THE WALL STREET JOURNAL.

WEDNESDAY, SEPTEMBER 29, 2004 - VOL. CCXLIV NO. 63 - ★★★★ $1.00

Pace of U.S. Export Growth Is Expected to Slow

By Timothy Aeppel

Higher oil prices and a slowdown in China are expected to slow the growth in exports of U.S. manufactured goods, according to a new report.

Meanwhile, a recent study said nearly a quarter of U.S. manufacturing, including the production of food, paper and primary metals, is largely shielded from global competition.

A report from the Manufacturers Alliance/MAPI, a manufacturing-research group based in Arlington, Va., said exports will grow 15% in the third quarter, but will gradually slow to a still relatively healthy 8% by the second quarter of 2006. The reason: An anticipated drop in economic growth in industrialized and developing countries.

"You have to imagine some softening of global growth just because of uncertainty in China," said Cliff Waldman, the group's economist. Inflation has flared in China, raising questions that the country may further efforts to curb growth.

"Oil prices make things worse," he added. Higher prices of oil, which topped $50 a barrel during trading yesterday, hamper business and consumer purchasing power of many U.S. trade partners.

The report projects that exports of U.S. capital goods, excluding autos, will have an annualized growth rate of 28% in the third quarter, reflecting pent-up demand by businesses that had delayed investing in new machinery during the recession, then slow to 13% by the second quarter of 2006.

Some capital-goods makers are feeling the downdraft. Kim Beck, chief executive of Automatic Feed Co. in Napoleon, Ohio, says exports of press equipment used in auto plants will account for 10% to 15% of his company's sales this year, down from about 30% last year.

Slower global growth also will mean more import competition for U.S. producers, as overseas rivals fight harder for sales in the U.S. But a study by Gotham Consulting Partners, a New York consulting firm, suggests at least some U.S. producers are somewhat protected from such an onslaught.

Gotham developed an "import susceptibility index" that categorizes the 22 major industrial sectors tracked by the U.S. government and found that six of them—representing 23% of all manufacturing and about 3.3 million jobs—were relatively insulated from imports. Factors such as the need to be close to raw materials and regulatory barriers insulated these producers.

The susceptibility index shows that 67% of industries, including chemicals and computers, were moderately susceptible, while 10% were highly exposed. The most exposed sectors include textiles and leather goods, two industries that have declined drastically in recent decades.

Food processing is one of the categories the index would suggest is relatively shielded, but there are exceptions. Catfish processors in the Southeastern U.S. saw a surge of imports of frozen catfish from Vietnam in recent years.