

Revenue and Economic Update

April 2024

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Revenues Above February 2024 Forecast

Minnesota’s net general fund receipts for February and March 2024 are now estimated to total \$3.946 billion, \$241 million (6.5 percent) more than forecast in the February 2024 *Budget and Economic Forecast*.

Because forecast receipts are now updated to reflect the February 2024 Budget and Economic Forecast, the fiscal year-to-date variance is the same dollar amount as the quarterly variance, \$241 million above the forecast, which is 1.2 percent of fiscal year-to-date forecast revenues.

Net individual income tax receipts for February and March were \$70 million (4.0 percent) more than forecast. Higher than expected gross receipts offset refunds that were above the forecast. (See page 4 for details.)

Income tax withholding receipts, associated with TY 2024 liability, were \$68 million (3.1 percent) higher than forecast. Estimated income tax payments (labeled declarations on page 4), associated with both TY 2023 and TY 2024, were \$13 million (28.3 percent) below the forecast.

Miscellaneous payments, which includes payments accompanying individual tax returns for TY 2023, were \$49 million lower than forecast. Income tax refunds not related to partnerships and S Corporations were \$11 million more than forecast.

Payments from Partnerships and SCorps were \$87 million above the forecast, and Partnership and SCorp refunds were \$11 million higher than expected. The favorable variance for these net payments is primarily associated with TY 2023 liability. A significant part of the payments will generate higher Pass-Through Entity (PTE) tax credits than forecast and will be refunded or transferred to next years’ estimated tax when taxpayers who made extension payments file their returns on October 15.

Net sales tax receipts were \$24 million (2.3 percent) above the forecast. The variance is due to larger than expected payments and refunds below the forecast.

Net corporate tax receipts were \$110 million (28.4 percent) above the forecast. The variance is primarily due to larger than expected payments in March.

Other net revenues were \$37 million (6.6 percent) higher than expected. Among other taxes, the largest dollar amount variance was in net insurance premiums taxes, which were \$37 million above the forecast and investment income, which was \$17 million above the forecast.

Summary of Revenues: February-March 2024

(\$ in millions)	February 2024			
	Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,732	\$1,802	\$70	4.0%
General Sales Tax	1,022	1,046	24	2.3
Corporate Franchise Tax	387	498	110	28.4
Other Revenues	563	600	37	6.6
Total Revenues¹	\$3,705	\$3,946	\$241	6.5

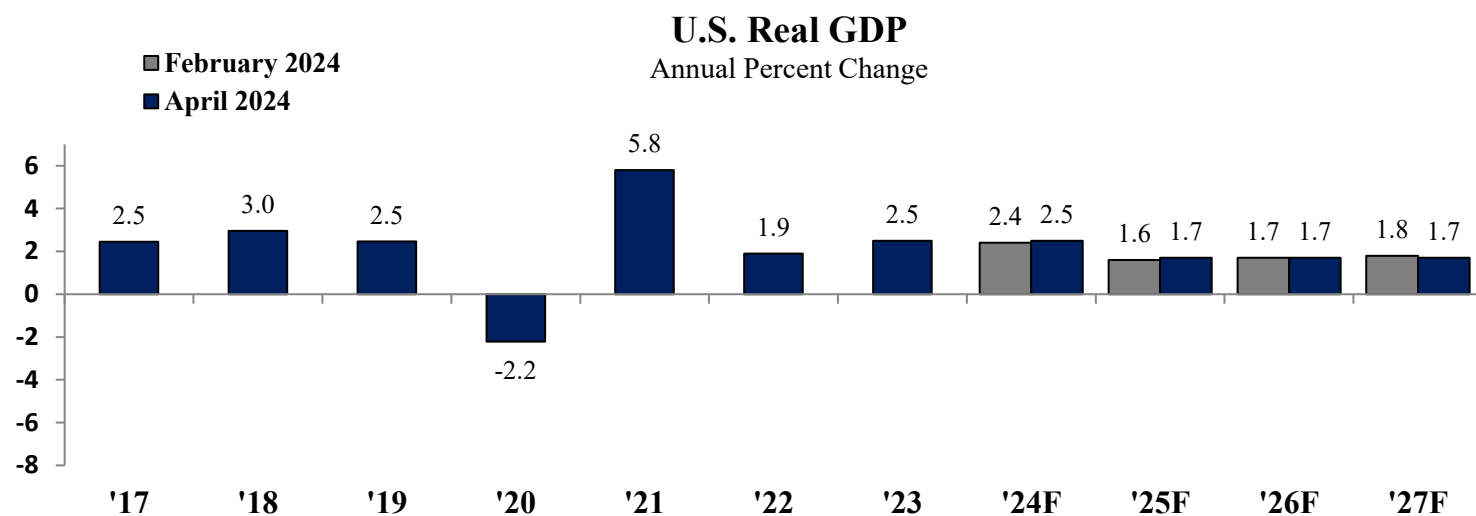
1. Totals may not add due to rounding.

Near-term U.S. Economic Outlook Slightly Improved

The near-term outlook for U.S. real GDP growth has slightly improved since Minnesota’s *Budget and Economic Forecast* was prepared in February 2024. S&P Global Market Intelligence (SPGMI), Minnesota’s macroeconomic consultant, now expects annual real GDP to grow 2.5 percent this year, compared to 2.4 percent in their February forecast. The forecast for growth in 2025 is 0.1 percentage point higher than in the February outlook. The forecast for 2026 is unchanged, and the forecast for 2027 is 0.1 percentage point lower. SPGMI now anticipates growth of 2.5 percent in 2024 and 1.7 percent annually in 2025 through 2027.

raise their projection of the resident population by roughly 7 million by 2030. These upward revisions result in boosts to the demand side of the economy (from more housing, consumption, and investment) and the supply side, through higher labor supply. On net, SPGMI expects the changes to result in slightly faster near-term growth.

The Bureau of Economic Analysis’ (BEA’s) third and final estimate of real GDP in 2023 shows growth of 3.4 percent, slightly ahead of SPGMI expectation of 3.3 percent growth in the February forecast. SPGMI now expects growth of 1.6 percent (annual rate) in the first quarter of 2024, 0.5 percentage points lower than the 2.1 percent growth expected in February. The markdown in first-quarter GDP growth is the result of unexpected weakness in trade and inventories data through February.



Source: Bureau of Economic Analysis and SPGMI

The main reason for SPGMI’s higher forecast for 2025 GDP growth is the inclusion of higher estimates of immigration into the U.S., both during 2023 and in future population projections. In mid-January, the Congressional Budget Office (CBO) published new population estimates and projections. The CBO’s population estimate for 2023 increased by 2.4 million above the previous projection, primarily because immigration was estimated to be higher. Payroll employment gains grew by 3.0 million in 2023, higher than in any year from 2000 to 2020. There is now evidence that strength in immigration can account for some of the unexpected robustness in payroll jobs. The revisions to CBO’s population estimates caused SPGMI to

SPGMI expects that the price of Brent crude oil will average \$85 per barrel in 2024 and \$79 in 2025, both up slightly from the February forecast of \$83 and \$76 in 2024 and 2025, respectively.

SPGMI expects CPI inflation to fall from 4.1 percent in 2023 to 3.2 percent in 2024 and 2.3 percent in 2025. This is a higher inflation path than SPGMI expected in February, when they forecast inflation of 2.8 percent in 2024 and 1.9 percent in 2025.

The SPGMI April baseline forecast for 2024 is slightly higher than the most recent Blue Chip Consensus, the median of 50 business and academic forecasts. The April Blue Chip Consensus calls for 2.4 percent growth in 2024, compared to the SPGMI forecast of 2.5 percent for this

year. SPGMI expects real GDP to grow 1.7 percent in 2025, matching the Blue Chip Consensus.

The Bureau of Labor Statistics (BLS) reports that in March the seasonally adjusted U.S. unemployment rate was 3.8 percent, and that 6.4 million people remain unemployed, both historically low levels. The U.S. unemployment rate has remained below 4.0 percent since January 2022. Nonfarm payroll employment rose by a robust 303,000 jobs in March. The number of long-term unemployed (those jobless for 27 weeks or more) is 1.2 million, up from 1.1 million in March 2023. SPGMI expects that the U.S. unemployment rate will average 3.8 percent in 2024, 4.1 percent in 2025, and 4.3 percent in 2026.

The U.S. labor force participation rate was 62.7 percent in March, little changed from the rate of 62.6 one year ago.

The alternative scenarios for the SPGMI April forecast are not yet available. The following alternatives are based on the March forecast. SPGMI assigns a 55 percent probability to the March baseline outlook. The alternative

scenarios are weighted toward the downside. SPGMI 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 worsening conflicts in Ukraine and the Middle East. As a result, real GDP grows 1.6 percent in 2024 and 0.7 percent in 2025, compared to 2.5 and 1.4 percent in the baseline outlook.

In the more optimistic scenario, SPGMI assumes that (1) strong credit expansion in the banking system supports consumer spending, and (2) conflicts in Ukraine and the Middle East subside, leading to lower energy prices. Consumer spending and business investment are stronger relative to the baseline. This scenario also assumes that the federal Infrastructure, Investment, and Jobs Act has a greater economic impact than in the baseline. In this scenario, GDP grows 3.0 percent in 2024 and 2.1 percent in 2025. The optimistic scenario receives a 15 percent probability.

Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year to Date 2024			February-March 2024		
	FORECAST REVENUES ¹	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES ¹	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	8,991,418	9,059,088	67,670	2,196,411	2,264,081	67,670
Declarations	1,012,800	999,616	(13,184)	46,589	33,405	(13,184)
Miscellaneous	722,346	673,227	(49,119)	298,395	249,276	(49,119)
Partnership & S Corporation Gross	<u>2,063,842</u>	<u>2,151,066</u>	<u>87,225</u>	<u>554,020</u>	<u>641,245</u>	<u>87,225</u>
Gross	12,790,405	12,882,998	92,593	3,095,415	3,188,008	92,593
Partnership & S Corporation Refunds	88,164	99,301	11,137	27,324	38,461	11,137
Individual, Fiduciary, & Withholding Ref.	<u>2,747,407</u>	<u>2,758,886</u>	<u>11,480</u>	<u>1,336,267</u>	<u>1,347,747</u>	<u>11,480</u>
Total Refunds	2,835,570	2,858,187	22,617	1,363,591	1,386,208	22,617
Net Income Tax	9,954,835	10,024,811	69,976	1,731,824	1,801,799	69,976
Corporate Franchise Tax						
Declarations	1,981,453	2,084,886	103,432	406,062	509,495	103,432
Miscellaneous	177,883	181,995	4,112	22,226	26,338	4,112
Gross	2,159,336	2,266,881	107,545	428,288	535,833	107,545
Refund	119,981	117,351	(2,630)	40,914	38,283	(2,630)
Net	2,039,355	2,149,530	110,175	387,375	497,550	110,175
General Sales and Use Tax						
Gross	5,887,770	5,898,619	10,849	1,068,241	1,079,090	10,849
MPLS Sales Tax Transferred to MSFA	-	-	-	-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	14,236	14,236	0	2,507	2,507	0
Sales Tax Gross	5,902,006	5,912,856	10,849	1,070,748	1,081,598	10,849
Refunds (including Indian refunds)	130,916	117,807	(13,109)	48,423	35,314	(13,109)
Net	5,771,090	5,795,049	23,959	1,022,325	1,046,284	23,959
Other Revenues						
Net Estate	196,327	187,772	(8,555)	32,779	24,224	(8,555)
Net Liquor/Wine/Beer	74,231	73,576	(654)	15,505	14,851	(654)
Net Cigarette/Tobacco	372,288	374,633	2,344	51,538	53,882	2,344
Deed and Mortgage	163,113	162,964	(149)	30,997	30,848	(149)
Net Insurance Premiums Taxes	414,994	452,157	37,163	148,584	185,747	37,163
Net Lawful Gambling	137,423	138,529	1,107	34,471	35,578	1,107
Health Care Surcharge	170,747	156,937	(13,810)	64,105	50,296	(13,810)
Other Taxes	126	126	0	41	41	0
Statewide Property Tax	340,429	336,929	(3,500)	4,026	526	(3,500)
DHS SOS Collections	105,505	105,424	(82)	18,196	18,115	(82)
Investment Income	510,660	528,115	17,455	114,917	132,372	17,455
Tobacco Settlement	141,814	141,853	39	-	39	39
Dept. Earnings & MSOP Recovery	158,724	165,079	6,355	25,191	31,546	6,355
Fines and Surcharges	38,789	35,901	(2,888)	4,683	1,795	(2,888)
Lottery Revenues	52,494	52,912	418	9,262	9,680	418
Revenues yet to be allocated	13,306	16,482	3,176	-	3,176	3,176
Residual Revenues	143,306	142,381	(925)	10,437	9,512	(925)
Other Subtotal	3,034,278	3,071,770	37,493	564,733	602,226	37,493
Other Refunds	6,678	7,228	550	1,683	2,232	550
Other Net	3,027,599	3,064,543	36,943	563,050	599,993	36,943
Total Gross	23,886,025	24,134,505	248,480	5,159,184	5,407,664	248,480
Total Refunds	3,093,146	3,100,572	7,427	1,454,610	1,462,037	7,427
Total Net	20,792,879	21,033,932	241,053	3,704,574	3,945,627	241,053

1. February 2024 Budget and Economic Forecast.