



September 2020 | Legislative Council Staff  
**Economic & Revenue Forecast**

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Presentation to the Joint Budget Committee

September 18, 2020

# Economic Outlook



# Second quarter plunge in U.S. economic activity was the worst on record

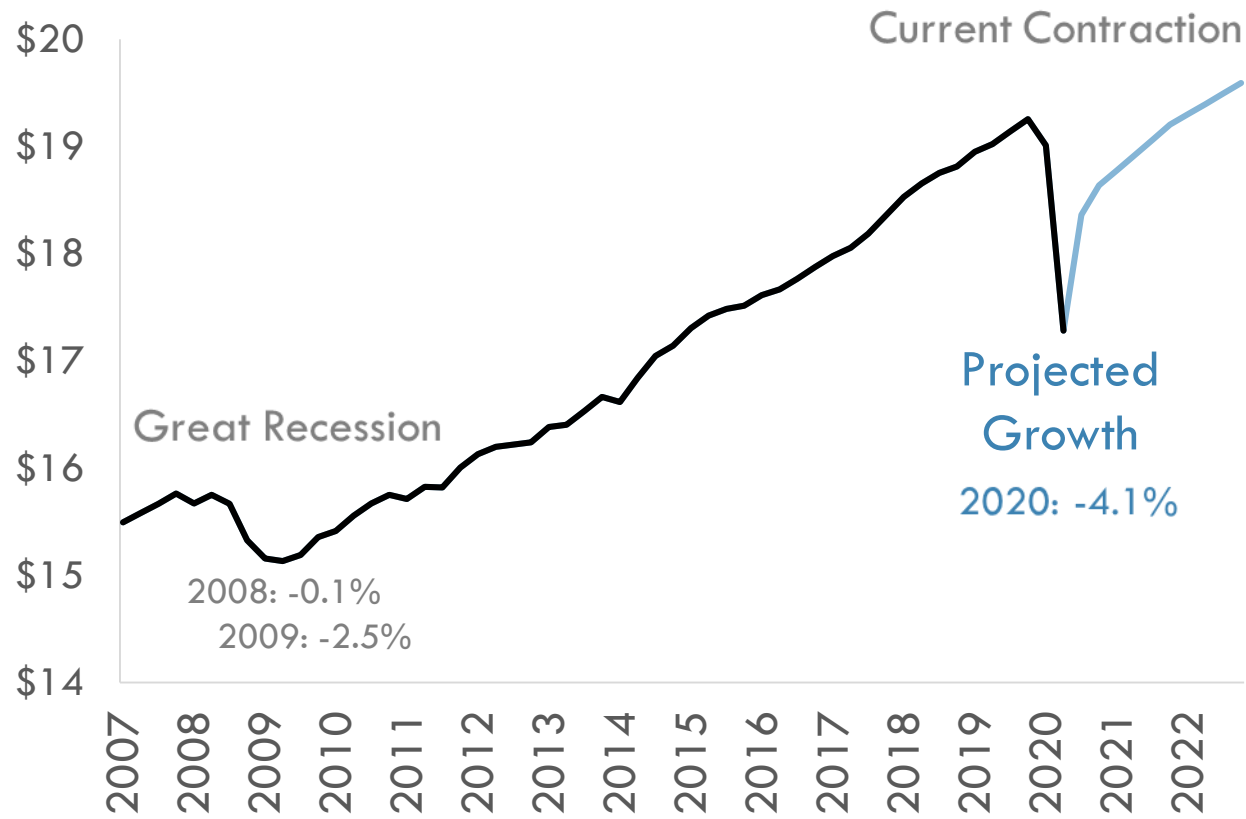
Contributions to Real U.S. Gross Domestic Product (GDP)



# Shape of Recovery

## Real U.S. Gross Domestic Product

*Dollars in Trillions*

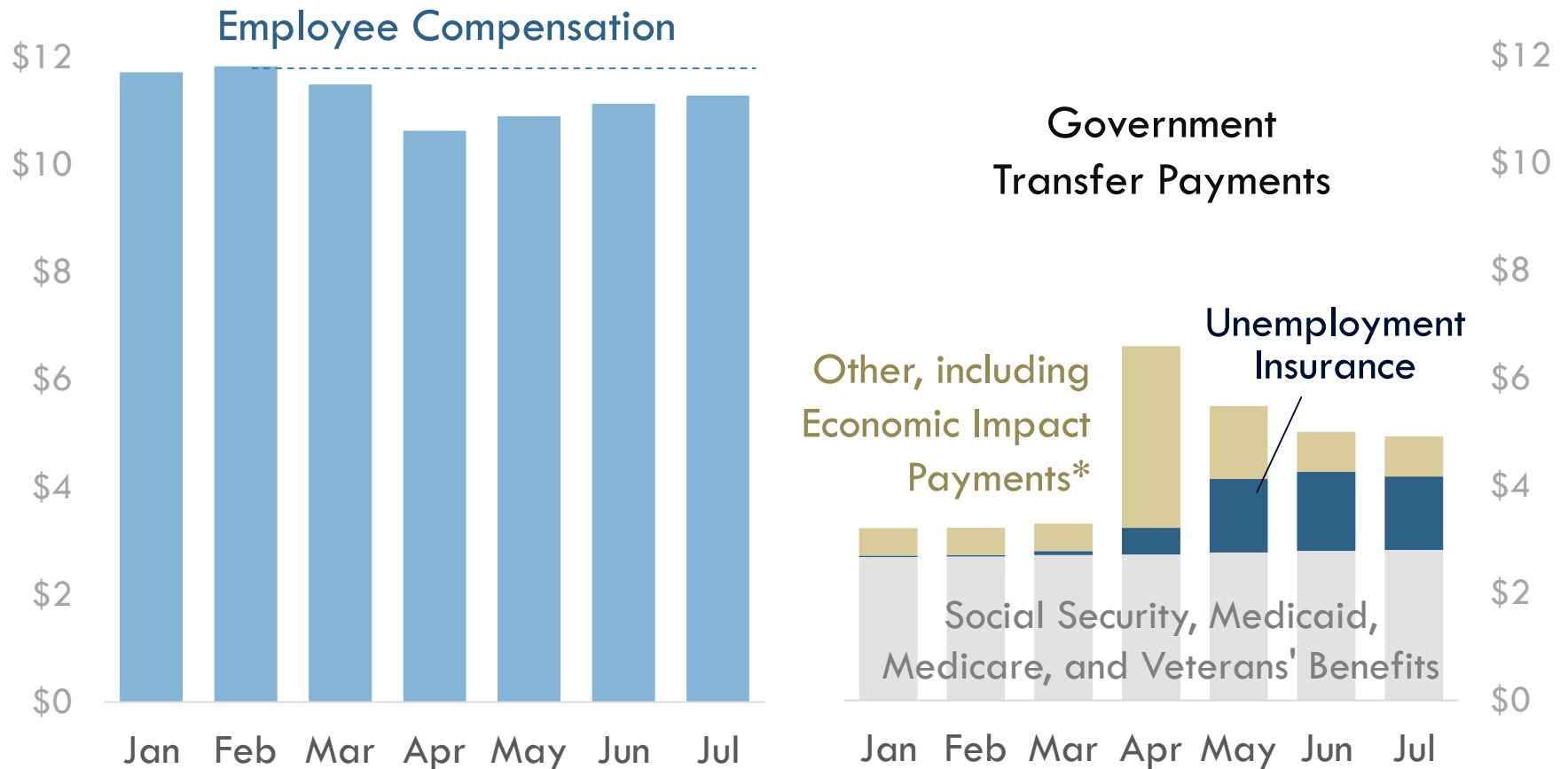


Source: U.S. Bureau of Economic Analysis and Legislative Council Staff September 2020 projections.  
Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.

# Unprecedented federal stimulus has supported economic activity by offsetting wage losses and boosting consumption

## Selected Components of U.S. Personal Income in 2020

*Trillions of Dollars, Seasonally Adjusted Annualized Rates*



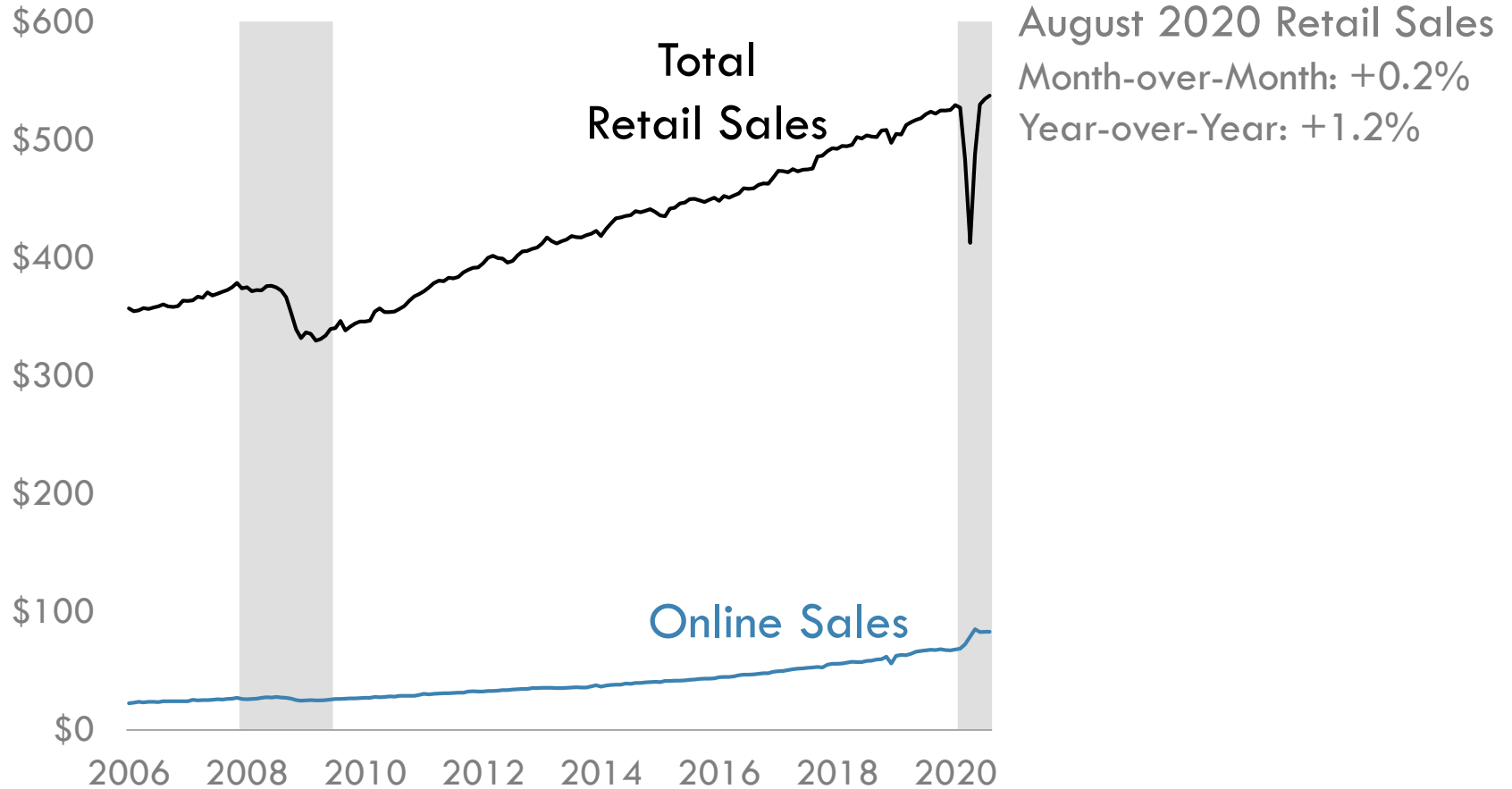
Source: U.S. Bureau of Economic Analysis.

\*Includes direct payments to households under the federal CARES act and other transfer receipts.

# U.S. retail sales exceed pre-pandemic levels

## Monthly U.S. Retail Sales

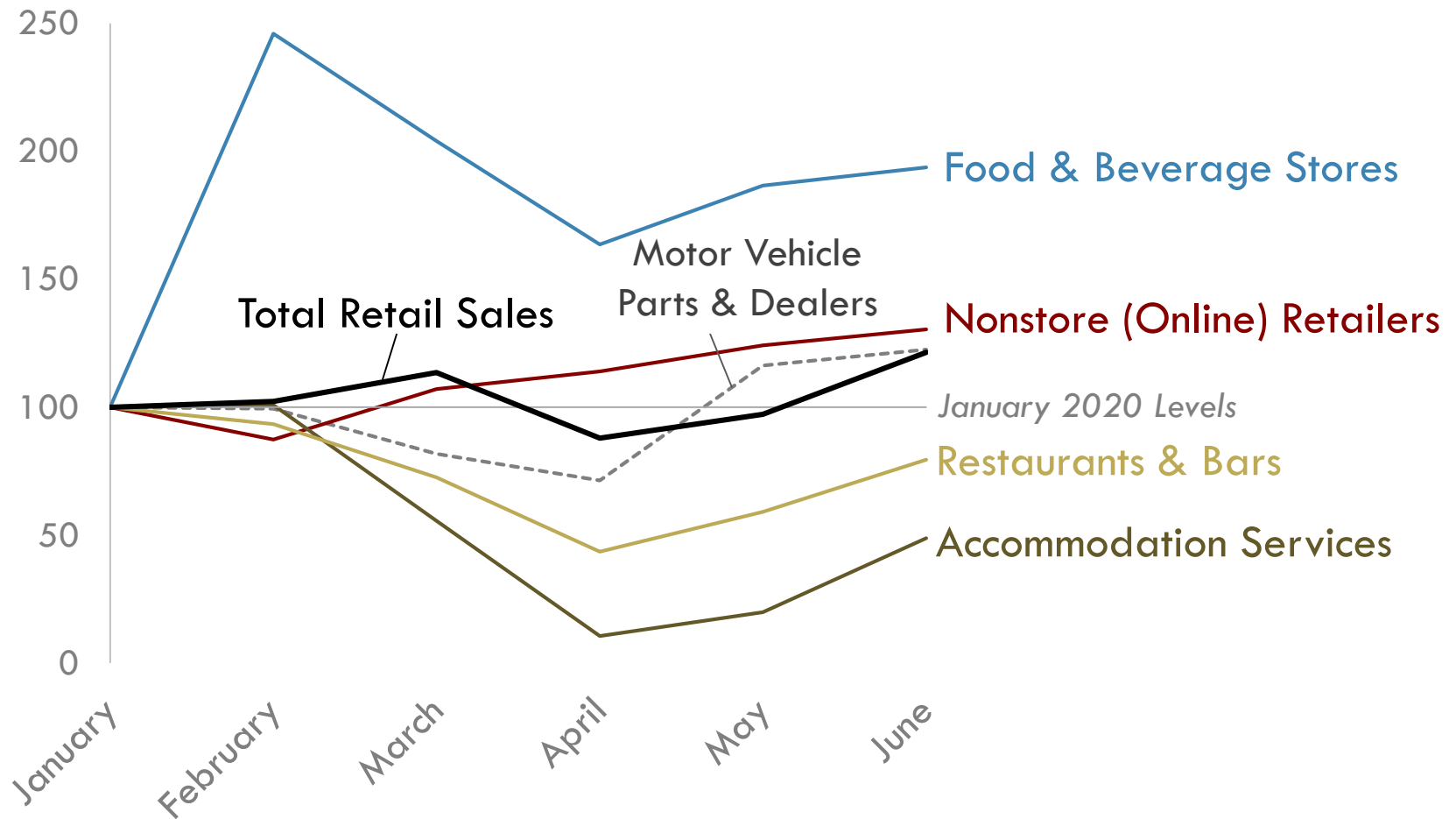
Dollars in Billions



# Tourism-related sectors continue to struggle

## Colorado Retail Sales Relative to January 2020 Levels

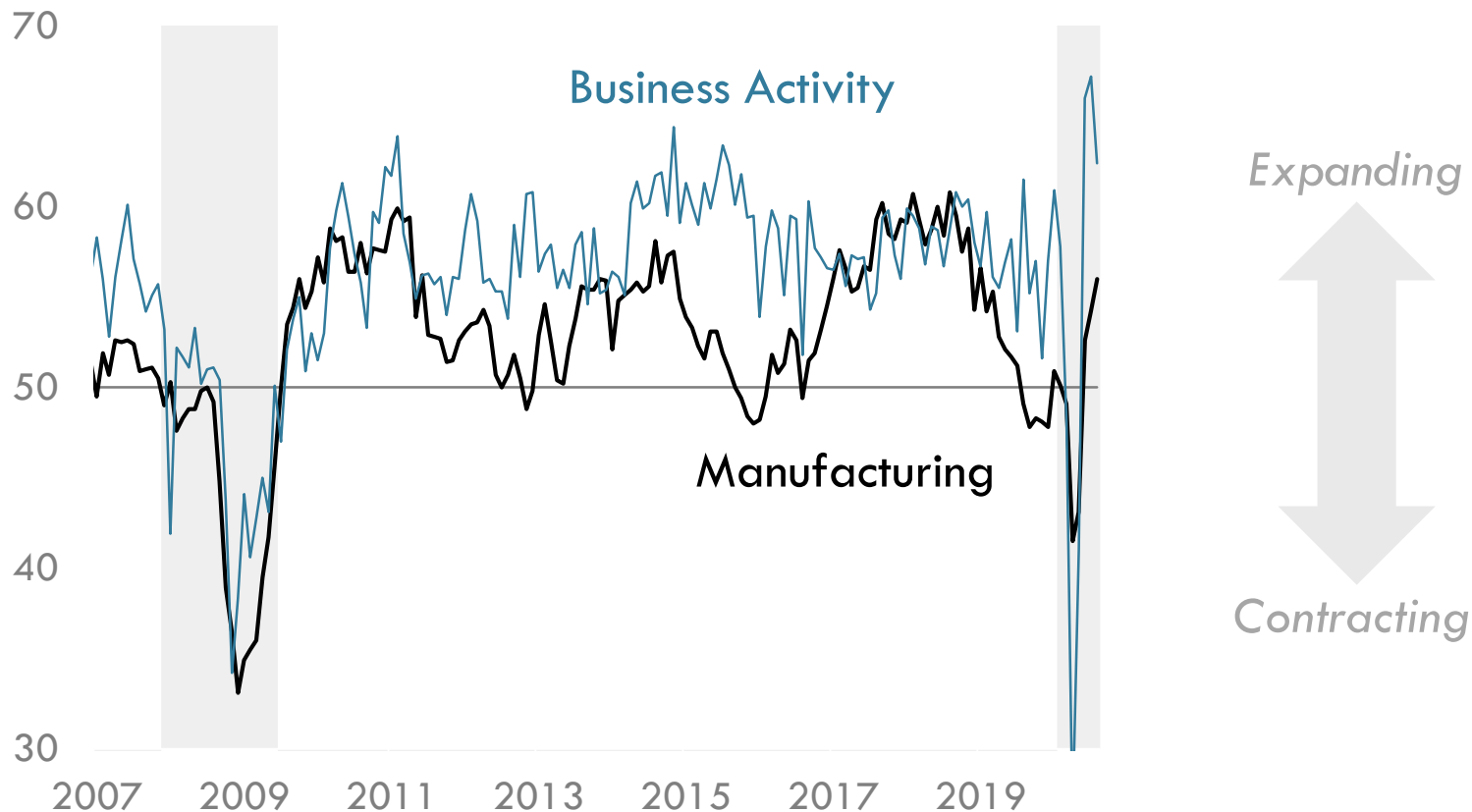
Index January 2020 = 100



Source: Colorado Department of Revenue.

# Manufacturing and business activity return to expansionary territory

Institute for Supply Management Indices  
*Diffusion Index*

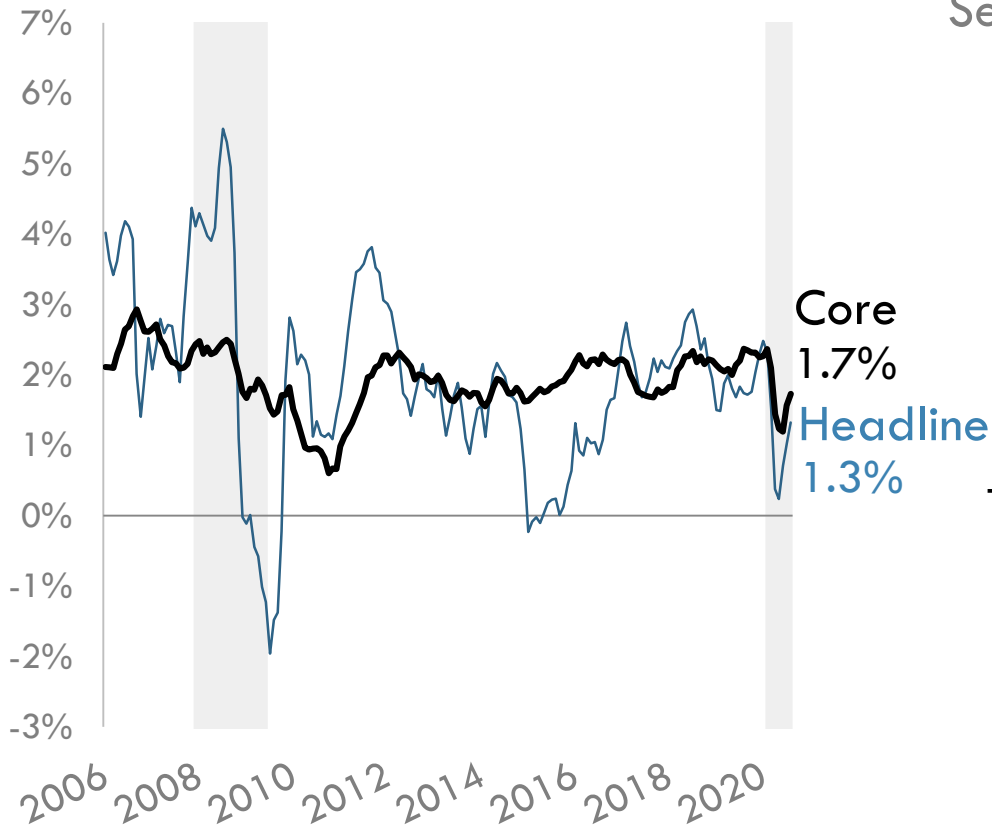




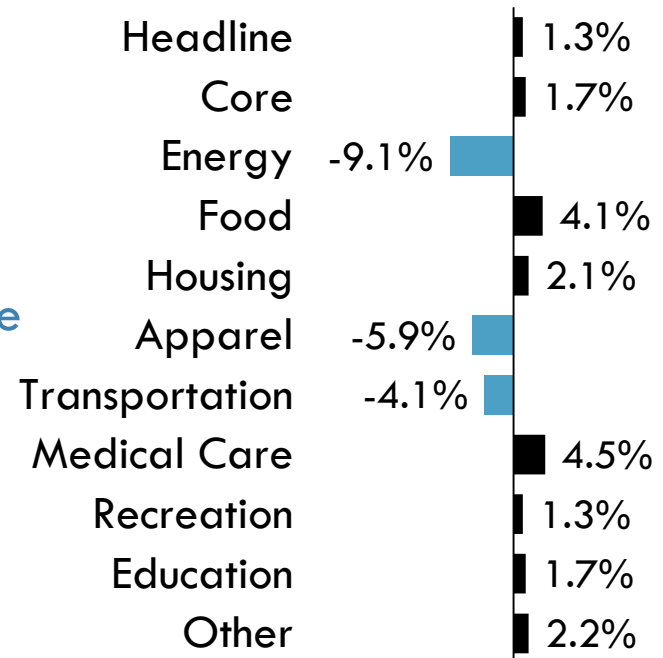
# Inflationary pressure remains subdued

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

Year-over-Year Change in Prices



## Selected Components, August 2020



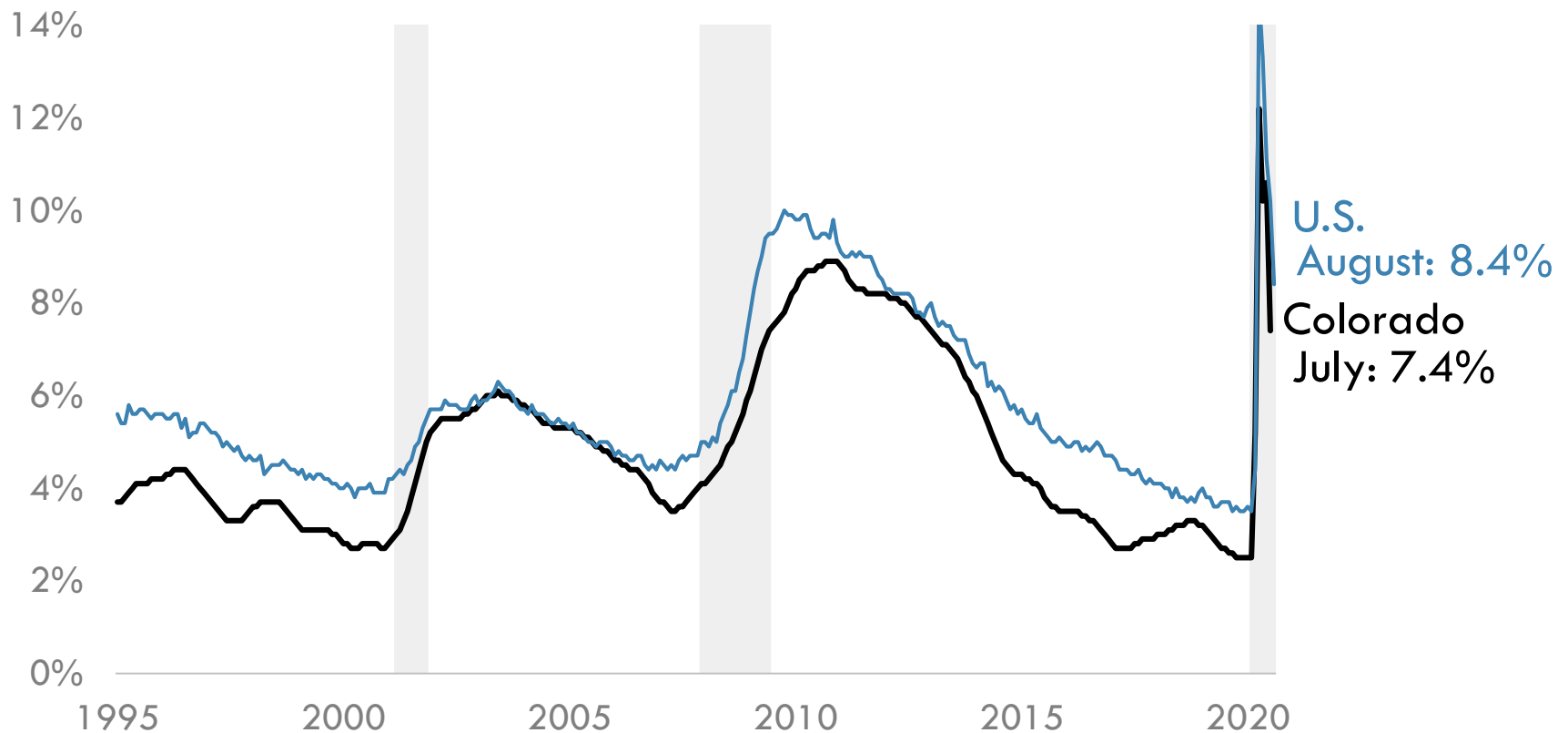
Source: U.S. Bureau of Labor Statistics.

Inflation is calculated as the growth in urban area prices in a given period relative to the same period in the prior year.

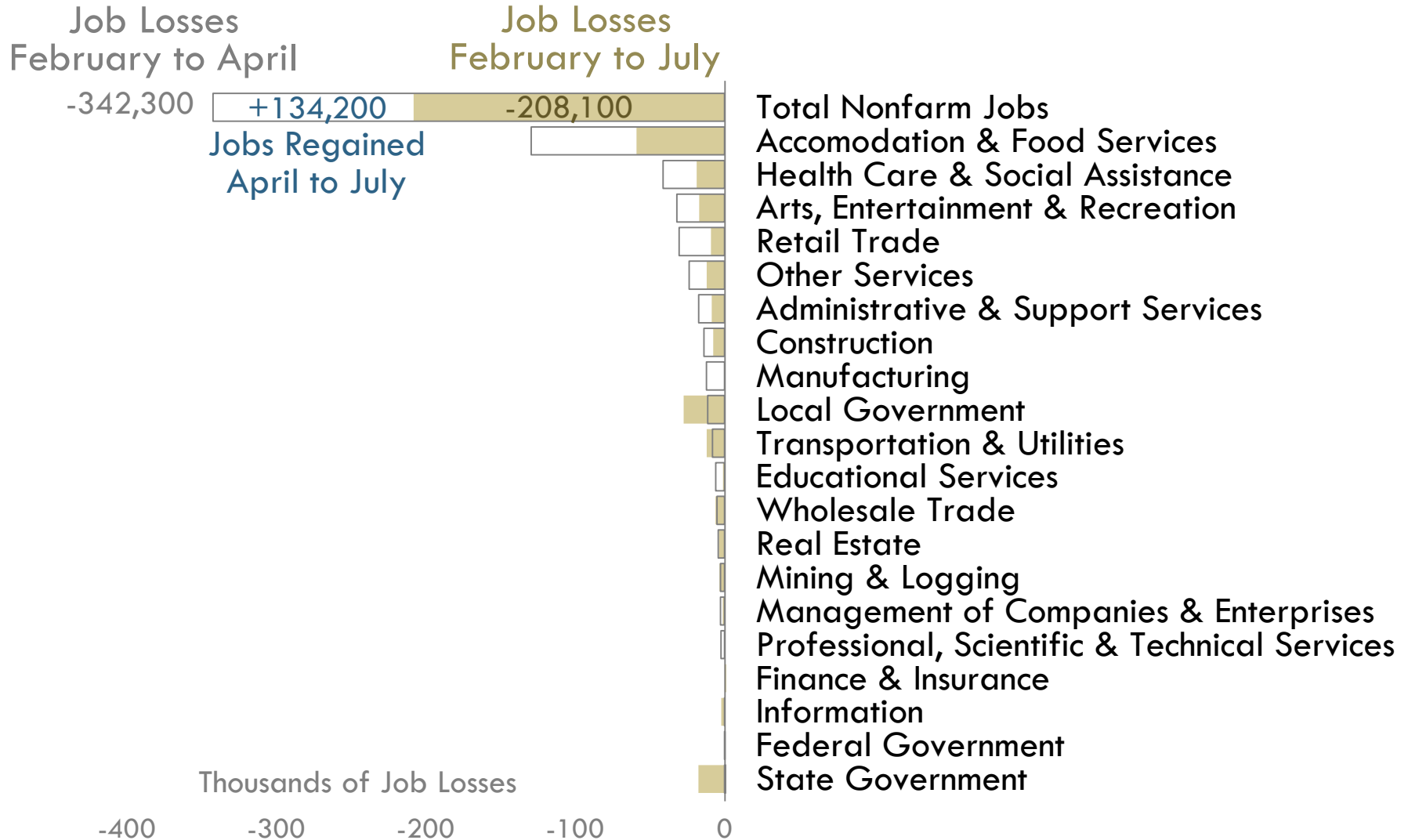
\*Headline inflation includes all products and services. \*\*Core inflation excludes food and energy prices.

# Unemployment continues to decline, but remains elevated

## Unemployment Rates



# Colorado has regained 39 percent of jobs lost since the pandemic began

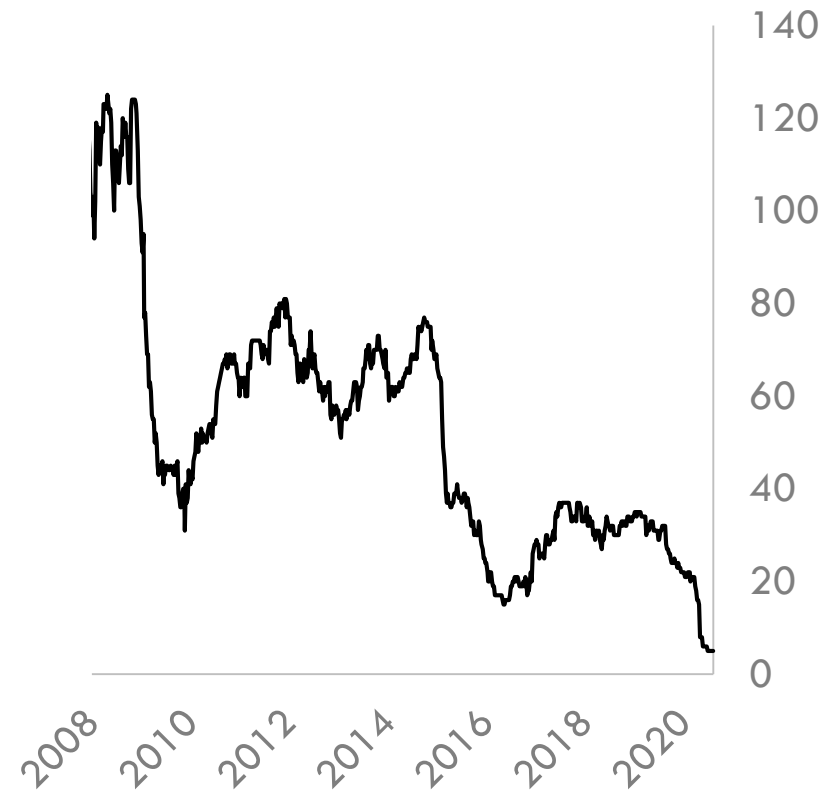


# Reduced travel activity continues to keep downward pressure on oil prices and new exploration in Colorado and nationally

West Texas Intermediate  
Crude Oil Prices  
*Dollars per Barrel*



Active Rig Counts in Colorado



# Outlook Summary

- The economic recovery over the past three months has outpaced expectations
- Damage has nevertheless been extensive, and the pace of improvement shows signs of slowing
- Business activity and consumer spending will continue to improve, but remain constrained by ongoing restrictions, health concerns, uncertainty, and some permanent closures
- Labor markets will remain weak, and layoffs could extend beyond the industries first affected by COVID-19-related closures
- Inflationary pressures will remain subdued as low energy prices, low global demand offset global supply constraints

# Risks to the Forecast

## Downside

- Strong resurgence of COVID-19
- Additional waves of layoffs
- Pullback in consumption and investment

## Upside

- COVID-19 vaccine delivered sooner than expected
- Additional federal stimulus
- Structural shifts resulting in innovations

# 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

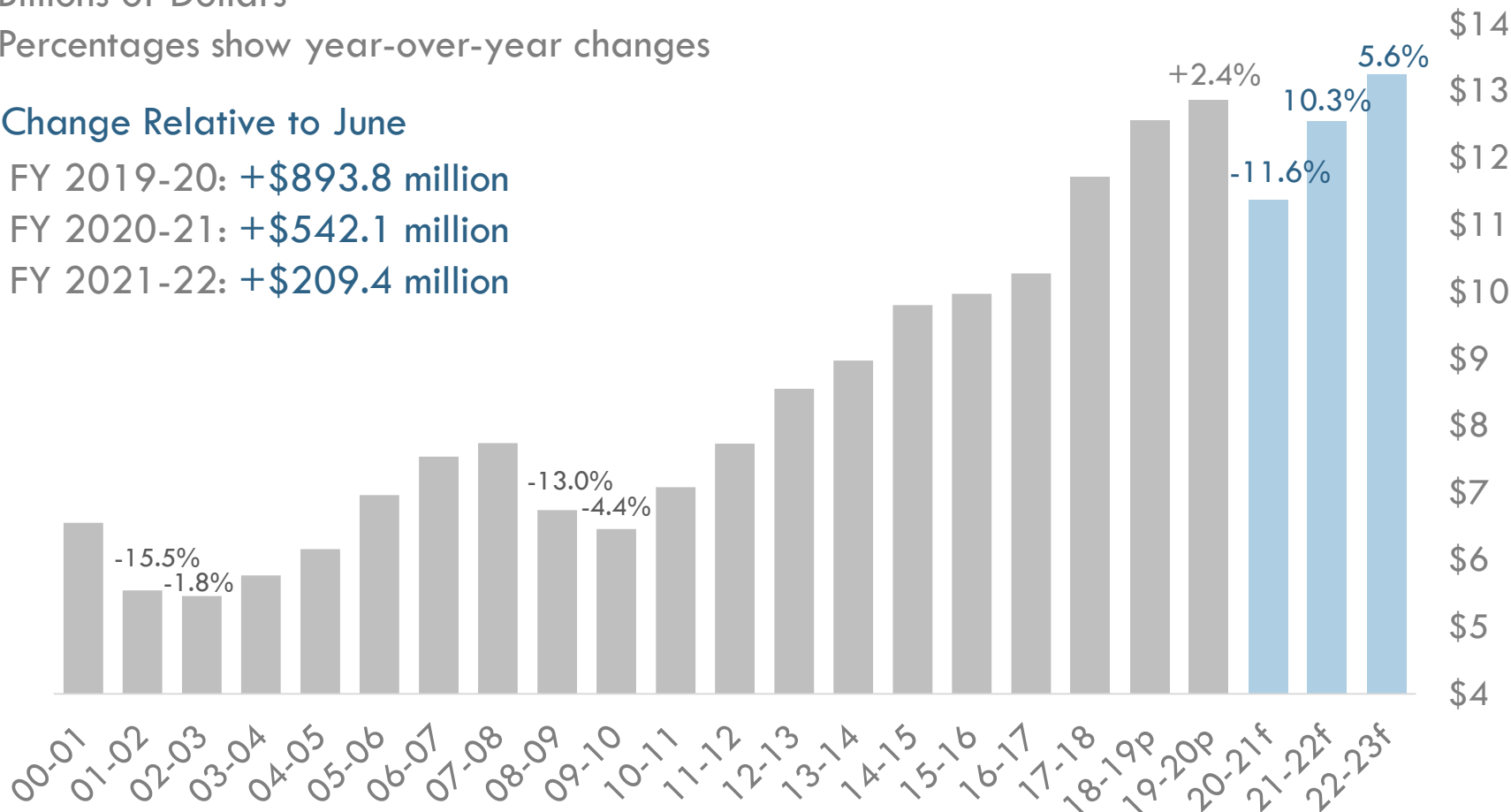
Percentages show year-over-year changes

### Change Relative to June

FY 2019-20: +\$893.8 million

FY 2020-21: +\$542.1 million

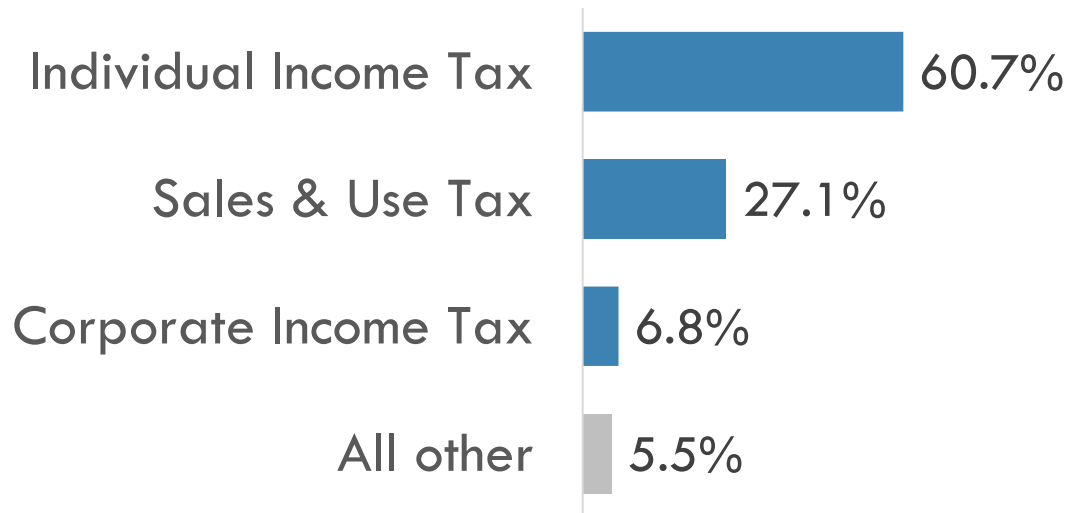
FY 2021-22: +\$209.4 million





# Income taxes represent the largest and most volatile General Fund revenue stream...

Share of Total General Fund Revenue\*  
Based on FY 2018-19 Collections



Income taxes also carry the greatest forecast risk with economic uncertainty, delayed filing deadlines, and state and federal policy changes.

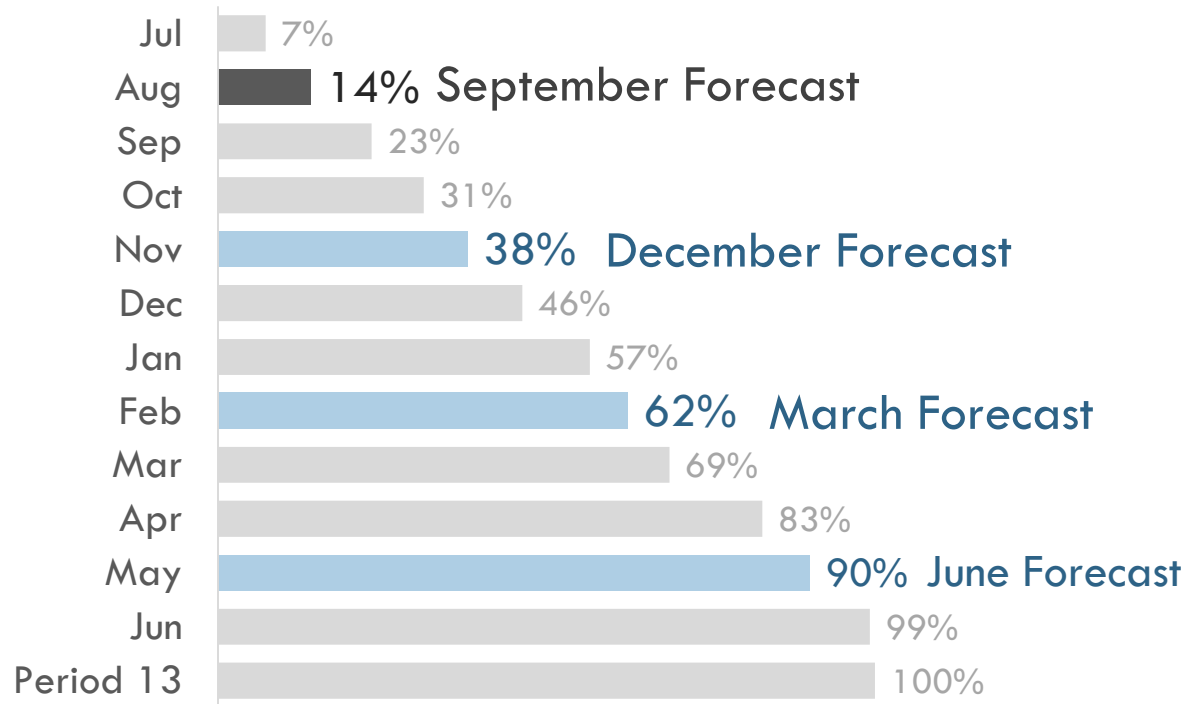
Source: Colorado Office of the State Controller and Legislative Council Staff calculations.

\*Income taxes net of the State Education Fund diversion.

# Projections for FY 2020-21 are based on limited data

## How Much Do We Know About FY 2020-21?

Available General Fund Collections Data as a Share of Total Fiscal Year Collections\*



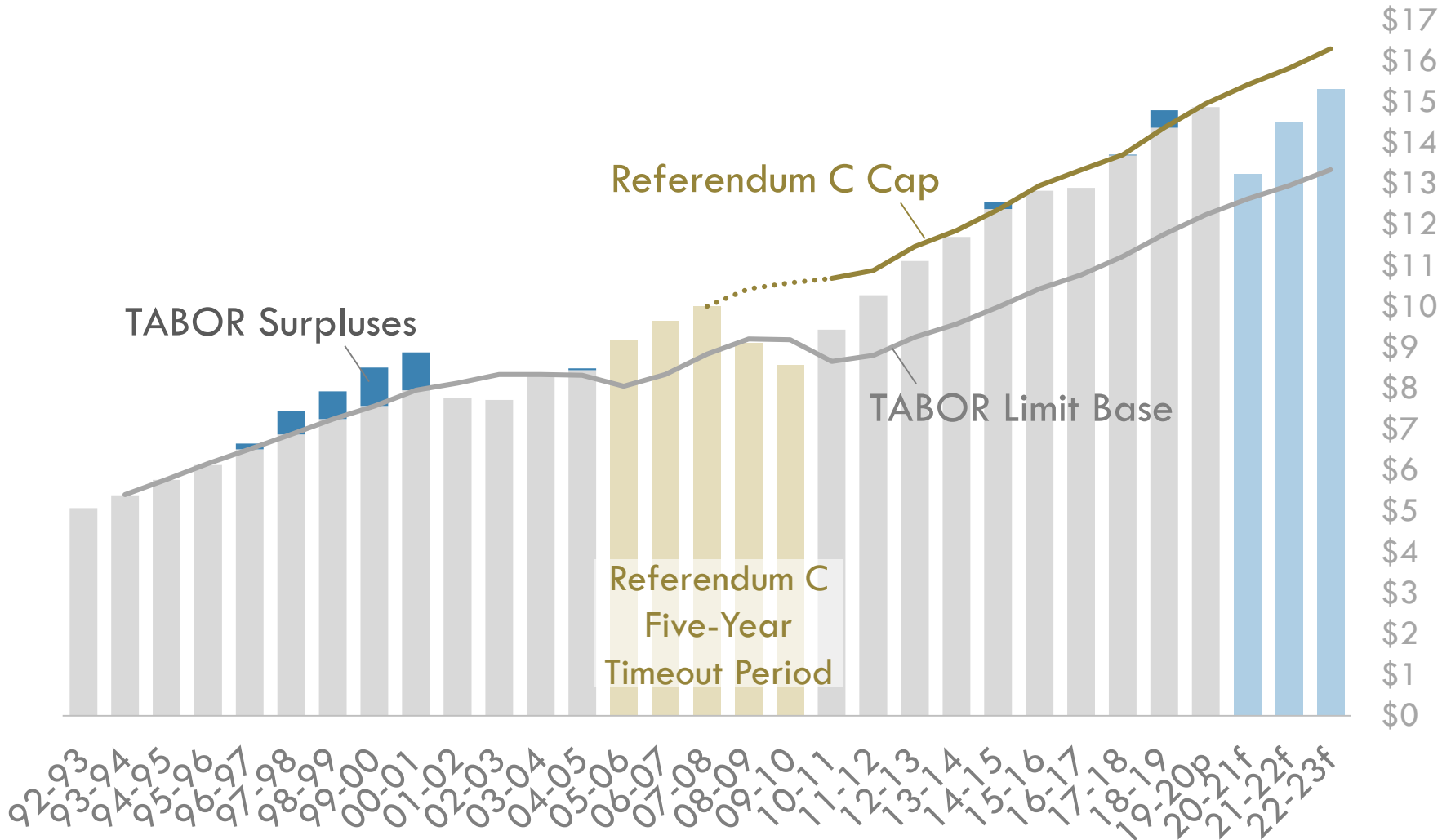
Source: Colorado Office of the State Controller and Legislative Council Staff calculations.

\*Six-year average of actual collections data, FY 2013-14 to FY 2018-19.

# TABOR Outlook

Revenue Subject to TABOR

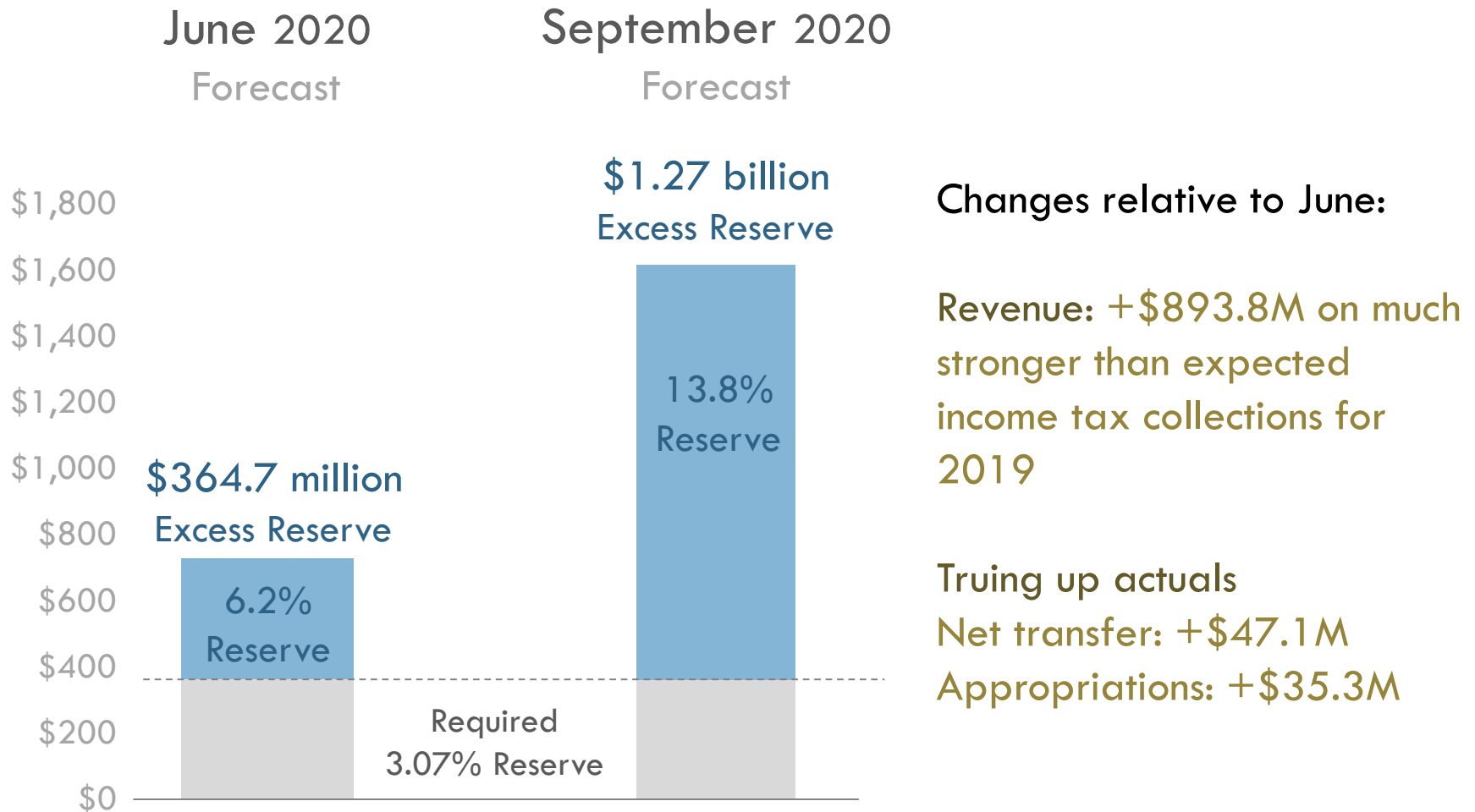
Dollars in Billions



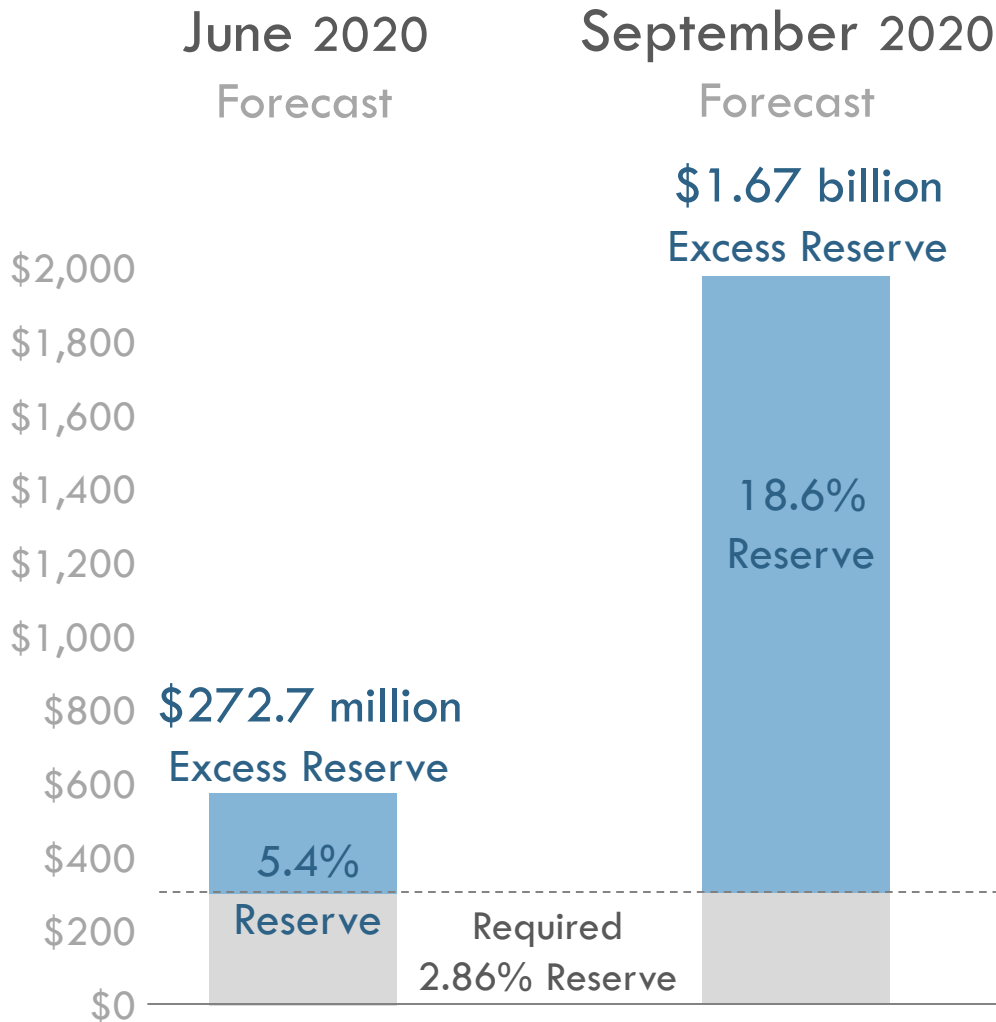
Source: Colorado Office of the State Controller and Legislative Council Staff September 2020 forecast.

# Completed Year | FY 2019-20 General Fund Reserve

Dollars in Millions



# Current Year | FY 2020-21 General Fund Revenue



## Changes relative to June:

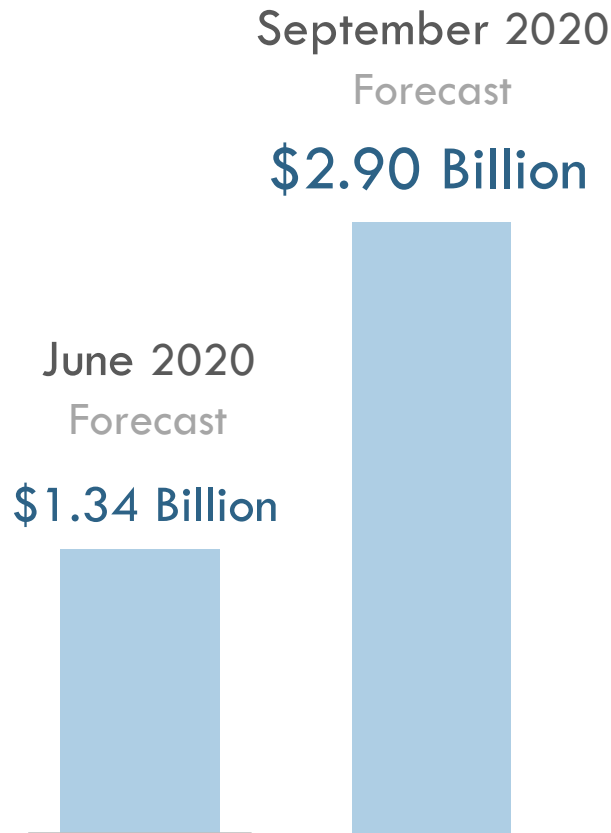
Beginning balance: +\$900.9M carried over from FY 2019-20

Revenue: +\$542.1M on higher collections to date, slightly higher economic expectations

Truing up current law estimates  
Net transfers: -\$45.1M

# Next Year | FY 2021-22 Budget Outlook

Additional revenue available to spend or save above FY 2020-21 spending levels. Amounts hold FY 2020-21 appropriations constant and incorporate the revenue forecast, current law transfers, rebates and expenditures, and the 2.86% reserve requirement.

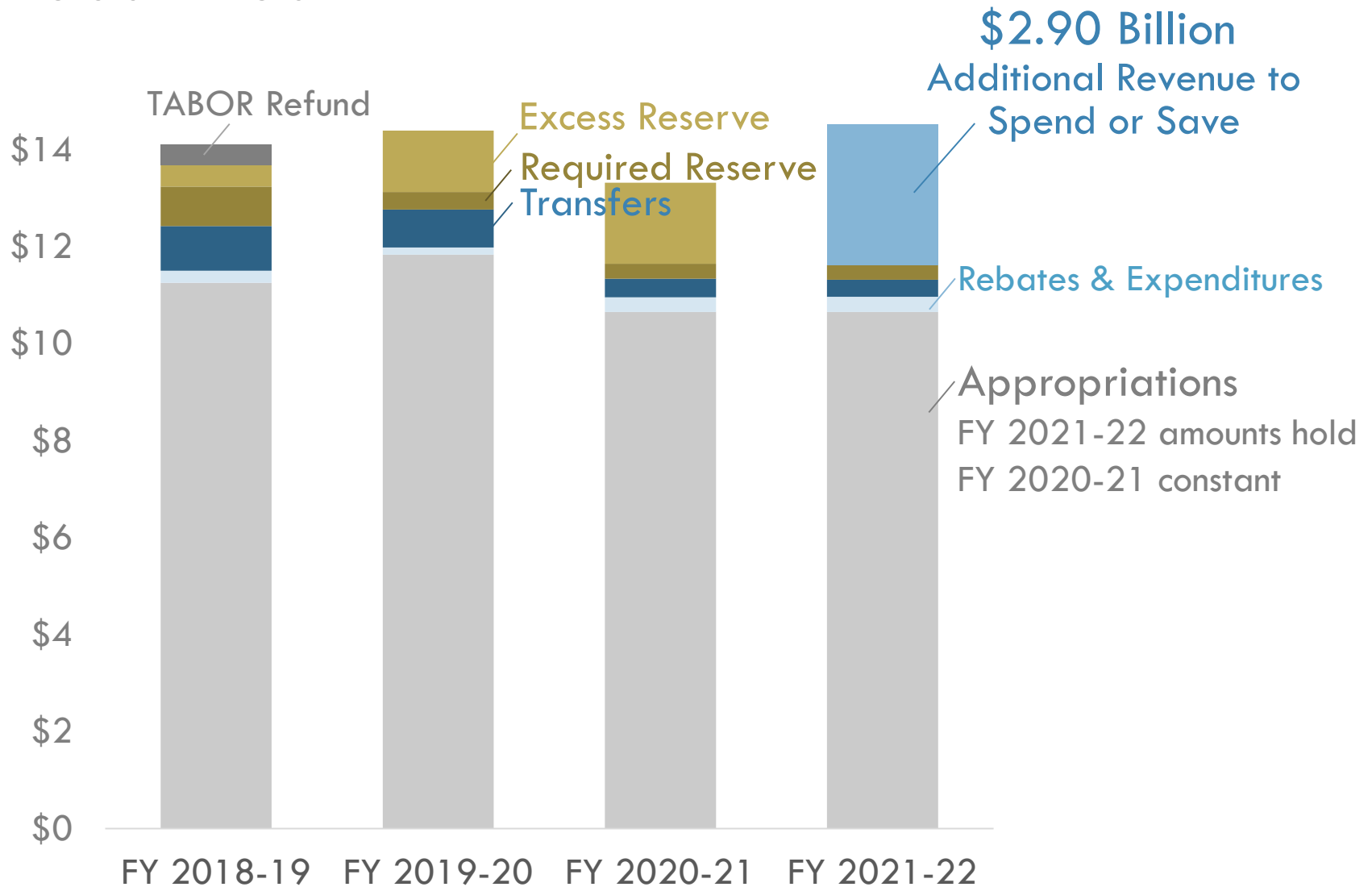


This amount does not account for caseload growth, inflationary, or other budgetary pressures

- Elevated uncertainty
- Rising from recessionary spending levels
- \$143M+ increase in state aid for K-12 education (see page 15)
- CARES Act CRF moneys no longer available (see page 8)
- Election outcomes

# General Fund Budget (Spending or Saving)

Dollars in Billions



Source: Legislative Council Staff September 2020 forecast and current law.

# Risks to the Forecast

## New Information

- 2019 income tax collections from delayed filing
- 2 months of FY 2020-21 collections

## Unknowns

- Extent of economic damage and its lasting effects
- Impacts of coming off of the federal stimulus
- Influence of the recession on 2020 income taxes
- Containment and treatment of COVID-19
- Additional fiscal and monetary policy changes

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

**Upside risk:** Stronger near-term rebound in economic activity, less damage to the economy than expected



# Questions?

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