The progress of the covid-19 labor, retail, and property markets in Iowa

Peter F. Orazem
University Professor of Economics, and
Director, Program for the Study of Midwest Markets and Entrepreneurship

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After the initial round of economic closings starting with the March 20, 2020 shelter-in-place rule issued in California, the United States experienced a sudden surge in employment loss. As shown in Table 1, in Iowa, Ames experienced the largest initial drop in employment of all the metro areas, losing 17.6% of its jobs in April. Compared to the state (-12.2%) and the nation (-12.9%), the job loss in Ames was shocking. However, a disproportionate share of that job loss was in state government and the loss was close to the annual job loss we experience every year as we move from spring to summer terms at ISU.

Sure enough, the June number have come in and Ames now has the smallest job loss in the state at -3% below the level in June 2019. The second smallest job loss is in Iowa City (-3.6%). But the whole state made substantial progress relative to the initial job loss in the first month of shutdowns. Iowa went from -12.2% to -7.5% as it gradually relaxed the restrictions on nonessential economic activity. The U.S. also made progress from an initial job loss of -12.9% to -8.7%. Most of the job recovery in Iowa and in the U.S. has been in the private sector.

The promising resurgence of the private sector should have driven a quick recovery. Unfortunately, the drawback from opening has been the resurgence of the virus. The new cases have been concentrated among the young. This was expected as the working age population would be exposed to greater risk at work as firms reopened. But the disappointing outcome has been the spread of the disease due to individuals taking on unnecessary risks. A disproportionate share of the disease spread has been large group events that are still restricted in most states. Failure to maintain the simple rules of distance, handwashing and wearing masks has put the recovery at risk of another round of shutdowns.

This experience raises serious concerns for reopening the large state universities in August. Iowa State, Iowa, and UNI all hope to have students on campus. Returning to class requires strict adherence to safety restrictions. If students and staff do not comply, or if the safety restrictions prove inadequate, the return to class will fail and these cities will have another large employment loss.

The employment loss and pace of recovery differ dramatically (Table 2). In Iowa, Construction, Health Care and Government jobs have been hit harder than in the U.S. On the positive side, manufacturing, particularly nondurable manufacturing, gained jobs in Iowa while losing 5% of the jobs nationally. The Iowa advantage is particularly noticeable in Food Processing.

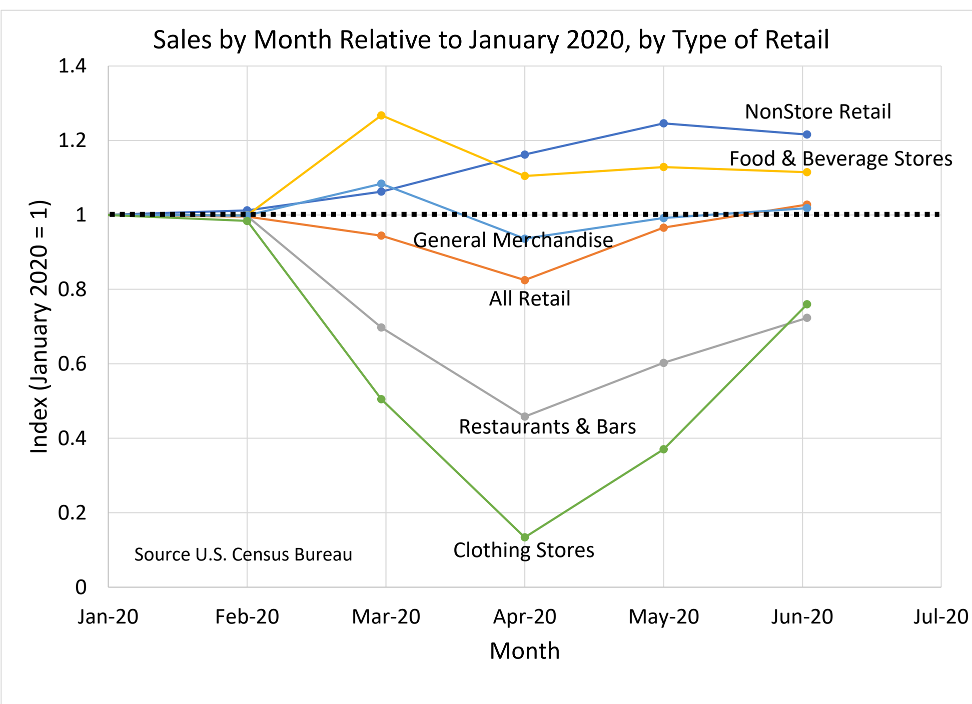
Retail jobs have recovered faster in Iowa (-1.7%) than nationally (-7.7%) because of strength in Iowa's food, beverage, and general merchandise stores. However, bricks and mortar retail has been hit particularly hard compared to other types of retail, a topic I will discuss more completely in the next section.

The largest job loss has been in the leisure and hospitality industry (restaurants, bars, hotels, entertainment venues) where the jobs recovered very slowly. Despite being allowed to reopen, restaurant bookings are still down 62% from the pre-pandemic norm. The Bloomberg Consumer Comfort Index is 34% below its pre-pandemic levels. It is difficult for restaurants and bars to maintain social distancing and consumers are not anxious to risk acquiring the disease in order to eat at full-service establishments. The loss of over a quarter of the jobs in leisure and hospitality since June 2019 represents a recovery of about half the jobs lost in the first month. It may not get much better until customers feel safe going into bars, restaurants, casinos, and other entertainment venues.

The Winners and Losers in Retail, Leisure and Hospitality

Retail sales for 2020 are up 1.5% over last year, but the aggregate record hides a huge shift in market shares across retailers. Covid-19 has changed the revenue stream for competitors, forcing firms to change their business models. The restaurant business is a prime example. As shown in Figure 1, Sales at Restaurants and Bars fell 60% in April compared to February. But that aggregate drop masks a great realignment of sales among the establishments. Sales at food and beverage stores (Hy-Vee, Fareway, Liquor stores) are up 12% as they replaced the lost business at restaurants and bars. Among the restaurants, those that deliver have gained business, replacing the lost patronage at sit-down restaurants. To put this in perspective, the S&P500 Index is down -1.3% for the year as of July 24, 2020. Chipotle stock is up 30.6% and Domino's is up 31.3%. McDonald's (-0.7%) and Wendy's (+5%) that offer drive up service are holding their own. Bookings at sit-down restaurants are down 62%, even after many states allowed them to reopen.

Figure 1: Retail Sales by Type of Seller, January-June 2020



It is hard to believe restaurants that rely on in-premises sales will be able to survive a long pandemic whether they are shut down by the government or by abandonment by customers. When cold weather hits and outdoor service ends, sales will suffer. Sit-down restaurants must enter the delivery or pick-up business to weather the storm.

Even the restaurants that have reopened face the uncertainty of potential resumption of the mandated shutdowns as the virus has reemerged. It is expensive to shut down and it is expensive to reopen. The uncertainty will make it harder for firms to get operating loans and many will fail.

Bricks and mortar retail establishments were already pressured by online sales. Since 2010, the market share of nonstore retailers had risen from 8.8% to 14.7%. Online sales surged to 20.7% of all sales in April and are still unusually high as of June with a 17.3% market share. Amazon's stock price is up 58% for the year. General merchandizers (Walmart, Target) surged initially due in part to panic buying of staples, but by June, sales are only 2.5% higher than in June 2019. Meanwhile, specialty retailers have been hammered by the initial shutdowns as many were designated as nonessential, and then by the fall off from nervous customers preferring to buy online. Clothing stores lost 85% of their monthly business in April and were still 20% below their February sales by the end of June.

Figure 2: Retail Bankruptcies in 2020

Source: Source: Wall Street Journal July 23, 2020

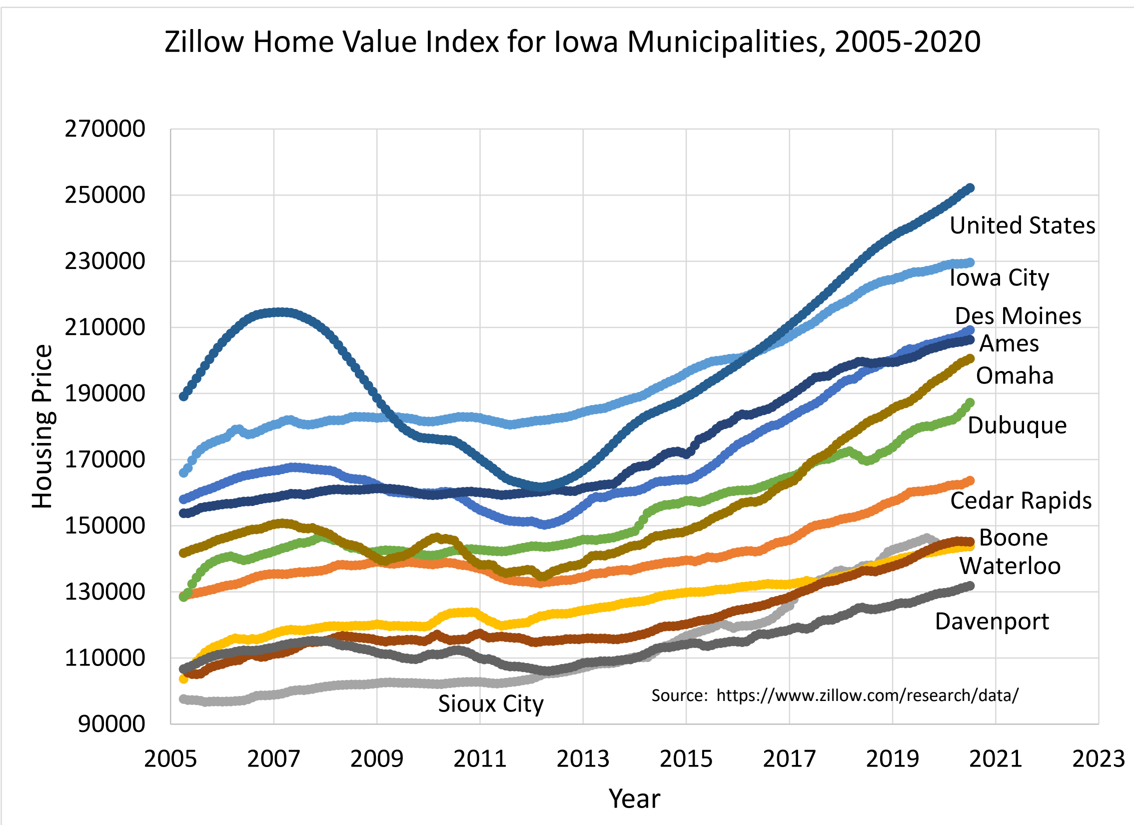
The lost sales contributed to a rash of large bankruptcies announced in the first half of 2020. Firms that entered the pandemic recession with a weak financial position were ill-equipped to absorb the lost sales. This is only the tip of the iceberg.

The massive federal stimulus package of $3 trillion, twice the size of the expected drop in GDP, has actually kept many businesses and households afloat. Bankruptcy filings are down 23% compared to 2019. As the federal covid-19 Paycheck Protection Program funds run out, the number of establishments shutting down will accelerate unless additional relief packages are offered. In 2019, a record 9,821 retail stores closed. Coresight Research predicts 25 thousand stores will close in 2020.[1]

Property Values

In Figure 3, I illustrate what happened to average house value in several municipal markets in Iowa, carrying the numbers back far enough to illustrate what happened in the Great Recession. I provide the U.S. average for context.

Figure 3: Home Values in Iowa Metropolitan Markets and the United States, 2005-2020



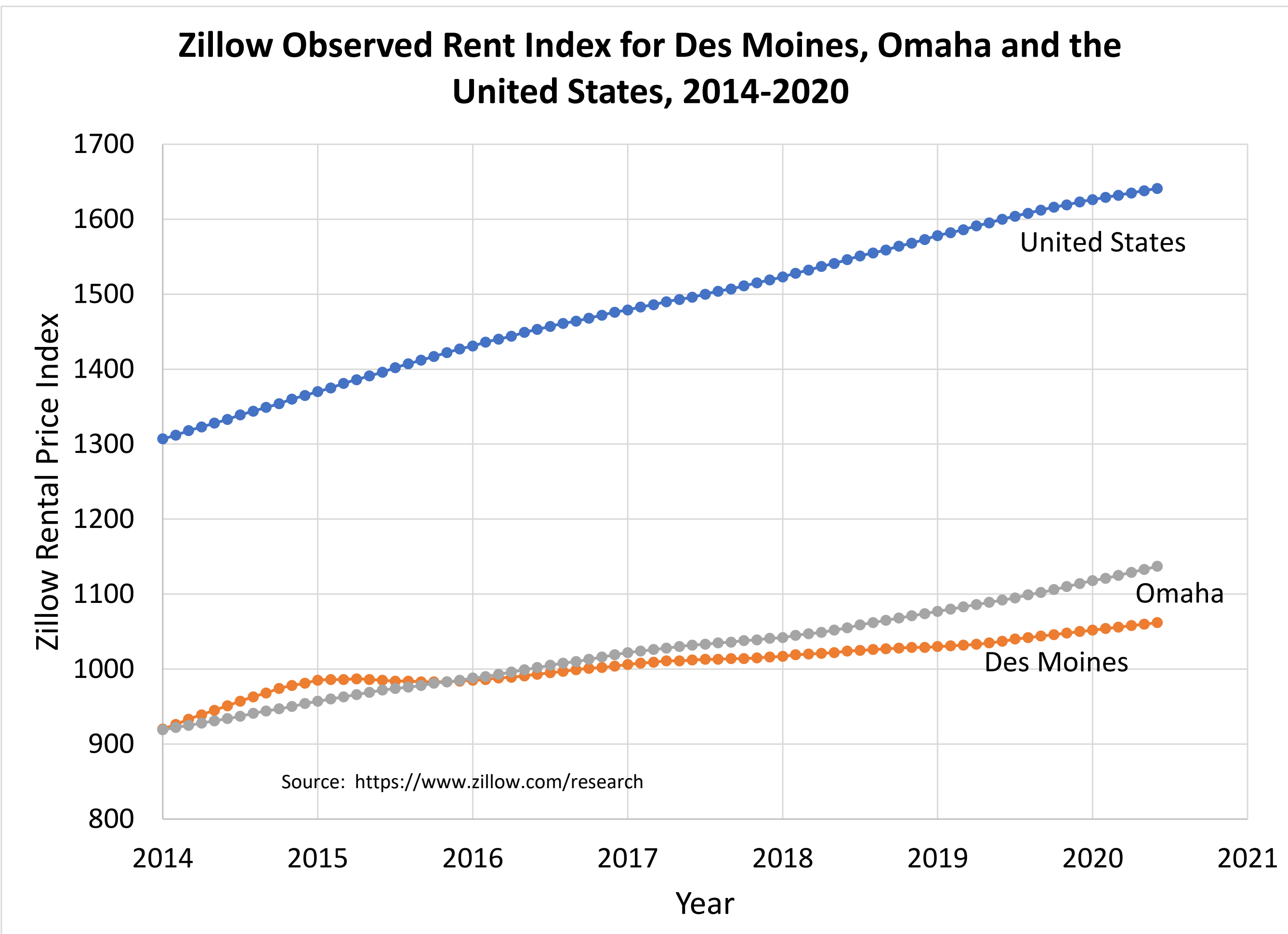
Iowa housing values were not affected much by the last recession. Other markets in the U.S. had experienced a boom in housing prices, and so the bust represented a considerable market

[1] Cited by CNN Business, June 9, 2020.

correction. The Boom-to-Bust price decline in the U.S. was a loss of asset value of 24.6%. In Iowa, the largest price declines were in Des Moines, the Quad Cites, and Omaha-Council Bluffs with housing price declines of less than 10%. The other Iowa housing markets were unaffected. Since 2012, every Iowa housing market has experienced appreciating values. As of June, housing prices, as measured by Zillow, have not yet experienced a turnaround. The slowdown in new construction has contributed to relatively low inventories of available housing, helping to moderate any downward pressure on prices.

The Zillow rental series for smaller metropolitan areas was not available and so I can only report for the largest metropolitan markets. As with housing values, there is no apparent reduction in rental prices yet. Nationally, rental prices are up 2.9% over June 2019, the smallest increase in 5 years but an increase nevertheless.

Figure 4: Rental Price Index for the United States and Large Iowa Metropolitan Areas, 2014 - 2020



Rental prices in Des Moines and Omaha-Council Bluffs have been rising more slowly than rental prices in the U.S. as a whole, but the appreciation rate has not changed through the first 4 months of the pandemic.[2]

The news for commercial property is not as good. Commercial property is being hit on both the retail and office sides. The decline in bricks and mortar retail sales were discussed above. Office space is falling in demand as workers have been working from home. Whether the latter effect turns into a permanent decline in demand remains to be seen, but the drop in demand for retail space will persist.

Figure 5: Commercial Property Values in the United States, 2005-2020

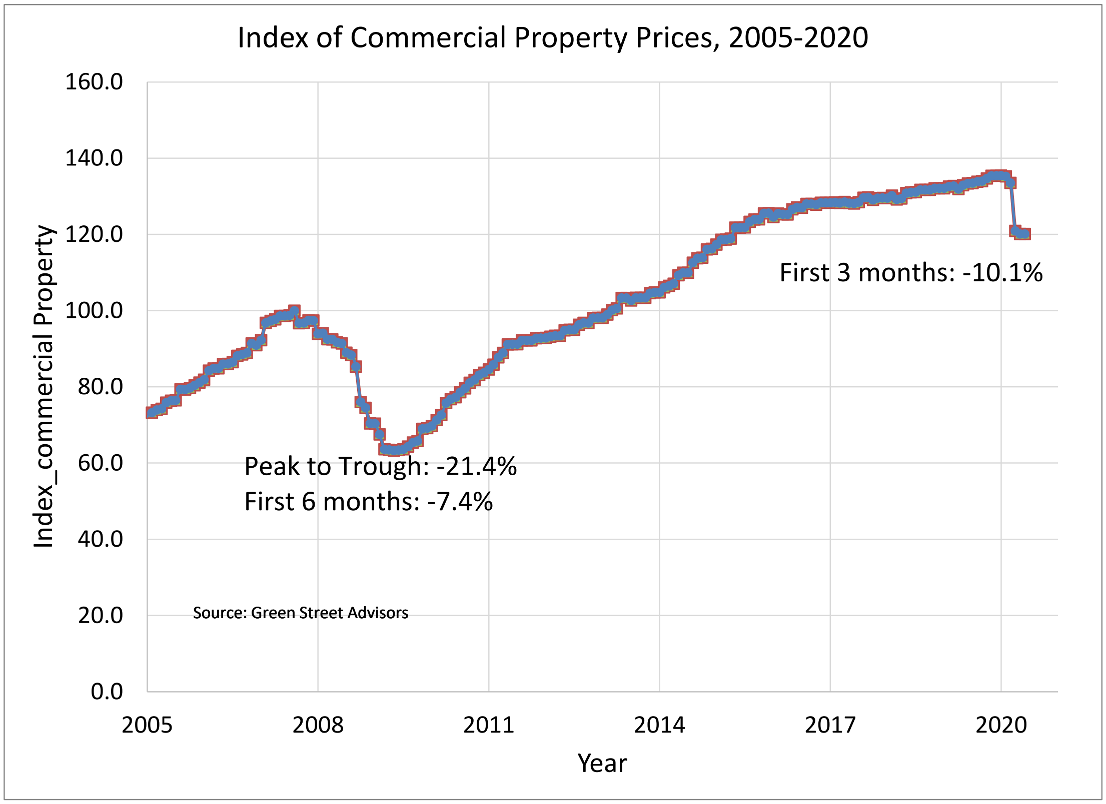


Figure 5 shows the pattern including the Great Recession for context. In the first 3 months of the pandemic, commercial property prices have fallen 10.1% in value. In the Great Recession, it took 12 months for commercia property values to fall 10%. They ultimately fell 21.4% and did not recover their precession values for 6 years. Unless office space use returns to its pre-pandemic levels, commercial property is likely to have a protracted shortfall in demand.

Many small businesses will be having trouble making payments on rented space. However, Commercial property landlords will not have many firms seeking space for at least one year or longer if the pandemic persists. This may be a time to offer forbearance to existing clients who

[2] I asked Zillow to provide their small market series. If that request comes through, I will update this report with that information as an addendum. I suspect that the college towns will have more downward pressure on rental prices.

are facing temporary loss of business during the pandemic but who have reasonable prospects of regaining their profitability when the recovery begins. Firms that make it through the current trials will enter the recovery with a motivated customer base eager to regain old consumption patterns including food away from home, recreational shopping, and entertainment, and they will have many fewer competitors due to the shakeout of bankrupt rivals.

Table 1: Annual employment loss in Iowa metropolitan areas, the state of Iowa, and the United States, 2020

Employment growth from April 2019 to April 2020, by Iowa Metropolitan area						
City	Total		Private		Government	
	April19-April20	June19-June20	April19-April20	June19-June20	April19-April20	June19-June20
Ames	-17.6%	-3.02%	-12.1%	-2.81%	-25.3%	-3.41%
Cedar Rapids	-10.8%	-7.81%	-12.0%	-7.65%	-1.8%	-9.15%
Davenport, Rock Island, Moline	-11.4%	-6.55%	-11.8%	-6.00%	-8.7%	-10.30%
Des Moines	-9.5%	-7.89%	-10.1%	-7.95%	-5.3%	-9.15%
Dubuque	-15.4%	-8.40%	-16.2%	-8.91%	-6.1%	-2.17%
Iowa City	-12.0%	-3.60%	-15.6%	-4.06%	-6.5%	-2.86%
Omaha-Council Bluffs	-8.7%	-5.53%	-9.8%	-5.56%	-1.8%	5.36%
Sioux City	-10.0%	-5.50%	-8.5%	-4.10%	-20.6%	-15.45%
Waterloo/Cedar Falls	-10.2%	-5.42%	-9.2%	-4.78%	-15.0%	-9.23%
Iowa	-12.2%	-7.48%	-12.9%	-7.37%	-8.7%	-8.03%
United States	-12.90%	-8.72%	-14.50%	-9.22%	-3.60%	-5.82%
Source: U.S. Bureau of Labor Statistics						

Employment Change by Industry from June 2019 to June 2020, Iowa and the United States				
	Iowa		United States	
	Employment Share	Employment Change	Employment Share	Employment Change
Total Nonfarm	1.000	-7.48%	1.000	-8.72%
Total Private	0.839	-7.37%	0.839	-9.22%
Construction	0.051	-10.60%	0.050	-4.42%
Manufacturing	0.149	-3.67%	0.088	-5.83%
Durable Goods	0.084	-6.41%	0.055	-6.17%
Non-Durable Goods	0.065	0.10%	0.033	-5.24%
Food Manufacturing	0.040	2.40%	0.012	-3.04%
Retail Trade	0.116	-1.71%	0.101	-7.71%
Food and Beverage Stores	0.028	5.00%	0.023	1.79%
General Merchandise Stores	0.022	5.79%	0.022	1.20%
Finance and Insurance	0.063	-2.61%	0.049	0.48%
Health Care and Social Assistance	0.125	-6.25%	0.142	-5.16%
Leisure and Hospitality	0.078	-23.70%	0.065	-27.08%
Arts, Entertainment, and Recreation	0.012	-29.73%	0.009	-35.45%
Accommodation and Food Services	0.066	-22.46%	0.057	-25.51%
Government	0.161	-8.03%	0.170	-5.82%
Federal Government	0.012	1.14%	0.018	2.69%
State Government	0.042	0.98%	0.039	-5.10%
Local Government	0.107	-11.97%	0.108	-7.58%
Source: Bureau of Labor Statistics				