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## Message proves upbeat

### Economist 'a bull for a change,' he tells UW-Madison meeting

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**Madison** - The United States economy is recovering and Wisconsin should participate fully in the upturn, business leaders gathered here were told Friday.

"I'm a bull for a change," Donald A. Nichols, professor of economics at the University of Wisconsin-Madison, told those attending UW-Madison's semi-annual Economic Outlook Conference.

Nichols, a leading expert on Wisconsin's economy, usually speaks at the Outlook conferences. Friday's presentation was his most upbeat in the past several years.

He agreed with the other speakers - Sara Johnson, managing director of the Global Macroeconomics Group in Waltham, Mass.; Don Hilber, chief financial market strategist for Investment Economics in Minneapolis; and Neil J. George Jr., editor of the Personal Finance newsletter - that the U.S. is recovering, with the Gross Domestic Product growing at a more than 4% annual rate this quarter. Nichols predicted the recovery will be sustained.

"We are in the early stage of a sustainable recovery," Nichols wrote in a paper presented at the gathering. "I expect growth over the next 12 months to be at a rate well above 3.5%, with very strong growth likely in the next two quarters."

"I expect Wisconsin to participate fully in the coming expansion," he continued. "Wisconsin manufacturing, despite its long-run challenges, will have a strong cyclical recovery in the next 12 months."

That recovery will be fueled by an increased demand for capital goods, long a mainstay of the state's economy, he said. Nichols pointed out that businesses are accumulating cash from increased profit margins. As the recovery picks up steam, they will begin to spend them to retool, buying the things Wisconsin's factories produce.

Helping the process will be the recent federal tax cuts and large increases in spending coming from Washington to fund the wars on terrorism and in Iraq, he said. That will more than offset the spending cuts being forced on state and local governments across the nation, he said.

In Wisconsin, the economy should improve enough that tax revenue will be sufficient to wipe out the deficit problems that plagued the last state budget, Nichols said.

Also, as the recovery picks up momentum, employment will increase, he predicted.

Nichols said that while the emergence of China is presenting a challenge to Wisconsin manufacturers, the picture is mixed. He pointed out that China is buying an increasing amount of medical equipment, much of which is made by Wisconsin concerns.

"Chinese hospitals are quite backwards, and the recent SARS epidemic has brought this fact forward in Chinese consciousness," he wrote. "As Chinese exports increase, export earnings will provide the wherewithal to import the most recent medical equipment."

Nichols pointed out that while China runs a large trade surplus with the U.S., its trade surplus overall is not big. For that reason, he said, the Chinese are unlikely to revalue their currency, the yuan, soon.

The U.S. government, prodded by manufacturers who are losing business to the Chinese, has asked officials in Beijing to consider lowering the value of their currency. Such an action would make Chinese exports more expensive on international markets. The Chinese currency does not trade freely in capital markets, and its value is closely controlled by the nation's central bank.

George agreed that the U.S. economy is picking up and that the yuan will not be revalued soon. He said that is because of the problems a revaluation would cause for Chinese capital markets and banks.

Johnson disagreed. She said that "eventually China will be forced to revalue. It will be a gradual process."

Johnson, who specializes in international economics, said the U.S. economy continues to be the locomotive pulling the world along.

Europe needs more policy flexibility, especially in labor markets, and Japan still has not addressed the problems in its banking system, she said. For that reason, the economies of both will lag the U.S., she said.

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