



January 2009

State Revenues Below Forecast

Net general fund revenues totaled \$2.806 billion in November and December, \$131 million (4.5 percent) less than forecast. While receipts from all major taxes were below forecast, corporate tax receipts had the largest negative variance. There, greater than anticipated refunds combined with weaker than estimated corporate tax payments caused net receipts to be \$57 million (42 percent) below November's forecast. General fund receipts in the past two months are 6.7 percent below those for November and December 2007.

Summary of Tax Receipts (November - December 2008)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,161	\$1,122	\$(39)	(3.3)
Sales Tax	736	704	(33)	(4.4)
Corporate	136	79	(57)	(42.0)
Motor Vehicle	16	15	(1)	(4.7)
Other	<u>888</u>	<u>886</u>	<u>(2)</u>	<u>(0.2)</u>
Total	\$2,937	\$2,806	\$(131)	(4.5)

Individual income tax receipts were \$39 million (3.3 percent) less than forecast. Lower than projected withholding tax receipts were responsible for \$35 million of that negative variance. (See page 4). While estimated payments were \$17 million more than projected, fourth quarter estimated payments are not due until January 15, 2009, and the proportion of estimated tax returns submitted and processed by December 31 can vary substantially from year to year. Only \$117 million of the projected \$426 million in estimated tax receipts had been received by the end of calendar 2008. Minnesota's gross sales tax receipts were also below forecast falling \$33 million (4.4 percent) below November's forecast. Taxes collected on December sales, the largest portion of the Christmas shopping season, are not included in this report since they will not be remitted to the state until mid January. This update includes only taxes paid on purchases in October and November.

Fourth quarter revenue reports should always be viewed with caution since variances on key items may reflect only differences in the timing of receipts, not a change in the economic outlook. More complete data on all revenues, particularly Christmas sales tax receipts and fourth quarter individual estimated payments, will be available at the end of January and incorporated into the next revenue forecast.

Even with a Stimulus Package This Recession Will Be Longer Than Any Since World War II

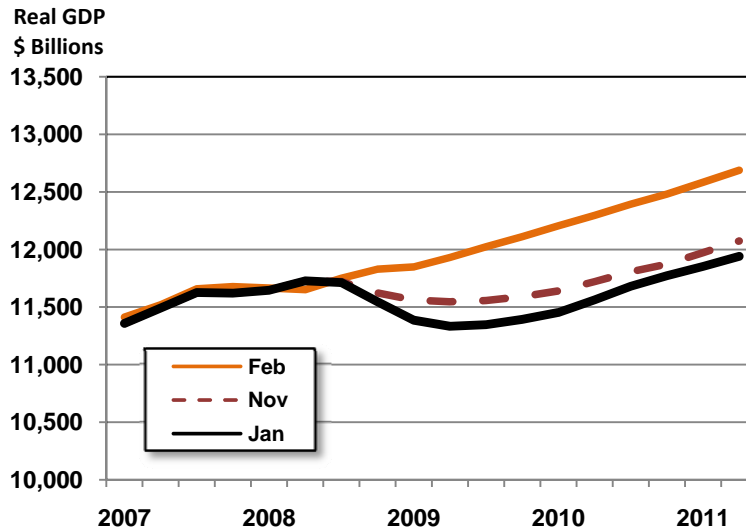
The U.S. economic outlook is, to put it charitably, grim. We have officially been in a recession for over a year and many forecasters expect that 2009 will be the worst year for the U.S. economy since World War II. In the last three months U.S. payroll employment has dropped by more than 1.5 million and the unemployment rate has jumped from 6.2 percent to 7.2 percent. The Christmas retail season was bleaker than projected, and there is no sign that the deterioration in the housing sector has come to a close. Most forecasters believe real GDP declined at an annual rate of at least 5 percent during the past quarter and the consensus outlook is for a decline of more than 3 percent during the first quarter of 2009.

To be fair, there are some reasons for optimism on the horizon. If oil prices remain at current levels the dramatic drop in fuel prices from last summer's highs will add about \$250 billion to household discretionary income over the next year. Declines in other commodity prices also are likely to relieve some stress on household budgets. And, some homeowners have been able to take advantage of extremely low fixed mortgage rates and refinance their homes freeing up additional money to be spent or used to rebuild household net worth. The Treasury and the Federal Reserve also are doing their best to encourage financial institutions to lend more freely. All that will help, but few expect real output to begin to grow before early summer, even after factoring in a substantial federal fiscal stimulus package. Job losses and unemployment rate increases are expected to continue until mid 2010 or longer, even if real GDP turns positive in mid 2009.

Global Insight Inc. (GII), Minnesota's national macro-economic consultant, believes that we are in "the worst global recession in the postwar period." Their January baseline calls for real output to decline at an annual rate of 5.4 percent in the current quarter and at a 1.8 percent annual rate in the second quarter of this year. Their current outlook also includes a decline in real GDP of 5.6 percent during the fourth quarter of 2008. For all of 2009 GII expects real output to decline by 2.5 percent. November's GII forecast anticipated a decline of 1.0 percent. When combined with very modest growth in the GDP deflator, nominal or current dollar GDP falls by 1.4 percent in the January baseline.

While almost everyone expects the U.S. economy to be in negative territory during 2009, most forecasters are not as gloomy as Global Insight. The Blue Chip consensus, for example, is noticeably more optimistic calling for a decline in real GDP of 1.6 percent; Standard and Poor's projects a decline of 2 percent. The difference between these forecasts and the GII baseline is generally not in the early part of the year. Instead, it is in the growth rate later in 2009, after the recovery gets underway.

The Recession Is Now Expected to Be Deeper Than Forecast in November



The Stimulus Package Will Help, But Not Immediately

A great deal of attention is currently focused on the likely size and composition of an upcoming federal stimulus package. That program will greatly reduce the likelihood that the 2007-09 recession will turn into the 2007-10 recession, but it is unlikely to have any significant impact on the U.S. economy until early summer. Also, the proposed package attacks just one of the economy's current problems, the decline in consumer spending. Credit markets also must begin to operate normally, and until capital again flows freely throughout the world, the U.S. economy is expected to struggle. Repairing damage will require release of the second tranche of the TARP (the Troubled Asset Relief Program) and possibly more.

The January baseline assumes that the second tranche of the TARP will be released when requested. It also assumes that a stimulus package will be approved during the first quarter of 2009. The stimulus package is expected to have a face value of between \$675 and \$775 billion, of which about \$500 billion will enter the economy between now and the end of 2010. About 40 percent of the federal stimulus is assumed to come through the tax system and 30 percent from infrastructure spending. Direct transfers to states and targeted transfers to households such as extended unemployment insurance make up the remainder.

The broader national macro-economic impacts of the stimulus package will be part of February's revenue forecast. However, unless the stimulus package is approved before the forecast is released and the level of any direct allocations to the states to offset Medicaid cost increases or the costs of other state programs is clear, the direct federal payments to the state will not be added to forecast revenues since the revenue forecast is a current law forecast and does not incorporate prospective legislative action.

COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

(\$ IN THOUSANDS)

	FY 2009 YTD			November - December 2008		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	3,067,500	3,032,423	(35,077)	1,044,936	1,009,859	(35,077)
Declarations	461,800	479,360	17,560	108,422	125,982	17,560
Miscellaneous	175,100	164,373	(10,727)	47,020	36,293	(10,727)
Gross	3,704,400	3,676,156	(28,244)	1,200,378	1,172,134	(28,244)
Refund	113,000	123,354	10,354	39,384	49,738	10,354
Net	3,591,400	3,552,802	(38,598)	1,160,993	1,122,395	(38,598)
Corporate & Bank Excise						
Declarations	427,253	410,377	(16,876)	173,807	156,931	(16,876)
Miscellaneous	102,483	98,379	(4,104)	34,873	30,769	(4,104)
Gross	529,736	508,756	(20,980)	208,680	187,701	(20,980)
Refund	126,361	162,467	36,106	72,854	108,960	36,106
Net	403,375	346,289	(57,086)	135,826	78,740	(57,086)
Sales Tax						
Gross	2,250,468	2,216,841	(33,627)	768,030	734,403	(33,627)
Refunds	120,654	119,773	(881)	31,584	30,702	(881)
Net	2,129,814	2,097,068	(32,746)	736,446	703,700	(32,746)
Motor Vehicle Sales Tax						
	59,596	58,861	(735)	15,558	14,823	(735)
Other Revenues:						
Estate	69,889	75,063	5,173	18,370	23,543	5,173
Liquor/Wine/Beer	34,092	33,244	(847)	12,653	11,805	(847)
Cigarette/Tobacco/Cont Sub	107,437	105,166	(2,272)	39,368	37,097	(2,272)
Deed and Mortgage	71,314	70,019	(1,295)	24,444	23,149	(1,295)
Insurance Gross Earnings	134,586	135,777	1,192	64,603	65,794	1,192
Lawful Gambling	18,545	17,929	(616)	6,833	6,217	(616)
Health Care Surcharge	106,284	106,802	518	35,175	35,693	518
Other Taxes	350	329	(21)	114	93	(21)
Statewide Property Tax	321,816	328,215	6,399	321,109	327,508	6,399
DHS SOS Collections	26,337	17,090	(9,247)	14,864	5,617	(9,247)
Income Tax Reciprocity	75,580	75,880	300	75,580	75,880	300
Investment Income	18,927	25,275	6,349	2,592	8,941	6,349
Tobacco Settlement	180,573	176,982	(3,591)	180,473	176,882	(3,591)
Departmental Earnings	145,176	154,217	9,042	51,235	60,277	9,042
Fines and Surcharges	40,009	38,415	(1,594)	16,028	14,434	(1,594)
Lottery Revenues	21,133	20,492	(642)	7,627	6,986	(642)
Revenues yet to be allocated	2,714	2,168	(546)	0	(546)	(546)
Residual Revenues	44,767	35,503	(9,265)	22,614	13,349	(9,265)
Sales Tax Rebates (all years)	0	0	0	0	0	0
County Nursing Home, Pub Hosp IGT	3,396	3,396	0	1,132	1,132	0
Other Subtotal	1,422,926	1,421,963	(963)	894,815	893,851	(963)
Other Refunds	18,586	19,510	923	6,700	7,623	923
Other Net	1,404,340	1,402,454	(1,887)	888,115	886,228	(1,887)
Total Gross	7,967,126	7,882,578	(84,549)	3,087,461	3,002,912	(84,549)
Total Refunds	378,601	425,103	46,502	150,523	197,024	46,502
Total Net	7,588,525	7,457,475	(131,051)	2,936,938	2,805,888	(131,051)