

## BACK TO BUSINESS IOWA PODCAST

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

### SEASON 1 | EPISODE 28: Midwest Economic Update with Dr. Ernie Goss

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**Description:** *Our guest for this episode is Dr. Ernie Goss, professor of economics at Creighton University, director of the Institute for Economic Inquiry, and director of the Goss Institute for Economic Research—a bipartisan think tank conducting business and economic research and providing innovative, practical recommendations that affect change and public policy. Dr. Goss provides his insights into the economic outlook in various sectors for the Midwest.*

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#### 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 00:55

I'm Steve Adams, field specialist three at Iowa State University Extension and Outreach, and again, part of the Community and Economic Development unit and your host for these podcasts. In this podcast we'll be discussing the economic outlook for the upper Midwest in light of the COVID-19 pandemic. Our very special guest today is Dr. Ernie Goss of Creighton University. Dr. Goss is the director of the Institute for Economic Inquiry, and a professor of economics at Creighton University Heider College of Business, where he holds the Jackie MacAllister Chair in Regional Economics.

#### Steve Adams, host 01:32

He's also director of the Goss Institute for Economic Research in Denver, Colorado, a bipartisan think tank conducting business and economic research and providing innovative practical recommendations that affect change and policy. Thank you for joining us today, Dr. Goss. And before we get too far into this interview, please tell me how you ended up with the moniker "mid-America's economist of choice."

#### Ernie Goss 01:59

You know, Steve, thanks for having me on and I'm very happy to be with you. And you said very special...I think it was my mother used to say, I was always very special. And she actually did not mean it. I thank you for having me, I'm glad to be a guest, special or otherwise. So the reason the mid-America is, it actually came from right there, a professor at Drake University who did the survey before I and he named it Mid-American survey, indicating it's right down the middle of the country, of course. It stretches from North Dakota and Minnesota in the north, right down the middle to Oklahoma and Arkansas in the south. Those are nine states. So surveying those nine states, and again, it came from him.

#### Ernie Goss 02:52



And then we have another survey that we're probably going to talk about today which is a survey of bank CEOs in rural areas of 10 states, which are mostly the same states, although for the mid-American region, we add Illinois in the east and Colorado and Wyoming in the west. So those are the states, it really accounts for areas of the country that are very dependent on agriculture and energy. So that's the focus of our surveys, at least that we've had over the past... we've done these surveys for many years. The Mid-American survey, we at Creighton University have been doing it since 1992. And the Rural Mainstreet survey, survey of bank CEOs, we've been doing since 2006.

**Steve Adams, host** 03:42

So some history there, obviously, and I do currently and frequently read your Omaha World Herald articles in the business section and I really, really find all of that extremely interesting. And I am familiar with the fact that you do primarily two different surveys in this region on a monthly basis, one again, like he said, is that Rural Mainstreet index and then that survey of bankers and CEOs on business conditions. How are those two surveys alike, and how are they different?

**Ernie Goss** 04:15

Well, they're lot alike Steve, in that they really focus on agriculture and energy. Now one's a survey of manufacturers as supply managers in manufacturing, and it's identical to the national survey in terms of questions. It just focuses on a different part of the country, and really focuses on agriculture and energy of manufacturers. And now they differ in the sense that the Rural Main Street survey is a survey of bank CEOs in rural areas, in rural areas only. The manufacturer survey is probably over-weighted toward urban areas, the rural Mainstreet survey is overweighted and in fact is all bankers in rural areas of the 10 states including Iowa. And these are, both surveys actually include Iowa.

**Ernie Goss** 05:05

And the bank CEOs are in communities, the average community size is 1300. So we don't think there are any bank CEOs in cities of more than say, 15,000 was probably the largest city in there. We did have Casper, Wyoming, a banker there, but that banker is no longer part of the survey.

**Steve Adams, host** 05:28

So what kind of metrics do bankers or purchasing managers use to make their determinations? Is it things like the delinquent loans bankruptcies, the amount of durable goods on hand or things that were either purchased or sold?

**Ernie Goss** 05:45

They differ, Steve, and the bank CEOs are really focusing on typically, factors that are real important to farmers and the farm economy. For example, farm loans, we'll also report on farmland prices, farm equipment sales. We focus on retail sales in rural areas, we focus on also housing in terms of housing sales in rural areas of the 10 states. And we also ask about the overall general economic outlook. And that's, again, that's the Rural Main Street survey.

**Ernie Goss** 06:23

The manufacturing survey focuses really on what manufacturers see, what they're seeing in terms of new orders, production, inventories, employment, and the economic outlook. So those are the factors primarily that the manufacturers are reporting on. And again, it is identical to the national survey, which comes out the first business day of every month. Now the Rural Mainstreet survey comes out on the third Thursday of every month, so we get a little different time timeframe there for each of those.

**Steve Adams, host** 07:00

Well and with the three week gap, obviously, it seems like the pandemic makes changes in our lives if not daily, hourly. So I'm sure there is some gap there. But I've noticed in your research over the years

that you use a plus 50 and a minus 50 to designate either growth or contraction. Could you explain to our listeners what this means and why is that important?

**Ernie Goss 07:24**

Well, these are called diffusion indices. I guess that's a fancy word that economists have come up with, but what it is, actually Steve, it goes from zero to 100. And all the indices range from zero to 100, and 50 is growth neutral. So below 50 is contraction, above 50 is expansion. Normally in the manufacturing survey, we look at an index below, say, 44 to tell are you in a recession and the answer is yes, we've been in a recession after the COVID-19. On the banker survey we hit the lowest level ever, and again, we've been doing this survey since 2006, back in back in March. The March number was very low, obviously, then the April number was likewise low, the May number improved a bit, and the June and July have improved a bit as well.

**Steve Adams, host 08:18**

Well, it really makes me want to ask, since the pandemic really kind of took a grip on the entire country, has this led to a sustained period of contraction in this region? I think you talked a little bit about that, and that we've had some bad months, but...

**Ernie Goss 08:34**

It has, Steve, and what's important, I think for the economy [unclear] to say Iowa, Nebraska, South Dakota, North Dakota, the states that depend—and Minnesota as well— states that depend heavily on agriculture and small manufacturing, is exports. In other words, we don't talk a lot about exports. We think we're sort of, that's not an important part of the economy, but for agriculture and for manufacturing, it could not be more important. And the pandemic has a huge dampening impact on the global economy. Thus exports have really, really come down significantly.

**Ernie Goss 09:17**

In fact for the US between April and March, we had the largest one-month decline since we began keeping those statistics in terms of exports. So that's holding the agricultural economy down, it's holding the manufacturing economy down, but more the farm economy than the manufacturing economy. But both, really, I would say not good at all and in recession. But the good point here, and that there is a silver lining, the negatives are getting less negative.

**Steve Adams, host 09:49**

Well I mean, you kind of touched on that, so you would say the trend lines are improving or are there still things that are pretty disturbing?

**Ernie Goss 09:57**

You know, they are improving, Steve, but here's the distressing part. I'm an economist. But everything has now become politicized. I mean, even the pandemic, even COVID-19 is now politicized. If you want the economy to be opened up, then you're on the Republican side. If you want the economy to be closed down, you're on the Democrat side. I'm on the side of the economy. And of course, I'm not competent to comment on on the medical side, and I'll leave that to the medical experts. But right now we need the economy opened up. And that's very important to agriculture and manufacturing, the two sectors we survey. And we need to see that happen globally. But unfortunately, again, politics is now championing or beating economics, and that's unfortunate in my judgment.

**Steve Adams, host 10:47**

Yeah, I would agree too that the virus is kind of making decisions for us that we really don't have any control over. So as you look at the states you survey, are there some states that are doing better than others as far as growth or at least sustaining their economies and who are they?

**Ernie Goss** 11:05

Better than the others, I would say not worse. How's that? That would be Nebraska and South Dakota's numbers are somewhat better. Iowa's not as good, Minnesota, not nearly as good. And I think for those two states, and North Dakota not as good. And what we're seeing in there is a lot to do with ethanol. Ethanol is the three states with the highest proportion of ethanol production in the US are Iowa, Nebraska, and Minnesota, and ethanol has been taking it on the chin. So if you're looking for economic indicators, and that's what a lot of folks are out there, I would look at our surveys, but also keep an eye on oil prices and fuel prices. Fuel prices have begun to trend a move upward. And normally we think that is a bad sign. No, no, that's a good signal right now. That'll be a good signal for ethanol. Ethanol if we see higher fuel prices, and we see corn prices continuing to be low by historical standards that would be good for ethanol, of course it's not good for the grain farmer.

**Steve Adams, host** 12:13

Well, so some business pundits I've noticed are predicting a V shaped economic recovery, some even saying this is going to happen relatively quickly. Do you share in that optimism, Dr. Goss?

**Ernie Goss** 12:25

No, I do not Steve. I did early on, I saw the stimulus package coming out of Congress and the stimulus package, if you want to call it that, coming out of the Federal Reserve. Records, we've never seen stimuli like this, \$3 to \$4 trillion from the federal government. Three to \$4 trillion from the Federal Reserve. I thought there'd be a V shaped recovery, it's not, it's becoming now hopefully a U, but I'm thinking more like a checkmark. In other words, a sharp downturn we've experienced, and a slow recovery, and I've caught some, I don't mean to infringe on anybody's trademark, but a Nike swoosh, how about that, or a checkmark.

**Steve Adams, host** 13:07

Well, you touched on this a little bit earlier, I want to go a little deeper into the dive here. You talked about our exports and how important that was to our small manufacturers and our grain farmers, etc. But how does our regional economy impact the nation and the world? And how is the inverse of that maybe true as well?

**Ernie Goss** 13:29

I think it's certainly, in terms of how they relate, I think this part of the country usually is a lagging indicator. In other words, the recession hits the US and typically we'll see that affect the midsection of the country, and then mid-American reach the rural Mainstreet economy. In this case, they happened simultaneously—both hit negatively. And we're seeing that interestingly, Steve, this is a different recession than what we had in 2008-9. This one is led by the consumer. In other words, the downturn in leisure and hospitality, and that spilled over into the broader economy.

**Ernie Goss** 14:09

Manufacturing actually is holding up a bit better than anything connected to the consumer. And that will of course be retail sales in these rural communities, where retail, the retailer is taking it on the chin economically speaking, right now. But typically, I think in this case they're moving right together. But importantly, this part of the country, even though exports may not be the largest share, a larger share of the economy, it's a volatile part of the economy, and it has more of an impact. So typically, I would argue that right now, because of the importance of exports to this part of the country, that's having more of an impact for this part of the country than the rest of the nation.

**Steve Adams, host** 14:54

I remember one time Dr. Goss, listening to an interview with former Fed chair Bernanke when he said that a lot of times the economy is driven by people's feelings or the consumers' feelings, or their faith or lack of in the economy. Would you agree some of that's playing into this as well?

**Ernie Goss** 15:12

Absolutely, Steve, we're talking about what, let me give you an economic term for you—velocity. That's how fast we turn over the dollars, consumers turn over the dollars that we receive. And even though we had an injection of \$3 to \$4 trillion from the federal government, we didn't spend it, we haven't spent it. In fact, our savings rate, took a record jump in the past few months. So the fact is that we're not spending, and why is that? Because in many cases, you're reluctant to go out to restaurants, we're reluctant to go out to the retailers. We're holding back, we're in fact locked down in our houses or homes. And that's having an impact. Now why are we there, because of the fear. So this fear that is gripping the nation, gripping the region, gripping the globe for that matter, is having a huge impact.

**Ernie Goss** 16:07

So until we see those fears come out of the consumer, come out of business leaders, come out of politicians, we're probably going to see a slow-growth economy and so back to the which one is it going to be, a V shaped, U shaped, or W, or a checkmark, I'm with a checkmark, a slow recovery. And we will recover as we see fewer and fewer, as we see more and more consumers and businesses willing to go out there and get back in the economy.

**Steve Adams, host** 16:40

Wondering about the stock market, too. We've had some obvious roller coaster trends in 2020. But it also seems to have sustained some level of stability and I can't explain that. Do you see a reason behind that?

**Ernie Goss** 16:53

Oh, yeah, it's, I laugh. It is somewhat, it is amusing for several reasons. One is because where are you going to put your money right now? Are you going to buy ag land? Ag land has been coming down in price, not as much as ag income, of course. Where are you going to put those savings? Well, you're putting them in treasury bonds, US Treasury bonds, and there's an important indicator to keep an eye on again, your US Treasury bond. That's a fear gauge. As we get scared, we move into those bonds. Well, right now you're earning six tenths of 1%, and adjusted for inflation that's negative. So the fact is that you're putting your money in the stock market, because you're earning, at least getting a dividend on at least some stocks. That's one reason.

**Ernie Goss** 17:36

Secondly, the stock market's being driven by just a few companies now, a few meaning 10 to 20 to 30, for example, Apple, Facebook, other large cap technology companies, Microsoft. Amazon, for example, is having a huge impact on the overall market because it's this cap related in some cases, meaning larger companies have more of an impact on the indices, that would be the Dow Jones, that would be the S&P, that would be the NASDAQ, and all of them are being driven by these few companies. So if you drill down, a lot of companies' stock prices are still not where we'd like to see them and certainly not back to pre COVID-19 levels.

**Steve Adams, host** 18:19

Yeah, I've just always heard over the years to that as the market goes down, the price of precious metals goes up, but it seems like again, the inverse has been true. If the market goes up, gold goes up, silver goes up. Market goes down, they go down. I have no explanation behind that either. Is there something you know that I don't?

**Ernie Goss 18:39**

Well, I don't say something I know that you don't, we all, I think it's being driven by a lot of fear. In other words, the fear is out there, where you're going to put your money? Now the fear gauge would be putting your money in bonds and that drives the price up and the yields down. Also fear has been driving metal prices, silver and gold have been trending up. I own a stock, Newmont Mining, that's been driven up fairly significantly, not as much as gold. And likewise, I won't say fear in terms of the stock market, that's being driven by where else you gonna put your money. That's, and it's still some real risk out there, Steve. I'm, I have to say, I hold more cash at least percentage wise, I don't have a lot of cash in absolute terms, but relative terms, I'm holding a lot of cash. And I'm waiting on things to get sorted out. Now I'll miss some good bargains out there. But I also won't engage in some of the huge losses some individuals are taking on the chin right now.

**Steve Adams, host 19:47**

Well, yeah, that's a good point. You sound more like a realist than anything else. Dr. Goss, so I'm not going to take offense at anything about that for sure. If you're looking back on the recession of 2008 and then looking at today in 2020, do you see similarities or differences to the economic climate today?

**Ernie Goss 20:10**

Oh, significant differences. The differences are, this downturn is much deeper. This is the largest downturn we've experienced in this short period of time since the 1918 pandemic, largest one in terms of recorded economic history beginning in 1930, with the Great Depression. So it's been a sharp downturn. Now the last recession, that's 2008-9, lasted 18 months. This one is likely to last less, but it still in my judgment gonna last into 2021. But again, that a lot of it is out of our hands and it's up to the virus and in God's hands, so we'll see what happens there.

**Ernie Goss 20:54**

But the other the recession of 2008-9 was driven by the financials. In other words, hyper prices, price increases in housing and some really really bad practices by some in the financial area sending off these bad packages of debt that were no good. So that was that one. This one's again in leisure and hospitality, driven by just consumers not willing to fly. And as you and I are talking today I'm in Atlanta, I've been flying and I my job requires me to draw to fly. I don't do it with joy, but I am traveling. But the airlines have cut back, just a lot, a lot of concern out there. So this one is in the hands of the consumer. The other one, the last recession, was in the hands of the financial industry.

**Steve Adams, host 21:56**

And that's why we saw things like Dodd-Frank too. Back to a previous comment you made in regards to paying on your cash. My financial advisor once said to me, he said it's not about being right, it's about not being wrong. Do you agree with that statement?

**Ernie Goss 22:15**

Oh, absolutely. And a lot of it depends Steve on one's age. In other words, people say, well, the market will always come back, and it will come back certainly for my daughter. She's, her window of looking at the stock market or investments is much longer than mine. Now, if you're in the market, the last time the market took about five to six to seven years, depending on which index you're in, to rebound, to get back to pre-recession levels. So if you're going to take your money, if you have to take your money out, you don't want to be taking it out during an economic downturn. So that's the real challenge. That's the challenge for those who are baby boomers as I am, those who were born between 1946 and 1964. So we just have to watch our investments more carefully, because we may, again, you don't want to be taking these, taking out distributions when the market's down.

**Steve Adams, host 23:10**

Well, that's interesting too, because I remember in 2008, I lost half of my retirement portfolio. And as you put it very succinctly, I don't think I got back to where I was in 2008 until 2015. So.

**Ernie Goss 23:26**

Right. And then, you know, Steve, there is this required minimum distribution for individuals over 70 and a half. Now, that's been changed. You don't have to take a distribution this year. But nonetheless, you begin having to take distributions even if you don't wish to, and what happens of course, you're having to sell stock during an economic downturn. Now, as you said though, Steve, the market right now is doing reasonably well. Particularly if you look at large cap tech companies. Twitter today is doing fabulously well in terms of prices today. Facebook's held up reasonably good, Microsoft and others.

**Steve Adams, host 24:06**

Well, since you are also a public policy debate advocate, what are some of the suggestions you would make for shaping public policy on economic recovery? And I mean, at the city, the county and maybe even the national level?

**Ernie Goss 24:21**

Well, I don't mean to be putting a wet blanket on some of the programs, but one of them that's folly if it's renewed is the \$600 of federal support for those who are unemployed, which, in other words, there are lots of folks out there that are making more money being unemployed than they were making while they were at work. Now, so I've heard some people say, Well, I don't believe that has an impact. Now what world are you living in? That I mean, men and women are, we respond to incentives, and if you incentivize somebody to remain unemployed, they will remain unemployed. And now not everybody, of course, but that. So we need to abandon that program. We need to have programs that focus to be stimulus programs I'm speaking of.

**Ernie Goss 25:11**

The next one that's going to come about, and they're wrestling now, will it be 1 trillion or 2 or 3 trillion? I'm not worrying, well, I do worry about the number what we need to worry about is, what are the incentives we need to do? We need to spend in areas that are productivity enhancing. Now what are those? Infrastructure, our ports, our railroads, our roads, our airports there, we're now I'm not talking about the Obama shovel ready projects. That was a pure waste, well, not a pure waste, but it was a big waste of funds back in 2008, 09 and 10. We need to put the funds to work right away that would enhance productivity. Now, unfortunately, Congress is not oriented toward productivity. They're more short-term in nature. They want to see something that gets in people's pockets right away. Well, it's getting in their pockets right now, the stimulus funds, and they're not spending. That's the problem, it's not having the impact, the desired impacted they were hoping for.

**Steve Adams, host 26:13**

Well, it's interesting. I think this discussion on infrastructure has been going on, in my estimation, for at least the last decade. I don't know why we can't pull the trigger on that, and make a significant move in that direction.

**Ernie Goss 26:26**

That one, Steve, is because these are not sexy. They don't show up right away. In other words, proper sewage control, proper....the railroads, the ports, for example, getting grain down the Mississippi River. How about that? How about selling liquefied natural gas in some of the ports, the LNG, liquefied natural gas. Most of our ports cannot accommodate liquefied natural gas and we're producing it at significant levels right now and we need to be exporting that. So there is some money that could be spent. Again, it doesn't show up very as quickly as politicians wish for it to.

**Steve Adams, host 27:12**

Well, to wrap this up a little bit, I know as an economist that your role is much different than that of a meteorologist. But if you were to give our listeners a sense of the short and long term forecast for this regional economy, what would it be Dr. Goss?

**Ernie Goss 27:27**

Short term, challenging, Steve, it's going to be continue to be challenging. Keep an eye on the 10 year Treasury, look at some of these, I would say our reports are reasonably good measures of what's going on in the short term. But the long term is what, again, it's challenging in the short term. Long term, you couldn't live in a better nation, a better part of a better nation than any on the globe. By that I mean we're focused on what matters to people's lives and they need, and that's the energy and food. And we that's this part of the country produces it, the rest of the world needs it. We can be competitive.

**Ernie Goss 28:08**

What we've seen, unfortunately, is a lot of politicians wishing to erect barriers to trade, and we get retaliation and where is the first retaliation? In food. Where's another retaliation, it is in energy and manufacturing of course. And so, what we need to see is less politics in the trade picture and let the agriculture compete. Agriculture can compete, will compete, and long term again, you couldn't be in a better part of a nation, and this nation is going to do well. Unfortunately, I see lots of warning signals out there in terms of a electorate wanting bailouts and they're wanting their ... I see, unfortunately, people are saying the market economy doesn't work. Well tell me what works better? The market economy does work. Do you want Venezuela? No. I mean, in other words, we will rebound from this. And we're going to rebound better than other nations rebound, those that are less market based. The markets, markets work.

**Steve Adams, host 29:20**

Appreciate your optimism on the long term and I couldn't agree with you more. This is one of the greatest places in the world in my opinion, and I've traveled extensively and I'm always happy to get back to Iowa. So it has been our very special pleasure today to have Dr. Ernie Goss of Creighton University and providing us with all these wonderful economic insights. If someone was interested in contacting me for additional questions Dr. Goss, how might they reach you?

**Ernie Goss 29:47**

Well, they can sign up for my newsletter which is free and well worth the price. No advertising either, Gossandassociates.com, that's one word, Gossandassociates.com. They can also email me at ErnieG@creighton.edu and they can call me at 402-280-4757. Again I do a good bit of traveling but I am like everybody else. You can travel wherever you want, but you're still wired to, I am wired to Omaha, Nebraska.

**Steve Adams, host 30:20**

Well, I want you to pass along my special thanks to your assistant, Cindy, which she just was very, very helpful. And I appreciate that so much so.

**Ernie Goss 30:30**

Well, thanks for having me on. And Cindy, thanks you as well. We, and it's been a joy. It's been great to be on with you, Steve.

**Steve Adams, host 30:38**

Well, you can also find many of Dr. Goss's articles on the Omaha World Herald website which is pretty simple—it's [www.omaha.com](http://www.omaha.com). I don't know what they paid for that domain name but you can find it

there, again at [www.omaha.com](http://www.omaha.com). Well, if you have any questions about this Back to Business Iowa podcast, please feel free to contact me, Steve Adams, and I can be reached at [StAdams@iastate.edu](mailto:StAdams@iastate.edu). And hey, thanks again for listening.

**Steve Adams, host 31:10**

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