

Regardless of When It Gets Here: Plan Now for the Coming Recession

Commentary by
Robert Charbonneau

As a restructuring professional I am often asked whether the U.S. economy will be in recession next year. I can predict with a high degree of certainty three things: a recession is on its way; no one really knows when it will arrive; you will benefit by planning and acting now for that inevitable downturn.



Charbonneau

What exactly is a recession anyway? Most economists agree that it is a period of at least six months of general economic decline, most notably defined by a contraction in the gross domestic product or GDP. Recessions are a normal part of the business cycle—a period covering a recession, then economic expansion to



the next recession. From 1945 to 2009, the end of the last recession, the National Bureau of Economic Research has identified 11 business cycles, with the average cycle lasting 5 ½ years.

Today, GDP growth is healthy, unemployment rate

is at 3.7 percent and could be falling further. Inflation is moderate and business and consumer confidence seem to be high. Institutional confidence is also high, so much so that the Federal

Reserve will likely continue to raise short term interest rates. The current economic

**BOARD OF
CONTRIBUTORS**

cycle is going on nine years. All seems good.

So why worry, right?

Growth is faltering in a number of developing economies worldwide, and the Chinese economy is under increasing stress. Most economists are concerned that the economic boost from corporate tax cuts will not sustain through the next few quarters. In South Florida, real property prices are softening considerably. Some economists predict a recession in 2020, others in the mid to latter part of 2019. Either way, business owners should be vigilant to the inevitable slow down and take a few, common sense precautionary measures to weather the slow down.

The first thing that business owners can do in preparing for a slow down is a bit counter-intuitive: don't let a good expansion go to waste. During periods of robust

economic activity take advantage of all of the opportunities that abound. Take risks, and stretch a bit in order to maximize your business or investment dollar. That said, recent market volatility has demonstrated that investment opportunities in growth stocks are probably already behind us.

If your business depends upon access to credit, and honestly who doesn't, then now is a good time to line up a solid line of credit for working capital needs, before the coming slowdown will lead to restrictions in access to credit. But if your business already is carrying a lot of short-term debt, now would be a good time to begin retiring it, keeping in mind that access to credit for working capital needs is often calculated on an asset to debt ratio.

With the softening of the real estate market now may be a good time to buy business

premises and begin building equity instead of continuing to pay rent. Business owners should always stay in touch with their markets and network, but if your efforts in that area have stagnated now is a good time to re-evaluate and reconnect with both your markets and your network.

Finally, have a plan. It's a cliché, but failing to plan is like planning to fail. If, as the saying goes, the universe is truly conspiring to help us, lend it a hand by reducing debt, increasing access to working capital, expanding your markets and your network, and enhancing the asset side of your balance sheet. With that, you should weather the next recession just fine.

Robert P. Charbonneau is a founding member of the Agentis law firm in Coral Gables, which focuses on business and commercial disputes, business restructuring, insolvency, and bankruptcy.