Economic Outlook
Economy in transition from rapid post-recession recovery to slower growth trend

Real U.S. Gross Domestic Product

Dollars in Trillions

$21
$20
$19
$18
$17
$16
$15
$14


Great Recession
2008: -0.1%
2009: -2.5%

2020: -3.4%
2022 Forecast: +1.4%

Source: U.S. Bureau of Economic Analysis and Legislative Council Staff September 2022 projections. Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.
Colorado’s unemployment rate ticked up to 3.4 percent in August

Unemployment rates

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

Job Openings

Index 100 = February 2020

Colorado exceeded pre-pandemic jobs by 55,400 in August

Change in Colorado Employment
Thousands of Jobs

Majority of sectors have recovered jobs lost in the recession, leisure and hospitality sectors close to pre-pandemic levels.

Nation’s inflationary pressures continue, forecast to average 7.9 percent in 2022 and 4.3 percent in 2023

U.S. City Average CPI-U Inflation

Year-over-Year Change in Prices

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

U.S. CPI-U, Selected Components, August 2022

Year-over-Year Change in Prices

<table>
<thead>
<tr>
<th>Category</th>
<th>Percentage</th>
<th>Percentage Point Contribution</th>
</tr>
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<tbody>
<tr>
<td>Headline</td>
<td>8.2%</td>
<td>8.2%</td>
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<tr>
<td>Core</td>
<td>6.3%</td>
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<tr>
<td>Energy</td>
<td>23.9%</td>
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<td>Food</td>
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<td>Apparel</td>
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<td>Transportation</td>
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<td>Medical Care</td>
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<td>4.1%</td>
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<tr>
<td>Education</td>
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<tr>
<td>Other</td>
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</table>

Inflation is calculated as the growth in urban area prices in a given period relative to the same period in the prior year.
Home prices accelerated during the pandemic but are expected to level off in the years ahead

Case-Shiller Home Price Indices
Index 100 = July 2012

Source: S&P Dow Jones Indices, LLC. Data are seasonally adjusted and through June 2022.
Inflation outpacing wage gains, real wages decline

Real Average Hourly Wages
2022 Dollars

Real retail and food services sales growth choppy as inflation and spending patterns impact gains

Real U.S. Retail and Food Service Sales

Source: U.S. Census Bureau. Adjusted for inflation using the consumer price index for all urban areas (CPI-U). Data are seasonally adjusted and through August 2022.
Risks to the forecast remain weighted to the downside

- Risks to the forecast remain elevated amid evolving monetary policy, a housing market correction, and the war in Ukraine

- **Downside:** inflation and more aggressive monetary policy response, steep housing market correction, geopolitical uncertainty and trade disruptions

- **Upside:** sustained drop in energy prices, resolution to war in Ukraine, and stabilized supply chains

- Risk of near-term recession continues to escalate but the forecast anticipates a continued, yet slowing expansion
General Fund Budget Outlook
FY 2021-22 revenue broke records...
...but we don’t expect much additional growth

Gross General Fund Revenue
Billions of Dollars
Percentages show year-over-year changes

Change Relative to June 2022
FY 2021-22: +$266 million
FY 2022-23: +$521 million
FY 2023-24: +$655 million

Source: Colorado Office of the State Controller and Legislative Council Staff September 2022 forecast.
TABOR Outlook
Revenue Subject to TABOR
Billions of Dollars

Revenue Above the Ref C Cap
FY 2021-22 (certified): $3.73 billion
FY 2022-23: $3.63 billion
FY 2023-24: $2.28 billion
FY 2024-25: $1.90 billion

Referendum C
Five-Year Timeout Period

Referendum C Cap

TABOR Surpluses

TABOR Limit Base

CY 2022 inflation affects FY 2023-24 limits

Source: Colorado Office of the State Controller and Legislative Council Staff June 2022 forecast.
FY 2021-22 TABOR Surplus Refunded in FY 2022-23

Expected TABOR Mechanism Amounts
Millions of Dollars

Six-Tier Sales Tax Mechanism
- $815.6

SB 22-233 Direct Payments
- $2,739.7
  $750 for individuals
  $1,500 for joint filers

Temporary Income Tax Rate Reduction
- $151.8
- $161.3

Property Tax Refunds
- $385.7
- $152.9

TABOR Surplus & Set Aside:
Refunded in Fiscal Year:
- 2021-22: 2022-23
- 2022-23: 2023-24
- 2023-24: 2024-25
- 2024-25: 2025-26

• FY 2021-22 includes $133.8 million in underrefunds of prior surpluses
• Does not include $22.0 million Prop EE obligation under TABOR (3)

Source: Legislative Council Staff September 2022 forecast.
Government costs are increasing at different rates

Selected Measures of Government Costs, 2011-2021

Source: Bureau of Labor Statistics; Bureau of Economic Analysis; Federal Highway Administration.
Completed Year | FY 2021-22 General Fund Reserve

Changes since the June 2022 forecast:

- Revenue and TABOR refund both came in above forecast
- On net, $94.3 million less in TABOR refund obligation
- Net transfers from the GF increased by $149.2 million
- Rebates and expenditures increased by $7.9 million

Source: Office of the State Controller and Legislative Council Staff forecasts based on current law.
Current Year | FY 2022-23 General Fund Reserve

June 2022 Forecast | September 2022 Forecast

15.0% Required Reserve - $2.05B

$191 Million | $251 Million

Changes since the June 2022 forecast:

- $62.8 million lower beginning balance
- Revenue and TABOR refund expectations both increased
- On net, $82.8 million more in TABOR refund obligation
- Net transfers from the GF decreased by $92.9 million
- Small adjustments to appropriations, rebates, reserve

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 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

- Reserve requirement increases by $81 million
- Controlled maintenance: $141 million
- IT capital projects: $44 million
- Capital construction: $194 million
- Community provider rates increase by $60 million
- Employee compensation increases by $98 million
- Appropriations increase by a net of $380 million
  - +$238 million for HCPF
  - +$196 million for school finance
  - -$63 million for OIT
  - +$9 million across other agencies

Source: Legislative Council Staff September 2022 forecast. See Table 2 for additional discussion.
Risks to the Forecast

Elevated recession risk

• Global economy deteriorating
• Aggressive Fed tightening risks triggering recession
• Other economic risks from supply chains, housing market, Ukraine, COVID-19

Risks to the budget outlook

• Revenue will be constrained by the Referendum C cap through the forecast period
• Immediate risks to the budget are on the expenditures side
• Regular forecast error can be absorbed by TABOR refunds; a recession could likely 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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Supplemental Economic Outlook Slides
Workers ages 25 to 54 lead labor force recovery, followed by teens

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 August 2022.
U.S. wage growth varies by wage quartile

12 month moving averages of monthly median wage growth, lowest 25 percent (1st quartile) to highest 25 percent (4th quartile)


1st Quartile 2nd Quartile 3rd Quartile 4th Quartile
7.3% 6.3% 4.7% 3.8%
Colorado’s retail sales start the year strong, expected to moderate

Colorado Retail Sales
Index January 2020 = 100

Source: Colorado Department of Revenue. Data through May 2022.
Energy market dynamics

Crude Oil Production
_Millions of Barrels per Month_

Crude Oil Price, West Texas Intermediate
_Dollars per Barrel_

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