

# Revenue and Economic Update

January 2021 [mn.gov/mmb](http://mn.gov/mmb)

## Revenues Above November 2020 Forecast

Minnesota’s net general fund receipts for November and December of FY 2021 are now estimated to total \$4.098 billion, \$167 million (4.3 percent) more than forecast in the November 2020 *Budget and Economic Forecast*. Net receipts exceeded the forecast for sales, corporate, and other taxes, more than offsetting net individual income tax receipts that were below the forecast. Because forecast receipts are now updated to reflect the November 2020 Budget and Economic Forecast, the fiscal year-to-date variance is the same dollar amount as the quarterly variance, \$167 million above the forecast, which is 1.5 percent of fiscal year-to-date forecast revenues.

Net individual income tax receipts were \$16 million (0.9 percent) less than forecast for November and December. Lower than expected gross receipts and higher refunds both contributed to the negative variance. (See page 4 for details.)

Income tax withholding receipts were \$22 million lower than forecast. Strong collections the first several days of January, which likely reflect withholding on year-end bonuses, suggest the negative variance for November and December is due to timing and not lower-than-expected wage distributions during the period.

Estimated income tax payments (labeled declarations on page 4) were \$29 million higher than forecast. Payments

for the first two quarters of TY2020 are behind those for TY2019. Payments related to the third quarter and the fourth quarter are so far ahead of one year ago. Uncertainty about non-wage income during the economic downturn of CY 2020 may have led individuals to make smaller estimated payments earlier in the year and larger payments once they had a clearer picture of annual income.

Net sales tax receipts were \$32 million (3.4 percent) above the forecast. The variance is primarily due to lower than expected sales tax refunds. Gross sales tax receipts were very close to the forecast.

Net corporate tax receipts were \$114 million (36.1 percent) above the forecast. Higher than expected corporate tax payments more than offset higher refunds. Since July, we have observed corporate estimated tax payments (labeled declarations on page 4) that were higher than we forecast, but they do not represent extraordinary year-over-year growth. From July through December corporate estimated payments were about 6 percent higher than during the same period one year ago. Like individual estimated payments, uncertainty about profits during CY 2020 may have led corporations to make smaller estimated payments earlier in the year and larger payments once they had a clearer picture of annual profits.

## Summary of Revenues: November-December 2020

(\$ in millions)	November 2020			
	Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,850	\$1,834	\$(16)	(0.9)%
General Sales Tax	940	973	32	3.4
Corporate Franchise Tax	315	429	114	36.1
Other Revenues	825	863	37	4.5
<b>Total Revenues<sup>1</sup></b>	<b>\$3,930</b>	<b>\$4,098</b>	<b>\$167</b>	<b>4.3%</b>

1. Totals may not add due to rounding.

Other net revenues were \$37 million (4.5 percent) higher than forecast due to higher than expected gross payments.

## U.S. Economic Outlook for 2021 Improves

The outlook for U.S. real GDP growth in 2021 has improved since Minnesota’s *Budget and Economic Forecast* was prepared in November 2020. IHS Markit (IHS), Minnesota’s macroeconomic consultant, now expects annual real GDP to grow 4.0 percent this year, compared to 3.1 percent in their November forecast. The forecast for 2020 is unchanged at 3.6 percent real GDP growth.

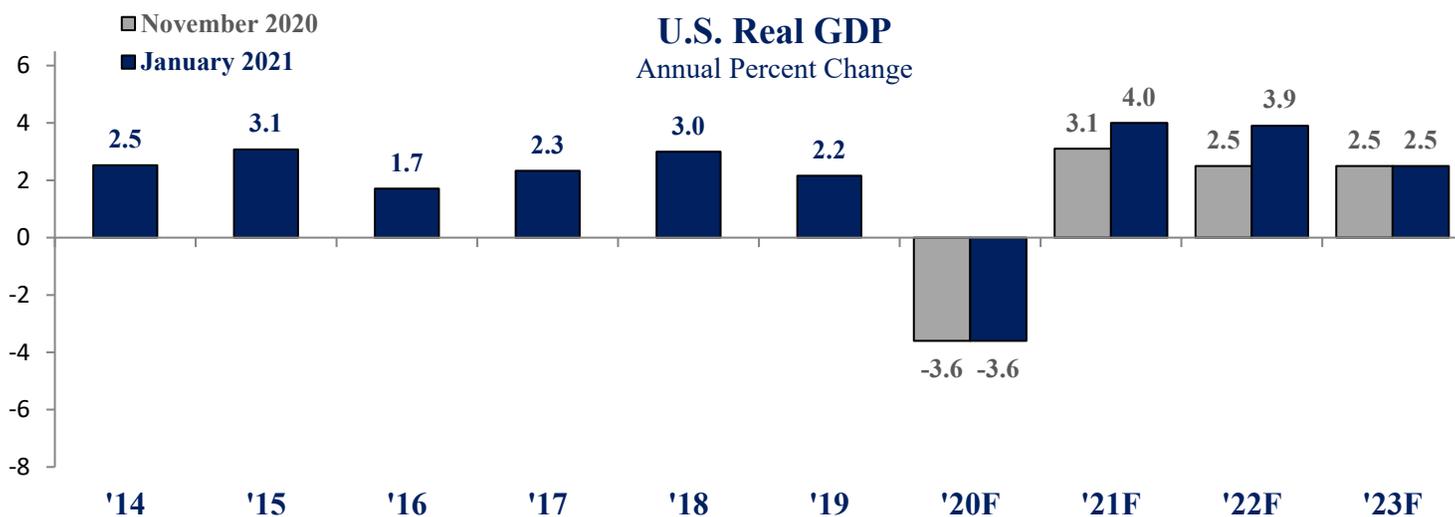
The improvement in IHS’ 2021 outlook from November to January is the net effect of three new assumptions. First, surging new COVID-19 cases, hospitalizations, and deaths are leading to increased containment measures to control the virus. Consequently, IHS has lowered their projections for near-term GDP growth, consumer spending, and employment, relative to their November outlook.

Second, the January forecast includes the impact of the \$900 billion pandemic relief package Congress passed on December 27. The package will fund emergency unemployment benefits of an additional \$300 per week for up to eleven weeks, \$600 stimulus checks for qualified Americans disbursed in the first quarter, replenished funds for the Payroll Protection Program, and money to states for COVID-19 mitigation, educational institutions,

and transit authorities, with relief for entertainment facilities, renters, and the airline industry. IHS assumes that the effect of these provisions will be to raise the level of 2021 real GDP by 1.3 percent. Without the pandemic relief funds, IHS estimates real GDP would fall by 2.0 percent in the first quarter of 2021, in contrast with their current assumption of 2.4 percent (annual rate) growth in that quarter.

Third, the January outlook reflects the 2020 population estimates from the Census Bureau. (Note that these are not based on the 2020 decennial census, which is not yet available.) The inclusion of the new estimates lowers IHS’ assumed levels of the U.S. population, labor force, and households through 2030.

BEA’s third estimate of real GDP in the third quarter of 2020 shows strong growth at a 33.4 percent annual rate, following the record decline of -31.4 percent in the second quarter of 2020. Increased COVID-19 containment measures, together with unexpectedly weak data on trade, inventories, and consumer credit card spending at the end of 2020, led IHS to lower their forecast for real GDP growth in the fourth quarter of 2020 to 3.0 percent (annual rate) from 3.7 percent in their November outlook. IHS now forecasts real GDP growth to decelerate to a 2.4 percent annual rate in the first quarter of 2021. IHS expects faster growth in the second half of 2021, as a successful vaccination campaign unlocks pent-up consumer spending.



Source: Bureau of Economic Analysis and IHS Markit.

IHS expects the price of Brent crude oil to reach \$50 per barrel by late 2021, the approximate level at which US drilling and production will begin recovery. Recovering oil prices are providing a boost to spending on mining structures.

The IHS January baseline forecast for 2021 is below the Blue Chip Consensus, the median of 50 business and academic forecasts. The Blue Chip Consensus calls for 4.2 percent growth in 2021, compared to IHS' 4.0 percent forecast for this year. IHS expects real GDP to grow 3.9 percent in 2022, above the Blue Chip Consensus of 3.4 percent growth next year.

The Bureau of Labor Statistics (BLS) reports that in December the seasonally adjusted U.S. unemployment rate was 6.7 percent, down from 14.7 percent at the peak of unemployment reported in April. The BLS reports that roughly 10.7 million people remain unemployed. Employment fell by 140,000 in December, representing the first employment decline since April. Large declines in leisure and hospitality employment (498,000) as a result of containment measures in bars, restaurants, and entertainment venues were partly offset by employment growth in professional and business services, transportation, and retail trade. IHS expects that the unemployment rate will decline over 2021, reaching an average of 4.3 percent by the end of 2021.

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

force participation rate was 61.5 percent in December, up from 60.2 in April, but still much lower than 63.3 percent one year ago.

In an attempt to keep financial markets stable, the FOMC cut rates by 50 basis points on March 3 and further by 100 basis points on March 16, bringing the effective target federal funds rate to zero. IHS expects the federal funds rate to remain near zero until late 2026, when the economy is beyond full employment and inflation is above the Fed's target of two percent.

IHS assigns a 50 percent probability to the January baseline outlook. Their alternative scenarios depend on different paths for the pandemic. They assign a 30 percent probability to a more pessimistic scenario, characterized by a weaker recovery in consumer spending as a result of increased containment measures in response to a recent upturn in new cases, hospitalizations, and deaths. In this scenario, surging cases lead to renewed caution among consumers, the recovery takes longer, and GDP surpasses the previous peak in the fourth quarter of 2021, compared to the third quarter of 2021 in the baseline. In the more optimistic scenario, IHS assumes the daily number of new COVID-19 cases falls more rapidly than the baseline, the vaccine is available for widespread use in the early spring of 2020, and better containment of the disease supports higher levels of economic activity than in the baseline. In this scenario, GDP surpasses the previous peak in mid-2021, three months earlier than in the baseline. The optimistic scenario receives a 20 percent probability.

# Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year to Date 2021			November-December 2020		
	FORECAST	ESTIMATED	VARIANCE	FORECAST	ACTUAL	VARIANCE
	REVENUES <sup>1</sup>	CLOSING	ACT-FCST	REVENUES	REVENUES	ACT-FCST
<b>Individual Income Tax</b>						
Withholding	4,700,457	4,678,342	(22,115)	1,728,100	1,705,985	(22,115)
Declarations	792,800	821,646	28,845	120,038	148,883	28,845
Miscellaneous	408,740	392,536	(16,205)	79,450	63,245	(16,205)
Gross	5,901,997	5,892,524	(9,474)	1,927,588	1,918,114	(9,474)
Refund	182,580	189,089	6,509	78,093	84,602	6,509
Net	5,719,418	5,703,435	(15,983)	1,849,496	1,833,513	(15,983)
<b>Corporate Franchise Tax</b>						
Declarations	813,757	857,974	44,217	317,952	362,169	44,217
Miscellaneous	164,954	234,925	69,971	37,611	107,582	69,971
Gross	978,711	1,092,899	114,188	355,563	469,751	114,188
Refund	62,701	63,095	394	40,715	41,109	394
Net	916,010	1,029,804	113,794	314,847	428,641	113,794
<b>General Sales and Use Tax</b>						
Gross	2,887,869	2,892,416	4,547	1,008,850	1,013,397	4,547
Mpls. sales tax transferred to MSFA	0	0	0	0	0	0
Sales Tax Gross	2,887,869	2,892,416	4,547	1,008,850	1,013,397	4,547
Refunds (including Indian refunds)	90,002	62,261	(27,741)	68,519	40,778	(27,741)
Net	2,797,867	2,830,155	32,288	940,331	972,619	32,288
<b>Other Revenues:</b>						
Net Estate	88,704	91,038	2,335	25,832	28,167	2,335
Net Liquor/Wine/Beer	47,352	45,078	(2,274)	17,860	15,586	(2,274)
Net Cigarette/Tobacco	258,830	259,388	558	97,823	98,381	558
Deed and Mortgage	169,171	171,077	1,906	63,851	65,756	1,906
Net Insurance Premiums Taxes	209,770	208,403	(1,367)	97,720	96,353	(1,367)
Net Lawful Gambling	42,018	49,475	7,458	11,059	18,517	7,458
Health Care Surcharge	103,933	102,999	(934)	62,514	61,580	(934)
Other Taxes	1,763	2,271	508	0	508	508
Statewide Property Tax	384,768	384,121	(647)	170,396	169,749	(647)
DHSSOS Collections	42,804	46,860	4,056	11,782	15,838	4,056
Investment Income	8,062	9,647	1,585	1,742	3,327	1,585
Tobacco Settlement	144,175	147,750	3,575	144,175	147,750	3,575
Dept. Earnings & MSOP Recov.	102,840	102,525	(315)	48,729	48,414	(315)
Fines and Surcharges	14,598	18,466	3,867	7,413	11,280	3,867
Lottery Revenues	23,941	27,384	3,443	7,952	11,395	3,443
Revenues yet to be allocated	1,936	833	(1,102)	0	(1,102)	(1,102)
Residual Revenues	84,332	99,068	14,736	57,336	72,072	14,736
Other Subtotal	1,728,998	1,766,385	37,386	826,184	863,570	37,386
Other Refunds	1,450	1,483	32	800	833	32
Other Net	1,727,548	1,764,902	37,354	825,383	862,737	37,354
<b>Total Gross</b>	11,497,575	11,644,223	146,648	4,118,184	4,264,832	146,648
<b>Total Refunds</b>	336,733	315,928	(20,805)	188,127	167,322	(20,805)
<b>Total Net</b>	11,160,842	11,328,295	167,453	3,930,057	4,097,510	167,453

1. November 2020 Budget and Economic Forecast.