

Economics Group

Special Commentary

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Alabama vs. Louisville: An Economic Matchup

Recruiting Remains the Key to Success On and Off the Field

The college football season kicks into high gear this weekend, with a number of marquee matchups between some of the nation’s historically most successful programs. We will be taking a look at the economies of the states playing in some of this season’s key games, beginning with this Saturday’s game between the defending National Champion University of Alabama and the University of Louisville.

Alabama has fielded one of the most successful football programs of all time over the past decade, winning five national titles. Recruiting has been the key to that success, as head coach Nick Saban has taken advantage of the state’s inherent strengths and also pulled in more specialized talent from other states. One of Alabama’s most obvious strengths is its long history of winning, ranking as the nation’s fifth all-time winningest Division I football program, with much of that success relatively recent.

Good players want to play for a winner and success on the field has meant that Alabama has generally gotten first dibs on homegrown talent. This is particularly important in a modestly-sized state. Alabama has a population of just 4.9 million residents, which is the fifth smallest of all SEC school states. Of course Alabama has to fight for that talent with Auburn, which has a pretty successful program of its own. While Alabama is a small state, the state boasts the second highest high school football participation rate, which means that the state produces a relatively high proportion of top recruits on a per capita basis. Nick Saban augments this talent by casting a wide net to attract some of the best recruits in the nation, with the Crimson Tide’s roster featuring players from 22 states and the District of Columbia.

Economic developers have taken a page from Nick Saban’s playbook and made the most of Alabama’s storied manufacturing legacy. Winning motor vehicle assembly plants is the equivalent of a national championship in economic development and Alabama has won four of those in the past 25 years. Just days after Alabama won the national title this past year, Toyota-Mazda announced they would locate a new \$1.6 billion assembly plant near Huntsville, which is expected to employ 4,000 workers. This latest announcement follows Mercedes-Benz, which located near Tuscaloosa back in 1993; Honda, which set up shop near Talladega in 2001; and Hyundai, which began making vehicles in Montgomery in 2005.

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Figure 1

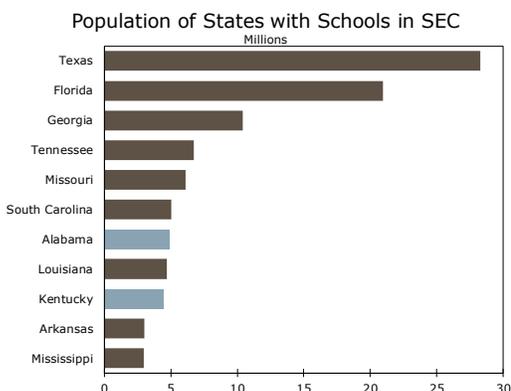
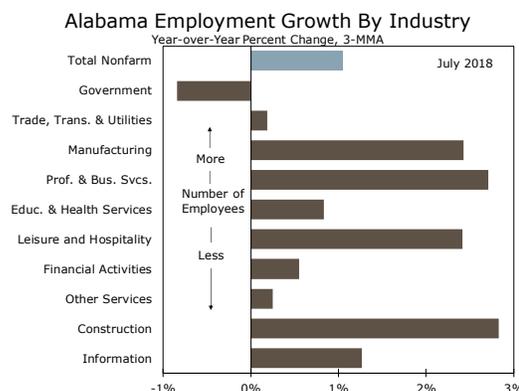


Figure 2



Source: U.S. Department of Commerce, U.S. Department of Labor and Wells Fargo Securities

Together we’ll go far



Huntsville has long been one of the nation's centers for aerospace research.

Success on the Ground and in the Air

Alabama's success in winning motor vehicle assembly plants builds on its legacy in the iron and steel industry. Honda's Talladega plant is the first Honda facility that forges engines at the same site. The new Toyota-Mazda facility will also be located next to a Toyota engine facility. Alabama's economic development success has not been solely on the ground. The state also boasts an enviable air game. Huntsville has long been one of the nation's centers for aerospace research and boasts more rocket scientists per capita than any city in America. The state's aerospace industry also pulled off a huge win of its own a few years ago in 2013, when it landed a new Airbus aircraft assembly operation in Mobile that began assembling airliners a little over a year ago.

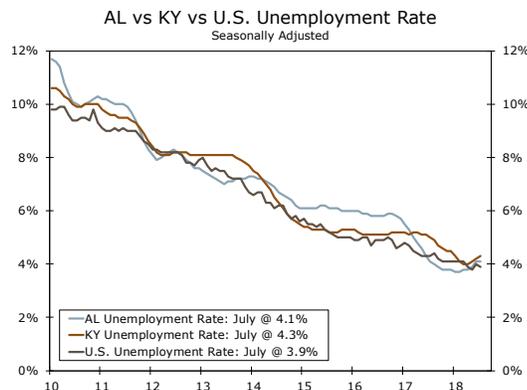
The influx of new industry has helped diversify Alabama's economy and kept employment growth on a solid path. Nonfarm employment has risen 1.1 percent over the past year, while the unemployment rate has fallen to 4.1 percent. Those numbers are surprisingly mediocre for an economy that has had so much success at recruiting new industry. Nationally, employment has risen 1.7 percent over the past year and the unemployment rate has fallen to 3.9 percent. Much of Alabama's underperformance in employment has been weakness in the public sector. The federal government is a major employer in Alabama and sequestration hit the state fairly hard. Financial difficulties among some major local governments have also taken a toll. By contrast, employment in Alabama's private sector has risen 1.6 percent, which is more in line with the nation.

The University of Louisville has not had anywhere near the success that Alabama has on the football field, but they have still fielded a very competitive team that has played in a bowl game in each of the past eight seasons, winning four of those, including wins over Texas A&M in the 2015 Music City Bowl and Florida in the 2012 Sugar Bowl. Another big recent win was their 63-20 demolishing of the then number two ranked Florida State team back in 2016. That game produced a number of highlights for Lamar Jackson, who went on to win the Heisman Trophy that year along with the Maxwell Award and Walter Camp Award. The success against some notable SEC teams and a highly touted Florida State team should provide this year's unranked Louisville Cardinals with some confidence as they face number one ranked Alabama.

The state of Kentucky matches up fairly well in terms of economic performance.

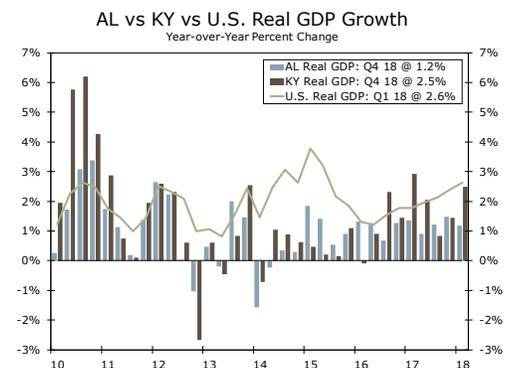
While Louisville does not match up all that well on paper with the University of Alabama, the state of Kentucky matches up fairly well in terms of economic performance. Kentucky is just slightly smaller than Alabama, with a 2017 population of 4.5 million. The state is nowhere near as football crazy as Alabama, as both Louisville and the University of Kentucky are perennial basketball powers. This makes recruiting from out of state all that more important to the football program, and a large proportion of this year's team hails from areas outside of Kentucky. The current roster includes 26 players from the state of Kentucky, 24 players from Georgia, 17 from Florida and eight from Alabama. Of those 26 players from Kentucky, at least 20 hail from the Louisville area.

Figure 3



Source: U.S. Department of Labor and Wells Fargo Securities

Figure 4



Kentucky's economy also hosts a very large automobile industry, with large assembly plants from Toyota, Ford and General Motors. More than 1.3 million vehicles were built in Kentucky in 2017, beating out Alabama, which assembled just under one million vehicles. Ten different models are produced in the Bluegrass State, including the nation's top selling sedan, the Toyota Camry, and the Camry Hybrid, Avalon, Avalon Hybrid, Ford Escape, F-Series Super Duty Pickup, Expedition, Lincoln MKC, the Chevy Corvette and the Lexus ES350. There is also a large number of parts plants in the state and exports of motor vehicles and parts totaled \$5.9 billion in 2017.

Kentucky also has an even more potent air game. Exports of aircraft, engines and aircraft parts totaled more than \$11.6 billion in 2017. Major aviation industry manufacturers include General Electric, which manufactures aircraft engines in Madisonville, and Safran Landing Systems, which makes key parts of landing gear in Walton. Kentucky's air game also includes some of the biggest names in logistics. UPS maintains its worldwide air hub in Louisville, known as Worldport. The facility employs over 20,000 workers. In addition, DHL operates its Americas hub at the Cincinnati/Northern Kentucky Airport. The facility is the largest of three hubs DHL around the world and employs around 2,500 workers. Amazon Air also operates a shipping hub at the airport and is in the midst of a \$1.5 billion expansion that will include a new three million square foot facility expected to accommodate more than 100 planes.

Kentucky is also known for another consumer product—bourbon. Kentucky is the birthplace of bourbon and produces more than 95 percent of the world's supply (the remainder being produced in parts of Tennessee). The bourbon industry has enjoyed a huge renaissance in recent years, which has led to a dramatic increase in bourbon production. The latest statistics from the Kentucky Distillers' Association show that bourbon is an \$8.5 billion a year industry in Kentucky. The industry is in the midst of a billion dollar expansion, adding new distilleries and storage facilities. The industry employs more than 17,500 workers, up from fewer than 5,000 a decade ago, and has an annual payroll of over \$800 million. Exports of Kentucky bourbon totaled \$380 million in 2017.

Kentucky's economy has been growing solidly in recent years. The aviation business has been booming, with global air travel rising rapidly and long backlogs for commercial airliners creating strong demand for aircraft engines and landing gear. Real GDP has risen 2.5 percent over the past year in Kentucky, driven by gains in production of transportation equipment and the continued growth in the state's logistics sector. There may have been a rush to produce and ship goods during the first half of 2018 before retaliatory tariffs took effect later this year. Nonfarm employment has also risen modestly, with payrolls climbing 0.7 percent over the past year and the unemployment rate falling 0.7 percentage points to 4.3 percent.

As in Alabama, the sluggish job growth numbers seem a bit at odds with the state's strong run of economic development wins. Cutbacks in the public sector once again are holding back overall job growth. We also suspect that the monthly employment data are understated. The latest Quarterly Census of Employment and Wages (QCEW), which calculates employment from the unemployment insurance tax rolls, shows employment rising even less, climbing just 0.5 percent over the year. On a more encouraging note, Boone County, Kentucky, which is the fourth most populous county in the state and home to the Cincinnati/Northern Kentucky Airport, posted the third fastest job growth in the nation over the past year, with payrolls rising a whopping 5.9 percent. Employment in Jefferson County, however, which is home to Louisville, grew a much more modest 0.6 percent.

Looking ahead to Saturday night's game and the economic outlook for the remainder of the year, a couple of themes seem readily apparent. For starters, Louisville is a heavy underdog going up against Alabama. Nick Saban can always be counted on to thoroughly prepare his team for just about any contingency and this year's Alabama team is loaded with talent. While Louisville will be breaking in a new quarterback, they have a very solid team and should match up well this Saturday. The economies of Alabama and Kentucky also look fairly solid headed into the fall. International trade is very important to both states, however, and the outcome of ongoing trade negotiations with Canada, China and the European Union will have major implications for both states. Both states also continue to enjoy tremendous success at recruiting new industry, which should help bolster job and income growth going forward.

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Boone County, Kentucky posted the third fastest job growth of any major county in the country over the past year.

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