



April 2009

State Revenues Below Forecast in February and March

Net general fund revenues totaled \$2.104 billion in February and March, \$46 million (2.1 percent), less than forecast. Individual income tax and sales tax receipts were both below levels forecast in February, while corporate tax receipts, motor vehicle sales tax receipts, and other tax and fee revenues were above forecast. Fiscal year 2009 receipts now total \$11.041 billion, 4 percent less than at the end of the third quarter of fiscal 2008.

Summary of Tax Receipts: (February - March, 2009)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,035	\$988	\$(47)	(4.5)
Sales	611	586	(25)	(4.0)
Corporate	194	198	4	2.2
Motor Vehicles	12	16	4	26.9
Other	<u>298</u>	<u>316</u>	<u>18</u>	<u>6.0</u>
Total	\$2,150	\$2,104	\$(46)	(2.1)

Individual income tax receipts were \$47 million (4.5 percent) less than forecast in February. Almost the entire income tax shortfall was due to lower than projected withholding tax receipts. (See page 4.) While lower than expected withholding tax receipts are always a matter of concern, this shortfall appears to be due to lower than projected bonus payments, not lower wages. Withholding payments generally have tracked February's forecast quite well except during a short period in mid-March when many firms pay bonuses depending on the firm's performance during the past year.

Gross sales tax receipts were \$20 million less than projected and sales tax refunds were \$5 million more than anticipated, leaving net sales tax receipts for February and March \$25 million (4.0 percent) below forecast. Gross sales tax receipts for fiscal year 2009 are now 3.2 percent less than collections through March, 2008. Corporate taxes, the motor vehicle sales tax, and other taxes and fees showed a combined \$26 million positive variance.

As in past years variances for tax year 2008 final payments and refunds will not be reported until after processing of all timely 2008 returns is completed. Those variances will be reported in the July *Economic Update*.

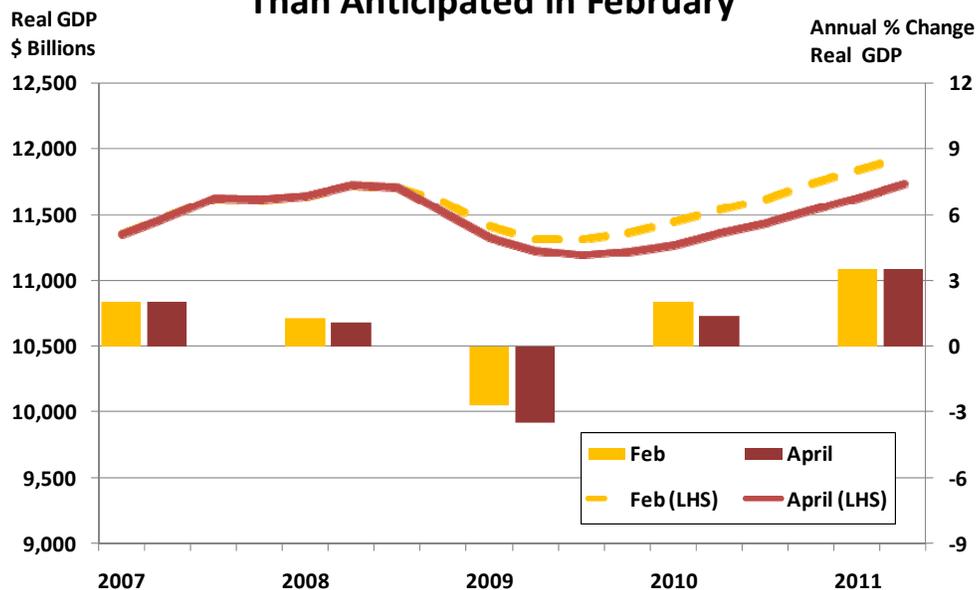
Economic Recovery Is on the Way, But No Real GDP Growth Expected Until Late 2009

During the past six months the U.S. economy has been weaker than even the most pessimistic forecasters thought possible. Since September, real GDP is believed to have declined at an average annual rate of more than 6 percent and more than 3.7 million jobs have been eliminated. The national unemployment rate, now at 8.5 percent, is projected to exceed 10 percent by 2010 and more than 7.2 million jobs are expected to be lost before employment again turns up. What in early 2008 was expected to be a short, mild downturn has evolved into the longest, and probably deepest, recession since World War II.

This recession’s length, depth, and breadth has led Minnesota’s macroeconomic consultant, IHS-Global Insight (GII), to label it “The Great Recession.” But, while GII notes, “The outlook for the economy has gone from bad to worse to horrible,” they do not believe this is a re-play of the great depression nor that we are entering a period similar to Japan’s lost decade. A quick turnaround is not anticipated, but the federal government’s all-out efforts to revive the economy have given forecasters reason to hope the economy’s steep slide over the last nine months is coming to a close. The tax cuts and spending increases in the federal stimulus package should begin to affect household spending by early summer. There also are some signs that the on-going efforts of the Federal Reserve and the Treasury to nudge credit markets closer to more normal operations are finally beginning to have some impact.

But, while the worst of this crisis may soon be over, that does not mean that the economy will quickly return to normal. Global Insight’s April baseline does not show real GDP returning to pre-recession levels until the spring of 2011. Employment takes even longer to recover, with the number of jobs remaining below the 2007 peak until early 2013.

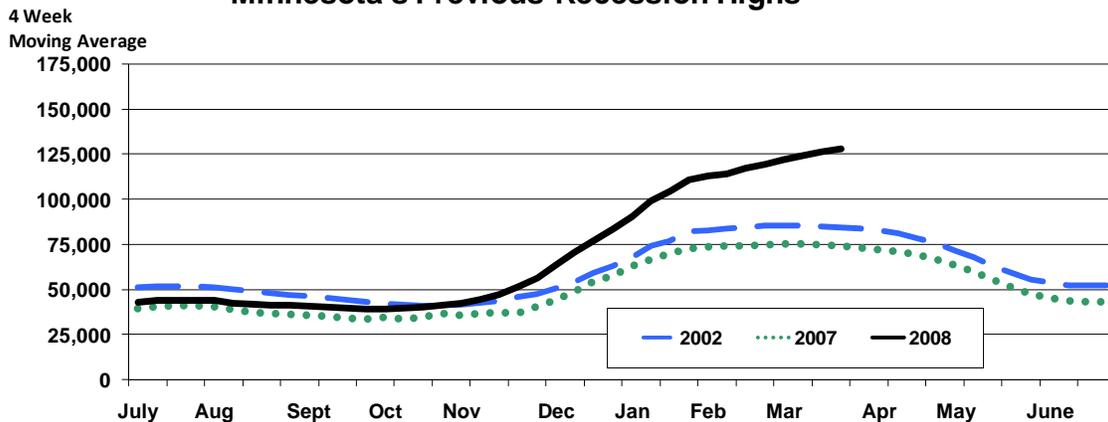
April Baseline Forecast Shows Weaker 2009 Than Anticipated in February



Almost all forecasters have lowered their 2009 and 2010 forecasts since February and Global Insight is no exception. GII's April baseline shows real GDP falling by 3.5 percent in calendar 2009 and then growing by just 1.4 percent in 2010. February's baseline called for a decline of 2.5 percent in 2009 and growth of 2.0 percent in 2010. In the April baseline real GDP is 1.7 percent less at the end of the 2010-11 biennium than was forecast in February. Although Global Insight's April baseline anticipates slightly more inflation than in earlier forecasts, nominal (current dollar) GDP at the end of the 2010-11 biennium is expected to be 0.8 percent less than projected in February.

Global Insight continues to be among the least optimistic of the national forecasters. April's Blue Chip Consensus forecast is for a decline in real GDP of 2.6 percent in 2009 and growth at a 1.7 percent annual rate in 2010. The major difference between GII and the Blue Chip forecast is in the timing of the recovery. The Blue Chip Consensus expects the recovery to begin in the third quarter of 2009, in Global Insight's April baseline the economy starts to grow in the fourth quarter. In the short term the Blue Chip forecast is similar to the GII's April optimistic scenario. A probability of 20 percent is assigned that scenario. A more pessimistic scenario, in which the recession extends into the spring of 2010, is also assigned a 20 percent probability.

Continuing Unemployment Claims Exceed Minnesota's Previous Recession Highs



Source: U.S. Dept. of Labor

Data from the U.S. Department of Labor shows the four-week moving average of continuing unemployment claims in Minnesota now totals more than 128,000. This is more than 50,000 above last year's level and exceeds the peak number of continuing claims in the past recession by more than 40,000. While Minnesota's unemployment claims have a very strong seasonal pattern, and the maximum number of weeks an individual may claim unemployment has been extended the continuing claims data indicates the severity of the current recession's impact on Minnesota's work force.

Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	2009 Fiscal Year-to-Date			February-March 2009		
	FORECAST	ACTUAL	VARIANCE	FORECAST	ACTUAL	VARIANCE
	REVENUES	REVENUES	ACT-FCST	REVENUES	REVENUES	ACT-FCST
<u>Individual Income Tax</u>						
Withholding	4,641,700	4,597,049	(44,651)	1,018,177	973,526	(44,651)
Declarations	843,900	841,544	(2,356)	16,470	14,114	(2,356)
Miscellaneous	191,077	191,077	0	0	0	0
Gross	5,676,677	5,629,670	(47,007)	1,034,647	987,640	(47,007)
Refund	197,914	197,914	0	0	0	0
Net	5,478,763	5,431,756	(47,007)	1,034,647	987,640	(47,007)
<u>Corporate & Bank Excise</u>						
Declarations	591,835	587,395	(4,439)	160,272	155,833	(4,439)
Miscellaneous	170,534	167,085	(3,449)	63,354	59,905	(3,449)
Gross	762,368	754,480	(7,888)	223,626	215,738	(7,888)
Refund	207,966	195,740	(12,226)	29,899	17,673	(12,226)
Net	554,402	558,740	4,338	193,727	198,065	4,338
<u>Sales Tax</u>						
Gross	3,339,932	3,320,179	(19,753)	666,210	646,457	(19,753)
Refunds	182,734	187,504	4,770	55,272	60,042	4,770
Net	3,157,198	3,132,674	(24,523)	610,938	586,415	(24,523)
<u>Motor Vehicle Sales Tax</u>						
	80,170	83,516	3,345	12,430	15,775	3,345
<u>Other Revenues:</u>						
Estate	97,589	102,821	5,231	15,607	20,839	5,231
Liquor/Wine/Beer	51,784	50,986	(798)	11,240	10,442	(798)
Cigarette/Tobacco/Cont Sub	160,007	153,566	(6,441)	37,230	30,789	(6,441)
Deed and Mortgage	104,953	105,146	193	21,896	22,089	193
Insurance Gross Earnings	222,457	220,740	(1,717)	84,637	82,920	(1,717)
Lawful Gambling	28,994	28,139	(855)	6,956	6,101	(855)
Health Care Surcharge	158,099	169,994	11,894	37,090	48,984	11,894
Other Taxes	897	552	(344)	492	148	(344)
Statewide Property Tax	333,632	333,737	105	0	105	105
DHS SOS Collections	27,933	29,530	1,597	8,476	10,073	1,597
Income Tax Reciprocity	75,880	75,880	0	0	0	0
Investment Income	28,862	34,598	5,736	0	5,736	5,736
Tobacco Settlement	176,982	176,982	0	0	0	0
Departmental Earnings	204,211	201,718	(2,493)	33,340	30,848	(2,493)
Fines and Surcharges	62,826	61,722	(1,104)	16,702	15,597	(1,104)
Lottery Revenues	33,468	32,590	(878)	8,615	7,737	(878)
Revenues yet to be allocated	1,116	1,008	(108)	0	(108)	(108)
Residual Revenues	72,145	83,173	11,029	19,946	30,975	11,029
Sales Tax Rebates (all years)	0	0	0	0	0	0
County Nursing Home, Pub Hosp	5,094	5,094	0	1,132	1,132	0
Other Subtotal	1,846,929	1,867,976	21,047	303,359	324,406	21,047
Other Refunds	30,500	33,706	3,206	5,229	8,435	3,206
Other Net	1,816,429	1,834,270	17,842	298,129	315,971	17,842
Total Gross	11,706,076	11,655,820	(50,256)	2,240,271	2,190,016	(50,256)
Total Refunds	619,114	614,864	(4,250)	90,400	86,150	(4,250)
Total Net	11,086,962	11,040,956	(46,005)	2,149,872	2,103,866	(46,005)