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More on the Sixth District's exposure to Europe

Europe remains in the news as 2012 begins. Developments there continue to influence global financial markets and might be pushing the euro area's economy into recession. Many forecasters have identified contagion from the European financial crisis and recession as a significant risk to U.S. economic growth in 2012.

Atlanta Fed President Dennis Lockhart noted this in his November 29, 2011, remarks during the University of Georgia's Terry College of Business 2012 Economic Outlook conference:

> "My baseline forecast for 2012 builds on the picture I've just painted of the second half of 2011. I'm expecting continued moderate growth, decently behaved inflation, continuing net job creation, but slow progress on unemployment. You will note I used the word 'baseline.' I need to emphasize that at this juncture I perceive considerable downside risk to this baseline forecast. The most prominent source of risk is Europe. "

Steven B. Kamin, the director of the Division of International Finance at the Federal Reserve's Board of Governors, discussed the economic situation in Europe and its impact on the U.S. economy in testimony before the U.S. House of Representatives on December 16, 2011:

> "Here at home, the financial stresses in Europe are undoubtedly spilling over to the United States by restraining our exports, helping to push down business and consumer confidence, and adding to pressures on U.S. financial markets and institutions."

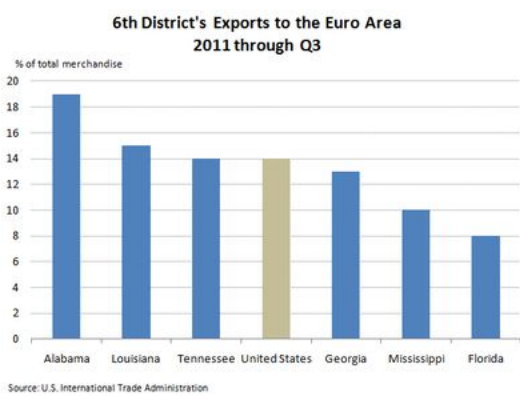
A few weeks ago, *SouthPoint* looked at trade connections between Europe and the Southeast, noting that

> "While there is concern about the financial impact of instability in Europe, a souring of economic activity across the Atlantic would also affect international trade. In either case, the region is not immune."

We thought we'd dig a little deeper into the issue and look more closely at which parts of the Southeast economy are vulnerable to the crisis in Europe.

Clearly, U.S. companies that depend on sales of their products to the euro area are likely to see the weakening of demand for their Europe-bound products as the euro area's economy contracts and if the euro continues to depreciate. According to the U.S. International Trade Administration, the exposure of Southeast's exporters—as measured by the share of goods sold in the euro area as percent of total goods exports—is relatively low, but the share varies significantly across the Southeast states.

Alabama's exporters appear to be the most vulnerable to changes in European demand—almost a fifth of the state's merchandise exports are shipped to the euro area. About half of those exports are sold in Germany, mainly autos. The good news is that Germany seems to be one of the more resilient European economies, along with the Netherlands, Belgium, and France—the other large euro area markets for Southeast's exporters. The economically weakest countries in the euro area—Greece, Ireland, and Portugal—account for a small fraction of the region's exports.



(enlarge)

While Florida's exporters appear to be least exposed to the euro area compared to other states in the Southeast (most of Florida's exported goods go to Latin America), the state's large tourism industry may feel some impact if a recession and a weakening euro keep Europeans from traveling to the United States. Based on data from the Office of Travel and Tourism Industries and VISIT FLORIDA, an estimated 1.2 million residents of the euro area visited Florida in 2010. Fortunately, this number represents less than 2 percent of all the visitors to the state.

Another important part of Florida's economy that to some extent depends on European spending is residential real estate. In Florida, sales to nonresident foreigners account for about 25 percent of total residential sales (compared with only 3 percent nationally). For the state as a whole, Western Europeans (excluding U.K. residents) account for about 11 percent of all nonresident foreign buyers. While the number is relatively low, some parts of the state are much more dependent on Europeans. For example, in the Miami-Fort Lauderdale-Miami Beach market residents of Germany accounted for nearly a quarter of all nonresident foreign buyers in the 12 months ending in June 2011, according to the National Association of Realtors.

In general, whether through exports, tourism or real estate, the Sixth District's exposure to Europe appears relatively small. The bigger concerns are the possibilities of severe financial contagion (via the banking system and financial markets) and a hit to business and consumer confidence, which apply as much to the District as to the nation overall.

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