MANAGEMENT AND BUDGET

Revenue and Economic Update

October 10, 2025 mn.gov/mmb

Revenues Below February 2025 Forecast

Minnesota's net general fund receipts for the first quarter of FY 2026 are now estimated to total $7.721 billion, $90 million (1.2 percent) less than forecast in the February 2025 *Budget and Economic Forecast*. Net receipts exceeded the forecast amounts for individual income tax, sales tax, and other revenues while corporate franchise tax revenues were below forecast.

Net individual income tax receipts were $9 million (0.2 percent) more than forecast for the first three months of FY 2026. Higher than expected miscellaneous receipts were offset by lower than expected partnership and S corporation receipts and higher than expected refunds. (See pages 5-6 for details.)

Income tax withholding receipts were $2 million (0.1 percent) higher than forecast. Estimated income tax payments were less than $1 million (0.03 percent) more than forecast. Miscellaneous receipts, composed of final tax payments and fiduciary payments, were $37 million (26.7 percent) above forecast. Gross partnership and S corporation payments were $16 million (2.7 percent) below forecast.

Income tax refunds, in total, were $14 million (14.3 percent) above forecast. Individual, fiduciary, and other refunds were $21 million (34.2 percent) above forecast while partnership and S corporation refunds were $7 million (21.4 percent) below forecast.

Net sales tax receipts were $9 million (0.4 percent) above the forecast. Lower than expected gross tax receipts were offset by lower than forecast sales tax refunds.

Net corporate tax receipts were $173 million (21.6 percent) below the forecast. This was due to lower-than-expected corporate tax payments.

Net other revenues were $64 million (9.1 percent) above the forecast. Higher than expected investment income and estate tax receipts, partially offset by lower than expected health care surcharge, were the principal contributors to this positive variance.

Fiscal Year 2025 Revenues Above the Forecast

Minnesota's net general fund receipts for FY 2025 are now estimated to total $31.981 billion, $914 million (2.9 percent) more than projected in the February 2025 Budget and Economic Forecast. Net receipts from individual income taxes and other revenues were above forecast, offsetting lower than expected revenues from corporate franchise and sales tax. In the July 10, 2025, *Revenue and*

Summary of Revenues: July-September 2025 (FY2026, Q1)

($ in millions)	February Forecast[2]	Actual	$ Difference	% Difference
Individual Income Tax	$4,198	$4,208	$9	0.2%
General Sales Tax	2,111	2,121	9	0.4
Corporate Franchise Tax	800	627	(173)	(21.6)
Other Revenues	701	765	64	9.1
Total Revenues[1]	**$7,811**	**$7,721**	**($90)**	**(1.2%)**

1. Totals may not add due to rounding.
2. Adjusted for legislative changes.

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Economic Update, we estimated that revenues would be $847 million more than forecast. The positive variance is now $67 million larger, because net revenues attributable to fiscal year 2025 that were received between the end of July and the official close were higher than our initial estimate. The next official forecast of revenues will be released in early December 2025.

Near-term U.S. Economic Outlook Remains Resilient

The near-term outlook for U.S. real GDP growth remains broadly consistent with the forecast underlying Minnesota's February 2025 *Budget and Economic Forecast*. In their October forecast, SPGMI Global (SPGMI), Minnesota's macroeconomic consultant, maintains their baseline forecast of real GDP growth around 2.0 percent through 2029. However, the headline GDP growth rates mask softness in several key components of the economy. The forecasts for real business fixed investment and real consumer spending have been revised down in 2026, while their forecast for unemployment has been revised up.

This forecast anticipates continued resilience in the U.S. economy; however key risks remain. Higher than expected tariffs could reduce consumer spending and business investment more than expected, leading to slower economic growth. Elevated tariffs may also put upward pressure on inflation. With hiring nearing a standstill, any increase in layoffs would likely result in job losses, further constraining consumer spending and overall economic activity. High rates of growth in equity markets over the past several quarters may be supporting higher consumption and investment. However, this may also increase the risk to continued expansion should growth in equities falter.

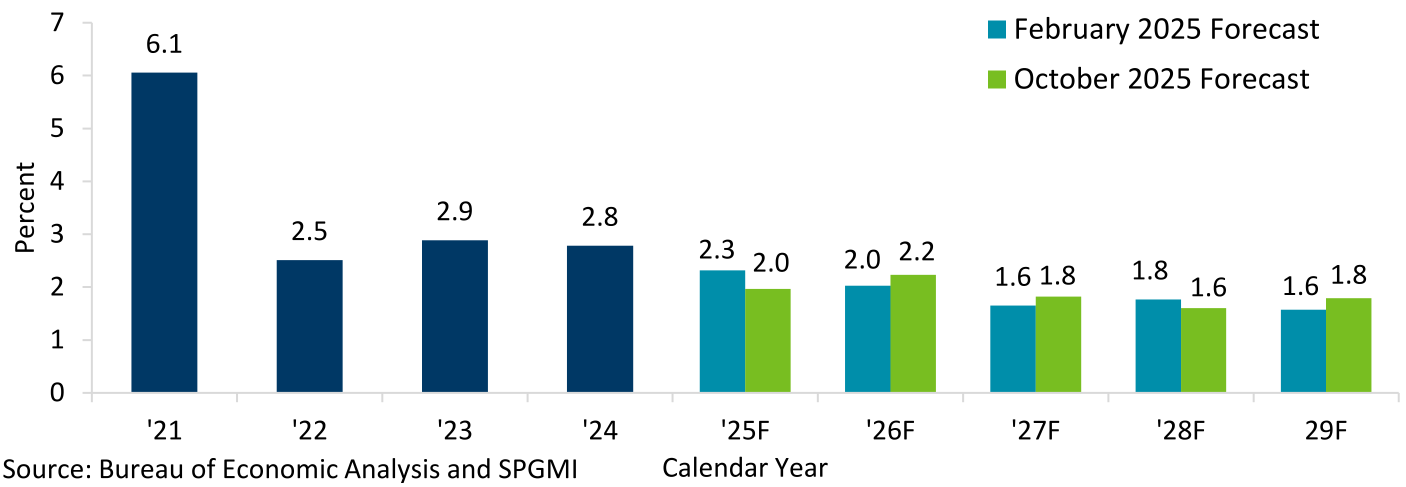
Growth Outlook and Assumptions

In their October forecast, SPGMI Global (SPGMI), Minnesota's macroeconomic consultant, expects real GDP to grow 2.0 percent in 2025, a decrease from 2.3 percent growth in their February forecast. This is due to weak growth of 1.6 percent (annual rate) in real GDP in the first half of 2025. SPGMI expects real GDP to grow 2.2 and 1.8 percent in 2026 and 2027, an improvement from 2.0 and 1.6 percent in their February forecast. The upward revision to GDP growth in 2026 and 2027 is driven by the assumption that tariffs will redirect demand towards domestic producers and that a weaker U.S. dollar will support export growth. Finally, the U.S. has seen fewer retaliatory tariffs than anticipated, easing some of the potential drag on exports of goods.

SPGMI's forecast assumes the current partial government shutdown lasts two weeks. In addition to Section 232 tariffs already in place[1], new tariffs on semiconductors

U.S. Real GDP

Annual Percent Change



Source: Bureau of Economic Analysis and SPGMI

[1] Section 232 tariffs already in place include duties on steel, aluminum, copper, lumber, semiconductors, pharmaceuticals, and critical minerals ranging from 10 to 25 percent.

and critical minerals are included in this forecast, ranging from 10 to 50 percent. International Emergency Economic Powers Act (IEEAP) tariffs– tied to fentanyl and immigration – include 25 percent tariffs on imports from Canada and Mexico, and 20 percent on imports from China. Reciprocal tariffs are assumed to range from 10 to 40 percent.

In addition, this forecast assumes:

1) Provisions of HR 1, including reduced outlays for Medicaid, the Affordable Care Act insurance premium tax credits, and SNAP benefits. In response to reduced federal grants, states will take on a larger share of the provision of Medicaid benefits.
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 immigration.
4) A reduction in the federal workforce of 255,000 through October 2025.

Inflation

The October outlook projects a slower pass-through of tariffs to inflation. SPGMI expects inflation, as measured by both the CPI and core PCE index, to increase through 2025, with core PCE inflation peaking at 3.2 percent and CPI inflation rising to 3.1 percent (annual rates) in mid-2026. SPGMI now expects inflation to remain higher than expected in February, and above the Fed's target of 2.0 percent throughout 2027 and 2028.

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 a weakening job market 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. Because of higher inflation expectations by the public, lower federal funds rate targets may not result in lower long-term interest rates in the near term, reducing the stimulative effects of rate cuts.

In September, the Federal Reserve began monetary easing with a 25 basis point (bps) rate cut in the federal funds target range. SPGMI expects an additional 25 bps rate cut at both the October and December meetings. However, SPGMI forecasts inflation rising through mid-2026, and, as a result, the forecast assumes a pause in rate cuts during the first half of 2026 before cuts resume at the June meeting. If realized, this would reduce the target range for the federal funds rate from its current level of 4.0 to 4.25 percent to 3.0 to 3.25 percent by late 2026. In February, SPGMI expected the federal funds rate to settle between 2.75 and 3.0 percent by 2027.

SPGMI now forecasts the 30-year conventional mortgage rate to remain above 6.0 percent until early 2027, little changed since February.

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

Due to the government shutdown, the most recent data from the Bureau of Labor Statistics (BLS) is through August 2025. U.S. payroll employment has been largely unchanged for the past four months. In May through August 2025, the U.S. added 107,000 jobs in total, compared to the average of an additional 170,000 jobs per month added in 2024. This marks a significant slowdown in payroll employment growth. The BLS reports that the U.S. unemployment rate (seasonally adjusted) increased to 4.3 percent in August, from 4.2 percent in July. However, this metric alone paints an incomplete picture of the labor market. The demand for labor is weakening, and at the same time, the labor force is contracting. Since April 2025, the civilian labor force has declined by 357,000. The number of unemployed in the United States was 7.4 million people (seasonally adjusted) in August 2025, an increase of 313,000 from one year ago.

The number of long-term unemployed (those jobless for 27 weeks or more) was 1.9 million (seasonally adjusted) in August, an increase of 385,000 compared to one year ago.

SPGMI expects the U.S. unemployment rate to reach 4.4 percent by the end of this year and remain at 4.5 percent for 2026 through 2028 before gradually declining. In the 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 August, down 0.4 percentage points from one year ago. The prime-age participation rate, the rate for persons aged 25 to 54, was 83.7 percent in August, down from 83.9 percent one year ago.

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

Alternative Scenarios

In its October forecast, SPGMI assigns a 50 percent probability to the baseline scenario forecast described above, a 20 percent probability to a pessimistic scenario, and a 30 percent probability to an optimistic scenario for the U.S. economy. The pessimistic scenario assumes that a combination of strict trade and immigration policies, coupled with increased financial stress and weakening consumer demand, leads to a negative growth in real GDP in late 2025 and early 2026. The optimistic scenario assumes both lower U.S. tariffs and less retaliation by major trading partners, leading to lower inflationary pressures. Consequently, interest rates are assumed to be lower in the optimistic scenario, providing additional economic strength.

In the pessimistic scenario, tariff policy is assumed to be responsible for higher inflation, with year-over-year CPI inflation rising to three percent in both 2025 and 2026, even as aggregate demand slackens. Year-over-year core PCE inflation rises to near four percent in 2026 before falling below two percent in 2027 and beyond because of overall weakness in the economy. Annual GDP growth remains below two percent through 2029 while the unemployment rate rises to above five percent in 2026 and to 6.7 percent in 2028.

The optimistic scenario has real GDP growing at 3.2 percent in 2026 (compared to 2.2 percent in the baseline) while unemployment remains stable at approximately 4.4 percent through 2028. Inflation in the CPI is like that of the baseline scenario, while inflation in the core PCE index is slightly higher in the near term due to high domestic demand. Stronger consumer demand and easing financial conditions lead to higher fixed investment in this scenario. More lenient immigration policies also contribute to labor force growth, further aiding economic expansion.

Other Forecasts

The SPGMI October baseline forecast for real GDP growth is consistent with the Wolters Kluwer October 2025 "Blue Chip Economic Indicators" consensus, the mean of 50 business and academic forecasts. The Blue Chip consensus for real GDP growth is 1.9 percent in 2025, slightly below SPGMI's forecast of 2.0 percent. The mean consensus is 1.8 percent real GDP growth in 2026, lower than SPGMI's forecast of 2.2 percent. The Survey of Professional Forecasters (August 2025) mean projection is for 1.7 percent growth in 2025 and 1.6 percent in 2026, somewhat lower than both the SPGMI forecast and the mean Blue Chip forecast.[2]

Conclusion

Taken together, SPGMI's October 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. Lower rates of job creation experienced since February are also a concern, as are projections of low labor force growth in the years ahead due to demographics and federal immigration policies. While there is not a recession in the baseline forecast of SPGMI, or of other major forecasters, 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.

[2] "Survey of Professional Forecasters, Third Quarter 2025," Federal Reserve Bank of Philadelphia. August 15, 2025. <https://www.philadelphiafed.org/surveys-and-data/real-time-data-research/spf-q3-2025> Accessed October 9, 2025.

Comparison of Actual and Forecast Non-Dedicated Revenues

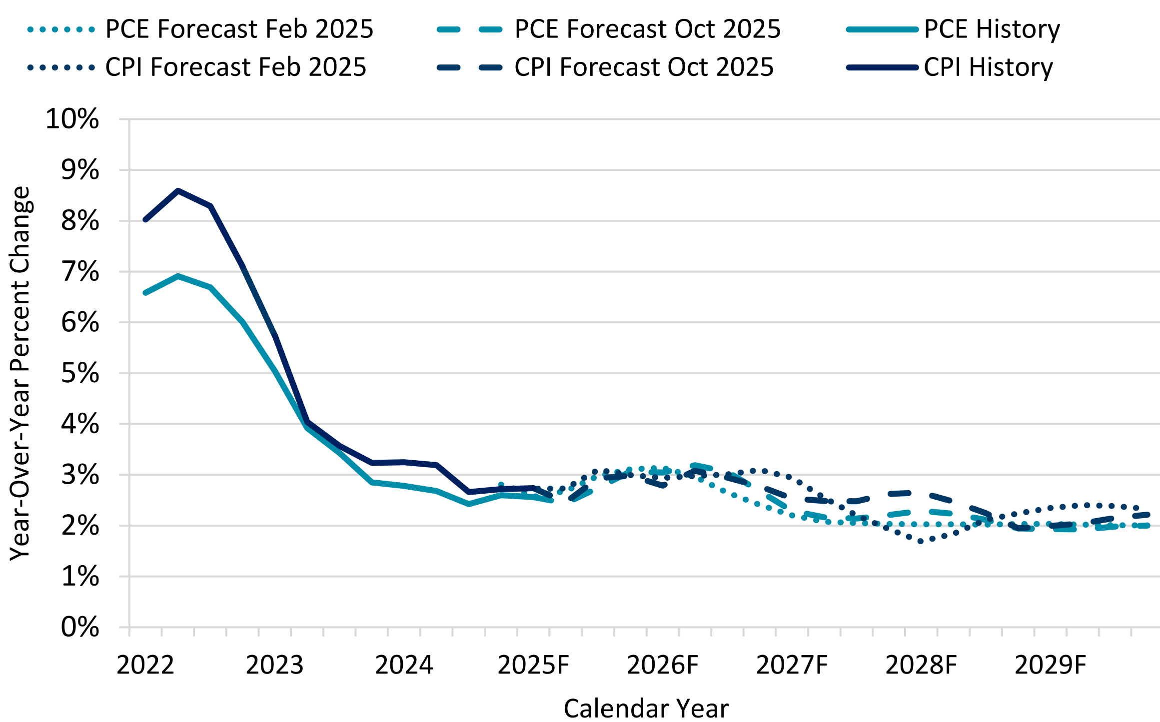
($ in thousands)

	Fiscal Year 2025			July-September 2025		
	FORECAST REVENUES[1]	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES[1,2]	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	12,743,718	12,827,298	83,580	3,142,096	3,144,037	1,941
Declarations	2,330,886	2,461,622	130,737	438,537	438,673	135
Miscellaneous	2,000,539	2,073,304	72,765	138,118	175,025	36,907
Partnership & S Corporation Gross	2,983,842	2,884,082	(99,760)	575,867	560,051	(15,816)
Gross	20,058,984	20,246,306	187,322	4,294,619	4,317,786	23,168
Partnership & S Corporation Refunds	152,812	170,615	17,803	34,469	27,103	(7,365)
Individual, Fiduciary, & Withholding Ref.	4,353,412	3,419,917	(933,495)	61,678	82,795	21,117
Total Refunds	4,506,005	3,590,532	(915,473)	96,146	109,898	13,752
Net Income Tax	15,552,979	16,655,774	1,102,795	4,198,472	4,207,888	9,416
Corporate Franchise Tax						
Declarations	3,236,878	3,114,427	(122,452)	778,922	609,396	(169,526)
Miscellaneous	268,506	267,274	(1,233)	39,953	34,540	(5,413)
Gross	3,505,384	3,381,700	(123,684)	818,875	643,935	(174,940)
Refund	200,993	189,605	(11,388)	18,893	16,874	(2,019)
Net	3,304,392	3,192,095	(112,297)	799,982	627,061	(172,921)
General Sales and Use Tax						
Gross	7,784,100	7,764,702	(19,398)	2,142,553	2,126,051	(16,502)
MPLS Sales Tax Transferred to MSFA	-	-	-	-		-
MPLS Sales Tax w/Holding for NFL Stadium	18,781	18,861	80	4,816	4,719	(98)
Sales Tax Gross	7,802,881	7,783,563	(19,317)	2,147,369	2,130,770	(16,599)
Refunds (including Indian refunds)	228,299	333,769	105,470	36,130	10,077	(26,053)
Net	7,574,582	7,449,794	(124,788)	2,111,239	2,120,693	9,454
Other Revenues						
Net Estate	344,100	360,781	16,681	67,674	100,759	33,085
Net Liquor/Wine/Beer	111,190	109,391	(1,799)	22,844	23,234	390
Net Cigarette/Tobacco	505,500	507,958	2,458	91,007	91,428	421
Deed and Mortgage	261,274	260,226	(1,048)	60,681	62,968	2,287
Net Insurance Premiums Taxes	581,594	592,394	10,800	143,354	139,913	(3,441)
Net Lawful Gambling	191,800	195,266	3,466	36,999	40,213	3,214
Health Care Surcharge	351,328	294,320	(57,008)	77,102	10,775	(66,327)
Other Taxes	8,956	8,536	(420)	-	-	-
Statewide Property Tax	744,389	745,305	916	14,969	26,273	11,304
DHS SOS Collections	115,000	128,059	13,059	31,776	29,816	(1,960)
Investment Income	675,000	695,706	20,706	77,467	120,620	43,153
Tobacco Settlement	166,111	152,891	(13,220)	-	-	-
Dept. Earnings & MSOP Recovery	257,844	260,294	2,450	38,735	46,553	7,818
Fines and Surcharges	61,786	74,058	12,272	7,474	12,501	5,027
Lottery Revenues	74,953	75,179	226	9,752	4,333	(5,419)
Revenues yet to be allocated	-	-	-	-	36,430	36,430
Residual Revenues	190,396	229,647	39,251	23,123	19,175	(3,948)
Other Subtotal	4,641,222	4,690,011	48,789	702,957	764,989	62,032
Other Refunds	6,001	6,701	700	1,625	2	(1,624)
Other Net	4,635,221	4,683,310	48,089	701,332	764,988	63,656
Total Gross	36,008,471	36,101,580	93,110	7,963,820	7,857,481	(106,339)
Total Refunds	4,941,297	4,120,607	(820,690)	152,795	136,851	(15,944)
Total Net	31,067,173	31,980,973	913,800	7,811,026	7,720,630	(90,395)

1. February 2025 Budget and Economic Forecast.
2. Adjusted for legislative changes.

Chart 1. Inflation

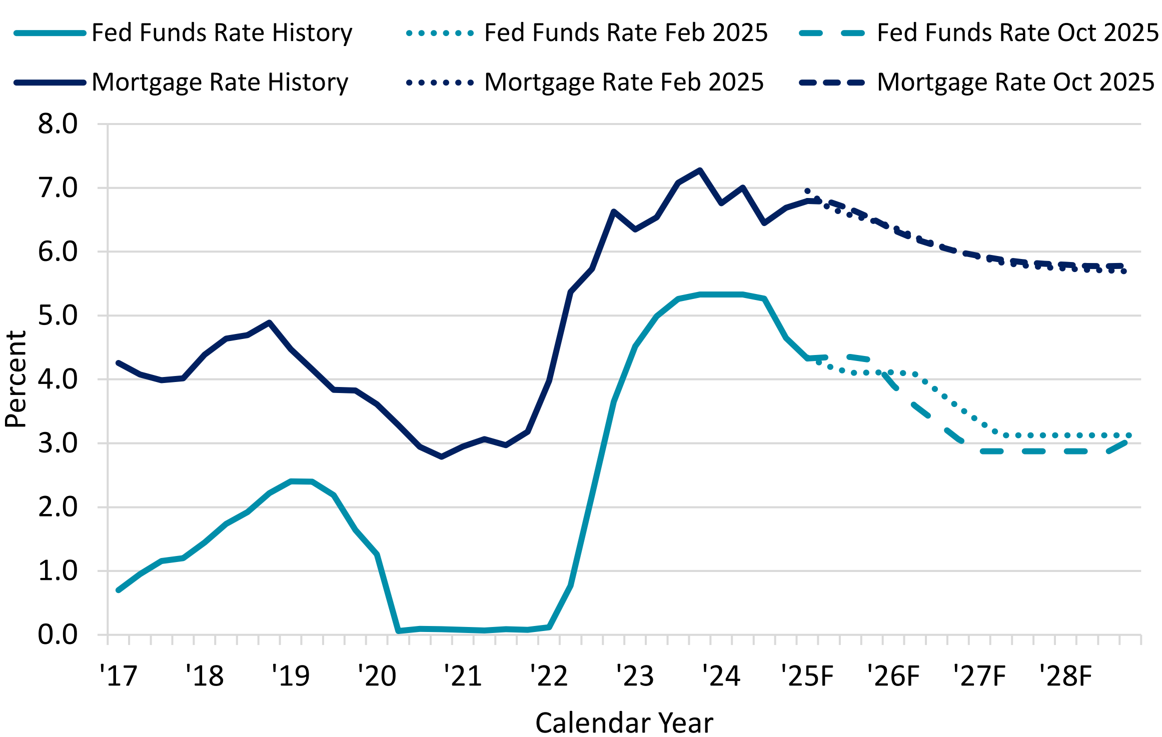
Consumer Price Index (CPI) & Core Personal Consumption Expenditures



Source: Bureau of Economic Analysis and SPGMI

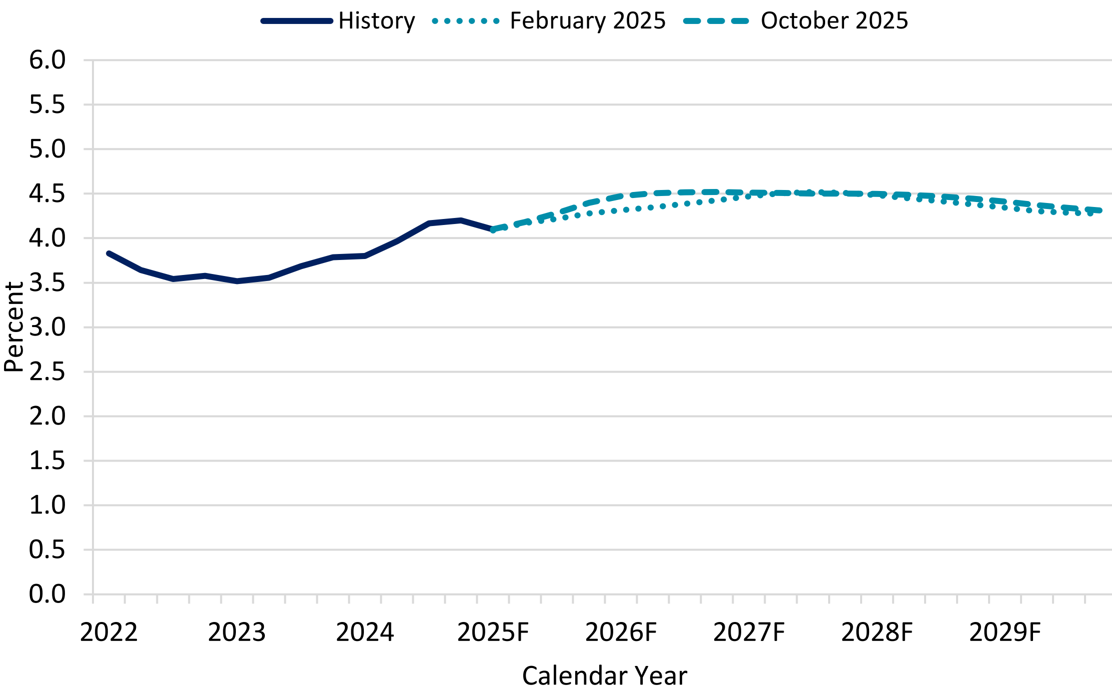
Chart 2. Interest Rates

Fed Funds Rate and 30-year Fixed Mortgage Rate



Source: Bureau of Economic Analysis and

Chart 3. U.S. Civil Unemployment Rate
Monthly, Seasonally Adjusted



Source: Bureau of Economic Analysis and SPGMI