Dear Client:

Businesses must adapt for this pandemic. Here are some practical advice and guidance to navigate the brutal recession and health crisis.

Plan for the months ahead, not just the days. Cut costs with an eye toward the future. Many firms are already trimming salaries and wages, suspending 401(k) contributions, freezing hiring, etc. Those can quickly be restored when sales pick up.

Avoid cutting projects key to future success. Scrutinize cash flow and evaluate liquidity. Map out a few months ahead. Negotiate with suppliers. Have alternatives in case of closures or bankruptcies. Identify key workers and have backups ready in case of a COVID-19 outbreak, or if a lot of employees refuse to work. Bouts of absenteeism will be common. Treat employees well during furloughs or layoffs. Staying in touch will make rehiring easier.

Keep an eye on federal workplace guidance. It will keep changing. Recent guidance from the Centers for Disease Control and Prevention to companies still in business: Open windows and doors for increased circulation if someone was sick. Leave contaminated areas for 24 hours. Seriously consider face masks for frontline employees and others, if possible. Take employees’ temperatures daily or have them take their own at home.

Communicate regularly with employees and offer plenty of flexibility, such as modified work hours. Set clear expectations and rules for remote work. Make it clear how employees can share concerns. Don’t overlook regular praise. Watch for workplace misconduct...it can increase in times of uncertainty. Defend against the rise in cyberattacks preying on remote workforces. Remind employees to use secure Wi-Fi connections, virtual private networks and strong passwords with multifactor authentication. Keep all software updated.

Examine all other contracts with vendors and customers to assess your own liability. The crisis calls for a new marketing plan: Remind customers about changes in hours, products or services. Highlight your cleaning efforts. Place an FAQ section about COVID-19 on your website. Tout any virtual services...remote fitness training, price estimates via video chat, etc. The key now is keeping customers engaged, so look beyond sales if you have to. Consider offering free services or consultations. Don’t overlook innovation. Encourage workers to come up with new ideas to save money and time, or boost sales. Some employees thrive in times like these. It’s not too soon to plan for a recovery. Look at what parts of your business will recover first and how you will operate when travel restrictions are relaxed.

More advice and examples of what firms are doing in next week’s Letter.

Economic Forecasts

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<th>Economic Metric</th>
<th>Forecast</th>
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<td>GDP growth</td>
<td>NEW</td>
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<tr>
<td>Could be -30% in Q2. Assuming major bounceback in 2nd half, -4% for year</td>
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<td>Interest rates</td>
<td>10-year T-note rates staying below 1%</td>
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<td>Inflation</td>
<td>Prices 0.9% higher at end ’20 than at end ’19</td>
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<td>Unemployment</td>
<td>Up to 12% or more at peak; many underemployed with reduced hours</td>
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<td>Crude oil</td>
<td>Trading near $20 per barrel in an oversupplied market</td>
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<td>Federal deficit</td>
<td>11% of GDP in ’20 at $2.4 trillion; total federal debt at 90% of GDP</td>
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Take advantage of relief wherever you can get it…federal, state, local. Uncle Sam’s Paycheck Protection Program is one tool for smalls to keep their employees on the payroll and cover other essential expenses. A portion of the loan will be forgiven if you use it for qualifying expenses. State and local governments are also offering aid. Among states, Fla., Iowa and Md. are offering cash grants and low-interest loans to smalls. Among cities: Atlanta; Birmingham, Ala.; Chicago; Denver; and New York. And don’t forget about private-sector programs. Facebook, for example, is offering $100 million in grants to small businesses. Distiller Bacardi is donating $3 million to nonprofits aiding workers in the hospitality industry. If possible, renegotiate terms of contracts and debt. Ask landlords for more time to pay rent. Ask banks to temporarily defer interest payments.

The Federal Reserve will help backstop new small-business loans from the Paycheck Protection Program. Initially, the program required banks to lend their own money to borrowers, then ask Uncle Sam for repayment in seven weeks. A new lending facility, set to launch in the coming weeks, will allow banks to more quickly sell loans to the Fed. The move should help small banks with limited capital, in particular. So far, banks have struggled to keep up with the crushing demand for small-business loans, which is expected to accelerate in the near future as independent contractors and self-employed workers also gain eligibility.

Small-business optimism is plummeting amid the COVID-19 outbreak. A key index of small-business sentiment indicates that confidence in the economy is at its lowest since 2017, with businesses across the nation forced to close their doors to prevent the spread of the novel coronavirus. More small companies will go under if lockdown policies continue. A recent survey by the U.S. Chamber of Commerce shows that 25% of small firms have temporarily shut down. Others anticipate they will soon follow suit. One in 10 smalls say they’ll have to close down permanently in less than a month.

Can you sell a house during a pandemic? Realtors will try. The virus has forced them to adapt quickly, forgoing open houses in favor of virtual tours. Redfin is offering a 3D scan of all homes listed by its agents, as is Compass. Many Realtors are also offering live video walk-throughs of homes to prospective buyers. Expect more of these virtual open houses. A number of states have deemed real estate an essential business. Among them: Conn., Ill., N.J., Wis. These states will allow real estate agents to do showings, but they must limit the number of people in attendance and uphold social distancing requirements. But even some states…N.Y., for one…that consider real estate essential allow only virtual property tours. Despite a drop in home purchases, refinance activity should remain high. Mortgage rates are likely to come down a bit more from the current 3.3%, with rates on the 10-year T-note already very low…0.7%. One reason mortgage rates have been slower to drop: Lenders are currently swamped with refinance applications, so for now they are not putting their best rates forward to drum up business.

As a deal to cut global oil production takes shape (more on that next week)... Market forces are already driving U.S. petroleum output down. In the week ending April 3, drillers cut production from 13 million barrels per day to 12.4 million. Expect U.S. crude oil production to average 11.8 million bpd in 2020, down from 12.3 million bpd in 2019. Even with the decline, crude inventories will grow by a record 11.4 million bpd in the second quarter, as demand craters.
A partisan fight is brewing over oversight of COVID-19 aid. Democrats, led by House Speaker Nancy Pelosi (D-CA), want accountability measures to guard against potential waste, fraud and abuse. A new House select committee will oversee the administration’s distribution of coronavirus-related relief. Republicans have pilloried the effort as a political ploy to hurt the president. President Trump has already moved to curb accountability mechanisms mandated by the latest COVID-19 legislation. Most recently, the president fired Inspector General Glenn Fine, who had been tapped to lead the panel responsible for monitoring the administration’s actions. The move is part of an anticipated purge of oversight officials in the coming weeks and months.

While the White House will not reopen the federal health care exchanges… Many unemployed folks will still be able to sign up for an Obamacare plan, including the millions of workers who have lost employer-provided coverage so far. Losing your job is a qualifying life event that allows you to get coverage via the federal marketplace outside the normal open enrollment period. To do so, you must apply within 60 days of losing access to your employer-based insurance. 11 of the states with their own exchanges will offer special enrollment periods, allowing anyone who is eligible under Affordable Care Act rules to sign up: Calif., Conn., Colo., Md., Mass., Minn., Nev., N.Y., R.I., Vt. and Wash. Only Idaho won’t. 36 states plus D.C. have expanded Medicaid coverage so adults with income up to 138% of the federal poverty level can qualify. Note that unemployment benefits count as income under Medicaid rules, but the expanded benefits included as part of recent legislation to address COVID-19 will not affect eligibility. Uncle Sam will also pay health care providers to treat uninsured individuals for COVID-19, using money from two recent coronavirus aid packages. To be eligible for the funds, health care providers are forbidden to balance-bill their patients.

COVID-19 is forcing the Food and Drug Admin. to ditch its usual caution when it comes to approving new treatments and procedures for fighting the virus. The FDA OK’d decontamination methods so hospitals can reuse face masks, which are currently in short supply, as demand surges to roughly 17 times normal. The agency has also authorized the emergency use of antimalarial drugs that may be useful for treating COVID-19 but are still undergoing clinical trials. And with recent rule changes, more manufacturers can make medical devices such as ventilators with fewer regulatory hurdles, as automakers Ford and GM are. Expect the agency to continue fighting COVID-19 by getting out of the way. Regulators appear to be learning from the early failure of government testing for COVID-19, and now aim to leverage private-sector innovation as much as possible.

One politician to keep an eye on as Congress responds to COVID-19: Sen. Marco Rubio (R-FL), who chairs the Small Business Committee in his chamber and has emerged as a key player in coronavirus relief talks. Rubio wields the most power in efforts to help small businesses that have been slammed by the virus. For example, he was one of the architects of the emergency loan provisions included in the latest, $2.2 trillion aid package. He is now pressuring Senate leaders to move quickly on additional aid for smalls. He’s also plotting the next act of his political career. The big question: Will Rubio make another run at the presidency in the post-Trump era? He’s on the short list of Republicans expected to seek the nomination in 2024. Or will he decide to remain a power player in the Senate? Lawmakers of both parties are impressed by his transition from Tea Party upstart to Senate elder statesman over the past decade, despite a few stumbles.

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Businesses will have to rethink public touch screens as more customers see shared surfaces as an infection risk, no matter how often they’re cleaned. ATMs, fast-food ordering terminals, displays in rental cars, airline kiosks and the like will get less use. Some people will carry special pens to tap the screens. Many firms will tout frequent cleaning or even offer free screen protectors to each user.

Expect customers to turn to their smartphones when they are able to, to check in at the airport, order at a fast-food joint and more. That gives many firms an opportunity to push their mobile apps, which figure to be in heavy demand.

Voice commands and gestures will be popular, but their utility is limited. Voice commands may not work in a crowded, noisy environment. Hand gestures can be inaccurate. But voice-activated speakers will win over more consumers who want to touch fewer surfaces in their homes, a boost for the smart-home market.

Colleges and universities face financial pain heading into the next school year. Many budgets will be under extreme pressure, forcing cuts in all areas.

Most institutions have rapidly shifted to remote learning for the spring semester. Here’s one example of how costly the coronavirus outbreak could be: The University of Wisconsin–Madison estimates it will lose $100 million, and that’s if campus life returns to normal by June. Its annual budget: $3.2 billion.

One big near-term headache: All the calls for refunds of room and board. Some schools have said they’ll give money back, but others are declining or delaying. Public schools are in for budget cuts as states see dwindling revenues. Pay cuts for high-level officials are a given, as are layoffs of administrative staff. Private colleges with small endowments face similar issues. Two schools, MacMurray College and the San Francisco Art Institute, have folded or expect to.

Some college leaders are warily preparing for online classes in the fall and are looking for ways to improve them, in case in-person classes aren’t possible. But parents and students will balk at paying top dollar for online learning. It will be harder to raise tuition prices. In fact, some schools may cut prices. Elite universities with huge endowments are the most insulated from the challenges. But even they will have to change and adapt to a new normal.

One thing you’ll be seeing more of amid the health scare: Plastic bags. A growing list of states and cities are banning reusable shopping bags or rolling back bans on single-use plastic bags, lest shoppers spread the coronavirus through handling of reusable cloth bags. Retailers like Target are asking shoppers to leave their reusable bags at home, or bag their own items if they bring them. The trend is good news for the plastics industry, which has been fighting to keep its product in stores for years by arguing that plastic is more hygienic.

Watch out for products that claim to keep you safe from the coronavirus. Many are bogus, providing no proven health protection. Some of them contain chlorine dioxide, a bleaching agent that retailers tout as a virus safeguard. Government officials warn that there is no basis for those claims and are trying to block imports of such products, which have come in from Japan and Hong Kong. Most of these things aren’t dangerous, but they can give a false sense of security. And at least one, a drink containing sodium chlorite, can actually make you sick.

Yours very truly,

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THE KIPLINGER WASHINGTON EDITORS

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