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# Get by with a Little Help from My…Other Exports

**Silvio Contessi,** *Economist*
**Li Li,** *Research Analyst*

Olli Rehn, the vice president of the European Commission and member of the Commission responsible for Economic and Monetary Affairs and the Euro, recently declared that "the euro area is currently in a mild recession." The most recent growth forecasts for gross domestic product (GDP) for the euro area are centered on a median value of –0.4 percent, down from the September 2011 forecast of 1.4 percent.[1] Commentators and analysts have suggested that slower growth in the euro area may reduce demand for U.S. goods and services and could have a severe impact on U.S. GDP growth in 2012 for two reasons. First, exports have played a larger role in the recovery from the 2007-09 recession than they have in the recent past. Second, the European Union (EU) is the largest single importer of U.S. goods and services. However, this essay argues that the direct impact of a potential EU recession on U.S. exports is small and mitigated by strong growth in emerging economies that have become larger trade partners with the United States.

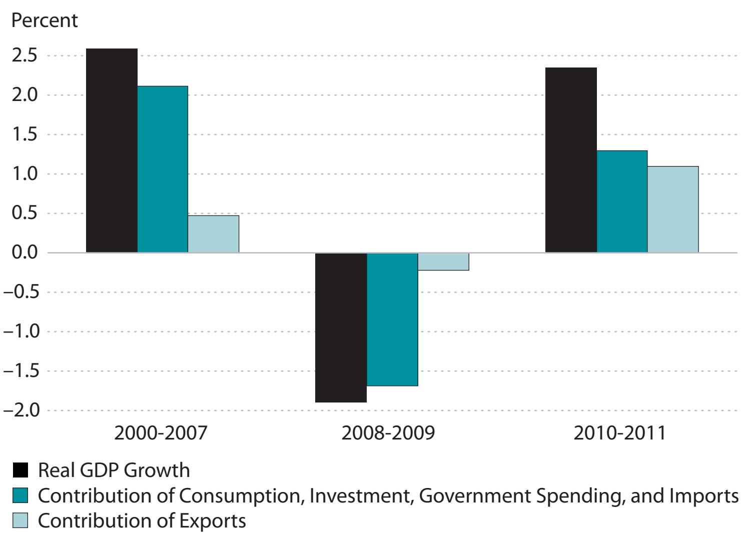
According to the first chart, after a –1.9 percent average U.S. GDP growth rate during the recent recession, the average rate for 2010 and 2011 rebounded to 2.4 percent, slightly below the pre-crisis average between 2000 and 2007. Exports alone have had a larger role in the U.S. GDP growth than in the recent past. The first chart compares the contribution of exports with the total contribution of consumption, investment, government spending, and imports in determining year-over-year GDP growth: The contribution of exports can be calculated as the real growth rate of exports in one year, weighted by the share of exports in GDP in the previous year.[2]

Similarly, we can compute the contribution of the remaining components of real GDP to real GDP growth. During the 2007-09 recession, the decline in exports did not affect GDP growth as severely as declining consumption and investment, but the recovery scenario has been quite different: Exports accounted for almost half of the average GDP growth in 2010-11, a much larger fraction than during the pre-crisis period. Will the euro area's sluggish growth reduce U.S. exports and, through them, reduce U.S. GDP growth? Probably not by much—for two reasons explained in the second chart, which plots the share of U.S. exports in goods and services for different groups of U.S. trading partners in 2000 and 2011.

**The European debt crisis could certainly affect the U.S. economy through other channels…but its *direct* impact on U.S. exports is likely to be small.**

The EU is the largest individual importer of U.S. goods and services, but only about 26 percent of total U.S. exports

**Contribution of Components to the U.S. Real GDP Growth Rate**

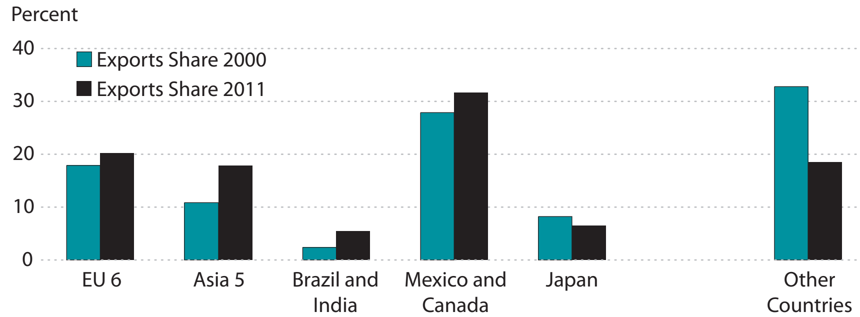



SOURCE: Bureau of Economic Analysis.

in 2011 were to the EU. Total U.S. exports represent a 13 percent share of U.S. GDP, but exports to the EU represented only 3.49 percent of that total and 0.4 percent of U.S. GDP growth in 2011. What's more, none of the euro area countries that are currently burdened with sovereign debt crises are major importers of U.S. goods and services. Thus, a potential slowdown in U.S. exports to these countries would have little impact overall. So, which trading partners are fueling the strong U.S. export growth? Luckily, trade openness between the United States and emerging countries is paying off: Fast-growing emerging markets (e.g., China and Brazil) are buying more and more U.S. goods and services. The volume of U.S. exports of goods and services to China was $130 billion in 2011; its share of total U.S. exports, 7.32 percent, was four times larger than in 2000. Notably, the United States runs a trade surplus in services that helps counterbalance the trade deficit in goods.

The European debt crisis could certainly affect the U.S. economy through other channels—for example, through financial markets and international banking—but its *direct* impact on U.S. exports is likely to be small and mitigated by the robust growth in its other (i.e., emerging) trade partners.[3] The indirect trade effects, however, may still be substantial since the EU is a large export destination for goods and services for other U.S. trade partners—for example, the EU is the largest trading partner for China. ■

**U.S. Exports Share in 2000 and 2011 by Destination**




NOTE: EU 6: the United Kingdom, Germany, the Netherlands, France, Belgium, and Luxembourg, which have the largest U.S. exports shares among all EU countries; Asia 5: China, Hong Kong, Singapore, Korea, and Taiwan.
SOURCE: Bureau of Economic Analysis.

## Notes

[1] Other channels of transmission can also affect the degree of comovement between the United States and the euro zone; see, for example, Banternghansa and Peralta-Alva (2010).

[2] We can calculate the individual contribution of consumption, investment, government spending, and imports to real GDP growth using the same formula.

[3] In 2011, the European Union included Belgium, Denmark, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, the United Kingdom, Austria, Finland, Sweden, Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia. The European Union also includes the European Atomic Energy Community, the European Coal and Steel Community, and the European Investment Bank.

## Reference

Banternghansa, and Peralta-Alva, Adrian. "The European Debt Crisis and U.S. Economic Growth." Federal Reserve Bank of St. Louis *National Economic Trends*, August 2010; http://research.stlouisfed.org/publications/net/20100801/cover.pdf.