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Nafta Rewrite Won’t Boost U.S. Growth, Economists Say

Trade deal with Canada and Mexico is unlikely to boost economy or manufacturing jobs, WSJ survey shows

By Harriet Torry Oct. 11, 2018

The new U.S. trade pact with Canada and Mexico is unlikely to boost economic growth or manufacturing employment, according to most economists surveyed by The Wall Street Journal.

Early last week, Washington and Ottawa struck a deal to revise the North American Free Trade Agreement, allowing Canada to join a new trade pact between the U.S. and Mexico.

The Trump administration hopes the agreements will boost U.S. manufacturing and cut the U.S. trade deficit with Mexico. Nafta 2.0—to be officially called the U.S.-Mexico-Canada Agreement, or USMCA—will require a greater portion of a vehicle to be made in North America.

Yet among dozens of economic forecasters surveyed in recent days, just over 70% of respondents said they expected no change to the U.S. economy’s long-run economic growth rate as a result of the new trade agreement, which is still subject to legislative approval in all three countries.

Gus Faucher of PNC Financial Services Group described the rewrite as offering only “cosmetic changes” to Nafta.

Bernard Baumohl, chief global economist at the Economic Outlook Group, expects the new trade deal to hurt rather than help economic growth. “The revised Nafta pact will result in less free trade and more managed trade. That will ultimately raise the cost not only of imported goods but of domestic production too,” he said.

Nearly 10% of survey respondents said the USMCA would cause a decline in potential U.S. economic growth, while nearly 20% predicted a modest increase.

President Trump expects the new deal will lead to “far more American jobs” and allow the U.S. “to reclaim a supply chain that has been offshored to the world because of unfair trade issues.”
“This landmark agreement will send cash and jobs pouring into the United States and into North America—good for Canada, good for Mexico. Instead of jobs leaving for overseas, they will be returning back home,” he said Oct. 1.

For the survey respondents, however, the USMCA appears to offer little U.S. economic benefit and could hurt growth by stoking wage inflation while the unemployment rate is very low.

Most economists surveyed don’t expect the rewritten trade pact to create more U.S. factory jobs. Nearly 55% of respondents said they expect no change to U.S. manufacturing employment from the deal. A third of economists said they expected the agreement to bring a modest increase in manufacturing jobs, and nearly 10% expected a modest decline. Just one economist polled expects it will cause a significant increase in manufacturing employment.

“The trade agreement could force manufacturing labor costs higher, especially in the auto sector, leading to less employment growth,” other things being equal, said Scott Anderson of Bank of the West, who expects a modest decline in manufacturing jobs.

Economist Robert Fry of Robert Fry Economics LLC said he expects a modest increase in manufacturing employment from the new trade deal, but it will come “at the expense of slightly higher inflation (e.g., car prices).”

Many forecasters cited trade tensions as a major risk to the economy.

Of the 49 economists who offered comments on the biggest risks that could cause economic growth over the next 12 months to be slower than they expect, 22 mentioned trade. Others mentioned slowing global growth and a surge in long-term interest rates.

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