ANALYSIS: PAVING THE ROAD TO PROSPERITY

Auto Industry in the South Faring Well in Contracting National Economy

In stark contrast to the difficult fiscal positions states such as Michigan and Ohio face—primarily as a result of the decreasing automobile sector there—the auto industry continues to flourish in the South, generating billions of dollars in economic impact and creating thousands of direct and indirect jobs.

By Sujit M. CanagaRetna

The auto industry's drive to move South is paving the road for prosperity in the region, even while the U.S. economy inches toward recession.

The auto industry continues to prosper and play a dominant role in the economic calculations of the South with the advancement of several foreign automakers at a time when the industry's domestic Big Three—Chrysler, Ford and General Motors—face wrenching problems. As the U.S. economy experiences a great deal of tumult with a serious slowdown in growth, the automobile industry in general and the industry in the South in particular, have received an additional boost from the depreciating U.S. dollar—increasing auto exports of autos and other goods.

As a result, the industry's drive to move South continues, unabated and with renewed vigor.

A Growing Industry in the South

The South has attracted an impressive roster of foreign automakers in the last 25 years or so. Researchers attribute the success to a number of factors:

- the ability to construct new manufacturing facilities—incorporating all the latest technologies—more efficiently and effectively at a Southern location, than reconfiguring older assembly plants in the Midwest;
- the economies of scale created by the cluster effect with the growing number of automobile assembly plants and thousands of auto parts suppliers in close proximity to each other;
- the low or nonexistent rates of unionization and the negligible level of interest among Southern autoworkers to unionize;
- the attractive incentive packages—including tax breaks, worker training programs, an abundant labor pool and the ability to train a work force that has not worked in the auto industry previously—proffered by Southern states; and
- the extremely cost-effective intermodal transportation network in the region, spanning railways, highways, airports and, most importantly, ports.

Other attributes make the South attractive for automakers. The weather, reduced cost-of-living, lower or no personal income taxes, free or inexpensive property to build assembly plants, along with other attractive quality of life attributes, all make Southern locations very enticing. In addition, the cutting-edge research being conducted by two high-end research facilities—the Advanced Vehicle Research Center in Garysburg, N.C., and Clemson University's International Center for Automotive Research in Clemson, S.C.—confirms that the automotive industry in the South now extends far beyond assembly operations.

The region's success in attracting automakers has helped the South in the growing economic slowdown.

The ominous signs of a slowdown in the national economy apparent in several parts of the country by mid-2007, were made clearer in early 2008 with the release of recent gross domestic product figures, as well as weakening consumer spending, mounting inflation rates, tightening credit, rising unemployment, falling home prices and surging foreclosure rates.

But even with the gloomy economic news affecting both the national and individual state economies, the auto industry in the South has continued its upward trajectory in the last year. One factor driving this trend has been the rapidly depreciating U.S. dollar.

Automotive Exports from the South Increase

In the last year or so, the deteriorating economic situation in the U.S. was precipitated by the collapse in the housing and construction sectors in many areas of the country—propelled by the unraveling of the subprime mortgage sector—along with an unprecedented rise in energy prices and severe tightening in the credit

markets. But in the midst of all this economic doom and gloom, the nation's export sector has been the one bright spot.

Not only did exports increase twice as fast as imports in 2007, which narrowed the U.S. trade deficit for the first time since 1995, but the increased level of trade is keeping the economy afloat. The impetus for the blossoming export sector has been the depreciating U.S. dollar.

On a year-to-year basis for the past seven years or so, the U.S. dollar has depreciated steadily, thus providing a sizable boost not only to American exports but also in attracting foreign direct investment into the country. The automobile sector in general and the South in particular, have benefited tremendously from both developments.

A depreciating dollar makes U.S. exports much more competitive with exports from other countries. Similarly, purchasing or investing in America becomes relatively less expensive compared to times when the dollar's value is rising.

The dollar depreciated by 79 percent between 2002 and 2008. In April 2001, a single Euro cost 90 U.S. cents; by April 2008, a single Euro cost $1.57 in U.S. currency. (See Table 1) The critical role played by a depreciating dollar in stimulating exports is apparent in U.S. trade flows of road motor vehicles between 2002 and 2007. (See Table 2)

Motor vehicle exports increased by impressive levels, both in terms of value and units, from 2002 to 2007, with the exception of 2003 when there was a nearly 3 percent drop in units exported. In 2007, in particular, when the depreciation of the dollar was significant, road motor vehicle exports increased by more than 22 percent in terms of value and more than 18 percent in terms of units, a trend that reinforces how the depreciating dollar promoted vehicle exports.

Even in terms of the 16 states is The Council of State Governments' Southern Legislative Conference, the impressive growth in U.S. transportation equipment exports—including motor vehicles and motor vehicle bodies and parts—to the world is apparent from a review of federal export statistics: Between 2002 and 2007, these exports expanded on average in these Southern states by nearly 97 percent, with Mississippi (279 percent), Alabama (141 percent) and North Carolina (132 percent) leading the way. In terms of the value of transportation equipment exports in key Southern states in 2007, Texas led the way with $16.3 billion, followed by Kentucky with $7.7 billion, Florida with $7.1 billion, Alabama with $5.9 billion, and South Carolina with $5.6 billion.

Previous SLC research noted how Southern ports rank at the highest level of significance from a national trade dimension—more than two-thirds of all U.S. exports and imports transit through a Southern port. Recent data from the ports of Baltimore, Md., Jacksonville, Fla., Charleston, S.C., and Savannah, Ga., document the significant number of automobiles handled by these Southern ports—more than any other set of ports in the country.

In 2007, Baltimore surpassed Jacksonville as the nation's top vehicle exporter—with an 80 percent increase from the previous year, to nearly 294,000 units—as the weakening dollar propelled a surge in auto exports. Jacksonville still handled an imposing 614,647 vehicle units in fiscal year 2007, while Charleston saw a 67 percent jump in BMW vehicle exports from its terminals in 2007. Savannah's growth in automotive exports over the five-year period from 2003 to 2007 amounted to a staggering 183 percent, including a 52 percent expansion between 2006 and 2007.

Foreign Investment in the South Grows

Along with the surge in automobile industry exports, particularly from the South, the atrophying U.S. dollar also resulted in sizable foreign investment in the industry in the region. In March 2008, BMW announced it would spend $750 million and

The Council of State Governments' Southern office, the Southern Legislative Conference, continues to focus on the economic impact of the automobile industry in the South. In November 2003, the SLC released a report titled The Drive to Move South: The Growing Role of the Automobile Industry in the Southern Legislative Conference Economies. *This 148-page report featured an in-depth review of the auto industry in the South. The SLC has also published articles further clarifying the growing importance of the automobile industry in the South in Global Corporate Expansion. Visit* www.slcatlanta.org *to read the publications.*

hire 500 workers in an expansion that will transform its Greer, S.C., plant into one of its largest facilities. While increasing production by 50 percent at the South Carolina plant by 2012, BMW will slash 7.5 percent of its German work force in the next two years.

Then, Volkswagen, which relocated its North American headquarters from Michigan to Virginia in 2007, announced it would build "a high-volume auto factory in the USA to escape the currency exchange pinch from a weak dollar and a strong Euro." Once again, a number of Southern states—Alabama, Kentucky, South Carolina and Tennessee—top the list of prospective locations for the plant, which will begin producing up to 250,000 vehicles and employ about 2,000 people by 2011. Also, in April 2008, Nissan announced it would invest an additional $118 million in its Canton, Miss., facility to build three new models of light commercial vehicles by June 2010.

On the auto parts supplier front, more news confirmed the continuing importance of the South in the auto industry. In Tennessee, 948 auto suppliers operate in 194 communities across the state; in total, the industry employs 125,000 Tennesseans, including the assembly workers at the Nissan plants in Smyrna and Decherd, the GM plant in Spring Hill and the Peterbilt truck plant in Madison.

After considering two other states, the Indiana-based automotive supplier PK chose to invest $35 million and build a facility in Senatobia, Miss., to make stamped and welded steel parts for the $1.3 billion Toyota manufacturing plant that will open in nearby Blue Springs in 2010. Also in preparation for the new Mississippi Toyota plant, auto parts supplier Vuteq plans a $31 million facility that will employ 630 people in New Albany, Miss., to manufacture molded plastic pieces and components. Another supplier, Toyoda Gosei, will establish a $19 million plant creating 120 new jobs in Batesville, Miss., to build injection-molded plastic parts for the Toyota Highlander. Mississippi has more than 90 automotive manufacturing, distribution and supplier companies.

In Georgia, Kia auto parts supplier Daehan Solutions revealed plans to open a $35 million facility creating 300 new jobs in Harris County, Ga., near the proposed Kia manufacturing facility in West Point.

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Table 1:

Value of Euro to U.S. Dollar, *April 1998 to April 2008*

Year	Value of Euro to Dollar	Percentage Change in Dollars
April 8, 1998	1.0882	-
April 7, 1999	1.0835	0
April 7, 2000	0.959003	11%
April 9, 2001	0.901404	6%
April 8, 2002	0.874998	3%
April 8, 2003	1.0684	-22%
April 8, 2004	1.2088	-13%
April 7, 2005	1.29231	-7%
April 7, 2006	1.2109	6%
April 9, 2007	1.3367	-10%
April 8, 2008	1.5705	-17%

Table 2:

U.S. Road Motor Vehicles Exports to the World, *2002 to 2007*

	Value *(in Billions of Dollars)*		**Units**	
	Amount	Change	Amount	Change
2002	$27.405	14.9%	1,644,831	9.5%
2003	$30.388	10.9%	1,601,019	-2.7%
2004	$33.973	11.8%	1,766,186	10.3%
2005	$40.939	18.4%	2,051,858	8.6%
2006	$46.307	13.1%	2,197,429	7.1%
2007	$56.596	22.2%	2,597,845	18.2%

Table 1: Source: http://www.x-rates.com/cgi-bin/hlookup.cgi

Table 2: Source: U.S. Department of Commerce, Office of Aerospace and Automotive Industries