

State Revenues Short of February Forecast

Minnesota's net general fund receipts totaled \$2.411 billion during the months of February and March 2016, \$11 million (0.5 percent) less than projected in the February 2016 *Budget and Economic Forecast*. Net corporate tax payments and other revenues exceeded the forecast, partially offsetting lower-than-expected net individual income tax payments.

Summary of Tax Revenues: February – March, 2016

(\$ in millions)	February 2016 Forecast	Actual	\$ Difference	% Difference
Individual Income Tax	\$1,064	\$995	\$(69)	(6.5)%
General Sales Tax	718	720	2	0.3
Corporate Franchise Tax	279	321	42	15.1
Other Revenues	361	374	13	3.7
Total Revenues*	\$2,422	\$2,411	\$(11)	(0.5)%

* Totals may not add due to rounding.

Net individual income tax receipts during February and March were \$69 million (6.5 percent) less than forecast. Withholding payments for the period, which reflect 2016 economic activity, were \$26 million below the forecast. (See page 4 for details.) Final payments were \$8 million below the forecast, and refunds exceeded the forecast by \$33 million. Both of these variances, however, likely reflect uncertainty in forecasting the timing of tax year 2015 return processing, rather than lower tax liability.

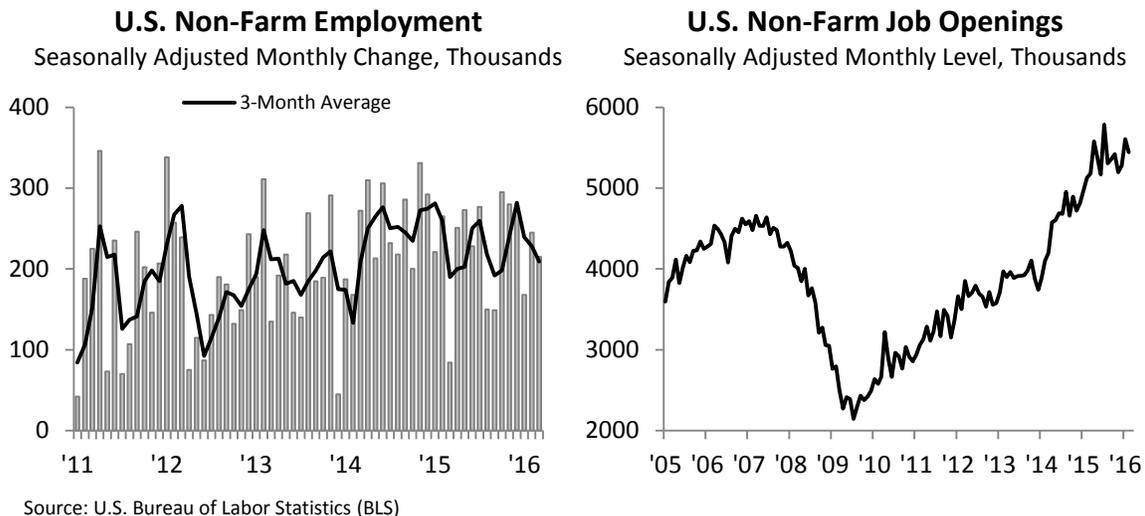
Net sales tax receipts for February and March nearly matched the forecast. Gross sales tax receipts in excess of the forecast were offset by larger than expected refunds. The positive gross sales tax variance was generated by higher than expected February taxable sales. This may reflect larger than forecast sales on the extra shopping day in February due to the leap year.

Gross corporate tax payments in excess of the forecast and lower than expected corporate refunds combine to produce a \$42 million variance in net corporate tax receipts. Net other revenues for the period exceed the forecast by \$13 million (3.7 percent). Among these sources, lottery revenues exceed the forecast by the largest amount, \$6 million.

U.S. Economy Keeps Humming Along Despite Fears

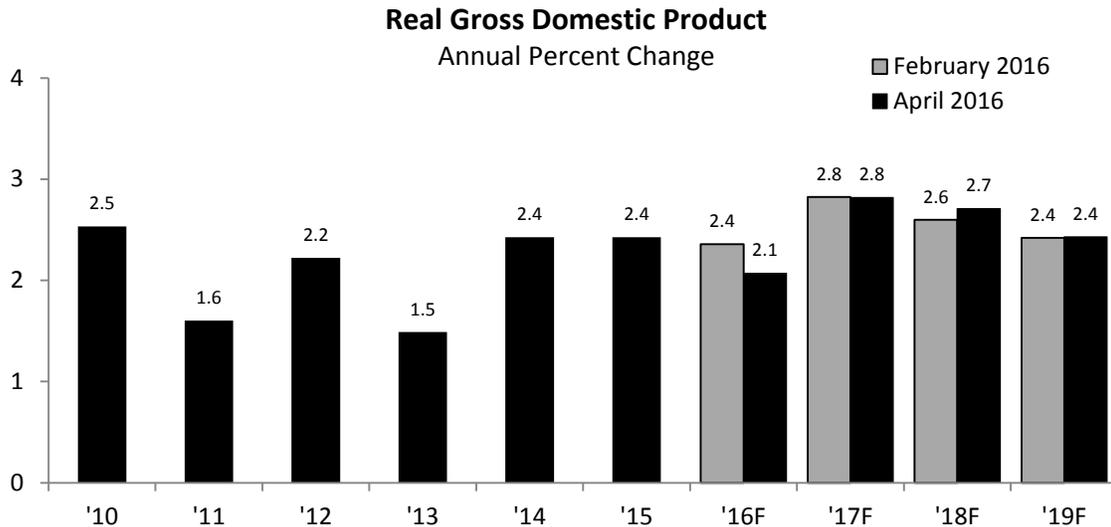
Broad economic indicators have sent conflicting signals about the health of the U.S. economy since Minnesota’s *Budget and Economic Forecast* was last prepared in February. On the plus side, recent reports on the labor market continue to demonstrate solid performance. Average monthly job growth so far this year — driven by strong gains in the construction and service sectors — is identical to the average for the past four years. In addition, the number of job openings is near its highest point in 14 years, more workers are being drawn into the labor force, and the unemployment rate has fallen to near eight-year lows. Steady job gains and modest inflation appear to be supporting solid real disposable income growth and, in turn, moderate retail sales, vehicle sales, and home buying activity in early 2016. Finally, oil prices have rallied to above \$40 per barrel in recent weeks, which has helped strengthen commodity-linked currencies, such as the Canadian dollar, against the US dollar. These developments have helped allay concerns about the durability of the expansion, which arose at the start of the year amid fresh signs of a global economic slowdown and subsequent financial market turmoil.

On the other hand, incoming economic data over the past several weeks point to a number of persistent weaknesses. The latest GDP revisions confirm the U.S. economy finished 2015 on a weak note, with increases slowing to under 2 percent (annual rate) in the second half of the year. More recent figures show manufacturing and foreign trade are still struggling in early 2016, hurt by a strong U.S. dollar, weak global growth, and the collapse in energy prices. These same factors are weighing on business investment, as new orders and shipments for durable goods — key sources of data used to estimate capital equipment spending in the GDP accounts — continued to trend lower to start the year. Business’ efforts to work off an inventory glut is also persisting longer than previously expected. As a result, MMB’s macroeconomic consultant IHS Economics (IHS) has lowered its forecast of real GDP growth in the first quarter of 2016 to just 1.2 percent (annual rate) from 2.4 percent expected last February, with trade subtracting more than half of a percentage point from the overall rate.



Looking ahead, IHS continues to believe the headwinds from inventories and energy-sector capital spending will ease by mid-2016, supporting the case for acceleration of economic growth later this year. IHS expects real GDP growth to average 2.8 percent in the second half of 2016, led by consumer spending. Still, persistent weakness in the first quarter has reduced prospects for calendar 2016 average growth. The April 2016 outlook from IHS calls for real GDP growth to ease from 2.4 percent in 2015 to 2.1 percent in 2016, before accelerating to 2.8 percent in 2017. The February 2016 outlook projected stronger growth of 2.4 percent in 2016, followed by a 2.8 percent rise in 2017. Even so, the IHS April forecast for 2016 and 2017 is at the high end of a range of estimates from the Blue Chip survey of about 50 top business forecasters. The latest Blue Chip Consensus forecast is for 2.0 percent growth in 2016 and 2.3 percent growth in 2017.

Inflation continues to run well below the Federal Reserve’s 2 percent objective, partly reflecting downward pressures from lower energy prices and the prices of non-energy imports, due to the stronger dollar. Consumer prices (CPI) rose just 0.1 percent in 2015. Even so, the Fed’s statements show that officials are reasonably confident inflation will return to 2 percent over the medium term, as transitory effects dissipate and the labor market strengthens further. IHS agrees. Their April 2016 outlook has CPI rising 1.0 percent in 2016 and 2.2 percent in 2017, similar to the 0.6 and 2.3 percent growth IHS expected last February. The latest Blue Chip Consensus forecast is for 1.3 percent inflation growth in 2016 and a 2.3 percent inflation growth in 2017.



Source: U.S. Bureau of Economic Analysis (BEA), IHS Economics (IHS)

There have been no changes in the probabilities assigned to the baseline or alternative forecast scenarios since February. IHS continues to assign a probability of 65 percent to their April 2016 baseline. A more pessimistic scenario in which slowing global growth and plunging consume and business confidence, thanks to a stock market crash, trigger a two-quarter U.S. recession in the latter half of 2016 is assigned a probability of 20 percent. Of course, economic growth could also exceed projections. A more optimistic scenario where higher-than-expected productivity growth, household formation, and foreign growth deliver a boost to the U.S. economy in early 2016 is assigned a probability of 15 percent.

Comparison of Actual and Forecast Non-Dedicated Revenues

(\$ in thousands)

	Fiscal Year-to-Date 2016 (July 2015 - March 2016)			February – March 2016		
	FORECAST REVENUES*	ACTUAL REVENUES	DIFFERENCE ACTUAL-FCST	FORECAST REVENUES*	ACTUAL REVENUES	DIFFERENCE ACTUAL-FCST
	Individual Income Tax					
Withholding	6,129,504	6,103,443	(26,061)	1,510,962	1,484,901	(26,061)
Declarations	1,364,200	1,365,874	1,674	29,429	31,103	1,674
Miscellaneous	537,918	529,668	(8,250)	211,246	202,996	(8,250)
Gross	8,031,623	7,998,986	(32,637)	1,751,637	1,719,000	(32,637)
Refund	867,886	904,018	36,132	687,387	723,518	36,132
Net	7,163,736	7,094,968	(68,769)	1,064,250	995,481	(68,769)
Corporate Franchise Tax						
Declarations	887,746	919,444	31,699	239,699	271,398	31,699
Miscellaneous	336,008	337,163	1,155	89,796	90,951	1,155
Gross	1,223,753	1,256,607	32,854	329,495	362,349	32,854
Refund	134,621	125,410	(9,211)	50,814	41,603	(9,211)
Net	1,089,132	1,131,197	42,065	278,681	320,745	42,065
General Sales Tax						
Gross	3,967,864	3,984,536	16,671	782,000	798,671	16,671
Mpls. Sales Tax Transferred to MSFA	1,250	1,449	199	290	489	199
Sales Tax Gross	3,969,115	3,985,985	16,870	782,290	799,160	16,870
Refunds (including Indian Refunds)	194,191	208,648	14,457	64,200	78,657	14,457
Net	3,774,923	3,777,336	2,413	718,090	720,503	2,413
Other Revenues:						
Net Estate	142,097	143,922	1,825	24,956	26,781	1,825
Net Liquor/Wine/Beer	60,037	59,902	(136)	12,517	12,381	(136)
Net Cigarette/Tobacco	460,133	463,183	3,050	35,007	38,057	3,050
Deed and Mortgage	151,544	154,054	2,510	24,499	27,009	2,510
Net Insurance Premiums Taxes	277,203	279,465	2,262	106,764	109,026	2,262
Net Lawful Gambling	33,615	37,698	4,083	6,706	10,789	4,083
Health Care Surcharge	166,498	165,130	(1,369)	51,435	50,067	(1,369)
Other Taxes	660	719	59	100	159	59
Statewide Property Tax	392,454	392,493	39	-	39	39
DHS SOS Collections	34,813	40,674	5,860	6,636	12,496	5,860
Investment Income	9,763	11,132	1,369	2,158	3,528	1,369
Tobacco Settlement	162,336	162,336	0	6	6	0
Dept. Earnings & MSOP Recov.	145,318	145,111	(207)	30,937	30,730	(207)
Fines and Surcharges	52,485	51,920	(565)	13,163	12,598	(565)
Lottery Revenues	33,918	40,085	6,167	9,442	15,609	6,167
Revenues yet to be allocated	602	2	(600)	-	(600)	(600)
Residual Revenues	127,295	116,996	(10,299)	36,422	26,123	(10,299)
County Nursing Home, Pub Hosp IGT	4,754	4,528	(226)	1,358	1,132	(226)
Other Subtotal	2,255,526	2,269,349	13,823	362,107	375,930	13,823
Other Refunds	3,519	4,092	573	1,124	1,697	573
Other Net	2,252,006	2,265,256	13,250	360,983	374,233	13,250
Total Gross	15,480,016	15,510,926	30,910	3,225,529	3,256,439	30,910
Total Refunds	1,200,218	1,242,168	41,951	803,525	845,475	41,951
Total Net	14,279,798	14,268,757	(11,041)	2,422,004	2,410,963	(11,041)

* February 2016 Budget & Economic Forecast.