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## The Drive to Move South: The Growing Role of the Automobile Industry in the Southern States

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*The automobile industry's economic importance on the American economy remains monumental and in recent times this impact has increased substantially in the 16 states belonging to The Council of State Governments' Southern office, the Southern Legislative Conference (SLC). This article summarizes the key issues raised in the latest SLC report that assesses the industry's role in these Southern economies.*

America's complicated and multi-faceted love affair with the automobile has flourished for over a century now. The automobile's impact on American society and cultural mores remains so pervasive that there are few other products that can stake the same claim. In fact, few, if any, other products have been so enshrined in the nation's movies, clothing, dance, music and in the general American psyche as has the car. Similarly, automobiles have been reviled, celebrated, nearly worshiped, sometimes banned, used incessantly and relied on almost entirely for most of our surface transportation needs. In addition, there are very few other industries in the country that can claim the kind of economic complexity, broad connections and impact that the automobile industry can since the beginning of the 20th century. From employing a formidable percentage of the nation's workforce—numbering many millions in direct, indirect and dependent employees—at thousands of assembly plants and auto parts production and service facilities and tens of thousands of dealerships, the industry generates tens of billions in wages and hundreds of billions in annual sales. The millions of vehicles produced every year furnish the multitude of licensed drivers across the country with a mode of conveyance, often among the most important considerations in the livelihood of Americans in contemporary society.

While the national economic figures and their ripple effects remain truly massive, the automobile industry's contribution to the economic magnitude of the 16 states in The Council of State Governments' southern region, the Southern Legislative Conference (SLC), remains significant too. According to the latest information available from the federal government, the motor vehicle industry's contribution to the gross state product (GSP) of these Southern states amply documents this assertion. For

instance, in 2001, the industry amounted to \$10.3 billion in Kentucky, \$5.5 billion in Missouri and \$5.4 billion in Tennessee. These amounts constituted 8.5 percent of GSP in Kentucky, and 3 percent of GSP in both Missouri and Tennessee, respectively.<sup>1</sup> Some of the specifics on the role of the automobile industry are worth reiterating to drive home the point that the industry has catapulted the states in the region to rank among the fastest growing in the country.

- The Mercedes plant in Vance, Alabama, established in 1993, produced more than 100,000 M-Class sports utility vehicles in 2002 and employed close to 2,000 employees. Since Mercedes has initiated a \$600 million expansion in the state, the number of employees will expand to about 4,000 and production will increase to 160,000 vehicles per year by 2004.<sup>2</sup>
- The BMW plant in Spartanburg, South Carolina, announced in 1992, manufactures the Z3 and Z4 roadsters and the X5 sports activity vehicle. This plant involves a total investment of \$1.9 billion and employs 4,300 workers. The plant's total economic output is more than \$4.1 billion (based on 2001 operations), in addition to supporting 16,991 jobs and producing \$691 million in wages. State officials were ecstatic in September 2002 when BMW, to commemorate the plant's 10th anniversary in South Carolina, announced a \$400 million expansion with an additional 400 jobs in the pipeline.<sup>3</sup>
- The state of Kentucky is the fourth largest car producing state in the United States and one of the nation's top selling cars, the Toyota Camry, is manufactured at the company's Georgetown, Kentucky plant.<sup>4</sup> The importance of the industry to the state economy is more than confirmed by the 87,794 Kentuckians employed by 461 motor-vehicle related facilities as of July 2003.<sup>5</sup>
- In Mississippi, Nissan's announcement in November 2000 of

plans to build a manufacturing facility in Madison County near Canton was greeted with great enthusiasm.<sup>6</sup> The state provided Nissan with \$363 million in direct incentives to build a \$1.4 billion assembly plant. According to the Mississippi Development Authority, production at the plant commenced ahead of schedule in May 2003 and will result in 400,000 vehicles being produced annually. In addition, in a little more than two years, 18 companies had established operations as suppliers to the Nissan plant. Some of the other positive flows from the Nissan plant include an estimated 31,683 total jobs (direct, indirect and induced) by 2010; \$903 million in total personal income (once again, direct, indirect and induced) being generated, also by 2010; and, \$393 million in Madison County taxes and \$287 million in state taxes being generated by 2010.

- The South's latest automobile manufacturing plant was announced in February 2003 when Toyota, the world's third largest automaker, decided to set up an assembly plant in San Antonio, Texas. The plant, an \$800 million operation employing 2,000 workers, will be used to build 150,000 Tundra full-size pick-up trucks by 2006. While the combined state, county and city incentive package amounted to \$133 million, the economic ripple effect is expected to reach \$1.4 billion within the next decade. In addition to the \$80 million annual payroll, thousands of spin-off jobs are anticipated given the need for parts and other supplies.<sup>7</sup>

The element of globalization remains very strong in the automobile industry, and the ever-increasing roster of foreign automakers establishing assembly plants in the country, especially in the South, remains one of the most striking features in the industry over the past few decades. Several reasons are proffered for the growing number of automakers that are either locating or relocating their assembly operations in Southern states.<sup>8</sup> For instance, automakers can create ground-up manufacturing facilities-incorporating the latest technologies-more easily in the South than reconfiguring the older assembly plants in the Midwest and Northeast. Assembly plants in the South, such as the Nissan plant in Smyrna, Tennessee, have achieved impressive efficiency and productivity gains and automakers are eager to take advantage of these gains.<sup>9</sup> Southern states have offered automakers attractive incentive packages including such compelling features as tax breaks, state funding for programs to train workers, an abundant labor pool at a relatively lower cost, low rates of unionization and the ability to train a workforce that has not worked in the auto industry previously.

Another important consideration in the location of auto plants in the South involves the highly efficient intermodal transportation networks in the region, spanning highways, airports and, most importantly, ports. A number of the nation's busiest and most efficient ports are located in the South, and they remain a decisive factor in the location calculations of the automakers. The cluster effect, created by the presence of numerous automobile assembly plants and thousands of auto parts suppliers in close proximity to

each other, is another major advantage available to those automobile industry players locating to the South. Finally, the benefits flowing from such general features as the weather, climate, cost of living, lower or no personal income taxes, free or inexpensive property costs to build assembly plants, and quality of life are some of the other positive attributes considered by corporations locating the in South.

On the topic of the increasing globalization of the automobile industry, in addition to foreign automakers increasingly establishing plants mostly in the American South, there is another important trend: a booming international trade in automobile and automotive parts. Even though there was a significant increase in imports in both passenger vehicles, light trucks and automotive parts between 1996 and 2002, the growing relevance of international trade in the industry is undisputable. Despite a negative trade balance in these items in 1996, the situation worsened by 2002, when the U.S. trade deficit soared to unprecedented heights. (It should be noted that this trend in the automobile sector is symptomatic of a much broader trend with the overall U.S. trade deficit plunging towards deficits for some years now.) Specifically, between 1996 and 2002, the U.S. trade balance in passenger vehicles, light trucks and automotive parts deteriorated from \$63.1 billion to \$123.6 billion, or by almost 96 percent.<sup>10</sup>

As a direct result of the sluggish U.S. economy, still recovering from the lingering effects of the 2001 recession, the automobile industry continues to be buffeted on many fronts. After five consecutive years of increasing car and light trucks sales between 1996 and 2000, the number of vehicles sold in 2001 fell to 17.1 million and then to 16.9 million in 2002.<sup>11</sup> These slumping sales numbers are reflected in the tightening profit margins of the Big Three U.S. automakers (DaimlerChrysler, General Motors and Ford), all facing additional sales pressure from the growing roster of foreign automakers.<sup>12</sup> As noted, not only do these foreign automakers manufacture vehicles in the United States, they import them for sale in the country too. The following table reinforces the growing importance of foreign automakers in overall United States sales and provides sales figures for new car and light trucks in the United States in 1997 and 2002. While the table affords a comparison between American (primarily the Big Three) and for-

**Table 1 New Car and Light Truck Sales in Millions of Vehicles and Share of Total, 1997 and 2002**

Country	1997		2002	
	Millions	Share (%)	Millions	Share (%)
U.S.	10,761	71.3%	10,345	61.3%
Germany	430	2.9	915	5.4
Japan	3,564	23.6	4,706	27.9
Korea	169	1.1	650	3.9
Other	163	1.1	251	1.5
Total	15,087	100.0	16,867	100.0

Source: U.S. Department of Commerce, Office of Automotive Affairs

foreign automakers, the data also demonstrates the percentage of total vehicle sales controlled by each major country.

Perhaps the most instructive statistic to be extrapolated from the table involves the continued decline of the sale of American vehicles as a proportion of total sales in recent times. From 71.3 percent in 1997, this percentage declined every year to finally reach 61.3 percent in 2002. In contrast, the sale of foreign vehicles increased in each of these years at the expense of American vehicles, from 28.7 percent in 1997 to 38.7 percent in 2002. In fact, between 1997 and 2002, the sale of Japanese vehicles increased from 23.6 percent to 27.9 percent; German vehicles increased from 2.9 percent to 5.4 percent; Korean vehicles increased 1.1 percent to 3.9 percent; and vehicles from other countries increased, albeit marginally, from 1.1 percent to 1.5 percent.

It should also be noted that the foreign automakers generally have been better at weathering the economic storms than the Big Three, even recording impressive earnings levels in recent years. Hence, it is quite apparent that the industry in general will continue to face serious obstacles and challenges in rising to overcome the turbulent economic waters; the Big Three, in particular, will confront an even greater challenge as they tussle with the competition from foreign automakers and the sluggish economy.

But for the South, even with the sluggish economy, the surge of the automotive industry brings the promise of economic opportunity. The sphere of influence of the industry is undeniable, and the benefits derived, whether directly or indirectly, substantial. In a region of the country once viewed as the bastion of low-skill, low-wage positions, the thriving automobile industry has vaulted a number of locations into magnets for high-tech, higher wage positions. The presence of a Mercedes facility in Alabama and a BMW facility in South Carolina has certainly eased in a sea change in both the perception and structure of these Southern state economies.

In closing, the automobile industry remains one of the most important elements in this vast, complicated American economic system, and recent trends indicate that an increasing proportion of this production is occurring in the South. In addition to contributing significantly to the states' gross product, these auto plants provide employment to tens of thousands, generate billions in diverse forms of revenue and create myriad other benefits. Globalization's influence is more than evident in this industry too, as more companies combine their assets and skills to better harness their resources in order to compete effectively and efficiently.

## Endnotes

<sup>1</sup> U.S. Department of Commerce, Bureau of Economic Analysis, Gross State Product Data, 2001.

<sup>2</sup> "Breaking New Ground," *Business Alabama*, (February 2003).

<sup>3</sup> "The Economic Impact of BMW on South Carolina," Darla Moore School of Business, University of South Carolina, May 2002.

<sup>4</sup> "Automobile Production in Kentucky," Cabinet for Economic Development, www.thinkkentucky.com.

<sup>5</sup> "Motor Vehicle-Related Facilities," Division of Research, Cabinet for Economic Development, February 27, 2003, www.thinkkentucky.com.

<sup>6</sup> Information related to the Nissan plant is based on "Experts Say Economic Impact Will Be Astronomical," *The Mississippi Clarion-Ledger*, (March 1, 2003); "Lott Urges Preparedness in Luring 2nd Car Plant," *The Mississippi Clarion-Ledger*, (July 22, 2003); and "The Economic Impact of Nissan in Mississippi," *Executive Summary*, Mississippi Development Authority.

<sup>7</sup> "Toyota Can Trace its Plant in Texas to Cowboys Game," *The Dallas Morning News*, February 11, 2003 and "Benefits of Toyota Plant May Ripple Across Texas," *The Dallas Morning News*, February 6, 2003.

<sup>8</sup> Klier and Johnson, "Effect of Plant Openings on Net Migration in the Auto Corridor, 1980-97," *Economic Perspectives*, Federal Reserve Bank of Chicago, Fourth Quarter, 2000 and "The Southeastern Auto Industry: Moving into the Fast Lane," *Econ South*, Federal Reserve Bank of Atlanta, Volume 3, Number 2, Second Quarter 2001.

<sup>9</sup> Information related to the latest (2003) Harbour and Associates study is extracted from "New Benchmarks Established in the Harbour Report 2003 Measures," News Release, *Harbour and Associates*, June 18, 2003; "Smyrna Plant Most Efficient in America," *The Mississippi Clarion-Ledger*, June 19, 2003; "U.S. Automakers Improve Efficiency, but Some Troubling Figures Remain," *The New York Times*, (June 19, 2003).

<sup>10</sup> U.S. Department of Commerce, Office of Automotive Affairs.

<sup>11</sup> *Ibid.*

<sup>12</sup> "U.S. Automakers Improve Efficiency, but Some Troubling Figures Remain," *The New York Times*, (June 19, 2003).

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## Bio

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