

Economics Group

Special Commentary

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South Carolina Outlook Heading into the Primary

- South Carolina holds the fourth nominating contest of the Democratic presidential primary on Saturday, February 29. The primary may very well set the tone for Super Tuesday, which follows just three days later on March 3.
- South Carolina’s economy has consistently outperformed the nation the past decade, with employment rising rapidly and the unemployment rate falling to a record low of 2.3%.
- South Carolina is advantageously located in the center of the rapidly growing Southeast, and has received a tremendous amount of foreign direct investment that has helped its manufacturing sector transition to higher value-added endeavors.
- International trade has become a key economic driver, with exports of aircraft, motor vehicles and tires accounting for a growing share of GDP. Imports of consumer goods have also spurred gains in transportation and warehousing.
- South Carolina added 65,000 new residents in 2019, equivalent to a 1.3% rise, marking the nation’s sixth highest percentage gain. Growth from net domestic migration has been particularly strong, as a net 53,000 people moved from other states last year. That was the fifth largest absolute gain, despite South Carolina being only the 23rd largest state. Both job-seekers and retirees are relocating to the Palmetto State in large numbers.
- Like most of the nation, South Carolina has experienced a widening gap between rural and urban economic growth. Economic development has attracted a great deal of industry, however, and most areas have posted visible gains in recent years. Workforce development is a key competitive advantage and is one reason manufacturing has done so well.
- Only 16 of the state’s 46 counties voted for Hillary Clinton in 2016, but that included the second largest (Richland, part of the Columbia metro area) and third largest (Charleston) counties.

Figure 1

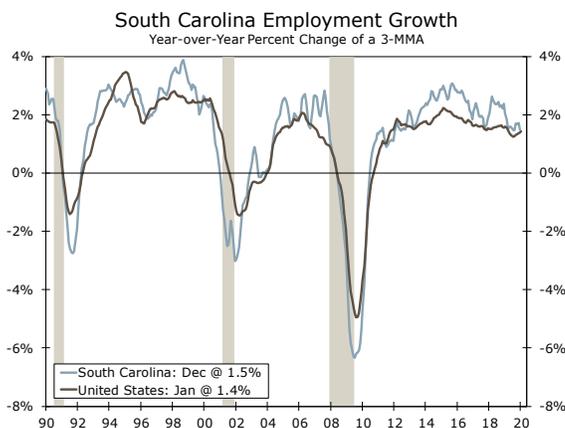
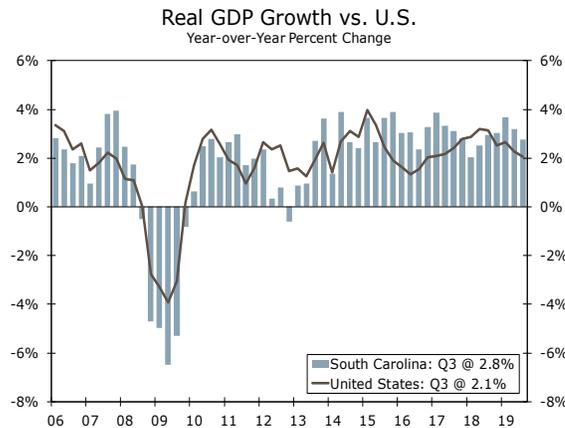


Figure 2



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

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Manufacturing Has Helped South Carolina

South Carolina's economy has consistently outperformed the nation this past decade, as the unemployment rate has fallen to a record low of 2.3%. The state is advantageously located in the center of the rapidly growing Southeast, and has received a tremendous amount of foreign direct investment that has reinvigorated its manufacturing sector. However, the growing influence of foreign trade and foreign direct investment means South Carolina's economy is now more exposed to the global economy, which has slowed recently. That said, South Carolina has proved fairly resilient. Boeing has ramped up production and BMW and Volvo are in the midst of major expansions despite still unresolved issues surrounding trade policy.

Volume through the Port of Charleston has more than doubled since 2010 (Figure 3). The latest data do not capture the impact of the coronavirus, which has paralyzed activity in China, South Carolina's largest export market (Figure 4), but volume has continued to rise the past few years despite the trade war with China. In fact, even prior to the trade war, Eastern ports were capturing a greater share of traffic, due to the widening of the Panama Canal and proximity to the dense population clusters of the Eastern seaboard and the rapidly growing Southeast economy. The Port of Charleston specifically is in the midst of an enormous expansion, which includes deepening the harbor to 52 feet to accommodate much larger post-Panamax ships and converting much of the former Charleston Naval Station into a major multi-modal facility. The first phase of the 280-acre Leatherman Terminal is expected to open in 2021 and will include a 1,400-foot wharf capable of simultaneously accommodating multiple giant container ships. When fully completed in 2032, the terminal will process 2.4 million containers a year and include new efficient highway and rail connections.

South Carolina's economy has become more exposed to the global economy.

Figure 3

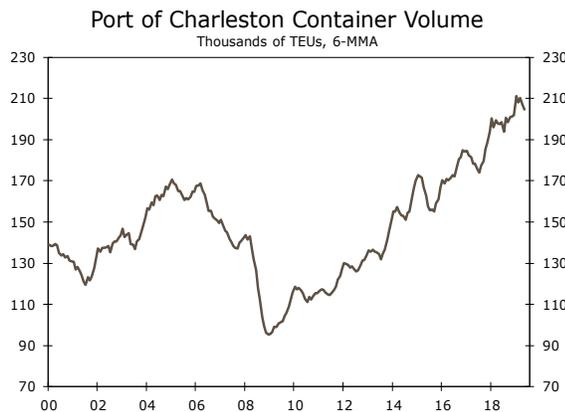


Figure 4

SC Top Export Countries - 2019			
Country	Billions \$	% of Total	
All Exports	41.46	100.0%	
Exports: Total to China	6.50	15.7%	
Exports: Total to Germany	4.49	10.8%	
Exports: Total to Canada	4.00	9.6%	
Exports: Total to United Arab Emirates	2.37	5.7%	
Exports: Total to Japan	2.27	5.5%	
Exports: Total to Mexico	2.20	5.3%	
Exports: Total to United Kingdom	2.07	5.0%	
Exports: Total to Singapore	1.37	3.3%	
Exports: Total to Belgium	1.29	3.1%	
Exports: Total to Taiwan	1.25	3.0%	

Source: South Carolina Ports Authority, U.S. Department of Commerce and Wells Fargo Securities

South Carolina was an early adherent of inland ports and developed a highly successful facility near the BMW plant, between Greenville and Spartanburg. While Inland Port Greer first mostly handled inbound and outbound traffic for BMW and Michelin, other manufacturers and distributors have been drawn to the Upstate because of the global access the facility provided. The port is located 212 miles from the Port of Charleston and is served by Norfolk Southern railroad. In addition to BMW and Michelin, major port customers include Adidas, Techtronic, Dollar Tree and Eastman Chemical. The success of the inland port has spawned development of another facility near Dillon, which is served by CSX and is driving development in the surrounding area.

Growth in port traffic this expansion has gone hand-in-hand with growth in advanced manufacturing, a sector which saw employment double between 2010 and 2018. The South Carolina Ports Authority (SCSPA) estimates the state's ports generate \$63 billion in annual economic impact and support more than 220,000 jobs, or one in ten in the state. According to the SCSPA, the majority of the economic impact of the state's ports is concentrated in the Upstate

South Carolina was an early adherent of inland ports.

region (52%), home to a large proportion of the state’s manufacturers, followed by the Midlands (25%), Lowcountry (12%) and PeeDee (11%).

While manufacturing employment has recently levelled off (Figure 5), South Carolina continues to be an economic development success story. Amidst coordinated efforts to attract manufacturers, the state has added 51,000 manufacturing jobs since 2010, a 25% increase (compared to a 22% rise in overall payrolls). Moreover, manufacturing has shifted toward higher value-added industries, which generally pay more than the jobs lost in the decade after China was granted permanent most favored nation status. This growth in high-paying industries has been particularly important, as South Carolina still ranks below the national average in the percentage of the population with a college degree and in median household income (Figure 11). Much of this success has been tied to South Carolina’s ability to attract foreign direct investment. International firms support more than 145,000 jobs across the state, according to the Organization for International Investment, which equates to 8.3% of jobs, the highest proportion in the nation. More than half of those 145,000 jobs are in manufacturing.

South Carolina has been an economic development success story.

Figure 5

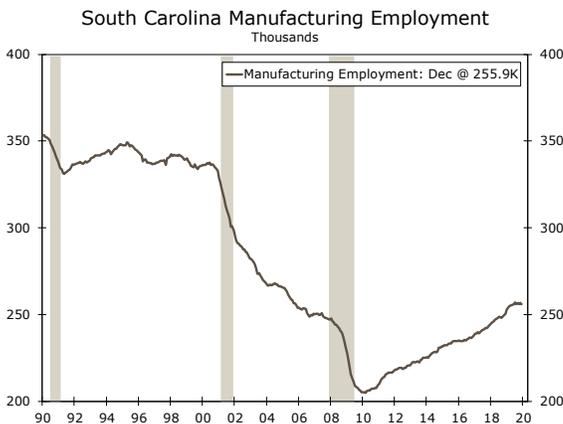


Figure 6

SC Top Export Industries - 2019		
Export	Billions \$	% of Total
All Exports	41.46	100.0%
Transportation Equipment Manufacturing	25.22	60.8%
Chemical Manufacturing	3.11	7.5%
Plastics and Rubber Products Manufacturing	2.50	6.0%
Machinery Manufacturing	1.91	4.6%
Computer and Electronic Product Manufacturing	1.51	3.6%
Electrical Equipment; Appliance; and Component Manuf.	1.47	3.5%
Fabricated Metal Product Manufacturing	1.21	2.9%
Paper Manufacturing	1.06	2.6%
Food Manufacturing	0.97	2.3%
Textile Mills	0.70	1.7%

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

Spartanburg has had particular success attracting manufacturers. Manufacturing accounts for 22% of jobs in the metro area (well above the national average of 8%) and has accounted for more than 30% of the jobs created since 2010. Over the past five years, manufacturing payrolls have risen more than 5% annually. The major employment center is the seven million square foot BMW campus in Greer that employs more than 11,000, as well as Milliken, Draexlmaier Automotive, Magna and Lear Corporation. Toray Composite Materials also operates a large carbon fiber manufacturing plant there. The \$1.4 billion facility opened a couple of years ago and supplies precast and prepreg carbon fiber to customers throughout North America, including Boeing’s 787 Dreamliner plant in Charleston.

Spartanburg is a major manufacturing center.

Carbon fiber and other advanced materials are playing a growing role in South Carolina’s economy. Carbon fiber manufacturing in many ways resembles a 21st century remake of the textile industry that drove South Carolina’s economy for much of the last century. Carbon fiber is spun onto a spool that is shipped to aerospace manufacturers and pulled into a mold, where it is transformed into a lightweight but super-strong portion of an airframe in a kiln. Carbon fiber is also finding its way into windmill blades and a variety of products in the automotive sector and other advanced manufacturing products.

In addition to Toray’s new Spartanburg plant, Teijin recently broke ground on a \$640 million carbon fiber facility in Greenwood, while Solvay has been manufacturing carbon fiber in Greenville since 1981. Several other fixtures of South Carolina’s economy, including Miliken, General Electric and Eastman Chemicals, produce a variety of advance materials that form the building blocks for a variety of products across numerous industries. South Carolina is also becoming an important

Advanced materials research is a growth area.

center of advanced materials research, with Clemson’s Advanced Materials Research Lab and research facilities at the University of South Carolina and other universities aiming to commercialize breakthroughs. The state’s advanced materials firms have also been securing a growing number of patents in recent years.

Figure 7

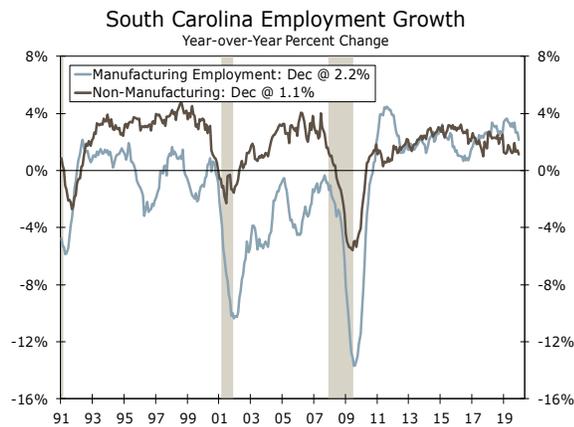
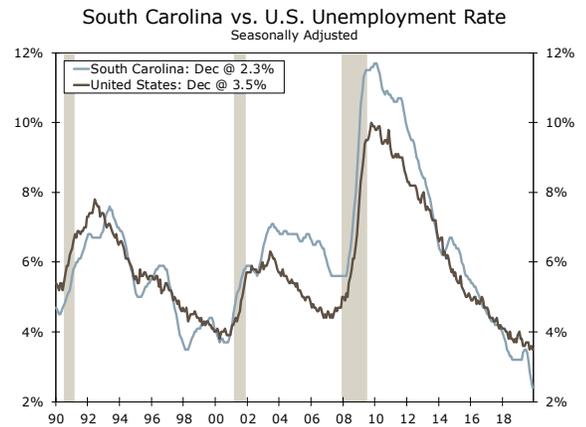


Figure 8



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

Advanced materials research should further South Carolina’s competitive advantage in the tire industry. The industry’s roots in the state date back to the 1970s, when business leaders and policymakers sought to diversify South Carolina’s economy away from its dependence on textiles. Michelin opened its first South Carolina tire plant in 1981 and now operates 10 plants throughout the state, as well as its North American headquarters in Greenville. Other prominent manufacturers in Greenville include General Electric, which makes power turbines, and Lockheed Martin, which has nearly doubled its workforce over the past year after its F-16 production line was shifted from Fort Worth. Michelin produces a variety of tires ranging from performance tires for cars and SUVs to the giant tires used on massive earth-moving equipment, and much of its output is exported through the Port of Charleston.

Michelin’s initial investment and success paved the way for other firms to set up facilities in South Carolina, with Bridgestone investing more than \$1.2 billion to build two massive facilities near Aiken and Continental Tire building a one million square foot plant near Sumter and moving its North American headquarters to Fort Mill, just outside Charlotte, North Carolina. Singapore-based Giti Tire also has its North American headquarters in Fort Mill and operates a \$560 million manufacturing plant just 23 miles south of there in Chester County. In addition, Trelleborg A.B. operates a 460,000 square foot agricultural equipment tire manufacturing plant in Spartanburg. South Carolina now ranks as the number one state for tire manufacturing and tire exports.

The Charleston region has seen quite a bit of industrial development in recent years. Volvo began production in August 2018 at its 2.3 million square foot facility in Berkeley County north of Charleston, which currently employs 1,500 workers and produces about 50,000 vehicles a year. It is being expanded to boost its capacity to 150,000 vehicles annually by 2022, when the plant will produce a new model and is expected to employ 4,000 workers. Mercedes-Benz Vans also has a major plant nearby, which initially assembled vans from kits but is now a full-fledged assembly plant. The firm has produced more than 130,000 Sprinter vans since 2006 and has major contracts from package delivery firms, including Amazon. Boeing is perhaps the largest and most impactful manufacturer in Charleston, with its massive 787 Dreamliner assembly plant clearly visible from Charleston International Airport. Boeing also operates a smaller ‘Propulsion South Carolina’ facility, which designs and assembles the engine nacelle inlet and fan cowl for the 737 MAX. Boeing has said all 737 MAX engine workers in South Carolina will be switched to 787 Dreamliner work, limiting any impact of the MAX suspension.

Charleston region has seen quite a bit of industrial development in recent years.

Manufacturers are expanding throughout South Carolina. Last year marked a bit of a slowdown, however, as firms contended with slower global growth and the lingering trade war. Even with these headwinds, roughly 70 manufacturers established new operations or expanded existing operations. Announced capital investment totaled more than \$1.2 billion and firms stated they plan to create more than 5,200 new manufacturing jobs, producing everything from truck chassis and canned vegetables to railroad ties and automated manufacturing equipment.

Investment continues to flow.

A Profile of South Carolina

South Carolina’s 2.3% unemployment rate is tied with Utah and Vermont for the lowest in the nation. South Carolina and Utah are unusual in that they have an ultra-low unemployment rate but are also growing rapidly. Typically, states with the lowest unemployment rates have structural issues and weak labor force growth. This is not the case in South Carolina, or in Utah. Of the states with sub-3% unemployment rates, Vermont, New Hampshire, Massachusetts, Maine, Iowa, North Dakota, Virginia and Hawaii all generally have older populations and weak labor force growth. On the other hand, South Carolina, Utah, Colorado, Idaho and Alabama have low unemployment rates that are more a function of strong employment growth rather than weak labor force growth. South Carolina’s unemployment rates also tends to be more cyclical than the national rate, due to its emphasis on manufacturing. The jobless rate peaked at 11.7% in February 2010 (Figure 8) but has since fallen 9.4 percentage points as a 431,000-gain in employment has easily outpaced the 235,300-increase in the labor force.

Economic growth has been fairly broad-based, although Charleston has clearly been the growth leader this past decade (Figure 9). Charleston is enjoying its strongest run of economic development in recent memory and is consistently ranked as one of the top tourist destinations in the world, according to Conde Nest. The region is home to several colleges and universities, including College of Charleston, The Citadel, Medical University of South Carolina, Charleston Southern and Trident Technical College. The rush of economic development and growth in the tourism sector has fueled gains in the arts and entertainment sector, and the region is also home to a flourishing tech sector and start-up culture. Information technology and medical devices are both areas of opportunity.

Charleston and Spartanburg have seen the strongest growth.

Figure 9

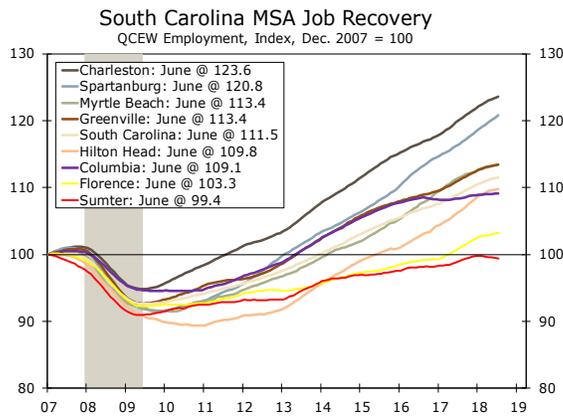
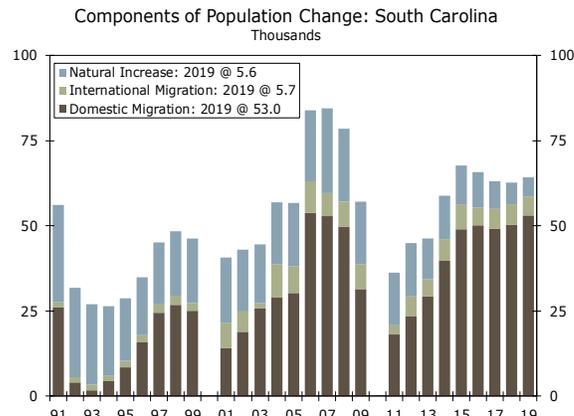


Figure 10



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

The Upstate is also growing rapidly, with Spartanburg seeing the strongest job growth more recently. Spartanburg’s growth is being fueled by a reinvigorated manufacturing sector, driven in large part by the continuous expansion of BMW’s facilities and the growth of the supplier network. Greenville has seen more modest gains but continues to add jobs at a pace well ahead of the nation. Industrial development remains in high gear and downtown Greenville has undergone an enormous transformation, adding an abundance of restaurants and nightlife that have brought full-time residents back into the city.

**South Carolina's
population is
growing
rapidly.**

Overall, South Carolina added 65,000 new residents in 2019, equivalent to a 1.3% rise, the sixth strongest in the nation. Growth from net domestic migration was particularly strong, as a net 53,000 people moved to the state last year, the fifth highest absolute total, despite South Carolina being only the 23rd largest state. Both job-seekers and retirees are relocating to South Carolina. Many retirees are relocating to Myrtle Beach, whose population surged 3.8% in 2018. The state's other MSA population growth rates were: Spartanburg (2.2%), Charleston (1.6%), Greenville (1.3%), Columbia (0.9%), Augusta (0.7%), Sumter (flat) and Florence (-0.3%).

In 2016, Donald Trump won South Carolina 54.9% to 40.8%, or 1,143,611 to 849,469. Only 16 of the 46 counties voted for Hillary Clinton, but that included the state's second largest (Richland, part of the Columbia metro area) and the third largest (Charleston) counties. Trump won both Lancaster and York Counties, which have been the fastest growing counties in the Charlotte metro area. South Carolina is benefitting from its proximity to Charlotte's rapid growth, and luring companies and residents—particularly retirees—across the state line with lower taxes. The Carolina Panthers are building their new training facility and headquarters in Rock Hill in York County, and the town of Lake Wylie was recently featured in a Wall Street Journal [article](#) as one of the fastest growing residential communities in the nation. That growth, however, has put tremendous burdens on infrastructure.

South Carolina often serves of a barometer of how well candidates can do in racially diverse states, and its larger metro areas tend to have a much higher proportion of college-educated residents and are more ethnically and racially diverse. Its high proportion of manufacturing jobs and exposure to the automotive industry means trade and industrial policy will be important to voters, while it also has a lot of hourly-paid workers who will be interested in minimum wage laws. While South Carolina's future is more closely tied to international trade, there are still plenty of residents that remember how NAFTA and the expansion of trade with China decimated the state's textile industry. Many of these residents live in the state's rural areas, as well as much of the Upstate. Additionally, South Carolina's growing status as a retiree destination means health care policy will remain important to many voters. Many retirees along the coast and in the Upstate hail from the Northeast and many of those residents have views more in common with the populations of those areas rather than South Carolina.

Figure 11

	Iowa	New Hampshire	Nevada	South Carolina	U.S.
Population (Million)	3.16	1.36	3.08	5.15	328.24
Median Age	38.2	43.0	38.1	39.6	38.2
% White	90.7%	93.2%	74.3%	68.5%	76.5%
% College Degree	28.2%	36.5%	24.2%	27.4%	31.5%
Median Household Income	\$68,718	\$81,346	\$61,864	\$57,444	\$63,179
Unemployment Rate (Dec)	2.7%	2.6%	3.8%	2.3%	3.5%
Winner	Buttigieg	Sanders	Sanders	Feb. 29	

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

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