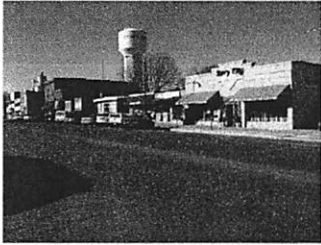


State of the Iowa Economy

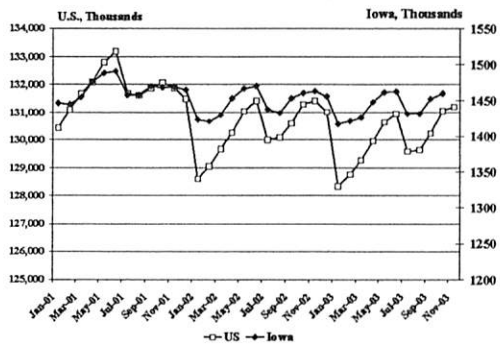


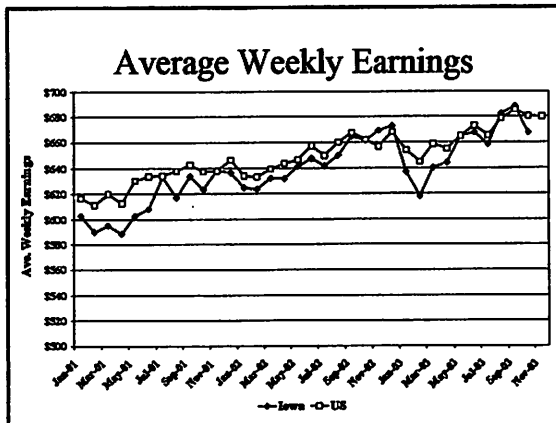
Presented to Legislative Fiscal Committee
Des Moines, Iowa
December 17, 2003
by Kenneth E. Stone, Professor of Economics, ISU

Overview of Iowa

- Personal income tax collections +5.1%
 - Helped by higher withholding because of federal tax cuts.
 - Economy is improving.
 - Expect further increases.

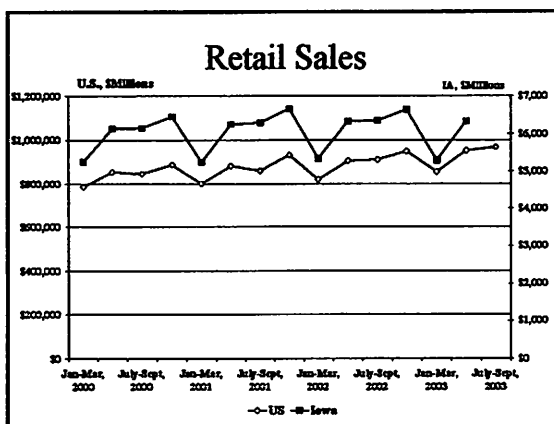
Total Nonfarm Employment

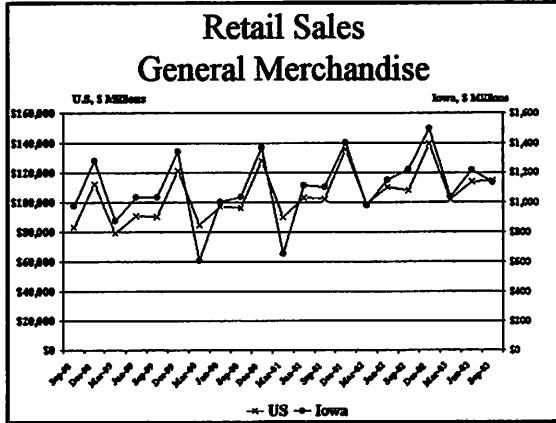


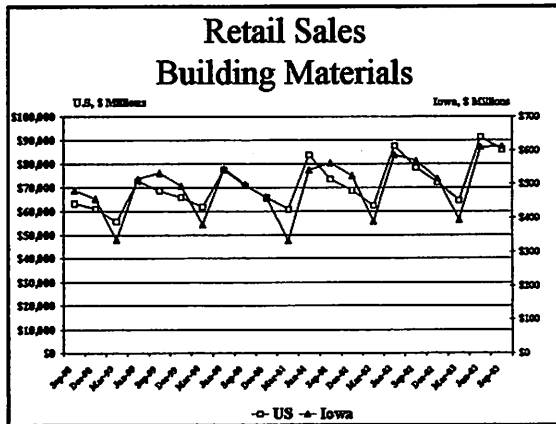


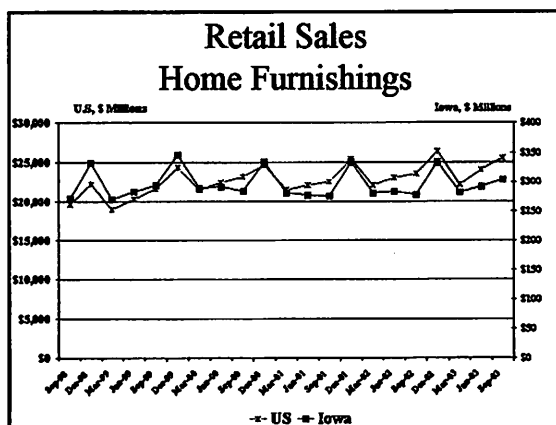
Overview of Iowa (Cont'd)

- Sales tax collections + 0.2%
 - Utility tax phase-out is a major cause of low rate.
 - Deflation in much of retail reduces tax.
 - Major retailers could be minimizing payments until reconciliation time.
 - Iowa's older population doesn't spend as much as younger population.
 - Look for improvement in near future.











Overview of Iowa (Cont'd)

- Corporate income tax lagging -26.3%, but should pick up soon.
 - National economy has robust recovery
 - Iowa follows, but lags national
 - National corporate earnings rising rapidly
 - Expect Iowa corporate tax revenue to increase soon.

Overview of Iowa (Cont'd)

- Unemployment dropping, now at 4.5%
- Farm income will be good, especially soybeans and cattle.
- Tax cuts should spur economy.
- Price inflation remains low and should keep construction strong.

SOME MAJOR PROBLEMS

- Losing non-farm jobs-companies out-sourcing both manufacturing & service.
- Wages being forced down as out-sourcing continues.
- Competition among largest retailers forces manufacturing to developing countries.
- Retail price deflation is boon to consumers, but bust for State tax collections.

CONCLUSIONS

- Iowa average weekly earnings growing, same as U.S.
- Total non-farm employment tracks U.S., but both are declining.
- Iowa retail sales tracking U.S. but lagging somewhat.
- Iowa general merchandise tracking U.S., increasing.

CONCLUSIONS (Cont'd)

- Building Materials sales tracking U.S., increasing slightly.
- Iowa Home Furnishing sales tracking U.S. and growing.
- Iowa food sales lagging U.S. (IA slow growth)

CONCLUSIONS (Cont'd)

- Home furnishings growing similar to U.S.
- **Overall, I expect a pleasant surprise for revenue collections for the State, as the economic recovery progresses.**

FOR ADDITIONAL INFORMATION

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