Dear Client:

As states slowly reopen their economies...
What will the “new normal” for business be?

Don’t expect a sudden restart of commerce. Reopening will happen by degrees, varying by state and by business type. About half of states have started to relax their restrictions. Six more will follow by next week. The rest are eyeing mid-May. First up: Offices, manufacturers, builders and other firms with little interaction with the public. Then retailers, on a limited basis...at first, curbside pickup, and then small numbers of shoppers being allowed into the store...one-fourth of capacity. Then restaurants...again, at low capacity. Then places with closer customer contact...gyms, salons, barbers and indoor shopping malls. Last: Bars, nightclubs, movie theaters. Large gatherings of people may be on hold for the rest of the year...sports, concerts, conventions.

And even when states give the green light... Consumers will stay cautious. One survey shows that half of them won’t feel comfortable again in their normal routines until a vaccine is ready (which figures to take a year or more). 20% think the pandemic will last another six months. A quarter think it’ll be a year. Whether these beliefs are right or wrong doesn’t matter...they affect how people act. Online shopping stands to receive a permanent boost after its recent jump. Manufacturers face high risk of disruptions because of shortages of parts. With supply chains so complex, a bottleneck anywhere can hold up the end product.

A top priority for employers: Keeping workers healthy and feeling safe. Many employees won’t be shy about refusing to show up if they don’t think the bosses are doing enough to clean the office or factory. Many who can do their jobs remotely want to keep it up at least part-time...an accommodation many employers will make. Some tips for workplace safety...general ideas you can fit to your own firm: Clean and disinfect often. Keep employee seating more than six feet apart. Have employees come in on alternating days or shifts to limit occupancy. Stock up on masks and hand sanitizer. Close or restrict common areas where people congregate in close quarters, such as office kitchens and cafeterias. Keep meetings to a few people. Reduce or cancel business-related travel.

All these challenges and limitations mean a slow recovery for the economy. After spiking to 15% or more, the jobless rate figures to remain elevated for years. Inflation may jump later, as businesses raise prices to offset reduced productivity. Don’t overlook the risk of the epidemic flaring up again as people go out and interact more. A bad resurgence could cripple an already wounded economy.
20 million jobs were lost in April, bringing the unemployment rate to 14.7%, the worst since 1939. The Dept. of Labor says the actual jobless rate may be even higher, up to 20%, because some unemployed workers were misclassified. A number of sectors, including food service, lost over half their workers. A silver lining: Many of the layoffs are considered temporary, at least for now. These jobs may eventually return. But the recovery will likely be slow.

The Federal Reserve will expand access to its Main Street Lending Program to help businesses at risk of falling through the cracks. Many companies are too large to participate in the Paycheck Protection Program, but also too small to benefit from the Federal Reserve’s other lending facilities...hence the MSLP. The program allows businesses to apply for loans of up to four years from banks at below-market rates. Unlike PPP loans, these must be repaid, but payments will be deferred for the first year. Businesses with up to 15,000 employees and $5 billion in annual revenue are now eligible for the MSLP, which will launch soon.

The Fed will also increase purchases of new and existing corporate debt, including yet another facility for firms with higher debt loads. With this program, corporate borrower debt loads can’t exceed six times the firm’s adjusted income.

The European Central Bank is keeping its powder dry...for now. The ECB stepped up its response to COVID-19 by cutting funding costs for banks; however, the central bank didn’t up its bond buying to ease strains in sovereign debt markets. Several eurozone countries could face a surge in borrowing costs later this year, as investors focus on the costs of stimulus packages to fight the pandemic’s effects.

Note that the ECB’s asset purchase program is under legal pressure after a German constitutional court called the central bank’s authority into question.

Latin America’s economic slump will be as bad as the global financial crisis, if not worse, as the region faces a toxic brew of tightening credit conditions, low commodity prices and collapsing services because of social distancing measures. Mexico will be the hardest-hit of the region’s major economies. A slowdown in tourism and trade with the U.S. puts the country in an especially vulnerable spot. Argentina and Brazil also look set to experience double-digit contractions in the first half of 2020. Argentina has had some success containing the spread of COVID-19, but is also at risk of defaulting on its debt later this month. Brazil has the largest number of cases in the region. Like Mexico, Brazil was also slow to respond to the virus, making its lockdown longer and the economic danger greater.

Once thought of as a recession-proof industry, health care is now suffering. A wave of layoffs, furloughs and pay cuts is sweeping the industry. Through April, health care employment fell 7%, the sector’s first year-over-year decline on record, with big losses in dentist’s and doctor’s offices. During the Great Recession, by contrast, health care employment was a rare bright spot, growing by 6.6%.

The sector accounted for nearly half of America’s first-quarter GDP decline, with hospitals canceling nonessential care while gearing up to fight the pandemic.

The cancellation of elective surgeries is the main source of financial woes for hospitals, which saw their operating margins decline 14% in March. Procedures such as joint replacements and nonemergency heart surgeries are highly profitable and needed to help hospitals offset financial losses from other acute care services. Expect some of the pressure to decrease as state economies gradually reopen. More than half of states have OK’d resuming elective surgeries or will do so soon.

But it will take time for hospitals to dig out of their current financial hole. Congress has provided them with roughly $200 billion in aid, but that covers less than half of their projected revenue losses over the next four months.
Meanwhile, COVID-19 is causing a spike in U.S.-China trade tensions, as President Trump threatens retaliatory tariffs for Beijing’s mishandling of the outbreak, blaming China for the virus’s global spread. Expect this war of words to stay that way; Trump’s threats can be a prelude to diplomacy. But rocky relations may persist if Beijing struggles to buy more U.S. goods as part of a recent trade truce. Chinese imports from the U.S. are down nearly 6% from the same time last year.

Lawmakers are looking for ways to shore up the U.S. health care workforce. One idea: Give green cards to up to 40,000 foreign medical professionals. A new Senate bill would authorize up to 25,000 immigrant visas for foreign nurses and up to 15,000 for foreign doctors who are currently eligible to come to the U.S. or already here on temporary work visas. Eventually, these doctors and nurses will be guaranteed an employment-based green card for assisting in the outbreak. The proposal aims to break lengthy immigration backlogs. Thousands of foreign nurses and doctors who have applied for green cards are stuck overseas or face many limitations on their work in the U.S. because of their temporary status. Approximately one-sixth of the U.S. health care workforce is foreign-born.

COVID-19 will finally galvanize Congress to close America’s digital divide. Expect tens of billions of dollars devoted to nationwide broadband coverage in the next coronavirus relief legislation, or possibly in a stand-alone bill. Lawmakers of both parties say the problem must be addressed immediately, with many schools shuttered and preparing to offer only online classes in the upcoming fall semester. House Democrats, for example, want to spend $80 billion over the next five years to bring affordable broadband access to poor and underserved communities. At least 20 million Americans lack reliable access to high-speed internet, per the Federal Communications Comm., though the real number may be even higher.

A growing worry for Vice President Joe Biden’s presidential ambitions: The accusation of a former Senate staffer that he sexually assaulted her in 1993. No hard evidence has come to light yet, but several people have indicated the accuser told them about some sort of incident in the 1990s. If more comes to light, his campaign could implode. Congressional GOPers plan to make this a major issue.
Aviation CEOs are issuing dire warnings: A full rebound could take years as consumers’ reluctance to fly lingers. Delta’s CEO predicts the industry could take three years to recover. Airbus’s top executive says it could take five.

International travel will plummet this year, perhaps as much as two-thirds for the first three quarters of this year, compared with earlier forecasts. Air travel to Europe and the Asia-Pacific region will be hardest-hit, followed by North America.

And even after a rebound, COVID-19 will leave a lasting impact on flying. Among the changes: Touchless lavatories and fold-out trays. More facial recognition. Health screening, such as temperature checks or even virus blood tests. Cost-cutting that eliminates Wi-Fi, movies and in-flight dining. And of course, no more magazines.

Look for people-counting systems to see strong sales among retailers, offices, colleges, factories, etc. Long used by stores to count customers, the systems, which use video cameras, infrared lasers, sensors and other tech, track real-time occupancy...useful for virus-related limits. Vendors include Density, SenSource, Traf-Sys and Traxsales. Some systems can be installed in 30 minutes.

More advanced monitoring tools for social distancing are taking shape, too. Landing AI, an artificial intelligence firm, is working on ways to use real-time video to detect whether folks are socially distancing. Amazon is reportedly using similar tech.

The Pentagon’s R&D arm is developing tech to thwart the next pandemic. One ongoing project at the Defense Advanced Research Projects Agency is focusing on testing platforms to detect any biological threat “known or unknown to humankind, anytime, anywhere.” A disposable, rapid diagnostic device would use gene editing tech to identify pathogens and other biomarkers from any biological sample, such as spit, blood or urine, to detect outbreaks early and pinpoint who needs to be quarantined. A related program will look for signs of an infectious pathogen on a subject’s DNA, potentially revealing exposure before the subject shows symptoms. Another project aims to stop dangerous viruses in insects or animals before they spread to humans.

The technologies are promising, but they could be five years away or more. Expect a surge in activity as researchers heed lessons from this outbreak.

Movie theaters are in for many more months of major losses. Theater chains, such as AMC, will resist reopening until major movie releases are available, regardless of state or city policies. Meanwhile, Hollywood wants to delay wide releases until theaters are operating in most of the country, especially in major cities.

More franchise flicks and would-be blockbusters will be delayed to 2021. Some venues are mulling reopening with old films and new safety measures...checking temperatures, spacing out moviegoers, installing Plexiglas, cleaning more, etc. Profitable theaters require packed houses and hefty sales of food and drink.

A big portion of consumers plan to avoid theaters for several months, if not more.

Despite the prolonged challenges, Hollywood is not giving up on theaters. The industry simply can’t earn enough money selling movies directly to consumers, despite some promising recent tests. Disney, for example, is still betting on theaters in the U.S. and overseas. Executives are studying how Asian cinemas are reopening.

Yours very truly,

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THE KIPLINGER WASHINGTON EDITORS

P.S. Have questions about tax rebates and the recent stimulus law? The Kiplinger Tax Letter has answers. Visit kiplinger.com/go/taxletter to learn more.