Kansas in Crisis

What Happens Next?

Donna K. Ginther
Dean’s Professor of Economics
Director, Institute for Policy & Social Research, University of Kansas
Research Associate, National Bureau of Economic Research

May 4, 2020
IPSR: Social Science & Policy Research for the State of Kansas
Caveats

• These slides were completed on May 4, 2020

• Things will have changed by the time you see this presentation.

• This presentation is based on my readings and data from sources noted throughout.
Overview

• Update on the Coronavirus in Kansas and the United States
  • Have we bent the curve?
  • Testing Updates

• What’s happened to the economy so far?
  • State budget problems

• What happens next?
  • Now that states have started reopening, what does the future hold?
In Kansas cases grew by 58% in the past week and deaths were 14% higher. Cases and deaths have slowed from the previous week. In the US cases grew by 20% and deaths were 26% higher in the past week. Both rates were slower than the previously.
COVID-19 Cases by Country

Several countries have turned the corner, with numbers of new cases now in decline.

Financial Times shows that US has flattened the curve.

Source: https://www.ft.com/coronavirus-latest
Growth in COVID-19 Cases has varied by County

- In the five largest counties, growth rates have varied significantly.
  - Douglas and Shawnee counties have flattened the curve.
  - Johnson and Wyandotte, counties—not so much.
  - Sedgwick has accelerated cases.

[Graph showing COVID-19 cases in the five largest Kansas counties through May 2, 2020]

Counties with Meatpacking have an uncontrolled Pandemic

- In counties with meatpacking plants cases have spiked.
  - Ford county cases are 2 times higher this week.
  - Seward county cases are 1.7 times higher.
  - Finney County is 3.3 times higher this week.

Case Rates by County

Darker colors indicate that these counties have higher case rates:

- Ford, Seward, and Finney counties have case rates that are > 13 per 1,000
- Sedgwick & Johnson Counties < 1 per 1,000
- Leavenworth & Wyandotte Counties have case rates ~ 5 per 1,000

Source: New York Times & US Census Bureau
Testing has been uneven across the country

Using data from the COVID Tracking project, we calculated the number of tests per 1,000 people in each state

- Kansas has performed only 12.6 tests per 1,000 people
- The US average is 22.9 tests per 1,000.
Testing Results are also Uneven

- Calculated the share of positive tests.
  - 13.7% of Kansas tests are positive.
  - 12.4% of US tests are positive.
  - This is being driven by the meatpacking outbreak.

Source: Institute for Policy & Social Research, The University of Kansas; data from The COVID Tracking Project (https://covidtracking.com/).
Covid-19 and Financial Distress

- St. Louis Fed Covid-19 and Financial Distress
- Financial distress measured by credit card delinquency in 2018.
- Those at the highest levels of financial distress (Quintiles 4 and 5) are more likely to get sick.

Covid-19 and Financial Distress

- Those at the highest levels of financial distress (Quintiles 4 and 5) are also more likely to die

COVID-19 and the US & Kansas Economies

It’s not good.
The Stock Market: January 1 – May 1, 2020

• The Dow Jones Industrial Average peaked at 29,348 on February 12th.
  • It bottomed out on March 23rd, and recovered to 23,723 on May 1st.
  • Down about 19% since the peak
• Nasdaq has tracked the Dow.

Source: FRED https://fred.stlouisfed.org/series/DJIA
GDP Fell -4.8% in Q1 2020

Precipitous Drops in Consumption (-5.6%) and Investment (-.96%) Were offset by increases in net exports (1.3%) and Government (.13%)

Source: FRED Federal Reserve Bank of St Louis
• James Stock has developed a Weekly Economic Activity Index that is scaled to 4th Quarter 2019 GDP growth.
  • The index has dropped to -11.6%
  • This indicates that GDP for this quarter is forecast to be nearly 12% lower for Q2.

Source: FRED https://fred.stlouisfed.org/
Kansas Initial Unemployment Claims by Industry as a Share of Total Employment—Data as of April 25th

<table>
<thead>
<tr>
<th>Industry</th>
<th>Unemployment within Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government</td>
<td>0.75%</td>
</tr>
<tr>
<td>Health care and social assistance</td>
<td>12.46%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>31.30%</td>
</tr>
<tr>
<td>Retail trade</td>
<td>14.76%</td>
</tr>
<tr>
<td>Accommodation and food services</td>
<td>29.01%</td>
</tr>
<tr>
<td>Administrative &amp; waste management</td>
<td>14.00%</td>
</tr>
<tr>
<td>Professional, scientific &amp; technical serv.</td>
<td>7.83%</td>
</tr>
<tr>
<td>Transportation and warehousing</td>
<td>9.42%</td>
</tr>
<tr>
<td>Construction</td>
<td>13.14%</td>
</tr>
<tr>
<td>Finance and insurance</td>
<td>2.69%</td>
</tr>
<tr>
<td>Wholesale trade</td>
<td>6.72%</td>
</tr>
<tr>
<td>Other services</td>
<td>28.31%</td>
</tr>
<tr>
<td>Management of companies</td>
<td>0.80%</td>
</tr>
<tr>
<td>Educational services</td>
<td>24.79%</td>
</tr>
<tr>
<td>Information</td>
<td>11.35%</td>
</tr>
<tr>
<td>Real estate and rental and leasing</td>
<td>18.35%</td>
</tr>
<tr>
<td>Arts, entertainment, and recreation</td>
<td>48.03%</td>
</tr>
<tr>
<td>Mining and oil and gas extraction</td>
<td>16.21%</td>
</tr>
<tr>
<td>Utilities</td>
<td>0.77%</td>
</tr>
</tbody>
</table>

• I calculated the share of initial unemployment claims for all of March and April over total employment by industry in February, 2020.
  • Industries are ranked by share of total employment.
  • Government, health care, manufacturing and retail trade are 53% of total employment in the state.
Unemployment Claims in Kansas and Missouri

- Since March 14th a total of 202,596 workers have filed initial unemployment claims in Kansas.
- Based on February Labor Force projections the Unemployment Rate in Kansas is approximately 14%.
  - Data from March 14th – April 25th

Source: Calculations using KS and MO Department of Labor Data
Cumulative Unemployment Claims by County

• Top 5 Counties by Cumulative Initial Claims:
  • Sedgwick 62,757
  • Johnson 36,839
  • Shawnee 12,956
  • Wyandotte 10,414
  • Douglas 9,896

Data calculated March 21st – April 25th

Source: IPSR calculations using Kansas Department of Labor Data
Estimated Unemployment Rate by County

- Top 5 Counties by unemployment rate:
  - Sedgwick 24.5%
  - Sumner 24.4%
  - Wilson 23.4%
  - Butler 19.5%
  - Montgomery 16.8%

- Unemployment rate for the state ~ 14%

Source: IPSR calculations using Kansas Department of Labor Data
What’s Happening to Economic Growth (GDP)

- GDP = C + I + G + (X-M)
  - C = Consumption (68%)
  - I = Investment (17%)
  - G = Government (18%)
  - X – M = Net Exports (-2.9%)

- Consumption patterns have changed dramatically
  - Retail sales fell by a historic -8.7% last month

- Government Expenditures will increase
- WTO projects trade to fall by 13% – 32%
Unemployment Relative to Gross State Product

- Sectors that contribute most to Kansas growth with above average unemployment:
  - Manufacturing 31% UE & 16% of GSP
  - Health Services 12% UE & 7.5% of GSP
  - Retail 15% UE & 6.4% GSP

Source: Author’s calculations.
Manufacturing has dropped 30% and Services have dropped almost 60%.
Both Manufacturing & Service firms applied for PPP funding as well as Drawing down cash reserves.
Economic Research on COVID-19

• Granja et al (2020) examined the PPP program and found that funds flowed to areas less hard hit by the virus. Areas with less small business lending got less PPP funding.
  • Source: https://www.nber.org/papers/w27095

• Acemoglu et al (2020) developed a model to show that optimal lockdown policies (that target the vulnerable as opposed to everyone) reduces mortality more than a one-size fits all policy.
  • Source: https://www.nber.org/papers/w27102

• Dave et al (2020) analyzed state shelter in place policies and found that these policies reduced mobility and COVID-19 cases by 44%.
  • Source: https://www.nber.org/papers/w27091
COVID-19 and Economic Policy

Small Business Lending Part 2
Paycheck Protection Program lends money to small businesses via banks.
  • Loan forgiveness if the small business keeps workers on the payroll
  • Many problems reported with getting access to money
  • Not enough money to meet the need

Congress added $310 billion in addition to the $350 billion already loaned out.
Paycheck Protection Program Benefited Kansas

- Total of $5.1 Billion in loans in Kansas
  - 44,715 Loans made
  - Kansas ranked 10th in loans per capita

- The need is great:
  - 55,682 Small Businesses
  - 201,268 Nonemployer Establishments.

- Only 17.4% of Kansas firms were funded.
  - In the US a total of 12.1% of firms were funded.

Source: IPSR calculations using 2017 Statistics of US Businesses

Paycheck Protection Program Benefited Kansas

- As a share of total payroll / receipts, the PPP program in Kansas covered 72% of total PPP expected payments.
- In the US the PPP program covered 60% of expected payments.

Source: IPSR calculations using 2017 Statistics of US Businesses
Paycheck Protection Program Benefited Kansas because of Community Banking

Average Amount of PPP Loans Approved in the U.S., by State as of May 1, 2020

• Kansas Average Loan $114,138
• US Average Loan $134,122
  • Kansas has relatively more banks per population and more banks engaged in small business lending.

Source: IPSR calculations using 2017 Statistics of US Businesses
• The KC Chamber, KC Area Development Council, KC SourceLink and other business organizations surveyed 565 small businesses about:
  • Impact of COVID-19 on business
  • CARES Act funding
  • Layoffs and closures

• 35% had received PPP funding & 25% were waiting to hear on their applications
• 32% did not apply
Kansas City Organizations Surveyed Small Businesses

What have you *experienced* since March?

- Adjusted business model/switched to a new business model: 39.4%
- Seen revenues decrease more than 50%: 38.6%
- Seen revenues decrease 50% or less: 36.8%
- Laid off employees: 26.4%
- Closed business temporarily: 23.5%
- Seen revenues stay the same or increase: 14.1%
- Closed business permanently: 0.5%

What are your *immediate* concerns?

- Losing sales/revenue: 41.8% ranked as top concern
- Employee's financial welfare: 15.8% ranked as top concern
- Customer traffic: 10.5% ranked as top concern
- Making payroll beyond this pay period: 11.5% ranked as top concern
- Accessing government support related to COVID-19: 10.5% ranked as top concern
- Losing employees: 1.7% ranked as top concern
- Paying this month's rent: 1.7% ranked as top concern
- Getting inventory and supplies: 4% ranked as top concern
- Finding employees in the current environment: 3% ranked as top concern

What Happens Next?
Now that states have started to reopen?
Some States Have Started to Reopen

- Many states have shelter in place orders until the end of April.
- Georgia started to reopen on April 24th.
- Texas:
  - All retail stores, restaurants, movie theaters, malls, museums, and libraries are permitted to reopen on Friday, May 1, but must limit their capacity to 25% of their listed occupancy.
- Kansas started phase 1 today.
Lifting the Stay-at-Home Order

• Dr. Lee Norman:
  • “What is an acceptable level of risk?” Dr. Norman asked. “We cannot get it down to zero, so how can we guarantee that people won’t get sick?”
  • Whatever the course of action, he said, “there will be death.”

The New York Times
May 4, 2020

As States Reopen, Deaths are Forecasted to Increase

Coronavirus Live Updates: As States Move to Reopen, 2 Projections Show Deaths Rising

• The Institute for Health Metrics and Evaluation at the University of Washington is now estimating that there will be nearly 135,000 deaths in the U.S. through the beginning of August — more than double what it forecast on April 17, when it estimated 60,308 deaths by Aug. 4.
Coronavirus Live Updates: As States Move to Reopen, 2 Projections Show Deaths Rising

The New York Times
May 4, 2020

The institute wrote that the revisions “reflect rising mobility in most U.S. states as well as the easing of social distancing measures expected in 31 states by May 11, indicating that growing contacts among people will promote transmission of the coronavirus.”
The situation has devolved most significantly in parts of rural America that were largely spared in the early stages of the pandemic. As food processing facilities and prisons have emerged as some of the country’s largest case clusters, the counties that include Logansport, Ind., South Sioux City, Neb., and Marion, Ohio, have surpassed New York City in cases per capita.
What Happens Next?

- When will consumers return to businesses like restaurants and travel?
- When will it be safe to reopen manufacturing facilities?
- When will schools and universities reopen for in-person classes?
- These new projections do not bode well for the future.
Economic Impacts of COVID-19

• In future lectures we will continue to monitor the economic fallout from the COVID-19 epidemic.
• We will also monitor the policy responses.
• I hope that you all stay healthy!
Thank You!