

Minnesota Demographics And The “New Normal”

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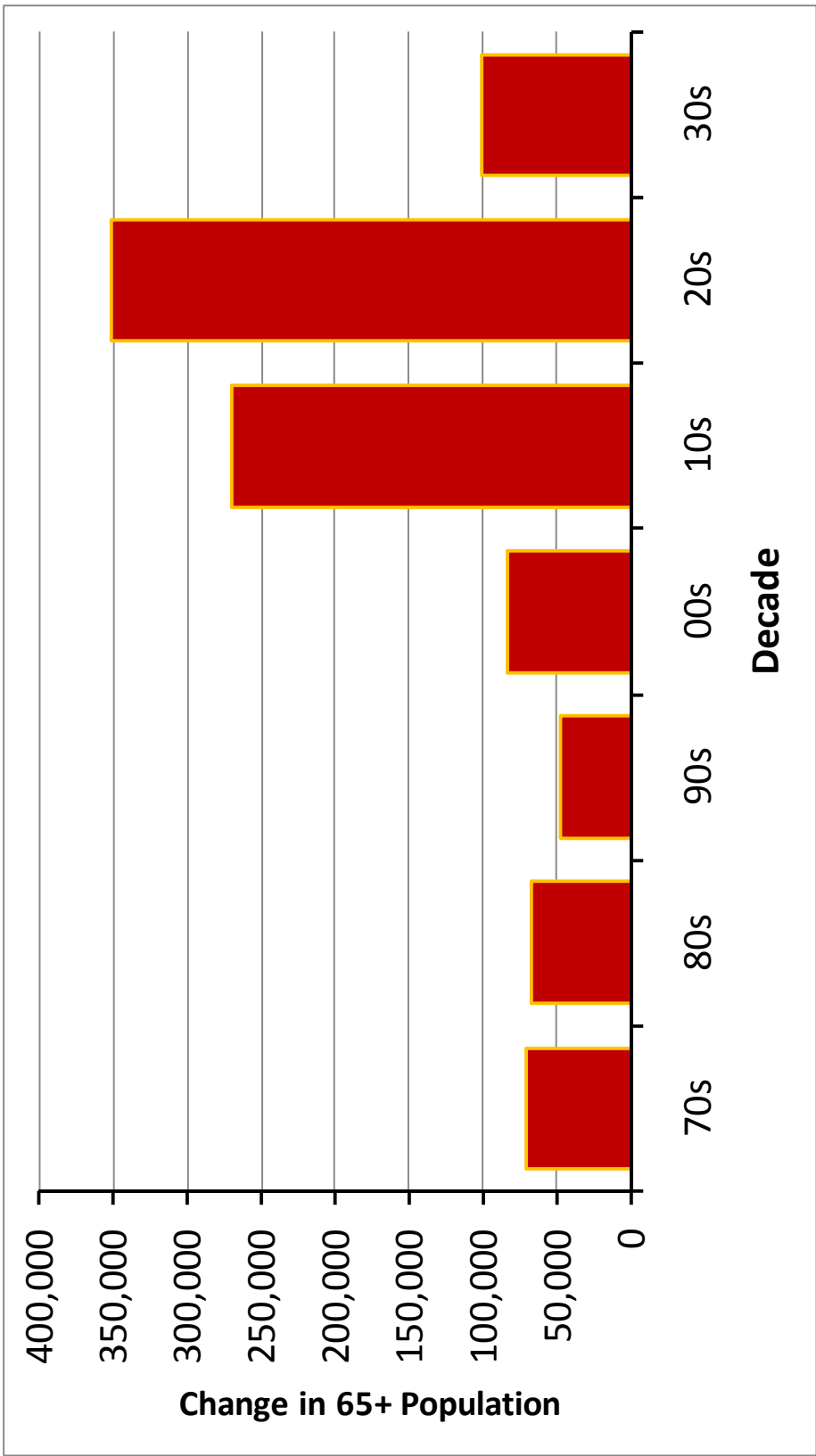
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The Economic/Demographic Environment Has Changed for as Far as We Can

Forecast

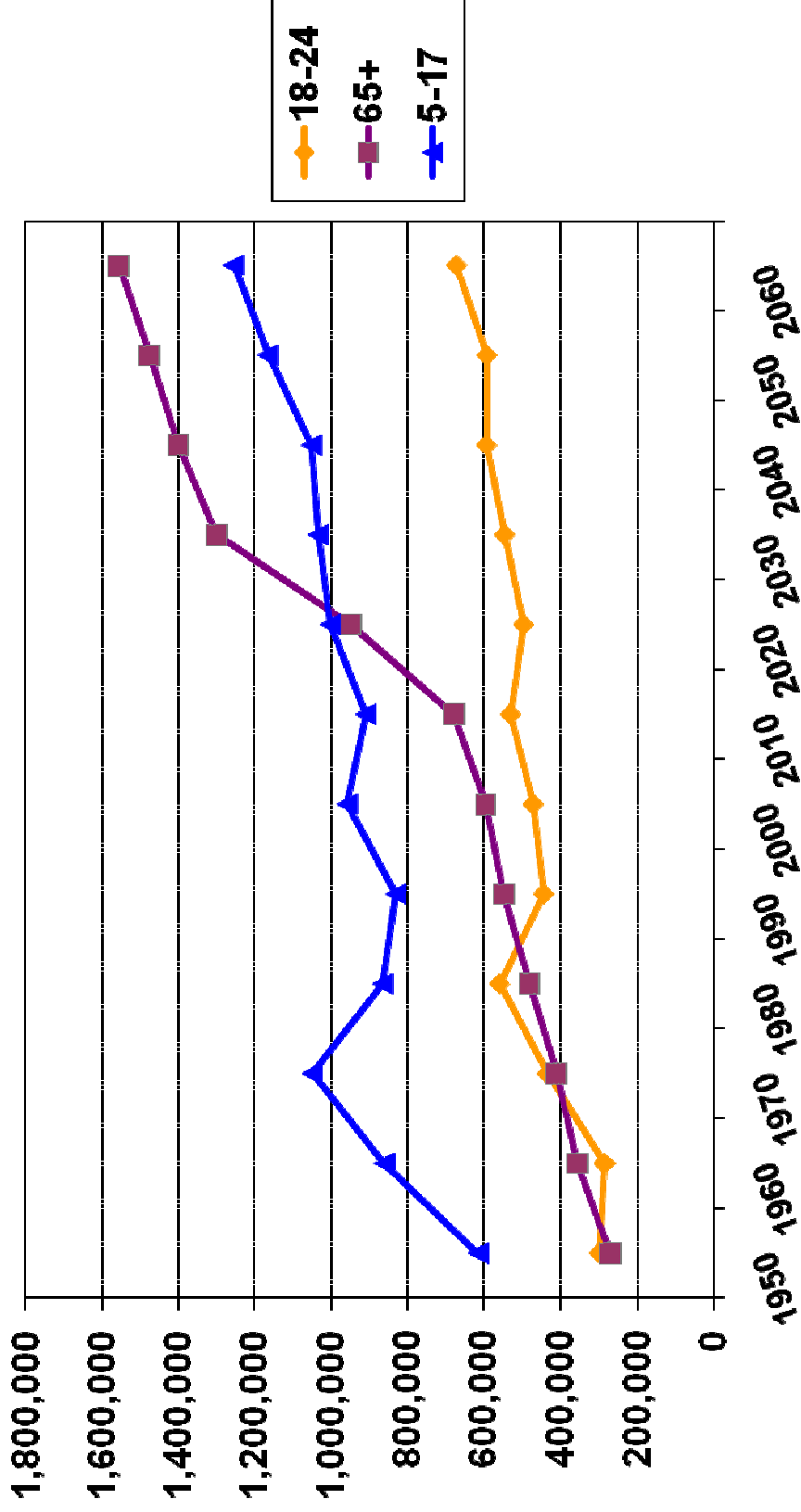
- ✘ Short run economic cycle has merged with long run demographic cycle**
- ✘ We have entered the Age of Entitlement— economic growth in the next 25 years will be slower than what it was in the past 25.**
- ✘ This is a national/global issue**

This Decade And Next Will See Unprecedented Increases In Minnesota's 65+ Population



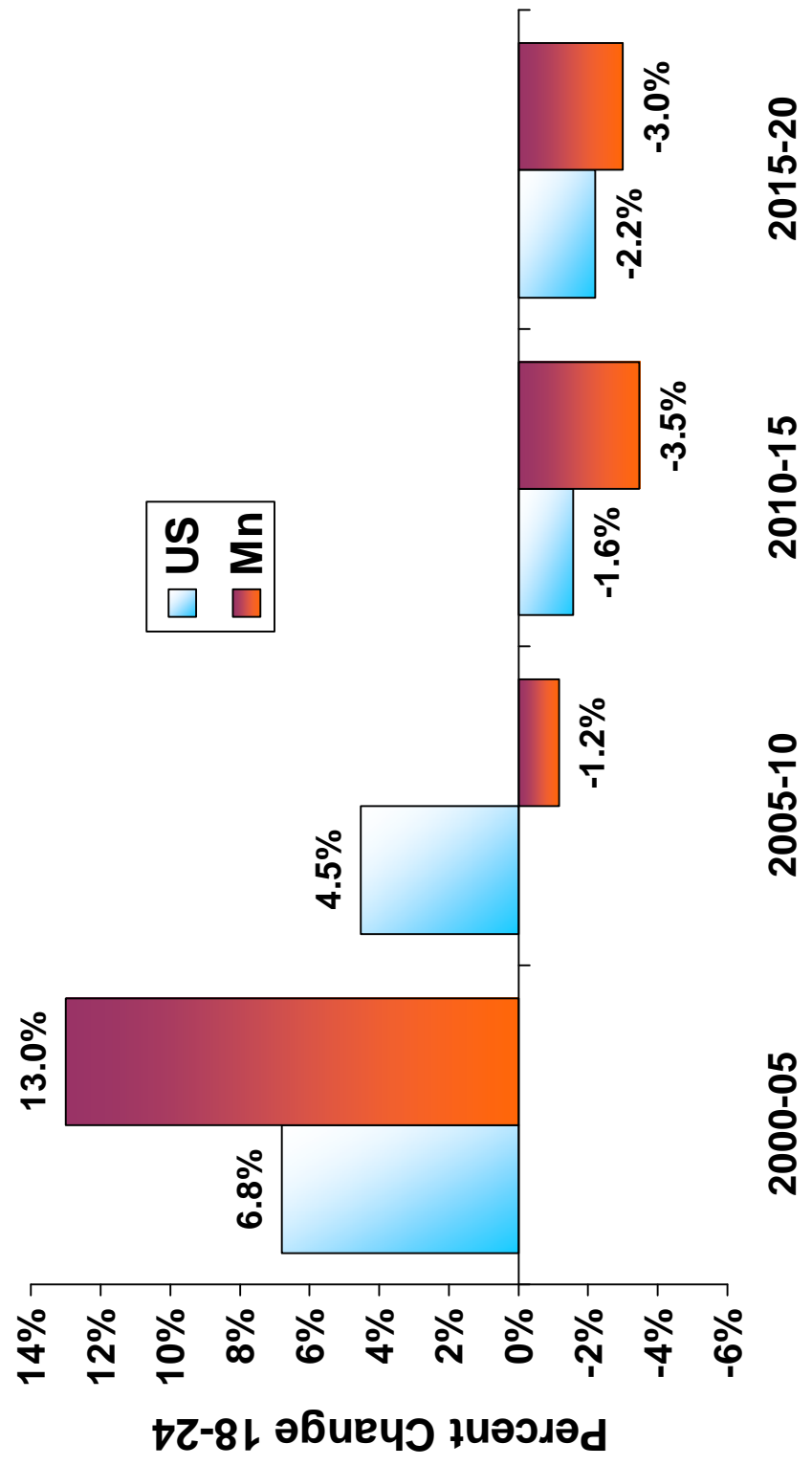
Source: Minnesota State Demographic Center projections

Budget Pressures Will Change More 65+ Than School Age by 2020



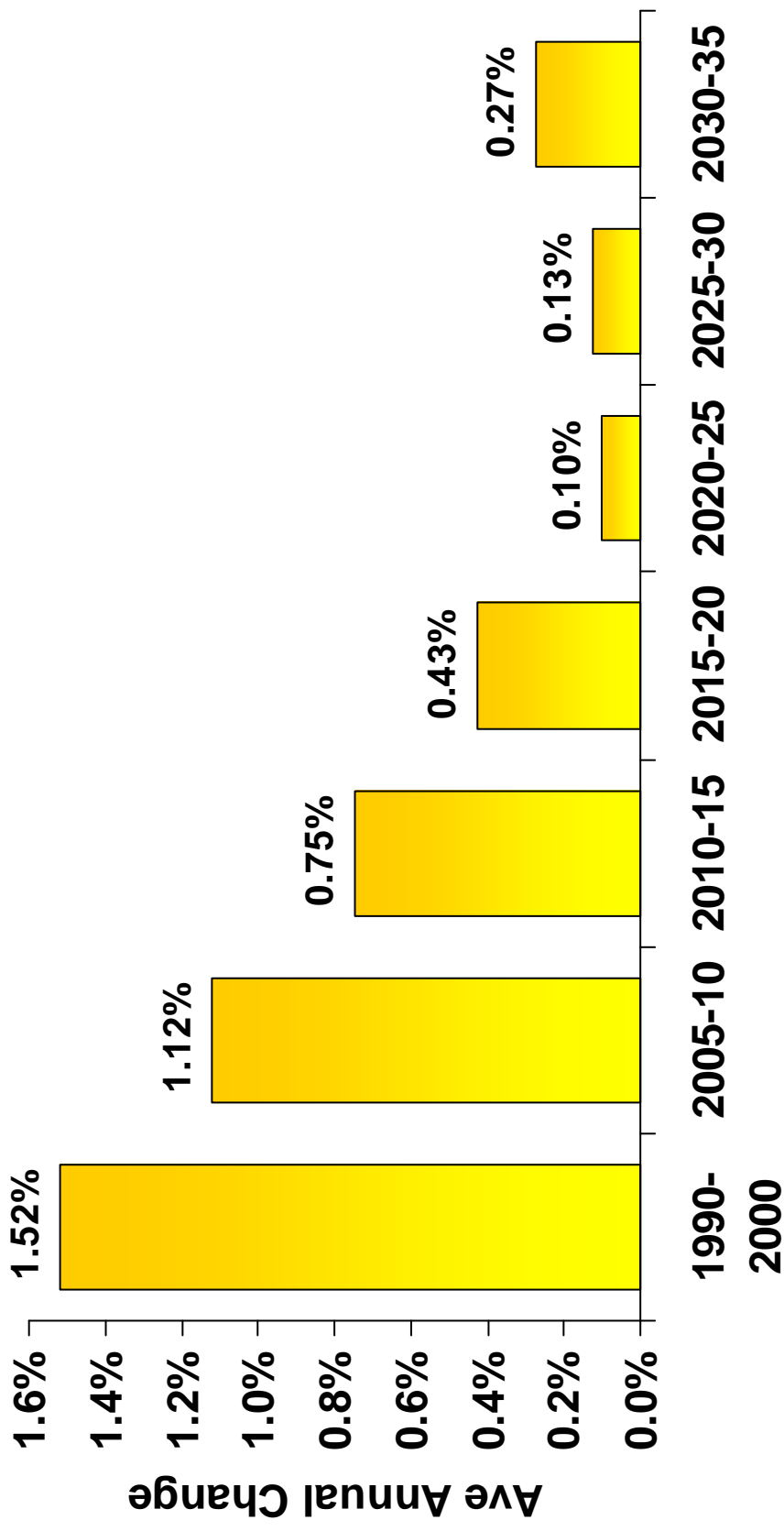
Census counts & State Demographer projection, revised 2010

Competition For Future College Students Will Increase

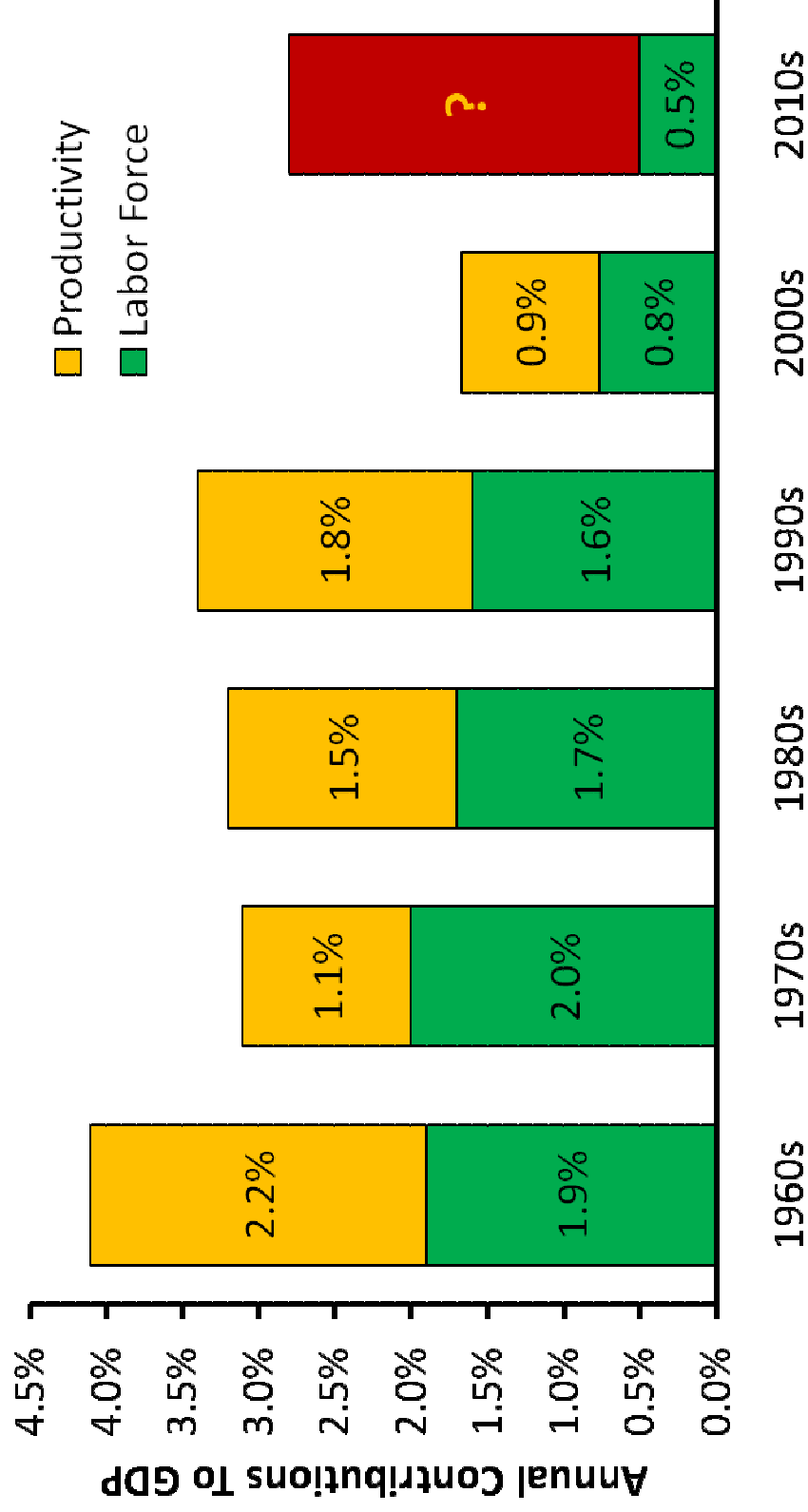


Census Bureau US Proj, Mn State Demographer revised 2007. The 18 year old population, both Minnesota & nationally are projected to decline starting 2009.

Labor Force Growth Is About To Slow Sharply



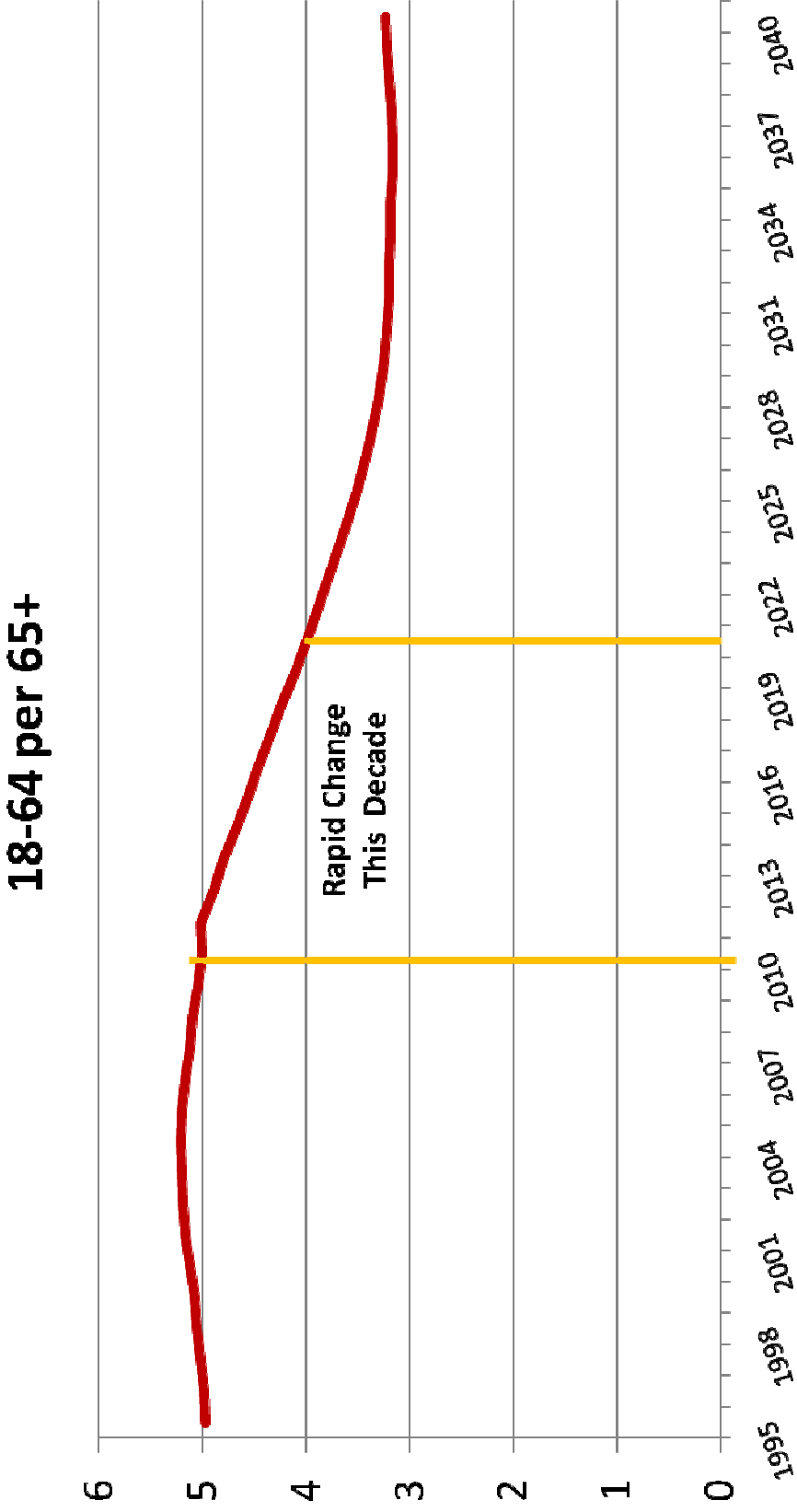
Overall US Economic Growth Slows As Labor Force Growth Slows



US BEA, McKinsey Global Institute, We will need a 2.3% annual increase in productivity just to reach our 20 year average growth of 2.8%

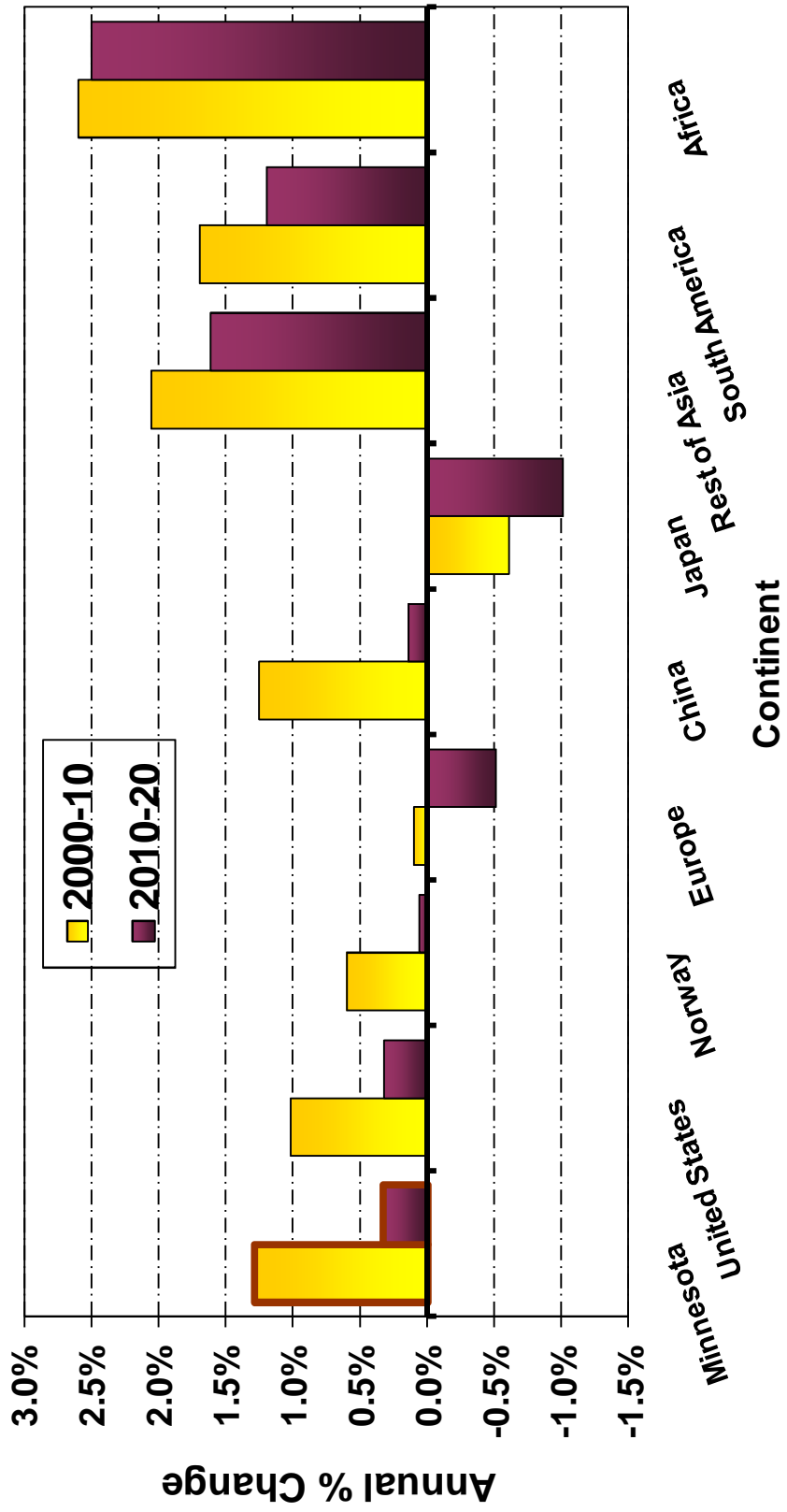
Minnesota Working Age Per Potential Retiree

From 2010 to 2030 Ratio Drops From 5 to 3



World Labor Force Growth Slowing

Projected Change In Working Age Population (15-64)



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

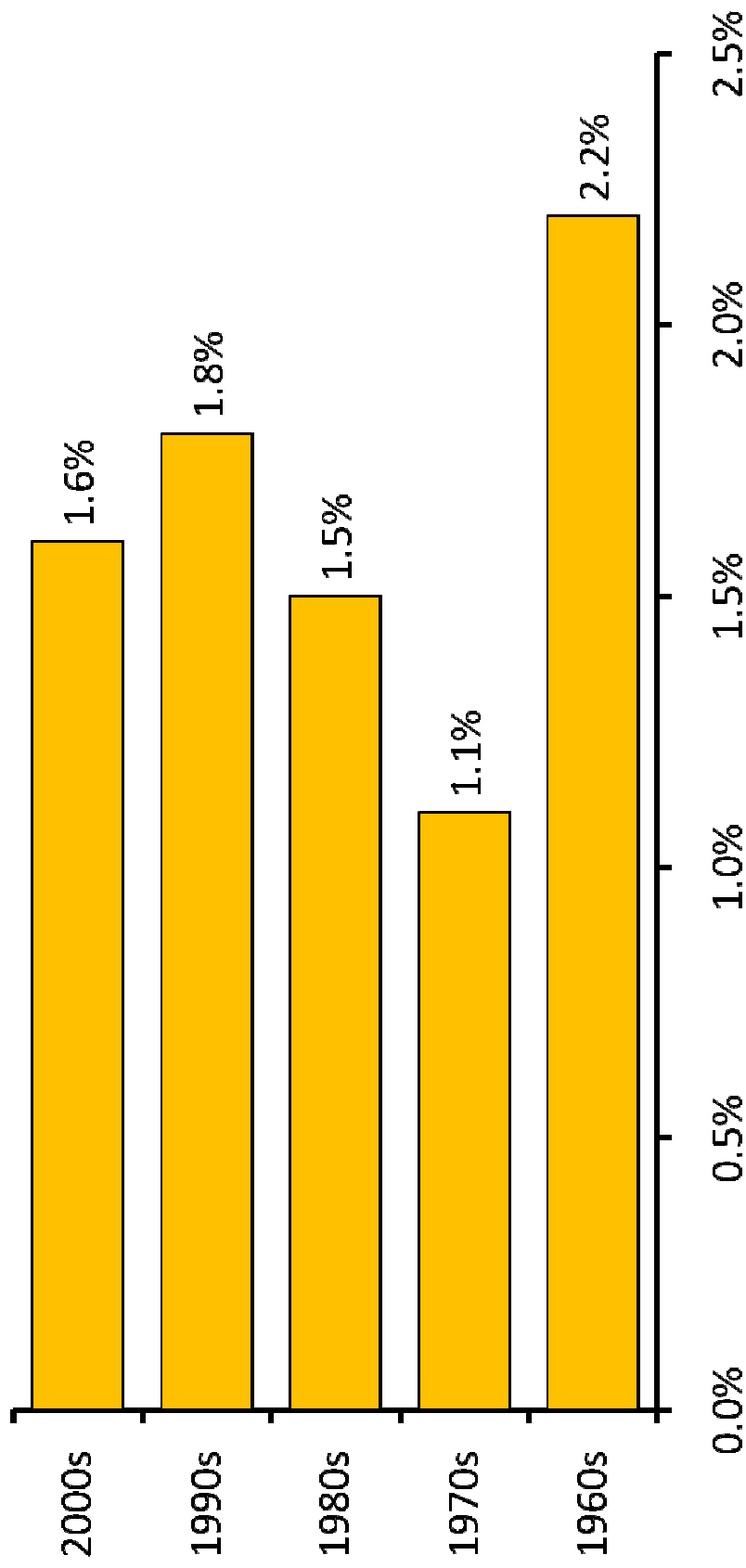
The “New Normal” Probably Means

- Higher interest rates
- Slower economic growth
- Chronic government deficits & cuts in service
- Worries about how to pay for past promises
- Disruptive events/innovations more frequent
- A single-minded focus on productivity
- A whole new set of opportunities

Productivity Is Not Just Making Things Cheaper

- Productivity is also
 - ➡ Making things better—**Quality**
 - 📍 *Examples; Increased high school graduation rate, reduced recidivism*
 - ➡ Making better things—**Innovation**
 - 📍 *Examples; cure for chronic diseases, new energy source*

**Historic US Average Annual Productivity Growth
To Sustain A 2.8% GDP Growth This Decade, We
Will Need A 2.3% Annual Growth In Productivity**



U.S. Bureau of Economic Analysis, McKinsey Global Institute, 2.8% is the average US GDP growth form 1990-2008

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 in the future and pay for the promises we have made.