

Exports in the Eighth District—An Update

by Adam M. Zaretsky

Over the past few months, stories suggesting that exports and foreign markets are supplementing and, in some cases, substituting for domestic market demand have become more common. In fact, between 1984 and 1995, real exports of goods and services increased from a mere 7 percent of gross domestic product (GDP) to more than 13 percent. This increase in export's share of output translates into an average growth rate of about 8 percent per year since 1984. No other component of GDP has grown at such a rate; GDP itself increased at an average rate of 2.6 percent per year over the period.

In the District, it's harder to track the progress of exports relative to total output because gross state product data—the state equivalent of GDP—are released with at least a two-year lag. Tracking the level of exports by state, however, is not that difficult because the University of Massachusetts maintains a data base of exports based on state of origin. Currently, the data are available through the first quarter of 1995. The data set's one drawback, though, is that it records only exports of goods, and not services;

data for service exports are collected at the national level only.

The table at the right, therefore, lists the top five goods-exporting industries for each District state during the first quarter of 1995.

District Exports: Who Ships What, Where

For the seven District states—Arkansas, Illinois, Indiana, Kentucky, Mississippi, Missouri and Tennessee—most of the top five exporting industries are identical. In fact, transportation equipment, which includes motor vehicles, aircraft, ships and boats, railroad equipment and missiles, is not only the largest export sector in the United States, but also the No. 1 export sector in five District states. In Illinois it ranks third, while, in Arkansas, it ranks sixth. Three other industries—chemicals, electrical equipment and nonelectrical equipment—are also in most of the District states' top-five lists.

Crops, which include corn, rice and soybeans, makes the top five in only two states, even though agriculture's share in total District output is greater than its share in national output. Crops are, however, among the top 10 exporting industries in six District states.

Not surprisingly, the food products sector—meat and dairy, fruits and vegetables, breads and bakery goods and beverages—is

also among the top five exporting industries in many states. In Arkansas, one of the country's largest poultry-producing states, food is the second most important export. A large share of exports from Kentucky, Mississippi and Missouri is also food products, especially poultry and pork.

The destination for many of these exports is also similar across states. Canada is far and away the largest trading partner for all District states, except Mississippi. During the first quarter of 1995, Israel received about 19 percent of Mississippi's total exports—more than any other country. A very large portion of this was warships valued at more than \$145 million. In 1994, though, Canada was Mississippi's largest trading partner. Japan and Mexico are the District's next most important trading partners. Others are China, France, Germany, Hong Kong, Russia, South Korea, Spain and the United Kingdom.

None of these other countries, however, comes close to the volume and dollar value of District exports to Canada. Of all the exports shipped by District states in 1995, 35 percent were bound for Canada. In comparison, only 23 percent of U.S. exports were shipped to Canada. Japan, the District's and nation's second-largest trading partner, received 9 percent of all District exports, or

about one-fourth of those shipped to Canada. The nation sent 11 percent of its exports to Japan. Mexico, which is the United States' and District's third-largest trading partner, received about 8 percent of all U.S. exports, but only 5 percent of District exports. On average, each District state, except Mississippi, shipped about 38 percent of its exports to Canada.

Why does the District ship a relatively larger quantity of goods to Canada than the rest of the country does? One reason is that the area produces more of the goods Canadians want. For example, transportation equipment—especially motor vehicles and parts—and nonelectrical equipment, both of which account for a large piece of this relative strength, are two of the District's largest exporting industries to Canada. In addition, shipping costs to Canada are relative low, and the United States has had free trade agreements, which have essentially eliminated all trade barriers between the two countries, with Canada since 1989.

District Exports: How Have They Changed?

Although the District's overall picture of the first quarter of 1995 closely resembles that of the first quarter of 1994, differences showed up in the types of industries shipping goods and the countries of destination. In most cases, the dollar value of

shipments increased over the year, but the share of District exports each country received was little changed. Transportation, electrical and nonelectrical equipment, and chemicals, were the dominant exporting industries in 1994, but their relative importance, particularly transportation equipment, was different than in 1995.

Transportation equipment, which was the leading export industry in four of the seven District states in 1994, was the leading export industry in five District states in 1995. The amount the District shipped from this sector rose 36 percent between 1994 and 1995, although if Mississippi's shipment to Israel is excluded, the gain drops to 28 percent. During the same period, prices in this industry increased by about 4.4 percent. Indeed, in all industries, the growth rate of the dollar value of exports greatly exceeded the rate of inflation. In other words, the level of real exports increased.

The other major exporting industries also saw the value of their shipments increase—between 12 percent and 36 percent—over the period. Indeed, District crop exports more than doubled between 1994 and 1995. In fact, in 1994, crops were not even among the top five exports for any District state, but in 1995 they were for two states. This change occurred partly because, in the beginning of 1995, China imported a large amount of rice—a big

crop in Arkansas—after bad weather reduced its own crop dramatically. Indeed, crop exports bumped transportation equipment exports off Arkansas’ top-five list in 1995.

District exports to all major trading partners, except Mexico, also increased between 1994 and 1995. Total shipments from the District increased 27 percent, with shipments to Canada increasing 28 percent, and those to Japan rising 36 percent. Over the same period, U.S. exports to Canada increased 23 percent, while those to Japan rose 15 percent. South Korea, a big emerging market, imported 54 percent more from the District in the first quarter of 1995 than it did during the same period a year before. Total U.S. exports to South Korea over this period rose by the same amount.

As mentioned, Mexico is the one exception to this growth trend. Total District exports to Mexico declined 24 percent between 1994 and 1995, which equals a \$226 million drop. Mexico’s share of District exports fell from 8 percent to 5 percent over the period; its share of U.S. exports fell from 10 percent to 8 percent. Much of this fall-off occurred because of the currency crisis Mexico experienced in late 1994, when the value of the peso dropped dramatically, causing the prices of foreign goods,

particularly U.S. goods, to rise sharply. Before the crisis, though, District exports to Mexico had been increasing throughout 1994.

Even Larger Markets

Exports continue to grow in importance, not only for the national economy, but for the District's as well. Although they still represent only about a tenth of total output, exports increasingly are becoming a more important piece in firms' future plans. Thus, firms have realized that their target markets are broader today than they were yesterday, and that they're likely to be even larger tomorrow.

Adam M. Zaretsky is an economist at the Federal Reserve Bank of St. Louis. Thomas A. Pollmann provided research assistance.

**TOP EXPORTING INDUSTRIES IN
EIGHTH DISTRICT STATES
(First Quarter 1995)**

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| ARKANSAS | Chemicals | Food | Electrical Equipment | Computers & Nonelectrical Equipment | Crops |
| ILLINOIS | Electrical Equipment | Computers & Nonelectrical Equipment | Transportation Equipment | Chemicals | Scientific & Measuring Equipment |
| INDIANA | Transportation Equipment | Computers & Nonelectrical Equipment | Chemicals | Electrical Equipment | Primary Metal |
| KENTUCKY | Transportation Equipment | Computers & Nonelectrical Equipment | Paper | Food | Electrical Equipment |
| MISSISSIPPI | Transportation Equipment | Paper | Food | Chemicals | Electrical Equipment |
| MISSOURI | Transportation Equipment | Computers & Nonelectrical Equipment | Chemicals | Electrical Equipment | Food |
| TENNESSEE | Transportation Equipment | Chemicals | Computers & Nonelectrical Equipment | Crops | Electrical Equipment |

SOURCE: Massachusetts Institute for Social and Economic Research (MISER), University of Massachusetts