

# Revenue and Economic Update

April 2022

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## Revenues Above February 2022 Forecast

Minnesota’s net general fund receipts for February and March 2022 are now estimated to total \$4.239 billion, \$666 million (18.7 percent) more than forecast in the February 2022 *Budget and Economic Forecast*. However, most of this variance reflects the timing of pass-through entity (PTE) tax payments and refunds and not higher than forecast tax liability. Net receipts exceeded the forecast for income, sales, and corporate taxes. Net other revenues nearly matched the forecast. (See page 4 for details.)

Net individual income tax receipts for February and March were \$554 million (30.5 percent) more than forecast. Net payments from partnerships and S Corporations (primarily for the PTE tax) generated about \$530 million (96 percent) of this variance.

Gross PTE tax payments for February and March were \$544 million more than forecast, and PTE refunds were \$14 million above the forecast, generating a net variance of \$530 million. We believe the large PTE payments received in March will either be refunded on TY2021 individual tax returns when they are filed and processed or will reduce TY2022 estimated payments for April and June below what we forecast. TY2021 return processing is likely to be complete by the end of January 2023.

Gross income tax receipts other than from PTEs were \$129 million above the forecast. Estimated income tax payments (labeled declarations on page 4) were \$4 million above the forecast, and income tax withholding receipts were \$60 million more than forecast. Miscellaneous payments, which includes payments accompanying individual tax returns, were \$64 million more than forecast.

Income tax refunds not related to PTEs were \$105 million more than forecast. We believe this reflects TY 2021 income tax liability that is lower than we forecast in February.

Net sales tax receipts were \$46 million (5.0 percent) above the forecast. The variance is due to larger than expected gross receipts and refunds below the forecast.

Net corporate tax receipts were \$67 million (18.9 percent) above the forecast. Higher than expected corporate tax payments and lower than expected refunds both contributed to the positive variance.

Other net revenues were \$1 million (0.2 percent) below the forecast.

## Summary of Revenues: February-March 2022

(\$ in millions)	February 2022			
	Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,815	\$2,369	\$554 <sup>2</sup>	30.5%
General Sales Tax	932	978	46	5.0
Corporate Franchise Tax	354	421	67	18.9
Other Revenues	471	470	(1)	(0.2)
<b>Total Revenues<sup>1</sup></b>	<b>\$3,572</b>	<b>\$4,239</b>	<b>\$666<sup>2</sup></b>	<b>18.7</b>

1. Totals may not add due to rounding.

2. An estimated \$530 million of this variance reflects the timing of payments and refunds from partnerships and S Corporations (primarily for PTE tax) and not higher than forecast tax liability.

## Russian Invasion of Ukraine, Slower First Quarter, Weaken 2022 U.S. Economic Outlook

The outlook for U.S. real GDP growth in 2022 has weakened since Minnesota’s *Budget and Economic Forecast* was prepared in February 2022. IHS Markit (IHS), Minnesota’s macroeconomic consultant, now expects annual real GDP to grow 3.0 percent this year, compared to 3.7 percent in their February forecast. The forecasts for growth in 2023 and 2024 are each 0.1 percentage point higher than in the February outlook, and the forecast for 2025 is 0.1 percentage point lower. IHS now anticipates growth of 2.8 percent in 2023, 2.7 percent in 2024, and 2.4 percent in 2025.

The reduction in IHS’ 2022 outlook between February and April is driven by two main developments. The first is Russia’s invasion of Ukraine, which began in late February and continues today. As a result of the invasion, IHS expects that (1) food and energy prices will be notably higher in 2022 since significant supplies of each from both Russia and Ukraine are now uncertain, (2) financial conditions will tighten as investors assess heightened risks and reallocate toward safer assets, and (3) global economic growth in 2022 will be restricted.

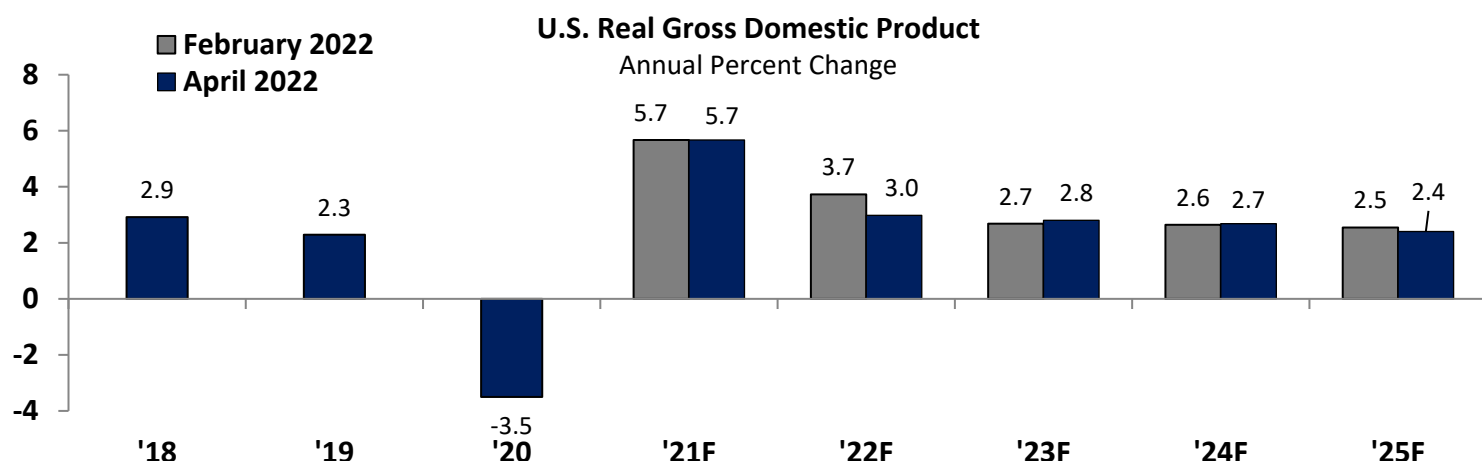
The second main development since February is the incorporation of new, weaker first-quarter data for inventory investment and net exports, both of which suggest lower first-quarter growth and weaker momentum leading into the second quarter. IHS estimates that final sales to domestic private purchasers, which are a better indicator of the economy’s underlying strength, grew 4.7 percent in the first quarter.

The Bureau of Economic Analysis’ (BEA’s) third and final estimate of real GDP in 2021 shows growth of 5.7 percent, the largest annual increase since 1984. IHS’ expectation of 3.0 percent growth in 2022, although reduced 0.7 percentage points since February, would be the second-strongest year of growth since 2005. The reduction in expected growth occurs in the first half of 2022. IHS has lowered their forecast for real GDP growth in the first quarter to 0.2 percent (annual rate) from 1.7 percent in February and 2.3 percent in the second quarter from 4.3 percent in February.

IHS now expects that the price of Brent crude oil will average \$110 per barrel in 2022 and \$93 in 2023, up from \$82 and \$71 in their February outlook. IHS expects that higher oil prices will raise overall price levels and boost domestic energy investment.

In most part due to significant upward revisions in near-term energy and food prices, IHS has significantly increased their near-term CPI inflation forecast. They now expect CPI inflation of 6.8 percent in 2022 and 2.6 percent in 2023, up from 4.5 percent and 1.9 percent in their February outlook.

IHS expects that the Federal Reserve will act aggressively to combat recent and expected inflationary pressures. IHS now forecasts seven increases in the federal funds rate in 2022 and four increases in 2023. They expect the rate to average 1.8 percent in the fourth quarter this year and 2.8 percent in 2023, up from 1.1 percent and 1.4 percent in their February outlook. IHS expects the rate to average 3.0 percent in 2024 and 2.6 percent in 2025, up from 1.8 percent and 2.1 percent in February.



Source: U.S. Bureau of Economic Analysis (BEA), IHS Economics (IHS)

The IHS April baseline forecast for 2022 is slightly lower than the most recent Blue Chip Consensus, the median of 50 business and academic forecasts. The April Blue Chip Consensus calls for 3.2 percent growth in 2022, compared to IHS' 3.0 percent forecast for this year. IHS expects real GDP to grow 2.8 percent in 2023, higher than the Blue Chip Consensus of 2.3 percent growth next year.

The Bureau of Labor Statistics (BLS) reports that in March the seasonally adjusted U.S. unemployment rate was 3.6 percent, only 0.1 percentage point higher than the pre-pandemic level in February 2020. The BLS reports that roughly 6.0 million people remain unemployed, 0.3 million more than in February 2020. Nonfarm payroll employment rose by 431,000 in March. The number of long-term unemployed (those jobless for 27 weeks or more) is 1.4 million, 0.3 million more than in February 2020. IHS expects that the U.S. unemployment rate will average 3.6 percent in 2022 and 2023 and rise above 4 percent in 2025.

The unemployment rate does not capture those who have exited the labor force during the pandemic or those who are in the labor force but are not looking for payroll employment. The U.S. labor force participation rate was 62.4 percent in March, up 0.9 percentage points from a year ago but 1.0 percent less than in February 2020. The U.S. labor force rose by 3.7 million since March 2021 and is only 0.2 million less than in February 2020.

The alternative scenarios for the IHS April forecast are not yet available. The following alternatives are based on the March forecast. IHS assigns a 50 percent probability to the March baseline outlook. The alternative scenarios are weighted toward the downside. IHS assigns a 35 percent probability to a more pessimistic scenario, characterized by (1) an intensification of the Russia-Ukraine conflict that generates higher energy and commodity prices, wider risk spreads, and slower global growth, and (2) a slower resolution of existing supply-chain issues. Growth in consumer spending and business fixed investment is diminished in 2022 and 2023 relative to the April baseline forecast, and the price of Brent crude oil remains substantially higher through 2025. As a result, GDP grows 2.5 percent in 2022 and 0.8 percent in 2023, compared to 3.0 percent and 2.8 percent in the baseline April scenario. In the more optimistic March scenario, IHS assumes (1) a stronger consumer and business response to the Infrastructure Investment and Jobs act (IIJA) and (2) a quicker resolution to the Russia-Ukraine conflict. Consumer spending and business fixed investment exhibit stronger growth in 2022 than in the April baseline forecast, and the price of Brent Crude oil remains below the April baseline assumption through the end of 2022. In this scenario, GDP grows 4.5 percent in 2022 and 3.7 percent in 2023. The optimistic scenario receives a 15 percent probability.

# Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	March Year to Date 2022-FY2022			February & March 2022-FY2022		
	FORECAST REVENUES <sup>1</sup>	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES <sup>1</sup>	ACTUAL REVENUES	VARIANCE ACT-FCST
<b>Individual Income Tax</b>						
Withholding	8,182,126	8,242,494	60,368	2,017,000	2,077,368	60,368
Declarations	1,278,605	1,282,811	4,207	41,347	45,554	4,207
Miscellaneous	593,614	657,862	64,248	217,048	281,296	64,248
Partnership & S Corporation Gross	<u>1,741,231</u>	<u>2,285,455</u>	<u>544,224</u>	<u>210,006</u>	<u>754,230</u>	<u>544,224</u>
Gross	11,795,576	12,468,622	673,046	2,485,401	3,158,448	673,046
Partnership & S Corporation Refunds	24,494	38,456	13,962	3,072	17,034	13,962
Individual, Fiduciary, & Withholding Ref.	<u>1,227,989</u>	<u>1,333,157</u>	<u>105,167</u>	<u>667,696</u>	<u>772,864</u>	<u>105,167</u>
Total Refunds	1,252,484	1,371,613	119,129	670,768	789,897	119,129
Net Income Tax	10,543,093	11,097,010	553,917	1,814,633	2,368,550	553,917
<b>Corporate Franchise Tax</b>						
Declarations	1,647,948	1,715,669	67,721	339,691	407,412	67,721
Miscellaneous	170,008	154,096	(15,912)	48,430	32,518	(15,912)
Gross	1,817,956	1,869,765	51,808	388,121	439,929	51,808
Refund	81,463	66,253	(15,210)	33,869	18,659	(15,210)
Net	1,736,494	1,803,512	67,018	354,252	421,270	67,018
<b>General Sales and Use Tax</b>						
Gross	5,007,782	5,035,690	27,908	978,997	1,006,904	27,908
MPLS Sales Tax Transferred to MSFA				-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	15,911	15,911	(0)	3,536	3,536	(0)
Sales Tax Gross	5,023,694	5,051,601	27,908	982,533	1,010,440	27,908
Refunds (including Indian refunds)	128,432	110,092	(18,340)	50,324	31,984	(18,340)
Net	4,895,262	4,941,509	46,248	932,209	978,456	46,248
<b>Other Revenues</b>						
Net Estate	161,954	162,956	1,001	32,514	33,515	1,001
Net Liquor/Wine/Beer	70,133	70,167	34	14,267	14,301	34
Net Cigarette/Tobacco	410,802	395,734	(15,068)	65,495	50,427	(15,068)
Deed and Mortgage	289,585	289,411	(174)	55,082	54,908	(174)
Net Insurance Premiums Taxes	354,963	371,263	16,301	137,894	154,195	16,301
Net Lawful Gambling	120,966	126,568	5,602	26,861	32,463	5,602
Health Care Surcharge	171,526	151,371	(20,155)	65,992	45,837	(20,155)
Other Taxes	3,059	3,067	8	45	53	8
Statewide Property Tax	357,413	355,141	(2,272)	2,315	43	(2,272)
DHS SOS Collections	69,837	75,472	5,636	12,401	18,037	5,636
Investment Income	18,100	16,836	(1,265)	5,950	4,685	(1,265)
Tobacco Settlement	161,683	161,993	310	-	310	310
Dept. Earnings & MSOP Recovery	167,978	161,857	(6,120)	40,180	34,059	(6,120)
Fines and Surcharges	36,567	37,100	533	10,287	10,820	533
Lottery Revenues	43,881	46,677	2,796	8,009	10,805	2,796
Revenues yet to be allocated	2,811	6,351	3,539	-	3,539	3,539
Residual Revenues	123,634	130,864	7,229	(3,620)	3,610	7,229
Other Subtotal	2,564,895	2,562,830	(2,064)	473,672	471,607	(2,064)
Other Refunds	4,671	3,342	(1,329)	2,641	1,311	(1,329)
Other Net	2,560,224	2,559,488	(735)	471,031	470,296	(735)
<b>Total Gross</b>	21,202,121	21,952,819	750,698	4,329,726	5,080,424	750,698
<b>Total Refunds</b>	1,467,049	1,551,299	84,250	757,602	841,852	84,250
<b>Total Net</b>	19,735,072	20,401,519	666,448	3,572,125	4,238,572	666,448

1. February 2022 Budget and Economic Forecast.