MANAGEMENT AND BUDGET

Revenue and Economic Update

January 2026 mn.gov/mmb

Revenues Higher than November 2025 Forecast

Minnesota's net general fund receipts for November and December of 2025 are now estimated to total $5.608 billion, $65 million (1.2 percent) more than forecast in the November 2025 *Budget and Economic Forecast*. Both net individual tax and sales tax receipts were slightly above the forecast for the period, while net corporate franchise tax receipts were slightly below forecast. Other revenues were above forecast.

Because forecast receipts are now updated to reflect the November 2025 *Budget and Economic Forecast*, the fiscal year-to-date variance is the same dollar amount as the November-December variance, $65 million (1.2 percent) more than fiscal year-to-date forecast revenues.

For November and December, net individual income tax receipts were $9 million (0.4 percent) more than forecast. Withholding, declarations, and miscellaneous payments were all well above forecast. This was balanced by higher-than-forecast refunds. Income tax withholding receipts were $39 million (1.8 percent) higher than forecast. Estimated income tax payments (labeled declarations on page 5) were $42 million (54.8 percent) above the forecast. Individual income tax refunds were $76 million (51.1 percent) above forecast. Partnership and S corporation payments were $52 million (11.1 percent) below the forecast, and refunds were $13 million (47.5 percent) below forecast.

Net sales tax receipts were $5 million (0.4 percent) higher than forecast. Gross receipts were $3 million (0.2 percent) more than forecast, and refunds were $2 million (3.4 percent) less than forecast.

Net corporate franchise tax receipts were $5 million (0.9 percent) less than forecast. Gross receipts were $2 million (0.3 percent) more than forecast, and refunds were $7 million (18.1 percent) more than forecast.

Net receipts from other revenues and taxes were $56 million (5.5 percent) more than forecast due primarily to a large, positive variance in estate tax collections.

Please see the table on page 5 for more detailed information on revenues within each broad category.

Summary of Revenues: November-December 2025

($ in millions)	November 2025 Forecast	Actual	$ Difference	% Difference
Individual Income Tax	$2,619	$2,629	$9	0.4%
General Sales Tax	1,294	1,299	5	0.4
Corporate Franchise Tax	617	611	(5)	(0.9)
Other Revenues	1,013	1,069	56	5.5
Total Revenues[1]	**$5,543**	**$5,608**	**$65**	**1.2%**

1. Totals may not add due to rounding.

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U.S. Economic Outlook Shows Low Growth, Weak Labor Markets, and Continued Inflation

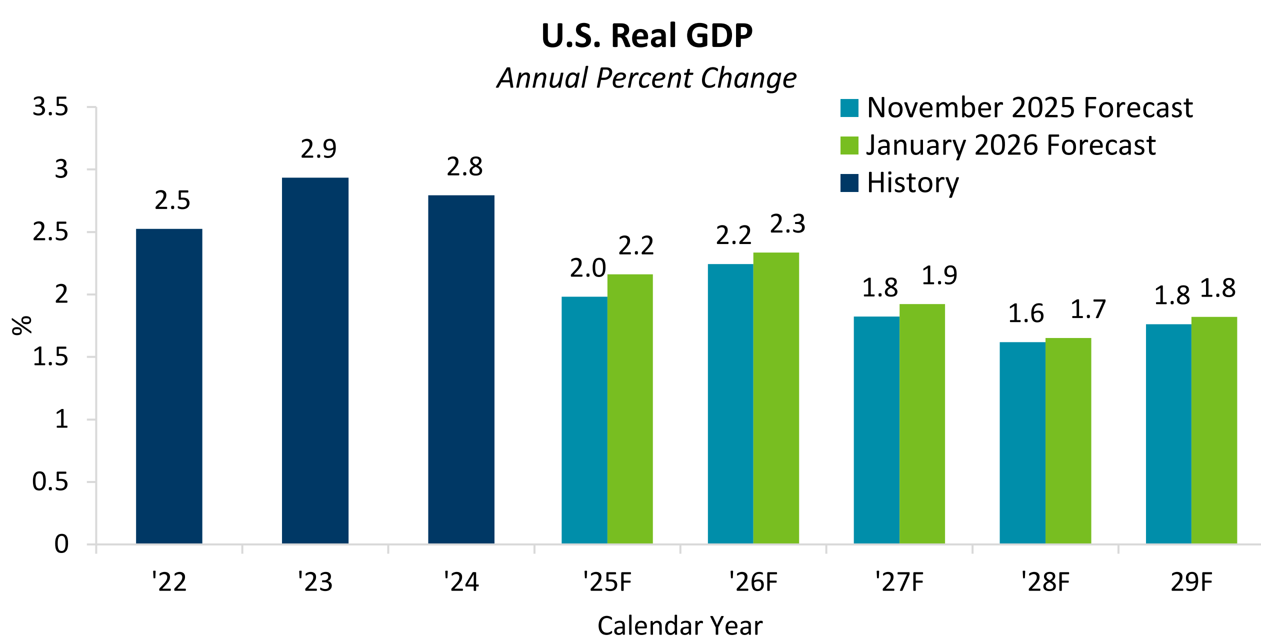
The outlook for the U.S. economy for 2025-2026 has changed slightly since Minnesota's *Budget and Economic Forecast* was prepared in November 2025. In its January 2026 forecast, Standard & Poor's Global Market Intelligence (SPGMI), Minnesota's macroeconomic consultant, has revised its baseline forecast of annual real gross domestic product (GDP) growth upward by between one and two-tenths percentage points through 2029. In addition, the baseline forecasts for inflation, unemployment, and interest rates have all been revised upward slightly. These changes, if they are realized, would have generally negative effects on Minnesota's economy.

The Bureau of Labor Statistics (BLS) reports that the national unemployment rate was 4.4 percent in December, up 0.3 percentage points from one year earlier. Payroll employment continues to grow at historically low rates, with an increase of only 50,000 jobs in December. For 2025, job growth averaged just under 49,000 per month. Since May 2025, job growth has averaged under 12,000 new jobs per month.[1] In its baseline forecast, SPGMI expects the unemployment rate to peak at 4.7 percent in early 2026 before falling to 4.3 percent by the end of 2029.

Growth Outlook and Assumptions

SPGMI forecasts that real GDP grew 2.2 percent in 2025, slightly higher than the 2.0 percent annual growth in November. SPGMI forecasts real GDP growth of 2.3 percent in 2026 and 1.9 percent in 2027, both higher than the 2.2 percent and 1.8 percent forecast in November. These upward revisions are due to both upward revisions in the historical data, as well as a stronger third-quarter 2025 GDP growth than previously forecast. The Bureau of Economic Analysis (BEA) reported third-quarter growth of 4.3 percent, much stronger than their expectation of 3.2 percent in the November forecast.

While this forecast anticipates steady but low growth in the U.S. economy, there are important downside risks. Higher than expected tariffs could reduce consumer spending and fixed investment more than expected, leading to slower economic growth. Elevated tariffs may also put upward pressure on inflation. With payroll employment growth at low levels, 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



Source: Bureau of Economic Analysis (BEA), and SPGMI

[1] SPGMI's January forecast was prepared prior to the BEA's release of the December 2025 "Employment Situation."

investment. However, this may also increase the risk of continued expansion should there be a market correction. This forecast does not incorporate risks related to recent geopolitical developments involving Venezuela. SPGMI noted that while this is an important event, they do not expect it to have a material impact on the US macroeconomic outlook. The primary effect would be on oil prices. A partial blockade on Venezuelan oil exports has been in place since December 11. Even if this blockade were lifted, Venezuelan production is not currently large enough to affect oil prices substantially.

SPGMI's forecast assumes new tariffs on critical materials of 10%, effective in Q1 of 2027, in addition to Section 232 tariffs currently in place. The forecast also assumes that delayed tariffs on semiconductors, furniture, and cabinetry will not take effect. International Emergency Economic Powers Act (IEEPA) tariffs tied to fentanyl and immigration on imports from Canada (35 percent) and Mexico (25 percent) will be reduced to 15 percent by mid-2026. Reciprocal tariffs are assumed to range from 10 to 40 percent.

These changes lower SPGMI's projection for the effective tariff rate by approximately two percentage points to 14 percent. Combined with unexpected weakness in consumer prices through November, the impact results in lower price pressures and lowers the near-term projection for inflation in this forecast.

Inflation

The January outlook projects lower inflation in 2026 than in their November forecast because of lower overall effective tariff rates and lower observed inflation in consumer prices through November. However, SPGMI expects inflation as measured by both the CPI and core PCE indexes to remain elevated in 2027 and 2028. CPI inflation is forecast to be 2.5 percent in 2026 and 2.8 percent in 2027, compared with 2.9 percent in 2026 and 2.5 percent in 2027 in the November 2025 forecast. Core PCE inflation, the Federal Reserve's preferred measure, is projected at 2.8 percent in 2026 and 2.4 percent in 2027.

Refer to Chart 1 on page 6 for details of the forecasts for both CPI and core PCE inflation.

Interest Rates and Monetary Policy

The Federal Reserve has been lowering its target federal funds rate over the past two years as inflation has moderated. However, because of persistent inflation, SPGMI now assumes further rate cuts will be paused until mid-2026 and expects the federal funds rate target range to reach 3.0 to 3.25 percent by September 2026. This is unchanged from the November forecast.

SPGMI now forecasts the average 30-year conventional fix-rate mortgage rate to fall below 6.0 percent by mid-2026, two quarters earlier than expected in November.

Please refer to Chart 2 on page 6 for a summary of forecast changes to the federal funds rate and the 30-year fixed mortgage rate.

Unemployment and Labor Markets

The January forecast from SPGMI does not incorporate data from the most recent Bureau of Labor Statistics (BLS) "Employment Situation" released on January 9, 2026. The BLS reports that in December 2025, the seasonally adjusted U.S. unemployment rate fell slightly to 4.4 percent, down from a revised November rate of 4.5 percent. Payroll employment grew by a seasonally adjusted 50,000 jobs in December. In revised payroll data published by the BLS this month, the average monthly change in payroll employment for the fourth quarter of 2025 was a decline of 22,000 jobs per month. In 2025 overall, payroll employment growth slowed significantly from the year before, with U.S. employers adding 48,700 jobs per month compared to an additional 157,800 jobs per month in 2024. Healthcare and social assistance added an average of 59,400 jobs per month in 2025, offsetting job losses in other sectors.

Other labor force measures give mixed signals about labor market conditions. The number of long-term unemployed (those jobless for 27 weeks or more) was 1.9 million (seasonally adjusted) in December 2025, an increase of 397,000 compared to a year earlier. The U.S. labor force participation rate was 62.4 percent in December, down 0.1 percentage point from one year earlier. The participation rate for persons aged 25 to 54 (prime work ages) was 83.8 percent in December, up from 83.4 percent one year ago.

SPGMI does not forecast a return to robust job growth over the next several years. They estimate payroll employment will increase by an average of about 50,000 jobs per month through 2029. In addition, they forecast that the unemployment rate will continue to rise slowly, reaching 4.7 percent in early 2026, and will remain above 4.5 percent through 2028.

Please refer to Chart 3 on page 7 for a summary of forecast changes to the unemployment rate.

Alternative Scenarios

In its January forecast, SPGMI assigns a 50 percent probability to the baseline scenario forecast (described above), a 20 percent probability to their "pessimistic" scenario, and a 30 percent probability to their "optimistic" scenario for the U.S. economy. The pessimistic scenario assumes that a combination of restrictive trade and immigration policies, coupled with increased financial stress and weakening consumer demand, leads to a two-quarter recession in early 2026. The optimistic scenario assumes that both lower U.S. tariffs and less retaliation by major trading partners lead to lower inflationary pressures. 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 core PCE price inflation at 3.1 percent in 2026, even as aggregate demand weakens. Annual GDP growth remains below two percent through 2028, while the unemployment rate rises above five percent in 2026 and to 6.7 percent in 2028.

The optimistic scenario has real GDP growing at 2.8 percent in 2026 (compared to 2.3 percent in the baseline) while unemployment remains stable at approximately 4.4 percent through 2028. The annual inflation rate in the core PCE index falls to 2.5 percent in 2026. Stronger consumer demand and easing financial conditions lead to higher fixed investment in this scenario. More lenient immigration policies also lead to labor force growth, further contributing to economic expansion.

Other Forecasts

The SPGMI January baseline forecast for real GDP growth is slightly higher than Haver Analytics' January 2026 "Blue Chip Economic Indicators" consensus, the mean of 50 business and academic forecasts. The Blue Chip consensus for real GDP growth is 2.1 percent in 2026, slightly below SPGMI's forecast of 2.3 percent. The mean consensus is 2.1 percent real GDP growth in 2027, higher than SPGMI's forecast of 1.9 percent. The Philadelphia Federal Reserve Bank's "Survey of Professional Forecasters" (November 2025) mean projection is for 1.8 percent growth in 2026 and 2.1 percent in 2027.[2]

Conclusion

SPGMI's January forecast predicts a continued challenging outlook for the U.S. and Minnesota, largely unchanged from that presented in the November 2025 *Budget and Economic Outlook.* Low overall economic growth, elevated inflation, low rates of job creation, and higher interest rates are expected to adversely affect consumer and business spending as well as private investment (both business and residential). 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 in 2025 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 no recession in SPGMI's baseline forecast, there is the possibility of an economic contraction in 2026 due to the low forecasted growth rate, and the overall outlook remains sensitive to evolving financial, fiscal, and trade policy developments.

[2] "Survey of Professional Forecasters, Fourth Quarter 2025," Federal Reserve Bank of Philadelphia. November 17, 2025. <https://www.philadelphiafed.org/surveys-and-data/real-time-data-research/spf-q4-2025> Accessed January 9, 2026.

Comparison of Actual and Forecast Non-Dedicated Revenues

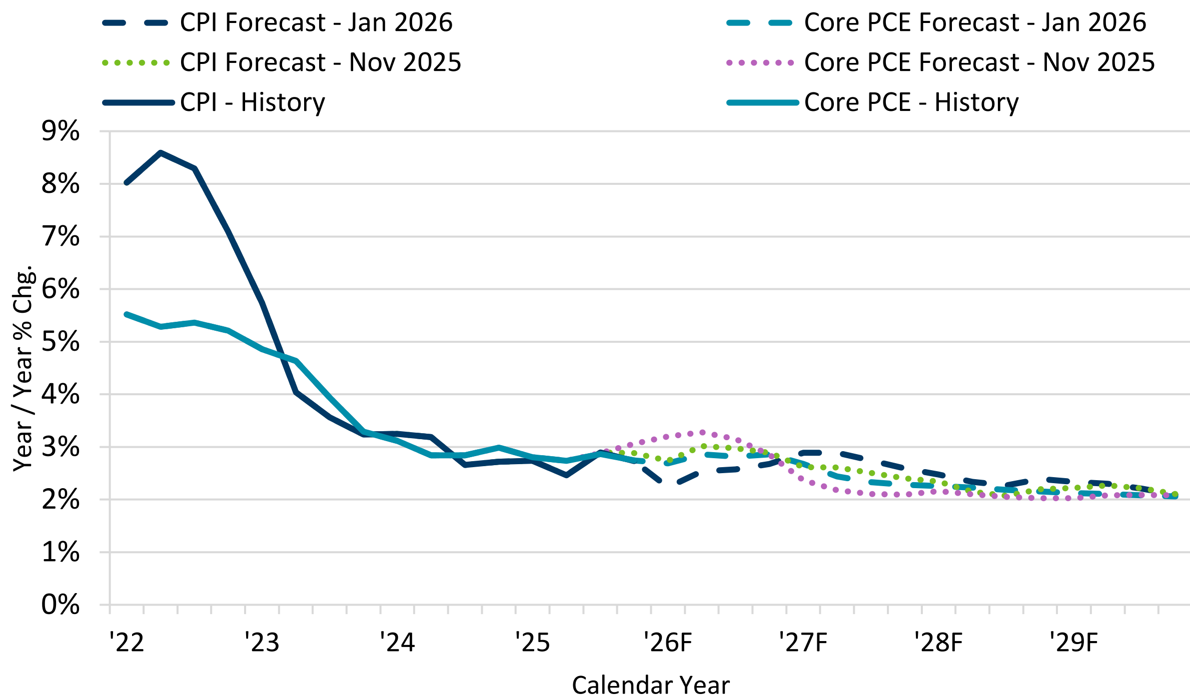
($ in thousands)

	Fiscal Year 2026			November - December 2025		
	FORECAST REVENUES[1]	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES[1]	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	6,517,564	6,556,216	38,652	2,199,921	2,238,572	38,652
Declarations	597,582	639,315	41,733	76,090	117,823	41,733
Miscellaneous	354,457	398,040	43,583	45,953	89,536	43,583
Partnership & S Corporation Gross	1,080,758	1,028,341	(52,417)	472,922	420,505	(52,417)
Gross Income Tax	**8,550,362**	**8,621,911**	**71,550**	**2,794,886**	**2,866,435**	**71,550**
Partnership & S Corporation Refunds	98,837	85,607	(13,229)	27,872	14,643	(13,229)
Individual, Fiduciary, Withholding Refunds	338,338	413,841	75,502	147,692	223,194	75,502
Total Refunds	437,175	499,448	62,273	175,564	237,838	62,273
Net Income Tax	**8,113,187**	**8,122,463**	**9,276**	**2,619,321**	**2,628,598**	**9,276**
Corporate Franchise Tax						
Declarations	1,226,542	1,262,984	36,442	540,611	577,053	36,442
Miscellaneous	167,848	133,370	(34,478)	117,062	82,584	(34,478)
Gross Corporate Franchise Tax	**1,394,390**	**1,396,354**	**1,964**	**657,673**	**659,637**	**1,964**
Refunds	82,456	89,868	7,412	40,888	48,299	7,412
Net Corporate Franchise Tax	**1,311,934**	**1,306,486**	**(5,448)**	**616,785**	**611,338**	**(5,448)**
General Sales and Use Tax						
Gross Sales Tax	4,206,193	4,209,345	3,152	1,344,248	1,347,400	3,152
Mpls. Sales Tax Transferred to MSFA	-	-	-	-	-	-
Mpls. Sales Tax w/Holding for NFL Stadium	9,496	9,496	-	3,204	3,204	-
Gross Sales and Use Tax	**4,215,689**	**4,218,841**	**3,152**	**1,347,452**	**1,350,605**	**3,152**
Refunds (including Indian refunds)	76,852	75,033	(1,819)	53,435	51,616	(1,819)
Net Sales and Use Tax	**4,138,837**	**4,143,809**	**4,972**	**1,294,017**	**1,298,989**	**4,972**
Other Revenues						
Net Estate	170,125	198,486	28,361	48,400	76,761	28,361
Net Liquor, Wine, and Beer	49,653	49,028	(625)	17,522	16,897	(625)
Net Cigarette and Tobacco	228,489	230,907	2,418	97,526	99,944	2,418
Deed and Mortgage	138,613	145,578	6,966	50,191	57,157	6,966
Net Insurance Premiums Taxes	264,712	272,860	8,148	118,225	126,373	8,148
Net Lawful Gambling	86,242	91,562	5,320	30,796	36,116	5,320
Health Care Surcharge	102,896	94,639	(8,257)	65,020	56,763	(8,257)
Other Taxes	-	64	64	-	64	64
Statewide Property Tax	338,215	334,489	(3,725)	164,858	161,133	(3,725)
DHS SOS Collections	58,788	64,152	5,364	19,264	24,627	5,364
Investment Income	283,285	291,329	8,045	93,595	101,639	8,045
Tobacco Settlement	125,248	122,611	(2,637)	125,248	122,611	(2,637)
Dept. Earnings & MSOP Recovery	124,392	126,691	2,298	56,597	58,895	2,298
Fines and Surcharges	22,523	28,738	6,215	4,337	10,552	6,215
Lottery Revenues	26,939	29,188	2,249	9,123	11,372	2,249
Revenues yet to be allocated	14,535	26,357	11,822	-	11,822	11,822
Residual Revenues	200,772	184,883	(15,889)	113,494	97,605	(15,889)
Other Revenues Subtotal	**2,235,427**	**2,291,563**	**56,137**	**1,014,195**	**1,070,332**	**56,137**
Other Refunds	1,528	1,586	58	1,177	1,235	58
Net Other Revenues	**2,233,899**	**2,289,977**	**56,078**	**1,013,018**	**1,069,097**	**56,078**
Total Gross	**16,395,867**	**16,528,670**	**132,803**	**5,814,206**	**5,947,009**	**132,803**
Total Refunds	**598,011**	**665,935**	**67,924**	**271,064**	**338,988**	**67,924**
Total Net	**15,797,856**	**15,862,735**	**64,879**	**5,543,142**	**5,608,021**	**64,879**

1. November 2025 Budget and Economic Forecast.

Chart 1: Inflation

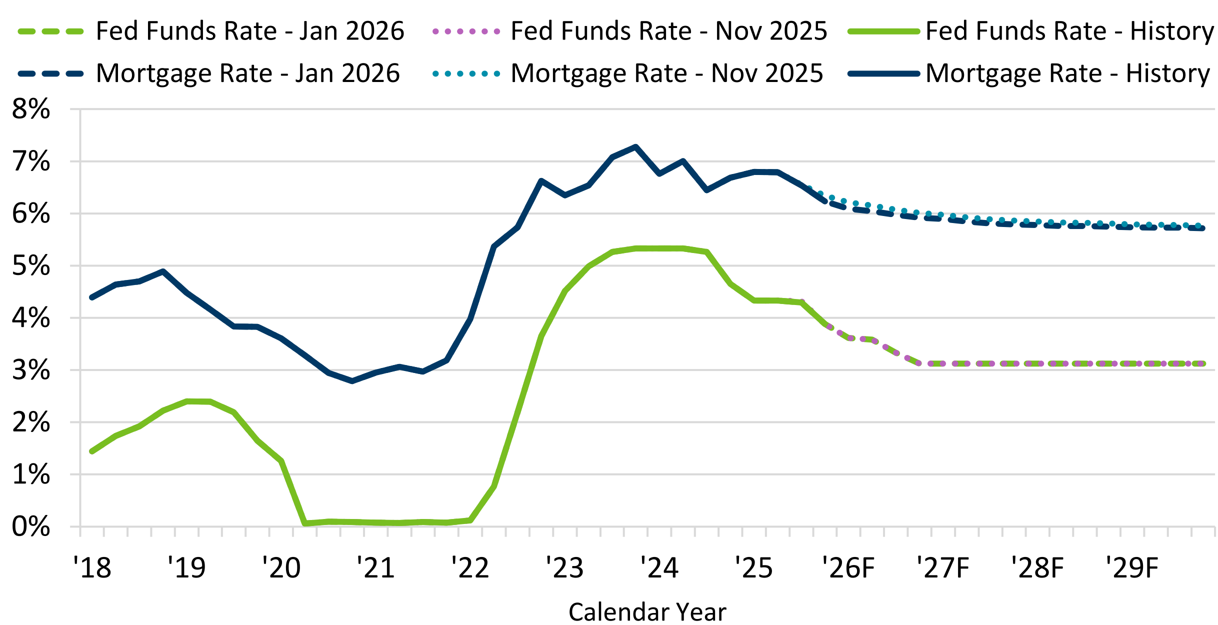
Consumer Price Index (CPI) & Core Personal Consumption Expenditures (Core PCE)



Source: Bureau of Economic Analysis, Bureau of Labor Statistics, and SPGMI

Chart 2: Interest Rates

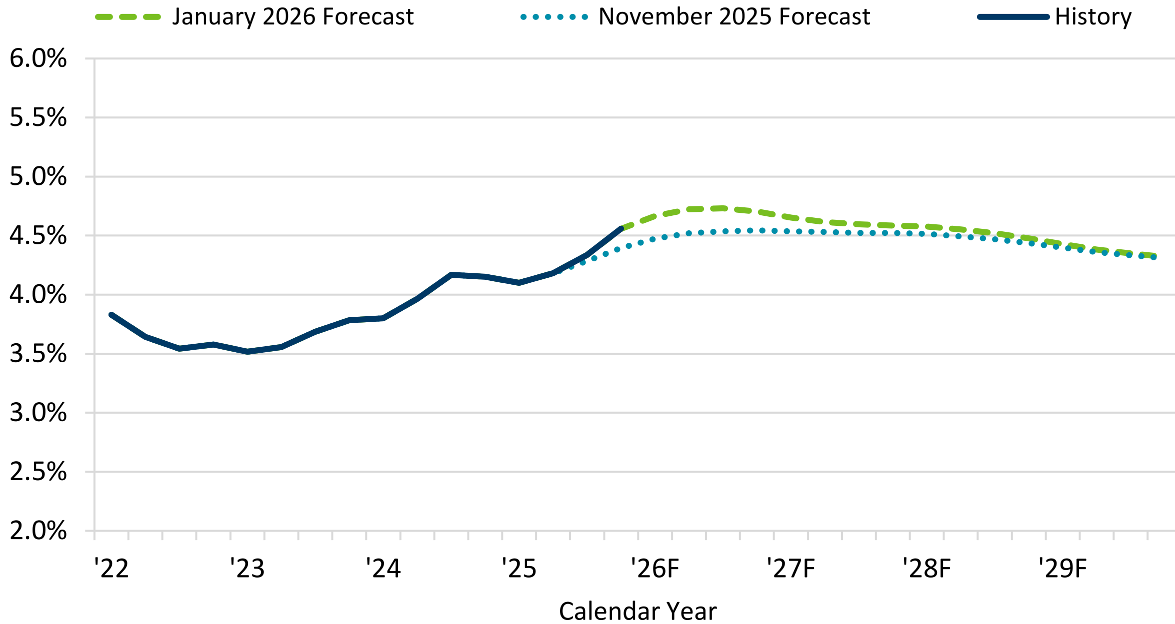
Fed Funds Rate and 30-year Fixed Mortgage Rate



Sources: Board of Governors of the Federal Reserve System, Freddie Mac, and SPGMI

Chart 3: Unemployment Rate

Quarterly, Seasonally Adjusted



Source: Bureau of Labor Statistics and SPGMI