55 economic experts came in with a composite mid-year forecast of 4.4% growth for this year's second and third quarters, and 4.2% for the last quarter of the year. The panel was less optimistic about 2005, calling for 3.7% growth for the year.

So while the largest economic firecrackers were not popping off, some smoother firing Roman candles were sending positive signals. When all this somewhat moderate news was digested, village soothsayers nationwide had something to smile about. The just right Goldilocks economy appeared to be returning. And why the smiles? This time around, the Fed may be somewhat mild mannered. The Fed's 25 basis point June increase is a case in point. Let's hope Goldilocks makes it. But there are still any number of economic bears in the woods, and the Iowa Student Futures market predicts an 80% chance that the Fed will raise the rates again in August..

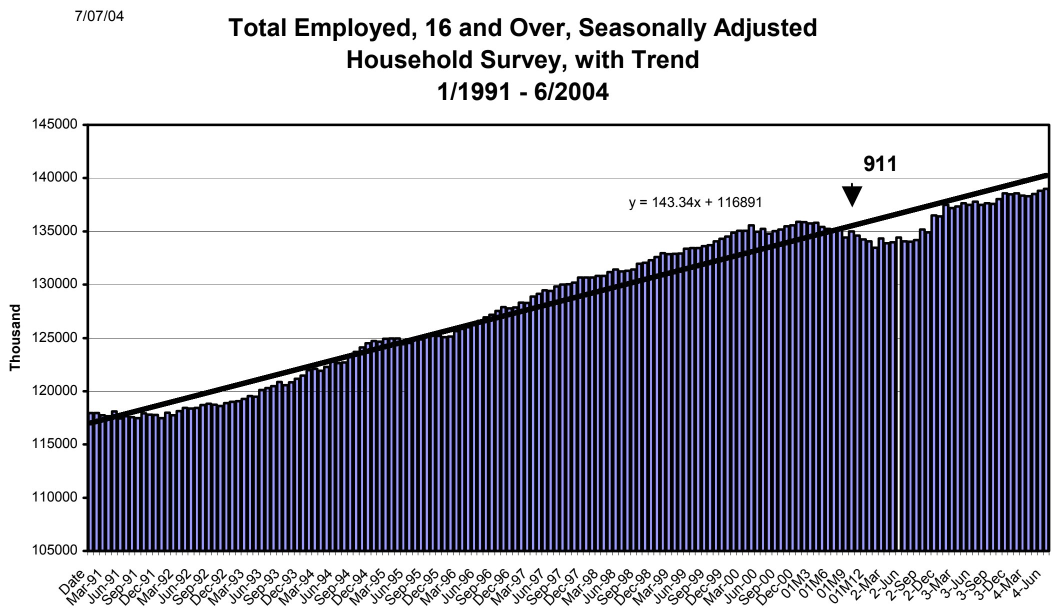
Looking at things in terms of GDP.

The next chart gives the latest rendering for GDP growth along with a six-quarter running average that smooths away some of the bumps in the road. If Goldilocks returns, we will have a growth period that will compare with that of the 1990s. And that would be pretty good.

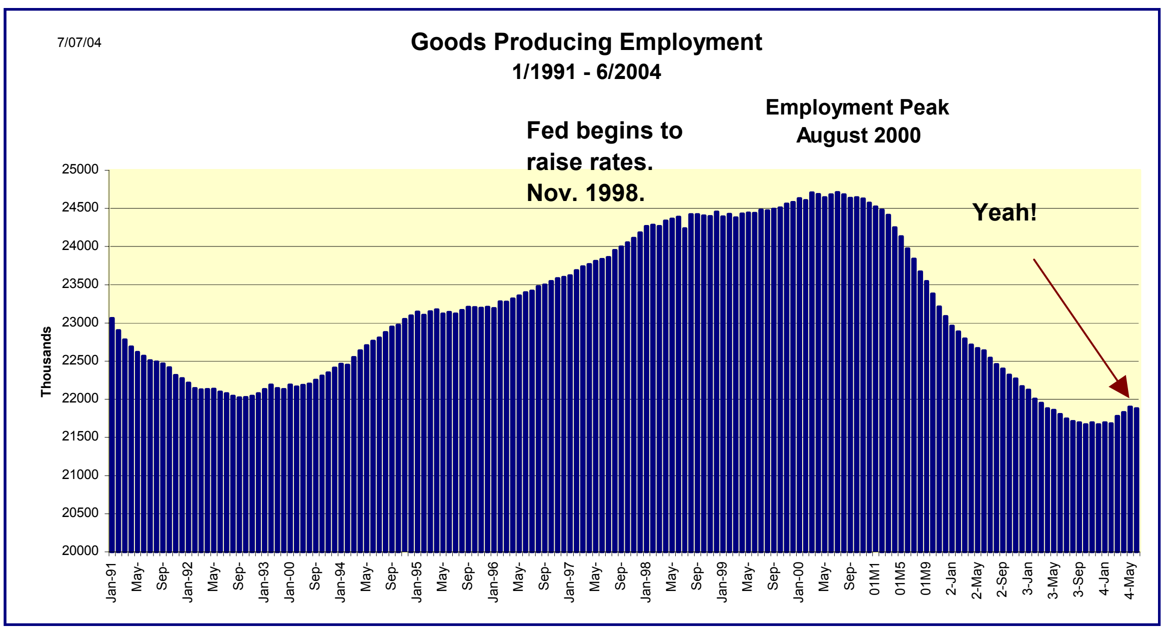


Employment gains make a difference across the regions.

The next chart shows total employment in the economy through June 2004. As indicated by the trend line, the level of employment is still below trend, but the gap is getting a wee bit smaller.

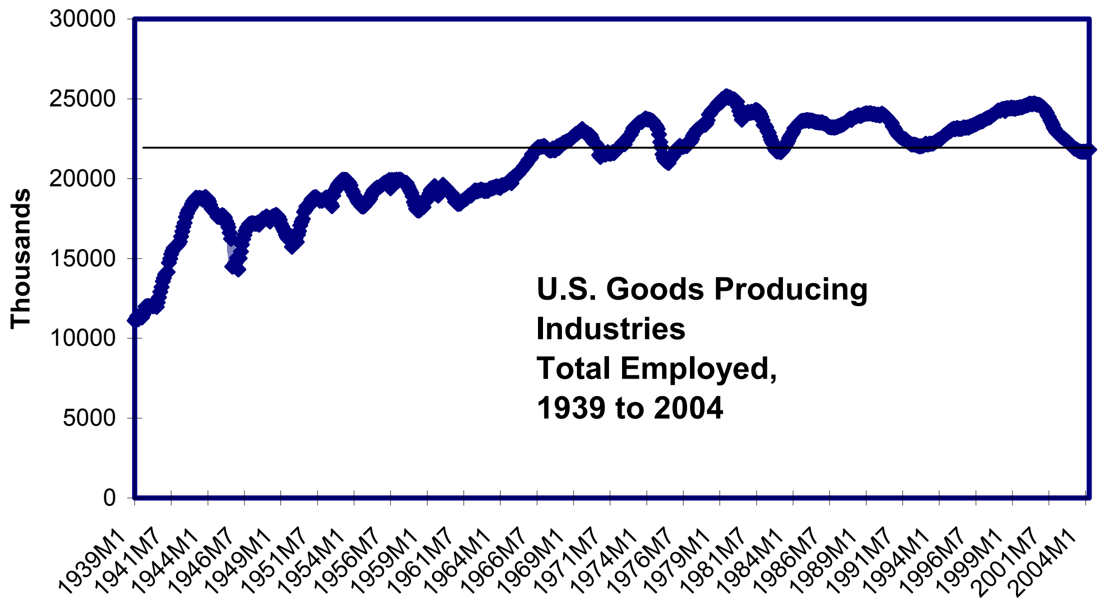


The picture for goods production employment, shown in the next chart, is not quite as pretty, but recent signs of life give something to celebrate.



Is it all over for manufacturing?

The chart showing manufacturing employment is enough to make one believe the U.S. is getting out of the goods producing business. Nothing could be further from the truth. Consider the next chart. This one shows total manufacturing employment going back to 1939. As indicated, manufacturing employment for the nation has oscillated at about the same level for the last 40 years. There is no systematic decline in manufacturing employment for the nation. However, there is a dramatic shuffle in the kinds of goods produced. And, of course, fewer workers today are producing a vastly larger amount of output.



No, manufacturing isn't dead; it is regrouping

The fact that employment in manufacturing is not falling systematically across the U.S. does not mean that there are not manufacturing regions that are suffering. There are major transitions occurring nationwide as the manufacturing of commodity products is replaced by more complex durable goods production and high-tech services.

These transitions are a feature of the U.S. economic landscape and are a reflection of the functioning of a free market economy that responds to profit and loss incentives. In a sense, the American economy is constantly being destroyed and rebuilt.

The next chart, which lists leading U.S. industries for a number of time periods, all based on production, tells the tale. The dramatically moving industries are shown in color so that the shuffling can be easily traced.

PRODUCTION-BASED INDUSTRY RANKINGS

1972	1980	1990	2000	2003
Iron/Steel	Iron/Steel	**Printing**	**Comp/El**	**Comp/El**
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.

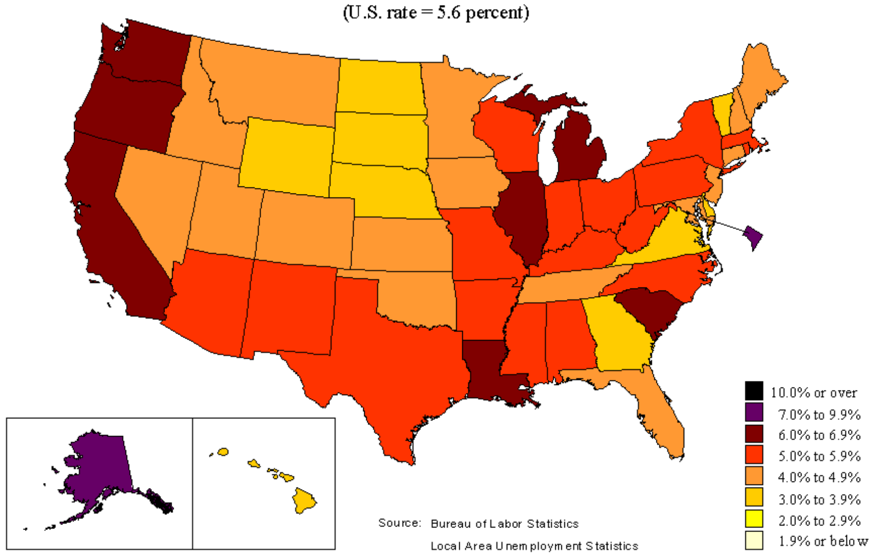
The geographic imprint of new growth looks good for the nation.

Economic growth across the states is pretty well conditioned by the extent to which a state is deeply engaged in manufacturing and the depth of commitment to dot.com and high tech industries. In those cases, the recession took a tougher bite, and in some cases, the chewing continues.

The next two charts, with darker colors reflecting tougher conditions, allow a comparison to be made for unemployment rates across the states. The first chart is for May 2004. The second is for December 2003. Notice how the patterns have changed in just five months. During this time, Texas has improved markedly, as have Oregon, New York, and North Carolina. Things are not so good still on the West Coast and in the Indiana, Michigan, and South Carolina, three of the heavy manufacturing states.

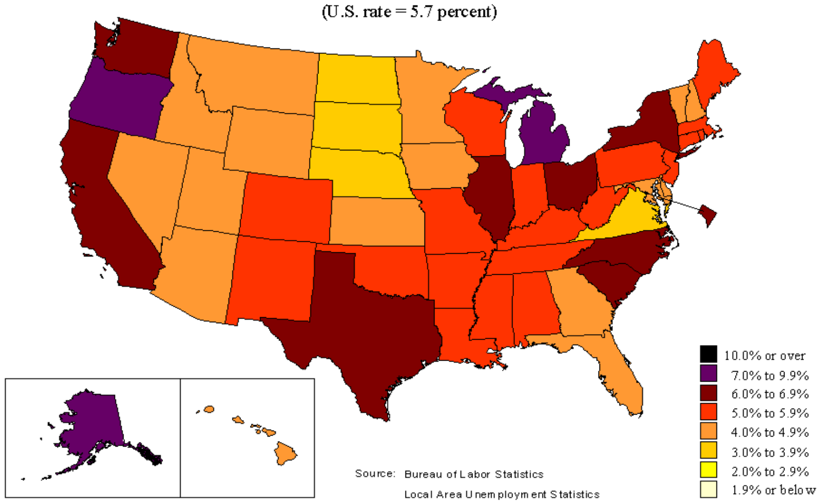
Unemployment rates by state, seasonally adjusted, May 2004

(U.S. rate = 5.6 percent)



Unemployment rates by state, seasonally adjusted, December 2003

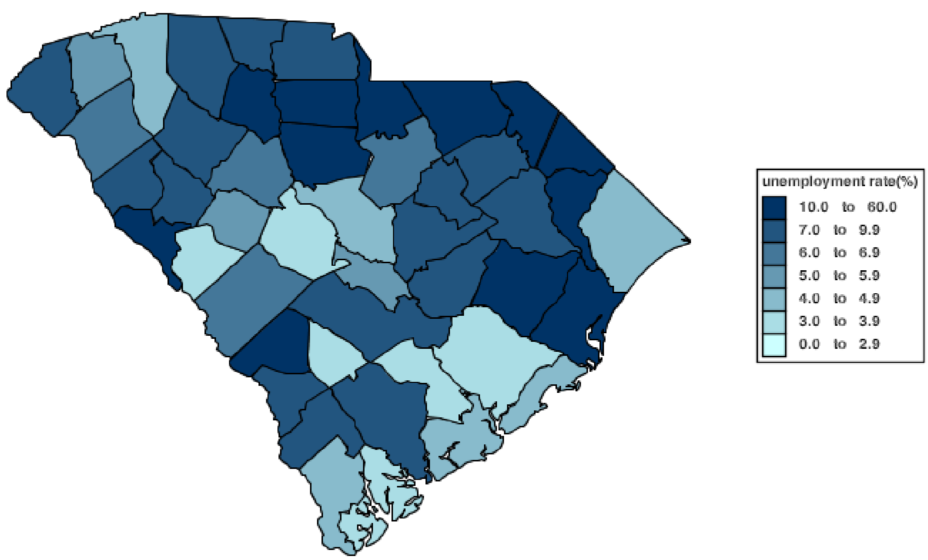
(U.S. rate = 5.7 percent)



South Carolina's employment picture is improving slowly.

South Carolina's latest county unemployment map shows little change has taken place in the last 12 months. As seen here, the more difficult employment situations are found in the formerly dominant textile producing counties and in counties that are located some distance from major transportation arteries.

Unemployment rates by county, not seasonally adjusted, South Carolina April 2004



Small manufacturers form a Phoenix economy in South Carolina.

Bill Ward and John Mittelstaedt have an ongoing research project in Clemson's Center for International Trade that focuses on South Carolina small manufacturing firms and their participation in the global economy. (If you want to see reports, visit http://business.clemson.edu/cit.) It turns out that this sector is quite large. In 1999-2000 there were some 4,300 S.C. manufacturing firms with less than 100 employees. Indeed, some 3,000 of these had fewer than 20 employees. Almost 40% of the firms with 20-99 employees participated in the global economy. They were exporters. The small firms were primarily in plastic products, special machinery, and metalworking machinery. Looking closer at national data on small businesses, I found that their number continued to increase through the last recession, as did proprietors' income. In other words, it looks as though small business and small manufacturing is forming a Phoenix economy. A beautiful creature arising from the ashes of the old economy.

Is South Carolina Way Cool.

Some readers will recall my "Way Cool" theory of economic development. I put forward the theory one day in a session on Carolina Business with Chris William. It goes like this. Young professionals and young adults generally want to locate in cities and communities that are "cool." This means places that are fun for them, locations with neat restaurants, coffee shops, good theater, music, universities, and performing arts. Finally, it seems, more young professionals are finding their happiness in South Carolina communities. Charleston is cool. So is Greenville and Columbia.

And who says so? Sociologist Richard Florida, author of *The Rise of the Creative Class*, that's who.

It seems that Richard Florida has developed a creativity index for cities nationwide. His index take into account the concentration of high tech industries, the level of innovation as measured by patents granted annually, the level of diversity in the population, and the percentage of workers in creative activities. Florida developed his index for metro areas with more than one million population and for smaller metro areas. South Carolina is the only state with three highly ranked cities in the smaller metro area count.

South Carolina is Way Cool. Pass the word.

I am still looking for heroes

Henry Ford continues to be one of my favorite industrialists. His creativity and willingness to take risks to try his ideas seems only to be matched by his stubbornness. Once he got it right, at least in his view, he didn't want to change.

Of course, the Model T was Mr. Ford's marvelous industrial miracle. Notice how many letters come before T. All these were failures. As I said, he was stubborn. He had a definiteness of purpose.

By 1926, the Model T had been in production for almost 18 years. Along the way, its price had fallen from about $1,000 to $265. Consider this. Mr. Ford paid his workers the incredibly high wage for the time of $5 a day. He found that high wages were associated with low turnover and higher productivity. High wages were cheap. There were no income taxes. No Social Security withholdings.

The wage was what a worker took home; Consider the price of the car and the wages of the workers that produced it. Do the math. A worker could earn enough to buy a new Ford in some 53 days.

I decided I would check to see how today's UAW worker in a Ford plant compares with the 1926 counterpart. I found that today's UAW worker earns $240 a day in wages. To keep things simple, assume that company provided fringe benefits offset taxes paid.

When I checked, I found a new Ford Taurus sells for about $13,000. Guess what? It takes about 54 days for a Ford worker to earn enough to buy a new Taurus! Not much has changed. Really?

The price level has risen ten fold since 1926. If we went back to 1926 with today's dollar purchasing power, it would take $2,650 to buy a new Model T. And if production techniques and labor market competition were the same, we would earn $50 a day. The numbers tell us a lot about productivity gains and what has happened to automobiles.

Report card time.

Back in January, I offered a forecast for end-of-year numbers on the economy. I repeat this for those who failed to put a copy on the refrigerator door.

2004
The Year Ahead
(2003 year-end estimates)
GDP Growth   4.5% (3.1%)
Inflation (core) 1.5%   (1.1%)
Prime Rate   4.5%   (4.00%)
Unemploy. 5.2% (5.7%)
Dow-Jones 11,700 (10,600)
Employ Gain 125m/mo. (0m)
30-yr. Mort. 6.0% (5.6%)
Oil $27.8 ($34.6)

At mid-year the GDP growth number appears to be holding up pretty well. But inflation, driven partly by higher oil prices, is running better than 2%, with a chance of subsiding somewhat. The prime lending rate just rose to 4.25%, after the Fed gave its first positive nudge in almost three years. Chances are good that we will see the prime at 4.50% in December. Unemployment is now riding at 5.6%, with prospects for falling more in the next six month.

My estimate for employment growth is pretty much on schedule. But my forecast for mortgage rates looks pale. That rate hit 6.21% on July 1. Higher inflation is taking its toll. How about the Dow? At 10,300? Not much cooperation there. I am still a believer, though, and an investor. I think we will see 11,700 by yearend. I can't say much for oil prices though. Here, at mid-year, crude is trading at $39 a barrel. Terrorism plays a deadly game.

Looking for internship opportunities for students.

Each summer, many Clemson students move to summer jobs related to their majors and degree program. These internships challenge and reinforce their classroom experiences. In today's fast-paced world, internships provide gains from trade for employers as well as the students. New learning from university research can be applied in real world settings. I am looking to increase the prospects for internships for summer 2005. By prospects, I mean employers who agree to be contacted by faculty and other departmental managers who help graduate and undergraduate students in the search for meaningful internship opportunities.

If you are interested and want to know more, send me an email. I am yandle@clemson.edu.