



Minnesota

Department of Finance

April 2003

State Revenues Exceed Forecast in February and March But Withholding Tax Receipts Remain Weak

Net general fund revenues totaled \$1.894 billion during February and March, \$55.9 million (3.0 percent) more than forecast. Receipts from the four major taxes were \$1.590 billion, \$18 million (1.1 percent) above projections. Total receipts for the past two months exceeded fiscal 2002 receipts by \$60.4 million or 3.3 percent.

Summary of Tax Receipts: February – March 2003

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	801.1	784.4	(16.7)	(2.1)
Sales	581.7	585.6	3.9	0.6
Corporate	146.8	183.4	36.6	24.9
Motor Vehicles	42.7	36.5	(6.2)	(14.5)
Other	<u>266.6</u>	305.0	<u>38.4</u>	<u>14.4</u>
Total	1,838.9	1,894.8	55.9	3.0

Even though the U.S. economy and Minnesota's economy continue to struggle, state revenues exceeded forecast in February and March. Large positive variances in the insurance gross premiums tax and the deed and mortgage taxes were sufficient to offset an \$18 million shortfall in withholding tax receipts and a \$4 million negative variance in gross sales tax receipts. (see page 4) Motor vehicle sales tax receipts were also below forecast. Smaller than anticipated corporate income tax refunds during February and March explain much of the large percentage variance in the corporate income tax receipts.

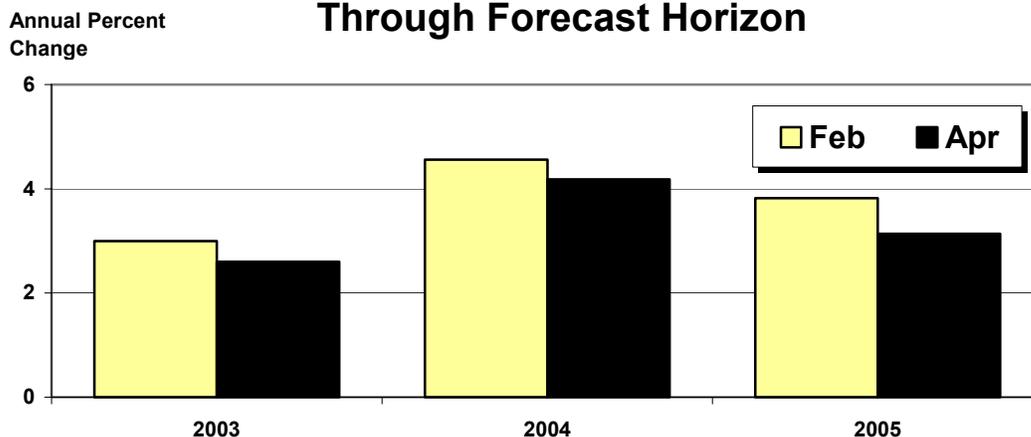
Individual income tax receipts include only withholding and individual estimated tax payments. As in the past, variances in refunds and final payments are not reported during the tax-processing season. Those variances can be substantial. In the final quarter of fiscal 2002, the combination of higher refunds and lower final payments caused by lower than projected capital gains income created a \$285 million income tax shortfall. Variations in the rate of processing and filing make it impossible to make realistic projections of refunds paid and final payments received through March 31. Variances for individual income tax refunds and final payments for tax year 2001 will be reported as part of July's *Economic Update*.

Economic Outlook Has Weakened Since February's Forecast

Economists are cutting back their forecasts for real GDP growth in 2003 and 2004. Progress in the Iraq War is not the problem. Most had incorporated a war into their forecasts by February, and thus far the war has gone as well as anticipated. The reason for concern is that the U.S. economy is visibly struggling. The most noticeable signs have come in the labor market. U.S. payroll employment fell by more than 465,000 jobs in February and March. There are now fewer jobs in the U.S. than at any time since December 1999, more than 15 months before the start of the recession. Real spending on business equipment has finally started to increase, after declining for 8 consecutive quarters, but capacity utilization rates are so low that there is little reason to suspect any significant up-tick in business spending in the next six months, even with quick settlement of the Iraq War. Other indicators including the Institute for Supply Management Index and durable goods orders also point to a more subdued outlook for the remainder of 2003.

Minnesota's national economic consultant, Global Insight Inc., (GII), has reduced its forecast for 2003, 2004 and 2005, but it still remains quite optimistic. The April GII baseline calls for real GDP growth of 2.6 percent in 2003, followed by 4.2 percent growth in 2004, and 3.1 percent growth in 2005. In February GII was expecting growth rates of 3.0 percent in 2003, 4.6 percent in 2004 and 3.8 percent in 2005. The GII April forecast is in the upper third of the 53-member Blue Chip panel. Their 2004 forecast is one of the 5 most optimistic in the Blue Chip Survey. The Blue Chip Consensus calls for 2.4 percent growth in 2004 and 3.5 percent growth in 2004.

GII Baseline Shows Slower Real GDP Growth Through Forecast Horizon

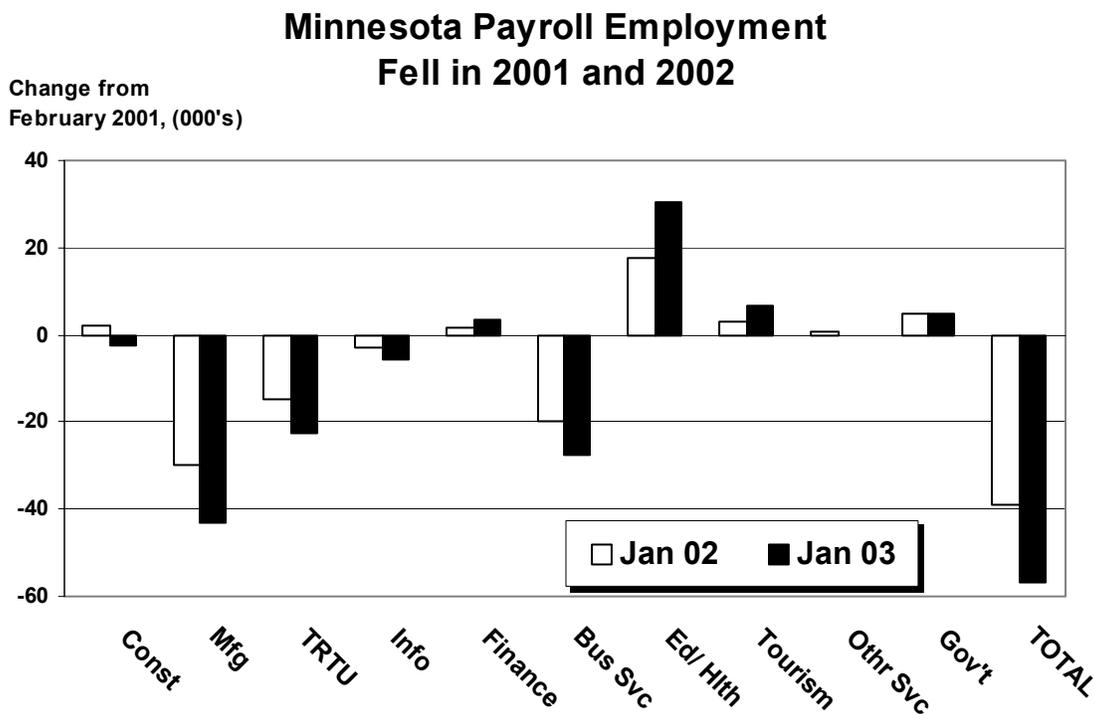


Global Insight assigns a probability of 60 percent to their baseline forecast, the same as in February. A less optimistic outlook is given a 30 percent probability and a more optimistic scenario, a 10 percent probability. GII believes that inflation will continue to remain under control. The increase in the CPI during both 2004 and 2005 is projected to be 1.8 percent, February's forecast called for 2 percent inflation.

Job Losses in Minnesota Continue To Exceed the U.S. Average

Minnesota’s economy has not fared as well following the 2001 recession as it did following the 1991 recession. Then, employment recovered quickly and 2 years after state employment turned down, there were 72,000 more jobs than at the previous high. This time, employment has continued to fall. Minnesota employment fell by 40,000 jobs between February 2001 and January 2002. By January 2003 a total 57,000 jobs had been lost in the state. Payroll employment is now 2.2 percent below the levels observed in February 2001.

A change in the way industries are categorized makes it impossible to compare Minnesota with national averages by sector until June when the national conversion will be complete. However, data is available to show how various sectors in Minnesota performed during each of the past two years. The graph below shows the number of jobs lost between February 2001 and January 2002, and then the total number of jobs lost by January 2003.



As has been widely reported, manufacturing jobs have fallen the most, dropping by 30,000 by January 2002 and by an additional 13,000 by January 2003. Employment in the Trade, Transportation and Utility (TRTU) sector, the Business Services sector, and the Information sector also continued to fall during 2002. Only the Education/Health Care sector has shown any significant job growth since February 2001.

Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	<u>March Year-to-Date</u>			<u>February - March 2003</u>		
	<u>Forecast Revenues</u>	<u>Actual Revenues</u>	<u>Variance Act-Fcst</u>	<u>Forecast Revenues</u>	<u>Actual Revenues</u>	<u>Variance Act-Fcst</u>
Four Major Revenues:						
Individual Income Tax						
Withholding	3,666,630	3,648,200	-18,431	794,200	775,769	-18,431
Declarations	587,300	589,015	1,715	6,949	8,664	1,715
Miscellaneous	106,852	106,852	0	0	0	0
Gross	4,360,782	4,344,067	-16,716	801,149	784,433	-16,716
Refund	121,096	121,096	0	0	0	0
Net	4,239,686	4,222,971	-16,716	801,149	784,433	-16,716
Corporate & Bank Excise						
Declarations	440,863	446,689	5,826	137,600	143,426	5,826
Miscellaneous	119,627	126,679	7,052	39,200	46,252	7,052
Gross	560,490	573,368	12,878	176,800	189,678	12,878
Refund	139,473	115,767	-23,707	30,000	6,293	-23,707
Net	421,017	457,601	36,585	146,800	183,385	36,585
Sales Tax						
Gross	2,956,398	2,952,474	-3,924	596,380	592,456	-3,924
Refunds	122,168	114,369	-7,799	14,689	6,889	-7,799
Net	2,834,230	2,838,105	3,875	581,691	585,567	3,875
Motor Vehicle Sales	207,534	201,331	-6,203	42,689	36,486	-6,203
Other Revenues:						
Inherit/Gift/Estate	116,543	120,579	4,036	9,938	13,974	4,036
Liquor/Wine/Beer	47,636	47,036	-601	9,543	8,942	-601
Cigarette & Tobacco/Cont Sub	135,043	131,381	-3,662	30,281	26,619	-3,662
Deed and Mortgage	199,345	213,447	14,102	34,985	49,087	14,102
Insurance Gross Earnings	158,858	185,175	26,317	59,500	85,817	26,317
Lawful Gambling	38,884	39,061	177	8,481	8,657	177
Health Care Surcharge	111,333	107,687	-3,646	29,136	25,491	-3,646
State wide Property Tax	271,367	271,809	442	0	442	442
Other Taxes	1,466	1,687	221	258	479	221
DHS RTC Collections	45,600	47,887	2,287	12,234	14,522	2,287
Income Tax Reciprocity	49,010	49,010	0	0	0	0
Investment Income	18,414	18,879	465	2,993	3,457	464
Tobacco Settlement	147,568	147,568	0	0	0	0
Departmental Earnings	150,827	156,961	6,134	25,727	31,861	6,134
Lottery Revenues	22,800	21,670	-1,130	5,629	4,499	-1,130
2000 Sales Tax Rebates		0	0	0	0	0
2001 Sales Tax Rebates	-1,000	-766	234	-15	219	234
Revenues yet to be Allocated	2,144	367	-1,776	0	-1,776	-1,776
Residual Revenues Less Refunds	90,402	84,072	-6,330	43,851	37,521	-6,330
Other Subtotal	1,606,241	1,643,512	37,271	272,541	309,812	37,271
Other Refunds	23,572	22,446	-1,126	5,962	4,836	-1,126
Other Net	1,582,669	1,621,066	38,397	266,579	304,976	38,397
Total Gross	9,691,445	9,714,751	23,307	1,889,559	1,912,865	23,307
Total Refunds	406,310	373,678	-32,632	50,651	18,019	-32,632
Total Net	9,285,135	9,341,074	55,938	1,838,908	1,894,846	55,938