

ASK THE EXPERTS

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

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**MAY
UPDATE**

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Foreword

From an economic standpoint, the COVID-19 (coronavirus) 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 except for essential businesses to contain the virus. Social distancing and other protective measures have contributed to numerous business closures and thousands of Iowans becoming unemployed. In April, Iowa's unemployment rate was at a historic high of 10.7 percent.

The good news for Iowa is that as the COVID-19 emergency began, Iowa had \$800 million in reserves and a projected budget 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 of 2008 and 2009.

To help Iowans understand the potential economic impact of COVID-19, 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: May Update*, 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.

Iowa's economy is beginning to reopen, and the legislature is expected to reconvene on June 3 with the priority of creating the state budget for Fiscal Year 2021. At this time, estimating the total state and local revenue loss will be a major challenge for legislators as they craft a budget. It is uncertain how long an economic recovery will take and whether a recovery will be slowed by Iowa consumers fearful of a "second wave" of COVID-19.

TEF Iowa continues to provide ideas and solutions that will 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 May 20, 2020, the CDC calculates that COVID-19 has generated 99,498 U.S. deaths and 449 Iowa casualties. Per 1,000,000 in population, this represents 303 deaths for the nation, and a much lower 149 for Iowa. Due to COVID-19, the U.S. economy contracted by 4.8% in Q1, 2020, and Iowa's economy experienced:

- ◊ Highest level of unemployment in May since the Great Depression
 - The number of Iowans receiving unemployment compensation rose to approximately 187,000, or 10.9% of the state's labor force. This compares to 1.1% for May 2019.
 - For the week of May 9, Iowa ranked 29th among the 50 states and the District of Columbia in terms of percent of covered workers receiving unemployment compensation.¹
 - Given that a high share of Iowans normally do not receive unemployment benefits, the state's overall unemployment rate for May is in a range between 12% and 15%. This compares to 2.5% for May 2019.
- ◊ Projected job, wage and revenue loss (**March 21 - May 9, 2020**)
 - Loss of 227,552 direct and spillover jobs.
 - Loss of \$935.7 million in wages and salaries.
 - Loss of \$135.0 million in self-employment income.
 - A total loss of \$2.7 billion for the overall Iowa economy.
 - A reduction in future state & local tax collections of \$190.0 million composed of a loss of:
 - » \$63.1 million in sales taxes.
 - » \$45.5 million in individual income taxes.
 - » \$5.2 million in corporate income taxes.
 - » \$62.1 million in property taxes.
 - » \$14.0 million in other taxes and fees.
- ◊ Projected job, wage and revenue loss (**March 21 - December 31, 2020**)
 - Loss of 227,552 direct and spillover jobs.
 - Loss of \$6.1 billion in wages and salaries.
 - Loss of \$882.4 million in self-employment income.
 - A total loss of \$17.9 billion for the overall Iowa economy.

- A reduction in future state & local tax collections of \$1.2 billion composed of a loss of:
 - » \$412.7 million in sales taxes.
 - » \$297.5 million in individual income taxes.
 - » \$34.2 million in corporate income taxes.
 - » \$406.1 million in property taxes.
 - » \$91.5 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 5.1%.
- ◊ The estimates contained in this analysis do not take into account the yet to be experienced positive impacts of the federal CARES Act and the Federal Reserve stimulus programs. Furthermore, losses in the collection of state individual income taxes and corporate income taxes may be delayed until 2021 when individuals and corporations file their 2020 income tax returns.

The Economic Impact of COVID-19 On the Iowa Economy May Update²

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.³ As of June 1, 2020, the CDC calculates that COVID-19 has generated 106,262 U.S. deaths and 538 Iowa casualties. Per 1,000,000 in population, this represents 321 deaths for the nation, and a much lower 170 for Iowa. Due TO COVID-19, the U.S. economy contracted by 4.8% in Q1, 2020, and according to the latest U.S. Bureau of Labor Statistics (BLS) data, the Iowa unemployment rate expanded to 10.2% in April 2020.

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 almost 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.

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 1 profiles the number of Iowa individual first-time claims for unemployment benefits between March 29 and May 9, 2020.⁴

As presented, the unemployment impacts of COVID-19 appear to have surfaced in the week ending March 21,2020. Prior to that week, 2020 initial claims deviated little from the same periods in 2019. Importantly, initial claims for both the U.S. and Iowa have declined consistently since March 28 for Iowa, and April 4 for the U.S.

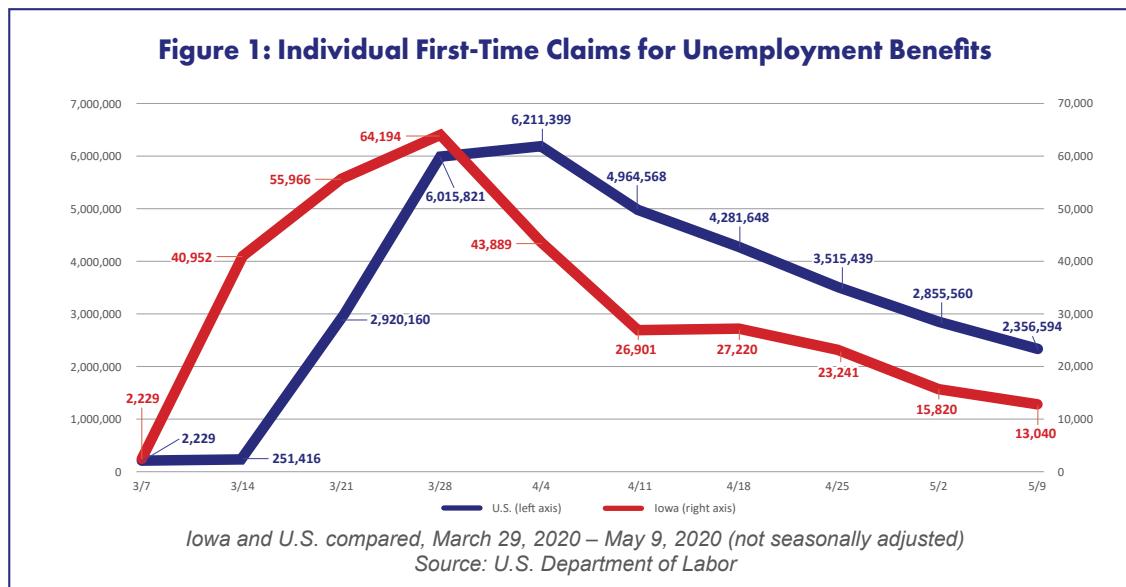
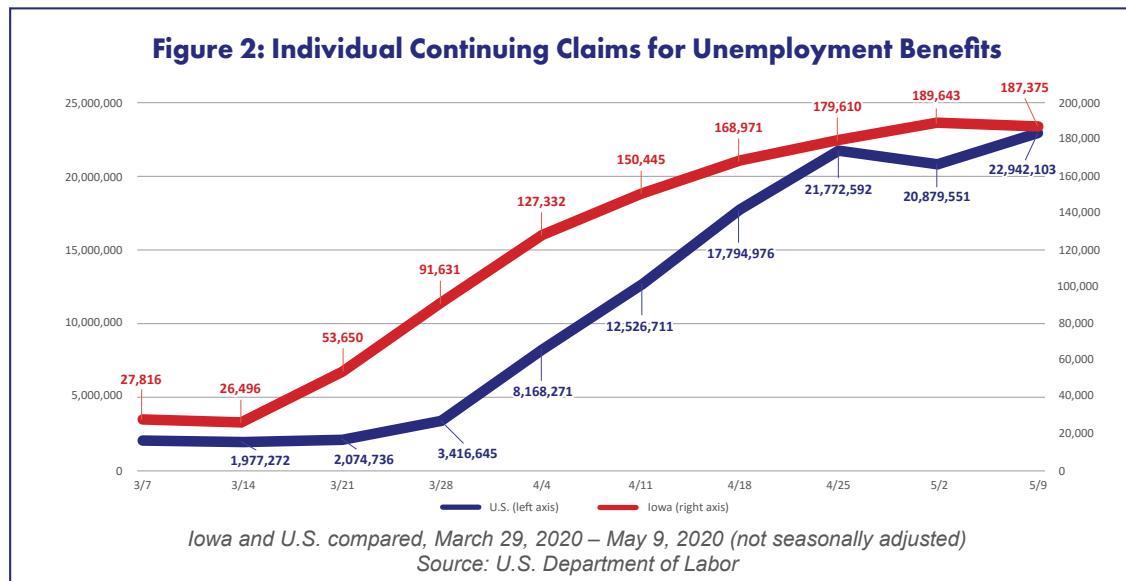


Figure 2 profiles continuing claims for unemployment insurance for Iowa, again comparing 2019 and 2020. Continuing claims represent the number of Iowans who remain on unemployment and are receiving unemployment benefits. Data indicate that the number of continuing claims for Iowa may have peaked at 189,643 for the week ending May 2, 2020.

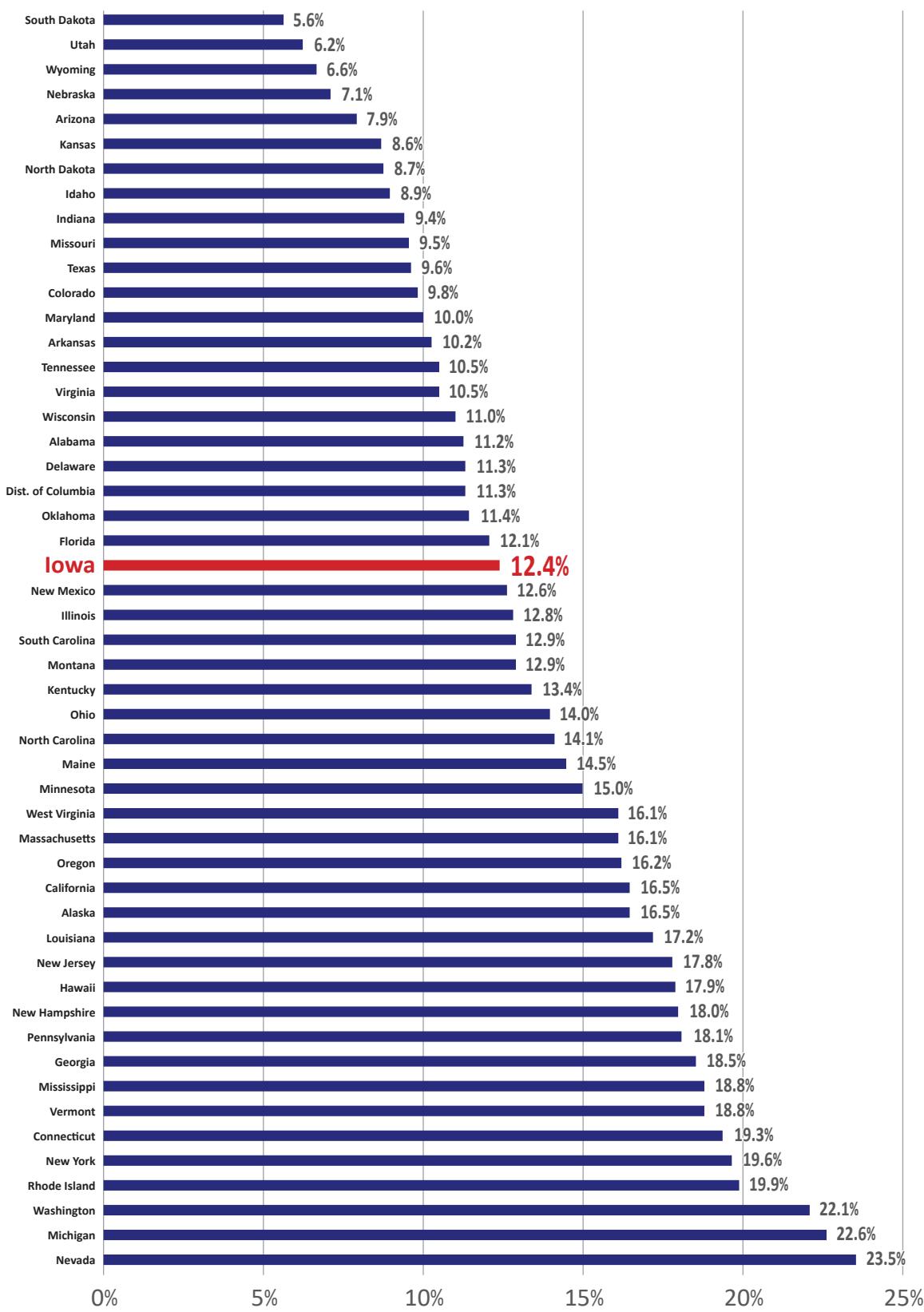


TOTAL UNEMPLOYMENT

Only a portion of Iowa and U.S. unemployed workers qualify for, and receive, unemployment benefits. During the last national recession, approximately 41% of jobless Iowans received unemployment benefits. That is, roughly 59% of out of work Iowans are estimated to be missing from the number of unemployed listed in Figures 1 and 2. The authors of this study will use this ratio to estimate the total number of Iowans unemployed. On May 22, the U.S. Bureau of Labor Statistics released its estimate for the total number of Iowans unemployed for April. Based on this estimate, and continuing claims for unemployment benefits in the state, the ratio was 1.08. That is, total Iowa unemployment was equal to 108% of insured unemployment.

Figure 3 compares the insured unemployment rates for 50 states and the District of Columbia for the week ending May 9, 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 Nevada had the highest insured unemployment rate. Iowa's insured unemployment rate was 12.4%, which was 23rd in the nation. That is, 22 states had higher insured unemployment rates than Iowa.

Figure 3: Insured Unemployed Rates by State



Week ending May 9, 2020 (not seasonally adjusted)
Source: U.S. Department of Labor

Table 1 lists the latest April total unemployment rates by state for 2019 and 2020, along with the change from 2019 and 2020. As listed, Iowa experienced a 7.5% increase in the rate of unemployment between April 2019 and April 2020, or 37th in the nation. That is, 36 states suffered greater increases in joblessness from 2019 to 2020.

**Table 1: Unemployment Rates by State
(April 2019, April 2020, and Change from 2019 - 2020)**

	April 2019	April 2020	Change from April 2019 - April 2020
Nevada	4.0%	28.2%	24.2%
Hawaii	2.7%	22.3%	19.6%
Michigan	4.3%	22.7%	18.4%
New Hampshire	2.5%	16.3%	13.8%
Indiana	3.4%	16.9%	13.5%
Rhode Island	3.6%	17.0%	13.4%
Vermont	2.3%	15.6%	13.3%
Ohio	4.1%	16.8%	12.7%
Illinois	4.2%	16.4%	12.2%
Massachusetts	3.0%	15.1%	12.1%
New Jersey	3.4%	15.3%	11.9%
California	4.2%	15.5%	11.3%
Tennessee	3.5%	14.7%	11.2%
Kentucky	4.3%	15.4%	11.1%
Pennsylvania	4.1%	15.1%	11.0%
Washington	4.4%	15.4%	11.0%
Wisconsin	3.3%	14.1%	10.8%
Delaware	3.6%	14.3%	10.7%
New York	4.0%	14.5%	10.5%
Oklahoma	3.2%	13.7%	10.5%
West Virginia	4.7%	15.2%	10.5%
Oregon	4.0%	14.2%	10.2%
Mississippi	5.3%	15.4%	10.1%
Louisiana	4.5%	14.5%	10.0%
Alabama	3.2%	12.9%	9.7%
Florida	3.3%	12.9%	9.6%
Texas	3.5%	12.8%	9.3%
South Carolina	3.3%	12.1%	8.8%
Idaho	2.9%	11.5%	8.6%
Colorado	2.9%	11.3%	8.4%
Georgia	3.6%	11.9%	8.3%
North Carolina	4.1%	12.2%	8.1%
Kansas	3.2%	11.2%	8.0%
Arizona	4.8%	12.6%	7.8%
Montana	3.5%	11.3%	7.8%
Virginia	2.9%	10.6%	7.7%
Iowa	2.7%	10.2%	7.5%
Maine	3.1%	10.6%	7.5%
South Dakota	3.2%	10.2%	7.0%
Utah	2.7%	9.7%	7.0%
Alaska	6.1%	12.9%	6.8%
Arkansas	3.5%	10.2%	6.7%
Missouri	3.2%	9.7%	6.5%
New Mexico	5.0%	11.3%	6.3%
Maryland	3.7%	9.9%	6.2%
North Dakota	2.3%	8.5%	6.2%
Wyoming	3.5%	9.2%	5.7%
District of Columbia	5.6%	11.1%	5.5%
Nebraska	3.1%	8.3%	5.2%
Minnesota	3.2%	8.1%	4.9%
Connecticut	3.7%	7.9%	4.2%

Source: U.S. Bureau of Labor Statistics

Estimated Economic Impact of COVID-19 on Iowa

March 21 – May 9

METHODOLOGY

Step 1: Estimate the ratio between the total number of unemployed Iowans and the number of insured unemployed. For the second to third week of April this ratio was 1.08. Step 2: Apply this ratio to the May 9 number of insured unemployed to estimate the total number of Iowans unemployed. Step 3: Estimate the number of job losses based on the expected unemployed to the actual unemployed. Step 4: Estimated direct job losses from Step 3 are 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 2 lists the estimated economic loss for the State of Iowa, for the time period March 21 to May 9. As presented, losses for this time period were: wages & salaries of \$935.7 million, self-employment income of \$135.0 million, and a total impact of \$2.7 billion. As indicated, the state shed 227,552 jobs during the period. The annualized average yearly wages and salaries of jobs lost was \$30,631. 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).⁵

Table 2: Estimated Loss for State of Iowa (March 21 - May 9, 2020)	
Jobs	227,552
Wages	\$935,720,251
Self-Employment Income	\$135,017,169
Total Impact	\$2,743,330,969
<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 3 lists the 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 \$190.0 million. 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 and a reduction in new construction.

Table 3: Estimated Loss in State and Local Tax Collections for Iowa (March 21 to May 9, 2020)			
	Local	State	Total
Sales & Gross Receipts	\$7,278,707	\$55,861,138	\$63,139,845
Individual Income Taxes	\$0	\$45,513,952	\$45,513,952
Corporate Income Taxes	\$0	\$5,231,451	\$5,231,451
Property Taxes	\$62,143,070	\$0	\$62,143,070
Other Taxes & Fees	\$1,253,613	\$12,751,350	\$14,004,964
Total State & Local Taxes Lost	\$70,675,389	\$119,357,892	\$190,033,282
<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 described 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 5.1%.

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 May employment data for the state on June 19.

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, businesses, or direct payments to citizens to offset the negative impacts of COVID-19. Finally, some impacts such as the loss in state corporate income taxes and individual impacts will not surface until April 15, 2021 when corporations and individuals file their income tax returns.

Endnotes

¹ Covered workers are workers that qualify for the receipt of unemployment compensation if unemployed.

² 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.

³ 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.

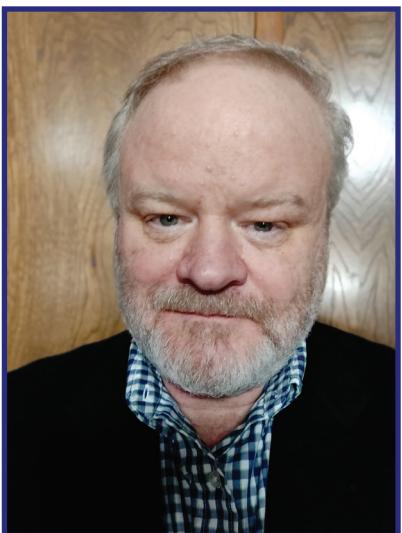
⁴ Statistics on persons receiving unemployment insurance benefits (sometimes called insured unemployment) in the United States are collected as a byproduct of unemployment insurance programs. Workers who lose their jobs and are covered by these programs typically file claims which serve as notice that they are beginning a period of unemployment. Claimants who qualify for benefits are counted in the insured unemployment figures.

⁵ 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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