MINNESOTA Management & Budget

October 2011 Economic Update

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State Revenues Continue Above Forecast

Net non-dedicated general fund revenues totaled $3.651 billion in the first quarter of fiscal 2012, $59 million (1.6 percent) more than previously projected. Receipts from each of the three major taxes were greater than expected. Individual income tax receipts and corporate income tax receipts exceeded forecast by $53 million and $54 million respectively. Sales tax receipts were $32 million above projections. State receipts during the first quarter of fiscal 2012 were 8 percent above year earlier levels.

Summary of Revenues
(July – September, 2011)

	Estimate	Actual	Variance	Percent
	($ in millions)			
Individual	$1,828	$1,881	$53	2.9
Sales	1,088	1,120	32	2.9
Corporate	235	289	54	23.0
Other	441	361	(80)	(18.1)
Total	$3,592	$3,651	$59	1.6

First quarter individual withholding tax receipts and gross sales tax receipts were extremely close to forecast (see page 4). Withholding receipts were $7 million (0.5 percent) above forecast and gross sales tax receipts, $9 million (0.8 percent) more than projected. Individual estimated tax receipts and corporate estimated tax receipts for the quarter exceeded forecast by $36 million and $47 million, respectively. Sales tax refunds were $23 million less than anticipated.

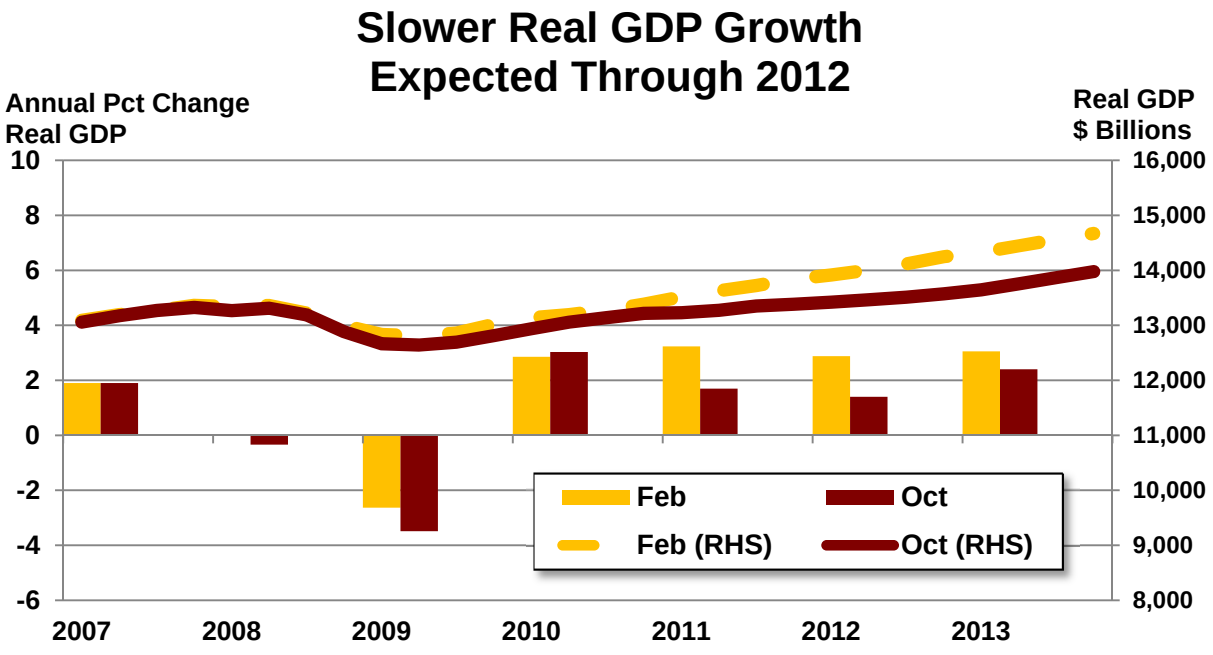
The $80 million shortfall in other revenues is largely due to the timing of the posting of Wisconsin's final income tax reciprocity payment. As reported in the last *Economic Update* February's forecast assumed that a $59 million payment would be made in fiscal 2012 and be treated as part of fiscal year 2012 receipts. Instead, the payment was received early enough to allow posting to fiscal 2011. This timing change increased the positive variance observed in fiscal 2011 and reduced fiscal 2012 revenues by offsetting amounts, leaving state receipts unchanged. The large negative variances in health care surcharge receipts and departmental earnings observed through September are likely due to delays in posting associated with the start-up of the new state accounting system.

Slow Growth Leaves U.S. Economy Vulnerable to Unexpected Shocks and Policy Errors

The U.S. economic outlook has changed little since midsummer. Projected real growth rates for 2011, 2012, and 2013 continue to be well below those thought likely earlier in the year and the monthly payroll employment reports offer little reason to suspect a significant turn-around is underway. Even with the additional stimulus provided by January's payroll tax cut, jobs growth has been modest, averaging about 120,000 per month in 2011. That is roughly the level needed to keep the unemployment rate from going higher, but well below the amount needed to produce significant and lasting declines in the number currently unemployed. Job growth has slowed since April, but there have not been the outright declines in employment typically observed when a recession is underway.

While most economists expect the U.S. to avoid a recession, real GDP growth over the next six to nine months is expected to be very slow. Global Insight Inc. (GII), the state's macro-economic consultant, believes that lower gasoline prices will encourage consumers to continue to increase their spending, even though confidence is at recession-like levels. Forecasters' major concern is that the tepid growth rate now seen likely through at least mid-2012 leaves the expansion dependent on the absence of extraordinary events and the avoidance of policy errors both in the U.S. and in the Eurozone.

Global Insight's October baseline forecast is very similar to their September baseline. Real GDP growth in 2011 is now expected to be at 1.7 percent; for 2012 a 1.4 percent growth rate is projected. September's baseline called for real growth rates of 1.5 percent and 1.8 percent for 2011 and 2012. The GII forecast is also very similar to the Blue Chip consensus estimate of 1.7 percent in 2011 and 2.0 percent in 2012.

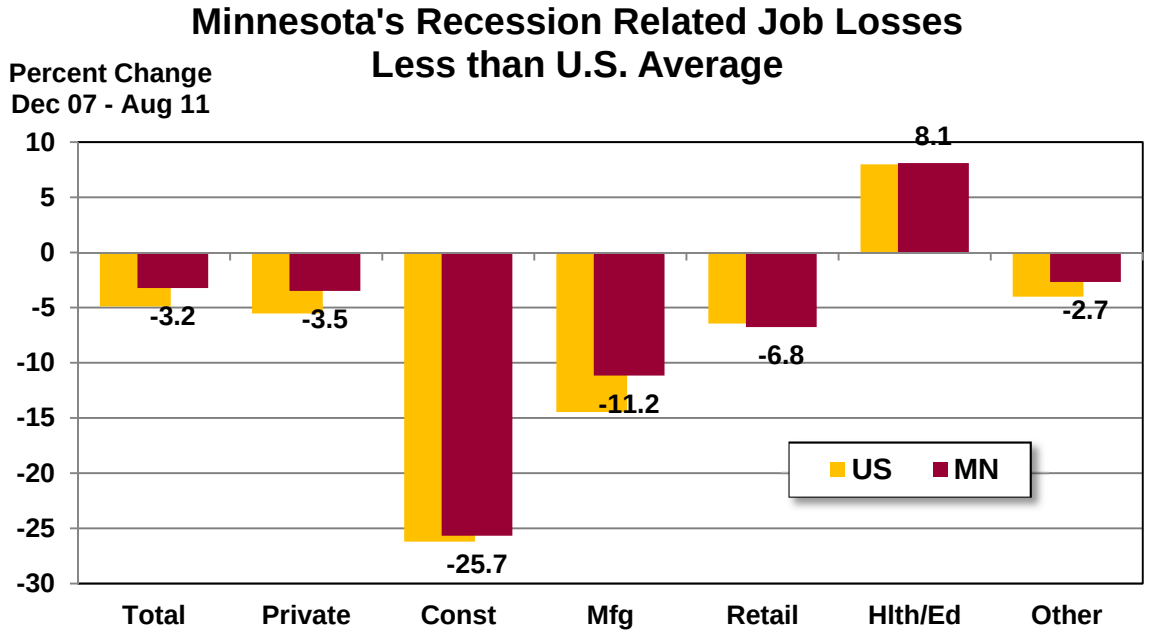


GII assigns a 40 percent probability to its recession scenario, the same as in August and September. Worsening of the Eurozone crisis is a major concern as is further fiscal gridlock in Washington DC. Passage of an extension of the current payroll tax cut is assumed. GII notes their outlook for 2012 "will be even bleaker if that doesn't happen."

Minnesota's Recession Jobs Record Better than U.S. Average

The great recession has had a devastating impact on employment in America. At its worst in February 2010, U.S. payroll employment was down by 6.3 percent or 8.7 million jobs since the recession began in December 2007. A recovery is underway, but September's payroll employment report shows the nation still will need to add 6.6 million more jobs to return to its pre-recession high.

Minnesota's labor market has performed modestly better than the U.S. averages. The state's unemployment rate has been consistently below the U.S. rate and Minnesota has lost a smaller percentage of its jobs than the national average. Through August, payroll employment in Minnesota was down 3.2 percent from its December 2007 level while the U.S. average was down 4.9 percent. Since the recession officially ended in June 2009 Minnesota employment has grown 1.3 percent, more than double the U.S. rate of 0.6 percent.



The construction and manufacturing sectors were the hardest hit both in Minnesota and nationally. Construction employment is down by 26 percent from December 2007 levels both statewide and nationally. Manufacturing employment has also fallen substantially, but the manufacturing decline has been noticeably less in Minnesota than the national average. In August Minnesota manufacturing employment was 11 percent below its December 2007 level; nationally manufacturing employment had fallen by 14 percent.

The only sector with employment growth since the recession's onset has been the health and education sector where the number of jobs has increased by 8 percent both in Minnesota and nationally. Private sector employment has fallen by 5.5 percent nationally since the recession began and by 3.5 percent in Minnesota.

COMPARISON O F ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

($ IN THOUSANDS)

	NON-RESTRICTED REVENUES FY 2011 Close			COMPARISON OF ACTUAL AND ESTIMATED September YTD, 2011 - FY2012		
	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax						
Withholding	6,366,599	6,410,378	43,779	1,562,916	1,570,287	7,371
Declarations	1,257,702	1,330,988	73,286	226,864	263,228	36,364
Miscellaneous	838,715	1,011,874	173,159	67,663	72,178	4,514
Gross	8,463,015	8,753,240	290,225	1,857,444	1,905,693	48,249
Refund	1,211,300	1,224,036	12,736	29,738	24,628	(5,110)
Net	7,251,715	7,529,204	277,489	1,827,705	1,881,064	53,359
Corporate & Bank Excise						
Declarations	833,157	859,671	26,515	197,801	244,451	46,650
Miscellaneous	189,834	181,569	(8,264)	47,770	54,881	7,111
Gross	1,022,990	1,041,241	18,250	245,571	299,332	53,761
Refund	109,201	116,628	7,427	10,555	10,317	(238)
Net	913,790	924,613	10,823	235,016	289,015	53,999
Sales Tax						
Gross	4,657,800	4,615,260	(42,540)	1,127,193	1,136,454	9,261
Refunds	224,258	211,852	(12,406)	38,800	16,138	(22,662)
Net	4,433,542	4,403,408	(30,134)	1,088,393	1,120,316	31,923
Motor Vehicle Sales Tax	31,131	30,578	(553)	0	0	0
Other Revenues:						
Estate	171,500	165,807	(5,693)	39,925	41,893	1,968
Liquor/Wine/Beer	76,958	78,422	1,464	14,844	15,402	557
Cigarette/Tobacco/Cont Sub	190,750	190,363	(387)	45,858	47,296	1,438
Deed and Mortgage	141,300	153,416	12,116	26,485	22,536	(3,950)
Insurance Gross Earnings	279,702	287,914	8,212	65,661	61,486	(4,176)
Lawful Gambling	40,300	41,796	1,496	7,911	7,967	56
Health Care Surcharge	238,300	240,033	1,733	58,511	30,840	(27,672)
Other Taxes	16,001	13,518	(2,483)	284	162	(122)
Statewide Property Tax	762,225	766,926	4,701	7,719	18,383	10,664
DHS SOS Collections	47,500	57,142	9,642	11,357	16,485	5,127
Income Tax Reciprocity	0	59,719	59,719	58,697	0	(58,697)
Investment Income	1,500	2,100	599	333	0	(333)
Tobacco Settlement	164,614	169,375	4,761	100	100	0
Departmental Earnings	255,000	254,575	(425)	45,806	25,258	(20,548)
Fines and Surcharges	100,000	96,349	(3,651)	15,696	19,798	4,103
Lottery Revenues	59,593	56,119	(3,474)	8,819	1,040	(7,779)
Revenues yet to be allocated	(0)	(6)	(6)	0	2,485	2,485
Residual Revenues	175,675	183,999	8,324	40,258	50,774	10,516
Sales Tax Rebates (all years)	0	0	0	0	0	0
County Nursing Home, Pub Hosp IGT	5,216	5,216	0	1,698	1,132	(566)
Other Subtotal	2,726,133	2,822,783	96,650	449,963	363,035	(86,928)
Other Refunds	48,245	47,836	(409)	9,450	2,878	(6,572)
Other Net	2,677,888	2,774,947	97,059	440,513	360,157	(80,356)
Total Gross	**16,901,070**	**17,263,102**	**362,032**	**3,680,171**	**3,704,514**	**24,343**
Total Refunds	**1,593,003**	**1,600,352**	**7,349**	**88,544**	**53,962**	**(34,582)**
Total Net	**15,308,066**	**15,662,749**	**354,683**	**3,591,627**	**3,650,552**	**58,925**