



January 2012

State Revenues on Target Since November Forecast

Minnesota's net general fund revenues totaled \$2.912 billion in November and December, \$62 million (2.2 percent) more than forecast. Stronger than projected individual income tax payments accounted for much of the additional revenue. Net sales tax receipts for November and December were \$1 million less than forecast and corporate tax receipts \$8 million above forecast. Other revenues exceeded forecast by a total of \$30 million. Net general fund revenues for November and December 2011 were 6.0 percent greater than were receipts during the last two months of 2010.

Summary of Tax Receipts (November - December 2011)

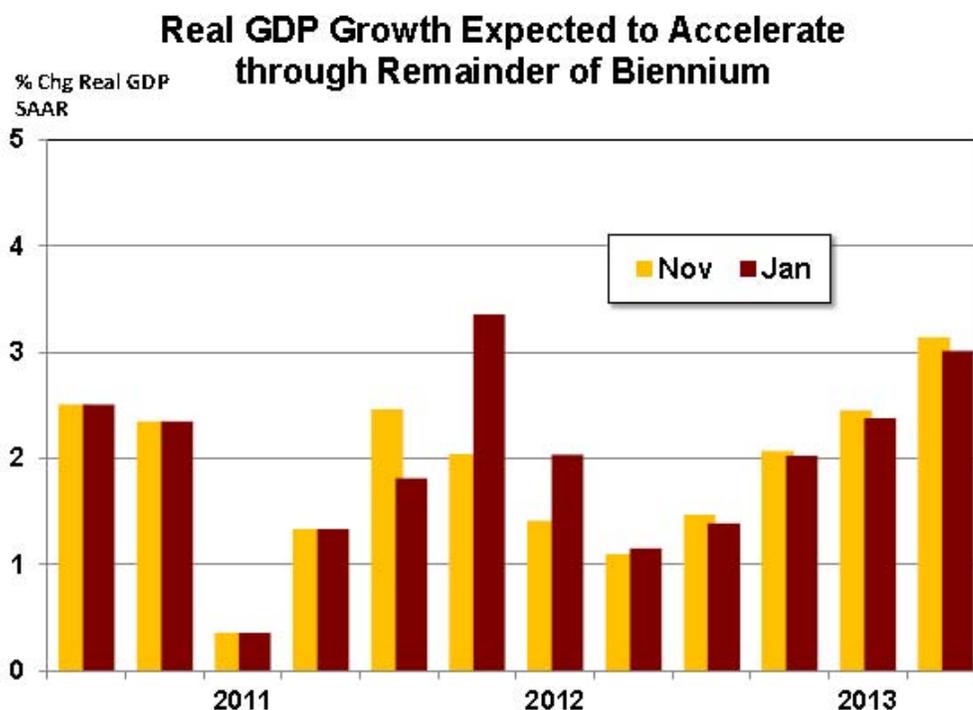
	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,240	\$1,266	\$25	2.0
Sales Tax	733	732	(1)	(0.2)
Corporate	173	181	8	4.6
Other	<u>704</u>	<u>733</u>	<u>30</u>	<u>4.3</u>
Total	\$2,850	\$2,912	\$62	2.2

Individual income tax receipts were \$25 million (2.0 percent) more than forecast even though withholding tax receipts fell \$8 million short of forecast. (See page 4.) The shortfall in withholding was more than made up by a \$35 million positive variance in fourth quarter individual estimated income tax payments. That positive variance may not be reflecting a stronger than forecast economy, however. Fourth quarter individual estimated payments are not officially due until January 15 and the additional revenue received in December may be due to timing differences in payment and processing, not increased economic activity. Gross sales tax receipts were \$6 million above forecast in November and December, while sales tax refunds exceeded forecast by \$7 million. More than one-half of the \$30 million variance in other revenues came from the statewide property tax. That variance also appears to be due to differences in the timing of receipts.

U.S. Economic Outlook Has Improved ... But Questions about Europe Remain

The likelihood that the U.S. will enter a recession in 2012 has fallen significantly since late summer. Consumers are more confident, labor markets are continuing to strengthen, and the risk of a serious domestic economic policy mistake appears to have lessened. But, that good news does not mean the baseline U.S. economic outlook has improved appreciably since November. Nor does it mean that the risk of a U.S. recession in 2012 can be fully dismissed. While the outlook for late 2011 and early 2012 has improved forecasters continue to expect sub-par growth during the remainder of 2012 leaving the U.S. economy with little cushion against an unexpected shock. And, Europe's economic problems are real. While most believe that the current U.S. recovery will be sufficiently robust to withstand a mild recession in Europe, a more severe European recession could end the current U.S. economic expansion.

Global Insight (GII), Minnesota's national economic consultant, is among those who have significantly reduced the probability assigned to their pessimistic scenario while making only modest improvements to their baseline scenario. GII's January baseline now calls for real GDP growth of 2.0 percent in 2012 and 2.4 percent in 2013. Their November baseline called for real growth rates of 1.6 percent and 2.5 percent respectively. Global Insight's outlook is consistent with, but slightly less optimistic than the Blue Chip Consensus. The Blue Chip panel now expects growth rates of 2.2 percent for 2012 and 2.6 percent in 2013.



The biggest change in GII's outlook occurred in the probability assigned to its pessimistic scenario. In November, consistent with concerns over possible fiscal gridlock in Washington D.C. and the potential worsening of the Eurozone sovereign debt crisis, a 40 percent probability was assigned to a scenario containing a 2012 recession. Now, GII

assigns a 30 percent probability to their pessimistic scenario. January’s baseline is now assigned a probability of 55 percent, up 5 percent from November, and the probability assigned to a more optimistic scenario has been increased to 15 percent.

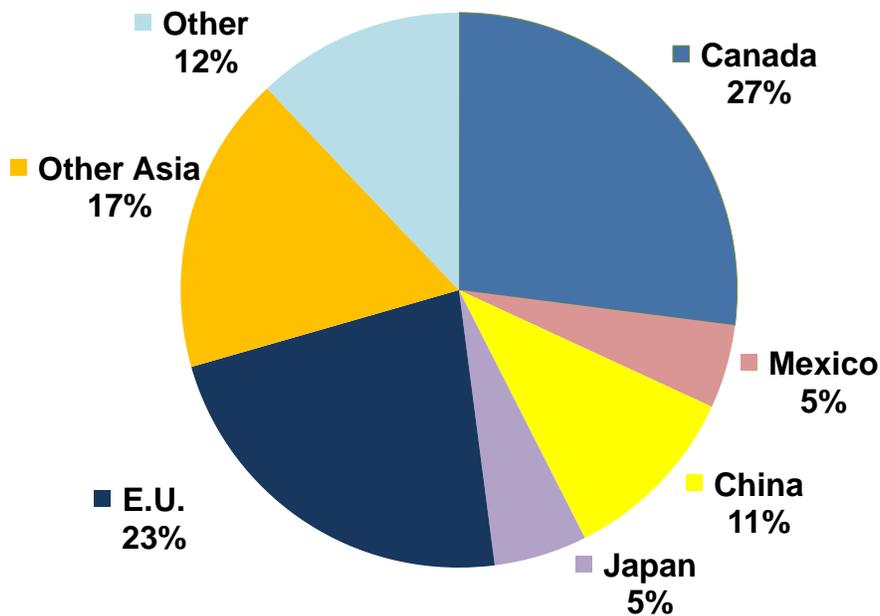
A European Recession Will Affect Minnesota

Many economists believe the Eurozone has slid into a recession and will remain there until at least mid-summer. Clearly, the biggest concern is the possibility of sovereign defaults affecting global credit markets. But even without a worst-case, financial melt-down scenario, Minnesota’s economy will be affected by economic weakness on the continent. Europe is an important trading partner and a recession will reduce the demand for Minnesota produced goods throughout the Eurozone. In addition the lower valued Euro, which would accompany a European down-turn, will make European produced goods and commodities less expensive in global markets, further reducing demand for Minnesota products.

Both agricultural trade and trade in manufactured products will be affected. In 2010 Minnesota exported \$5.0 billion in agricultural commodities and \$17.2 billion in manufactured products. Non-service exports totaled 8.2 percent of Minnesota’s GDP.

While Canada (\$4.6 billion) and China (\$1.8 billion) are Minnesota’s two largest export markets for manufactured goods, European Union countries as a group accounted for \$3.9 billion in exports in 2010, about 23 percent of state exports. Germany (\$727 million), the U.K (\$564 million), and Belgium (\$560 million) were Minnesota’s largest European markets.

Minnesota Manufactured Exports by Destination, 2010



COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES
(\$ IN THOUSANDS)

	<u>DECEMBER YTD 2011, FY2012</u>			<u>NOVEMBER - DECEMBER 2011, FY2012</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>Individual Income Tax</u>						
Withholding	3,243,297	3,234,974	(8,323)	1,158,400	1,150,077	(8,323)
Declarations	368,000	402,896	34,896	90,368	125,265	34,896
Miscellaneous	161,300	163,071	1,771	40,931	42,702	1,771
Gross	3,772,597	3,800,941	28,343	1,289,699	1,318,043	28,343
Refund	117,500	120,464	2,964	49,284	52,248	2,964
Net	3,655,097	3,680,477	25,379	1,240,416	1,265,795	25,379
<u>Corporate & Bank Excise</u>						
Declarations	465,033	472,001	6,969	188,046	195,015	6,969
Miscellaneous	109,052	117,936	8,885	33,090	41,974	8,885
Gross	574,084	589,938	15,854	221,135	236,989	15,854
Refund	71,924	79,950	8,026	48,338	56,364	8,026
Net	502,160	509,988	7,828	172,797	180,625	7,828
<u>Sales Tax</u>						
Gross	2,339,541	2,345,307	5,765	768,931	774,696	5,765
Refunds	70,616	77,771	7,155	35,837	42,992	7,155
Net	2,268,925	2,267,536	(1,390)	733,093	731,703	(1,390)
<u>Other Revenues:</u>						
Estate	77,190	80,932	3,742	24,670	28,412	3,742
Liquor/Wine/Beer	35,450	32,368	(3,082)	13,543	10,461	(3,082)
Cigarette/Tobacco/Cont Sub	97,784	103,104	5,319	31,053	36,372	5,319
Deed and Mortgage	63,662	63,349	(313)	25,613	25,300	(313)
Insurance Gross Earnings	131,652	136,037	4,385	62,790	67,175	4,385
Lawful Gambling	16,983	17,745	763	6,142	6,904	763
Health Care Surcharge	89,266	85,473	(3,793)	43,304	39,511	(3,793)
Other Taxes	326	380	54	103	157	54
Statewide Property Tax	352,355	369,156	16,801	192,815	209,616	16,801
DHS SOS Collections	28,644	29,589	945	7,380	8,325	945
Income Tax Reciprocity	235	182	(53)	235	182	(53)
Investment Income	500	1,675	1,175	500	1,675	1,175
Tobacco Settlement	161,901	160,906	(994)	161,801	160,806	(994)
Departmental Earnings	124,458	132,383	7,925	60,822	68,747	7,925
Fines and Surcharges	32,023	31,572	(451)	22,661	22,210	(451)
Lottery Revenues	14,690	14,719	29	8,323	8,352	29
Revenues yet to be allocated	1,052	353	(699)	0	(699)	(699)
Residual Revenues	100,418	97,747	(2,671)	45,812	43,141	(2,671)
Co. Nursing Home, Pub Hosp IGT	3,558	4,317	759	1,465	2,224	759
Other Subtotal	1,332,147	1,361,987	29,839	709,032	738,871	29,839
Other Refunds	13,831	13,668	(163)	5,631	5,468	(163)
Other Net	1,318,316	1,348,318	30,002	703,401	733,403	30,002
Total Gross	8,018,370	8,098,172	79,802	2,988,797	3,068,599	79,802
Total Refunds	273,871	291,853	17,982	139,090	157,072	17,982
Total Net	7,744,499	7,806,319	61,820	2,849,708	2,911,527	61,820