



March 2023 | Legislative Council Staff

Economic & Revenue Forecast

Presentation to the Joint Budget Committee

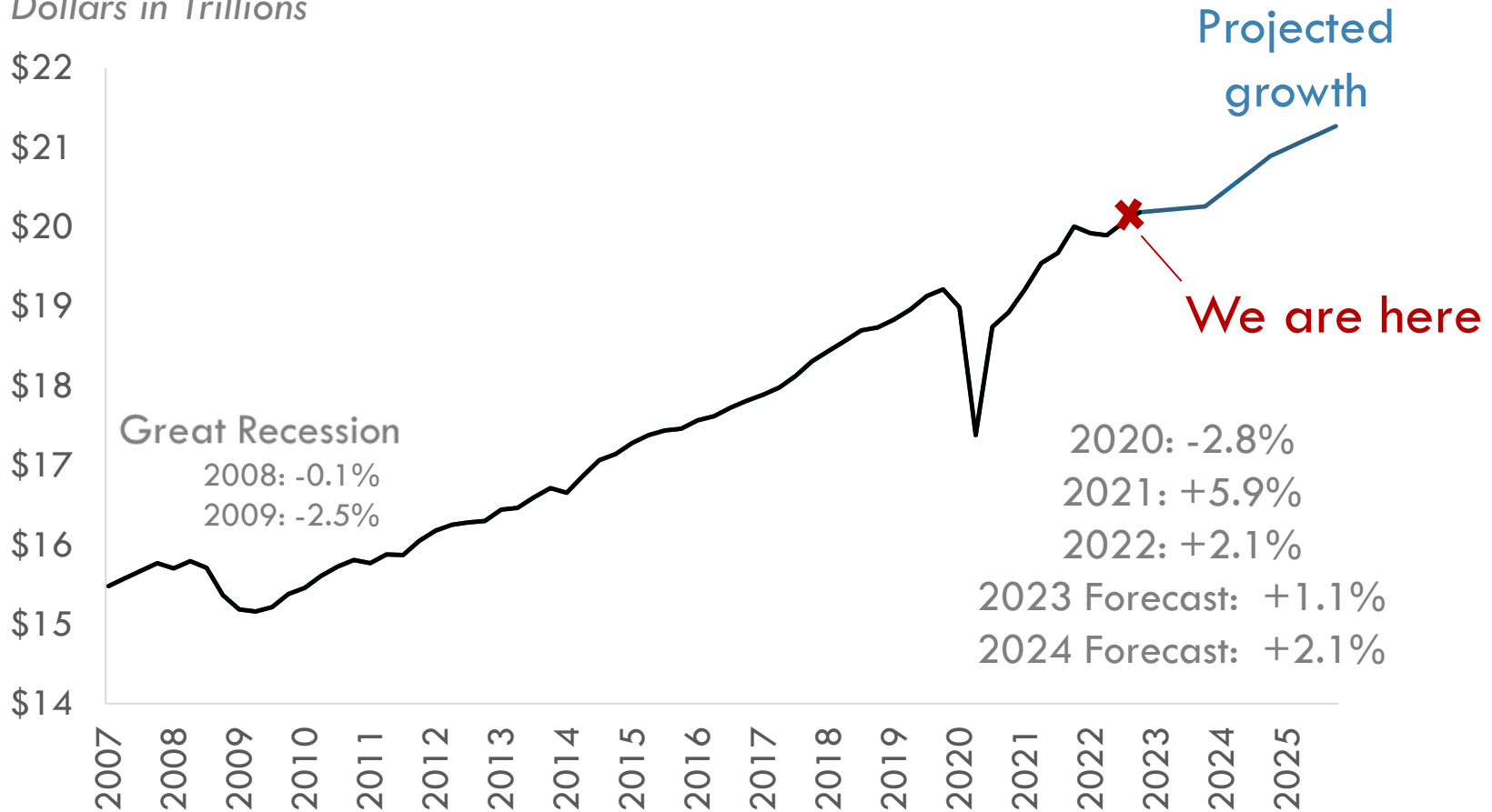
March 16, 2023

Economic Outlook



Positive, but slower, economic growth anticipated

Real U.S. Gross Domestic Product
Dollars in Trillions



Source: U.S. Bureau of Economic Analysis and Legislative Council Staff March 2023 projections.

Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.

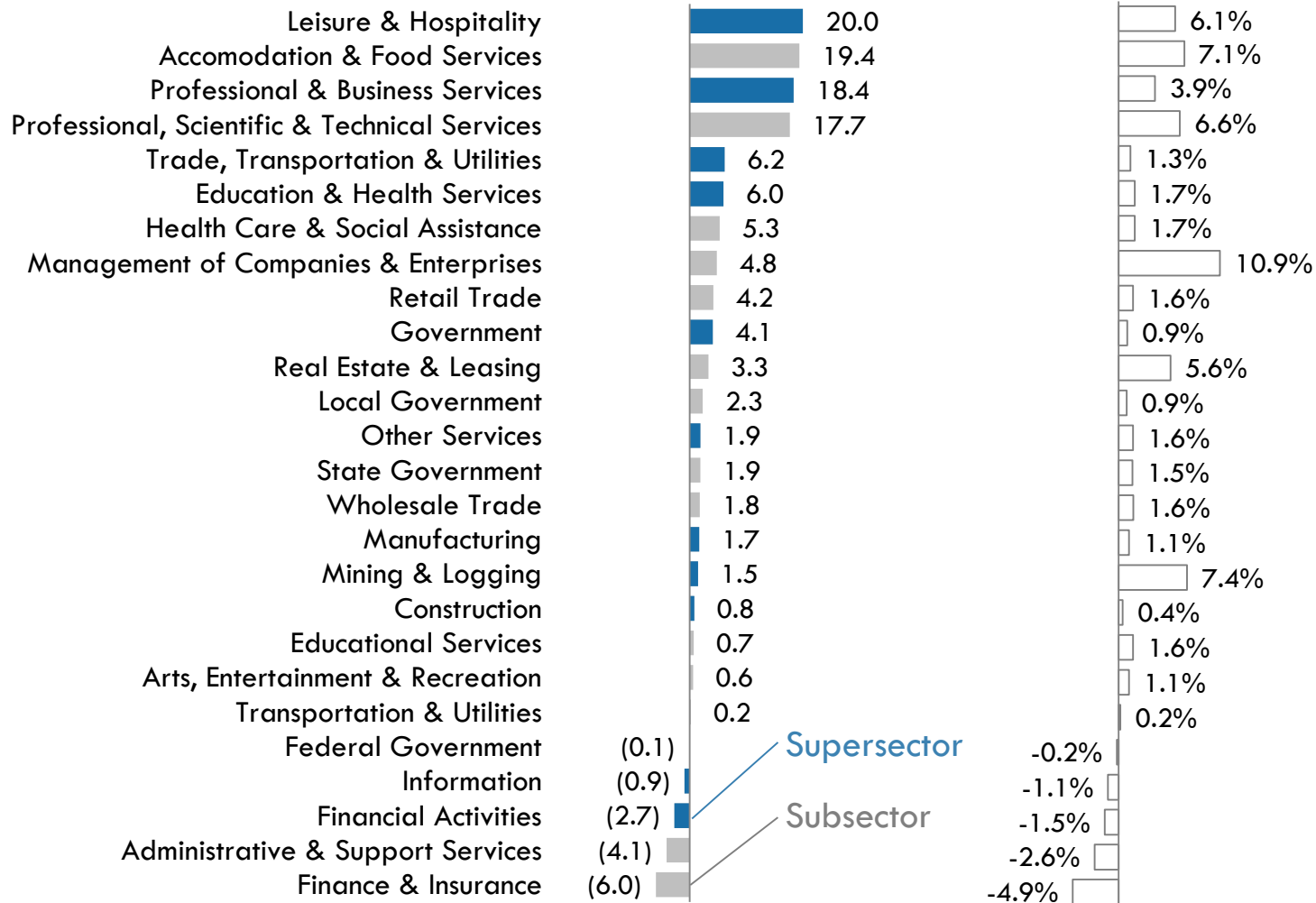
Colorado employment gains led by leisure & hospitality

Colorado Job Gains and Losses by Industry, January 2023

Year-over-Year Change

Thousands of Jobs

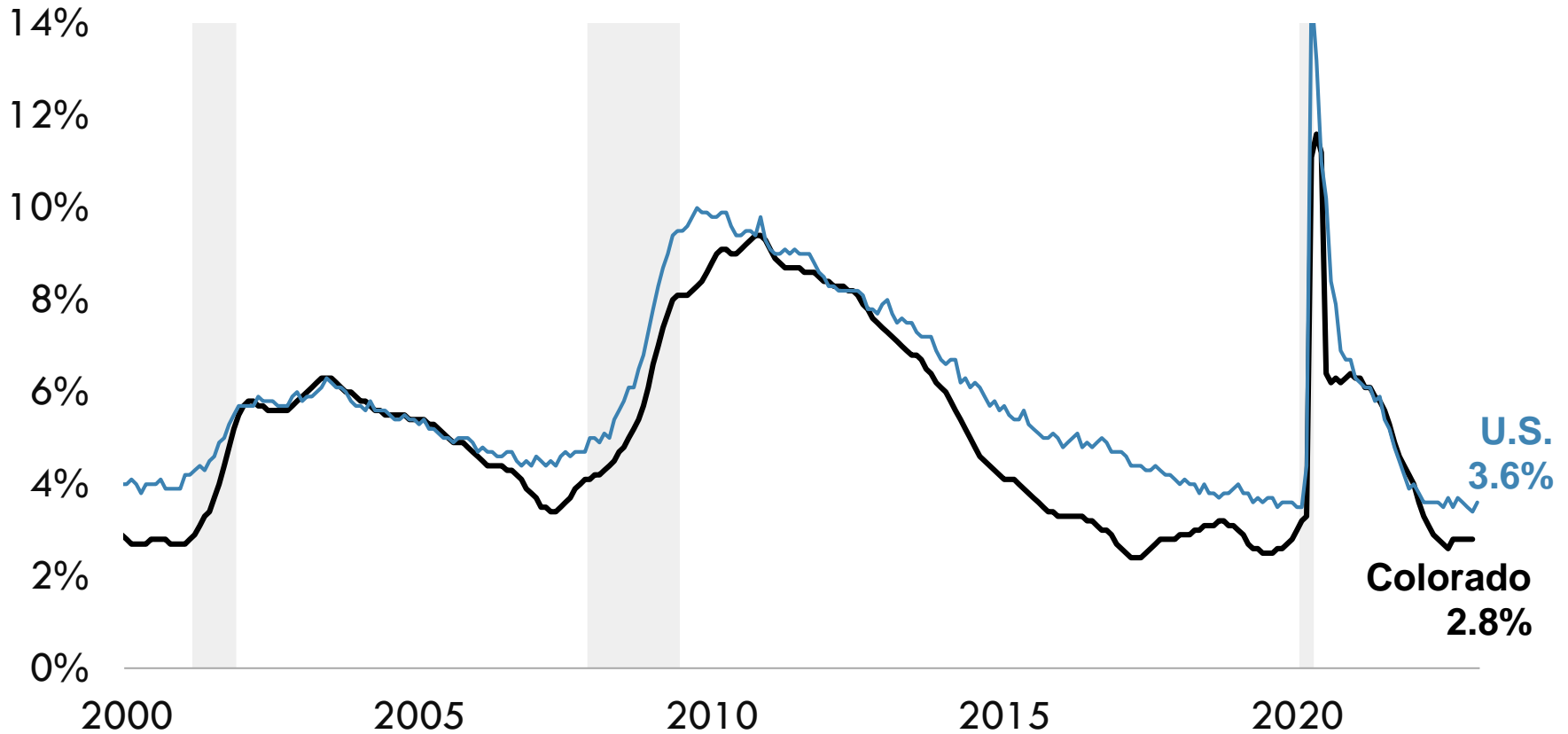
Percent Change



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. Blue shading indicates a supersector; gray shading indicates a subsector.

Colorado's unemployment rate returned to pre-pandemic levels in 2022

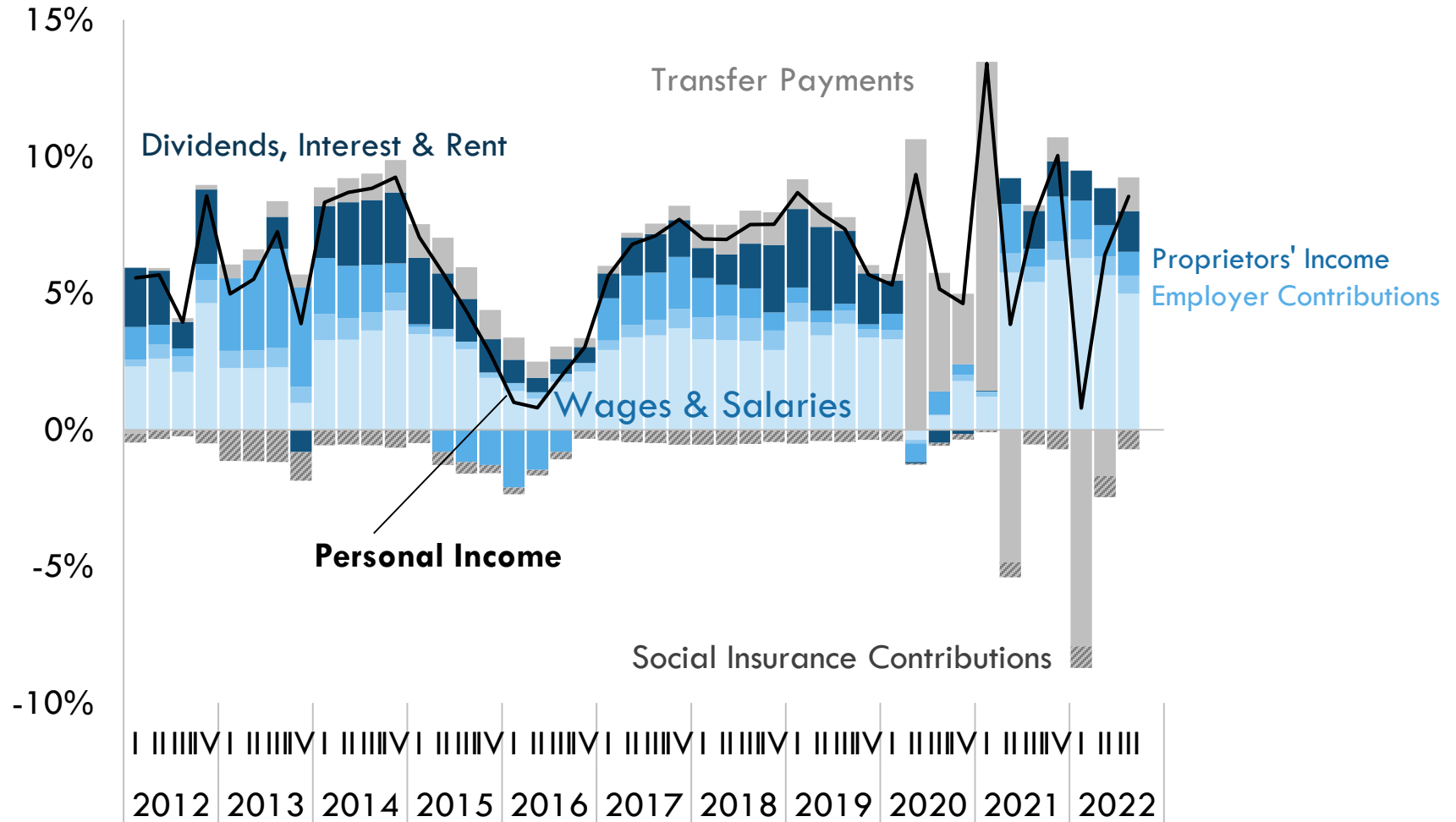
Unemployment rates



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted.

Colorado personal income rose 8.5 percent in the third quarter of 2022, boosted by TABOR checks

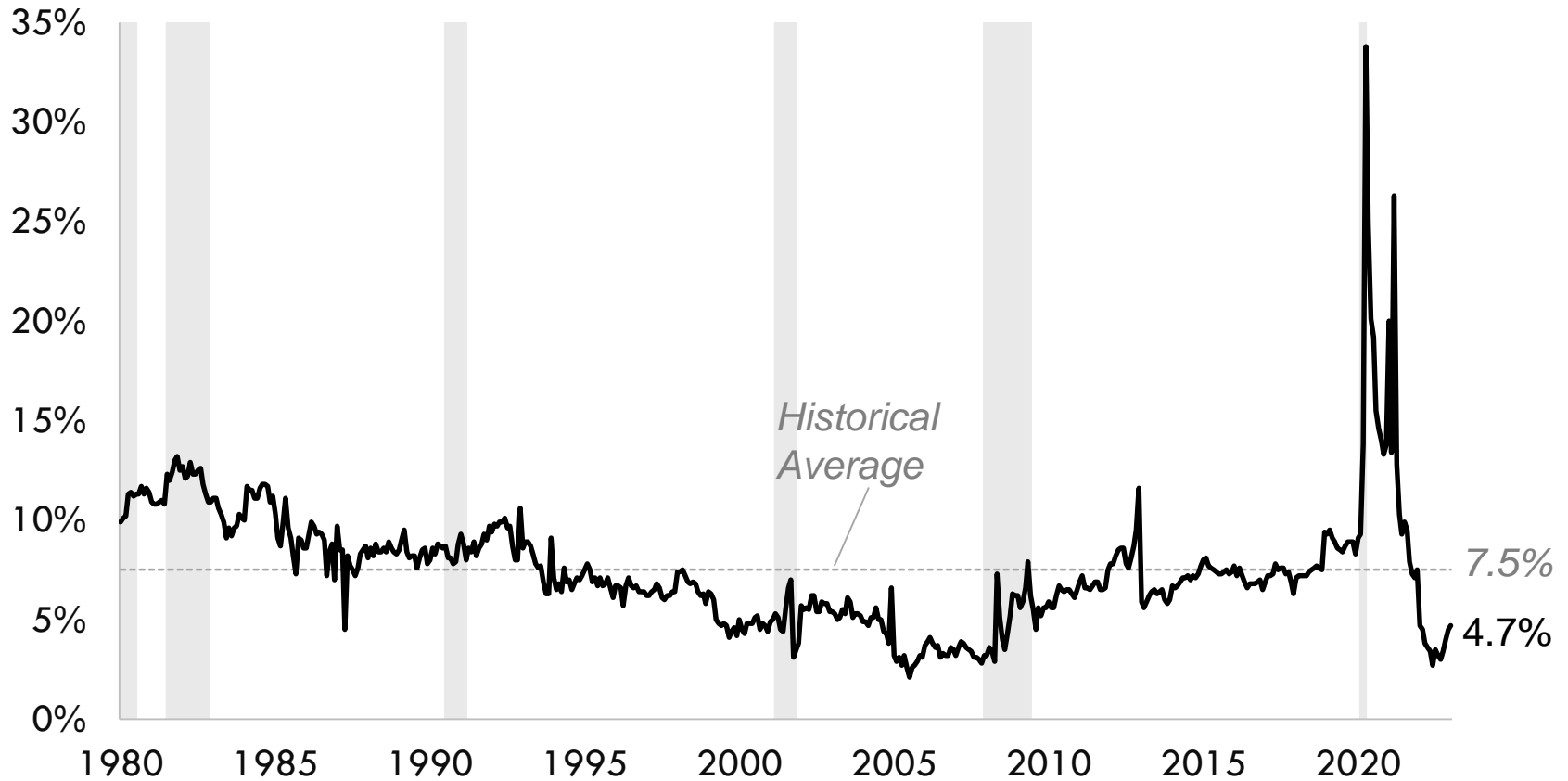
Year over Year Percent Change



Source: U.S. Bureau of Economic Analysis with Legislative Council Staff calculations. Data are seasonally adjusted through 2022Q3.

Excess savings from pandemic-related programs spent down quickly

Personal Savings Rate

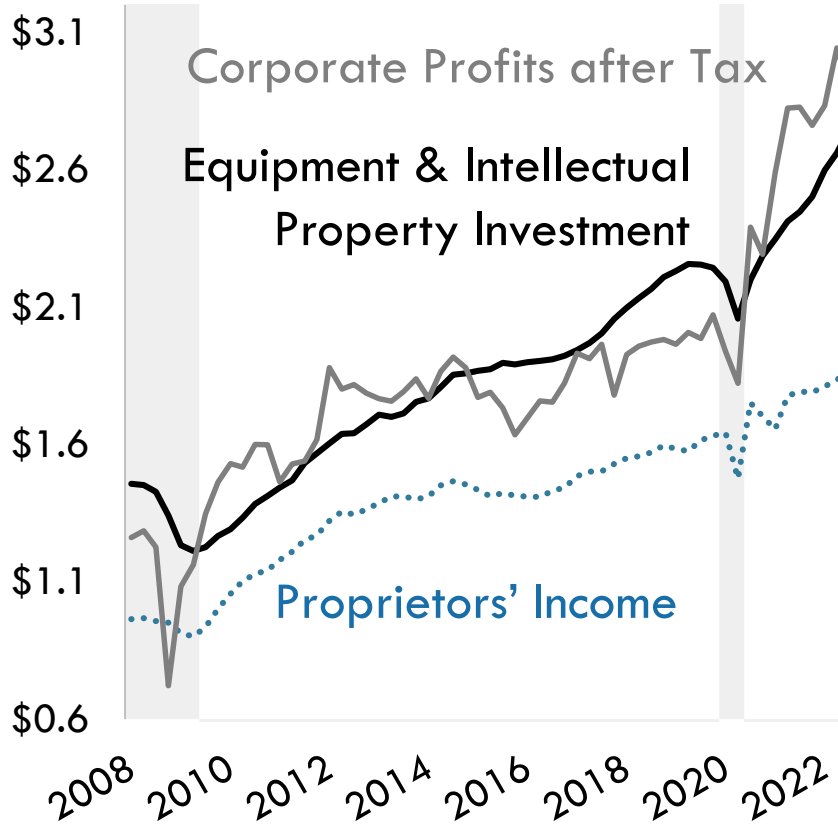


Source: U.S. Bureau of Economic Analysis.

*The personal savings rate is calculated as the ratio of personal saving as a percentage of disposable personal income. Data are shown as seasonally adjusted annual rates.

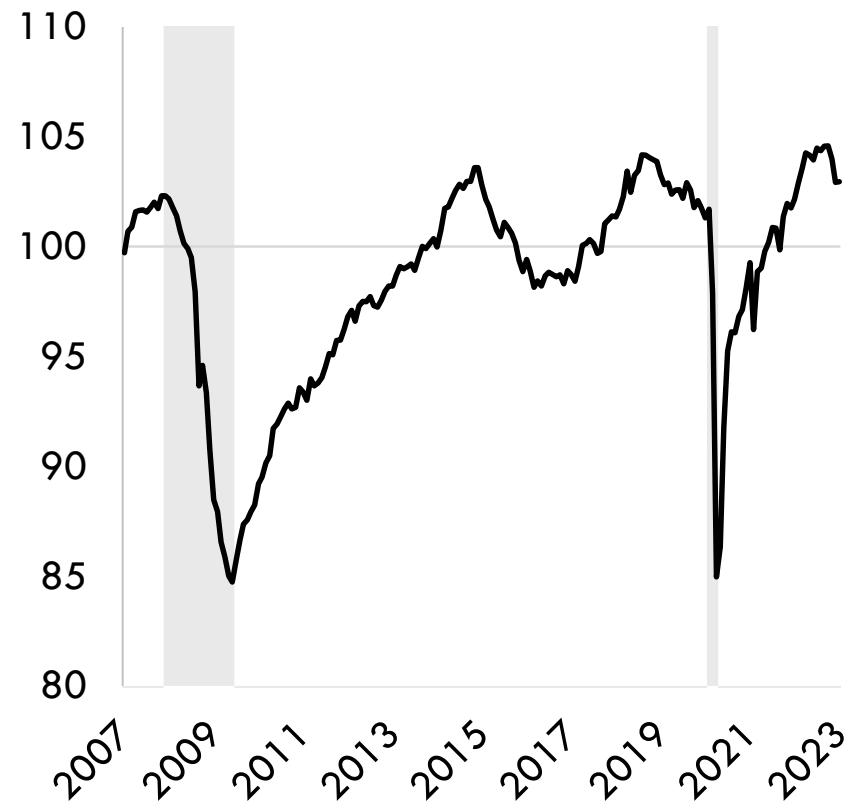
Business activity remained strong in 2022

Business Investment, Income and Profits
Trillions of Dollars



Source: U.S. Bureau of Economic Analysis. Data are not adjusted for inflation. Data are through 2022Q3.

Industrial Production Index
Index 2017 = 100

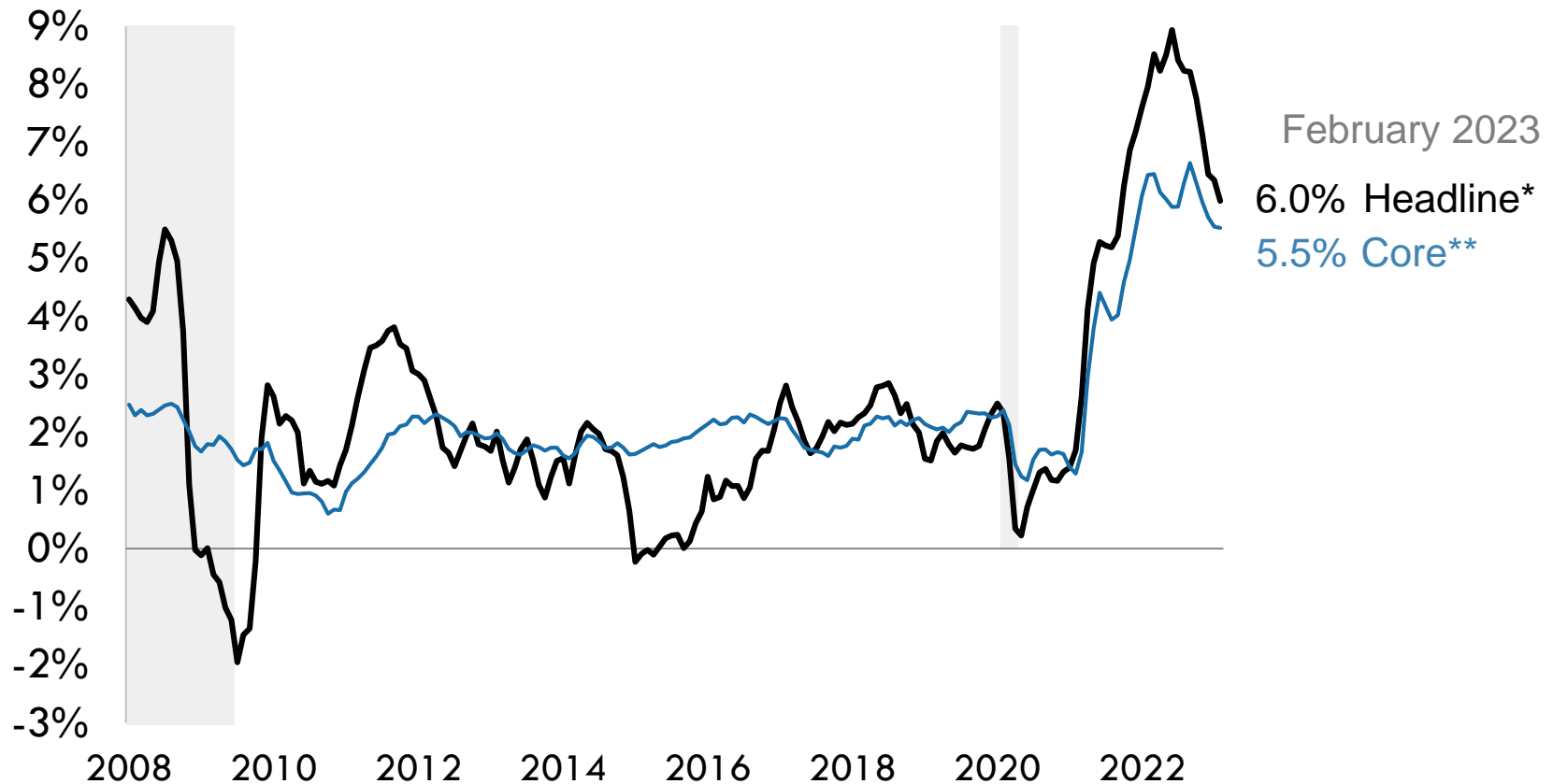


Source: Federal Reserve Board of Governors. Data are through January 2023.

Nation's inflationary pressures abating, forecast to average 4.8 percent in 2023

U.S. City Average CPI-U Inflation

Year-over-Year Change in Prices



Source: U.S. Bureau of Labor Statistics.

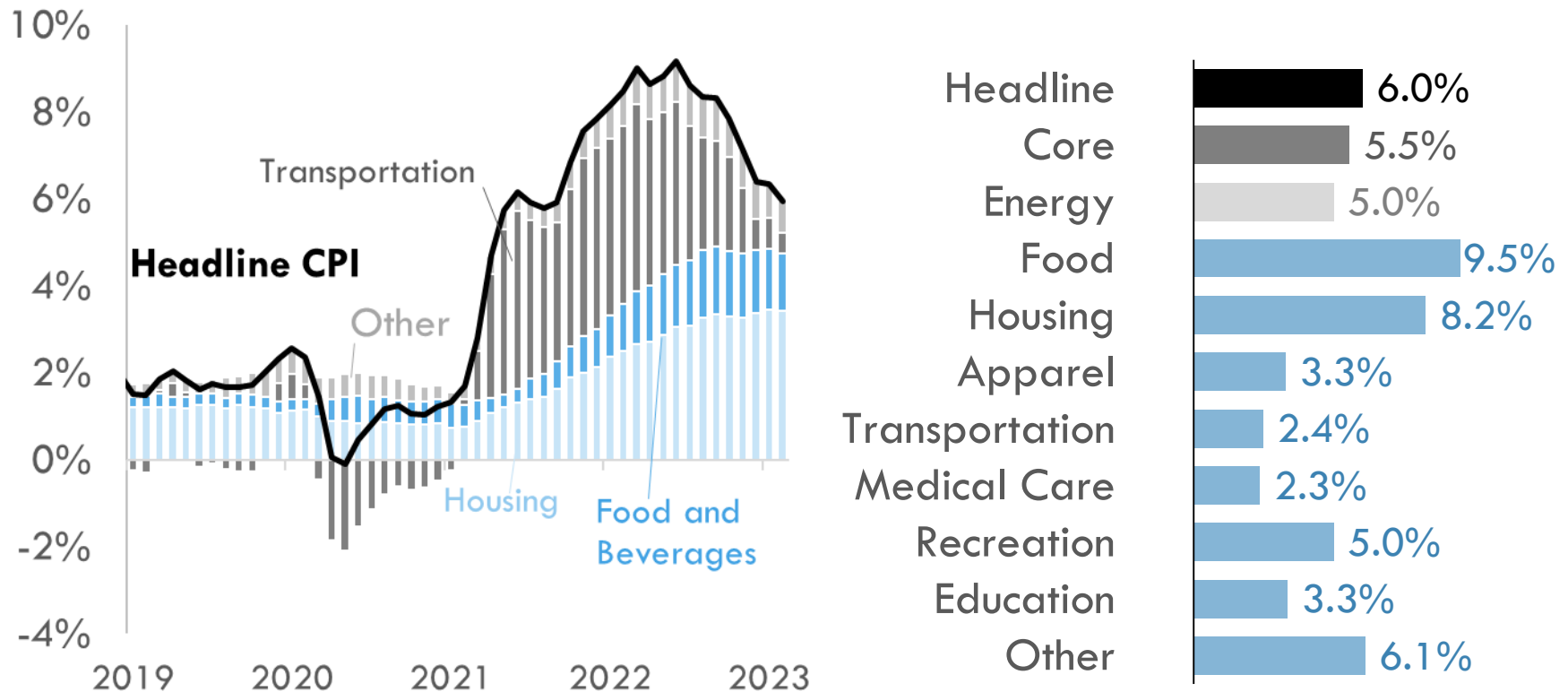
Inflation is calculated as the growth in urban area prices in a given period relative to the same period in the prior year.

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

Energy and transportation prices easing, housing continues to exert upward pressure

Contributions to U.S. CPI-U, Selected Components, February 2023

Year-over-Year Change in Prices

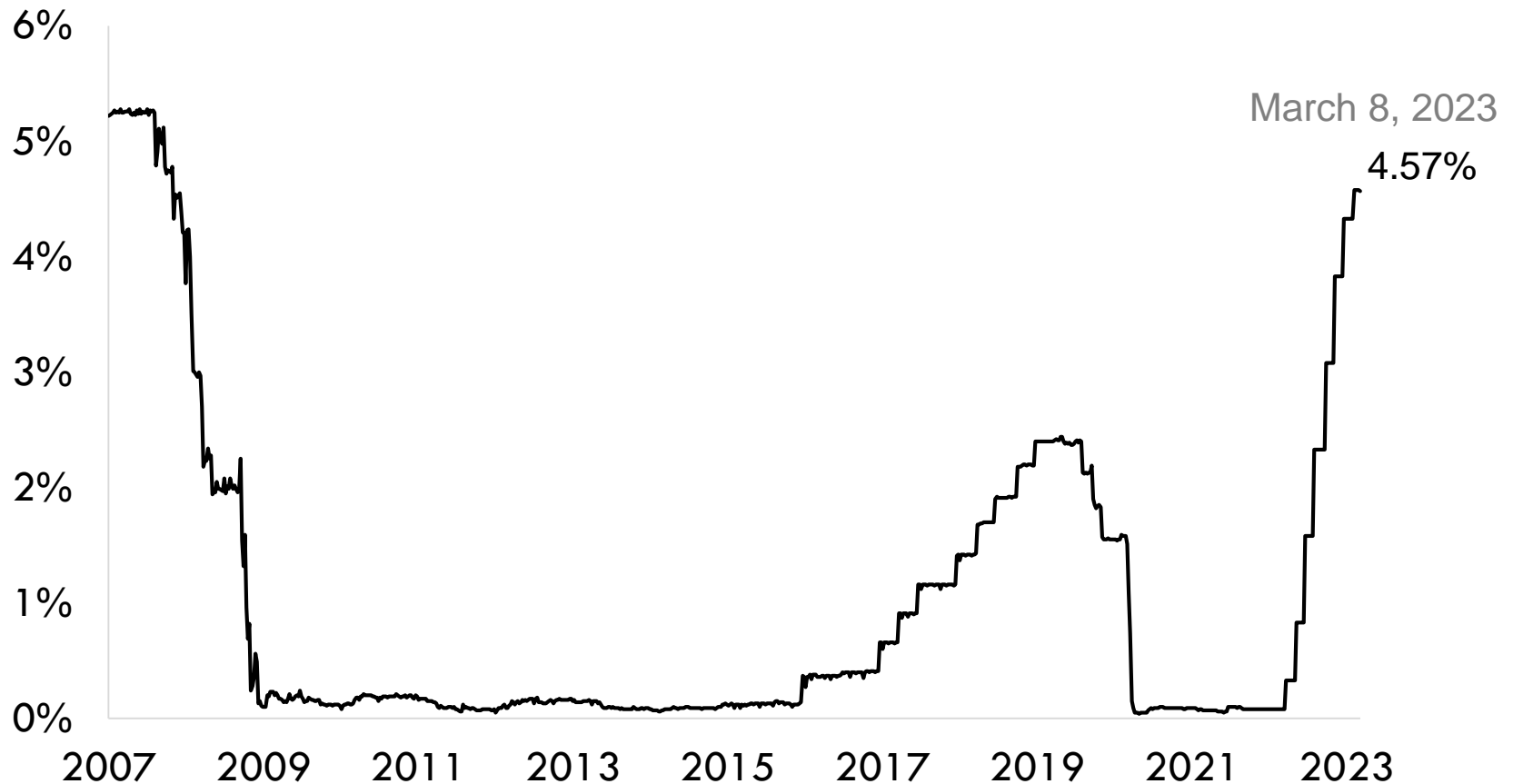


Source: U.S. Bureau of Labor Statistics.

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

Smaller rate increases ahead, with higher terminal peak

Effective Federal Funds Rate



Source: Board of Governors of the Federal Reserve System, H.15 Selected Interest Rates

Risks to the forecast remain weighted to the downside

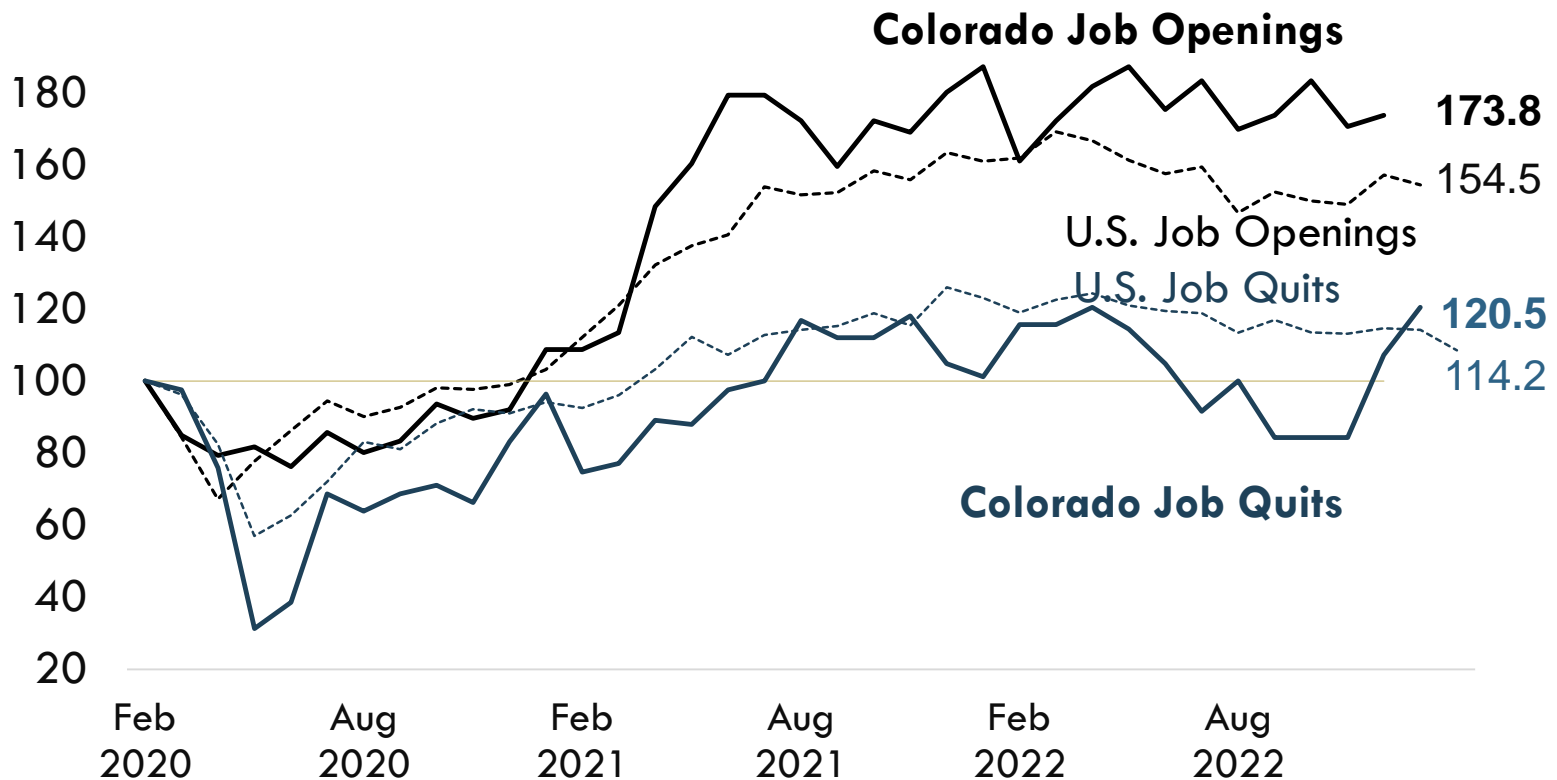
- Risks to the forecast remain elevated amid rapid monetary tightening, a housing market correction, and declining household balance sheets
- **Downside:** inflation and more aggressive monetary policy response, steeper housing market correction, geopolitical uncertainty, trade disruptions, and small bank failures
- **Upside:** sustained drop in energy prices and faster resolution to inflationary pressures, resolution to war in Ukraine, and stabilized supply chains
- Risk of near-term recession remains elevated but the forecast anticipates a continued, yet slowing expansion

Supplemental Economic Outlook Slides

Competition for workers remains high with job openings and quits well above pre-pandemic levels

Job Openings

Index 100 = February 2020

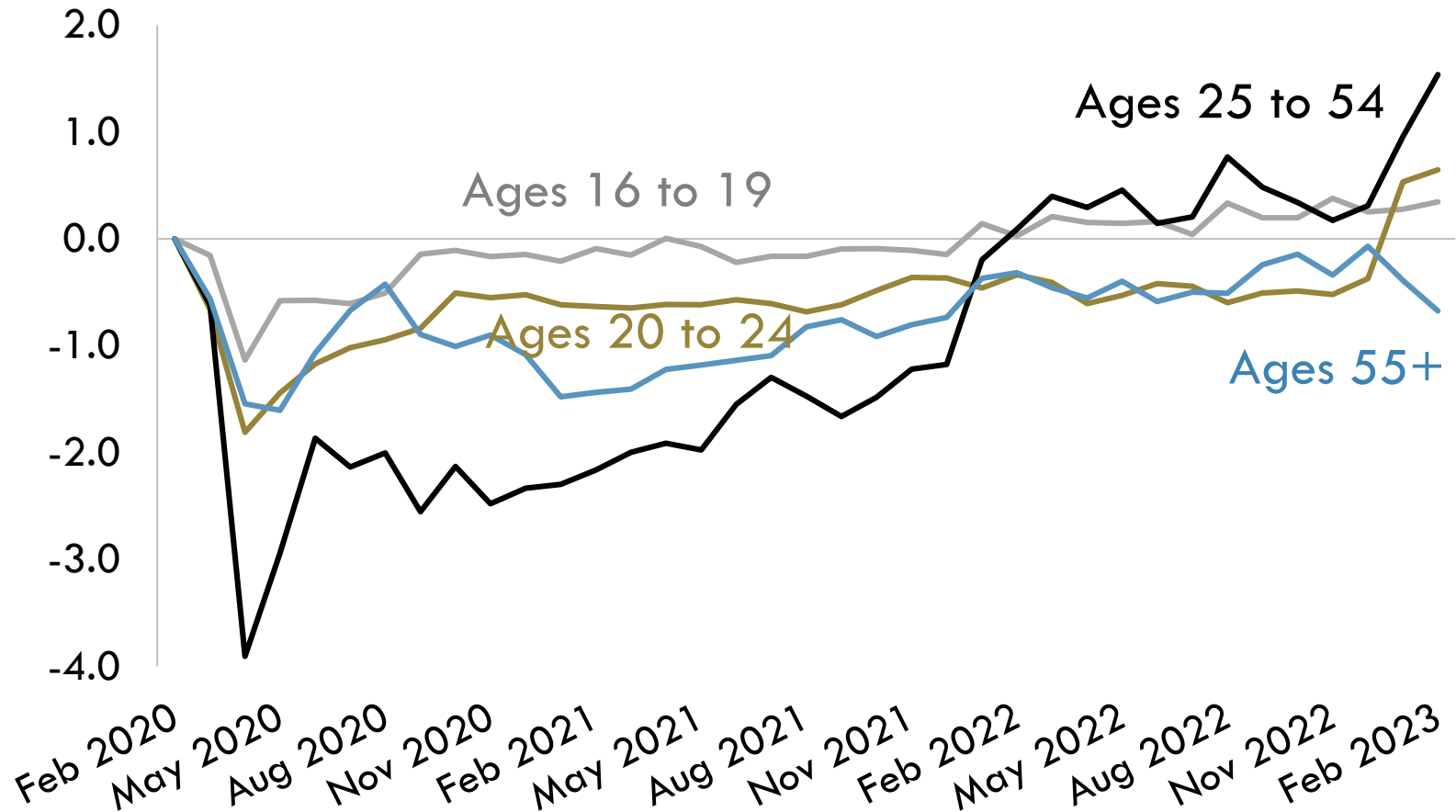


Source: U.S. Bureau of Labor Statistics, Job Openings and Labor Turnover Survey (JOLTS). Seasonally adjusted. Colorado data are through December 2022. U.S. data are through January 2023.

Workers ages 25 to 54 lead labor force recovery, older workers exiting again

U.S. Labor Force by Age

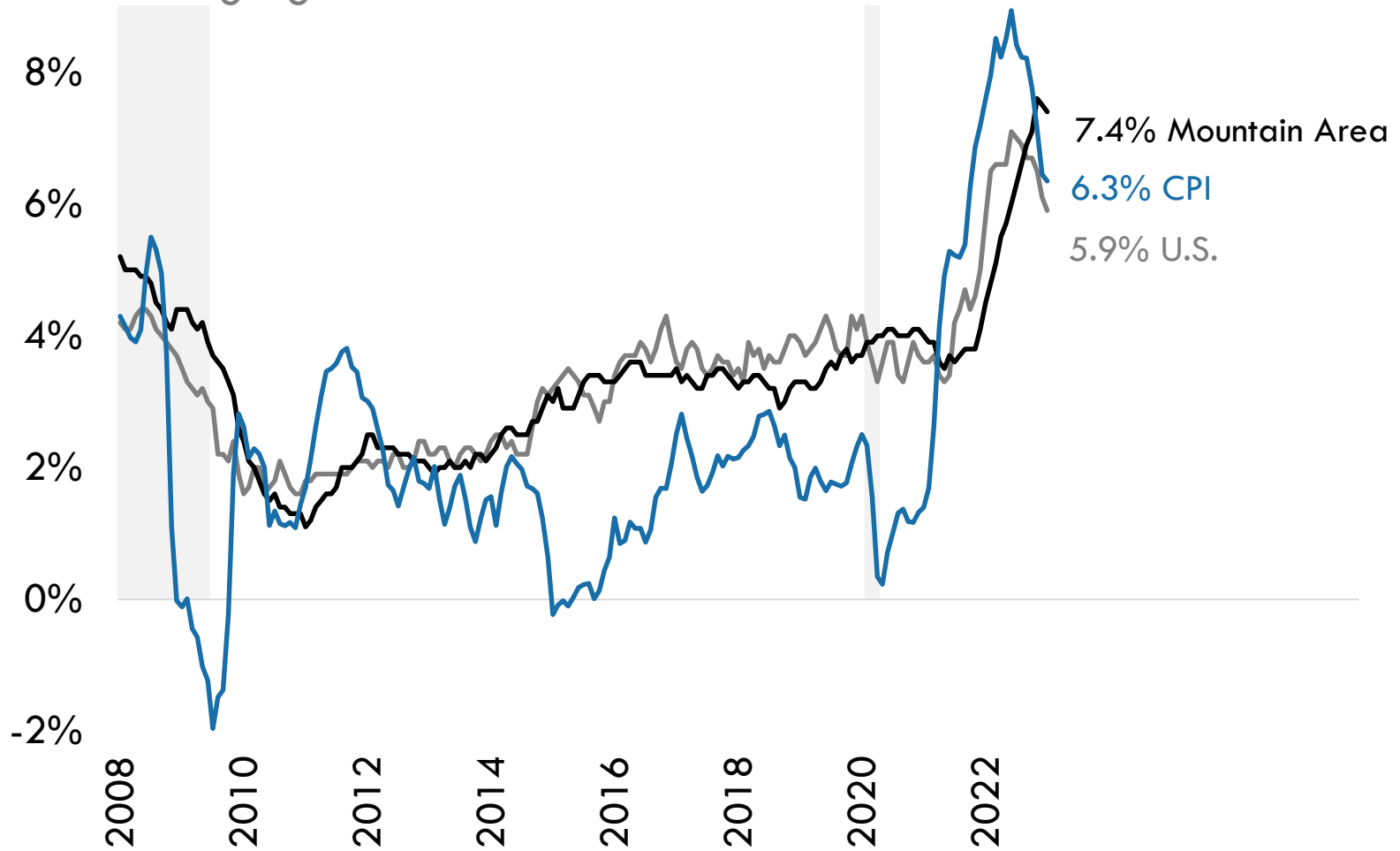
Index 0.0 = January 2020



Source: U.S. Bureau of Labor Statistics with Legislative Council Staff calculations. Data are seasonally adjusted and through February 2023.

Colorado's wage gains outperforming the nation

Nominal wage growth and inflation

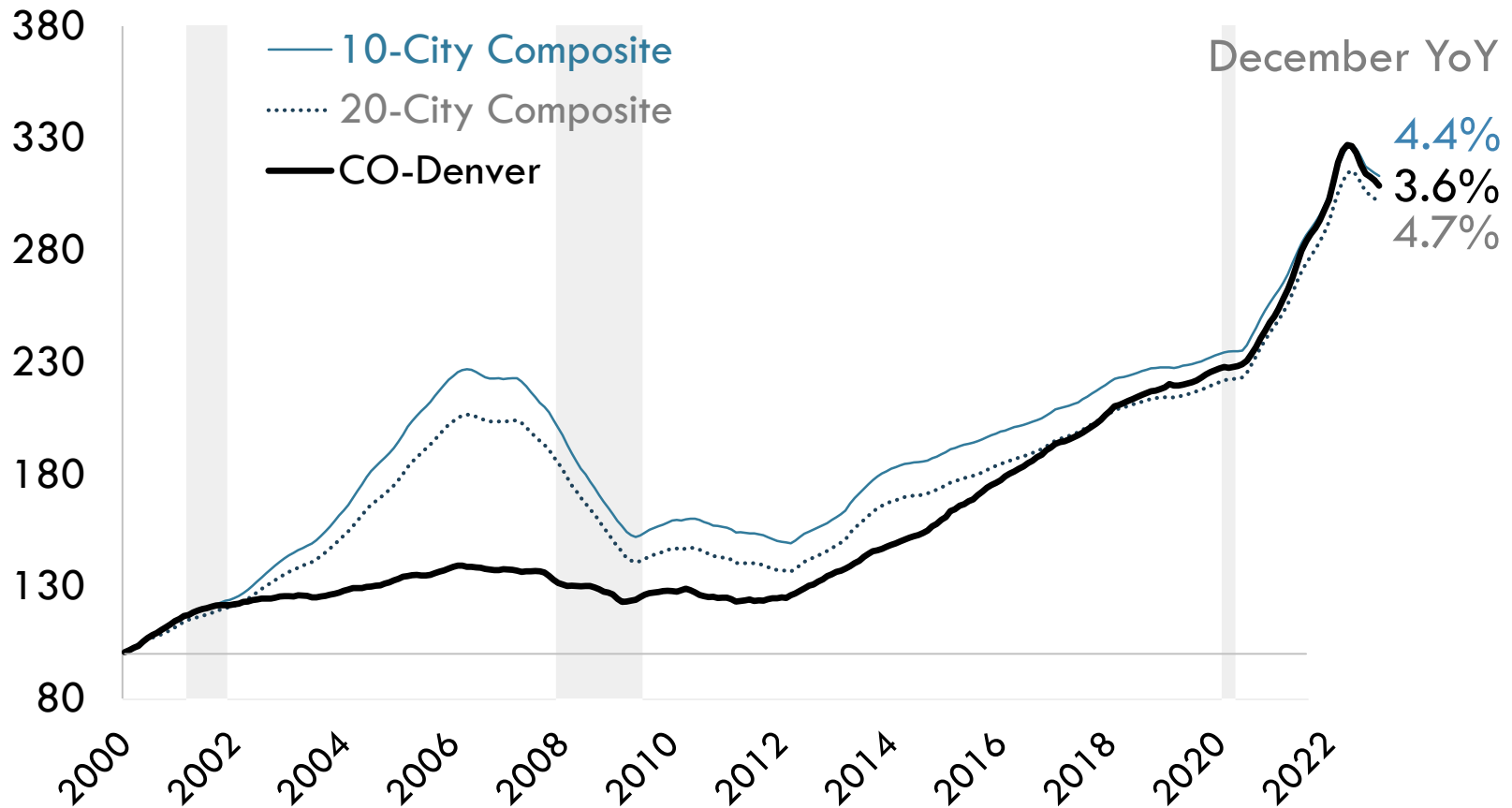


Source: Federal Reserve Bank of Atlanta. Data are 12-month moving averages of median wage growth, hourly data, through January 2023.

Home prices falling nationally, Denver homes down 15.7% from peak

Case-Shiller Home Price Indices

Index 100 = July 2012

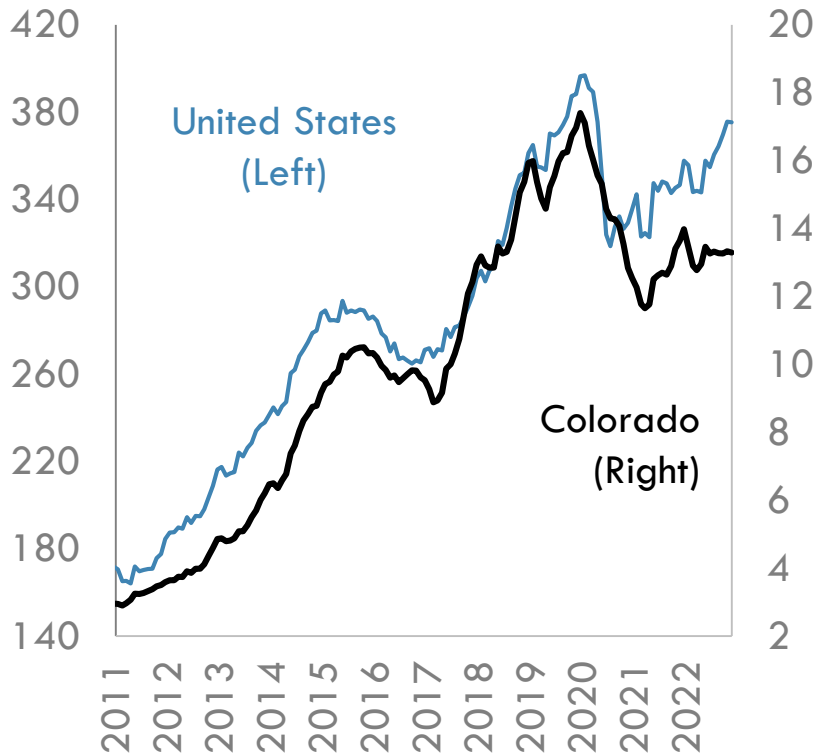


Source: S&P Dow Jones Indices, LLC. Data are seasonally adjusted and through December 2022.

Energy market dynamics

Crude Oil Production

Millions of Barrels per Month



Source: U.S. Energy Information Administration. Data are shown as three-month moving averages and are not seasonally adjusted. Data are through November 2022.

Crude Oil Price, West Texas Intermediate

Dollars per Barrel



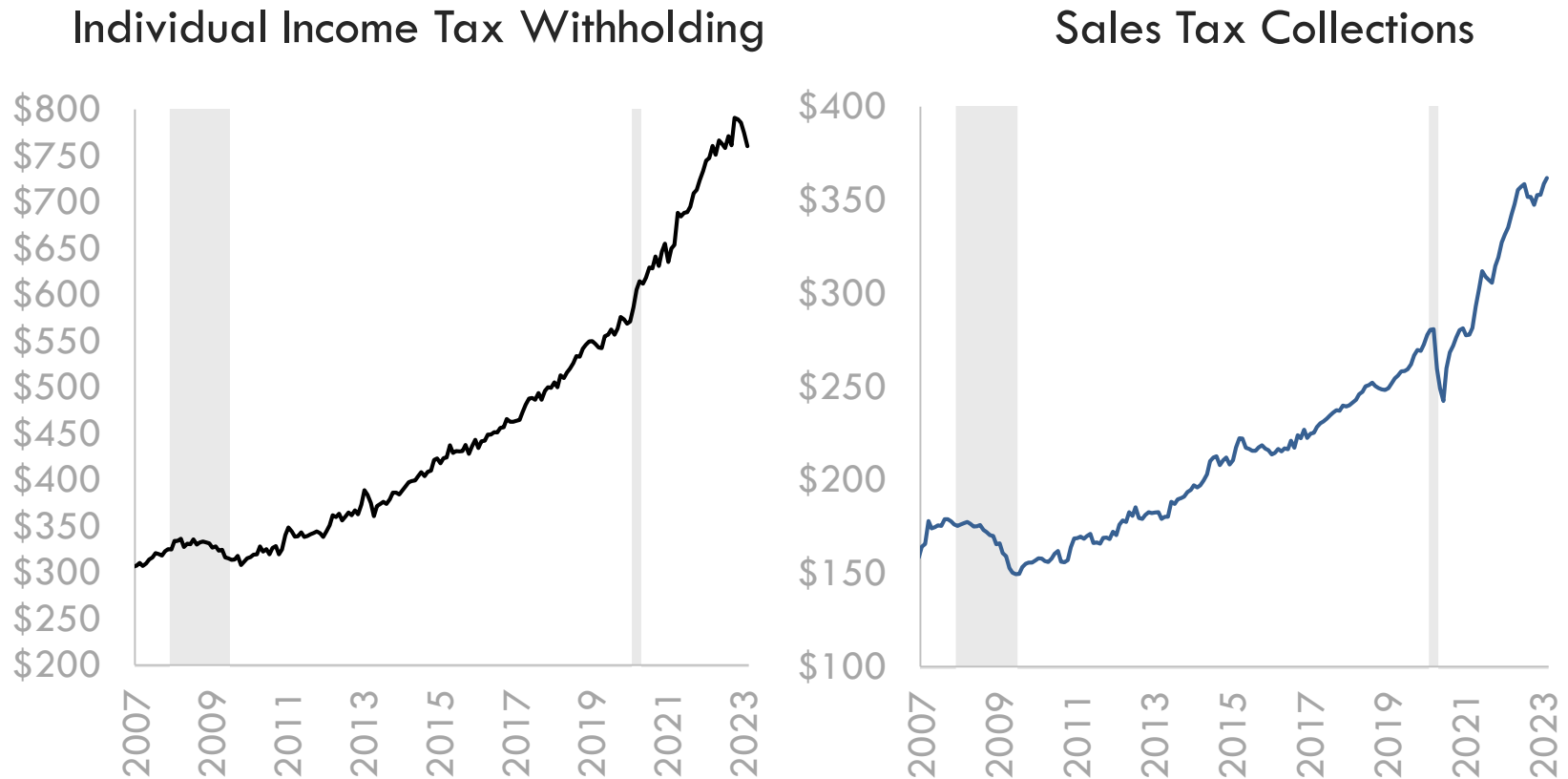
Source: U.S. Energy Information Administration. Weekly average prices. Data are not seasonally adjusted. Data through February 24, 2023.

General Fund Budget Outlook



General Fund revenue growth slowing, mostly tracking in line with December forecast expectations

Monthly General Fund Collections from Selected Sources
Dollars in Millions



Source: Colorado Office of the State Controller with Legislative Council Staff seasonal adjustments. Data shown as three-month moving averages through February 2023. February 2023 data are preliminary.

General Fund revenue growth is expected to slow on a slowing economy and reduced income tax rates

Gross General Fund Revenue

Billions of Dollars

Percentages show year-over-year changes

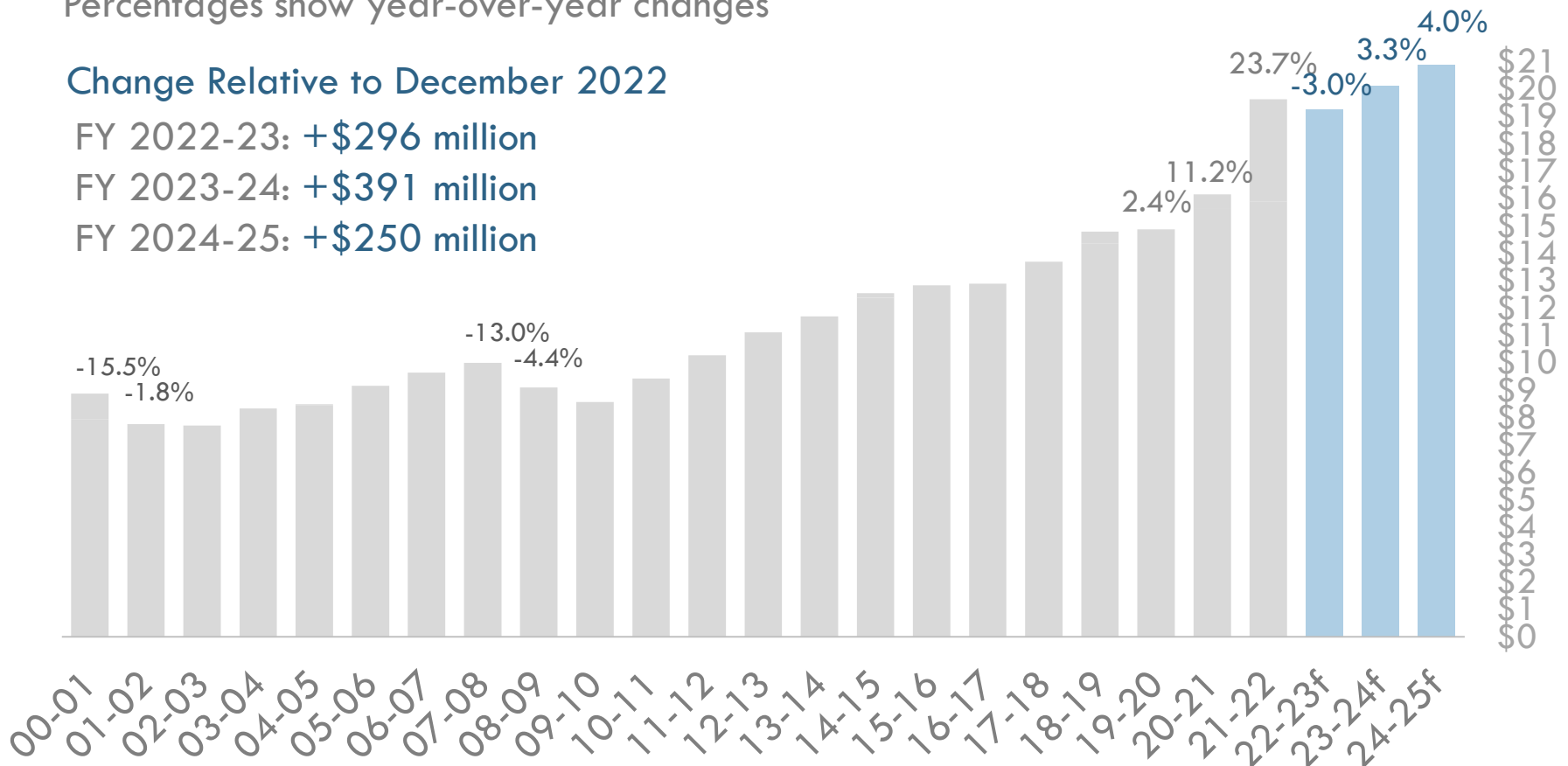
March 2023
Expectations

Change Relative to December 2022

FY 2022-23: +\$296 million

FY 2023-24: +\$391 million

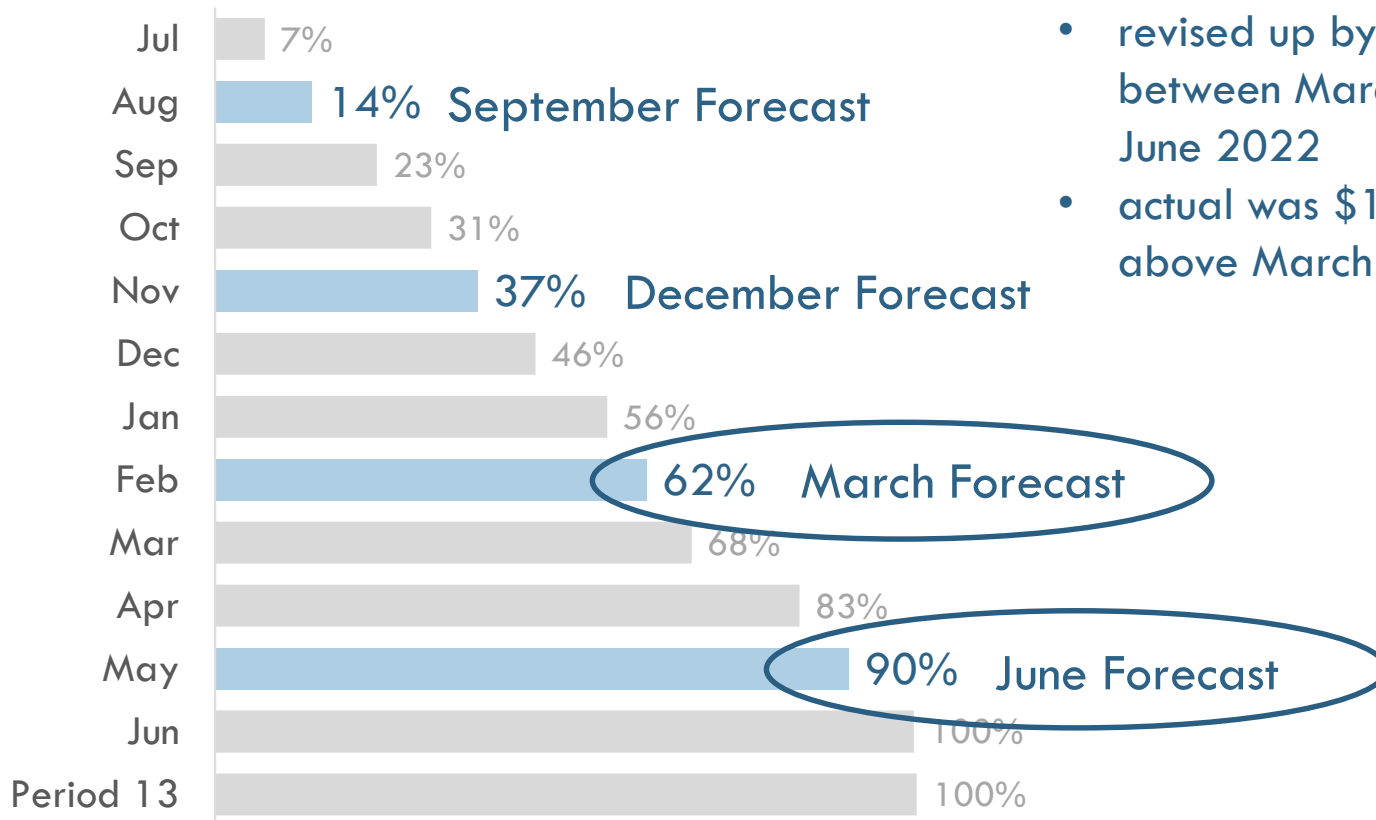
FY 2024-25: +\$250 million



Source: Colorado Office of the State Controller and Legislative Council Staff March 2023 forecast.

How much do we know about FY 2022-23?

Available General Fund Collections Data as a Share of Total Fiscal Year Collections*



FY 2021-22 income tax forecast:

- revised up by \$1.32 billion between March 2022 and June 2022
- actual was \$1.56 billion above March forecast

Source: Colorado Office of the State Controller and Legislative Council Staff calculations.

*Seven-year average of actual collections data, FY 2013-14 to FY 2018-19 and FY 2021-22. Analysis omits FY 2019-20 and FY 2020-21 due to unusual tax payment deadlines during the COVID-19 pandemic.

TABOR Outlook

Revenue Subject to TABOR

Dollars in Billions

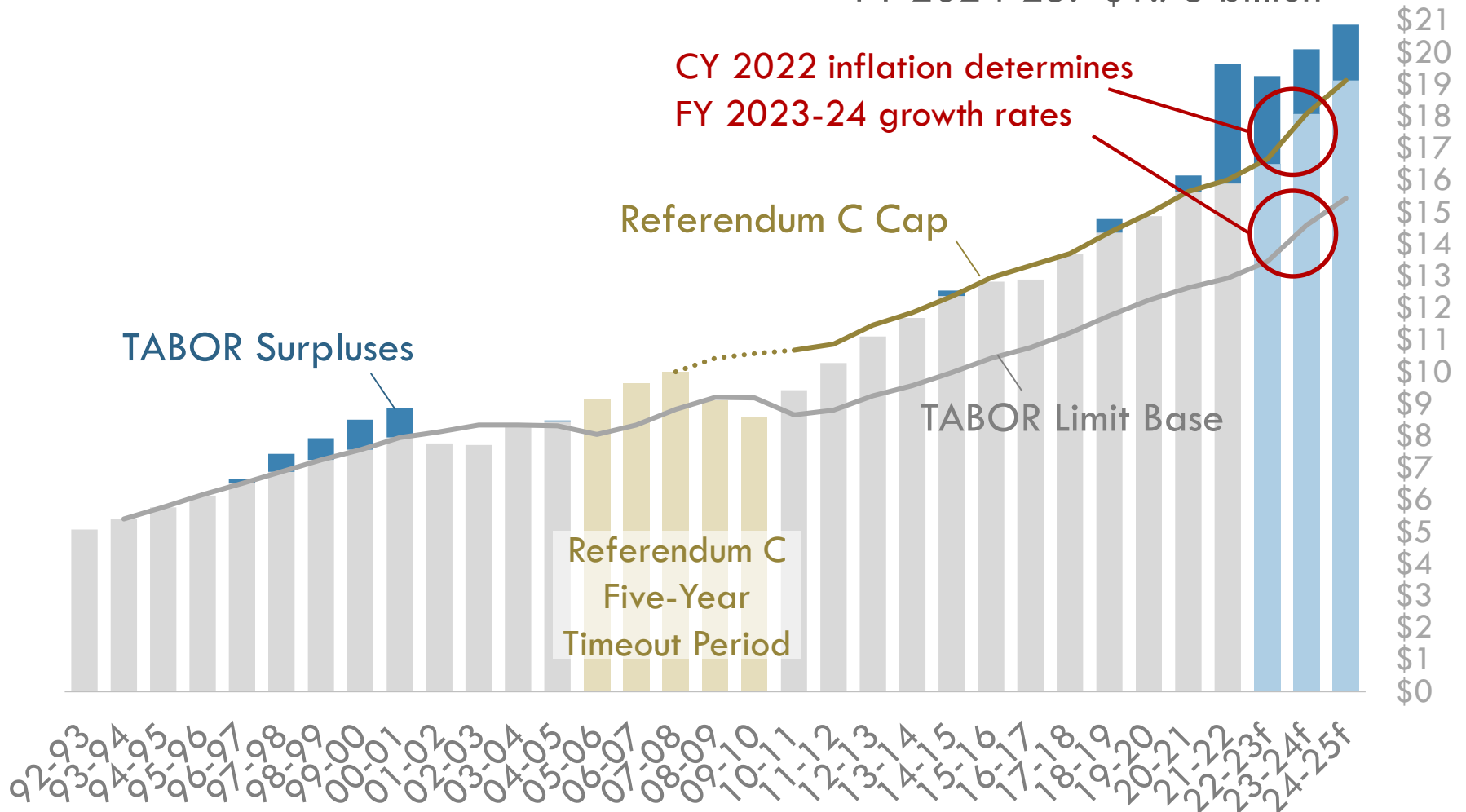
Revenue Above the Ref C Cap

FY 2021-22: \$3.73 billion

FY 2022-23: \$2.75 billion

FY 2023-24: \$2.02 billion

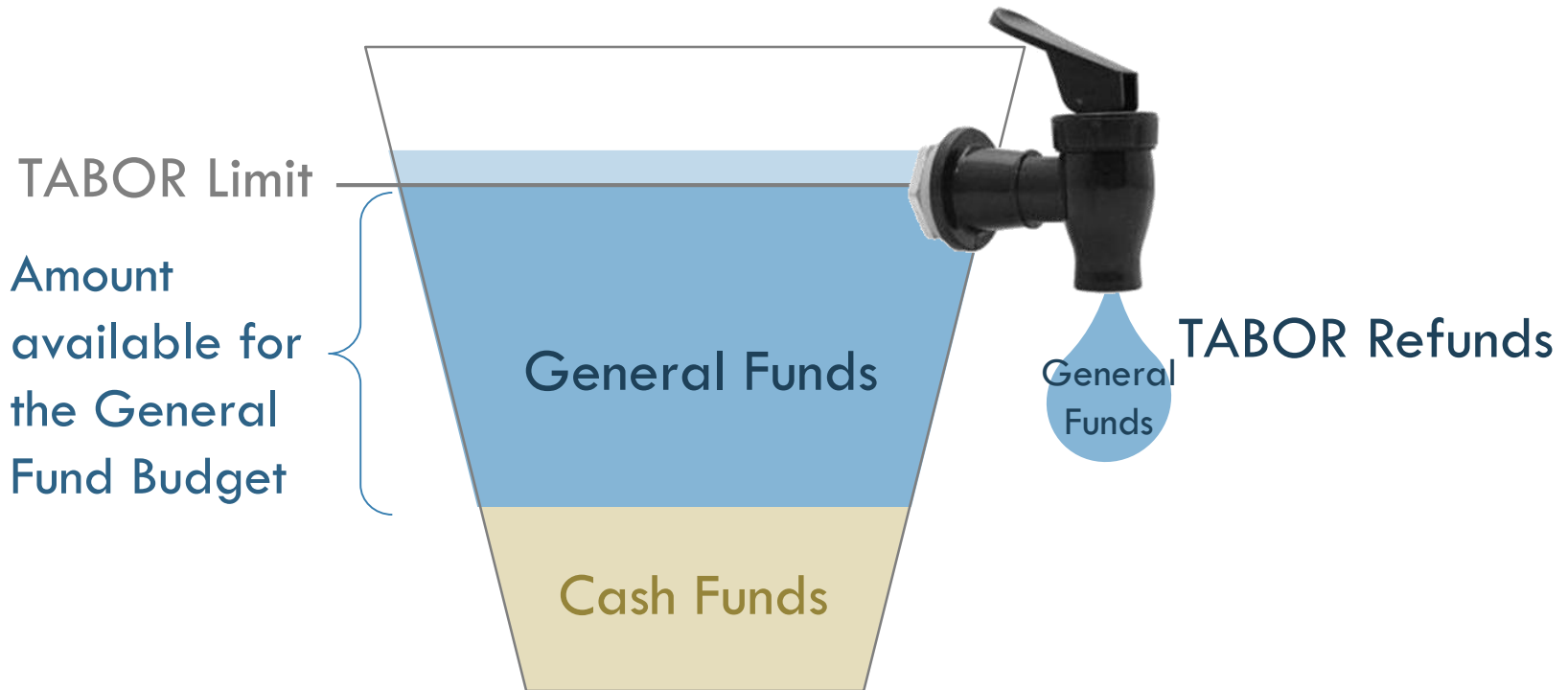
FY 2024-25: \$1.75 billion



Source: Colorado Office of the State Controller and Legislative Council Staff March 2023 forecast.

TABOR Refunds are refunded from General Funds

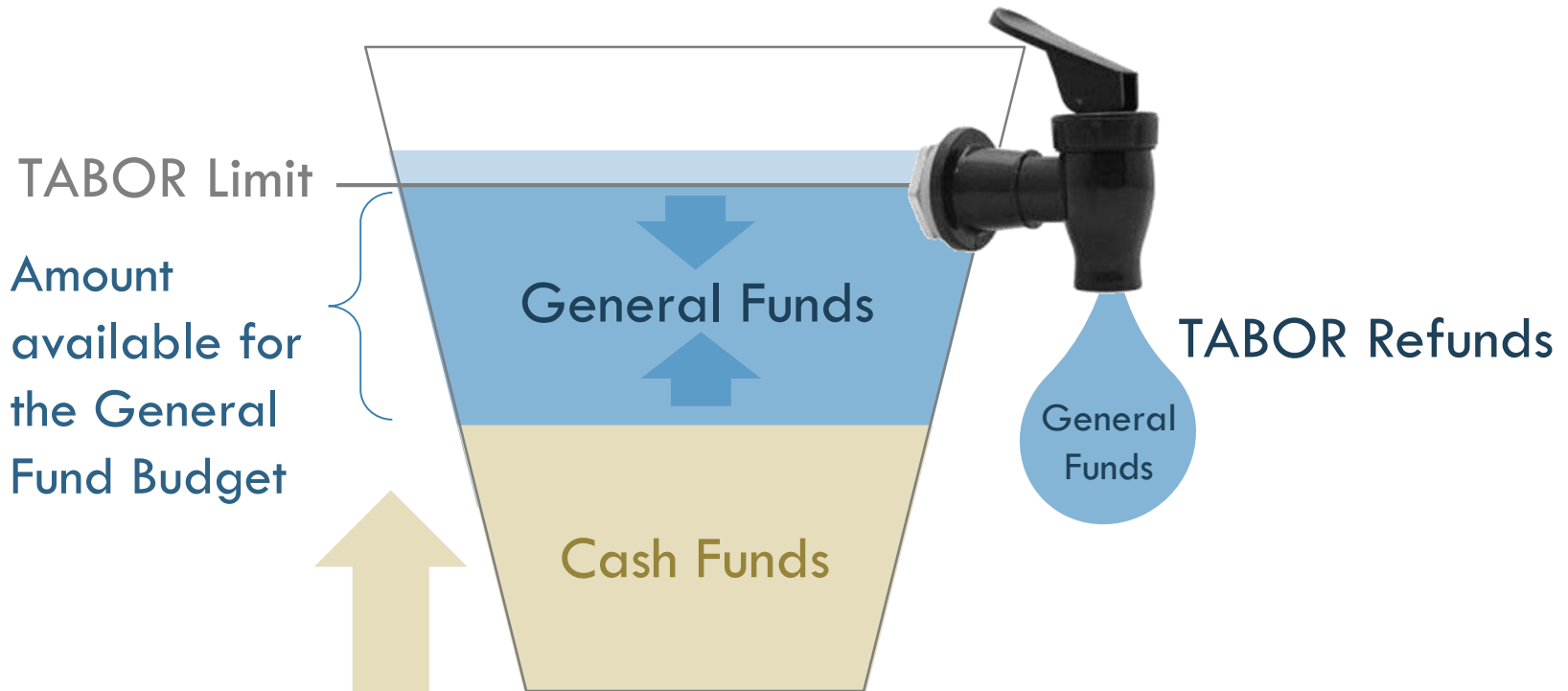
In a TABOR surplus situation...



General Fund dollars in = General Fund dollars out

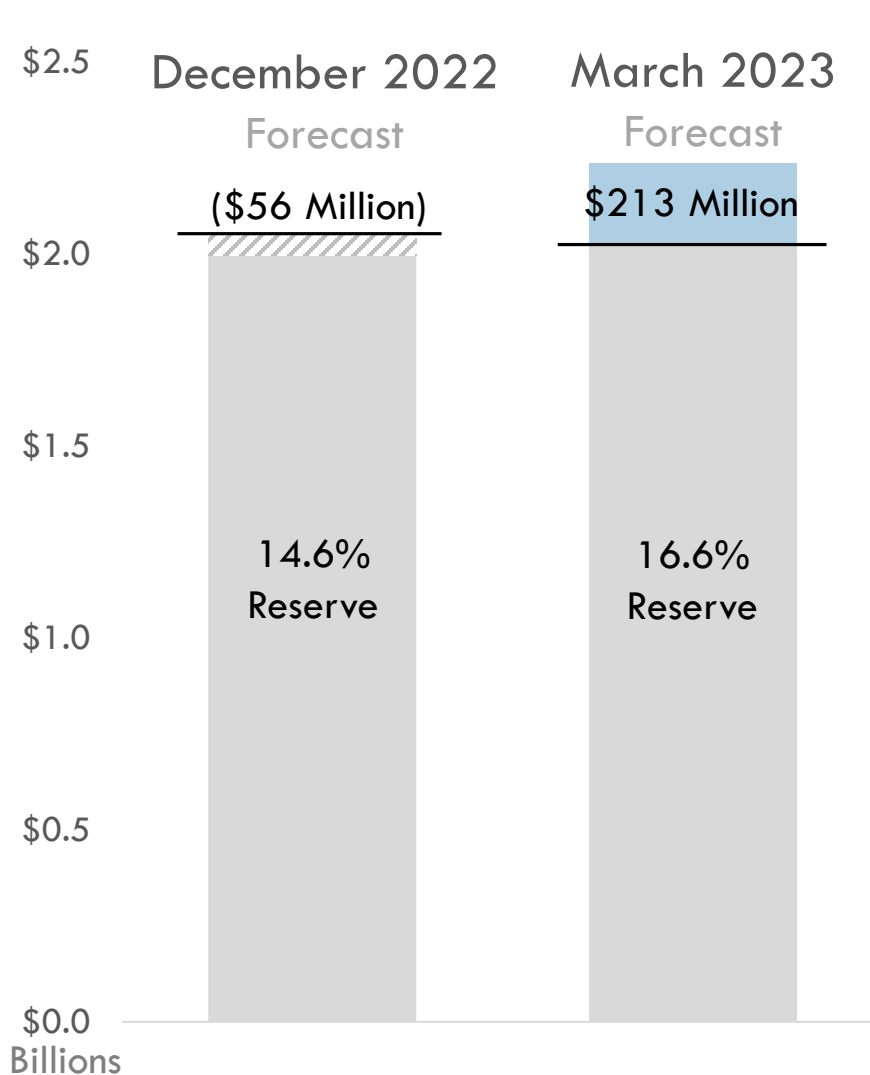
TABOR Refunds are refunded from General Funds

In a TABOR surplus situation...



Cash Fund dollars in = General Fund dollars out

Current Year | FY 2022-23 General Fund Reserve



Changes since the December 2022 forecast:
\$1.3 million higher beginning balance (+)

Revenue and TABOR refund expectations both increased; on net, \$10.8 million less in adjusted TABOR refund obligation (+)

GF appropriations decreased by \$189.7 million, with \$28.5 million lower required reserve (++)

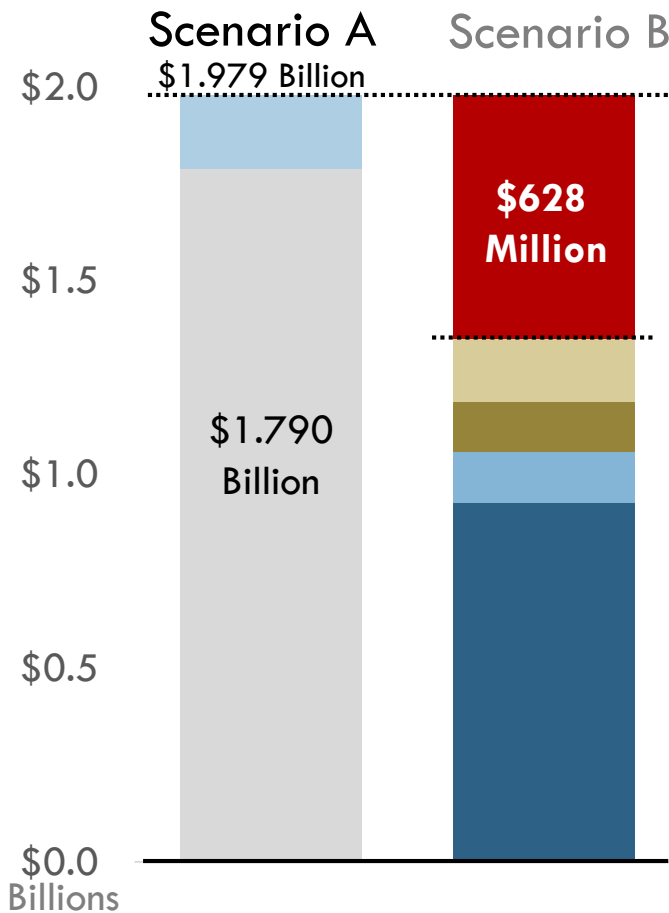
\$42.3 million less in statutory rebates and expenditures (+)

Net transfers from the GF increased by \$3.6 million (-)

Source: Legislative Council Staff forecasts based on current law.

Budget Year | FY 2023-24 Budget Outlook

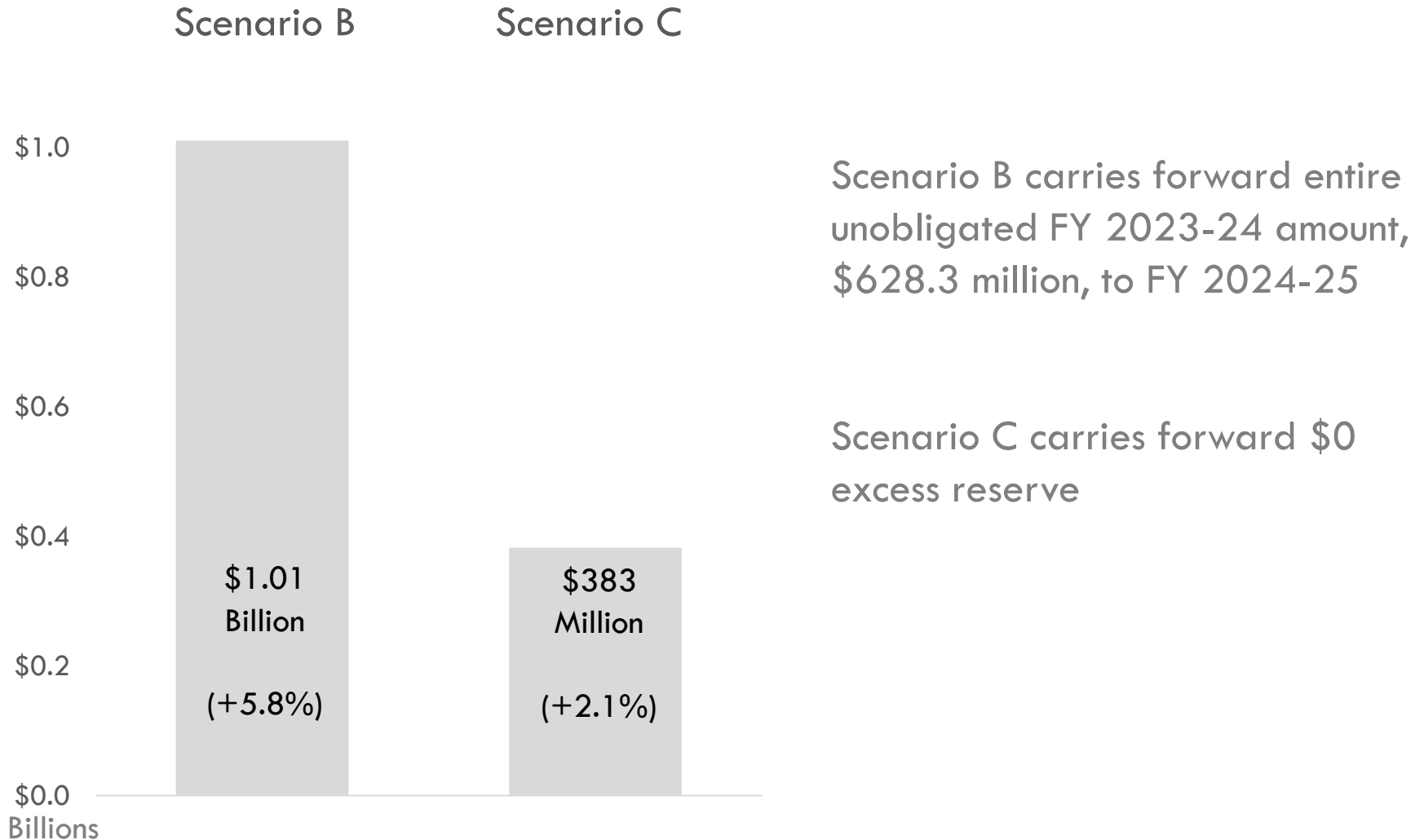
Scenario A: Additional revenue available to spend or save above current FY 2022-23 spending levels. Amounts hold FY 2022-23 appropriations constant and incorporate the revenue forecast, current law transfers, rebates and expenditures, and the 15% reserve requirement.



Scenario B Assumptions

- **\$628.3 million** available to spend or save
 - Up to \$628.3 million in transfers **OR**
 - Up to \$546.4 million in appropriations
 - **Capital transfers deduct from this amount**
- Increased reserve requirement: \$161 million
- JBC-approved placeholders total \$130 million
- Budget package bills total \$131 million
- Budget actions to date increase appropriations by \$928 million (relative to Scenario A)
- FY 2022-23 adjustments increase beginning balance by additional \$189 million

Out Year | FY 2024-25 Budget Outlook



Risks to the Forecast

New sources of uncertainty, elevated recession risk

- Near-term recession risk from suppressed demand easing
- Near-term recession risk from financial instability rising – and little information at the time of this forecast
- Taxpayer behavior in response to these conditions has a major impact on revenue

Risks to the budget outlook

- Revenue will be constrained by the Referendum C cap through the forecast period, capping General Fund budget growth
- Regular forecast error can be absorbed by TABOR refunds; a recession would constrain revenue available for the budget
- Higher (or lower) cash funds revenue subject to TABOR means more (or less) budget pressure

Questions?

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