State's economy begins to grow

Rise in factory output tops US rate

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South Carolina's economy has checked off another metric on the road to recovery, with growth in the state's gross domestic product in 2009-10 after five years of decline.

It's a lagging indicator that confirms South Carolina's falling unemployment rate for the right reasons — manufacturers are shipping more products to cover increased orders.

Manufacturing remains the locomotive pulling both state and national growth, Clemson University economist Bruce Yandle told GreenvilleOnline.com.

Factory output in the nation grew by 0.7 percent between 2009 and 2010, while the growth rate in South Carolina was more than double that at 1.3 percent.

"It was a long trip," Yandle said of the state's industrial recovery.

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Besides the GDP move into positive territory, the state's unemployment rate of 9.8 percent in April has dropped and is beginning to converge with the U.S. rate, at 9.1 percent in May.

"For more than three years," he said, "there was a wide gap between the state and national rates. The gap is narrowing."

Bobby Hitt, state secretary of commerce, agreed. "Hiring has picked up. The recruiters are telling us they're hiring college graduates at a higher rate than in the past couple of years. That's a telling sign."

While some companies remain skeptical of the recovery and how fast they should hire, they are beginning to add workers, he said, adding South Carolina's employment growth is faster than in much of the nation.

"We're all seeing some good signs, but they don't seem as good as they should be," he said.

South Carolina historically has had a heavy reliance on manufacturing. After decades of transition from old-line textile and apparel manufacturing to higher-tech textiles and durable goods, the end of the switch seems to be closer, Yandle said.

"It is not past, but it is passing," he said. "We have counties without much industrial base" and many residents there may not be able to move to find a job. Also, many workers are educated for the former manufacturing base rather than the existing one.

"It could be a generation" before this residual effect is eliminated, he said. However, "We have a re-energizing of textile manufacturing, with companies like Sage Automotive Interiors that are world competitors.

"Manufacturing is a strong part of our present and our future in the nation and in South Carolina," he said. "It is easy to confuse the closing of mills and the loss of jobs with the health of the sector."

Ball State University's Center for Business and Economic Center, in its just released 2011 Manufacturing and Logistics Report Card, gave the state a B+ in manufacturing and A's in global reach and diversification.

But the report, which reviews and grades areas of the economy that underlie the success of manufacturing and logistics in all 50 states, also gives South Carolina dismal rankings in several areas — logistics, D+; human capital, D; and venture capital, D. It was ranked C- in benefit costs and C in tax climate.

Michael Hicks, the center's director, said U.S. manufacturing is clearly rebounding from the recession, but the effects of that growth are highly varied.

"Prior to the recession, business location and expansion decisions were almost wholly driven by the availability of skilled workers," he said.

"Today, that is far less a short-term consideration, and tax rates and concern about future tax increases due to high pension costs and other factors dominate business decisions to relocate.

"So states that emerge from this recession with a solid fiscal climate will tend to outperform those with uncertain balance sheets."

Other than manufacturing, South Carolina's hot industrial sectors include professional and business services, which grew at 4.2 percent in the state and 2.2 percent in the United States, Yandle said.

That sector includes all professionals other than doctors, computer technicians, financial services and temporary staffing agencies. Jobs in this sector tend to require higher education and pay higher salaries, he said.

Also, finance employment in South Carolina grew by 2.2 percent while it fell by 1.3 percent in the nation as a whole. Although the financial sector isn't that large in South Carolina, which is home to none of the large U.S. banks, it didn't fall as hard as other regions with a larger banking presence and it is recovering faster.

But South Carolina also has industries that are weaker than their U.S. counterparts, he said. Construction in the state fell 5.1 percent between 2009 and 2010, while nationally it declined 1.9 percent.

The reason for the construction debacle is simple, Yandle said. "There was greater construction growth in the state before the collapse. What zigs high will zig low."