

BACK TO BUSINESS IOWA PODCAST

A partnership of Iowa State University Extension and Outreach and America's SBDC Iowa

SEASON 1 | EPISODE 26: COVID Economic Status

(33:52; published July 17, 2020)

Description: *In this edition, Steve Adams interviews Iowa State University economics research faculty member David Swenson about the effects of COVID-19 on Iowa's economy. Mr. Swenson also discusses the future outlook for various sectors of the Iowa economy, as well as his views on the speed with which he believes the economy will recover from the pandemic.*

Transcript:

[music]

Steve Adams, host 00:10

Hello, and welcome to the Back to Business Iowa podcast from Iowa State University Extension and Outreach. This podcast is a collaboration between Iowa State University Extension and Outreach and the programs including Community and Economic Development, Farm, Food and Enterprise Development, and the Iowa Small Business Development Centers. These podcasts cover relevant topics for businesses and individuals related to education, research and technical assistance during and post COVID-19.

Steve Adams, host 00:54

I'm Steve Adams, field specialist three at Iowa State University Extension in the Community and Economic Development unit, and I'm also your host for these podcasts. In this podcast, we'll be discussing the economic outlook for Iowa in light of the COVID-19 pandemic. Our special guest today is Dave Swenson, a research scientist with the economics department at Iowa State University. David, thank you for being with us today.

David Swenson 01:24

Hey, you're welcome.

Steve Adams, host 01:26

Before we begin to delve into your views of Iowa's economic picture, could you share with our listeners your role at Iowa State and your particular areas of academic interest?

David Swenson 01:38

Sure. I work in the Department of Economics at Iowa State University. I'm funded by the ag college, specifically the Experiment Station. I do research and technical assistance primarily in support of rural development and rural issues. So I do a lot of public engagement. I do a lot of workshops, I do a lot of research on issues associated with Iowa's economy. Unlike a lot of economists, I don't spend a lot of time studying theoretical aspects of the economy. I try to study the practical aspects of what's going on in Iowa. And I've been doing it here for about 31 years.

David Swenson 02:20

So I've had lots of opportunities to watch lots of changes in the state of Iowa and and to respond to those changes. So that's mostly what I do on most days. And then I'm also somebody who has to be



responsive to media inquiries about what's going on with the economy. So I do a lot of that type of engagement as well.

Steve Adams, host 02:44

I see you oftentimes quoted in publications in both Iowa and Nebraska, so that's very interesting. And 31 years, Dave, that's almost a career, isn't it?

David Swenson 02:54

We're winding her down pretty quick here.

Steve Adams, host 02:56

[laughter] Well, when Governor Reynolds order the state's bars and restaurants to close on St. Patrick's Day, March 17 of this year, in response to the COVID-19 pandemic, was this when Iowa began to feel the economic effects of the pandemic, do you think, Dave?

David Swenson 03:15

Well, we were starting to feel the economic effects of the pandemic, just in terms of people's behavior had started to change by that time. Now, we had fewer than 30 cases in the state on that day. We didn't post a death from the pandemic until a week later. But these were preliminary cautionary activities, that were basically snowballing across the United States. We closed down our campuses. Certainly institutions started closing all across the Midwest, but also here in Iowa.

David Swenson 03:51

And so this was an initial response to an expectation of a pandemic, which we knew very little about, was going to have an effect, significant effect both on the economy but most importantly on the workforce. And so these were preventive measures early on, to figure out what the state needed to do to figure out how it was going to deal with the impending pandemic. And then, most importantly, to minimize opportunities for pandemic spread by closing down places like bars and restaurants and other types of venues where it's likely that people would congregate closely and increase the rate of infection.

Steve Adams, host 04:39

We certainly have seen the unemployment numbers go up across the country, and Iowa has been affected by that as well, haven't we?

David Swenson 04:46

Oh, we sure have. We had very, very sharp unemployment, both in terms of initial unemployment claims, as well as continuing unemployment claims, and again, our unemployment rate went up very, very sharply to a rate that we hadn't seen for a long, long time, way back ... a rate that we hadn't seen since going way back to the farm crisis. So it wasn't, it tied, basically, the highest unemployment rate that we've ever had in modern time.

David Swenson 05:20

So yes, we had a very, very strong and harsh response in the month of April. We shut down in March. But then we see a lot more businesses shutting down and/or laying off people during April and was also the time that federal aid was flowing in. And it actually allowed or provided a mechanism or a reason for firms to lay people off, because they knew that those people were going to be taken care of from the CARES Act and from other types of social assistance.

Steve Adams, host 05:54

So four months into this Dave, and I know it's going to be hard for you to maybe look back or even forward at this point, but you believe that Iowa has felt that full effect of the COVID-19 pandemic, and why or why not?

David Swenson 06:07

Sure. Iowa had an initial surge with the pandemic. It starts out in Johnson County. It spreads out a little bit into a few other places. It shows up in Des Moines [Polk] County, the largest county, and you know, it's not in a lot of the counties. And so we're thinking that maybe we're going to dodge a bullet. And then we have the outbreak in Columbus Junction at the meatpacking industry, at the facility there. And within not very long we have another outbreak in Waterloo, and then for not very long after that, we get an outbreak in another facility. And it hopscoches all the way across the state, ultimately hitting really hard the the meatpacking facility in Storm Lake.

David Swenson 06:59

And so we ended up with a peak of cases that went up really, really sharply. And then after we hit that peak, then we settle down for quite a while and things started to look better. The rate of new infections went down. And concomitantly, as things got a little bit better, our governor and our health experts advised that it was that it was time to perhaps begin loosening some of these restrictions and, you know, try to open up business a little bit more on an incremental basis.

David Swenson 07:39

Now, we've got a problem here in Iowa, and that is in the last 30 days, the accumulation of new cases has grown so much that it's nearly at the level it was at that peak that we had 70 days ago. So to answer your question correctly, no, we're not out of this. We are actually back in it as fully as we were before, plus the pandemic or the virus has spread out to more of Iowa's economy. There are active cases in nearly every county right now. And so the probability for the pandemic or for the virus, for COVID-19 to interfere with economic activity has reasserted itself.

David Swenson 08:23

And so we're at this crossroads where we have reattained peak infection levels that we had had 70 days ago, and but we have an open economy now. And how are we going to deal with this? And right now, we're dealing with this by not closing down the economy by not engaging in any draconian measures. But there still is a lot of concern that if this pandemic continues to grow in the state of Iowa, it's going to begin to interfere more with economic activity.

Steve Adams, host 09:00

So quite obviously, at that point, then David...and again, I'm not asking you to forecast this, but you think we'll be forced back into another shutdown of our local economy?

David Swenson 09:12

I think that what the playbook looks like now is that that governors are reacting, whether it's in California or Texas or Georgia or other places, they're trying to target what gets constrained. And so you want to limit places where people congregate, then you may again, close bars and cafes and restaurants or significantly restrict the activity that can be involved in there. Same thing with entertainment venues, you know, you have recreational facilities that have opened back up, it could very well be that some of those types of activities need to close back down. It could be, because now that we're getting more guidance in this area, that we see much more widely spread face covering, and because we have more widespread face covering, both in our social and our business activities, perhaps that will make it okay for more businesses to to be open.

David Swenson 10:13

So I believe we're going to deal with it on an incremental basis. And for lack of a better term, we are reacting to this virus rather than acting proactively now. In March and April, we were proactive, hoping for the best. Now we're playing defense, and what the consequences are going to be for the economy is yet to be seen.

David Swenson 10:39

We expect, we're going to get some unemployment numbers out tomorrow for the state of Iowa. We expect that there may be sectors of the economy that actually ended up going backwards and unemployment rates going up or employment going down in those sectors. So and it could very well be that July is even worse, and we won't know again that for another month. That's one of the problems, what's going on with the economy? We're having to wait so long for the information to figure out, you know, what was happening back then and whether it affects the decisions we're trying to make right now.

Steve Adams, host 11:17

Well, you touched on this and obviously, the hospitality and entertainment business have taken a huge hit from COVID. But are there some other industries specifically that you think are most vulnerable going forward? And could you possibly tell us why?

David Swenson 11:35

Oh, sure. That first of all, we gotta go right back to dining and drinking. They are at high risk for business closures. They're also high risk for pandemic spread. And people are likely to change their demand for these kinds of services over time, basically, out of self protection. And evidence really does suggest that we can anticipate quite a few business closures in that category, dining and drinking. And so that's where the most layoffs have been in the state of Iowa and nationwide, that's where the most business activity has contracted nationwide, and significantly so in Iowa.

David Swenson 12:20

The food and drinking sector nationally, just on a year over year basis from numbers that I looked at this morning, were down 26%. So that's after we've partially opened, it was much worse, it was almost 40% in May and April. So that industry no matter what is going to be hit hard and and probably hit the longest. Iowa's ethanol industry was already weakened, basically by overproduction and a flat growth or flat demand for motor fuels over the last couple of years. So we had a lot of capacity to make ethanol but because of the inability to export a lot of it, the China trade tensions, they were an export market, and some other issues, we basically were making more ethanol than the nation and the world wanted or could absorb. So that industry has contracted.

David Swenson 13:13

And then the pandemic, because it's reduced yours and my need to drive around, has also reduced the demand for motor fuels. And so that industry, we're going to see perhaps a few permanent plant closures in the state of Iowa and the Midwest. I pay a lot of attention to Iowa's manufacturing industry. During the early part of the pandemic, we had the food processing industry hit, because we get these concentrated cases of COVID-19 in the meat processing sector. And so you did see a sharp decline in non-durable manufacturing, but there's been a relatively sharp decline in durable goods manufacturing, things that make tractors and construction equipment and farming equipment and electronics and technology. Those types of plants have also gone down.

David Swenson 14:03

Now the reason I pay attention to the manufacturing sector, I think the durable goods, the food processing sector is slowly going to recover up to levels where it was early in the pandemic or before the pandemic started. That should recover, because you and I continue to demand food products. But

the rest of the world's economies have contracted and slowed as a consequence of the worldwide pandemic. And that affects the demand for manufactured durable goods out of a state like Iowa. Whether our products are final products like a finished tractor or piece of construction or forestry harvesting equipment, or whether it's a critical part that goes into somebody else's manufactured good, the slowdown because of the recession, both in the United States and worldwide, is slowing the demand for that manufactured output.

David Swenson 15:01

Iowa's manufacturing sector can only be as healthy as its customers are. And most of its customers are outside of the state of Iowa. So I pay a lot of attention to the manufacturing sector. I can take it over the last 14 of the last 17 weeks that we've been tracking these numbers, in terms of initial unemployment claims, Iowa's manufacturers, that industry has led in initial unemployment claims. Indeed, the numbers came out this morning. Nearly I think it was 11,300 initial unemployment claims, 40% of them were in manufacturing. So I see a lot of employment churning going on in manufacturing in Iowa. And I'm worried when I see the numbers tomorrow, that the manufacturing sector, specifically the durable goods manufacturing sector, may have slipped quite a bit. So that's one.

David Swenson 15:59

The pandemic has certainly put a crimp in the long-term agricultural outlook. Every category of agricultural outlook for the United States and to a degree for Iowa in specific has been downgraded. The pork industry, for example, in January was actually looking at some great opportunities for profitability. That's all gone. Part of it was because of the packinghouse closings, and then we ended up with an excess of supply and a collapse in prices. But the crops as well, and again, worldwide demand for products that are made, that are produced in Iowa are a little bit soft because of the pandemic, and again, prices have gone down.

David Swenson 16:46

So we've had a crimp in the ag outlook, both for crop and animal production. If I look at some of the categories of large employment losses during the early parts of the pandemic, health care and social assistance specifically, healthcare and clinics declined very, very strongly. Now some of that bounced back over the last two months, and that's good. The dentists' offices are open, doctors and clinics have brought their people back and are seeing more people. I'm going to assume that some of this is going to result in clinic closures, and the most vulnerable clinics to closure in Iowa are the rural clinics. So I'm worried about that.

David Swenson 17:32

Governments in general have contracted nationwide, that's local and state government employment, and that's been the case as well in Iowa. I think a lot of that was seasonal employment, temporary summer employment that just didn't occur because we don't need a lifeguard and we don't need rec counselors and we don't need a lot of other things. But there's going to be another fraction of that that's permanent, and that is also something to be worried about. Because if our governments get smaller as a result of constrained revenues, then you're going to, that's going to interfere with our overall ability to recover from this pandemic, whether it has to do with providing education, or providing essential services to communities, to other categories.

David Swenson 18:18

Small retail is very vulnerable. I think there are going to be a lot of retail operations that were small, that are going to be looking for exit strategies. And I think you're going to see a lot of operations where people just simply walk away from them, because it's not even worth it trying to struggle. And then last, that I've been reading about lately, is perhaps malls might be in danger as well. Again, most of that because of a change in retail activity, as well as our propensity during this pandemic to buy a lot more

goods using Amazon and other online purchasing opportunities. So that was a lot of stuff there, but that's my big picture of broad industrial situations.

David Swenson 18:44

Well, you talking about those rural clinics closing, I've also heard around rural Iowa that a lot of rural hospitals may not make it, which would be a huge blow to our healthcare system and to our economy.

David Swenson 19:20

Yes, it is you can't, the two things are linked. The rural hospitals depend on rural physicians to be able to staff them. And those two things are linked. Yes, those rural hospitals are in trouble, rural hospitals because they haven't been able to provide regular services because you and I aren't going in for elective activities. And because of that, their revenues have collapsed. They've been protected some from the subsidies that we've, the disaster assistance that they've received from the federal government. It could very well be that they need more protections, or we're going to start losing them. And the same thing might be the case for these small clinics. But it is a big issue, and in a place like Iowa that really depends on its rural acute care hospitals and clinics, it's a big deal.

Steve Adams, host 20:10

Well, and also you touched on this as well, I just kind of want to revisit it. Several of the experts in the in the field of renewable fuels have told me that in Iowa, we could lose as many as half of the ethanol plants in the state. Do you share that belief as well?

David Swenson 20:28

Yeah, I don't. I don't share that belief, and here's why. I look at the weekly production of ethanol that's collected by the, it's information collected by the Energy Information Agency. The first thing we know about ethanol production is, nobody can produce it as efficiently as we can in Iowa. Nobody else is competitive, as competitive as we are in Iowa. And the industry looks like it is now producing at about 85% of what it was prior to the pandemic. So it's recovered substantially. So I just don't look at those numbers and then assume that we're going to lose half of our ethanol plants. I think maybe we can lose a few of our ethanol plants. Some of the older, less efficient plants might be in jeopardy. But I think that the idea that we're going to lose half of them is an overstatement.

Steve Adams, host 21:24

Okay, appreciate that. Well, with all this really cheery news here, Dave, are there any industries or businesses in Iowa that are actually thriving during this pandemic?

David Swenson 21:35

Yeah, you're asking a lot out of businesses to survive during a pandemic. Nationally, we have some technology and pharmaceutical R&D firms that are doing well, firms that make medical supplies like, you know, 3M up in Minnesota, things that are in high demand. They're, you know, they're working double and triple shifts. Firms that provide technical services to remote education, to commerce into homes, those are businesses. Those aren't Iowa's strengths. None of those are Iowa's strengths. And then also because of the boosted online shopping, broadly, the transportation industry has improved. Well to a degree, that fits with Iowa.

David Swenson 22:18

Again, as you and I procure more of our household goods or other types of goods using online shopping, somebody's got to deliver that. There's been an increase in employment in that kind of delivery transportation. But there isn't any other sector that stands out in Iowa that is specifically either prospering as a result of the pandemic or prospering necessarily despite the pandemic. We're almost,

we're like most of the rest of the United States. Most of us, most of our industrial sectors have just had to cut back and our output has gone down.

Steve Adams, host 23:01

Well, it's been said that the International Monetary Fund or IMF is predicting that US gross domestic product, otherwise known as GDP, is going to contract by 8%. Where do you see Iowa's GDP finishing in relation to that national figure, and what will that mean to the lives of an average Iowan?

David Swenson 23:24

Yeah, that's a good question. You know, I'm gonna look at this at the national level and then look at my crystal ball and say what I think is going to happen in Iowa. And where I'm going to go is, the nonpartisan Congressional Budget Office provides periodic estimates of what the economic forecast is going to be for the United States. Now they expect real GDP this year...real means it's been adjusted for inflation...real GDP to drop by 5.8% this year compared to last year. So 2020 is going to be down 5.8%.

David Swenson 24:05

Next year, they're projecting a recovery of 4% for all of 2021. So that means an inflation-adjusted GDP growth will not be above 2019 levels until sometime maybe in the first or second quarter of 2022. So what does that mean for us, so that means we still have a year and a half or maybe two years before our economy climbs back out in terms of GDP levels. Now I can I can give you a little perspective on that. When we went into the Great Recession beginning in 2008, but really accelerating down through the rest of that year into 2009, we did not reacquire our level of employment in the state of Iowa until April of 2013. So it was a four-year cycle before we recovered that employment.

David Swenson 25:01

Well, recovering our real GDP is going to take quite a while nationally, and it's probably going to take quite a while for us here in Iowa. I think that because Iowa, again, big fractions of its GDP are generated by manufactured goods and by agricultural activity, it's going to depend on how well those sectors are able to weather this recession. We have other strong GDP-generating sectors like the financial sector. Those too, we're just going to have to wait and watch and see how they do. I don't expect Iowa's GDP to recover much sooner than the national GDP. I don't think we're going to contract as much as the nation did this year, and I don't think we're going to have to claw back as much over 2021 into 2022. But nonetheless, I'm not expecting real GDP and Iowa to be at the 2019 levels until sometime in late 2021 or 2022.

Steve Adams, host 26:10

So based on that, that sounds like, you know, optimistic economists out there believe that if we found a vaccine tomorrow, the US economy would just skyrocket back to its previous position as if there were nothing structurally wrong with the economy prior to the pandemic. You see it that way?

David Swenson 26:29

Yeah. Boy, wouldn't that be great? No, Steve, that's pie in the sky thinking and, and/or whistling past the graveyard, figuratively and literally. First of all, if a vaccine were readily available, the logistics of distributing that vaccine would take many months, if not years, according to health experts, to adequately inoculate the population such that we were able to stem the spread. It's not something that if you get the vaccine in a month or two we're okay. It's if you get the vaccine in nine months to 15 months, we're in much better shape, as I understand it.

David Swenson 27:10

And then second of all, and we've all read these things, there's a vocal subset of the population that has said that it doesn't want to get vaccinated. I'll leave that to somebody else to figure out. So again, as I

see it, a vaccine allows us to begin a process of healthy economic recovery within about a year after we've done a really good job of beginning inoculation. As to a sound economy, we need to think about this a little bit. How sound was our economy? What we found out was that our healthcare systems, some of our social insurance structures and our social safety nets—which are part of the economy, by the way—were inadequate. And so I believe there's going to be quite a bit of economic and policy restructuring that's going to have to happen during our recovery phase.

David Swenson 28:02

And then if I want to bring this down at the Iowa level, our economy had flatlined prior to this pandemic. We had not grown for the previous six months. We have just had the, we just really had a bad stretch of nothing going on in our economy. And so, you know, it was because Iowa's economy just simply wasn't expanding, even though the national economy was. So we were losing ground, and some of that was because of the trade wars. Some of that was because of the effect on the ag economy. Some of that was reduced manufacturing exports as a consequence of trade tensions.

David Swenson 28:43

So we had a lot of stuff going on that weakened our economy as we went into this recession. It's hard to guess how our recovery is going to offset some of those original weaknesses. But if we don't have trade tensions in a year or two, and if trade activity around the world is normalized over the next year or two, then we have a reasonably good shot at a reasonably good recovery.

Steve Adams, host 29:12

Well, Dave, we try to gear these programs towards Iowa small business owners and provide them with hopefully helpful insights into how to survive in this era of COVID-19. Is there any advice you would give to an Iowa small business owner today?

David Swenson 29:29

Oh, good Lord. I would tell them to take advantage of whatever public assistance they can lay their hands on. Of course to not run up any kind of debt, to hang in there and hope for the best. But you know what, it is a great big wildcard. And it's clear to us that a lot of small businesses just simply aren't going to have the reserves or the wherewithal to weather this without either access to operating capital, or access to public assistance, or access to maybe technical assistance from government organizations.

David Swenson 30:10

And so in terms of, you know, I can't tell anybody anything that says, if you do this, you're going to be better off, other than don't be stupid. But that applies to all of us in all affairs. So the short answer is, everybody's in the same boat. Smaller businesses, I believe, are in a much worse, more leaky boat than some of the larger businesses, because they don't have as much access, again, to capital, to resources, lower reserves are more likely.

David Swenson 30:43

Again, though, some of the small businesses may be owned outright, that they don't have that many employees. It could very well be that a good fraction of them can go dormant for a period of time and still bounce back. You know, we don't know, we just simply don't know. But we do know, and there's been early research that shows, that we're already seeing an acceleration of bankruptcies among generally small operations. And so if that's an indication of what to expect, I worry a lot about their prospects.

Steve Adams, host 31:18

Certainly understood. I know a lot of the advice that we pass out is to have six months in some kind of cash liquidity for any small business. But realistically, what, we're four months into this, that means they've only got 60 days if—and I mean, a big if—if they had that liquidity of a six months cash reserve.

David Swenson 31:40

Yep, that's exactly right. And you and I both know that the advice that we give to households and the advice that we give to businesses are appreciated, but oftentimes, they're not able, their people aren't able to, you know, follow through.

Steve Adams, host 31:56

Dave, this has been wonderful and I really want to thank you for joining us today and providing you with your very valuable insights, I might add. If someone was interested in contacting you for additional questions or reaching out to you, how might they do that?

David Swenson 32:12

Sure. The easiest way, because I have to work at home now, is just simply call me directly at 515-509-1429. That's the easiest way, and you can also contact me by email at dswenson@iastate.edu.

Steve Adams, host 32:37

Terrific Dave, and I look forward to reading more in the newspaper as you come up with these new numbers. So appreciate having you again, Dave, as our guest today. Well, if you have any questions about this Back to Business Iowa podcast, please feel free to contact me, Steve Adams, at stadams@iastate.edu. Again, thanks for listening.

Steve Adams, host 33:02

This podcast is a collaboration between Iowa State Extension and Outreach and the Small Business Development Centers of Iowa. We're always serving Iowans, hashtag strong Iowa. Let's get back to work Iowa. Our justice statement is as follows: this institution is an equal opportunity provider. For the full non-discrimination statement or accommodations inquiries, please go to www.extension.iastate.edu/diversity/ext. See y'all next time.

[music]