



## SGIA ECONOMY WATCH, MARCH 2020

### What do we do about the coronavirus? How do the Federal Reserve and Washington protect the economy? How do we protect our businesses?

The virus's effect on the economy has been sudden and profound. GDP will contract significantly during the second quarter of 2020 — by 5.0%, or at nearly a 27.0% annual rate, according to Goldman Sachs — as social distancing shuts down everything from movie theaters and restaurants to professional sports leagues. Moreover, projections of a strong second-half rebound assume the warm, humid weather of late spring and summer will significantly slow propagation of COVID-19. That isn't unreasonable, given the behavior of other viruses. But it is no sure thing. And until propagation slows, the disruption of countless businesses, entire industries, supply chains, and financial markets will increase and the odds of skirting recession will decrease.

How this all plays out will depend on the economy's underlying health and the effectiveness of the support the Fed and Washington provide. Coming into 2020, the economy was fundamentally sound, with household income and savings up, financial institutions well capitalized, and credit available at very favorable terms. (Mortgage refinance is booming.) Additionally, production capacity has been idled, not destroyed. As soon as it's safe to be around our coworkers again, we can be up and running.

The Fed is lowering interest rates. Far more important, it is providing massive liquidity, not just domestically, but also to global supply chains. As John Greenwood and Steve H. Hanke explain in "How to Ease the Coronavirus Panic" (*The Wall Street Journal*, March 10, 2020), the chains are centered in Asia but denominated in U.S. dollars. If we get them enough dollars quickly enough, which the Fed is trying to do through a complex set of monetary tools, the authors believe "recession can be avoided."

Washington is thinking big. Proposals range from a payroll tax holiday and sending households \$1,000 checks per adult and \$500 checks per child to expanding eligibility for food stamps and Medicaid. We don't know which proposals will be enacted and in what forms. But the final package is likely to exceed \$1 trillion. To be effective, aid should be immediate, direct (provided to individuals, not routed through bureaucracies), and target the most needy. Examples include subsidized sick leave, expanded access to unemployment insurance with no waiting period or job-search requirements, and loan guarantees and grants to small businesses, modeled after disaster relief programs.

Protecting our companies begins, of course, with protecting our employees and their families. Nothing matters more. Staying in touch with clients, suppliers, and lenders is essential. So is drawing on the resources of federal, state, and local agencies. Remember, there's no reason to go it alone. Here are some suggestions:

- **Know and practice CDC guidelines.** In "Coronavirus & Your Business: 3 Steps To Protect Your Employees & Your Organization" ([forbes.com](https://www.forbes.com)), Louis Mosca recommends using all communication channels, including your company website, social media, email, and even the telephone, to update employees on CDC guidelines. Keep the guidelines top of mind by displaying CDC posters, The President's Coronavirus Guidelines for America –15 Days to Slow the Spread, and comparable resources throughout your facilities. And make it easy to follow the guidelines by placing hand sanitizer and disinfectant wipes at every desk, work area, and common area.
- **Show clients (and prospects) you are there for them.** "How to Protect Your Small Business's Bottom Line From Coronavirus," published by Insureon ([www.insureon.com](https://www.insureon.com)), recommends using the company website, social media, and email to reinforce that you are open, active, and ready to help. Describe how you are reducing risk, protecting your employees and their families, and contributing to your community. Update resources like Yelp and Google My Business. And explore ways to expand your online offerings. After all, the pandemic is forcing greater reliance on e-commerce.



- **Stay in constant contact with suppliers and lenders.** Mosca recommends designating a “point person” to closely monitor how the crisis is affecting suppliers. Are delivery interruptions likely? If they are, what are the alternatives? Update this intelligence daily, because conditions are changing quickly. Pay equally close attention to liquidity. Talk to primary lenders about the virus’s effect on your business. Anticipate the worst-case scenario and prepare for it. For example, would you have enough liquidity to survive a two-week shutdown?
- **Review current insurance policies.** Which operating expenses does your policy cover? Does it include business interruption coverage?
- **Draw on the resources of the U.S. Small Business Administration (sba.gov).** Coronavirus Small Business Guidance & Loan Resources provides direction on planning and responding to COVID-19, prevention tips, FAQs, and how to best share this vital information with employees. The Economic Injury Disaster Loan Program includes “working capital loans of up to \$2 million that can provide vital economic support to small businesses to help overcome the temporary loss of revenue they are experiencing.” And SBA’s Resources Partners and District Offices provide access to “trained experts who can help you craft a plan specific to your situation to help navigate any rapid changes in demand.” Washington is expanding the SBA’s resources and simplifying access to them in response to the crisis. Tap the resources at [sba.gov](http://sba.gov).
- **Draw on the resources of your state health department.** These include detailed guidelines, support, updates, and other vital information specific to your location. Links to every state health department are at [cdc.gov/publichealthgateway/healthdirectories/healthdepartments.html](http://cdc.gov/publichealthgateway/healthdirectories/healthdepartments.html).

The propagation rate of the coronavirus appears to be slowing in China, and reports are that life is returning to normal. (That Apple is reopening stores suggests the reports are accurate.) Maybe we will be able to say the same thing about the United States in three or four months. And maybe renewed confidence, pent-up demand, ultra-low interest rates, and hundreds of billions of dollars in fiscal stimulus will support a robust second-half recovery. But no one knows for sure. We do know that with something as serious as COVID-19 we don’t assume or hope for the best, we prepare and act. And overreacting is ultimately better than underreacting.

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