



March 2025 | Legislative Council Staff
Economic & Revenue Forecast

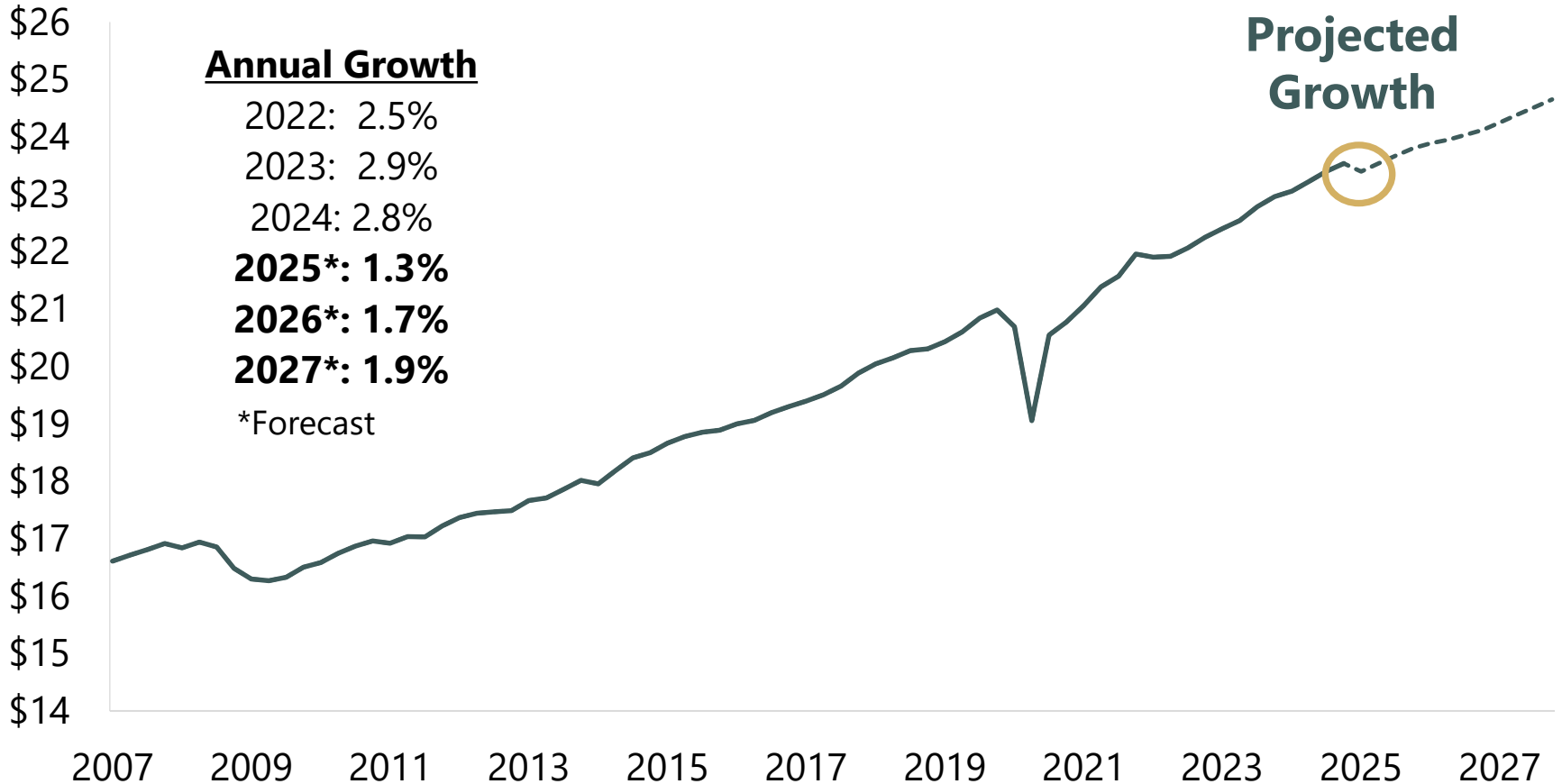
Presentation to the Joint Budget Committee
March 17, 2025

Economic Forecast



U.S. economy continues to grow at moderate pace, expectations downgraded from December

Real U.S. Gross Domestic Product
Trillions of Dollars, Adjusted for Inflation

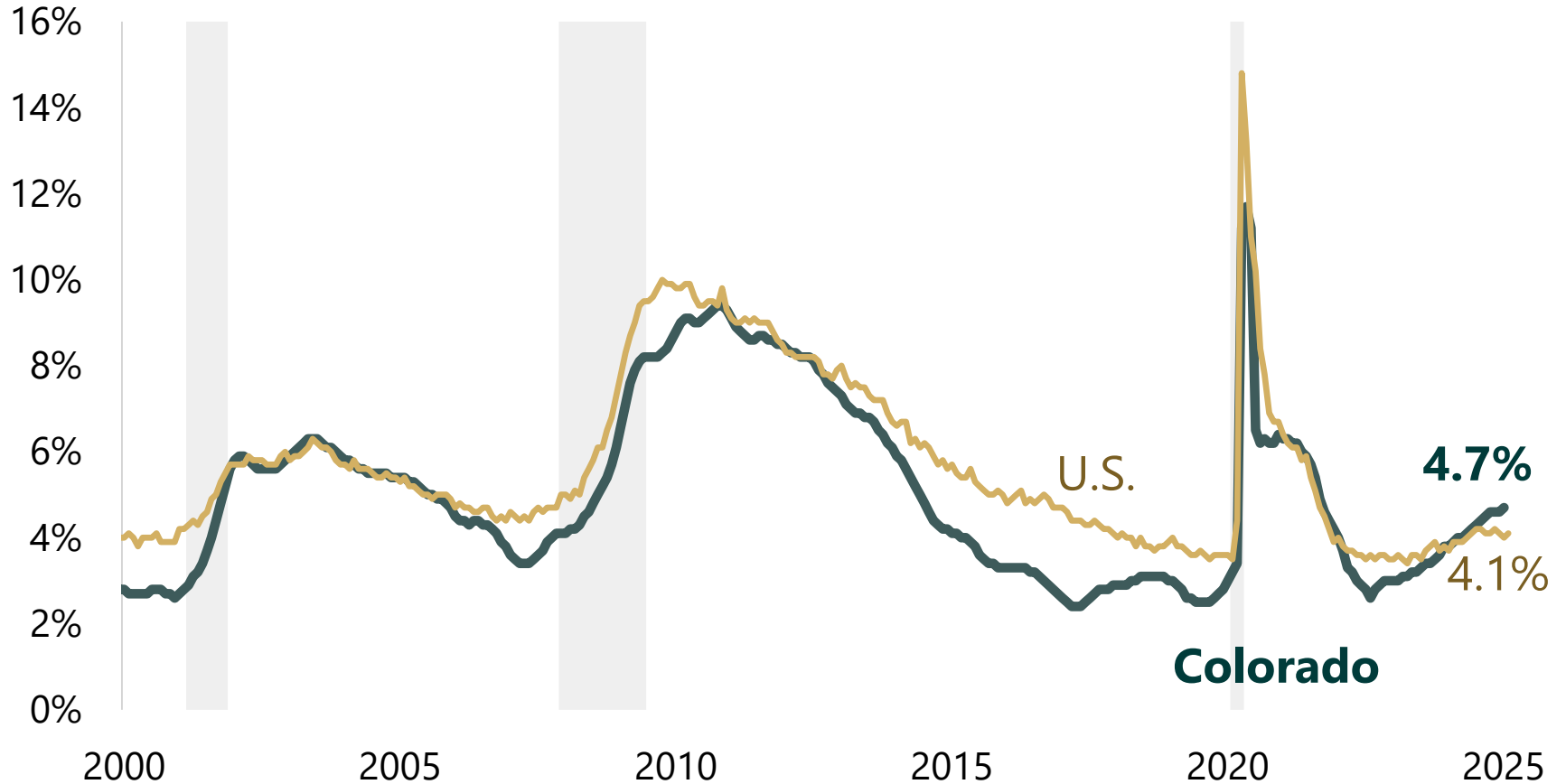


Source: U.S. Bureau of Economic Analysis and Legislative Council Staff projections. Real GDP is inflation-adjusted to chained 2017 levels and shown at seasonally adjusted annualized rates.

Colorado and U.S. unemployment rates remain low, but rates continue to tick up

Unemployment Rates

Percent

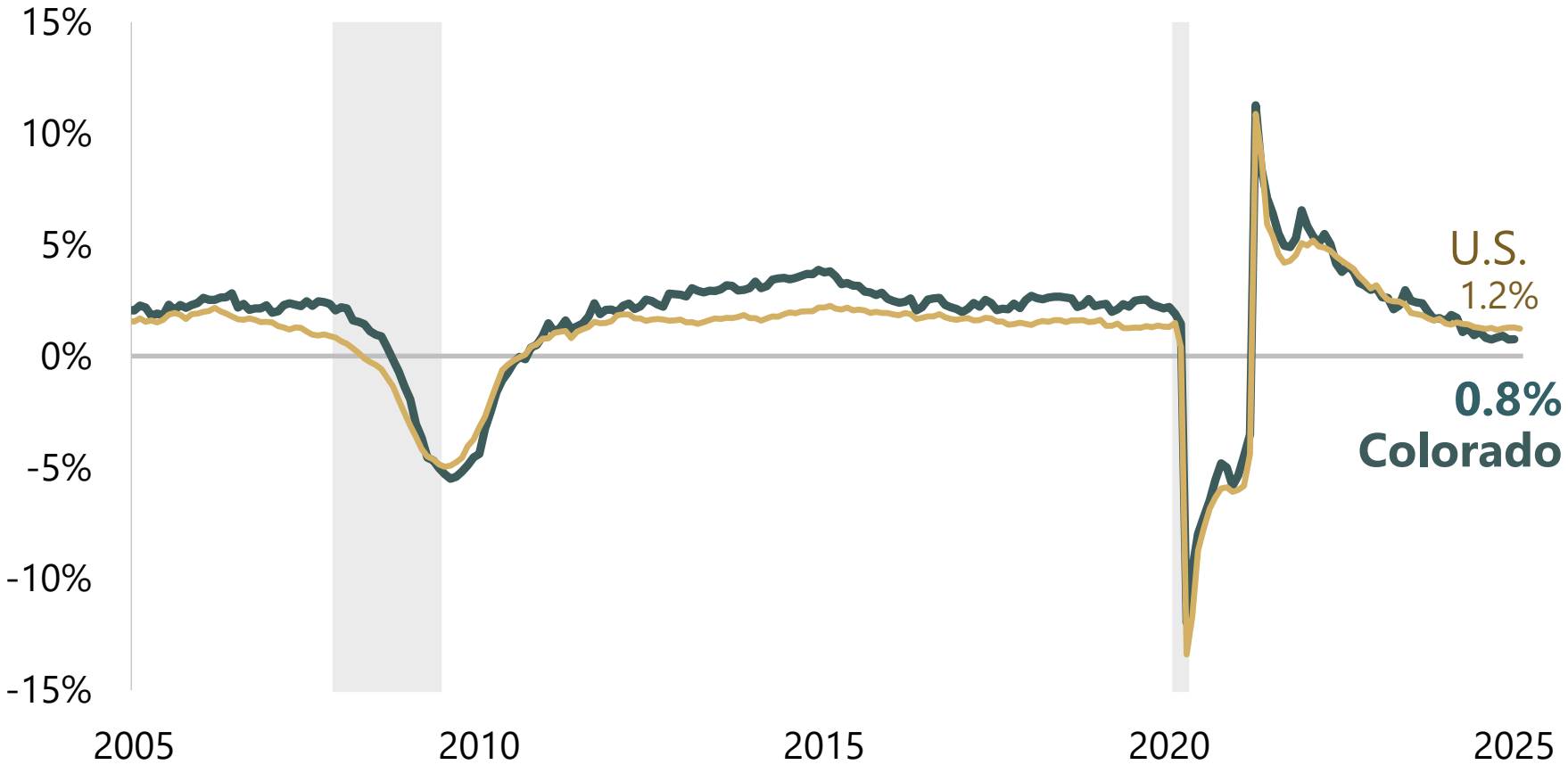


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. U.S. data are through February 2025. Colorado data are through January 2025.

Colorado and U.S. employment growth expected to decelerate through the forecast

Year-over-Year Nonfarm Employment Growth

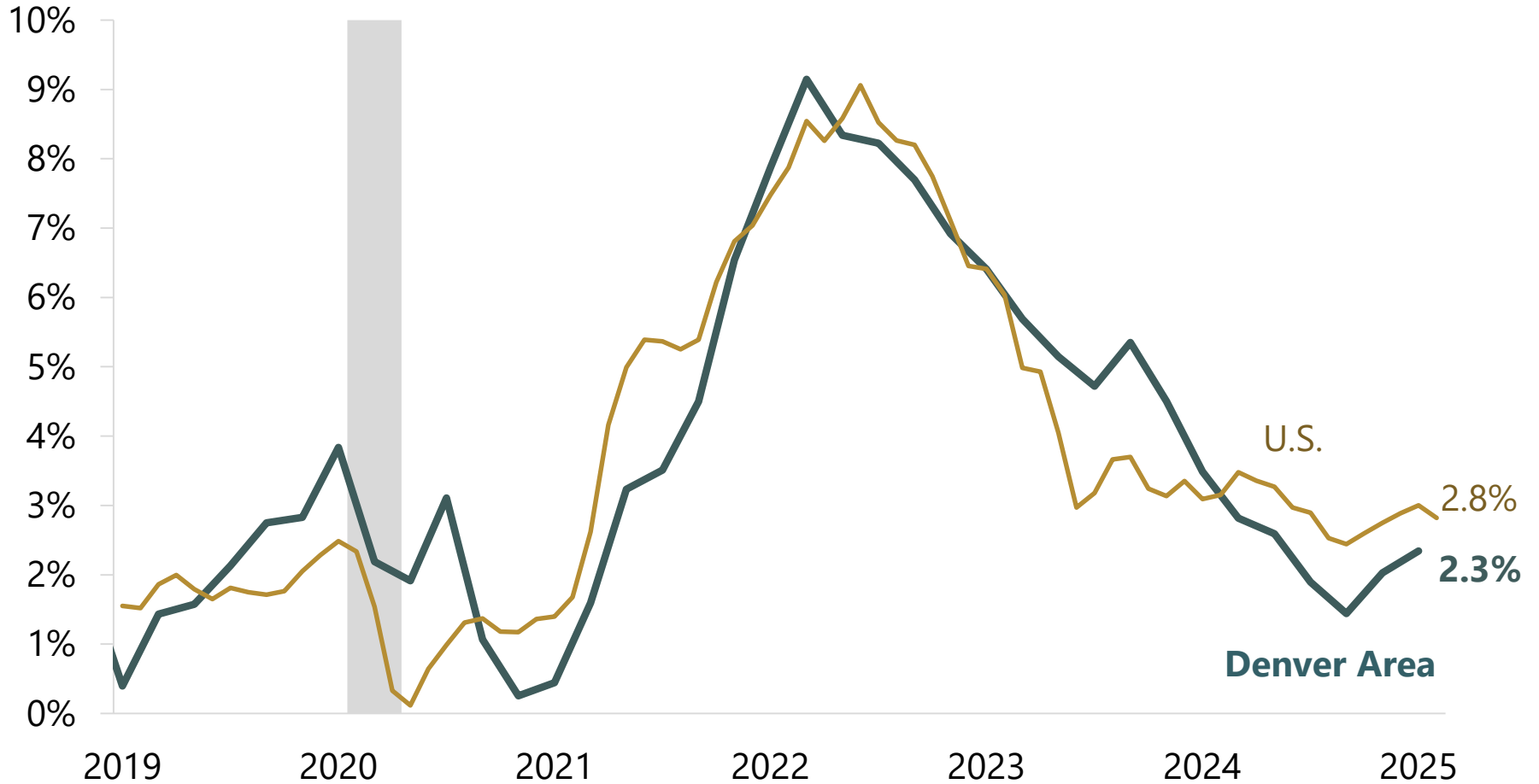
Percent



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted. U.S. data are through February 2025. Colorado data are through January 2025.

Inflation measures remain above Fed's 2% target, outlook clouded by uncertain tariff policies

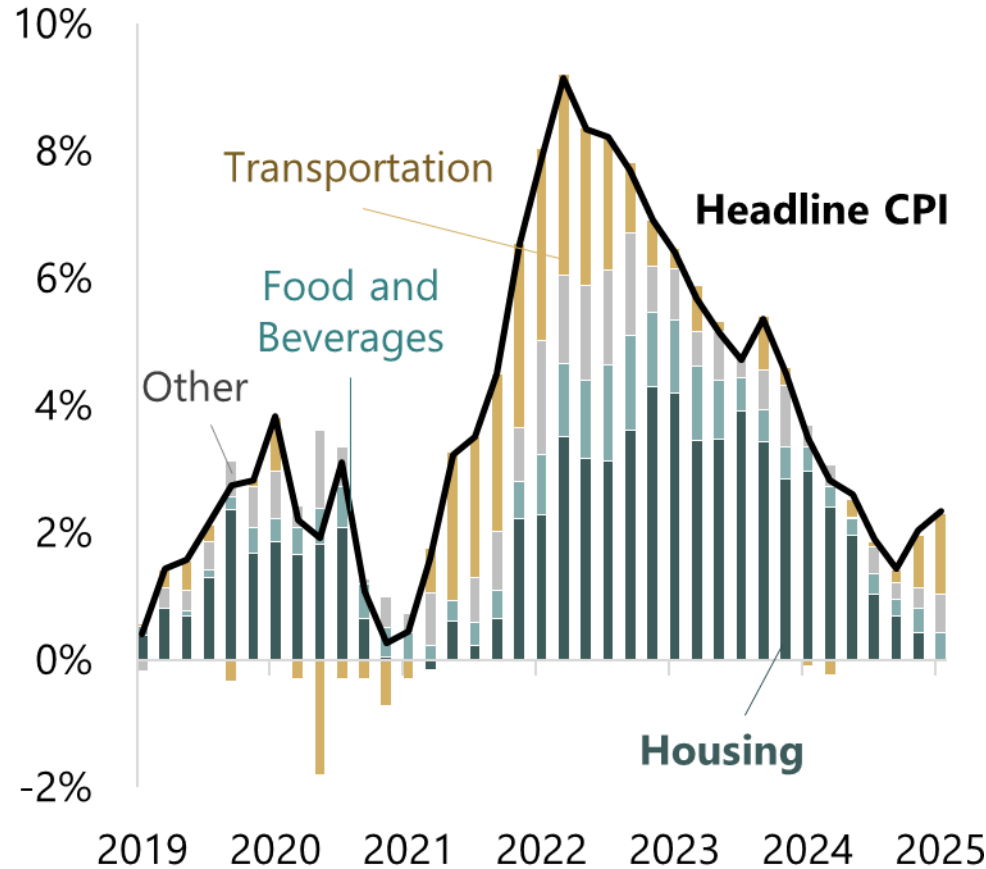
Headline CPI-U Inflation
Year-over-Year Change in Prices



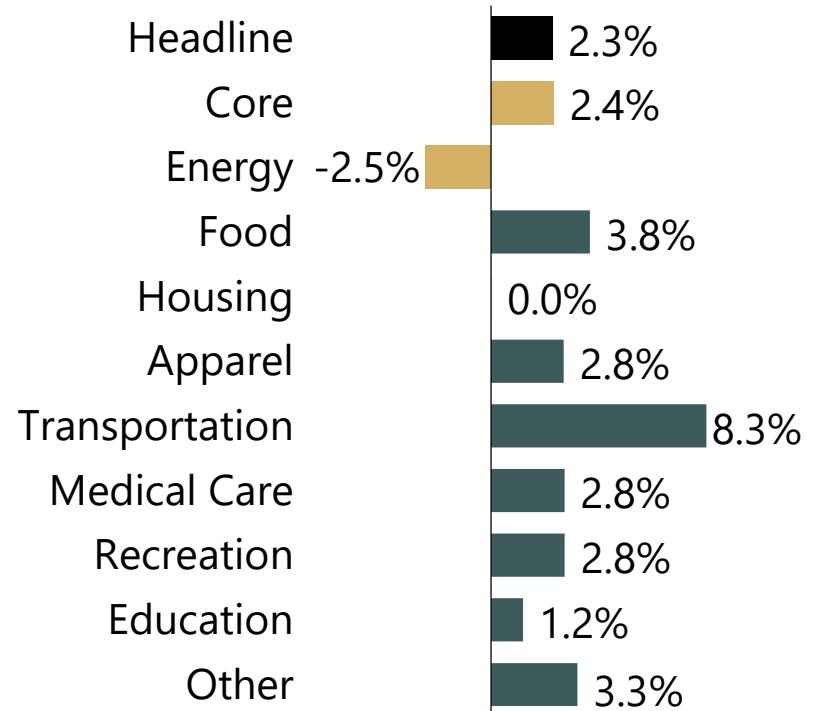
Source: U.S. Bureau of Labor Statistics. Denver area inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area. U.S. data are through February 2025, Denver area data are through January 2025.

Housing has no contribution to Denver area price inflation over the past year

Contributions to Denver-Aurora-Lakewood CPI-U Year-over-Year Change in Prices



Selected Components, January 2025

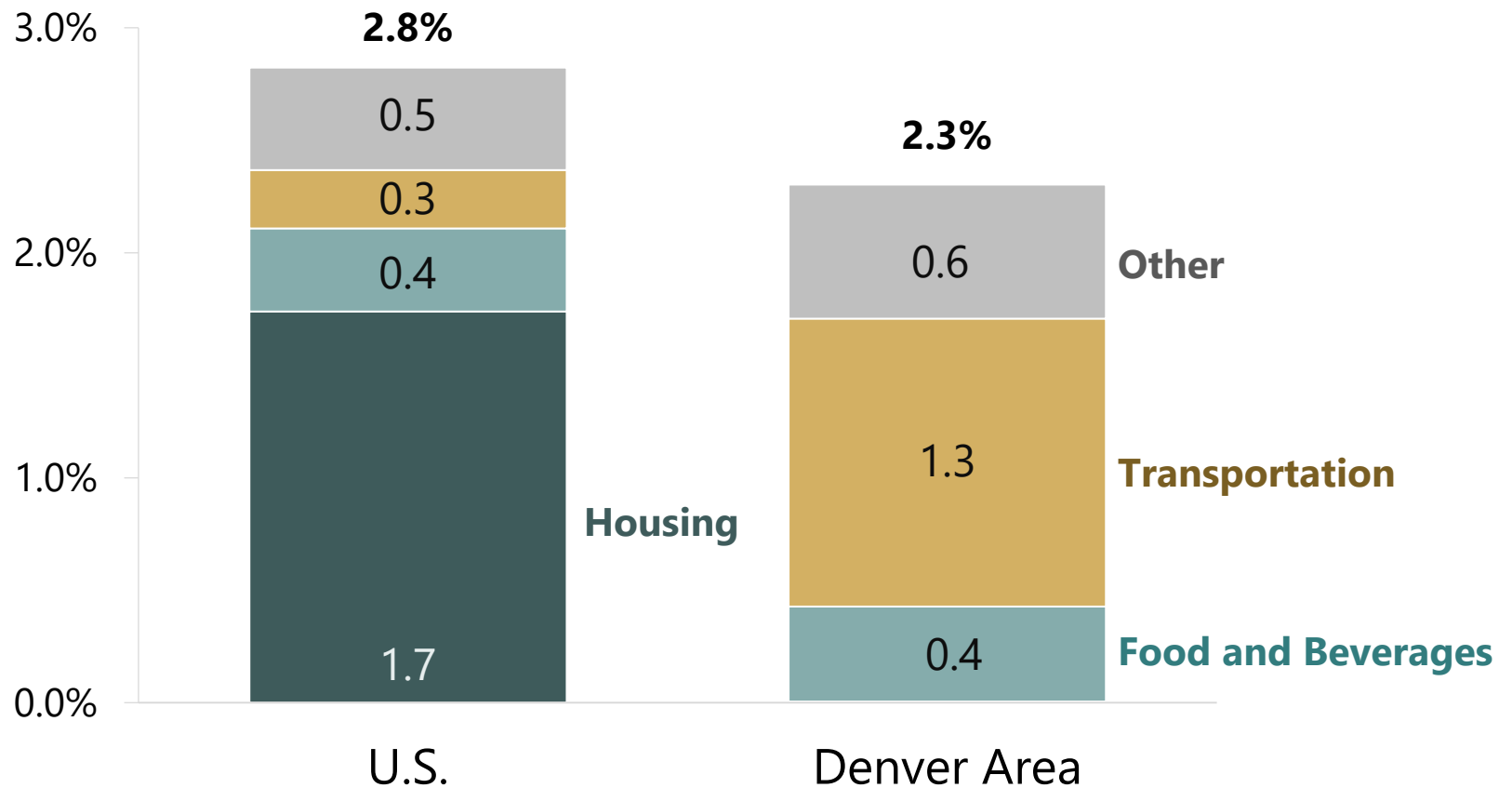


Source: U.S. Bureau of Labor Statistics and LCS calculations.

Housing leads difference in inflation contributions between Denver Area and the U.S.

Contributions to Inflation

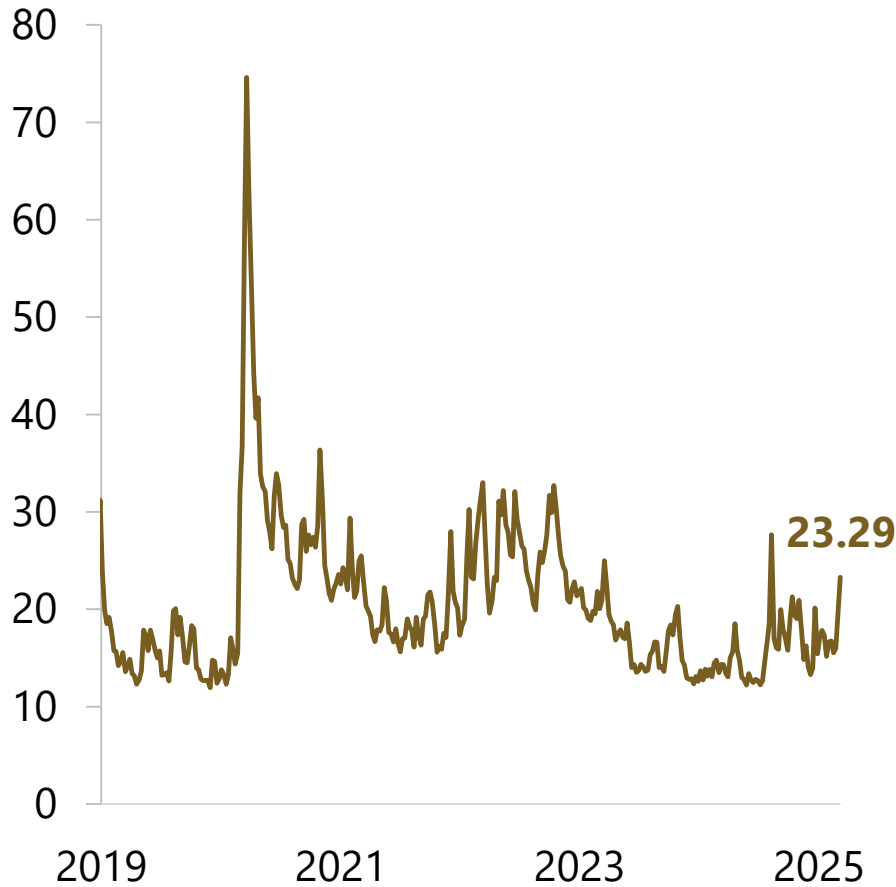
Percent / Percentage Point Contributions



Source: U.S. Bureau of Labor Statistics. Denver area inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area. U.S. data are for February 2025, Denver area data are for January 2025.

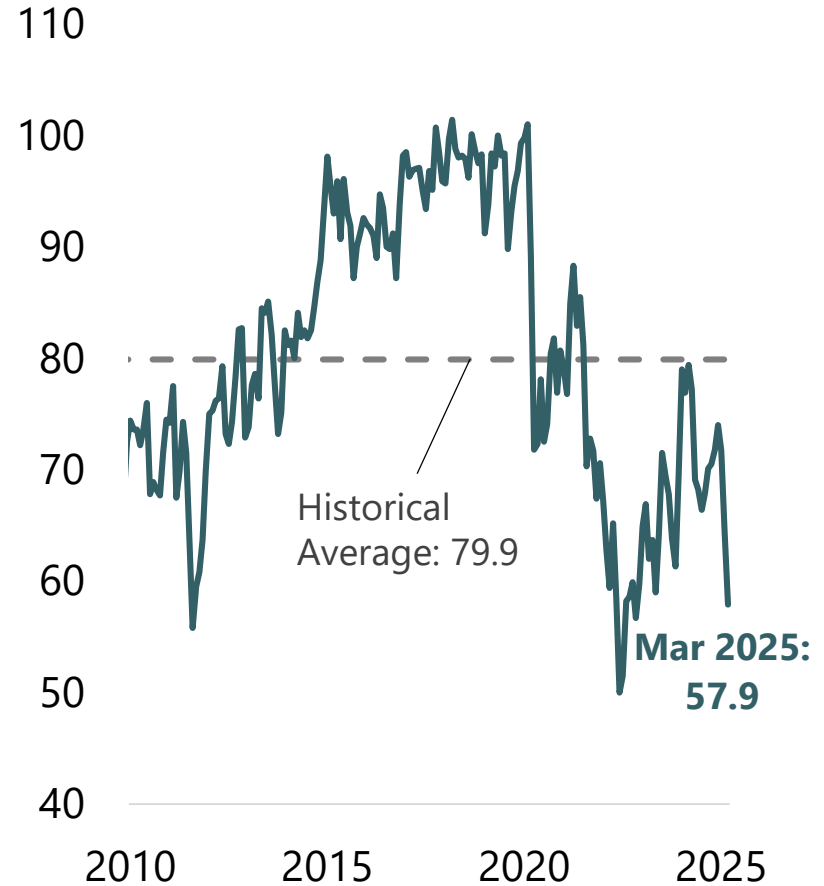
Market volatility up, consumer sentiment down

CBOE Volatility Index



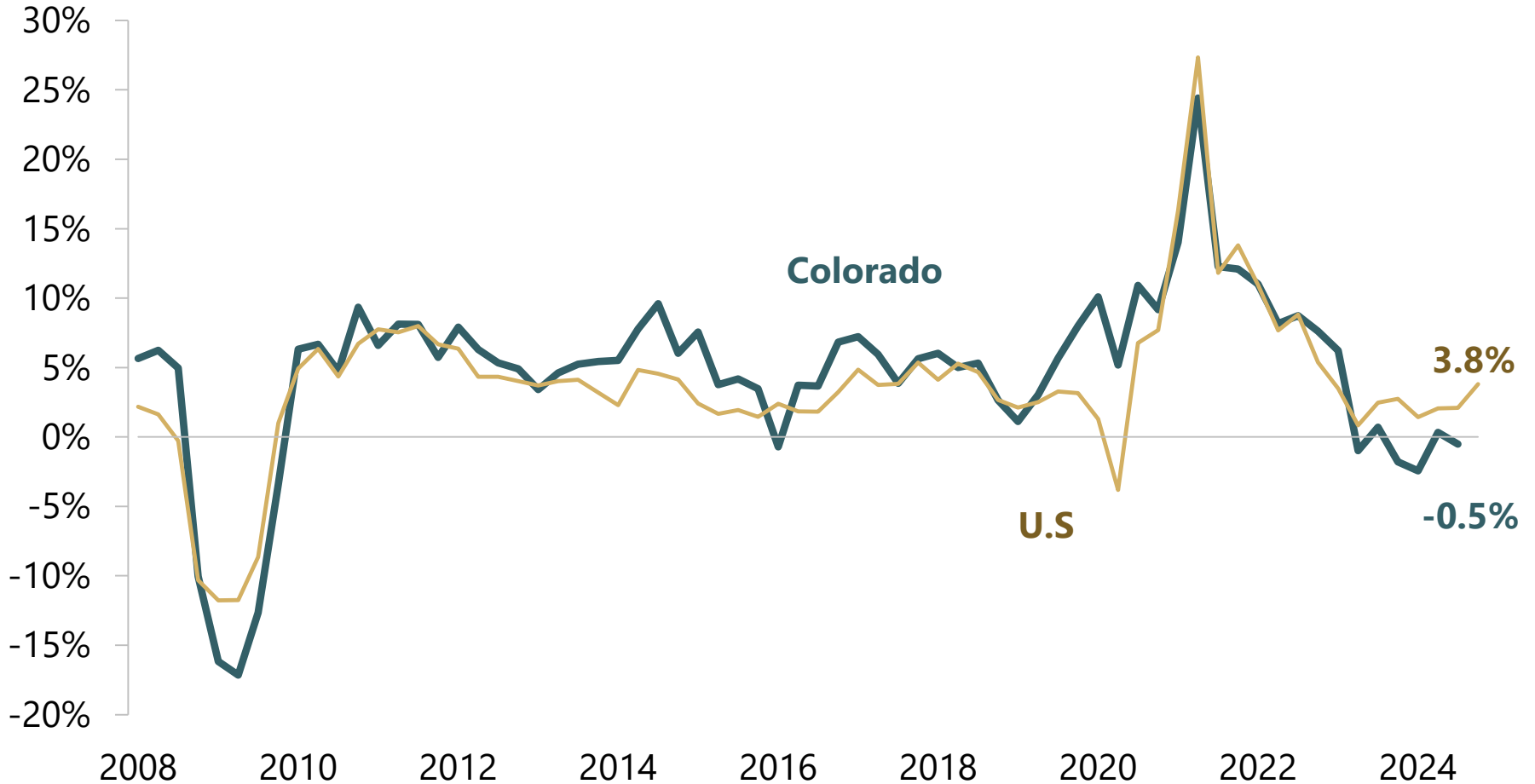
Consumer Sentiment Index

Index Value 1996 = 100



Colorado retail trade growth trails the U.S., contracts again in the third quarter of 2024

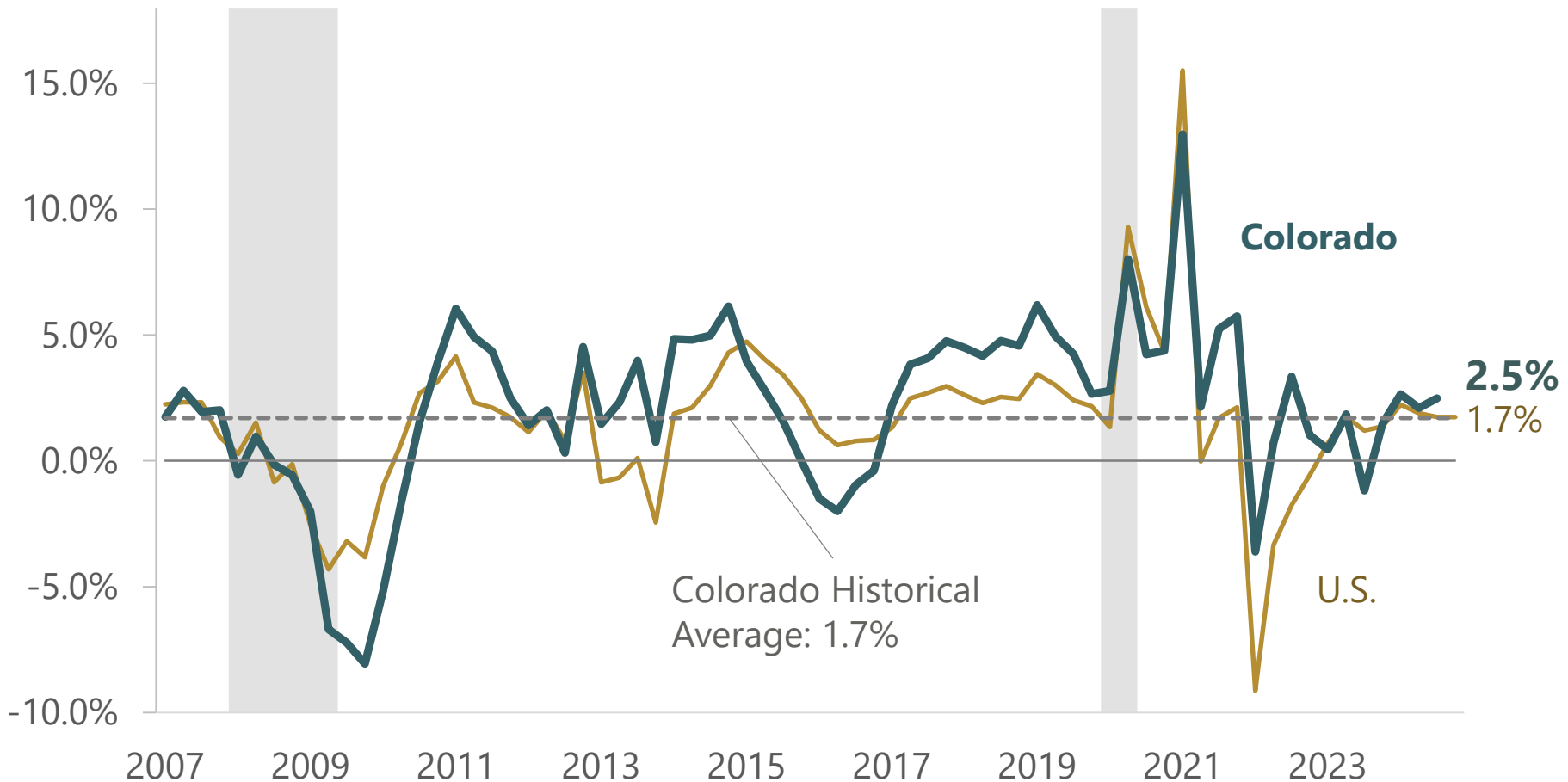
Retail Trade Sector Sales Year-over-year Percent Change



Source: U.S. data from U.S. Census Bureau, seasonally adjusted through Q4 2024. Colorado data from Colorado Department of Revenue through Q3 2024.

Real personal income growth is above the historical average, but at or below growth at the end of the last expansion

Real Per-Capita Personal Income Year-over-year Percent Change

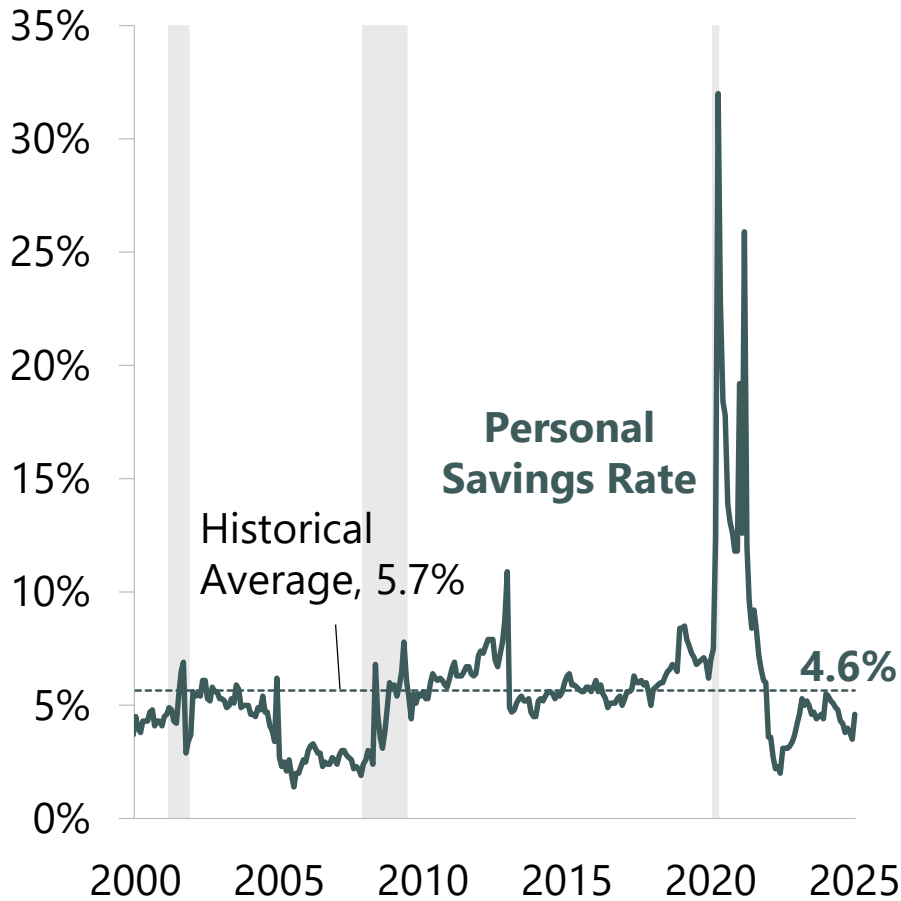


Source: U.S. Bureau of Economic Analysis, U.S. Census Bureau, and LCS calculations. Data are adjusted for inflation using the national PCE price index. Data for the U.S. are through Q4 2024. Data for Colorado are through Q3 2024.

Household savings below the historical average, delinquencies rising

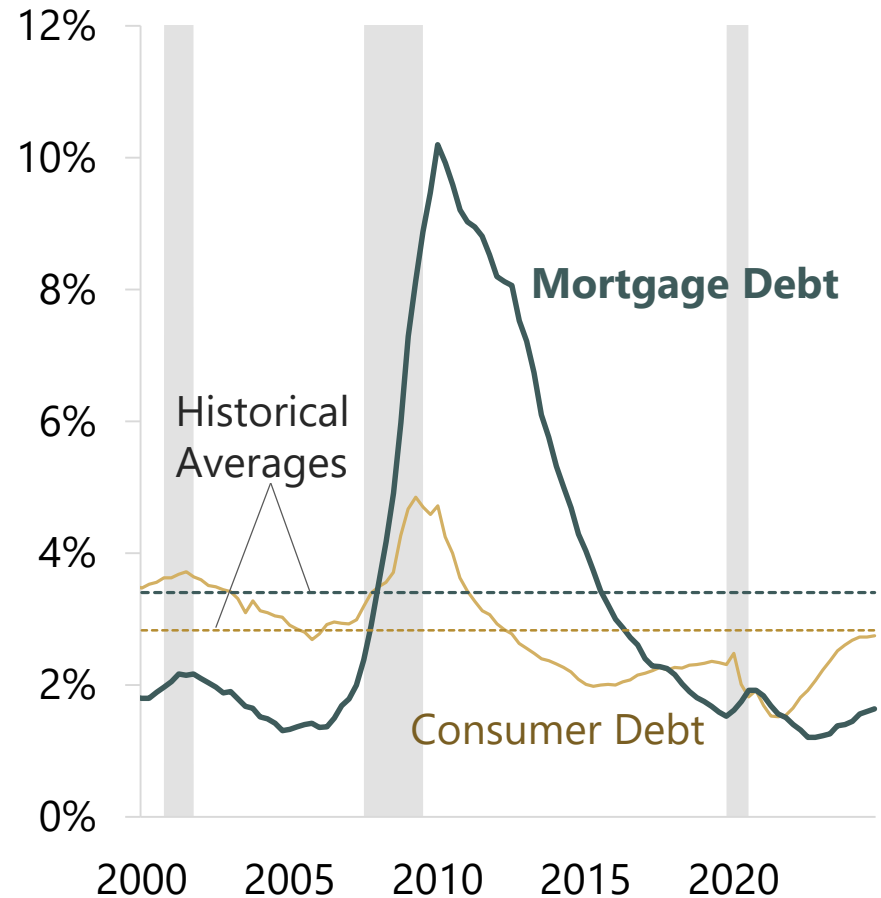
Personal Savings Rate

Percent



Delinquency Rates

Percent of Loans

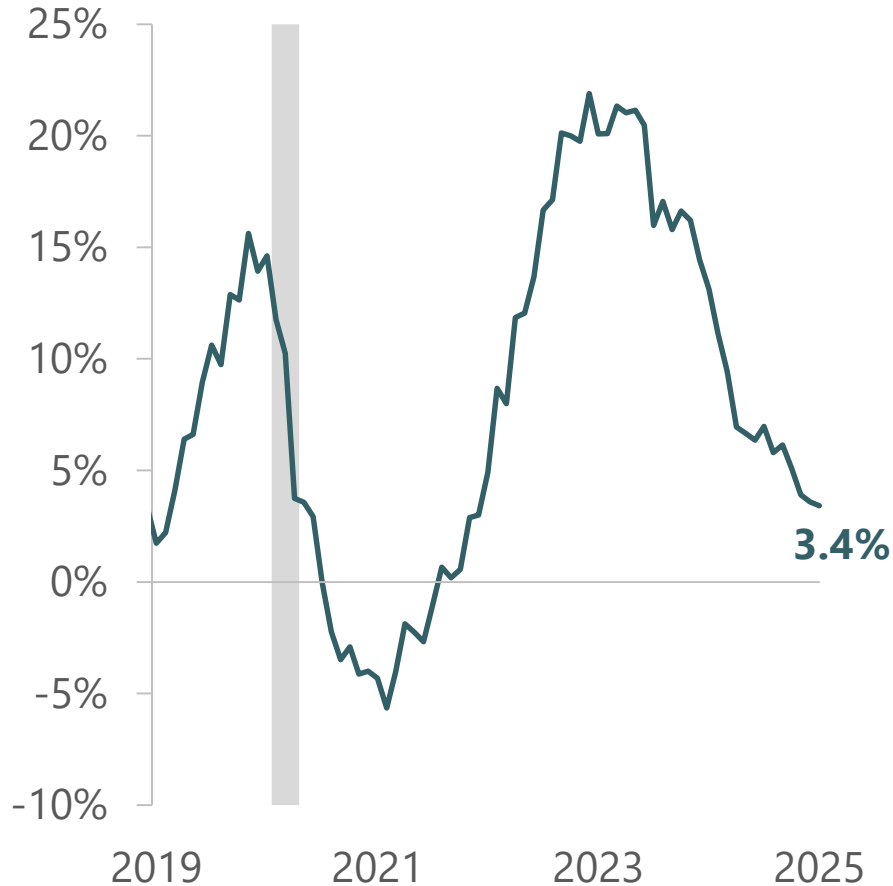


Source: U.S. Bureau of Economic Analysis and Federal Reserve Board of Governors.

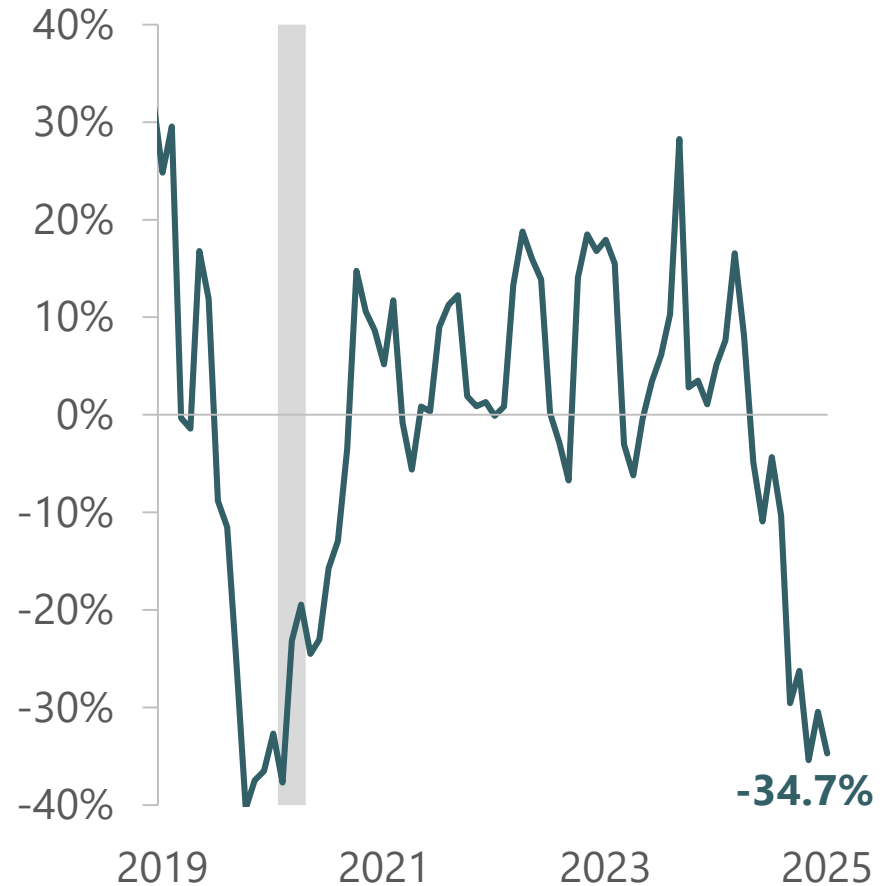
*The personal savings rate is calculated as the ratio of personal saving as a percentage of disposable personal income. Data are shown as seasonally adjusted annual rates through January 2025 (left) and 2024Q4 (right).

Nonresidential construction activity decelerates nationally, contracts in Colorado

U.S. Nonresidential Construction Year-Over-Year Percent Change



CO Nonresidential Construction Year-Over-Year Percent Change 12-Mo. Average

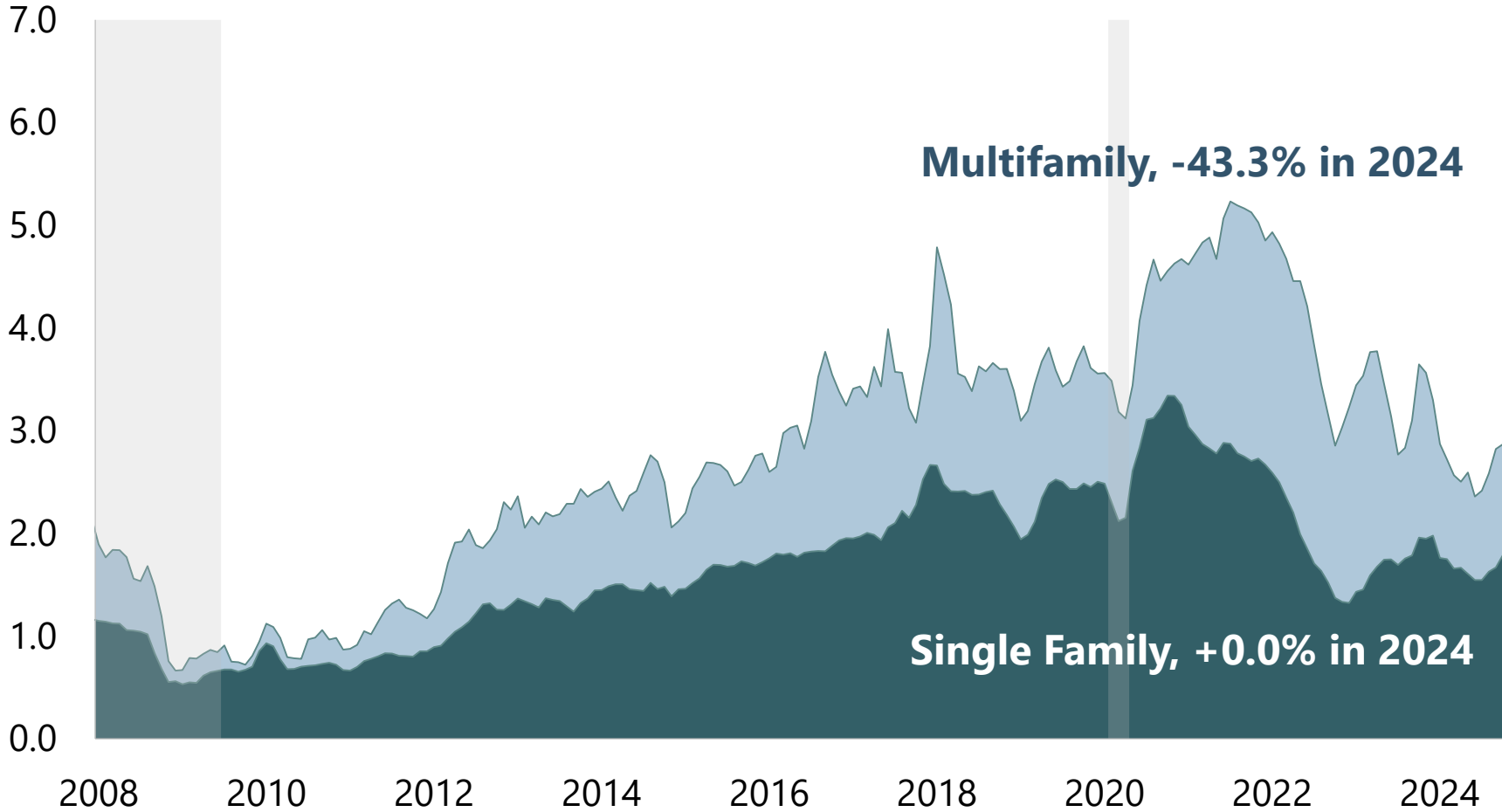


Source: U.S. Census Bureau, data through January 2025; F.W. Dodge, data through January 2025.

Note: U.S. data represents year-over-year percent changes in the seasonally adjusted annual rate of value. Colorado data represents year-over-year percent changes in the 12-month moving average value of nonresidential construction starts.

Steep decline in state's multifamily construction in 2024, tepid growth in single family

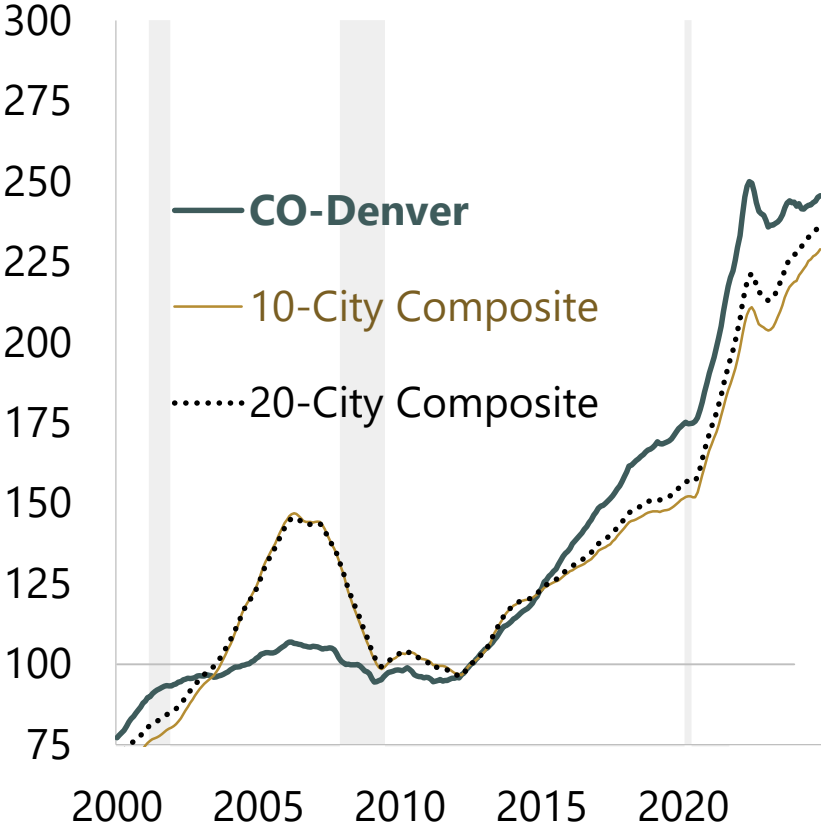
Colorado Residential Building Permits
Thousands of Units, Three-Month Moving Average



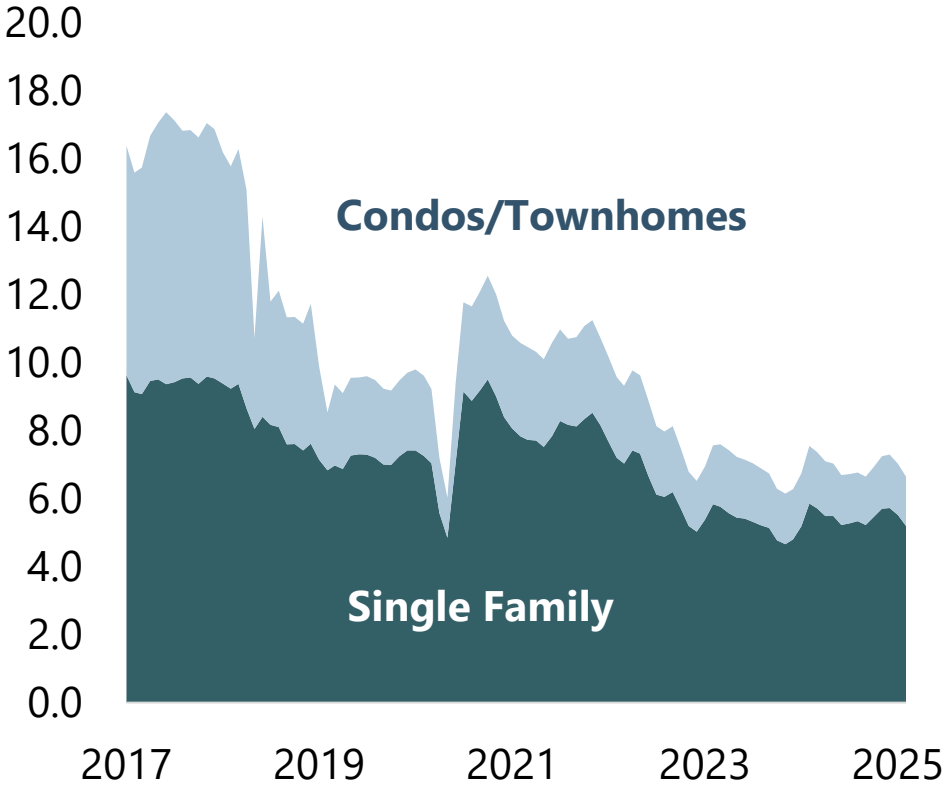
Source: U.S. Census Bureau and LCS calculations. Data are three-month moving averages through December 2024.

Denver home prices remain below peak, continue to grow nationwide; Colorado homes sales remain down

Home Price Indices
Index 100=July 2012



Colorado monthly home sales
Thousands of homes



Source: S&P Dow Jones Indices LLC. Data are seasonally adjusted and are through November 2024 (left). Colorado Association of Realtors. Data are seasonally adjusted by LCS and are through February 2025 (right).

The forecast anticipates a continued, slowing expansion, with risks now tipped to the downside

Downside Risks:

- Significant federal policy changes
- International trade policy
- Deteriorating labor market conditions
- Persistently high prices and tighter monetary policy hurts consumption and investment

Upside Risks:

- Significant federal policy changes
- More aggressive monetary policy easing
- Faster labor market response to monetary policy easing
- Faster resolution to global conflicts

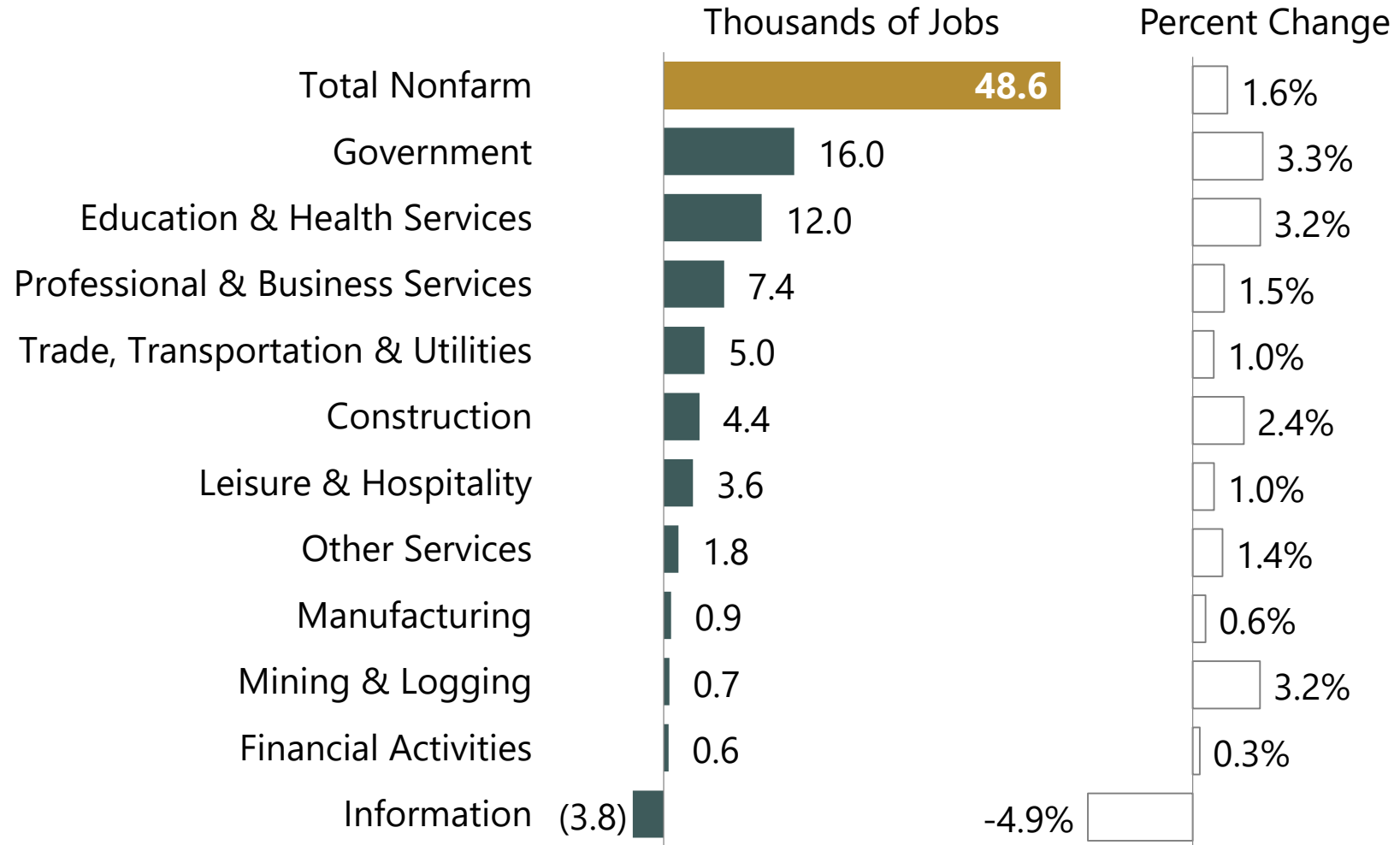
Supplemental Slides



Job gains vary by supersector

Colorado Job Gains and Losses by Supersector

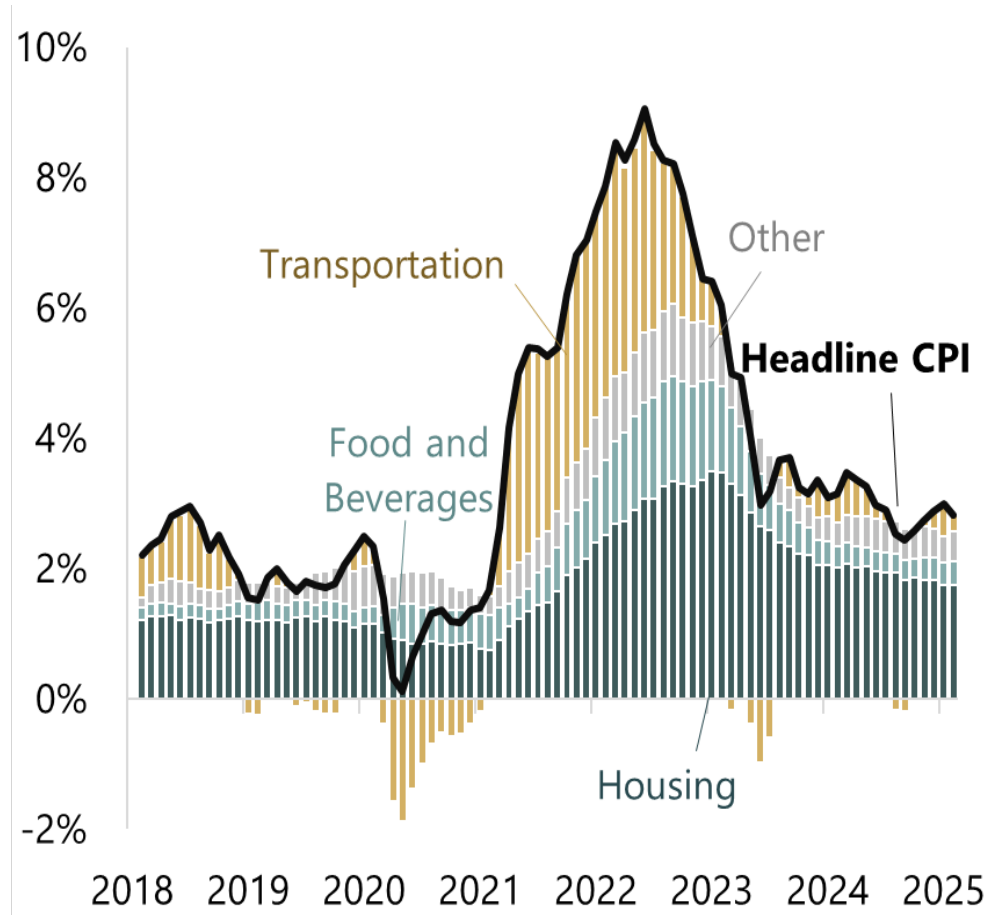
Year-over-Year Change, December 2024



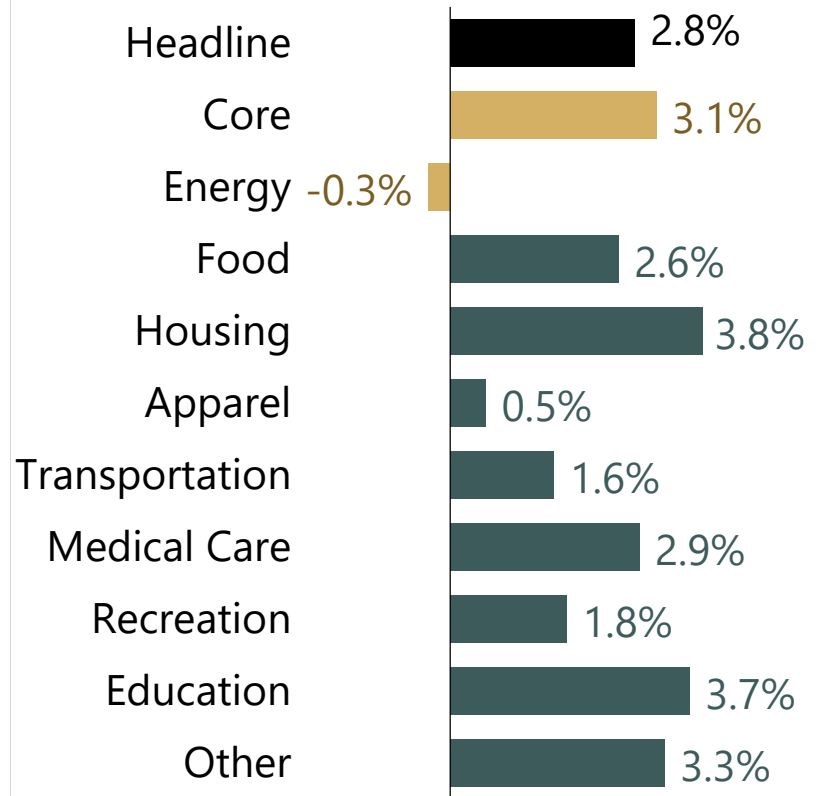
Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted.

Housing price inflationary pressure remains sticky, slow to wane

Contributions to U.S. Consumer Price Index (CPI-U) Inflation Year-over-Year Change in Prices



Selected Components, February 2025



Source: U.S. Bureau of Labor Statistics and LCS calculations.

Revenue & Budget Forecast



General Fund Revenue

- revised down with economic expectations

Cash Fund Revenue

- major downgrade to severance tax

TABOR Outlook

- small surpluses, especially in FY 2024-25

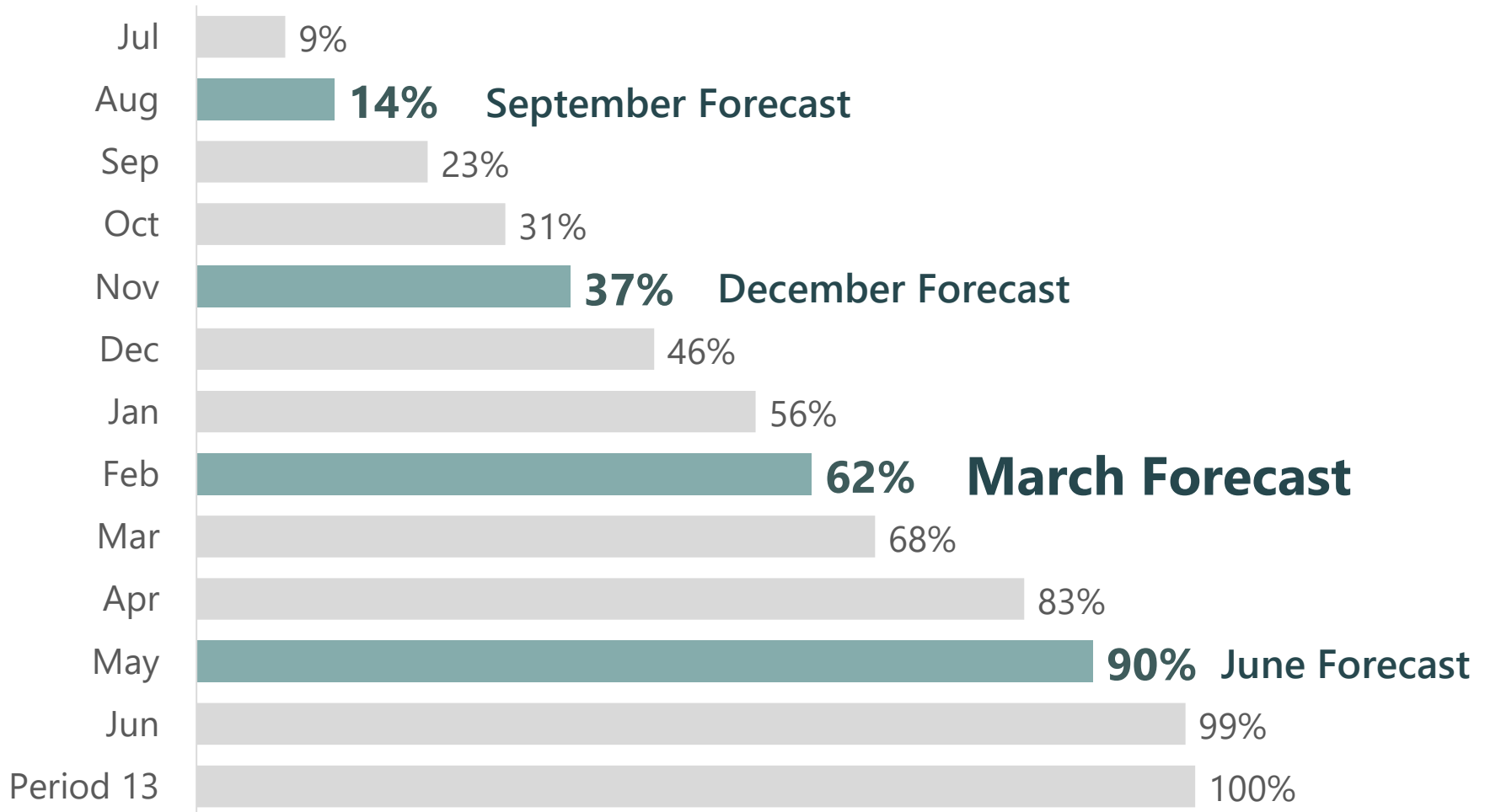
Budget Bottom Line

- forecast effects on budget mostly net neutral, but JBC still faces big gap to close



We always know less than we'd like in March.

Cumulative FYTD General Fund Collections by Month



Source: Office of the State Controller General Fund revenue tracking data, FY 2013-14 through FY 2023-24, with LCS calculations. Omits FY 2019-20 and FY 2020-21 due to unusual pandemic tracking patterns.

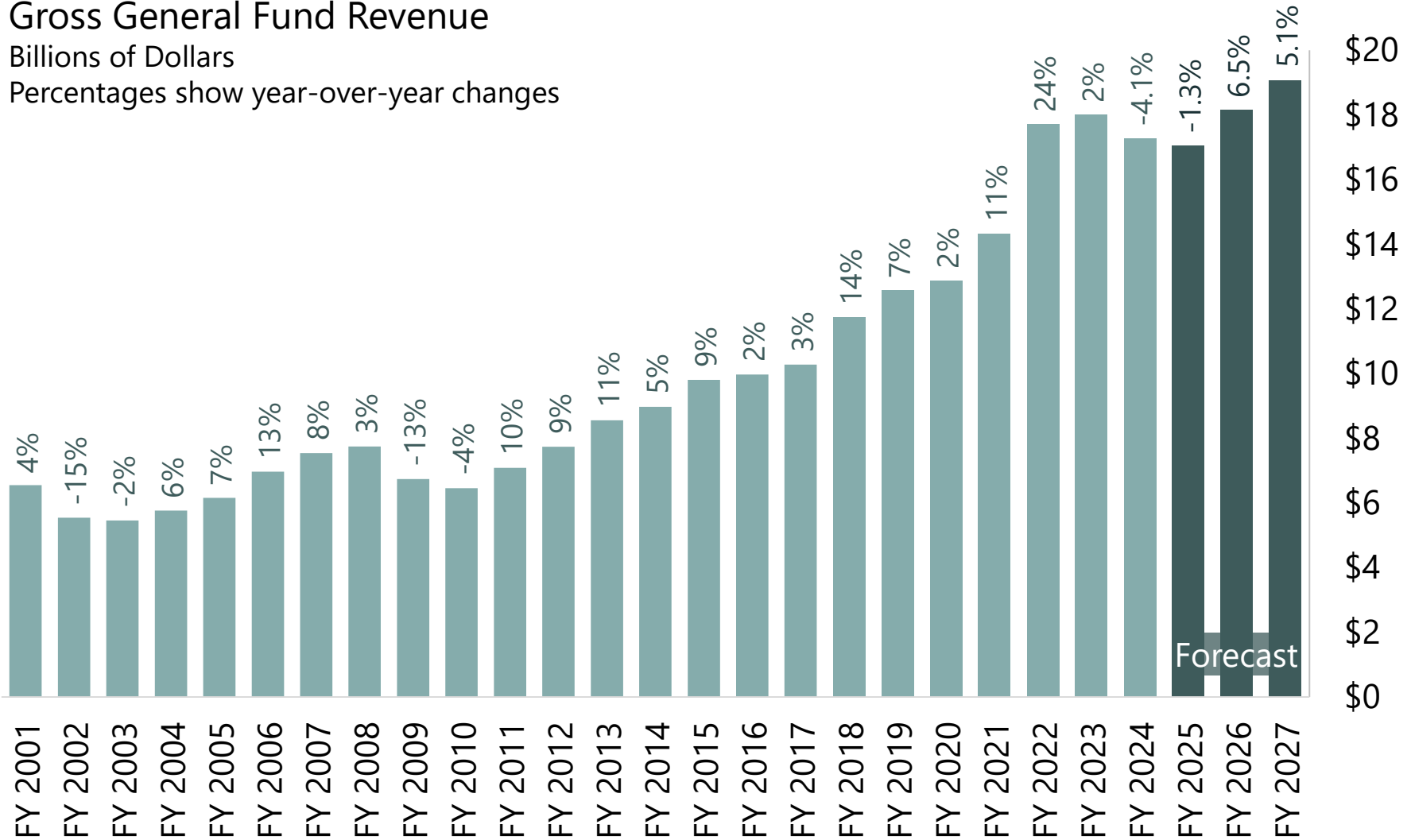
December forecast expected modest GF revenue decrease in FY 2024-25, moderate growth in FY 2025-26 and FY 2026-27

December 2024 | General Fund Forecast

Gross General Fund Revenue

Billions of Dollars

Percentages show year-over-year changes



Sales tax expectations decreased on tracking, income tax expectations decreased with economic forecast

March 2025 | General Fund Forecast

Gross General Fund Revenue

Billions of Dollars

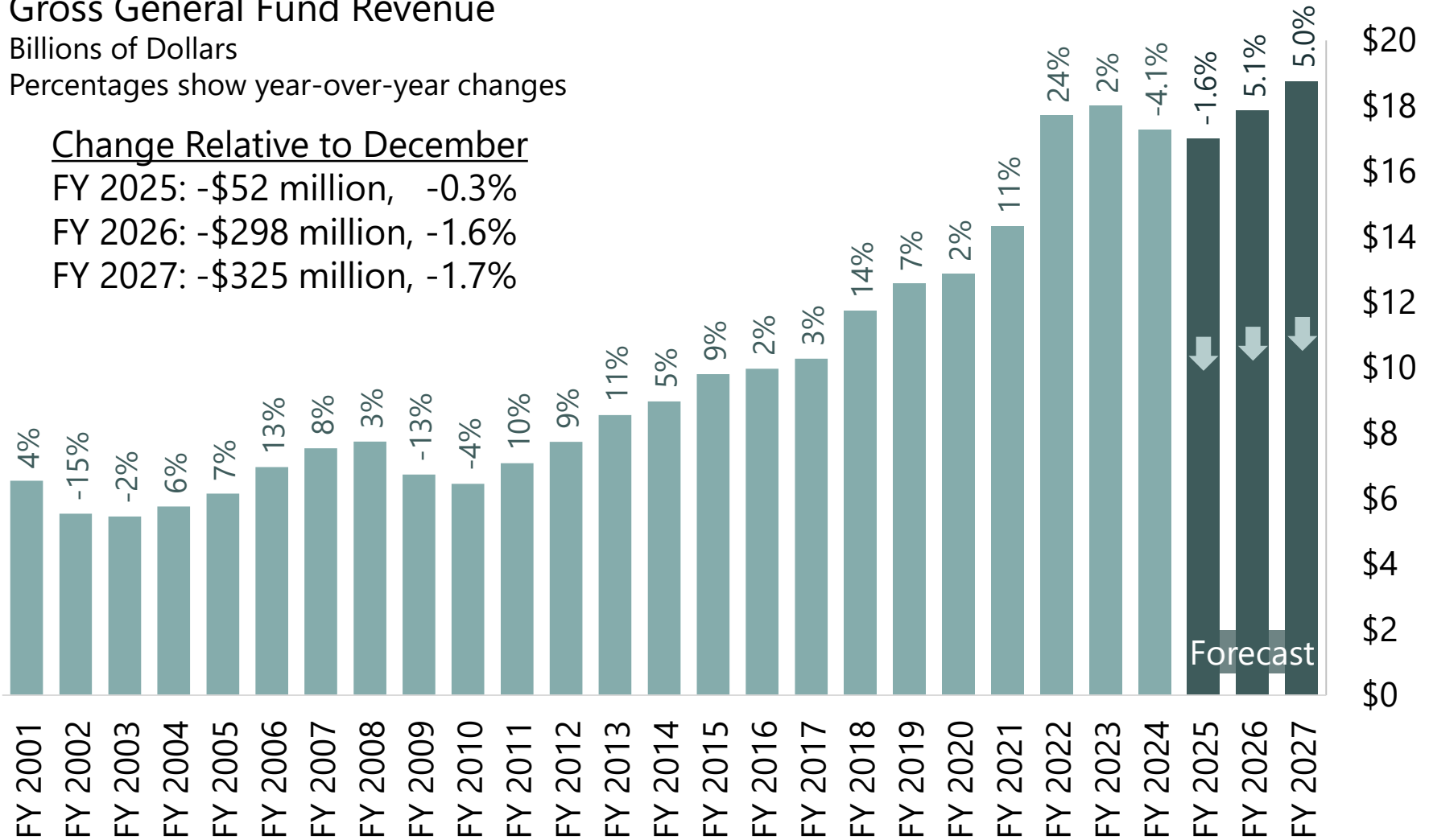
Percentages show year-over-year changes

Change Relative to December

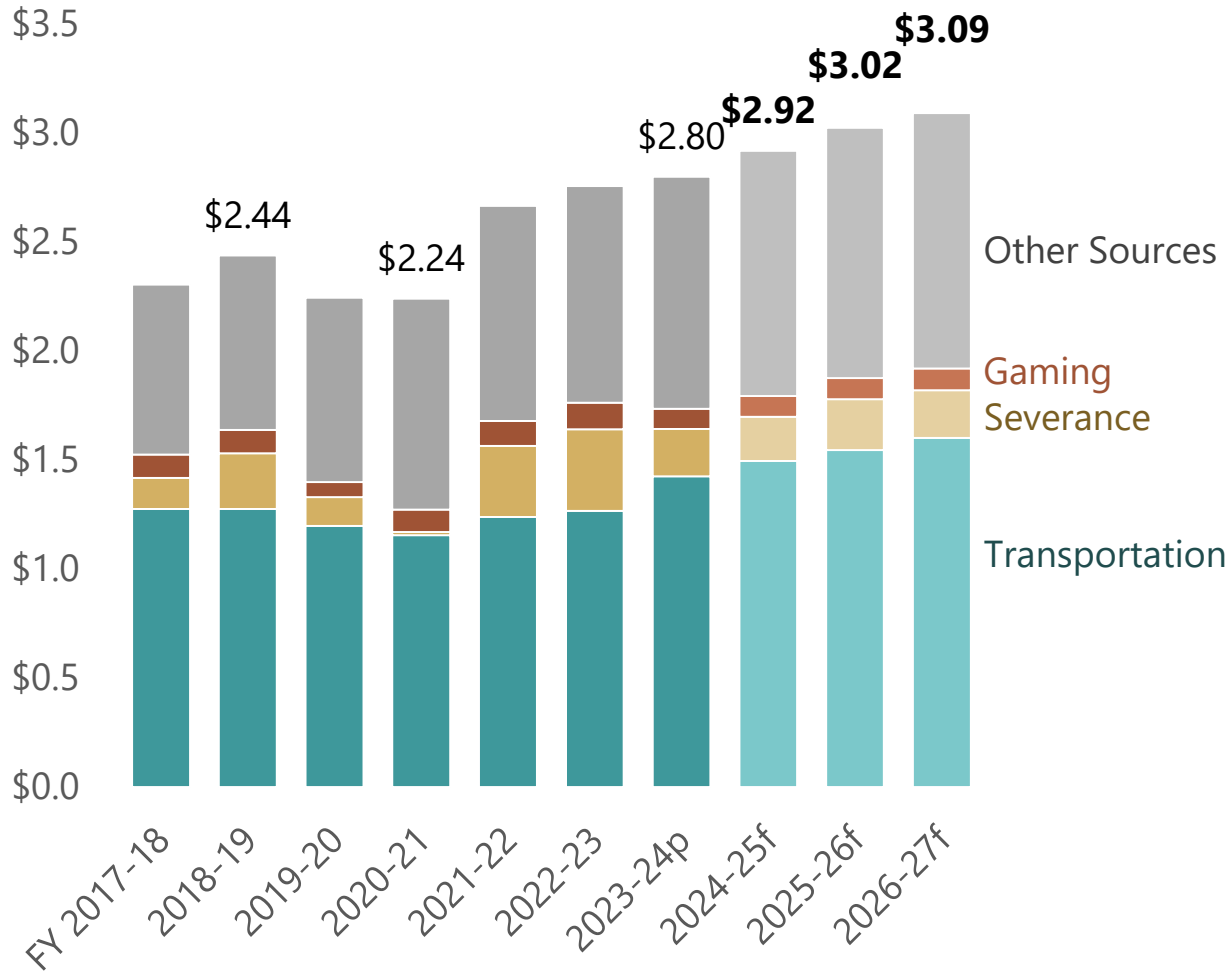
FY 2025: -\$52 million, -0.3%

FY 2026: -\$298 million, -1.6%

FY 2027: -\$325 million, -1.7%

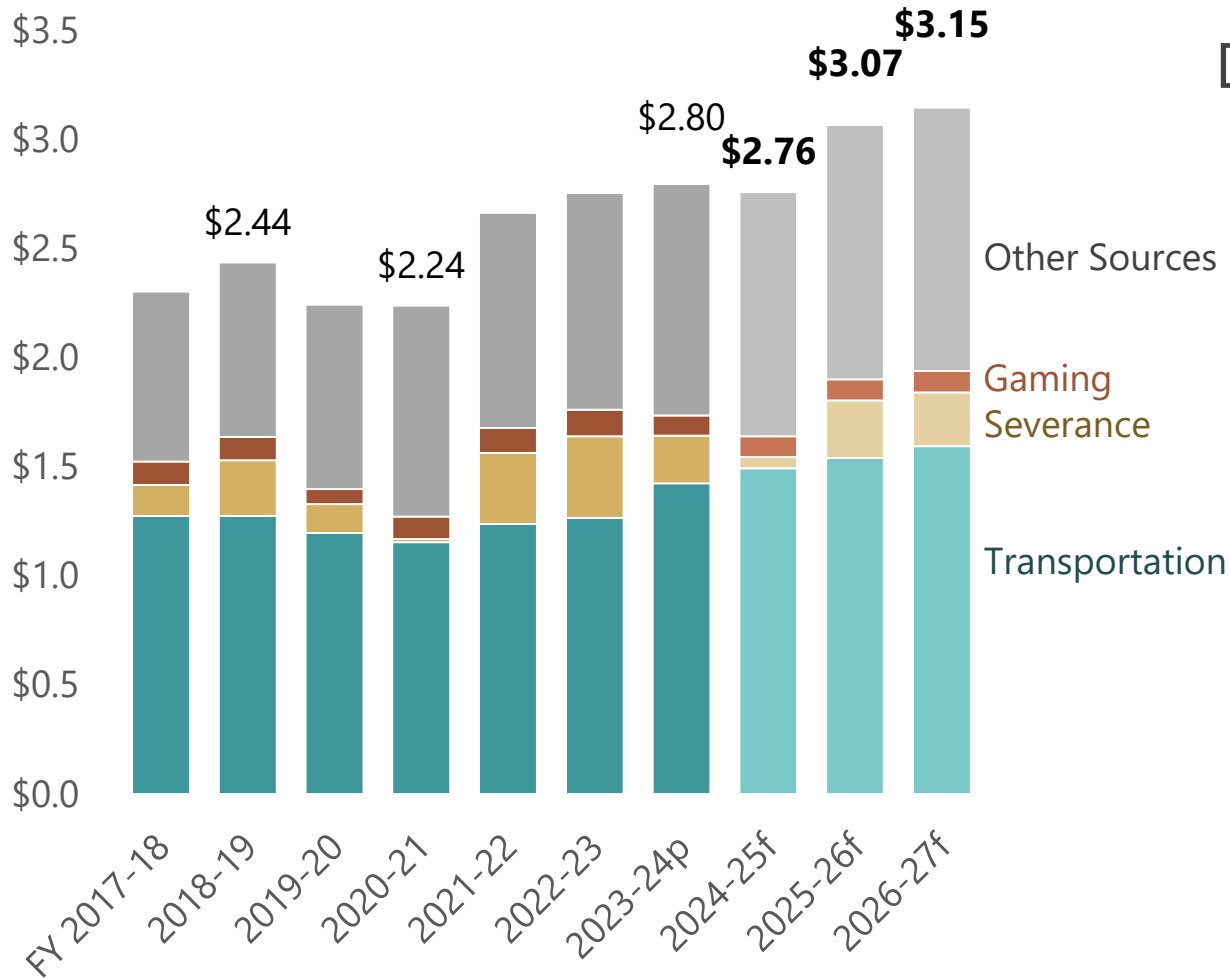


December 2024 | Cash Funds Subject to TABOR



Source: Office of the State Controller and LCS December 2024 Forecast.

March 2025 | Cash Funds Subject to TABOR



Change since the December forecast:

- FY 2024-25: -\$156 million
- FY 2025-26: +\$45 million
- FY 2026-27: +\$56 million

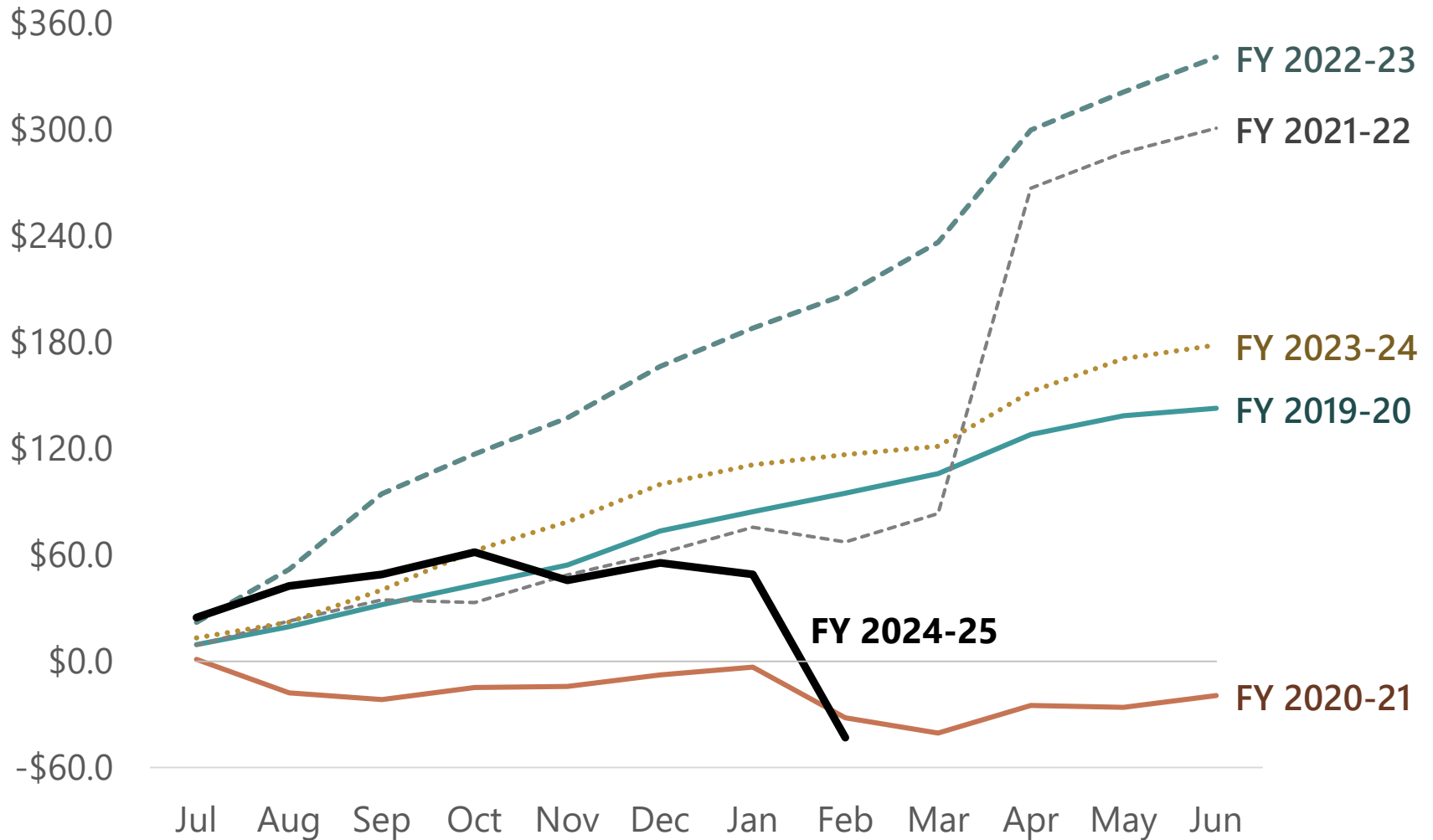
Net impacts of:

- major downgrade to **severance** in FY 2024-25
- modest upgrade to **severance** in FY 25, FY 26
- modest downgrade to **transportation**, all years
- upgrade to **other cash funds** in FY 25 and FY 26

Source: Office of the State Controller and LCS March 2025 Forecast.

Severance tax AV credits have reversed gains from the start of the year

YTD cumulative oil and gas severance tax collections, millions



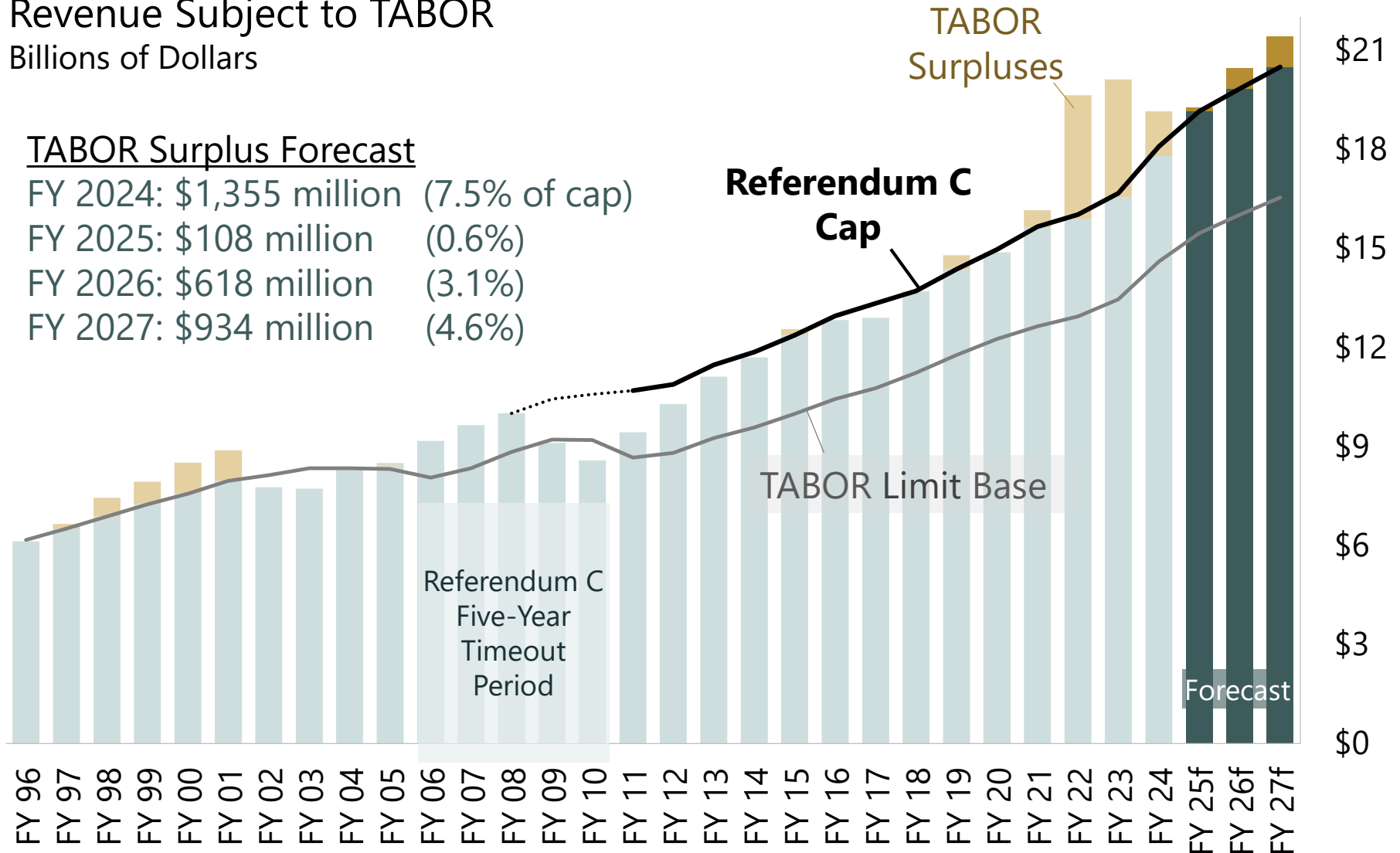
Source: Department of Revenue monthly severance tax collections tracking.

Downward revisions to GF and CF revenue mean small expected TABOR surpluses

Revenue Subject to TABOR
Billions of Dollars

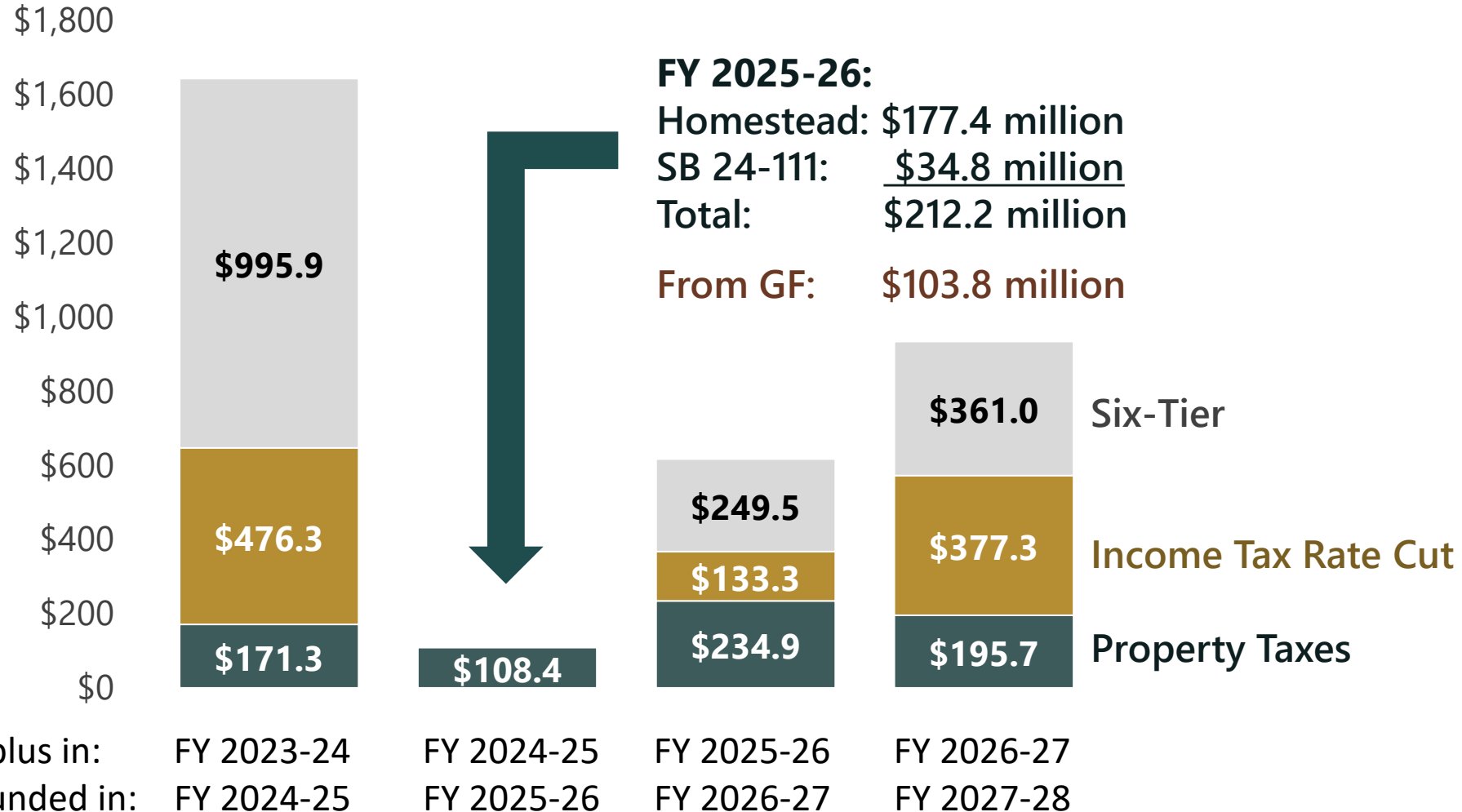
TABOR Surplus Forecast

FY 2024: \$1,355 million (7.5% of cap)
 FY 2025: \$108 million (0.6%)
 FY 2026: \$618 million (3.1%)
 FY 2027: \$934 million (4.6%)

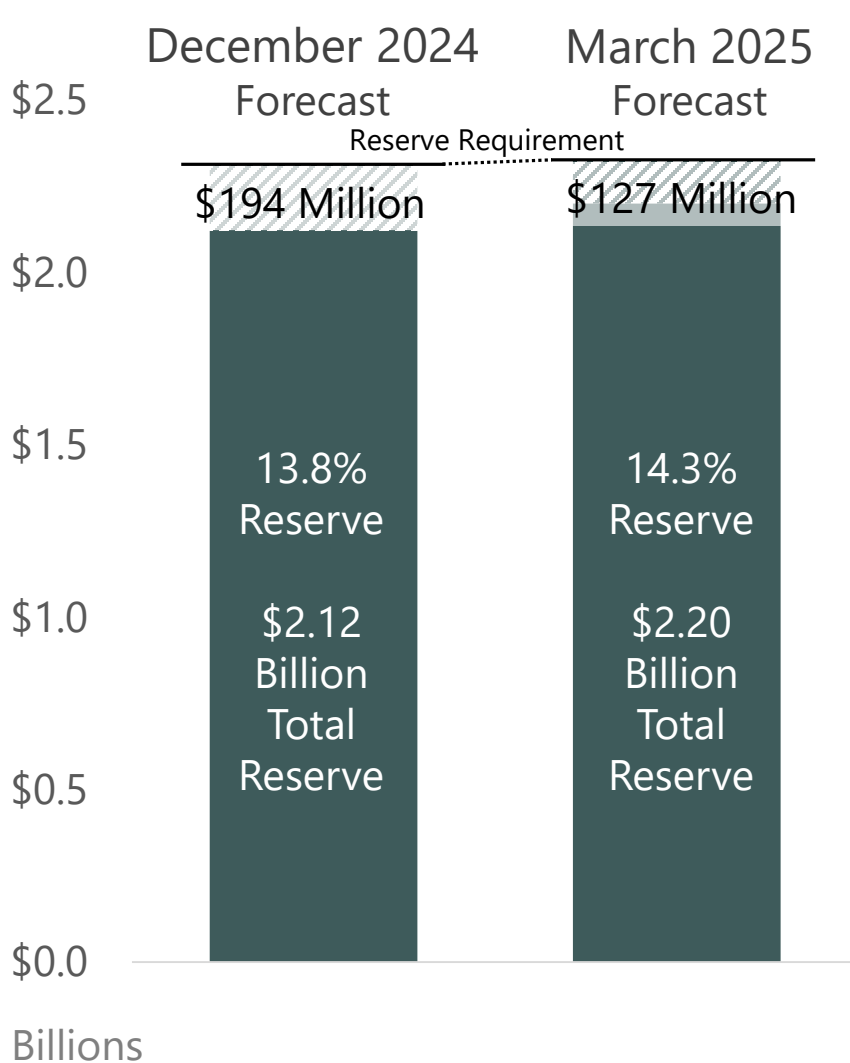


FY 2024-25 refund obligation may not fully fund property tax exemptions in FY 2025-26

TABOR Refund Mechanisms, Millions



Current Year | FY 2024-25 General Fund Reserve



Changes since the December forecast:

+ \$66 M in additional budget space:

- \$16 M from **beginning balance**
- \$85 M in **supplemental appropriations**
- \$13 M in **required reserve**
- \$52 M from **GF revenue** forecast
- + \$248 M from lower **TABOR** obligation
- \$12 M from **transfers in** (HB 23-1272)
- + \$12 M from lower **transfers out**, mostly of exempt revenue
- \$2 M from higher **rebates and expenditures**
- \$15 M for anticipated **accounting adjustment**

Source: Legislative Council Staff forecasts based on current law.

FY 2025-26 “Scenario A”

No Change To FY 2024-25 Appropriations

\$320 million available in FY 2025-26

Includes:

- Same appropriations as FY 2024-25
Including supplemental package
- FY 2025-26 GF appropriations for FY 2024-25
Big Swap personnel costs
- No other changes (caseload, inflation, approved actions)

Under the scenario, revised forecast shows **\$16 million** more in budget space relative to February memos (when this scenario showed \$304 million).

FY 2025-26 “Scenario A”

\$320M available, **\$16M** more than in February

Biggest forecast changes, summarized:

- Income tax revised down **\$261M** over two years (-1.0%)
- Sales and use tax revised down **\$105M** over two years (-1.1%)
- TABOR refund forecast revised down **\$477M** over two years
 - Much of this offsets reduced GF revenue forecast
 - Remainder (~\$127M) is from **reduced CF revenue forecast**
- FY 2024-25 TABOR surplus not enough to fully fund property tax reimbursements in FY 2025-26. GF obligation for rebates and expenditures increased **\$95M** over two years.

FY 2025-26 Scenario B:

“JBC Budget Actions Through March 13”
these slides updated through March 16

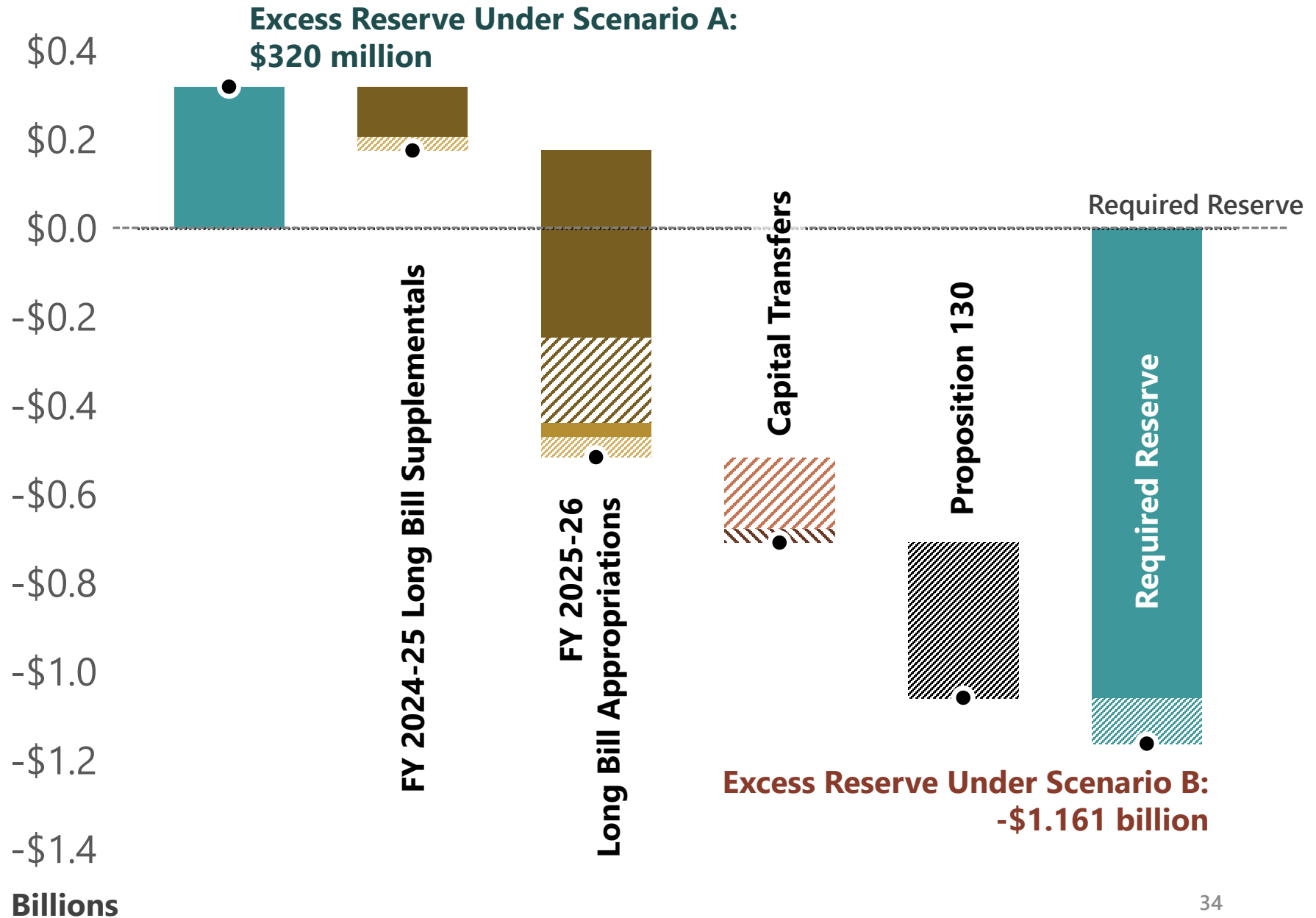
Includes:

- Everything in Scenario A
- For FY 2024-25 Long Bill supplementals and FY 2025-26 Long Bill appropriations:
 - Where JBC has acted, **JBC action**
 - Where JBC has not acted, **JBC Staff recommendation***
- Only budget package legislation and legislative content **approved for introduction**
- Capital transfers recommended by **CDC** and **JTC**
- \$350 million transfer for **Proposition 130**

*except higher ed

LCS is not opining on the merits of the assumed budget actions.

Scenario B: "JBC Budget Actions Through March 16"



Forecast Takeaways

The economic outlook has worsened, and we've downgraded our revenue forecast accordingly

Combined with severance tax situation, General Fund revenue downgrade means a small TABOR surplus, or no surplus, in FY 2024-25

- in the LCS forecast, not enough to fully fund homestead for FY 2025-26
- risk of similar outcomes in later years

Budget outlook changes are relatively minor improvements

This was a difficult forecast with limited data and lots of risks

Questions?

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