

Revenue and Economic Update

July 12, 2021

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Revenues Well Above February 2021 Forecast

Minnesota’s net general fund receipts for FY 2021 are now estimated to total \$26.582 billion, \$2.684 billion (11.2 percent) more than projected in the February 2021 *Budget and Economic Forecast*. Net receipts from all major taxes exceeded the forecast. State revenues in the final quarter of FY 2021 were \$2.121 billion (28.7 percent) more than forecast in February. (See page 4 for details.)

Net individual income tax receipts are estimated to end the year \$1.565 billion (12.4 percent) more than forecast. Gross income tax receipts were \$912 million above the forecast, and refunds were \$652 million less than expected. An estimated \$1.2 billion of the income tax variance reflects higher-than-forecast tax year 2020 income tax liability. We will not know final tax year 2020 income tax liability until extension returns are filed, and processing is complete. This will likely be mid-January 2022.

Income tax withholding receipts exceeded the forecast by \$168 million, and estimated income tax payments (included in declarations on page 4) were about \$115 million more than expected. These amounts reflect CY 2021 economic activity. Income tax receipts from estates, trusts, and non-resident partnerships exceed the forecast by about \$94.2 million. These payments are associated with both tax year 2020 and tax year 2021.

Net general sales tax receipts are estimated to end FY 2021 \$323 million (5.5 percent) above the forecast. Gross sales tax payments were \$279 million above the forecast, and refunds were \$45 million lower than expected.

Net corporate receipts were \$664 million (38.4 percent) more than forecast. Gross corporate tax payments were \$652 million above the forecast, and refunds were \$13 million lower than expected. Other net revenues were \$132 million (3.5 percent) more than expected.

All FY 2021 results are preliminary and subject to change. The state’s fiscal year that ended June 30, 2021, will officially close on August 20. Values in the estimated closing column on page 4 reflect actual revenues attributable to FY 2021 as well as estimates of revenue accruals through closing and other pre-close adjustments.

As of June 30, total FY 2021 revenue was \$26.579 billion. Estimated accruals and pre-close adjustments add about \$3.4 million on net. Non-tax revenues that will be received or recognized between the end of the fiscal year and the close add an estimated \$71.2 million. Income, corporate, and sales tax refunds attributable to FY 2021 and expected to be paid out before the close subtract \$67.8 million. A complete reporting of FY 2021 revenues will be part of *October’s Revenue and Economic Update*.

Summary of Revenues: Fiscal Year 2021

(\$ in millions)	February 2021	Estimated	\$ Difference	% Difference
	Forecast	Closing Revenues		
Individual Income Tax	\$12,570	\$14,134	\$1,565	12.4%
General Sales Tax	5,833	6,156	323	5.5
Corporate Franchise Tax	1,731	2,396	664	38.4
Other Revenues	3,764	3,896	132	3.5
Total Revenues¹	\$23,898	\$26,582	\$2,684	11.2%

1. Totals may not add due to rounding.

Near-Term U.S. Economic Outlook Improved

The outlook for U.S. real GDP growth in 2021 and 2022 has improved since Minnesota’s *Budget and Economic Forecast* was prepared in February 2021. In their July forecast, IHS Markit (IHS), Minnesota’s macroeconomic consultant, expects annual real GDP to grow 6.6 percent this year and 5.0 percent next year, compared to 5.7 percent and 4.1 percent in their February forecast. For years 2023-2025, the forecast is now slightly lower than in February, with IHS anticipating growth of 2.1 percent in 2023, 2.0 percent in 2024, and 2.1 percent in 2025.

The main factors driving the strong near-term economic recovery are (1) continued fiscal and monetary support, (2) the rising share of the U.S. population that is fully vaccinated, and (3) re-openings of state economies. IHS forecasts real GDP growth in the second half of the year at 7.9 percent (annual rate), three percentage points of which are due to inventory re-stocking following substantial supply-chain disruptions and de-stocking in the second quarter. This forecast does not include the potential impact of any new infrastructure spending proposed by the Biden Administration.

BEA’s third estimate of real GDP in the first quarter of 2021 shows growth of 6.4 percent (annual rate), 1.7 percentage points higher than IHS’ February forecast. IHS has also raised their forecast for real GDP growth in the second quarter to an 8.0 percent annual rate from 6.4 percent in their February outlook, partially due to

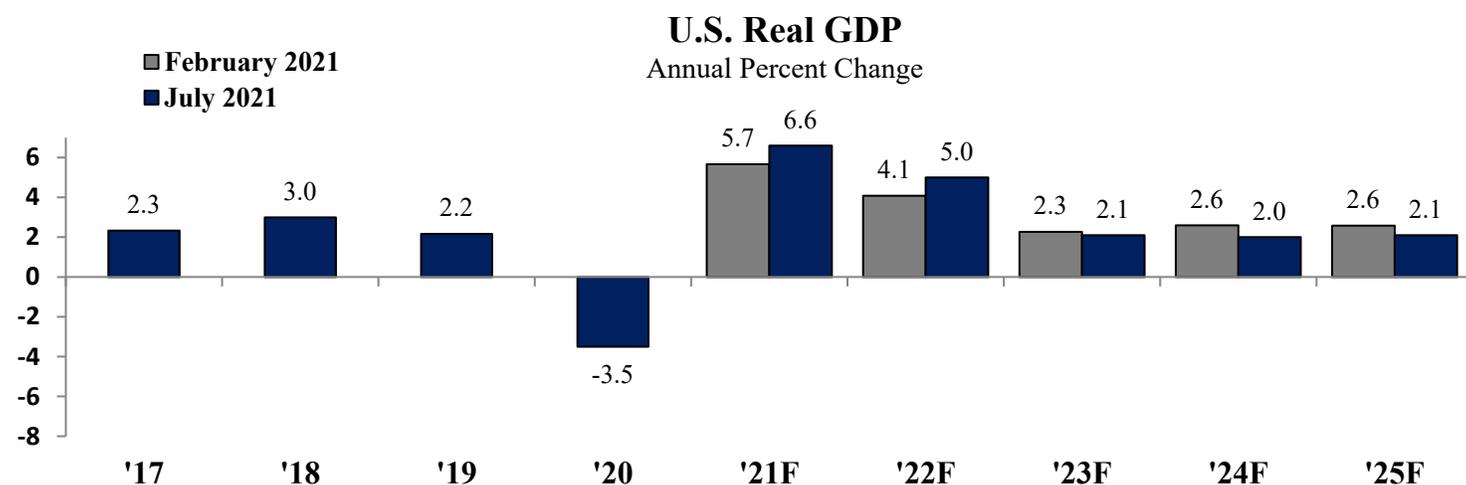
observed strength in consumer spending in March and April.

IHS expects the price of Brent crude oil to average \$72 per barrel in the third quarter this year as global growth rebounds, followed by \$66 per barrel in 2022 and 2023.

The IHS July baseline forecast for 2021 is similar to the most recent Blue Chip Consensus, the median of 50 business and academic forecasts. The July Blue Chip Consensus calls for 6.6 percent growth in 2021, the same as IHS’ forecast for this year. IHS expects real GDP to grow 5.0 percent in 2022, above the Blue Chip Consensus of 4.5 percent growth next year.

The Bureau of Labor Statistics (BLS) reports that in June the seasonally adjusted U.S. unemployment rate was 5.9 percent, down from 14.8 percent at the peak of unemployment reported in April 2020, but still 2.4 percentage points higher than the pre-pandemic level in February 2020. The BLS reports that roughly 9.5 million people remain unemployed. Employment rose by 850,000 in June. The number of long-term unemployed (those jobless for 27 weeks or more) is 4.0 million, 2.9 million more than in February 2020. IHS expects that the U.S. unemployment rate will decline through mid-2023, reaching an average of 4.9 percent in the fourth quarter of 2021 and an average of 3.8 percent in the fourth quarter of 2022. IHS assumes that half of states withdraw from federal emergency unemployment programs in June and July, before the programs formally end in September.

The unemployment rate does not capture those who have exited the labor force during the pandemic. The U.S. labor



Source: Bureau of Economic Analysis and IHS Markit.

force participation rate was 61.6 percent in June, 0.2 percentage points higher than in June 2020 but 1.7 percentage points lower than in February 2020.

IHS now expects the federal funds rate to remain near zero until September 2023, after which they forecast the Federal Reserve to raise rates. This expected “lift-off” occurs one year earlier than IHS expected in February and is driven by upward revisions in near-term inflation. IHS has raised their forecast for headline CPI inflation to 3.7 percent in 2021 and 2.4 percent in 2022, compared to 2.1 percent in both years in their February forecast. IHS expects the Federal Reserve to tolerate inflation slightly above 2 percent beyond 2023.

IHS assigns a 50 percent probability to the July baseline outlook. They assign a 20 percent probability to a more pessimistic scenario, characterized by weaker consumer spending and a higher unemployment rate. In this scenario, consumers become more cautious as slowing rates of vaccination delay the arrival at herd immunity, and new, more contagious strains of the SARS-Cov-2 virus emerge. As a result, real GDP growth in the second half of 2021 is 5.5 percent (annual rate) instead of 7.9 percent,

and the long-term economic recovery is slower, with both GDP and consumer spending remaining half a percentage point below the baseline forecast on average through 2025. Schools and daycares delay re-openings and consumers restrict their in-person services spending, causing the unemployment rate to remain above 4 percent through mid-2023. In the more optimistic scenario, IHS assumes that consumer spending grows more quickly than in the baseline. This scenario assumes that the spending response to the \$1.9 trillion American Rescue Plan, as well as the drawdown of households’ excess savings accumulated in 2020, is more robust than in the baseline. The scenario also assumes that new COVID-19 cases and deaths diminish quickly as a result of widespread vaccinations and greater observance of social distancing and mask-wearing among unvaccinated individuals. In this scenario, GDP surpasses its previous peak in mid-2021, the same timeframe as the baseline, but grows 10.7 percent (annual rate) in the second half of the year, compared to 7.9 percent in the baseline. The unemployment rate quickly falls to below 4.0 percent by mid-2022 because of the faster growth in real GDP. The optimistic scenario receives a 30 percent probability.

Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year 2021			April-June 2021		
	FORECAST	ESTIMATED	VARIANCE	FORECAST	ACTUAL	VARIANCE
	REVENUES ¹	CLOSING REVENUES	ACT-FCST	REVENUES ²	REVENUES	ACT-FCST
Individual Income Tax						
Withholding	9,876,510	10,044,071	167,561	2,531,100	2,701,970	170,870
Declarations	2,687,100	3,258,839	571,739	1,230,400	1,785,321	554,921
Miscellaneous	2,153,090	2,326,205	173,115	1,412,801	1,562,737	149,936
Gross	14,716,700	15,629,115	912,415	5,174,301	6,050,027	875,726
Refund	2,147,000	1,494,788	(652,212)	986,139	619,433	(366,706)
Net	12,569,701	14,134,327	1,564,627	4,188,162	5,430,594	1,242,432
Corporate Franchise Tax						
Declarations	1,599,861	2,194,908	595,047	451,646	914,928	463,282
Miscellaneous	315,213	371,779	56,566	(61,771)	(34,930)	26,840
Gross	1,915,074	2,566,687	651,613	389,876	879,998	490,122
Refund	183,734	171,033	(12,701)	46,853	43,430	(3,423)
Net	1,731,339	2,395,654	664,315	343,023	836,567	493,544
General Sales and Use Tax						
Gross	6,100,300	6,375,697	275,396	1,729,942	2,001,507	271,565
Mpls. sales tax transferred to MSFA	-	-	-	-	-	-
MPLS Sales Tax w/Holding for NFL Stadium	10,539	13,778	3,239	4,505	7,873	3,368
Sales Tax Gross	6,110,839	6,389,475	278,636	1,734,447	2,009,380	274,933
Refunds (including Indian refunds)	277,998	233,286	(44,712)	123,038	105,689	(17,349)
Net	5,832,841	6,156,189	323,348	1,611,409	1,903,691	292,282
Other Revenues:						
Net Estate	178,300	208,321	30,021	42,331	48,175	5,844
Net Liquor/Wine/Beer	100,640	101,504	864	33,509	34,159	650
Net Cigarette/Tobacco	586,530	594,837	8,306	184,897	196,154	11,257
Deed and Mortgage	380,323	410,427	30,104	116,896	136,245	19,349
Net Insurance Premiums Taxes	443,771	443,235	(536)	96,255	98,886	2,630
Net Lawful Gambling	94,385	120,213	25,828	29,850	50,284	20,434
Health Care Surcharge	316,399	296,218	(20,181)	134,851	122,093	(12,758)
Other Taxes	9,155	9,524	369	6,830	7,180	350
Statewide Property Tax	805,026	803,134	(1,892)	411,883	407,901	(3,982)
DHSSOS Collections	84,150	94,457	10,307	17,294	22,898	5,604
Investment Income	22,000	20,627	(1,372)	6,429	6,544	115
Tobacco Settlement	239,062	254,190	15,129	9,642	24,771	15,129
Dept. Earnings & MSOP Recov.	223,070	232,951	9,880	70,441	75,947	5,505
Fines and Surcharges	70,511	84,987	14,476	34,718	53,856	19,138
Lottery Revenues	76,379	82,224	5,845	32,301	31,614	(687)
Revenues yet to be allocated	0	1,944	1,943	(2,933)	1,159	4,092
Residual Revenues	138,094	141,261	3,167	35,558	36,396	839
Other Subtotal	3,767,796	3,900,054	132,258	1,260,753	1,354,262	93,509
Other Refunds	3,703	4,008	305	1,294	1,995	701
Other Net	3,764,093	3,896,046	131,953	1,259,459	1,352,267	92,808
Total Gross	26,510,409	28,485,331	1,974,922	8,559,377	10,293,667	1,734,290
Total Refunds	2,612,435	1,903,115	(709,320)	1,157,324	770,548	(386,776)
Total Net	23,897,974	26,582,217	2,684,242	7,402,053	9,523,119	2,121,066

- February 2021 Budget and Economic Forecast.
- Adjusted for tobacco settlement recognition. Revised fund balance posted March 31, 2021.