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Germany's recovery gives Upstate hope



Staff file

With about 250 German companies operating in the Upstate, the performance of Germany's economy matters to the Upstate's economic health.

Germany's fiscal fortunes closely tied to region's economic health

By Jenny Munro and David Dykes
BUSINESS WRITERS

The heartbeat of German industry is always heard and felt in South Carolina, especially in the Upstate, where the region's economic fortunes are wedded, for better or worse, to what happens over there.

With gathering signs that Germany's economic engines are rumbling back to life, experts say it could shore up the state's faltering economy through both demand for exports and the strength of German companies clustered in the Upstate.

What happens in Germany matters mightily here, with approximately 250 German companies operating in South Carolina — most of them in the Upstate — employing upwards of 24,000 workers. The largest is BMW, with about 4,500 employees and another 1,000 contract and other workers at its plant site near Greer.

The latest sign from Germany: Business confidence improved for the fifth straight month in August, according to the University of Munich's Ifo Business Climate Survey.

"The German economy is slowly recovering from its descent," Ifo said last week.

That comes on the heels of a government report two weeks ago that while the economy remained weak, it grew unexpectedly in the second quarter to pull Europe's largest economy out of its worst recession since World War II.

Axel Weber, a member of the European Central Bank Governing Council, told Die Zeit, a German weekly, that the country's second-quarter growth is the result of government stimulus and loose monetary policy and cautioned that it is too early to declare that the recovery is sustainable.

An improving German economy is "good for South Carolina, given the strong base in the Upstate of German companies," said Doug Woodward, director of research and an economics professor at the University of South Carolina's Moore School of Business.

Global economy

Although warning that Germany's recovery could still sputter at times, the connection between Germany and South Carolina "reinforces how global our economy is," said Sujit M. CanagaRetna, senior fiscal analyst with the Council of State Governments. And South Carolina is "well positioned to take advantage" of German economic recovery.

The state could see "positive developments in both the short term and the medium -term from the strengthening German economy," he said.

The U.S. Bureau of Economic Analysis in 2006 ranked South Carolina fourth among states in the number of manufacturing jobs at German-owned firms.

Dave Lewis, a Greenville architect and director of the South Carolina chapter of the German American Chambers of Commerce, said Germany offers hope of a global recovery that could benefit the Upstate, adding that the mood of German businesses in the state is optimistic.

Although some automotive-related and service companies and suppliers are just hanging on, a few with the help of mergers or sales, "they're figuring out how to survive and they're being optimistic

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about where it's going to go," he said.

The linkage between Germany and its vital U.S. market is nothing new.

Two years ago, BMW Manufacturing announced a $750 million expansion of the Greer plant when "they were retrenching some of their activities in Germany," said CanagaRetna. Even during the turmoil that enveloped the U.S. auto market, including international auto companies, BMW continued its project, now nearly complete. The expansion includes the paint shop, refurbishing the body shop and building a second assembly plant.

Woodward said most German companies in the Upstate are here to serve the U.S. market.

"So ultimately if they see a recovery also following in the United States — and we're seeing signs of that — they're in a good position to take advantage of that because their economy's healthier," he said. That puts them "in a better position to expand or look more to the future than many would in the United States."

Largest importer

BMW currently exports about 70 percent of its Greer production, primarily through the Port of Charleston, to Germany and then on to more than 120 countries. Greer is the sole production site for the X5 sports activity vehicle and the X6 sports activity coupe.

In 2007 and 2008, Germany was South Carolina's biggest export customer, according to the state Department of Commerce.

The state exported products worth $4.8 billion — many of them cars or auto-related products — to Germany last year, 24.1 percent of its total export revenues. The state's other large export destinations are Canada, $3.2 billion; Mexico, $1.2 billion; United Kingdom, $1.18 billion; and China, $790 million.

Ten percent of the exports through Charleston went to Germany, more than to any other nation, according to the South Carolina Ports Authority. Also, 14 percent of the port's imports arrived from Germany, the second largest importer into the state. About 433 containers, each a 20-footer, were shipped daily between Germany and the port last year. The largest category was auto parts.

South Carolina ranked second in the nation — behind only California — in the value of exports to Germany in 2008, according to the International Trade Association.

"We have a lot at stake in U.S. trade with Germany," said Bryon Miller, port spokesman.

Rising U.S. exports make "the German companies that are based here, no doubt, more profitable, in a better position to finance expansions," Woodward said. "They're not dependent on U.S. credit markets, for example, which

can hold back a lot of domestic businesses.

"But they need to be profitable to do that, or they even have to have confidence that profitability is going to maintained," he said. "And even when their growth is taking place elsewhere, that helps us here if we've got German operations."

Max Metcalf, manager of government and communications for BMW Manufacturing, said that growth in any of the company's markets is good.

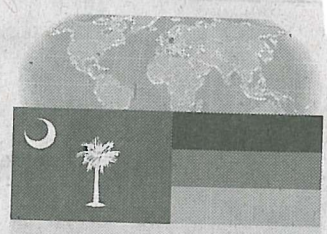
"Germany is a large economy. So it's good news coming from there," he said. But "any market that is improving is good for a company that makes products for the world."

What the nascent glimmers of recovery from Germany, China and other countries show is that the structure of the world economy is changing, CanagaRetna said.

"We have been the engine that has pulled the world economy not only in times of stress but in good times," he said. Now "the impact of the U.S. economy might have diminished some. But the impacts of our recession can be seen at the ends of the world."

He cited factories in Sri Lanka and China that have closed, throwing millions out of work, because U.S. consumers stopped buying as much as they did in the past.

■ Business reporter Rudolph Bell contributed to this report.



$4.8 billion
Value of South Carolina exports to Germany in 2008



160,000
Number of shipping containers going to or from Germany through Charleston in 2008