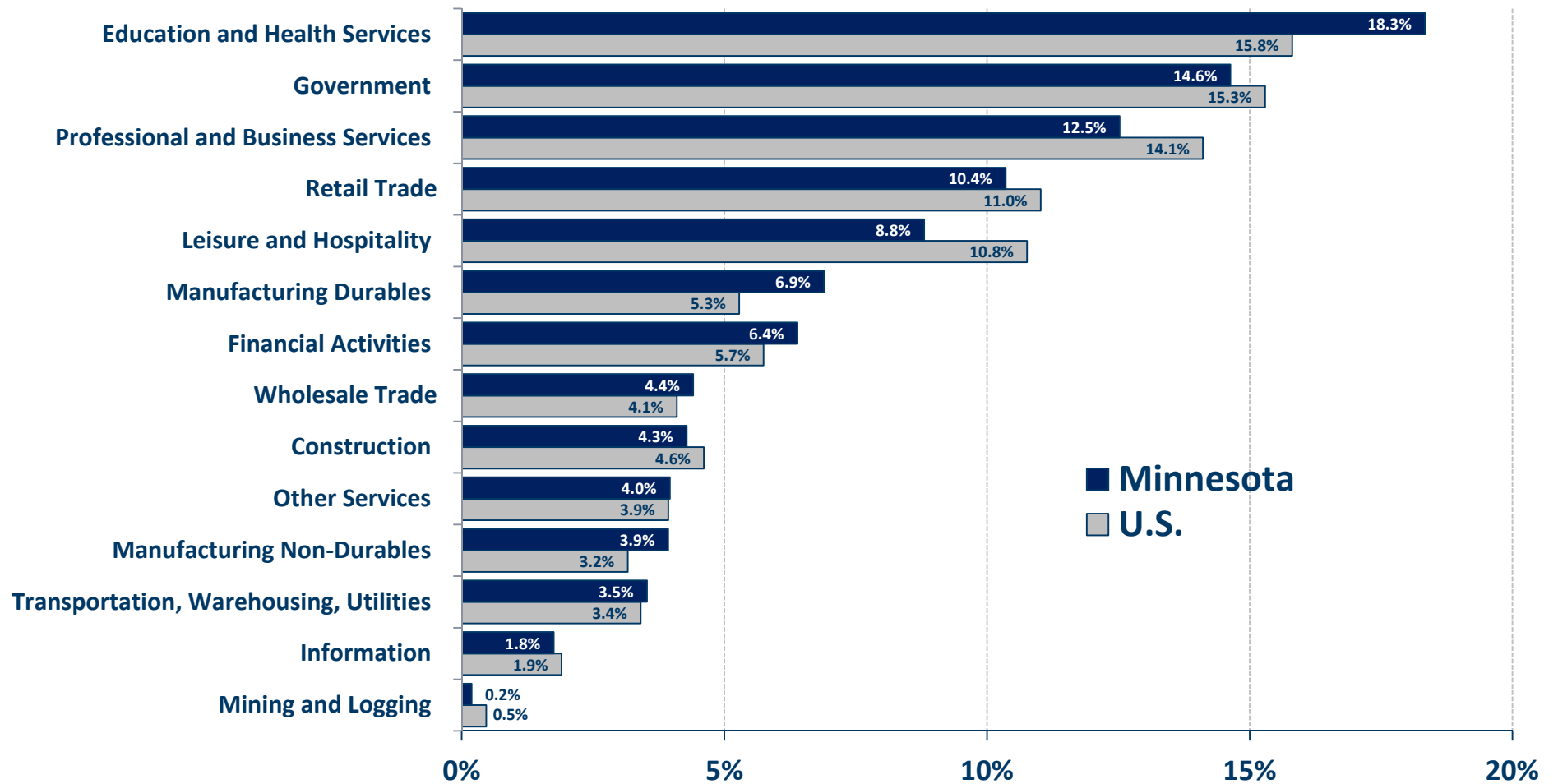


# Minnesota's Economic and Budget Outlook



Prof. Laura Kalambokidis  
UM Retirees' Association  
March 28, 2017

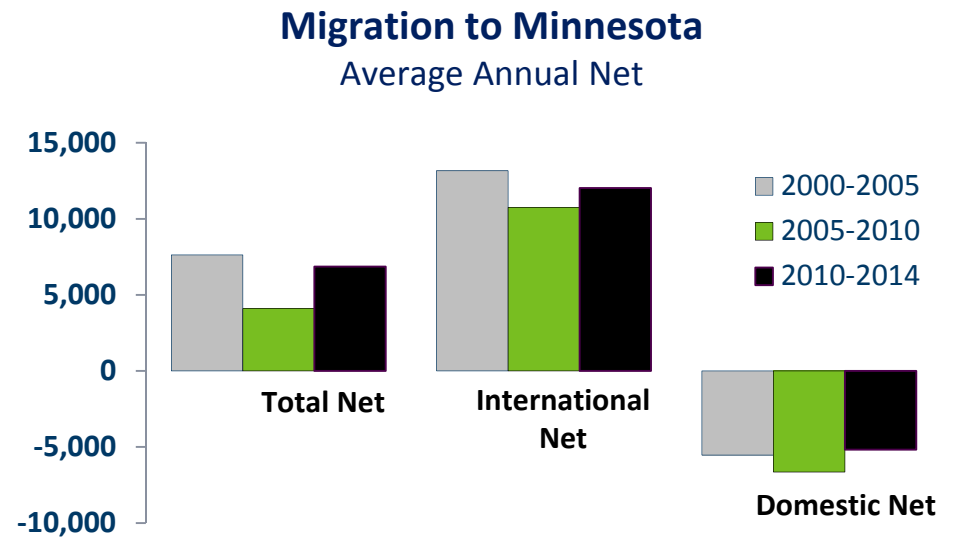
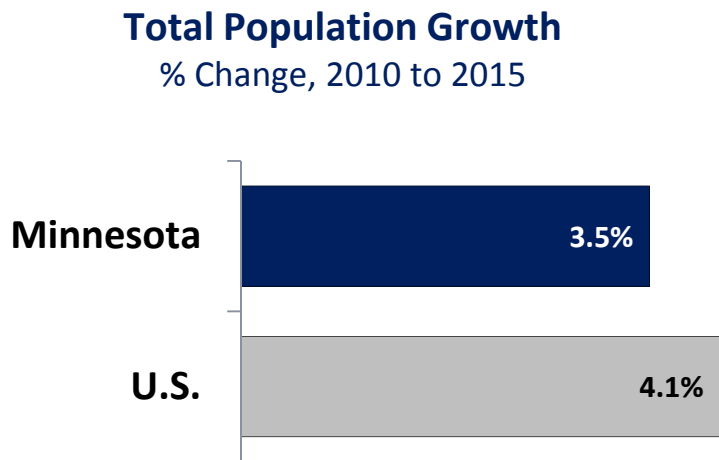
# Minnesota has a diverse industry profile

Percent of Total Non-Farm Employment by Sector (2016)



# Labor market assets include education, in-migration

			Minnesota Rank
<b>High School Diploma</b> (Percent of Persons Age 25+, 2010-2014)	86.9%	92.6%	2nd
<b>Associate's Degree</b> (Percent of Persons Age 25+, 2010-2014)	38.3%	45.3%	4th
<b>Bachelor's Degree</b> (Percent of Persons Age 25+, 2010-2014)	30.1%	34.3%	10th
<b>Poverty Rate</b> (Percent of Persons, 2014)	15.5%	11.5%	7th

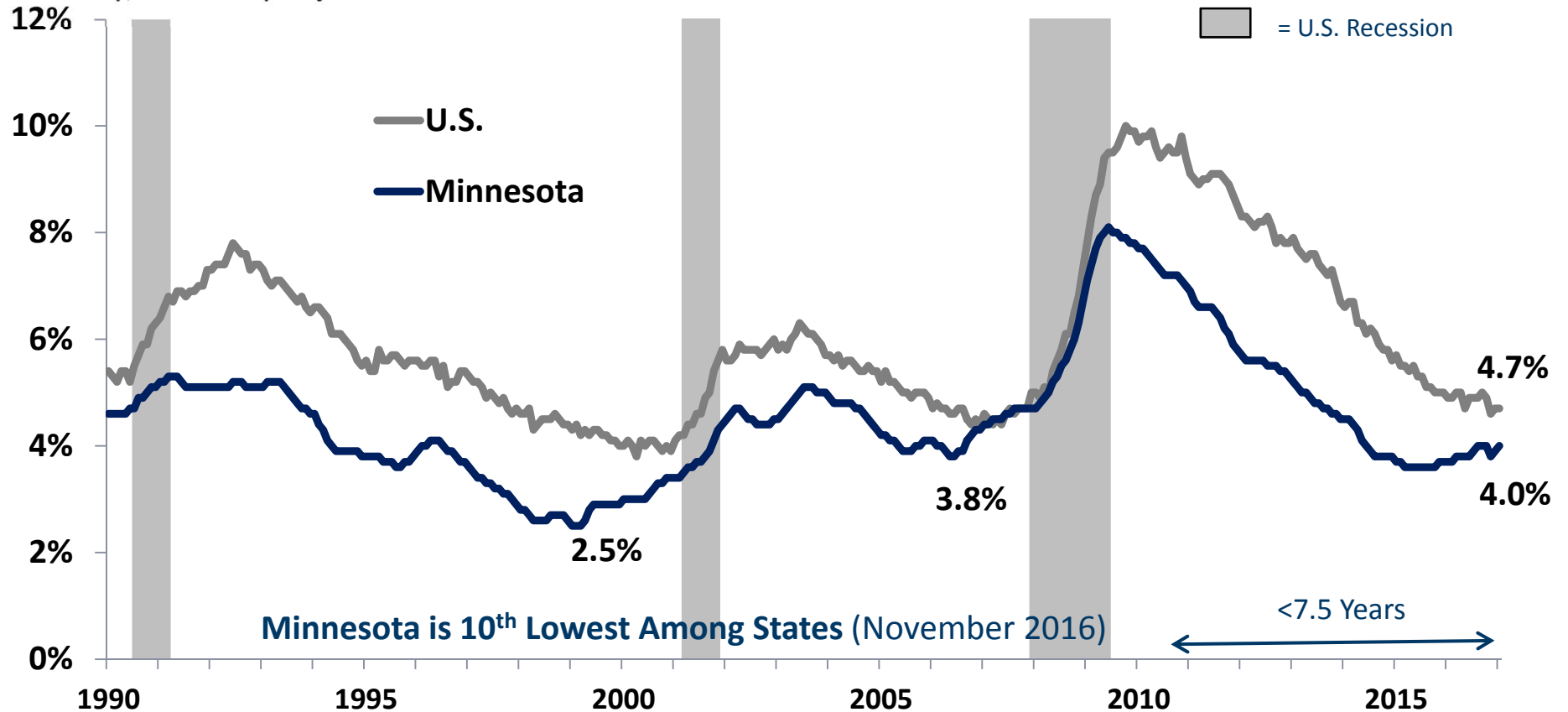


Source: U.S. Census Bureau

# State unemployment rate remains below the U.S.

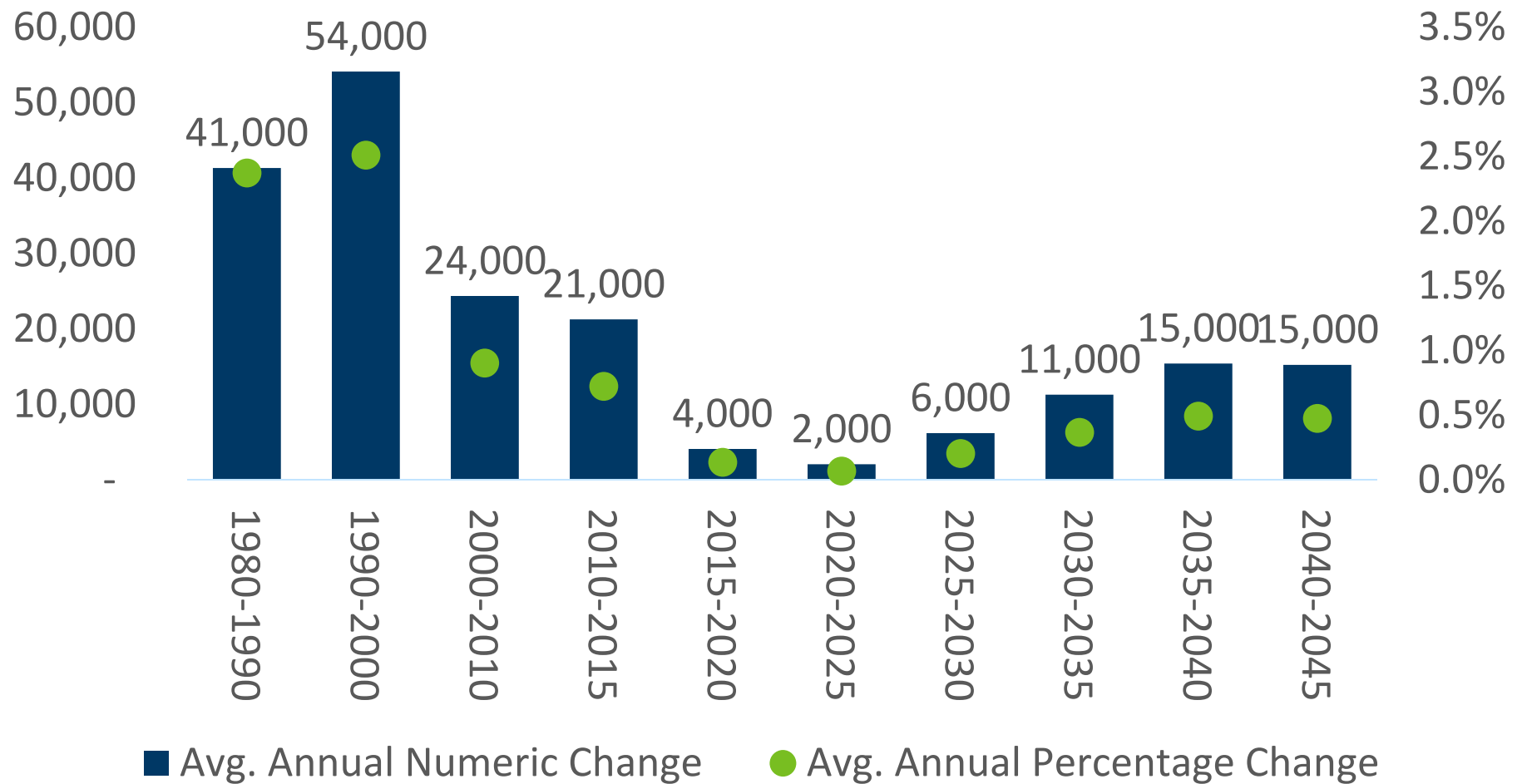
## Unemployment Rate

Monthly, Seasonally Adjusted



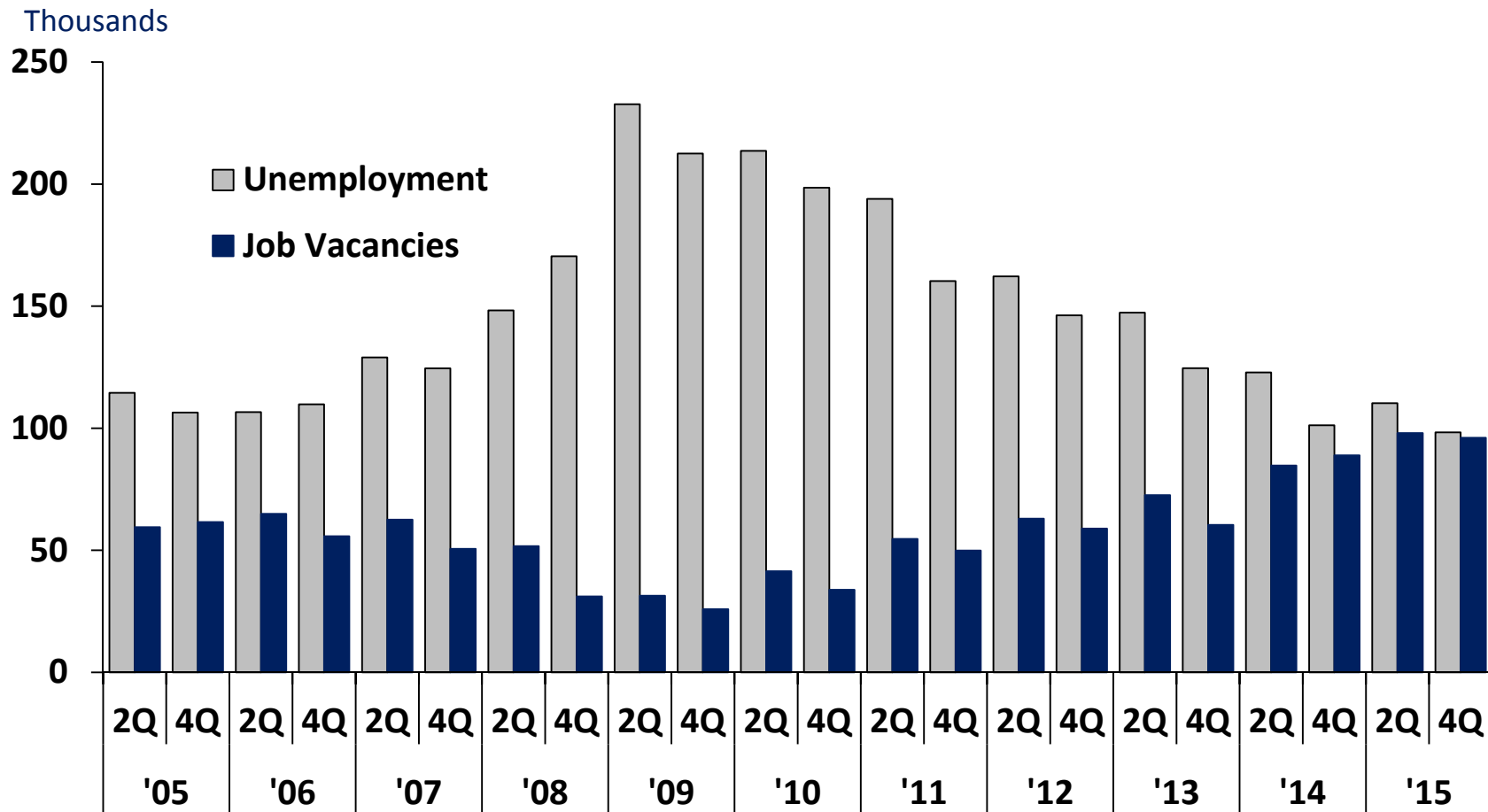
Source: MN Department of Employment and Economic Development (DEED)

# Slow labor force growth projected for Minnesota



Source: U.S. Census Bureau (1980—2015) and Minnesota State Demographic Center Projections (2015-2045)

# Low unemployment, high demand for labor



Source: Minnesota Department of Employment and Economic Development (DEED)

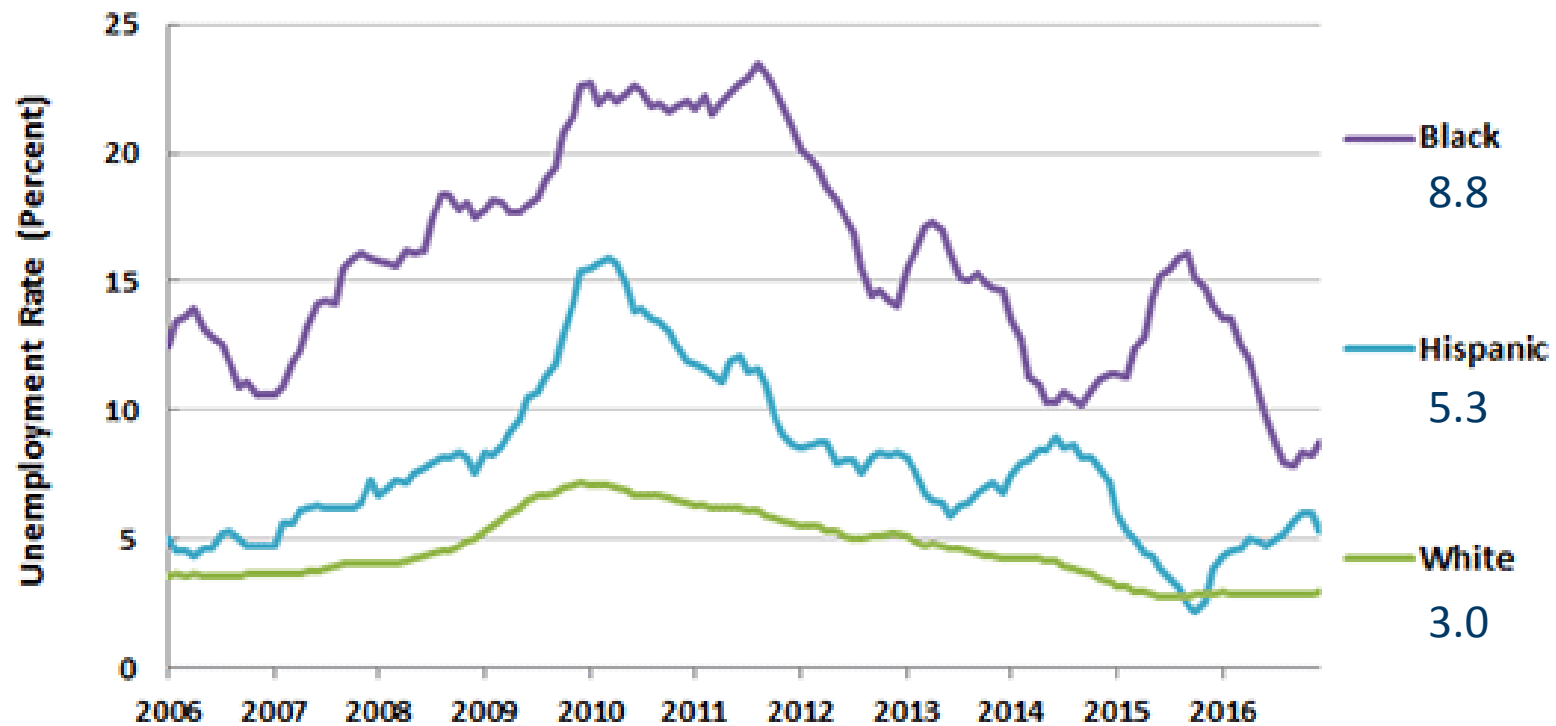
# Little slack in Minnesota's labor market

percentage	Full empl. (approx.)	U.S.	Minnesota
Unemployment rate	5.0	4.7	3.9
Un- + underemployment rate	9.0	9.2	7.7
Unemployed/job vacancies	1.0	1.4	1.2
#Employed /population 16+		59.7	66.2
Labor force participation rate		62.7	68.9
Annual change in average wage		2.9	5.7
(December 2016. Sources: BLS and MN DEED)			

Among highest

# Some groups still face high unemployment

## Minnesota Unemployment by Selected Race or Ethnicity



Source: Minnesota DEED, Labor Market Information, Current Population Survey



# Implications of a seller's labor market

- Industries **compete** for workers.
- Some positions go **unfilled**.
- Employers get **creative** to find, train, and retain workers.
- Job-seekers/switchers can be **picky**.
- Employers adopt **productivity**-enhancing technology, training, approaches.
- Pressure for **compensation** to increase.

# Revenue and expenditure forecasts inform budget development

	<b>November 2016 Forecast</b>	<b>February 2017 Forecast</b>
FY 2016-17	Budget in place	Budget in place
FY 2018-19	Governor proposes a budget	Now we need a budget!
FY 2020-21	Planning estimates	Planning estimates

# Where did \$1.65 billion come from?

 **StarTribune**

Minnesota budget surplus grows to  
\$1.65 billion

 **MINNESOTA  
PUBLIC RADIO®**

Minnesota's budget surplus grows to  
\$1.65 billion

**MINNPOST**

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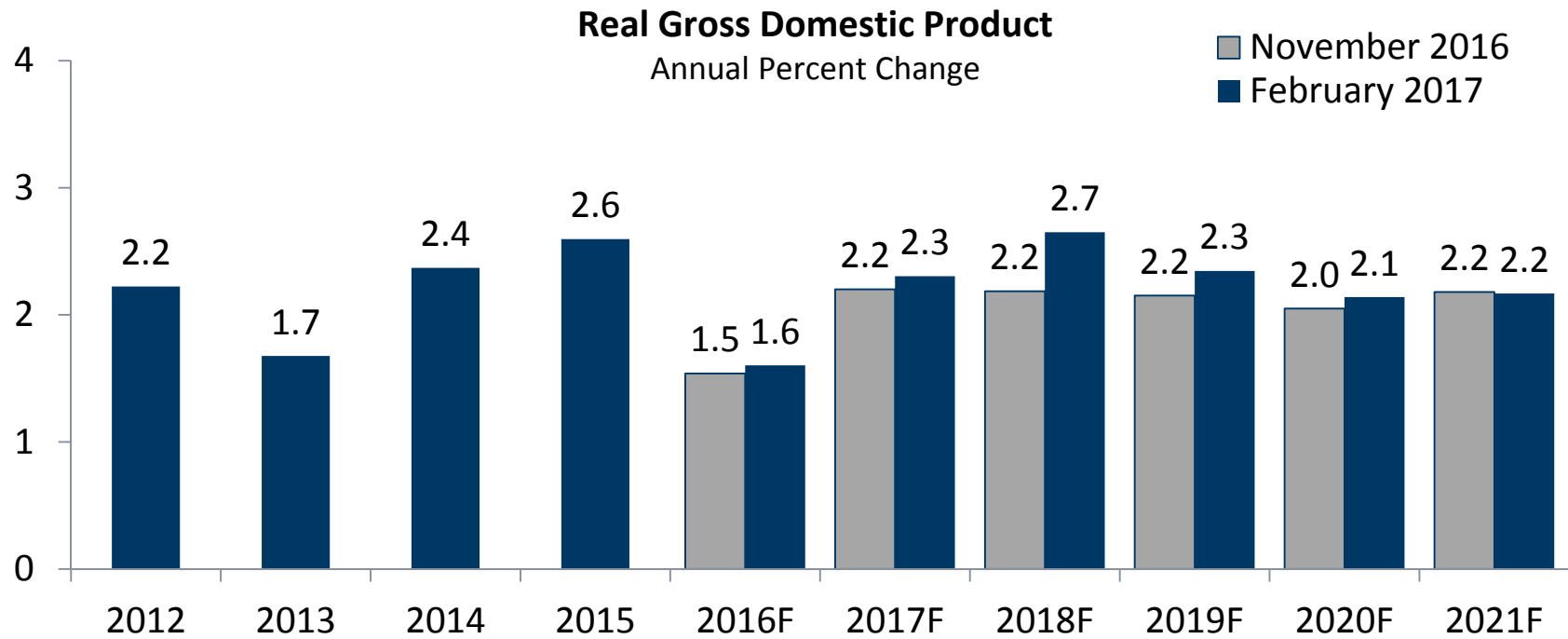
POLITICS & POLICY

Minnesota budget forecast: surplus  
grows to \$1.65 billion

  
**TwinCities**  
PIONEER PRESS

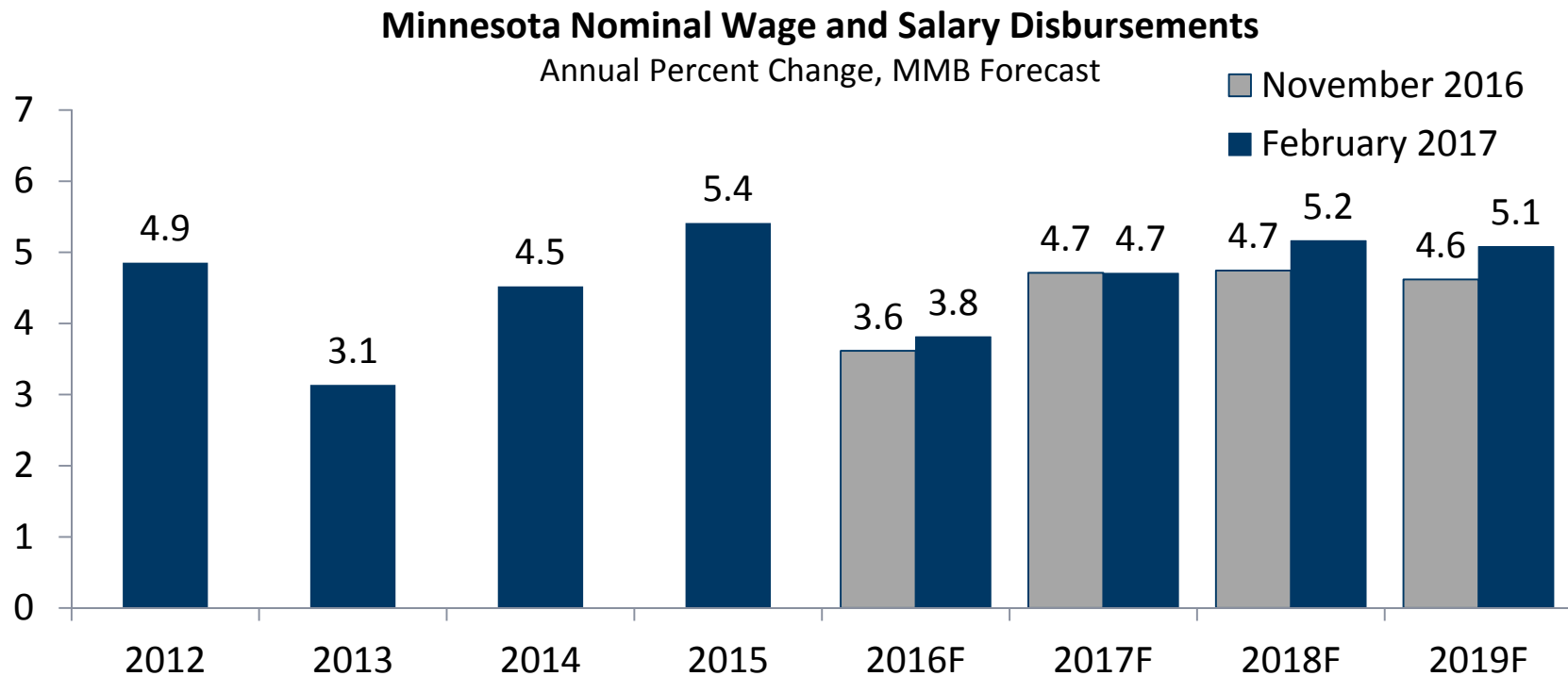
Minnesota budget surplus grows —  
now what will lawmakers do with it?

# U.S. economic outlook improved with February forecast



Source: U.S. Bureau of Economic Analysis (BEA), IHS Economics (IHS)

# Higher growth expected in Minnesota wage income



Source: U.S. Bureau of Economic Analysis (BEA), Minnesota Management & Budget (MMB)

# Stronger economic activity raises revenue forecast

	FY 2018-19	
(\$ in millions)	Feb 2017 Forecast	Forecast Change
Individual Income Tax	\$24,401	\$274
General Sales Tax	11,466	48
Corporate Franchise Tax	2,623	69
Statewide Property Tax	1,742	(2)
All Other Revenue	5,431	(67)
<b>Total Revenues</b>	<b>\$45,663</b>	<b>\$321</b>

# Education spending increases in next biennium

	FY 2018-19	
(\$ in millions)	Feb 2017 Forecast	Forecast Change
E-12 Education	\$18,272	\$95
Property Tax Aids & Credits	3,452	(15)
Health & Human Services	14,324	73
Debt Service	1,143	-
All Other	7,550	3
<b>Total Spending</b>	<b>\$44,741</b>	<b>\$156</b>

# Next biennium's balance increases; \$1.65 billion available

(\$ in millions)	FY 2018-19		Forecast Change
	Nov Forecast Adjusted	February Forecast	
<b>Beginning Balance</b>	<b>\$2,634</b>	<b>\$2,721</b>	<b>\$88</b>
Revenues	45,342	45,663	321
Spending	44,585	44,741	156
Cash & Budget Reserves	1,953	1,953	-
Stadium Reserve	38	40	3
<b>Forecast Balance</b>	<b>\$1,400</b>	<b>\$1,650</b>	<b>\$250</b>



# Significant risks with this forecast

- U.S. policy uncertainty
- International trade
- Inflation
- Long, slow-growth expansion
- 28 months remain until end of FY 2018-19

# What should the FY 2018-19 budget look like?

- Increase spending!
  - What are the spending priorities?
  - Ongoing spending puts pressure on the next budget
- Cut taxes!
  - Whose taxes to cut?
  - Ongoing tax cuts put pressure on the next budget
- Save the surplus!
  - Just don't commit it all—wait out some of the uncertainty
  - Put it in the budget reserve for a rainy day (current reserve is about \$450 million short of recommended level)

# Contact

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