

# Revenue and Economic Update

April 10, 2018

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## State Revenues Slightly Above February Forecast for February-March 2018

Minnesota’s net general fund receipts totaled \$2.567 billion during the months of February and March 2018, or \$6 million (0.2 percent) more than projected in the February 2018 *Budget and Economic Forecast*. Receipts for the individual income tax, sales tax, and other revenues were higher than expected for the period, while net corporate tax receipts were lower than forecast. (See page 3 for details.)

Net individual income tax receipts during February and March were \$10 million (0.9 percent) more than forecast. Higher than expected gross tax receipts offset income tax refunds that were more than forecast.

Income tax withholding payments were \$27 million more than forecast, while estimated tax payments nearly matched the forecast. Individual income tax refunds were \$44 million greater than expected.

Miscellaneous income tax payments—which include final payments associated with tax year 2017—were \$27 million more than forecast. Most final payments and nearly all extension payments will be made later this month. We will have a better, but not complete, picture of total tax year 2017 payments at that time.

Net sales tax revenues exceeded the forecast by \$29 million (3.7 percent). Higher than expected gross sales tax

receipts and lower than expected refunds both contributed to the positive variance. Gross sales tax receipts for February and March were \$16 million above the forecast. Gross receipts in February were \$18 million higher than projected, offsetting March receipts that were about \$3 million short of the forecast.

Net corporate tax receipts were \$40 million (14.8 percent) below the forecast. Lower than expected corporate tax payments more than offset refunds that were below the forecast.

Other revenues were \$6 million (1.6 percent) more than projected.

## Near-Term U.S. Outlook Improves

The near-term outlook for U.S. economic growth has improved since Minnesota’s *Budget and Economic Forecast* was last prepared in February 2018. The Bureau of Economic Analysis (BEA) now estimates that U.S. real GDP grew at an annual rate of 2.9 percent in the fourth quarter of 2017, up 0.4 percentage points from their prior estimate, but slower than third quarter growth of 3.2 percent. In their April 2018 outlook, IHS Markit (IHS)—Minnesota’s macroeconomic consultant—expects an acceleration in U.S. growth from 2.3 percent in 2017 to 2.7 percent in 2018, followed by 2.9 percent in 2019. The pick-up from 2018 to 2019 is expected to arise from slightly faster growth in consumer spending, business investment,

## Summary of Revenues: February-March 2018

(\$ in millions)	February 2018			
	Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,108	\$1,118	\$10	0.9%
General Sales Tax	784	813	29	3.6
Corporate Franchise Tax	271	231	(40)	(14.8)
Other Revenues	399	405	6	1.6
<b>Total Revenues<sup>1</sup></b>	<b>\$2,561</b>	<b>\$2,567</b>	<b>\$6</b>	<b>0.2%</b>

1. Totals may not add due to rounding.

home building, and net exports. Beyond 2019, IHS expects annual real GDP growth to slow to 2.1 percent in 2020 and further to 1.7 percent in 2021. Compared to their February outlook, IHS has increased their expectation for 2019 growth and lowered it for 2021. In February, IHS projected 2.7 percent annual real GDP growth in 2019 and 1.9 percent in 2021. Their forecast for the 2020 growth rate did not change between February and April.

The IHS April baseline forecast for 2018 is slightly below the Blue Chip Consensus, the median of 50 business and academic forecasts, which expects 2.8 percent growth in 2018. The Blue Chip Consensus calls for 2.6 percent growth in 2019, slower than IHS' 2.9 percent forecast for that year.

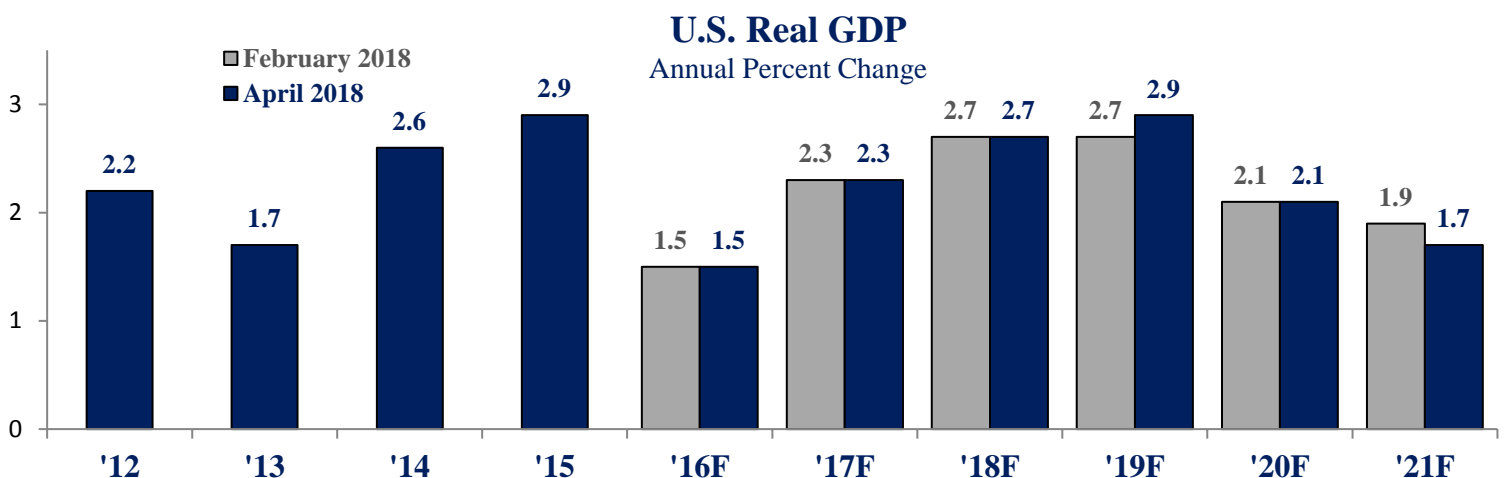
In eight of the past ten years, real GDP growth has been weak in the first quarter. However, the first quarter softness likely arises from seasonal effects in GDP data that linger even after seasonal adjustment procedures are applied. This residual seasonality results in weaker growth in the first quarter followed by more robust growth in the remaining quarters. IHS expects growth of only 1.7 percent at an annual rate in the first quarter of 2018 followed by 3.0 percent or better over the rest of the year.

The factors supporting household spending remain solid, with growth in real incomes, employment, and consumer sentiment (per the University of Michigan Index). The U.S. seasonally adjusted unemployment rate has been flat at 4.1 percent since October 2017, the lowest in 17 years. IHS now expects an unemployment rate of 3.9 percent in 2018 followed by 3.6 percent in 2019. According to the Bureau of Labor Statistics (BLS), the estimated number of

unemployed persons in March was almost unchanged over the month, but was 586,000 less than a year earlier. Total U.S. nonfarm payroll employment rose 103,000 in March on the heels of a significant increase of 326,000 in February. The average workweek for all employees on private nonfarm payrolls held steady at 34.5 hours in March, and wage gains that month helped bring annual growth in average hourly earnings to 2.7 percent.

As expected, in March the Federal Open Market Committee (FOMC) raised the federal funds rate target range by 25 basis points to 1.50-1.75 percent. This was the first increase of 2018, and is consistent with the Fed's view that the labor market is tightening. IHS' April outlook assumes three more 25-basis-point increases in the federal funds rate this year. IHS expects additional rate hikes to bring the upper end of the target range to 3.50 percent in 2020.

Since February, IHS has not changed the probabilities assigned to the baseline and alternative scenarios. They assign a probability of 65 percent to the April baseline outlook. They assign a 20 percent probability to a more pessimistic scenario, in which a correction to commercial real estate prices and declining consumer and business confidence trigger a two-quarter recession in 2019, slowing annual real GDP growth next year to 1.1 percent. In IHS's more optimistic scenario, a pick-up in home purchases by young adults fuels the housing market and spurs growth to 4.1 percent in 2019. 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 2018			February March 2018		
	FORECAST REVENUES <sup>1</sup>	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
<b>Individual Income Tax</b>						
Withholding	6,741,332	6,768,379	27,048	1,647,500	1,674,548	27,048
Declarations	1,718,172	1,718,144	(28)	27,000	26,972	(28)
Miscellaneous	575,810	602,766	26,956	181,766	208,722	26,956
Gross	9,035,314	9,089,290	53,976	1,856,266	1,910,242	53,976
Refund	931,669	975,588	43,919	748,751	792,669	43,919
Net	8,103,645	8,113,702	10,057	1,107,515	1,117,572	10,057
<b>Corporate Franchise Tax</b>						
Declarations	836,625	796,051	(40,574)	237,039	196,466	(40,574)
Miscellaneous	285,077	269,315	(15,762)	85,723	69,961	(15,762)
Gross	1,121,702	1,065,366	(56,336)	322,762	266,426	(56,336)
Refund	117,731	101,401	(16,329)	52,249	35,920	(16,329)
Net	1,003,971	963,965	(40,007)	270,513	230,507	(40,007)
<b>General Sales and Use Tax</b>						
Gross	4,058,285	4,073,910	15,625	821,830	837,455	15,625
Mpls. sales tax transferred to MSFA	1,450	1,450	0	270	270	0
Sales Tax Gross	4,059,735	4,075,361	15,625	822,100	837,725	15,625
Refunds (including Indian refunds)	133,034	119,376	(13,658)	37,910	24,252	(13,658)
Net	3,926,701	3,955,985	29,283	784,190	813,473	29,283
<b>Other Revenues:</b>						
Net Estate	169,726	174,194	4,468	24,822	29,290	4,468
Net Liquor/Wine/Beer	62,513	61,853	(659)	13,614	12,955	(659)
Net Cigarette/Tobacco	413,445	406,920	(6,525)	68,258	61,733	(6,525)
Deed and Mortgage	175,442	174,546	(895)	31,946	31,051	(895)
Net Insurance Premiums Taxes	304,494	307,637	3,143	118,418	121,561	3,143
Net Lawful Gambling	48,336	50,349	2,014	11,740	13,754	2,014
Health Care Surcharge	167,869	172,025	4,157	55,543	59,700	4,157
Other Taxes	51	54	3	36	39	3
Statewide Property Tax	372,595	375,692	3,097	193	3,290	3,097
DHS SOS Collections	56,593	57,067	474	9,062	9,536	474
Investment Income	26,489	32,047	5,558	3,674	9,231	5,558
Tobacco Settlement	157,260	157,260	0	0	0	0
Dept. Earnings & MSOP Recov.	146,111	146,467	356	30,755	31,111	356
Fines and Surcharges	49,907	49,396	(512)	11,962	11,450	(512)
Lottery Revenues	37,224	34,816	(2,408)	7,706	5,298	(2,408)
Revenues yet to be allocated	2,584	3,139	555	0	555	555
Residual Revenues	96,613	90,191	(6,422)	12,324	5,902	(6,422)
Other Subtotal	2,287,250	2,293,653	6,403	400,053	406,456	6,403
Other Refunds	3,718	3,715	(3)	1,072	1,069	(3)
Other Net	2,283,532	2,289,938	6,406	398,981	405,387	6,406
<b>Total Gross</b>	<b>16,504,001</b>	<b>16,523,670</b>	<b>19,668</b>	<b>3,401,181</b>	<b>3,420,849</b>	<b>19,668</b>
<b>Total Refunds</b>	<b>1,186,152</b>	<b>1,200,080</b>	<b>13,928</b>	<b>839,981</b>	<b>853,910</b>	<b>13,928</b>
<b>Total Net</b>	<b>15,317,850</b>	<b>15,323,590</b>	<b>5,740</b>	<b>2,561,199</b>	<b>2,566,939</b>	<b>5,740</b>

1. February 2018 Budget & Economic Forecast