

IOWA ECONOMIC SCORECARD

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Iowans are Worldwide Leaders

By Deborah D. Thornton

The 40th World Economic Forum (WEF) was just held in Davos, Switzerland. The WEF is “an independent international organization committed to improving the state of the world by engaging business, political, academic and other leaders of society to shape global, regional and industry agendas.”¹ There are 1,000 business members of the WEF, representing global corporations, such as PepsiCo and Dell, plus government, non-governmental, and special interest organizations. Some participants are familiar, such as Condoleezza Rice, Bill Gates, Josef Ackermann (Chairman of Deutsche Bank), and Susan Hockfield (President of the Massachusetts Institute of Technology), but most are as unknown to us as we are to them.

This group of elite “internationalists” meets annually to network and talk about global problems and solutions. While their rhetoric does have a “One World” flavor – that is their reality. Indra Nooyi, Chairman of PepsiCo, herself an East Indian, does have broader issues to deal with than the local tax rate in Mount Pleasant, Iowa. Some 2,000 people attend the forum each year, security is relatively tight at Davos (an exclusive ski resort area), and protests are known to occur.

A major product of the WEF is the issuance of a “Global Risks Report.” The 2011, Sixth Edition, is 111 pages and had been downloaded almost 7,000 times by the end of January.² The theme for this report and the 2011 conference is “Shared Norms for a New Reality.” It identifies two cross-cutting global risks. One is economic disparity, both within individual countries and across countries. Though there have always been internal and external economic disparities, the ability of better and more timely communication between people has made the issues more visible and therefore more significant. Some symptomatic issues include health care, illicit trade, migration and immigration, food insecurity, terrorism, and weapons of mass destruction. Population growth, increasing unemployment, and education failures are noted as causing many of these disparities. National solidarity is seen as decreasing, while individual and subgroup identities are becoming stronger and more contentious. “Traditional” forms of association are eroding and trust in institutions is decreasing.

The second risk is global governance. From the 1990s until recently, the “Washington Consensus” was considered the international governing standard. First defined in 1989 by John Williamson of the Institute for International Economics, the Washington Consensus was a set of ten market-friendly or free-market policies that were generally pursued by both advanced and emerging countries. Specific policies included reducing government deficits; tax reform, privatization, liberalization and deregulation of trade, and export-led economic growth.³ According to the WEF, this approach is no longer considered the standard for economic development, but has not been replaced.

More detailed components of the global governance issue include high debt levels in advanced economies, asset price decreases, savings imbalances, long-term unfunded liabilities, and government bailouts.⁴ These are issues that drove much of our November 2010 election results, at both the state and national level. As a result, Republicans now control both the Congressional House of Representatives and the Iowa House. Additionally, both the U.S. and the Iowa Senate almost became Republican con-

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trolled. In not only Iowa, but also most of our surrounding states, the Republicans won the Governors races, campaigning on fiscal responsibility and economic development.

The Global Risk Report contains considerable politically correct international and government "speak," yet it is apparent that these issues are playing out today, in Iowa, at both the state and local level. Further, Iowa families and workers, political and business leaders, are uniquely positioned to proactively address these issues as part of our daily decision making. If government policies and business development are positively handled here, we will more broadly influence outcomes and results worldwide than our status as "fly-over" country would initially indicate.

After economic disparity and governance, the WEF outlines three other clusters. First are macroeconomic imbalances, second the "illegal economy," and finally water-food-energy issues. In the macroeconomic area, the WEF suggests that the debt-to-Gross Domestic Product (GDP) ratios of many countries, including that of the United States, is reaching an unacceptable level. Countries must do major fiscal consolidation, either reducing spending or increasing taxes, in order to deal with future liabilities. The concern is that politicians will not muster the necessary will to enact changes, resulting in serious long-term economic problems.

Governor Terry Branstad and the Republican-controlled House of Representatives are attempting to prevent that in Iowa. House File 45, the Taxpayers First Act, currently being stalled in the Democrat-controlled State Senate, addresses many of these issues in a pro-active, positive way. Some examples include cutting statewide pre-school funding, overall state budget cuts, and layoffs of recently hired employees. It is to be hoped that they have the "will" to stand by their decisions. In contrast, those who refuse to consider any spending cuts, or who acted to sign ill-considered contracts and ignored a major state budget cut, demonstrate the fracturing of overall social goals. It is no wonder that trust in institutions is decreasing.

In the illicit trade area – because we have major interstates crossing Iowa – drivers easily cross our state from Chicago, St. Louis, Minneapolis, and Denver. There is known illegal immigration, which must be addressed. House File 95 requires positive photo identification for voters, dealing with part of this issue. However, Iowa City is considering a "Sanctuary City" ordinance preventing the law enforcement personnel from enforcing immigration laws.⁵ Rural drug problems, facilitated by the transportation systems and illegal immigration, are well documented and must be addressed.

Another aspect of illicit trade is tax avoidance and government transparency. The Legislature is attempting to increase government transparency by requiring governments to post their spending in on-line, searchable, sortable databases (House File 94).

Iowa Statewide Economic Indicators

Data source: <<http://www.iowaworkforce.org/trends>>, <<http://www.iowa.gov/taxlaw/econindicators.html>> January 24, 2011

Latest Economic Indicators	Updated as Of:	Actual Number	Amount of Change	Time Period Reported
 New Vehicle Registrations	12/17/2010	96,687	6.6%	Nov. 2009 - Nov. 2010
 New Housing Permits	12/24/2010	6,999	11.3%	Nov. 2009 - Nov. 2010
 Existing Home Sales	11/26/2010	41,200	-41.8%	2nd. Qtr. - 3rd. Qtr. 2010
 Total Resident Jobs	12/17/2010	1,564,100	2,500	Oct. - Nov. 2010
 Non-Farm Employment	12/17/2010	1,478,400	100	Oct. - Nov. 2010
 Factory Jobs	12/17/2010	206,500	200	Oct. - Nov. 2010
 Initial Unemployment Claims	12/17/2010	20,965	34.3%	Oct. - Nov. 2010
 Jobless Rate	12/17/2010	110,500	6.6%	Oct. - Nov. 2010
 Personal Income	9/20/2010	\$37,722	1.1%	1st. Qtr. 2010 - 2nd. Qtr. 2010
 Exports of Goods	1/13/2011	\$9,868.1 M	19.2%	Jan. 2010 - Nov. 2010
 Farmland Values	12/3/2010	\$5,064	13.0%	Oct. 2009 - Oct. 2010

Simplification and reform of tax systems, from the property tax to inheritance taxes, have been perennial Legislative discussion items.

Water-food-energy issues, the third cluster, are being driven on a global basis by growth in global populations. Having good access to water, food, and energy at reasonable prices is considered key to economic stability and growth. In 2011, there are expected to be over 7 billion people to feed and house. Unfortunately, not many of them are moving to Iowa. Our population growth remains stagnate and is growing older. We need to work to recruit new residents by facilitating new businesses and job growth. College tuition rates significantly impact these personal decisions. House File 45 makes important changes to allowable tuition rate increases.⁶

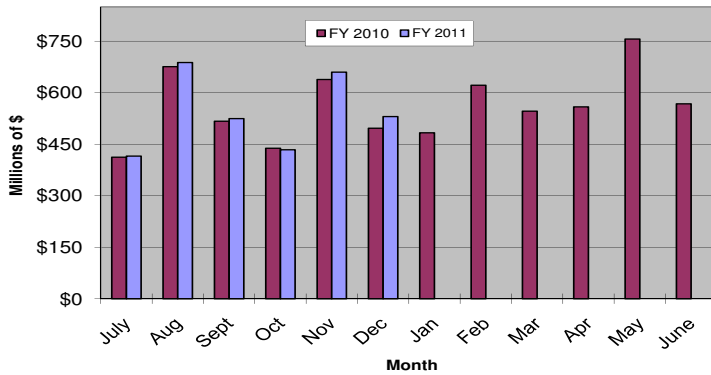
Recent agriculture reports indicate strong growth in 2010, with some of the highest corn production ever and rising land values (see page 6 of this issue). 2011 is expected to continue this trend. Iowa farmers are some of the most productive in the world, and the world needs our products. The United Nations has projected a 50 percent increase in demand for food by 2030.⁷ Much of the worldwide food issues center on food distribution and malnutrition, as well as environmental and water-supply issues. Iowa farmers are conservation minded – their land and water are their largest assets. We need to work to ensure our food gets to those who need it, profitably yet with competitive pricing. Valued-added businesses could create significant new jobs and profits. In the energy area, the issues of coal, nuclear, ethanol, and wind energy need to be addressed on a long-term basis.⁸ Unfortunately, environmentalists have stalled both coal use and nuclear energy production increases.

Internationalists, most of who have probably never been to Iowa, generated the Global Risks Report. One statement in the section on “Retrenchment from globalization” stated that as the “power and capacity of the United States to lead diminishes,” emerging economies must embrace leadership. The report warned of potential backlash against globalization and the development of “extremist parties,” specifically

continued on page 8

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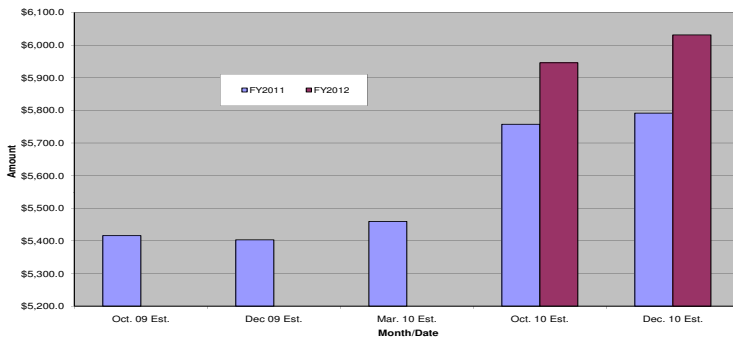
Iowa's Monthly State Revenue and Estimated Net Yearly Revenue (in millions)



Monthly State Revenue:

Monthly FY 2011 state revenue was \$530.4 million in December. This is \$34 million more than December 2009. Tax collections for FY 2011 year-to-date total \$3,251.8 million, \$74.1 million more than a year ago, and almost equal to the \$3,280.9 of December 2008, FY 2009.

Quarterly Estimated Net Receipts

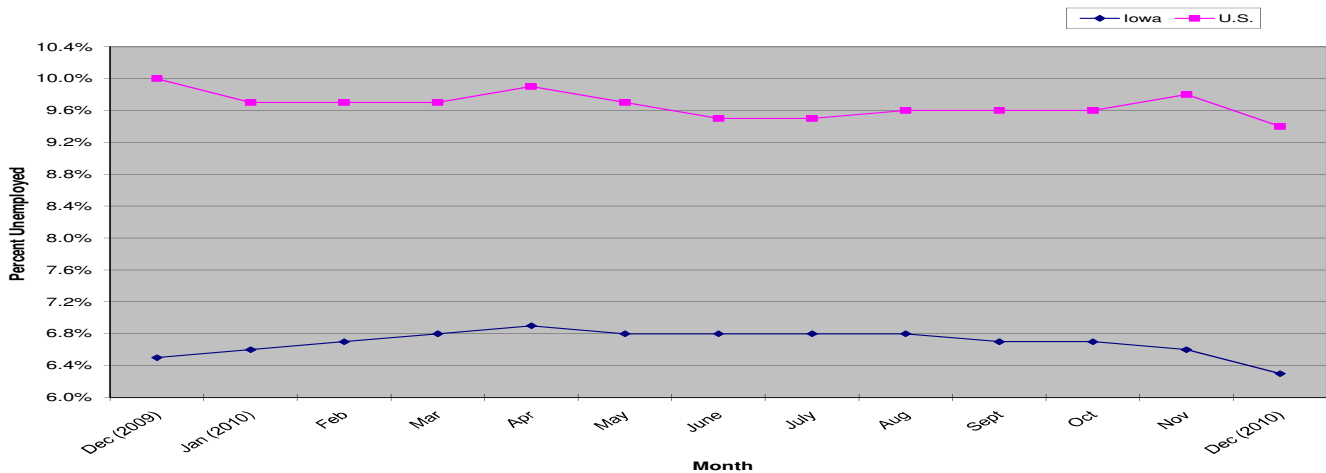


Estimated Net Yearly Revenue:

The revised Revenue Estimating Conference December estimate of \$5,791.6 million for FY 2011 Net General Fund receipts was significantly higher than the official December 2009 estimate of \$5,403.2 million. The estimate for FY 2012, which starts in July, is \$6,031.3, over \$628 million higher than FY 2011.

Source: Legislative Services Agency "Monthly General Fund Revenue Memo," and Revenue Estimating Conference Report

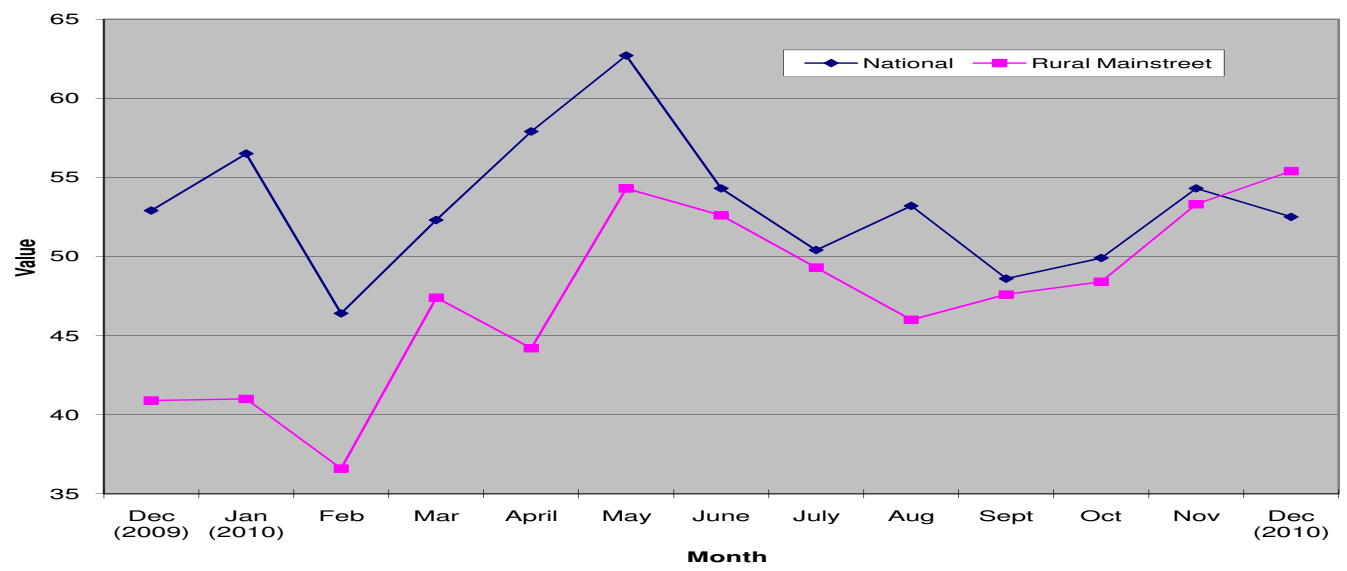
U.S. and Iowa's Unemployment, December 2009 - Current



The U.S. unemployment rate in December 2010 was slightly lower, at 9.4 percent. The Iowa rate remains significantly lower, at 6.3 percent. This was the largest monthly decrease in 2010. Total Iowa employment in December was 1,569,500, up 5,400 from December 2010. The number of initial unemployment claims was just under 21,000, up 34 percent from November.

Source: Iowa Workforce Development, Labor Market Information Bureau, "Monthly Unemployment Rate News"

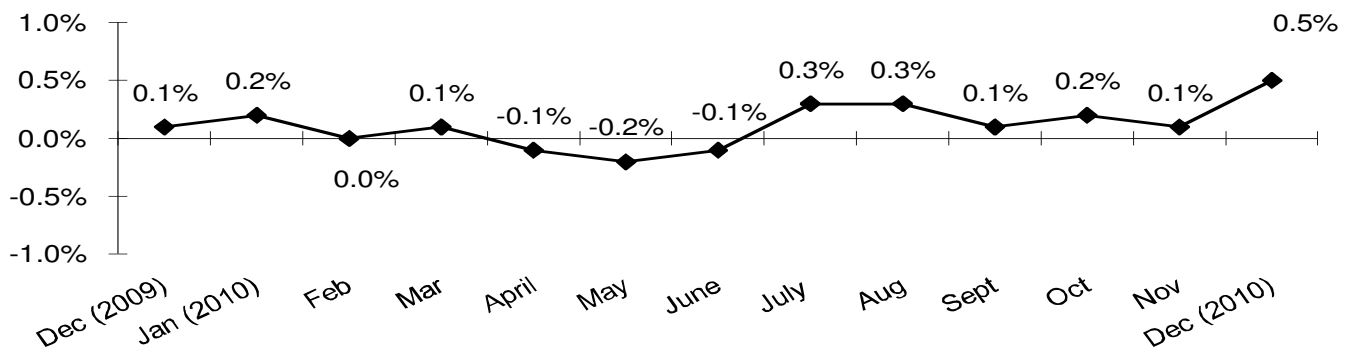
Consumer Confidence Index



The national Consumer Confidence Index (CCI) continues an up and down pattern. In September it dropped below 50, but rebounded to 52.5 in December. Confidence is off 10 points from the May high of 62.7. Iowans are slightly more optimistic. According to the Conference Board, “Consumers’ assessment of the economy and labor market remains tepid.” Creighton University economist Ernie Goss said, “Very healthy farm income is rippling across the Rural Mainstreet economy. Businesses heavily dependent on the farm economy continue to experience very strong economic conditions.”

Source: Conference Board, “Consumer Confidence Survey” and Creighton University

Consumer Price Index, Monthly Change



The seasonally adjusted Consumer Price Index increased 0.5% in December 2010, driven by significant increases in the “gasoline” part of the energy index. The household energy index also increased, after falling in November. The CPI only increased 1.5 percent in 2010, contrasted with a 2.7 percent increase in 2009.

Source: U.S. Department of Labor, Bureau of Labor Statistics

FARMLAND VALUES AND CREDIT CONDITIONS

By: David B. Oppedahl, Business Economist

Propelled by rising agricultural prices, farmland values jumped 10 percent in the third quarter of 2010 from the previous year in the Seventh Federal Reserve District (Illinois, Indiana, Iowa, Michigan, and Wisconsin). Also, the value of “good” agricultural land rose 3 percent relative to the second quarter of 2010, according to the 227 responses generated by the October 1 survey. Farmland values were expected to be up again in the fourth quarter of 2010 by almost half of the respondents. Stronger agricultural credit conditions in the third quarter of 2010 reflected higher expected farm income relative to last year. Loan repayment rates improved in July through September compared with the same period of 2009. Loan renewals and extensions were down. Once again, funds availability at District banks was higher than in the previous year. Demand for non-real estate loans in the third quarter of 2010 receded from the level of a year earlier. Interest rates on agricultural operating and real estate loans dropped to the lowest values recorded in the history of the survey. Reaching a six-year low, the average loan-to-deposit ratio was 73.2 percent.

Farmland values

Just two years after a string of double-digit increases, District farmland values increased 10 percent in the third quarter of 2010 relative to the same period last year. With the value of “good” agricultural land rising quickly, there were reports of more farms put up for sale. Farmland values in Iowa were up the most, with a year-over-year increase of 13 percent for the third quarter of 2010. The District’s agricultural land values gained 3 percent from the second quarter to the third quarter of 2010. The quarterly gain of 6 percent in Iowa led the District.

Expectations that farmland values will rise during the fourth quarter of 2010 dominated expectations that they will fall. Almost half of the survey respondents predicted upward movement in District land values (48 percent), while 49 percent anticipated stable values. Moreover, 60 percent of responding bankers expected higher demand among farmers to purchase farmland this fall and winter. Similarly, the interest in farmland by non-farm investors was expected to grow, with 37 percent of the responding bankers predicting higher demand for farmland among non-farm investors over the next three to six months. Even so, farmland demand for recreational purposes has lagged and contributed to wider gaps in selling prices between more productive cropland and poorer quality land.

The surge in agricultural land values and the anticipation of higher demand for farmland have been fueled by projected increases in farm income. A quick harvest yielded the third largest corn crop and the second largest soybean crop ever. Agricultural prices generally moved higher from July through October, highlighted by a 37 percent increase in the price of corn. Moreover, key price measures were all above their levels of a year ago in October. Three-quarters of responding bankers expected higher net cash earnings for crop operations this fall and winter. Respondents also anticipated gains in net cash earnings for dairy, cattle, and hog farmers relative to a year ago.

The lull in farmland values during 2009 seemed to slow the flow of properties hitting the market. In contrast with last year’s results, 25 percent of the respondents expected a higher volume of farmland transfers, while 16 percent expected a lower volume. Although 59 percent anticipated no change in the level of land transfers, sales look ready to exceed the pace of last year.

Credit conditions

Improvements in agricultural credit conditions were reported throughout the District. Repayment rates on non-real estate farm loans were higher in the third quarter of 2010 than in the same period last year. With 23 percent of the respondents reporting increased rates of loan repayment and 9 percent

reporting decreased rates, the index of loan repayment rates (114) popped above 100 after spending over a year below this value. Also, loan renewals and extensions on non-real estate agricultural loans were down in July, August, and September of 2010, with only 8 percent of the bankers indicating an increase. Illinois and Iowa were the only states with lower levels of loan renewals and extensions than a year ago.

Demand for non-real estate loans ebbed in the District during the third quarter of 2010, as 18 percent of the respondents reported demand increased for non-real estate loans from a year earlier and 28 percent reported a decrease. The index of loan demand was 90, the lowest level in a year and a half. The index of funds availability for the July through September period of 2010 had the highest value since 1987. With 42 percent of the responding bankers indicating there were more funds available during the third quarter of 2010 than their banks had a year earlier and 4 percent reporting there were fewer, the index of funds availability climbed to 138.

District banks tightened collateral requirements slightly less in the third quarter of 2010 than in the previous quarter, as more collateral was required by only 22 percent. The average loan-to-deposit ratio was 73.2 percent — 4.5 percent below the desired level. The interest rate on farm mortgages moved below the survey’s previous record low, set in 2004. As of October 1, the District average for interest rates on agricultural real estate loans was 5.81 percent. Iowa had the lowest rate for farm mortgages, 5.64 percent.

Looking forward

Emphasizing a turnaround, respondents expected agricultural credit conditions to improve further during the fall and winter. Forty-five percent of the responding bankers anticipated the volume of farm loan repayments to rise over the next three to six months compared with a year ago; only 5 percent thought repayment rates would go down. Forced sales or liquidations of farm assets among financially stressed farmers were expected to diminish this fall and winter. Respondents predicted higher non-real-estate loan volume for the October through December period of 2010 compared with the same period of 2009; 26 percent of the responding bankers expected more volume and 16 percent expected less volume. All this strength in volumes was concentrated in Illinois and Iowa. Respondents anticipated expanded volumes for operating loans (15 percent more forecasted increases rather than decreases), farm machinery loans (25 percent), Farm Service Agency guaranteed loans (10 percent), and farm real estate loans (14 percent). The volume of livestock loans was predicted to contract in the final quarter of 2010 relative to the final quarter of 2009.

Summary and excerpts reprinted with permission of the Federal Reserve Bank of Chicago, from the Agricultural Newsletter, Number 1950, November 2010.

Iowa Agriculture Statistics Winter 2010	Reported by Bankers in 7th District		
	Lower	No Change	Higher
Farmland Values - Good Land	3%	49%	48%
Actual Prices - Year-Over-Year 2009 - 2010			13%
Actual Prices Second Quarter to Third Quarter			6%
Loan Repayment Rates	2%	68%	30%
Loan Renewals & Extensions	23%	74%	23%
Non-Real Estate Loan Demand	29%	48%	23%

Iowa Loan/Lending Averages

Average Loan to Deposit Ratio	73.2%		
Average Farm Mortgage Rate	5.6%		

Source: Federal Reserve Bank of Chicago, November 2010

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continued from page 3

mentioning the rise of the Tea Party. It characterized their concerns as “arguments of economic nationalism.”⁹ Maybe WEF participants should join the presidential candidates visiting Iowa and get a first-hand introduction to real leadership. Leadership that is emerging throughout the United States by people confident enough to state their opinions and get the job done – the way the American people always have.

(Endnotes)

¹ World Economic Forum, <<http://www.weforum.org/>> accessed on January 24, 2011.

² “Global Risks 2011,” Sixth Edition, World Economic Forum, <<http://www.weforum.org/reports>> accessed on January 25, 2011.

³ John Williamson, “A Short History of the Washington Consensus,” Institute for International Economics, September 2004, p. 3, <<http://www.piie.com/publications/papers/williamson0904-2.pdf>> accessed on January 25, 2011.

⁴ “Global Risks,” p. 15.

⁵ “Sanctuary City: Heartland City pushes for non-enforcement of immigration laws,” November 9, 2010, <<http://www.examiner.com/law-enforcement-in-national/sanctuary-city-heartland-city-pushes-for-non-enforcement-of-immigration-laws>> accessed on January 24, 2011.

⁶ Tyler Kingkade, “‘Taxpayers First Act’ amended to restrict tuition increases,” The Iowa Independent, January 20, 2011, <<http://iowaindependent.com/51014/taxpayers-first-act-amended-to-restrict-tuition-increases>> accessed on January 21, 2011.

⁷ “Global Risks,” p. 33.

⁸ “New nuclear plants for Iowa, California?” Nuclear News, April 29, 2010, <http://www.world-nuclear-news.org/NP-New_nuclear_plants_for_Iowa_California-2904105.html> accessed on January 25, 2011.

⁹ “Global Risks”, pp. 60-61.



IOWA ECONOMIC SCORECARD

Question of the Quarter:

The Legislature is now in the second month of the 2011 session. How do you think they are doing? Send your thoughts on this issue to us at Public.Interest.Institute@LimitedGovernment.org. We may publish your thoughts in the May 2011 issue of *IOWA ECONOMIC SCORECARD*.