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The 2006 U.S. Investment Monitor



About the U.S. Investment Monitor

THE U.S. INVESTMENT MONITOR (USIM) is one of Ernst & Young's knowledge-rich initiatives designed to help clients meet the complex and dynamic challenges of today's global business environment. It represents the combined input of Ernst & Young's Quantitative Economics and Statistics (QUEST) practice, our Real Estate Advisory Services (REAS) practice, and our State and Local Tax group (SALT).

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Incentives professionals in the SALT group comprise a dedicated network of U.S. and global practitioners who understand the business incentives arena and how investment in people, property, training, new locations, and other changes can dramatically affect a company's tax position. They focus on helping clients identify and obtain incentives that may be available through legislative change or negotiation with appropriate agencies – income or sales and use tax exemptions, income or franchise tax credits, sales and use tax refunds, property tax abatements, training expense reimbursements, employer credits, and favorable financing arrangements.

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Was 2005 a year of dramatic investment in high-profile projects and emerging technologies or a time to grow core U.S. economic infrastructure? The answer is ... both.

While many of the largest projects announced during 2005 resulted from heavy investment in the energy sector, Goldman Sachs' \$2 billion investment in its new Manhattan headquarters was the largest of many significant investments announced by the financial services sector. Overall, investment activity was shared among a variety of industries, including the basic building blocks of the economy – literally. More than \$13 billion expanded the manufacturing capacity of U.S. steel, cement, wood products, and related basic material industries.

Faced with high-capacity utilization and rising unit costs, many manufacturing companies announced investments in technology and processes to increase production capacity without expanding their physical footprint. Even companies faced with excess capacity, such as the Big Three automakers, invested in the efficiency measures – flexible production lines and inventory sequencing and assembly facilities – needed to remain competitive.

2005 was a year in which the top 20 projects – those that garnered the largest investments and generated the greatest number of jobs – spanned the spectrum of industries from business, professional, and financial services to meat and poultry processing and mail-order prescriptions. The 2006 U.S. Investment Monitor (USIM), Ernst & Young's annual analysis of major U.S. capital investments, presents these and other detailed results to illuminate business location choices and industry trends. The analysis examines more than 3,000 major business investments, each involving at least \$20 million invested or 20 jobs. This year's study also examines investment projects undertaken by U.S. companies both in the States and abroad.

The projects reported in the 2006 USIM study account for \$67 billion in total

capital investment and 370,800 new and retained jobs. Unlike the more typical approach to reviewing aggregate business investment trends, USIM focuses on *mobile capital investments*. That is, projects that are not tied to a specific geographic location by market or other issues, but rather are driven by more competitive features such as tax structures, incentives, and input costs – factors that influence economic growth.

While the aggregate level of investment is significant in itself, an interesting and informative perspective is one that provides a context for *understanding* the numbers, examining both the immediate impact of investments on a region or industry and what these investments say about emerging business trends and potential challenges. That is the role of the U.S. Investment Monitor.

Key Findings and Insights

Key Findings and Observations

- The projects that constitute the 2006 U.S. Investment Monitor study account for \$67 billion in planned capital investment and 370,800 jobs announced in 2005.*
- Investments by companies in their U.S. headquarters' states accounted for 35% of investment, with 45% going outside their headquarters' states and the remaining 20% coming from investments by foreign companies.
- Investment announcements by foreign companies and their affiliates accounted for over 20% of the total 2005 capital invested in U.S. projects included in the analysis. The level of foreign investment activity varied significantly by state. Although such investment was virtually absent in some states, South Carolina attracted the most relative foreign investment, totaling 53% of the total capital investment in the state. Variations by industry were equally significant – projects by foreign companies accounted for 63% of total investment in the automotive and aerospace industries, but foreign companies invested minimally in petroleum and ethanol manufacturing.
- Manufacturing projects created the vast majority of total capital investment announced in 2005 and were the source of the greatest number of announced jobs. Relative to 2004, manufacturing projects accounted for a larger share of investment and jobs in 2005 – growing from 62% to 76% of investment and from 42% to 55% of jobs.
- Nearly equivalent job growth was fueled by an increase in less capital-intensive businesses in the professional and financial services industries. Virginia, Florida, and North Carolina project announcements are concentrated in the service industries. These states rank near the top in terms of job creation, but because of the lower capital intensity of these industries, they rank much lower when measured by capital investment.

Insights

- With many factories operating close to capacity, manufacturers announced investments that balanced increased productivity and cautious facility expansions during 2005. Although manufacturers' 2005 profits were the strongest in almost a decade, these companies are cautious – it was only five years ago that manufacturers cut payroll and output and saw pretax income slashed by two-thirds in a single year.¹
- The nation's large automakers continued to align production capacity with demand and invested in efficiency – DaimlerChrysler's robotic welding crews and just-in-time sequencing and assembly facilities, for example. In many regions faced with declining car and truck manufacturing, the increase in automotive component manufacturing investment and employment was fueled by expanded outsourcing and reduced on-site inventory. Foreign automotive companies, known for outsourcing a higher

percentage of content to preferred suppliers, adapted quickly to the changing industry and accounted for 63% of the auto industry investment announced in 2005.

- The steel and cement manufacturing industries announced 5 of the 25 largest capital investment projects in 2005. High demand for durable equipment, coupled with sustained growth in residential housing, has driven manufacturing capacity utilization in these and other primary material manufacturing sectors high enough to increase marginal unit costs and induce new investment.
- Liquefied natural gas terminal projects planned in 2004 still await regulatory approval and may face higher operating costs once approved. The delay in bringing LNG terminals online, combined with high crude oil prices and concerns about dependence on foreign oil suppliers, accelerated the adoption of new technologies to produce liquid synfuels from coal and biomass. These favorable market conditions and \$5.4 billion in federal incentives, authorized by the 2005 Energy Policy Act, resulted in significant announcements of investment in synfuel production facilities.

*Total investment in nonresidential fixed assets grew to \$1.3 trillion in 2005, offset by \$900 billion of depreciation of existing assets. Due to the limitations of the macro investment data, investment in new and expanded facilities cannot be differentiated from spending on routine maintenance and minor improvements. After adjusting for industry and facility-type exclusions, projects included in the USIM analysis account for 9% of gross investment and 26% of the net change in the value of business facilities.

Understanding the USIM

Project Analysis Criteria

The USIM departs from typical analyses of aggregate business investment trends by analyzing specific projects that meet industry, use, and size criteria, capturing the projects that drive economic growth. Why focus only on these high-impact projects? Because of their disproportionate impact on the marketplace – 63% of jobs and 81% of sales are generated by the largest 3% of all U.S. companies.²

The following criteria are used to identify USIM projects.

SIZE: Announced projects included in the USIM database have a minimum of \$20 million invested or 20 jobs retained or created.

PROJECT TYPES: Investments in most production and service facilities are included in the USIM database. Companies are categorized using NAICS industry classification, but the project type is determined by the primary business activity occurring within a facility. In many cases, the company industry and project type are the same (e.g., a factory expansion by a manufacturer). The analysis specifically excludes retail, entertainment, hospital, retirement home, museum, education, restaurant, hotel, airport, power generation, and public infrastructure projects because these facilities are not considered to be highly mobile. However, the analysis includes investment in headquarters, general management, back-office, call center, research, and distribution facilities – for all industries.

ANNOUNCEMENT OR CONSTRUCTION DATE:

Investments by large firms and investments involving significant capital or job creation are often announced when a site is officially chosen. Other project types (including expansion projects, machinery and equipment upgrades, and smaller projects) may not be publicized until they occur and are captured in the USIM database during that year. This 2006 USIM report includes projects that were announced in 2005 or were under construction during the year and had not been previously announced through a press release.

Investor Information

HEADQUARTERS LOCATION: Business investments by multistate and multinational businesses and their affiliates are linked to a U.S. or foreign headquarters location to identify the geographic origin of the site-selection decision and invested capital.

PARENT COMPANY: The USIM database matches each investment announcement to a legal entity. The company undertaking the investment is then linked to a global ultimate corporate parent who provides the capital resources and possesses the decision-making authority.

Data Sources

New project data was obtained from Conway Data, FW Dodge, corporate press releases, and primary research. Additionally, company information was acquired from Dun & Bradstreet, One Source, Standard & Poor's, and individual state offices of the Secretaries of State.

2005 Mega-Projects

The 20 largest projects accounted for 8% of the jobs and almost 30% of the capital investment in major facilities announced in 2005. These projects mirror the diversity of the U.S. economy, with activity spread among all sectors, in contrast to the concentration of capital spending in energy and auto industry projects reported in the 2005 USIM.

Job Creation

The accompanying table lists the 20 projects that accounted for the largest job announcements, many involving the creation or relocation of thousands of jobs over a multiyear period. The largest 20 projects, ranked by job creation, account for 31,000 of the 370,800 jobs analyzed in the USIM.

- Investments in large facilities by Washington Mutual, Goldman Sachs, AFLAC, Fidelity, Royal Bank of Scotland, First National Bank, and Countrywide Financial Services represent 15,750 new financial industry jobs. These seven large projects account for nearly one half of the new financial services jobs associated with the projects reported in this study.
- Two large call center projects by outsourcing firms and one in-house customer service and order fulfillment center will employ 2,780 in the southeast.
- Meat processors announced over 4,000 jobs, accounting for three of 2005's top 20 projects ranked by employment. Investments announced by meat processors during 2005 were largely related to innovations in the processing, testing, and packaging of meat products implemented in response to foreign bans on U.S. meat products and decreased domestic consumer confidence. Tyson Foods is building a case-ready meat packing plant in Sherman, Texas that will be its

largest when complete; Perdue Farms is expanding its poultry facilities in Georgia; Triumph Foods plans to open its new

state-of-the-art pork processing plant in St. Joseph, Missouri.

TABLE 1

Top 20 Projects Ranked by New and Retained Jobs

Company	State	Facility Use or Line of Business	Investment (in Millions of Dollars)	Jobs
Washington Mutual	TX	Banking	\$ 170	4,200
Goldman Sachs	NY	Financial Services	2,000	4,000
AFLAC, Inc.	GA	Insurance	100	2,000
Global Energy of North America	LA	Basalt-Fiber Pipe Manufacturing	38	2,000
Royal Bank of Scotland Group PLC	CT	Banking Headquarters Relocation	400	1,850
Tyson Foods	TX	Meat Processing	100	1,600
Fidelity Investments	KY	Financial Services	115	1,500
Target Corp.	MN	Headquarters Campus Expansion	64	1,500
Perdue Farms	GA	Poultry Processing	155	1,450
Kraftmaid Cabinetry	UT	Cabinet Manufacturing	106	1,300
First National Bank	TX	Bank Corporate Center	99	1,255
EADS	AL	Manufacture of Fuel Tanker Jets	600	1,150
Triumph Foods	MO	Pork Product Manufacturing	135	1,000
Medtronic Inc.	MN	Medical Technology	65	1,000
Advent Solar	NM	Solar Cell Manufacturing	4	1,000
ICT Group, Inc.	VA	Call center	2	1,000
Countrywide Financial Services	FL	Financial services center	25	949
West Corporation	NC	Call Center	2	920
Micron Technology, Inc.	VA	Semiconductors	1,200	860
Aetna Rx Home Delivery, LLC	FL	Prescription Mail Order Center	32	860

Capital Investment

Compared to employment, capital investment announced during 2005 is more concentrated: 29% of total capital investment is concentrated in the top 20 projects ranked by investment, but only 8% of total jobs are concentrated in the top 20 projects ranked by job creation. Capital intensity also varies significantly by industry, resulting in a different group of industries represented in the top 20 projects ranked by capital investment compared to the top 20 projects ranked by jobs. The largest 20 projects announced during 2005 come from a variety of industries, but energy projects lead the pack.

■ While 2004's largest individual capital investments came from semiconductor manufacturers, 2005 was led by energy industry projects. Three projects announced by Reliant Energy will be located in Illinois at a cost of \$1 billion each. Arizona Clean Fuels' environmentally friendly fuel refinery facility is the largest announced investment in a single facility during 2005. When complete, the \$2.5 billion plant is expected to have the capacity to meet approximately half of the demand for gasoline, diesel, and jet fuel in the state of Arizona. Farther down the list in size, Premcor, Royster-Clark Nitrogen Corporation, and Gulf LNG Energy are each investing \$450 million in their energy operations.

■ The financial services industry was also well represented in the largest projects of 2005. New York State and City reached an agreement with Goldman Sachs to move forward with plans to build its new world headquarters in Battery Park City in lower Manhattan, a \$2 billion project that will house some 4,000 new jobs. The Royal Bank of Scotland is staying in Connecticut, moving its U.S. headquarters from Greenwich to nearby Stamford, while Wachovia plans to build a large data center in Birmingham, Alabama.

■ The remainder of mega-project investment is concentrated in primary material producing industries. The projects include Minnesota Steel Industries' ministeel mill in Minnesota, SeverCorr's minimill in Mississippi,

Shintech's Louisiana plastics manufacturing facility, Holcim's Missouri cement production facility, and Kronospan's Alabama wood product manufacturing facility.

TABLE 2

Top 20 Projects Ranked by Capital Expenditure

Company	State	Facility Use or Line of Business	Investment (in Millions of Dollars)	Jobs
Reliant Energy/ Erora Group Projects ⁽¹⁾	IL	Synthetic Natural Gas From Coal	\$3,000	500
Arizona Clean Fuels	AZ	Advanced Technology Refinery	2,500	300
Goldman Sachs	NY	Financial Services	2,000	4,000
Minnesota Steel Industries	MN	Steel Products Manufacturing	1,600	700
Micron Technology, Inc.	VA	Semiconductor Manufacturing	1,200	860
Shintech Louisiana LLC	LA	Plastics Manufacturing	1,000	150
DaimlerChrysler	MO	Automotive Assembly	1,000	0 ⁽²⁾
Holcim (US) Inc.	MO	Cement Production	900	200
SeverCorr	MS	Steel Products Manufacturing	880	450
EADS	AL	Manufacture of Fuel Tanker Jets	600	1,150
Freescale Semiconductor, Inc.	TX	Headquarters	600	500
Sonoco Products Company	AL	Wood Flooring Manufacturing	500	700
Amgen	RI	Biopharmaceuticals	500	350
Kronospan U.S. LLC	AL	Wood Flooring Manufacturing	500	750
Kawasaki Rail Car	NY	Transportation Equipment Manufacturing	499	300
Premcor	TX	Petroleum Refinery	450	579
Royster-Clark Nitrogen Corporation	IL	Anhydrous Ammonia and Diesel Fuel	450	250
Gulf LNG Energy LLC	MS	Liquefied Natural Gas	450	50
Royal Bank of Scotland Group PLC	CT	Banking Headquarters	400	1,850
Wachovia	AL	Banking Data Center	400	100

⁽¹⁾ Consolidation of two projects by Reliant Energy and one joint venture by Reliant and Erora Group. Investment in each project is \$1 billion.

⁽²⁾ DaimlerChrysler is improving two assembly plants to increase efficiency and adjust to variations in demand for specific models. The plants currently employ 5,530 workers.

Industry Insights

Investments and jobs by industry in 2005 reflected the implementation of efficient technologies, the significant changes in domestic market conditions, and increased international competition in certain sectors. Although the factors that influenced investment in each industry varied, the common factor was investment in productivity enhancement and cost-reduction.

Petroleum and Energy Technologies

Major investments in petroleum refining or alternative fuel development and production announced during 2005 totaled nearly \$10.6 billion. Many of the largest capital investment announcements were coal-based synthetic fuel plants. Although record investments in liquefied natural gas terminals and traditional refineries were announced in 2004, crude oil prices of over \$50 per barrel provided the economic rationale for accelerated investments in early-stage ethanol, biodiesel, solar, and wind-powered energy technologies.

When Hurricanes Katrina and Rita damaged or disabled many of the facilities that supply the nation's petroleum and natural gas, additional concerns about supplier diversity provided the basis for investment in these projects and resulted in \$5.4 billion of cost sharing, grants, investment credits, and loan guarantees authorized in the 2005 Energy Policy Act. The shift away from investments in traditional oil and gas to coal and biomass fuel production has resulted in a geographic redistribution of investment as producers choose locations closest to coal or agricultural inputs. As a result, the level of energy investments announced in Texas and Louisiana fell significantly while announcements in Midwestern states grew from \$1.7 billion in 2004 to \$5.6 billion – an increase of 230%.

TABLE 3

Capital Investment and Jobs in U.S. Facilities, 2005

Sector	Industry	Investment (in Millions of Dollars)	Jobs
Ag., Mining, Construction	Agriculture, Mining, Construction	\$ 1,423	5,786
Nondurable Manufacturing	Food and Apparel Manufacturing	4,368	31,909
	Ethanol/Alternative Energy	6,118	1,393
	Petroleum and Coal Products	4,499	2,140
	Pharmaceutical and Medical Products	3,063	18,248
	Other Nondurable Manufacturing	12,309	36,447
Durable Manufacturing	Aerospace and Defense	1,254	10,203
	Computer and Electronics Manufacturing	4,170	21,468
	Automotive Manufacturing	6,500	30,460
	General Durable Manufacturing	8,542	48,951
Trade and Transportation	Wholesale and Retail Trade	3,423	35,309
	Transportation and Warehousing	1,398	9,865
Information	Information	2,353	19,897
Financial and Real Estate	Financial Services	4,709	39,255
Services	Professional Services	1,964	35,381
	Business Support and Remediation	203	5,209
	Call Centers	67	11,206
	Other Services	399	7,675
All Included Sectors	TOTAL	\$66,763	370,801

Values in the tables are rounded and may not appear to sum.

Note: Announced capital expenditures (in millions of dollars) equal investment by U.S. and foreign companies in facilities located in the U.S., aggregated by investor industry. Jobs are new or retained jobs attributable to the investment or location decision.

Pharmaceuticals

Pharmaceutical industry announcements included 14 headquarters projects and 11 research and development facilities in addition to almost 100 manufacturing facilities. Announced investment in pharmaceutical projects totaled over \$3 billion and is expected to create more than 18,000 jobs. Projects announced in the U.S. have job growth concentrated in New York, Florida, Illinois, Indiana, and Tennessee.

Announced investments in pharmaceutical facilities fell slightly from 2004. Large pharmaceutical companies are increasingly using biotech and specialty companies as sources for new drugs, potentially diverting investment from new facilities to acquisitions of smaller companies.

Automotive Manufacturing

Investment announcements by the auto manufacturing and parts industries declined by roughly 50% in 2005, to \$6.5 billion. Auto-parts manufacturers accounted for the majority of new jobs and investment announced by the auto industry in 2005. Foreign investment was more dominant in this sector in 2005, accounting for 63% of auto-parts investment.

Auto manufacturing investment announced during 2005 reflects the contraction of the Michigan automakers and the need to modernize existing facilities. Despite the contraction of the Big Three automakers, Michigan once again ranked highest in total capital investment and job creation related to the auto industry, due primarily to DaimlerChrysler's investment to increase efficiency and reduce labor

costs. DaimlerChrysler also announced the largest project, a \$1 billion modernization of facilities in Missouri. Perhaps more significant than the company's level of capital investment is the fact that its investments did not result in an increase in its workforce. Rather, these investments, which include assembly line upgrades, computerized robot welding machines, and just-in-time inventory sequencing systems, are designed to increase operating efficiency and labor productivity.

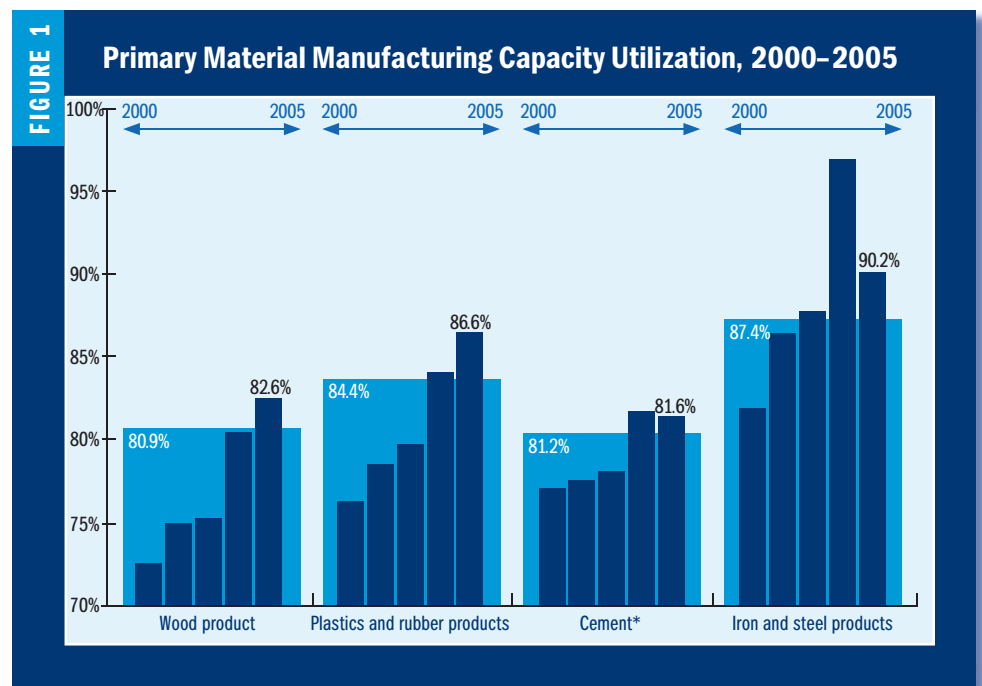
Basic Materials

(Wood Products, Plastics and Rubbers, Cement, Primary Metal)

Steel, wood products, cement, and plastics manufacturers represent 5 of the 25 largest projects announced in 2005. High

demand for durable equipment coupled with sustained growth in new construction, has increased capacity utilization in these industries significantly over the past five years, resulting in marginal unit cost increases that justify expansion in these facilities.

The figure below illustrates the increase in the capacity utilization of the facilities producing wood, plastics, cement, and steel from 2000 to 2005. Each of the four industries has risen above its average utilization during the 1988–2005 period (indicated by the shaded regions in the figure) and above the 80% threshold many economists cite as the level at which industries incur higher marginal costs and expand capacity.



Source: Federal Reserve Board, *Industrial Production and Capacity*

Note: Capacity utilization is defined as current production relative to full production capability – the maximum level of production that this establishment could reasonably expect to attain under normal and realistic operating conditions fully utilizing the machinery and equipment in place.

*Nonmetallic mineral products.

Industry Insights (continued)

Semiconductors and Electronics

Despite their higher operating costs, major U.S. chipmakers have often invested in domestic fabrication plants to maintain standards and protect their proprietary technologies. In 2005, however, the two largest U.S. chipmakers, Intel and AMD, announced only small domestic investments but major investments overseas.

AMD's announcement marked the first time in the company's history that it will share its technology and production facilities with an outside firm, SemIndia. Although one might assume these investments were lost to offshoring, it is important to note the cyclical nature of industry investment, recent large-scale domestic investments, and rising demand in foreign markets.

It should also be noted that many of the largest tech companies, seeking to rapidly develop and integrate new technologies into their current offerings, have chosen to acquire existing assets rather than expand their own, direct investment in structures and equipment. Some of the companies involved in billion-dollar acquisitions over the past year are Oracle, eBay, Sun Microsystems, Adobe Systems, IBM, and Cisco Systems.

These companies have also been steadily acquiring small technology companies, both domestically and abroad.

Business and Professional Services

Business and professional services companies announced nearly 51,700 jobs as the industry responded to increased demand for outsourced business administration and management functions. The services provided by this sector include legal services, accounting, facilities management, security, engineering, and technology support. This group also includes holding and management companies, which may operate regional, U.S., or global headquarters of large companies.

Facility Use

Jobs in office facilities constitute 26% of total jobs announced in 2005.

Headquarters office announcements account for \$5.6 billion of investment and over 48,000 new jobs – about 50% of the announced jobs in the office sector.

While many of these are office jobs in such “non-office” industries such as durable and nondurable manufacturing, headquarters projects announced by the trade, transportation, financial services, and professional services industries accounted for the greatest number of jobs during 2005. New York and Texas claimed the highest total investment and employment from headquarters projects. Virginia and Florida headquarters announcements involved less capital spending but will also generate significant employment.

Regional, sales, and back-office facilities account for the remaining office project announcements – 13% of announced jobs in 2005. Although only tenant-owned and build-to-suit office facilities are included in the USIM data, speculative projects are a growing but volatile office segment, as corporations rely increasingly on real estate management firms to own and operate their facilities.

Announced investments in manufacturing activities account for almost one-half of jobs announced in 2005. Employment growth in industrial facilities is one sign that these facilities are in high demand. Grubb & Ellis reports that while the 92 million square feet of new industrial space completed in 2005 is the highest total since 2001, it was less than half the amount absorbed by the market – signaling continued investment in industrial facilities into 2006.

Announced warehouse facility jobs equal over 12% of 2005 announced jobs. The remaining, specialized projects, including call centers and R&D facilities, accounted for 13% of total announced employment in 2005.

Industry	Call Center	Mfg.	HQ Office	Other Office	R&D, IT	Warehouse	Total
Nondurable Manufacturing	-	74,216	4,984	2,634	3,227	5,076	90,137
Durable Manufacturing	2,064	96,482	2,882	2,903	3,017	3,735	111,083
Trade and Transportation	1,722	1,974	7,113	2,521	-	31,844	45,174
Information	4,635	634	2,062	9,092	2,090	1,383	19,896
Finance and Real Estate	5,776	33	12,253	20,930	177	86	39,255
Professional Services	3,887	784	13,231	8,693	7,059	1,727	35,381
Other Services	14,159	4,706	5,962	2,282	114	2,654	29,877
Total	32,243	178,829	48,487	49,055	15,684	46,505	370,801

Values in the tables are rounded and may not appear to sum.

State Outcomes – Investment

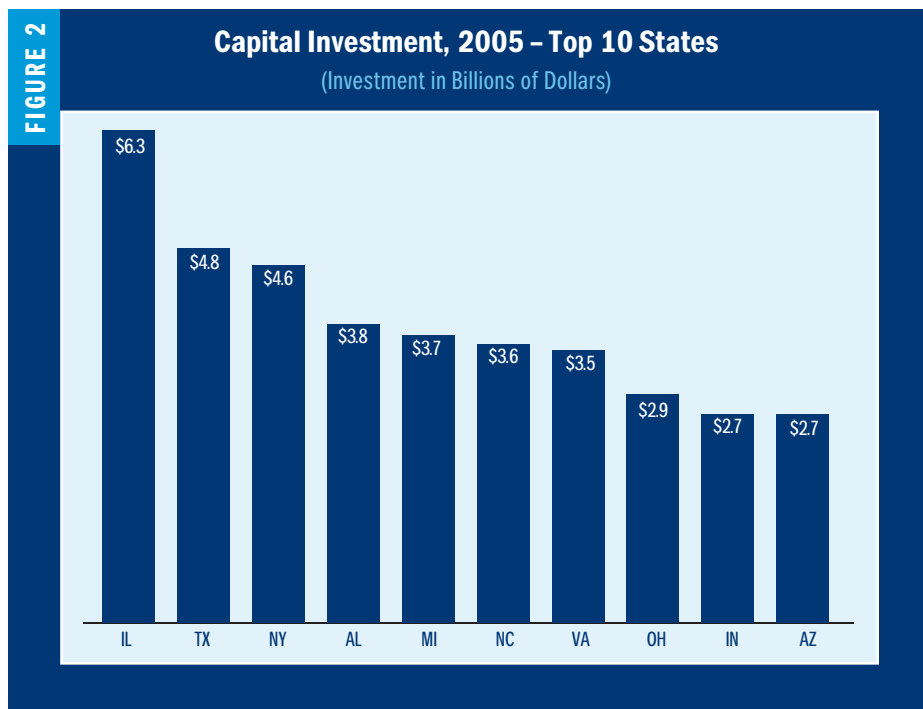
Investment in U.S. facilities is increasingly diverse in terms of geographic location. Traditional cost considerations, including labor rates, energy costs, and state and local taxes³, continue to influence investment locations, but proximity to developed supply chains and workers with specific skills is a key factor in the site location decision for many industries. The outcome of these location decisions is presented in the following tables and figures, which rank states by capital investment and new jobs.

The states that attracted the most announced capital investments in 2005 represent projects in different industries and facility types.

- Illinois attracted the most dollars of capital investment announced in 2005. While the total dollar amounts are impressive, investments announced in Illinois include three large energy projects that represent nearly half of the 2005 total.
- In sharp contrast to the mega-energy projects announced in Texas during 2004, a greater number of smaller and more diverse projects were announced in Texas during 2005. In a state known for energy, it is noteworthy that the largest Texas investment announced in 2005 was a semiconductor manufacturing facility.
- New York investment announcements were driven by the financial and professional services industries, accounting for 58% of total announced investment. Durable manufacturing industries announced investments equal to 21% of total investment. Computer and chip manufacturers, which invested in many of New York's largest projects in 2004, accounted for less than 4% (\$200 million) of New York's announced investment in 2005.

- Alabama capital investment resulted largely from wood and plastics manufacturing. Aerospace manufacturing also announced significant capital investments, 80% of which is attributable to a single facility.
- Michigan ranks fifth in this year's analysis – falling from the number two spot last year largely due to the lower level of auto manufacturing investment.

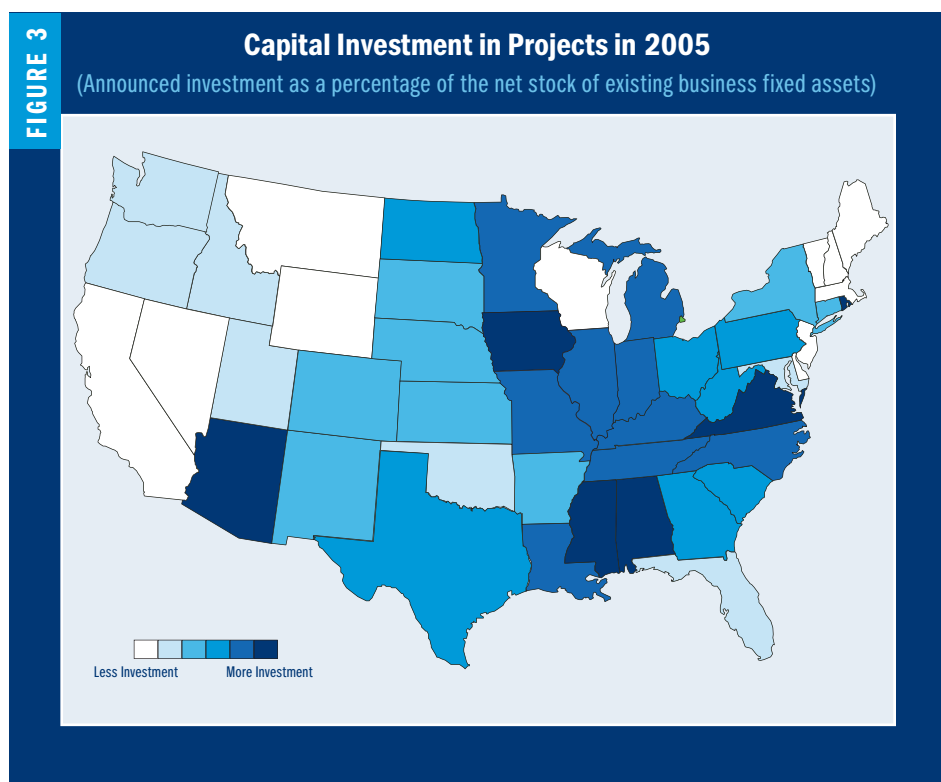
Based on total dollars of capital investment, Texas, New York, and Michigan were among the top five states in both 2004 and 2005. Of the states ranked in the top 10 by investment in 2004, only three do not rank among the top 10 in 2005. These states – California, Georgia, and Louisiana – were replaced by Alabama, Arizona, and Virginia in 2005.



*State Outcomes - Investment (continued)***Relative Growth in Business Capital**

While the largest state economies generally attract the greatest amount of total capital investment, absolute investment reveals little about a state's relative attractiveness to companies or economic development. Measuring capital investment relative to the stock of existing business facilities provides an alternate measure of relative economic development. The figure below illustrates the growth in business capital – and a proxy for long-term economic growth – measured as the estimated percentage increase in the total value of business assets resulting from investment announced in each state during 2005. The top five states by this measure are Alabama, Mississippi, Rhode Island, Iowa, and Arizona.

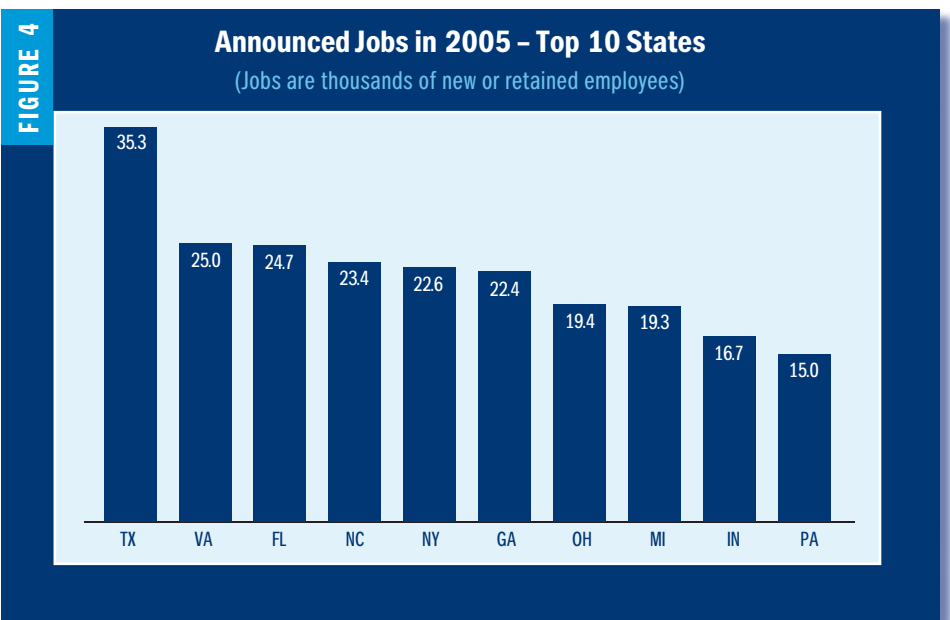
- Alabama's announced investment, as a share of current estimated business assets in the state, was the highest in the nation, at 2.7%. A major aerospace facility and mid-sized plastics, fabricated metal products, and wood product manufacturers accounted for the majority of new investment.
- Mississippi investment announcements resulted largely from furniture and appliance manufacturers (73%), while automotive and petroleum facilities generated additional investment (approximately 20% when combined). Given Mississippi's relatively small economy, the \$1.3 billion in investment represents significant growth in the value of business assets.
- Rhode Island illustrates the importance of a single investment to a small state economy. Amgen's \$500 million investment in Rhode Island accounted for nearly all of the capital investment announced in the state during 2005.
- Iowa investment announcements in ethanol and alternative energy equaled 61% of the total capital investment announced during the year.
- Arizona's growth from investment was almost completely attributable to a refinery project – the largest in this year's analysis.



State Outcomes – Jobs

Job announcements in 2005 did not follow the geographic distribution of capital investments; states with growth in service industries ranked highest by announced jobs. Ten states accounted for 60% of total announced jobs. Texas ranked first, followed by Virginia, Florida, North Carolina, and New York.

- Texas project announcements accounted for the largest number of jobs, driven by significant financial services facility announcements for a second consecutive year.
- Virginia’s announced job growth resulted primarily from significant projects related to semiconductors, information services, call centers, and professional services.
- Florida’s job announcements resulted largely from financial and professional services projects.
- North Carolina job announcements were dominated by food processing and durable manufacturing projects.
- New York job announcements by financial and professional services companies equaled 46% of total announced jobs, followed by 43% in manufacturing.

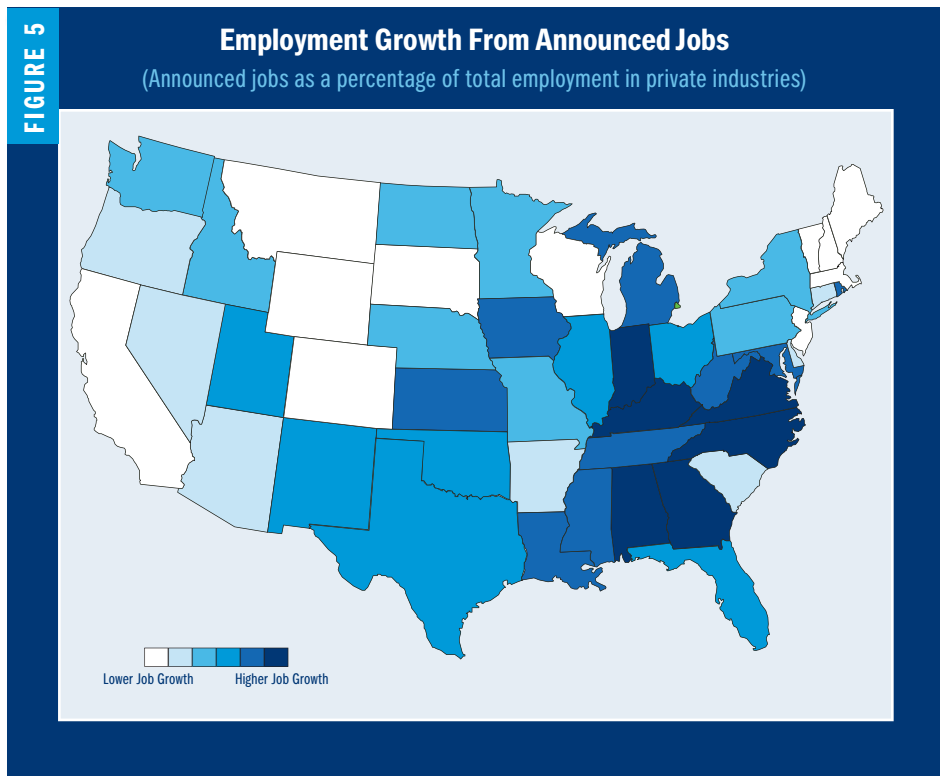


State Outcomes - Jobs (continued)

Employment Growth

While the largest state economies generated the highest number of jobs, Georgia, Alabama, North Carolina, Kentucky, and Indiana had the highest employment growth, measured as announced jobs as a share of existing employment in the state.

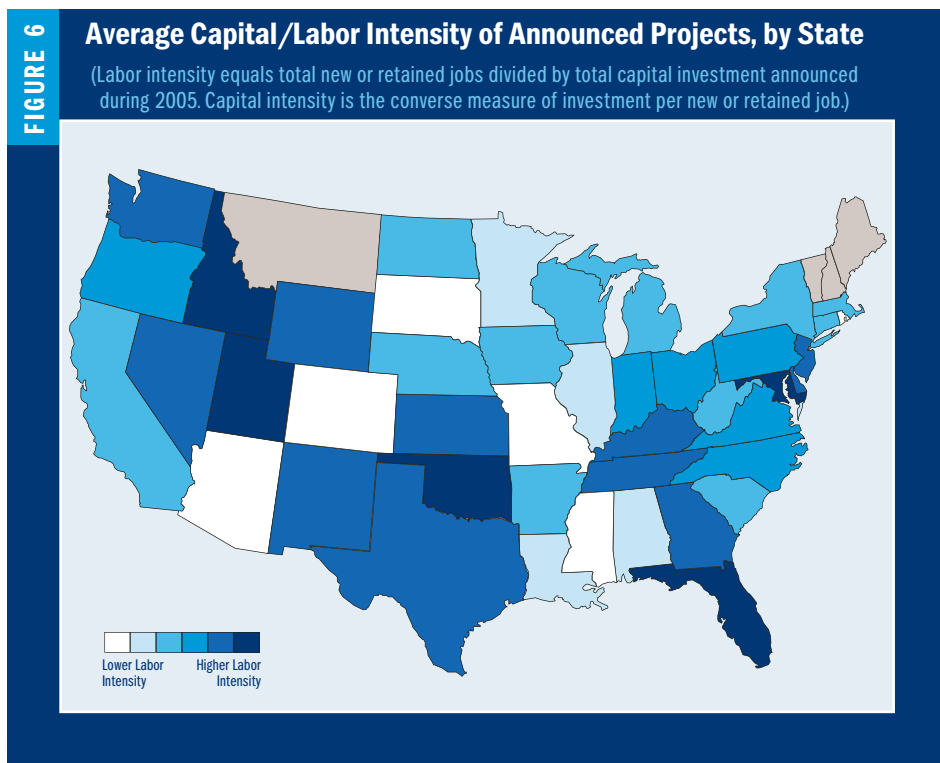
- Alabama’s job announcements resulted primarily from manufacturing projects. Nondurable manufacturing accounted for 27% of the new jobs, while durable manufacturing projects in the auto, aerospace, and heavy manufacturing industries created about 50%.
- In Georgia, nondurable manufacturing job announcements equaled almost 30% of new jobs announced in 2005. Information, financial, and professional services jobs accounted for an additional 30%, and trade industries made up the rest.
- In North Carolina, food, apparel, and other basic nondurable manufacturing generated 35% of new job announcements, and auto manufacturing, 10%. General durable products, including furniture and other traditional North Carolina industries, generated 25% of new job announcements. The pharmaceutical industry, concentrated in the research-triangle area, announced almost 1,000 new jobs, equal to 5% of the statewide figure.
- In Virginia, professional services projects generated more jobs than other industries (24%); call center projects accounted for an additional 14% of job announcements. Virginia’s “new economy” – information services and semiconductor manufacturing – also fueled job growth with 15% of the new job announcements. In contrast, that state’s legacy food and tobacco industries generated only 9% of new job announcements.
- Kentucky and Indiana saw the most job growth from auto industry and other durable manufacturing projects – 33% of total new jobs announced.



Capital/Labor Intensity of New Investments

Both capital investment and employment drive economic growth for the states and are the focus of state economic development strategies. The ratio of employment growth to new investment, however, provides an indication of the relative productivity of labor associated with new capital investments – a perspective of particular interest to policymakers. States with more labor-intensive projects, measured by the

number of new employees per dollar of investment, are creating more jobs per dollar of investment, but they are typically in the services sector or lower-wage manufacturing industries. Maryland and Florida averaged the highest labor intensity, due to major corporate headquarters, call-center, and research project announcements.



Note: All projects were included in the calculation of total jobs and investment, although some projects did not report capital investment or employment data. For these projects, missing data were imputed based on reported project data and average ratios for the industry, region, and company. There was insufficient investment in Montana, New Hampshire, Vermont, and Maine to calculate capital intensity.

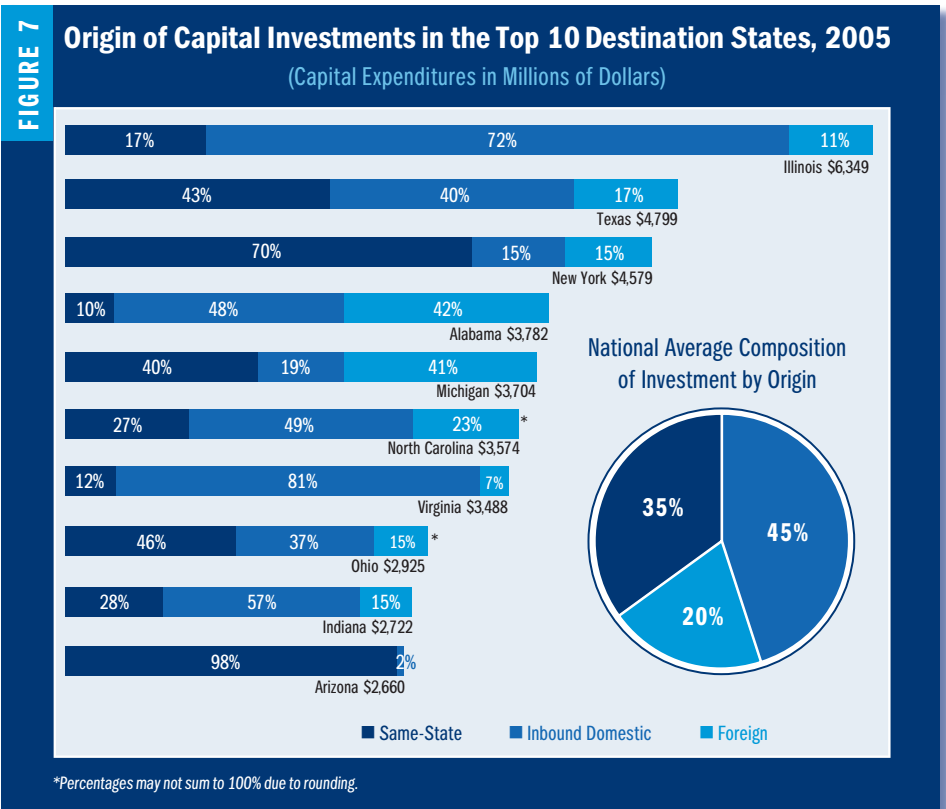
State-by-State Investment Flows

The dollars flowing to the states receiving the most capital investment originate from companies with headquarters in very different locations. The figure below illustrates the composition of investment in the top 10 states, categorized as investment by in-state companies, domestic companies in other states, and foreign companies. Michigan, for example, attracted the fifth highest level of total announced investment in 2005, the fifth highest level of foreign investment, but only the 19th highest level of in-bound domestic investment.

Relative Attractiveness to Out-of-State Companies

A state's economic growth is highly dependent on investment decisions made outside that home state's borders. Certain states were very effective in 2005 at "attracting" investment from other states.

- Alabama, Illinois, and Virginia each attracted over \$3 billion of investment.
- Domestic investments into Indiana, Missouri and North Carolina, relative to the size of their economies, were more than twice the 50-state average.
- As a net outbound investing state, New York led the way. Companies headquartered in New York announced the greatest number of jobs in other states. Virginia, Illinois, Missouri, and Georgia were the top five destinations for investment by New York headquartered firms.



Foreign Investment

Germany, Japan, and the U.K. were the leaders in U.S. capital investment announced during 2005

Companies based in Germany announced the greatest amount of total capital investment in U.S. facilities in 2005, a large share of which resulted from DaimlerChrysler's modernization of its Missouri and Michigan plants.

Japan's largest announced single investment is a \$1 billion plastics manufacturing facility in Louisiana. Investment in the automotive sector, however, accounted for the majority of Japan's total investment announced in 2005.

The United Kingdom's largest capital investment announced during 2005, a Royal Bank of Scotland U.S. headquarters facility, involved capital investment of \$400 million and 1,850 new and relocated jobs. The majority of U.K. investments, however, were announced by aerospace and pharmaceutical manufacturers.

Approximately 20% (\$14 billion) of capital investments in analyzed projects were announced by foreign companies. While these projects are concentrated in the automotive and aerospace sectors, they also include significant projects in other durable and nondurable manufacturing sectors.

TABLE 5 Top Ten Countries, by Announced U.S. Investment
(Capital Expenditures in Millions of Dollars)

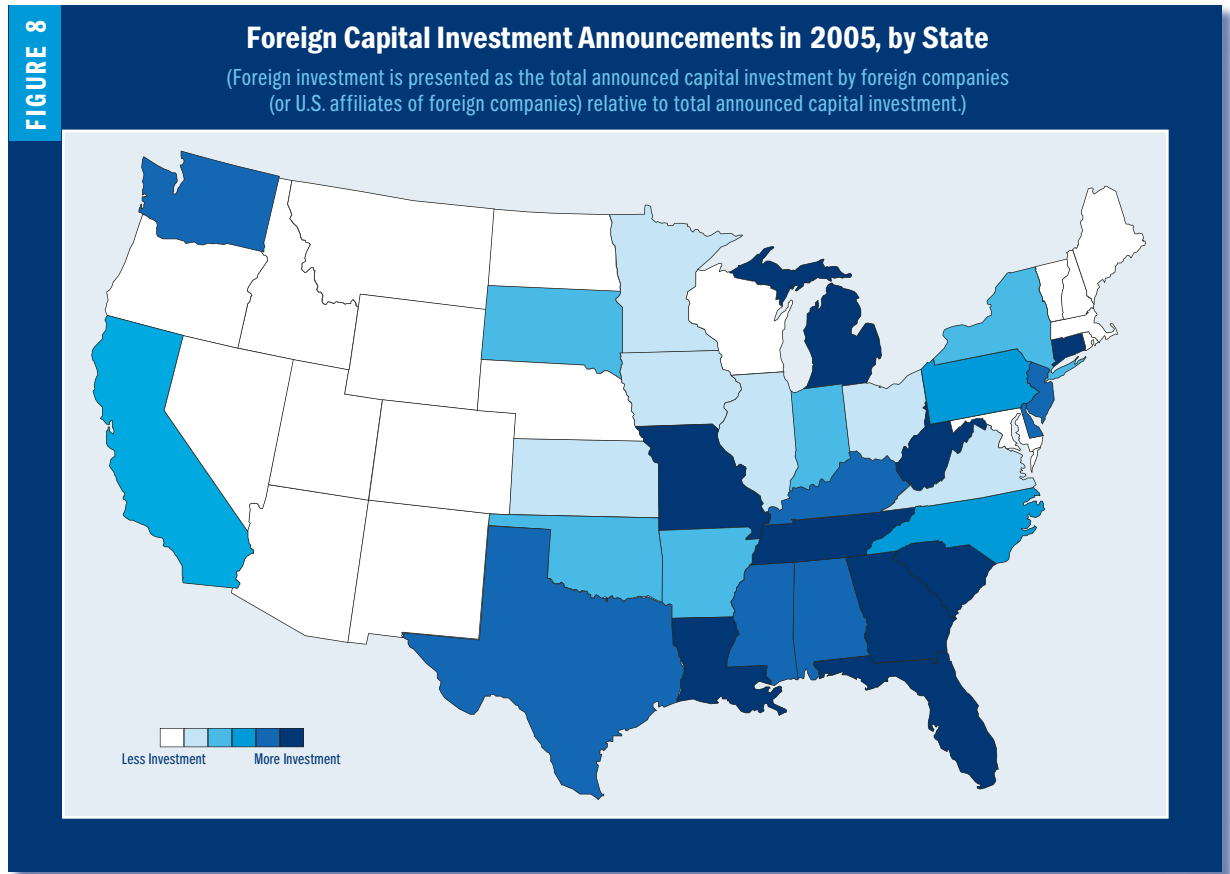
Industry	Investment (in Millions of Dollars)	Jobs
Germany	\$3,379	5,986
Japan	3,246	7,988
United Kingdom	1,165	8,274
France	982	4,405
Netherlands	978	1,317
Canada	953	5,971
South Korea	644	2,698
Austria	560	790
Spain	262	1,206
Taiwan	214	390

TABLE 6 Foreign Investment in U.S. Facilities, by Sector

Sector	Industry	Investment (in Millions of Dollars)	Jobs
Agriculture, Mining, Construction	Agriculture, Mining, Construction	\$ 36	224
Nondurable Manufacturing	Food and Apparel Manufacturing	361	2,481
	Petroleum and Coal Products	204	308
	Pharmaceutical and Medical Products	540	3,762
	Other Non-Durable Manufacturing	4,255	6,586
Durable Manufacturing	Aerospace and Defense	642	1,788
	Computer and Electronics	396	3,767
	Automotive Manufacturing	4,111	10,002
	General Durable Manufacturing	1,155	4,585
Trade and Transportation	Wholesale & Retail Trade	517	1,952
	Transportation and Warehousing	365	1,360
Information	Information	458	3,777
Financial and Real Estate	Financial, Insurance, Real Estate	478	2,297
Services	Professional Services	115	3,322
	Business Support & Remediation	110	494
	Call-Centers	18	1,100
	Other Services	1	440
All Included Sectors	TOTAL	\$13,762	48,245

Foreign Investment (continued)

The geographic distribution of investments announced by foreign companies is shaped by large auto manufacturing projects in Michigan and Missouri and aerospace and auto parts manufacturers in Alabama and Tennessee.



U.S. Business Investments Abroad

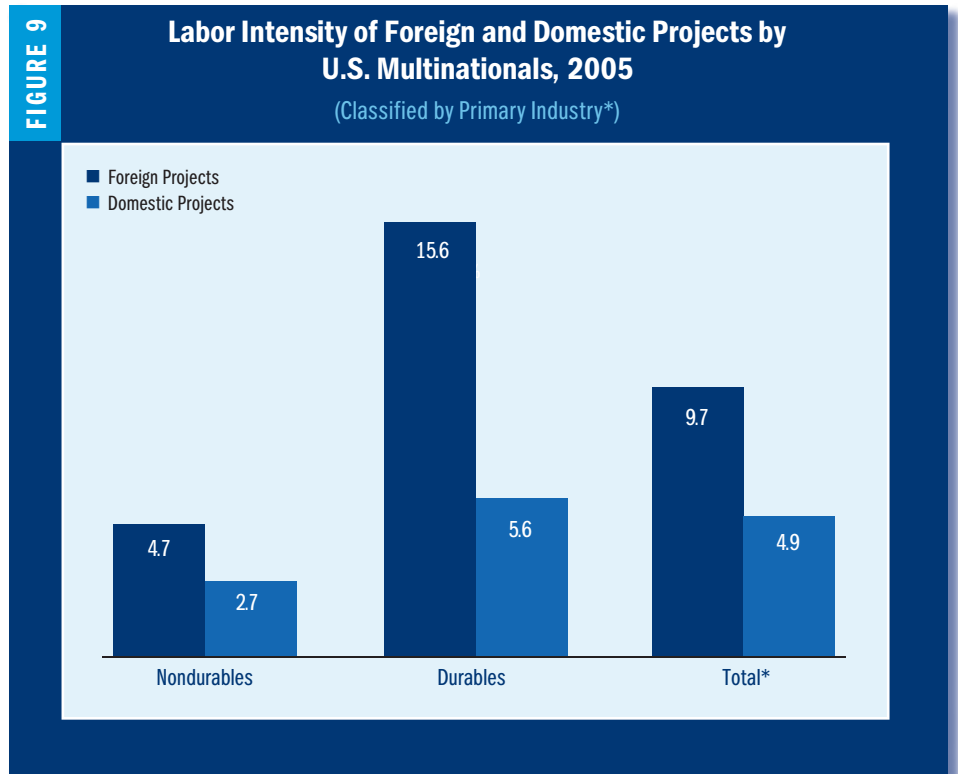
The expansion of U.S. companies into foreign markets is not a new phenomenon. The expansion of U.S. companies' foreign production capacity and workforce has been a central issue in weighing the benefits and costs of globalization, free trade, and economic growth. Although there is increasing discussion focused on the issue, the impact of U.S. investment abroad on U.S. employment is unknown.

Slower than expected initial employment growth during the recovery from the 2001 recession highlighted concerns about the potential employment impact of overseas business investments by U.S. multinationals. During this period, the outsourcing of services became associated with India, while China attracted growing numbers of manufacturing investments.

Shown in Table 7, the petroleum sector led other industrial sectors in 2005 when ranked by capital investment in large projects – although a single large joint-investment by Exxon, Shell, and Chevron in Australia accounts for most of the outbound investment in this sector (and Australia's number one ranking). Another large investment, Intel's \$3.5 billion semiconductor fabrication facility planned for

Kiryat Gat, Israel, accounts for Israel's high ranking in terms of both jobs and investment. Aside from these isolated large projects, investments in India generated the next largest share of investment and the most announced jobs.

A comparison of the labor intensity of investments by U.S. firms within the U.S. and overseas clearly shows that on average, U.S. multinationals' domestic projects were twice as capital-intensive as their foreign projects, indicating that the U.S. remains a competitive location choice for industries requiring the skilled labor associated with capital-intensive processes and the management of multinational companies undertaking the investments. One implication for the U.S. is that while U.S. firms are growing their overseas workforces, the development of these expanded global operations seems likely to generate complementary growth in the U.S.⁴



Note: Labor intensity shown above equals jobs per million dollars of capital investment.
*Service industries are included in the total but not shown separately.

TABLE 7 U.S. Investment in Foreign Facilities, by Sector, 2005
(Investment in Millions of Dollars)

Industry	Investment	Jobs
Petroleum*	\$11,680	400
Chemical and Pharmaceutical	1,645	5,799
Semi-Conductors and Electronics	7,647	12,436
Motor Vehicles and Parts	1,059	3,477
Other Manufacturing	2,320	12,886
Call Centers	67	2,644
Other Services	277	3,738
Total in Selected Projects	\$24,695	41,380

*Largely the result of a single project

¹ Bureau of Economic Analysis

² Based on the U.S. Census Bureau, 2003 Statistics of U.S. Businesses

³ Cline, Neubig, and Phillips, Total State and Local Business Taxes, (Ernst & Young, March 2006)

⁴ See Mathew Slaughter, "Globalization and Employment by U.S. Multinationals: A Framework and Facts," Daily Tax Report, March 26, 2004.

TABLE 8 Top Destinations for U.S. Multinational Investment and Jobs
(Investment in Millions of Dollars)

Country	Investment	Country	Employment
Australia*	\$11,000	India	7,754
India	3,567	Poland	5,094
Israel*	3,500	China	4,463
Canada	1,245	Mexico	3,366
China	1,030	Canada	3,356
Spain	813	Taiwan	2,090
United Kingdom	529	Israel*	2,000
Russia	482	United Kingdom	1,428
Taiwan	475	Singapore	1,050
France	361	Slovak Republic	940

*Largely the result of a single project

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