



Minnesota Department of Finance

January 2008

State Revenues on Target Despite Weaker Economy

Net general fund revenues totaled \$3.008 billion in November and December, \$105 million (3.6 percent) more than forecast. Although receipts from all major tax sources were above forecast, some of this positive variance may reflect differences in the timing of receipts, not a stronger than forecast underlying economy. General fund receipts during the past two months are 1.4 percent greater than those in November and December 2006.

Summary of Tax Receipts: (November - December, 2007)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,111	\$1,159	\$48	4.3
Sales	736	751	15	2.0
Corporate	200	208	8	4.0
Motor Vehicles	27	26	(1)	(3.7)
Other	<u>829</u>	<u>864</u>	<u>35</u>	<u>4.2</u>
Total	\$2,903	\$3,008	\$105	3.6

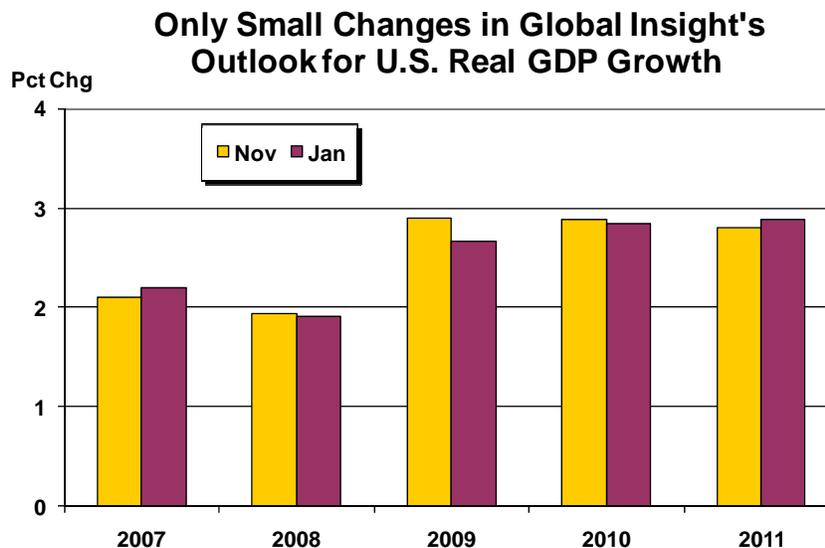
Individual income tax receipts were \$48 million (4.3 percent) more than forecast. Much of that positive variance came from withholding receipts which were \$39 million (3.9 percent) above forecast. (See page 4) Corporate estimated tax payments were \$13 million more than projected and total sales tax receipts \$15 million above forecast. The sales tax variance was due to lower than anticipated sales tax refunds. Gross receipts from the sales tax were \$443,000 less than forecast. Other tax and non-tax revenues were \$35 million (4.3 percent) more than projected.

Fourth quarter revenue variances always should be viewed with caution since key items may reflect only differences in the timing of receipts, not an improved economic outlook. For example, sales tax receipts only reflect purchases in October and November. Taxes collected on sales made during the December portion of the Christmas shopping season will not be remitted to the state until late January. The variance for the individual income tax also could change materially. Fourth quarter 2007 individual estimated tax payments are not due until January 15 and the proportion of taxpayer returns submitted to and processed by December 31 changes substantially from year to year. More complete data on revenues will be available at the end of January and incorporated into February's revenue forecast.

Little Change in 2008 Forecast, But Risk of Recession Increases

December's monthly employment report was not good news. U.S. payroll employment grew by just 18,000 jobs, private sector employment fell by 13,000, and the national unemployment rate rose by 0.3 percentage points to 5.0 percent. This apparent weakening of the labor market has been sufficient to drain any remaining optimism from almost all forecasts for 2008. The housing sector outlook continues grim, oil prices are near \$100 per barrel, and most other economic indicators also seem to be turning down. The Federal Reserve is working to ease credit concerns in global financial markets, but policy makers are in largely uncharted territory and there are no guarantees that Fed actions will be sufficient to prevent this economic slowdown from turning into a recession. While many believe a recession early this year can be avoided, forecasters agree the probability of this slowdown turning into a recession is high.

Global Insight (GII), Minnesota's national economic consultant, was among the first to incorporate the subprime mortgage market's problems into their forecast and for several months their outlook for 2008 was noticeably less optimistic than the consensus. But, by early January, most others had followed their lead. GII's January baseline calls for real GDP growth of 1.9 percent in calendar 2008, the same as in November. The growth rate for real GDP in 2009 is now projected to be 2.7 percent, slightly below the 2.9 percent growth rate used in November's revenue forecast. However, we expect GII's February baseline to be scaled back further absent a major improvement in the national jobs numbers. Global Insight continues to assume that oil prices will drop to the \$75 per barrel range by early summer.



Global Insight has increased the probability assigned to their pessimistic scenario. That scenario, which contains a two quarter recession beginning in the current quarter now is assigned a 40 percent probability, 5 percentage points more than in November and only 10 percentage points less than the baseline scenario. In November the gap between the probability of the baseline forecast and that for the pessimistic alternative was 20 percentage points.

Teen, Senior Employment Rates Have Fallen Since 2000

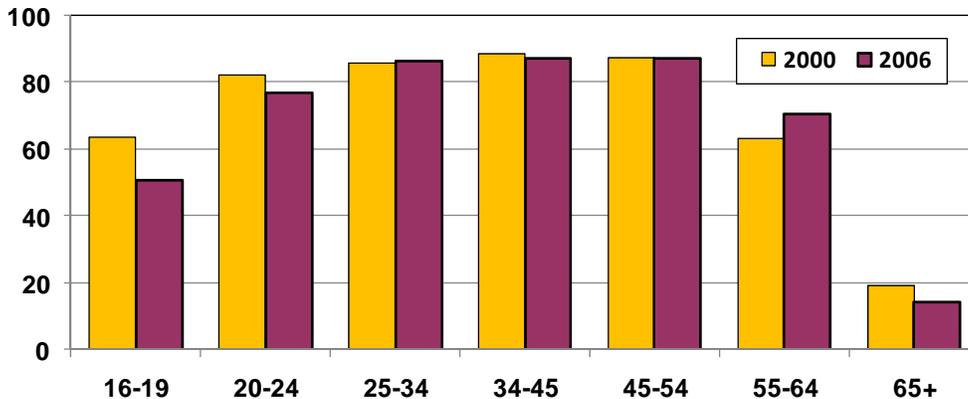
Minnesota’s labor market was very tight at the close of the decade. Our unemployment rate averaged just under 3 percent in 1999 and 2000 and payroll employment grew by more than 120,000 jobs during that period. The strong demand for workers was reflected in the proportion of Minnesotans employed. In 2000 72.6 percent of Minnesotans age 16 or more, were employed. The state’s employment ratio was well above the U.S. average of 64.5 percent.

By 2006 employment ratios nationally and in Minnesota had fallen back slightly. Nationally, the proportion of the population age 16 or above that was working had fallen by 1.4 percentage points to 63.1 percent. In Minnesota that ratio fell by 2.7 percentage points to 69.9 percent.

Recently released data on employment rates by age provides some insights into the decline in Minnesota’s employment ratio. That data shows there were only small, offsetting changes in employment rates for Minnesotan’s age 25 through 54. In those age cohorts slightly more than 87 percent of Minnesotan’s were employed in both 2000 and 2006. Nationally, the proportion of the 25 to 54 population working fell by 1.5 percentage points from 81.5 percent to 80 percent.

There were, however, significant changes in employment ratios for those in other age cohorts. The proportion of working Minnesotans between age 55 and 64 increased by 7.5 percent during that six-year period as fewer took early retirement. Nationally the employment ratio in that group rose by 4 percentage points. The employment population ratio for Minnesotans age 65+ fell by 4.7 percentage points, while nationally it increased by 2.5 percent. Employment ratios for those age 20-24 also fell slightly.

Minnesota Employment Population Ratios By Age, 2000 and 2006



The biggest change was in the proportion of 16 to 19 year olds working. In 2000 63.5 percent of that age group was employed. In 2006 the percentage had dropped to 50.6 percent. While this was still well above the national average of 36.9 percent, the drop in what is believed to be largely part-time employment among teenagers was the largest source of the difference in the change in employment rates between the U.S. and Minnesota.

COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

(\$ IN THOUSANDS)

	FY 2008 YTD			November - December 2007		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
<u>Individual Income Tax</u>						
Withholding	2,879,775	2,918,324	38,549	995,400	1,033,949	38,549
Declarations	446,418	455,212	8,794	114,000	122,794	8,794
Miscellaneous	154,464	162,082	7,618	34,870	42,488	7,618
Gross	3,480,657	3,535,618	54,961	1,144,270	1,199,231	54,961
Refund	100,000	107,240	7,240	33,391	40,630	7,240
Net	3,380,657	3,428,378	47,721	1,110,879	1,158,601	47,721
<u>Corporate & Bank Excise</u>						
Declarations	489,246	502,302	13,056	202,011	215,067	13,056
Miscellaneous	100,462	98,807	-1,655	36,873	35,218	-1,655
Gross	589,708	601,110	11,401	238,884	250,285	11,401
Refund	67,235	70,657	3,422	38,409	41,831	3,422
Net	522,473	530,452	7,979	200,475	208,454	7,979
<u>Sales Tax</u>						
Gross	2,259,726	2,259,283	-443	775,960	775,517	-443
Refunds	105,549	90,239	-15,311	40,471	25,160	-15,311
Net	2,154,177	2,169,044	14,868	735,489	750,357	14,868
<u>Motor Vehicle Sales Tax</u>						
	93,540	92,872	-668	27,077	26,409	-668
<u>Other Revenues:</u>						
Estate	63,341	65,686	2,345	15,886	18,231	2,345
Liquor/Wine/Beer	32,031	32,383	353	12,258	12,611	353
Cigarette/Tobacco/Cont Sub	68,382	68,561	180	8,467	8,646	180
Deed and Mortgage	91,349	96,195	4,846	29,423	34,269	4,846
Insurance Gross Earnings	126,816	126,813	-4	64,425	64,421	-4
Lawful Gambling	21,047	20,726	-321	7,941	7,620	-321
Health Care Surcharge	105,210	106,561	1,351	35,241	36,593	1,351
Other Taxes	62	767	705	-212	492	705
Statewide Property Tax	304,105	312,476	8,372	302,991	311,363	8,372
DHS SOS Collections	28,867	30,121	1,254	10,246	11,500	1,254
Income Tax Reciprocity	69,050	69,050	0	69,050	69,050	0
Investment Income	43,293	52,787	9,494	9,684	19,178	9,494
Tobacco Settlement	180,383	182,004	1,621	180,283	181,904	1,621
Departmental Earnings	142,099	135,322	-6,777	58,906	52,129	-6,777
Fines and Surcharges	41,236	42,221	985	15,470	16,455	985
Lottery Revenues	18,630	18,774	144	7,493	7,638	144
Revenues yet to be allocated	1,671	932	-739	0	-739	-739
Residual Revenues	22,763	30,830	8,066	10,475	18,541	8,066
Sales Tax Rebates (all years)	0	0	0	0	0	0
County Nursing Home, Pub Hosp IG	3,374	3,374	0	1,132	1,132	0
Other Subtotal	1,363,709	1,395,583	31,874	839,160	871,034	31,874
Other Refunds	22,776	19,171	-3,606	10,236	6,631	-3,606
Other Net	1,340,933	1,376,412	35,480	828,924	864,404	35,480
Total Gross	7,787,340	7,884,465	97,125	3,025,351	3,122,476	97,125
Total Refunds	295,561	287,306	-8,254	122,507	114,252	-8,254
Total Net	7,491,779	7,597,159	105,379	2,902,844	3,008,223	105,379