

**April 2010**

## State Revenues Below Forecast in February and March

Net general fund revenues totaled \$2.145 billion during February and March, \$41 million (1.9 percent) less than forecast. Much of the revenue shortfall appears to be due to differences in the timing of receipts and refunds and not an indication of a weaker than projected economy. Fiscal year 2010 receipts now total \$10.342 billion, 6.3 percent less than at the end of the third quarter of fiscal 2009.

### Summary of Tax Receipts (February – March 2010)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,023	\$1,039	\$16	1.6
Sales Tax	624	586	(38)	(6.1)
Corporate	224	208	(16)	(7.1)
Motor Vehicle	10	10	—	—
Other	<u>305</u>	<u>302</u>	<u>(3)</u>	<u>(1.0)</u>
Total	\$2,186	\$2,145	\$(41)	(1.9)

Large negative variances in sales tax refunds and residual revenues totaled more than the entire observed revenue shortfall (see page 4). Those variances appear to be largely due to differences in the timing of payments. A delay in expected federal receipts produced a \$12 million decline in residual revenues. The negative sales tax variance occurred because sales tax refunds exceeded the forecast by \$34 million during February and March. Monthly sales tax refund payments are highly variable depending on the timing of the filing of the claim by the purchaser and on the processing of those claims, as well as the underlying level of capital equipment purchases in the state.

The two largest classes of state receipts appear to be on track. Withholding tax receipts for the individual income tax were \$12 million (1.2 percent) more than projected for the February-March period, while gross sales tax receipts were \$4 million (0.6 percent) below forecast over the same two months. Income tax withholding and gross sales tax receipts accounted for more than 75 percent of state receipts during February and March.

The current levels of tax year 2009 refunds and final payments are being closely monitored but as in the past, actual results will not be reported until processing of timely 2009 returns is complete. Those variances will be included in the July 2010 *Economic Update*.

**The Economy Is Growing Again ...But There Are 2.3 Million Fewer Jobs than Last Year**

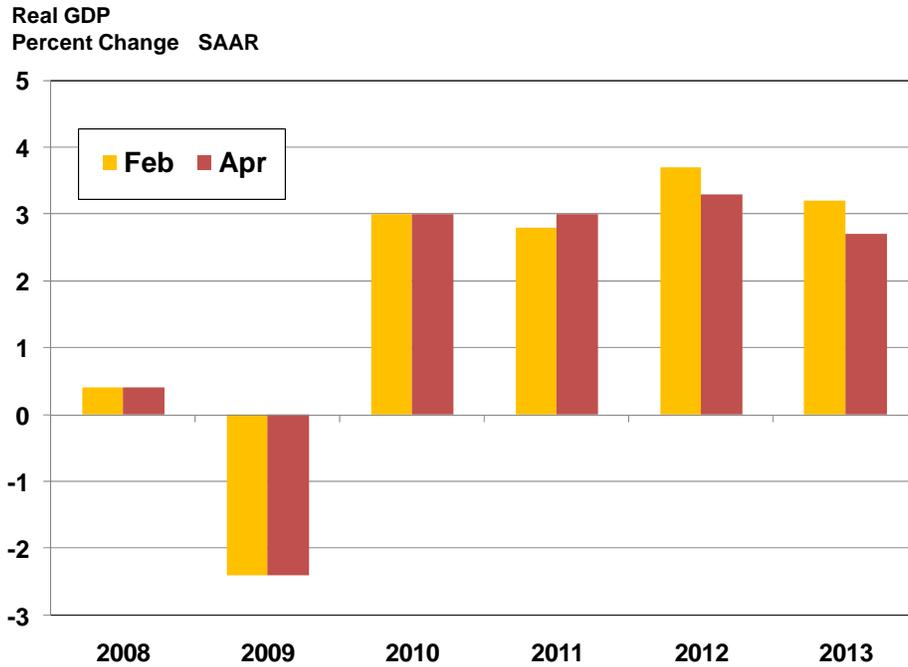
It will not be official until later this month, but indications are that real GDP has now grown for three consecutive quarters. And, while the National Bureau of Economic Research's Business Cycle Dating Committee has yet to officially declare the end of the 2007-09 recession, it also appears that, absent an unforeseen geo-political or international financial shock, the threat of a double dip recession has passed. The federal stimulus package and the Federal Reserve's aggressive actions to restore credit market liquidity are generally credited by economists as playing a major role in averting a much longer and deeper recession. And, while many believe that the stimulus could have been better targeted, few forecasters doubt that the extraordinary actions taken in late 2008 and early 2009 were instrumental in returning the U.S. economy to a path of growth.

The economic outlook has changed only slightly over the past year. Most forecasters expected the recession to end during the summer or fall of 2009 and it appears to have done so. Since then the recovery also has proceeded as expected and now inventory changes, business investment, and exports are expected to lead the recovery. Financial markets have recognized the economy's turn, profits are up, the S&P 500 has grown by nearly 75 percent from its March 2009 lows, and business confidence continues to increase. But, consumer attitudes have yet to reflect the improved outlook. Unfortunately both the consumer sentiment and consumer confidence indexes remain mired at levels seen late last summer, and lingering employment concerns, slow wage growth, and tight credit are likely to inhibit household spending until 2011. High levels of unemployment are undermining consumer confidence and consumers still appear to be seeing their financial glass as half empty, focusing on the losses in the value of their portfolios since October, 2007, and not on the partial recovery over the past year. It is not that consumer spending is expected to decline, it is just that to this point forecasters see no sign of the surge in consumer spending that historically follows deep recessions and absent steady growth in household spending, the economy will remain fragile.

April's baseline forecast from Global Insight (GII), Minnesota's macro-economic consultant, continues to be very similar to the consensus outlook. They now expect real GDP growth to average 3.0 percent in both 2010 and 2011, while the April Blue Chip Consensus calls for real growth of 3.1 percent in those years. GII's April baseline is only slightly more optimistic than February's baseline forecast which called for real GDP growth rates of 3.0 percent in 2010 and 2.8 percent in 2011. Indeed, there have been few economic surprises over the last six months and the Global Insight baseline forecasts have not changed materially since November.

In the April baseline inflation is expected to remain under control through the end of 2011 with the CPI growing at an annual rate of 1.9 percent in 2010 and 2.0 percent in 2011. Despite the relatively benign inflation outlook the Fed is expected to begin tightening late in 2010. By the end of 2011 the Fed funds rate is expected to be 2.5 percent and the benchmark 10 year treasury yield, 4.3 percent.

### Little Change in Economic Outlook Through 2013



Global Insight currently assigns a probability of 65 percent to their baseline forecast, the same as in February. A more pessimistic, double dip recession scenario is given a 15 percent probability, while a 20 percent probability is assigned to a more optimistic “V shaped recovery” scenario in which growth is significantly more robust than in the baseline. In that optimistic scenario the economy grows at a 3.9 percent rate in 2010 and a 4.5 percent rate in 2011 leaving real GDP nearly 2.5 percent above the baseline forecast at the start of the 2012-13 biennium GDP. Job growth also is faster than in the baseline, but even in this more robust recovery U.S. payroll employment does not return to its pre-recession high until mid-2012. U.S. unemployment rates remain near 8 percent through 2012 in the April baseline. In the optimistic scenario they fall to 6.5 percent by end of 2012.

## Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	2010 Fiscal Year-to-Date			February-March 2010		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
<b><u>Individual Income Tax</u></b>						
Withholding	4,390,700	4,402,811	12,112	1,010,569	1,022,681	12,112
Declarations	647,000	650,810	3,810	12,037	15,847	3,810
Miscellaneous	181,862	181,862	0	0	0	0
Gross	5,219,561	5,235,483	15,922	1,022,606	1,038,528	15,922
Refund	183,237	183,237	0	0	0	0
Net	5,036,324	5,052,246	15,922	1,022,606	1,038,528	15,922
<b><u>Corporate &amp; Bank Excise</u></b>						
Declarations	550,744	531,622	(19,122)	183,155	164,034	(19,122)
Miscellaneous	150,852	153,071	2,219	46,649	48,868	2,219
Gross	701,596	684,693	(16,903)	229,804	212,902	(16,903)
Refund	186,150	185,216	(934)	5,400	4,466	(934)
Net	515,445	499,477	(15,969)	224,404	208,436	(15,969)
<b><u>Sales Tax</u></b>						
Gross	3,073,058	3,069,510	(3,548)	638,860	635,311	(3,548)
Refunds	128,954	163,436	34,482	15,095	49,577	34,482
Net	2,944,105	2,906,074	(38,031)	623,765	585,734	(38,031)
<b><u>Motor Vehicle Sales Tax</u></b>						
	51,479	52,006	527	10,151	10,678	527
<b><u>Other Revenues</u></b>						
Estate	111,140	119,498	8,359	17,240	25,599	8,359
Liquor/Wine/Beer	51,785	50,056	(1,729)	11,542	9,814	(1,729)
Cigarette/Tobacco/Cont Sub	150,469	150,047	(422)	33,363	32,940	(422)
Deed and Mortgage	109,591	110,504	912	19,091	20,003	912
Insurance Gross Earnings	213,752	210,523	(3,229)	82,642	79,413	(3,229)
Lawful Gambling	26,036	25,711	(325)	6,398	6,073	(325)
Health Care Surcharge	167,925	173,144	5,219	32,922	38,141	5,219
Other Taxes	748	752	4	313	317	4
Statewide Property Tax	362,384	362,443	60	0	60	60
DHS SOS Collections	33,780	36,256	2,476	7,346	9,822	2,476
Income Tax Reciprocity	66,932	66,932	0	0	0	0
Investment Income	4,691	3,126	(1,565)	2,006	442	(1,565)
Tobacco Settlement	164,784	164,786	2	0	2	2
Departmental Earnings	199,734	203,188	3,454	34,765	38,219	3,454
Fines and Surcharges	63,175	64,200	1,025	15,631	16,655	1,025
Lottery Revenues	31,211	30,658	(553)	7,609	7,057	(553)
Revenues yet to be allocated	2,211	688	(1,523)	0	(1,523)	(1,523)
Residual Revenues	103,135	90,675	(12,460)	39,622	27,162	(12,460)
Sales Tax Rebates (all years)	0	0	0	0	0	0
County Nursing Home, Pub Hosp IGT	3,912	3,912	0	869	869	0
Other Subtotal	1,867,396	1,867,100	(296)	311,360	311,064	(296)
Other Refunds	32,080	35,110	3,030	6,068	9,098	3,030
Other Net	1,835,316	1,831,990	(3,326)	305,292	301,967	(3,326)
<b>Total Gross</b>	<b>10,913,090</b>	<b>10,908,792</b>	<b>(4,298)</b>	<b>2,212,781</b>	<b>2,208,483</b>	<b>(4,298)</b>
<b>Total Refunds</b>	<b>530,421</b>	<b>566,999</b>	<b>36,578</b>	<b>26,563</b>	<b>63,140</b>	<b>36,578</b>
<b>Total Net</b>	<b>10,382,669</b>	<b>10,341,792</b>	<b>(40,876)</b>	<b>2,186,218</b>	<b>2,145,342</b>	<b>(40,876)</b>