



# ***BUDGET*** AND ***ECONOMIC FORECAST***



**NOVEMBER 2025**

Produced by Minnesota Management and Budget

# Larger Surplus in FY 2026-27, Structural Imbalance Grows

- FY 2026-27 surplus is \$2.465 billion, \$579 million more than prior estimates
- Projected shortfall in planning years now \$2.960 billion as spending continues to exceed revenues
- Higher FY 2025 collections lift near-term income tax forecast
- Slow economic growth lowers revenue projections in planning years
- Growing health care costs drive higher spending forecast
- Budget reserve grows to \$3.422 billion

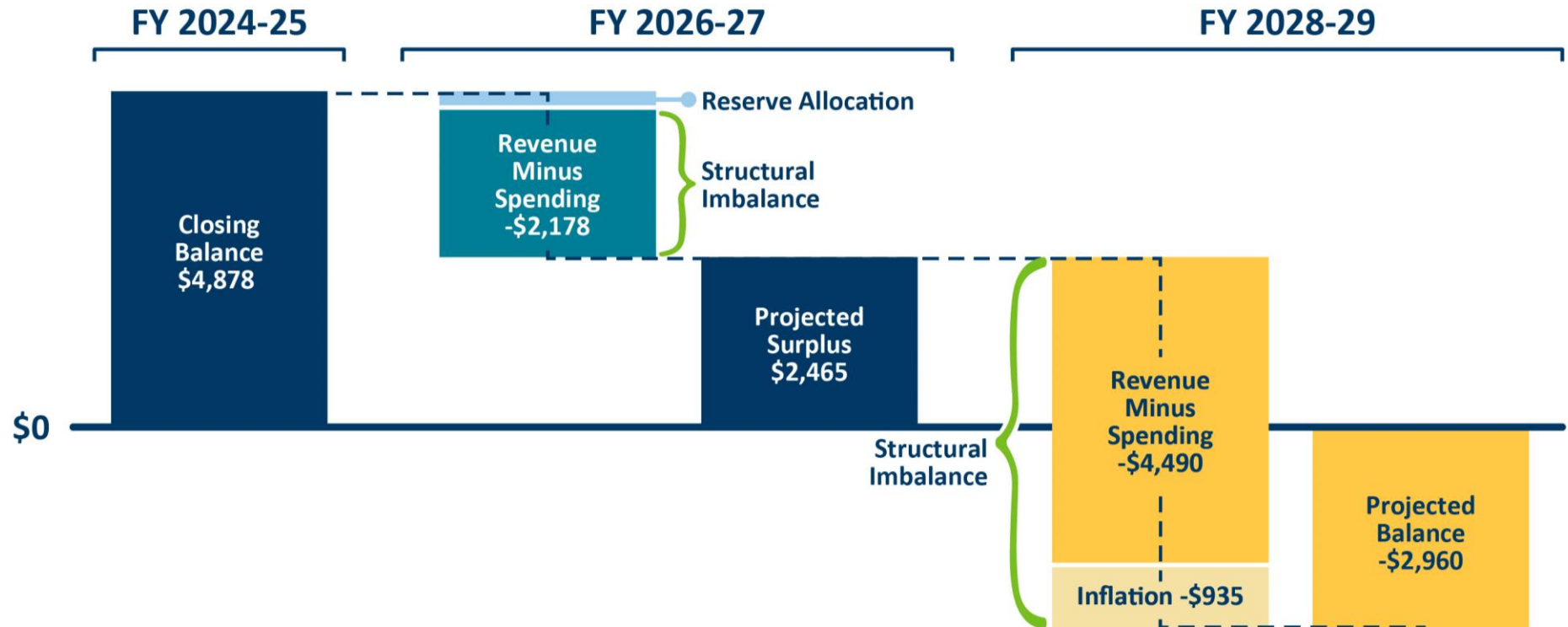
# FY 2026-27 Forecast Changes

(\$ in millions)	FY 2026-27 End of Session	FY 2026-27 Nov Forecast	Net Forecast Change*
<b>Beginning Balance</b>	<b>\$7,464</b>	<b>\$10,273</b>	<b>\$949</b>
Total Revenues	64,823	66,262	1,440
Total Spending	66,874	70,299	1,566
Reserves	3,527	3,772	244
<b>Budgetary Balance</b>	<b>\$1,885</b>	<b>\$2,465</b>	<b>\$579</b>

\*\$1.859 billion of appropriation carryforward removed from change in beginning balance and total spending to isolate actual forecast changes

# Fiscal Snapshot: Forecast Horizon FY 2024 through FY 2029

(\$ millions)



\*Figures exclude FY 25 appropriations carryforward



# Economic and Revenue Outlook

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



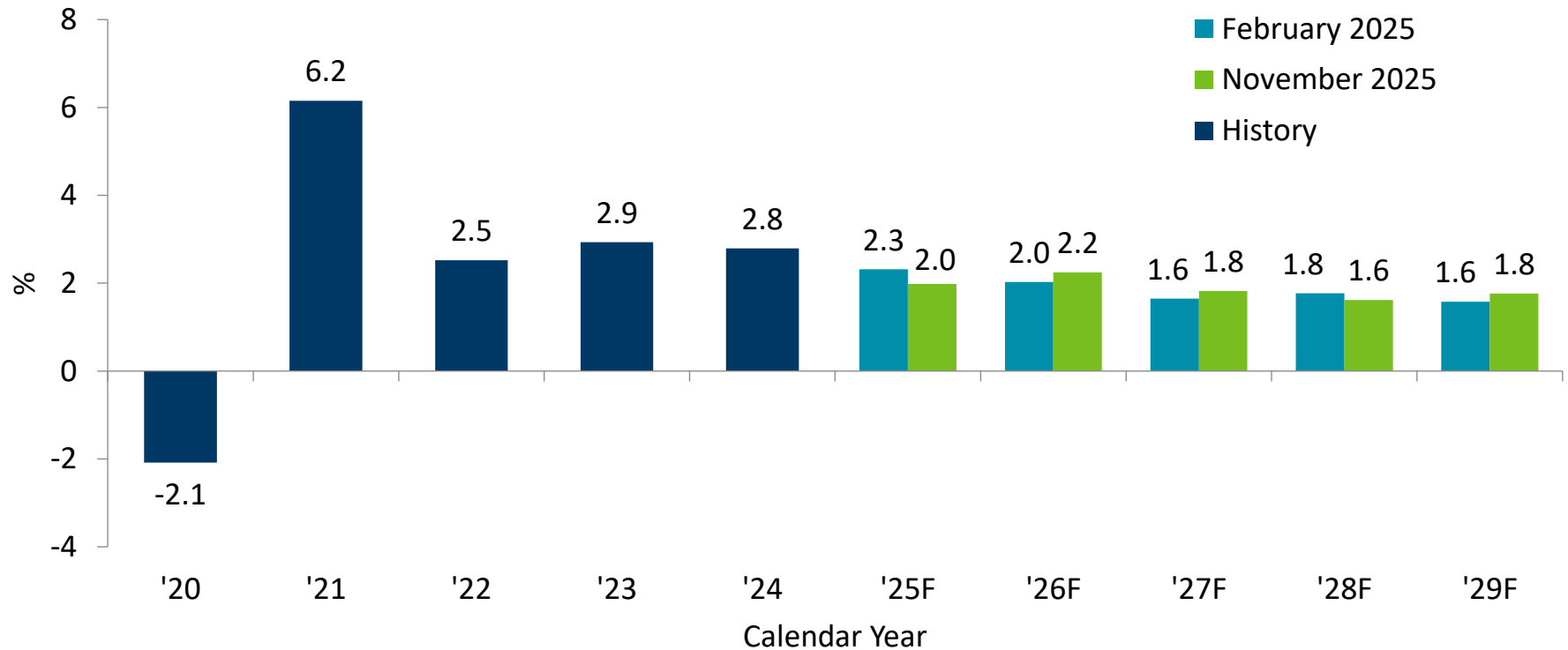
# SPGMI's Economic Forecast Assumptions

- SPGMI forecast released on Nov 5, 2025
- Impact of 6-week federal shutdown incorporated
- One additional 25 basis point rate cut in Dec 2025 and two cuts in 2026
- Effective tariff rate of 18 percent
- Net U.S. migration reduced by 500,000 annually through 2028

# U.S. Economic Outlook Holds Steady

## U.S. Real Gross Domestic Product

*Annual Percent Change*

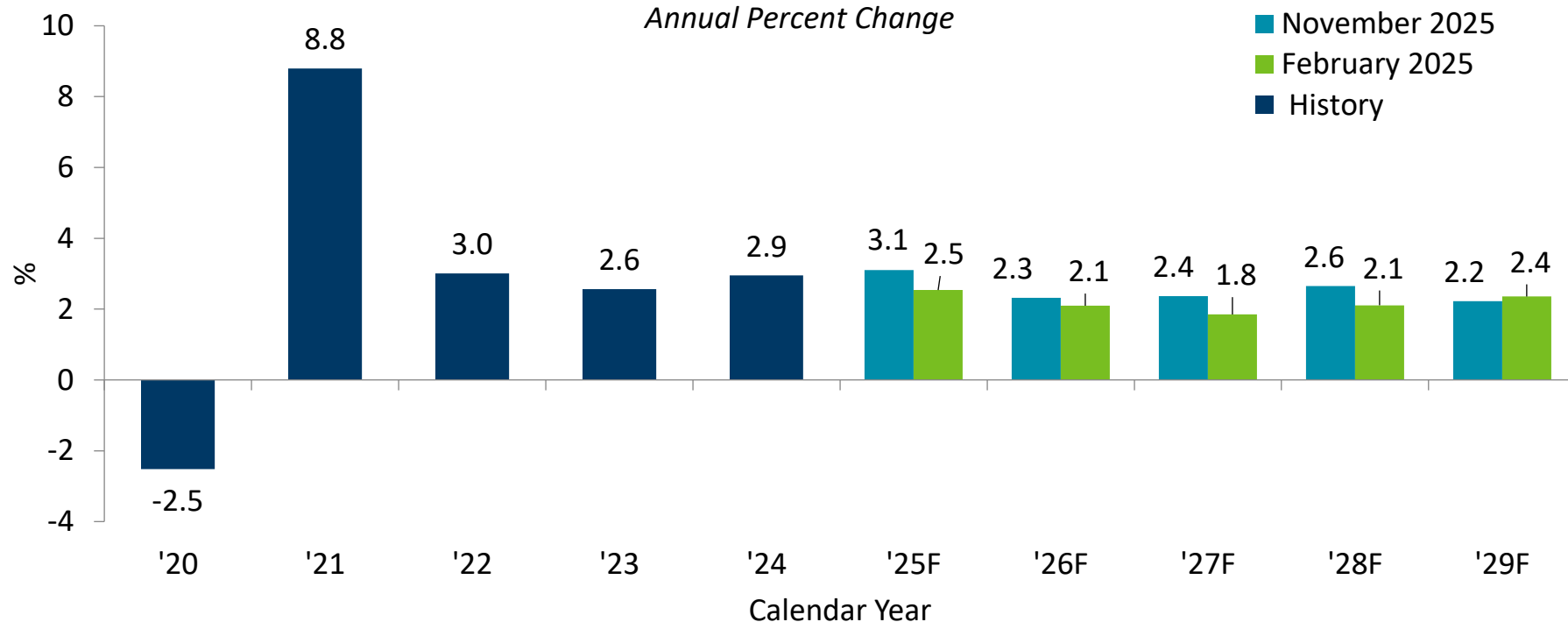


Source: U.S. Bureau of Economic Analysis (BEA), SPGMI

# Slightly Lower Growth in Consumer Spending

## Real Consumer Spending

*Annual Percent Change*



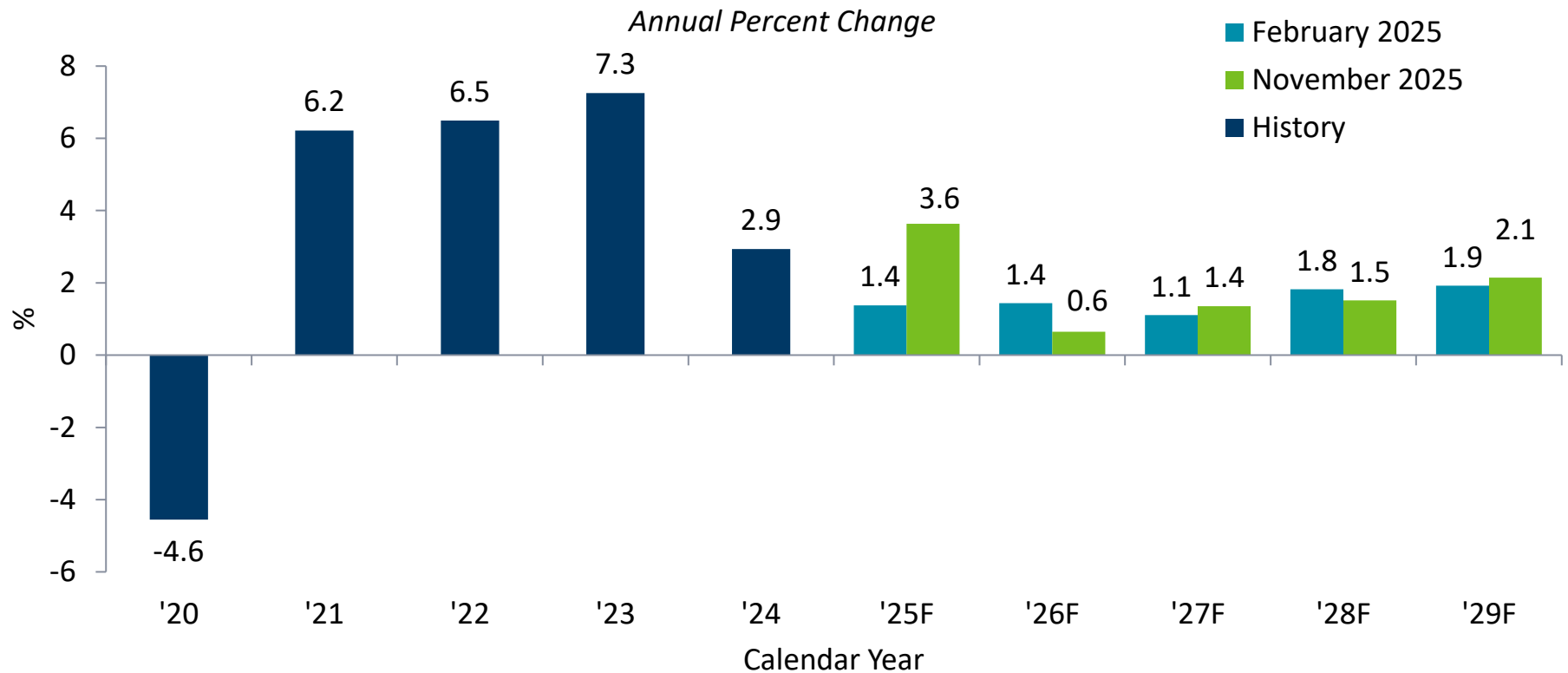
Source: U.S. Bureau of Economic Analysis (BEA), SPGMI

Real (inflation adjusted) consumer expenditures are expected to grow slightly slower through 2028 and will continue to be the main driver of real GDP growth.



# Lower Near-Term Growth in Business Fixed Investment

## Real Business Fixed Investment

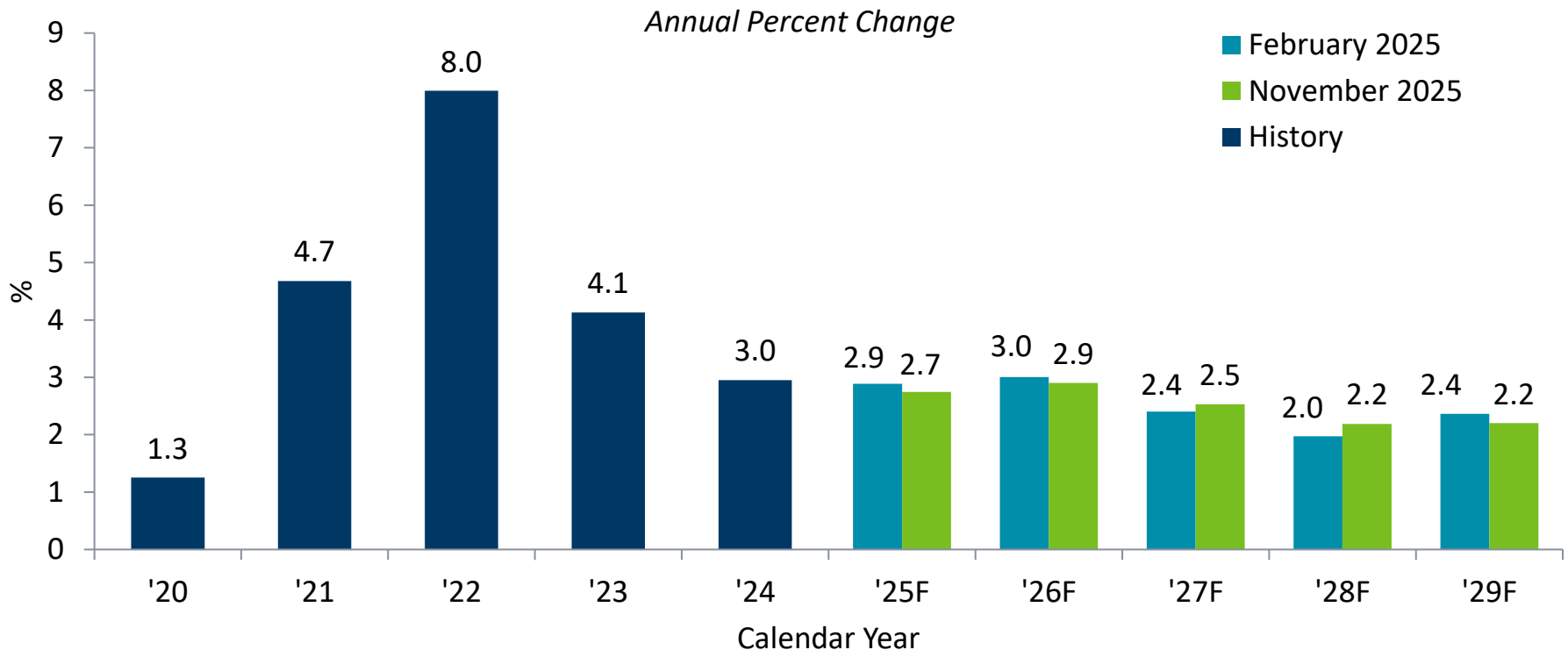


Source: U.S. Bureau of Economic Analysis (BEA). SPGMI

Business (nonresidential) fixed investment is expected to grow at an historically low annual rate through our forecast period.

# Elevated Inflation Remains in Near-Term

## Consumer Price Index

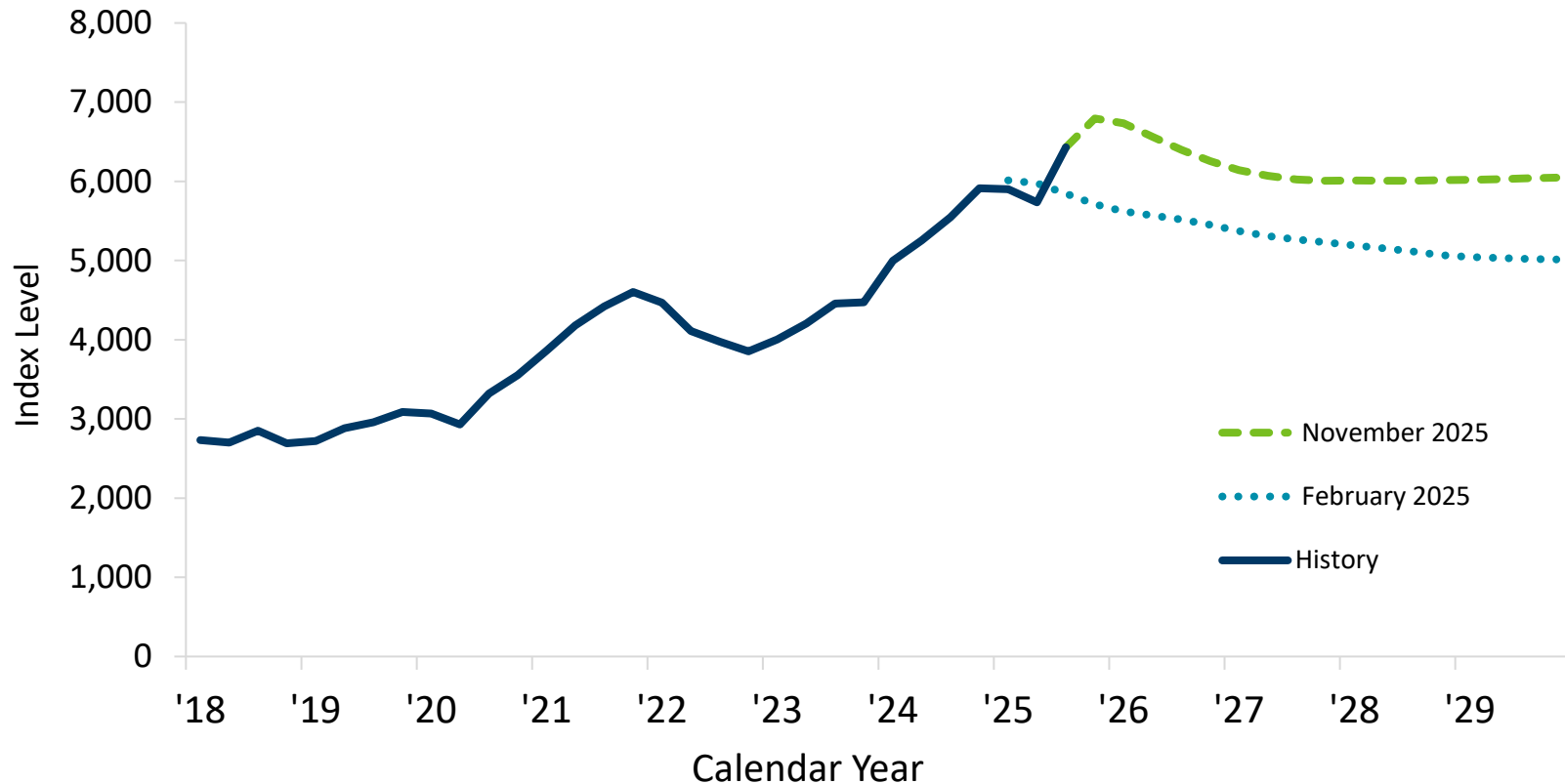


Source: U.S. Bureau of Labor Statistics (BLS), SPGMI

HR1 tax cuts, tariffs, and immigration actions remain ongoing sources of inflationary pressure. Recent job-market weakness may lead to lowering of interest rates and add to inflationary pressures.

# Equity Markets Present Upside and Downside Risks

## S&P 500 Stock Index

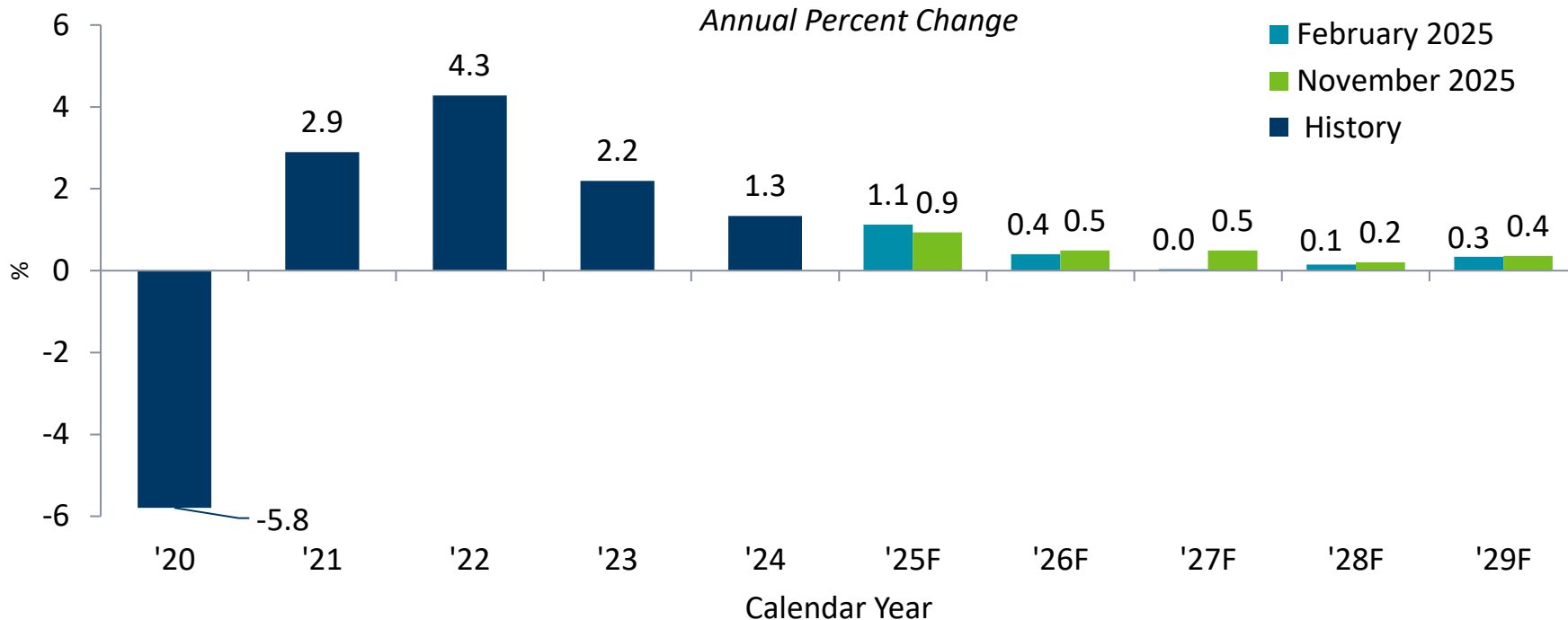


Source: SPGMI; Minnesota Management & Budget (MMB)

# Weak Employment Outlook through the Forecast

## U.S. Total Non-Farm Employment

*Annual Percent Change*



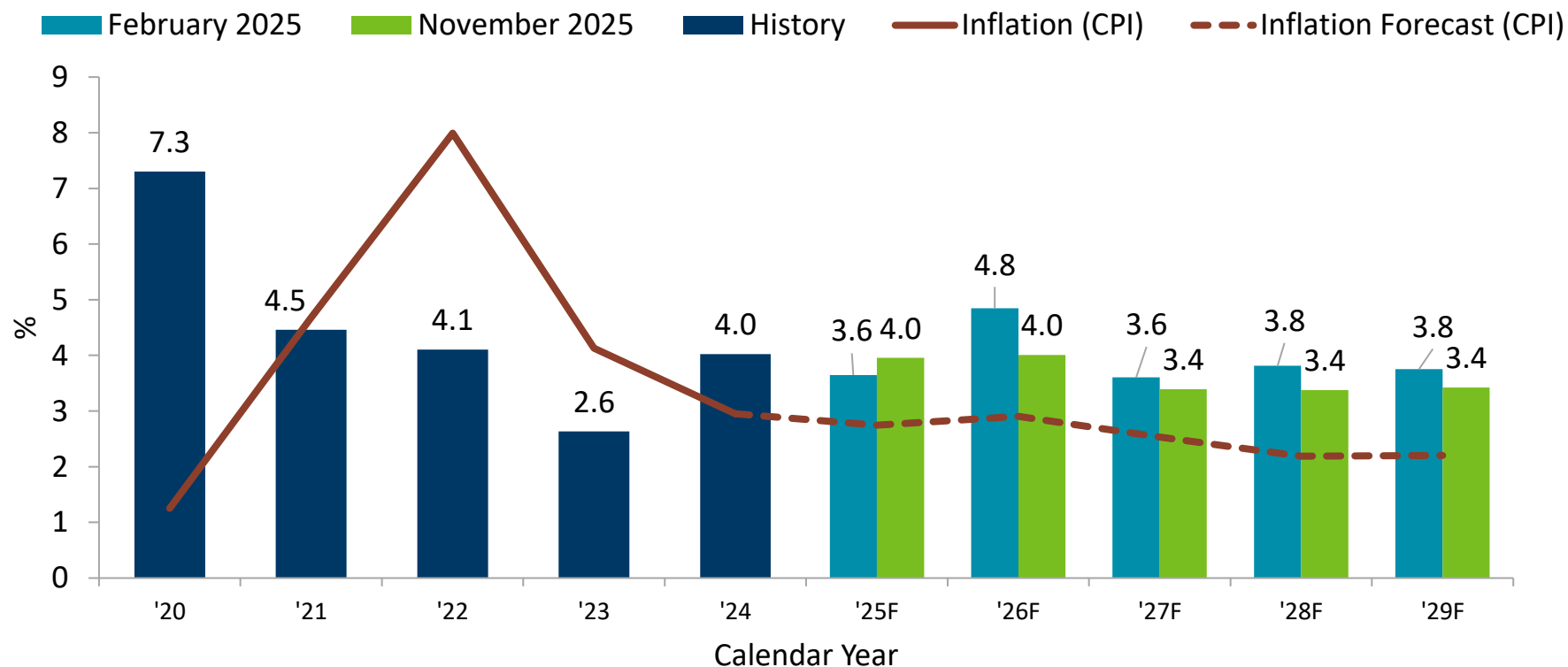
Source: U.S. Bureau of Labor Statistics (BLS), SPGMI

The long-term outlook is for limited employment growth. Uncertain future immigration policies and a weakening labor market add substantial risk to this outlook.

# Rise in Wages Per Worker to Exceed Inflation

## 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)



# U.S. Economic Forecast Risks

- Policy Uncertainty: trade and tariffs, immigration
- Disruptions from federal agency closures, contract suspensions
- Federal shutdown effects, missing and incomplete federal statistical agency data
- Monetary policy path depends on both inflation and labor market conditions
- Equity markets present upside and downside risks
- Twenty months until the end of FY 2026-27

# Revenue Forecast

(\$ in millions)

	<b>FY 2026-27</b>		<b>FY 2028-29</b>	
	<b>Nov. 2025 Forecast</b>	<b>Forecast Change</b>	<b>Nov. 2025 Forecast</b>	<b>Forecast Change</b>
Individual Income Tax	\$34,513	\$1,515	\$35,515	\$(221)
General Sales Tax	15,797	(343)	16,462	(664)
Corporate Franchise Tax	6,272	(63)	6,377	(100)
All Other Revenue	9,680	331	9,433	416
<b>Total Revenues</b>	<b>\$66,262</b>	<b>\$1,440</b>	<b>\$67,787</b>	<b>\$(570)</b>

# Spending and Long Term Budget Outlook

- Expenditure Forecast
- Long Term Budget Outlook

# Spending Forecast Up, Driven by Growth in Health and Human Services

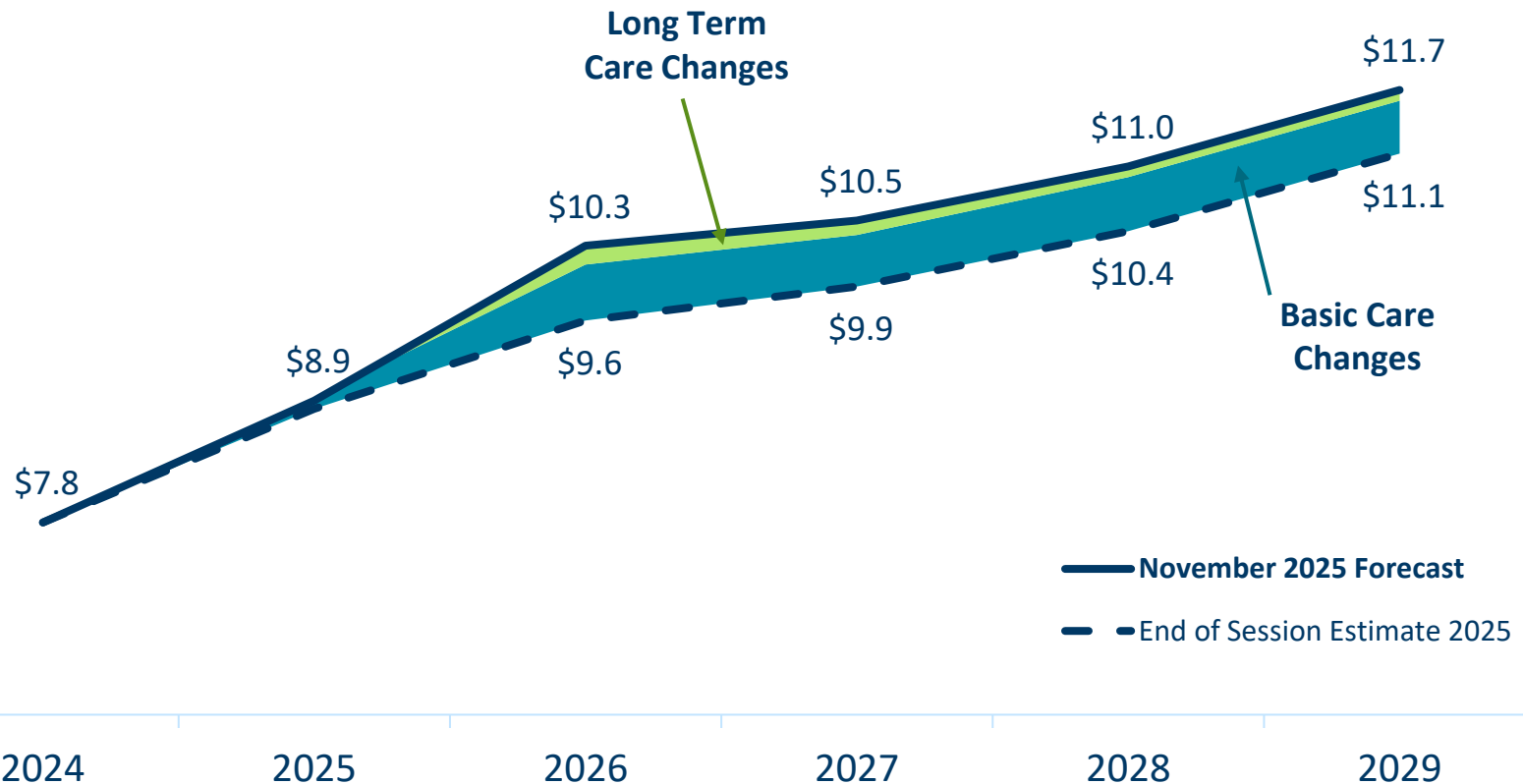
(\$ in millions)

	FY 2026-27		FY 2028-29	
	Nov. 2025 Forecast*	Forecast Change	Nov. 2025 Forecast	Forecast Change
E-12 Education	\$25,812	\$115	\$27,168	\$288
Health & Human Services	25,405	1,406	27,633	1,362
Property Tax Aids & Credits	4,839	84	5,046	116
Debt Service	1,165	(41)	1,218	(12)
All Other	11,219	1	11,211	(9)
<b>Baseline Spending</b>	<b>68,440</b>	<b>1,566</b>	<b>72,277</b>	<b>1,746</b>
Carryforward (all areas)	1,859	1,859		
Discretionary Inflation			935	119
<b>Total Expenditures</b>	<b>\$70,299</b>	<b>\$3,425</b>	<b>\$73,212</b>	<b>\$1,865</b>

\*All FY 2025 carryforward are reflected on the carryforward line.

# Health Care Costs Drive MA Forecast Change

**State Share of Medical Assistance**  
(\$ in billions)





# Higher Managed Care Rates Increase Spending \$1.6B Over Forecast Horizon

## Actual 2026 Managed Care Capitation Payments Compared to End of Session Estimates

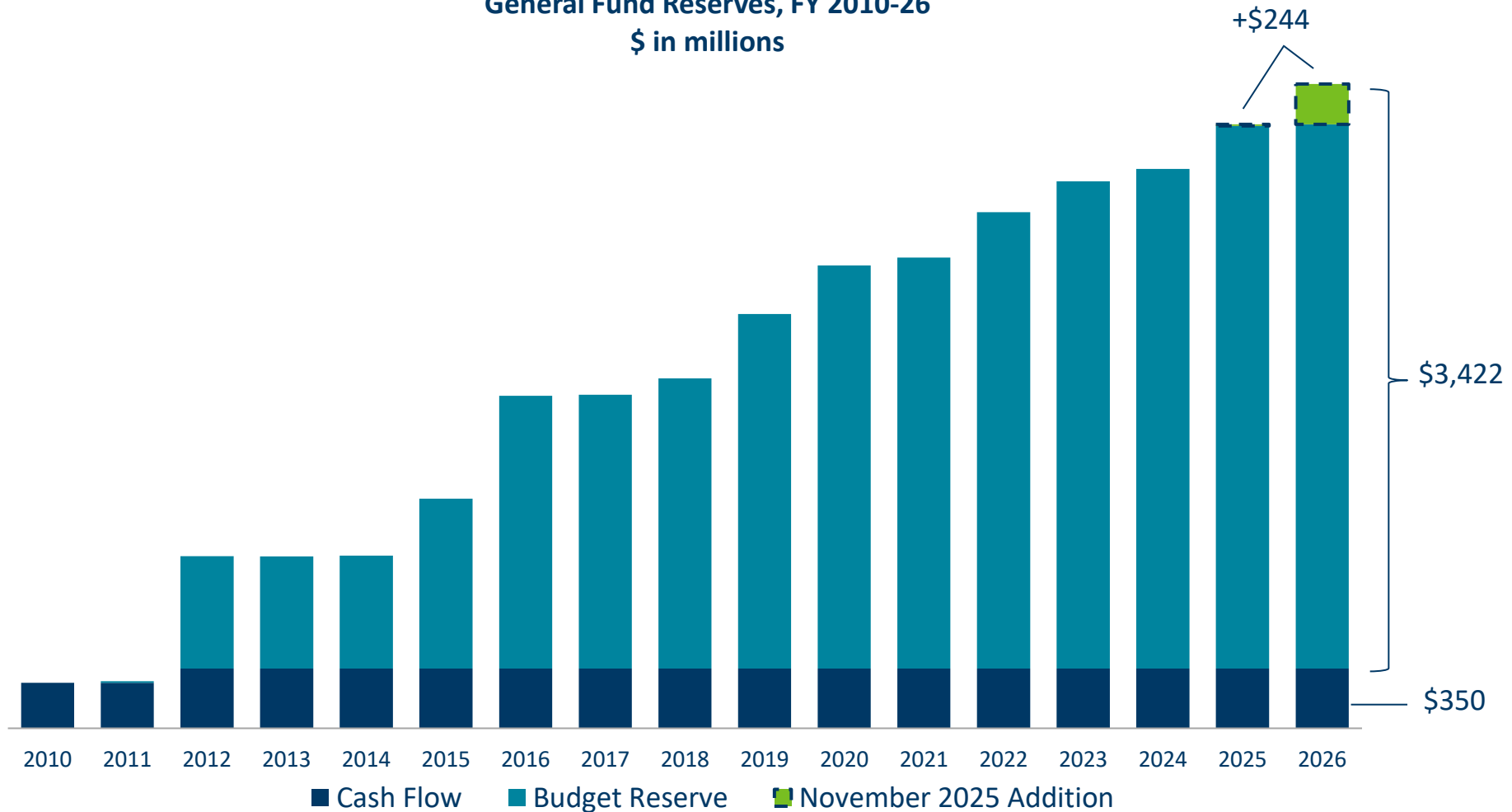
(\$ in millions)	% Rate Difference	General Fund Spending Impact	
		FY 2026-27	FY 2028-29
Elderly	12.5%	\$163	\$202
Disabled	13.5	146	178
Families With Children	8.0	309	303
Adults Without Kids	28.3	125	250
<b>Total</b>		<b>\$742</b>	<b>\$834</b>

# Long Term Budget Outlook

\$ in millions	FY 2026-27	FY 2028-29	Biennial Growth	Annualized % Growth
Forecast Revenues	\$66,262	\$67,787	\$1,525	1.2%
<i>Baseline Spending</i>	<i>68,440</i>	<i>72,277</i>	<i>3,837</i>	<i>2.8%</i>
<i>Discretionary Inflation</i>		<i>935</i>	<i>935</i>	
<i>Carryforward</i>	<i>1,859</i>		<i>(1,859)</i>	
Total Forecast Spending	70,299	73,212	2,913	2.1%
Structural Balance		\$(5,426)		
<i>Structural Balance Without Discretionary Inflation</i>		<i>\$(4,490)</i>		

# Total General Fund Reserves: \$3.772 billion

General Fund Reserves, FY 2010-26  
\$ in millions





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