



June 2020 | Legislative Council Staff

# Economic & Revenue Forecast

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Presentation to the Joint Budget Committee

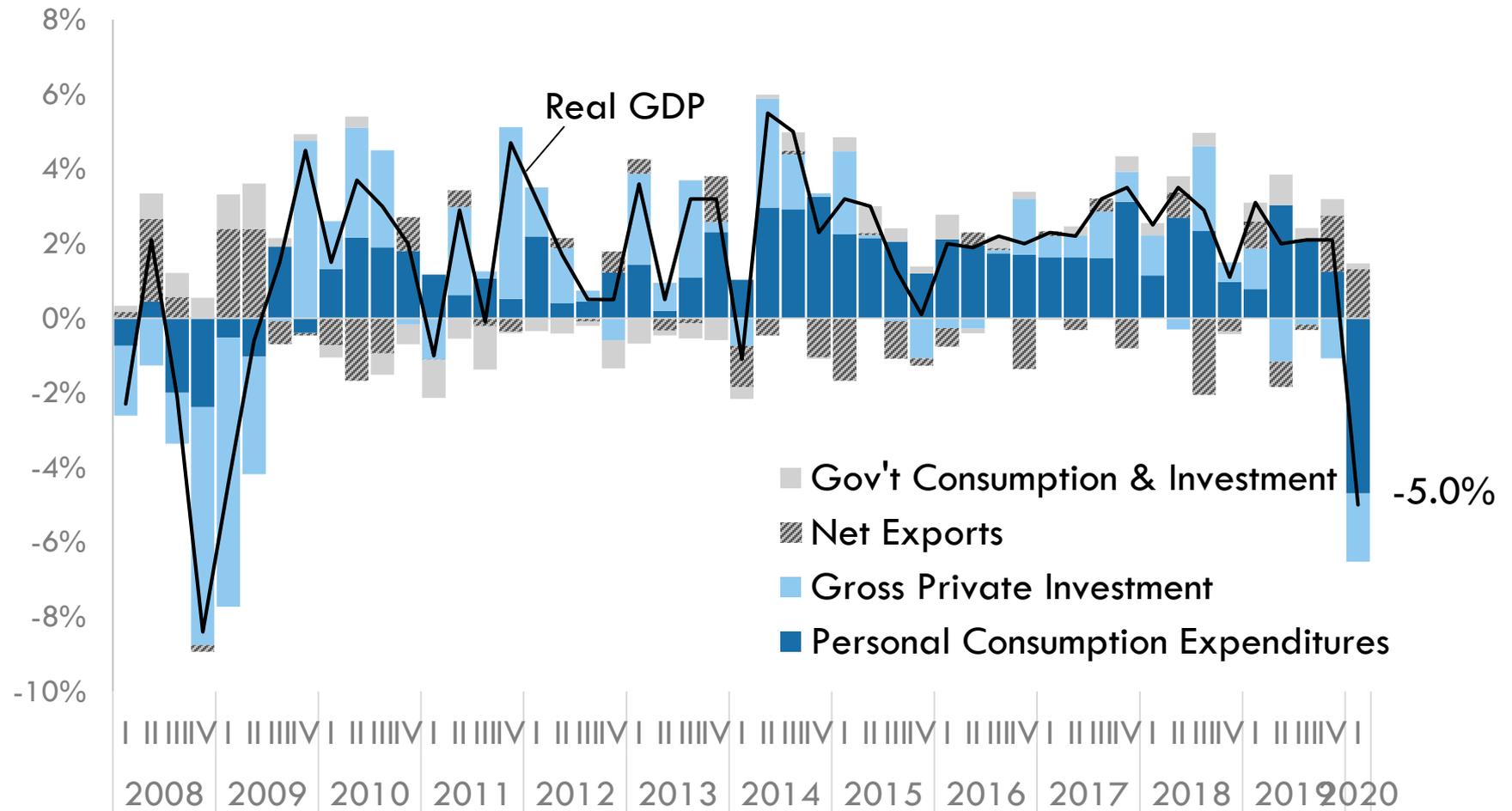
June 19, 2020

# Economic Outlook



# The U.S. officially entered into a recession in March

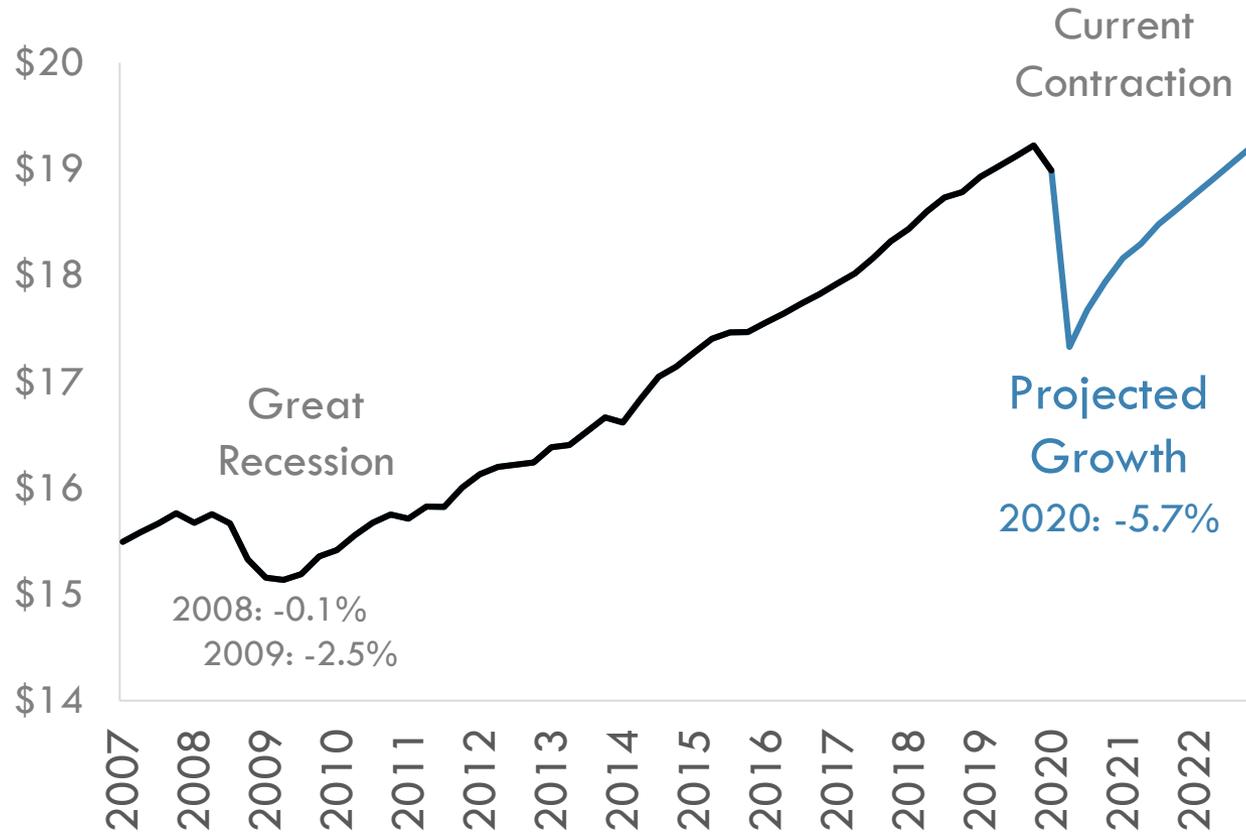
## Contributions to Real Gross Domestic Product (GDP)



# Shape of Recovery

## Real U.S. Gross Domestic Product

*Dollars in Trillions*

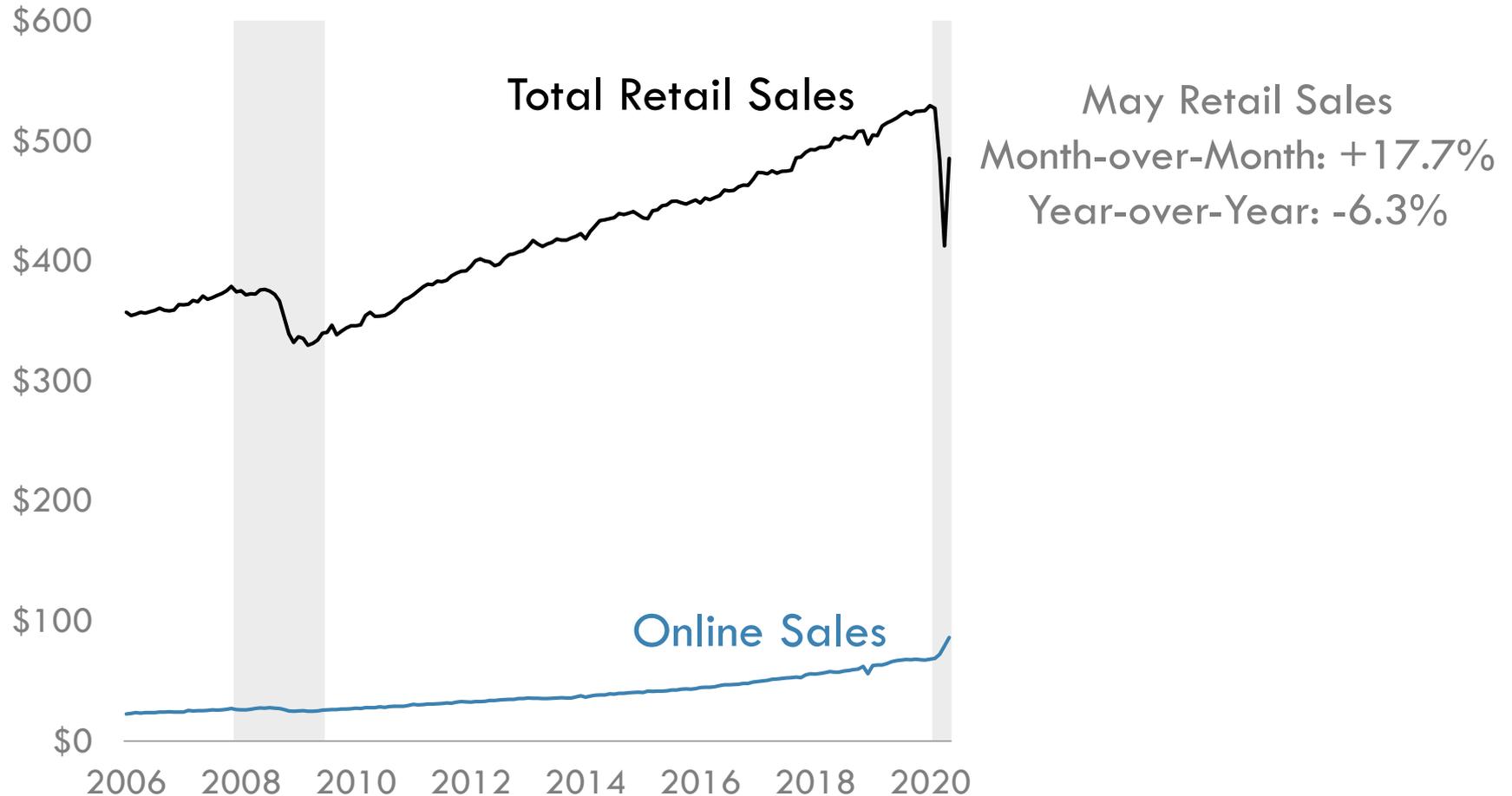


Source: U.S. Bureau of Economic Analysis and Legislative Council Staff projections, including projected 2020Q1 revisions. Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.

# U.S. retail sales picked up in May

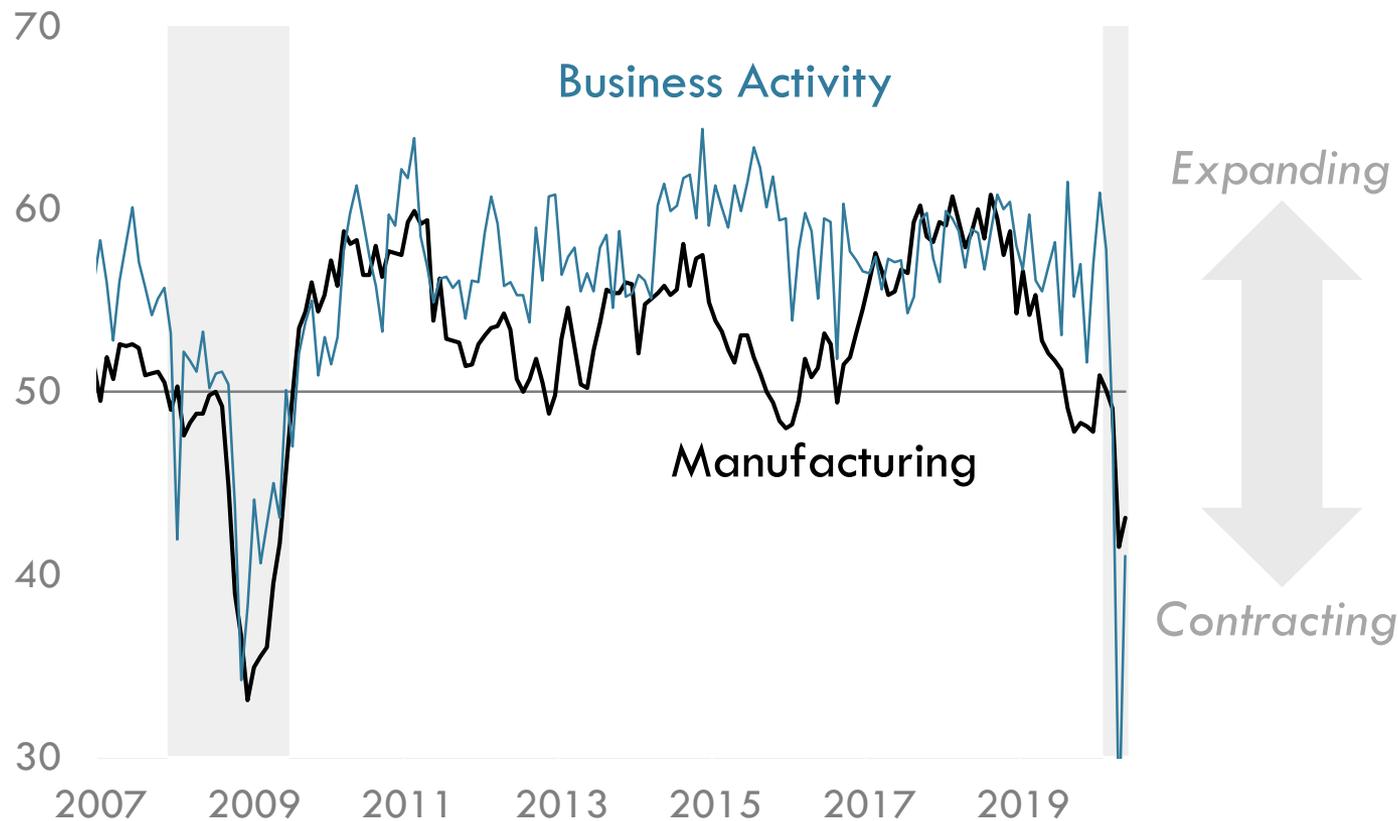
## Monthly U.S. Retail Sales

Dollars in Billions



# While manufacturing and business activity remain in contractionary territory

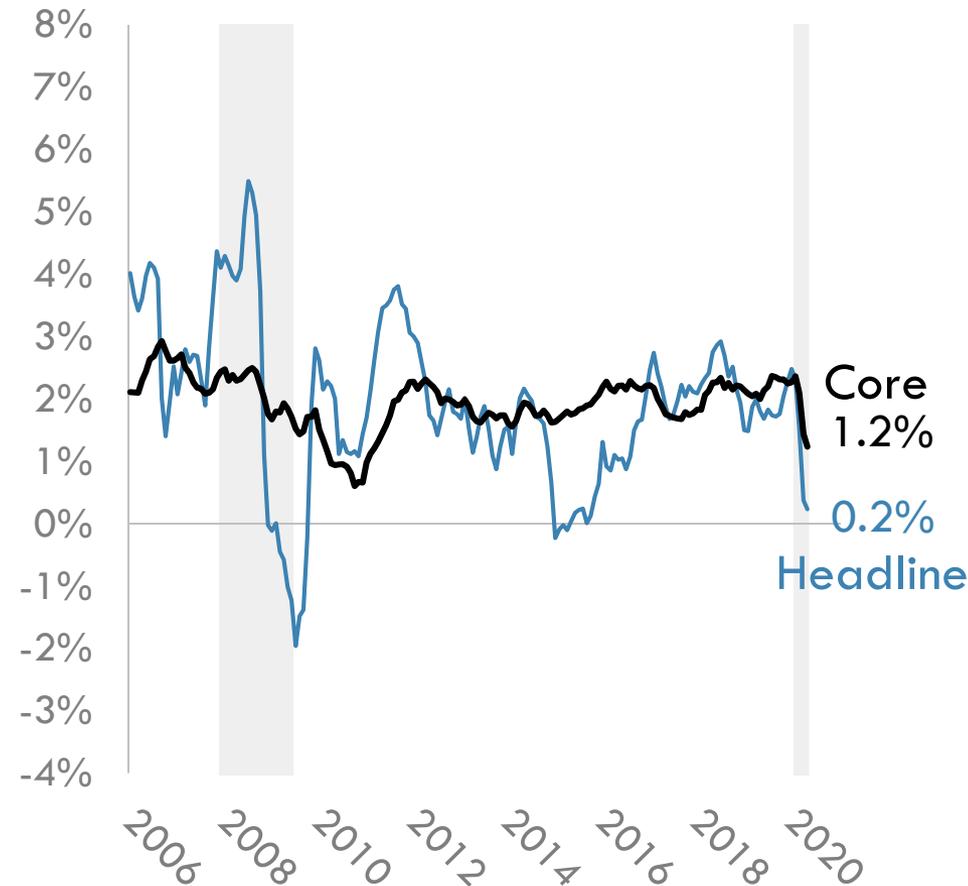
Institute for Supply Management Indices  
*Diffusion Index*



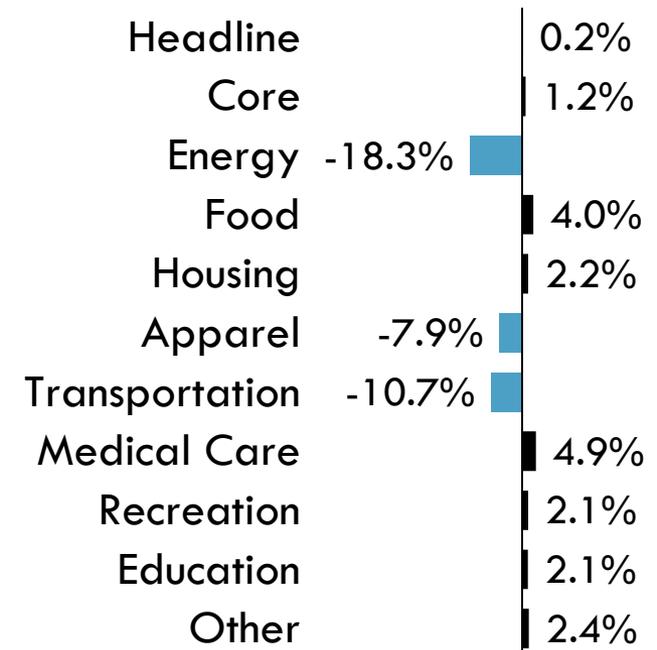
# Deflationary risk outweighs inflationary pressure

## U.S. City Average CPI-U Inflation

Year-over-Year Change in Prices



Selected Components, May 2020



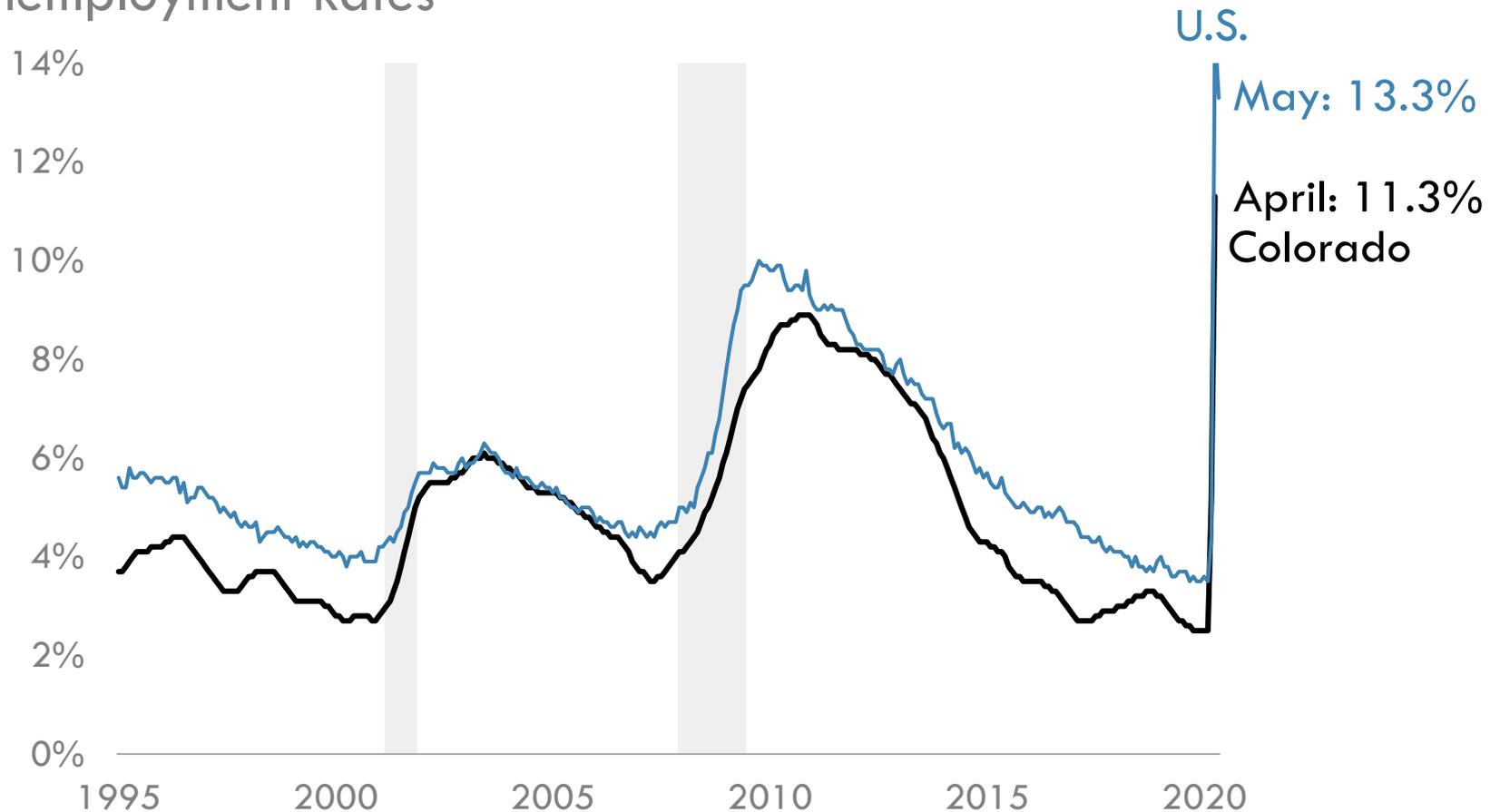
Source: U.S. Bureau of Labor Statistics.

Inflation is calculated as the growth in urban area prices in a given period relative to the same period in the prior year.

\*Headline inflation includes all products and services. \*\*Core inflation excludes food and energy prices.

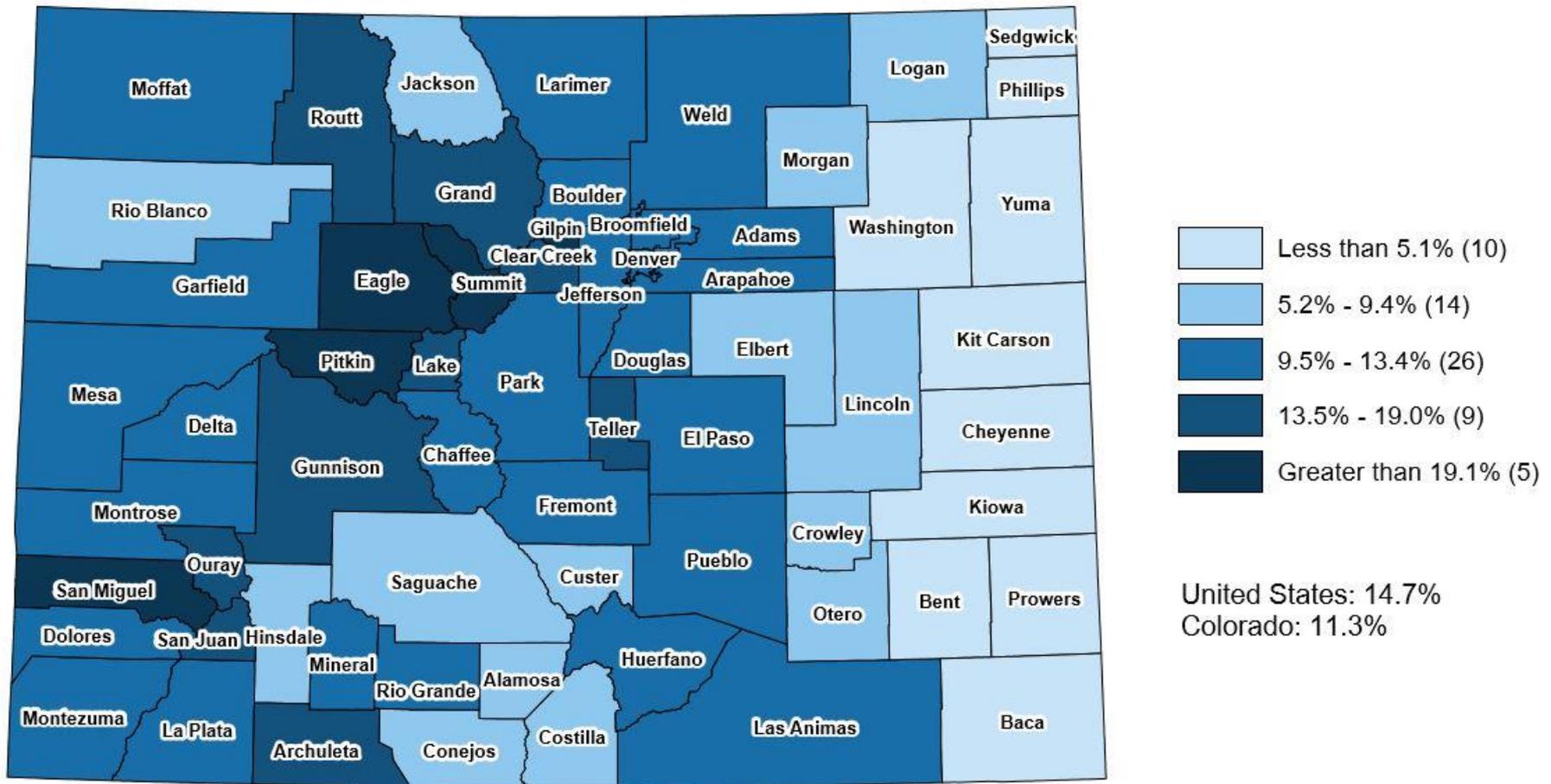
# Unemployment improved in *May* but remains at historic highs

## Unemployment Rates

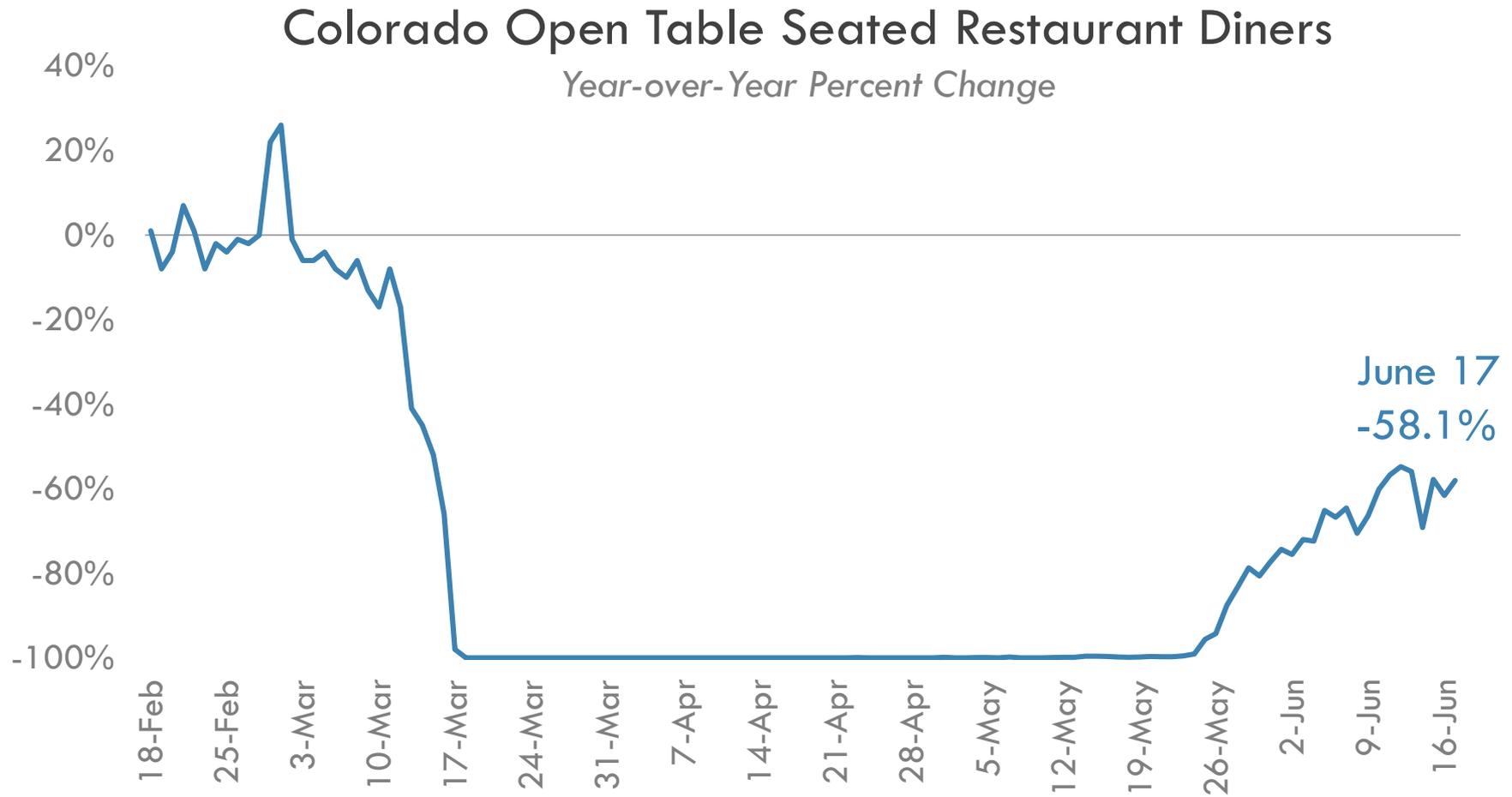


# Counties reliant on tourism have the highest unemployment

## April 2020 Unemployment Rates



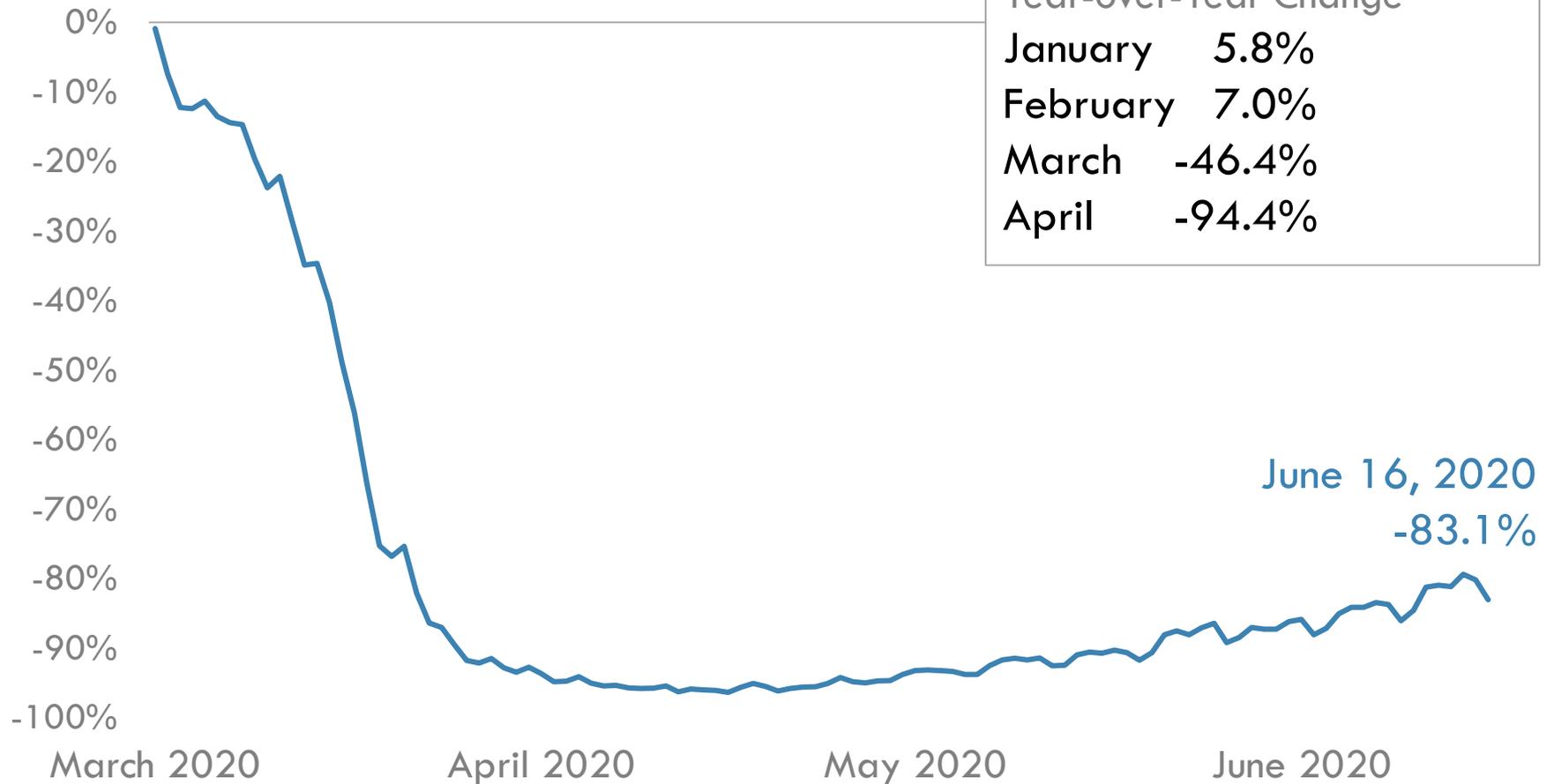
# Dine-in restaurant service began to recover after restrictions were lifted



# U.S. and Denver air travel still subdued

## U.S. TSA Passenger Traffic

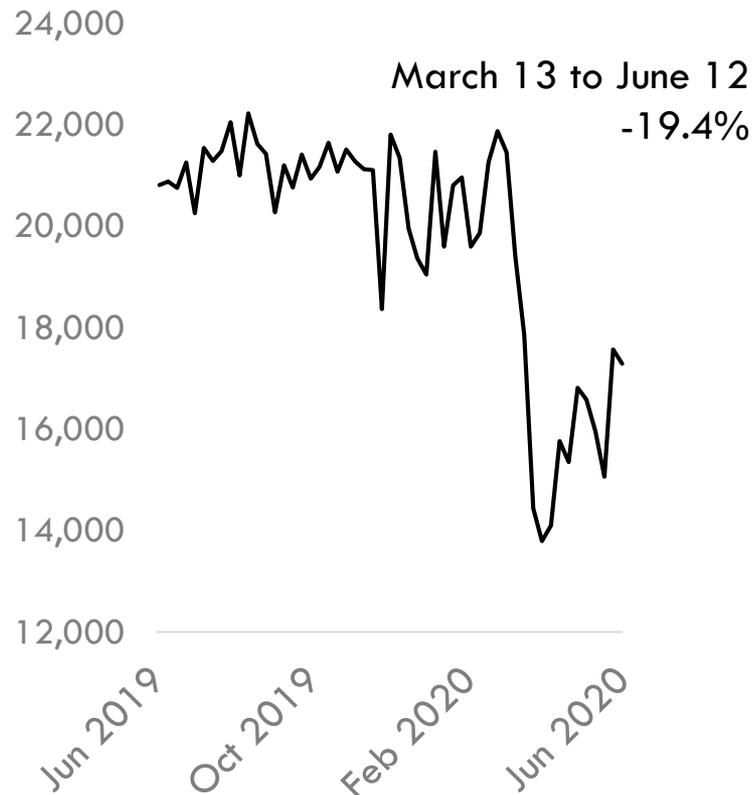
Year-over-Year Change



# Reduced travel activity continues to constrain oil markets

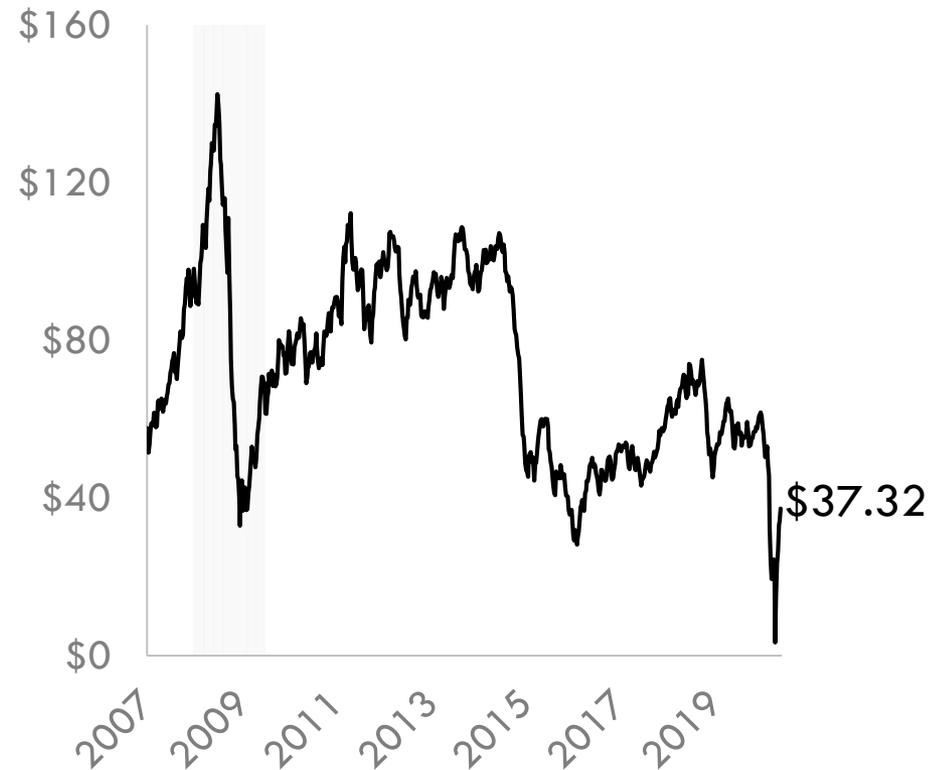
## U.S. Oil Supplied

*Thousands of Barrels per Day*



## West Texas Intermediate Crude Oil Price

*Dollars per Barrel*



# Outlook Summary

- Economic activity outperformed expectations in May slightly, though the recession is still severe
- The recovery will impact economic sectors and geographic regions differently
- Business activity and consumer spending will continue to improve, but remain constrained by ongoing restrictions, health concerns, uncertainty, and some permanent closures
- Labor markets will remain weak in the industries most affected by COVID-19-related closures
- Inflationary pressures will remain subdued as low energy prices, low global demand offset global supply constraints

# Risks to the Forecast

## Downside

- Strong resurgence of COVID-19
- Additional waves of layoffs
- Double-dip recession

## Upside

- COVID-19 vaccine delivered sooner than expected
- Additional federal stimulus
- Structural shifts resulting in innovations

# General Fund Budget Outlook



# General Fund collections will decline with the contraction in business and household income, and reduced consumer activity

## Gross General Fund Revenue

Billions of Dollars

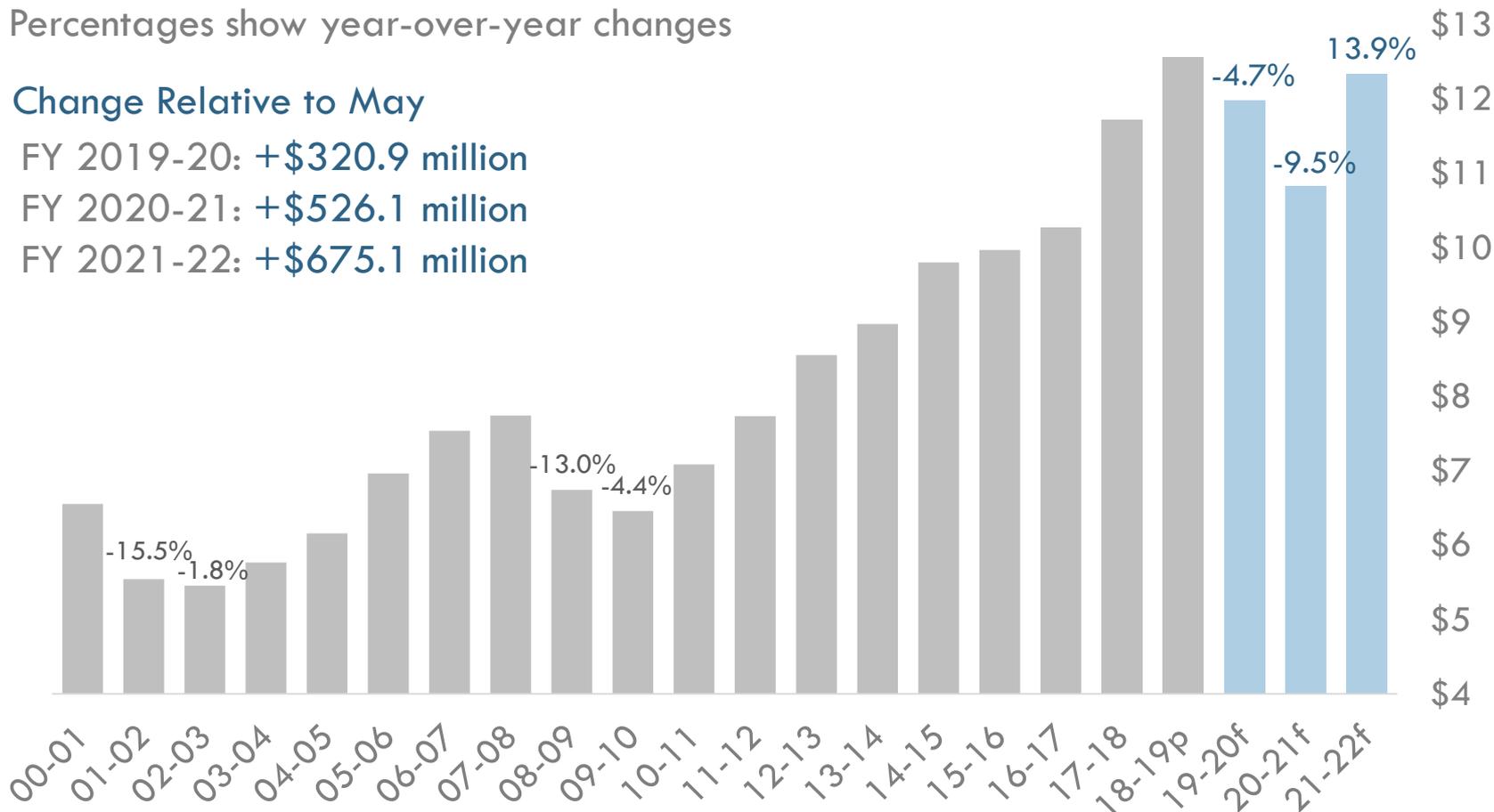
Percentages show year-over-year changes

### Change Relative to May

FY 2019-20: +\$320.9 million

FY 2020-21: +\$526.1 million

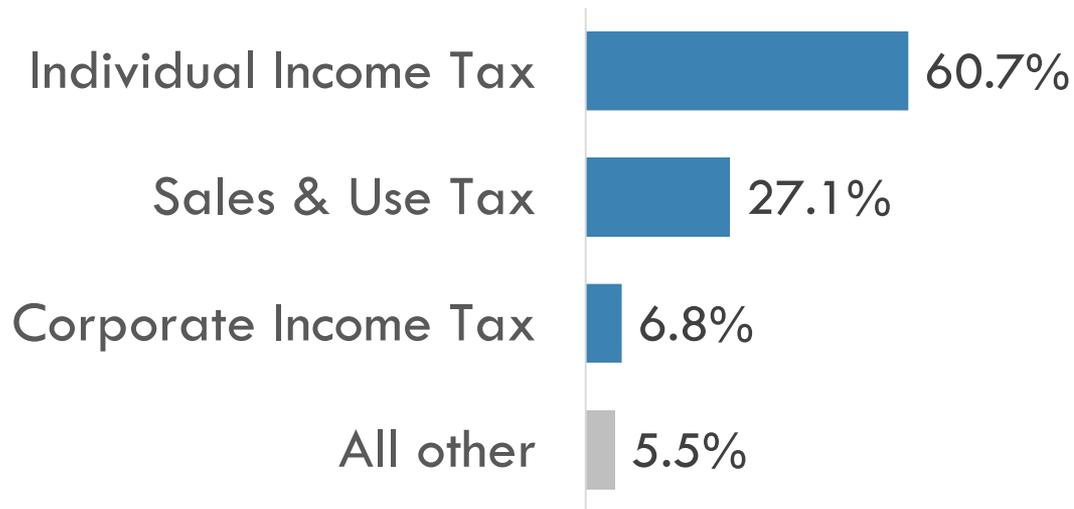
FY 2021-22: +\$675.1 million



Source: Colorado Office of the State Controller and Legislative Council Staff June 2020 forecast.

# Income taxes represent the largest and most volatile General Fund revenue stream...

Share of Total General Fund Revenue\*  
Based on FY 2018-19 Collections



Income taxes also carry the greatest forecast risk with economic uncertainty, delayed filing deadlines, and state and federal policy changes.

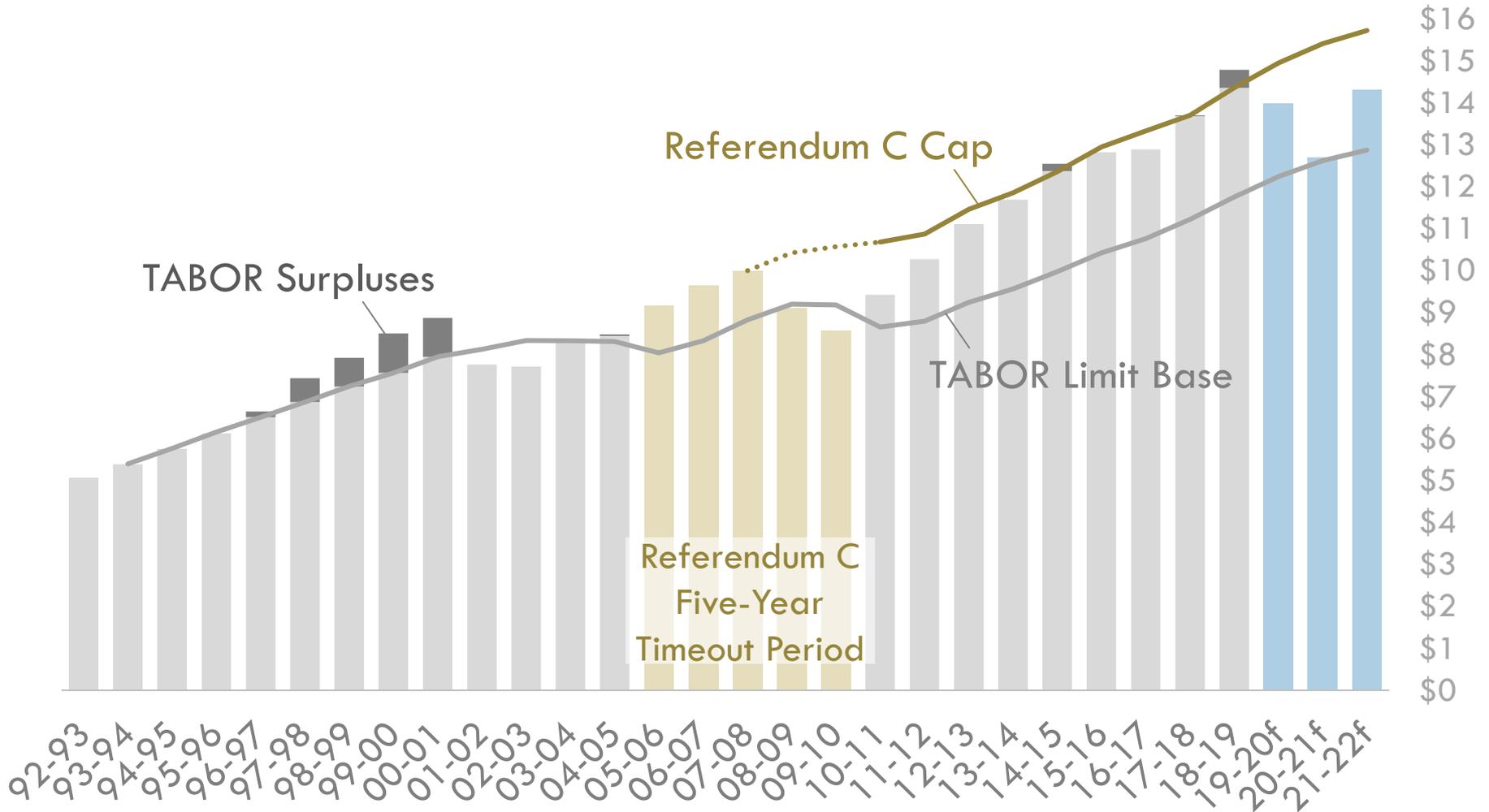
Source: Colorado Office of the State Comptroller of Public Accounts, *Colorado State Fiscal Report FY 2018-19*, p. 20.

\*Income taxes net of the State Education Fund diversion.

# TABOR Outlook

Revenue Subject to TABOR

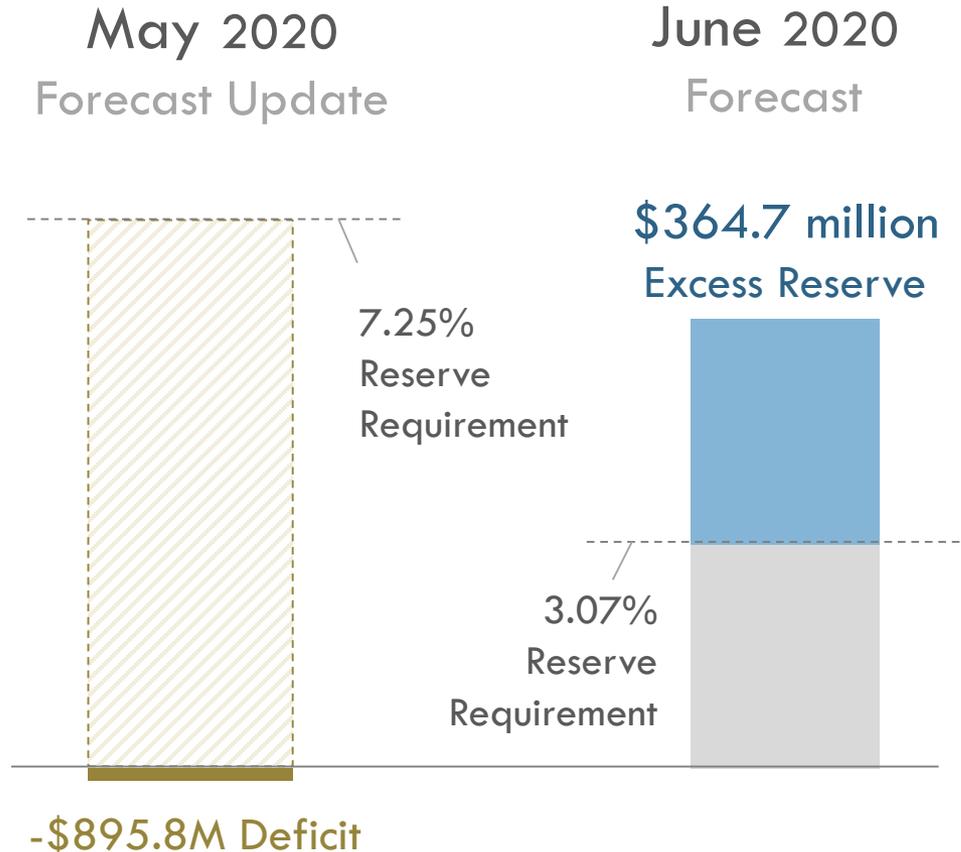
Dollars in Billions



Source: Colorado Office of the State Controller and Legislative Council Staff June 2020 forecast.

# Current Year | FY 2019-20 General Fund Reserve

Dollars in Millions



## Changes relative to May:

Revenue: +\$320.9M on income tax policy changes

Net transfer: +\$145.1M on legislative changes

Appropriations: -\$281.3M with budget package

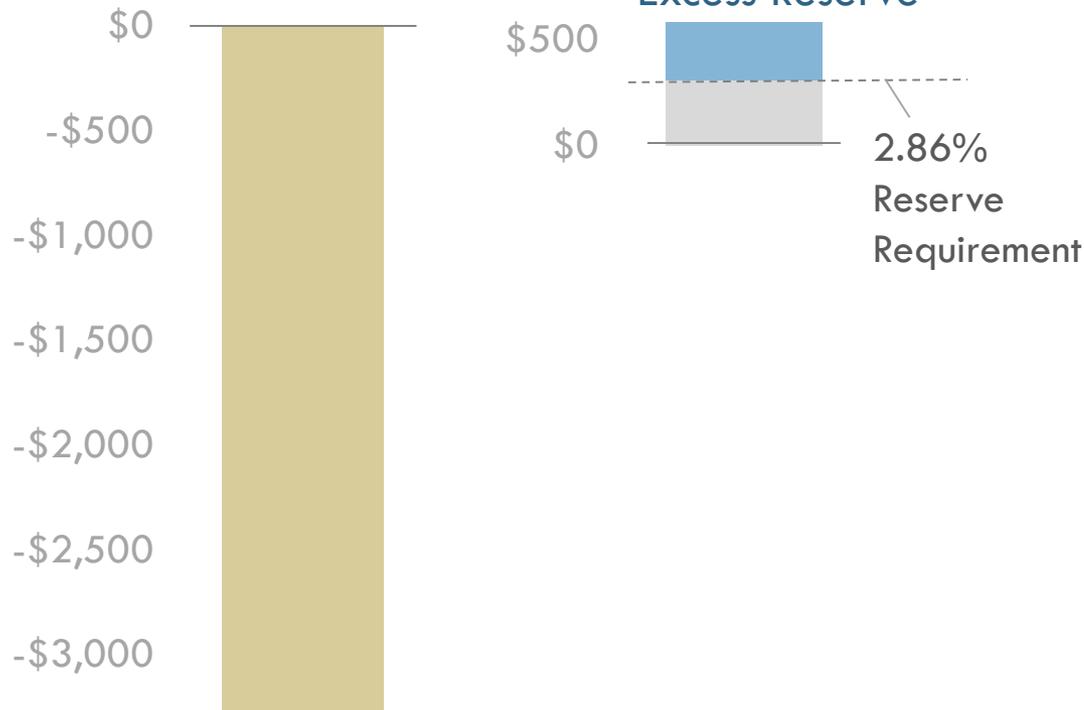
Reserve: -\$513.8M on lower reserve requirement, appropriations

# Next Year | FY 2020-21 Budget Outlook

May 2020  
Forecast Update

June 2020  
Forecast

**\$272.7 million**  
Excess Reserve



**-\$3.3 Billion Shortfall\***

Changes relative to May:

Beginning balance: +\$746.6M  
carried over from FY 2019-20

Revenue: +\$526.1M on income  
tax policy changes, slightly  
higher economic expectations

Appropriations: -\$1.44 billion  
lower than FY 2019-20 budget

Net transfers: +\$273.8 on  
legislative changes

Reserve: -\$571.7M on lower  
reserve requirement,  
appropriations

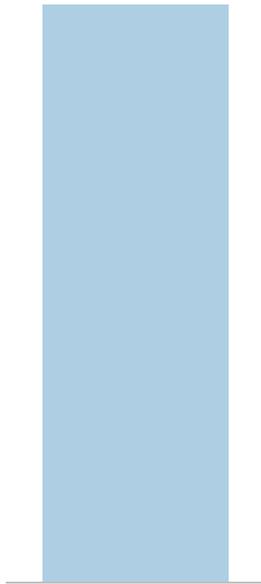
Source: Legislative Council Staff forecasts based on current law. \*Amount holds FY 2019-20 appropriations constant and incorporates the May revenue forecast, current law transfers, rebates and expenditures, TABOR refund obligations, and the 7.25% reserve requirement.

# Out Year | FY 2021-22 Budget Outlook

Additional revenue available to spend or save above FY 2020-21 spending levels. Amounts hold FY 2020-21 appropriations constant and incorporate the revenue forecast, current law transfers, rebates and expenditures, and the 2.86% reserve requirement.

June 2020  
Forecast

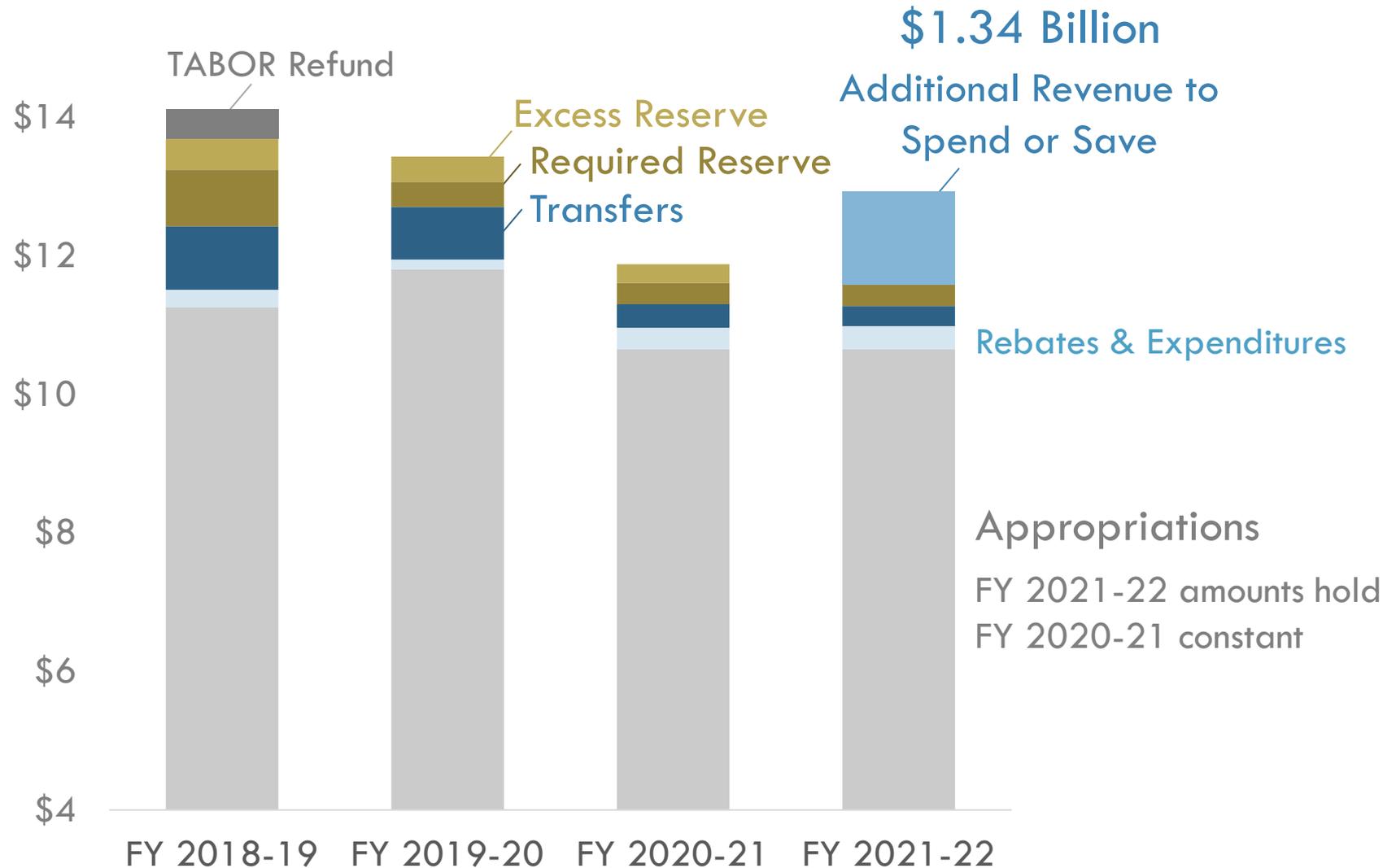
**\$1.34 Billion**



This amount does not account for caseload growth or inflationary pressures

# General Fund Budget (Spending or Saving)

Dollars in Billions



# Risks to the Forecast

## New Information

- Legislation from the 2020 Session
- 11 months of FY 2019-20 collections data
- Starting to understand how much economic activity declined and how quickly we are bouncing back

## Unknowns

- Extent of economic damage and its lasting effects
- Influence of the recession on income taxes
- Containment and treatment of COVID-19
- Additional fiscal and monetary policy changes

**Downside risk:** Prolonged economic recovery or a double-dip recession (COVID-19 resurgence, vicious cycle)

**Upside risk:** Stronger near-term rebound in economic activity, less damage to the economy than expected

# Unemployment Insurance Outlook



# Current State and Federal UI Benefits

Funding Source	State	State & Federal*	Federal
Benefits	Regular	Extended	Temporary
Description	Partial wage replacement for up to 26 weeks	Extended benefits are triggered by persistently elevated state unemployment rates*	Additional \$600 per week for up to four months**; Extends eligibility to self-employed workers and independent contractors; up to 13 additional weeks of benefits <i>Expires December 2020</i>

\* States are normally required to cover half the costs of extended benefit programs. However, this requirement was suspended during the Great Recession and has currently been suspended through 2020, allowing full federal funding for extended benefits.

\*\* Expires July 2020.

# Impacts of Senate Bill 20-207

## Key provisions reducing the forecast fund balance:

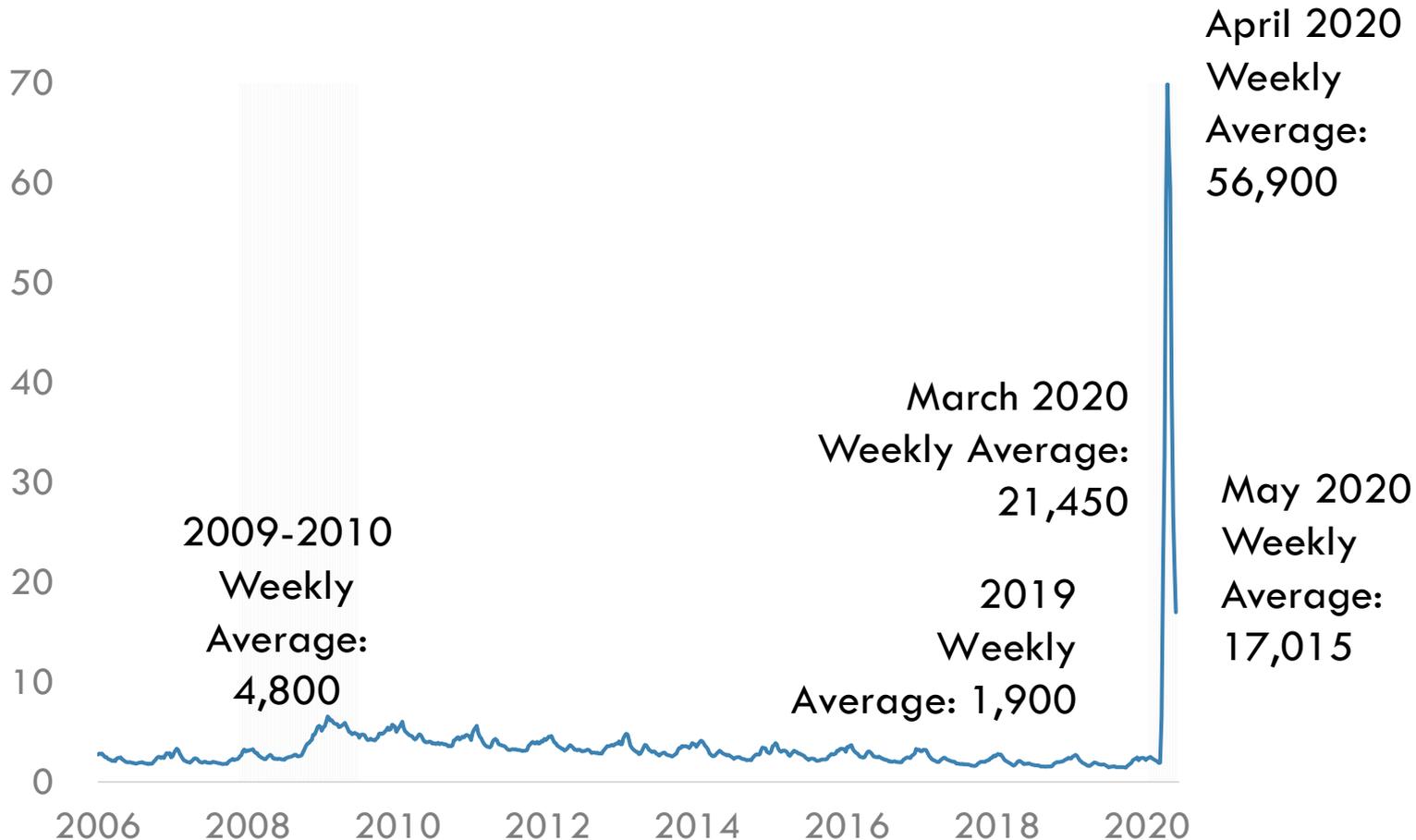
- Freezes the chargeable wage base at \$13,600 for 2021
- Suspends the solvency surcharge for calendar years 2021 and 2022

## Key provisions increasing the forecast fund balance:

- Increases the chargeable wage base incrementally beginning in 2022 to \$30,600 in 2026 and adjusts for changes in average weekly wages thereafter

# Colorado Initial Unemployment Claims

*Four-week Average, Thousands of Claims*



# Unemployment Insurance Trust Fund

## Revenues, Benefits Paid, and Fund Balance

*Dollars in Millions*

	Actual FY 2018-19	Estimate FY 2019-20	Estimate FY 2020-21	Estimate FY 2021-22
Beginning Balance	\$922.3	\$1,104.1	\$74.6	(\$1,606.8)
Plus Income Received				
UI Premium	\$523.0	\$531.5	\$644.1	\$713.5
Solvency Surcharge	\$0.0	\$0.0	\$0.0	\$0.0
Interest	\$23.3	\$21.1	\$0.0	\$0.0
<b>Total Revenues</b>	<b>\$546.3</b>	<b>\$552.6</b>	<b>\$644.1</b>	<b>\$713.5</b>
<b>Less Benefits Paid</b>	<b>(\$365.5)</b>	<b>(\$1,582.1)</b>	<b>(\$2,325.5)</b>	<b>(\$1,184.4)</b>
<b>Ending Balance</b>	<b>\$1,104.1</b>	<b>\$74.6</b>	<b>(\$1,606.8)</b>	<b>(\$2,077.8)</b>
Solvency Ratio*	0.87%	0.05%	-1.10%	-1.35%

Source: Legislative Council Staff June 2020 forecast. Totals may not sum due to rounding.

\*Fund balance as a share of total annual private wages.

# Questions?

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