

# Revenue and Economic Update

January 10, 2020

[mn.gov/mmb](http://mn.gov/mmb)

## State Revenues Above November Forecast

Minnesota’s net general fund receipts totaled \$3.879 billion during the months of November and December 2019, or \$155 million (4.2 percent) more than projected in the November 2019 Budget and Economic Forecast. Net individual income, corporate, and other tax receipts were above the forecast for the period, while net sales tax receipts were less than expected.

Net individual income tax receipts for the last two months of 2019 were \$45 million (2.7 percent) more than forecast. Higher than expected gross receipts more than offset higher than expected refunds. (See page 3 for details.)

Net corporate tax receipts were \$81 million (26.6 percent) above the forecast. This was due to both higher than expected corporate tax payments and refunds that were below the forecast.

Net sales tax receipts were \$5 million (0.5 percent) below the forecast. Lower than expected gross tax payments and sales tax refunds that were above the forecast contributed to the positive variance.

Other net revenues were \$33 million higher than the forecast due to higher than expected gross payments.

## U.S. Outlook Slightly Improved

The outlook for U.S. real GDP growth in 2021 and 2022 has slightly improved since Minnesota’s *Budget and Economic Forecast* was prepared in November 2019, while the 2020 forecast has not changed. The Bureau of Economic Analysis (BEA) estimates that real GDP grew at an annual rate of 1.8 percent during the fourth quarter of 2019, down from 2.1 percent in the third quarter. IHS Markit (IHS), Minnesota’s macroeconomic consultant, expects real GDP to slow to 1.7 percent in the first quarter of 2020 due to the temporary drag from the ongoing production delay of Boeing’s 737 MAX. IHS assumes production resumes later this year, leaving the forecast for annual 2020 real GDP growth unchanged from November.

The January outlook reflects the impact of a tentative “phase one” trade deal between the U.S. and China, under which the U.S. suspended 15 percent tariffs on Chinese goods scheduled to go into effect on December 15 and reduced, from 15 percent to 7.5 percent, the tariffs that went into effect on September 1. The tariff rollback increases IHS’ GDP growth forecast by less than 0.1 percentage point per year through 2023.

IHS expects growth to decelerate from 2.3 percent in 2019 to 2.1 percent in 2020. They now expect 2.1 percent

## Summary of Revenues: November-December 2019

(\$ in millions)	November 2019			
	Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,651	\$1,697	\$45	2.7
General Sales Tax	979	975	(5)	(0.5)
Corporate Franchise Tax	305	387	81	26.6
Other Revenues	789	822	33	4.1
<b>Total Revenues<sup>1</sup></b>	<b>\$3,725</b>	<b>\$3,879</b>	<b>\$155</b>	<b>4.2%</b>

1. Totals may not add due to rounding.

growth to continue through 2021, a slight improvement from 2.0 percent in the November outlook. IHS now expects 1.7 percent growth in 2022, compared to 1.6 percent in November.

Despite the slight improvement to the outlook for 2021 and 2022 since November, the pattern of deceleration through 2023 remains in the IHS forecast. They expect annual real GDP growth to decline from 2.1 percent in 2021 to 1.7 and 1.5 percent in 2022 and 2023, respectively.

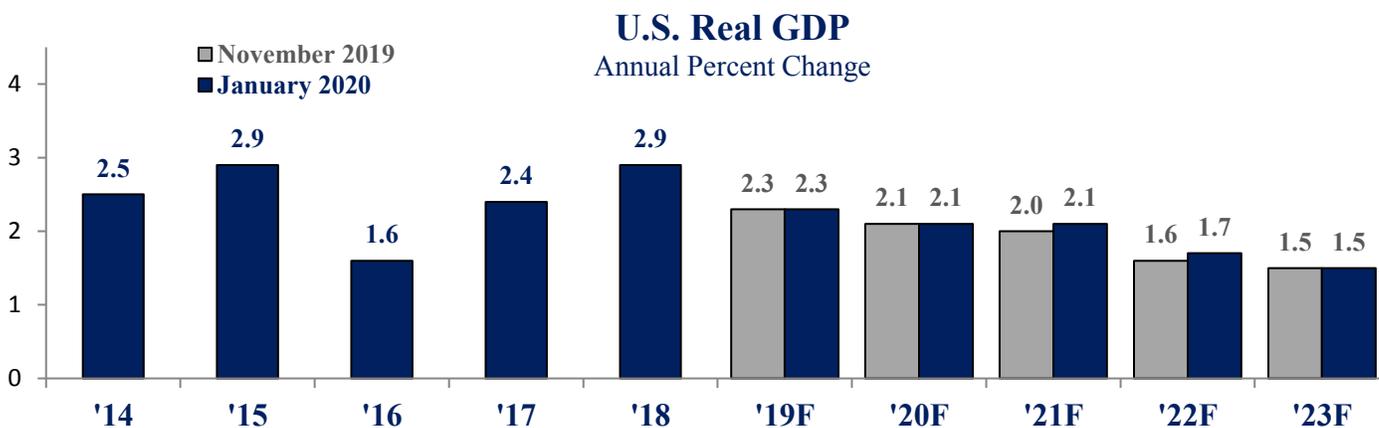
The IHS January baseline forecast for 2019 is consistent with the Blue Chip Consensus, the median of 50 business and academic forecasts, which expects 2.3 percent growth in 2020. The Blue Chip Consensus calls for 1.8 percent growth in 2020, slightly below the IHS forecast of 2.1 percent.

The Bureau of Labor Statistics (BLS) reports that in November 2019 the seasonally adjusted U.S. unemployment rate declined 0.1 percentage point back to 3.5 percent, the same as in September 2019 and the lowest unemployment rate since December 1969. This rate is 0.2 percentage points lower than one year ago. IHS expects the unemployment rate to reach a low of 3.4 percent in the second quarter of 2020 before drifting up in late 2021. The labor force participation rate was 63.2 percent in November, 0.3 percentage points higher than one year ago. The BLS also reported that U.S. employers

added 266,000 jobs in November. In 2018, payroll gains averaged 223,000 new jobs per month, while the 2019 November year-to-date average is 180,000.

The Federal Open Market Committee (FOMC) lowered interest rates in July, September, and October of 2019 to a range of 1.50 and 1.75 percent, and IHS expects no further changes until mid-2021. Despite indications that the base outlook for the economy is solid, as evidenced by strong labor markets and firming inflation, the rate cuts provide additional insurance against downside risks from tariffs and slowing global growth. IHS expects a reversal of the rate cut between mid-2021 and 2023 to keep pace with rising inflation.

In the January outlook, IHS assigns a probability of 65 percent to their baseline forecast, 25 percent to a more pessimistic scenario, and 10 percent to their optimistic outlook. This is an improvement from November, when the probabilities were 55, 35, and 10 percent, respectively. In the pessimistic scenario, a broad-based loss of confidence and risk aversion trigger a three-quarter recession starting in the fourth 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 to Date 2020			November-December 2019		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
<b>Individual Income Tax</b>						
Withholding	4,693,460	4,706,226	12,766	1,570,700	1,583,466	12,766
Declarations	659,700	673,119	13,419	108,565	121,984	13,419
Miscellaneous	357,086	376,865	19,779	61,770	81,549	19,779
Gross	5,710,246	5,756,210	45,964	1,741,035	1,786,999	45,964
Refund	196,093	196,711	619	89,859	90,478	619
Net	5,514,154	5,559,499	45,345	1,651,176	1,696,522	45,345
<b>Corporate Franchise Tax</b>						
Declarations	777,464	812,241	34,777	303,085	337,862	34,777
Miscellaneous	124,522	144,129	19,606	49,425	69,031	19,606
Gross	901,987	956,370	54,383	352,509	406,892	54,383
Refund	125,651	98,699	(26,952)	47,167	20,216	(26,952)
Net	776,336	857,671	81,335	305,342	386,677	81,335
<b>General Sales and Use Tax</b>						
Gross	2,916,928	2,912,710	(4,218)	1,022,764	1,018,546	(4,218)
Mpls. Sales tax transferred to MSFA	1,115	1,227	111	269	380	111
Sales Tax Gross	2,918,043	2,913,936	(4,107)	1,023,033	1,018,927	(4,107)
Refunds (including Indian refunds)	74,835	75,345	510	43,890	44,400	510
Net	2,843,208	2,838,592	(4,617)	979,143	974,527	(4,617)
<b>Other Revenues:</b>						
Net Estate	82,165	82,043	(122)	28,752	28,630	(122)
Net Liquor/Wine/Beer	41,972	37,883	(4,090)	16,269	12,179	(4,090)
Net Cigarette/Tobacco	255,487	247,403	(8,085)	107,043	98,958	(8,085)
Deed and Mortgage	141,953	141,680	(273)	54,158	53,884	(273)
Net Insurance Premiums Taxes	186,994	192,188	5,194	87,217	92,410	5,194
Net Lawful Gambling	37,818	42,998	5,181	12,152	17,333	5,181
Health Care Surcharge	95,587	86,635	(8,953)	54,122	45,169	(8,953)
Other Taxes	0	216	215	-	215	215
Statewide Property Tax	367,567	367,447	(120)	189,371	189,251	(120)
DHS SOS Collections	39,435	44,421	4,986	9,861	14,847	4,986
Investment Income	41,820	42,166	346	13,868	14,215	346
Tobacco Settlement	147,900	144,469	(3,431)	147,800	144,369	(3,431)
Dept. Earnings & MSOP Recov.	93,297	109,388	16,092	34,503	50,595	16,092
Fines and Surcharges	24,620	29,497	4,878	5,356	10,233	4,878
Lottery Revenues	20,645	21,245	600	8,428	9,028	600
Revenues yet to be allocated	6,600	1,072	(5,527)	-	(5,527)	(5,527)
Residual Revenues	48,947	75,760	26,813	21,364	48,177	26,813
Other Subtotal	1,632,807	1,666,512	33,704	790,262	823,967	33,704
Other Refunds	1,896	3,021	1,126	1,219	2,345	1,126
Other Net	1,630,912	1,663,490	32,579	789,043	821,622	32,579
<b>Total Gross</b>	<b>11,163,083</b>	<b>11,293,028</b>	<b>129,945</b>	<b>3,906,840</b>	<b>4,036,785</b>	<b>129,945</b>
<b>Total Refunds</b>	<b>398,474</b>	<b>373,776</b>	<b>(24,697)</b>	<b>182,135</b>	<b>157,438</b>	<b>(24,697)</b>
<b>Total Net</b>	<b>10,764,610</b>	<b>10,919,252</b>	<b>154,642</b>	<b>3,724,705</b>	<b>3,879,347</b>	<b>154,642</b>