March, 2004

Merchandise Exports: New England Outshines the Nation

Pingkang Yu
In the first quarter of 2004, New England merchandise exports rose to $9.9 billion, almost 30 percent higher than two years ago. This strong rebound in regional exports was largely in line with the national export recovery from its lowest point in the first quarter of 2002 (point A in Chart 1). During this time, the region achieved even higher export growth than the nation as a result of its geographic focus among foreign markets and, especially, its regional strength within major export industries.

National Patterns

National exports have surged in the last two years. Merchandise exports rose 18 percent over the two years ending in the first quarter of 2004. The increase was broad-based across all major product groups, with the strongest gains registered in agricultural products, chemicals, and miscellaneous manufactures. By geographic area, exports of goods increased between 2002 and 2003 to Europe, to developing countries in East Asia, and to some parts of South America and Africa. (Chart 2.)

Nevertheless, New England’s export performance outstripped the nation’s. Had New England exports increased at the national pace, they would have grown only two-thirds as fast as they actually did during the last two years. (Table 1, line labeled “National Export Growth.”) Especially in the most recent quarter, New England exhibited conspicuous growth relative to the nation. So what drives the region’s superior trade performance?

New England’s Export Markets

New England has been helped somewhat by its geographic focus among foreign markets. (Chart 3.) Due to its traditional trade ties, the region has a substantial orientation towards the European market, where strengthening economic activity since the second half of last year and the depreciation of the dollar against the euro since early 2002 have helped to generate sizable demand for American goods. (Chart 4.)

The region also exhibits stronger reliance than the nation on Asia, the fastest growing area of the world. New England exports to Asia have increased almost by half in the past two years. New England differs further from the nation by having a weaker market focus on Canada and Mexico, destinations to which national exports have been growing slowly or even declining in recent years.

In total, the region’s market orientation accounted for about one tenth of its export growth in the last two years. (Table 1, line labeled “Geographic Focus.”) It is worth underscoring that a region’s market advantage stems from factors external to the region such as the growth of foreign economies and exchange rates. These factors change over time. Thus, New England’s geographic focus could conceivably become an even greater driver of regional exports in the future or serve as a negative influence.

Product Composition

Contrary to what some observers might guess, New England firms do not turn out a disproportionate share of the rapidly-growing products recorded in the national trade data during the past two years. The top ten list of export product groups for New England is similar to that of the nation. (Chart 5.) This suggests that regional exports would have grown roughly in line with national exports if the regional exports of each product group had increased at the national rate. There are two key differences between the top ten export groups of New England and the U.S. First, agricultural products—the fastest growing category at the national level in the last two years—does not appear on the regional list. Second, the region is over-represented compared with the nation in computer and electronic products, whose exports in dollar terms have grown only moderately in the past two years. These deviations from the national pattern have had a slightly adverse effect on regional export growth. (Table 1, line labeled “Product Composition.”)

Regional Industrial Strength

Calculations based on 3-digit NAICS (North American Industry Classification System) industries suggest that about one quarter of the region’s superior trade performance over the past two years can be attributed to its success within major export industries. (Table 1,
line labeled “Regional Industrial Strength.” Key categories of exports from New England exhibited faster growth than their national counterparts. (Chart 6.) This advantage is most obvious in chemicals, machinery, and miscellaneous manufacturing—industries in which the region achieved much faster export growth than the nation in the last two years. Transportation equipment and computer and electronic products, two of the top three export groups on both top ten lists, also experienced faster growth regionally than nationally. New England’s superior export growth in these industries remains evident after adjustment for country of destination within each industry.

A Deeper Look at New England’s Success

New England’s success within major export industries stems either from its firms’ focus on successful product niches or from a more subtle and pervasive form of competitive advantage over other regions of the country—or from some combination of both.

The 3-digit NAICS does not provide a full picture of New England’s export products. In the case of chemicals, for example, New England’s exports probably include a higher share than the nation’s of pharmaceuticals and toiletry products. When national exports of these types of chemicals grow rapidly, New England producers of chemicals are likely to enjoy faster growth in exports than their national counterparts. Similarly, within miscellaneous manufacturing, the region has a focus on medical devices. Within transportation, as reflected by the production scale and employment concentration, New England is known for jet engines and aircraft parts rather than land vehicles.

New England may also have a competitive advantage as a result of its access to physical and human capital. The region’s production endowments relative to the nation’s have led its businesses to specialize in the manufacture of skill-intensive, innovative products. This orientation enhances their ability to penetrate international markets over competitors in other parts of the country that produce roughly similar goods and sell to similar locations.

Note: A more extensive version of this analysis will be available in New England Economic Indicators later this year.
Chart 3. Exports by Destination: Average Share of 2003


Chart 4. Indexes of New England Exports by Major Destination


Chart 5. Exports by Product: Average Share of 2003

Table 1. Decomposition of New England Export Growth, Q1 2002 – Q1 2004

<table>
<thead>
<tr>
<th>Change Due To:</th>
<th>Cumulative, Q1 2002 to Q1 2004 ($ millions)</th>
<th>Percentage Share of Total Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Exports Actual Change</td>
<td>77,114</td>
<td>100</td>
</tr>
<tr>
<td>Change Due To:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Export Growth</td>
<td>1,472</td>
<td>65</td>
</tr>
<tr>
<td>Geographic Focus</td>
<td>242</td>
<td>11</td>
</tr>
<tr>
<td>Product Composition</td>
<td>-28</td>
<td>-1</td>
</tr>
<tr>
<td>Regional Industrial Strength</td>
<td>588</td>
<td>26</td>
</tr>
</tbody>
</table>

Source: Author's calculations based on state exports by 3-digit NAICS industry and country of destination. Data from Massachusetts Institute for Social and Economic Research.