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# What your middle-market business needs to consider going into 2019

*By JAMES S. CASSEL*
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For business owners, now is the season to reflect on the past year and gauge what is coming for the economy and your business in 2019. There is much to consider. TITOONZ *GETTY IMAGES/ISTOCKPHOTO*

We live in unsettled, unpredictable times, as the end of 2018 has proven. For business owners, now is the season to reflect on the past year and gauge what is coming for the economy and your business in 2019. There is much to consider.

This past year, we saw a major corporate tax cut yield a short term bump and mixed results (dividends paid and stock repurchased, as opposed to massive capital expenditures, as were promised), interest rate increases (with a few more indicated), tariff battles and trade wars contributing to higher costs and uncertainty, the shuttering of manufacturing plants, agricultural bankruptcies and stock market volatility. There are also signs of an economic slowdown possibly leading to the next recession. Meanwhile, continued uncertainty about immigration policy and looming technology disruptions raise even more questions for business owners looking to plan.

What does all this mean for your business?


Notwithstanding the Federal Reserve chairman's comments indicating a slowing of rate increases, the central banking system is still predicting growth, despite a slowdown in housing, car sales and agriculture. As the Fed seeks to strike a balance between continued expansion and limiting inflation, middle market companies may face greater challenges securing capital, refinancing debt and higher interest rates, and M&A activity could slow.

And what about the trade war? The full tariffs war fallout remains hard to predict. While the G-20 summit in Buenos Aires yielded what appears to be a 90-day tariff truce with China, mixed messaging from the White House helped turn that win into more market volatility. Meanwhile, the signing of a trade agreement with Canada and Mexico seems to promise some stability. Now we will see whether Congress ratifies it in its present form.

One thing is certain: As tariffs begin trickling down to the consumer, we can expect diminished consumer purchasing power. Although there remains hope that this will be offset by lower energy costs, the outcome for your business may be decreased revenues and higher expenses.

Does this mean we can expect an economic slowdown? The answer depends on whether you watch MSNBC or Fox News.

On one side, leading economists from Goldman Sachs predict an economic slowdown in the third quarter of 2019, and a possible 2020 recession. With interest rates rising, making borrowing costs more expensive, earnings growth may have peaked. There is also a global economic slowdown to consider and a slowing of GDP growth.

But according to Larry Kudlow, President Donald Trump's top economic advisor, no national economic downturn is coming, and you have nothing to worry about.

Immigration policy uncertainty is another concern for companies. The administration's anti-immigrant stance is leading to a brain drain as the number of highly-skilled foreign workers and students decreases. Meanwhile, low-cost labor shortages are pushing farmers towards robotics and technology innovation to pick up the slack. With unemployment at the current low rates, finding qualified workers is a challenge.

What is happening in the agriculture sector — and other sectors — may reflect an inevitable technological sea change set to remake many businesses. Take, for example, General Motors. Following the tariff fight escalation, GM announced the closing of certain plants in the U.S., causing thousands of job losses. Was it only because of the tariffs? Or was it also because technological disruptions, like self-driving cars and manufacturing plant automation, ushering in a new era in mass production jobs? Or could changing consumer tastes in vehicles be a key reason — or a slowing economy?

It seems inevitable that technological innovation and automation will eventually result in millions of lost jobs. If that's the case, "retrain and retain" may emerge as the operative slogan for economic survival as workers replaced by robots or other technology must be retrained for new and shifting positions. New jobs and job categories must be created.

Taking stock of all these major developments and changes in 2018 can be dizzying, but your middle market company should be picking up on cues and making its own hard decisions to adapt to the changing and future landscape. In my next column, we will discuss how companies should be making those adaptations and be set for success in 2019.

Until then, happy holidays and a (hopefully) prosperous New Year!

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