

THE ECONOMIC SITUATION

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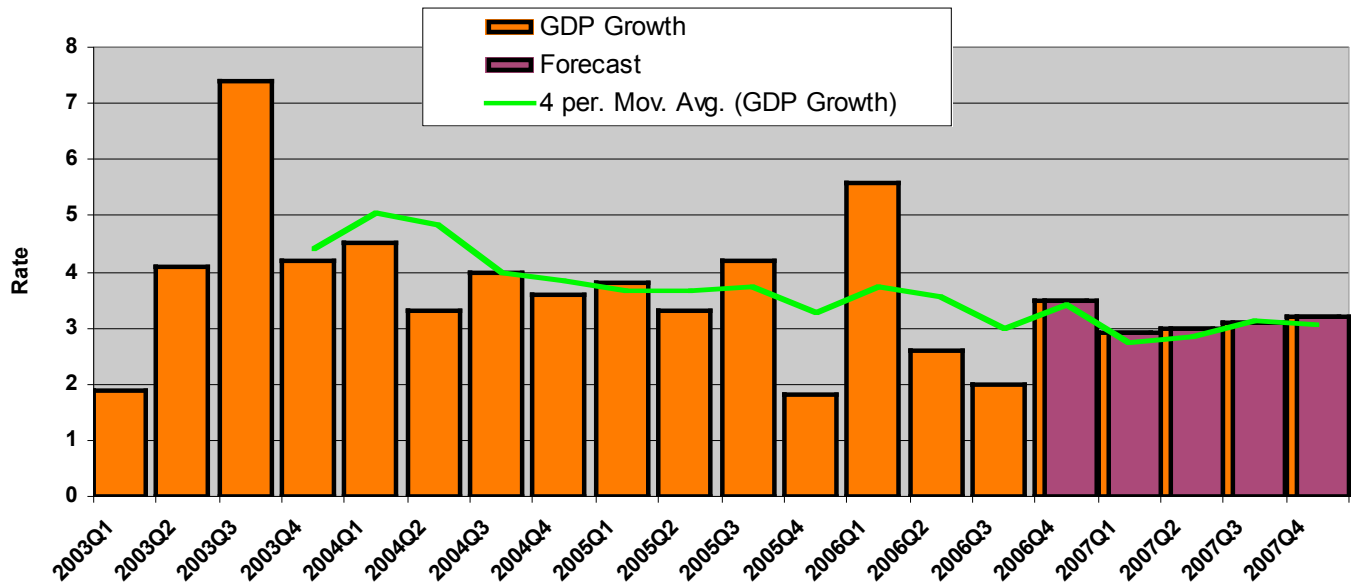
February 1, 2007
Special Edition

- **A Review of 2006 and a Forecast**
 - **South Carolina's GDP Growth**
 - **TIBA: A Story of Knowledge Economy Entrepreneurship**
 - **Alfred Nobel: A Lesson for All**
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A Review of 2006.

My December 2006 Situation Report reminded readers that a lot of important data for 2006 would be arriving after the turn of the year. Now, with more data in hand, I can provide a final chapter on 2006, review my one-shot forecast for December 2006, and look at the crystal ball for 2007. Final data for 3Q2006 just recently released show a slowing economy with 2.0% growth in real GDP. But preliminary GDP data for 4Q2006 arrived with a surprising strong growth rate of 3.5%. With that data inserted and with revised estimates for the next few quarters, we generate a new picture for GDP growth, which follows.

GDP Growth and Projections



The four-quarter moving average in the chart shows GDP growth for 2007 registering about 3.2%, which is weaker than growth for 2005 and 2006. While within the long-term trend of 3.0 to 3.5%, the expected positive growth falls in the category of being OK, not real good, but a lot better than a recession.

With more complete data on CPI core inflation and final data on interest rates and the Dow-Jones now in hand, it is possible to compare the final December 2006 numbers with those I predicted some 12 months ago. (Oh, I wish didn't have to do this.) And I caution that it is not a pretty picture. In fact, if the year had ended in November, I would look a whole lot smarter than I do now. It is amazing what 30 days can do!

The accompanying chart gives the data.

	<i>12/06 Forecast</i>	<i>Actual 12/06</i>
GDP	3.8%	3.4%*
Inflation	2.7%	2.6%
30-yr. Mortgage	6.80%	5.82%
Unemploy Rate	4.4%	4.5%
Prime	7.70%	8.25%
Dow	11,500	12,460
Employ.	200M	150M
Oil	\$ 67.00	▼ \$ 58.00
Gold	\$ 510.00	\$ 604.00

0106 * Still not final.



I have stared at this data for quite a bit over the last few days, trying to identify the factors that upset my 2006 forecast for year-end values. The price of oil is one of the major contributors to my demise. I mark the major item with an arrow. As the price of oil fell in the last few months of 2006, the Dow went up. Then, when the price of oil was skyrocketing in mid-2006, GDP growth slowed. In a few words, it was oil volatility that seems to have done the job on major parts of my December 2006 forecast.

But there is more.

As the dollar weakened against world currencies, the price of gold moved higher, the ability of foreigners to buy dollars and invest those dollars in U.S. bonds was improved. Credit market interest rates fell.

Well, there you have a few explanations. You can't blame me for not trying.

What about December 2007?

Bowed but not beaten, I offer my forecast for December 2007. Take a look at the accompanying chart.

	<i>12/06 Forecast</i>	<i>Actual 12/06</i>	<i>12/07</i>
GDP	3.8%	3.4%	3.2 %
Inflation	2.7%	2.6%	2.5%
30-yr. Mortgage	6.80%	5.82%	6.0%
Unemploy. Rate	4.4%	4.5%	4.0%
Prime	7.70%	8.25%	7.75%
Dow	11,500	12,460	13,200
Employ.	200M	150M	170M
Oil	\$ 67.00	\$ 58.00	\$45.00
Gold	\$ 510.00	\$ 604.00	\$600.00

0106

I expect GDP growth to be weak in the 2007's first half, but to accelerate towards 3.5% in the last six months of year. Core CPI inflation should be controlled at about the current level, and further weakening in the dollar in foreign exchange should put a bit of upward pressure on the 30-year mortgage rate.

I believe the Fed will reduce overnight interest rates in the last half of the year, which will translate into a lower Prime. And I expect lower rates and lower oil prices to be good news for equity markets. My fingers are crossed. I hope we see the Dow move about 13,000. My portfolio can stand some help.

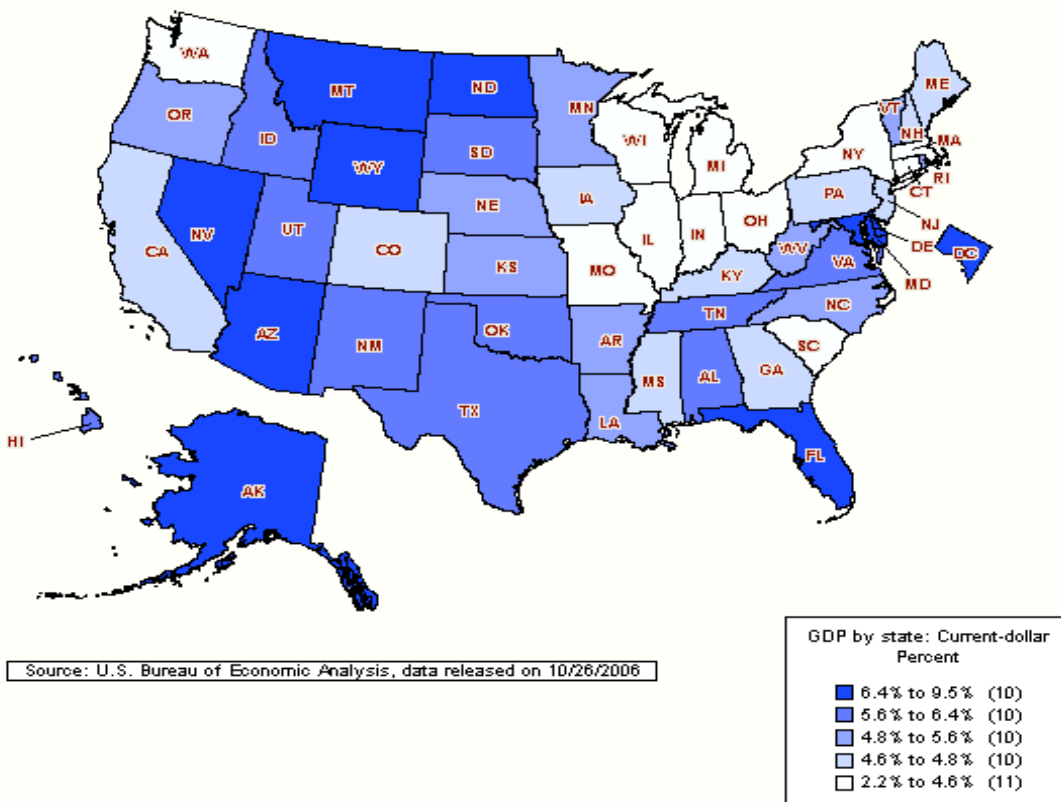
And now, the race is on.

S. C. GDP Growth

I recently discovered some mapped state and regional data provided by the Department of Commerce's Bureau of Economic Analysis. The next two charts show average growth in state GDP across 2000-2005 and average growth in manufacturing GDP for the same period. South Carolina does not look so good on total GDP growth, especially when compared with other states in the region. State GDP growth, which is measured in nominal dollars, is somewhat more than the rate of inflation. Put another way, only small gains have been made in real GDP across 2000-2005.

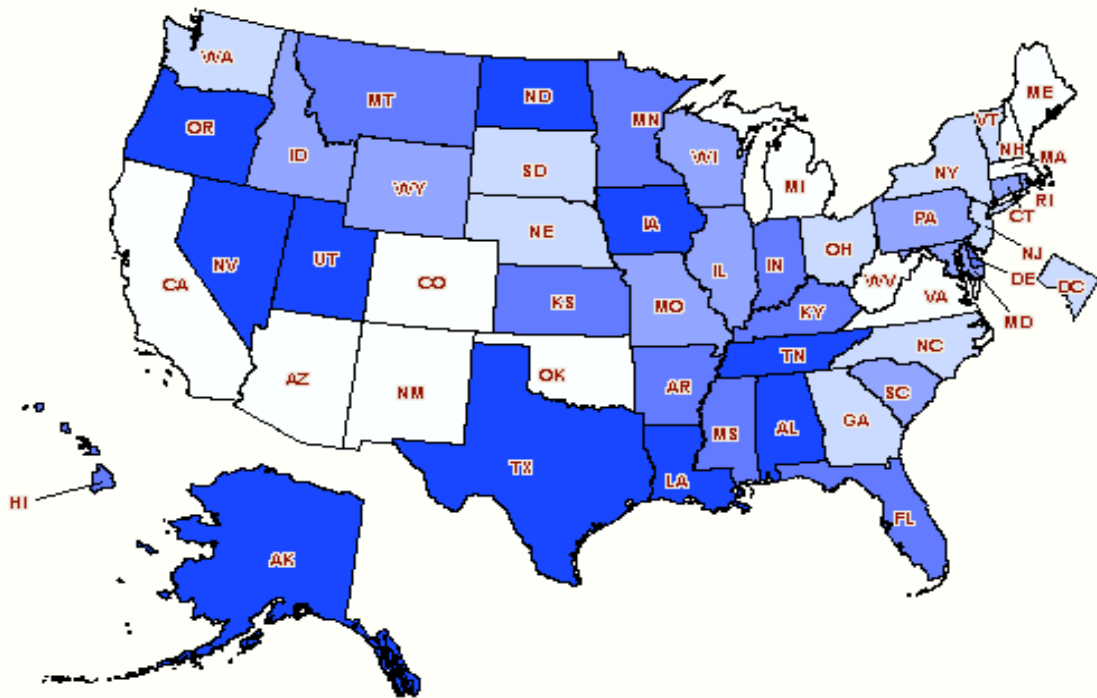
AVERAGE STATE GDP GROWTH: 2000-2005

Nominal Chained Dollars

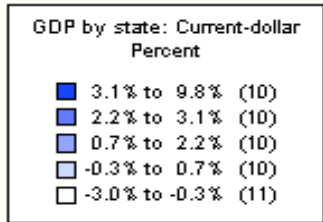


But manufacturing GDP growth makes for a prettier picture. As seen here, South Carolina manufacturing growth is greater than the neighbors north and south. But be careful before ordering champagne for celebrating. The legend tells us that South Carolina is in a category of states that registered 0.7% to 2.2% growth in nominal GDP, which is less than the rate of inflation.

AVERAGE GROWTH IN MANUFACTURING GDP: 2000-2005



Source: U.S. Bureau of Economic Analysis, data released on 10/26/2006



A Note to Readers

From time to time, I will provide a brief report on entrepreneurial ventures in the region. The item that follows is the first.

TIBA Solutions: A Knowledge Economy Entrepreneur

As we look ahead, considerable importance is attached to where entrepreneurship will take us in the burgeoning knowledge economy. While we seek to create new knowledge, one major knowledge challenge has to do with connecting brains and data bases we already possess. Indeed, making better connections may have a higher payoff than adding new brains. There is a huge amount of knowledge out there if we could just find lower cost ways of tapping into it.

One young Greenville-based knowledge firm, TIBA Solutions, is doing just that. Formed in 2000, TIBA stands for “turning information into business assets.”

TIBA is known for work with S.C. government agencies in developing “South Carolina Business One Stop” (SCBOS), a single state gateway for business and professional registration in South Carolina. Working with state agencies and the S.C. Chamber of Commerce, TIBA helped connect knowledge bases so that a firm seeking to open a business in South Carolina can now go to one website and initiate permitting and other requirements for doing business here, this instead of working through multiple mazes of agencies, offices, and websites. An example of private-public partnering, SCBOS is now catching the eye of other state and local officials who seek to reduce the cost of building wealth in a knowledge economy.

Clemson’s new Renaissance Center, now open in the Liberty Building on Greenville’s Main Street, is working to enhance entrepreneurial effort in the region’s knowledge economy. Drop me a line if you need more information on Renaissance. yandle@clemson.edu.

Mr. Nobel’s Prize

I recently enjoyed reading Kene Fant’s *Alfred Nobel: A Biography*, which was translated to English in 1993. Fant tells a fascinating story about this true genius who like many other famous entrepreneur-inventors worked endlessly at his craft. Nobel’s chemistry breakthroughs led to a new world of high-powered explosives. His dynamite and other patented explosives made possible tunnels to open Switzerland to the world, canals to improve the movement of goods and water, as well as new bombs that raised the power of war to a new level.

Alfred Nobel awoke one morning in Paris to news of his death. By mistake, a Paris newspaper printed a full obituary of the famous man. Nobel had the rare experience of seeing how he would be remembered.

The obituary described Nobel as the famous merchant of death. Alfred Nobel decided to change his own destiny. He rewrote his will to leave the bulk of his large estate to recognize people who worked for peace and who by their contributions to literature and science made for a more enjoyable peaceful experience.

Mr. Nobel did well and did good.

Maybe there is a lesson here.