

Revenue and Economic Update

April 10, 2025

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Revenues Higher than February 2025 Forecast

Minnesota’s net general fund receipts for February and March of 2025 are now estimated to total \$3.712 billion, \$244 million (7.0 percent) more than forecast in the February 2025 *Budget and Economic Forecast*. Net individual income tax receipts were above the forecast for the period. Net corporate franchise tax and receipts from sales and use taxes were slightly below forecast, and other revenues were slightly above forecast.

Because forecast receipts are now updated to reflect the February 2025 *Budget and Economic Forecast*, the fiscal year-to-date variance is the same dollar amount as the quarterly variance, \$244 million above the forecast, which is 1.1 percent of fiscal year-to-date forecast revenues.

For February and March, net individual income tax receipts were \$252 million (20.2 percent) more than forecast due mainly to lower-than-expected refunds. (See page 5 for details.)

Income tax withholding receipts were \$84 million (3.8 percent) higher than forecast. Estimated income tax payments (labeled declarations on page 5) were \$42 million (38.3 percent) below the forecast.

Partnership and S corporation payments were \$114 million (17.2 percent) below the forecast. This negative variance is

primarily associated with lower-than-forecast collections associated with tax year 2024 liability.

Income tax total refunds were \$366 million (18.1 percent) lower than forecast.

Small variances from forecast were seen in other revenue categories. Net sales tax receipts were \$16 million (1.5 percent) lower than forecast. Gross tax payments were less than forecast, offset partially by lower-than-expected refunds. Net corporate franchise tax receipts were \$3 million (0.6 percent) less than forecast. Net receipts from other taxes were \$11 million (1.8 percent) more than forecast.

Summary of Revenues: February-March 2025

(\$ in millions)	February 2025			
	Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,246	\$1,499	\$252	20.2%
General Sales Tax	1,060	1,043	(16)	(1.5)
Corporate Franchise Tax	514	511	(3)	(0.6)
Other Revenues	648	660	11	1.8
Total Revenues¹	\$3,468	\$3,712	\$244	7.0%

1. Totals may not add due to rounding.

U.S. Economic Outlook Worsens, No Recession in the Forecast

The outlook for the U.S. economy for 2025-2029 has deteriorated significantly since Minnesota’s *Budget and Economic Forecast* was prepared in February 2025. In their April forecast, S&P Global Market Intelligence (SPGMI), Minnesota’s macroeconomic consultant, downgraded their baseline forecasts of real GDP growth, consumer spending, and business fixed investment. At the same time, their baseline forecasts of inflation and unemployment have been revised upward. If realized, these shifts would likely have broadly adverse effects on Minnesota’s economy.

This forecast does not include a recession but rather a “growth recession,” a period defined by low economic growth and rising unemployment. SPGMI forecasts a gradual recovery in equity values over the next several weeks. If this does not materialize, SPGMI has indicated they will switch to a recession scenario in the May baseline forecast.

Growth Outlook

SPGMI now forecasts real GDP growth of 1.3 percent in 2025 and 1.5 percent in 2026, down from 2.3 and 2.0 percent, respectively, in the February forecast. This downward revision reflects both weaker performance in the first quarter of 2025 and a decline in equity values

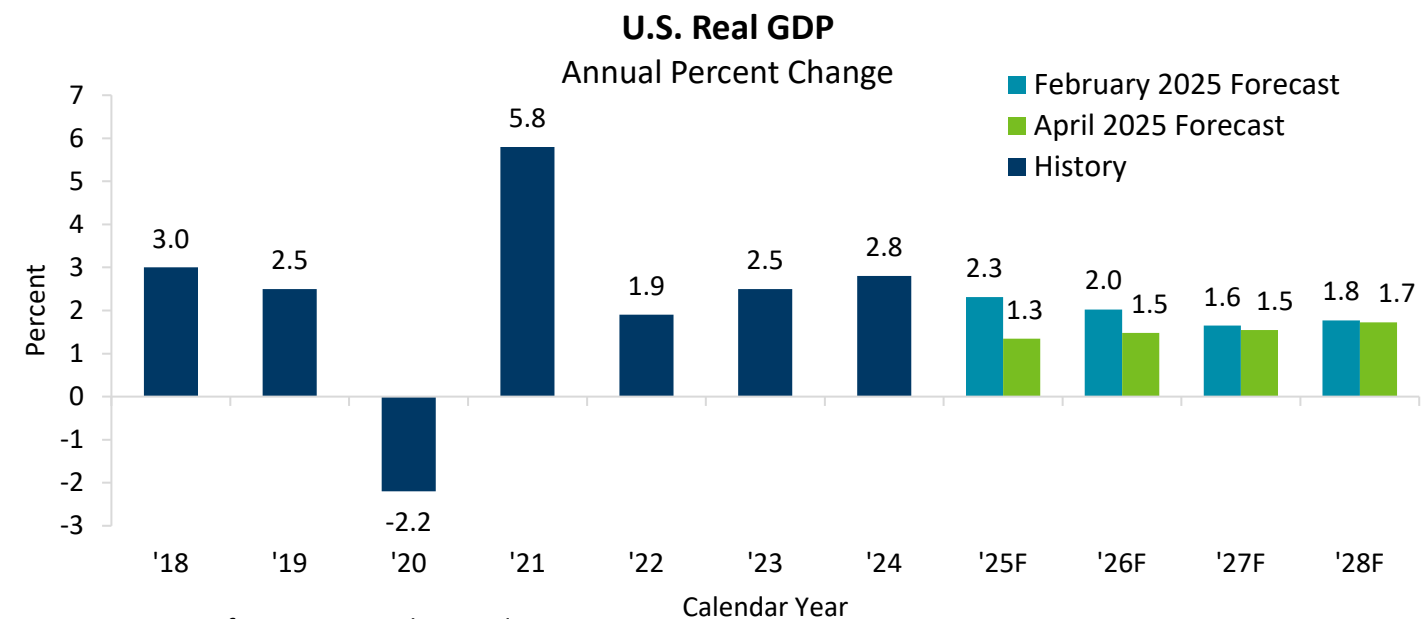
following President Trump’s announced tariffs. Beyond 2026, real GDP growth has been revised downward to 1.5 percent in 2027, 1.7 percent in 2028, and 1.8 percent in 2029.

SPGMI’s forecast assumes a 25 percent tariff on imports of steel and aluminum, and a 25 percent tariff on goods and autos from Canada and Mexico not compliant with the USMCA starting in April. A general tariff on non-USMCA compliant goods, except for autos, steps down to 12 percent over one year. SPGMI assumes an effective tariff rate of 60 percent on Chinese goods beginning in April. Universal tariffs are applied to all other countries, with the average effective rate rising to 24 percent by May.

In addition, this forecast assumes 1) the debt ceiling is raised or suspended prior to the exhaustion of extraordinary measures being taken by the Treasury Department; 2) extension of personal tax policy beyond the expiration of the 2017 Tax Act, the exclusion of tip and overtime pay from federal taxation, and a lowering of the corporate tax rate from 21 percent to 15 percent; and 3) revised population estimates to account for less immigration.

Inflation

The April outlook projects higher levels of inflation driven by the announced tariffs. SPGMI expects inflation as measured by both the CPI and core PCE index to begin increasing in 2025, exceeding 4.0 percent in the third



Source: Bureau of Economic Analysis and SPGMI

quarter of 2025 before falling back to current levels by late 2026. In February, SPGMI expected both measures to remain below 3.1 percent throughout the forecast horizon. Refer to Chart 1 on page 6 for a summary of key forecast changes to both CPI and core PCE inflation.

Interest Rates and Monetary Policy

The combination of higher inflation and slower growth puts the Federal Reserve in a difficult position. Elevated inflation readings may limit the Fed's ability to lower rates as much as they would in a typical slowdown. SPGMI expects one 25 bps rate cut in late 2025, followed by several additional cuts in 2026. If realized, this would reduce the target range for the federal funds rate from its current level of 4.25 to 4.5 percent to 3.0 to 3.25 percent in late- 2026. In February, SPGMI expected the federal funds rate to settle between 3.0 and 3.25 percent by 2027.

SPGMI now forecasts the 30-year conventional mortgage rate to remain above 6.0 percent until late 2026. In the February forecast, the mortgage rate was expected to fall below 6.0 percent in early 2027. Although the new forecast is slightly lower than expected in February, elevated interest rates continue to place downward pressure on business and residential investment, as well as purchases of durable goods and new vehicles by households. Refer to Chart 2 on page 6 for a summary of key forecast changes to the federal funds rate and the 30-year fixed mortgage rate.

Unemployment and Labor Markets

The Bureau of Labor Statistics (BLS) reports that the seasonally adjusted U.S. unemployment rate was 4.2 percent in March, up 0.1 percentage points from February. Over the past year, the unemployment rate has increased by 0.3 percentage points. According to the BLS, roughly 7.1 million people are currently unemployed, an increase of 586,000 people from one year ago. Nonfarm payroll employment rose by 228,000 in March, higher than the average monthly gain of 158,000 over the prior 12 months.

The number of long-term unemployed (those jobless for 27 weeks or more) is 1.5 million, 241,000 more than a year ago.

SPGMI currently expects the U.S unemployment rate to rise to 4.7 percent by late 2025, and to 5.1 percent by

2027, before gradually declining. In their February forecast, the unemployment rate was expected to be below 4.5 percent throughout 2029.

The U.S. labor force participation rate was 62.5 percent in March, down 0.2 percentage points from one year ago. The prime-age participation rate, the rate for persons aged 25 to 54, was 80.4 percent in March, 0.3 percentage points lower than a year ago. Refer to Chart 3 on page 7 for a summary of key forecast changes to the unemployment rate.

Alternative Scenarios

SPGMI assigns a 50 percent probability to the baseline scenario described above, a 35 percent probability to a pessimistic scenario, and a 15 percent probability to an optimistic scenario for the U.S. economy.

The more pessimistic scenario is characterized by minimal real GDP growth due to low growth in consumer spending and business investment in 2025 with no consumer spending growth and investment contraction in 2026. Real GDP grows 0.8 percent in 2025 and 0.2 percent in 2026, compared to 1.3 and 1.5 percent in 2025 and 2026 in the baseline scenario.

The more optimistic scenario is characterized by lower tariffs, which result in lower inflation and easing of monetary policy and credit conditions. Stronger consumer spending and business investment contribute to stronger growth relative to the baseline with real GDP growing 1.8 percent in 2025 and 2.4 percent in 2026.

Other Forecasts

The SPGMI April baseline forecast is consistent with the Wolters Kluwer April 2025 "Blue Chip Economic Indicators" consensus, the mean of 50 business and academic forecasts. The Blue Chip consensus for real GDP growth is 1.4 percent in 2025, slightly higher than SPGMI's forecast of 1.3 percent. The mean consensus is 1.4 percent real GDP growth in 2026, slightly lower than SPGMI's forecast of 1.5 percent. The Federal Reserve Board members' and Bank presidents' median projection is for 1.7 percent growth in 2025 and 1.8 percent in 2026,

slightly higher than the SPGMI and mean Blue Chip forecasts.¹

Conclusion

Taken together, SPGMI's April forecast signals a more challenging environment for the U.S. and Minnesota than anticipated in the February 2025 *Budget and Economic*

Outlook. Slower growth, elevated inflation, and higher interest rates are expected to adversely affect consumer and business spending, business investment, residential investment, and labor market conditions. While a recession is not yet in the baseline forecast, the probability of economic contraction has increased, and the outlook remains sensitive to evolving financial and policy developments.

¹ Federal Reserve Board of Governors, "Summary of Economic Projections," March 19, 2025.

<<https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20250319.htm>> Accessed April 10, 2025.

Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

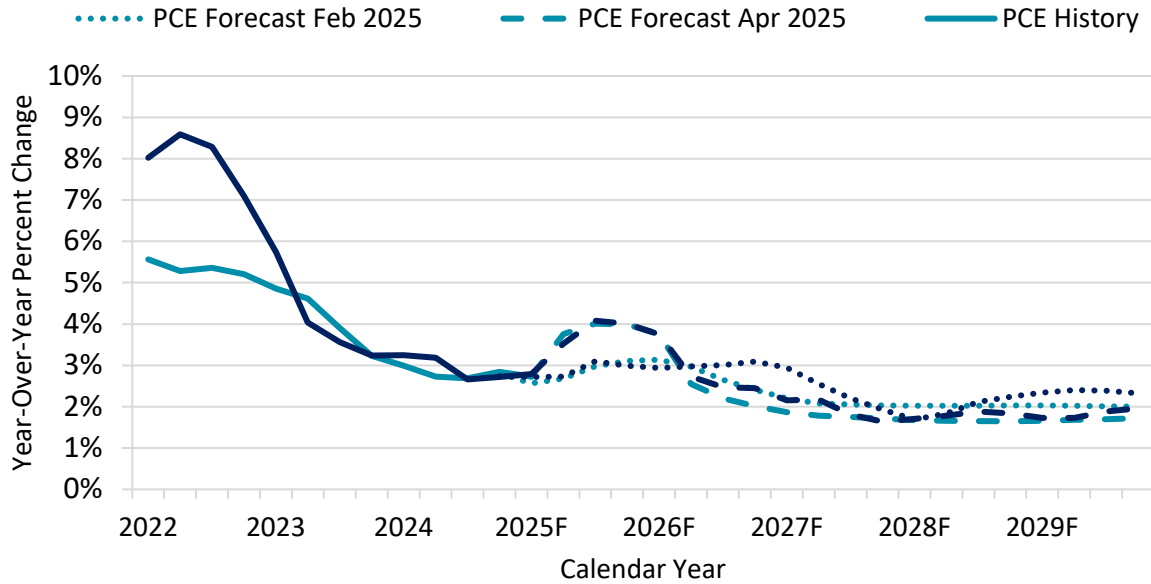
	Fiscal Year 2025			February-March 2025		
	FORECAST REVENUES ¹	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES ¹	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	9,640,277	9,724,204	83,927	2,212,590	2,296,517	83,927
Declarations	1,108,921	1,067,387	(41,534)	108,410	66,876	(41,534)
Miscellaneous	722,301	680,244	(42,057)	286,497	244,440	(42,057)
Partnership & S Corporation Gross	2,258,143	2,144,307	(113,836)	661,853	548,017	(113,836)
Gross	13,729,642	13,616,142	(113,500)	3,269,350	3,155,851	(113,500)
Partnership & S Corporation Refunds	119,675	94,584	(25,091)	43,002	17,911	(25,091)
Individual, Fiduciary, Withholding Refunds	2,440,668	2,099,977	(340,691)	1,979,987	1,639,297	(340,691)
Total Refunds	2,560,343	2,194,562	(365,781)	2,022,989	1,657,207	(365,781)
Net Income Tax	11,169,299	11,421,581	252,282	1,246,361	1,498,643	252,282
Corporate Franchise Tax						
Declarations	2,114,479	2,140,773	26,295	512,943	539,237	26,295
Miscellaneous	214,611	202,820	(11,791)	54,089	42,298	(11,791)
Gross	2,329,090	2,343,594	14,504	567,031	581,535	14,504
Refund	140,332	157,962	17,630	53,119	70,749	17,630
Net	2,188,758	2,185,632	(3,126)	513,912	510,787	(3,126)
General Sales and Use Tax						
Gross	5,910,125	5,865,777	(44,348)	1,111,632	1,067,284	(44,348)
Mpls. sales tax transferred to MSFA	-	-	-	-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	14,062	14,062	-	3,146	3,146	-
Sales Tax Gross	5,924,187	5,879,839	(44,348)	1,114,778	1,070,430	(44,348)
Refunds (including Indian refunds)	136,232	108,165	(28,067)	55,197	27,130	(28,067)
Net	5,787,955	5,771,674	(16,281)	1,059,581	1,043,299	(16,281)
Other Revenues:						
Net Estate	276,842	284,755	7,914	44,838	52,751	7,914
Net Liquor/Wine/Beer	73,153	72,406	(747)	15,209	14,462	(747)
Net Cigarette/Tobacco	349,772	359,574	9,802	52,039	61,841	9,802
Deed and Mortgage	179,046	180,356	1,310	33,325	34,635	1,310
Net Insurance Premiums Taxes	454,257	463,075	8,818	195,206	204,024	8,818
Net Lawful Gambling	137,704	139,951	2,247	31,637	33,884	2,247
Health Care Surcharge	181,547	164,374	(17,173)	70,519	53,345	(17,173)
Other Taxes	296	289	(7)	44	37	(7)
Statewide Property Tax	347,699	345,739	(1,960)	3,568	1,608	(1,960)
DHS SOS Collections	88,216	95,842	7,626	17,856	25,482	7,626
Investment Income	488,349	471,066	(17,284)	129,513	112,229	(17,284)
Tobacco Settlement	130,297	131,338	1,040	-	1,040	1,040
Dept. Earnings & MSOP Recov.	178,621	184,763	6,142	35,053	41,195	6,142
Fines and Surcharges	43,778	47,257	3,479	14,030	17,509	3,479
Lottery Revenues	42,380	41,871	(509)	9,006	8,497	(509)
Revenues yet to be allocated	25,217	22,241	(2,975)	-	(2,975)	(2,975)
Residual Revenues	171,938	175,157	3,219	(2,222)	997	3,219
Other Subtotal	3,169,113	3,180,055	10,941	649,621	660,562	10,941
Other Refunds	4,115	3,693	(422)	1,258	836	(422)
Other Net	3,164,999	3,176,362	11,363	648,363	659,726	11,363
Total Gross	25,152,032	25,019,630	(132,402)	5,600,780	5,468,378	(132,402)
Total Refunds	2,841,022	2,464,382	(376,640)	2,132,563	1,755,922	(376,640)
Total Net	22,311,010	22,555,248	244,238	3,468,217	3,712,455	244,238

1. February 2025 Budget and Economic Forecast.

Key Forecast Changes

Chart 1. Inflation

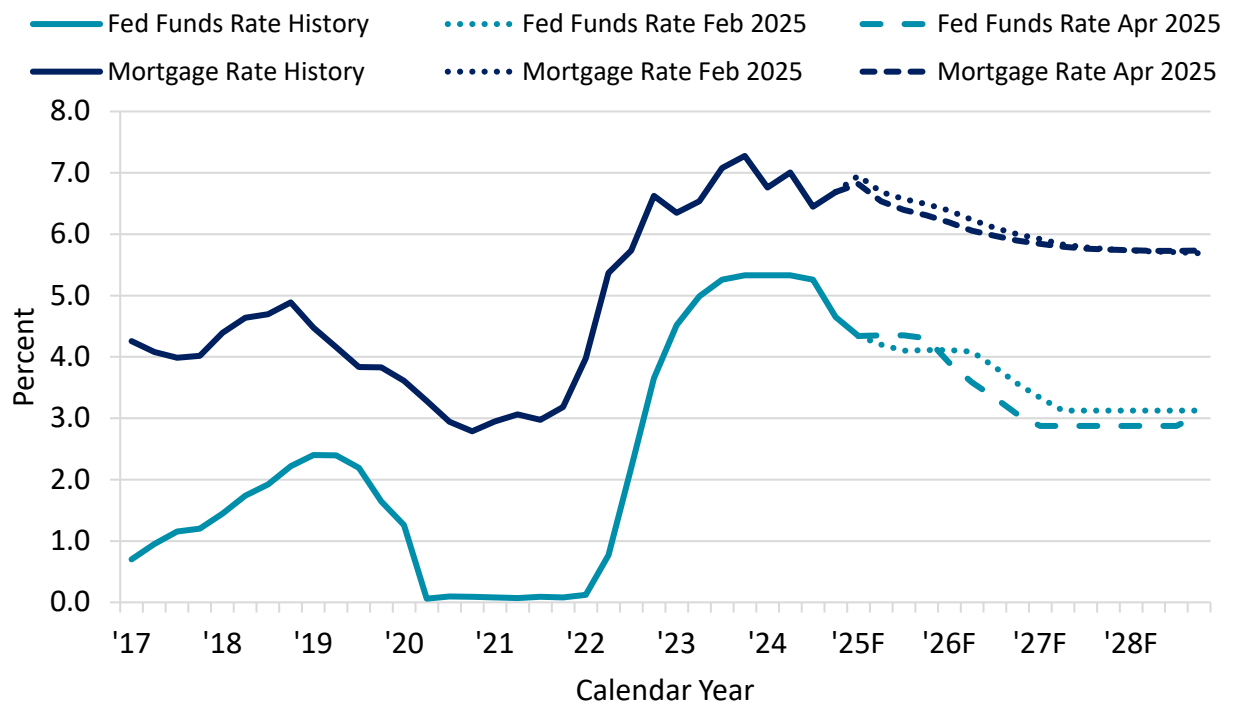
Consumer Price Index (CPI) & Core Personal Consumption Expenditures



Source: Bureau of Economic Analysis and SPGMI

Chart 2. Interest Rates

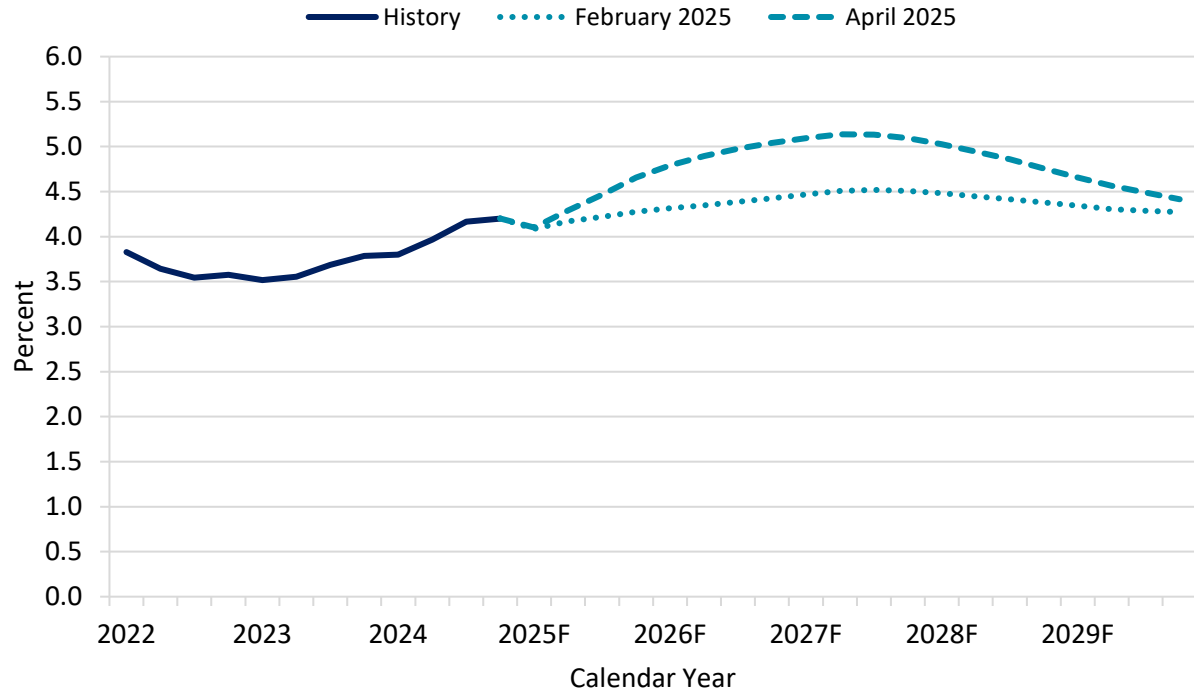
Fed Funds Rate and 30-year Fixed Mortgage Rate



Source: Bureau of Economic Analysis and SPGMI

Chart 3. U.S. Civil Unemployment Rate

Monthly, Seasonally Adjusted



Source: Bureau of Economic Analysis and SPGMI