Economic Outlook
Economic activity continues to expand, but momentum has slowed

Contributions to Real U.S. Gross Domestic Product (GDP)

Employment growth is slowing as the labor market tightens

Total Nonfarm Employment

**Index 100 = January 2010**

While labor force participation rates have risen, labor shortages persist in many industries.

Colorado Labor Force Participation Rates by Age

- 25 to 34 years
- 35 to 44 years
- 45 to 54 years
- 20 to 24 years
- 55 to 64 years
- 16 to 19 years*
- 65 years and older

Wages are rising, yet consumer activity has slowed

Manufacturing activity has slowed considerably on lower crude oil prices and the global economic slowdown.


The Tenth District composite index is adjusted to the ISM scale.
Trade tensions pose ongoing uncertainty for several industries, impacting supply chain, demand, and prices.

Colorado Exports

Tariffs and the global economic slowdown are dampening Colorado export activity

Contribution to Change in Colorado Exports
Year-over-Year Percent Change, 2018Q4 over 2017Q4

-7.1% in 2018Q4 over year-ago levels

Source: WiserTrade.
Home price appreciation has slowed considerably in the higher-cost areas of the state

FHFA Home Price Indices

*Index 100 = January 2008*

Source: Federal Housing Finance Agency (FHFA). FHFA data are seasonally adjusted data through 2018Q4.
Economic Summary

Economic activity remains elevated but has slowed

• Growth will continue to moderate through 2021
  – Labor market shortages will dampen business growth
  – Global economic slowdown

Uncertainties remain elevated

• Trade tensions, policy uncertainty, and slower economic activity have led to a shift toward more cautious optimism among investors and consumers
General Fund Budget Outlook
Revenue expectations were reduced on lower than expected collections to date and a slower economic outlook.

Gross General Fund Revenue
Billions of Dollars

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Revenue</th>
<th>Change Relative to December</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2018-19</td>
<td>$260.4M</td>
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<td></td>
<td>-$168.9M</td>
</tr>
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Source: Colorado Office of the State Controller and Legislative Council Staff March 2019 forecast.
Growth in wage withholding remains strong, while sales tax collections growth has slowed.

Monthly State Revenue Collections

<table>
<thead>
<tr>
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<tr>
<td>$800</td>
<td>$400</td>
</tr>
<tr>
<td>$700</td>
<td>$350</td>
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<tr>
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</tr>
<tr>
<td>$200</td>
<td>$100</td>
</tr>
</tbody>
</table>

Source: Colorado Office of the State Controller and Department of Revenue. Monthly collections shown on a cash basis. February data are preliminary.
Estimated payments of individual income tax are the largest source of General Fund forecast volatility.

Source: Colorado Office of the State Controller and Department of Revenue. Monthly collections shown on a cash basis. February data are preliminary.

*Wage withholding, estimated payments, and cash with returns, minus refunds.
Revenue expectations were reduced on lower than expected collections to date and a slower economic outlook.

Gross General Fund Revenue
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Source: Colorado Office of the State Controller and Legislative Council Staff March 2019 forecast.
Revenue growth is expected to moderate throughout the forecast period

Gross General Fund Revenue
Billions of Dollars

Source: Colorado Office of the State Controller and Legislative Council Staff March 2019 forecast.
TABOR Outlook

Revenue Subject to TABOR
Dollars in Billions

Source: Colorado Office of the State Controller and Legislative Council Staff March 2019 forecast.
TABOR surplus revenue is set aside in the year in which a surplus occurs to pay refunds in the following budget year.

**Expected TABOR Refunds & General Fund Budget Impacts**

Dollars in Millions

<table>
<thead>
<tr>
<th>TABOR Surplus &amp; Set Aside:</th>
<th>Refunded in Fiscal Year:</th>
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<tbody>
<tr>
<td>2017-18</td>
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</tr>
<tr>
<td></td>
<td>2019-20</td>
</tr>
<tr>
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<td>2020-21</td>
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**Reimbursements to Local Governments for Property Tax Exemptions**

- **$39.8M***  (2018-19)
- **$64.8M**  (2019-20)

Source: Colorado Office of the State Controller and Legislative Council Staff March 2019 forecast.

*This amount includes the $18.5 million FY 2017-18 surplus and $21.3 million in under-refunds from the FY 2014-15 surplus.
While revenue expectations were reduced, the budget situation improved.

**Changes from December:**

+$76.0 million

+$13.7 million in TABOR exempt Wells Fargo settlement moneys

-$19.3 million spending from FY 2018-19 supplemental package

-$41.7 million TABOR refund obligation on lower cash fund revenue expectations
Next Year | FY 2019-20 Budget Outlook

General Fund available above FY 2018-19 appropriations to spend, save, or return to taxpayers

$1.18 billion*

*Reflects revenue expectations and transfers required under current law for FY 2019-20. Since a budget has not yet been set for FY 2019-20, this amount assumes FY 2018-19 appropriations and reserve requirements. Any changes to current law, including FY 2018-19 appropriations, will result in changes to this amount.

Source: Legislative Council Staff March 2019 forecast based on current law and FY 2018-19 appropriations.
Risks to the Forecast

- **Elevated uncertainty in FY 2018-19 and FY 2019-20**
  - Expect surprises as taxpayers adjust to federal tax policy changes
  - Out-of-state sales tax collections pose upside risks

- **With close proximity to the Referendum C cap...**
  - Upside surprises mean (larger) TABOR refunds
  - Downside surprises mean fewer funds available

- **Longer-term risks are skewed to the downside**
  - Slower growth and rising risk of recession as the economic expansion matures
Questions?

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