



September 2023 | Legislative Council Staff  
**Economic & Revenue Forecast**

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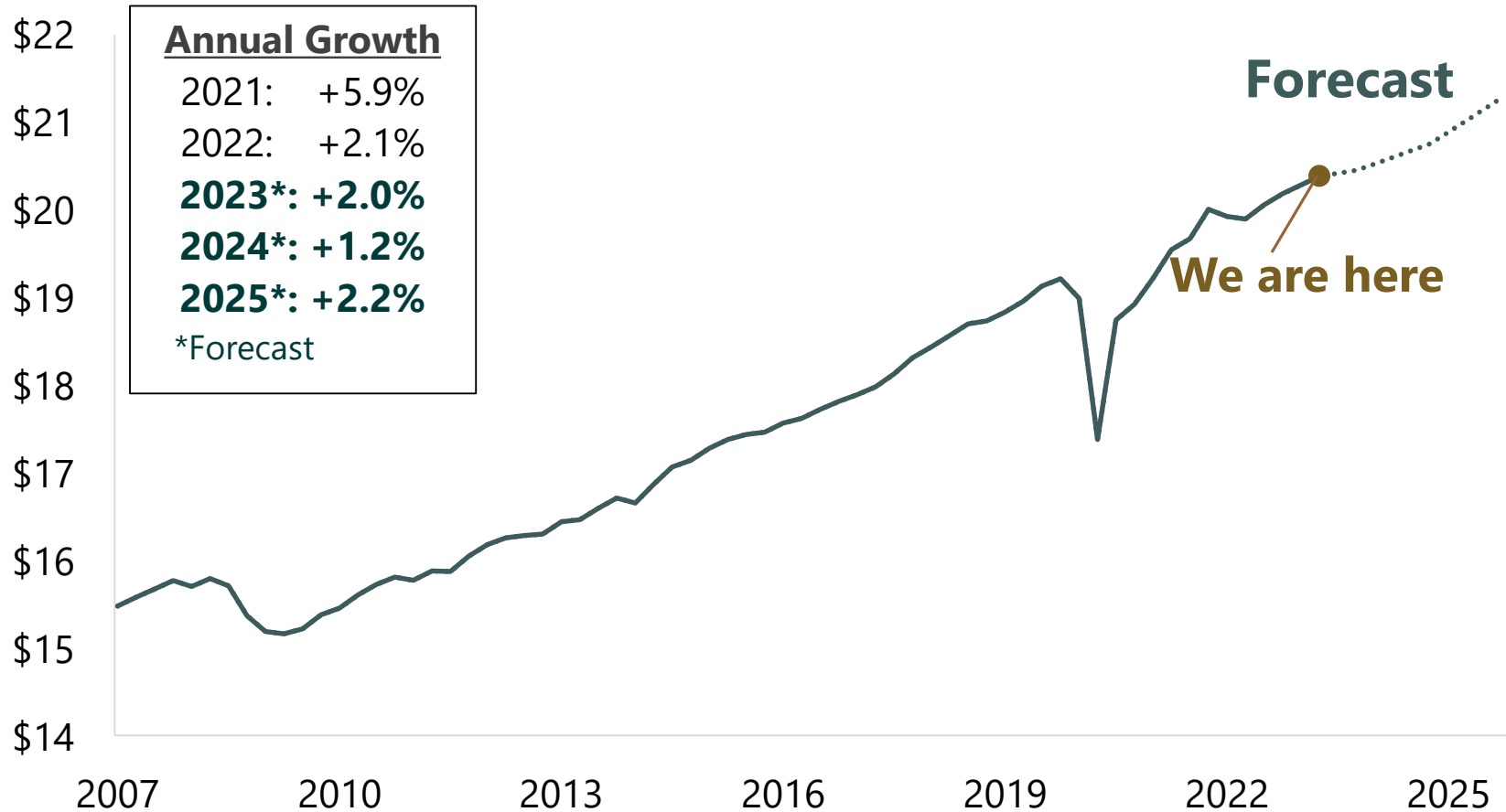
Presentation to the Joint Budget Committee  
September 20, 2023

# Economic Outlook



# Economic growth exceeds expectations in 2023

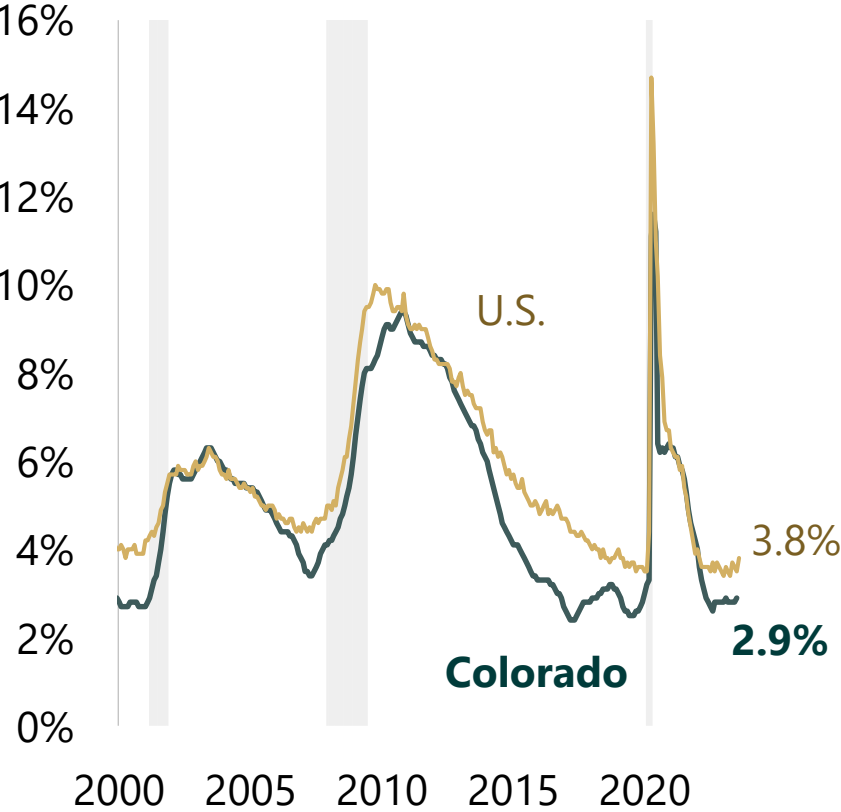
## Real U.S. Gross Domestic Product *Trillions of Dollars, Adjusted for Inflation*



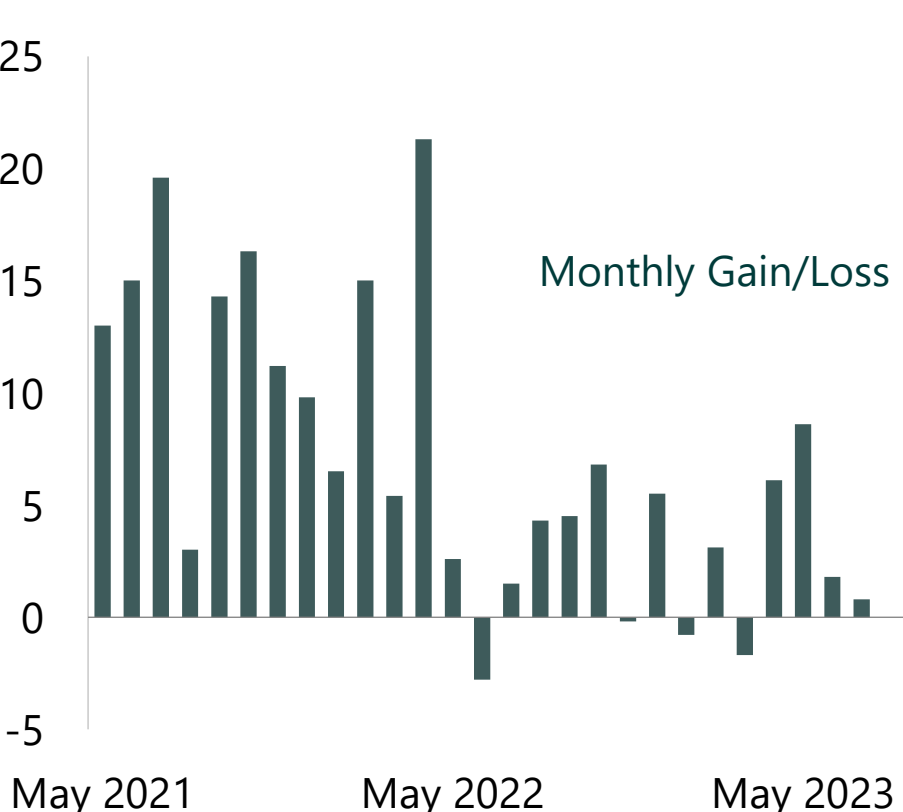
Source: U.S. Bureau of Economic Analysis and Legislative Council Staff September 2023 projections.  
Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.

# Colorado and U.S. unemployment rates remain low as job growth continues

Unemployment Rates  
*Percent*



Change in CO Nonfarm Employment  
*Thousands of Jobs*

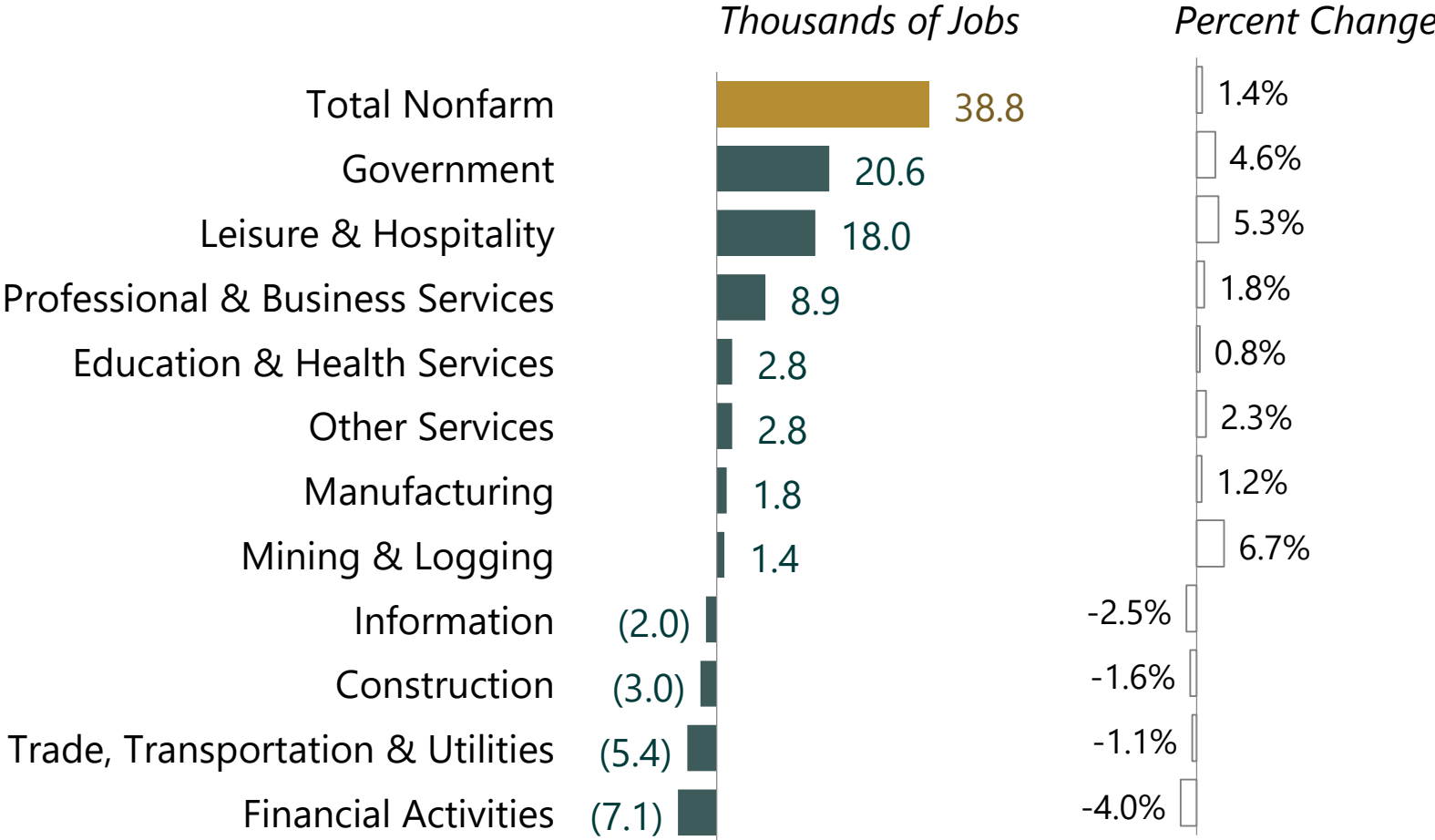


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted and through July 2023.

# Impacts of economic slowdown vary across sectors

## Colorado Job Gains and Losses by Supersector

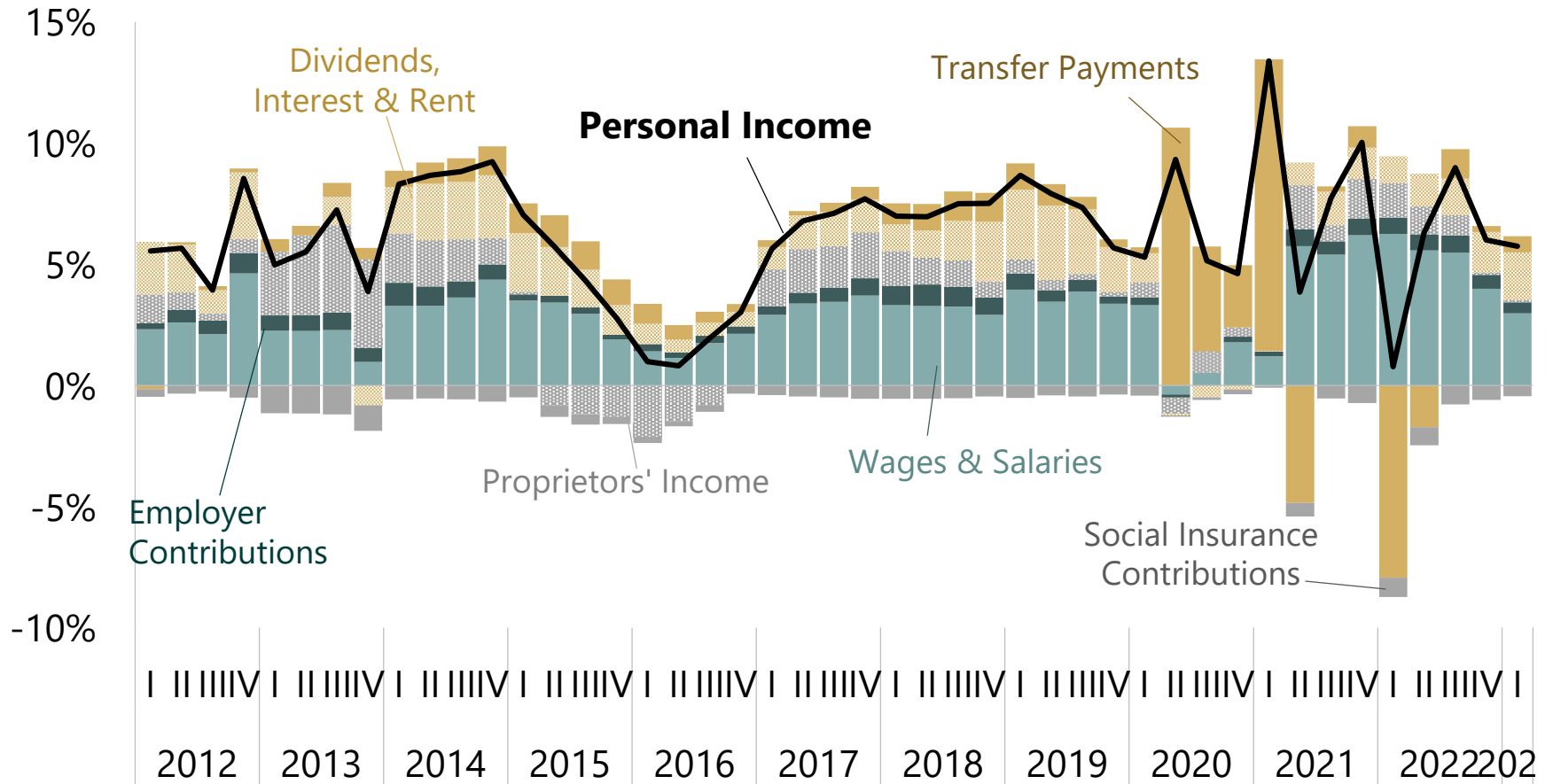
*Year-over-Year Change, July 2023*



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

# Colorado personal income growth slows to 5.8 percent in the first quarter of 2023.

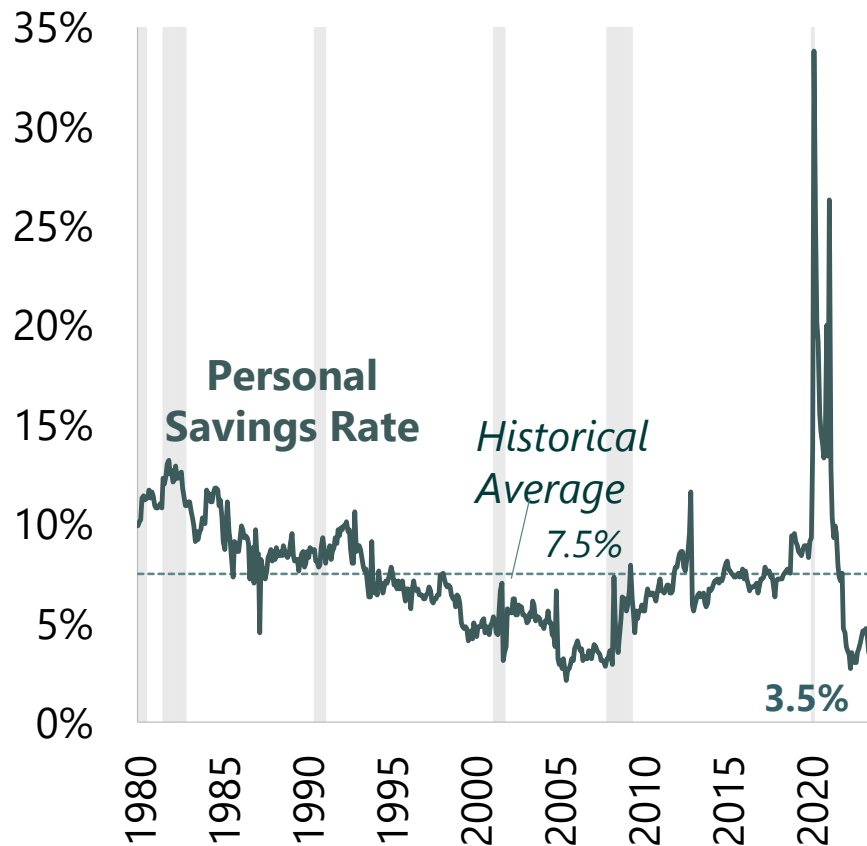
## Contributions to Personal Income Growth Year-over-year Percent Change



Source: U.S. Bureau of Economic Analysis with Legislative Council Staff Calculations. Data are seasonally adjusted through 2023Q1.

# Households continue to spend down savings, but debt levels remain healthy

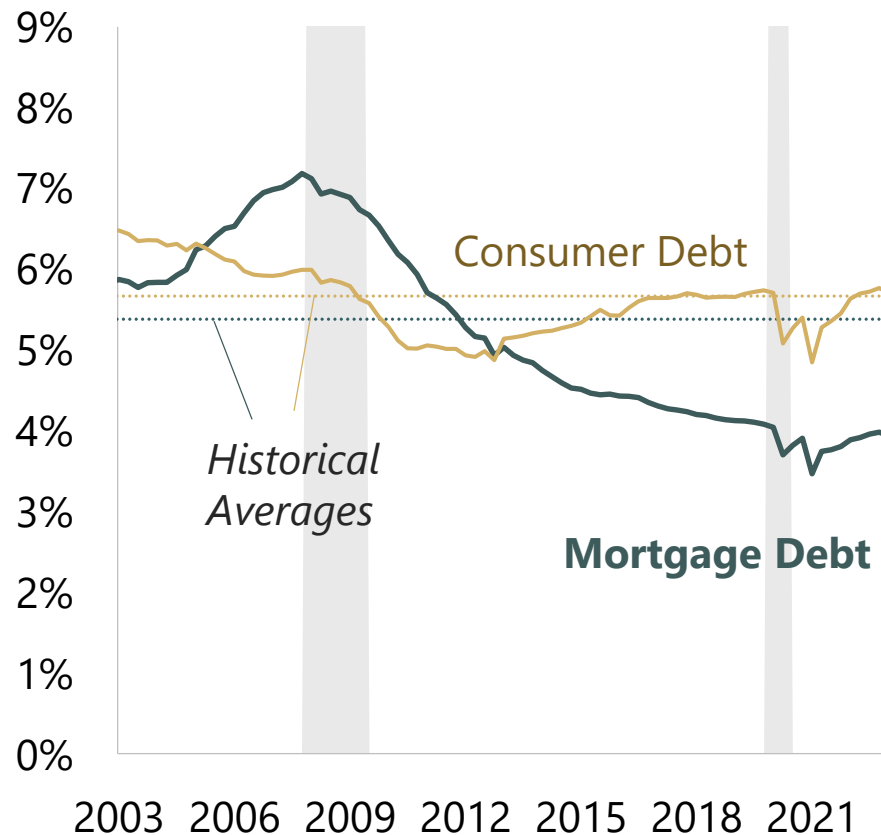
## Personal Savings Rate Percent



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.

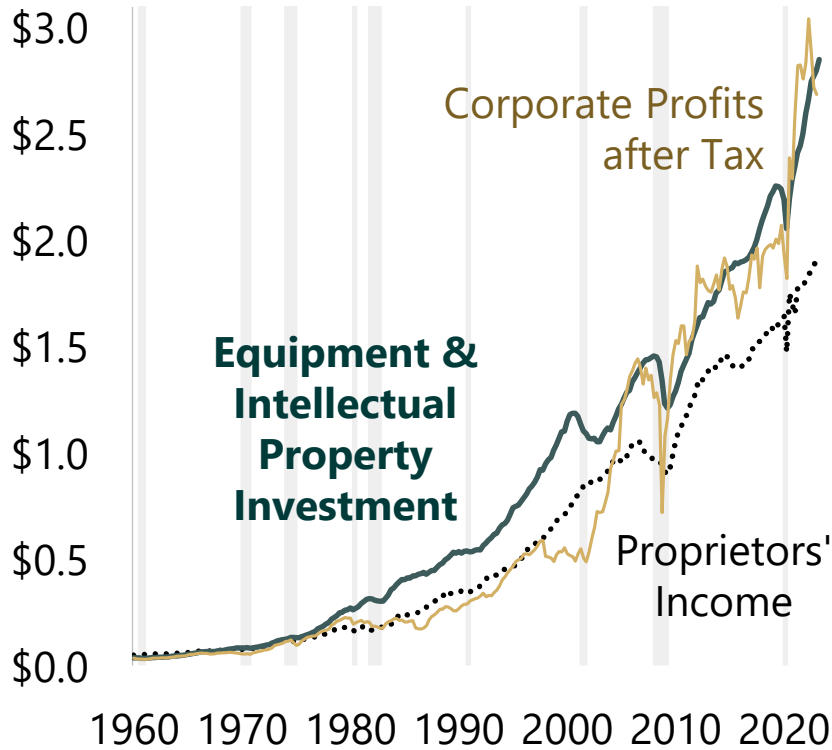
## U.S. Debt Service Ratios Percent



Source: Federal Reserve Board of Governors. Data are through 2023Q1 (left)

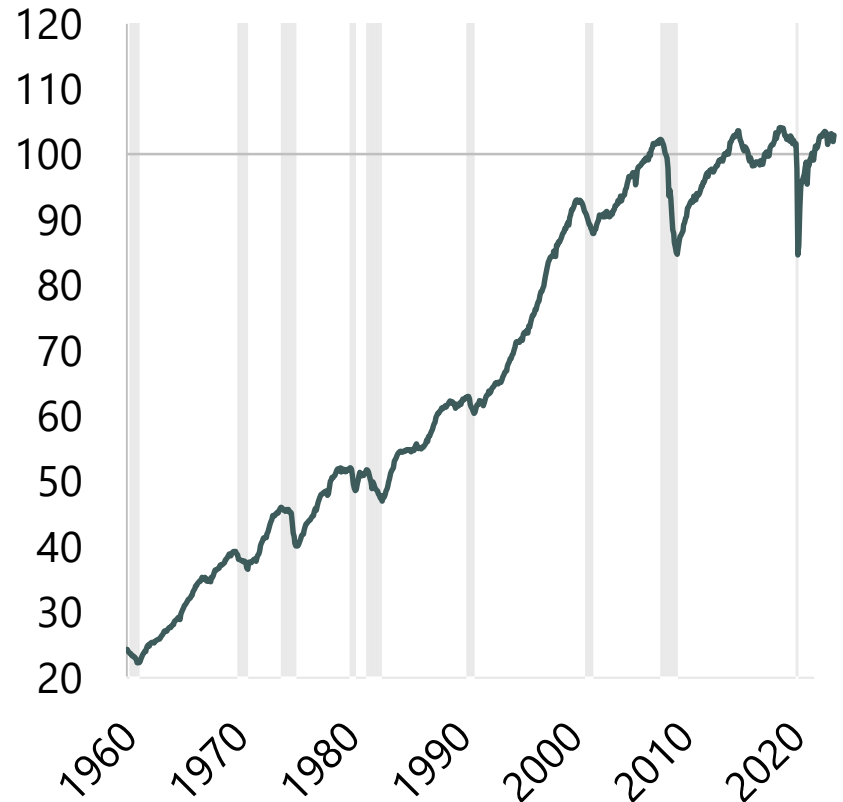
# Business activity sends mixed signals

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*



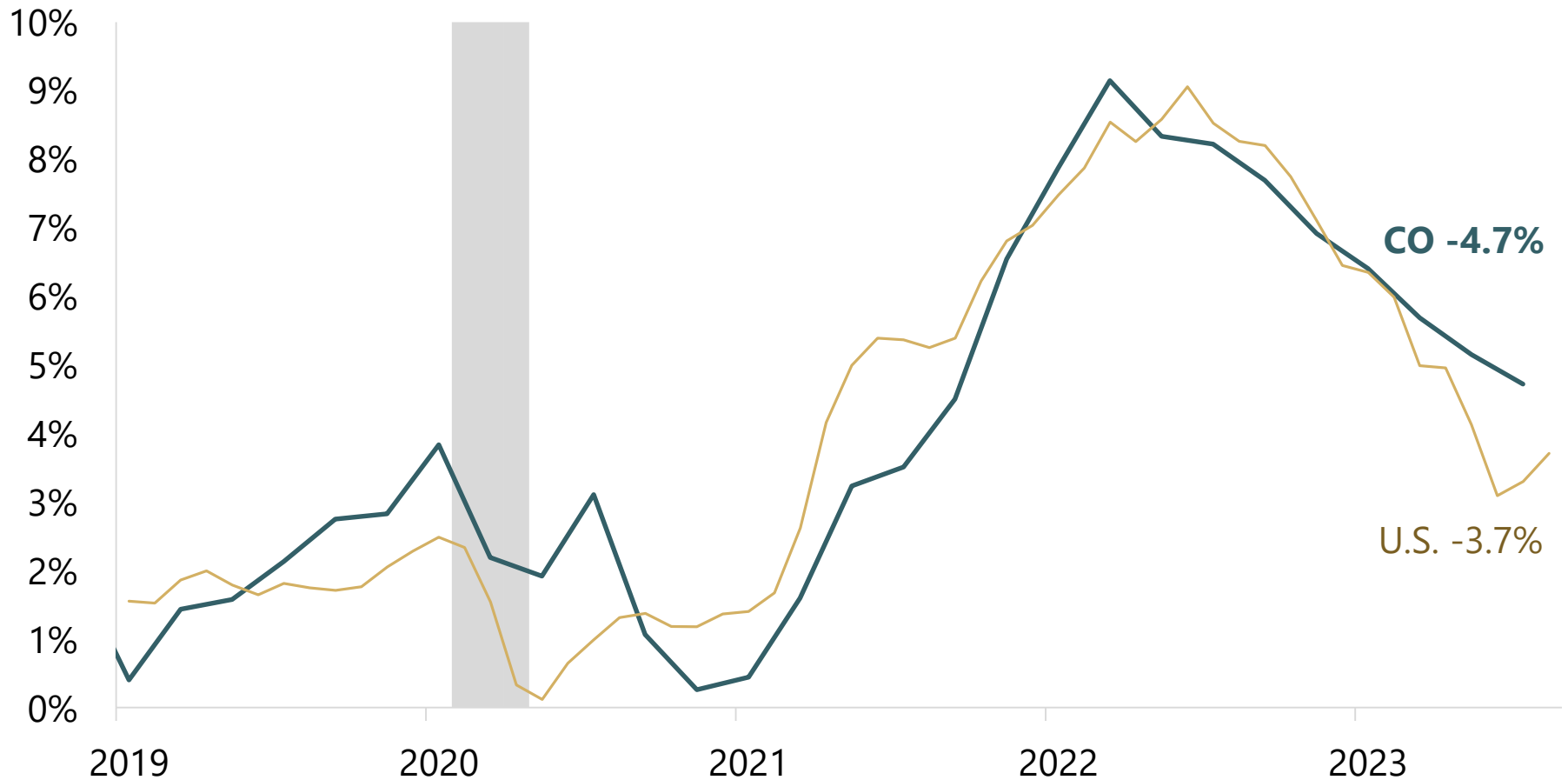
Source: Federal Reserve Board of Governors. Data are through June 2023.



# Summer surge in gas prices stalls U.S. inflation's decline in August

## Headline CPI-U Inflation

*Year-over-Year Change in Prices*

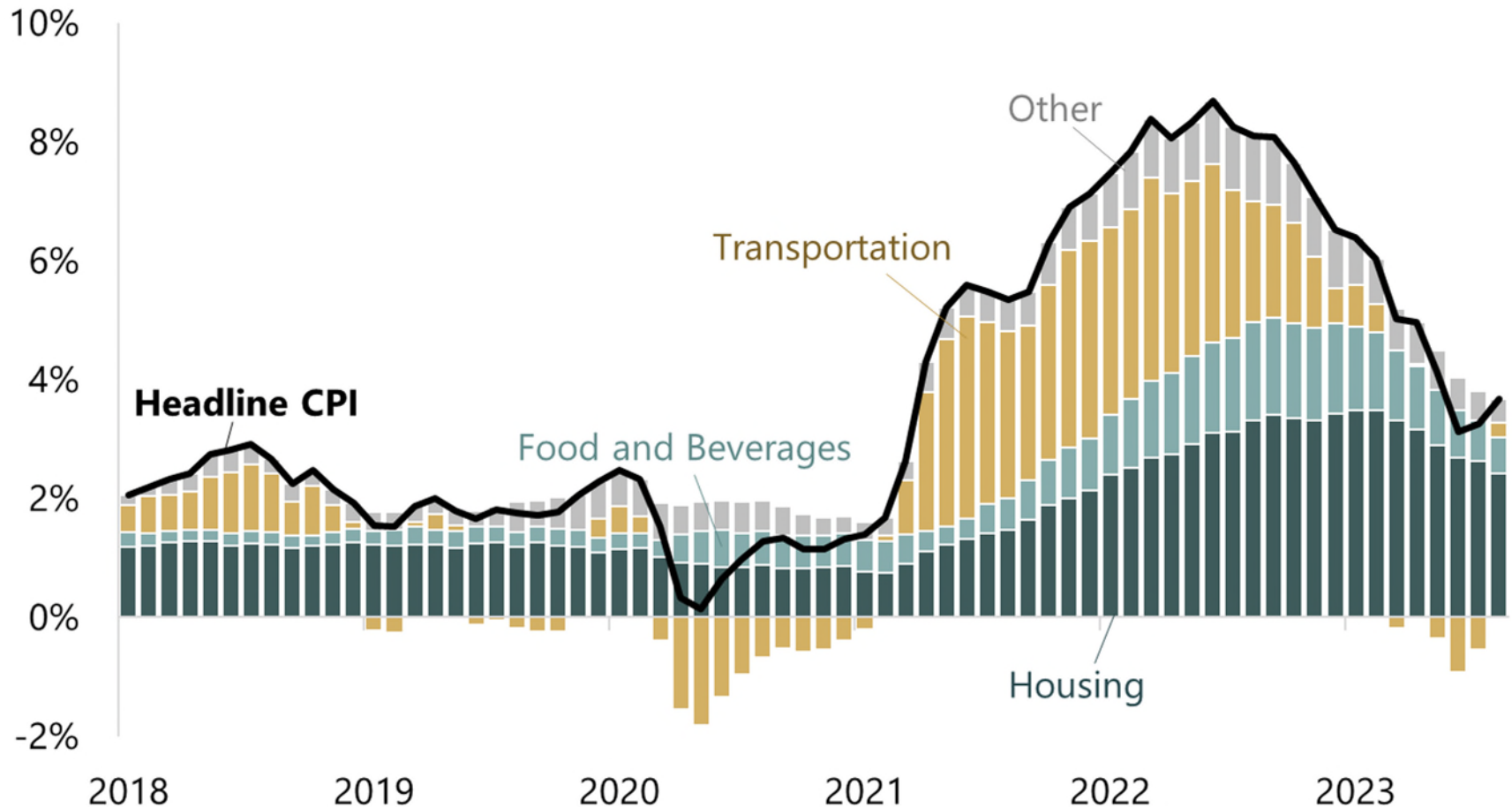


Source: U.S. Bureau of Labor Statistics. U.S. data are through August 2023. Colorado data are through July 2023. Inflation is calculated as the growth in urban area prices in a given period relative to the same period in the prior year. Colorado inflation is measured using prices in the Denver-Aurora-Lakewood metropolitan area.

# Housing continues to exert upward pressure

## Contributions to U.S. CPI-U

*Year-over-Year Change in Prices, August 2023*

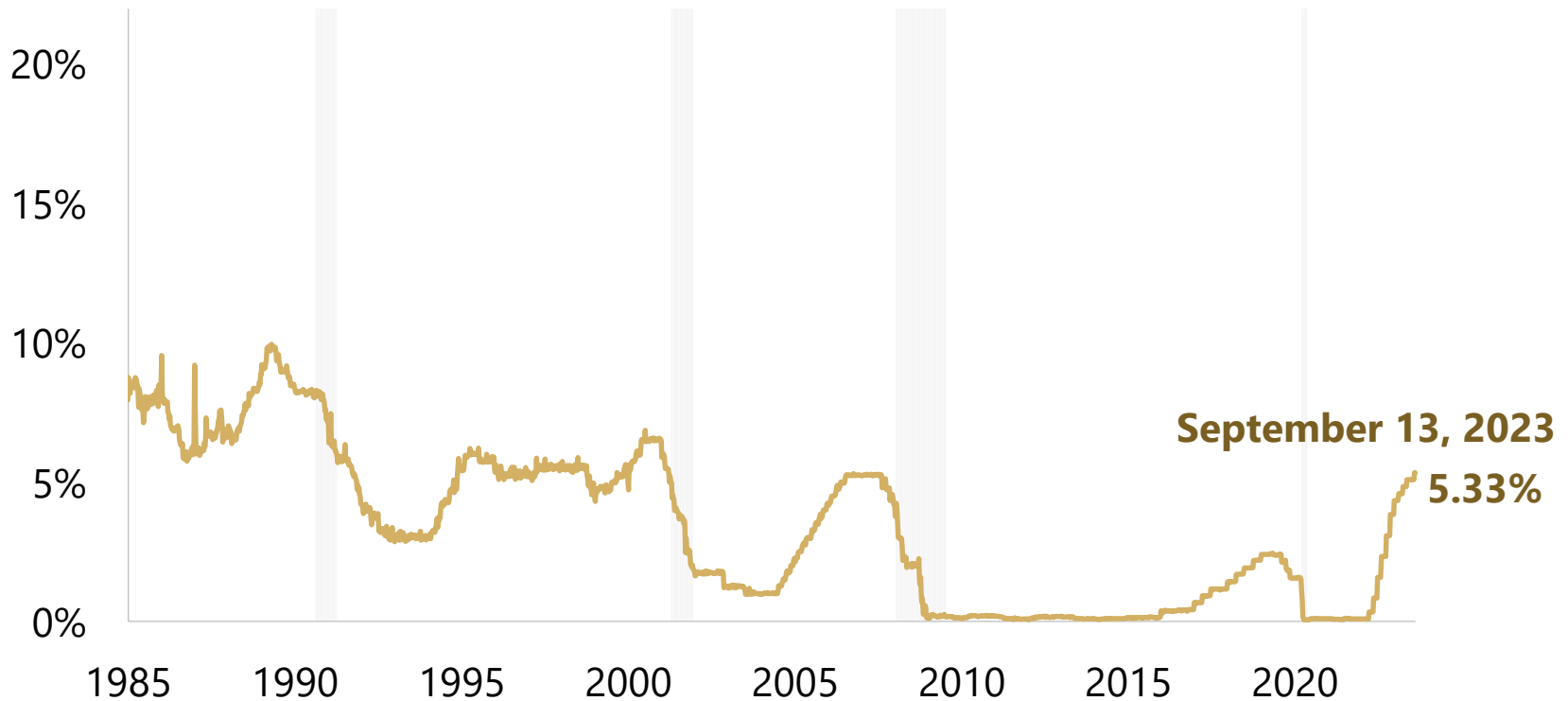


Source: U.S. Bureau of Labor Statistics and LCS calculations.

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 maintain high rates to keep inflation in check

Effective Federal Funds Rate  
*Percent*



Source: Board of Governors of the Federal Reserve System, H.15 Selected Interest Rates

# Risks to the forecast remain weighted to the downside

The September forecast anticipates a continued, slowing expansion.

Risk of near-term recession remains elevated, but have dissipated through 2023 as the economy remains resilient in spite of tightening monetary policy.

- **Downside Risks:**

- Persistent inflation
- Aggressive monetary tightening
- Deteriorating household finances stymie consumption
- Geopolitical uncertainty, trade disruptions, other external shocks

- **Upside Risks:**

- Faster resolution to inflationary pressures
- More accommodative monetary policy
- Further expansion in the labor force, productivity growth
- A rebound in real wages boosting consumer spending

# General Fund Budget Outlook



# FY 2022-23 came in above forecast, but we expect a decline this year

## Gross General Fund Revenue

Billions of Dollars

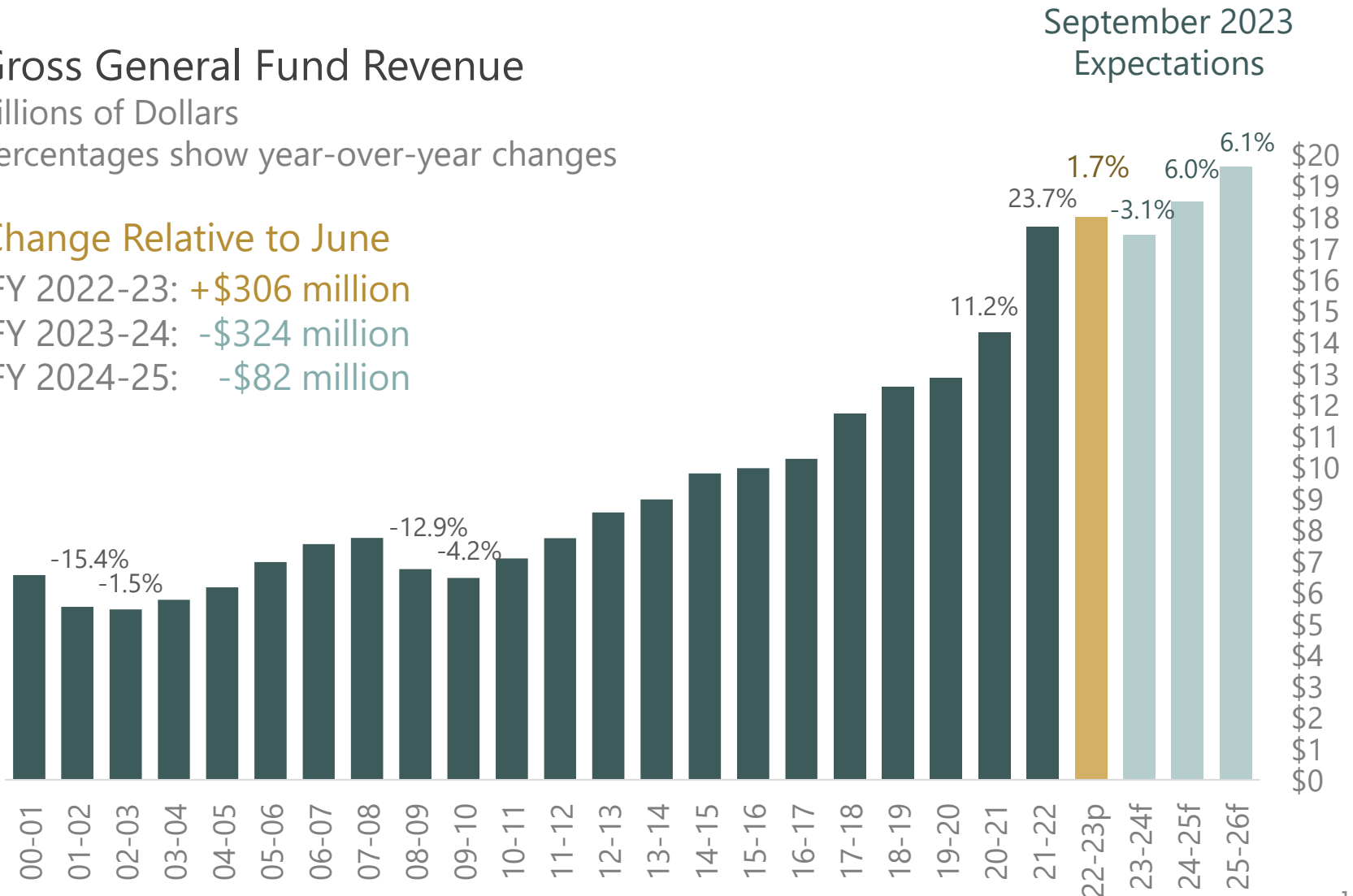
Percentages show year-over-year changes

### Change Relative to June

FY 2022-23: +\$306 million

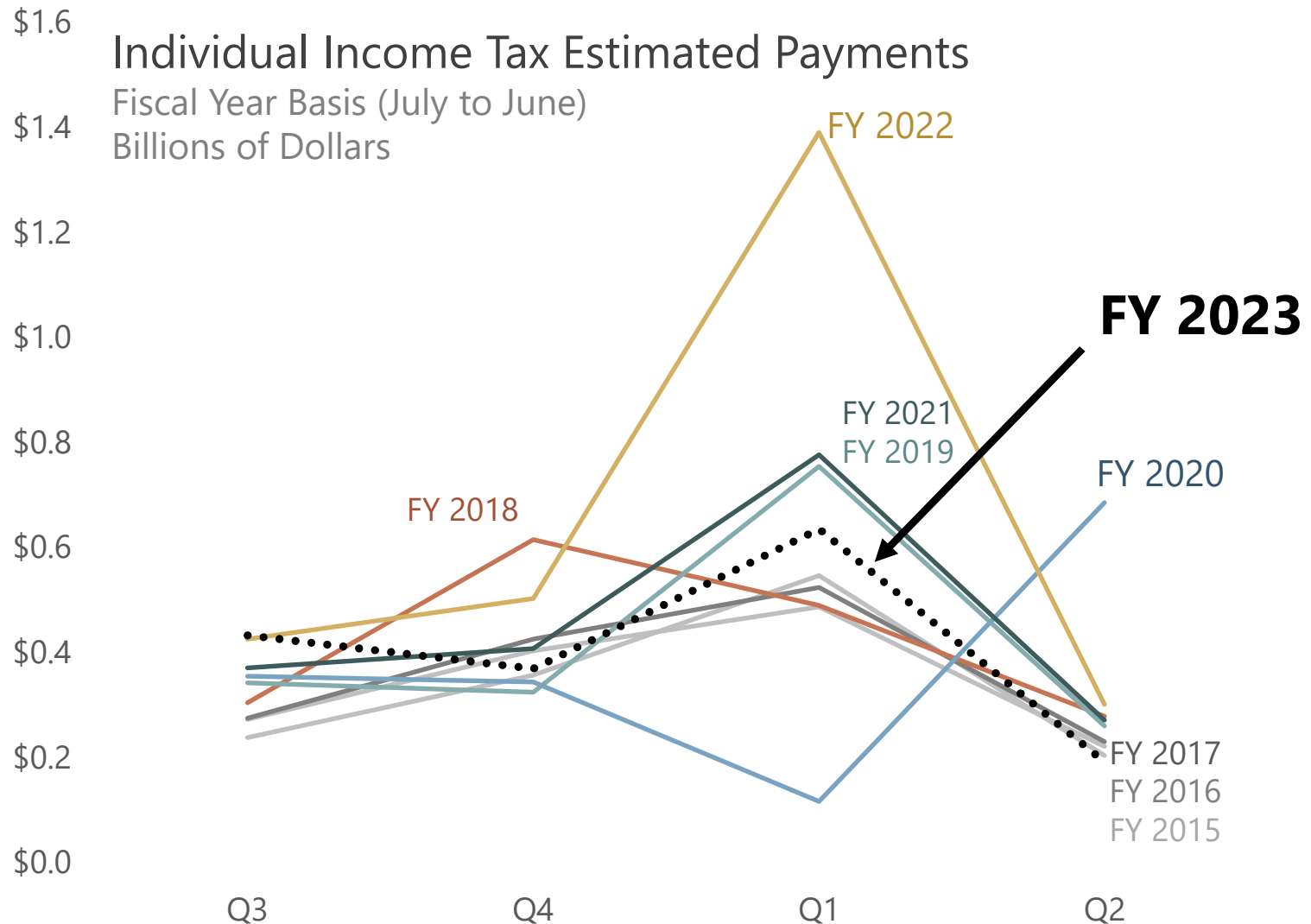
FY 2023-24: -\$324 million

FY 2024-25: -\$82 million



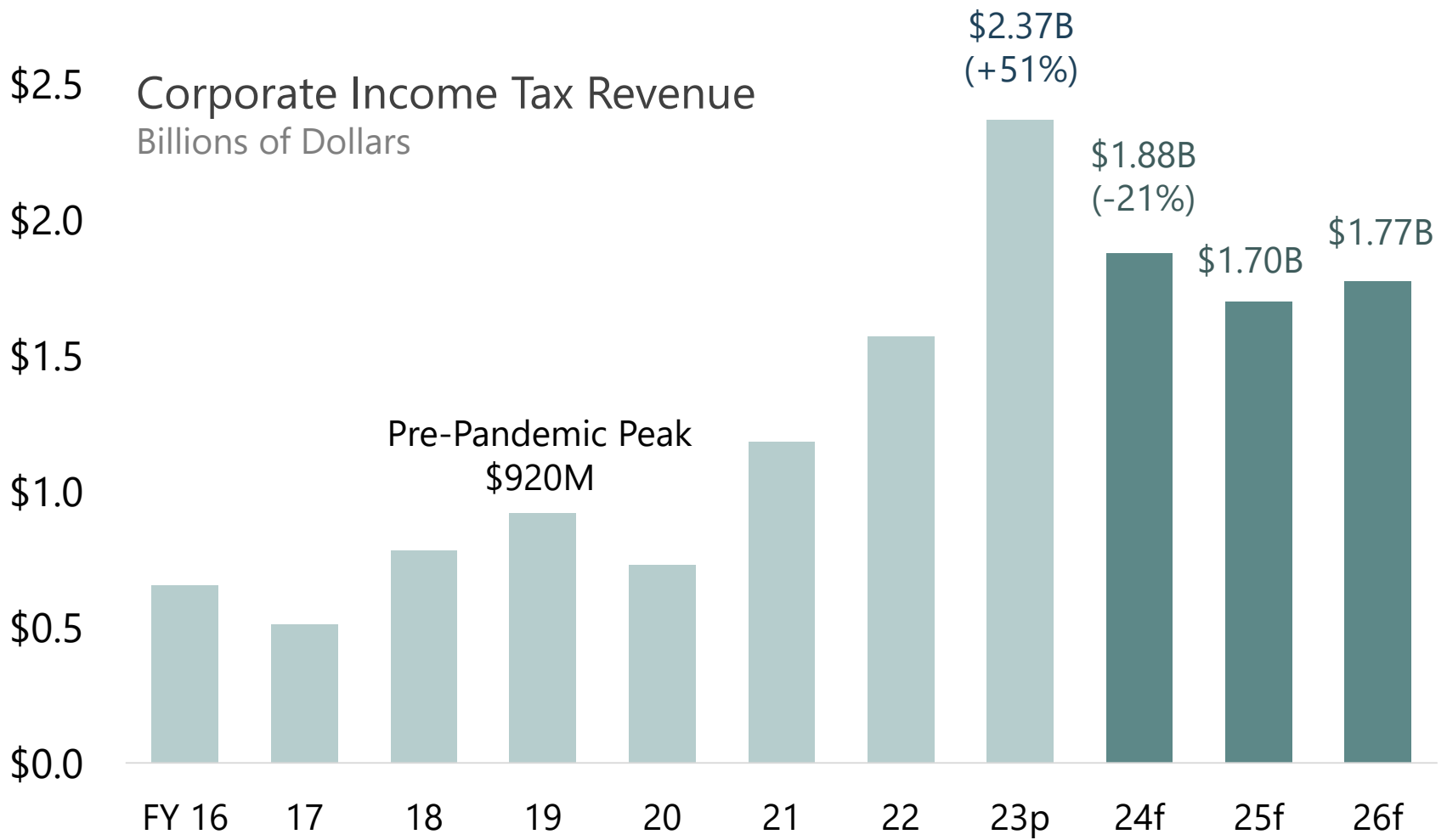
Source: Colorado Office of the State Controller and Legislative Council Staff September 2023 forecast.

# Individual taxpayer behavior is normalizing after wide pandemic and post-pandemic swings



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.

# Corporate income taxes set a record last year, but their future trajectory is less clear



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



# TABOR Outlook

Revenue Subject to TABOR  
Dollars in Billions

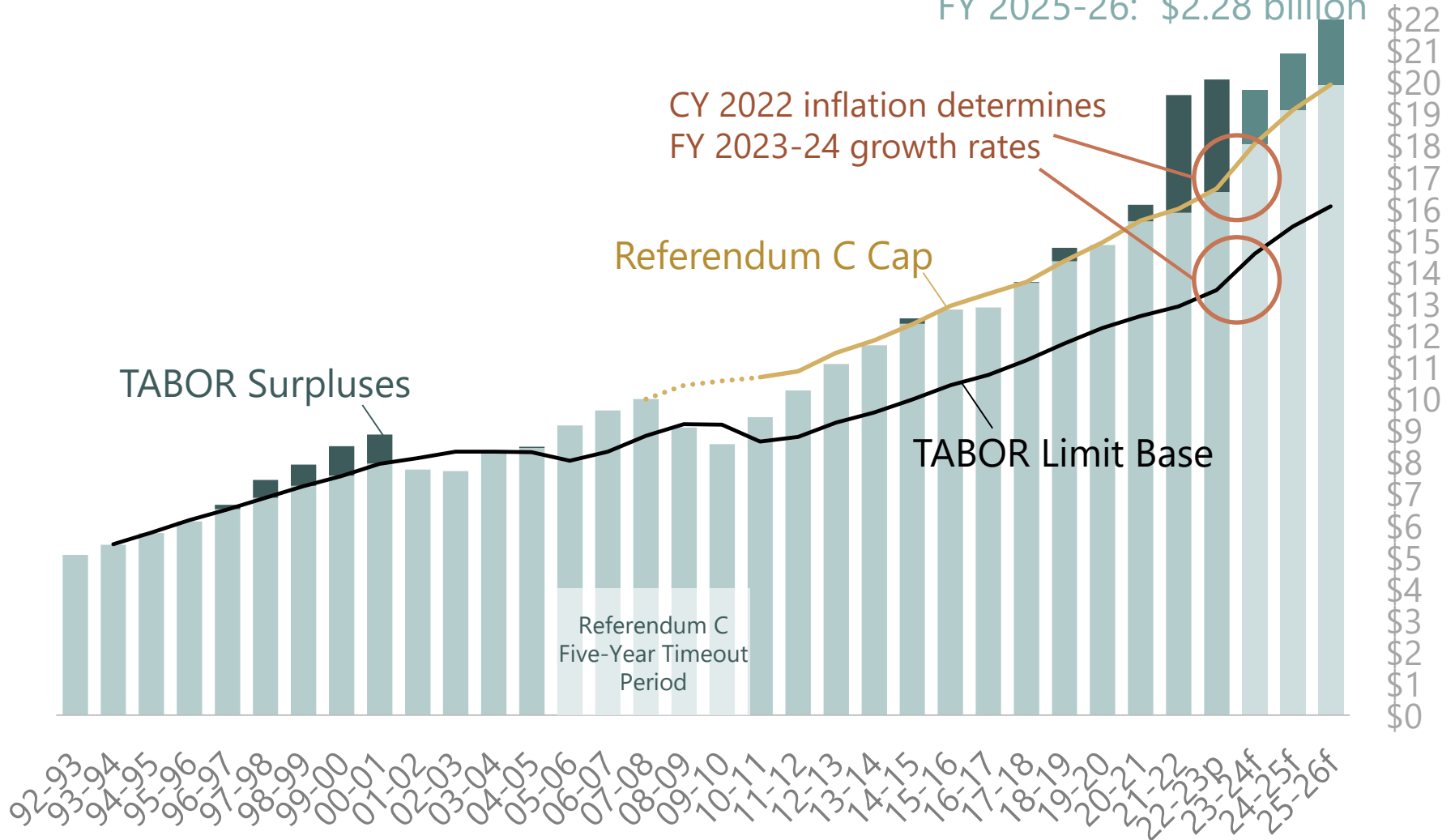
## Revenue Above the Ref C Cap

**FY 2022-23: \$3.57 billion**

FY 2023-24: \$1.70 billion

FY 2024-25: \$1.77 billion

FY 2025-26: \$2.28 billion



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

# The state will refund \$3.68 billion in FY 2023-24

*Current expectations – TY 2023 will be finalized in October*

## Tax Year 2023 Refunds from FY 2022-23 TABOR Refund Obligation

Taxpayer Distribution by AGI			Single Filers	Joint Filers
	up to	\$51,000	\$586	\$1,172
\$51,001	to	\$104,000	\$769	\$1,538
\$104,001	to	\$166,000	\$900	\$1,800
\$166,001	to	\$236,000	\$1,053	\$2,106
\$236,001	to	\$310,000	\$1,143	\$2,286
\$310,001	and up		\$1,834	\$3,668

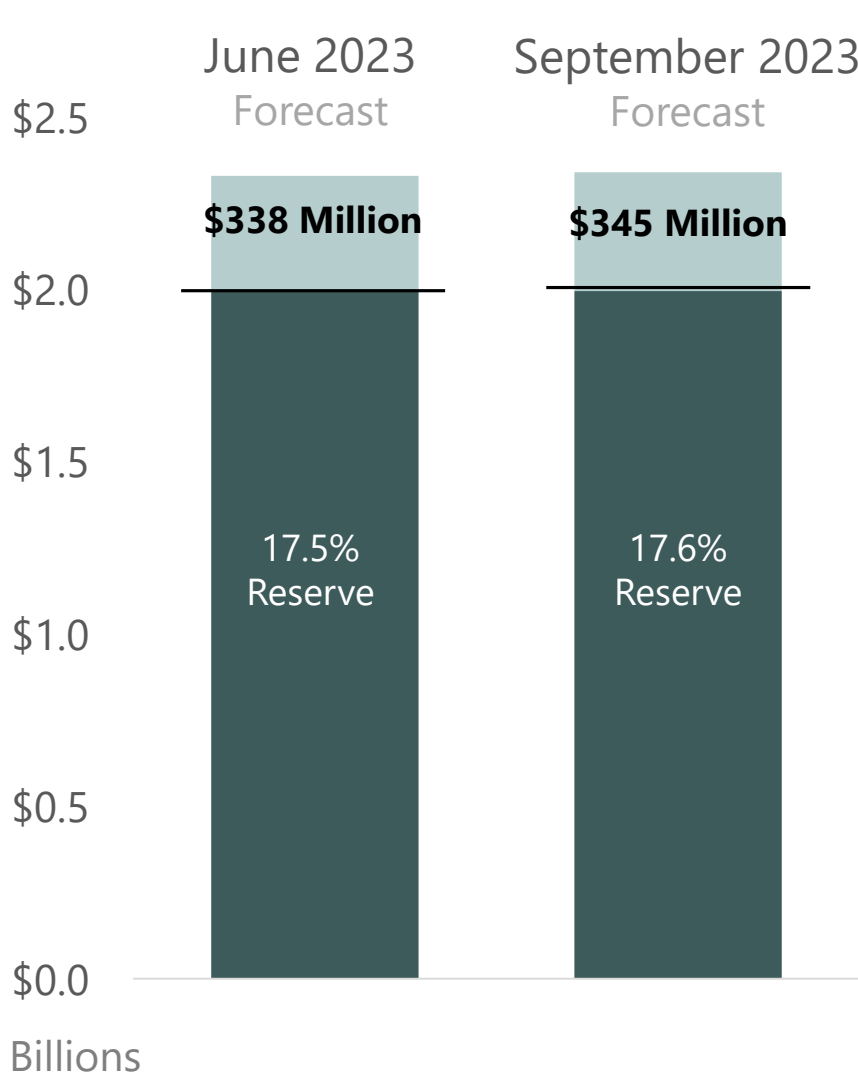
## Tax Year 2024 Refunds from FY 2023-24 TABOR Refund Obligation

Taxpayer Distribution by AGI			Single Filers	Joint Filers
	up to	\$53,000	\$268	\$536
\$53,001	to	\$108,000	\$357	\$714
\$108,001	to	\$172,000	\$411	\$822
\$172,001	to	\$243,000	\$489	\$978
\$243,001	to	\$320,000	\$526	\$1,052
\$320,001	and up		\$846	\$1,692

## Tax Year 2025 Refunds from FY 2024-25 TABOR Refund Obligation

Taxpayer Distribution by AGI			Single Filers	Joint Filers
	up to	\$54,000	\$277	\$554
\$54,001	to	\$110,000	\$369	\$738
\$110,001	to	\$177,000	\$425	\$850
\$177,001	to	\$250,000	\$505	\$1,010
\$250,001	to	\$329,000	\$543	\$1,086
\$329,001	and up		\$874	\$1,748

# Last Year | FY 2022-23 General Fund Reserve



## Changes since the June forecast:

**Revenue** and **TABOR refunds** both exceeded forecast; on net, **\$45.7 million less** in adjusted TABOR refund obligation (+)

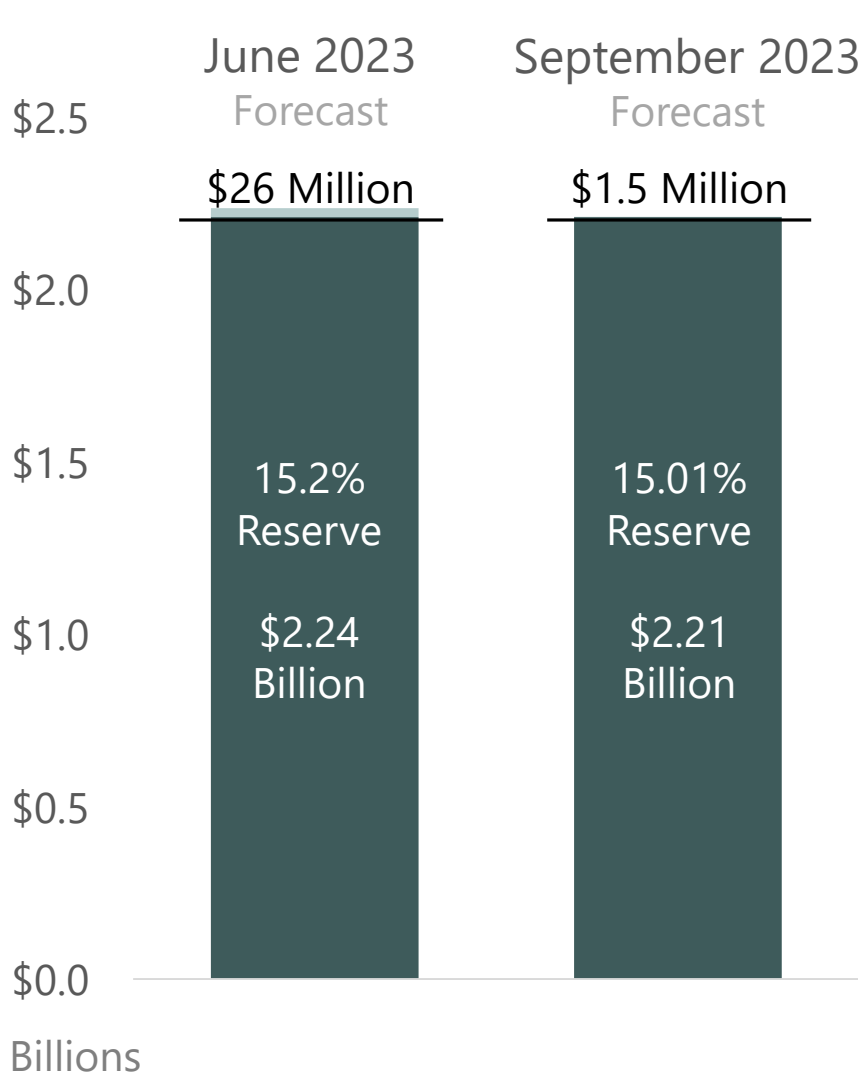
**GF appropriations** increased by \$13.3 million, with \$2.0 million higher required reserve (-)

**Rebates and expenditures** were \$15.2 million above forecast (-)

**Net transfers** from the GF increased by \$7.5 million (-)

Source: Legislative Council Staff forecasts based on current law.

# Current Year | FY 2023-24 General Fund Reserve



## Changes since the June forecast:

\$9.7 million higher **beginning balance** (+)

**Revenue** and **TABOR refund** expectations both decreased; on net, **\$31.0 million less** in adjusted TABOR refund obligation (+)

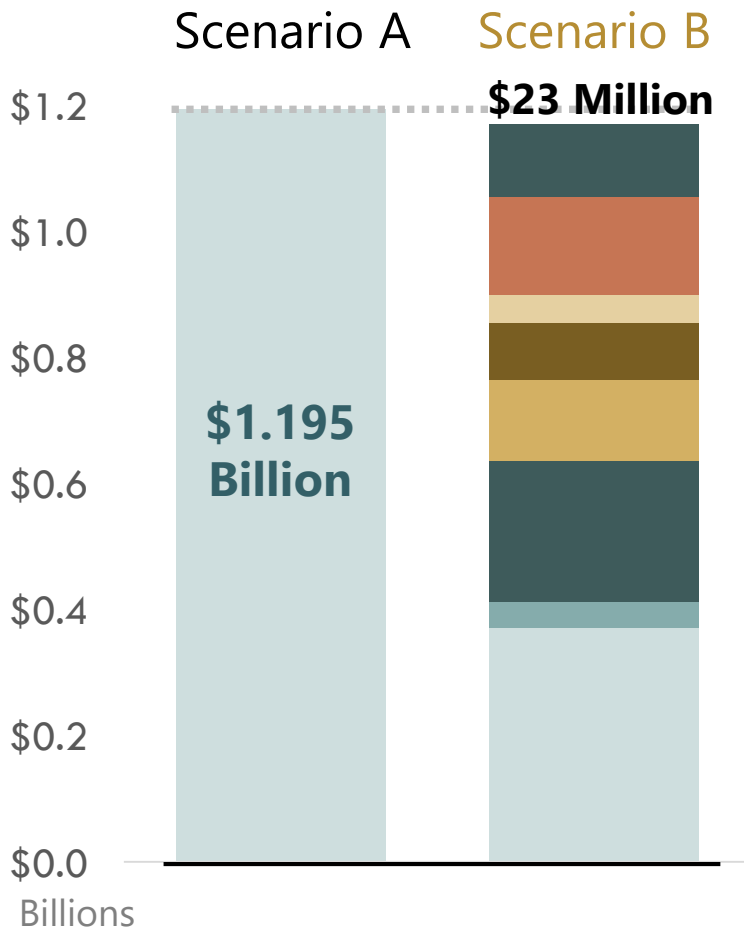
**Rebates and expenditures** forecast revised up by \$66.5 million (--)

**Net transfers** to the GF increased by \$1.2 million (+)

Source: Legislative Council Staff forecasts based on current law.

# Next 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 Budget Outlook

## Recession risk is budget risk

- Suppressed demand in response to monetary policy tightening
- Economy still susceptible to shocks or contagion
- No such thing as a “normal” recession
  - Expenditure side pressures would likely rise
- Taxpayer response has a major impact on revenue

## Bottom line

- 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

# Questions?

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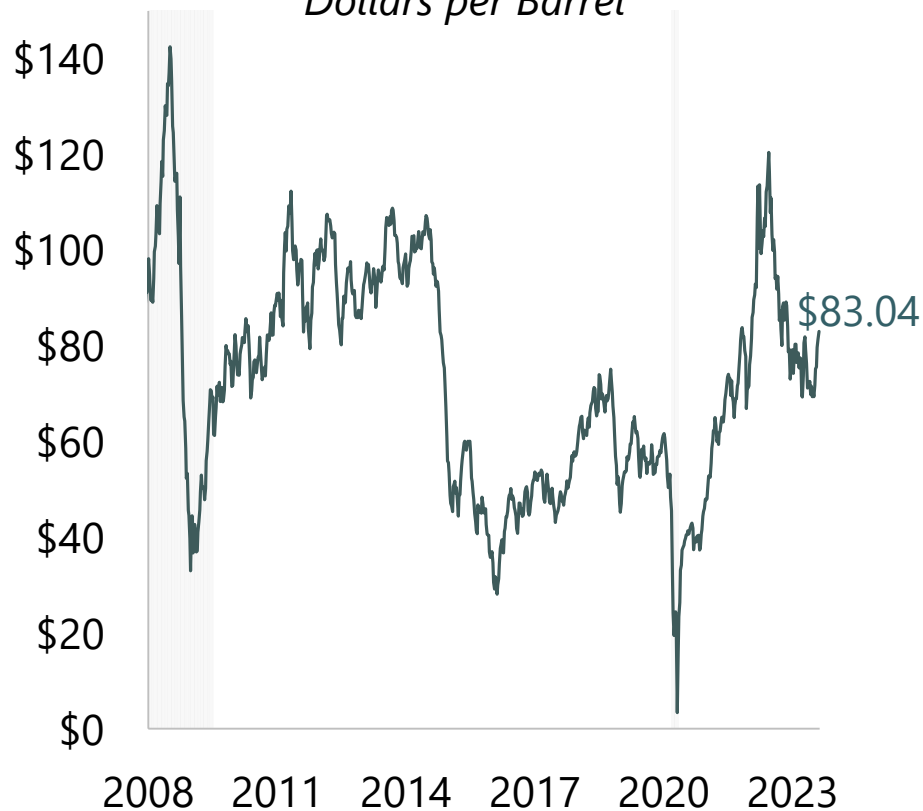


# Supplemental Economic Outlook Slides



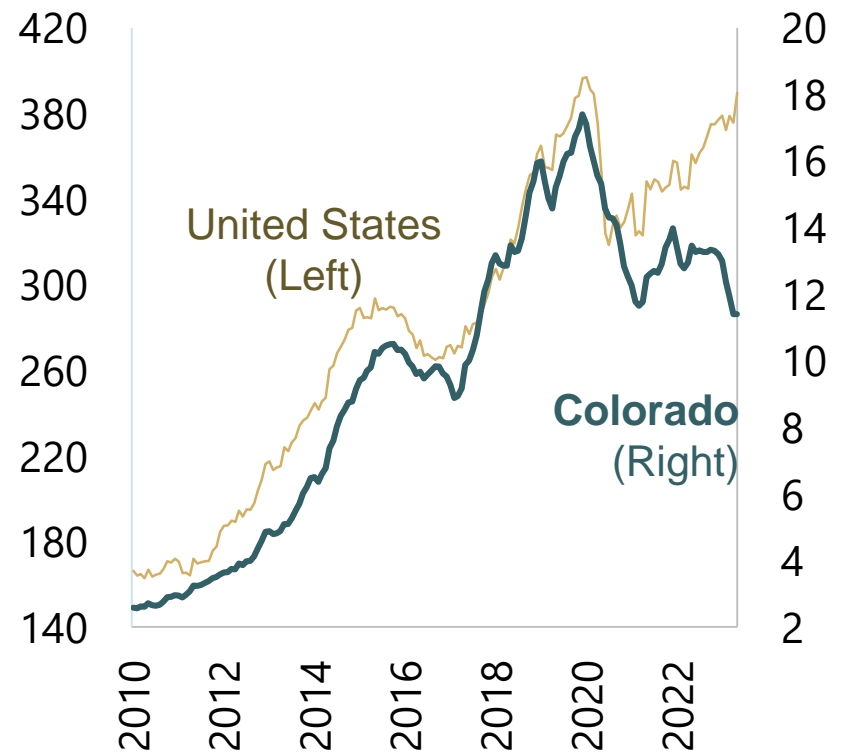
# Energy Market Dynamics

Crude Oil Price, West Texas Intermediate  
Dollars per Barrel



Source: U.S. Energy Information Administration. Weekly average prices. Data are not seasonally adjusted and are through the week of August 11, 2023.

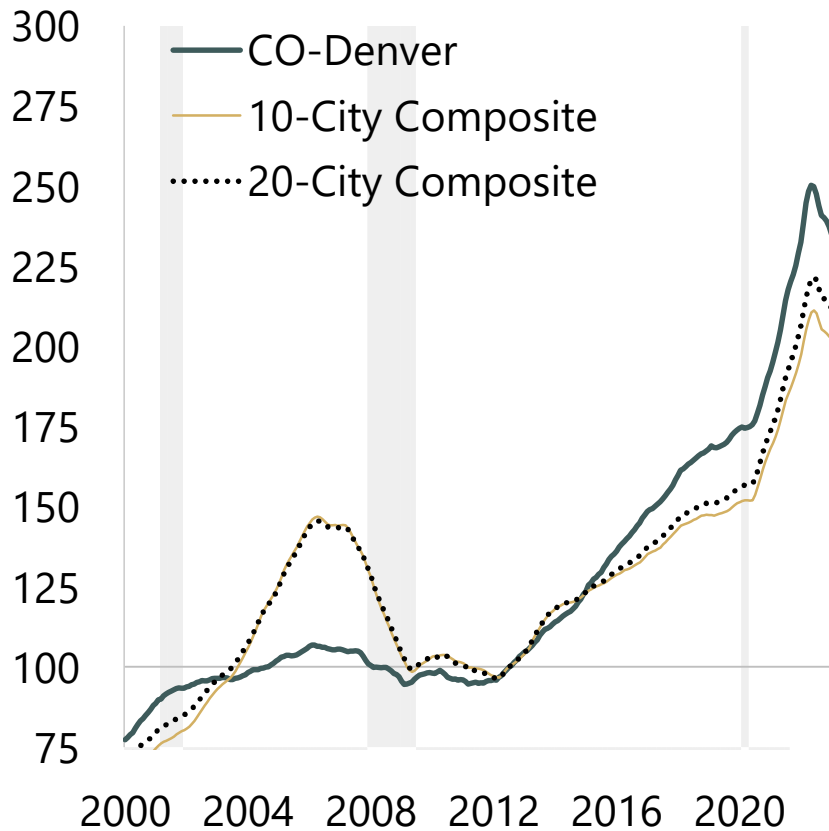
Crude Oil Production  
Millions of Barrels per Month



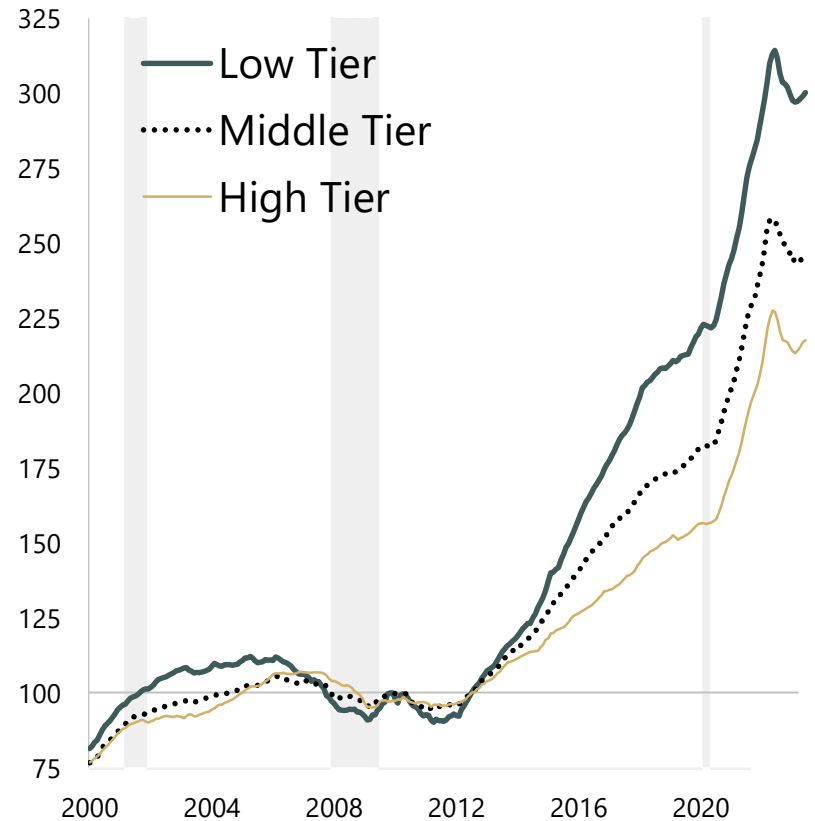
Source: U.S. Energy Information Administration. Data are shown as a three-month moving average and are not seasonally adjusted. Data are through May 2023.

# Home prices resume rise in 2023, Denver homes still down 4.4 percent compared to June 2022

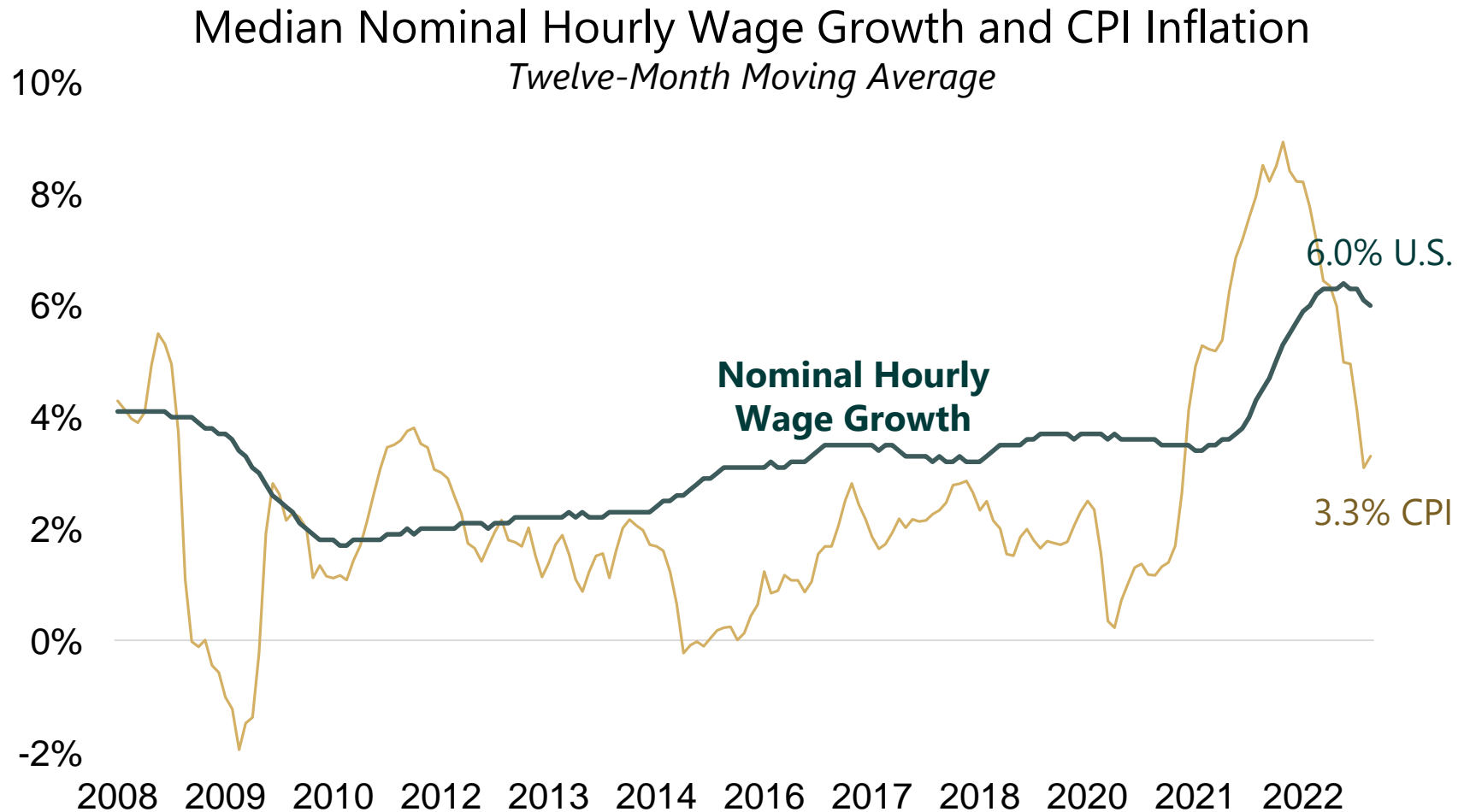
## Case-Shiller Home Price Indices



## Denver Home Price Indices

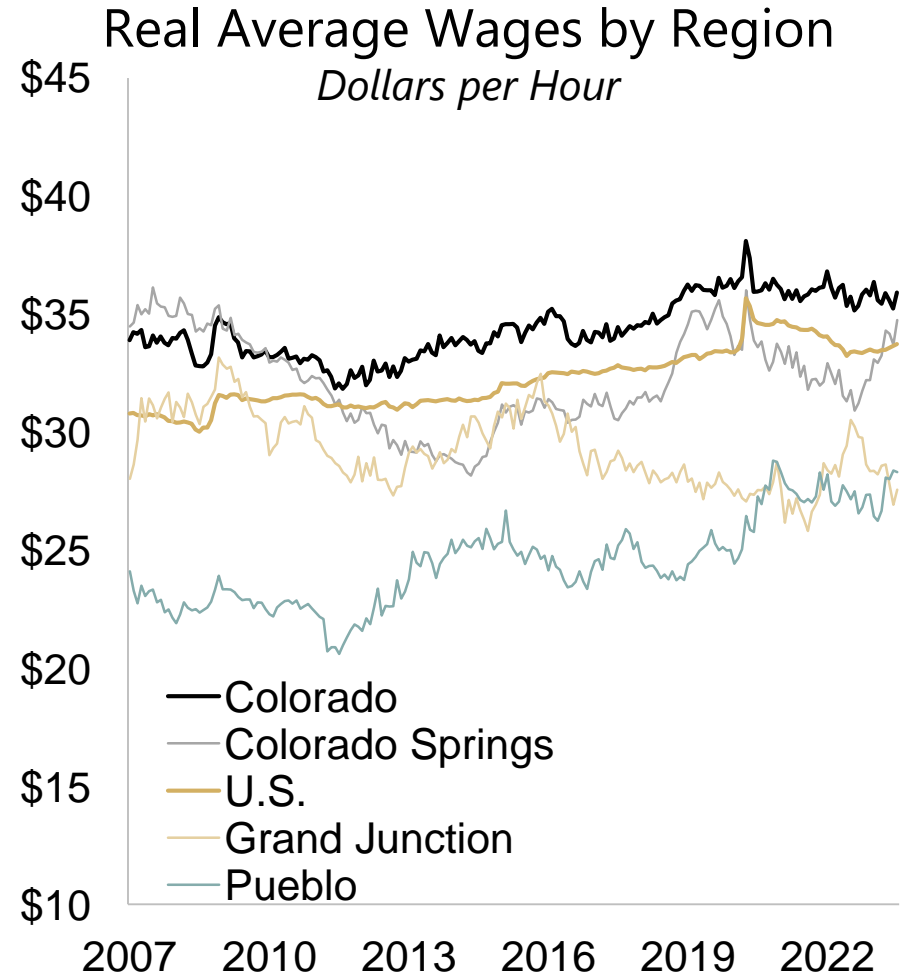
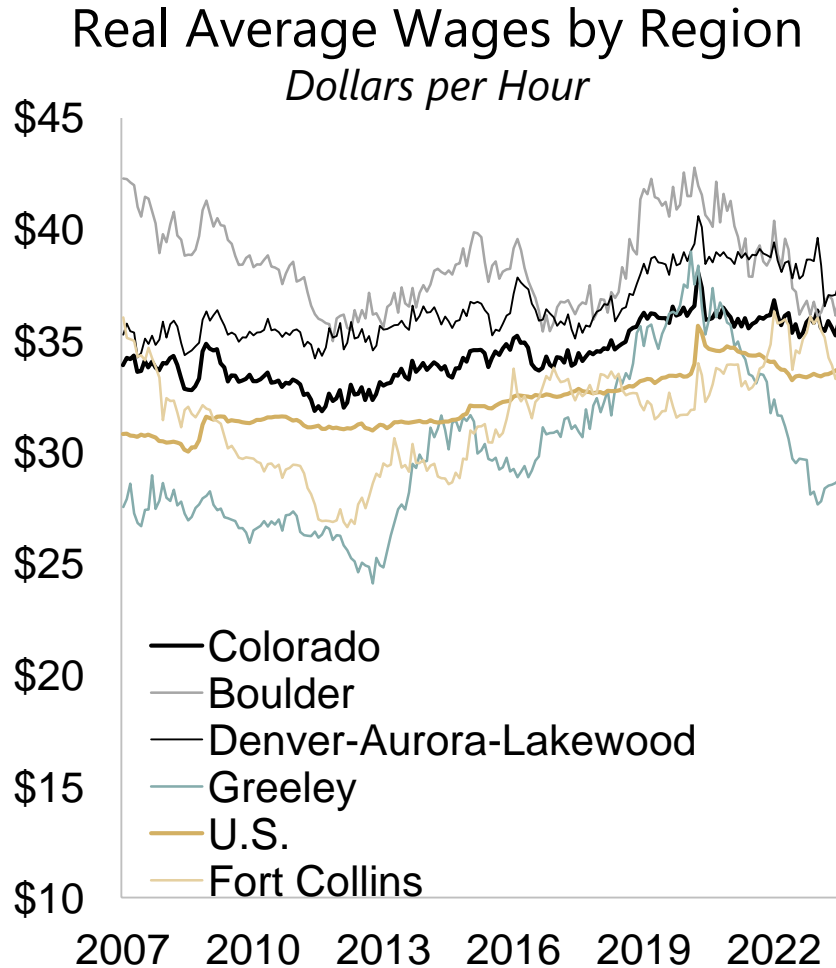


# U.S. nominal wage growth outpacing inflation in 2023



Source: Atlanta Fed Wage Growth Tracker and Bureau of Labor Statistics. Data are through July 2023.

# Real wage growth varies by region



Source: U.S. Bureau of Labor Statistics. Data are adjusted for inflation using the U.S. city average CPI-U inflation index. U.S. data are seasonally adjusted. Colorado data are not seasonally adjusted. Data are through July 2023.