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Financial insecurity, business volatility, unemployment: Is this Iowa's new normal?

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It's a rare night out for Heriberto and Jessica Salas. They're splurging on shopping, dinner and a movie for their family - a sign that times might be getting better for the Des Moines couple.

"Business is picking up. It feels pretty strong," said Heriberto Salas, who owns Saga Contractors, a window and siding business.

But improvement comes with qualifiers: Salas must travel farther for work, often driving to Illinois and Nebraska. And he's uncertain whether his construction crew will have enough work this winter to stay busy.

Like the Salases, many Iowa families and businesses are trying to gauge how much more the economy will improve.

Are reduced hours and pay, business volatility and financial insecurity the new normal? Or are good times a couple of months - or a couple of years - down the road?

The answers depend on whom you ask. Some economists say that even with a return of jobs, household incomes will likely fall as the state's population grows and job growth limps along. Other economists say the hard times will pass, that growth, while moderate, will boost jobs and income.

"They were asking, 'Is this the new normal?' in the 1980s, when Iowa had a 7 to 8 percent unemployment rate. A lot of people said yes. I didn't believe it then, and I don't believe it now," said Fred Abraham, a University of Northern Iowa economist. "What we need is patience."

But Dave Swenson, an Iowa State University economist, doubts Iowa and the United States will return to their pre-recession boom.

"Our economy was a phony economy," built on irresponsible spending fueled by irresponsible lending, Swenson said. "We expanded faster than our incomes rose. We fueled that expansion with lots of borrowing, debt and burned-up equity."

After good growth early this year, Mark Hanawalt, a northeast Iowa manufacturing CEO, says business has again hit a plateau.

"It's a little frustrating right now, but I'm fairly confident from everything I read - and I read a lot - that we will see improvement," said Hanawalt, owner of United Equipment Accessories, the maker of heavy-duty slip rings and cables that go inside large industrial products like cranes and wind turbines.

"Orders aren't filling as fast in the third and fourth quarters as we'd like to see," he said. "It doesn't give you that warm, fuzzy feeling that we're headed in the right direction."

Will the job market take nearly a decade to recover?

Americans forget that economic recoveries take time, UNI's Abraham says. And the deeper the recession, the longer the recovery.

In 1979, for example, U.S. unemployment dropped to 5.6 percent. Then two recessions hit, fueled by rising oil prices and interest rates, and the unemployment rate spiked to 10.8 percent by 1982.

"The next time the unemployment rate was 5.6 percent was 1988. It took nine years for the unemployment rate to get back down to where it was," said Abraham.

If this recession follows the same pattern, it could be 2016 before Iowa's unemployment rate drops below 4 percent, and the nation's falls under 5 percent.

"There's an old saying: 'When things are good, they'll probably get worse. And when times are bad, they'll probably get better,' " said Abraham.

Consumers, however, tend to expect the opposite, he said: When things are bad, they see only continued deterioration. When the economy is good, they expect it to never end.

That enthusiasm five or six years ago created a "broad-based bubble," said Swenson, the ISU economist.

It inflated capacities for all kinds of industries, from demand for houses to cars to mortgages, clothing, TVs and RVs.

"We opened too many stores, we ordered too many goods, businesses offered too many services," Swenson said. "We were developing capacity in excess of what we could sustain."

Iowa lost about 2,200 companies from 2007 to 2009, U.S. Census data show, including large businesses like appliance manufacturer Maytag that employed 1,800 workers in Newton.

The hyper-inflated economy also meant more workers were employed than could be supported, Swenson said. "We had unemployment levels fueled by unsustainable borrowing," he said.

Iowa shed 61,800 jobs, a 4.1 percent job loss, from the start of the national recession in December 2007. The state hit an unemployment high of 6.2 percent, but since the recession's bottom the state has regained 18,900 jobs through June.

Businesses in Iowa managed to add $1.8 billion in payroll from 2007 to 2008, pushing payroll up to $45.2 billion. But they lost nearly $1.4 billion of that through 2009, the census data show.

The sluggish economy has had economists across the country adjusting their expectations about the recovery.

Even as hiring picks up, household incomes may fall

Jobs will return in Iowa, Swenson said. He expects pre-recession employment levels in 2013. But the question is, what kinds of jobs will come back?

Will Iowa replace the high-paying manufacturing jobs it lost - the state recovered fewer than half the factory jobs it lost in the 2001 recession - or will they continue to dwindle?

And will the job gains keep pace with new workers entering the labor market? Swenson said Iowa's unemployment rate may remain higher than it's been historically.

With fewer family members able to find jobs, Swenson believes household incomes will suffer, especially as the cost of food, gas and other necessities rises. And with consumers earning less, that means less spending fueling the economy and creating jobs.

"The way we've maintained household incomes is by more people working," he said. "If the economy has to accept a higher unemployment rate, household incomes will stagnate or fall."

Jerry and Sharon Kline, a mostly retired couple who live in Altoona, worry whether their children and grandchildren will be able to enjoy the same quality of life they have.

Some of their family is struggling with cut hours and pay and tenuous insurance coverage. "It's scary," said Sharon Kline.

Jerry Kline talks with few people who feel like the economy is improving.

"There are still too many people without jobs," said his wife.

Even as companies expand, jobs appear at slow pace

Some Iowa companies - Cargill, Pioneer, Kemin, Flexsteel, among others - are beginning to invest in new offices, laboratories and equipment.

Farming, fueled by record high commodity prices, is helping drive some of the growth. Yet some Iowa manufacturers are also ready to add warehouses, factories and new equipment.

With hefty capital investment come jobs. But it could take a year or two for Iowa workers to really benefit as new facilities are constructed.

"You're not going to see the jobs come online immediately," said Debi Durham, the state's economic development leader.

Even companies that find business is booming see the potential for the ground to shift.

Steve Sukup, chief financial officer of Sukup Manufacturing, a grain bin manufacturer in Sheffield, said the company is bringing a 100,000-square-foot manufacturing addition online, along with 100 new workers.

"We've had a perfect storm for business," he said, with rising global demand, combined with growing renewable fuels markets, pushing prices for corn and soybeans higher.

Sukup's storage bins and dryers help farmers better control the prices they get in volatile markets, Sukup said. "We're enjoying it now, but we know it can change," he said.

"We were in business during the '80s. ... We know there will be some corrections - not fall-off-the-cliff situations - but some minor corrections."

Job recovery tied to ailing housing, retail picture

Charles Whiteman, a University of Iowa economist, said continued problems in housing are an anchor on the country’s economy.

Underwater mortgages, with families owing more than the home is worth, keep workers from moving to where jobs are available.

“It’s affecting worker mobility,” said Whiteman. “People aren’t moving, and the reason is because they’re house-bound.”

Les Sulgrove, president of the Des Moines Area Association of Realtors, believes the central Iowa housing market is gaining its footing.

Sales in 2010 were about 31 percent lower than in 2006, a peak year. But Sulgrove expects sales this year to match or beat last year’s, bolstered by federal tax credits for existing and new homeowners.

“What is normal? We’re trying to find the answer,” said Sulgrove. “I’ll be happy if there’s slow and steady growth.”

Scaled-back housing means scaled-back retail, said Elisabeth Holland, who leads the company that owns Merle Hay Mall.

Gone are retail expansions built in an open field on the belief that homes would soon surround it. “The housing recession is still with us. There are still recessionary pressures,” she said.

Retailers who survived the recession now want proven markets, like Des Moines, Holland said. “People seem to be coming out of that hunkered-down mentality, and they’re looking to markets where they can add to existing business,” she said.

A slower housing market has companies that range from Hubbell Realty to window maker Pella Corp. looking for ways to add revenue and expand business.

“We’re planning for a much slower growth pattern, and you start asking yourself what else you can do to pick up additional market share and grow our business,” said Rick Tollakson, Hubbell’s chief executive.

He said the West Des Moines developer, now the state’s largest home builder, is looking at “other business areas we can diversify in, other opportunities” it can pursue, but he declined to give details. “We think even in a slower economy we can grow,” Tollakson said.

Josh Garrett opened Jett and Monkey’s Dog Shoppe in 2009 with three partners. A good location and unfilled market has provided steady revenues. It also helps that “people are crazy about their dogs,” he said.

Year-over-year revenue continues to improve each month, said Garrett, who is excited to see how the business will look in a more solid economy. “We’re OK now, and we’re in a recession. This is what normal feels like for us,” he said. “If the economy gets really good, I have no idea what we’ll do with ourselves.”

Additional Facts

U.S. job recovery to outpace Iowa

Iowa's employment picture will brighten, said Sunayana Mehra, an economist at Moody's Analytics, and regain the jobs lost in the recession by the end of next year.

But, she said, Iowa will fail to add jobs at the same pace as the nation. For example, Iowa jobs will grow 1.1 percent next year and 1.8 percent in 2013, but U.S. jobs will grow at a rate of 1.7 percent in 2012 and 2.5 percent in 2013.

The reason, according to her analysis: Iowa's strengths through the recession - the financial services industry and farming - will soften in months ahead. Mehra expects improved global food supplies to pull corn and soybean prices lower and increased regulations to crunch finance profits.

Banks, whether in Des Moines or New York, will cut workers to boost profits, she said, adding that Iowa is already seeing employment fall.

In this recession the nation lost 8.7 million jobs, a 6.2 percent job loss, spiking to a 10.1 percent unemployment rate. Since then, the U.S. has added nearly 7 million jobs, federal labor data show.