

April 2011

State Revenues Remain Near Forecast

Net general fund revenues totaled \$2.307 billion during February and March, \$32 million (1.4 percent) more than forecast in February. Individual income tax withholding was the source of much of the gain. Net sales tax receipts were less than projected. Fiscal year 2011 receipts now total \$11.338 billion, 9.6 percent more than at the end of the third quarter in fiscal 2010.

Summary of Tax Receipts (February – March 2011)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,143	\$1,180	\$37	3.2
Sales Tax	615	599	(16)	(2.6)
Corporate	218	229	11	5.1
Motor Vehicle	5	5	*	--
Other	<u>294</u>	<u>294</u>	<u>*</u>	<u>0</u>
Total	\$2,275	\$2,307	\$32	1.4

* Less than \$500,000

Withholding tax receipts had the largest positive variance of any revenue source, up \$36 million (3.2 percent) from February's estimate. Much of that variance appears to be attributable to larger than projected bonuses, not stronger than projected general wage growth. Gross sales tax receipts were \$13 million below forecast. Net corporate receipts exceed forecast by \$11 million due largely to lower than projected corporate tax refunds. Forecasts for sales tax refunds and corporate tax refunds have been adjusted to reflect elimination of the hold placed on those refunds as part of earlier actions taken to balance the FY 2010-11 budget. Following release of the February forecast those refund holds no longer appear needed to ensure that the state general fund has a positive balance at the close of the 2010-11 biennium or for cash flow purposes. Sales and corporate refunds formerly held are now being paid on a timely basis. Through March corporate tax refunds were \$10 million less than projected, while sales tax refunds were \$4 million more than anticipated.

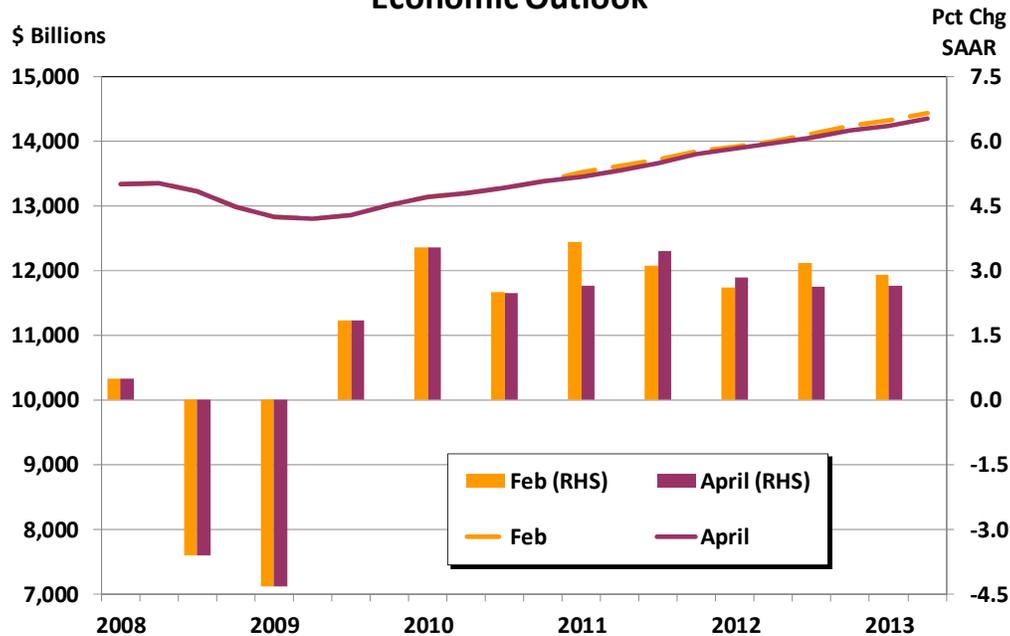
The current level of individual income tax refunds and final payments for tax year 2010 is being closely monitored, but as in the past, actual results will not be reported until processing of timely 2010 returns is complete. Variances in refunds, final payments, and payments accompanying requests for extensions will be included in the July 2011 *Economic Update*.

The Economic Expansion Is Expected to Continue—But Not as Strongly as Hoped

There have been several major shocks to the global economy during the first three months of 2011. Those shocks have left forecasters less optimistic about U.S. economic growth than they were as little as two months ago. No one expects another recession; the additional stimulus provided by the temporary employee payroll tax reduction still appears more than sufficient to prevent an actual decline in economic output and jobs. But, the combination of geo-political unrest through much of the Mid-East, materially high oil prices, a disruption to global supply chains caused by the Japanese earthquake and tsunami, and the most recent developments in the European sovereign debt saga, have led most forecasters to cut-back their outlook for the first half of 2011.

Global Insight (GII), Minnesota’s macro-economic consultant, is among those who have pared back their forecast. GII’s February baseline called for 3.2 percent real GDP growth in 2011 and 2.9 percent growth in 2012. That baseline GDP forecast was unchanged in March, but in April it dropped significantly. Citing, “higher oil prices, weak first-quarter GDP evidence, and the side effects of Japan’s disaster,” Global Insight has reduced its forecast real GDP growth rate to 2.8 percent for 2011. Their projected 2012 growth rate remains at 2.9 percent, the same as in February. The Blue Chip Consensus estimate for 2011 also was lower. April’s Consensus was for real growth of 2.9 percent, down from 3.2 percent in February. The Blue Chip panel continues to be more optimistic about economic prospects in 2012 than Global Insight though, calling for real growth of 3.2 percent.

Higher Oil Prices and Global Unrest Reduce 2011 Economic Outlook



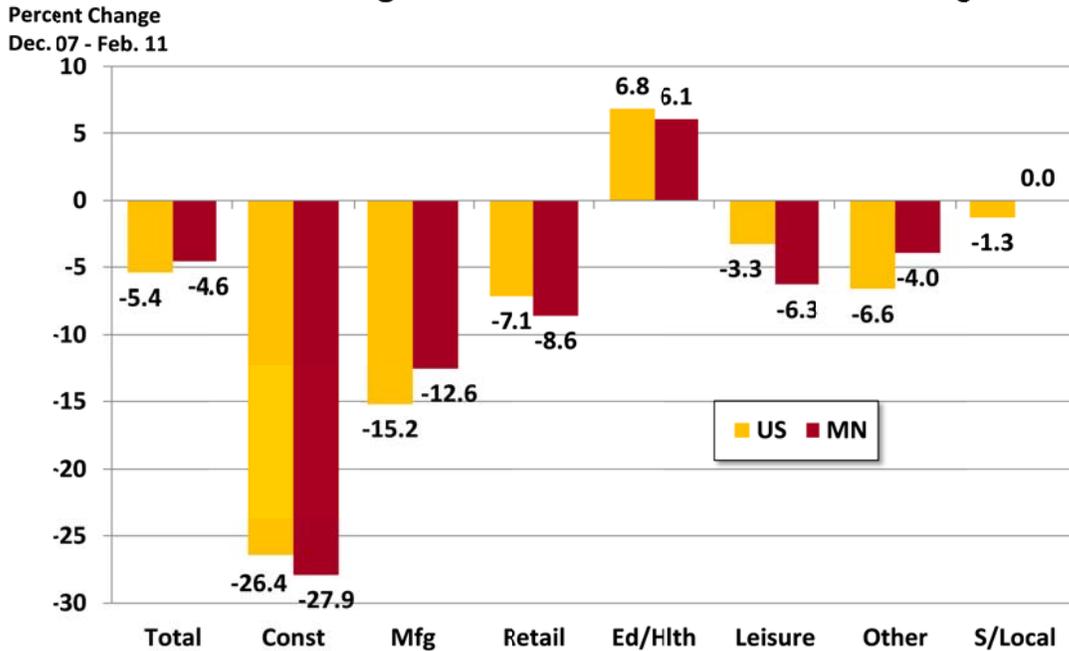
Although Global Insight notes they see some evidence that core inflation is beginning to pick up, their forecast for core CPI growth in 2011 and 2012 of 1.4 percent and 1.8 percent respectively, remains low. Global Insight now assigns a probability of 60 percent

to their April baseline. A more optimistic scenario and a recession scenario are each given probabilities of 20 percent. In February the pessimistic scenario was given a 15 percent probability; the baseline, a probability of 65 percent.

Minnesota Employment down Since Recession Began; Less than U.S. Average

Minnesota lost more than 150,000 jobs in the Great Recession. At its low point employment in the state was 5.4 percent below its pre-recession high. Since September 2009 there has been a slow, gradual increase in the number of jobs in the state and by February 2011 payroll employment in Minnesota was 23,000 above its low point. Even after the jobs increase Minnesota employment is still 4.6 percent less than when the recession began. But, even though payroll employment in Minnesota was 127,000 below its pre-recession level, Minnesota’s job losses were less than the U.S. average. Nationally payroll employment in February 2011 was 5.4 percent below its December 2007 high.

Minnesota Manufacturing Lost a Smaller Proportion of Its Jobs During the Recession Than the U.S. Average



Minnesota’s health care and private education sector is the only major sector of the economy to add employment since the recession began, but its 6.1 percent increase trailed the national average. On a percentage basis Minnesota’s job losses in manufacturing, state and local government, and other services including financial services, information, wholesale trade, and transportation were less than those nationally, while losses in the construction, retail, and leisure and hospitality sectors exceeded the U.S. average.

Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	2011 Fiscal Year-to-Date			February-March 2011		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	4,777,010	4,812,910	35,900	1,126,758	1,162,658	35,900
Declarations	709,265	710,303	1,039	15,900	16,939	1,039
Miscellaneous	188,690	188,690	0	0	0	0
Gross	5,674,965	5,711,904	36,939	1,142,658	1,179,596	36,939
Refund	141,179	141,179	0	0	0	0
Net	5,533,787	5,570,725	36,939	1,142,658	1,179,596	36,939
Corporate & Bank Excise						
Declarations	626,280	624,958	(1,323)	200,082	198,759	(1,323)
Miscellaneous	185,605	188,468	2,864	56,908	59,772	2,864
Gross	811,885	813,426	1,541	256,990	258,531	1,541
Refund	73,967	64,415	(9,552)	39,134	29,582	(9,552)
Net	737,918	749,011	11,093	217,856	228,949	11,093
Sales Tax						
Gross	3,347,511	3,334,808	(12,703)	675,552	662,849	(12,703)
Refunds	140,058	143,628	3,571	60,076	63,647	3,571
Net	3,207,453	3,191,180	(16,273)	615,476	599,202	(16,273)
Motor Vehicle Sales Tax						
	21,678	22,127	450	4,459	4,909	450
Other Revenues:						
Estate	137,688	139,191	1,503	22,541	24,045	1,503
Liquor/Wine/Beer	53,021	51,921	(1,099)	11,416	10,316	(1,099)
Cigarette/Tobacco/Cont Sub	136,430	132,565	(3,865)	16,037	12,173	(3,865)
Deed and Mortgage	109,245	109,407	162	17,677	17,839	162
Insurance Gross Earnings	214,384	210,296	(4,088)	83,624	79,536	(4,088)
Lawful Gambling	26,597	26,115	(482)	6,203	5,721	(482)
Health Care Surcharge	175,844	181,373	5,529	36,950	42,479	5,529
Other Taxes	776	487	(289)	434	146	(289)
Statewide Property Tax	358,095	358,155	60	0	60	60
DHS SOS Collections	37,626	40,904	3,278	6,894	10,172	3,278
Income Tax Reciprocity	0	0	0	0	0	0
Investment Income	656	638	(18)	563	544	(18)
Tobacco Settlement	164,614	164,614	0	0	0	0
Departmental Earnings	201,776	202,376	600	33,489	34,089	600
Fines and Surcharges	67,296	65,671	(1,625)	16,449	14,824	(1,625)
Lottery Revenues	31,986	30,955	(1,031)	8,778	7,747	(1,031)
Revenues yet to be allocated	(447)	(70)	377	0	377	377
Residual Revenues	112,341	113,644	1,303	39,466	40,769	1,303
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	1,831,841	1,832,155	314	301,392	301,706	314
Other Refunds	26,944	27,122	178	7,193	7,371	178
Other Net	1,804,897	1,805,033	136	294,199	294,335	136
Total Gross	11,687,879	11,714,420	26,541	2,381,050	2,407,591	26,541
Total Refunds	382,147	376,344	(5,803)	106,402	100,599	(5,803)
Total Net	11,305,732	11,338,076	32,344	2,274,648	2,306,991	32,344