

April 2012

State Revenues Remain Near Forecast

Minnesota's net general fund revenues totaled \$2.496 billion during February and March, \$106 million, (4.4 percent) more than forecast in February. Individual income tax receipts were \$60 million (5.1 percent) above forecast and sales tax receipts exceeded forecast by \$27 million. Fiscal year 2012 receipts now total \$11.800 billion, 4.1 percent more than at the end of the third quarter of fiscal 2011.

Summary of Tax Receipts (February – March 2012)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,182	\$1,242	\$60	5.1
Sales Tax	642	669	27	4.2
Corporate	249	246	(3)	(1.2)
Other	<u>317</u>	<u>339</u>	<u>22</u>	<u>6.9</u>
Total	\$2,390	\$2,496	\$106	4.4

A \$56 million positive variance in withholding tax receipts was the source of almost all of the additional income tax revenue. (See page 4) As in the spring of 2011 much of the withholding variance appears to be one-time, attributable to larger than projected bonuses, not, stronger-underlying wage growth. Gross sales tax receipts were \$5 million above forecast and sales tax refunds paid in February and March, \$22 million below forecast. The reduction in sales tax refund payments appears to be related to the rate at which claims are being processed and not an indication that sales tax refunds will be lower than projected. The \$21 million positive variance in other revenues came from estate tax receipts, deed and mortgage tax revenues, and insurance gross premium tax receipts exceeding their forecasts. Residual revenues were lower than projected.

Individual income tax refunds paid by the state and individual final payments for tax year 2011 are being monitored as processing proceeds. Minnesota is forecast to pay out more than \$1.1 billion in refunds to taxpayers filing tax year 2011 returns. At the same time the state expects to receive nearly \$800 million in payments accompanying tax year 2011 returns. As in the past, actual variances for refunds and final payments will not be reported until processing of timely 2011 returns is completed. Those variances will be reported in the July 2012 *Economic Update*.

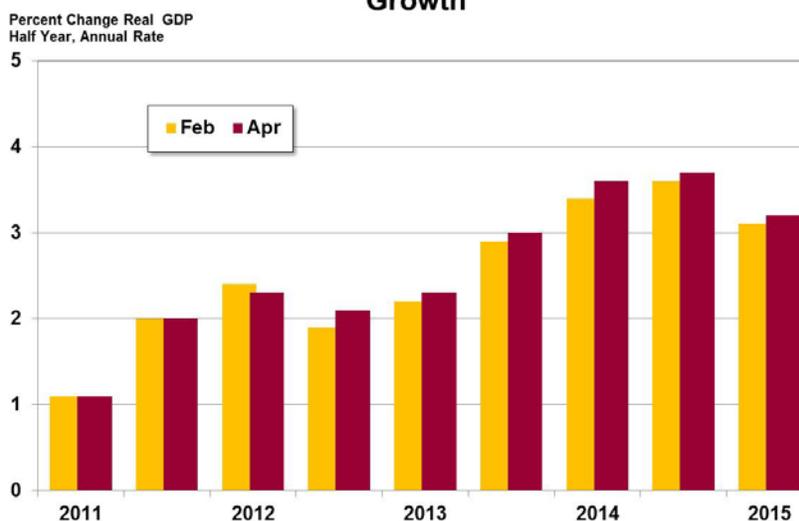
The U.S. Economic Expansion Continues, But at a Sub-par Rate until 2014

In June the U.S. economy will have been out of recession for three years. March's U.S. unemployment rate is 1.8 percentage points below its October 2009 high, and down 0.9 percentage points since the beginning of 2011. National payroll employment is 3.6 million above its February 2010 low, 1.9 million of those jobs were added during the past 12 months. In normal times public attention would be on the economy's progress, not on potential shocks that might de-rail the expansion. But, these are not normal times.

America is still recovering from the Great Recession, and the U.S. economy remains fragile. Real GDP now exceeds the pre-recession peak, but the unemployment rate remains uncomfortably high with only about 40 percent of the jobs lost in the economic slump recovered. And, while everyone would like to see a boom in job creation, forecasters still expect that it will take until late 2013 or early 2014 before employment returns to the level observed just before the recession began.

April's baseline forecast from Global Insight Inc. (GII), Minnesota's macro-economic consultant, is very similar to the consensus forecast. It shows modest real growth through mid-2013 and then a move to 3+ percent growth in 2014. That forecast is also very similar to the February 2012 baseline which served as the basis for the state's most recent revenue forecast. GII now expects real GDP to grow at a 2.2 percent annual rate in 2012 and a 2.4 percent rate in 2013. In February real growth rates of 2.1 and 2.3 percent were expected. April's Blue Chip consensus calls for 2.3 percent real growth in 2012 and 2.6 percent real growth in 2013. Global Insight continues to see no reason for concern about inflation. In the April baseline CPI growth is 2.2 percent in 2012 and 1.7 percent in 2013.

Little Change in GII Forecast for Real GDP Growth



Global Insight recognizes that oil price increases, further sovereign debt problems or a geo-political shock could push the U.S. economy into recession once again. Those risks, while real, are seen as less of a concern than they were as recently as November when GII assigned a 40 percent probability to its recession scenario. Currently, GII assigns a 60

percent probability to their baseline scenario and 20 percent probabilities to their pessimistic and optimistic scenarios.

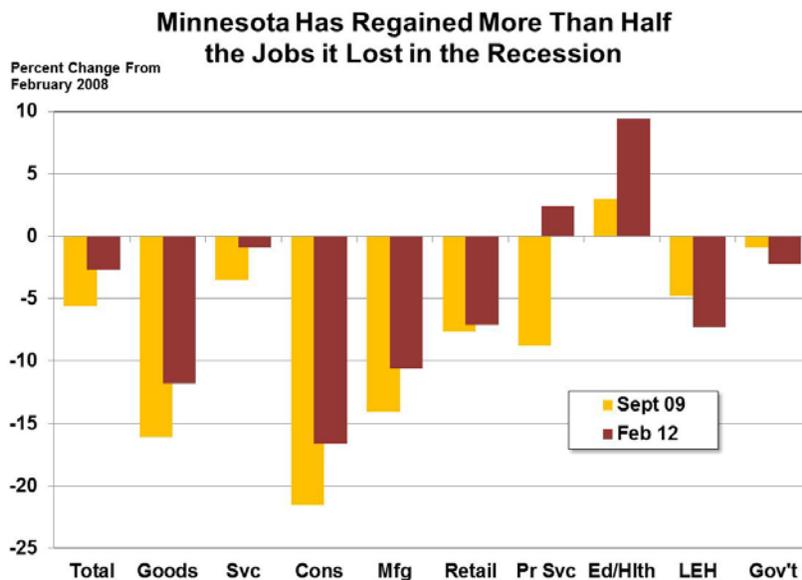
Minnesota Employment Has Recovered More Rapidly Than the U.S. Average

Minnesota’s February unemployment rate of 5.7 percent was 2.6 percentage points below the national average, leaving us tied with Utah and Virginia for the 7th lowest state unemployment rate. North Dakota had the lowest rate at 3.1 percent, while Nevada’s 12.3 percent rate was the highest of the 50 states.

Payroll employment has also recovered more quickly in Minnesota. While warmer than typical winter weather likely played a role, through February Minnesota had recovered more than 52 percent of the jobs lost since the recession’s onset. Nationally just over 40 percent of the jobs lost during the recession had come back. Total employment in Minnesota is now 2.7 percent below the state’s previous high. Nationally, employment is 3.9 percent below its January 2008 high.

Minnesota’s goods producing industries provide about one-sixth of the jobs in the state, but accounted for almost 50 percent of the job losses observed during the recession. In February employment in goods producing industries was nearly 12 percent below the level observed in January, 2008. Construction employment in February was nearly 17 percent below that at the start of the Great Recession.

Service providing firms, including retail trade, have done somewhat better. Service employment fell by 3.5 percent between January 2008 and September 2009, but since that time has risen so that it is less than one percent below its pre-recession high. Employment in the education and health services sector continued to grow during the recession and employment in the business and professional services sector has expanded so that it now exceeds its January 2008 level. Retail trade employment has been stagnant since the end of the recession and employment in the leisure and hospitality sector has declined since the economy turned up. Government employment in Minnesota has also declined further since the recession’s end.



Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	2012 Fiscal Year-to-Date			February-March 2012		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	5,004,915	5,061,358	56,443	1,164,718	1,221,161	56,443
Declarations	752,903	756,987	4,084	17,200	21,284	4,084
Miscellaneous	199,343	199,343	0	0	0	0
Gross	5,957,161	6,017,688	60,527	1,181,918	1,242,445	60,527
Refund	211,537	211,537	0	0	0	0
Net	5,745,624	5,806,151	60,527	1,181,918	1,242,445	60,527
Corporate & Bank Excise						
Declarations	715,995	712,715	(3,280)	210,244	206,964	(3,280)
Miscellaneous	191,777	206,522	14,745	68,347	83,092	14,745
Gross	907,772	919,237	11,465	278,591	290,056	11,465
Refund	124,571	138,495	13,925	30,052	43,977	13,925
Net	783,202	780,742	(2,460)	248,539	246,079	(2,460)
Sales Tax						
Gross	3,526,298	3,530,913	4,615	700,326	704,941	4,615
Refunds	151,368	129,128	(22,239)	57,952	35,713	(22,239)
Net	3,374,930	3,401,785	26,854	642,374	669,228	26,854
Other Revenues:						
Estate	115,623	125,865	10,241	20,434	30,675	10,241
Liquor/Wine/Beer	52,694	51,375	(1,318)	12,837	11,519	(1,318)
Cigarette/Tobacco/Cont. Sub	149,773	152,900	3,127	34,465	37,592	3,127
Deed and Mortgage	97,517	106,416	8,899	17,297	26,196	8,899
Insurance Gross Earnings	221,069	228,158	7,089	83,866	90,955	7,089
Lawful Gambling	28,381	27,743	(638)	6,549	5,911	(638)
Health Care Surcharge	149,446	151,121	1,675	46,150	47,825	1,675
Other Taxes	381	150	(232)	167	(65)	(232)
Statewide Property Tax	374,737	375,062	325	0	325	325
DHS SOS Collections	40,791	45,867	5,076	7,078	12,154	5,076
Income Tax Reciprocity	182	182	0	0	0	0
Investment Income	2,380	2,737	356	650	1,006	356
Tobacco Settlement	160,906	160,906	0	0	0	0
Departmental Earnings	190,421	190,551	130	31,117	31,247	130
Fines and Surcharges	55,271	51,951	(3,321)	17,291	13,970	(3,321)
Lottery Revenues	27,718	28,243	524	7,933	8,457	524
Revenues yet to be allocated	689	1,791	1,102	0	1,102	1,102
Residual Revenues	143,602	135,268	(8,334)	40,119	31,785	(8,334)
County Nursing Home, Pub Hosp. IGT	6,696	4,514	(2,181)	1,398	(784)	(2,181)
Other Subtotal	1,818,278	1,840,799	22,520	327,350	349,870	22,520
Other Refunds	28,002	29,415	1,413	9,896	11,309	1,413
Other Net	1,790,277	1,811,384	21,107	317,454	338,561	21,107
Total Gross	12,209,510	12,308,637	99,127	2,488,185	2,587,312	99,127
Total Refunds	515,477	508,576	(6,901)	97,900	90,999	(6,901)
Total Net	11,694,033	11,800,061	106,028	2,390,285	2,496,313	106,028