

# **The Minnesota Economy: *Economic Powerhouse?***

**Regional Council of Mayors**

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# Economic Powerhouse

**“Minnesota has emerged as an economic powerhouse as shakier finances and slumping prices for oil and agricultural commodities jolt the budgets of neighboring states.”\***

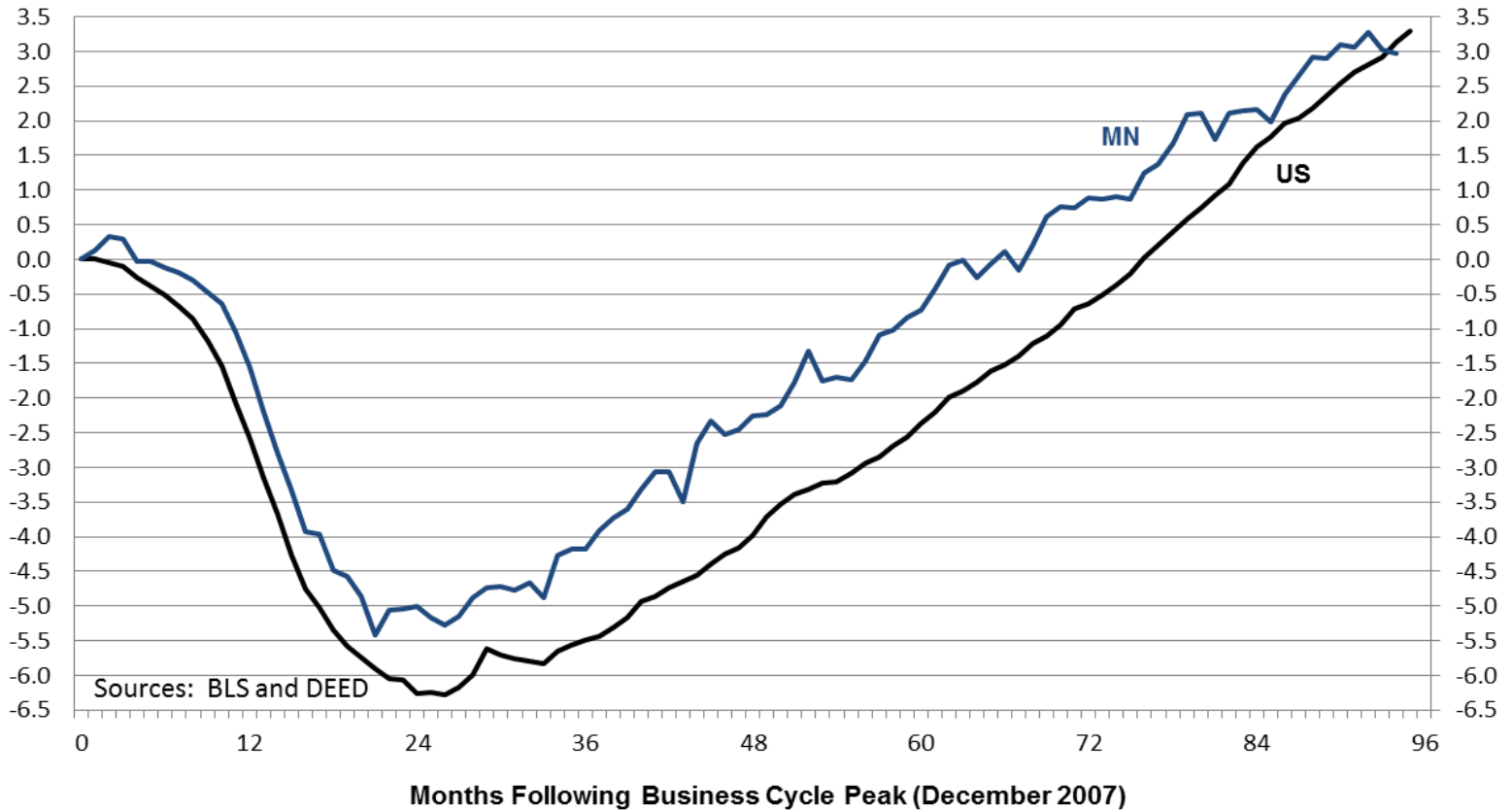
\*Ricardo Lopez, “Minnesota’s fiscal health stands out among the Midwest states,” *Star Tribune*, December 12, 2015.

# MN Jobs vs. US Jobs

- **Movements in the Minnesota economy are highly correlated with movements in the US economy—it could hardly be otherwise!**
- **Minnesota employment did not decline as much as US employment did during the Great Recession, and it recovered much faster.**
- **However US employment growth has now caught up with Minnesota's.**

# Total Nonfarm Employment: MN vs. US

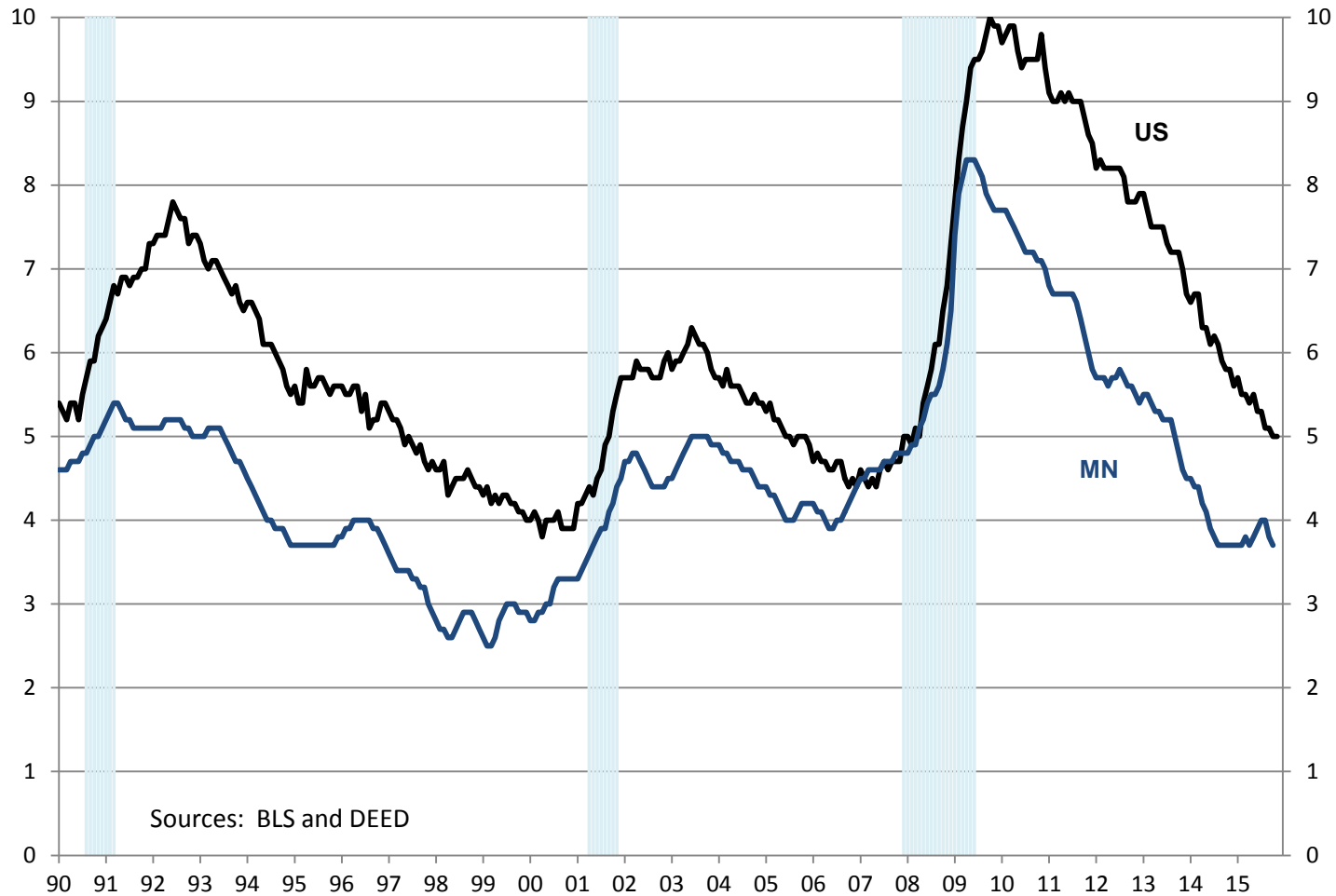
## Cumulative % Change of Jobs from the Business Cycle Peak



# MN Unemployment vs. US Unemployment

- **Historically the Minnesota unemployment rate was about 1.5% lower than the US rate, but the spread declined during the first decade of this century.**
- **In recent years the spread has returned—and it's a good thing! If Minnesota had the US unemployment rate, almost 40 thousand jobs would be lost.**
- **Renewed growth of the labor force is encouraging, but neither the US nor Minnesota has yet achieved full employment.**

## Civilian Unemployment Rate (%): US vs. MN



# Critical Policy Choices

- **For a long time Minnesota has emphasized investment in “human capital”—i.e., education. This is far more fundamental than a “diverse” economy.**
- **More recently Minnesota has made some important reforms to budget policy.**

# Human Capital

- Minnesota has a huge advantage in education, relative to the US and also the neighboring states in the Upper Midwest.
- Minnesota leads the neighbors only slightly in high-school education. But it has a massive lead in higher education. Almost certainly this is the main driver of the “powerhouse.”

## Educational Attainment Age 25+ Years

	IA	MN	ND	SD	WI	US
HS Graduate or Higher	91.3	92.3	91.3	90.7	90.8	86.3
BA Degree or Higher	26.4	33.2	27.3	26.7	27.4	29.3

Source: 2014 American Community Survey, Census Bureau.



# Budgeting

- **Unlike past years, Minnesota now uses a statistically rigorous procedure to determine the budget-reserve target and an automatic allocation to the reserve when forecast surpluses arise and the actual reserve is less than the target.**
- **Accordingly, earlier this month \$594 million was allocated to Minnesota's budget reserve, raising it to \$1.597 billion—an all-time high. At 3.8% of FY 2016-7 general fund non-dedicated revenues, this is only 1.0% short of the 4.8% target.**
- **As a result a recent study by the Pew Charitable Trusts cited Minnesota as having the most rigorous process of any of the states for setting a reserve target and for achieving it.\***

\*"Why States Save: Using Evidence to Inform How Large Rainy Day Funds Should Grow," Pew Charitable Trusts, December 2015.

# Better Budgeting

- **Unfortunately budget forecasts for “out-years” continue to bias the balance toward a surplus by including inflation in revenue projections while (mostly) excluding it from expenditure projections.**
- **In the official forecast released on December 3, FY 2018-19 is projected to have a \$2.046 billion surplus—but \$1.694 billion is due to the inflation bias.**

# Challenges

- **The outlook for the US economy looks good for the next year or two—modest growth, extremely low inflation, and no recession in sight.**
- **But expansions rarely last as long as this one has.**
- **Minnesota's new budget procedures are the best in the US....**
- **But the inflation bias makes a future fiscal crisis more likely than it should be.**