

# Revenue and Economic Update

October 10, 2023

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## Revenues Above February 2023 Forecast

Minnesota’s net general fund receipts for the first quarter of FY 2024 are now estimated to total \$6.385 billion, \$400 million (6.7 percent) more than forecast in the February 2023 *Budget and Economic Forecast*. Net receipts exceeded the projection for all major tax types.

Net individual income tax receipts were \$187 million (7.3 percent) more than forecast for the first three months of FY 2024. Lower than expected refunds and receipts above the forecast both contributed to the positive variance. (See page 4 for details.)

Income tax withholding receipts were \$12 million (0.5 percent) higher than forecast. Estimated income tax payments are \$83 million (17.5 percent) lower than expected, but this was largely offset by gross partnership and SCorp payments that were \$78 million above the forecast.

Total income tax refunds were \$177 million less than forecast. About \$144 million of this variance is due to a lower payout of one-time income tax rebates than was originally estimated.

Net sales tax receipts were \$58 million (2.9 percent) above the forecast. Higher than expected gross tax payments and sales tax refunds that were below the forecast both contributed to the positive variance.

Net corporate tax receipts were \$65 million (8.7 percent) above the forecast. This was due to both higher than expected corporate tax payments and lower than expected refunds.

Net other revenues were \$89 million (14.0 percent) above the forecast. Higher than expected gross receipts and lower than expected refunds both contributed to the positive variance.

## Summary of Revenues: July-September 2023

(\$ in millions)	February Forecast <sup>2</sup>	Actual	\$ Difference	% Difference
Individual Income Tax	\$2,553	\$2,740	\$187	7.3%
General Sales Tax	2,045	2,103	58	2.9
Corporate Franchise Tax	755	820	65	8.7
Other Revenues	633	722	89	14.0
<b>Total Revenues<sup>1</sup></b>	<b>\$5,985</b>	<b>\$6,385</b>	<b>\$400</b>	<b>6.7%</b>

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

## Fiscal Year 2023 Revenues Above the Forecast

Minnesota’s net general fund receipts for FY 2023 are now estimated to total \$30.485 billion, \$630 million (2.1 percent) more than projected in the February 2023 Budget and Economic Forecast. Net receipts from all major taxes exceeded the forecast. In the July 10 *Revenue and Economic Update*, we estimated that revenues would be \$529 million more than forecast. The positive variance is now \$101 million larger, because net revenues attributable to fiscal year 2023 that were received between the end of July and the official close were higher than our initial estimate. The next official forecast will be released in early December 2023.

## Near-term U.S. Economic Outlook Improves; Forecast Lower After 2025

The outlook for U.S. real GDP growth in 2023 has improved since Minnesota’s *Budget and Economic Forecast* was prepared in February 2023. In their October forecast, S&P Global (S&P), Minnesota’s macroeconomic consultant, expects annual real GDP to grow 2.5 percent this year and 1.6 percent next year, compared to increases of 0.7 percent and 1.6 percent in their February forecast. S&P expects real GDP to grow 1.5 percent on average from 2025 to 2027, compared to 1.8 percent in the February forecast.

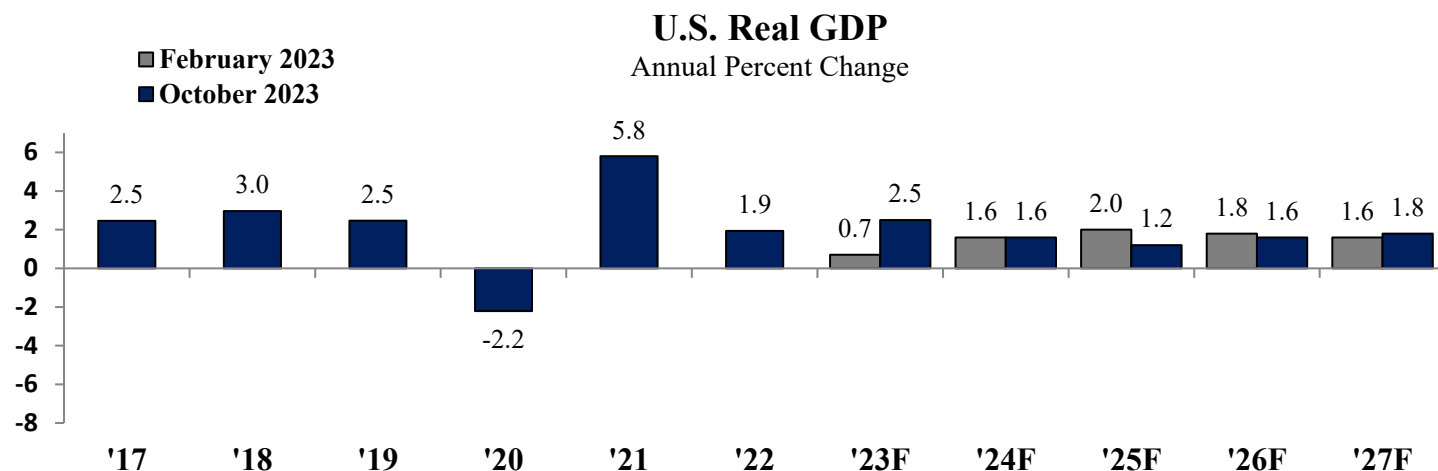
The improved near-term economic outlook is the result of the economy’s remarkable resilience throughout the year in the face of tightening financial conditions. S&P’s

October forecast for consumer spending growth in 2023 is 2.3 percent, compared to 1.0 percent in their February outlook. Spending is expected to grow 4.0 percent (annual rate) in the third quarter and 2.1 percent in the fourth quarter. Similarly, S&P expects business fixed investment to grow 4.4 percent this year, compared to 0.3 percent in their February outlook. Employment has also been stronger than expected. S&P expects an unemployment rate of 3.7 percent in the fourth quarter this year, 0.7 percentage points below their February forecast.

BEA’s third estimate of real GDP in the second quarter of 2023 shows an increase of 2.1 percent (annual rate), following an increase of 2.2 percent in the first quarter. S&P has substantially raised their forecast for real GDP growth in the third and fourth quarters of 2023 to 5.2 percent in the third quarter and 1.7 percent in the fourth quarter, compared to 0.7 and 1.8 percent growth in the February forecast.

The S&P October baseline forecast for 2023 is higher than the October Blue Chip Consensus, the median of 50 business and academic forecasts. The October Blue Chip Consensus calls for 2.2 percent growth in 2023, 0.3 percentage points lower than S&P’s forecast for this year. S&P’s forecast for 2024 is also higher than the Blue Chip Consensus. S&P expects real GDP to grow 1.6 percent in 2024, 0.5 percentage points more than the Blue Chip Consensus of 1.1 percent growth next year.

The Bureau of Labor Statistics (BLS) reports that in September the seasonally adjusted U.S. unemployment rate was 3.8 percent, the same as August’s rate and 0.3 percentage points higher than the rate in September 2022. Employment rose by 336,000 in September, higher



Source: Bureau of Economic Analysis and S&P Global.

than the average of 267,000 in the prior twelve months. The number of long-term unemployed (those jobless for 27 weeks or more) is 1.2 million, similar to the average in the prior twelve months. S&P now expects the U.S. unemployment rate to stay at 3.7 percent through the first quarter next year before gradually increasing to 4.7 percent in early 2026.

The unemployment rate does not capture those who are not in the labor force or who are in the labor force but are not looking for payroll employment. The labor force increased by 90,000 in September, lower than the average of 260,000 in the prior twelve months. The U.S. labor force participation rate was 62.8 percent in September, the highest rate since February 2020 when it was 63.3 percent.

S&P expects the price of Brent crude oil to average \$88 per barrel in the fourth quarter this year and average \$86 per barrel in 2024.

S&P expects that the Federal Reserve will hold the federal funds rate above 5 percent in the near term to contain inflationary pressures. In their October forecast, S&P expects that the federal funds rate will reach a peak of 5.6 percent in the first quarter next year and go below 5.0 percent in early 2025.

S&P slightly raised their forecast for headline CPI inflation in 2023 to 4.1 percent from 4.0 percent in their February

outlook. They expect 2.4 percent inflation in 2024 compared to 2.3 percent in their February forecast.

The alternative scenarios for the S&P October forecast are not yet available. The following alternatives are based on the September forecast. S&P assigns a 55 percent probability to the September baseline outlook. S&P assigns a 30 percent probability to a more pessimistic scenario, characterized by (1) a significant tightening of lending standards by financial institutions that restrains consumer spending and small business activity, and (2) higher energy prices caused by a worsening Russia-Ukraine conflict. Growth in consumer spending and business fixed investment is diminished in 2024, and the price of Brent crude oil is about \$20 per barrel higher throughout the forecast horizon than in the baseline. The unemployment rate reaches 6.4 percent by mid-2025, compared to a peak of 4.7 percent in the baseline. GDP grows 0.8 percent in 2024, compared to 1.5 percent in the baseline scenario. In the more optimistic scenario, S&P assumes (1) strong credit expansion on the part of financial institutions that supports consumer spending, and (2) a quicker resolution to the Russia-Ukraine conflict, which leads to lower energy prices. Consumer spending grows 2.2 percent and business fixed investment grows 3.1 percent in 2024, compared to 1.5 percent and 1.8 percent in the baseline. In this scenario, GDP grows 2.2 percent in 2024. The optimistic scenario receives a 15 percent probability.

# Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year 2023			July-September 2023		
	FORECAST REVENUES <sup>1</sup>	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES <sup>1,2</sup>	ACTUAL REVENUES	VARIANCE ACT-FCST
<b>Individual Income Tax</b>						
Withholding	11,465,743	11,467,560	1,817	2,722,304	2,734,709	12,405
Declarations	2,239,500	2,282,015	42,515	474,587	391,307	(83,281)
Miscellaneous	2,061,310	1,967,225	(94,085)	141,209	144,640	3,431
Partnership & S Corporation Gross	<u>2,293,300</u>	<u>2,591,444</u>	<u>298,144</u>	<u>445,796</u>	<u>523,598</u>	<u>77,802</u>
Gross	18,059,853	18,308,244	248,391	3,783,897	3,794,254	10,358
Partnership & S Corporation Refunds	135,700	144,608	8,908	29,264	28,479	(785)
Individual, Fiduciary, & Withholding Ref.	<u>2,429,934</u>	<u>2,386,075</u>	<u>(43,859)</u>	<u>1,202,009</u>	<u>1,025,705</u>	<u>(176,304)</u>
Total Refunds	2,565,634	2,530,683	(34,951)	1,231,273	1,054,184	(177,089)
Net Income Tax	15,494,219	15,777,561	283,342	2,552,623	2,740,071	187,447
<b>Corporate Franchise Tax</b>						
Declarations	2,710,358	2,921,073	210,715	732,659	794,143	61,484
Miscellaneous	215,428	213,163	(2,264)	45,290	31,837	(13,454)
Gross	2,925,786	3,134,236	208,450	777,949	825,980	48,030
Refund	161,765	205,315	43,550	23,039	5,740	(17,299)
Net	2,764,021	2,928,921	164,900	754,911	820,239	65,329
<b>General Sales and Use Tax</b>						
Gross	7,587,911	7,623,120	35,209	2,087,210	2,114,607	27,396
MPLS Sales Tax Transferred to MSFA				-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	22,793	24,618	1,825	5,976	5,976	0
Sales Tax Gross	7,610,704	7,647,738	37,034	2,093,186	2,120,582	27,396
Refunds (including Indian refunds)	201,798	201,295	(503)	48,624	17,528	(31,096)
Net	7,408,905	7,446,443	37,538	2,044,562	2,103,054	58,492
<b>Other Revenues</b>						
Net Estate	233,300	260,098	26,798	59,427	74,448	15,021
Net Liquor/Wine/Beer	106,700	109,292	2,592	21,663	22,938	1,275
Net Cigarette/Tobacco	549,080	529,799	(19,281)	99,392	91,997	(7,395)
Deed and Mortgage	281,023	261,544	(19,479)	60,513	54,890	(5,623)
Net Insurance Premiums Taxes	462,684	512,680	49,996	120,225	151,473	31,248
Net Lawful Gambling	195,900	195,759	(141)	36,965	37,672	706
Health Care Surcharge	326,659	314,115	(12,544)	18,093	7,585	(10,508)
Other Taxes	58,355	43,278	(15,077)	0	0	0
Statewide Property Tax	757,362	765,246	7,884	14,974	18,084	3,110
DHS SOS Collections	96,950	121,079	24,129	26,510	42,533	16,023
Investment Income	433,900	501,676	67,776	117,047	133,582	16,536
Tobacco Settlement	170,985	179,497	8,512	0	0	0
Dept. Earnings & MSOP Recovery	228,715	234,832	6,117	34,742	37,231	2,488
Fines and Surcharges	67,955	79,642	11,687	9,471	8,367	(1,105)
Lottery Revenues	81,286	91,567	10,281	9,638	16,889	7,251
Revenues yet to be allocated	0	0	0	0	12,341	12,341
Residual Revenues	142,389	137,950	(4,439)	5,798	12,200	6,402
Other Subtotal	4,193,244	4,338,055	144,811	634,458	722,230	87,772
Other Refunds	5,302	5,960	658	1,351	458	(892)
Other Net	4,187,942	4,332,095	144,153	633,108	721,772	88,664
<b>Total Gross</b>	<b>32,789,587</b>	<b>33,428,273</b>	<b>638,687</b>	<b>7,289,490</b>	<b>7,463,046</b>	<b>173,556</b>
<b>Total Refunds</b>	<b>2,934,499</b>	<b>2,943,253</b>	<b>8,754</b>	<b>1,304,286</b>	<b>1,077,910</b>	<b>(226,377)</b>
<b>Total Net</b>	<b>29,855,088</b>	<b>30,485,020</b>	<b>629,933</b>	<b>5,985,204</b>	<b>6,385,136</b>	<b>399,932</b>

1. February 2023 Budget and Economic Forecast.

2. Adjusted for legislative changes.