

Economics Group

Special Commentary

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LSU vs. Alabama—One vs. Two

Rematch of the Game of the Century

It doesn't get much better than this for college football fans. #1 LSU heads to Tuscaloosa to take on #2 Alabama Saturday night, the first regular season matchup between the top two ranked teams since 2011, when LSU beat Alabama 9-6 in overtime in a defensive slugfest. The Crimson Tide didn't have to wait long for revenge, however, smothering the Tigers 21-0 in the National Championship later that season, the first of eight straight Alabama victories in this contentious SEC West rivalry. This weekend marks only the eighth #1 vs. #2 regular season matchup in the past 30 years (Figure 1). All but one have been decided by just one score.

It doesn't get much better than this for college football fans.

During the eight-game stretch of Alabama dominance, LSU has averaged only nine points per game and has been shut-out three times, including last year's 29-0 defeat at home. The game has typically been low-scoring on both sides, however, with two suffocating defenses and pound-the-ball style offenses. Things have changed. LSU persuaded offensive wunderkind Joe Brady to move upriver from the New Orleans Saints, and he has revamped the Tigers' offense into the fourth highest scoring in the nation (46.8 points per game) and turned quarterback Joe Burrow into the Heisman Trophy favorite. Alabama scores even more (48.6 points per game, good for #2 in the country) and had so much talent at quarterback last season that Jalen Hurts, now a Heisman candidate at Oklahoma, couldn't even win the starting job over Tua Tagovailoa.

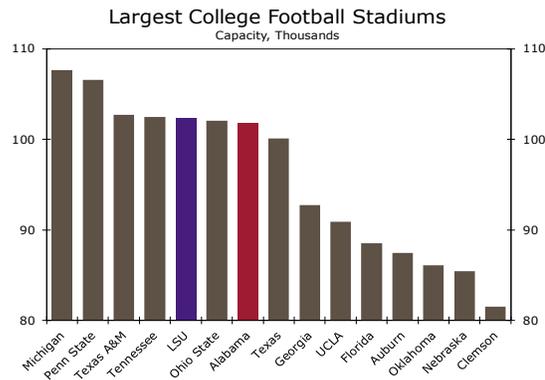
Alabama is currently a 6.5-point favorite, but the line could move swiftly depending on the status of Tagovailoa's recovering ankle. Odds-makers are likely not discounting LSU's #1 ranking—they have certainly earned it with three victories over top-ten teams this year—but rather ceding appropriate respect to Alabama's recent dominance in Bryant-Denny Stadium. The Crimson Tide have won 31 straight home games, and have been favored in an incredible 62 consecutive games. Only once in their past 134 games has Alabama been the underdog—in week six in 2015 when they travelled to Athens to play the University of Georgia (they more than covered the two-point spread, rolling over the Dawgs 38-10).

Figure 1

#1 vs #2 Matchups, Last 30 Years		
2011	#1 LSU, 9	#2 Alabama, 6
2006	#1 Ohio State, 42	#2 Michigan, 39
2006	#1 Ohio State, 24	#2 Texas, 7
1996	#2 Florida State, 24	#1, Florida 21
1993	#2 Notre Dame, 31	#1 Florida State, 24
1991	#2 Miami, 17	#1 Florida State, 16
1989	#1 Notre Dame, 24	#2 Michigan, 19

Source: NCAA and Wells Fargo Securities

Figure 2



Together we'll go far



There are six Group of Five teams ranked.

Predictably, ESPN College GameDay will be in town to preview the game and a busy week 11, which features a second matchup of unbeaten teams and a full slate of teams maneuvering for conference titles. The action starts at noon, when unbeaten #5 Penn State kicks off at unbeaten #13 Minnesota in a major test for the Golden Gopher’s return to national prominence. #18 Iowa vs. #16 Wisconsin is the other ranked matchup of the week.

With the season winding down, the rankings look a little different this year. The American Athletic Conference (AAC) has more teams in the top 25 than any conference besides the SEC and Big Ten, and six teams from non-Power Five conferences are ranked—Cincinnati, Memphis, Boise State, SMU, San Diego State and Navy.

LSU & Baton Rouge

LSU began playing football in 1893 and has racked up over 800 wins and three national titles—1958 (led by future Heisman trophy winner Billy Cannon), 2003 and 2007. The program’s first head coach was Charles Coates, world-renowned for his research into the chemistry of sugar, an integral commodity for the early economy of the southern Louisiana plains. The Tigers were coached from 2000-2004 by current Alabama coach Nick Saban, who led the team to their second national title in 2003. Les Miles then went 114-34 from 2005-2016, before being replaced by current coach Ed Orgeron.

LSU plays in Tiger Stadium, where over 102,321 fans ensure it lives up to its reputation as “Death Valley.” The stadium is especially feared at night, a tradition which started at a 1931 game versus Spring Hill, a private university in Mobile, Alabama. Although he no longer attends games, Mike VII, a Siberian-Bengal Tiger donated from an Okeechobee, Florida sanctuary, still represents the team. The current Mike comes from a long line of Mikes dating back to Mike I, whose purchase from the Little Rock Zoo in 1935 was financed by the collection of 25 cents from every student. Allegedly, four students from Tulane, LSU’s oldest rival, kidnapped the 500-pound cat in 1950 on the eve of the annual matchup at the Sugar Bowl, earning them a 50-year ban from the LSU campus.

LSU is a major research center.

LSU was founded in 1853 in Pineville and today has over 30,000 students in Baton Rouge. As Louisiana’s flagship university, it is a major research center with particular emphasis on energy, materials science & manufacturing, computing and biotechnology. LSU Innovation Park is located five miles south of campus and aims to bring new technologies from students and professors to commercial use, and has arguably become the innovation and entrepreneurship hub of the Baton Rouge area. Famous LSU alumni include Shaquille O’Neal, JaMarcus Russell, James Carville, Donna Brazile, Steve Scalise and current Louisiana governor John Bel Edwards.

Figure 3

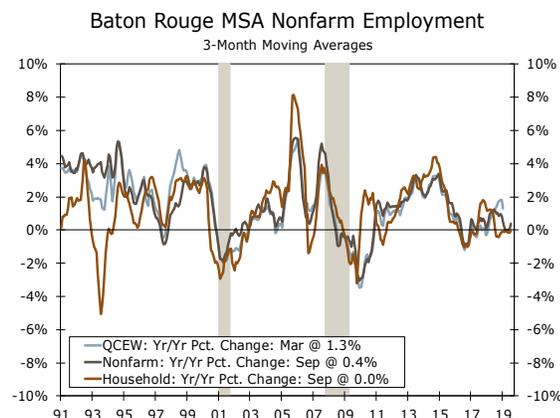
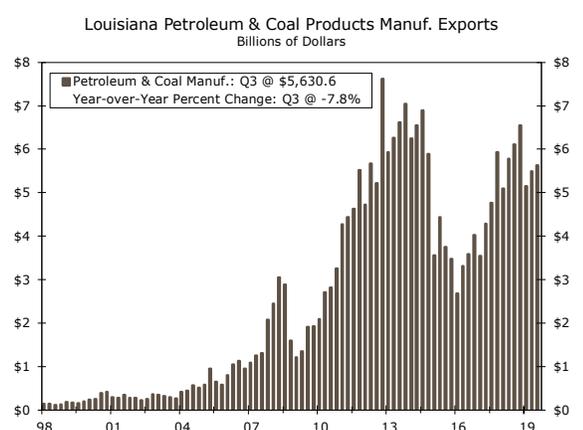


Figure 4



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

Louisiana Economic Outlook

The Census Bureau identifies nine Metropolitan Statistical Areas (MSAs) in Louisiana—Alexandria, Baton Rouge (the capital and second largest with 831,000 residents), Hammond, Houma-Thibodaux, Lafayette, Lake Charles, Monroe, New Orleans-Metairie (1.27 million residents) and Shreveport-Bossier City. Typically an MSA is composed of individual counties. For example, the Los Angeles-Long Beach-Anaheim MSA is composed of Los Angeles County and Orange County. Louisiana, however, is one of only two states that does not have counties. Alaska calls its subdivisions ‘boroughs’ while Louisiana’s 64 subdivisions are known as ‘parishes.’ After the Louisiana Purchase in 1803, the territory was hastily divided into subsections roughly matching the boundaries of existing Catholic parishes. Today the demarcation is purely secular, but reflects its history as a colony of both Spain and France, two traditionally Roman Catholic nations.

The Louisiana economy faces a number of challenges.

The Louisiana economy faces a number of challenges. Employment growth is nearly zero—the state has added just 6,000 jobs over the past year—and the unemployment rate sits above the national rate at 4.3%. This does, however, mark somewhat of an improvement from 2015-2016, when the energy downturn led to outright job losses. Louisiana was hit hard by the decline in energy prices because much of its energy industry is tied to off-shore drilling, which is more risky and expensive than fracking.

Louisiana’s energy and export emphasis make it more vulnerable to cyclical slowdowns, while the state’s population has declined by almost 20,000 residents over the past two years. Yet it may be due for a bit of a rebound, with several large industrial projects in the pipeline. There are sizable upcoming investments in Baton Rouge from Shell, Shintech and Exxon as well as the widening of I-10. Lake Charles will likely continue to be the fastest growing metro area, reflecting growth in the chemical industry, as well as new industry attracted by the abundance of inexpensive natural gas.

Louisiana’s rural areas are struggling relatively more than the metro areas, due to their historic agricultural focus and limited new industrial development. Statewide, the strongest major industry over the past year has been education & health services, where employment is growing more than 3.3%. Developing knowledge-based industries and a more robust service sector is key, and the state’s universities play an integral role.

The rural areas have struggled.

Figure 5

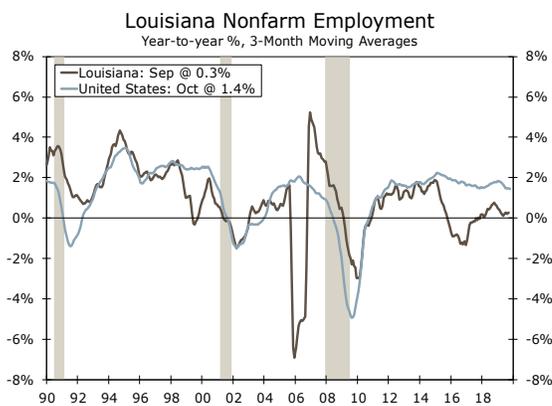
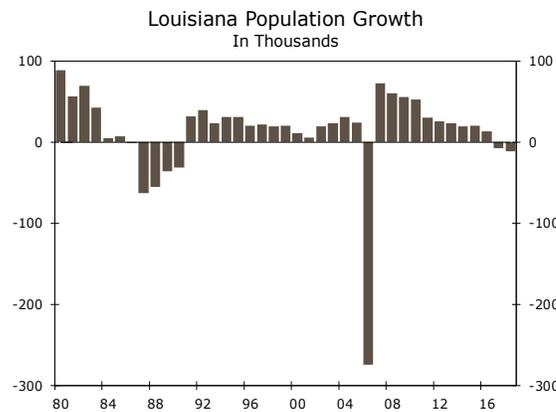


Figure 6



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

Alabama & Tuscaloosa

Describing Alabama football is an exercise in superlatives. Since the inaugural season in 1892, the Crimson Tide have accumulated more than 900 wins, 17 national championships and a record 69 bowl appearances. Legends of the program include coach Paul ‘Bear’ Bryant, Joe Namath, Bart Starr, Shaun Alexander and Heisman Trophy winners Mark Ingram and Derrick Henry. In recent years the program has been the closest thing to a dynasty, winning national titles in 2009, 2011,

2012, 2015 and 2017. Coach Nick Saban is tied with Bear Bryant for the most national titles, although one of his six was with LSU, while all of Bear Bryant’s were in Tuscaloosa.

The University of Alabama was founded in 1831, when Tuscaloosa was still the state capital, and was one of the first five schools in the nation to offer engineering classes. Large portions of the campus were razed by Union forces during the Civil War, but it continued growing rapidly during and after Reconstruction, adding a law school in 1872 and the College of Engineering and School of Education in 1909. Today it has 38,000 students and has achieved Very High Research Activity status from the Carnegie classification system.

The school’s Center for Business and Economic Research estimates its statewide impact at \$2.9 billion and almost 14,000 jobs. The seven home games last year, when fans flood into Tuscaloosa to fill the 101,821-seat Bryant-Denny Stadium, by themselves generated \$19.2 million for the metro area and \$25.8 million for the state as a whole. Not surprisingly, Alabama has one of the most financially valuable football programs, according to Forbes, but also ranks #1 for outlays, spending over \$70 million per year.

The Tuscaloosa metro area has 252,000 residents and serves as the economic heart of western Alabama. It is one of 12 MSAs in the state, along with Anniston-Oxford, Auburn-Opelika, Birmingham-Hoover, Daphne-Fairhope-Foley, Decatur, Dothan, Florence-Muscle Shoals, Gadsden, Huntsville, Mobile and Montgomery. While the state’s flagship university is clearly central to Tuscaloosa, there is more to the economy than just the University of Alabama. Mercedes-Benz opened its first U.S. plant there in 1993, leading to the development of a major auto production and parts hub. The Mercedes-Benz facility produced 240,000 vehicles in 2018 and employs almost 4,000 directly and more than 10,000 indirectly at various parts suppliers. Investment continues to flourish—Mercedes-Benz is constructing new electric vehicle production facilities in Tuscaloosa County and a battery plant and global logistics center in Bibb County.

Alabama has developed a major automotive hub.

Alabama Economic Outlook

Over the past couple of decades, Mercedes-Benz has invested more than \$6 billion in Alabama, catalyzing the development of a key manufacturing cluster—statewide over one million cars and light trucks are made each year. Other car manufacturers have followed Mercedes to the state, including Honda and Hyundai. Construction is underway on the \$1.6 billion Mazda-Toyota joint venture assembly plant in Huntsville, which will employ up to 4,000 workers by 2021. Exports of vehicles & parts totaled over \$7.5 billion in 2018, making Alabama the third largest exporter for that category. Canada, China and Germany were the top purchasers.

Figure 7

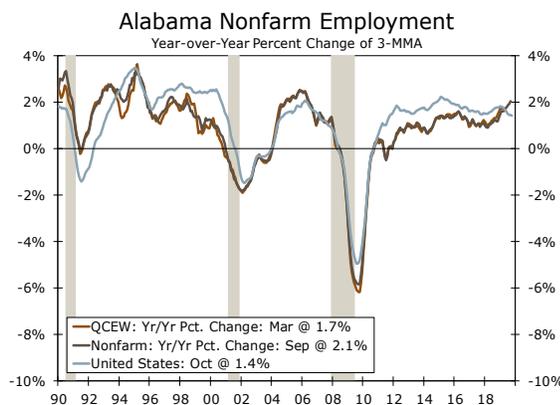
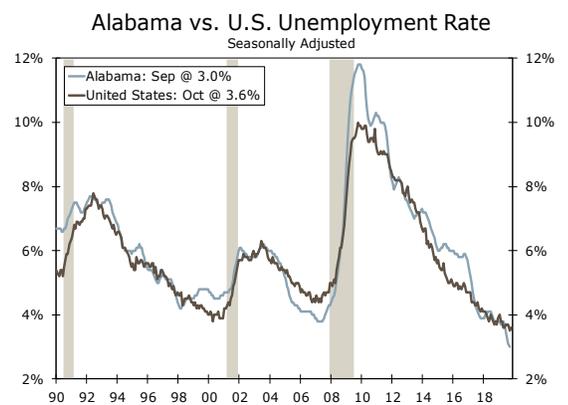


Figure 8



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

Despite the influx of industrial development, Alabama’s economy has grown only modestly in recent years. Real GDP rose 2.0% in 2018, slightly trailing the nation. The federal government plays

a relatively large role in Alabama’s economy and sequestration took a toll on the state’s growth throughout much of the decade. Rural economic development has also lagged, with many of Alabama’s marquee industrial projects choosing to locate in or near one of the major metro areas. Huntsville, with its strong ties to the nation’s defense industry and space program, has been a notable bright spot.

The Huntsville area has one of the highest proportions of high tech jobs of any metro area in the country—using BLS Occupational Employment Statistics data, it ranks third out of all MSAs in the country based on the portion of jobs that are STEM-related, at around 16%. Only St. Mary’s County, Maryland and San Jose, California are more STEM-intensive, while Boulder, Colorado and Durham-Chapel Hill, North Carolina round out the top five. There are over 4,000 aerospace engineers in Huntsville, more than any other metro area in the nation. Overall nonfarm employment is rising more than 3% year-over-year, and the unemployment rate is just 2.6%.

Job growth in Alabama is picking up.

Figure 9

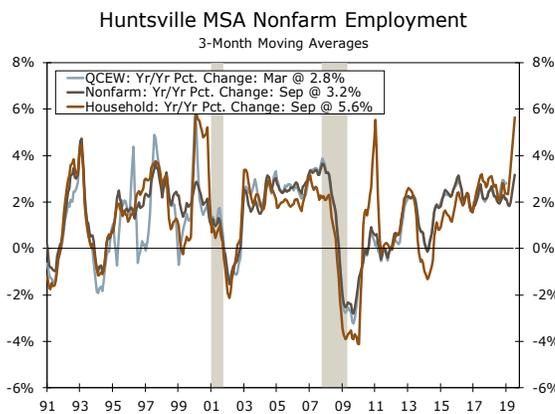
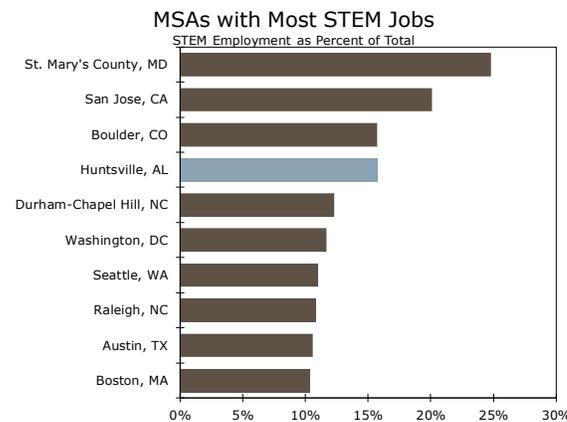


Figure 10



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

Statewide, overall job growth this past year has been roughly 2%, with gains evident across every key industry. Growth should remain solid this year. Risks have increased, however, particularly in the automotive sector, where exports have slowed amid the trade war and slower growth in Europe. Population growth remains exceptionally modest in Alabama, which combined with solid job growth has pulled the unemployment rate down to just 3.0%. Despite the low unemployment rate, employers are generally pleased with their ability to find the skilled workers they need.

Football Outlook

If you ask Nick Saban about Tagovailoa’s status, he would probably say, “Quit asking!”, but there is undeniably a lot riding on the quarterback’s ankle. The winner will most likely take the SEC West and play Georgia for the SEC Championship. However, both teams could conceivably make the Playoff even with a loss—LSU already has quality wins over Florida, Auburn and Texas. But regardless of this outcome, and whether it lives up to its billing as another ‘Game of the Century,’ there will certainly be a lot of shuffling in the ranks. After Minnesota this weekend, Penn State then has to go to the Horseshoe to take on Ohio State, while Georgia and Alabama both have to play Auburn and even Clemson will have to face a surprisingly tough Wake Forest team.

Teams are jockeying for the Playoff.

Coach Ed Orgeron has shored up the LSU program in a major way, going 8-3 vs top-10 teams since 2016, but Alabama has been LSU’s kryptonite. Alabama leads the overall series 53-25-5 and will seek to extend their dominant streak on their home turf. It is hard to pick an opponent over Alabama at home, but LSU appears everything needed to hold onto their #1 ranking.

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