

Revenue and Economic Update

April 2021

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Revenues Above February 2021 Forecast

Minnesota’s net general fund receipts for February and March 2021 are now estimated to total \$3.332 billion, \$563 million (20.3 percent) more than forecast in the February 2021 *Budget and Economic Forecast*. Net receipts exceeded the forecast for all major tax types. (See page 4 for details.)

Net individual income tax receipts for February and March were \$322 million (28.0 percent) more than forecast. Higher than expected gross receipts and lower than expected refunds both contributed to the positive variance.

Income tax refunds were \$286 million lower than forecast. We won’t know until later in the year if this reflects higher tax liability for tax year 2020 than we estimated in February. Normally, we would have an indication of the amount of prior year tax liability when income tax payments are observed in April. This year, the due date for tax year 2020 income tax returns and payments has been extended to May 17. This will delay by one month our observation of payments made with final and extension returns.

Gross income tax receipts were \$37 million above the forecast. Estimated income tax payments (labeled declarations on page 4) were \$17 million above the forecast, and income tax withholding receipts were \$3

million less than forecast. Miscellaneous payments, which includes payments accompanying tax returns, were \$23 million more than forecast.

Net sales tax receipts were \$31 million (3.8 percent) above the forecast. The variance is primarily due to lower than expected sales tax refunds. Gross sales tax receipts were very close to the forecast.

Net corporate tax receipts were \$171 million (62.3 percent) above the forecast. Higher than expected corporate tax payments and lower than expected refunds both contributed to the positive variance.

Corporate estimated tax payments (labeled declarations on page 4) for February and March were \$132 million above the forecast. Most of this variance was generated in March, when payments were \$130 million higher than forecast, representing a 25.7 percent increase over March 2020. Because corporate profits growth for the first quarter of CY 2021 is not yet available from the Bureau of Economic Analysis, we cannot determine if the growth in estimated payments can be explained by higher profits.

Other net revenues were \$39 million (7.5 percent) higher than forecast due to higher than expected gross payments. The February 2021 forecast for other revenues has been increased to recognize additional tobacco settlement revenues received in March 2021.

Summary of Revenues: February-March 2021

(\$ in millions)	February 2021			
	Forecast ²	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,151	\$1,473	\$322	28.0%
General Sales Tax	821	852	31	3.8
Corporate Franchise Tax	274	445	171	62.3
Other Revenues	522	561	39	7.5
Total Revenues¹	\$2,769	\$3,332	\$563	20.3

1. Totals may not add due to rounding.

2. Adjusted for tobacco settlement recognition. Revised fund balance posted March 31, 2021.

Strong Consumer Spending and Accelerated Rate of Vaccinations Improve Near-Term U.S. Economic Outlook

The outlook for U.S. real GDP growth in 2021 and 2022 has improved since Minnesota’s *Budget and Economic Forecast* was prepared in February 2021. IHS Markit (IHS), Minnesota’s macroeconomic consultant, now expects annual real GDP to grow 6.2 percent this year and 4.3 next year, compared to 5.7 percent and 4.1 percent in their February forecast. For years 2023-2025, the forecast is now slightly lower than in February, with IHS anticipating growth of 2.2 percent in 2023, 2.3 percent in 2024, and 2.4 percent in 2025.

The improvement in IHS’ 2021 outlook from February to April is the net effect of two new factors. First, debit/credit card spending through mid-March, even prior to the disbursement of the most recent round of stimulus checks, was stronger than expected.

Second, the pace of the national inoculation campaign has been faster than anticipated, and many states are relaxing containment measures. Consequently, IHS raised their projected growth of consumer spending on services other than housing, utilities, and healthcare. This forecast does not include the potential impact of the \$2.1 trillion American Jobs Plan unveiled by the Biden Administration in March.

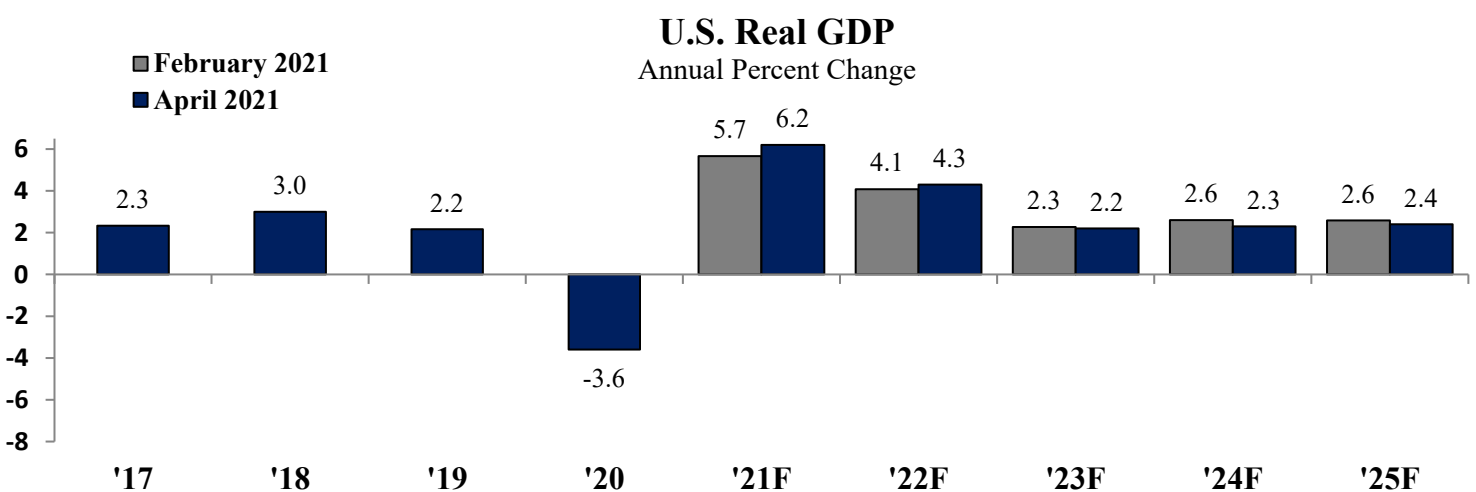
BEA’s third estimate of real GDP in the fourth quarter of

percentage points higher than IHS’ February forecast. IHS has also raised their forecast for real GDP growth in the first quarter of 2021 to a 5.3 percent annual rate from 4.7 percent in their February outlook, in part due to delivery of stimulus checks in March instead of April. IHS forecasts real GDP growth to accelerate to a 7.9 percent annual rate in the second quarter of 2021 and an 8.1 percent annual rate in the third quarter.

IHS expects the price of Brent crude oil to average \$66 per barrel in 2021 as global growth rebounds, followed by \$63 per barrel in 2022. Recovering oil prices are providing a boost to business spending on mining structures.

The IHS April baseline forecast for 2021 is similar to the most recent Blue Chip Consensus, the median of 50 business and academic forecasts. The April Blue Chip Consensus calls for 6.3 percent growth in 2021, compared to IHS’ 6.2 percent forecast for this year. IHS expects real GDP to grow 4.3 percent in 2022, consistent with the Blue Chip Consensus of 4.3 percent growth next year.

The Bureau of Labor Statistics (BLS) reports that in March the seasonally adjusted U.S. unemployment rate was 6.0 percent, down from 14.7 percent at the peak of unemployment reported in April, but still 2.5 percentage points higher than the pre-pandemic level in February 2020. The BLS reports that roughly 9.7 million people remain unemployed. Employment rose by 916,000 in March. The number of long-term unemployed (those jobless for 27 weeks or more) is 4.2 million, 3.1 million more than in February 2020. IHS expects that the U.S. unemployment rate will decline over 2021, reaching an



Source: Bureau of Economic Analysis and IHS Markit.

2020 shows growth of 4.3 percent (annual rate), 0.3

average of 4.3 percent by the fourth quarter of 2021.

The unemployment rate does not capture those who have exited the labor force during the pandemic. The U.S. labor force participation rate was 61.5 percent in March, down from 63.3 percent one year ago.

IHS expects the federal funds rate to remain near zero until mid-2024, when they expect the U.S. economy to reach maximum employment. In addition, IHS expects the Federal Reserve to tolerate inflation slightly above 2 percent beyond 2024.

IHS assigns a 50 percent probability to the April baseline outlook. Their alternative scenarios depend on different paths for the pandemic. They assign a 25 percent probability to a more pessimistic scenario, characterized by weaker consumer spending as a result of a fourth wave

of COVID-19 infections. As a result, the recovery takes longer, and GDP surpasses its previous peak in the fourth quarter of 2021, two quarters later than in the baseline. In the more optimistic scenario, IHS assumes that consumer spending, supported by the \$1.9 trillion American Rescue Plan, is stronger and happens more quickly than in the baseline. This scenario assumes that new COVID-19 cases and deaths dwindle quickly due to an accelerated pace of vaccination. As a result, containment measures are relaxed, supporting higher levels of economic activity than in the baseline. In this scenario, GDP surpasses its previous peak in mid-2021, the same timeframe as the baseline, but at a faster 6.3 percent annual rate in the first quarter and 10.7 percent in the second quarter, compared to 5.3 percent and 7.9 percent respectively in the baseline. The optimistic scenario receives a 25 percent probability.

Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year to Date 2021			February – March 2021		
	FORECAST	ACTUAL	VARIANCE	FORECAST	ACTUAL	VARIANCE
	REVENUES ¹	REVENUES	ACT-FCST	REVENUES ²	REVENUES	ACT-FCST
Individual Income Tax						
Withholding	7,345,410	7,342,102	(3,309)	1,796,100	1,792,791	(3,309)
Declarations	1,456,700	1,473,518	16,818	34,847	51,665	16,818
Miscellaneous	740,289	763,468	23,179	268,512	291,692	23,179
Gross	9,542,399	9,579,088	36,689	2,099,460	2,136,148	36,689
Refund	1,160,861	875,355	(285,506)	948,195	662,689	(285,506)
Net	8,381,538	8,703,733	322,195	1,151,265	1,473,460	322,195
Corporate Franchise Tax						
Declarations	1,148,214	1,279,980	131,765	217,236	349,001	131,765
Miscellaneous	376,983	406,710	29,726	104,101	133,827	29,726
Gross	1,525,198	1,686,689	161,492	321,336	482,828	161,492
Refund	136,881	127,602	(9,279)	47,246	37,967	(9,279)
Net	1,388,316	1,559,087	170,771	274,090	444,861	170,771
General Sales and Use Tax						
Gross	4,370,359	4,374,190	3,831	886,669	890,500	3,831
Mpls. Sales Tax transferred to MSFA	0	0	0	0	0	0
MPLS Sales Tax w/Holding for NFL Stadium	6,034	5,905	(129)	3,004	2,875	(129)
Sales Tax Gross	4,376,392	4,380,095	3,703	889,672	893,375	3,703
Refunds (including Indian refunds)	154,960	127,597	(27,363)	68,243	40,880	(27,363)
Net	4,221,432	4,252,498	31,066	821,429	852,495	31,066
Other Revenues:						
Net Estate	135,969	160,146	24,177	28,908	53,085	24,177
Net Liquor/Wine/Beer	67,131	67,345	215	13,421	13,636	215
Net Cigarette/Tobacco	401,633	398,683	(2,951)	67,428	64,477	(2,951)
Deed and Mortgage	263,428	274,183	10,755	50,852	61,607	10,755
Net Insurance Premiums Taxes	347,516	344,349	(3,167)	137,432	134,266	(3,167)
Net Lawful Gambling	64,535	69,929	5,394	14,867	20,261	5,394
Health Care Surcharge	181,548	174,125	(7,423)	58,404	50,981	(7,423)
Other Taxes	2,325	2,344	19	39	58	19
Statewide Property Tax	393,143	395,234	2,091	0	2,091	2,091
DHSSOS Collections	66,856	71,559	4,703	11,529	16,232	4,703
Investment Income	15,571	14,083	(1,487)	4,286	2,799	(1,487)
Tobacco Settlement	229,420	229,419	(0)	81,570	81,570	(0)
Dept. Earnings & MSOP Recov.	152,629	157,004	4,375	33,168	37,543	4,375
Fines and Surcharges	35,793	31,131	(4,662)	13,956	9,294	(4,662)
Lottery Revenues	44,078	50,610	6,532	10,360	16,892	6,532
Revenues yet to be allocated	2,933	784	(2,149)	0	(2,149)	(2,149)
Residual Revenues	102,536	104,864	2,328	(3,087)	(758)	2,328
County Nursing Home, Pub Hosp IGT						
Other Subtotal	2,507,043	2,545,792	38,749	523,133	561,882	38,749
Other Refunds	2,409	2,013	(396)	862	466	(396)
Other Net	2,504,634	2,543,779	39,145	522,271	561,416	39,145
Total Gross	17,951,032	18,191,664	240,632	3,833,601	4,074,234	240,632
Total Refunds	1,455,111	1,132,567	(322,544)	1,064,546	742,002	(322,544)
Total Net	16,495,921	17,059,097	563,176	2,769,055	3,332,232	563,176

1. February 2021 Budget and Economic Forecast.

2. Adjusted for tobacco settlement recognition. Revised fund balance posted March 31, 2021.