

Revenue and Economic Update

January 2024

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Revenues Above November 2023 Forecast

Minnesota’s net general fund receipts for November and December of 2023 are now estimated to total \$5.221 billion, \$70 million (1.4 percent) more than forecast in the November 2023 *Budget and Economic Forecast*. Net individual and corporate income tax receipts were above the forecast for the period, while net receipts from sales and other taxes were less than forecast.

Because forecast receipts are now updated to reflect the November 2023 *Budget and Economic Forecast*, the fiscal year-to-date variance is the same dollar amount as the quarterly variance, \$70 million above the forecast, which is 0.5 percent of fiscal year-to-date forecast revenues.

Net individual income tax receipts were \$37 million (1.5 percent) more than forecast. Higher than expected gross receipts and lower refunds both contributed to the positive variance. (See page 4 for details.)

Income tax withholding receipts were \$35 million (1.7 percent) higher than forecast. Estimated income tax payments (labeled declarations on page 4) were \$2 million (1.5 percent) below the forecast.

Partnership and S corporation payments were \$37 million (7.8 percent) below the forecast. Combining December and January receipts will help us understand if the current

variance arises from the timing of payments or lower tax liability.

Income tax refunds were \$29 million (10.3 percent) lower than forecast. We believe this is largely due to the timing of tax return processing, rather than higher than expected TY 2022 liability.

Net sales tax receipts were \$1 million (0.1 percent) lower than forecast. Lower than expected refunds nearly offset gross tax payments that were less than forecast.

Net corporate receipts were \$65 million (11.5 percent) more than forecast. Higher than expected gross tax payments and lower refunds both contributed to the positive variance.

Net receipts from other taxes were \$30 million (3.2 percent) lower than forecast. Lower than expected gross tax payments and higher refunds both contributed to the negative variance.

Summary of Revenues: November-December 2023

(\$ in millions)	November 2023			
	Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$2,423	\$2,460	\$37	1.5%
General Sales Tax	1,222	1,221	(1)	(0.1)
Corporate Franchise Tax	560	625	65	11.5
Other Revenues	945	915	(30)	(3.2)
Total Revenues¹	\$5,150	\$5,221	\$70	1.4%

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 2024-2025 has improved since Minnesota’s *Budget and Economic Forecast* was prepared in November 2023. In their January forecast, SPGMI Global Market Intelligence, IHS Global Inc (SPGMI), Minnesota’s macroeconomic consultant, expects annual real GDP to have grown 2.4 percent in 2023, the same as in the November forecast. The forecast for real GDP growth has been revised up to 1.7 percent in 2024 and 1.5 percent in 2025 from 1.4 percent in both years in the November forecast. The forecast for real GDP growth was revised down to 1.4 percent from 1.7 percent in each of years 2026 and 2027.

The upward revision in the near-term economic outlook this month is primarily due to the easing of financial conditions following the December meeting of the Federal Open Market Committee (FOMC). In their November forecast, SPGMI expected the FOMC to implement one more federal funds rate increase in December 2023, followed by three rate cuts beginning in June 2024. The FOMC did not raise the federal funds rate in December, and committee members began discussing rate cuts in 2024. SPGMI now expects the FOMC to lower the federal funds rate by .25 percentage points four separate times in 2024, beginning in March. This would bring the rate’s target range to 4.25-4.50 percent by December, half a percentage point lower than in the November forecast.

SPGMI’s inflation forecast is little changed from November. They expect headline CPI inflation to average

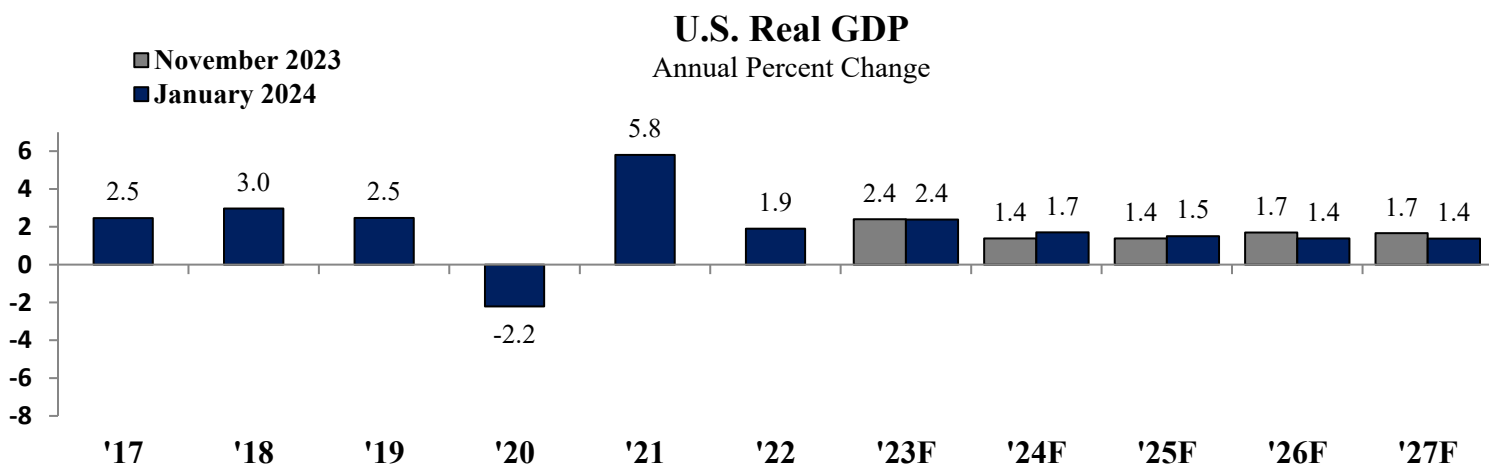
2.7 percent in 2024 and 2.0 percent in 2025, the same rates as in their November forecast.

BEA’s third estimate of real GDP in the third quarter of 2023 shows growth of 4.9 percent (annual rate), the same as SPGMI’s November forecast. SPGMI has decreased their forecast for real GDP growth in the fourth quarter to a 0.8 percent annual rate, down from 1.1 percent in their November outlook. They have increased their forecast for the first quarter of 2024 from 0.9 percent to 1.2 percent.

SPGMI expects the price of Brent crude oil to average \$83.29 per barrel in 2024, up from \$82.48 per barrel in 2023.

The SPGMI 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 1.6 percent growth in 2024, slightly lower than SPGMI’s forecast of 1.7 percent. The Consensus calls for 1.7 percent growth in 2025, slightly higher than SPGMI’s forecast of 1.5 percent.

The Bureau of Labor Statistics (BLS) reports that in December the seasonally adjusted U.S. unemployment rate was 3.7 percent, the same as in November. The U.S. unemployment rate has remained between 3.4 percent and 3.8 percent since March 2022. The BLS reports that roughly 6.3 million people are currently unemployed, 0.6 million more than a year ago. Non-farm payroll employment rose by 216,000 in December, bringing average monthly employment growth for the second half of the year to 193,000. This a deceleration from the monthly average of 257,000 jobs in the first half of 2023.



Source: Bureau of Economic Analysis and S&P Global Market Intelligence, IHS Markit Inc (SPGMI)

The number of long-term unemployed (those jobless for 27 weeks or more) is 1.2 million, 0.1 million more than a year ago. SPGMI expects the U.S. unemployment rate to increase to 4.1 percent by mid-2024 and gradually increase to 4.4 percent by 2027.

The U.S. labor force participation rate was 62.5 percent in December, 0.2 percentage points higher than a year ago. The prime-age participation rate, the rate for persons aged 25 to 54, was 83.2 percent in December, 0.7 percentage points higher than a year ago.

SPGMI assigns a 55 percent probability to the January baseline outlook. They assign 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 2.3 percent in 2023 and 0.8 percent in 2024, compared to 2.4 and 1.7 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 increases 2.4 percent in both 2023 and 2024. The optimistic scenario receives a 15 percent probability.

Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year 2024			November-December 2023		
	FORECAST REVENUES ¹	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES ¹	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	5,708,310	5,742,833	34,523	2,051,907	2,086,430	34,523
Declarations	540,000	538,448	(1,552)	101,614	100,062	(1,552)
Miscellaneous	366,518	379,111	12,593	73,766	86,359	12,593
Partnership & S Corporation Gross	1,041,200	1,004,268	(36,932)	472,948	436,016	(36,932)
Gross	7,656,027	7,664,659	8,632	2,700,235	2,708,868	8,632
Partnership & S Corporation Refunds	67,183	55,593	(11,591)	27,953	16,362	(11,591)
Individual, Fiduciary, Withholding Refunds	1,343,527	1,326,507	(17,021)	249,518	232,497	(17,021)
Total Refunds	1,410,711	1,382,099	(28,611)	277,471	248,860	(28,611)
Net Income Tax	6,245,317	6,282,560	37,244	2,422,764	2,460,008	37,244
Corporate Franchise Tax						
Declarations	1,408,835	1,450,430	41,596	525,218	566,814	41,596
Miscellaneous	120,702	139,579	18,877	66,519	85,396	18,877
Gross	1,529,537	1,590,010	60,473	591,737	652,210	60,473
Refund	62,561	58,395	(4,166)	31,623	27,457	(4,166)
Net	1,466,976	1,531,615	64,639	560,114	624,753	64,639
General Sales and Use Tax						
Gross	4,095,849	4,088,361	(7,488)	1,268,902	1,261,414	(7,488)
Mpls. sales tax transferred to MSFA	-	-	-	-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	10,475	10,475	(1)	2,507	2,507	(1)
Sales Tax Gross	4,106,324	4,098,836	(7,489)	1,271,409	1,263,920	(7,489)
Refunds (including Indian refunds)	74,907	68,647	(6,261)	49,311	43,050	(6,261)
Net	4,031,417	4,030,189	(1,228)	1,222,098	1,220,870	(1,228)
Other Revenues:						
Net Estate	136,605	135,645	(959)	38,286	37,327	(959)
Net Liquor/Wine/Beer	49,241	49,185	(56)	17,566	17,510	(56)
Net Cigarette/Tobacco	231,416	241,331	9,914	94,635	104,549	9,914
Deed and Mortgage	123,168	115,882	(7,285)	48,038	40,753	(7,285)
Net Insurance Premiums Taxes	268,880	265,362	(3,518)	114,266	110,748	(3,518)
Net Lawful Gambling	84,668	84,606	(62)	31,432	31,370	(62)
Health Care Surcharge	89,992	81,266	(8,726)	60,619	51,893	(8,726)
Other Taxes	0	70	70	-	70	70
Statewide Property Tax	341,640	331,738	(9,902)	170,532	160,630	(9,902)
DHS SOS Collections	77,483	72,265	(5,218)	22,391	17,173	(5,218)
Investment Income	307,667	318,657	10,990	50,729	61,719	10,990
Tobacco Settlement	151,326	141,814	(9,512)	151,326	141,814	(9,512)
Dept. Earnings & MSOP Recov.	95,592	109,303	13,711	35,769	49,480	13,711
Fines and Surcharges	30,970	26,280	(4,690)	12,377	7,687	(4,690)
Lottery Revenues	32,006	36,793	4,787	8,834	13,621	4,787
Revenues yet to be allocated	12,163	13,009	846	-	846	846
Residual Revenues	146,384	128,085	(18,299)	89,692	71,393	(18,299)
Other Subtotal	2,179,202	2,151,291	(27,911)	946,493	918,583	(27,911)
Other Refunds	2,028	4,337	2,309	1,158	3,467	2,309
Other Net	2,177,174	2,146,954	(30,220)	945,335	915,116	(30,220)
Total Gross	15,471,090	15,504,796	33,706	5,509,875	5,543,581	33,706
Total Refunds	1,550,207	1,513,478	(36,729)	359,563	322,834	(36,729)
Total Net	13,920,883	13,991,317	70,435	5,150,312	5,220,746	70,435

1. November 2023 Budget and Economic Forecast.