Economic Outlook
Longest, and weakest, expansion on record

Index of GDP Growth During Expansions
100 = Start of expansion

- Dec. 1983 to June 1990
- Apr. 1991 to Feb 2001
- Dec. 2001 to Nov. 2007
- July 2009 to Present

Real vs. Potential GDP
Trillions of dollars

Source: U.S. Bureau of Economic Analysis.
Source: U.S. Bureau of Economic Analysis and Congressional Budget Office.
Consumers still hitting the gas, while businesses hit the brakes

Contributions to Real Gross Domestic Product (GDP)
Annualize Change over the Prior Quarter

Employment growth remains strong, pressuring labor markets

Total Nonfarm Employment

Index 100 = January 2010

Unemployment (U3)

Underemployment (U6)

And pushing wages higher

Real Average Hourly Earnings

2019 Dollars

Inflation is slowly picking up speed

CPI-U Inflation, U.S. City Average
Year-over-Year Change in Prices

August 2019 over August 2018

- Headline: 1.8%
- Core: 2.4%
- Energy: 1.7%
- Food: 1.7%
- Housing: 2.8%
- Apparel: 1.0%
- Transportation: -1.1%
- Medical Care: 3.5%
- Recreation: 1.3%
- Education: 2.4%
- Other: 2.3%

Source: U.S. Census Bureau. Seasonally adjusted.
A strong dollar helps consumers, hurts exporters

Trade Weighted U.S. Dollar
Index of the Dollar to Foreign Currencies

U.S. Exports
Millions of Dollars

Source: Federal Reserve Board of Governors & Bureau of Economic Analysis (balance of payments basis). Seasonally adjusted.
Tariffs are hurting some Colorado exports

Change in Colorado Exports
Year-over-Year Change,
January through July 2019

-79.8% Whiskey
-75.9% Cheese
-56.0% Wheat
-44.5% Corn
-38.4% Rawhides and skins
-37.4% Beer
-23.3% Vegetables, roots, and tubers
-10.3% Industrial machinery
-5.8% Beef
4.4% Pork
Total exports
Electrical machinery

Source: WISERTrade.
Manufacturing activity contracted in August

Institute for Supply Management Indices

Diffusion Index

Business Activity

Manufacturing

Source: Institute for Supply Management.
Industrial production and new orders have slowed

Industrial Production Index

Index 2007 = 100

New Manufacturers’ Orders

Billions of Dollars

Source: Federal Reserve Board of Governors & U.S. Census Bureau.
Yield curves have inverted

Source: Federal Reserve Bank of St. Louis.
Colorado’s housing markets are evening out

Case-Shiller Home Price Indices

Index 100 = January 2000

- 10-City Composite
- 20-City Composite
- CO-Denver

Colorado Housing Permits

Thousands of Units

Source: S&P Dow Jones Indices, LLC.

Source: U.S. Census Bureau. Seasonally adjusted three-month moving averages.
Oil prices settled down after the September 14 spike

West Texas Intermediate
Crude Oil Price

Dollars per Barrel

Source: Energy Information Administration (weekly average prices).
Economic outlook through the forecast period

**Growth will continue, but at slower rates**

- Labor markets will remain tight, constricting growth
- Business investment and industrial production will remain soft with ongoing trade uncertainties
- Lower interest rates will give a slight boost to the housing market

**Elevated recession risk based on recent business and financial indicators**
Risks to the Economic Outlook

**Upside risks:**
- Resolution to trade policy uncertainty
- Uptick in global growth; resolution to Brexit
- Monetary and fiscal policy stimulus

**Downside risks:**
- Weakening business and consumer confidence
- Geopolitical risk and uncertainties
- Sovereign and corporate debt levels
General Fund Budget Outlook
What has changed since June?

New information

• Preliminary, unaudited FY 2018-19 collections
  – Lower collections than expected ($76.1 million lower)

• Updates to 2019 legislative impacts

Changes to the revenue forecast

• Slight reductions in revenue expectations
  – Only two months of data for FY 2019-20

• Higher recession risk, based on leading indicators
Forecast General Fund revenue was reduced slightly relative to June expectations

Gross General Fund Revenue
Billions of Dollars

Change Relative to June Expectations
FY 2018-19: $76.1M
FY 2019-20: $76.3M
FY 2020-21: $120.9M

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

Revenue Subject to TABOR
Dollars in Billions

Expected TABOR Surpluses

Referendum C Cap

TABOR Limit Base

Referendum C
Five-Year Timeout Period

Source: Colorado Office of the State Controller and Legislative Council Staff September 2019 forecast.
TABOR Refund Obligation

1. Reimburse Local Gov’ts for Property Tax Exemptions
   Up to ~$160 million

2. If ~$430 million+
   Temporary Income Tax Rate Reduction
   Next ~$270 million
   If the refund is large enough to fund the first mechanism and the rate reduction

3. Sales Tax Refund
   Any remaining
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

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<tbody>
<tr>
<td>Refunded in Fiscal Year:</td>
<td>2019-20</td>
<td>2020-21</td>
<td>2021-22</td>
<td>2022-23</td>
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$428.5M*  
$264.3M  
$142.9M  
$134.5M

Income Tax Rate Reduction  
Sales Tax Refund Mechanism  
Reimbursements to Local Govts for Property Tax Exemptions

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

*This amount includes $0.1 million in underrefunds from the FY 2014-15 surplus.
Last Year | FY 2018-19 General Fund Reserve

Dollars in Millions

<table>
<thead>
<tr>
<th>June 2019 Forecast</th>
<th>September 2019 Forecast</th>
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<tbody>
<tr>
<td><strong>10.0% Reserve</strong></td>
<td><strong>10.2% Reserve</strong></td>
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<tr>
<td>$814.2M</td>
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<td>$303.3M Surplus Above Required Reserve</td>
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<td>$200</td>
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Changes relative to June: +$28.5 million

Changes reflect updates to 2019 legislative impacts

Lower revenue expectations are absorbed by the TABOR surplus

Source: Legislative Council Staff forecasts based on current law.
**Current Year | FY 2019-20 General Fund Reserve**

Dollars in Millions

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<tr>
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<th>June 2019 Forecast</th>
<th>September 2019 Forecast</th>
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<tr>
<td>$1,200</td>
<td>8.1% Reserve</td>
<td>8.3% Reserve</td>
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<tr>
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<td>$800</td>
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<tr>
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Changes relative to June: +$24.1 million

Changes reflect updates to 2019 legislative impacts

Lower revenue expectations are absorbed by the TABOR surplus

Source: Legislative Council Staff forecasts based on current law.
Next Year | FY 2020-21 Budget Outlook Scenarios

Amounts above or below the required 7.25% reserve.

Incorporates the revenue forecast, current law transfers, rebates and expenditures, TABOR refund obligations, and the reserve requirement.

Hold FY 2019-20 Appropriations Constant

Grow Appropriations by Inflation + Population Growth (3.2%)*

Grow Appropriations by Historical Expansionary Growth (6.0%)**

Source: Legislative Council Staff September 2019 forecast.

*2020 population and inflation projections. **Appropriations growth over the past two economic expansions.
Revenue scenarios in the late stages of economic expansion

This figure is for illustrative purposes and does not reflect actual state revenue collections.
Risks to the Forecast

• **Upside risks**
  – Ongoing income tax base-building from federal tax law changes
  – Out-of-state sales tax collections

• **Elevated risk of recession**
  – Slower growth as the economic expansion matures
  – Leading business and financial indicators flashing warning signs

• **In the current TABOR refund situation...**
  – The TABOR limit will constrain revenue growth
  – Upside surprises mean larger TABOR refunds
  – Downside surprises mean greater budgetary pressures
Questions?

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