Minnesota and the New Normal

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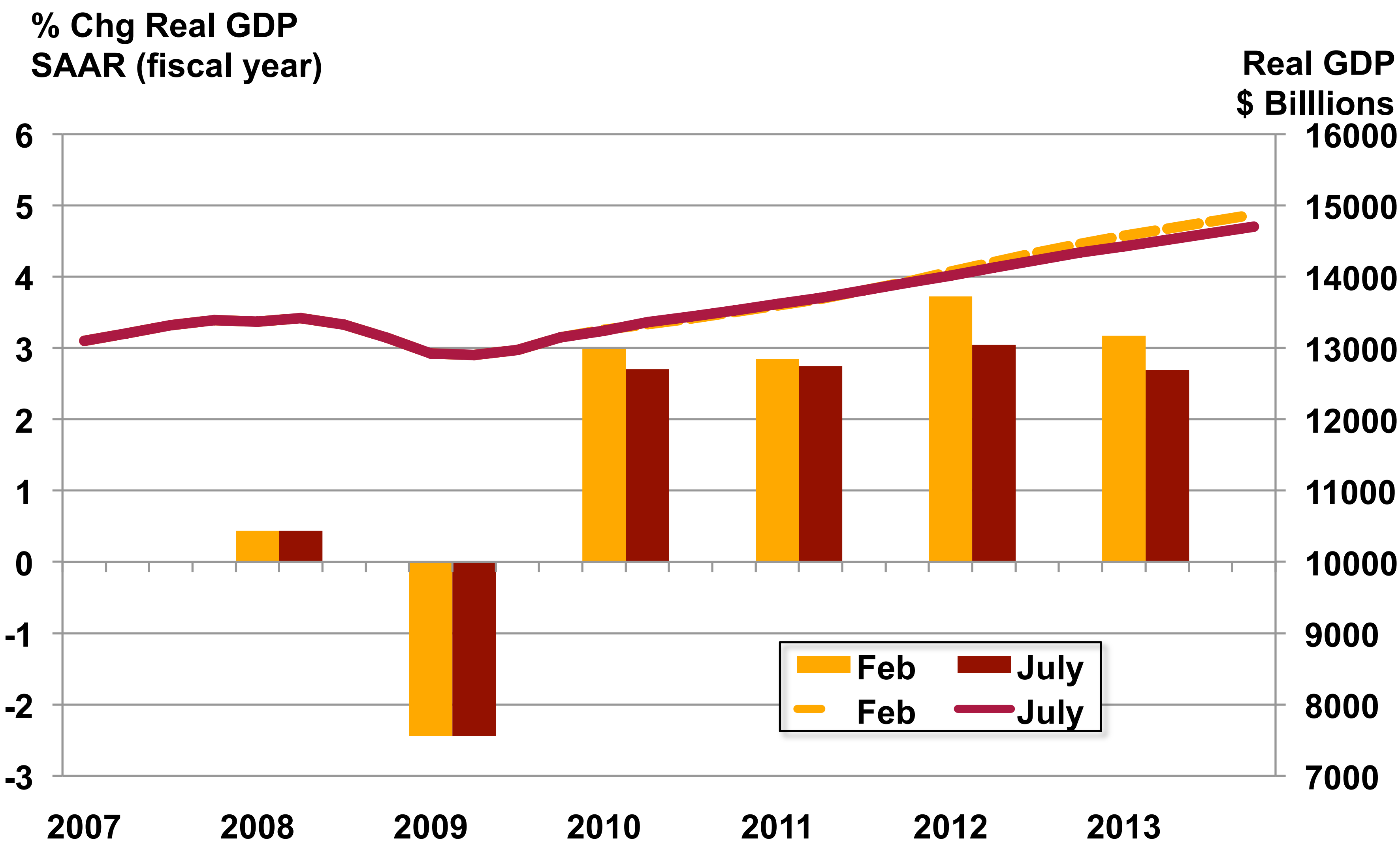
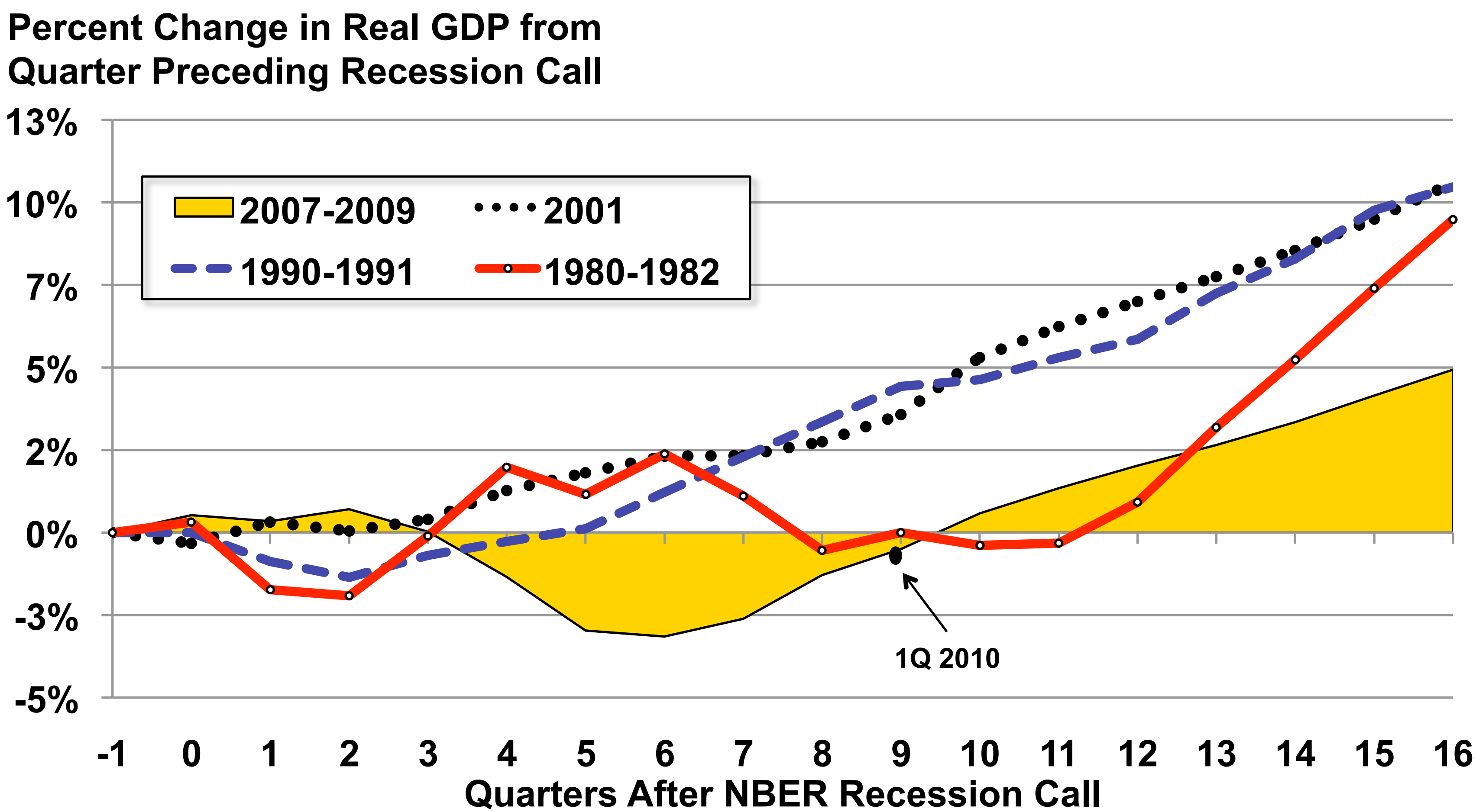
August 2010

Global Insight's Outlook for U.S. Economy in 2010 and 2011 Unchanged

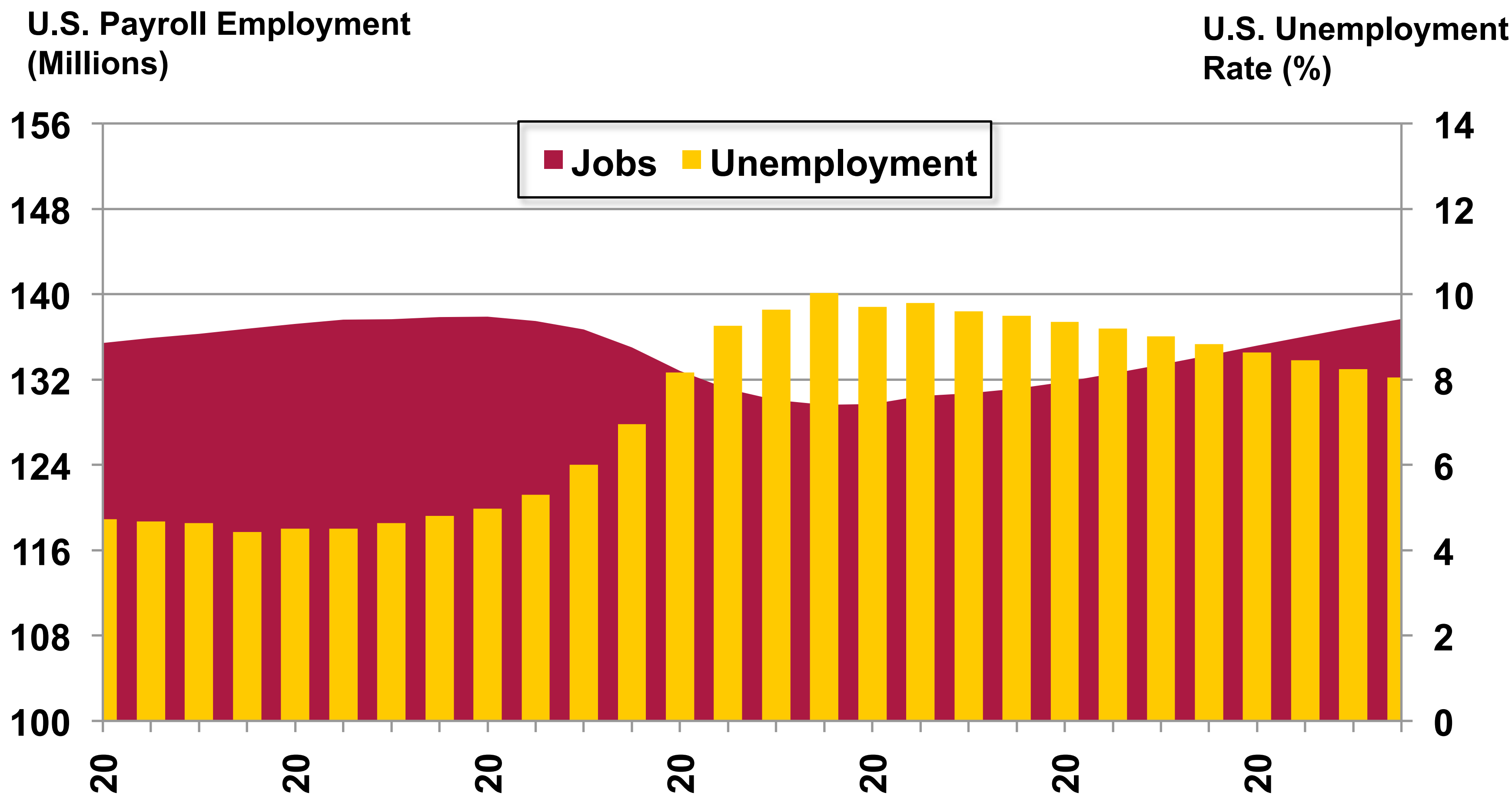


Recent Economic and Demographic Events Have Changed the Outlook for as Far as We Can See

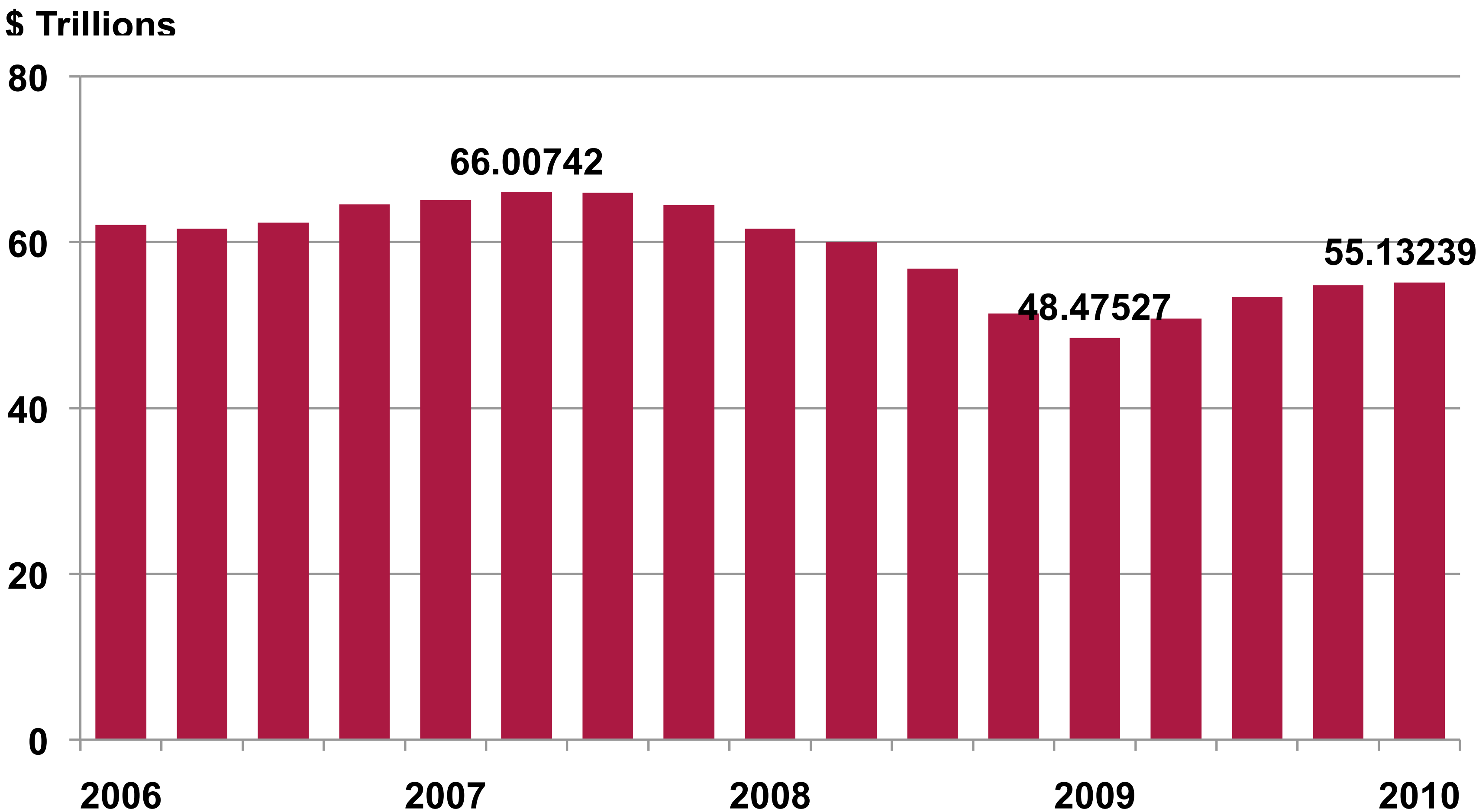
This Recovery Will Be Slower Than Those of 1990-91 and 2001



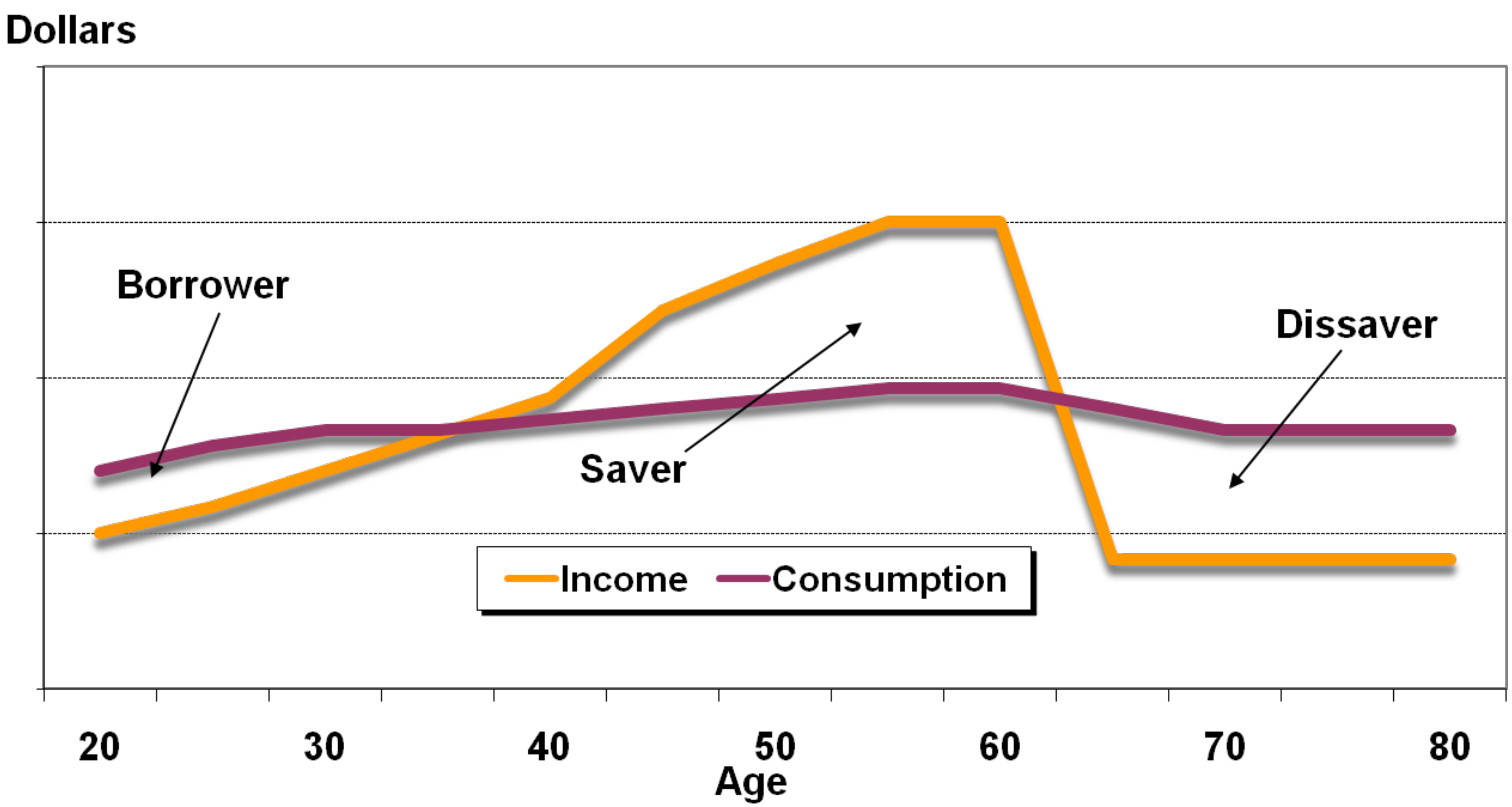
The U.S. Economy Lost 8.4 Million Jobs in the Great Recession



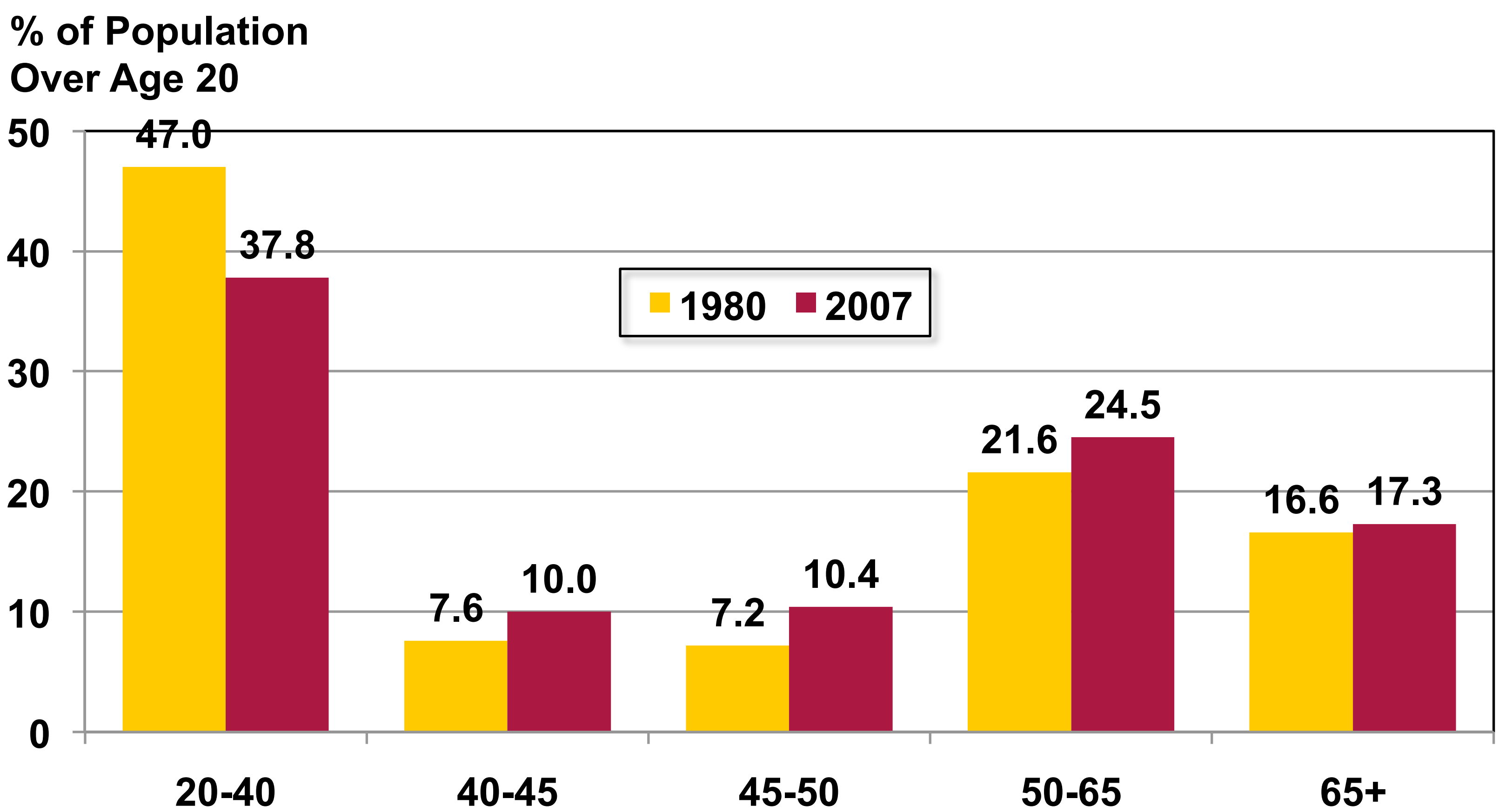
Household Net Worth Fell by More Than $17 Trillion Dollars



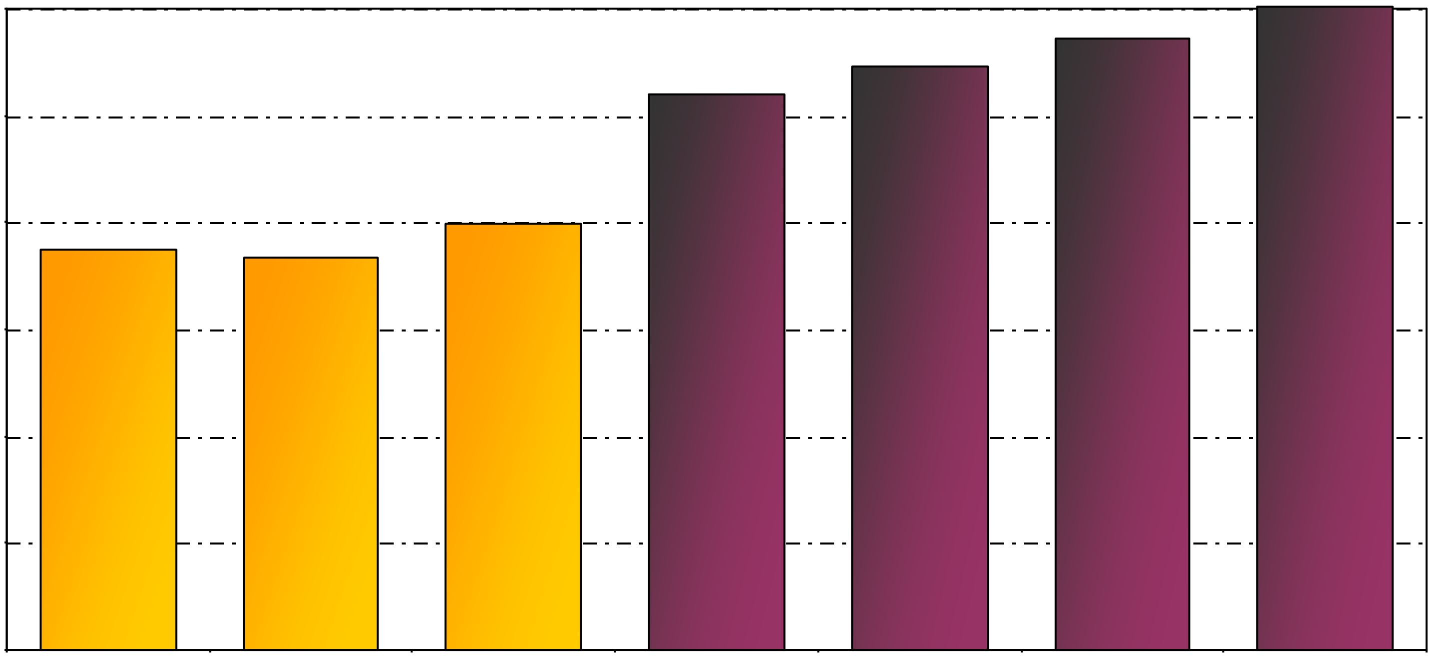
Phases in the Household Life Cycle



The Age Distribution Has Changed

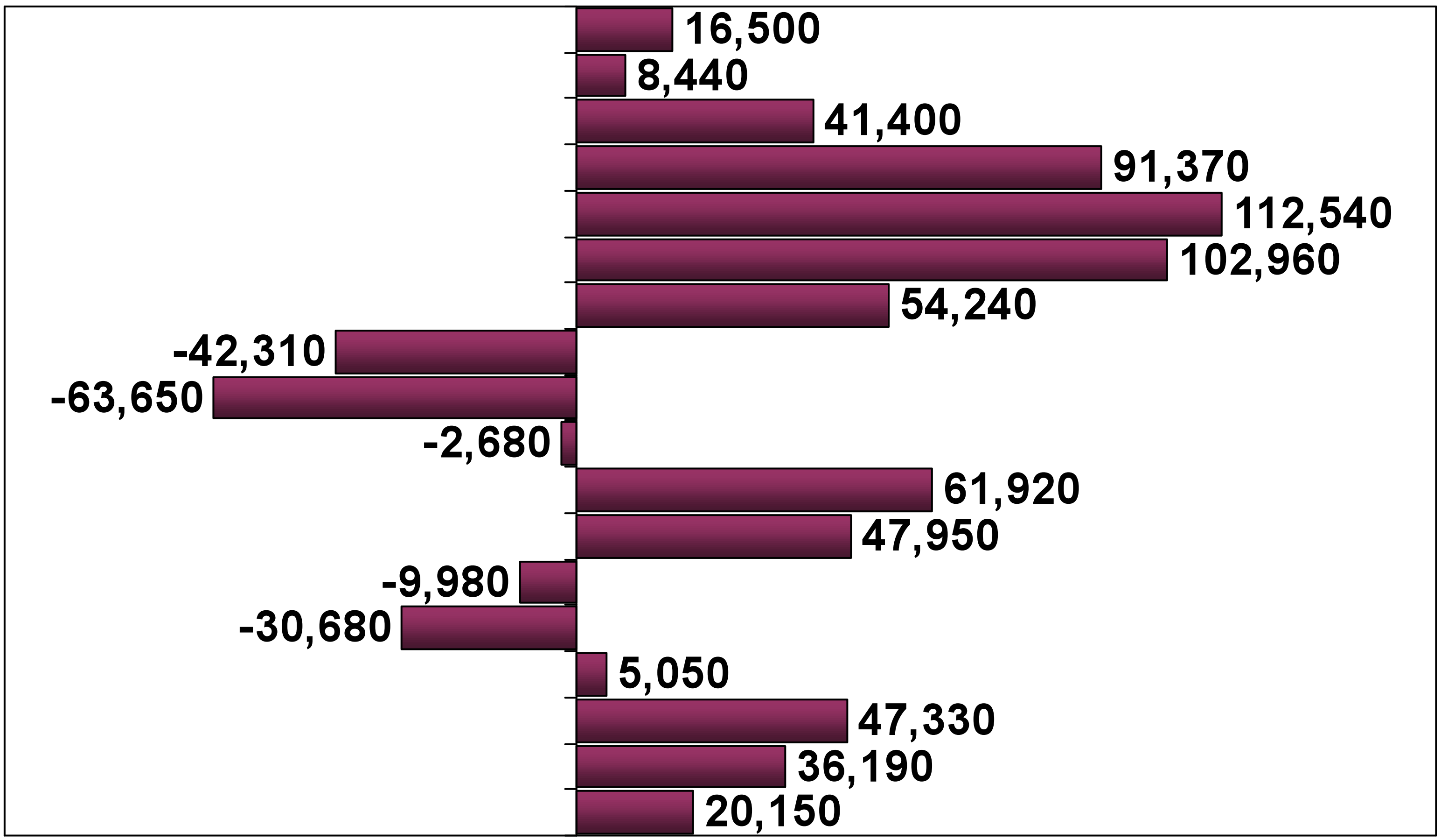


Minnesota Saw a 30 Percent Jump in Workers Turning Age 62 in 2008



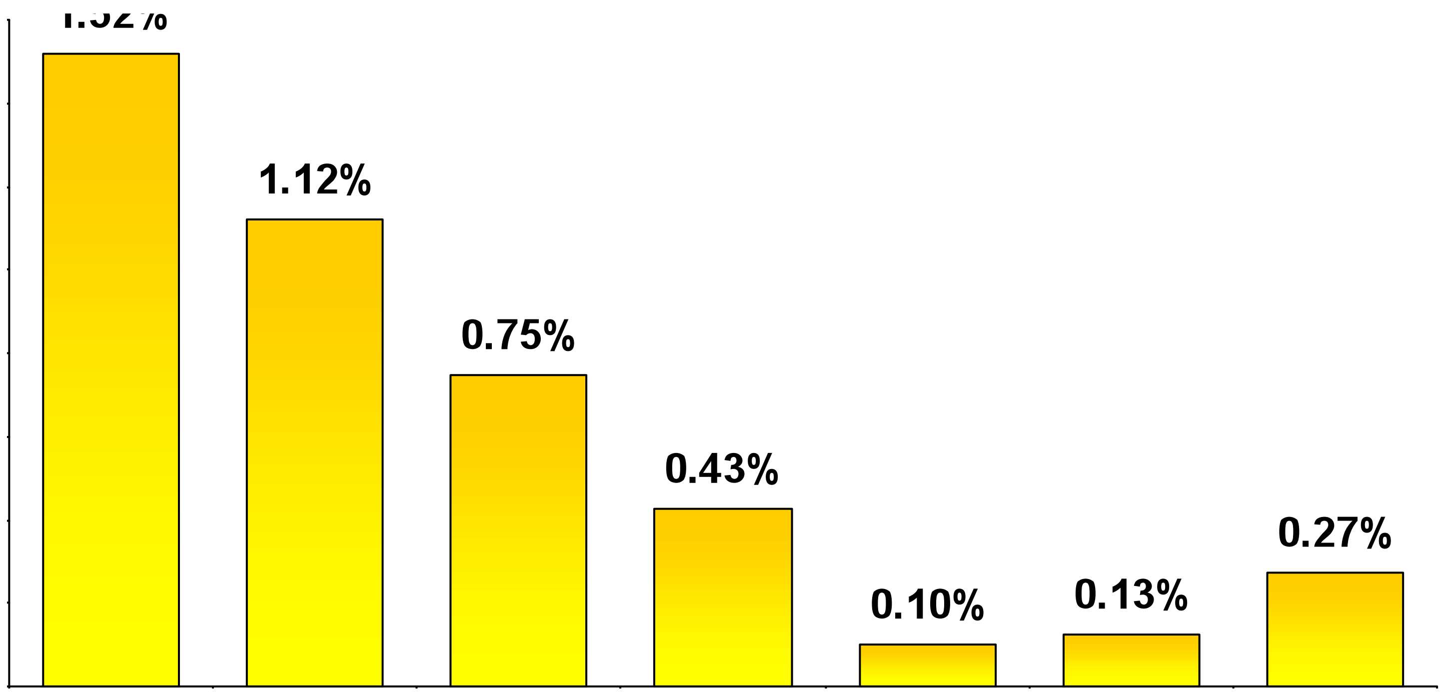
2005 ACS

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



Source: Minnesota State Demographic Center, rev 2007
Numbers are rounded

Labor Force Growth Is About To Slow Sharply



Economic Fact of Life #1

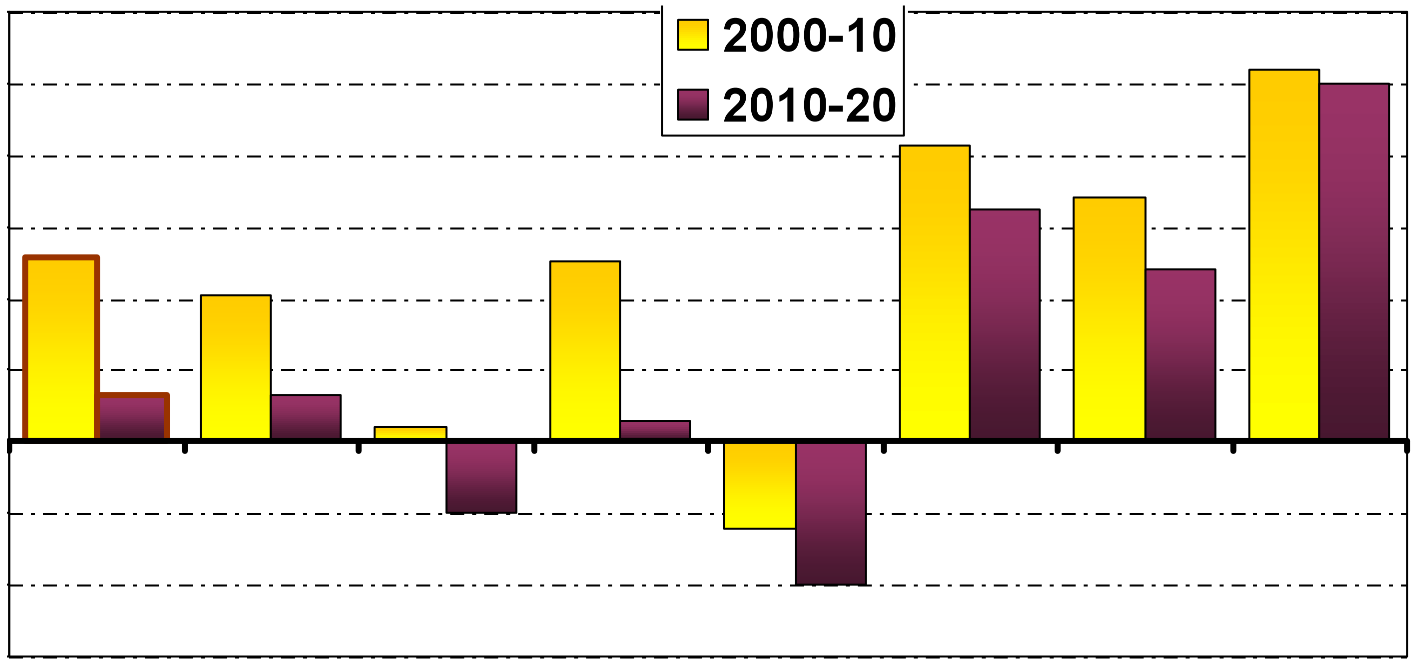
First Principle of Economic Growth

Standard of Living depends on output per resident

Output = Output per Hour * Hours Worked

World Labor Force Growth Slowing

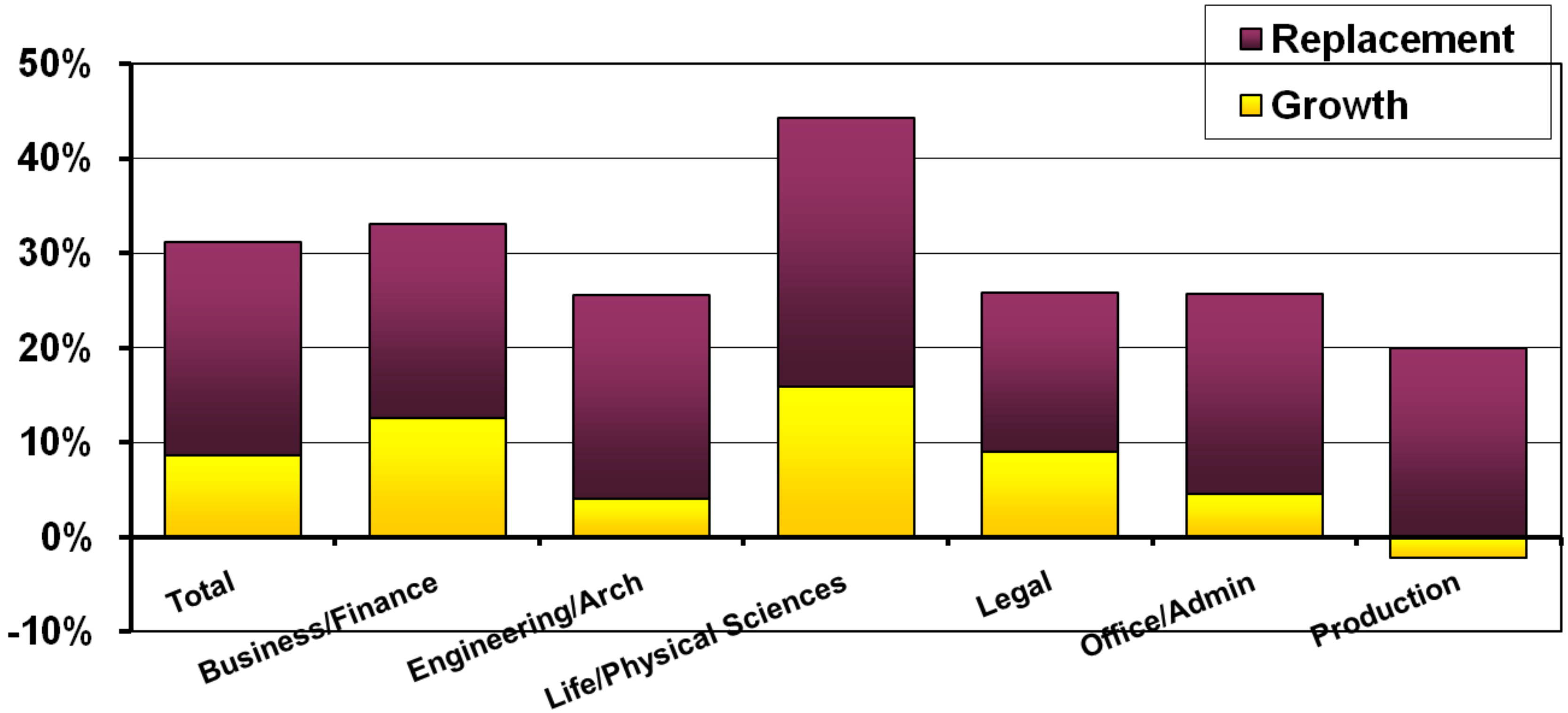
Projected Change In Working Age Population (15-64)



U.S. Census Bureau

For Many Occupations, Replacements Will Outnumber New Job Growth

Projected Openings In Minnesota Occupations 2009-19



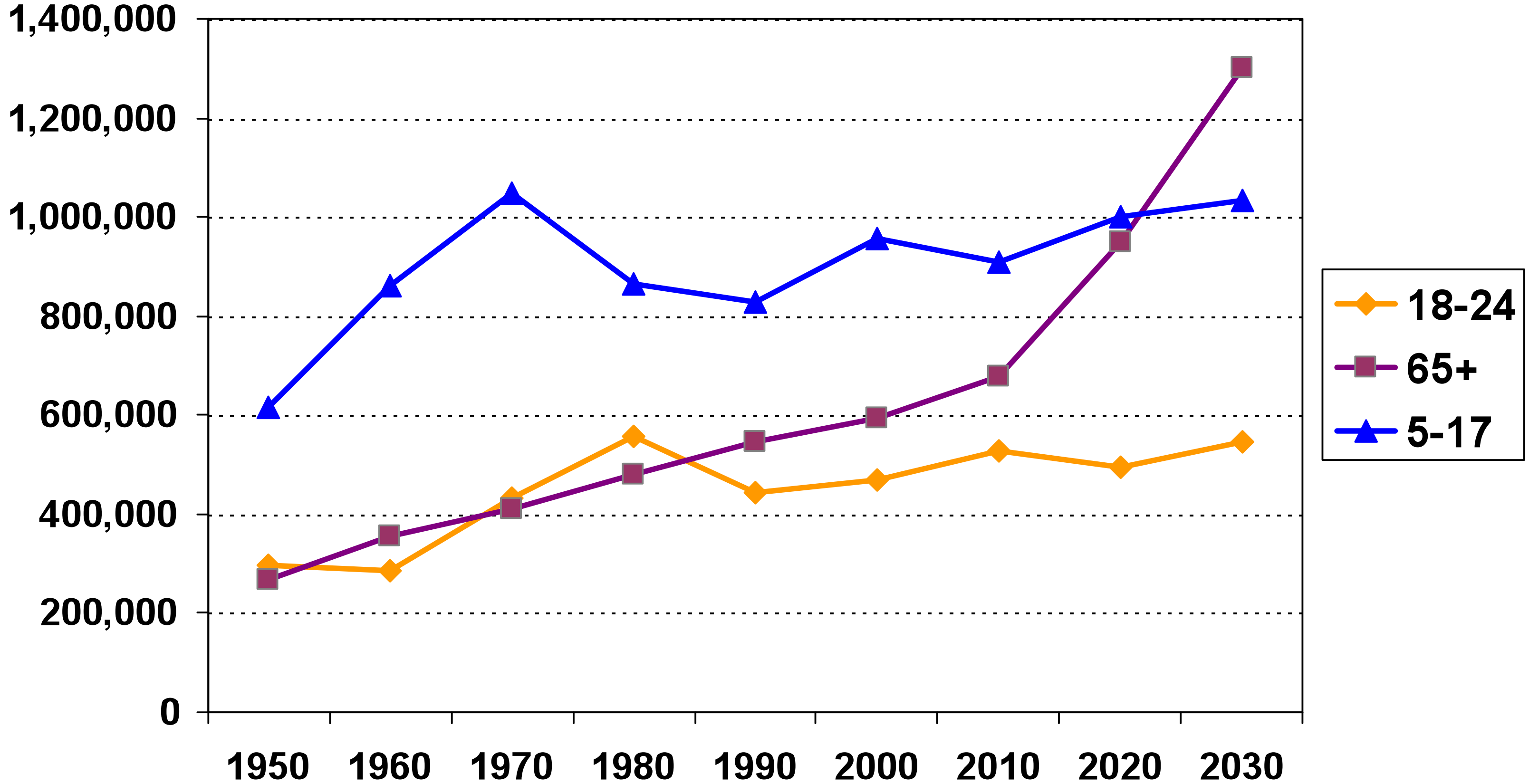
DEED projections. Percent of 2009 level

The Old Normal
+ The Great Recession
+ Long Run Demographic Changes
= The New Normal

The “New Normal” Probably Means

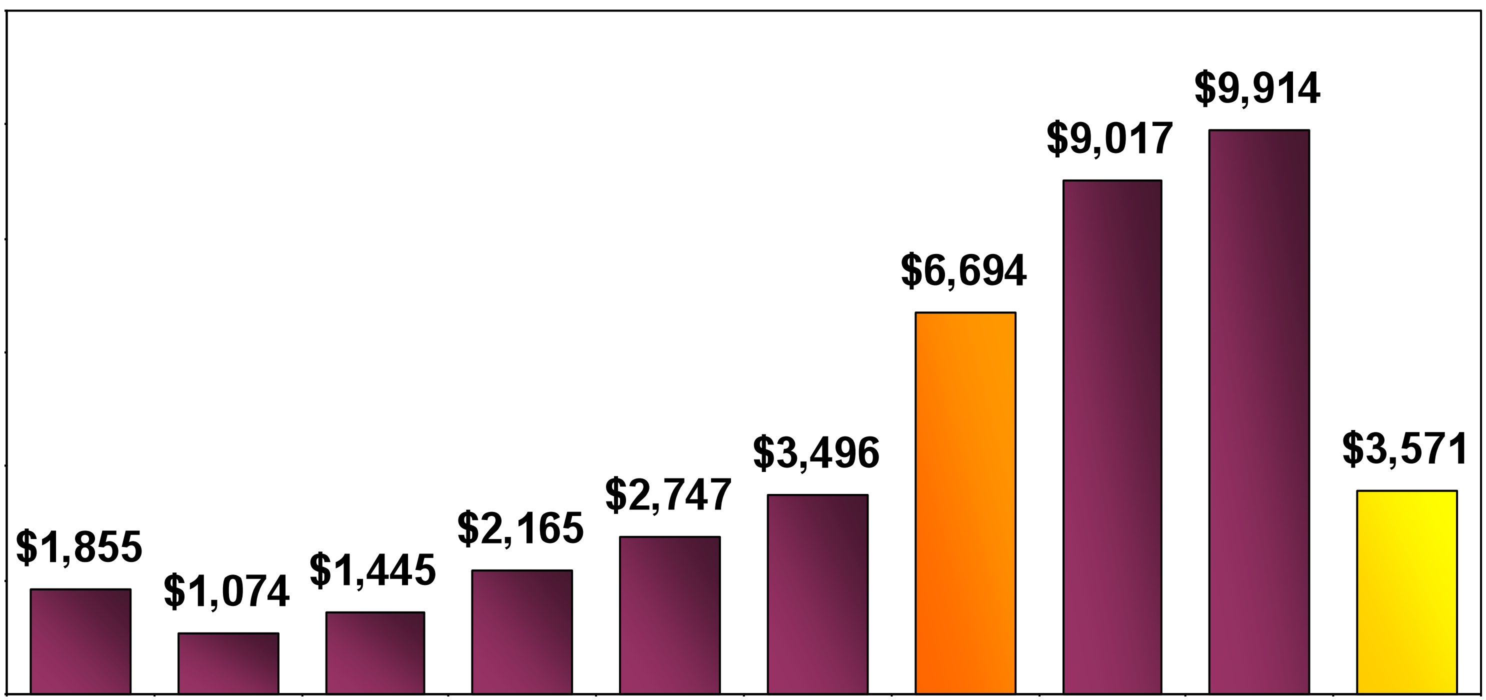
- Higher interest rates
- Slower economic growth
- Increasing numbers of retirees
- Less consumption; more saving
- A more diverse population
- More uncertainty in our personal & national futures
- A shift in the balance between private and public sectors
- More uncertainty about the future

More 65+ Than School Age by 2020



Census counts & State Demographer projection, revised 2007

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 Great Recession Has Been Blamed for Raising the Level of Social Angst

But What Is Really Happening

Is That We Have Entered A

"New Normal"

Grieving For The "Old Normal"

- **Denial –** "This is not happening." "Just wait, things will return to normal."
- **Anger --** "Who is to blame?" Rage and gridlock rule and anyone who symbolizes life, energy, progress, success, happiness, etc. is treated with resentment and mistrust.
- **Bargaining –** "I'll change if this just goes away." Somehow, we can get back to the old normal if we just return to good, ole fashioned (conservative/liberal) values.
- **Depression (emotional, not economic) –** "What's the point in trying?" "We are all doomed anyway." The certainty/finality of events is finally recognized.
- **Acceptance –** "It's going to be okay." Looking for opportunities begins.

But Why Fear The New Normal? It Plays To Our Strengths!

- **Future economic growth will depend increasingly on increasing productivity and less on labor force size**
- **Education has been the key to Minnesota's productivity and prosperity**
- **Future productivity increases will depend on decisions and the investments we make now**
- ***Public Sector Productivity Growth Will Be Essential***

Productivity Is Not Just Producing at a Lower Cost

Increasing Productivity Also Means

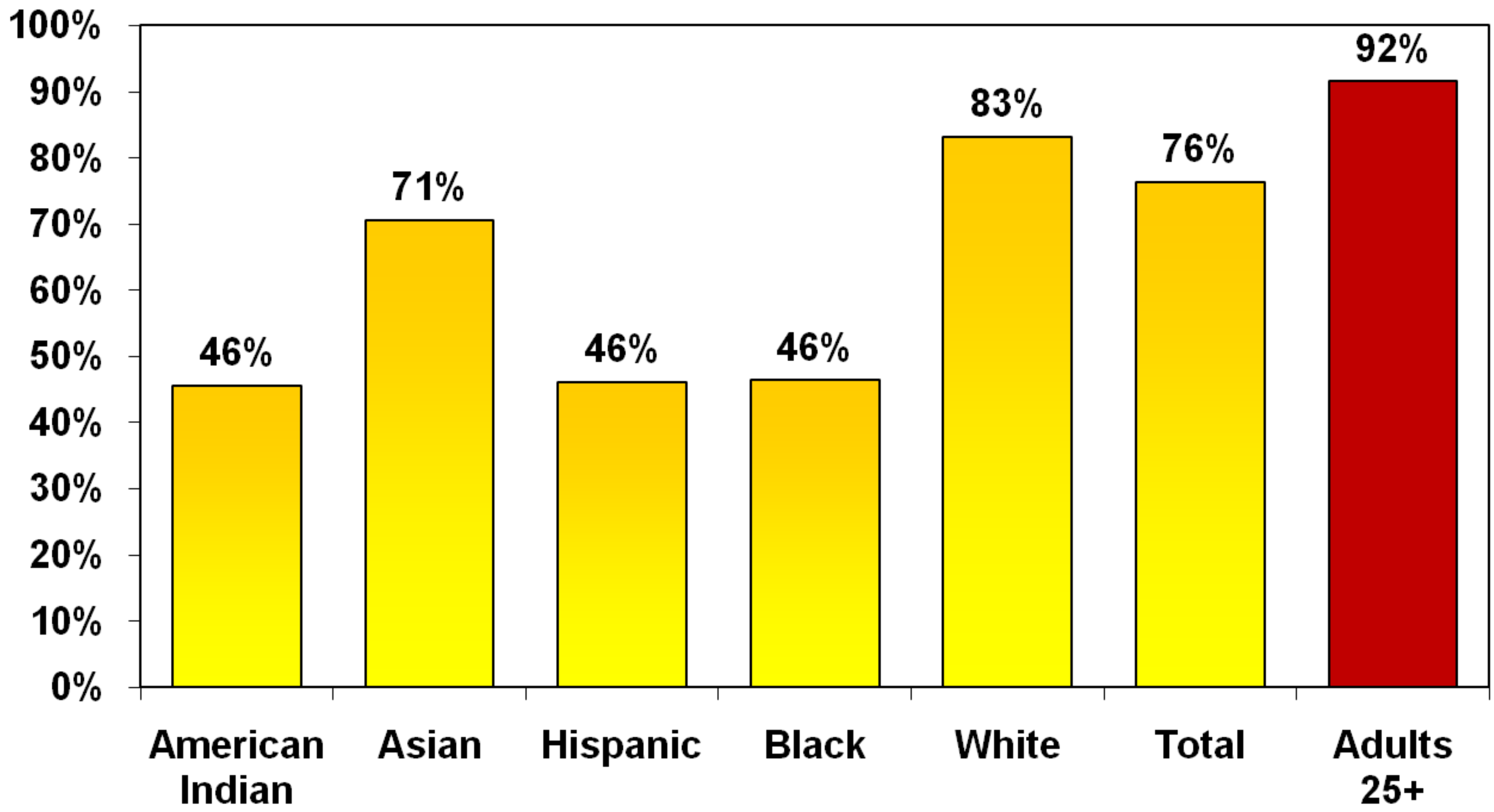
- Making things better

  (improved quality)
- Making better things

  (innovation, new products)

Education Is The Key To Productivity

Minnesota High School Graduation Ratio



2007-08 Mn Dept of Education 5 year graduation rate. Percent of 9th graders who graduate within 5 years

High School Graduation Is No Longer Enough

- **70% of Minnesota job openings will require at least some college--63% nationally**
- **In 1973, 28% of job openings required some college**
- **Minnesota is the 3rd most education intensive job market in the nation**
- **Nationally, college degrees conferred will need to increase by 10% a year by 2018 to meet the demand for skilled workers and avoid slower economic growth**

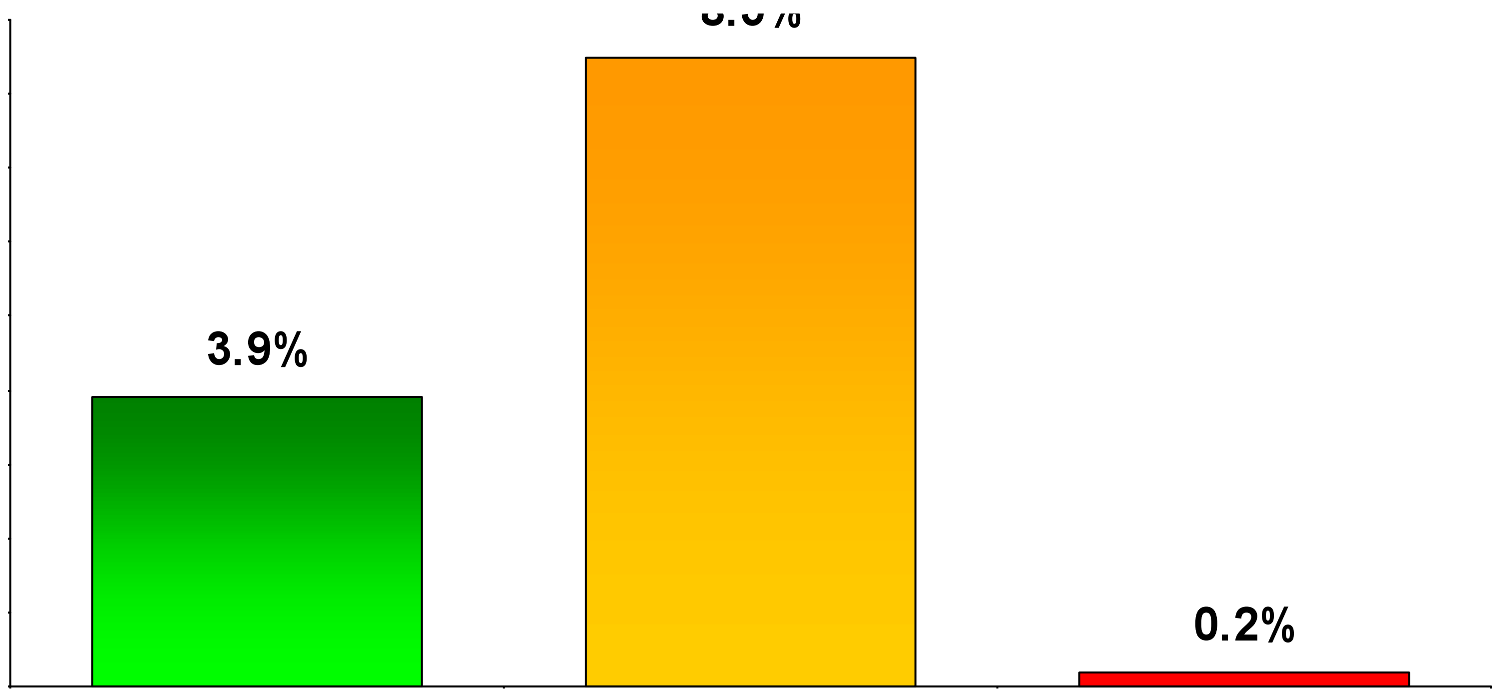
Georgetown Univ Center for Education and The Workforce

FY 2012-13 Budget Gap Now $5.8 Billion

($ in millions)	**FY 2012-13**
Resources	$32,906
Spending	38,695
Difference	**($5,789)**
Inflation	*$1,181*

Planning estimates assume:
- Complete repayment of the K-12 aid deferral. Delaying repayment would save the state $1.3 billion
- No repayment of the K-12 Property tax recognition shift.

If State Health Care Costs Continue Their Current Trend, State Spending On Other Services Can't Grow



General Fund Spending Outlook, presentation to the Budget Trends Commission,
August 2008, Dybdal, Reitan and Broat

The Fiscal Catch-22

- If we don’t make the necessary public investments in human capital, research and infrastructure, then we won’t have the productivity gains needed to provide the resources to make those investments.

“I skate to where the puck will be, not to where it has been.”

Wayne Gretzky
Famous Canadian Philosopher