

State Revenues Exceed February Forecast

Minnesota's net general fund receipts totaled \$2.269 billion during the months of February and March, \$100 million (4.6 percent) more than projected in the February 2015 *Budget and Economic Forecast*. Higher than expected net corporate income tax payments contributed the largest amount of additional revenue. Of the major tax types, only general sales tax receipts were below expectations for the period.

Summary of Tax Revenues: February – March, 2015

(\$ in millions)	February 2015 Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$828	\$850	\$21	2.6%
General Sales Tax	718	711	(7)	-1.0
Corporate Franchise Tax	265	338	72	27.2
Other Revenues	357	371	14	3.8
Total Revenues*	\$2,169	\$2,269	\$100	4.6%

* Totals may not add due to rounding.

Individual income tax receipts during February and March were \$21 million (2.6 percent) more than forecast. Withholding payments were \$33 million ahead of the forecast, more than offsetting both a shortfall in final payments and larger than expected refunds associated with tax year 2014.

Economists at MMB use withholding receipts to inform our estimates of wage and salary growth. However, changes in the withholding tables arising from the March 2014 federal conformity bill add uncertainty to our wage growth inference for early 2015. Therefore, the additional withholding revenue in February and March does not necessarily imply that wages grew faster than we had forecast.

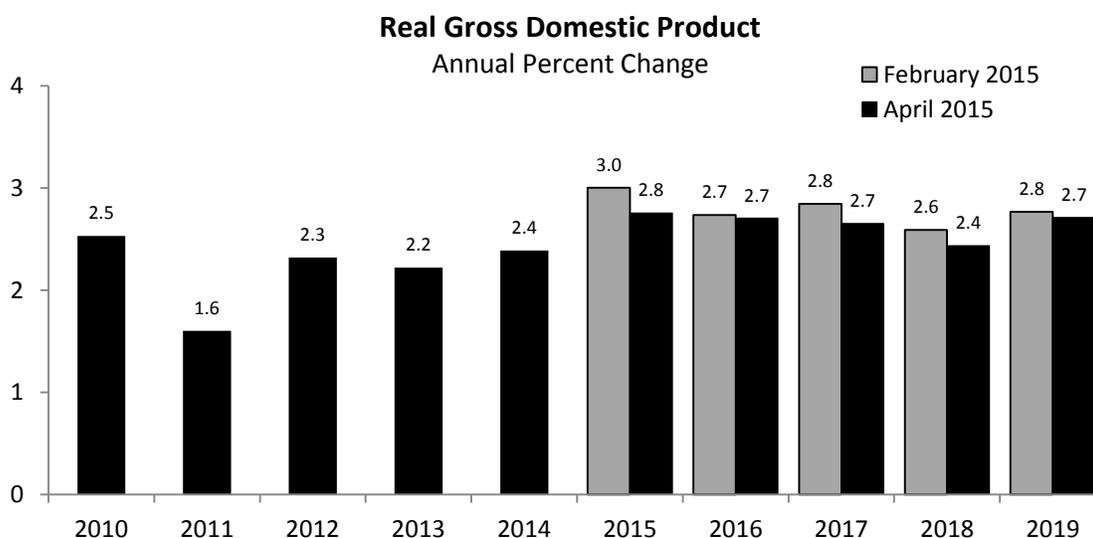
Gross corporate income tax payments in excess of the forecast and lower than expected corporate refunds combined to produce a \$72 million variance in net corporate income tax receipts. MMB economists believe that about \$20 million of this amount is due to one-time payments or shifting of payments across time periods, which do not raise our expectations for corporate revenue going forward.

Net other revenues for the two months exceeded the forecast by \$14 million (3.8 percent). Among these sources, departmental earnings exceeded the forecast by the largest amount, \$15 million. A \$14 million shortfall in the insurance gross earnings tax appears to be due to lower payments with final returns, likely indicating lower tax liability.

Slow U.S. Economic Growth in Early 2015, Then Midyear Rebound

The forecast for U.S. economic growth has weakened slightly since Minnesota's *Budget and Economic Forecast* was last prepared in February. Several temporary factors have held back U.S. growth in the early part of 2015: slower oil drilling activity resulting from lower crude prices, the effects of unfavorable winter weather conditions on home construction and auto sales, and supply-chain interruptions due to the West Coast dock disruptions. As a result, MMB's macroeconomic consultant IHS Economics (IHS) has lowered its forecast of real GDP growth in the first quarter of 2015 to just 1.2 percent (annual rate), from 2.4 percent expected last February.

Despite economic weakness in the first quarter, IHS continues to forecast a strong rebound in the middle of 2015, with annualized real GDP growth averaging 3.2 percent in the second and third quarters of the year. As the weather warms up, solid gains in consumer spending – supported by a gasoline dividend – are expected to more than offset weakness in energy-related investment from sharply lower oil prices and higher imports from the stronger dollar. A tightening labor market closer to full employment should also put upward pressure on wages and productivity, buoying consumer demand later this year and in 2016.



Source: U.S. Bureau of Economic Analysis (BEA), IHS Economics (IHS)

The IHS April 2015 baseline forecast calls for annual real GDP growth to pick up from 2.4 percent in 2014, to 2.8 percent in 2015 and 2.7 percent in 2016. The February 2015 baseline forecast called for slightly stronger overall growth of 3.0 percent in 2015 and 2.7 percent in 2016. The IHS April baseline forecast for 2015 and 2016 calls for slightly slower overall growth than the Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip forecast is for 2.9 percent growth in 2015, followed by 2.8 percent in 2016.

Lower-priced gasoline and imported consumer goods are expected to put downward pressure on already low inflation. The IHS April 2015 baseline anticipates consumer prices (CPI) to fall by 0.4 percent in 2015. The February 2015 baseline projected a decline of 0.7 percent in 2015. Even so, IHS continues to believe lower gasoline prices are transitory and will correct

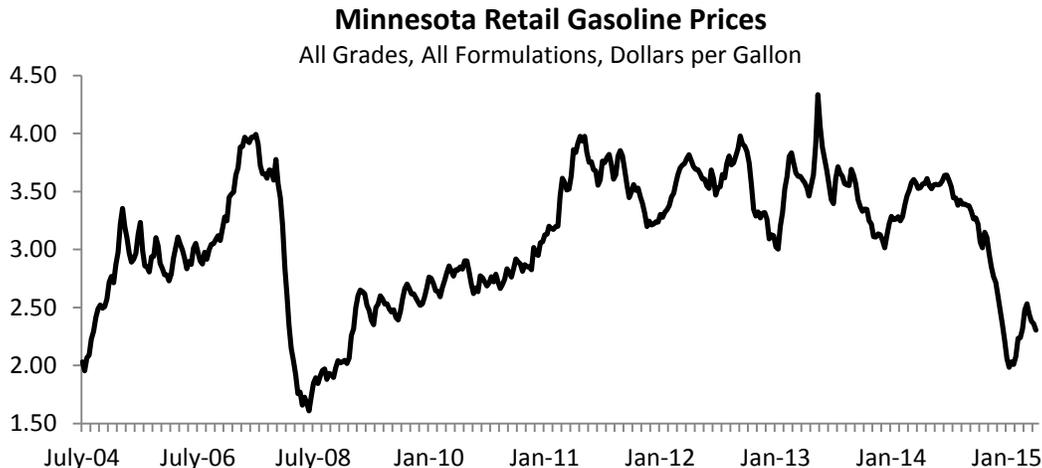
in the medium-term. Thus the April baseline expects the CPI to bounce back by 2.1 percent in 2016, similar to the 2.3 percent CPI growth expected for 2016 last February.

There have been no changes in the probabilities assigned to the baseline or alternative forecast scenarios since February. IHS continues to assign a probability of 70 percent to their April 2015 baseline scenario, and a 15 percent probability to more pessimistic and optimistic alternative scenarios. In the pessimistic scenario, the U.S. economy stalls in early 2015 due to lingering consumer spending weakness, lower-than-expected wage growth, and stagnant household formation, which weakens the housing market. In the optimistic scenario, higher-than-expected foreign growth and renewed improvements in employment and compensation deliver a boost to the U.S. economy in 2015.

Lower Oil Prices Benefit Minnesota Households

Sluggish global demand and excess supply have sent crude oil prices plummeting. Brent oil prices have fallen from a 2014 high of \$112/barrel last June to around \$56/barrel in early April. Lower prices mean reduced capital investment and drilling exploration among energy producers, but also big savings for consumers of gasoline and other petroleum products.

Minnesota is not an oil-producing state. Thus the net positive effects from the recent decline in crude prices are likely to outweigh the negative impacts on the energy sector. According to the U.S. Energy Information Administration, the average price of a gallon of gasoline in Minnesota was just \$2.30 in early April, down from \$3.53/gallon (or 35 percent) a year earlier and seasonally the lowest in six years. Lower gas prices are comparable to a tax cut, freeing up disposable income for spending on non-gasoline goods and services. The IHS April 2015 baseline calls for the quarterly average price of a barrel of Brent crude oil to reach a low point of \$50 during the second quarter of 2015 before rising to \$62 by the end of the year. If that forecast materializes, MMB economists estimate spending on gasoline in Minnesota will be as much as \$2.0 billion less in 2015 than it was in 2014. This is equal to about 0.8 percent of disposable income and represents an average savings of more than \$900 per Minnesota household. This will provide a boost to state economic activity in 2015 and 2016.



Source: U.S. Department of Energy

Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year-to-Date 2015			February – March 2015		
	(July-March, 2015)					
	FORECAST REVENUES*	ACTUAL REVENUES	DIFFERENCE ACTUAL-FCST	FORECAST REVENUES*	ACTUAL REVENUES	DIFFERENCE ACTUAL-FCST
Individual Income Tax						
Withholding	5,879,860	5,912,947	33,087	1,335,431	1,368,518	33,087
Declarations	1,267,293	1,267,753	460	28,960	29,420	460
Miscellaneous	535,858	532,009	(3,849)	209,717	205,868	(3,849)
Gross	7,683,011	7,712,709	29,698	1,574,108	1,603,806	29,698
Refund	905,516	913,868	8,352	745,627	753,979	8,352
Net	6,777,495	6,798,841	21,346	828,481	849,828	21,346
Corporate Franchise Tax						
Declarations	963,793	997,972	34,179	252,339	286,519	34,179
Miscellaneous	256,292	267,502	11,210	75,331	86,542	11,210
Gross	1,220,085	1,265,474	45,389	327,671	373,060	45,389
Refund	142,393	115,550	(26,843)	62,222	35,379	(26,843)
Net	1,077,691	1,149,924	72,232	265,449	337,681	72,232
General Sales Tax						
Gross	3,931,546	3,942,559	11,013	784,550	795,563	11,013
Mpls. Sales Tax Transferred to MSFA	980	980	-	980	980	-
Sales Tax Gross	3,932,525	3,943,539	11,013	785,530	796,543	11,013
Refunds (including Indian Refunds)	219,013	237,066	18,053	67,248	85,301	18,053
Net	3,713,512	3,706,472	(7,040)	718,282	711,242	(7,040)
Other Revenues:						
Net Estate Tax	97,503	102,559	5,056	25,482	30,538	5,056
Net Liquor/Wine/Beer	58,754	57,596	(1,158)	12,553	11,395	(1,158)
Net Cigarette/Tobacco	421,119	423,847	2,729	43,292	46,021	2,729
Deed and Mortgage	139,366	137,345	(2,021)	27,858	25,837	(2,021)
Net Insurance Gross Earnings	285,300	270,934	(14,366)	117,617	103,251	(14,366)
Lawful Gambling	29,709	32,573	2,864	6,476	9,340	2,864
Health Care Surcharge	182,468	180,535	(1,932)	49,609	47,676	(1,932)
Other Taxes	770	786	16	137	153	16
Statewide Property Tax	391,281	391,687	406	-	406	406
DHS SOS Collections	52,077	56,524	4,447	5,649	10,096	4,447
Investment Income	7,819	9,733	1,915	1,090	3,005	1,915
Tobacco Settlement	162,705	162,723	18	-	18	18
Dept. Earnings & MSOP Recov.	131,033	145,957	14,924	16,735	31,659	14,924
Fines and Surcharges	48,156	52,382	4,226	8,401	12,628	4,226
Lottery Revenues	31,732	39,655	7,924	8,211	16,134	7,924
Revenues yet to be allocated	846	-	(845)	-	(845)	(845)
Residual Revenues	104,801	94,841	(9,961)	33,790	23,829	(9,961)
County Nursing Home, Pub Hosp IGT	5,094	4,629	(465)	1,132	667	(465)
Other Subtotal	2,150,532	2,164,309	13,778	358,031	371,809	13,778
Other Refunds	4,397	4,599	202	1,072	1,274	202
Other Net	2,146,135	2,159,710	13,575	356,959	370,535	13,575
Total Gross	14,986,153	15,086,031	99,878	3,045,340	3,145,219	99,878
Total Refunds	1,271,319	1,271,083	(236)	876,169	875,933	(236)
Total Net	13,714,833	13,814,948	100,114	2,169,171	2,269,286	100,114

* February 2015 Budget & Economic Forecast.