

Normally, economics teaches that part of the reason business cycles in this country have been less severe in recent memory is due to the fact the structure of our economy has changed. Approximately 65% - 70% of what we consume in this country are services. During hard economic times, the demand for services does not fall as drastically as it would for goods, especially durable goods that last for a long time. Even as this country has weathered recessions, people still need oil changes, haircuts, and other services which keeps demand in the economy from drastically falling.

The situation we are experiencing is much different in that it is hitting the services of the economy. Looking at just Louisiana, the state has shut down casinos, movie theaters, and all restaurants are restricted to drive thru or take out, while gatherings larger than 50 people have been banned. On top of this, there is a price war in oil between Saudi Arabia and Russia driving down the price.

Recently, the Brookings Institution released a [study](#) looking at the areas that will most likely be hit the hardest due to the COVID-19 downturn. The analysis consisted of looking at each metro and measuring the share of jobs for the area concentrated in the most "at-risk industries", including mining/oil and gas, transportation, employment services, travel arrangements, and leisure and hospitality. The metros that had the highest percentage of jobs in these industries would be most at risk. The results show that metros heavily dependent on oil and gas and leisure and hospitality rank at the top. The most vulnerable metro in the country was Midland, TX. In the state of Louisiana, the most vulnerable was Houma.

For Lake Charles, the study stated that our metro was the 116th most at risk out of 382 putting us in about the top 30%. The study found that 16.9% of jobs in the MSA were in at-risk industries. Looking just in the state of Louisiana, Lake Charles is the 5th most at-risk economy. We are below Houma, New Orleans, Lafayette, and Shreveport. MSA's at less risk are, in order, Hammond, Baton Rouge, Monroe, and Alexandria.

Brookings Institute Rankings	Employment in high risk industries, 2019			
Metro name	Jobs	Share of all jobs	Share of metro jobs	National Ranking
Houma-Thibodaux, LA	24,560	0.1%	29.3%	8
New Orleans-Metairie, LA	127,618	0.6%	23.3%	19
Lafayette, LA	40,981	0.2%	20.8%	31
Shreveport-Bossier City, LA	33,259	0.2%	20.4%	35
Lake Charles, LA	19,035	0.1%	16.9%	116
Hammond, LA	6,593	0.0%	15.1%	218
Baton Rouge, LA	55,099	0.3%	14.0%	287
Monroe, LA	10,945	0.1%	13.4%	308
Alexandria, LA	7,399	0.0%	12.3%	350

This study seems to be very skewed toward the oil and gas industry, which will undoubtedly be greatly affected by both the price war and virus outbreak. Looking just at our area, what will be the effects of some of the government actions to stop the spread of the virus? To get a very cursory estimate of some of the

effects, the Drew CBEA ran a contribution analysis of some affected industries in Calcasieu parish using IMPLAN economic impact software. A contribution analysis can show how much an industry, or group of industries, contributes to an economy. It accounts not only for direct effects of production in these industries, but also the ripple effects in other industries that occur due to the economic activity.

To conduct this analysis for Calcasieu parish, assumptions were made about the activities of certain businesses in the area. Sectors that were analyzed included casinos, gyms, restaurants, certain leisure industries (such as movie theaters), and hotels¹. Some sectors were assumed to be completely shut down, such as casinos, while others were assumed to be operating at very low capacity, such as full-service restaurants that have seen restrictions placed on activities. Running the analysis shows these industries contribute over \$1.6 billion annually in sales with labor income of amounting to over a half billion dollars per year. They also either directly employ or indirectly support almost 16,000 jobs per year. Looking at these industries either shutting down or severely limiting operations for one month would mean \$138 million lost in total sales representing over \$44 million in labor income.

¹ Dentists' offices were also announced to be shut down so those were included as well.

Contribution Analysis Results

Impact	Employment	Labor Income (millions)	Value Added (millions)	Output (millions)
1 - Direct	13,306	\$398.7	\$738.6	\$1,233.7
2 - Indirect	1,509	\$74.9	\$118.2	\$241.7
3 - Induced	1,148	\$56.7	\$110.6	\$184.2
Total Annual	15,963	\$530.3	\$967.5	\$1,659.7
Monthly Average		\$44.2	\$80.6	\$138.3

This analysis, of course, is leaving out many components. For one, the assumptions that were made as to the capacity different industries are operating at could be too conservative. We don't know how the increased stock piling of goods such as toilet paper, food, etc., will mitigate some of these effects. Also, there have been many voluntary closures in retail stores throughout the parish which could greatly affect these numbers. As people stay at home, consumption from all sectors of retail should see a drop. Unforeseen news on business closures, layoffs, and reduced hours for workers will continually come in. This analysis cannot capture the full effect, but rather tries to give a glimpse into how important the industries that were shut down, or drastically altered, are.

Some good news is that while some businesses are closed, workers may still be getting paychecks or oncoming government relief which will help lessen the blow. Also, important employment drivers of the local economy, such as the petrochemical plants, oil refineries, and healthcare, are still operational.

The scope of this event is far reaching and the future path is unknowable with constant changes. The necessary data to conduct a full-fledged analysis is not yet available. This is one reason the Drew CBEA is requesting business owners fill out the [survey](#) about COVID-19 at the SWLA Alliance website. This not only allows the Alliance and Drew CBEA to collect necessary data in real-time to assess the effects of this event, but also find the best ways to provide needed assistance.

What we can say with certainty is that the shutdown of these important industries will have a large effect on our area. As more data and information comes in, the Drew CBEA will be updating and enhancing analysis of the economic effects. Please feel free to contact us with any questions.

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