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CAROLINA DIGEST

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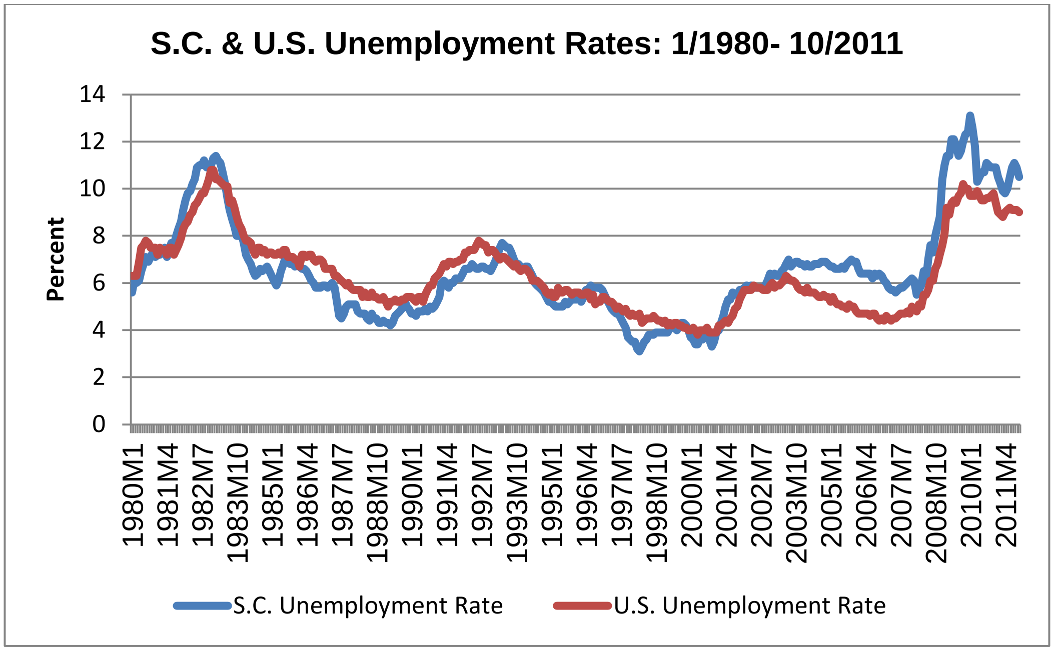
South Carolina and the Nation

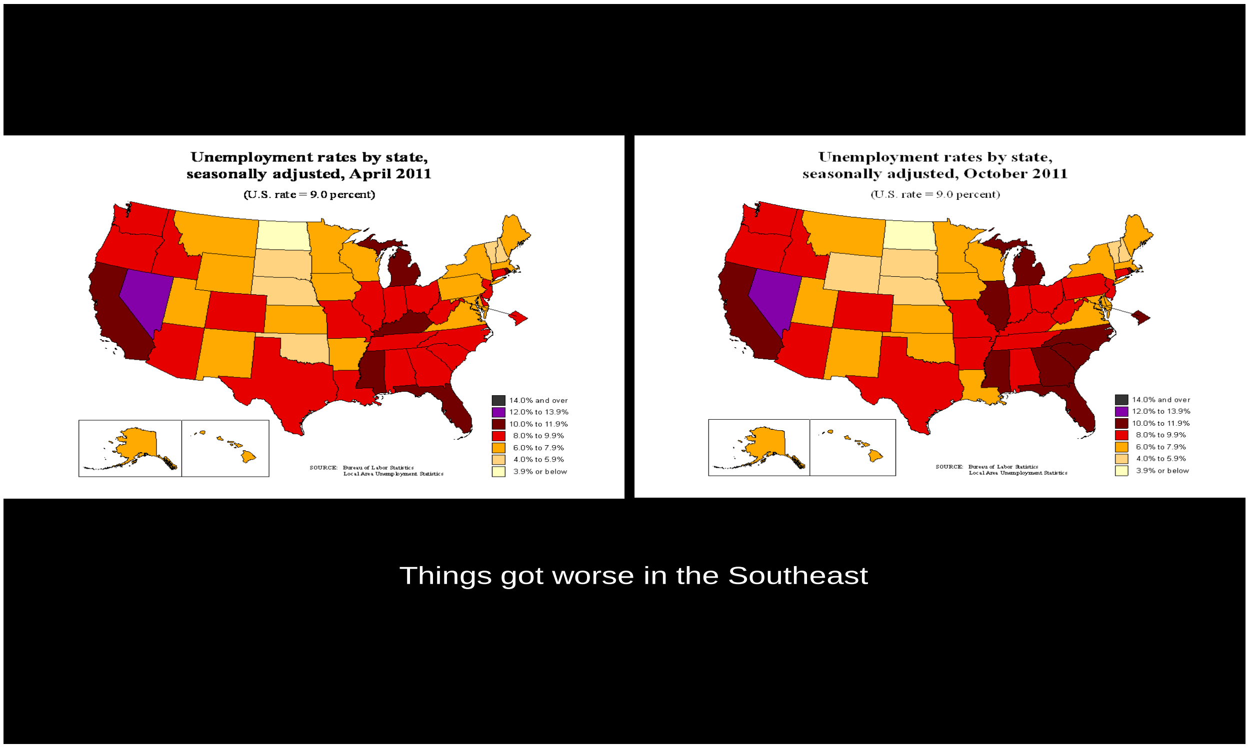
For 10 years, South Carolina's economy has been weaker than the nation's as evidenced by a higher unemployment rate. To some extent, the weaker position is explained by a difficult and costly transition that involved the decline of textile manufacturing and the specialized services sector associated with it. In more recent years, this transformation has been made even more difficult by the national recession. In a sense, South Carolina has experienced a double-whammy.

October's improved unemployment rate, falling to 10.5% from September's 10.9%, brought a sign of welcomed relief from the higher rates that had prevailed most of the year. But September's number was exactly where we started in January. We began the year with 10.5%. In a word, there has been no improvement in the rate in 2011. And this is exactly what we see for the nation. The U.S. began the year with a 9.0% unemployment rate and hit the same number in October. Even worse, the Obama administration now tells us that 9.0% will prevail for months if not years ahead.

But there is more to the picture. Until the most recent month, the gap between the state's and nation's unemployment rates was getting smaller. This is a sign that the state's economy is becoming more like the nation's, that some of the painful adjustment from textile and apparel production to other economic activity is finally passing. Even so, there are significant differences in South Carolina's economic situation. The most serious difference relates to educational attainment, and that changes slowly. Let's hope the narrowing continues in the months ahead. A picture of the gap is shown in the accompanying chart.

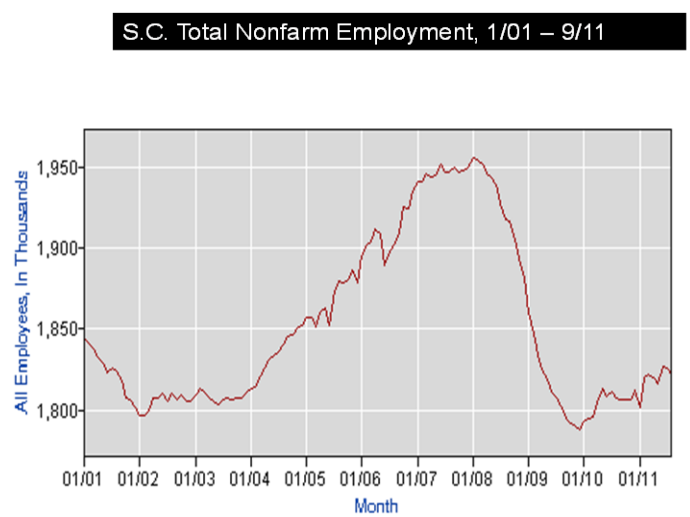


Another comparison with the nation is seen in the next charts. These show unemployment rates by state. The darker a state's color, the higher the unemployment rate. The left-most chart gives a reading for April 2011. The right chart is for October 2011, the latest data. As indicated, much of the Southeast lost ground in recent months. Part of this relates to the slowdown in Europe, which has unequal effects across states, but has more serious effects in export manufacturing states, like South Carolina. The maps also tell us that the nation's strength lies in the middle states. These are strong energy and hard grain states. They also are high educational attainment states.



The Outlook for S.C. Employment

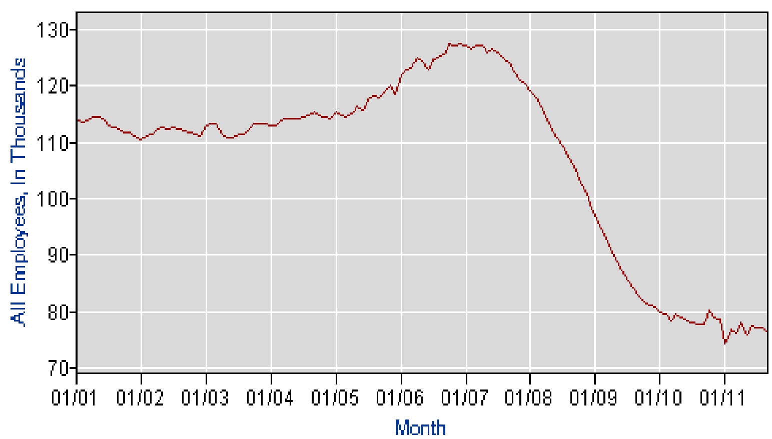
Consider the next chart showing S.C. total employment for 2001 through September, 2011. Total employment peaked at 2,010,000 in March 2008. There were 1,932,000 employed in September, 2011, according to Bureau of Labor Statistics estimates. There is a net loss of 78,000 jobs.



March 2008: 2,010,000
Sept. 2011: 1,932,000
Deficit : 78,000

Now consider the next chart, which shows S.C. total employment in construction for the same period. As can be seen, there is no recovery in that sector. We can also see a net loss of 50,000 jobs from peak to present. Put another way, 50,000 of the 78,000 jobs lost in the state since the onset of the 2008-09 recession can be accounted for by construction losses. This suggests there will be no meaningful recovery in state employment until construction revives. The growth needed from other sectors to offset construction are just too large.

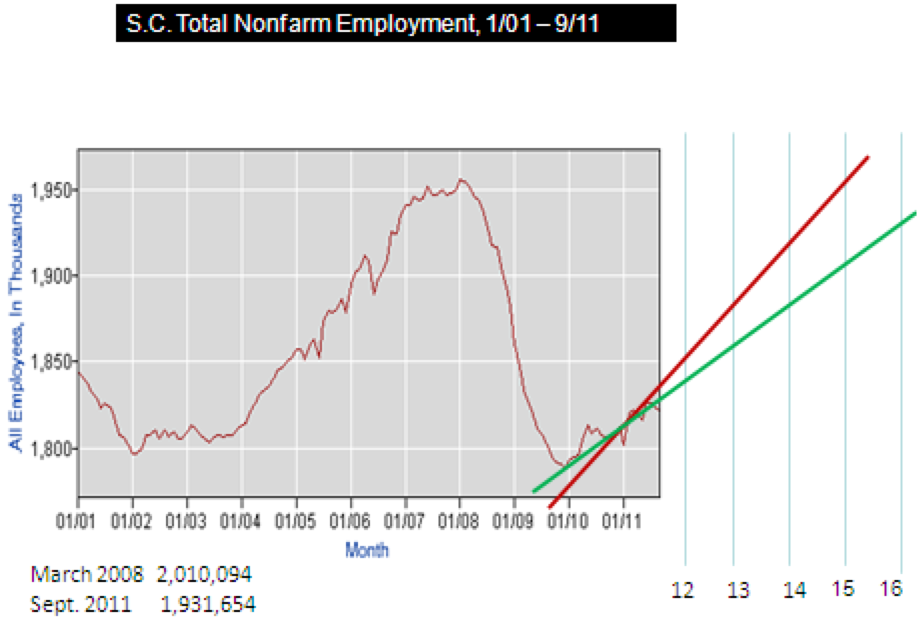
S.C. Construction Employment, 1/2001- 9/2011



June 2007: 126,000
Sept. 2011: 76,000
Deficit : 50,000

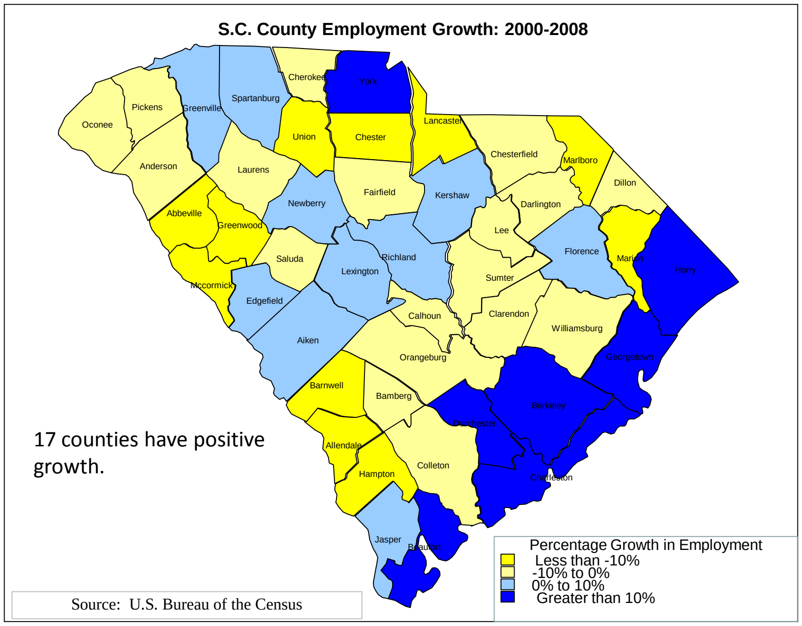
When will we see recovery?

We can project the year of full employment recovery by referring again to the chart showing S.C. total employment and inserting some growth lines. I do this in the next chart. There are two growth lines in the chart. One is optimistic; the other is pessimistic. Both are based on data points in the chart. The optimistic line indicates we will see pre-recession employment levels in 2015. The pessimistic projection reaches to about 2017.

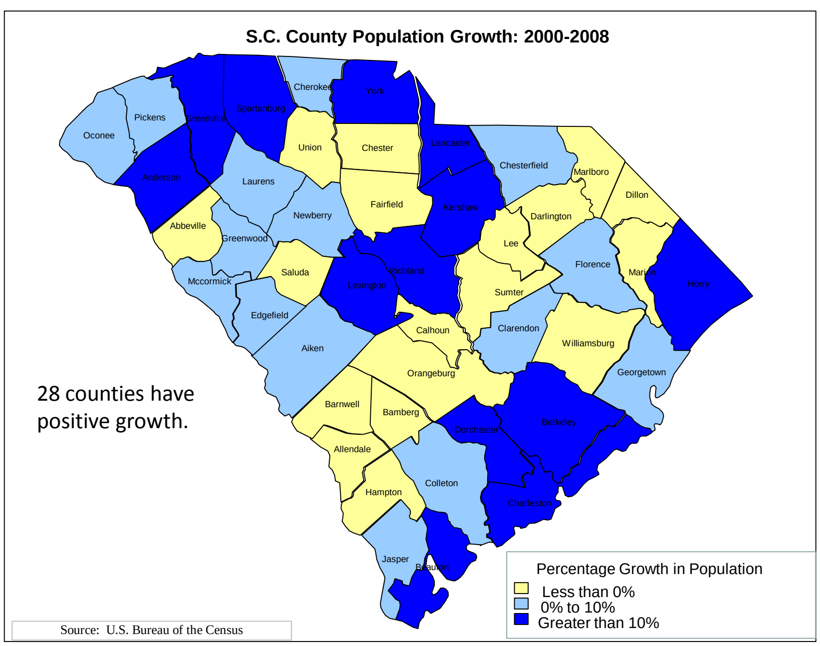


Where are the state growth regions?

Based on the recent past, we can predict that a small number of counties will be the state's future growth engines. The next map shows that across the years 2000 through 2008, just 17 counties had positive employment growth. These form three belts, one on the coast, another in the central midlands, and the last in the upstate. The strongest belt is located along the coast. Generally speaking, the growth areas are in or near the state metro areas.

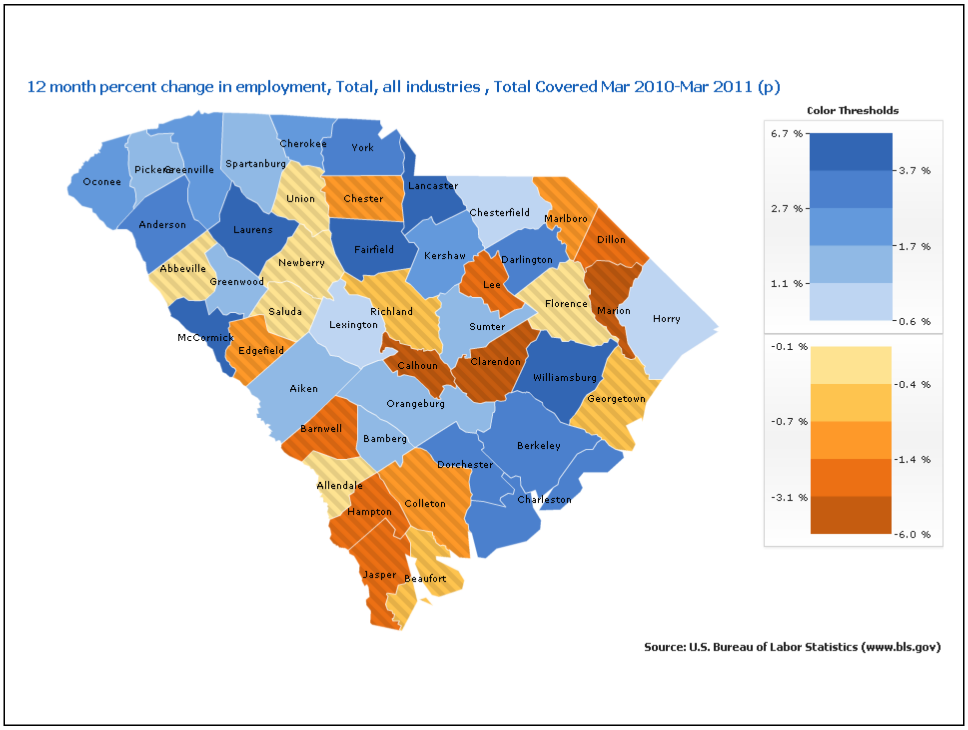


The next map shows population growth for the same period. Some 28 counties showed population growth. Again speaking generally, the counties with negative employment growth also lost population.

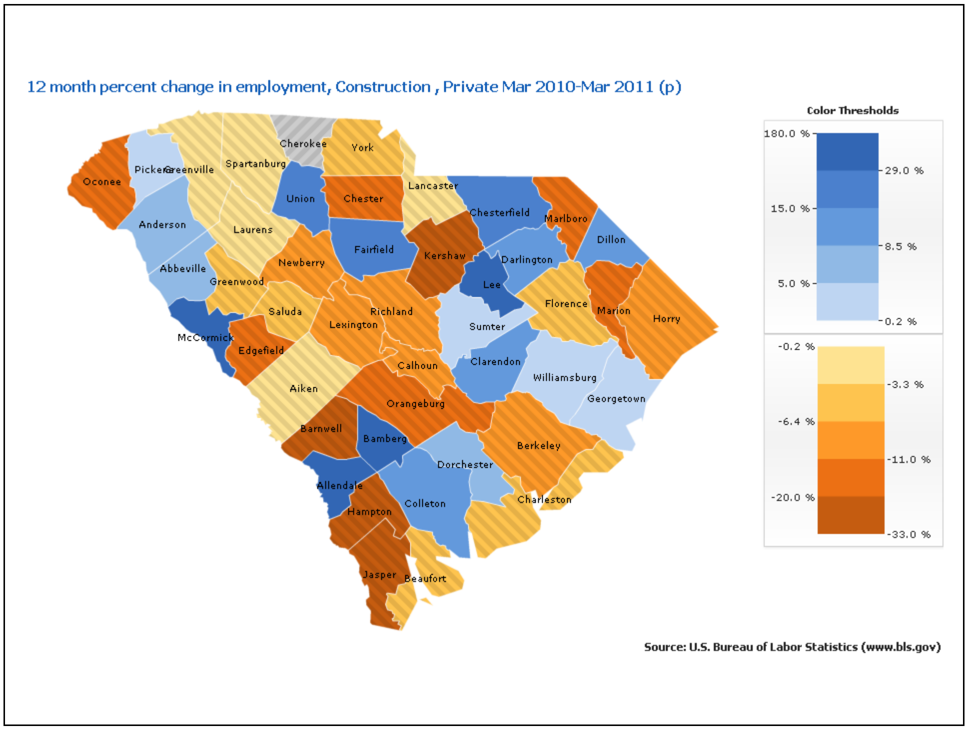


What do more recent data tell us?

More recent employment growth data are shown in the next chart. Here we see employment growth for the period March 2010 through March 2011. The dark and light blue counties have positive growth. As we can see, things have improved, particularly in manufacturing. There are 25 counties showing positive employment growth. The upstate belt is healthy again. We see different growth patterns than before. In this short recent period, the upstate is showing more strength, followed by the midlands, and then the coastal area.



The last map shows employment growth in construction. The picture is bleak. Eighteen counties show positive growth. The rest are either holding their own or losing employment.



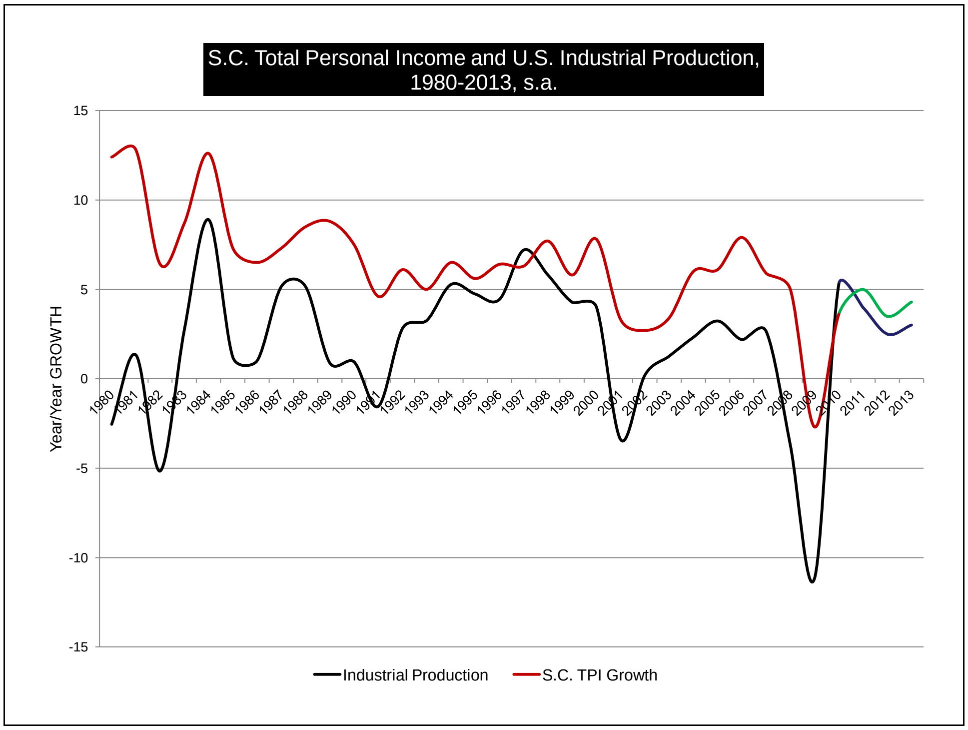
What about total personal income in 2012?

As a final item, we focus on S.C. total personal income. What can we say about 2012 and 2013? Better than 2010? Worse? The same?

The relationship between U.S. Industrial Production and S.C. Total Personal Income offers a way to address the questions. As indicated in the next chart, the growth patterns are similar. They zig and zag together. We know more about industrial production than S.C. income. Industrial production data arrive every month; S.C. income data are generated quarterly, and with a lag.

By using what we know about the national economy and forecasts provided by various think tanks, we can project Industrial Production and S.C. Total Personal Income across 2012 – 2013.

The projections suggest the next two years will be brighter than 2010. Still a bumpy road, but a better one.



S.C. Total Personal Income and U.S. Industrial Production, 1980-2013, s.a.
Year/Year GROWTH
15
10
5
0
-5
-10
-15
1980
1981
1982
1983
1984
1985
1986
1987
1988
1989
1990
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2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Industrial Production
S.C. TPI Growth

The South Carolina Economy

Chastened by slowing U.S. and international economies, the S.C. economy will experience weak economic growth across 2012-2013. Total Personal Income growth will rise above the 3.6% 2010 level in 2011 to 5.0%, fall to 3.5% in 2012, and rise to 4.3% in 2013. Employment growth during the 2011-13 period will not recover to the pre-recession level. The unemployment rate will remain above that of the nation throughout the period.