

# SIGNS OF Improvement

By Allison Cooke Oliverius

**E**conomist Bruce Yandle expects there will be positive, albeit weak, economic growth in 2011 as South Carolina and the nation "claw" their way out of the Great Recession.

While there are many factors involved in the economic recovery, all eyes are on the unemployment rate as an indicator of how things will progress, Yandle said. South Carolina reported a 10.7% unemployment rate for October, down from 11% in September and 11.1% in August.



Photo/Renee Ittner McManus/rimphotography.com

### Republican movement

Graham said Haley has an opportunity to help the Republican Party grow in South Carolina and nationally after her win.

"She has an opportunity to start over with the Legislature with a conservative reform agenda that will unite people," Graham said during a conference call after her win.

Haley identified early in her political career with Sanford's libertarian leanings. She was openly supported by Sanford and his ex-wife, Jenny Sanford. Her campaign took off following her endorsement by Sarah Palin on the S.C. Statehouse steps.

In winning her party's nomination, Haley defeated three white, male, Republican establishment politicians who ran from the elected posts of lieutenant governor (Andre Bauer), attorney general (Henry McMaster) and U.S. House of Representatives (Gresham Barrett). ■



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# ovement

**2011 ECONOMIC FORECAST**

"That was the second decline in two months running now, and 10.7% feels pretty good, considering. I would say the prospects are bright for the continued decline of unemployment in South Carolina, but still staying at a high level relative to history. I expect we will still see South Carolina in the low to mid-9% range for 2011," Yandle said.

South Carolina showed growth of 10,700 nonagricultural jobs in October, according to the S.C. Department of Employment and Workforce. This includes private-sector growth of 7,300 jobs and an increase of 3,400 in government jobs. Growth was seen across several industries in the private sector. Those were construction, up 2,700; manufacturing, up 1,100; retail trade, up 1,900; professional and business services, up 2,000; and education and health services, up 1,300.

Manufacturing has experienced an overall increase of more than 5,000 jobs over the past 12 months.

"South Carolina's economy is tightly linked to the nation's manufacturing engine," Yandle said in his most recent economic report. "This is a curse when there is a manufacturing recession, but a real blessing (when) the big factory starts running again."

Nationally, the auto industry is leading the

**"The state's automotive sector is healthy and expanding, and we have an air transportation sector that is building, too."**

**Bruce Yandle**  
Economist

charge in recovery.

"Bailouts seem to matter, but there is some real growth taking place, too," Yandle said. "The state's automotive sector is healthy and expanding, and we have an air transportation sector that is building, too."

**Construction, home sales**

Although the number of construction jobs increased in October, Yandle said the industry is not expected to experience a meaningful increase in activity in 2011.

In the latest report from the Carolinas Associated General Contractors, those in the industry expect the low level of public works construction to continue next year, account-

ing for much of the diminished expectations for overall growth in 2011.

Home sales are not expected to experience much of an uptick, either. "An excess of supply was at the root of the cause of the Great Recession," Yandle said. "Nationally, it's estimated that there are 3 million too many homes built and for sale. South Carolina did not participate in that overproduction as much as other states, but we have some of it. What has to happen is the absorption of existing houses before building permit activity can pick up. And a good many are bank-owned, so we'll be wrestling with that for a while."

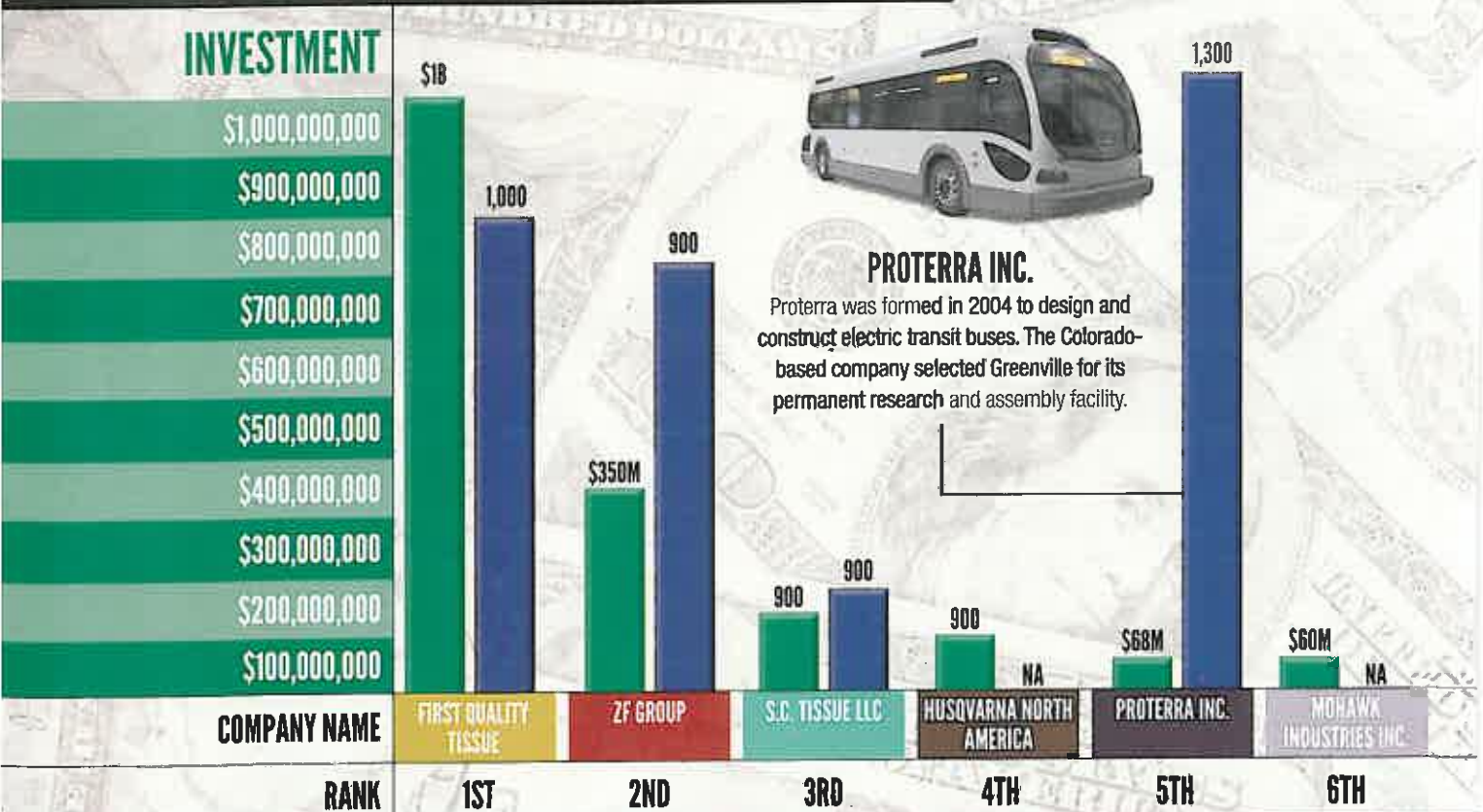
**Bright spots**

Education and health services will be bright spots for the state's economy, Yandle said, and both sectors are driven by federal funding and federal stimulus activities. The health sector will continue to experience a higher demand for services as the state's population ages.

There has also been some improvement in retail sales, a sector that has been led by auto sales and other big-ticket items. Yandle expects this trend to continue. Consumers have spent the last year and a half cutting back on spending, and increasing savings and paying off debt where possible.

**TOP 10 ECONOMIC DEVELOPMENT ANNOUNCEMENTS BY INVESTMENT**

Source: S.C. Department of Commerce



"There has been some relaxation in the minds of consumers with respect to not only 'how are we going to manage and pay our bills,' and getting used to a slower economy than the one we were experiencing when we ran off the tracks," he said.

Professional and business services industries are expected to pick up in 2011. "We should see a recovery in terms of employment growth, and that sector is important with respect to accounting, finance, consulting professionals — all of those knowledge economy activities," Yandle said.

### Looking forward

As for the current economic climate, Yandle said data indicate there is real growth in gross domestic product. As things stand, the economy should see 2.5% to 3% growth in the year ahead, he predicted.

On another positive note, a recent survey of commercial banking senior loan officers show that reserve positions are improving and more lending is taking place.

"This adds to a sense of optimism about the year ahead and removes some concern about swooning into a double-dip recession," Yandle said. ■

*SCBIZ staff writers contributed to this report.*

## Board sees some economic growth in state

The State Board of Economic Advisors forecast some growth in revenues for this year and the next during Chairman John Rainey's final meeting.

The board raised its projection for this year's state revenue by 1.5%, citing growth in individual and corporate income taxes. Tax receipts already are \$94 million more than the year before, an increase of 4%.

The forecast adds a projected \$229 million to state coffers for the year, but several agencies are expected to run deficits. One, the Department of Health and Human Services, has said it expects to be over budget by \$228 million.

The board also forecast an additional 1% growth in income for the next fiscal year.

The forecast for this year reflects "some mellow optimism" from Rainey and the board that there's some economic growth afoot in the state, the recently resigned chairman said.

Withholding taxes are above expectations, but the state's unemployment numbers have not dropped much. To Rainey and the board,

that means companies are adding hours of work, but not new employees.

Part of the state's business growth will have to be diverted to repay the debt owed to the federal government for unemployment insurance. The state must repay \$1 billion more than its usual unemployment insurance under the new plan being implemented to cover debt accrued by the former Employment Security Commission.

That will take a total of 1% of the state's growth and send it to Washington, the board noted. "That was not an inconsequential mishap" by the commission, Rainey said.

Rainey said he submitted his resignation to Gov. Mark Sanford the day after the election, effective as of the end of the day Nov. 10.

Before the election, Rainey had spoken out on what he thought might be ethical violations by then-candidate Nikki Haley. Rainey said the decision to resign was his alone. After eight years, he said, it's simply time for someone else to lead the board.

— Mike Fitts, Staff Writer



### KRONOTEX USA

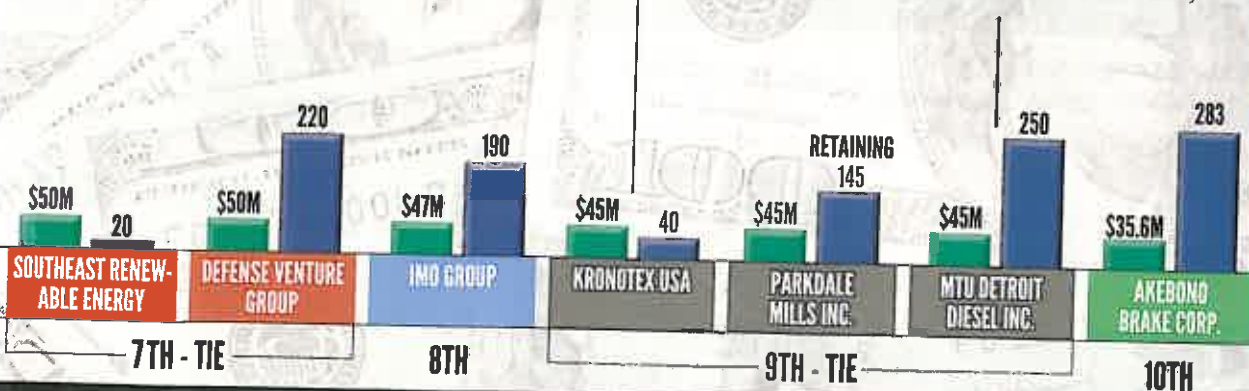
Kronotex USA's expansion will enhance clean energy development and increase production capacity by 60%, as well as create 40 jobs.



### MTU DETROIT DIESEL INC.

MTU celebrated the grand opening of its engine production facility in Aiken on Dec. 1. The plant is expected to employ up to 250 people within four years.

### JOBS CREATED



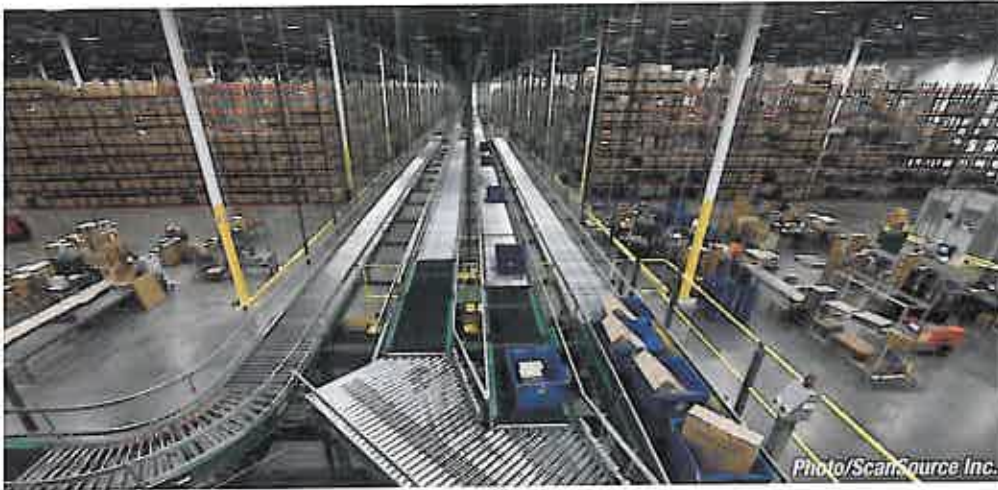
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# Growth during the recession



After experiencing a sharp decline in business during the recession, several S.C. businesses have been lucky enough to find themselves on a fast track to regrowth.

Sage Automotive supplies automotive seating fabric to original equipment manufacturers worldwide, including Toyota, GM, Ford, Nissan, Honda and Hyundai. The Greenville-based company operates five manufacturing facilities in North America, four of them in South Carolina.

In 2007, the automotive industry experienced one of its strongest years; between 16 million and 17 million vehicles were produced or sold in North America. That number dropped to about 6.5 million in 2008 and 2009.

"Our customers became bloated in inventory, cut production schedules and had significant cash flow problems. Two of our largest customers went into bankruptcy," CEO Dirk Pieper said.

There was a significant downturn in business,

which meant the company needed to restructure in 2008 and 2009. At the same time, Milliken & Co., then owner of Sage Automotive, decided to exit the auto business and concentrate on other sectors.

Pieper, who worked for Milliken for 30 years, along with other management, decided to acquire the company. "There weren't a lot of people loaning money in the automotive sector," he said. "It was extremely painful because no one wanted to loan money and the industry outlook was one with some pretty dark clouds." Greenville-based Azalea Capital and Milliken helped execute the sale.

Right after the sale in September 2009, the government bailed out GM and Chrysler and then offered the Cash for Clunkers incentive, which gave Sage Automotive a boost right out of the gate. The company has gone from 911 employees in September 2009 to nearly 1,090 today.

Even with the pullback of incentive programs, the industry continues to experience growth.

"The outlook in Detroit is very bullish," Pieper said. "We will continue to see growth in the next year ... from the perspective of the industry, it should be about 10%."

ScanSource, a wholesaler for technology products including barcode scanners, telephone systems and security cameras, stayed afloat during the recession first by reducing its work force through attrition, and second by issuing pay cuts across the board, rather than laying off employees.

"March of 2009 was the worst for us," President Mike Baur said. "But from then on, we have seen nice, steady improvement." In fact, ScanSource recently experienced two consecutive quarters of record sales, and the company hired about 20 employees during the past six months.

"There are still some challenging areas," he said, adding that huge growth isn't in the forecast. "We see steady growth for 2011, and we have made our way back to where we were a year and a half ago."

ScanSource employs 1,200 people worldwide, including about 400 at its Greenville headquarters.



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