BUSINESS

Global pains hit home

By Rajeev Dhawan

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Let me open this column with the big macro picture question. Will there be a double-dip or not for the economy in the next six months? Not unless home prices plunge, again, by a substantial amount.

That caveat is key, as the value of one's biggest source of life-time assets (read savings), for a garden-variety, middle-class household, is the home(s) they own.

To be clear, my definition of a middle-class is one who gets up in the morning, goes to work dutifully, worries about family expenditures, scrimps on some comforts and listens to financial channels a bit obsessively.

In other words someone who has a net worth that is less than $10 million. (This threshold has been lowered due to the drop in home prices, too.)

Home-price recovery prospects ultimately depend upon the flow of new people into an area from the rest of the country, also known as net migration. This movement of people in turn is related closely to the unemployment rate in the area to which they are moving. The rule of thumb is that if the local area unemployment rate is lower than the national one, people move in (in net terms), otherwise they move out.

No place is immune anymore, not even the chicken farmer in North Georgia.

With that dreary discussion about the overall economy out of the way let me put on my positive thinking hat and show you some interesting connection between the local economy and global trends.

One positive development in the last 12 months has been the recovery in exports both at the national and state level. Georgia's exports had fallen by 13.2 percent in 2009 as the global economy remained mired in recession, and the dollar had appreciated by 4.3 percent against a basket of currency made up of its major trading partners.

The exception was the euro, which appreciated by almost 10 percent against the dollar. However, a cheaper currency or a cheaper price for our goods did not help our exports to the European Union as their economic growth remained weak. Thus, the negative influence of the demand channel overpowered the positive influence of the price reduction.

In the first seven months of this year, Georgia's exports have increased by 19.8 percent, somewhat lower than the national recovery rate of 22.6 percent. And what happened to exports to Europe? They grew even when the dollar had appreciated by almost 11 percent against the euro. Here the demand channel overpowered the price disadvantage as the European economies — barring the "PIGS" (Portugal, Ireland, Greece and Spain) — have recovered, and especially Germany, which is Georgia's fifth-largest export destination by value.

But Georgia's exports to Germany actually declined by 7.2 percent. So who did we export more to Europe? — Netherlands, Poland, Austria, Luxembourg. And a name we all are familiar with: Russia.

Russia is ranked 33rd by size as a destination for our exports. But one key export of ours to them is poultry — chicken legs, to be exact. Russian demand for chicken is a function of its buying power, and that means the ruble's value against the dollar. The ruble declined by almost 50 percent following the Lehman-AIG fiasco.

Guess what? As a result, Georgia’s exports to Russia, which had grown by a fabulous 88.5 percent in 2008, declined by 27.4 percent in 2009. Our exports of chicken parts to Russia declined by 31.0 percent.

The ruble has appreciated recently as oil prices have climbed north of $70/barrel, and so has our exports to Russia.

Thus, the price of oil (and natural gas sales to Europe) affects the health of the Russian economy and that in turn becomes an important factor for chicken farmers in North Georgia.

Who knew!

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About the Author

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