Next Generation Economy
The Minnesota Perspective

Tom Stinson, State Economist
Tom Gillaspy, State Demographer
January 2009
November’s Forecast Highlights Minnesota’s Major Budget Challenge

• FY 2008-09 -- $426 million deficit
• FY 2010-11 -- $4.8 billion shortfall
  – Revenues decline 1.8 percent
  – Expenditures increase 6.1 percent
• Planning Estimates for 2012-13 show gap of $4.6 billion between revenues and expenditures
  – Including inflation would increase the 2012-13 shortfall by $1.5 billion
Extremely Large Recent U.S. Job Losses Indicate Further Economic Weakness

Change in Payroll Employment (000's)

-3000
-2500
-2000
-1500
-1000
-500
0

Jan
Mar
May
July
Sept
Nov

Month
Cumulative
The Economic Outlook Has Deteriorated Since November
January Forecast Shows Real GDP Declining by 2.5 Percent In 2009
A Longer and Deeper Recession Is Now Forecast
### State Revenues Below Forecast Since November

<table>
<thead>
<tr>
<th>$ millions</th>
<th>Estimate</th>
<th>Actual</th>
<th>Variance</th>
<th>Pct</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income</td>
<td>$1,161</td>
<td>$1,122</td>
<td>$(39)</td>
<td>(3.3)</td>
</tr>
<tr>
<td>Sales</td>
<td>736</td>
<td>704</td>
<td>(33)</td>
<td>(4.4)</td>
</tr>
<tr>
<td>Corporate</td>
<td>136</td>
<td>79</td>
<td>(57)</td>
<td>(42.0)</td>
</tr>
<tr>
<td>Motor Veh.</td>
<td>16</td>
<td>15</td>
<td>(1)</td>
<td>(4.7)</td>
</tr>
<tr>
<td>Other</td>
<td>888</td>
<td>886</td>
<td>(2)</td>
<td>(0.2)</td>
</tr>
<tr>
<td>Total</td>
<td>$2,937</td>
<td>$2,806</td>
<td>$(131)</td>
<td>(4.5)</td>
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</tbody>
</table>
This Recession Is Expected to Be One of the Deepest and Longest Since WWII
Real Household Net Worth Fell by Nearly 20 Percent in 2008
Four Mega-Forces Will Shape Minnesota’s Economy

• Globalization
• Technology
• Energy prices
• Demography
Aging Is The Dominant Demographic Trend In Minnesota And The Nation

• It is not normal for a society to age
• Dramatic changes will be seen in 2008 and 2011 and beyond
• By 2020, the number of Minnesotans 65+ will increase by 53%. By 2030 it will double
• Aging and economic growth will lead to challenges and opportunities not fully anticipated
Minnesota Will See a 30 Percent Jump in Workers Turning Age 62 Beginning 2008

2005 ACS
From 2010 to 2020, Minnesota Will See Large Increases Age 50s and 60s

Source: Minnesota State Demographic Center
Numbers are rounded
Competition For Future College Students Will Increase

Census Bureau US Proj, Mn State Demographer revised 2007. The 18 year old population, both Minnesota & nationally are projected to decline starting 2009.
Labor Force Growth Is About To Slow Sharply

<table>
<thead>
<tr>
<th>Period</th>
<th>Ave Annual Change</th>
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<tbody>
<tr>
<td>1990-2000</td>
<td>1.52%</td>
</tr>
<tr>
<td>2005-10</td>
<td>1.12%</td>
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<tr>
<td>2010-15</td>
<td>0.75%</td>
</tr>
<tr>
<td>2015-20</td>
<td>0.43%</td>
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<tr>
<td>2020-25</td>
<td>0.10%</td>
</tr>
<tr>
<td>2025-30</td>
<td>0.13%</td>
</tr>
<tr>
<td>2030-35</td>
<td>0.27%</td>
</tr>
</tbody>
</table>
Migration Will Be An Increasingly Important Component To The Slowing Labor Force Growth

State Demographer projection revised 2007
Productivity Has Been Minnesota’s Competitive Advantage

It will be even more important in *The Next Generation Economy*
Productivity Remains The Key To Quality of Life In Minnesota

Economic Growth = Labor Force Growth + Productivity Growth

Productivity growth comes from

✓ Private investment—machines & processes
✓ Public investment—roads, bridges, etc
✓ Technology from research, public & private
✓ Skills & abilities of workers—education & training
The search for talent
Why it's getting harder to find

A 15-PAGE SPECIAL REPORT
The New 3 R’s for Economic Success

• Retention
• Recruitment
• Retraining
Budget Pressures Will Change
More 65+ Than School Age by 2020

Census counts & State Demographer projection, revised 2007
The Next Generation Economy--

*Long term issues are quickly becoming short term challenges*

The next four years will be a period of great social and economic change

- Structural imbalances have turned into projected budget deficits
- Rapid aging and the related surge in entitlements are upon us
- Economic growth will depend increasingly on productivity growth

*Once again, wise decisions are needed*
Phases in the Household Life Cycle

Dollars

Income
Consumption

Age

Borrower
Saver
Dissaver
State/Local Government’s Share of Personal Income Has Declined

Mn Dept of Finance
Next 25 Years--State Revenue Growth Rate Projected To Slow

Budget Trends Commission, 2009
If State Health Care Costs Continue Their Current Trend, State Spending On Other Services Can’t Grow

- Revenue: 3.9%
- Health Care: 8.5%
- Education & All Other: 0.2%

General Fund Spending Outlook, presentation to the Budget Trends Commission, August 2008, Dybdal, Reitan and Broat
Health Care Spending Jumps After 55
U.S. Health Care Spending By Age, 2004

Source: Agency for Healthcare Research and Quality, Medical Expenditure Panel Survey, data for per capita spending by age group in the Midwest. Excludes spending for long-term care institutions.
The Most Rapidly Growing Segments Of Minnesota Are People In The Highest Health Care Cost Ages

Source: Minnesota State Demographic Center
Numbers are rounded
Shortages of Doctors and Nurses Projected For The United States

Figure 52. Projected FTE Physicians, Most Plausible Scenario, 2006-2025

Association of American Medical Colleges, November 2008
Education Is The Key To Productivity
Minnesota High School Graduation Ratio

2004-05 through 2005-06 graduates. Based on 10th grade enrollment three years earlier.
Tough Decisions Must Be Made

• What is government well positioned to do?
  – Some issues are national in scope
  – Some are statewide
  – Some are local
  – Some are inherently private

• What activities are central to each government’s role?
MnSCU Challenges 2008 To 2020

- Potential for declining enrollment
- Increased competition for students
- Increased diversity of students
- Slower government revenue growth from slower economic growth & aging
- Rapidly rising health care costs—budget cuts for everything else
- Aging MnSCU workforce
Big Opportunities

- The current situation is not sustainable
- The challenge--building the foundation for future success
  - Economic prosperity
  - Environmental quality
  - Social justice
  - Quality of life
Some MnSCU Opportunities In The Next Decade

- Reach out to non traditional students—groups with low education attainment, older, retraining
- Work with K-12 schools to improve outcomes
- Work with other institutions & business to identify critical occupations & train to need—a proactive effort.
- Find new ways to cut costs & improve product—need a new business model—how and where education is done
- Conduct workforce planning for MnSCU