

# Revenue and Economic Update

January 2023

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## Revenues Above November 2022 Forecast

Minnesota’s net general fund receipts for November and December of 2022 are now estimated to total \$5.162 billion, \$217 million (4.4 percent) more than forecast in the November 2022 *Budget and Economic Forecast*. Income tax receipts were below the forecast for the period, receipts from corporate and other taxes were higher than forecast, and sales tax receipts nearly matched the forecast.

Because forecast receipts are now updated to reflect the November 2022 *Budget and Economic Forecast*, the fiscal year-to-date variance is the same dollar amount as the quarterly variance, \$217 million above the forecast, which is 1.5 percent of fiscal year-to-date forecast revenues.

Net individual income tax receipts were \$24 million (1.0 percent) less than forecast. Higher than expected refunds more than offset gross receipts that were above the forecast. (See page 4 for details.)

Income tax withholding receipts were \$46 million (2.3 percent) higher than forecast. Estimated income tax payments (labeled declarations on page 4) were \$16 million (15.1 percent) above the forecast due to higher-than-expected payments in December. Combining December and January receipts will help us understand if the current variance arises from the timing of payments or higher tax liability.

Income tax refunds were \$110 million (41.9 percent) higher than forecast. We believe this is largely due to the timing of tax return processing, rather than lower than expected TY 2021 liability.

Net sales tax receipts were \$3 million (0.3 percent) higher than forecast. Higher than expected refunds nearly offset gross tax payments that were above the forecast.

Net corporate receipts were \$219 million (52.0 percent) more than forecast. Higher than expected gross tax payments more than offset higher than expected refunds.

Net receipts from other taxes were \$19 million (2.0 percent) higher than forecast. Higher than expected gross tax payments and lower than expected refunds both contributed to the positive variance.

## Summary of Revenues: November-December 2022

(\$ in millions)	November 2022			
	Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$2,331	\$2,307	\$(24)	(1.0)%
General Sales Tax	1,234	1,237	3	0.3
Corporate Franchise Tax	421	639	219	52.0
Other Revenues	960	979	19	2.0
<b>Total Revenues<sup>2</sup></b>	<b>\$4,945</b>	<b>\$5,162</b>	<b>\$217</b>	<b>4.4%</b>

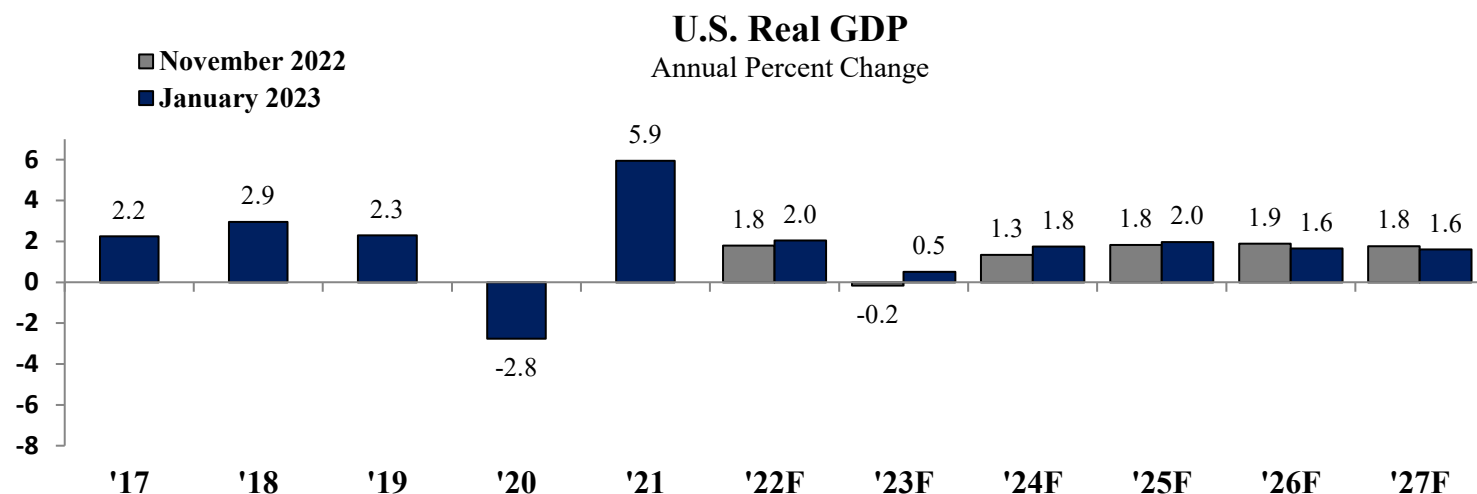
1. Totals may not add due to rounding.

## U.S. Economic Outlook Improved in Near-Term

The outlook for U.S. real GDP growth in years 2022-2025 has improved since Minnesota’s *Budget and Economic Forecast* was prepared in November 2022. In their January forecast, IHS Markit (IHS), Minnesota’s macroeconomic consultant, expects annual real GDP to have grown 2.0

and 4.3 percent in 2024 in their November forecast. IHS expects inflation to subside as gasoline and food prices decelerate and supply-chain issues are resolved. IHS expects the Federal Reserve to tolerate inflation slightly above 2 percent beyond 2023.

BEA’s third estimate of real GDP in the third quarter of 2022 shows growth of 3.2 percent (annual rate), 0.6 percentage points higher than IHS’ November forecast.



Source: Bureau of Economic Analysis and IHS Markit.

percent in 2022, a slight improvement from 1.8 percent in the November forecast. The forecast for real GDP growth has been revised up to 0.5 percent in 2023, 1.8 in 2024, and 2.0 in 2025. The forecast for real GDP growth was revised down to 1.6 percent in years 2026 and 2027. The upward revision in the economic outlook this month is primarily due to stronger than expected net exports and inventory investment in November 2022.

The forecast still includes a mild recession in the first half of 2023, but the starting point is now the first quarter of 2023, compared to the fourth quarter of 2022 in the November outlook. IHS maintains that inflation above the Fed’s 2 percent target and an unsustainably tight labor market will cause the Fed to further tighten financial conditions. This additional tightening is expected to lead to two quarters of real GDP contraction in 2023.

IHS expects the federal funds rate to reach 4.75-5.0 percent by March 2023 before slowly decelerating beginning in May of 2024. This assumption is unchanged from the November outlook. IHS has lowered their forecast for headline CPI inflation to 8.0 percent in 2022 and 3.9 percent in 2023, compared to 8.1 percent in 2022

IHS has substantially increased their forecast for real GDP growth in the fourth quarter to a 2.3 percent annual rate, up from -0.4 percent in their November outlook, primarily due an unexpected surge in exports and inventory investment in November.

IHS expects the price of Brent crude oil to average \$90 per barrel in 2023, down from \$100 per barrel in 2022.

The IHS January baseline forecast is similar to the January Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip Consensus calls for 0.5 percent growth in 2023, matching the IHS. IHS expects real GDP to grow 1.8 percent in 2024, 0.6 percentage points higher than the Blue Chip Consensus of 1.2 percent growth next year.

The Bureau of Labor Statistics (BLS) reports that in December the seasonally adjusted U.S. unemployment rate was 3.5 percent, consistent with the pre-pandemic level in early 2020. The U.S. unemployment rate has remained between 3.5 percent and 3.7 percent since March 2022. The BLS reports that roughly 5.7 million people are currently unemployed, 0.6 million less than a

year ago. Non-farm payroll employment rose by 223,000 in December, bringing average monthly employment growth for the second half of the year to 307,000. This a deceleration from the monthly average of 444,000 jobs in the first half of 2022.

The number of long-term unemployed (those jobless for 27 weeks or more) is 1.1 million, 0.9 million less than a year ago. IHS expects that tightening financial conditions will tip the U.S. economy into recession, and the unemployment rate will peak at 5.1 percent in the fourth quarter of 2023 before decelerating to 4.4 percent in mid-2025.

The U.S. labor force participation rate was 62.3 percent in December, 1.0 percentage points lower than in February 2020. The labor force participation rate has hovered within a range of 62.2 to 62.4 percent since January 2022.

IHS assigns a 55 percent probability to the January baseline outlook. They assign a 25 percent probability to a more pessimistic scenario, characterized by (1) weaker consumer spending and (2) a deeper two quarter recession than in the baseline forecast arising from an intensification of the Russia-Ukraine conflict, which pushes up prices for energy and other commodities. As a result, real GDP grows 2.0 percent in 2022 and contracts 0.2 percent in 2023, compared to 2.0 and positive 0.5 in the baseline outlook. In their more optimistic scenario, IHS assumes that consumer spending, productivity growth, and business investment are stronger relative to the baseline. This scenario assumes that the federal Infrastructure, Investment, and Jobs Act has a greater economic impact than in the baseline. In this scenario, GDP increases 2.1 percent in 2022 and 1.4 percent in 2023. This optimistic scenario receives a 20 percent probability.

# Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year 2023			November-December 2022		
	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	5,491,904	5,537,437	45,533	1,966,339	2,011,872	45,533
Declarations	626,700	642,373	15,673	103,893	119,566	15,673
Miscellaneous	439,352	450,356	11,004	77,728	88,732	11,004
Partnership & S Corporation Gross	962,954	976,211	13,258	444,484	457,741	13,258
Gross	7,520,909	7,606,376	85,467	2,592,445	2,677,912	85,467
Partnership & S Corporation Refunds	69,910	75,772	5,862	20,078	25,940	5,862
Individual, Fiduciary, Withholding Refunds	388,530	492,239	103,709	241,532	345,241	103,709
Total Refunds	458,439	568,011	109,571	261,610	371,181	109,571
Net Income Tax	7,062,470	7,038,366	(24,104)	2,330,835	2,306,731	(24,104)
<b>Corporate Franchise Tax</b>						
Declarations	1,123,956	1,346,337	222,381	383,168	605,549	222,381
Miscellaneous	106,459	115,580	9,121	59,171	68,292	9,121
Gross	1,230,415	1,461,917	231,502	442,338	673,840	231,502
Refund	52,782	65,539	12,757	21,759	34,516	12,757
Net	1,177,633	1,396,378	218,745	420,580	639,325	218,745
<b>General Sales and Use Tax</b>						
Gross	4,070,769	4,081,050	10,281	1,272,419	1,282,700	10,281
Mpls. sales tax transferred to MSFA	-	-	-	-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	10,984	10,984	1	3,748	3,749	1
Sales Tax Gross	4,081,753	4,092,035	10,282	1,276,167	1,286,449	10,282
Refunds (including Indian refunds)	70,430	77,587	7,156	42,631	49,787	7,156
Net	4,011,322	4,014,448	3,126	1,233,536	1,236,662	3,126
<b>Other Revenues:</b>						
Net Estate	141,710	145,820	4,111	40,802	44,913	4,111
Net Liquor/Wine/Beer	47,819	47,443	(377)	17,641	17,264	(377)
Net Cigarette/Tobacco	241,339	241,391	53	102,280	102,333	53
Deed and Mortgage	141,496	145,078	3,581	44,367	47,948	3,581
Net Insurance Premiums Taxes	221,273	225,570	4,298	101,019	105,317	4,298
Net Lawful Gambling	83,423	84,295	872	32,063	32,935	872
Health Care Surcharge	96,495	74,583	(21,912)	71,806	49,894	(21,912)
Other Taxes	3	587	584	-	584	584
Statewide Property Tax	356,923	350,472	(6,451)	189,242	182,791	(6,451)
DHS SOS Collections	50,741	56,875	6,134	12,736	18,871	6,134
Investment Income	133,522	130,299	(3,223)	72,232	69,009	(3,223)
Tobacco Settlement	155,170	152,018	(3,152)	155,170	152,018	(3,152)
Dept. Earnings & MSOP Recov.	94,234	105,816	11,582	35,977	47,559	11,582
Fines and Surcharges	25,442	38,027	12,585	6,973	19,558	12,585
Lottery Revenues	26,930	37,975	11,045	7,756	18,801	11,045
Revenues yet to be allocated	17,919	19,039	1,120	-	1,120	1,120
Residual Revenues	126,818	124,696	(2,122)	71,370	69,248	(2,122)
Other Subtotal	1,961,257	1,979,984	18,728	961,434	980,162	18,728
Other Refunds	2,149	2,030	(119)	1,102	983	(119)
Other Net	1,959,108	1,977,955	18,847	960,332	979,179	18,847
<b>Total Gross</b>	<b>14,794,333</b>	<b>15,140,312</b>	<b>345,979</b>	<b>5,272,384</b>	<b>5,618,363</b>	<b>345,979</b>
<b>Total Refunds</b>	<b>583,800</b>	<b>713,166</b>	<b>129,366</b>	<b>327,101</b>	<b>456,467</b>	<b>129,366</b>
<b>Total Net</b>	<b>14,210,533</b>	<b>14,427,146</b>	<b>216,613</b>	<b>4,945,283</b>	<b>5,161,896</b>	<b>216,613</b>

1. November 2022 Budget and Economic Forecast.