Update on the Kansas Economy & Tax Policy

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Overview

• Update on COVID-19 in Kansas and the United States
• What’s happened to the US & Kansas economies so far?
• The effect of COVID on Women’s employment
• Distributional Impact of SB-50
We Have Exceeded 30.5 Million Cases & 553,000 Deaths

• In the past week we’ve averaged 68,182 cases per day.
• This is an increase of 17% compared in the last two weeks.
• 1,138 deaths on April 1st
• Cases are beginning to rise again.

Source: New York Times

Coronavirus in the U.S.: Latest Map and Case Count

<table>
<thead>
<tr>
<th></th>
<th>Total Reported</th>
<th>On March 31</th>
<th>14-Day Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cases</td>
<td>30.5 million+</td>
<td>68,182</td>
<td>+17%</td>
</tr>
<tr>
<td>Deaths</td>
<td>552,585</td>
<td>1,138</td>
<td>-26%</td>
</tr>
<tr>
<td>Hospitalized</td>
<td>41,162</td>
<td>-2%</td>
<td></td>
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Kansas Daily Cases Are Decreasing

- The 7-day moving average of new cases trended down in the past weeks.
- Cases are decreasing:
  - Cases are forecast to increase.
- Kansas has had 304,179 cases and 4,902 deaths

Source: Institute for Policy & Social Research, The University of Kansas; cases (blue) from the New York Times and projected cases (grey) from The University of Kansas Medical Center.
Case Rates by County

COVID-19 Cases per 1,000 People in Kansas, by County as of March 28, 2021

- Darker colors indicate that these counties have higher case rates:
  - Ford, Seward, and Finney Counties have case rates that are > 164 per 1,000
  - Douglas, Sedgwick & Johnson Counties have case rates of 72–106 per 1,000
  - Leavenworth & Wyandotte Counties have case rates of 86–118 per 1,000


Cases per 1,000 people
- 66.60 - 87.07
- 87.08 - 102.36
- 102.37 - 120.62
- 120.63 - 147.40
- 147.41 - 227.20

Source: New York Times & US Census Bureau
• 26.7% of Kansas population has received at least one shot.
• 78% of vaccine has been used
• Darker colors indicate that these counties have more vaccine per population:
  • Uneven distribution of the vaccine.
COVID Cases are Likely Underreported

- Dots indicate COVID Genes per day in Lawrence wastewater.
- Green line is 14 day average of reported cases.
- COVID genes are still high but reported cases are falling.
- Why is that?

Source: City of Lawrence
• Testing has been falling in Kansas since Jan. 1, even though hospitalizations were at their highest level of the pandemic then, according to Tami Gurley, co-chair of the virus task force at the University of Kansas Medical Center. The state is now doing fewer tests relative to its population than any state except Idaho.

A decline in testing may be masking the spread of the virus in some states. The New York Times

- Tami Gurley: I think there is just this uneasy feeling that we are at the start of the fourth wave and we do not have amazing evidence that vaccinations are changing hospitalizations dramatically. And we are flying blind when it comes to cases.
COVID-19 and the US & Kansas Economies

A Stalling Recovery
Gross Domestic Product was still down 2.4% from a year ago in Q4.
Consumption was down 2.7% in Q4.
GDP grew 1.1% in Q4 compared to Q3.
• Compared to a year ago, retail sales are up 4.2%.
• Compared to a year ago, industrial production is down 4.2%.
• Although sales have recovered, production has not.
US & Kansas Gross Domestic Product

- Gross Domestic Product was still down 2.5% from a year ago in Q4.
- Kansas Gross State Product was down .15% in Q4 compared to a year ago.
Kansas Economy Made Up Lost Ground in Q4

- Green is growth
- Red is contraction
- Growth:
  - Agriculture up 27%
  - Retail up 7.8%
  - Finance up 6.8%
- Contraction:
  - Accommodation & Food -19%
  - Transportation & Warehousing -17%
  - State & Local -4%
Employment Situation
Employment & Unemployment in March 2021

- Economy added 916,000 new jobs in March. February’s numbers were revised up to 416,000. Gains in leisure & hospitality.
- Unemployment decreased to 6% in March.
- Kansas unemployment fell to 3.2% in February.

**Cumulative change in jobs since before the pandemic**

- 153 million jobs in Feb. 2020
- -8.4 million since Feb. 2020
- Source: Bureau of Labor Statistics
  Data is seasonally adjusted.

Source: NY Times
Employment in Kansas and US Compared to a Year Ago

- Kansas employment was down 4.9% from a year ago in February.
- US employment was down 4.5% compared to a year ago in March.
- The economy added 916,000 jobs in February.
- Now we’re only down 8.5 million jobs compared to March 2020.
Cumulative Initial Unemployment Claims by Industry

- Industries hardest hit include:
  - Manufacturing: 138,487
  - Accommodation & Food Services: 83,816
  - Health care & Social Assistance: 81,053
  - Retail Trade: 57,133
  - Other Services: 27,324

- These five industries account for 60% of people who have lost their jobs.

Source: Calculations using KS and MO Department of Labor Data

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Average Initial Unemployment Claims by Industry

Our Five Largest Industries by Employment:
- Public Administration
- Health Care
- Manufacturing
- Retail
- Accommodation & Food Service
Initial Claims are Trending Down

- Kansas continuing and initial unemployment claims remain high.
- There are 2,389 new initial claims as of the week ending Mar 20th.
- State Unemployment ~3.2%.
Cumulative Unemployment Claims by County

Top 5 Counties by Cumulative Initial Claims:
- Sedgwick 166,720
- Johnson 123,178
- Wyandotte 33,216
- Shawnee 45,497
- Douglas 32,122


657,067 Initial Claims Filed in One Year.

Source: IPSR calculations using Kansas Department of Labor Data
December Kansas Unemployment Rate 3.2%

- Uneven impact across the state:
  - Sedgwick County 6.8%
  - Douglas 4.5%
  - Johnson 3.7%
  - Wyandotte 6.7%
  - Shawnee 4.5%

- Unemployment decreased compared to January.
Employment by Major City in Kansas Through December 2020

- Kansas City MSA is down 4.2% from a year ago.
- Wichita is down 7.2%.
- Lawrence is down 10.6%.
- Manhattan is down 10.8%.
- Topeka is down 3.6%.
Women are Paying a Higher Price
• Women’s Labor Force Participation recovered faster than Men’s between April and July.

• When school started back in August, all of that changed.

• Women’s participation rebounded strongly in March.
Relative Effect of Pandemic on Employment & Leaving Labor Force

- Each Bar calculates the Female – Male Employment Difference
  - Purple Bar—Married with children
  - Orange Bar—Single with children
  - Gold Bar—Married w/o children
  - Blue Bar—Single w/o children
- Married & Single Women with children are worse off.

Source: Albanesi & Kim NBER Working Paper 28505
Few Gender Differences in Initial Unemployment Claims

• This is also true in Kansas
• Women have filed slightly fewer initial unemployment claims than men during the COVID-19 pandemic.
• In recent months, men are filing more UI claims.
• We would need to do analysis of microdata to get labor force participation rates by gender for Kansas.
However, That is a Big Change from Previous Recessions

- Prior to COVID, women were less likely to experience unemployment. The Great Recession was a man-recession.
- COVID is hitting women hard because of service sector.
How Does Kansas Compare?
Kansas Consumption is Increasing

In Kansas, as of March 14 2021, total spending by all consumers increased by 5% compared to January 2020.

- Kansas consumption expenditures are worse than Missouri and Iowa.
  - Kansas up 5%
  - Missouri up 16%
  - Iowa up 4.8%
  - US up 5.5%

- Starting to see evidence of the Stimulus checks.

Source: Economic Tracker, https://tracktherecovery.org/
Kansas and US Household Comparison March 15th

- 41% of Kansas households faced loss in employment income
- 35% of Kansas households with children report likely or somewhat likely eviction
- 10% of Kansas households with children are food insecure
31% of Kansas Small Businesses Have Closed Since 2020

In Kansas, as of March 20 2021, the number of small businesses open decreased by 31% compared to January 2020.

- The number of small businesses open in Kansas has fallen by 31% since January, 2020.
  - In the US, the number is -34%.
  - Kansas is doing worse than Missouri: -25.8% and Iowa: -29.5%.

Source: Economic Tracker, https://tracktherecovery.org/

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Almost Half of Restaurants & Hotels Have Closed

- In Kansas, 31% of small businesses have closed since January, 2020
- 48.5% of Leisure and Hospitality Businesses in Kansas have closed since that time.
  - This is a huge source of jobs for low skilled individuals.
  - This is better than in the US (51% have closed).

Source: Economic Tracker, https://tracktherecovery.org/
Glimmers of Hope
In the United States, as of February 05 2021, employment rates among workers in the bottom wage quartile decreased by 30% compared to January 2020 (not seasonally adjusted).

In Kansas, as of February 05 2021, employment rates among workers in the bottom wage quartile decreased by 12.9% compared to January 2020 (not seasonally adjusted).

Kansas has improved compared to the US for high and middle wage jobs.

Data from last meeting for Kansas showed high wage jobs were down -7% & Middle wage jobs were down -12%.

Low wage jobs were also down -21% in Kansas from the last meeting and are still depressed, but not as much as in the US.

This is a big, positive change from last month.
How Many Households will get Stimulus Checks?

- Estimate 61% of Kansas households will get those payments.
- In some Kansas counties (darker colors), over 75% of households will receive stimulus checks from the American Rescue Plan Act of 2021.

Source: Institute for Policy & Social Research, The University of Kansas; data from U.S. Census Bureau, 2015-19 American Community Survey.
Distributional Impact of SB-50

The Wealthy Benefit More
Distribution of Individual Kansas Income Taxes

- In FY2019, 61% of Kansas Tax Returns had <=$50,000 of KAGI
- Median Kansas Household Income in 2018 was $58,218
- Less than 20% of Kansas tax returns had KAGI >=$100,000
  - This is the group that would benefit from itemization the most.
Who Benefits from Itemization?

- SB-50 Itemizers are difference between those who Itemized in 2017 and Itemized in 2019.
- Median Taxpayer is $21,442 KAGI
  - 1% of filers below the median will benefit from itemization.
- Percentages are estimates of those within KAGI bracket who will be new SB-50 itemizers.
  - Benefits flow to the top 18% of taxpayers
- 6.6% more taxpayers will benefit from itemization in SB-22.
SB-50 Increases the Standard Deduction by $500

• This results in a tax reduction that ranges between for our hypothetical taxpayers:
  • $26.25 to $28.50

• This won’t cover the cost of two large pizzas
Who Benefits from Itemization?

- Governor's proposed increase in the standard deduction by 35%
  - Tax savings ranges between $101 to $150 per year for our hypothetical taxpayers.
- Taxpayers would need $10,750 in deductions to break-even with the Governor's plan.
  - More deductions mean higher tax reductions.
- But only 6.6% of mostly higher income taxpayers would benefit.
Global Intangible Low-Taxed Income (GILTI) is taxed at the federal level. Fiscal note in FY 2022 GILTI will cost -$24.2 M. Large multinational corporations are most likely to pay GILTI. 773 corporations paid almost 91% of corporate taxes. Assume 200 companies have GILTI: $121,000 tax break per company.
PPP Expense Deductions Will be Costly

- Kansas received $6.6 Billion in PPP loans
- Provision in December COVID Relief Act allowed businesses to deduct expenses paid for with PPP loans.
- This results in three tax breaks:
  - Forgiveable loan
  - Loans are counted as non-taxable income.
  - Businesses can take additional deductions.
- Conforming will cost the state $360 million.
Thank You!