

April 2013

State Revenues Exceed Forecast in February and March

Minnesota's net general fund revenues totaled \$2.570 billion during February and March, \$145 million (6.0 percent) more than forecast in February. Receipts from each of the three major taxes exceeded projections. Other tax and non-tax revenues were also above forecast.

Summary of Tax Receipts (February – March 2013)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,163	\$1,220	\$57	4.9
Sales Tax	684	706	22	3.2
Corporate	260	307	47	18.2
Other	<u>318</u>	<u>337</u>	<u>19</u>	<u>6.0</u>
Total	\$2,425	\$2,570	\$145	6.0

Individual income tax receipts were \$57 million (4.9 percent), more than anticipated. Higher than expected withholding receipts accounted for all the additional revenue. (See page 4) Much of that variance may reflect only one-time differences in the timing of receipts and not a stronger than anticipated economy.

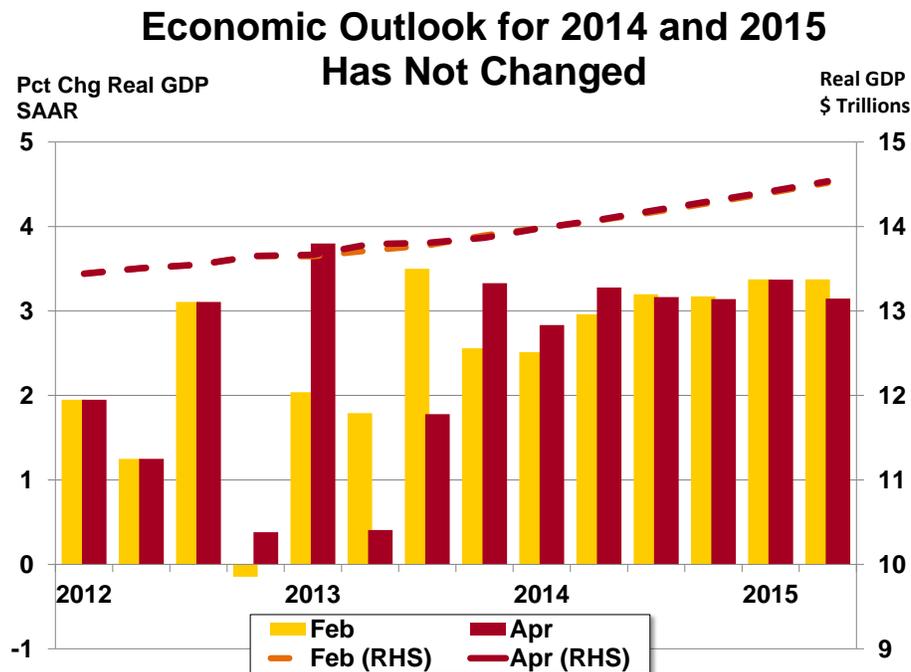
MMB economists estimate that fourth quarter 2012 Minnesota wages were 9.0 percent above year earlier levels. Some of that super normal wage growth appears to be due to high income taxpayers accelerating income from 2013 into tax year 2012 to avoid the higher federal tax rates scheduled for this year. In February's forecast, about three-quarters of the wages, bonuses, and options income shifted into 2012 was assumed to have come from the first quarter of 2013. It now appears that less of the income taxpayers moved into 2012 came from the first quarter of 2013 and that more of the acceleration should have been apportioned to the remainder of 2013. The result is that the current withholding variance appears to be temporally overstating the true variance in withholding receipts.

The acceleration of income into 2012 and the large increases in capital gains and business income forecast for tax year 2012 increase the downside risk to state receipts from final payments and refunds in this fiscal year. Minnesota is expected to collect about \$1.1 billion in settle-up payments for tax year 2012 and to pay out about \$1.2 billion in refunds during the tax processing season. As in past years actual variances for refunds and final payments will not be available until after processing of timely returns is completed in late May. Those variances will be reported in the July *Economic Update*.

Net sales tax revenues in February and March were \$22 million (3.2 percent) more than projected and corporate income tax revenues were \$47 million (18.2 percent) above forecast. About 75 percent of the sales tax variance was due to lower than anticipated sales tax refunds. Gross sales tax receipts exceeded forecast by less than 1 percent. Insurance gross premiums tax receipts were \$20 million above forecast leaving a \$19 million positive variance for other tax and non-tax revenue.

Big Changes in Near-Term Outlook, Forecasts for 2014 and 2015 Remain on Track

The U.S. economy is following a different path than was projected in early 2013. But, while forecasts for quarterly GDP growth have undergone major revisions, those changes have been largely offsetting and the current outlook for the end of 2013 differs little from earlier projections. And, since forecasts for 2014 and 2015 are largely unchanged, most economists expect the U.S. economy to end fiscal 2015 at almost the same level as was projected in January. Thus far real GDP growth in 2013 appears to have been substantially stronger than expected. But, the good news on housing and light vehicle sales has been offset by gloomier assessments of future impacts of the sequester, weaker than hoped for employment growth, and continuing concerns about consumer spending.



Global Insight Inc. (GII), Minnesota's macro-economic consultant is among those who adjusted their near-term outlook without making a significant change to their longer term forecast. First quarter growth now appears to have exceeded that anticipated in their February baseline, but the fiscal drag from the payroll tax increase and the sequester are expected to slow second quarter growth. February's baseline called for real GDP growth of 2.0 percent in the first quarter and 1.8 percent in the second quarter. April's baseline has real growth rates of 3.8 percent and 0.4 percent. Fiscal policy decisions remain a concern. GII assumes the federal sequester continues through September 30, the end of the Federal fiscal year, but then is replaced by a combination of revenue increases and better targeted spending cuts, including some cuts in entitlements. That "Grand Bargain" provides a short term lift for the economy by reducing short term fiscal drag while at the same time setting the stage for longer term growth by stabilizing the federal debt to GDP ratio over the next ten years.

Global Insight's April baseline calls for real GDP growth of 2.0 percent in 2013, 2.8 percent in 2014, and 3.2 percent in 2015. Their February forecast was almost identical with real growth rates of 1.9 percent, 2.8 percent and 3.3 percent. GII now projects real GDP to be \$14.649 trillion in the second quarter of 2015 only \$10 billion (less than 0.1 percent) more than February's baseline forecast of \$14.639 trillion. Global Insight's April baseline forecast is nearly identical to the Blue Chip Consensus for 2013 and 2014. GII's forecast for real GDP growth in 2013 is 0.1 percent below the consensus, while their outlook for 2014 calls for 0.1 percent faster growth.

Global Insight continues to assign a 60 percent probability to its baseline forecast and probabilities of 20 percent to both more optimistic and more pessimistic alternatives. In the pessimistic scenario real GDP falls 1.4 percent in the current quarter, and "...barely avoids a recession" as federal policy makers opt for a more austere fiscal policy and further cuts in discretionary spending.

Minnesota Payroll Employment Has Recovered to Pre-recession Levels

Strong employment growth in January and February has boosted Minnesota payroll employment to 2.780 million according to reports from the U.S. Department of Labor, 8,000 more jobs than at the start of the recession in December 2007. Minnesota payrolls are now within 1,000 jobs of their February, 2008 all-time high. More than 150,000 jobs were lost in Minnesota during the Great Recession. Nationally the employment recovery has not progressed as far. To date only about two-thirds of the 8.7 million jobs lost have come back.

Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	2013 Fiscal Year-to-Date			February-March 2013		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	5,273,940	5,332,255	58,315	1,141,551	1,199,866	58,315
Declarations	921,080	920,123	(957)	21,345	20,388	(957)
Miscellaneous	192,108	192,108	0	0	0	0
Gross	6,387,128	6,444,486	57,358	1,162,895	1,220,254	57,358
Refund	98,187	98,187	0	0	0	0
Net	6,288,941	6,346,299	57,358	1,162,895	1,220,254	57,358
Corporate & Bank Excise						
Declarations	834,909	849,591	14,682	225,274	239,956	14,682
Miscellaneous	231,899	259,295	27,396	77,931	105,327	27,396
Gross	1,066,808	1,108,886	42,078	303,206	345,283	42,078
Refund	139,709	134,408	(5,301)	43,222	37,921	(5,301)
Net	927,099	974,478	47,379	259,983	307,362	47,379
Sales Tax						
Gross	3,557,557	3,562,732	5,175	732,150	737,325	5,175
Refunds	184,737	168,356	(16,382)	47,620	31,238	(16,382)
Net	3,372,819	3,394,376	21,557	684,530	706,087	21,557
Other Revenues:						
Estate	120,227	122,217	1,990	23,848	25,838	1,990
Liquor/Wine/Beer	59,206	58,517	(689)	12,778	12,089	(689)
Cigarette/Tobacco/Cont Sub	143,181	151,545	8,364	22,488	30,852	8,364
Deed and Mortgage	144,801	147,095	2,294	29,216	31,510	2,294
Insurance Gross Earnings	235,400	255,406	20,006	91,749	111,755	20,006
Lawful Gambling	25,409	24,370	(1,039)	6,085	5,046	(1,039)
Health Care Surcharge	165,656	162,128	(3,527)	41,317	37,790	(3,527)
Other Taxes	987	982	(5)	154	149	(5)
Statewide Property Tax	380,310	380,334	24	-	24	24
DHS SOS Collections	38,364	39,725	1,360	6,234	7,594	1,360
Income Tax Reciprocity	0	0	0	0	0	0
Investment Income	2,953	3,428	475	323	798	475
Tobacco Settlement	165,144	165,144	0	168	168	0
Departmental Earnings	206,624	202,504	(4,120)	36,825	32,705	(4,120)
Fines and Surcharges	53,199	51,469	(1,730)	19,528	17,798	(1,730)
Lottery Revenues	38,811	38,476	(335)	7,736	7,401	(335)
Revenues yet to be allocated	(291)	413	704	-	704	704
Residual Revenues	145,713	148,704	2,991	26,172	29,163	2,991
County Nursing Home, Pub Hosp IGT	4,528	4,528	0	1,132	1,132	0
Other Subtotal	1,930,222	1,956,985	26,763	325,754	352,517	26,763
Other Refunds	44,795	52,472	7,676	7,878	15,555	7,676
Other Net	1,885,427	1,904,513	19,086	317,876	336,962	19,086
Total Gross	12,941,715	13,073,089	131,374	2,524,005	2,655,379	131,374
Total Refunds	467,429	453,423	(14,006)	98,721	84,714	(14,006)
Total Net	12,474,286	12,619,666	145,380	2,425,284	2,570,665	145,380