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Michigan's Economy Positioned To Withstand A NAFTA Withdrawal



The Michigan economy, in its ninth year of growth, would likely absorb a negative shock related to a pull-out or weakening of the North American Free Trade Agreement fairly well, say University of Michigan economists.

As the fifth round of NAFTA talks gets under way in Mexico this week, U-M economic forecasters Gabriel Ehrlich, George Fulton, Donald Grimes, Danil Manaenkov and Michael McWilliams release their annual analysis of the state's economy. The forecasters judge that NAFTA withdrawal remains unlikely, but they have simulated the potential effects as part of this year's forecast.

The forecasters believe the effects would depend critically on whether Mexico and the United States placed additional tariffs on each other's exports after withdrawal. In the scenario with no additional tariffs—a "soft withdrawal"—the forecasters would expect only slight harm to the U.S. economy. In a scenario with retaliatory tariffs on both sides—a "hard withdrawal"—the

Michigan forecasters would expect NAFTA withdrawal to reduce real GDP by 0.2 percent and slash 300,000 jobs by the year 2020.

"The imposition of a 25-percent tariff would spark a shift of nearly one million automobile assemblies away from Mexico primarily to China and elsewhere in Asia, but not to the U.S.," said Ehrlich, director of U-M's Research Seminar in Quantitative Economics. "On the other hand, many light truck assemblies probably would move to the United States."

The forecasters estimate that Michigan would gain 6,400 jobs by 2020 in a soft withdrawal because of additional light truck production. A hard withdrawal would trim 7,000 Michigan jobs by 2020, 3,900 of them in manufacturing.

The overall 2018-19 forecast for Michigan sees steady job growth, low unemployment, tame inflation and an economy that continues to diversify. Other findings include:

Jobs: The state will add 41,900 jobs during 2017, 40,900 in 2018 and 32,200 in 2019. That's slower growth than the 1.7 percent rate the state had from summer 2009 to summer 2017.

"Since last year, the Michigan economy has pumped its brakes, with job growth posting an annual rate of 0.9 percent in the first three quarters of 2017," Fulton said.

In all, Michigan will have gained 670,000 jobs during the economic recovery through the end of 2019, recouping nearly eight out of 10 jobs lost since mid-2000.

Automotive sector: U.S. light vehicle sales have been running below their 2016 pace, and the Detroit Three's share of sales has also nudged down from a year ago. Based on the first three quarters of 2017, U-M economists forecast sales to decline from the record high of 17.5 million in 2016 to 17.1 million this year and in 2018, then dropping to 17 million in 2019.

The forecast includes a decline in manufacturing

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