

... But, What About Tomorrow?

Tom Stinson, State Economist

Tom Gillaspay, State Demographer

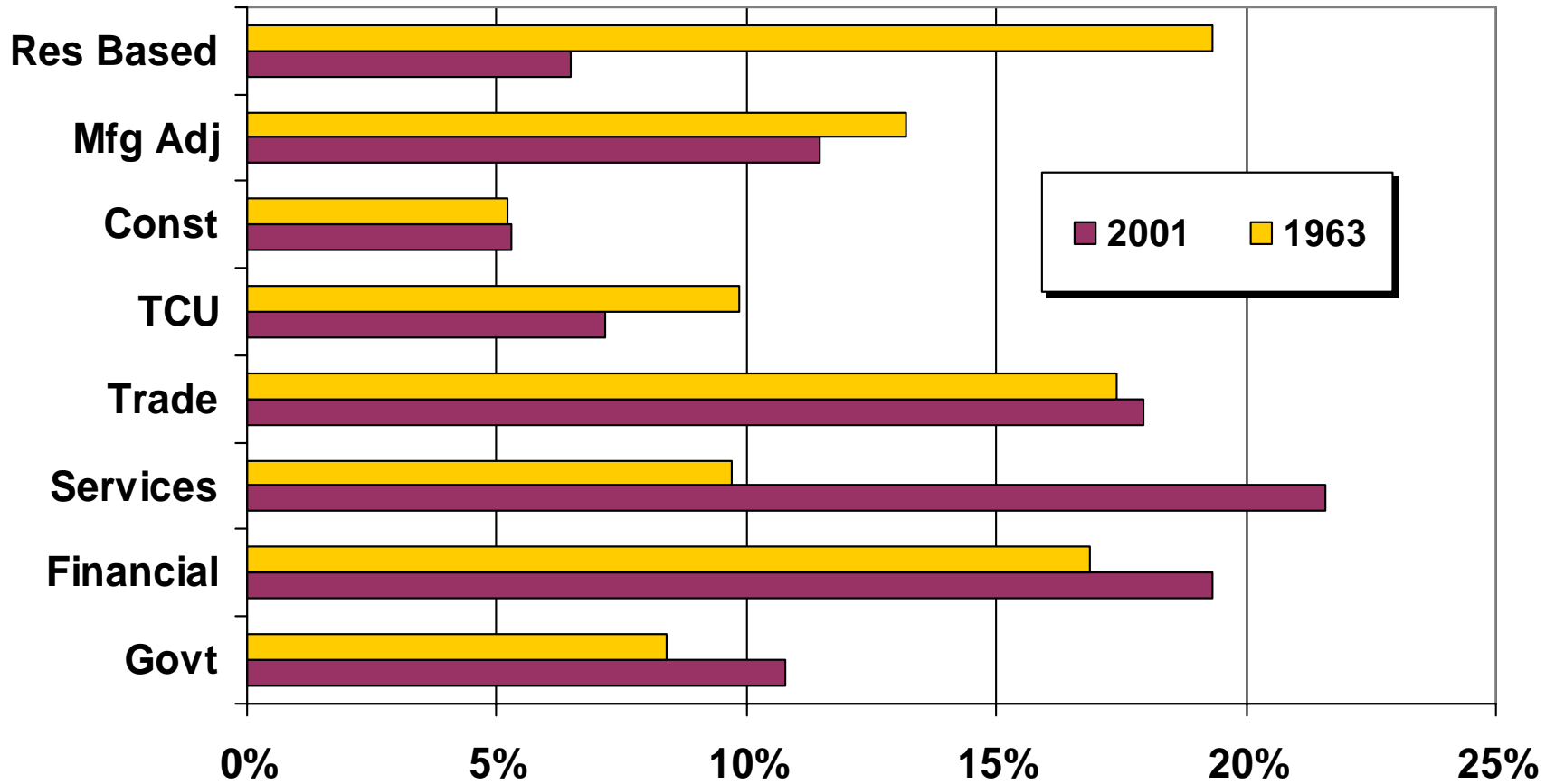
September 2006

Minnesota Has Been Very Successful, (Especially For A Cold Weather State at the End of the Road)

- **Our economic growth rate has exceeded the national average**
- **Our population growth rate leads the frost belt**
- **We rank with the leaders on many social and economic indicators**
- **Education has been a key contributor to the state's success**

Minnesota's Economy Has Changed Since the 1960s

% of GSP



Minnesota's Per Capita Personal Income Exceeds the U.S. Average by 9 Percent

- **Minnesota ranked 9th in personal income per capita in 2005 - - - In 1960 Minnesota ranked 25th**
- **Personal income per capita grew at an average annual rate of 6.6 percent between 1960 and 2005**
- **Minnesota ranks 11th in per capita personal income growth since 1960**

Minnesota's Current Success Is Due to Decisions Made 50+ Years Ago

- **Private sector and public sector decisions established the foundation for growth in Minnesota's economy**
- **Dealing with challenges brought by the baby boom was a key to our success**
- **Wise investments were made**

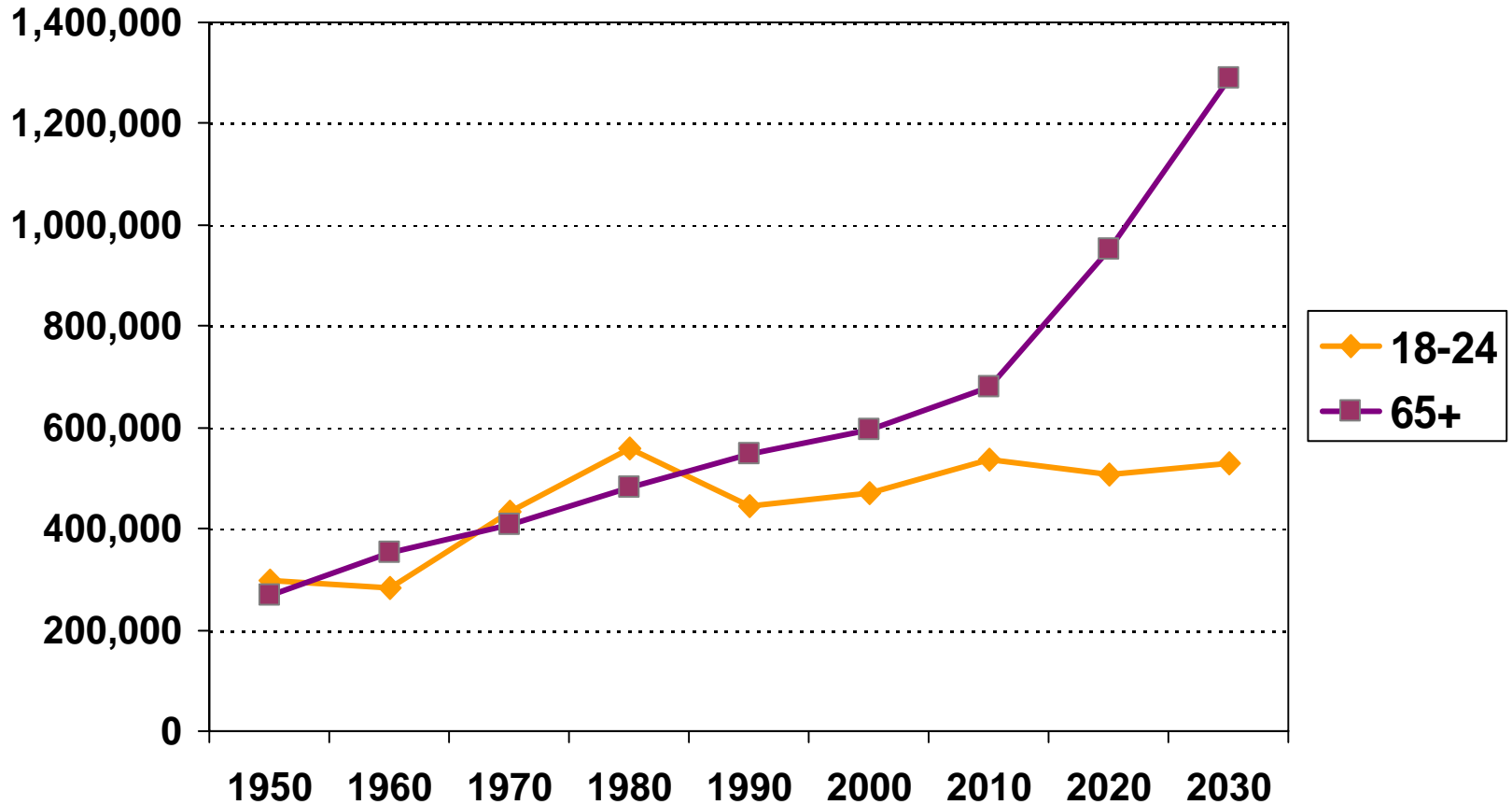
We have come a long way.

But what about tomorrow?

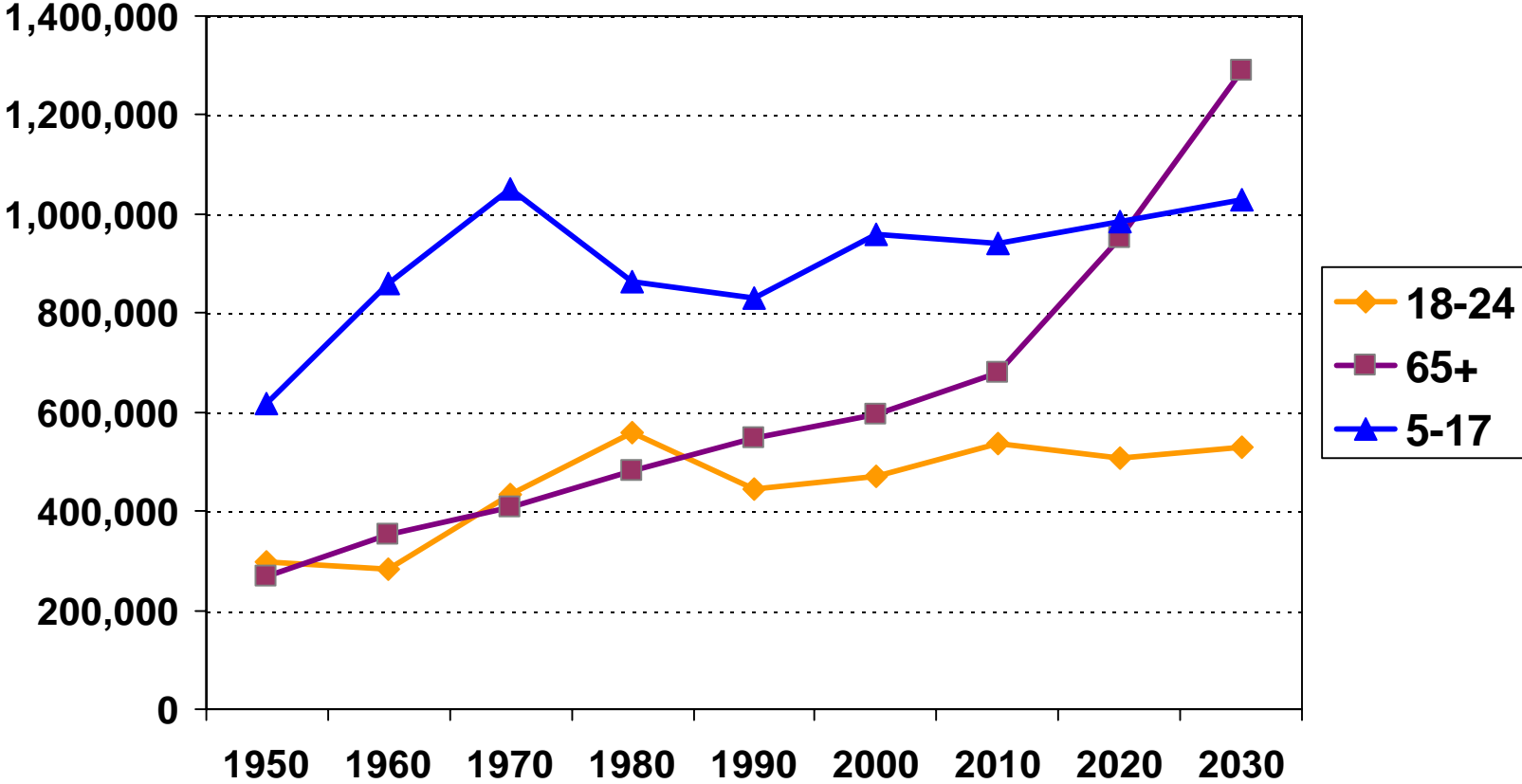
Aging Is The Dominant Demographic Trend In Minnesota And The Nation

- **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, combined with growth and increased diversity will lead to challenges and opportunities not fully anticipated**

Minnesota's Boom Generation Begins Turning 65 in 2011



More 65+ Than School Age By 2020



Census counts & State Demographer projection

Aging Of Society Will Impact Private and Public Spending

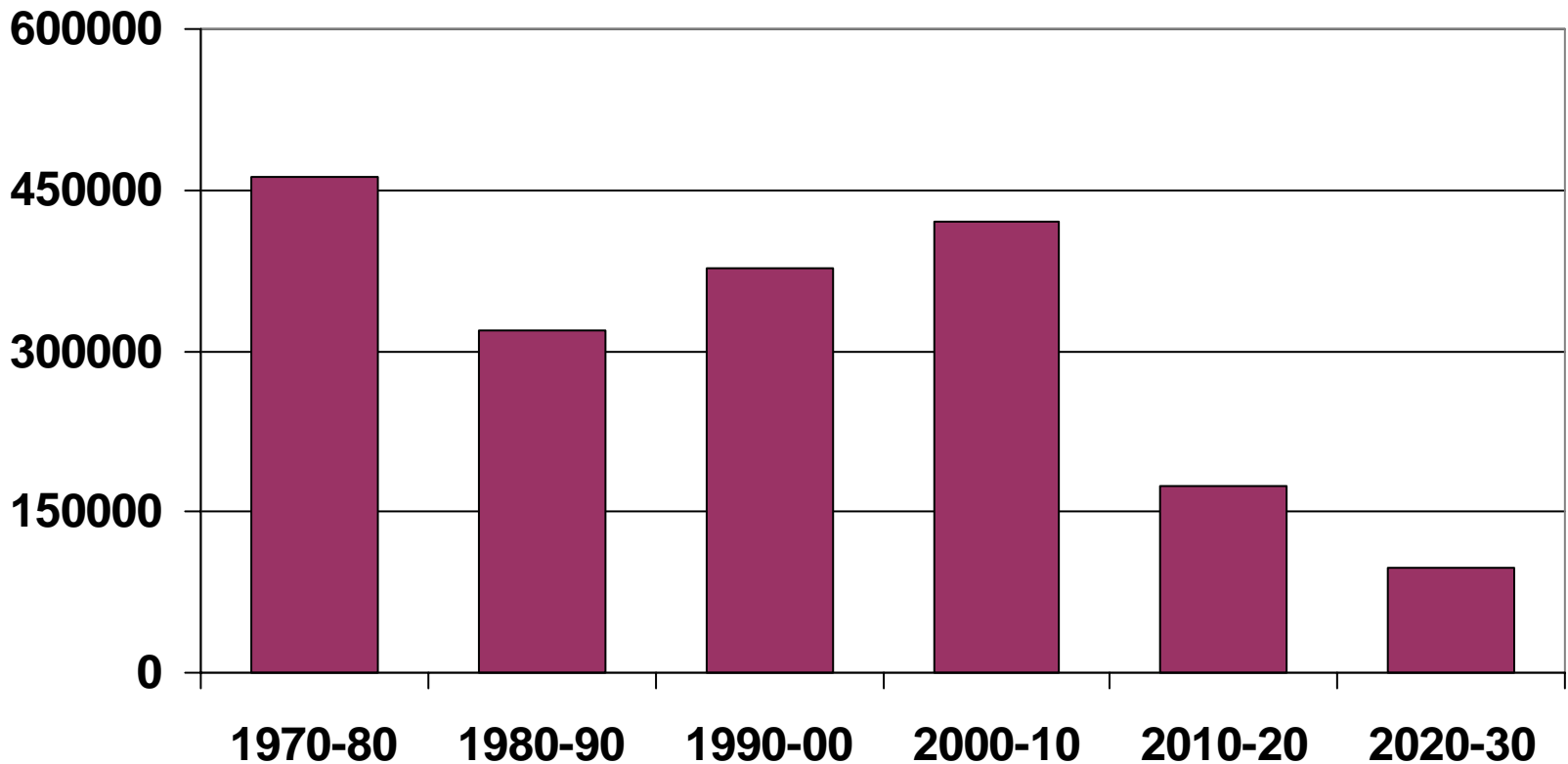
- **Health care costs will increase**
- **Shift in government priorities to issues of aging and health**
- **Older voters often more fiscally conservative**
- **State tax base will be affected as baby boom reaches retirement age**

But, workforce development will be crucial to Minnesota's economic future

- **Number of workers**
- **Quality of workers**

Minnesota Labor Force Expected to Grow by 421,000 by 2010 -- But Only 175,00 between 2010 and 2020

Net Labor Force Growth



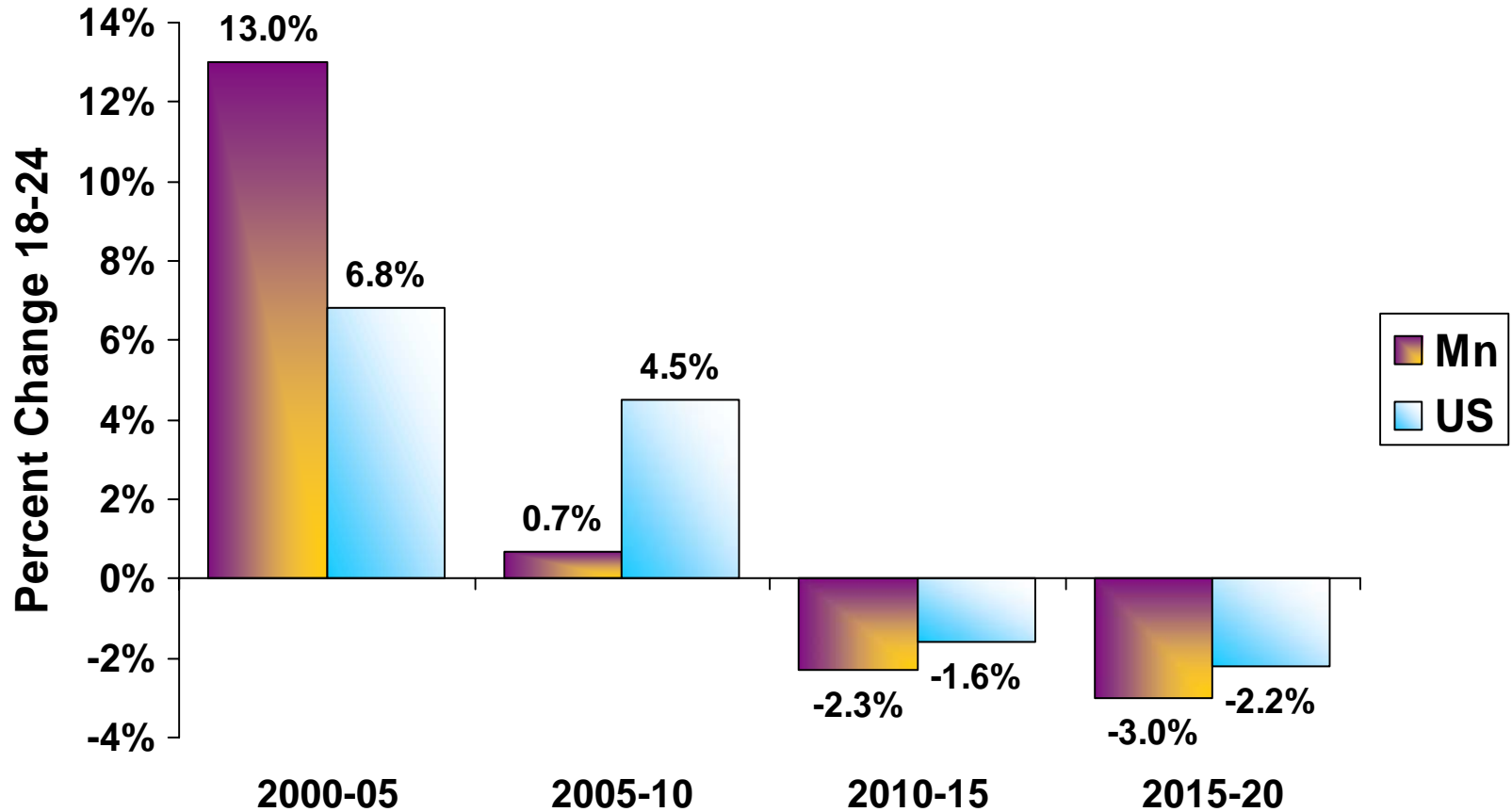
Economic Facts of Life

Standard of Living depends on output per resident

Output = Output per Hour * Hours Worked

If the ratio of workers to residents declines productivity will need to increase if we are to maintain our current living standard

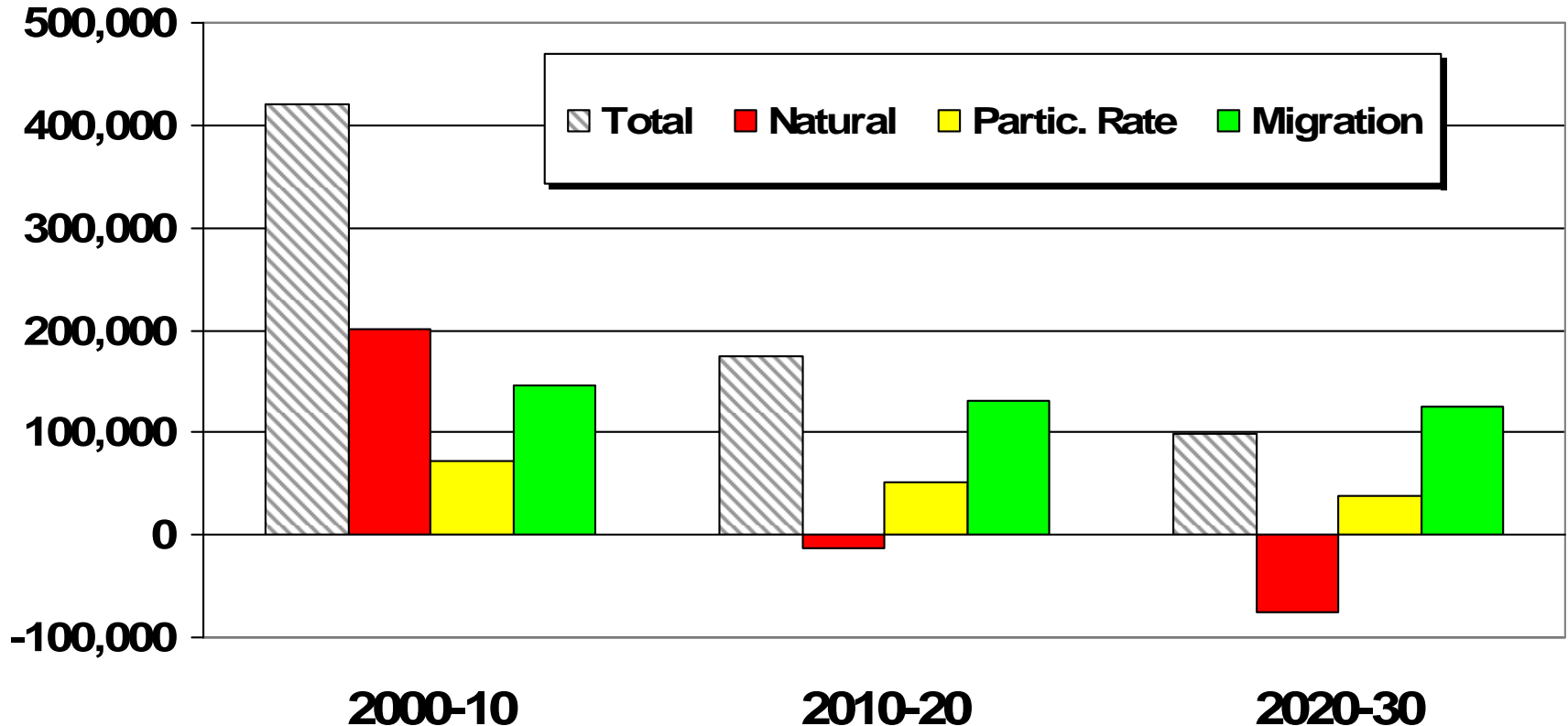
Competition For The Future Workforce Will Increase



Census Bureau US Proj, Mn State Demographer Mn Proj

Migration Will Become the Largest Source of New Workers in Minnesota

Net Labor Force Growth

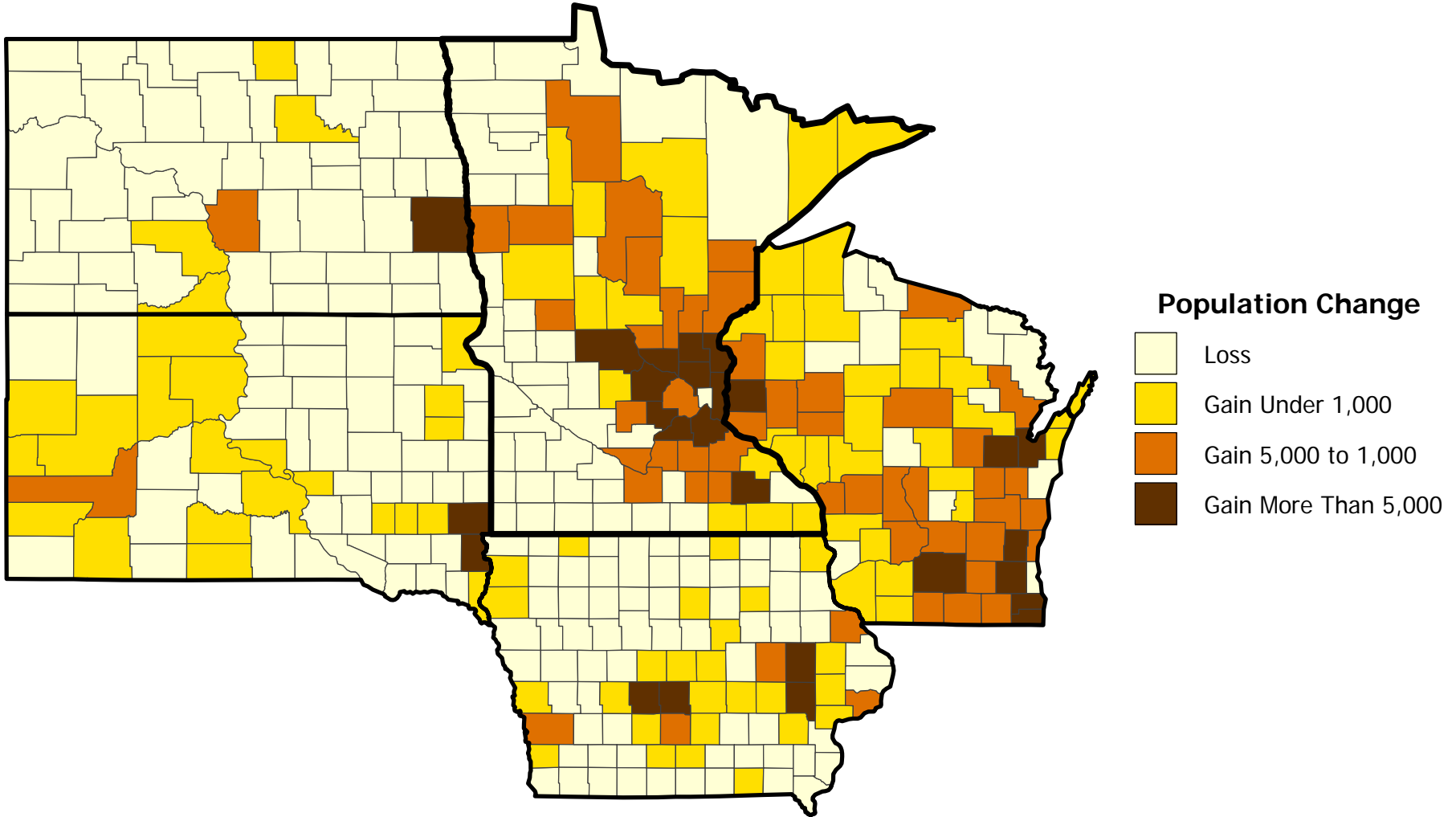


For The Past Century, Minnesota Has Drawn On Labor Migration From The Prairie

- Minnesota cities have drawn on bright hard working people educated in rural areas.
- This migration is largely now a thing of the past.
- Many rural areas have experienced long term population decline and rapid aging

Population Change 2000-04

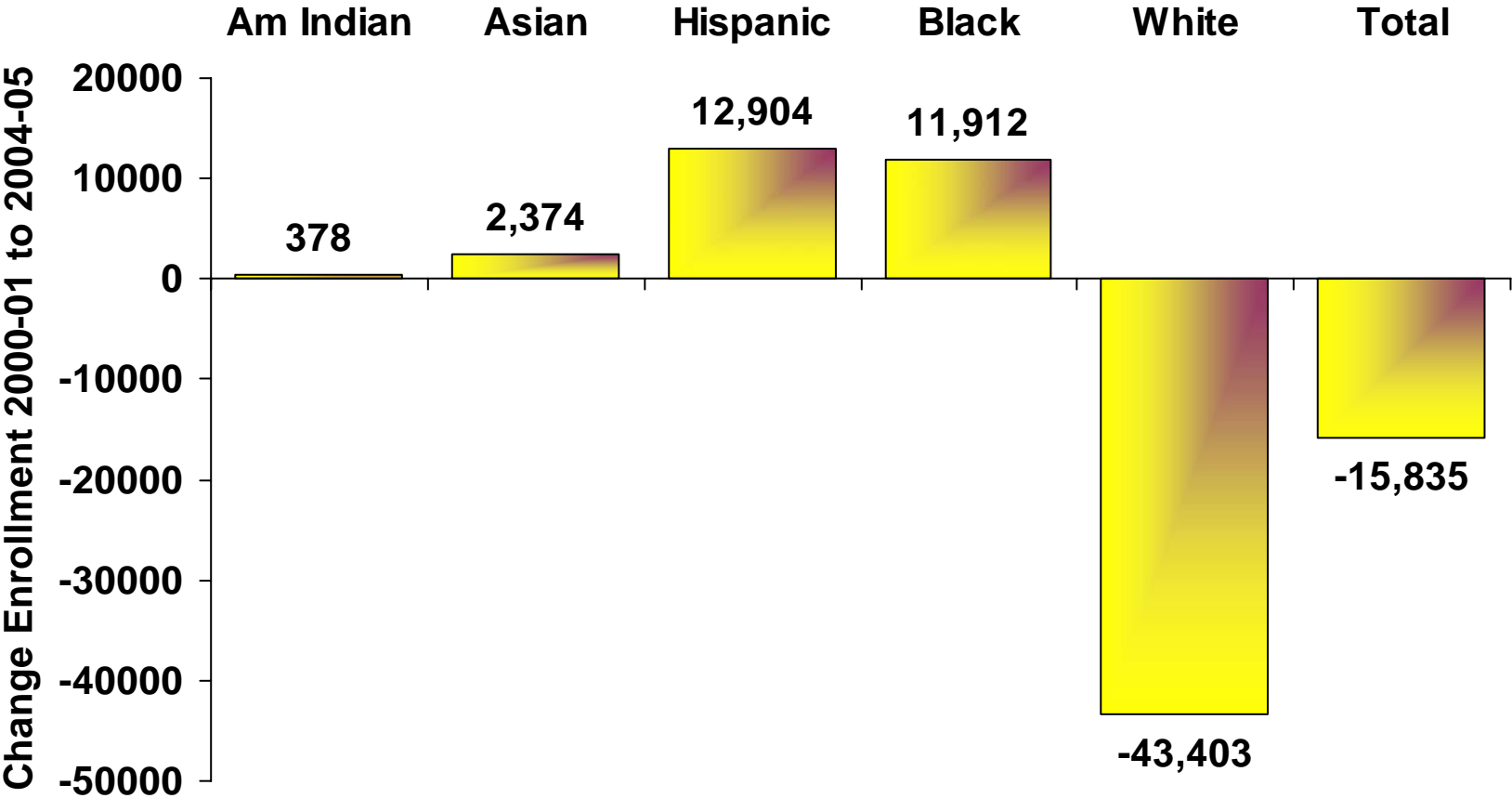
Census Bureau Estimate



Minnesota is Growing More Diverse

- **Minnesota is one of the least diverse states in the nation—13% minority v US 32%**
- **Over half of total population growth this decade is minority.**
- **And this is related to age—new, diverse population is younger**
- **But, we have growing disparities in education and health outcomes**

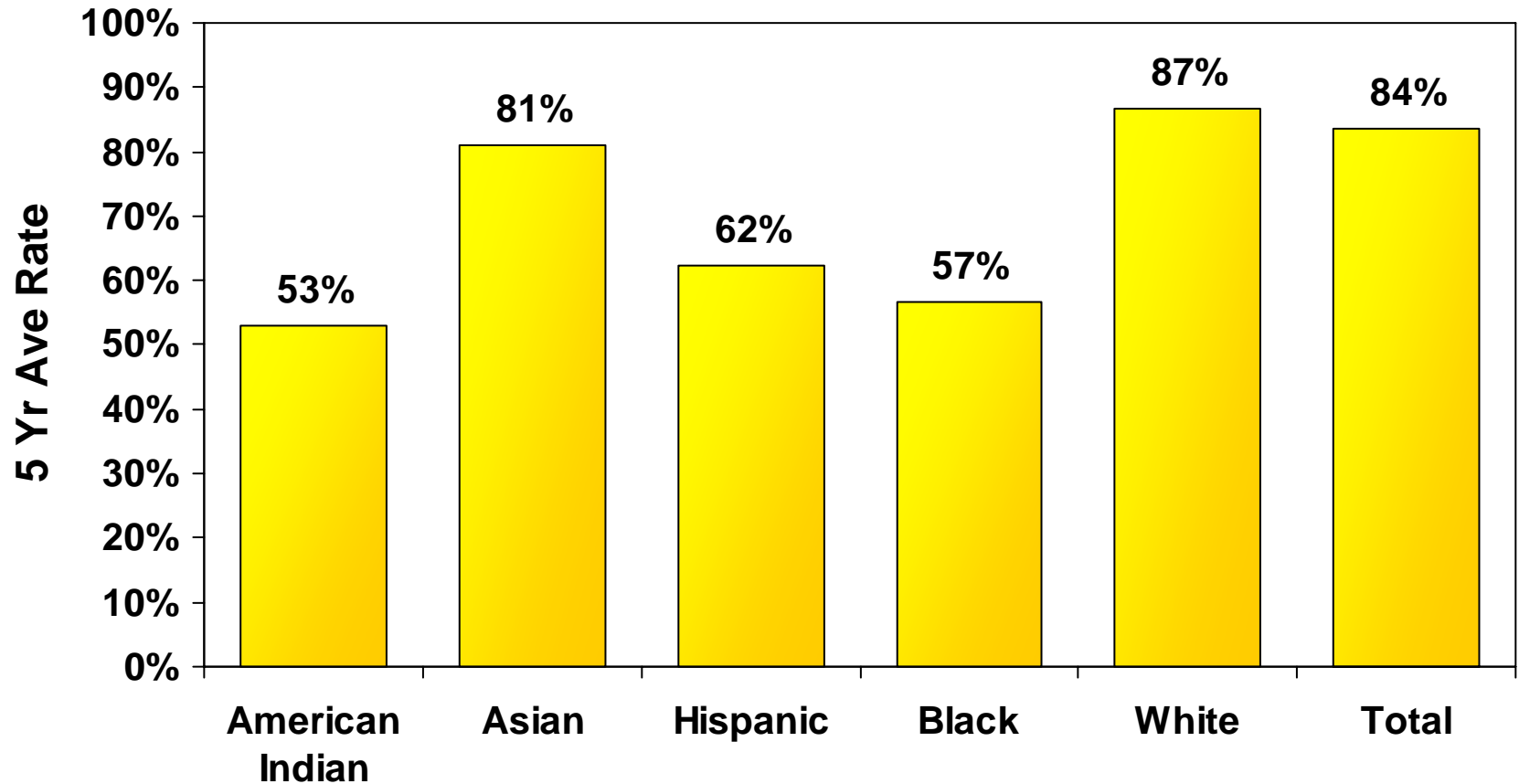
Students Of Color Are Increasing While White Students Are Declining



Mn Dept of Education data

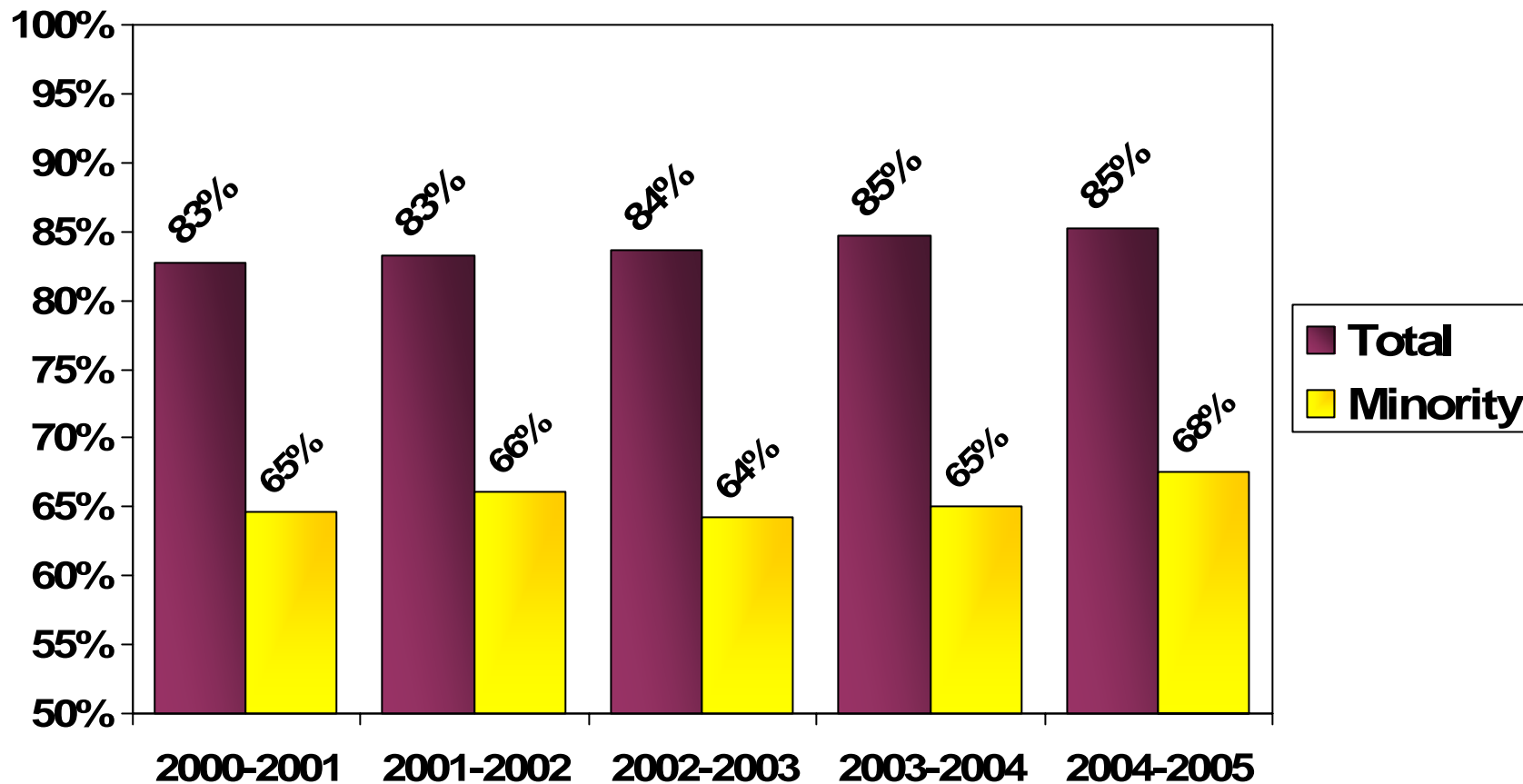
Minnesota High School Graduation Ratio

Large Differences Exist




1999-00 through 2003-04 graduates. Based on 10th grade enrollment three years earlier.

Minnesota High School Graduation Rates Rise Slightly



Ratio of graduates to 10th graders 3 years before

Options Open To Employers In A Tight Labor Market Situation

- ✱ Don't grow as planned or downsize 
- ✱ Retain existing older workers or hire non traditional workers
- ✱ Increase per worker productivity
- ✱ Import labor
- ✱ Export jobs (outsource)

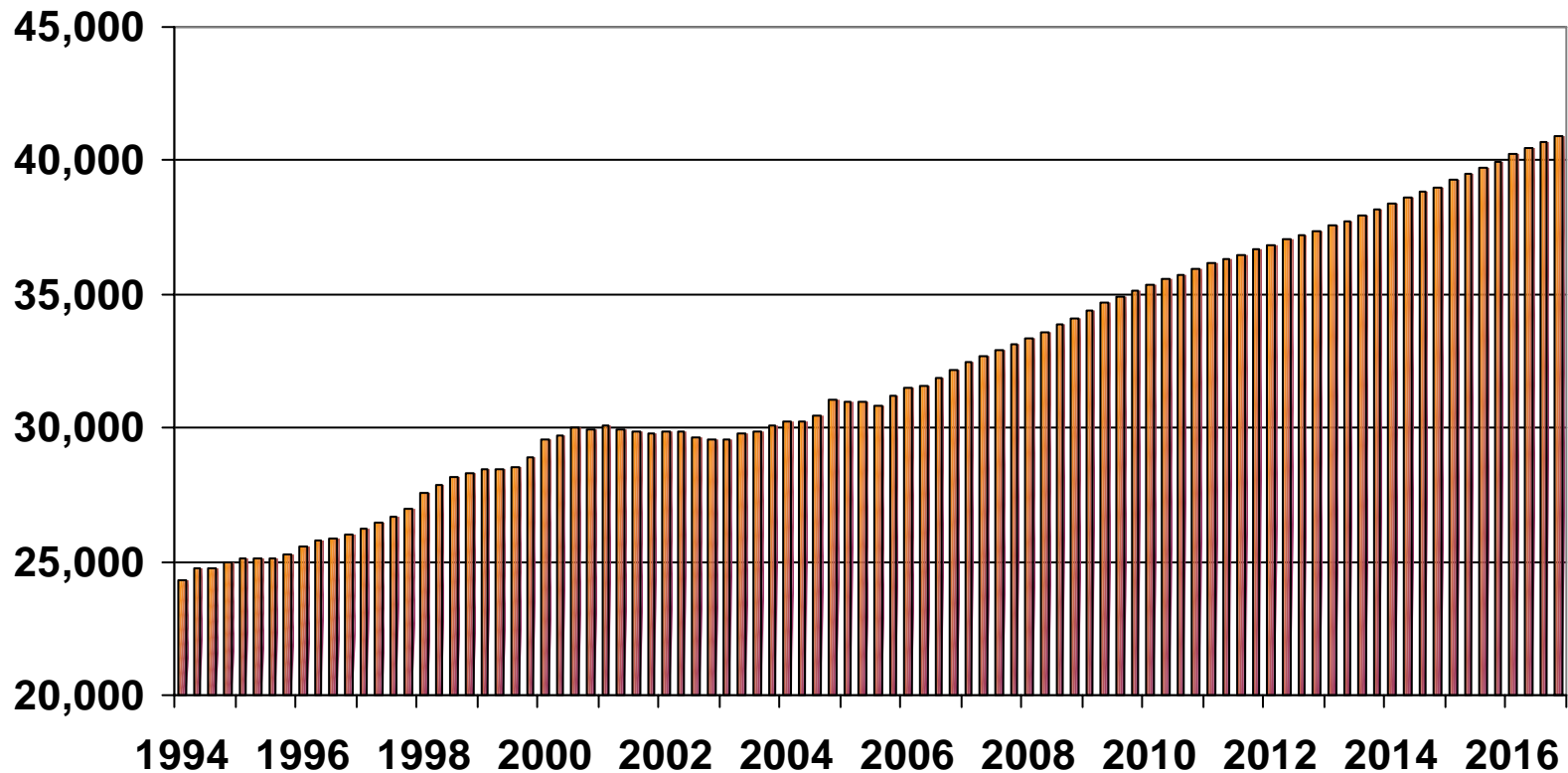
Can we afford the future?

**Can we afford to not
afford the future?**

Minnesota's Economy *Will* Grow

Real Per Capita Personal Income Is Projected to Grow 28 Percent by 2016

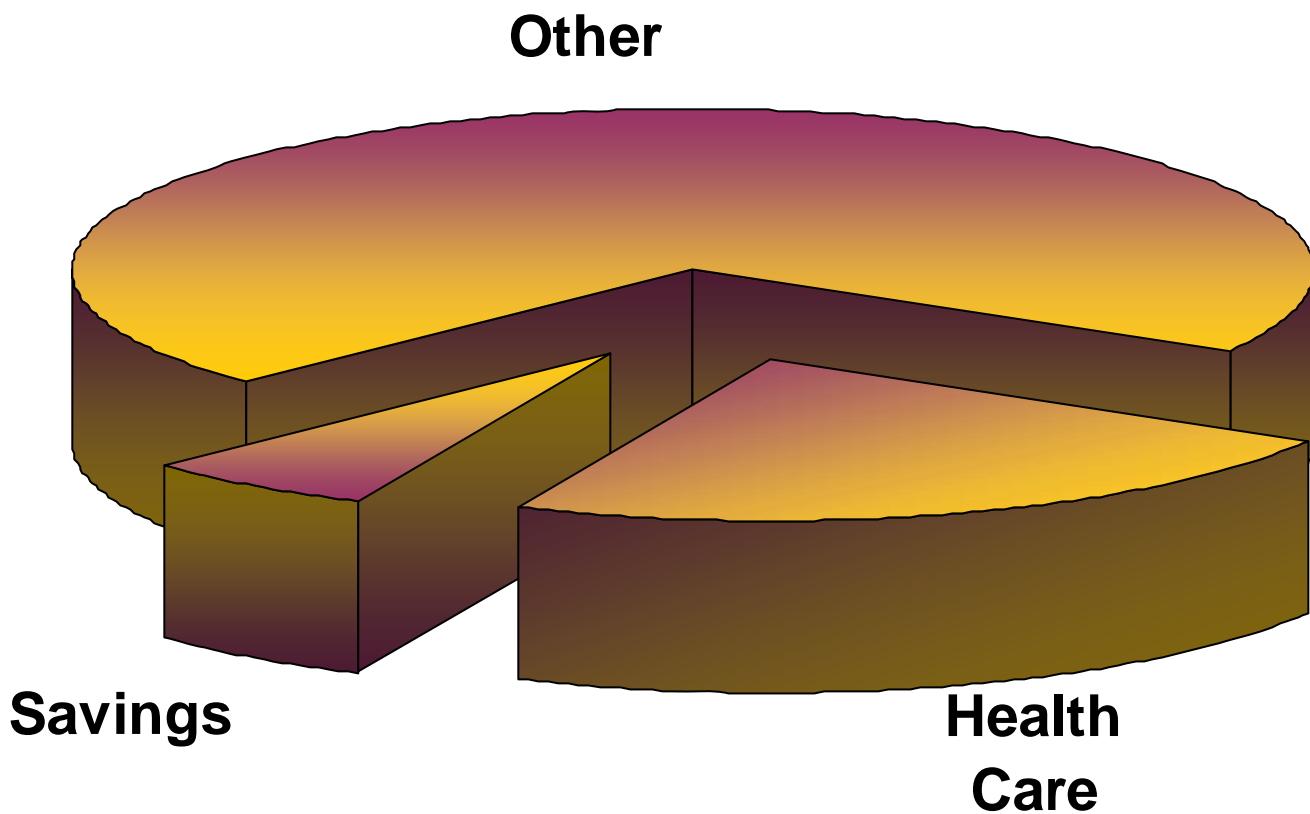
\$ per capita



Minnesota Households Will Earn More and Be Wealthier in 2016

- **Real, per capita disposable income projected to grow to \$35,199 – by \$7500 -- by 2016**
- **Household wealth per capita forecast to grow 60+ percent by 2016**
- **Inflation adjusted for**
- **Medical cost increases already included**
- **Minnesota could do better**

Two-thirds of Additional Real Income Remains After Allowing for Increases in Health Care and Savings

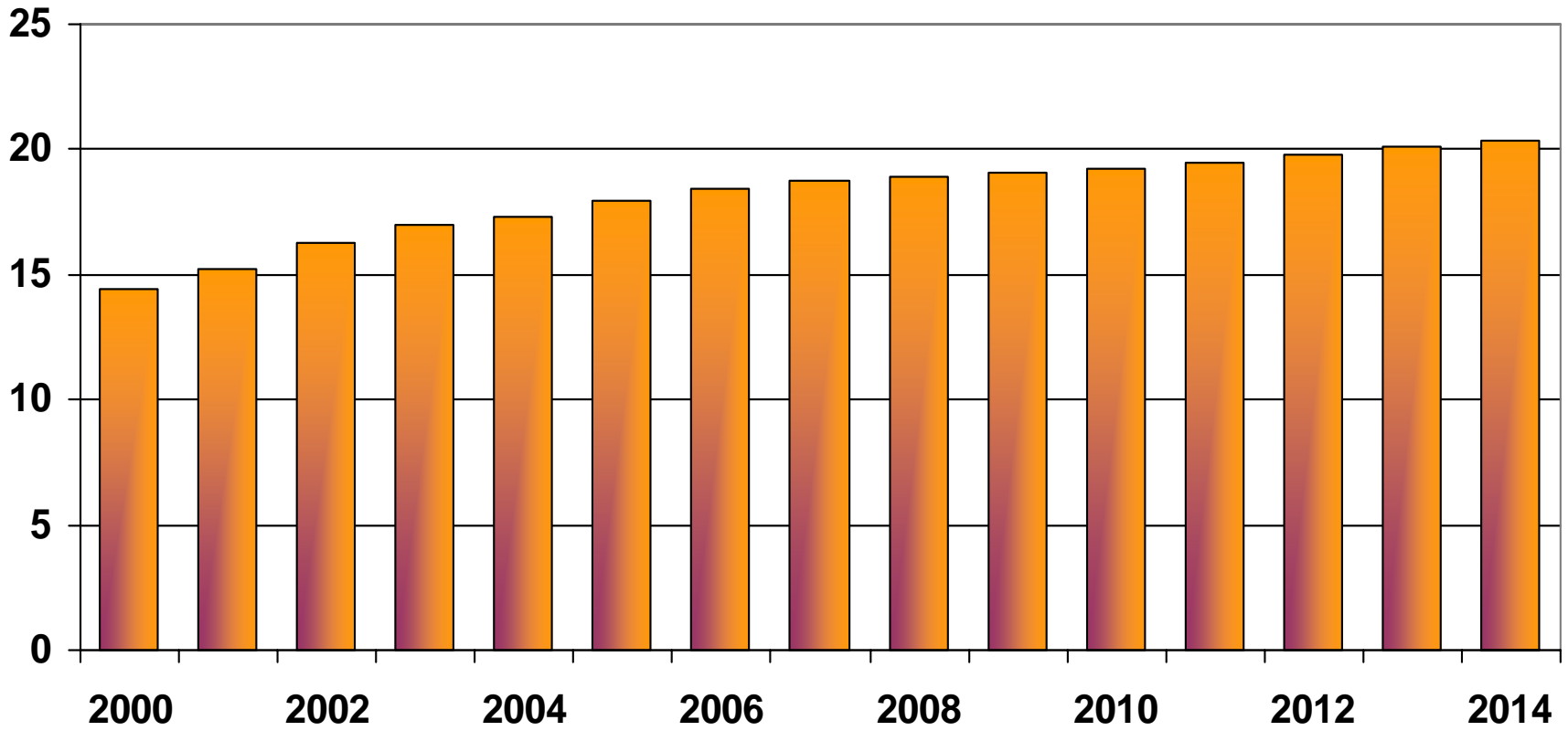


Aging Of Society Will Impact Private and Public Spending

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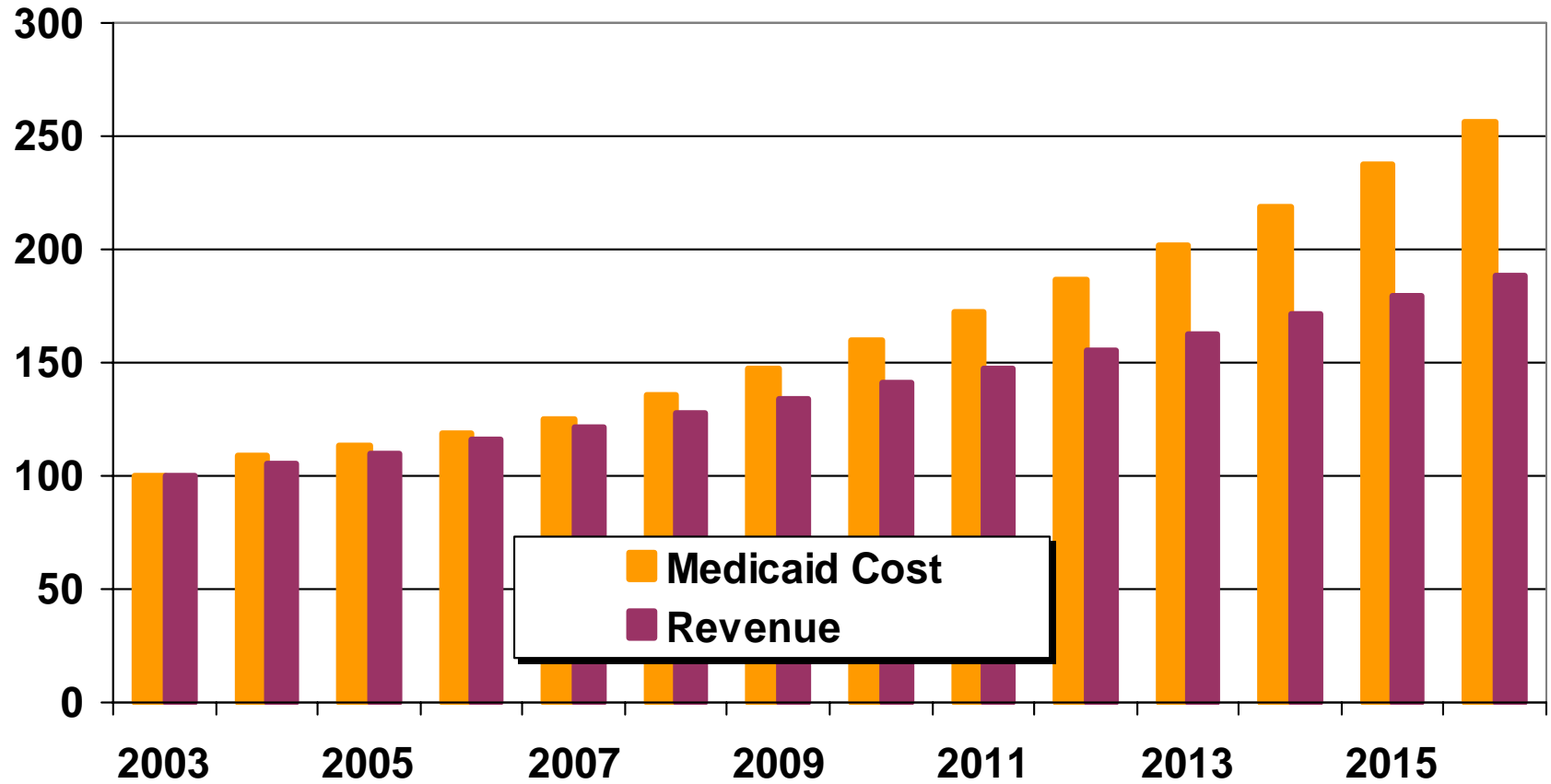
Health Care Expenditures Are Expected to Take an Increasing Share of Personal Income by 2014

Pct of
Personal Income



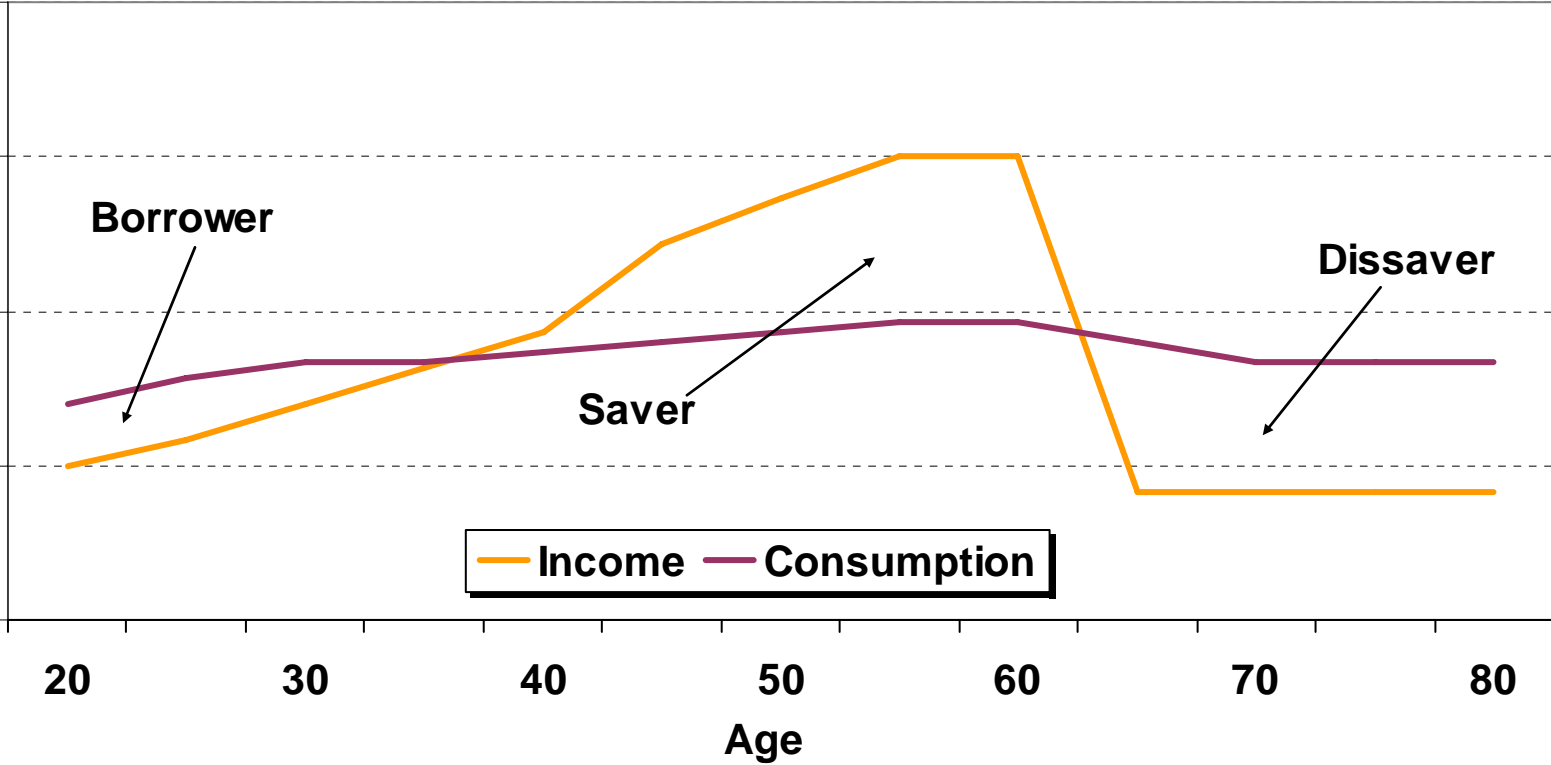
CBO Expects Medicaid Spending to Double by 2016, State Tax Revenues Will Not Keep Up

Index, 2003 = 100



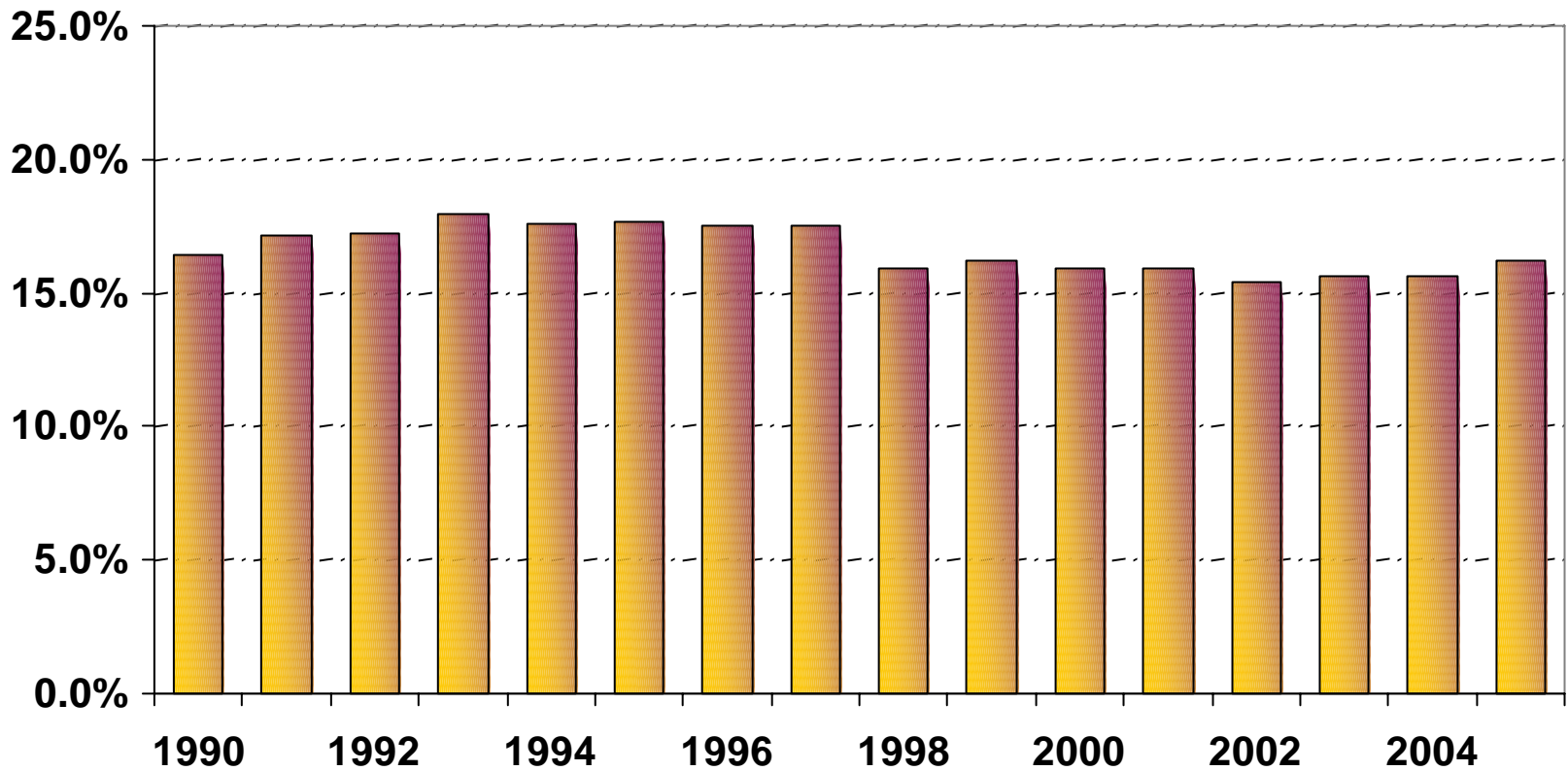
Phases in the Household Life Cycle

Dollars



State/Local Government's Share of Personal Income Has Declined Slightly

Price of Government



State Taxes Paid by a Married Couple Before and After Retirement

<i>Income</i>	Income Tax	Sales Tax	Total	Change	Pct
<hr/>					
<u>Working</u>					
\$35,000	\$1,236	\$782	\$2,018		
\$65,000	\$3,387	\$1,295	\$4,682		
<u>Retired @ 70 %</u>					
\$25,000	\$0	\$559	\$559	-\$1,459	-72%
\$45,000	\$1,091	\$896	\$1,987	-\$2,695	-58%

Summary

- **Minnesota has been very successful**
- **We are in a period of rapid and critical change**
- **What we do today will shape our future for the next quarter century**
- **Slower labor force growth heightens importance of productivity growth**

Can we afford the future?

YES

**But, what future will we
choose to afford?**

**How will Minnesotans 50
years from now view our
generation's stewardship?**