

Revenue and Economic Update

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Revenues Above February Forecast

Minnesota’s net general fund receipts totaled \$2.717 billion during the months of February and March 2019, or \$84 million (3.2 percent) more than projected in the February 2019 *Budget and Economic Forecast*. Receipts for the individual income tax, corporate tax, and other revenues were higher than expected for the period, while net sales tax receipts were lower than forecast. (See page 3 for details.)

Net individual income tax receipts during February and March were \$20 million (1.8 percent) more than forecast. Higher than expected gross tax receipts and lower than expected refunds both contributed to the positive variance.

Income tax withholding payments were \$32 million more than forecast, while estimated tax payments exceeded the forecast by \$6 million. Individual income tax refunds were \$5 million lower than expected.

Miscellaneous income tax payments—which include final payments associated with tax year 2018—were \$24 million less 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 2018 payments at that time.

Net sales tax receipts were \$16 million (1.9 percent) below the forecast. Lower than expected gross sales tax receipts more than offset refunds that were below the forecast. Gross sales tax receipts for February and March were \$23 million below the forecast, largely reflecting January and February sales.

Net corporate tax receipts exceeded the forecast by \$71 million (24.4 percent). Higher than expected corporate tax payments and lower than expected refunds both contributed to the positive variance. Most of the above-forecast gross receipts were due a small number of large, one-time corporate final payments.

Other revenues were \$9 million (2.2 percent) more than projected.

Near-term U.S. Economic Outlook Weakens; Improves Beyond 2019

The outlook for near-term U.S. economic growth as measured by real GDP has weakened since Minnesota’s *Budget and Economic Forecast* was prepared in February 2019, but expectations for growth beyond 2019 have improved. The Bureau of Economic Analysis (BEA) estimates that real GDP grew at an annual rate of 2.2 percent during the fourth quarter of 2018, slowing from 3.4 percent growth in the third quarter and 4.2 percent in

Summary of Revenues: February-March 2019

(\$ in millions)	February 2019			
	Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,131	\$1,151	\$20	1.8%
General Sales Tax	809	793	(16)	(1.9)
Corporate Franchise Tax	292	363	71	24.4
Other Revenues	401	410	9	2.2
Total Revenues¹	\$2,633	\$2,717	\$84	3.2%

1. Totals may not add due to rounding.

the second quarter. BEA estimates 2018 annual growth to be 2.9 percent. IHS Markit (IHS), Minnesota’s macroeconomic consultant, now expects economic growth to slow from 2.9 percent in 2018 to 2.3 percent in 2019. This occurs as global growth slows, higher interest rates slightly push up the cost of borrowing, tariffs dampen business investment, businesses shift from building inventory to shedding it, and the economy approaches capacity constraints. After mid-2020, a demographically driven decline in the labor force participation rate is expected to further reduce growth. The downshift continues, with annual real GDP growth expected to decelerate from 2.3 percent annually in 2019 to 2.1 percent in 2020, 1.9 percent in 2021, and 1.7 percent in 2022.

Compared to their February outlook, IHS has marked up annual growth 0.1 to 0.2 percentage point in each year from 2020-2023. These revisions primarily arise from stronger expected growth in consumer spending, which is supported by a recovery in equity values from low, end-of-2018 levels, and moderation in the pace of interest rate increases by the Federal Open Market Committee (FOMC).

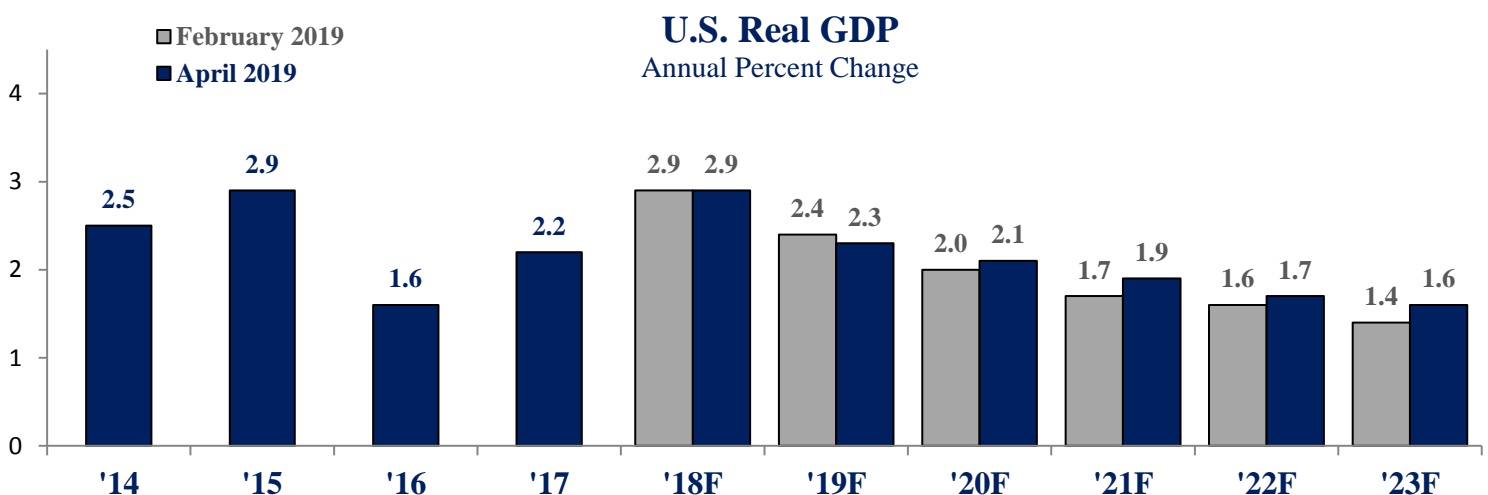
The IHS April baseline forecast for 2019 is consistent with the Blue Chip Consensus, the median of 50 business and academic forecasts, which also expects 2.3 percent growth in 2019. The Blue Chip Consensus calls for 1.9 percent growth in 2019, below IHS’ 2.1 percent forecast for that year.

The Bureau of Labor Statistics (BLS) reports that in March the seasonally adjusted U.S. unemployment rate held

steady at 3.8 percent, 0.2 percentage points lower than a year earlier. IHS expects the unemployment rate to bottom out at 3.6 percent in mid-2019 and begin drifting gradually back up in 2020. The labor force participation rate was 63.0 percent in March, compared to 62.9 percent one year ago. The BLS also reported that U.S. employers added 196,000 jobs in March, slightly ahead of the 180,000 average so far this year.

At their March meeting, the FOMC left its policy rate unchanged in a range between 2.25 percent and 2.5 percent. Chairman Jerome Powell suggested the central bank is unlikely to raise rates in 2019. Chairman Powell cited muted inflation, a pullback in financial risk-taking, and ongoing trade tensions as explanations for holding interest rates steady in 2019. IHS now expects only one more rate increase in this business cycle, compared to two increases in their February forecast. IHS expects this to bring the top of the Federal Funds rate target range to 2.75 percent, compared to 3.0 percent in the February forecast.

Since February, IHS has changed the probabilities assigned to their alternative scenarios. They assign a probability of 60 percent to the April baseline outlook. They assign a 30 percent probability to a more pessimistic scenario, in which a broad-based loss of confidence and risk aversion trigger a three-quarter recession in 2020. In IHS’ more optimistic scenario, faster productivity growth boost incomes and, consequently, consumer spending and housing starts, raising real GDP growth 0.5 points ahead of the baseline in 2019. This scenario gets a 10 percent probability.



Source: Bureau of Economic Analysis and IHS Markit.

Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year to Date 2019			February-March 2019		
	FORECAST REVENUES ¹	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	7,068,763	7,100,943	32,181	1,625,004	1,657,185	32,181
Declarations	1,136,510	1,142,526	6,016	27,000	33,016	6,016
Miscellaneous	641,694	618,097	(23,597)	265,707	242,110	(23,597)
Gross	8,846,967	8,861,566	14,599	1,917,711	1,932,311	14,599
Refund	1,007,005	1,001,579	(5,426)	786,588	781,162	(5,426)
Net	7,839,962	7,859,987	20,025	1,131,123	1,151,148	20,025
Corporate Franchise Tax						
Declarations	1,051,361	1,049,386	(1,974)	245,679	243,705	(1,974)
Miscellaneous	240,253	285,420	45,167	92,070	137,237	45,167
Gross	1,291,614	1,334,807	43,193	337,750	380,942	43,193
Refund	155,646	127,797	(27,849)	46,219	18,371	(27,849)
Net	1,135,968	1,207,010	71,041	291,530	362,572	71,041
General Sales and Use Tax						
Gross	4,252,588	4,230,109	(22,479)	871,612	849,133	(22,479)
Mpls. sales tax transferred to MSFA	1,688	1,633	(55)	367	312	(55)
Sales Tax Gross	4,254,276	4,231,742	(22,534)	871,979	849,445	(22,534)
Refunds (including Indian refunds)	149,569	142,631	(6,939)	63,291	56,352	(6,939)
Net	4,104,707	4,089,112	(15,595)	808,688	793,793	(15,595)
Other Revenues:						
Net Estate	165,475	183,616	18,141	18,832	36,973	18,141
Net Liquor/Wine/Beer	63,061	62,007	(1,054)	14,169	13,115	(1,054)
Net Cigarette/Tobacco	399,653	398,682	(972)	64,778	63,806	(972)
Deed and Mortgage	168,994	171,078	2,084	28,705	30,789	2,084
Net Insurance Premiums Taxes	314,342	313,379	(963)	128,615	127,653	(963)
Net Lawful Gambling	57,344	60,018	2,674	13,741	16,415	2,674
Health Care Surcharge	172,801	165,613	(7,188)	52,181	44,994	(7,188)
Other Taxes	2,305	2,309	4	38	42	4
Statewide Property Tax	371,942	372,099	157	72	229	157
DHS SOS Collections	58,661	63,451	4,789	9,059	13,849	4,789
Investment Income	55,395	56,200	806	13,070	13,876	806
Tobacco Settlement	150,713	150,713				
Dept. Earnings & MSOP Recov.	146,234	149,427	3,192	29,969	33,162	3,192
Fines and Surcharges	46,178	46,605	427	11,816	12,243	427
Lottery Revenues	39,495	36,197	(3,298)	7,510	4,212	(3,298)
Revenues yet to be allocated	0	(3,469)	(3,469)	2,305	(1,164)	(3,469)
Residual Revenues	139,138	134,111	(5,027)	8,027	3,000	(5,027)
Other Subtotal	2,351,732	2,362,036	10,304	402,888	413,192	10,304
Other Refunds	3,857	5,421	1,563	1,497	3,061	1,563
Other Net	2,347,875	2,356,616	8,741	401,391	410,132	8,741
Total Gross	16,744,588	16,790,151	45,563	3,530,327	3,575,890	45,563
Total Refunds	1,316,077	1,277,428	(38,650)	897,595	858,946	(38,650)
Total Net	15,428,511	15,512,724	84,212	2,632,732	2,716,944	84,212

1. February 2019 Budget & Economic Forecast.