

# Economics Group

## Special Commentary

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# Southern States: 2015 Economic Outlook

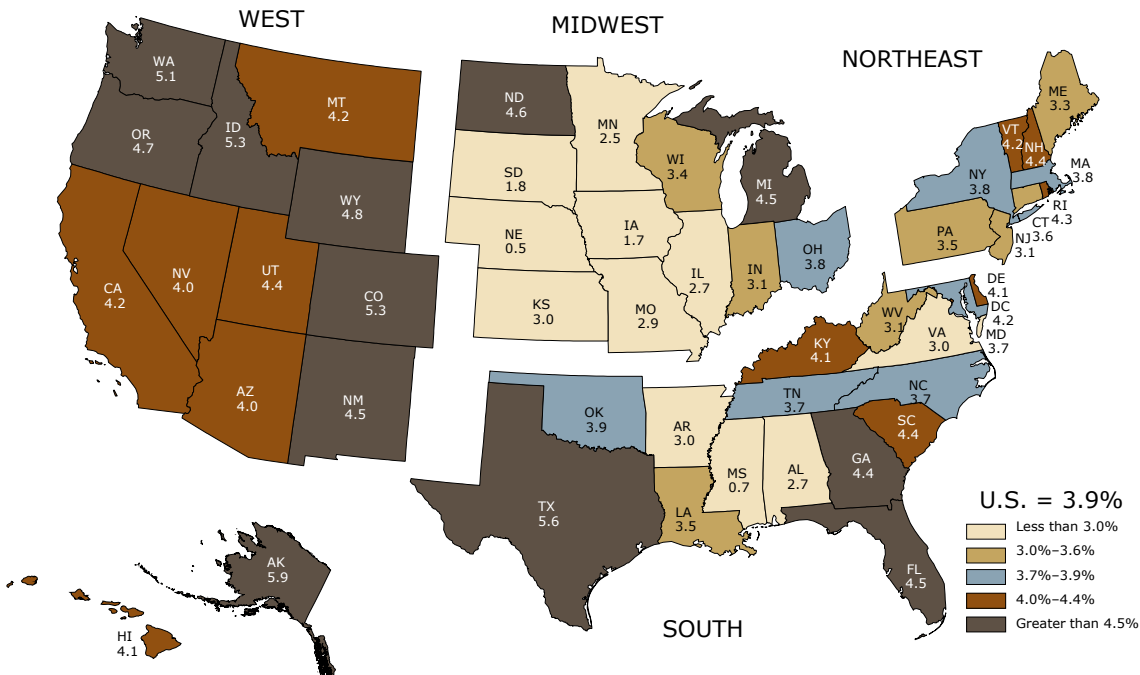
## Economic Development Drives Growth Across the South

The southern United States entered the New Year with strong momentum but numerous question marks as well. The energy boom, which had provided so much growth for Texas, Oklahoma, Louisiana, West Virginia and parts of many other southern states, is now at risk and may pose serious headwinds to many parts of the region. Lower gasoline prices will be a powerful offset, particularly in parts of the region with little oil and gas exploration & production. The plunge in energy prices and likely resulting cutbacks in oil & gas production will likely cause the leadership in employment and income growth within the region to shift from Texas and Oklahoma toward Florida, Georgia and the Carolinas. We expect overall growth in the region to remain strong, with real GDP rising 4.0 percent in 2015, compared to our estimate of 3.6 percent this past year.

The latest state personal income data provide a good snapshot of where the economy was prior to the recent slide in energy prices. Texas is still the clear leader, but the recovery in Florida and Georgia has gained enough momentum that those states are now seeing strong gains as well. The drag on incomes from sequestration has also lessened somewhat in Virginia, D.C. and Maryland.

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**Percent Change in Personal Income Q3 2013 – Q3 2014**



Source: U.S. Department of Labor and Wells Fargo Securities, LLC

Together we'll go far



We see four major trends driving the South's economic resurgence: the energy boom, the technology revolution, increasing urbanization and the reemergence of the region's historically important manufacturing sector. In light of the recent slide in oil prices, the energy boom is still very much front and center in the South's economic outlook. Lower energy prices will lead to a significant slowdown in Texas, Oklahoma and Louisiana but will not upend the recovery in these states. Our most recent forecast for Texas shows real GDP and employment growth slowing to about half of last year's pace in 2015. Houston and smaller oil towns, such as Midland, Odessa, Victoria and Longview, would appear to be somewhat more vulnerable, but should weather this down cycle better than they have in the past.

***Texas should hold up better than it did when oil prices tumbled in the 1990s and 1980s.***

Texas should hold up better than it did when oil prices tumbled in the 1990s and 1980s because the state's economy is much more diverse than it was then. Moreover, the tremendous growth in proved oil and gas reserves in Texas and other parts of the country will help support midstream and downstream investments in pipelines, processing centers, refineries, petrochemical plants and export facilities. There is still a tremendous boom in petrochemical plant construction along the Gulf Coast, stretching from Houston to New Orleans. While some projects have been postponed or shelved, most remain on track and should keep construction humming right through the current supply glut.

Technology has been a key growth area across the South in recent years. Austin is one of the fastest-growing major technology centers in the country and has seen a whole host of corporate relocations and expansions over the past couple of years, including major new facilities for Apple, athenahealth, Visa and Websense. The metro area is enjoying a building boom, with dozens of apartment, hotel and office projects currently under way. Construction of the Dell Medical School is another major project altering the city's skyline and will almost certainly become a major driver for the region's healthcare and life sciences industry.

Technology is playing a leading role in many southern markets. Raleigh has seen employment in tech-related fields surge more than 10 percent this past year, with most of the increase coming in cloud computing, software development and life sciences. Miami has also added jobs at a rapid pace, with employment in professional and technical services climbing 4.7 percent over the past year. Much of that growth has been in information technology and cloud computing. Atlanta's roster of high-tech businesses has grown tremendously in recent years, adding a massive biologics plant for Baxter and, more recently, seeing a whole host of firms announce new facilities close in to downtown and Midtown. One of those is NCR Corporation, which recently announced plans to build a new world headquarters near Georgia Tech in Atlanta's Midtown. The new facility is expected to open in late 2017 or early 2018 and serve as the firm's primary R&D facility. Midtown and downtown Atlanta have seen quite an influx of tech firms in recent months, including firms such as athenahealth, Twitter, N3 and WorldPay. The new offices help these firms plug into the young workforce that lives nearby as well as Georgia Tech, Georgia State, Emory and Atlanta University.

***The movement of younger households back into the urban core and adjoining areas is evident across the South.***

The movement of younger households back into the urban core and adjoining areas is evident across the South. Some of the most intense development has been in Charlotte, Raleigh and Nashville, which have seen an influx of apartment construction near their emerging high-tech employment centers. Atlanta has also seen strong growth, particularly in Midtown and Buckhead, as well as adjoining areas such as Virginia Highlands and Brookhaven. Even the car-crazed Texas metro areas are seeing more residents and businesses move back into the city, particularly Austin and Dallas. The move toward greater urbanization is also evident in smaller towns, including Savannah, Charleston and Asheville.

One of the other major encouraging trends across the South has been the reemergence of the region's historically important manufacturing sector. Many communities were devastated following the enactment of NAFTA in the mid-1990s and China's ascension to permanent most-favored-nation status at the latter part of the decade. Producers of textile, apparel and furniture were among the hardest hit industries. Some of these losses have been offset by the arrival of new industries, most notably the automotive and aerospace sector, where growth has been particularly

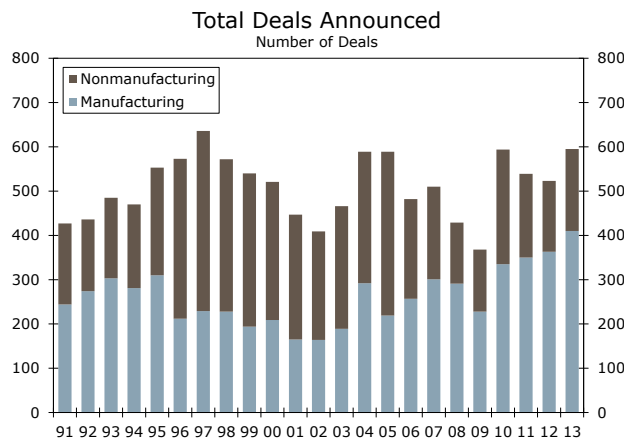
strong of late. Boeing continues to ramp up production at its plant in Charleston, and Airbus is getting set to start producing planes in Mobile later this year. Other notable aerospace firms include Savannah-based Gulfstream, which has expanded its aircraft assembly operations and employment over the past five years, and Northrup Grumman, which established a major R&D center in Melbourne and expanded production facilities in Jacksonville and St. Augustine. Embraer has also made a huge investment in Florida and is assembling business jets in Melbourne. In addition, Honda Aircraft, which set up its headquarters and R&D facilities in Greensboro, is getting set to produce business jets there this year.

The emergence of the aviation industry combined with the rapid growth in the region's automotive sector has dramatically reshaped the South's industrial sector. The region now boasts an incredibly large and diverse collection of assembly plants, as well as the U.S. headquarters of Nissan in Nashville, Toyota in Dallas, and Mercedes and Porsche, both in Atlanta. Parts suppliers have followed assembly plants into the region, and the steel industry has grown along with the auto sector. In addition, the tire industry has set up shop in the South, with numerous plants throughout the region. South Carolina is now the nation's top tire producer, as well as the home to the headquarters for Michelin North America and Continental North America.

***The region now boasts an incredibly large and diverse collection of assembly plants.***

While the influx of new industry is impressive, one of the most encouraging recent developments has been the reemergence of traditionally important industries, including textiles, apparel and furniture. The past couple of years have seen a number of notable expansions, including Gildan Activewear, which opened and expanded several plants in North Carolina, and Ashley Furniture, which built a massive furniture factory and distribution facility in Davie County located west of High Point. Furniture is also making a bit of comeback in Hickory, with expansions at firms such as CR Laine and Vanguard Furniture, as well as a whole host of suppliers to the industry. The improvement in the South's manufacturing sector is evident from the recent trend of industrial announcements, which has seen more expansion announcements than the service sector every year since 2005. Even some of the South's hardest-hit manufacturing centers, such as Hickory and Martinsville, are seeing improvement. Both areas have seen the unemployment rate plummet from well into the double digits a decade ago to levels roughly even with the national average today and a rising number of employers in both areas are noting that they are having trouble finding and keeping skilled workers.

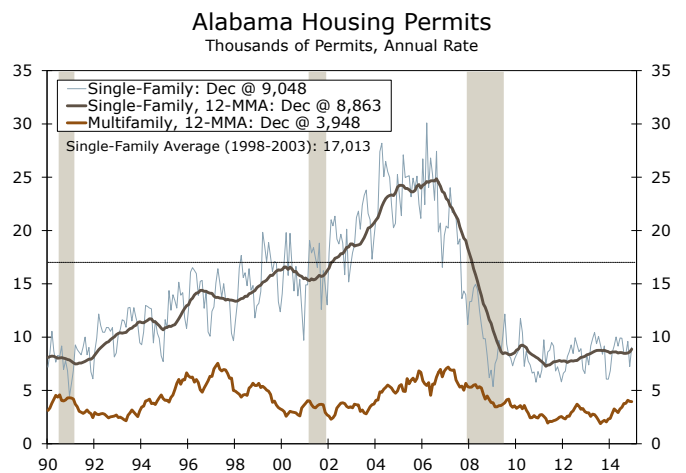
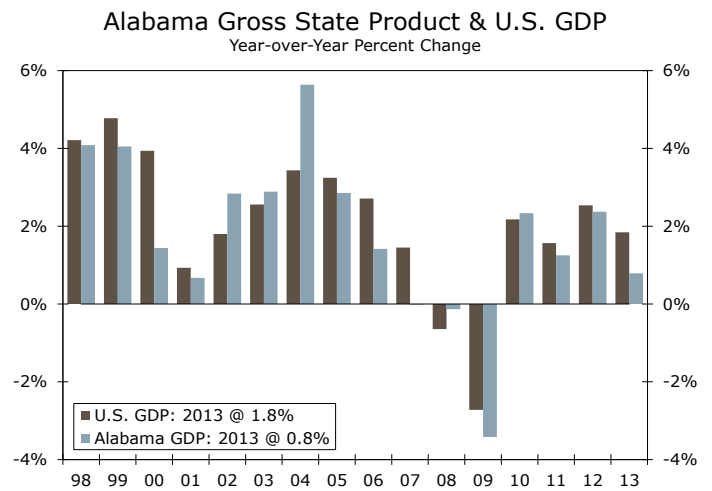
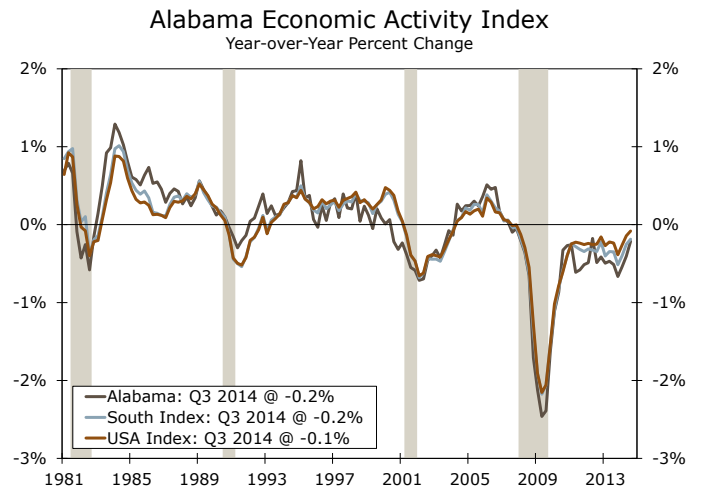
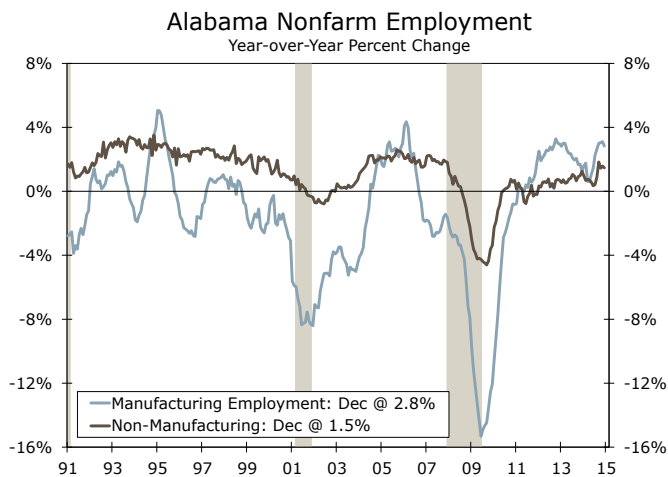
**Figure 1**



**Source: Southern Business & Development and Wells Fargo Securities, LLC**

## Alabama

- Alabama is finally beginning to see growth accelerate following years of a relatively subdued recovery. Nonfarm payrolls remain below levels reached prior to the recession. Manufacturing and professional & business services have led the recent improvement. Construction also finally appears to be turning the corner. The state's sizable public sector remains a weak spot. Federal government payrolls are essentially flat with their year-ago level, but appear to have bottomed.
- The recent acceleration is almost entirely due to gains made in Tuscaloosa, where manufacturing and education play a huge role. Tuscaloosa is home to the Mercedes plant, where another 1,000 workers were recently added for production of the C-Class. Although Mobile is struggling on an overall basis, manufacturing remains strong there, thanks to the incoming Airbus plant, which will further establish the state's role as a formidable manufacturing hub.
- The housing recovery came late in Alabama, but this past year has seen some modest gains. Home prices are up 3.2 percent over the past year, and sales have risen modestly. Although demand appears to be firming, residential construction remains muted, with little growth in single-family construction and only modest gains in the multifamily market.
- We are looking for growth to gain further momentum in 2015, as the drag from government sector lessens.

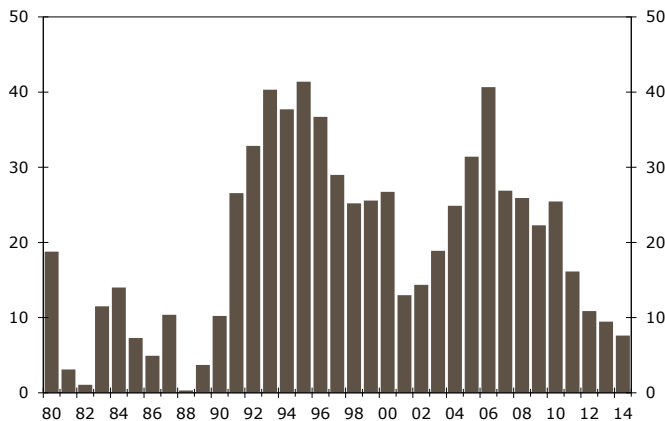


**Source: Moody's Analytics, U.S. Dept. of Commerce, U.S. Dept. of Labor and Wells Fargo Securities, LLC**

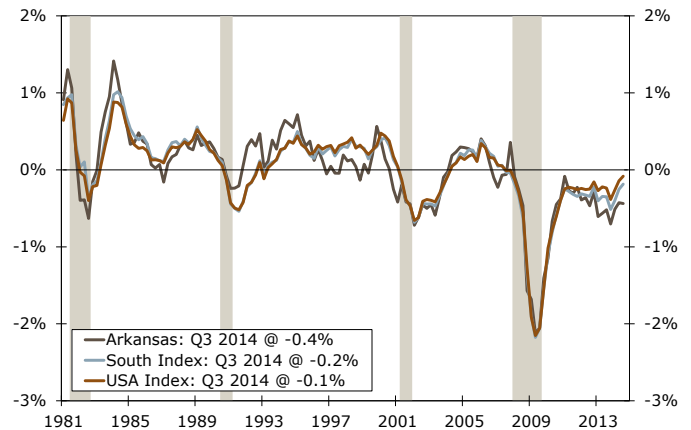
## Arkansas

- Gains in Arkansas have finally perked up after about two years of weak employment growth. The state's Economic Activity Index has also improved, though it remains below the national average relative to its historical trend. The state's largest industries, trade, transportation & utilities and government have been notable weak spots, although virtually every other major industry is growing, especially construction.
- Manufacturing finally turned the corner, contributing to the recent acceleration in the state, although headwinds are coming in the form of oil-related layoffs from Tenaris Hickman. Other major employers will benefit from the fall in oil prices, including Walmart and the state's large agricultural sector.
- The housing market is still struggling to get back on its feet. Although home price depreciation was relatively muted compared to the national average, the rebound has also been subdued with prices only 0.4 percent higher than a year ago. Residential construction had shown signs of reviving earlier but has stalled more recently.
- Growth in Arkansas likely will continue to trail the national average. Demographic trends are a formidable challenge, as more people move out of the state than move into it. Overall population growth remains weak. The share of the population age 65 and older is also relatively high, further restraining consumer spending and home sales.

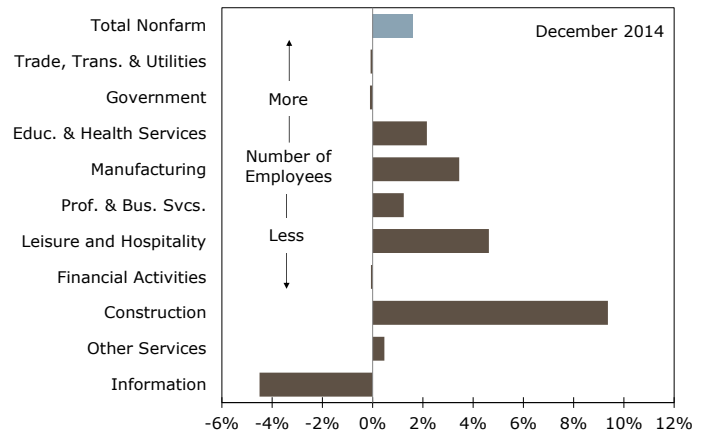
**Arkansas Population Growth**  
 In Thousands



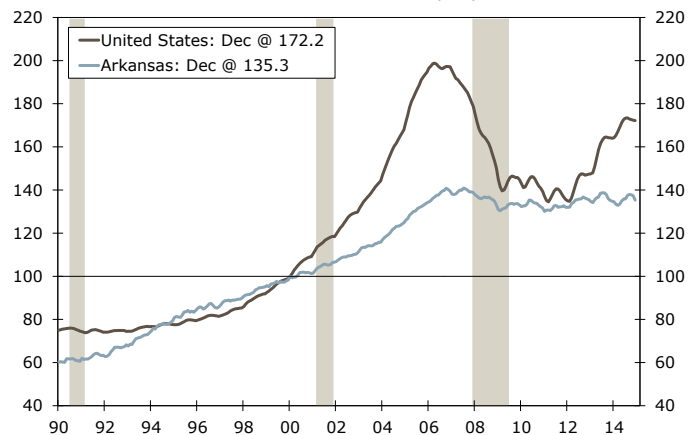
**Arkansas Economic Activity Index**  
 Year-over-Year Percent Change



**Arkansas Employment Growth By Industry**  
 Year-over-Year Percent Change, 3-MMA



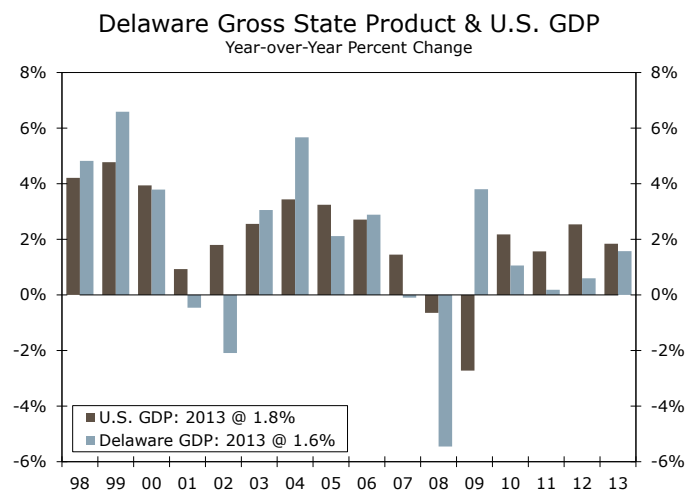
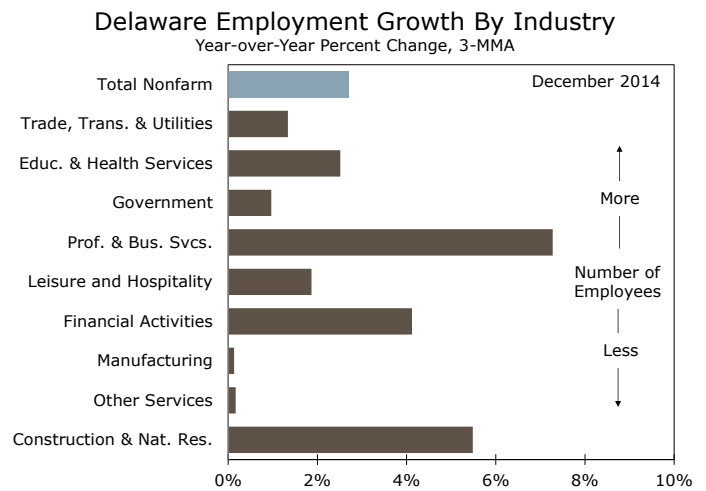
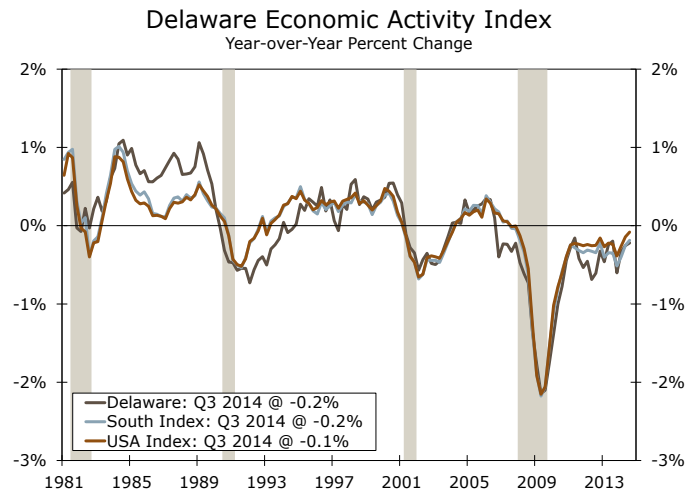
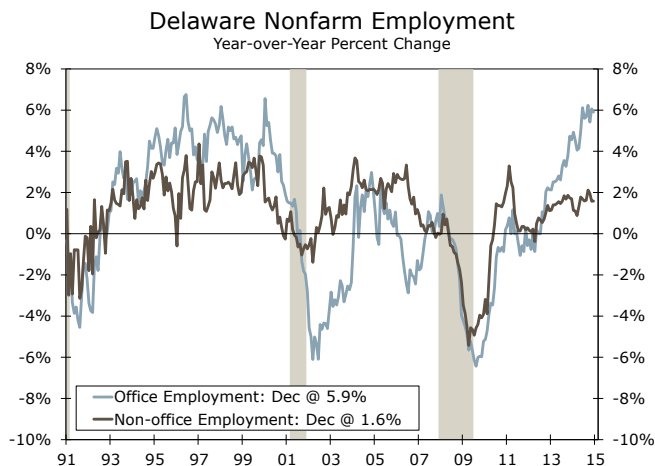
**CoreLogic HPI: AR vs. U.S.**  
 Index, 2000=100, Not Seasonally Adjusted



**Source: Moody's Analytics, U.S. Dept. of Commerce, U.S. Dept. of Labor, CoreLogic and Wells Fargo Securities, LLC**

## Delaware

- Growth in Delaware has been slowly accelerating over the past couple of years, bucking the trend in neighboring states. Nonfarm payrolls are now 2.7 percent higher than a year ago, with professional & business services and financial activities posting some of the strongest gains. Wilmington hosts a number of corporate headquarters, which are captured in this category. Health care and retail trade are also posting solid gains. The public sector and manufacturing are growing more modestly, however, though both sectors are still posting modest year-to-year employment gains.
- The housing market continues to make gains, though home price appreciation remains somewhat muted at a 0.3 year-over-year pace. Multifamily construction has fallen back after earlier strong gains. Single-family construction has improved markedly in the past year, which stands in contrast to what we have seen in much of the rest of the nation. New construction accounts for twice as large a share of all home sales than the national average.
- Commercial real estate development should also see continued gains, thanks to a surge in office-using employment, which is now an astonishing 5.9 percent higher than a year ago. Imports are rising again, which should also fuel demand in the industrial and warehouse sector.
- Strong population growth and a reinvigorated corporate sector bode well for Delaware. We look for growth to remain strong in 2015.



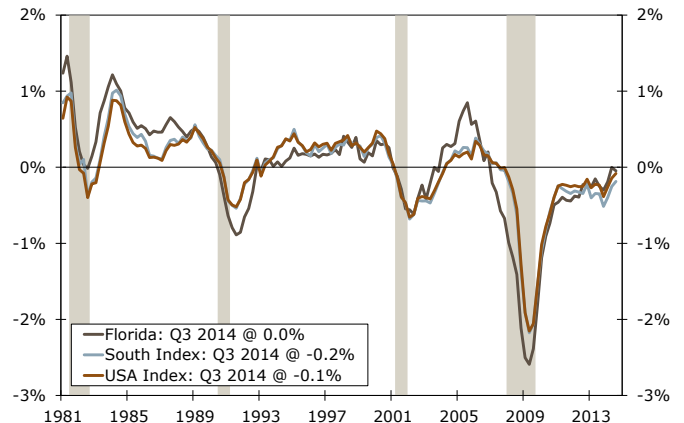
Source: Moody's Analytics, U.S. Dept. of Labor, CoreLogic and Wells Fargo Securities, LLC



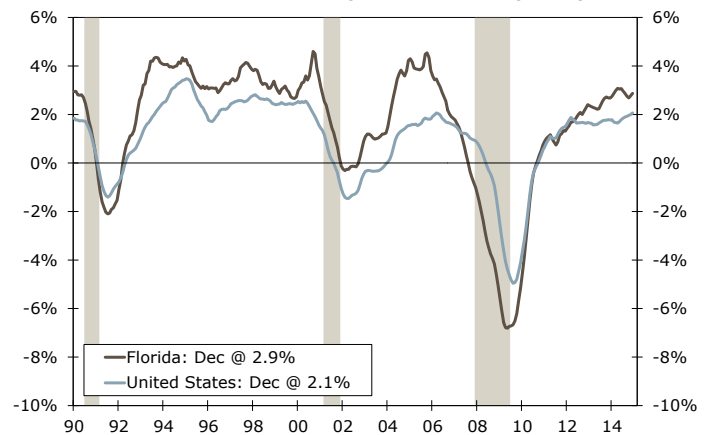
## Florida

- Florida real GDP easily outpaced the national average in 2013 and looks to have done that again this past year. Nonfarm employment has risen 3.0 percent over the past year, which has pulled the unemployment rate down 0.7 percentage points to 5.6 percent. Growth in the Sunshine State is buoyed by a stronger national economy, which fuels tourism and migration to the state. Growth is much more broad-based than that, however, with all 10 major industries adding jobs at a solid pace.
- Outside of the tourist-related sector, some of the strongest gains have been in construction, transportation and warehousing. Port expansions and intermodal facilities should continue to yield gains for these industries. In addition, Northrup Grumman is making a major expansion in Brevard County, which has also added a major new Embraer facility. Other notable gains are occurring in life sciences and financial services, with the Navy Federal Credit Union adding 5,000 jobs in Pensacola.
- The housing market is bouncing back nicely in Florida, with single-family home sales rising 15.8 percent over the past year, helping pull prices 5.6 percent higher. The housing market is in better balance with fewer foreclosures and delinquent mortgages. Residential construction has been slow to ramp back up, and permit growth has stalled of late. Continued strong job growth and in-migration should drive additional building activity in 2015.

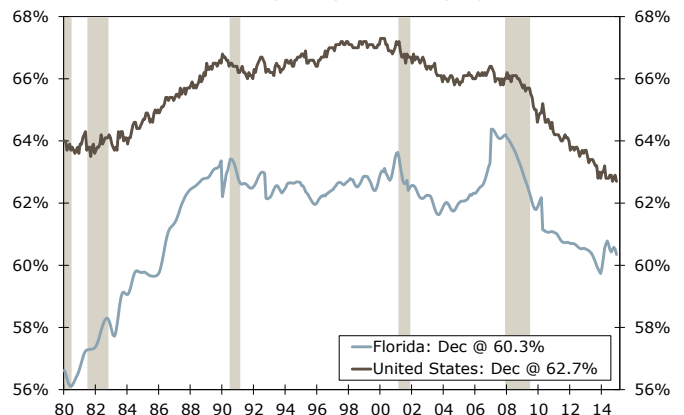
**Florida Economic Activity Index**  
 Year-over-Year Percent Change



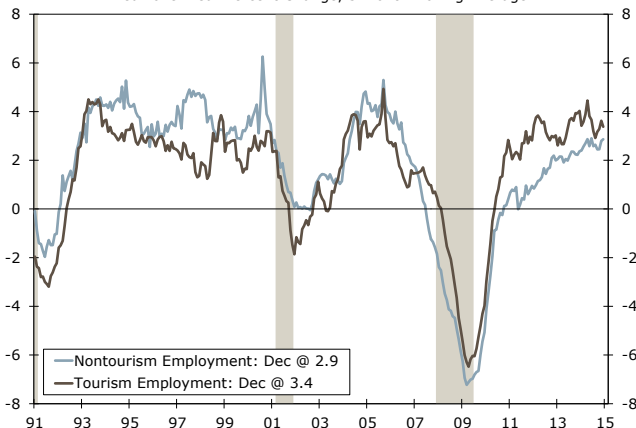
**Nonfarm Employment**  
 Year-over-Year Percent Change of 3-Month Moving Average



**Labor Force Participation Rate**  
 3-Month Moving Averages, Seasonally Adjusted



**Florida Tourism-Related Employment**  
 Year-over-Year Percent Change, 3-Month Moving Average

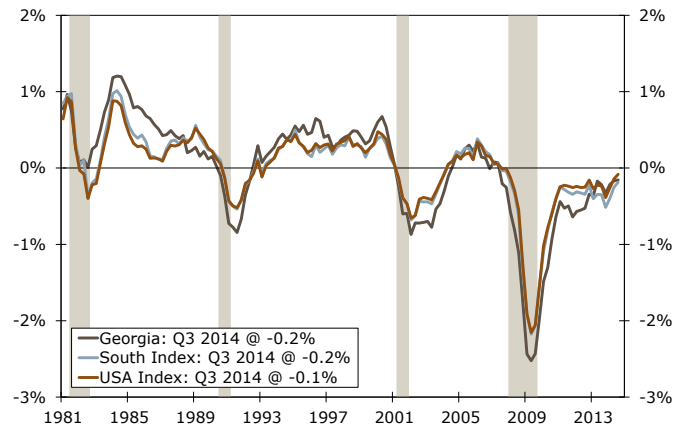


**Source: Moody's Analytics, U.S. Dept. of Labor, CoreLogic and Wells Fargo Securities, LLC**

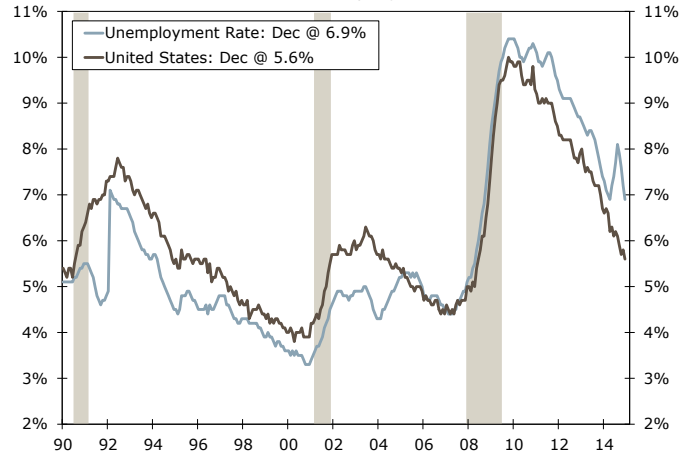
## Georgia

- Georgia's economy has gained considerable momentum over the past two years and outgrew the U.S. in 2014. The recent volatility in the unemployment rate should largely be ignored as more reliable measures of the state's labor market show stronger growth and consistent improvement across most major industries.
- Employment gains have been broad-based, thanks to Georgia's status as one of the top states for doing business. Mercedes recently announced it would move its U.S. headquarters to Atlanta from New Jersey. High-tech, life sciences and entertainment-related expansions have fueled growth in the state. Even manufacturing is making solid improvements.
- Home price appreciation has moderated recently, but prices still remain up 5.5 percent year over year. Stronger job growth has brought traditional buyers back into the market and homes are selling quickly. Residential construction, however, remains near historical lows. Demand for homes has been strongest for markets close to the city or in close-in northern suburbs, where developed lots are scarce. Development activity should increase in 2015.
- Georgia should continue to outperform the nation. A relatively low cost of living, a highly-skilled workforce and strong industry clusters in rapidly growing fields such as payments processing, mobile communications, life sciences and logistics will continue to draw new businesses and residents to the state.

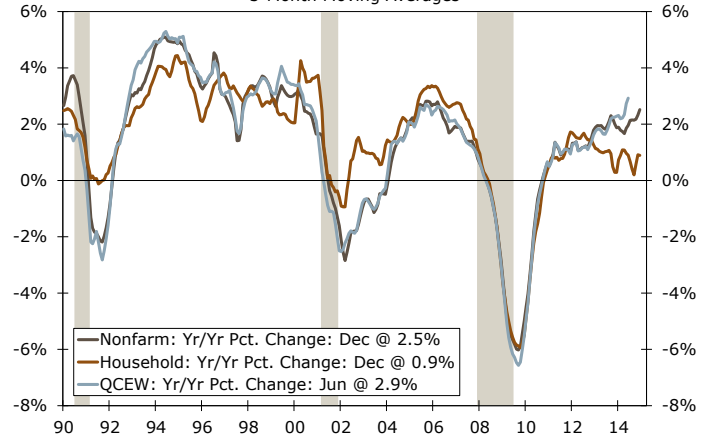
**Georgia Economic Activity Index**  
 Year-over-Year Percent Change



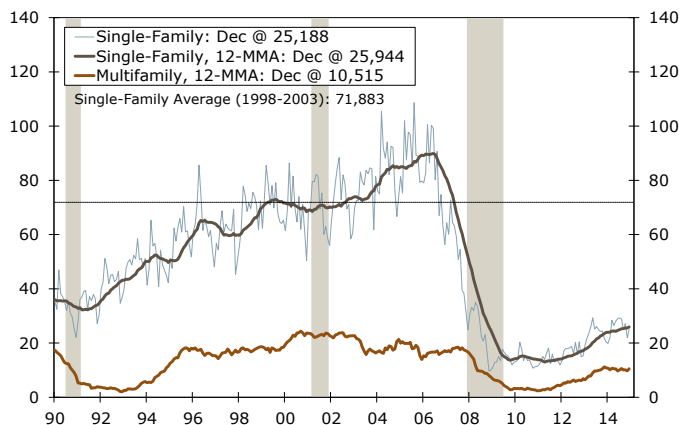
**Georgia vs. U.S. Unemployment Rate**  
 Seasonally Adjusted



**Georgia Nonfarm Employment**  
 3-Month Moving Averages



**Georgia Housing Permits**  
 Thousands of Permits, Annual Rate



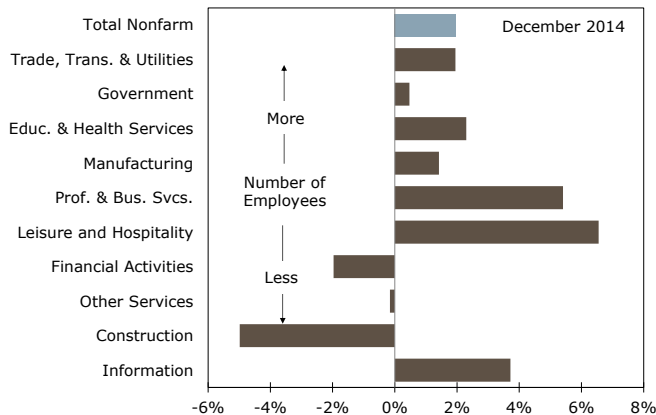
**Source: Moody's Analytics, U.S. Dept. of Labor, CoreLogic and Wells Fargo Securities, LLC**



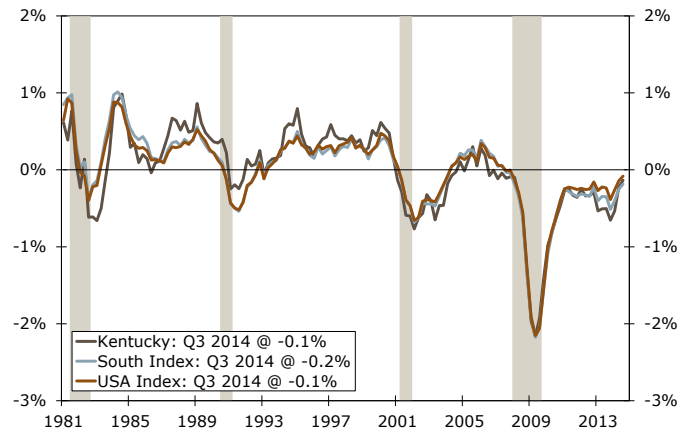
## Kentucky

- Kentucky's economic recovery had been slow, but growth has recently picked up, with nonfarm payrolls rising 1.8 percent over the past year. Some of the recent gains are due to increased hiring in education & health services. Hiring has also ramped up in professional and business services. Unfortunately, other major industries have not fared as well.
- Manufacturing has seen payrolls rise 1.8 percent over the past year, while employment in the public sector, retail trade and financial services have all been essentially flat. Natural resources are another weak spot. Patriot Coal recently cut 670 positions. Some of those losses will be offset by new office jobs, like the 200 that are coming at the IT center for Archer Daniels Midland.
- Construction has posted some of the largest job losses, reflecting the completion of some large industrial projects. The housing market is slowly but steadily getting back on track, with home prices rising 4.6 percent year over year. Home prices are very close to their prerecession peak, leaving fewer homeowners underwater.
- Kentucky will likely post only modest gains again this year. Weak population growth, a larger-than-average share of residents age 65 and older and an overreliance on slower growing parts of the manufacturing and mining sector will tend to restrain overall job growth. Job growth should be stronger in 2015 than it was this past year, however.

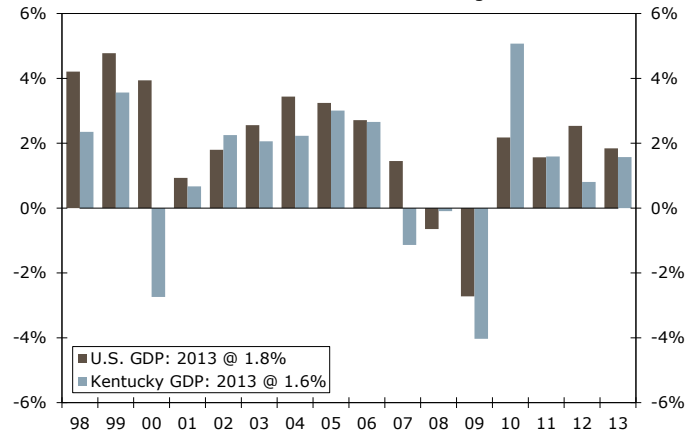
**Kentucky Employment Growth By Industry**  
 Year-over-Year Percent Change, 3-MMA



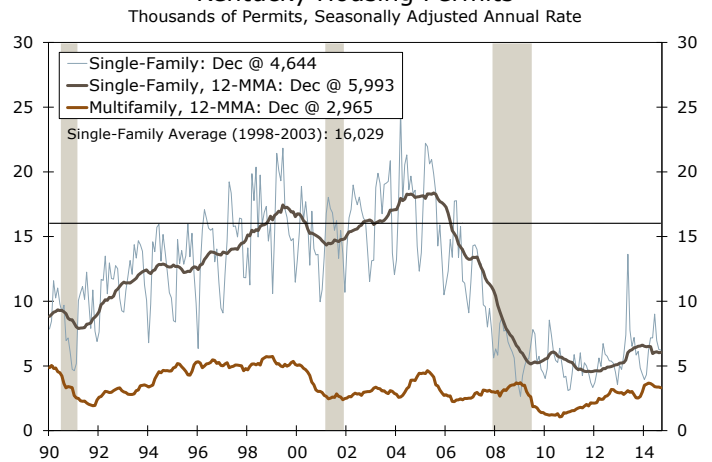
**Kentucky Economic Activity Index**  
 Year-over-Year Percent Change



**Kentucky Gross State Product & U.S. GDP**  
 Year-over-Year Percent Change



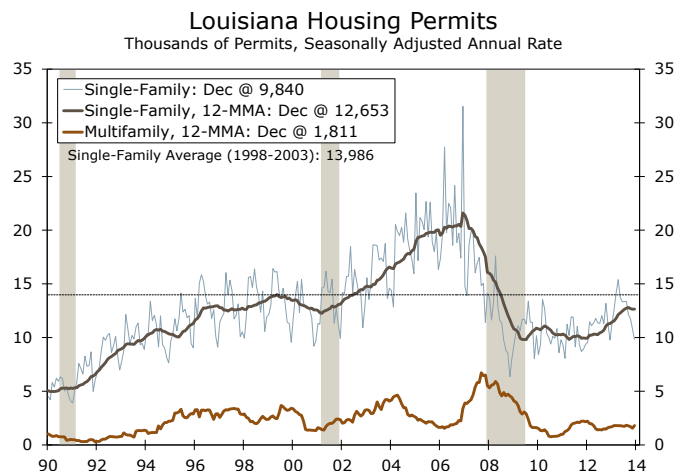
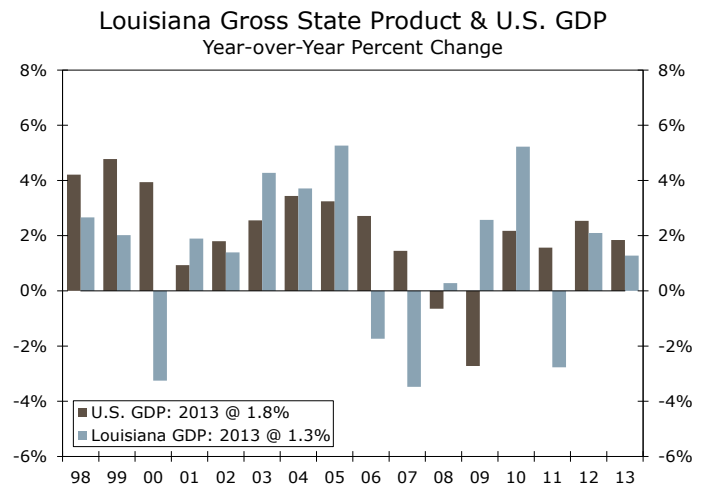
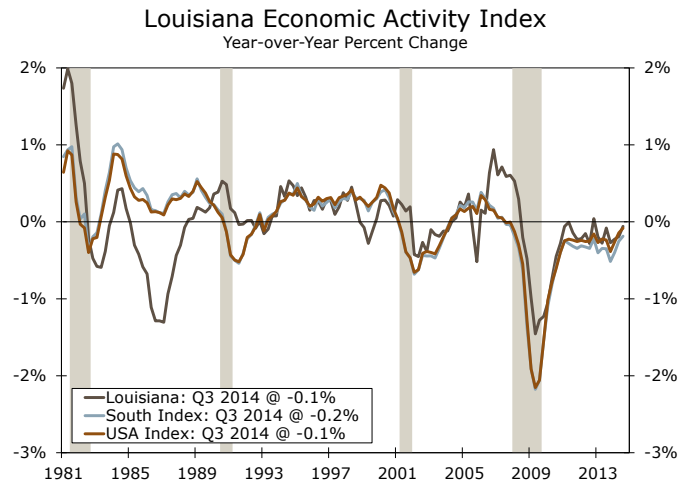
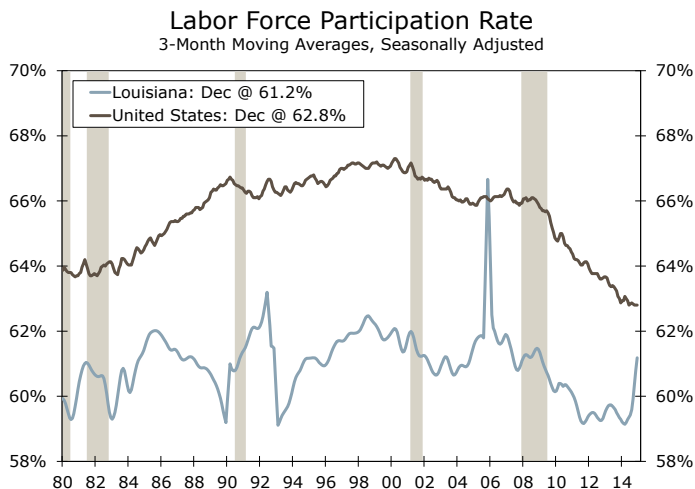
**Kentucky Housing Permits**



**Source: Moody's Analytics, U.S. Dept. of Commerce, U.S. Dept. of Labor, CoreLogic and Wells Fargo Securities, LLC**

## Louisiana

- Although the state continues to face headwinds with low oil prices, the economic expansion in the state is still making steady gains. Nonfarm payrolls are up 1.5 percent from a year ago. Employment gains have been fairly broad based, with the strongest growth seen in construction and professional & business services. Government, natural resources & mining and information employment are all lower from a year earlier, however.
- Dramatic cuts to capital spending and a plunge in rig counts will likely weigh on oil field service providers, with several major announcements of staff reductions already announced. Although profit margins are being squeezed at petrochemical firms, domestic producers still enjoy a cost advantage over their European and Asian competitors. Sasol is still investing more than \$8 billion in a chemical plant, despite putting another huge plant on hold.
- Home prices are now above their prerecession peak and are 1.1 percent higher than a year ago. In addition, the pace of residential construction is now back near its historic norms. Gains appear to have stalled recently, however.
- Louisiana's fate is linked to the health of the energy industry, but the state is diversifying away from its oil roots. Concerted efforts to diversify the economy are paying off. Growth in the state's creative sector, including motion pictures and technology, is meaningful and provide a strong base for future growth.

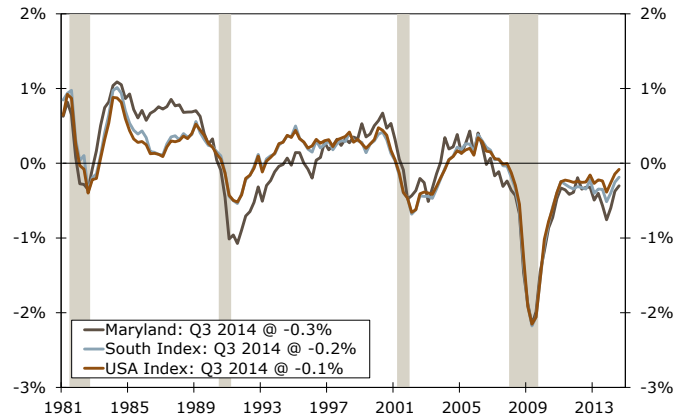


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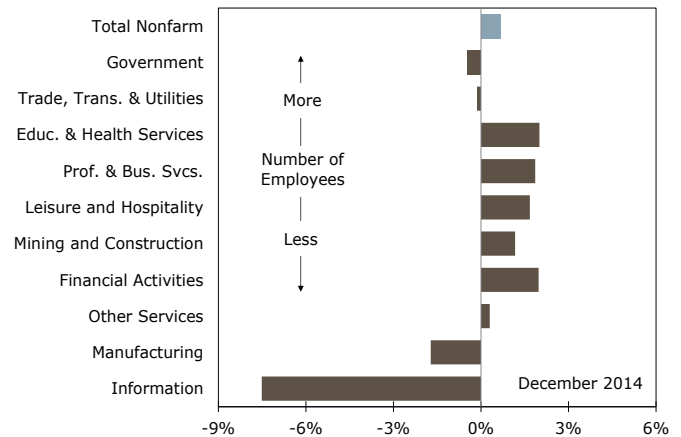
## Maryland

- Growth has moderated in Maryland, with employment up just 0.8 percent from a year ago. Sluggish growth in the state's large public sector is responsible much of the recent weakness. Federal government payrolls have posted year-over-year declines every month for almost two years, and the governor is proposing state budget cuts. Outside of government, gains remain exceptionally modest.
- Maryland's largest industries, namely health and life sciences, are not typically known for their rapid growth, but should continue to make steady gains. Johns Hopkins has just finished a major expansion in Baltimore and AstraZeneca is adding hundreds of workers to its operations in Frederick. Exports have also picked up this year and should help fuel additional commercial investment near the Port of Baltimore. Despite these improvements, the backsliding in the public sector will likely overshadow the state's growth and weigh on consumer-driven industries.
- Despite the weak employment numbers housing demand has been fairly strong through the end of 2014. Home price appreciation has flattened, however, and prices are down 0.7 percent from a year ago. Residential construction has also weakened somewhat with single-family permits well below historical norms and multifamily permits sliding back recently.
- In the near term, Maryland's economic growth prospects will be limited by its overreliance on the public sector. A highly-skilled workforce, however, should help draw more business investment into the state.

**Maryland Economic Activity Index**  
 Year-over-Year Percent Change

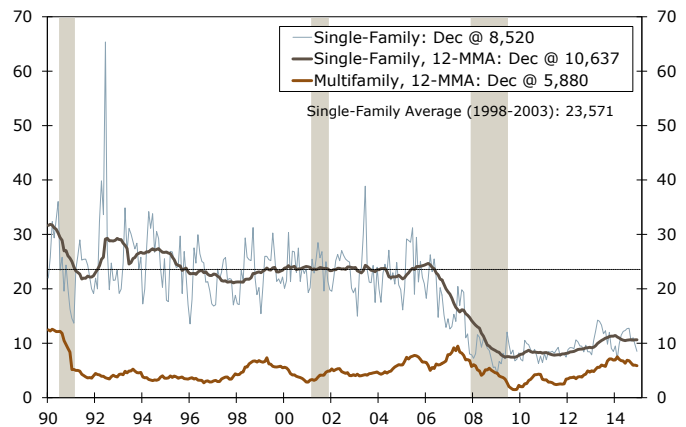


**Maryland Employment Growth By Industry**  
 Year-over-Year Percent Change, 3-MMA

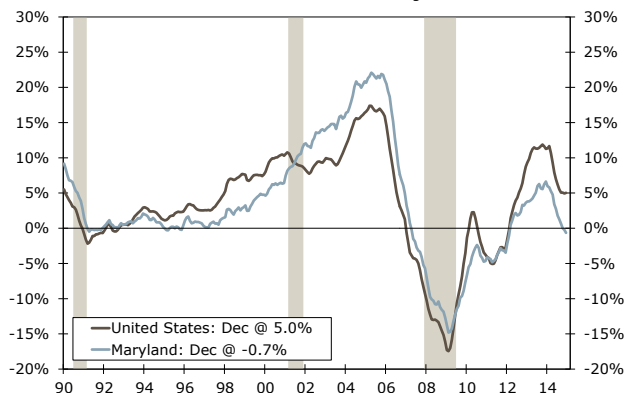


**Maryland Housing Permits**

Thousands of Permits, Seasonally Adjusted Annual Rate



**Core Logic HPI: MD vs. U.S.**  
 Year-over-Year Percent Change

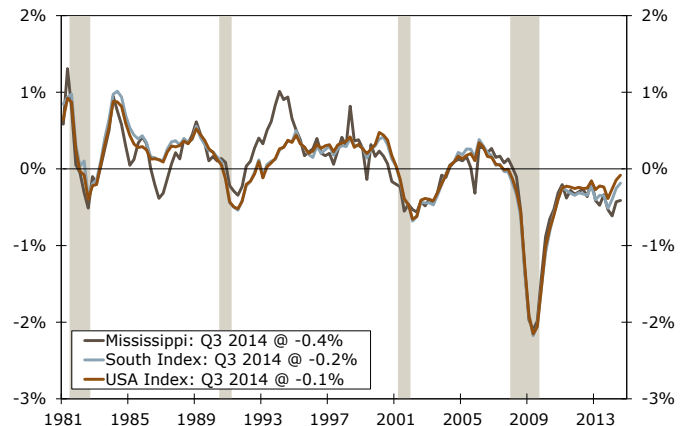


**Source: Moody's Analytics, U.S. Dept. of Commerce, U.S. Dept. of Labor, CoreLogic and Wells Fargo Securities, LLC**

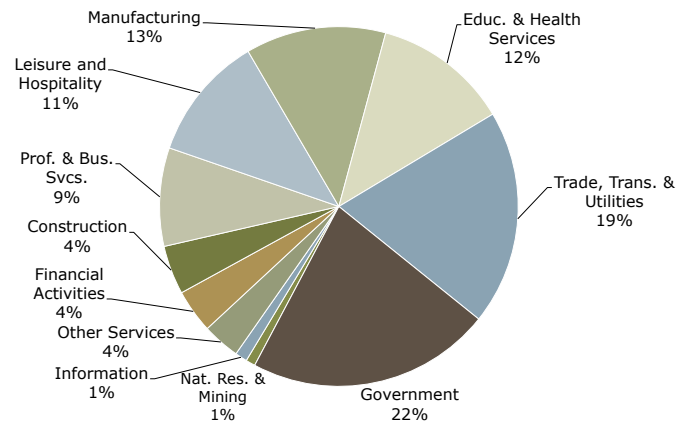
## Mississippi

- Mississippi's recovery remains sluggish, with employment flat from a year ago and the total number of employed persons still well below the prerecession peak. Out-migration has weighed on local industries, most notably retail, financial services and construction. On the plus side, the state's outsized factory sector is finally showing signs of improvement.
- The optimism coming from manufacturers may be short lived. The large shipbuilding industry is under threat from new policies that would allow more competition for U.S. shipbuilding. Furthermore, other manufacturers are shedding jobs, including Peavey Electronics, which announce it would lay off 99 workers late last year. Other industries have shown more promise, including professional & business services and education & health services.
- Although the overall economy is making only modest gains, the housing market looks somewhat better. Home prices are rising and are up a sizable 6.2 percent from a year ago, well above the national average. Residential construction, however, remains fairly weak, with single-family permits only marginally higher than the lows seen at the worst of the housing crisis, while what little growth had existed now appears to have stalled.
- Diversifying the economy and encouraging new business expansions are critical to the state's growth prospect and should also help reverse the recent out-migration from the state.

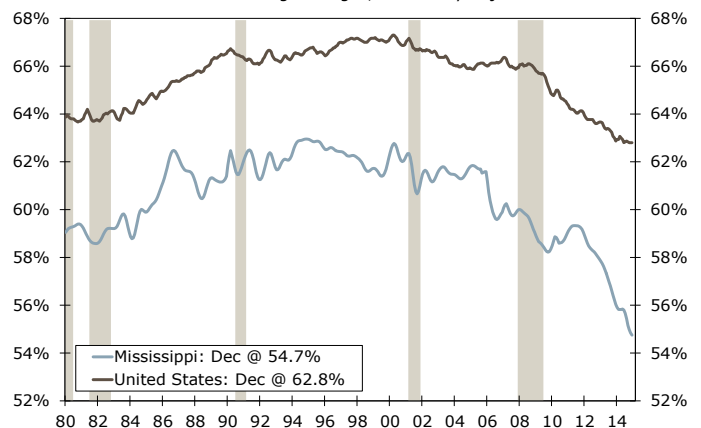
Mississippi Economic Activity Index  
Year-over-Year Percent Change



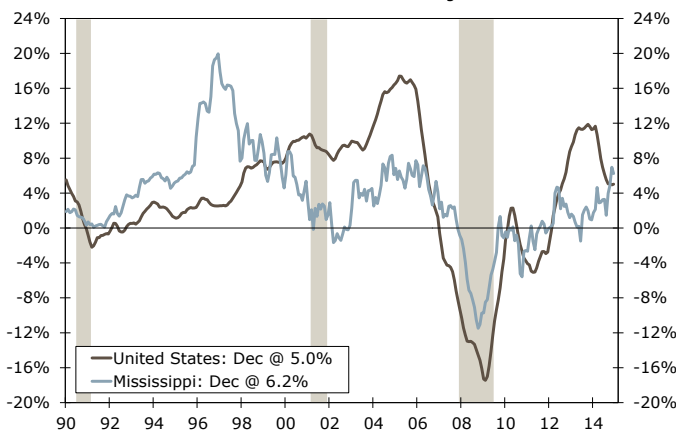
Mississippi Employment Composition  
December 2014



Labor Force Participation Rate  
3-Month Moving Averages, Seasonally Adjusted



Core Logic HPI: MS vs. U.S.  
Year-over-Year Percent Change

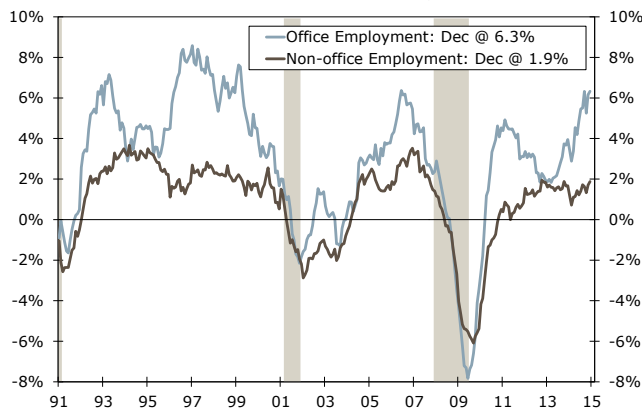


Source: Moody's Analytics, U.S. Dept. of Commerce, U.S. Dept. of Labor, CoreLogic and Wells Fargo Securities, LLC

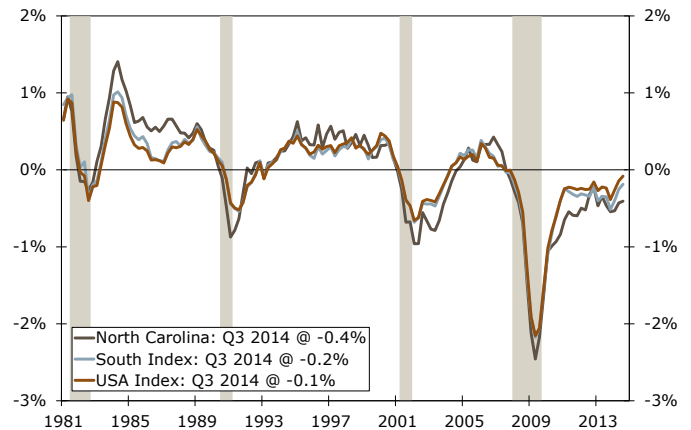
## North Carolina

- North Carolina's economy ramped up considerably in 2014. Nonfarm payrolls added 115,400 jobs on their way to a 2.8 percent increase, far outpacing the nation's 2.3 percent gain. Growth continues to be broad-based, with government payrolls being the only industry to decline on the year. Technology has led the way, particularly in Raleigh and Charlotte.
- Manufacturing is also posting solid gains. An emphasis on high-tech manufacturing and training programs for the workforce should help maintain this momentum. North Carolina State University's Institute of Manufacturing Innovation should help draw manufacturers to the area, especially those in the clean energy sector, which this particular institute focuses on.
- The housing market slowed in 2014. Sales of existing homes moderated as did home price appreciation. Activity in the multifamily market, however, remains quite strong. Multifamily permits have soared to their highest levels in years, while single-family permits were essentially flat this past year.
- We expect North Carolina to post solid gains in 2015. Growth in life sciences and information technology remains a key growth area, but manufacturing is also rebounding. Aerospace is an area of growing importance, with recent growth driven primarily by General Electric Aviation, which operates several plants around the state, and Honda Aircraft, which is headquartered in Greensboro.

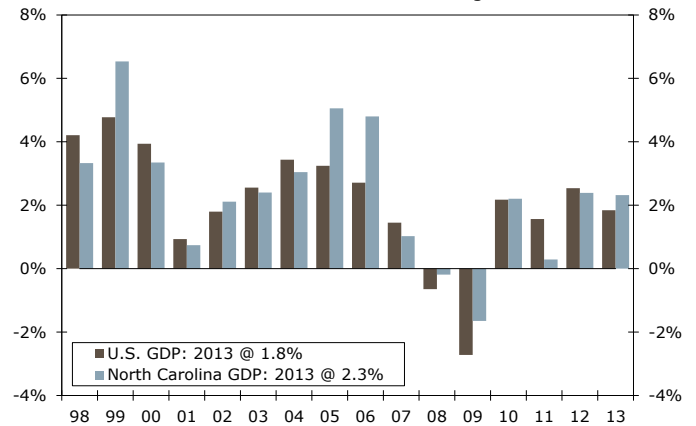
**North Carolina Nonfarm Employment**  
 Year-over-Year Percent Change



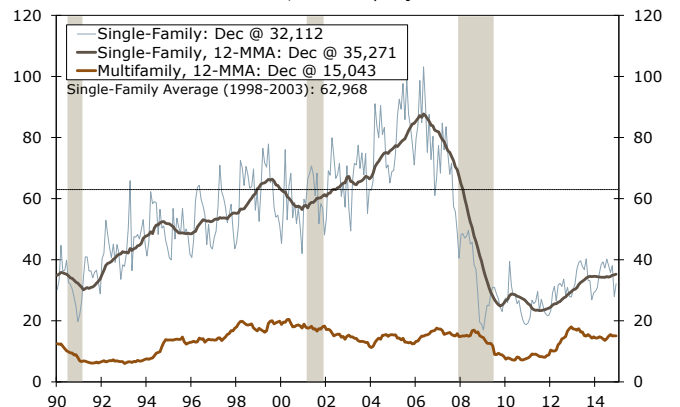
**North Carolina Economic Activity Index**  
 Year-over-Year Percent Change



**North Carolina Gross State Product & U.S. GDP**  
 Year-over-Year Percent Change



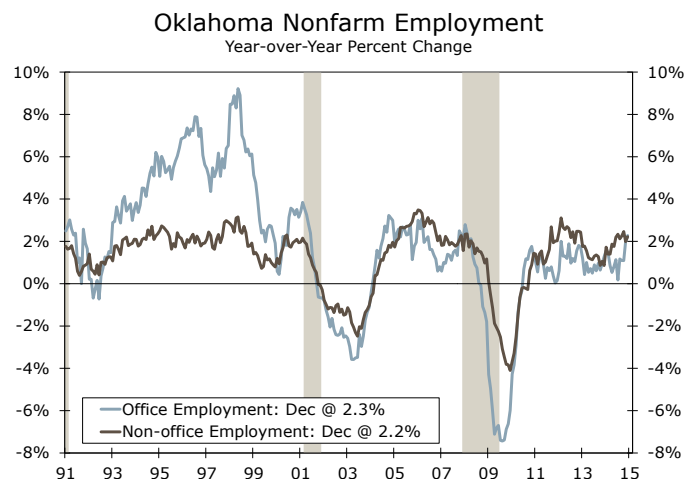
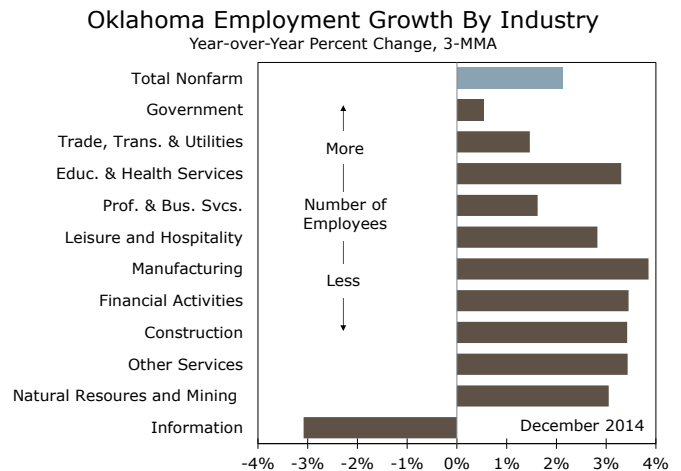
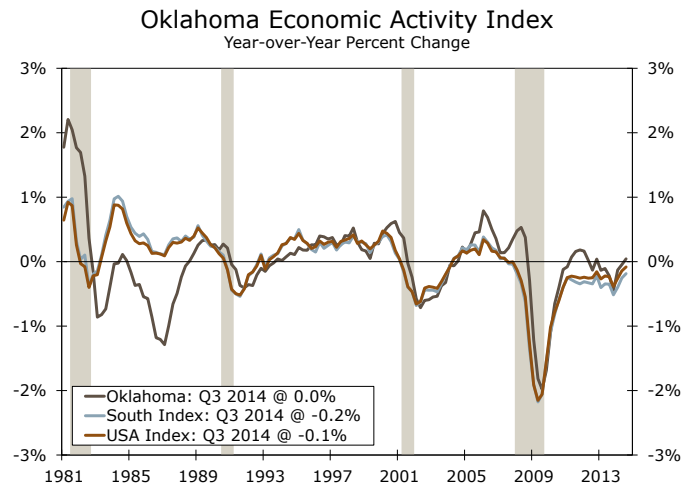
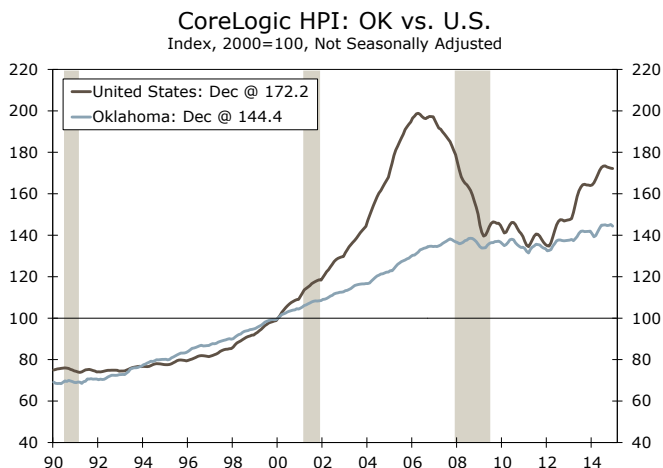
**North Carolina Housing Permits**  
 Thousands of Permits, Seasonally Adjusted Annual Rate



**Source: Moody's Analytics, U.S. Dept. of Labor, CoreLogic and Wells Fargo Securities, LLC**

## Oklahoma

- Oklahoma’s economy continues to surge ahead, with employment gains tracking the national average. Gains have been broad based across industries. Goods producers have enjoyed a rebound recently, with manufacturing, construction and mining all posting year-ago employment gains. Much of the strength has come from the energy sector, which may act as a headwind in coming months, as oil prices have dropped and capital expenditures for energy-related machinery and services is pared back.
- Outside of energy, nearly every other industry is accelerating. Financial services, education & health services and retail trade are posting sizable growth. Some of the impending weakness in the energy sector will undoubtedly spill over into these industries as well. After months of oil price declines, however, employment does not appear to be sliding back.
- Home prices held up relatively well during the Great Recession and have since moved past their prerecession peak, thanks to higher sales in 2014. Residential construction has jumped back to a more normal pace of homebuilding. Given current tight inventories, the housing market should be able to weather a slowdown in the state’s important oil and gas business.
- The heavy dependence on the oil and gas industry will likely restrain job growth in 2015. Investment in pipelines and storage facilities should remain strong, however, and will provide some offset.



**Source: Moody’s Analytics, U.S. Dept. of Commerce, U.S. Dept. of Labor, CoreLogic and Wells Fargo Securities, LLC**

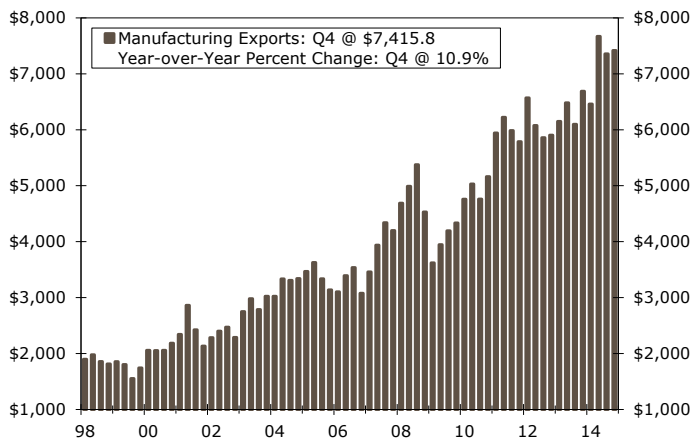


## South Carolina

- South Carolina's recovery is accelerating and is now firmly outpacing the nation. The state has bounced back as a formidable manufacturing hub, with a high concentration in transportation related production, thanks to BMW and Boeing. While the factory sector continues to post sizable gains, other industries are also picking up. Professional & business services payrolls are up an astonishing 7.5 percent from a year ago, reflecting growth in engineering and R&D.
- Manufacturing should continue to post solid gains. Exports were 10.9 percent higher in 2014, while rising demand for autos and planes should also keep the industry moving in the right direction. Infrastructure improvements are underway to aid the transportation of goods from major manufacturers through the Port of Charleston. As a result, commercial construction is bouncing back.
- Home sales are rising again, reflecting stronger job growth, increased in-migration and low mortgage rates. Home price appreciation has held tight, with prices up 4.2 percent from a year earlier. Residential construction is bouncing back, with single-family permits now close to their historic norms and the multifamily sector making steady gains.
- South Carolina's future remains bright. The Palmetto State remains a low cost manufacturing and export platform for both new industry and existing industry. Retirees are also moving to the state in increasing numbers.

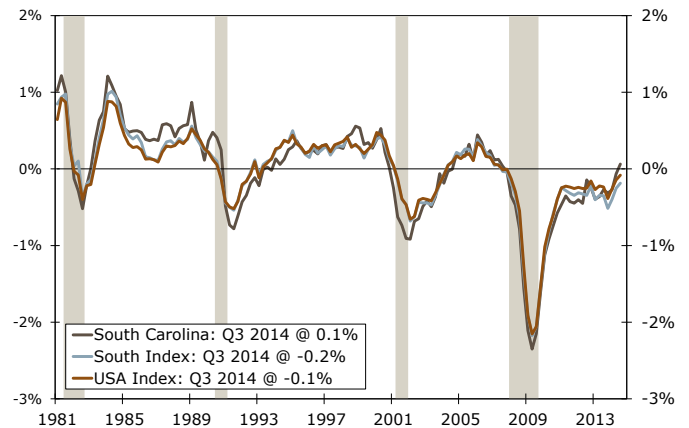
### South Carolina Manufacturing Exports

Millions of Dollars



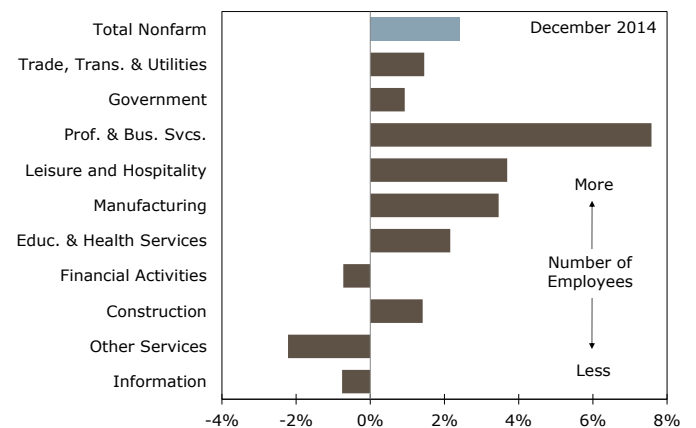
### South Carolina Economic Activity Index

Year-over-Year Percent Change



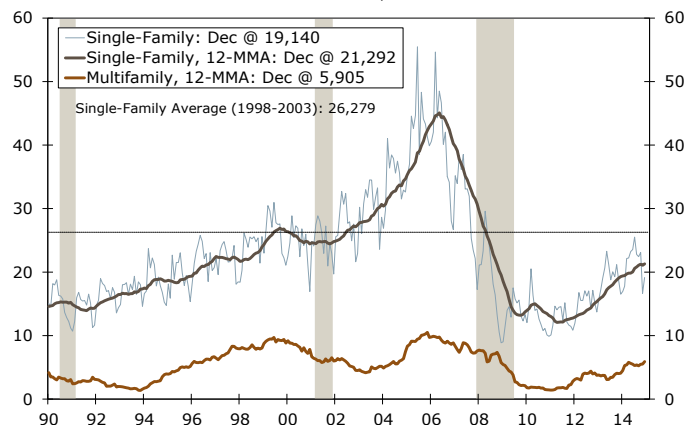
### South Carolina Employment Growth By Industry

Year-over-Year Percent Change, 3-MMA



### South Carolina Housing Permits

Thousands of Permits, Annual Rate

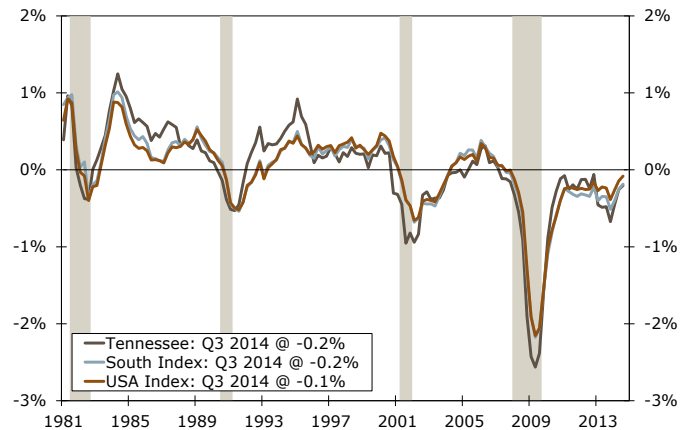


**Source: Moody's Analytics, U.S. Dept. of Commerce, U.S. Dept. of Labor and Wells Fargo Securities, LLC**

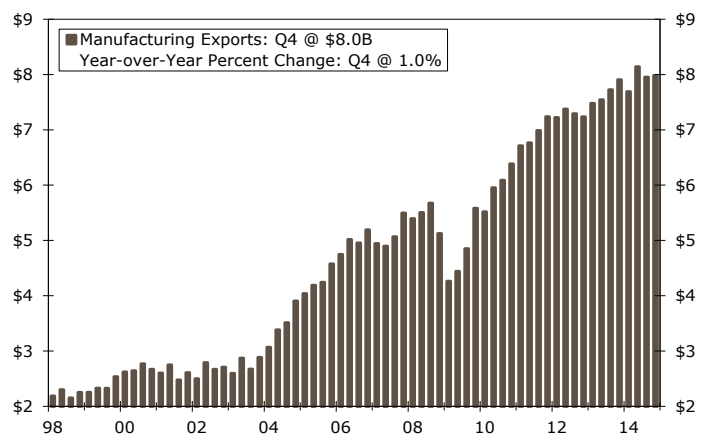
**Tennessee**

- Tennessee’s economy gained considerable strength in 2014 and the state has solid momentum in place this year. Aside from being the center of the country music, the state is steadily adding high-tech employers and diversifying its strong manufacturing base. Professional, scientific and technical services payrolls are 3.2 percent higher than a year ago, while manufacturing growth is now outpacing the nation. Furthermore, Nashville was recently cited as the second fastest growing city for technology jobs by dice.com, a tech job site.
- Manufacturing continues to show a great deal of promise, with advances in 3-D printing. A new manufacturing innovation hub is being established around Knoxville, where a consortium of companies, universities and the Department of Energy are expected to invest more than \$250 million. Demand for the autos made in the state remains strong and exports are up 1.0 percent from a year ago.
- Home sales data were relatively flat in 2014, though picked up some toward the end of the year. The weakness was in single-family homes, condo sales gained strength. Home prices have held up, rising 5.6 percent over the past year. Residential building shows little sign of slowing as permits rose 4.4 percent year-over-year.
- The state’s ability to attract more high-tech jobs, migrants from other states and keep costs low bodes well for longer-term gains. In the short run, ongoing investment should yield more jobs.

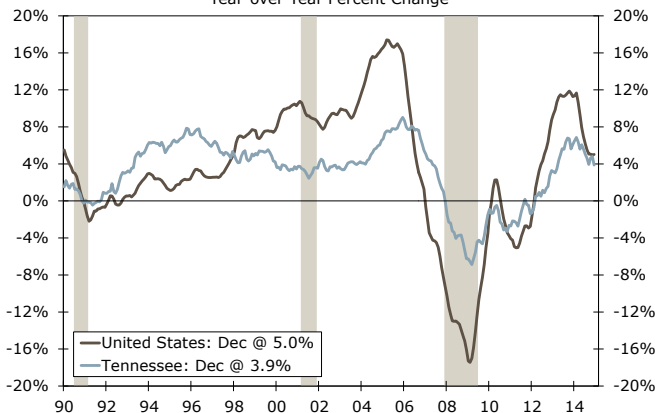
**Tennessee Economic Activity Index**  
 Year-over-Year Percent Change



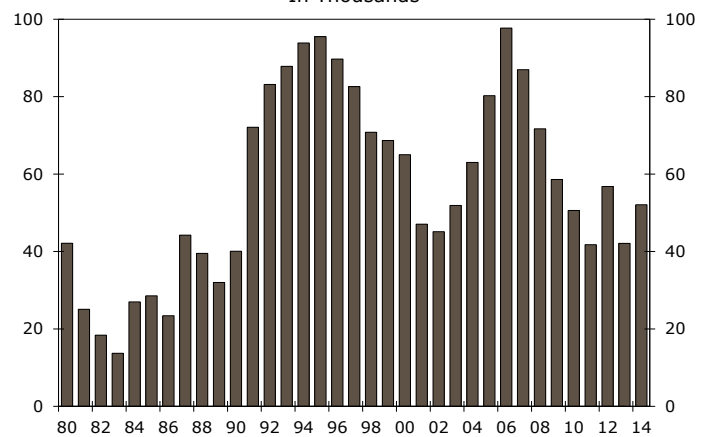
**Tennessee Manufacturing Exports**  
 Billions of Dollars



**Core Logic HPI: TN vs. U.S.**  
 Year-over-Year Percent Change



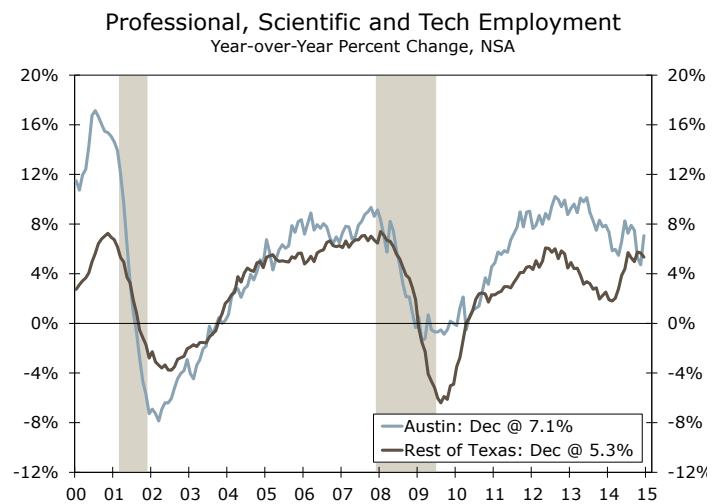
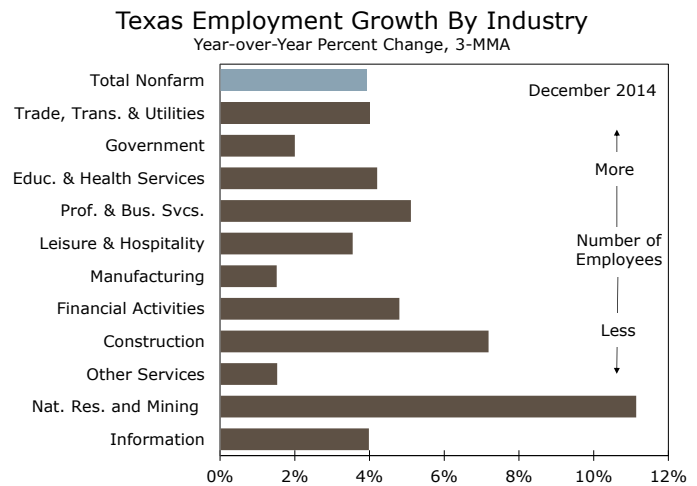
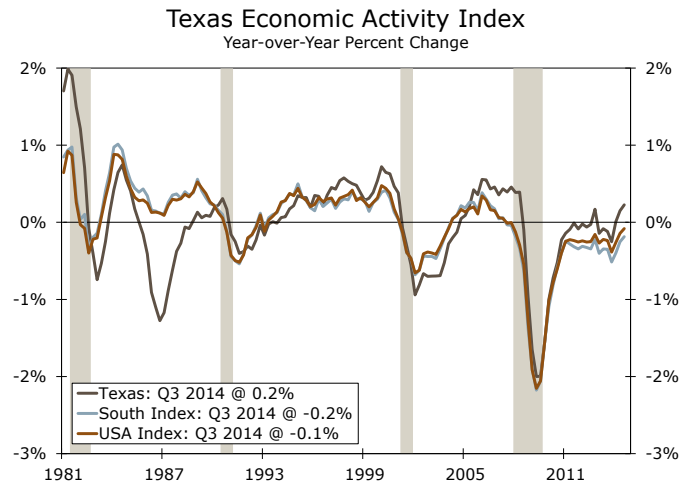
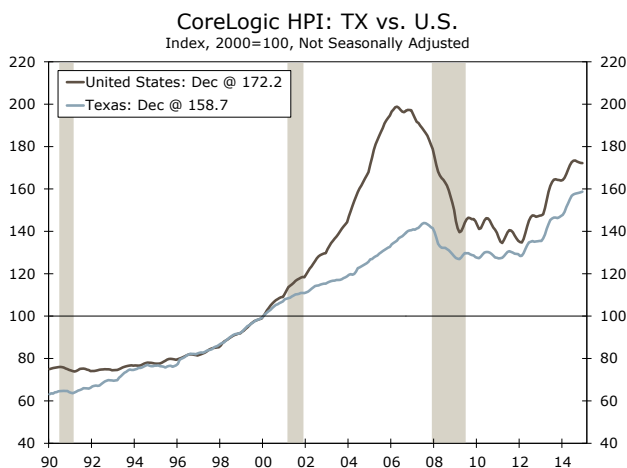
**Tennessee Population Growth**  
 In Thousands



**Source: Moody’s Analytics, U.S. Dept. of Commerce, U.S. Dept. of Labor, CoreLogic and Wells Fargo Securities, LLC**

**Texas**

- There are signs that the negative effects of the oil price decline are seeping into the state's economy, with manufacturing activity declining in December. Numerous major businesses in the industry have announced spending and employment cuts that are likely to hit the Lone Star State fairly hard. Through December, however, those cuts have not reached the payroll surveys, and, although we expect the first half of 2015 to be painful for Texas, we do not think we will see a repeat of the 1980s.
- Texas is still heavily exposed to the oil and gas industry but has diversified its economy considerably over the past 30 years. Austin has a huge concentration of high-tech employers, while Dallas-Fort Worth is a key hub for the transportation, health care and defense industries, which should be less affected by the slide in oil prices. Scientific & technical services employment is up 5.5 percent from a year ago.
- Strong job growth and increased population growth have fueled demand for housing. Home prices are well above their prerecession peaks and rose 7.8 percent over the past year. New home construction continues to increase, particularly in the multifamily market.
- Texas should be able to weather the recent slide in oil prices. Growth is likely to be slower in 2015 and 2016 than it has been in some time, particularly in major oil markets such as Houston, Midland, Odessa, San Antonio and Longview.

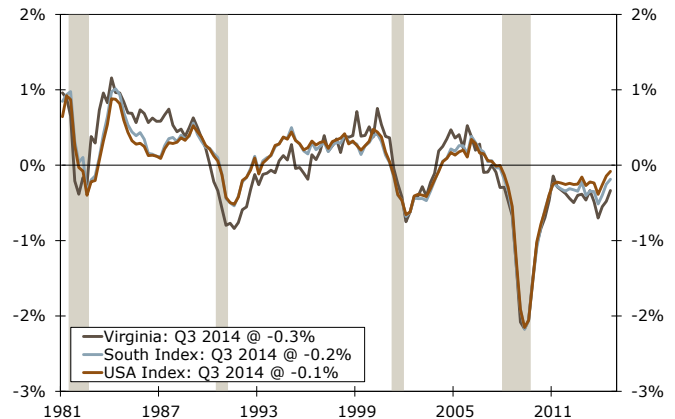


**Source: Moody's Analytics, U.S. Dept. of Labor, CoreLogic and Wells Fargo Securities, LLC**

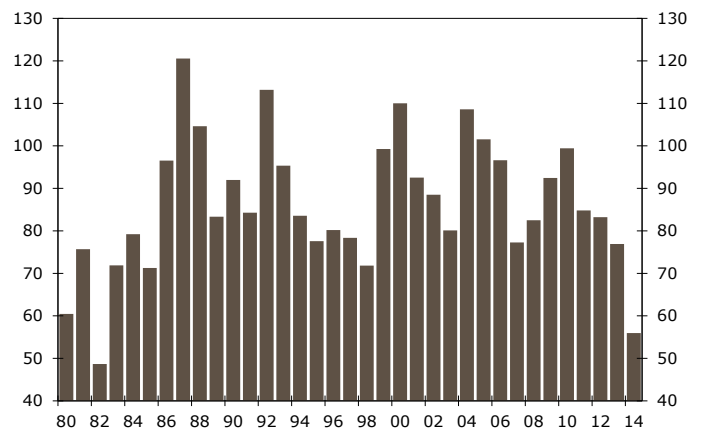
## Virginia

- Much like Maryland, Virginia continues to struggle with tight federal budgets and cutbacks at the numerous government contractors located in the state. Local government has been relatively flat, while state government employment continues to grow. The private sector has posted only modest gains, with professional & business services, which is where many federal contractors show up, fell 0.3 percent over the past year.
- The strongest gains have come out of the health services industries and retail trade. Nearly every other industry, however, is posting just modest employment growth. Manufacturers are starting to turn the corner, but are stuck at very low levels of employment. Exports were up strongly in 2014, which should help fuel gains in the factory sector and related transportation. The stronger dollar may threaten these gains.
- After weakening home sales, demand for housing appears to be rebounding, with a 2.3 percent gain in sales in Q4 relative to a year earlier. Home prices are still up 1.1 percent over the past year, while residential construction is struggling to make meaningful gains. Single-family permits slipped slightly this past year.
- Impending budget cuts at the federal level will continue to weigh on the state's economic growth trajectory, as the state relies heavily on direct federal employment and government contracting.

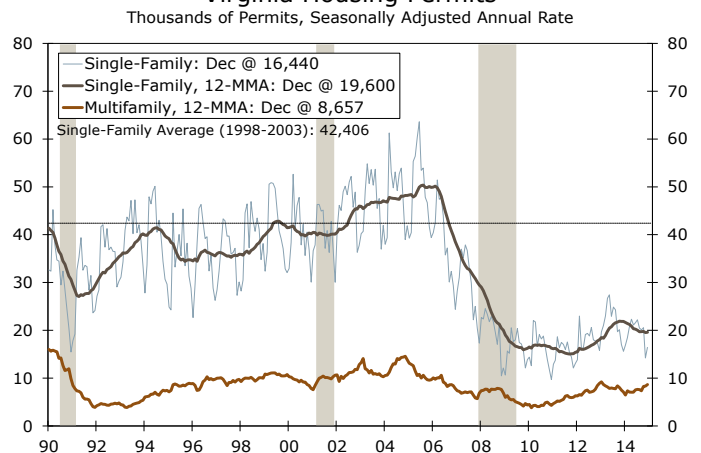
**Virginia Economic Activity Index**  
 Year-over-Year Percent Change



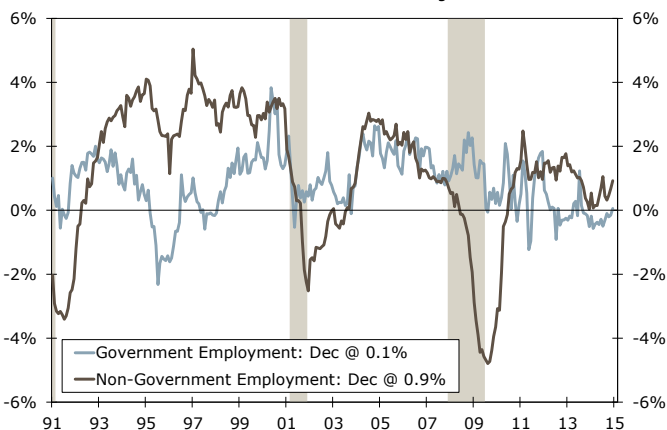
**Virginia Population Growth**  
 In Thousands



**Virginia Housing Permits**



**Virginia Government Employment**  
 Year-over-Year Percent Change

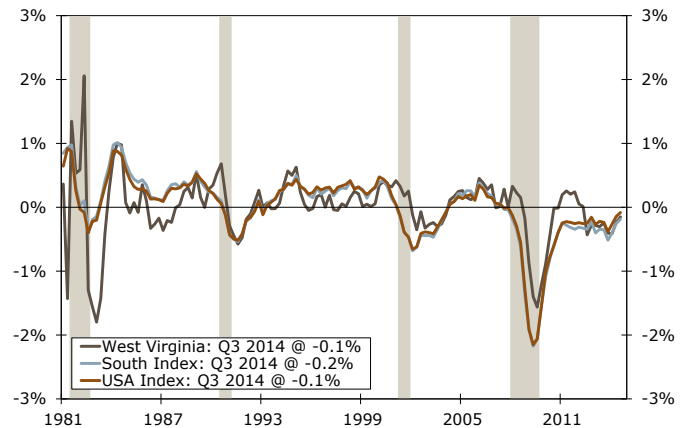


**Source: U.S. Dept. of Commerce, U.S. Dept. of Labor and Wells Fargo Securities, LLC**

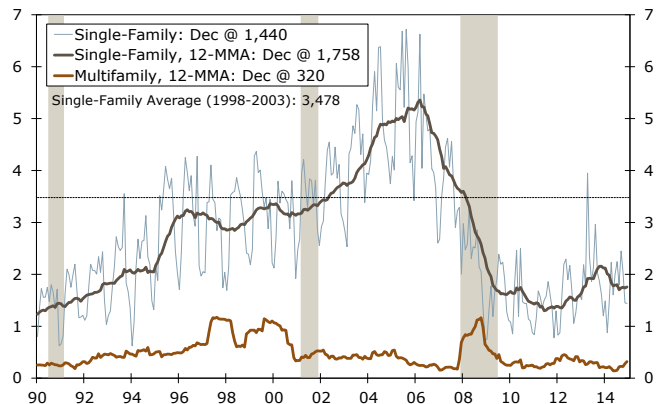
## West Virginia

- West Virginia's recovery has been relatively slow and muted. Most industries are growing at a subdued pace, though professional & business services is a notable exception, thanks to a recent surge in employment in the industry. Other industries are struggling. Construction payrolls declined 9.4 percent from a year ago, while exports are down 13.1 percent year-to-date through November relative to a year earlier.
- Although the state struggles with weaker demand for coal, natural resources & mining employment was up 6.9 percent in December from a year ago. Natural gas exploration and production from the Marcellus and Utica shale plays has spilled over into West Virginia from Pennsylvania and Ohio. Natural gas prices turned down earlier and are not facing the same immediate headwinds as oil business.
- A persistently weak labor market and a declining population weigh on the state's housing market. Residential construction has worsened over the past year with single-family permits declining along with construction employment. Home prices are strengthening in the state, however, and were up 6.9 percent from a year ago in November.
- Electricity providers around the country are reducing their reliance on coal, which has severely affected the state. Population declines also weigh on the outlook, as the state struggles to diversify away from natural resources.

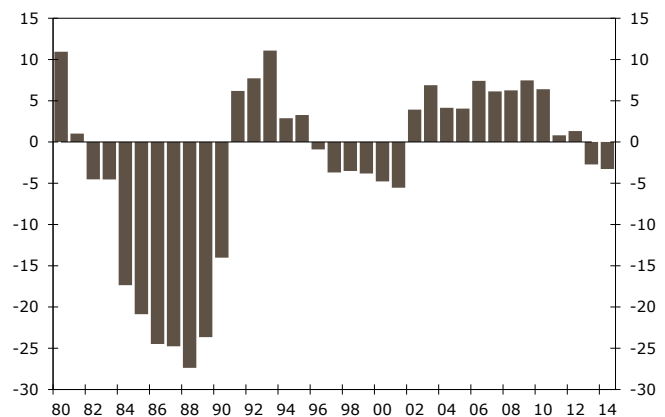
West Virginia Economic Activity Index  
Year-over-Year Percent Change



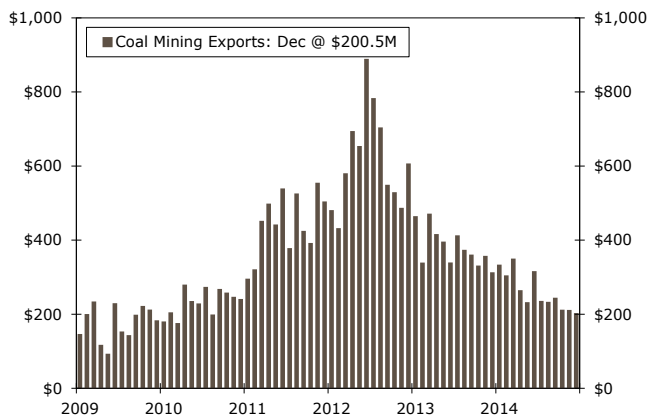
West Virginia Housing Permits  
Thousands of Permits, Seasonally Adjusted Annual Rate



West Virginia Population Growth  
In Thousands



West Virginia Coal Mining Exports  
Millions of Dollars



Source: U.S. Dept. of Commerce, U.S. Dept. of Labor and Wells Fargo Securities, LLC

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