MANAGEMENT AND BUDGET

Revenue and Economic Update

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Revenues Above February 2025 Forecast

Minnesota's net general fund revenues for fiscal year (FY) 2025 are now estimated to total $31.914 billion, $847 million (2.7 percent) more than projected in the February 2025 *Budget and Economic Forecast*. Net income tax was above forecast while net corporate tax, sales tax, and other revenues were below forecast levels. General fund revenues in the final quarter of FY 2025 were $603 million (6.8 percent) more than forecast in February. (See page 4 for details.)

Net individual income tax receipts are estimated to end the fiscal year $1.063 billion (6.8 percent) more than forecast. Gross income tax receipts were $157 million above the forecast, and refunds were $907 million less than expected.

Income tax withholding payments were $69 million (0.5 percent) more than forecast. All the positive variance reflects tax year (TY) 2024 activity.

Declarations exceeded the forecast by $105 million (4.5 percent). Of that variance, $46 million is due to estimated payments made in the months of April through June towards TY 2025 liability. The remaining payments, made towards TY 2024 liability, were $59 million more than forecast on net. Estimated payments made in February and March towards TY 2024 liability were $41 million less than forecast, and extension payments for TY 2024 made on or about April 15th were $100 million above forecast. Extension payments are made by taxpayers who do not file a return on April 15 but estimate that they owe tax liability and make a payment to avoid penalty and interest. Typically, these taxpayers file their return on or before October 15.

Miscellaneous payments, consisting mostly of TY 2024 final payments, were $87 million (4.3 percent) more than forecast. This consists of final payments with tax returns, and all other individual income tax payments that are not declarations or withholding. It also includes estimated and final payments for fiduciary income tax. The individual income tax payments accounted for $52 million of the variance, all of which was related to TY 2024 or prior years. The remainder of the variance is attributable to fiduciary payments exceeding forecast by approximately $35 million. This variance is related to both TY 2024 and TY 2025.

Partnership and S Corporation gross receipts were below our forecast by $103 million (-3.5 percent). These payments consist of pass-through entity (PTE) tax payments, non-resident composite payments, nonresident

Summary of Revenues: Fiscal Year 2025

($ in millions)	February 2025 Forecast	Estimated Closing Revenues	$ Difference	% Difference
Individual Income Tax	$15,553	$16,616	$1,063	6.8%
General Sales Tax	7,575	7,518	(57)	(0.7)
Corporate Franchise Tax	3,304	3,199	(106)	(3.2)
Other Revenues	4,635	4,581	(54)	(1.2)
Total Revenues[1]	**$31,067**	**$31,914**	**$847**	**2.7%**

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withholding payments and minimum fee payments. Payments made in February and March towards TY 2024 liability were approximately $114 million below forecast, and most of that is likely due to lower than forecast PTE tax payments. All other things equal one would expect this would result in in lower PTE tax credits on extension individual income tax returns due on October 15. This would imply lower refunds or higher final payments between now and the end of January 2026 when these returns are processed. Partnership and S Corporation payments made from April through June towards TY 2025 liability were approximately $9 million above forecast.

Total income tax refunds were $907 million (-20.1 percent) below the forecast. Partnership and S Corporation entity refunds were $11 million above forecast (unfavorable). Individual, fiduciary, and other refunds were $918 million below (favorable) forecast. Most of the favorable refund variance is likely due to an underestimate of TY 2024 income tax liability. Overall liability for TY 2024 appears to be higher than was forecast in February 2025, likely due to higher-than-expected capital gains realizations, interest income, and dividend income. As a result, lower levels of TY 2024 refunds have been paid out than were forecast. There are often a significant number of high-income returns that are filed after the close; refunds on those returns may result in a favorable refund variance in the first half of FY 2026.

Net corporate franchise tax receipts were $106 million (-3.2 percent) below forecast. Gross corporate tax payments were $131 million below the forecast while refunds were $25 million lower than expected.

Net general sales tax receipts are estimated to end FY 2025 $57 million (-0.7 percent) less than forecast. Gross sales tax payments were $41 million above the forecast; however, refunds were $98 million higher than expected.

Other net revenues were $54 million (-1.2 percent) less than forecast. Most of this variance is from lower than forecasted health care surcharge and residual revenues offset by higher-than-expected estate taxes, DHS and SOS collections, and investment income.

All FY 2025 results are preliminary and subject to change. The state’s fiscal year that ended June 30, 2025, will officially close on August 15. Values in the actual columns on page 4 reflect actual revenues attributable to FY 2025 as well as estimates of revenue accruals through closing.

As of June 30, total FY 2025 revenue was $32.028 billion. Estimated accruals and pre-close adjustments subtract about $114 million on net. Revenues that will be received or recognized between the end of the fiscal year and the close add an estimated $53 million. Income, corporate, and sales tax refunds attributable to FY 2025 and expected to be paid out before the close subtract $167 million. A complete reporting of FY 2025 revenues will be included in the October 2025 *Revenue and Economic Update*.

Near-term U.S. Economic Outlook Shows Low Growth, Higher Inflation

The outlook for the U.S. economy for 2025-2029 has deteriorated since Minnesota's *Budget and Economic Forecast* was prepared in February 2025. In their July forecast, S&P Global Market Intelligence (SPGMI), Minnesota's macroeconomic consultant, has lowered their baseline forecasts of real GDP growth, consumer spending, and business fixed investment compared to their February baseline forecasts. 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.

The current forecast does not include a recession but rather a period defined by low GDP growth – below two percent annually – and rising unemployment into 2027. The low growth is due primarily to low business fixed investment, low residential investment, reduced consumer spending on durable goods, and reduced government spending at both the federal level and state and local level.

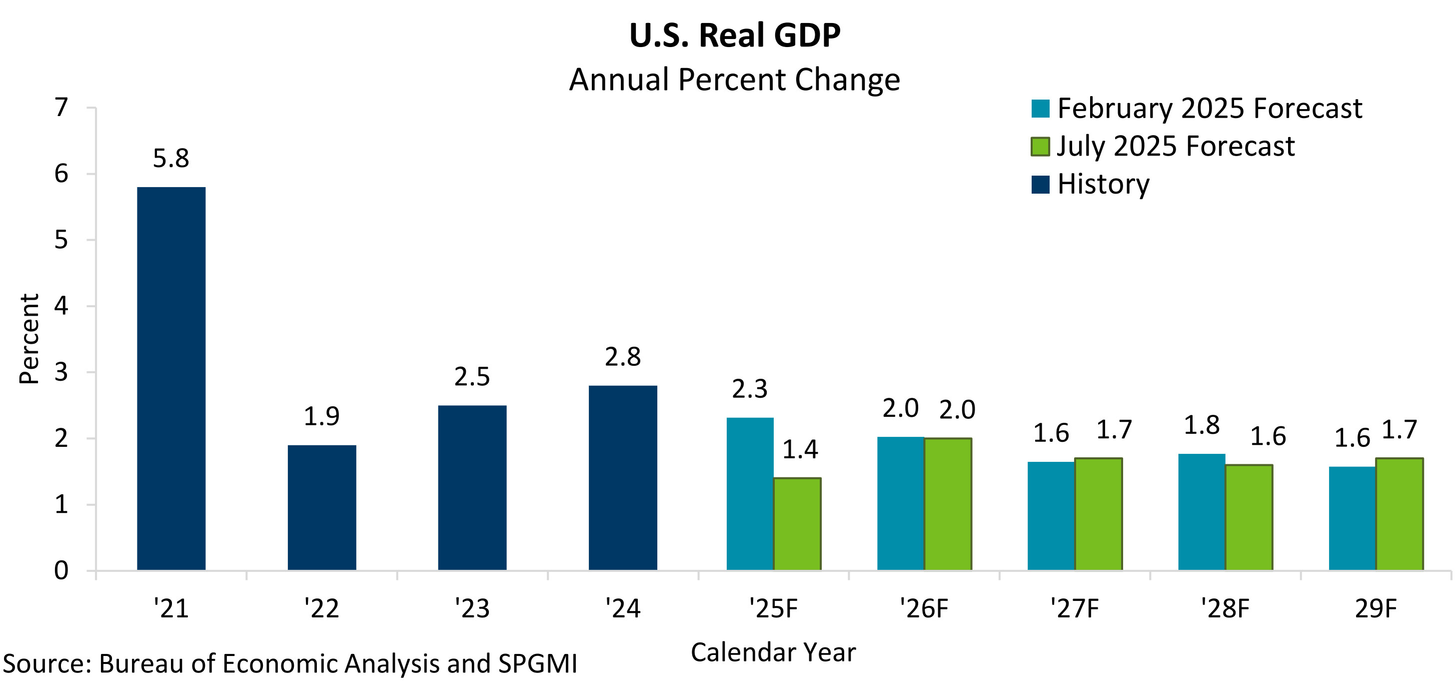
SPGMI has not included fiscal policies of the recent budget reconciliation act or of the additional tariffs announced this month. The full set of policies of the budget reconciliation act will be included in their August forecast. It is unlikely that there will be a clear picture of reciprocal tariffs as policies change and deadlines are extended frequently.

Growth Outlook and Assumptions

SPGMI now forecasts real GDP growth of 1.4 percent in 2025, a significant decrease compared to 2.3 percent in their February forecast. Growth for 2026 and 2027 are now forecasted to be 2.0 and 1.7 percent, respectively, compared to 2.0 and 1.6 percent in the February forecast. This downward revision for 2025 reflects the contraction in GDP in the first quarter of 2025 (at a 0.5 percent annual rate), the likely effects of tariffs and trade policy, and continued tight monetary policy.

SPGMI's forecast assumes substantial Section 232 tariffs and International Emergency Economic Powers Act (IEEAP) tariffs that were not assumed in their February forecast. The Section 232 tariffs include duties on steel, aluminum, copper, lumber, semiconductors, pharmaceuticals, and critical minerals ranging from 10 to 25 percent. IEEAP tariffs – tied to fentanyl and immigration – include 25 percent tariffs on imports from Canada and Mexico, and 20 percent on imports from China.

In addition, this forecast assumed 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, some exclusion of tip and overtime pay from federal taxation, and a lowering of the corporate tax rate from 21 percent to 15 percent; 3) revised population estimates to account for less



Source: Bureau of Economic Analysis and SPGMI

immigration; and 4) a reduction in the federal workforce of 255,000 through October 2025.

Inflation

The July outlook projects higher levels of inflation driven primarily by the assumed tariffs and countermeasures. SPGMI expects inflation, as measured by both the CPI and core PCE index, to begin increasing in mid-2025, rising above 3.0 percent (annual rate) in the third quarter of 2025 before falling back to current levels by late 2026. This forecast has slightly lower levels of inflation in 2027 than were expected in February.

Please refer to Chart 1 on page 7 for a summary of 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. The July forecast for the 30-year conventional mortgage has rates remaining above 6 percent through 2026, little changed from the February forecast.

Please refer to Chart 2 on page 7 for a summary of 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 U.S. unemployment rate (seasonally adjusted) dropped slightly to 4.1 percent in June, from 4.2 percent in May. However, this metric alone paints an incomplete picture of the labor market. The demand for labor is weakening, at the same time the labor force is contracting. Since April 2025, the Civilian Labor force has declined by 755,000 persons and the labor force participation rate has fallen by 0.3 percent as the jobless rate remains relatively steady. The U.S. unemployment rate has remained between 4.0 and 4.2 since May 2024. The number of people who remain unemployed in the United States stood at 7.0 million people (seasonally adjusted) in June 2025, an increase of 166,000 people from one year ago. Nonfarm payroll employment increased by 147,000 jobs in June. Over the past 12 months nonfarm payroll employment growth has averaged 150,000 jobs per month, slightly lower than the average growth of 170,000 jobs per month in the preceding 12 months.

The number of long-term unemployed (those jobless for 27 weeks or more) was 1.65 million (seasonally adjusted) in June, an increase of 114,000 compared to one year ago.

SPGMI expects the U.S. unemployment rate to average 4.2 percent in 2025, 4.5 percent in 2026, and 4.6 percent in 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 62.3 percent in June, down 0.3 percentage points from one year ago. The prime-age participation rate, the rate for persons aged 25 to 54, was 80.7 percent in June, unchanged from a year ago.

Please refer to Chart 3 on page 8 for a summary of forecast changes to the unemployment rate.

Alternative Scenarios

The following alternative scenarios are for SPGMI's June forecast as the alternatives for the July forecast are not yet available. In June, SPGMI assigned a 50 percent probability to the baseline scenario, which was similar to the July forecast 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 assumed higher U.S. tariffs, and retaliation by our trading partners, and a deterioration in financial conditions over the year. The result is reduced economic activity leading to a two-quarter recession beginning in mid-2025. Unemployment rises to 6.1% by mid-2027. While inflation is higher initially, it becomes lower than in the baseline scenario by mid-2026 and remains below the target rate through 2029.

The more optimistic scenario is characterized by lower tariffs and lower levels of retaliation by trading partners which result in more moderate inflation and easing of monetary policy and credit conditions. More lenient immigration policies also contribute to growth. Unemployment remains below the baseline level. Fixed investment, though higher than in the baseline, grows at only a modest pace. GDP grows at a 2.2 percent rate for 2025-27 compared to only 1.7 percent in the baseline.

Other Forecasts

The SPGMI July baseline forecast is consistent with the Wolters Kluwer June 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, consistent with SPGMI's forecast of 1.4 percent. The mean consensus is 1.4 percent real GDP growth in 2026, lower than SPGMI's forecast of 2.0 percent. The Survey of Professional Forecasters (May 2025) average projection is for 1.4 percent growth in 2025 and 1.6 percent in 2026, lower than the SPGMI forecast and slightly higher than the mean Blue Chip forecast.[1]

Conclusion

Taken together, SPGMI's July 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. Trade policy uncertainty is likely to further suppress investment, both business and residential, and consumer spending on durable goods. While there is not a recession in the baseline forecast, the probability of economic contraction has increased due to the low forecasted growth, and the outlook remains sensitive to evolving financial, fiscal, and trade policy developments.

[1] "Survey of Professional Forecasters, Second Quarter 2025," Federal Reserve Bank of Philadelphia. May 16, 2025. <https://www.philadelphiafed.org/surveys-and-data/real-time-data-research/spf-q2-2025> Accessed July 9, 2025.

Comparison of Actual and Forecast Non-Dedicated Revenues

($ in thousands)

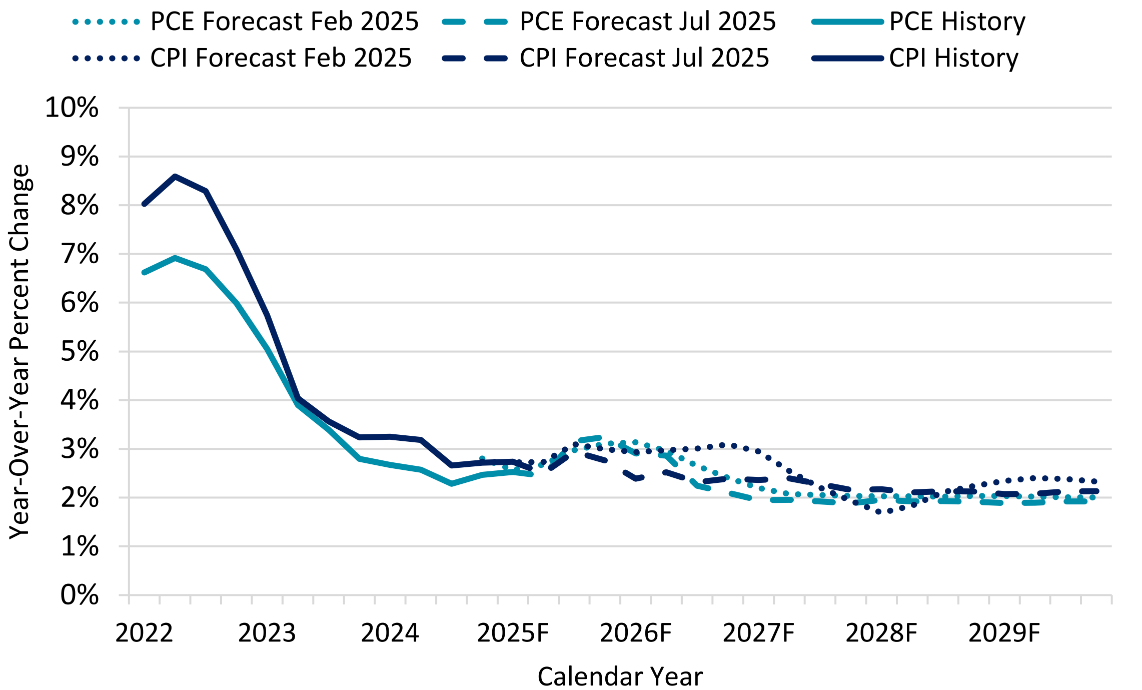
	Fiscal Year 2025			April-June 2025		
	FORECAST REVENUES[2]	ACTUAL REVENUES	VARIANCE: ACTUAL-FCST	FORECAST REVENUES[2]	ACTUAL REVENUES	VARIANCE: ACTUAL-FCST
Individual Income Tax						
Withholding	12,743,718	12,812,316	68,598	3,103,441	3,088,111	(15,330)
Declarations	2,330,886	2,435,434	104,549	1,221,965	1,368,047	146,082
Miscellaneous	2,000,539	2,087,239	86,700	1,278,237	1,406,995	128,757
Partnership & S Corporation Gross	2,983,842	2,880,560	(103,281)	725,699	736,254	10,555
Gross	20,058,984	20,215,549	156,565	6,329,342	6,599,407	270,065
Partnership & S Corporation Refunds	152,812	163,586	10,774	33,136	69,002	35,865
Individual, Fiduciary, & Withholding Refunds	4,353,412	3,435,491	(917,921)	1,912,744	1,335,514	(577,230)
Total Refunds	4,506,005	3,599,077	(906,927)	1,945,881	1,404,516	(541,365)
Net Income Tax	15,552,979	16,616,472	1,063,493	4,383,462	5,194,891	811,430
Corporate Franchise Tax						
Declarations	3,236,878	3,108,065	(128,814)	1,122,400	967,291	(155,108)
Miscellaneous	268,506	266,208	(2,298)	53,895	63,388	9,493
Gross	3,505,384	3,374,273	(131,111)	1,176,295	1,030,679	(145,615)
Refund	200,993	175,710	(25,283)	60,660	17,748	(42,912)
Net Corporate Franchise Tax	3,304,392	3,198,563	(105,829)	1,115,634	1,012,931	(102,703)
General Sales and Use Tax						
Gross	7,784,100	7,825.155	41,056	1,873,975	1,959,378	85,404
MPLS Sales Tax Transferred to MSFA				-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	18,781	18,781	-	4,719	4,719	-
Sales Tax Gross	7,802,881	7,843,936	41,056	1,878,694	1,964,097	85,404
Refunds (including Indian refunds)	228,299	326,090	97,791	92,067	217,924	125,857
Net Sales and Use Tax	7,574,582	7,517,847	(56,735)	1,786,627	1,746,173	(40,454)
Other Revenues						
Net Estate	344,100	359,562	15,462	67,258	74,806	7,548
Net Liquor/Wine/Beer	111,190	109,776	(1,414)	38,037	37,370	(667)
Net Cigarette/Tobacco	505,500	508,001	2,501	155,728	148,427	(7,301)
Deed and Mortgage	261,274	259,806	(1,468)	82,228	79,450	(2,778)
Net Insurance Premiums Taxes	581,594	588,224	6,631	127,336	125,149	(2,187)
Net Lawful Gambling	191,800	197,779	5,979	54,096	57,828	3,732
Health Care Surcharge	351,328	321,049	(30,279)	169,781	156,675	(13,106)
Other Taxes	8,956	8,536	(420)	8,660	8,247	(413)
Statewide Property Tax	744,389	739,446	(4,943)	396,690	393,708	(2,982)
DHS SOS Collections	115,000	128,138	13,138	26,784	32,296	5,512
Investment Income	675,000	685,256	10,255	186,651	214,190	27,539
Tobacco Settlement	166,111	152,891	(13,221)	35,814	21,553	(14,261)
Dept. Earnings & MSOP Recovery	257,844	254,186	(3,658)	79,223	69,423	(9,800)
Fines and Surcharges	61,786	48,964	(12,822)	18,008	1,708	(16,300)
Lottery Revenues	74,953	74,653	(300)	32,573	32,782	209
Revenues yet to be allocated	-	-	-	(25,217)	(22,241)	2,975
Residual Revenues	190,396	150,186	(40,210)	18,458	(24,971)	(43,429)
Total Other Revenues	4,641,222	4,586,454	(54,768)	1,472,108	1,406,399	(65,709)
Refunds	6,001	5,503	(498)	1,886	1,810	(76)
Net Other Revenues	4,635,221	4,580,951	(54,270)	1,470,222	1,404,589	(65,633)
Total Gross Revenues	36,008,471	36,020,213	11,742	10,856,439	11,000,583	144,144
Total Refunds	4,941,297	4,106,380	(834,918)	2,100,494	1,641,998	(458,496)
Total Net	31,067,173	31,913,833	846,660	8,755,945	9,358,585	602,641

[2] February 2025 *Budget and Economic Forecast*

Key Forecast Changes

Chart 1. Inflation

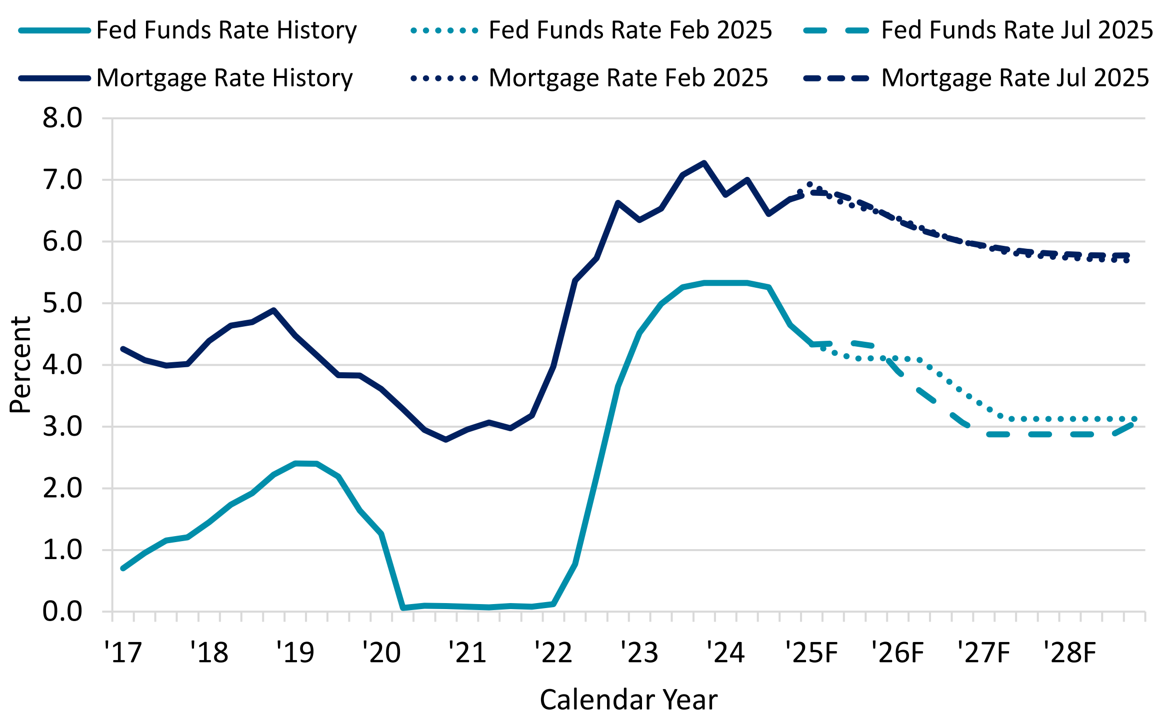
Consumer Price Index (CPI) & Core Personal Consumption Expenditure Index (PCE)



Source: Bureau of Economic Analysis and SPGMI

Chart 2. Interest Rates

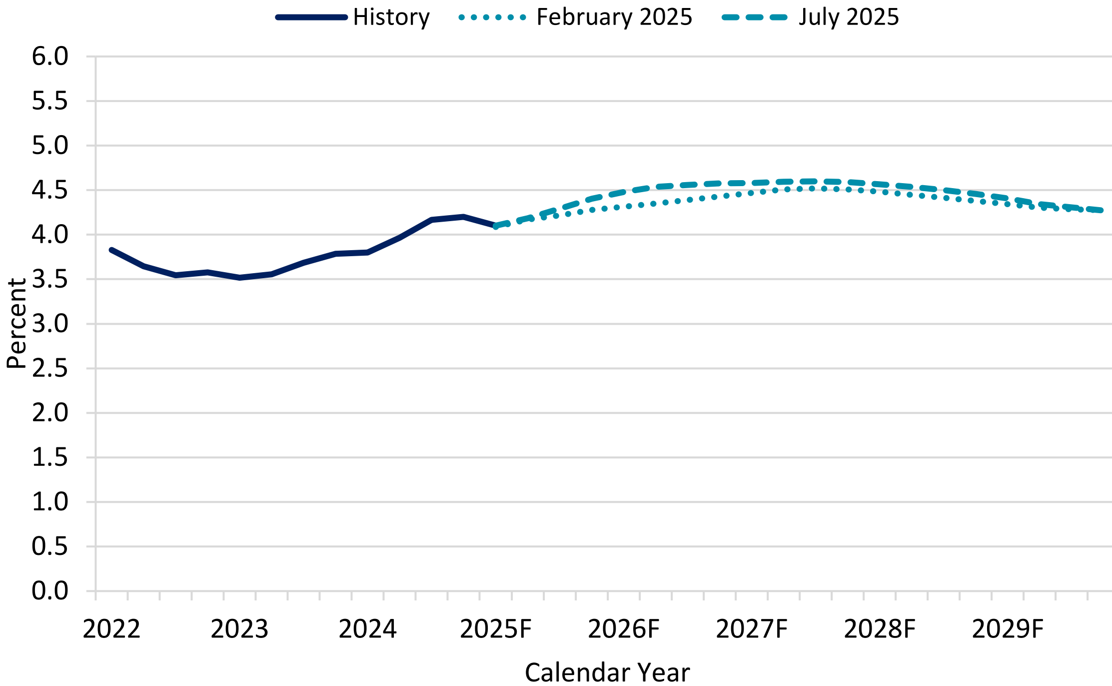
Fed Funds Rate and 30-year Fixed Mortgage Rate



Source: Bureau of Economic Analysis and SPGMI

Chart 3. U.S. Civil Unemployment Rate

Monthly, Seasonally Adjusted



Source: Bureau of Economic Analysis and SPGMI