U.S. Exports: Where and What

Presidents of the United States often announce lofty goals in their annual State of the Union addresses. President Obama is no exception, among the recent goals he cited was a commitment to double U.S. exports in the next five years. To this end he appointed what the Administration calls an “export promotion cabinet”, composed of the Secretaries of Commerce, State, Agriculture, and the Trade Representative.

The government is going to more actively pursue export growth. Obama says this will be the first time the U.S. has adopted a “single, comprehensive strategy to promote U.S. exports.” To be sure, he does not want higher exports just for themselves, but doubling exports, he figures, would create some two million jobs, he wants to promote exports as a way to bolster America’s competitive position in the world economy.

While this sounds like a worthwhile goal, the problem is that it is unrealistic and reflects a profound misunderstanding of how U.S. companies compete in the world economy.

U.S. Exports

Last year the U.S. exported $1.045 trillion worth of goods. It was the world’s third largest exporter behind China and Germany. The U.S. goods exports accounts for a little more than 7% of GDP, while China and Germany export closer to 40% of their respective GDPs. This might make it appear that doubling U.S. goods exports is a reasonable goal.

However, a closer look shows why it will be exceptionally difficult, if not virtually impossible, to double U.S. exports in the next five years. While the exports-to-GDP ratio is the conventional metric, for our purposes, looking at goods exports only, it may be more illuminating to recognize that U.S. goods exports amounted to 43% of U.S. manufacturing output in 2008. The U.S. is already exporting a significant portion of the goods it produces.

The U.S. nearly doubled its goods exports in the past decade. Yet, as U.S. goods exports were rising, the U.S. trade deficit exploded. The average monthly trade deficit in 1999 was about $22 billion. The average monthly trade deficit in 2009 was $32.6 billion. That is to say, increased exports are not necessarily the same as rebalancing the economy. Moreover, while those goods exports were doubling, employment in manufacturing actually fell.

How can this happen? Consider this, U.S. companies have been able to organize production on a continental basis under NAFTA. A U.S. company may produce some components or intermediate goods domestically and then ship them to the northern part of Mexico (see Maquiladora), where they are assembled into a final product, and exported back to the U.S. The value of finished goods is always greater than the sum of the parts.

Moreover, those components which the U.S. produces are, more often than not, manufactured in a capital intensive process, rather than labor-intensive. Over the past 40 years, the U.S. manufacturing output per hour of labor has tripled. Roughly speaking, each of the 12 million workers employed in manufacturing is producing $250k worth of goods a year. In other words, at the present U.S. rate of productivity every trillion dollar increase in goods manufactured results in four million new jobs.

Assuming domestic demand is not impacted, the doubling of exports requires the production of another $1.25 trillion worth of goods. Even if the productivity levels can continue to improve, this will require well more than the two million jobs the Administration projected.

Who is Importing U.S. Exports?

In order to double U.S. exports, it needs to find customers for its goods. With aggregate demand generally weak in most countries with large consumer markets, the prospect for a substantial increase in overall exports seems contained. Nevertheless, it is still worthwhile to review the geographic dispersion of U.S. exports.

The most recent country-break down data covers February 2010. In the 12-month period prior U.S. goods exports increased 16.4%. Five years at that pace and exports would double, but that rise in exports is largely a base-effect of the depressed year ago figures.

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This can be more readily understood by noting that goods exports now stand at roughly 14% less than they did during the 12 month period between February 2007 though February 2008 .

There is a single country that stands out as the fastest growing market for U.S. exports. U.S. goods exports to China have risen 10.6% over the past two years. The irony is that it is also the country that has replaced Japan as the main target of U.S. trade angst, and on whom the U.S. appears to spend a great deal of political capital trying to get them to appreciate their currency, the yuan.

It appears to be the only major trading partner with whom exports has increased in the 24-months through last February. In the same period, U.S. goods exports to the EU and Japan are off more than 16%. Goods exports to Brazil, Latin America as a whole, and Canada, are around 15.5% lower. Goods exports to the U.K. and Mexico are around 10% lower. Goods exports to Southeast Asia are more than 40% lower than they were in the 12-month period to February 2008. One might suspect that the economic crisis so distorted trade flows that a longer-term look is desirable.

Destination of U.S. Goods	Change from 2000
Canada	24%
Mexico	46%
EU	45%
U.K.	20%
Pacific Rim	52%
Japan	-9%
Latin America	204%
Brazil	202%
OPEC	247%
China	562%

China again stands out with a 562% increase. Many people will be surprised by the impressive growth of U.S. goods exports to Latin America, Brazil, and OPEC. At the same time, the decline in goods exports to Japan is startling.

What Goods does the U.S. Export?
In February, a little more than three-quarters of U.S. real goods exports were accounted for by three main categories: capital goods, industrial supplies and consumer goods. If semiconductors and automotive products were included, a full 90% of U.S. real goods exports can be accounted for.

In the 12-months through February, capital goods exports rose 5.8% and consumer goods rose 4.1%. This is a reflection of weak consumption and economic slack. On the other hand, the export of semiconductors is up 31.4%, while industrial supply exports have risen 32.6%. Automotive exports are up almost 53%. The stronger exports are largely intermediate goods and illustrate the beginnings of a fragile global recovery.

Since 2000, U.S. capital goods exports have risen by a quarter. Exports of consumer goods have risen almost 87%. Automotive exports are up 16.3%. Industrial supply exports have risen more than 200%. On the other hand, exports of semiconductors are actually 19% lower. This may be more a function of the decline in prices than a reflection of volume. Price variability may pose a challenge to doubling the value of U.S. exports even if volume doubles.

Should Exports Be the Focus?
The Obama Administration may have misdiagnosed the problem. It is not for the want of a trade policy, but an investment policy. As we have seen, a doubling of U.S. exports did not create net new manufacturing jobs. Nor did it reduce the U.S. trade deficit.

While the U.S. is among the world's largest exporters, exporting is not the primary way U.S. companies service foreign demand. The sales of foreign affiliates of U.S. companies are larger than U.S. exports by a factor of more than four. The key to the "build locally, sell locally" strategy to service foreign markets is investment.

Some have suggested that even if the goal of doubling exports is not fully met, the sheer attempt will help boost exports. This does not take into account the cost of protectionism that may be fostered domestically or abroad to counter a U.S. export push. It also seems that sometimes what is good for an export strategy undermines an investment strategy.

For example, some have estimated that even if the world economy were to grow at a 4.5% clip, which is well above what even optimists forecast, the dollar would still have to fall more than 30% in real terms. For equilibrium? Not clear. A weaker dollar on the other hand, raises the cost of the investment strategy, while making it cheaper for foreign companies to pursue the very same strategy.

If one assumes a modest pace of global economic expansion and projects current export ratios continuing, even without Obama's export promotion campaign, U.S. exports will likely rise 40-50% over the next five years and the U.S. economy will grow more than two million jobs.

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