



Minnesota Department of Finance

January 2000

Minnesota Revenues on Target in November and December

Net general fund revenues totaled \$2.025 billion during November and December, \$31.1 million (1.5 percent) less than forecast. Income tax receipts were the source of the entire short fall, down \$74 million (8.1 percent) from November's projections. All other major revenue sources exceeded the forecast. It appears the negative income tax variance was caused by differences in revenue processing, not fundamental change in the economy. Receipts for the 2000 fiscal year now total \$5.530 billion.

Summary of Tax Receipts: F.Y. 2000 to Date

	<u>Forecast</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	-----Dollars in Millions-----			
Individual	923.0	848.6	(74.4)	(8.1)
Sales	580.6	589.9	9.3	1.6
Corporate	150.0	153.0	3.0	2.0
Motor Vehicle	77.4	80.0	2.6	3.3
Other	<u>324.7</u>	<u>353.2</u>	<u>28.5</u>	8.7
TOTAL	2,055.7	2,024.7	(31.1)	(1.5)

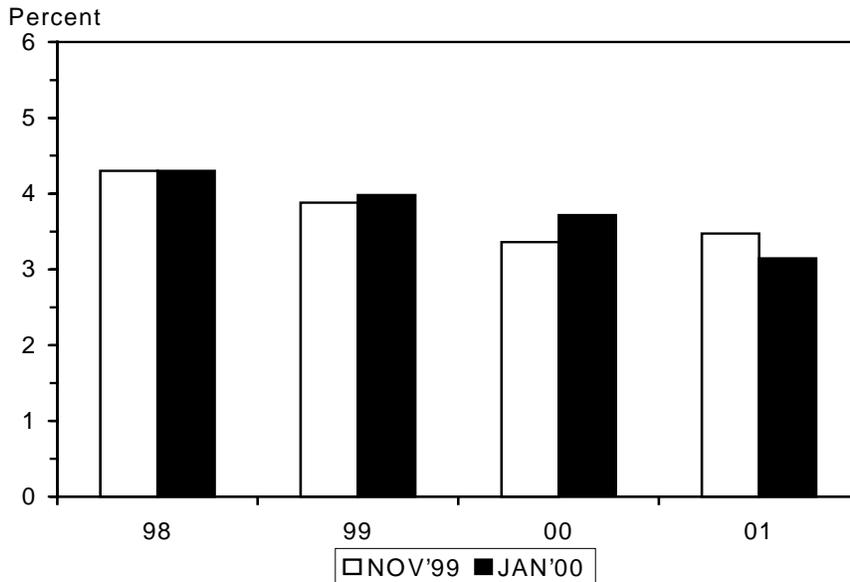
Revenue variances in the second quarter of the fiscal year must always be viewed with caution since they may be caused by differences in the timing of tax payments or their processing, not changes in the economy. This quarter's \$74 million negative individual income tax variance appears due to timing factors. December 31 was a state holiday leaving one less day at the end of 1999 to receive and process withholding and fourth quarter estimated payments. In addition, since fourth quarter individual estimated tax payments are not due until January 15, the proportion of taxpayers whose estimated payments are submitted and processed before the end of the calendar year varies significantly from year to year. Sales tax receipts do not reflect purchases made during the crucial December portion of the Christmas shopping season. Retailers will remit those revenues during January. More complete data on all revenue sources will be reported in the February revenue forecast.

Forecasters Agree, Economic Growth Will Continue in 2000

The U.S. economic outlook for this year and probably beyond, remains marvelous. A *Wall Street Journal* headline from early January, “Economists Are Euphoric about the Prospect for 2000,” succinctly summarizes the outlook. In February we will set the record for the longest economic expansion in U.S. history, and the end of this remarkable period of economic growth is nowhere in sight. Forecasts for further growth in 2000 are virtually unanimous; the only question is how rapidly the economy will grow during 2000 and 2001.

Data Resources Inc., (DRI) Minnesota’s national macro-economic consultant is, if anything, slightly more optimistic than the consensus. Their January Control projection for real GDP growth would leave them tied for twenty-second place among the 51 year-end forecasts presented in that same *Journal* article. DRI now expects the economy to grow at a 3.7 percent annual rate during 2000, and a 3.1 percent annual rate in 2001. Their November Control called for growth rates of 3.4 percent and 3.5 percent, respectively.

Little Change in DRI Forecast for Real GDP Growth in 2000 and 2001



The economy has been growing for so long that the hardships and disruptions that accompany a recession are for many now only memories from a relatively distant past. Economic downturns, however, have not been eliminated. DRI’s January Control, which contains no recession through 2004, is assigned a probability of just 55 percent, down 5 percent from November. The most likely alternative, a scenario in which inflation begins to creep higher, and eventually forces the Fed to raise interest rates enough create a recession in late 2002 is now assigned a 35 percent probability. DRI also notes that a near term recession is possible should a tumbling stock market damage consumer confidence, particularly if the stock market plunge were accompanied by higher interest rates. A 10 percent probability is assigned to that scenario.

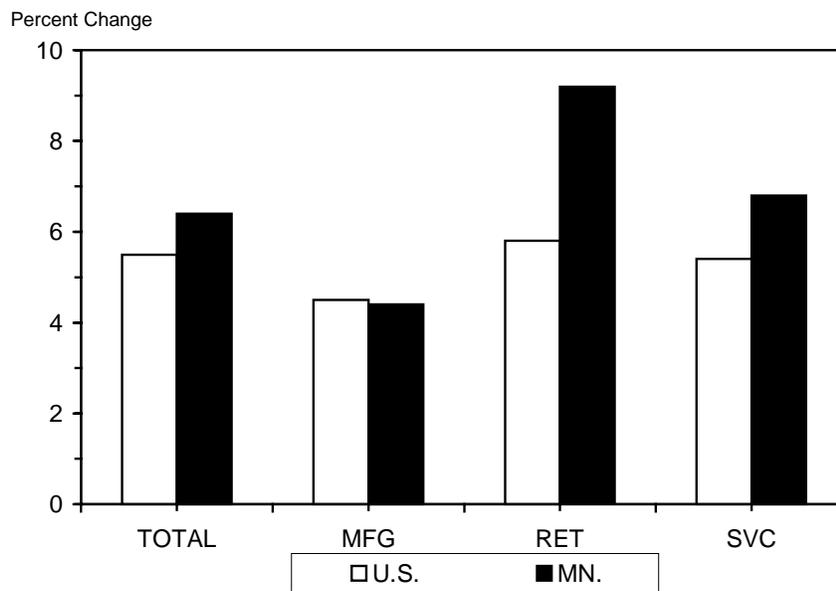
Some had feared that Y2K problems might cause the economy to falter early in 2000, but those worries have been proven groundless. It now appears that Y2K adjustments may have improved the economic outlook. The necessary upgrading of systems and software are believed to have contributed to recent increases in worker productivity which have helped keep inflationary pressures in check even though real wages have been increasing more rapidly than in the past.

Minnesota Pay Increases Exceeded the U.S. Average in 1998

November’s revenue forecast noted that Minnesota wage growth in 1998 appeared to have been unusually strong. A recent report by the U.S. Department of Labor confirms that observation and provides some additional insights about where the wage growth occurred. That report indicates that average annual pay for workers covered by unemployment insurance grew by 6.1 percent in Minnesota in 1998, fifth best in the nation, and a full percentage point greater than U.S. average growth rate of 5.1 percent. With an average annual pay of \$32,073 Minnesota ranks twelfth nationally, just slightly above the U.S. average of \$31,908. Washington led the nation in 1998 with a 7.5 percent growth rate. Connecticut’s \$40,915 was the highest average pay.

The state’s retail workers saw the largest percentage increase in annual pay in 1998. The 9.2 percent increase reported for Minnesota in 1998 was nearly 60 percent more than the U.S. average for that sector. Both the higher hourly rates needed to attract and retain workers and an increase in the number of hours worked brought on by Minnesota’s tight labor market appear to have contributed to that increase. Even with that increase, however, average annual wages for retail workers, many of whom work part-time, were only \$16,659.

Retail Workers Showed Largest Gains in Annual Pay



Workers in the mining industry; finance, insurance and real estate; wholesale trade; and manufacturing had the highest average earnings in 1998. Average annual pay in each of those industries in Minnesota exceeded \$40,000.

Comparison of Actual and Estimated Non-Restricted Revenues (\$ in thousands)

	<u>2000 Fiscal Year to Date</u>			<u>November - December 1999</u>		
	<u>Forecast Revenues</u>	<u>Actual Revenues</u>	<u>Variance Act-Fcst</u>	<u>Forecast Revenues</u>	<u>Actual Revenues</u>	<u>Variance Act-Fcst</u>
<u>Four Major Revenues:</u>						
Individual Income Tax						
Withholding	2,246,200	2,209,676	(36,524)	823,827	787,303	(36,524)
Declarations	347,100	316,515	30,585	111,820	81,234	(30,585)
Miscellaneous	77,200	76,206	(994)	18,116	17,122	(994)
Gross	2,670,500	2,602,396	(68,104)	953,763	885,659	(68,104)
Refunds	71,900	78,220	6,320	30,753	37,073	6,320
Net	2,598,600	2,524,176	(74,424)	923,010	848,586	(74,424)
Corporate & Bank Excise						
Declarations	364,391	372,708	8,317	154,500	162,817	8,317
Miscellaneous	48,914	51,301	2,386	15,600	17,986	2,386
Gross	413,305	424,009	10,704	170,100	180,804	10,704
Refunds	37,738	45,446	7,708	20,100	27,808	7,708
Net	375,567	378,563	2,995	150,000	152,995	2,995
Sales Tax						
Gross	1,794,690	1,815,402	20,712	612,371	633,083	20,712
Refunds	74,063	85,500	11,437	31,778	43,215	11,437
Net	1,720,627	1,729,902	9,275	580,593	589,868	9,275
Sales Tax Rebate	(7,985)	(9,210)	(1,225)	(324)	(1,549)	(1,225)
Motor Vehicle Sales	259,481	262,093	2,612	77,400	80,012	2,612
<u>Other Revenues:</u>						
Inherit/Gift/Estate	42,112	58,007	15,895	7,122	23,017	15,895
Liquor/Wine/Beer	26,369	27,781	1,413	8,919	10,332	1,413
Cigarette & Tobacco	83,313	83,777	465	29,450	29,915	465
Deed and Mortgage	76,682	78,689	2,007	22,984	24,991	2,007
Insurance Gross Earnings	51,940	53,023	1,083	49,200	50,284	1,083
Lawful Gambling	26,003	25,633	(369)	8,020	7,651	(369)
Health Care Surcharge	58,052	56,975	(1,076)	18,711	17,635	(1,076)
Other Taxes	436	550	114	60	174	114
General Fund RTC Revenues	11,537	7,769	(3,767)	5,648	1,880	(3,767)
Income Tax Reciprocity	45,199	46,475	1,276	45,199	46,475	1,276
Investment Income	58,880	65,754	6,874	17,179	24,053	6,874
Tobacco Settlement	108,826	104,926	(3,900)	108,826	104,926	(3,900)
Other and Unallocated	35,307	41,623	6,316	8,224	14,541	6,316
Other Subtotal	624,654	650,984	26,330	329,543	355,873	26,330
Other Refunds	9,745	6,371	(3,374)	4,483	1,109	(3,374)
Other Net	614,909	644,613	29,703	325,060	354,764	29,703
Total Gross	5,754,645	5,745,674	(8,972)	2,142,853	2,133,882	(8,972)
Total Refunds	193,446	215,538	22,092	87,114	109,206	22,092
Total Net	5,561,199	5,530,136	(31,064)	2,055,740	2,024,676	(31,064)