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International Trade: A New Pillar of Florida's Economy?

In the midst of the most severe economic slump since the 1930s, concerns abound about the factors that will pull Florida's economy out of the current recession and, perhaps more importantly, fundamental forces that might propel future growth. For example, doubts exist about whether or not migration based population gains, and residential and non-residential construction activities – two stalwarts of the state's economic structure – will ever return to their pre-recession paths. Questions arise about what factors, if any, might emerge to replace such pillars of the economy.

Two somewhat recent global developments could have an important bearing on Florida's economic future. The first is the growing expectation that the foreign exchange value of the U.S. dollar may experience a long-term decline and even lose its status as the world's 'reserve currency.' The second development is the optimism that Brazil's economy is entering a period of sustained and robust economic growth. Brazil's economic future is especially important to Florida because Brazil is the Florida's largest international trade partner.

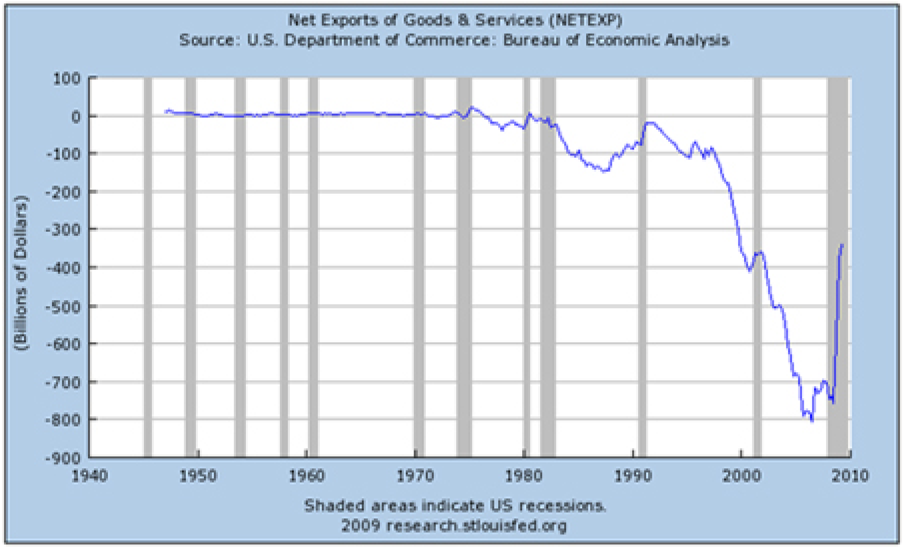
Since the late 1970s, the U.S. economy has been running balance-of-payments deficits (also known as "merchandise trade deficits"). Simply put, the United States has been consistently purchasing more goods from the rest of the world than we have been selling to them. Our merchandise trade deficits started to soar in the mid-1990s, reaching peaks of roughly $700 billion per year in the 2005 – 2008 time frame. While this year's merchandise trade deficit might be cut by as much as half due to the global recession and lower crude oil prices, it is unlikely to permanently decline in the foreseeable future.

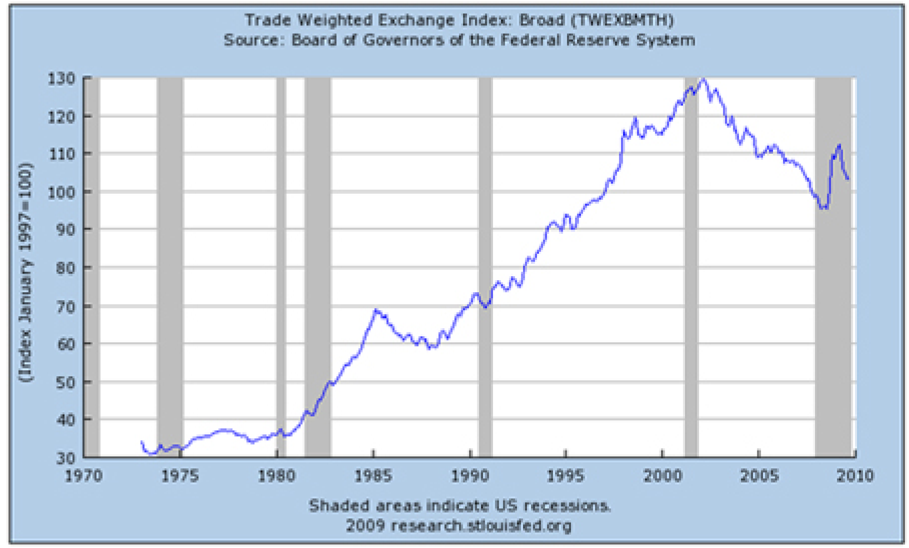
A slightly different perspective is that as a nation our public and private sectors have consistently been spending more than their incomes (i.e., spending on goods has exceeded what we produce and earn domestically). In other words as a nation we've been 'dis-saving.' The difference has been made up by buying from the rest of the world, which is the source of the $700 billion or so annual merchandise trade deficit.

The opposite side of the coin is how the U.S. has managed to consistently finance the merchandise trade deficit. Our excess of spending relative to income has been 'paid' for by borrowing the difference from the rest of the world. What we do not save as a nation is provided by the rest of the world. Foreign entities either hold reserves, or debt and equity claims equal to the amounts of our merchandise trade deficits. As long as foreign entities perceive attractive investment opportunities in the U.S., or expect the U.S. dollar to remain reasonably stable, mounting merchandise trade deficits are not necessarily a problem; however, these perceptions and expectations may now be shifting.

Although there is still much we do not know about the determinants of foreign exchange rates, three inter-related factors are known to be important: interest rate differentials, inflation rate differentials, and economic growth prospect differentials. The last one is vitally important to the fate of the U.S. dollar because countries with the most favorable economic growth potential and investment opportunities attract capital on a more sustained and permanent basis and have the strongest and most stable currencies in the long run.

Charts 1 and 2 show, respectively, the U.S. merchandise trade deficit since the 1950s and an index of the value of the U.S. dollar since 1977.





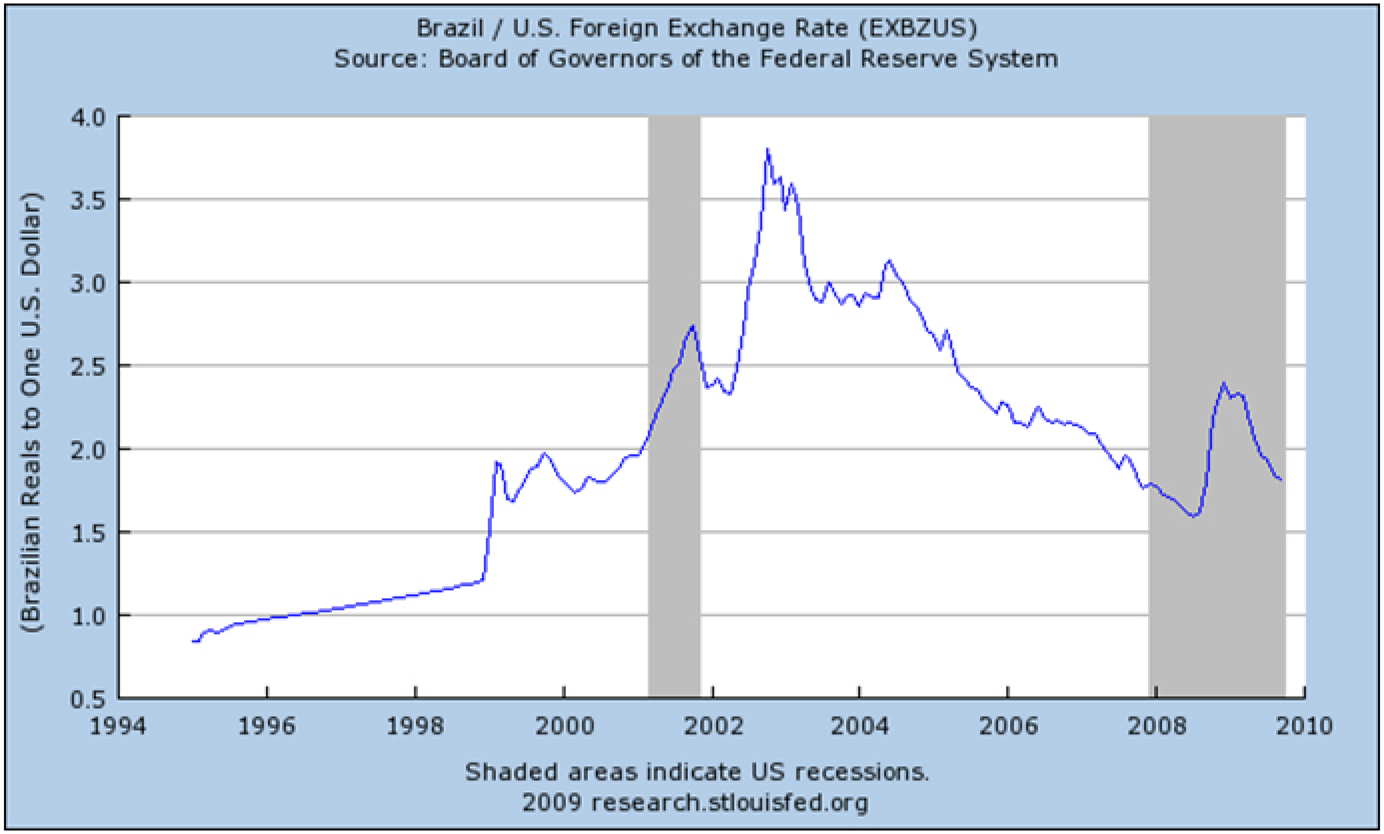
Closer to home, what might a declining dollar and Brazil's emergence mean for the future of Florida's economy? As noted in the August 2009 Economic Commentary, Florida's international trade had been one of the state economy's few bright spots during the current economic contraction. Florida's goods exports (manufactured and non-manufactured commodities and re-exports) totaled about $54.1 billion in 2008 – a robust gain of almost 21 percent compared to the prior year – making Florida the fifth leading export state in the nation. Although 2009 export growth does not look quite as bright - shrinkage of about 16 percent appears likely – the longer-term outlook appears favorable, especially in light of the emergence of Brazil's economy.

In the ten years from 1999 to 2008, the value of Florida's exports of goods grew from $24.2 billion to $54.2 billion – an annual average gain of approximately 12 percent. Manufactured goods have typically constituted about 73 percent of the state's exports, while agricultural, mining and forest products account for roughly 12 percent, and re-exports compose about 15 percent of Florida's exports. While all export categories contribute to Florida's economy, re-exports may provide the smallest contribution.

Brazil also emerged during this period as Florida's leading trade partner. The total value of Florida's exports to Brazil was more than $4.9 billion in 2008. Exports to Brazil now account for about 9 percent of all Florida exports. Since 2005, the value of Florida's exports to Brazil has jumped by about $1.9 billion and has been growing about 20 percent per year.

Florida's export surge to Brazil seems to reflect three underlying factors. First, Brazil's economy has been on a generally healthy, upwards, long-term trajectory. Examining the past 30 years, Brazil's real GDP: inched-up at a 1.60 percent annual rate in the 1980s; increased at a solid 2.70 percent rate in the 1990s; and has accelerated at a robust 3.20 percent annual rate in the last eight years. GDP per person has more than double to $7,700 since 1990, and inflation has been tamed to a 4 to 6 percent range from astronomical highs of several thousand percent in the early 1990s. Brazil's growth has fueled its demand for goods and services from other nations, including Florida.

The second factor accounting for Florida's export surge to Brazil is the depreciating U.S. dollar relative to the Brazilian Real. Since late 2002 the U.S. dollar has fallen by roughly 52 percent in nominal terms versus the Real and U.S.-made goods, including those from Florida, are significantly less expensive in Brazil as a result. Chart 3 depicts the Real/U.S. dollar exchange rate from 1995 to 2009.



With a growing economy and appreciating currency, Brazil's demand for U.S.-made goods has expanded rapidly. The value of U.S.-made goods exported to Brazil increased from about $15.4 billion in 2005 to approximately $32.3 billion by 2008.

The third factor, perhaps the closest to home, accounting for Florida's increased trade with Brazil has been the state's burgeoning civilian aircraft industry. The U.S.'s single largest merchandise export to Brazil is civilian aircraft and related items (such as engines, equipment, and parts). In 2008, Brazil purchased about $5.5 billion worth of these items from the U.S., while Florida exported about $3.5 billion worth of these items globally (i.e., to Brazil and other nations). While data on Florida exports by item to individual countries is not available, the clear implication is that Florida has become one of the primary suppliers of civilian aircraft and related items to Brazil. Fertilizer, computer accessories, and telecommunications equipment are also likely major Florida exports to Brazil.

Brazil's long-awaited emergence towards a prosperous, developed economy has combined with Florida's apparent competitive advantages in industries such as civilian aircraft, natural resource based areas, computer accessories, and telecommunications equipment to help propel Florida's international trade in goods. And while international commerce is not a new sector of Florida's economy, its importance to the state's long-term future is likely increasing.

In these regards, it is critically important that Florida and the U.S. provide healthy climates for domestic and foreign investment, because without such investments industries such as civilian aircraft can not expand. A lower value for the U.S. dollar may spur U.S. and Florida exports for some time; however, if the expected fall of the dollar ultimately reflects less favorable long-term growth opportunities in the U.S., then investment and export growth will shrink and Florida could then lose another pillar of its economy.

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