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New York State's Merchandise Export Gap

Howard Howe and Mark Leary

New York's merchandise export performance has trailed the nation's for several years. The cause of this gap is not easy to identify: the state maintains a relatively healthy mix of customer markets, remains well represented in industries with strong foreign demand, and continues to enjoy declining labor costs. A broader look at New York's competitiveness, however, reveals that high nonlabor costs may be hurting the state's manufacturing sector and thus its volume of exports.

Since 1990, New York State's merchandise export performance has lagged that of the United States as a whole. From 1990 to 1995, the state's foreign exports grew only 2.9 percent per year, while the nation's exports grew a substantial 8.3 percent per year. By 1995, New York's share of U.S. merchandise exports had fallen to 5.6 percent, from 7.3 percent in 1990 (Chart 1). The contrasting export performances of state and nation have had significant repercussions for economic growth: while the rapid acceleration in U.S. exports added momentum to the nation's economic recovery in the first half of the 1990s, the slow growth in New York's exports has done little to spur the more tentative comeback in the state.[1]

This edition of *Current Issues* seeks an explanation for the troubling slippage in New York's merchandise exports. We look first at the state's customer markets and the mix of goods it sends abroad—two factors that can influence demand. We then consider whether the area's labor costs could be driving up the price of New York's exports. Surprisingly, we find that none of these factors can satisfactorily explain the gap in export performance. As a result, we look for evidence of more fundamental competitive problems affecting New York's manufacturing sector as a whole. We conclude that the state's nonlabor costs—including high energy prices and burdensome taxes—may be hurting production for both domestic and foreign markets.

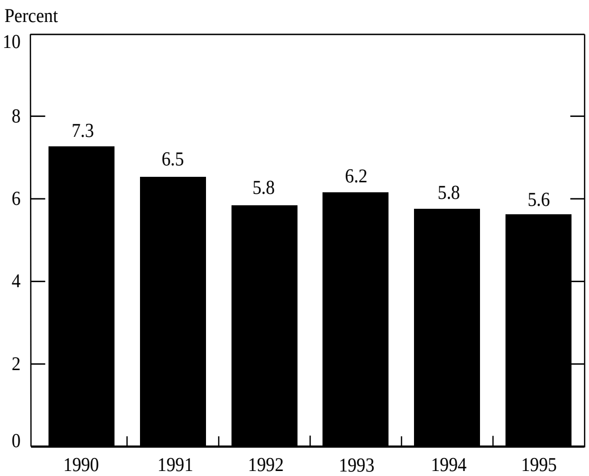
Are New York's Customer Markets and Export Composition the Problem?

The most obvious explanation for deteriorating export performance is weak customer markets. If New York catered to low-growth economies, we would expect its export performance to flag. Fast-growing economies, however, are as well represented in the state's export markets as they are in the nation's. New York's export share to Canada—the largest contributor to U.S. export growth over the past five years—is even greater than the U.S. average (Table 1).[2] In addition, 11 percent of both New York's and the nation's exports are sold to high-growth markets in Asia. A significant portion of the state's merchandise exports goes to the established markets of Europe and Japan, although New York does trail the nation in the proportion of goods it exports to fast-growing Mexico (3 percent as opposed to 9 percent for the United States).

Overall, the geographic breakdown of New York's export markets explains only a small part of the state's overall lag in export performance. Indeed, differences in the geographic composition of the state and national export markets can account for a mere 0.1 percentage

Chart 1

New York State's Share of U.S. Exports



Sources: MISER (1996); authors' calculations.

point decline in New York's relative export performance from 1990 to 1995.

The industrial composition of New York's merchandise exports also fails to explain the state's export gap. Electrical machinery, industrial machinery, chemicals, transportation equipment, and instruments led U.S. export growth from 1990 to 1995. In New York, the export concentration in these top five categories, 62 percent, corresponds closely to the U.S. average of 60 percent (Table 2). Clearly, New York manufacturers have a presence in industries experiencing strong foreign demand.

Although the state and national concentrations in these industries are similar, New York's exports grew at a slower pace than the U.S. average in three of the five categories (Table 2). The most notable gap between New York's and the nation's growth rates was in electrical machinery. In this category, the state's exports grew only 1.1 percent per year, while for the United States as a whole exports rose at a healthy 14.2 percent rate. New York's exports of instruments—which represent 11 percent of total exports in the state, or more than twice the national level—grew at less than half the U.S. pace. For chemical exports, the difference in the two growth rates was a sizable 3.8 percentage points.

In two categories—industrial machinery and transportation equipment—exports broke from the general pattern of slower growth in New York. The state's exports of industrial machinery (including computers) grew 11.6 percent per year, 2.5 percentage points faster than the U.S. average. In the transportation equipment category, New York's exports advanced 4.4 percent per year, while the nation's exports grew 3.8 percent per year. Superior performance in these two industries, however, was not enough to offset the state's lagging performance in the other major export sectors. Moreover, New York's slightly faster growth in transportation equipment stemmed entirely from a spurt in 1995 and may not prove sustainable.

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Table 1

Major Export Markets, New York and the United States

Percent of Total Exports, 1990-95 Average

Market	New York State	United States
Canada	24	21
Asia	11	11
United Kingdom	9	5
Japan	8	11
Switzerland	7	1
Germany	4	4
Mexico	3	9
Total	65	63

Sources: MISER (1996); authors' calculations.

Notes: Asia comprises Hong Kong, Taiwan, South Korea, and Singapore. Figures may not sum to totals because of rounding.

Table 2

Composition of Exports, New York and the United States

Percent of Total Exports, 1990-95 Average

Industry Category	New York State		United States	
Manufacturing				
Industrial machinery	17	(11.6)	16	(9.1)
Transportation equipment	14	(4.4)	17	(3.8)
Electrical machinery	14	(1.1)	12	(14.2)
Instruments	11	(3.7)	5	(8.4)
Miscellaneous (excluding jewelry)	9	(4.6)	1	(9.7)
Chemicals	6	(5.0)	10	(8.8)
Other manufactures	27	(-2.9)	32	(8.7)
Nonmanufacturing				
Agriculture	1	(5.6)	6	(5.3)
Mining, oil, and gas	0	(-9.0)	1	(0.7)
Total	100	(2.9)	100	(8.3)

Sources: MISER (1996); authors' calculations.

Notes: Annual growth rates appear in parentheses. Figures may not sum to totals because of rounding.

New York's Labor Costs Are Competitive

Another factor that can contribute to declining export performance is high labor costs. Although not the only production cost, labor is the largest input cost and a commonly used indicator of competitiveness. In this section, we compare manufacturers' unit labor costs,[3] export performance, and output in New York State and the nation.

For manufacturing as a whole, and for most major industries, New York's unit labor costs relative to the nation's have declined markedly since the mid-1980s (Chart 2). This cost advantage has not, however, produced an overall acceleration in manufacturing output or merchandise exports. In fact, as Chart 2 shows, New York's manufacturing output has slipped progressively behind U.S. manufacturing output since 1982.

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In one sector, industrial machinery, New York's export performance appears consistent with the sector's relative unit labor cost trend (Chart 3). New York's unit labor costs in industrial machinery have been declining relative to the U.S. average since 1985, and New York's exports of industrial machinery have outperformed U.S. exports in this category since 1990, even though state output has lagged U.S. output since 1986. In the other major export sectors, however, the gap in New York–U.S. merchandise exports has continued to widen despite the state's unit labor cost advantage.

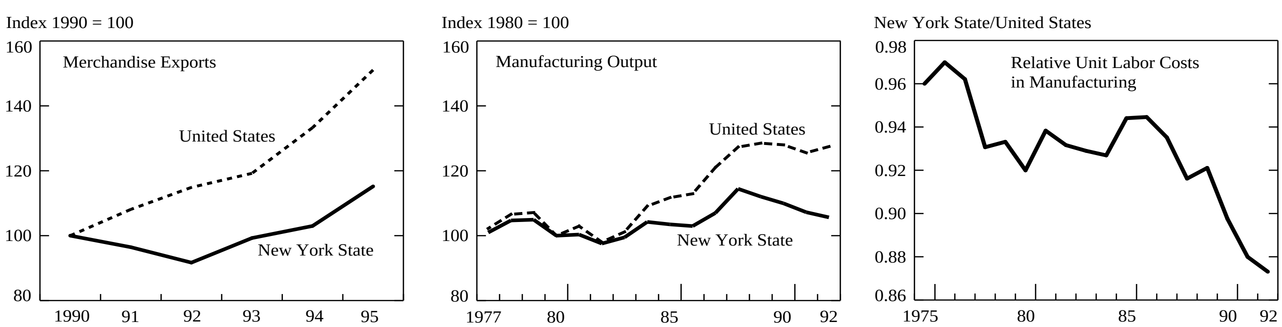
What Other Factors Can Explain the Gap?

Our review of New York's customer markets, export composition, and labor costs leaves the slow growth of the state's exports largely unexplained. We do know, however, that the slippage in the state's export performance has coincided with a general falloff in the state's manufacturing output. These parallel developments raise the question, What other factors could be creating a negative business environment and discouraging manufacturers from producing goods in New York for both foreign and domestic markets? Although the evidence is thin, some studies indicate that manufacturers encounter high nonlabor costs when operating in New York.

To evaluate New York's nonlabor costs, we consult an annual benchmark study that compares business costs across states and assesses the fifty states' overall business climates (Corporation for Enterprise Development 1995).[4] Using a set of twenty-four indicators,[5] the study measures each state's development capacity, that is, its potential for future growth and recovery from economic adversity. Significantly, the study assigns a grade of "C" to New York State's development capacity in three of the past five years. Several of the development indicators cited in the study may

New York has the highest unit energy costs of all the states and ranks among the highest in urban housing costs.

Chart 2
Exports, Output, and Unit Labor Costs in New York and the United States



Sources: MISER (1996); Bureau of Labor Statistics; Bureau of Economic Analysis; authors' calculations.

help explain the deteriorating trends in manufacturing exports and output. New York has the highest unit energy costs of all the states and ranks among the highest in urban housing costs. Additionally, New York scores poorly in bridge adequacy and sewage treatment needs.

The state's heavy tax burden may also discourage business activity. A study by M&T Bank compares state and local tax levels in New York with those in seven similar states—California, Texas, Florida, Ohio, Pennsylvania, Michigan, and Illinois (M&T Bank 1995). In 1992, New York's combined state and local taxes were the second highest per capita among these states. The local component of these taxes was the highest in the nation and more than twice the U.S. average. Even excluding New York City's high taxes, New York State's per capita local taxes were still 75 percent above the U.S. average and more than 50 percent higher than those in the next highest taxed state in the study, Illinois.[6] The M&T study finds that state-mandated services and spending as well as multiple layers of local government contribute to New York State's heavy tax burdens.

These nonlabor factors together can inhibit manufacturing activity in several ways. Companies facing higher energy costs and higher taxes cannot price their goods competitively. Steep urban housing costs mean that companies will find it difficult to recruit and retain workers. Infrastructure problems can increase construction costs and complicate the shipping of both supplies and finished goods. Although such effects are not easily quantified, these nonlabor factors would very likely discourage companies from locating in New York—or from expanding their existing operations in the state—and hence dampen production for export.

Conclusion

We set out to uncover factors that could explain New York's declining share of manufactured exports. We find that export composition and labor costs compare favorably with those of the United States as a whole and therefore cannot account for the gap between the state's export performance and the nation's. New York's exports have been well represented in high-growth markets, and the five fastest growing export categories represent the same share of total exports for New York as for the United States. Finally, New York's manufacturing labor costs are below the U.S. average and declining relative to that average.

Why, then, have New York's merchandise exports failed to keep pace with U.S. merchandise exports? The relatively harsh business climate for New York's manufacturing sector may be the answer. New York is saddled with the nation's highest energy costs. Moreover, infrastructure indicators point to key deficiencies relative to other states. Finally, New York's state and local tax burdens rank high compared with those of similar states. Although none of these factors alone can explain the decline in New York's manufacturing performance, together they add up to burdensome costs for manufacturers.

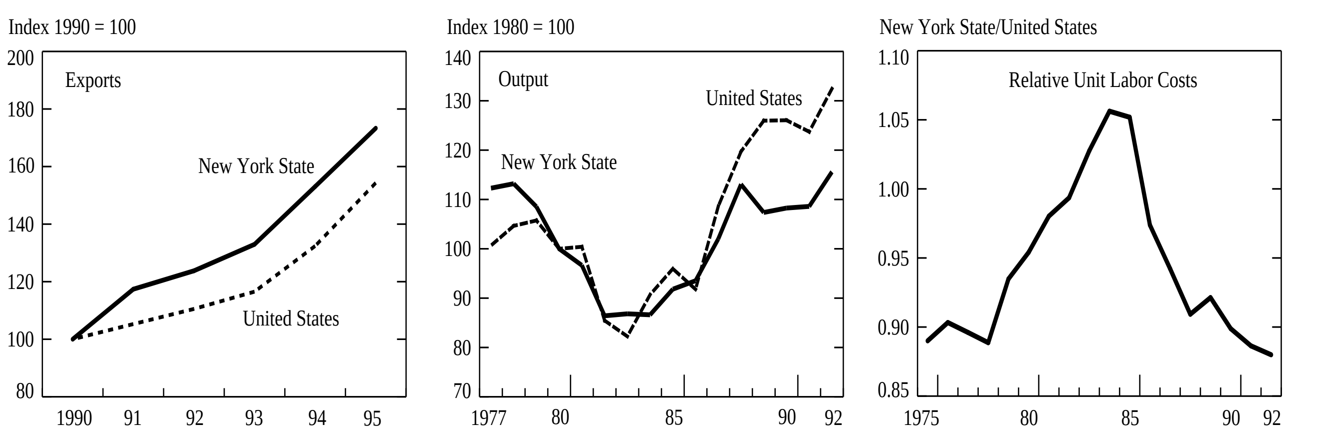
Notes

1. A rise in exports can stimulate the domestic economy through increased demand for intermediate inputs, higher incomes, and economies of scale. See, for example, Bauer and Eberts (1990).

2. Export data are from the Massachusetts Institute for Social and Economic Research (MISER) of the University of Massachusetts. MISER makes adjustments to state export data compiled by the U.S. Census Bureau. See MISER (1996).

Chart 3

Exports, Output, and Unit Labor Costs in the Industrial Machinery Sector, New York and the United States



Sources: MISER (1996); Bureau of Labor Statistics; Bureau of Economic Analysis; authors' calculations.

Note 2 continued

We exclude gold, jewelry and precious gems, and works of art and antiques from total exports. A disproportionately high share of these goods is shipped out of New York City, but only a small portion of their value is produced in New York State. (See Howe and Leary [1995] for details on excluding these categories from the data.)

3. The unit labor cost for each industry equals the average hourly earnings of each worker divided by productivity. Productivity is measured by the ratio of industry output to industry employee-hours (industry output / (employment x average weekly hours)). Industry output is based on nominal gross state product. Employment, hours, and earnings data are from the Bureau of Labor Statistics. Gross state product data (available only through 1992) are from the Bureau of Economic Analysis.

4. The study draws on data from the Edison Electric Institute (1994), the Department of Housing and Urban Development (1994), and the Environmental Protection Agency (1993), among other sources.

5. Not all of the twenty-four indicators apply to the manufacturing sector directly.

6. The M&T Bank study also compares the tax structure of Wyoming County, a small rural county in New York State, with that of similar counties in the peer states. Although Wyoming County's tax burden is 28 percent below the state average, its per capita tax revenues and local government expenditures are still 20 percent and 27 percent, respectively, above the average for similar counties in the other states.

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About the Authors

Howard Howe is a research officer and senior economist in the International Research Function of the Research and Market Analysis Group; Mark Leary, formerly an assistant economist in the Function, is currently an MBA candidate at New York University's Stern School of Business.

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