



Minnesota

Department of Finance

January 2006

State Revenues On Forecast Since November

Net general fund revenues totaled \$2.814 billion during November and December, \$36 million (1.3 percent) more than forecast. A \$43 million negative variance in individual tax receipts was largely offset by a \$36 million positive variance in corporate income tax receipts. Sales tax receipts and other revenues were modestly higher, while the motor vehicle sales tax was below projections. The state continues to receive the tobacco health impact fee, and while that revenue is not included in this report those receipts are at forecast levels.

Summary of Tax Receipts: (November-December, 2005)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	1,095	1,052	(43)	(3.9)
Sales	694	705	11	1.6
Corporate	149	185	36	24.2
Motor Vehicles	36	33	(3)	(8.3)
Other	<u>804</u>	<u>839</u>	<u>35</u>	<u>4.4</u>
Total	2,778	2,814	36	1.3

Individual withholding tax receipts were \$47 million (4.8 percent) below forecast during November and December and individual miscellaneous payments, \$16 million below forecast (see page 4). A positive variance of \$20 million in individual estimated payments partially offset those lower than projected receipts. However, individual fourth quarter 2005 estimated payments are not due until January 15, 2006 so their current positive variance may reflect only differences in the timing of filing or processing. Corporate estimated payments were \$20 million above forecast, and corporate refunds \$18 million below forecast. Mortgage and deed tax receipts, estate tax receipts, the statewide property tax, and tobacco settlement revenues each exceeded forecast by more than \$5 million.

Fourth quarter revenue variances should always be viewed with caution since they often reflect timing considerations, not changes in the underlying economy. Fiscal year collections through January provide a better measure of how Minnesota's revenues are tracking November's forecast. That data will be the starting point for February's forecast.

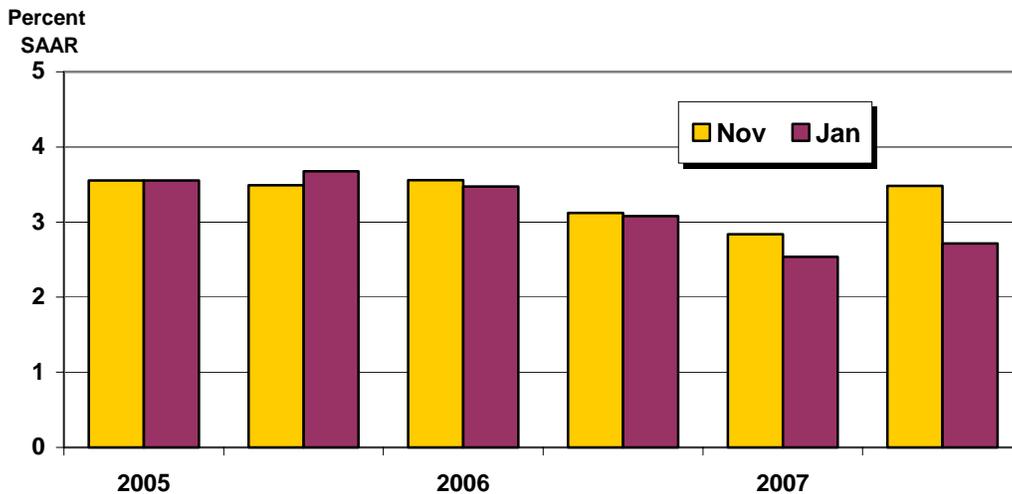
Little Change in Economic Outlook for Remainder of 2006-07

Two topics dominated the financial pages at the end of 2005--the near term interest rate outlook and the implications of a brief inversion of two year and ten year treasury rates. But, differences in opinion are small. Almost everyone believes the Fed will soon stop hiking interest rates. And, most forecasters question the predictive powers of this yield curve inversion. Recently the good economic news has outweighed the bad and most concerns about the short-term health of the economy have faded. Even though U.S. payroll employment increased by a disappointing 108,000 in December the U.S. economy appears to have too much momentum for a major slowdown to occur.

Weather news also has been favorable, and this year that is important. Relatively mild late-December temperatures removed some of the pressure on natural gas supplies, and natural gas prices have fallen substantially, reducing that potential short-term drag on consumer spending. Underground storage of natural gas exceeds the five-year average for this time of year, even though 18 percent of Gulf production remains shut-in due to hurricane damage. An OK Christmas also improved the near-term outlook by removing the possibility that retailers might cut back orders for consumer goods.

January's baseline forecast from Global Insight Inc. (GII), Minnesota's national economic consultant, differs little from November's. Real GDP growth over the 2006-07 biennium is projected to average 3.3 percent, unchanged from November. Oil prices are now expected to remain above \$50 per barrel through 2009 so the inflation forecast is up. CPI growth at an average annual rate of 2.7 percent over the biennium is now expected. In November CPI growth at an annual rate 2.55 percent over the biennium was forecast.

Slower Real GDP Growth Rate Expected



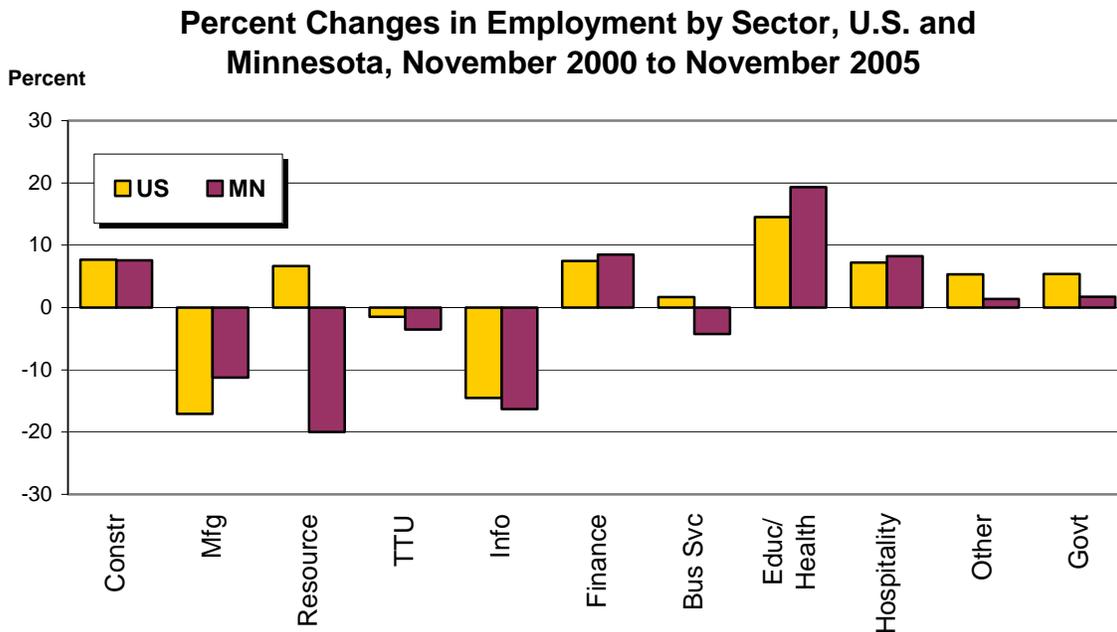
Global Insight assigns a probability of 55 percent to the January baseline, the same as in November. A more pessimistic scenario that includes slower than trend growth and

higher inflation, but no recession, is assigned a 25 percent probability. A slightly more optimistic scenario is assigned a probability of 20 percent.

Minnesota Payroll Employment Has Grown More Slowly than the US Average Since 2000

Minnesota’s economy is no longer creating jobs as fast as it did in the late 1990’s. In 1998 payroll employment in Minnesota grew by 41,000 jobs. In 1999 Minnesota jobs grew by over 65,000. But in the five years between November 2000 and November 2005 Minnesota employers added a total of 24,000 jobs. The brief, mild national recession in 2001 is part of the explanation, but Minnesota’s economy simply has not performed as well as the U.S. economy in the last five years. Payroll employment in the state has grown by a total of 0.9 percent since November 2000. Nationally payroll employment grew about two-thirds faster, increasing by 1.5 percent.

The manufacturing sector has been weak, but declining manufacturing employment does not explain why Minnesota has not kept up with the national economy. Over the past 5 years U.S. manufacturing employment is down by more than 17 percent, while manufacturing employment in Minnesota fell by 11.3 percent.



The largest percentage differential in employment growth rates comes in the natural resources and mining sector where increased activity in the oil patch has driven the U.S. total up by 6.6 percent while Minnesota’s mining employment fell by 20 percent. But, that sector is small, amounting to just 0.2 percent of Minnesota employment. The other sectors where Minnesota has under-performed include professional and business services; transportation, trade and utilities (TTU); information; government; and other services. Employment in Minnesota grew faster than the U.S. rate in the financial services, leisure and hospitality, and education and health sectors.

COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

(\$ in Thousands)

	2006 Fiscal Year to Date			November - December 2005		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	2,724,525	2,677,680	(46,846)	989,357	942,511	(46,846)
Declarations	352,800	372,618	19,818	86,554	106,372	19,818
Miscellaneous	141,386	124,968	(16,417)	43,543	27,126	(16,417)
Gross	3,218,711	3,175,266	(43,445)	1,119,454	1,076,008	(43,445)
Refund	80,000	79,617	(383)	24,810	24,427	(383)
Net	3,138,711	3,095,649	(43,062)	1,094,644	1,051,581	(43,062)
Corporate & Bank Excise						
Declarations	475,779	496,274	20,494	170,400	190,894	20,494
Miscellaneous	71,591	69,779	(1,812)	27,018	25,206	(1,812)
Gross	547,371	566,053	18,682	197,418	216,100	18,682
Refund	66,511	48,844	(17,667)	48,400	30,733	(17,667)
Net	480,860	517,209	36,349	149,018	185,367	36,349
Sales Tax						
Gross	2,143,602	2,145,892	2,289	732,122	734,412	2,289
Refunds	92,551	84,138	(8,413)	37,617	29,204	(8,413)
Net	2,051,051	2,061,754	10,702	694,505	705,207	10,702
Motor Vehicle Sales						
	128,691	125,228	(3,463)	36,399	32,935	(3,463)
Other Revenues:						
Inherit/Gift/Estate	162,906	170,292	7,387	12,365	19,751	7,387
Liquor/Wine/Beer	32,043	31,818	(225)	11,954	11,729	(225)
Cigarette/Tobacco/Cont Sub	75,550	75,252	(298)	6,650	6,352	(298)
Deed and Mortgage	143,175	158,192	15,016	44,319	59,335	15,016
Insurance Gross Earnings	120,524	125,060	4,535	59,400	63,935	4,535
Lawful Gambling	22,795	20,504	(2,291)	9,328	7,037	(2,291)
Health Care Surcharge	101,040	99,705	(1,336)	34,003	32,667	(1,336)
Other Taxes	582	406	(176)	281	105	(176)
Statewide property tax	273,834	278,935	5,101	273,543	278,644	5,101
DHS RTC Collections	24,285	26,282	1,997	6,328	8,325	1,997
Income Tax Reciprocity	56,802	56,802	0	56,802	56,802	0
Investment Income	16,014	20,387	4,373	3,139	7,512	4,373
Tobacco Settlement	173,401	179,060	5,659	173,401	179,060	5,659
Departmental Earnings	185,790	187,219	1,429	72,916	74,345	1,429
Fines and Surcharges	44,027	43,108	(919)	16,688	15,769	(919)
Lottery Revenues	19,734	20,035	302	10,320	10,621	302
Revenues yet to be allocated	452	2,878	2,426	0	2,426	2,426
Residual revenues	28,186	16,478	(11,708)	18,604	6,895	(11,708)
Sales Tax Rebates (all years)	(3)	(2)	1	0	1	1
County Nursing Home Pub Hosp	5,396	5,396	0	1,132	1,132	0
Other Subtotal	1,486,533	1,517,806	31,273	811,171	842,444	31,273
Other Refunds	14,157	10,326	(3,832)	7,495	3,664	(3,832)
Other Net	1,472,376	1,507,480	35,105	803,676	838,781	35,105
Total Gross	7,524,908	7,530,244	5,336	2,896,564	2,901,900	5,336
Total Refunds	253,219	222,925	(30,295)	118,323	88,028	(30,295)
Total Net	7,271,689	7,307,319	35,630	2,778,242	2,813,872	35,630