

Hartford Business.com

Exporting Surge In Jeopardy

U.S. dollar's strength threatens Connecticut's economic shining star, economists say

By Jason Millman

jmillman@HartfordBusiness.com

Today

Connecticut exporters should brace for a wild ride in coming months due to volatile global financial conditions and possible sharp swings in the relative value of the U.S. dollar, economists say.

The stakes are high because nearly one in three manufacturing workers in Connecticut

depends on exports for their jobs. Nationally, less than one manufacturing job in five depends on exports. Only one state — Washington — is more dependent on exports than Connecticut.

So far this year, Connecticut's exporters have been thriving.

After state exports topped the \$11 billion mark in September, a 12.6 percent increase from the previous year, both Gov. M. Jodi Rell and Sen. Christopher J. Dodd made note of the success.

But those gains came in large part from a steady decline in the U.S. dollar, which ended in late summer. The dollar has surged since September, as nervous investors flocked to the relative safety of Treasury bills.

Now economists are asking how long Connecticut's export success can be sustained, particularly for less sophisticated products.

Dollar Volatility

"That [export growth] is going to end with the increasing value of the dollar," said George T. Haley, director of the Center for International Industry Competitiveness at the University of New Haven.



Fred Carstensen, director, Connecticut Center for Economic Analysis

In addition, weakness in foreign markets could further sap Connecticut exports, said Jeffrey Blodgett, vice president of research for the Connecticut Economic Resource Center.

“I’d be very surprised if we see much more [export] growth given the weakened credit conditions of countries that happen to be our biggest trading partners,” Blodgett said.

For Connecticut, that potential slowdown in growth would affect highly skilled manufacturers, such as aerospace manufacturing and medical devices. They have a record of strength in Connecticut because they require a high level of manufacturing expertise not found in many other countries.

In the past year, industrial machinery, at \$4.6 billion, was Connecticut’s top export, followed by aircraft and spacecraft parts, electric machinery, plastics and optics.

Small Biz Boon

The state’s small businesses have especially enjoyed a healthy export market.

In 2006, 89 percent of the 4,636 Connecticut companies that exported products were small- and medium-sized businesses with fewer than 500 employees.

Connecticut’s trade prowess has helped encourage foreign investment in the state, with 104,900 workers employed by foreign-controlled companies, according to 2006 Commerce Department statistics.

But there are a limited number of steps the state can take to help boost one of its brightest

economic stars because it is primarily influenced by global financial conditions, economists say.

They say potential volatility in the value of the dollar could be the key 'X' factor for future Connecticut exports.

Though the dollar has recently rebounded, a global economic forecast released by the United Nations last week cautioned that the dollar could crash within six months.

If the warning signs appear, nervous investors will likely flee American dollar assets, resulting in a devalued dollar, said Fred Carstensen, director of the Connecticut Center for Economic Analysis.

"The irony is, if that happens, it restores our competitiveness in exports," Carstensen said.

Global Response

However, should the global economic crisis worsen, demand for U.S. products across the world would decrease, even if the dollar's value falls. The U.N. report recommended that countries coordinate massive stimulus packages in response to the recession. Until they signal their intentions, it said, there's no real way yet to predict how the global economy will react.

"The bottom line is that things are going to be damn unstable for a while," Carstensen said. "We all wish the future was a little less obscure than it is right now."

In the midst of such uncertainty, Haley said, maintaining a strong manufacturing sector is key

to sustaining the export industry. “When you have a strong manufacturing economy, you’re going to have a better, overall effect in job creation and wealth creation for the state,” he said.

Another strategy to boost the state’s export business is to open satellite export assistance offices in other countries, as several other states have done, Blodgett suggested.

Connecticut’s satellite offices closed sometime in the late 1990s. A projected \$6 billion budget deficit over the next two years will add to the political challenge of opening them in the near future.

Even though the offices have been closed, the state still uses the services of the U.S. Department of Commerce’s global offices and is part of the 10-state Eastern Trade Council, said Laura Jaworski, trade specialist for the state Department of Economic and Community Development.

“It works for us because we’re able to use the resources of some of the larger states,” she said.

Send A Comment
