

# Economics Group

## Special Commentary

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## South Carolina 2019 Economic Outlook

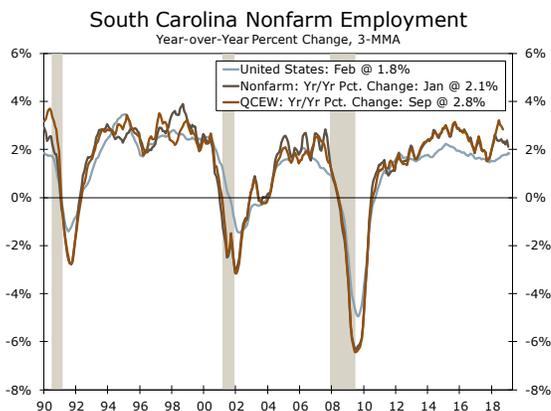
### Stronger Underlying Momentum is Evident Across the Palmetto State

South Carolina’s economy continues to benefit from the state’s strong run of economic development successes, which have dramatically diversified the industrial base and positioned the state as a leader in many rapidly growing industries. Hiring has remained strong this past year, although preliminary data suggested hiring had decelerated to a pace roughly in line with the nation. The more recently released Quarterly Census of Employment and Wages data, which are the basis for the annual revision to the monthly job data, show South Carolina job growth was nearly twice as strong as first reported and is now running at a pace nearly twice that of the nation. South Carolina’s unemployment rate has fallen to just 3.2% over the past year. The weaker initial employment data are also reflected in the most recent GDP data, which show South Carolina lagging the nation for four consecutive quarters. We expect those data to also be revised higher later this year.

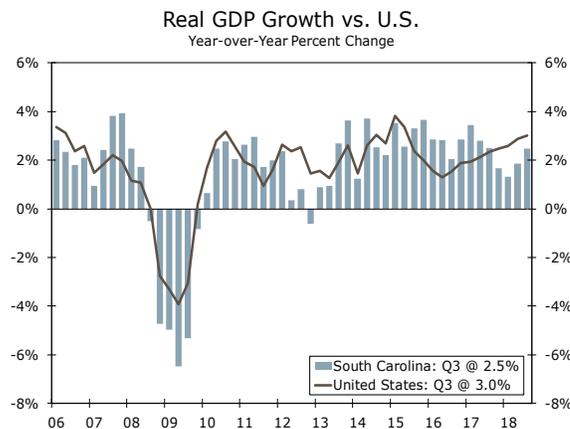
*South Carolina’s economy continues to benefit from the state’s strong run of economic development successes.*

Industrial development has been transforming South Carolina since at least the mid-1970s, when the state made a concerted effort to diversify its economy. Economic development has been particularly successful at attracting manufacturers. Some of the greatest initial success came in the tire industry. Michelin set up a number of factories around the state and established their North American headquarters in Greenville. Other tire producers followed, including Bridgestone in Aiken, Continental Tire in Sumter, Trelleborg in Spartanburg and Giti Tire in Richburg. South Carolina is now the nation’s leading tire producer and largest tire exporter. The auto industry has made an even greater impact, with BMW opening a plant near the Greenville-Spartanburg International Airport. More recently Volvo and Mercedes opened assembly plants in the Charleston area. One of the greatest impacts, however, was the addition of Boeing’s 787 Dreamliner assembly plant next to the Charleston International Airport in 2011, which now employs over 8,000 workers. South Carolina has a great deal riding on the trade negotiations with China, its top export market.

**Figure 1**



**Figure 2**



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



*The success at industrial development is no accident and reflects a coordinated effort to diversify the state.*

### Resurgence in Manufacturing

The success at industrial development is no accident and reflects a coordinated effort to diversify the state away from its long, traditional dependence on textiles, tobacco and tourism. An important objective in attracting new industry has been to constantly upgrade the skill set of the state's workforce by building off the existing industry base. The state has also aggressively courted capital investment from abroad, consistently landing more foreign direct investment per capita than any other state.

Success stories abound. BMW announced its assembly plant in Greer back in 1993 and the facility has grown to become the German-owned firm's largest assembly plant. Approximately 70% of the plant's output is exported through the Port of Charleston. Volvo broke ground on its first North American plant in Berkeley County in 2016 and began producing vehicles there this past year. The Swedish-based, Chinese-owned firm has invested over \$1.1 billion building the plant located along I-26 and plans to export a large portion of its output. Mercedes-Benz invested over \$500 million in its North Charleston plant, where it makes its Sprinter van. Demand for Sprinter vans has been running strong, helped by a huge order from Amazon. The North Charleston plant currently employs 900 workers and will employ a total of 1,300 when it reaches full output.

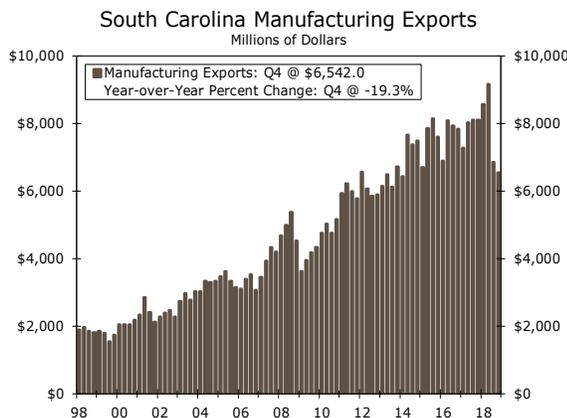
Boeing's assembly plant at the Charleston International Airport is another huge success story. The firm has been steadily ramping up production since it opened in 2011. Production of 787s has ramped up further in recent months, as order books have lengthened, resulting in additional hiring. The plant has also attracted a host of suppliers and fueled growth in supporting industries, including advanced materials.

The Port of Charleston is a key competitive advantage for the state and indeed the region. The U.S. Army Corps of Engineers identified its central role in economic growth in naming it the best value for public investment dollars in 2011. A significant \$500 million dredging operation is currently underway and is scheduled for completion by 2020, at which point it will be the deepest harbor on the East Coast. A deeper harbor as well as a new container terminal will better enable the port to accommodate the ever-growing container ships passing through the recently expanded Panama Canal and enhance its competitiveness with other rapidly growing ports.

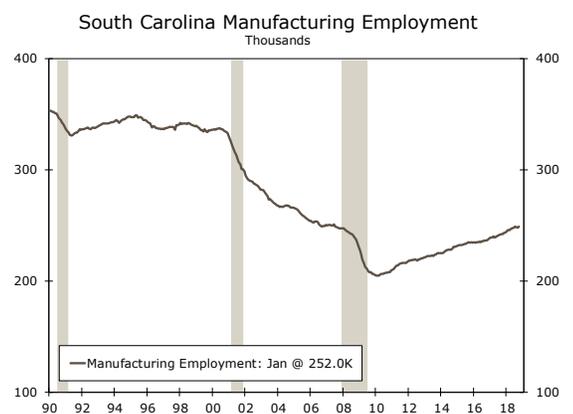
*The Port of Charleston is a key competitive advantage for the state and indeed the region.*

Excellent railway access, a plethora of commercial airports, five major highways and a growing network of inland ports provide shippers with access to 95 million people within a one-day drive. The logistics sector is a key growth area, both around Charleston and at inland ports near the BMW plant in Greer and near Dillon, which is just off I-95. Manufacturers look to South Carolina as a key export platform. The state's top exporters include Boeing, BMW and Michelin. BMW has invested more than \$10 billion in its production facility in Spartanburg, employing over 10,000 workers and attracting a wide array of suppliers to the surrounding region. Samsung recently announced an expansion of its Newberry County appliance plant, which will boost employment to 1,000 by 2020.

**Figure 3**



**Figure 4**



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

South Carolina's recipe for economic development has also exposed it to some potential headwinds. Exports are roughly equivalent to 14.7% of the state's GDP, ranking fifth among all states. Manufacturing exports have fallen more than 15% year-over-year in consecutive quarters amid rising trade friction with China, the state's largest trading partner. For the year, however, exports still finished 7.5% higher, led by overseas purchases of Boeing commercial aircraft and continued growth in demand for other leading exports such as tires, industrial equipment, agricultural products and textiles and related materials. Shipments of motor vehicles declined, however, reflecting rising trade friction.

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Manufacturing employment rose 3.0% this past year, with a net 7,400 jobs added, and has risen more than 7.3% over the past three years, resulting in a net gain of 17,100 manufacturing jobs. Manufacturing comprises 11% of South Carolina nonfarm employment, well above the 7% average of the South Atlantic region.

Economic development efforts have focused intently on capitalizing on the growing industrial base by encouraging firms to locate research facilities in South Carolina. The state has also invested heavily in research centers that enhance the competitive advantages of the state's key industries and make the state more attractive to new investment. Examples include Clemson University's International Center for Automotive Research, the Center for Manufacturing Innovation in Greenville and the Southeastern Institute of Manufacturing Technology between Florence and Darlington. The facilities have promoted product innovation and improvements that have helped grow the state's factory sector, and also trained workers in new technologies and equipment.

Landing new corporate headquarters remains a priority. South Carolina's Charlotte suburbs in York and Lancaster Counties have attracted several large corporate facilities. LPL Financial and Lash Group relocated more than 2,000 jobs from Charlotte, whose metropolitan statistical area extends across the state line to Fort Mill and Indian Land. The South Carolina location is still convenient to all that Charlotte has to offer and is close to the Charlotte Douglas International Airport. The management, professional & technical services and information sectors are all seeing strong growth. Moreover, universities, which have been a competitive advantage for the state since its agricultural days, are on the receiving end of hundreds of millions of dollars of research funding, helping to establish the state as a leader in advanced materials, alternative energy and the automotive and aerospace sectors. State universities and community colleges also provide a pipeline of educated workers and help drive the upskilling of the state's workforce. Collaborative business initiatives such as the Charleston Digital Corridor are also helping innovation-driven businesses in the Charleston area, which is home to the Space and Naval Warfare Systems Command (SPAWAR) and the Naval Information Warfare Center (NIWC).

Tourism is another major source of growth, as the warm weather and beaches of the coastline drive further diversification of the state economy. Tourism is now estimated to generate over \$22 billion annually for the state. Leisure & hospitality employment is growing strongly again following Hurricane Florence, which derailed operations along the coast and in the Pee Dee region. Following the storm, the state shed over 12,500 jobs in September, but added 18,300 jobs the following month. Much of that volatility was in the leisure & hospitality sector. For all of 2018, employment in the leisure and hospitality sector rose 2.5% from the prior year, resulting in a net gain of 6,450 jobs. Conde Nast has ranked Charleston as the top city for visitors among areas with a population of less than one million residents. Access to the region will improve this spring, when British Airways is set to initiate nonstop service to London.

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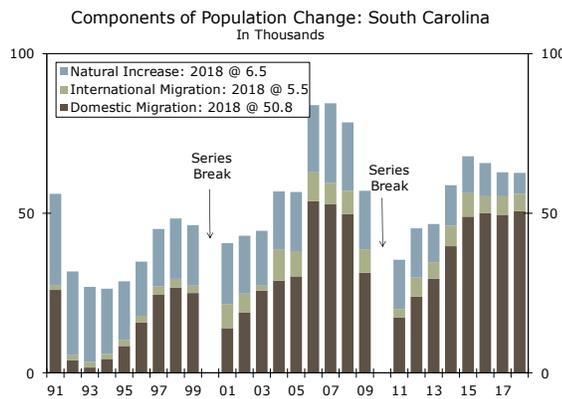
Construction employment, which has fallen 3.8% over the past year, is a notable area of weakness. This is at odds with strength in single-family permits, which rose 4.7% this past year, and likely reflects the halting of construction of the V.C. Summer Nuclear Generating Station in Fairfield County. The abrupt cancellation of that major construction project has led to some unusual volatility in South Carolina's employment data. There has been some slowing in apartment construction but several large industrial projects remain in the pipeline, including a massive expansion of Google's data center in Monck's Corner and a new Michelin distribution center in Spartanburg. We expect construction jobs to rebound in the coming year.

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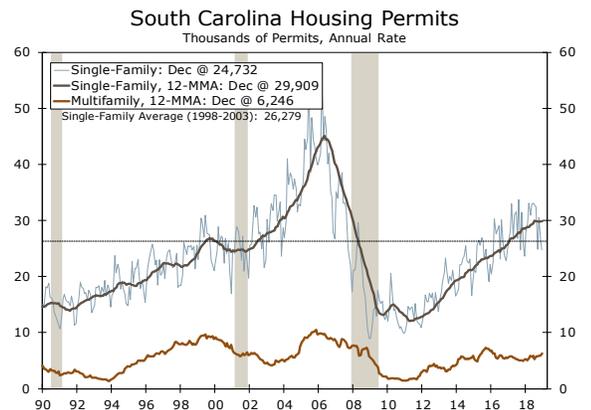
### Strong Migration into South Carolina

South Carolina's population is expanding rapidly, largely a result of migration from other states. In 2018, South Carolina was the ninth fastest growing state, with its population rising nearly 1.5% year-over-year, for a gain of over 60,000 residents. South Carolina rounds out the top five of states ranked by the absolute net increase from state-to-state migration—behind Florida, Arizona, Texas and North Carolina—despite being significantly smaller than the other four states. In-migrants are attracted by South Carolina's lower cost of living and attractive job market. Myrtle Beach in particular is one of the fastest growing metros in the country and is highly attractive to retirees due to its moderate climate and plentiful amenities. The southern Charlotte suburbs are also booming, as residents increasingly move across the state line to take advantage of South Carolina's more generous property taxes for retirees.

**Figure 5**



**Figure 6**



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

*Homebuilding has been strong in South Carolina.*

Homebuilding has been strong in South Carolina, as builders rush to accommodate the influx of new residents. South Carolina is one of few states where the pace of single-family permits has recovered eclipsed its long-term average. This is particularly encouraging because Myrtle Beach and Charleston were two of the more overbuilt housing markets in the Southeast. Years of strong job growth in the Charleston area and a rising tide of baby boomer retirees relocating to Myrtle Beach, Hilton Head and other parts of the state have turned the market around. Housing also remains relatively affordable in most parts of South Carolina. Charleston is a notable exception, however, with prices and rents climbing well ahead of the rest of the state.

### Summary and Outlook

South Carolina's economy appears to have strong momentum headed into 2019. Nonfarm employment rose 2.4% this past year, led by gains in the state's manufacturing and logistics sectors. Strong job growth has helped pull the state's unemployment rate down to just 3.2%. The tighter labor market has made it more difficult for some employers to find all the workers they need, particularly in the hospitality sector. The robust labor market has also been a beacon for job seekers, which continue to relocate to the state in large numbers.

While overall growth remains strong, the Palmetto State has a great deal riding on the trade negotiations with China. China is the top market for South Carolina exports, and exports slowed late last year, with most of the weakness coming in the automotive sector. Slowing global trade will likely weigh on the state's large factory sector and may slow foreign direct investment. Exports of commercial airliners are a notable bright spot, as their long lead times make them less susceptible to trade restrictions. We look for economic growth to moderate this year, as slower global economic growth weighs on exports and manufacturing. Demand for single-family homes continues to run ahead of supply, which should keep construction activity humming. Construction of apartments, however, appears set to slow modestly following a slew of new projects that have come to market in recent months or are slated to be completed early this year. Tourism is also poised for better days, particularly if the state can avoid the harsh weather experienced the past few years.

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