

**Revenue Estimating Conference  
Minutes  
December 14, 2022**

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**Members Present:** Kraig Paulsen, Jennifer Acton, David Underwood

Mr. Paulsen called the October meeting of the Revenue Estimating Conference to order at 11:00 a.m. He opened the conference by thanking Holly Lyons for her service to the State as she ends a very honorable career. In both the Legislative Services Agency and her time on this Board.

**Approval of the December 14, 2022 agenda**

With no objection, the December 14, 2022 agenda was carried unanimously.

**Approval of the October 13, 2022 minutes**

With no objection, the October 13, 2022 minutes were carried unanimously.

**Remarks**

Ms. Acton As is often said after the October REC meeting, we had hoped to have more clarity and information by the December meeting; however, that is often not the case and is certainly the situation today. The current state of the economy makes it an especially difficult time to predict the future; as always there are many variables at play. While there are no telltale signs of a future recession, many economists indicate that the 2023 economy may have a difficult time.

Despite households being squeezed by high inflation and high interest rates, many economists indicate there are signs that inflation may be moderating. Yesterday, the Bureau of Labor Statistics reported consumer price gains at 7.1% annually in November, down from 7.7% in October, and down from its peak of 9.0% in June of this year. November's rate was the fifth straight monthly decline and the lowest since December 2021. Core CPI, which excludes food and energy costs, was at 6.0%, which is down from 6.3% in October. Consumer discretionary spending continues, job growth has remained steady, and unemployment is relatively low. Consumers have begun to see declining gas prices at the pump as well as recently lower prices for used cars.

While all this is positive news, there is still some reason for concern. The Federal Reserve is meeting this afternoon for a potential 7<sup>th</sup> rate increase for 2022 with the intent to further slow inflation. Globally, we continue to work our way through the supply and demand imbalance brought on by the pandemic as well as high energy prices and the continued war in the Ukraine.

Inflation appears to be slowing and in addition, no key Iowa economic indicators are suggesting a downturn in the economy at this time. The Iowa Leading Indicators increased in October, with five of the eight components increasing month over month. This would not suggest an economy on the verge of a downturn in the near future.

The U.S. labor market is holding up much better than expected. U.S. seasonally adjusted nonfarm employment peaked in February 2020 with 152.5 million jobs. In August, the U.S. reached the pre-pandemic peak and is currently at 153.3 million jobs. Growth over the past 6 months has averaged approximately 344,000 jobs per month. However, in Iowa, nonfarm employment peaked in January 2020 at 1.6 million jobs. Through October 2022, employment is down 7,100 jobs from the peak. Growth over the past 6 months has averaged 3,200 jobs per month. At this rate, it will take until January 2023 to return to the pre-pandemic employment peak. According to Iowa Workforce Development, Iowa's current unemployment rate is 2.9%. As of October 2022, a total of 1.7 million Iowa residents were in the labor force which is a participation rate of 67.7% compared to the US labor force participation rate of 62.2% for the same time period. A continuing issue for Iowa is more jobs than workers and an aging workforce.

On the agricultural front, corn and soybean prices have been hovering around the highs of 2012 throughout the year. For October, both corn and soybean prices are just below the 2012 numbers which can indicate inflation is starting to ease resulting in prices coming down. Drought conditions continue throughout the State so the rains yesterday were welcome and hopefully soaked in since the ground wasn't frozen.

Starting in January, major State tax reductions passed by the Legislature will slow the accumulation of General Fund Revenue. For individual income tax, the top rate is lowered from 8.53% to 6.0% and in addition, retirement income will no longer be taxed by the State. The top rate for corporate income tax is lowered from 9.8% to 8.4%. These changes and others are included in the LSA estimate.

For FY 2023, the LSA is projecting an increase of \$119.6 million compared to the October REC estimate and for FY 2024, an increase of \$48.8 million. The LSA projection is a modest net revenue increase for FY 2023 and an FY 2024 estimate that is essentially flat.

Mr. Underwood That's a pretty good recap because we really haven't seen much change since our last meeting, at least anything that would significantly impact our estimate. So, I'm just fine tuning the estimates that I've seen here in the work done by both LSA and the Governor's Office. So even if the fed has not completed their meeting by the time we leave today, it probably doesn't make any difference because I think everybody has it figured out what they are going to do anyway. I think we've built into our estimates everything we know and that we can really put a finger on. I think we are in pretty good shape this year and this is probably going to be a fairly easy meeting today there are not big differences.

Mr. Paulsen As always, thank you to all the staff that supports the conference and prepares us. The teams at the Legislative Services Agency, Department of Management and Department of Revenue prepare us well to make the best decisions we can and it is appreciated.

The Iowa economy and the U.S. economy continue to be in a state that is very hard to predict.

Tentative relief in inflation may mean a decreased chance for recession although recession chances are still elevated. The Federal Reserve has made it very clear that they will do whatever it takes to return inflation back to their 2 percent target.

The Iowa economy contracted in the second quarter and remains down year over year, although other quarters have been upwardly revised. The U.S. economy expanded at a modest pace in the third quarter after contracting in the prior two quarters. Some leading indicators, including the yield curve, stock prices, and the housing market, are also pointing towards recession even as jobs and spending continue to hold their ground. However, as was previously pointed out, Iowa's leading indicators are not in contraction at this time.

Inflation remains stubbornly high but year over year changes have declined since June. Gas prices are lower than a year ago. Food inflation has decelerated although remains elevated. Rents have dropped for the third month in a row

nationally, suggesting shelter inflation may decline in the coming months, although there is a significant lag between rent changes and changes in shelter inflation. Consumers are spending although at a slower pace. The savings rate has dropped as higher prices are eating into savings although savings remains relatively high for upper income households.

The labor market has moderated. Job openings have decelerated both nationally and in Iowa, suggesting some cooling in labor demand. Nationally, layoffs have picked up in the tech sector and layoff notices have increased in Iowa over the course of the past several months. However, we continue to see a very strong workforce in our income tax related receipts.

As supply chain challenges delayed equipment purchases for farmers, there is pent up demand for newer farm equipment, trucks, grain bins, and other assets. The outlook for agriculture looks relatively optimistic for continued higher commodity prices, although prices have fallen somewhat. Input costs continue to remain high.

The banking sector in Iowa remains healthy. Asset growth has slowed but there is still a lot of cash on hand. Asset quality remains high. Bankruptcies are low with the strong economy in 2021 along with high commodity prices boosting the agricultural sector.

Housing demand has cooled since the start of the year, but supply remains tight. Single family home sales have declined. However, the median home prices are still up. Prices are up as inventories of homes for sales remained low, with a two-month supply of homes on the market.

Overall the state is in an incredibly strong financial position and is well situated to manage whatever future circumstances dictate. I continue to be optimistic that any downturn will be weathered and at least in Iowa, it will be shallow and relatively short in length.

With all that in mind, the numbers that I have suggested today are a modest increase in revenues from the October REC estimates.

### **Review Fiscal Year 2023 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Motion: Mr. Underwood made a motion to use the Governor's Appointee's numbers and add \$30 million to the refund line, making the Net Receipts Plus Transfers \$9,615.2 million.

Second: Ms. Acton seconded the motion.

Call for the Vote: All voted in favor and the motion carried unanimously.

### **Review Fiscal Year 2024 General Fund Estimates, Accruals, Refunds, School Infrastructure Transfer, and Lottery and Other Transfers**

Motion: Mr. Underwood made a motion to use the Governor's appointee numbers as presented - \$9,625.5 million.

Second: Ms. Acton seconded the motion.

Call for the Vote: All voted in favor and the motion carried unanimously.

### **Fiscal Years 2023 and 2024 Gambling Revenues Transferred to Other Funds and Interest Earned on Reserve Funds (transferred to Rebuild Iowa Infrastructure Fund)**

Motion: Mr. Underwood made a motion to adopt the numbers as presented.

Second: Ms. Acton seconded the motion.

Call for the Vote: All voted in favor and the motion was carried unanimously.

### **Other Business**

With no further business, Mr. Paulsen called the meeting adjourned at 11:20 a.m.

*The December 14, 2022 minutes were unanimously approved at the March 10, 2023 meeting.* *tlw*