



Minnesota Department of Finance

April 2008

State Revenues Above Forecast in February and March

Net general fund revenues totaled \$2.318 billion in February and March, \$98.8 million (4.5 percent) more than forecast. Receipts from the individual income tax, the corporate income tax, the motor vehicle sales tax, and “other” revenues were all above projections while net sales tax receipts were below February’s estimate. Fiscal year 2008 receipts now total \$11.502 billion, 1.5 percent more than at the end of the third quarter of the 2007 fiscal year.

Summary of Tax Receipts: (February - March, 2008)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,011.5	\$1,056.6	\$45.1	4.5
Sales	666.7	655.5	(11.2)	(1.6)
Corporate	221.3	244.5	23.2	10.5
Motor Vehicles	24.7	26.5	1.8	7.3
Other	<u>295.4</u>	<u>335.3</u>	<u>39.9</u>	<u>13.5</u>
Total	\$2,219.6	\$2,318.4	\$98.8	4.5

Individual income tax receipts accounted for \$45 million of the total revenue variance and all but \$1 million of the additional revenue came from a surge in withholding tax receipts in mid March. The positive variance occurred at the time when many firms pay bonuses for the prior year. Since then withholding receipts have tracked the forecast quite closely. Gross sales tax receipts were \$8 million below forecast and sales tax refunds, \$3 million more than projected. (See page 4) The large, \$45 million variance in corporate miscellaneous receipts appears to reflect some commingling of extension payments and final payments. Normally extension payments would be reported with corporate declarations. Receipts from the insurance gross receipts tax showed a large (\$15 million) positive variance.

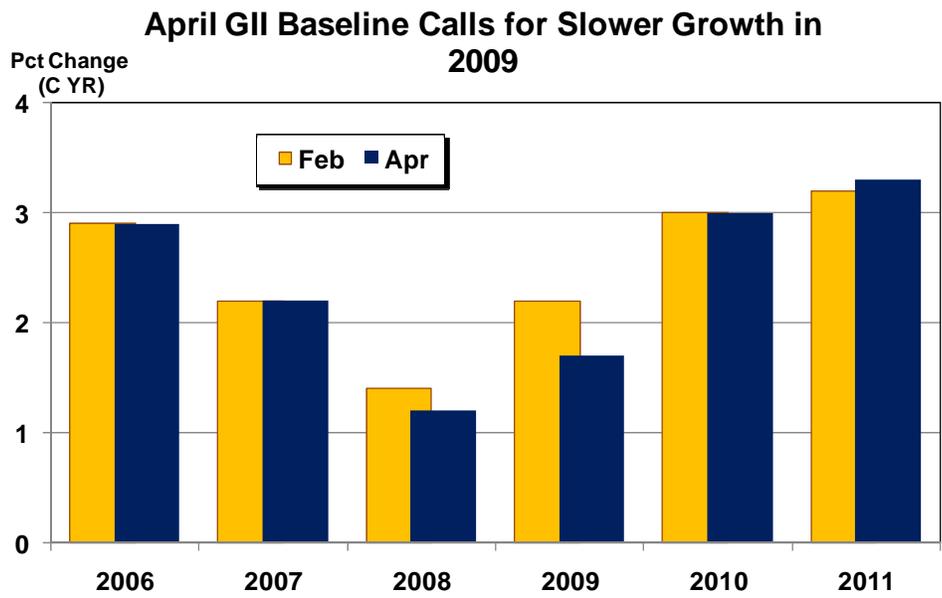
As in past years individual income tax receipts include only withholding and individual estimated tax payments. Variances for tax year 2007 refunds and final payments will not be reported until after processing of timely 2007 returns is complete. Those variances will be reported in the July *Economic Update*.

A Short, Mild Recession Is Still Expected, but ...

The March payroll employment report convinced all but the most optimistic that the U.S. economy is in a recession. Private sector employment has fallen for four consecutive months and is now more than 300,000 below November’s estimate. Total (private and public) employment has declined for three months and there are nearly one-quarter million fewer jobs than in December. Fed Chairman Bernanke even let the “R” word slip into his recent Congressional testimony. Minnesota’s macro-economic consultant Global Insight Inc., (GII), notes that even if first quarter GDP growth were slightly positive, a recession call would still be likely since those charged with certifying when a recession occurs rely primarily on monthly indicators such as employment, personal income, and industrial production. They do not follow a rule of two consecutive quarters of declining GDP as is popularly believed.

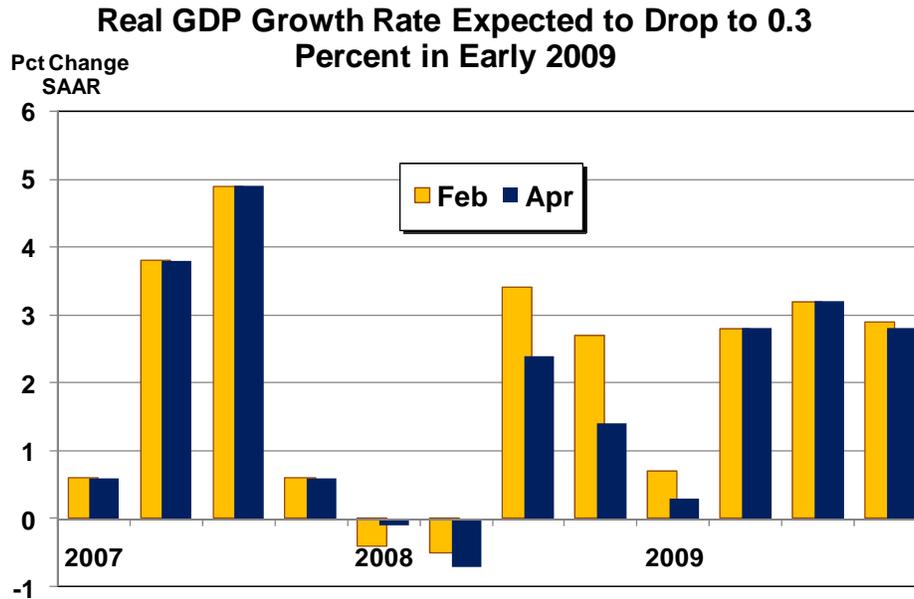
The good news is that this recession is expected to be short and mild. The federal stimulus package is sufficiently large that it is almost certain to nudge the economy back into positive territory in the third quarter of this year. The first of the rebates are now promised for mid-May, about a month earlier than first indicated by the Treasury. That will make some additional money available for spending in June and help limit the projected second quarter decline. The largest portion of the rebate’s impacts will occur later in the summer and in early fall. Forecasters expect the stimulus package to add about \$40 billion to consumer spending by year end, an amount that appears to be more than sufficient to turn real GDP growth rates positive again in the second half of 2008.

Global Insight’s April baseline forecast has real GDP growing at a 1.2 percent annual rate in calendar 2008 and at a 1.7 percent annual rate in 2009. In February real growth rates of 1.4 and 2.2 percent were expected. GII also has raised their near term inflation forecast. The CPI is now expected to increase by 3.5 percent in 2008, up 1.0 percentage points from February’s forecast of 2.5 percent. Forecast CPI growth for 2009, however, remains unchanged at 1.6 percent.



Watch Out for a W

Past recessions often are followed by several quarters of very strong real growth due to pent-up demand created during the economic downturn. This time such a surge in growth is unlikely. Instead, a second dip in economic growth is expected in early 2009. Double dip recessions are not uncommon and they can be very disruptive.



Conditions seem right for real GDP growth to slow in early 2009, once the additional spending from the stimulus package has run its course. Both consumer spending and business spending will be affected. The question is whether the growth from other sectors will be sufficient to replace those losses.

The Fed has cut interest rates. But it will take time for lower rates to boost the economy. Autos and housing, two sectors that typically contribute to a strong recovery are unlikely to do so this time. The struggles in those sectors are due to overbuilding not higher interest rates so lower interest rates are unlikely to unleash a flood of new purchases. Non-residential construction, which typically depends on growth in housing, is unlikely to turn up in early 2009. And, GII also notes “Slower growth in consumer and housing demand will make businesses more cautious about capital spending.” Exports are the only sector where growth is expected to continue strong in early 2009 as a weaker dollar continues to make U.S. produced goods more attractive to foreign purchasers. But, even with strong export growth, GII’s baseline forecast is perilously close to a double dip recession with projected first quarter 2009 growth rate at just 0.3 percent. At that level any adverse shock, such as oil prices remaining above \$100 per barrel, could easily turn economic growth negative for the first half of 2009.

A double dip recession scenario is GII’s principle alternative to the April baseline and assigned a probability of 30 percent. A more optimistic scenario in which the economy narrowly averts a recession this year is assigned a probability of 15 percent. GII sets the probability of their April baseline at 55 percent.

Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	<u>2008 Fiscal Year-to-Date</u>			<u>February - March 2008</u>		
	<u>FORECAST</u> <u>REVENUES</u>	<u>ACTUAL</u> <u>REVENUES</u>	<u>VARIANCE</u> <u>ACT-FCST</u>	<u>FORECAST</u> <u>REVENUES</u>	<u>ACTUAL</u> <u>REVENUES</u>	<u>VARIANCE</u> <u>ACT-FCST</u>
<u>Individual Income Tax</u>						
Withholding	4,521,267	4,565,346	44,079	996,200	1,040,279	44,079
Declarations	899,900	900,994	1,094	15,263	16,357	1,094
Miscellaneous	198,912	198,912	0	0	0	0
Gross	5,620,079	5,665,252	45,173	1,011,463	1,056,636	45,173
Refund	173,489	173,489	0	0	0	0
Net	5,446,590	5,491,763	45,173	1,011,463	1,056,636	45,173
<u>Corporate & Bank Excise</u>						
Declarations	720,434	698,605	(21,829)	201,610	179,781	(21,829)
Miscellaneous	191,079	235,651	44,572	64,256	108,828	44,572
Gross	911,514	934,257	22,743	265,866	288,609	22,743
Refund	160,670	160,229	(440)	44,590	44,150	(440)
Net	750,844	774,027	23,183	221,276	244,460	23,183
<u>Sales Tax</u>						
Gross	3,436,160	3,428,518	(7,643)	710,920	703,277	(7,643)
Refunds	174,366	177,974	3,607	44,197	47,805	3,607
Net	3,261,794	3,250,544	(11,250)	666,723	655,473	(11,250)
<u>Motor Vehicle Sales Tax</u>						
	131,953	133,729	1,776	24,731	26,507	1,776
<u>Other Revenues:</u>						
Estate	97,815	99,859	2,044	14,790	16,834	2,044
Liquor/Wine/Beer	49,383	49,420	37	10,398	10,435	37
Cigarette/Tobacco/Cont Sub	146,963	145,993	(970)	48,669	47,699	(970)
Deed and Mortgage	132,825	137,470	4,644	22,505	27,149	4,644
Insurance Gross Earnings	201,361	216,465	15,104	74,390	89,494	15,104
Lawful Gambling	32,659	31,426	(1,233)	8,104	6,871	(1,233)
Health Care Surcharge	159,362	162,758	3,396	34,735	38,131	3,396
Other Taxes	1,368	1,785	416	172	588	416
Statewide Property Tax	317,858	318,113	256	0	256	256
DHS SOS Collections	45,703	47,480	1,778	10,246	12,024	1,778
Income Tax Reciprocity	69,050	69,050	0	0	0	0
Investment Income	80,304	78,089	(2,215)	18,440	16,225	(2,215)
Tobacco Settlement	182,004	182,004	0	0	0	0
Departmental Earnings	187,607	192,110	4,503	29,400	33,903	4,503
Fines and Surcharges	45,617	47,766	2,150	15,393	17,542	2,150
Lottery Revenues	29,116	29,302	186	6,919	7,105	186
Revenues yet to be allocated	1,340	5,546	4,206	0	4,206	4,206
Residual Revenues	65,747	60,345	(5,402)	16,375	10,973	(5,402)
Sales Tax Rebates (all years)	0	0	0	0	0	0
County Nursing Home, Pub Hosp IGT	5,072	5,072	0	1,132	1,132	0
Other Subtotal	1,851,153	1,880,052	28,899	311,667	340,566	28,899
Other Refunds	39,292	28,286	(11,006)	16,256	5,250	(11,006)
Other Net	1,811,861	1,851,767	39,905	295,411	335,317	39,905
Total Gross	11,950,859	12,041,808	90,949	2,324,647	2,415,596	90,949
Total Refunds	547,816	539,977	(7,839)	105,043	97,204	(7,839)
Total Net	11,403,043	11,501,831	98,788	2,219,604	2,318,392	98,788