Economic & Revenue Forecast

Presentation to the Joint Budget Committee
June 19, 2020
Economic Outlook
The U.S. officially entered into a recession in March

Contributions to Real Gross Domestic Product (GDP)

Source: Bureau of Economic Analysis. Seasonally adjusted annual rates.
**Shape of Recovery**

**Real U.S. Gross Domestic Product**

*Source:* U.S. Bureau of Economic Analysis and Legislative Council Staff projections, including projected 2020Q1 revisions. Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.

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**Great Recession**
- 2008: -0.1%
- 2009: -2.5%

**Current Contraction**

**Projected Growth**
- 2020: -5.7%
- 2021
- 2022
U.S. retail sales picked up in May

Monthly U.S. Retail Sales

Dollars in Billions

U.S. Census Bureau, Advanced Retail Trade Report.
While manufacturing and business activity remain in contractionary territory

Institute for Supply Management Indices

*Diffusion Index*

Source: Institute for Supply Management.
Deflationary risk outweighs inflationary pressure

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

Selected Components, May 2020

- Headline: 0.2%
- Core: 1.2%
- Energy: -18.3%
- Food: 4.0%
- Housing: 2.2%
- Apparel: -7.9%
- Transportation: -10.7%
- Medical Care: 4.9%
- Recreation: 2.1%
- Education: 2.1%
- Other: 2.4%

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 improved in May but remains at historic highs

Unemployment Rates

Source: Bureau of Labor Statistics. Data are seasonally adjusted.
Counties reliant on tourism have the highest unemployment

April 2020 Unemployment Rates

Dine-in restaurant service began to recover after restrictions were lifted

Colorado Open Table Seated Restaurant Diners

Year-over-Year Percent Change

Source: Open Table.
U.S. and Denver air travel still subdued

U.S. TSA Passenger Traffic

Year-over-Year Change

DIA Passenger Traffic

Year-over-Year Change

<table>
<thead>
<tr>
<th>Month</th>
<th>Percent Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>January</td>
<td>5.8%</td>
</tr>
<tr>
<td>February</td>
<td>7.0%</td>
</tr>
<tr>
<td>March</td>
<td>-46.4%</td>
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<tr>
<td>April</td>
<td>-94.4%</td>
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</tbody>
</table>

June 16, 2020
-83.1%

Source: Transportation Security Administration.
Reduced travel activity continues to constrain oil markets

**U.S. Oil Supplied**
*Thousands of Barrels per Day*

- **March 13 to June 12**
  -19.4%

**West Texas Intermediate**
*Crude Oil Price*
*Dollars per Barrel*

$37.32

Source: Energy Information Administration.
Outlook Summary

• Economic activity outperformed expectations in May slightly, though the recession is still severe
• The recovery will impact economic sectors and geographic regions differently
• 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 in the industries most 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
• Double-dip recession

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 May

FY 2019-20: +$320.9 million
FY 2020-21: +$526.1 million
FY 2021-22: +$675.1 million

Source: Colorado Office of the State Controller and Legislative Council Staff June 2020 forecast.
Income taxes represent the largest and most volatile General Fund revenue stream...

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

- Individual Income Tax: 60.7%
- Sales & Use Tax: 27.1%
- Corporate Income Tax: 6.8%
- All other: 5.5%

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.
TABOR Outlook

Revenue Subject to TABOR
Dollars in Billions

Source: Colorado Office of the State Controller and Legislative Council Staff June 2020 forecast.
Changes relative to May:

Revenue: +$320.9M on income tax policy changes

Net transfer: +$145.1M on legislative changes

Appropriations: -$281.3M with budget package

Reserve: -$513.8M on lower reserve requirement, appropriations

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

May 2020 Forecast Update

June 2020 Forecast

Beginning balance: +$746.6M carried over from FY 2019-20

Revenue: +$526.1M on income tax policy changes, slightly higher economic expectations

Appropriations: -$1.44 billion lower than FY 2019-20 budget

Net transfers: +$273.8 on legislative changes

Reserve: -$571.7M on lower reserve requirement, appropriations

-$3.3 Billion Shortfall*

Source: Legislative Council Staff forecasts based on current law. *Amount holds FY 2019-20 appropriations constant and incorporates the May revenue forecast, current law transfers, rebates and expenditures, TABOR refund obligations, and the 7.25% reserve requirement.
Out 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.

June 2020
Forecast

$1.34 Billion

This amount does not account for caseload growth or inflationary pressures

Source: Legislative Council Staff June 2020 forecast.
General Fund Budget (Spending or Saving)

Dollars in Billions

<table>
<thead>
<tr>
<th>Year</th>
<th>TABOR Refund</th>
<th>Excess Reserve</th>
<th>Required Reserve</th>
<th>Transfers</th>
<th>Rebates &amp; Expenditures</th>
<th>Appropriations</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2018-19</td>
<td>$1.34 Billion</td>
<td></td>
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Source: Legislative Council Staff June 2020 forecast and current law.
Risks to the Forecast

New Information
• Legislation from the 2020 Session
• 11 months of FY 2019-20 collections data
• Starting to understand how much economic activity declined and how quickly we are bouncing back

Unknowns
• Extent of economic damage and its lasting effects
• Influence of the recession on 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
Unemployment Insurance Outlook
# Current State and Federal UI Benefits

<table>
<thead>
<tr>
<th>Funding Source</th>
<th>State Benefits</th>
<th>State &amp; Federal* Benefits</th>
<th>Federal Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Regular</td>
<td>Extended</td>
<td>Temporary</td>
</tr>
<tr>
<td>Description</td>
<td>Partial wage replacement for up to 26 weeks</td>
<td>Extended benefits are triggered by persistently elevated state unemployment rates*</td>
<td>Additional $600 per week for up to four months**; Extends eligibility to self-employed workers and independent contractors; up to 13 additional weeks of benefits. Expires December 2020</td>
</tr>
</tbody>
</table>

* States are normally required to cover half the costs of extended benefit programs. However, this requirement was suspended during the Great Recession and has currently been suspended through 2020, allowing full federal funding for extended benefits.

** Expires July 2020.
Impacts of Senate Bill 20-207

Key provisions reducing the forecast fund balance:
• Freezes the chargeable wage base at $13,600 for 2021
• Suspends the solvency surcharge for calendar years 2021 and 2022

Key provisions increasing the forecast fund balance:
• Increases the chargeable wage base incrementally beginning in 2022 to $30,600 in 2026 and adjusts for changes in average weekly wages thereafter
Colorado Initial Unemployment Claims

Four-week Average, Thousands of Claims

Source: Colorado Department of Labor and Environment. Data are not seasonally adjusted.
# Unemployment Insurance Trust Fund

**Revenues, Benefits Paid, and Fund Balance**

*Dollars in Millions*

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td><strong>Beginning Balance</strong></td>
<td>$922.3</td>
<td>$1,104.1</td>
<td>$74.6</td>
<td>($1,606.8)</td>
</tr>
<tr>
<td><strong>Plus Income Received</strong></td>
<td></td>
<td></td>
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<tr>
<td>UI Premium</td>
<td>$523.0</td>
<td>$531.5</td>
<td>$644.1</td>
<td>$713.5</td>
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<tr>
<td>Solvency Surcharge</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
<td>$0.0</td>
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<tr>
<td>Interest</td>
<td>$23.3</td>
<td>$21.1</td>
<td>$0.0</td>
<td>$0.0</td>
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<tr>
<td><strong>Total Revenues</strong></td>
<td>$546.3</td>
<td>$552.6</td>
<td>$644.1</td>
<td>$713.5</td>
</tr>
<tr>
<td><strong>Less Benefits Paid</strong></td>
<td>($365.5)</td>
<td>($1,582.1)</td>
<td>($2,325.5)</td>
<td>($1,184.4)</td>
</tr>
<tr>
<td><strong>Ending Balance</strong></td>
<td>$1,104.1</td>
<td>$74.6</td>
<td>($1,606.8)</td>
<td>($2,077.8)</td>
</tr>
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**Solvency Ratio***

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<tr>
<td>0.87%</td>
<td>0.05%</td>
<td>-1.10%</td>
<td>-1.35%</td>
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</tbody>
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*Source: Legislative Council Staff June 2020 forecast. Totals may not sum due to rounding.

*Fund balance as a share of total annual private wages.*
Questions?

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