Out of the South:

Exports Buoy Region's Economy

When Marc Skalla and his brother Rusty took the reins of the family business in 2009, he was thinking big—as in millions of new customers in other countries. The company, SASCO Chemical Group Inc.—a chemical company specializing in environmentally safe products—had survived 60 years with very few exports, but Skalla knew that in order to expand the Albany, Georgia-based business significantly, he'd have to tap into the hundreds of millions of consumers who live beyond the U.S. borders.

In 2010, after a few fits and starts and with the help of the Georgia Department of Economic Development, SASCO began

Exports have become an increasingly significant part of the region's economy. The Southeast's globally interconnected economy—with its fortuitous location and plentiful ports and coastline—is contributing to surging, if surprising, exports, such as the flood of international travelers whose southeastern expenditures constitute a major export.

exporting in earnest to new markets in Latin America, Spain, and the United Kingdom. Within a year, the company's exports had grown 120 percent, earning it the Governor's International Trade award in October 2011. Today, SASCO's two-year experiment with exports has put the company well on its way to realizing the Skallas' ambitions—revenues have increased by 50 percent, its payroll has grown roughly 15 percent, and last year it opened a state-of-the art research and development center in Macon. Despite the company's early success with exports, that growth is only the beginning, Skalla said. "It's like climbing a ladder, and we're only on the second rung."

Remarkably, SASCO was able to achieve these gains even as the overall economy was shedding jobs and struggling to recover from the 2007–09 recession. Indeed, although the discussion on U.S. trade largely revolves around the nation's large trade deficit or the commonly accepted myth that the U.S. manufacturing sector has withered into irrelevance, SASCO's success underscores an important trend playing out in the Southeast and across the nation—exports are booming and in the process are helping drive the economic recovery.

Rising exports lift the Southeast

Without a doubt, exports have been a bright spot in recent years. After dropping precipitously during the global downturn in 2009, the value of U.S. exports of goods and services has rebounded significantly. In 2011, they grew nearly 14 percent to a record high of $2.1 trillion, according to the U.S. Commerce Department. The rebound was even stronger in the Southeast, where merchandise exports alone grew more than 20 percent to top $213 billion (a figure that would be even higher if the Commerce Department's state-level tally of exports included service exports such as tourism and business and professional services).

Importantly, exports have accounted for nearly half of the increase in U.S. gross domestic product (GDP) since the recession ended in 2009. They also create jobs. According to a 2010 report released by the U.S. Commerce Department, for every $165,000 in exports, one job is created or retained. A Brookings Institution study reported that export-supported jobs grew nearly 6 percent in 2010—a period when the overall economy was shedding jobs. Products leaving the Southeast also benefit industries such as transportation (see this issue's article on the trucking industry).

The impact on southeastern jobs is clear, especially in the manufacturing sector, where much of the region's export activity is concentrated. In some states in the region—namely, Alabama, Georgia, Louisiana, and Tennessee—at least 20 percent of manufacturing jobs depended on exports in 2009, according to the Commerce Department. Further, export-related jobs on average pay better than those in domestic-oriented industries. The Commerce Department puts the pay premium at 13 to 18 percent above the national average.

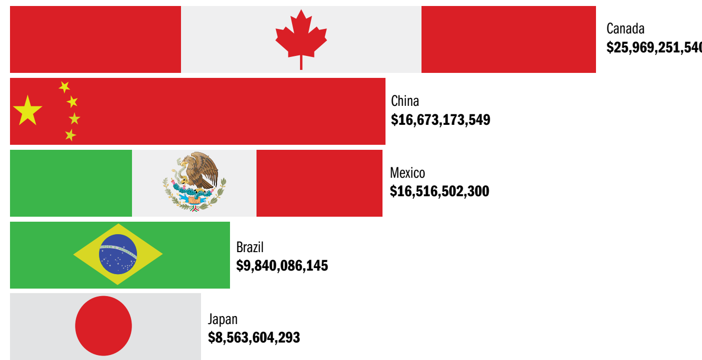
With such benefits, perhaps it's no surprise that the federal government made exports a cornerstone of its efforts to boost economic growth. The National Export Initiative, launched in January 2010 by the federal government with participation by a variety of federal agencies, aims to double U.S. exports by the end of 2014 by, among other things, increasing trade advocacy, improving access to export financing, and removing trade barriers.

Developing economies propel export boom

A variety of factors are driving exports, including strong economic growth and the expanding middle class in many emerging markets, especially the powerhouse trio of Brazil, India, and China. Although more than one-third of U.S. exports are destined for Canada and Mexico, the so-called BIC economies have become key markets for U.S. goods and services. Indeed, exports to those countries nearly doubled in value between 2007 and 2011, and their share of total exports grew from 9 percent to 11 percent, according to the Commerce Department.

China and Brazil in particular are a growing force in the Southeast's export market. Those countries—along with Canada, Mexico, and Japan—were the region's largest export markets in 2011. Southeastern exports to China—including transportation equipment, paper, and agricultural products—have grown more than 120 percent in the past four years to nearly $17 billion. Brazil, likewise, has solidified its place as a key destination for such southeastern exports as chemicals, transportation equipment, and petroleum and coal products (see chart 1). The region's merchandise exports to Brazil—South America's dominant economy—grew more than 60 percent between 2007 and 2011 to reach $9.8 billion.

Chart 1
Top Southeast Export Markets in 2011



Note: Figures represent the value of products exported in 2011.
Source: U.S. Commerce Department

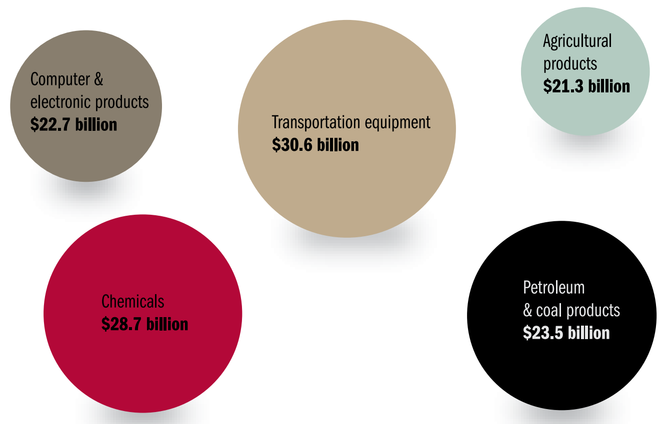
In addition to strong growth in emerging markets, other factors such as free trade agreements, interest rates, and currency exchange rates have helped boost the country's exports, explained Gary Hufbauer, a senior fellow at the Peterson Institute for International Economics. "Not just in the U.S., but globally, interest rates are quite low," he noted. This has been "very encouraging for the capital goods industries—and capital goods are an area where the U.S. is extremely strong," he added. Also, "relative to Latin American currencies, the U.S. dollar is pretty competitive," which has helped make U.S. goods and services more affordable in those countries.

Cars help drive exports

These and several other factors have helped fortify the Southeast's exporting prowess. The region's merchandise exports in 2011 accounted for nearly 15 percent of the U.S. total, according to Commerce Department data. But perhaps the biggest export success story is the transportation equipment industry, which at over $30 billion was the region's largest export category in 2011. A hefty share of those exports was a product of the Southeast's robust automotive manufacturing sector, which has expanded in recent decades as foreign auto companies such as Kia Motors, Volkswagen, and Nissan established plants in the region.

Chart 2

Top Southeastern Exports in 2011



Source: U.S. Commerce Department

As reported in an April 2012 *USA Today* article, excess plant capacity, currency exchange rates, and free trade agreements have made the United States a more attractive place to build automobiles. As a result, auto exports have jumped in the past five years. The Southeast is reaping its share of the benefits—several of the assembly plants that ramped up exports are located in the region, including the Mercedes-Benz and Hyundai plants in Alabama, Nissan plants in Tennessee and Mississippi, and the Kia plant in Georgia. In the four years leading up to 2011, the region's exports of transportation equipment, a large share of which are automobiles, have increased nearly 33 percent, according to the Commerce Department. Additionally, the South Korea-U.S. Free Trade Agreement (KORUS FTA) that went into effect this March should further boost auto exports. The KORUS FTA, just one of several trade deals signed in recent years, removes import tariffs on almost all U.S. vehicles and virtually eliminates tariffs on auto parts.

While transportation equipment is undoubtedly the region's biggest export category, several others have regional significance as well (see chart 2). Southeastern exporters sold more than $28 billion in chemicals, $23 billion in petroleum and coal products, and nearly $23 billion in computer and electronic products in 2011. On a smaller yet still significant level, the region exported more than $16 billion worth of machinery and more than $7 billion in paper products during the same time period.

Additionally, agriculture—once the backbone of the southeastern economy—continues to feature prominently in the region's exports. As farm exports have boomed for the United States as a whole—growing 18 percent, to $136 billion in 2011,

Bringing the World to Florida

Nicki Grossman, president and CEO of the Greater Fort Lauderdale Convention and Visitors Bureau, discussed the economic impact of tourism as an export.

Many people are surprised to learn that international travel to the United States counts as an export. Can you explain how purchases made by international visitors work their way into U.S. export figures? When we send U.S.-made products to another country and purchases are made in that country, it creates a positive economic impact for the United States to sell that product. The same is true when international visitors arrive and spend their money on goods, services, hotel rooms, rental cars, etc. Their spending is akin to our sending products to be purchased in other countries, or [what we classify as] exports.

In the Greater Fort Lauderdale area you represent, what is the economic impact of foreign visitors? In Greater Fort Lauderdale, 23 percent of our 11.1 million visitors arrived from outside the United States. Their economic impact was nearly $2 billion. These visitors tend to stay longer at our destination and certainly shop more than domestic visitors.

What types of activities does your organization engage in to help draw international visitors? Aside from advertising and promotional activity, the GFLCVB has sales and marketing representation in Canada, the United Kingdom, Germany, South America, and Scandinavia. We work with airlines and tour operators to increase awareness of our destination. We budget $1.5 million for these activities.

The federal government has emphasized attracting international visitors, as evidenced by the Brand USA program. How do you expect these additional promotional efforts to play out in your area? The U.S. tourism effort will carry our marketing message throughout the world, helping us leverage our marketing dollars.

Has the European crisis and downturn affected the volume of visitors from the euro zone? Over the last two years, international tourism has grown nearly 15 percent from throughout the eurozone because those travelers are looking for value. To those potential travelers, prices in the United States offer significant value when measured against travel to many other international destinations. ∎

according to the U.S. Department of Agriculture—so too have the Southeast's. "The last decade has been fantastic" for the region's agriculture and food exports, which have benefited from robust foreign demand, explained Jerry Hingle, chief executive officer and executive director of the Southern United States Trade Association (SUSTA). "We've seen strong growth in many of the things that are harvested here, such as cotton, soybeans, wheat, and rice," he added. Indeed, exports of southeastern agricultural products topped $21 billion in 2011, accounting for nearly 30 percent of the U.S. total, according to the Commerce Department.

The impact is even larger when the region's $10 billion exports of food manufactures are included. This category—which encompasses value-added agricultural products such as specialty foods, meat and seafood products, and a host of other processed foods—has enjoyed steady growth in recent years. Especially important is that with processed foods, value is created domestically, explained Hingle. When shipped abroad, those products are typically consumed there and not reimported into the United States. "In this way, it is a true economic engine," he said.

Although merchandise goods such as these make up the bulk of U.S. exports, the country's competitive service sector also claims a significant share. Totaling $600 billion in 2011, U.S. service exports accounted for about 30 percent of total exports. The government doesn't publish state-specific data on service exports, so it's difficult to get an exact read on the region's exports of business and professional services, royalties and license fees, and financial services, among other things. But because the Southeast economy is largely representative of the U.S. economy, Atlanta Fed contacts say, so the region's trends likely mirror those playing out on the national stage.

South Americans come to shop

A key component of U.S. service exports is travel. When foreign visitors to the United States make purchases—food and lodging, for example—these purchases are considered exports. Travel exports, which account for a fifth of total service exports, topped $13 billion in February 2012, according to the U.S. Office of Travel and Tourism Industries (OTTI). Like exports overall, foreign travel to the United States dropped steeply during the global downturn but has recovered in the past two years. By 2011, international visits to the United States reached a record-breaking 62 million people, more than half of whom hailed from Canada and Mexico. At the same time, visitors from other locales account for a growing share of travel exports, a trend that is expected to continue in the near future. The OTTI projects that visitors from South America and Asia will grow nationally by 47 percent and 49 percent, respectively, by 2015.

With its temperate climate and myriad attractions, the Southeast is a top destination for foreign travelers, a fact especially evident in Florida, which was second only to New York in drawing international visitors in 2010, according to the OTTI. Nicki Grossman, president and chief executive officer of the Greater Fort Lauderdale Convention and Visitors Bureau and a member of the Atlanta Fed's Travel and Tourism Advisory Council, has seen the impact of foreign travel firsthand. The south Florida area she represents has experienced a surge in visitors from Latin America, especially Brazil. This trend is playing out across the state, according to data from Visit Florida, the organization that markets the state's tourism industry. In 2011 Brazil was the second-largest source of international visitors to the state. Mexico and Argentina trailed close behind in fourth and fifth places.

In fact, Brazilian travelers, consumers, and businesses have earned such a prominent place in the state's economy that in

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2011 the country was named "Floridian of the Year" by *Florida Trend* magazine. As the article explained, Florida has become the number one destination for Brazilian travelers, with more than one million visitors to the state in 2010. The factors driving the surge are twofold, noted Grossman. Many Brazilians are visiting friends and family in the area. But in addition, "they come to shop," she said. This trend is partly because many in-demand items such as clothes, shoes, and electronics are less expensive here, she explained. Visitor traffic at Sawgrass Mills, an outlet mall in Sunrise, Florida, underscores the region's draw for retail-minded tourists. The shopping center lured more than 40 million domestic and international visitors in 2011 and, according to Grossman, nearly 50 percent of the credit cards used at the mall were from Brazil. She expects the influx of Brazilian and other Latin American travelers to continue "as long as their economies are strong and they are willing to spend on travel," she said.

Unforeseen factors can halt the momentum

Of course, exports are subject to influences beyond U.S. borders, and some of the very factors that support stronger exports today could also reverse their momentum. Exports are vulnerable to the whims of the global economy, including the growth of key trading partners and the relative strength of other currencies. For instance, many of the major emerging markets for U.S. goods could be affected by the eurozone crisis and slow economic growth. As Michael Chriszt, a vice president in the Atlanta Fed's research department, and Galina Alexeenko, a director in the Atlanta Fed's Regional Economic Information Network, noted in a January 2012 *SouthPoint* blog post, the Southeast does not have a large exposure to Europe. However, the crisis could have an indirect impact on southeastern exports by way of emerging markets. According to a January 2012 article in the *Wall Street Journal*, exports could suffer if European lenders decrease their exposure to emerging markets because of new capital requirements.

Signs already appear that the breakneck pace of economic growth in many emerging economies is starting to slow. In its April 2012 *World Economic Outlook*, the International Monetary Fund projected that growth in emerging and developing economies would slow to 5.7 percent in 2012, down nearly half a percentage point from 2011.

Finally, if turmoil in global financial markets were to cause the U.S. dollar to gain strength relative to other currencies because of its "safe haven" status, this strengthening could dampen the region's exports, explained the Peterson Institute's Hufbauer.

Room to grow

Although the United States has benefited from robust exports, plenty of room to grow remains. Only 1 percent of domestic firms export their products. At the same time, 95 percent of the world's consumers are beyond U.S. borders. Further highlighting exports' potential is that, at about 13 percent of GDP, they account for a significantly smaller share of the U.S. economy than in other developed economies. For instance, exports make up 29 percent of GDP in Canada, 25 percent in France, and a whopping 47 percent in Germany. Although the United States' relatively small ratio is partly a reflection of its large domestic market, economists largely agree that boosting U.S. exports will yield significant benefits for the overall economy by creating new opportunities for growth, as well as helping to create jobs, increase productivity, and rebalance the U.S. economy. ▮

This article was written by Lela Somoza, a staff writer for EconSouth.