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Overview
This report reviews current trends in the international, national, regional and South Carolina economies. We find that the business outlook for the Palmetto State remains buoyant, despite problems elsewhere. To date, strong economic performance in South Carolina appears to provide a cushion against the serious blows to economic growth felt by other regions. South Carolina enjoys one of the healthiest regional economies found anywhere in the world.

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Nevertheless, in late September 1998, the normally upbeat International Monetary Fund issued a pessimistic assessment of the world economic outlook. Analysts foresee economic growth grinding down to less than two percent in the year ahead, the slowest since the recession of the early 1990s. To some observers, it seems to be “sink or swim” for economies everywhere around the world.

Goldilocks and the Three Bears
In the past year, the world witnessed how quickly an economy that had been an unmitigated miracle can turn into an unmitigated mess within a matter of days. With economic and financial turmoil cascading across the several continents, many analysts have begun to question whether the unprecedented expansion of the United States will contract soon.

Some pundits proclaim that the Goldilocks economy in the United States—not too hot, not too cold—is now waking to face the three bears: Asia, Russia, and a deflationary spiral reminiscent of the 1930s.

Others note that the problems afflicting other economies may not seriously dent U.S. prosperity. After all, total trade with Asia accounts for a fraction of the nation’s gross domestic product. Russia is insignificant as an economic force. Deflation may be a blessing more than a curse, given tight labor markets and the attendant risk of wage inflation.

The Nation
Anxieties have not been allayed by the Federal Reserve’s interest rate cuts in early fall. The reason for the Federal Reserve’s cautious easing of monetary policy is clear. Since the second quarter of 1998, business activity for the United States showed signs of slowing. Inflation-adjusted (real) gross domestic product increased at an annual rate of 1.8 percent in the second quarter of 1998, according to the U.S. Commerce Department’s Bureau of Economic Analysis. This represents a significant cooling from the torrid 5.5 rate of growth in the first quarter.

By the end of summer and into early fall, consumer confidence had begun to wobble. In September, the Conference Board’s widely followed measure of consumer sentiment fell for the third straight month. It was the largest monthly drop since January.

To be sure, there is no strong indication that the U.S. economy is entering a recession. The nation’s leading index of economic activity held steady in August (the latest figures published by the Conference Board). Retail sales remained strong, and home buying held up well. It could be a strong Christmas season. Without a credit crunch, new loans could surge again with interest rates heading south.
Yet, overall, it’s hard to deny that the momentum in the U.S. economy is flagging as a result of the global crisis. The U.S. trade deficit has deteriorated rapidly, from $155 billion in 1997 to a projected $236 billion this year. Exports to Asia have begun to decline in agriculture, commodities and some manufacturing sectors. The latest figures reveal that manufacturing and other goods exports to Asia fell by 22.5 percent in May 1998 compared with a year earlier. The farm sector has also been hard hit. In agriculture, exports are projected to drop between 3 and 6 percent between 1998 and 1999.

Five of seven analysts forecast South Carolina’s fourth quarter 1998 GDP will be at the top among Southeast states (The Wall Street Journal, “Still Chugging, for Now,” Wednesday, October 7, 1998). Mark Vitner of First Union Corporation in Charlotte forecasts fourth quarter GDP to be 5.6 percent. Gary Shoesmith of Wake Forest remarks, “South Carolina is really on fire and I don’t expect that to stop for a while.” Analysis by the Division of Research at USC confirms South Carolina’s growth will lead all Southeast states.

Leading Indicators
Through August, the available data for monitoring the state’s economy are not portending any major change ahead. The South Carolina Composite Index of Leading Indicators, the economic barometer for the state published by the University of South Carolina, has generally shown a steady upward trend since early 1996. Mirroring the economy overall, the index (Figure 1) suggests a better-than-average performance compared with the rest of the nation. It would take several consecutive months of similar declines before there is cause for any significant worry.

The Southeast
Like the nation as a whole, economic growth in the Southeast moderated in the summer. Manufacturing activity has tapered off. Yet, real estate and banking activity has generally expanded. The economy has been affected more by god-given disasters like hurricanes and floods than man-made ones.

The problems of rapid growth, rather than the lack of it, continue to dominate the Southeast scene. Throughout the summer, worker shortages were present in many areas and wage pressures picked up in some sectors.

The West Coast has been far more affected by the Asia contagion than the Southeast. If the Asian contagion spreads and takes hold in other countries, however, there are some clearly vulnerable sectors of Southeast. Steel, textiles, apparel, and paper/pulp products come to mind. A particularly susceptible farm export is poultry, which is estimated to fall by 6 percent in fiscal year 1998-99.

South Carolina
With a serious slackening of world output and perhaps U.S. economic growth, how will South Carolina fare? Based on the latest data, the state’s economy so far appears to have not been affected in any discernible way.

Long-term trends are especially favorable in South Carolina. It is one of the true bright spots for business growth in the nation. The unemployment rate remains below the national average, but the labor market is not in danger of overheating. Steady income growth persists year after year. The share of the population in poverty has plummeted in recent years and is below the national average. Record capital investment has driven South Carolina’s economy forward.

Initial claims for unemployment insurance are modest (Figure 2). These numbers usually provide a good early warning about turning points in the state’s economy. To date, new jobless claims remain far below the jobless claims filed during the recession of the early 1990s. Even so, this indicator is worth watching closely in the months ahead. Major changes in leading indicators like new jobless claims would cloud the future outlook for growth in the year ahead.

Again, it is important to stress that the long-term measures of economic performance still look favorable. Personal income adjusted for inflation, which measures the total income received by all sources from South Carolina’s...
residents, has grown at one of the fastest rates of any state so far this year.

Residential construction activity is still strong as well. The number of housing units started in the first five months of the year was up 7.3 percent from the same period in 1997. Overall, the housing market has been robust. Charleston posted the biggest gain in housing price appreciation of any major city in the United States.

Contrast, nonresidential construction, which has posted dramatic gains in the past two years, was down 11.4 percent from the first five months last year.

**Employment**

One would have to search far and wide to find a regional labor market stronger anywhere else in the world in 1998. Labor markets have tightened so much that teenagers have been getting jobs that formerly went to adult workers. According to projections from the South Carolina Economic Forecasting Service, employment growth for the year is expected to be close to 3 percent, and remain above 2 percent through 1999.

Most employment growth has been in trade and services. Retail trade employment growth may moderate somewhat next year, but is forecast to grow around 3 percent in 1999. Services employment is expected to grow between 3.5 and 4 percent over the next two years. Manufacturing employment, which represents roughly one-fifth of nonagricultural jobs in the state has grown as well. This represents an improvement from the declines experienced in the past several years.

The state’s unemployment rate posted new historic lows. The jobless rate has settled below 4 percent (Figure 3). August and September figures show a drop to 3.5 and 3.3 percent, respectively. The good news here is that labor shortages are probably not a major problem because the underemployed are beginning to find better jobs. In other words, labor is available. Despite the tight labor market, wage pressure has not been pronounced, perhaps because of the mitigating winds of the world economic situation (see Figure 4).

**Capital Investment**

New investment has been driving the forward motion in the economy in South Carolina. A tremendous amount of industrial capacity was put into place in the 1990s. Record capital investment has stoked a red-hot economy for four consecutive years beginning in 1995 (Figure 5). South Carolina’s capital investment over the period 1995-1997 exceeds $16 billion. This is at least $5 billion more than our neighbor to the north and is top among Southeast states (Figure 6). New investment has totaled over $5 billion annually—an astounding figure for state of this
South Carolina is poised to set another record for capital investment in 1998, with $3.1 billion to date. Much of the investment has come from abroad. BMW, Michelin, Fugi and many others have made the upstate region into one of the most dynamic growth corridors in the nation.

Now the investment gains have spread to other regions of the state. The Pee Dee welcomed a major Honda plant in 1998. Bridgestone/Firestone started a new plant in Aiken. Nucor has expanded its steel facility in the tri-county area surrounding Charleston.

As the state has continues to recruit new industry and build a solid capital base, this investment will mean jobs, higher per capita income, and wealth in the future.

**Trade**

Global trade is holding up as well. The South Carolina Ports Authority projects a 7 percent increase in activity for fiscal year 1998. A survey of 100 privately-held companies in South Carolina, conducted by Arthur Anderson, revealed that 71 percent of the companies have not felt the impact of the Asian crisis. The survey also found that 15 percent of the companies had seen a loss of sales, while 14 percent had benefited from lower interest rates and cheaper imports.

The affected export sectors relevant to South Carolina include chemicals, steel, and textiles. Another sector to watch is paper and pulp products, a significant contributor to economic growth in South Carolina. This industry will no doubt feel the effects of the Asian currency crisis—indeed export of pulp and paper has already softened. While this sector is a major exporter, most of the trade is with Europe (unlike the West Coast) and most of the output serves the domestic market.

**Summary**

The strength and resilience of South Carolina stands out in a variety of measures. South Carolina is among the leading states in job and personal income improvements. With one of the lowest unemployment rates in the world, the state more closely resembles an economic miracle today than “Asia tigers”.

Unlike previous periods of prosperity, all areas of the state have participated in the boom of the late 1990s. The I-85 corridor continues to receive national and international attention, offering one of the best business climates available. Columbia ranked as the best mid-sized city by *Entrepreneur* magazine, based on analysis of entrepreneurial activity, small-business growth, economic growth, business failures, and the relative cost of doing business (“Hot Cities,” *Entrepreneur*, October 1998, pp. 118-130). Tourism, services, and new manufacturing facilities continue to expand in coastal areas. New areas, including rural counties, have benefited from the record-setting capital investment. South Carolina leads Southeast states in total investment, investment by new companies, and in expansion investment.

In fall 1998, then, South Carolina enjoys one of the hottest economic climates in the world. It could be argued that the Palmetto State’s economy has been almost too torrid for the past few years. South Carolina’s economy is better than at any time in modern history, and it shows no signs of moderating.

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