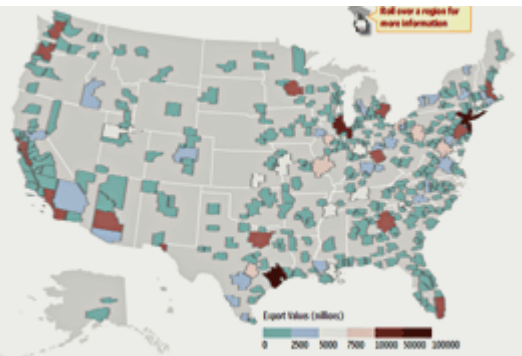




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# THE WALL STREET JOURNAL.



## Exports Prop Up Local Economies

By TIMOTHY AEPPEL  
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Much of the world may be struggling with the economic downturn, but life has been getting better in Columbus, Ind., Kingsport, Tenn., and Waterloo, Iowa.

These out-of-the-way places have become trade hot spots as U.S. exports, fueled by the dollar's fall, continue to provide a rare spark in an otherwise gloomy economy.

While many economists expect a recent snapback in the value of the dollar and a spreading global slowdown to soften that growth, exports have become a key to greater local prosperity more than at any time in decades.

Columbus, population 40,000, is an export powerhouse thanks largely to diesel-engine maker [Cummins](#) Inc., which has added 1,000 jobs there since 2003. Kingsport, population 44,000, is home to [Eastman Chemical](#) Co., which is spending \$1.3 billion to upgrade its sprawling chemical plant there on the strength of its global sales of plastics and fibers. And Waterloo, population 68,000, owes its healthy export economy to [Deere & Co.](#), which has announced its second major investment this year of its tractor plant there.

"Exports are impacting, in a positive manner, virtually every industry and every state," says Daniel J. Meckstroth, an economist at the Manufacturers Alliance/MAPI, an Arlington, Va.-based public-policy and research group that represents mostly large manufacturers.

Foreign buyers are scouring the U.S. for everything from guitar strings and wine corks to used dump trucks and newsprint. The volume is so great that some inland trade hubs can't find enough metal shipping containers to load products headed overseas.

## **Dramatic Shift**

Export-driven growth marks a dramatic shift in an economy that has relied heavily on consumer spending. That has slowed in recent months as Americans, nervous about job losses, teetering banks, falling home values, and rising gasoline and food prices, have tightened spending. Against that background, exports have emerged as a powerful motor.

Over the past year, real-goods exports have risen \$115 billion, or 12%, and are up across every major category. They now make up nearly 13.5% of gross domestic product, the highest percentage since World War II. Critics often grumble that the U.S. exports masses of scrap steel and other waste materials to recyclers in China and elsewhere, which is true, but exports of manufactured goods, commodities and services are also growing. Consumer products, from sporting goods to art supplies, have risen 12%, and even autos, which are languishing on showroom floors in the U.S., saw a 4% bump up in exports.

Service exports -- which include media, entertainment, financial services, computer software and foreign tourism in the U.S. -- have grown strongly right along with the larger goods side of the trade ledger. Through the second quarter of 2008, real-service exports are up nearly 10% over the past year.

It's a badly needed tonic for the beleaguered U.S. economy. A smaller trade gap, due to growing exports and slowing imports, combined to add 3.1 percentage points to the GDP's growth rate in the second quarter. The latest report from the Institute for Supply Management also showed that while manufacturing as a whole shrank slightly in August, the index for export orders, an indicator of future export business, rose to 57 from 54. ISM readings above 50 indicate expansion.

Key to this growth has been the weaker dollar, which has made American goods more competitive in global markets and prompted many manufacturers to expand production inside the U.S.

Consider what's been happening at D'Addario & Co., a Farmingdale, N.Y., maker of guitar and violin strings. A set of the company's violin strings sold for about £22.50 (\$39.55) in England two years ago, which made them slightly more expensive than those of their key competitor, which was selling strings at £21. But thanks to the decline of the dollar since then, the same set of D'Addario strings sells for about £24 today, while the competitor is now £27.

"Our competitors in the [violin-string] business are all European," says James D'Addario, the company's chief executive. "With the cost of the euro, they've just become far more

expensive in every market, including the U.S." And China, as well: D'Addario's sales of violin strings there are up nearly 400% this year.

The company, which had \$115 million in revenue last year, says it is making more than 550,000 strings a day at its Farmingdale plant, up from about 400,000 18 months ago. A large chunk of this is flowing to guitar manufacturers in Asia, a segment of D'Addario's overall business that's up 40% this year. Even though the company has cut the time for making strings through automation, it has had to add about 60 people to the production staff since last summer to keep up with the growth.

## **Dollar Edges Up**

The dollar has recently begun edging back up against key currencies, but it remains far below the levels it hit earlier in this decade, when a strong dollar was widely blamed for suppressing U.S. exports.

"It's getting increasingly likely that the pace of growth will slow, but to say the boom is over is too strong," says Nigel Gault, an economist at Global Insight, an economic-forecasting firm in Lexington, Mass. One reason is that many big U.S. exporters, such as heavy-equipment manufacturer [Caterpillar](#) Inc. and airplane maker [Boeing](#) Co., have huge backlogs of orders that will take a long time to work through.

Mr. Gault says sooner or later, though, slower growth in the rest of the world -- now visible in Japan and Europe -- will translate into slower growth in foreign demand for U.S. goods. This, combined with a stronger or at least stable dollar, should damp the torrid pace of export growth.

But for now, exports will continue creating pockets of relative strength amid the larger slowdown. The farming, energy and aerospace sectors, in particular, have helped fuel export growth throughout the country.

The industrial Midwest, for example, has suffered plant shutdowns and job cuts from slumping auto sales. The region's many makers of household goods such as appliances and building materials have likewise been hurt badly by the housing bust.

At the same time, other factories in the region continue churning out mining machines, tractors and airplanes in hot demand beyond U.S. borders. Many of these businesses are even expanding and adding jobs. Deere is spending a total of \$187 million at its Waterloo plant to increase output of large tractors. One in three tractors that roll off the lines there is exported outside the U.S. and Canada. Deere already employs about 5% of that town's work force.

Tom Linebarger, chief operating officer of diesel-engine maker Cummins, says strong export demand has offset domestic weakness in other sectors and prompted the company to keep investing in the U.S. Cummins has added 3,000 workers in the U.S. since 2003.

Last year, the company exported \$3.5 billion in goods, \$1.7 billion of it from plants in Columbus. One of the company's biggest exports is fuel systems for diesel engines made in Columbus.

The ripples from the export economy reach far and wide. Growing exports of farm products have meant work for everyone from truck drivers who haul pigs to slaughterhouses to thousands of businesses that broker and process grains, produce cheese or package frozen meat.

And more products to ship have meant jobs for construction workers expanding ports: Crews began work last fall on a \$660 million terminal at the former Navy base in North Charleston, S.C., which will be capable of handling up to one million containers.

### **Impact Varies**

An analysis of government real-goods export figures done for The Wall Street Journal by Moody's Economy.com, an economic research and consulting firm, shows that the degree of export-dependence varies widely from one metropolitan area to another, depending on the mix of businesses, the relative size of the local economy and geography. Many bigger cities, including New York and Boston, have hefty exports in dollar terms, but their shipments to foreign customers are dwarfed by their domestic-oriented economies.

Local export numbers are also maddeningly imprecise. In an economy as vast and complex as the U.S.'s, it is impossible to pinpoint the origins of some products, such as corn and milk, which originate in a wide swath of the countryside. In many cases, items get counted as exports based on where they are processed or loaded onto ships for export.

This explains why Laredo, Texas, ranks as the nation's top exporter, with about 56% of local output exported, according to Economy.com. The vast bulk of those exports are goods that travel over the border at Laredo's huge truck crossing with Mexico. Mark Zandi, chief economist with Economy.com, notes that economists have never found an effective way to track all of those goods back to their point of production, meaning many other parts of the country are actually producing exports that slip between the cracks in local calculations, while Laredo's numbers swell.

The globalization of industries, which rely on production networks that often stretch across borders, means that products often ping-pong among countries, getting counted as exports, imports and exports again at various stages.

### **Global Journey**

A good example is the global journey that occurs when Cyril Bath Co., a small aerospace manufacturer in Monroe, N.C., just outside Charlotte, exports roughly shaped metal ribs for framing the shells of airplanes to a factory in Italy. The Italian plant machines them into finished metal forms, which it ships back to Charleston, S.C., where they are used to build sections of fuselage. Those sections are then flown to Boeing factories in the

Pacific Northwest for final assembly. After all that, many of the finished planes are sold for export.

Cyril Bath saw sales nearly double last year to \$23 million, with exports accounting for all of the growth. The company hired nine people last year, boosting its work force nearly 20%, and plans to add a similar number this year.

Some communities that have a long tradition of strong export economies -- either through simple geography or as the long-time home to industries with global reach -- are also seeing growth from unexpected corners.

Seattle, with its historic trading ties to Asia and Canada and strong aerospace industry, exports more than 26% of its output, according to Economy.com, a large share of it airplanes.

Not long ago B&G Machine Inc., a family-run Seattle company that rebuilds huge diesel engines, confined most of its operations to the Pacific Northwest. Company managers say they had an "epiphany" about exports around 2000 when they realized that there was a big opportunity in Canada, serving that country's large mining operations clustered not far from Seattle.

"From there, those associations just drew us to other places," including Chile and Mexico, says Johnny Bianchi, a company vice president. When the U.S. dollar started to fall sharply, the business surged. "All of a sudden," he says, "we found that we were on sale."

About 10% of B & G's rebuilt engines are now exported. The company has added 11 workers over the past two years, pushing its work force over 50, and expanded into two additional buildings since 2004, almost doubling their factory floor space.

### **Not Always More Jobs**

The export boom doesn't always translate into more jobs at local plants. The businesses that thrive in competitive global markets tend to be the most efficient and rely on productivity-increasing technology, which often substitutes machines for labor. That's one reason manufacturing as a whole has been shedding thousands of jobs.

Normacorc LLC, a producer of engineered plastic corks for wine bottles, exports more than two-thirds of its production to wineries in Europe, South Africa and Australia. Output has increased by 40% at its plant in tiny Zebulon, N.C., just outside Raleigh, but that's been accomplished through automation.

"Ours is a story of rapidly growing exports," says Lars von Kantzow, the company's Swedish chief executive, "but that hasn't yet resulted in higher manpower."

For some executives, the export-driven good times are rich in irony. Drew Greenblatt, president of Marlin Steel Wire Products LLC in Baltimore, says his company almost folded a decade ago when cheap foreign imports eroded Marlin's position as a leading maker of wire baskets for bagel shops. Since then the company, which has switched to making specially engineered baskets to carry parts on production lines, has turned the tables. It expects to export as much as 25% of its output this year, up from 2% three years ago.

"We're literally hiring people to keep up with all of this foreign demand," a delighted Mr. Greenblatt says, noting the company has grown to 27 from 17 employees this year. "I'm doing the Macarena."

Marlin has sold baskets in Mexico and Canada for several years and more recently has found customers far beyond, in places like Denmark, Japan, Israel and New Zealand. "But my all-time favorite is Taiwan," says Mr. Greenblatt. "Think about the concept: There's a Chinese shipping clerk over there that opened a box and pulled out wire baskets that say 'Made in U.S.A.'"

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