



## Nebraska's Exports Strong, But Concentrated

by:

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*Nebraska's export-based industries recently have been on solid footing, though exports are also highly concentrated among a few trading partners and one major industry. More than two-thirds of Nebraska's exports are destined for just five countries; Mexico and Canada account for nearly half. Moreover, food exports have accounted for a large majority of Nebraska's products sent overseas. The economies of Nebraska's major trading partners have been relatively stable, and food exports recently have been on the rise. These factors should support Nebraska's future exports, but increased diversification among destinations or products could also offer some protection against country-specific or industry-specific shocks.*

### Nebraska Export Trends

The value of products exported from Nebraska is a notable component of the state economy, but international exposure has remained slightly less than the nation. In line with the nation as a whole, the value of Nebraska's exports as a share of the overall economy increased significantly from 2004 to 2011 (Chart 1). In Nebraska, exports grew from about 4 percent of the state economy in the early 2000s, to almost 8 percent in 2011, and dropped to less than 6 percent in 2016. Similar trends occurred in the neighboring states of Iowa and Kansas. Nationally, exports accounted for nearly 10 percent of gross domestic product (GDP) in 2011, and fell to just under 8 percent in 2016.

Changes in exports as a share of the overall economy have occurred alongside changes in the value of the U.S. dollar. Currency rates determine how expensive or affordable a country's products are to foreign buyers. If the value of the U.S. dollar falls in relation to another country's currency, it reduces the relative price of U.S. goods in that market. Conversely, if the dollar's value rises, U.S. goods become more expensive. From 2002 to 2011, the value of the dollar, measured against a broad basket of other currencies, declined about 25 percent as the value of U.S. and Nebraska exports increased (Chart 2). Since 2011, however, the value of the dollar has increased 26 percent, and exports as a share of GDP have declined modestly.

Unlike the nation and surrounding states, however, the export of manufactured products as a share of total exports has increased in Nebraska in recent years. From 2000 to 2011, manufactured exports, as a share of total exports, fell from 84 percent to 72 percent, a trend similar to the nation (Chart 3). But since 2011, this share has increased back to 81 percent in Nebraska, even as the downward trend continued nationally and, generally, in neighboring states.

The primary driver of the recent strength in Nebraska's exports of manufactured products has been food products, specifically meat. Since 2011, the value of Nebraska's food exports has increased 4.7 percent, despite a 16-percent decline in the value of exports overall. The next strongest contributors to Nebraska's exports are machinery and agricultural products, which since 2011 also have dropped 30 percent and 40 percent, respectively, due to a sharp drop in agricultural commodity prices that began in 2013 (Chart 4).

## Export Concentration

A snapshot of Nebraska's export environment underscores a strong sense of optimism driven by solid global partners, but also at the same time notable concerns due to a lack of diversification. Nebraska's top five trading partners account for more than two-thirds of the state's exports. These trading partners include, in order of significance, Mexico, Canada, Japan, China and South Korea. Nebraska's level of exposure to its top five trading partners ranks the state 10th nationally. It is worth noting, however, that the concentration of Nebraska's top five trading partners is third highest for a landlocked state that does not share an international border (Chart 5).

More notably still, Nebraska's exports are highly concentrated among its top five trading partners in its most significant export category. Nearly 30 percent of Nebraska's exports, in terms of value, are food products shipped to one of these top five countries (Chart 6). Moreover, Nebraska leads all states in the value of its food exports as a share of total exports to all destinations at almost 40 percent of exports (Chart 7).

On one hand, the general economic strength of Nebraska's top trading partners points to further momentum for export activity. Economic growth in each of the top five trading partners has been relatively steady the past two years, and is generally expected to remain steady this year and next (Chart 8). The unemployment rate in each of these countries also has been stable the last few years, overall, and has declined notably in Japan (Chart 9). However, a concentration among just a few trading partners, or in one primary industry (food products), could also leave Nebraska more exposed than other states if one of those major partners, or the food production industry, experiences an economic downturn.

## Recent Export Developments

In recent months, Nebraska has maintained its export momentum. Through April, the value of Nebraska's exports increased significantly from the year before, bucking the trend of recent years when exports had been falling (Chart 10).

Similar to recent years, food exports also have been particularly strong in 2017. The value of food exports from Nebraska through April has increased 16 percent from a year ago, driven by substantial increases in shipments to East Asia (Japan, mainland China and Taiwan) (Chart 11). Meat exports have accounted for more than 75 percent of Nebraska's food exports in 2017, similar to recent years' trends.

A recent agreement to open Chinese markets to exports of U.S. beef products points to further optimism for Nebraska exports. In 2003, China banned imports of U.S. beef following the discovery of mad cow disease in some U.S. cattle herds. China, with a population of about 1.4 billion, would represent a significant opportunity for future export growth for Nebraska, which is currently the nation's second-largest exporter of meat products (Chart 12). In fact, since 2000, China's imports of meat products have increased by an average annual rate of more than 90 percent (Chart 13).

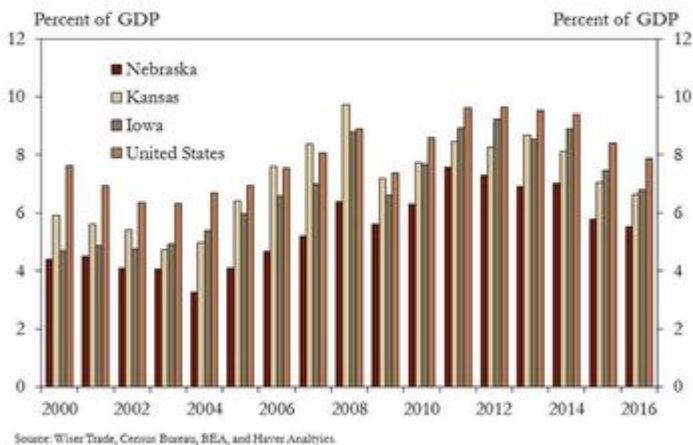
Despite the recent agreement with China, however, uncertainty about future trade policy has clouded the outlook. With discussions about the future of the North American Free Trade Agreement (NAFTA) still ongoing, areas with the most significant amount of trade to Canada and Mexico may have the most at stake in their export markets, depending on NAFTA's future. Although Canada and Mexico are Nebraska's top two trading partners, the economies of many other states are more highly exposed to exports to these two countries (Chart 14). Nevertheless, recent exports from Nebraska to Canada and Mexico have been particularly strong. In 2016, exports to Mexico were up 16 percent from the year before and exports to Canada through April 2017 have surged nearly 40 percent.

## Conclusion

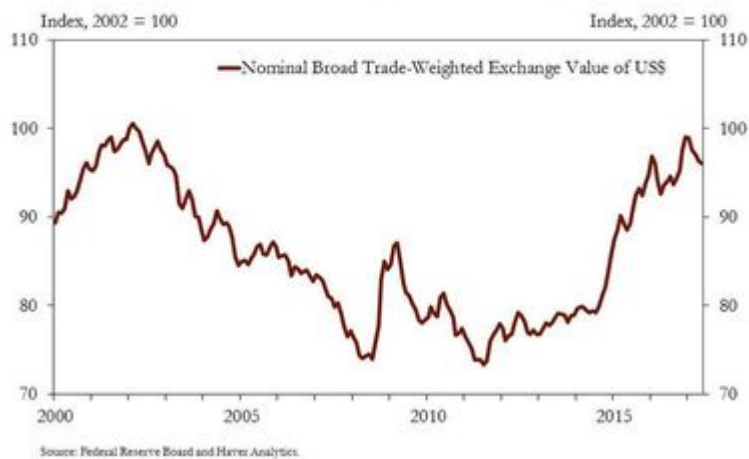
Prospects of economic growth among Nebraska's major trading partners should continue to support export-based industries. Despite a downturn in agricultural commodity prices that has limited the value of exports among industries connected to farming, food exports recently have been strong. Food products are the dominant export category for Nebraska, which is likely to continue to drive further growth, but adding other markets and destinations could also provide some additional diversification to growth derived from export activity.

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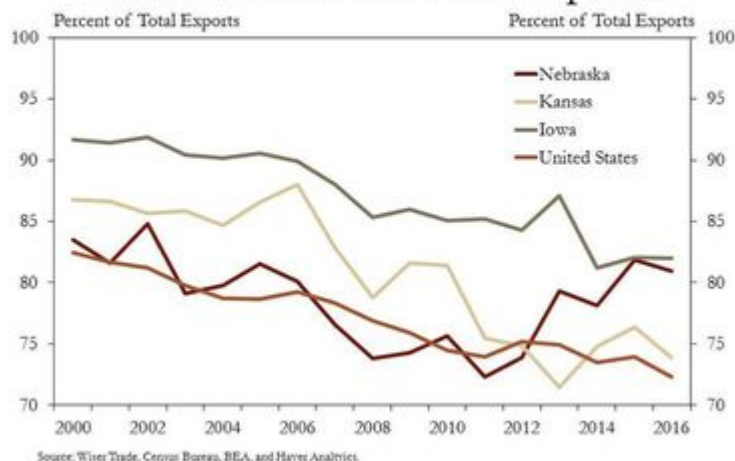
## Chart 1: Exports as a Share of Economy



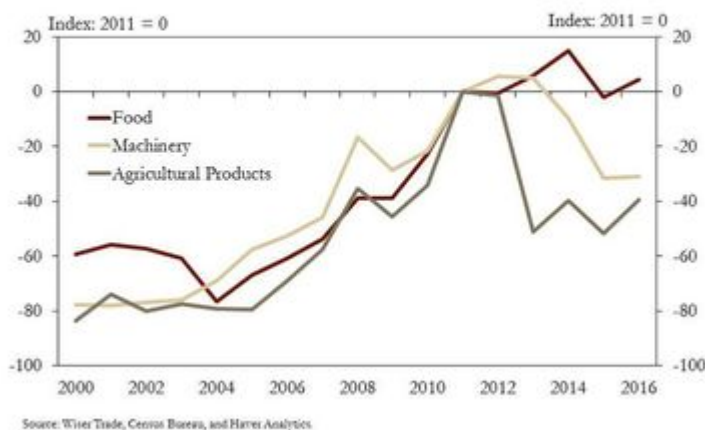
## Chart 2: Currency Exchange Rates



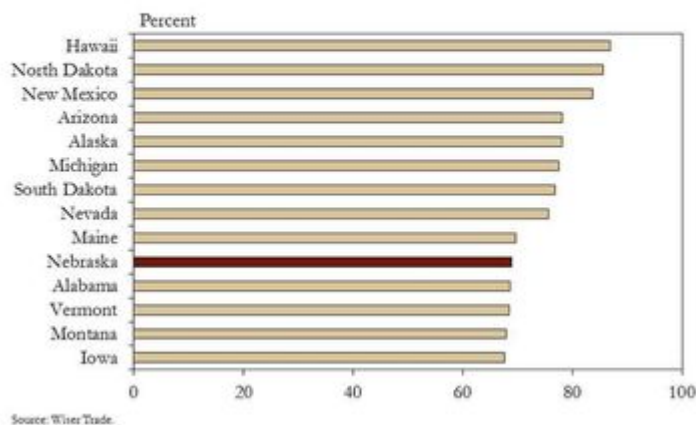
### Chart 3: Manufactured Exports



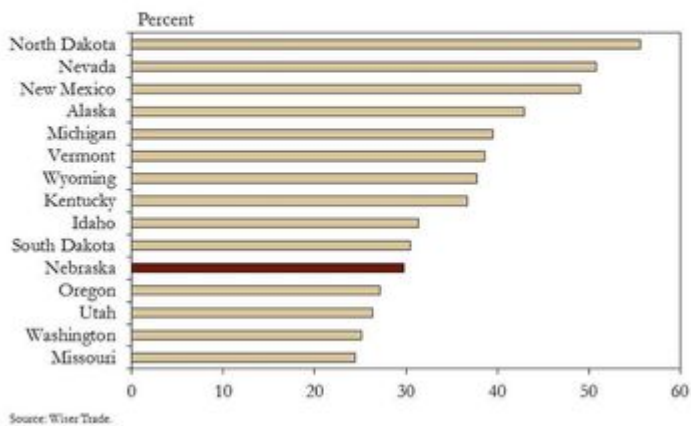
### Chart 4: Nebraska's Top Exports



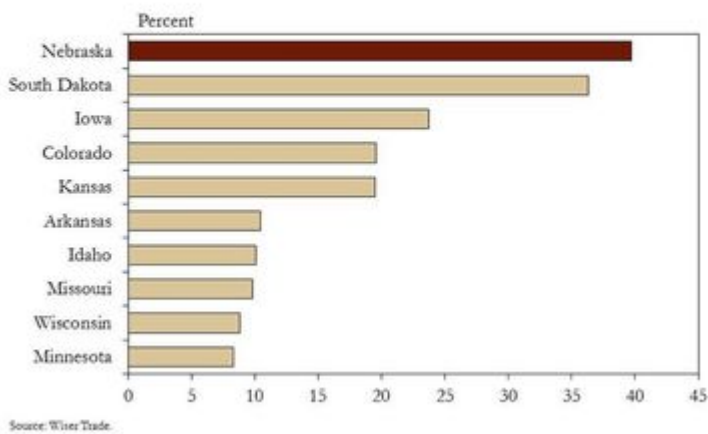
### Chart 5: Share of Exports to Top 5 Trading Partners



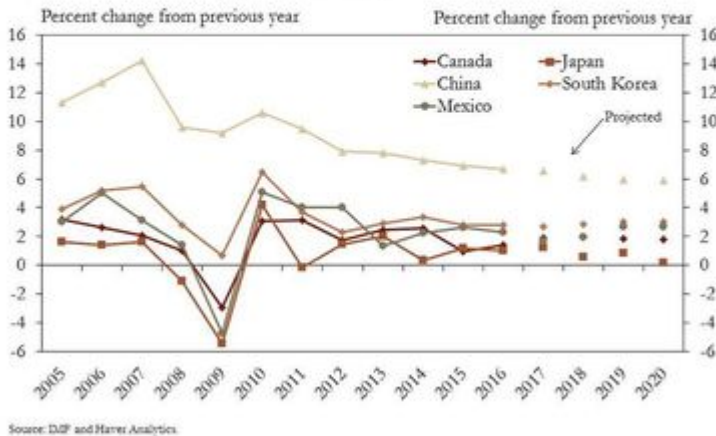
### Chart 6: Share of State Exports from Top Industry



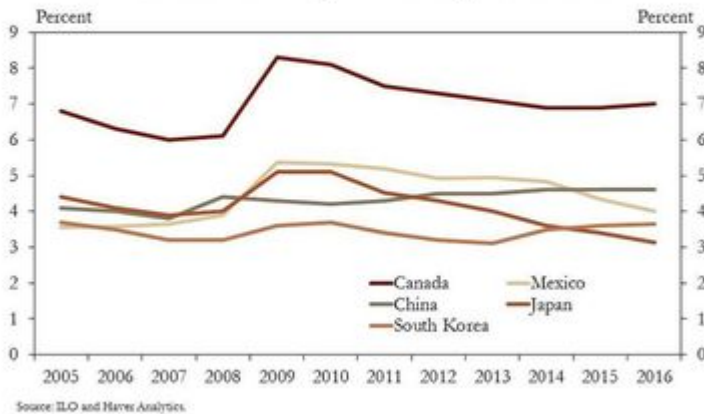
### Chart 7: Food Exports as Share of Total



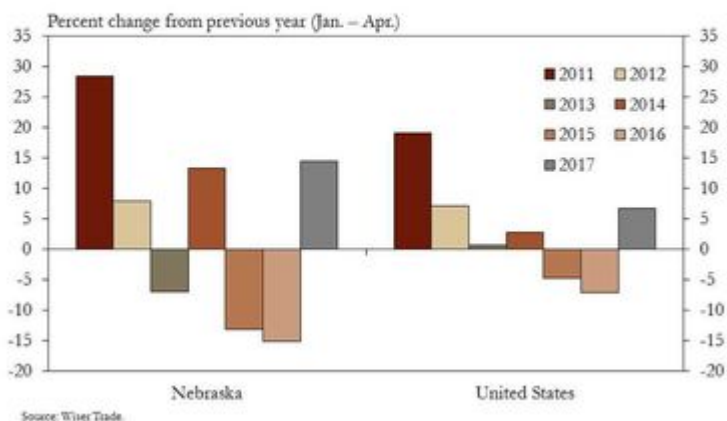
### Chart 8: GDP Growth of Nebraska's Top Trading Partners



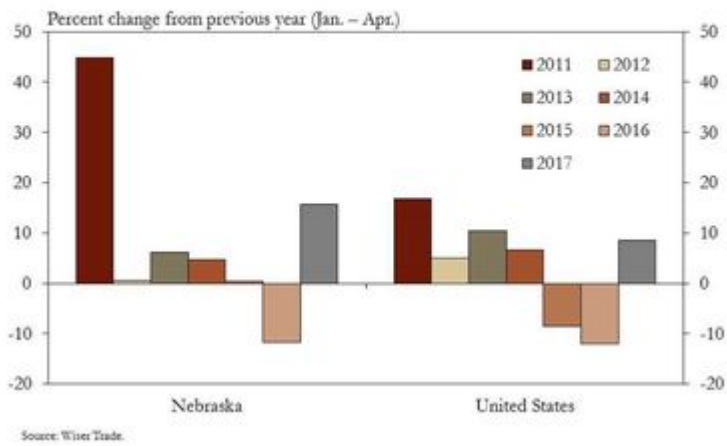
### Chart 9: Unemployment Rates of Nebraska's Top Trading Partners



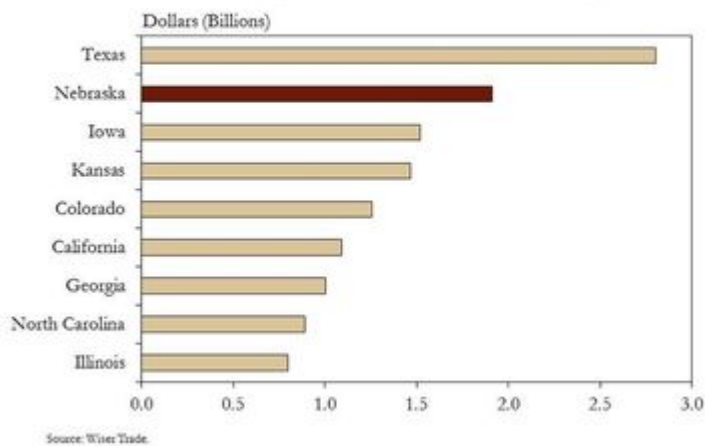
### Chart 10: Value of Exports



## Chart 11: Food Exports

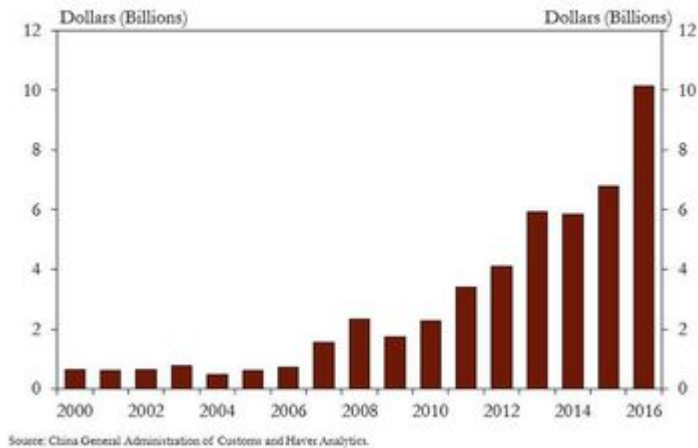


## Chart 12: Top Meat Product Exporters





### Chart 13: China Meat Imports



### Chart 14: Top Exporters to Canada and Mexico as a Share of GDP

