

IOWA ECONOMIC SCORECARD

Volume 20, Number 4

November 2012

Iowa Farmland Continues Upward Trend

By Deborah D. Thornton

A key discussion point in the 2012 presidential election was the decrease in net worth of middle-class Americans since the 2008 recession. According to the Federal Reserve, the median net worth fell by 38.8 percent from 2007 to 2010.¹ Most of this drop was a result of declining housing prices. However, if you are an Iowa landowner or farmer your story is somewhat different.

The brightest spot in the Iowa economy over the last few years has been the steady increase in farmland prices. According to the most recent report from the Realtors Land Institute, farmland values rose 7.7 percent from March through September, following a 10.8 percent rise from last September to March – for an overall 18.5 percent increase in the past year. There were increases in all nine districts. High-quality cropland was valued at an average of \$10,445 per acre. Medium-quality was \$7,877 and low-quality sold at \$5,314 an acre. Pastureland was up 7.7 percent and timberland up 2.9 percent over the same six-month period. The highest average price reported was in northwestern Iowa, at \$11,908 per acre for high-quality cropland.² In October the highest price ever for farmland, \$21,900 per acre, was paid in Sioux County, Iowa.

The overall Rural Mainstreet Index of economic indicators done by Creighton University in Omaha increased to 56.6 in October, moving above the growth neutral (50) level for the first time since June. The Iowa specific portion of the survey was slightly higher than the region at 57, up from 48.7 in September. The farmland-price index part of the survey was significantly higher at 71.7, reflecting the high land prices reported by the Land Institute. Both high commodity prices and low interest rates are driving the farmland-price index.³

According to economist Dr. Ernie Goss from Creighton, “Bankers in some parts of the region are reporting farmland prices as high as \$20,000 per acre. Despite the drought, farmers continue to put more air into the farmland price bubble. This is the 32nd consecutive month that the farmland-price index has risen above growth neutral.”⁴ Our neighbors to the far north – up in Canada – have seen a similar pattern. Their average land prices rose by 8.6 percent in the first half of 2012, following a 6.9 percent increase in the last six months of 2012.⁵

To the east, in Indiana – where the drought was the worst in decades – prices have also continued to rise. A June Purdue University survey estimated that the statewide price increase from 2011 had been between 14 and 18 percent, with cash rents increasing from 13 to 15 percent. The average values for Indiana cropland ranged from \$7,704 for “top-quality” land to \$5,013 per acre for poor-quality land.⁶ These prices are somewhat lower than those in Iowa.

Goss added that he expects negative economic responses from the drought to increase, resulting in higher food prices later this year. This opinion was reflected in the national September Consumer Price Index, which reported an annual increase of 1.6 percent for food and a 2.3 percent increase in the energy index.⁷

continued on page 6

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Public Interest Institute

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IOWA ECONOMIC SCORECARD is our quarterly economic forecast, arriving in February, May, August, and November. It consists of statistics about and analysis of the Iowa economy.

IOWA ECONOMIC SCORECARD is published by Public Interest Institute at Iowa Wesleyan College, a nonpartisan, nonprofit, research and educational institute whose activities are supported by contributions from private individuals, corporations, companies, and foundations. The Institute does **not** accept government grants.

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Canada's Fiscal Success Story

By Brian Lee Crowley

As Washington's fiscal profligacy is debated, few have pointed to a tremendous budgetary turnaround achieved in the mid-1990s. Over just a few years, between 1995 and 1998, Canada transformed a \$32 billion federal deficit, equivalent to 4 percent of its gross domestic product, into a \$2.5 billion surplus. This achievement was followed by a full decade of surplus budgets, with debt, tax, and poverty rates all falling as growth, investment, and employment rose.

Yet the most important lesson isn't what Canada did but how the Canadians did it. Listen to the debate between Republicans and Democrats, and it is clear that neither major U.S. party understands what took place in Canada. No one is proposing Canadian-style reform. This is a pity: Not only did reform work north of the border, but it was politically popular, too.

Here are five lessons from that success:

First, while all three major political parties claimed to want to repair Canada's deteriorating fiscal position, politically speaking it was almost impossible for any of them to tackle it alone. Attempting to do so would have allowed the other parties to outflank them, claiming that this or that policy was too extreme.

Washington is still caught in this mentality. Democrats mount a lopsided defense of social programs and higher taxes on "the rich," while Republicans typically denounce any tax increases or cuts in military spending. In Canada, progress on the deficit became possible only when the parties ceased to treat it as a matter of partisan contention and, instead, saw it as a vital national interest.

It helped that the left-leaning New Democratic Party of Saskatchewan was the first government in Canada to discover the limits of deficit financing. Its realization that someday the bill for massive government borrowing would come due was soon followed by the conservative government of Alberta and then by the center-left liberal government in Ottawa.

Governments of every stripe came to sing from the same song sheet, the most famous refrain of which came from Paul Martin, then the federal finance minister, who pointed out when announcing reforms that the deficit is not an invention of ideology but a fact of arithmetic. Eventually, every political party came to see that it had skin in the game. No one could attack one party as too extreme because each owned some part

of the process.

Lesson No. 2: Politicians quickly learned that they couldn't play favorites, carving out exemptions for friends and socking it to their opponents. If fixing the deficit was a challenge for the nation, then the whole nation had to be called upon to contribute. No carve-outs were permitted for defense or social programs. Taxpayers not reliant on public spending were expected to contribute through higher taxes, though spending cuts exceeded revenue increases by five to one.

Lesson No. 3: Once reforms were underway, time was of the essence. Proceeding piecemeal would have undermined the broad social consensus and would have delayed the handsome payoff that Canadians enjoyed once they had broken the deficit cycle.

Lesson No. 4: The spending cuts at the heart of reform took account of the ability of program beneficiaries to bear the burden. Rather than an arbitrary mentality or mandating "across-the-board" cuts, Canadians tested spending programs against clear criteria, relentlessly seeking real value for money.

Lesson No. 5: A simple, easy-to-understand target was critical to rallying public support. Eliminating the deficit became something of a national obsession, and there was a palpable wave of national pride once it was achieved. Canada showed that if you get all the other elements right, the supposedly insurmountable institutional obstacles to reform often prove to be paper tigers. A case in point is the Canadian Pension Plan, Canada's equivalent of Social Security. Reform required approval from not only the federal government in Ottawa but also seven of the provincial governments — the equivalent of needing Washington and a large majority of state legislatures to sign off on changes to Social Security. Even so, the Canadians managed to do what the U.S. Congress has not.

The takeaway for American politicians is that thoughtful reform, cleverly managed, paid handsome political dividends. The Liberal government of Prime Minister Jean Chrétien, which introduced these changes in 1995, was handily reelected in 1997 and 2000, and reforming provincial governments enjoyed similar success.

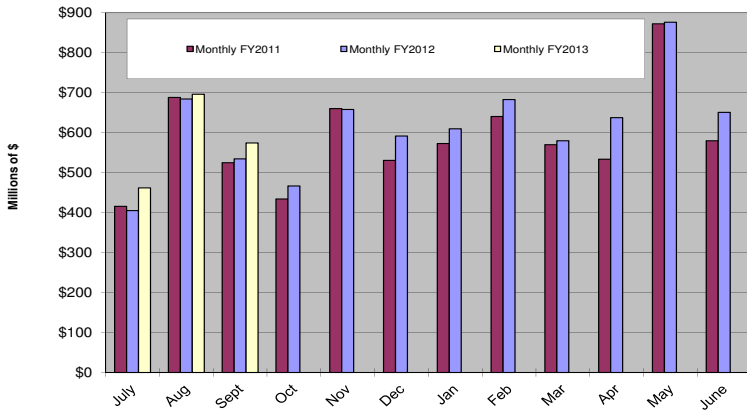
Surely the American political class is no less capable than its Canadian counterparts of taking up this challenge. It can strengthen the nation while bolstering its own political fortunes.

Brian Lee Crowley is managing director of the Macdonald-Laurier Institute, a public policy think tank in Ottawa, and co-author of "Northern Light: Lessons for America from Canada's Fiscal Fix." Originally published in The Washington Post, October 28, 2012, <http://www.washingtonpost.com/opinions/canadas-fiscal-success-story/2012/10/28/4861723e-193a-11e2-bd10-5ff056538b7c_story.html>. Reprinted with permission.

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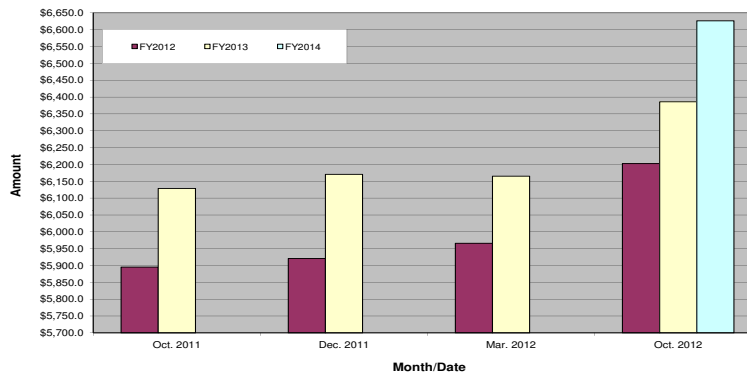
Iowa's Monthly State Revenue and Estimated Net Yearly Revenue (in millions)



Monthly State Revenue:

Monthly FY13 state revenue has been higher each month from July to September than in FY12. The quarterly total is just over \$100 million more than the same period in FY2012. Though Iowans' incomes remain stagnate, state government is collecting more taxes.

Quarterly Estimated Net Receipts

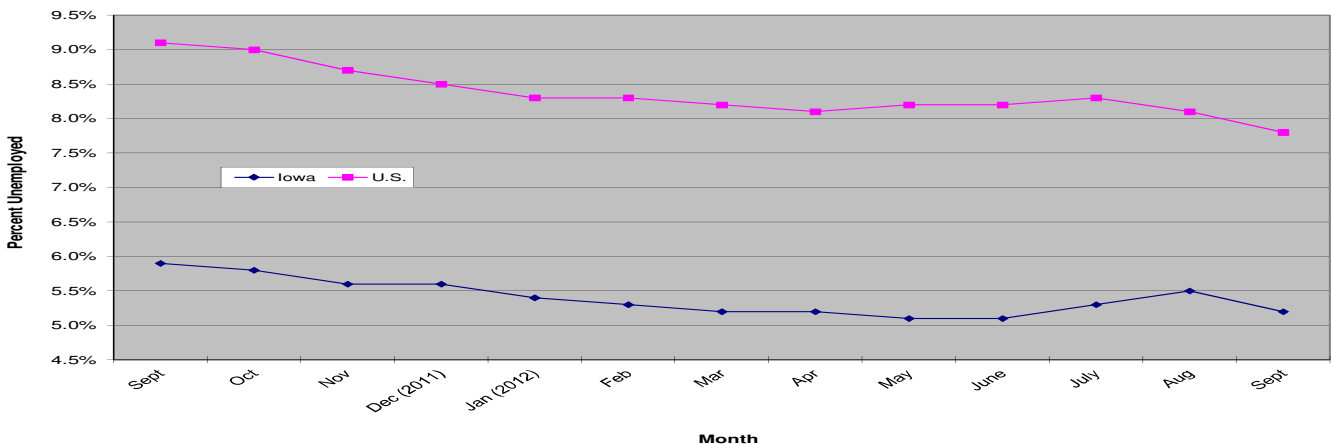


Estimated Net Yearly Revenue:

The revised Revenue Estimating Conference October prediction for FY13 is \$6,385.9 million, up from the official December 2011 FY13 estimate of \$6,170.4 million. The FY14 initial estimate is \$6,626.3 million.

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

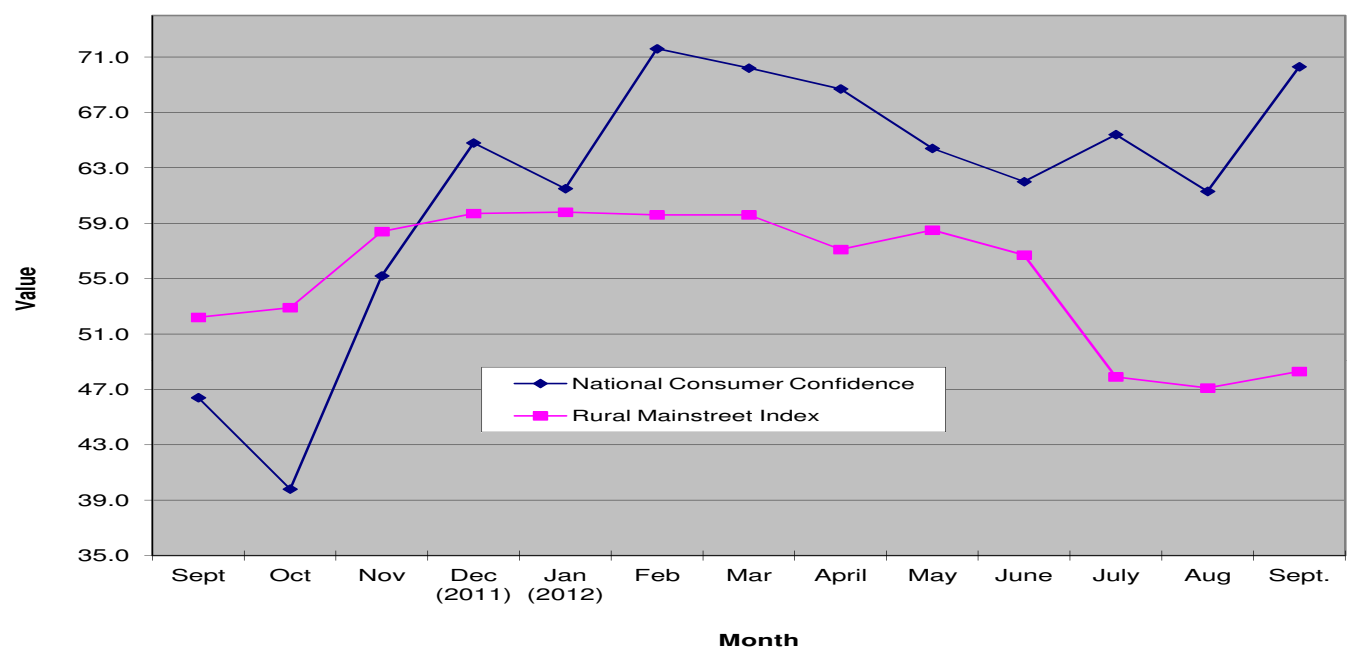
U.S. and Iowa's Unemployment, September 2011 - Present



Nationally, unemployment continued a slight downward trend to 7.8 percent, driven by unemployed workers who are no longer seeking jobs. In Iowa unemployment dropped to 5.2 percent. A similar trend of reduced numbers of people in the workforce is true, as the total potential Iowa workforce has dropped to only 1,637,900 people from the high of 1,684,200 in August 2008. Over 46,000 people have stopped looking for work.

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

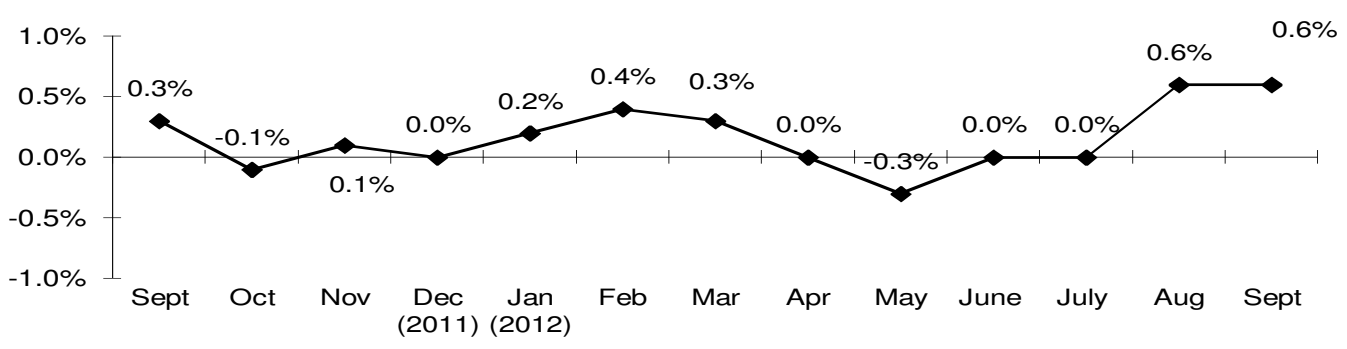
Consumer Confidence Index



The national Consumer Confidence Index (CCI) rebounded upward in September, to 70.3. According to the CCI board, “Despite continuing economic uncertainty, consumers are slightly more optimistic than they have been in several months.” The Rural Mainstreet Index (RMI) for September remained below 50, with the Iowa number slightly higher at 48.7. According to RMI creator Dr. Ernie Goss, “Our survey indicates that the negative impacts of the drought are being more than offset by the positives of very strong incomes from high agriculture and energy prices.”

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

Consumer Price Index, Monthly Change



Over the last 12 months, the CPI, a measure of inflation, increased 2.0 percent before seasonal adjustment, the highest since April. For the second month in a row, the increase was driven by the gasoline index, which rose 7.0 percent in September after increasing 9.0 percent in August. Other major energy indexes also increased in September. The food index has increased 1.6 percent. Indexes for shelter, medical care, apparel, and airline fares also increased.

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

continued from page 1

As reported by the Iowa State University annual farmland value survey, most of the land (74 percent) is being bought by current farmers, with about a quarter being purchased by investors (22 percent), and only a small portion being bought by new farmers (3 percent).⁸ According to the Chicago Federal Reserve, the average interest rate for a farm loan was 5.36 percent in 2011, the lowest since 1974.⁹ As in the housing market, those buyers with a good credit rating and available cash have been able to make significant investments over the last year or two. Their net worth has probably increased, compared to most of the rest of the country.

Now if we can just get a good winter snowfall, followed by enough – but not too much (!) – rain in spring 2013, things should continue on an upward track. As a farmer’s daughter, I still watch the weather report every day, and farmers still remain optimistic gamblers, trusting that the seed will come up and prove fruitful.

Recent Changes in Iowa Farmland Values

Year	Value Per Average Acre	Percentage Change from Previous Year
2012	\$7,877	18.5%
2011	\$6,708	32.5%
2010	\$5,064	15.9%
2009	\$4,371	-2.2%
2008	\$4,468	14.3%
2007	\$3,908	22.0%
2006	\$3,204	10.0%
2005	\$2,914	10.8%

Sources: 2011 Farmland Value Survey, January 2012,

<<http://www.extension.iastate.edu/agdm/wholefarm/html/c2-70.html>> accessed on October 22, 2012.

Farmland Value Survey, Realtors Land Institute, October 2012,

<<http://www.extension.iastate.edu/agdm/wholefarm/pdf/c2-75.pdf>> accessed on October 22, 2012.

(Endnotes)

¹ Jesse Bricker, et.al., “Changes in U.S. Family Finances from 2007 to 2010: Evidence from the Survey of Consumer Finances,” *Federal Reserve Bulletin*, June 2012, Vol. 98, No. 2, pp. 1 & 2, <<http://www.federalreserve.gov/pubs/bulletin/2012/pdf/scf12.pdf>>, accessed on October 22, 2012.

² Mike Walsten, “Drought? What Drought? Iowa Farmland Posts 8% 6-month Gain,” October 9, 2012, <http://www.agweb.com/blog/Your_Precious_Land_217/> accessed on October 22, 2012.

³ Dr. Ernie Goss, “Rural Mainstreet Index Soars: Bankers Expect 2.3 Percent Holiday Sales Growth,” Creighton University School of Business, October 19, 2012, <<http://business.creighton.edu/centers-programs/economic-outlook/mainstreet-economy>> accessed on October 22, 2012.

⁴ “Survey Details,” Creighton University School of Business, October 19, 2012, <<http://business.creighton.edu/centers-programs/economic-outlook/mainstreet-economy/survey-details>> accessed on October 22, 2012.

⁵ Mike Walsten, “Canada Farmland Up 8.6% First Half 2012,” October 15, 2012, <http://www.agweb.com/blog/Your_Precious_Land_217/> accessed on October 22, 2012.

⁶ Jennifer Stewart, “Farmland Values, Cash Rents Soar Amid Drought,” Purdue University News Release, September 12, 2012, <http://www.agweb.com/article/farmland_values_cash_rents_soar_amid_drought/> accessed on October 22, 2012.

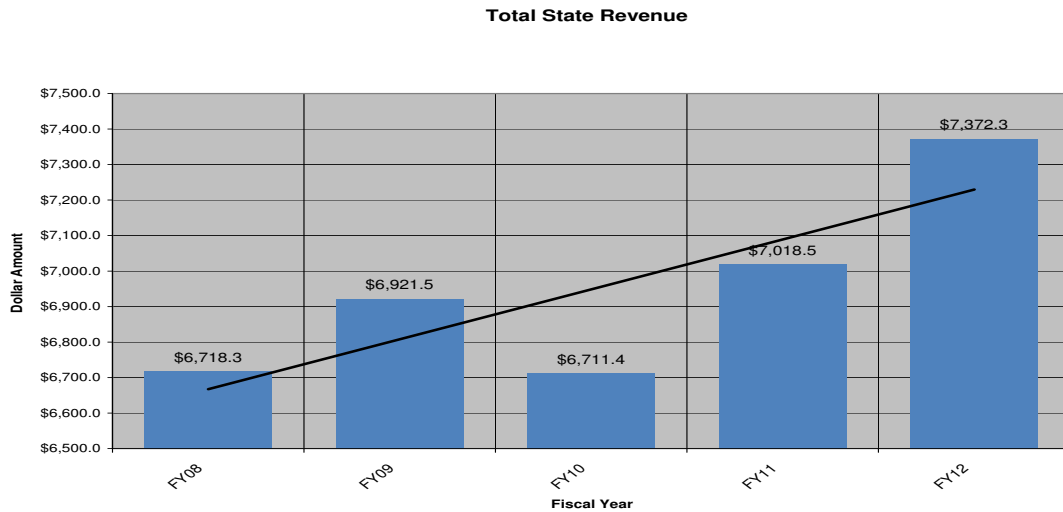
⁷ “Consumer Price Index Summary,” Economic News Release, The U.S. Bureau of Labor Statistics, October 16, 2012, <<http://www.bls.gov/news.release/cpi.nr0.htm>> accessed on October 19, 2012.

⁸ Michael D. Duffy, “2011 Farmland Value Survey,” Iowa State University, January 2012, <<http://www.extension.iastate.edu/agdm/wholefarm/html/c2-70.html>> accessed on October 22, 2012.

⁹ Ibid.

State Tax Revenue Continues to Grow

In reviewing the Iowa Revenue Estimating Conference reports, it becomes apparent that though Governor Branstad and the Iowa House of Representatives have done a good job balancing the state budget, they have not addressed the continuing growth in tax revenues. The graph shows a clear trend



of increasing money coming from taxpayers to government, especially in FY2011 and 2012. Wonder if FY2013 will be any different?

Iowa Statewide Economic Indicators

Latest Economic Indicators	Actual Number	Amount of Change	Time Period Reported
New Vehicle Registrations	100,583	8.7%	Jan - Sept 2012
New Housing Permits	6,258	25.0%	Aug 2011 - Aug 2012
Existing Home Sales - Midwest	1,120,000	17.9%	Aug 2011 - Aug 2012
Total Resident Jobs	1,552,200	-10,800	Sept 2011 - Sept 2012
Non-Farm Employment	1,489,600	-11,500	Sept 2011 - Sept 2012
Factory Jobs	216,600	7,700	Sept 2011 - Sept 2012
Initial Unemployment Claims	9,275	-22.8%	Sept 2011 - Sept 2012
Jobless Rate	85,800	5.2%	Sept 2012
Personal Income	\$40,470	6.4%	2010 - 2011
Exports of Goods	\$13,307	22.0%	2010 - 2011
Farmland Values	\$10,445	18.5%	Sept 2011 - Sept 2012

Source: Iowa Workforce Development News and Trends, October 22, 2012,

<http://www.iowaworkforce.org/trends/>

<http://www.census.gov/foreign-trade/statistics/state/data/ia.html>

http://www.agweb.com/blog/Your_Precious_Land_217/

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IOWA ECONOMIC SCORECARD

Question of the Quarter:



Now that the Presidential election is over,
what are your thoughts about the impact on the economy?

Send your response to us at Public.Interest.Institute@LimitedGovernment.Org,
or answer on-line at <http://www.LimitedGovernment.org/IESNov2012.html>.

We may publish your response in the February 2013 issue of *IOWA ECONOMIC SCORECARD*.

In response to our August “Question of the Quarter” concerning inflation, one member from Rockford, Illinois, responded: “Wage increases have been stagnant for several years. We’ve been fortunate to have low inflation for several years now, but the concern is always there that if we do get a spike in inflation, the economic downturn will be swift.” Other members expressed similar concerns about the potential for future inflation, especially following the dry summer and impact on crops and animals.