

# Revenue and Economic Update

July 10, 2019

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## Revenues Above February Forecast

Minnesota’s net general fund receipts for FY 2019 are now estimated to total \$23.393 billion, \$636 million (2.8 percent) more than projected in the February 2019 *Budget and Economic Forecast*. Net tax receipts exceeded the forecast for all major types. General fund revenues for FY 2019 are now estimated to be 6.1 percent greater than in FY 2018. State revenues in the final quarter of FY 2019 were \$552 million more than forecast. (See page 3 for details.)

Net individual income tax receipts are estimated to end the year \$450 million (3.8 percent) more than forecast. Gross income tax receipts were \$427 million above the forecast, and refunds were \$22 million less than expected.

Net income tax collections associated with tax year 2018 individual returns is about \$282 million more than forecast. We will not know final tax year 2018 income tax liability until extension returns are filed, and processing is complete. This will likely be mid-January 2020.

Net collections from non-resident partnerships and S corporations exceed the forecast by \$30 million, and net income tax collections from estates and trusts exceeded forecast by \$9 million. These variances largely result from TY 2018 activity.

Payments generally associated with calendar year 2019 activity—income tax withholding and estimated payments

(excluding extensions)—were about \$129 million more than forecast. Both withholding and estimated payments exceeded the forecast.

Net general sales tax receipts are estimated to end FY 2019 \$68 million (1.2 percent) above the forecast. Gross tax payments were above the forecast, and refunds were lower than expected. Net corporate receipts were \$79 million (5.2 percent) more than projected. Higher than expected corporate gross payments more than offset refunds that were below the forecast. Other revenues for exceeded the forecast by \$40 million (1.1 percent).

All FY 2019 results are preliminary and subject to change. The state’s fiscal year that ended June 30, 2019, will officially close on August 9. Values in the estimate closing column on page 4 reflect actual revenues attributable to FY 2019 as well as estimates of revenue accruals through closing and other pre-close adjustments. As of June 30, total FY 2019 revenue was \$23.482 billion. Estimated accruals and pre-close adjustments subtract about \$92 million. This is primarily due to individual, corporate, and sales tax refunds attributable to FY 2019 that are expected to be paid out prior to the close. A complete reporting of FY 2019 revenues will be part of October’s *Revenue and Economic Update*. The next official forecast will be released in early December 2019.

## Summary of Revenues: Fiscal Year 2019

(\$ in millions)	February 2019	Estimated	\$ Difference	% Difference
	Forecast	Closing Revenues		
Individual Income Tax	\$11,965	\$12,415	\$450	3.8%
General Sales Tax	5,671	5,739	68	1.2
Corporate Franchise Tax	1,524	1,603	79	5.2
Other Revenues	3,597	3,637	40	1.1
<b>Total Revenues<sup>1</sup></b>	<b>\$22,757</b>	<b>\$23,393</b>	<b>\$636</b>	<b>2.8%</b>

1. Totals may not add due to rounding.

## Longest U.S. Economic Expansion Persists with Slowing Growth

The current U.S. expansion is now the longest on record, and the economy is expected to continue to grow at slower rates. The outlook for U.S. real GDP growth in 2019 has improved since Minnesota’s *Budget and Economic Forecast* was prepared in February 2019, but expectations for growth in 2020 have weakened. The Bureau of Economic Analysis (BEA) estimates that real GDP grew at an annual rate of 3.1 percent during the first quarter of 2019, supported by a surge in net exports and strong additions to inventories. IHS Markit (IHS), Minnesota’s macroeconomic consultant, expects GDP growth to slow to 2.1 percent in the second quarter due to reversals of the first quarter exports surge and inventory build. IHS now expects annual economic growth to slow from 2.9 percent in 2018 to 2.6 percent in 2019. This occurs as global growth slows, tariffs dampen business investment, inventory building slows, and the economy approaches capacity constraints. The downshift continues, with annual real GDP growth expected to decelerate from 2.6 percent annually in 2019 to 1.8 percent in 2020, 1.7 percent in 2021, and 1.6 percent in 2022.

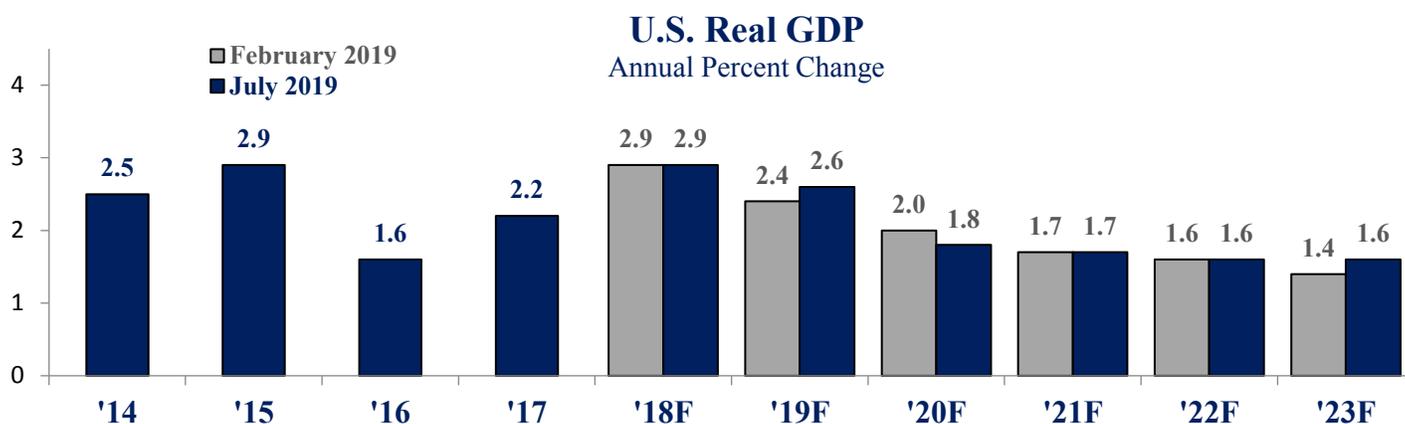
The IHS July baseline forecast for 2019 is similar to the Blue Chip Consensus, the median of 50 business and academic forecasts, which expects 2.5 percent growth in 2019 compared to IHS’ forecast of 2.6 percent. The Blue Chip Consensus calls for 1.8 percent growth in 2020, the same as IHS.

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

little changed at 3.7 percent, 0.3 percentage points lower than a year earlier. IHS expects the unemployment rate to bottom out at 3.5 percent this summer and begin drifting up in 2020. The labor force participation rate was 62.9 percent in June, the same as one year ago. The BLS also reported that U.S. employers added 224,000 jobs in June, well ahead of the 172,000 monthly average so far this year and a significant rebound from a weak jobs report in May, when employers added only 72,000 jobs.

At their May meeting, the FOMC left its policy interest rate unchanged in a range between 2.25 percent and 2.5 percent. IHS now expects the FOMC to respond to subdued inflation and trade risks from tariffs and slowing global growth by lowering the target for the federal funds rate by 25 basis points at the upcoming meeting on July 31, 2019. IHS expects that solid economic growth will lead to a reversal of the rate cut in 2020.

In the July outlook, IHS assigns a probability of 55 percent to their baseline forecast, 35 percent to a more pessimistic scenario, and 10 percent to their optimistic outlook. This is a change from February, when the probabilities were 60, 25, and 15 percent, respectively. In the pessimistic scenario, a broad-based loss of confidence and risk aversion trigger a three-quarter recession starting in the second quarter of 2020. IHS assigns a 10 percent probability to a more optimistic scenario, in which productivity improvements boost incomes and, consequently, consumer spending. This scenario assumes that unemployment can fall to a lower level before it exerts inflationary pressure, keeping consumer price inflation lower than in the baseline.



Source: Bureau of Economic Analysis and IHS Markit.

# Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year 2019			April-July 2019		
	FORECAST	ESTIMATED	VARIANCE	FORECAST	ACTUAL	VARIANCE
	REVENUES <sup>1</sup>	CLOSING REVENUES	ACT-FCST	REVENUES	REVENUES	ACT-FCST
<b>Individual Income Tax</b>						
Withholding	9,452,300	9,531,872	79,573	2,383,537	2,430,929	47,392
Declarations	2,159,700	2,573,304	413,604	1,023,190	1,430,778	407,588
Miscellaneous	1,976,990	1,910,888	(66,102)	1,335,297	1,292,791	(42,505)
Gross	13,588,990	14,016,065	427,074	4,742,024	5,154,499	412,475
Refund	1,623,800	1,601,353	(22,447)	616,795	599,774	(17,021)
Net	11,965,190	12,414,711	449,521	4,125,228	4,554,725	429,496
<b>Corporate Franchise Tax</b>						
Declarations	1,502,540	1,598,377	95,837	451,180	548,991	97,811
Miscellaneous	228,285	225,430	(2,855)	(11,968)	(59,990)	(48,022)
Gross	1,730,825	1,823,807	92,982	439,212	489,001	49,789
Refund	207,202	220,994	13,792	51,557	93,197	41,640
Net	1,523,623	1,602,813	79,190	387,655	395,803	8,149
<b>General Sales and Use Tax</b>						
Gross	5,937,571	5,956,846	19,275	1,684,983	1,726,737	41,754
Mpls. sales tax transferred to MSFA	2,238	2,238	0	550	605	55
Sales Tax Gross	5,939,809	5,959,084	19,275	1,685,533	1,727,342	41,809
Refunds (including Indian refunds)	269,302	220,327	(48,975)	119,733	77,696	(42,037)
Net	5,670,507	5,738,757	68,250	1,565,800	1,649,645	83,845
<b>Other Revenues:</b>						
Net Estate	193,700	225,834	32,134	28,225	42,218	13,993
Net Liquor/Wine/Beer	92,250	92,849	599	29,189	30,841	1,652
Net Cigarette/Tobacco	618,150	593,981	(24,169)	218,497	195,299	(23,198)
Deed and Mortgage	243,914	248,885	4,972	74,920	77,807	2,888
Net Insurance Premiums Taxes	405,784	405,702	(83)	91,442	92,323	880
Net Lawful Gambling	84,200	89,952	5,751	26,856	29,934	3,078
Health Care Surcharge	290,655	287,549	(3,106)	117,855	121,936	4,081
Other Taxes	19,955	21,390	1,435	17,650	19,081	1,431
Statewide Property Tax	809,108	810,627	1,519	437,166	438,527	1,362
DHSSOS Collections	72,250	81,589	9,339	13,589	18,139	4,550
Investment Income	75,000	100,009	25,009	19,606	43,809	24,203
Tobacco Settlement	160,161	162,765	2,604	9,448	12,052	2,604
Dept. Earnings & MSOP Recov.	208,217	211,220	3,004	61,982	61,794	(189)
Fines and Surcharges	72,058	67,048	(5,010)	25,880	20,443	(5,437)
Lottery Revenues	64,055	66,698	2,643	24,560	30,501	5,941
Revenues yet to be allocated	-	-	-	(0)	3,469	3,469
Residual Revenues	194,069	176,574	(17,495)	54,931	42,463	(12,469)
Other Subtotal	3,603,527	3,642,672	39,145	1,251,795	1,280,635	28,840
Other Refunds	6,103	5,727	(376)	2,246	306	(1,940)
Other Net	3,597,424	3,636,945	39,521	1,249,550	1,280,329	30,780
<b>Total Gross</b>	24,863,152	25,441,627	578,476	8,118,564	8,651,476	532,913
<b>Total Refunds</b>	2,106,408	2,048,401	(58,007)	790,331	770,973	(19,357)
<b>Total Net</b>	22,756,744	23,393,226	636,483	7,328,233	7,880,503	552,270

1. February 2019 Budget & Economic Forecast adjusted for 2019 legislative session changes.