



Economics Group

Mark Vitner, Senior Economist
mark.vitner@wellsfargo.com • (704) 410-3277
Charlie Dougherty, Economist
charles.dougherty@wellsfargo.com • (704) 410-6542
Matthew Honnold, Economic Analyst
matthew.honnold@wellsfargo.com • (704) 410-3059

The Iowa Economy Heading into the Caucus

Iowa has been caught in the crosshairs of the trade war, which has weighed on commodity prices and manufacturing. The economy regularly polls as a top issue for Democrats, even with Iowa’s jobless rate at 2.7%.

Iowa Heavily Exposed to Agriculture and Manufacturing

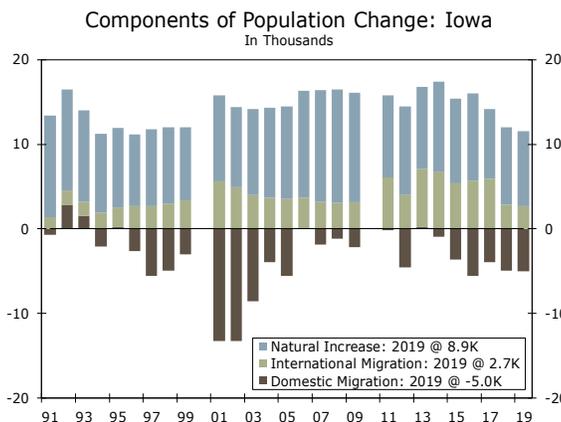
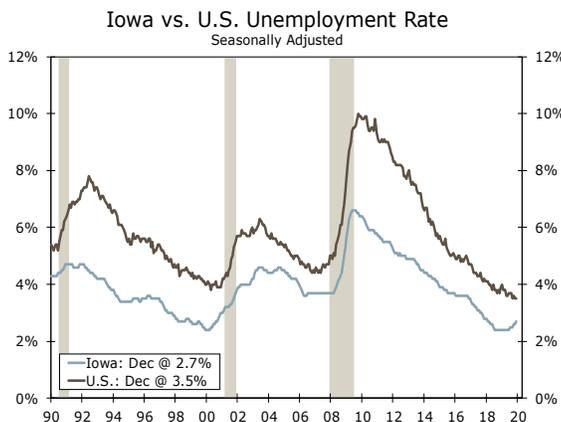
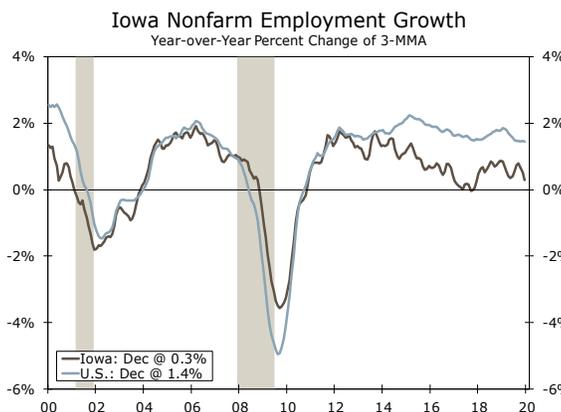
Monday, February 3 marks the first votes cast for the 2020 presidential election cycle, as Democrats across Iowa will caucus for their preferred challenger to President Donald Trump. Iowa and much of the Midwest have been caught squarely in the crosshairs of the trade war, which has weighed on agricultural commodity prices and manufacturing payrolls. The economy regularly polls as a top issue for Democrats—along with a candidate’s perceived ability to beat Trump, healthcare and inequality—and perceptions about the economy may be disproportionately important to Iowa Democratic voters, given the state’s reliance on agriculture and manufacturing.

While Iowa is not particularly representative of the United States demographically—critics of the primary schedule argue its perennial placement at the front overweights the preferences of its 91% white population—its economy shares many characteristics of other ‘swing’ states. With over 80% of its land devoted to agriculture, Iowa is the nation’s second largest agricultural producer (behind California), specializing in soybeans, hogs, corn (much of which is used to produced ethanol) and cattle. But Iowa is also very manufacturing-intensive, with the factory sector accounting for 14% of nonfarm payrolls, well above the national average of 8%.

Phase I of the China trade deal, signed on January 15, should provide a modest boost to the Iowa economy, particularly the Chinese pledge to ramp up its purchases of U.S. farm products to \$40.4 billion in 2021 from \$20.9 billion in 2017. There are major doubts that China will be able to meet these targets, but the outcome will not be known until well after the November election, and the marginal benefits should be apparent before then. Massive farm subsidies, which have largely flown under the radar nationally, have offset some of the drag from declining exports. The \$28 billion of aid over the past two years, which is already more than the final cost of the auto bailouts, has certainly not gone unnoticed in Iowa, which received the second most subsidies of any state in 2018, according to the USDA.

Outside of agriculture, Des Moines has a very high concentration of finance and insurance jobs, many of which would be impacted by the candidates’ varying healthcare proposals. Statewide, demographics are a persistent challenge. Population growth has slowed for six consecutive years and Iowa added just 6,000 residents in 2019. Weak labor force growth has been one reason why the unemployment rate has been so low, falling to 2.4% earlier this year and currently tied for the nation’s ninth lowest at 2.7%.

Preliminary employment data for December showed a year-over-year loss of 2,400 jobs, only the third month of contraction since 2010, a period during which Iowa has added around 130,000 jobs overall. Looking ahead, we expect the Iowa economy to continue to see very modest growth. The ostensible truce in the trade war and moderately strengthening global growth should stabilize the manufacturing and agricultural sectors, but major policy changes are likely on hold until after the election.



Wells Fargo Securities Economics Group

Jay H. Bryson, Ph.D.	Acting Chief Economist	(704) 410-3274	jay.bryson@wellsfargo.com
Mark Vitner	Senior Economist	(704) 410-3277	mark.vitner@wellsfargo.com
Sam Bullard	Senior Economist	(704) 410-3280	sam.bullard@wellsfargo.com
Nick Bennenbroek	Macro Strategist	(212) 214-5636	nicholas.bennenbroek@wellsfargo.com
Tim Quinlan	Senior Economist	(704) 410-3283	tim.quinlan@wellsfargo.com
Azhar Iqbal	Econometrician	(212) 214-2029	azhar.iqbal@wellsfargo.com
Sarah House	Senior Economist	(704) 410-3282	sarah.house@wellsfargo.com
Charlie Dougherty	Economist	(704) 410-6542	charles.dougherty@wellsfargo.com
Erik Nelson	Macro Strategist	(212) 214-5652	erik.f.nelson@wellsfargo.com
Michael Pugliese	Economist	(212) 214-5058	michael.d.pugliese@wellsfargo.com
Brendan McKenna	Macro Strategist	(212) 214-5637	brendan.mckenna@wellsfargo.com
Shannon Seery	Economic Analyst	(704) 410-1681	shannon.seery@wellsfargo.com
Matthew Honnold	Economic Analyst	(704) 410-3059	matthew.honnold@wellsfargo.com
Jen Licis	Economic Analyst	(704) 410-1309	jennifer.licis@wellsfargo.com
Hop Mathews	Economic Analyst	(704) 383-5312	hop.mathews@wellsfargo.com
Coren Burton	Administrative Assistant	(704) 410-6010	coren.burton@wellsfargo.com

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