



June 2022 Legislative Council Staff

Economic & Revenue Forecast

Presentation to the Joint Budget Committee

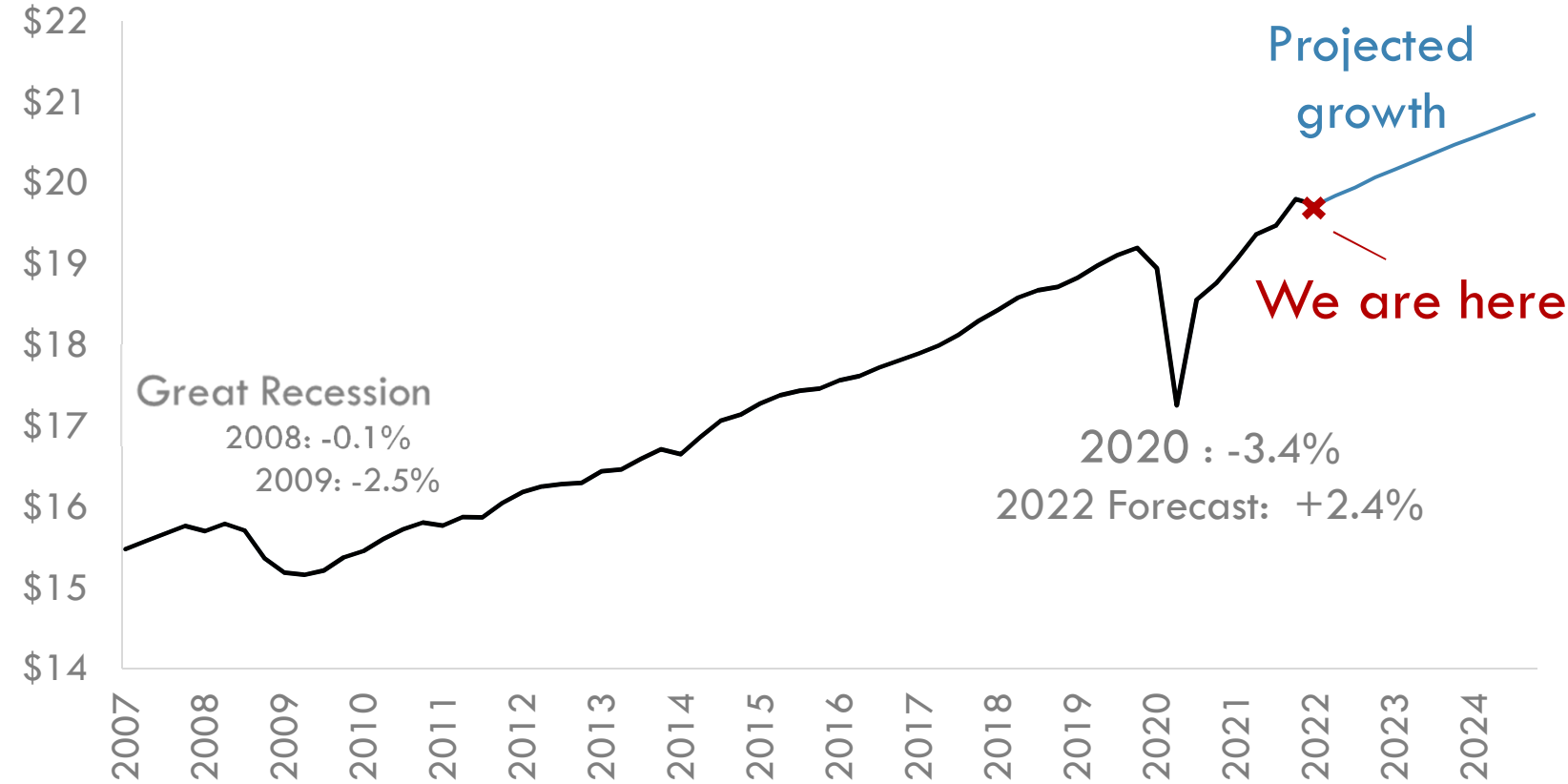
June 21, 2022

Economic Outlook



The economy continues to recover, near-term risks are elevated

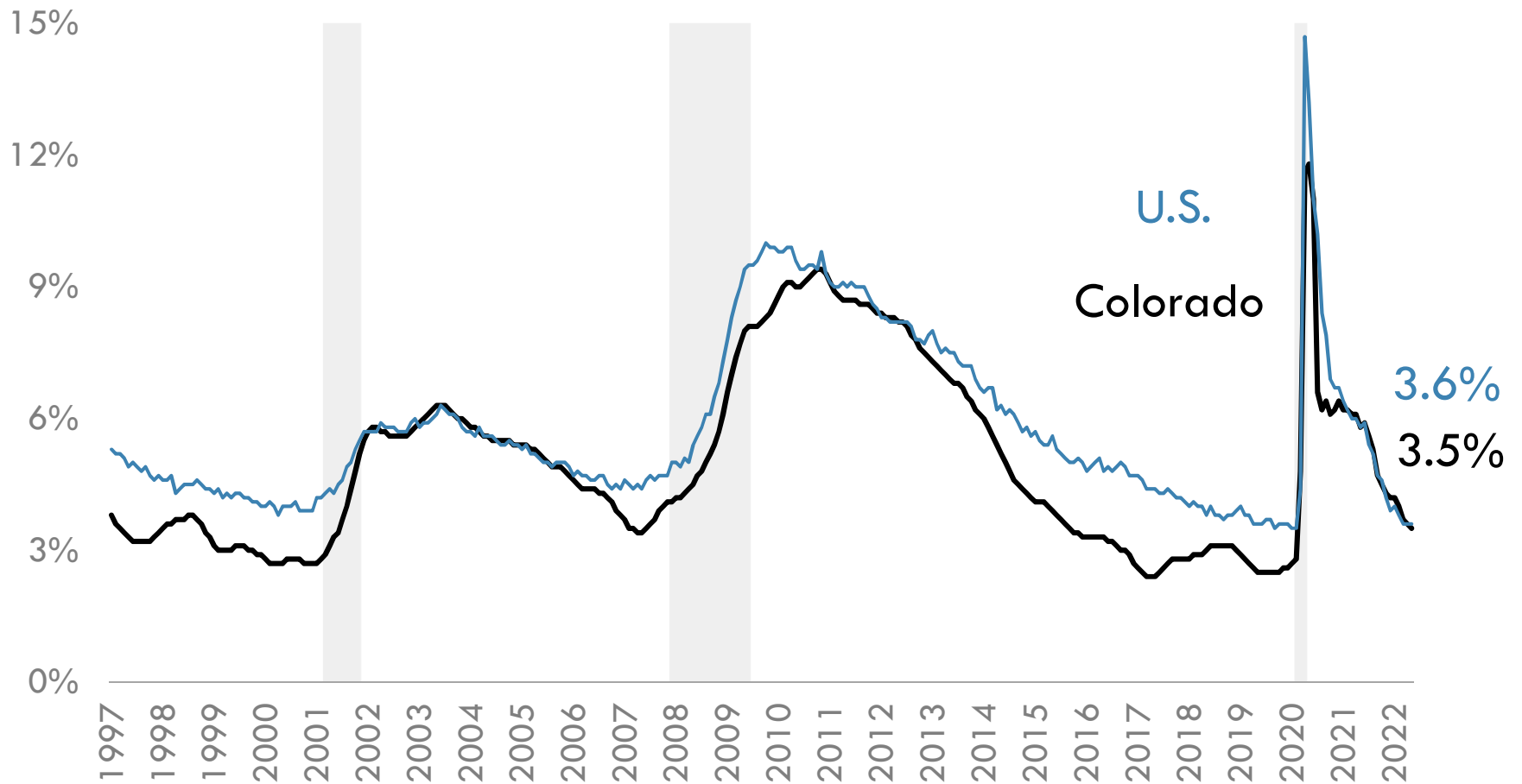
Real U.S. Gross Domestic Product
Dollars in Trillions



Source: U.S. Bureau of Economic Analysis and Legislative Council Staff June 2022 projections.
Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.

Colorado's unemployment rate fell to 3.5 percent in May

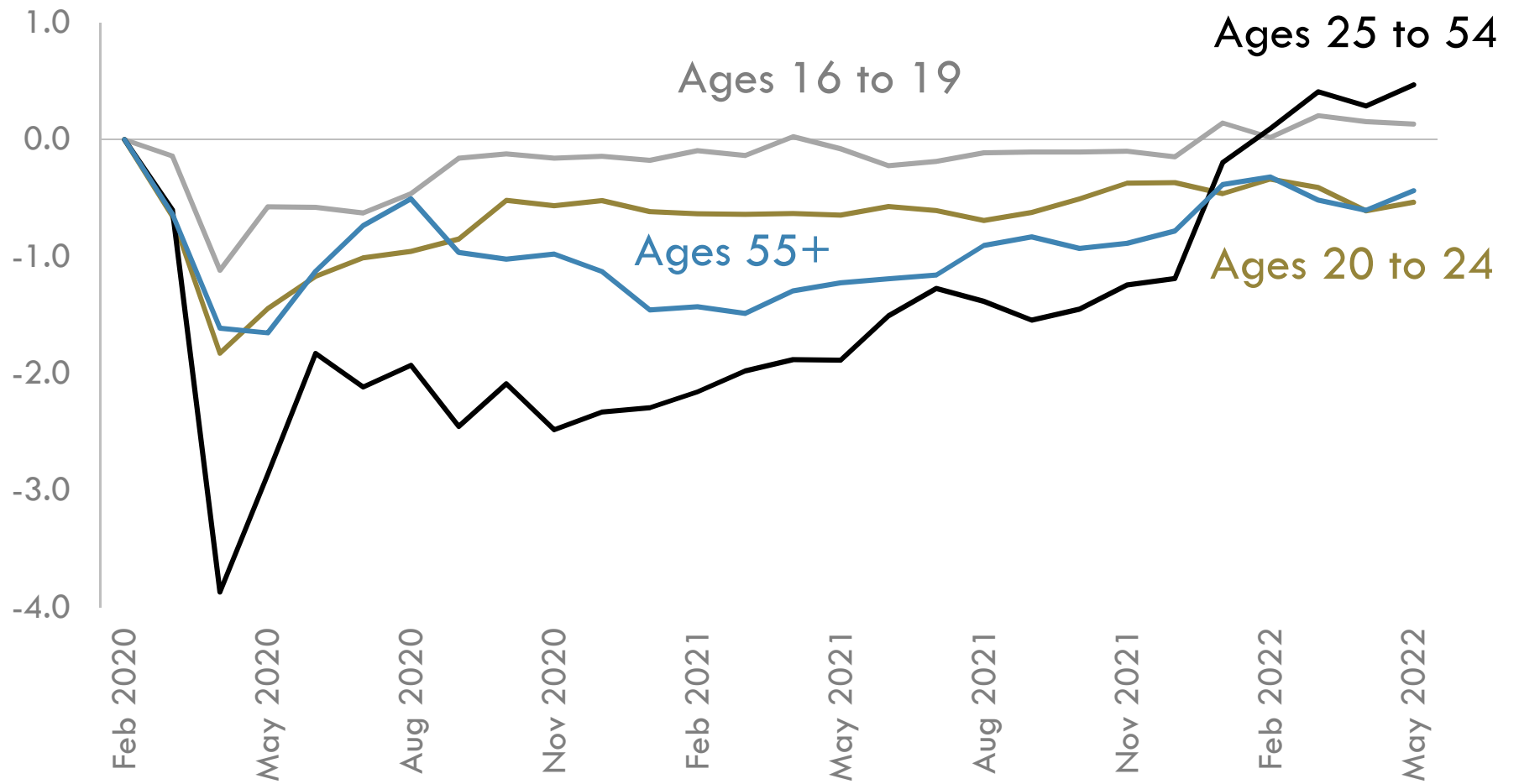
Unemployment rates



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

Labor force ages 25 to 54 rises above pre-pandemic levels

U.S. Labor Force by Age
Index 0.0 = January 2020

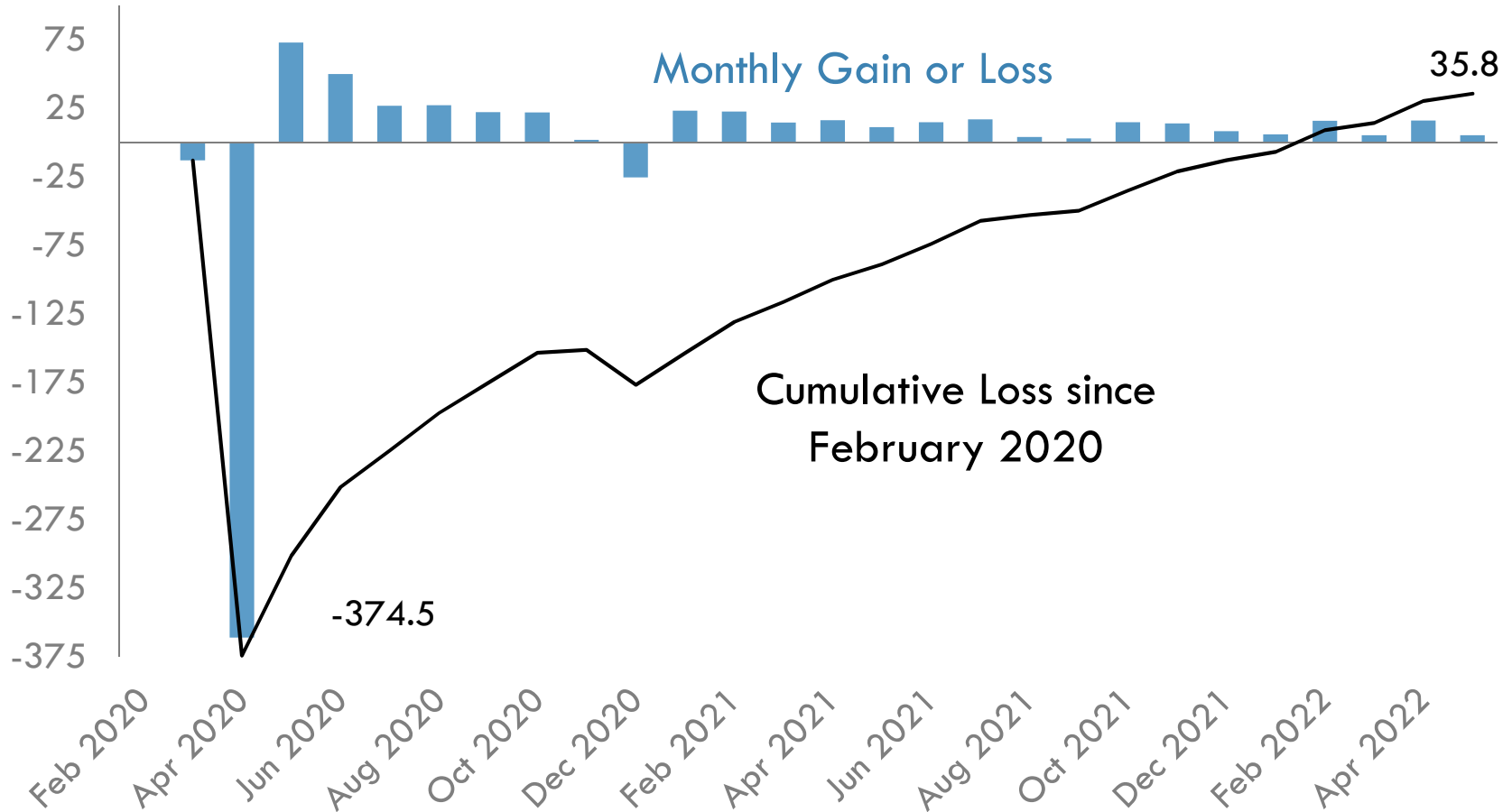


Source: U.S. Bureau of Labor Statistics with Legislative Council Staff calculations. Data are seasonally adjusted and through May 2022.

Colorado exceeds pre-pandemic jobs by 35,800 in May

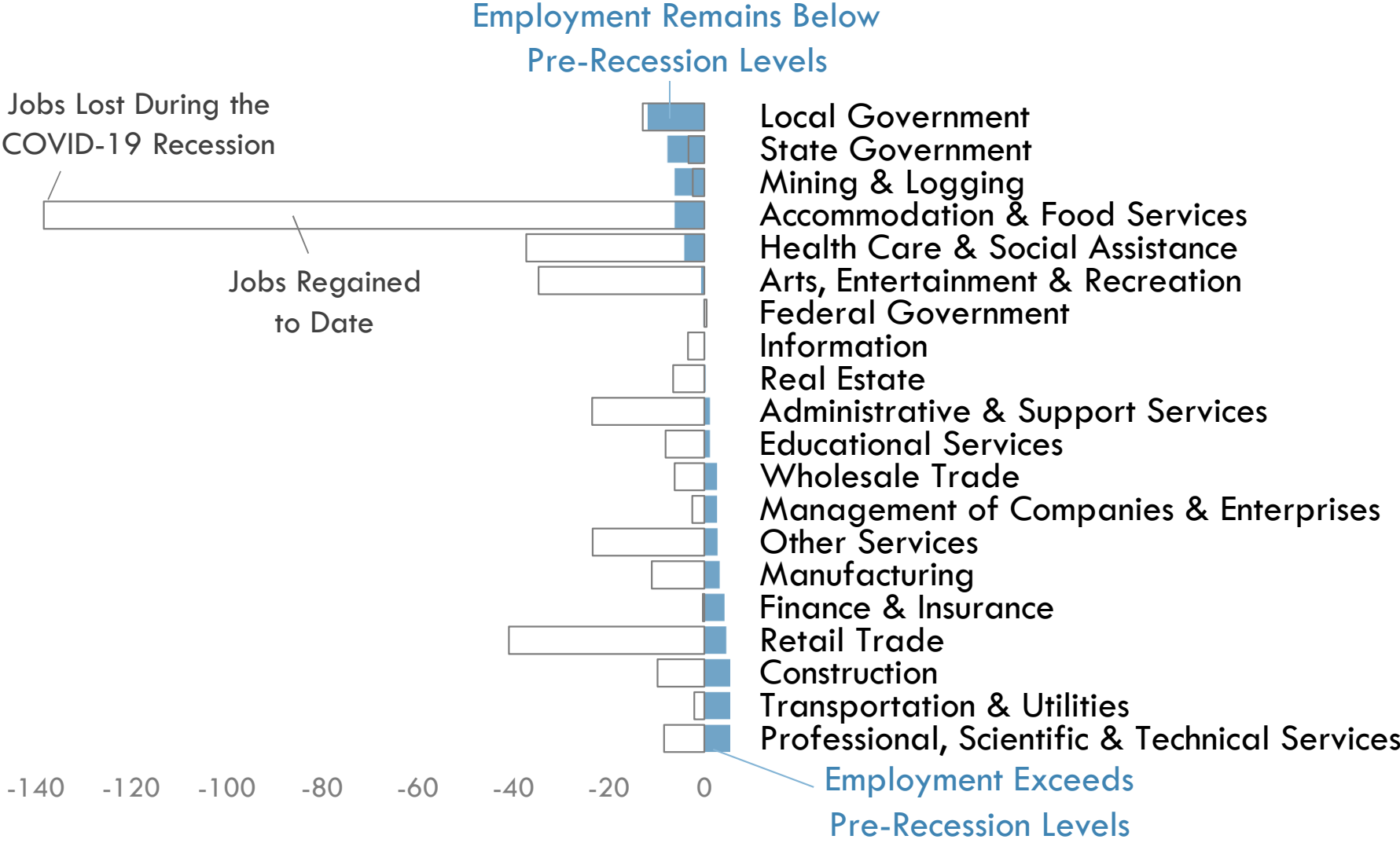
Change in Colorado Employment

Thousands of Jobs



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

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

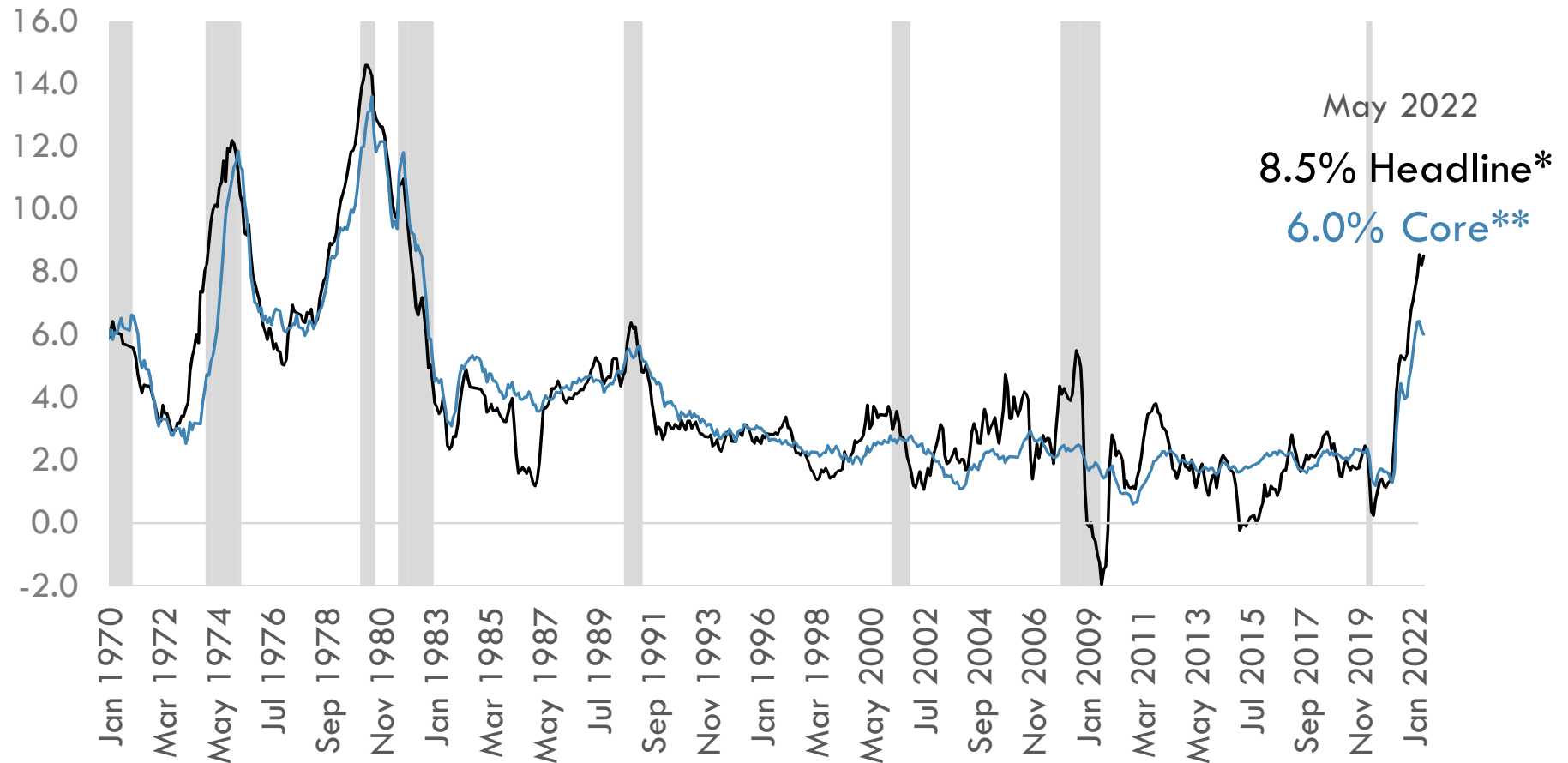


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted and through May 2022.

Inflationary pressure continues, forecast to average 7.7 percent in 2022 and 4.4 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.

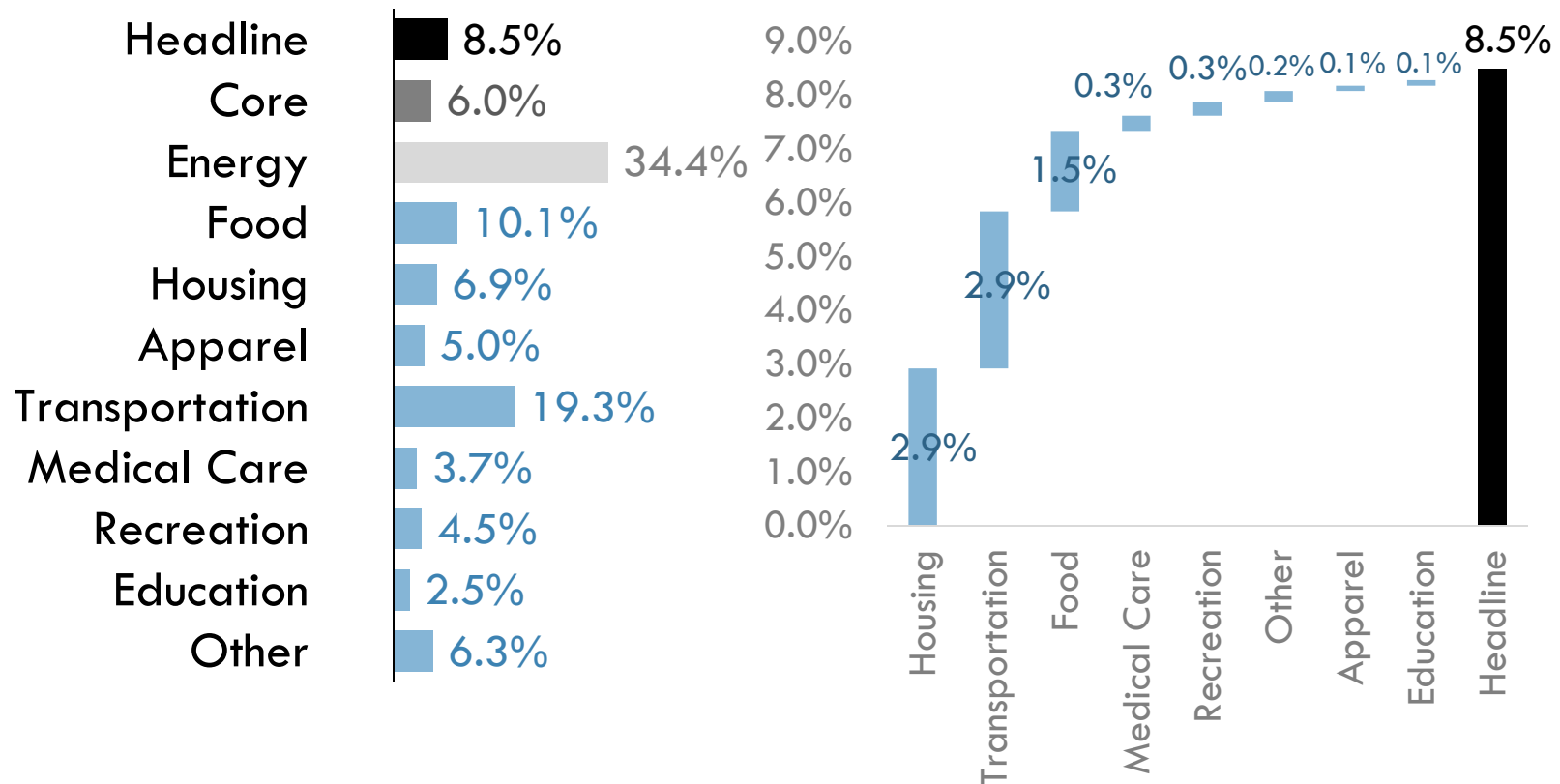
*Headline inflation includes all products and services. **Core inflation excludes food and energy prices.

Energy, housing, transportation, and food driving inflation

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

Year-over-Year Change in Prices

Percentage Point Contribution

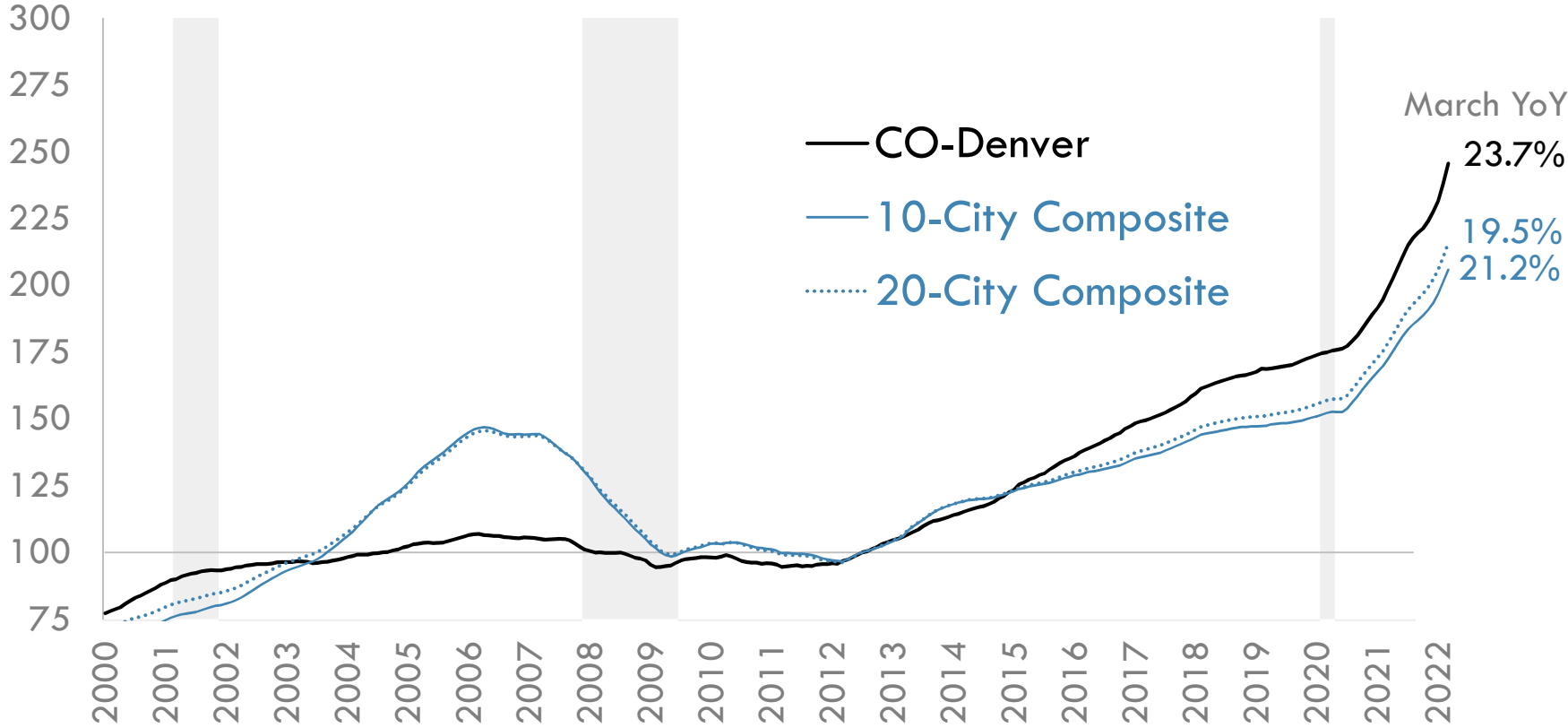


Source: U.S. Bureau of Labor Statistics.

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

Home prices accelerated during the pandemic but are expected to level off in the years ahead

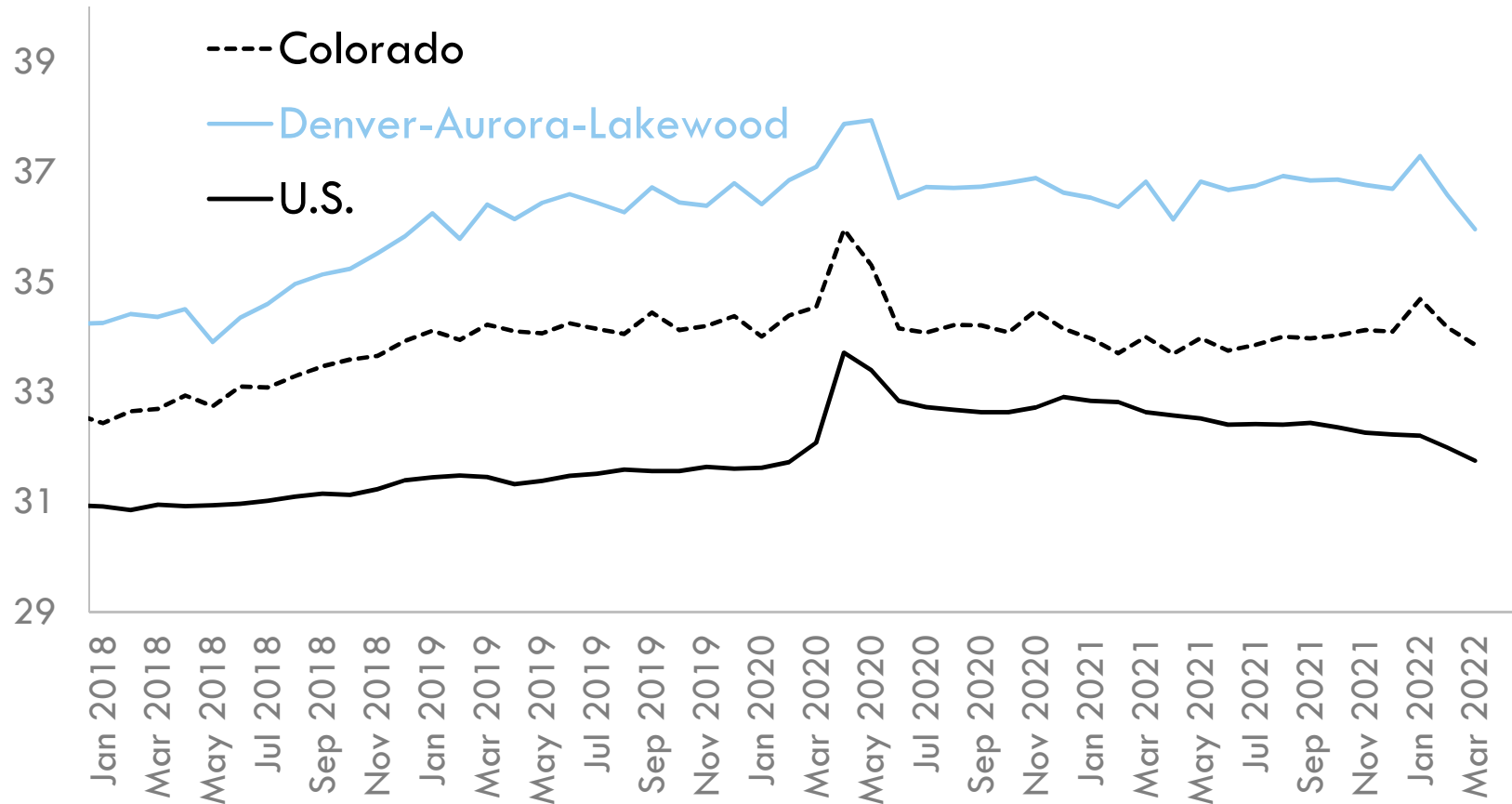
Case-Shiller Home Price Indices
Index 100 = July 2012



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

Inflation outpacing wage gains, real wages decline

Real Average Hourly Wages
2022 Dollars

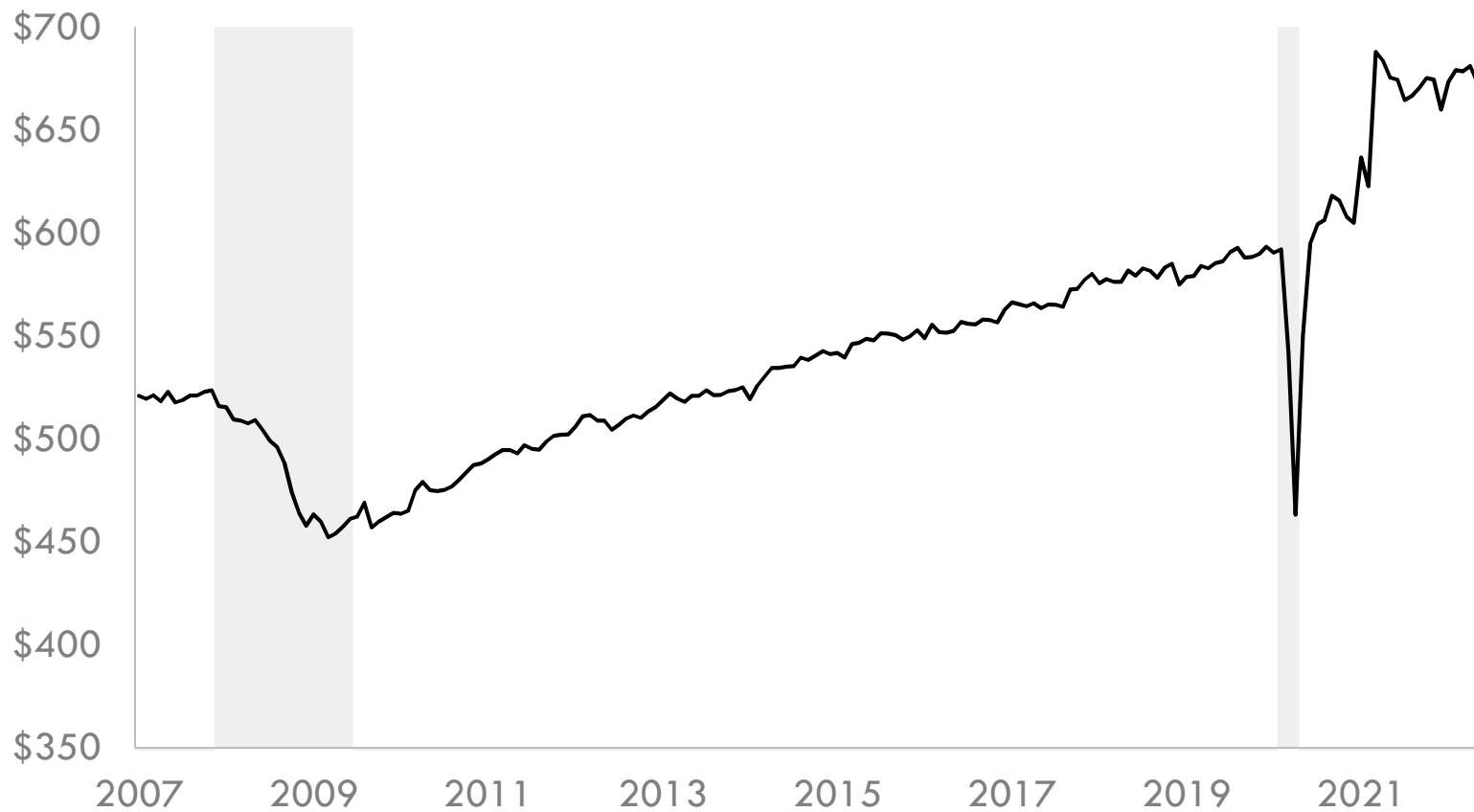


Source: U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through March 2022.

Inflation outpacing sales in several retail categories, goods consumption shifting

Real U.S. Retail and Food Service Sales

Billions of 2022 Dollars



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 May 2022.

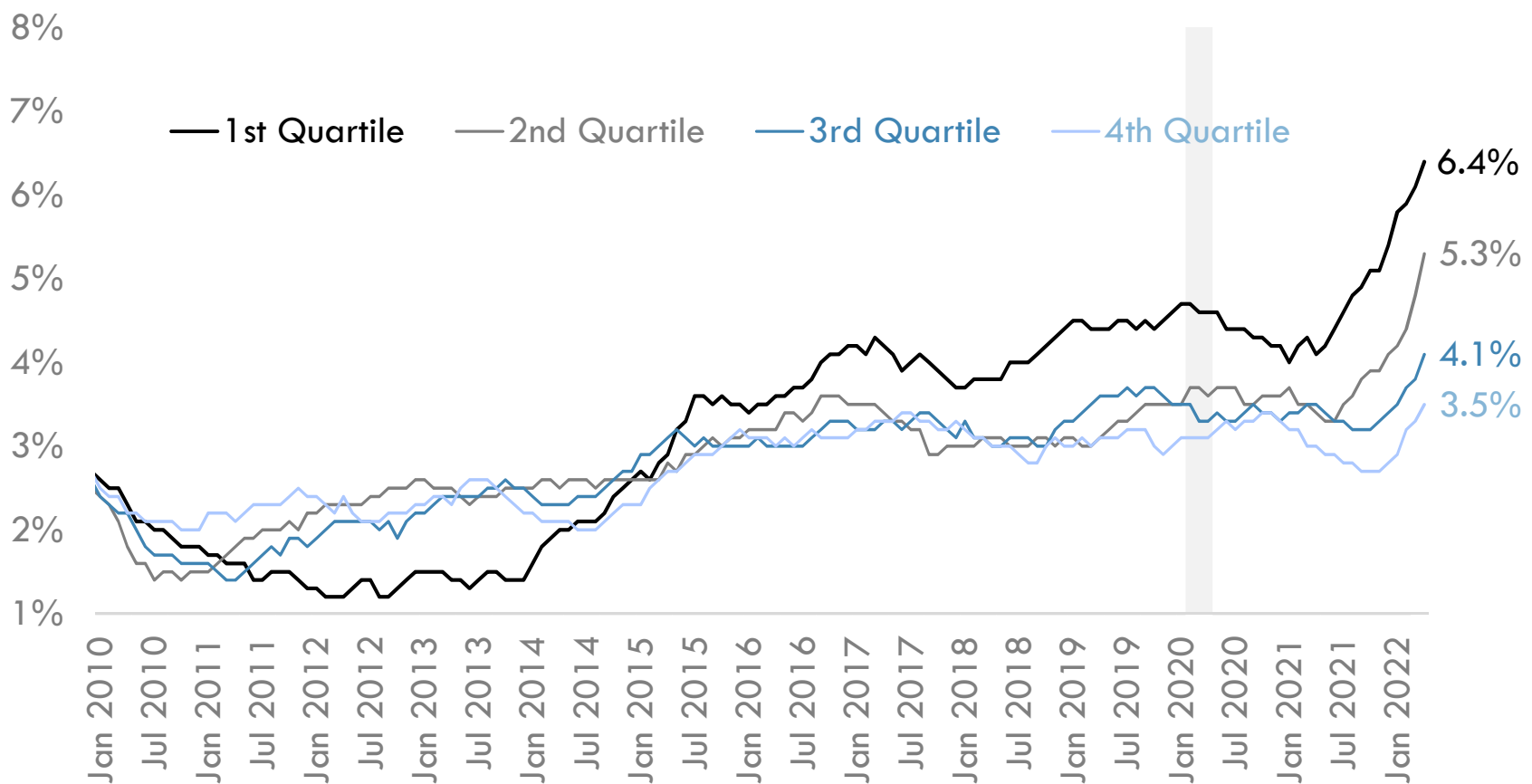
Pandemic challenges compounded by emerging risks, risks remain weighted to the downside

- Lingering pandemic-related disruptions compounded by accelerating inflation and the war in Ukraine
- **Downside:** inflation and more aggressive monetary policy response, geopolitical uncertainty and trade disruptions, financial market instability
- **Upside:** resolution to war in Ukraine and price pressure relief, rapid return to spending on services
- Near-term risks are weighted to the downside with an elevated risk of recession during the forecast period

Supplemental Economic Outlook Slides

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)

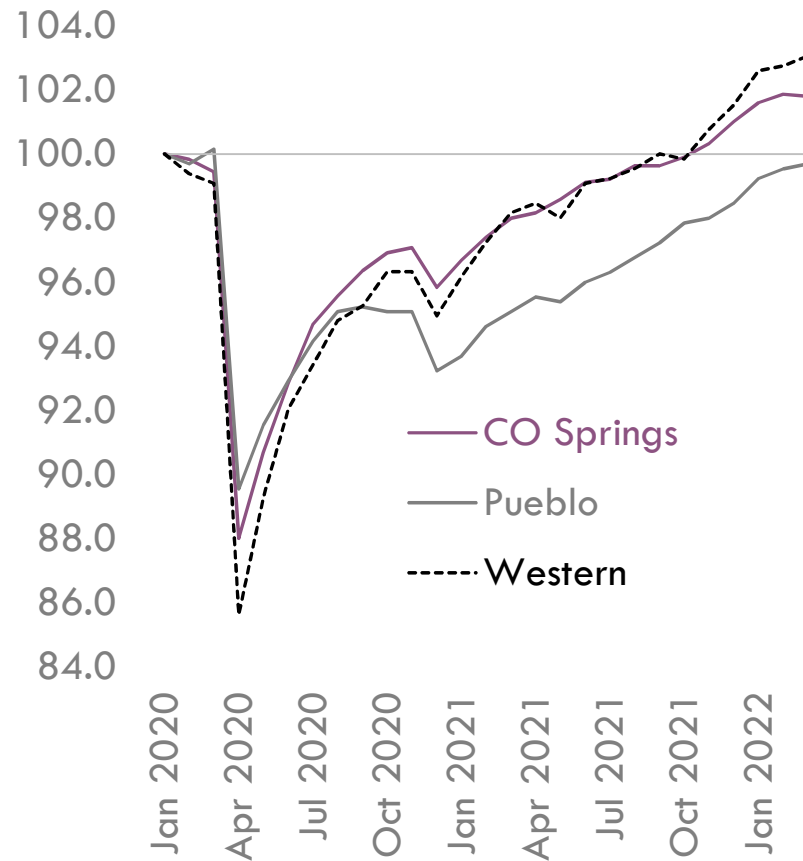
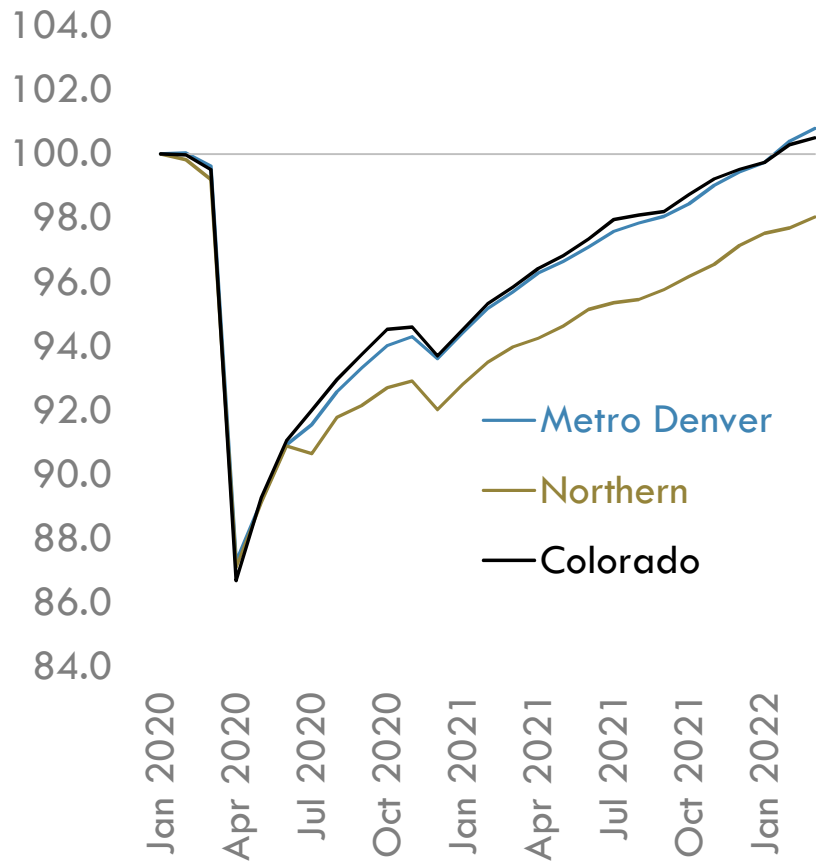


Source: Federal Reserve Bank of Atlanta Wage Growth Tracker. Data through April 2022.

Employment recovery varies across the state

Employment Growth Since January 2020

January 2020 = 100

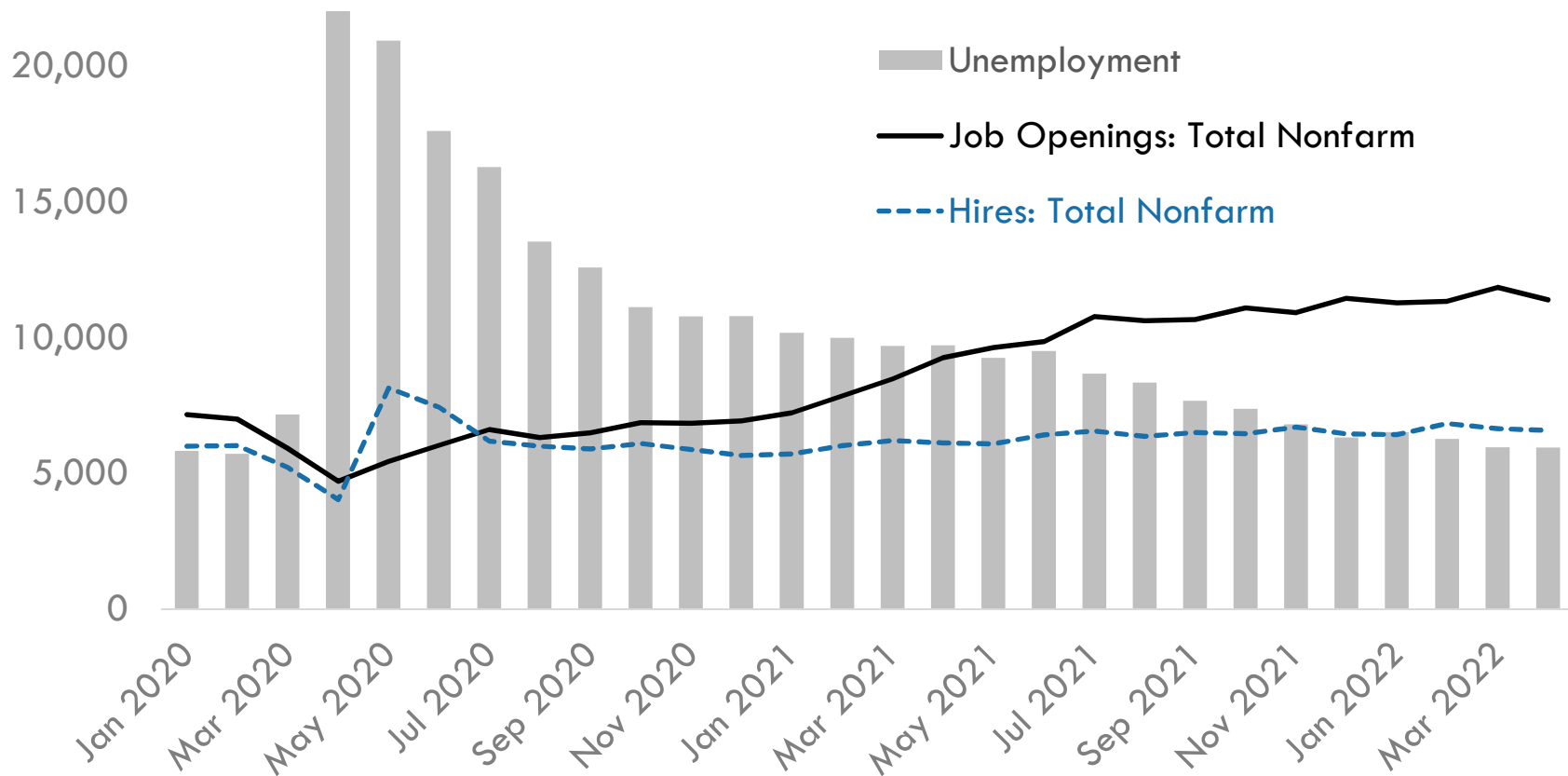


Source: U.S. Bureau of Labor Statistics, CES (establishment survey). Seasonally adjusted. Data through March 2022.

Job openings surpass unemployed, outpace hiring activity

U.S. Unemployment, Job Openings, and Hires

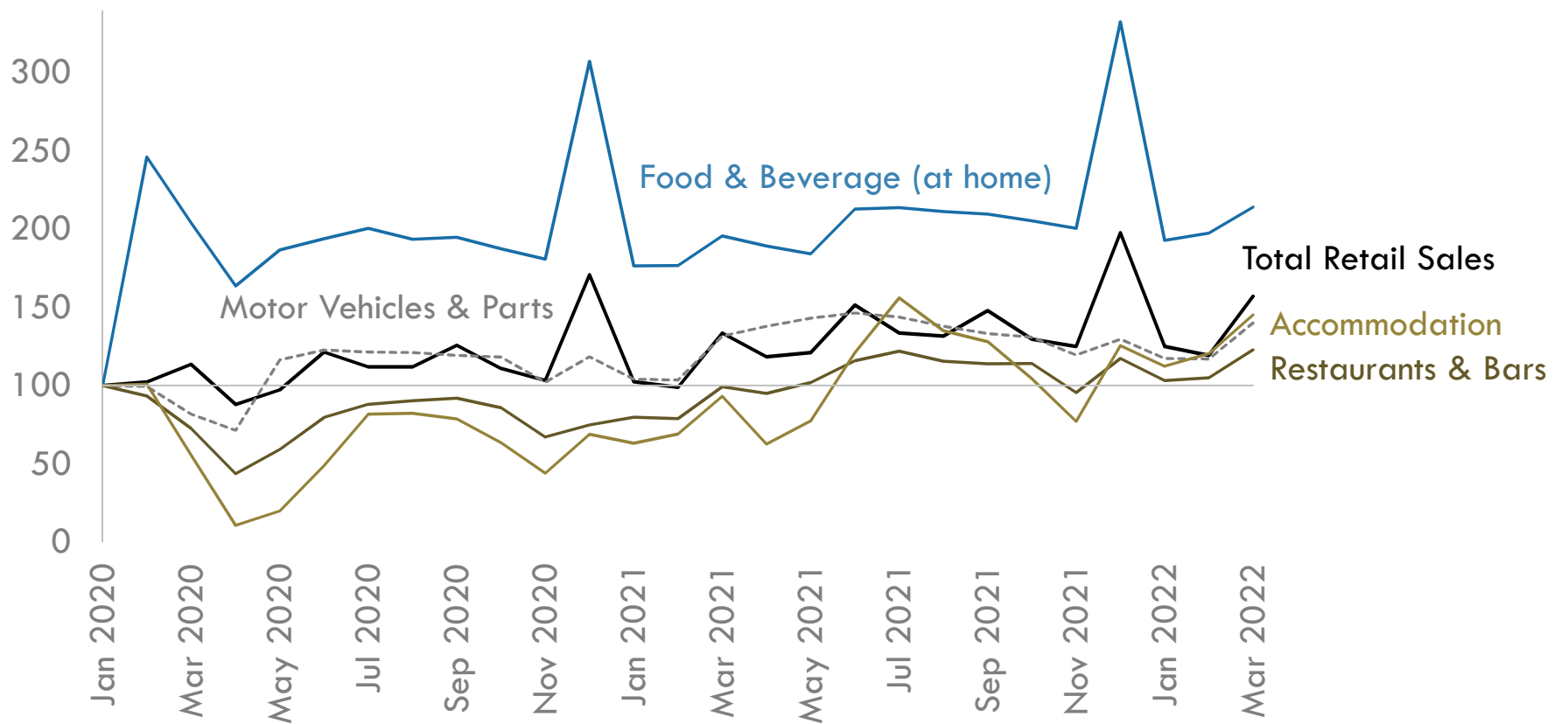
Thousands



Source: U.S. Bureau of Labor Statistics, Current Population Survey (CPS) and Job Openings and Labor Turnover Survey (JOLTS). Seasonally adjusted. Data through April 2022.

Colorado's retail sales start the year strong, expected to moderate

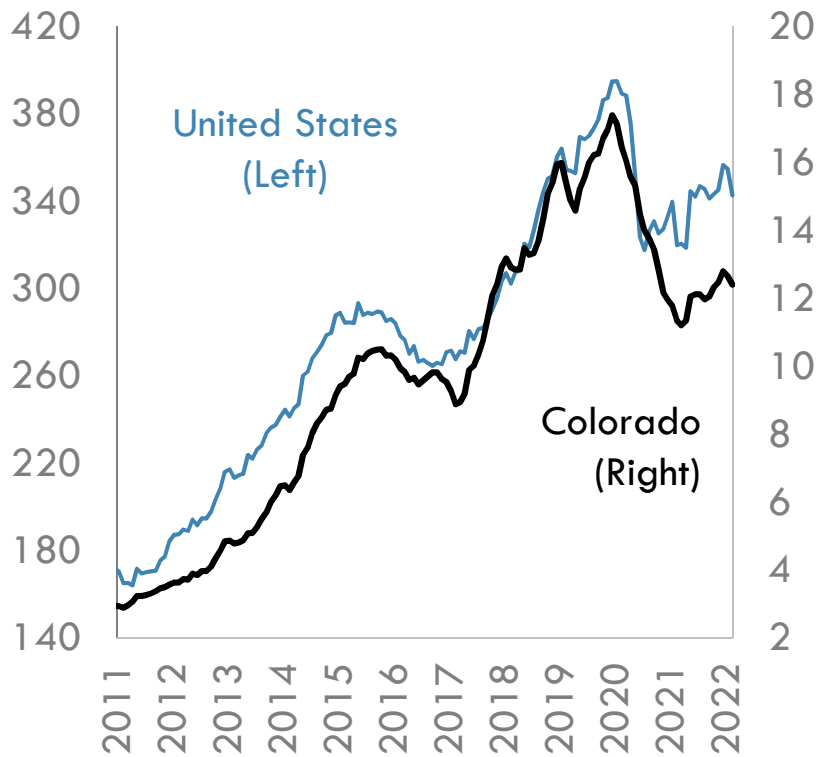
Colorado Retail Sales
Index January 2020 = 100



Source: Colorado Department of Revenue. Data through March 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 February 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 June 10, 2022.

General Fund Budget Outlook



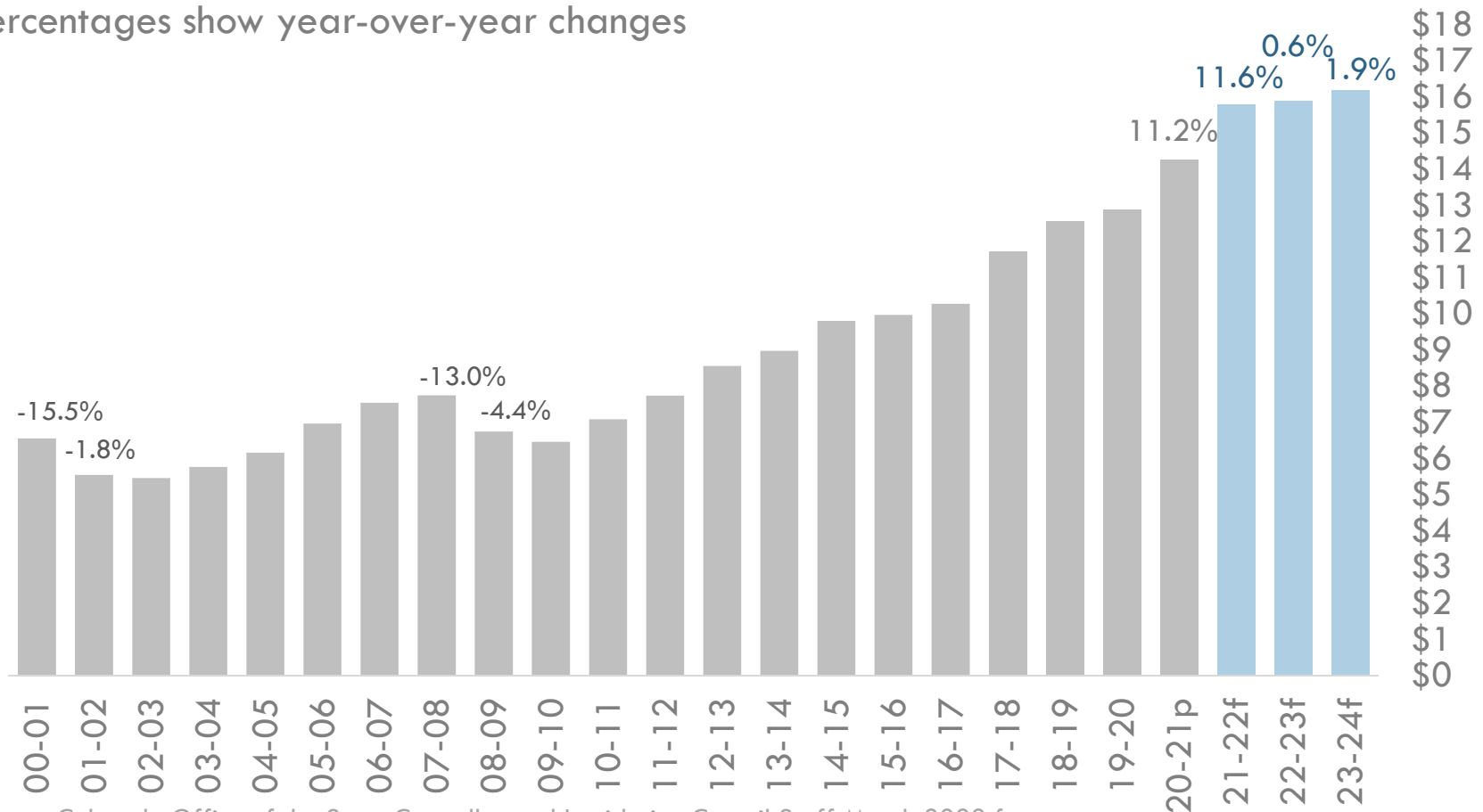
Our March forecast expected GF revenue growth in line with FY 2020-21

Gross General Fund Revenue

Billions of Dollars

Percentages show year-over-year changes

March 2022
Expectations



Source: Colorado Office of the State Controller and Legislative Council Staff March 2022 forecast.

We've upgraded the forecast on impressive spring 2022 collections

Gross General Fund Revenue

Billions of Dollars

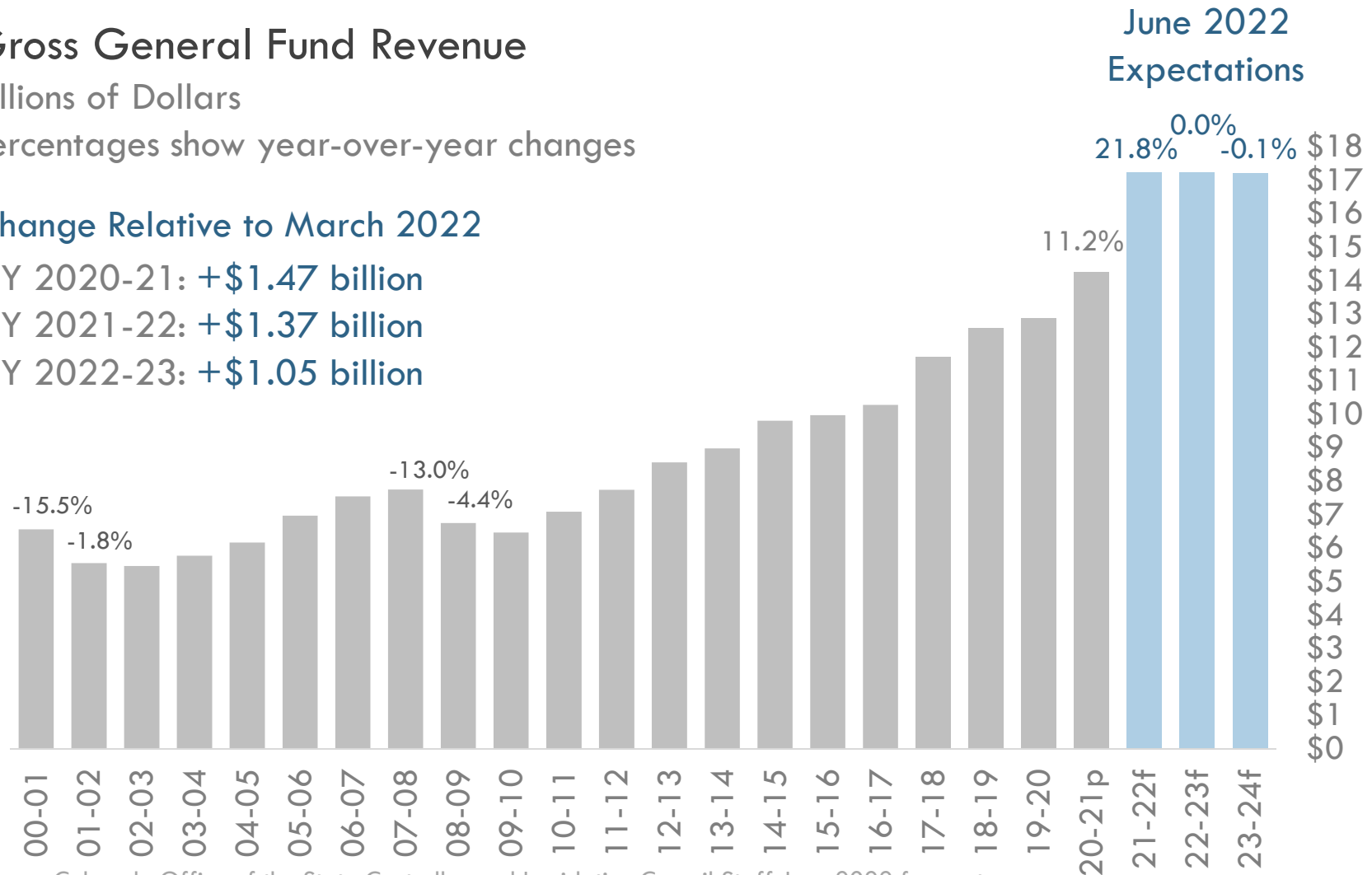
Percentages show year-over-year changes

Change Relative to March 2022

FY 2020-21: +\$1.47 billion

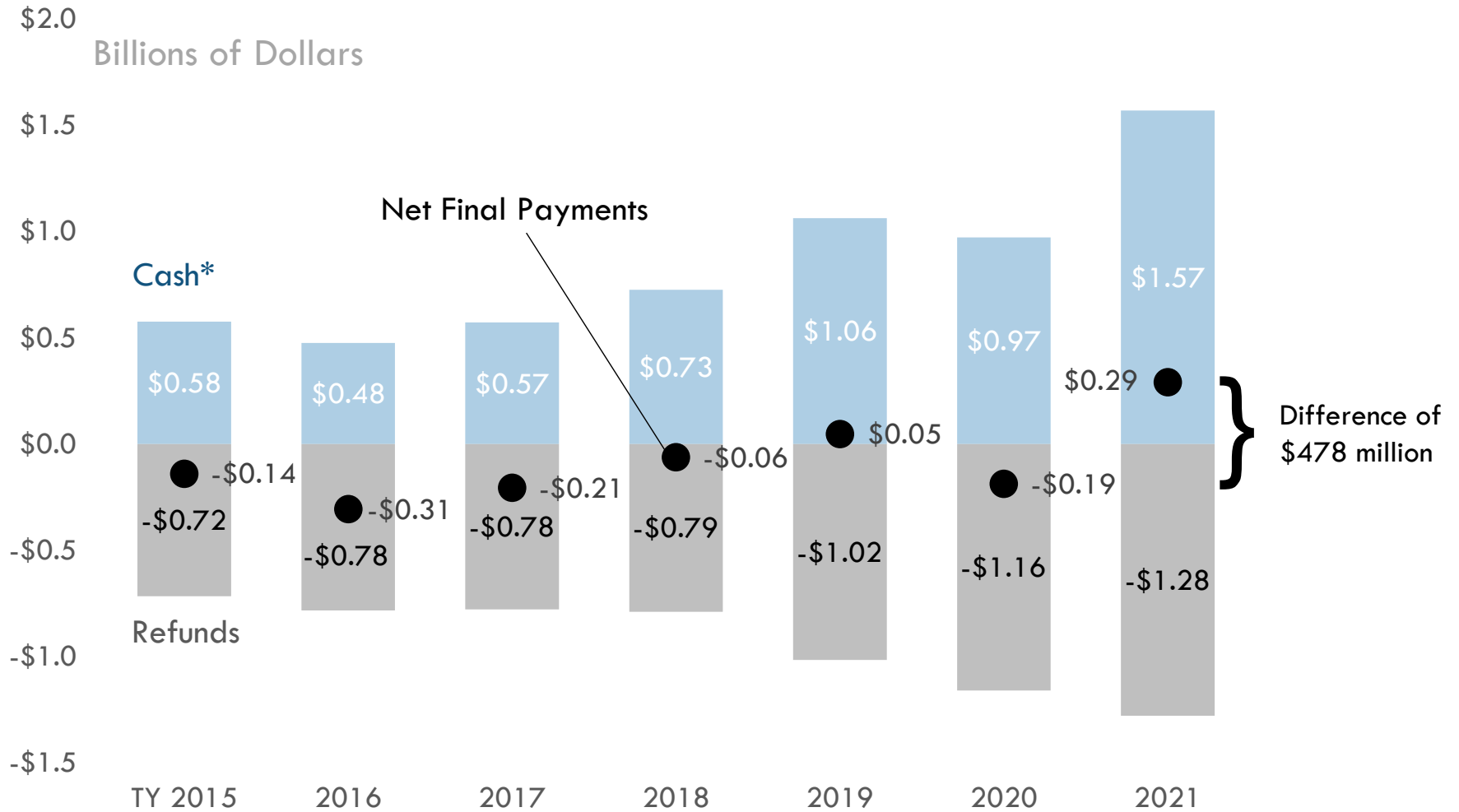
FY 2021-22: +\$1.37 billion

FY 2022-23: +\$1.05 billion



Source: Colorado Office of the State Controller and Legislative Council Staff June 2022 forecast.

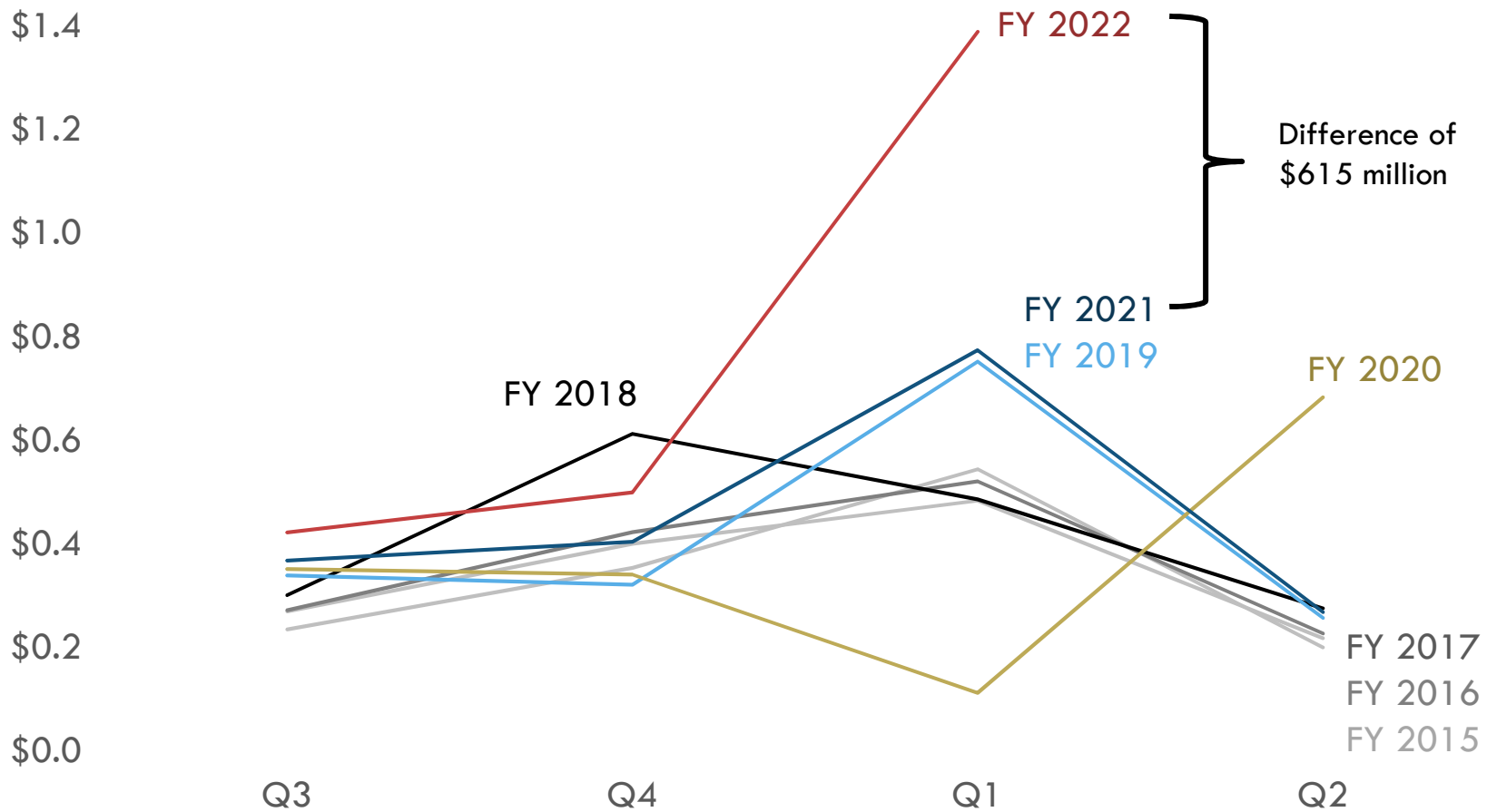
Final payments have become swingier and contribute more to error in our revenue forecast



Source: Colorado Department of Revenue, Office of Research and Analysis; and Office of the State Controller.

Estimated income tax payments suggest that revenue is being accelerated

\$1.6 Billions of Dollars



Source: Department of Revenue, Office of Research and Analysis; and Office of the State Controller.

Income Tax Surprises Nationwide

Colorado: individual income tax forecast revised up \$868 million, or 8.2%, March to June

- Corporate revised up \$454 million; Sales up \$171 million

Delaware: income tax revised +9% from March to June¹

Hawaii: individual income revised +7% from March to May²

Michigan: General Fund revenue revised 2.8 billion, +21%, from January to May, “largely” due to individual income tax³

New Jersey: individual income revised +10% from March to May; April income tax receipts surpassed record by \$1.5 billion or 43%⁴

North Carolina: \$1.4 billion surprise in April final payments⁵

Oregon: individual income revised +17% from March to June⁶

¹[Delaware Economic and Financial Advisory Council, June 2022.](#)

²[Hawaii Council on Revenues, May 2022.](#)

³[Michigan House Fiscal Agency, May 2022.](#)

⁴[New Jersey Department of the Treasury, May 2022.](#)

⁵[North Carolina General Assembly Fiscal Research Division, May 2022.](#)

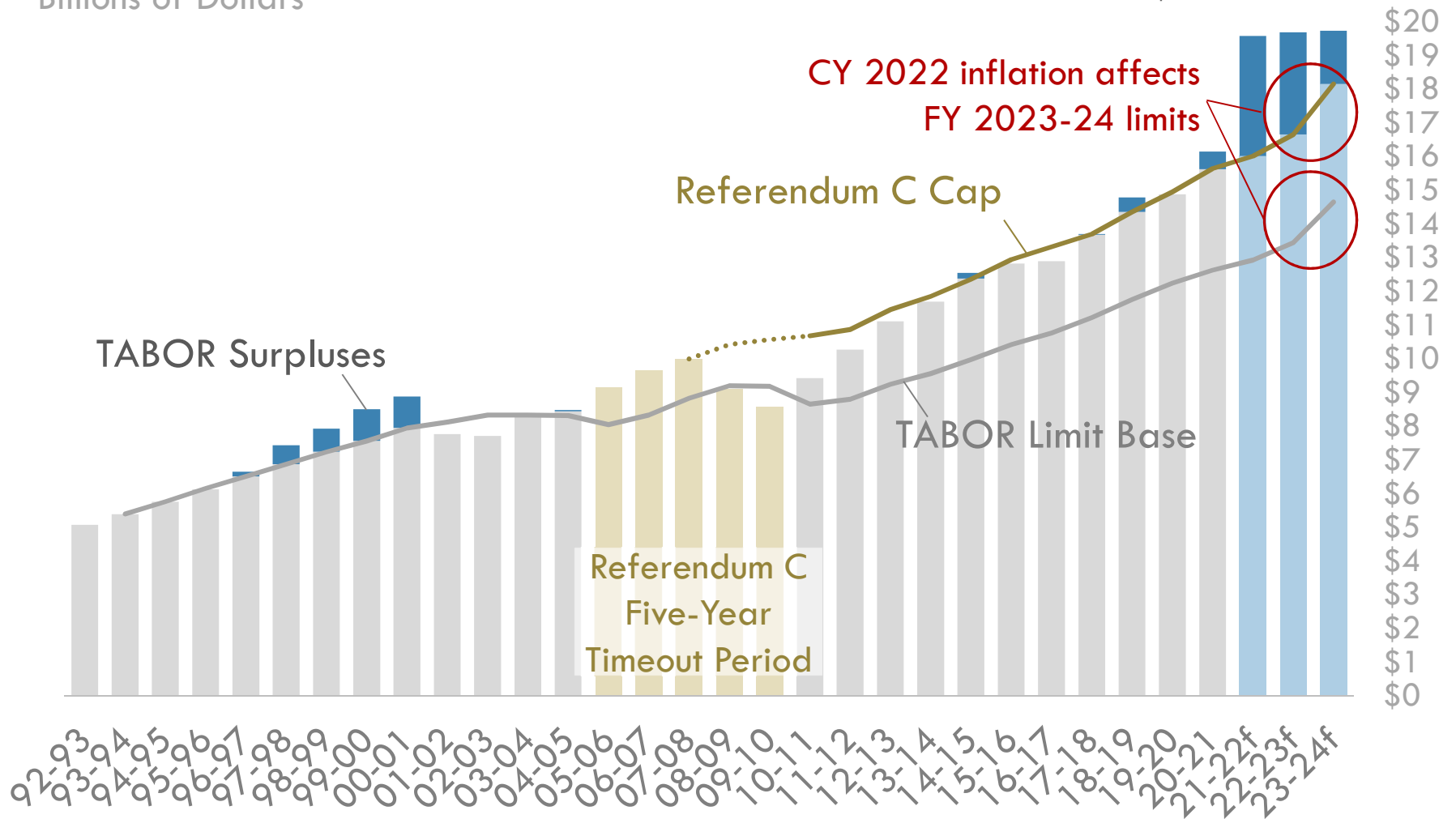
⁶[Oregon Office of Economic Analysis, June 2022.](#)

TABOR Outlook

Revenue Subject to TABOR
Billions of Dollars

Revenue Above the Ref C Cap

FY 2021-22: \$3.65 billion
FY 2022-23: \$3.02 billion
FY 2023-24: \$1.57 billion

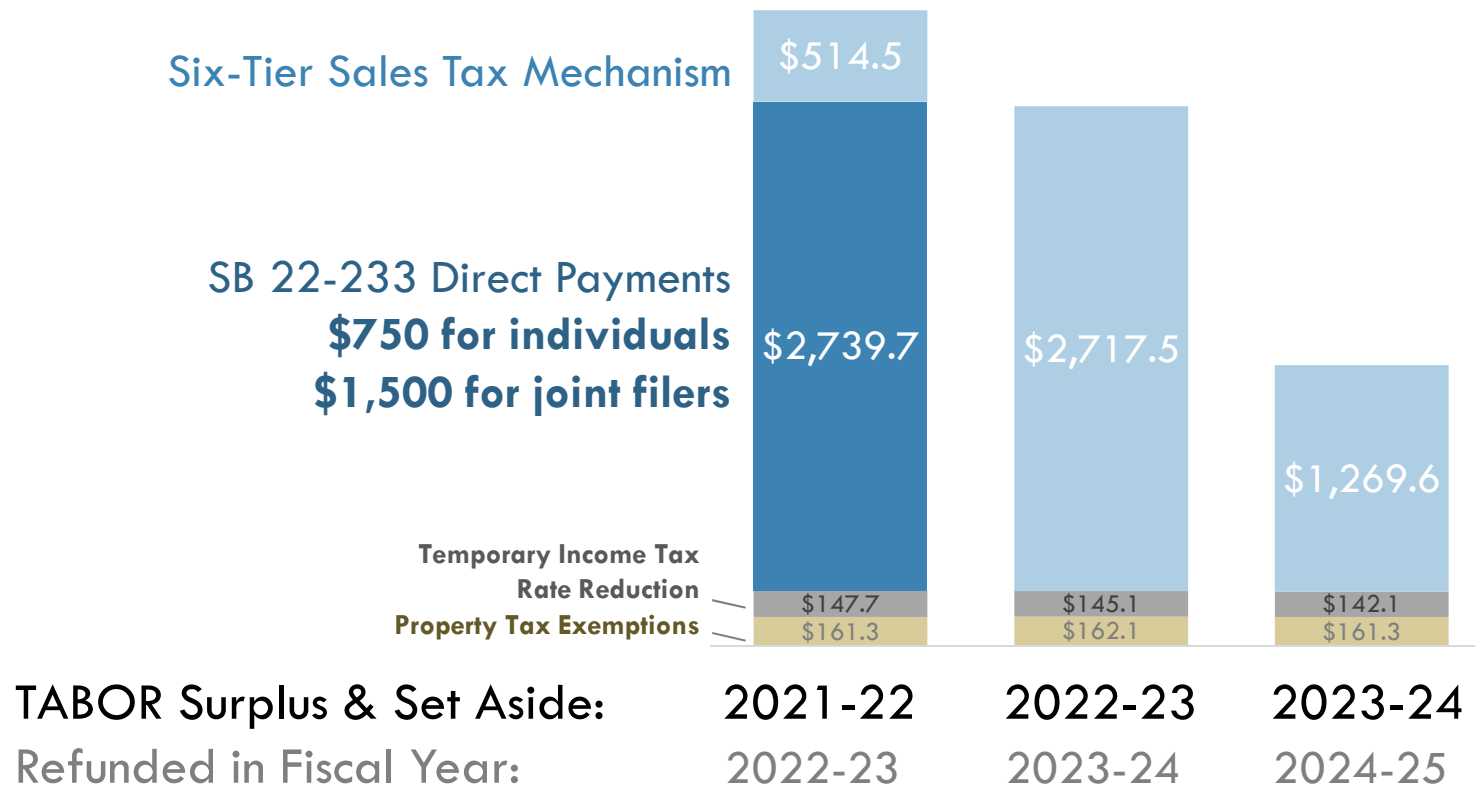


Source: Colorado Office of the State Controller and Legislative Council Staff June 2022 forecast.

TABOR refunds are expected through the forecast period

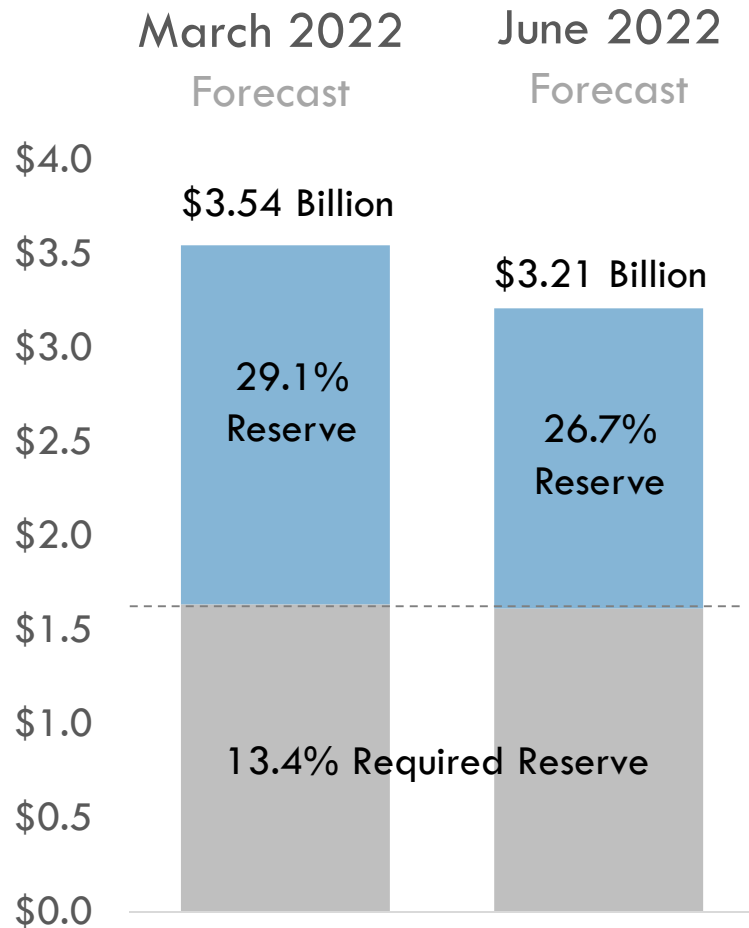
Expected TABOR Mechanism Amounts

Millions of Dollars



Source: Legislative Council Staff June 2022 forecast.

Current Year | FY 2021-22 General Fund Reserve



Changes since the March 2022 forecast:

Revenue and TABOR refund expectations both increased

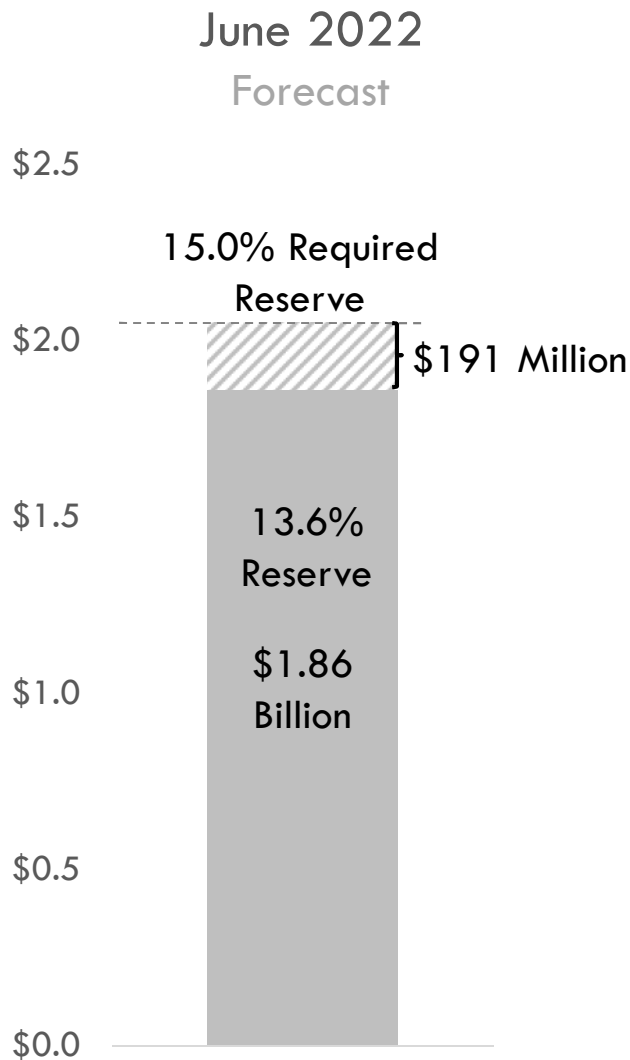
On net, \$93.0 million more in TABOR refund obligation

Net transfers from the GF increased by \$406.5 million

GF appropriations decreased by \$162.3 million

Source: Legislative Council Staff forecasts based on current law.

Next Year | FY 2022-23 General Fund Revenue



Changes since the March 2022 forecast:

Beginning balance \$336 million lower from changes in FY 2021-22

Revenue and TABOR refund expectations both increased; on net, \$87.9 million more in TABOR refund obligation

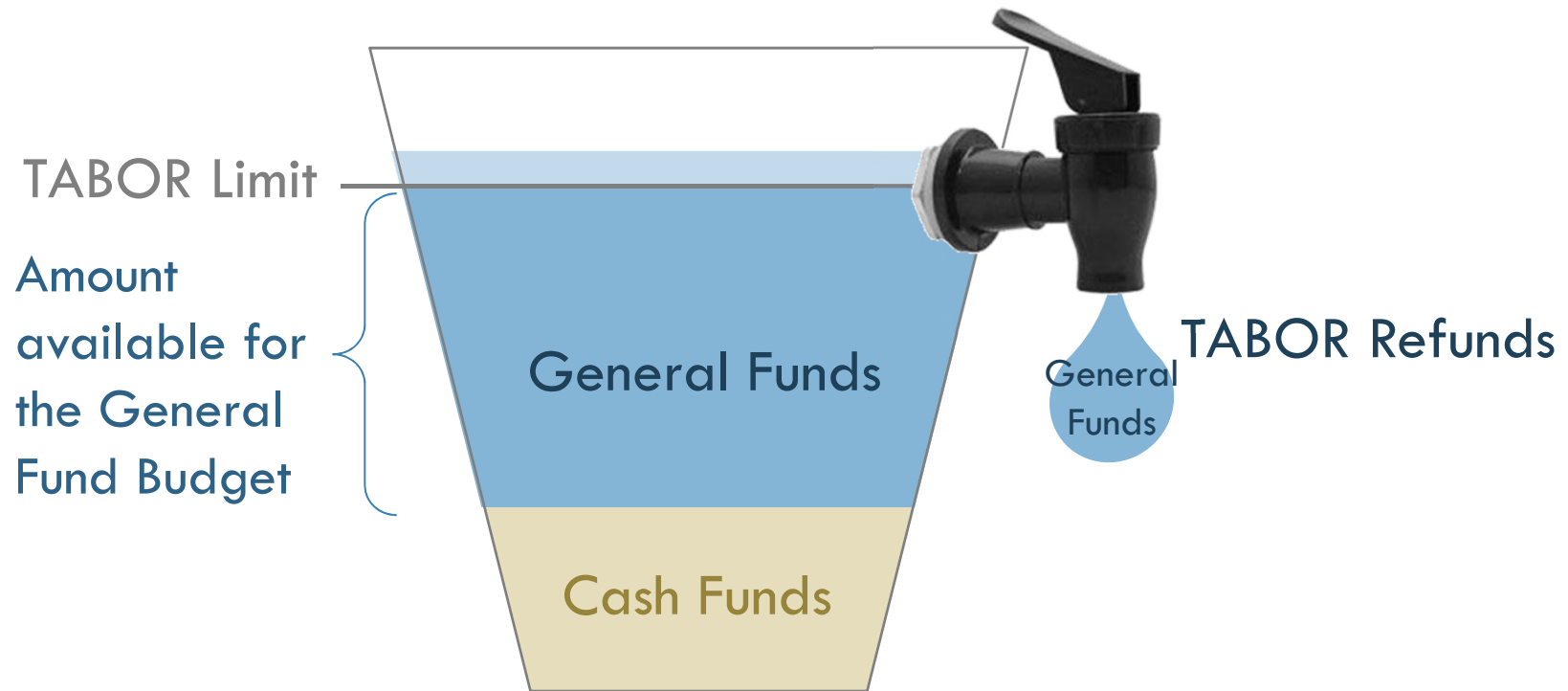
Net transfers from the GF increased \$1.31 billion

GF appropriations \$1.48 billion higher than FY 2021-22 (increases reserve)

Source: Legislative Council Staff June 2022 forecast. See Table 3 for additional detail.

Income and Sales Tax Revenue Expectations Increased

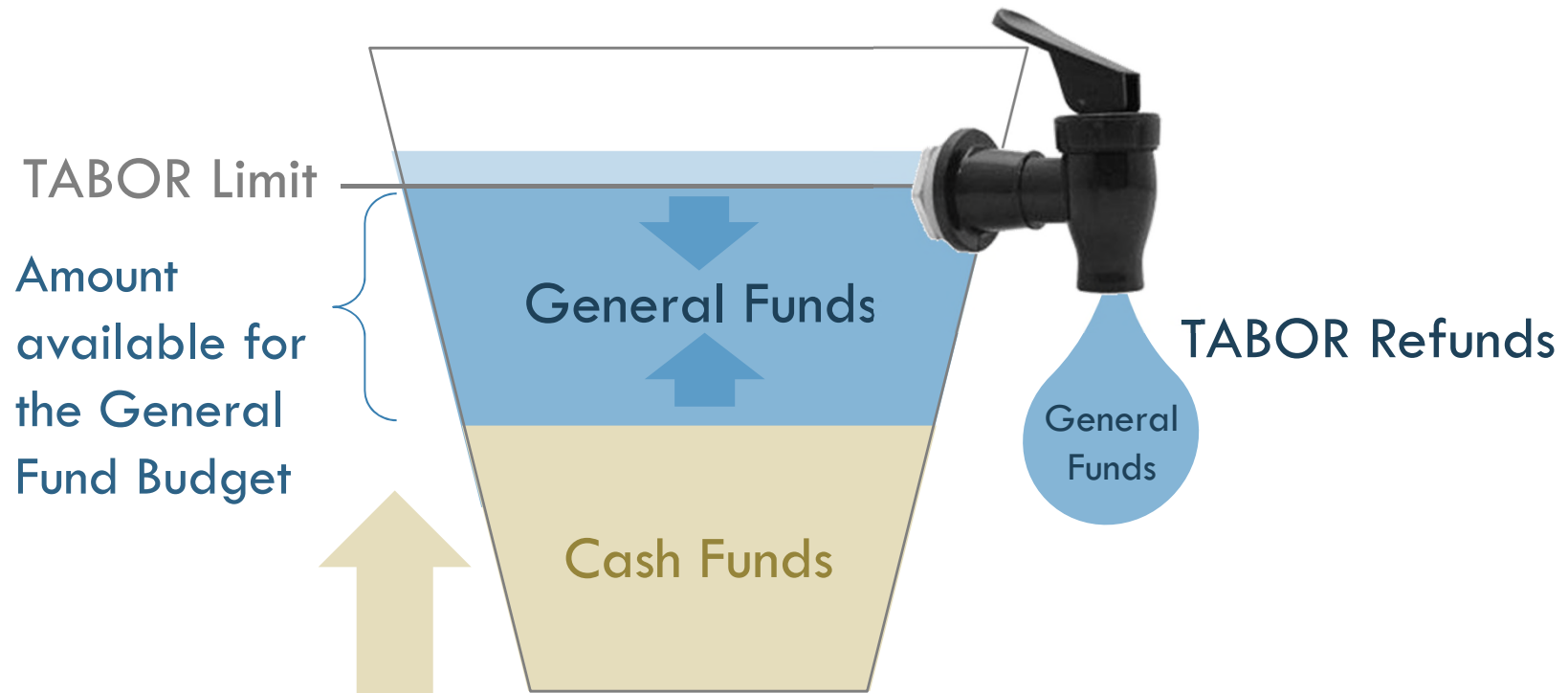
In a TABOR surplus situation...



General Fund dollars in = General Fund dollars out

Severance Tax Revenue Expectations Also Increased

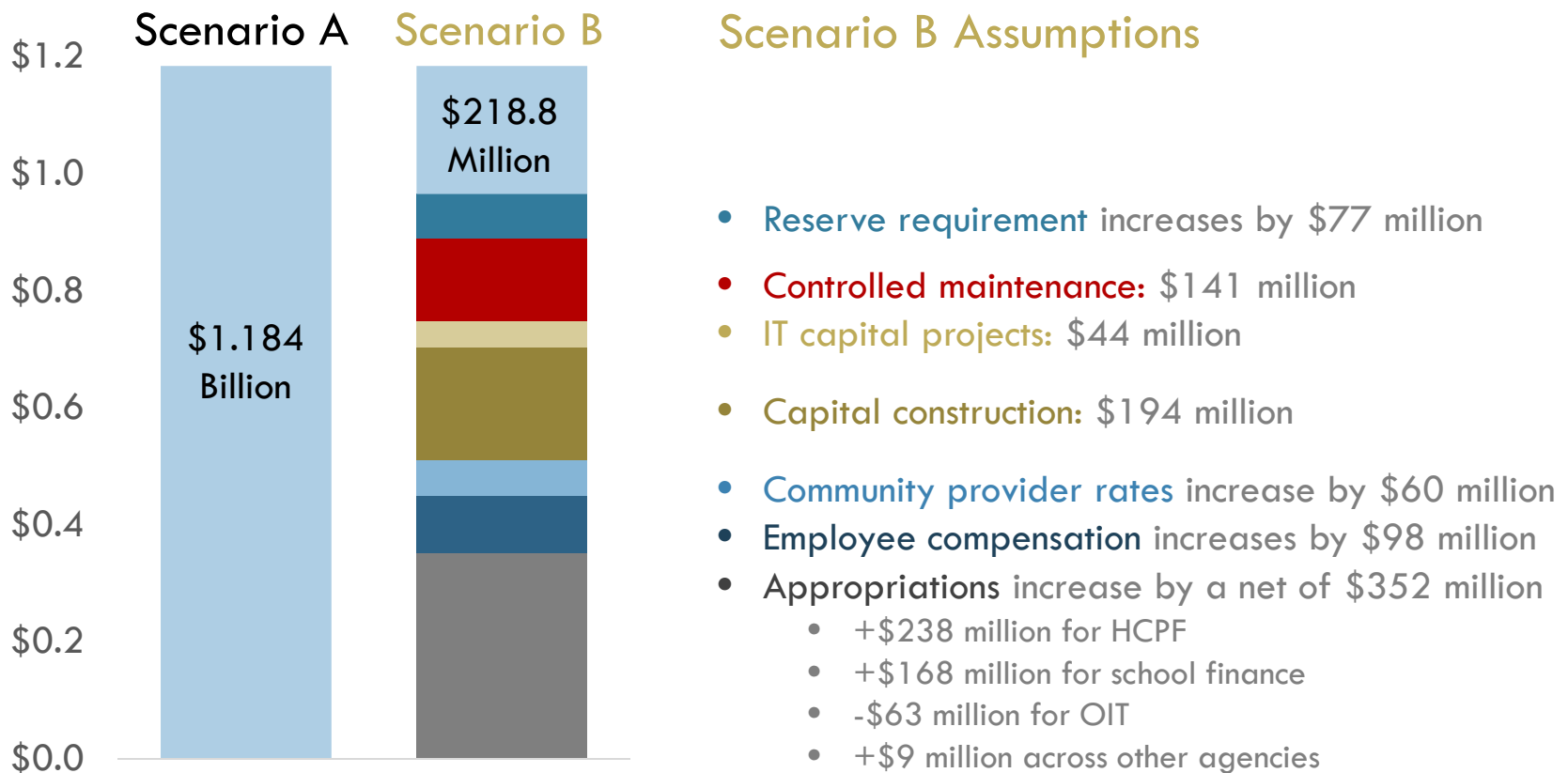
In a TABOR surplus situation...



Cash Fund dollars in = General Fund dollars out

Out 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.



Source: Legislative Council Staff June 2022 forecast. See Table 2 for additional discussion.

Risks to the Forecast

Elevated recession risk

- Inflation outpacing incomes for most households
- Robust Fed response risks economic contraction
- Other economic risks from supply chains, war in Ukraine, COVID-19

Risks to the budget outlook

- Revenue will be constrained by the Referendum C cap throughout the forecast period
- Immediate risks to the budget are on the expenditures side
- Regular forecast error can be absorbed by TABOR refunds; a recession would 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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