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

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

Colorado employment growth is positive but slowing

Colorado Job Gains and Losses by Supersector
Year-over-Year Change, May 2023

<table>
<thead>
<tr>
<th>Supersector</th>
<th>Thousands of Jobs</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Nonfarm</td>
<td>30.2</td>
<td>1.1%</td>
</tr>
<tr>
<td>Leisure &amp; Hospitality</td>
<td>21.2</td>
<td>6.3%</td>
</tr>
<tr>
<td>Government</td>
<td>17.2</td>
<td>3.8%</td>
</tr>
<tr>
<td>Professional &amp; Business Services</td>
<td>7.0</td>
<td>1.4%</td>
</tr>
<tr>
<td>Other Services</td>
<td>2.7</td>
<td>2.2%</td>
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<tr>
<td>Education &amp; Health Services</td>
<td>2.0</td>
<td>0.6%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>1.1</td>
<td>0.7%</td>
</tr>
<tr>
<td>Mining &amp; Logging</td>
<td>1.0</td>
<td>4.8%</td>
</tr>
<tr>
<td>Information</td>
<td>-2.8</td>
<td>-3.5%</td>
</tr>
<tr>
<td>Trade, Transportation &amp; Utilities</td>
<td>-6.8</td>
<td>-1.4%</td>
</tr>
<tr>
<td>Financial Activities</td>
<td>-10.6</td>
<td>-5.8%</td>
</tr>
</tbody>
</table>

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**

- Historical Average, 7.5%
- 2022 Q4, 4.1%

**Household Debt and Financial Obligations**

- Mortgage Payments
- Credit Card Payments
- Other Obligations
- Financial Obligations Ratio
  - Historical Average, 16.1%
  - 2022 Q4, 14.5%

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. Data are through 2022 Q4.
Business activity stalls in recent months

**Business Income and Profits**

*Trillions of Dollars*

- **Corporate Profits after Tax**
- **Proprietors' Income**

**Industrial Production Index**

*Index 2017 = 100*

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

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

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


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
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

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 February 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

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*

- **September Forecast**: 14%
- **December Forecast**: 37%
- **March Forecast**: 62%
- **June Forecast**: 90%

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.

Individual estimated payments are subdued

Individual Income Tax Estimated Payments
Fiscal Year Basis (July to June)
Billions of Dollars

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

Individual Income Tax Final Payments
Billions of Dollars

Cash

Refunds*

Net Final Payments


*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.

Corporate Income Tax Revenue
Billions of Dollars

- Pre-Pandemic Peak
  - FY 17: $920M (+30%*)
  - FY 18: $1.18B
  - FY 19: $1.57B (+70%*)
  - FY 20: $1.93B
  - FY 21: $1.99B
  - FY 22: $2.26B (+145%*)

*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

CY 2022 inflation determines FY 2023-24 growth rates

TABOR Surpluses

Referendum C Cap

TABOR Limit Base

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

Source: Legislative Council Staff forecasts based on current law.
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.

Source: Legislative Council Staff June 2023 forecast. Scenario B prepared based on out-year budget pressures identified by JBC Staff.

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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