Economic SYNOPSES

short essays and reports on the economic issues of the day

2013 ■ Number 26

Current Risks from Exports and Foreign Sales

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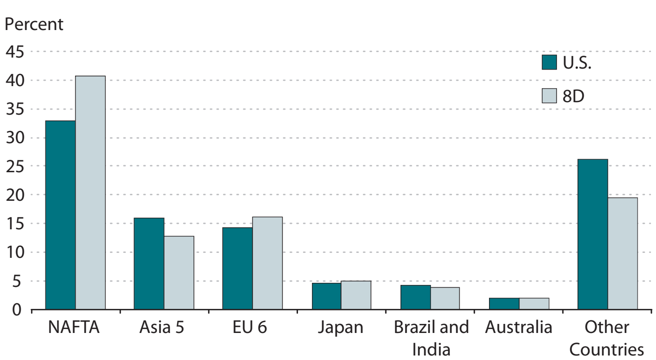
Slowdowns in several foreign economies have created some downward risks for the U.S. economy.[1] Although recessions in foreign economies can affect the U.S. economy through several channels, this essay focuses on two: (i) exports of U.S. goods to foreign countries and (ii) foreign sales of U.S. multinational firms, that is firms with affiliates in other countries, where they produce and sell directly. The data examined include the United States as a whole and, for comparison, states in the Eighth Federal Reserve District (8D) excluding Illinois[2] (i.e., Arkansas and portions of Missouri, Mississippi, Tennessee, Kentucky, and Indiana).

We constructed three indexes: U.S. goods export shares by country or region, U.S. multinational firms' foreign-sales shares by country or region; and for selected multinational firms in the 8D foreign sales of goods and services by country or region.

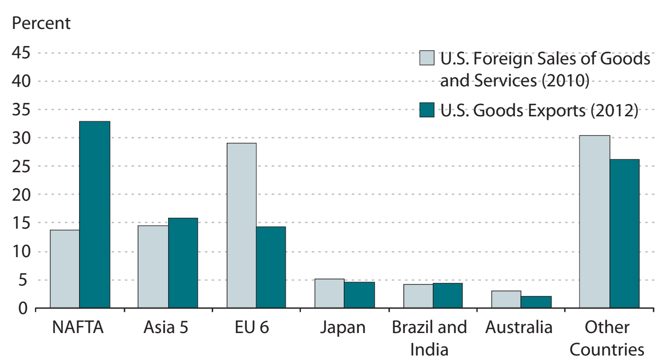
We used these indexes to construct the charts and table. The first chart shows U.S. and 8D goods export shares by country or region for the United States in decreasing order by share (except for "Other Countries"). As the chart shows, U.S. and 8D goods exports are concentrated in a handful of countries: the two other NAFTA (North American Free Trade Agreement) countries (Mexico and Canada); five Asian countries (China, Hong Kong, Singapore, Korea, and Taiwan); and six major European countries (the United Kingdom, Germany, the Netherlands, France, Belgium, and Italy). (See also Monge-Naranjo, 2013.) These countries account for 63 percent of U.S. goods exports and 70 percent of 8D goods exports. The chart also shows that NAFTA is more important to the 8D (41 percent of exports) than to the nation (33 percent of exports). In particular, 8D goods exports to Canada are 1.5 times higher than U.S goods exports to Canada. In contrast, the five Asian countries

Consistent with national data, foreign sales of affiliates of U.S. multinational firms headquartered in the Eighth Federal Reserve District are larger for Europe and the Asia Pacific region—not Mexico and Canada, the major U.S. trading partners.

U.S. and 8D Goods Exports: Shares by Country or Region (2012)



U.S. Multinational Firms' Foreign Sales and U.S. Exports: Shares by Country or Region



NOTE: NAFTA: Canada and Mexico. EU 6: The United Kingdom, Germany, the Netherlands, France, Belgium, and Italy. Asia 5: China, Hong Kong, Singapore, Korea, and Taiwan.
SOURCE: Bureau of Economic Analysis, WISER, and authors' calculations.

and the “Other Countries” category account for a relatively smaller share of 8D goods exports than U.S. goods exports.

The second chart shows (i) foreign-sales shares for U.S. multinational firms and (ii) U.S goods exports by country or region. (Because of data availability, foreign sales include both goods and services.) Similar to the export shares, the foreign-sales shares are substantially larger (over half) for the European, Asian, and NAFTA countries, while those for Japan, Brazil and India, and Australia are relatively small.

The relative importance of the European and NAFTA countries differs between the U.S. goods export shares and the foreign-sales shares. This finding is consistent with Brainard’s (1997) proximity-concentration trade-off theory: Closer proximity lowers trading costs, making exports more likely to neighboring countries; distance increases trading cost, making sales through affiliates in foreign countries more likely, particularly those with large markets.

The finding is also supported by the table, which shows by firm-size ranking, foreign sales for U.S. publicly traded firms headquartered in the 8D; the data come from reports to the Securities and Exchange Commission.[3] Of the 83 firms in the district, only 15 reported nonzero sales; the remainder either did not report a distinction between domestic and foreign sales or had domestic sales only (for example, many are financial and health care firms). Consistent with the country-wide data, foreign sales for the 15 firms come primarily from Europe and the Asia Pacific region—not Mexico and Canada, the major U.S. trading partners.

How will the U.S. economy fare in 2013 based on foreign economies? Foreign sales may decline for U.S. multinational

Selected 8D Publicly Traded Multinational Firms’ Foreign-Sales Percentages by Country or Region (2012)

Company Name	United States	Europe	Far East	Asia Pacific	Latin America	Middle East and Africa	Canada	Germany	Mexico	China	India	Other
Wal-Mart Stores Inc. (NYSE:WMT)	71.6											28.4
FedEx Corporation (NYSE:FDX)	69.9											30.1
Emerson Electric Co. (NYSE:EMR)	41.1	20.3		11.4	5.9	5.2	3.9			12.3		0
Tyson Foods, Inc. (NYSE:TSN)	95.0											5.0
Yum! Brands, Inc. (NYSE:YUM)	24.6									50.6	0.7	24.1
Monsanto Company (NYSE:MON)	54.6	12.7		6.2*	18.3		4.0		2.9			1.3
Brown Shoe Co. Inc. (NYSE:BWS)	87.5		8.3				4.2					0
Energizer Holdings Inc. (NYSE:ENR)	51.6											48.4
Acxiom Corporation (NasdaqGS:ACXM)	85.8	10.5		3.2								0.5
CPI Corp. (OTCPK:CPIC)	82.1						15.6		2.3			0
ESCO Technologies Inc. (NYSE:ESE)	72.9	9.0		9.8			3.2		0.9			4.2
Spartech Corp. (NYSE:SEH)	80.4	2.7		0.9			7.1		9.0			0
Buckeye Technologies Inc. (NYSE:BKI)	84.5							10.6				4.9
Wright Medical Group Inc. (NasdaqGS:WMGI)	57.0	19.2										23.8
Zoltek Companies Inc. (NasdaqGS:ZOLT)	38.8	30.1†		11.5				18.6				1.0

NOTE: *Data for the Asia Pacific region exclude China. †Data for Europe exclude Germany. Companies are listed in decreasing firm size measured by total sales.

firms: Forecasts call for near-zero growth rates (as measured by gross domestic product) in several European Union countries and a slower growth rate for China than in recent years. Growth for Canada and Mexico, however, is expected to be at least as sound as for the United States (IMF, 2013), which bodes well for U.S. exporters. ■

Notes

[1] Based on July 2013 estimates from the International Monetary Fund (IMF, 2013).

[2] We exclude Illinois because most economic activity in the state is concentrated in Chicago, which does not belong to the 8D.

[3] For example, see "Segment and Geographic Data (Tables)" under the "Notes Tables" tab at http://www.sec.gov/cgi-bin/viewer?action=view&cik=1110783&accession_number=0001193125-12-428583&xbrl_type=v#.

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Posted on September 20, 2013