



Long-term Manufacturing Decline Explains North Carolina's Lagging Competitiveness in Job Creation

North Carolina would have 108,000 more jobs today if the state's manufacturing employment resembled the national average

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JOB GROWTH CONTINUES TO LAG IN NORTH CAROLINA because of long-term over-reliance on declining, less competitive industries compared to surrounding states, and not because North Carolina's overall economy is unsound or the state's business climate is uncompetitive. As policymakers consider ways to boost employment in the Tarheel State, robust investments in education and job training for new and growing industries are critically important for reversing this slide and would provide a far better approach to spurring job creation than the personal and corporate income tax cuts now being debated.

With North Carolina's unemployment rate stuck above 9 percent and lagging the national average for most of the past four years, it has become conventional wisdom in Raleigh that the state's economy is simply not competitive compared to Virginia, South Carolina, Georgia, and Tennessee. But a deeper look into the guts of North Carolina's economy reveals that this conventional wisdom is quite wrong. While North Carolina's job growth continues to lag behind these neighboring states, our broader economy is much more competitive—in median income, per capita growth and other factors—than is typically assumed.

Since North Carolina had a larger share of its employment concentrated in durable and non-durable goods manufacturing in 2000 than did the surrounding states, it lost far more jobs by 2011 than the other states did. If North Carolina's mix of jobs had more closely resembled our neighbors' in 2000, then the unemployment picture in the Tarheel State would be much less dire. In fact, we would have up to 156,000 more jobs than we do today.

An Economy in the Middle of the Pack

North Carolina is in the middle of the pack with surrounding states in every major indicator of economic health *except* for the unemployment rate. Leaving aside Virginia—an anomaly

FIGURE 1: North Carolina's Economy Compared to Neighboring States

State	Poverty, 2011 ⁱ	Median Household Income, ⁱⁱ 2011	Change in Median Household Income, ⁱⁱⁱ 2000-2011	Annual Per Capita GDP Growth, ^{iv} 2000-2011	Unemployment Rate, ^v December 2012
Georgia	19.1	\$46,007	-\$9,410	-0.66	8.6%
South Carolina	18.9	\$42,367	-\$6,062	-0.54	8.4%
Tennessee	18.3	\$41,693	-\$5,793	0.46	7.6%
Virginia	11.5	\$61,882	\$922	0.92	5.5%
North Carolina	17.9	\$43,916	-\$7,258	0.17	9.2%

i American Community Survey
ii American Community Survey
iii American Community Survey

iv Bureau of Economic Analysis
v Local Area Unemployment Survey

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in the South due to the rapid, federally-fueled growth of its DC suburbs—North Carolina has the lowest poverty rate in the region, median household income second only to Georgia’s, and annual per capita economic growth second only to Tennessee’s over the past decade. That last measure probably would have topped Tennessee’s if not for North Carolina’s rapid population growth—the Tarheel State saw an 18 percent jump in population between 2000 and 2011 (the sixth highest in the nation), while Tennessee had 11.6 percent growth over the same period. Even North Carolina’s loss in household income over the past ten years—while undoubtedly troubling—is not out of line with the losses in other states.

Less Competitive Industries Mean Less Employment Growth

A state’s employment growth largely rests on the competitiveness of specific industries in that state—their diversification, growth, and labor quality.¹ Unfortunately, North Carolina entered the

21st century with an employment base heavily concentrated in a narrow mix of declining manufacturing industries—notably textiles, furniture, and apparel. This increased the risk that decline in those industries would have a disproportionate effect on the overall economy.

Indeed, as those major pillars of the state’s employment base eroded, significant barriers arose to replacing the jobs lost. Workers’ skills were suddenly rendered obsolete; existing factories and other infrastructure were geared toward the industries of the past rather than the future; and supply chains that supported those industries disintegrated, leaving fewer opportunities for new industries to benefit from existing buyer-supplier relationships.² Since North Carolina policymakers have not made necessary investments in skills training and infrastructure, it has become much more difficult to restructure the state’s employment base for newly emerging and more competitive industries. Replacing the jobs lost in vulnerable and declining manufacturing sectors has become equally difficult—a long, slow process.³

As seen in Figure 2, durable goods manufacturing, like furniture making, was more highly concentrated in North Carolina

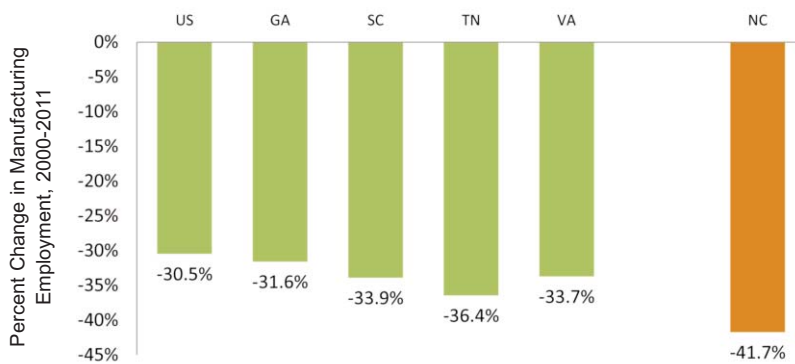
(accounting for 8.2 percent of total employment) than every surrounding state but Tennessee (which had 9.1 percent of total employment in this sector), and more heavily concentrated in non-durable goods manufacturing like textiles and apparel (8.0 percent of employment) than every other state but South Carolina (also 8.0 percent). Taken together, North Carolina’s manufacturing employment accounted for 16.2 percent of its total job base—more than in any neighboring state.

FIGURE 2:

A: North Carolina Had More Manufacturing Employment than Neighboring States



B: North Carolina Experienced Greater Manufacturing Job Losses than Neighboring States



SOURCE: US Bureau of Economic Analysis

North Carolina also experienced much greater job losses in these sectors from 2000 to 2011 than did surrounding states, largely due to the Tarheel State’s relative over-reliance on those manufacturing industries most vulnerable to global competitive pressures and offshoring—furniture assembly and basic textiles and apparel. Firms in these industries proved largely unable to remain profitable in the face of cheap foreign competition and the collapse of domestic consumption of the goods produced by these firms during the 2001 and 2007 recessions. Because its employment relied more on these sectors than did surrounding states, North Carolina was disproportionately hit by job losses in these sectors. Specifically, over this ten-year period, North Carolina saw durable goods manufacturing contract by almost 40 percent, far worse than in any other surrounding state. Moreover, non-durable goods manufacturing dropped by almost 44 percent, a worse showing than every other state except South Carolina. Total manufacturing job losses in North Carolina amounted to a 42 percent drop, again far greater than those experienced by surrounding states.

More Diversity Would Have Meant Less Job Loss

North Carolina’s lagging overall employment growth largely results from the state’s relatively heavier reliance on declining and less competitive manufacturing industries over the past decade compared to neighboring states and the nation as a whole. As Figure 3 shows, if North Carolina’s manufacturing job base had more closely resembled that of the surrounding states in 2000, the jobs picture in the Tarheel State would look very different today, and much more in line with the current job growth experienced by our neighbors. In conducting this analysis, each state’s manufacturing job losses are held constant, while allowing only North Carolina’s manufacturing employment in 2000 to change to resemble the manufacturing employment levels in other states. In effect, this analysis holds constant the unique factors influencing job losses in each state including business climate—and just examines the impact of manufacturing employment concentration on North Carolina’s job creation outcomes.

FIGURE 3

	Durable Goods Share of Total Employment	Non-Durable Goods Share of Total Employment	Additional Jobs NC Would Have in Durable Mfg Assuming Other State Share	Additional Jobs NC Would Have in Non-Durable Mfg Assuming Other State Share	Total Additional Jobs NC Would Have Assuming Other State Share
United States	6.9 %	4.1%	24,577	83,842	108,419
Georgia	5.1%	6.2%	58,844	39,554	98,398
South Carolina	7.1%	8.0%	21,081	614	21,695
Tennessee	9.1%	5.7%	-18,425	49,899	31,475
Virginia	4.6%	3.8%	66,961	89,690	156,652

In fact, if North Carolina had had the same share of employment in durable and non-durable manufacturing as any one of the surrounding states in 2000—but still lost the same share of jobs in those sectors as were actually lost by 2011—then our state would have significantly more jobs than we do today. Specifically, North Carolina would have at least 108,000 more jobs than we do today if the state’s manufacturing employment in 2000 had simply matched the national average, and would have 88,000 more jobs if our manufacturing employment had matched the average manufacturing employment across all of our neighboring states. These additional jobs would have significantly brought down the number of unemployed workers in North Carolina.

Further, North Carolina would have even more jobs today if—along with being less dependent than surrounding states on overall manufacturing in 2000—the state’s employment base had been less highly concentrated in the specific durable and non-durable manufacturing industries that proved to be the most vulnerable and experienced the greatest decline by 2011. In fact, if North Carolina had experienced job losses in these industries similar to the average across our neighboring states over this period, the Tarheel State would have 133,000 more jobs today than currently exist.

The evidence is clear—North Carolina does not suffer from a business climate problem. Not only have CEOs and site selection consultants for Fortune 500 companies repeatedly extolled the

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virtues of North Carolina's business climate as one of the best in the nation, but on a range of economic indicators North Carolina performs strongly relative to neighboring states. The state's employment challenges can be explained by the share of employment concentrated in durable and non-durable goods manufacturing employment in 2000. If employment had more closely resembled neighboring states then the Tarheel State's unemployment picture would look much more competitive relative to these other states.

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- 1 See for example, Malizia, EE and Feser, E.J. (2000). Understanding Local Economic Development. Kort, J. (1981). Regional Economic Instability and Industrial Diversification in the U.S. Land Economics 57:596-608. Piore, M. J., & Sabel. (1984). The second industrial divide. (pp. 165-193). New York: Basic Books.
 - 2 Pisano , GP and Shih, WC. (2009). Restoring American Competitiveness. Harvard Business Review, July-August 2009.
 - 3 Atkinson, RD, Stewart, LA, Andes, SM, Ezell, SJ. (2012). Worse than the Great Depression: What Experts Are Missing About American Manufacturing Decline. Information Technology and Innovation Foundation. March 2012.

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