

Economics Group

Special Commentary

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Iowa vs. Michigan

Big Game in the Big House

The University of Iowa Hawkeyes travel to Ann Arbor on Saturday to take on the Michigan Wolverines, in one of three top-25 matchups this weekend. They will face a sea of blue, as Michigan Stadium—dubbed “The Big House”—is the nation’s largest, with a capacity of over 107,000. Michigan comes into this weekend #18, its lone loss to a tough Wisconsin team, which it followed with a 52-0 shellacking of Rutgers last week. Iowa is #14 and undefeated. The Hawkeyes are eager to prove themselves after navigating a relatively soft early season schedule.

Michigan-Iowa is a top-25 matchup.

Michigan is a blue chip football program, with a litany of accolades dating back to the earliest days of college football, including the most wins in college football history, the highest winning percentage among FBS teams and 11 national titles. Such sustained success, dating back to their first season in 1879, has certainly earned the program a loyal fan base. Michigan has led the nation in game attendance for 42 of the past 44 seasons, and remarkably has strung together more than 280 consecutive home games with an attendance over 100,000. Yet they have not won a Big Ten title since 2004. Current coach Jim Harbaugh’s arrival was seen as the catalyst to overcome the disappointment following the rocky regimes of Rich Rodriguez and Brady Hoke. So far, however, the khaki-wearing former Michigan starting QB has yet to deliver a season better than 10-3.

Iowa has seen more stability—Kirk Ferentz has been coach for 21 years, the longest tenure in the FBS. The Hawkeyes began play in 1889 and have racked up more than 650 victories and four national titles. They play in Kinnick Stadium—named for Nile Kinnick, the “cornbelt comet” who won the school’s only Heisman in 1939, after rushing for 374 yards, throwing for 638 yards, intercepting eight passes and averaging 40 yards per punt. With war brewing, his Heisman acceptance speech offered a healthy dose of perspective, stating he was thankful to have been born in the American Midwest, “where they have football fields instead of Europe where they have battlefields.” He later enlisted in the Navy, and died after his fighter jet crashed in 1943.

Figure 1

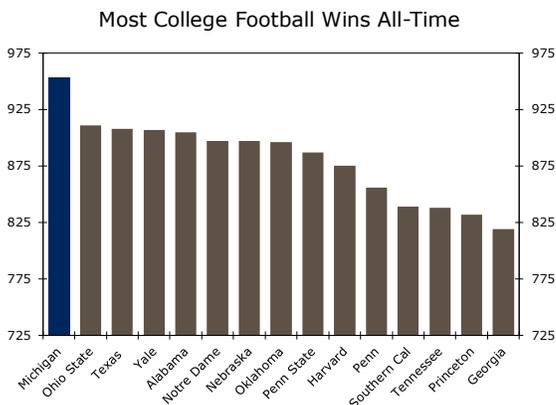
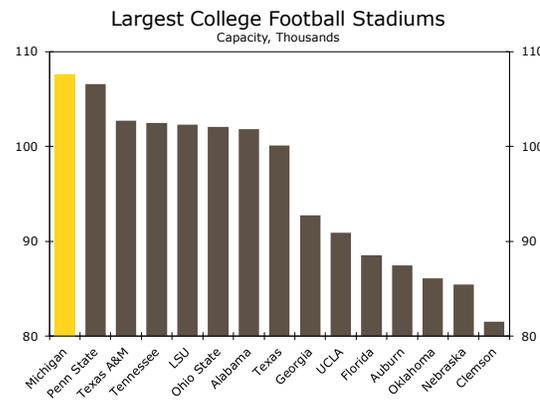


Figure 2



Source: NCAA and Wells Fargo Securities

Together we'll go far



Economic Outlook

The Midwest is facing several challenges. A tremendously wet year led to flooding across the region, delaying crops from being planted and suppressing yields. This comes at the same time sales to China and other overseas markets have plunged, exacerbating a years-long slide in prices. Chinese purchases of American agricultural commodities remain a major sticking point in the ongoing trade negotiations, and the Chinese trade delegation recently cancelled a trip to farms in Nebraska and Montana, originally meant as a goodwill gesture. The Trump administration has offered up to \$28 billion in farm aid, which has eased the pain but done nothing to restore lost markets.

Midwestern states are also among the most manufacturing-intensive, and the U.S. factory sector is struggling mightily. The ISM manufacturing index fell this week to the lowest level since 2009, indicating that the weakness in the manufacturing sector is spreading. The Chicago Fed's Midwest Economy Index is a more localized measure of nonfarm business activity in Iowa, Indiana, Illinois, Michigan and Wisconsin, based on 129 indicators of manufacturing, construction & mining, services and consumer spending. It turned negative in April, indicating below-average growth, and is now at the lowest level since 2010.

The General Motors (GM) strike has created additional uncertainty for Michigan, where it is the single largest employer. Close to 50,000 GM workers nationwide went on strike on September 16, and the United Auto Workers and GM reportedly remain far from agreement. The work stoppage is a major challenge for GM, as well as all the parts suppliers scattered across Michigan. Manufacturing comprises roughly 14% of total employment in the state, well above the 8% share seen nationwide. Across the state, payrolls are rising merely 0.5% year-over-year, compared to 1.4% across the United States. Although the unemployment rate peaked well above the national rate during the last recession, as recently as June 2018 it had receded so far as to equalize the U.S. rate. Since then, however, the two rates have diverged, with Michigan sitting at 4.2% in August, half a percentage point above the 3.7% overall U.S. rate.

Ann Arbor is much less manufacturing-intensive, which is not surprising given the presence of a major research university with over 40,000 students. Michigan is regularly ranked as one of the best public schools in the country, while Ann Arbor was named the best college town by Forbes in 2018. The university is a major innovation center, spending over \$1.5 billion on research in 2018, and spawns a vast array of start-ups. *U-M Tech Transfer* is responsible for “the commercialization of University research discoveries” and partners with government and businesses to foster an entrepreneurial ecosystem. In 2018 it was responsible for 169 patents and 21 start-ups. Overall, the university employs over 28,000, making it the fourth largest employer in the state after GM, Ford and the state government, and has an estimated economic impact of over \$10 billion.

Midwestern farms are hurting.

The University of Michigan is a major source of innovation.

Figure 3

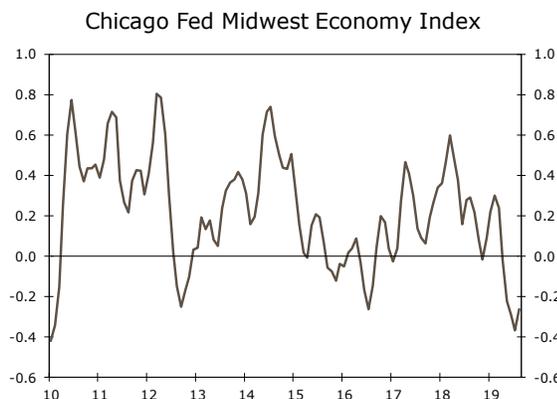


Figure 4



Source: Federal Reserve Bank of Chicago, U.S. Department of Labor and Wells Fargo Securities

Iowa’s economy has diversified a great deal in recent years, particularly into financial services, but remains highly exposed to both manufacturing and agriculture. It is one of the nation’s most iconic farm states but also has a large manufacturing sector, with 14.5% of its workforce employed in manufacturing, which is actually higher than in Michigan. Pella, John Deere and Bridgestone are major manufacturers in Iowa. Still, it is the second largest agricultural producer, following only California, responsible for 7% of national output and a leader in beef, pork, corn and soybeans. Des Moines has a very high concentration of insurance and financial firms, and Facebook, Microsoft and Google have all built data centers in the state, attracted to its low costs and abundance of renewable electricity from wind production. Demographics remain challenging, however, with the state’s very low unemployment rate of 2.5% largely a function of slow labor force growth rather than strong job growth.

***Iowa is very
reliant on
manufacturing
and agriculture.***

The University of Iowa is located along the banks of the Iowa River in Iowa City, about 115 miles due east of Des Moines. Founded in 1847, a mere 59 days after Iowa became a state, it now has over 30,000 students. It was the first public university in the nation to admit both men and women, beginning in 1860. Its department of education, founded in 1872, was the first of its kind, and has been the driving force behind the development of standardized testing, including the American College Testing (ACT) exam and the scantron, which is used to scan forms. The university hospital system is the premier health facility in the state, with over 7,000 employees, and is also the center of one of college football’s most heart-warming new traditions. The Stead Family Children’s Hospital is uniquely positioned such that it overlooks the field, and every game the 70,000 fans and players all pause and turn to wave at the young patients who have a clear view of the field down below.

Figure 5

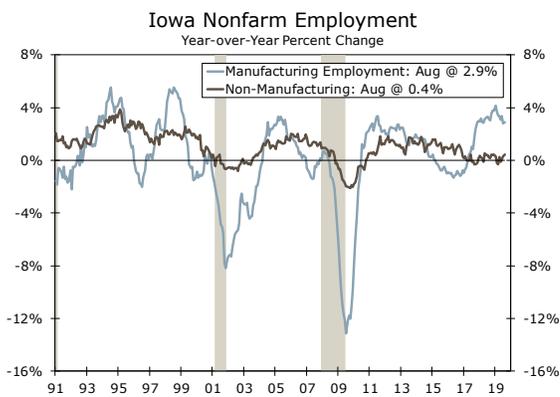
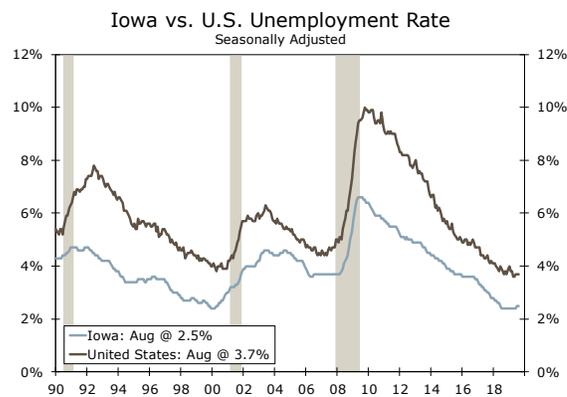


Figure 6



Source: U.S. Department of Labor and Wells Fargo Securities

Football Outlook

Iowa has had its way with Michigan recently, winning five of the past six meetings. Iowa’s defense has allowed only 34 points the entire season, and the offense is averaging over 200 rushing yards per game. This could spell trouble for Michigan, who suffered a disappointing loss to a Wisconsin team with a similar style of play, but is hoping to bounce back and get its offense into high gear. Michigan has a very tough schedule the rest of the season, with games against Penn State (#12), Notre Dame (#9), Michigan State (#25) and Ohio State (#4). Iowa has to face Penn State and Wisconsin (#8). Michigan is a 3.5-point favorite, which seems about right since the game is being played at home.

***Both teams have
tough schedules.***

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