

FY 2012 Revenues Exceed Forecast by \$336 Million

Minnesota's net general fund receipts for FY 2012 are now estimated to total \$16.450 billion, \$336 million (2.1 percent) more than forecast in February. Receipts from the individual income tax, the sales tax, and the corporate income tax were all above projections. About 30 percent of the additional revenue came from other tax and non-tax revenues. Net general fund receipts in fiscal 2012 are now estimated to be 5.0 percent greater than in fiscal 2011.

Summary of Tax Receipts (Fiscal Year 2012)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$7,832	\$7,947	\$115	1.5
Sales Tax	4,654	4,689	35	0.8
Corporate	1,021	1,105	84	8.2
Other	<u>2,607</u>	<u>2,709</u>	<u>102</u>	<u>3.9</u>
Total	\$16,114	\$16,450	\$336	2.1

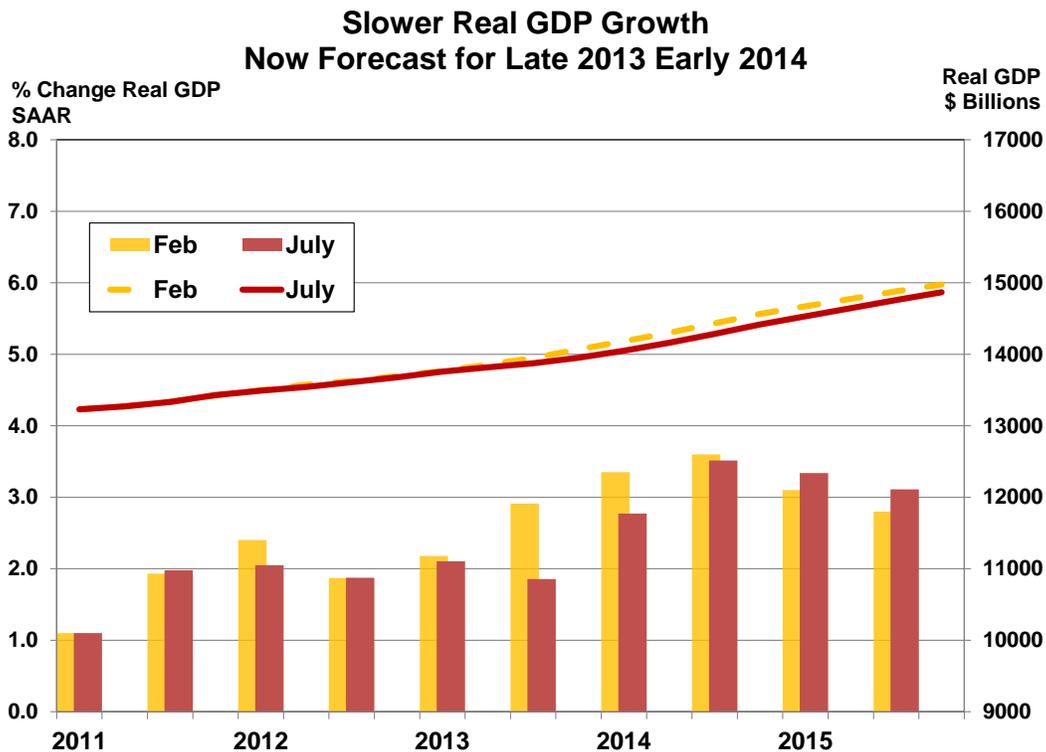
Revenues from the individual income tax showed the largest increase over forecast, up \$115 million (1.5 percent) from February's estimate. A \$66 million positive variance in withholding receipts accounted for more than one half of the income tax variance. (See page 4). Tax year 2011 final payments, and payments accompanying extensions were \$6 million more than forecast and individual income tax refunds were \$12 million less than anticipated in February leaving 2011 final liability just \$18 million greater than forecast. Second quarter estimated payments exceeded forecast by \$31 million. Gross sales tax receipts for 2012 were \$21 million more than projected and sales tax refunds were \$14 million less leaving net sales tax receipts \$35 million above estimates. The estate tax, the deed and mortgage taxes and the statewide property tax accounted for about two-thirds of the positive variance for other tax and fee revenues.

All FY 2012 results are preliminary and subject to change. As in past years forecasts for some revenue sources have been adjusted to reflect anticipated accruals in this first report of receipts for the entire fiscal year. A complete accounting of FY 2012 revenues reflecting final closing will be part of October's *Economic Update*. The next official forecast will be released in December, 2012.

An Extended Period of Slow Economic Growth.

The U.S. economy did not perform as well as hoped during the first half of 2012. Job growth slowed noticeably in the spring and second quarter real GDP growth is now expected to fall below forecasts made earlier this year. While lower energy prices and some apparent strengthening in the auto and housing sectors provide reasons for optimism, Europe is in recession, growth rates in China, India, and much of the rest of Asia are slowing, and the Eurozone’s on-going sovereign credit problems remain unsolved. A recession still seems unlikely in the absence of a post-election fiscal policy impasse or a Eurozone banking collapse. But, taken as a whole, the not-so-good news outweighs the good news and economists have lowered their forecasts for the remainder of 2012 and early 2013. Most now expect the tepid real growth rates observed over the last 18 months to continue through 2013.

Like most forecasters IHS-Global Insight Inc., (GII), Minnesota’s macro-economic consultant, has turned slightly less optimistic since earlier in the year. In February GII expected real GDP to grow at an annual rate of 2.1 percent in 2012 and 2.3 percent in 2013. Now the Global Insight July baseline calls for growth rates of 2.0 percent in both 2012 and 2013. The impact on the current biennium is slight, with February’s forecast for biennial real GDP growth about 0.1 percent stronger than July’s. However, extending the duration of sub-par growth also reduces projected growth rates for the 2014-15 biennium. GII’s July baseline calls for real GDP growth rates to average 2.7 percent over fiscal 2014 and 2015. In February growth at an average annual rate of 3.1 percent was projected.

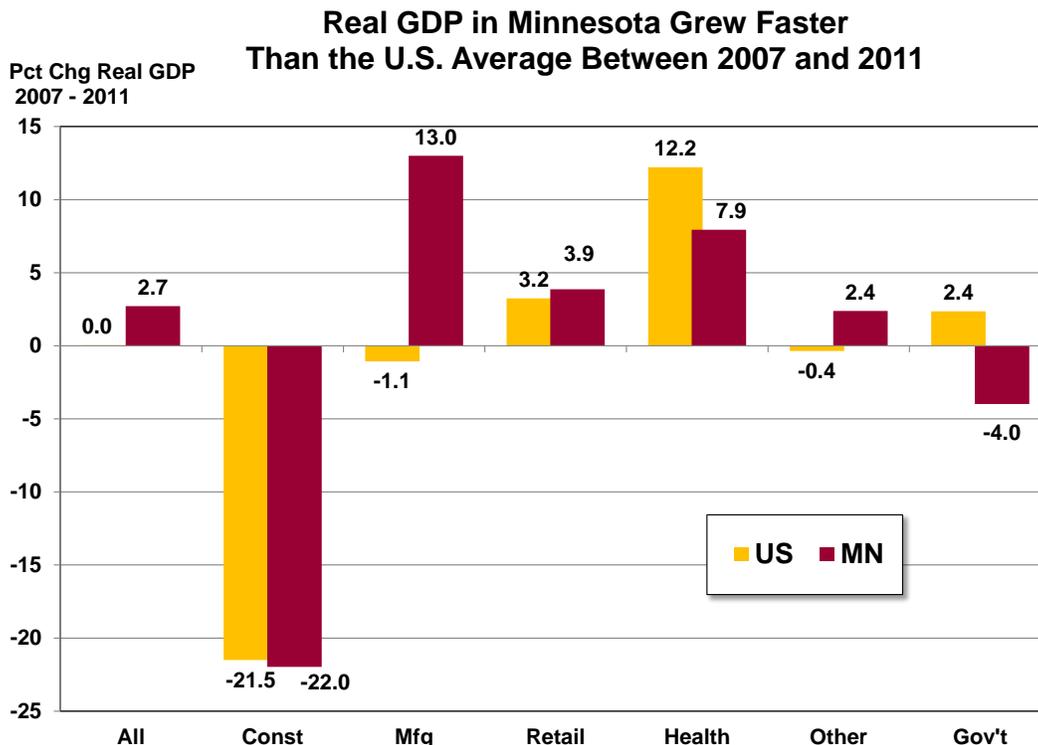


Inflation continues to be of little concern. Recent good news on oil prices keeps the CPI well below 2 percent through 2013. Global Insight assigns a probability of 60 percent to their baseline scenario. A more optimistic scenario is assigned a probability of 15 percent. A recession scenario in which either a worsening of the Eurozone crisis or an “entirely avoidable” domestic fiscal policy mistake triggers a mild recession in 2013 is assigned a probability of 25 percent.

Recession’s Impact a Little Less Severe in Minnesota

Recent data from the U.S. Department of Commerce show that Minnesota’s economy has fared better than the U.S. averages since the start of the Great Recession. From 2007 until 2009 real GDP in the state fell by 2.3 percent, but by 2011 Minnesota real GDP exceeded 2007’s level by 2.7 percent. Nationally GDP fell by 4.4 percent between 2007 and 2009, and then recovered to a level just .04 percent above its 2007 average by 2011. Minnesota ranked 15th among states in GDP growth between 2007 and 2011. North Dakota ranked first with real GDP growing by 29.8 percent while Nevada (-9.0 percent), Michigan (-8.0 percent) and Arizona (-6.9 percent) trailed.

Manufacturing output in Minnesota showed the biggest percentage gain over the past four years, growing 13 percent from its 2007 base. Nationally manufacturing output in 2011 was 1 percent below that observed in 2007. Minnesota’s health care services sector also showed strong growth, up 7.9 percent from 2007. Nationally health care services grew by 12.2 percent. Output in Minnesota’s construction sector has fallen by 22 percent since 2007, slightly more than the nation’s 21.5 percent decline.



Comparison of Actual and Estimated Non-Restricted Revenues

(\$ in thousands)

	June 2012 - Fiscal Year-to-Date			April - June 2012		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	6,608,443	6,674,431	65,988	1,603,528	1,613,073	9,545
Declarations	1,438,257	1,426,660	(11,597)	685,354	669,673	(15,681)
Miscellaneous	1,040,499	1,089,050	48,551	841,156	889,707	48,551
Gross	9,087,200	9,190,141	102,941	3,130,038	3,172,453	42,414
Refund	1,255,400	1,243,299	(12,101)	1,043,863	1,031,762	(12,101)
Net	7,831,800	7,946,842	115,042	2,086,176	2,140,691	54,515
Corporate & Bank Excise						
Declarations	947,151	1,001,495	54,344	231,155	288,780	57,624
Miscellaneous	245,049	257,639	12,590	53,272	51,117	(2,155)
Gross	1,192,200	1,259,134	66,934	284,428	339,897	55,469
Refund	171,100	153,887	(17,213)	46,529	15,392	(31,137)
Net	1,021,100	1,105,247	84,147	237,899	324,505	86,607
Sales Tax						
Gross	4,860,470	4,881,651	21,181	1,334,173	1,350,738	16,565
Refunds	206,540	192,692	(13,848)	55,172	63,564	8,391
Net	4,653,930	4,688,959	35,029	1,279,000	1,287,174	8,174
Other Revenues:						
Estate	145,500	174,182	28,682	29,877	48,317	18,440
Liquor/Wine/Beer	80,286	80,115	(170)	27,592	28,740	1,148
Cigarette/Tobacco/Cont. Sub	196,000	198,200	2,200	46,226	45,300	(926)
Deed and Mortgage	141,098	160,514	19,416	43,582	54,098	10,517
Insurance Gross Earnings	296,500	299,554	3,054	75,432	71,397	(4,035)
Lawful Gambling	41,700	45,343	3,643	13,319	17,600	4,281
Health Care Surcharge	210,960	209,183	(1,777)	61,514	58,062	(3,452)
Other Taxes	14,297	22,797	8,500	13,916	22,647	8,731
Statewide Property Tax	779,955	799,407	19,452	405,218	424,345	19,127
DHS SOS Collections	48,800	58,171	9,371	8,009	12,305	4,295
Income Tax Reciprocity	182	182	0	0	0	0
Investment Income	3,680	4,427	747	1,300	1,690	390
Tobacco Settlement	160,906	166,861	5,955	0	5,955	5,955
Departmental Earnings	239,714	246,687	6,972	49,293	56,136	6,842
Fines and Surcharges	81,481	76,792	(4,689)	26,210	24,841	(1,368)
Lottery Revenues	41,436	42,958	1,522	13,718	14,716	998
Revenues yet to be allocated	0	(15)	(15)	(689)	(1,806)	(1,117)
Residual Revenues	163,104	167,962	4,858	19,502	32,694	13,192
County Nursing Home, Pub Hosp. IGT	8,792	6,218	(2,574)	2,096	1,704	(392)
Other Subtotal	2,654,393	2,759,539	105,146	836,115	918,741	82,626
Other Refunds	47,830	50,761	2,931	19,828	21,346	1,518
Other Net	2,606,563	2,708,778	102,215	816,286	897,394	81,108
Total Gross	17,794,263	18,090,465	296,202	5,584,753	5,781,828	197,075
Total Refunds	1,680,870	1,640,639	(40,231)	1,165,393	1,132,063	(33,329)
Total Net	16,113,393	16,449,826	336,433	4,419,361	4,649,765	230,404