WBA
WISCONSIN ECONOMIC REPORT
A compilation of sector forecasts from industry experts.

Wisconsin Bankers Association

Banks Will Overcome Challenges, Continue Strength in 2019

By Rose Oswald Poels, WBA President and CEO

Wisconsin's banking industry saw steady growth throughout 2018, and I expect that trend to continue for most of 2019.

Much of the strength of the last year can be attributed to greater national certainty and legislative policies at the state and federal level that have improved the overall economy, providing consumers and business owners with greater confidence to borrow money for purchases and to fund growth. Certainly federal tax reform has strengthened the balance sheet of both individuals and businesses, including banks. In addition, the banking industry finally saw the beginning of regulatory relief with the bi-partisan passage of S. 2155, the Economic Growth, Regulatory Relief and Consumer Protection Act. There is a delay in realizing the benefits from this law as regulators need to write rules to implement the law; however, much of the industry will see some relief from overly burdensome rules. The industry will continue to work with the 116th Congress to hopefully provide more meaningful relief for both banks and their customers.

Looking ahead to 2019, there are several indicators bankers and regulators are watching that will impact the banking industry: core deposits, the ag sector, and technology. Core deposits are an important component of a bank's funding source and one that regulators expect to be a primary source. However, as Wisconsin's population continues to age and competition from non-bank sources intensifies, banks are finding it increasingly challenging to grow core deposits from local sources. As a result, banks look to other sources for funding loans which often are more expensive, impacting a bank's net interest margin. On the loan side, regulators are focused on ag portfolios and concentrations of commercial real estate loans. Additionally, the competition to attract loan customers has been very strong and regulators are closely watching bank's underwriting standards to ensure they maintain discipline.

The ag sector is understandably a concern as farmers have experienced the "perfect storm" of challenges for too long. Ag lenders will continue to work closely with their farm customers to help them through these challenging times in 2019 but as more annual operating loans are rolled over into longer term financing, the need for a positive turn-around in the health of our state's ag sector becomes increasingly critical for banks and farmers alike. Industrial hemp is a potential new crop that could help provide some diversity to Wisconsin farmers. Bankers are helping advocate for the 2018 Farm Bill to permanently legalize hemp and hemp products so that banks have a clearer regulatory path to do business with all groups involved with this crop and its byproducts.

Technology will continue to transform the way banks do business in 2019 as investment in this area remains strong. Technology improvements are focused not only on streamlining internal operations but also on enhancing the customer experience with a bank. This necessary expense also impacts a bank's net interest margin.

Through the third quarter of 2018, the number of Wisconsin-headquartered banks declined to 204, and I expect that number to continue to decline in 2019 by about 6-8%. Banking remains a relationship business so even as acquisitions continue, branch offices will exist in communities where a headquarters once was located to continue to meet the financial needs of local customers.

Despite our shrinking numbers, the size of Wisconsin banks will continue to grow because we are the engine of our state's economy. While the outlook for much of 2019 is positive for the industry, we are mindful that a correction is coming and may start to materialize near the end of the year.

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

WBA
WISCONSIN ECONOMIC REPORT

Wisconsin REALTORS® Association

Tight Supply and Strong Demand Keep Home Sales Flat and Drive Up Prices

By Michael Theo, WRA President and CEO
*With insights from **Dave Clark**, economist with Marquette University*

The national economy is effectively at full employment with very low unemployment rates, core inflation in check, and an influential index of consumer confidence which is at an 18-year high. Although mortgage rates have drifted upward as the Federal Reserve has pushed up short term interest rates to control inflationary pressures, mortgage rates remain below 5% as of October 2018. The Wisconsin job market paints an even stronger economic picture, with historically low unemployment rates at or below 3% between February and October of 2018, and solid job growth throughout the year. In short, demand conditions are very strong which should support robust growth in home sales, yet sales through October lag behind the totals for the first 10 months of 2017 by 2.2%. The challenge for the housing market is on the supply side, and indeed, the state has been in a strong seller's market throughout 2018.

There are three fundamental sources of housing supply and none of these sources has improved over the past 12 months. Total listings of existing homes in the state have remained below the levels of 2017 throughout the year with October total listings 13.2% lower than the level 12 months earlier. New construction is essentially flat. Comparing the first three quarters of 2018 with that same period last year, Wisconsin's single-family home permits were up just 0.3%. Finally, single-family foreclosures for the first nine months of the year are at the lowest levels in 18 years. The combination of strong demand and very tight supply has kept Wisconsin sales lower than last year and has pushed median home prices up 6.9% year-to-date, more than twice the rate of inflation. This has eroded a key indicator of housing affordability in the state. Specifically, the Wisconsin Housing Affordability Index, which shows the fraction of the median-priced home that a borrower with median family income can afford to purchase, assuming 20% down and the remainder financed at current rates with a 30-year fixed rate mortgage. The October indicator suggests that a typical buyer can afford to purchase 196% of the typical home, which is down from 219% in October of last year.

So what does the future hold for housing in Wisconsin? Much depends on the future path of the economy. The last recession ended in June 2009, which puts the current expansion just shy of 10 years. The typical post-war expansion is 58.4 months but the last three have averaged 95 months and the expansion during the 1990's was exactly 10 years in length. Thus, it may seem as though a recession is on the horizon. However, the fundamentals of the economy remain solid, including steady improvements in employment which pushed the national unemployment rate down to 3.7% in October. With the Fed keeping core inflation near its target rate of 2%, and with annualized Real GDP growth at 2.3% in 2017, and ranging between 2.2% and 4.2% for each of the first three quarters of 2018, there are no immediate alarm bells suggesting a recession is imminent. Indeed, the Survey of Professional Forecasters conducted each quarter by the Philadelphia Federal Reserve Bank puts the risk of a negative quarter of GDP growth at no more than 20% through third quarter of 2019.

The supply side of the market is likely to improve only slightly over the next year, since the two primary sources of supply, listings of existing homes and new construction of single-family units, are not likely to change quickly. Health circumstances will eventually cause Baby Boomers to transition out of single-family housing, and some of those in the Gen-X generation may choose to right-size and hence put their homes on the market, but these demographic changes are likely to evolve gradually.

The Fed's policy focus needs to maintain low inflation without slowing the economy too quickly. Likewise, federal policymakers have removed some of the regulatory burden that hindered the competitiveness of U.S. firms. The president and congress need to avoid negating some of those gains by pushing for permanent increases in tariffs that ultimately raise input costs, slow economic growth, and generate inflation. Likewise, state and local policymakers should consider reforms that maintain the favorable business climate in the state. They should reduce the regulatory burden on developers and homebuilders, if new construction is to help close the supply gap. The Wisconsin economy has outperformed our neighbors to the south as they struggle to get their fiscal house in order. While currently an advantage for Wisconsin, this is a playing field we do not want to level by endorsing strategies that ultimately hinder future growth.

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 15,000 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 Farm Bureau Federation

Wisconsin Agriculture in Crisis

By Dale M. Beaty, WFBF Chief Administrative Officer

WBA WISCONSIN ECONOMIC REPORT

During the darkest days of World War II with Britain on the verge of defeat, Winston Churchill said, "When you are going through hell, keep going."

2018 will be engrained in the mind of Wisconsin farmers as the year to persevere. Many farmers are at a financial and mental breaking point because of a confluence of challenges which include four continuous years of declining farm income, anxiety over foreign trade negotiations, the lack of a workable federal immigration policy, and the absence of Mother Nature's cooperation. Few signs of improvement are predicted for 2019, especially for our state's dairy industry.

> "Sadly, Wisconsin leads the nation in Chapter 12 farm bankruptcy filings with 47 in 2018. Financial struggles and the prospect of losing their way of life has led to increased depression among farmers."

The average farmer's income has declined nearly 35 percent since 2013 according to the U.S. Department of Agriculture. While farmer income declines, input costs such as labor, energy, insurance, equipment, and maintenance continue to rise. Farmers continue to lose money and burn through their equity. Sadly, Wisconsin leads the nation in Chapter 12 farm bankruptcy filings with 47 in 2018. Financial struggles and the prospect of losing their way of life has led to increased depression among farmers.

Many farmers support President **Donald Trump's** attempts to open foreign markets because they recognize free trade is very favorable to the agricultural economy in the long-term. However, in the short-term, farmers are bearing the brunt of trade disagreements because of retaliatory tariffs. It is unlikely China will agree to lower their tariffs anytime soon. The Trump administration is offering $12 billion in farm aid to help ease the pain; however, those payments won't avert the current farm crisis. Farmers want trade, not government aid.

Wisconsin farmers need federal immigration reform to maintain a consistent and reliable workforce. Farmers want the Federal government to create an immigration system which allows them to legally employ foreign workers. This is important because there is a shortage of workers in Wisconsin, and very few Americans are willing to consistently do the manual labor required on farms.

In addition to the financial stress and anxiety over trade negotiations, farmers had to persevere through challenging weather this year to complete their harvest. During the summer, many farmers were gifted too much rain through severe storms, causing flooding and damaged crops. Mother Nature dealt farmers long stretches of windy, wet, and cold weather this fall which reduced crop quality and made it hard for farmers to get the crop out of the fields.

Wisconsin farmers are trying to pilot through this low-price time by investigating alternative revenues. Over the years, the uses of industrial hemp have grown significantly and thanks to a pilot program, farmers are once again dabbling with the crop. There are thousands of uses and a $700 million domestic market waiting to be filled by farmers. Whether it's a different crop, an on-farm store, agri-tourism or diversifying, our farmers are doing the best they can to navigate their businesses.

We all eat. Therefore, we all need to care about our farmers and agribusiness owners. What can you do during this difficult time for them?

1. Add more dairy and locally grown farm products to your family's diet.
2. Take part in the "10-gallon challenge" which benefits both dairy farmers and needy families. Call your local food pantry to see if they accept perishable items, then head to your local grocery store, buy ten gallons of milk and drop it off.
3. Consider becoming a Farm Bureau member. Farm Bureau is a non-profit organization of, by, and for farmers. Wisconsin Farm Bureau advocates on behalf of farmers at the county, state, and national levels. To become a member, visit *wfbf.com/membership*.

The agricultural industry is cyclical. With agriculture contributing more than $88 billion to our state's economy, we need the cycle to head upward soon.

WFBF is the state's largest general farm organization, representing farms of all sizes, commodities, and management styles. There are nearly 47,000 members 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.

WBA
WISCONSIN ECONOMIC REPORT

Wisconsin Grocers Association

Competition. Change. Challenge.

By Brandon Scholz, WGA President and CEO

These three simple words fully capture what happened in the retail grocery business in Wisconsin during 2018. And not surprisingly, they are the foundations for what grocers and food industry retailers will be going through in 2019.

Most all businesses can lay claim to the competitive factor in their respective industries, but few can match the competitive nature of the grocery industry because of the razor thin margins that grocers are forced to deal with. Not only do retailers, large and small, single or multiple store operators have to compete with the store down the street, but they have to compete with other non-grocery retailers who want to sell select groceries and products.

Convenience stores and pharmacies have expanded their product lines with fresh food, beer and wine, beverages and more. Pharmacies especially have cut deeply into home and beauty care product sales. Big box hardware stores selling groceries and specialty stores for pets have reduced these categories in the grocery store.

There's an old story about a New York City electronics dealers who undercut every single competitor with the absolute lowest prices in the city. When asked how he could do that, his answer was simple—volume. The man could have been a grocer.

With skimpy margins, grocers have to laser focus on bringing back the customer and really can't afford to lose them or let them troll other competitors.

Competition is great for consumers. Groceries are some of the best priced bargains around. Trading Economics reports, "(The) cost of food in the United States increased 1.2 percent in October of 2018 over the same month in the previous year. Food Inflation in the United States averaged 3.41 percent from 1914 until 2018."

If competition was just about the grocer down the block, one could say that's relatively manageable. When an entirely new force comes into the universe, just about everything changes. Online shopping isn't coming; it's here. And it is a change for the good.

Granted, the majority of grocery shopping still takes place in traditional brick-and-mortar grocery stores. But with more and more retailers bringing online shopping, pick-up, and delivery into their business model, online growth will accelerate.

Statista notes, "In total, U.S. online grocery sales amounted to about 17.5 billion U.S. dollars in 2018 and are expected to rise to nearly 30 billion U.S. dollars by 2021."

In this age of smart phones and near constant internet access, many grocery retailers are integrating a range of new and exciting services into online grocery shopping using mobile apps, click-and-collect, and home delivery.

More than half of the grocers offer a variety of mobile apps offering exclusive e-coupons, online ordering, or loyalty card programs and more. In a few short years, this will be standard in the industry.

There are some impediments to the growth of online found mostly in the ability to offer home delivery or pick up at the store and prohibitions on home delivery of alcohol, but that continues to change as customers demand that service.

Change creates challenges. While it's critical to offer online grocery shopping, somebody has to go through the store, pick and process the order, bag it, and get it set for pickup and delivery. That creates new duties and likely new jobs. I recently saw a store manager power shopping for an online order—clearly more manpower is needed!

When was the last time you went grocery shopping and all the checkout lanes were full with checkers? It's a rare sight these days because grocers, like most other employers, can't find enough people to fill the available jobs that are open. And we're not just talking about checkers and baggers. Department managers, dietitians, HR, pricing, store managers… positions at every level.

Add into the mix changes coming to the grocery industry like online ordering, store pickup, and home delivery and more positions are created and when that volume doubles, stores will need more employees to fill these positions. There are more than 3,500 job openings in Wisconsin for grocery stores. That number changes daily and will only go up as the industry and competition grows.

The grocery industry stands ready and willing to work with Governor-Elect **Tony Evers** and the State Legislature to be a part of the effort to grow and expand Wisconsin's workforce. While there are many priorities on political agendas, expanding the workforce has to be one of the top efforts.

Without a sufficient workforce, employers and employees will suffer as businesses will not be able to compete and that will begin to change the dynamic of the brick-and-mortar, mom-and-pop grocery stores in Wisconsin.

Competition. Change. Challenge. Three words that demonstrate the current retail industry and three words that exemplify the industry that is constantly challenged and changing to meet competition.

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

Wisconsin Health Care Leads as Cost Pressures Grow

By Eric Borgerding, WHA President and CEO

WBA WISCONSIN ECONOMIC REPORT

It's becoming a bit redundant to begin this annual column by noting the outstanding performance of Wisconsin's health care system, but excellence in any Wisconsin industry is good for all of Wisconsin. Once again the Agency for Health Care Quality, the gold standard in national quality ranking, has ranked Wisconsin health care as some of the very best in the country. According the AHRQ, in 2018 our state has the fourth best health care in the country, and first in the Midwest.

Since AHRQ began issuing rankings, Wisconsin has been in the top four 10 of 12 years. Quality care delivers superior outcomes for patients and ultimately better value for employers. That's good news as WBA launches its new association health plan.

While Wisconsin hospital finances have remained relatively stable over the past few years, a snapshot of the data flashes "caution ahead" (comparing FY2015 to FY2017 for Wisconsin hospitals):

» Experienced a 21% decline in operating margins;

» More than half saw a decline in both operating and total margins;

» 38 had a negative operating margin;

» 33 had a negative total margin, including 13 rural Critical Access Hospitals.

Wisconsin's health system leaders point to three issues that most directly impact those finances and pose the greatest challenge to sustaining Wisconsin's superior quality care:

Workforce: Like most industries, health care is grappling with serious shortages in key areas. Unlike most industries, demand for health care's "product" is largely a function of demographics rather than typical economic cycles. Wisconsin's population is aging; our over 65 population is expected to double in the next 10 years. This assures growing utilization of health care services and increasing demands on and for the health care workforce.

Despite advances in technology, health care is still a very labor intensive business. In 2017 Wisconsin hospital labor costs totaled nearly $8.8 billion, up 7.3% in two years, and hospital supply costs (including drugs) totaled $9.4 billion in 2017—up 16% in two years. It's not getting cheaper to deliver health care.

Health Insurance Coverage: Uncertainty is the bane of health care leaders, and no aspect of health care has been less certain recently as health insurance, due largely to ongoing Obamacare battles in Washington, DC and Madison. For the past two years I've speculated in this column that repealing Obamacare would prove extremely difficult for Congress. I was wrong … it's been impossible. In fact, certain aspects of repealing Obamacare became a pivotal issue in Wisconsin's Governor's race and others. We've all heard the saying "If you break it you own it." When it comes to Obamacare, if you break it, or don't fix it, you own it.

Political ramifications aside, the inability to either repeal and replace or just fix Obamacare has contributed to an upward spike in health insurance costs (Obamacare premiums +36% in 2018) and a commensurate uptick in Wisconsin's uninsured rate. In the "business" of health care, when people become uninsured, the care they still receive from Wisconsin's hospitals becomes "uncompensated." In 2017 hospital uncompensated care rose 11% to $417 million—hundreds of millions in unpaid costs that must be shifted to Wisconsin employers and families.

The good news here is the Obamacare insurance market is showing signs of stabilizing. For the first time since 2014 there will be a net increase in the number of insurers offering coverage on the exchange. Even more promising, premiums in Wisconsin are actually projected to DROP in 2019 by 4.2%—a 40 point swing in one year, in part due to some fixes adopted by Wisconsin.

Government Health Care Programs: Payment from Medicaid (state) and Medicare (federal) continue to fall far below what it actually costs hospitals to provide care. Critics of health care costs will often point to other elements of the economy and ask, for example, "Why is buying health care so much different than buying a car?" The simple answer is, auto dealers are not required by law to sell cars at 35% below their own cost (Medicaid), or for some customers, 100% below cost (see "uncompensated care" above). The difference between hospital cost and payment in Medicaid alone was $1.1 billion last year, the equivalent of adding another 13% to hospital labor costs (keep that in mind when Wisconsin debates expanding Medicaid in 2019). Compounding this situation is the fact that the "payer mix" at many Wisconsin hospitals can be as high as 75% Medicaid/Medicare. Throw into that equation the unfortunate reality that these unpaid costs have to be shifted to everyone else and you can see why "selling" health care isn't quite like selling a car.

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.

WBA
WISCONSIN ECONOMIC REPORT

Wisconsin Technology Council

Dusting Off a Dirty White Hat, Tech Stands to Rebound in 2019

By Tom Still, WTC President

After years of wearing nothing but white hats, Big Tech added gray and even a bit of black to its wardrobe in 2018.

Leaders of social media giants found themselves apologizing to Congress over the infiltration of their platforms by foreign hackers bent on spreading "fake news." The markets fell amid fears the party was over for major tech stocks after years of run-up. People began to question if trends such as autonomous vehicles and next-generation robotics were as close to reality as advertised. Cyber-security threats grew in number and sophistication.

As 2019 opens, those trends and more will continue to garner headlines nationally as the technology sector goes through a natural maturation process. From its market lows of 2009 through much of 2018, tech was a rambunctious youngster that romped through one success story after another. The swift sell-off of late 2018 turned tech—especially Big Tech—into more of a moody adolescent, but one eager to learn from its mistakes.

Many analysts predict the general decline in the value of tech stocks will correct itself in 2019 as buyers turned back to companies such as Amazon, Apple, Alibaba, Adobe, Salesforce, Twitter, and even Facebook. Meanwhile, a host of younger companies are poised to crack into the club as the pace of innovation quickens outside the traditional strongholds of Boston, New York, and California's Silicon Valley.

Wisconsin is one such hotspot, thanks to a combination of factors. The academic research and development landscape remains strong, with more than $1.5 billion spent in 2017 alone. Talented workers can be found among the graduates of Wisconsin's public and private colleges, universities, and technical colleges. The cost of doing business is lower, especially compared to the Silicon Valley, and employees can find affordable places to live without spending much of their lives in the car.

Some of Wisconsin's most iconic tech companies enjoyed strong years in 2018 and show no signs of slowing down. Verona-based **Epic** remains the nation's market leader in electronic health records and is venturing into global markets with success. **Promega** is expanding its U.S. and global business in biotechnology assays, reagents, and DNA analysis, among other products, and adding to its Fitchburg campus. Companies such as **Rockwell Automation** are poised to become leaders in Industry 4.0 as use of data and artificial intelligence transform manufacturing. Spun off from its parent in mid-2018, **GE Healthcare** has retained a strong Wisconsin presence with 6,000 employees in Milwaukee, Waukesha, and Madison. It plans to transition some work from a Maryland facility to Wisconsin. Madison's **Exact Sciences** is also expanding after having landed in Wisconsin as a two-person company a decade ago. It has about 1,000 workers today.

While it was a point of debate during the campaign for governor, **Foxconn Technology Group** is well on its way to building a state-of-the-art campus in Racine County and has announced satellites statewide. Its long-term effect on technology in Wisconsin stands to be significant.

Angel and venture capitalists remain intrigued by what Wisconsin offers. In 2016 and 2017, more than $500 million in angel and venture capital found its way into young state companies. Based on a record second quarter in 2018, that pace is likely to be at least as strong once the year's books are closed. Maturing state companies are raising money in other ways, such as the $150-million commitment to **SHINE Medical Technologies** by Deerfield Management Co. late in the year.

> "In 2016 and 2017, more than $500 million in angel and venture capital found its way into young state companies. Based on a record second quarter in 2018, that pace is likely to be as strong once the year's books are closed."

Much work remains to be done. Tech companies can be found outside the state's largest metropolitan areas but not enough. Better broadband connections will help retain and attract people and companies to rural Wisconsin. Attracting and retaining workers is a priority. Early-stage investments could still benefit from state programs that could give them a lift.

One priority for the Wisconsin Technology Council in 2019 will be helping young companies get in front of investors and potential customers through its conferences and events, as well as through the Wisconsin Healthcare Business Forum, a partnership with the Wisconsin Hospital Association and others.

Tech took some lumps in 2018, and 2019 remains sketchy for the economy at large if trade wars continue and two of Wisconsin's strongest historic sectors—manufacturing and agriculture—are caught in the crossfire. The foundation is there, however, for continued growth.

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

WisPolitics.com/WisBusiness.com

The Post-Election Landscape

By Jeff Mayers, WisPolitics.com President

WBA WISCONSIN ECONOMIC REPORT

Divided government has returned to Wisconsin for the first time since 2009.

And that means the first gubernatorial transition since 2011.

Eight years ago, Milwaukee County Executive **Scott Walker** took over for Democratic Gov. **Jim Doyle**, who left office voluntarily after two terms.

Now it's **Tony Evers** taking over for Walker, defeated by the state school's superintendent in an election that saw Democrats sweep all the statewide races. U.S. Sen **Tammy Baldwin** easily won another six-year term, dispatching GOP state Sen. **Leah Vukmir** of Brookfield. **Josh Kaul**, a former federal prosecutor, upset Republican Attorney General **Brad Schimel** after one term. Democrats also won the offices of Treasurer and Secretary of State.

But Walker had a Legislature dominated by his own party after the 2010 elections and through the end of 2018. Evers will have to contend with a Legislature dominated by Republicans and led by two veteran leaders: Assembly Speaker **Robin Vos**, R-Rochester and Senate Majority Leader **Scott Fitzgerald**, R-Juneau. The previous Democratic governor, Doyle, enjoyed a Dem-controlled Legislature for his final two years in office.

Evers' collaborative style could come in handy when it comes to compromise on big issues like road funding. But others worry that if Senate Republicans and Assembly Republicans unite, the Legislature could continually frustrate Evers.

The two-year state budget will be a test.

Evers gets to introduce his budget soon, and he promised two-thirds funding of schools and a middle-class tax cut. Typically, governors get 80 percent of what they ask for from the Legislature. And if they don't, they have one of the most powerful veto pens in the country.

The Joint Finance Committee will be led by two veteran co-chairs, state Rep. **John Nygren**, R-Marinette, and state Sen. **Alberta Darling**, R-River Hills. And Republicans will once again dominate the budget panel 12-4.

Republicans also hold wide majorities in the two houses. In the Senate, Republicans have 19 seats to the Dems' 14. In the Assembly, the GOP holds a 63-36 majority.

Democrats will have the same two leaders despite disappointing results on Nov. 6: Senate Minority Leader **Jennifer Shilling**, D- La Crosse; and Assembly Minority Leader **Gordon Hintz**, D-Oshkosh.

That means while Democrats in the Legislature can offer rhetorical help to Evers, he and his administration will have to do the heavy lifting.

After the Nov. 6 election, Evers got to work putting together a new administration. His transition team led was led by women.

He has named **Maggie Gau**, his campaign manager and a former legislative aide, as his chief of staff. Originally of Wausau, Gau formerly served as chief of staff for state Rep. **Chris Taylor**, D-Madison, and state Sen. **Janis Ringhand**, D-Evansville, and previously worked for former state Rep. **Ann Hraychuck**, D-Balsam Lake. Before that, Gau was deputy state political director on President Barack Obama's 2012 re-election campaign.

And Evers' transition director was **JoAnne Anton**, a top aide to ex-U.S. Sen. **Herb Kohl**. The deputy transition director was **Tia Torhorst**, the director of Strategic Partnerships for the Boys & Girls Club of Greater Milwaukee who managed the 2016 re-election campaign of Milwaukee County Executive **Chris Abele**.

Also in the mix were a healthy number of ex-Doyle agency leaders. **Aaron Olver**, the managing director of the University Research Park and a former Commerce secretary under Doyle, assisted Evers with personnel recruitment.

Olver led a 20-person Personnel Advisory Council that will work with making sure the incoming administration appointees reflect talent from around the state.

Among the council members were some former top Doyle appointees:

» **Frank Busalacchi**, former DOT secretary under Doyle.

» **Sean Dilweg**, former Wisconsin Insurance commissioner, now senior vice president government relations for MGIC.

» **Roberta Gassman**, former Wisconsin Department of Workforce Development secretary.

» **Donsia Hill**, former Department of Regulation and Licensing secretary.

» And **Ruben Anthony Jr.**, head of the Urban League of Greater Madison and a former top Department of Transportation official under Doyle.

That doesn't mean the new administration will be Doyle 2.0. But insiders say it's natural to tap the knowledge of veterans of past administrations. Evers, a less partisan figure, is seen as charting his own course.

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.

WBA
WISCONSIN ECONOMIC REPORT

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.