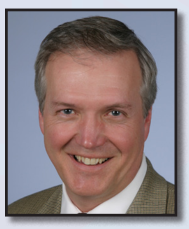
WBA WISCONSIN ECONOMIC REPORT

A compilation of sector forecasts from industry experts.



WisPolitics.com/WisBusiness.com

Wisconsin Players in Key Positions for 2017

By Jeff Mayers

The Trump era has begun, and those who operate in and around Wisconsin government and politics are wracked with uncertainty.

But Wisconsin political insiders are certain of one thing: they like having **Reince Priebus** and **Paul Ryan** close to the center of power.

Priebus, the former state GOP chair from Kenosha, is moving from chief of the Republican National Committee to White House chief of staff.

Ryan, the House speaker from Janesville, is urging Republicans to go bold following November 8 election results that put Trump in the White House and Republicans in control of the House and Senate.

Republicans also have the upper hand in Wisconsin, with Gov. **Scott Walker** getting ready to present his two-year state budget plan to bigger GOP majorities in the Legislature. The GOP Assembly grew its majority by one to 64 in the 99-member chamber; the Republican senators will add at least one seat to their majority, giving them a 20-13 edge, not including the outcome of a recount in La Crosse.

And Walker, who has ascended to head of the Republican Governors Association, is back hinting at running for a third term in 2018 as he expects powers to pass from the federal government to state governments.

Could that mean federal help in boosting infrastructure spending without a gas tax increase? Could that mean Wisconsin policymakers having the ability to reshape Medicaid, a huge budget driver, without interference from the feds? Will it mean more or less involvement in health care by state and federal government?

Answers likely will have to wait until Walker's budget plan and for first moves from the Trump administration and the new Congress.

In the meantime, some state business leaders privately are cautious about the economic conditions created by Trump's election. A strong dollar, a rejection of global trade pacts, and a hard line on immigration could hurt Wisconsin's export-driven economy, they worry.

A strong dollar means Wisconsin products are more expensive overseas. The decline of global trade pacts could mean a trade war and possible tariffs on U.S. goods going abroad. And deportations could disrupt the labor that supports many Wisconsin agriculture operations.

> "The Trump era has begun, and those who operate in and around Wisconsin government and politics are wracked with uncertainty."
>
> – Jeff Mayers
> WisPolitics.com President

And the low jobless rate means it's harder to find qualified workers for jobs. Plus a tighter labor market could spark pay inflation.

But with Walker in the East Wing of the Capitol, all four top legislative leaders returning to their posts, and Priebus and Ryan in powerful positions in the nation's capital, Wisconsin business leaders at least know and have access to the players.

Jeff Mayers is president of WisPolitics.com and WisBusiness.com. The websites are specialty online new organizations that provide subscriber services and organize news events in Madison, Milwaukee and Washington, D.C.

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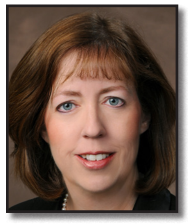

Wisconsin Bankers Association

Wisconsin Banks Moving Forward: Challenges and Opportunities in 2017

By Rose Oswald Poels

Wisconsin banks play an integral role in the growth of our state's economy and there are many reasons to be optimistic for the year ahead. As consumers and business owners gain confidence in the economic recovery, they are borrowing more from banks. Loan demand has been up quarter over quarter, and that upward trajectory will continue at a healthy pace in the New Year. Total net loans for Wisconsin banks as of Sept. 30, 2016, grew to over $76 billion, while total assets for the industry reached over $108 billion.

The banking industry continues to face earnings pressure as the interest rate environment has remained low for a prolonged period of time, and technology and regulatory costs have burdened the expense side of all banks' balance sheets. Achieving efficiencies is challenging for all banks in this environment; however, it is particularly difficult for smaller community banks. Some of the new forces further affecting the industry both positively and negatively include the potential for positive change under President **Donald Trump's** Administration, competition and opportunity from the fintech sector, and consolidation.

Since November 8, the talk across America has revolved around wondering what will happen under an unpredictable and unknown President Trump Administration. During the campaign, there were many topic areas highlighted by then-candidate Trump as primary areas he wanted to change, including health care, immigration, tax reform and overregulation. Any one of these issue areas by themselves could take an entire four years to achieve meaningful change and it remains to be seen which one or two areas his administration will move forward with first.

However, it is clear that the first 100 days in office will be busy. The calendar was recently published and Congress is scheduled to be in session more days than I can remember, with many weeks scheduled as five-day in-session weeks. Like many American citizens, bankers have been frustrated with Congress' inaction on matters important to our industry, most notably regulatory relief and tax reform. While I am hopeful for meaningful change to occur both in legislation and regulation early in 2017, expectations also need to be measured.

Given the competing priorities for time and attention in a new Congress under a new Administration, the banking industry needs to coalesce around a few changes that are most important and impactful so that those can move forward quickly and early in the congressional calendar. Last session, Congress passed a number of bills through the House that benefit the banking industry so our industry, perhaps more than many others, is ready with legislation that can be introduced and acted on the first day of the new session.

A new Administration also brings changes to the heads of various regulatory agencies, including those overseeing the banking industry. Appointing reasonable, fair-minded individuals to these positions will also help move the banking industry's regulatory relief agenda forward as some of the change that the industry is seeking can be accomplished through regulatory action alone.

Companies operating in the fintech space provide both opportunities and threats for the traditional banking industry. As more consumers become comfortable engaging in large-dollar financial transactions online, it is necessary for the banking industry to partner or find other ways to be directly involved in the fintech space. However, as the direct lending done by those companies grows each year (without the same regulatory oversight that traditional banks have) the industry enjoys a financial benefit while consumers are potentially at risk. Traditional banks, with their underwriting standards and measured processes, are a trusted and safe lender for consumers that is unmatched by fintech companies.

> "…bankers have been frustrated with Congress' inaction on matters important to our industry, most notably regulatory relief and tax reform."
>
> – Rose Oswald Poels
> WBA President and CEO

It has always been true that a diverse, healthy banking industry is necessary for a strong, healthy economy. The pace of consolidation we have seen in Wisconsin has been brisk and while some of it is normal, the pressures on individual institutions coupled with succession issues are also forcing some institutions to sell rather than remain independent.

It is in Wisconsin's best interest to encourage the continued diversity and breadth of the banking industry not only in order to keep our state's economy growing but importantly to keep our local economies vibrant. Therefore, meaningful change to roll back the industry's regulatory burden, level the playing field with the fintech sector, and

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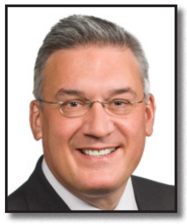

Wisconsin REALTORS® Association

Wisconsin Home Market on Record Pace in 2016

By Michael Theo

The Wisconsin home market is on pace to have its strongest year since the Wisconsin REALTORS® Association re-benchmarked its data systems in 2005. Existing home sales for 2016 are 4.8 percent ahead of the record pace of 2015, and are likely to exceed 80,000 homes sold if the momentum experienced during the first 10 months of 2016 continues through the end of the year. Median prices, which have been rising since March of 2012, continue to grow at well above the rate of inflation. Considering the first 10 months of the year, the annual inflation rate published each month has increased by no more than 1.6 percent through October whereas median prices have increased 5.1 percent year-to-date over that period. The current economic conditions certainly favor strong price appreciation. On the demand side, housing continues to be affordable, especially when compared to national benchmarks. The Wisconsin Housing Affordability index shows that fraction of the median priced home that a borrower with median family income can afford to buy given 20 percent down and the remainder financed with a 30-year fixed-rate mortgage.

The Wisconsin index stood at 231 in September, compared with an index value of 204 for the Midwest and 167.2 for the nation. The combination of ongoing improvement in the statewide labor market and favorable mortgage rates continues to fuel housing demand. Solid job growth pushed the Wisconsin unemployment rate to 4.1 percent in October even though there are more workers in the labor force than in 2015, and mortgage rates fell about 30 basis points to 3.47 percent in October, relative to that same month in 2015. The supply side of the market remains tight, especially in the urban areas. Whereas the 46 rural counties in the state had 10.1 months of supply indicating ample opportunities for buyers in those markets, there were just 4.6 months of available supply in the 26 metropolitan counties. There are mixed signals on the prospects for more supply in the near future. New listings of existing homes were down 6 percent for the first 10 months of 2016 compared to 2015, but that was countered by an increase in new construction, as the number of single-family housing permits rose 14.1 percent through October of 2016 compared to that same period in 2015. Overall, 2016 has been a very good year for the Wisconsin housing market in spite of the existing supply constraints.

Pro-growth economic policies at the national, state and local levels should enhance growth in the housing sector. While the recent election cycle was anything but typical, the shift in national executive control to the Republican Party is likely to diminish regulatory pressures from federal agencies and usher in more pro-business strategies. To the extent that this increases job growth, it should favor expansion in the housing sector. However, it is critical that inflation be kept under control. If there are strong inflationary pressures, then this can increase mortgage rates which can reduce housing demand. The Federal Reserve has already signaled that it intends to increase short term interest rates to keep inflation in check. If it is successful, then the pro-growth policies combined with low inflation should continue to stimulate housing. At the state level, the governor and legislature can complement the evolving national agenda of the new administration and the new Congress by fostering pro-growth policies while at the same time avoiding policies that are likely to increase the property tax burden.

> “If the Federal Reserve increases short-term interest rates, then pro-growth policies combined with low inflation should continue to stimulate housing.”
>
> – Michael Theo, CAE
> WRA President and CEO

Founded in 1909, the Wisconsin REALTORS Association (WRA) is one of the largest trade associations in Wisconsin. It represents and provides services to more than 14,000 members statewide. WRA's goal is to promote the advancement of real estate in Wisconsin and provide cutting-edge tools to help realtors enjoy a successful career and be competitive in their market.

Wisconsin Bankers Assn.

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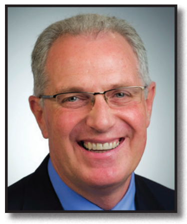
enact policies that promote the retention of banks of all sizes is critical. I remain optimistic that this can be achieved in the next year or two, particularly in light of the influential role many Wisconsinites have in the new Congress and Administration. Forward!

Founded in 1892, the Wisconsin Bankers Association is the state's largest financial industry trade association, representing nearly 270 commercial banks and savings institutions and their almost 2,300 branch offices and 23,000 employees.



Wisconsin Farm Bureau Federation

Economic Status of Wisconsin Agriculture

By Dale M. Beaty

We all eat. That's why a strong and growing agriculture economy is in everyone's best interest. It's important every citizen appreciate the significant challenges and outstanding opportunities currently influencing the economic status of Wisconsin agriculture.

National monetary, trade, transportation and regulatory policies have a significant economic impact on Wisconsin farmers and agriculturists. The U.S. dollar is stronger than it has been in over a decade. Thus, it's costlier for other nations to purchase farm commodities. This leads to reduced exports and decreased profits for every sector of agriculture. Compounding the negative impact of a strong dollar on exports is the anti-trade rhetoric of both of this year's presidential candidates. Farmers and agribusinesses are anxious about the promotion of protectionist trade policies because over a third of gross farm income comes directly from exports.

Wisconsin farmers need federal immigration reform to maintain a consistent and reliable workforce. Every sector of agriculture relies on our nation's transportation system to get farm products to markets in this country and around the world. Farmers are pleased with the sudden emphasis on the need to update and rebuild America's infrastructure: roads, bridges, rail, ports and locks and dams. Farmers and agribusinesses are hopeful that government regulation will subside and may be rolled back under President Trump's administration.

While Wisconsin farmers have endured very tough economic conditions for the past three years, many of them are reaping their most abundant harvest ever, thanks to an excellent growing season. The relatively low prices farmers will receive for this year's crops are somewhat offset by the quantity of crops available to sell this fall.

Animal agriculture has seen cyclical expansion in recent years. Across the board, protein prices have fallen for consumers in the grocery store, and that takes a toll on farm profitability. Compared with a year ago, egg, cattle, hog and milk prices are down 69 percent, 21 percent, 7.5 percent and 0.8 percent in the third quarter of 2016, respectively, according to USDA data.

Even though dairy farmers are dealing with depressed milk prices in 2016, dairy economists are optimistic for the future. Markets are on the upside of the cycle, so prices may respond positively. However, the abundant supply of dairy products is a strong indicator that lower prices will continue to be the norm for the foreseeable future.

Our state's agricultural and political leaders are grappling to find workable solutions to three key issues with significant impact on the economic status of Wisconsin agriculture:

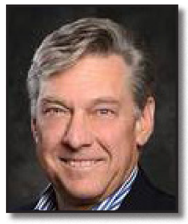
1. Funding Wisconsin's rural roads: good rural roads are necessary to market farm products, as well as being quality of life and safety issues for those living in rural communities.
2. Water: farmers must be able to install and maintain high capacity wells to access the quantity of water necessary to raise their crops and support their animals. Yet, they know their needs must balance with the necessity of protecting our state's streams, rivers, lakes and drinking water.
3. Nutrient management: farmers must be able to apply the nutrients produced on the farm back to the soil in an efficient and effective way while being good stewards of the land.

Agriculture is the economic engine of Wisconsin, and education and research are the fuel for that engine. To ensure the economic vitality of Wisconsin agriculture, we must be willing to invest in agricultural education, encourage new farm startups, and promote farm succession planning. Appropriate funding is necessary for our elementary and high schools, as well as our university and technical colleges to train our future farmers and agriculturists, as well as to teach our citizens about how their food is raised and where it comes from. New farm startup incentives and creative succession planning will help ensure the long-term sustainability of our rural heritage.

> "Appropriate funding is necessary for our elementary and high schools, as well as our university and technical colleges to train our future farmers and agriculturists."
>
> – Dale M. Beaty
> WFBF Chief Administrative Officer

Agriculture has a $88.3 billion economic impact on Wisconsin's economy. It's critical we all come together to find workable solutions to the challenges facing Wisconsin agriculture, so all of us realize the rewards of a strong and growing agricultural economy.

The WFBF is the state's largest general farm organization, representing farms of all sizes, commodities and management styles. There are 44,000 member families that belong to the Wisconsin Farm Bureau. Voting Farm Bureau members (farmers) annually set the policy the organization follows, and are involved in local, state and national affairs, making it a true grassroots organization.



Wisconsin Grocers Association

The State of Retail in Wisconsin: Looking Ahead to 2017

By Brandon Scholz

Wisconsin's retail businesses are a key component of the state's economy. Consumers buy groceries, fuel, apparel, hammer and nails, pizzas, tennis shoes and more, driving sales tax collections to the state and providing wages and benefits to the hundreds of thousands of employees in the retail sector.

Retail businesses, both small and large, work to provide their customers with the highest quality products at the most competitive prices. One-on-one customer service plays a huge role in building customer loyalty and repeat business.

But it's not that easy.

Like many business sectors in Wisconsin, the retail component deals with local, state and federal regulations that drive up the cost of compliance and require more time from employers to deal with regulatory burdens rather than making their businesses flourish.

The 2016 election results hopefully will provide some regulatory relief at the state and federal level. Based on President-Elect **Donald Trump's** statements to date we expect that Trump will get out his pen and undo most, if not all, of President **Barack Obama's** overreaching Executive Orders – starting with the Overtime Pay Rule. This should be a no-brainer and a statement of how Obama's eight-year string of mandates will be dealt with by the new president. Next, working with House Speaker **Paul Ryan**, Trump should tackle as many tax reform measures he can.

Wisconsin's main street and retail businesses have many challenges. For example, the robust grocery industry in Wisconsin is known for delivering some of the lowest and most competitive prices for the products they offer. Food deflation is 2016's biggest economic challenge for grocery stores as it tightens razor thin margins in the industry.

Nevertheless, supermarkets and grocery stores (members of the Wisconsin Grocers Association) in Wisconsin generate over $10 billion in sales, pay more than $825 million in wages and generate more than $700 million in local, state and federal taxes. As more stores come into the state, these numbers are pushed higher and higher.

Another face of retail includes 270,200 restaurant and foodservice jobs in Wisconsin, which equals 10 percent of employment in the state. Restaurant sales in Wisconsin are projected to be $8.4 billion in 2016, a growth of 3.6 percent over 2015. Over the next ten years, the number of restaurant and foodservice jobs in Wisconsin is expected to grow by 9.6 percent, for a total of 296,200.

Wisconsin's petroleum marketers and convenience store owners are independent and family-owned businesses that, in many cases, date back generations and operate nearly 3,000 stores across the state and employ more than 50,000 people. Wisconsin convenience stores accounted for more than $11 billion in sales in 2015.

While most everyone is pleased that Wisconsin's unemployment rate is 4.1 percent, the problem retailers have is that they can't find enough people to fill good-paying jobs. Many retailers have starting wage rates above the federal minimum wage competing with each other to fill their workforce needs.

Wisconsin should have the right climate to streamline regulations and find ways to continue to make state agencies partners in building a better economy rather than competitors and regulatory adversaries.

> "The state of the retail industry is good and relatively stable... but, a quick downturn in the economy, unexpected increases in costs, a continued workforce drought and no regulatory relief could easily soften this sector of Wisconsin's economy."
>
> – Brandon Scholz
> WGA President and CEO

The Wisconsin State Legislature is well-positioned to respond positively to the needs of the retail community to grow their businesses and workforce. Federalizing FMLA, maintaining the Unfair Sales Act and repealing the personal property tax are great starting points as we head into this 2017-2018 legislative session.

The state of the retail industry is good and relatively stable, but there is not a single operator who takes that position for granted. A quick downturn in the economy, unexpected increases in costs, a continued workforce drought and no regulatory relief could easily soften this sector of Wisconsin's economy.

The Wisconsin Grocers Association represents nearly 1,000 independent grocers, retail grocery chain stores, warehouses and distributors, convenience stores, food brokers and suppliers. Wisconsin grocers employ over 50,000 people with $815 million in payroll and generate more than $6 billion in annual sales in Wisconsin resulting in approximately $250,000,000 in state sales tax revenue.

Wisconsin Hospital Association

Health Care in 2017: *Caution Ahead*

By Eric Borgerding

As the Trump Administration prepares to take office, speculation on the near and long-term policy and political implications continues to mount, nowhere more so than in the area of health care.

The selection of Rep. **Tom Price** as Health and Human Services Secretary confirms that major changes to Obamacare as well as safety net programs like Medicaid are a certainty. Rep. Price visited two Wisconsin hospitals in 2012 to see firsthand how care is delivered in a state known for high-quality, high-value health care. We hope what he learned while here will influence his policy decisions to assure state's like Wisconsin can continue to deliver excellent clinical care and receive fair reimbursement for both Medicaid and Medicare patients.

Even before the elections, there was growing, bipartisan consensus that certain elements, particularly the exchanges, were in need of repair. The question now becomes a complicated (and potentially risky) one of scale, pace and how to effectively translate election year pledges into post-election policy creation, passage and, especially, implementation. For better or for worse, there's too much here to instantly unwind, and not all of it will be unwound, frankly.

There are dozens of elements to Obamacare that have become woven into the health care delivery and insurance systems. There are numerous examples of this, but perhaps the most significant is the gain in health insurance coverage.

One important gauge by which to evaluate current and future policies is the Wisconsin uninsured rate, which was already low before Obamacare took effect and has dropped another 38 percent since. This is the result of Governor **Scott Walker's** hybrid approach of combining a Wisconsin version of Medicaid expansion with Obamacare's insurance exchanges. Indeed, expanding health insurance coverage is a bipartisan aim, the difference comes in the means of achieving and sustaining this shared goal.

Expanding coverage is, theoretically, not that difficult, but sustaining coverage expansion is. If Obamacare is repealed, its replacement must prioritize preserving the progress made in reducing the number of uninsured.

This will be a critical part of the debate that must have as a desired outcome sustaining coverage gains in Wisconsin. It must be, and I believe will be under Speaker **Paul Ryan**, a substantive and forward-looking debate, because this time "repeal and replace" probably won't be vetoed. The fact that nearly 225,000 people in Wisconsin now obtain insurance coverage on the Wisconsin Obamacare exchange (190,000 of those receiving a substantial subsidy to help pay the premiums) means there is a lot at stake when repealing and replacing the law that delivered that coverage. What follows Obamacare must in design and implementation be better and more sustainable than Obamacare.

This will not be simple. Indeed, Senator **Lindsey Graham** (R- South Carolina) nailed it when he recently said "The flaws in Obamacare are obvious to me. The solutions are much harder." Complicating this undertaking is the fact that November of 2016 saw the highest single month of Wisconsin enrollments in Obamacare since it began in 2014.

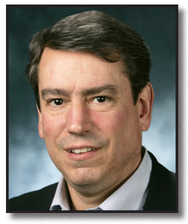
While the breadth and scope of the coming changes are of obvious significance, as important is the pace of any coming change. Wisconsin's health care delivery and insurance systems have seen massive upheaval and fundamental, systemic realignment over the past few years, much of that driven by Obamacare. Wisconsin's health care system leads the country in quality and value; its leaders are remarkably talented, forward-looking and nimble. But despite these attributes, an abrupt U-turn could result in greater confusion, dissatisfaction and frustration across the board. Certain aspects of Obamacare have been a political gift to its opponents. Its replacements could be just the opposite if not handled cautiously.

"Certain aspects of Obamacare have been a political gift to its opponents. Its replacements could be just the opposite if not handled cautiously."

– Eric Borgerding
WHA President and CEO

With nearly a quarter million Wisconsinites being covered under the exchange, any major changes will take time to implement. One of WHA's highest priorities in 2017 is sustaining the gains in coverage that have been made over the few years, a first step in improving the health of everyone living in our state.

Established in 1920, WHA's mission is advocating for the ability of its members to lead in the provision of high quality, affordable, and accessible health care services, resulting in healthier Wisconsin communities. WHA is committed to serving member needs, keeping members informed of important local and national legislative issues, interpreting clinical and quality issues for members, providing up-to-date educational information and encouraging member participation in Association activities.



Wisconsin Technology Council

Three Ways to Keep Wisconsin's Tech-Based Economy on Track

By Tom Still

Crystal balls can be notoriously cloudy. Just ask all the pollsters who predicted President-elect **Hillary Clinton**.

Given that caveat, here are three of my many hopes for a happy, prosperous 2017 for the state's tech-based economy. In no particular order…

There will be peace in the (Silicon) Valley: One worry for the tech world is President-elect **Donald Trump's** war of words with Silicon Valley. Apple CEO **Tim Cook**, Facebook founder **Mark Zuckerberg** and Amazon CEO **Jeff Bezos** were among tech titans called out by Trump during the campaign over issues such as immigration, off-shore manufacturing, taxes and terrorism. He also questioned the tech industry's push for an increase in high-skilled H-1B immigration visas.

On the other hand, Trump has generally praised entrepreneurs and innovation and spoken directly to the value of academic research and development.

"Scientific advances do require long term investment," he told ScienceDebate.org, a coalition of 56 groups. "This is why we must have programs such as a viable space program and institutional research that serve as incubators to innovation and the advancement of science and engineering in a number of fields."

Such statements did not come with specific positions on federal R&D funding, technology transfer and commercialization, support for startups and small businesses, internet governance, and reform of the patent system. Trump was basically silent on each… yet all of them matter to Wisconsin. State policymakers in Madison and Washington must watch closely and weigh in.

The broadband logjam will be broken in rural Wisconsin: Only California among the 50 states will receive more federal dollars than Wisconsin between now and 2020 to enhance broadband downloads and uploads in places that are isolated and otherwise underserved.

About $570 million will be allotted through the "Connect America Fund 2" to three providers – CenturyLink, Frontier and AT&T, in order of competitive grant size – to augment private investments in broadband by those same companies.

About 40 percent of the money must be spent by the end of 2017 and 20 percent per year must be put to work in 2018, 2019 and 2020. The goal is to efficiently bring broadband at a market price to about 230,000 Wisconsin homes that don't have solid access today.

Adequate broadband connections can help stem the loss of rural population and jobs. It can enhance eCommerce for businesses large and small, bolster public safety, improve health through telemedicine, boost tourism by encouraging visitors to stay longer, entice Millennials to stay put and connected, and improve education for kids who otherwise lose their internet connections once they leave the school grounds. If this program doesn't work and attract state government support, rural Wisconsin may lose its last best chance to connect.

'BigCos' will invest in southeast Wisconsin: There are solid examples of major companies in Wisconsin investing directly and indirectly in startup economies close to home. In Milwaukee, the next stage should be forming what is commonly called a "fund of funds," a vehicle for pooling capital and investing in emerging firms.

> "Only California among the 50 states will receive more federal dollars than Wisconsin between now and 2020 to enhance broadband…in places that are isolated and otherwise underserved."
>
> – Tom Still, WTC President

One model in a comparable Midwest city is Cintrifuse. Established by the business community in Cincinnati, Cintrifuse is a non-profit organization that has created a syndicate fund to invest in venture funds with an interest in backing young companies in the region and beyond. It has nearly 30 corporate, foundation and academic investors, including Proctor & Gamble, Kroger and Western & Southern.

It grew out of business community leadership and a sense that Cincinnati's future rested not only with legacy companies, but with new companies that might arise in their back yards.

Milwaukee has that cadre of major companies. It has experienced investors in the angel and small fund end of the venture capital spectrum. Increasingly, it has the right technical talent and ideas. What's needed is a shared sense of urgency about reinvesting in the city and the region.

Wisconsin's tech sector continues to produce value and jobs, usually at pay scales well above the statewide per capita average. As the state enters a new year, my biggest hope is for more of the same.

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

Wisconsin Manufacturers & Commerce

Federal Policy Changes Should Spark Stronger Growth

By Kurt R. Bauer

“U.S. businesses pay an insanely high $2 trillion annually to comply with federal regulations, according to the American Enterprise Institute.”

– Kurt R. Bauer
WMC President and CEO

What I like about being a pessimist is that you are usually right and even when you are wrong, you are happy about it. But, there is genuine reason for optimism about the direction of the U.S. economy as 2017 begins. My uncharacteristic confidence is largely driven by hope the incoming administration in Washington will reverse policies that have created disappointing economic results since the end of the Great Recession.

The opportunities are numerous, starting with taxes. At 35 percent, the U.S. has the highest and thus least competitive corporate tax rate in the industrialized world. As a candidate, **Donald Trump** said he would reduce that rate. If he follows through, we will see businesses respond with more domestic investments.

Any tax reform package should also include a one-time incentive to repatriate U.S. dollars trapped abroad because of the punitive costs to bring them home. The tax revenue could be used to fund another priority Trump talked about during the campaign: infrastructure. Updating America’s aging infrastructure could receive bi-partisan support, especially if the funds to pay for it don’t swell the deficit.

Regulatory relief also needs to be front and center for the Trump administration. U.S. businesses pay an insanely high $2 trillion annually to comply with federal regulations, according to the American Enterprise Institute. The Affordable Care Act and Dodd-Frank are two of the biggest culprits. Both laws were enacted during President Obama’s first two years in office and accordingly, should be repealed in Trump’s first two years.

The current administration’s prolific and brazen use of executive orders to bypass Congress must also be stopped. Obama’s edicts have not just harmed the economy because of the unchecked expansion of the regulatory state; they have damaged our democracy by undermining the separation of powers.

Embracing North American energy resources is another obvious step Trump can take to expand the economy. Obama’s “leave it in the ground” policy has devastated coal producing regions like Kentucky, West Virginia and Wyoming. It has also hurt mining equipment manufacturers, including two in Wisconsin; Caterpillar and Joy Global, along with their Wisconsin-based supply chain.

Energy is the lifeblood of an advanced economy and the U.S. is blessed to have abundant reserves of coal, as well as oil and natural gas extracted from shale. But the U.S. might be the only nation-state in history to refuse to utilize an incredibly valuable natural resource within its borders that would otherwise give it a strategic advantage over its economic and geopolitical rivals.

Investing in technologies to make alternative energy sources more affordable, reliable and storable should continue. But there also has to be recognition that the U.S. economy cannot be powered by non-fossil fuels anytime in the near future without a major technological breakthrough.

While there is much to be positive about, Trump’s stated positions on trade, immigration and his lack of concern about the $20 trillion national debt and underfunded entitlements is cause for concern.

Trump complained during the campaign about unfair trade with Mexico and China, which happen to be two of Wisconsin’s three largest trading partners. Wisconsin actually enjoys a very balanced trade relationship with Mexico and given the predicted population and wealth growth in Asia, expanding trade on that continent is an imperative for U.S companies. If the U.S. rejects the Trans-Pacific Partnership, China will fill the vacuum, both economically and geopolitically.

Before starting a trade war, Trump should consider that 95 percent of the world’s consumers live outside the U.S; 80 percent of consumer spending is outside the U.S. and 92 percent of economic growth comes from outside the U.S. The U.S. and Wisconsin economies need global engagement.

On immigration, Trump needs to understand the broad workforce needs of the U.S. economy. Wisconsin and many other states have labor shortages that will only get worse. Legal immigration needs to be part of the solution, but it can’t be until there is comprehensive federal reform that allows more H1B Visas and creates a guest worker program for people of all skill levels.

Founded in 1911, Wisconsin Manufacturers & Commerce (WMC) is the combined Wisconsin Chamber of Commerce, Manufacturers’ Association and Safety Council. WMC represents 3,800 employers of all sizes and from every sector of the economy.