



Wisconsin Manufacturers & Commerce **A Recession is Coming**

By Kurt R. Bauer, WMC President and CEO

Don't be too alarmed by my ominous headline. Economic downturns are inevitable, and 2019 marks the tenth year of the post-Great Recession expansion, which makes it the longest economic recovery since the end of World War II.

Many economists have been predicting a recession for several years now. But they keep pushing back when it will arrive because of the economy's strong performance as measured by GDP growth and low unemployment. Some predict a mild recession in 2020, just in time for the presidential election. Others say that the federal tax reforms will act as a stimulus and delay a recession until 2021 or 2022.

But a recession isn't the only looming threat to the economy, both nationally and in Wisconsin. Here are other areas of concern as we enter 2019.

Worker Shortage: Nearly 80 percent of Wisconsin private sector employers say they are having trouble finding workers. It is Wisconsin's most profound economic challenge and likely will be beyond mid-century unless something unforeseen occurs, like a baby boom or a significant influx of workers from other states and/or countries.

Trade War: President Trump's tariffs and the retaliation they provoked from other nations create confusion, frustration, and uncertainty. It has caused steel and aluminum prices to spike in the U.S., and domestic producers are simply incapable of filling the void.

The not-yet-ratified United States Mexico Canada Agreement (USMCA) appears to be a Trump victory, as is the deal with South Korea. But the U.S. still must negotiate trade pacts with the United Kingdom (post Brexit), the European Union, Japan, and of course, China.

The trade disputes also destabilize America's geo-political relationships

in Asia, where most of the world's economic growth will take place over the next three decades. Further, the tariffs are stressing pricing, upsetting customer relationships, and disrupting supply chains. One of the many unintended consequences of the steel and aluminum tariffs are higher automobile insurance costs because replacement parts are now more expensive.

Health Care Costs: Health care quality in Wisconsin is among the best in the nation, but it comes at a high price. Health care costs in the Milwaukee metro area are 17 percent above the national average and ranks fourth-highest in the nation, according to the Health Care Cost Institute. Costs in Green Bay are 14 percent higher than the U.S. average.

The struggle to offer affordable health care coverage to employees has overtaken taxes as the second biggest challenge facing Wisconsin businesses, according to WMC's semi-annual CEO Economic Survey (finding workers is number one).

Recession Risk: As mentioned, a recession is inevitable at some point in the relatively near future. The question is when will it occur, what will trigger it, and how bad will it be? Trade could be a cause, depending on how long the current disputes continue. Housing could also be a factor, given that sales have slowed due to rising interest rates and the increased cost of materials for new construction, which is another consequence of the tariffs.

Political Instability/Polarization: Democrats won control of the U.S. House of Representatives last November, albeit by a slim margin. The result is divided government in Washington (and Madison, for that matter) with the gridlock that goes with it. A Democrat-led House probably means partisan investigations into Trump on Russia, tax returns, hush money payments, etc. It could also

threaten a government shutdown.

But, it might not be all bad. As **John O'Sullivan** wrote in the mid-1840s, "the best government is that which governs least." The other good news is despite America's political disharmony, the U.S. is considered stable by global standards and therefore an attractive place for investment.

Deficit/Entitlement Spending and the National Debt: Trillion dollar federal deficits have returned, and Democrats won the U.S. House (and the Wisconsin governorship) by pledging to expand government-financed health care benefits. The result is that the entitlement-fueled national debt, which is approaching \$22 trillion, will grow largely unchecked.

Strong Dollar: A strong dollar is great if you are a tourist, but it creates problems for U.S. manufacturers and other exporters when competitors have a currency value pricing advantage. Compounding the strong dollar is a weakening Chinese Yuan, which is offsetting the impact of U.S.-imposed tariffs, most likely by design.

Creeping Socialism: A nationwide poll taken last August showed that for the first time Democrats have a more positive image of socialism than of capitalism. A WMC-commissioned poll in 2017 showed 44 percent of Wisconsin millennials preferred socialism. As someone who ardently believes prosperity grows when there is less government and more economic freedom, I find this trend alarming for the future of our economy and country.

Founded in 1911, Wisconsin Manufacturers & Commerce (WMC) is the combined state chamber of commerce, state manufacturers' association and state safety council. With nearly 3,800 members, WMC is Wisconsin's largest business association representing employers of all sizes and from every sector of the economy.