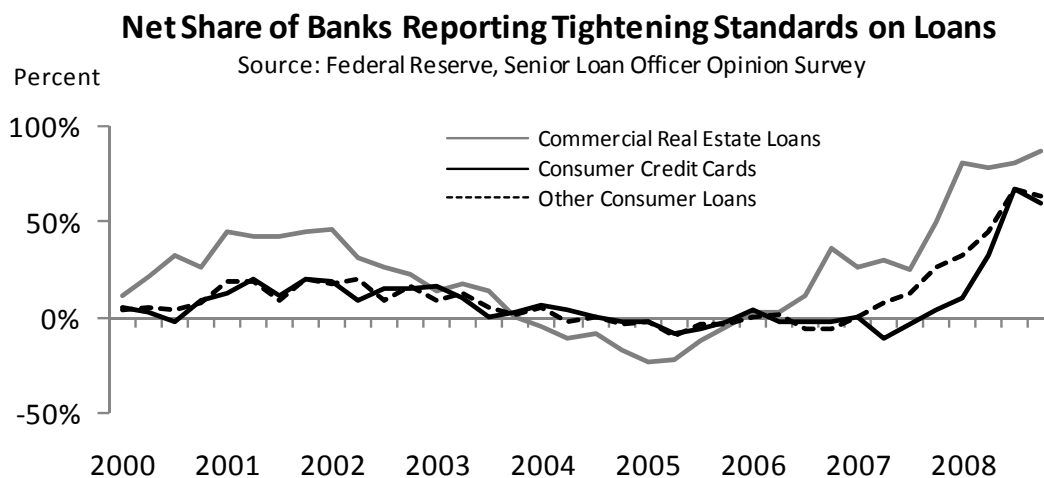


ECONOMIC OUTLOOK

The National Bureau of Economic Research (NBER) has determined that the U.S. recession began in December 2007. The litany of disappointing economic news is sobering. Negative impacts from a national housing downturn coupled with the most serious financial market crisis since 1929 and declining consumption are reinforcing each other. Job losses are accelerating and the national unemployment rate is approaching 7 percent. Declining home prices and lower stock market values have dramatically reduced household wealth. Consumers have lost confidence and are aggressively tightening their belts just before what retailers anticipate will be the worst Christmas season in more than two decades. Prospects for a short, mild recession with a sharp rebound have vanished. Global Insight's November baseline scenario calls for the worst recession since 1982 with four consecutive quarterly declines in real GDP beginning in third quarter 2008.

The economy's problems started in the housing sector more than a year ago. Mortgage loan defaults have surged, the financial system is in crisis, and credit availability has tightened dramatically over the past 18 months. First, two well known hedge funds failed. Then home equity loans and cash-out mortgage refinancing dried up, eliminating an important source of funding for consumer spending. By the end of last year, key indicators used by the NBER to mark the beginning of a recession had peaked. January, for example, marked the beginning of 10 consecutive months of job losses. Last summer's spike in gasoline and food prices absorbed much of the fiscal stimulus payments. Meanwhile, home values continued to fall, driving mortgage defaults and foreclosures higher. Battered by job losses, tight credit, and declining household wealth, consumers began to cut back on spending. By early fall, consumers were already reeling when several key financial institutions failed, banks tightened lending standards further, and the stock market plunged.



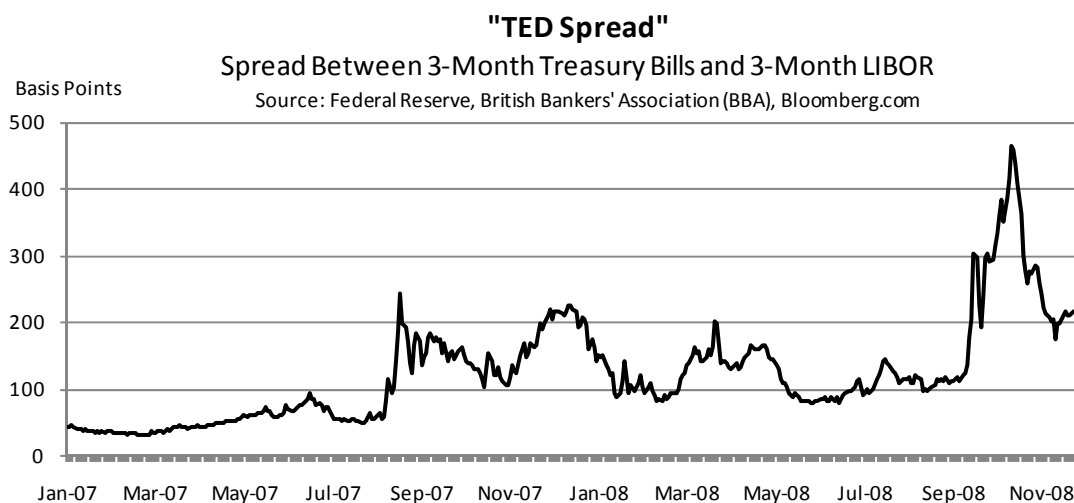
Credit availability has tightened dramatically over the past 18 months despite sharp reductions in the federal funds rate and large cash infusions into financial institutions.

Policy response to the financial crisis has been unprecedented. The Federal Reserve and Treasury have in effect backed the financial system with the full resources of the U.S. government. Sharp reductions in the federal funds rate and huge cash infusions into financial institutions, however, have not yet restored normal lending volume. Instead, Federal Reserve data suggests banks have tightened standards on consumer and commercial loans. Money market trading has languished as investors shun riskier investments in favor of risk-free Treasury bonds, greatly increasing borrowing costs.

Even if normal bank lending and money market trading can be restored, stimulating a sinking economy with lower interest rates will be problematic. The Fed has little room to further reduce the 1 percent federal funds target rate. Any further cut would mark the lowest level for federal funds in its 53-year history. Global Insight expects a largely symbolic 50 basis point reduction at this month's Federal Open Market Committee (FOMC) meeting, but its November outlook depends heavily on a new \$200 billion fiscal stimulus in 2009 to help turn the economy around. A recent statement by Global Insight's chief economist, however, suggests the economy is now sinking so fast that \$200 billion may not be enough.

So What Happened to the Financial System?

The financial market's fear of credit risk continues to be fueled by declining home prices and related write-downs of mortgage-related investments originated during the housing boom. As a result, credit is not flowing at normal volumes. While there has been some improvement in interbank lending, trading has stopped or is minimal for most private sector debt instruments. The result is restricted access to funding and higher interest rates for business firms, consumers, and state and local governments. Credit spreads, meaning the extra yield investors require to be compensated for risk, have fallen but remain abnormally wide.



Federal Reserve and Treasury actions have improved interbank lending, but the TED Spread, or the spread between 3-month Treasury Bills and the 3-month LIBOR, remains abnormally wide.

All of this is reaction to the realization that once obscure mortgage-related securities originated late in the housing boom were riskier than once thought. That discovery had broad implications since it meant that many financial institutions were highly over-leveraged. During the boom lenders originated risky subprime mortgage loans and sold them to investment banks to be packaged into securities. Risks associated with these securities were diversified by drawing on mortgages from local housing markets throughout the U.S. The bundled securities were then graded by rating agencies based on information provided by the investment banks before being sold to global investors, largely financial institutions, as a higher yield alternative to more traditional investments such as government bonds.

This financing model worked for a while. Home prices surged as the Fed held interest rates low during the first half of the decade to boost a slow economic recovery. At the same time, lenders made ever more risky loans to meet both the growing demand for homes and investors' desire for higher returns in a low interest environment. By the spring of 2006, however, serious weaknesses in lending practices started to surface and a nationwide over-supply of houses started to undermine prices. That forced more and more mortgages underwater, leaving many homeowners unable to refinance at rates they could afford. The decline in home prices then accelerated and financial institutions began tightening credit standards, making refinancing even more difficult. Waves of defaults and foreclosures spread across the nation, further increasing downward pressure on home values. According to RealtyTrac, total foreclosure filings on U.S. residential properties had swollen to more than 2.2 million by 2007, up 75 percent from a year earlier and 150 percent from 2005. Prices fell unlike any time since the 1930s. National home values have now declined back to 2004 levels and still continue to fall.



Commercial paper is a financial instrument sold by large banks and corporations to raise money to meet short term obligations. Money market trading in commercial paper has languished as investors shun riskier investments in favor of risk-free Treasury bonds. The volume of commercial paper outstanding in November was 13 percent less than a year earlier.

Surprised by soaring defaults and foreclosures, investors concluded that the risks inherent in mortgage-related securities had been underestimated. Financial institutions reacted by retreating from markets, re-pricing nearly all categories of risk, and writing-down massive amounts of mortgage related securities on their balance sheets. These capital write-downs reduce ability to meet obligations and to get temporary loans from other banks as needed to extend credit to customers. They also threaten solvency. By September, multiple nearly insolvent institutions were taken over by regulators. Failures included the two government-sponsored enterprises Fannie Mae and Freddie Mac, mortgage originator Countrywide Financial, and commercial bank Washington Mutual. There were emergency fire-sales for investment bank Merrill-Lynch, which went to Bank of America, and for commercial bank Wachovia, which was purchased by Wells Fargo. Financial services giant Citigroup received a Treasury bailout loan as did mortgage bond insurer American International Group. Much respected investment bank Lehman Brothers was allowed to declare bankruptcy and was liquidated. This failure marked the largest bankruptcy in U.S. history.

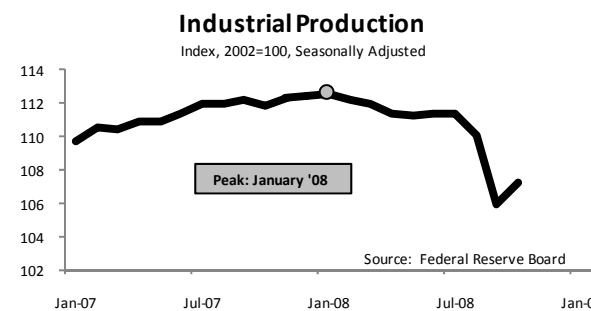
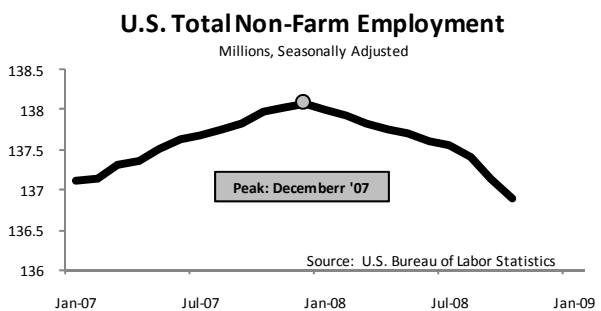
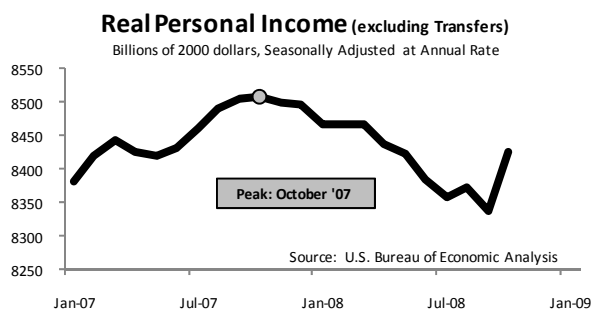
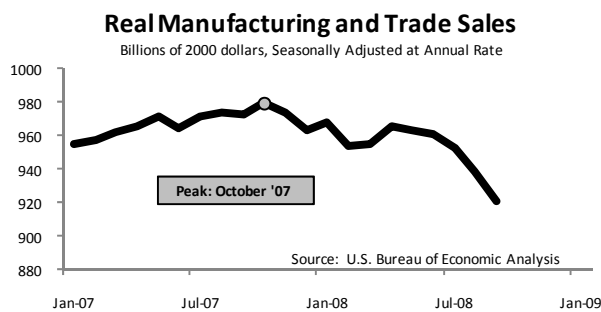
These developments, particularly the Lehman bankruptcy, sent frightened investors off on a massive flight to risk-free U.S. Treasury securities, and brought the entire global financial system to the brink of collapse. By October, the panic had spread to the stock market which plunged and turned extraordinarily volatile. Short selling stock of financial firms was temporarily banned and credit spreads exploded, greatly increasing borrowing costs to consumers, businesses, and state and local governments. Similar developments occurred globally.

An Aggressive Response

Since mid-September, the Federal Reserve and the Treasury have moved aggressively to reverse investor's flight from credit risk without noteworthy success. Much of that effort has been focused toward getting banks to lend again in hopes of limiting damage to the broader economy. The federal funds rate has been lowered, but the primary strategy has been massive cash infusions onto the balance sheets of floundering financial institutions. A variety of methods have been implemented, including Treasury loans, expanded discount window-like emergency loans, and purchases of senior nonvoting preferred stock. More recently, there has been a focus on getting money markets working again with a program to buy securities related to consumer debt, including credit cards, auto loans, and student loans. According to the *Wall Street Journal*, more than \$4 trillion has been committed in one way or another beginning in September.

A Severe Recession

The NBER has determined that the economy began to deteriorate near the end of last year when four key indicators used by the committee to define a recession peaked. Over the summer, the economy's slide accelerated, led by declining consumer spending. The sudden financial panic this fall put an even greater strain on the economy. Negative impacts from the financial markets as well as job losses and household wealth deterioration are now reinforcing each other.



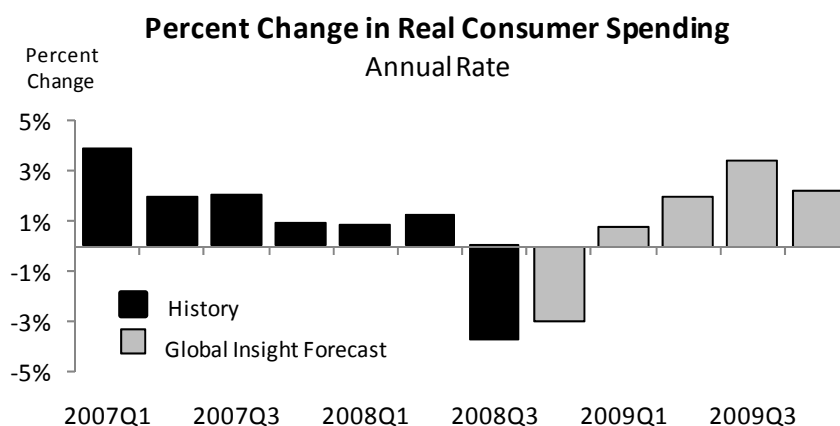
The National Bureau of Economic Research (NBER) has determined that the U.S. recession began in December 2007. This fall's sudden financial panic put even greater pressure on an economy already declining.

Most observers believe this recession is unlikely to end before the housing market hits bottom, easing pressure on the financial system. The latest S&P Case-Shiller report shows home prices are still sinking in the country's 20 largest metropolitan areas. A recent Congressional Budget Office (CBO) report indicates the big unknown is how long foreclosures continue to rise. According to RealtyTrac, foreclosures are now up some 70 percent from a year ago and represent about a third of all properties for sale. Most of these are being offered at deep discounts, driving down the value of neighboring homes. Global Insight has the housing market nearing bottom in late 2009, but admits this is just an assumption since there appears to be no conclusive end in sight.

Global Insight's November baseline assumes that a new \$200 billion stimulus package and \$50 dollar oil will help ensure that a recovery begins in late 2009 or early 2010, but the recession will be the worst since 1982. The \$500 billion two-year stimulus package now being considered by President-elect Obama would help moderate a more severe recession than the November baseline, but any new program will be too late to prevent the severe downturn expected for this winter. A two-year package, however, could help a recovery made tepid by the relatively frugal spending habits of an aging population.

Consumption

Fallout from job losses, tight credit, declining household wealth, and negative home equity are weighing heavily on consumers. The *Wall Street Journal* recently reported that nearly 1 in 5 households in the U.S. owe more on their mortgage than their home is worth. The toxic combination of negative home equity and a weakening labor market is igniting yet another wave of foreclosures, putting increased downward pressure on home values. Declining house prices and a sinking stock market have already reduced household wealth by some \$7 trillion nationally since mid-2007. In reaction, consumers are retrenching sharply. Third quarter real spending contracted 3.7 percent at an annual rate, the largest decline since 1980. Global Insight's November baseline expects a similar drop in the fourth quarter.



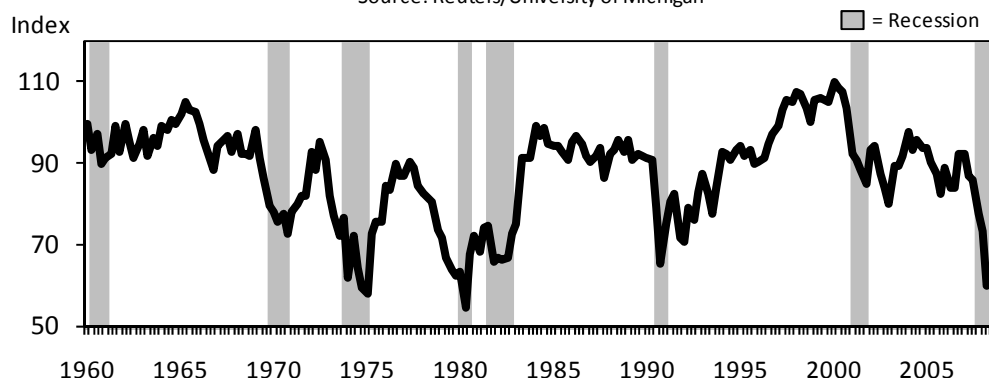
Real consumer spending in the third quarter contracted at an annual rate of 3.7 percent. This was the largest decline since 1980. Global Insight's November baseline expects a similar drop in the fourth quarter.

Unlike the 2001 recession when robust light vehicle sales supported household outlays, auto sales have fallen to their lowest level since early 1980's on an annualized basis and the outlook is poor. In addition to the downturn in the economy, auto sales have been hurt by a shift in preferences toward more fuel efficient cars following last summer's \$4 gas shock. Manufacturers also are cutting back sharply on leasing, leaving more consumers in search of loans which have become much harder to obtain as automakers cut back on their financing programs due to the credit crunch. In Global Insight's November baseline light vehicle sales reach a 26 year low in 2009.

In addition to autos, most categories of non-auto durables and nondurable goods spending are also declining. Only spending for services is rising. Retail sales are unlikely to revive until the housing market stabilizes, consumer sentiment improves, and real income begins to grow steadily again.

Consumer Sentiment Index Since 1960

Source: Reuters/University of Michigan

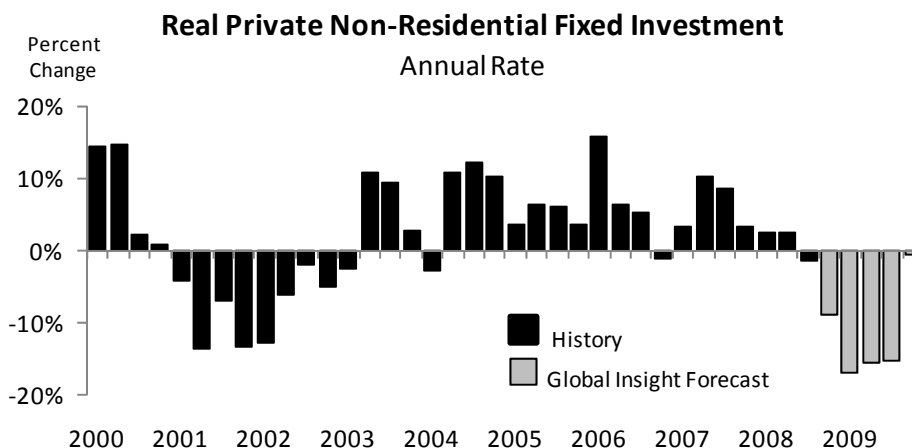


The Reuters/University of Michigan's Index of Consumer Sentiment fell 2.3 points in November, to 55.3, its lowest level since May 1980. Consumers have lost confidence and are aggressively tightening their belts just before what retailers anticipate will be the worst Christmas season in more than two decades.

Investment

During the past year non-residential business investment helped offset plunging residential construction outlays. This changed abruptly in early fall. Data from the U.S. Bureau of Economic Analysis (BEA) indicates real nonresidential investment declined at a 1.5 percent annual rate in the third quarter, down from 2.5 percent growth in the previous quarter. Equipment and software outlays dropped at a 5.7 percent annual rate, following a 5.0 percent decline in the second quarter. Spending growth for structures slowed from a positive 18.5 percent annual rate in the second quarter to 6.6 percent in the third quarter. Spending for structures is forecast to drop 5.6 percent in the current quarter.

Much of the downturn in business investment is expected to be commercial construction related. Financing for commercial construction projects has become much more difficult to obtain. Early indications suggest a weakening is already underway. The demand for commercial space, for example, has abated as national job losses accelerated. In the November baseline, Global Insight does not expect non-residential investment to begin recovery until the end of 2009. Likewise, residential investment is forecast to continue its slide through the end of 2009. Housing starts are down 59 percent from their previous peak in first quarter 2006. In Global Insight's November baseline, they decline another 25 percent to average 715,000 in 2009, the lowest level since 1945.



Data from the U.S. Bureau of Economic Analysis (BEA) indicates real nonresidential investment declined at a 1.5 percent annual rate in the third quarter, down from 2.5 percent growth in the previous quarter. Global Insight does not expect non-residential investment to begin recovering until the end of 2009.

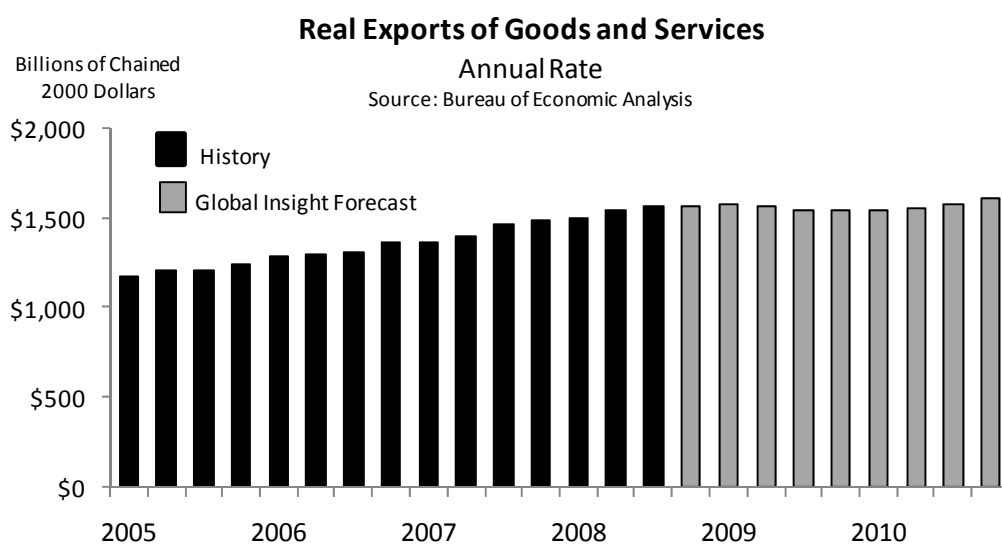
Government

In October, Congress passed the \$700 billion Troubled Asset Relief Program (TARP) giving the U.S. Treasury broad authority to intervene in the financial markets. Among other things, TARP authorizes new capital infusions into the banking system in return for senior preferred stock. Those exchanges have begun. Under the program the Treasury has required the nine largest banks to sell its preferred shares amounting to some \$125 billion. This requirement was needed to avoid revealing which prominent banks really needed the money. The shares will pay a 5 percent dividend for the first 3 years and 9 percent after that if no repurchase occurs. Smaller banks' participation is voluntary. Another \$125 billion is available for those institutions. Some have already drawn on TARP funds.

Just before Thanksgiving, the Federal Reserve and Treasury jointly announced a new \$800 billion program to infuse cash directly into credit markets rather than onto bank balance sheets. The Fed will buy up to \$600 billion in Fannie Mae, Freddie Mac, and Federal Home Loan Bank securities. There will also be up to \$200 billion in financing available for investors buying securities backed by auto loans, student loans, credit card debt, and small business loans. The Treasury will use TARP funds to provide \$20 billion of the \$200 billion. According to the *Wall Street Journal*, some \$330 billion of TARP's initial \$350 billion appropriation is now committed.

International

Last February, forecasts of economic weakness were largely confined to the U.S. The summer spike in energy prices, the global spread of financial panic, and declining U.S. demand for foreign products, however, have changed the outlook overseas. Now the European Union and Japan are in recession and many other economies around the world are weakening. The International Monetary Fund (IMF) is predicting that some 30 developed economies including Western Europe, Japan, and the U.S. will contract as a group in 2009 producing the first global recession since World War II. A global recession means exports will no longer prop up the U.S. economy as they have in recent quarters. In Global Insight’s November baseline, exports are forecast to begin deteriorating in early 2009.



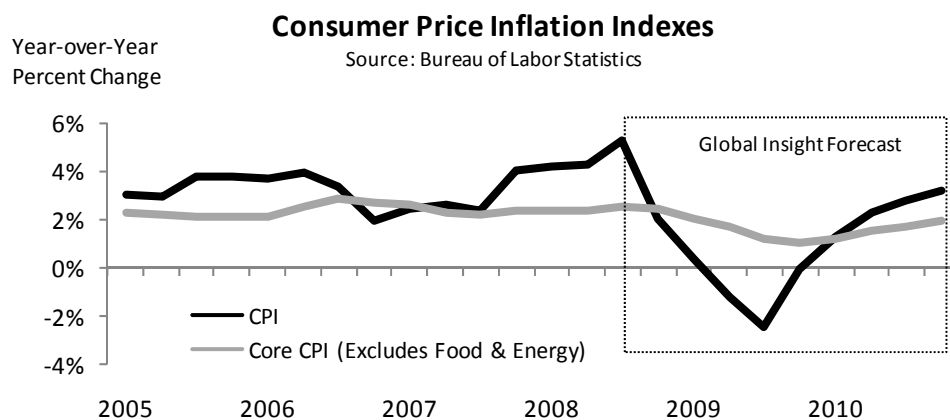
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Inflation

In July, headline consumer inflation peaked at 5.6 percent year-over-year. Since then, retreating oil and commodity prices, declining home values, and a weakening labor market have virtually eliminated near term prospects for accelerating inflation. Global Insight expects the consumer price index to decline 0.9 percent in 2009, down from a 3.9 percent increase in 2008, primarily because of lower oil prices. If this occurs, the 2009 annual decline in headline CPI will be the first since 1955. Meanwhile, core inflation is forecast to rise 1.3 percent, down from 2.4 percent in 2008. West Texas Intermediate crude is forecast to average \$53 per barrel in 2009, down from \$101 in 2008.

Global Insight's forecast for a modest, short-lived decline in consumer prices next year is certainly not the disastrous, persistent deflation experienced by the U.S. during the 1930's and by Japan in the 1990's. The FOMC noted, though, a growing risk of deflation in the minutes of its October 29 meeting. Currently, consumer prices for food, energy, clothing, transportation, including autos, and housing of course have all begun to decline. Prices for non-energy services, however, are still rising.

While inflation is no longer an immediate concern, it remains a long term issue. The Federal Reserve and its overseas peers have chosen to deal with tumult in the global financial system and growing prospects for a deep worldwide recession by infusing massive, unprecedented amounts of cash onto balance sheets and into credit markets. As a result, money supply indicators in the U.S. and elsewhere have spiked upward dramatically. Since inflation is a case of too much money chasing too few goods and services, it seems that recent central bank actions could greatly increase the longer term risk of runaway inflation. Many economists wonder whether there is a viable plan to withdraw all the cash without adverse effects once the world economy improves.



Retreating oil and commodity prices, declining home values, and a weakening labor market have virtually eliminated near term prospects for accelerating inflation. Global Insight expects the consumer price index to decline 0.9 percent in 2009, down from a 3.9 percent increase in 2008.

Monetary Policy

Federal agencies have intervened in the financial markets in the past, but, with the possible exception of the 1930s, not on as massive a scale, nor with such potential for permanent changes as in recent months. Since last summer, the Federal Reserve and the Treasury have greatly expanded their roles in managing the economy. By one means or another, the Fed can now lend to almost any financial institution without limit, accept any collateral, and buy whatever assets it pleases. The Treasury's purchase of non-voting preferred shares in banks under the TARP program arguably amounts to a partial nationalization of the banking system. Similarly, Treasury's takeover of Fannie Mae and Freddie Mac amounts to nationalization of the nation's residential mortgage financing.

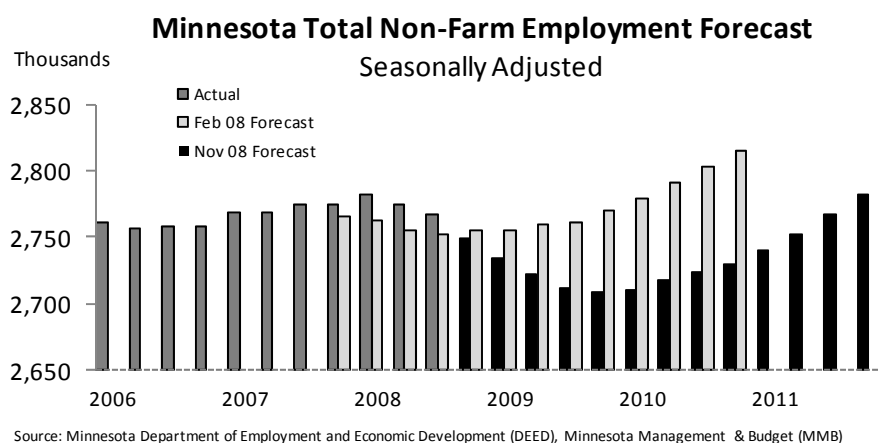
The *Wall Street Journal* indicates that some federal officials are privately expressing concern that the Federal Reserve and Treasury will not be able to wind down their intervention in financial markets once the crisis ends without inadvertently creating new problems. That makes it seem unlikely the Fed and Treasury will back completely out of their new roles. In addition, the unexpected onset and speed with which the financial problems emerged beginning in September almost certainly means there will be a need to monitor operations of global financial markets and major institutions much more closely than previously thought.

Globalization of the U.S. financial crisis has changed the Fed's relationship with its overseas peers. A precedent for coordinated action was established when it became clear that uncoordinated single-country solutions to global financial problems were not working. On October 8, the Federal Funds rate was cut by 50 basis points in a move coordinated with all the G-7 central banks plus the Bank of China. A further 50 point cut in October was coordinated with Norway and China. These joint actions seem to mean the Fed realizes globalization has reduced its room for independent, unilateral action.

MINNESOTA OUTLOOK

The economic downturn in Minnesota continues to deepen. Instead of gathering strength in the second half of 2008 as forecast last February, problems stemming from the housing downturn began to expand into the rest of the economy over the summer. During October, negative pressure on household wealth intensified following the stock market's plunge. Home prices are tumbling throughout the state, foreclosures and bankruptcy filings are still on the rise, credit conditions for both consumers and business firms have tightened, and job losses are occurring in most industry sectors. Since March, the state has lost over 26,000 jobs on a seasonally adjusted basis, pushing monthly employment below levels first reached in early 2006. Minnesota's unemployment rate has climbed from 4.7 percent to 6.0 percent.

Although the full impacts of the global financial crisis and national economic recession have not yet materialized, some effects are recognizable throughout Minnesota. News articles indicate that Small Business Administration (SBA) loans are down 20 percent from a year ago, the pipeline for new construction projects is drying up, and lenders are turning down almost a third of hopeful car buyers with quality credit. St. Paul's Ford plant will be idled in December because two major fleet customers could not get short term financing, auto dealerships have closed as sales plummet and manufacturers pull back financing, and at least one major health provider is laying off employees to cut expenses after it was unable to refinance short-term debt. In northern Minnesota, a major Duluth manufacturer has furloughed production until January to clear out built up inventory, most oriented-strand board plants remain closed indefinitely, and a number of taconite mining facilities have idled production and notified workers that layoffs may occur because of softening demand for steel in North America and Europe.



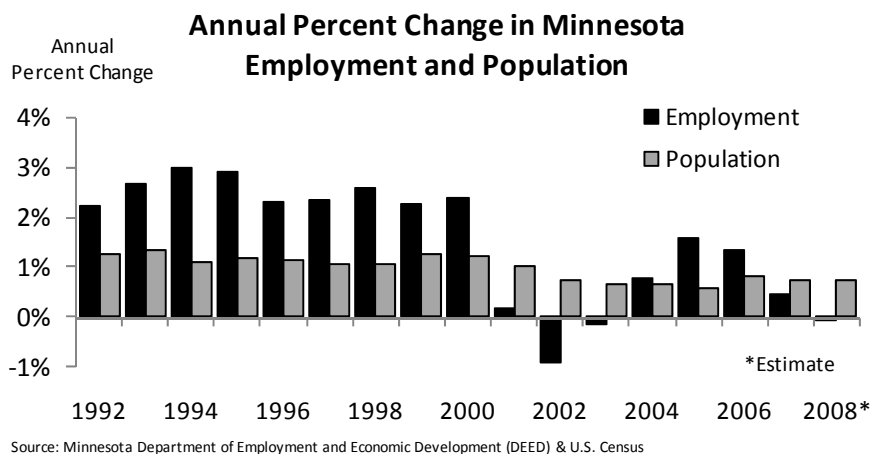
Measured on a quarterly seasonally adjusted basis, the November forecast calls for Minnesota to lose an additional 50,000 jobs by the end of 2009. This implies a total loss of nearly 80,000 jobs peak-to-trough between the first quarter of 2008 and the fourth quarter of 2009.

Job growth normally lags an economic recovery. Assuming the national economy begins improving next summer as the Global Insight baseline scenario suggests, Minnesota should not expect to see meaningful job growth until early 2010. Meanwhile, the forecast calls for additional job losses of up to 50,000 by the end of 2009. By then the state's unemployment rate could top 8 percent. Measured on a quarterly seasonally adjusted basis, the state will have lost nearly 80,000 jobs peak-to-trough since first quarter 2008.

Soft Economic Momentum

The vibrant “dot-com boom” economy of the late 1990's left Minnesota with strong momentum moving into the 2001 recession. This arguably helped dampen the severity of the downturn. The recovery to follow, however, was dubbed “jobless” as both Minnesota’s population and employment growth slowed significantly relative to the experience of the 1990's. By 2004, both indicators had begun to significantly lag national growth for the first time in at least a decade. A satisfactory explanation for this phenomenon has yet to be offered, but Minnesota Management & Budget (MMB) economists believe this increases downside risk in the Minnesota outlook for both recession and recovery.

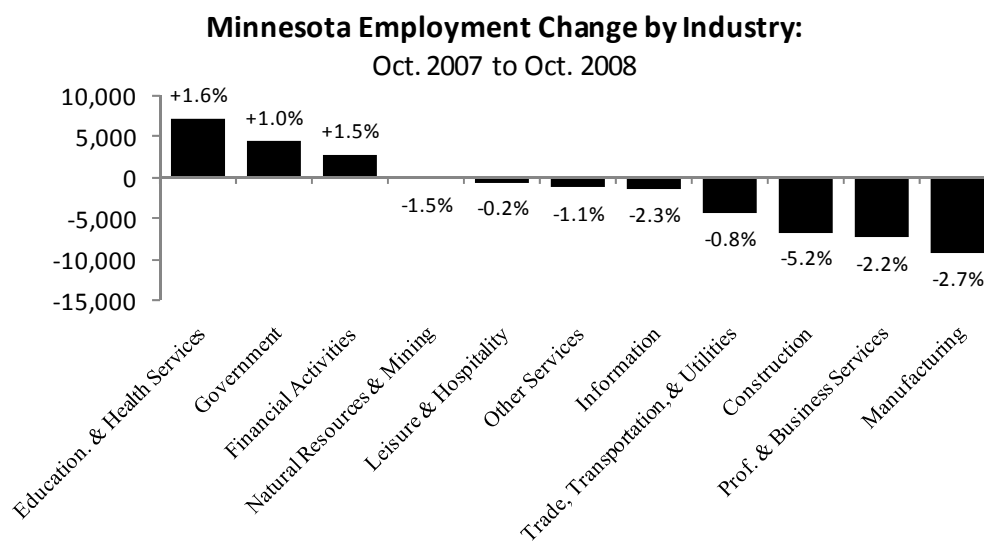
Moving into this recession, Minnesota’s economy did not boast the same momentum as in 2000. There are additional factors that could weigh more heavily on the State’s economy than on its national counterpart. Those include the housing slump, abnormal financial market conditions, the sharp decline in spending for automobiles and household durables, and the frugal spending habits of an aging population.



Following the 2001 recession, Minnesota’s population and employment growth slowed significantly relative to the experience of the 1990's. Moving into this recession, Minnesota’s economy did not boast the same momentum as in 2000.

Widespread Job Losses

Recent Minnesota employment data is sobering. Year-over-year total job loss through October totals 16,500 jobs. The job losses have been spread across 8 of 11 major industrial sectors. Spillover from the state's housing market implosion continues to depress job growth in the construction industry. It has also weakened job growth in wood-product manufacturing, real estate, home improvement stores, and the banking industry. Since the housing downturn and the national recession began to overflow into the rest of the State economy last summer, professional and business services, transportation, warehousing and utilities, wholesale trade, and information have also shed thousands of jobs. More recently, the drop in household wealth, resulting from falling home prices, a lower stock market, and fewer jobs, has caused consumers to retrench, placing further strain on retail trade and leisure and hospitality.



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

Year-over-year employment change through October is negative in 8 of 11 major industrial sectors.

Widespread declines have left Minnesota employment more concentrated in the health services and social assistance sector. Recent news suggests, however, that even healthcare is not recession proof. In the past few months, at least three Twin Cities' medical facilities have announced job cuts related to the financial pressures of uncompensated care and less demand for elective treatment. Both are signs of growing economic stress. The forecast calls for slower employment growth in this sector for the duration of the recession.

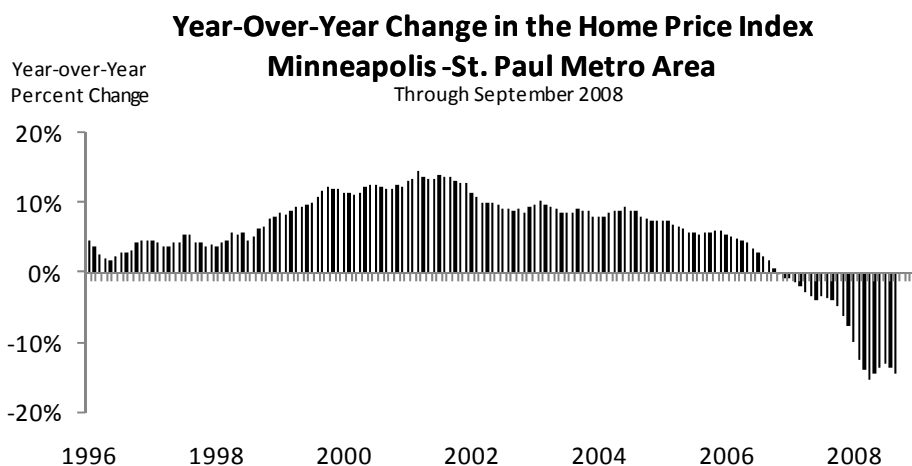
Recent unemployment data are also disconcerting. In August, Minnesota's unemployment rate rose to 6.0 percent, the highest recorded since 1986. In the spring of 2007, Minnesota's rate exceeded the nation for the first time on record dating back to 1976. While unemployment retreated to levels just below the nation for a short period thereafter, it inched back above the national rate again in July and August of this year and

stood at 6.0 percent in October. MMB economists estimate that the state's unemployment rate could exceed 8 percent by the end of 2009.

There is some encouraging news. Minnesota is the principal location for several strong and conservative financial institutions that are expected to successfully navigate this period of rising mortgage defaults and financial volatility. Through the middle of September, the State's financial sector showed consistent monthly job growth despite national events. Recent reports, however, suggest the industry may be losing some of its recent employment momentum.

Housing Slump Continues

As foreclosures soar and home values fall, Minnesota's housing market continues to implode. In November, the *Minneapolis Star Tribune* reported that falling home values have left nearly 12 percent of Minnesota's mortgaged properties "underwater", meaning that homeowner's debt is greater than the estimated value of their property. Minneapolis Association of Realtors data for the third quarter indicates that Twin Cities' lender mediated properties and homes already foreclosed upon constitute some 35 percent of total sales, up from 9 percent a year ago. Meanwhile, home prices continue to tumble. Median home prices in the Twin Cities are down almost 16 percent compared to a year ago. Similarly, according to the S&P/Case-Shiller Home Price Index Minneapolis-St. Paul average metro area home prices in September were down 14.4 percent from a year earlier and 17.9 percent from two years prior. Much of the price decline is the direct result of sales of mediated properties and foreclosures. The median price of a lender mediated house, for example, is about \$150,000, significantly less than the \$226,000 median price for a home not in default or foreclosure.



Source: Standard & Poors / Case Shiller Home Prices Indices

According to the S&P/Case-Shiller Home Price Index Minneapolis-St. Paul metro area home prices in September were down 14.4 percent from a year earlier and 17.9 percent from two years prior.

The good news is that buyers may have begun taking advantage of lower prices. Twin Cities' area sales were up 35 percent in September from a year ago and the inventory of unsold homes on the market appears to be slowly retreating. The increase in sales marks the first year-over-year monthly increase in sales since March 2006 and the month's supply of inventory has been down from the previous year for three consecutive months. It also appears that the long slide in Minnesota authorized housing permits may be approaching a floor as they have stabilized the past three quarters. MMB economists suggest, however, that it will take at least a few more months of such news to justify believing the housing market has reached bottom.

A Revised Forecast

Forecasts for employment and wages have been revised based on recent Minnesota-specific information and Global Insight's November 2008 baseline. The baseline was used to drive a newly re-estimated MMB model of the Minnesota economy.

Total annual non-farm employment is now forecast to decline -0.1 percent in 2008 and another -1.8 percent in 2009. This reflects Global Insight's outlook for the national recession and a weaker than previously projected Minnesota housing market. The November forecast for Minnesota's economy has seasonally adjusted employment declining through the fourth quarter of 2009. Very modest growth is projected for most of 2010. In 2011 Minnesota job growth is forecast to slightly exceed its U.S. counterpart.

Minnesota Outlook Compared to the U.S.

(Calendar Year Percent Change)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Non-Farm Employment					
Minnesota					
February 2008	0.5	-0.5	0.2	1.3	NA
November 2008	0.5	-0.1	-1.8	0.0	1.5
United States					
February 2008	1.1	0.3	0.7	1.3	NA
November 2008	1.1	-0.1	-1.5	0.1	1.4
Wage and Salary Income					
Minnesota					
February 2008	5.5	2.5	3.2	3.9	NA
November 2008	5.6	3.4	0.2	2.4	4.2
United States					
February 2008	5.8	3.6	4.1	4.8	NA
November 2008	5.6	3.5	1.2	2.4	4.1

Housing remains critical to the Minnesota outlook. Construction is expected to lose about 6600 jobs in 2008 and another 7000 in 2009. The forecast assumes authorized housing permits will establish a floor next summer before beginning a slow recovery in early 2010. There are two assumptions behind this outlook. First, from experience in 2007 and 2008 it appears that job losses in construction lag the decline in building permits up to 3 months. Therefore, a “catch up” period is anticipated in the forecast. If the housing slump continues to deepen, however, it is unlikely that Minnesota’s economy will perform as expected. The forecast also assumes the Global Insight baseline forecast materializes. Recent news reports suggest, however, that downside risk to the baseline is increasing. Any unanticipated adverse developments in the U.S. economy, such as further deterioration in the financial markets, will have unfavorable effects on Minnesota.