

Revenue and Economic Update

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Revenues Above February 2026 Forecast

Minnesota's net general fund receipts for the first quarter of fiscal year (FY) 2027 are now estimated to total \$8.607 billion, \$928 million (12.1 percent) more than projected in the February 2026 *Budget and Economic Forecast*. Net tax receipts for all major tax types exceeded the forecast.

Net individual income tax receipts were \$441 million (10.9 percent) more than forecast for the first three months of FY 2027. Gross income tax receipts were \$440 million above the forecast, while refunds were \$1 million lower than expected. Income tax withholding receipts were \$63 million (1.9 percent) more than forecast. Declarations exceeded the forecast by \$132 million (32.6 percent). This variance may reflect expectations of higher nonwage income in TY 2026 than was assumed in the February 2026 forecast. Miscellaneous payments were \$26 million (16.8 percent) more than forecast.

Partnership and S Corporation gross receipts exceeded our forecast by \$220 million (58.4 percent). These payments largely reflect TY 2026 activity and consist of pass-through entity (PTE) tax payments, non-resident composite payments, nonresident withholding payments, and minimum fee payments. Most of the positive variance is likely due to higher PTE tax payments. The February 2026 forecast assumed the PTE tax would expire after TY 2025 under then-current law. The 2026 legislature extended the PTE tax through TY 2027, likely causing pass-through entities to pay PTE tax amounts from July through September that were not

assumed in the February forecast. Since individual taxpayers can claim a refundable PTE Credit equal to the PTE tax paid by a pass-through entity on their behalf, we expect that the FY 2027 PTE tax payments will generally be offset by refundable PTE tax credits claimed on individual income tax returns in spring 2027, leading to higher refunds or lower final payments in spring 2027.

Net corporate receipts were \$221 million (27.3 percent) more than forecast. This follows a \$328 million shortfall in net corporate receipts in FY 2026. The negative FY 2026 variance likely reflects an expectation of lower federal tax liability in TY 2026 as a result of H.R. 1. In the 2026 legislative session, however, Minnesota conformed to several revenue-raising federal business tax provisions but did not conform to most revenue-reducing provisions. As a result, the positive FY 2027 variance may reflect taxpayers' reassessment of TY 2026 liability following Minnesota's conformity changes.

Net general sales tax receipts were \$122 million (5.6 percent) more than forecast. Gross sales tax payments were \$100 million above the forecast, and refunds were \$22 million lower than expected.

Other net revenues were \$144 million (22.5 percent) more than forecast. Estate taxes, investment income, and deed and mortgage tax collections were the primary drivers of this variance. The next official forecast will be released in early December 2026.

Summary of Revenues: July-September 2026 (FY 2027, Q1)

(\$ in millions)	February 2026		\$	%
	Forecast	Actual	Difference	Difference
Individual Income Tax	\$4,056	\$4,497	\$441	10.9%
General Sales Tax	2,173	2,296	122	5.6
Corporate Franchise Tax	809	1,030	221	27.3
Other Revenues	640	784	144	22.5
Total Revenues¹	\$7,679	\$8,607	\$928	12.1%

1. Totals may not add up due to rounding.

Fiscal Year 2026 Revenues Exceed Forecast

Minnesota’s net general fund receipts for FY 2026 are now estimated to total \$33.497 billion, \$219 million (0.7 percent) more than projected in the February 2026 Budget and Economic Forecast. Net receipts from individual income tax, sales tax, and other tax revenues exceeded the forecast, while net corporate tax revenues were below forecast. In the July 10, 2026, *Revenue and Economic Update*, we estimated that revenues would be \$248 million more than forecast. The positive variance is now \$29 million lower because net revenues attributable to fiscal year 2026 that were received between the end of June and the official close were lower than our initial estimate.

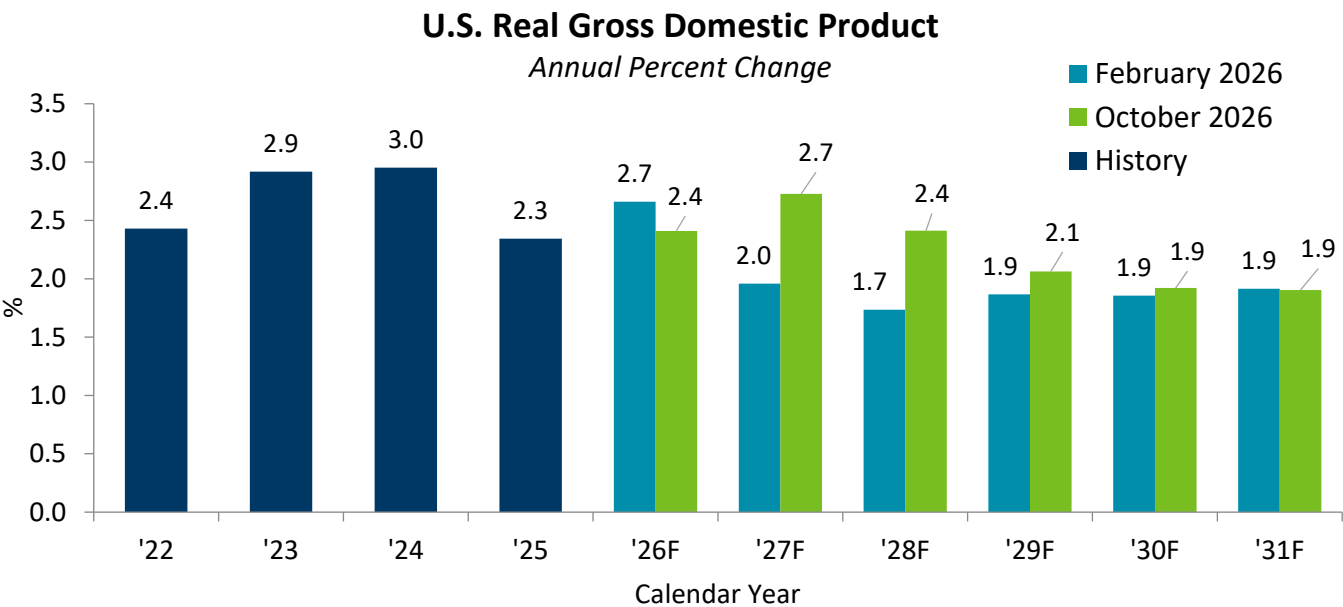
U.S. Economic Outlook Weaker in 2026, Stronger in 2027-2028

The outlook for U.S. real GDP growth in 2026 has weakened since Minnesota’s *Budget and Economic Forecast* was prepared in February 2026, while expected growth in 2027 and 2028 has strengthened. S&P Global Market Intelligence (SPGMI), Minnesota’s macroeconomic consultant, now expects annual real GDP to grow 2.4 percent in 2026, down 0.3 percentage

points from the February forecast. Growth is expected to reach 2.7 percent in 2027 and 2.4 percent in 2028. Both are 0.7 percentage points higher than in February.

The stronger outlook for 2027 and 2028 developed over several months. By July, SPGMI projected rising contributions from business fixed investment and inventory investment, which contributed to a higher growth estimate. In September 2026, upward revisions to historical growth and disposable personal income, together with stronger incoming data, have further lifted the growth outlook. These developments also raised SPGMI’s estimate of growth in 2026 relative to its recent projections, although the current forecast remains below February’s estimate.

The Bureau of Economic Analysis (BEA) revised the National Income and Product Accounts (NIPAs) back to 2021. The revised data show stronger growth in the first half of 2026 than previously estimated. Data released in September contributed to stronger third-quarter estimates of GDP, raising the level of GDP in the second half of 2026. Higher projected GDP growth in 2027 reflects both carryover from stronger growth in 2026 and a stronger outlook for growth in 2027. Additionally, the annual update to the NIPAs included a large upward revision to disposable personal income, leading SPGMI to raise its forecast for consumer spending in both 2027 and 2028.



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

Consumer spending growth is now expected to be 2.4 percent in 2026, 0.4 percentage points lower than in the February forecast. Consumer spending growth is expected to be 2.6 percent in 2027 and 2.6 percent in 2028, both up 0.5 percentage points.

Another significant update since the February 2026 forecast is the conflict between the United States and Iran and its effect on energy prices. SPGMI now expects Brent crude oil prices to average \$91 per barrel in 2026 and \$88 per barrel in 2027, up from February projections of \$59 and \$62, respectively. Prices are expected to peak at a quarterly average of \$100 per barrel in the fourth quarter of 2026, then decline to \$88 per barrel in the second quarter of 2027.

SPGMI expects CPI inflation of 3.4 percent in 2026, up from 2.5 percent in their February outlook, as higher oil prices pass through to consumer prices. SPGMI expects CPI inflation of 2.4 percent in 2027, compared with 2.8 percent in their February forecast. The October forecast assumes resolution of the conflict would reduce Brent crude oil prices, easing inflation pressures in 2027. SPGMI expects the Federal Open Market Committee (FOMC) to raise the federal funds rate by about 50 basis points over the next two quarters before beginning to cut rates again in late 2027.

The SPGMI October baseline forecast for real GDP is comparable to the October 2026 Blue Chip Economic Indicators consensus for 2026 but substantially higher for 2027. The Blue Chip consensus, which averages 50 business and academic forecasts, projects real GDP growth of 2.3 percent in 2026, slightly below the SPGMI forecast of 2.4 percent for this year.¹ For 2027, SPGMI projects growth of 2.7 percent in 2027, compared with the Blue Chip Consensus of 2.1 percent.

The Bureau of Labor Statistics (BLS) reports that in September, the seasonally adjusted U.S. unemployment rate was 4.2 percent, up slightly from 4.1 percent in August but below the 4.4 percent rate one year ago. The U.S. labor force rebounded by 1.2 million people in August and September, reversing most of the 1.4 million decline between January and July. The recent rebound largely reflects a return to labor force participation:

between July and September, the number of people outside the labor force declined by approximately 900,000. Nevertheless, the U.S. labor force participation rate was 61.8 percent in September, down 0.7 percentage points from one year ago, indicating that the recent recovery has not reversed the broader decline in labor force participation.

Nonfarm payroll employment increased by 29,000 jobs in September, while job gains in July and August were revised down by a combined 60,000. Employers added an average of approximately 68,000 jobs per month during the first nine months of 2026, compared with 10,000 per month in 2025. The number of long-term unemployed (those jobless for 27 weeks or more) was 1.9 million (seasonally adjusted) in September, an increase of 129,000 individuals from one year ago. SPGMI expects the U.S. unemployment rate to rise to 4.3 percent in early 2027, where it will remain through 2031.

The alternative scenarios for October are not yet available. The following alternatives are based on the September forecast. SPGMI assigns a 50 percent probability to the September baseline outlook. SPGMI assigns a 25 percent probability to a more pessimistic scenario, characterized by (1) tighter energy markets resulting from the conflict in Iran and the disruption in the global supply of oil and other commodities, (2) elevated energy prices that reduce consumer demand, and (3) lower equity valuations. As a result, real GDP will grow 1.8 percent in 2027 and 1.9 percent in 2028.

In the more optimistic scenario, SPGMI assumes (1) improved energy market conditions due to a quicker resolution to the conflict in Iran and a well-functioning global supply of oil and other commodities, and (2) lower energy prices that contribute to lower inflation, higher equity valuations, and stronger consumer demand. In this scenario, real GDP will grow 3.0 percent in 2027 and 2.9 percent in 2028. The optimistic scenario receives a 25 percent probability.

¹ Haver Analytics, "Blue Chip Economic Indicators," October 2026 Edition. CCH Incorporated, New York, New York.

Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year 2026			July-September 2026		
	FORECAST REVENUES*	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES*	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	13,505,716	13,566,021	60,305	3,269,103	3,331,964	62,861
Declarations	2,628,125	2,707,931	79,806	404,743	536,807	132,063
Miscellaneous	2,158,697	2,199,537	40,840	153,991	179,884	25,893
Partnership and S Corporation Gross	2,634,032	3,071,432	437,400	375,696	595,219	219,523
Gross Income Tax Revenues	20,926,569	21,544,920	618,351	4,203,533	4,643,873	440,340
Partnership and S Corporation Refunds	188,706	230,418	41,713	28,115	25,646	(2,469)
Individual, Fiduciary, and Withholding Refunds	3,387,216	3,455,559	68,344	119,427	120,876	1,449
Refunds Income Tax Total	3,575,921	3,685,978	110,056	147,542	146,523	(1,020)
Net Income Tax Revenues	17,350,648	17,858,942	508,295	4,055,991	4,497,351	441,360
Corporate Franchise Tax						
Declarations	3,215,127	2,975,260	(239,867)	786,220	601,832	(184,388)
Miscellaneous	301,169	214,337	(86,832)	38,885	441,005	402,121
Gross Corporate Franchise Tax Revenues	3,516,296	3,189,597	(326,699)	825,105	1,042,838	217,733
Refunds Corporate Franchise Tax	213,875	215,429	1,554	15,782	12,855	(2,927)
Net Corporate Franchise Tax Revenues	3,302,421	2,974,168	(328,253)	809,323	1,029,983	220,660
General Sales and Use Tax						
Sales and Use	8,074,067	8,106,347	32,280	2,207,579	2,307,876	100,297
Mpls. Sales Tax for NFL Stadium and MSFA	18,964	19,017	53	4,761	4,716	(44)
Gross Sales and Use Tax Revenues	8,093,031	8,125,364	32,333	2,212,340	2,312,592	100,252
Refunds Sales and Use Tax	246,500	266,300	19,800	38,893	16,966	(21,927)
Net Sales and Use Tax Revenues	7,846,531	7,859,064	12,533	2,173,447	2,295,626	122,179
Other Taxes and Revenues						
Net Estate Tax	332,400	381,334	48,934	77,100	100,312	23,212
Net Liquor, Wine, and Beer Taxes	111,550	110,801	(749)	22,741	25,884	3,143
Net Cigarette and Tobacco Taxes	503,700	502,476	(1,224)	87,452	96,907	9,455
Deed and Mortgage Taxes	314,547	299,595	(14,952)	70,684	81,155	10,471
Net Insurance Premium Tax	635,524	636,144	620	148,704	152,261	3,557
Net Lawful Gambling Taxes	196,700	210,082	13,382	40,308	42,796	2,488
Health Care Surcharge	392,192	319,081	(73,111)	11,632	16,619	4,987
Other Taxes	5,455	6,605	1,150	-	-	-
Statewide Property Tax	731,259	745,266	14,007	14,800	18,747	3,947
DHS SOS Collections	119,000	132,178	13,178	31,383	26,791	(4,591)
Investment Income	588,000	594,183	6,183	61,935	106,042	44,107
Tobacco Settlement	149,187	143,210	(5,977)	-	-	-
Department Earnings and MSOP Collections	267,182	270,852	3,670	40,494	49,435	8,941
Fines and Surcharges	67,914	71,845	3,931	8,049	11,423	3,374
Lottery Revenues	80,620	75,677	(4,943)	10,058	5,914	(4,144)
Revenues Yet to Be Allocated	-	-	-	-	22,262	22,262
Residual Revenues	289,360	311,961	22,601	15,104	28,774	13,669
Gross Other Taxes and Revenues	4,784,591	4,811,290	26,699	640,445	785,321	144,876
Refunds Other Taxes and Revenues	6,201	6,900	699	575	1,217	642
Net Other Taxes and Revenues	4,778,390	4,804,390	26,000	639,870	784,105	144,235
Total Gross Revenues	37,320,487	37,671,170	350,683	7,881,423	8,784,624	903,202
Total Refunds	4,042,497	4,174,606	132,109	202,792	177,560	(25,232)
Total Net Revenues	33,277,989	33,496,564	218,575	7,678,630	8,607,064	928,434

*Source: February 2026 Budget and Economic Forecast.