

2011 Governor's Conference On Economic Development

September 22, 2011

National Economic Indicators

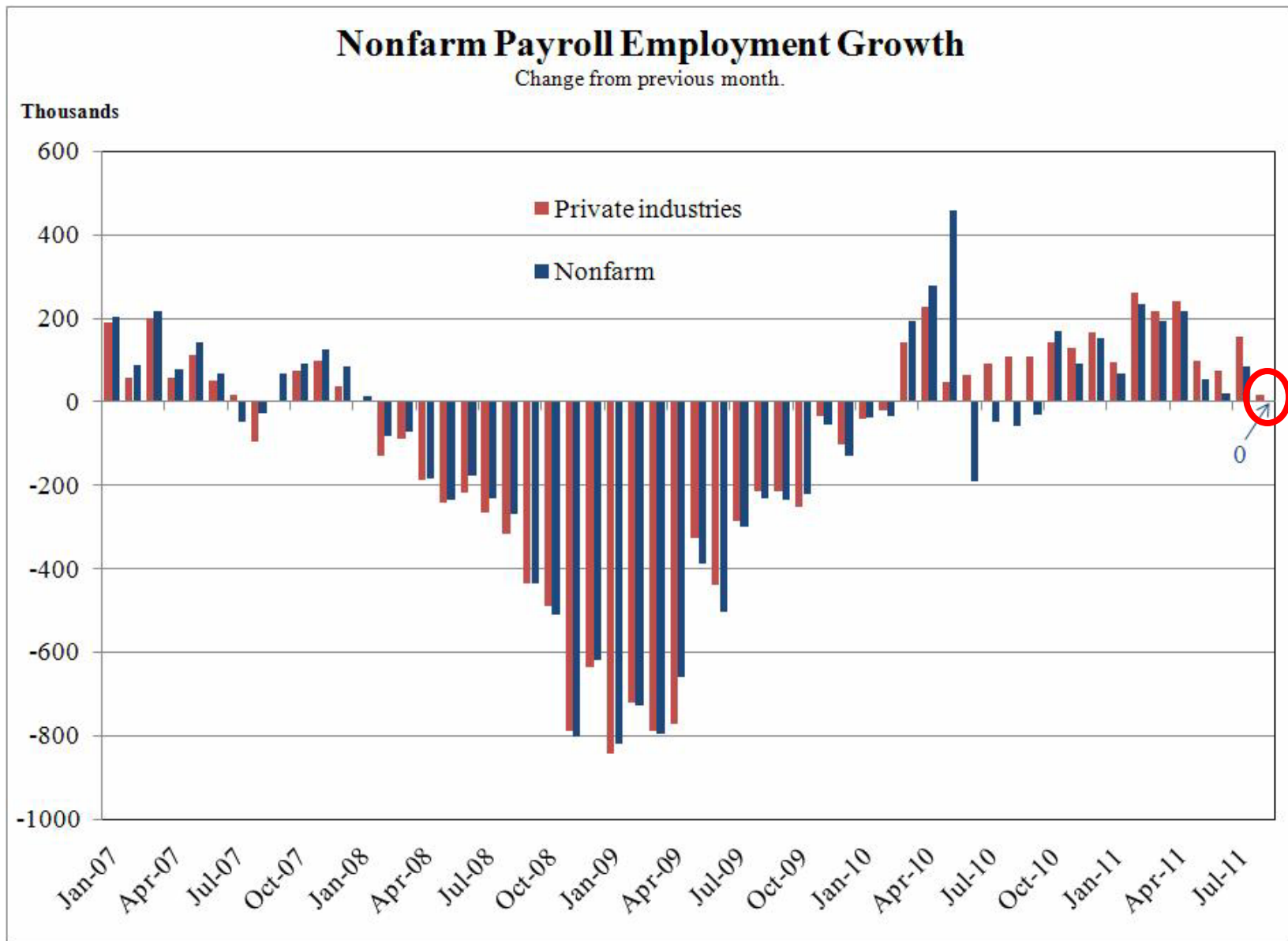
Global Growth Prospects: Quite Good for BRIC's

Real GDP growth (in percent)			
	2010	2011*	2012*
United States	2.9	2.6	3.1
Japan	4.0	-0.9	2.2
Euro area	1.7	2.0	2.0
Total OECD	2.9	2.3	2.8
Brazil	7.5	4.1	4.5
Russia	4.0	4.9	4.5
India	10.4	8.5	8.6
China	10.3	9.0	9.2
South Africa	2.8	3.9	4.2

* Projections

Source: OECD Economic Outlook 88 database.

Employment Growth



Source: Bureau of Labor Statistics.
Last observation: August 2011.

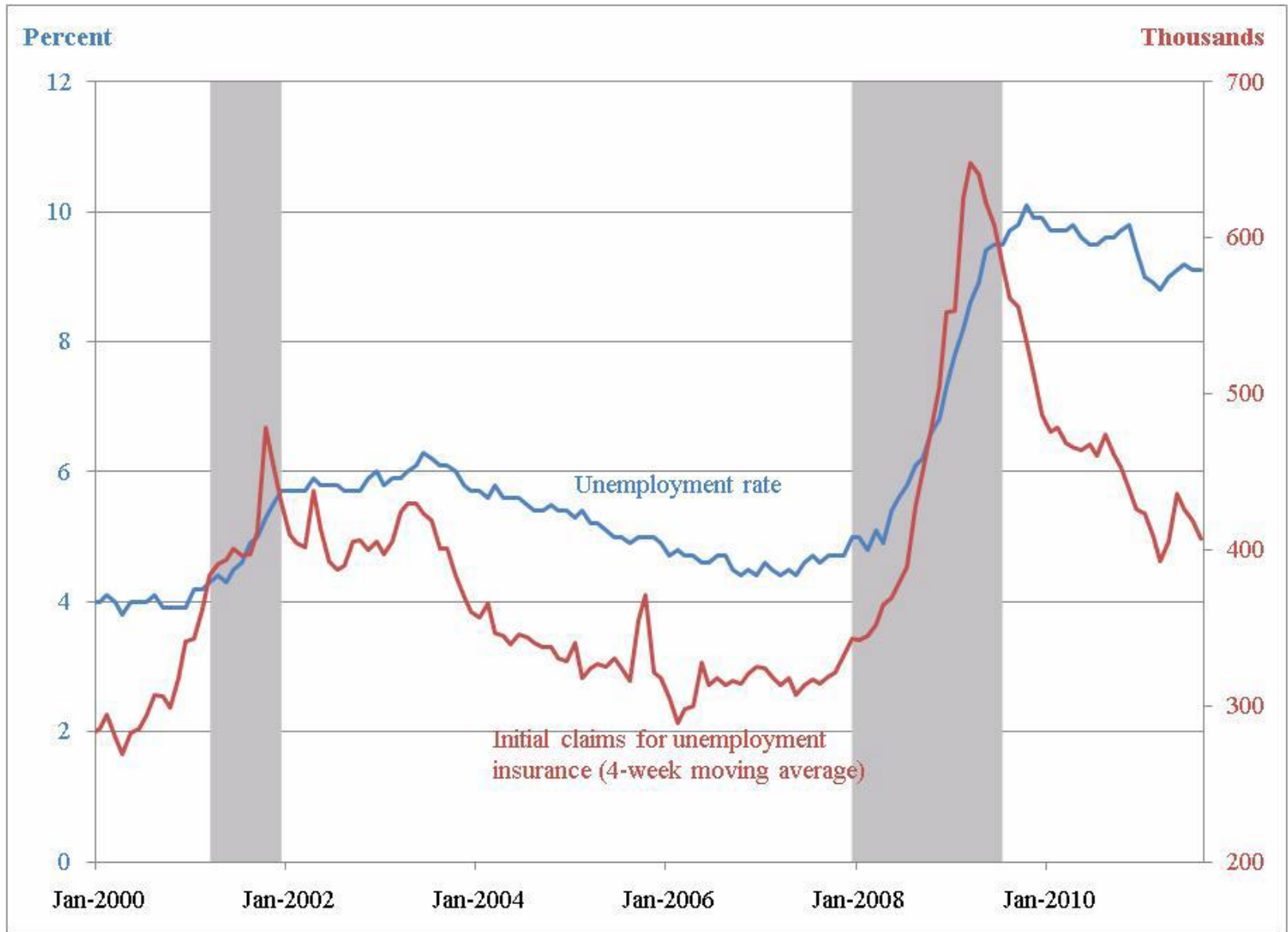
Employment: Increasing Number of Part-Time Workers



Source: Bureau of Labor Statistics and author's calculations.

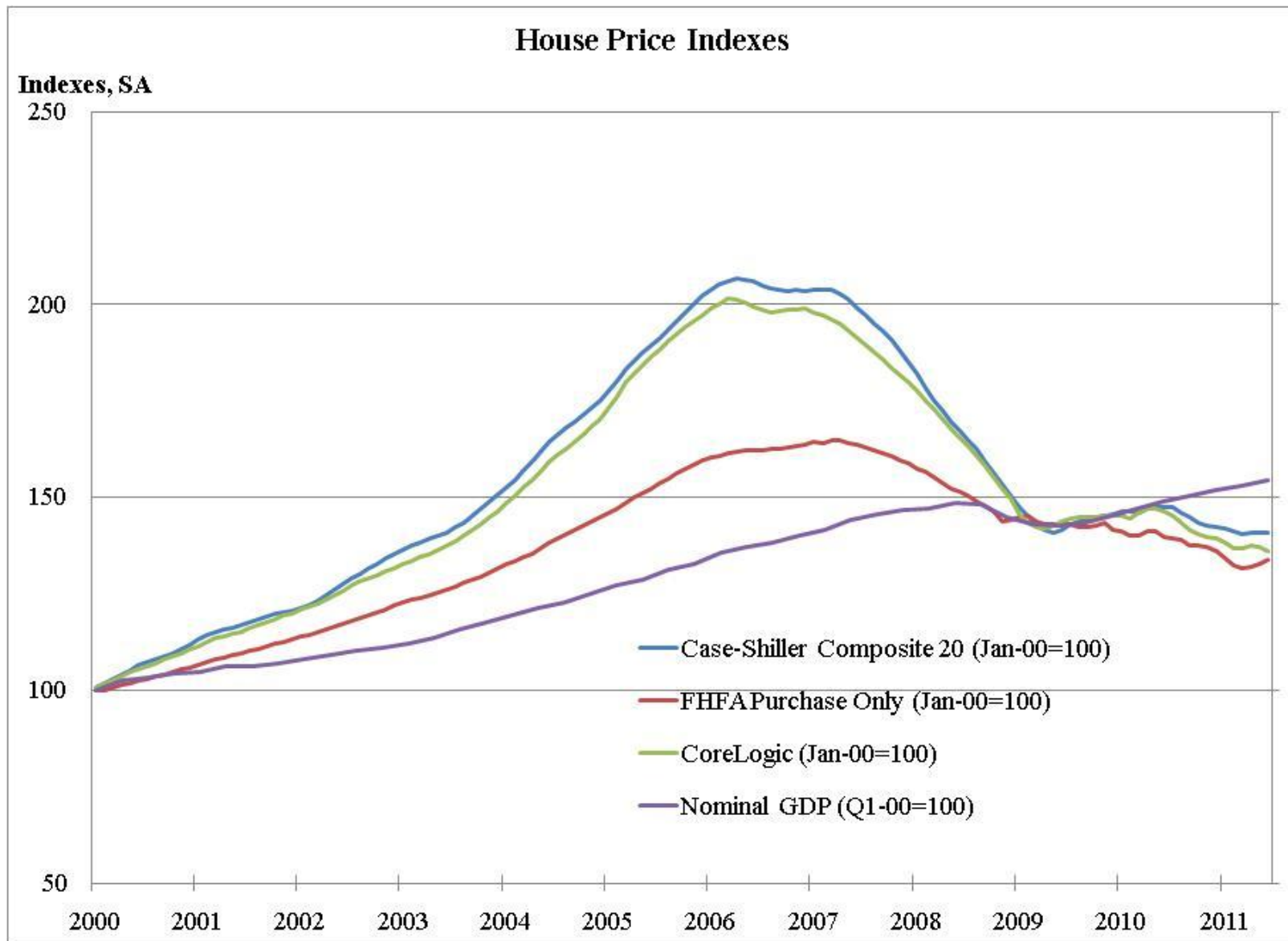
Last observation: August 2011.

Unemployment



Source: Bureau of Labor Statistics.
Last observation: August 2011.

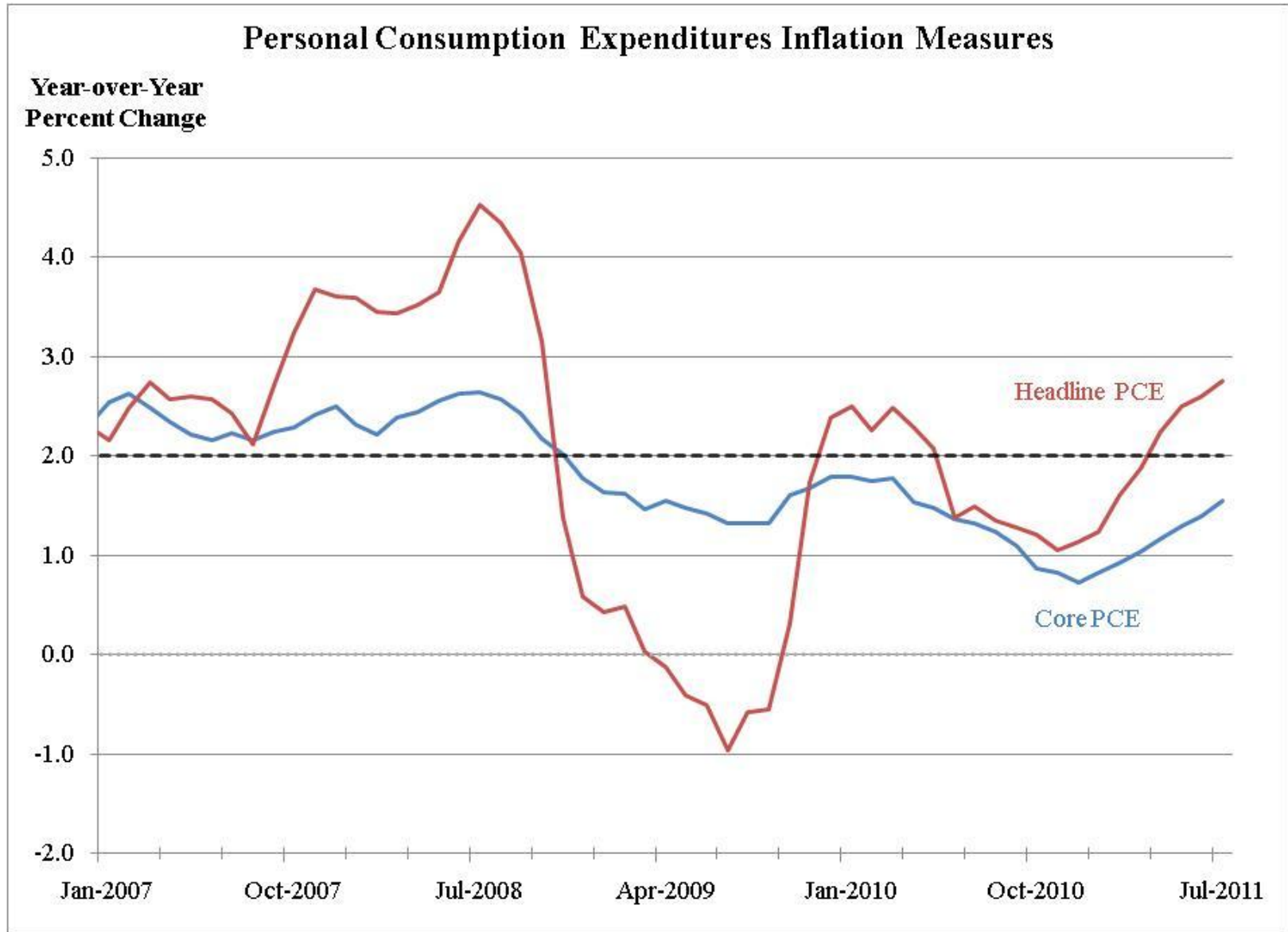
House Prices: Remain at Pre-Boom Levels



Source: Standard & Poor's, FHFA, and CoreLogic.

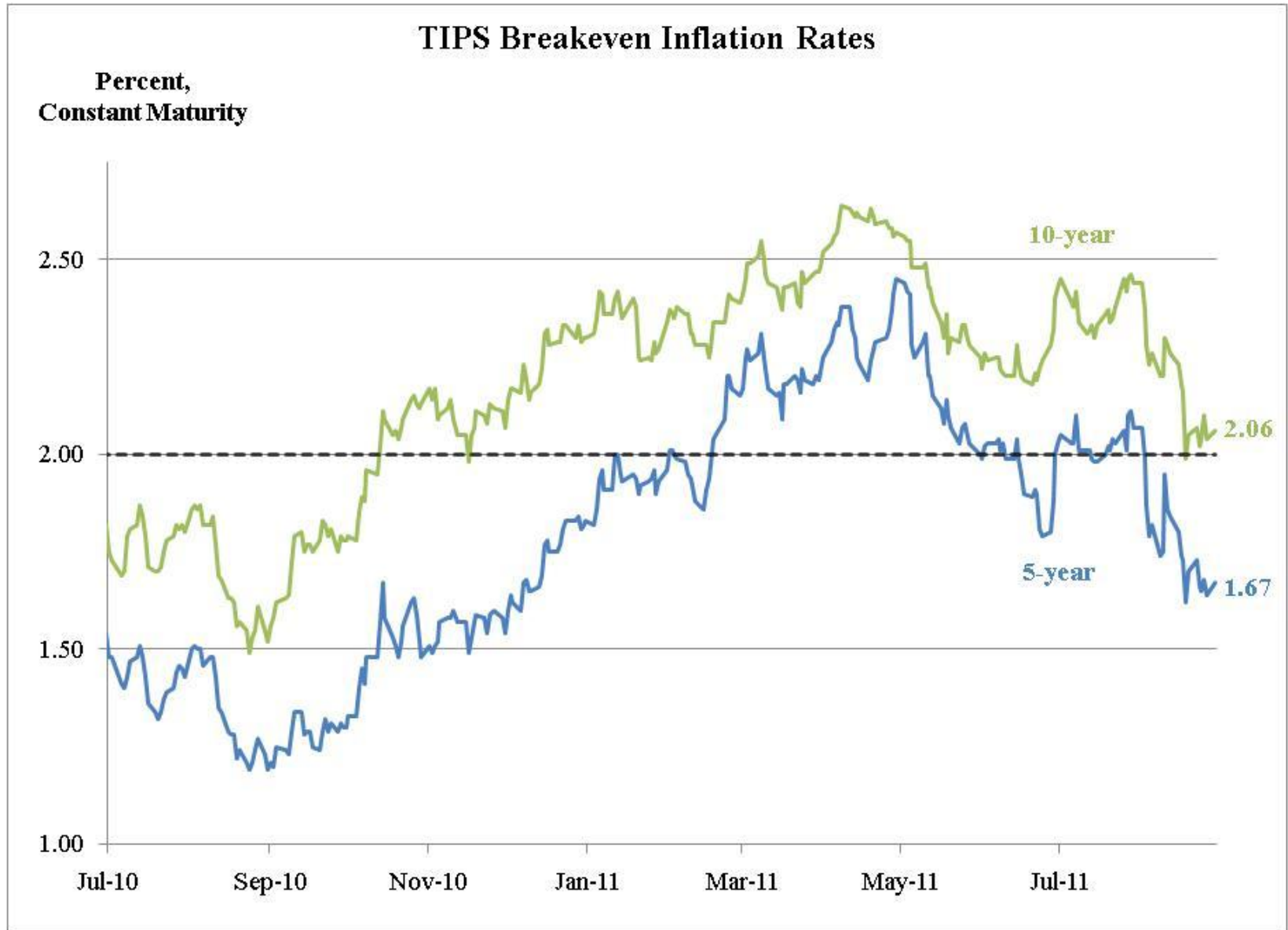
Last observation: June 2011.

Disinflation Trend



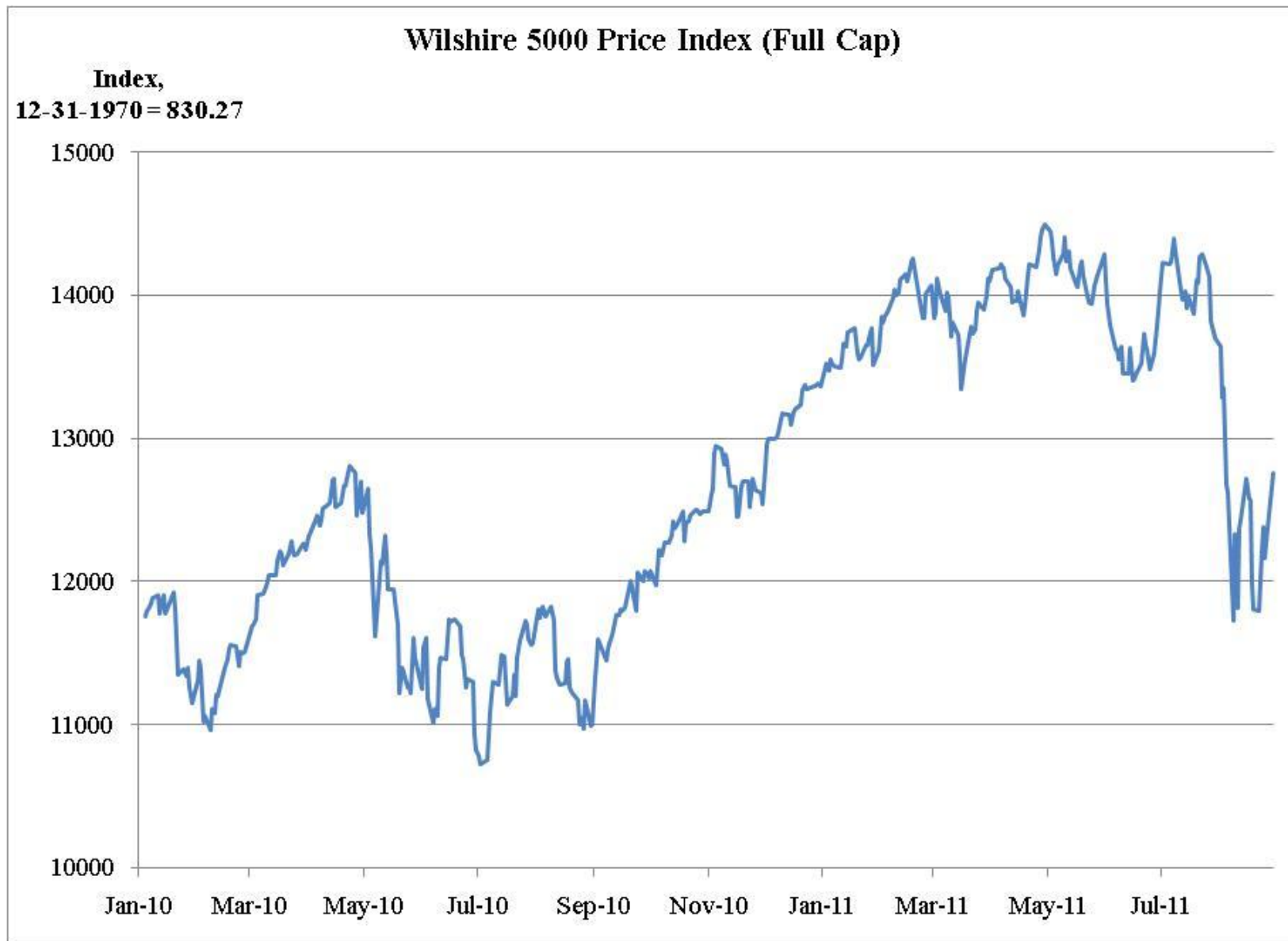
Source: Bureau of Economic Analysis.
Last observation: July 2011.

Expected Inflation



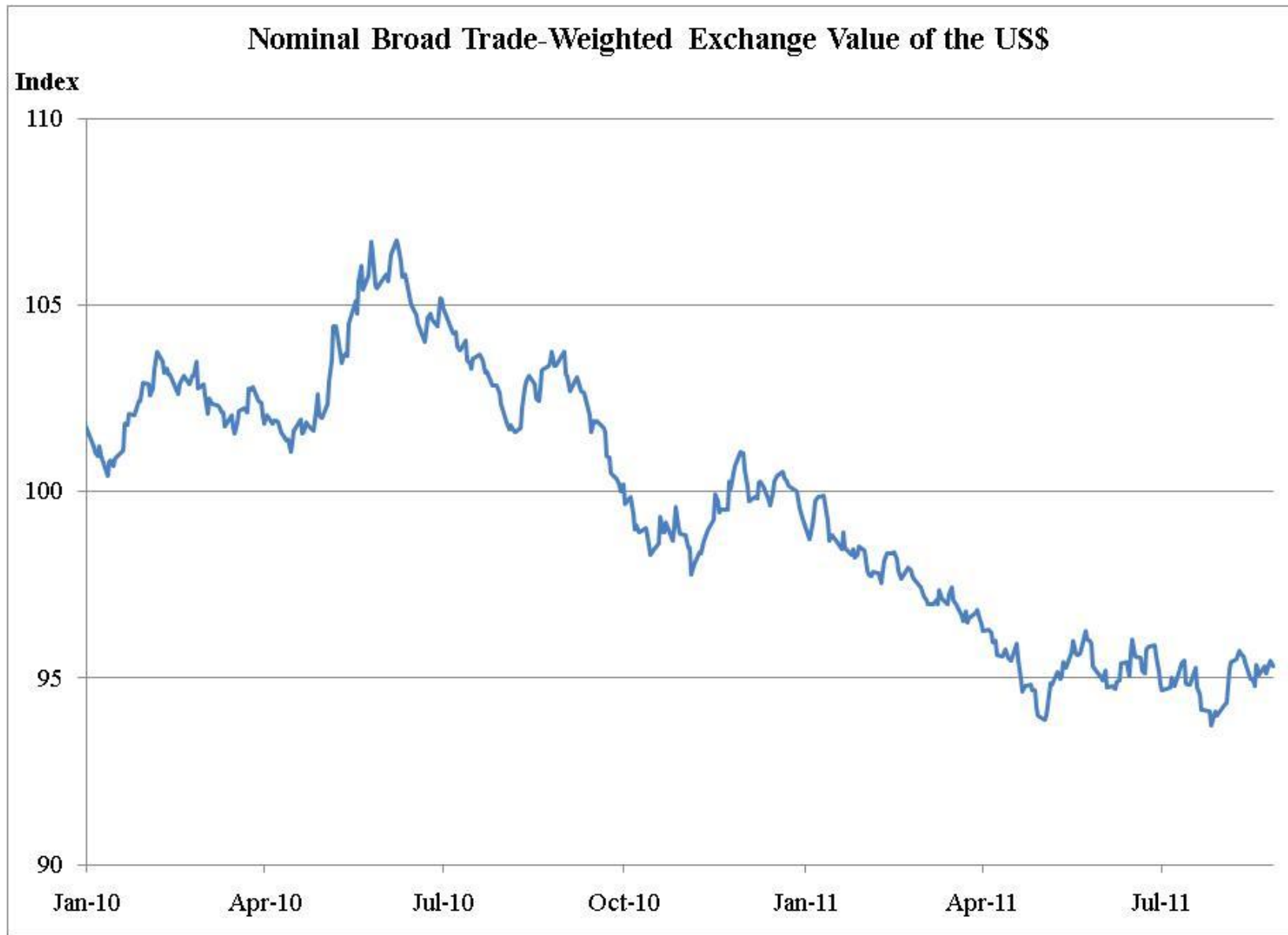
Source: Bureau of Economic Analysis.
Last observation: August 29, 2011.

Equity Prices



Source: Wall Street Journal.
Last observation: August 29, 2011.

The Dollar



Source: Federal Reserve Board.
Last observation: August 29, 2011.

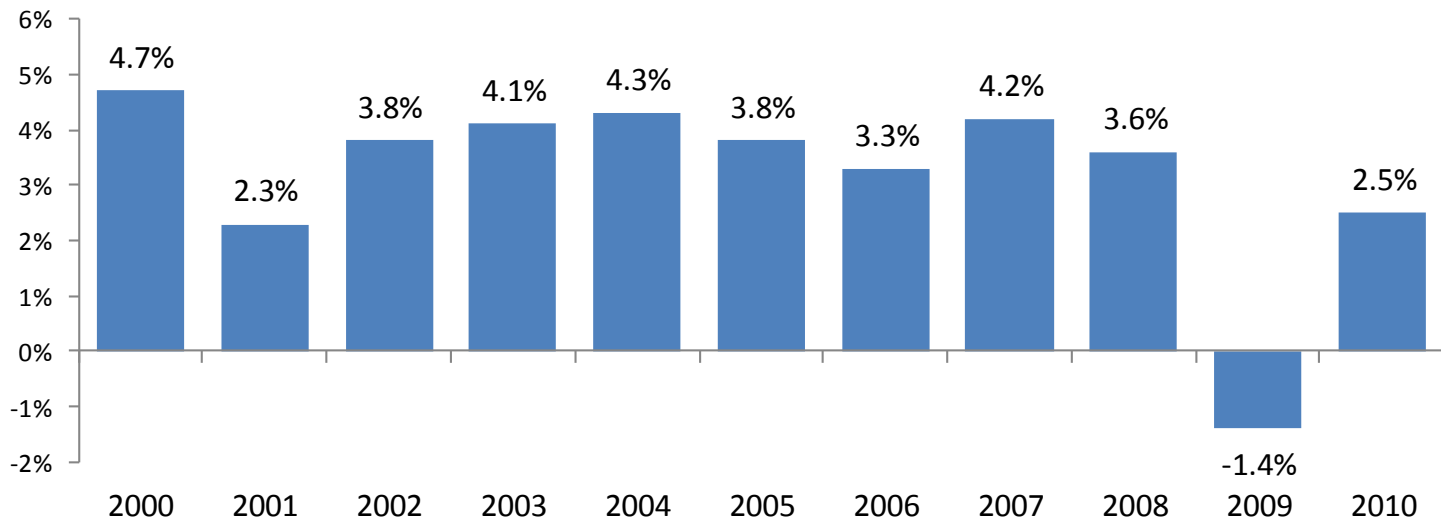
Missouri Economic Indicators

GDP Growth

Missouri's GDP totaled over \$244 billion in 2010 according to the advanced data estimates from the U.S. Bureau of Economic Analysis. Missouri GDP increased by 2.5% from 2009 to 2010, while the U.S. averaged a 3.8% increase for the period. Every state increased GDP in 2010 after most underwent GDP declines in 2009.

Missouri's Gross Domestic Product (GDP)

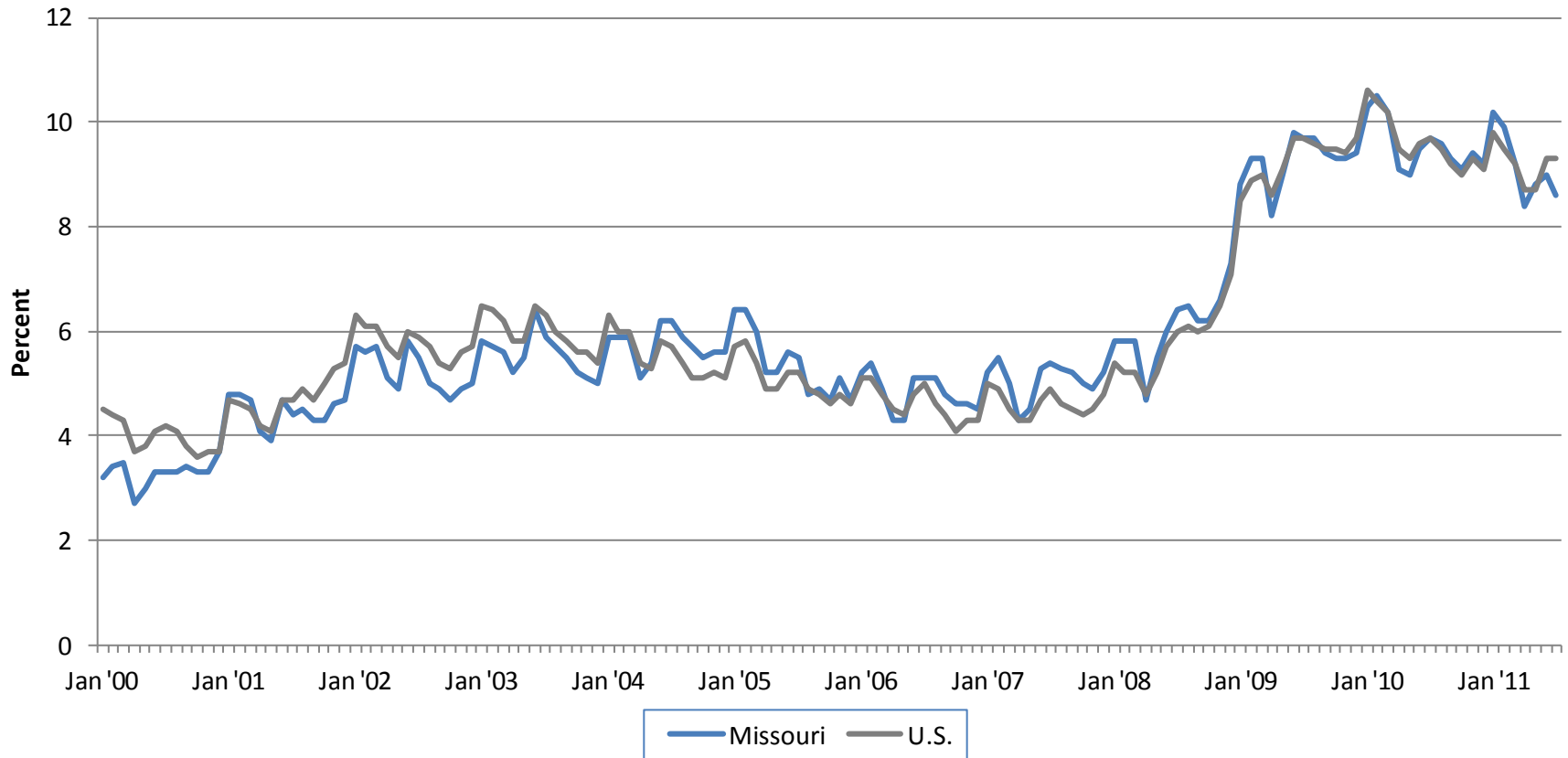
(percent change from prior year)



Following National Trends But Not As Mercurial

Unemployment (U.S. vs. Missouri)

Unemployment Rate

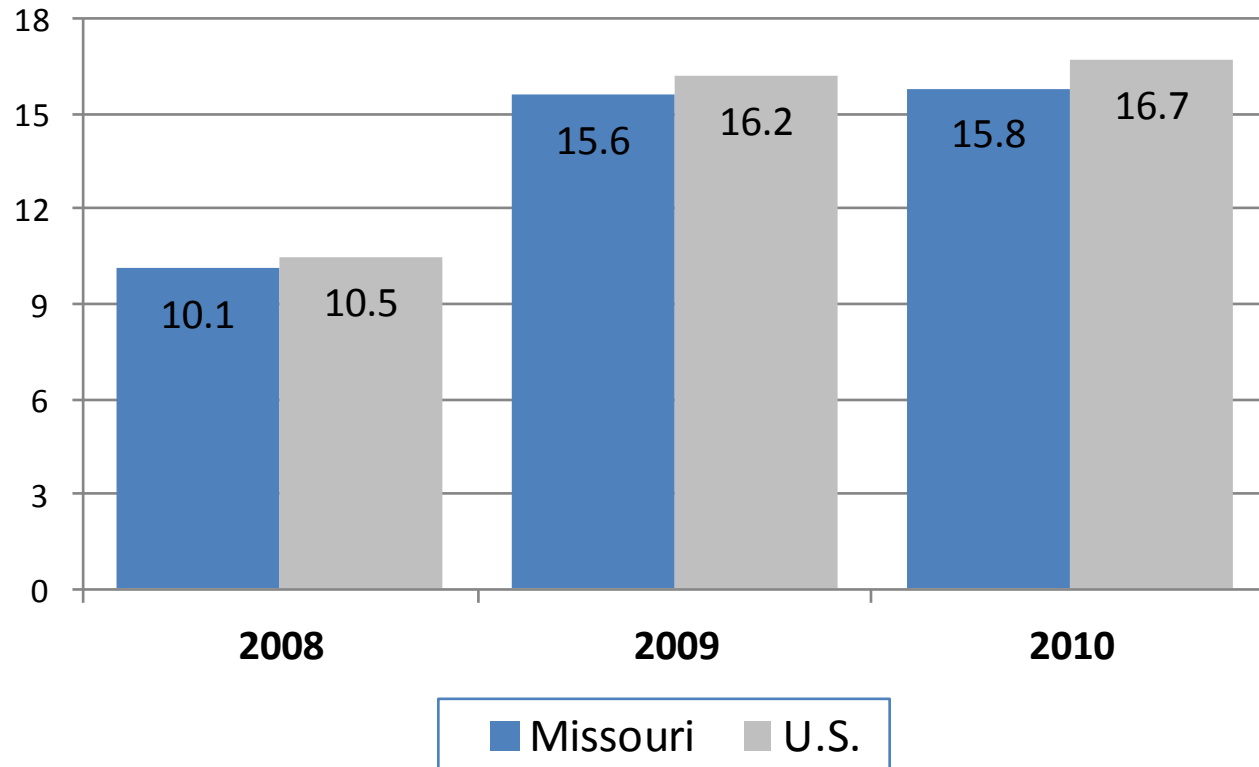


Jobs Is Job #1

Employment: Increasing Number of Part-Time Workers

In 2010, the broadest measure of labor underutilization – U6 – which includes the unemployed, workers employed part-time for economic reasons, and persons marginally attached to the labor force, was 15.8% in Missouri, compared to 15.6% in 2009.

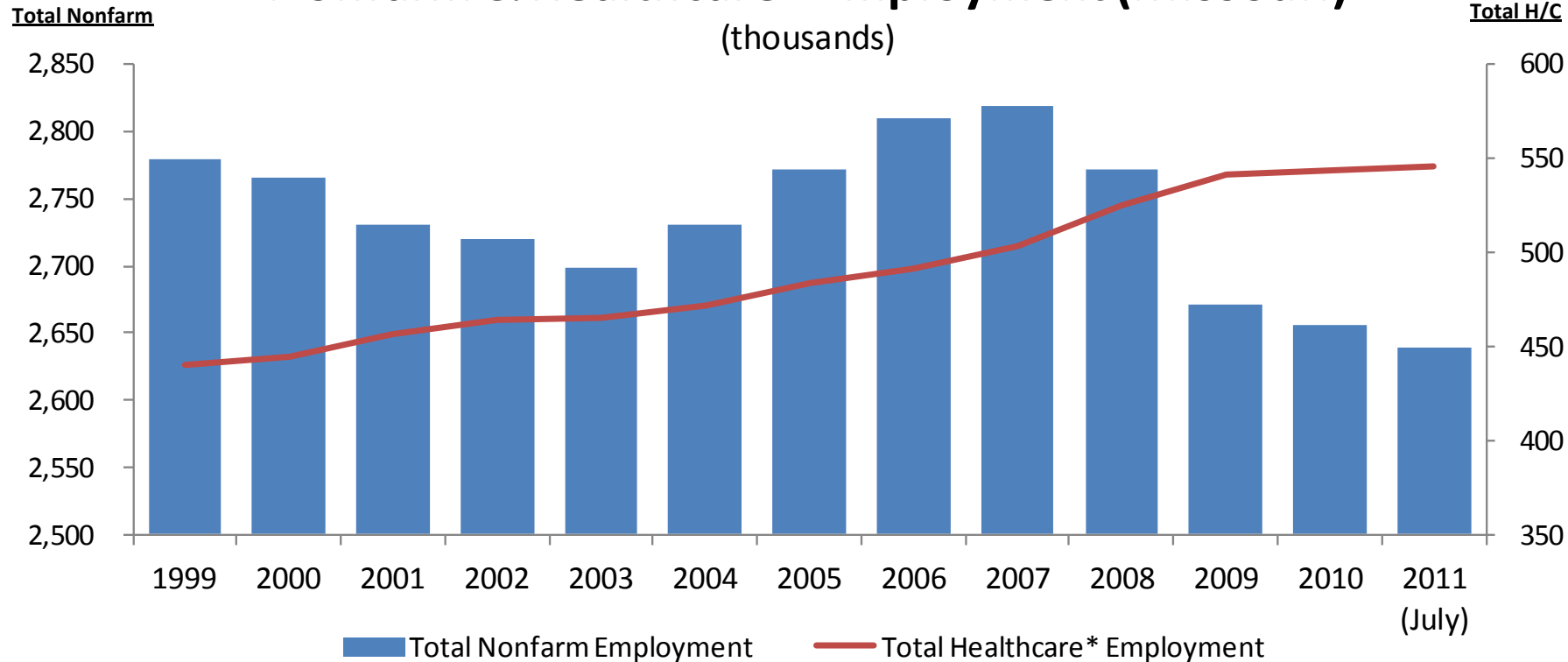
Part-Time Workers (annual averages, percent)



Source: U.S. Bureau of Labor Statistics

Employment Growth

Nonfarm & Healthcare* Employment (Missouri) (thousands)



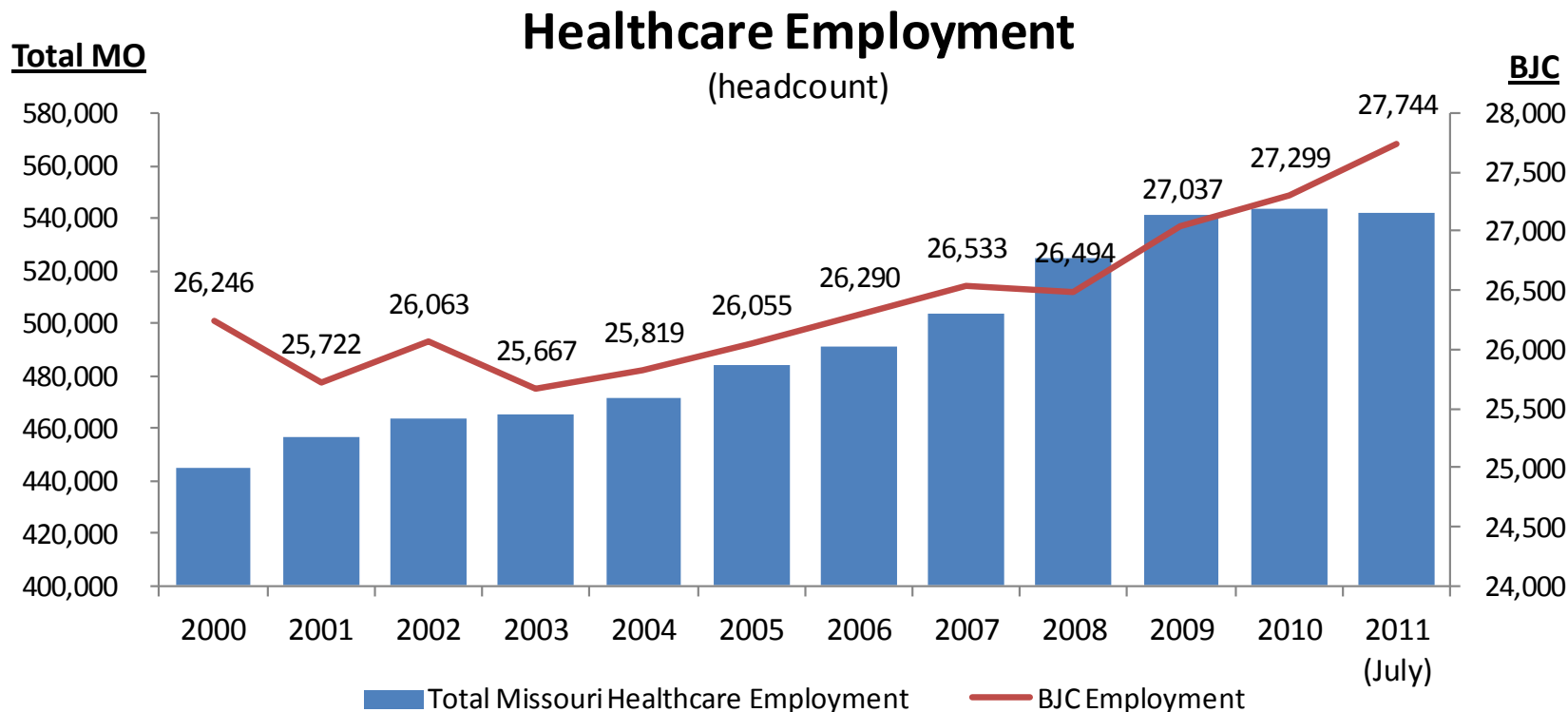
*Includes: 1) Healthcare and Social Assistance, 2) Hospitals, and 3) Nursing and Residential Care Facilities.

Health Care Employment Sector Is Vital to Missouri's Economy

Source: U.S. Bureau of Labor Statistics

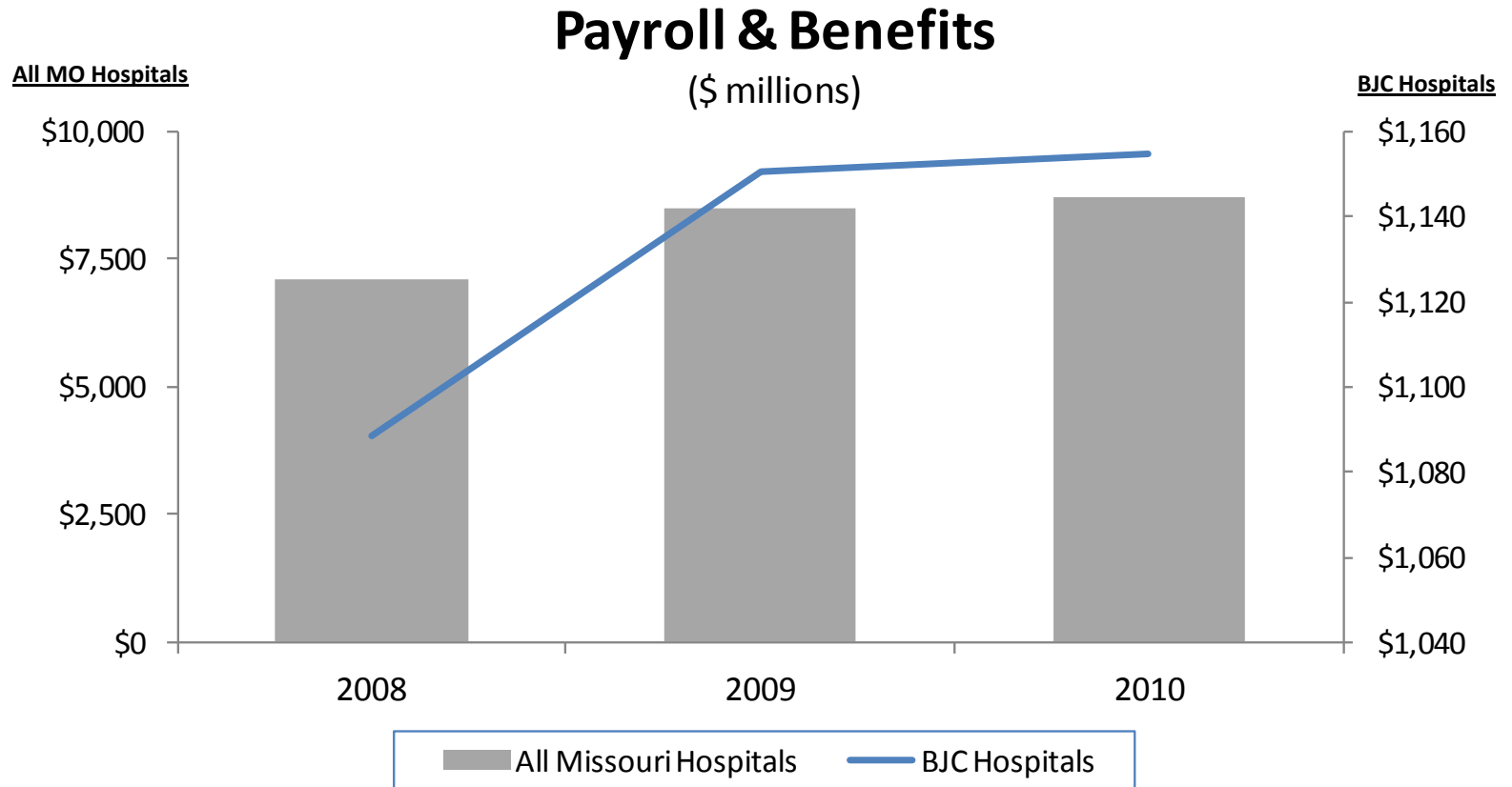
BJC Employment

BJC represents approximately 5% of Missouri's total healthcare employment.



BJC Created More Than 2,000 Jobs in Missouri Over The Past 10 Years

Payroll & Benefits (Missouri Hospitals)



...And Good Paying Jobs With Health Insurance Benefits

Housing Starts & Building Permits (Midwest)

New Housing Starts & Building Permits (Midwest)

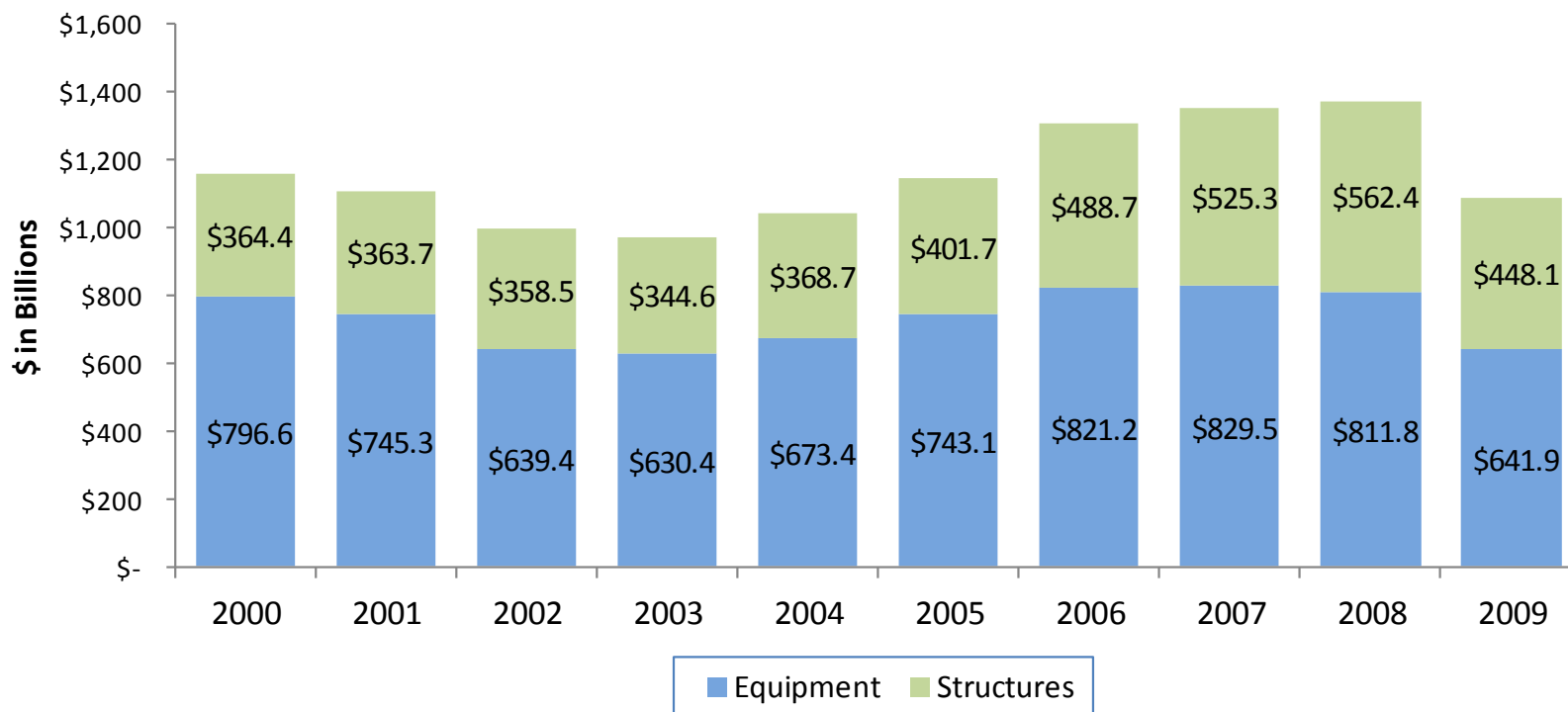


Residential Housing is the Root Cause of the Prolonged Downturn

Capital Spending by Industry

In 2009, total spending on new and used structures and equipment (i.e., capital spending) by all U.S. nonfarm businesses declined to \$1,090.1 billion, its lowest level in five years.

Total Capital Expenditures for All U.S. Nonfarm Businesses

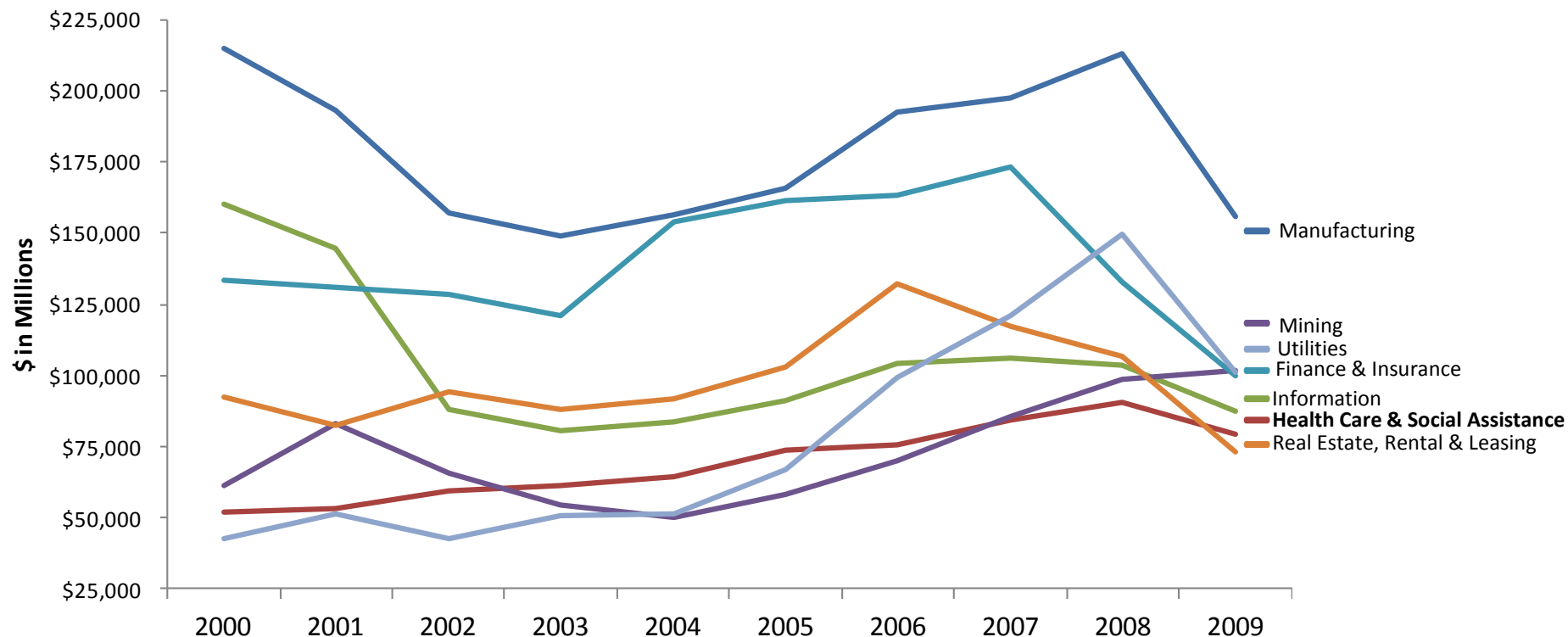


A Leading Indicator of Growth or Contraction

Capital Spending by Major Industry Sector

Sectors registering the largest absolute increases in investment spending between 2000 and 2009 were mining (up \$58.7 billion), utilities (up \$40.5 billion) and health care and social assistance (up \$27.2 billion).

Total Capital Expenditures by Major Industry Sectors

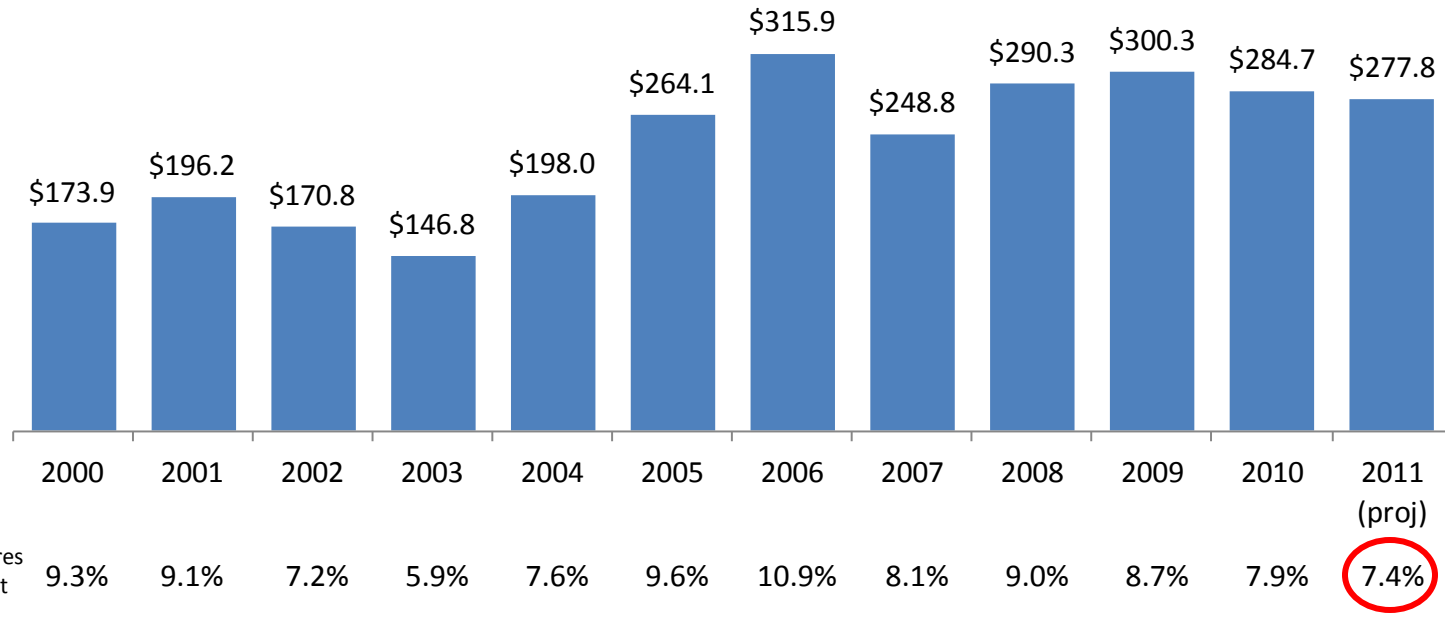


Source: US Census Bureau, Economic Statistics

BJC Capital Spending

- From 2000-2011, BJC's percent of net revenue spent on capital has averaged 8.4%.
- In 2008, Missouri Hospitals had \$1,440 million in capital investments on net revenue of \$16 billion, or 9.0% of net revenue.

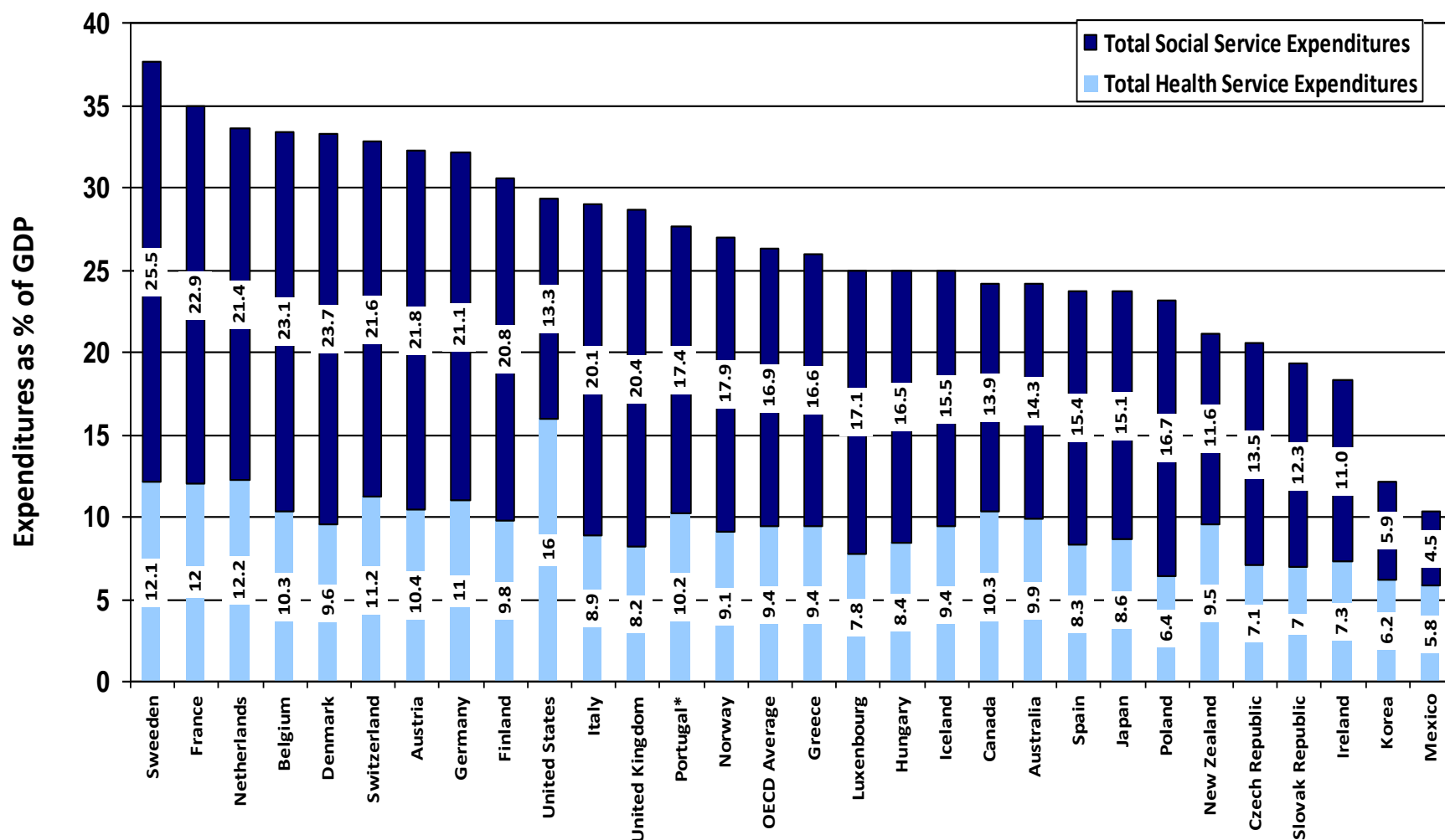
BJC Capital Expenditures (\$ in millions)
(net additions to property, plant & equipment)



**As Government Curtails Health Care Spending,
Capital Investment Will Decline**

Healthcare Expenditures and GDP

Total Health and Social Service Expenditures for OECD Countries, 2005



*Expenditures for Portugal are from 2004 due to missing data for 2005.

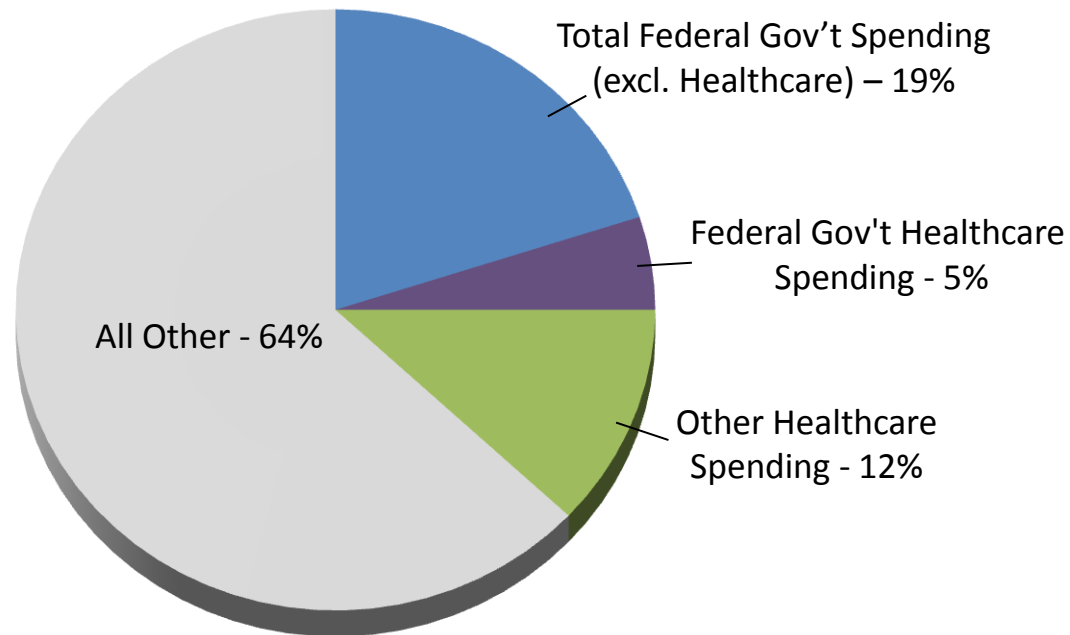
Source: OECD Health Data 2009 (Accessed June 2009); OECD Social Expenditure Dataset (Accessed Dec 2009); *Health and Social Service Spending; Associations with Health Outcomes* Article by Elizabeth Bradley, Ph.D, Benjamin Elkins, MPH, Brian Elbel, Ph.D.

Federal Government P & L (2011) *(in billions)*

Revenues	\$2,100	(14% of GDP)
Expenses		
• Defense / Homeland Security	\$ 786	
• Medicare / Medicaid	\$ 773	
• Social Security	\$ 727	
• Other Mandatory	\$ 676	
• Other Discretionary	<u>\$ 640</u>	
	\$3,602	(24% of GDP)
Deficit	(\$1,502)	(10% of GDP)

Government & Healthcare GDP

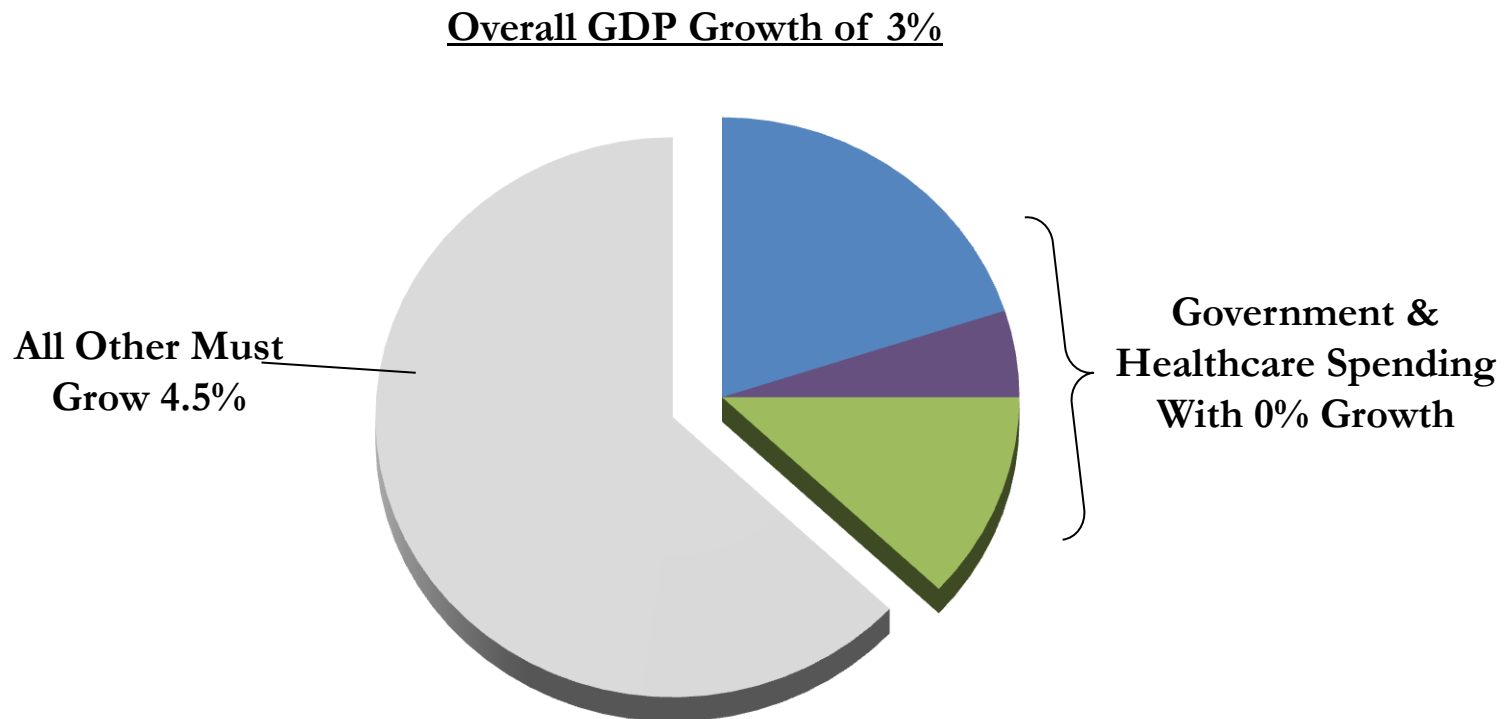
Government and Healthcare spending constitute one third of the American economy.



Source: Centers for Medicare & Medicaid Services (CMS),
and Congressional Budget Office (CBO)

GDP Growth

To achieve 3% GDP growth, while keeping Government and Healthcare spending constant, the other two-thirds must grow at 4.5%.



Source: Centers for Medicare & Medicaid Services (CMS),
and Congressional Budget Office (CBO)

A Game Plan for Missouri

Step 1

Reduce Federal Debt by \$3 Trillion
via Spending Cuts

Then

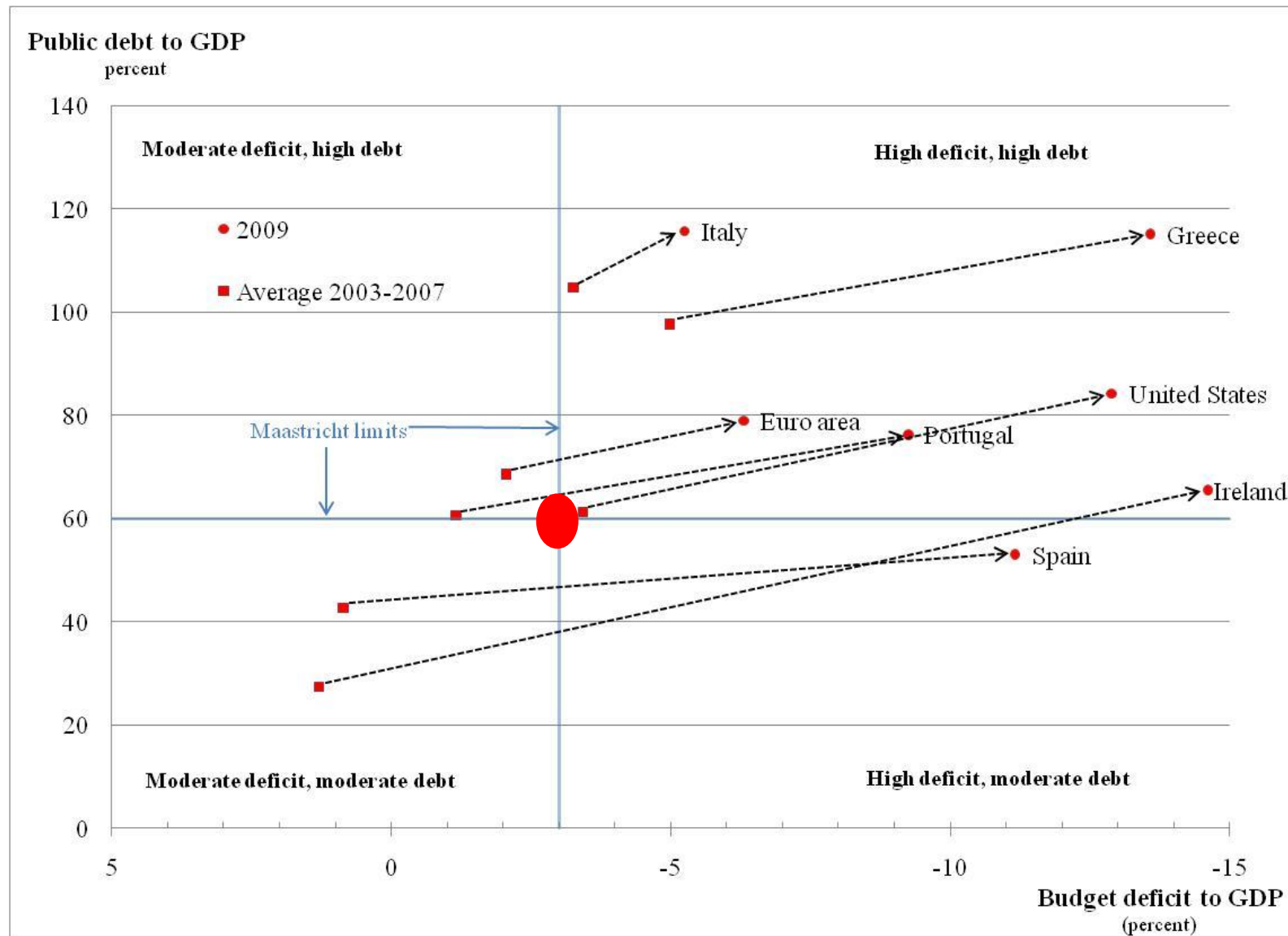
Argue About Revenue Increases (Democrats)

vs.

More Spending Cuts (Republicans)

**“Down Payment” on Sound Fiscal Policy Will Be A Positive
Sign To Investment Capital Lenders and Borrowers**

Increasing Debt and Deficit



Source: International Monetary Fund, World Economic Outlook Database, October 2010. Last observation: 2009.

Debt Reduction 101

Total Debt = \$15T

Total GDP = \$15T

Debt / GDP Ratio = 100%

Targets: Total Debt / GDP Ratio = 60%

Annual Federal Budget Deficit % < Annual GDP Growth % (About 2 – 3%)

If GDP Growth = 2.5% then 2021 GDP = \$19T

then... 2021 Debt at 60% of GDP = \$11T

Debt Reduction Required = \$15T (Current Level) Minus \$11T (60% of 2021 GDP)
= \$4 Trillion

Democrats: \$3T in Spending Cuts + \$1T in New Taxes

Republicans: \$5T in Spending Cuts + \$1T in New Tax Cuts

\$4 Trillion is the Consensus Target

A Game Plan for Missouri

Step 2

Increase the Percentage of Adults Age 25 and Over

With a 4-Year College Degree

From

25% to 35% by 2019

A 4-Year Degree Is Necessary Preparation For Jobs in Energy Solutions, Bio-Sciences, Health Sciences / Services, Financial / Professional Services and Information Technology

A Game Plan for Missouri

CBSA*	Median HH Income	% Adults Graduated from College
Springfield, MO	\$43,055	25%
St. Louis, MO	\$54,223	29%
Kansas City, MO	\$57,014	32%
Columbia, MO	\$46,027	42%
Louisville, KY	\$49,055	23%
Memphis, TN	\$47,056	24%
Little Rock, AR	\$46,710	26%
Detroit, MI	\$54,884	26%
Oklahoma City, OK	\$47,301	27%
Chicago, IL	\$61,934	29%
Milwaukee, WI	\$55,548	31%
Indianapolis, IN	\$56,170	31%
Des Moines, IA	\$57,945	32%
Minneapolis, MN	\$66,363	37%
Boston, MA	\$71,015	42%
San Francisco, CA	\$78,021	43%

*A Core Based Statistical Area (CBSA) is a U.S. geographic area defined by the Office of Management and Budget (OMB) based around an urban center of at least 10,000 people and adjacent areas that are socioeconomically tied to the urban center by commuting.



THE WORLD'S BEST MEDICINE. MADE BETTER.

Higher Education Has Other Advantages

Mortality Rates Correlate with Education; Education Correlates with Income;
Income Correlates with Poverty:

- 206.3 / 100,000 Greater Than High School Education
- 477.6 / 100,000 High School Education
- 650.4 / 100,000 Less Than High School Education

A Game Plan for Missouri

Step #3 (The Short-Term)

- Residential Housing Sector will take 3 – 5 years to Recover and Rebound
 - 80% of Mortgage Financing is Re-Financing of Existing Mortgages
 - 30% of For-Sale Homes are Foreclosed Properties

- Target Stimulus Spending at the Construction Trades
 - Roads
 - Bridges
 - Schools

A Game Plan for Missouri

Step #4

Leverage Competitive Advantages

- Energy Demand will Continue to Grow
- Food Demand: Population will Grow
- Transportation/Logistics: Perfectly Centered, Remarkably Connected

A Game Plan for Missouri

Step #5

What can Kansas City, St. Louis, Columbia, Springfield, and
Joplin do TOGETHER to Create a Critical Mass
of Economic Activity?

Summary

- Missouri is Following National Economic Trends, But Not as Mercurial
- Jobs is Job #1 – Start with the Construction Trades
- Health Care Employment Sector is Vital to Missouri's Economy
- BJC Created More Than 2,000 Jobs in Missouri Over the Past 10 Years...And Good Paying Jobs with Health Insurance
- Residential Housing is the Root Cause of the Prolonged Downturn
- As Government Curtails Health Care Spending, Capital Investment will Decline
- Down Payment on Sound Fiscal Policy will be a Positive Sign to Investment Capital Lenders and Borrowers
- A 4-Year Degree is Necessary Preparation for Jobs in Energy Solutions, Bio-Sciences, Health Sciences / Services, Financial / Professional Services and Information Technology
- Leverage Competitive Advantage: Energy, Agriculture, Transportation / Logistics
- What Can We Do Together?

Some Final Thoughts

The Good News: You are still here – despite one of the most difficult economic downturns in our nation’s history.

Take Good Care of People: Customers, Employees, Each Other

Take Stock of What’s Really Important:

- Your Family
- Your Friends
- Your Health!!

Appendix / Supplemental Facts

Supplemental Facts

From “Behind the Big Blue H, Hospitals’ Impact on Missouri’s Economy”, Missouri Hospital Association Fact about Missouri Hospitals

- In 2009, Missouri hospitals served approximately 21 million outpatients and 877,000 inpatients.
- Missouri hospitals had total operating revenues of more than \$18.9 billion in 2009. They employed 147,165 individuals, with a total payroll expense of approximately \$6.8 billion.
- Missouri’s hospitals account for 6 percent of the state’s economy directly and another 4 to 5 percent indirectly. Added together, approximately one-eighth of the state’s economy can be traced back to Missouri’s hospitals.

Jobs

- From 2002-2009, hospital employment grew by 24 percent and 23,000 full-time jobs.
- Of the five largest private sectors by employment, health care and social assistance is the only sector to continue to add jobs during the current economic downturn. Since October 2006, health care has added more than 31,500 jobs while total nonfarm employment has decreased by 151,200 jobs.
- The health care and social assistance sector accounted for approximately 10.7 percent of Missouri’s jobs in 2009 and more than 5 percent of total employee compensation (excluding benefits).
- Total employment attributable to Missouri hospitals is estimated to be 265,124 jobs in the state. Missouri’s hospitals increased GSP by \$18.8 billion.

Capital

- Through construction and capital improvements, Missouri hospitals created an additional 21,703 jobs and generated a \$1.2 billion increase in Gross State Product.

Out of State Patient Impact

- Destination health care is an increasing part of Missouri’s economy. In 2009, Missouri hospitals served 854,452 out-of-state patients. The nonmedical spending by these nonresidents created an additional 3,139 jobs and added \$124 million to the gross state product.

Supplemental Facts

From “Strengthened by Missouri’s Hospitals”, Missouri Hospital Association

- The National Center for Rural Health Works has researched the link between health care and economic viability. It found that one primary care physician working in a rural area generates \$1.2 million in annual revenue and creates 23 jobs. Conversely, the loss of one half-time doctor translates into a community loss of more than a half-million dollars and 14 jobs.¹
- Every hospital job in Missouri supports two more.
- Of the 20 occupations in Missouri with the most openings from 2008-2010, health care accounted for 37.3 percent.
- By 2016, a 12.3 percent increase in the health care workforce is projected statewide.

From “The Long-Term Outlook for Medicare, Medicaid, and Total Care Spending”, Congressional Budget Office

- Measured as a percentage of the nation’s gross domestic product, total spending for health care increased from 4.7 percent in 1960 to 15.2 percent in 2007.
- CBO projects that without significant changes in policy, total spending for health care will be 31 percent of GDP by 2035 and will increase to 46 percent by 2080.
- Total spending for Medicare is projected to increase to 8 percent of GDP by 2035 and to 15 percent by 2080. Total spending for Medicaid is projected to increase to 5 percent of GDP by 2035 and to 7 percent by 2080.

Income & Education (2010)

- Educational Attainment in Missouri:
 - 33% of Missouri residents are High School Graduates
 - 25% of Missouri residents are College Graduates
- Per Capita Personal Income:
 - United States: \$40,584
 - Missouri: \$36,979
 - St. Louis County: \$52,214
 - Jackson County (Kansas City): \$37,058

Missouri Targeted Growth Industries

Seven Missouri industry clusters targeted for growth:

1. Advanced Manufacturing
2. Energy Solutions
3. Biosciences
4. Health Sciences and Services
5. Information Technology
6. Financial and Professional Services
7. Transportation and Logistics

12 Industries That Are Growing

Since the U.S. labor market began its slow recovery in 2010, we can do some analysis to determine which industries have begun growing significantly compared to others. Analyzing the approximately 150 sectors and sub-sectors from the Bureau of Labor Statistics data, there are about a dozen that stand out.

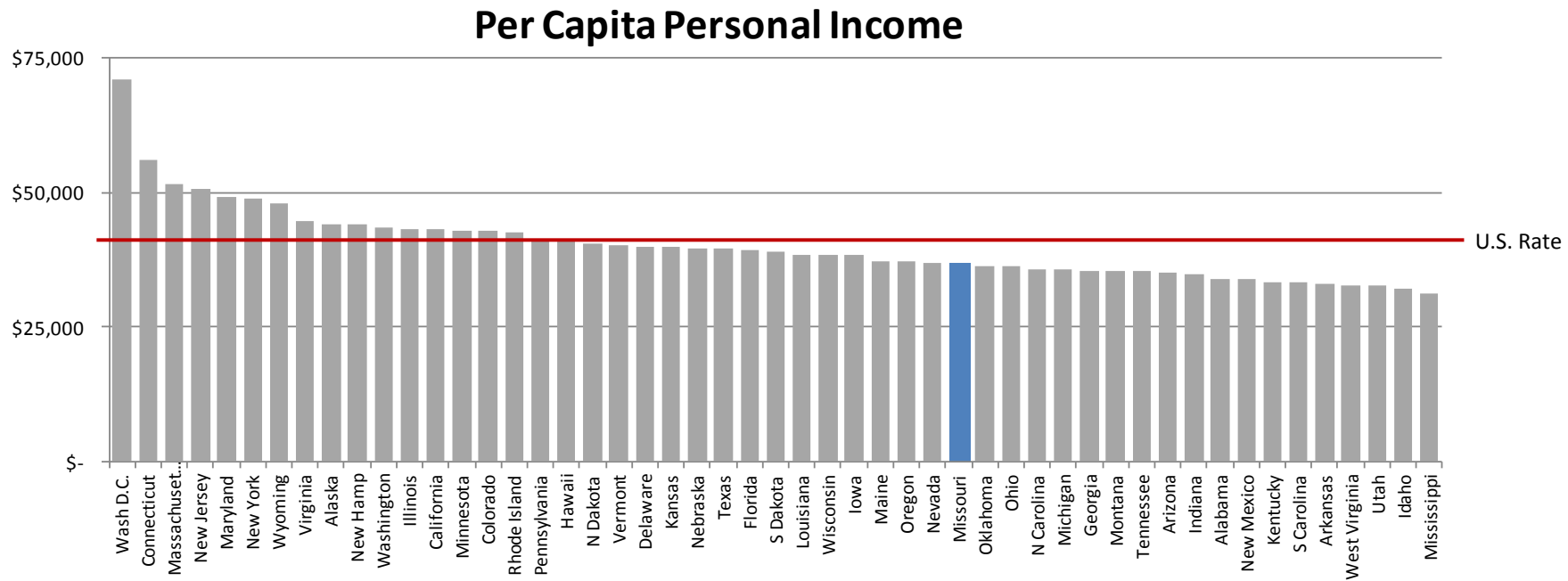
1. Mining
2. Health Care
3. Metals Manufacturing
4. High Tech Equipment Manufacturing
5. The Auto Industry
6. Plastics & Rubber Manufacturing
7. Transportation
8. Computer Systems Design
9. Social Assistance
10. Clothing Retailers
11. Performing Arts and Sports
12. Federal Government

12 Industries That Are Growing

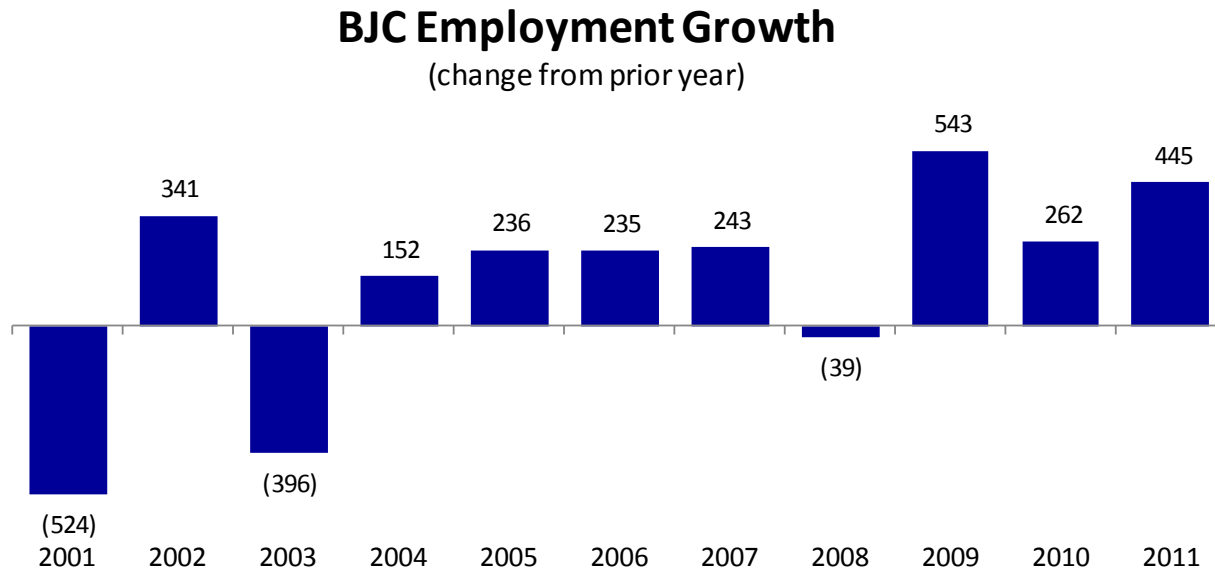
- 1. Mining:** Mining added 93,000 jobs in 2010 and had one of the highest rates of growth of any industry, at 14.8%. While some of these jobs were in mining itself, the vast majority actually came from mining support activities, a sub-sector which grew by 27.8%.
- 2. Health Care:** If there's any sector that was resilient during the recession and will continue to grow, it's health care. Throughout its sub-sectors, workforces increased. Outpatient care centers added 21,000 jobs, up 3.9%; home health care centers added 42,000 jobs, up 4.0%. Hospitals plus nursing and residential care facilities added more than 100,000 jobs last year.
- 3. Metals Manufacturing:** Metals were one of the few durable goods where manufacturing increased in 2010. The combined jobs added within primary metals and fabricated metal products manufacturing were over 80,000. That increased employment in these sub-sectors of manufacturing by 6.6% and 4.6%, respectively.
- 4. High Tech Equipment Manufacturing:** A number of high tech equipment manufacturing sub-sectors added jobs in 2010. Some included computer equipment, communications equipment, and electrical equipment and appliances, which increased their workforces by 3.9%, 3.6%, and 3.5%, respectively.
- 5. The Auto Industry:** As auto sales rose in 2010, the industry added workers across various sub-sectors. During the year 35,000 jobs were added for vehicle and parts manufacturing and another 43,000 for retail sales. These two segments saw their workers' ranks increase by 5.3% and 2.7%, respectively.
- 6. Plastics & Rubber Manufacturing:** For nondurable goods manufacturing, the only sub-sector to make the list was plastics and rubber. This segment of the economy added 22,000 jobs in 2010, increasing its workforce by 3.5%.
- 7. Transportation:** Transportation jobs rose broadly across many of its sub-sectors. Transit and ground transportation jobs led the way with 26,000 more, up 6.1% for 2010. The rail transportation workforce increased by 4.7%, while water transportation jobs were up 3.0%.
- 8. Computer Systems Design:** Another tech industry that isn't likely to slow down is computer systems design and related services. The industry added 54,000 jobs, up 3.7% in 2010.
- 9. Social Assistance:** Social assistance employment also grew by 75,000 jobs last year. That boosted its employee ranks by 2.9%.
- 10. Clothing Retailers:** Retail clothing jobs increased by 63,000 or 4.2% in 2010. Department stores added another 34,000 workers. But this is a very cyclical industry, so it's not clear that this growth will continue indefinitely.
- 11. Performing Arts and Sports:** This one comes out of nowhere, and could be mostly from cyclical hiring due to the economy's recovery. But for whatever reason, performing arts and spectator sports grew in 2010. They added 25,000 jobs, which is a 6.6% increase.
- 12. Federal Government:** The federal government got bigger in 2010, as it added 46,000 workers, excluding the postal service. That's a 2.1% increase. But the government's expansion could quickly change direction if deficit reduction brings deep spending cuts.

Per Capita Personal Income (2010)

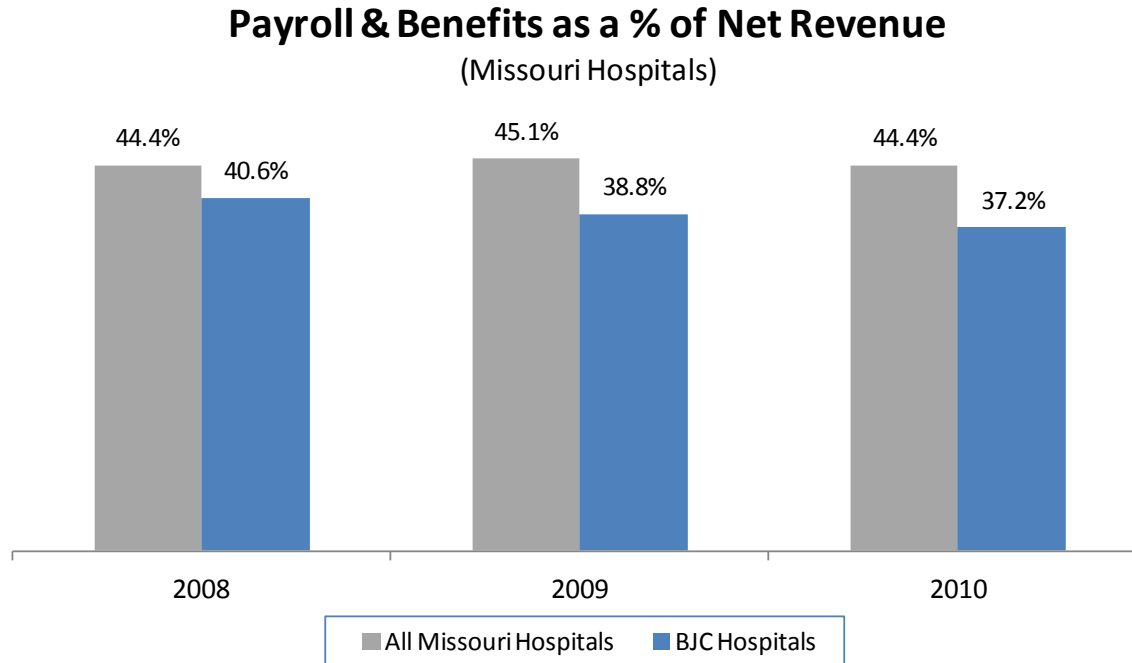
State per capital personal income ranged from \$56,001 in Connecticut to \$31,186 in Mississippi in 2010. The per capita personal income for the United States was \$40,584 and \$36,979 for Missouri.



BJC Employment Growth



Payroll & Benefits as a Percent of Net Revenue



Source: MHA Economic Report, Missouri Hospital Revenues (HIDI)

Capital Spending by Major Industry Sector

Major Industry Sector	Year										2000-2009	
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	\$ chg	% Chg
Manufacturing	\$ 214,827	\$ 192,835	\$ 157,243	\$ 149,065	\$ 156,651	\$ 165,634	\$ 192,364	\$ 197,298	\$ 213,117	\$ 155,840	\$ (58,987)	-27.5%
Utilities	\$ 61,302	\$ 82,823	\$ 65,502	\$ 54,569	\$ 50,409	\$ 58,032	\$ 69,757	\$ 85,354	\$ 98,668	\$ 101,845	\$ 40,543	66.1%
Mining	\$ 42,522	\$ 51,278	\$ 42,467	\$ 50,548	\$ 51,253	\$ 66,746	\$ 99,309	\$ 120,681	\$ 149,272	\$ 101,187	\$ 58,665	138.0%
Finance & Insurance	\$ 133,684	\$ 131,105	\$ 128,444	\$ 120,787	\$ 153,629	\$ 161,389	\$ 163,069	\$ 173,412	\$ 132,913	\$ 99,744	\$ (33,940)	-25.4%
Information	\$ 160,177	\$ 144,793	\$ 88,156	\$ 80,524	\$ 83,488	\$ 91,373	\$ 104,373	\$ 106,084	\$ 103,327	\$ 87,687	\$ (72,490)	-45.3%
Health Care & Social Assistance	\$ 52,166	\$ 52,932	\$ 59,311	\$ 61,151	\$ 64,561	\$ 73,825	\$ 75,296	\$ 84,160	\$ 90,248	\$ 79,340	\$ 27,174	52.1%
Real Estate, Rental & Leasing	\$ 92,456	\$ 82,674	\$ 94,529	\$ 87,952	\$ 91,606	\$ 103,022	\$ 132,073	\$ 117,451	\$ 106,910	\$ 73,008	\$ (19,448)	-21.0%

Source: US Census Bureau, Economic Statistics

Capital as a Percent of Total Spending by Industry

Major Industry Sector	Share of Total Spending										Share Change (pts)	
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	'00-'09	'08-'09
Manufacturing	19.7%	18.3%	17.1%	16.8%	16.4%	15.6%	15.8%	15.5%	16.5%	15.4%	(4.3)	(1.1)
Utilities	5.6%	7.9%	7.1%	6.2%	5.3%	5.5%	5.7%	6.7%	7.6%	10.0%	4.4	2.4
Mining	3.9%	4.9%	4.6%	5.7%	5.4%	6.3%	8.2%	9.5%	11.5%	10.0%	6.1	(1.5)
Finance & Insurance	12.3%	12.5%	14.0%	13.6%	16.1%	15.2%	13.4%	13.6%	10.3%	9.8%	(2.5)	(0.5)
Information	14.7%	13.8%	9.6%	9.1%	8.8%	8.6%	8.6%	8.3%	8.0%	8.6%	(6.1)	0.6
Health Care & Social Assistance	4.8%	5.0%	6.5%	6.9%	6.8%	6.9%	6.2%	6.6%	7.0%	7.8%	3.0	0.8
Real Estate, Rental & Leasing	8.5%	7.9%	10.3%	9.9%	9.6%	9.7%	10.9%	9.2%	8.3%	7.2%	(1.3)	(1.1)

Source: US Census Bureau, Economic Statistics