

# Revenue and Economic Update

April 2023

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## Revenues Above February 2023 Forecast

Minnesota’s net general fund receipts for February and March 2023 are now estimated to total \$3.982 billion, \$176 million (4.6 percent) more than forecast in the February 2023 *Budget and Economic Forecast*. Net receipts exceeded the forecast for individual income and other taxes. Net receipts from sales and corporate taxes were lower than forecast. Refunds for all major tax types were higher than expected (See page 4 for details.)

Net individual income tax receipts for February and March were \$155 million (8.2 percent) more than forecast. Net payments from partnerships and S Corporations were \$237 million higher than forecast, and net payments other than from partnerships and S Corporations were \$82 million lower than expected.

Estimated income tax payments (labeled declarations on page 4) were \$4 million below the forecast, and income tax withholding receipts were \$54 million less than forecast. Miscellaneous payments, which includes payments accompanying individual tax returns, were \$39 million more than forecast. Income tax refunds not related to partnerships and S Corporations were \$69 million more than forecast.

Net sales tax receipts were \$9 million (0.9 percent) below the forecast. The variance is primarily due to larger than expected sales tax refunds.

Net corporate tax receipts were \$27 million (6.9 percent) below the forecast. Net receipts were \$71 million higher than expected in March, partly offsetting February net receipts, which were \$98 million lower than forecast.

Other net revenues were \$57 million (11.0 percent) higher than expected. Among other taxes, the largest dollar amount variance was in net insurance premiums taxes, which were \$28 million above the forecast.

## Summary of Revenues: February-March 2023

(\$ in millions)	February 2023			
	Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,896	\$2,051	\$155	8.2%
General Sales Tax	991	982	(9)	(0.9)
Corporate Franchise Tax	399	372	(27)	(6.9)
Other Revenues	520	577	57	11.0
<b>Total Revenues<sup>1</sup></b>	<b>\$3,806</b>	<b>\$3,982</b>	<b>\$176</b>	<b>4.6</b>

1. Totals may not add due to rounding.

## U.S. Economic Outlook Improves

The outlook for U.S. real GDP growth in 2023 has improved since Minnesota’s *Budget and Economic Forecast* was prepared in February 2023. IHS Markit (IHS), Minnesota’s macroeconomic consultant, now expects annual real GDP to grow 1.4 percent this year, compared to 0.7 percent in their February forecast. The forecasts for growth in 2024 and 2025 are each 0.1 percentage point lower than in the February outlook, and the forecasts for 2026 and 2027 are each 0.2 percentage point higher. IHS now anticipates growth of 1.5 percent in 2024, 1.9 percent in 2025, 2.0 percent in 2026, and 1.8 percent in 2027.

The improvement in IHS’ 2023 outlook for GDP growth between February and April is driven almost exclusively by improved expectations for first-quarter growth, particularly for real consumer spending. Spending has remained stronger than expected in the first two months of the year despite tightening financial conditions. IHS now expects real consumer spending to increase 4.4 percent (annual rate) in the first quarter this year, up from -0.1 percent in their February forecast.

The Bureau of Economic Analysis’ (BEA’s) third and final estimate of real GDP in 2022 shows growth of 2.1 percent, similar to the annual average growth from 2010 to 2019. IHS’ expectation of 1.4 percent growth in 2023 is below-trend but is an improvement from the 0.7 percent growth they expected in February. IHS now anticipates that the economy will avoid a mild recession this year, largely due to stronger economic growth in the first quarter than they expected in February. They now expect growth of 1.9 percent (annual rate) in the first quarter, 3.2 percentage

points higher than the -1.3 percent growth expected in February.

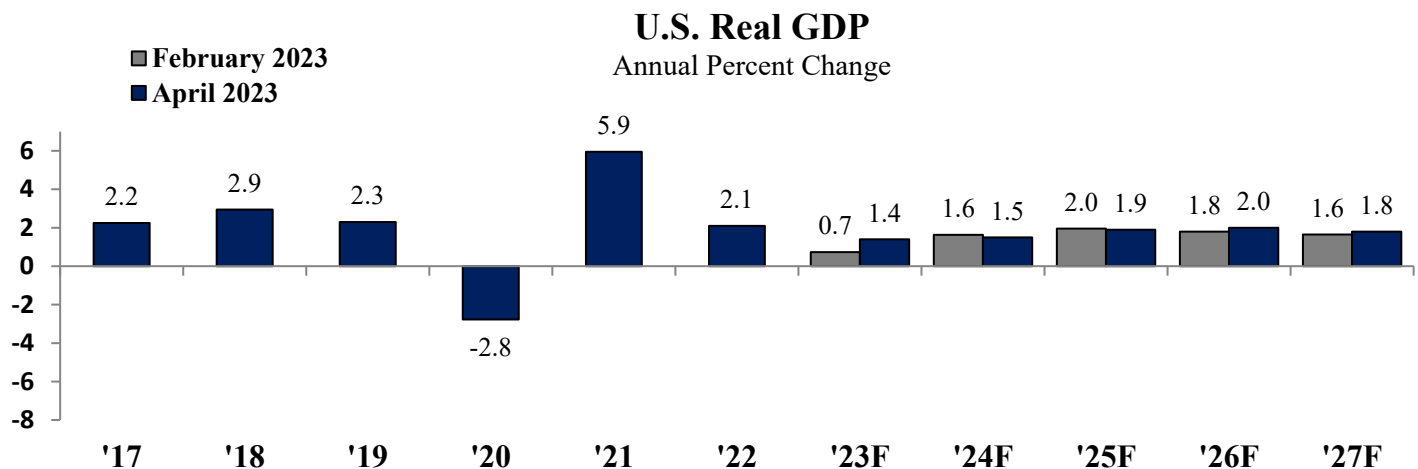
IHS expects that the price of Brent crude oil will average \$87 per barrel in 2023 and \$85 in 2024, both essentially unchanged from their February forecast.

IHS expects CPI inflation of 4.5 percent in 2023 and 2.7 percent in 2024, up from 4.0 percent and 2.3 percent in their February outlook.

The IHS April baseline forecast for 2023 is slightly higher than the most recent Blue Chip Consensus, the median of 50 business and academic forecasts. The April Blue Chip Consensus calls for 1.2 percent growth in 2023, compared to IHS’ 1.4 percent forecast for this year. IHS expects real GDP to grow 1.5 percent in 2024, higher than the Blue Chip Consensus of 0.9 percent growth next year.

The Bureau of Labor Statistics (BLS) reports that in March the seasonally adjusted U.S. unemployment rate was 3.5 percent, similar to the historically low levels experienced beginning in early 2022. The BLS reports that 5.8 million people remain unemployed, which is also low by historical standards. Nonfarm payroll employment rose by 236,000 in March. U.S. employment is now 3.2 million above its February 2020 level. The number of long-term unemployed (those jobless for 27 weeks or more) is 1.1 million, the same as in February 2020. IHS expects that the U.S. unemployment rate will average 3.8 percent in 2023, 4.4 percent in 2024, and 4.6 percent in 2025.

The unemployment rate does not capture those who are not in the labor force or who are in the labor force but are not looking for payroll employment. The U.S. labor force



Source: Bureau of Economic Analysis and IHS Markit.

participation rate was 62.6 percent in March and has increased each month in 2023 but remains 0.7 percentage points below its February 2020 level. The U.S. labor force has increased each month in 2023 and is now 2.3 million above its February 2020 level.

The alternative scenarios for the IHS April forecast are not yet available. The following alternatives are based on the March forecast. IHS assigns a 55 percent probability to the March baseline outlook. The alternative scenarios are weighted toward the downside. IHS assigns a 25 percent probability to a more pessimistic scenario, characterized by (1) a slowdown in consumer spending that causes a three-quarter recession with a 0.5 decline in GDP from peak-to-trough, and (2) the ongoing Russian-Ukraine

conflict is not resolved, leading to higher energy prices, wider risk spreads, and slower global growth. In this scenario, GDP grows 0.5 percent in 2023 and 0.8 percent in 2024.

In the optimistic March scenario, IHS assumes stronger consumer spending and stronger productivity relative to the baseline. In this scenario the business response to the Infrastructure Investment and Jobs act (IIJA) is more robust than in the baseline, and a cessation of the Russia-Ukraine conflict allows for a path to lower energy prices. In this scenario, GDP grows 1.5 percent in 2023 and 1.7 percent in 2024. The optimistic scenario receives a 20 percent probability.

# Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year to Date 2023			February-March 2023		
	FORECAST REVENUES <sup>1</sup>	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES <sup>1</sup>	ACTUAL REVENUES	VARIANCE ACT-FCST
<b>Individual Income Tax</b>						
Withholding	8,711,982	8,657,660	(54,322)	2,175,012	2,120,690	(54,322)
Declarations	1,134,500	1,130,238	(4,262)	45,885	41,623	(4,262)
Miscellaneous	737,301	776,384	39,082	238,905	277,988	39,082
Partnership & S Corporation Gross	<u>1,730,703</u>	<u>1,974,381</u>	<u>243,678</u>	<u>279,558</u>	<u>523,236</u>	<u>243,678</u>
Gross	12,314,487	12,538,662	224,176	2,739,360	2,963,536	224,176
Partnership & S Corporation Refunds	98,187	105,068	6,881	18,852	25,733	6,881
Individual, Fiduciary, & Withholding Ref.	<u>1,404,872</u>	<u>1,467,317</u>	<u>62,446</u>	<u>824,842</u>	<u>887,288</u>	<u>62,446</u>
Total Refunds	1,503,059	1,572,386	69,327	843,694	913,021	69,327
Net Income Tax	10,811,428	10,966,276	154,849	1,895,666	2,050,515	154,849
<b>Corporate Franchise Tax</b>						
Declarations	1,848,303	1,899,348	51,045	405,453	456,498	51,045
Miscellaneous	175,732	158,393	(17,339)	32,457	15,118	(17,339)
Gross	2,024,036	2,057,741	33,706	437,910	471,616	33,706
Refund	109,093	170,252	61,159	38,435	99,594	61,159
Net	1,914,942	1,887,489	(27,453)	399,475	372,022	(27,453)
<b>General Sales and Use Tax</b>						
Gross	5,790,493	5,789,964	(529)	1,028,812	1,028,283	(529)
MPLS Sales Tax Transferred to MSFA	-	-	-	-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	16,832	16,832	0	3,974	3,974	0
Sales Tax Gross	5,807,324	5,806,795	(529)	1,032,786	1,032,257	(529)
Refunds (including Indian refunds)	126,074	134,376	8,302	42,008	50,310	8,302
Net	5,681,250	5,672,419	(8,831)	990,778	981,947	(8,831)
<b>Other Revenues</b>						
Net Estate	192,396	207,655	15,260	29,256	44,516	15,260
Net Liquor/Wine/Beer	71,240	71,650	410	14,573	14,983	410
Net Cigarette/Tobacco	375,581	370,791	(4,790)	57,036	52,246	(4,790)
Deed and Mortgage	198,540	194,298	(4,242)	33,902	29,660	(4,242)
Net Insurance Premiums Taxes	370,541	399,027	28,487	143,789	172,276	28,487
Net Lawful Gambling	137,898	137,573	(325)	36,070	35,745	(325)
Health Care Surcharge	148,249	162,730	14,481	51,703	66,185	14,481
Other Taxes	643	681	38	46	84	38
Statewide Property Tax	360,039	358,548	(1,492)	2,120	628	(1,492)
DHS SOS Collections	79,430	90,280	10,850	11,680	22,530	10,850
Investment Income	262,876	265,776	2,900	89,786	92,686	2,900
Tobacco Settlement	152,018	153,626	1,608	-	1,608	1,608
Dept. Earnings & MSOP Recovery	158,748	159,746	998	32,695	33,693	998
Fines and Surcharges	48,009	54,041	6,032	4,663	10,695	6,032
Lottery Revenues	52,623	58,246	5,623	8,254	13,877	5,623
Revenues yet to be allocated	13,486	17,743	4,257	-	4,257	4,257
Residual Revenues	124,698	101,878	(22,820)	5,576	(17,244)	(22,820)
Other Subtotal	2,747,015	2,804,288	57,273	521,149	578,423	57,273
Other Refunds	3,423	3,504	80	1,252	1,333	80
Other Net	2,743,591	2,800,785	57,193	519,897	577,090	57,193
<b>Total Gross</b>	22,892,861	23,207,487	314,626	4,731,206	5,045,832	314,626
<b>Total Refunds</b>	1,741,650	1,880,518	138,868	925,390	1,064,258	138,868
<b>Total Net</b>	21,151,211	21,326,969	175,758	3,805,816	3,981,574	175,758

1. February 2023 Budget and Economic Forecast.