

South Carolina Economic Outlook

Forecasts for the United States and South Carolina

Division of Research, Moore School of Business
University of South Carolina
Second Quarter 2007

- Highlights**
- The U.S. and South Carolina economies will experience a period of moderate growth during 2007.
 - For the U.S., real GDP is expected to grow about 2 percent during 2007.
 - The state's unemployment should remain at around the same level for the next year.
 - In South Carolina, total employment is projected to grow by 1.8 percent in 2007 for a net gain of 37,000 jobs.

Summary

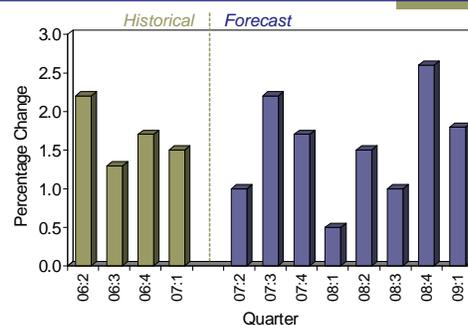
There is increasing evidence that the U.S. economy is losing momentum. After five years of uninterrupted growth averaging above 3 percent a year, the most recent numbers for the first quarter of 2007 show a significant slowdown of Real Gross Domestic Product—the output of goods and services produced by labor and property located in the United States. This will be the lowest real GDP growth rate since the first quarter of 2003. The increase in real GDP in the first quarter primarily reflected positive contributions from personal consumption expenditures and state and local governments. On the other hand, for a second quarter in a row, residential fixed investment had the largest negative contribution to GDP, subtracting 1 full percentage point from the growth rate.

The more recent numbers put out by the U.S. Census Bureau and the Department of Housing and Urban Development show that building permits for privately owned units and for housing starts and housing completions are still running below the long-run average.

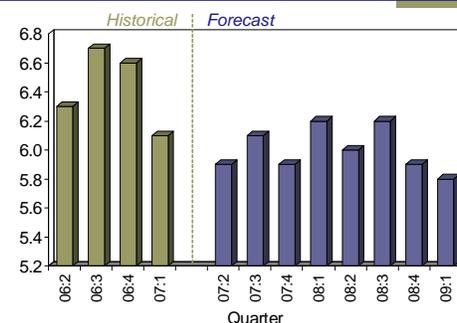
Other developments in the housing markets, such as the sharp increase in the delinquency rates on variable-interest-rate loans, introduce an additional element of uncertainty in the near-term prospects of the housing market. Thus, it is likely that the housing sector will continue to slow the economic expansion in the coming

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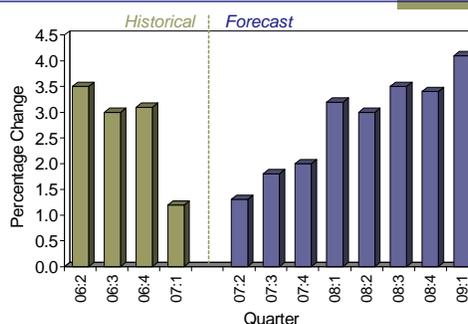
South Carolina Employment Growth



South Carolina Unemployment Rate



United States Real GDP Growth



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months. To keep growing, the U.S. economy will have to keep relying on personal consumption expenditures. The strength of markets abroad and the weakness of the dollar in international currency markets may provide a boost to U.S. exports and contribute positively to U.S. growth. Hence, we predict that exports will grow strongly in 2007, at a rate of around 8 percent.

On the positive side, the slowdown of economic activity seems to be damping inflationary pressures. After peaking at 2.9 percent in September 2006, inflation for core prices has been steadily decreasing. The most recent figures show that core prices are increasing at a slower rate and take pressure off the Federal Reserve to raise interest rates in the short term. Nevertheless, we expect moderate increases in the interest rate in the coming years. The labor market continues to show strong readings in 2007. The national unemployment rate is hovering at around 4.5 percent, and is expected to remain at about the same level.

The economic outlook for the next two years calls for a period of moderate economic expansion. The U.S. economy is expected to grow at an average of around 2 percent.

There are, however, several potentially negative forces threatening the short-term growth prospects for the U.S. economy. As highlighted in Ben Bernanke's March 2007 testimony before the Joint Economic Committee of the U.S. Congress, the correction in the housing market could turn out to be more severe than expected. Also, there is the possibility that the weaknesses in housing could spill over to

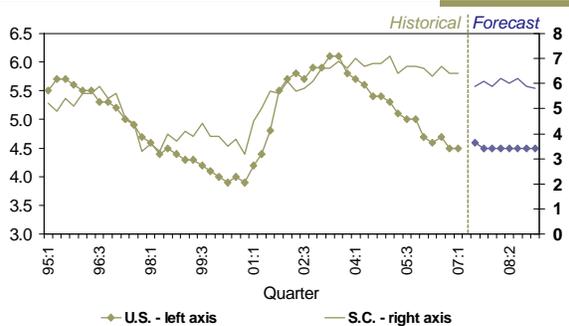
employment and consumer spending. Energy prices are on the rise again and any potential disruption to oil production along the Gulf Coast is likely to lead to record-level energy prices.

The South Carolina economy is also having a mixed performance. The major measures of household spending, including retail sales, new home construction, and sales tax collections, all indicate that consumers are spending at a slower pace than they were last year. Housing starts for the first three months of 2007 decreased 21.7 percent compared with the same period last year. By the same token, gross retail sales for the first trimester have inched up 0.7 percent, and sales tax revenues are up by 5.2 percent. These numbers are quite different from what we observed one year ago.

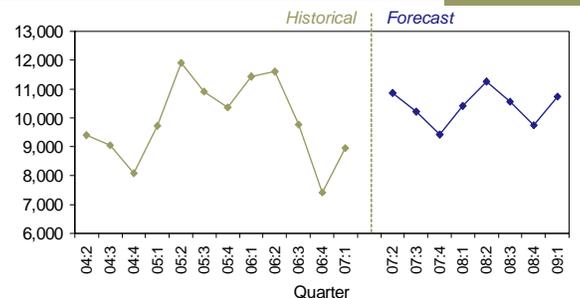
As with the national economy, the picture is brighter in the job market. Employment growth in South Carolina continues to be moderate, but nonmanufacturing sectors continue to add jobs, with gains occurring in nearly all sectors. We project an increase of 1 percent in total employment for the second quarter of 2007 and 2.2 percent for the third quarter.

Overall, the South Carolina economy should create an additional 37,000 jobs in 2007 and another 59,000 in 2008. In recent months the unemployment rate fell below 6 percent. However, in a period of slow employment growth and depressed household spending, it remains to be seen whether the unemployment gains are sustainable. Thus, we project that throughout 2007 the unemployment rate will hover around 6.0 percent. Real personal income

U.S. and S.C. Unemployment Rates



S.C. Single Family Permits



Forecast Data

Selected South Carolina and United States Indicators Seasonally Adjusted Historical and Forecast Data

	<i>Historical</i>		<i>Forecast</i>					
	06:4	07:1	Quarters			07:4	08:1	08:2
			07:2	07:3	07:4	08:1	08:2	08:3
South Carolina Data								
Employment in Thousands:								
Total Nonfarm	1,922	1,906	1,934	1,938	1,953	1,944	1,967	1,973
percentage change	1.7	1.5	1.0	2.2	1.7	0.5	1.5	1.0
Manufacturing	247	244	242	240	239	237	235	232
percentage change	-3.5	-3.7	-4.9	-4.1	-3.4	-2.3	-2.5	-2.6
Retail Trade	239	234	234	233	234	229	228	228
percentage change	0.7	0.6	0.2	-0.3	-2.1	-2.5	-1.9	-2.6
Financial Activities	104	104	106	109	110	111	113	116
percentage change	5.4	4.4	4.8	5.1	5.8	4.4	4.5	5.6
Services	728	724	745	758	762	759	776	791
percentage change	3.3	3.3	2.5	3.9	4.7	1.9	2.4	3.7
Government	337	336	337	328	337	337	341	330
percentage change	0.0	0.1	0.8	4.3	0.0	-0.1	3.8	-2.1
Unemployment Rate	6.6	6.1	5.9	6.1	5.9	6.2	6.0	6.2
Personal Income (\$millions)	129,413	131,590	133,155	134,519	136,012	137,590	139,063	140,356
percentage change	5.5	4.7	5.0	4.9	5.1	3.3	3.4	3.2
Retail Sales (\$millions)	16,915	17,098	19,081	18,485	18,224	17,690	19,764	19,120
percentage change	7.0	2.1	-3.0	-1.6	7.7	-7.3	6.9	4.9
Building Permits	7,405	8,959	10,868	10,232	9,420	10,417	11,252	10,577
percentage change	-28.6	-21.7	-6.5	4.8	27.2	-4.1	10.0	12.3
United States Data								
Real GDP (\$billions)	11,513	11,449	11,540	11,646	11,742	11,815	11,886	12,057
percentage change	3.1	1.2	1.3	1.8	2.0	3.2	3.0	3.5
Unemployment Rate	4.5	4.5	4.6	4.5	4.5	4.5	4.5	4.5
Inflation Rate	1.9	2.4	2.2	2.2	3.5	3.3	3.0	3.1
3-Month Treasury Bill Rate	4.9	5.0	5.2	5.5	5.6	5.7	5.8	5.8

Note: All percentages are annualized percentage changes from previous quarter. Calculated from data provided by the S.C. Employment Security Commission, the S.C. Department of Revenue, the U.S. Bureau of Labor Statistics, the U.S. Bureau of Economic Analysis, the U.S. Bureau of the Census, and the Federal Reserve.

Annual Summary of Selected Indicators

	2006	2007*	2008*
SC Nonfarm Employment (thousands)	1,903	1,933	1,970
percentage change	1.9	1.6	1.9
SC Unemployment Rate	6.5	6.0	6.1
SC Personal Income (\$millions)	127,543	133,819	139,714
percentage change	6.2	4.9	4.4
US Real GDP (\$billions)	11,682	11,682	12,016
percentage change	3.3	2.3	2.9

*Based on Forecasted Data

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Economic Outlook summarizes the economic forecasts prepared by the Division of Research in the Moore School of Business. The purpose of the forecast program at the Division of Research is to provide timely and reliable commentary and projections for the South Carolina and U.S. economies. An expanded discussion of the current outlook and a more detailed collection of historical and forecast data are available from the Division of Research Web site at

<http://research.moore.sc.edu/moore/research/>

A short-term forecast of the state and national economies over the next two years is prepared every quarter. Additionally, a long-term forecast for the United States, South Carolina, and South Carolina counties is produced each summer. These quarterly and annual forecast publications are complemented by the Division of Research's monthly economic update, *South Carolina Economic Indicators*, also available from the Division's Web site. ♦

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