Economic Outlook
The events that have transpired over the past two months were unimaginable, even in March.
Shape of Recovery

Real U.S. Gross Domestic Product

Dollars in Trillions

Source: U.S. Bureau of Economic Analysis and Legislative Council Staff projections, including projected 2020Q1 revisions. Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.
No industry has been left untouched. Many will regain jobs with reopening, but additional waves of layoffs are expected.

**Colorado Unemployment Insurance Claims, March 1 to April 25, 2020**

<table>
<thead>
<tr>
<th>Industry</th>
<th>Initial UI Claims</th>
<th>Claims as a Share of Industry Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation &amp; Food Services</td>
<td>65,463</td>
<td>22.5%</td>
</tr>
<tr>
<td>Retail Trade</td>
<td>35,380</td>
<td>12.8%</td>
</tr>
<tr>
<td>Health Care &amp; Social Assistance</td>
<td>33,936</td>
<td>10.9%</td>
</tr>
<tr>
<td>Other Services</td>
<td>16,742</td>
<td>14.8%</td>
</tr>
<tr>
<td>Arts, Entertainment &amp; Recreation</td>
<td>15,554</td>
<td>28.0%</td>
</tr>
<tr>
<td>Administrative &amp; Support Services</td>
<td>14,141</td>
<td>8.7%</td>
</tr>
<tr>
<td>Construction</td>
<td>11,614</td>
<td>6.7%</td>
</tr>
<tr>
<td>Professional, Scientific &amp; Technical Services</td>
<td>10,048</td>
<td>14.1%</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>9,824</td>
<td>4.0%</td>
</tr>
<tr>
<td>Wholesale Trade</td>
<td>7,738</td>
<td>7.0%</td>
</tr>
<tr>
<td>Transportation &amp; Utilities</td>
<td>7,313</td>
<td>7.9%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>5,962</td>
<td>14.1%</td>
</tr>
<tr>
<td>Educational Services</td>
<td>5,418</td>
<td>12.2%</td>
</tr>
<tr>
<td>Information</td>
<td>3,466</td>
<td>4.7%</td>
</tr>
<tr>
<td>Mining &amp; Logging</td>
<td>3,329</td>
<td>11.9%</td>
</tr>
<tr>
<td>Government</td>
<td>2,371</td>
<td>0.5%</td>
</tr>
<tr>
<td>Management of Companies &amp; Enterprises</td>
<td>2,037</td>
<td>4.7%</td>
</tr>
<tr>
<td>Finance &amp; Insurance</td>
<td>1,967</td>
<td>1.7%</td>
</tr>
</tbody>
</table>

Federal stimulus will partially offset deep declines in economic activity

Nominal U.S. GDP and the Federal Stimulus* Contribution

Trillions of Dollars

Source: Congressional Budget Office and Legislative Council Staff projections (f). Estimates subject to change.

*Reflects direct federal government spending. Excludes up to $4.5 trillion in loans to businesses, states, and municipalities via the Federal Reserve lending facility.
COVID-19-Related Forecast Assumptions

• Gradual reopening of businesses throughout 2020
• Limited regional resurgences of the virus, but no additional widespread outbreaks or stay-at-home orders
• An effective COVID-19 treatment available in 12 to 18 months
Outlook Summary

• Economic activity came to a standstill in March and April, and is now stirring back to life but from low levels
• Business activity and consumer spending will rise with phased reopening, but remain constrained by ongoing restrictions, health concerns, uncertainty, and some permanent closures
• Labor markets will improve relative to April but remain weak in 2020 and 2021, as businesses adjust to a new and evolving landscape
• Inflationary pressures will remain subdued as low energy prices, low global demand offset global supply constraints
Risks to the Forecast

**Unknowns:** Rapidly evolving health and economic policy environment. The outlook depends on:
- Containment and treatment of COVID-19
- Fiscal and monetary policy stimulus

**Downside risk:** Prolonged economic recovery or a double-dip recession (COVID-19 resurgence, vicious cycle)

**Upside risk:** Stronger near-term rebound in economic activity
General Fund Budget Outlook
General Fund collections will decline with the contraction in business and household income, and reduced consumer activity.

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

Change Relative to March
FY 2019-20: −$892.8 million
FY 2020-21: −$2.42 billion
FY 2021-22: −$1.99 billion

Source: Colorado Office of the State Controller and Legislative Council Staff May 2020 forecast update.
General Fund Collections by Source

Share of Total Gross General Fund Revenue*

- Individual Income Tax: 60.7%
- Sales & Use Tax: 27.1%
- Corporate Income Tax: 6.8%
- All other: 5.5%

Income taxes are more volatile than general economic activity. Collections show outsized declines during downturns due to the volatility in certain income flows, businesses’ losses, and the tax structure.

Source: Colorado Office of the State Controller and Legislative Council Staff calculations.
*Based on FY 2018-19 General Fund collections. Income taxes are net of the State Education Fund diversion.
Current Year | FY 2019-20 General Fund Reserve

Dollars in Millions

<table>
<thead>
<tr>
<th>March 2019 Forecast</th>
<th>May 2020 Forecast Update</th>
</tr>
</thead>
<tbody>
<tr>
<td>$876.3M</td>
<td>-$895.8M Deficit</td>
</tr>
</tbody>
</table>

Changes relative to March:

- $892.8 million in reduced revenue expectations
- Slight changes to transfer and rebate and expenditure amounts
- Does not include expenditure reductions from the Governor’s sequestration order

Source: Legislative Council Staff forecasts based on current law.
## FY 2020-21 Budget Outlook

Additional revenue available to spend above FY 2019-20 spending levels.*

### March 2019 Forecast

- $27.3 Million

**Enough revenue to hold appropriations flat, no inflation or caseload growth**

### May 2020 Forecast Update

**-$3.3 Billion Shortfall**

- 25.3% of FY 2019-20 Expenditures

### Changes relative to March:

- $895.8 million deficit carried over from FY 2019-20
- General Fund revenue expectations were reduced in FY 2020-21 by $2.42 billion
- Shortfall amount does not include inflation or caseload pressures
- Any budget changes for FY 2019-20 will carry into FY 2020-21

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*Amounts hold FY 2019-20 appropriations constant and incorporate the revenue forecast, current law transfers, rebates and expenditures, TABOR refund obligations, and the 7.25% reserve requirement.*

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Source: Legislative Council Staff forecasts based on current law.
Risks to the Forecast

**Unknowns:** Rapidly evolving health and economic policy environment. The outlook depends on:

- Containment and treatment of COVID-19
- Fiscal and monetary policy stimulus

**Downside risk:** Prolonged economic recovery or a double-dip recession (COVID-19 resurgence, vicious cycle)

**Upside risk:** Stronger near-term rebound in economic activity
Income Tax Expectations
Income tax revenue will drive General Fund revenue decreases

General Fund Revenue by Source

Dollars in Billions

<table>
<thead>
<tr>
<th>Source</th>
<th>FY 18-19</th>
<th>19-20f</th>
<th>20-21f</th>
<th>21-22f</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual income tax</td>
<td>$7.6</td>
<td>$7.1</td>
<td>$6.2</td>
<td>$7.3</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>$0.9</td>
<td>$0.7</td>
<td>$0.4</td>
<td>$0.5</td>
</tr>
<tr>
<td>Sales and use tax*</td>
<td>$3.6</td>
<td>$3.4</td>
<td>$3.2</td>
<td>$3.4</td>
</tr>
<tr>
<td>All Other</td>
<td>$0.5</td>
<td>$0.5</td>
<td>$0.5</td>
<td>$0.5</td>
</tr>
</tbody>
</table>

Source: Colorado Office of the State Controller and Legislative Council Staff May 2020 forecast update. “f” denotes forecast. *Includes retail marijuana special sales tax.
Income tax decreases are economic, but there are complicating factors

Economic factors will suppress collections

- Wage withholding: No decrease yet, but it’s coming
- Estimated tax payments reflect expectations for full tax year
- Business income is a significant portion of individual income tax revenue
- Businesses that incur losses do not owe income tax

FY 2018-19 benefitted from one-time revenue boosts, which makes for a steeper decline in FY 2019-20

- TCJA accelerated economic activity in 2018 and 2019
- Oracle and Agilent cases

Distortions exacerbate forecast uncertainty

- Delay of filing deadlines and accruals across fiscal years
- Change to state wage withholding tables
The CARES Act will reduce state income tax revenue

**Tax relief in the CARES Act**

- Additional deductions for businesses
- Delayed taxable income for retirees
- Preliminarily estimated to decrease state revenue by: ($121 million) in FY 2019-20 and ($135 million) in FY 2020-21
Energy Outlook
Twin supply and demand shocks tanked oil prices

Crude Oil Price, West Texas Intermediate

$0
$20
$40
$60
$80
$100
$120
$140


Supply shock
March 6: $45.60

Demand shock
May 1: $15.71

U.S. oil demand plummeted with stay-at-home orders

U.S. Petroleum Products Supplied
Thousands of Barrels per Day

Week of March 6
36.9% decline in oil consumption

Week of April 10

Severance tax collections are expected to remain depressed through the forecast period.

![Bar chart showing tax collections in millions for different years for Metals & Molybdenum, Coal, and Oil & Gas.]

Source: Colorado Office of the State Controller and Legislative Council Staff May 2020 forecast update.
Unemployment Insurance Outlook
Current State and Federal UI Benefits

<table>
<thead>
<tr>
<th>Benefits</th>
<th>State &amp; Federal*</th>
<th>Federal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Description</td>
<td>State</td>
<td>Extended</td>
</tr>
<tr>
<td>Regular</td>
<td>Partial wage replacement for up to 26 weeks</td>
<td>Not yet available. Extended benefits are triggered by persistently elevated state unemployment rates*</td>
</tr>
<tr>
<td>Federal</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* States are normally required to cover half the costs of extended benefit programs. However, this requirement was suspended during the Great Recession and has currently been suspended through 2020, allowing full federal funding should extended benefits be triggered.
** Expires July 2020.
Colorado Initial Unemployment Claims

Four-week Average, Thousands of Claims

2009-2010
Weekly Average: 4,800

2019
Weekly Average: 1,900

April 2020
Weekly Average: 56,800

Source: Colorado Department of Labor and Environment. Data are not seasonally adjusted.
# Unemployment Insurance Trust Fund

## Revenues, Benefits Paid, and Fund Balance

*Dollars in Millions*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Beginning Balance</td>
<td>$922.3</td>
<td>$1,104.1</td>
<td>($7.0)</td>
<td>($1,994.8)</td>
</tr>
<tr>
<td>Plus Income Received</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>UI Premium</td>
<td>$523.0</td>
<td>$531.5</td>
<td>$692.0</td>
<td>$676.1</td>
</tr>
<tr>
<td>Solvency Surcharge</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$147.2</td>
<td>$143.8</td>
</tr>
<tr>
<td>Interest</td>
<td>$23.3</td>
<td>$21.1</td>
<td>$0.0</td>
<td>$0.0</td>
</tr>
<tr>
<td>Total Revenues</td>
<td>$546.3</td>
<td>$552.6</td>
<td>$839.2</td>
<td>$819.9</td>
</tr>
<tr>
<td>Less Benefits Paid</td>
<td>($365.5)</td>
<td>($1,663.7)</td>
<td>($2,827.1)</td>
<td>($1,302.9)</td>
</tr>
<tr>
<td>Ending Balance</td>
<td>$1,104.1</td>
<td>($7.0)</td>
<td>($1,994.8)</td>
<td>($2,477.8)</td>
</tr>
<tr>
<td>Solvency Ratio*</td>
<td>0.87%</td>
<td>-0.01%</td>
<td>-1.36%</td>
<td>-1.61%</td>
</tr>
</tbody>
</table>

Source: Legislative Council Staff May 2020 forecast update. Totals may not sum due to rounding.

*Fund balance as a share of total annual private wages.*
Questions?

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