

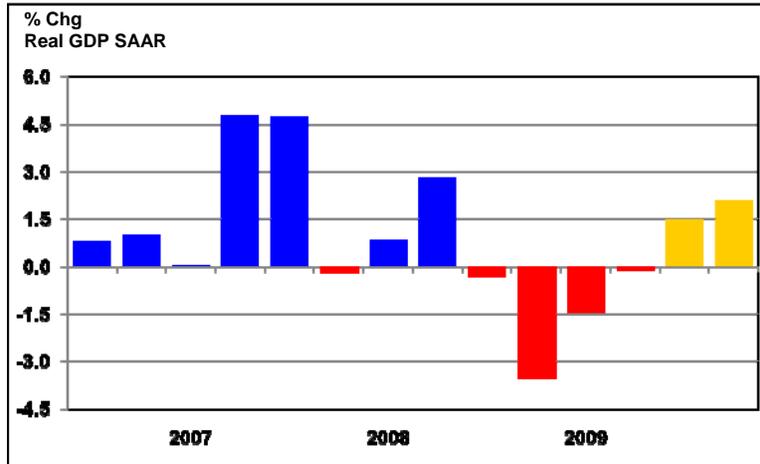
The 2009-10 Economic Outlook

**Thomas F. Stinson
University of Minnesota
November 6, 2008**

The US Economy Is in a Recession

- **The recession started late this summer, it may even have started in late 2007**
- **760,000 jobs lost, payroll employment has fallen for 9 consecutive months**
- **Real (inflation adjusted) GDP fell in both 2007Q4 and 2008Q2**

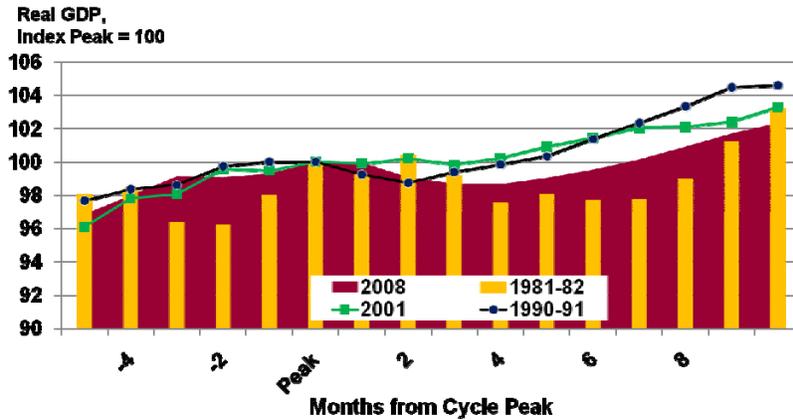
Expect a 3 Quarter Recession – Subpar Growth until Early 2010



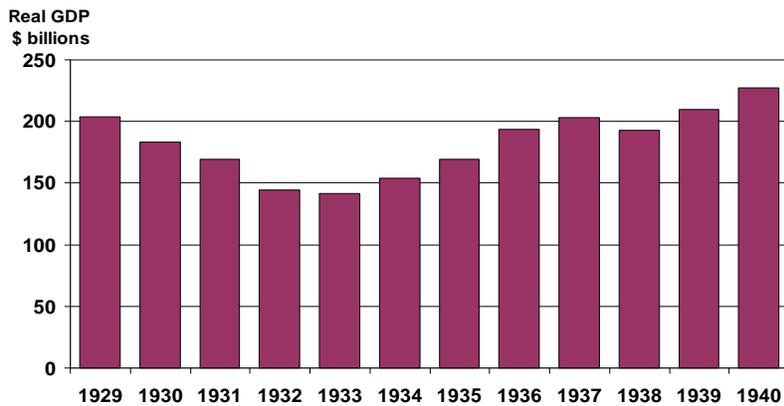
The Recession Is Expected to Last Through Spring 2009

- Consumer spending fell by 3.1% in Q3, another decline is likely in Q4
- At least one more stimulus package is likely
- Lower energy prices will help boost the economy
- The Fed should lower interest rates again before the end of the year

The Recession Will Be More Severe Than in 1990-91 or 2001

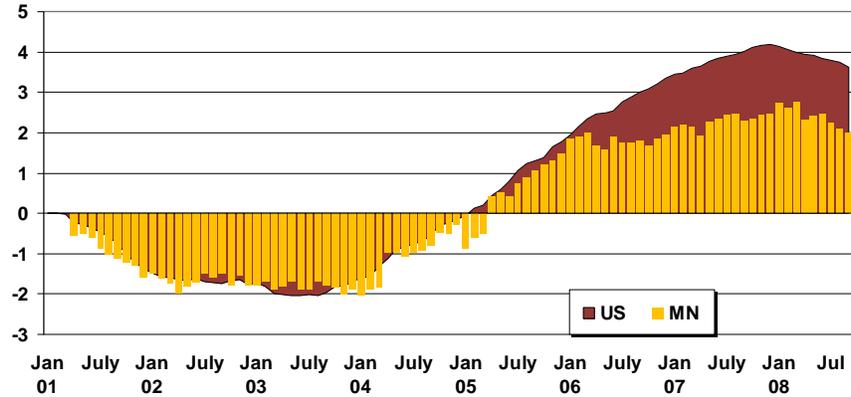


It Took 9 Years for Real GDP to Return to Its Previous Pre-Depression High



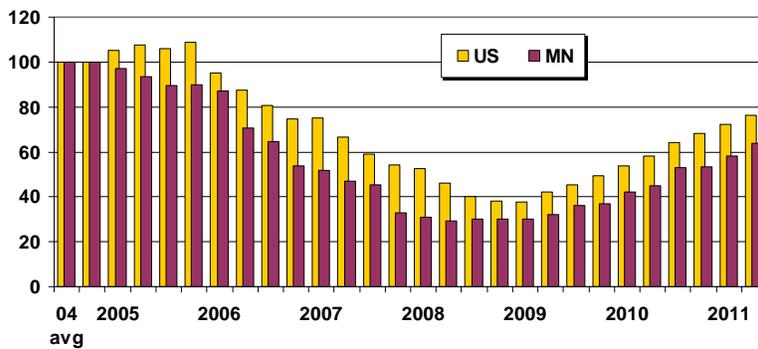
Minnesota Payroll Employment Growth Has Stalled Since Early 2006

Pct Change since
Feb, 2001



Recovery from the Housing Slump Will Be Weaker in Minnesota

Starts, Index
2004 = 100



Looking to the Future

- **Don't expect a quick recovery**
- **There has not been a build-up of pent-up demand**
- **Interest rates have not been high**
- **Demographics have changed**

What to Watch

- **Payroll employment**
- **Consumer spending**
- **LIBOR (TED Spread)**
- **Unusual Fed action**
- **Energy prices**
- **Outlook for rest of world**

FY 2008-09 Budget Balanced at End of 2008 Legislative Session

- February forecast showed \$935 million (2.7%) budget shortfall
- Budget balanced using reserves (\$500 million), revenues (\$315 million) and expenditure cuts (\$125 million)
- Tax revenue increases (\$171 million) include \$109 million from corporate tax change

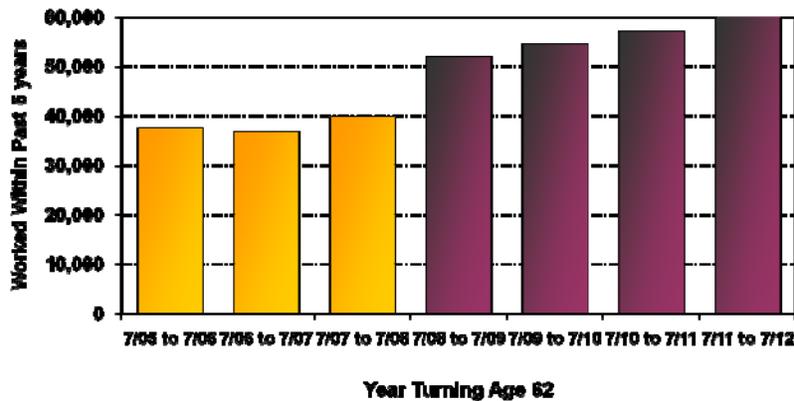
FY 2010-11 Outlook Shows \$940 Million Shortfall

- Revenues projected to grow by 3.5 percent per year
- Current law expenditures grow by 4.4 percent per year
- Expected budget shortfall at end of 2008 session was \$940 million (2.6%)
- If inflation is taken into account the shortfall grows to \$1.980 billion (5.6%)

FY 2008 Revenues Were \$389 Million Above February's Forecast

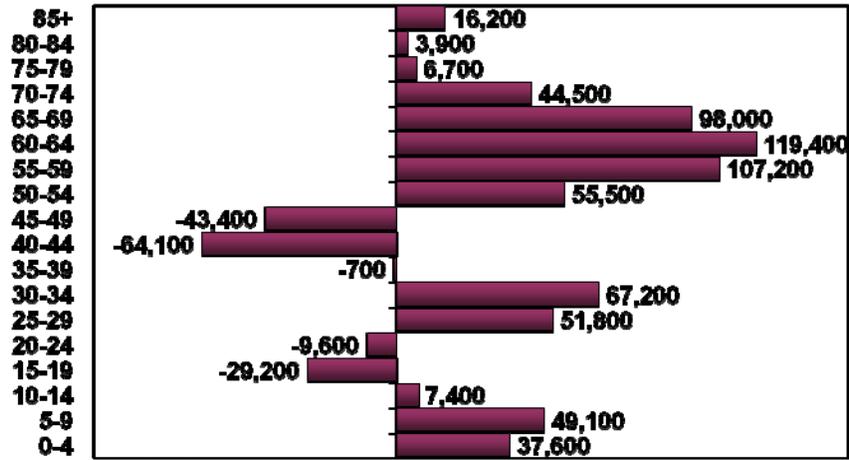
- The U.S. economy grew faster in early 2008 than projected
- Income and corporate income tax receipts exceeded forecast
- Some of the additional revenue will carry forward into the future
- But, the economic outlook for the remainder of the biennium has dimmed

The Number of Workers Turning Age 62 Will Jump 30 Percent in 2008



2005 ACS

From 2005 to 2015, Largest Growth in Minnesota Will Be in Ages 55 to 69



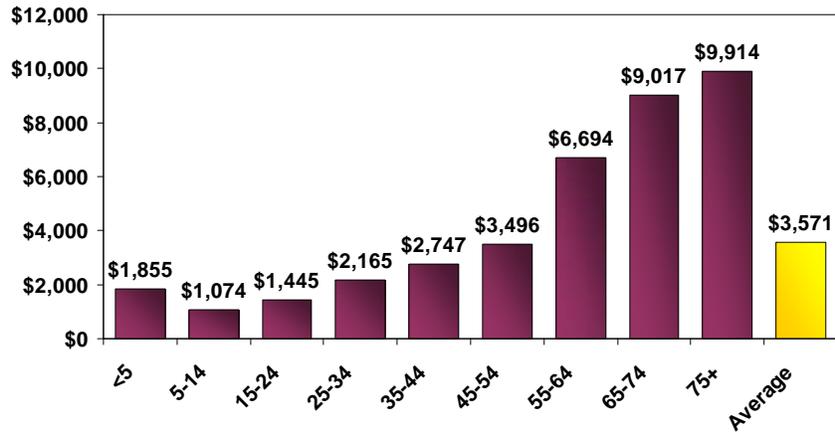
Source: Minnesota State Demographic Center
Numbers are rounded

The New 3 R's for Economic Success in the 21st Century

Retention
Recruitment
Retraining

Health Care Spending Jumps After 55

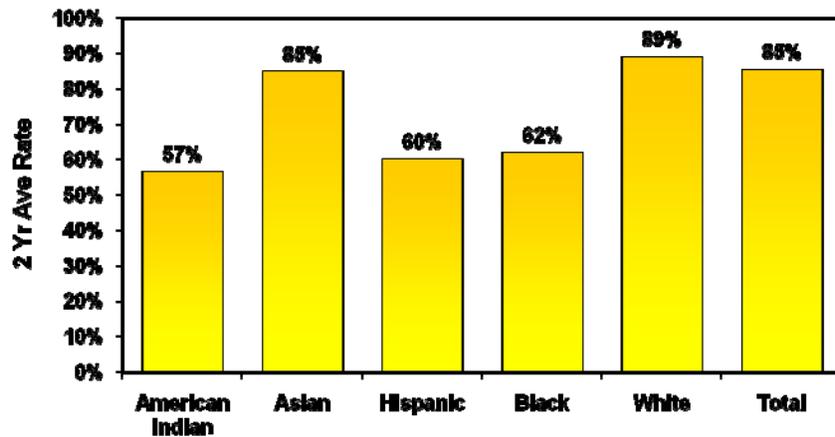
U.S. Health Care Spending By Age, 2004



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.

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.