

THE ECONOMIC SITUATION

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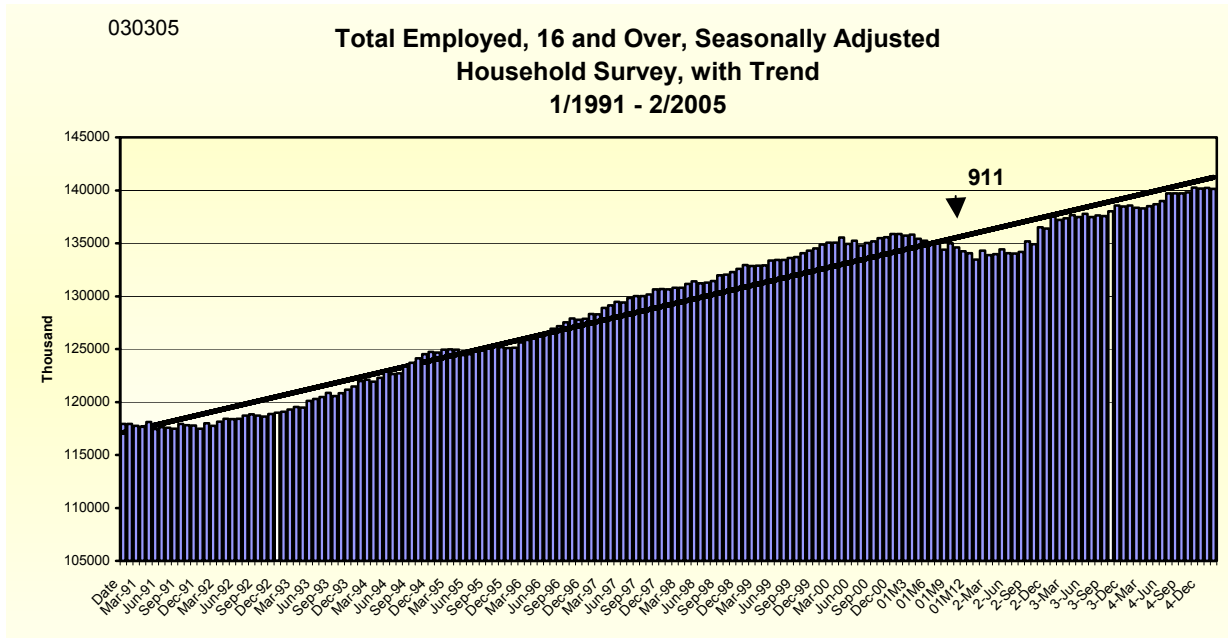
- **Reporting on an expanding economy**
 - **A few words on freedom**
 - **South Carolina's economy**
 - **Still looking for heroes?**
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The expanding U.S. economy

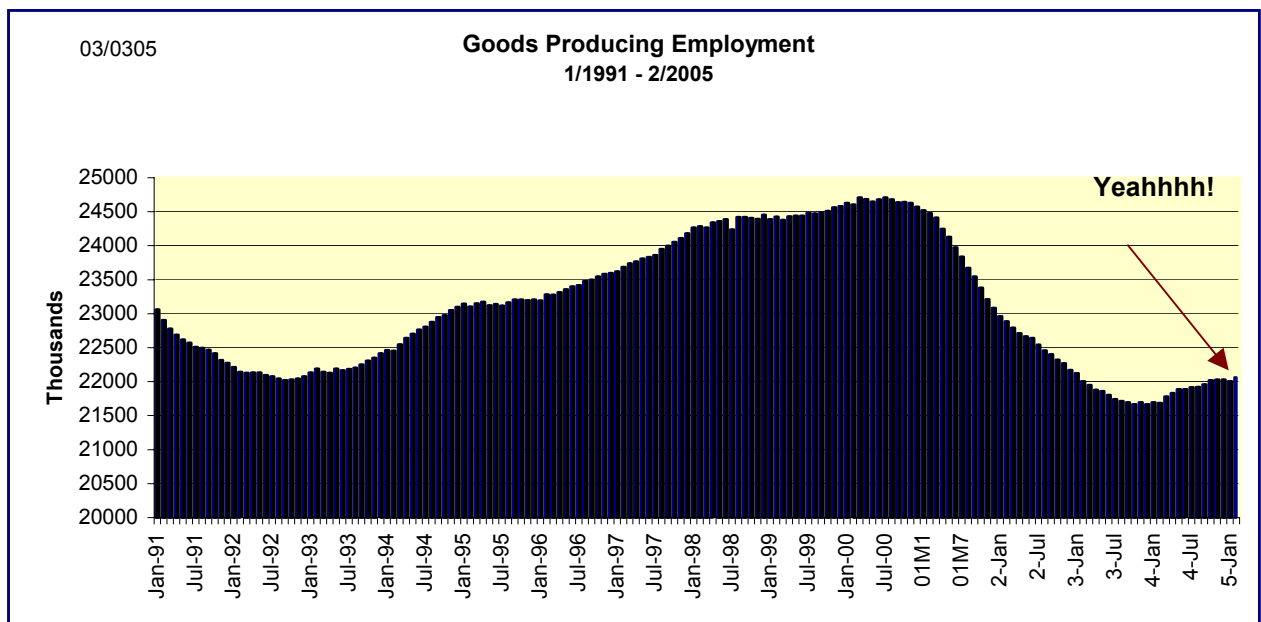
Some good news

There was great celebration when the February count of newly added U.S. jobs came in at 260,000. The celebration was especially appreciated on Wall Street. Indeed, for a few days it looked as though the Dow was about to break the magic 11,000 mark. Once again, it seemed, the Great American Bread Machine was hitting on all cylinders. That, and indications that inflation was in tow, was enough to make Goldilocks declare that things are just right. To top it off, Martha Stewart returned to the land of the free. And that was a good thing. Perhaps she was counted as one of the 260,000 entering the workforce.

The picture is seen in the next chart, which shows total U.S. employment. While the numbers are looking a lot better, there is still a gap between trend and actual count.



The February employment data were encouraging for yet another reason. Manufacturing employment increased, and that has been a rare event. The next chart shows just how far employment has fallen since 2000.

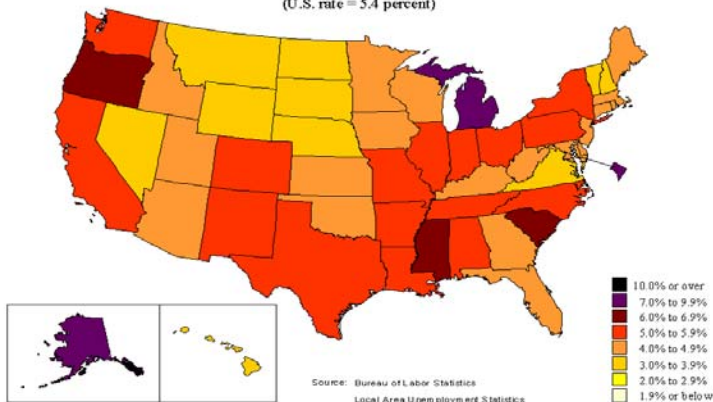


Where are those jobs?

A comparison of two U.S. maps that show state unemployment rates will help identify where the economic action is strongest. The May 2003 map reports the vivid effects of the recent recession. The December 2004 map reveals a decidedly improved economy. Now, only five relatively high unemployment states stand out from the rest. South Carolina, Louisiana, Michigan, Rhode Island, Oregon, and Alaska. The economic expansion has pulled the rest to higher employment levels.

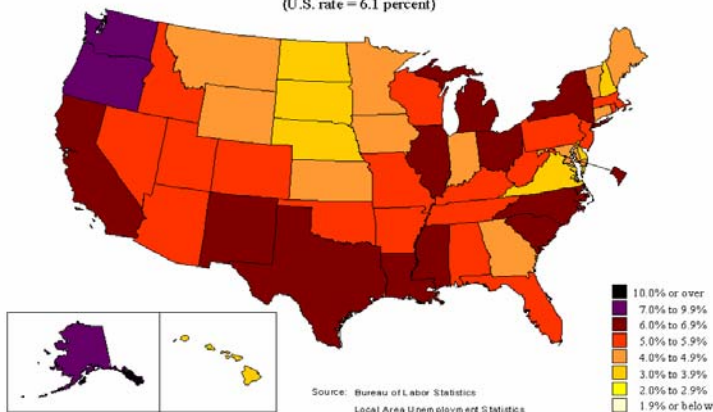
**Unemployment rates by state,
seasonally adjusted, December 2004**

(U.S. rate = 5.4 percent)



**Unemployment rates by state,
seasonally adjusted, May 2003**

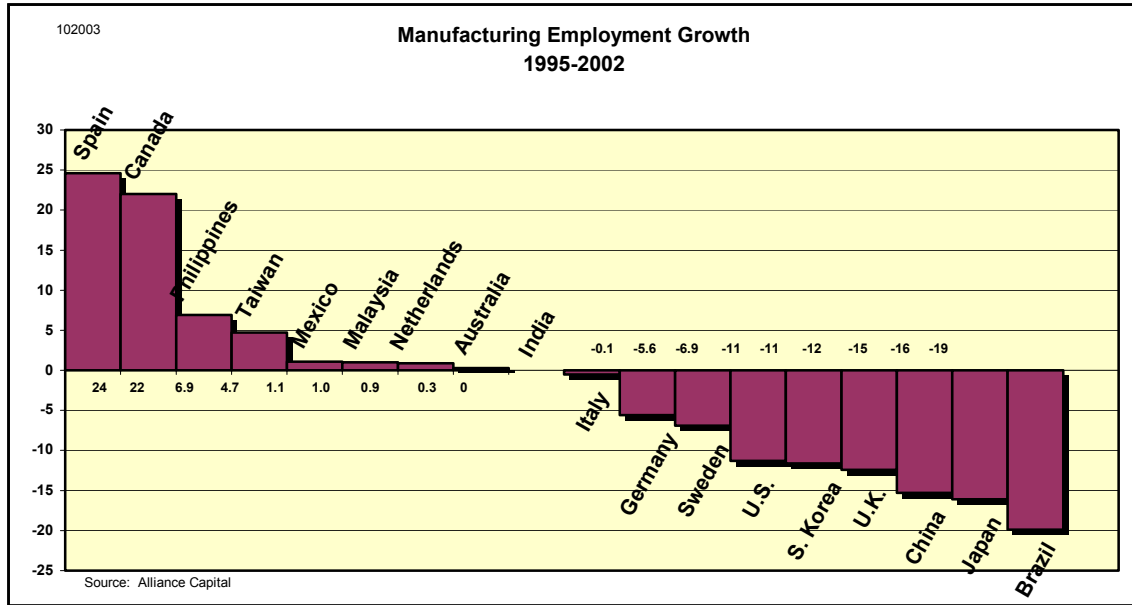
(U.S. rate = 6.1 percent)



Where they aren't.

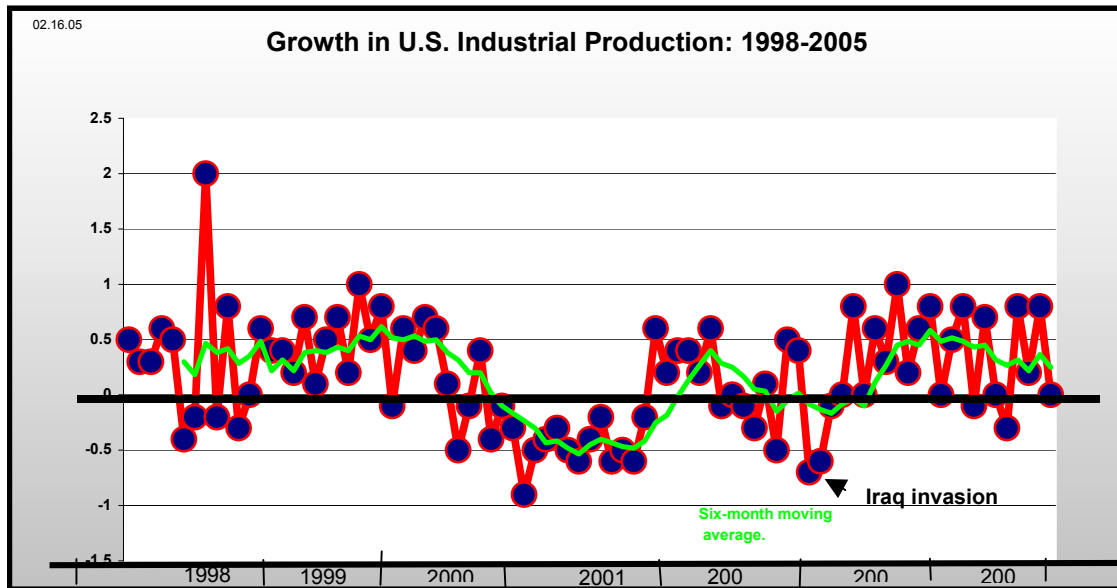
Some of the states that lag in the economic expansion are those with the heaviest concentration in manufacturing. The same is true for nations of the world. The next chart, which is repeated from an earlier newsletter, tells what has happened in countries that account for 90% of the world's manufacturing activity. Generally speaking, the heavier manufacturing countries have lost the largest share of the manufacturing workforce. Even China, the world leader in manufacturing growth is losing employment.

Alliance Capital, which reported the data for the chart, indicates that losses in manufacturing employment continue to occur across the world, perhaps at an even faster pace. Of course, labor productivity is the underlying story. The world continues to provide a growing abundance of goods with fewer people working in factories.



America's Great Bread Machine

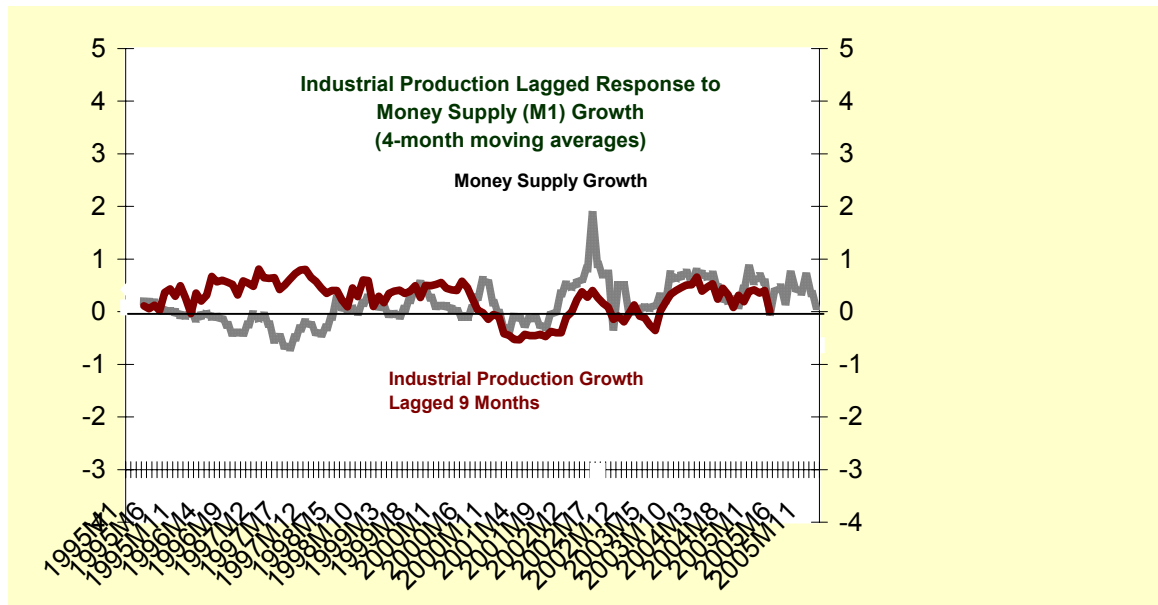
The expansion of U.S. industrial production has its ups and downs, as shown in the next chart. Even so, the running average is positive, though weakening a bit. Part of the weakness is undoubtedly related to higher energy prices and lagging U.S. exports.



The higher and volatile price of crude oil adds uncertainty to world economies, and for some much costs. The developing world is much less energy efficient. Business Week magazine reports that China uses 10 times more energy per unit of GDP than does Japan. India uses 1.5 times more than the U.S. Yet for other economies, Mexico, Canada, and Russia, for example, higher priced energy means higher GDP.

Will industrial production continue to expand?

The relationship between growth in the money supply and lagged industrial production is still giving a fairly good forecast of where we are heading during the next nine months or so. Recall that when the money supply increases, real economic activity is spurred roughly nine months later. The next chart shows how the relationship is holding up. Based on what we see, we can be optimistic about events through January 2006, which is as far as the money supply eye can see.



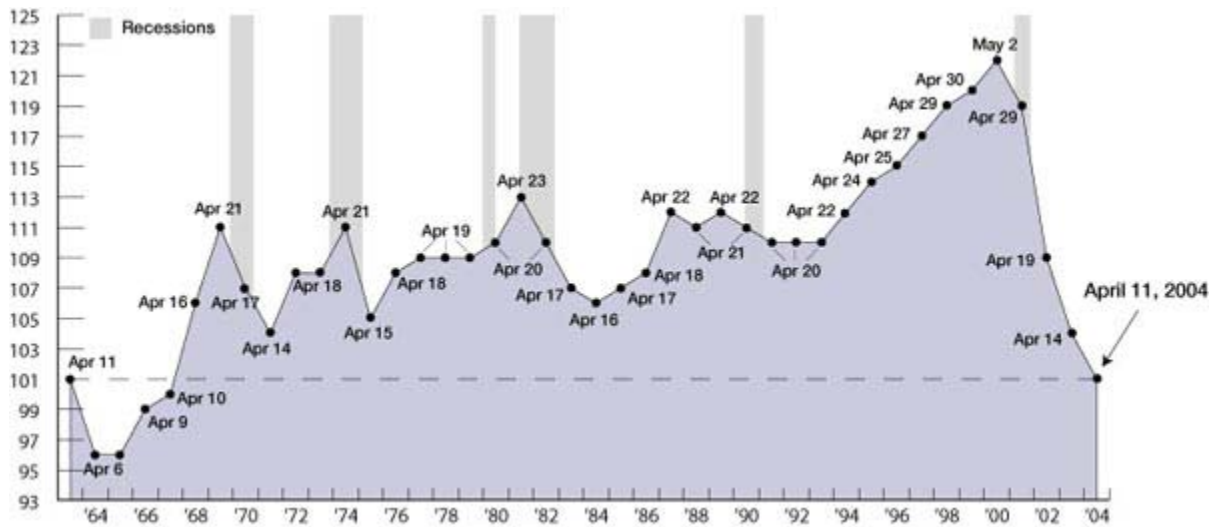
What can we say about freedom?

Free at Last.

With that glee-filled date of April 15 just around the corner, this may be a good time to reexamine the Tax Foundation's annual report on Tax Freedom Day. This is the wonderful day when the average American theoretically stops working to pay taxes and starts working for herself. Tax Freedom Day is calculated each year by dividing per capita taxes, included state, local, and federal, by per capita income. In 2004 Tax Freedom Day arrived on April 11, one of the shortest work-to-pay-my-taxes seasons in decades.

And why the marvelous gain in time to call our own? Two things worked in the favor of Everyman. First, the good news. Mr. Bush's tax cuts lightened the load. Then, the bad news: When the stock market headed south, so did our capital gains taxes. No gains. No taxes.

Tax Freedom Day, 1963 – 2004



By the way, South Carolinians experienced State Tax Freedom Day on April Fools Day last year, one of the earliest dates in America.

Economic Freedom around the World

While on the precious topic of freedom, consider what has happened to the United States in terms of the Heritage Foundation/Wall Street Journal's 2005 ranking of Economic Freedom of the World. The U.S. now ranks below Chile, and well below Estonia. Indeed, the home of the free and the brave has fallen to number 12, tied with Switzerland. Last year the U.S. ranked 10th. The year before, 6th.

Why? Why is the U.S. losing ground in the race for freedom? Does this match the Washington rhetoric?

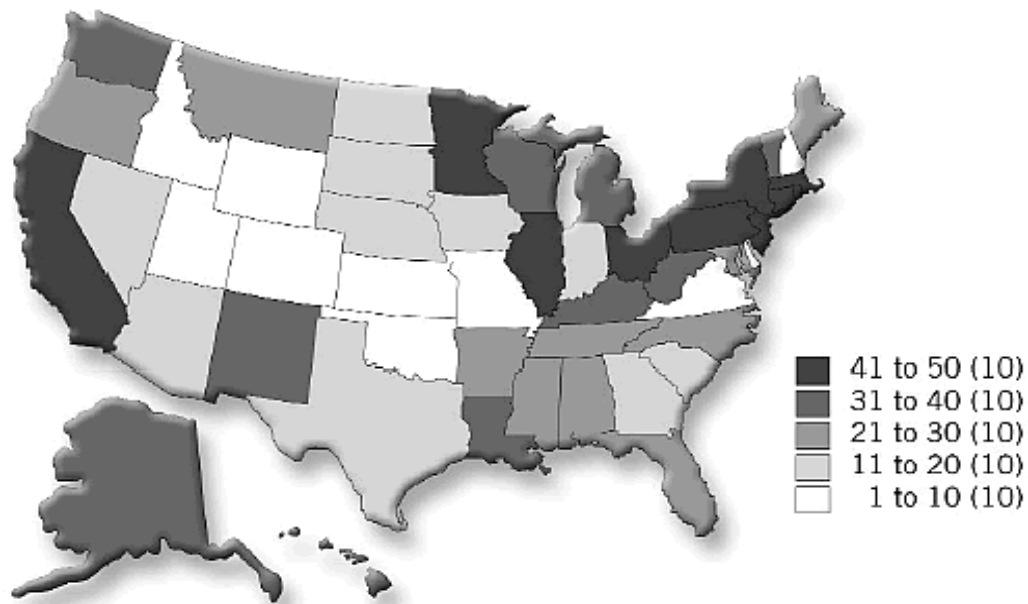
Two things. First, the federal deficit is large and growing, which means the federal government is getting relatively larger. Regulation is growing as well. In short, the private sector is getting relatively smaller. Second, and this is good news, other countries are gaining freedom.

And where is economic freedom highest of all? Hong Kong still stands at the top of the chart. Singapore is next in line, and then Luxembourg. The United Kingdom is now seventh, well above the Good Ole U.S.A.

What about the States?

To round out this discussion, consider the 50 states. How does economic freedom shake out across the map? The answer is provided in below, which comes from Pacific Research Institute. The lighter the color, the higher the measured economic freedom. By the way, Clemson's Professor Robert McCormick led the effort in building the rankings. This ranking takes account of tax burden, regulation, legal institutions, and size of government.

Number one in economic freedom? Kansas is at the top of the stack. Colorado comes in second, followed by Virginia and Idaho. Generally speaking, the Northeastern states rank lowest, with the exception of New Hampshire (Live Free or Die). South Carolina comes in at 13, and that reflects some progress. In the 1999 report, South Carolina rank 16th.



Source: Pacific Research Institute.

The improving South Carolina economy

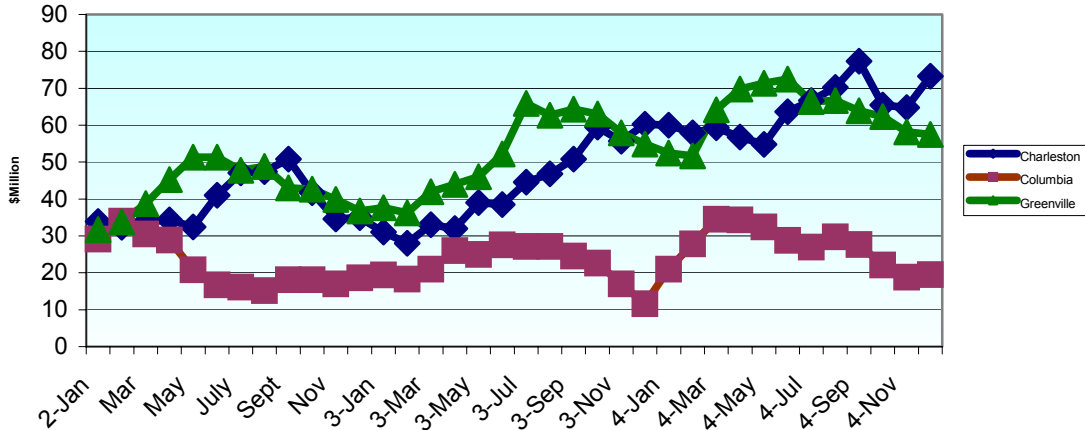
While still lagging the nation's economic expansion, South Carolina continues to produce income growth and wealth. Employment is growing, but not fast enough to generate a reduction in the unemployment rate. In fact, the 7.0% unemployment number for February was a reversal of sorts. The rate had been 6.9% in January, and 7.0% in December. But there is more to the story than revealed by just the unemployment rate. Think about it this way. We can have an economy with rising employment (good) and rising unemployment, if more people begin to seek work (good). Or we can have an economy with declining employment (bad) and rising unemployment (also bad). Which is it for South Carolina?

The February numbers looked good, not bad, for the state. We have more people working and more people looking for work.

The states stronger regions are seen in housing start data. As shown below, housing starts in the three major regions gives an indication of strength. As can

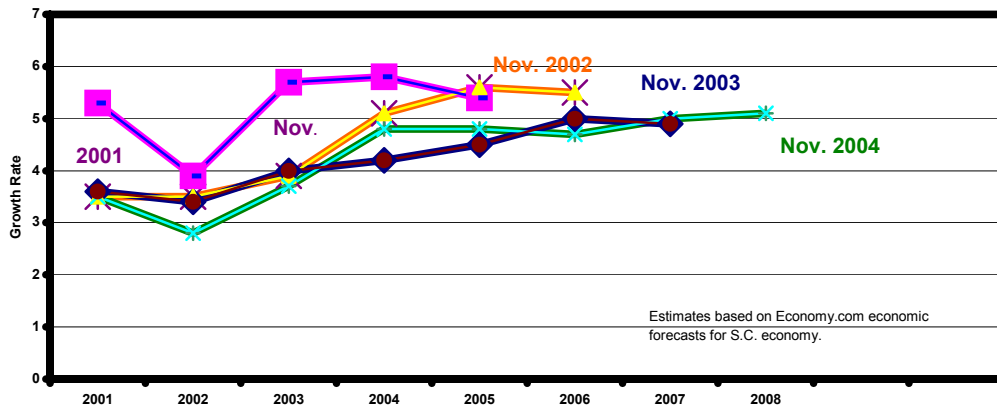
be seen, the low country economy is surging, followed closely by the Upstate. As is often the case, the Central Midlands moves apace, with cycles dampened by the effects of the government sector.

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Building Permit Values: Charleston, Columbia, Greenville SMSAs
 January 2002--Dec. 2004



Generally speaking, the pulse of the state economy follows the November 2004 forecast provided by economy.com. The next chart shows how that forecast compares with earlier ones.

122004
S.C. INCOME GROWTH: COMPARING FORECASTS
 (Nominal Dollars)



Still looking for heroes?

If you are looking for heroes, especially the entrepreneurial variety, you will enjoy reading Harold Evans' wonderful book, *They Made America*. A collection of stories about America's inventors and risk takers, from Robert Fulton and his steamboat to Sam Colt, Samuel Morse, Isaac Singer, Charles Goodyear, and Larry Page and Sergey Brin of Google fame, the book is a winning combination of stories and photos.

The story of Levi's is one of my favorites. Here we find Jacob Davis, an almost penniless Jewish immigrant making trousers out of sail cloth. Davis decides to pound rivets at vital points to make the tough garments more durable. Seeing that he needs a merchandiser to build a market for his product, he joins with Levi Strauss, a very successful Jewish San Francisco clothing merchant and obtains an 1873 patent for the trousers with riveted pockets. (Davis's letter in broken English is something to behold.) The almost indestructible trousers and overalls win the allegiance of hordes of California miners and railroad workers. They gladly pay three times the price of ordinary trousers to have a pair of Levi's.

And how does it happen that we call them Jeans? And denim? Evans tells that story too. Jean was in fact a type of fabric, but not the type used by Davis and Strauss to make their tough trousers. Jeans stuck. And denim? The name probably comes from the French town of Nimes, a place famous in the 17th century for fabric shipped to England. It was fabric *de Nimes*. That name stuck too.

What can we learn from the story? More often than not successful business ventures begin with what I call *Power Couples*, two people with very different skills who find that they can work together. Sometimes it is a person who loves being outside the firm who couples with a person who loves the details of inside management. Again, it may be a person with great technical skills who couples with a person who has marketing abilities. Davis and Strauss were a formidable Power Couple.

Another lesson? The oldest of all. Build a better mousetrap, in this case, better jeans...,with rivets!

Entrepreneurs are still building America. Pass the word.