The spring of 2003 has found the United States at war with Iraq and faced with an economy that is struggling to shift from a period of jobless recovery to one of strong recovery and expansion. These issues—inter-related in many ways—contribute to substantial uncertainty surrounding the short-term economic outlook. However, a likely scenario involves households and businesses reacting favorably to what seems to be shaping up to be a relatively short and successful military operation. Couple these potential improvements in confidence with falling oil and gas prices and ongoing monetary stimulus, and the stage appears set for noticeably faster economic growth in the second half of 2003.

Against the backdrop of short-term uncertainty, however, the local markets served by The South Financial Group across Florida, North Carolina, and South Carolina continue to display positive trends indicative of rapid population and economic growth that should persist into the future. These local trends will be considered after an overview of the current U.S. and South Atlantic regional economic outlooks.

The U.S. Economy: A Tale of Two Trends

Remember the good old days when an economic recovery meant that firms were both producing more output and hiring more workers? Twenty years ago, that was how the world worked. Today it is a different story. After the recession of 1990-91, the U.S. economy saw four quarters of rising real GDP coincide with flat or falling employment levels. The current recovery that began during the fourth quarter of 2001 has now produced six quarters of increasing output along with flat or falling employment levels.

Since the third quarter of 2001, U.S. real GDP has grown by more than 3.6 percent. At the same time, quarterly U.S. employment has
declined by about 1 percent. The growth in output is most directly meaningful to businesses and to economists. Households, on the other hand, are more concerned with the availability of jobs. Therefore, the ongoing jobless recovery poses a problem for consumer confidence and consumer spending.

Why the lack of new job creation? While some industries and some regions have indeed enjoyed net job growth since the recession ended, the manufacturing sector and those areas reliant on factory employment have not fared nearly as well. A major reason for this is that despite generally rising production levels, manufacturing firms are operating with large amounts of excess capacity thanks to the investment boom of the late 1990s. Low capacity utilization rates imply that firms are currently able to meet demand without spending more on machinery, facilities, computers, or new workers.

However, capacity utilization isn’t that far off from historical averages, and forward-looking businesses certainly don’t want to be unprepared for future increases in demand. So, another piece of the puzzle is likely that the uncertainty leading up to the war in Iraq weighed on business spending decisions.

There is yet another factor at work: productivity gains. U.S. workers continue to become more productive thanks to the capital investment of the 1990s. During a booming economy, productivity gains are touted as the course to continued growth with low inflation. While the notion that the New Economy was recession-proof has clearly been dispelled, the productivity gains and their importance is another piece of the New Economy that is still with us today. The technological advances that allow firms to produce more output with the same or fewer workers are contributing right now to the divergence between output and employment.

If the war continues to progress according to plan, then it is likely that a renewed strengthening in consumer spending will drive business production up to the point where firms will need to begin spending in earnest to continue to meet demand. Recent downward trends in oil and gas prices, ongoing accommodative monetary policy, and the potential for further fiscal stimulus would only help this scenario become reality.

**The South Atlantic Region: A Tale of Two Economies**

The South Atlantic Region—Florida, North Carolina, and South Carolina—posted a slight gain in total employment since the fall of 2001 even while the nation has been losing jobs. However, there are some sharp differences within this small group of states. Florida has weathered the national jobless recovery very well, posting positive job growth of nearly 1 percent since the U.S. recession ended. This positive performance is due in large part to the lack of a battered manufacturing sector. Factory employment accounts for less than 6 percent of total employment in Florida.

Meanwhile, South Carolina has seen a slight decline in employment while North Carolina has lost more than 1 percent of its jobs since the fall of 2001. The ongoing job losses in the Carolinas owe to the fact that both states remain heavily reliant on manufacturing as a source of employment. In each state, manufacturing ac-
counts for between 16 and 17 percent of total statewide employment. Certainly both are more diverse than in the past, but structural change is a slow process, and the Carolinas are still sensitive to trends in manufacturing output and employment. The bright side of this is that as select manufacturing industries see a rebound, the Carolinas stand to benefit from a cyclical upswing.

The short-term outlook for both the United States and the South Atlantic Region is generally optimistic, with a shift from sluggish or jobless recovery to more rapid recovery and expansion coming in the second half of 2003. Already, employment levels in South Carolina are generally higher than they were the same time last year. Of course, economic forecasts always involve uncertainty and are always conditional upon many factors. Currently, short-term forecasts from any source are even more uncertain and conditional than normal. However, moving beyond the immediate future and looking towards the next several years, the U.S. and regional economies will be prepared for another strong expansion.

**Local Markets: Positive Long-Term Trends Persist**

Turning to a longer time horizon, positive economic and demographic trends remain in place for the local markets served by The South Financial Group across the South Atlantic Region. These metropolitan areas are the drivers of growth for the region. From the coastal markets of Wilmington, Myrtle Beach, Charleston, Jacksonville, and Tampa, to the inland cities of Greenville, Columbia, Orlando, and the newest addition, Rock Hill, S.C., population growth will continue to encourage economic growth—and vice-versa—for years to come.

The most recently available population data reveal a 2.1 percent increase in population for these local markets between 2000 and 2001. This rate of population growth was almost double the 1.1 percent increase in total U.S. population, and also faster than the 1.7 percent growth rate for the three states combined. It is not only the coastal areas that are benefiting from rapid population growth. The three fastest growing local markets in this period were the inland markets of Orlando (3.1 percent) and York County, S.C. (2.8 percent), and the coastal market of Wilmington (2.6 percent).

![Figure 4. Population Growth 2000-2001](image)

Source: Census Bureau, Moore School of Business.

Overall, the total population in the major metro areas served by The South Financial Group stood at just under 8 million in 2001. Taken together, this population total would make these local markets the 12th largest state in the U.S. More people reside in these local markets than in the nine smallest U.S. states combined.

Another indicator of the above-average population and economic growth in these local markets is the recent performance of the local housing markets. The strength of the U.S. hous-
In the South Group’s major markets, residential construction soared by 9.6 percent in 2002. The fastest growth occurred in Charleston, where building permits surged 25.7 percent in 2002. The other fastest growing markets were Myrtle Beach, Jacksonville, and Tampa. Orlando reported slower growth of single family construction; however, it did see much stronger growth in multi-family construction than the other areas.

These trends in local housing are important indicators for two main reasons. First, strong growth in residential construction is a timely indicator of continued rapid population growth. This is especially true when local construction is rising faster than national averages—much of that differential can be attributed to localized population gains. In this sense, strength in construction is a side-effect of strong population growth.

Second, a vibrant housing market is an important contributor to the local economy. As mentioned earlier, the resilient U.S. housing sector has played a vital role in supporting economic growth since the recession ended. Not only does the actual construction provide jobs and income for the economy, but many other activities and purchases are associated with new home construction and home sales. When people are buying houses, they are also buying things to put in those houses, and many pieces of the economy receive a boost.

The booming housing market in these local areas contributes immensely to their overall economy. This can then encourage further population growth in the area, leading to additional economic growth, and the virtuous cycle continues. Therefore, local housing trends are important indicators because they are both caused by, and help contribute to, population and economic growth. Further, when this cycle occurs in areas that offer diverse economies and hence a range of employment opportunities, as well as favorable climates and natural amenities, these demographic and economic trends can be expected to persist into the future.