

Revenue and Economic Update

April 10, 2017

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State Revenues Above February Forecast for February-March 2017

Minnesota's net general fund receipts totaled \$2.486 billion during the months of February and March 2017, \$23 million (0.9 percent) more than projected in the February 2017 Budget and Economic Forecast. Higher than expected individual income and sales tax receipts more than offset corporate income taxes that were below forecast. (See page 3 for details.)

Net individual income tax receipts during February and March were \$46 million (4.3 percent) more than forecast. Higher than expected gross tax receipts and lower than forecast refunds generated the positive variance.

Individual income tax refunds were \$12 million lower than expected, contributing to the positive variance in net income tax receipts. However, the average refund on tax year 2016 returns processed to date is larger than what would be implied by our forecast. If refunds remain above average through the processing period, total refunds are likely to exceed our forecast.

Individual income tax miscellaneous payments for February and March were \$16 million below the forecast. Payments from farm businesses, due on March 1 for certain types of farmers, appear to have been lower than forecast. In addition, total non-farm payments accompanying individual tax returns to date are lower than would be implied by our forecast. However, most final payments and nearly all extension payments will be made

later this month. We will have a clearer picture of total tax year 2016 payments at that time.

Withholding payments were \$50 million more than forecast. This may reflect higher-than-expected bonus payments to employees for calendar year 2016. Corporations that compute their taxes on an accrual basis have until March 15 to make bonus payments and deduct them from the prior year's tax.

Net sales tax receipts were \$22 million (2.9 percent) ahead of the forecast. Smaller than expected refunds more than offset gross sales tax receipts that were below forecast.

Net corporate tax receipts were \$46 million (15.6 percent) below the forecast. Lower than expected gross corporate payments more than offset corporate tax refunds that were below the forecast.

U.S. Economic Outlook Stable

The outlook for U.S. economic growth is little changed since Minnesota's Budget and Economic Forecast was prepared in February 2017. The Bureau of Economic Analysis (BEA) now estimates that real GDP grew at an annual rate of 2.1 percent in the fourth quarter of 2016, down from 3.5 percent growth in the third quarter. IHS Markit (IHS) Minnesota's macroeconomic consultant, now expects an increase in U.S. economic growth from 1.6

Summary of Revenues: February-March, 2017

(\$ in millions)	February 2017			
	Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,058	\$1,104	\$46	4.3%
General Sales Tax	741	763	22	2.9
Corporate Franchise Tax	292	247	(46)	(15.6)
Other Revenues	372	373	1	0.3
Total Revenues¹	\$2,463	\$2,486	\$23	0.9%

1. Totals may not add due to rounding.

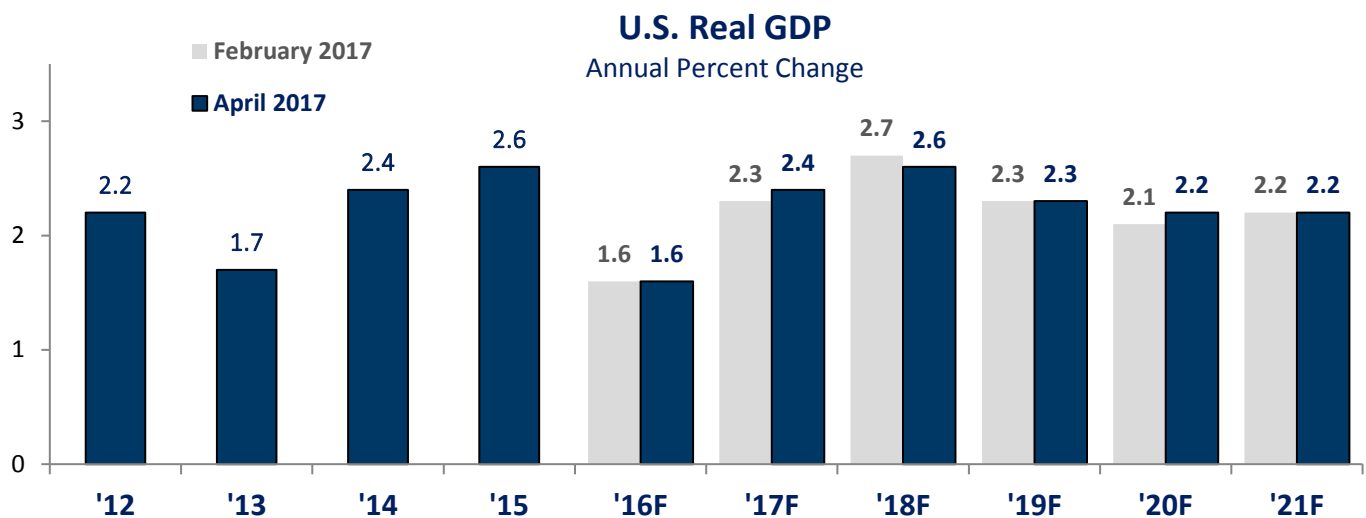
percent in 2016 to 2.4 percent in 2017, followed by 2.6 percent in 2018. This growth is expected to be driven by continued, solid growth in real consumer spending, which in turn is supported by rising employment, personal income, and household wealth. In addition to the fundamental factors influencing consumer spending, IHS expects federal income tax cuts to boost both consumer spending and the personal savings rate starting in 2018. IHS expects annual real GDP growth to slow to 2.3 percent in 2019 and maintain a 2.2 percent annual growth rate through 2022. The February IHS outlook projected slightly lower 2017 growth of 2.3 percent, and slightly stronger 2018 growth of 2.7 percent. The IHS April baseline forecast for 2017 growth is higher than the Blue Chip Consensus, the median of 50 business and academic forecasts, which expects 2.2 percent growth in 2017. The Blue Chip Consensus expects 2.4 percent growth in 2018, slower than IHS' 2.6 percent forecast for that year.

As in their February outlook, IHS's April baseline expects federal fiscal stimulus in the form of lower personal and corporate federal tax rates and \$250 billion in additional infrastructure spending over 10 years. This stimulus is expected to boost economic growth starting in 2018. In addition, the IHS baseline outlook reflects a hiring freeze for federal nonmilitary employees. At this time, IHS does not feel there is enough clarity regarding changes to trade policy, immigration policy, health care policy, and business investment incentives to incorporate those into the outlook. Until those changes become more clear, their impact on key economic sectors—manufacturing, international trade, and health care—remain sources of risk.

The Bureau of Labor Statistics (BLS) reports that in March the U.S. unemployment rate declined 0.2 percentage points to 4.5 percent on a seasonally adjusted basis, the lowest unemployment rate since May 2007. Solid job gains and rising nominal wages suggest that the U.S. labor market is nearing full employment. U.S. employers added 178,000 jobs per month between January and March 2017 and wage gains in March helped bring annual growth in average hourly earnings to 2.7 percent. IHS now expects the unemployment rate to fall over the next three years: to 4.5 percent in 2017 and further to 4.2 and 4.0 percent in 2018 and 2019, respectively.

At their March meeting, the Federal Open Market Committee raised the federal funds rate target by 0.25 percent. In their February outlook, IHS had expected the Fed to wait until June of this year to raise rates. IHS now expects three 25-basis-point rate increases during each of the next three years, reaching 3.00 percent by the end of 2019.

Since February, IHS has not changed their alternative scenarios. They continue to assign a 60 probability to their baseline outlook and a 25 percent probability to a more pessimistic scenario, in which strained trade relations reduce net exports, and businesses postpone investment, triggering a two-quarter recession in 2018. In IHS's more optimistic scenario, federal business de-regulation and fiscal stimulus encourage productivity-enhancing business investment, raising real GDP growth starting in 2017. This scenario gets a 15 percent probability.



Source: Bureau of Economic Analysis and IHS Markit.

Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year-to-Date 2017			February-March 2017		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	6,402,072	6,452,078	50,006	1,555,000	1,605,006	50,006
Declarations	1,351,292	1,350,551	(741)	31,200	30,459	(741)
Miscellaneous	559,586	544,048	(15,538)	207,766	192,227	(15,538)
Gross	8,312,950	8,346,677	33,727	1,793,966	1,827,693	33,727
Refund	934,182	921,908	(12,273)	736,065	723,792	(12,273)
Net	7,378,768	7,424,768	46,000	1,057,901	1,103,901	46,000
Corporate Franchise Tax						
Declarations	863,386	786,862	(76,524)	264,544	188,020	(76,524)
Miscellaneous	235,884	229,455	(6,430)	94,102	87,673	(6,430)
Gross	1,099,270	1,016,316	(82,954)	358,646	275,693	(82,954)
Refund	169,775	132,439	(37,336)	66,457	29,121	(37,336)
Net	929,495	883,878	(45,618)	292,190	246,572	(45,618)
General Sales and Use Tax						
Gross	4,016,420	4,008,199	(8,221)	803,660	795,439	(8,221)
Mpls. sales tax transferred to MSFA	1,286	1,302	17	252	269	17
Sales Tax Gross	4,017,705	4,009,501	(8,204)	803,912	795,708	(8,204)
Refunds (including Indian refunds)	155,314	125,517	(29,797)	62,622	32,825	(29,797)
Net	3,862,391	3,883,984	21,593	741,290	762,883	21,593
Other Revenues:						
Net Estate	98,264	94,076	(4,188)	27,196	23,008	(4,188)
Net Liquor/Wine/Beer	61,067	59,575	(1,493)	13,758	12,265	(1,493)
Net Cigarette/Tobacco	447,364	459,126	11,762	35,889	47,651	11,762
Deed and Mortgage	169,823	173,482	3,659	28,358	32,017	3,659
Net Insurance Premiums Taxes	287,707	288,599	893	112,197	113,089	893
Net Lawful Gambling	41,556	42,433	877	11,094	11,971	877
Health Care Surcharge	170,327	169,769	(558)	49,851	49,293	(558)
Other Taxes	584	599	15	147	162	15
Statewide Property Tax	387,988	388,153	164	-	164	164
DHS SOS Collections	54,301	65,818	11,517	1,416	12,933	11,517
Investment Income	20,192	22,816	2,624	3,872	6,496	2,624
Tobacco Settlement	158,453	158,453	-	-	-	-
Dept. Earnings & MSOP Recov.	149,298	153,909	4,612	27,966	32,577	4,612
Fines and Surcharges	53,171	53,381	210	12,761	12,972	210
Lottery Revenues	36,707	35,809	(898)	9,442	8,544	(898)
Revenues yet to be allocated	70	322	252	-	252	252
Residual Revenues	111,967	83,965	(28,002)	37,949	9,947	(28,002)
County Nursing Home, Pub Hosp IGT	4,528	4,528	-	1,132	1,132	-
Other Subtotal	2,253,368	2,254,815	1,446	373,028	374,474	1,446
Other Refunds	3,738	4,074	336	1,124	1,460	336
Other Net	2,249,631	2,250,741	1,110	371,904	373,014	1,110
Total Gross	15,683,294	15,627,309	(55,985)	3,329,553	3,273,568	(55,985)
Total Refunds	1,263,009	1,183,939	(79,070)	866,267	787,197	(79,070)
Total Net	14,420,285	14,443,370	23,085	2,463,285	2,486,371	23,085