

# Revenue and Economic Update

October 11, 2021

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

## Revenues Above February 2021 Forecast

Minnesota’s net general fund receipts for the first quarter of FY 2022 are now estimated to total \$5.974 billion, \$657 million (12.4 percent) more than forecast in the February 2021 *Budget and Economic Forecast*. Net receipts exceeded the projection for all major tax types.

Net individual income tax receipts were \$155 million (5.1 percent) more than forecast for the first three months of FY 2022. Higher than expected gross receipts and refunds that were below the forecast both contributed to the variance. (See page 4 for details.)

Income tax withholding receipts were \$153 million higher than forecast. We think this variance is primarily due the timing of receipts and not to higher than forecast wage growth. In the absence of the timing issue, we estimate the positive withholding variance for the quarter would be around \$45 million.

Income tax refunds were \$46 million lower than forecast. We believe this is due the timing of refund disbursement, rather than higher than expected economic activity.

Estimated income tax payments for July-September (labeled declarations on page 4) were \$59 million lower than forecast, although estimated payments for the first three quarters of CY 2021 are above our forecast. We believe that the negative variance for the July-September

period is due in part to the way we allocated our forecast across the months of CY 2021 and in part due to a slowdown in growth of these payments. In the first half of tax year 2021, estimated payments were about 27 percent larger than in the same period last year. In the third quarter of CY 2021 (the first quarter of FY 2022), estimated payments were 5.6 percent larger than the same period last year.

Net sales tax receipts were \$132 million (9.7 percent) above the forecast and about 14 percent higher than during the same period last year. Higher than expected gross tax payments and sales tax refunds that were below the forecast both contributed to the positive variance.

More than half of the positive variance for total revenues was due to corporate receipts. Net corporate tax receipts were \$361 million (90.5 percent) above the forecast and 46 percent higher than the same period one year ago. This was due to both higher than expected corporate tax payments and lower than expected refunds. Corporate estimated payments (labeled declarations on page 4) were 64 percent higher than during the same period one year ago.

## Summary of Revenues: July-September 2021

(\$ in millions)	February Forecast <sup>2</sup>	Actual	\$ Difference	% Difference
Individual Income Tax	\$3,022	\$3,177	\$155	5.1%
General Sales Tax	1,361	1,492	132	9.7
Corporate Franchise Tax	398	759	361	90.5
Other Revenues	535	545	10	1.9
<b>Total Revenues<sup>1</sup></b>	<b>\$5,316</b>	<b>\$5,974</b>	<b>\$657</b>	<b>12.4%</b>

1. Totals may not add due to rounding.
2. Adjusted for legislative changes.

## Fiscal Year 2021 Revenues Above the Forecast

Net general fund revenues for the fiscal year that ended June 30, 2021, are now \$2.670 billion (11.2 percent) more than forecast in February. In the July 31 revenue update memo, we estimated that revenues would be \$2.684 billion more than forecast. The positive variance is now \$14 million smaller, because net revenues attributable to fiscal year 2021 that were received between the end of July and the official close were lower than our initial estimate. The next official forecast will be released in early December 2021.

## U.S. Economic Outlook for 2021 Weakened

The outlook for U.S. real GDP growth in 2021 has been revised down four months in a row and has weakened since Minnesota’s *Budget and Economic Forecast* was prepared in February 2021. In their October forecast, IHS Markit (IHS), Minnesota’s macroeconomic consultant, expects annual real GDP to grow 5.4 percent this year and 4.3 percent next year, compared to 5.7 percent and 4.1 percent in their February forecast. For years 2023 and 2024, the forecast is now slightly higher than in February. IHS anticipates growth of 2.8 percent in 2023, 2.7 percent in 2024, and 2.5 percent in 2025.

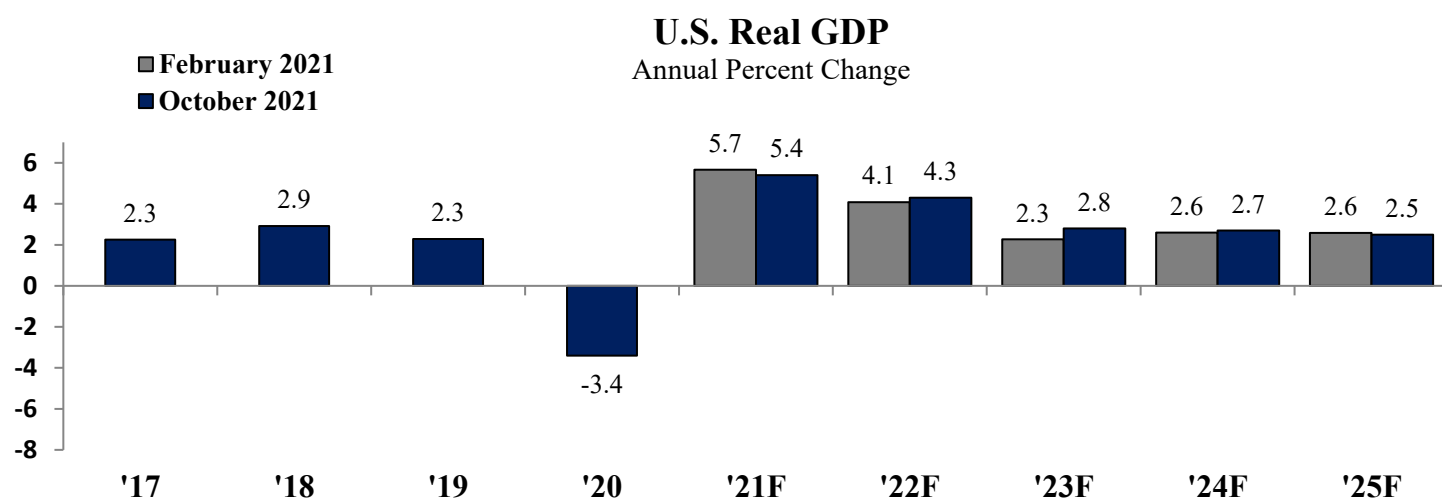
The downward revision in the near-term economic outlook is the result of two major “headwind” factors.

First, the rapid spread of the delta strain of the coronavirus has slowed third-quarter growth in consumer spending on services and is expected to continue to inhibit growth through the end of 2021. Second, supply chain disruptions are expected to continue to impede production and inventory investment. IHS expects that current supply-chain issues will be resolved in 2022, shifting some growth from 2021 into 2022. Passage of the Infrastructure Investment and Jobs Act (IIJA) is now assumed likely and is included in this forecast. The Act’s peak effect is expected to increase GDP growth by 0.5 percent in 2025 and raise the level of employment by 750,000. Impacts of the 2020-21 federal fiscal stimulus are expected to wane beginning in 2026.

BEA’s third estimate of real GDP in the second quarter of 2021 shows growth of 6.7 percent (annual rate), 0.3 percentage points higher than IHS’ February forecast. IHS has substantially lowered their forecast for real GDP growth in the third quarter to a 1.4 percent annual rate down from 7.8 percent in their February outlook, primarily due to the slowdown in consumer spending on services.

IHS expects the price of Brent crude oil to average \$76 per barrel in the fourth quarter this year, as global growth rebounds, and fall to \$70 per barrel by mid-2022.

The IHS October baseline forecast for 2021 is slightly lower than the October Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip Consensus calls for 5.7 percent growth in 2021, slightly above IHS’ forecast for this year. IHS expects real GDP to grow 4.3



Source: Bureau of Economic Analysis and IHS Markit.

percent in 2022, 0.5 percentage points more than the Blue Chip Consensus of 3.8 percent growth next year.

The Bureau of Labor Statistics (BLS) reports that in September the seasonally adjusted U.S. unemployment rate was 4.8 percent, down from 14.8 percent at the peak of unemployment reported in April 2020, but still 1.3 percentage points higher than the pre-pandemic level in February 2020. The BLS reports that roughly 7.7 million people remain unemployed, 2 million more than in February 2020. Employment rose by 194,000 in September. The number of long-term unemployed (those jobless for 27 weeks or more) is 2.7 million, 1.6 million more than in February 2020. IHS expects that the U.S. unemployment rate will decline through mid-2023, reaching an average of 4.6 percent in the fourth quarter of 2021 and an average of 3.7 percent in the fourth quarter of 2022.

The unemployment rate does not capture the 3.1 million Americans who have exited the labor force since the onset of the pandemic. The U.S. labor force participation rate was 61.6 percent in September, 1.7 percentage points lower than in February 2020. The labor force participation rate has hovered within a range of 61.4 to 61.7 since June 2020.

IHS now expects the federal funds rate to remain near zero until March 2023, after which they forecast the Federal Reserve to raise rates. This expected “lift-off”

occurs 18 months earlier than IHS expected in February and is driven by upward revisions in near-term inflation. IHS has raised their forecast for headline CPI inflation to 4.3 percent in 2021 and 3.0 percent in 2022, compared to 2.1 percent in both years in their February forecast. IHS expects the Federal Reserve to tolerate inflation slightly above 2 percent beyond 2023.

The alternative scenarios for the IHS October forecast are not yet available. The following alternatives are based on the September forecast. IHS assigns a 50 percent probability to the September baseline outlook. They assign a 30 percent probability to a more pessimistic scenario, characterized by weaker consumer spending resulting from the resurgence of COVID-19. As a result, real GDP grows 5.3 percent in 2021 and 2.9 percent in 2022, compared to 5.7 and 4.5 in the base September outlook. In the more optimistic scenario, IHS assumes that consumer spending grows more quickly than in the baseline. This scenario assumes that the spending response to the prior and upcoming fiscal stimulus packages is more robust than in the baseline. The scenario also assumes that new COVID-19 cases and deaths diminish quickly due to widespread vaccinations and greater observance of social distancing and mask-wearing among unvaccinated individuals. In this scenario, GDP surges 6.2 percent in 2021 and 2022. The unemployment rate quickly falls to below 4.0 percent by mid-2022 because of the faster growth in real GDP. This optimistic scenario receives a 20 percent probability.

# Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year 2021			July-September 2021		
	FORECAST REVENUES <sup>1</sup>	CLOSING REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES <sup>2</sup>	ACTUAL REVENUES	VARIANCE ACT-FCST
<b>Individual Income Tax</b>						
Withholding	9,876,510	10,044,009	167,499	2,347,400	2,500,284	152,884
Declarations	2,687,100	3,260,443	573,343	605,513	546,995	(58,518)
Miscellaneous	2,153,090	2,324,732	171,642	176,360	191,175	14,815
Gross	14,716,700	15,629,184	912,484	3,129,274	3,238,454	109,180
Refund	2,147,000	1,525,524	(621,476)	107,043	61,064	(45,979)
Net	12,569,701	14,103,661	1,533,960	3,022,230	3,177,390	155,160
<b>Corporate Franchise Tax</b>						
Declarations	1,599,861	2,195,305	595,444	383,417	647,838	264,421
Miscellaneous	315,213	371,538	56,326	101,922	134,830	32,908
Gross	1,915,074	2,566,844	651,770	485,339	782,668	297,329
Refund	183,734	179,474	(4,261)	86,936	23,737	(63,199)
Net	1,731,339	2,387,370	656,031	398,403	758,931	360,528
<b>General Sales and Use Tax</b>						
Gross	6,100,300	6,383,202	282,902	1,394,696	1,517,632	122,936
Mpls. sales tax transferred to MSFA	-	-	-	-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	10,539	13,778	3,239	5,304	5,304	(0)
Sales Tax Gross	6,110,839	6,396,980	286,141	1,400,000	1,522,936	122,936
Refunds (including Indian refunds)	277,998	224,378	(53,620)	39,320	30,608	(8,712)
Net	5,832,841	6,172,603	339,762	1,360,680	1,492,328	131,648
<b>Other Revenues</b>						
Net Estate	178,300	208,231	29,931	41,649	54,498	12,849
Net Liquor/Wine/Beer	100,640	101,425	785	20,160	21,249	1,089
Net Cigarette/Tobacco	586,530	593,184	6,654	96,912	112,531	15,619
Deed and Mortgage	380,323	410,438	30,115	66,697	81,289	14,592
Net Insurance Premiums Taxes	443,771	443,075	(696)	103,576	110,372	6,796
Net Lawful Gambling	94,385	119,682	25,296	22,641	34,485	11,844
Health Care Surcharge	316,399	318,324	1,925	75,752	13,153	(62,600)
Other Taxes	9,155	9,524	369	(1)	0	1
Statewide Property Tax	805,026	803,134	(1,892)	15,591	20,684	5,093
DHS SOS Collections	84,150	95,723	11,573	23,107	21,579	(1,528)
Investment Income	22,000	20,564	(1,436)	5,500	4,140	(1,360)
Tobacco Settlement	239,062	254,190	15,129	100	-	(100)
Dept. Earnings & MSOP Recov.	223,070	231,072	8,002	38,141	39,469	1,328
Fines and Surcharges	70,511	66,812	(3,699)	13,740	10,822	(2,918)
Lottery Revenues	76,379	85,379	9,000	8,234	11,786	3,552
Revenues yet to be allocated	0	1,684	1,684	-	200	200
Residual Revenues	138,094	149,123	11,029	4,624	9,062	4,437
County Nursing Home Pub Hosp IGT						
Other Subtotal	3,767,796	3,911,564	143,768	536,424	545,317	8,893
Other Refunds	3,703	6,966	3,263	1,301	248	(1,053)
Other Net	3,764,093	3,904,598	140,505	535,123	545,069	9,946
<b>Total Gross</b>	26,510,409	28,504,573	1,994,163	5,551,036	6,089,375	538,339
<b>Total Refunds</b>	2,612,435	1,936,341	(676,093)	234,600	115,657	(118,943)
<b>Total Net</b>	23,897,974	26,568,231	2,670,257	5,316,436	5,973,718	657,282

1. February 2021 Budget and Economic Forecast.

2. February 2021 Budget and Economic Forecast adjusted for legislative changes.