Soon after the government began mailing child-credit rebate checks last month, cashiers at Hy-Vee Food Stores around Iowa noticed increased spending.

Sales climbed, almost immediately, especially in urban stores, said Ron Pearson, chairman of the Iowa-based grocery chain.

The government checks, which totaled about $13 billion nationwide, are part of a 10-year, $350 billion tax cut package, which experts say should add a full percentage point of growth to the U.S. economy during the coming year.

Now, the question becomes: Will the tax cuts, and other economic pump-priming that's been going on for more than a year, be enough to pull the Iowa and U.S. economies out of a two-year slump and put them back on track?

Many Iowa top business executives are hopeful that it will.

“Our numbers indicate consumers have more confidence now,” even though some of them are still worried about losing their jobs, Pearson said.

“I've got more optimism now than I've had in a long time” about the overall economy, said Barry Paulsen, chief executive of Des Moines-based Principal Financial Group, the state’s largest insurance company.

“The upside is always less dramatic than the downside,” said Des Moines contractor Jack Taylor, who is the 2003 chairman of the Iowa Association of Business and Industry.

“I doubt that we will see a 1990s go-go economy again in my business lifetime,” said the chief executive of Taylor Construction Group, a commercial builder. But there are clear signs of improvement, Taylor added.

“We're in decent shape. Housing has been gangbusters,” said Allan Tubbs, chief executive of Maquoketa State Bank in eastern Iowa.

“There's a new super market coming into town,” Tubbs said. “There's a new hardware store being built. We got a new hotel in the past year. . . . A new convenience store is planned.”

“Just a little bit more confidence in the overall economy should put things back on track, Tubbs said.

“The economy has turned the corner and will improve, albeit slowly, over the next several months,” said Virgil Robinson, a market analyst for Des Moines-based Pioneer Hi-Bred International.

In addition to this year's tax cuts, three other policy components are pushing a national economic recovery: interest rates, federal spending and the value of the dollar.

For several years, those key components worked at cross purposes, said Iowa-born economist James Paulsen. For much of the past year, though, they have been working together.

It takes 12 to 14 months for policy to effectively work its way from Washington to Main Street, said Paulsen, who is chief investment officer at Wells Capital Management in Minneapolis.

The stock market took off in March and commodity prices began climbing, too. Both are signs that the economy is coming out of recession, Paulsen said.

Two other good signs, he said, are consumer confidence and business profits. The tax cuts helped bolster consumer confidence, and corporate profits are finally rising again after a two-year slump.

“Corporate profits create the wherewithal for businesses to create inventory, to expand and to hire people,” Paulsen said.

Iowa’s economy, which used to be driven largely by farming, now has several drivers, from technology to manufacturing to financial services.

The industry with the biggest question mark right now is farming.

Farmers were doing well in most parts of Iowa right up until early August, when the rain spigot got shut off. The 90- to 100-degree heat of the past two weeks has been brutal on crops, said Tubbs, the banker, whose customers include a many eastern Iowa farmers.

Now, he said, “if you fly over fields you will see areas in some fields that are still green, but right next to that are areas that are fried, totally dead.”

Farm income “is a lot dicier question this year” than it was a few years ago when huge federal supports underpinned the farm sector, Tubbs said.

A lot of the safety net for farmers was removed by the 2002 Farm Bill, and that has farmers and their bankers worried.

“This year's drought and heat will cause severe problems in select areas,” said Pioneer Hi-Bred's Robinson.

The weather problems are unfortunate, he said, because demand for corn, at home and abroad, is growing.

"Meat demand is at historically high levels now," Robinson said, and that creates a larger domestic market for corn.

At the same time, improved economic conditions in China and Japan are expected to boost demand for meat there, while poor crops in Europe and Russia should increase corn exports to those areas.

U.S. trade, including agricultural exports, are expected to also benefit from the driving-down of the value of the dollar that began in March 2002 and continued through last May, Robinson said.

While the value of the dollar has stabilized in recent months, many experts think it will continue to fall.

That's good for U.S. businesses that sell products overseas, because the lower dollar value makes it less expensive for foreigners to buy U.S. products and commodities. A low dollar also makes it more expensive for foreigners to import goods into the United States.

If farming is the Iowa industry most at risk, housing is the industry that has benefited the most in recent months. That's because of record-low mortgage rates.

"You haven't seen interest rates like this since Cadillac had fins," said Mike Knapp, president of Iowa Realty, the state's largest residential real estate brokerage.

Iowa Realty's Des Moines-area offices posted record sales nearly every month this year, Knapp said.

While low interest rates are a factor, "so is the fact the equities markets have been such a mess," he said.

Even though the stock market has come back some, "people still have the memory of waking up in the
morning and finding out your McLeod stock wasn’t worth anything,” Knapp said, referring to McLeodUSA, the Cedar Rapids-based telecommunications company that filed for bankruptcy court protection in January 2002.

Low mortgage rates also set fire to the home-building market. Through July, the value of new residential permits issued in Iowa was up 25 percent to a record $1.2 billion.

The mortgage-lending industry created hundreds of new jobs in Iowa during the past year, even as layoffs in other industries, including manufacturing, were growing.

Two of Iowa’s largest financial services businesses profited from the boom. Wells Fargo & Co.’s national mortgage division, based in West Des Moines, reported record sales in 2002 and the first half of this year.

Griswell said Principal Financial Group’s mortgage-lending unit has had a profound effect on the company’s profits. In 2000, mortgage banking contributed only 8 percent of the company’s profit, but during the first half of this year, the mortgage business’ share of Principal’s total profit was 22 percent.

As the mortgage business slows down, he said, Principal, as the largest manager of 401(k) retirement plans in the country, is positioned to pick up new business.

Tax cuts are providing workers with more take-home pay, which also means they have more money to invest in retirement accounts.

Some workers are actually starting to increase their retirement savings, Griswell said, which is a good sign that people believe the economy has turned a corner.

SELF-TEST your own reading comprehension (do NOT turn this in). According to this article,

1. How much growth (\%) do experts say this year’s $13 billion tax cut should add to the U.S. economy during the coming year?

2. U.S. GNP is about $10 trillion. Using the answer to (1.), how many additional dollars of GNP does the article imply we might grow by paying $13 bil. less taxes?

3. (CQ9am&3pm) Which is “more dramatic”? The “upside” or the “downside”? What does this mean?

4. List at least three signs of LOCAL Iowa economic growth:

5. (CQ9am&3pm) List at least three signs of economy-wide economic growth:

6. (CQ9am) What are the ‘three other policy components pushing for a recovery’ this year?

7. (CQ9am) What is the time-lag for economic policy (tax cuts) from Washington to ‘Main Street’?

8. Which Iowa industries have benefited from low interest rates?

9. (CQ3pm) Which Iowa Industries benefit from the low value of the dollar?

10. What share of Des Moines-based Principal Financial Corp’s profits came from its mortgage banking activities in 2000? In 2003?

11. Who is:
Ron Pearson
David Elbert
Barry Griswell
Jack Taylor
Mike Knapp
Virgil Robinson

Note: “CQ9am” relates to a question raised by the 9am class; “CQ3pm” comes from the 3pm class.