BUDGET AND ECONOMIC FORECAST

MINNESOTA

FEBRUARY 2025

Produced by Minnesota Management and Budget

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Statutory Provisions

In accordance with Minnesota Statutes, section 16A.103, subdivision 1, the commissioner of Minnesota Management and Budget (MMB) must prepare a forecast of state revenue and expenditures in February and November of each year. This forecast must assume the continuation of current laws and reasonable estimates of projected growth in the national and state economies and affected populations.

Revenue must be estimated for all sources provided for in current law. Expenditures must be estimated for all obligations imposed by law and those projected to occur as a result of inflation and variables outside the control of the legislature.

A forecast prepared during the first fiscal year of a biennium must cover that biennium and the next biennium. A forecast prepared during the second fiscal year of a biennium must cover that biennium as well as the next two bienniums.

Notes

Numbers in the text and tables may not add to the totals due to rounding.

Unless otherwise noted, years used to describe the budget outlook are state fiscal years (FY), from July 1 to June 30, and years used to describe the economic outlook are calendar years (CY).

Wage and price inflation is included in revenue estimates.

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EXECUTIVE SUMMARY

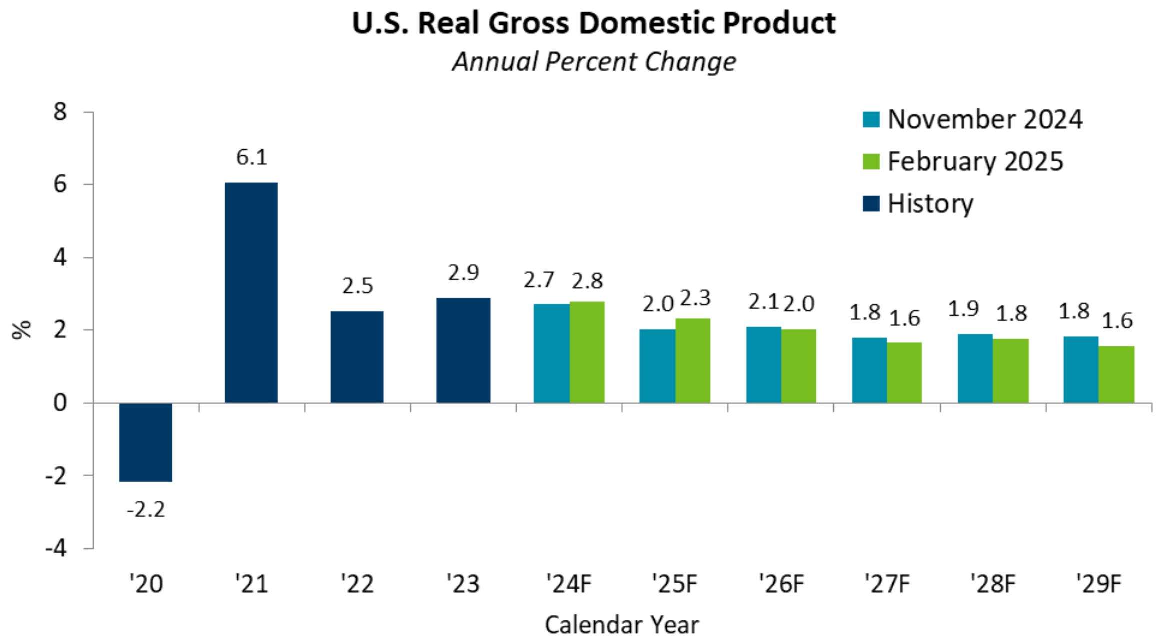
Minnesota's budget outlook has been adjusted downward amid significant near-term economic and fiscal uncertainty. The FY 2026-27 projected balance is now $456 million, $160 million lower than prior estimates. Higher forecast inflation results in increases in projected revenues and expenditures. Spending growth outpaces revenue growth through projections for fiscal year 2029. The projected general fund shortfall for the FY 2028-29 biennium is now $5.995 billion, $852 million worse than November estimates. Shifting policies at the federal level introduce significant uncertainty to the projections.

U.S. Economic Outlook. Since Minnesota's *Budget and Economic Forecast* was last prepared in November 2024, the U.S. economic growth outlook has been revised upward for 2025, but downward for years 2026 through 2029. S & P Global Market Intelligence (SPGMI),[1] Minnesota's macroeconomic consultant, forecasts 2.3 percent growth in real gross domestic product (GDP) in 2025, 0.3 percentage points higher than their November forecast. However, SPGMI has revised downward its projections for 2026 through 2029 since then. In November, the compound annual growth rate (CAGR) for real GDP over this period was 1.8 percent; the updated forecast lowers this to 1.6 percent.

The primary driver of the near-term upward revision in real GDP is stronger-than-predicted real GDP growth in late 2024. The Bureau of Economic Analysis (BEA) advance estimate has real GDP growing at a 2.3 percent annual rate in the fourth quarter of 2024, 0.8 percentage points higher than the November 2024 baseline forecast from SPGMI. The stronger-than-predicted real GDP growth in late 2024 is forecasted to lead to higher consumer spending in 2025. Fourth-quarter GDP growth was driven by continued employment growth and robust consumption spending due to sustained growth in personal income. Additionally, rising equity values are boosting household wealth and adding to consumers' willingness to spend.

However, the outlook for 2026 to 2029 has weakened due to several factors. The February 2025 baseline forecast assumes that domestic tariffs, retaliatory tariffs, tax cuts, and deportations all contribute to higher inflation in 2025 and 2026. As a result, the pace of monetary easing is predicted to slow considerably. In November, SPGMI projected six reductions in the federal funds rate in 2025 and 2026. In contrast, in the February forecast, SPGMI anticipates only one rate cut in 2025, with further rate cuts paused until mid-2026. As a result, higher borrowing costs and a stronger U.S. dollar are expected to constrain growth by reducing private investment, net exports, and some forms of household consumption.

[1] SPGMI is our principal source of macroeconomic forecasts.



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

The U.S. economic growth outlook has been revised upward for 2025, but downward for years 2026 through 2029, since Minnesota's Budget and Economic Forecast was last prepared in November 2024. SPGMI forecasts 2.3 percent growth in 2025, 0.3 percentage points above the November forecast. However, the projections for 2026 through 2029 have been revised downward. In November, the compound annual growth rate (CAGR) for real GDP over this period was 1.8 percent; the updated forecast lowers this to 1.6 percent.

Minnesota Economic Outlook. The economic outlook for Minnesota has weakened since MMB's November 2024 *Budget and Economic Forecast*. We forecast positive but limited growth in employment as we did in the November forecast. The State's unemployment rate remains below the national rate, and we anticipate that this will continue throughout the forecast period. Minnesota's job market remains tight, with more vacancies than unemployed workers. Minnesota's economic outlook is informed by the SPGMI forecasts for both the U.S. and Minnesota, data from the Minnesota Department of Economic and Employment Development (DEED), Quarterly Census of Employment and Wages (QCEW), and Minnesota tax revenues. Minnesota's employment growth has slowed from 1.8 percent in 2023 to an estimated 1.0 percent in 2024. Employment in the state's largest sector, healthcare and social assistance, continues to expand at 7.7 percent annually, but there have been job losses in several key sectors, including manufacturing, professional and business services, financial services, retail trade, and wholesale trade.

The State's unemployment rate rose to 3.3 percent in December of 2024, up 0.6 percentage points from one year ago, and still 0.8 percentage points below the U.S. rate. Additionally, broader labor market indicators suggest softening conditions, with long-term unemployment (those unemployed for more than 27 weeks) more than doubling year-over-year and a growing number of part-time workers unable to find full-time employment. A lower forecast for international immigration, declining birth rates, and the ongoing retirement of Baby Boomers will limit labor force growth and will further constrain employment growth in the coming years. Without sustained worker inflows either from international immigration or domestic migration, employers may struggle to fill jobs, potentially slowing wage growth and overall economic activity.

SPGMI projects a slowdown in the U.S. economy as tight monetary conditions due to elevated inflation constrain growth. Minnesota's economy will likely follow a similar path. While higher inflation will drive higher nominal wage growth in the forecast, we forecast that increases in real (inflation-adjusted) wages will be limited.

Budget Outlook: Current Biennium. The November 2024 *Budget and Economic Forecast* projected a balance of $3.752 billion for the current biennium. With five months remaining, the FY 2024-25 biennium is now projected to end with a balance of $3.742 billion, $10 million less than prior projections.

Current Biennium: FY 2024-25 General Fund Budget

Forecast Comparison

($ in millions)	**November 2024 Forecast**	**February 2025 Forecast**	**$ Change**	**% Change**
Beginning Balance	**$16,516**	**$16,516**	**$ -**	**0.0%**
Revenues				
Taxes	58,022	58,088	66	0.1
Non-Tax Revenues	3,082	3,288	206	6.7
Transfers, Other Resources	330	352	22	6.6
Total Revenues	**$61,434**	**$61,728**	**$294**	**0.5%**
Expenditures				
E-12 Education	24,539	24,549	10	0.0
Property Tax Aids	5,549	5,556	8	0.1
Health & Human Services	20,980	21,264	284	1.4
Debt Service	1,066	1,066	-	0.0
All Other	18,537	18,540	3	0.0
Total Expenditures	**$70,670**	**$70,975**	**$304**	**0.4%**
Budget Reserve	3,177	3,177	-	
Cash Flow Account	350	350	-	
Budgetary Balance	**$3,752**	**$3,742**	**$(10)**	

Revenues. Total general fund revenues for fiscal year (FY) 2024-25 are now forecast to be $61.728 billion, $294 million (0.5 percent) more than in the prior (November 2024) forecast. Total tax revenues for the biennium are forecast to be $58.088 billion, $66 million (0.1 percent) above the prior forecast. The forecasts for individual income tax, the state general property tax, and other tax revenues are lower than previously estimated. These lower forecasts are offset by higher forecasts for corporate tax revenues and sales tax revenues.

Current Biennium: FY 2024-25 General Fund Revenues
November 2024 vs. February 2025 Forecast Comparison

($ in millions)	November 2024 Forecast	February 2025 Forecast	$ Change	% Change
Individual Income Tax	$30,546	$30,426	(120)	-0.4%
General Sales Tax	15,075	15,108	33	0.2
Corporate Franchise Tax	6,307	6,476	169	2.7
State General Property Tax	1,471	1,462	(8)	-0.6
Other Tax Revenue	4,623	4,616	(7)	-0.2
Total Tax Revenues	**$58,022**	**58,088**	**66**	**0.1%**
Non-Tax Revenues	3,082	3,288	206	6.7
Other Resources	330	352	22	6.6
Total Revenues	**$61,434**	**$61,728**	**$294**	**0.5%**

Revenues for FY 2024-25 are now expected to exceed their FY 2022-23 levels by $307 million (0.5 percent). Total tax revenues are projected to be 441 million (-0.8 percent) less than in FY 2022-23. This is the fourth forecast of FY 2024-25 since FY 2024 began on July 1, 2023. After 19 months of observed collections (through January 2025), receipts for FY 2024-25 are $18.843 billion, 79.6 percent of the total expected over the biennium. With 5 months of FY 2024-25 collections left to observe, 20.4 percent of forecast receipts are outstanding.

Expenditures Spending in the FY 2024-25 biennium are now estimated to be $70.975 billion, $304 million (0.4 percent) higher than prior estimates. Driving the overall change is a $284 million increase (1.4 percent) in Health and Human Services (HHS) due to higher medical assistance spending for basic care and long-term care along with a repayment for past overbilling to federal funding for tribal mental health facilities. Spending in all other areas is largely unchanged from November estimates.

Current Biennium: FY 2024-25 General Fund Expenditures
Forecast Comparison

($ in millions)	November 2024 Forecast	February 2025 Forecast	$ Change	% Change
E-12 Education	24,539	24,549	10	0.0%
Property Tax Aids & Credits	5,549	5,556	7	0.1
Health & Human Services	20,980	21,264	284	1.4
Debt Service	1,066	1,066	-	-
All Other	18,536	18,540	3	0.0
Total Expenditures	**70,670**	**70,975**	**304**	**0.4%**

Reserves. The budget reserve balance of $3.177 billion along with the $350 million cash flow account balance are unchanged from November.

Budget Outlook: Next Biennium. The November 2024 forecast projected an available balance of $616 million for the FY 2026-27 biennial budget. Upward revisions in the spending forecast, partially offset by increases to revenue forecast, result in an available balance of $456 million for the FY 2026-27 biennium, $160 million less than prior estimates.

Next Biennium: FY 2026-27 General Fund Budget
Change From November 2024 Forecast

($ in millions)	**November 2024 Forecast**	**February 2025 Forecast**	**$ Change**
Beginning Balance	**$7,279**	**$7,269**	**$(10)**
Forecast Revenues	63,853	64,494	640
Total Projected Spending	66,989	67,779	790
Forecast Spending	*66,062*	*66,634*	*571*
Discretionary Inflation	*926*	*1,145*	*219*
Balance Before Reserve	**$4,153**	**$3,983**	**$(160)**
Budget Reserve	3,177	3,177	-
Cash Flow Account	350	350	-
Budgetary Balance	**$616**	**$456**	**$(160)**
Budgetary Balance without Discretionary Spending Inflation	***$1,542***	***$1,602***	***$59***

In February 2023 statute was amended to require that the impact of inflation be included in spending estimates for all biennia in which a budget is not yet enacted. For the FY 2026-27 biennium this forecast estimates that inflationary cost pressures will add $1.145 billion to base level appropriations, $219 million more than prior estimates due to higher projected rates of inflation. This inflationary estimate is applied only to programs that do not already have inflationary increases built into current law formulas, or about 39 percent of the remaining budget.[2] The estimate of inflation is considered discretionary because it is not included in base level appropriations and the legislature must appropriate the funding for it to be available for agency spending. The remaining budgetary balance in the FY 2026-27 biennium is $1.602 billion if the impact of discretionary inflation is removed from total spending estimates.

The projected FY 2026-27 balance is not considered a surplus because it is estimated using projected revenues and base spending estimates before appropriations for the FY 2026-27 budget are enacted by the 2025 legislature. The projected balance is a starting point for the Governor's budget recommendations and the legislature's budget setting process.

Revenues. Total revenues for FY 2026-27 are now estimated to be $64.494 billion, an increase of $2.766 billion (4.5 percent) from the current forecast for FY 2024-25 revenues. Total tax revenues for FY 2026-27 are estimated to be $61.795 billion, an increase of $3.707 billion (6.4 percent) over

[2] Programs with inflation or cost-based funding already built into current law base funding formulas include general and special education, nutrition funding for schools, HHS managed and long-term care, Minnesota Family Investment Program (MFIP), DHS general assistance, and property tax refunds. Debt service and capital projects are also excluded from the statewide calculation of discretionary inflation.

FY 2024-25 forecast revenues. The growth of individual income tax revenue accounts for 69.4 percent of the biennial tax revenue change, and sales tax revenue growth accounts for 25.4 percent of the biennial tax revenue change. All major tax types except corporate tax revenues show an anticipated increase in projected revenues from FY 2024-25 to FY 2026-27. SPGMI anticipates a slight downturn in corporate profits of -3.8 percent in FY 2026, driving the slight decline in corporate tax revenues.

The current forecast for FY 2026-27 total revenues is $640 million (1.0 percent) more than the prior estimate. Total tax revenues for the next biennium are forecast to be $382 million (0.6 percent) above the prior estimate. Higher forecasts for individual income tax receipts and general sales tax receipts are the primary drivers of the forecast change.

Next Biennium: FY 2026-27 General Fund Revenues

November 2024 vs. February 2025 Forecast Comparison

($ in millions)	**November 2024 Forecast**	**February 2025 Forecast**	**$ Change**	**% Change**
Individual Income Tax	$32,821	$32,999	$178	0.5%
General Sales Tax	15,840	16,049	209	1.3
Corporate Franchise Tax	6,376	6,375	(1)	0.0
State General Property Tax	1,492	1,492	0	0.0
Other Tax Revenue	4,883	4,880	(4)	-0.1
Total Tax Revenues	**$61,412**	**$61,795**	**$382**	**0.6%**
Non-Tax Revenues	2,050	2,308	$258	12.6
Other Resources	391	391	$0	0.0
Total Revenues	**$63,853**	**$64,494**	**$640**	**1.0%**

Expenditures. Forecast expenditures in the FY 2026-27 biennium are expected to reach $67.780 billion, a reduction of $3.195 billion (4.5 percent) from the FY 2024-25 biennium. Significant one-time spending in the FY 2024-25 biennium results in temporarily elevated spending levels. As a result, total general fund spending is projected to decline from the current biennium to the next. This reduction, however, is not uniform across program areas. Spending for health & human services, E-12 education, and debt service are projected to grow from the current biennium to the next, while spending for property tax aids and credits and other areas of the state budget are projected to decline due to significant one-time spending in the current biennium.

Next Biennium: FY 2026-27 General Fund Expenditures
Forecast Comparison

($ in millions)	November 2024 Forecast	February 2025 Forecast	$ Change	% Change
E-12 Education	25,365	25,562	197	0.8%
Property Tax Aids & Credits	4,736	4,753	17	0.4
Health & Human Services	23,808	24,147	339	1.4
Debt Service	1,221	1,223	2	0.2
Estimated Inflation	926	1,145	219	23.7
All Other	10,933	10,950	17	0.2
Total Expenditures	**66,989**	**67,780**	**791**	**1.2%**

Estimated Inflation. State law mandates that the forecast of state spending include estimates of inflationary cost impacts on state programs and operations. Under current law, several state programs, including general education, special education, school nutrition programs, a portion of spending within DHS, DCYF, and property tax refunds include the allowance for rate or cost increases in current law formulas. In addition, including inflation on certain categories of spending, such as debt service and capital project appropriations would not be appropriate. After removing these programs from total spending, inflating the remainder by projected Consumer Price Index growth of 3.0 percent in FY 2026 and 2.9 percent in FY 2027 results in the addition of $1.145 billion in inflationary pressures to total state spending estimates related to the budget for the next biennium, an increase of $219 million (23.6 percent) from November estimates, and $1.597 billion in the FY 2028-29 planning estimates, an increase of $254 million (18.9 percent). The forecast increases are due to higher rates of inflation assumed in the next biennium. This forecast holds an additional $873 million in expected inflationary pressures for the FY 2028-29 biennial budget, down $14 million (1.6 percent) from prior estimates due to a lower adjusted base.

Estimated Inflation: General Fund Expenditure Budget
By Fiscal Year, February 2025 Forecast

($ in millions)	FY 2026	FY 2027	FY 2028	FY 2029
Forecast CPI change yr/yr	**3.0%**	**2.9%**	**1.9%**	**2.3%**
Total Base Expenditures	**32,591**	**34,043**	**35,337**	**36,525**
Expenditures with existing stat. inflation or excluded from calc.				
Med. Asst. Pymts w/ Inflation	6,532	6,925	7,360	7,870
Other HHS	353	415	461	480
General Education	8,513	8,816	9,028	9,166
Special Education	2,798	3,054	3,241	3,413
School Nutrition	322	337	344	348
Property Tax Refunds	827	851	868	896
Debt Service	581	642	678	720
Capital Projects	142	145	148	150
Adjusted Base for Inflation Calc.	**12,523**	**12,859**	**13,210**	**13,481**
Estimated Inflation Added	**376**	**770**	**1,059**	**1,412**

Budget Outlook: Planning Estimates. This forecast contains planning estimates for the FY 2028-29 biennium. While these estimates inherently carry a higher degree of uncertainty than estimates for FY 2025-27, they present an outlook of longer run spending and revenue growth that will assist in budget planning when setting the FY 2026-27 budget.

Revenue projections for FY 2026-29 are based on the *SPGMI* February baseline forecast for the planning years. Expenditure projections assume that current law funding levels and policies continue unchanged, adjusted for caseload and enrollment changes authorized in law, as well as formula-driven growth. Expenditure estimates also include the impact of expected inflationary cost pressure for FY 2026-29.

Projected inflationary growth based on the Consumer Price Index is now forecast to be 3.0 percent in FY 2026 and 2.9 percent in FY 2027. In the planning biennium, inflationary growth is expected to be 1.9 percent in FY 2028 and 2.3 percent in FY 2029.

Planning Horizon: General Fund Budget
By Biennium, FY2026-29, February 2025 Forecast

($ in millions)	FY 2026-27	FY 2028-29	$ Change	Annual % Change
Forecast Revenues	**$64,494**	**$67,882**	**$3,388**	**2.3%**
Forecast Spending	*66,634*	*71,862*	*5,228*	*3.8*
Discretionary inflation (FY 2026-27)	*1,145*	*1,597*		
Discretionary inflation (FY 2028-29)[3]	-	*$873*		
Total Projected Spending	**$67,780**	**$74,332**	**$6,553**	**4.7%**
Structural Balance with Inflation	**$(3,286)**	**$(6,450)**		
Structural Balance excluding Inflation	*$(2,140)*	*$(3,980)*		

Biennial spending growth is currently forecast to exceed biennial revenue growth throughout the FY 2026-29 budget planning horizon. Revenue growth is expected to average 2.3 percent annually, while spending growth is expected to average 3.8 percent annually before inclusion of discretionary inflation, and 4.7 percent per year with discretionary inflation. Spending has exceeded revenue since FY 2024 while large balances left from the FY 2020-23 period partially supported the budget set for FY 2024-25. Spending growth exceeding revenue growth has resulted in the structural deficit growing from $3.286 billion in FY 2026-27 to a projected $6.450 billion in FY 2028-29.

[3] Discretionary inflation estimates are calculated using base spending forecasts for each year with inflationary growth compounding in each year against baseline spending. The discretionary inflation estimate displayed disaggregates the estimated impact of inflation needed for the budget set in 2025 for the FY 2026-27 biennium and its impact on the FY 2028-29 biennium and, on a separate line, the estimated impact of inflation needed for the budget set in 2027 for the FY 2028-29 biennium.

ECONOMIC OUTLOOK

U.S. Economic Outlook

Since Minnesota's *Budget and Economic Forecast* was last prepared in November 2024, the U.S. economic growth outlook has been revised upward for 2025, but downward for years 2026 through 2029. S & P Global Market Intelligence (SPGMI),[4] Minnesota's macroeconomic consultant, forecasts 2.3 percent growth in real gross domestic product (GDP) in 2025, 0.3 percentage points higher than their November forecast. However, SPGMI has revised downward its projections for 2026 through 2029 since then. In November, the compound annual growth rate (CAGR) for real GDP over this period was 1.8 percent; the updated forecast lowers this to 1.6 percent.

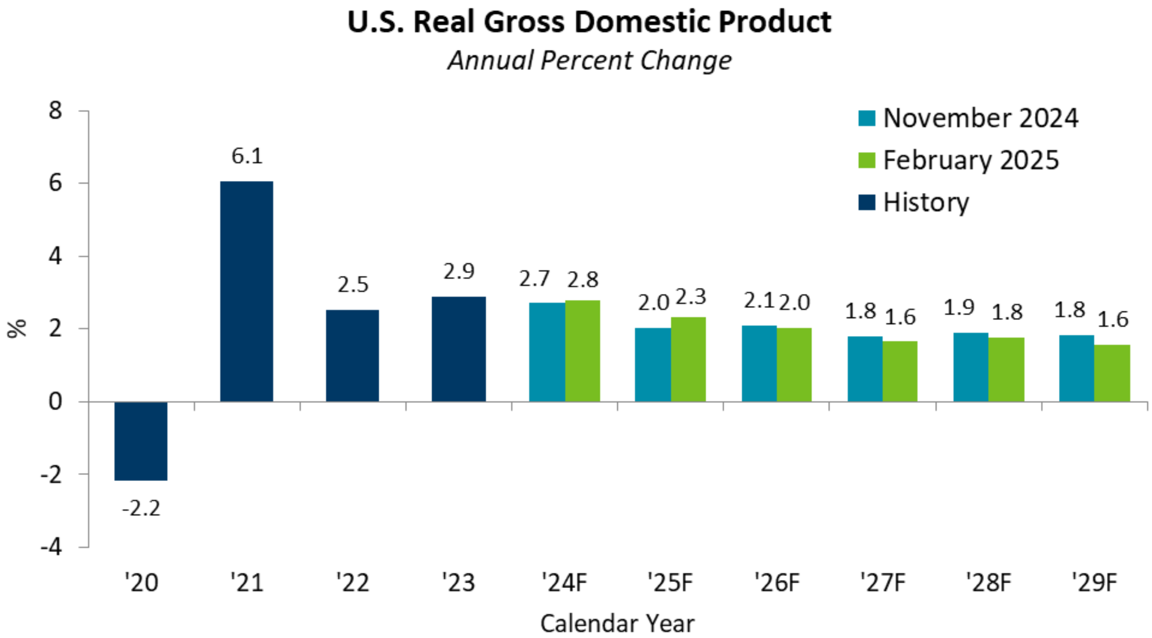
The primary driver of the near-term upward revision in real GDP is stronger-than-predicted real GDP growth in late 2024. The Bureau of Economic Analysis (BEA) advance estimate has real GDP growing at a 2.3 percent annual rate in the fourth quarter of 2024, 0.8 percentage points higher than the November 2024 baseline forecast from SPGMI. The stronger-than-predicted real GDP growth in late 2024 is forecasted to lead to higher consumer spending in 2025. Fourth-quarter GDP growth was driven by continued employment growth and robust consumption spending due to sustained growth in personal income. Additionally, rising equity values are boosting household wealth and adding to consumers' willingness to spend.

However, the outlook for 2026 to 2029 has weakened due to several factors. The February 2025 baseline forecast assumes that domestic tariffs, retaliatory tariffs, tax cuts, and deportations all contribute to higher inflation in 2025 and 2026. As a result, the pace of monetary easing is predicted to slow considerably. In November, SPGMI projected six reductions in the federal funds rate in 2025 and 2026. In contrast, in the February forecast, SPGMI anticipates only one rate cut in 2025, with further rate cuts paused until mid-2026. As a result, higher borrowing costs and a stronger U.S. dollar are expected to constrain growth by reducing private investment, net exports, and some forms of household consumption.

In this forecast, higher levels of inflation (compared to the November 2024 forecast) result in higher forecasts for both nominal wage growth and nominal consumer spending. Our revenue forecasts rely on nominal values, as taxes are levied on nominal dollars. However, it is important to distinguish between nominal and real (inflation-adjusted) growth. Higher nominal wage and spending growth do not necessarily translate to gains in real terms. When prices rise, consumers spend more dollars to purchase fewer goods and services. Throughout this forecast, careful

[4] SPGMI is our principal source of macroeconomic forecasts.

attention must be given to the distinction between nominal and real growth to assess economic conditions accurately.



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

The U.S. economic growth outlook has been revised upward for 2025, but downward for years 2026 through 2029, since Minnesota's Budget and Economic Forecast was last prepared in November 2024. SPGMI forecasts 2.3 percent growth in 2025, 0.3 percentage points above the November forecast. However, the projections for 2026 through 2029 have been revised downward. In November, the compound annual growth rate (CAGR) for real GDP over this period was 1.8 percent; the updated forecast lowers this to 1.6 percent.

Key Forecast Assumptions

The SPGMI baseline February forecast was released on February 10, 2025. The SPGMI February forecast depends on several important forecast assumptions. If these assumptions do not materialize, economic outcomes will differ from SPGMI's baseline forecast.

SPGMI's February 2025 baseline forecast assumes a 10 percent universal tariff phased in over one year, a 20 percent tariff on imports from China, and a 25 percent tariff on all steel and aluminum imports effective March 12, 2025.

The current baseline forecast depends on the Federal Reserve's ability to further curb inflation. SPGMI assumes the Federal Reserve will reduce the federal funds rate once in 2025, then pause further cuts until mid-2026. Thereafter, SPGMI anticipates the Federal Reserve will gradually reduce the federal funds rate target to 3.0-3.25 by early 2027. SPGMI forecasts CPI inflation of 2.9 percent in 2025, 3.0 percent in 2026, and an annual average of 2.2 percent in years 2027-2029. If inflation persists above these levels, the Federal Reserve may not lower its interest rate target as much as assumed in the baseline forecast. Higher interest rates would tend to lower private investment and some forms of consumer spending relative to the baseline forecast, reducing GDP growth below the rates in the baseline forecast.

Worsening conflicts in Ukraine and in the Middle East pose risks to this forecast if they persist and/or intensify, leading to persistently higher energy prices and the re-emergence of supply-chain issues.

Under the Fiscal Responsibility Act of 2023 (FRA23) the debt ceiling was suspended through 2024 with the suspension ending on January 1, 2025. The Treasury has undertaken “extraordinary measures” to meet its obligations in 2025. SPGMI assumes that the debt ceiling is raised or suspended prior to the exhaustion of these “extraordinary measures.”

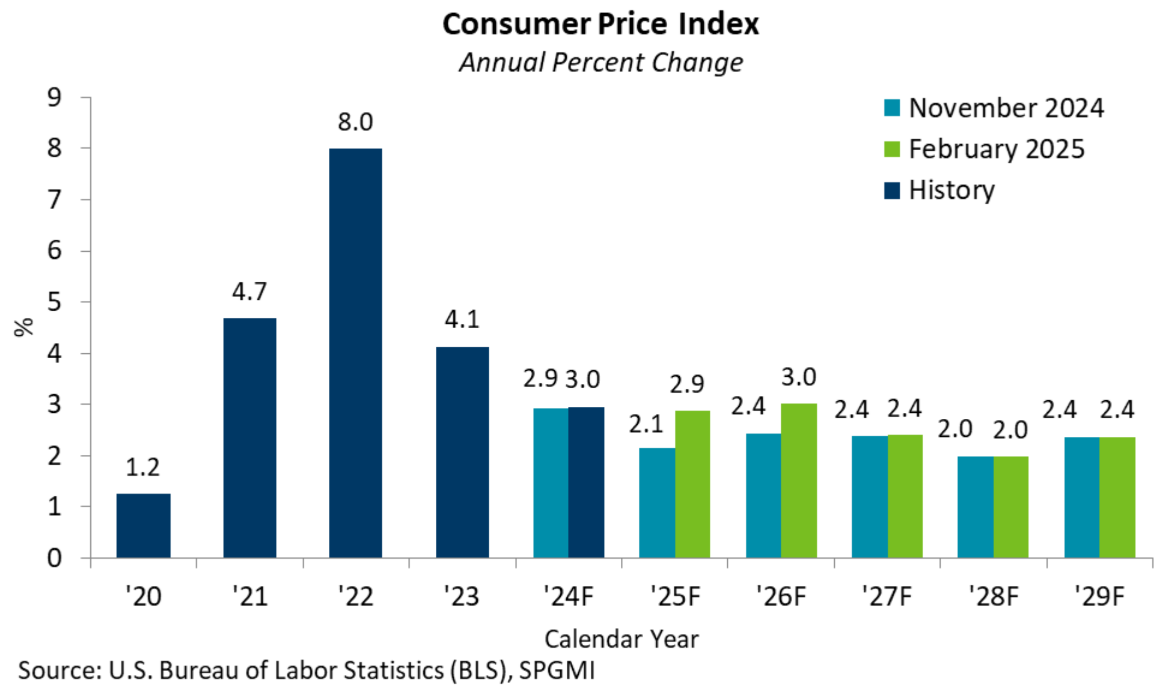
SPGMI assumes extension of current personal income tax policy beyond the scheduled expiration of the Tax Cut and Jobs Act (TCJA) in 2026. They also assume some exclusion of overtime pay and tips from taxation. The forecast also incorporates a lowering of the corporate tax rate from 21 percent to 15 percent for corporations that produce domestically.

SPGMI reduced their forecast for net international migration by 500,000 per year, relative to Census projections, for 2025 through 2028.

Inflation. The U.S. inflation rate, as measured by both the Consumer Price Index (CPI) and the Federal Reserve’s preferred measure, core Personal Consumption Expenditure (core PCE), are forecasted to rise in 2025. The CPI increased by 0.5 percent in January, following an increase of 0.4 percent in December. The year-over-year CPI inflation rate rose 0.1 percentage points in January 2025 to 3.0 percent, up from its three-year low of 2.4 percent in September. Also in January, year-over-year core PCE inflation decreased to 2.6 percent, a drop of 0.3 percentage points from December 2024. Progress on lowering core PCE inflation has stalled since June 2024, when it was also at 2.6 percent.

Renewed inflation concerns among consumers were evident in the latest University of Michigan “Surveys of Consumers,” where consumers’ expectations of inflation over the next year rose from 3.3 percent in January to 4.3 percent in February. The Michigan index of consumer sentiment dropped to 64.7 in February, down from 71.7 in January 2025, possibly reflecting consumers’ inflation fears.

SPGMI projects CPI inflation will remain elevated at an annual rate of 2.9 percent in 2025 and 3.0 percent in 2026 before falling below 3.0 percent in 2027-2029. Similarly, core PCE inflation is forecasted to be 2.7 percent in 2025 and 2.8 percent in 2026 before falling to the Federal Reserve’s 2.0 percent target in 2027-2029.



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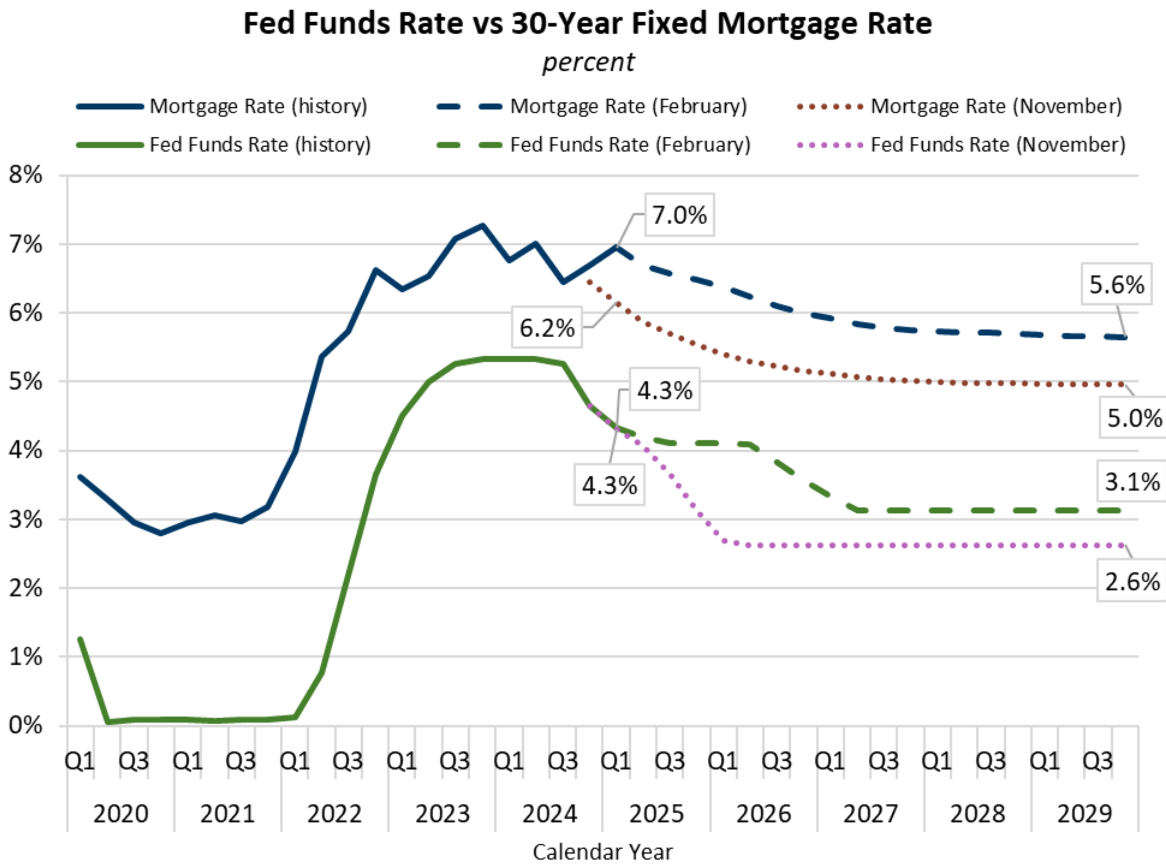
Monetary Policy and Interest Rates. The Federal Reserve has been steadily lowering interest rates since September. The federal funds rate target was decreased by 100 basis points over the last three meetings of 2024, dropping the rate from nearly 5.5 percent to 4.5 percent. SPGMI forecasts another rate cut at the May 2025 meeting, followed by a pause in cuts until mid-2026. Beginning in mid-2026 they predict the Federal Reserve will begin gradually lowering the federal funds rate target until stabilizing at 3.0 to 3.25 percent by 2027, and will maintain that level through 2029. This marks a significant forecast change since November, when SPGMI forecasted six rate cuts in 2025, with the federal funds rate target stabilizing at 2.5 to 2.75 percent in 2026.

The federal funds rate and other key interest rates, such as the 30-year fixed mortgage rate, are related but not directly linked. When the Federal Reserve raises the federal funds rate, it puts upward pressure on mortgage rates by increasing banks' borrowing costs. In November 2024, SPGMI predicted that the 30-year fixed mortgage rate would fall below 6.0 percent in the second quarter of 2025. In this forecast, SPGMI predicts that the 30-year fixed mortgage rate will remain above 6.0 percent until 2027. Another key rate is the yield on 10-year U.S. Treasury securities. SPGMI forecasts the 10-year Treasury yield to stay above 4.0 percent until late 2026 and to stabilize at 3.9 percent through our forecast horizon. In their November 2024 forecast, SPGMI predicted the 10-year Treasury yield to be below 4.0 percent throughout 2025, falling to 3.25 percent by mid-2027 and stabilizing there through our forecast horizon.



Source: Freddie Mac, SPGMI

In November, SPGMI projected six reductions in the federal funds rate. In the February outlook, SPGMI anticipates only one rate cut in 2025, with monetary easing paused until mid-2026. The February outlook predicts the federal funds rate target to stabilize at 3.0 and 3.25, compared to a stable rate of 2.5 to 2.75 in the November 2024 forecast. The 30-year fixed mortgage rate is predicted to remain above 6.0 percent until 2027.

Corporate Profits. The SPGMI forecast for corporate profits in this forecast is little changed since November 2024. In the near-term, the forecast has been revised upward for 2025, and in the long-term, the forecast has been revised down slightly. SPGMI estimates that before-tax U.S. corporate profits grew 6.4 percent in 2024.[5] Beginning in the second quarter of 2025, SPGMI forecasts corporate profits to decline for six consecutive quarters, which will result in a decline in corporate profits for 2025 of -0.6 percent and -2.4 percent for 2026. SPGMI forecasts a return to modest growth in profits of 1.2 percent for 2027, 2.0 percent for 2028, and 2.1 percent for 2029. In November 2024, SPGMI forecasted corporate profits to decline 2.5 percent in 2025 and 0.5 percent in 2026, with growth averaging 1.8 percent in years 2027 through 2029.

Federal Fiscal Policy. Under the Fiscal Responsibility Act of 2023 (FRA23), the debt ceiling was suspended through 2024. The debt-limit suspension ended on January 1, 2025, and the Treasury

[5] The BEA's estimate for corporate profits for the fourth quarter of 2024 will be released on March 27, 2025.

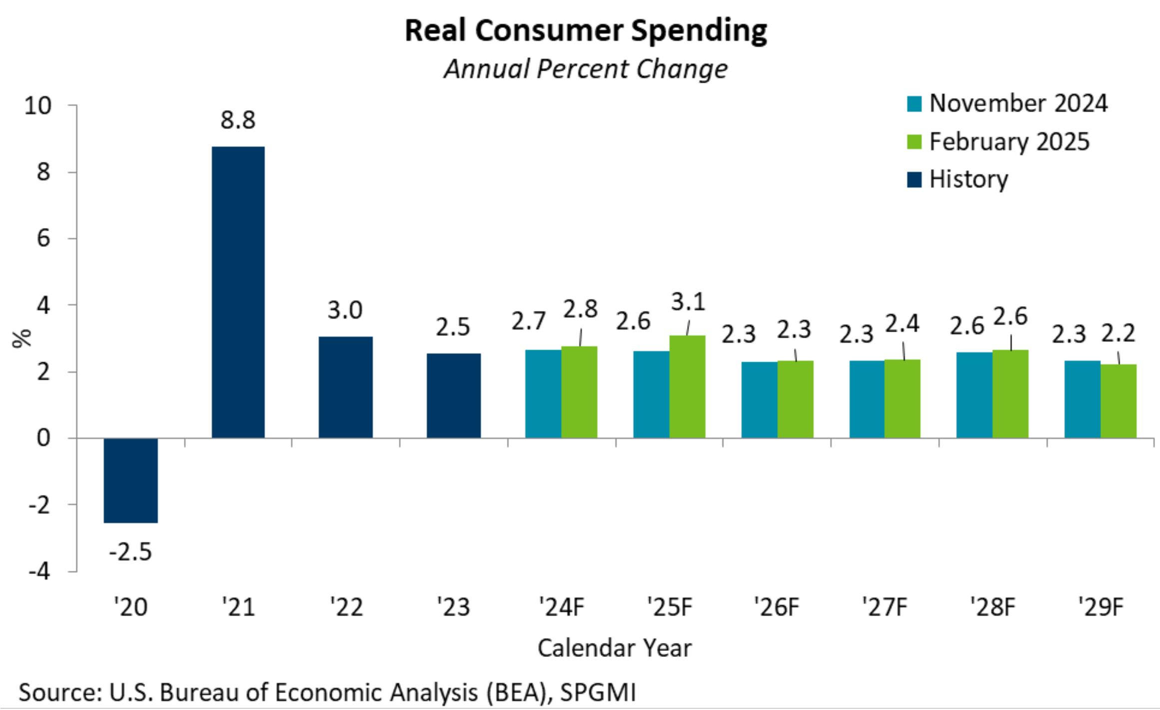
has undertaken extraordinary measures to meet its obligation. The debt ceiling is assumed to be raised or suspended prior to the exhaustion of these extraordinary measures.

This forecast assumes that personal tax policy includes extension beyond the scheduled expiration of the Tax Cut and Jobs Act (TCJA) in 2026. The forecast assumes a lower corporate tax rate on corporate income from 21 percent to 15 percent for corporations that produce domestically.

Social Security and Medicare benefits are assumed to continue without interruption, even after projected trust fund exhaustion. Additionally, this forecast assumes some exclusion of tip and overtime pay from federal taxation.

Real Consumer Spending. Growth in real personal consumer expenditures, also referred to as real consumer spending, increased to 4.2 percent (annual rate) in the fourth quarter of 2024, up from 3.7 percent in the third quarter. Sales of new motor vehicles surged at the end of 2024, driven by year-end incentives and lower interest rates.

SPGMI now forecasts that real consumer expenditure to grow 3.1 percent in 2025, 0.5 percentage points higher than in their November 2024 forecast. In 2026, SPGMI predicts that consumer spending will grow 2.3 percent, that same as in November. They forecast consumer spending to increase 2.4 percent on average from 2026 through 2029, making consumer spending the primary contributor to GDP growth.

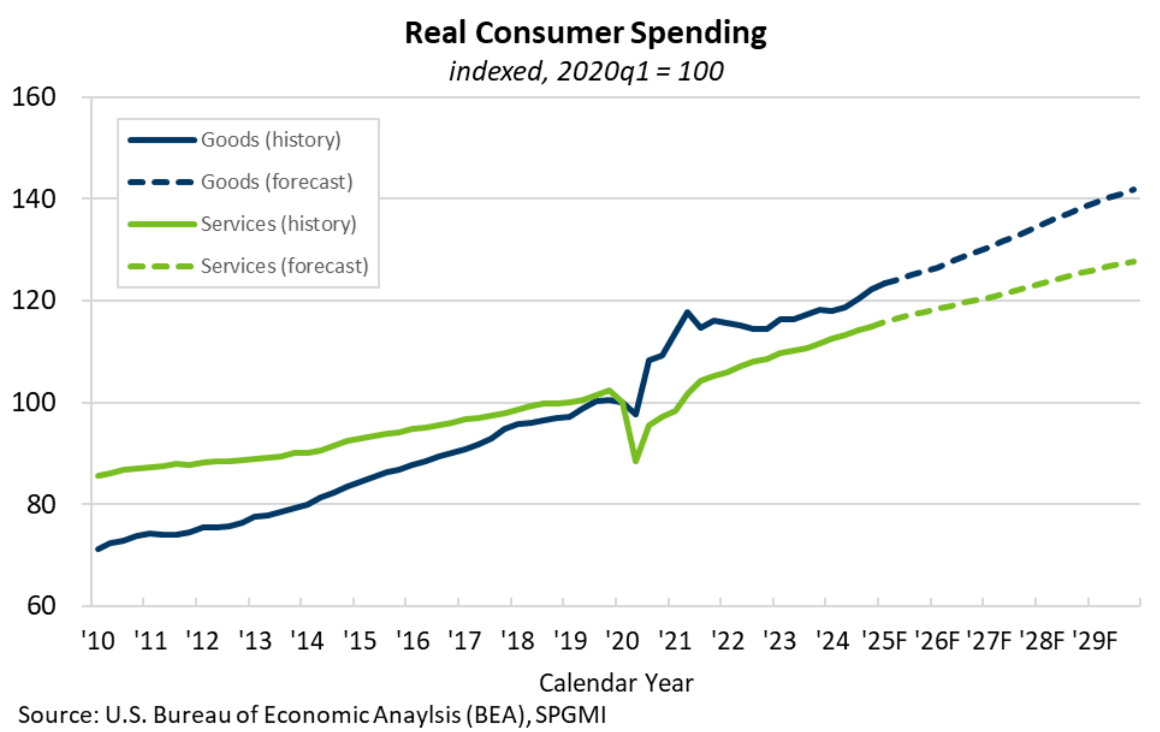


Stronger than anticipated growth in the fourth quarter of 2024 bolsters the forecast for real consumer spending in both 2024 and 2025. Real consumer spending is forecasted to remain the primary contributor to growth in the economy throughout the forecast horizon.

Real disposable personal income grew by 5.1 percent in 2023, rebounding from a 5.6 percent decline in 2022 caused by high inflation and limited nominal increases coupled with reduced government transfer payments. The 2022 annual decrease was the largest in the history of the series, which began in 1960. Inflation slowed in 2023 and 2024, enabling wages, salaries, and other income sources to rise faster than prices on average. As a result, real disposable income grew 2.9 percent in 2024. SPGMI forecasts annual real disposable personal income growth to be 2.8 percent for 2025, followed by 3.4 percent in 2026, and an average of 2.8 percent from 2027 to 2029 as nominal income continues to exceed inflation.

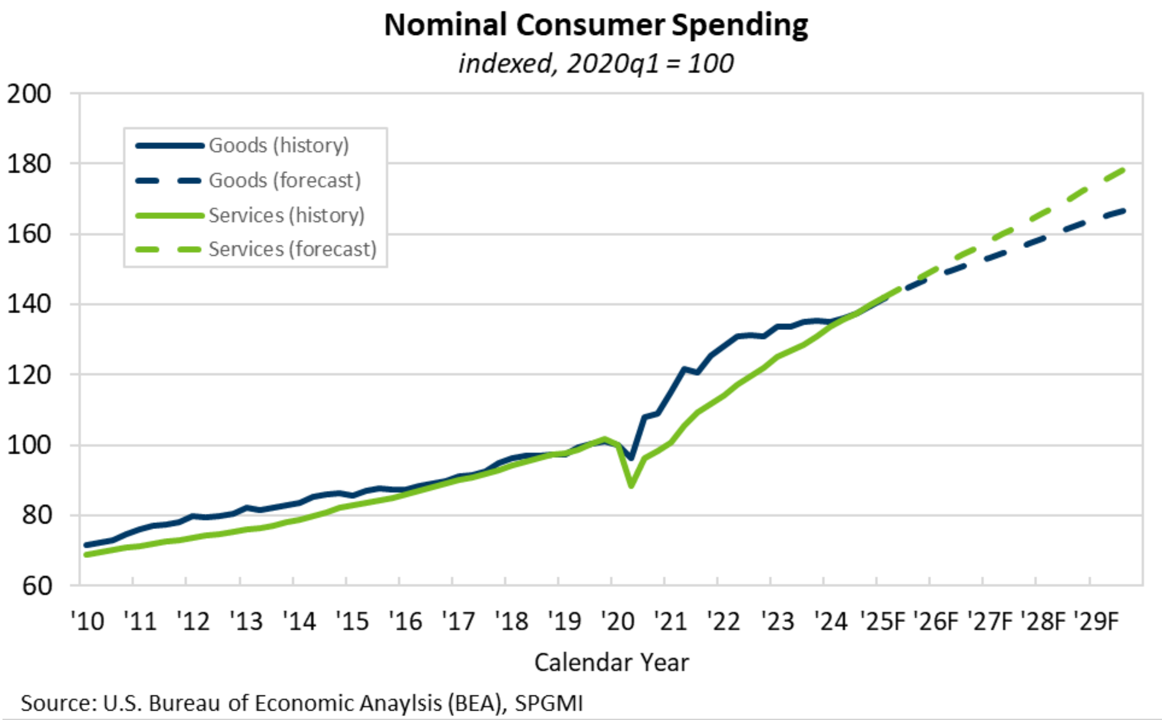
Between 2010 and 2019, the personal savings rate averaged 6.1 percent. In 2020 and 2021, personal savings surged to 15.2 percent and 11.1 percent, respectively, because of stay-at-home orders and fiscal stimulus. During the subsequent period of inflation, the personal savings rate fell to a low of 3.0 percent in 2022, the lowest rate since 2007. The personal savings rate recovered to 4.7 in 2023 and 2024. This forecast predicts that we are entering another period of inflation above the Federal Reserve's desired rate. During the period of high inflation in 2021-2023, households maintained their spending by drawing down accumulated savings. Now that their pandemic-era fiscal stimulus savings have been exhausted, households will not have personal savings to act as a cushion to absorb higher prices, and higher inflation may constrain real consumption levels.

During the pandemic, consumers shifted their real spending from personal services and recreational activities to goods. This shift caused real spending on durable and non-durable goods to substantially exceed their pre-pandemic peaks, while real spending on services declined temporarily. Real spending patterns have now resumed their pre-pandemic trends.



During the pandemic, consumers shifted their spending from personal services and recreational activities to goods. Real spending patterns have now resumed their pre-pandemic trends.

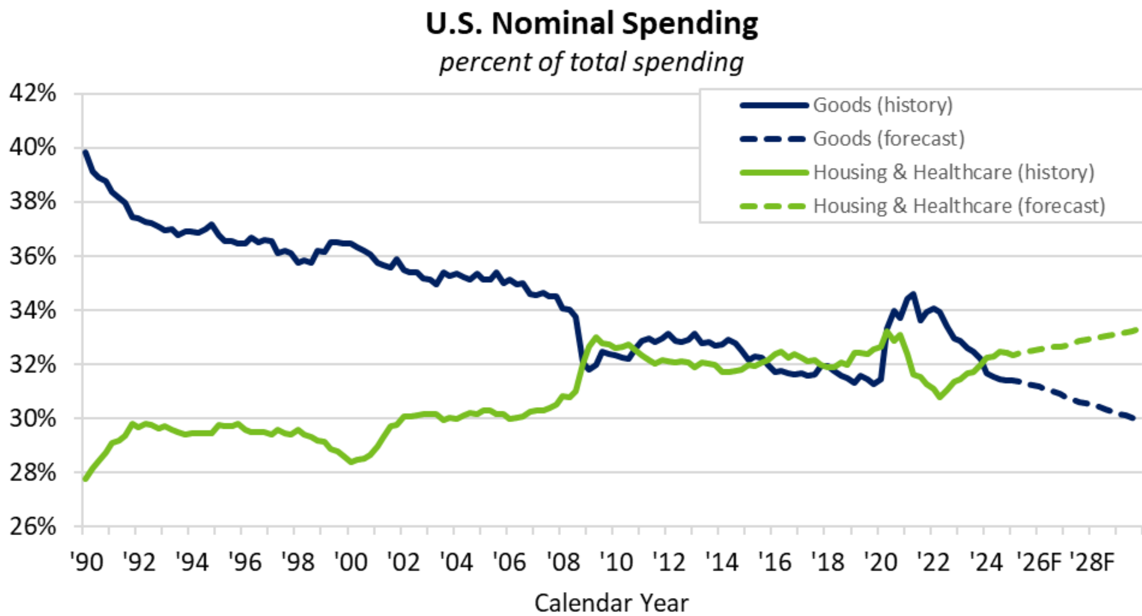
The pattern is similar when looking at nominal spending, which includes the effects of price changes. High goods inflation during the pandemic, coupled with above-trend real spending, caused nominal goods spending to exceed its pre-pandemic trend. As a result, the level of goods spending has undergone a permanent upward shift. Nominal services spending, on the other hand, suffered from decreases in real spending during the pandemic. Services spending has steadily recovered from its pandemic low, and growth in services spending is predicted to exceed growth in goods spending throughout the forecast horizon.



The level of nominal goods spending underwent a permanent upward shift during the pandemic due to high goods inflation and above-trend real spending. Nominal services spending, on the other hand, suffered from decreases in real spending. Services spending has steadily recovered from its pandemic low, and growth in services spending is predicted to outpace growth in goods spending throughout the forecast horizon.

For decades, consumers have generally dedicated increasingly smaller portions of their budgets to goods, in large part due to general price declines in prices of many goods. At the same time, consumers have generally dedicated increasingly larger portions of their budgets to services, including housing and healthcare services.

From 2020 to 2022, these longstanding trends were temporarily interrupted by the pandemic, as high goods inflation added to real goods spending increases and consumers reduced services spending. In 2023 and 2024, consumers again spent decreasing shares of their budgets on goods and increasing shares of their budgets on services. Consumers are now spending about as much of their budgets on goods as they were in 2019 (a record low share of 31 percent). SPGMI forecasts the goods share of spending to continue to decline further through the forecast horizon. They also forecast the share of consumer spending on housing and healthcare services to reach a record high of 33 percent in late 2025 and continue rising thereafter.



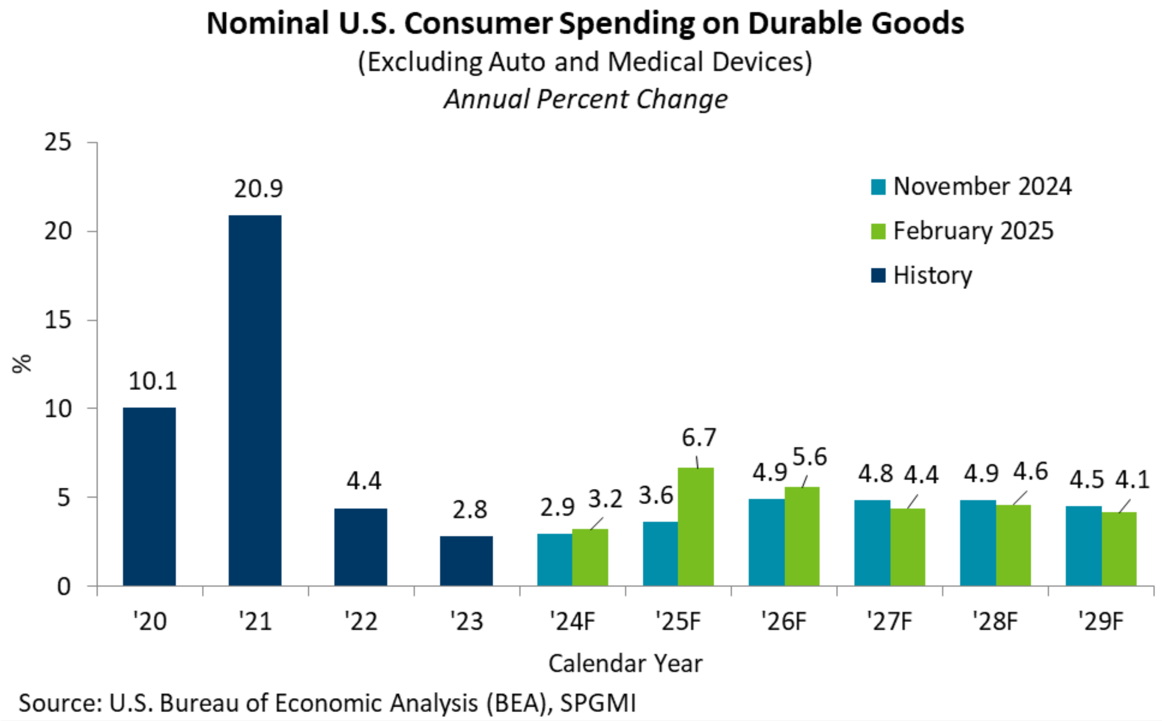
Source: U.S. Bureau of Economic Analysis (BEA), SPGMI

For decades, consumers have generally dedicated increasingly smaller portions of their budgets to goods and increasingly larger portions of their budgets to services, including housing and healthcare services. From 2020 to 2022, this longstanding trend was temporarily interrupted by the pandemic, as high goods inflation added to real spending increases and consumers cut back on services spending. SPGMI forecasts the goods share of spending to decline to new record lows through the forecast horizon. They also forecast the share of spending on housing and healthcare services to reach record highs starting in 2026.

SPGMI predicts nominal consumer spending on durable goods (excluding automobiles and medical devices) to increase 6.7 percent in 2025 and 5.6 percent in 2026, compared to the November forecast of 3.6 percent in 2025 and 4.9 percent in 2026.

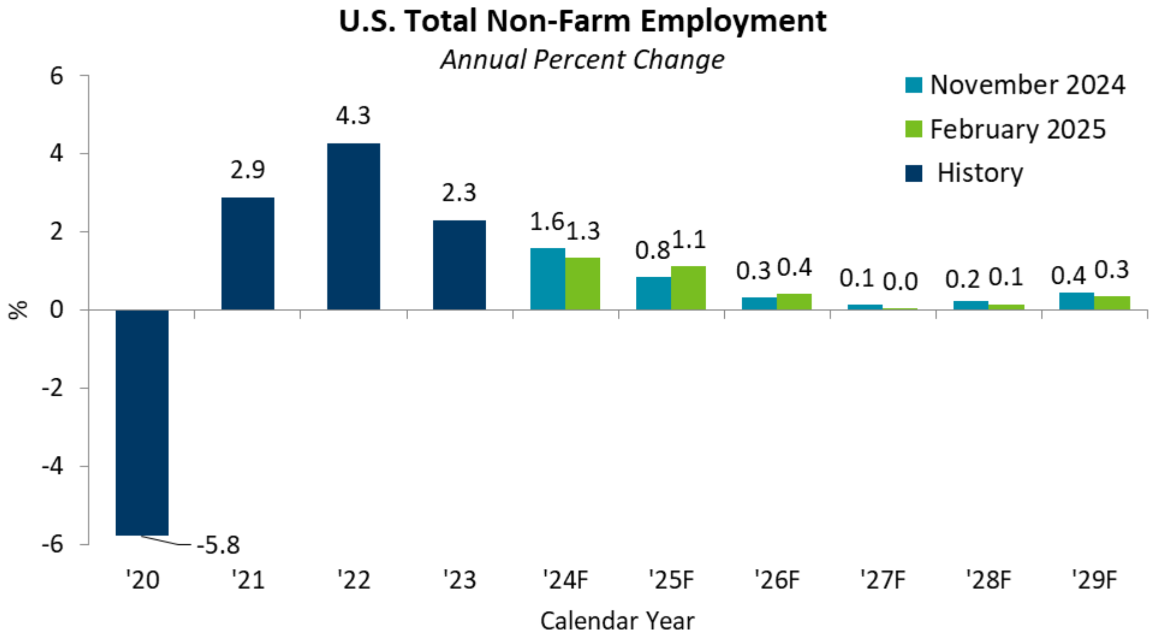
In real terms, SPGMI predicts consumer spending on durable goods (excluding automobiles and medical devices) to increase 7.0 percent in 2025 and 6.2 percent in 2026, compared to the November forecast of 5.6 percent in 2025 and 7.6 percent in 2026. Spending on Other Services[6] is predicted to increase by 2.7 percent in 2025 and 3.6 percent in 2026.

[6] Other services include communication services, education services, professional and other services, personal care and clothing services, social services, and household maintenance services.



SPGMI predicts nominal consumer spending on durable goods (excluding automobiles and medical devices) to increase 6.7 percent in 2025 and 5.6 percent in 2026, compared to the November forecast of 3.6 percent in 2025 and 4.9 percent in 2026.

Labor Market. From 2010 through 2019, U.S. employers added an average of 2.2 million jobs per year, or an average of 183,000 jobs per month. Payroll employment growth remained strong in 2024, increasing by an average of 166,000 jobs per month, or 2.0 million for the year. SPGMI forecasts employment growth to continue in 2025, with an additional 1.8 million jobs, or an average of 150,000 jobs per month. However, beyond 2025, employment growth is forecasted to slow significantly to roughly 35,000 jobs per month, or about 600,000 new jobs per year. This transition marks a structural change in employment growth in the United States. The lower level of projected job growth in this forecast reflects the changing demographic composition of the U.S. labor force. Lower projected levels of immigration in this forecast further constrain the economy's potential employment growth.



Source: U.S. Bureau of Labor Statistics (BLS), SPGMI

Payroll employment remained strong in 2024, growing by an average of 166,000 jobs per month, or 2.0 million for the year. SPGMI forecasts employment growth to continue in 2025, with an additional 1.8 million jobs, or an average of 150,000 jobs per year. Beyond 2025, employment growth is forecasted to slow significantly to about 600,000 new jobs per year, or roughly 35,000 jobs per month.

The U.S. unemployment rate was 4.0 in January 2025, up slightly from 3.7 percent one year earlier. SPGMI forecasts the unemployment rate to rise to a peak of 4.5 percent in 2027 due to slowing payroll growth. In January, the U-6 unemployment rate, the broadest measure of unemployment, was 7.5 percent, up from 7.2 percent a year earlier.[7]

The gap in unemployment between Black and White Americans is near a record low. From 2010 through 2019, the gap between the Black unemployment rate and the White unemployment rate averaged 5.3 percentage points. From 2020 through 2024, the gap averaged 3.1 percentage points. Over the past twelve months, the gap has averaged 2.4 percentage points. From 2010 to 2019, the gap between the unemployment rates for the Hispanic or Latino workers[8] and the overall population averaged 1.5 percentage points. That gap narrowed slightly to 1.3 percentage

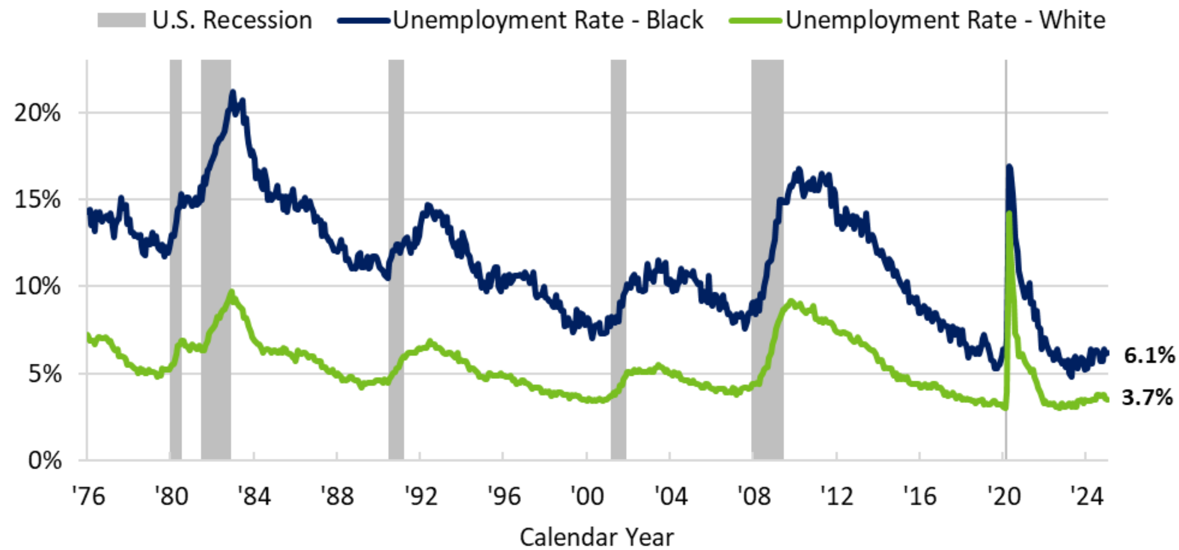
[7] The U-6 rate is the total unemployed, plus all people marginally attached to the labor force, plus total employed part time for economic reasons, as a percent of the civilian labor force plus all people marginally attached to the labor force. People marginally attached to the labor force are those who currently are not working and have not looked for work in the past four weeks but indicate that they want and are available for a job and have looked for work sometime in the past 12 months. People employed part time for economic reasons are those who want and are available for full-time work but have had to settle for a part-time schedule.

[8] In the Current Population Survey (CPS, also called the "household survey"), the source of monthly unemployment data, "Hispanic or Latino" is an ethnicity, not a race, as persons classified as "Hispanic or Latino" can be of any race.

points from 2020 through 2024, and over the past twelve months, that gap has narrowed further to 1.0 percentage points. SPGMI does not provide forecasts for either employment growth or unemployment rates by race or ethnicity.

U.S. Unemployment Rate by Race

Seasonally Adjusted, Monthly



Source: U.S. Bereau of Labor Statistics (BLS), Federal Reserve Bank of St. Louis (FRED)

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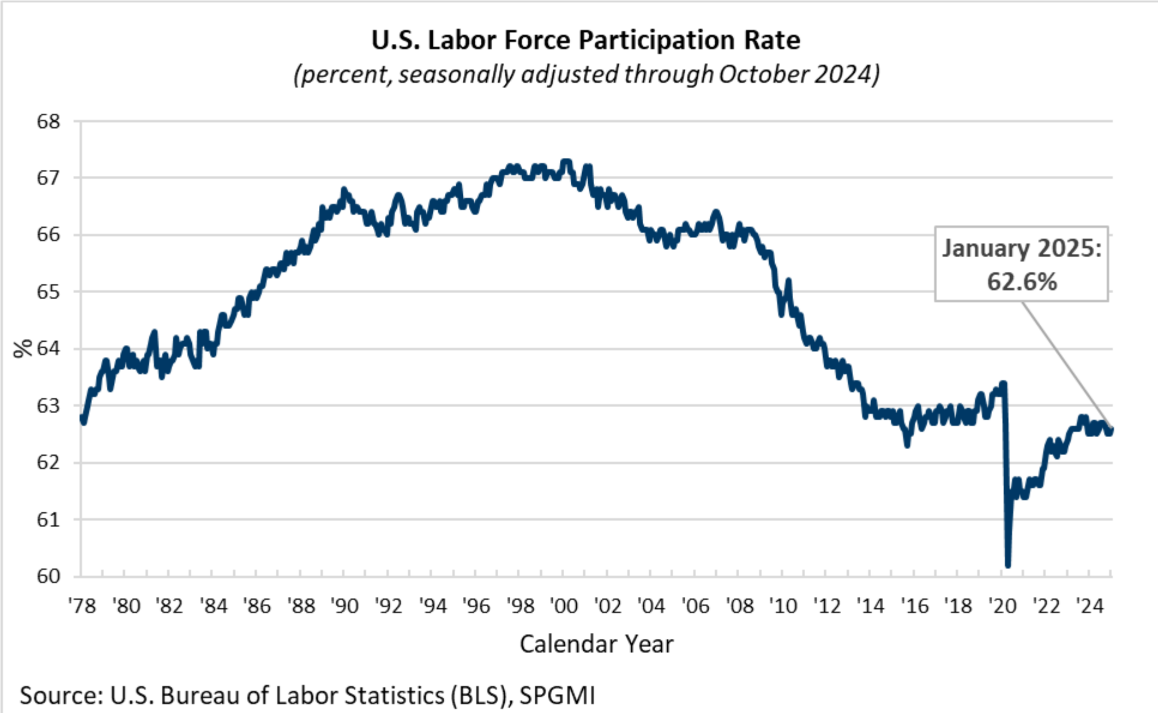
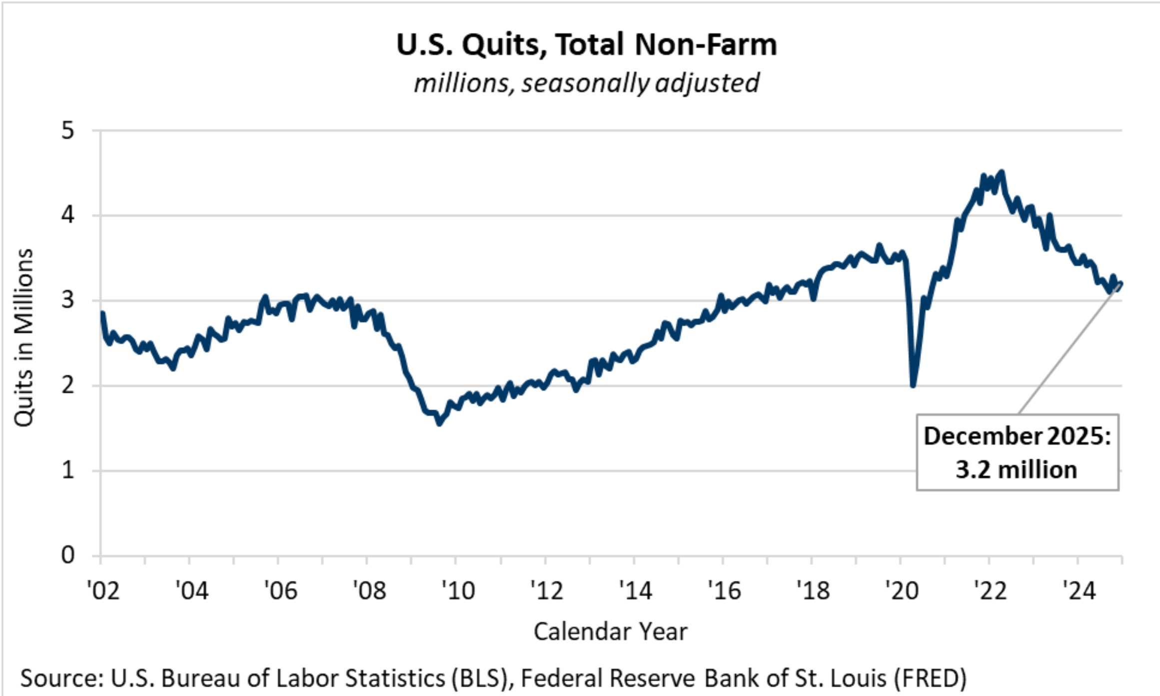
The U.S. labor force participation rate, the proportion of potential workers who were employed or unemployed and actively seeking employment, was 62.6 percent in January 2025, where it has remained relatively stable over the past twelve months. The participation rate remains below its pre-pandemic level of 63.3 percent in February 2020. An aging population is a major factor putting downward pressure on the labor force participation rate, a factor likely to continue throughout the forecast horizon.



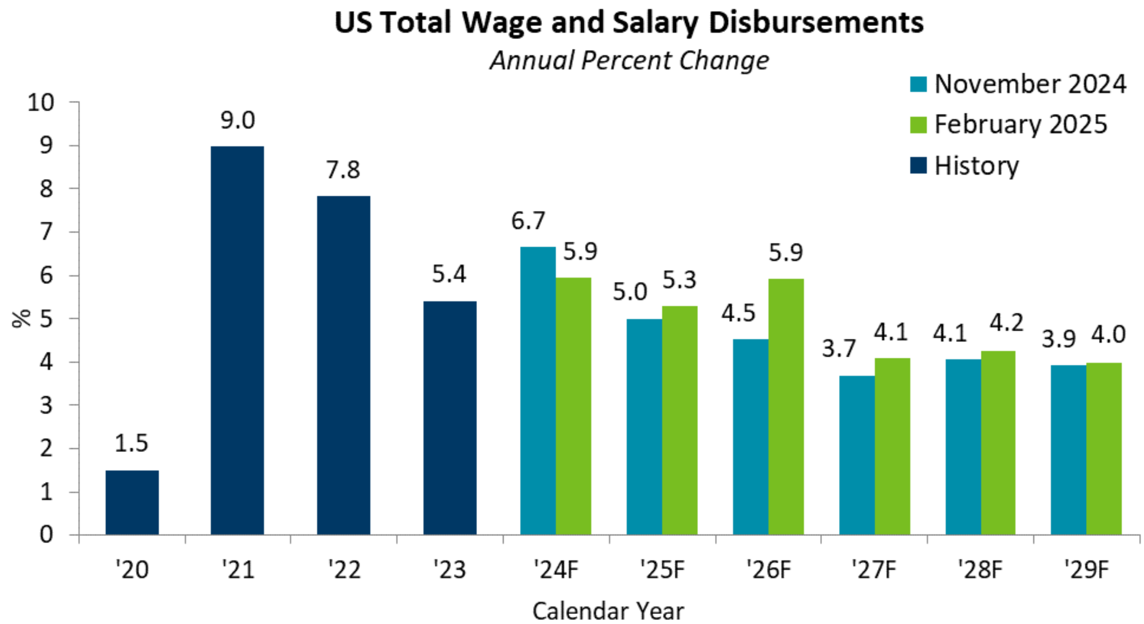
The U.S. labor force participation rate, the proportion of potential workers who were employed or unemployed and actively seeking employment, was 62.6 percent in January, the same as it was one year ago. The participation rate remains below the pre-pandemic peak. An aging population is a major factor putting downward pressure on the labor force participation rate, a factor likely to continue throughout the forecast horizon.

In recent years, the U.S. labor market has experienced historically high levels of voluntary job separations, called "quits," where individuals were comfortable leaving one job for other opportunities elsewhere. Quits peaked at 4.5 million in April 2022, which represented 4.5 million workers voluntarily leaving their jobs during that month. Quits have fallen steadily to a level of 3.2 million per month in December 2024, slightly below the average level in the months prior to the pandemic.



Quits peaked at 4.5 million in April 2022, which represented 4.5 million workers voluntarily leaving their jobs during the month. Quits have slowly moderated to their current level of 3.2 million, which is slightly below the levels seen just prior to the pandemic.

Wage and Salary Income. Steady growth in nominal wages and salaries continues to support consumer spending in this forecast. SPGMI forecasts wage and salary income to be the primary driver of personal income growth during the forecast period. SPGMI forecasts wage growth of 5.9 percent in 2024, a downward revision of 0.8 percentage points since the November forecast. The forecast for the annual growth rate in wage and salary income has been revised upward in 2025 and 2026 to 5.3 and 5.9 percent, respectively, in part because higher inflation, as SPGMI assumes, will usually lead to higher growth in nominal wages as workers receive higher cost-of-living adjustments to their wages, other things being equal. The annual growth rate of wage and salary income is forecasted to average 4.1 percent in the years 2027-2029 in this forecast.

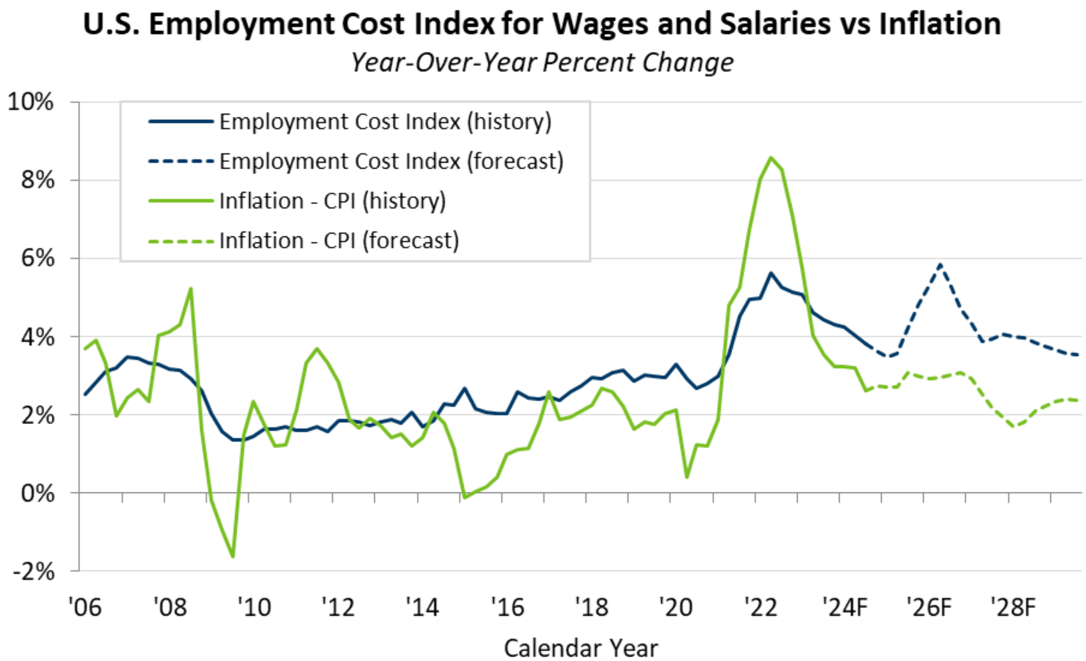


Source: Bureau of Economic Analysis (BEA), SPGMI

SPGMI forecasts wage growth of 5.9 percent in 2024, a downward revision of 0.8 percentage points since November. The forecast for wage and salary income annual growth rate has been revised upward in 2025 and 2026 to 5.3 and 5.9 percent, respectively, in part because higher inflation, as SPGMI assumes, will usually lead to higher growth in nominal wages as workers receive higher cost-of-living adjustments to their wages, other things being equal. The annual growth rate of wage and salary income is forecasted to average 4.1 percent in the years 2027-2029 in this forecast.

The BLS employment cost index (ECI) measures the percentage change in the labor cost to employers over time. The ECI uses a fixed "basket" of labor to be free from the effects of employment shifts between occupations and industries. The BLS indexes total compensations, wage and salary costs, and benefit costs.

The graph below shows the ECI for wages and salaries (compensation excluding benefits). From the second quarter of 2021 through the first quarter of 2023, inflation, as measured by the CPI, exceeded the growth in the ECI for wages and salaries. Since then, growth in the ECI for wages and salaries has exceeded inflation. In December 2024, the ECI for wages and salaries was 3.8, indicating that employers' wage and salary costs were 3.8 percent higher than a year earlier. Over the same period, the CPI rose by 2.9 percent. SPGMI predicts employment costs for wages and salaries will continue to grow faster than the rate of inflation throughout the forecast horizon.

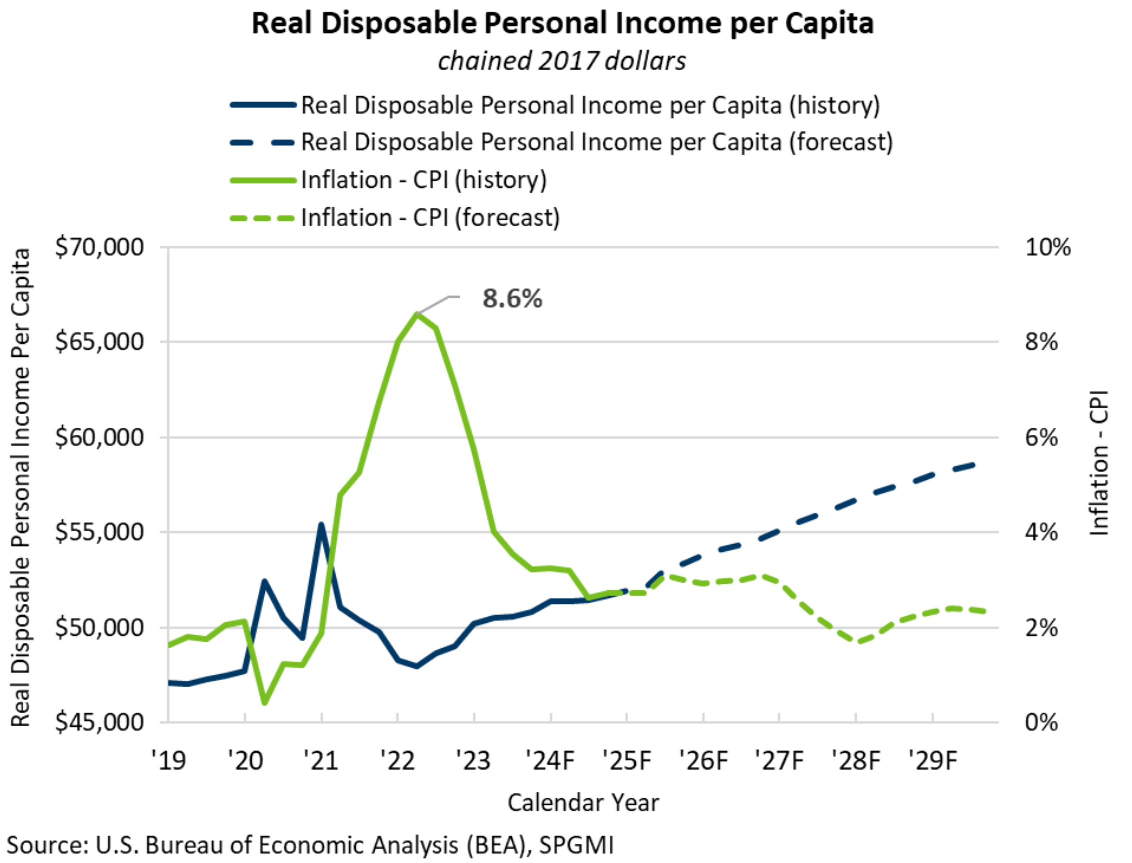


Source: Bureau of Economic Analysis (BEA), SPGMI

From the second quarter of 2021 through the first quarter of 2023, CPI inflation exceeded the increase in the ECI for wages and salaries. Since then, increases in the ECI for wages and salaries have exceeded inflation. SPGMI predicts wage and salary costs will continue to rise faster than inflation throughout the forecast horizon.

U.S. real disposable personal income per capita, one measure of consumers' purchasing power, declined 6.1 percent in 2022; the same year, CPI inflation peaked at 8 percent. In 2023, real disposable personal income grew 4.2 percent as CPI inflation fell to an annual rate of 4.1 percent, and income growth continued at a strong pace. Elevated levels of real disposable income in 2020 and 2021 provided households with significant savings, which allowed for sustained spending even as real income per capita fell.

Real disposable personal income per capita increased 1.9 percent in 2024, while the inflation rate rose to 3.0 percent. SPGMI forecasts real disposable personal income per capita to increase by 2.2 percent in 2025, followed by an average 2.8 percent growth in 2026 through 2029.

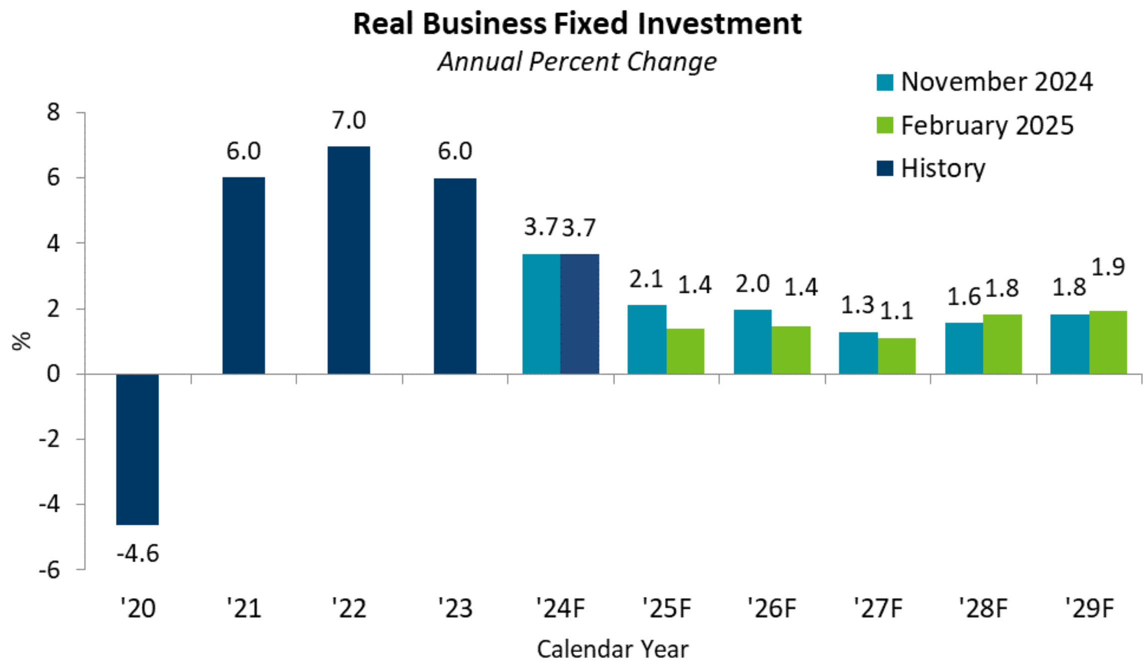


U.S. real disposable personal income per capita, a key measure of purchasing power, declined 6.1 percent in 2022; the same year, CPI inflation peaked at 8 percent. SPGMI forecasts real disposable personal income per capita to increase 2.2 percent in 2025, followed by an average 2.8 percent in years 2026 through 2029.

Real Business Fixed Investment. In the February outlook, SPGMI forecasts real business fixed investment (real private nonresidential fixed investment) to increase 1.4 percent in 2025, a downward revision of 0.7 percentage points from their November forecast. This marks a continued slowdown from annual growth rates of 6.0 percent in 2023 and 3.7 percent in 2024.

High interest rates and stricter bank lending standards for commercial and industrial real estate loans continue to constrain businesses' access to credit to finance capital investment. Manufacturing structures, particularly in plants producing semiconductors and electric vehicle batteries, have driven recent growth in real business fixed investment, but these investments are about to peak and turn down, removing a key source of investment. Uncertainty about trade policy could reduce businesses' willingness to undertake new investment spending in industries with high exposure to international trade.

From 2014-2024, growth in real business fixed investment averaged 4.2 percent per year. For 2025 through 2029, SPGMI forecasts real business fixed investment to grow at an average annual rate of 1.5 percent, a marked slowdown from the previous decade.



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

In their February outlook, SPGMI forecasts real business fixed investment (real private nonresidential fixed investment) growth of 1.4 percent in 2025, a downward revision of 0.7 percentage points from the November estimate.

Other forecasts and real GDP growth. The SPGMI February baseline forecasts are generally consistent with those of other macroeconomic forecasters. [9] Wolter Kluwer's February "Blue Chip Economic Indicators," a monthly survey of 50 business and academic forecasts, reports a consensus (mean) forecast of 2.2 percent growth in real GDP in 2025 and 2.0 percent growth in 2026, exactly matching SPGMI's forecast values. The Philadelphia Federal Reserve Bank's "First Quarter 2025 Survey of Professional Forecasters" (SPF) shows a median forecast of 2.4 percent growth in real GDP in 2025, 2.2 percent in 2026, 1.8 percent in 2027, and 2.0 percent in 2028.

The Blue Chip consensus (mean) forecast for CPI inflation in 2025 and 2026 are 2.7 percent and 2.6 percent, respectively. SPGMI forecasts slightly higher inflation rates of 2.9 percent and 3.0 percent for the same years. The first quarter 2025 SPF reports a median forecast of 2.8 percent in 2025, 2.6 percent in 2026, and 2.3 percent in 2027.

The Blue Chip consensus unemployment rate forecasts are 4.3 percent for 2025 and 4.2 percent for 2026 compared with SPGMI's forecasts of 4.2 percent and 4.4 percent for the same years. The first quarter 2025 SPF reports median forecasts for the unemployment rate of 4.2 percent in both 2025 and 2026, followed by 4.3 percent in both 2027 and 2028.

[9] Two popular surveys of macroeconomic forecasters are Wolter Kluwers's "Blue Chip Economic Outlook" and the Philadelphia Federal Reserve Bank's "Survey of Professional Forecasters." SPGMI is one of the forecasters included in both surveys.

Forecast risks. There are risks inherent in this forecast in addition to the uncertainty surrounding the economic impacts of policy proposals from the new administration. First, this forecast's long-run real GDP growth of 1.8-2.0 percent annually is below the 2.4 percent average annual growth rate the economy experienced from 2010-2019, and it is well below the 3.1 percent average annual growth rate of GDP experienced during the 20 years prior to the Great Recession. A lower growth rate means that an adverse shock to real GDP is more likely to result in a decline in output, other things being equal. Second, SPGMI's February outlook does not fully incorporate potential tariffs or policy uncertainties. Tariffs have the potential to cause additional inflation, which would likely trigger a response from the Federal Reserve in the form of higher interest rates (or delayed lowering of rates). These higher rates would tend to suppress private investment, both residential and nonresidential, and consumers' purchases of "big ticket" items such as motor vehicles and some durable goods. Further, policy uncertainty can cause businesses and consumers to be less willing to take on debt, which could also reduce investment and consumption.

Policy changes and uncertainties at the federal level introduce important forecast risks. The projection for federal employment has changed considerably in recent weeks but is not yet accounted for in this forecast. The spillover effects of federal spending pauses and contract terminations are also not accounted for in this forecast. Finally, SPGMI assumes suspension or raising of the debt ceiling, extension of the provisions of the 2017 Tax Act, a reduction of the corporate tax rate, some exclusion of overtime and tip income, and no reductions to Social Security or Medicare. Deviations from these assumptions could lead to economic outcomes that differ substantially from SPGMI's baseline forecast.

The current baseline forecast also depends on the Federal Reserve's ability to further reduce annual inflation to the target of 2.0 percent.[10] SPGMI assumes the Federal Reserve will reduce the federal funds rate target once in 2025 and then pause cuts until mid-2026. Thereafter, SPGMI assumes a gradual reduction of the federal funds rate target to 3.0-3.25 by early 2027. As a result, SPGMI forecasts CPI inflation of 2.9 percent in 2025, 3.0 percent in 2026, and average 2.2 in years 2027-2029. If inflation persists above its desired level, the Federal Reserve may delay interest rate reductions compared to what is assumed in the baseline forecast. Higher interest rates would tend to reduce private investment and some forms of consumer spending, reducing GDP growth.

Other key assumptions of SPGMI's February outlook are that: (1) a 10 percent universal tariff phased in over one year, a 20 percent tariff on imports from China, and a 25 percent tariff on all steel and aluminum imports effective March 12, 2025, (2) global GDP growth reaches 2.0 percent in 2024 and 2025, followed by an increase to 2.2 percent in 2026, (3) the Brent crude oil price will continue to fall from $81/barrel in 2024 to $74/barrel in 2025 and $69/barrel by 2026, (4) Under the Fiscal Responsibility Act of 2023 (FRA23) the debt ceiling was suspended through 2024. The debt-limit suspension ended on January 1, 2025, and the Treasury has undertaken extraordinary measures to meet its obligations. The debt ceiling is assumed to be raised or suspended prior to the exhaustion of these extraordinary measures, (5) personal tax policy includes extension beyond the scheduled expiration of the Tax Cut and Jobs Act (TCJA) in 2026. The forecast excludes a lower corporate tax rate on corporate income from 21 percent to 15 percent for corporations

[10] The Federal Reserve's target inflation rate is inflation in the personal consumption expenditure (PCE) price index. Since 2010, the year-over-year inflation rate in the CPI has averaged approximately 0.4 percentage points more than the PCE year-over-year inflation rate.

that produce domestically, and (6) SPGMI reduced their forecast for net international migration by 500,000 per year, relative to Census projections, for years 2025-2028.

SPGMI develops alternative scenarios to the baseline which they call the “optimistic” and “pessimistic” scenarios. They assign a 50 percent probability to the February baseline outlook as described above.

SPGMI assigns a 25 percent probability to the “optimistic” scenario which is characterized by lower tariffs across the board and less severe retaliatory actions by trading partners. Lower tariffs lead to faster moderation in inflation, which allows the Federal Reserve to lower interest rates more than in the baseline. This, along with improved financial conditions, is an additional source of strength in the economy. The scenario assumes that deportations happen slower and on a smaller scale relative to the baseline, resulting in less stress on labor markets and, by extension, economic output. GDP growth remains consistently above baseline through early 2028 due to the joint effects of favorable financial conditions resulting from the lower tariffs and higher labor force growth. The unemployment rate remains at approximately 4.2 percent through 2029.

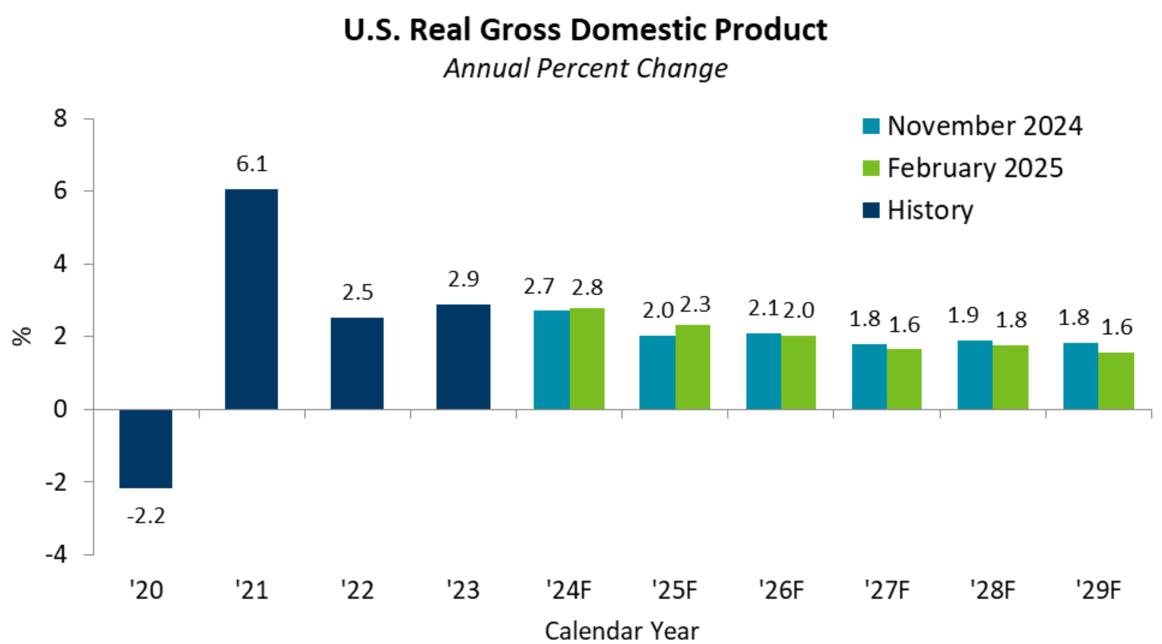
SPGMI assigns a 25 percent probability to the “pessimistic” scenario, which is characterized by higher across-the-board tariffs and more retaliatory actions by trading partners. It is assumed that higher tariffs cause higher inflation and lead to the Federal Reserve keeping interest rates elevated. Annual CPI inflation will remain at or above 3 percent through 2026. Tight financial conditions create an additional source of weakness in the economy. The scenario also assumes that deportations happen faster and on a larger scale relative to the baseline. Tight trade policy puts downward pressure on imports of goods and pushes net exports higher than in the baseline, while the stricter immigration policy has an adverse effect on the labor force and, by extension, on economic output. While there is no recession in the SPGMI pessimistic scenario, growth remains consistently below baseline, and the unemployment rate rises to 5.1% by mid-2027.

Council of Economic Advisors' Statement

Draft of February 18, 2025

Minnesota's Council of Economic Advisors met on February 14, 2025, to review the Standard and Poors Global Market Intelligence (SPGMI) February 2025 outlook for the U.S. economy, which includes the macroeconomic assumptions incorporated in Minnesota's *February 2025 Budget and Economic Forecast*. Council members agreed that there remains substantial uncertainty in the new administration's policy initiatives, especially regarding trade and fiscal policies. Further, some recent policy initiatives were announced after SPGMI released their February outlook and so are not incorporated into their analysis.

Since the release of the *November 2024 Budget and Economic Forecast*, growth in real GDP for 2024 was 0.1 percentage points higher than forecasted in November on the strength of the economy's fourth-quarter performance. SPGMI now forecasts this higher growth to carry forward into 2025, raising the outlook for real GDP growth in that year by 0.3 percentage points. However, SPGMI's current outlook is for lower growth beyond 2025 than they had forecasted in November.

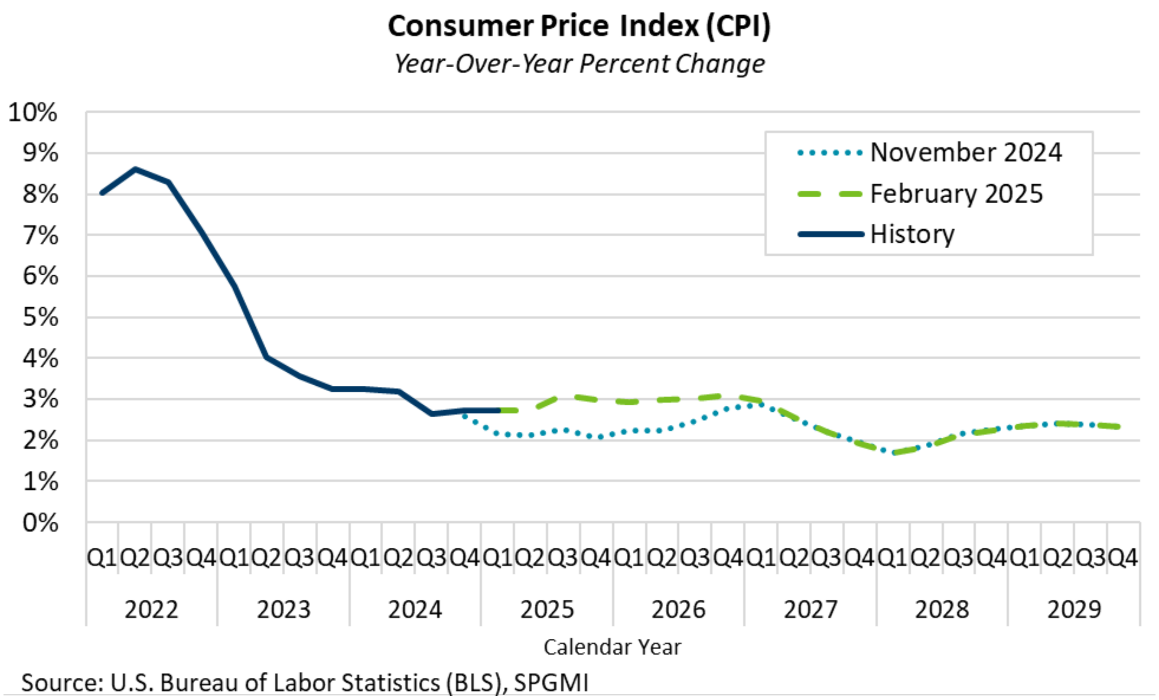


Source: U.S. Bureau of Economic Analysis (BEA), SPGMI

Since the release of the November 2024 Budget and Economic Forecast, growth in real GDP for 2024 was 0.1 percentage points higher than forecasted in November on the strength of the economy's fourth-quarter performance. SPGMI now forecasts this higher growth to carry forward into 2025, raising the outlook for real GDP growth in that year by 0.3 percentage points. However, SPGMI's current outlook is for lower growth beyond 2025 than they had forecasted in November.

The U.S. inflation rate, as measured by the Consumer Price Index (CPI, all items), has come down substantially since 2022. The year-over-year inflation rate exceeded eight percent in 2022 and then dropped below three percent in 2024. However, inflation has increased over the past two months. The Bureau of Labor Statistics (BLS) reports year-over-year changes of 2.9 percent in

December 2024 and 3.0 percent in January 2025. SPGMI now forecasts the inflation rate will average approximately three percent for 2025 and 2026 before declining to approximately two percent by 2028. This represents an upward revision of up to one percentage point in SPGMI's inflation forecasts for 2025 and 2026 compared to their November 2024 forecast.



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SPGMI now anticipates that the Federal Reserve will lower the federal funds rate target range only once in 2025, while their November forecast anticipated a series of several rate cuts in 2025 and 2026. The current outlook is for the federal funds rate targets to remain above 4 percent through mid-2026, approximately 1.5 percentage points higher than in the November forecast. In the longer term, SPGMI forecasts the federal funds rate target range declining to approximately three percent by mid-2027 and stabilizing there through the end of our forecast horizon.

SPGMI's baseline forecast for 2025 is generally consistent with those of other macroeconomic forecasters. The February Blue Chip Consensus, the median of 50 business and academic forecasts, is for real GDP to grow 2.3 percent in 2025 and 2.0 percent in 2026, exactly matching SPGMI's forecast values. The Blue Chip Consensus medians for CPI inflation in 2025 and 2026 are 2.7 percent and 2.5 percent, respectively. SPGMI forecasts slightly higher inflation rates of 2.9 percent and 3.0 percent for the same years. The Blue Chip Consensus median unemployment rate is 4.3 percent for 2025 and 4.2 percent for 2026 compared with SPGMI's forecasts of 4.2 percent and 4.4 percent for the same years.

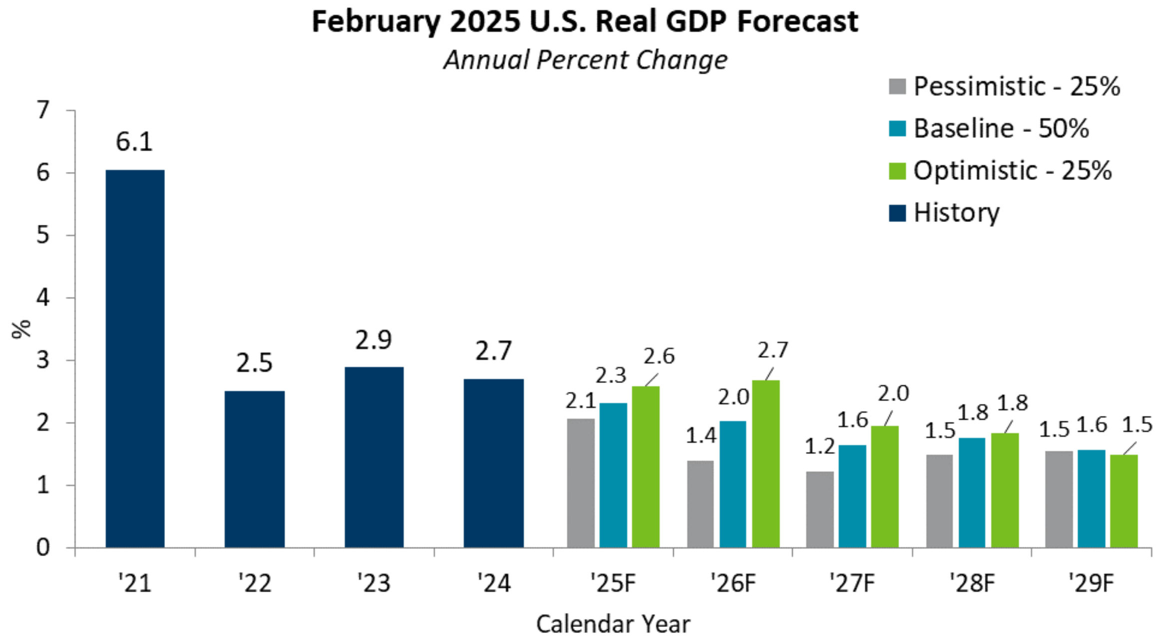
Subject to considerable uncertainties about U.S. economic policy in this year and beyond, Council members agreed that the SPGMI baseline forecast forms a reasonable basis for the *February 2025 Budget and Economic Forecast*, but they caution that there are significant risks to the forecast. Council members can envision a variety of possible shocks that, separately or in combination, could throw the economy off the projected path. Most agree that, while there are some upside risks, at present, the risks generally favor the downside. Council members also differentiated between short-run and long-run forecast risks and noted that the short-run risks may be more important over the budget planning horizon. Members also agreed that the baseline forecast, in general, implies more stability than the U.S. economy is likely to experience.

Downside risks from trade and immigration policies, along with possible resurgence in inflation, were principal among council members' concerns. Members were concerned that U.S. tariffs could prove inflationary and would disrupt U.S. manufacturing and that the enactment of retaliatory tariffs by U.S. trading partners would further fuel inflation. Renewed inflation would lead to tighter monetary policy, resulting in weakness in the housing markets, manufacturing, and private capital investment. Members also cited the administration's declared immigration policies, if implemented, as having the potential to create labor shortages and drive up labor costs in some sectors. Finally, the uncertainty caused by the administration's shifting policy pronouncements could cause households and businesses to delay or cancel major expenditures, further weakening the economy.

Council members saw potential upside forecast risks that could lead to higher household or business spending than is currently predicted. These factors include the possibility that the administration does not fully implement its tariffs as announced, avoiding an inflationary effect. Members also see some upside risk from fiscal stimulus from promised tax cuts. Over the longer term, technological advances could improve productivity and raise economic growth above the baseline forecast.

SPGMI assigns a 50 percent probability to the baseline forecast and 25 percent probabilities each to their optimistic and pessimistic forecasts. The pessimistic scenario is characterized by higher across-the-board tariffs and more retaliatory actions by trading partners. It is assumed that higher tariffs cause higher inflation and lead to the Federal Reserve keeping interest rates elevated. Annual CPI inflation will remain at or above 3 percent through 2026. Tight financial conditions create an additional source of weakness in the economy. The scenario also assumes that deportations happen faster and on a larger scale relative to the baseline. Tight trade policy puts downward pressure on imports of goods and pushes net exports higher than in the baseline, while the stricter immigration policy has an adverse effect on the labor force and, by extension, on economic output. While there is no recession in SPGMI's pessimistic scenario, growth remains consistently below baseline, and the unemployment rate rises to 5.1% by mid-2027.

The optimistic scenario – 25 percent likelihood – is characterized by lower tariffs across the board and less severe retaliatory actions by trading partners. Lower tariffs lead to faster moderation in inflation, which allows the Federal Reserve to lower interest rates more than in the baseline. This, along with improved financial conditions, is an additional source of strength in the economy. The scenario assumes that deportations happen slower and on a smaller scale relative to the baseline, resulting in less stress on labor markets and, by extension, economic output. GDP growth remains consistently above baseline through early 2028 due to the joint effects of favorable financial conditions due to the lower tariffs and higher labor force growth. The unemployment rate remains at approximately 4.2 percent through 2029.



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

SPGMI assigns a 50 percent probability to the baseline forecast and 25 percent probabilities each to their optimistic and pessimistic forecasts.

The Council members were asked to assign probabilities to the baseline, optimistic, and pessimistic scenarios. The mean and median estimates by members for the baseline scenario was 53 percent probability, slightly higher than SMGMI's 50 percent. The mean probability assigned to the pessimistic scenario was 24 percent, a point lower than SPGMI's 25 percent. Finally, the mean of members' estimates of the optimistic scenario was 23 percent, two points lower than SPGMI's 25 percent. The median of members' probability estimates for the pessimistic and optimistic scenarios were both 25 percent, identical to SPGMI's probabilities.

Council members believe that Minnesota's budget reserve target of $2.913 billion – the level recommended by the state's budget reserve policy – affords policymakers crucial financial flexibility. The statutory policy assigns an adequate target reserve level based on MMB's annual evaluation of volatility in Minnesota's general fund tax system. The target is a percentage of forecast revenues, allowing reserves to adjust with revenue changes over time. In addition, the policy automatically transfers 33 percent of a positive forecast balance each November into the reserves until the target is reached. Based on MMB's most recent analysis, the target level is 5.2 percent of biennial (two-year) general fund revenues.

Minnesota Economic Outlook

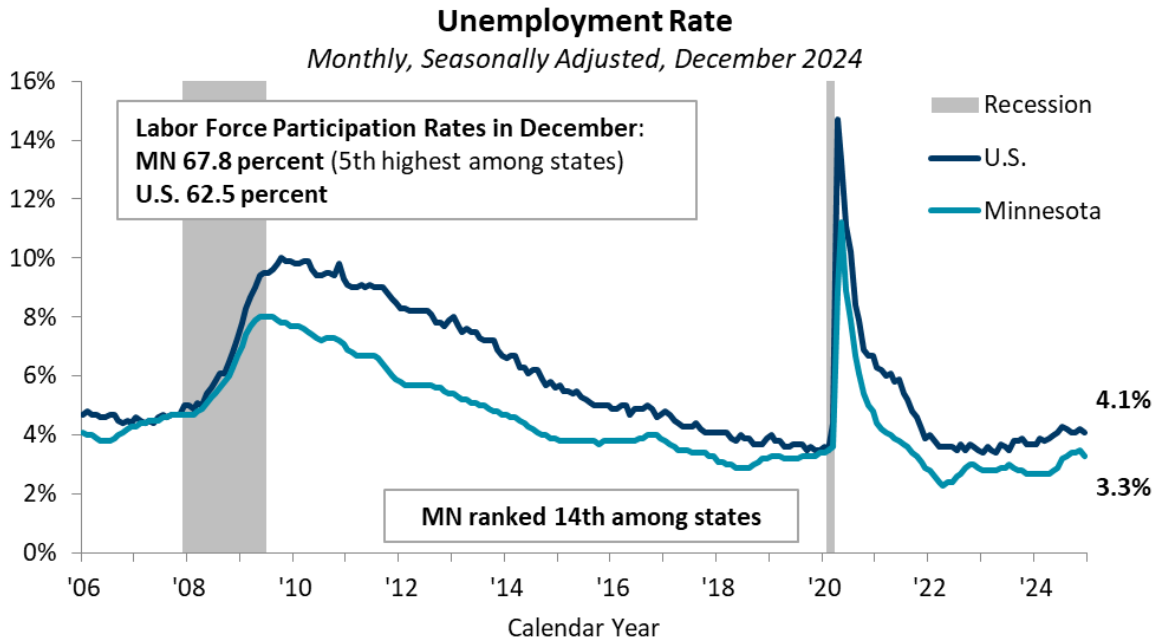
The economic outlook for Minnesota has weakened since MMB's November 2024 *Budget and Economic Forecast*. We forecast positive but limited growth in employment as we did in the November forecast. The State's unemployment rate remains below the national rate, and we anticipate that this will continue throughout the forecast period. Minnesota's job market remains tight, with more vacancies than unemployed workers. Minnesota's economic outlook is informed by the SPGMI forecasts for both the U.S. and Minnesota, data from the Minnesota Department of Economic and Employment Development (DEED), Quarterly Census of Employment and Wages (QCEW), and Minnesota tax revenues. Minnesota's employment growth has slowed from 1.8 percent in 2023 to an estimated 1.0 percent in 2024. Employment in the state's largest sector, healthcare and social assistance, continues to expand at 7.7 percent annually, but there have been job losses in several key sectors, including manufacturing, professional and business services, financial services, retail trade, and wholesale trade.

The State's unemployment rate rose to 3.3 percent in December of 2024, up 0.6 percentage points from one year ago, and still 0.8 percentage points below the U.S. rate. Additionally, broader labor market indicators suggest softening conditions, with long-term unemployment (those unemployed for more than 27 weeks) more than doubling year-over-year and a growing number of part-time workers unable to find full-time employment. A lower forecast for international immigration, declining birth rates, and the ongoing retirement of Baby Boomers will limit labor force growth and will further constrain employment growth in the coming years. Without sustained worker inflows either from international immigration or domestic migration, employers may struggle to fill jobs, potentially slowing wage growth and overall economic activity.

SPGMI projects a slowdown in the U.S. economy as tight monetary conditions due to elevated inflation constrain growth. Minnesota's economy will likely follow a similar path. While higher inflation will drive higher nominal wage growth in the forecast, we forecast that increases in real (inflation-adjusted) wages will be limited.

Labor Market. Minnesota's payroll employment growth slowed from 1.8 percent in 2023 to an estimated 1.0 percent in 2024 (an additional 29,000 jobs) and is projected to slow to 0.6 percent growth in 2026, with an average of 5,000 new jobs per year from 2026 to 2029. While the healthcare and social assistance sector, the state's largest sector, continues to expand at 7.1 percent through December on a year-over-year basis. Approximately 70 percent of Minnesota's workforce is in industries experiencing employment declines, including manufacturing, professional and business services, and retail trade.

In December, Minnesota's unemployment rate was 3.3 percent, the 14th lowest among U.S. states and 0.8 percentage points below the December U.S. rate of 4.1 percent. The national unemployment rate has been trending upward. The December national unemployment rate of 4.1 percent is up 0.4 percentage points from January 2024. Similarly, Minnesota's unemployment rate has been increasing. Since reaching 2.7 percent in April 2024, Minnesota's unemployment rate has increased 0.6 percentage points. Alternative employment metrics also indicate growing challenges in Minnesota's labor market. In December, the number of long-term unemployed (those unemployed for more than 27 weeks) stood at 16,100, up from 7,700 one year ago. Additionally, there has been a substantial increase in the number of part-time workers unable to find full-time employment. In December, there were 81,000 involuntary part-time workers, up from 49,100 a year ago.

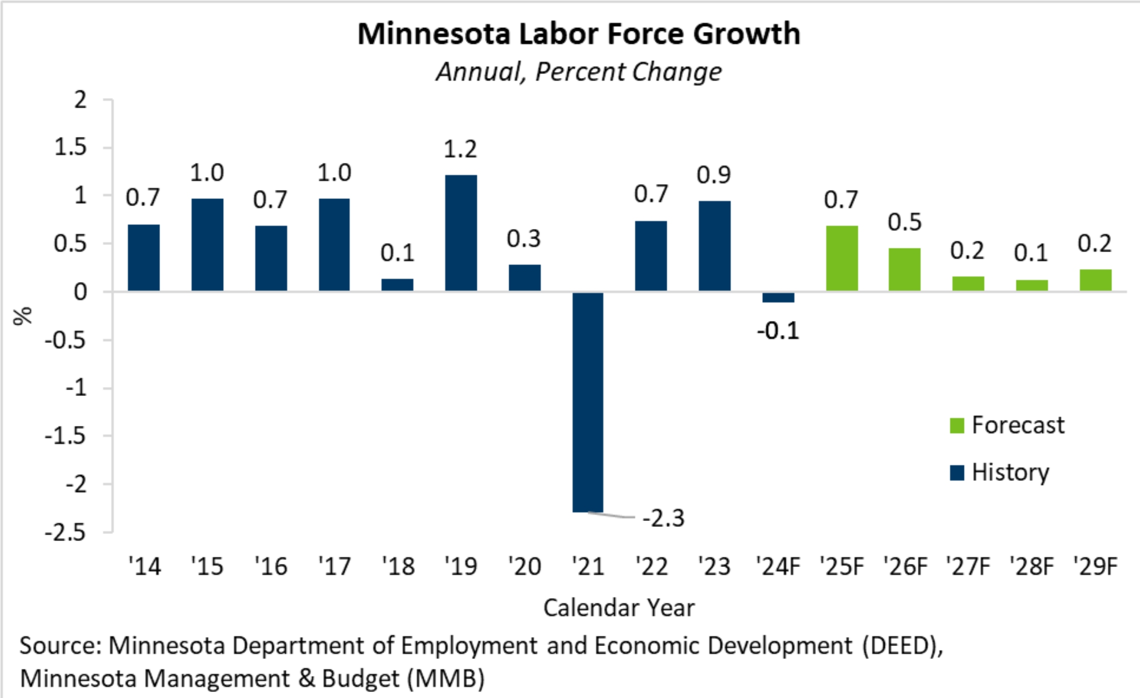


Source: MN Department of Employment and Economic Development (DEED), MMB

In December, Minnesota's unemployment rate was 3.4 percent, 0.7 percentage points below the U.S. rate of 4.1 percent. Since April 2024, Minnesota's unemployment rate has increased 0.6 percentage points.

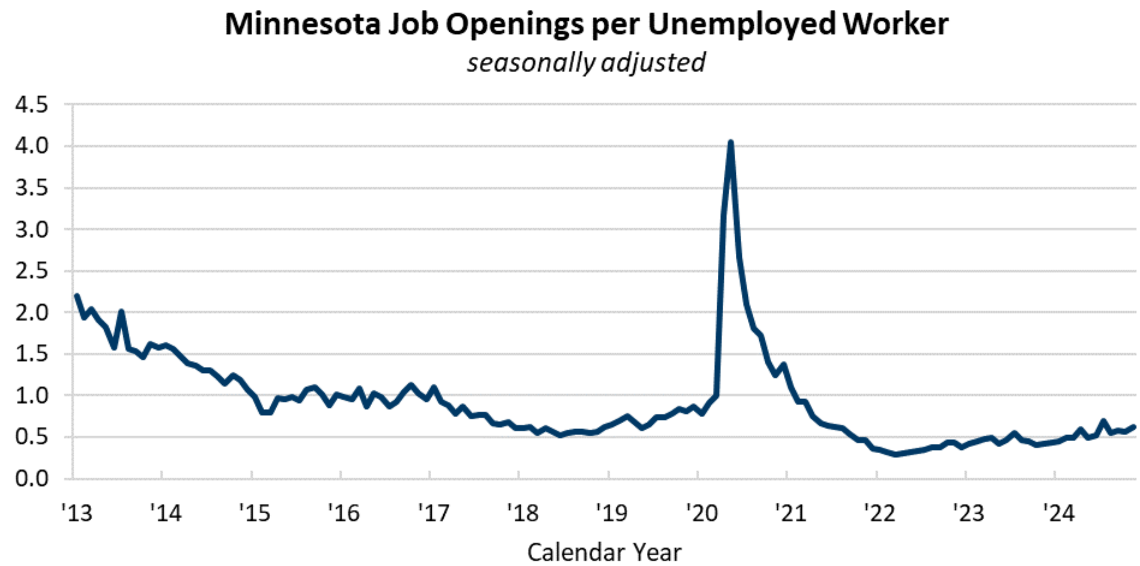
Minnesota's job market recovery since the pandemic has lagged the national recovery. Through December, total payroll employment in Minnesota exceeded its pre-pandemic level by 1.6 percent, compared to a 4.7 percent nationwide. This disparity is partly due to labor force dynamics; Minnesota's labor force in December 2024 was 0.8 percent below its February 2020 level, while the U.S. labor force was 2.4 percent higher.

Minnesota's labor force participation rate, the share of the over-16 population employed or seeking employment, was 67.8 percent in December, 5.3 percentage points above the U.S. rate (62.5 percent), and the fifth highest among states. However, both state and national participation rates remain below pre-pandemic levels. Minnesota's labor force participation rate has recovered to 97 percent of its February 2020 level, compared to 99 percent nationally. Additionally, the gap between Minnesota and the U.S. participation rates has narrowed, shrinking from 6.7 percentage points in February 2020 to the current gap of 5.3 percentage points. This suggests that Minnesota's labor market is potentially tighter than in other parts of the country, and the state may face ongoing challenges in workforce recovery.



Since the onset of the pandemic in February 2020, Minnesota's labor force has fallen by just over 26,000 people. In December 2024, Minnesota's labor force was at 97 percent of the February 2020 level, while the U.S. labor force was at 99 percent of the February 2020 level. Lower growth of Minnesota's labor force constrains employment growth in the state.

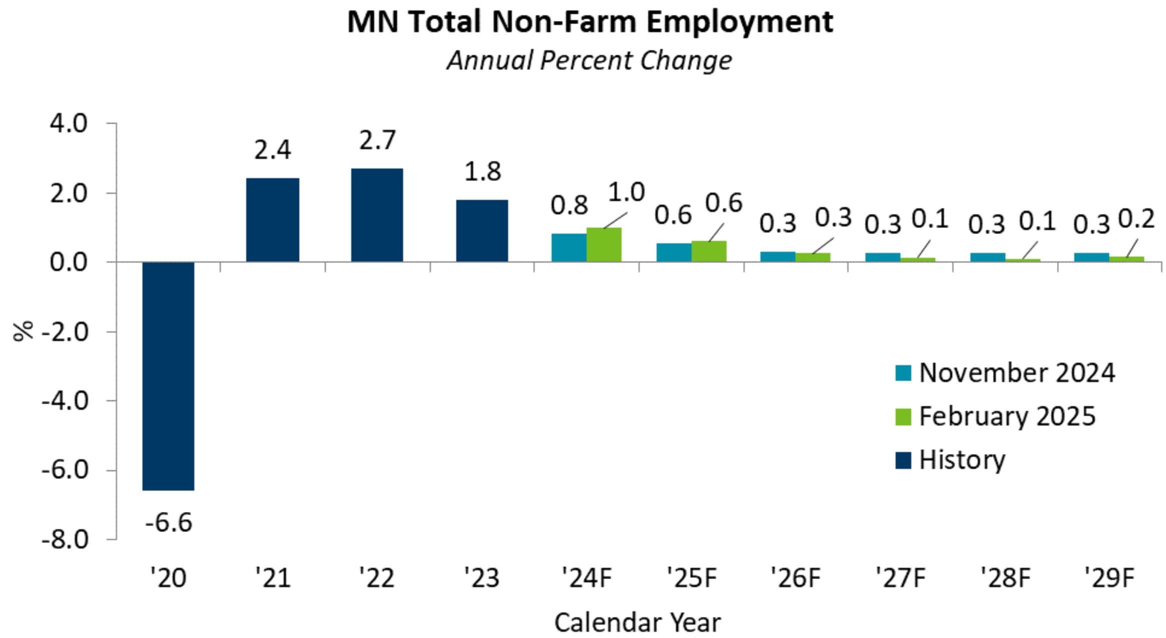
Minnesota's labor market remains tight, with 0.6 unemployed workers per job opening, or six unemployed workers for every ten job vacancies. This ratio, reported by the Bureau of Labor Statistics (BLS), has been trending upward, suggesting improved alignment between job seekers and available positions. A ratio below 1.0 signals a labor shortage, where job openings outnumber available workers, making hiring more competitive among employers. Conversely, a ratio above 1.0 indicates a surplus of available workers relative to job openings. The current level underscores Minnesota's ongoing imbalance between labor demand and supply.



Source: U.S. Bureau of Labor Statistics (BLS), Minnesota Management and Budget (MMB)

Another indicator of Minnesota's tight labor market is the number of job openings per unemployed worker. According to the BLS, there are currently 0.6 job openings for every unemployed worker in the state. This ratio, reported by the BLS, has been trending upward, suggesting improved alignment between job seekers and available positions.

MMB estimates Minnesota payroll employment increased by 1.0 percent in 2024, an increase of approximately 29,000 jobs. This follows strong growth of 1.8 percent in 2023. Elevated immigration levels in 2023 and 2024 played a key role in sustaining employment growth both nationally and in Minnesota. Employment growth is forecasted to be 0.6 percent (18,000 jobs) in 2026 and average 5,000 jobs annually from 2026 to 2029. This reduced rate of growth reflects structural constraints, including an aging workforce, declining birth rates, and lower forecasted levels of international immigration, all limiting Minnesota's long-term labor-force expansion.



Source: Minnesota Department of Employment and Economic Development (DEED), Minnesota Management and Budget (MMB)

MMB estimates Minnesota payroll employment increased by 1.0 percent in 2024, an increase of approximately 29,000 jobs. This follows strong growth of 1.8 percent in 2023. Employment growth is forecasted to be 0.6 percent (18,000 jobs) in 2026 and average 5,000 jobs annually from 2026 to 2029.

Broader measures of unemployment provide additional insights into the state of Minnesota's labor market. The U-6 unemployment rate is the broadest measure of unemployment. It includes unemployed individuals in the official unemployment rate (U-3), marginally attached workers (those not in the labor force but who looked for work in the past year), and part-time workers who would prefer full-time employment. In December, Minnesota's U-6 rate stood at 6.4 percent, up from 5.3 percent a year earlier.[11]

About three-quarters of the difference between the state's U-3 and U-6 rates is due to workers who have part-time jobs but would prefer to work full-time. In December 2024, there were 81,000 such workers, up from 49,100 in December 2023. In December 2024, 3,600 Minnesotans were counted as discouraged workers[12], down from 4,500 a year ago.

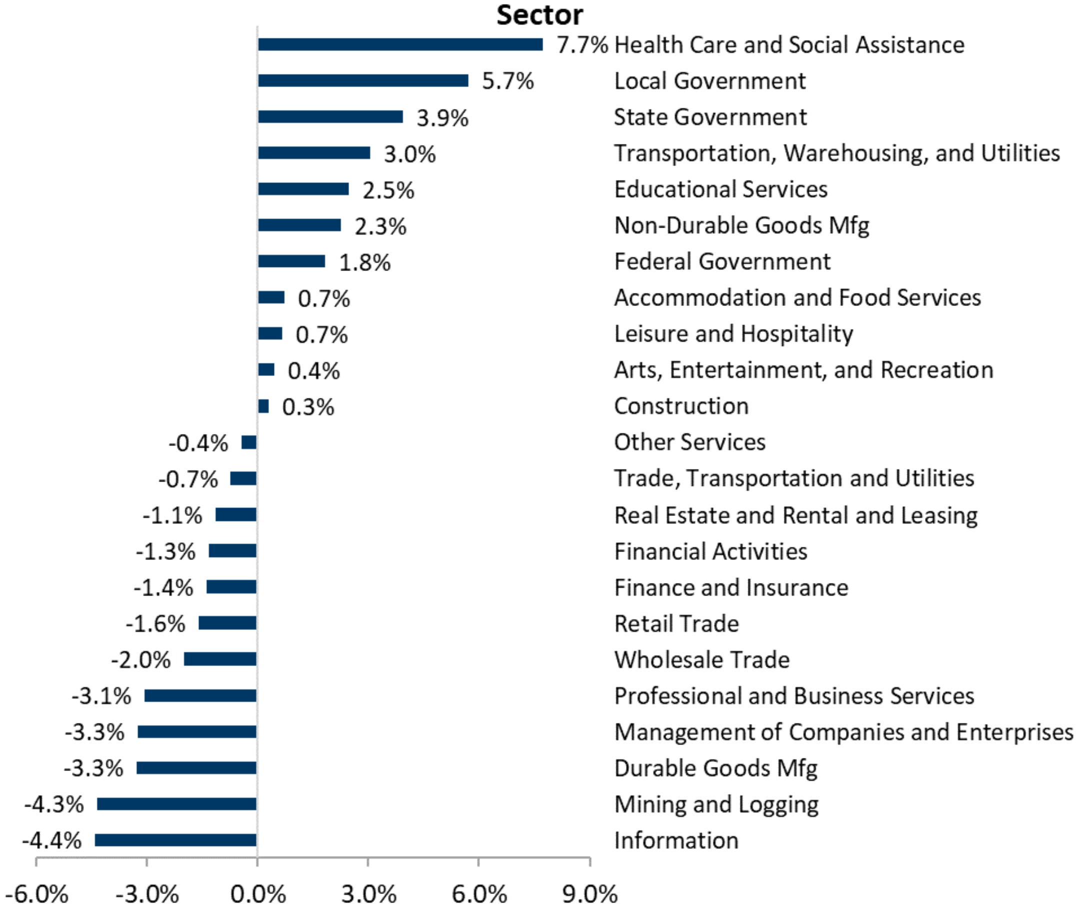
[11] The reported rate is a twelve-month moving average. See https://mn.gov/deed/data/current-econ-highlights/alternative-unemployment.jsp for more information.

[12] A "discouraged worker" is one who has searched for work in the past year but has not actively searched for work in the last 4 weeks. These workers are considered only "marginally attached" to the labor force and are counted as part of the broader group of people not in the labor force. They are not classified as unemployed in the calculation of the official unemployment rate (U-3).

Long-term unemployment is also on the rise. In December, 16,100 Minnesotans were reported as long-term unemployed (those unemployed for more than 27 weeks), an increase from 7,700 one year earlier.

Labor market trends vary across sectors. Employment growth remains robust in health care and social assistance, Minnesota's largest sector, which accounts for 18 percent of total state employment and grew at a rate of 7.7 percent in December 2024, compared to one year ago. However, employment growth is not distributed evenly across industries. As of December 2024, approximately 70 percent of Minnesota's workforce is in sectors experiencing employment declines, while growth in the remaining 30 percent offsets these losses. The largest year-over-year decreases have occurred in information (1.4 percent of total employment), mining and logging (0.2 percent of total employment), durable goods manufacturing (6.7 percent of total employment), management of companies and enterprises (2.8 percent of total employment), professional and business services (12.1 percent of total employment), wholesale trade (4.4 percent of total employment) and retail trade (9.4 percent of total employment).

December 2023 to December 2024 Employment Change by Sector



Source: U.S. Bureau of Labor Statistics (BLS), SPGMI

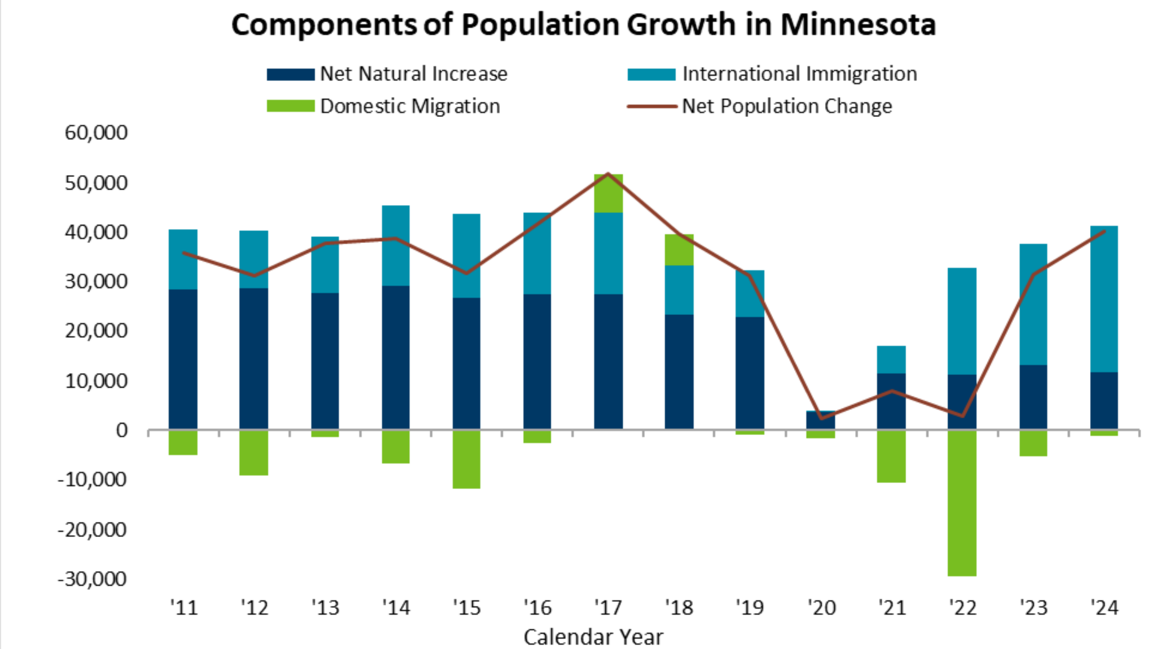
Employment growth remains strong at 7.7 percent in one of the state's largest sectors, health care and social assistance, which accounts for about 20 percent of the employment in Minnesota. However, some sectors are showing signs of weakening.

Demographics. Since we released our November 2024 forecast, the U.S. Census Bureau has published 2024 population estimates. From 2020-2022, population growth in Minnesota slowed due to a combination of factors, including deaths from COVID-10, fewer births, reduced international immigration, and less favorable net domestic migration. In 2023-2024, Minnesota's population growth returned to healthier levels. In 2024, roughly 40,000 people are estimated to have been added to the state's population, an increase of 0.7 percent. Additionally, the estimated population change for 2023 was revised to an increase of 31,000, up from an increase of nearly 24,000.

Minnesota's total population growth of 0.7 percent in 2024 was slightly higher than the Midwest average of 0.6 percent and slightly lower than the national average of 1.0 percent. Population growth is comprised of three parts: natural population change (number of births minus deaths), net domestic migration, and net international immigration. Minnesota's population growth in 2023 and 2024 was primarily driven by migration. Minnesota experienced fewer outflows of Minnesotans to other states (net out-migration) and larger net inflows of international migrants during these two years.

Minnesota's net natural change was comparable to that in recent years. In 2024, Minnesota had 11,780 more births than deaths. The trend over the past two decades is that the contribution of natural change to the total population growth has been declining as birth rates have fallen steadily and the state's aging population has experienced higher mortality.

Net international and domestic migration in Minnesota tends to be positive, with gains in international immigration into Minnesota offsetting negative domestic net out-migration, the difference between residents that leave Minnesota for other states and those who move to Minnesota from other states. Between July 2023 and July 2024, Minnesota gained 29,540 net international immigrants. During the same period, the net outflow to other states was significantly lower than in recent years, with a negative net domestic migration of 1,161 people. Together, net international migration and net domestic migration resulted in an increase of 28,379 in the state's population.



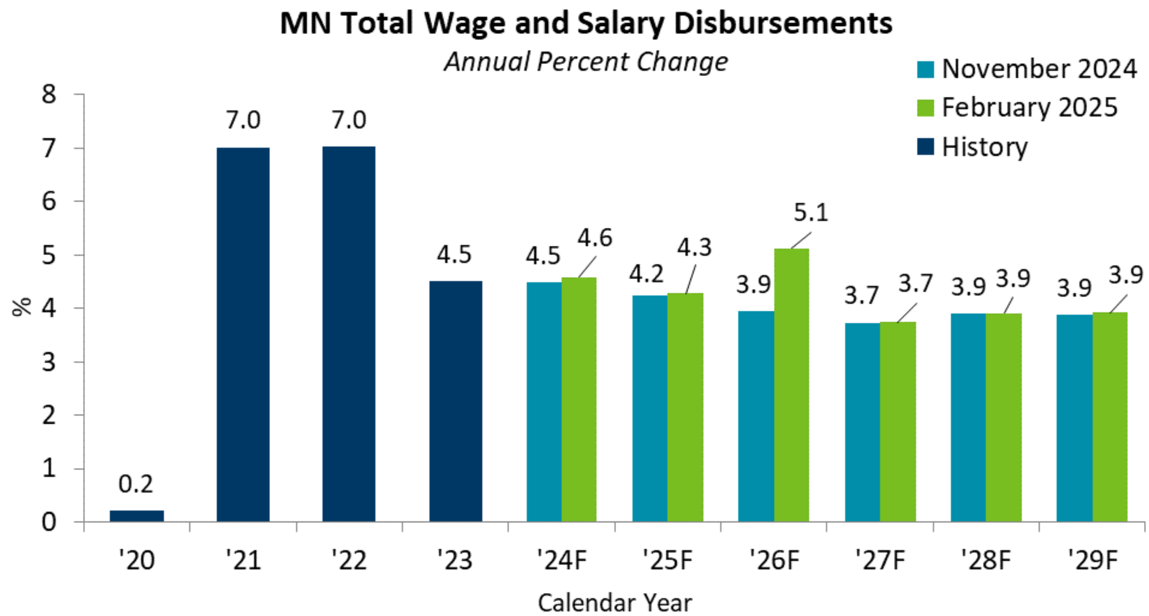
Source: Minnesota Management & Budget (MMB)

Minnesota gained 29,540 international immigrants on net in 2024 and lost 1,161 residents, on net, to other states. Together, net international migration and net domestic migration resulted in an overall increase of 28,379 in the state's population. Natural increase, as measured by births minus deaths, also contributed 11,780 people to the state's population. Minnesota's total population growth of 0.7 percent in 2024 was slightly higher than the Midwest average of 0.6 percent and slightly lower than the national average of 1.0 percent.

Wage and Salary Income. A crucial factor influencing Minnesota's individual income tax liability is total wage and salary income, estimated to account for 68 percent of federal adjusted gross income (AGI) for Minnesota residents in tax year 2023. As employers compete to fill open positions and businesses invest in technologies that enhance productivity, wage and salary income per worker is predicted to continue to increase.

We forecast that total wage income, the sum of all wages distributed, will increase 4.5 percent in 2024. The annual growth rate is projected to slow to 4.3 percent in 2025 before rising to 5.1 percent in 2026, reflecting a higher inflation forecast. For 2027-2029, we forecast wage growth will average 3.8 percent per year.

Inflation often drives increases in nominal wages as employers adjust compensation to account for higher living costs. However, even with rising nominal wages, real wage growth can remain constrained by other labor market factors.



Source: Bureau of Economic Analysis (BEA), U.S. Bureau of Labor Statistics (BLS), SPGMI, Minnesota Management and Budget (MMB)

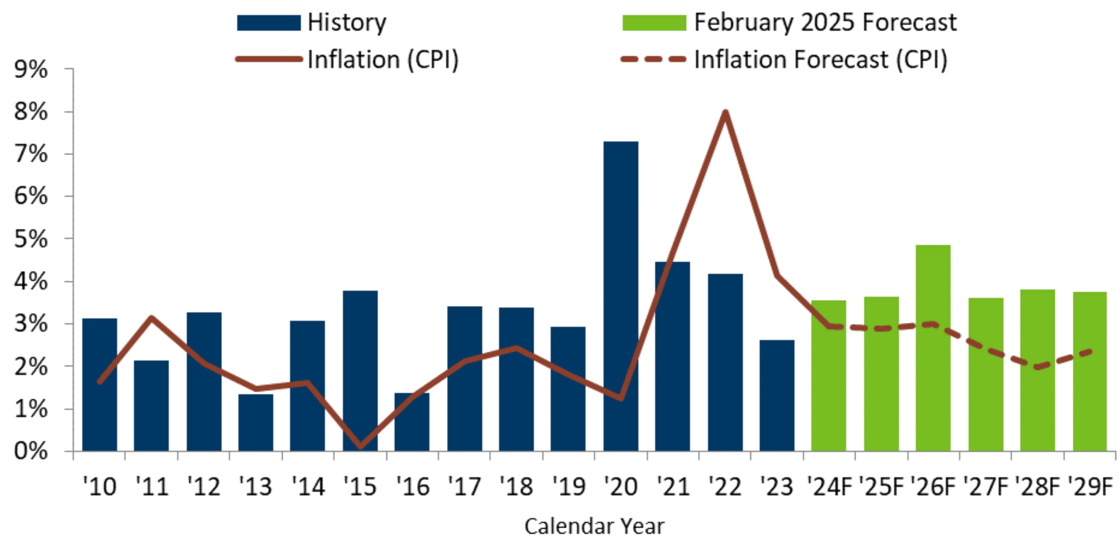
We forecast total wage income will increase 4.5 percent in 2024. Wage growth is projected to be 4.3 percent in 2025 before increasing to 5.1 percent in 2026, reflecting higher levels of inflation in this forecast. Inflation often drives increases in nominal wages as employers adjust compensation to account for higher living costs. However, even with rising nominal wages, real wage growth can remain constrained by other labor market forces.

With moderate growth in Minnesota employment in this forecast, the increase in wage and salary income per worker will be the primary driver of total nominal wage income growth through our forecast horizon. When nominal wage growth exceeds inflation, real wages rise, increasing workers' purchasing power.

From 2010-2019, average wage and salary income per worker grew at an annual average rate of 2.8 percent, exceeding the average annual inflation rate of 1.8 percent over the same period. From 2020-2024, average wage income per worker increased at an average rate of 4.6 percent per year, only slightly above the average annual inflation rate of 4.2 percent. We forecast that the growth rate in average wage and salary income per worker will rise to 3.9 percent per year in 2025-2029, and SPGMI forecasts that the annual inflation rate will average 2.5 percent over the same years.

Minnesota Average Wages and Salaries per Employed Worker

Annual Percent Change



Source: Bureau of Economic Analysis (BEA); Minnesota Department of Employment and Economic Development (DEED); Minnesota Management & Budget (MMB)

From 2010-2019, average wage and salary income per worker grew at an annual average rate of 2.8 percent, exceeding average inflation of 1.8 percent over the same period. From 2020-2024, average wage income per worker increased at an average rate of 4.6 percent per year, only slightly above the average annual inflation rate of 4.2 percent over the same time. We forecast that growth in average wage and salary income per worker will rise to 3.9 percent per year in 2025-2029, and SPGMI forecasts that the annual inflation rate will average 2.5 percent over the same years.

Forecast Comparison: Minnesota & U.S.

Forecast 2024 to 2029, Calendar Years

	2023	2024	2025	2026	2027	2028	2029
Total Non-Farm Payroll Employment (Thousands)							
Minnesota							
February 2025	2,985	3,014	3,032	3,040	3,044	3,047	3,052
%Chg	1.8	1.0	0.6	0.3	0.1	0.1	0.2
November 2024	2,985	3,009	3,026	3,035	3,043	3,052	3,060
%Chg	1.8	0.8	0.6	0.3	0.3	0.3	0.3
U.S.							
February 2025	155,879	157,959	159,731	160,373	160,428	160,662	161,207
%Chg	2.2	1.3	1.1	0.4	0.0	0.1	0.3
November 2024	156,066	158,543	159,887	160,389	160,588	160,952	161,671
%Chg	2.3	1.6	0.8	0.3	0.1	0.2	0.4
Wage and Salary Disbursements (Billions of Current Dollars)							
Minnesota							
February 2025	214.8	224.7	234.3	246.2	255.2	265.1	275.3
%Chg	4.5	4.6	4.3	5.1	3.7	3.9	3.9
November 2024	214.8	224.4	234.0	243.2	252.2	262.1	272.2
%Chg	4.5	4.5	4.2	3.9	3.7	3.9	3.9
U.S.							
February 2025	11,725	12,422	13,079	13,854	14,421	15,033	15,630
%Chg	5.4	5.9	5.3	5.9	4.1	4.2	4.0
November 2024	11,725	12,506	13,132	13,725	14,231	14,810	15,390
%Chg	5.4	6.7	5.0	4.5	3.7	4.1	3.9
Non-Wage Personal Income (Billions of Current Dollars)							
Minnesota							
February 2025	201.5	208.4	217.7	230.5	244.8	258.3	271.7
%Chg	4.0	3.4	4.4	5.9	6.2	5.5	5.2
November 2024	201.5	209.4	219.4	232.4	246.6	259.9	273.0
%Chg	4.0	3.9	4.8	5.9	6.1	5.4	5.0
U.S.							
February 2025	11,677	12,271	12,863	13,567	14,406	15,195	15,957
%Chg	6.5	5.1	4.8	5.5	6.2	5.5	5.0
November 2024	11,677	12,255	12,834	13,550	14,348	15,122	15,878
%Chg	6.5	4.9	4.7	5.6	5.9	5.4	5.0
Total Personal Income (Billions of Current Dollars)							
Minnesota							
February 2025	416.3	433.1	451.9	476.7	500.0	523.4	547.0
%Chg	4.2	4.0	4.3	5.5	4.9	4.7	4.5
November 2024	416.3	433.8	453.4	475.6	498.8	522.0	545.2
%Chg	4.2	4.2	4.5	4.9	4.9	4.6	4.4
U.S.							
February 2025	23,403	24,692	25,942	27,420	28,827	30,229	31,587
%Chg	5.9	5.5	5.1	5.7	5.1	4.9	4.5
November 2024	23,403	24,761	25,966	27,275	28,579	29,932	31,268
%Chg	5.9	5.8	4.9	5.0	4.8	4.7	4.5

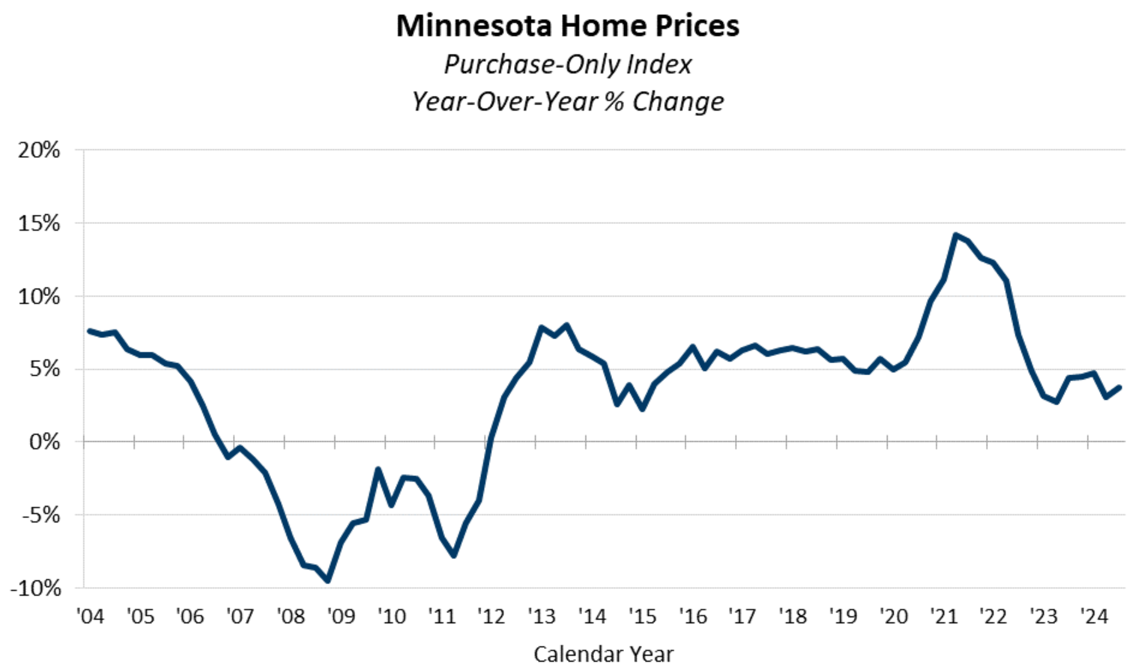
Source: IHS Economics and Minnesota Management and Budget (MMB)

Homebuilding Activity. High mortgage rates and rising new and existing home prices have increased home ownership costs for households entering the housing market. We now anticipate that the Federal Reserve will keep the federal funds rate target higher than we had in our November forecast. Due to a higher funds rate, SPGMI now forecasts that the interest rate on 30-year fixed-rate mortgages (FRM), the most common U.S. home loan, will remain above 6.0

percent until 2027. In SPGMI's November forecast, they predicted that rates would fall below 6.0 percent in mid-2025.

High mortgage rates have discouraged buyers of both new and existing homes and have "locked in" current homeowners, who are reluctant to sell and give up lower mortgage rates in a high-rate environment. Despite this, new listings in Minnesota were up 6.4 percent in 2024. However, available inventories declined statewide by 0.3 percent and declined by 3.4 percent in the Twin Cities metro area compared to 2023.

Even with high mortgage rates and low inventories, annual home sales in Minnesota continue to rise. According to Minnesota Realtors (MNR), home sales rose 1.1 percent statewide in 2024 and 1.8 percent in the Twin Cities metro compared to 2023. In 2024, the median sales price statewide reached $345,000, up 3.9 percent from the previous year. In the metro area, the median sale price rose to $380,000, up 3.3 percent from the previous year. Metro-area sellers, on average, received 97.9 percent of the original listing price at closing, likely due to the limited inventory available to buyers. According to the Federal Housing Finance Agency (FHFA), Minnesota home prices were 3.7 percent higher in the third quarter of 2024 compared to the year prior.



Source: Federal Housing Finance Agency (FHFA)

Even with high mortgage rates and low inventories, annual home sales in Minnesota continue to rise. In 2024, the median sales price statewide reached $345,000, up 3.9 percent from the previous year. According to the Federal Housing Finance Agency (FHFA), Minnesota home prices were 3.7 percent higher in the third quarter of 2024 compared to the year prior.

The National Association of Realtors Housing Affordability Index measures whether or not a typical family earns enough income to qualify for a mortgage loan on a median-priced home. An index of 100 indicates that a family earning the median income has just enough income to qualify for a mortgage on a median-priced home. In January 2025, Minnesota's index was 96, down 6.8

percent from the previous year. This decrease in the affordability index indicates that homes are becoming less affordable for the median household.

According to data through December from the U.S. Census Bureau, Minnesota's total number of authorized residential building permits (not seasonally adjusted) fell from 23,789 in 2022 to 22,253 in 2024, a decline of 6.5 percent. The change is due to a 25.9 percent decline in multi-family housing permits, partially offset by an increase in single-family permits of 13.1 percent. In this forecast, we forecast total housing permits to average 23,000 per year in 2025 through 2029. Single-family permits are a valuable housing indicator because they are accurately measured and are often an indicator of future trends in single-family home construction.

Agriculture. According to the Minnesota Department of Agriculture, Minnesota ranks sixth in the U.S. in total agricultural production, fifth in crop production, and eighth in livestock production.[13] Minnesota is also the fourth largest agricultural exporting state in terms of export value.

Net farm income influences Minnesota's individual income tax liability. The U.S. Department of Agriculture's (USDA) farm income forecast estimates that overall U.S. net farm income in 2025, a broad measure of profitability, will increase by $41.0 billion (29.5 percent) from 2024, reaching $180.1 billion in nominal dollars. Crop cash receipts are forecasted to decline by $5.6 billion (2.3 percent) from 2024 levels, primarily due to lower corn and soybean receipts. Conversely, total animal and animal product receipts are predicted to increase by $3.8 billion (1.4 percent) to $275.4 billion in 2025 due to increases in receipts for hogs, milk, and broilers relative to 2024. Higher direct government payments also contribute to the higher forecast for farm income in 2025, with direct government farm payments forecasted to increase to $42.4 billion in 2025, an increase of $33.1 billion.

Net farm income may be adversely affected by lower prices in some sectors important for Minnesota producers. According to the latest USDA Agricultural Prices Report for January 2025, the average price received for corn during December 2024 was $4.23 per bushel, down from a price of $4.80 in December 2023. The average price for soybeans was $9.79 per bushel, down from a price of $16.51 in December 2023. The average price for turkeys was $0.51 per pound, up from a price of $0.47 in December 2023.

[13] Production is measured by cash receipts.

BUDGET OUTLOOK

Current Biennium

The November 2024 *Budget and Economic Forecast* projected a balance of $3.752 billion for the current biennium. With five months remaining, the FY 2024-25 biennium is now projected to end with a balance of $3.742 billion, $10 million less than prior projections.

Current Biennium: FY 2024-25 General Fund Budget
Forecast Comparison

($ in millions)	November 2024 Forecast	February 2025 Forecast	$ Change	% Change
Beginning Balance	**$16,516**	**$16,516**	**$ -**	**0.0%**
Revenues				
Taxes	58,022	58,088	66	0.1
Non-Tax Revenues	3,082	3,288	206	6.7
Transfers, Other Resources	330	352	22	6.6
Total Revenues	**$61,434**	**$61,728**	**$294**	**0.5%**
Expenditures				
E-12 Education	24,539	24,549	10	0.0
Property Tax Aids	5,549	5,556	8	0.1
Health & Human Services	20,980	21,264	284	1.4
Debt Service	1,066	1,066	-	0.0
All Other	18,537	18,540	3	0.0
Total Expenditures	**$70,670**	**$70,975**	**$304**	**0.4%**
Budget Reserve	3,177	3,177	-	
Cash Flow Account	350	350	-	
Budgetary Balance	**$3,752**	**$3,742**	**$(10)**	

Revenues. Revenue in the current biennium is now forecast to total $61.728 billion, $294 million (0.5 percent) more than November estimates. Tax revenue is expected to be $66 million higher, (0.1 percent) with the forecasts for corporate revenue up $169 million (2.7 percent) and sales tax revenue up $33 million (0.2 percent). Partially offsetting the increase in major tax revenue is $120 million (0.4 percent) lower projections of individual income tax receipts. Non-tax revenue is up $206 million (6.7 percent) driven by a higher forecast for investment income due to higher than projected actual year-to date investment earnings and increased projected interest rates for the remainder of the biennium. Included in non-tax revenue is a $32 million upward adjustment to prior year revenue due to a correction of an accounting error related to the distribution of gross receipts tax revenue between the general fund the legacy funds.

Spending. Spending in the FY 2024-25 biennium are now estimated to be $70.975 billion, $304 million (0.4 percent) higher than prior estimates. Driving the overall change is a $284 million increase (1.4 percent) in Health and Human Services (HHS) due to higher medical assistance spending for basic care and long-term care along with a repayment for past overbilling to federal funding for tribal mental health facilities. Spending in all other areas is largely unchanged from November estimates.

Reserves. The budget reserve balance of $3.177 billion along with the $350 million cash flow account balance are unchanged from November.

Next Biennium

The November 2024 forecast projected an available balance of $616 million for the FY 2026-27 biennial budget. Upward revisions in the spending forecast, partially offset by increases to revenue forecast, result in an available balance of $456 million for the FY 2026-27 biennium, $160 million less than prior estimates.

Next Biennium: FY 2026-27 General Fund Budget
Change From November 2024 Forecast

($ in millions)	**November 2024 Forecast**	**February 2025 Forecast**	**$ Change**
Beginning Balance	**$7,279**	**$7,269**	**$(10)**
Forecast Revenues	63,853	64,494	640
Total Projected Spending	66,989	67,779	790
Forecast Spending	*66,062*	*66,634*	*571*
Discretionary Inflation	*926*	*1,145*	*219*
Balance Before Reserve	**$4,153**	**$3,983**	**$(160)**
Budget Reserve	3,177	3,177	-
Cash Flow Account	350	350	-
Budgetary Balance	**$616**	**$456**	**$(160)**
Budgetary Balance without Discretionary Spending Inflation	***$1,542***	***$1,602***	***$59***

In February 2023 statute was amended to require that the impact of inflation be included in spending estimates for all biennia in which a budget is not yet enacted. For the FY 2026-27 biennium this forecast estimates that inflationary cost pressures will add $1.145 billion to base level appropriations, $219 million more than prior estimates due to higher projected rates of inflation. This inflationary estimate is applied only to programs that do not already have inflationary increases built into current law formulas, or about 39 percent of the remaining budget.[14] The estimate of inflation is considered discretionary because it is not included in base level appropriations and the legislature must appropriate the funding for it to be available for agency spending. The remaining budgetary balance in the FY 2026-27 biennium is $1.602 billion if the impact of discretionary inflation is removed from total spending estimates.

The projected FY 2026-27 balance is not considered a surplus because it is estimated using projected revenues and base spending estimates before appropriations for the FY 2026-27 budget are enacted by the 2025 legislature. The projected balance is a starting point for the Governor's budget recommendations and the legislature's budget setting process.

Next Biennium: FY 2026-27 General Fund Budget
Biennial Comparison; February 2025 Forecast

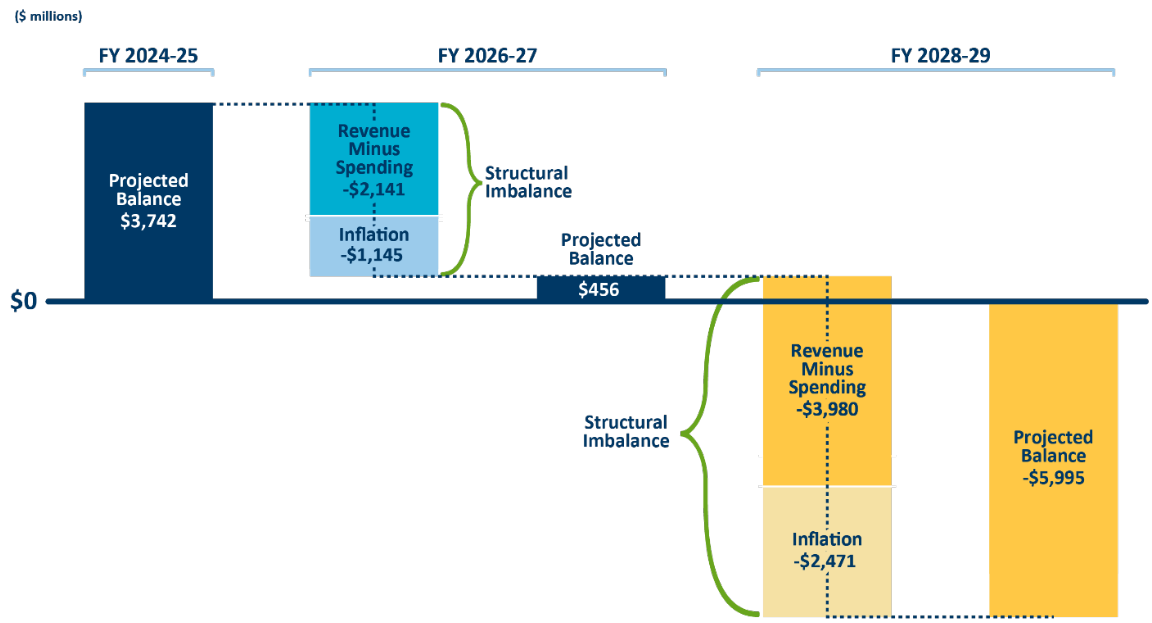
($ in millions)	**FY 2024-25[15]**	**FY 2026-27**	**$ Change**	**% Change**
Beginning Balance	**$16,516**	**$7,269**	**$(9,247)**	**(56.0)%**
Revenues				
Taxes	58,022	61,795	3,707	6.4
Non-Tax Revenues	3,082	2,308	(980)	(29.8)
Transfers, Other Resources	330	391	39	11.1
Total Revenues	**$61,434**	**$64,494**	**$2,766**	**4.5%**
Expenditures				
E-12 Education	23,904	25,562	1,658	6.9%
Property Tax Aids	5,549	4,753	(803)	(14.7)
Health & Human Services	21,924	24,147	2,217	10.1
Debt Service	1,066	1,223	157	14.7
All Other	18,539	10,950	(7,589)	(40.9)
Discretionary Inflation	-	1,145	1,145	N/A
Total Expenditures	**$70,975**	**$67,780**	**$(3,195)**	**(4.5)%**
Budget Reserve	3,177	3,177	-	
Cash Flow Account	350	350	-	
Budgetary Balance	**$3,742**	**$456**		
Budgetary Balance without Discretionary Spending Inflation	***$3,742***	***$1,601***		

[14] Programs with inflation or cost-based funding already built into current law base funding formulas include general and special education, nutrition funding for schools, HHS managed and long-term care, Minnesota Family Investment Program (MFIP), DHS general assistance, and property tax refunds. Debt service and capital projects are also excluded from the statewide calculation of discretionary inflation.

[15] FY 2024-25 values adjusted between E-12 Education, Health and Human Services and All Other to reflect the movement of programs and activities related to the creation of the new Department of Children Youth and Families, which was established in the 2023 legislative session. These adjustments have a $0 impact on the bottom and are made to allow for direct comparisons to the FY 2026-27 biennium.

Biennial Budgetary Growth. State revenue is projected to grow $2.766 billion (4.5 percent) in FY 2026-27 over the current biennium, driven by $3.707 billion (6.4 percent) in tax revenue growth, partially offset $980 million (29.8 percent) lower projected non-tax revenue. The reduced non-tax revenue forecast is largely due to lower projected investment income resulting from lower projected interest rates and falling general fund cash balances in the next biennium compared to the current biennium. State spending, including discretionary inflation, is expected to be $3.195 billion (4.5 percent) lower in the next biennium due to the expiration of one-time investments in the current biennium, along with the shift of the renter's property tax refund to an income tax credit in the next biennium.

The lower overall spending total masks underlying program spending growth in Health and Human Services (HHS) which is expected to grow $2.217 billion (10.1 percent) and E-12 education, which is estimated to grow $1.658 billion (6.9 percent), along with debt service, which is expected to grow $157 million (14.7 percent) from FY 2024-25 to FY 2026-27.



The FY 2024-25 budget was structured to spend one-time balances from the FY 2020-23 period on one-time programs, however lower than projected revenue growth and underlying spending growth in forecast programs has resulted the $3.742 billion available balance in the current biennium falling to $456 million in the next biennium. The structural imbalance of long run spending exceeding long run revenue grows in the FY 2028-29 planning estimates where a deficit of $5.995 billion is projected.

Planning Estimates

This forecast contains planning estimates for the FY 2028-29 biennium. While these estimates inherently carry a higher degree of uncertainty than estimates for FY 2025-27, they present an outlook of longer run spending and revenue growth that will assist in budget planning when setting the FY 2026-27 budget.

Revenue projections for FY 2026-29 are based on the *SPGMI* February baseline forecast for the planning years. Expenditure projections assume that current law funding levels and policies continue unchanged, adjusted for caseload and enrollment changes authorized in law, as well as formula-driven growth. Expenditure estimates also include the impact of expected inflationary cost pressure for FY 2026-29.

Projected inflationary growth based on the Consumer Price Index is now forecast to be 3.0 percent in FY 2026 and 2.9 percent in FY 2027. In the planning biennium, inflationary growth is expected to be 1.9 percent in FY 2028 and 2.3 percent in FY 2029.

Planning Horizon: General Fund Budget
By Biennium, FY2026-29, February 2025 Forecast

($ in millions)	**FY 2026-27**	**FY 2028-29**	**$ Change**	**Annual % Change**
Forecast Revenues	**$64,494**	**$67,882**	**$3,388**	**2.3%**
Forecast Spending	*66,634*	*71,862*	*5,228*	*3.8*
Discretionary inflation (FY 2026-27)	*1,145*	*1,597*		
Discretionary inflation (FY 2028-29)[16]	-	*$873*		
Total Projected Spending	**$67,780**	**$74,332**	**$6,553**	**4.7%**
Structural Balance with Inflation	**$(3,286)**	**$(6,450)**		
Structural Balance excluding Inflation	*$(2,140)*	*$(3,980)*		

Biennial spending growth is currently forecast to exceed biennial revenue growth throughout the FY 2026-29 budget planning horizon. Revenue growth is expected to average 2.3 percent annually, while spending growth is expected to average 3.8 percent annually before inclusion of discretionary inflation, and 4.7 percent per year with discretionary inflation. Spending has exceeded revenue since FY 2024 while large balances left from the FY 2020-23 period partially supported the budget set for FY 2024-25. Spending growth exceeding revenue growth has resulted in the structural deficit growing from $3.286 billion in FY 2026-27 to a projected $6.450 billion in FY 2028-29.

[16] Discretionary inflation estimates are calculated using base spending forecasts for each year with inflationary growth compounding in each year against baseline spending. The discretionary inflation estimate displayed disaggregates the estimated impact of inflation needed for the budget set in 2025 for the FY 2026-27 biennium and its impact on the FY 2028-29 biennium and, on a separate line, the estimated impact of inflation needed for the budget set in 2027 for the FY 2028-29 biennium.

REVENUE OUTLOOK

Current Biennium

Total general fund revenues for fiscal year (FY) 2024-25 are now forecast to be $61.728 billion, $294 million (0.5 percent) more than in the prior (November 2024) forecast. Total tax revenues for the biennium are forecast to be $58.088 billion, $66 million (0.1 percent) above the prior forecast. The forecasts for individual income tax, the state general property tax, and other tax revenues are lower than previously estimated. These lower forecasts are offset by higher forecasts for corporate tax revenues and sales tax revenues.

Current Biennium: FY 2024-25 General Fund Revenues
November 2024 vs. February 2025 Forecast Comparison

($ in millions)	November 2024 Forecast	February 2025 Forecast	$ Change	% Change
Individual Income Tax	$30,546	$30,426	(120)	-0.4%
General Sales Tax	15,075	15,108	33	0.2
Corporate Franchise Tax	6,307	6,476	169	2.7
State General Property Tax	1,471	1,462	(8)	-0.6
Other Tax Revenue	4,623	4,616	(7)	-0.2
Total Tax Revenues	**$58,022**	**58,088**	**66**	**0.1%**
Non-Tax Revenues	3,082	3,288	206	6.7
Other Resources	330	352	22	6.6
Total Revenues	**$61,434**	**$61,728**	**$294**	**0.5%**

Revenues for FY 2024-25 are now expected to exceed their FY 2022-23 levels by $307 million (0.5 percent). Total tax revenues are projected to be 441 million (-0.8 percent) less than in FY 2022-23. Current biennium individual income tax revenues are now forecast to be $2.224 billion lower (-6.8 percent) than in the FY 2022-23 biennium. This decline is driven by several factors: (1) strong income tax growth in tax year (TY) 2021; (2) the introduction of the Pass Through Entity (PTE) Tax, which shifted revenue into FY 2022-23; (3) a significant income tax cut enacted in May of 2023, affecting tax liabilities in FY 2024-25; (4) the inclusion of the renters' credit in the May 2023 tax bill, which increased refunds by approximately $400 million per year; and (5) a tax rebate in the same tax bill that reduced FY 2024-25 revenues by roughly $983 million. State general property tax receipts are also forecast to decline in FY 2024-25, while corporate franchise tax revenues, net sales tax receipts, and other tax revenues are forecast to exceed their FY 2022-23 levels.

This is the fourth forecast of FY 2024-25 since FY 2024 began on July 1, 2023. After 19 months of observed collections (through January 2025), receipts for FY 2024-25 are $18.843 billion, 79.6 percent of the total expected over the biennium. With 5 months of FY 2024-25 collections left to observe, 20.4 percent of forecast receipts are outstanding.

Biennial Comparison: FY 2022-23 vs. FY 2024-25 General Fund Revenues
February 2025 Forecast

($ in millions)	FY 2022-23	FY 2024-25	$ Change	% Change
Individual Income Tax	$32,650	$30,426	(2,224)	-6.8%
General Sales Tax	14,090	15,108	1,018	7.2
Corporate Franchise Tax	5,752	6,476	724	12.6
State General Property Tax	1,539	1,462	(77)	-5.0
Other Tax Revenue	4,498	4,616	118	2.6
Total Tax Revenues	**$58,529**	**$58,088**	**(441)**	**-0.8%**
Non-Tax Revenues	2,273	3,288	1,015	44.7
Other Resources	618	352	(266)	-43.0
Total Revenues	**$61,420**	**$61,728**	**$307**	**0.5%**

Individual Income Tax. Minnesota individual income tax receipts are now forecast to be $120 million (-0.4 percent) less than the prior estimates. So far in FY 2025, net income tax receipts are $177 million (1.8 percent) more than forecast.

This forecast builds from estimated final TY 2023 M1 individual income tax liability net of the Pass-Through Entity (PTE) tax credit. In constructing the estimate, we used information from processed income tax (including S-Corporation, partnership, and fiduciary tax returns), revenue in the state accounting system, and projections of returns remaining to be received and/or processed.

We now estimate that final 2023 income tax liability, net of the PTE credit, reported on individual tax returns is $11.958 billion, $26 million higher than our November forecast. This updated forecast incorporates data from returns filed and processed to date and state accounting system information, providing a better estimate of liability. As a result, the forecast starts from a higher base, slightly increasing anticipated individual income tax revenue for each year in the forecast. On its own, a higher estimate of base year tax liability directly increases the forecast of future liabilities.

Calibrating the income tax model to produce our higher estimated base-year liability generally requires making assumptions about base-year growth rates for specific income types. The estimate for TY 2023 liability has increased slightly due mostly to three changes. Although the net impact is $26 million, these main underlying adjustments largely counterbalance each other. (1) To produce estimated TY 2023 liability, capital gains realized by Minnesota residents were assumed to decline 3.9 percent in TY 2023 from TY 2022. In the November forecast, we assumed a 5.8 percent decrease. This adjustment increased TY 2023 liability by about 30 million from the prior estimate. (2) Non-farm business income was assumed to increase less in TY 2023 than was estimated in November, reducing TY 2023 liability by about $150 million. (3) Dividend and interest income were assumed to increase more in TY 2023 than was estimated in November, adding about $180 million to TY 2023 liability.

The forecast for TY 2024 income tax liability was reduced by $121 million, largely due to the lower business income base in TY 2023. Higher forecasts for capital gains realizations and interest income partially offset the lower business income forecast. In addition, growth in the number of tax filers in TY 2024 is now assumed to be higher than in November, based partially on estimated final growth in the number of tax filers in TY 2023. All other things equal, increasing the number of tax returns lowers the income per return in our forecast, which, due to the graduated tax rates in our income tax, lowers our revenue forecast. This adjustment reduced the forecast by about $27 million.

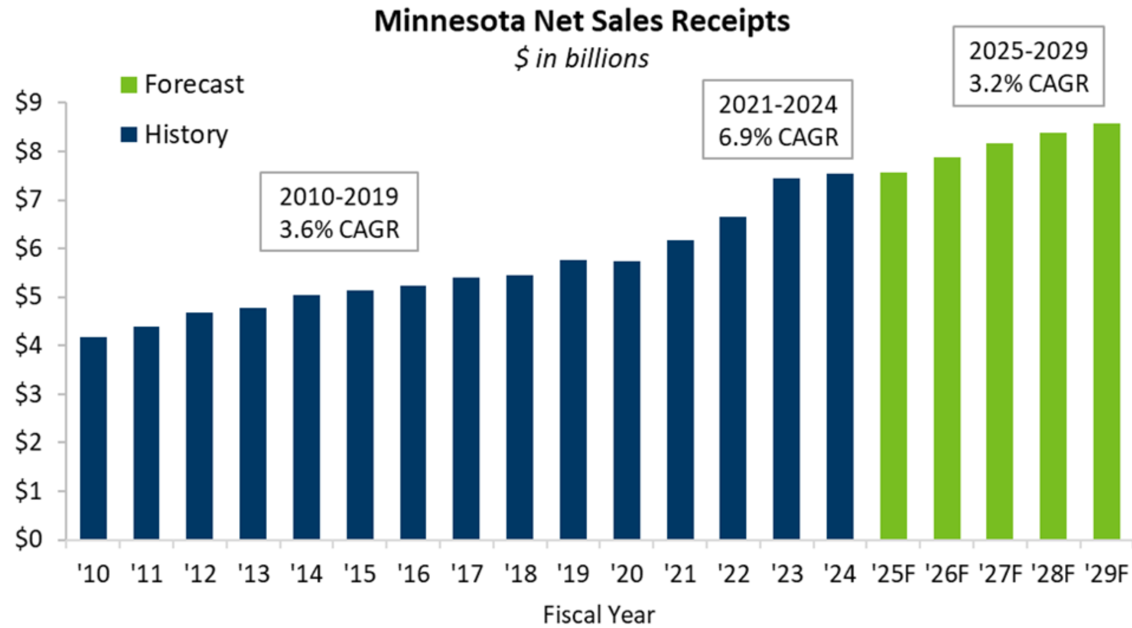
The forecast for FY 2024-25 income tax liability has been reduced by $120 million. Most of this change is a result of the lower TY 2024 liability and higher assumed growth in the number of tax return filers. One additional timing change also contributes to the reduction in the FY 2024-25 forecast.

The withholding forecast for FY 2025 is reduced by approximately $70 million relative to the prior forecast due to lower projected wage growth in the first half of calendar year (CY) 2025 and higher projected wage growth in the second half of CY 2025 relative to November. This shifts approximately $70 million out of FY 2025 and into FY 2026.

As in November, this forecast reflects adjustments to income tax revenues for 2023 Minnesota tax law changes. Significant tax law changes such as these increase the level of uncertainty in the revenue forecast throughout our forecast horizon.

General Sales Tax. Net general sales tax receipts for FY 2024-25 are forecast to exceed FY 2022-23 levels by $941 million (6.2 percent). Regarding forecast change, net general sales tax revenue in FY 2024-25 is now forecast to be $33 million (0.2 percent) more than the prior estimate. Revenue estimates for recent sales tax law changes are built into this forecast.

So far in FY 2025, net sales tax receipts exceed the November estimate by $39 million (0.8 percent).



Source: Minnesota Management and Budget (MMB)

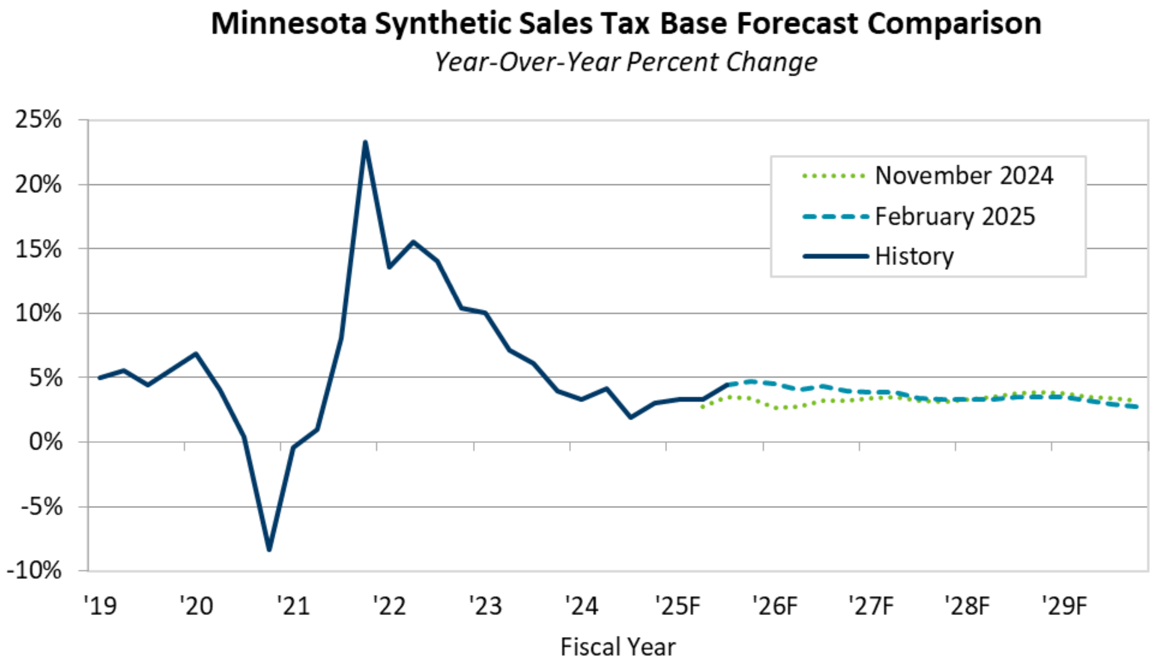
Minnesota's sales tax receipts grew 1.5 percent ($109 million) in FY 2024 after growing 12.1 percent in FY 2023. FY 2023 growth was exogenously high (and FY 2022 growth was exogenously low) due to a 2021 session law change that removed June accelerated payments. Without the law change, FY 2023 estimated growth would have been lower, and FY 2022 estimated growth would have been higher. Current biennium sales tax revenues are now forecasted to increase $1.018 billion (7.2 percent) from the FY 2022-23 level. The compound annual growth rate (CAGR) for 2025 through 2029 is forecast to be 3.2 percent.

The increased forecast in the current biennium for gross sales tax receipts reflects stronger than expected collections since November and a higher forecast for the Minnesota synthetic sales tax base.[17] Using forecasts for spending on a wide range of taxable goods and services, we construct the Minnesota synthetic sales tax base, a proxy for the actual sales tax base. In this forecast, the proxy for Minnesota's sales tax base is forecast to grow 3.9 percent in FY 2025, 0.7 percentage points more than we projected in November.

As in the past, the forecast percentage changes in the synthetic base have been reduced by 5 percent to correct for a tendency for growth in the base to overstate observed revenue growth. For example, in our forecast, a one percent change in the synthetic tax base implies a 0.95 percent change in sales tax revenue.

The information shown in this chart is discussed in the previous paragraph.

[17] The synthetic sales tax base is a constructed proxy for Minnesota's sales tax base.



Source: Bureau of Economic Analysis (BEA), Minnesota Management and Budget (MMB), SPGMI

In this forecast, the proxy for Minnesota's sales tax base is forecast to grow 3.9 percent in FY 2025, 0.7 percentage points more than we projected in November.

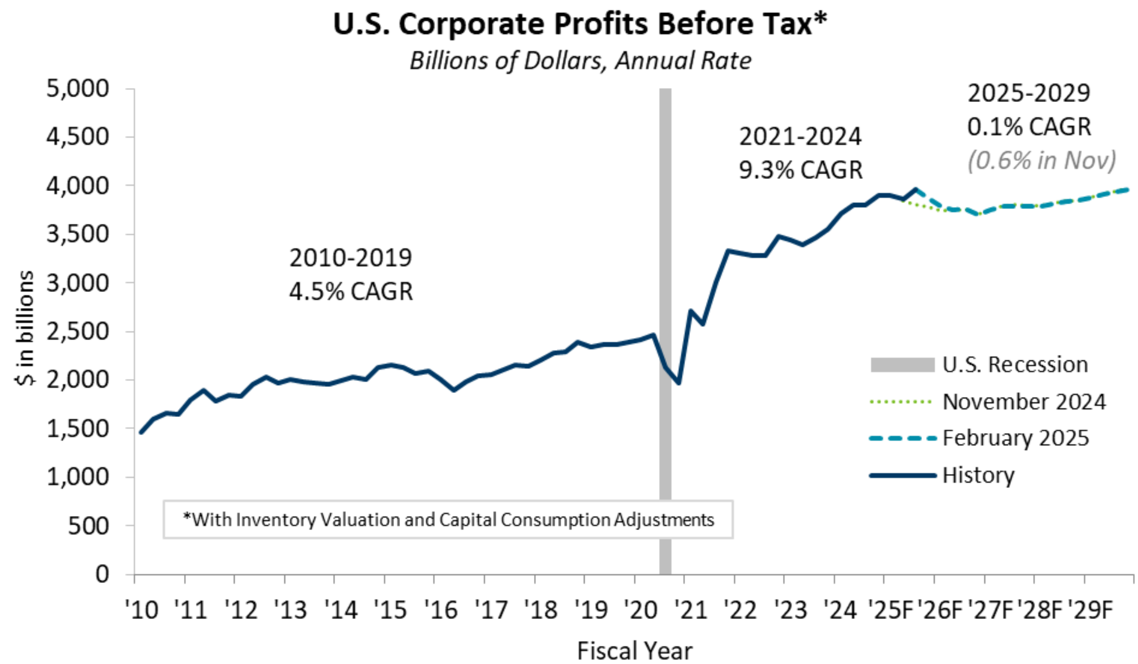
Corporate Franchise Tax. Corporate franchise tax revenue is now projected to grow $724 million (12.6 percent) in FY 2024-25 over FY 2022-23. Regarding forecast change, the corporate franchise tax is forecast to generate $6.476 billion in FY 2024-25, $169 million (2.7 percent) more than the November estimate. A higher near-term forecast for gross corporate tax receipts, higher-than-projected collections since November, and a higher refund forecast all contribute to this change.

The main factors influencing our higher forecast for Minnesota corporate tax receipts in the current biennium are (1) a higher starting point arising from receipts exceeding our prior forecast and (2) a higher near-term forecast for U.S. corporate profits—an important driving variable in our revenue forecast model.

So far, in FY 2025, net corporate receipts are above the November forecast level by $102 million (6.5 percent).

Before-tax U.S. corporate profits grew 9.8 percent in FY 2024, and SPGMI projects profits will grow 2.5 percent in FY 2025, 1.5 percentage points higher than projected in November. Beyond FY 2025, the forecast for corporate profits has weakened slightly. SPGMI projects a six-quarter decline in quarterly corporate profits to begin in the fourth quarter of FY 2025. As a result, they forecast a -3.8 percent decline in FY 2026 and low growth of 0.8 percent in FY 2027.

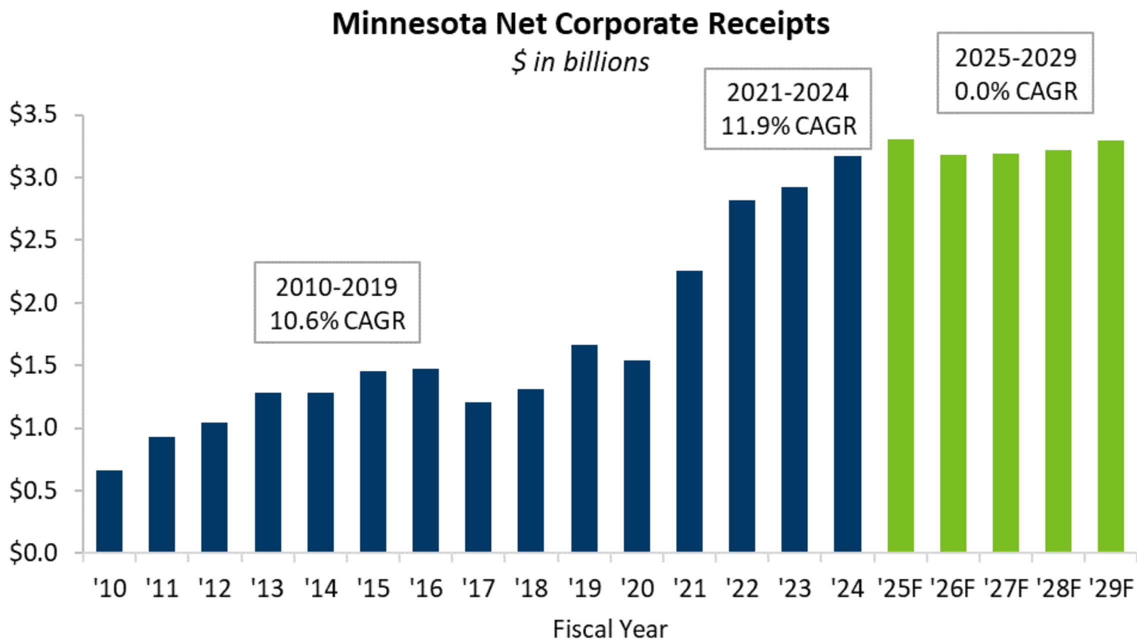
The compound annual growth rate (CAGR) for before-tax U.S. corporate profits was 4.5 percent from FY 2010 to FY 2019 and 9.3 percent from FY 2021 through 2024. SPGMI's current forecast anticipates a CAGR of 0.1 percent from FY 2024 through FY 2029, down slightly from the November forecast of 0.6 percent for the same period.



Source: U.S. Bureau of Economic Analysis (BEA), SPGMI, Minnesota Management & Budget (MMB)

The compound annual growth rate (CAGR) for before-tax U.S. corporate profits was 4.5 percent from FY 2010 to FY 2019 and 9.3 percent from FY 2021 through 2024. SPGMI's current forecast anticipates a CAGR of 0.1 percent from FY 2024 through FY 2029, down slightly from the November forecast of 0.6 percent for the same period.

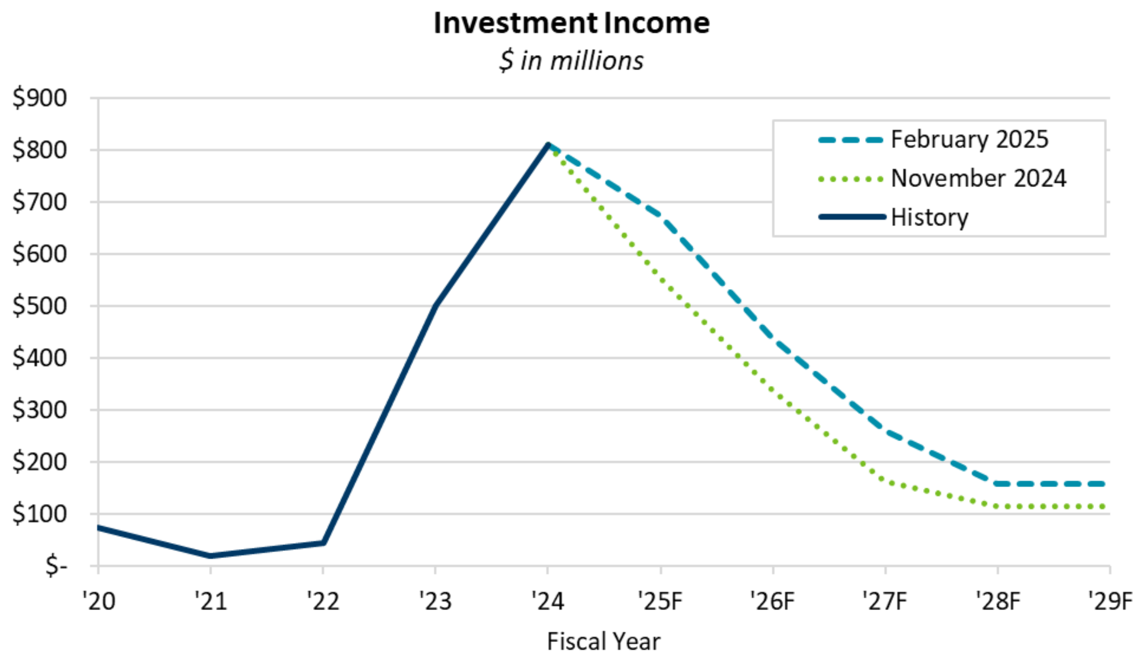
The compound annual growth rate (CAGR) for Minnesota's net corporate receipts was 10.6 percent from FY 2010 to FY 2019 and 11.9 percent from FY 2021 through 2024. The MMB forecast for corporate receipts anticipates a CAGR of 0.0 for years 2025 through 2029, down slightly from 0.2 percent in November.



The CAGR for Minnesota's net corporate receipts was 10.6 percent from FY 2010 to FY 2019 and 11.9 percent from FY 2021 through 2024. The MMB forecast for corporate receipts anticipates a CAGR of 0.0 for years 2025 through 2029, down slightly from 0.2 percent in November.

The corporate franchise tax is Minnesota's most volatile source of tax revenue, making it generally difficult to forecast precisely. Corporate taxpayers may still be adjusting to significant changes to Minnesota's tax law that were enacted in the 2023 legislative session. This adds uncertainty to the corporate tax revenue forecast.

Other Tax Revenue, Non-Tax Revenue, Other Resources. Other tax revenue is now projected to increase $118 million (2.6 percent) in FY 2024-25 over FY 2022-23. Regarding forecast change, other tax revenues are now forecast to be $7 million (-0.2 percent) lower than the prior estimate. Among other taxes, the mortgage registry tax shows the largest dollar amount change, $9 million (-3.9 percent) lower than the prior estimate. Among non-tax revenues, the largest dollar amount change is in investment income, now projected to generate $121 million (8.9 percent) more than the prior estimate.



Source: Minnesota Management and Budget (MMB)

Among non-tax revenues, the largest dollar amount change is in investment income, now projected to generate $121 million (8.9 percent) more than the prior estimate.

Next Biennium

Total revenues for FY 2026-27 are now estimated to be $64.494 billion, an increase of $2.766 billion (4.5 percent) from the current forecast for FY 2024-25 revenues. Total tax revenues for FY 2026-27 are estimated to be $61.795 billion, an increase of $3.707 billion (6.4 percent) over FY 2024-25 forecast revenues. The growth of individual income tax revenue accounts for 69.4 percent of the biennial tax revenue change, and sales tax revenue growth accounts for 25.4 percent of the biennial tax revenue change. All major tax types except corporate tax revenues show an anticipated increase in projected revenues from FY 2024-25 to FY 2026-27. SPGMI anticipates a slight downturn in corporate profits of -3.8 percent in FY 2026, driving the slight decline in corporate tax revenues.

The revenue estimates are informed by the SPGMI baseline forecast, which assumes that U.S. real GDP will increase 2.3 percent in CY 2025, followed by growth of 2.0 percent in CY 2026, and 1.6 percent in CY 2027.

Biennial Comparison: FY 2024-25 vs. FY 2026-27 General Fund Revenues
February 2025 Forecast

($ in millions)	FY 2024-25	FY 2026-27	$ Change	% Change
Individual Income Tax	$30,426	$32,999	$2,573	8.5%
General Sales Tax	15,108	16,049	941	6.2
Corporate Franchise Tax	6,476	6,375	(100)	-1.5
State General Property Tax	1,462	1,492	29	2.0
Other Tax Revenue	4,616	4,880	264	5.7
Total Tax Revenues	**$58,088**	**$61,795**	**$3,707**	**6.4%**
Non-Tax Revenues	3,288	2,308	(980)	-29.8
Other Resources	352	391	39	11.1
Total Revenues	**$61,728**	**$64,494**	**$2,766**	**4.5%**

The current forecast for FY 2026-27 total revenues is $640 million (1.0 percent) more than the prior estimate. Total tax revenues for the next biennium are forecast to be $382 million (0.6 percent) above the prior estimate. Higher forecasts for individual income tax receipts and general sales tax receipts are the primary drivers of the forecast change.

Next Biennium: FY 2026-27 General Fund Revenues
November 2024 vs. February 2025 Forecast Comparison

($ in millions)	November 2024 Forecast	February 2025 Forecast	$ Change	% Change
Individual Income Tax	$32,821	$32,999	$178	0.5%
General Sales Tax	15,840	16,049	209	1.3
Corporate Franchise Tax	6,376	6,375	(1)	0.0
State General Property Tax	1,492	1,492	0	0.0
Other Tax Revenue	4,883	4,880	(4)	-0.1
Total Tax Revenues	**$61,412**	**$61,795**	**$382**	**0.6%**
Non-Tax Revenues	2,050	2,308	$258	12.6
Other Resources	391	391	$0	0.0
Total Revenues	**$63,853**	**$64,494**	**$640**	**1.0%**

Individual Income Tax. Individual income tax revenues for FY 2026-27 are forecast to be $32.999 billion, $2.573 billion (8.5 percent) more than the current forecast for FY 2024-25. An increase in individual income tax receipts accounts for 69.4 percent of the biennial growth in general fund revenues.

The forecast for FY 2026-27 is $178 million higher than the November forecast. Part of the forecast increase is due to an $18 million increase in tax liability in TY 2025-26, which is closely associated with FY 2026-27. The forecast changes for TY 2025 and TY 2026 mostly offset each other. TY 2025 liability is forecasted to be $109 million lower than was estimated in November, generally due to the reasons for the forecast reduction in TY 2024 liability – a lower forecast for non-farm business income and a higher forecast for tax filer growth, offset partially by higher forecasts for capital gains realizations and interest income. TY 2026 liability is forecasted to be $127 million higher than was estimated in November, largely due to an increased wage forecast for TY 2026. This higher wage forecast increases TY 2026 liability by about $195 million.

By statute, Minnesota tax brackets and other parameters of the state tax code are indexed by the chained CPI-U. Inflation, as measured by the chained CPI-U, is now forecast to be higher than it had been in November. This has the effect of lowering forecast liability in TY 2026 by $36 million (lowering revenues in FY 2027).

About $70 million of the FY 2026-27 increase is due to a withholding shift from FY 2025 into FY 2026, as mentioned in the Current Biennium section. This shift is caused by lower projected wage growth in the first half of CY 2025 and higher projected wage growth in the second half of CY 2025 relative to November. An additional $63 million of the FY 2026-27 increase is due to a similar withholding shift into the FY 2026-27 biennium from the FY 2028-29 biennium.

Finally, the forecast for net income tax receipts from fiduciaries (estates and trusts) in FY 2026-27 is about $10 million higher than in November, due in part to observed positive variances in collections since November.

General Sales Tax. Net general sales tax receipts for FY 2026-27 are forecast to exceed the current forecasted levels for FY 2024-25 by $941 million (6.2 percent). Growth in general sales tax revenues accounts for 25.4 percent of the total tax revenue biennial change. Regarding forecast change, general sales tax receipts are projected to generate $16.049 billion in FY 2026-27, $209 million (1.3 percent) more than the November forecast. Growth in forecast gross sales tax receipts is the sole contributor to the biennial change.

The forecast change is due to higher projected growth in taxable sales in FY 2026-27. The Minnesota synthetic sales tax base, a proxy for the actual tax base, is forecast to grow 4.2 percent in FY 2026, 1.2 percentage points higher than in November. The base is forecast to grow 3.6 percent in FY 2027, 0.3 percentage points higher than in November.

Corporate Franchise Tax. The corporate franchise tax is forecast to generate $6.375 billion in FY 2026-27, $100 million (-1.5 percent) less than the current FY 2024-25 forecast.

We have lowered our forecast of FY 2026-27 corporate tax receipts by less than $1 million (0.0 percent) from our November estimate. In this forecast, we use SPGMI's February baseline outlook, which assumes a decline of -3.8 percent in corporate profits in FY 2026, down from a decline of -2.7 percent in November. The decline in FY 2026 is followed by a 0.8 percent increase in FY 2027, slightly lower than the November forecast of 1.3 percent.

Other Tax Revenue, Non-Tax Revenue, Other Resources. Other tax revenue is now forecast to grow $264 million (5.7 percent) in FY 2026-27 over the current forecasted levels for FY 2024-25. Among other taxes, the medical assistance surcharge shows the largest dollar amount change, $20 million (2.7 percent) higher than the prior estimate. Revenue from the insurance gross receipts tax is forecast to be $16 million (-1.3 percent) lower than in November due to a lower forecasted growth rate in the number of households. Non-tax revenues are forecast to be $980 million (-29.8 percent) lower in FY 2026-27 than in FY 2024-25. Among non-tax revenues, the largest change in dollar amount is in investment income, which is now projected to generate $200 million more than projected in November. The February forecast includes $58 million in additional tobacco settlement revenue resulting from legal action brought by the state of Minnesota against tobacco companies related to the calculation of profit payments in the state's 1998 settlement after passage of the 2017 Tax Cuts and Jobs Act.

Planning Estimates

This is the second reporting of revenue planning estimates for FY 2028-29. Total revenues for the biennium are now estimated to be $67.882 billion, an increase of $3.388 billion (5.3 percent) over the current forecast for FY 2026-27 revenues. Total tax revenues for FY 2028-29 are estimated to be $65.944 billion, an increase of $4.149 billion (6.7 percent) over FY 2026-27.

Planning Estimates: FY 2028-29 General Fund Revenues
Biennial Comparison: February 2025 Forecast

($ in millions)	**FY 2026-27**	**FY 2028-29**	**$ Change**	**% Change**
Individual Income Tax	$32,999	$35,738	$2,739	8.3%
General Sales Tax	16,049	16,957	908	5.7
Corporate Franchise Tax	6,375	6,516	140	2.2
State General Property Tax	1,492	1,490	(1)	-0.1
Other Tax Revenue	4,880	5,243	363	7.4
Total Tax Revenues	**$61,795**	**$65,944**	**$4,149**	**6.7%**
Non-Tax Revenues	2,308	1,832	(476)	-20.6
Other Resources	391	105	(286)	-73.0
Total Revenues	**$64,494**	**$67,882**	**$3,388**	**5.3%**

Together, the individual income and sales taxes account for about 88 percent of the projected biennial tax revenue growth. The individual income tax shows the largest increase, growing by $2.739 billion (8.3 percent) and contributing 66 percent of the total tax revenue biennial change. The general sales tax is projected to exceed FY 2026-27 forecast levels by $908 million (5.7 percent), accounting for 22 percent of the growth in tax revenues. The corporate franchise tax is projected to exceed FY 2026-27 forecast levels by $140 million (2.2 percent), accounting for 3.4 percent of the growth in tax revenues. The other taxes account for the remaining $363 million of biennial growth.

The revenue planning estimates are based on the SPGMI baseline forecast, which assumes U.S. real GDP will grow 1.6 percent in CY 2027, followed by 1.8 percent in CY 2028, and 1.6 percent in CY 2029.

The planning estimates for FY 2028-29 should be used with caution. First, the projections will be affected by any revenue changes in the supplemental budget for FY 2024-25 and the enacted budget for FY 2026-27. Second, in subsequent forecasts, changes to our estimates of individual income tax liability for tax years 2025 through 2029, as well as changes to the base levels of other revenue types for FY 2025 through 2029, will change the FY 2028-29 planning estimates. Third, even small deviations from assumed growth rates for factors affecting revenues will compound and produce sizable changes in revenues. Should the economy grow more/less slowly, or more/less quickly, than forecast, or should some volatile income source such as capital gains or corporate profits fall well above/below forecast, the revenue outlook for FY 2028-29 will deteriorate or improve. Finally, Minnesota's Council of Economic Advisers warns that the difficulty of projecting long-range economic conditions warrants caution when using economic forecasts for 2028 and 2029. The SPGMI baseline forecast calls for modest real GDP growth of more/less than 2.0 percent from 2027-2029. This slow growth leaves the economy vulnerable to negative shocks, such as geopolitical conflicts, natural disasters, and financial market volatility, which could cause growth in the planning estimate years to underperform SPGMI's projections.

EXPENDITURE OUTLOOK

Current Biennium

Total spending for the FY 2024-25 biennium is higher than November estimates. Expenditures in the current biennium are now expected to total $70.975 billion, an increase of $304 million (0.4 percent) from November estimates.

Current Biennium: FY 2024-25 General Fund Expenditures
Forecast Comparison

($ in millions)	November 2024 Forecast	February 2025 Forecast	$ Change	% Change
E-12 Education	24,539	24,549	10	0.0%
Property Tax Aids & Credits	5,549	5,556	7	0.1
Health & Human Services	20,980	21,264	284	1.4
Debt Service	1,066	1,066	-	-
All Other	18,536	18,540	3	0.0
Total Expenditures	**70,670**	**70,975**	**304**	**0.4%**

Health & human services (HHS) accounts for most of the change in the current biennium. This $284 million increase is primarily due to higher spending on Medical Assistance (MA) and the Behavioral Health Fund (BHF). E-12 education is $10 million (0.0 percent) above previous estimates due to higher actual spending on special education. Property tax aids and credits is $7 million (0.1 percent) higher. Debt service and all other state spending is nearly unchanged from prior estimates.

Agency Transitions between Bill Areas

This forecast reflects the establishment of two new agencies within the health and human services (HHS) bill area: the Departments of Children, Youth, and Families (DCYF) and Direct Care and Treatment (DCT). The legislature directed the executive branch to identify and move appropriations to the new agencies from originating agencies between July 1, 2024, and July 1, 2025, for DCYF and on July 1, 2025, for DCT. This forecast includes the transfer of base budgets for DCT, but the full transfer of duties and responsibilities will occur on July 1, 2025.

DCYF was established in Laws 2023, Chapter 70. Expenditures in the HHS bill area will increase due to programs related to early childhood education and youth justice transitioning from the Departments of Education (MDE) and Public Safety (DPS) to DCYF. Expenditures in the E-12 bill area will decrease due to programs related to early childhood education moving from the MDE to DCYF. Additionally, programs related to childcare, child welfare, economic assistance, and juvenile safety are transitioning from the Department of Human Services (DHS) to DCYF.

The chart below summarizes changes in the current biennium to each bill area.

Adjusted Estimates for the Current Biennium

($ in millions)	November 2024 Forecast	February 2025 Forecast
E-12 Education	$24,539	24,549
E-12 moving to HHS	644	644
E-12 Adjusted	**23,895**	**23,905**
Property Tax Aids & Credits	**5,549**	**5,556**
Health & Human Services (HHS)	20,980	21,264
E-12 and Other moving to HHS	666	666
HHS Adjusted	**21,646**	**21,930**
Debt Service	**1,066**	**1,066**
All Other	18,536	18,540
All Other moving to HHS	(21)	(21)
All Other Adjusted	**18,515**	**18,519**
Total Expenditures	**$70,670**	**70,975**

Note: The above table shows programs transferring to agencies during the current biennium included in the receiving agency in FY 2024-25. Agency reorganizations do not impact the bottom line of the general fund. The remaining sections of the Expenditure Outlook will reference these adjusted estimates for the current biennium in order to isolate forecast change from movement between bill areas related to agency transitions.

E-12 Education. Education finance is the largest category of state general fund spending. It consists of aid programs for general education, special education, school breakfast and lunch, early childhood and family education, charter schools, nonpublic pupil programs, and integration programs. E-12 aids can be divided into two major funding streams: 1) general education, the primary source of basic operating funds for schools, and 2) categorical aid, tied to specific activities or categories of funding. In the current biennium, the state is projected to spend $23.905 billion on education.

Spending in E-12 education in the FY 2024-25 biennium is largely unchanged, up $10 million (0.0 percent) from November estimates. This change is driven primarily by an increase in state special education expenditures. Special education is a reimbursement-based program in which local education agencies receive reimbursement for costs of service in the prior year. Special education spending is up $17 million (0.4 percent) in the FY 2024-25 biennium due to higher-than-expected final local education agency special education expenditures in FY 2024. In the November forecast, FY 2024 district non-transportation special education expenditures were expected to increase by 6.0 percent from the prior year. FY 2024 actual expenditures for district non-transportation special education expenditures grew 10.1 percent from the prior year. Charter expenditures also grew at a faster rate than previously assumed. This higher spending raises the base for the rest of the forecast period. General education spending is $3 million above previous estimates in the current biennium, primarily due to changes in pupils. All other E-12 spending is $10 million lower than previous estimates.

Health & Human Services. Health and Human Services (HHS) is approximately 30 percent of total state general fund spending in the current biennium. The majority of these expenditures (75 percent) are forecast programs including Medical Assistance (MA), the Behavioral Health Fund (BHF), the Minnesota Family Investment Program (MFIP), MFIP Child Care, Alternative Care (AC), General Assistance, Housing Support, Minnesota Supplemental Aid, and Northstar Care for Children.

General fund forecast changes are generally driven by changes in MA, since it accounts for the largest portion of forecast program expenditures. MA is a state-federal, means tested entitlement program for low-income individuals and families, persons with physical or developmental disabilities, and the low-income elderly. MA costs are split between the state and federal government, though only the state share of expenditures is reflected as part of the general fund forecast. In the FY 2024-25 biennium, anticipated HHS general fund spending is $21.930 billion, up $278 million (1.3 percent) from November 2024 estimates.

General Fund Health and Human Services Expenditures
Change from November 2024 Estimates

($ in millions)	FY 2024-25 $ Change	FY 2024-25 % Change	FY 2026-27 $ Change	FY 2026-27 % Change	FY 2028-29 $ Change	FY 2028-29 % Change
DWRS Inflation Adjustments	-	-	30	0.4	94	0.9
Waiver Reimagine Fiscal Assumptions	4	0.1	8	0.1	(104)	(1.0)
All Other LTC Waiver Changes	53	0.8	140	1.6	157	1.6
Basic Care Fee for Service Payments	60	0.7	75	0.8	98	0.9
Weight Loss Drug Managed Care Costs	12	0.1	79	0.8	88	0.8
HMO Capitation Rates	31	0.4	0.0	0.0	0.0	0.0
All other MA	(4)	N/A	(10)	N/A	9	N/A
Total MA Change	**$154**	**1.1%**	**$323**	**1.8%**	**$342**	**1.7%**
Behavioral Health Fund	125	62.0	25	10.6	6	2.5
MFIP Child Care	(4)	(7.3)	(16)	(6.2)	(1)	(0.4)
All Other HHS Changes	5	N/A	-9	N/A	11	N/A
Total HHS General Fund Forecast Change	**$284**	**1.4%**	**$338**	**1.4%**	**$359**	**1.3%**

MA spending is $154 million (1.1 percent) higher than the November 2024 forecast estimate in the FY 2024-25 biennium. This increase is caused by increases in both long-term care waivers and basic care.

Long-term care waiver spending is $57 million higher than previous estimates, as a result of several factors. Average costs and enrollment in long-term care waiver programs are up from the November forecast in the current biennium. These changes are based on three months of updated data, which saw a slight uptick since the last forecast. This uptick is primarily driven by enrollment growth in the Development Disability (DD) waiver program, which is up 0.7 percent in FY 2025 from the November forecast estimate. Additionally, the transition to Community First Services and Supports (CFSS) is occurring more gradually than expected, which raises state spending in FY 2025.

Expenses in the MA basic care program are also higher than previous estimates. The largest driver of this change is higher-than-expected fee-for-service (FFS) payments, resulting in a $60 million increase relative to the November forecast. While most of the payments for health care services are made to managed care organizations in monthly capitation payments, some services are paid on an FFS basis directly to a health care provider, including retroactive coverage for new enrollees. All three eligibility categories, elderly and disabled, adults without children, and families with children, have experienced higher-than-expected FFS average payments in recent months.

There are also two changes within managed care resulting in higher projected spending in the current biennium. First, greater-than-expected use of weight loss drugs results in a $12 million increase from previous estimates. MA has covered weight loss drugs since the 2021 legislative session. However, in recent years, there have been a number of relatively expensive new drugs approved by the Food and Drug Administration, which increases projected state spending. This forecast also reflects a $31 million increase in managed care spending due to changes in 2024 rates from updates in the actuarial model for adults without children and families with children eligibility categories. These updates were required due to changes in the enrollee pool after the post-COVID eligibility redetermination process resulted in an enrollee pool with more severe or complex conditions relative to the prior pool used to set the 2024 contract rates.

The largest individual driver of HHS change in the current biennium is in the Behavioral Health Fund (BHF). BHF expenditures are up by $125 million in FY 2024-25, an increase of 62.0 percent. $113 million of the increase is due to the need to make retroactive corrections for improperly claimed payments for services in Tribal residential facilities that were determined to be Institutions for Mental Diseases (IMDs). IMDs are defined as hospitals or other treatment facilities with more than sixteen beds whose primary purpose is to provide diagnosis, treatment, or care for individuals with mental diseases, including substance use disorders. Due to this classification, these facilities were ineligible for federal Indian Health funding. The amount paid to Tribal IMD facilities by DHS was correct, but the claims should have been paid from the general fund rather than federal funds. This forecast reflects that repayment occurring in FY 2025. The other driver of the increase in BHF spending is the cost of future services provided by these facilities that will be paid by the state rather than federal government as assumed in previous estimates.

Property Tax Aids and Credits. Property tax aids and credits are 8 percent of general fund spending. They are paid to local governments, including cities, counties, towns, public schools, and special taxing districts. These aids and credits help offset costs of service delivery and defray costs of state mandates. The are designed to reduce the reliance on local property taxes by substituting state funds for revenues that would otherwise be raised locally. Direct payments to individuals, such as property tax refunds for homeowners and renters, are also included in this category because they reduce property tax burdens.

Estimated property tax aids and credits spending is $7 million (0.1 percent) higher than November estimates. This change is largely due to a $5 million (0.3 percent) increase in homestead credit refunds, driven by higher actual refund counts and average refund size. Special property tax refunds, which benefit homeowners experiencing significant increases in net property taxes, are $2 million (3.0 percent) higher than previously forecast, based on actual refunds paid.

Debt Service and All Other Spending. MMB makes assumptions about the size of future capital budgets in each forecast. The assumptions have historically been based on the average size of general obligation (GO) bonds authorized in capital budget bills over the past ten years, differentiating between the larger even-year capital budgets and smaller odd-year capital budgets. Similar to the previous forecast, the 10-year historic averages driving assumptions about future capital budgets remained at $1.01 billion in even years and $165 million in odd years in this forecast, with a larger capital budget assumed for 2025, compared to the odd-year average, due to the lack of a bonding bill in 2024 and assumptions for a larger bill this year.

To remain in compliance with the state's debt capacity guidelines, a $700 million capital budget is assumed for the 2025 legislative session, a decrease from the prior estimate. As reported in the February 2025 Debt Capacity Forecast, the state measures debt under three capital investment guidelines that together demonstrate a commitment to long-term capital and financial planning. Two guidelines measure outstanding debt against personal income, and the third guideline measures how quickly the state is scheduled to repay general obligation debt. Stemming from projected higher interest rates in this forecast, and in order to remain in compliance with the third debt guideline regarding the schedule of debt retirement, the Debt Capacity Report shows that $700 million is the maximum amount of general obligation debt the legislature could authorize in 2025 while maintaining compliance with that debt guideline without adjusting the size of assumed future bonding bills. This is a one-time adjustment, and this forecast assumes a return to the normal 10-year averages starting with the 2026 legislative session.

Debt service expenditures for the current biennium are forecast to be $1.066 billion, which is unchanged from previous estimates. All other areas of the state budget are projected to total $18.539 billion, an increase of $3 million (0.0 percent).

Next Biennium

Next Biennium: FY 2026-27 General Fund Expenditures
Biennial Comparison; February 2025 Forecast

($ in millions)	**FY 2024-25**	**FY 2026-27**	**$ Change**	**% Change**
E-12 Education	23,905	25,562	1,657	6.9%
Property Tax Aids & Credits	5,556	4,753	(803)	(14.5)
Health & Human Services	21,930	24,147	2,217	10.1
Debt Service	1,066	1,223	157	14.7
Estimated Inflation	-	1,145	1,145	N/A
All Other	18,519	10,950	(7,569)	(40.9)
Total Expenditures	**70,975**	**67,780**	**(3,195)**	**(4.5%)**

Forecast expenditures in the FY 2026-27 biennium are expected to reach $67.780 billion, a reduction of $3.195 billion (4.5 percent) from the FY 2024-25 biennium. Significant one-time spending in the FY 2024-25 biennium results in temporarily elevated spending levels. As a result, total general fund spending is projected to decline from the current biennium to the next. This reduction, however, is not uniform across program areas. Spending for health & human services, E-12 education, and debt service are projected to grow from the current biennium to the next, while spending for property tax aids and credits and other areas of the state budget are projected to decline due to significant one-time spending in the current biennium.

Next Biennium: FY 2026-27 General Fund Expenditures
Forecast Comparison

($ in millions)	November 2024 Forecast	February 2025 Forecast	$ Change	% Change
E-12 Education	25,365	25,562	197	0.8%
Property Tax Aids & Credits	4,736	4,753	17	0.4
Health & Human Services	23,808	24,147	339	1.4
Debt Service	1,221	1,223	2	0.2
Estimated Inflation	926	1,145	219	23.7
All Other	10,933	10,950	17	0.2
Total Expenditures	**66,989**	**67,780**	**791**	**1.2%**

E-12 Education. E-12 expenditures are forecast to reach $25.562 billion in the next biennium, growing $1.657 billion (6.9 percent) relative to the current biennium. The largest drivers of biennial growth are general education and special education. General education is forecast to be $862 million (5.3 percent) higher than the current biennium, due to pupils and increases in the basic per pupil formula. Special education contributes to the largest share of growth from one biennium to the next, approximately $965 million (19.8 percent). Because special education aid is primarily based on costs of service in the prior year, growing costs at the local level drive increases in state aid. The assumed growth in non-transportation special education expenditures for the next two years ranges from 5.8 to 7.9 percent, varying for districts and charter schools.

Pupil Projections in the February Forecast

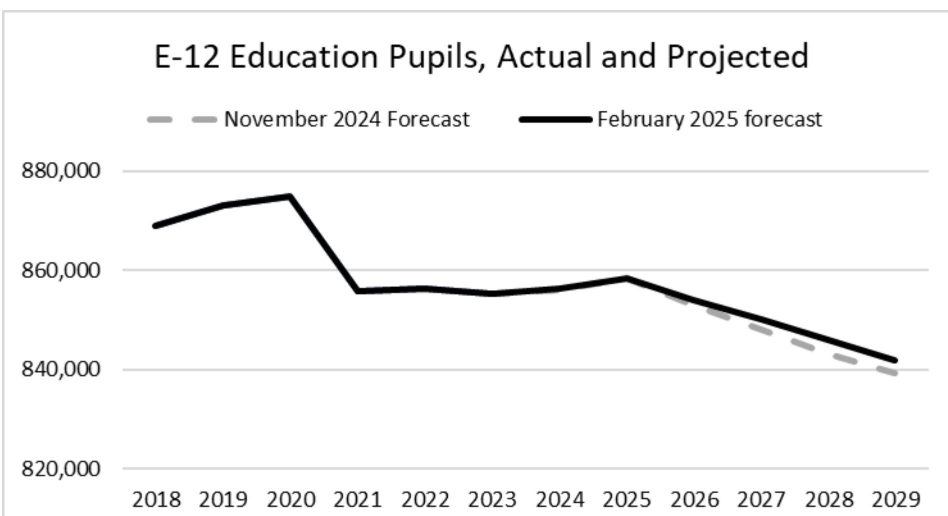
Background. Pupils are the primary factor determining E-12 education spending in Minnesota. Pupils are projected by the Minnesota Department of Education (MDE) using growth trends based on prior year actual counts and other factors.

Changes in Pupil Counts in the Current Biennium. In FY 2024-25, pupil count projections are relatively flat. Pupils increased by 290 (0.0 percent) in FY 2024 and 27 (0.0 percent) in FY 2025.

Changes in Pupil Counts in the Next Biennium. While the forecast for FY 2026-27 continues to show a year-over-year decline in pupils, pupils in the next biennium are forecast to be 1,113 (0.1 percent) higher in FY 2026 and 2,054 (0.2 percent) higher than November. Updated actual data from the 2023-24 school year led to a higher forecast in future years relative to November estimates. This is primarily attributable to higher estimates of students expected to progress from one grade to the next.

Changes in Pupil Counts in the Planning Estimates.
Pupils are higher than prior estimates by 2,903 in FY 2028 and 2,595 in FY 2029. Changes to pupil estimates and assumptions about grade progression flow through the pupil projection model leading to higher pupil estimates than in November. In the planning estimates, pupils are still expected to decline year over year by roughly 4,000 pupils annually.

In recent forecasts, MDE has adjusted the pupil projection model to account for trends not captured by the current methodology. November estimates contained an adjustment in FY 2025 through FY 2029 of roughly 2,500 pupils above the model projections based on preliminary data on the number of pupils for FY 2025. This forecast does not include an adjustment because the pupil projection model and preliminary FY 2025 district estimates now show aligned estimates with minimal difference.



E-12 education pupil projections are relatively flat in the FY 2024-25 biennium and slightly higher in the FY 2026-27 and FY 2028-29 biennia, relative to November 2024 estimates.

General Fund Education Expenditures
Change from November 2024 Estimates

($ in millions)	FY 2024-25 $ Change	FY 2024-25 % Change	FY 2026-27 $ Change	FY 2026-27 % Change	FY 2028-29 $ Change	FY 2028-29 % Change
General Education	$3	0.0%	$129	0.8%	$245	1.4%
Special Education	17	0.4	75	1.3	96	1.5
All Other E-12 Programs	(10)	0.0	(7)	(0.4)	(2)	(0.2)
Total Education Change	**$10**	**0.0%**	**$197**	**0.8%**	**$339**	**1.3%**

E-12 education spending is expected to be $197 million (0.8 percent) higher in the FY 2026-27 biennium, relative to November 2024 forecast estimates. Basic formula revenue, the largest component of general education, estimates have increased since November by $126 million driven by a higher forecast for the formula allowance and additional pupils.

Beginning in FY 2026, the annual growth in the basic revenue formula allowance is tied to growth in the Consumer Price Index (CPI), with a minimum of 2.0 percent and a maximum of 3.0 percent. The basic revenue formula allowance per pupil is higher than the November forecast by $33 in FY 2026 and $69 in FY 2027. In the November forecast, the 2026 formula allowance was assumed to grow by 2.29 percent, but the final FY 2026 formula allowance will actually increase by 2.74 percent. The automatic inflationary increase on the formula allowance is expected to be at the cap of 3.0 percent for FY 2027 and FY 2028, whereas prior estimates had the growth rates below the cap at 2.52 percent in FY 2027 and 2.89 percent in FY 2028.

Formula Allowance (FA) Forecast Growth

CPI Calendar Year	Formula Allowance Fiscal Year	CPI	Applied Inflation Adjustment	Formula Allowance	Change from November
2024	2026	2.74%	2.74%	7,481	33
2025	2027	3.23%	3.00%	7,705	69
2026	2028	3.02%	3.00%	7,935	80
2027	2029	1.78%	2.00%	8,095	82

Special education expenditures are up $75 million (1.3 percent) due primarily to increases in special education transportation costs and salaries and benefits for special education staff. FY 2024 cost data has been finalized since the publication of the November 2024 forecast. Local education agency special education transportation expenditures are expected to grow by 12 percent in FY 2025, up from an assumed 11 percent growth rate in November. Because special education aid is largely based on prior year costs, this results in increased aid throughout the forecast period.

Health & Human Services. General fund spending for health and human services is expected to reach $24.147 billion in the FY 2026-27 biennium, an increase of $2.889 billion (13.6 percent) from the current biennium. As in previous forecasts, Medical Assistance (MA) is the primary driver of the biennial change. General fund spending in MA is expected to grow by $3.350 billion (33.0

percent) from FY 2024-25 to FY 2026-27. Increased rates for long term care waivers, long term care caseload, and managed care contract rates are the primary cause of this increase in MA spending.

MA spending is up $323 million (1.7 percent) from the November forecast. Growth in long-term care waivers continues to drive MA spending, due to both higher average costs and enrollment. Average payments and caseload are expected to grow faster than previously forecast, with these assumption changes raising the forecast by $130 million. These trends are based on updated data. Enrollment growth continues to be concentrated in the DD waiver.

Expenditures in long-term care waivers are also higher due to changes to inflationary adjustments in the Disability Waiver Rate System (DWRS) rate frameworks. DWRS calculates rates based on a variety of inputs, including estimated staff wages, individuals' needs, and the number of services needed. Inflationary adjustments to the rate frameworks are based on changes in wages and inflation every two years. This forecast updates the scheduled increase on January 1, 2026, to 13.9 percent, up from 12.4 percent since November based on Bureau of Labor Statistics wage data and Consumer Price Index data from 2024. This change increases costs by $30 million (0.4 percent).

Basic care spending is higher than previous estimates due to higher-than-expected FFS average payments and greater-than-expected use of weight loss drugs. Higher FFS costs in the current biennium are projected to continue, increasing projected spending by $75 million from previous estimates. Meanwhile, forecast expenses in managed care contracts increased by $79 million because of the greater-than-expected use of weight loss drugs.

Behavioral Health Fund (BHF) expenditures are up by $25 million (10.6 percent) compared to November. This is primarily due to the ongoing loss of federal offset for Tribal IMD facilities from the previous biennium. However, it does project partial restoration of those funds over time as facilities begin to participate in the state's Substance Use Disorder (SUD) waiver. The SUD waiver allows for federal Medicaid matching funds for residential IMD facilities and is a part of the state strategy to address the opioid crisis and to support access to SUD treatment for individuals on Medicaid. This forecast assumes these facilities will join the waiver and will begin drawing down a federal offset from the state SUD waiver in FY 2026, which is projected to cover 33.0 percent of expenditures in FY 2026 and 90.0 percent in FY 2027. Tribal IMD facilities already meet the requirements of participation in the SUD waiver. The state has been participating in the federal SUD waiver since 2019. Without joining the state SUD waiver, Tribal IMD facilities will not be able to draw down a federal match.

Expenditures in programs at the Department of Children, Youth, and Families are lower than previous estimates by $17 million (2.1 percent). The decrease is primarily due to lower caseload growth assumptions in the MFIP Child Care program resulting in fewer families accessing childcare assistance.

Property Tax Aids and Credits. Estimates for property tax aids and credits are expected to total $4.753 billion in the FY 2026-27 biennium, a decrease of $803 million (14.5 percent) from the current biennium. The primary reason for the decrease is the transition of the renter's credit from a property tax refund to an income tax credit. Beginning with tax year 2024 (spring 2025 filings), eligible renters will be able to claim a refundable tax credit as part of their individual income tax return (Form M1) rather than filing a separate renter's property tax refund (Form M1PR). Adding to this decline in the next biennium is the $300 million one-time public safety aid in the current biennium.

Spending on property tax aids and credits in the FY 2026-27 biennium is $17 million (0.4 percent) higher than end-of-session estimates. Homestead credit refunds are $20 million (1.2 percent) higher than previously forecast due to a higher base from the increase in the current biennium and faster property tax growth for homesteads relative to other property types. This is moderated by faster income growth, which reduces property tax refunds.

Debt Service and All Other Spending. Debt service expenditures are forecast to be $1.223 billion in the next biennium, which is $2 million (0.13 percent) more than previous estimates. Interest rates are projected to rise in the next biennium. Higher interest rate assumptions also lower estimated bond premiums, increasing future borrowing costs. These cost pressures were partially offset by a smaller bonding assumption for 2025.

All other areas of the state budget are projected to total $10.950 billion, an increase of $17 million (0.2 percent) from prior estimates. Firefighting costs at the Department of Natural Resources are $13 million (25.0 percent) higher, due to inflationary pressures on equipment, labor costs, and increased wildfire risk. Destination Medical Center (DMC) spending is $7 million (14.6 percent) higher than prior estimates as a result of increased local contributions, which increased due to higher-than-anticipated tax increment financing (TIF) paid to developers. Partially offsetting these increases was a $4 million (1.9 percent) reduction in special transportation service (Metro Mobility and Metro Move) due to lower operational costs.

Estimated Inflation. State law mandates that the forecast of state spending include estimates of inflationary cost impacts on state programs and operations. Under current law, several state programs, including general education, special education, school nutrition programs, a portion of spending within DHS, DCYF, and property tax refunds include the allowance for rate or cost increases in current law formulas. In addition, including inflation on certain categories of spending, such as debt service and capital project appropriations would not be appropriate. After removing these programs from total spending, inflating the remainder by projected Consumer Price Index growth of 3.0 percent in FY 2026 and 2.9 percent in FY 2027 results in the addition of $1.145 billion in inflationary pressures to total state spending estimates related to the budget for the next biennium, an increase of $219 million (23.6 percent) from November estimates, and $1.597 billion in the FY 2028-29 planning estimates, an increase of $254 million (18.9 percent). The forecast increases are due to higher rates of inflation assumed in the next biennium. This forecast holds an additional $873 million in expected inflationary pressures for the FY 2028-29 biennial budget, down $14 million (1.6 percent) from prior estimates due to a lower adjusted base.

Estimated Inflation: General Fund Expenditure Budget
By Fiscal Year, February 2025 Forecast

($ in millions)	FY 2026	FY 2027	FY 2028	FY 2029
Forecast CPI change yr/yr	**3.0%**	**2.9%**	**1.9%**	**2.3%**
Total Base Expenditures	**32,591**	**34,043**	**35,337**	**36,525**
Expenditures with existing stat. inflation or excluded from calc.				
Med. Asst. Pymts w/ Inflation	6,532	6,925	7,360	7,870
Other HHS	353	415	461	480
General Education	8,513	8,816	9,028	9,166
Special Education	2,798	3,054	3,241	3,413
School Nutrition	322	337	344	348
Property Tax Refunds	827	851	868	896
Debt Service	581	642	678	720
Capital Projects	142	145	148	150
Adjusted Base for Inflation Calc.	**12,523**	**12,859**	**13,210**	**13,481**
Estimated Inflation Added	**376**	**770**	**1,059**	**1,412**

Planning Estimates

Spending estimates for the planning biennium are higher than prior projections. Expenditures in FY 2028-29 are now expected to total $74.332 billion, $6.553 billion (8.9 percent) higher than the FY 2026-27 biennium, and an increase of $961 million (1.3 percent) from November estimates. The forecast change is due to increases in E-12 education, health & human services, and estimated inflation.

Planning Estimates: FY 2028-29 General Fund Expenditures
Forecast Comparison

($ in millions)	November 2024 Forecast	February 2025 Forecast	$ Change	% Change
E-12 Education	26,953	27,292	339	1.3%
Property Tax Aids & Credits	4,946	4,957	11	0.2
Health & Human Services	26,861	27,220	359	1.3
Debt Service	1,403	1,398	(5)	(0.4)
Estimated Inflation	2,231	2,471	240	10.8
All Other	10,977	10,994	17	0.2
Total Expenditures	**73,371**	**74,332**	**961**	**1.3%**

E-12 Education. E-12 education spending is expected to reach $27.292 billion, growing $1.730 billion (6.8 percent) from FY 2026-27. General education spending is estimated to grow $857 million (5.0 percent). Increases in the formula allowance drives growth in basic revenue despite year over year declines in pupil counts. The basic revenue formula allowance is forecast to grow $231 per pupil in FY 2028 and $159 in FY 2029. Special education spending is estimated to grow

$800 million (13.7 percent) primarily due to expected inflationary increases in the cost of salaries and benefits of special education staff.

Relative to November 2024 forecast estimates, FY 2028-29 spending is up $339 million (1.3 percent). This is due predominantly to an increase in estimated general education expenditures of $245 million (1.4 percent) that is attributable to increases in the formula allowance and increases in pupils relative to the prior forecast. Pupils are still projected to decline year-over-year after FY 2025. However, pupils are projected to decline at a slower rate than forecast in November. A higher projected basic revenue formula allowance contributes to the increase in general education expenditures. The basic revenue formula allowance is $80 per pupil higher in FY 2028 and $82 per pupil higher in FY 2029 than previously forecast. Special education is $96 million (1.5 percent) above previous estimates, driven by higher expected local education agency expenditures on salaries and benefits of special education staff and transportation of special education students.

Health & Human Services. Health and human services expenditures are projected to total $27.221 billion in the FY 2028-29 biennium, an increase of $3.074 billion (12.7 percent) compared to the FY 2026-27 biennium. Nearly all the biennial increase is driven by MA, which is expected to grow $2.870 billion (16.0 percent) between these biennia.

Health and Human Services expenditures in the FY 2028-29 biennium are $359 million (1.3 percent) higher comparted to November estimates. Inflationary adjustments in Disability Waiver Rate System rate frameworks are now estimated to be 7.6 percent in January 2028, up from 6.8 percent. This increase, combined with the higher increase expected in January 2026, raises state expenditures by $94 million (0.9 percent). Trends in average costs and enrollment continue into the FY 2028-29 biennium. Higher average costs in waivers increase expenditures by $105 million, while rising caseloads account for $52 million in more spending compared to the previous forecast.

Offsetting these increases are revised assumptions about the fiscal impact of several new initiatives, which are expected to reduce spending by $104 million (1.0 percent). Waiver Reimagine is a project that intends to simplify the disability waiver system into two waivers and will begin implementation in January 2027. The Residential Access Criteria includes conditions that must be met for individuals to access residential support services, such as having complex behavioral health or medical needs. The change in fiscal assumptions is due both to adding impacts for FY 2028-29 for these program decisions, and technical updates to align with the changing population of disability waivers.

Basic care spending is higher than previous estimates again due to higher-than-expected average FFS payments and greater-than-expected use of weight loss drugs. The forecast for FFS average payments increased by $98 million while forecast expenses in managed care contracts increased by $88 million because of the greater-than-expected use of weight loss drugs.

Property Tax Aids and Credits. Estimates for property tax aids and credits are expected to total $4.957 billion in the FY 2028-29 biennium, an increase of $204 million (4.3 percent) from the FY 2026-27 biennium. The primary drivers of biennial growth are an $83 million (5.1 percent) increase in homestead credit refunds and a $61 million (4.9 percent) increase in local government aid, which is the result of a one-time shift from FY 2026 into FY 2025.

Estimated property tax aids and credits spending is $4.957 billion in the FY 2028-29 biennium, $11 million (0.2 percent) higher than November estimates. This increase is due to $16 million of transfers to the Passenger Rail Account that were not previously tracked or included in the November 2024 forecast. Laws 2023, Chapter 68 established the Passenger Rail account in the special revenue fund, with 50 percent of the portion of the state general property tax levied on railroad operating property annually transferred into the account. Homestead credit refunds are $10 million (0.6 percent) higher due to a higher base that is moderated by faster income growth. These increases are partially offset by a $19 million (7.2 percent) decrease in school building bond agricultural credits driven by the lower school levy forecast.

Debt Service and All Other Spending. Debt service costs total $1.398 billion in the FY 2028-29 biennium, an increase of $176 million (14.4 percent) from the FY 2026-27 biennium. This is due to the issuance of previously authorized general obligation debt and future debt obligations expected from forecasted capital budgets.

Debt service costs in the FY 2028-29 biennium are $5 million (0.3 percent) lower than previous estimates. The higher interest rate assumptions for this period, which lead to lower estimated bond premiums and higher overall borrowing costs, were completely offset by higher projected investment earnings and the lower capital budget assumption for 2025.

All other state spending is projected to total $10.994 billion in FY 2028-29, an increase of $17 million (0.2 percent). This increase is primarily due to a $19 million (37.0 percent) increase in firefighting costs at the Department of Natural Resources and an additional $7 million (21.8 percent) in state spending related to the Destination Medical Center. These increases are partially offset by an $11 million (4.2 percent) reduction in projected spending on special transportation service (Metro Mobility and Metro Move) due to lower assumed operating costs.

APPENDIX

ECONOMIC DATA

REVENUE EXPERIENCE

GENERAL FUND BALANCE SHEETS

OTHER DATA

Minnesota Economic Forecast Summary

Forecast 2024 to 2029 - Calendar Years

	2024	2025	2026	2027	2028	2029
Current Dollar Income (Billions of Dollars)						
Personal Income	433.092	451.925	476.700	500.018	523.435	546.998
%Chg	4.0	4.3	5.5	4.9	4.7	4.5
Wage & Salary Disbursements	224.704	234.273	246.203	255.198	265.100	275.318
%Chg	4.6	4.3	5.1	3.7	3.9	3.9
Non-Wage Personal Income	208.388	217.655	230.498	244.815	258.335	271.683
%Chg	3.4	4.4	5.9	6.2	5.5	5.2
Supplements to Wages & Salaries	47.390	48.432	50.700	52.419	54.458	56.608
%Chg	4.9	2.2	4.7	3.4	3.9	3.9
Dividends, Interest, & Rent Income	91.246	94.753	100.323	107.403	114.200	120.363
%Chg	4.2	3.8	5.9	7.1	6.3	5.4
Farm Proprietors Income	-0.022	0.578	1.494	1.808	1.642	1.428
%Chg	-100.9	-2676.2	158.5	21.0	-9.2	-13.0
Non-Farm Proprietors Income	30.188	31.836	33.565	35.596	37.324	39.241
%Chg	2.9	5.5	5.4	6.1	4.9	5.1
Personal Current Transfer Receipts	76.682	79.975	83.909	88.112	92.614	97.437
%Chg	5.5	4.3	4.9	5.0	5.1	5.2
Less: Contrib. for Gov. Social Ins.	35.310	36.132	37.703	38.735	40.111	41.608
%Chg	3.4	2.3	4.3	2.7	3.6	3.7
Real Income (Billions of 2012 Dollars)						
Real Personal Income	350.689	356.438	365.805	375.688	385.850	395.038
%Chg	1.5	1.6	2.6	2.7	2.7	2.4
Real Wage & Salary Disbursements	181.946	184.775	188.930	191.745	195.420	198.833
%Chg	2.1	1.6	2.2	1.5	1.9	1.7
Employment (Thousands)						
Employment - Total Non-Farm Payrolls	3,014.3	3,031.9	3,040.4	3,044.3	3,047.1	3,051.7
%Chg	1.0	0.6	0.3	0.1	0.1	0.2
Construction	137.6	138.1	139.0	139.8	140.5	141.2
%Chg	1.2	0.4	0.6	0.6	0.5	0.5
Manufacturing	321.2	319.5	318.8	320.4	322.7	325.4
%Chg	-1.4	-0.5	-0.2	0.5	0.7	0.8
Private Service-Providing	2,118.5	2,130.0	2,136.5	2,136.7	2,135.1	2,134.8
%Chg	0.9	0.5	0.3	0.0	-0.1	0.0
Government	430.6	437.9	439.7	441.1	442.5	443.9
%Chg	3.2	1.7	0.4	0.3	0.3	0.3
Minnesota Civilian Labor Force	3,097.5	3,118.8	3,133.0	3,138.0	3.1	3.1
Unemployment Rate (%)	3.0	3.3	3.5	3.7	0.0	0.0
Demographic Indicators (Millions)						
Total Population	5.797	5.824	5.841	5.857	5.873	5.889
%Chg	0.7	0.5	0.3	0.3	0.3	0.3
Total Population Age 16 & Over	4.665	4.701	4.727	4.750	4.772	4.795
%Chg	1.0	0.8	0.5	0.5	0.5	0.5
Total Population Age 65 & Over	0.107	0.110	0.113	0.115	0.117	0.118
%Chg	3.4	3.0	2.4	2.0	1.7	1.5
Total Households	2.353	2.372	2.390	2.409	2.426	2.442
%Chg	1.0	0.8	0.8	0.8	0.7	0.7
Housing Indicators (Thousands)						
Total Housing Permits (Authorized)	22.716	22.311	22.064	22.792	24.196	25.360
%Chg	-11.3	-1.8	-1.1	3.3	6.2	4.8
Single-Family	13.134	13.695	13.272	12.990	12.732	12.535
%Chg	13.9	4.3	-3.1	-2.1	-2.0	-1.5

Source: Minnesota Management & Budget (MMB) February 2025 Forecast

U.S. Economic Forecast Summary

Forecast 2024 to 2029, Calendar Years

	2024	2025	2026	2027	2028	2029
Real National Income Accounts (Billions of 2012 Dollars)						
Real Gross Domestic Product (GDP)	23,302.2	23,841.7	24,324.6	24,725.8	25,163.3	25,559.7
%Chg	2.8	2.3	2.0	1.6	1.8	1.6
Real Consumption	16,054.3	16,552.1	16,935.7	17,336.3	17,795.7	18,191.1
%Chg	2.8	3.1	2.3	2.4	2.6	2.2
Real Nonresidential Fixed Investment	3,508.2	3,556.6	3,607.8	3,647.7	3,714.1	3,785.4
%Chg	3.7	1.4	1.4	1.1	1.8	1.9
Real Residential Investment	794.8	798.2	791.4	797.1	810.4	831.1
%Chg	4.2	0.4	-0.9	0.7	1.7	2.6
Real Personal Income	19,994.3	20,460.0	21,041.7	21,659.3	22,283.0	22,811.8
%Chg	2.9	2.3	2.8	2.9	2.9	2.4
Current Dollar National Income Accounts (Billions of Dollars)						
Gross Domestic Product (GDP)	29,179.1	30,728.6	32,306.8	33,587.0	34,944.7	36,289.0
%Chg	5.3	5.3	5.1	4.0	4.0	3.8
Personal Income	24,692.3	25,941.5	27,420.3	28,827.1	30,228.6	31,587.0
%Chg	5.5	5.1	5.7	5.1	4.9	4.5
Wage & Salary Disbursements	12,421.6	13,078.7	13,853.7	14,420.9	15,033.2	15,630.3
%Chg	5.9	5.3	5.9	4.1	4.2	4.0
Non-Wage Personal Income	12,270.7	12,862.8	13,566.6	14,406.2	15,195.4	15,956.7
%Chg	5.1	4.8	5.5	6.2	5.5	5.0
Price and Wage Indexes						
U.S. GDP Deflator (2005=1.0)	125.221	128.880	132.811	135.834	138.867	141.974
%Chg	2.4	2.9	3.1	2.3	2.2	2.2
U.S. Consumer Price Index (1982-84=1.0)	3.137	3.228	3.324	3.404	3.472	3.554
%Chg	3.0	2.9	3.0	2.4	2.0	2.4
Employment Cost Index (Dec 2005=1.0)	1.657	1.723	1.816	1.888	1.961	2.030
%Chg	3.8	4.0	5.4	4.0	3.9	3.5
Employment (Thousands)						
Employment - Total Non-Farm Payrolls	158.0	159.7	160.4	160.4	160.7	161.2
%Chg	1.3	1.1	0.4	0.0	0.1	0.3
Construction	8.2	8.3	8.4	8.4	8.5	8.6
%Chg	2.5	1.5	0.6	0.4	1.1	1.4
Manufacturing	12.8	12.8	12.6	12.3	12.1	12.0
%Chg	-0.4	-0.4	-1.7	-2.0	-1.8	-0.6
Private Service-Providing	112.9	114.3	115.1	115.2	115.6	116.1
%Chg	1.2	1.3	0.6	0.2	0.3	0.4
Government	23.4	23.7	23.8	23.8	23.9	24.0
%Chg	2.6	1.3	0.4	0.3	0.2	0.3
U.S. Civilian Labor Force	168.1	171.2	171.5	171.6	171.7	172.0
Employment - Household Survey	161.3	164.0	164.0	163.9	164.1	164.6
Unemployment Rate (%)	4.0	4.2	4.4	4.5	4.4	4.3
Other Key Measures						
Non-Farm Productivity (index, 2005=1.0)	1.203	1.222	1.247	1.273	1.298	1.317
%Chg	2.5	1.6	2.1	2.1	2.0	1.5
Total Ind. Production (index, 2007=100)	102.582	103.481	104.747	105.900	107.015	108.215
%Chg	-0.3	0.9	1.2	1.1	1.1	1.1
Manhours in Private Non-Farm Estab. Billions of Hours	224.5	225.7	226.3	225.9	226.1	226.8
%Chg	0.5	0.5	0.3	-0.2	0.1	0.3
Average Weekly Hours	32.6	32.6	32.6	32.5	32.5	32.5
Manufacturing Workweek	40.7	40.7	40.8	40.7	40.7	40.7

Source: SPGMI; February 2025 Baseline

Alternative Forecast Comparison

Calendar Years

	24Q1	24Q2	24Q3	24Q4	25Q1	25Q2	2024	2025	2026	2027
Real Gross Domestic Product (GDP), Percent Change, Seasonally Adjusted at Annual Rate										
Blue Chip Consensus (02-25)	1.6	3.0	3.1	2.3	2.2	1.9	2.7	2.2	2.0	**
S&P Global (02-25)	1.6	3.0	3.1	2.3	2.5	2.0	2.8	2.3	2.0	1.6
Moody's Analytics (02-25)	1.6	3.0	3.1	2.3	2.5	1.8	2.8	2.3	1.6	2.0
Wells Fargo (02-25)	1.6	3.0	3.1	2.3	3.0	1.9	2.8	2.3	2.2	**
CBO Outlook (1-25)	1.6	3.0	2.8	1.9	2.0	2.0	2.7	2.1	1.8	1.8
Philadelphia Fed (02-25)	1.6	3.0	3.1	2.3	2.5	2.1	2.8	2.4	2.2	1.8
Consumer Price Index (CPI), Percent Change, Seasonally Adjusted at Annual Rate (except where noted)										
Blue Chip Consensus (02-25) *	3.8	2.8	1.2	3.1	3.1	2.7	2.9	2.7	2.6	**
S&P Global (02-25)	3.8	2.8	1.2	3.1	3.8	2.8	3.0	2.9	3.0	2.4
Moody's Analytics (02-25)	3.8	2.8	1.2	3.1	2.8	2.9	3.0	2.7	2.7	2.4
Wells Fargo (02-25) *	3.2	3.2	2.7	2.7	2.9	2.9	3.0	3.0	2.7	**
CBO Outlook (1-25)	3.8	2.8	1.2	2.6	2.2	2.1	2.9	2.2	2.4	2.3
Philadelphia Fed (02-25)	3.7	2.8	1.4	3.0	3.0	2.8	2.8	2.8	2.6	2.3

* Year-over-Year Percent Change

** Not Available

SPGMI Economics Baseline Forecast Comparison

Calendar Years

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
Real Gross Domestic Product (GDP), Annual Percent Change										
April 2020	2.9	2.3	-5.4	6.3	4.0	1.6				
November 2020	3.0	2.2	-3.6	3.1	2.5	2.5	2.9	3.0		
February 2021	3.0	2.2	-3.5	5.7	4.1	2.3	2.6	2.6		
November 2021	2.9	2.3	-3.4	5.5	4.3	2.9	2.7	2.6		
February 2022	2.9	2.3	-3.4	5.7	3.7	2.7	2.6	2.5		
November 2022	2.9	2.3	-2.8	5.9	1.8	-0.2	1.3	1.8	1.9	1.8
February 2023	2.9	2.3	-2.8	5.9	2.1	0.7	1.6	2.0	1.8	1.6
November 2023	3.0	2.5	-2.2	5.8	1.9	2.4	1.4	1.4	1.7	1.7
February 2024	3.0	2.5	-2.2	5.8	1.9	2.5	2.4	1.6	1.7	1.8
November 2024	3.0	2.6	-2.2	6.1	2.5	2.9	2.7	2.0	2.1	1.8
February 2025	3.0	2.6	-2.2	6.1	2.5	2.9	2.8	2.3	2.0	1.6
Consumer Price Index (CPI), Annual Percent Change										
April 2020	2.4	1.8	0.7	2.1	2.7	2.7				
November 2020	2.4	1.8	1.3	2.3	2.6	2.2	2.1	2.2		
February 2021	2.4	1.8	1.3	2.1	2.1	2.0	2.1	2.2		
November 2021	2.4	1.8	1.2	4.5	3.3	2.1	2.2	2.2		
February 2022	2.4	1.8	1.3	4.7	4.5	1.9	2.1	2.1		
November 2022	2.4	1.8	1.2	4.7	8.1	4.3	2.7	2.3	2.2	2.2
February 2023	2.4	1.8	1.3	4.7	8.0	4.0	2.3	2.2	2.1	2.2
November 2023	2.4	1.8	1.3	4.7	8.0	4.1	2.7	2.0	2.5	2.2
February 2024	2.4	1.8	1.3	4.7	8.0	4.1	2.8	1.9	2.3	2.4
November 2024	2.4	1.8	1.2	4.7	8.0	4.1	2.9	2.1	2.4	2.4
February 2025	2.4	1.8	1.2	4.7	8.0	4.1	3.0	2.9	3.0	2.4

Source: SPGMI

Forecast Comparison: Minnesota & U.S.

Forecast 2024 to 2029, Calendar Years

	2022	2023	2024	2025	2026	2027	2028	2029
Personal Income (Billions of Current Dollars)								
Minnesota								
February 2025	399.4	416.3	433.1	451.9	476.7	500.0	523.4	547.0
%Chg	3.6	4.2	4.0	4.3	5.5	4.9	4.7	4.5
November 2024	399.4	416.3	433.8	453.4	475.6	498.8	522.0	545.2
%Chg	3.6	4.2	4.2	4.5	4.9	4.9	4.6	4.4
U.S.								
February 2025	22,089	23,403	24,692	25,942	27,420	28,827	30,229	31,587
%Chg	3.1	5.9	5.5	5.1	5.7	5.1	4.9	4.5
November 2024	22,089	23,403	24,761	25,966	27,275	28,579	29,932	31,268
%Chg	3.1	5.9	5.8	4.9	5.0	4.8	4.7	4.5
Wage and Salary Disbursements (Billions of Current Dollars)								
Minnesota								
February 2025	205.6	214.8	224.7	234.3	246.2	255.2	265.1	275.3
%Chg	7.0	4.5	4.6	4.3	5.1	3.7	3.9	3.9
November 2024	205.6	214.8	224.4	234.0	243.2	252.2	262.1	272.2
%Chg	7.0	4.5	4.5	4.2	3.9	3.7	3.9	3.9
U.S.								
February 2025	11,123	11,725	12,422	13,079	13,854	14,421	15,033	15,630
%Chg	7.8	5.4	5.9	5.3	5.9	4.1	4.2	4.0
November 2024	11,123	11,725	12,506	13,132	13,725	14,231	14,810	15,390
%Chg	7.8	5.4	6.7	5.0	4.5	3.7	4.1	3.9
Total Non-Farm Payroll Employment (Thousands)								
Minnesota								
February 2025	2,932	2,985	3,014	3,032	3,040	3,044	3,047	3,052
%Chg	2.7	1.8	1.0	0.6	0.3	0.1	0.1	0.2
November 2024	2,932	2,985	3,009	3,026	3,035	3,043	3,052	3,060
%Chg	2.7	1.8	0.8	0.6	0.3	0.3	0.3	0.3
U.S.								
February 2025	152,536	155,879	157,959	159,731	160,373	160,428	160,662	161,207
%Chg	4.3	2.2	1.3	1.1	0.4	0.0	0.1	0.3
November 2024	152,531	156,066	158,543	159,887	160,389	160,588	160,952	161,671
%Chg	4.3	2.3	1.6	0.8	0.3	0.1	0.2	0.4
Average Annual Non-Farm Wage (Current Dollars)								
Minnesota								
February 2025	70,127	71,971	74,545	77,269	80,977	83,829	87,001	90,218
%Chg	4.2	2.6	3.6	3.7	4.8	3.5	3.8	3.7
November 2024	70,130	71,970	74,586	77,327	80,137	82,880	85,867	88,952
%Chg	4.2	2.6	3.6	3.7	3.6	3.4	3.6	3.6
U.S.								
February 2025	72,921	75,220	78,638	81,880	86,384	89,890	93,571	96,958
%Chg	3.4	3.2	4.5	4.1	5.5	4.1	4.1	3.6
November 2024	72,924	75,130	78,880	82,130	85,571	88,618	92,012	95,193
%Chg	3.4	3.0	5.0	4.1	4.2	3.6	3.8	3.5

Source: SPGMI, Minnesota Management and Budget (MMB)

Factors Affecting Tax Revenue
Billions of Current Dollars

	2022	2023	2024	2025	2026	2027	2028	2029
				Individual Income Tax (Calendar Year)				
Minnesota Non-Farm Tax Base								
February 2023	303.837	317.220	332.620	348.255	363.770	379.150		
%Chg	6.2	4.4	4.9	4.7	4.5	4.2		
November 2023	311.508	327.541	345.718	364.393	381.460	398.020		
%Chg	7.5	5.1	5.5	5.4	4.7	4.3		
February 2024	311.508	327.085	344.385	362.988	381.210	398.915		
%Chg	7.5	5.0	5.3	5.4	5.0	4.6		
November 2024	312.177	331.771	346.145	360.125	376.865	394.643	412.583	430.360
%Chg	6.6	6.3	4.3	4.0	4.6	4.7	4.5	4.3
February 2025	312.177	331.770	346.139	359.380	377.648	395.345	413.218	430.905
%Chg	6.6	6.3	4.3	3.8	5.1	4.7	4.5	4.3
Minnesota Wage and Salary Disbursements								
February 2023	205.569	215.253	225.503	236.095	246.858	257.360		
%Chg	7.2	4.7	4.8	4.7	4.6	4.3		
November 2023	205.241	215.088	225.498	234.968	245.165	255.950		
%Chg	6.8	4.8	4.8	4.2	4.3	4.4		
February 2024	205.241	214.559	225.270	234.705	244.638	254.800		
%Chg	6.8	4.5	5.0	4.2	4.2	4.2		
November 2024	205.614	214.828	224.445	233.980	243.205	252.235	262.063	272.225
%Chg	7.0	4.5	4.5	4.2	3.9	3.7	3.9	3.9
February 2025	205.614	214.826	224.704	234.273	246.203	255.198	265.100	275.3175
%Chg	7.0	4.5	4.6	4.3	5.1	3.7	3.9	3.9
Minnesota Dividends, Interest, & Rental Income								
February 2023	72.792	76.492	80.791	85.132	89.072	93.124		
%Chg	4.5	5.1	5.6	5.4	4.6	4.5		
November 2023	78.843	83.792	90.586	99.107	105.223	109.875		
%Chg	9.9	6.3	8.1	9.4	6.2	4.4		
February 2024	78.843	83.572	88.498	95.810	102.603	108.898		
%Chg	9.9	6.0	5.9	8.3	7.1	6.1		
November 2024	79.382	87.609	91.094	94.364	100.265	106.793	112.715	118.105
%Chg	7.9	10.4	4.0	3.6	6.3	6.5	5.5	4.8
February 2025	79.382	87.610	91.246	94.753	100.323	107.403	114.200	120.3625
%Chg	7.9	10.4	4.2	3.8	5.9	7.1	6.3	5.4
Minnesota Non-Farm Proprietors' Income								
February 2023	25.475	25.477	26.323	27.028	27.842	28.667		
%Chg	2.9	0.0	3.3	2.7	3.0	3.0		
November 2023	27.424	28.661	29.633	30.317	31.072	32.190		
%Chg	6.2	4.5	3.4	2.3	2.5	3.6		
February 2024	27.424	28.955	30.614	32.470	33.973	35.217		
%Chg	6.2	5.6	5.7	6.1	4.6	3.7		
November 2024	27.181	29.334	30.609	31.779	33.395	35.614	37.808	40.031
%Chg	0.3	7.9	4.3	3.8	5.1	6.6	6.2	5.9
February 2025	27.181	29.334	30.188	31.836	33.565	35.596	37.324	39.24125
%Chg	0.3	7.9	2.9	5.5	5.4	6.1	4.9	5.1

Source: Minnesota Management & Budget (MMB)

Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

	2022	2023	2024	2025	2026	2027	2028	2029
			General Sales Tax (Fiscal Year)					
Minnesota Synthetic Sales Tax Base								
February 2023	113.942	119.065	120.073	123.573	127.608	131.352		
%Chg	12.8	4.5	0.8	2.9	3.3	2.9		
November 2023	115.697	123.430	127.788	131.711	136.174	141.058		
%Chg	13.3	6.7	3.5	3.1	3.4	3.6		
February 2024	115.684	123.374	128.494	132.560	136.579	141.629		
%Chg	13.3	6.6	4.2	3.2	3.0	3.7		
November 2024	115.932	123.748	127.293	131.324	135.229	139.685	144.742	149.776
%Chg	13.3	6.7	2.9	3.2	3.0	3.3	3.6	3.5
February 2025	115.931	123.747	127.575	132.611	138.196	143.187	148.046	152.627
%Chg	13.3	6.7	3.1	3.9	4.2	3.6	3.4	3.1
** Historical data revised as a result of comprehensive GDP account revisions*								
Minnesota's Proxy Share of U.S. Consumer Durable Spending (Excluding Autos)								
February 2023	24.977	25.398	25.044	25.365	25.907	26.455		
%Chg	10.1	1.7	-1.4	1.3	2.1	2.1		
November 2023	23.989	24.961	25.798	26.526	27.455	28.380		
%Chg	10.1	4.0	3.4	2.8	3.5	3.4		
February 2024	23.989	24.964	25.788	26.486	27.371	28.374		
%Chg	10.1	4.1	3.3	2.7	3.3	3.7		
November 2024	23.538	24.184	24.804	25.435	26.346	27.530	28.811	30.205
%Chg	8.9	2.7	2.6	2.5	3.6	4.5	4.7	4.8
February 2025	23.538	24.184	24.807	25.862	27.325	28.467	29.638	30.928
%Chg	8.9	2.7	2.6	4.3	5.7	4.2	4.1	4.3
Minnesota's Proxy Share of U.S. Capital Equipment Spending								
February 2023	13.815	14.008	13.658	13.979	14.461	15.017		
%Chg	7.7	1.4	-2.5	2.4	3.4	3.8		
November 2023	14.212	14.846	14.650	14.856	15.304	15.997		
%Chg	8.8	4.5	-1.3	1.4	3.0	4.5		
February 2024	14.212	14.847	14.823	15.365	15.933	16.683		
%Chg	8.8	4.5	-0.2	3.7	3.7	4.7		
November 2024	14.089	14.888	15.066	15.852	16.300	16.722	17.186	17.693
%Chg	7.7	5.7	1.2	5.2	2.8	2.6	2.8	2.9
February 2025	14.089	14.888	15.070	15.861	17.245	17.988	18.432	18.802
%Chg	7.7	5.7	1.2	5.2	8.7	4.3	2.5	2.0
Minnesota's Proxy Share of U.S. Construction Spending								
February 2023	10.853	10.404	10.491	11.304	11.991	12.515		
%Chg	8.4	-4.1	0.8	7.8	6.1	4.4		
November 2023	11.271	11.397	11.985	12.116	12.657	13.203		
%Chg	10.7	1.1	5.2	1.1	4.5	4.3		
February 2024	11.267	11.344	12.384	12.663	13.159	13.664		
%Chg	10.7	0.7	9.2	2.3	3.9	3.8		
November 2024	11.448	11.809	12.374	12.265	12.684	13.064	13.566	14.076
%Chg	11.7	3.2	4.8	-0.9	3.4	3.0	3.8	3.8
February 2025	11.445	11.814	12.654	12.814	12.962	13.186	13.595	14.070
%Chg	11.7	3.2	7.1	1.3	1.2	1.7	3.1	3.5

Source: Minnesota Management & Budget (MMB)

Factors Affecting Tax Revenue (Continued)

Billions of Current Dollars

	2022	2023	2024	2025	2026	2027	2028	2029
Corporate Franchise Tax (Fiscal Year)								
U.S. Corporate Profits (w/ IVA and capital consumption adjustment)								
February 2023	3,004.4	3,040.4	3,020.5	3,035.5	3,105.5	3,193.4		
%Chg	13.4	1.2	-0.7	0.5	2.3	2.8		
November 2023	3,175.5	3,259.2	3,529.4	3,274.7	3,194.4	3,214.3		
%Chg	12.6	2.6	8.3	-7.2	-2.5	0.6		
February 2024	3,175.5	3,259.2	3,443.2	3,412.2	3,393.9	3,442.3		
%Chg	12.6	2.6	5.6	-0.9	-0.5	1.4		
November 2024	3,336.9	3,463.3	3,804.3	3,842.2	3,738.8	3,786.3	3,826.8	3,928.3
%Chg	14.8	3.8	9.8	1.0	-2.7	1.3	1.1	2.7
February 2025	3,336.9	3,463.3	3,804.3	3,899.4	3,749.5	3,780.2	3,823.0	3,922.7
%Chg	14.8	3.8	9.8	2.5	-3.8	0.8	1.1	2.6
Deed & Mortgage Tax (Fiscal Year)								
U.S. New and Existing Home Sales (Current $ Value)								
February 2023	2,394.0	1,785.4	1,507.0	1,742.9	1,917.7	2,284.2		
%Chg	3.6	-25.4	-15.6	15.7	10.0	19.1		
November 2023	2,391.4	1,851.8	1,831.2	2,090.9	2,350.2	2,586.3		
%Chg	3.6	-22.6	-1.1	14.2	12.4	10.0		
February 2024	2,391.4	1,851.9	1,799.7	2,126.0	2,368.4	2,579.1		
%Chg	3.6	-22.6	-2.8	18.1	11.4	8.9		
November 2024	2,387.5	1,842.0	1,800.3	1,865.8	2,189.4	2,488.4	2,674.8	2,857.9
%Chg	3.7	-22.8	-2.3	3.6	17.3	13.7	7.5	6.8
February 2025	2,387.5	1,842.0	1,800.3	1,880.9	2,177.3	2,420.4	2,538.6	2,648.8
%Chg	3.7	-22.8	-2.3	4.5	15.8	11.2	4.9	4.3

Source: SPGMI, Minnesota Management & Budget (MMB)

COMPARISON OF ACTUAL AND ESTIMATED NON-RESTRICTED REVENUES

January YTD, 2024: FY 2024
($ IN THOUSANDS)

	FORECAST REVENUES	ACTUAL REVENUES	VARIANCE ACT-FCST
Individual Income Tax			
Withholding	7,422,773	7,427,687	4,914
Declarations	1,029,128	1,000,511	(28,617)
Miscellaneous	392,207	435,804	43,598
Partnership & S Corporation Gross	1,570,399	1,596,289	25,890
Gross	10,414,507	10,460,292	45,785
Partnership & S Corporation Refunds	69,862	76,674	6,812
Individual, Fiduciary, & Withholding Refunds	599,140	460,681	(138,459)
Total Refunds	669,001	537,354	(131,647)
Net Income Tax	9,745,505	9,922,937	177,432
Corporate Franchise Tax			
Declarations	1,509,020	1,601,536	92,516
Miscellaneous	134,604	160,522	25,919
Gross	1,643,624	1,762,058	118,434
Refund	70,771	87,213	16,442
Net	1,572,853	1,674,845	101,992
General Sales and Use Tax			
Gross	4,778,841	4,798,493	19,653
Mpls. sales tax transferred to MSFA	-		-
MPLS Sales Tax w/Holding for NFL Stadium	10,918	10,916	(2)
Sales Tax Gross	4,789,758	4,809,409	19,651
Refunds (including Indian refunds)	100,372	81,035	(19,337)
Net	4,689,386	4,728,374	38,988
Other Revenues:			
Net Estate	236,898	232,004	(4,894)
Net Liquor/Wine/Beer	58,267	57,944	(323)
Net Cigarette/Tobacco	301,198	297,733	(3,466)
Deed and Mortgage	145,641	145,721	80
Net Insurance Premiums Taxes	258,858	259,051	193
Net Lawful Gambling	98,258	106,067	7,809
Health Care Surcharge	127,368	111,029	(16,340)
Other Taxes	246	252	7
Statewide Property Tax	352,358	344,131	(8,227)
DHS SOS Collections	67,249	70,360	3,111
Investment Income	327,775	358,836	31,062
Tobacco Settlement	150,372	130,297	(20,075)
Dept. Earnings & MSOP Recov.	140,837	143,568	2,731
Fines and Surcharges	41,130	29,747	(11,382)
Lottery Revenues	28,079	33,374	5,295
Revenues yet to be allocated	21,341	25,217	3,876
Residual Revenues	167,002	174,160	7,159
Other Subtotal	2,522,876	2,519,493	(3,383)
Other Refunds	3,099	2,857	(242)
Other Net	2,519,777	2,516,636	(3,141)
Total Gross	**19,370,765**	**19,551,252**	**180,487**
Total Refunds	**843,244**	**708,459**	**(134,784)**
Total Net	**18,527,521**	**18,842,793**	**315,271**

Current Biennium: FY 2024-25

February 2025 Forecast
($ in thousands)

	Actual FY 2024	Nov FY 2025	Biennial Total FY 2024-25
Actual & Estimated Resources			
Balance Forward From Prior Year	16,516,196	11,805,735	16,516,196
Current Resources:			
Tax Revenues	28,561,655	29,526,082	58,087,737
Non-Tax Revenues	1,746,604	1,541,091	3,287,695
Subtotal - Non-Dedicated Revenue	30,308,259	31,067,173	61,375,432
Dedicated Revenue	2,027	1,920	3,947
Transfers In	107,244	30,142	137,386
Prior Year Adjustments	154,348	56,447	210,795
Subtotal - Other Revenue	263,619	88,509	352,128
Subtotal-Current Resources	30,571,878	31,155,682	61,727,560
Total Resources Available	**47,088,074**	**42,961,417**	**78,243,756**
Actual & Estimated Spending			
E-12 Education	11,969,194	12,579,464	24,548,658
Higher Education	2,062,335	2,137,272	4,199,607
Property Tax AISs & Credits	2,820,234	2,735,905	5,556,139
Health & Human Services	9,934,317	11,329,736	21,264,053
Public Safety & Judiciary	1,680,712	1,974,029	3,654,741
Transportation	429,839	968,539	1,398,378
Environment & Energy	391,201	685,580	1,076,781
Jobs, Commerce, Ag and Housing	2,664,693	1,246,407	3,911,100
State Government & Veterans	1,616,036	1,400,267	3,016,303
Debt Service	507,577	558,601	1,066,178
Capital Projects & Grants	1,206,201	140,622	1,346,823
Estimated Cancellations	0	-64,000	-64,000
Total Expenditures & Transfers	**35,282,339**	**35,692,422**	**70,974,761**
Balance Before Reserves	**11,805,735**	**7,268,995**	**7,268,995**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	2,925,308	3,177,370	3,177,370
Appropriations Carried Forward	2,633,945	0	0
Budgetary Balance	**5,896,482**	**3,741,625**	**3,741,625**

Current Biennium: FY 2024-25

February 2025 Forecast vs November 2024 Forecast
($ in thousands)

	Nov FY 2024-25	Feb FY 2024-25	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	16,516,196	16,516,196	0
Current Resources:			
Tax Revenues	58,021,635	58,087,737	66,102
Non-Tax Revenues	3,081,633	3,287,695	206,062
Subtotal - Non-Dedicated Revenue	61,103,268	61,375,432	272,164
Dedicated Revenue	3,839	3,947	108
Transfers In	137,386	137,386	0
Prior Year Adjustments	189,052	210,795	21,743
Subtotal - Other Revenue	330,277	352,128	21,851
Subtotal-Current Resources	61,433,545	61,727,560	294,015
Total Resources Available	**77,949,741**	**78,243,756**	**294,015**
Actual & Estimated Spending			
E-12 Education	24,539,113	24,548,658	9,545
Higher Education	4,199,607	4,199,607	0
Property Tax Aids & Credits	5,548,638	5,556,139	7,501
Health & Human Services	20,979,823	21,264,053	284,230
Public Safety & Judiciary	3,654,741	3,654,741	0
Transportation	1,398,378	1,398,378	0
Environment & Energy	1,073,042	1,076,781	3,739
Jobs, Commerce, Ag and Housing	3,918,476	3,911,100	-7,376
State Government & Veterans	3,009,581	3,016,303	6,722
Debt Service	1,066,178	1,066,178	0
Capital Projects & Grants	1,346,799	1,346,823	24
Estimated Cancellations	-64,000	-64,000	0
Total Expenditures & Transfers	**70,670,376**	**70,974,761**	**304,385**
Balance Before Reserves	**7,279,365**	**7,268,995**	**-10,370**
Cash Flow Account	350,000	350,000	0
Budget Reserve	3,177,370	3,177,370	0
Budgetary Balance	**3,751,995**	**3,741,625**	**-10,370**

Biennial Comparison

February 2025 Forecast
($ in thousands)

	Actual FY 2022-23	Feb FY 2024-25	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	7,025,957	16,516,196	9,490,239
Current Resources:			
Tax Revenues	58,529,189	58,087,737	-441,452
Non-Tax Revenues	2,272,795	3,287,695	1,014,900
Subtotal - Non-Dedicated Revenue	60,801,984	61,375,432	573,448
Dedicated Revenue	5	3,947	3,942
Transfers In	342,025	137,386	-204,639
Prior Year Adjustments	276,070	210,795	-65,275
Subtotal - Other Revenue	618,100	352,128	-265,972
Subtotal-Current Resources	61,420,084	61,727,560	307,476
Total Resources Available	**68,446,041**	**78,243,756**	**9,797,715**
Actual & Estimated Spending			
E-12 Education	20,164,050	24,548,658	4,384,608
Higher Education	3,518,166	4,199,607	681,441
Property Tax Aids & Credits	4,622,185	5,556,139	933,954
Health & Human Services	15,137,315	21,264,053	6,126,738
Public Safety & Judiciary	2,722,737	3,654,741	932,004
Transportation	407,458	1,398,378	990,920
Environment & Energy	374,252	1,076,781	702,529
Jobs, Commerce, Ag and Housing	1,322,804	3,911,100	2,588,296
State Government & Veterans	1,777,223	3,016,303	1,239,080
Debt Service	1,140,185	1,066,178	-74,007
Capital Projects & Grants	743,470	1,346,823	603,353
Estimated Cancellations	0	-64,000	-64,000
Total Expenditures & Transfers	**51,929,845**	**70,974,761**	**19,044,916**
Balance Before Reserves	**16,516,196**	**7,268,995**	**-9,247,201**
Cash Flow Account	350,000	350,000	0
Budget Reserve	2,852,098	3,177,370	325,272
Appropriations Carried Forward	211,070	0	-211,070
Budgetary Balance	**13,103,028**	**3,741,625**	**-9,361,403**

Next Biennium: FY 2026-27

February 2025 Forecast
($ in thousands)

	Feb FY 2026	Feb FY 2027	Biennial Total FY 2026-27
Actual & Estimated Resources			
Balance Forward From Prior Year	7,268,995	6,385,897	7,268,995
Current Resources:			
Tax Revenues	30,526,966	31,267,545	61,794,511
Non-Tax Revenues	1,218,848	1,089,268	2,308,116
Subtotal - Non-Dedicated Revenue	31,745,814	32,356,813	64,102,627
Dedicated Revenue	1,614	1,599	3,213
Transfers In	302,034	17,345	319,379
Prior Year Adjustments	34,358	34,129	68,487
Subtotal - Other Revenue	338,006	53,073	391,079
Subtotal-Current Resources	32,083,820	32,409,886	64,493,706
Total Resources Available	**39,352,815**	**38,795,783**	**71,762,701**
Actual & Estimated Spending			
E-12 Education	12,486,035	13,076,380	25,562,415
Higher Education	1,985,014	1,985,078	3,970,092
Property Tax Aids & Credits	2,328,998	2,424,251	4,753,249
Health & Human Services	11,703,531	12,443,109	24,146,640
Public Safety & Judiciary	1,691,871	1,692,241	3,384,112
Transportation	235,300	241,272	476,572
Environment & Energy	228,795	230,059	458,854
Jobs, Commerce, Ag and Housing	418,543	409,957	828,500
State Government & Veterans	812,523	817,966	1,630,489
Debt Service	581,186	641,517	1,222,703
Capital Projects & Grants	142,409	145,214	287,623
Estimated Cancellations	-23,000	-64,000	-87,000
Total Expenditures & Transfers	**32,591,205**	**34,043,044**	**66,634,249**
Estimated Inflation	**375,713**	**769,592**	**1,145,305**
Balance Before Reserves	**6,385,897**	**3,983,147**	**3,983,147**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	3,177,370	3,177,370	3,177,370
Budgetary Balance	**2,858,527**	**455,777**	**455,777**
Budgetary Balance without Inflation	**3,234,240**	**1,601,082**	**1,601,082**

Next Biennium: FY 2026-27

February 2025 Forecast vs November 2024 Forecast
($ in thousands)

	Nov FY 2026-27	Feb FY 2026-27	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	7,279,365	7,268,995	-10,370
Current Resources:			
Tax Revenues	61,412,257	61,794,511	382,254
Non-Tax Revenues	2,049,984	2,308,116	258,132
Subtotal - Non-Dedicated Revenue	63,462,241	64,102,627	640,386
Dedicated Revenue	3,203	3,213	10
Transfers In	319,379	319,379	0
Prior Year Adjustments	68,487	68,487	0
Subtotal - Other Revenue	391,069	391,079	10
Subtotal-Current Resources	63,853,310	64,493,706	640,396
Total Resources Available	**71,132,675**	**71,762,701**	**630,026**
Actual & Estimated Spending			
E-12 Education	25,364,814	25,562,415	197,601
Higher Education	3,970,092	3,970,092	0
Property Tax Aids & Credits	4,736,178	4,753,249	17,071
Health & Human Services	23,808,143	24,146,640	338,497
Public Safety & Judiciary	3,384,112	3,384,112	0
Transportation	481,042	476,572	-4,470
Environment & Energy	446,374	458,854	12,480
Jobs, Commerce, Ag and Housing	821,548	828,500	6,952
State Government & Veterans	1,629,207	1,630,489	1,282
Debt Service	1,221,106	1,222,703	1,597
Capital Projects & Grants	287,322	287,623	301
Estimated Cancellations	-87,000	-87,000	0
Total Expenditures & Transfers	**66,062,938**	**66,634,249**	**571,311**
Estimated Inflation	**926,397**	**1,145,305**	**218,908**
Balance Before Reserves	**4,143,340**	**3,983,147**	**-160,193**
Cash Flow Account	350,000	350,000	0
Budget Reserve	3,177,370	3,177,370	0
Budgetary Balance	**615,970**	**455,777**	**-160,193**
Budgetary Balance without Inflation	**1,542,367**	**1,601,082**	**58,715**

Biennial Comparison

February 2025 Forecast
($ in thousands)

	Feb FY 2024-25	Feb FY 2026-27	$ Change
<u>**Actual & Estimated Resources**</u>			
Balance Forward From Prior Year	16,516,196	7,268,995	-9,247,201
Current Resources:			
Tax Revenues	58,087,737	61,794,511	3,706,774
Non-Tax Revenues	3,287,695	2,308,116	-979,579
Subtotal - Non-Dedicated Revenue	61,375,432	64,102,627	2,727,195
Dedicated Revenue	3,947	3,213	-734
Transfers In	137,386	319,379	181,993
Prior Year Adjustments	210,795	68,487	-142,308
Subtotal - Other Revenue	352,128	391,079	38,951
Subtotal-Current Resources	61,727,560	64,493,706	2,766,146
Total Resources Available	**78,243,756**	**71,762,701**	**-6,481,055**
<u>**Actual & Estimated Spending**</u>			
E-12 Education	24,548,658	25,562,415	1,013,757
Higher Education	4,199,607	3,970,092	-229,515
Property Tax Aids & Credits	5,556,139	4,753,249	-802,890
Health & Human Services	21,264,053	24,146,640	2,882,587
Public Safety & Judiciary	3,654,741	3,384,112	-270,629
Transportation	1,398,378	476,572	-921,806
Environment & Energy	1,076,781	458,854	-617,927
Jobs, Commerce, Ag and Housing	3,911,100	828,500	-3,082,600
State Government & Veterans	3,016,303	1,630,489	-1,385,814
Debt Service	1,066,178	1,222,703	156,525
Capital Projects & Grants	1,346,823	287,623	-1,059,200
Estimated Cancellations	-64,000	-87,000	-23,000
Total Expenditures & Transfers	**70,974,761**	**66,634,249**	**-4,340,512**
Estimated Inflation	**0**	**1,145,305**	**1,145,305**
Balance Before Reserves	**7,268,995**	**3,983,147**	**-2,140,543**
Cash Flow Account	350,000	350,000	0
Budget Reserve	3,177,370	3,177,370	0
Budgetary Balance	**3,741,625**	**455,777**	**-3,285,848**
Budgetary Balance without Inflation	**3,741,625**	**1,601,082**	**-2,140,543**

Planning Estimates: FY 2028-29

February 2025 Forecast
($ in thousands)

	Feb FY 2028	Feb FY 2029	Biennial Total FY 2028-29
Actual & Estimated Resources			
Balance Forward From Prior Year	3,983,147	1,016,027	3,983,147
Current Resources:			
Tax Revenues	32,451,374	33,492,564	65,943,938
Non-Tax Revenues	924,476	907,761	1,832,237
Subtotal - Non-Dedicated Revenue	33,375,850	34,400,325	67,776,175
Dedicated Revenue	1,599	1,599	3,198
Transfers In	17,349	17,379	34,728
Prior Year Adjustments	33,900	33,672	67,572
Subtotal - Other Revenue	52,848	52,650	105,498
Subtotal-Current Resources	33,428,698	34,452,975	67,881,673
Total Resources Available	**37,411,845**	**35,469,002**	**71,864,820**
Actual & Estimated Spending			
E-12 Education	13,485,776	13,806,718	27,292,494
Higher Education	1,985,078	1,985,078	3,970,156
Property Tax Aids & Credits	2,459,963	2,497,397	4,957,360
Health & Human Services	13,195,233	14,024,616	27,219,849
Public Safety & Judiciary	1,692,241	1,692,241	3,384,482
Transportation	249,718	259,484	509,202
Environment & Energy	231,227	232,623	463,850
Jobs, Commerce, Ag and Housing	407,673	407,954	815,627
State Government & Veterans	827,360	812,244	1,639,604
Debt Service	677,839	720,405	1,398,244
Capital Projects & Grants	147,906	150,092	297,998
Estimated Cancellations	-23,000	-64,000	-87,000
Total Expenditures & Transfers	**35,337,014**	**36,524,852**	**71,861,866**
Estimated Inflation	**1,058,804**	**1,411,757**	**2,470,561**
Balance Before Reserves	**1,016,027**	**-2,467,607**	**-2,467,607**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	3,177,370	3,177,370	3,177,370
Budgetary Balance	**-2,511,343**	**-5,994,977**	**-5,994,977**
Budgetary Balance without Inflation	**-307,234**	**-2,379,111**	**-2,379,111**

Planning Estimates: FY 2028-29

February 2025 Forecast vs November 2024 Forecast
($ in thousands)

	Nov FY 2028-29	Feb FY 2028-29	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	4,143,340	3,983,147	-160,193
Current Resources:			
Tax Revenues	65,746,731	65,943,938	197,207
Non-Tax Revenues	1,759,577	1,832,237	72,660
Subtotal - Non-Dedicated Revenue	67,506,308	67,776,175	269,867
Dedicated Revenue	3,188	3,198	10
Transfers In	34,726	34,728	2
Prior Year Adjustments	67,572	67,572	0
Subtotal - Other Revenue	105,486	105,498	12
Subtotal-Current Resources	67,611,794	67,881,673	269,879
Total Resources Available	**71,755,134**	**71,864,820**	**109,686**
Actual & Estimated Spending			
E-12 Education	26,953,322	27,292,494	339,172
Higher Education	3,970,156	3,970,156	0
Property Tax Aids & Credits	4,946,173	4,957,360	11,187
Health & Human Services	26,860,665	27,219,849	359,184
Public Safety & Judiciary	3,384,482	3,384,482	0
Transportation	520,682	509,202	-11,480
Environment & Energy	445,418	463,850	18,432
Jobs, Commerce, Ag and Housing	808,534	815,627	7,093
State Government & Veterans	1,637,609	1,639,604	1,995
Debt Service	1,402,888	1,398,244	-4,644
Capital Projects & Grants	297,614	297,998	384
Estimated Cancellations	-87,000	-87,000	0
Total Expenditures & Transfers	**71,140,543**	**71,861,866**	**721,323**
Estimated Inflation	**2,230,559**	**2,470,561**	**240,002**
Balance Before Reserves	**-1,615,968**	**-2,467,607**	**-851,639**
Cash Flow Account	350,000	350,000	0
Budget Reserve	3,177,370	3,177,370	0
Budgetary Balance	**-5,143,338**	**-5,994,977**	**-851,639**
Budgetary Balance without Inflation	**-1,986,382**	**-2,379,111**	**-392,729**

Biennial Comparison
February 2025 Forecast
($ in thousands)

	Feb FY 2026-27	Feb FY 2028-29	$ Change
Actual & Estimated Resources			
Balance Forward From Prior Year	7,268,995	3,983,147	-3,285,848
Current Resources:			
Tax Revenues	61,794,511	65,943,938	4,149,427
Non-Tax Revenues	2,308,116	1,832,237	-475,879
Subtotal - Non-Dedicated Revenue	64,102,627	67,776,175	3,673,548
Dedicated Revenue	3,213	3,198	-15
Transfers In	319,379	34,728	-284,651
Prior Year Adjustments	68,487	67,572	-915
Subtotal - Other Revenue	391,079	105,498	-285,581
Subtotal-Current Resources	64,493,706	67,881,673	3,387,967
Total Resources Available	**71,762,701**	**71,864,820**	**102,119**
Actual & Estimated Spending			
E-12 Education	25,562,415	27,292,494	1,730,079
Higher Education	3,970,092	3,970,156	64
Property Tax Aids & Credits	4,753,249	4,957,360	204,111
Health & Human Services	24,146,640	27,219,849	3,073,209
Public Safety & Judiciary	3,384,112	3,384,482	370
Transportation	476,572	509,202	32,630
Environment & Energy	458,854	463,850	4,996
Jobs, Commerce, Ag and Housing	828,500	815,627	-12,873
State Government & Veterans	1,630,489	1,639,604	9,115
Debt Service	1,222,703	1,398,244	175,541
Capital Projects & Grants	287,623	297,998	10,375
Estimated Cancellations	-87,000	-87,000	0
Total Expenditures & Transfers	**66,634,249**	**71,861,866**	**5,227,617**
Estimated Inflation	**1,145,305**	**2,470,561**	**1,325,256**
Balance Before Reserves	**3,983,147**	**-2,467,607**	**-5,125,498**
Cash Flow Account	350,000	350,000	0
Budget Reserve	3,177,370	3,177,370	0
Budgetary Balance	**455,777**	**-5,994,977**	**-6,450,754**
Budgetary Balance without Inflation	**1,601,082**	**-2,379,111**	**-3,980,193**

FY 2024-29 Planning Horizon

February 2025 Forecast
($ in thousands)

	Feb FY 2024-25	Feb FY 2026-27	Feb FY 2028-29
Actual & Estimated Resources			
Balance Forward From Prior Year	16,516,196	7,268,995	3,983,147
Current Resources:			
Tax Revenues	58,087,737	61,794,511	65,943,938
Non-Tax Revenues	3,287,695	2,308,116	1,832,237
Subtotal - Non-Dedicated Revenue	61,375,432	64,102,627	67,776,175
Dedicated Revenue	3,947	3,213	3,198
Transfers In	137,386	319,379	34,728
Prior Year Adjustments	210,795	68,487	67,572
Subtotal - Other Revenue	352,128	391,079	105,498
Subtotal-Current Resources	61,727,560	64,493,706	67,881,673
Total Resources Available	**78,243,756**	**71,762,701**	**71,864,820**
Actual & Estimated Spending			
E-12 Education	24,548,658	25,562,415	27,292,494
Higher Education	4,199,607	3,970,092	3,970,156
Property Tax Aids & Credits	5,556,139	4,753,249	4,957,360
Health & Human Services	21,264,053	24,146,640	27,219,849
Public Safety & Judiciary	3,654,741	3,384,112	3,384,482
Transportation	1,398,378	476,572	509,202
Environment & Energy	1,076,781	458,854	463,850
Jobs, Commerce, Ag and Housing	3,911,100	828,500	815,627
State Government & Veterans	3,016,303	1,630,489	1,639,604
Debt Service	1,066,178	1,222,703	1,398,244
Capital Projects & Grants	1,346,823	287,623	297,998
Estimated Cancellations	-64,000	-87,000	-87,000
Total Expenditures & Transfers	**70,974,761**	**66,634,249**	**71,861,866**
Estimated Inflation	**0**	**1,145,305**	**2,470,561**
Balance Before Reserves	**7,268,995**	**3,983,147**	**-2,467,607**
Cash Flow Account	350,000	350,000	350,000
Budget Reserve	3,177,370	3,177,370	3,177,370
Budgetary Balance	**3,741,625**	**455,777**	**-5,994,977**
Budgetary Balance without Inflation	**3,741,625**	**1,601,082**	**-2,379,111**

Historical and Projected Revenue Growth

February 2025 Forecast - General Fund
($ in millions)

	Actual FY 2022	Actual FY 2023	Actual FY 2024	Feb FY 2025	Feb FY 2026	Feb FY 2027	Pling FY 2028	Pling FY 2029	Average Annual
Individual Income Tax	$16,873	$15,778	$14,873	$15,553	$16,332	$16,667	$17,534	$18,205	
$ change	2,640	(1,095)	(905)	680	779	335	867	671	
% change	**18.6%**	**-6.5%**	**-5.7%**	**4.6%**	**5.0%**	**2.0%**	**5.2%**	**3.8%**	**1.1%**
Sales Tax	$6,644	$7,446	$7,546	$7,562	$7,881	$8,168	$8,376	$8,582	
$ change	474	802	100	15	319	287	208	206	
% change	**7.7%**	**12.1%**	**1.3%**	**0.2%**	**4.2%**	**3.6%**	**2.5%**	**2.5%**	**3.7%**
Corporate Tax	$2,823	$2,929	$3,171	$3,304	$3,183	$3,193	$3,217	$3,298	
$ change	564	106	242	133	(122)	10	25	81	
% change	**25.0%**	**3.8%**	**8.3%**	**4.2%**	**-3.7%**	**0.3%**	**0.8%**	**2.5%**	**2.2%**
Statewide Property Tax	$774	$765	$718	$744	$747	$745	$745	$745	
$ change	(29)	(9)	(47)	27	2	(2)	0	0	
% change	**-3.6%**	**-1.2%**	**-6.2%**	**3.7%**	**0.3%**	**-0.2%**	**0.0%**	**0.0%**	**-0.5%**
Other Tax Revenue	$2,277	$2,221	$2,253	$2,363	$2,384	$2,495	$2,580	$2,663	
$ change	80	(56)	32	110	22	111	84	83	
% change	**3.6%**	**-2.5%**	**1.4%**	**4.9%**	**0.9%**	**4.6%**	**3.4%**	**3.2%**	**2.3%**
Total Tax Revenue	$29,390	$29,139	$28,562	$29,526	$30,527	$31,268	$32,451	$33,493	
$ change	3,730	(251)	(577)	964	1,001	741	1,184	1,041	
% change	**14.5%**	**-0.9%**	**-2.0%**	**3.4%**	**3.4%**	**2.4%**	**3.8%**	**3.2%**	**1.9%**
Non-Tax Revenues	$927	$1,346	$1,747	$1,541	$1,219	$1,089	$924	$908	
$ change	5	419	401	(206)	(322)	(130)	(165)	(17)	
% change	**0.5%**	**45.3%**	**29.8%**	**-11.8%**	**-20.9%**	**-10.6%**	**-15.1%**	**-1.8%**	**-0.3%**
Transfers, All Other	$313	$162	$264	$89	$338	$53	$53	$53	
$ change	(434)	(151)	102	(175)	249	(285)	(0)	(0)	
% change	**-58.1%**	**-48.2%**	**62.7%**	**-66.4%**	**281.9%**	**-84.3%**	**-0.4%**	**-0.4%**	**-22.5%**
Total Revenue	$30,629	$30,647	$30,572	$31,156	$32,084	$32,410	$33,429	$34,453	
$ change	3,301	18	(75)	584	928	326	1,019	1,024	
% change	**12.1%**	**0.1%**	**-0.2%**	**1.9%**	**3.0%**	**1.0%**	**3.1%**	**3.1%**	**1.7%**

Historical and Projected Spending Growth

February 2025 Forecast - General Fund

($ in millions)

	Actual FY2022	Actual FY2023	Actual FY2024	Feb FY2025	Feb FY2026	Feb FY2027	Pling FY2028	Pling FY2029	Average Annual
E-12 Education	$9,779	$10,204	$11,969	$12,579	$12,486	$13,076	$13,486	$13,807	
$ change	43	425	1,765	610	(93)	590	409	321	
% change	**0.4%**	**4.3%**	**17.3%**	**5.1%**	**-0.7%**	**4.7%**	**3.1%**	**2.4%**	**5.1%**
Higher Education	$1,750	$1,768	$2,062	$2,137	$1,985	$1,985	$1,985	$1,985	
$ change	36	18	294	75	(152)	0	-	-	
% change	**2.1%**	**1.0%**	**16.6%**	**3.6%**	**-7.1%**	**0.0%**	**0.0%**	**0.0%**	**1.8%**
Prop. Tax Aids & Credits	$2,053	$2,569	$2,820	$2,736	$2,329	$2,424	$2,460	$2,497	
$ change	27	516	251	(84)	(407)	95	36	37	
% change	**1.3%**	**25.1%**	**9.8%**	**-3.0%**	**-14.9%**	**4.1%**	**1.5%**	**1.5%**	**2.8%**
Health & Human Services	$6,923	$8,215	$9,934	$11,330	$11,704	$12,443	$13,195	$14,025	
$ change	312	1,292	1,719	1,395	374	740	752	829	
% change	**4.7%**	**18.7%**	**20.9%**	**14.0%**	**3.3%**	**6.3%**	**6.0%**	**6.3%**	**10.6%**
Public Safety & Judiciary	$1,292	$1,430	$1,681	$1,974	$1,692	$1,692	$1,692	$1,692	
$ change	(21)	138	251	293	(282)	0	-	-	
% change	**-1.6%**	**10.6%**	**17.5%**	**17.5%**	**-14.3%**	**0.0%**	**0.0%**	**0.0%**	**3.9%**
Debt Service	$592	$548	$508	$559	$581	$642	$678	$720	
$ change	77	(44)	(40)	51	23	60	36	43	
% change	**14.9%**	**-7.5%**	**-7.4%**	**10.1%**	**4.0%**	**10.4%**	**5.7%**	**6.3%**	**2.8%**
All Other	$2,116	$2,509	$6,308	$4,377	$1,815	$1,780	$1,841	$1,798	
$ change	569	393	3,799	(1,931)	(2,563)	(34)	60	(42)	
% change	**36.8%**	**18.6%**	**151.4%**	**-30.6%**	**-58.5%**	**-1.9%**	**3.4%**	**-2.3%**	**-2.3%**
Total Spending	$24,505	$27,243	$35,282	$35,692	$32,591	$34,043	$35,337	$36,525	
$ change	1,042	2,738	8,039	410	(3,101)	1,452	1,294	1,188	
% change	**4.4%**	**11.2%**	**29.5%**	**1.2%**	**-8.7%**	**4.5%**	**3.8%**	**3.4%**	**5.9%**