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Fitch Focus on Munis: Shift in Federal Trade Policy Could Hurt Select State and Local Economies.

Fitch Ratings-New York-30 August 2017: Some U.S. States and metropolitan markets could face economic challenges if U.S. trade policy – notably related to NAFTA – shifts dramatically, according to Fitch Focus on Munis, a monthly series that examines the major forces effecting change across municipal finance.

For 2017, the series concentrates on three issues: healthcare, pensions and federal policy.

“Even before taking office, President Trump and his cabinet nominees struck a decidedly different rhetorical tone on trade than their predecessors,” said Michael D’Arcy, a Director in Fitch’s US Public Finance group. “While many details of the Trump administration’s policy shifts remain unclear, current regional exposure to trade and border traffic with Mexico and Canada can illustrate where federal policy change could have the greatest impact.”

Michigan is most at risk to changes in NAFTA because its economy is the most interconnected of all U.S. states with Canada and Mexico. Potential risks include lower sales and income tax revenues, which would likely transfer to localities through curtailed state revenue sharing and lower school funding. The tax bases and income tax collections of its most export-dependent localities, particularly those in the Detroit-Warren-Dearborn area, would also be affected.

Other states most at risk include North Dakota, which sends 82 percent of its exports to Canada, and New Mexico, which sends 43 percent of its exports to Mexico.

Texas’s vast size and economic diversity, and the global reach of its petroleum and chemical industries, provide it with a degree of insulation from NAFTA, despite sending Mexico 40 percent of its exports.

California would also be isolated by its size and economic diversity, notably its overseas exporting relationships. Border traffic is an economic factor in only a handful of counties and localities situated at the state’s southern tip.

[Click here](#) to view Fitch’s “Trade in the Time of Trump” infographic.

For the September 2017 report, Fitch Focus on Munis will address additional, potential challenges associated with shifts in federal trade policy.

About Fitch Focus on Munis

Fitch Focus on Munis is a monthly report series that explores the critical issues faced by U.S. public finance.

Fitch Focus on Munis leverages Fitch’s unique insights backed by data and experience, and a commitment to providing forward-looking analysis, to deliver an in-depth examination of emerging opportunities and challenges in U.S. public finance.

For more information, the special report “Fitch Focus on Munis: Federal Policy - Trade in the Time of Trump, Part 1” is available at www.fitchratings.com.

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