

April 2014

State Revenues Come in Below February Forecast

Minnesota's net general fund receipts totaled \$2.637 billion during the months of February and March, \$67 million (2.5 percent) less than projected in the February 2014 *Budget and Economic Forecast*. Individual income tax payments exceeded expectations, more than offsetting negative variances in the general sales and corporate income taxes. Lower than expected other revenues contributed the largest amount to the shortfall.

Summary of Tax Receipts: February – March, 2014

(\$ in millions)	February 2014 Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,279	\$1,307	\$28	2.2%
General Sales Tax	702	698	(4)	(0.6)
Corporate Franchise Tax	317	300	(17)	(5.4)
Other Revenues	405	332	(74)	(18.2)
Total Revenues*	\$2,704	\$2,637	\$(67)	(2.5)

* Totals may not add due to rounding.

Net other revenues for February and March were \$74 million (18.2 percent) less than forecast. More than half of this amount arises from what appears to be normal variation in the timing of receipts from four sources: net cigarette and tobacco taxes, the health care surcharge, residual revenues, and departmental earnings. These timing issues are expected to resolve before the close of the fiscal year, significantly reducing the final variance in other revenues.

Individual income tax receipts during the period were \$28 million (2.2 percent) above forecast, with larger than expected withholding receipts providing most of the additional revenue. During February and March, few taxpayers make estimated tax payments (declarations). For these months, estimated payments exceeded forecast by \$4 million (15.7 percent). As in past years, the variance for individual income tax receipts does not include variances for tax refunds and final payments. Those items will be reported in the July 2014 *Revenue and Economic Update* after most tax year 2013 returns have been processed.

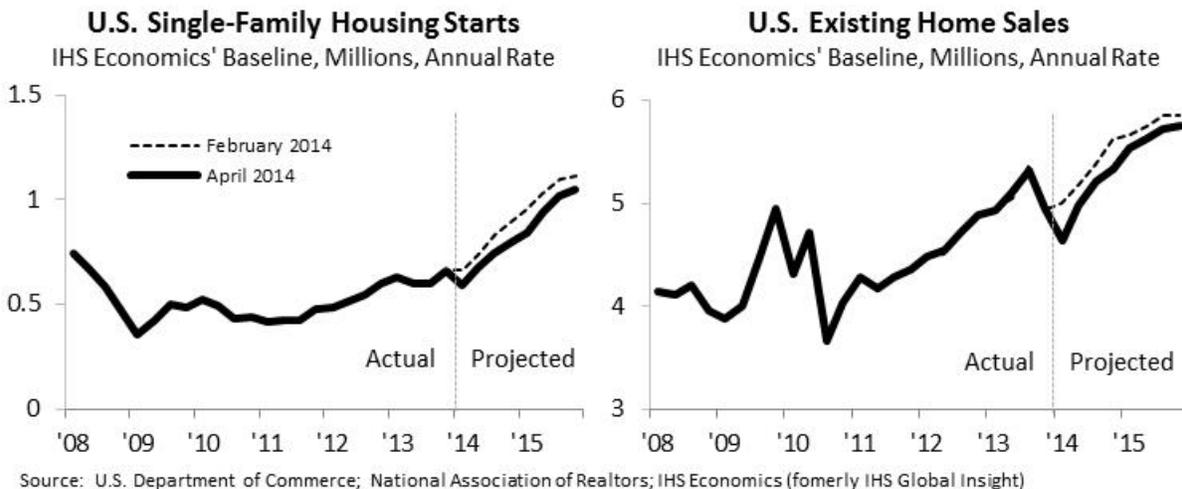
Net sales tax receipts have exceeded projections in most months of FY 2014. That trend has reversed for February and March receipts, which were \$4 million (0.6 percent) below forecast. This may be the result of reduced spending on some taxable consumer goods and services, such as restaurant meals, and a shift toward non-taxable home heating fuels amid harsh weather experienced in January and February.

Corporate tax receipts were \$17 million (5.4 percent) below forecast in February and March. Lower corporate refunds partially offset shortfalls in corporate estimated payments (declarations) and final payments (miscellaneous).

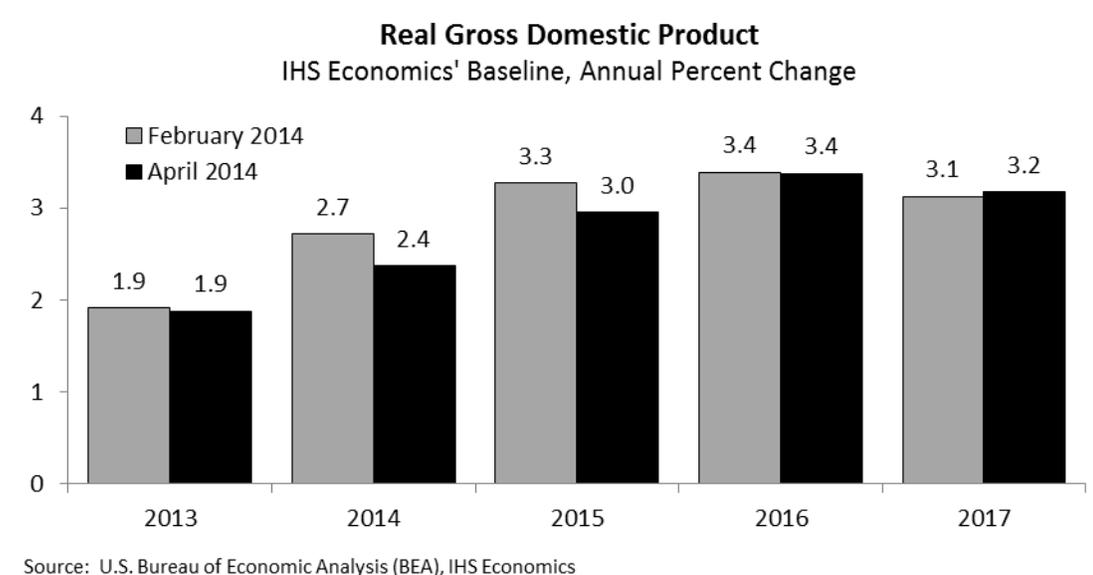
Weather, Inventories, and Housing Weaken U.S. Economic Outlook

The forecast for U.S. economic growth has weakened since Minnesota’s *Budget and Economic Forecast* was last prepared in February. Three temporary factors have held back U.S. growth in the first part of 2014: reduced inventory accumulation, corrections for unusual capital spending and export patterns at the end of 2013, and the effect of severe winter weather conditions on retail sales and residential investment. As a result, MMB’s macroeconomic consultant IHS Economics (formerly IHS Global Insight) forecasts real GDP growth in the first quarter of 2014 of just 0.9 percent (annual rate), reduced from 1.9 percent expected last February and down from a revised 2.6 percent rise in the fourth quarter of 2013 according to the Bureau of Economic Analysis’ third estimate.

Additionally, IHS Economics’ outlook for the nation’s housing market has been revised downward since February. The housing recovery remains an important feature of the forecast, but recent data on building permits have been weak, builders’ optimism has declined, and higher materials prices have eroded builders’ margins. Moreover, higher home prices and stringent lending conditions and processes have reduced investor demand and affordability for families. As a result, IHS Economics has significantly reduced the forecasts of both single-family housing starts and existing home sales for 2014 and 2015, shaving more than a 0.1 percentage point from economic growth.



Despite near-term constraints, IHS Economics continues to forecast accelerating economic growth over the course of 2014, led by an upturn in consumer spending, improved housing and residential investment, and the easing of federal fiscal drag. The improved pace of economic growth is expected to generate faster job creation, reducing the unemployment rate closer to 6 percent by the end of 2015. IHS Economics' April 2014 baseline forecasts real GDP growth to accelerate from 1.9 percent in 2013, to 2.4 percent in 2014 and 3.0 percent in 2015. The February 2014 baseline forecast called for stronger growth of 2.7 percent in 2014 and 3.3 percent in 2015. IHS Economics' April baseline forecast for 2014 is below the Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip forecast is for 2.7 percent growth in 2014, followed by an increase of 3.0 percent in 2015. Inflation continues to be of little concern. April's baseline anticipates CPI increases of 1.8 percent in 2014 and 1.6 percent in 2015. February's inflation outlook was similarly subdued.



There has been no change in the probabilities assigned to the baseline or alternative forecast scenarios since February. IHS Economics continues to assign a 60 percent probability to its baseline forecast, and a 20 percent probability to more pessimistic and optimistic alternative scenarios. In the pessimistic scenario the U.S. recovery stalls in early 2014 due to weak global economic growth, barely avoiding recession. In the optimistic scenario warmer weather melts away excessive caution in the second quarter of 2014 as renewed improvements in job growth and compensation boosts the recovery.

Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	2014 Fiscal Year-to-Date			February-March 2014		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	5,575,978	5,599,503	23,524	1,253,400	1,276,924	23,524
Declarations	1,121,090	1,125,184	4,095	26,024	30,119	4,095
Miscellaneous	243,871	243,871	-	-	-	-
Gross	6,940,939	6,968,558	27,619	1,279,424	1,307,043	27,619
Refund	107,607	107,607	-	-	-	-
Net	6,833,332	6,860,951	27,619	1,279,424	1,307,043	27,619
Corporate & Bank Excise						
Declarations	919,588	902,221	(17,366)	265,134	247,767	(17,366)
Miscellaneous	242,038	233,009	(9,028)	98,553	89,525	(9,028)
Gross	1,161,625	1,135,231	(26,395)	363,687	337,292	(26,395)
Refund	112,542	103,126	(9,416)	46,863	37,447	(9,416)
Net	1,049,083	1,032,105	(16,978)	316,824	299,846	(16,978)
Sales Tax						
Gross	3,836,545	3,836,574	(2,031)	762,728	762,696	(2,031)
Mpls. sales tax transferred to MSFA	675	686	11	675	686	11
Sales Tax Gross	3,837,220	3,835,200	(2,020)	765,403	763,383	(2,020)
Refunds (including Indian Refunds)	200,301	202,399	2,099	62,904	65,003	2,099
Net	3,636,919	3,632,801	(4,118))	702,499	698,380	(4,118))
Other Revenues:						
Net Estate & Gift Tax	130,920	123,685	(7,235)	28,320	21,085	(7,235)
Net Liquor/Wine/Beer	58,315	57,713	(602)	12,188	11,586	(602)
Net Cigarette/Tobacco	419,337	407,758	(11,579)	78,748	67,169	(11,579)
Deed and Mortgage	131,764	130,612	(1,152)	25,065	23,913	(1,152)
Net Insurance Gross Earnings	272,397	268,529	(3,867)	115,717	111,850	(3,867)
Lawful Gambling	28,191	28,694	503	7,176	7,679	503
Health Care Surcharge	186,425	172,322	(14,103)	60,523	46,420	(14,103)
Other Taxes	530	534	4	143	147	4
Statewide Property Tax	398,797	397,151	(1,646)	-	(1,646)	(1,646)
DHS SOS Collections	41,184	37,409	(3,775)	11,455	7,680	(3,775)
Income Tax Reciprocity	-	-	-	-	-	-
Investment Income	3,860	4,215	355	370	725	355
Tobacco Settlement	164,529	164,529	-	-	-	-
Departmental Earnings & MSOP Recov.	150,332	137,095	(12,247)	18,293	5,866	(12,427)
Fines and Surcharges	56,309	49,846	(6,463)	14,541	8,078	(6,463)
Lottery Revenues	34,771	34,752	(19)	7,282	7,263	(19)
Revenues yet to be allocated	3,095	30	(3,065)	0	(3,065)	(3,065)
Residual Revenues	112,343	103,603	(8,740)	25,742	17,002	(8,740)
County Nursing Home, Pub Hosp. IGT	4,528	4,528	-	1,132	1,132	-
Other Subtotal	2,197,628	2,123,817	(73,811)	406,695	332,885	(73,811)
Other Refunds	5,284	4,997	(287)	1,631	1,344	(287)
Other Net	2,192,344	2,118,820	(73,524)	405,064	331,541	(73,524)
Total Gross	14,137,412	14,062,806	(74,606)	2,815,209	2,740,603	(74,606)
Total Refunds	425,734	418,129	(7,605)	111,398	103,793	(7,605)
Total Net	13,711,679	13,644,677	(67,001)	2,703,811	2,636,810	(67,001)