

Revenue and Economic Update

January 2025

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Revenues Higher than November 2024 Forecast

Minnesota’s net general fund receipts for November and December of 2024 are now estimated to total \$5.642 billion, \$380 million (7.2 percent) more than forecast in the November 2024 *Budget and Economic Forecast*. Net individual and corporate income tax receipts were above the forecast for the period. Net receipts from sales and use taxes were slightly above forecast, and other revenues were slightly less than forecast.

Because forecast receipts are now updated to reflect the November 2024 *Budget and Economic Forecast*, the fiscal year-to-date variance is the same dollar amount as the quarterly variance, \$380 million above the forecast, which is 2.5 percent of fiscal year-to-date forecast revenues.

For November and December, net individual income tax receipts were \$249 million (10.3 percent) more than forecast due mainly to lower-than-expected refunds. (See page 4 for details.)

Income tax withholding receipts were \$39 million (1.8 percent) higher than forecast. Estimated income tax payments (labeled declarations on page 4) were \$9 million (10.2 percent) above the forecast.

Partnership and S corporation payments were \$30 million (6.7 percent) above the forecast. Combining December and January receipts will help us understand if the current

variances arise from the timing of payments or higher tax liability.

Income tax refunds were \$148 million (50.7 percent) lower than forecast. We believe this is largely due to the timing of tax return processing, rather than higher than expected TY 2023 liability.

Net sales tax receipts were \$11 million (0.8 percent) higher than forecast. Lower than expected refunds more than offset gross tax payments that were less than forecast.

Net corporate receipts were \$125 million (20.3 percent) more than forecast. Higher-than-expected gross tax payments were responsible for the positive variance.

Net receipts from other taxes were \$5 million (0.5 percent) lower than forecast.

Summary of Revenues: November-December 2024

(\$ in millions)	November 2024			
	Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$2,413	\$2,663	\$249	10.3%
General Sales Tax	1,247	1,257	11	0.8
Corporate Franchise Tax	615	740	125	20.3
Other Revenues	987	983	(5)	(0.5)
Total Revenues¹	\$5,262	\$5,642	\$380	7.2%

1. Totals may not add due to rounding.

U.S. Economic Outlook Worsens in Near-Term

The outlook for the U.S. economy for 2025-2026 has worsened slightly since Minnesota’s *Budget and Economic Forecast* was prepared in November 2024. In their January forecast, Standard & Poors Global Market Intelligence (SPGMI), Minnesota’s macroeconomic consultant, has revised downward their baseline forecast of real GDP growth, and has revised upward their baseline forecasts of inflation, unemployment, and interest rates. These changes, if they are realized, would have generally adverse effects on Minnesota’s economy.

Growth Outlook

SPGMI expects annual real GDP to have grown 2.8 percent in 2024, slightly higher than the 2.7 percent growth expected in November. SPGMI forecasts real GDP growth of 2.0 percent in 2025 and 1.7 percent in 2026. While the expectation for 2025 is unchanged, 2026 has been revised downward by 0.4 percentage points. The forecast for real GDP growth in 2027 has been revised downward by 0.2 percentage points to 1.6 percent, while the growth forecast for 2028 is unchanged at 1.9 percent.

The weakened near-term economic outlook reflects the net effects of recent developments, including SPGMI’s initial assessment of policies anticipated from the incoming administration and Congress: personal and corporate tax cuts, tariffs, changes to immigration policies, and deportations. This forecast assumes a 10 percent

universal tariff and a 30 percent tariff on imports from China. Additionally, revised population estimates account for less immigration, which dampens housing demand.

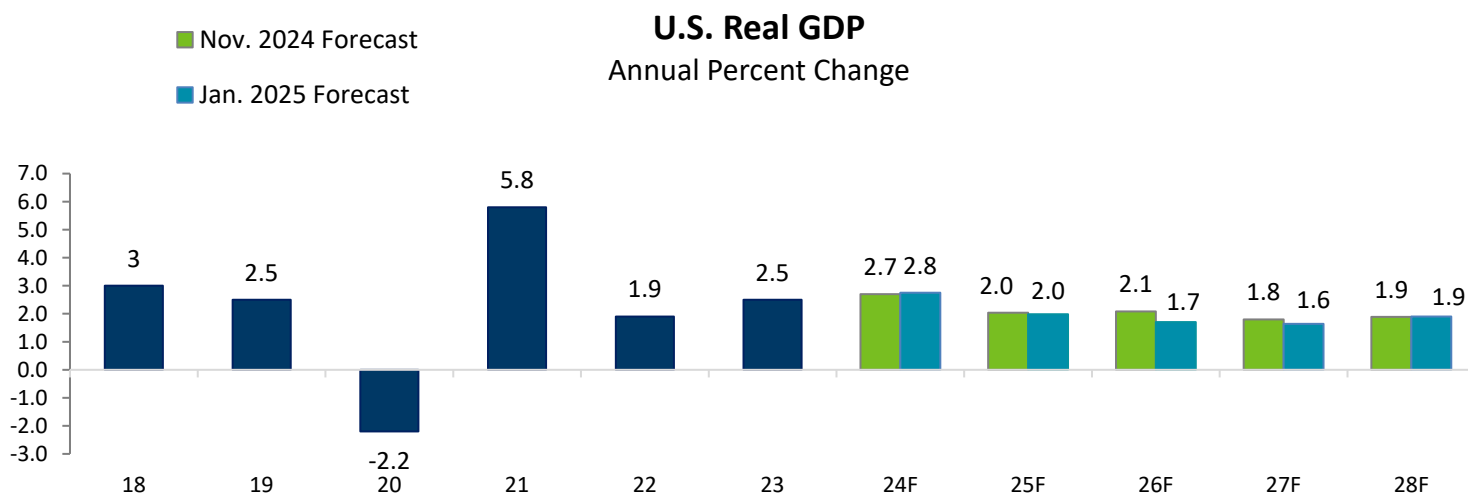
Inflation

The January outlook projects materially higher levels of inflation caused by tariffs. SPGMI expects inflation as measured by both the CPI and core PCE index to begin increasing in 2025, nearing 4.0 percent in early 2026 before easing back down to current levels in 2027. In November, SPGMI expected both measures to remain below 3.0 percent throughout the forecast horizon. Refer to Chart 1 on page 5 for a summary of key forecast changes to both CPI and core PCE inflation.

Interest Rates and Monetary Policy

Since the December meeting of the Federal Open Market Committee (FOMC), SPGMI has revised their expectations for interest rates for the next few years. We now expect only cuts of only 50 basis points in the federal funds rate targets in 2025 with the effective federal funds rate falling to 4.0 percent. SPGMI expects the federal funds rate to fall to 3.7 percent in 2026. In November, SPGMI expected the federal funds rate to settle between 2.5 and 2.75 percent by 2026.

We now expect the 30-year conventional mortgage rate to remain above 6.0 percent until mid-2026. In the November forecast, the mortgage rate was expected to fall below 6.0 percent in early 2025. Higher interest rates are likely to cause lower business and residential investment and lower purchases of durable goods and



Source: Bureau of Economic Analysis and SPGMI

new vehicles by households. Refer to Chart 2 on page 5 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 in December the seasonally adjusted U.S. unemployment rate was 4.1 percent, down 0.1 percentage points from November. The U.S. unemployment rate is essentially unchanged over the past seven months. The BLS reports that roughly 6.9 million people are currently unemployed, a decrease of 0.2 million from November. Nonfarm payroll employment rose by 256,000 in December, bringing average monthly employment growth for the second half of the year to 166,000. This is a decrease from the monthly average of 207,333 jobs created in the first half of 2024.

The number of long-term unemployed (those jobless for 27 weeks or more) is 1.6 million, 278,000 more than a year ago.

SPGMI currently expects the U.S. unemployment rate to increase to 4.4 percent by mid-2025 and gradually increase to 4.8 percent in 2027. In their November forecast, the unemployment rate was expected to be below 4.6 percent throughout 2027.

The U.S. labor force participation rate was 62.5 percent in December, unchanged from a year ago. The prime-age participation rate, the rate for persons aged 25 to 54, was 83.4 percent in December, 0.2 percentage points higher than a year ago. Refer to Chart 3 on page 5 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 25 percent probability to a pessimistic scenario, and a 25 percent probability to an optimistic scenario for the U.S. economy.

The more pessimistic scenario is characterized by (1) higher tariffs imposed by the U.S., followed by retaliatory

tariffs, which cause higher inflation and incidentally cause the FOMC to keep rates higher for longer, and 2) deportations happening faster and on a larger scale than in the baseline. There is no recession in this scenario, but growth remains below the baseline through 2028.

Reduced consumer spending and reduced business investment contribute to the slower GDP growth. The unemployment rate rises to 5.4 percent by mid-2027, compared to a peak of 4.8 percent in 2027 in the baseline scenario. GDP grows 1.7 percent in 2025, compared to 2.0 percent in the baseline scenario.

The more optimistic scenario is characterized by (1) lower tariffs which allow faster moderation in inflation and lower interest rates, and 2) deportations that happen slower and on a smaller scale relative to the baseline. Stronger consumer spending and business investment contribute to stronger growth relative to the baseline.

The unemployment rate in this scenario remains steady at 4.3 percent through 2028, slightly lower than the baseline forecast. In this scenario, GDP grows 2.3 percent in 2025, compared to 2.0 percent in the baseline.

Conclusion

The SPGMI January baseline forecast is consistent with the Wolters Kluwer January 2025 “Blue Chip Economic Indicators” consensus, the mean of 50 business and academic forecasts. The Blue Chip consensus for real GDP growth is 2.2 percent in 2025, slightly higher than SPGMI’s forecast of 2.0 percent. The mean consensus is 2.0 percent real GDP growth in 2026, slightly higher than SPGMI’s forecast of 1.7 percent.

Much of SPGMI’s forecast revisions are predicated on the announced policy priorities of the incoming administration. We should have more clarity on policy directions when we prepare the February 2025 *Budget and Economic Forecast*, though many policies, particularly with regard to personal and corporate taxes and to appropriations, require Congressional action and will not be known with reasonable certainty until many months into 2025.

Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year 2025			November-December 2024		
	FORECAST REVENUES ¹	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES ¹	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	6,202,473	6,241,190	38,716	2,116,858	2,155,574	38,716
Declarations	565,320	574,703	9,383	91,992	101,375	9,383
Miscellaneous	340,978	364,350	23,372	52,661	76,033	23,372
Partnership & S Corporation Gross	1,056,499	1,086,349	29,850	443,335	473,186	29,850
Gross	8,165,271	8,266,593	101,321	2,704,846	2,806,168	101,321
Partnership & S Corporation Refunds	58,589	63,299	4,710	19,032	23,743	4,710
Individual, Fiduciary, Withholding Refunds	432,007	279,562	(152,445)	272,317	119,872	(152,445)
Total Refunds	490,595	342,860	(147,735)	291,350	143,615	(147,735)
Net Income Tax	7,674,676	7,923,732	249,056	2,413,496	2,662,553	249,056
Corporate Franchise Tax						
Declarations	1,395,743	1,492,350	96,607	579,072	675,679	96,607
Miscellaneous	122,211	147,678	25,467	62,713	88,180	25,467
Gross	1,517,953	1,640,028	122,074	641,785	763,859	122,074
Refund	49,593	46,942	(2,651)	26,881	24,230	(2,651)
Net	1,468,360	1,593,085	124,725	614,904	739,629	124,725
General Sales and Use Tax						
Gross	4,057,157	4,047,579	(9,579)	1,292,685	1,283,106	(9,579)
Mpls. sales tax transferred to MSFA	-	-	-	-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	9,347	9,346	(1)	3,141	3,140	(1)
Sales Tax Gross	4,066,505	4,056,925	(9,580)	1,295,826	1,286,246	(9,580)
Refunds (including Indian refunds)	84,460	64,367	(20,093)	49,166	29,073	(20,093)
Net	3,982,044	3,992,558	10,514	1,246,660	1,257,174	10,514
Other Revenues:						
Net Estate	214,701	212,243	(2,458)	44,394	41,936	(2,458)
Net Liquor/Wine/Beer	48,443	47,891	(552)	17,720	17,168	(552)
Net Cigarette/Tobacco	228,033	233,374	5,340	96,736	102,076	5,340
Deed and Mortgage	125,501	123,979	(1,522)	50,369	48,847	(1,522)
Net Insurance Premiums Taxes	254,721	253,347	(1,374)	117,280	115,906	(1,374)
Net Lawful Gambling	82,101	88,037	5,936	28,697	34,633	5,936
Health Care Surcharge	96,614	85,389	(11,225)	61,509	50,284	(11,225)
Other Taxes	234	234	-	-	-	-
Statewide Property Tax	348,729	339,767	(8,962)	170,565	161,603	(8,962)
DHS SOS Collections	59,379	60,025	646	15,741	16,387	646
Investment Income	283,523	297,776	14,254	70,478	84,731	14,254
Tobacco Settlement	150,372	130,297	(20,075)	150,372	130,297	(20,075)
Dept. Earnings & MSOP Recov.	116,649	121,119	4,469	47,810	52,279	4,469
Fines and Surcharges	33,295	31,430	(1,864)	14,201	12,337	(1,864)
Lottery Revenues	23,472	20,245	(3,227)	9,214	5,987	(3,227)
Revenues yet to be allocated	21,341	25,310	3,970	-	3,970	3,970
Residual Revenues	164,386	175,973	11,588	93,539	105,126	11,588
Other Subtotal	2,251,494	2,246,437	(5,057)	988,624	983,567	(5,057)
Other Refunds	2,459	2,131	(328)	1,281	952	(328)
Other Net	2,249,035	2,244,306	(4,728)	987,343	982,615	(4,728)
Total Gross	16,001,223	16,209,982	208,760	5,631,081	5,839,840	208,760
Total Refunds	627,107	456,300	(170,807)	368,677	197,870	(170,807)
Total Net	15,374,116	15,753,682	379,567	5,262,404	5,641,970	379,567

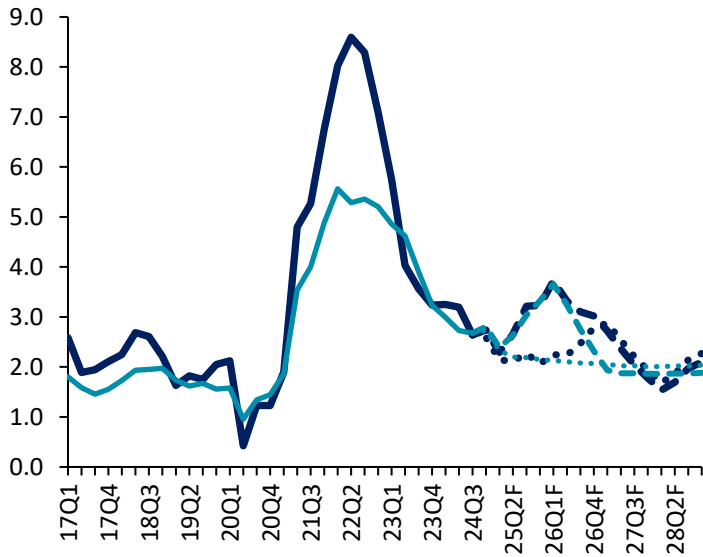
1. November 2024 Budget and Economic Forecast.

Key Forecast Changes

Chart 1. U.S. Inflation-CPI & Core PCE

Annual Percent Change

- CPI Nov. 2024 forecast
- CPI Jan. 2025 forecast
- PCE Nov. 2024 forecast
- PCE Jan. 2025 forecast

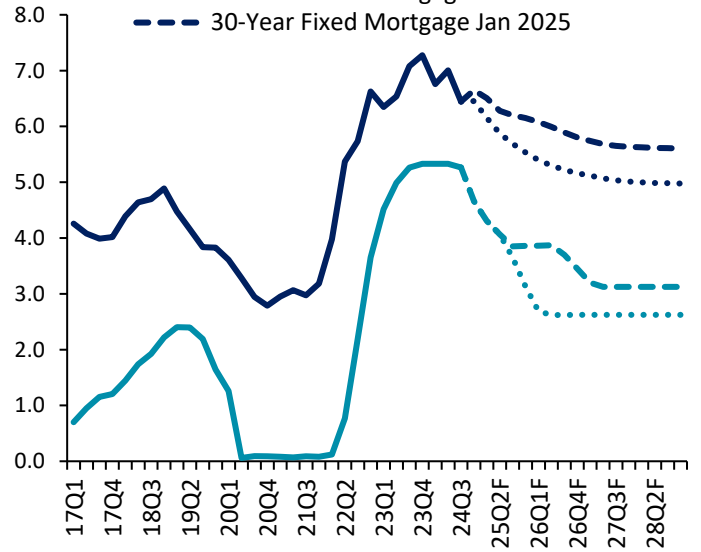


Source: Bureau of Economic Analysis and SPGMI

Chart 2. Interest Rates

Fed Funds Rate and 30-year Fixed Mortgage Rate

- Fed Funds Rate Nov 2024
- Fed Funds Rate Jan 2025
- 30-Year Fixed Mortgage Nov 2024
- 30-Year Fixed Mortgage Jan 2025

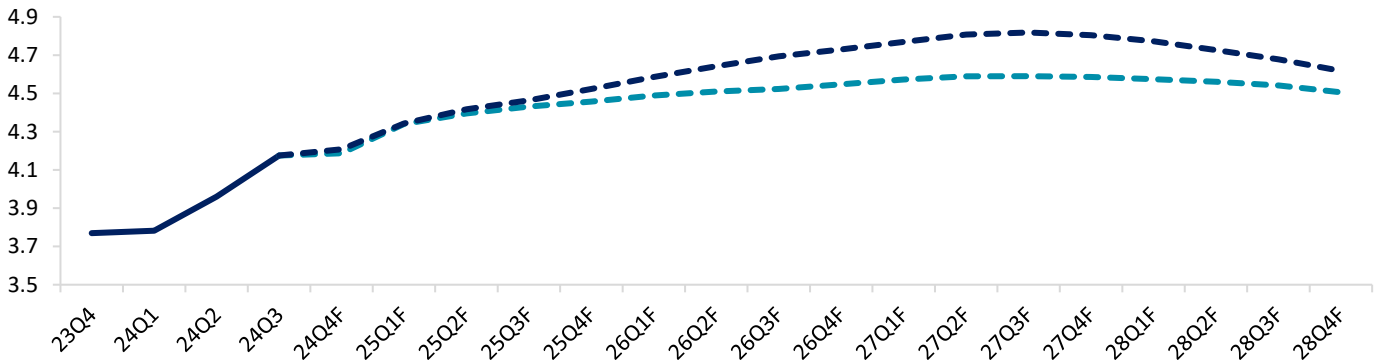


Source: Bureau of Economic Analysis and SPGMI

Chart 3. U.S. Civil Unemployment Rate

Seasonally Adjusted, Monthly

- History
- - - November 2024
- - - January 2025



Source: Bureau of Economic Analysis and SPGMI