



January 2013

**State Revenues Exceed November Forecast**

Minnesota’s net general fund receipts totaled \$3.066 billion in November and December, \$114 million (3.9 percent) more than forecast. Corporate income tax receipts were \$93 million more than forecast and accounted for most of the additional revenue. Individual income tax receipts also exceeded forecast, but recent sales tax receipts were less than projected. Net general fund receipts for November and December 2012 were 5.3 percent greater than receipts during the last two months of 2011. The positive revenue variances appear to be more likely related to one-time items and timing than increased economic activity.

**Summary of Tax Receipts  
(November - December 2012)**

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,319	\$1,372	\$53	4.0
Sales Tax	778	738	(40)	(5.1)
Corporate	177	270	93	52.5
Other	<u>678</u>	<u>686</u>	<u>8</u>	<u>1.2</u>
Total	\$2,952	\$3,066	\$114	3.9

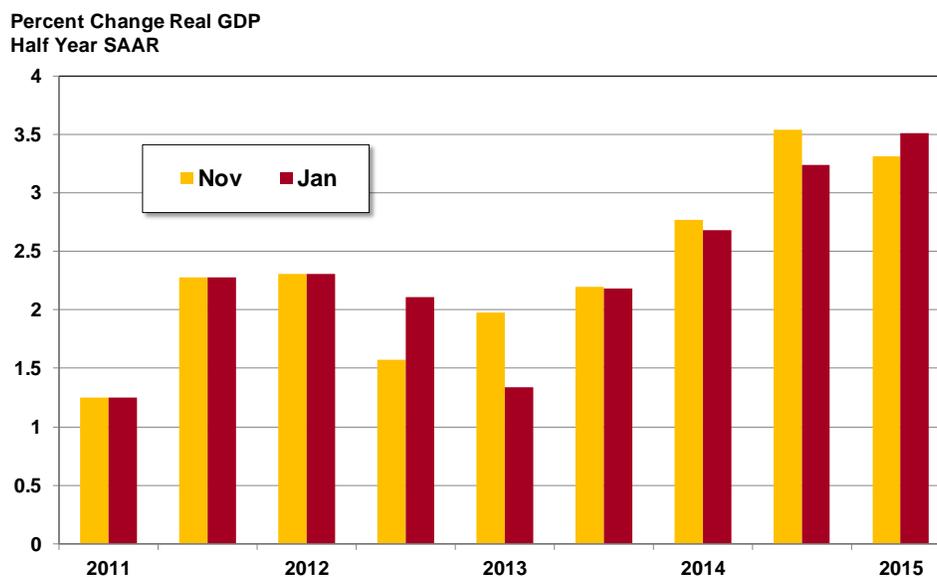
More than 80 percent of the large positive corporate tax variance came from larger than anticipated corporate estimated payments (declarations) made in December. In fact, corporate declarations during the month were at an all-time high. Fourth quarter corporate declarations were \$77 million above forecast and net corporate tax receipts in November and December were 50 percent more than were net receipts in the last two months of 2011 (see page 4). The \$29 million positive variance in individual income tax withholding and the \$16 million variance in individual estimated payments may not be indicative of a stronger than expected economy since taxpayers may have accelerated income into 2012 to avoid possible tax rate increases in 2013. And, since individual estimated payments are not due until mid-January the proportion of returns submitted and processed by December 31 varies substantially from year to year. Gross sales tax receipts fell \$15 million below forecast during November and December and sales tax refunds were \$25 million more than forecast. Since most businesses remit sales taxes in the month after the purchase was actually made, the negative variance reflects only the November portion of the Christmas shopping season. Taxes on December sales will be remitted in January. All other revenues exceeded forecast by a combined \$8 million.

## U.S. Policymakers Avoid the Cliff, but More Obstacles Remain

On January 1 the Congress and the President removed some policy uncertainty affecting the 2013 economic outlook when they reached agreement on what to do about the fiscal cliff. Action had been assumed in nearly all forecasts, but nearly all economists also believed that the set of tax increases and expenditure cuts that had been scheduled for 2013 would have put the economy into a recession. The 2 percent payroll tax cut put in place in 2011 to provide additional insurance against a double-dip recession and the Bush tax cuts for high income individuals were allowed to expire, while the remaining Bush tax cuts and the indexing of the alternative minimum tax were made permanent. The last minute deal also included some changes in spending including another extension of jobless benefits for the long-term unemployed and elimination of a cut in Medicare payments to physicians. Unfortunately, several key issues were unresolved and left for the next Congress to deal with. The most important, raising the debt ceiling, will need to be done by early spring. If not, the federal government will not be able to meet all its spending obligations.

Most economists believe that hitting the debt ceiling would damage the economy more than falling off the cliff. Many forecasters, including Global Insight (GII), Minnesota's macroeconomic consultant, also believe that another last minute deal is likely. While acknowledging that a U.S. debt ceiling impasse is a "top ten risk" for 2013 GII assumes that a last minute deal will be struck and that the U.S. economy will continue to grow in 2013, albeit more slowly than in 2012. Global Insight's January baseline, issued after the fiscal cliff deal was struck, calls for real GDP growth of 1.7 percent in 2013, down slightly from the 1.9 percent growth projected in November. GII's January baseline forecast is below the Blue Chip consensus of 2.0 percent for 2013. Global Insight anticipates real growth rates of 2.7 percent and 3.4 percent for 2014 and 2015. For 2014 GII's January forecast is slightly above the Blue Chip estimate of 2.6 percent. Inflation is projected to remain under control. GII projects CPI growth of 1.5 percent in 2013 and 1.7 percent in 2014.

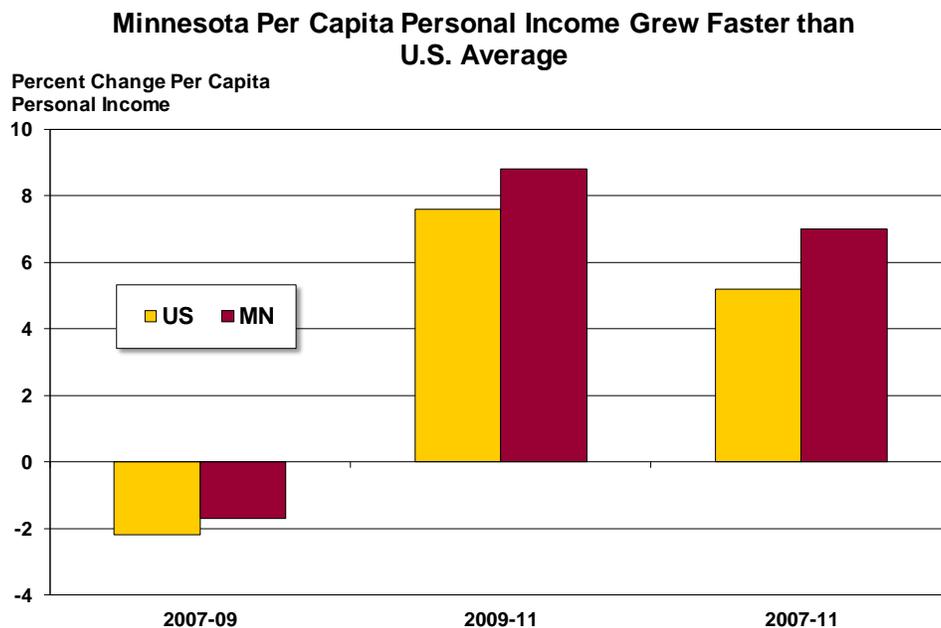
### Little Change in Economic Outlook



There has been no change in the probabilities assigned to the baseline or its alternatives since November. Global Insight continues to assign a 60 percent probability to its baseline forecast, and a 20 percent probability to both the pessimistic and more optimistic scenarios. The pessimistic scenario includes a recession in the first two quarters of 2013. In the optimistic scenario the debt ceiling deal-making goes more smoothly than anticipated and consumers and businesses respond positively.

**Per Capita Personal Income Growth in Minnesota Exceeded U.S. from 2007-2011**

Per capita personal income in Minnesota grew by 7.0 percent between 2007 and 2009, 1.8 percentage points more than the U. S. average. North Dakota led the nation over that period with growth of 30.5 percent, while Nevada performed the worst, posting a loss of 7.3 percent. Minnesota’s performance ranked 22<sup>nd</sup> among the states.



Minnesota per capita personal income declined slightly less than the U.S. average during the 2007-2009 period and recovered more rapidly during the two years that followed. Minnesota per capita personal income is now \$44,560, 7.2 percent above the U.S. average. The state ranks 11<sup>th</sup> among the 50 states on this measure of economic well-being.

## COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

(\$ IN THOUSANDS)

	FY 2013 TO DATE THRU DECEMBER 2012			NOVEMBER - DECEMBER 2012		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
<b><u>Individual Income Tax</u></b>						
Withholding	3,393,298	3,422,701	29,403	1,200,400	1,229,803	29,403
Declarations	435,900	452,377	16,477	114,969	131,446	16,477
Miscellaneous	189,178	192,108	2,930	40,190	43,120	2,930
Gross	4,018,376	4,067,186	48,810	1,355,559	1,404,369	48,810
Refund	102,500	98,187	(4,313)	36,836	32,523	(4,313)
Net	3,915,876	3,968,998	53,122	1,318,723	1,371,846	53,122
<b><u>Corporate &amp; Bank Excise</u></b>						
Declarations	491,943	569,334	77,391	192,916	270,308	77,391
Miscellaneous	138,999	150,627	11,628	37,164	48,792	11,628
Gross	630,942	719,961	89,019	230,081	319,100	89,019
Refund	79,363	74,624	(4,738)	53,397	48,658	(4,738)
Net	551,580	645,337	93,758	176,684	270,441	93,758
<b><u>Sales Tax</u></b>						
Gross	2,339,084	2,323,672	(15,412)	820,904	805,492	(15,412)
Refunds	100,404	125,490	25,086	42,514	67,599	25,086
Net	2,238,680	2,198,182	(40,497)	778,390	737,893	(40,497)
<b><u>Other Revenues:</u></b>						
Estate	67,694	79,136	11,442	24,120	35,562	11,442
Liquor/Wine/Beer	36,725	38,763	2,039	13,215	15,254	2,039
Cigarette/Tobacco/Cont Sub	93,395	93,769	374	27,690	28,064	374
Deed and Mortgage	86,836	95,975	9,139	28,417	37,556	9,139
Insurance Gross Earnings	142,540	142,985	445	70,036	70,481	445
Lawful Gambling	21,948	15,729	(6,219)	12,047	5,828	(6,219)
Health Care Surcharge	102,905	103,803	898	37,225	38,123	898
Other Taxes	323	785	462	112	574	462
Statewide Property Tax	382,750	374,968	(7,783)	196,703	188,920	(7,783)
DHS SOS Collections	23,083	26,777	3,694	5,652	9,346	3,694
Income Tax Reciprocity	0	0	0	0	0	0
Investment Income	2,302	2,293	(9)	371	362	(9)
Tobacco Settlement	160,487	164,976	4,489	160,387	164,876	4,489
Departmental Earnings	142,602	143,824	1,222	58,097	59,319	1,222
Fines and Surcharges	33,338	28,985	(4,354)	15,586	11,233	(4,354)
Lottery Revenues	23,706	26,483	2,777	8,518	11,295	2,777
Revenues yet to be allocated	1,130	140	(990)	0	(990)	(990)
Residual Revenues	106,349	103,908	(2,442)	23,948	21,506	(2,442)
County Nursing Home, Pub Hosp IGT	3,472	2,830	(642)	1,774	1,132	(642)
Other Subtotal	1,431,584	1,446,128	14,544	683,897	698,440	14,544
Other Refunds	22,691	29,589	6,898	5,880	12,778	6,898
Other Net	1,408,893	1,416,539	7,646	678,017	685,662	7,646
<b>Total Gross</b>	<b>8,419,986</b>	<b>8,556,947</b>	<b>136,961</b>	<b>3,090,440</b>	<b>3,227,401</b>	<b>136,961</b>
<b>Total Refunds</b>	<b>304,958</b>	<b>327,890</b>	<b>22,933</b>	<b>138,626</b>	<b>161,559</b>	<b>22,933</b>
<b>Total Net</b>	<b>8,115,028</b>	<b>8,229,057</b>	<b>114,028</b>	<b>2,951,814</b>	<b>3,065,842</b>	<b>114,028</b>