

ASK THE EXPERTS

**THE ECONOMIC IMPACT OF
COVID-19 ON THE IOWA ECONOMY**

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Scott Strain, M.S.

A stylized, dark blue eagle head graphic with its beak pointing right, set against a background of concentric, curved lines. The eagle's head is positioned in the lower right quadrant of the page.

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Foreword

The United States is confronted by an unprecedented crisis with the coronavirus (COVID-19) pandemic. From an economic standpoint, the COVID-19 crisis is being compared to the Great Depression with the growing army of unemployed Americans and the possible historic loss in state and local tax revenues. In March, Iowa along with other states, closed the economy with the exception of essential businesses in an effort to contain the virus. Social distancing and other protective measures have contributed to numerous business closures and thousands of Iowans becoming unemployed. Prior to the COVID-19 health emergency Iowa had low unemployment. Although it is still too early to understand the full economic impact of COVID-19 on Iowa, it is creating economic uncertainty.

The good news for Iowa is that as the COVID-19 emergency began, Iowa had \$800 million in budget reserves and a surplus of \$200 million. With economic uncertainty likely to linger, Iowa's budget is positioned much better than some of our neighbors to dampen the financial impact of this pandemic. Some estimates demonstrate Iowa is in a better fiscal situation to confront a COVID-19 economic downturn than it was on the eve of the Great Recession.

To help Iowans understand the potential economic impact of COVID-19 on the economy, TEF Iowa has teamed up with economists Dr. Ernie Goss, MacAllister Chair in Regional Economics at Creighton University, and Mr. Scott Strain, M.S., who is a Senior Economist with Goss & Associates. Dr. Ernie Goss is a longtime trusted economist who understands the Midwest economy. Goss's Rural Mainstreet Index is a must read for any understanding of our region's economic outlook.

In *The Economic Impact of COVID-19 On The Iowa Economy: A First Cut*, the authors examine the infection rate, unemployment, and tax revenues, among other aspects of the economic impact of the virus. It is important to note that the findings within this report are estimates based on the available information and the calculations performed by Goss & Associates. For example, it is too early to know what impact the various stimulus measures from the federal government will have on Iowa's economy. As more information becomes available, new editions of this report will be published.

Governor Kim Reynolds is in the process of reopening Iowa's economy and is working on a revised budget proposal as a result of the virus. TEF Iowa continues to track the impact of the virus and works to provide ideas and solutions to help guide policymakers as they begin to legislate under vastly different circumstances than they faced just a few months ago. TEF Iowa is pleased to partner with Goss & Associates to provide timely analysis as Iowa continues to navigate through this uncertain time.

Walt Rogers
Deputy Director
TEF Iowa

***Estimates contained in this white paper will be updated as the number of Iowa COVID-19 deaths and positive tests are made public and monthly state employment data are released.**

Executive Summary

As of April 24, the CDC calculates that COVID-19 has generated 24,555 U.S. deaths and 48 Iowa casualties. Per 1,000,000 in population, this represents 75 deaths for the nation and a much lower 15 for Iowa. Due to COVID-19, the U.S. economy contracted by 4.8% in Q1, 2020, and Iowa's economy experienced significant hardships.

◇ Highest level of unemployment in April since the Great Depression

- The number of Iowans receiving unemployment compensation rose to approximately 180,000, or 10.5% of the state's labor force. This compares to 1.1% for April 2019.
- For April, Iowa ranked 22nd among the 50 states and the District of Columbia in terms of percent of workers receiving unemployment compensation.
- Given that more than half of Iowans who are unemployed normally do not receive unemployment benefits, the percentage of the labor force that is actually unemployed is more than double the share of the labor force receiving unemployment insurance benefits. Therefore, based on the most recent 8.3% of insured unemployed, an overall unemployment rate for April is in a range between 13% and 16% is derived. This compares to 2.5% for April 2019.

◇ Job, wage and revenue loss (March 21 - April 11, 2020)

- Loss of 243,237 direct and spillover jobs.
- Loss of \$557.8 million in wages and salaries.
- Loss of \$73.7 million in self-employment income.
- A total loss of \$1.6 billion for the overall Iowa economy.
- A reduction in future state & local tax collections of \$112.1 million composed of a loss of:
 - » \$37.2 million in sales taxes.
 - » \$26.8 million in individual income taxes.
 - » \$3.1 million in corporate income taxes.
 - » \$36.6 million in property taxes.
 - » \$8.3 million in other taxes and fees.

◇ Absent federal support via the CARES Act and Federal Reserve stimulus, COVID-19 is expected to reduce Iowa 2020 GDP by 9.7%

The Economic Impact of COVID-19 On the Iowa Economy A First Cut¹

Ernie Goss, Ph.D., MacAllister Chair, Creighton University and
Scott Strain, M.S., Senior Economist, Goss & Associates

Introduction

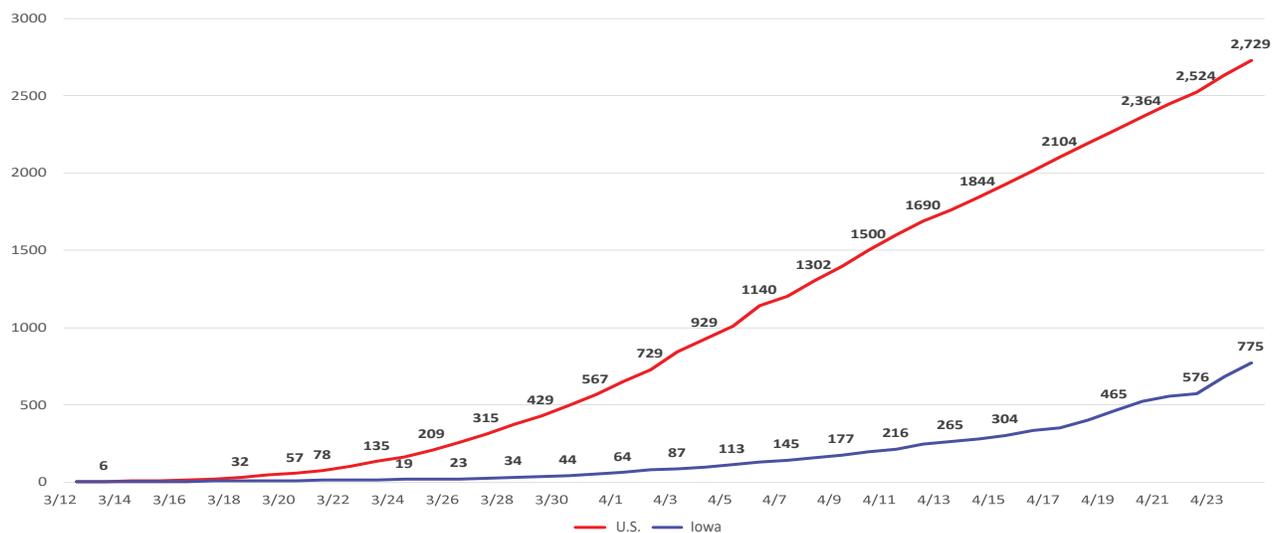
In 1999, researchers at the U.S. Centers for Disease Control (CDC) and Prevention estimated that a global influenza pandemic would inflict up to 207,000 U.S. deaths and trigger a cost to the national economy of roughly 1.5% of GDP.² As of April 24, the CDC calculates that COVID-19 has generated 24,555 U.S. deaths and 48 Iowa casualties. Per 1,000,000 in population, this represents 75 deaths for the nation and a much lower 15 for Iowa.

And in terms of economic impacts, the virus has altered both purchasing and selling patterns of businesses and consumers across the nation, including Iowa, with impacts by industry ranging from slight to decimation. The objective of this white paper is to quantify the economic impacts on the State of Iowa, with the understanding that the estimates will change as the geographic intensity of the virus changes. Authors will update the estimated impacts presented in this study several times until the virus is controlled, or moves to remission.

The Expanding Infection Rate

On March 9, 2020, the coronavirus had infected 647 U.S. citizens and 2 Iowans. This represented approximately two infections per million Americans and one infection per million Iowans. By April 2, the number of infections per million residents had expanded to 729 for the U.S. and to 136 for Iowa. Figure 1 profiles the expansion in infections per million.

Figure 1: COVID-19 Positive Tests per 1,000,000 Residents



U.S. and Iowa compared, March 8, 2020 – April 24, 2020
Source: CDC

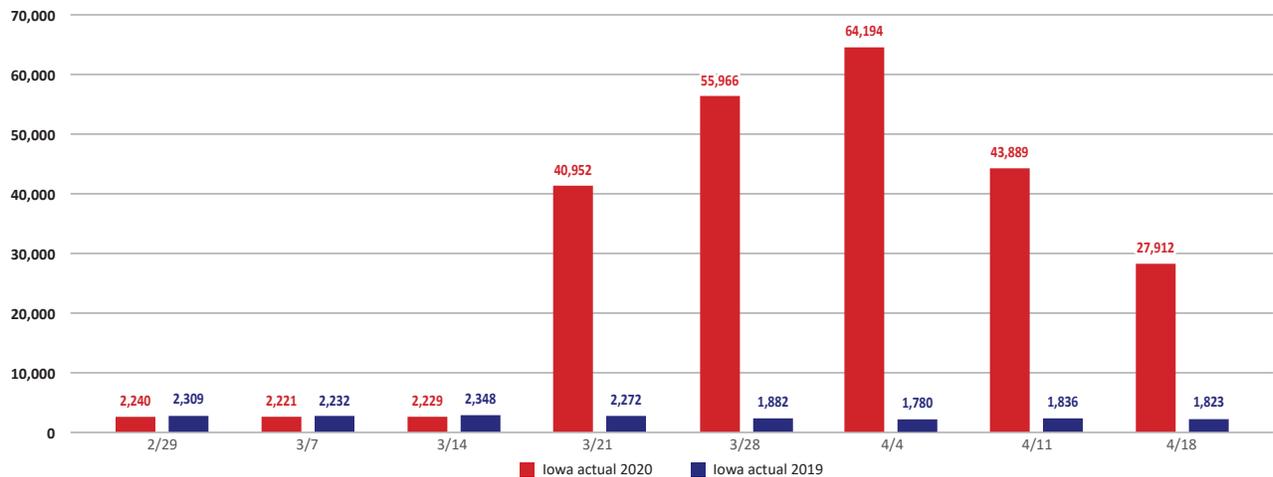
Iowa's Rising Unemployment from COVID-19

INSURED UNEMPLOYMENT

This infection expansion has had a profound impact on the U.S. and Iowa labor markets and economies. Figure 2 profiles the number of Iowa individual first-time claims for unemployment benefits between March 29 and April 23, 2020. For comparison, 2019 data for the same period in 2019 is presented³.

As presented, the unemployment impacts of COVID-19 appear to have surfaced in the week ending March 21, 2020. Prior to that week, 2019 and 2020 initial claims deviate very little. Figure 3 profiles continuing claims for unemployment insurance for Iowa, again comparing 2019 and 2020. Continuing claims represent the number of Iowans that remain on unemployment roles and are receiving unemployment benefits.

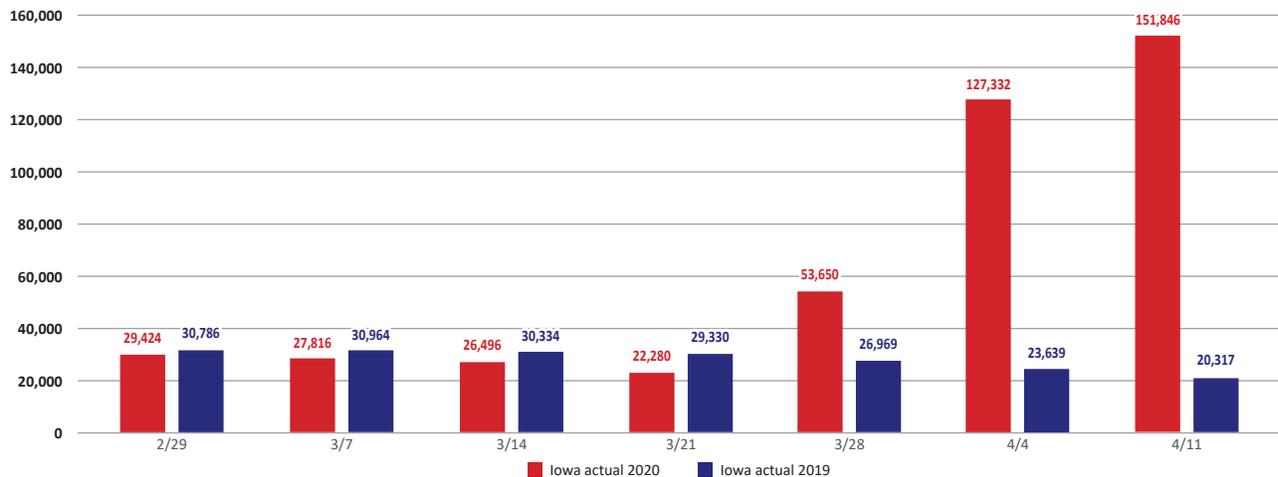
Figure 2: Individual First-Time Claims for Unemployment Benefits



Iowa 2019 and 2020 (not seasonally adjusted)

Source: U.S. Department of Labor; Note: April 18, 2020 data are preliminary

Figure 3: Individual Continuing Claims for Unemployment Benefits



Iowa 2019 and 2020 (not seasonally adjusted)

Source: U.S. Department of Labor

TOTAL UNEMPLOYMENT

Only a portion of Iowa and U.S. unemployed qualify for, and receive, unemployment benefits. During the last national recession, approximately 41% of jobless Iowans received unemployment benefits. That is, roughly 59% of jobless Iowans are estimated to be missing from the number of unemployed listed in Figures 2 and 3. The authors of this study will use this ratio to estimate the total number of Iowans unemployed. Once the U.S. Bureau of Labor Statistics releases its estimate for the total number of Iowans unemployed for April on May 22, the authors will use this number to estimate economic impacts of COVID-19 on the Iowa economy.

Figure 4 illustrates the insured unemployed as a percent of the total labor force for Iowa, and the U.S. for 2020, compared to the same period in 2019. Figure 5 compares the insured unemployment rates for 50 states and the District of Columbia for April 11, 2020. In this case, the number of insured unemployed is a percent of covered employment rather than the total labor force. As presented, South Dakota had the lowest rate while Michigan had the highest insured unemployment rate.

On March 19, in an attempt to slow the spread of COVID-19 infection rates, California became the first state to order residents to stay at home, except for essential activities. As of April 7, 42 states covering 90% of the nation issued stay at home orders, often termed “shelter in place.” Iowa is one of nine states that has not enacted shelter in place rules and ordinances. While there is no formal shelter in place order, there have been statewide directives put in place which limit or prohibit certain business and social activities as well as specific directives at a county level.

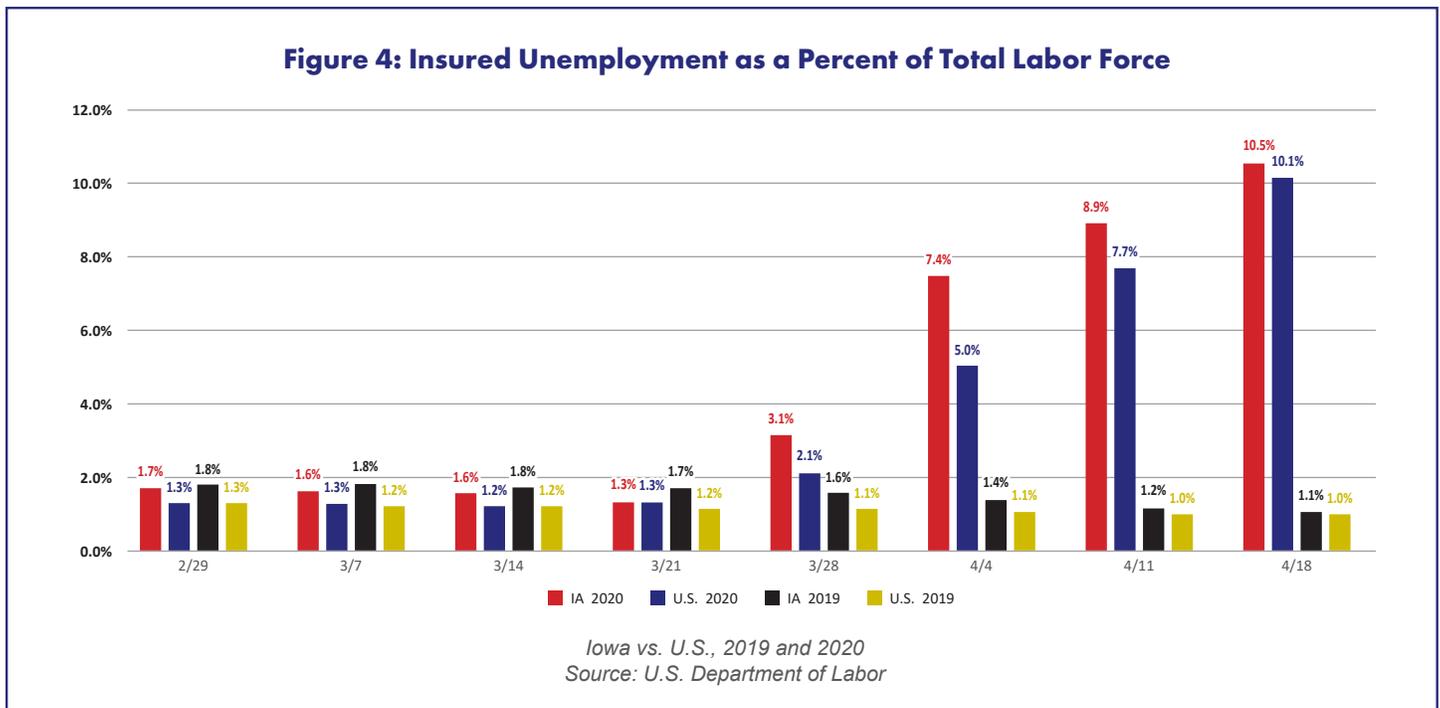
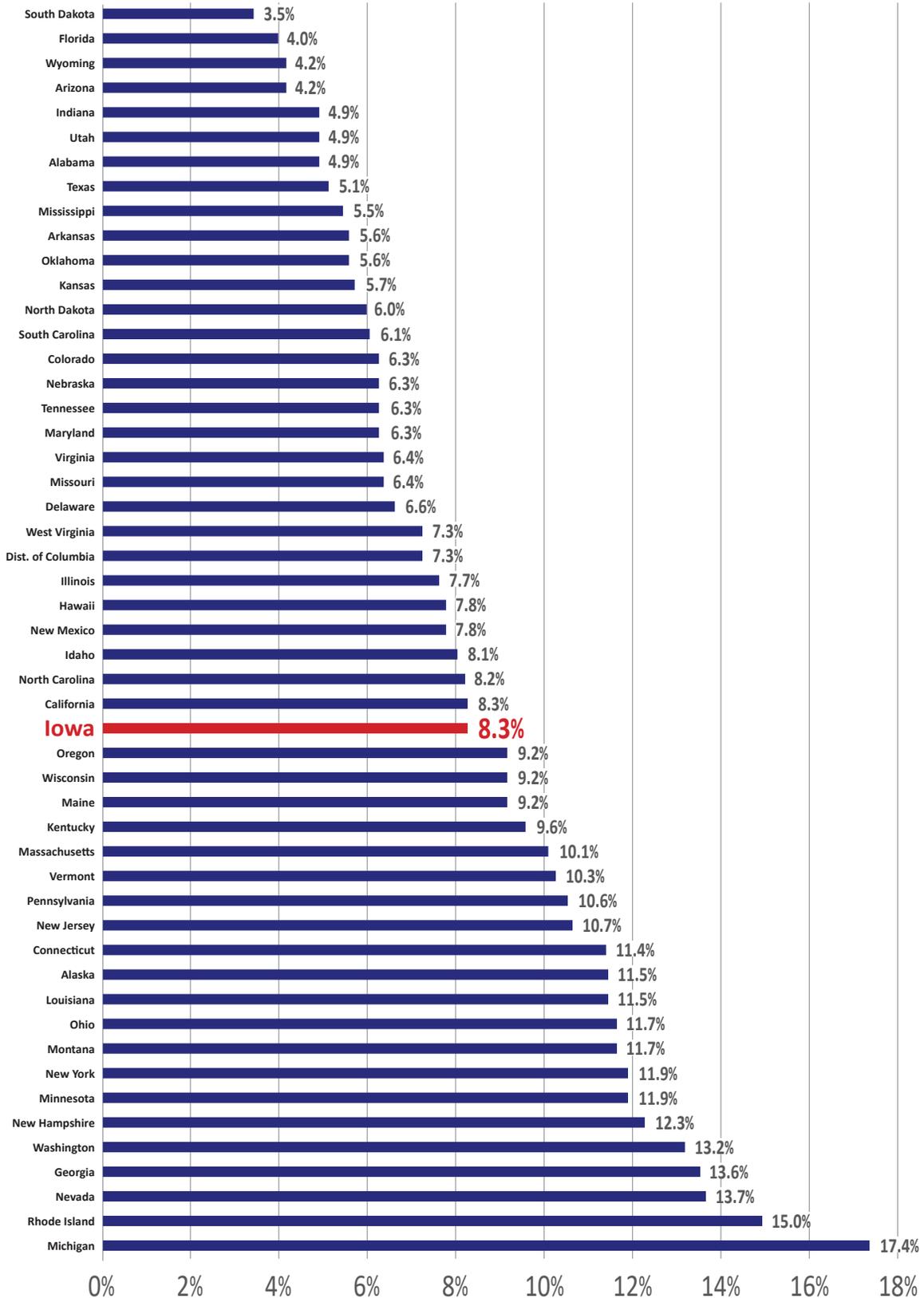


Figure 5: Number of Insured Unemployed as a Percent of Covered Employment



April 2020

Source: U.S. Department of Labor

Estimated Economic Impact of COVID-19 on Iowa

March 21 - April 11

METHODOLOGY

Since Iowa employment data for April will not be released until May 22, it is necessary to make some relatively strict assumptions to produce this “first cut” of impact estimates. Step 1: Based on the most recently released Iowa continuing claims for unemployment benefits, calculate the increase in workers receiving unemployment benefits from March 14. The increase is assumed to be the result of COVID-19. Step 2: Estimate the total number of Iowa unemployed by dividing the value from Step 1 by the state’s share of unemployed receiving unemployment benefits. During the last recession, this was equal to 0.41. Step 3: Estimated direct job losses from Step 2 will be input to the IMPLAN Multiplier System, an economic modeling application. IMPLAN will produce spillover impacts, which when added to direct impacts, equal total economic impacts for the state.

ESTIMATED IMPACTS

Table 1 lists the estimated economic loss for the State of Iowa, for the time period March 21 to April 11. As presented, losses for this time period were: 243,237 jobs, wages & salaries of \$557,752,183, self-employment income of \$73,650,468, and a total impact of \$1,621,656,902. The annualized average yearly wages and salaries of jobs lost was \$39,855. This is well below the state average of \$47,330. This is due to the fact that a high percentage of jobs lost were in the low wage industries of food services and personal care and service occupations (Source: U.S. Bureau of Labor Statistics)⁴.

Table 1: Estimated Loss for State of Iowa (March 21 - April 11, 2020)	
Jobs	243,237
Wages	\$557,752,183
Self-Employment Income	\$73,650,468
Total Impact	\$1,621,656,902
<i>Note: Does not consider the impact of the federal rescue plan (CARES Act) which includes payments to state and local government of \$150 billion.</i>	
<i>Source: Goss & Strain estimates from IMPLAN Multiplier System</i>	

Table 2 lists the future estimated loss in state and local tax collections from the COVID-19 pandemic. As listed, the total estimated loss in state and local tax collections for the period analyzed was \$112,060,637. The local taxes lost in this table represent data at the county level and the figure is for all 99 counties in aggregate. Importantly, note that the loss in property taxes is based on a reduction in property tax assessments.

Table 2: Future Estimated Loss in State and Local Tax Collections for Iowa (March 20, 2020)			
	Local	State	Total
Sales & Gross Receipts	\$4,292,177	\$32,940,729	\$37,232,906
Individual Income Taxes	\$0	\$26,839,101	\$26,839,101
Corporate Income Taxes	\$0	\$3,084,932	\$3,084,932
Property Taxes	\$36,645,118	\$0	\$36,645,118
Other Taxes & Fees	\$739,243	\$7,519,338	\$8,258,581
Total State & Local Taxes Lost	\$41,676,538	\$70,384,100	\$112,060,637
<i>Note: Loss in property taxes assumes that assessments are reduced with no change in the property tax rate.</i>			
<i>Source: Goss & Strain estimates from IMPLAN Multiplier System</i>			

Conclusions and Caveats

Not since 1776 when Adam Smith delineated the industrialized capitalist system in his *Wealth of Nations* have the global, U.S. or Iowa economies experienced the challenges presented by COVID-19. Estimates contained in this study indicate that, if the current level of unemployment is not reduced by the federal CARES plan, or other public and private policy actions, Iowa’s GDP for the full calendar year will be reduced by 9.7%.

Importantly, these estimated losses are based on the assumption that March losses are not offset by increased purchases in later months. However, it is clear that some losses, for example, reduction in haircuts in March will not be offset by a doubling of haircuts in a future month. The estimated losses contained in this white paper will be updated when the U.S. Bureau of Labor Statistics releases preliminary April employment data for the state on May 22.

The analysis presented here does not consider how much output will be further lost, nor does it consider the impact of the federal rescue plan which includes payments to state and local government agencies to offset the negative impacts of COVID-19.

Endnotes

- ¹ Estimates contained in this white paper will be updated as the number of Iowa COVID-19 deaths and positive tests are made public and monthly state employment data are released.
- ² Meltzer, M.; Cox, N.; and Fukunda, K. (1999). "The Economic Impact of Pandemic Influenza in the United States: Priorities for Intervention." *Emerging Infectious Diseases*, 5(5): 659-671.
- ³ It is noted that the dates for 2019 do not precisely match that for 2020. The closest matches to 2020 dates were chosen.
- ⁴ Average annual Iowa wages & salaries for food preparation and serving occupations were \$24,050 and for personal care and services occupations were \$27,320 (May 2019, U.S. Bureau of Labor Statistics).

About The Authors



Ernie Goss, Ph.D. is the Jack MacAllister Chair in Regional Economics at Creighton University and served as the initial director for Creighton's Institute for Economic Inquiry. He is also principal of Goss & Associates in Denver, Colorado. Goss, known as Mid-America's economist of choice, is a highly respected, nationally known expert on the mid-American economy. In addition to serving as editor of *Economic Trends*, an economics newsletter published monthly with more than 10,000 subscribers, Dr. Goss produces a monthly business conditions index for the nine-state Mid-American region, and conducts a survey of bank CEOs in 10 U.S. states. Survey and index results are cited each month in approximately 100 newspapers; citations have included the *New York Times*, *Wall Street Journal*, *Investors Business Daily*, *The Christian Science Monitor*, *Chicago Sun Times*, and other national and regional newspapers and magazines. Each month 75- 100 radio stations carry his Regional Economic Report.



Scott Strain, M.S. is Senior Economist with Goss & Associates. He also serves an adjunct professor with the College of Business Administration at the University of Nebraska, Omaha. Strain has worked as an economist and statistician for more than 20 years providing forecasts and analysis across a wide-range of industries, including agricultural, energy, and the financial sectors. In addition, Strain provides economic impact and tax analysis for both private business and public sector entities. He served on the business advisory committee that worked with Nebraska state senators and the director of the state's Economic Development Department to develop the Nebraska Advantage Act — a comprehensive package of business incentives that has helped to add more than \$6 billion in new capital investment and over 13,000 new jobs in the state of Nebraska since the Act's inception in 2006.



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