

## Texas Exports Finally Pick Up but Have Far to Go

**T**exas exports bottomed out at the end of last year. Since then, they have been growing steadily. But the news still isn't very positive.

Texas exports (adjusted for seasonal variation and inflation) peaked in the third quarter of 2000 and fell almost 22 percent over the next five quarters. After bottoming out in the fourth quarter of 2001, exports rose strongly during the first half of 2002 but are still 14 percent below their peak (*Chart 1*). Although the turnaround has only just begun and the state's export upturn has varied greatly across geographic markets, performance has been positive for most country groupings.

Texas exports to Mexico have started to rebound, but they have farther to go for complete recovery than exports generally. Mexico is easily Texas' principal export market. A slow turnaround in Mexican trade means a slow turnaround overall. Many of Texas' exports to Mexico are re-exported to the United States after processing. Many of these re-exports are in cyclical durable goods categories.

While Texas exports overall fell for five straight quarters, the state's exports to Mexico fell for six. The decline was slightly greater, at 24 percent, than the 22 percent overall drop. Even though Texas exports to Mexico finally turned up in second quarter 2002, they remain 19 percent below the 2000 peak. Second quarter 2002 Mexican GDP was up over its year-earlier figure for the first time since early 2001. Mexico's non-oil exports to the United States have already begun to show signs of a turnaround with the U.S. recovery; hence, the increased Texas exports.

In contrast, exports to the rest of Latin America have not recovered at all. Unlike other geographic categories, exports to other Latin American countries show no evidence of slowing their drop-off. These exports have plummeted 35 percent from their peak, which occurred in second quarter 2001. With Argentina in depression, Uruguay in profound recession and Brazil in soft economic circumstances,

weak Texas exports to these countries ought not be surprising, especially since all three have endured strong devaluations this year. Meanwhile, industrial production in Chile and oil output in Venezuela are both down from a year earlier. Texas exports to Latin America are typically only about 4 percent of total state exports, so if some market has to falter, this one is not the worst.

Texas exports to Asia also plunged 35 percent before hitting bottom. After a turnaround, however, this year's exports have climbed back to 15 percent below peak. How this pattern plays out in Asia is a subject of much interest. It will reflect not only continued recovery in Asian demand—and in U.S. demand for products exported to Asia for further assembly and re-import—but also global cost factors. For example, over the last year and a half, a number of Mexican maquiladora plants have moved to China, only to return to Mexico when they discovered that other costs of doing business more than offset China's lower wages. Meanwhile, as China makes the adjustments that its accession to the World Trade Organiza-

tion requires, exports for final consumption will increase.

No major geographic category of Texas exports has fully recovered. Exports to Europe remain 23 percent below their peak, though they have turned up a little. Exports to Canada are 14 percent below peak, despite a turnaround. For now, there is little evidence a sudden burst of growth will quickly return Texas sales abroad to previous levels.

However, if the U.S. economy continues to recover—and to purchase more from foreign countries such as Mexico that buy inputs from Texas—an important component of Texas exports will continue to expand. The same applies to Texas' important Asian exports. Nevertheless, Texas is a high-tech state in a world in which high technology led the slowdown. A full recovery in many of the state's export sectors will take time.

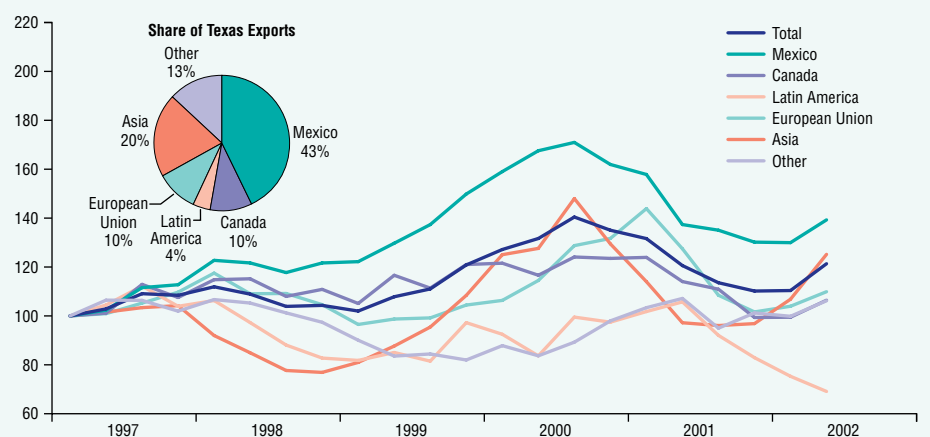
—William C. Gruben

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Chart 1

### Texas Exports

Real index, 1997:1 = 100\*



\*Seasonally adjusted.

SOURCES: Massachusetts Institute for Social and Economic Research; Federal Reserve Bank of Dallas.