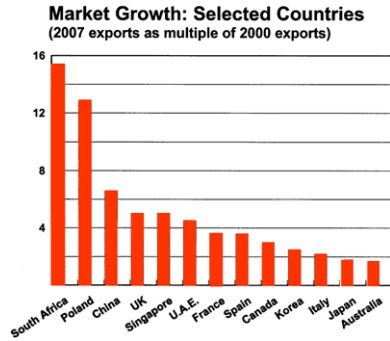


**1st Quarter 2008: Tennessee Whiskey Exports: The New Old Reliable**

One doesn't usually associate words like "reliable" and "steady" with whiskey. Yet whiskey has become one of the state's most reliable exports. Steady, and steadily increasing, the foreign sales of whiskey have more than trebled in the past decade. Over that time, it has well out-performed most other exported goods. With 2007 exports valued at \$478 million, it was Tennessee's fourth largest export this past year. (It was ranked 11th back in 1997.) The evidence suggests that this will continue for some time. 2008 is just the latest in a string of very strong years. Through April, whiskey exports are up a full quarter from just a year earlier. Very few products have had such a successful run through a variety of economic climates.

The global demand for American whiskey has never been stronger. This certainly explains much of the state's success. But not all. During the past 10 years, American whiskey exports have risen by more than 150 percent (not adjusting for inflation). But Tennessee's exports are up over 360 percent. In the past decade, Tennessee has become the nation's top exporter of whiskey (surpassing Kentucky in 1999) and has gone on to grab more than 60 percent of America's total whiskey exports. It now exports more than twice as much whiskey as Kentucky, now the number-two state.

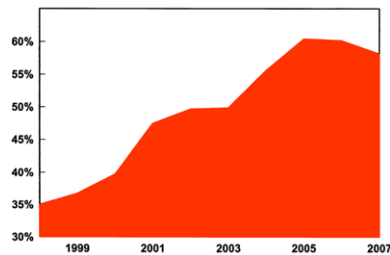


The reason for this performance of course is Jack Daniels. The number of American whiskey brands marketed abroad remains narrow. While most of those brands are rapidly gaining sales, U.S. exports are in fact still dominated by two brands: Jim Beam and Jack Daniels. And over the past decade, Jack Daniels has forged a huge lead over its Kentucky competitor. Brown Foreman, the owner of Jack Daniels, reports that more than 50 percent of its sales now come in international markets. Jim Beam exports in the neighborhood of 35 percent of its total sales. The dramatic success of Jack Daniels has rebounded to the state's benefit. (Not all state whiskey exports are Jack Daniels, of course, though the vast majority is. Distributors and wholesalers export some Kentucky bourbon as well. George Dickel does not export, although its product is available through mail order and specialty stores in some European countries. Those sales, however, appear to go through distributors located in other states.)

The success of Jack Daniels has been linked to its ability to build an identity firmly rooted in rural Americana. Foreign consumers may not know exactly where Tennessee is, but they recognize its lifestyle as depicted in Jack Daniels ads. Bourbon makers are increasingly taking this same marketing tack, and we will see how Brown Foreman responds.

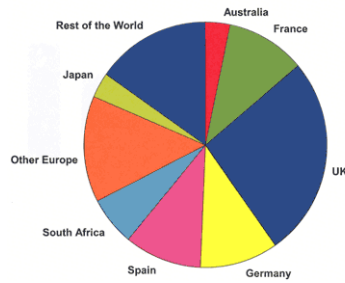
A peculiarity of the Jim Beam vs. Jack Daniels duopoly is that different foreign markets are dominated by one or the other brand. For example, the largest whiskey importer, Great Britain, is Jack Daniels country. Ninety percent of its imports come from Tennessee. (Great Britain purchases more than 15 percent of all American whiskey exports.) France, Spain, and South Africa — all top-10 American markets — buy more than 80 percent of their whiskey from Tennessee. Two-thirds of the American whiskey sold in Italy, the ninth-largest market, comes from Tennessee. Australia and the Netherlands, on the other hand, buy more than 80 percent of their American whiskey from Kentucky. Japan buys three-quarters from Kentucky. Canada, the second-largest whiskey market, is perhaps the most lopsided. Less than seven percent of its purchases come from Tennessee. Among the large markets, only Germany is relatively balanced, with a little less than 60 percent of sales in that market coming from Tennessee.

**Tennessee's % of American Whiskey Exports**

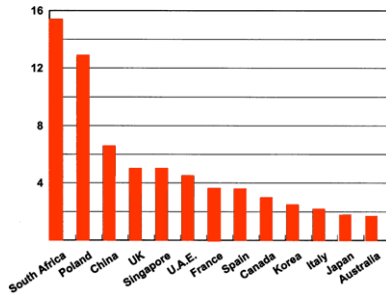


The vast majority of American whiskey is sold in Europe, Japan, and the other developed countries. Three-quarters of the sales go to these markets. However, there is great interest in China and the other newly industrializing countries. With wealth seems to come a taste for high-end whiskey. The largest developing markets are in East and Southeast Asia. Singapore and China each have purchased about \$30 million worth of American whiskey through this April. For China, about 60 percent of this has come from Tennessee, while for Singapore, it's about 40 percent. South Korea and Malaysia are the other major Asian markets. In the Middle East, Tennessee's exports to Turkey have more than doubled over the past year, and the state's whiskey sales in the United Arab Emirates are up more than 50 percent. The former eastern bloc states are also turning into very good markets. The only region of the world that seems indifferent is Latin America. Mexico remains a modest market, given its size and proximity to the U.S., and no South American state buys very much of the product. Chile is the leading importer of American whiskey, and it ranks only 22nd among America's markets (and 33rd among Tennessee's). Brazil, one of the most populated countries on the planet, has purchased less than \$300,000 of Tennessee whiskey this year. It would be interesting to know why this area of the world has proved so resistant, whether it is the failure to market or simply different cultural attitudes, but it remains the largest nut to crack for whiskey exporters.

**Where does it Go?  
TN Whiskey Exports by Market, 2007**



**Market Growth: Selected Countries  
(2007 exports as multiple of 2000 exports)**



The current fall of the dollar has only brought more good news for these exporters. American whiskey is ever more competitive against Scotch, Irish whiskey, and other alternatives. For this reason, we should expect continued growth in what has become one of Tennessee's premier exports.

**Tennessee International Trade Report**

Tennessee exports grew to \$5.626 billion in the first quarter of 2008. This is a 7.66 percent increase from a year ago. Once again state exporters significantly lagged behind the nation, which posted a 17.16 percent gain in foreign sales for the quarter. Continuing problems in the transportation sector account for most of the state's weaker export numbers.

The state's car exports fell nearly \$73 million (to \$176 million), and its auto body parts sales were down another \$62 million (to \$58 million). This more than erased gains made in other automotive sectors, such as SUV sales and the export of other auto parts. A large drop in turbojet sales to Singapore added to the woes in the transportation sector, which in total fell by nearly nine percent for the quarter.

The drop in automotive sales occurred despite a return of the Middle East market. Nissan was able to dramatically increase car and SUV sales to the Gulf States. During the first quarter, these countries doubled their vehicle purchases from Tennessee. Together, they accounted for 41 percent of the state's car exports and 64 percent of its SUV and truck exports — a fairly remarkable gain.

Of course, the high percentage of auto sales going to the Middle East reveals the fundamental problem: a huge drop in sales to Canada and Mexico, the traditional major markets. In fact, SUV sales to Canada were off by a third, and car sales fell by an astounding 60 percent. This combined with troubles in the computer sector (mostly linked to Dell) to produce a net loss in total Tennessee exports to Canada, the state's biggest market. State exports to Canada dropped by more than \$200 million for the quarter, a loss of 13.2 percent of the state's exports from a year earlier. Placed against the nation's gain of nearly 12 percent in its exports to Canada, we can see the primary reason for the state's relatively poor performance for the quarter.

It wasn't quite as bad in Mexico, where the state was still able to post a 5 percent gain in exports. But this still fell behind America's overall gain of 11 percent in that market.

Outside of the transportation and computer sectors, things were actually pretty good. Many products were able to take advantage of the lower dollar to significantly increase their exports. It was another good quarter for the state's medical industries. Medical equipment sales were up strongly in the euro zone, the U.K., Japan, and Australia. Ostomy-related exports (i.e., materials for colostomies or urostomies, etc.) grew from virtually nothing to some \$22 million. Total medicament and pharmaceutical exports were up well over 50 percent for the quarter.

Chemicals were strong, enough so that the sector was able to leapfrog the computer and electronics industry to again become the state's second largest export industry. Most of the gains were in medical products, plastics, and synthetic textiles rather than in "pure" chemicals. The latter had a more difficult quarter due to a fall of more than \$50 million in sales to Argentina, generally one of the largest markets for the state's chemical producers.

The gains in synthetic textiles — artificial filament tow, to be exact (from \$80 to \$126 million for the quarter) — joined a resurgence of cotton exports (\$60 to \$157 million) and points to the importance of the overseas apparel industry for state exporters. Though the state has all but lost its own apparel industry, overseas producers now buy a significant portion of their inputs from the state. The substantial amount of cotton exported during the quarter marks a hoped-for return from its crash in 2006.

There were new signs of life in Tennessee's food industry. Whiskey continues its upward trend (see accompanying article), but prepared potatoes (Pringles), vegetable oils, and prepared breads and cakes all made nice gains in the first quarter. Among the rising hi-tech stars for the quarter were video games, VCRs, and digital cameras. Exports of the first nearly tripled (to \$36 million), while foreign sales of the latter two (\$15 and \$22.5 million, respectively) were off the charts. Most of these exports went to Canada, although camera sales were strong everywhere in the Americas. Two other hi-tech products, optical media and software, however, didn't fare as well, each suffering substantial losses for the quarter.

Early reports for the second quarter suggest that Tennessee's good news/bad news will continue. April exports are up 12.6 percent, a pretty good performance — but one that pales before the 20.51 percent gain posted by the nation.

**Tennessee's Largest Export Sectors**

	Exports	Change over Year	Change over Quarter
<b>Transportation equipment</b>	\$1,035,332,030	-8.8%	1.1%
<b>Chemicals</b>	\$867,957,566	10.3%	-12.9%
<b>Computer &amp; electronic products</b>	\$845,193,817	6.7%	-1.0%
<b>Misc. manufactured goods</b>	\$595,440,222	11.5%	-11.4%
<b>Nonelectrical machinery</b>	\$481,022,048	9.6%	1.1%
<b>Primary metal manufacturing</b>	\$222,774,653	-1.3%	5.3%

**Greatest Export Growth and Decline\***

	Value of Exports	Growth %	Decline %

**Greatest Growth**

Platinum waste & scrap	\$1,035,332,030	(new)
Appliances for ostomy Use	\$867,957,566	62,121.0
Sculptures & statuary	\$845,193,817	38,383.3
VCRs	\$595,440,222	29,856.4
Digital cameras	\$481,022,048	740.6

**Greatest Decline**

Terephthalic acid & its salts	\$12,697,927	-64.3
Turbojets > 25kn	\$48,635,000	-57.4
Non-cathode ray computer monitors	\$12,125,168	-55.0
Optical media	\$46,501,406	-47.1
Charitable donations	\$21,737,968	-39.9

\*among Tennessee's top 100 exported goods

**Fastest Changing Export Destinations\***

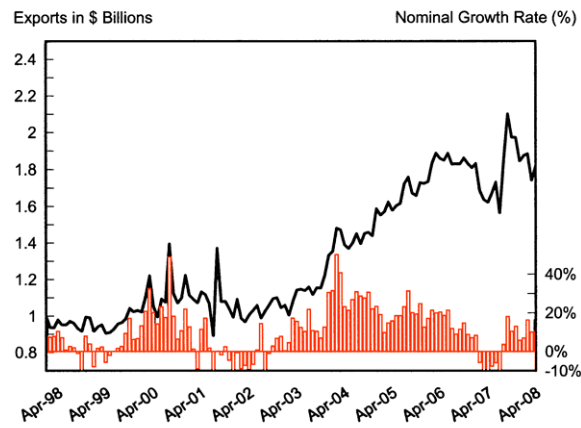
	Value of Exports	Growth %	Decline %
<b>Greatest Growth</b>			
Bangladesh	\$6,943,535	399.4	
Oman	\$22,249,836	398.1	
Portugal	\$26,513,525	358.1	
Pakistan	\$19,022,446	197.3	
Egypt	\$9,771,273	120.9	
<b>Greatest Decline</b>			
Tunisia	\$735,390		-86.5
Nigeria	\$2,200,820		-68.1
Jamaica	\$8,893,055		-53.8
Singapore	\$124,800,155		-40.3
Venezuelaa	\$21,476,944		-21.3

\*among countries averaging > \$2m sales/quarter

**Tennessee Trade-Weighted Dollar Index**



**Tennessee Monthly Exports**



(Seasonally adjusted, expressed in 2000 dollars)

### Tennessee's Leading Trade Partners

