

Economics Group

Special Commentary

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North Carolina vs. South Carolina

The Two Carolinas Compete in a Border Battle in Charlotte

This year marks the 150th anniversary of college football. We will once again publish an outlook for the states and local economies associated with major college football games each week. The first of the annual neutral site kickoff classic games took place last week in Orlando, where Florida defeated Miami 24-20 in a game that was not decided until the final minute. One of the games we are highlighting this week is the Belk College Kickoff Classic in Charlotte, where North Carolina will face South Carolina.

The Belk College Football Kickoff is a recent addition to the college football schedule, originating just four years ago. That first game also featured a matchup between North Carolina (UNC) and South Carolina (USC). The pairing is appropriate, as is the venue. Both schools are relatively close but do not play each other regularly. USC is located just 92 miles south of Charlotte in Columbia, which is actually closer than Chapel Hill, which is located 140 miles to the northeast of Charlotte. Charlotte is the Carolinas' largest city, with the 11-county metropolitan area (eight in North Carolina and three in South Carolina) home to 2.6 million residents. Approximately seven million of the Carolinas' 15.5 million residents live within 100 miles of downtown Charlotte.

Both football programs are working to get back on track. South Carolina is coming off a 7-6 season that ended with a lopsided loss to Virginia in the Belk Bowl. The Gamecocks saw their last real success under Steve Spurrier back in 2011-2013, when they strung together three consecutive 11-2 seasons, finishing #9, #8 and #4 in the nation, respectively. The best they have done since was 9-4 in 2017, with an impressive win over Michigan in the Outback Bowl. This season will be challenging. While quarterback Jake Bentley returns, the Gamecocks' top receiver from last year, Deebo Samuel, moved on to the NFL. The Gamecock's schedule is also daunting, with games against three of the top four teams—Alabama, Georgia and Clemson—as well as perennial conference powers Florida and Texas A&M.

This season marks the return of Mack Brown to UNC. Although UNC won their division just four years ago, the Tar Heels have struggled to regain sustained success ever since Brown left for Texas in 1998. UNC is coming off a dreadful 2-9 2018 season, and went 3-9 in 2017. Many of those losses were close, however, so the spark from Mack Brown's return might prove momentous.

The Belk kickoff game once again features North and South Carolina, facing off in Charlotte.

This season marks the return of Mack Brown to UNC.

Figure 1

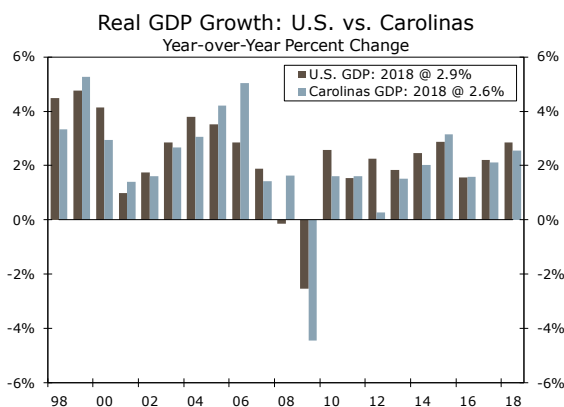
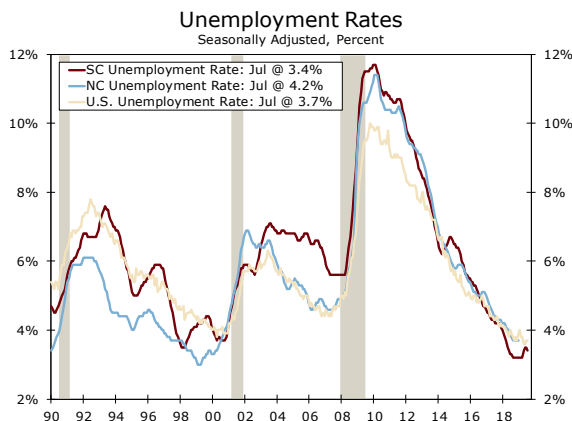


Figure 2



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

Together we'll go far



Both teams poach talent from each other's state.

Rebooting a Rivalry?

This Saturday marks the third meeting between North Carolina and South Carolina in the past six years. That hardly qualifies as a rivalry. The teams used to play nearly every year from 1910 to 1970, when both were members of the Southern Conference and later the ACC. South Carolina left the ACC to become an independent in 1971 before joining the SEC in 1992. South Carolina's exit from the ACC had more to do with basketball and the perception the ACC was too focused on schools in the Triangle region, especially UNC, to the detriment of South Carolina in particular. Another issue that gets blood boiling is both schools abbreviate their name to simply "Carolina," to the chagrin of the other. Of course, both teams poach talent from each other's state, and there are plenty of alumni from both schools spread throughout the Carolinas.

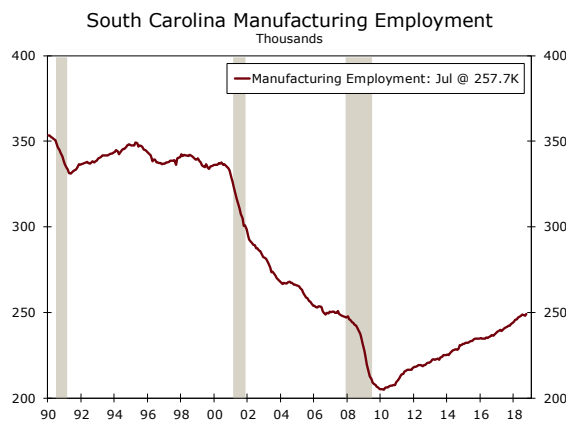
While there would appear to be plenty of ammunition for a heated rivalry, recent games have been relatively tame affairs. Some of that may have to do with North Carolina's football program's sporadic success in the post-Mack Brown era. Under Brown, North Carolina was 69-46-1, despite going 1-10 during both his first two seasons. The Tar Heels have gone just 108-135 in the 21 years since Brown left. South Carolina has won the past three meetings and six of the past seven back to 1988. North Carolina still maintains a commanding 34-19-4 record in the series, but the lack of recent success and continued domination of its basketball program have focused more alumni attention on basketball than football. That may change with Brown's return. Season ticket sales have increased substantially this year and fan interest at preseason events has picked up.

As for the economy, both Carolinas have generally enjoyed strong economic growth the past few years. North Carolina was slower to recover from the Great Recession, however, and has had more difficulty extending economic gains beyond its two largest metropolitan areas—Charlotte and Raleigh. South Carolina recovered much more quickly, seeing strong job growth in most of its largest metro areas as well as quite a bit of success in rural economic development. South Carolina has been much more adept at landing large industrial projects, such as assembly plants for Boeing, Mercedes-Benz and Volvo in Charleston; a slew of tire plants from Michelin, Bridgestone/Firestone, Continental and Giti (making South Carolina the nation's largest tire producer and exporter); and BMW, which has continuously expanded its operations in the Upstate.

North Carolina has generally taken the lead in technology. Research Triangle Park (RTP) has been a leading address for tech firms ever since IBM decided to make it one of its operation centers in 1965. IBM employs more workers in the Triangle than it does in any other location in the world, outside of India. The RTP moniker stems from the park's location between three major research universities—NC State (Raleigh), Duke (Durham) and UNC (Chapel Hill). Other major RTP employers include GlaxoSmithKline, Cisco and the National Institute of Environmental Health Sciences. Analytics software powerhouse SAS is located in Cary, just outside RTP.

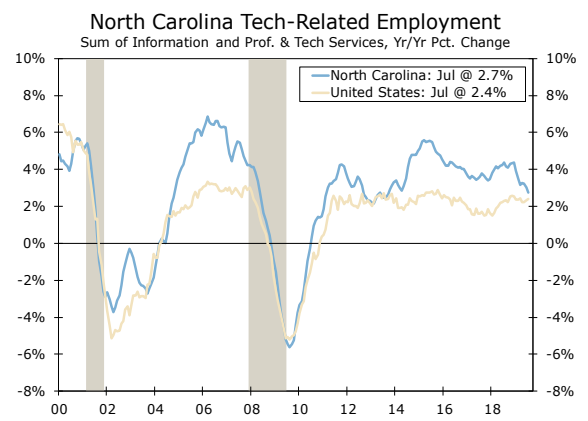
North Carolina's economy has generally taken the lead in technology.

Figure 3



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

Figure 4



While technology, government and higher education have historically driven the Triangle's economy, Charlotte's economy has been firmly anchored in financial services. The Queen City has a rich history dating back to colonial times, named after King George III's wife, Charlotte, who hailed from Mecklenburg-Strelitz, in northern Germany. Mecklenburg County, where Charlotte is located, declared its independence in 1785, a year before the United States. Soon afterward, General Cornwallis marched through Charlotte on his way to confront the Continental Army, but found the city to be a "hornets' nest of rebellion." That description has stuck and is the inspiration for the name of Charlotte's NBA team, while the date Mecklenburg County declared its independence is emblazoned on the North Carolina state flag. Charlotte was also home to one of the nation's first major gold discoveries, which led to the establishment of a U.S. Mint there.

The Queen City has a rich history dating back to colonial times.

The financial crisis marked a major test for Charlotte, as its banking sector was put through the wringer. The metro area's unemployment rate spiked to 12.6% in the midst of the crisis, but the economy emerged much stronger as the region's large base of financial services workers attracted a wave of banks, asset management firms and fintech companies. In addition to retaining the headquarters of Bank of America (the nation's second largest bank) Charlotte also serves as the largest base of workers for Wells Fargo (fourth largest bank) and the headquarters of Truist Financial, the company resulting from the merger between BB&T and SunTrust, which will create the sixth largest bank. Other major financial services firms with headquarters or major operations in Charlotte include Barings, Ally Financial and Dimensional Fund Advisors. Charlotte's German roots are also still very much evident, with more than 200 German-based firms doing business in the area—one of the largest concentrations of German-owned firms in the country.

While both Carolinas continue to grow solidly, slower global growth is impacting the economy. South Carolina receives more foreign direct investment per capita than any other state. While investment has proved remarkably resilient in recent years, we expect some slowing over the next two years. North Carolina has also continued to enjoy an inflow of capital investment, particularly in life sciences and fintech, but has missed out on several mega-projects. Manufacturing has also proven surprisingly resilient. The latest Quarterly Census of Employment and Wages shows nonfarm employment rising 2.0% in both Carolinas, which is nearly one-third stronger than the 1.4% growth posted nationwide. We look for job growth to finish the year close to 2% in both states.

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Despite comparably strong job gains in both states, North Carolina's unemployment rate remains slightly above the nation at 4.2% in July. The higher jobless rate is likely due to the slower recovery in many of the state's smaller MSAs and rural areas as well as some lingering dislocations from last fall's hurricanes, which ravaged large parts of eastern North Carolina. By contrast, the unemployment rate in South Carolina remains comfortably below the national rate at just 3.4% in July. Growth has been more balanced geographically in South Carolina, with the strongest job growth occurring along the coast and in the Upstate. Demographics explain some of the difference. A larger proportion of South Carolina's population growth comes from retirees, who drive demand for services but participate in the labor force on only a limited basis. The bulk of North Carolina's job growth comes from prime working-age adults relocating for job opportunities.

South Carolina enters Saturday's game as a 9.5-point favorite. The Gamecocks have done well in season openers, including a 35-28 win over NC State two years ago in the Belk College Kickoff Classic. South Carolina has a little extra motivation because their last visit to Bank of America Stadium was the disastrous 28-0 loss to Virginia in the 2018 Belk Bowl. South Carolina's subsequent schedule, which features at least five games where they are likely to be underdogs, means it is vitally important for them to win all the games they are favored in, including this one, if they want to end the season with enough wins to be bowl eligible.

North Carolina's schedule is also daunting but the Tar Heels should see better results this season. After opening against South Carolina, UNC will host Miami the following week and Clemson in late September, and travel to tough road games at Virginia Tech and Pittsburgh. While the Heels will likely be underdogs in seven or eight of their games, we feel the return of Mack Brown will be enough to push them past some of the close losses they had the past couple of years. Our 6-7 projection implies that UNC wins just enough games to become bowl eligible. A win over South Carolina would be a big step in that direction, but even with a loss, a bowl game is within reach.

North Carolina Economic Outlook

	Actual						Forecast		
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Real Gross Domestic Product by State, \$ Millions	439,571	445,361	453,629	467,754	472,931	482,010	496,110	512,000	526,336
Annual Rate	0.1%	1.3%	1.9%	3.1%	1.1%	1.9%	2.9%	3.2%	2.8%
Nominal Personal Income, \$ Millions	379,031	375,057	397,411	419,889	433,766	454,307	475,927	500,675	525,200
Nominal Personal Income, Percent Change	7.0%	-1.0%	6.0%	5.7%	3.3%	4.7%	4.8%	5.2%	4.9%
Population, Thousands	9,749	9,844	9,934	10,033	10,157	10,271	10,384	10,505	10,620
Change in thousands	92	94	90	99	124	114	113	121	115
Percent Change	1.0%	1.0%	0.9%	1.0%	1.2%	1.1%	1.1%	1.2%	1.1%
Nonfarm Employment, Thousands	3,985	4,057	4,140	4,240	4,340	4,411	4,488	4,575	4,650
Change in thousands	70	71	83	101	99	72	77	87	75
Percent Change	1.8%	1.8%	2.0%	2.4%	2.3%	1.7%	1.7%	1.9%	1.6%
Unemployment Rate, Annual Average	9.3%	8.0%	6.3%	5.7%	5.1%	4.5%	3.9%	3.9%	3.8%
Total Housing Permits	47,828	50,787	50,642	53,512	57,090	65,009	68,375	65,000	65,000
Single-Family Permits	29,564	34,941	35,456	37,465	41,174	46,500	48,071	47,250	49,140
Multi-Family Permits	18,264	15,846	15,186	16,047	15,916	18,509	20,304	17,750	15,860
FHFA Home Price Index, Percent Change	-1.6%	0.8%	2.4%	4.4%	5.3%	5.9%	7.3%	6.0%	5.5%
University of North Carolina Tar Heels Record	8-4	7-6	6-7	11-3	8-5	3-9	2-9	6-7	7-6

Sources: National Association of Realtors, Federal Housing Finance Authority, U.S. Department of Commerce, U.S. Department of Labor, Moody's Analytics & Wells Fargo Securities
Forecast as of: August 28, 2019

South Carolina Economic Outlook

	Actual						Forecast		
	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Real Gross Domestic Product by State, \$ Millions	175,375	178,940	183,282	189,167	194,466	199,491	202,771	209,260	215,120
Annual Rate	0.7%	2.0%	2.4%	3.2%	2.8%	2.6%	1.6%	3.2%	2.8%
Nominal Personal Income, \$ Millions	167,539	169,974	181,108	192,879	199,942	209,180	217,276	228,350	239,540
Nominal Personal Income, Percent Change	5.3%	1.5%	6.6%	6.5%	3.7%	4.6%	3.9%	5.1%	4.9%
Population, Thousands	4,717	4,764	4,824	4,892	4,958	5,021	5,084	5,155	5,225
Change in thousands	46	47	60	68	66	63	63	71	70
Percent Change	1.0%	1.0%	1.3%	1.4%	1.3%	1.3%	1.3%	1.4%	1.4%
Nonfarm Employment, Thousands	1,864	1,901	1,951	2,007	2,055	2,095	2,145	2,190	2,225
Change in thousands	32	37	50	55	49	40	50	45	35
Percent Change	1.7%	2.0%	2.6%	2.8%	2.4%	1.9%	2.4%	2.1%	1.6%
Unemployment Rate, Annual Average	9.2%	7.6%	6.5%	6.0%	5.0%	4.3%	3.4%	3.3%	3.4%
Total Housing Permits	18,856	23,637	27,469	30,059	31,356	34,730	35,655	36,000	36,500
Single-Family Permits	15,345	19,533	21,472	23,639	25,782	28,356	29,704	29,500	30,680
Multi-Family Permits	3,511	4,104	5,997	6,420	5,574	6,374	5,951	6,500	5,820
FHFA Home Price Index, Percent Change	-1.0%	0.5%	2.5%	5.2%	5.6%	5.9%	7.0%	5.0%	4.6%
University of South Carolina Gamecocks Record	11-2	11.2	7-6	3-9	6-7	9-4	7-6	7-6	7-6

Sources: National Association of Realtors, Federal Housing Finance Authority, U.S. Department of Commerce, U.S. Department of Labor, Moody's Analytics & Wells Fargo Securities
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