

January 2015

State Revenues Exceed November Forecast

Minnesota's net general fund receipts totaled \$3.518 billion during the months of November and December, \$212 million (6.4 percent) more than projected in November 2014's *Budget and Economic Forecast*. Net receipts from all major tax types were above forecast for the period. The individual income tax provided the largest amount of additional revenue, but much of this is believed to be due to timing of payments, rather than additional tax liability.

Summary of Tax Revenues: November – December, 2014

(\$ in millions)	November 2014 Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,429	\$1,595	\$166	11.6%
General Sales Tax	830	837	8	0.9
Corporate Franchise Tax	281	293	12	4.4
Other Revenues	766	792	26	3.4
Total Revenues*	\$3,306	\$3,518	\$212	6.4%

* Totals may not add due to rounding.

Individual income tax receipts during the last two months of 2014 were \$166 million (11.6 percent) above forecast. Estimated tax payments (declarations) for November and December generated most of this variance (\$127 million), but that additional revenue may not be indicative of higher tax liability. Even though fourth quarter estimated tax payments are not due until January 15, many taxpayers make early payments on or before December 31 so they can deduct them on their federal returns. Therefore, combining estimated tax receipts for December and January provides a more accurate picture of fourth quarter payments than looking at December alone. This year it appears that the number of taxpayers making early payments in late December and the size of those payments were both larger than forecast. Consequently, higher estimated tax payments in December are expected to be offset by lower estimated tax payments in January and lower final payments on April 15.

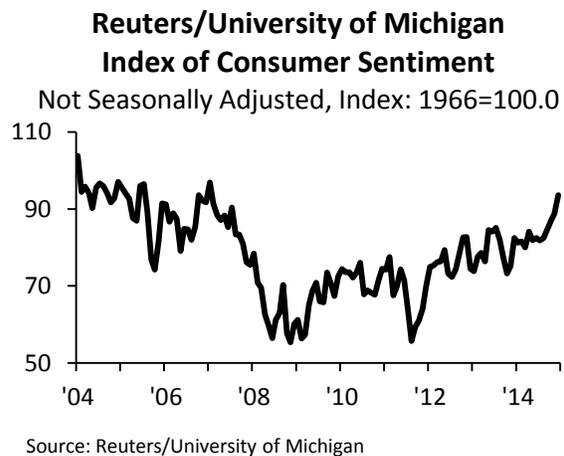
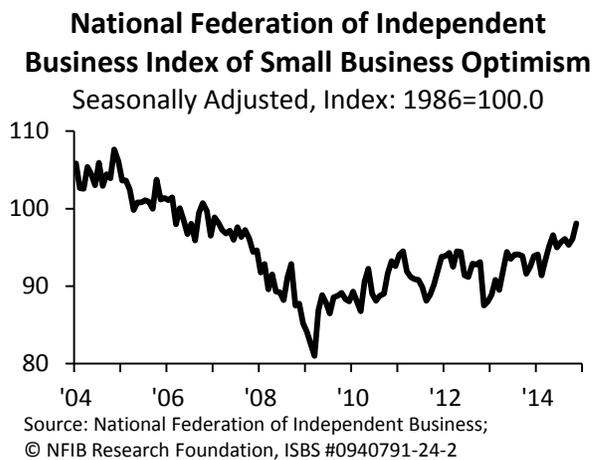
A \$21 million variance in income tax withholding receipts for November and December appears to be partly the result of the timing of daily payments at the end of the calendar year. The positive variance is expected to be partially offset by lower than forecast withholding payments attributable to January.

Higher than forecast gross sales tax receipts are partly offset by higher refunds, generating a net variance in the general sales tax of \$8 million (0.9 percent) for the two-month period. Net corporate tax receipts in November and December exceeded forecast by \$12 million (4.4 percent). A \$7 million shortfall in gross corporate receipts was more than offset by refunds that were \$20 million lower than expected.

Other revenues exceeded forecast for the period by \$26 million (3.4 percent). Net cigarette and tobacco receipts generated \$31 million more revenue than expected, but this is largely due to timing of distributor stamp purchases and is expected to be offset in future months.

Near-Term U.S. Economic Outlook Has Improved

The 2015 outlook for U.S economic growth has improved since Minnesota’s *Budget and Economic Forecast* was last prepared in November. Since that time, more recent data on job growth, hours, and retail sales have exceeded expectations, industrial production has boomed, and gasoline prices continued to move lower, dipping below \$2.25 per gallon in early January for the first time in nearly six years. Plummeting gas prices are freeing up household cash for other purposes and boosting confidence. Separate measures show that confidence among U.S. consumers and businesses have recently jumped to the highest levels since early 2007. These factors combine to provide solid evidence of improved overall economic growth. Looking ahead, the key to stronger consumer spending will continue to be stronger average wage growth.

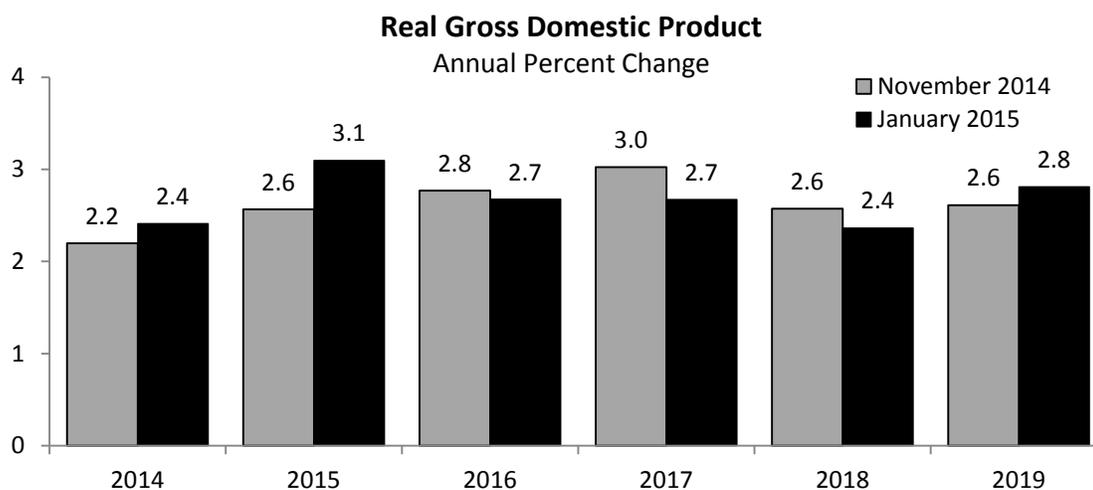


Real GDP grew at a revised 5.0 percent annual rate in the third quarter of 2014 according to the Bureau of Economic Analysis' third estimate, up from 4.6 percent growth in the second quarter and the first time growth has exceeded 4 percent in two consecutive quarters since 2003. Growth has been led by consumer spending, with contributions from business investment in equipment, trade, and the federal government.

Moving into the fourth quarter of 2014, IHS Economics (IHS), Minnesota Management and Budget’s macroeconomic consultant, now expects real GDP growth to ease to just 2.6 percent annualized rate, an improvement from the 2.0 percent growth expected last November. A reversal of an end-of-the-fiscal-year anomaly in federal defense spending along with slower growth in exports and healthcare serves more than account for the slowdown

between the third and fourth quarters. Counterbalancing those factors, however, is a consumer dividend from lower gasoline prices, which have fallen by almost \$1.50 per gallon since last June. This dividend represents a source of savings for each American household available to be spent on other non-gasoline goods and services. IHS estimates that if energy costs remain at recent low levels, consumer spending on gasoline will be as much as \$92 billion less over the next year, representing an average savings of about \$750 per household.

Improved overall economic growth is expected to continue into early 2015. The January 2015 baseline from IHS now calls for real GDP growth of 2.4 percent in 2014, followed by 3.1 percent growth in 2015 and 2.7 percent growth in 2016. The November 2014 baseline projected weaker near-term growth of 2.2 percent in 2014, followed by an increase of 2.6 percent growth in 2015 and 2.8 percent in 2016. The IHS January baseline forecast for 2014 through 2016 is similar to the Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip forecast is for 2.4 percent growth in 2014, followed by growth of 3.2 percent in 2015 and 2.9 percent in 2016.



Source: U.S. Bureau of Economic Analysis (BEA), IHS Economics (IHS)

Lower gasoline prices are also expected to put downward pressure on already low inflation. The IHS January 2015 baseline anticipates consumer prices (CPI) to rise 1.6 percent in 2014, followed by a small increase of just 0.1 percent in 2015. The November 2014 baseline projected price increases of 1.7 percent in 2014 and 1.0 percent in 2015. Even so, IHS believes plunging gasoline prices are transitory and will correct in the medium-term. Thus the January baseline expects the CPI to bounce back by 2.3 percent in 2016, higher than the 1.6 percent CPI growth expected for 2016 last November.

There have been no changes in the probabilities assigned to the baseline or alternative forecast scenarios since November. IHS continues to assign a probability of 70 percent to their January 2015 baseline scenario, and a 15 percent probability to more pessimistic and optimistic alternative scenarios. In the pessimistic scenario, the U.S. economy stalls in early 2015 due to lower-than-expected wage growth and stagnant household formation, resulting in a weaker housing market. In the optimistic scenario, oil prices decline more than expected in the baseline as higher-than-expected foreign growth and associated depreciation of the dollar deliver a boost to the U.S. economy in 2015.

Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year-to-Date 2015 (July-December, 2014)			November – December 2014		
	FORECAST REVENUES*	ACTUAL REVENUES	DIFFERENCE ACTUAL-FCST	FORECAST REVENUES*	ACTUAL REVENUES	DIFFERENCE ACTUAL-FCST
Individual Income Tax						
Withholding	3,762,727	3,783,315	20,588	1,284,100	1,304,688	20,588
Declarations	591,000	718,192	127,192	159,826	287,018	127,192
Miscellaneous	268,433	269,830	1,396	57,276	58,672	1,396
Gross	4,622,160	4,771,337	149,177	1,501,201	1,650,378	149,177
Refund	140,059	123,159	(16,900)	72,137	55,237	(16,900)
Net	4,482,101	4,648,178	166,077	1,429,064	1,595,141	166,077
Corporate & Bank Excise						
Declarations	680,584	662,461	(18,123)	277,733	259,609	(18,123)
Miscellaneous	149,638	160,492	10,854	40,989	51,843	10,854
Gross	830,222	822,953	(7,269)	318,722	311,452	(7,269)
Refund	56,282	36,590	(19,692)	37,697	18,005	(19,692)
Net	773,940	786,363	12,423	281,025	293,447	12,423
Sales Tax						
Gross	2,582,724	2,591,377	8,653	897,762	906,415	8,653
Mpls. sales tax transferred to MSFA	-	-	-	-	-	-
Sales Tax Gross	2,582,724	2,591,377	8,653	897,762	906,415	8,653
Refunds (including Indian refunds)	132,444	133,359	915	68,189	69,104	915
Net	2,450,280	2,458,018	7,738	829,573	837,311	7,738
Other Revenues:						
Net Estate & Gift Tax	76,442	71,218	(5,223)	27,720	22,497	(5,223)
Net Liquor/Wine/Beer	38,705	37,726	(979)	14,198	13,219	(979)
Net Cigarette/Tobacco	262,056	292,818	30,762	93,358	124,120	30,762
Deed and Mortgage	86,588	93,881	7,293	26,792	34,085	7,293
Net Insurance Gross Earnings	164,454	166,614	2,160	78,413	80,573	2,160
Lawful Gambling	19,853	18,913	(941)	8,250	7,309	(941)
Health Care Surcharge	100,435	104,996	4,561	39,422	43,983	4,561
Other Taxes	349	578	229	100	329	229
Statewide Property Tax	398,119	385,500	(12,619)	203,656	191,037	(12,619)
DHS SOS Collections	42,003	43,467	1,463	5,482	6,946	1,463
Investment Income	4,736	5,456	720	1,088	1,809	720
Tobacco Settlement	163,016	162,705	(311)	162,916	162,605	(311)
Dept. Earnings & MSOP Recov.	95,860	98,068	2,207	38,806	41,014	2,207
Fines and Surcharges	38,059	33,594	(4,466)	16,818	12,352	(4,466)
Lottery Revenues	22,705	23,521	816	8,092	8,908	816
Revenues yet to be allocated	145	(204)	(349)	-	(349)	(349)
Residual Revenues	69,678	70,866	1,188	41,549	42,737	1,188
County Nursing Home, Pub Hosp IGT	3,021	2,830	(191)	757	566	(191)
Other Subtotal	1,586,225	1,612,546	26,321	767,417	793,738	26,321
Other Refunds	2,699	3,006	307	1,134	1,441	307
Other Net	1,583,525	1,609,539	26,014	766,283	792,297	26,014
Total Gross	9,621,331	9,798,213	176,881	3,485,102	3,661,983	176,881
Total Refunds	331,485	296,114	(35,370)	179,157	143,787	(35,370)
Total Net	9,289,847	9,502,099	212,252	3,305,945	3,518,197	212,252

* November 2014 Budget & Economic Forecast.