



BUDGET AND *ECONOMIC FORECAST*



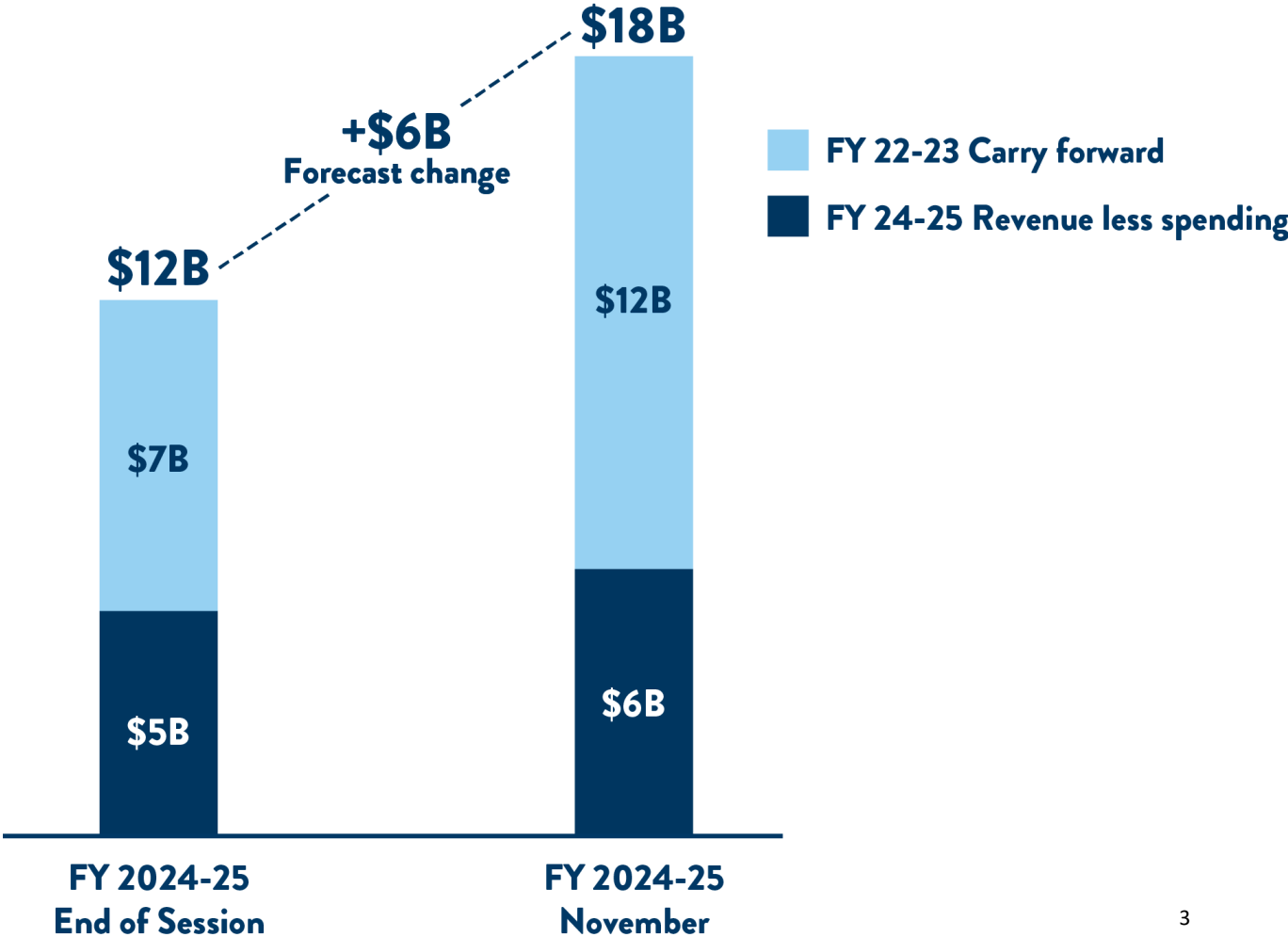
NOVEMBER 2022

Produced by Minnesota Management and Budget

State Budget Outlook Strong

- FY 2022-23 now expected to close \$5 billion higher than previously estimated.
- Projected general fund balance in FY 2024-25 now \$18 billion, of which \$12 billion is leftover from previous biennium.
 - Lower expected income growth reduces tax revenue forecast.
 - Lower health care costs reduce spending forecast.
- Revenues expected to exceed spending through FY 2027.
- Forecast includes mild U.S. recession next year and slower economic growth through 2027.

FY 2024-25 Projected Balance



FY 2022-25 Forecast Change

(\$ in millions)	FY 2022-23		FY 2024-25	
	Nov. 2022 Forecast	Forecast Change	Nov. 2022 Forecast	Forecast Change
Beginning Balance	\$7,026	\$ -	\$15,175	\$4,794
Revenues	59,928	3,273	60,281	410
Spending	51,799	(1,521)	53,953	(600)
Budget Reserve	2,852	196	2,852	196
Cash Flow Account	350	-	350	-
Stadium Reserve	368	41	684	103
Budgetary Balance	\$11,605	\$4,556	\$17,616	\$5,504

Economic and Revenue Outlook

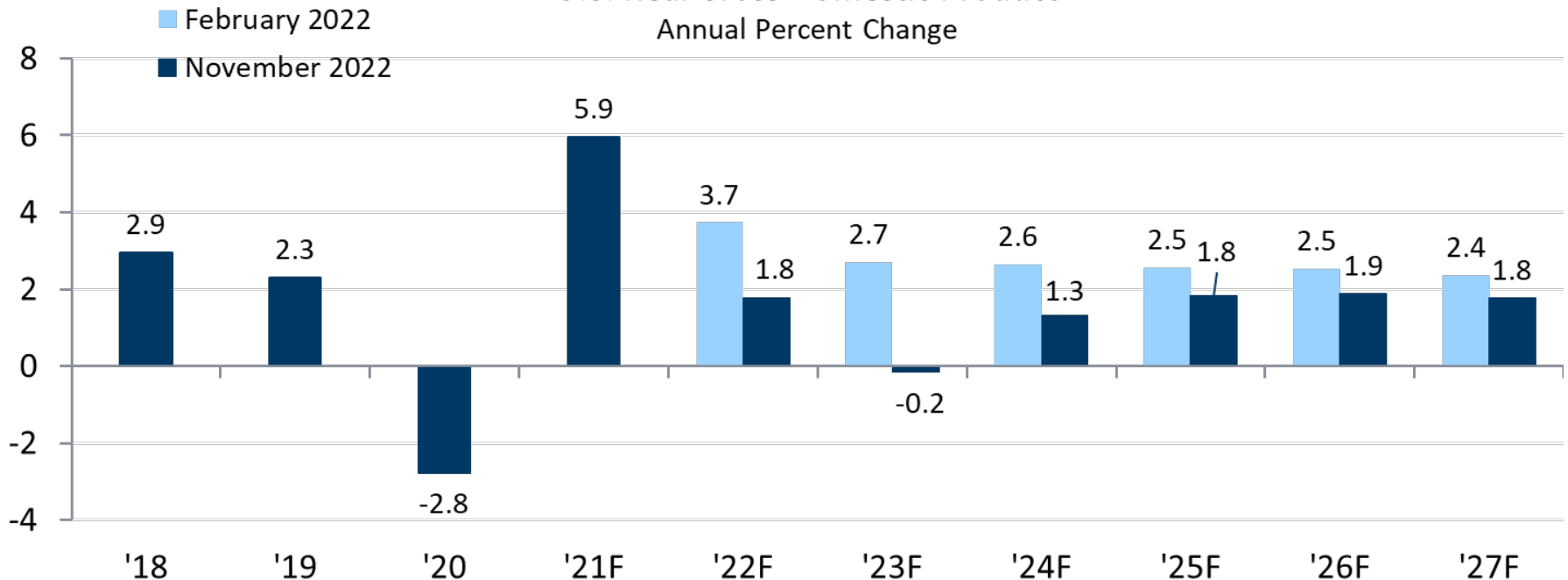
- U.S. Economic Outlook
- Minnesota Labor Market
- Revenue Forecast
- Forecast Risks



U.S. Economic Outlook Weakened

U.S. Real Gross Domestic Product

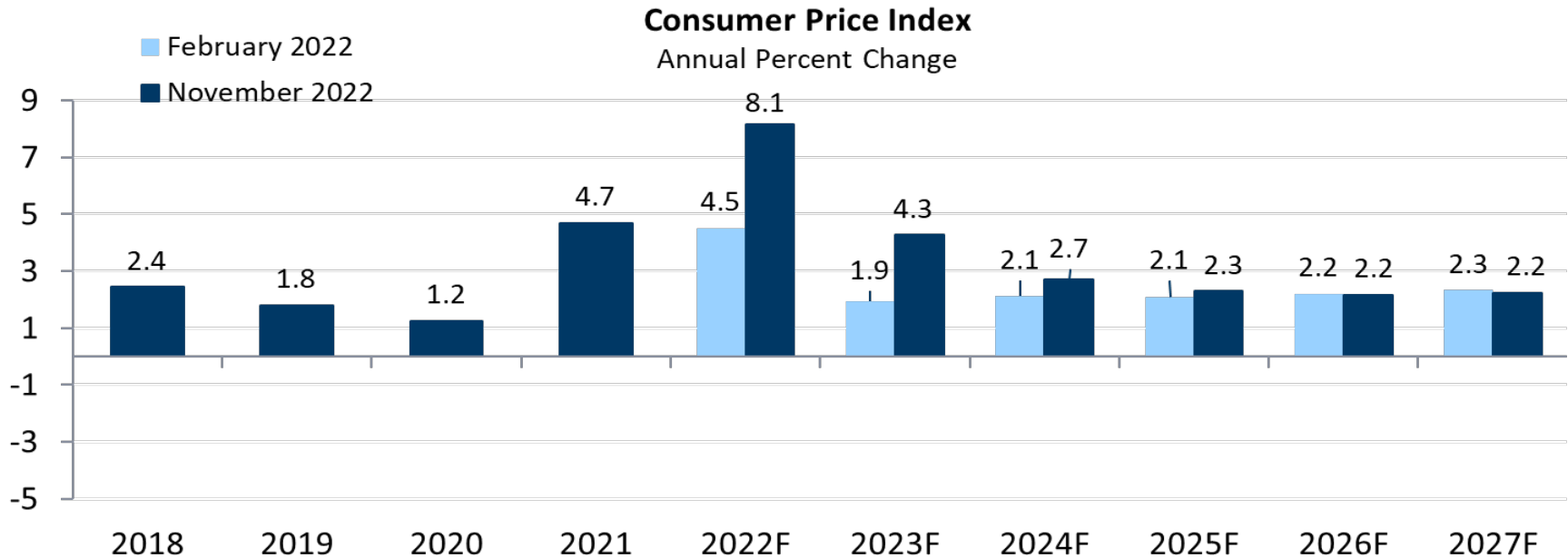
Annual Percent Change



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

The outlook for U.S. real GDP growth has weakened since February and now incorporates three quarters of GDP decline beginning at the end of this year. Tighter financial conditions are expected to weaken investment in interest rate-sensitive sectors (such as housing), inducing a mild recession. Annual real GDP growth is forecast to average only 1.7 percent in years 2024-27.

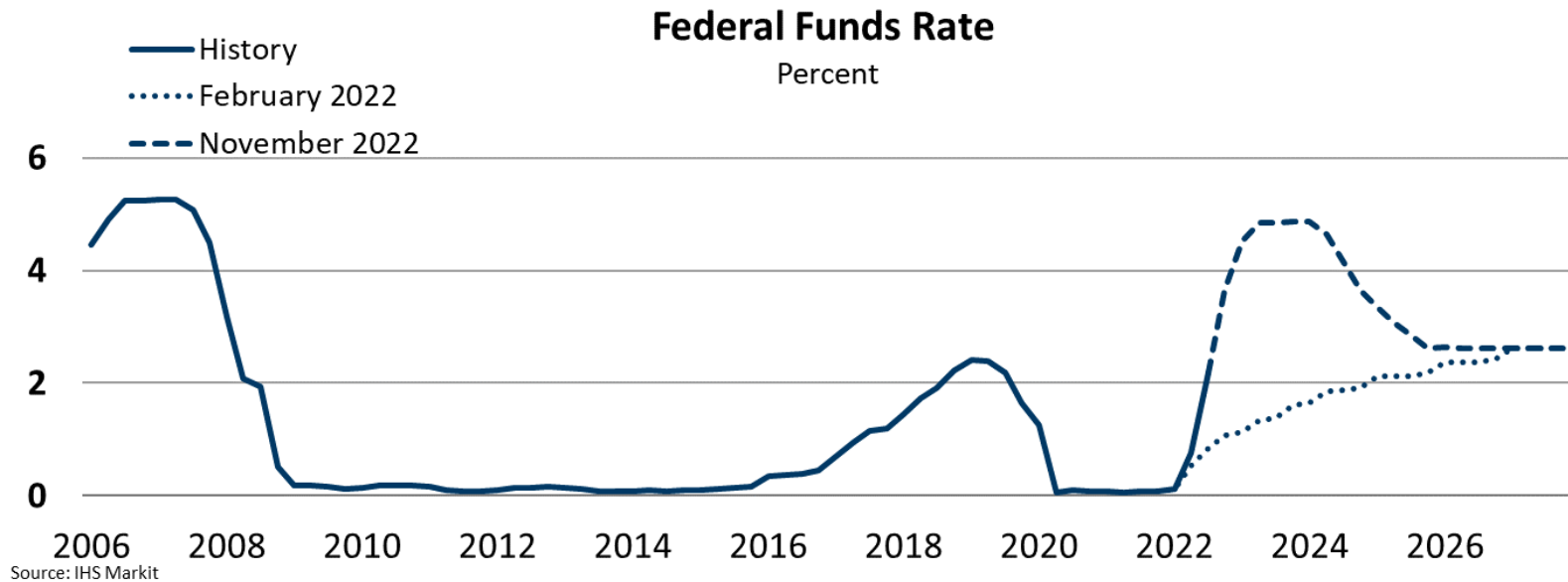
Near-Term Inflation Higher, Settles Beyond 2024



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

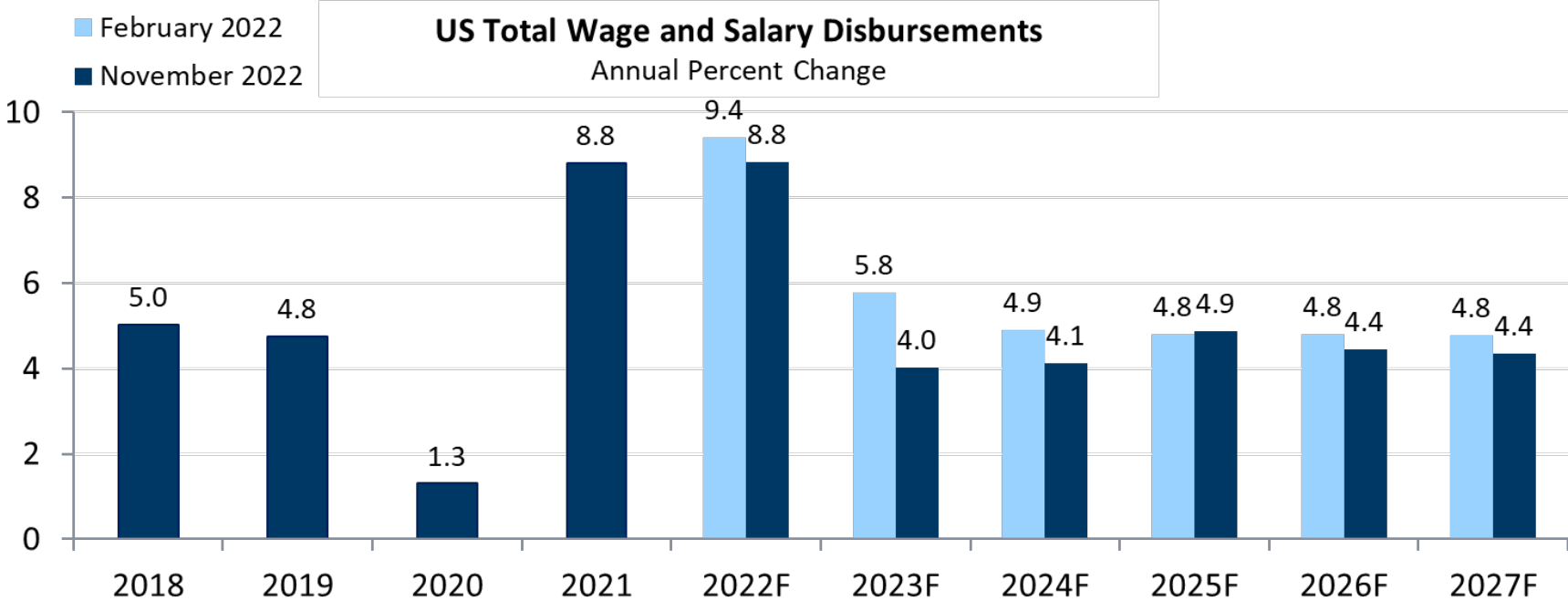
Higher prices, including for food and rent, have driven inflation to what is now expected to be 8.1 percent this year, 3.6 percentage points higher than forecast in February. IHS expects slowing demand, supply-chain normalization, and the eventual softening of labor market conditions to slow inflation. They forecast CPI inflation to fall to 4.3 percent in 2023, 2.7 percent in 2024, and average of 2.2 percent per year in 2025-2027.

Fed Action on Interest Rates Accelerated



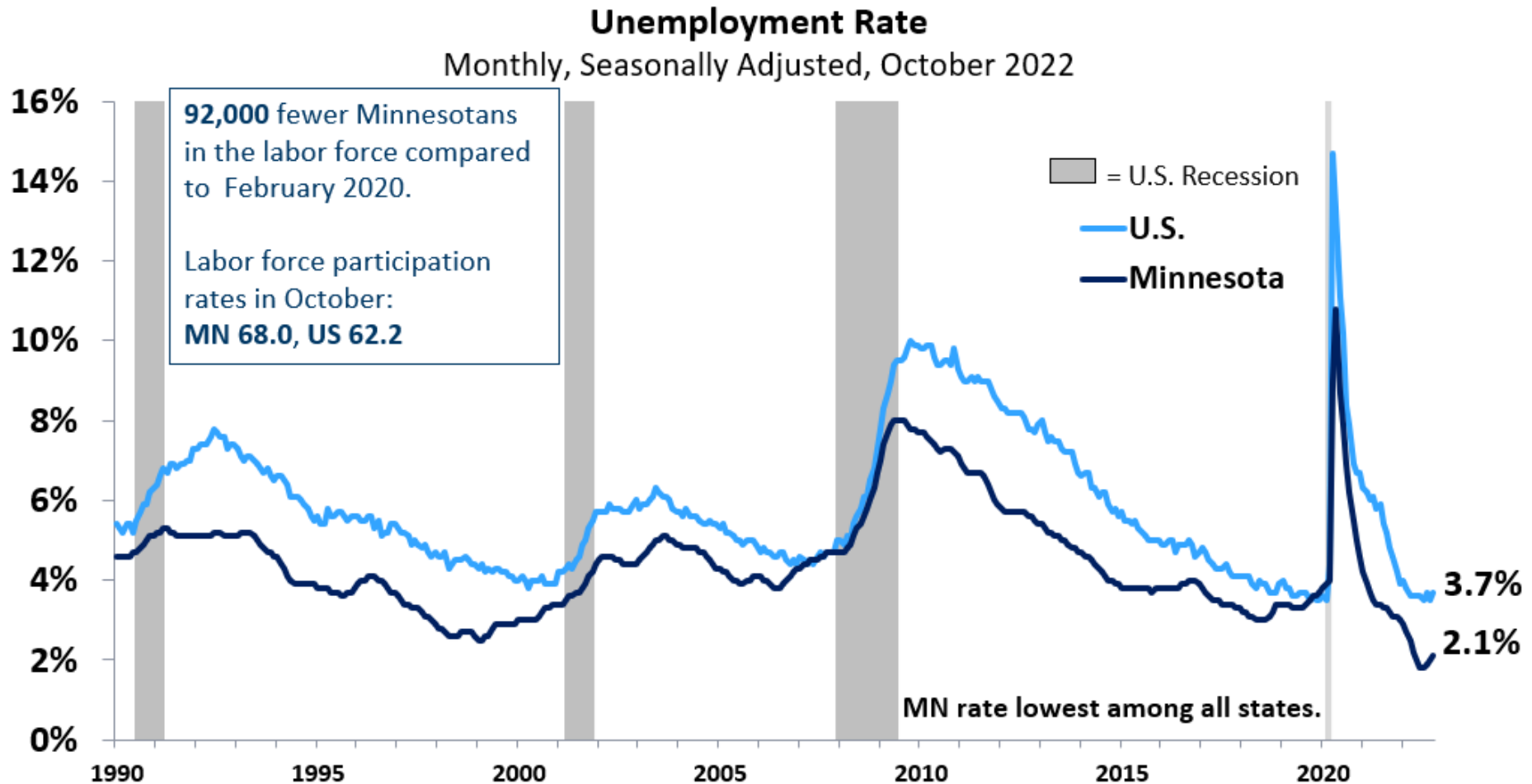
In response to higher inflation, the Federal Reserve raised their policy rate six times this year. IHS now expects the Fed to raise its policy rate to just below 5.0 percent by March 2023 and reverse course in the spring of 2024. In this forecast, higher interest rates slow business and residential investment and raise the return on Minnesota's general fund cash balances.

U.S. Wage and Salary Income Growth Lower Through 2024

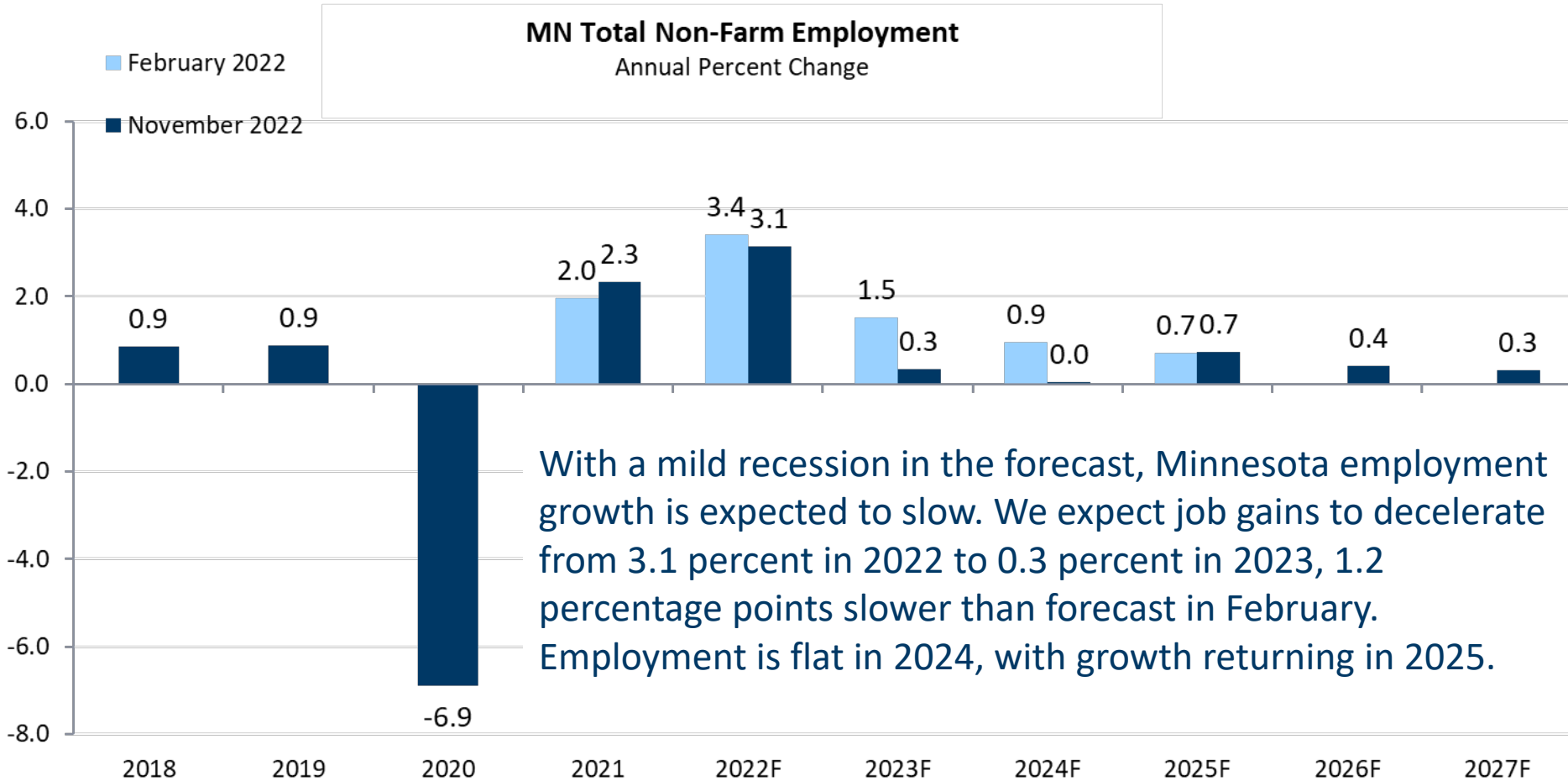


IHS expects U.S. nominal wage income growth of 8.8 percent in 2022, a 0.6 percentage point decrease from the February forecast. The forecast for wage and salary income has been lowered for years 2023 and 2024 to 4.0 and 4.1 percent, respectively.

Minnesota Labor Market



Minnesota Employment Forecast



Revenue Forecast

(\$ in millions)

	FY 2022-23		FY 2024-25	
	Nov. 2022 Forecast	Forecast Change	Nov. 2022 Forecast	Forecast Change
Individual Income Tax	\$31,959	\$1,785	\$32,165	\$(975)
General Sales Tax	14,092	269	15,155	92
Corporate Franchise Tax	5,183	756	4,486	832
Other Tax Revenue	6,069	(101)	6,012	(237)
<i>Subtotal Tax Revenue</i>	<i>57,303</i>	<i>2,709</i>	<i>57,818</i>	<i>(288)</i>
All Other Revenue	2,625	564	2,463	698
Total Revenues	\$59,928	\$3,273	\$60,084	\$410

Forecast Risks



Inflation



Monetary Policy



Slow-growing economy vulnerable to shocks



Corporate profit and capital gains volatility



31 months until the end of FY 2024-25

Spending and Long Term Budget Outlook

- Expenditure Forecast
- Long Term Budget Outlook



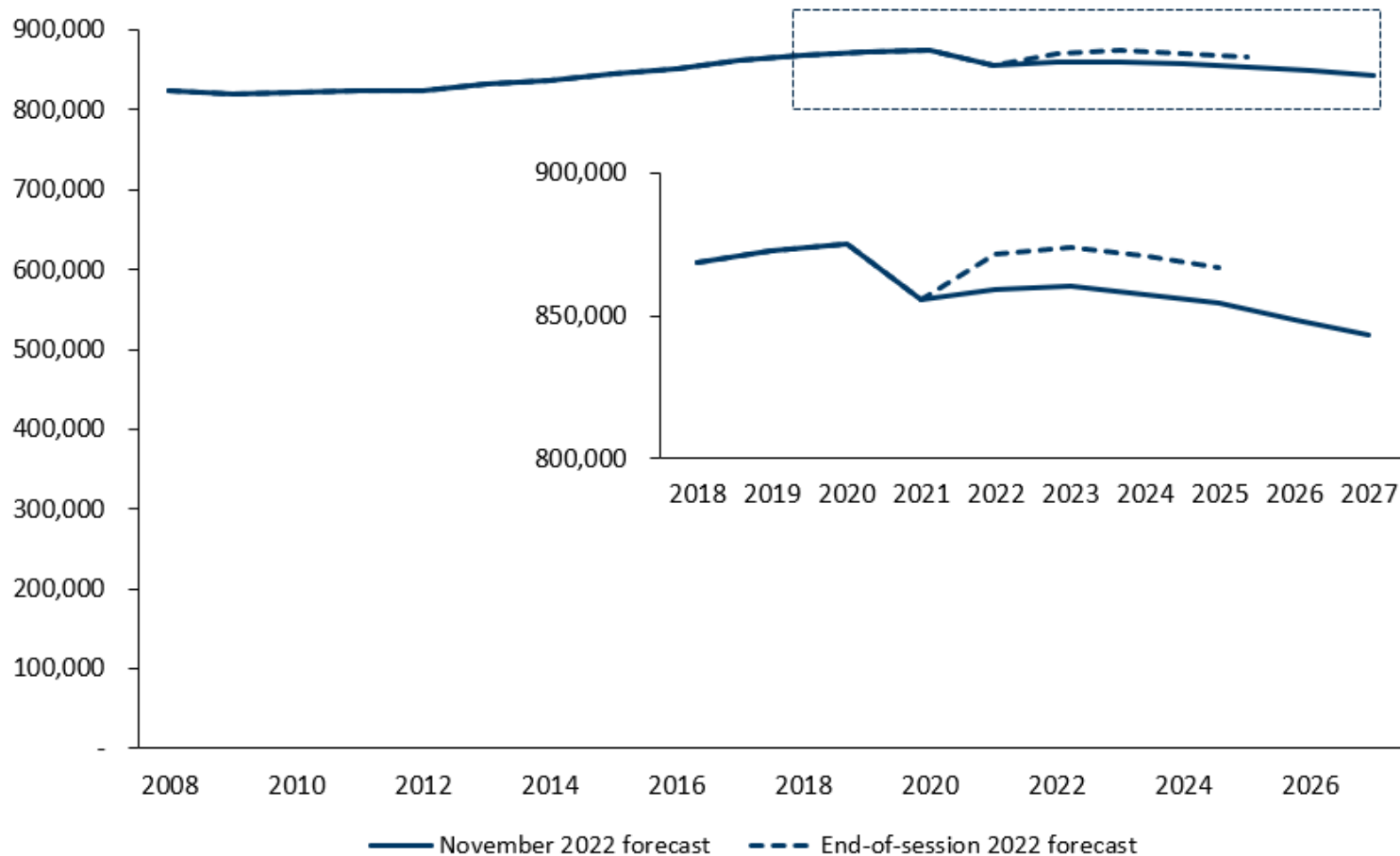
HHS and E-12 Drive Lower Spending

(\$ in millions)

	FY 2022-23		FY 2024-25	
	Nov. 2022 Forecast	Forecast Change	Nov. 2022 Forecast	Forecast Change
E-12 Education	\$20,223	\$(280)	\$21,252	\$9
Health and Human Services	15,234	(1,104)	17,811	(722)
Property Tax Aids and Credits	4,649	(5)	4,476	130
Debt Service	1,140	(43)	1,147	(2)
All Other	10,533	(89)	9,271	(16)
Total Spending	\$51,779	\$(1,521)	\$53,953	\$(600)

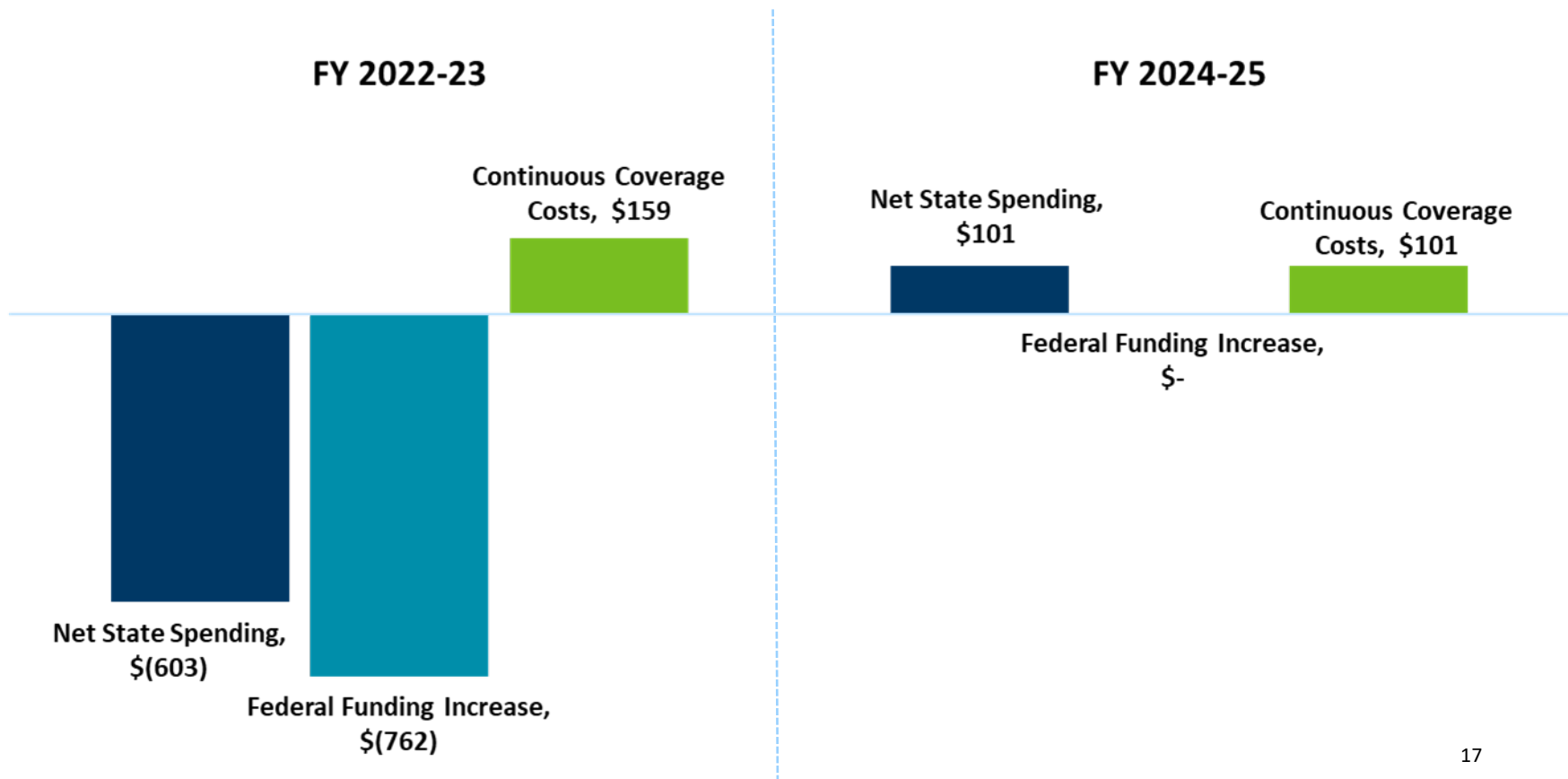
Recent Trends and Slowing Births Lower Pupil Projections

E-12 Education Pupils, Actual and Projected



Public Health Emergency Extension Lowers State Spending

Impact of Three Quarter Extension of PHE on State Spending
(\$ in millions)



Long Term Budget Outlook

(\$ in millions)	FY 2024-25	FY 2026-27	Biennial Growth	Annualized % Growth
Forecast Revenues	\$60,281	\$64,591	\$4,310	3.5%
Projected Spending	53,953	56,161	2,208	2.0%
Structural Balance	\$6,327	\$8,430		
<i>Estimated Inflation</i>	<i>\$1,552</i>	<i>\$3,309</i>		



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