

## **GEORGIA ECONOMY: Watchful eye stays on Europe: Many of the state's companies linked to a global community. Export slowdown could spell trouble for Georgia.**

J. Scott Trubey

11 December 2011

[The Atlanta Journal - Constitution](#)

Kirk A. Elledge has shifted his company's focus in Europe as the continent grapples with its debt crisis.

The president of Quest One, a Roswell-based seller of fasteners for the aerospace industry, counts Europe as a growth market for his company. About a third of Quest One's revenue comes from the eurozone with 8 percent coming from some of the more debt-riddled countries like Spain, Italy and Greece.

What does Europe mean to Georgia's economy? A lot.

"Those countries are very important. They're all significant players in the aerospace industry," said Elledge, who remains cautiously optimistic of European growth, despite the debt panic.

Still, the 10-employee company, with annual revenues under \$5 million, has shifted more of its sales and marketing efforts to high-growth Asian markets as well as healthier European nations like Germany.

Among the few bright spots in Georgia's economy has been exports, which are up 20 percent this year.

Only China imports more goods from Georgia than Europe. With many Georgia companies doing sizable business in Europe, political and business leaders fear a collapse of the European economy could drag the United States down with it because of the interconnectivity of the banking system.

And if you're a leader of a business, big or small, any high-stakes negotiations to save or strengthen Europe's currency union should have your full attention. It appeared European leaders had a pact in place Friday, but much work remains.

Georgia's initial reaction to Europe's woes has been mixed.

Delta Air Lines has said it is cutting flights across the Atlantic, citing oil prices and economic turmoil. Coca-Cola Enterprises, which is based here but does all its business in Europe, actually upgraded its profit expectations for the year. Some companies, like Aflac, which have investments in Europe already have changed strategies.

The debt angst "has caused many European countries, if not the whole group, to go from expanding [economies] to flat or contracting," said Roger Tutterow, an economist with Mercer University, who pegs the odds of Europe drifting into recession at 50-50. "It may be the case Europe is in recession already because of the uncertainties."

Exports to Europe make up 1.97 percent of the U.S. gross domestic product, according to a report last month from Wells Fargo Securities. Georgia is ranked 19th among the 50 states in terms of highest export exposure to Europe.

Though Georgia has lower exposure than neighboring states with European auto manufacturing plants like South Carolina, Alabama and Tennessee, the state's risk is still rated as high, according to Wells Fargo Securities.

A European recession would weigh down a U.S. economy still stuck in a slothful recovery from the Great Recession. Housing remains a disaster, the banking sector continues to lick its wounds from bad mortgages made during the giddy days of the boom, unemployment is stubbornly high and consumer confidence is waning.

Add that to the continuously high prices of oil and reduced spending power, and the U.S. economy cannot sustain another shock, said Rajeev Dhawan, economics professor and director of the Economic Forecasting Center at Georgia State University.

"The one growing factor for the [Georgia] economy is exports," Dhawan said.

Europe makes up about a quarter of total state exports. If Europe tumbles into recession, demand for U.S. goods would likely drop, he said.

Dhawan is forecasting tepid job growth in Georgia for 2012 after losses of about 20,800 jobs this year. Better job growth --- but still slow growth --- is expected in 2013.

Money center banks in the U.S. and Europe are tightly connected. If banks tied to Europe's debt crisis end up absorbing major blows in a deal to stabilize the continent --- or worse yet, if there is no deal --- the result could hamper trade and constrain credit on both sides of the Atlantic, Dhawan said.

The top five exports to Europe through Port of Savannah are wood pulp, paper waste, automotive goods, food and retail goods, according to the Georgia Ports Authority.

Curtis Foltz, executive director of the authority, worries not just about the goods exported to Europe, but the raw materials and semi-finished goods like kaolin and wood products that are shipped from Georgia to China. The Chinese turn many of those goods into finished products that are then exported to Europe. Europe is Asia's largest trade partner.

"When any of the three get ill, everybody is going to feel the pain," Foltz said. The ports authority is lowering expectations for containers shipped through the port for the next fiscal year.

Martin Richenhagen, the chairman, president and chief executive of Duluth-based agricultural equipment maker AGCO, said Europe's debt shock won't have a major impact on his business.

He and a handful of other business leaders had dinner with German Chancellor Angela Merkel in Berlin two weeks ago, and he described the chancellor as confident Europe would take decisive action quickly.

Merkel, along with French President Nicolas Sarkozy, is calling upon European governments to submit to more centralization of national budgets and coordinated economic policy. The changes will come with stiff austerity measures and likely higher taxes in many debt-stricken nations.

AGCO, which had \$6.2 billion in net sales through the first nine months of 2011, does about half its business in its Europe-Africa-Middle East sector.

"The consumer confidence in our business is very, very solid," said Richenhagen, a dual U.S.-German citizen. He referred to a recent farm show he attended in Hanover, Germany, that boasted record crowds.

Farmers globally are keen to buy farm equipment, he said, as the demands on the world's food supply have been strained by a population that has risen above 7 billion.

AGCO has kept inventory low and its order books are strong, Richenhagen said.

Coca-Cola Enterprises now sells solely in Europe. The company upgraded its earnings forecast for the year in October from \$2.14 to \$2.18 per share, despite poor summer weather in Europe and "difficult macroeconomic conditions."

The company, which will update its earnings guidance with analysts this week, had little reaction to the debt crisis during its third quarter earnings call. The company appeared more concerned about proposed taxes on sugary drinks that could raise the price of sodas by up to 9 percent.

Delta Air Lines said in a third-quarter earnings call it would cut trans-Atlantic capacity by 10 percent to 12 percent compared to last year, much greater than the 4 percent to 5 percent cut to its overall flight schedule for the quarter.

Mike Boyd, an aviation consultant with Boyd Group International in Colorado, said air traffic to Europe is always low for U.S. airlines in the fourth quarter.

"If you're going to have a crisis in Europe, winter is a great time to have it," he said.

One company that has aggressively cut its exposure to Europe is Columbus-based supplemental insurer Aflac. Aflac doesn't sell insurance there, but holds European investments.

The debt crisis took a toll on Aflac's European investment portfolio, costing the company more than \$1 billion through the first half of 2011. Aflac sold off souring investments in Portuguese, Greek, Irish and Spanish financial firms.

Investment advisers also have moved to protect clients.

"We have minimal exposure in Europe as has been the case for several months," said Jeff Shaver, a managing partner with Atlanta Capital Group, which manages money for high net-worth individuals and businesses. "We believe Europe has both political and financial issues and because of this, it is unlikely a timely and practical solution can be instituted in the short term."

William deButts III, chief executive of Glenmore Advisors, said his company also has moved to safeguard clients against eurozone risk.

"If you went through 2008 [and] 2009, you don't want to go through it again," deButts said. "Our families don't engage us to engage in uncertainty."