



Regional Report: South Atlantic States Thriving In Recession Rebound

The South is staying financially fit with investments and innovations in logistics, automotives, energy, biotech and renewables.

Lisa A. Bastian, CBC (Apr/May 10)

The South Atlantic states of Florida, Georgia, North Carolina, South Carolina, Virginia, and West Virginia are finding ways not just to survive during America's Great Recession, but to thrive. Each state is assessing its strengths and finding better ways to make its material and intellectual assets stronger, leaner, and more competitive. Here is a look at some of the factors responsible for the region's prosperity.

Moving Products

First, some good news: Increased import and export activity in the South Atlantic region signals that the U.S. economy is beginning to bounce back, according to Tim Feemster, senior vice president and director of global logistics for Grubb & Ellis.

Feemster found that container traffic in January 2010 exceeded traffic in January 2009 at the ports of Miami, Jacksonville, Savannah, Charleston, and Norfolk. And since April 2009, "there has been an incremental increase in the volume of goods on a month-to-month basis," Feemster said. "That's good news for the economy."

Since East Coast railroads "pull off of" coastal ports, positive reports from the railroads signify success at the ports. "Ports don't submit weekly data like the railroads," Feemster said. "But we can tell a turnaround has happened at the East Coast ports since the latest first quarter information already indicates that railroad international container movement for 2010 is expected to exceed the 2009 levels. Already through week 11 of this year, container volume was up 11.8 percent over the prior year."

The ongoing expansion of the Panama Canal, expected to be complete by 2015, also affects this region's economic development. "They're now installing new locks so an increased number of larger ships can travel from Asia to these ports. Today you can only move 4,800 TEU [twenty-foot equivalent unit] ships through the Canal, but soon 12,600 TEU ships will be coming through as well." Anticipating these changes, Atlantic ports are beefing up railroad yard infrastructure and investing in new cranes and equipment to efficiently move consumer goods off these bigger ships into the logistics chain.

Diverting Asian imports from West to East Coast ports via the Canal (a trend that began in 2003) continues. It's becoming a permanent strategy of distributors feeding East Coast consumption. One reason? Diesel fuel prices have increased 35 percent in the past year, making transportation by ship to South Atlantic ports attractive.

No wonder logistics is a major regional business. Georgia in particular is a big player. Air Cargo Week named the Hartsfield-Jackson Atlanta International Airport its "Airport of the Year" in 2009. The state has nearly 11,000 logistics service providers, and is the headquarters for UPS, Delta, and SAIA. Its Savannah container terminal is the nation's third largest. According to the Georgia Department of Economic Development, "nearly 21,000 companies throughout all 50 states rely on the deepwater ports in Savannah and Brunswick and export to 153 out of 195 countries across the globe." On the road, 5.9 million tons of freight moves across Georgia's 21,200 miles of highway each week.

North Carolina's 11-county southeast region offers excellent transportation access via the international Port at Wilmington, three interstate highways, and a CSX Transportation national rail corridor.

Last fall the South Carolina State Ports Authority received good news. TBC Corporation chose Charleston for its new, 1.1 million-square-foot tire distribution center, and Boeing announced plans to construct a 787 jetliner assembly plant in North Charleston. The Port of Charleston was a key factor in both decisions.

Virginia's global logistics industry employed over 73,000 people in 2008, and its economic output totaled \$8.9 billion. This sector supports an additional \$6.5 billion in economic activity in the state. The Port of Virginia handles more than two million TEUs each year, and is known for being the home of the world's fastest and biggest container cranes.

Jacksonville, Florida-based PenserSC, a leading southeast logistics firm, is a conduit for U.S.-Caribbean trade. It provides over two million square feet of warehouse space in Jacksonville, Orlando, and Miami, and serves the pharmaceutical, food, industrial, retail, health and beauty, and paper industries.

Automotive Loves the Southeast

Low tax rates, labor rates, and land costs have attracted foreign and domestic auto assembly facilities to the Southeast's right-to-work states, as well as parts suppliers, transportation firms, and other auto-related companies, all of which employ tens of thousands of workers. Take a look at South Carolina. In March, BMW invested an additional \$750 million in its upstate South Carolina factory to add 1.5 million square feet and 500 new on-site jobs, and increase production capacity to 240,000 units by 2012. This increases BMW Group's investments in its South Carolina operations to \$4.2 billion. The firm currently employs more than 5,400 people at its Spartanburg plant. Accordingly, 40 of the state's 52 automotive suppliers have located new, North American operations in South Carolina to improve their relations with BMW.

North Carolina, with more than 141,000 workers employed at over 1,000 manufacturing establishments, ranks tenth in the U.S. auto industry for the number of employees supplying parts, accessories, and components for automotive, truck, bus, and heavy equipment industries, according to North Carolina State

University.

Georgia has more than 230 automotive-related manufacturing companies employing approximately 52,000 workers, according to Georgia Power. The state exported more than \$2.3 billion in vehicles and parts internationally in 2008. Last year Georgia welcomed Kia Motors Corporation's first U.S. manufacturing operation at West Point in Troup County. The company is investing over \$1 billion in its facility, and plans to produce 300,000 vehicles a year. This is good news for Georgia's suppliers, as it supports 4,100 new jobs and \$830 million in investments, according to state officials.

Focus on Energy

Virginia leads in fossil fuels as the country's tenth-largest producer of coal. It is also increasing natural gas production due to the development of coalbed methane reserves, according to state government sources. In West Virginia, the National Research Center for Coal and Energy advances ideas about the development and use of clean energy, especially from fossil fuels. The state leads the nation in underground coal production: In 2008 West Virginia mines produced over 165 million tons of coal.

In March, President Obama announced a new energy program amenable to offshore oil and gas exploration from Delaware to Florida. The proposal worries some environmentalists, but is garnering praise from local groups such as the Southeast Energy Alliance, a non-partisan energy coalition.

The region is embracing clean energies, too, with new programs, laws, and research and development activity in solar, wind, geothermal, fuel cell, biofuel, and other green sectors. For example, North Carolina is one of several states with a legislative renewable energy mandate. It requires state utilities to derive up to 12.5 percent of their retail sales from renewable energy sources by 2021.

In the Sunshine State, the Florida Center of Excellence in Ocean Energy Technology at Florida Atlantic University is developing new ocean energy technologies to generate electricity, hydrogen, and potable water, as well as innovative residential cooling methods. And thanks to the Georgia Institute of Technology, wind turbines used to create electricity may soon cost less and work more efficiently. The institute is part of a new project developing simplified turbine blades.

Life Sciences Pave Way to the Future

The South Atlantic states fare well in the biotech arena. Many notable biotech players are conducting research and commercialization activity in the region. "For the most part, the Southeast part of the United States, from Florida up through Virginia, is a growing area for the life sciences," said Patrick Kelly, vice president of state government relations and alliance development for the Biotechnology Industry Organization (BIO). "We've seen a lot of development in the last eight to 10 years, and significant investment made by states in their biotech infrastructure."

In the past few years, Florida's investment of \$1.5 billion in state and local incentives has attracted eight major research facilities — and 1,100 jobs — to the state, including the Scripps Research Institute, the Sanford-Burnham Medical Research Institute, and the Max Planck Institute.

North Carolina also leads. "They've been at it since the early 1960s with the establishment of the world-class Research Triangle Park," Kelly said. He called the park a perfect best practices example of how industry, government, and education can work together to advance life sciences commercialization and research and development. In South Carolina, "the state is in the process of developing a life sciences sector by fleshing out its infrastructure," Kelly said, with help from local universities.

Since the 1990s, the Georgia Research Alliance has driven the state's technology-based economic development strategy, generating over \$2.1 billion in new investments. After Atlanta hosted BIO's 2009 convention, which showcased its biotech assets, Georgia landed two new, major projects.

Virginia "has done a lot," according to Kelly, in the last several years to bring investment to the Commonwealth. It has a Philip Morris research and development facility in Richmond and a bioscience park adjacent to Virginia Tech in Blacksburg. West Virginia has also hitched onto the biotech wagon. It has allocated more state dollars to programs attracting top researchers to its universities, and recently established its first biosciences association.

View Through the Fed

Robert Schnorbus, regional economic manager for the Federal Reserve Bank of Richmond, tracks and interprets data for a district that includes West Virginia, Virginia, North Carolina, and South Carolina. "Recent surveys show manufacturing has been improving in our region from the first of the year, and there's been a slowing in the decline of the service/retail sector," he said. "We hope we've seen the bottom of the recession."

Schnorbus expects newer industries in those states — auto parts, financial services, pharmaceuticals, high tech — to replace and offset lost jobs in some older, declining industries. The region's educated workers and competitive wages will help the area's recovery. "Those are certainly locational advantages that will only continue to attract new industries in the future," Schnorbus said.

The Federal Reserve Bank of Atlanta's district encompasses Florida and Georgia. Michael Chriszt, assistant vice president there, says his group is "definitely seeing a pickup in manufacturing, not necessarily in job numbers, but in activity levels. Production and orders are up." In the retail sector, "the outlook is much improved."

There are more positive signs. In Georgia and Florida, the number of hours worked in manufacturing has risen. While the Federal Reserve Bank of Atlanta noted signs of improvement in real estate, "it's too early to say things are getting better. The growth in real estate development hasn't picked up yet. New construction is lagging a bit but we're seeing positive signs from Florida," Chriszt said. Bank surveys revealed that Florida recently added 26,000 jobs, although many were temporary positions.

Some economists predict the recession could continue for another few years, meaning the South Atlantic states — and the rest of the country — could be in for a bumpy ride. But when recovery arrives, this region will be one of the top reasons for America's emergence as an energized, globally competitive nation on solid economic footing.

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