



September 2019 | Legislative Council Staff
Economic & Revenue Forecast

Presentation to the Joint Budget Committee

September 20, 2019

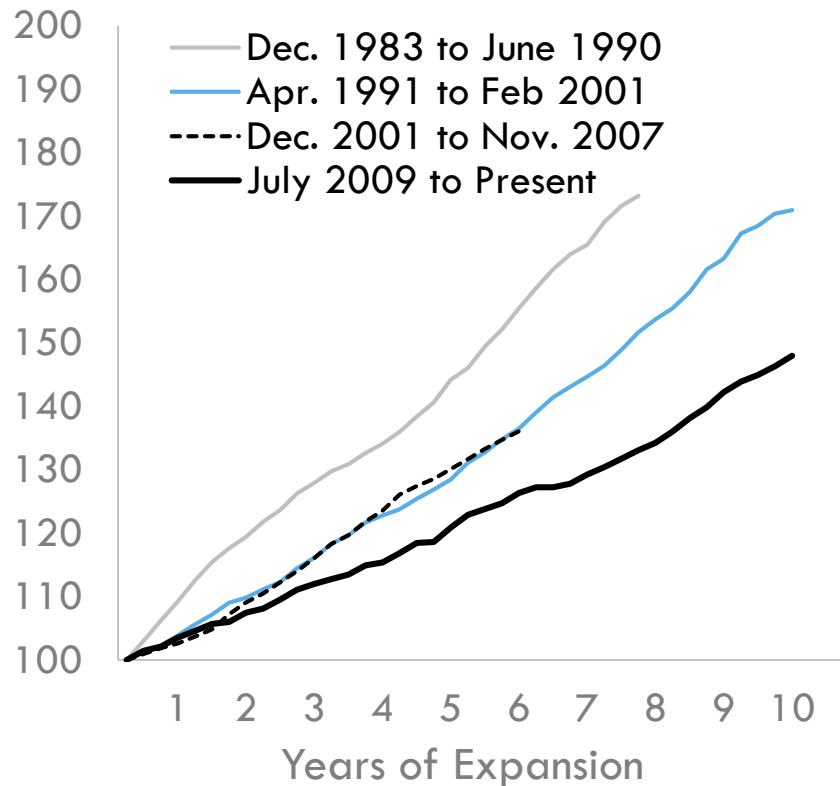
Economic Outlook



Longest, and weakest, expansion on record

Index of GDP Growth During Expansions

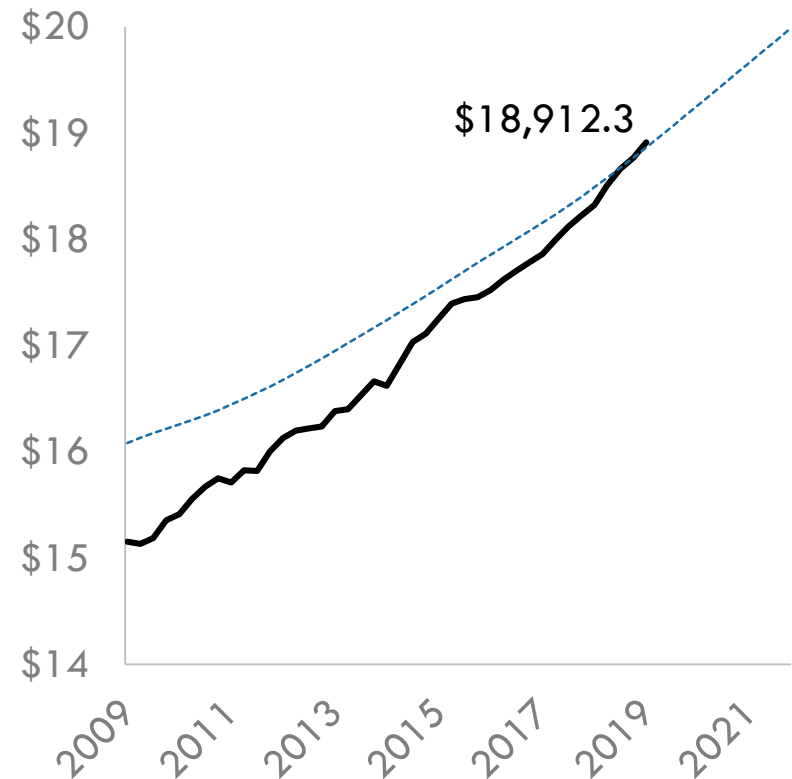
100 = Start of expansion



Source: U.S. Bureau of Economic Analysis.

Real vs. Potential GDP

Trillions of dollars

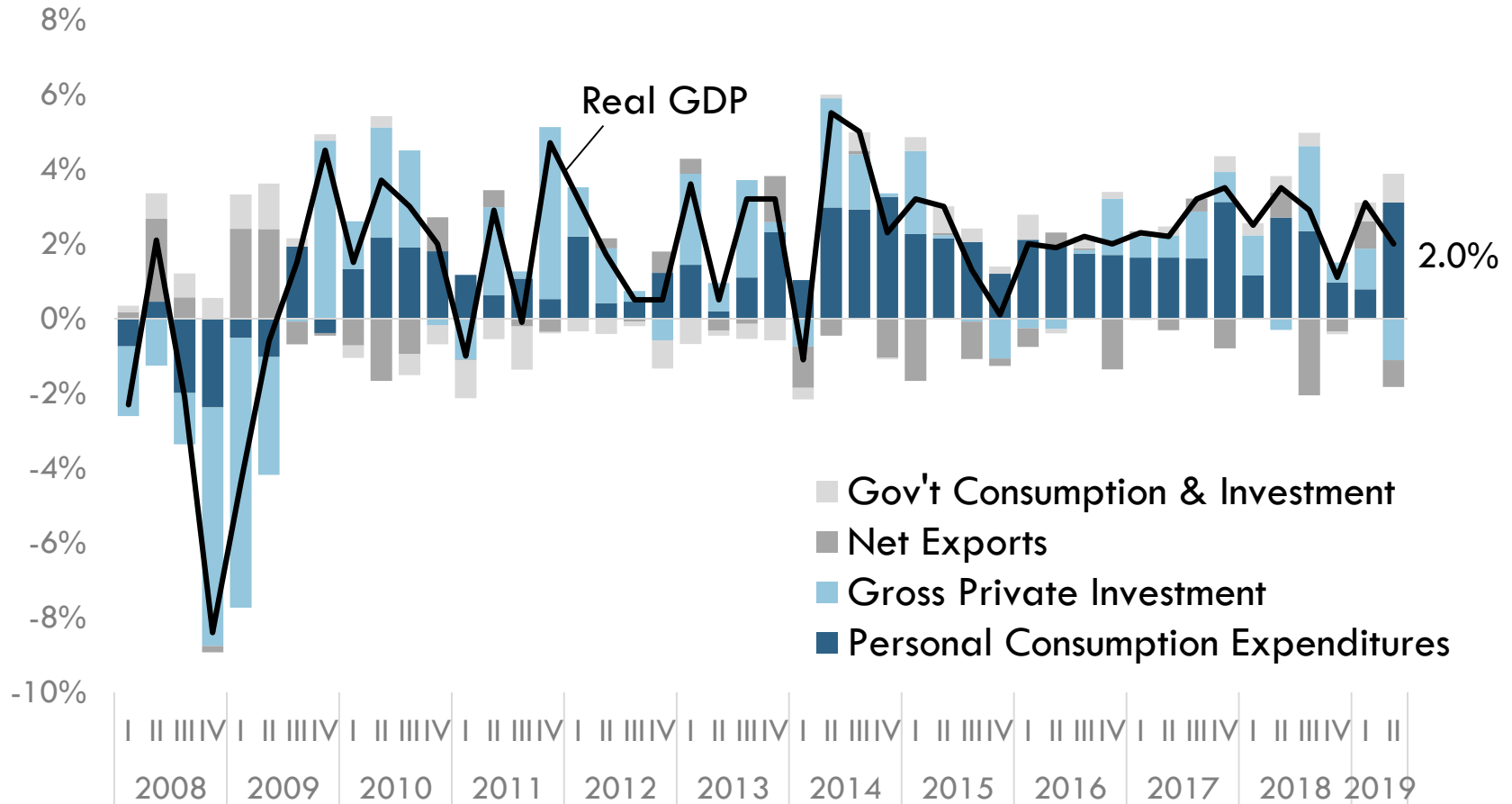


Source: U.S. Bureau of Economic Analysis and Congressional Budget Office.

Consumers still hitting the gas, while businesses hit the brakes

Contributions to Real Gross Domestic Product (GDP)

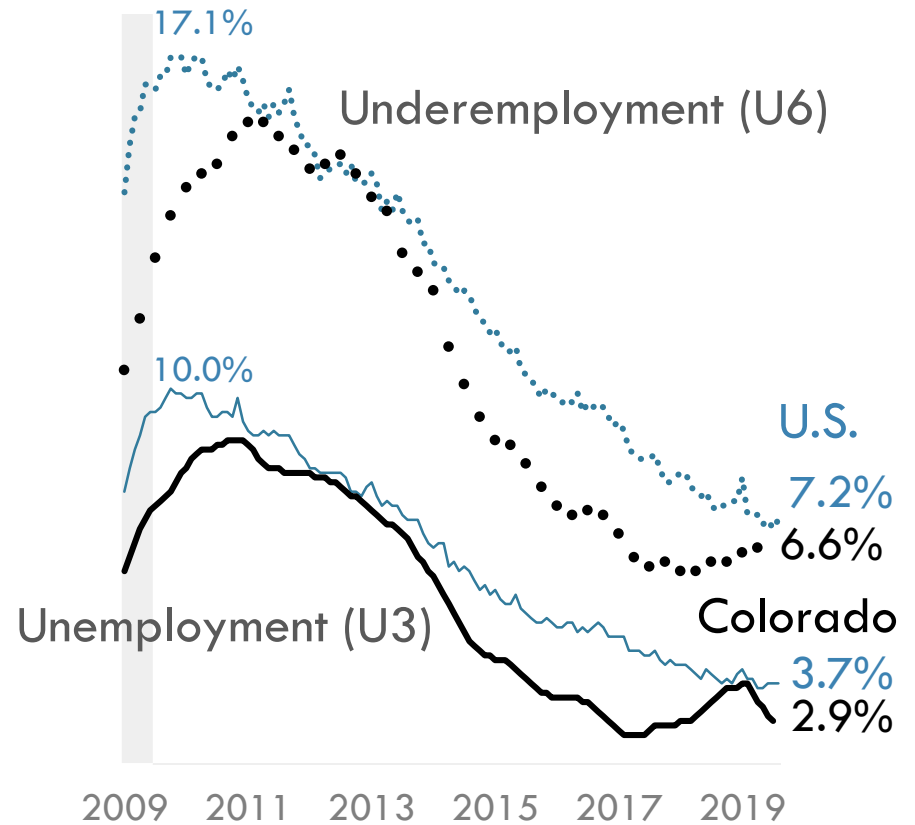
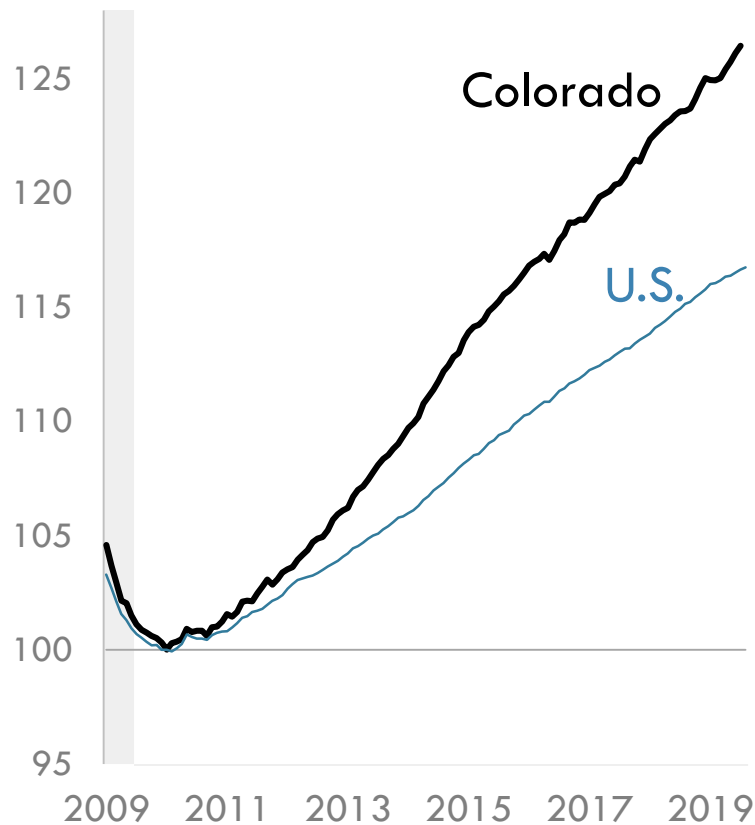
Annualize Change over the Prior Quarter



Employment growth remains strong, pressuring labor markets

Total Nonfarm Employment

Index 100 = January 2010

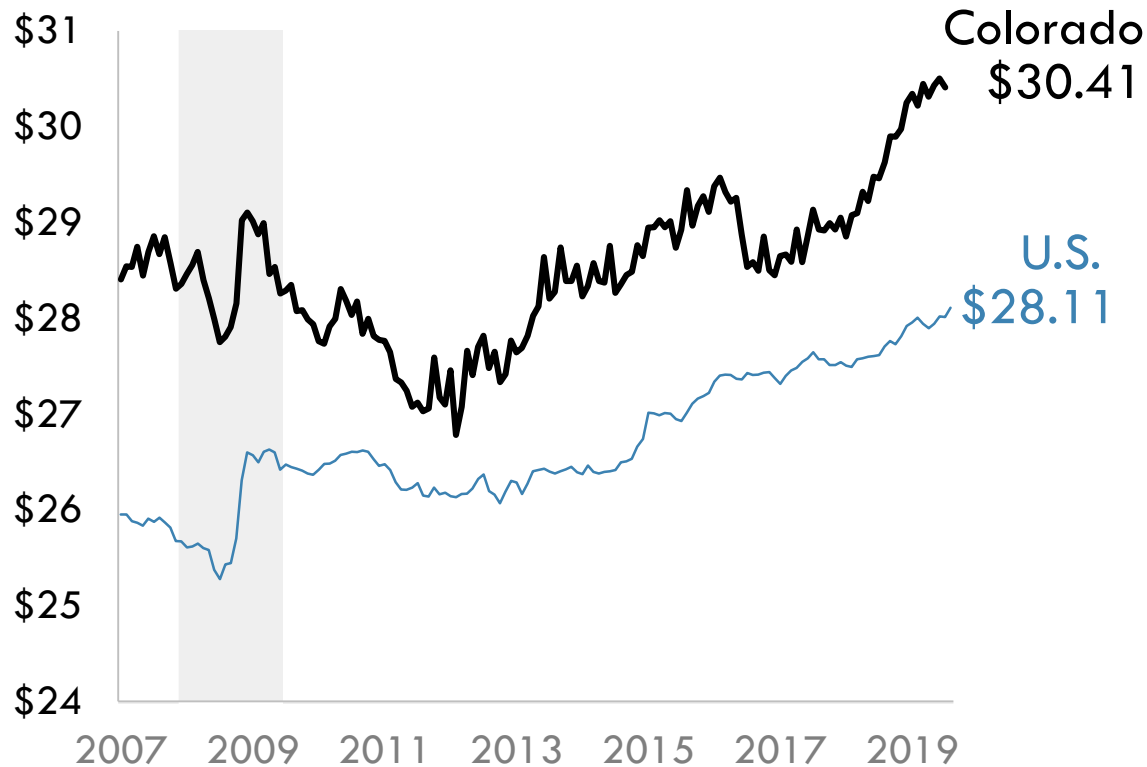


Source: U.S. Bureau of Labor Statistics. Seasonally adjusted. Colorado U6 rates shown as four-month moving averages.

Nonfarm employment estimates include estimates of revisions expected by LCS as a part of the annual rebenchmark process.

And pushing wages higher

Real Average Hourly Earnings 2019 Dollars

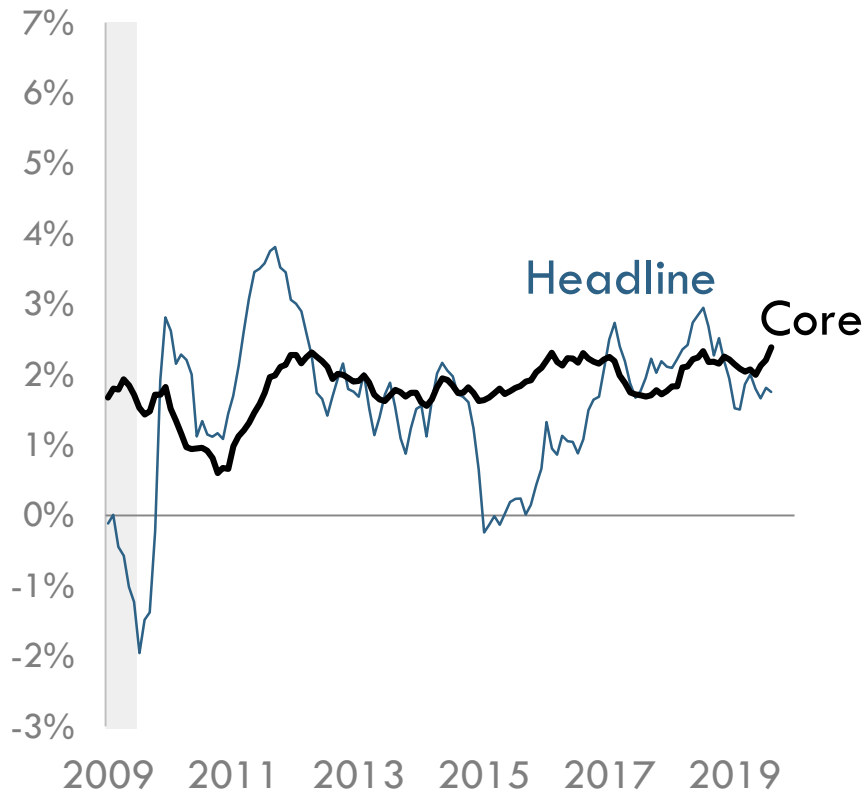


Source: U.S. Bureau of Labor Statistics. Seasonally adjusted. Adjusted for inflation using the CPI-U for all urban areas.

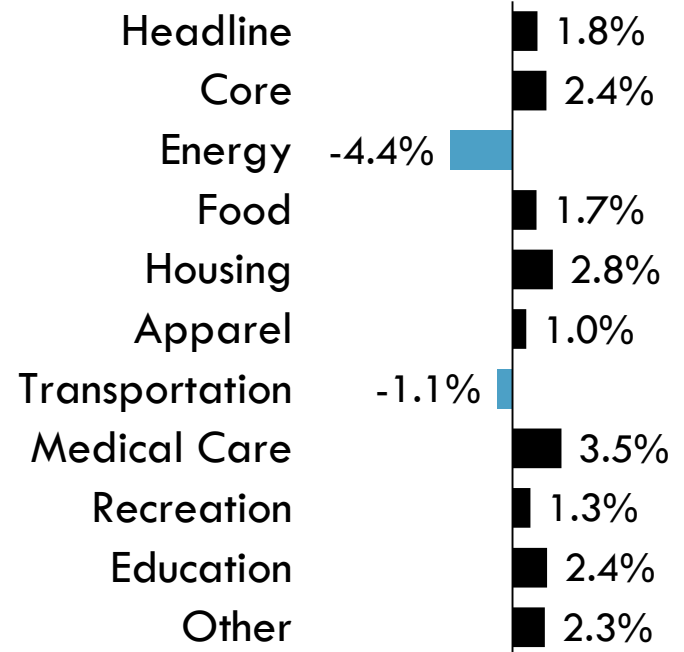
Inflation is slowly picking up speed

CPI-U Inflation, U.S. City Average

Year-over-Year Change in Prices



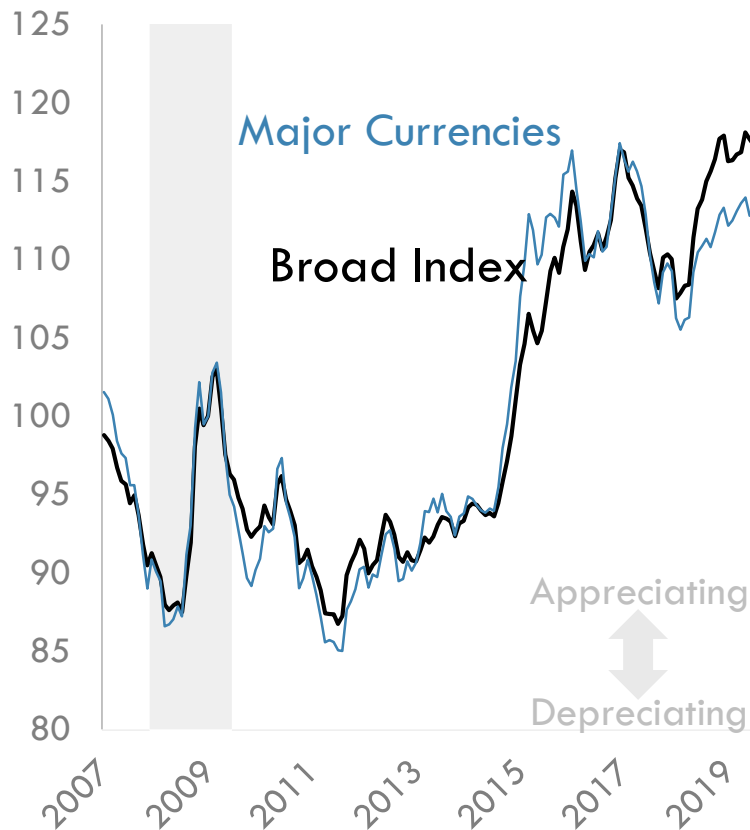
August 2019 over August 2018



A strong dollar helps consumers, hurts exporters

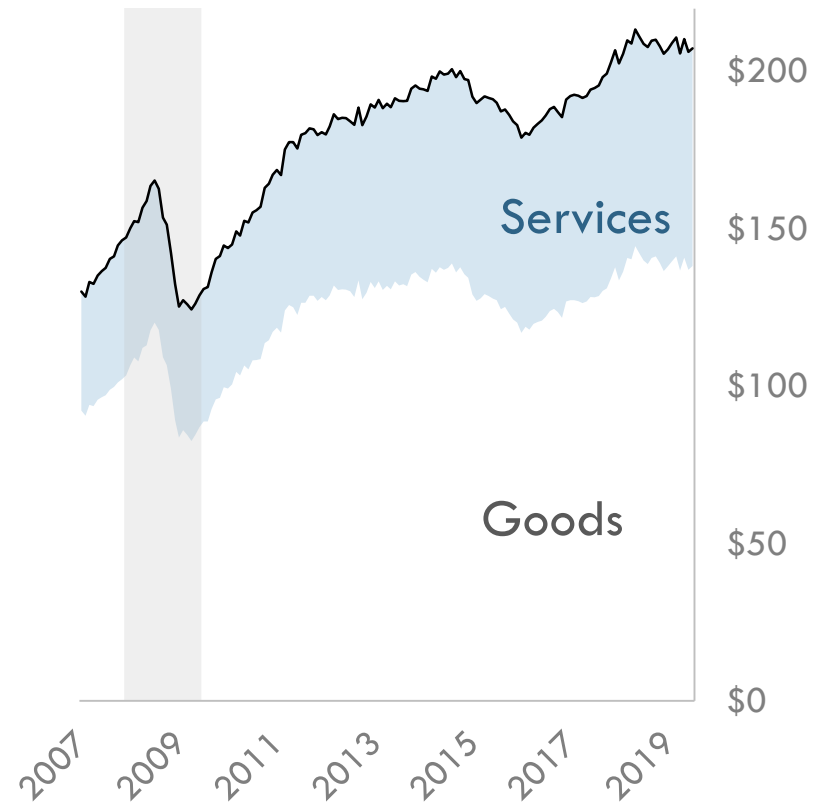
Trade Weighted U.S. Dollar

Index of the Dollar to Foreign Currencies



U.S. Exports

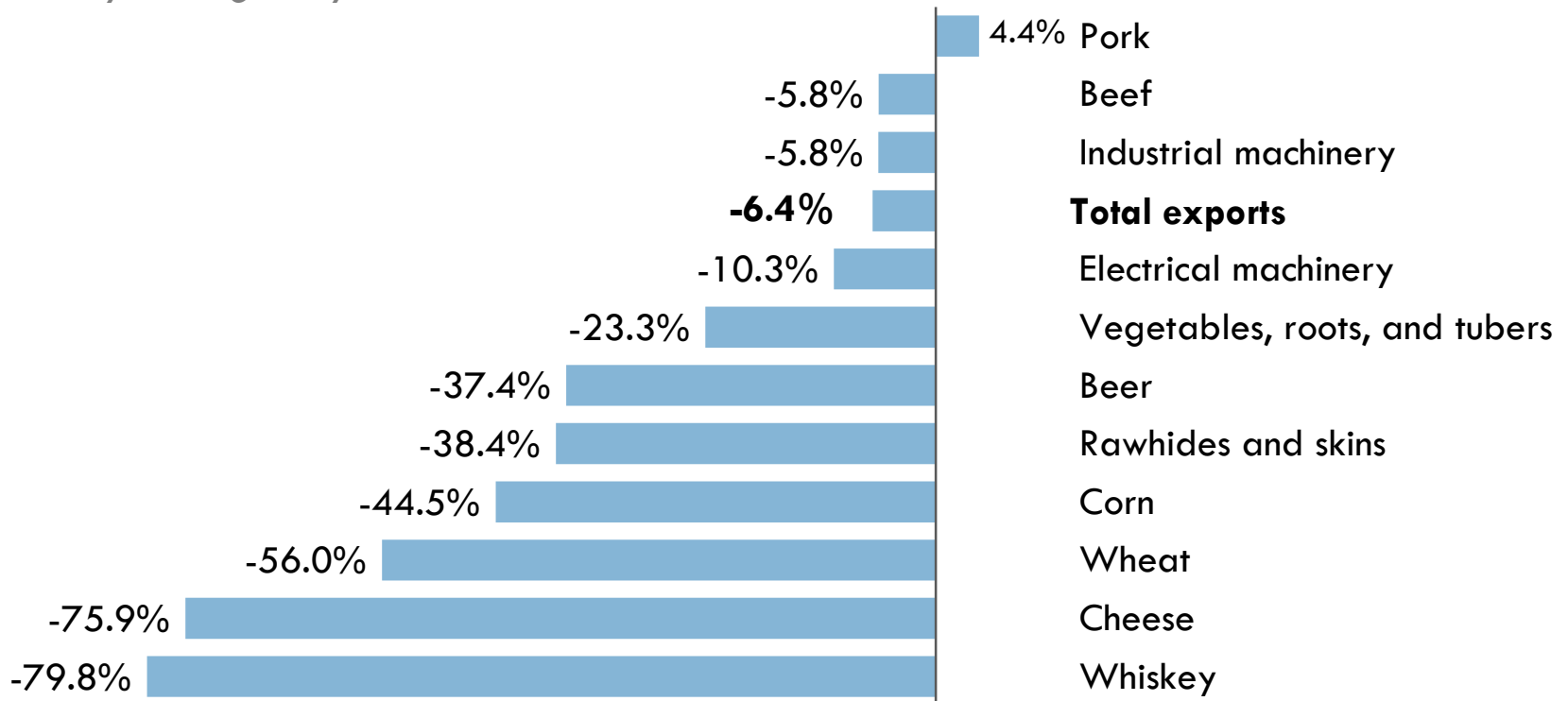
Millions of Dollars



Tariffs are hurting some Colorado exports

Change in Colorado Exports

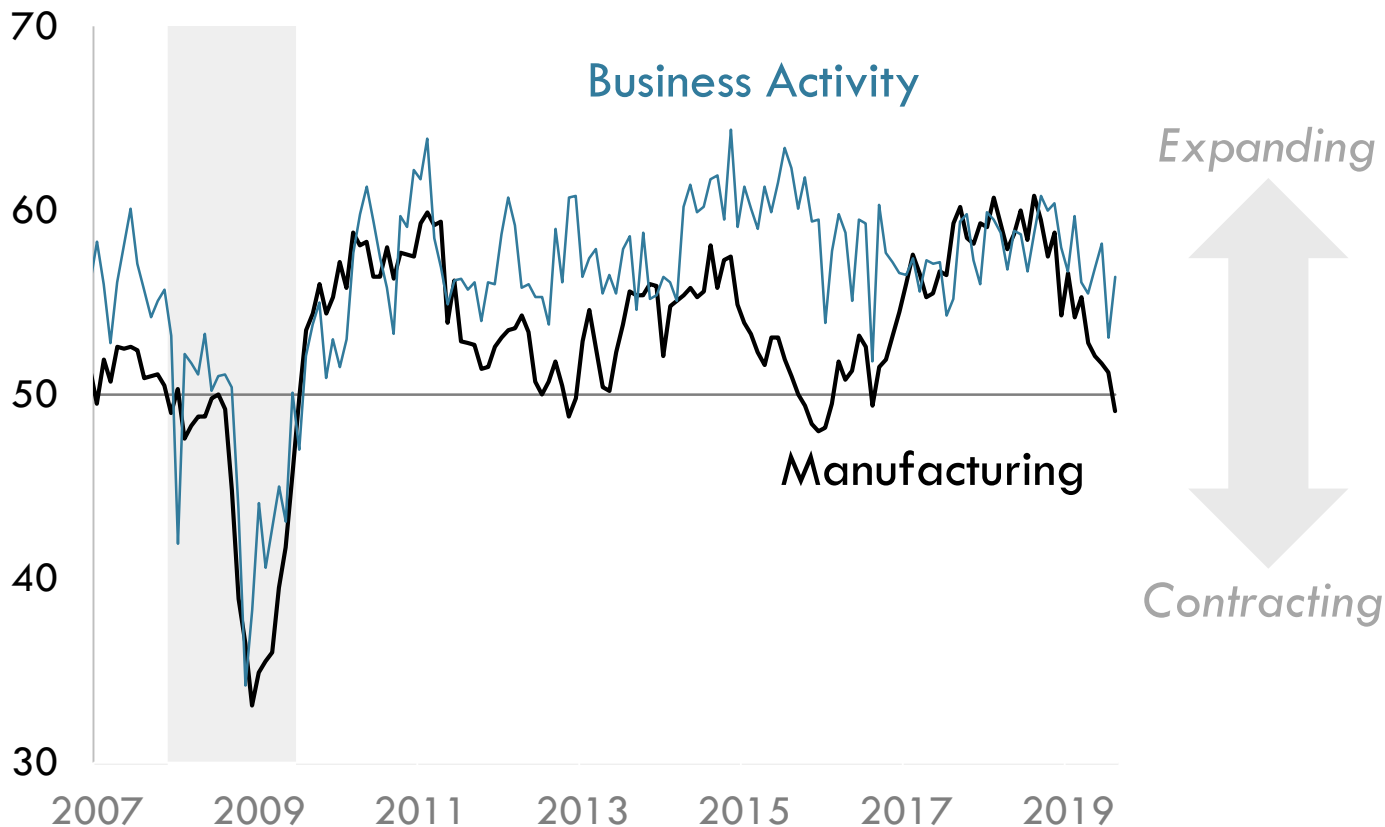
Year-over-Year Change,
January through July 2019



Manufacturing activity contracted in August

Institute for Supply Management Indices

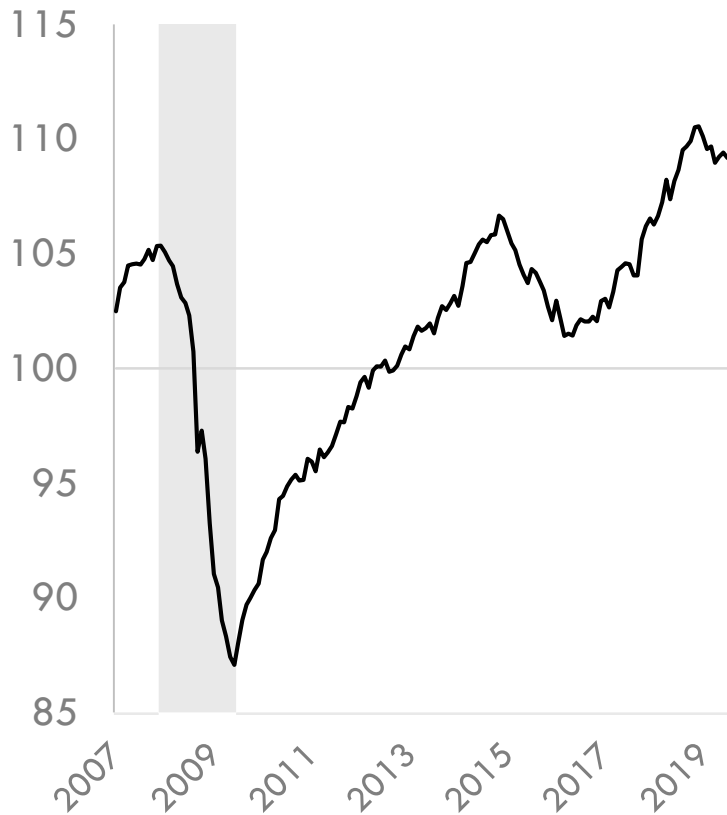
Diffusion Index



Industrial production and new orders have slowed

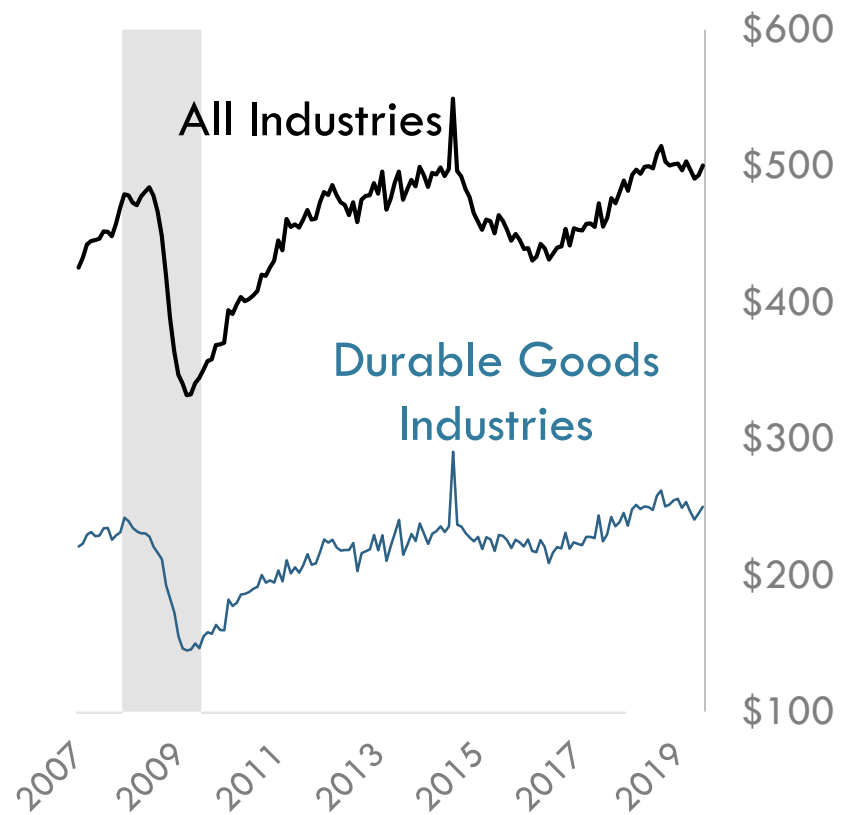
Industrial Production Index

Index 2007 = 100



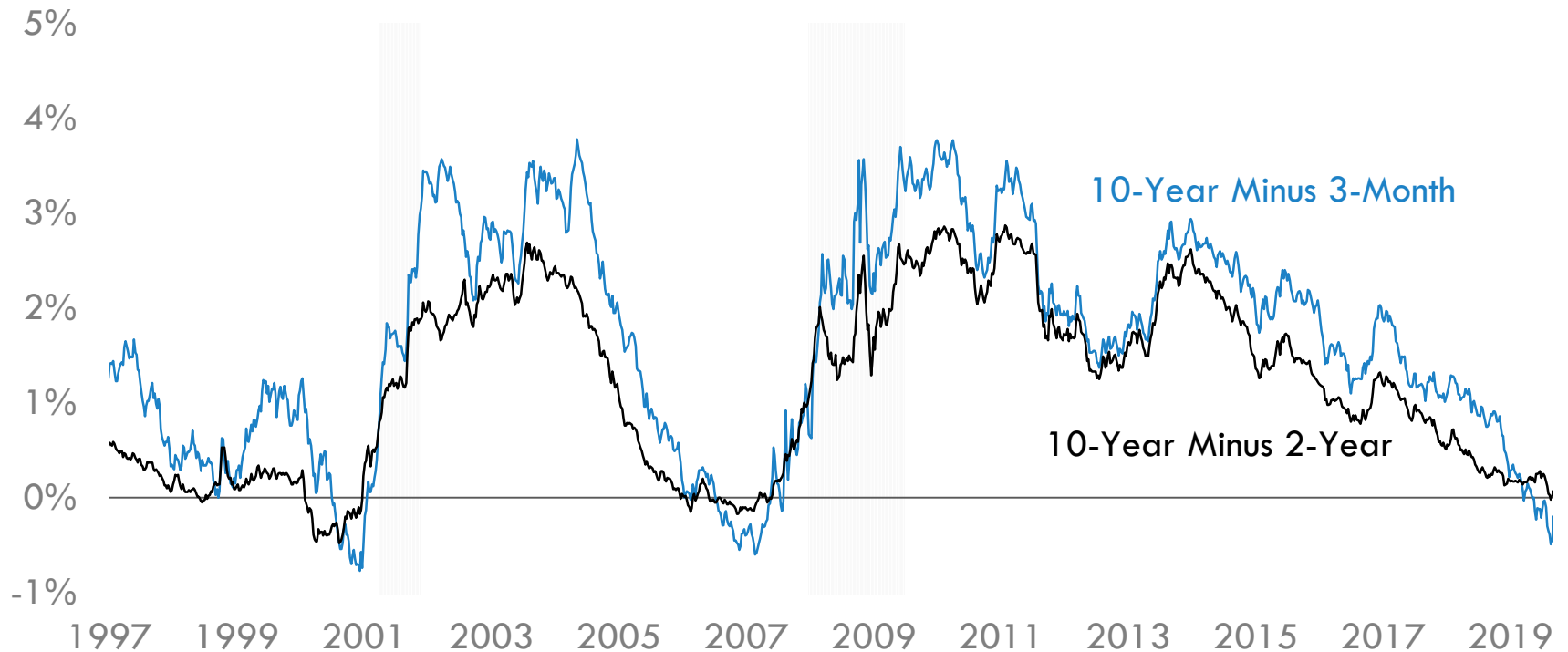
New Manufacturers' Orders

Billions of Dollars



Yield curves have inverted

Spread in U.S. Treasury Yields

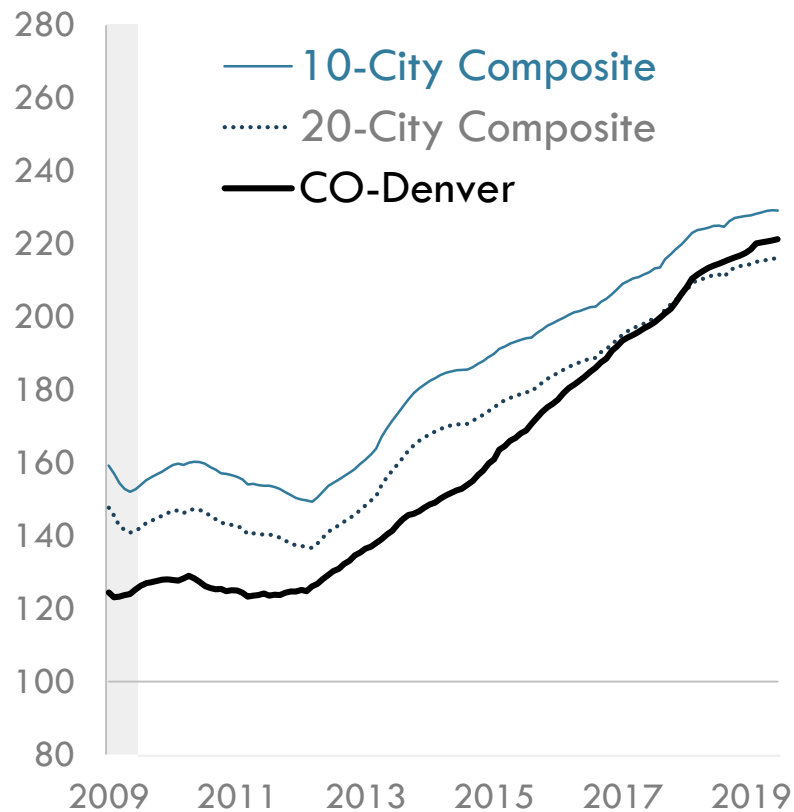


Source: Federal Reserve Bank of St. Louis.

Colorado's housing markets are evening out

Case-Shiller Home Price Indices

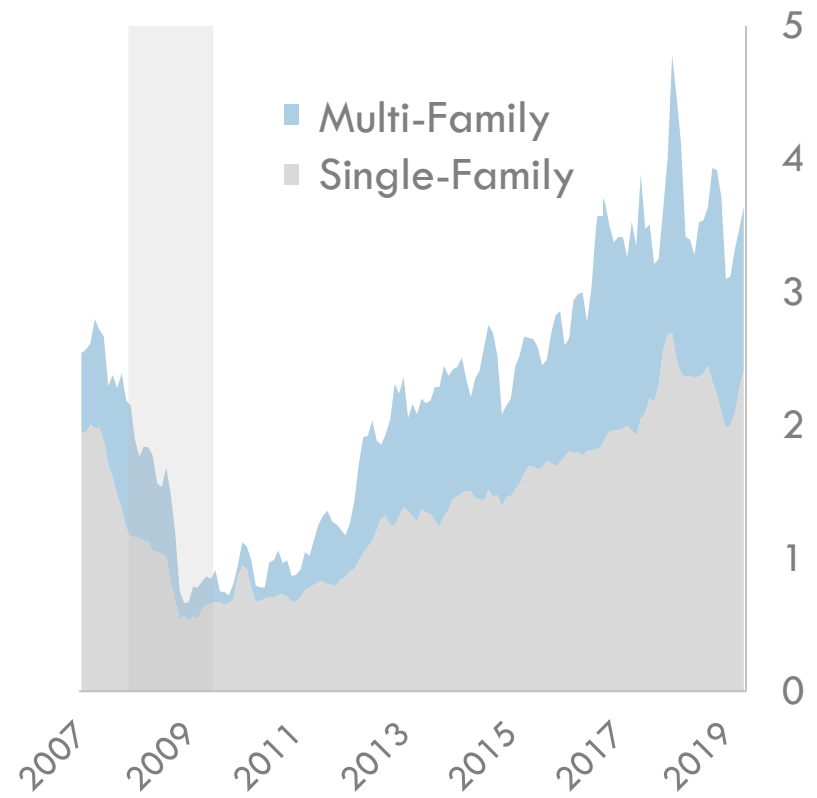
Index 100 = January 2000



Source: S&P Dow Jones Indices, LLC.

Colorado Housing Permits

Thousands of Units

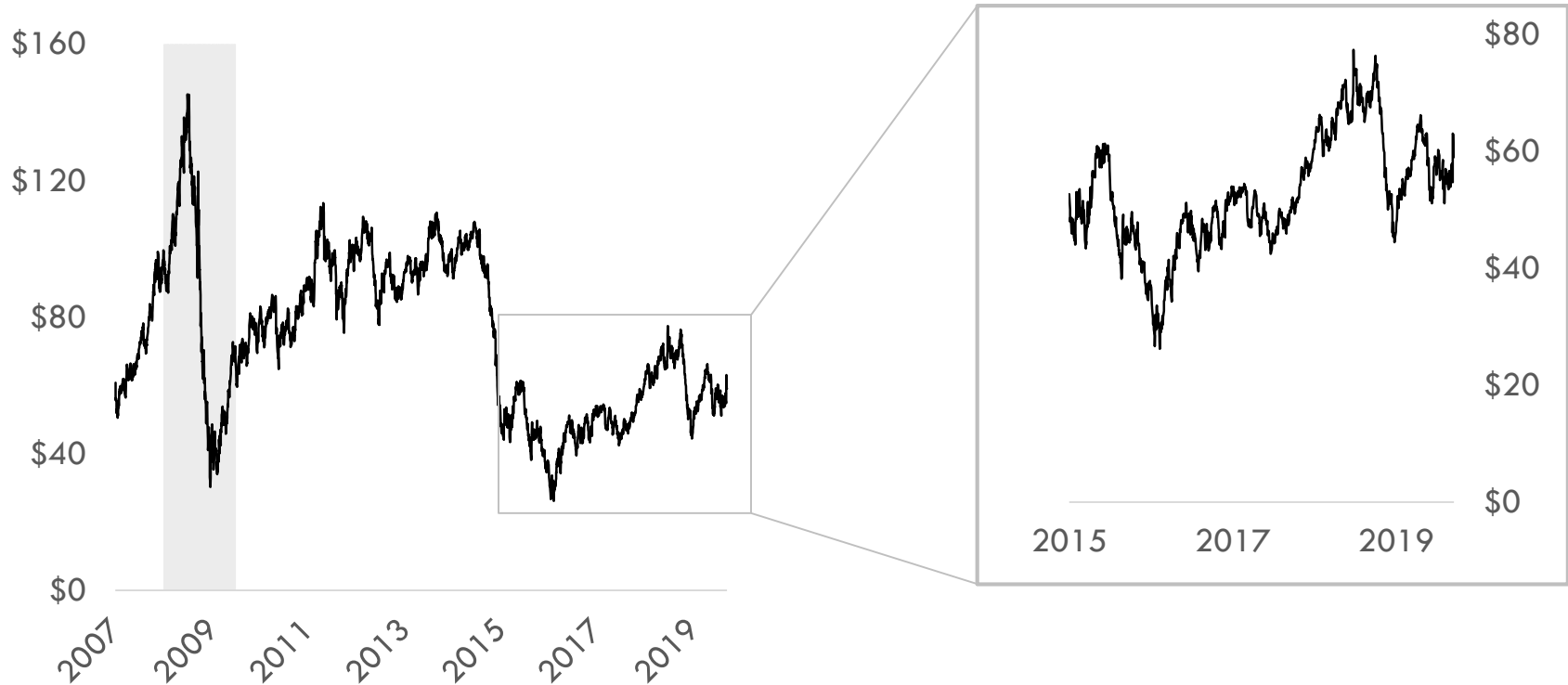


Source: U.S. Census Bureau. Seasonally adjusted three-month moving averages.

Oil prices settled down after the September 14 spike

West Texas Intermediate Crude Oil Price

Dollars per Barrel



Economic outlook through the forecast period

Growth will continue, but at slower rates

- Labor markets will remain tight, constricting growth
- Business investment and industrial production will remain soft with ongoing trade uncertainties
- Lower interest rates will give a slight boost to the housing market

Elevated recession risk based on recent business and financial indicators

Risks to the Economic Outlook

Upside risks:

- Resolution to trade policy uncertainty
- Uptick in global growth; resolution to Brexit
- Monetary and fiscal policy stimulus

Downside risks:

- Weakening business and consumer confidence
- Geopolitical risk and uncertainties
- Sovereign and corporate debt levels

General Fund Budget Outlook



What has changed since June?

New information

- Preliminary, unaudited FY 2018-19 collections
 - Lower collections than expected (\$76.1 million lower)
- Updates to 2019 legislative impacts

Changes to the revenue forecast

- Slight reductions in revenue expectations
 - Only two months of data for FY 2019-20
- Higher recession risk, based on leading indicators

Forecast General Fund revenue was reduced slightly relative to June expectations

Gross General Fund Revenue Billions of Dollars

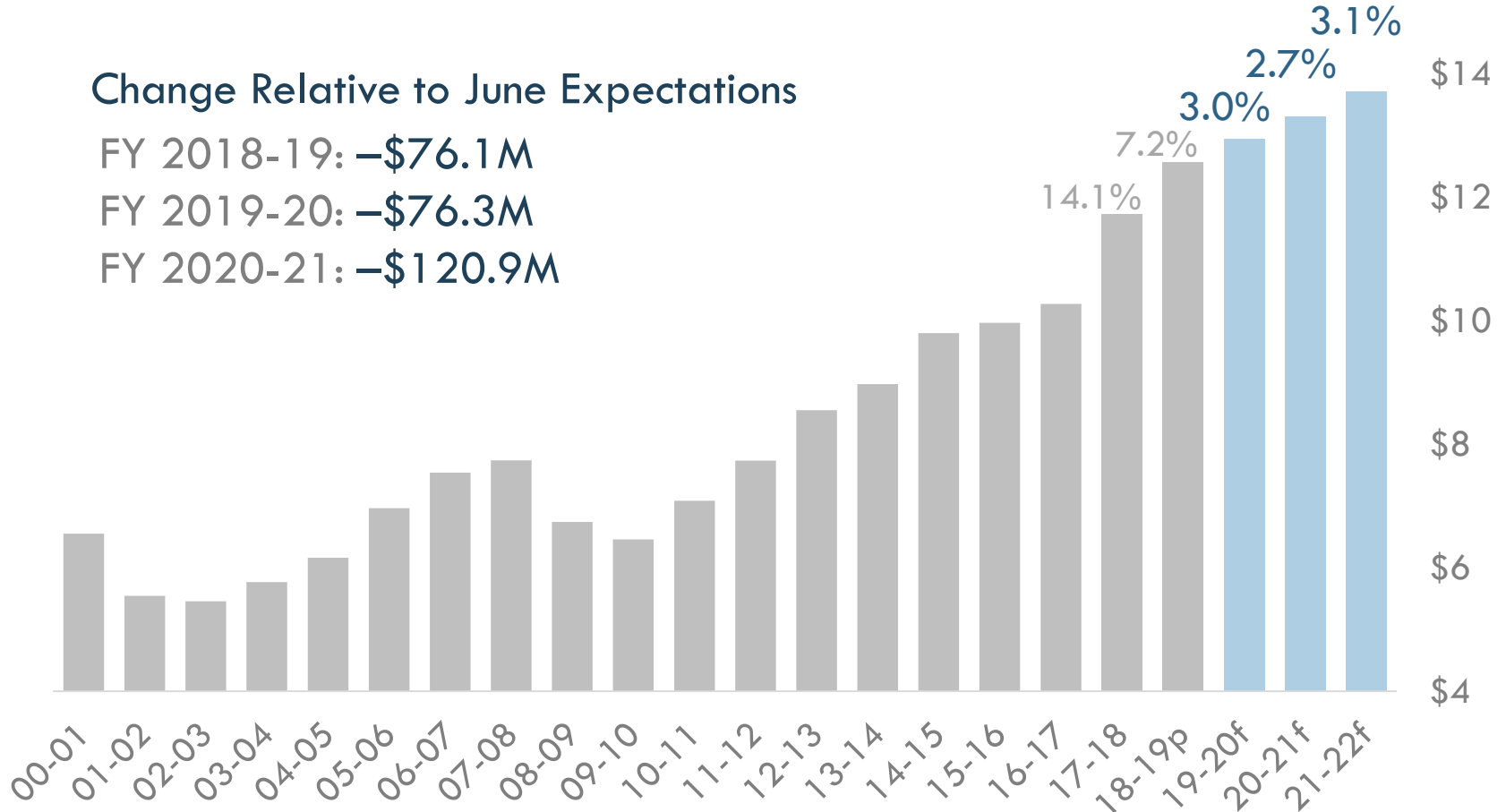
Year-over-Year Growth

Change Relative to June Expectations

FY 2018-19: $-\$76.1M$

FY 2019-20: $-\$76.3M$

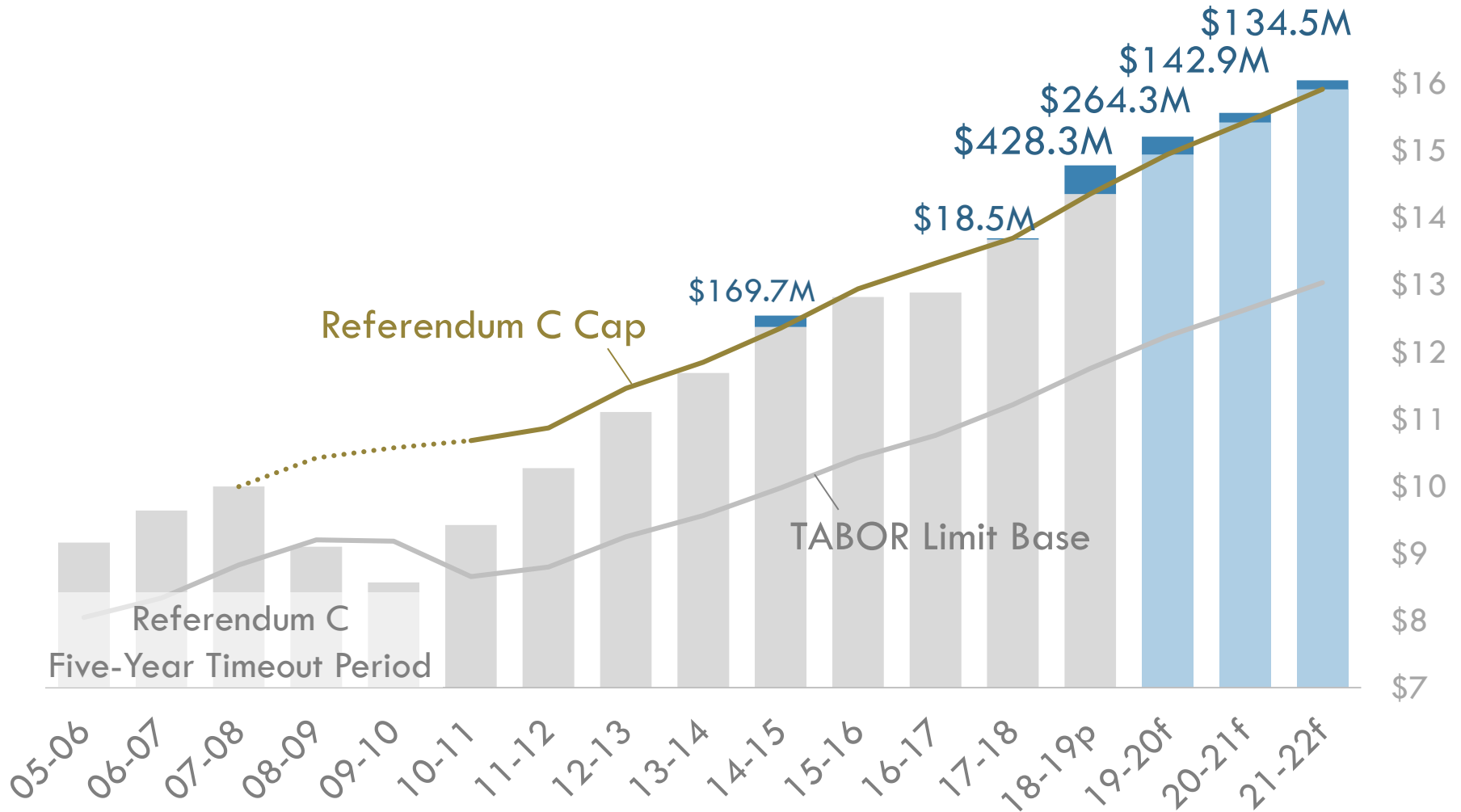
FY 2020-21: $-\$120.9M$



TABOR Outlook

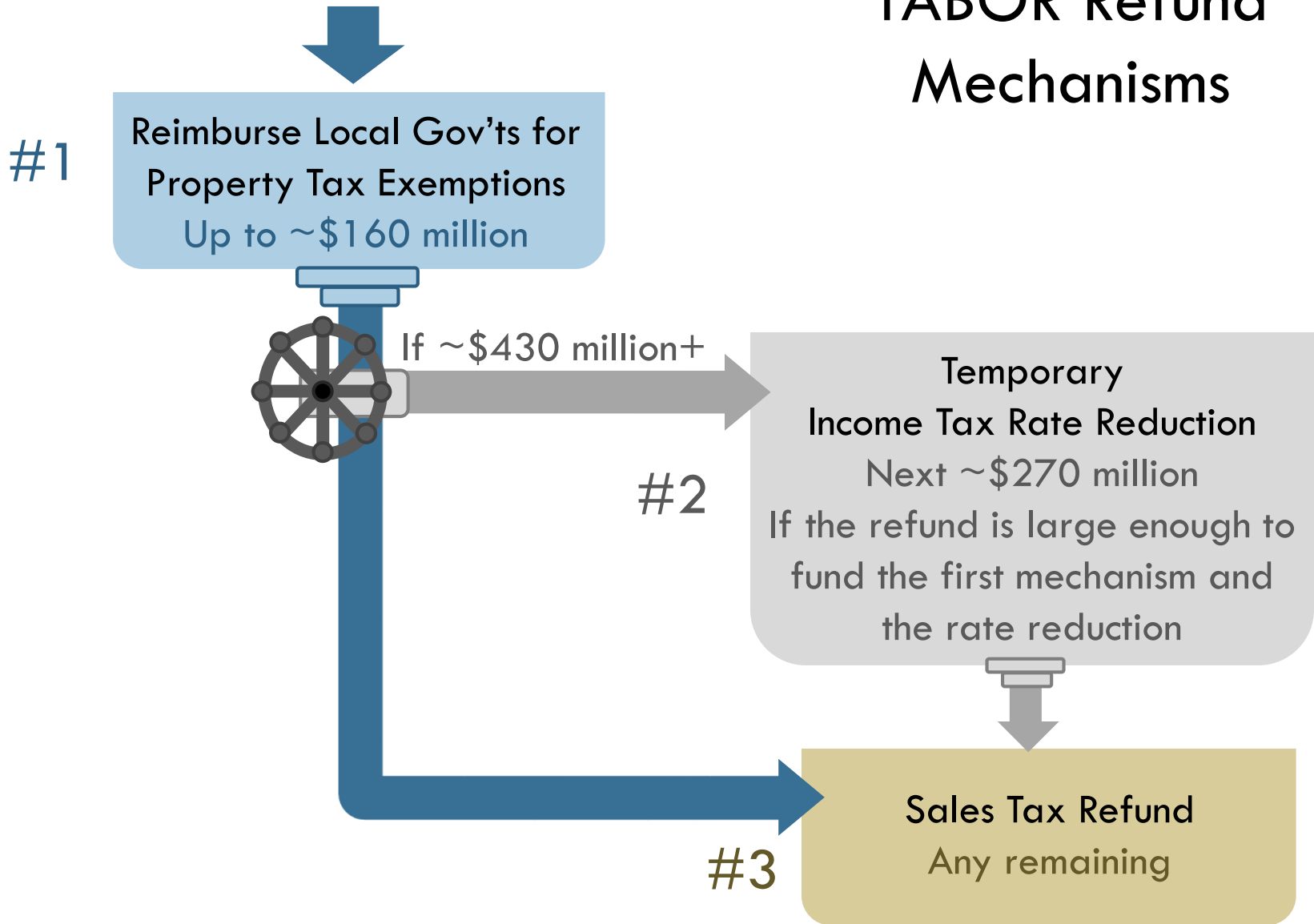
Revenue Subject to TABOR

Dollars in Billions



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

TABOR Refund Obligation

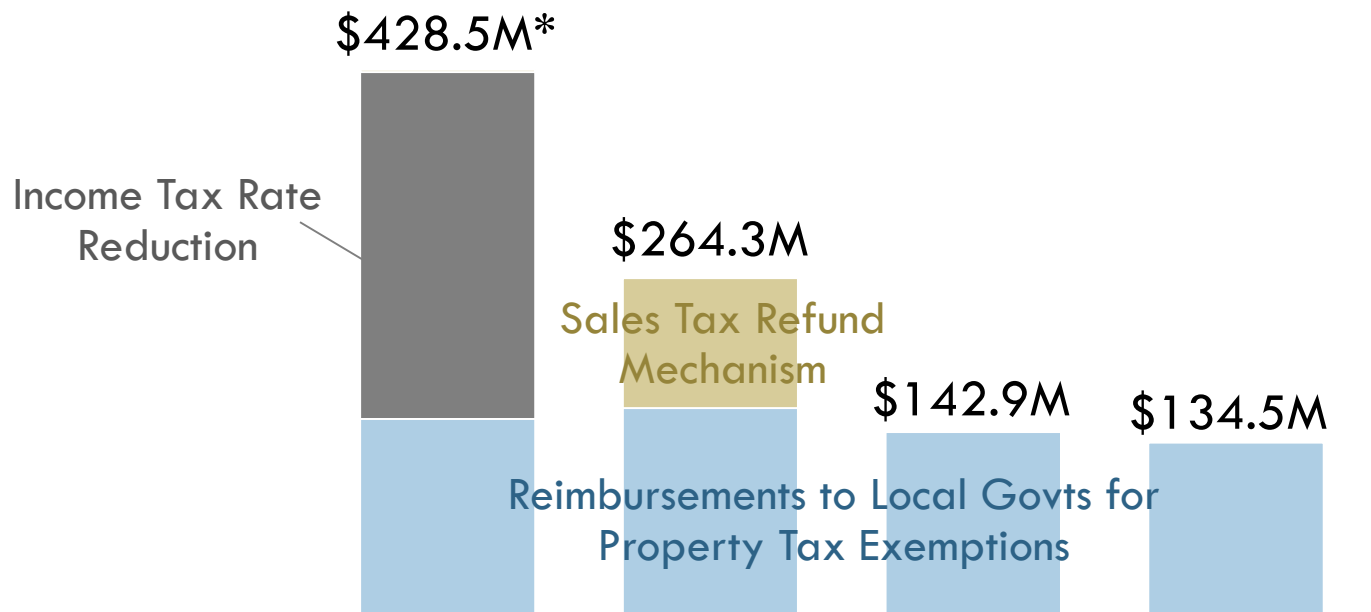


TABOR Refund Mechanisms

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



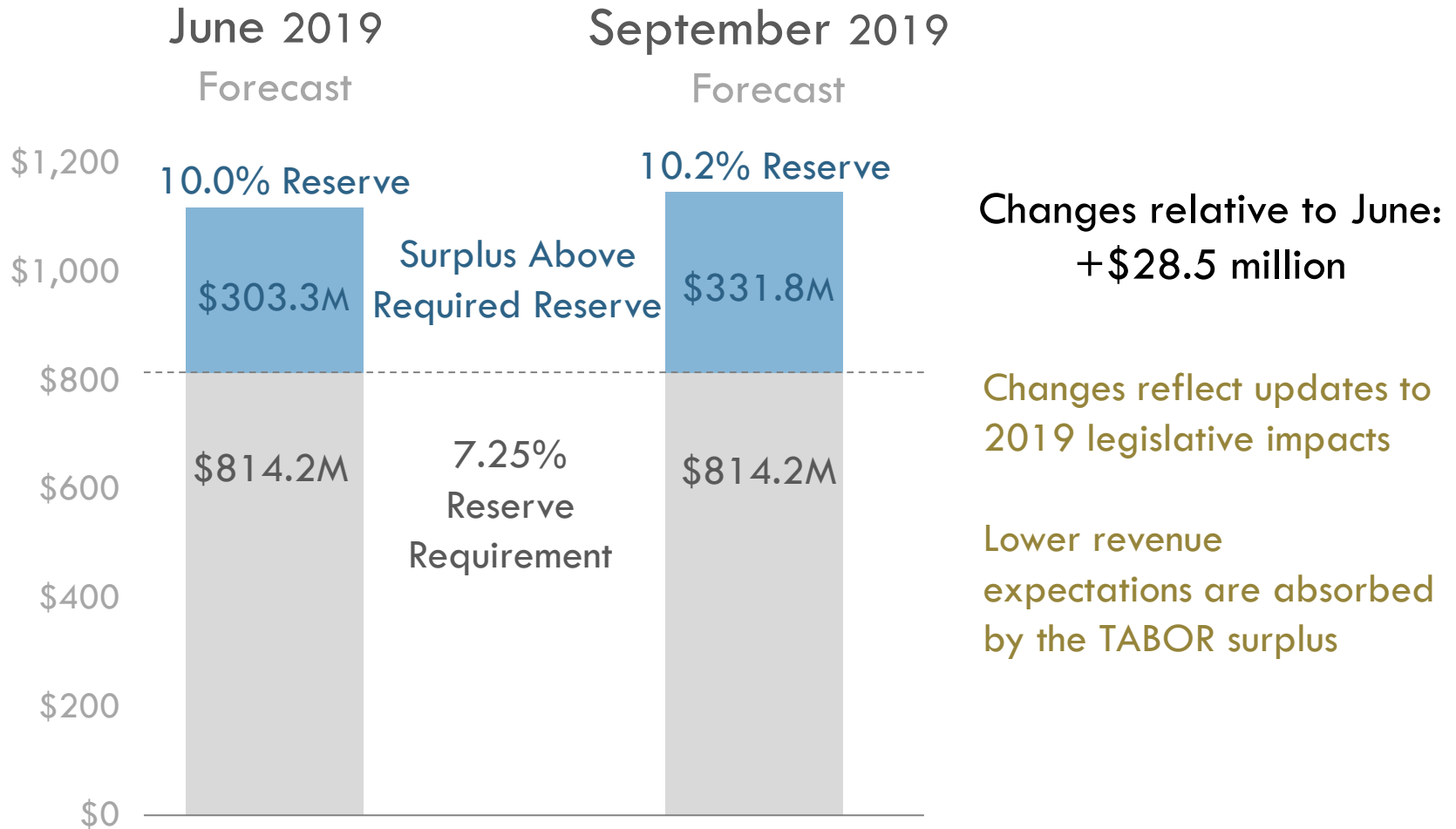
TABOR Surplus & Set Aside:	2018-19	2019-20	2020-21	2021-22
Refunded in Fiscal Year:	2019-20	2020-21	2021-22	2022-23

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

*This amount includes \$0.1 million in underrefunds from the FY 2014-15 surplus.

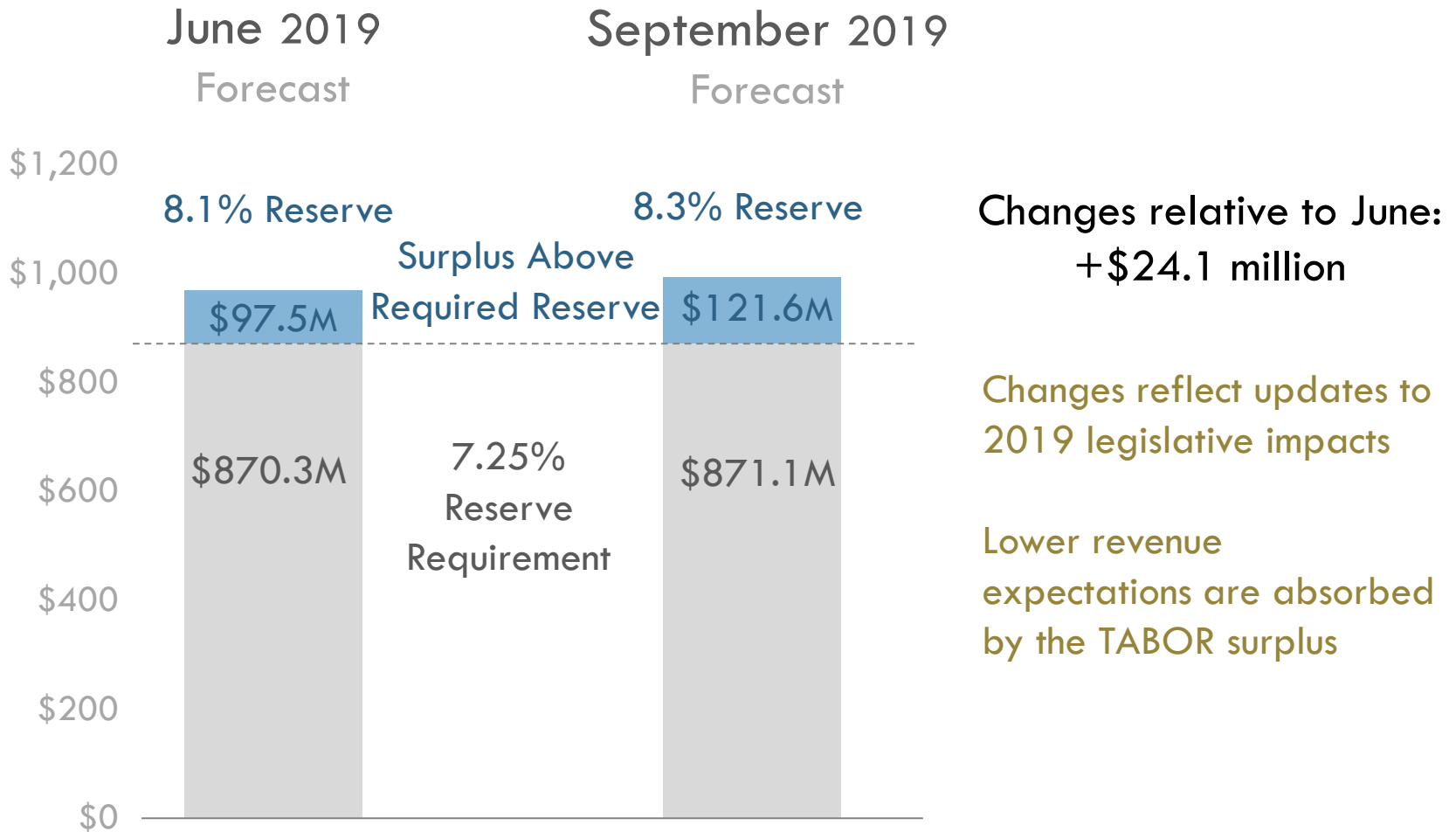
Last Year | FY 2018-19 General Fund Reserve

Dollars in Millions



Current Year | FY 2019-20 General Fund Reserve

Dollars in Millions



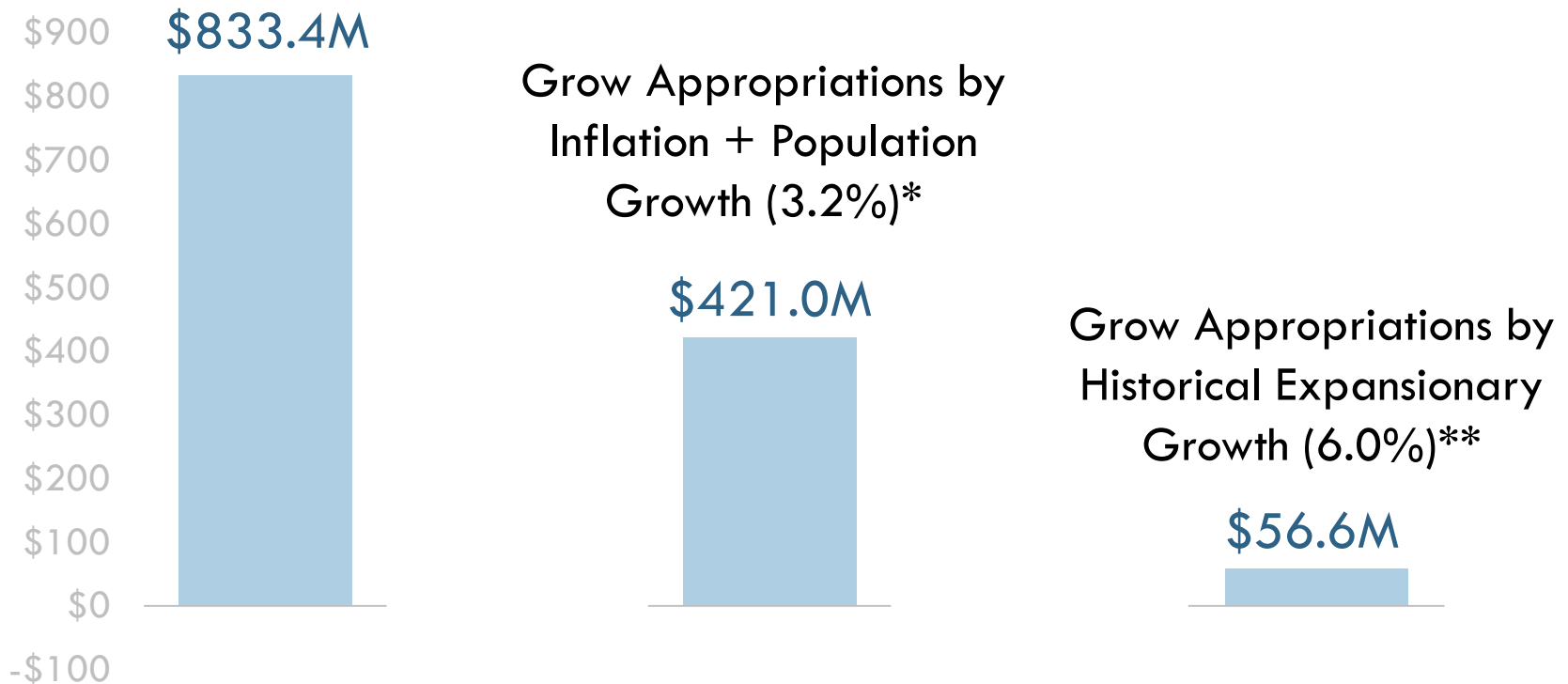
Next Year | FY 2020-21 Budget Outlook Scenarios

Amounts **above** or **below** the required 7.25% reserve.

Incorporates the revenue forecast, current law transfers, rebates and expenditures, TABOR refund obligations, and the reserve requirement.

Hold FY 2019-20

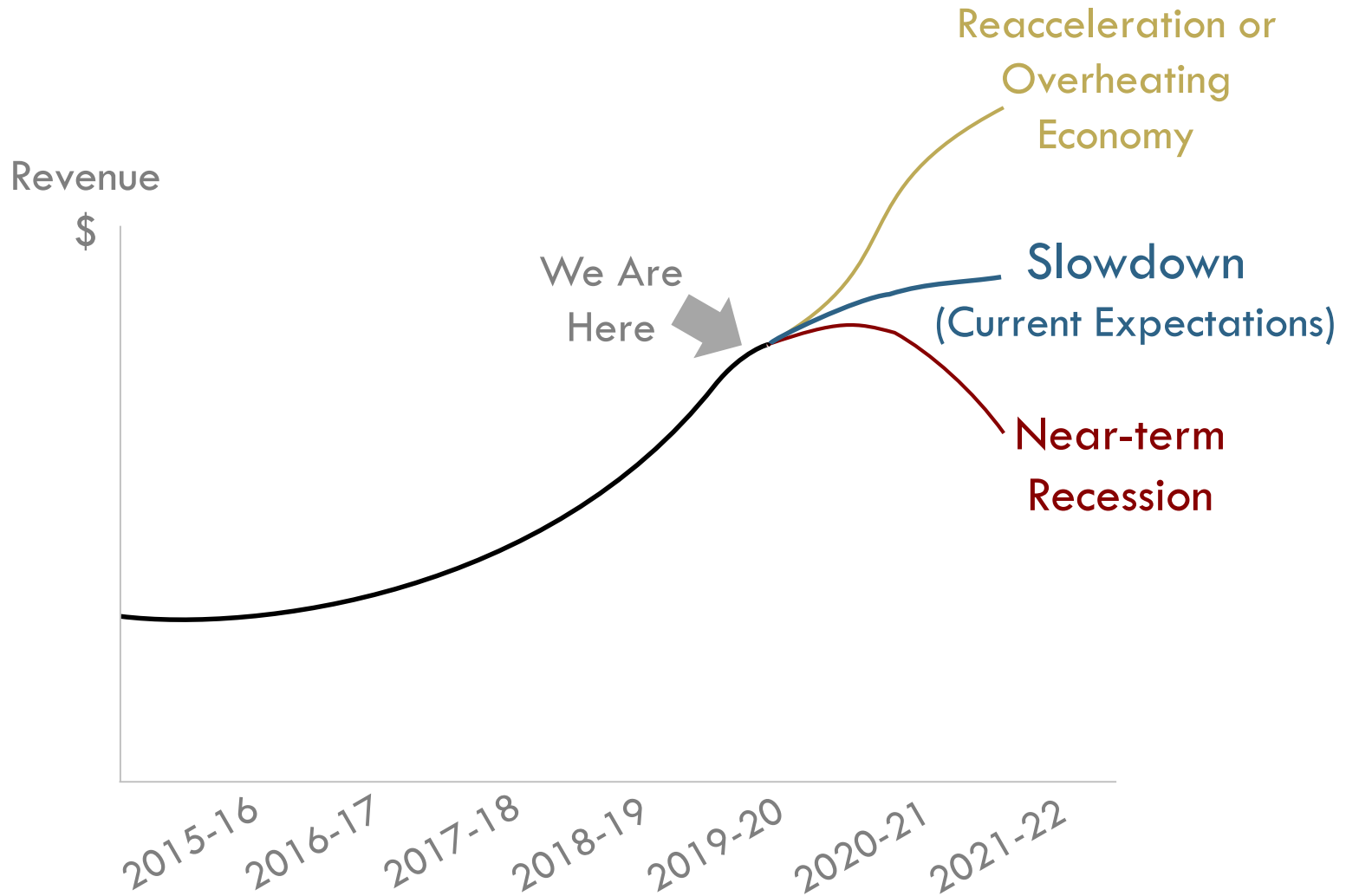
Appropriations Constant



Source: Legislative Council Staff September 2019 forecast.

*2020 population and inflation projections. **Appropriations growth over the past two economic expansions.

Revenue scenarios in the late stages of economic expansion



This figure is for illustrative purposes and does not reflect actual state revenue collections.

Risks to the Forecast

- **Upside risks**
 - Ongoing income tax base-building from federal tax law changes
 - Out-of-state sales tax collections
- **Elevated risk of recession**
 - Slower growth as the economic expansion matures
 - Leading business and financial indicators flashing warning signs
- **In the current TABOR refund situation...**
 - The TABOR limit will constrain revenue growth
 - Upside surprises mean larger TABOR refunds
 - Downside surprises mean greater budgetary pressures

Questions?

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