



October 2009

FY 2010-11 Revenues 1.7 Percent Below Forecast

Net non-dedicated general fund revenues totaled \$3.067 billion during the first quarter of fiscal 2010, \$52 million (1.7 percent) less than end-of-session estimates. Individual income tax receipts were \$93 million below forecast and sales tax receipts were \$20 million below forecast, while corporate income tax receipts were \$52 million more than projected.

Summary of Tax Receipts (July – September, 2009)

	<u>Estimate</u>	<u>Actual</u>	<u>Variance</u>	<u>Percent</u>
	----- (\$ in millions) -----			
Income	\$1,728	\$1,635	\$(93)	(5.4)
Sales	874	854	(20)	(2.3)
Corporate	129	182	52	41.1
Motor Vehicles	16	20	4	25.0
Other	<u>372</u>	<u>376</u>	<u>4</u>	<u>1.1</u>
Total	\$3,119	\$3,067	\$(52)	(1.7)

Third quarter estimated payments for the individual income tax were \$55 million less than anticipated in February's forecast, and withholding tax receipts were \$27 million below projections. The large, 19 percent, negative variance for estimated tax payments may reflect weaker proprietors' incomes and smaller expected capital gains than forecast in February. Estimated payments are 30 percent below year-earlier levels. The weakness in withholding receipts, down more than 7 percent from last year, reflects greater than projected recession-related wage declines. Gross sales tax receipts were down \$13 million from forecast, but down 13.5 percent (\$143 million) from year-earlier levels. Net corporate tax receipts were \$52 million more than forecast, but \$51 million (22 percent) less than in the third quarter of calendar 2008.

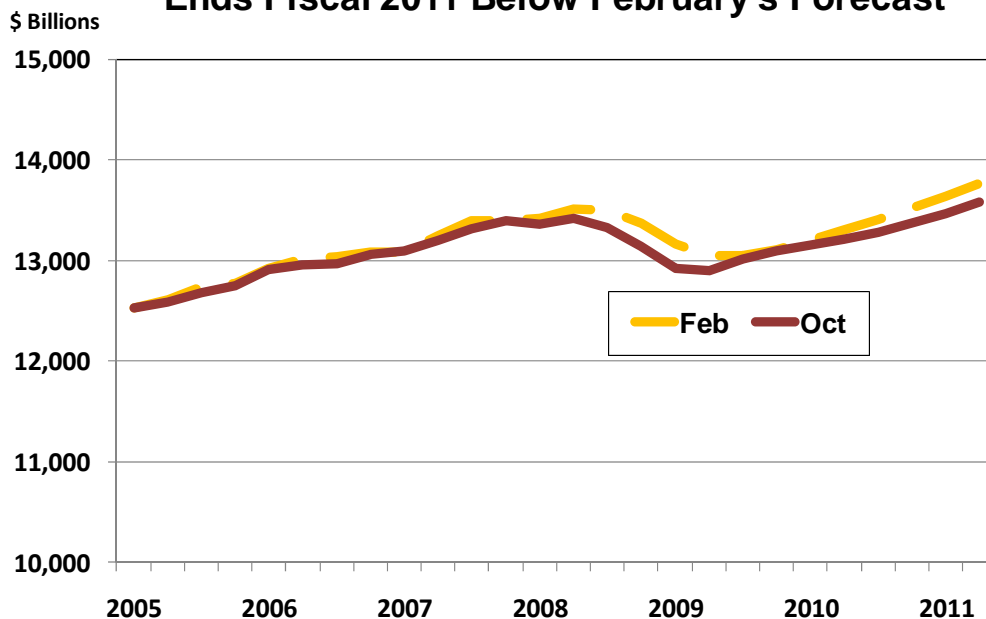
The shortfall in net-non-dedicated revenues for the recently completed 2009 fiscal year is now reported to be \$142 million, \$8 million less than reported in July's *Economic Update*. Individual income tax refunds and corporate income tax refunds were reduced modestly. Sales tax refunds increased by \$19 million, reflecting a change in the treatment of sales tax refund claims for items purchased in fiscal 2009, for which refund claims were received and paid between July 1 and closing.

The “Great Recession” Appears to Be Over, But ...

Although the National Bureau of Economic Research’s official certification of the end of this recession is unlikely to come before next spring, the longest and deepest recession since World War II almost certainly has come to an end. Real, inflation adjusted, GDP appears to have grown at a rate in excess of 3 percent in the third quarter of 2009, and most forecasters expect growth to continue, albeit at a more modest rate, during this year’s final quarter. Forecasters no longer are debating when the recession will end. Their attention has turned to the question of what kind of recovery should be expected and how long it will take to regain pre-recession levels of output and employment. Most expect an extended U shaped recovery; the more optimistic project a V shaped recovery, the more pessimistic, a W or even an L.

The October 2009 baseline forecast from IHS-Global Insight (GII), Minnesota’s national economic consultant, is very similar to the consensus outlook. It is also not greatly different from February’s baseline through 2010. GII’s October baseline calls for real GDP to decline by 2.5 percent in 2009, but then grow at a 2.1 percent annual rate in 2010. In February real GDP was expected to decline by 2.7 percent in 2009, then grow at an annual rate of 2.0 percent. For 2011 real GDP growth of 2.9 percent is projected. In February the expected 2011 growth rate was 3.5 percent. Global Insight continues to see little threat from inflation in the short term with the CPI expected to decline by 0.4 percent in 2009, then increase by 1.4 percent in 2010 and 2.2 percent in 2011.

Economic Growth Returns, But Real GDP Ends Fiscal 2011 Below February’s Forecast



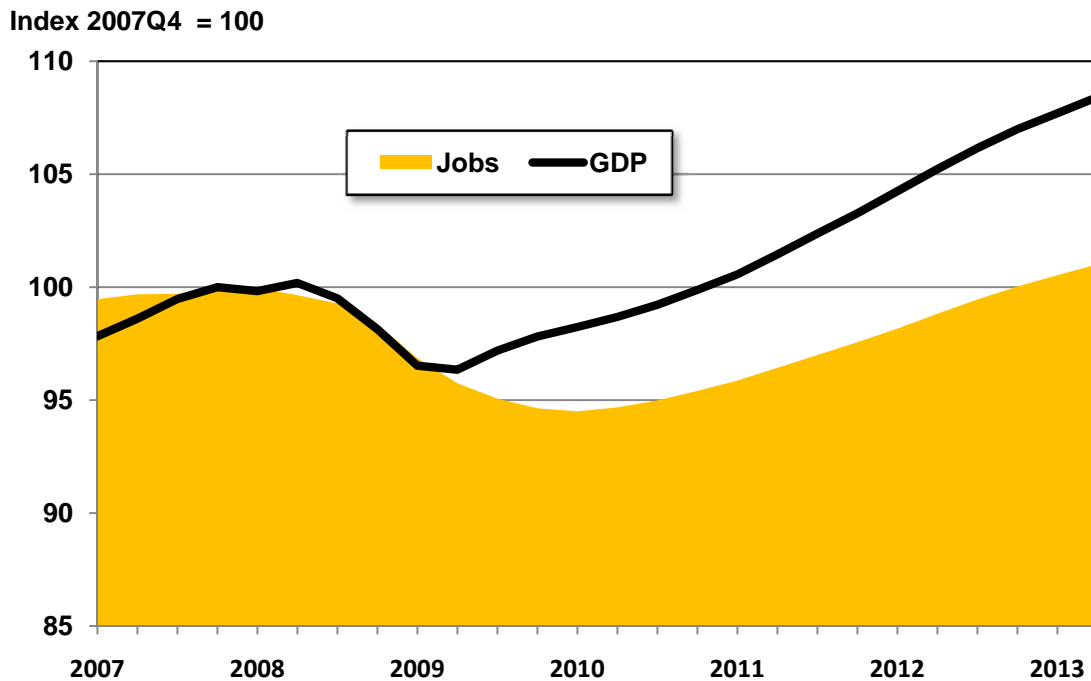
Global Insight’s forecast is identical to the Blue Chip Consensus forecast for 2009. For 2010 the Blue Chip panel is slightly more optimistic than the October baseline calling for 2.5 percent growth. GII categorizes their current outlook as a “mild W” even though real

output does not decline over the forecast horizon in their baseline. October’s baseline is assigned a probability of 60 percent the same as February’s. A more optimistic scenario including a V shaped recovery is assigned a probability of 20 percent as is a more pessimistic scenario containing a double dip recession.

Job Growth for the U.S. Economy Not Expected to Return Until Next Spring

Few forecasters expect to see increases in U.S. payroll employment until after the first of the year and most expect the unemployment rate to move higher until early summer. While labor markets no longer have as many problems as in late 2008 and early 2009 when U.S. job losses averaged more than 600,000 per month, it is unrealistic to expect to see employment growth or a decline in the unemployment rate until the recovery becomes more fully established. Jobs will be added only after hours worked by existing employees have been increased to more normal levels and September’s job report showed average hours worked by production workers at an all-time low. The unemployment rate will take even longer to begin to fall since an improving economy will draw discouraged workers back to join those actively seeking work, temporarily increasing the unemployment rate. In September, 17 percent of the workforce was unemployed, working less than full time for economic reasons, or categorized as a discouraged worker. Payroll employment is not expected to again reach pre-recession levels until 2012 and the U.S. unemployment rate is not expected to dip below 8 percent until 2013.

Jobs Recovery for U.S. Will Be Slow



COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

(\$ in Thousands)

	<u>Fiscal 2010 Year-to-Date</u>			<u>Fiscal Year 2009</u>		
	<u>FORECAST REVENUES</u>	<u>ACTUAL REVENUES</u>	<u>VARIANCE ACT-FCST</u>	<u>FORECAST REVENUES</u>	<u>ACTUAL REVENUES</u>	<u>VARIANCE ACT-FCST</u>
<u>Individual Income Tax</u>						
Withholding	1,398,227	1,370,879	(27,348)	6,105,900	5,997,887	(108,014)
Declarations	290,022	235,122	(54,900)	1,441,700	1,359,597	(82,103)
Miscellaneous	69,165	69,161	(4)	903,220	941,000	37,780
Gross	1,757,414	1,675,162	(82,252)	8,450,820	8,298,484	(152,337)
Refund	29,595	40,714	11,119	1,242,600	1,310,249	67,649
Net	1,727,819	1,634,448	(93,371)	7,208,220	6,988,234	(219,986)
<u>Corporate & Bank Excise</u>						
Declarations	127,410	164,523	37,113	731,125	751,059	19,934
Miscellaneous	45,696	39,173	(6,523)	167,860	176,082	8,222
Gross	173,106	203,696	30,590	898,985	927,141	28,156
Refund	43,715	22,064	(21,652)	246,600	218,947	(27,653)
Net	129,391	181,632	52,241	652,385	708,195	55,810
<u>Sales Tax</u>						
Gross	923,611	910,737	(12,874)	4,640,799	4,632,609	(8,190)
Refunds	49,650	56,464	6,814	263,199	288,778	25,579
Net	873,961	854,273	(19,688)	4,377,601	4,343,831	(33,770)
<u>Motor Vehicle Sales Tax</u>						
	16,182	20,205	4,023	107,336	116,794	9,459
<u>Other Revenues:</u>						
Estate	30,750	35,479	4,729	121,000	135,944	14,944
Liquor/Wine/Beer	14,468	14,597	129	75,477	76,068	591
Cigarette/Tobacco/Cont Sub	47,392	47,287	(105)	187,160	182,399	(4,761)
Deed and Mortgage	34,707	35,659	952	158,600	160,855	2,254
Insurance Gross Earnings	69,783	66,394	(3,389)	275,800	285,478	9,678
Lawful Gambling	10,216	7,887	(2,329)	44,090	43,481	(609)
Health Care Surcharge	56,751	56,007	(745)	214,976	219,337	4,361
Other Taxes	173	178	5	9,738	24,122	14,384
Statewide Property Tax	110	278	168	743,211	729,373	(13,838)
DHS SOS Collections	12,981	10,829	(2,152)	40,460	40,291	(169)
Income Tax Reciprocity	0	0	0	75,880	75,880	0
Investment Income	1,667	2,231	564	28,000	40,080	12,080
Tobacco Settlement	0	100	100	176,982	179,854	2,872
Departmental Earnings	45,027	58,450	13,423	254,000	251,861	(2,139)
Fines and Surcharges	19,818	17,216	(2,602)	96,700	94,545	(2,155)
Lottery Revenues	8,278	8,041	(238)	53,573	55,996	2,423
Revenues yet to be allocated	0	1,154	1,154	0	(3)	(3)
Residual Revenues	26,231	22,259	(3,972)	99,541	115,969	16,427
Sales Tax Rebates (all years)	0	0	0	0	0	0
County Nursing Home, Pub Hosp IGT	1,304	1,304	0	5,610	5,610	0
Other Subtotal	379,657	385,349	5,692	2,660,799	2,717,139	56,340
Other Refunds	7,906	9,142	1,236	51,925	61,690	9,765
Other Net	371,751	376,207	4,456	2,608,874	2,655,449	46,575
Total Gross	3,249,970	3,195,149	(54,821)	16,758,739	16,692,168	(66,571)
Total Refunds	130,867	128,384	(2,483)	1,804,324	1,879,664	75,341
Total Net	3,119,104	3,066,765	(52,338)	14,954,415	14,812,503	(141,912)