



# **BUDGET AND ECONOMIC FORECAST**



**FEBRUARY 2026**

Produced by Minnesota Management and Budget

# Higher Revenue Forecast Improves Outlook, Budget Risk Remains

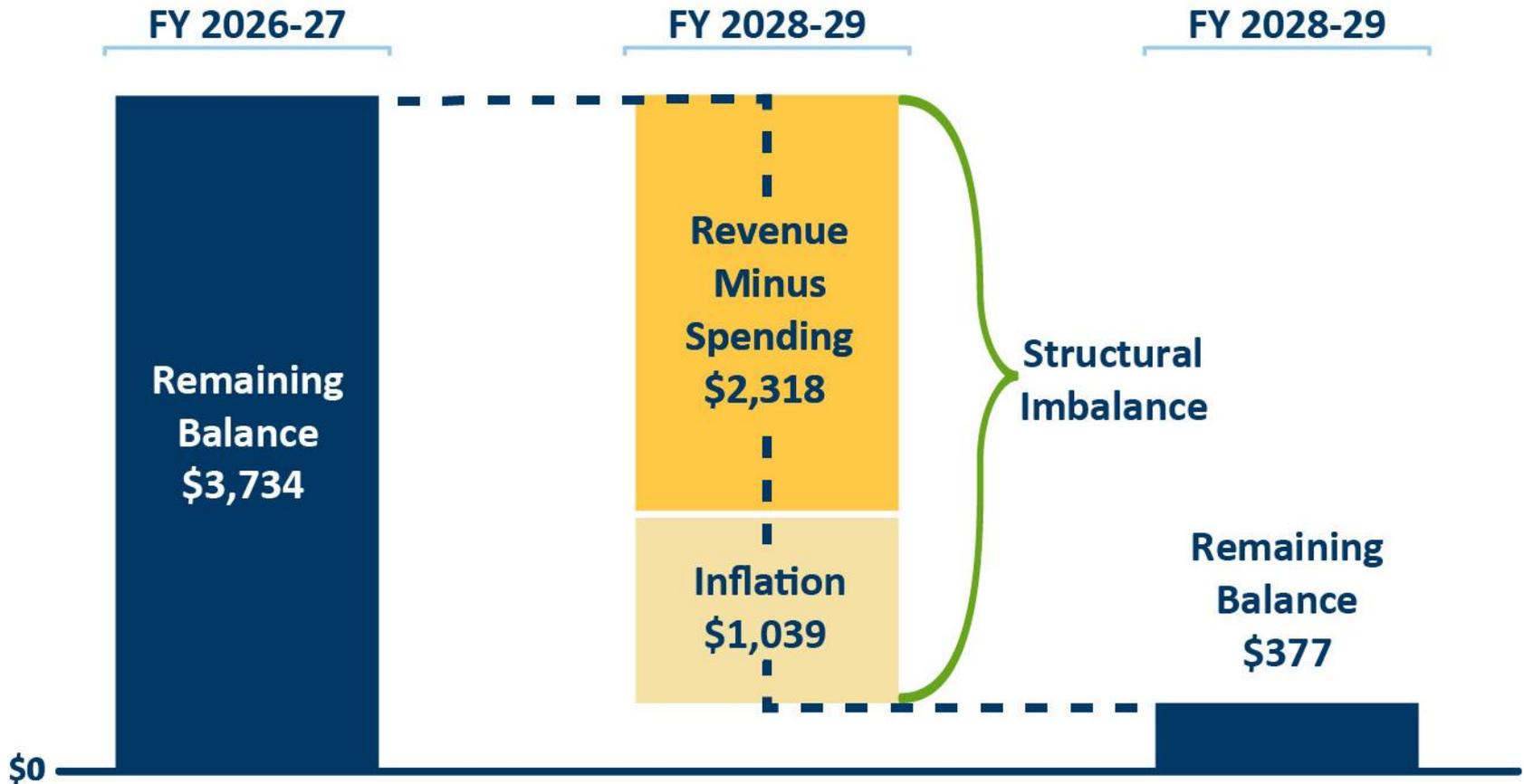
- Current biennium now projected to end with a balance of \$3.7 billion, up \$1.3 billion from November
- FY 2028-29 balance now \$377 million, structural imbalance remains in both biennia
- Slightly improved economic outlook drives higher revenue forecast, change largely driven by most volatile sources
- Federal funding uncertainty presents risk to the spending forecast

# FY 2026-27 Forecast Changes

(\$ in millions)	FY 2026-27 Nov Forecast	FY 2026-27 Feb Forecast	Forecast Change
<b>Beginning Balance</b>	<b>\$10,273</b>	<b>\$10,273</b>	<b>\$ -</b>
Total Revenues	66,262	67,464	1,201
Total Spending	70,299	70,231	(68)
Reserves	3,772	3,772	-
<b>Budgetary Balance</b>	<b>\$2,465</b>	<b>\$3,734</b>	<b>\$1,269</b>

# Positive Ending Balance Now Projected in FY 2029

(\$ millions)



# Economic and Revenue Outlook

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



# SPGMI Forecast: Important Notes

- **Key historical data unavailable**

- Q4 2025 data from BEA, including GDP and corporate profits
- January 2026 labor market data

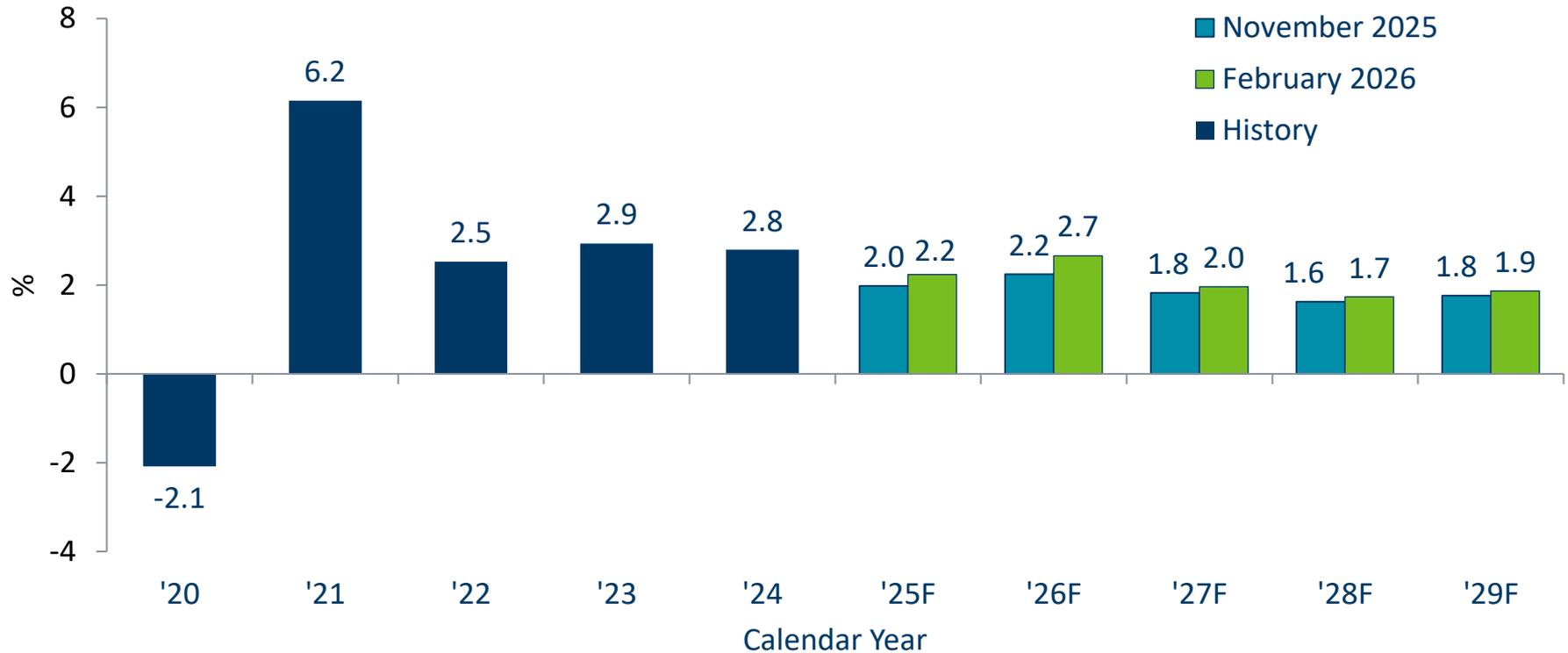
- **Tariff assumptions**

- Forecast assumes average effective tariff rate falls to 14% (from 18% in Nov)
- International Emergency Economic Powers Act (IEEPA) tariffs struck down
- New Section 122 tariffs at 10%

# U.S. Economic Outlook Improves

## U.S. Real Gross Domestic Product

*Annual Percent Change*

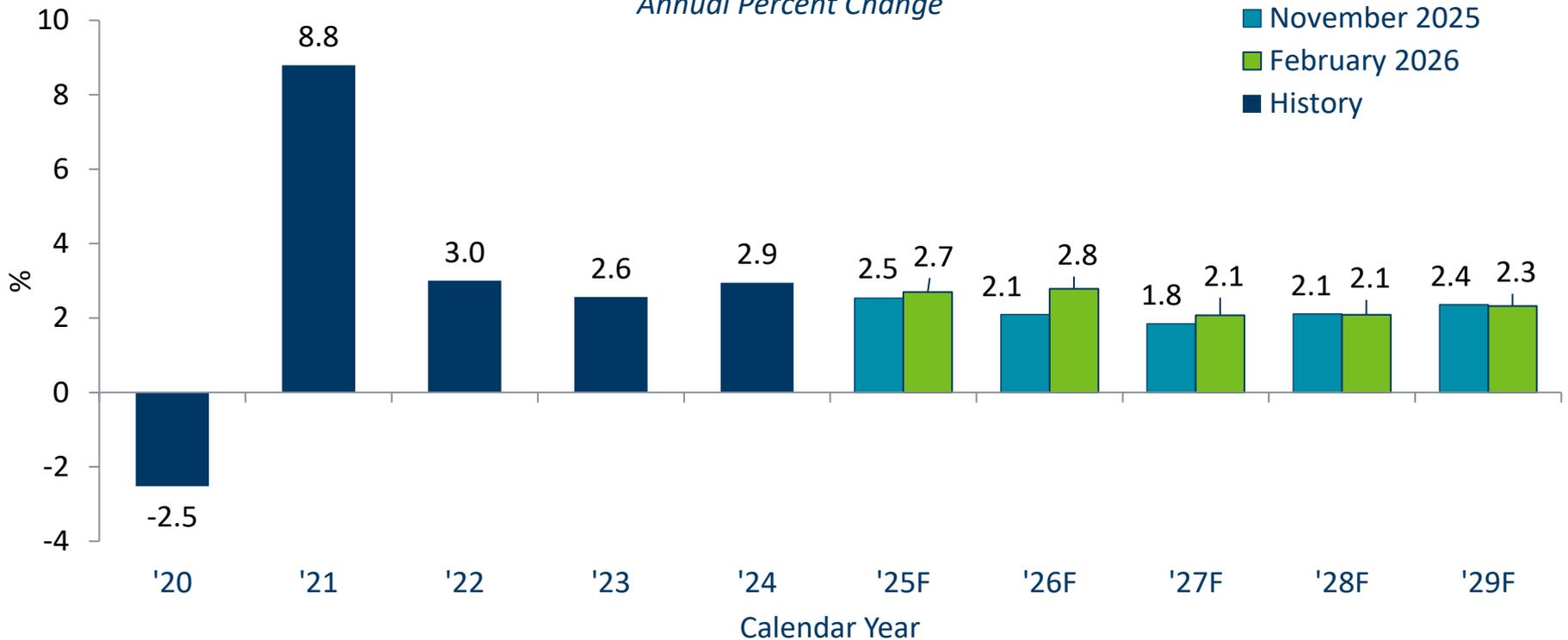


Source: U.S. Bureau of Economic Analysis (BEA), and SPGMI

# Slightly Higher Growth in Consumer Spending

## Real U.S. Consumer Spending

*Annual Percent Change*



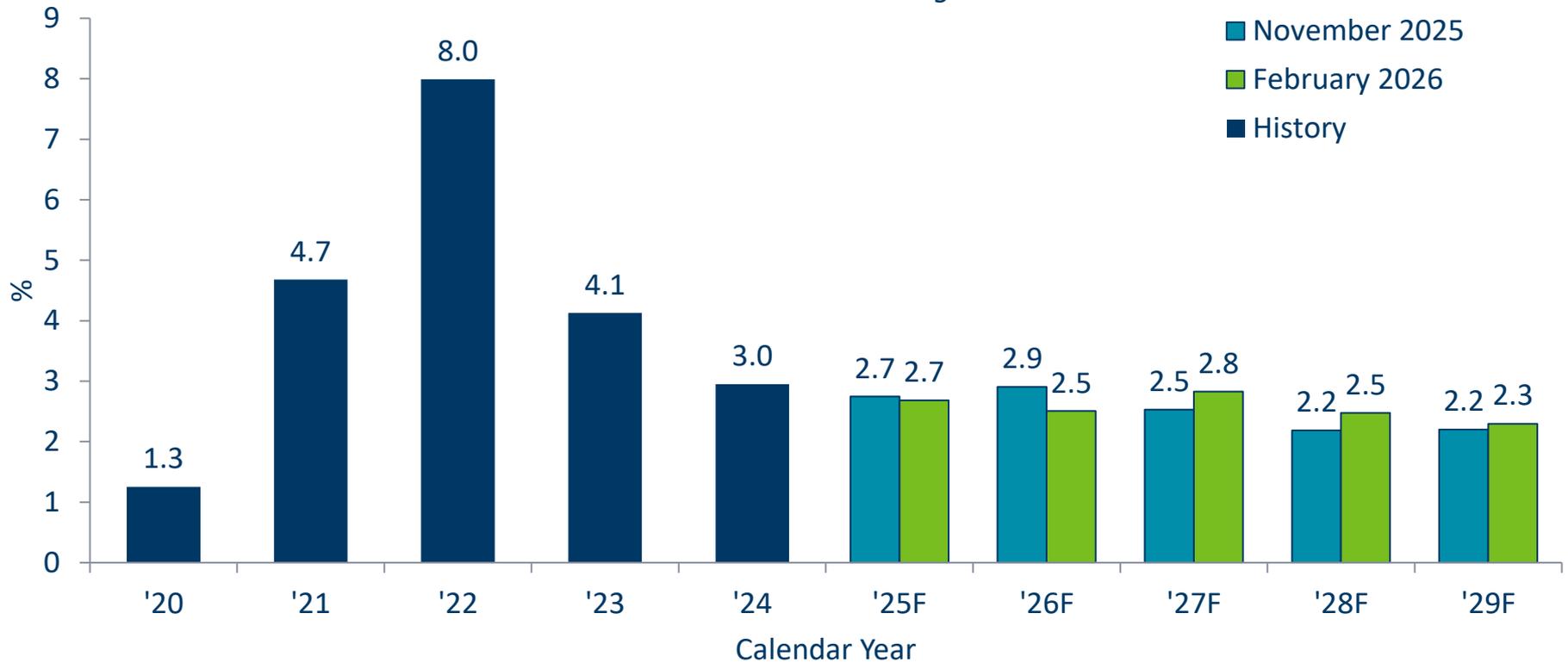
Source: U.S. Bureau of Economic Analysis (BEA), and SPGMI

Real (inflation adjusted) consumer expenditures are now forecast to be stronger than forecast in November and will continue to be the main driver of real GDP growth.

# Inflation Forecast Mixed

## Consumer Price Index (CPI)

*Annual Percent Change*



Source: Bureau of Labor Statistics (BLS), and SPGMI

# Corporate Profits Higher

## U.S. Corporate Profits Before Tax\*

Billions of Dollars, Annual Rate



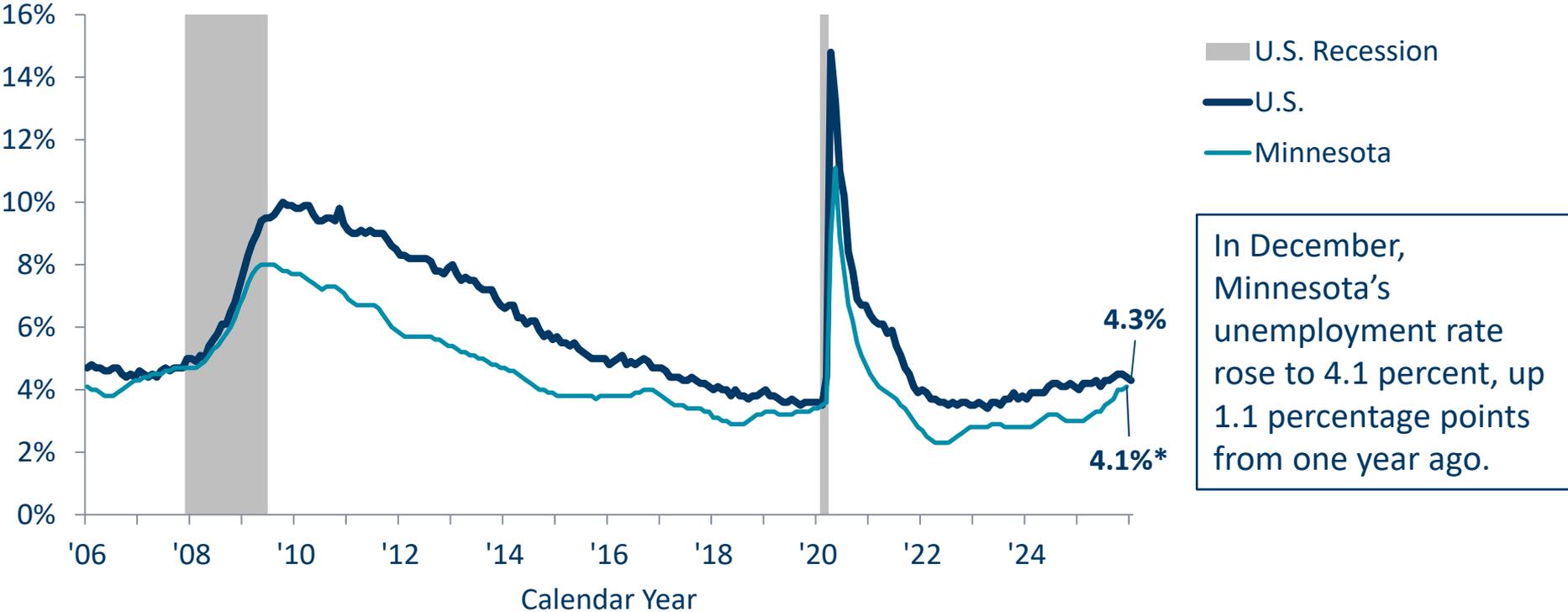
\*With Inventory Valuation and Capital Consumption Adjustments

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

# U.S. and Minnesota Unemployment Rates

## U.S. and Minnesota Unemployment Rates

Monthly, Seasonally Adjusted, December 2025



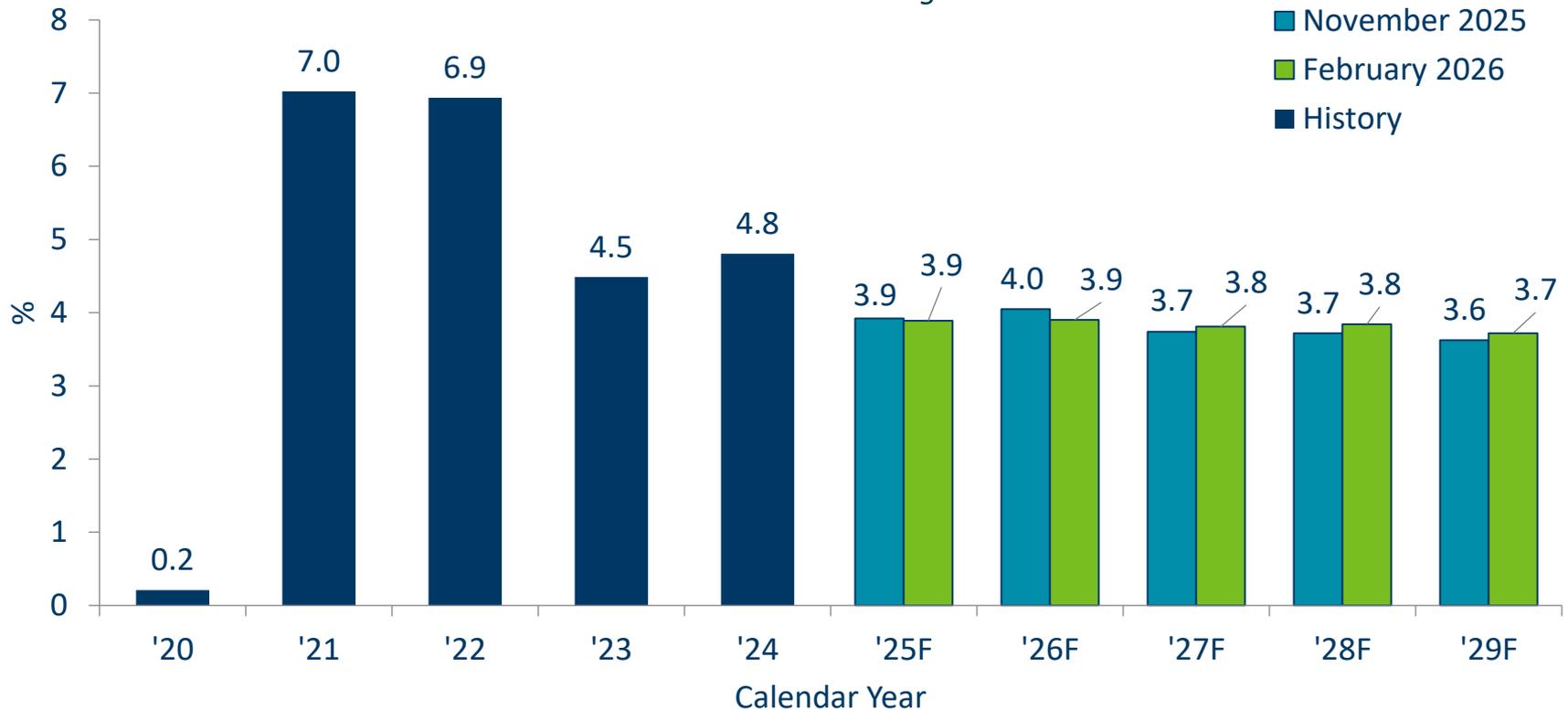
\*Minnesota rates lag one month behind the U.S. rates.

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

# Wage Forecast Little Changed from November

## Minnesota Total Wage and Salary Disbursements

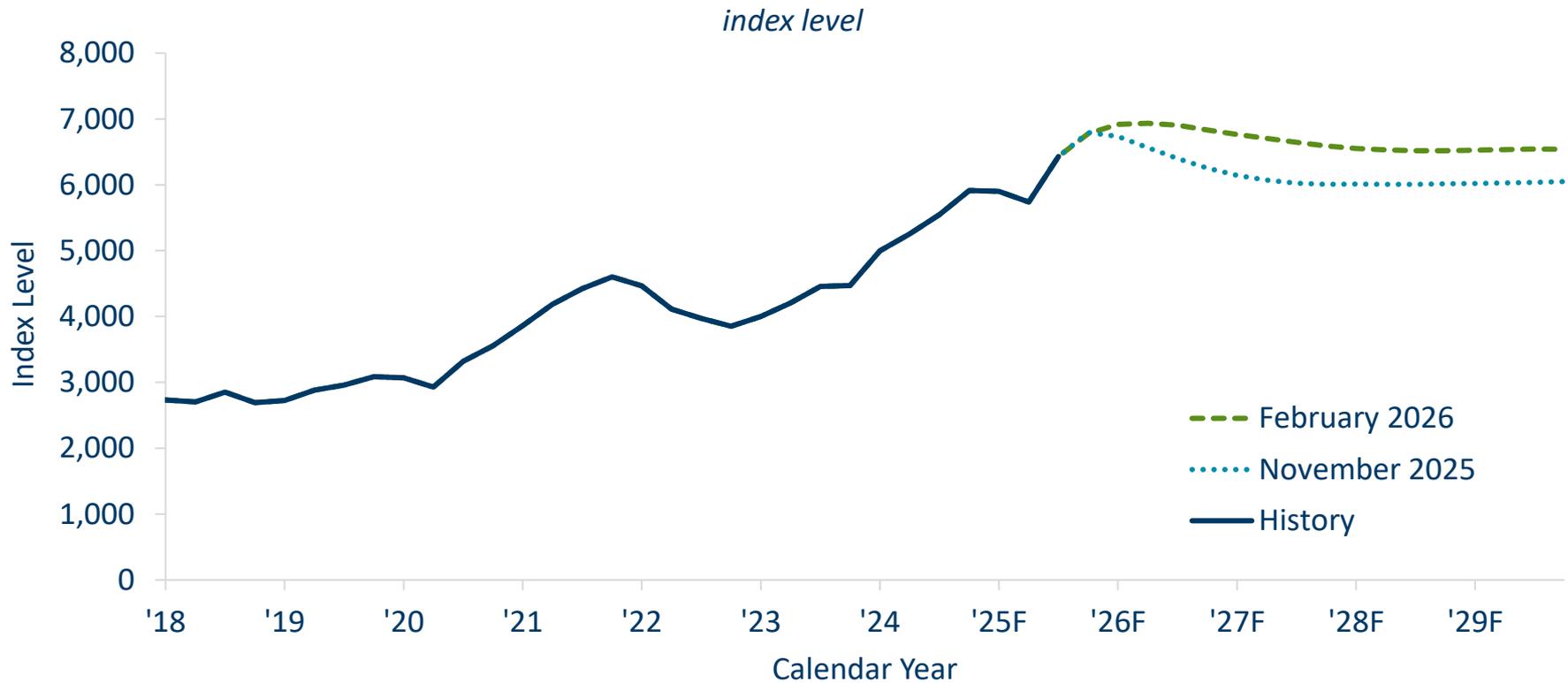
*Annual Percent Change*



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

# Equity Markets Present Upside and Downside Risks

## S&P 500 Stock Index



Source: Standard and Poor's, and SPGMI

# Revenue Forecast

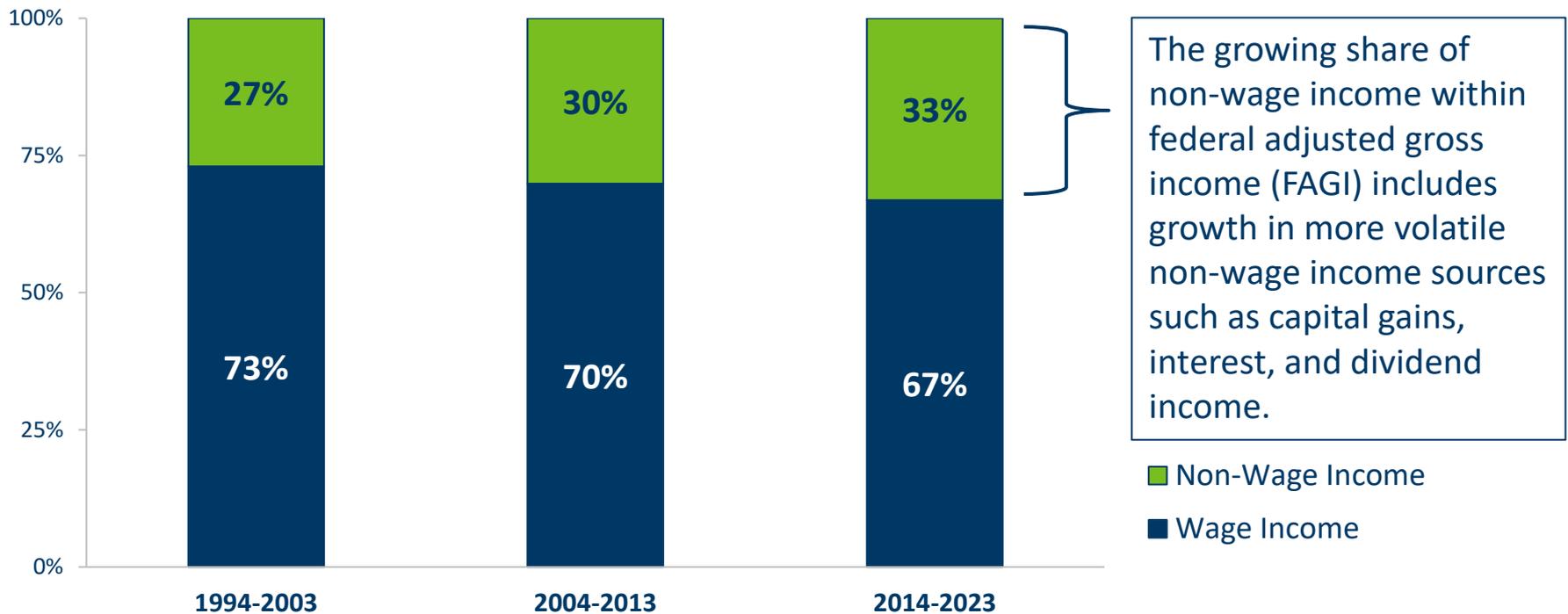
(\$ in millions)

	FY 2026-27		FY 2028-29	
	Feb. 2026 Forecast	Forecast Change	Feb. 2026 Forecast	Forecast Change
Individual Income Tax	\$35,177	\$665	\$37,495	\$1,979
General Sales Tax	15,883	86	16,570	109
Corporate Franchise Tax	6,608	336	6,610	233
All Other Revenue	9,795	114	9,332	(100)
<b>Total Revenues</b>	<b>\$67,463</b>	<b>\$1,201</b>	<b>\$70,007</b>	<b>\$2,221</b>

# Non-Wage Income Makes up Larger Share of Adjusted Gross Income

## Share of Adjusted Gross Income: Wages vs. Non-Wage Income

Minnesota Ten-Year Average Ending with the Most Recent Available Tax Year (2022\*)



\*2022 is most recent data is available, 2023 numbers are preliminary estimates

Source: Internal Revenue Service, SOI Tax Stats - Table A. All Individual Income Tax Returns: Selected Income and Tax Items.

# Economic and Revenue Forecast Risks

- Policy uncertainty: trade and tariffs, immigration
- Missing and incomplete statistical agency data
- Inflation and exchange rate
- Equities markets: growth or correction
- Inflation and labor markets drive monetary policy
- AI: investment and productivity increase or job loss and bubble
- 17 months until the end of FY 2026-27

# Spending and Long Term Budget Outlook

- Expenditure Forecast
- Long Term Budget Outlook



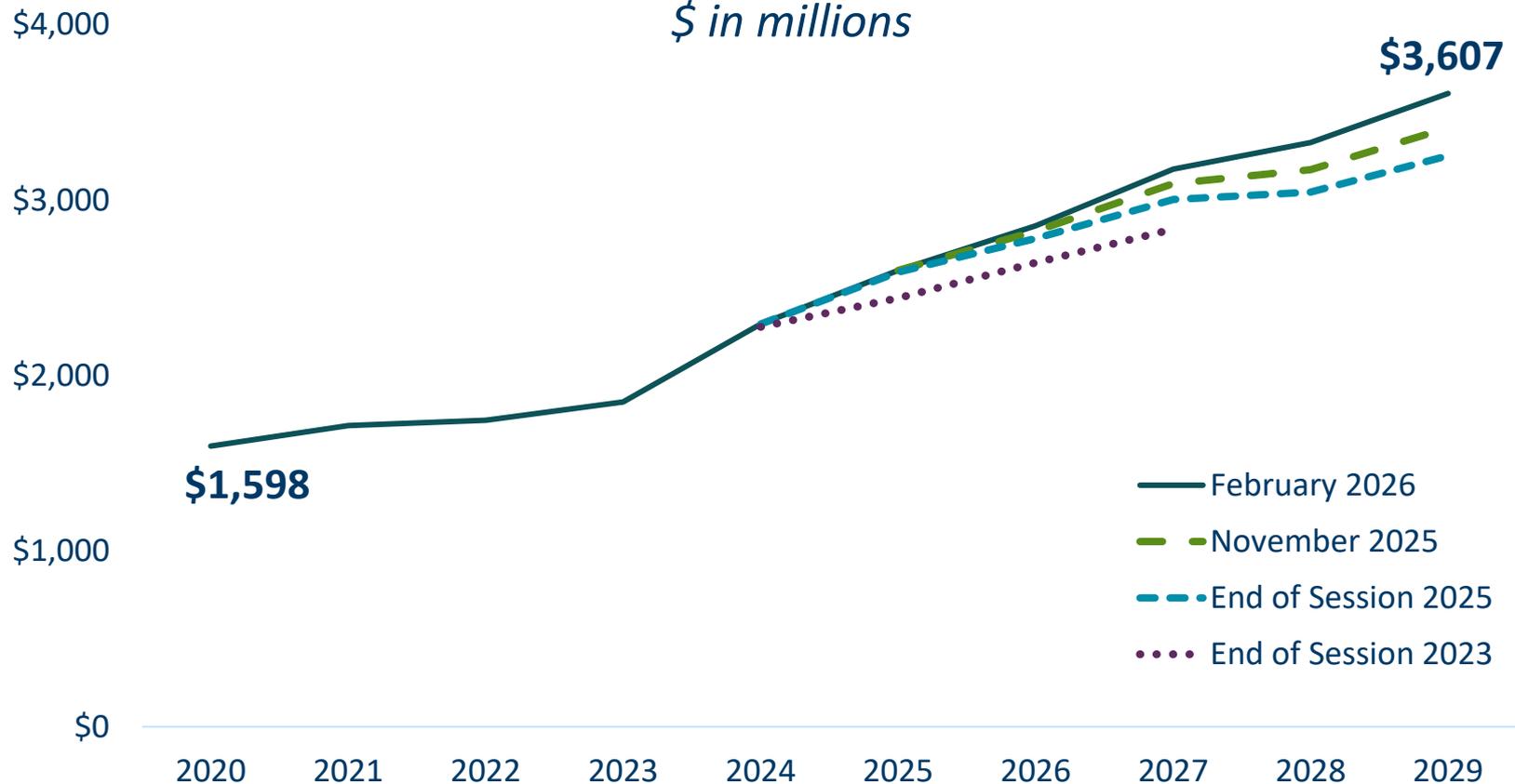
# Spending Forecast

(\$ in millions)

	FY 2026-27		FY 2028-29	
	Feb. 2026 Forecast	Forecast Change	Feb. 2026 Forecast	Forecast Change
E-12 Education	\$25,980	\$111	\$27,425	\$257
Health & Human Services	25,646	(162)	27,435	(199)
Property Tax Aids & Credits	4,823	(18)	5,044	(3)
Debt Service	1,164	(1)	1,215	(3)
All Other	12,618	2	11,206	(5)
Discretionary Inflation	n/a	-	1,039	104
<b>Total Expenditures</b>	<b>\$70,231</b>	<b>\$(68)</b>	<b>\$73,364</b>	<b>\$152</b>

# Special Education Spending Growth Exceeds Expectations

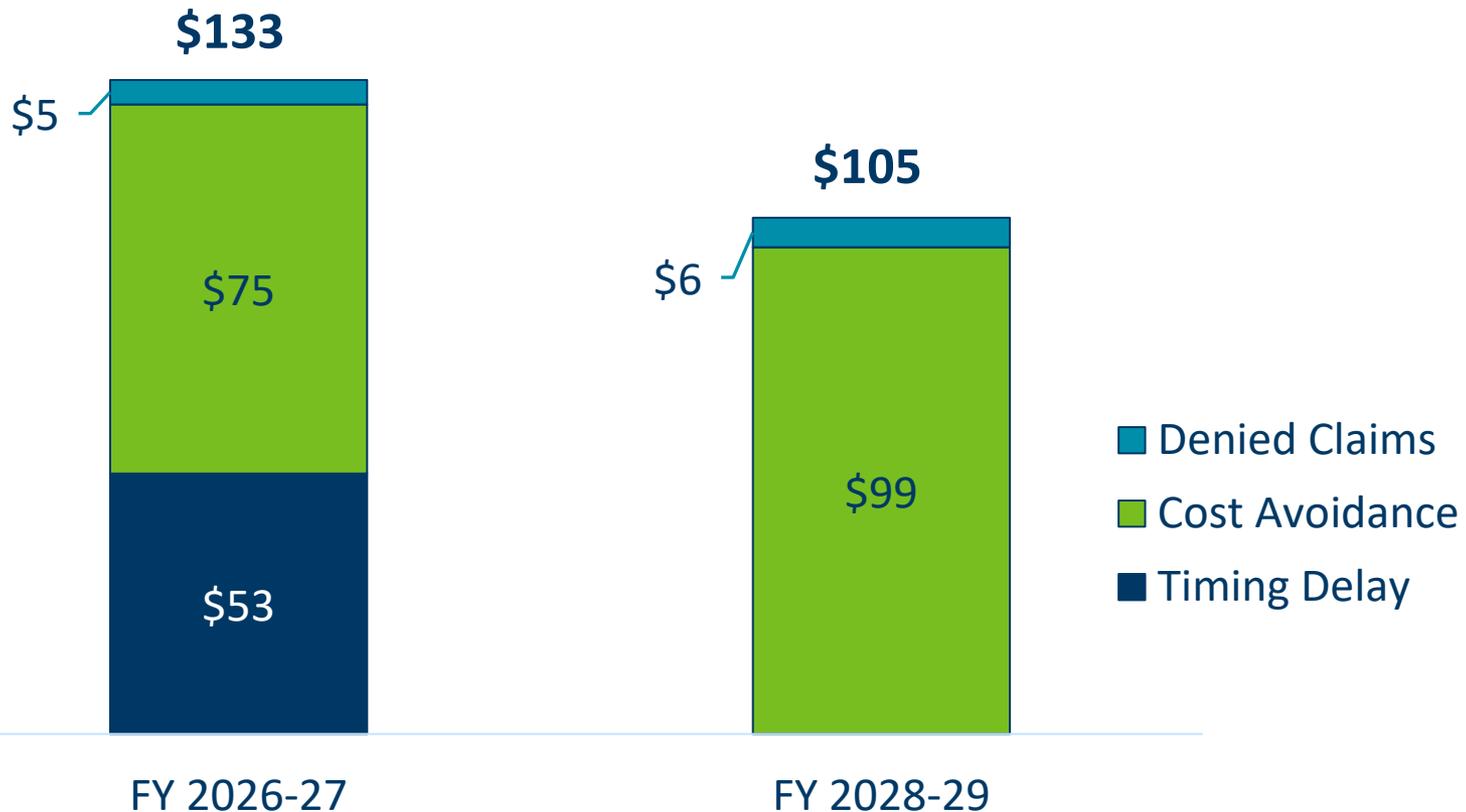
General Fund Special Education Expenditures  
*\$ in millions*



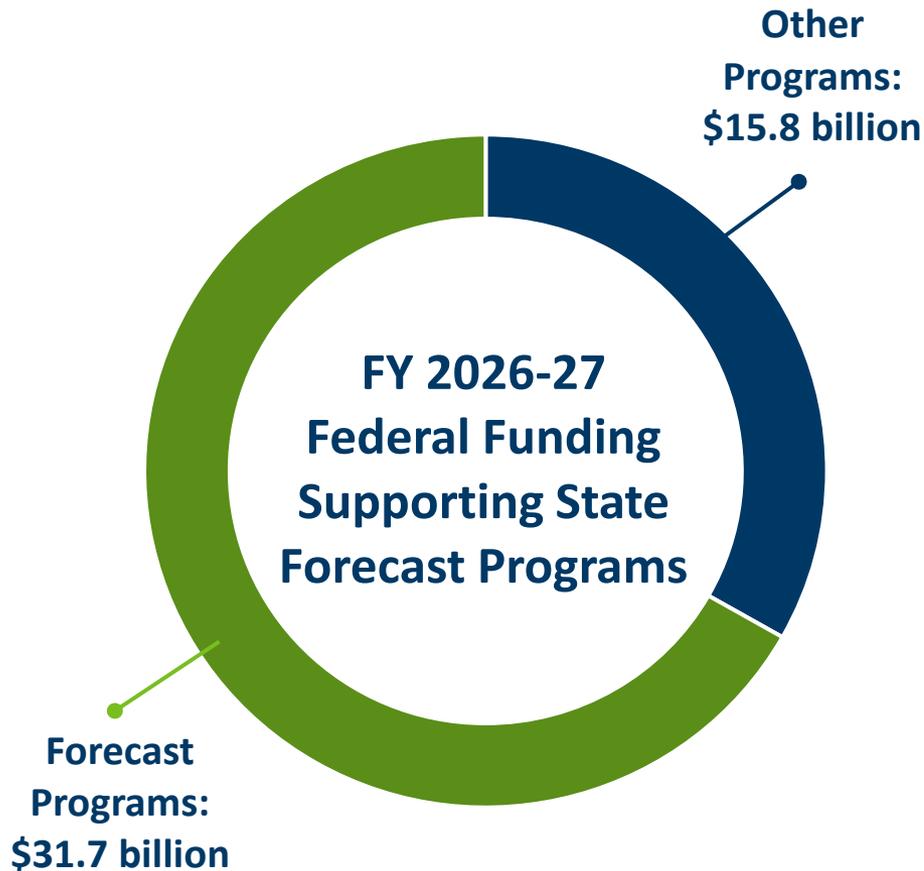
# Medical Assistance Prepayment Review Lowers Spending Forecast

## Forecast Reductions from Prepayment Review Process

*Reduction in spending estimates, \$ in millions*



# Budget Risks from Federal Funds

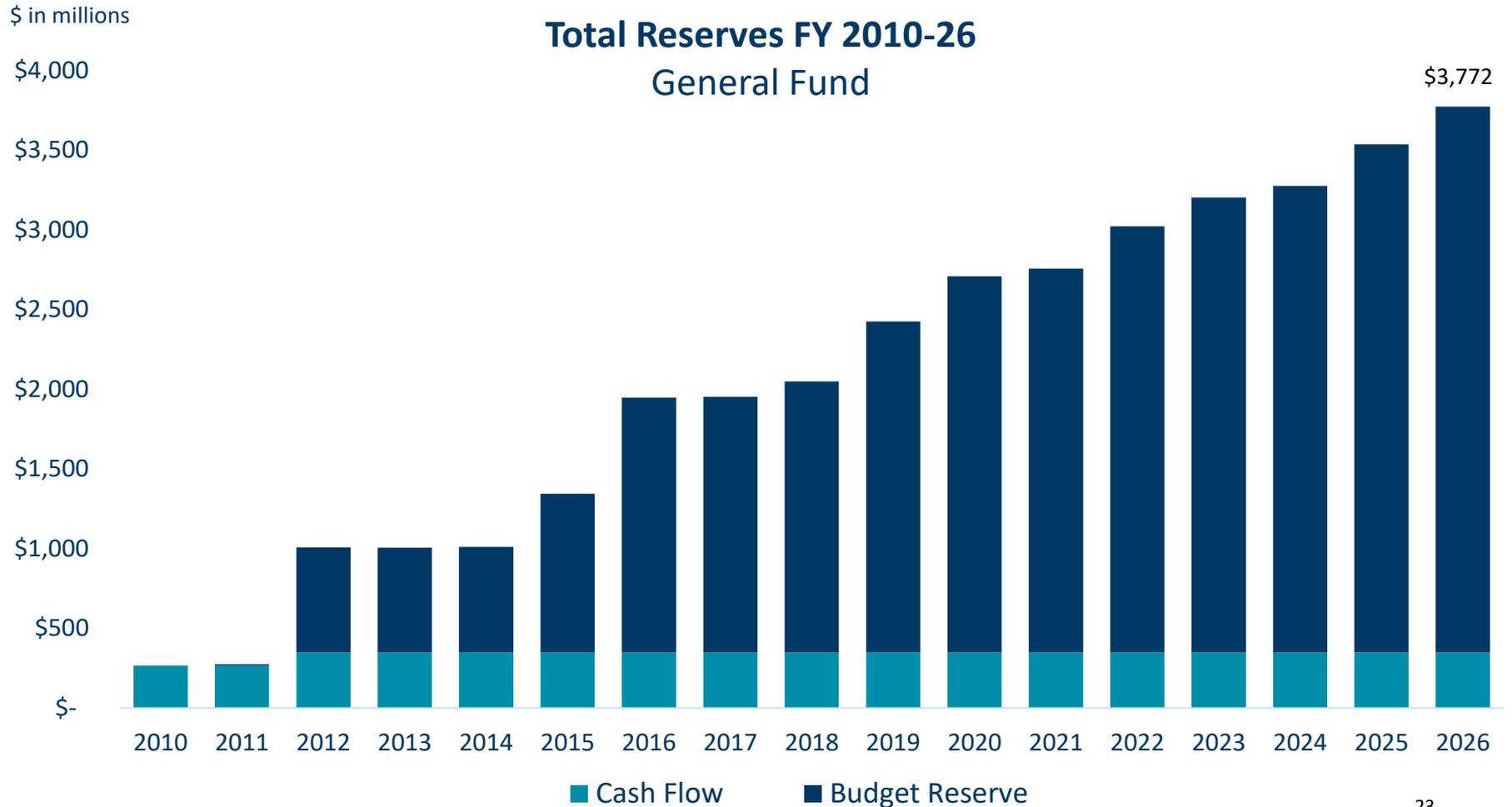


- \$31.7 billion (67%) of federal funding support state entitlement spending
- A loss of federal funds for entitlements would increase costs for the state
- Federal government may defer or withhold Medicaid reimbursement in response to allegations of fraud
- State statute is currently out of compliance with certain Medicaid provisions in HR1, which could result in financial penalty
- Recent federal action has also threatened child care and economic assistance entitlements

# Long Term Budget Outlook

\$ in millions	FY 2026-27	FY 2028-29	Biennial Growth	Annualized % Growth
Forecast Revenues	\$67,464	\$70,007	\$2,543	1.9%
<i>Baseline Spending</i>	68,372	72,325	3,953	2.9
<i>Discretionary Inflation</i>		1,039	1,039	
<i>Carryforward</i>	1,859		(1,859)	
Total Forecast Spending	70,231	73,364	3,133	2.2
Structural Balance		\$(3,357)		
<i>Structural Balance Without Discretionary Inflation</i>		\$(2,318)		

# Total General Fund Reserves: \$3.772 billion





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



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