



## TAILWIND IN A HURRICANE

### CAN A FALLING DOLLAR HELP TENNESSEE EXPORTS IN 2009?

by Steven G. Livingston

Finding light in the current economic gloom is a bit difficult. In the case of Tennessee's exports, it's currently a case of waiting for the other shoe to drop. Through November, the state's foreign sales have held up. But what will 2009 bring? Presumably a downturn, reflecting worldwide economic difficulties. What little good export news we get may likely come from the trajectory of the dollar in the coming year. The dollar, which had been providing a steady tailwind for exporters as it fell through 2007 and 2008, suddenly stiffened when the credit crisis hit this past October. Around the world, people sought refuge in the relatively safe greenback. In the two months that followed, Tennessee's dollar index gained almost 15%, and by December it had returned to 100 for the first time in over four years. (The index was set at 100 in January, 1998.) A tailwind quickly turned into a headwind.

Now for the good news, such as it is. Most experts believe this rise in the dollar will prove short-lived. An important survey by the UN's Department of Economic and Social Affairs actually predicts a rather steep fall for the dollar in the year ahead. The reason is that the forces that led a stampede back to the dollar should run out of steam, while the longer-term weakness of the currency should again come to the fore. Whatever one's larger views are about a weakening dollar, it has been historically good for American exports. To the extent that exports fuel economic growth, this is a positive.

The Federal Reserve Bank of New York has compiled trade indices for individual industries. Using these indices, we can get some sense of how each different industry responds historically to movements in the dollar's value. With this information, we can attempt to locate which Tennessee industries might be best positioned to take advantage of a falling dollar. Under current global conditions, one would be foolish to predict these industries will grow over 2009, but minimally we might expect the dollar's decline to attenuate their losses. Which industries are these?

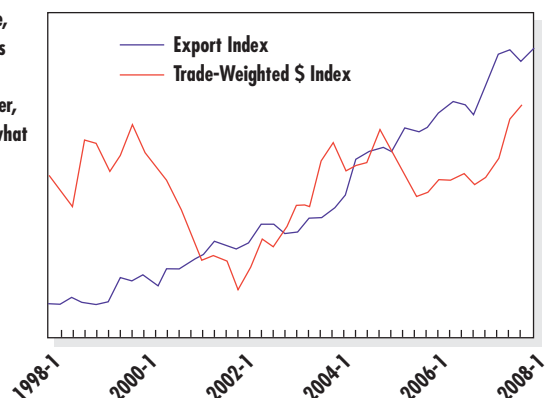
At the end of this article are charts of the Tennessee industries we think benefit most from a falling dollar.

Essentially, they are likely to be industries that export final products rather than those that send components or unfinished products overseas, to then return to the U.S. to be completed or assembled for sale in the North American market. Many of these latter exports are intra-firm and respond more to changes in U.S. demand than to global conditions or exchange-rate moves. In the case of Tennessee, for example, the transportation and rubber industries are not very responsive to changes in the dollar. In both cases, state exports are to a significant extent driven by eventual sales of cars in the U.S. and Canada. The state's computer and electronics industry falls into this category as well, though it also is an example of the second type of sector that doesn't appear very responsive to changes in the dollar. This is a sector where it is sometimes difficult to differentiate brands and where many foreign competitors invoice in dollars and can absorb currency fluctuations in their pricing decisions. A third type of export for which we don't find much influence from movements in the dollar is simply a product that, for whatever reason, is demand inelastic: buyers don't seem to be very sensitive to its price. In Tennessee, the best example is the beverage industry. Beverage exports here are mostly whisky exports. Look at the graph of this industry's exports versus changes in the value of the dollar. You can see that whisky sales rise almost every quarter, no matter what the dollar is doing. They simply aren't very price sensitive.

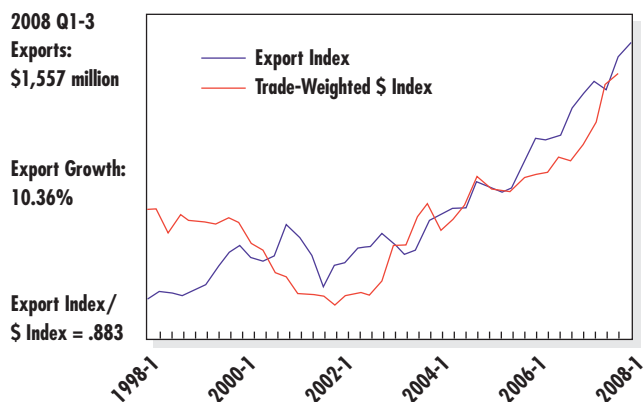
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#### Beverages

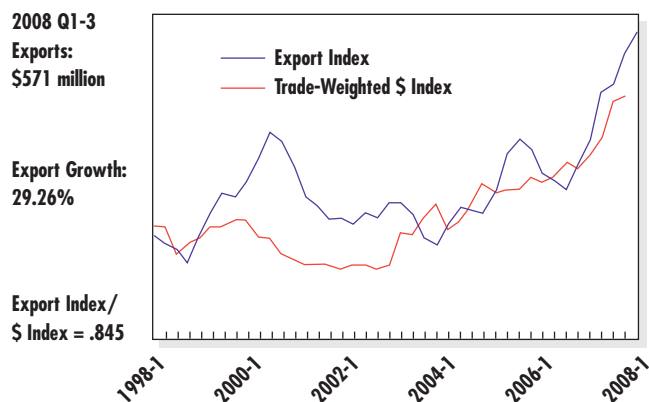
In Tennessee, whisky sales rise almost every quarter, no matter what the dollar is doing.



## Nonelectrical Machinery



## Electronic Equipment and Appliances



## FALLING DOLLAR

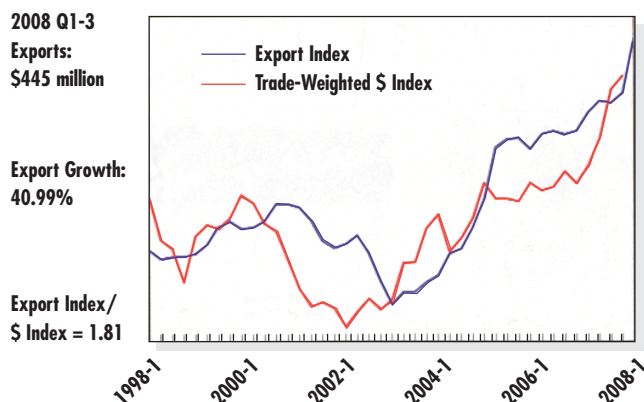
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So what are we left with? The graphs on this page display the four Tennessee industries that appear to have been the most susceptible to changes in the value of the dollar over the past decade. We graph an export index for the industry (1998Q1 = 100) against the inverse of its dollar index over the past decade. The graph compares the change in the industry's exports to changes in the strength of the dollar. For each industry, we list the amount of that state industry's exports during the first three quarters of 2008 and its export growth rate over that same period. The third number is the estimated percentage impact on exports of a one-point change in the industry's dollar index. If the dollar falls by one point, how much does the export index rise? As already noted, one would hardly pre-

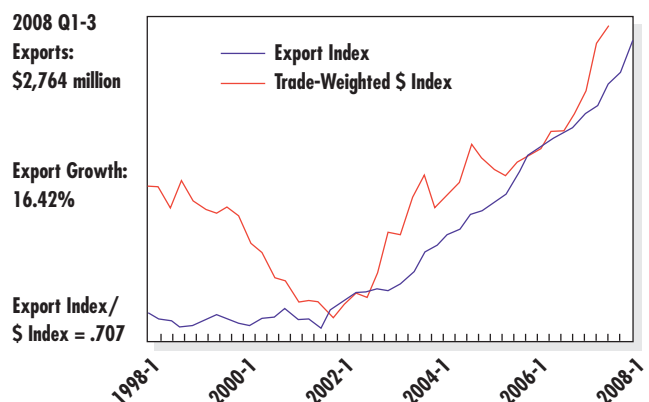
dict gains in these industries for the coming year even if the dollar falls. The exchange rate is not the only factor that influences foreign sales! The estimated impact is calculated from past performance, taking into account a variety of factors, and serves only to tell us which industries are most likely to get a currency boost in these bad times. Unfortunately, we may have to wait a while for something better than this modest help. ■

**THESE ARE THE FOUR TENNESSEE INDUSTRIES THAT APPEAR TO BE MOST SUSCEPTIBLE TO CHANGES IN THE VALUE OF THE DOLLAR.**

## Food Products



## Chemicals



3rd Quarter 2008

ELECTRICAL EQUIPMENT ROSE TO ITS HIGHEST RANKING IN TWO DECADES.



3rd Quarter 2008

SCANDINAVIA WAS A DIFFICULT MARKET LAST QUARTER.



### Tennessee's Largest Export Sectors

	Exports	Change from Last Year	Change from Last Quarter
Transportation Equipment	\$1,012,136,273	1.5%	3.7%
Chemicals	\$957,491,440	22.8%	2.0%
Computer and Electronic Products	\$900,267,116	6.7%	8.5%
Miscellaneous Manufactured Goods	\$687,637,377	19.0%	1.1%
Nonelectrical Machinery	\$510,510,848	10.2%	-9.7%
Electrical Equipment and Appliances	\$211,154,217	31.2%	7.4%
Agricultural Products	\$209,539,474	14.2%	26.2%

### Fastest-Changing Export Destinations

	Value of Exports	Gain	Decline
<b>COUNTRIES WITH THE GREATEST GROWTH</b>			
Ukraine	\$9,234,970	255.9%	
Nicaragua	\$7,055,002	223.6%	
Bahrain	\$6,672,170	221.8%	
Hungary	\$10,129,637	121.5%	
Iraq	\$18,033,887	116.8%	
<b>COUNTRIES WITH THE GREATEST DECLINE</b>			
Portugal	\$3,964,522		-54.0%
Macao	\$3,524,996		-48.8%
Denmark	\$5,790,140		-38.7%
Sweden	\$17,785,126		-34.1%
Kuwait	\$19,003,868		-29.6%

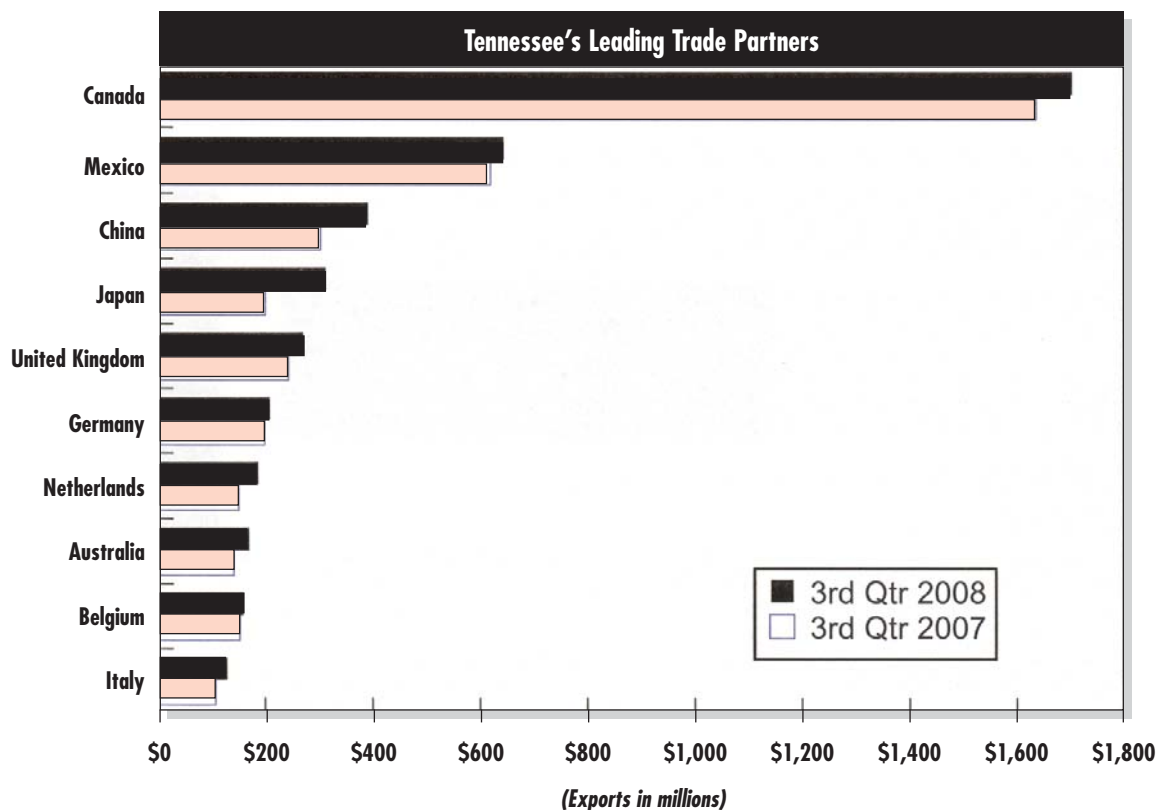
(Among countries averaging more than \$2 million in sales per quarter)

3rd Quarter 2008  
3rd Quarter 2007

HALF OF THE TOP 10 WERE EUROPEAN MARKETS.



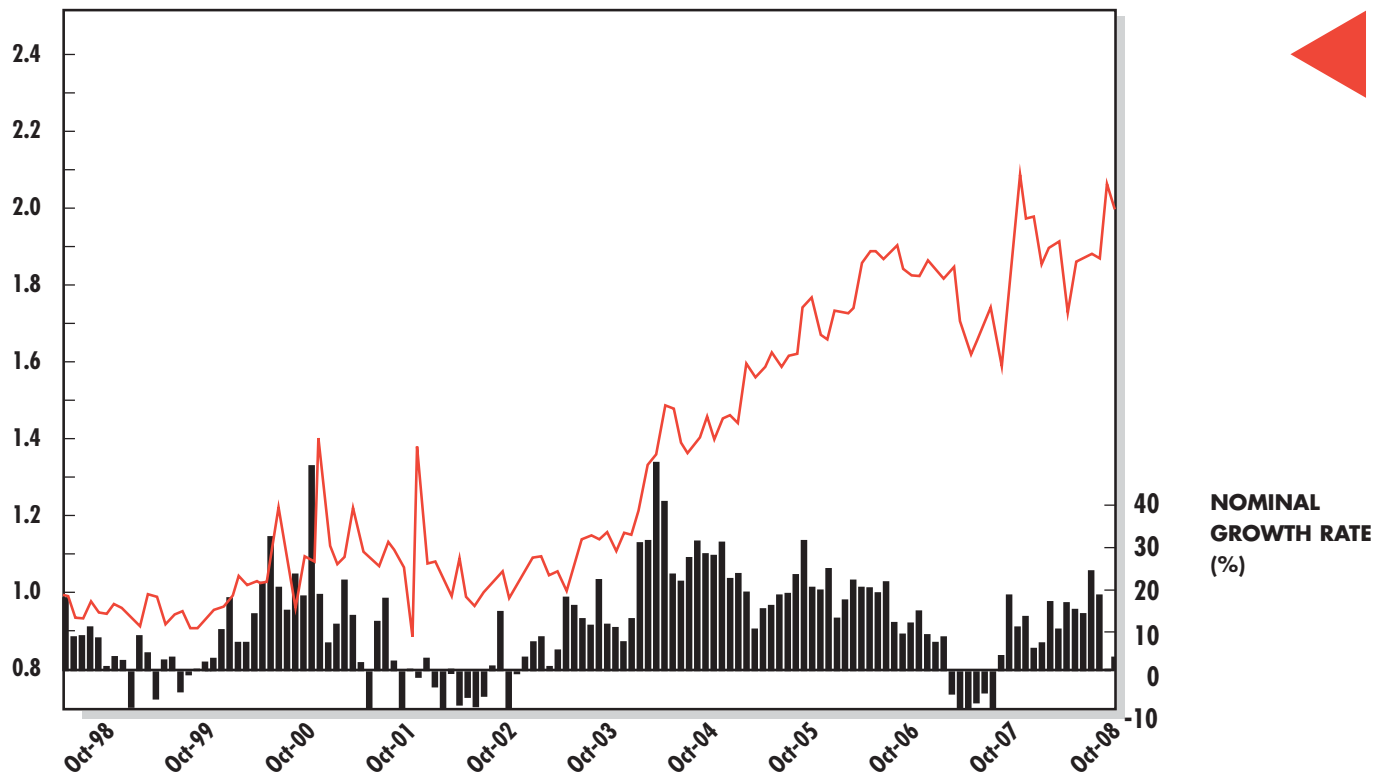
### Tennessee's Leading Trade Partners



## Tennessee Monthly Exports

Exports in \$ billions

(Seasonally adjusted, expressed in year 2000 dollars)



3rd Quarter 2008

### What's Hot and What's Not\*

	Value of Exports	Growth	Decline
<b>SECTORS WITH THE GREATEST GROWTH</b>			
Semiconductor Media Storage Devices	\$44,849,509	51,982.2%	
Chemical Wood Pulp, Dissolving Grades	\$22,461,434	7,396.7%	
Tapeless Video Player/Recorder	\$8,986,759	4,258.1%	
Medical Needles and Catheters	\$43,981,639	532.2%	
Single-Sheeted Leaflets and Publications	\$11,824,408	531.5%	
<b>SECTORS WITH THE GREATEST DECLINE</b>			
Computer Parts	\$19,377,149		-54.4%
Digital Cameras and VCRs	\$18,573,311		-49.1%
Miscellaneous Automotive Engine Parts	\$13,916,294		-36.8%
Steering Wheels, Columns, and Boxes	\$16,264,156		-36.5%
Seat Parts	\$22,373,435		-34.2%

\*Among Tennessee's top 100 exported goods

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## ONCE AGAIN, TENNESSEE'S PERFORMANCE PALED COMPARED TO THAT OF THE NATION.

Tennessee's exports crossed the six billion dollar mark for the third quarter of the year. At \$6.153 billion, the state's foreign sales were up nearly \$700 million from a year ago. These good numbers, however, again fell short of the overall American export growth rate and were primarily due to a tremendous July. The rest of the quarter was much weaker for state exporters.

Exports were strongest outside of North America and among those industries best able to benefit from the weaker dollar that characterized the first half of the year. Exports to Canada and Mexico were not as strong, in large part because they are concentrated in the automotive and computer sectors where the state has been having its problems over the past two years. Sales in Canada were up, but by only \$55 million, less than a 4% gain. The problems were indeed cars and computers. Laptop sales were off almost \$30 million, while motor vehicle part sales fell by nearly \$20 million. Difficulties in these sectors were enough to offset the solid growth in almost all other industries, leaving the state with pretty anemic numbers in its largest market. Mexico was more or less the same story. Tennessee exports rose less than 1% (to \$646 million) because of sizable drops in a variety of automotive-related products. Aluminum plating suffered the most, falling from \$79 million in 2007's third quarter to just \$14 million in 2008's.

The state's export growth, then, was in the rest of the world. Latin America, Japan, China, and Europe were all extremely strong, while the Middle East (up 15%) and Southeast Asia (8%) were at least solid. The latter would have been much better were it not for a large fall in computer-related shipments to Malaysia. That country is the site of substantial Dell operations, accounting for the fall.

Tennessee's Latin American exports grew to \$517 million—25% higher than in 2007. Brazil, the largest market, was the site of one-third of this gain. Chemicals, Tennessee's traditional major export to the region, posted some very good numbers and were joined this quarter by the medical instrument and electrical machinery sectors.

These same industries forged huge gains in Japan, as sales to that nation were up a full third (to \$315 million). Medical instruments and orthopedics alone made up 28% of the state's third-quarter exports to Japan. China was also up by a third (to \$394 million). Here the story was more in the textile area, as the biggest gains were in cotton, artificial filaments, and nonwoven textile materials. Exports to Taiwan and Hong Kong also soared, leading to a combined export growth of \$146 million to the entire Chinese economic area. These latter markets were the sites of substantial increases in electronic and chemical products.

The euro area and the U.K. formed the fourth region in which the state saw some very good numbers for the third quarter. Tennessee exports inside the euro countries were up \$50 million (to \$852). As one might guess by now, medical instruments and chemicals led the way,

although it was a good quarter for electrical machinery (\$50 million) as well. The Low Countries accounted for most of the increased exports, with the Netherlands buying an additional \$35 million of Tennessee goods and Belgium another \$18 million. Medical instrument sales to Belgium increased by \$47 million, the best single-market gain by an industry for the quarter. The U.K. added another \$29 million to Tennessee's export gains for the quarter, a 12% gain mostly due to medical instruments along with turbojets and unrecorded sound media (DVDs and the like).

State exporters did well in Australia last quarter (a 20% gain) and in India (Tennessee exports were up a third to \$48 million). Most other smaller markets were flat.

As should be obvious by now, medical instruments were the state's strongest export. Sales grew by 15% globally. They now outstrip Tennessee's second-largest single export (laptops) by nearly a third. Among the many chemical products posting strong numbers were titanium dioxide preparations (\$105 million) and miscellaneous cellulose derivatives (\$61 million). Losses for the quarter were concentrated in the automotive sector, with cars and SUVs each down about 4%. Almost anything made to go in or on an automobile was similarly down. Though laptop exports themselves gained 7%, parts and accessories for them were down more than 50%. This was the poorest performing major export outside the automotive sector.

The big picture is one of solid growth across the large majority of Tennessee's export industries but continuing problems in the transportation and computer sectors, the state's largest and third-largest exporting industries. Until they return to health, it is unlikely Tennessee will return to the dynamic export growth of three or four years ago. There is little to suggest that either sector will regain its footing in the near future. Indeed, even flat export numbers may be a significant achievement for many automotive products. State exporters now must deal with the global economic chaos as well as the strengthening dollar of the past few months. The coming quarters will prove interesting for anyone in the export industry. ■

Tennessee Trade-Weighted Dollar Index





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