



September 2019 | Legislative Council Staff  
**Economic & Revenue Forecast**

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Presentation to the Joint Budget Committee

September 20, 2019

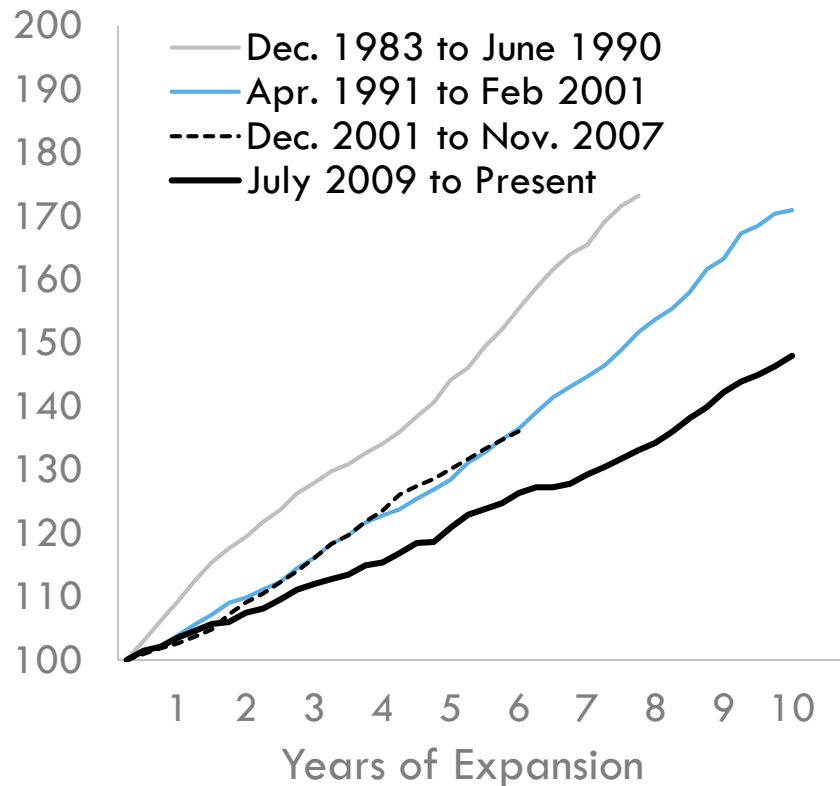
# Economic Outlook



# Longest, and weakest, expansion on record

## Index of GDP Growth During Expansions

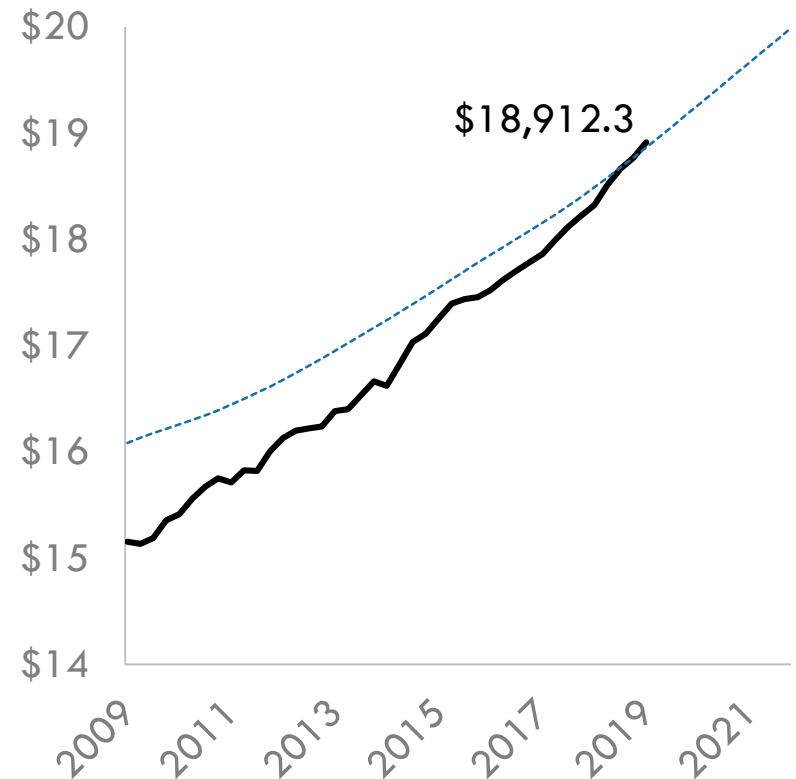
100 = Start of expansion



Source: U.S. Bureau of Economic Analysis.

## Real vs. Potential GDP

Trillions of dollars

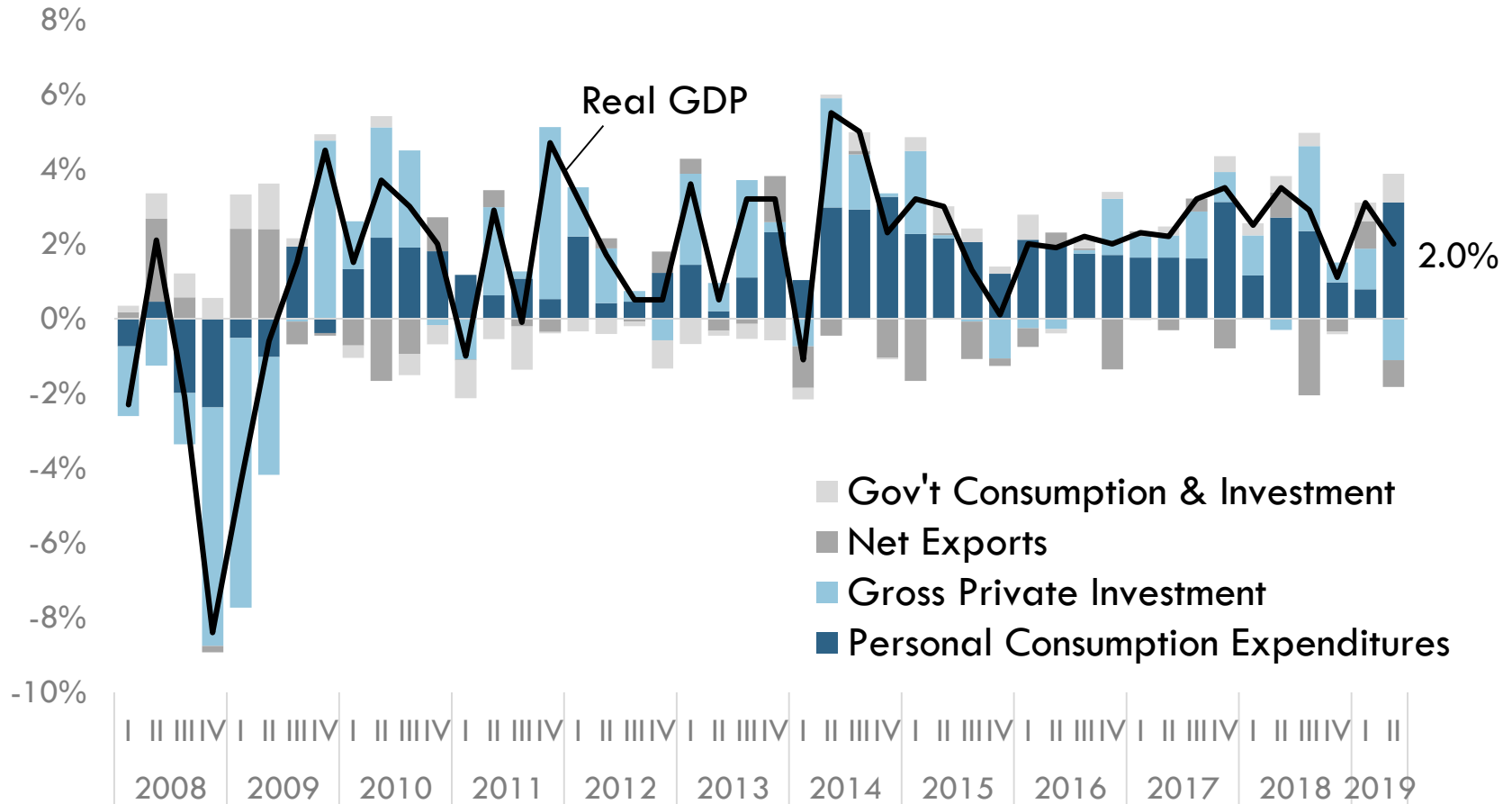


Source: U.S. Bureau of Economic Analysis and Congressional Budget Office.

# Consumers still hitting the gas, while businesses hit the brakes

## Contributions to Real Gross Domestic Product (GDP)

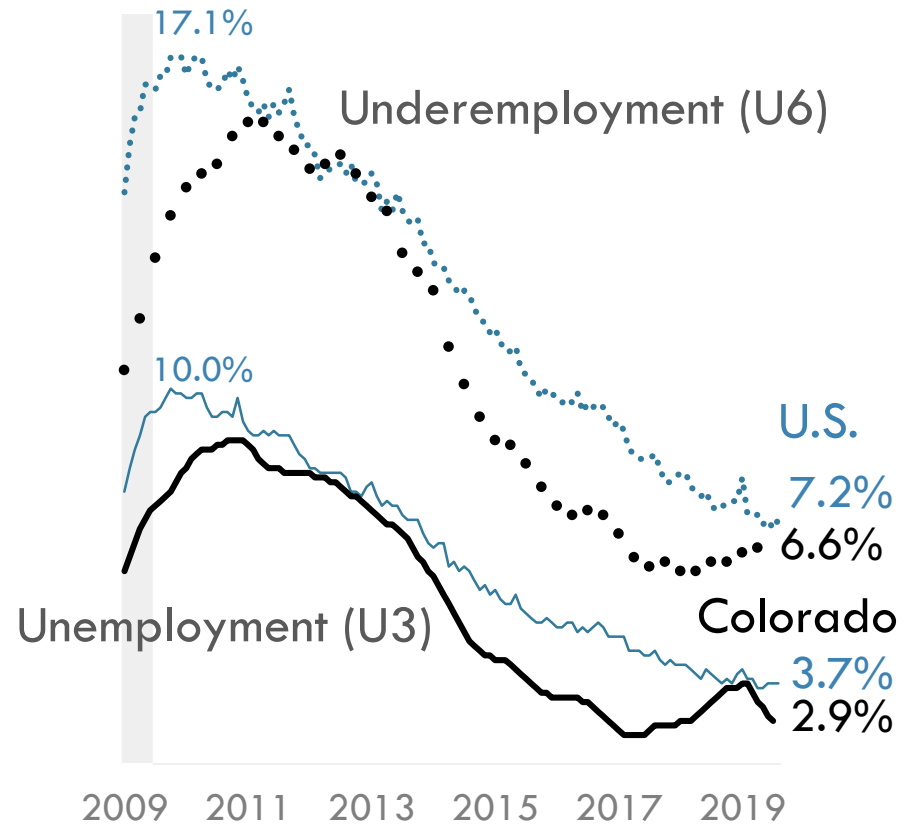
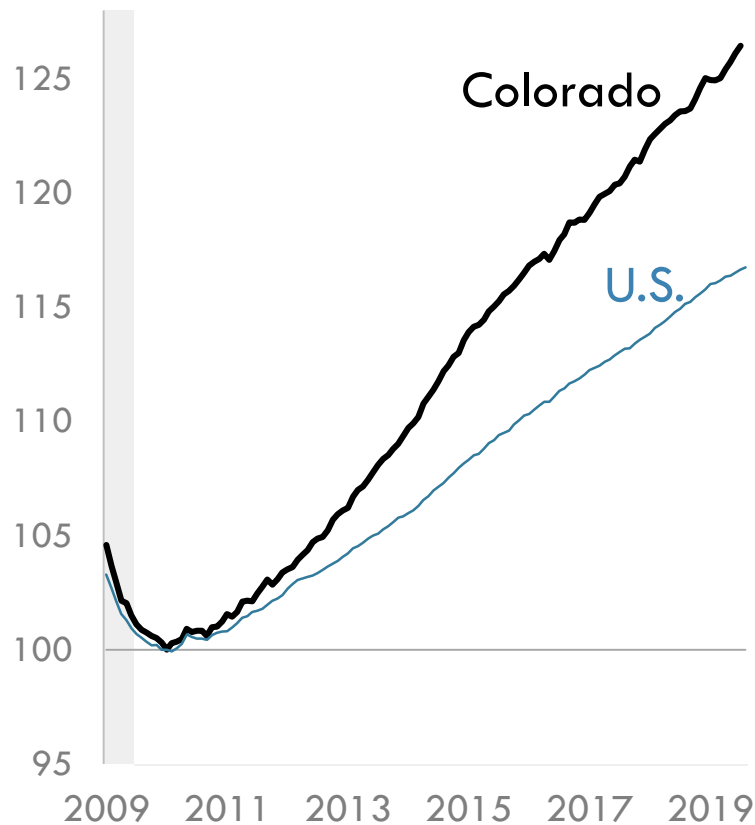
*Annualize Change over the Prior Quarter*



# Employment growth remains strong, pressuring labor markets

## Total Nonfarm Employment

Index 100 = January 2010

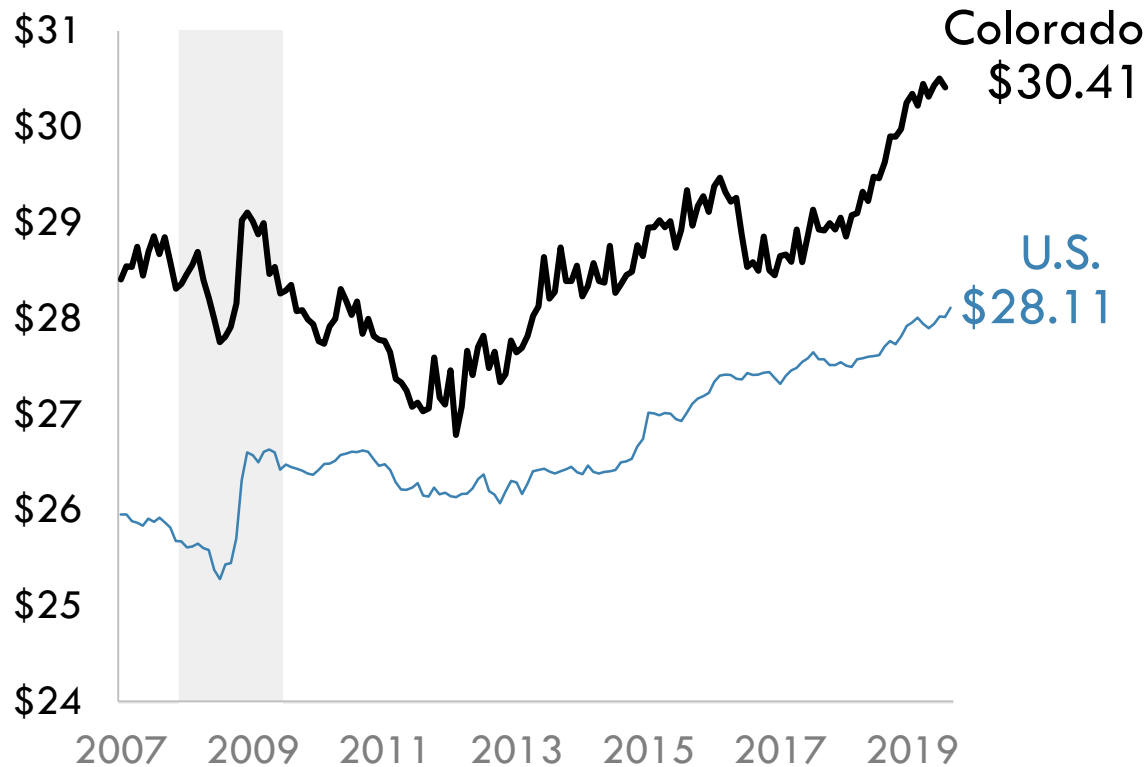


Source: U.S. Bureau of Labor Statistics. Seasonally adjusted. Colorado U6 rates shown as four-month moving averages.

Nonfarm employment estimates include estimates of revisions expected by LCS as a part of the annual rebenchmark process.

# And pushing wages higher

## Real Average Hourly Earnings 2019 Dollars

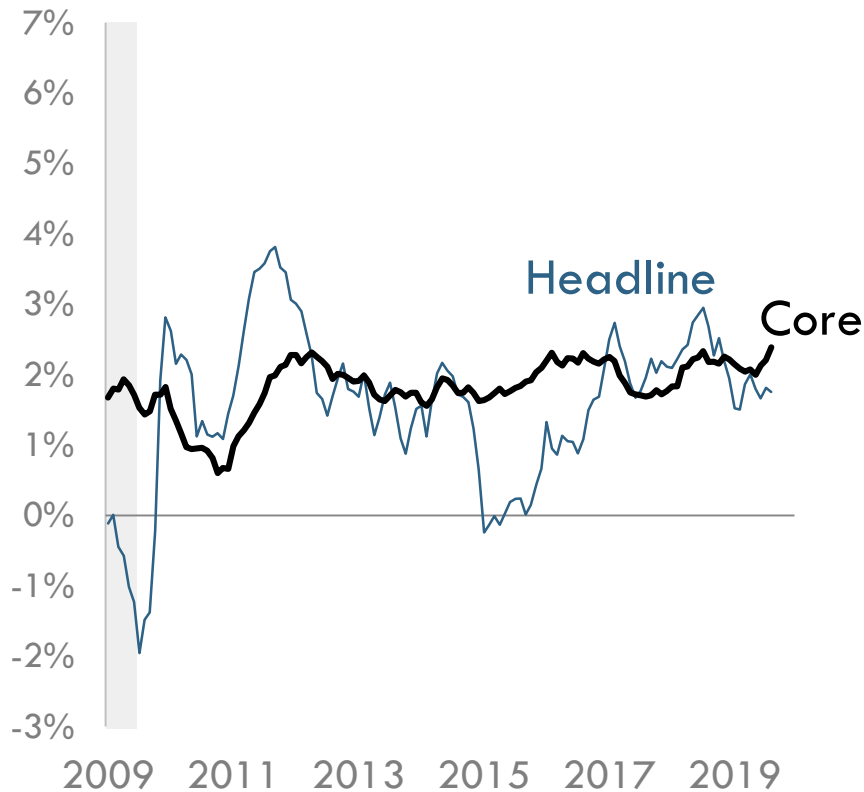


Source: U.S. Bureau of Labor Statistics. Seasonally adjusted. Adjusted for inflation using the CPI-U for all urban areas.

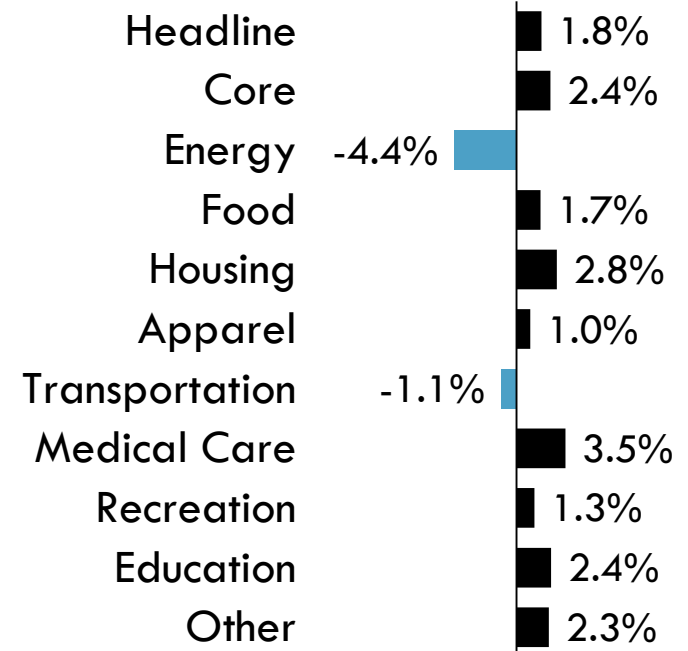
# Inflation is slowly picking up speed

## CPI-U Inflation, U.S. City Average

Year-over-Year Change in Prices



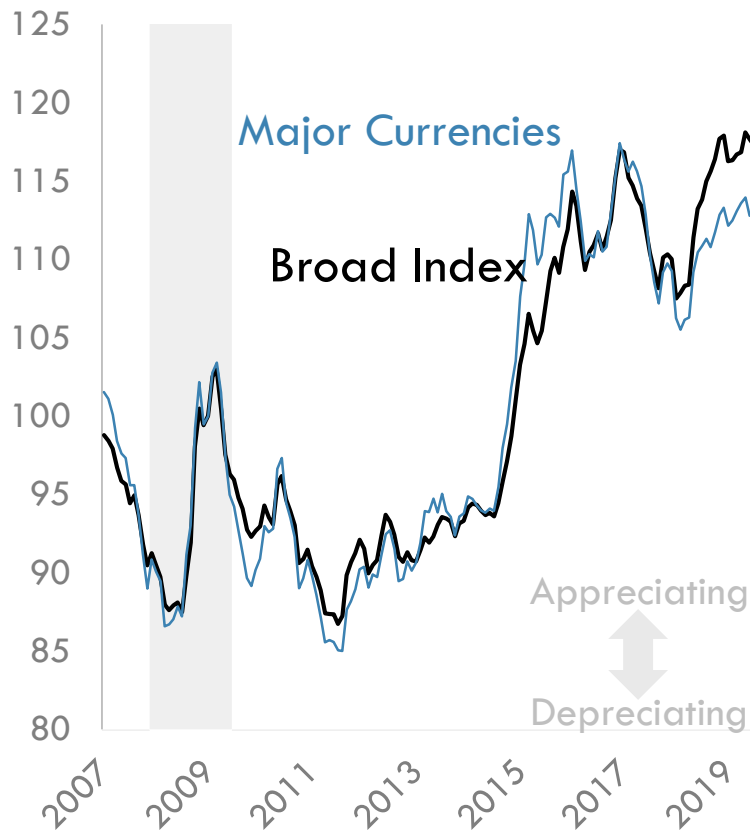
## August 2019 over August 2018



# A strong dollar helps consumers, hurts exporters

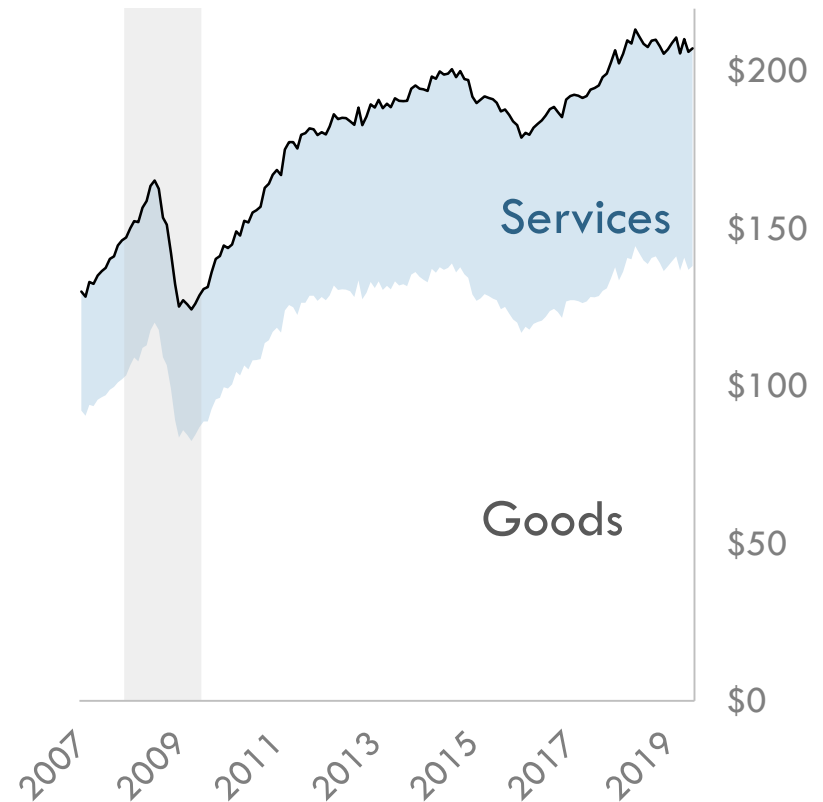
## Trade Weighted U.S. Dollar

*Index of the Dollar to Foreign Currencies*



## U.S. Exports

*Millions of Dollars*

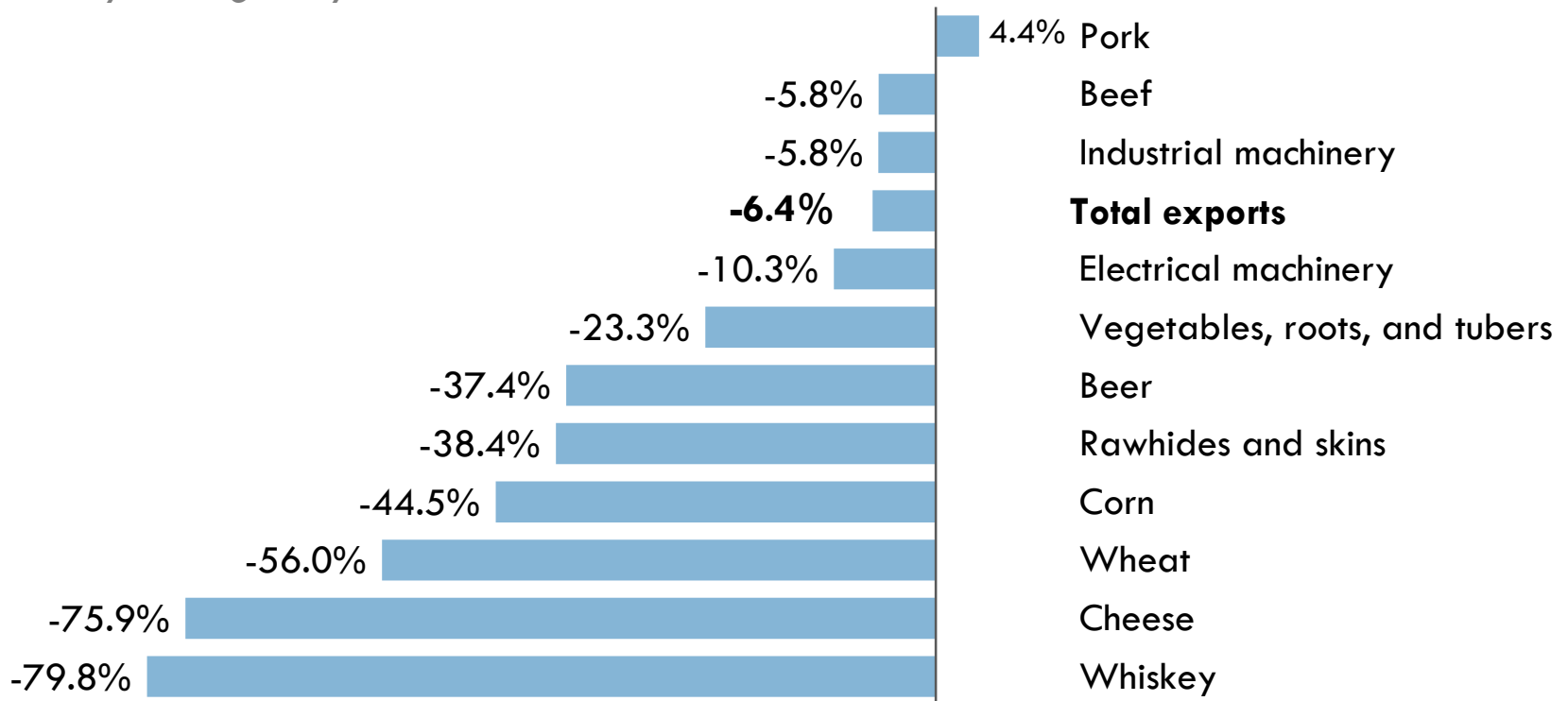




# Tariffs are hurting some Colorado exports

## Change in Colorado Exports

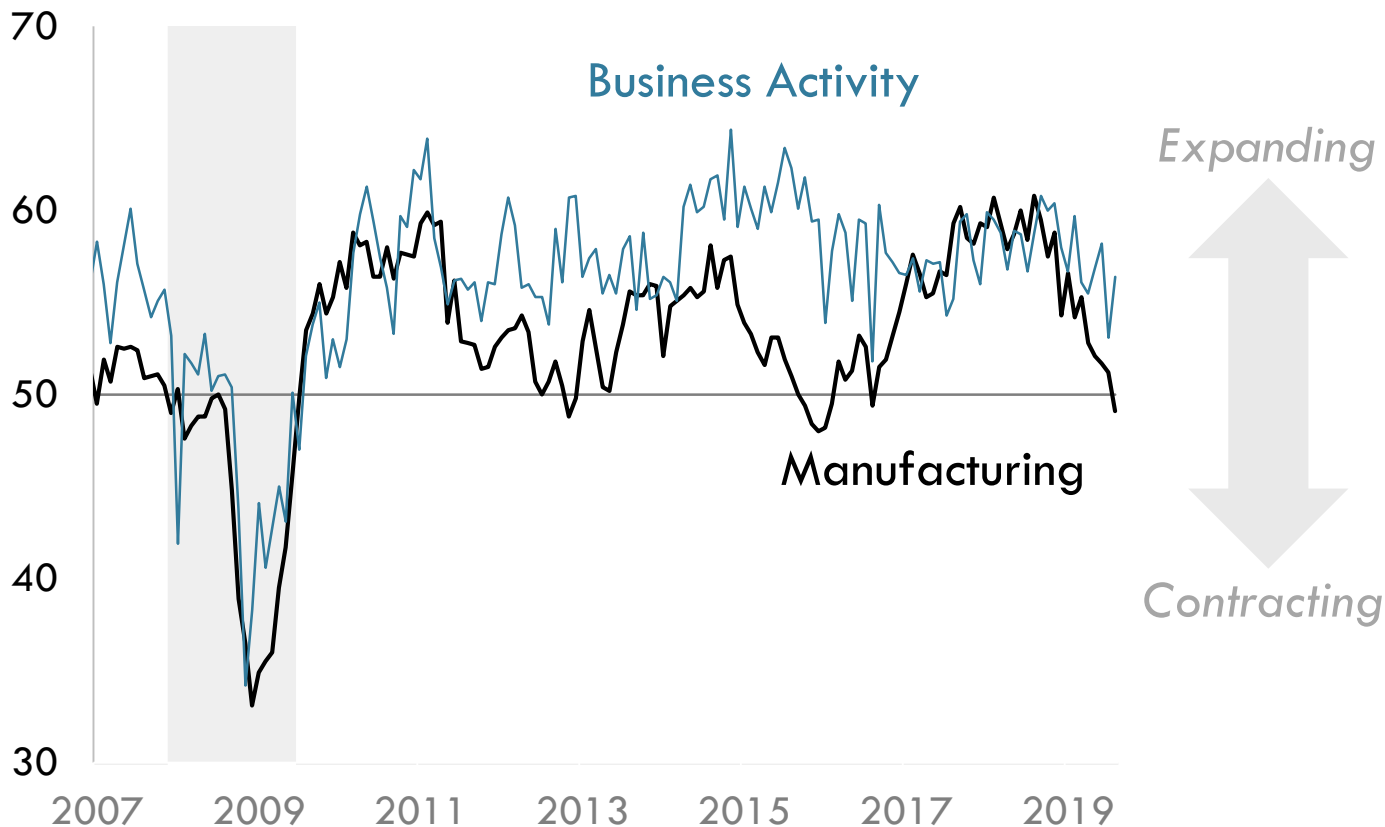
Year-over-Year Change,  
January through July 2019



# Manufacturing activity contracted in August

Institute for Supply Management Indices

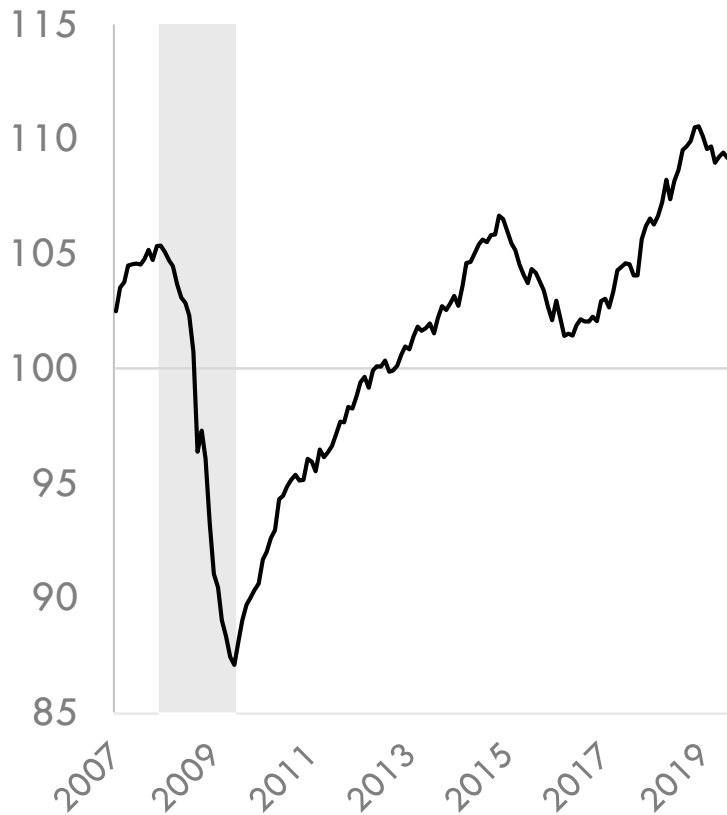
*Diffusion Index*



# Industrial production and new orders have slowed

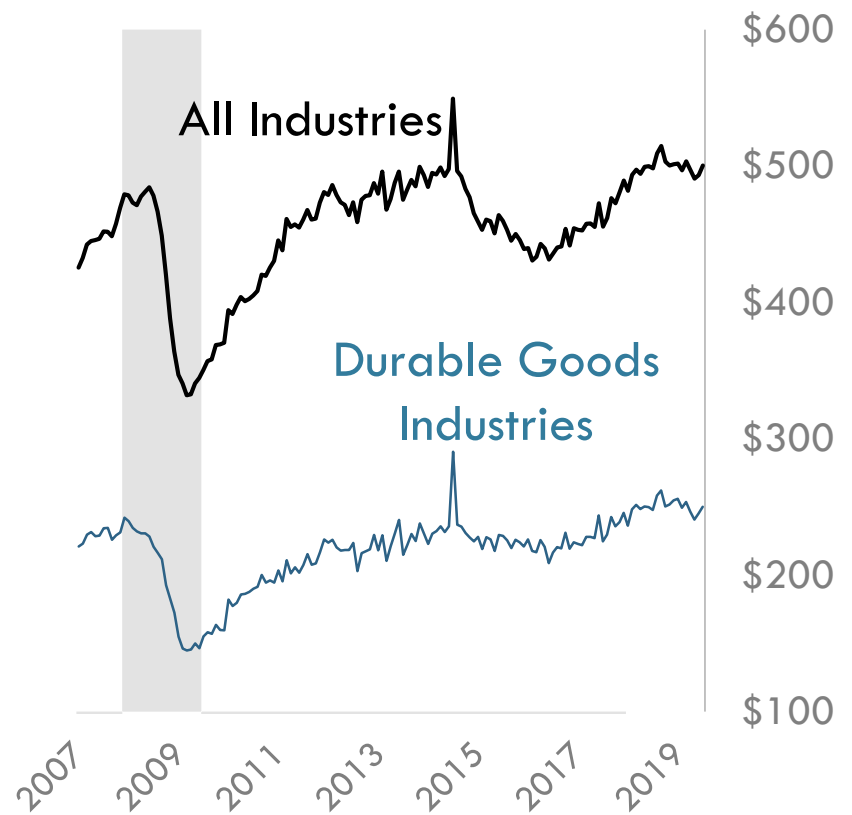
## Industrial Production Index

*Index 2007 = 100*



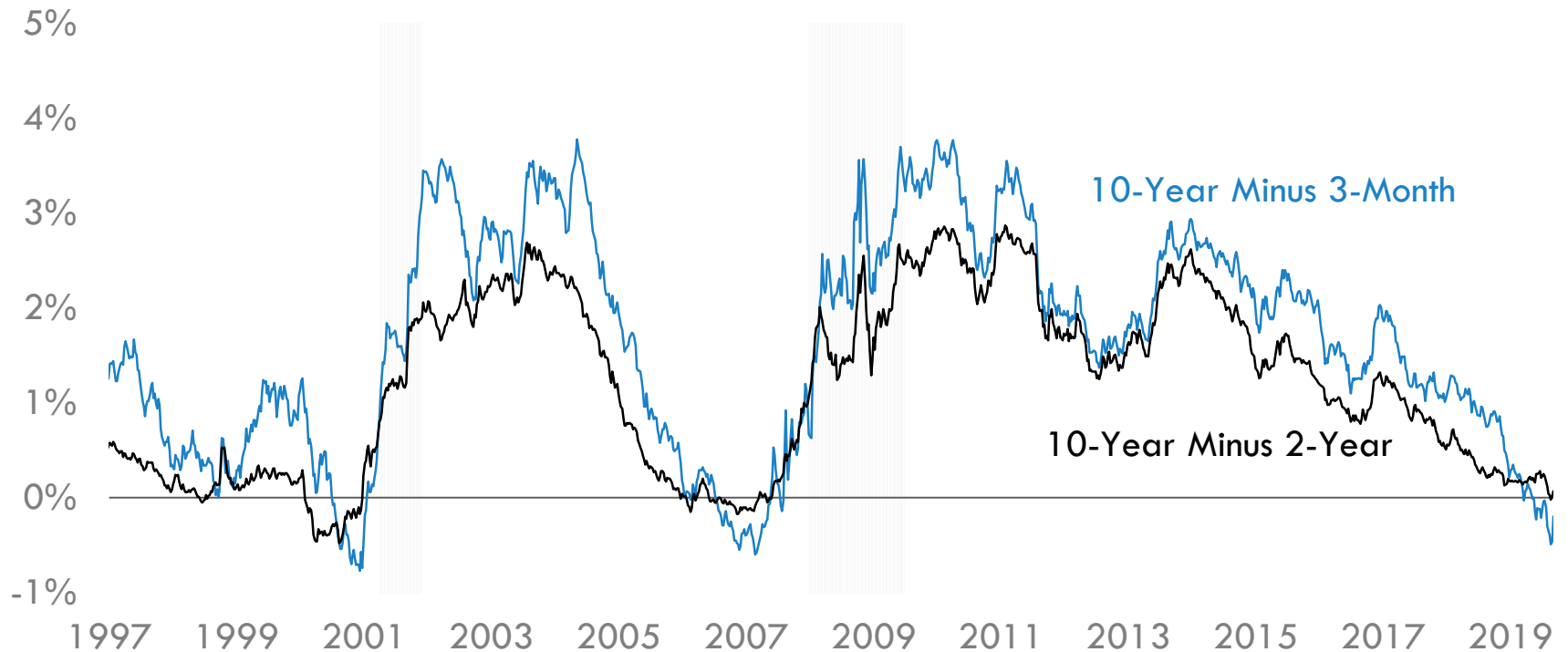
## New Manufacturers' Orders

*Billions of Dollars*



# Yield curves have inverted

*Spread in U.S. Treasury Yields*

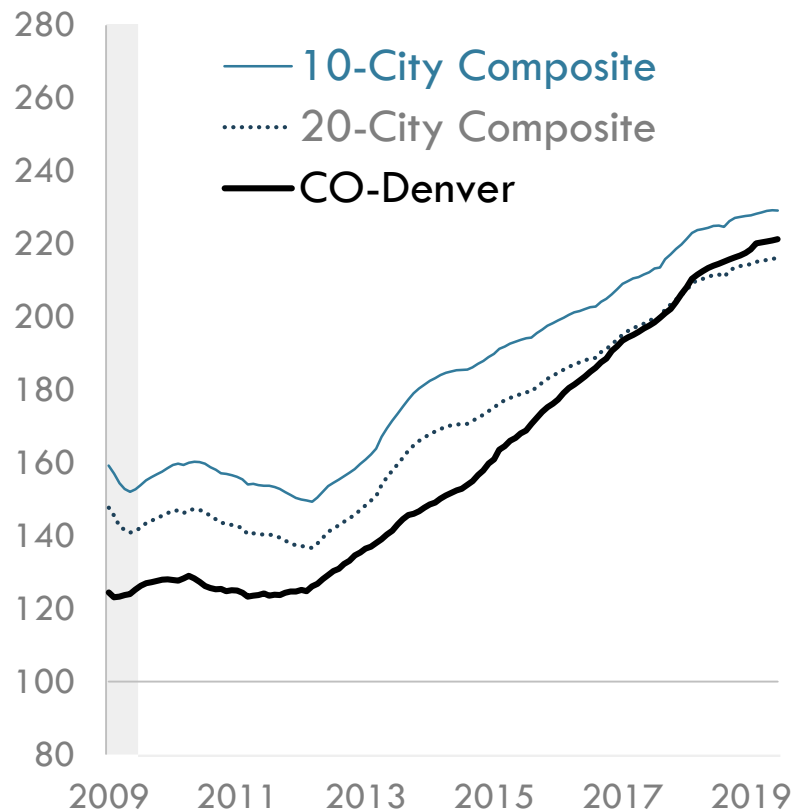


Source: Federal Reserve Bank of St. Louis.

# Colorado's housing markets are evening out

## Case-Shiller Home Price Indices

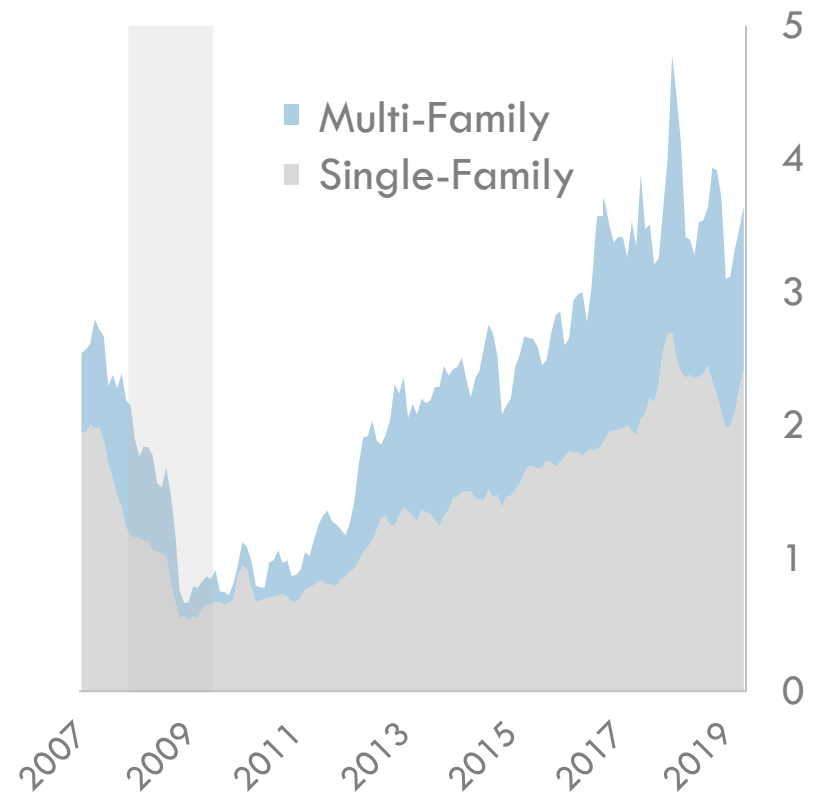
*Index 100 = January 2000*



Source: S&P Dow Jones Indices, LLC.

## Colorado Housing Permits

*Thousands of Units*

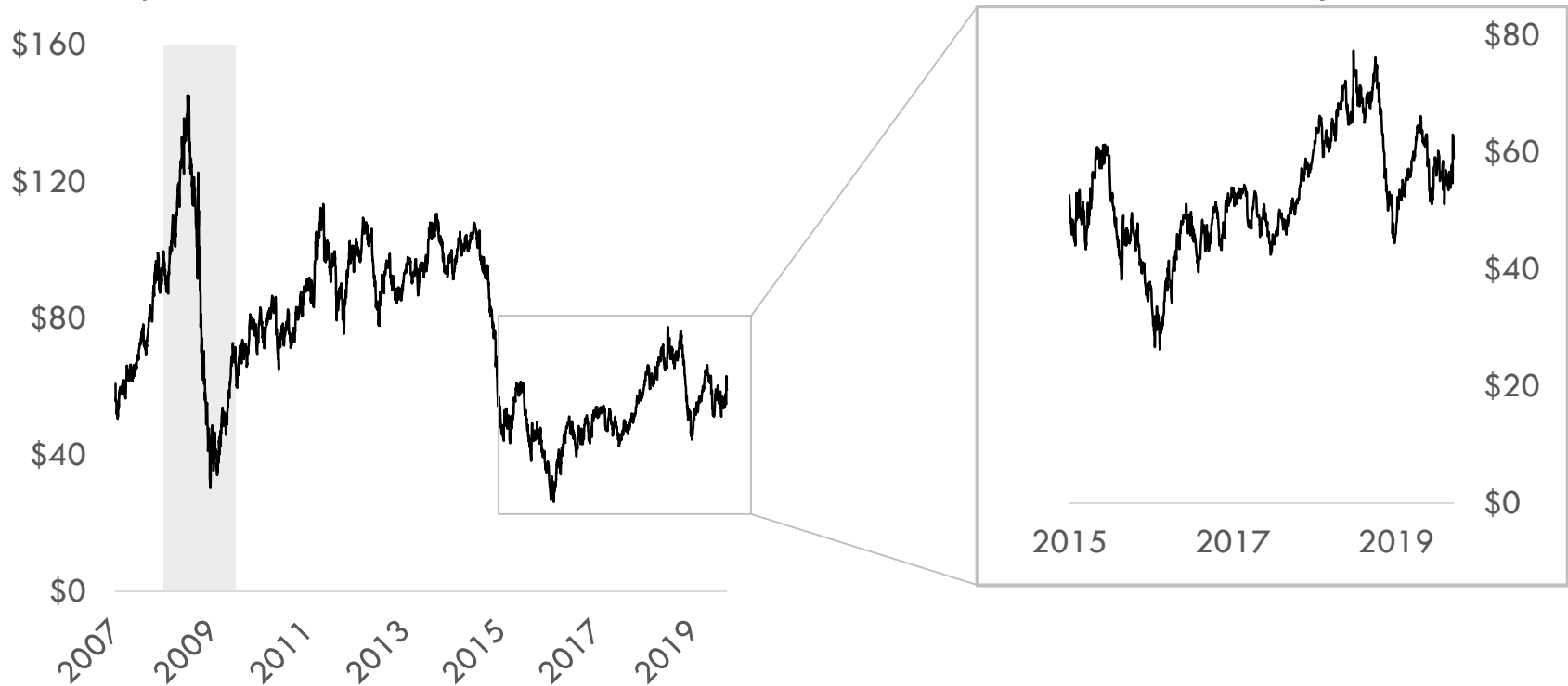


Source: U.S. Census Bureau. Seasonally adjusted three-month moving averages.

# Oil prices settled down after the September 14 spike

## West Texas Intermediate Crude Oil Price

*Dollars per Barrel*



# 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

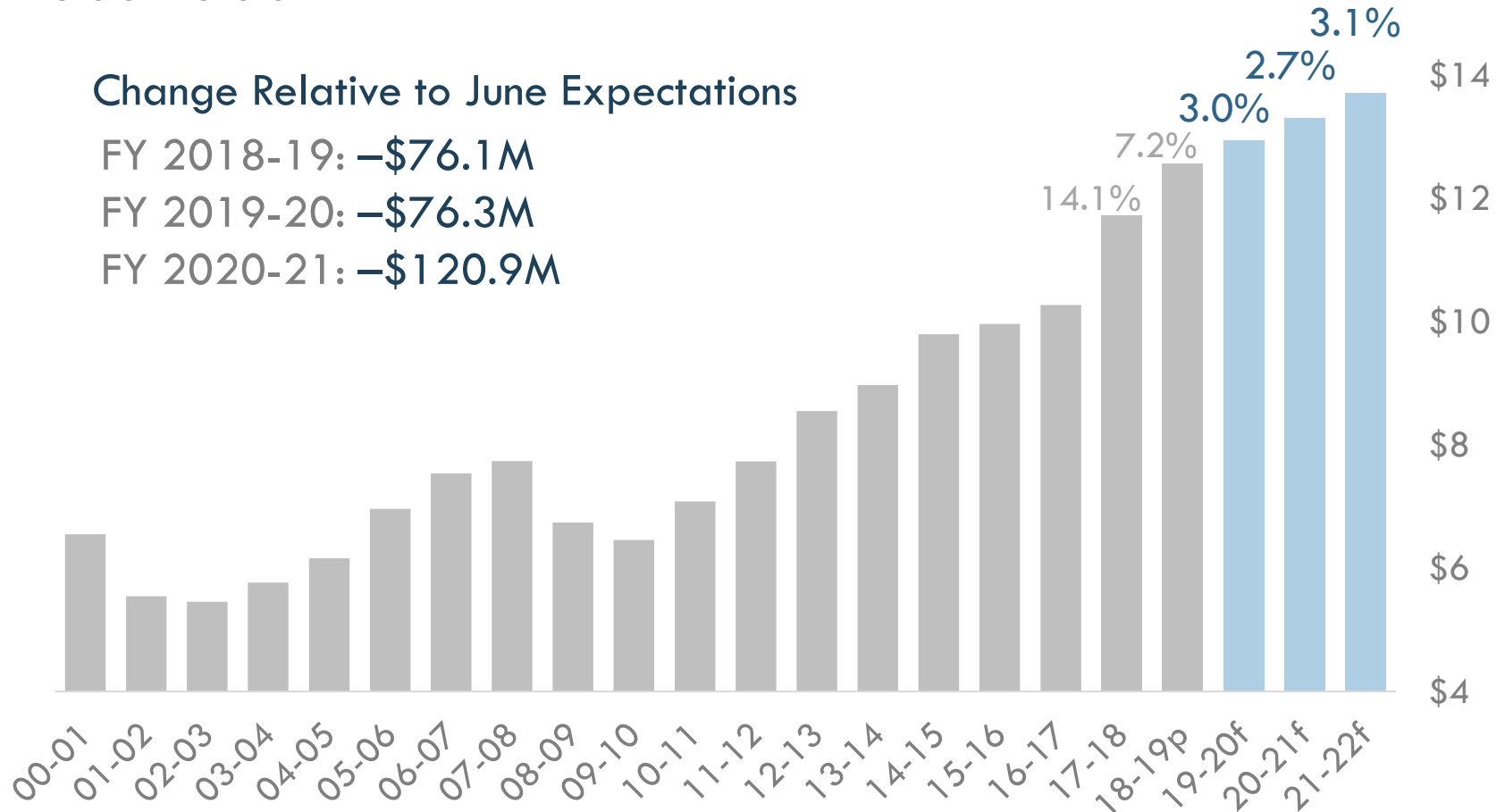
Year-over-Year  
Growth

## Change Relative to June Expectations

FY 2018-19:  $-\$76.1M$

FY 2019-20:  $-\$76.3M$

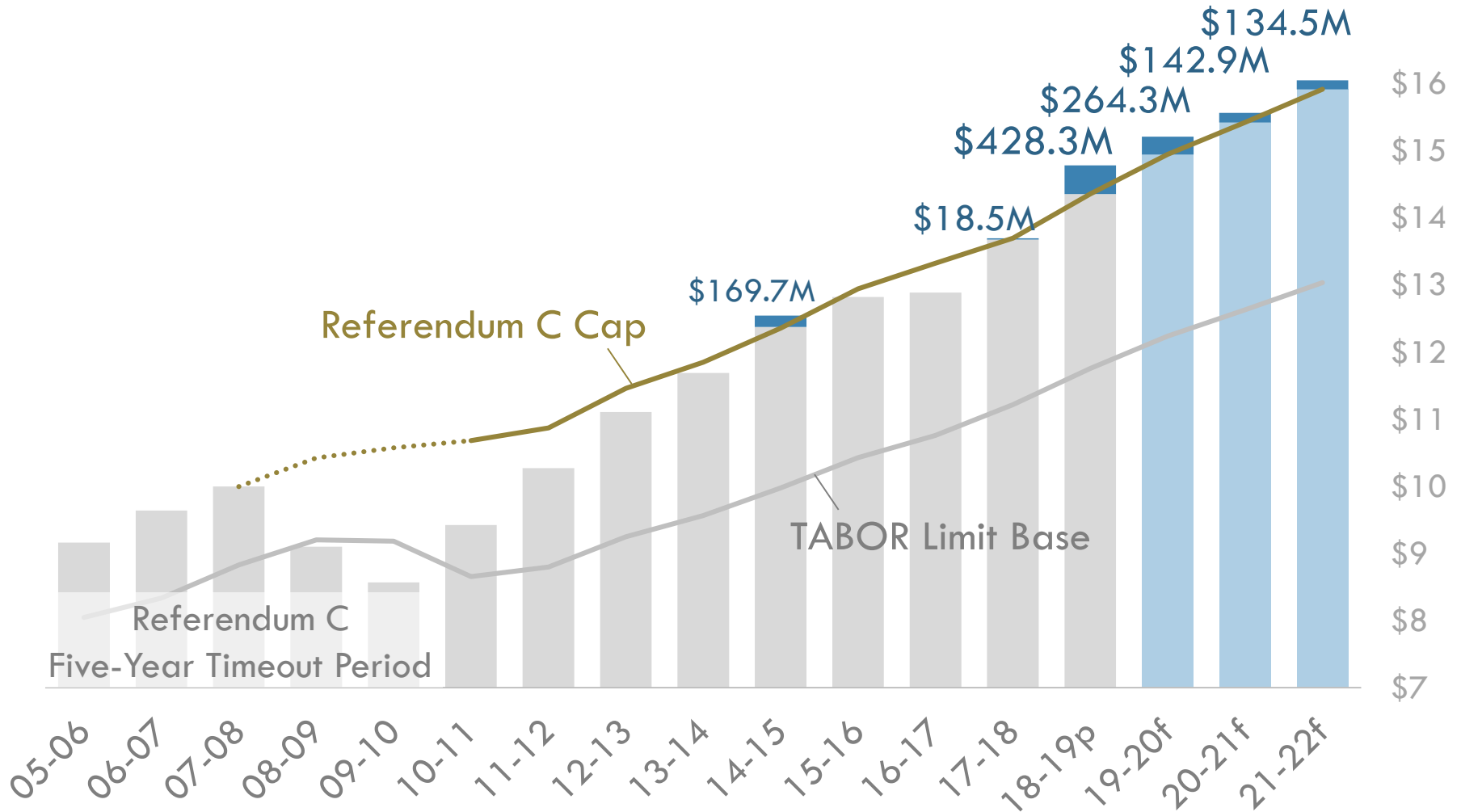
FY 2020-21:  $-\$120.9M$



# TABOR Outlook

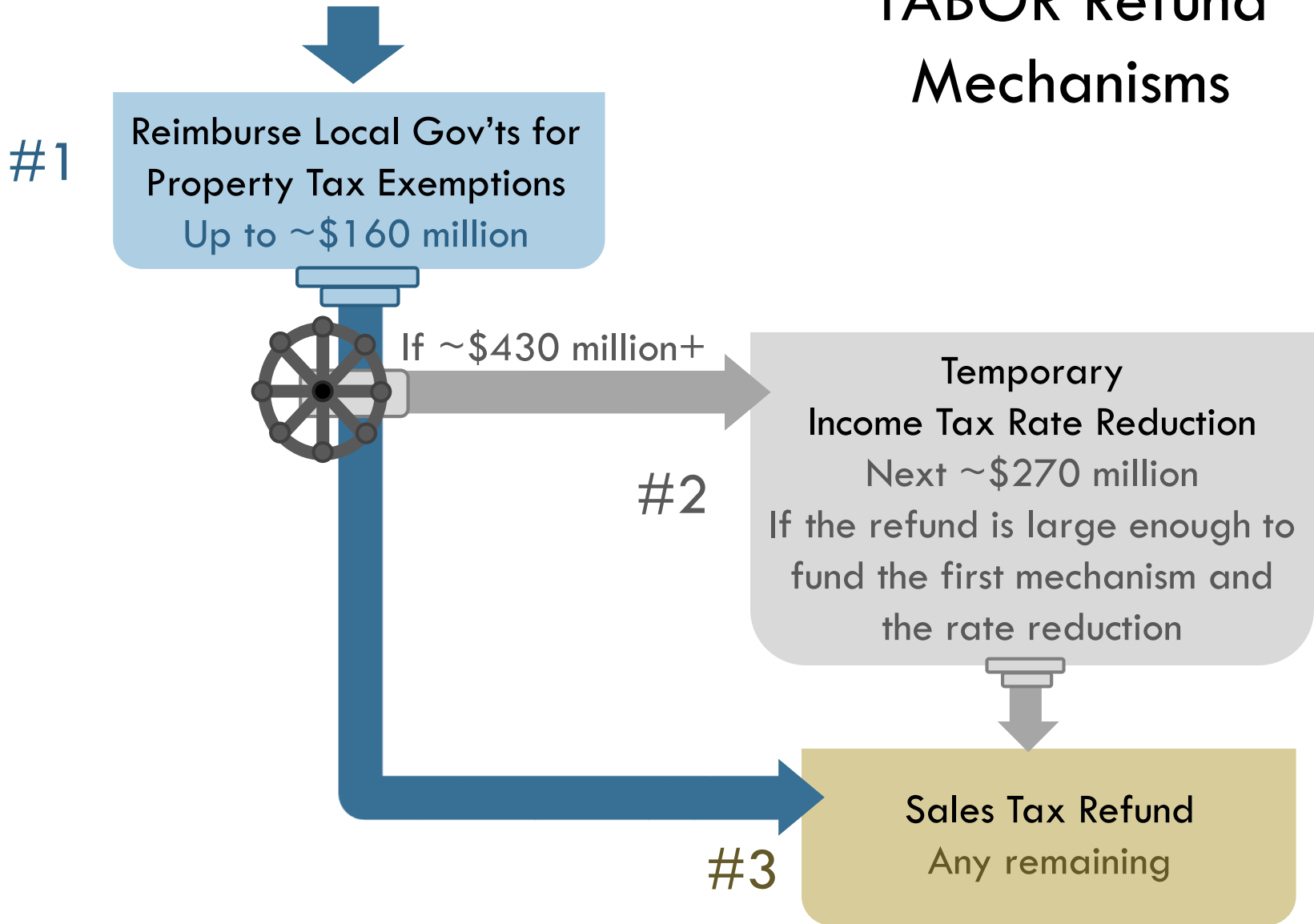
Revenue Subject to TABOR

Dollars in Billions



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

# TABOR Refund Obligation

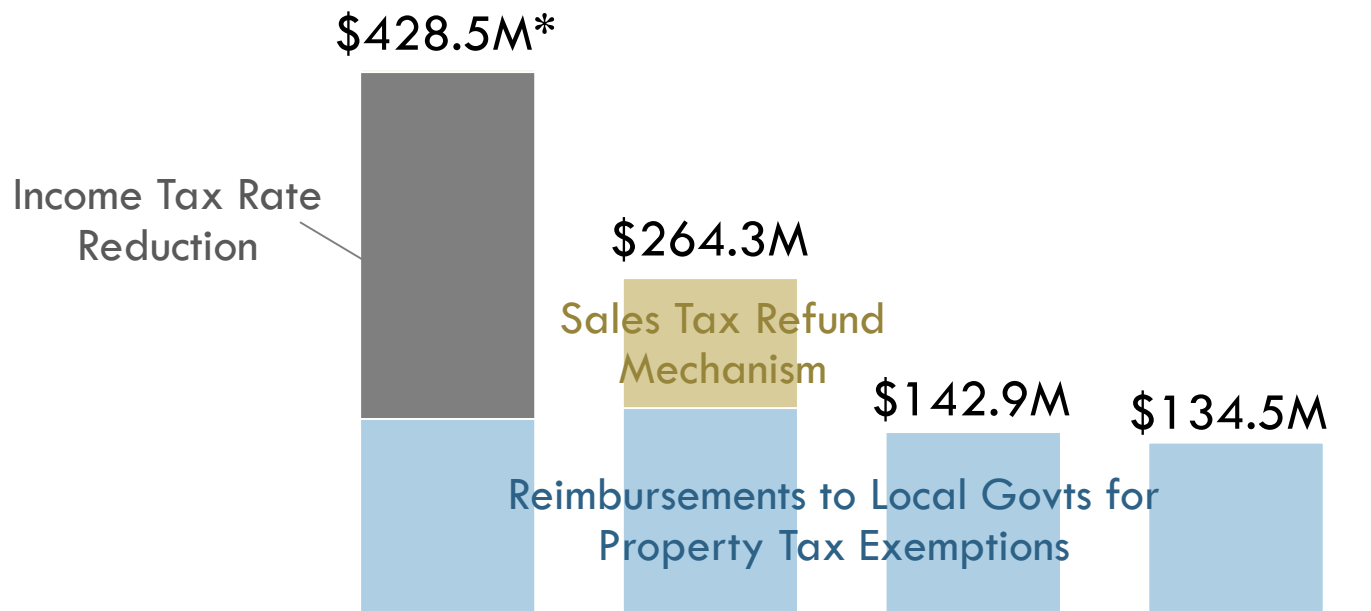


# TABOR Refund Mechanisms

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



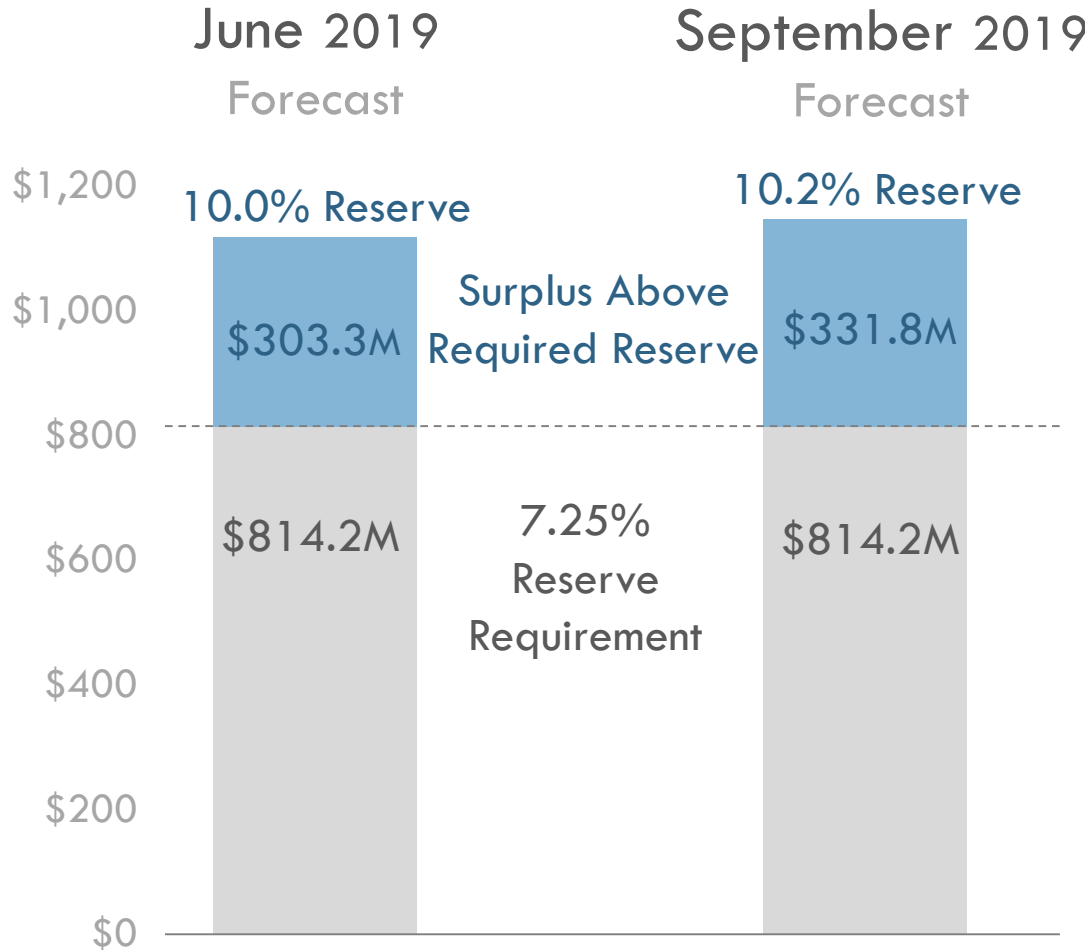
TABOR Surplus & Set Aside:	2018-19	2019-20	2020-21	2021-22
Refunded in Fiscal Year:	2019-20	2020-21	2021-22	2022-23

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



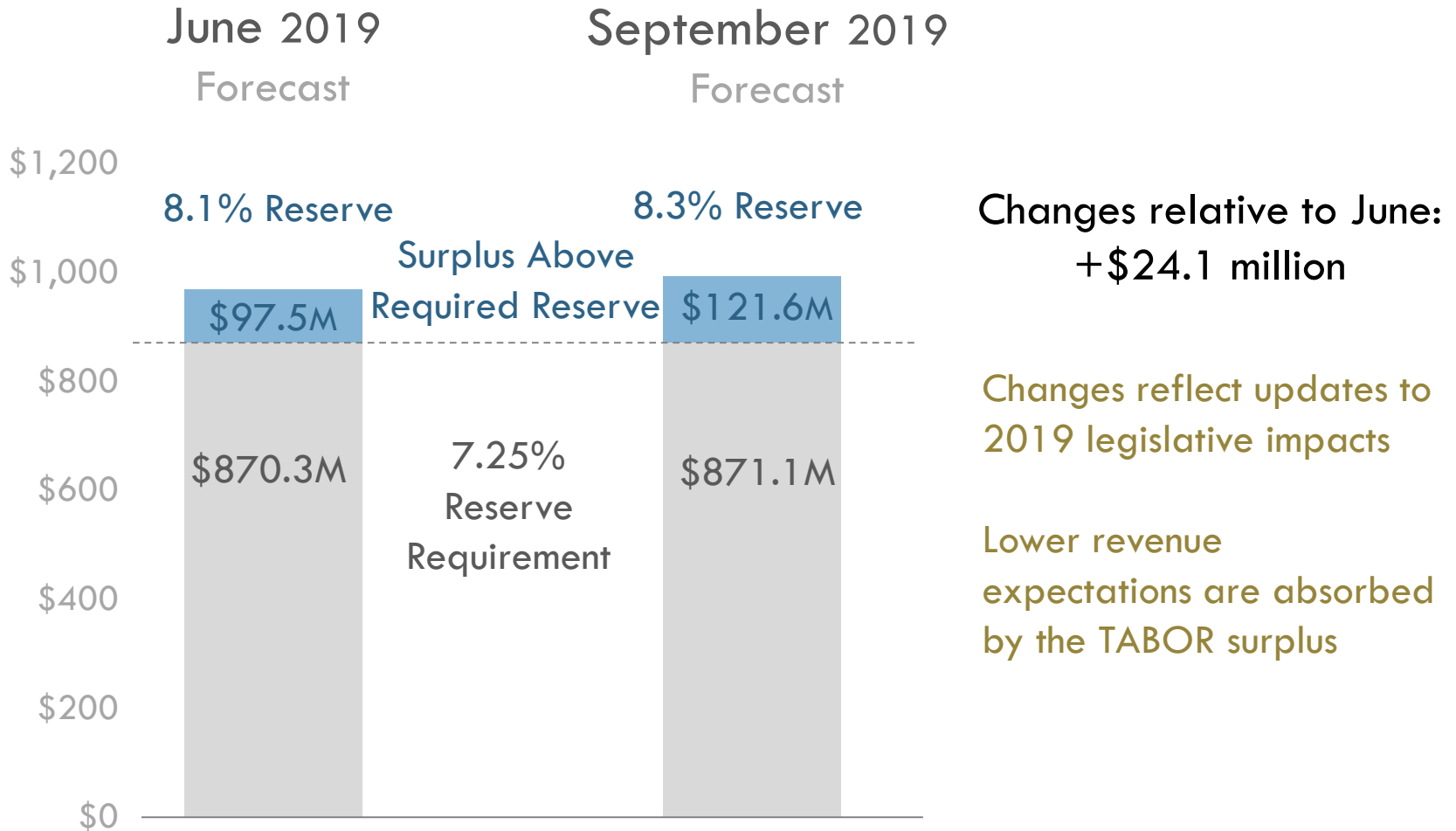
Changes relative to June:  
+\$28.5 million

Changes reflect updates to  
2019 legislative impacts

Lower revenue  
expectations are absorbed  
by the TABOR surplus

# Current Year | FY 2019-20 General Fund Reserve

Dollars in Millions





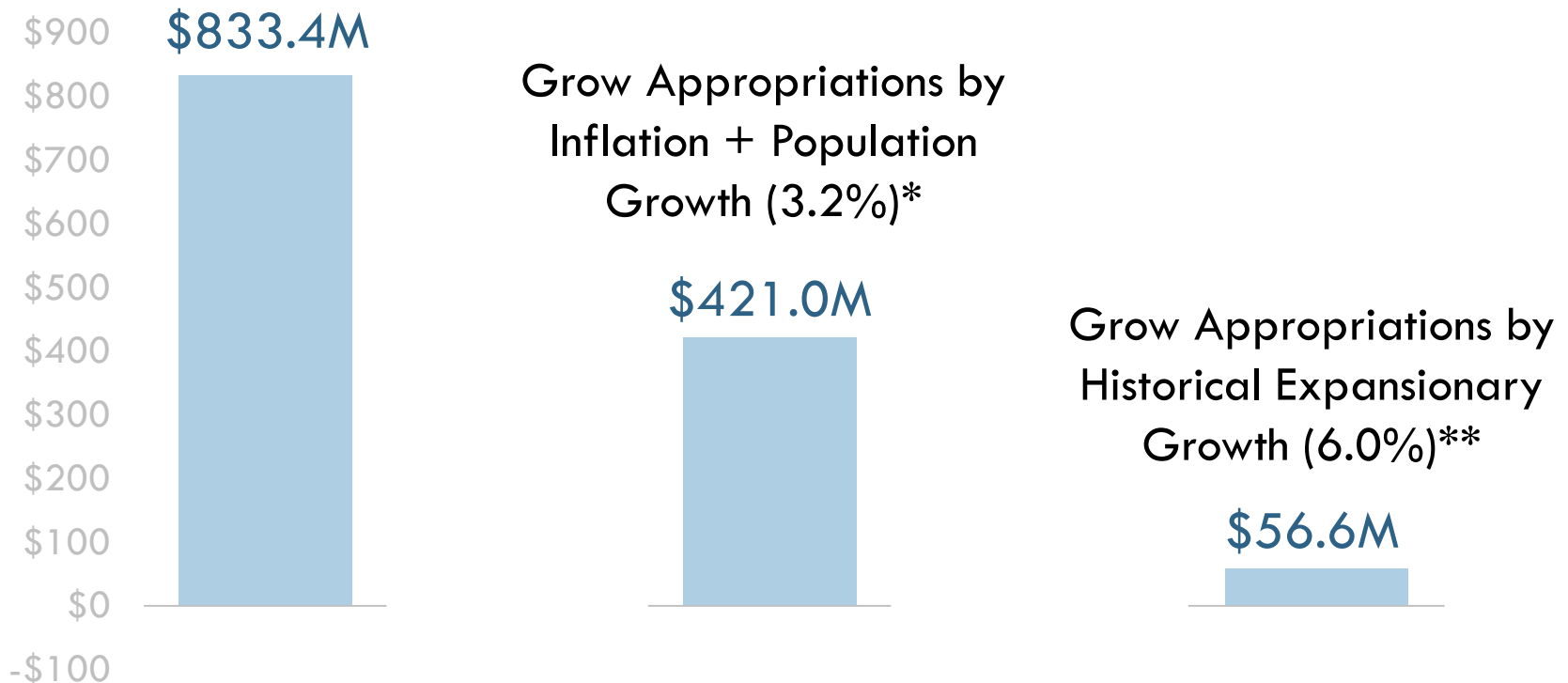
# Next Year | FY 2020-21 Budget Outlook Scenarios

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

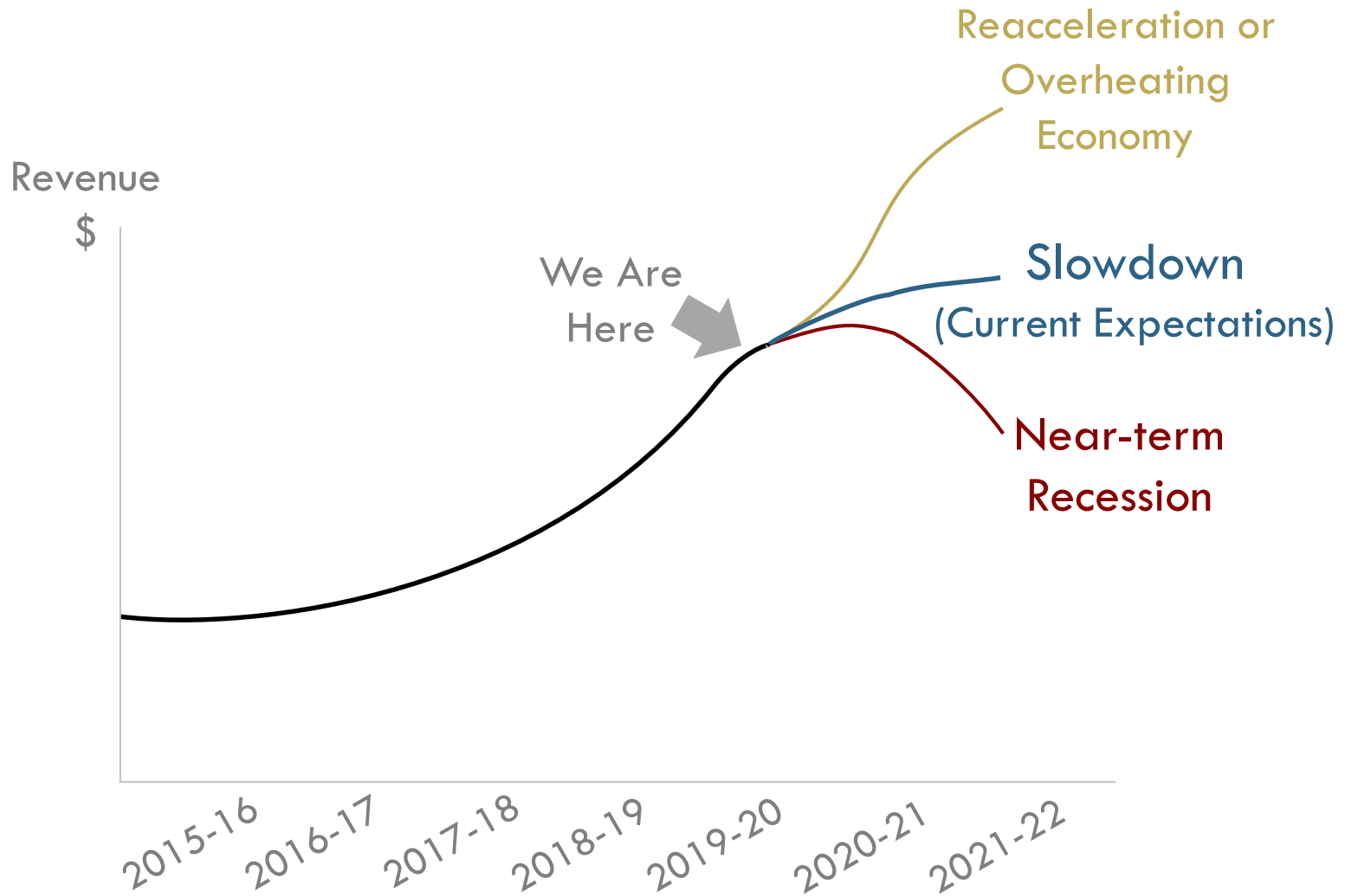
Appropriations Constant



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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