Dear Client:

For small businesses all across the U.S., business conditions will get better this year, most noticeably in the second half of the year, when the overall economy shifts into higher gear.

The rate of improvement will vary, of course, depending on the type of small business, where it’s located and the customers that it serves.

Among the fastest gainers: App developers, software firms, a variety of professional service firms in accounting, insurance, architecture, etc. Also, restaurants, including a growing number of franchises that serve fast food, from hamburgers to salads.

Two sectors to note, in particular:

Housing. As housing sales continue to rev up, smalls serving construction will see increased orders for building materials, equipment rentals and more. One Md.-based developer of specialized software for construction firms tells us he’s seeing sales pick up as builders ramp up for higher levels of activity.

And tourism. The relatively low cost of gasoline figures to induce many more Americans to travel farther this year, whether to beaches, mountains, amusement parks or elsewhere. Moreover, the strong U.S. dollar will slow but not dramatically curtail foreign visitors. Increased travel will benefit a wide variety of businesses that cater to vacationers.

Many other key industries remain sluggish, including energy, mining, agriculture and shipping/exporting, because of weak global demand and low prices for oil, farm and other commodities. The brawny greenback also hurts exporters.

Still, there are at least glimmers of a rebound later this year and next. More machine shops are seeing their order books stabilizing...even perking up a bit.

Small firms overall are having continued success obtaining credit, though it’s easier for larger smalls...those with annual sales of $100,000 or higher...to get loans than microbusinesses and start-ups, which have yet to prove themselves.

But labor shortages are cropping up in some sectors, notably high tech, health care and financial services. Also in food services, especially in metro areas. Construction companies are likewise hampered by a dearth of skilled tradespeople.

New regulations from Washington loom as dark clouds over smalls:

A pending rule from the Dept. of Labor on pay is proposing to more than double the minimum salary workers must be paid...to $50,440 a year...before they’re exempt from overtime pay provisions in the Fair Labor Standards Act.

Plus one that proposes to lower the level of silica dust in the air at work sites. It would raise compliance costs for small firms in construction and manufacturing.
Note the growing competition between marketplace lenders and banks. Loans from marketplace firms, or peer-to-peer lenders, which match lenders with borrowers online, have doubled every year since 2010, to $12 billion in 2014. The industry is a good bet to expand into a nearly $300-billion market by 2020.

Marketplace lenders are broadening the types of financial products they offer. SoFi, for example, offers creditworthy folks refinancing options for student loans. OnDeck provides loans to small businesses. BlueVine advances cash to small firms against their unpaid invoices. But for the largest marketplace lending companies, such as Lending Club and Prosper, debt consolidation loans remain a top priority.

The growth in marketplace lending isn’t escaping scrutiny from regulators. The Treasury Dept. is assessing the risks and benefits associated with the industry, while the Consumer Financial Protection Bureau is mulling rules for the lenders.

The Securities and Exchange Comm. is cracking down on “pre-IPO” shares of tech stocks that haven’t hit the public markets. The SEC is looking to determine whether certain hedge funds and other investors are improperly trading those shares. Tech companies and other start-ups issue shares to founders, initial employees and early investors, and such shares are particularly sought after by investors, who expect the value to rise dramatically following an IPO. But owners of stock in companies that haven’t gone public must adhere to strict limits on selling.

An alert: Online crooks are going after payroll and human resources staffers with phony e-mails asking for a list of employees, their W-2 data and more. Among other things, the info is used to file fraudulent tax returns claiming refunds. Watch for e-mails that purport to be official correspondence from higher-ups in your firm. Double-check that any such e-mails are legit before responding to them.

Meanwhile, IRS keeps finding more victims of an agency computer breach. It now admits that more than 700,000 folks may have had their tax data compromised through its “Get Transcript” Web tool. The IRS is paying for victims’ credit monitoring and giving them the opportunity to obtain special identity protection numbers.

Amid worries about the growing prowess of foreign and domestic hackers... The Pentagon will declare more defense projects classified as part of its “black budget,” which totals about $50 billion a year. The budget includes work at the National Reconnaissance Office, the CIA and other defense-related agencies. Among newly classified projects: More of the already mostly classified work on the large F-35 fighter program. Plus more of the R&D on ground radars and subs. Some defense contractors are sure to holler, saying that the secrecy will hurt smaller companies, which will find it tougher to win government contracts. But the secrecy is likely to prevail out of an abundance of caution, given how actively both state-sponsored and non-state-sponsored actors such as China, North Korea, Russia and ISIS try to steal info or disrupt programs.

Washington wants European allies to increase their support for NATO... the North Atlantic Treaty Org. The U.S. currently contributes the lion’s share of NATO’s funding...20% to 25% of the budget for the 28-member defense alliance that is treaty-bound to defend all members from attack by a nonmember state. By pushing allies to do more, the U.S. hopes to free up some of its funds for its rising military and strategic needs in the western Pacific and Asia. The U.S. is sending signals that it plans to consolidate bases and trim deployments in Europe as a prod to convince large and small European allies to spend more. Among countries being pressed to increase contributions: Spain; the three Baltic states of Latvia, Lithuania and Estonia; plus Bulgaria, Romania and the Czech Republic. All of them spend comparatively little on NATO now.
Expect legislation to combat the nation’s heroin and opioid epidemic.

The focus will be on prevention and treatment, not punishment of the users: Education, aimed at teens, parents and older folks. Grants for state and local police. Greater availability of naloxone, a medication used to block the effects of opioids. And stepped-up monitoring programs to track diversions of prescription medications.

Funding will be approved this fall, at the earliest...one of a few measures that will clear the badly split Congress this year. It will be included in the budget for fiscal year 2017, which starts Oct. 1. A bid for immediate funding was defeated.

Meanwhile, guidelines for prescribing painkillers are coming from the CDC... Centers for Disease Control and Prevention. They’ll stress treating chronic pain with physical therapy and exercise, or with widely available nonopioid pain relievers. Prescription painkillers would be prescribed as a last resort, starting with small doses. Overdoses of OxyContin and other opioids killed nearly 20,000 Americans in 2014.

For employers...tips on how to deal with workers who may be addicted are offered by the National Safety Council at kiplinger.com/letterlinks/rxemployerkit.

A tougher stance on workplace retaliation is on the way from the EEOC... Equal Employment Opportunity Comm. The panel’s guidance, as proposed, expands the definition of retaliation and is likely to result in additional claims. Retaliation is often easier to prove than allegations of discrimination and is the most frequently reported workplace issue that reaches the commission.

Employers can protect themselves by demonstrating consistent enforcement of company policies and making sure disciplinary action is solidly documented.

Also from the EEOC: A new approach to dealing with job discrimination on the basis of sexual orientation. Two lawsuits form the basis of the strategy, with the EEOC claiming companies violated Title VII of the federal Civil Rights Act by discriminating against homosexuals at work. In one case, the government alleges, a company took no action after an employee complained about offensive remarks reportedly made by his supervisor. The other case involves a woman who was fired after she complained of being harassed by her boss because of her sexual orientation.

To prepare for the aggressive tactic, employers should revise their policies to include sexual orientation and gender identity as kinds of discrimination. They should also provide training for supervisors on harassment and discrimination.

A big change is coming down the road for commercial truckers in the U.S.: A minimum national training standard for first-time license applicants that will replace a patchwork of state requirements. For trucks above 26,000 pounds, drivers will need at least 30 hours of behind-the-wheel training to qualify for a license. For dump trucks, school buses, commercial buses and similar vehicles...15 hours. Most military drivers, farmers and firefighters will be exempt from the rule, proposed by the Federal Motor Carrier Safety Admin. Industry groups are fighting it, saying arbitrary training hours aren’t accurate indicators of safety and competence.

Look for a final rule in coming months, with an effective date of 2019.

Northeastern states will take the lead in a controversial food labeling fight. First up: A Vt. law that requires labeling of genetically altered products. Unless food industry groups win an ongoing court fight, the law takes effect in July. Similar measures in Conn. and Maine will kick in after nearby states act. Other mandatory labeling laws are in the works in Mass. and N.Y., with more to come. The Republican-led Congress wants to pass a voluntary labeling measure that would block mandatory requirements from states. But prospects are dimming for passage this year as the fall’s congressional and presidential elections draw closer.

More than 70% of food sold in the U.S. has genetically modified ingredients.

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Airlines will keep paring flights to smaller cities, a continuation of the trend that has nixed commercial service entirely at 30 small airports since 2013 and reduced the number of flights available elsewhere. Even airports that are eligible for subsidized flights through Uncle Sam’s Essential Air Service program...Macon, Ga.; Muscle Shoals, Ala.; Moab, Utah; Tupelo, Miss...have lost all commercial service.

Chalk up the service reductions to bigger planes and fewer qualified pilots. To improve their efficiency, airlines are retiring the small jets and turboprop planes that traditionally served regional airports. Bigger jets are harder to fill on such routes. Also, a recent federal law requires pilots on regional routes to have more experience just as a slew of seasoned pilots are nearing retirement, forcing airlines to cut back.

Willing to give up some creature comforts to save on airfare? It’ll be an option on more major carriers soon. Delta has already rolled out a “basic economy” service in some markets. American and United are preparing similar ticket pricing schemes. In exchange for a cheaper fare, passengers will forgo certain services and amenities...the ability to choose a seat in advance, the option to upgrade to a better seat, etc. Even free carry-on bags and snacks might disappear. Competition from low-cost rivals such as Spirit and Allegiant is forcing the major carriers to look for ways to trim fares.

Tired of spotty mobile Internet? A new app can speed up Web connections by switching instantly from Wi-Fi to cellular Internet without dropping service. The app, Speedify, which runs on Apple and Android smartphones, costs $30 per year. It works by seamlessly selecting the strongest available wireless connection in the area. For workers on the go, the app could be a boon...no more dropped phone calls or interrupted tasks when the Wi-Fi signal on the train suddenly cuts out, for instance. The growth of public Wi-Fi hot spots means that phones often switch from faster service coming from a cellular network to slower Wi-Fi links without the user realizing it.

Expect businesses to invest more effort in building their Facebook presence. The social media giant is opening up a publishing tool to all sorts of users...not just news outlets...such as advertisers and other firms. Government agencies, too. The program, called Instant Articles, offers snazzy designs and fast download times...a big plus since many folks abandon links shared on social media if they open slowly. Marketers will find the new tool a promising way to reach customers. The details are still being finalized, but it’s clear that many firms will look to go viral by touting products and services with high-quality posts that get shared widely. Other social media sites are sure to devise similar publishing programs.

Don’t look for the Supreme Court to strike down new clean air regulations issued by the White House to cut carbon dioxide emissions from power plants. The Court has told the federal government to halt the regs until it hears a challenge being brought by states claiming that the proposed emissions cuts will be too costly. Foes of the regs took that as a sign that five justices were inclined to strike them down. But without Justice Scalia...seen as a “no” vote...the challenge will probably fail. More likely: The next president will decide the ultimate fate of the rules. A Republican in the Oval Office would nix them. A Democrat would stay the course.

Yours very truly,
March 11, 2016

THE KIPLINGER WASHINGTON EDITORS

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