



March 2019 | Legislative Council Staff  
**Economic & Revenue Forecast**

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Presentation to the Joint Budget Committee

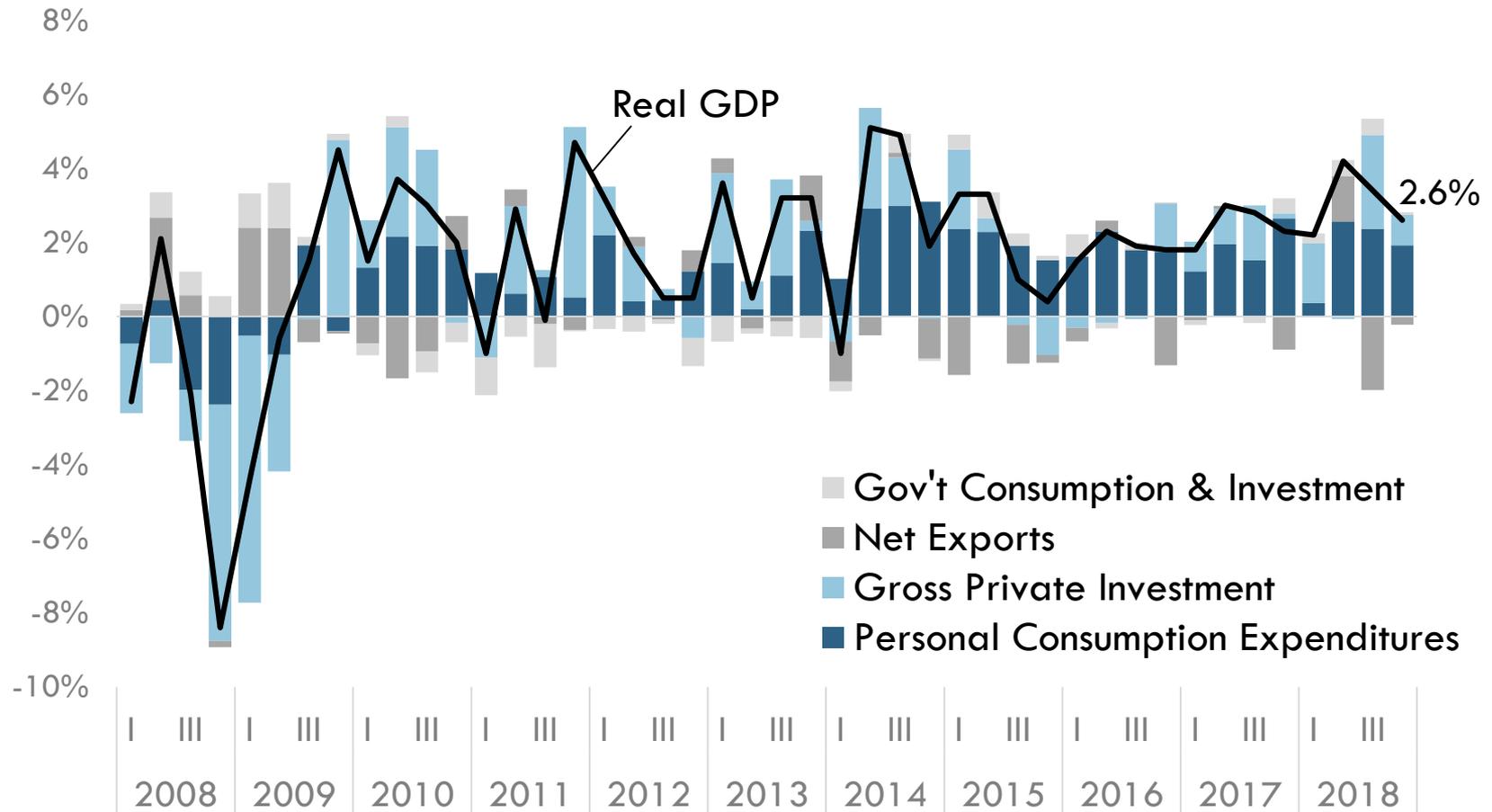
March 15, 2019

# Economic Outlook



# Economic activity continues to expand, but momentum has slowed

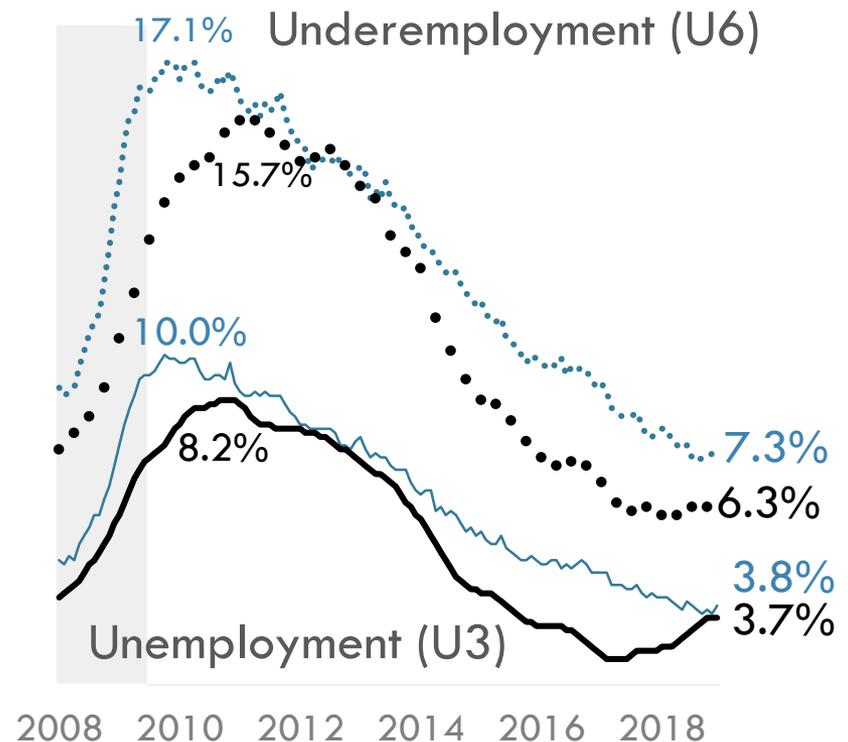
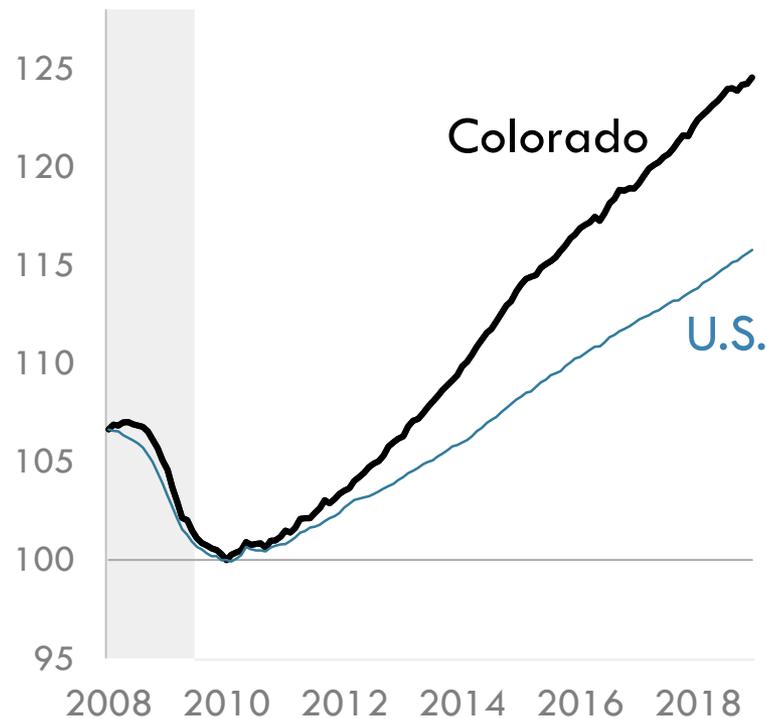
## Contributions to Real U.S. Gross Domestic Product (GDP)



# Employment growth is slowing as the labor market tightens

## Total Nonfarm Employment

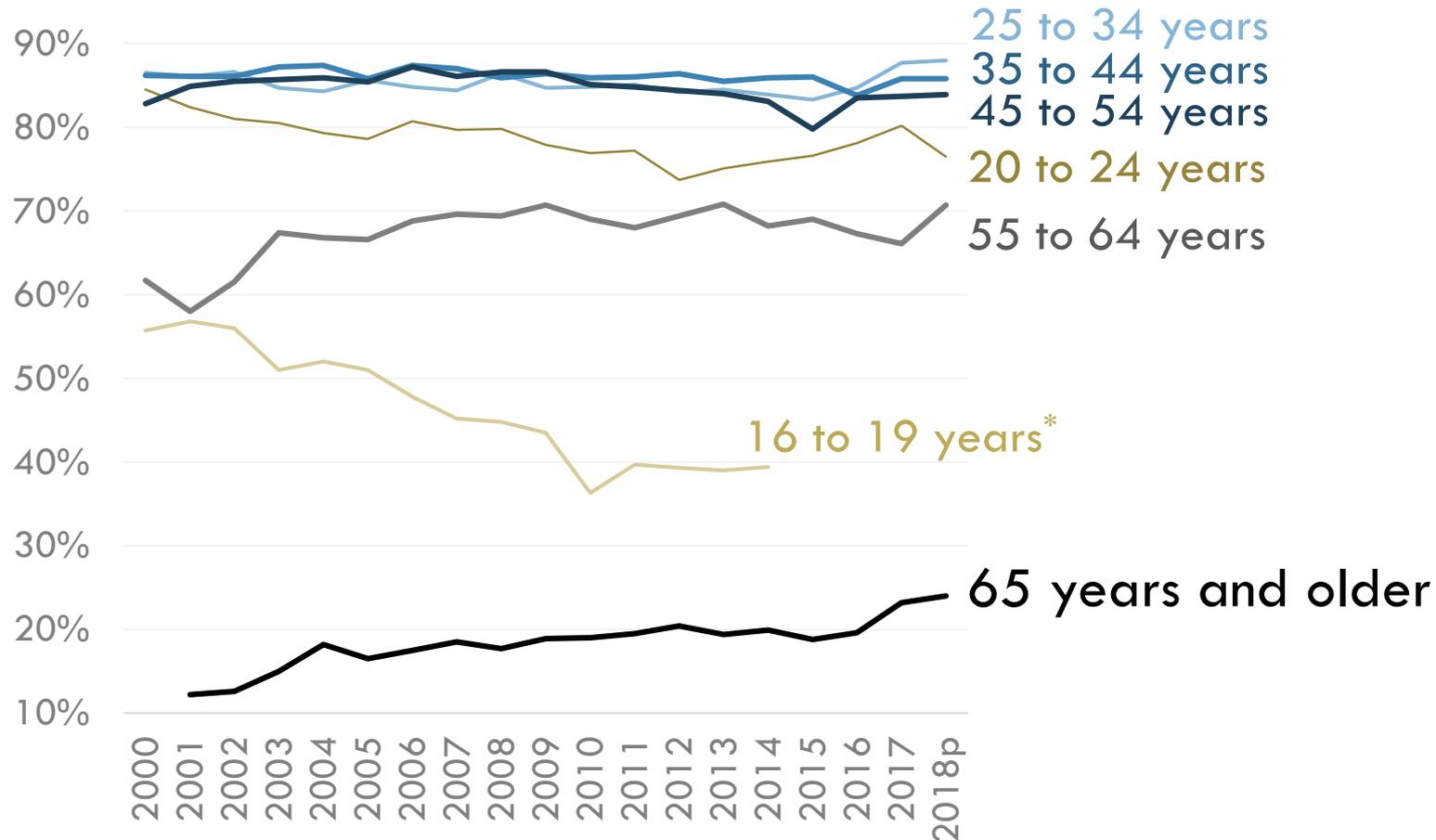
Index 100 = January 2010



Source: U.S. Bureau of Labor Statistics. Seasonally adjusted. Data are through February for the U.S. and January for Colorado. Colorado U6 rates shown as four-month moving averages.

# While labor force participation rates have risen, labor shortages persist in many industries

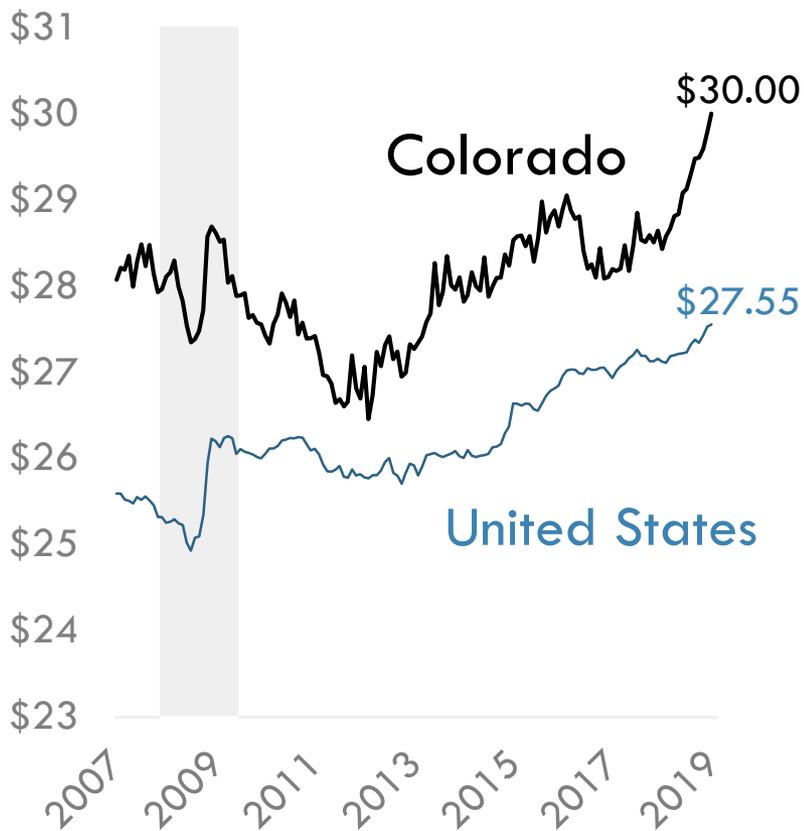
## Colorado Labor Force Participation Rates by Age



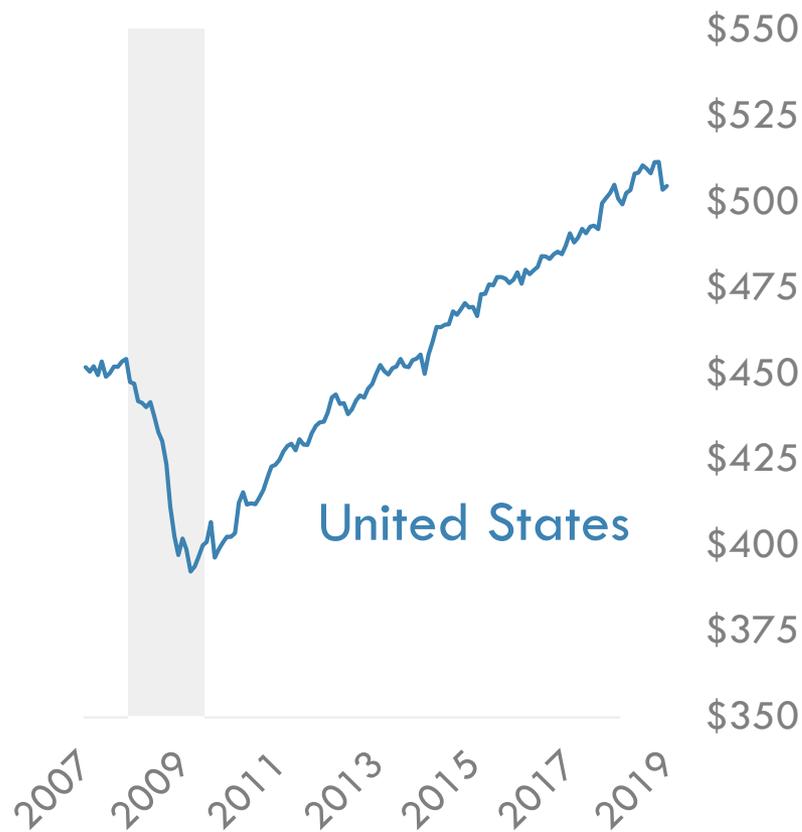
Source: U.S. Bureau of Labor Statistics. Annual data through 2018. Labor force as a share of the civilian population over age 16. p = Preliminary. \*Data are not available after 2014.

# Wages are rising, yet consumer activity has slowed

Real Average Hourly Earnings  
2019 Dollars



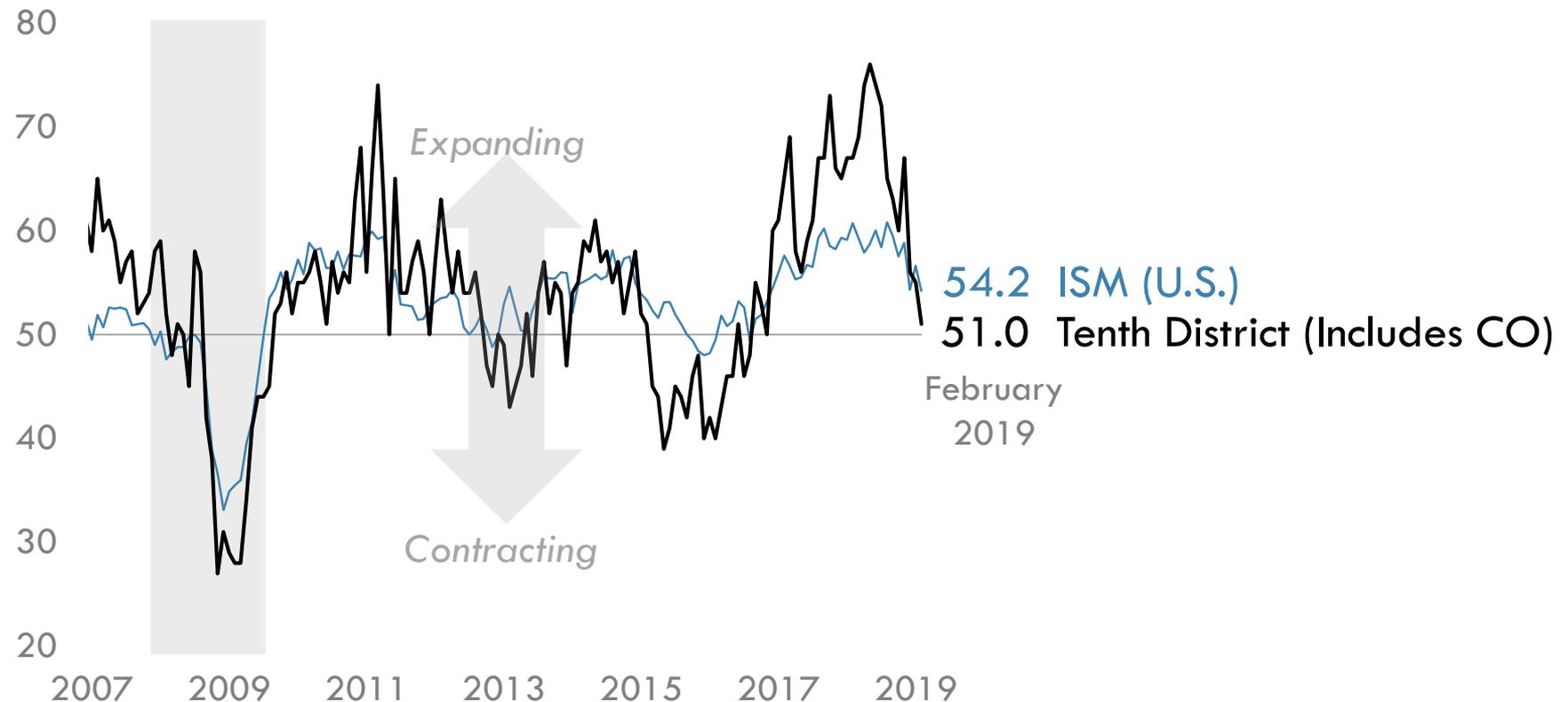
Real Retail Sales  
Billions of 2019 Dollars



Source: U.S. Bureau of Labor Statistics and U.S. Census Bureau. Data are inflation adjusted using the CPI-U average for all U.S. cities. Data are seasonally adjusted and through January 2019.

# Manufacturing activity has slowed considerably on lower crude oil prices and the global economic slowdown

## Manufacturing Activity Diffusion Indices

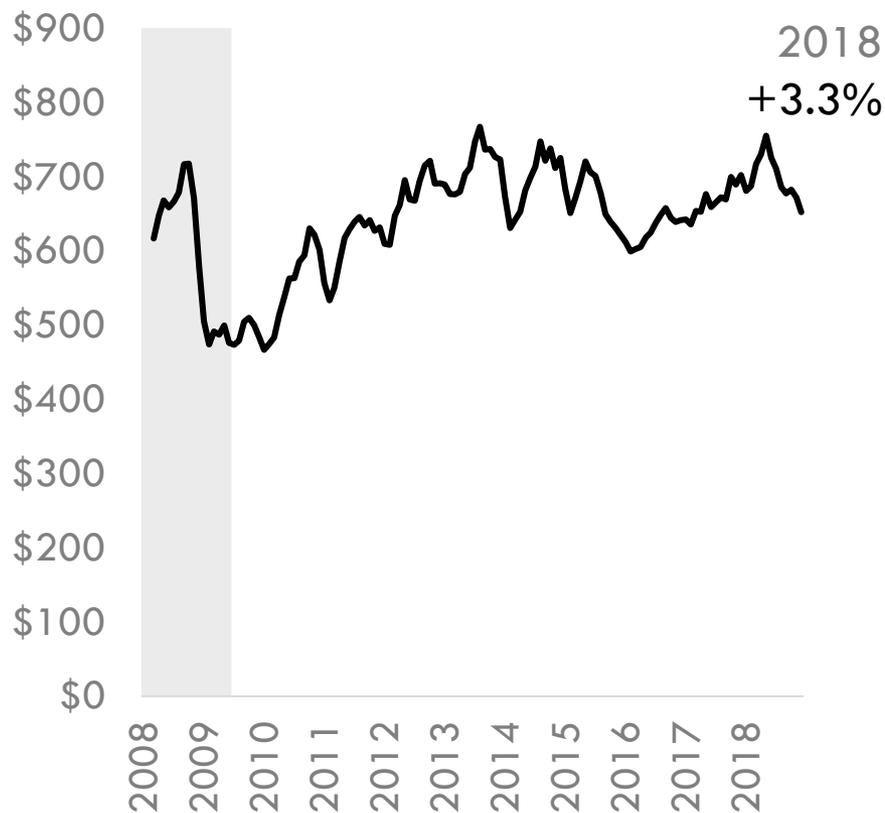


Source: Institute for Supply Management and Federal Reserve Bank of Kansas City.  
The Tenth District composite index is adjusted to the ISM scale.

# Trade tensions pose ongoing uncertainty for several industries, impacting supply chain, demand, and prices

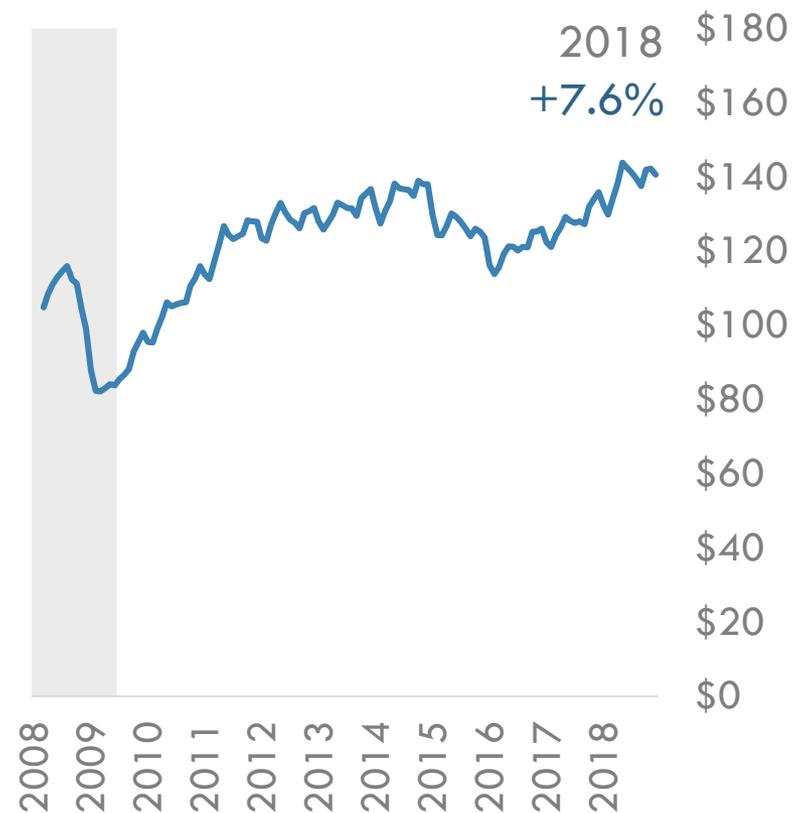
## Colorado Exports

Millions



## U.S. Exports

Billions



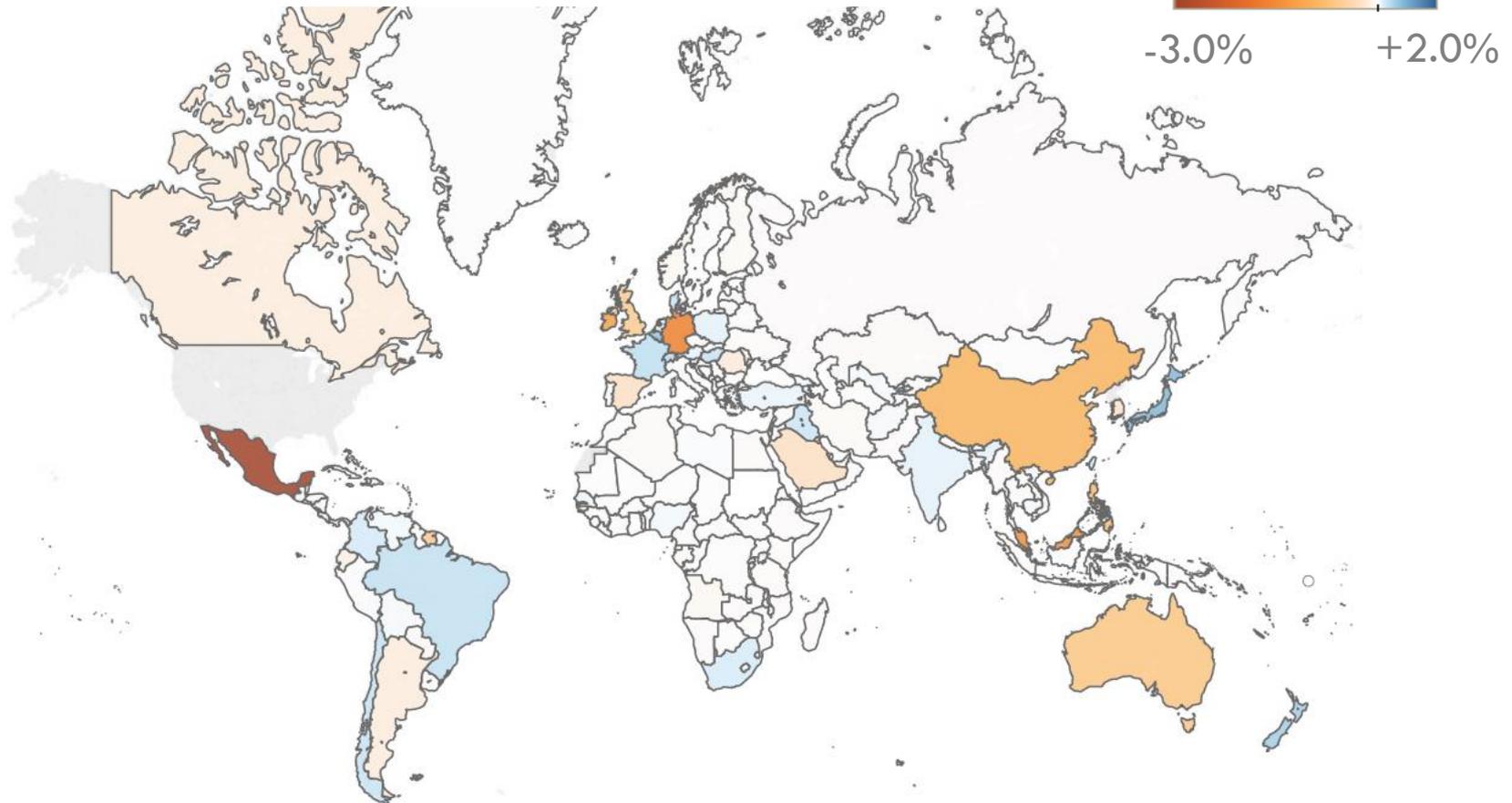
Source: WiserTrade. Monthly exports, three month moving average.

# Tariffs and the global economic slowdown are dampening Colorado export activity

## Contribution to Change in Colorado Exports

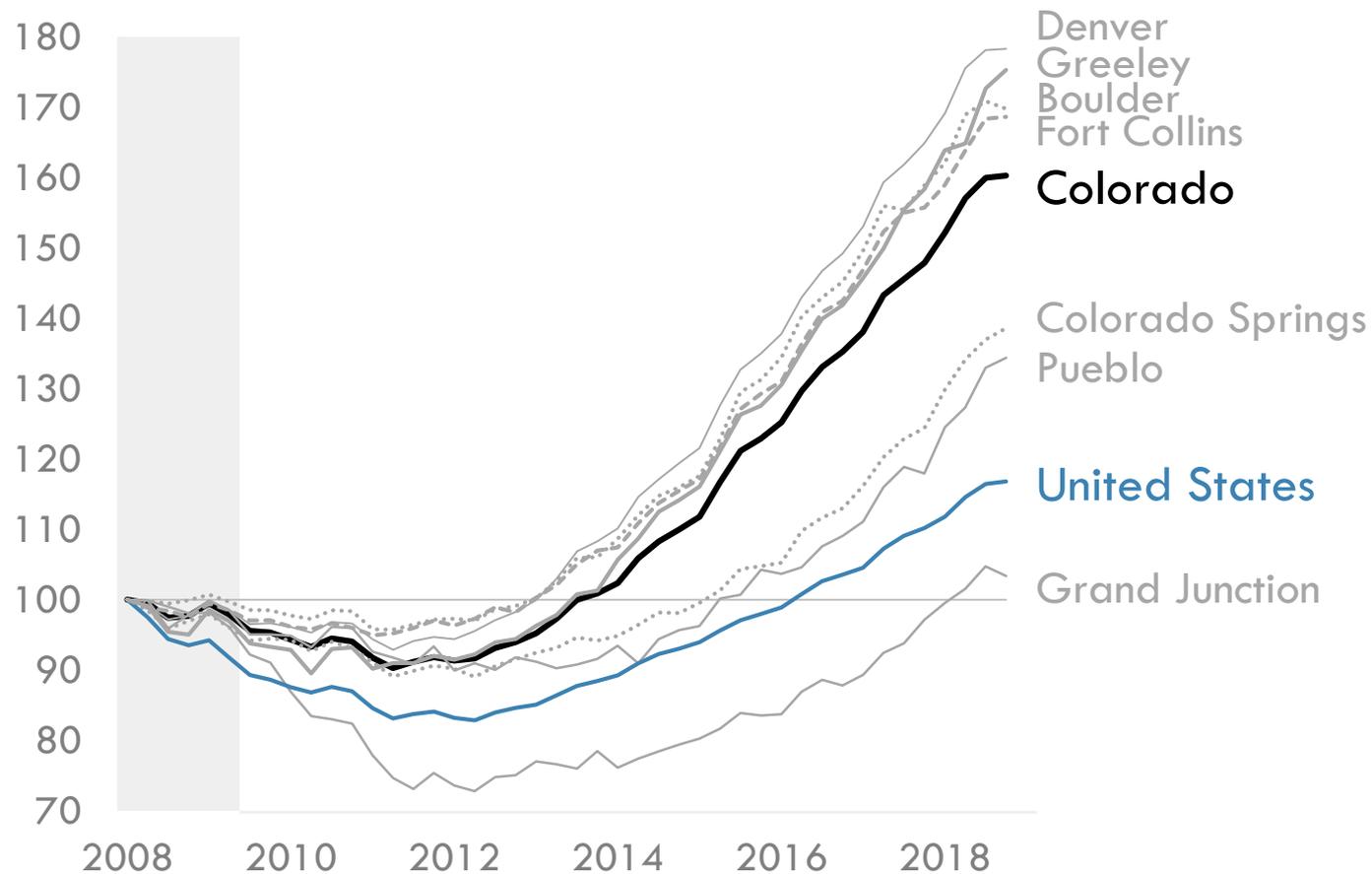
Year-over-Year Percent Change, 2018Q4 over 2017Q4

-7.1% in 2018Q4 over year-ago levels



# Home price appreciation has slowed considerably in the higher-cost areas of the state

FHFA Home Price Indices  
*Index 100 = January 2008*



Source: Federal Housing Finance Agency (FHFA). FHFA data are seasonally adjusted data through 2018Q4.

# Economic Summary

## Economic activity remains elevated but has slowed

- Growth will continue to moderate through 2021
  - Labor market shortages will dampen business growth
  - Global economic slowdown

## Uncertainties remain elevated

- Trade tensions, policy uncertainty, and slower economic activity have led to a shift toward more cautious optimism among investors and consumers

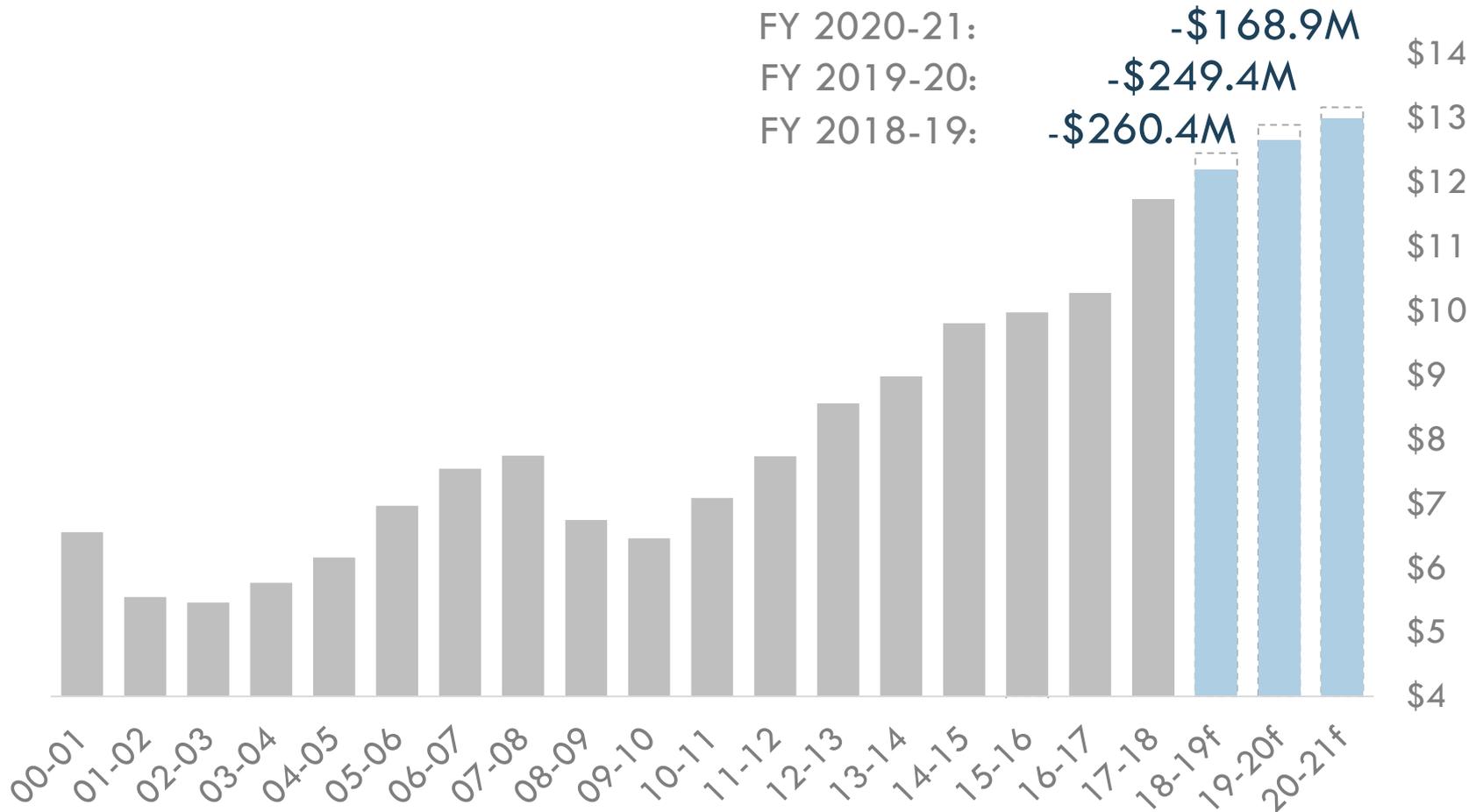
# General Fund Budget Outlook



# Revenue expectations were reduced on lower than expected collections to date and a slower economic outlook

Gross General Fund Revenue  
Billions of Dollars

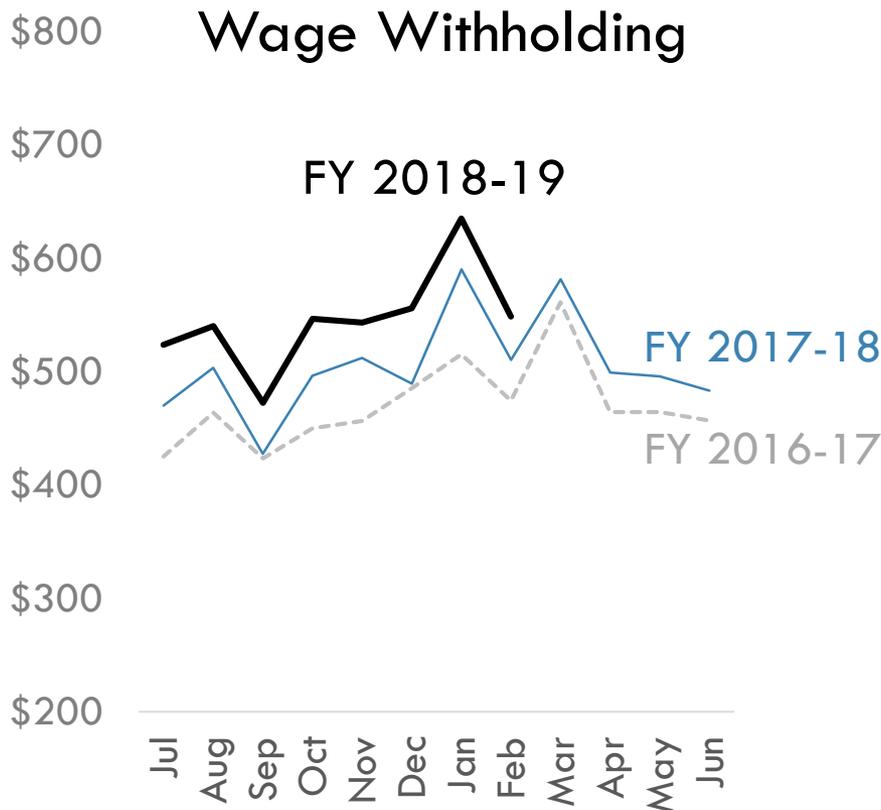
Change Relative to December



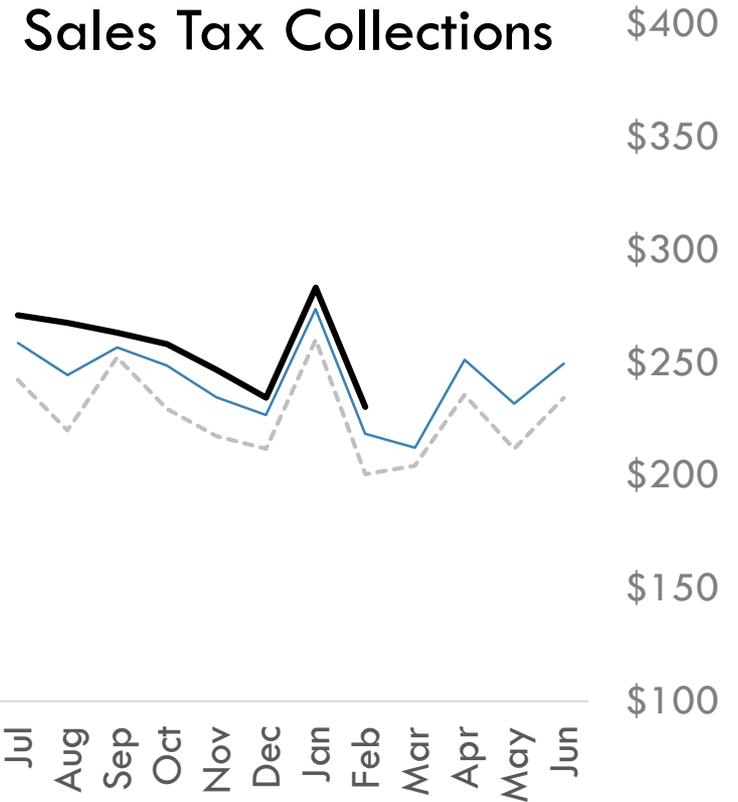
# Growth in wage withholding remains strong, while sales tax collections growth has slowed

## Monthly State Revenue Collections

Millions



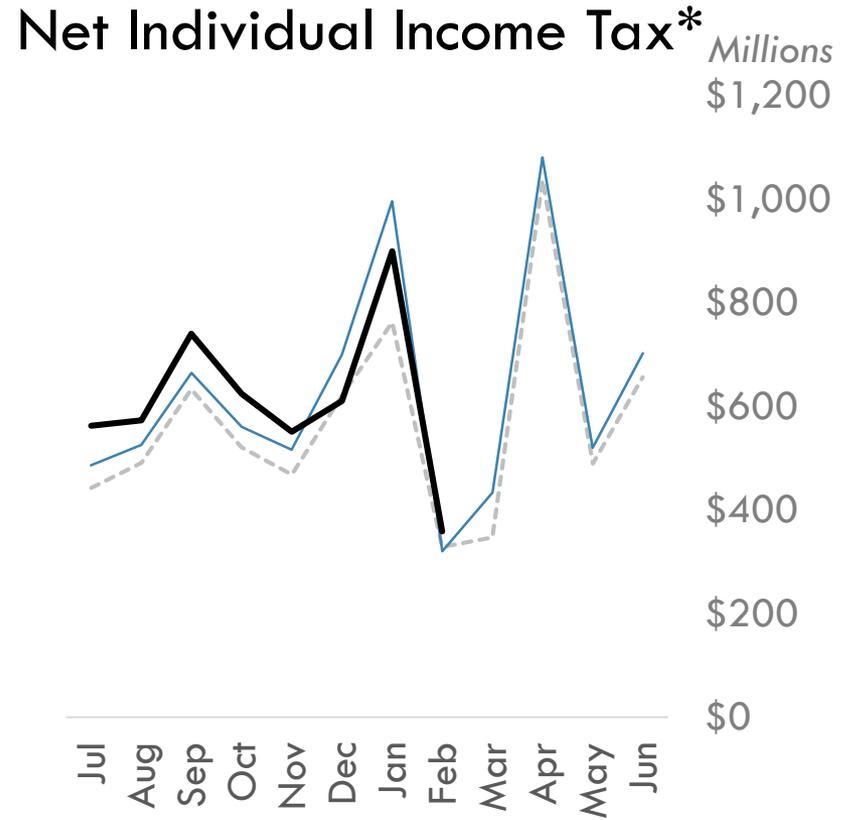
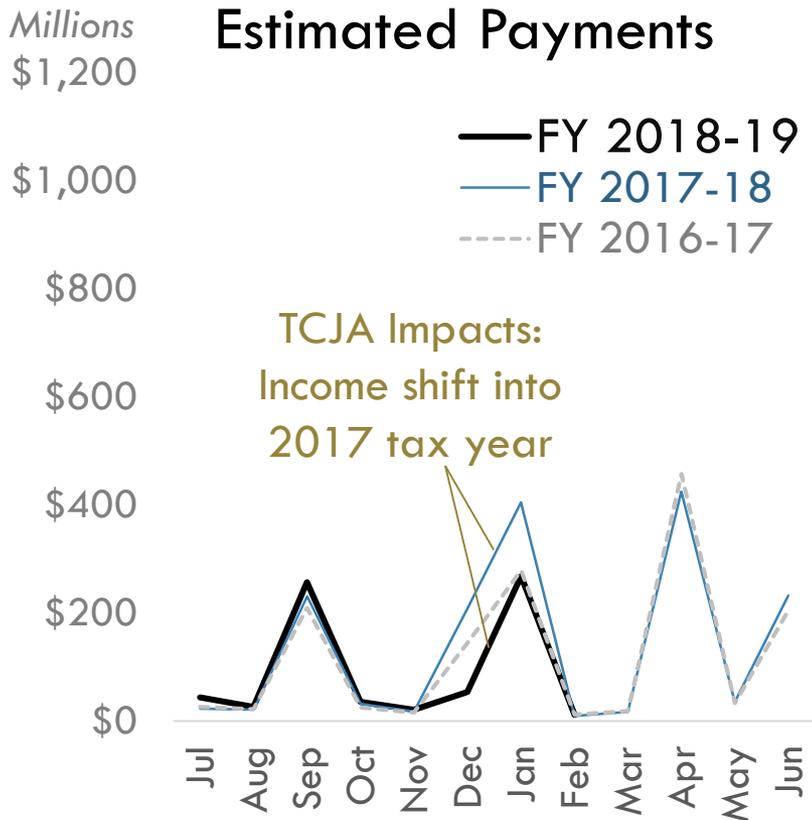
Millions



Source: Colorado Office of the State Controller and Department of Revenue. Monthly collections shown on a cash basis. February data are preliminary.

# Estimated payments of individual income tax are the largest source of General Fund forecast volatility

## Monthly State Revenue Collections



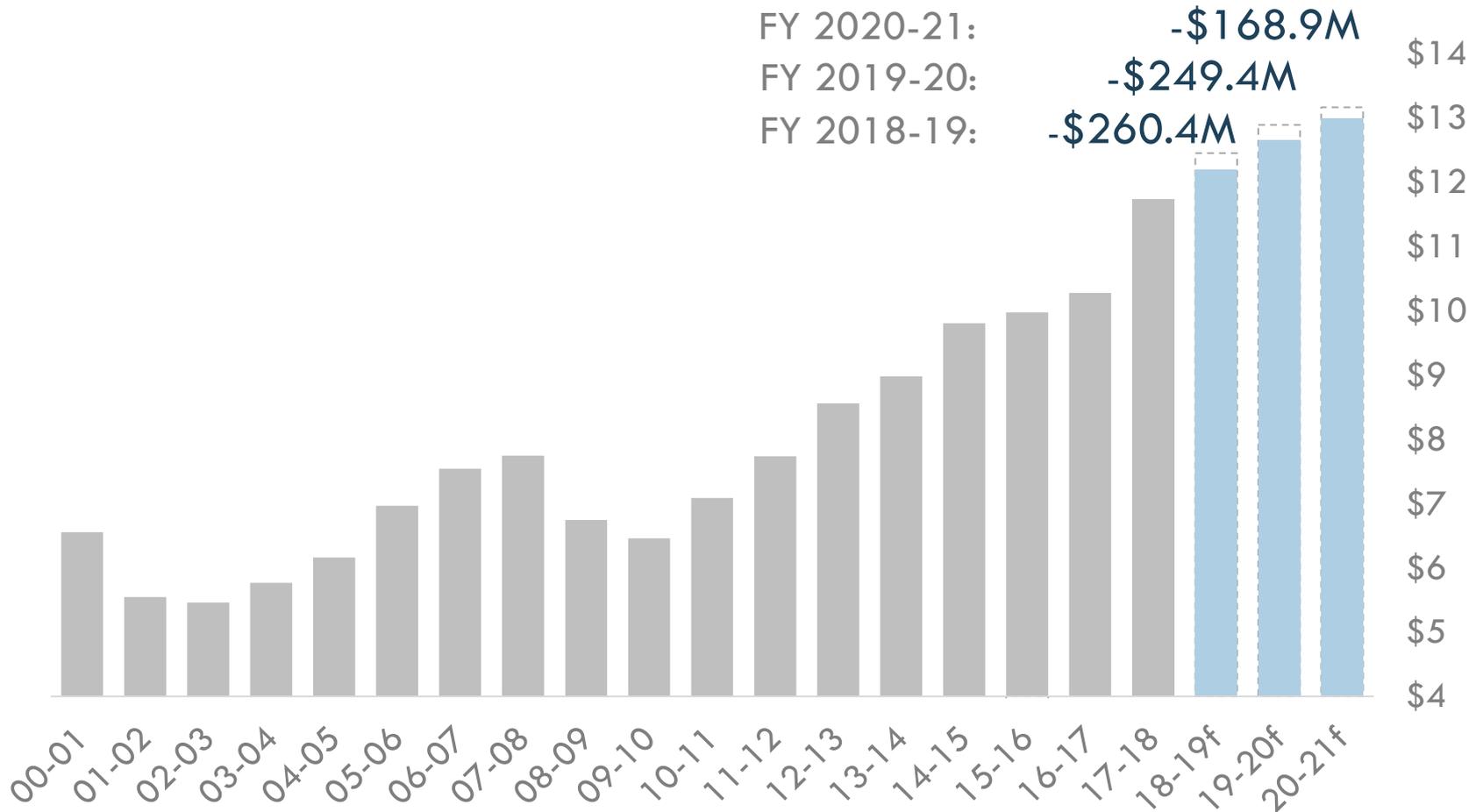
Source: Colorado Office of the State Controller and Department of Revenue. Monthly collections shown on a cash basis. February data are preliminary.

\*Wage withholding, estimated payments, and cash with returns, minus refunds.

# Revenue expectations were reduced on lower than expected collections to date and a slower economic outlook

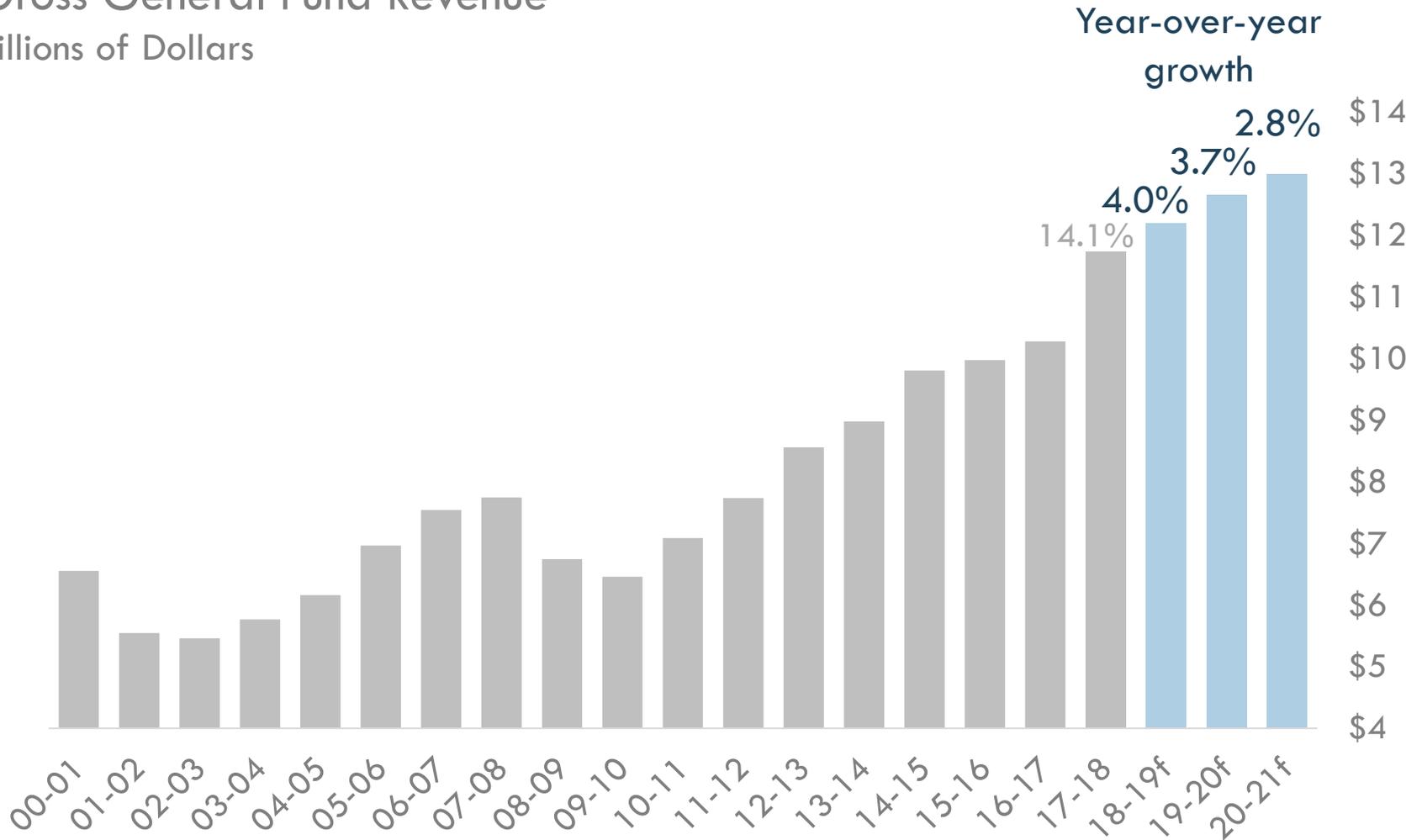
Gross General Fund Revenue  
Billions of Dollars

Change Relative to December



# Revenue growth is expected to moderate throughout the forecast period

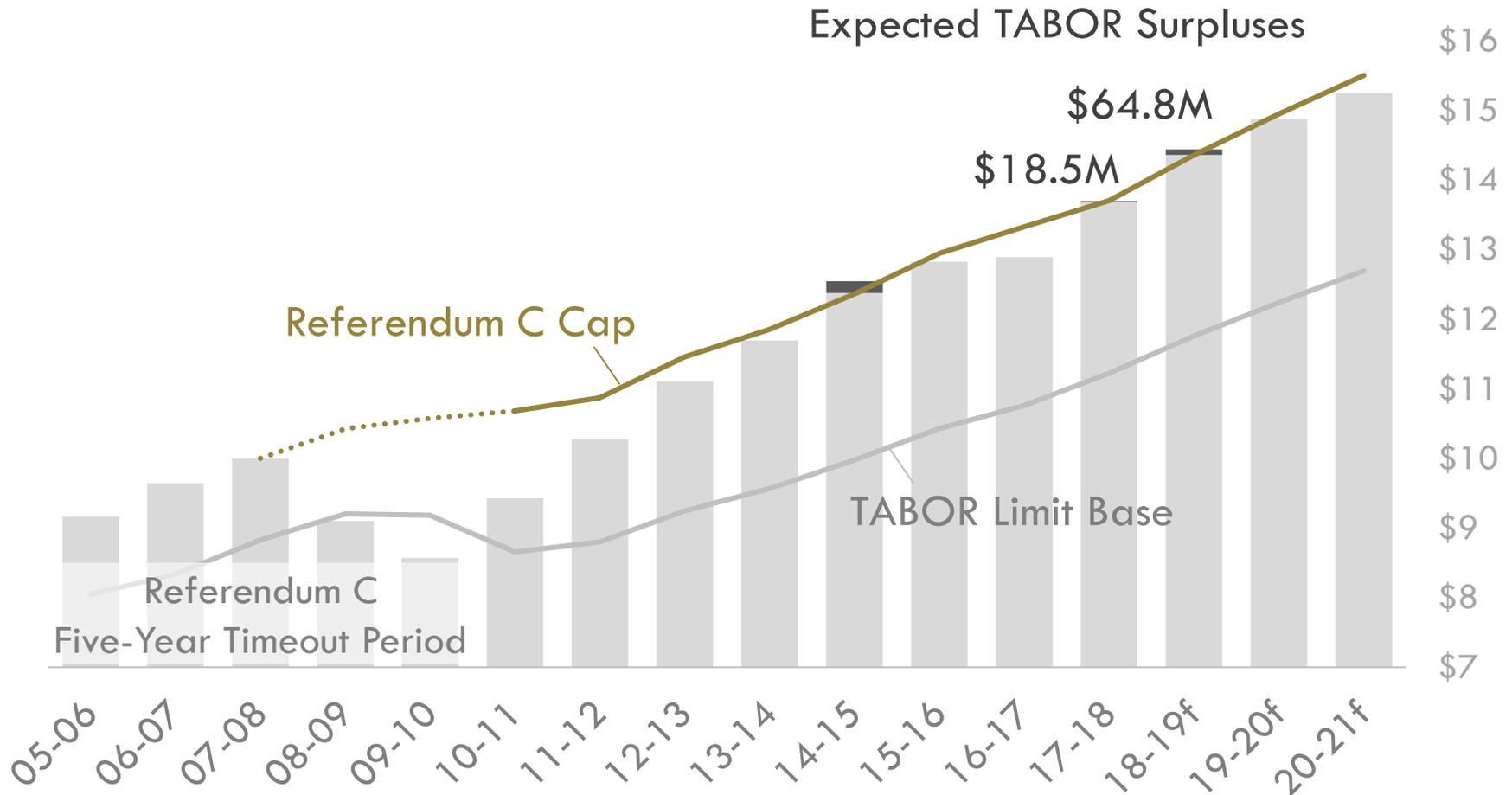
Gross General Fund Revenue  
Billions of Dollars



# TABOR Outlook

Revenue Subject to TABOR

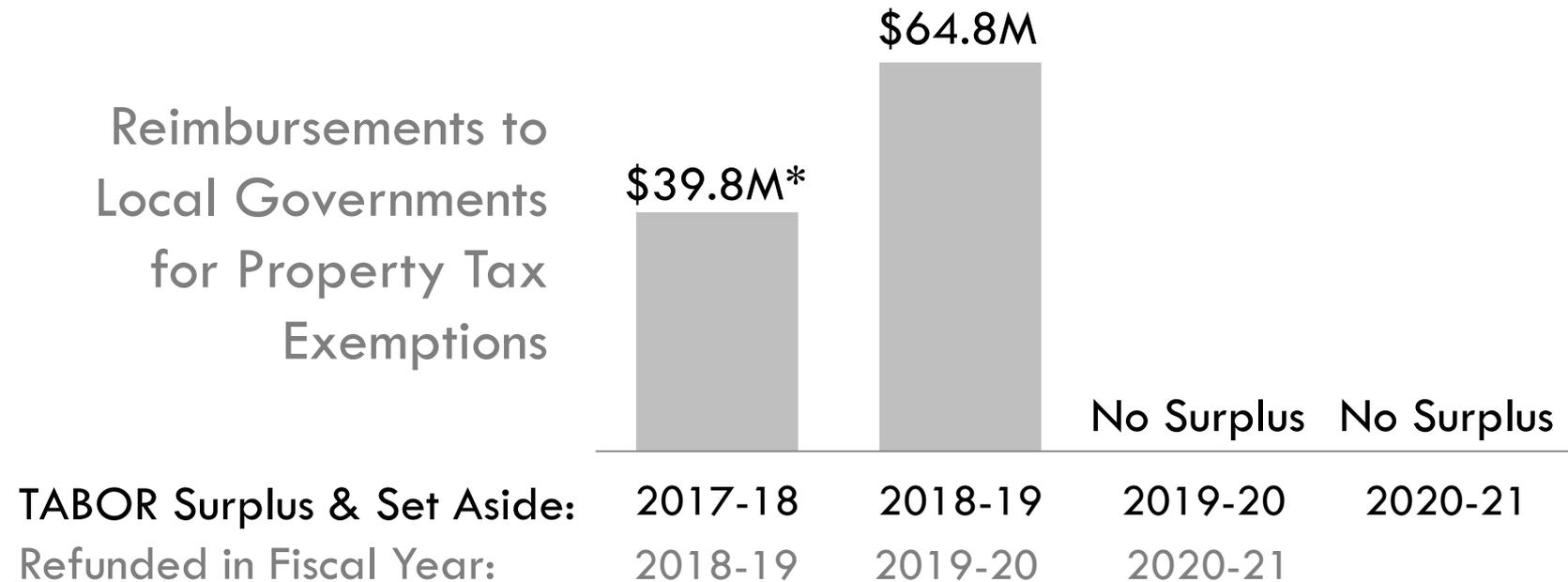
Dollars in Billions



TABOR surplus revenue is set aside in the year in which a surplus occurs to pay refunds in the following budget year

## Expected TABOR Refunds & General Fund Budget Impacts

Dollars in Millions

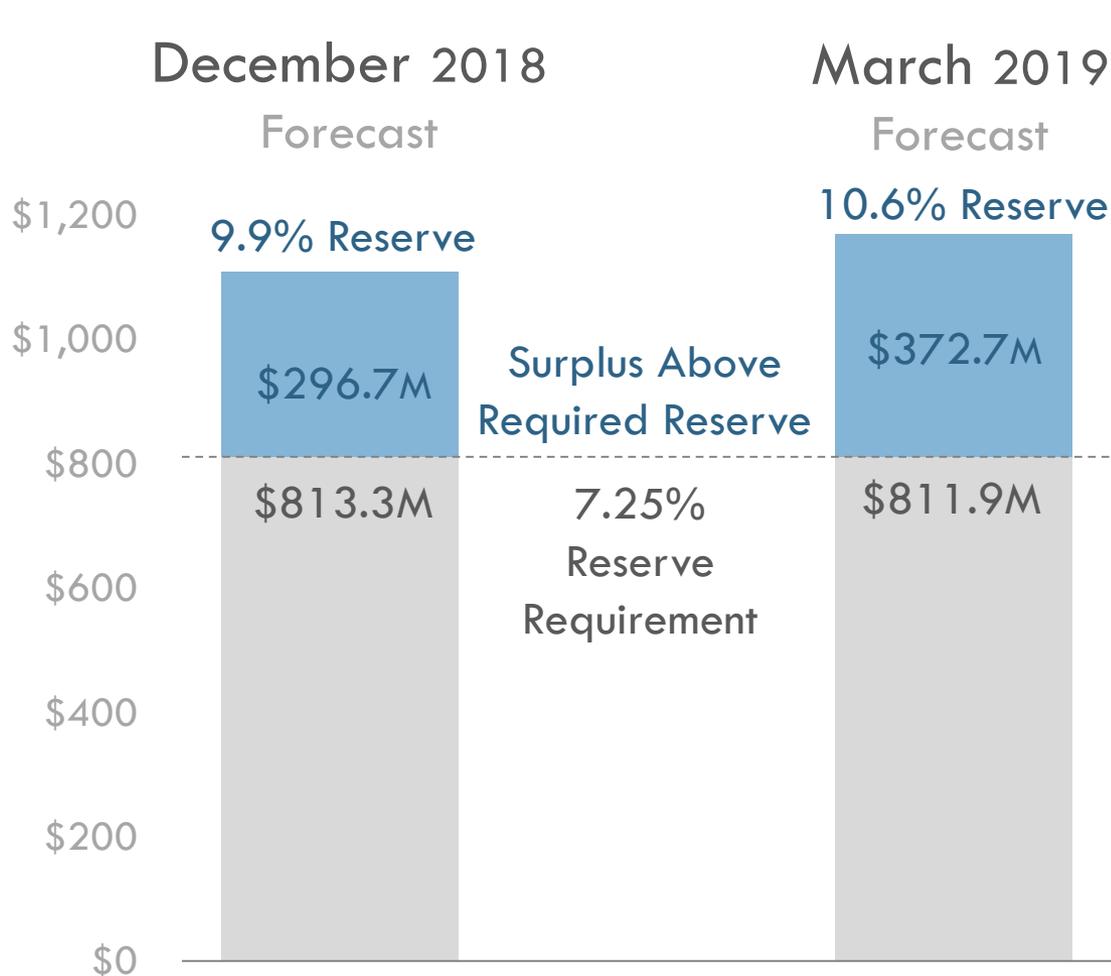


Source: Colorado Office of the State Controller and Legislative Council Staff March 2019 forecast.

\*This amount includes the \$18.5 million FY 2017-18 surplus and \$21.3 million in under-refunds from the FY 2014-15 surplus.

# Current Year | FY 2018-19 General Fund Reserve

Dollars in Millions



While revenue expectations were reduced, the budget situation improved.

Changes from December:  
+\$76.0 million

+\$13.7 million in TABOR exempt Wells Fargo settlement moneys

-\$19.3 million spending from FY 2018-19 supplemental package

-\$41.7 million TABOR refund obligation on lower cash fund revenue expectations

# Next Year | FY 2019-20 Budget Outlook

General Fund available above FY 2018-19 appropriations to spend, save, or return to taxpayers

\$1.18 billion\*



\*Reflects revenue expectations and transfers required under current law for FY 2019-20. Since a budget has not yet been set for FY 2019-20, this amount assumes FY 2018-19 appropriations and reserve requirements. Any changes to current law, including FY 2018-19 appropriations, will result in changes to this amount.

# Risks to the Forecast

- **Elevated uncertainty in FY 2018-19 and FY 2019-20**
  - Expect surprises as taxpayers adjust to federal tax policy changes
  - Out-of-state sales tax collections pose upside risks
- **With close proximity to the Referendum C cap...**
  - Upside surprises mean (larger) TABOR refunds
  - Downside surprises mean fewer funds available
- **Longer-term risks are skewed to the downside**
  - Slower growth and rising risk of recession as the economic expansion matures

# Questions?

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