



June 2023 | Legislative Council Staff
Economic & Revenue Forecast

Presentation to the Joint Budget Committee

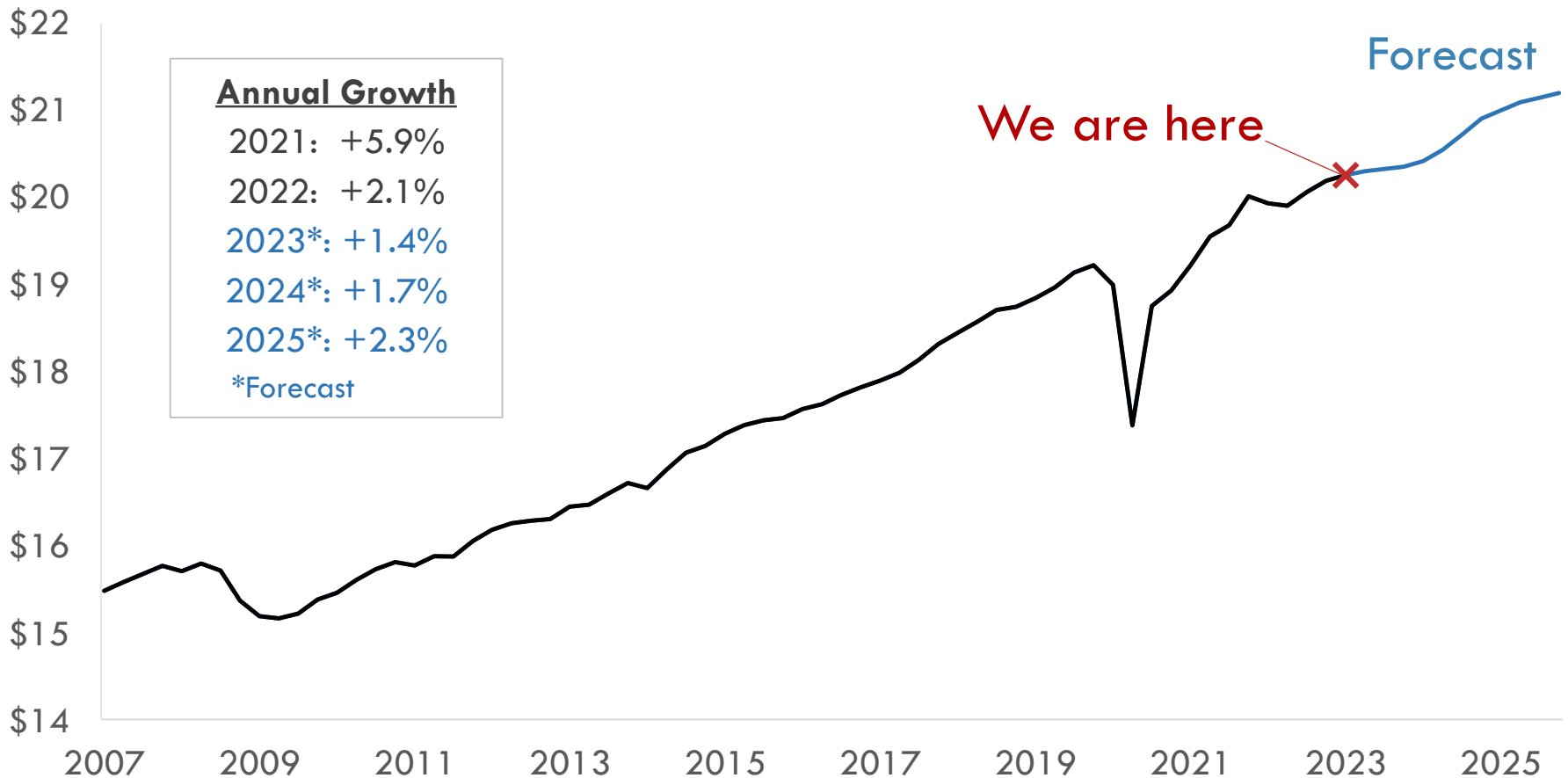
June 20, 2023

Economic Outlook



Slower economic growth anticipated in the near term

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



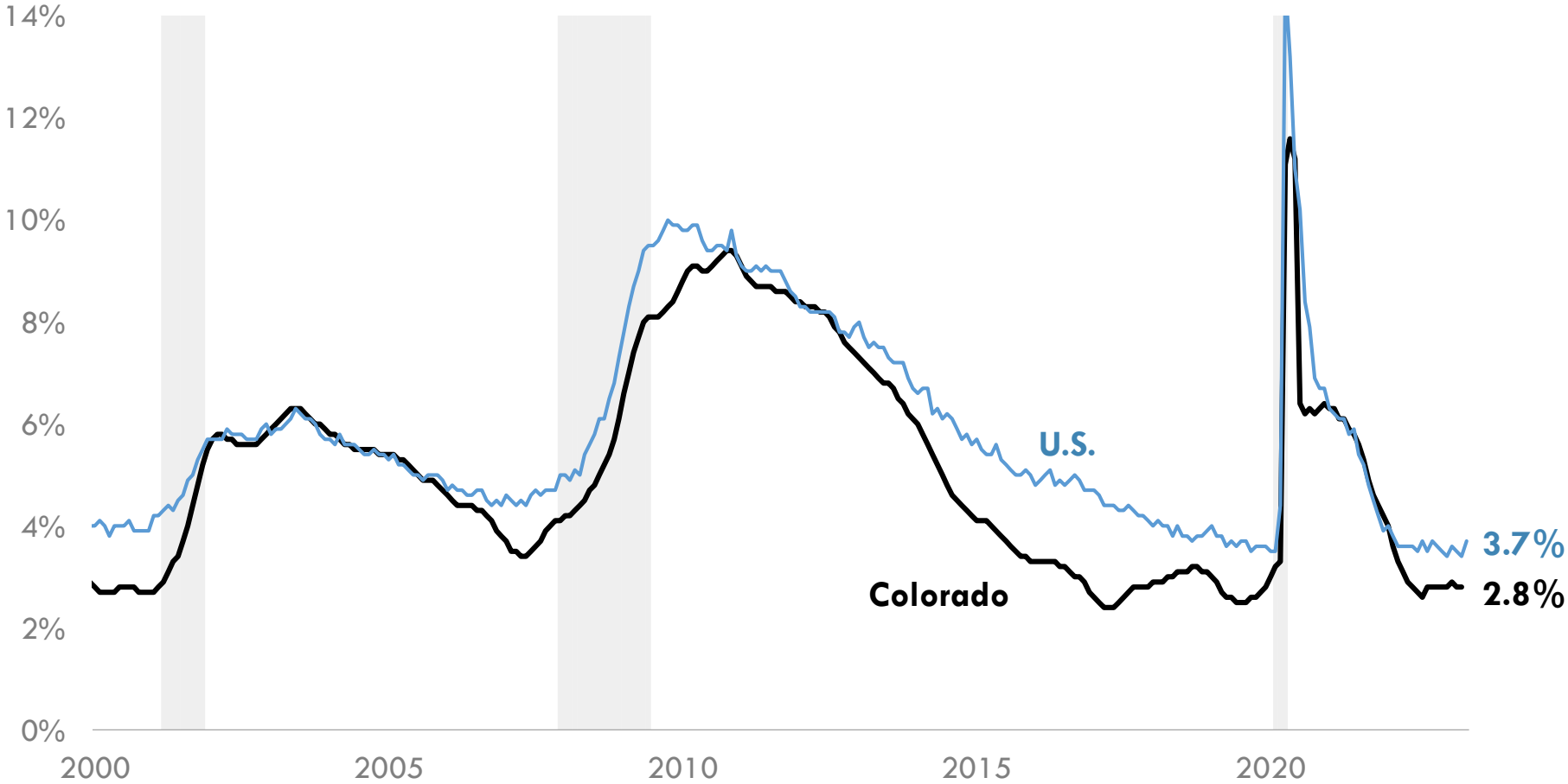
Source: U.S. Bureau of Economic Analysis and Legislative Council Staff June 2023 projections.

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

Colorado and U.S. unemployment rates remain low

Unemployment Rates

Percent

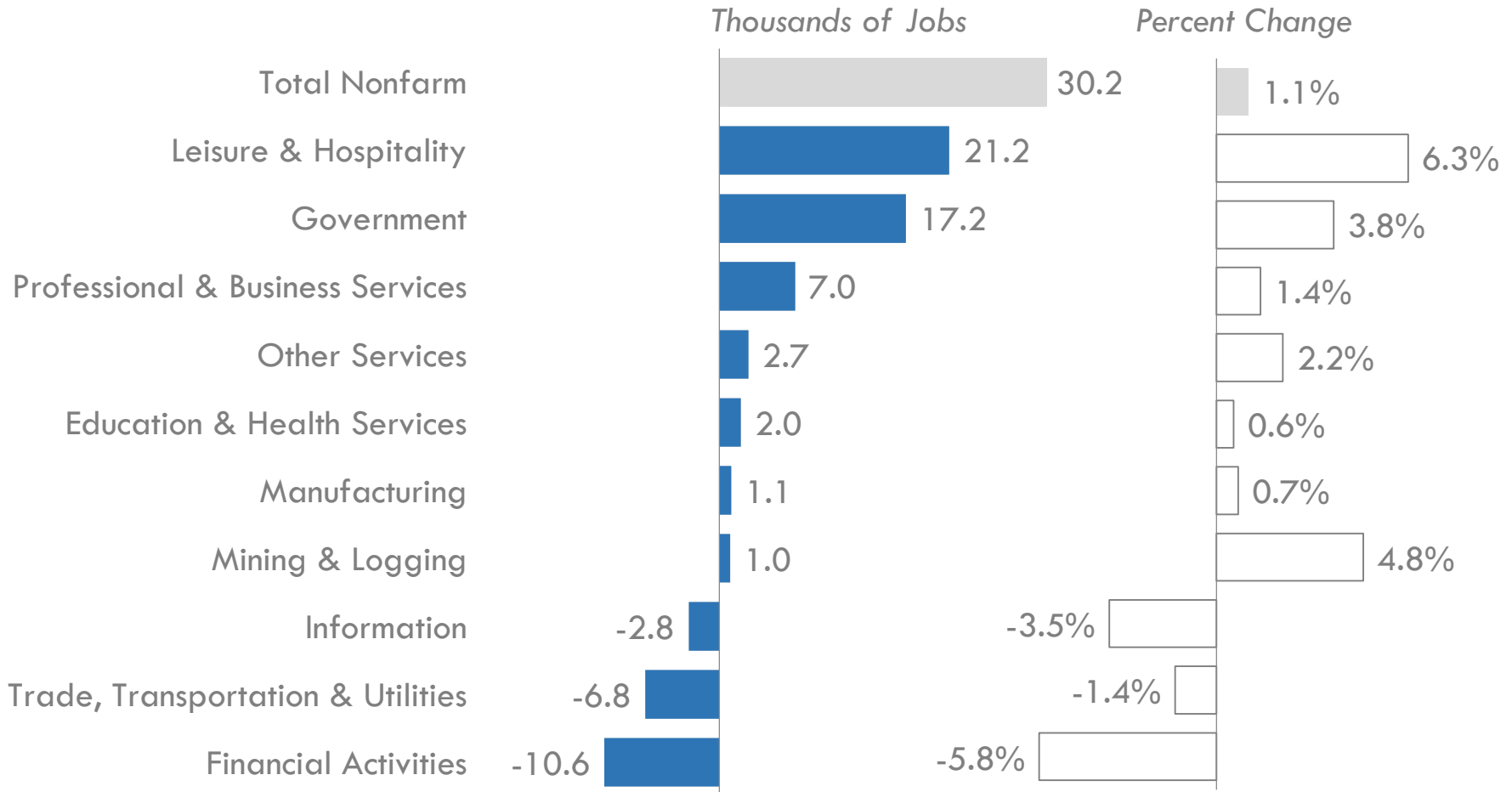


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted.

Colorado employment growth is positive but slowing

Colorado Job Gains and Losses by Supersector

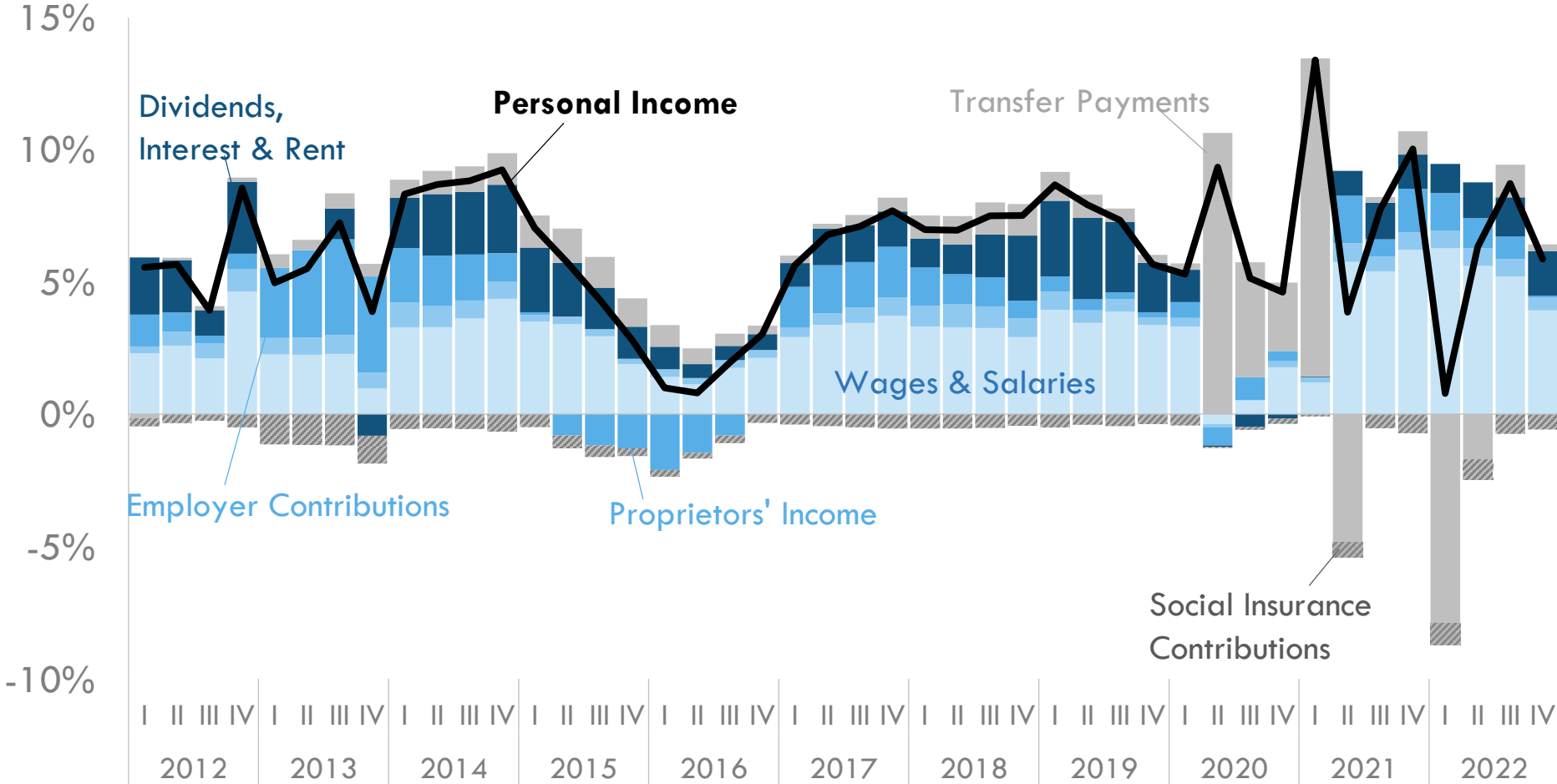
Year-over-Year Change, May 2023



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

Colorado personal income grew consistently in the last three quarters of 2022

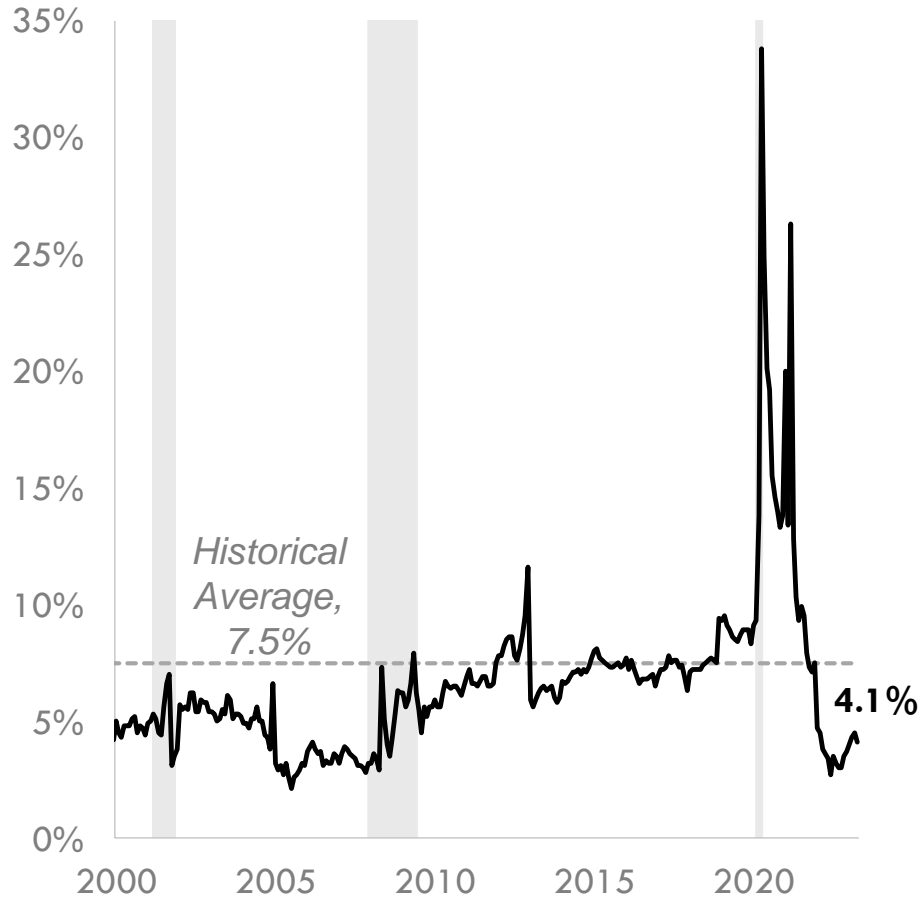
Contributions to Personal Income Growth
Year-Over-Year Percent Change



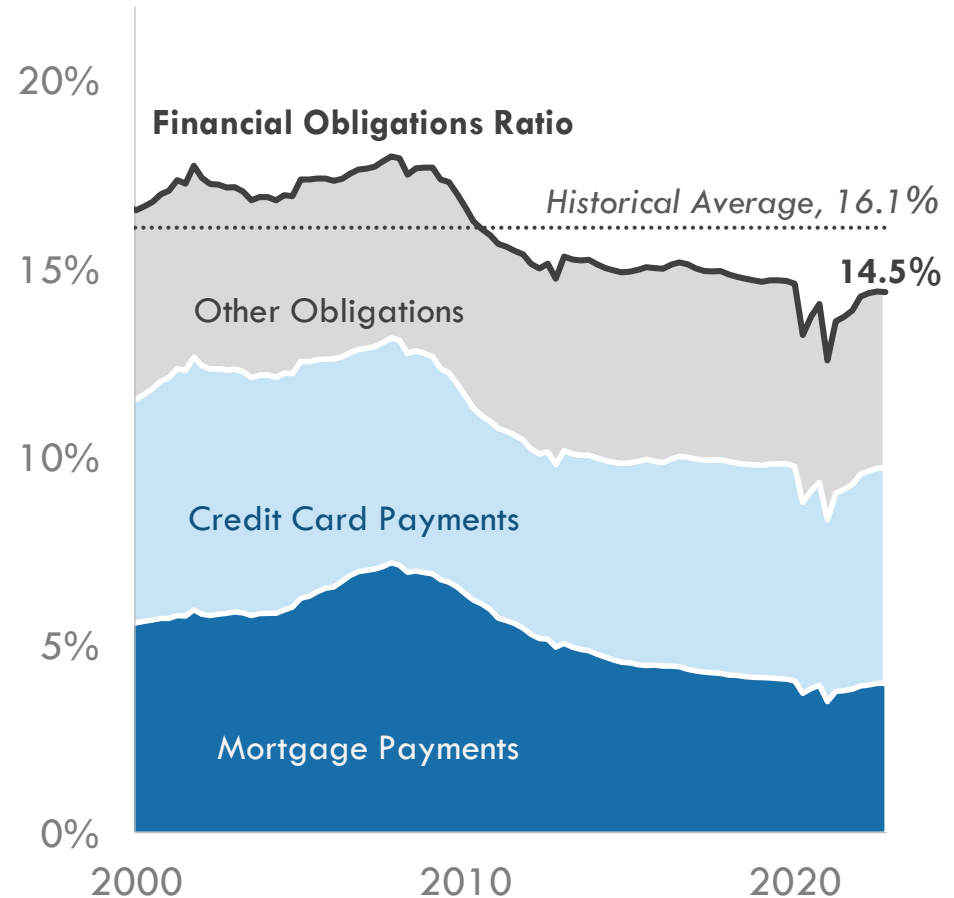
Source: U.S. Bureau of Economic Analysis with Legislative Council Staff calculations. Data are seasonally adjusted through 2022Q4.

Household spending is high, but debt levels remain healthy

Personal Savings Rate Percent



Household Debt and Financial Obligations Percent



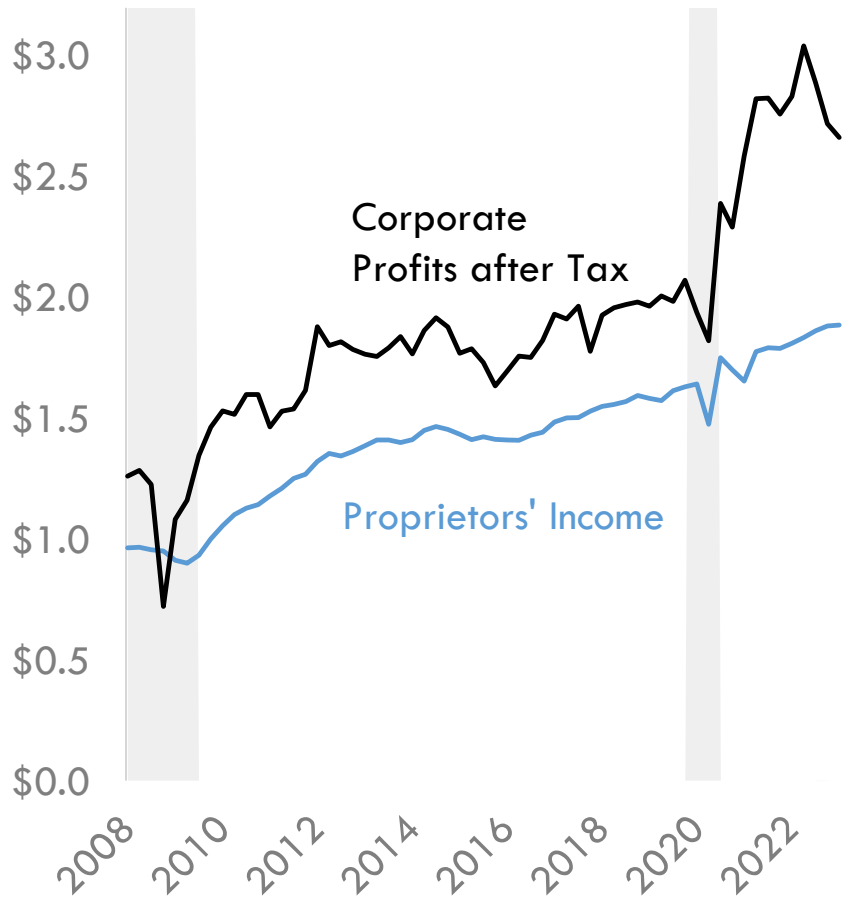
Source: U.S. Bureau of Economic Analysis.
*The personal savings rate is calculated as the ratio of personal saving as a percentage of disposable personal income. Data are shown as seasonally adjusted annual rates.

Source: Federal Reserve Board of Governors. Date are through 2022 Q4.

Business activity stalls in recent months

Business Income and Profits

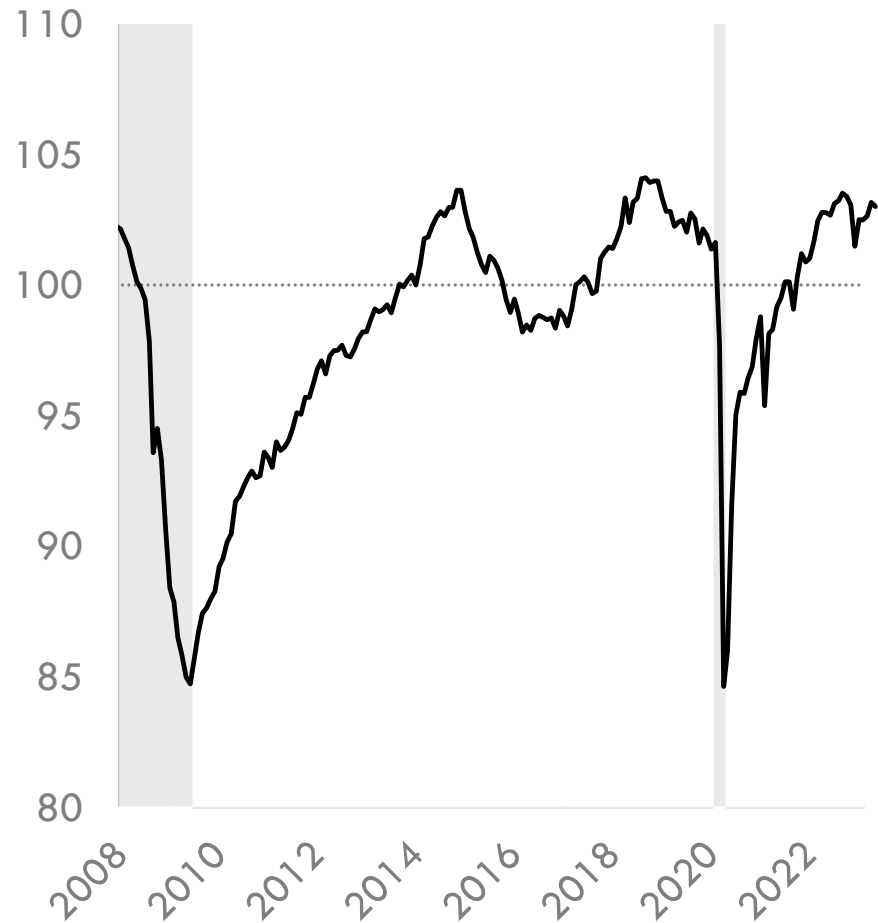
Trillions of Dollars



Source: U.S. Bureau of Economic Analysis. Data are not adjusted for inflation. Data are seasonally adjusted through 2023Q1.

Industrial Production Index

Index 2017 = 100

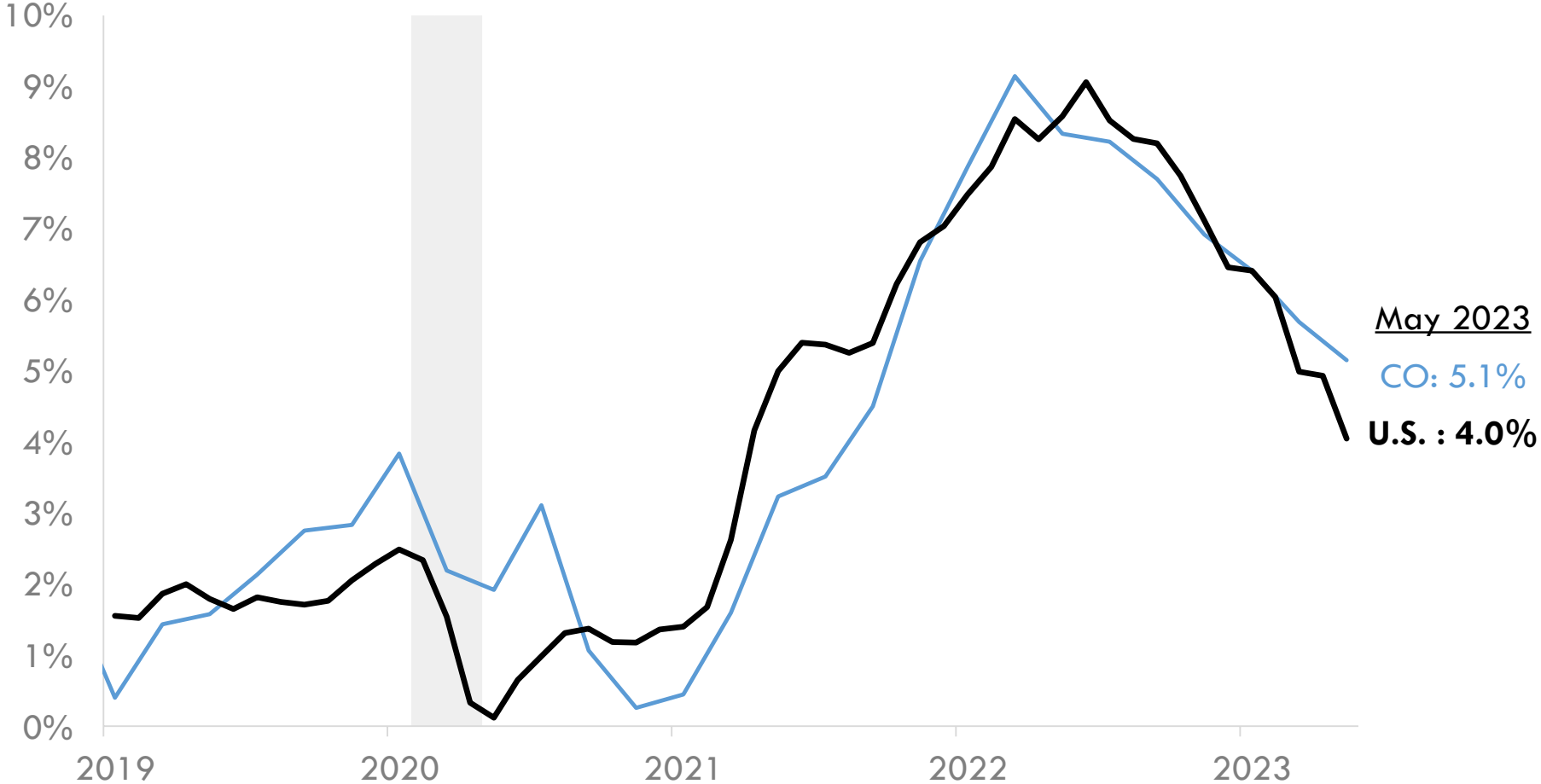


Source: Federal Reserve Board of Governors. Data are through May 2023.

Inflation slowing since 2022 peak, but remains high

Headline CPI-U Inflation

Year-over-Year Change in Prices



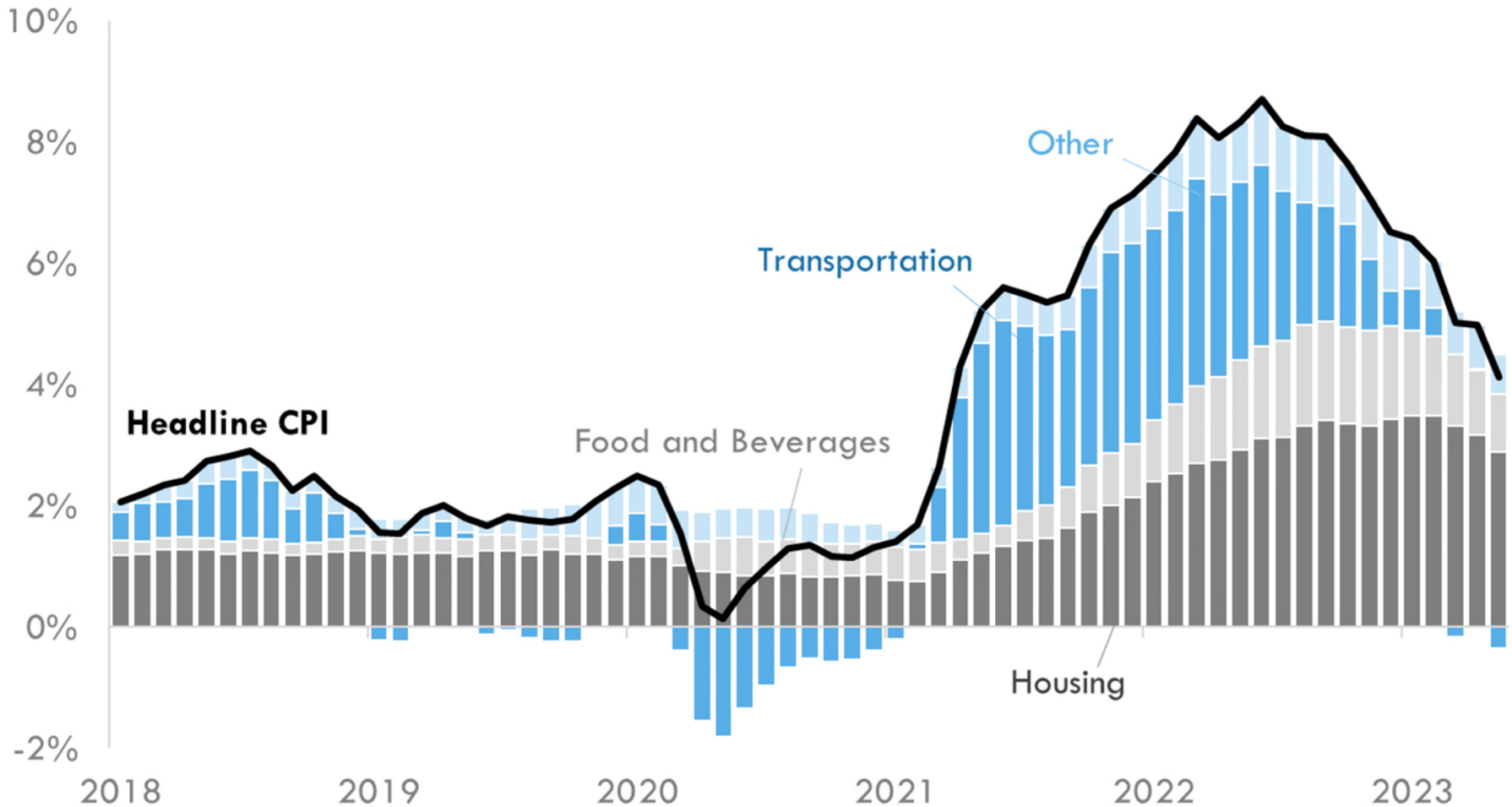
Source: U.S. Bureau of Labor Statistics.

Inflation is calculated as the growth in urban area prices in a given period relative to the same period in the prior year. Colorado inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area.

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

Contributions to U.S. CPI-U

Year-over-Year Change in Prices

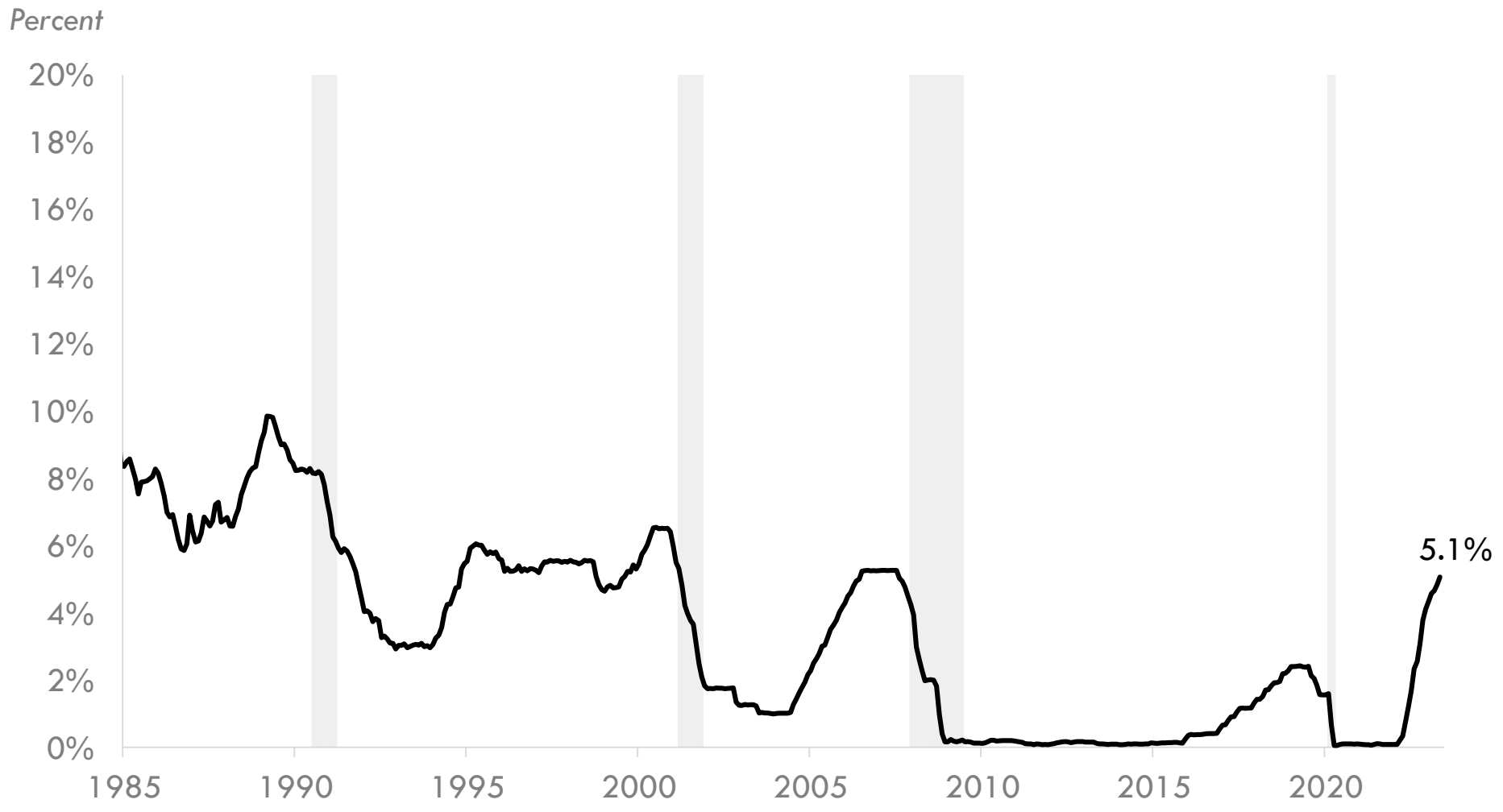


Source: U.S. Bureau of Labor Statistics and LCS calculations.

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

Federal Reserve expected to pause rate hikes, but may adjust later in the year

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

The June forecast anticipates a continued, slowing expansion.

Risk of near-term recession remains elevated, but lower than in the March forecast.

- **Downside Risks:**

- Persistent inflation
- Aggressive monetary tightening
- Geopolitical uncertainty and trade disruptions
- Small bank failures and reduced lending

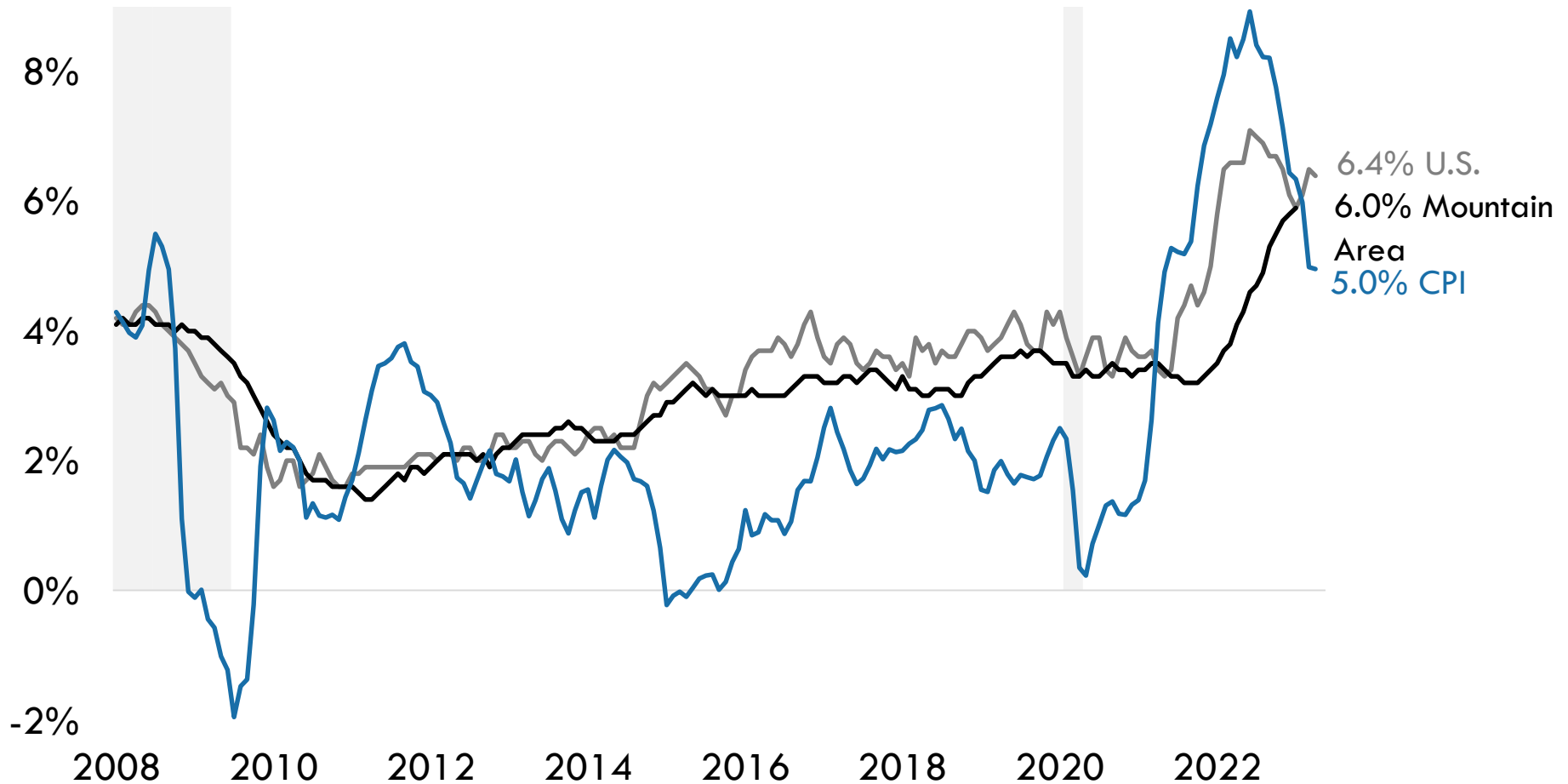
- **Upside Risks:**

- Faster resolution to inflationary pressures
- More accommodative monetary policy
- Continued expansion in the labor market
- A rebound in real wages leading to more consumer spending

Supplemental Economic Outlook Slides

Wage growth starts to outpace inflation

Nominal wage growth and inflation

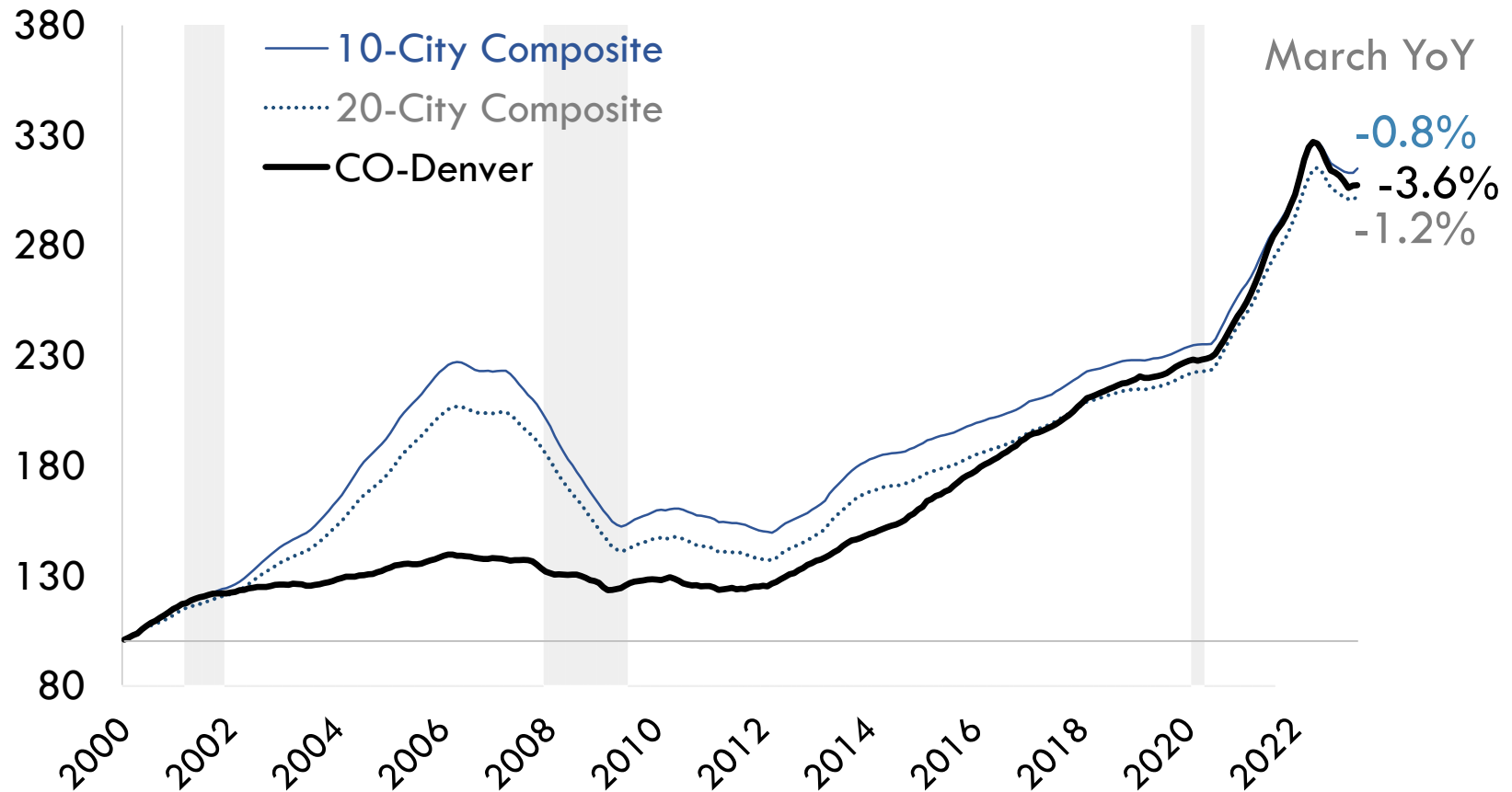


Source: Federal Reserve Bank of Atlanta. Data are 12-month moving averages of median wage growth, hourly data, through May 2023.

Home prices stabilizing, Denver homes down 6.1% from peak

Case-Shiller Home Price Indices

Index 100 = July 2012

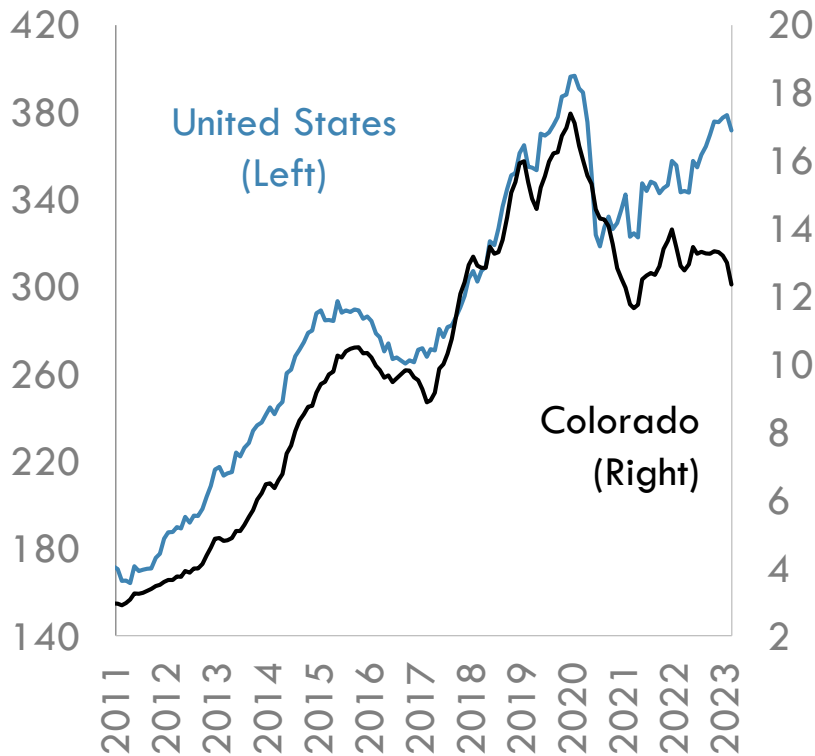


Source: S&P Dow Jones Indices, LLC. Data are seasonally adjusted and through March 2023.

Energy market dynamics

Crude Oil Production

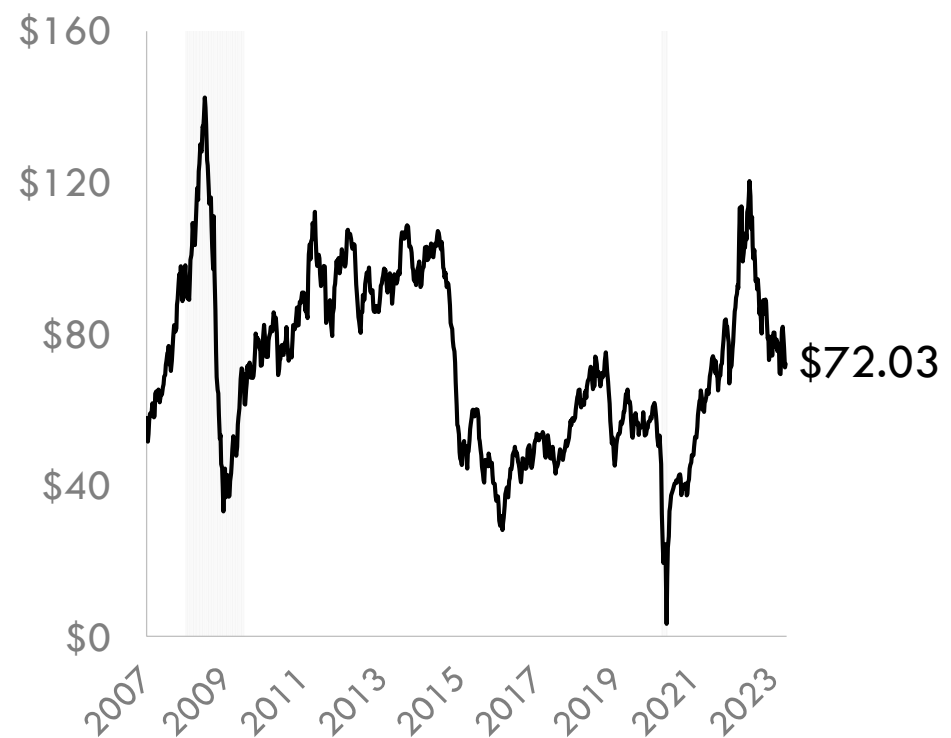
Millions of Barrels per Month



Source: U.S. Energy Information Administration. Data are shown as three-month moving averages and are not seasonally adjusted. Data are through February 2023.

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 May 12, 2023.

General Fund Budget Outlook

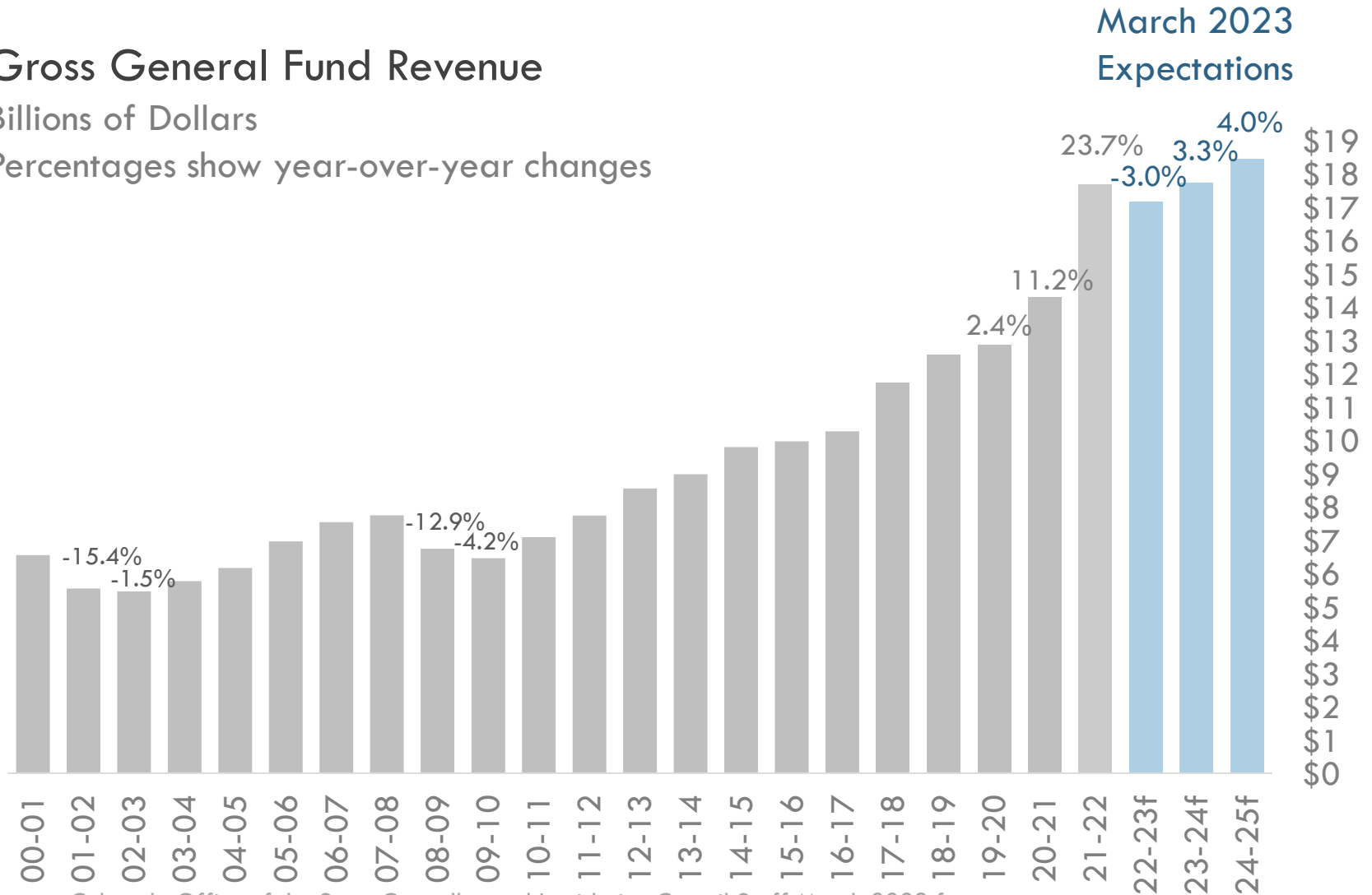


In March, we expected falling revenue in FY 2022-23

Gross General Fund Revenue

Billions of Dollars

Percentages show year-over-year changes



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

Revenue forecast revised up for the current year; minimal change to out-year expectations

Gross General Fund Revenue

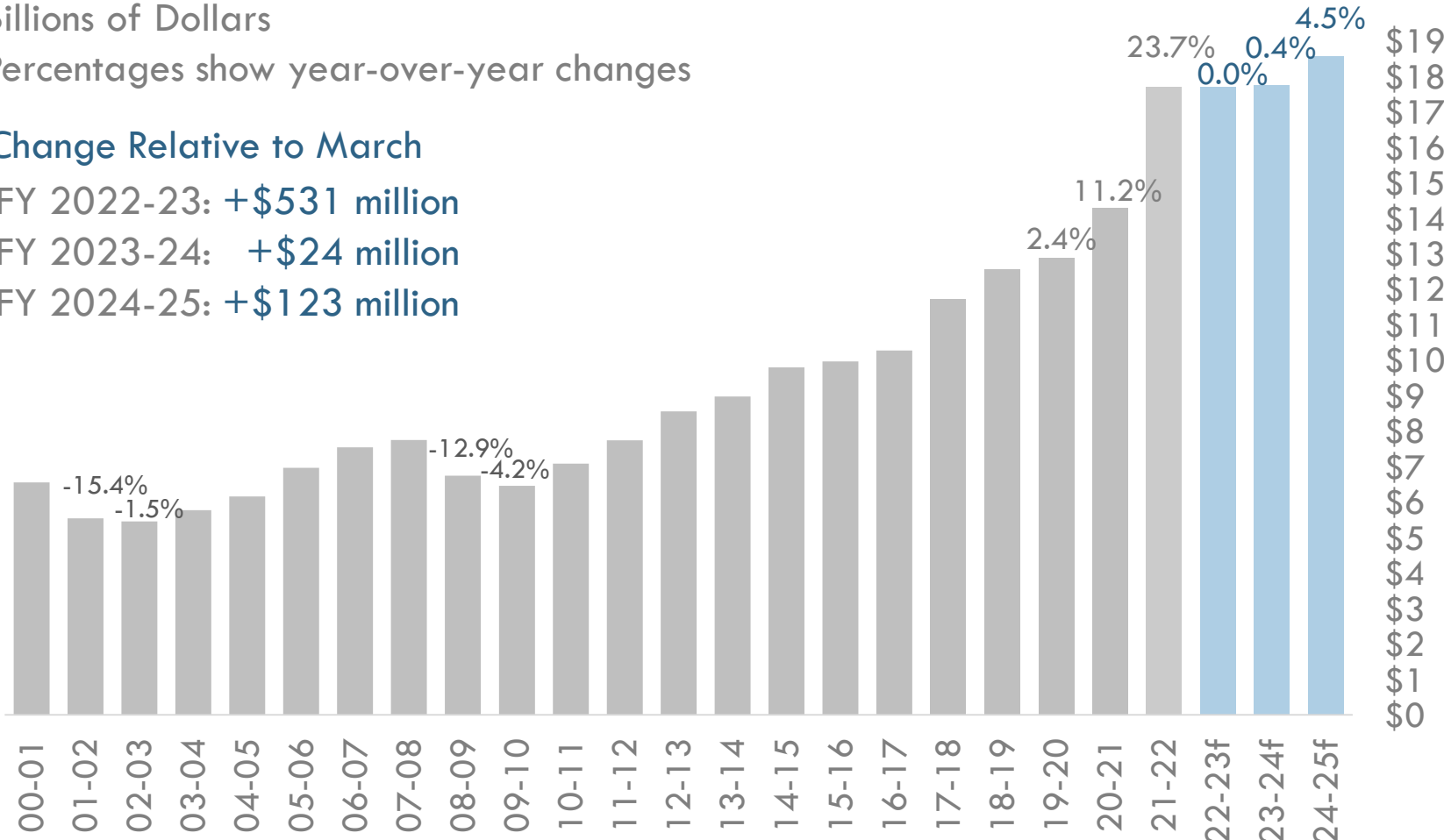
Billions of Dollars

Percentages show year-over-year changes

Change Relative to March

- FY 2022-23: +\$531 million
- FY 2023-24: +\$24 million
- FY 2024-25: +\$123 million

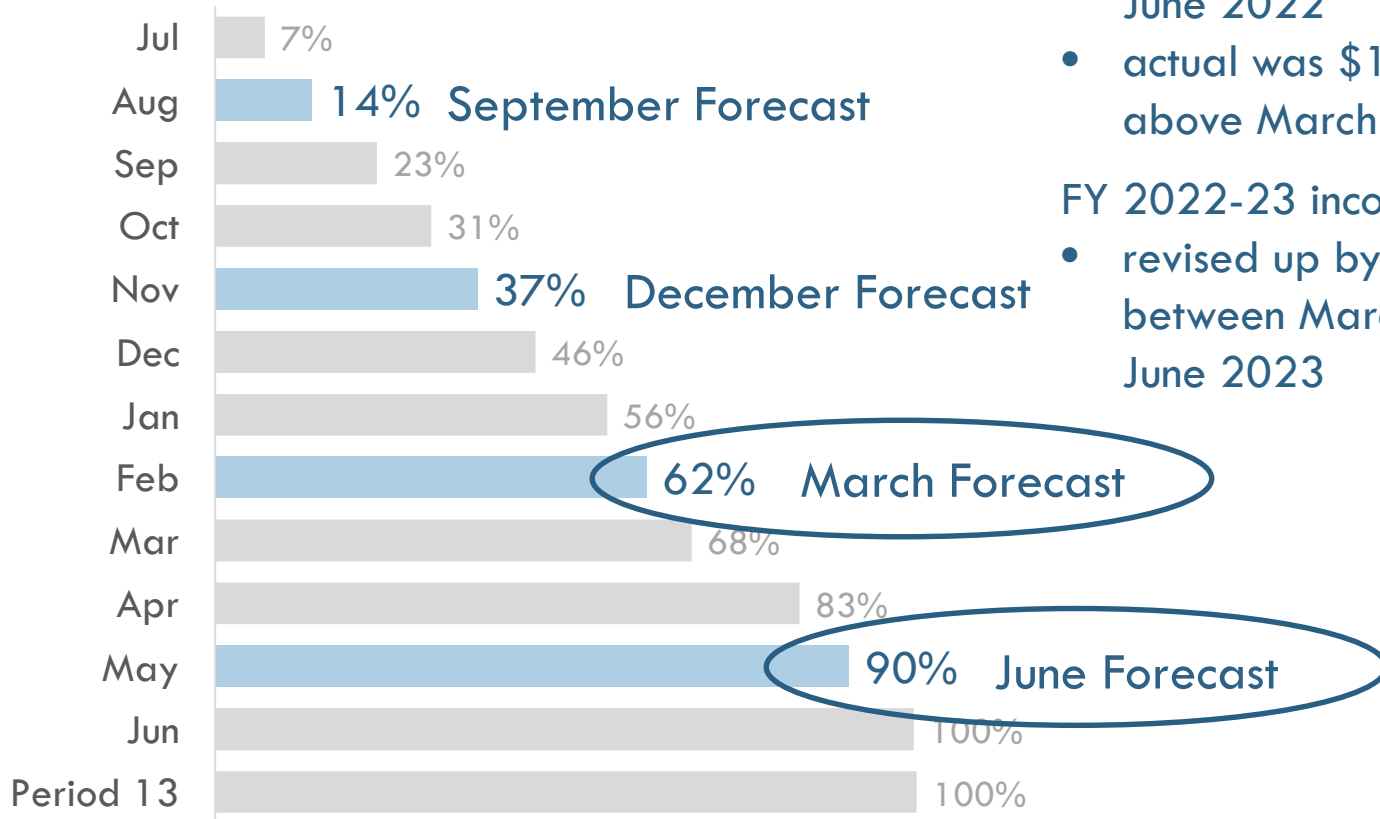
June 2023
Expectations



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

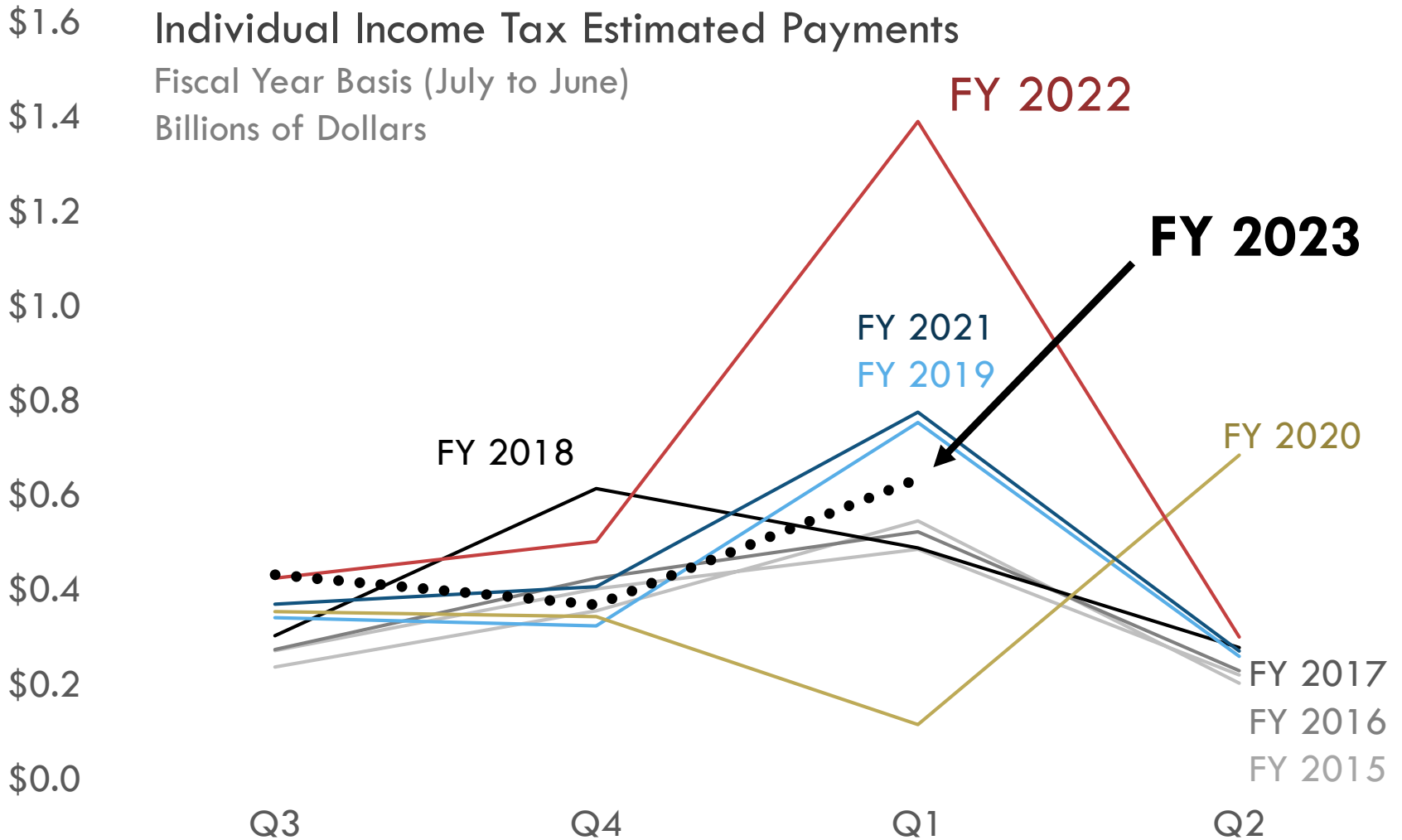
FY 2022-23 income tax forecast:

- revised up by \$0.54 billion between March 2023 and June 2023

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

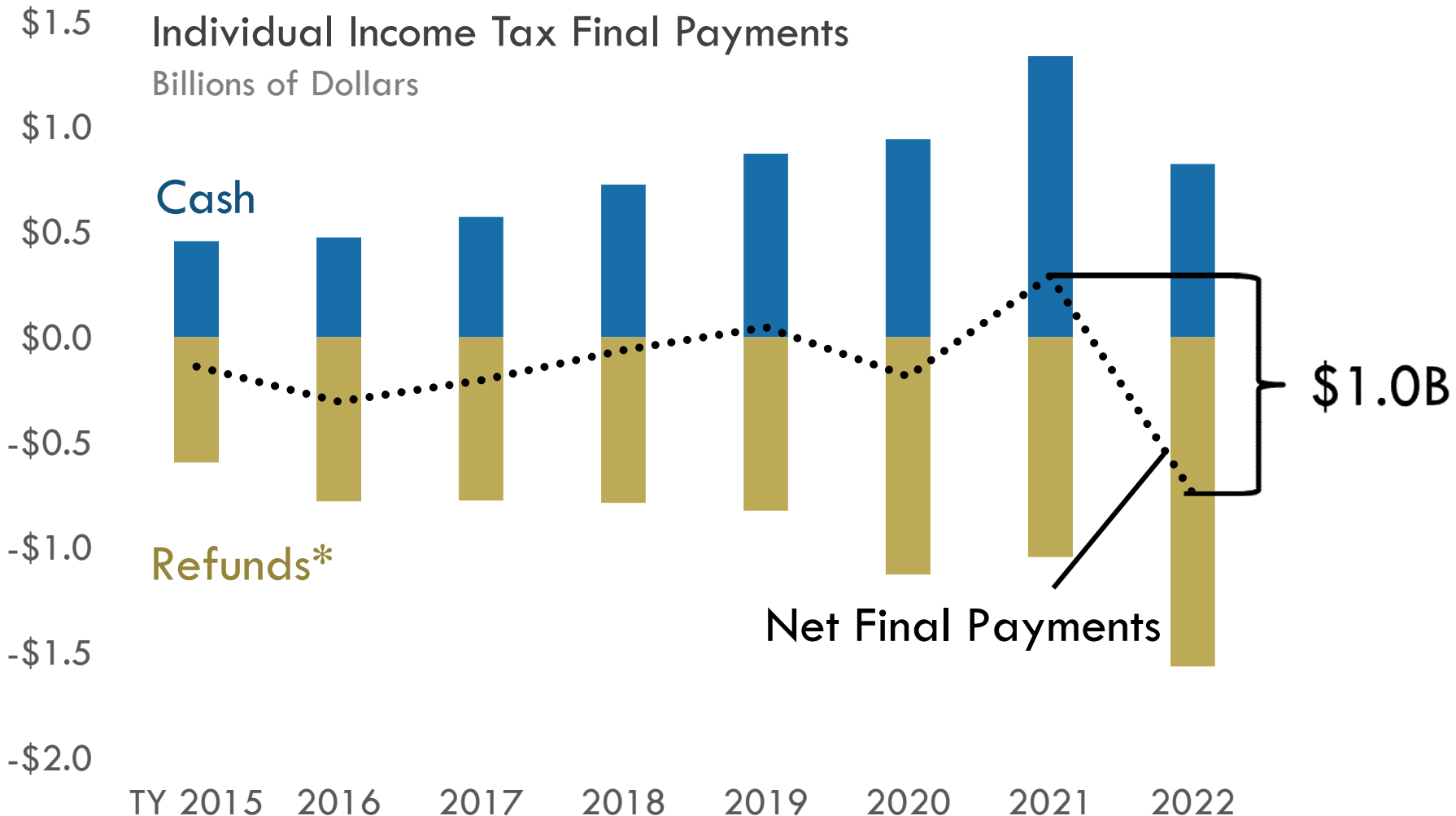
*Seven-year average of actual collections data, FY 2013-14 to FY 2018-19 and FY 2021-22. Analysis omits FY 2019-20 and FY 2020-21 due to unusual tax payment deadlines during the COVID-19 pandemic.

Individual estimated payments are subdued



Source: Office of the State Controller and Legislative Council Staff. Accounts cash basis payments as follows: Q3: August-November; Q4: December-January; Q1: February-May; Q2: June-July.

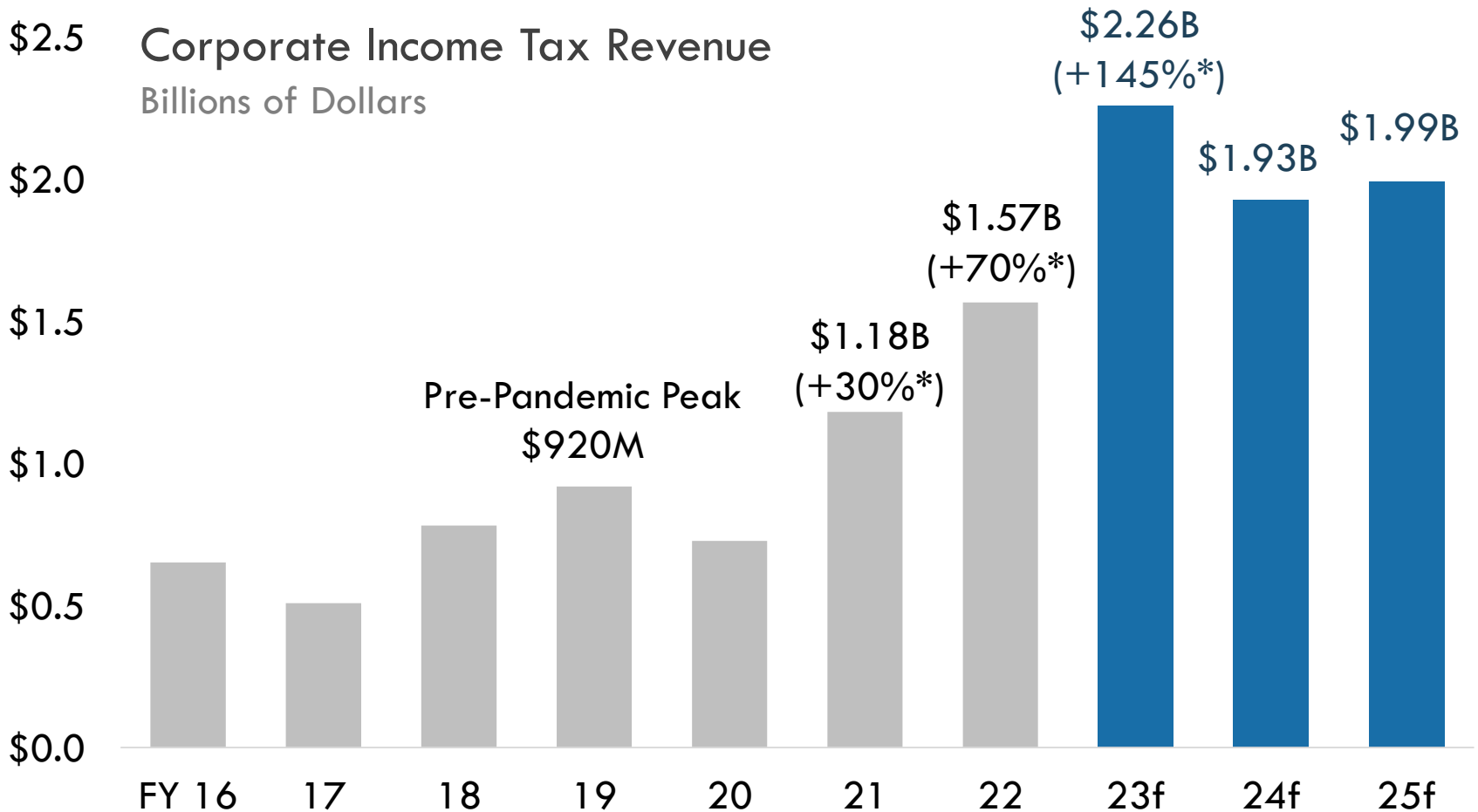
Individual final payments were more negative than expected



*Subtracts TABOR refunds to isolate refunds for tax overpayment only.

Source: Office of the State Controller and Legislative Council Staff. Generally reports cash basis transactions for January through April of the following year, except for tax year 2019 (January-July 2020) and tax year 2020 (January-May 2021).

Corporate income taxes have surpassed expectations in Colorado and around the country



*Relative to pre-pandemic peak.

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

TABOR Outlook

Revenue Subject to TABOR

Dollars in Billions

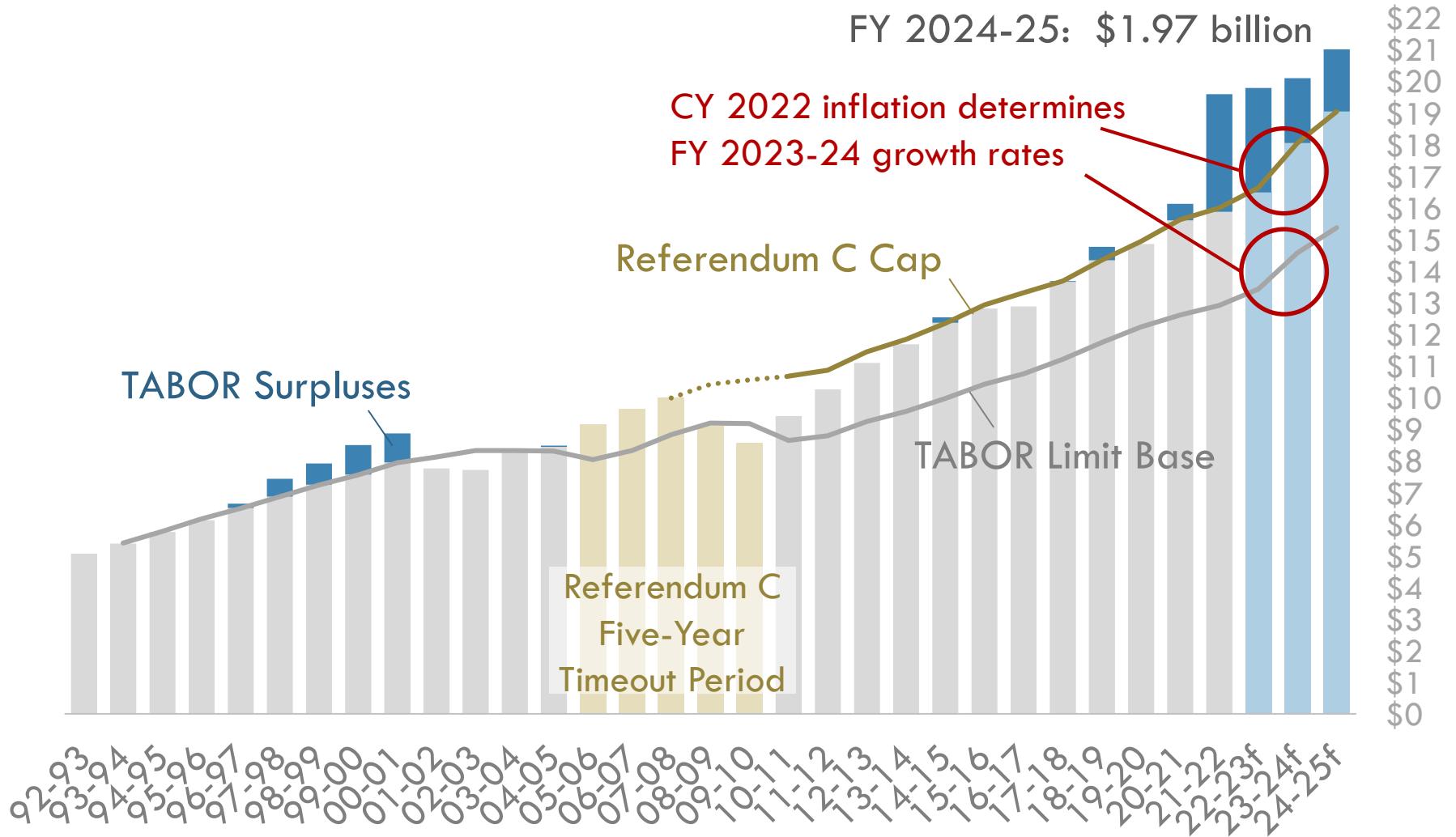
Revenue Above the Ref C Cap

FY 2021-22: \$3.73 billion

FY 2022-23: \$3.31 billion

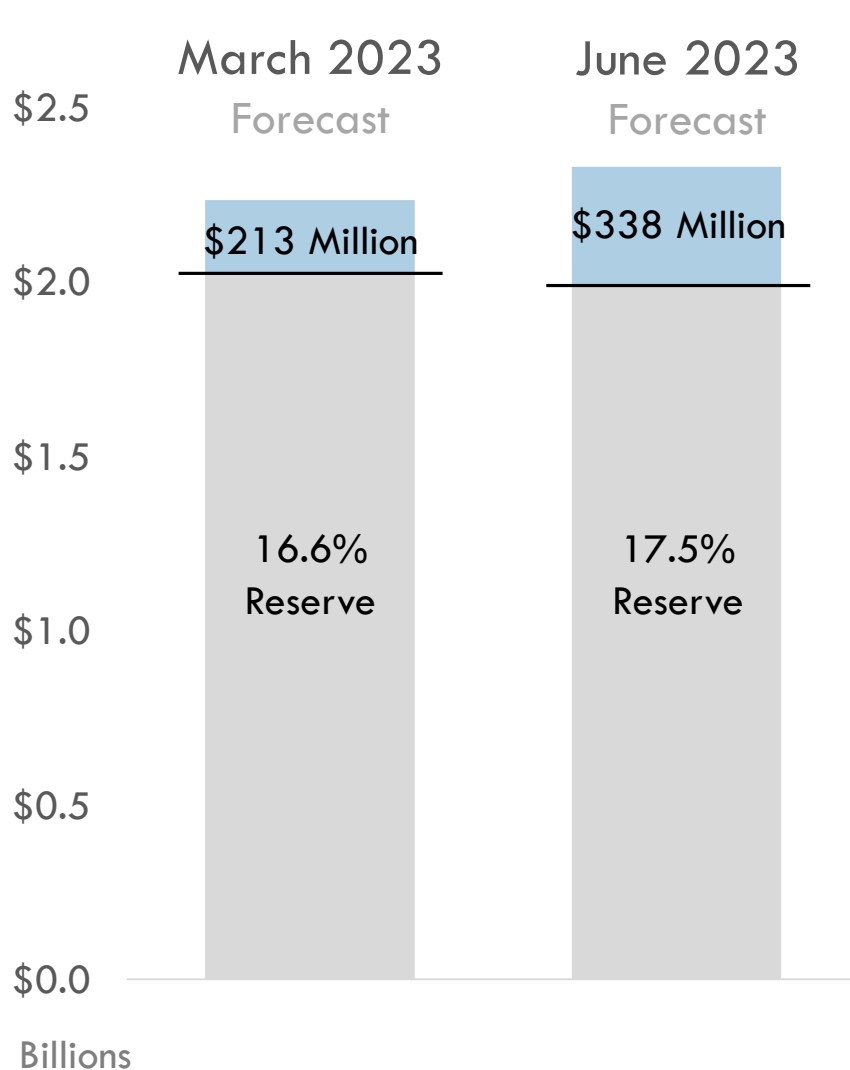
FY 2023-24: \$2.06 billion

FY 2024-25: \$1.97 billion



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

Current Year | FY 2022-23 General Fund Reserve



Changes since the March forecast:

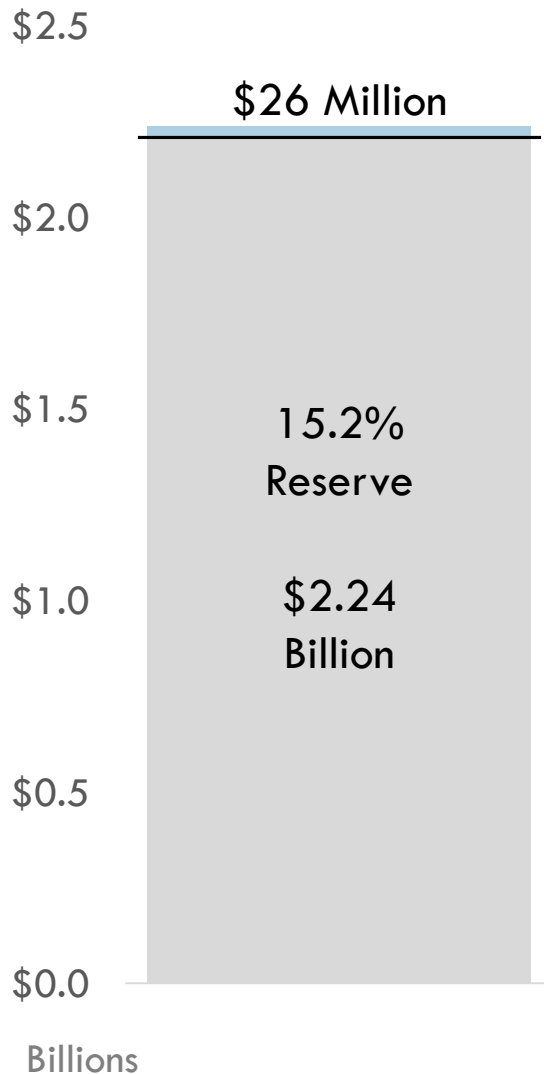
Revenue and TABOR refund expectations both increased; on net, \$24.6 million less in adjusted TABOR refund obligation (-)

GF appropriations decreased by \$189.4 million, with \$28.4 million lower required reserve (++)

Net transfers from the GF increased by \$64.7 million (-)

Source: Legislative Council Staff forecasts based on current law.

Next Year | FY 2023-24 General Fund Reserve



Changes since March forecast (Scenario A: \$1.79B):

Beginning balance \$96 million higher from changes in FY 2022-23

Revenue and TABOR refund expectations net near zero (-\$8 million)

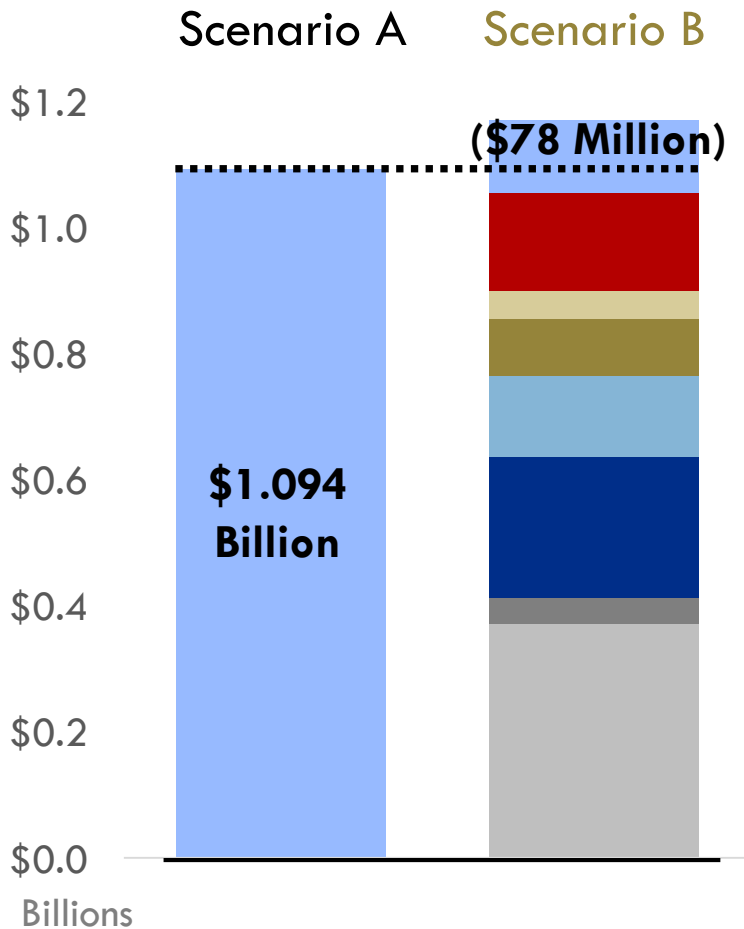
Long Bill and other appropriations spend \$1.38 billion more than in March Scenario A

Reserve requirement correspondingly increased by \$190 million

Net transfers from the GF increased by \$278 million

Out Year | FY 2024-25 Budget Outlook

Scenario A: Additional revenue available to spend or save above current FY 2023-24 spending levels. Amounts hold FY 2023-24 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 \$115 million
- **Controlled maintenance:** \$157 million
- IT capital projects: \$44 million
- Capital construction: \$90 million
- Community provider rates increase by \$127 million
- Employee compensation increases by \$224 million
- \$42 million inflationary increase for higher ed
- Current Law appropriations increase by \$372 million (mostly Medicaid and K-12)

Risks to the Forecast

Recession risk remains elevated

- Two key recession risks dissipated between March and June: debt ceiling and cascading financial crisis
- Recession risk is mostly from suppressed demand in response to monetary policy tightening
- Taxpayer response has a major impact on revenue

Risks to the budget outlook

- But for a recession, budget will be constrained by Ref C cap
- Higher (or lower) cash funds revenue subject to TABOR means more (or less) budget pressure
- Expenditure side pressures would rise in a recession

Questions?

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