



# WBA WISCONSIN ECONOMIC REPORT

A compilation of sector forecasts from industry experts.



*Wisconsin Bankers Association*

## Strong 2018 for Wisconsin Banks ...if Congress Cooperates

By Rose Oswald Poels, WBA President and CEO

The banking industry continues to be a central player in driving economic growth across the state. Through the third quarter of 2017, Wisconsin's 212 headquartered financial institutions held well over \$80 billion in net loans and leases, an improvement of over 5% from the prior year. This steady, continued growth in the industry's loan portfolio coupled with a similar steady decline in noncurrent loans and leases is evidence to support the fact that Wisconsin's economy is healthy and growing.

Nearly 99% of Wisconsin's headquartered financial institutions are profitable as of the third quarter of 2017, and nearly 64% of these same institutions saw earnings gains. Lending by Wisconsin headquartered financial institutions is up year-over-year in almost all categories, according to third quarter 2017 numbers released by the Federal Deposit Insurance Corporation (FDIC). Total deposits at these same financial institutions is also up from the prior year to a total of nearly \$88 billion. Financial institutions continue to be trusted by consumers to protect their hard-earned money which is evidenced by the continued

growth in total deposits. Given the health of our state's economy and the attraction of new businesses to our state, I expect these trends to continue at a steady pace in 2018.

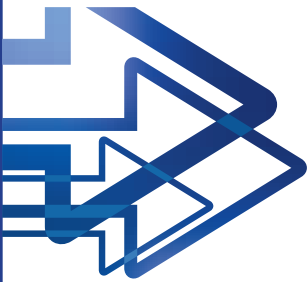
Average net interest margin, which is a key measure of bank profitability, continues to hold steady in the third quarter of 2017 at 3.46% for Wisconsin headquartered financial institutions, higher than the national average of 3.30%. Looking ahead to 2018, I expect there to be continued steady interest rate hikes by the Fed under incoming Chair **Jerome Powell** in 2018 as his philosophy related to interest rate hikes is similar to that of current Fed Chair **Janet Yellen**. As interest rates continue to rise, this presents challenges for Wisconsin's financial institutions as their core funding costs will continue to rise against a larger portfolio of long-term assets. As of the third quarter of 2017, the cost of funding earning assets grew to .50% while the long-term assets (5+ years) on the books of these financial institutions increased nearly 7% from the prior year. In addition, traditional financial institutions face growing competition from unregulated online lenders,

tax-advantaged institutions, and certain fintech companies.

Merger and acquisition (M&A) activity among Wisconsin's financial institutions continues, and I expect the pace to increase in 2018 compared to 2017. The number of headquartered financial institutions in Wisconsin fell in the third quarter of 2017 from the prior year by 6.6%, from 227 to 212. This was largely due to the heavy pace of M&A activity that was announced in calendar year 2016. At that time, heavy regulatory burden and rising technology and compliance costs, coupled with succession issues and general fatigue among bankers contributed to the pace of M&A activity.

In 2018, I am hopeful that we will begin to realize the easing of regulatory burden as well as tax relief with the passage of prudent reforms in Congress. These actions will help contribute positively to the earnings of financial institutions, which may help drive stronger M&A activity. In addition, those institutions with very strong core deposits will become increasingly attractive to institutions that don't have high core deposits as a way to satisfy funding

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### *Wisconsin Technology Council*

## **Keep Your Money Riding on State Economy in 2018**

*By Tom Still, WTC President*

I may hop the next plane to Las Vegas to play the roulette tables. My winning streak of late could win me some money.

In this space in 2017, I predicted the broadband logjam would be broken. The Information Technology and Innovation Foundation just ranked Wisconsin 11th among the 50 states in that category, a surprising jump. I also forecast that BigCo's would invest in southeast Wisconsin. Little did I know it wouldn't be homegrown companies but a little Taiwanese outfit called Foxconn.

The 2016 forecast talked about the importance of wooing and keeping millennials, a topic that is currently all the rage.

My crystal ball for 2015 laid out four tech goals for policymakers: enhancing Wisconsin's startup and scale-up business climate, building the state's supply of knowledge-based human capital, improving access to capital for Wisconsin entrepreneurs, and improving technology development, delivery, and transfer from the lab bench to the marketplace. Check, check, check, and check.

I could quit while I'm ahead, which would be the smart Vegas thing to do,

but I might as well double down on Red 23 and let the wheel spin again.

**1. The incredibly shrinking stock market will continue to help small- to mid-sized private companies.** Fewer companies are going public, which means more dollars are chasing fewer deals on the New York Stock Exchange and the NASDAQ. Major companies are sitting on plenty of cash and some invest it by paying attention to smaller firms, especially those in the same industry space. That's happening in Wisconsin, where corporate investors are adopting young tech companies to speed internal innovation. Big company executives no longer think "entrepreneur" is French for "unemployed dreamer."

**2. The Foxconn deal will look better as China gets stronger.** Will the rest of the 21st century be the Next American Century... or will the world's most populous nation use its huge trade imbalance, tech investments, and buying power to make it the Chinese Century? States such as Wisconsin that invest in a strategic advantage, such as a \$10 billion liquid crystal display factory, are prepared to move either way.

**3. The I-Q Corridor will become more of a reality.** That's the name I coined years ago for the interstate corridor connecting the powerhouses of Chicago, Milwaukee, and Madison with points north and west. Foxconn will anchor the southern link with its plant near Racine and more companies are shortening the 85-mile link between Milwaukee and Madison. There was a time when the Milwaukee "old guard" looked on Madison with a mix of envy and disdain, but a younger crew in the state's largest city doesn't seem to carry those grudges.

**4. Startup fever will spread in Wisconsin.** To date, it's been largely a function of the Big Two cities, but Wisconsin has always been a state of mid-sized cities. Progress will continue in places such as Janesville, Beloit, Eau Claire, Kenosha, Racine, La Crosse, Appleton, and Green Bay as young companies and workers emerge.

I'm packing light for that Vegas trip, where the roulette tables await, and I'm placing my 2018 bet on Wisconsin.

*The Wisconsin Technology Council includes the Wisconsin Innovation Network, the Wisconsin Angel Network, and the annual Governor's Business Plan Contest.*

### **Wisconsin Bankers Assn.**

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needs. I expect M&A activity in 2018 to affect closer to 10% of our state's headquartered financial institutions.

Our financial institutions power Wisconsin for the betterment of individuals, businesses, and communities. Financial institutions uniquely help local communities grow and thrive through the loans they make to, and the trusted wealth management advice they share

with, individuals and businesses. In addition, the banking industry contributes significant financial and human resources to countless local causes and charities. It is in the interest of our entire state to support state and federal legislative policies that keep diverse financial institutions healthy and operating in Wisconsin. Meaningful regulatory and tax reform are two key legislative agenda items that must be passed at the state and federal level to help our industry.

With the continued strong economy moving into the new year, and the assumption that legislation will pass which starts to ease regulatory and tax burdens, I expect financial institutions to have another successful year in 2018.

*Founded in 1892, the Wisconsin Bankers Association is the state's largest financial industry trade association, representing nearly 250 commercial banks and savings institutions and their almost 2,300 branch offices and 23,000 employees.*