



June 2022 Legislative Council Staff

# Economic & Revenue Forecast

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Colorado Telecommunications Association

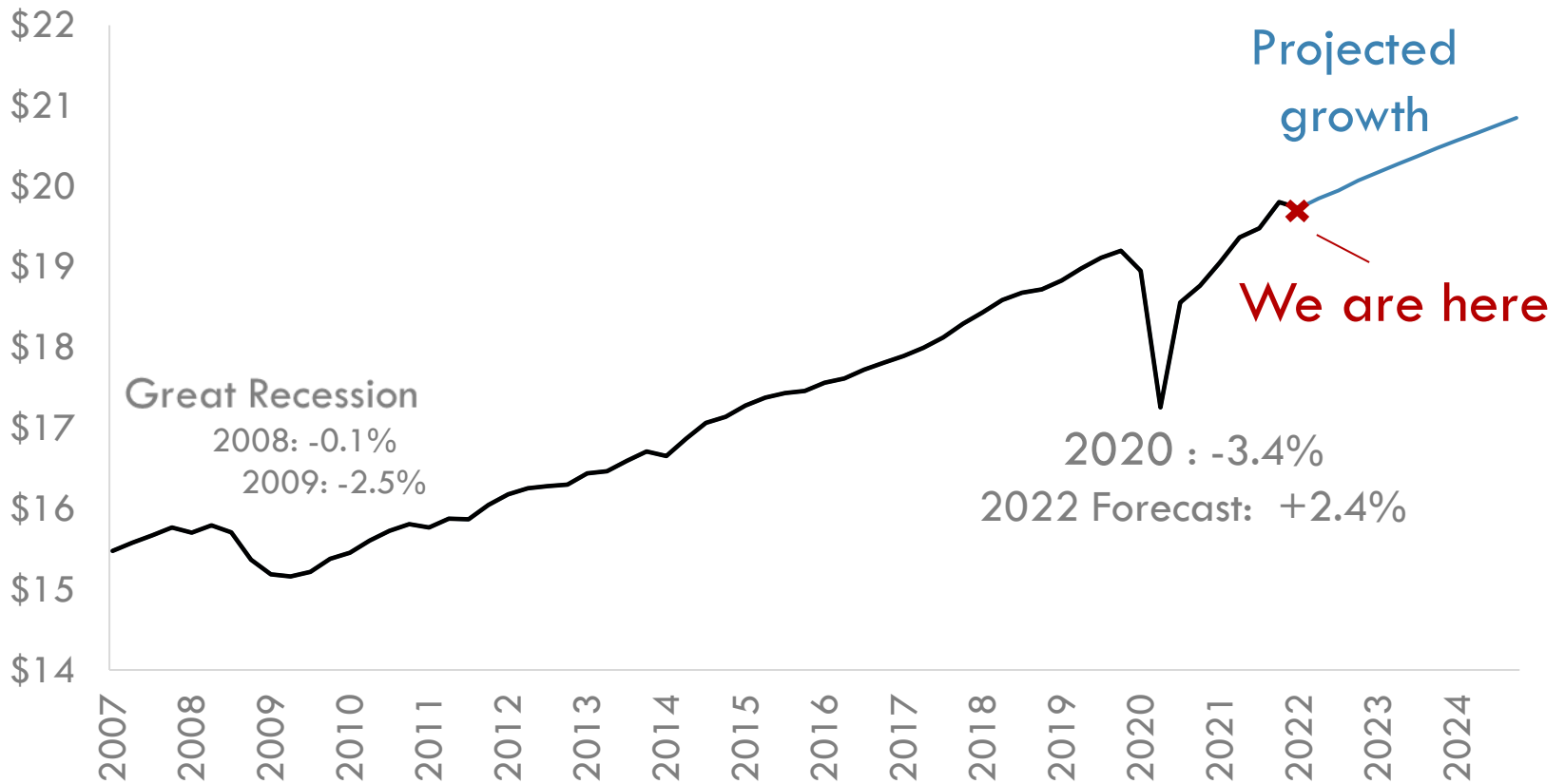
July 14, 2022

# Economic Outlook



# The economy continues to recover, near-term risks are elevated

Real U.S. Gross Domestic Product  
*Dollars in Trillions*

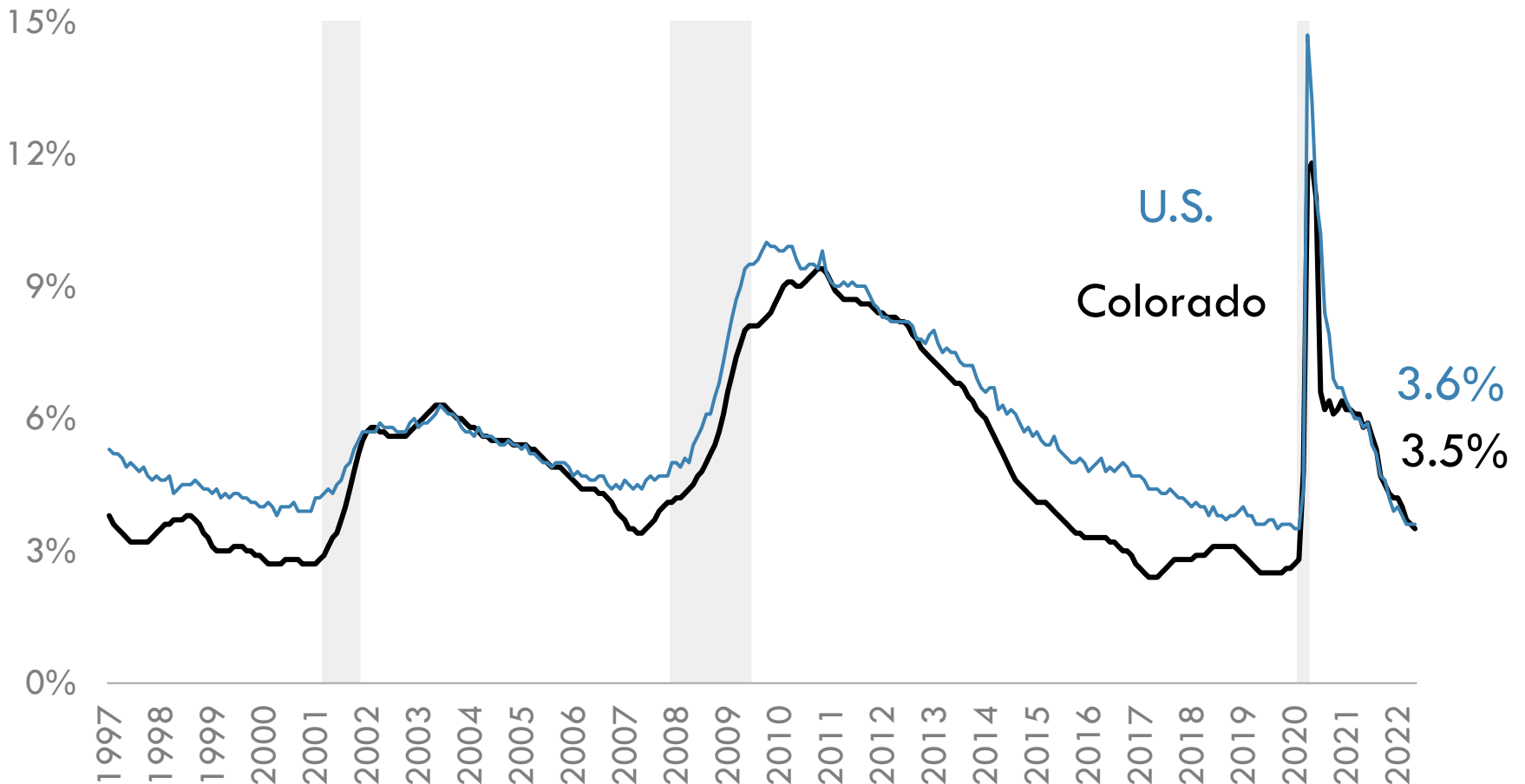


Source: U.S. Bureau of Economic Analysis and Legislative Council Staff June 2022 projections.

Real GDP is inflation-adjusted to chained 2012 levels and shown at seasonally adjusted annualized rates.

# Colorado's unemployment rate fell to 3.5 percent in May

## Unemployment rates

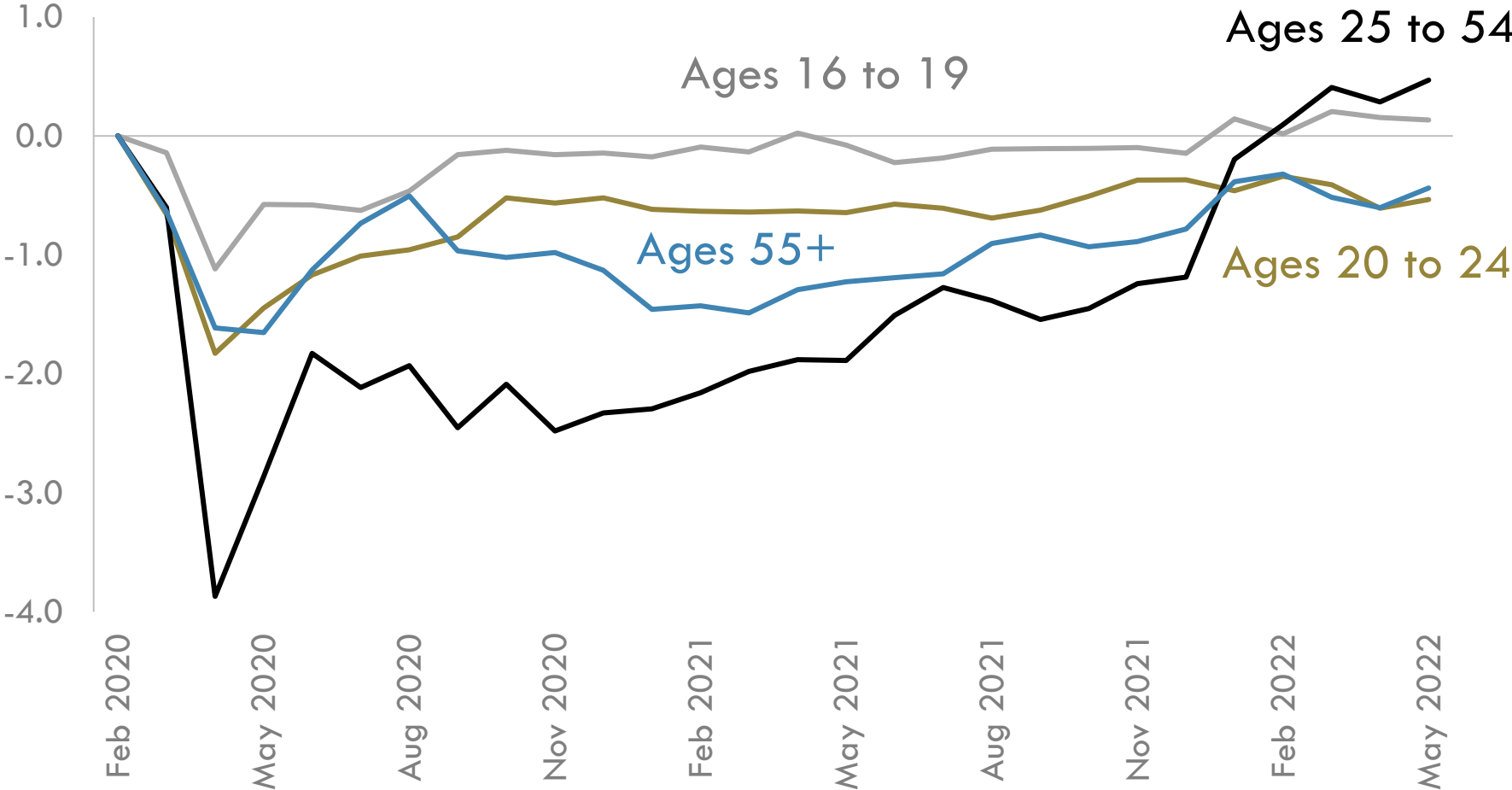


Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted.

# Labor force ages 25 to 54 rises above pre-pandemic levels

## U.S. Labor Force by Age

Index 0.0 = January 2020

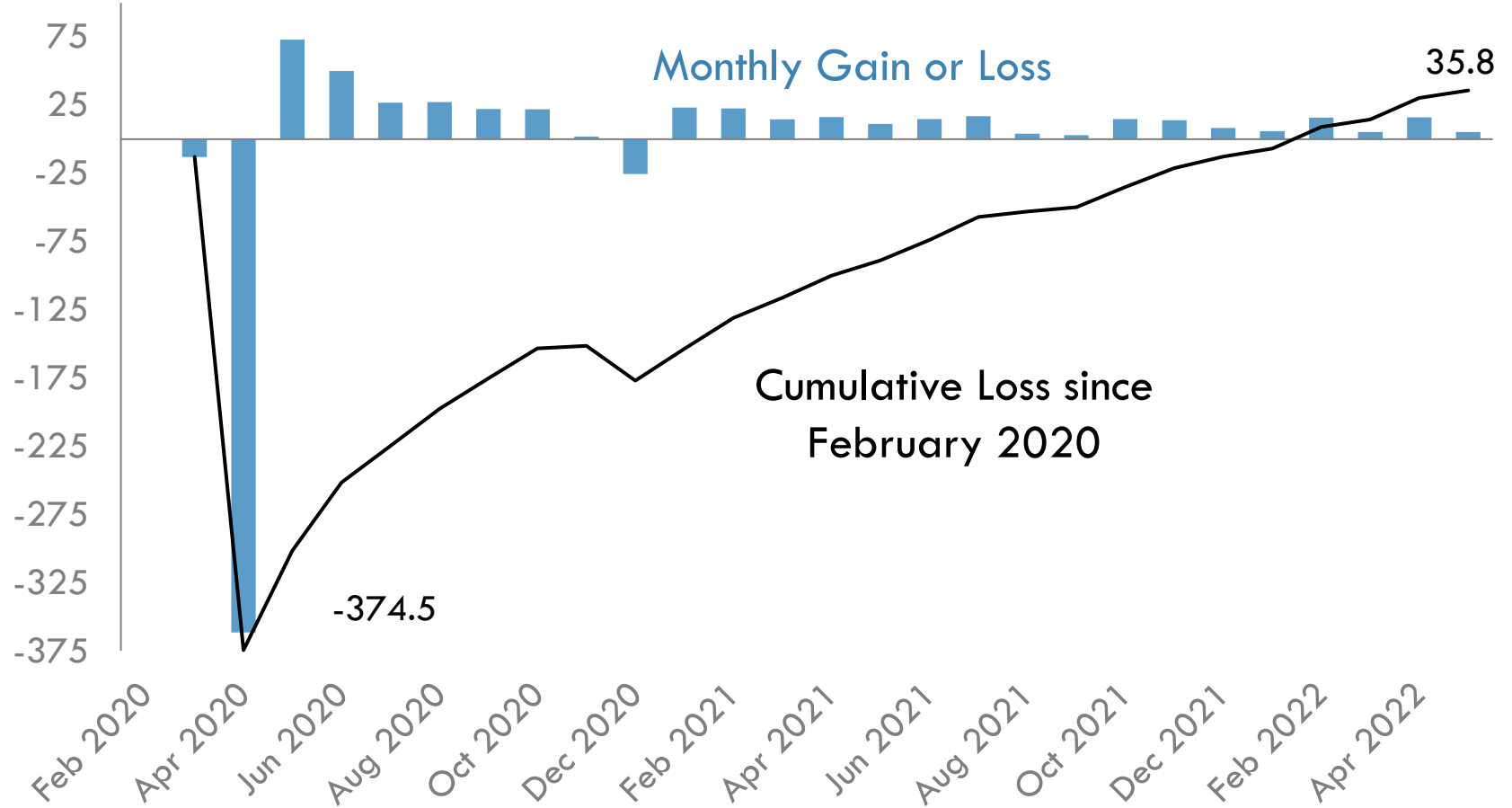


Source: U.S. Bureau of Labor Statistics with Legislative Council Staff calculations. Data are seasonally adjusted and through May 2022.

# Colorado exceeds pre-pandemic jobs by 35,800 in May

## Change in Colorado Employment

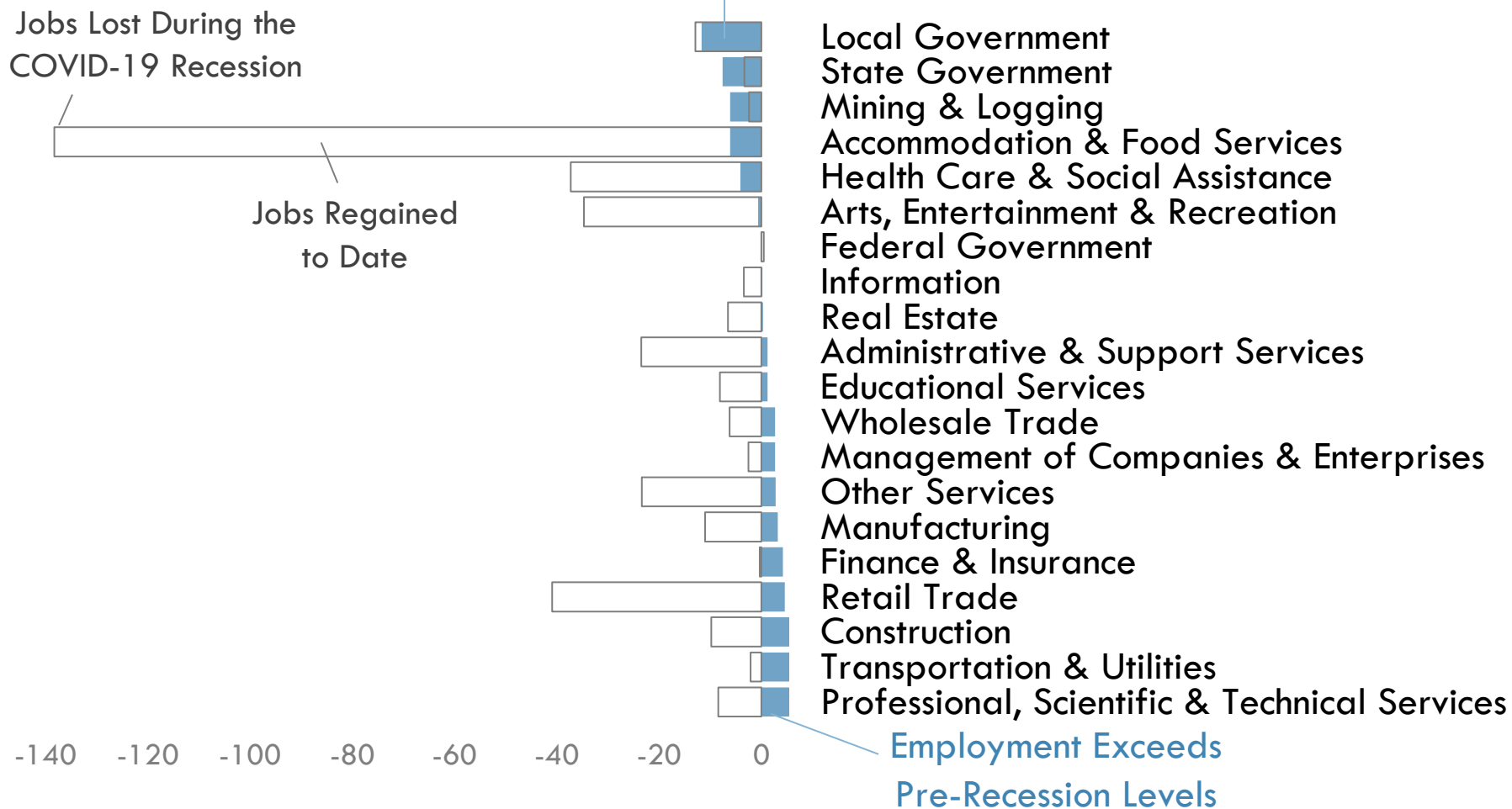
Thousands of Jobs



Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted.

# Majority of sectors have recovered jobs lost in the recession, leisure and hospitality sectors close to pre-pandemic levels

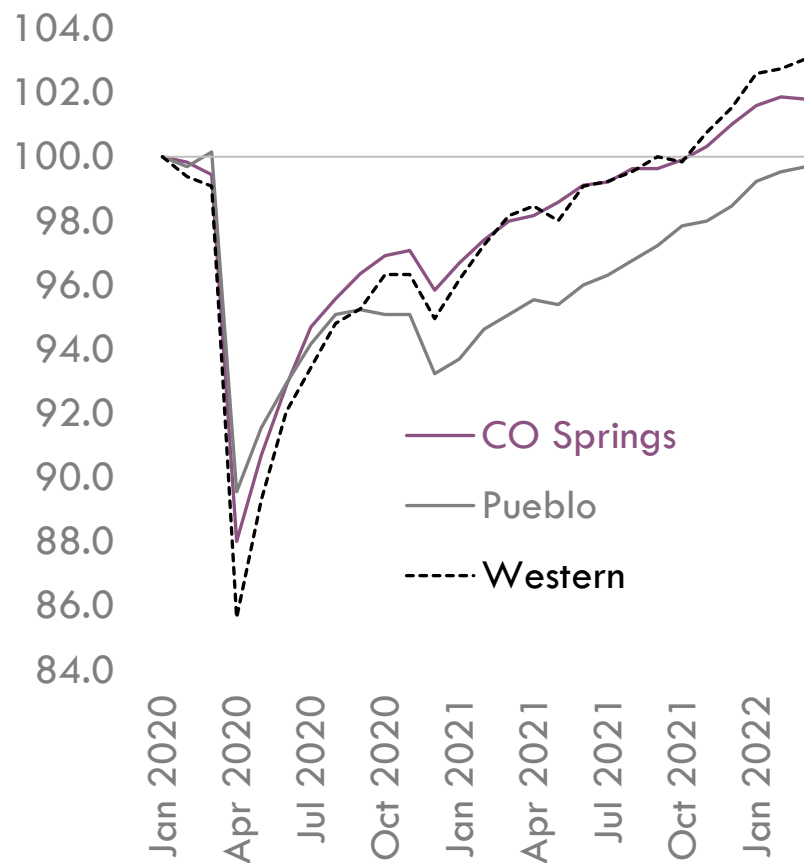
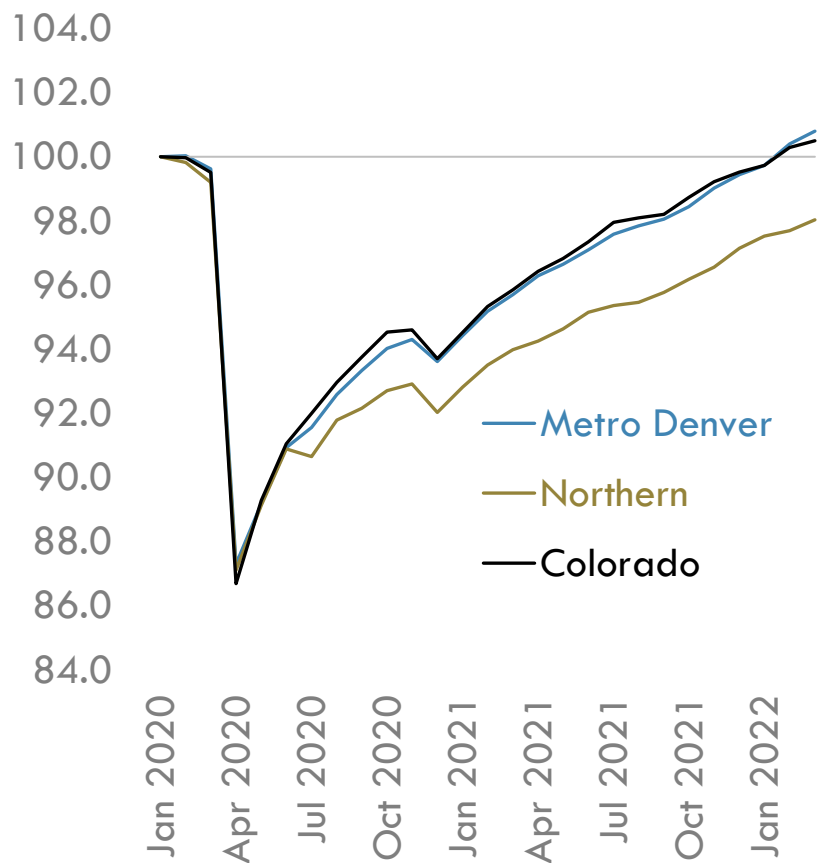
Employment Remains Below  
Pre-Recession Levels



# Employment recovery varies across the state

## Employment Growth Since January 2020

January 2020 = 100

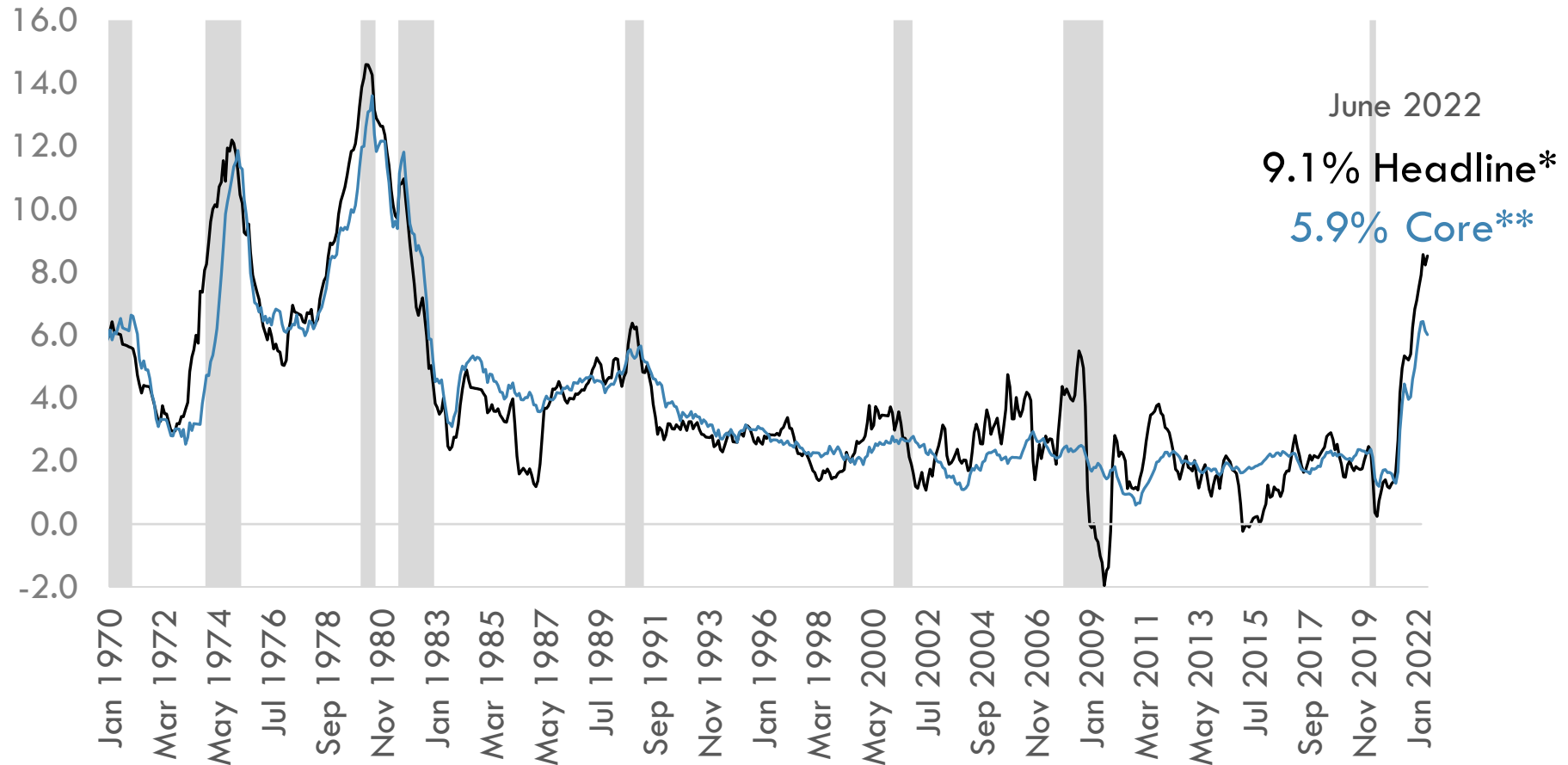




# Inflationary pressure continues, forecast to average 7.7 percent in 2022 and 4.4 percent in 2023

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

Year-over-Year Change in Prices



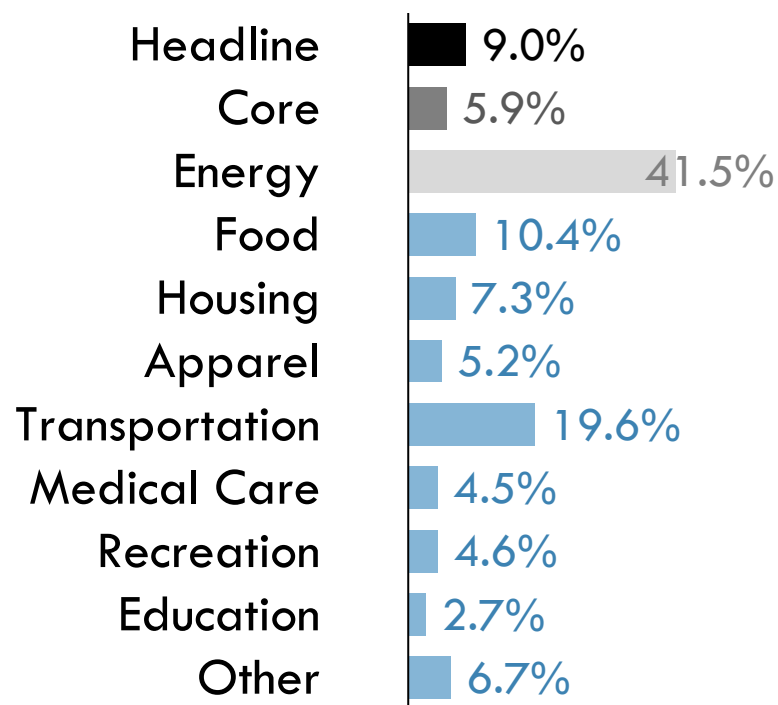
Source: U.S. Bureau of Labor Statistics.

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.

# Energy, housing, transportation, and food driving inflation

U.S. CPI-U, Selected Components, June 2022  
*Year-over-Year Change in Prices*



Energy price inflation likely peaked in June 2022

Housing inflation on the rise (and largest item in the basket)

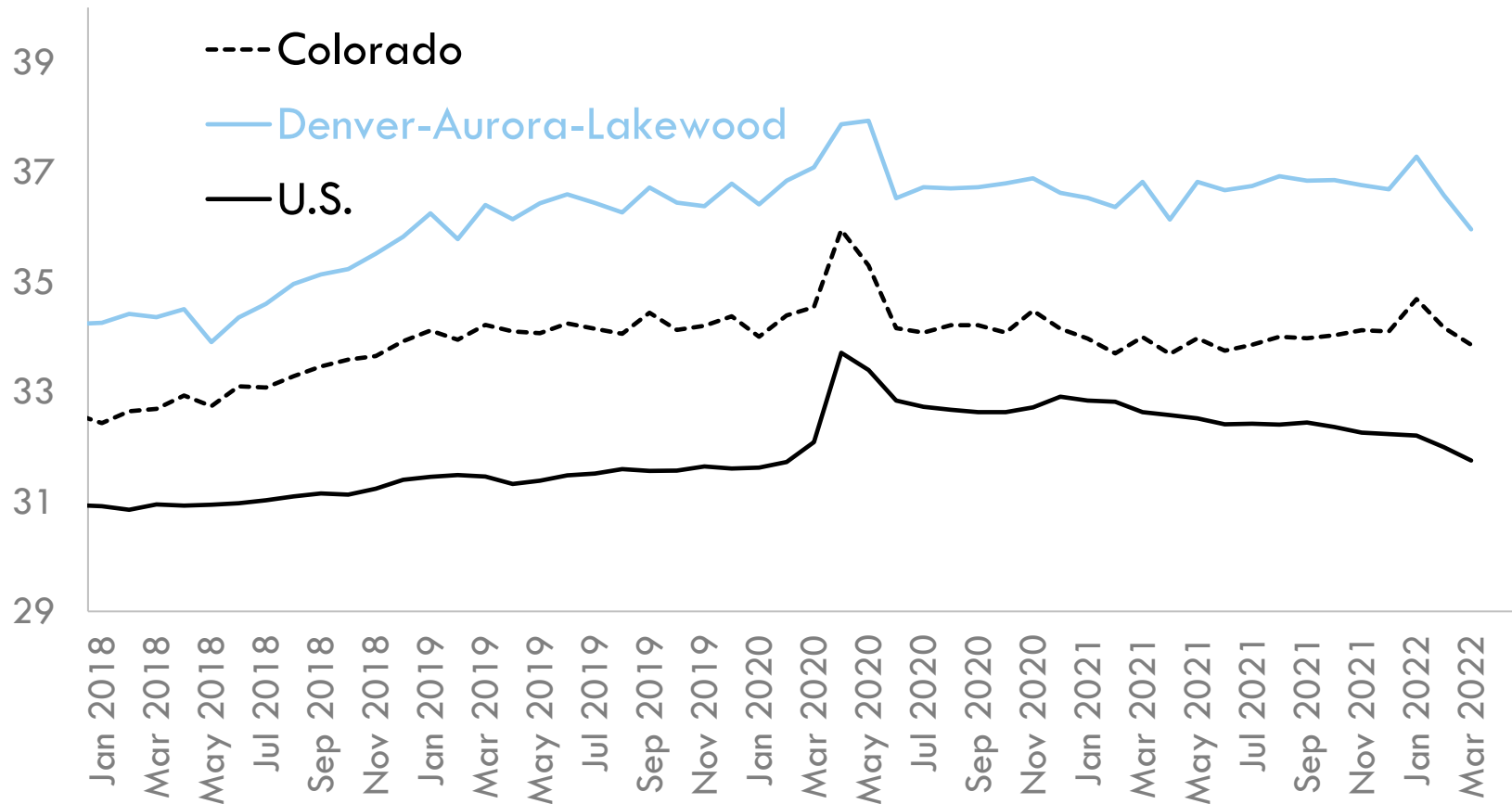
Expect add'l rate hike of at least 75 bp in July 2022

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.

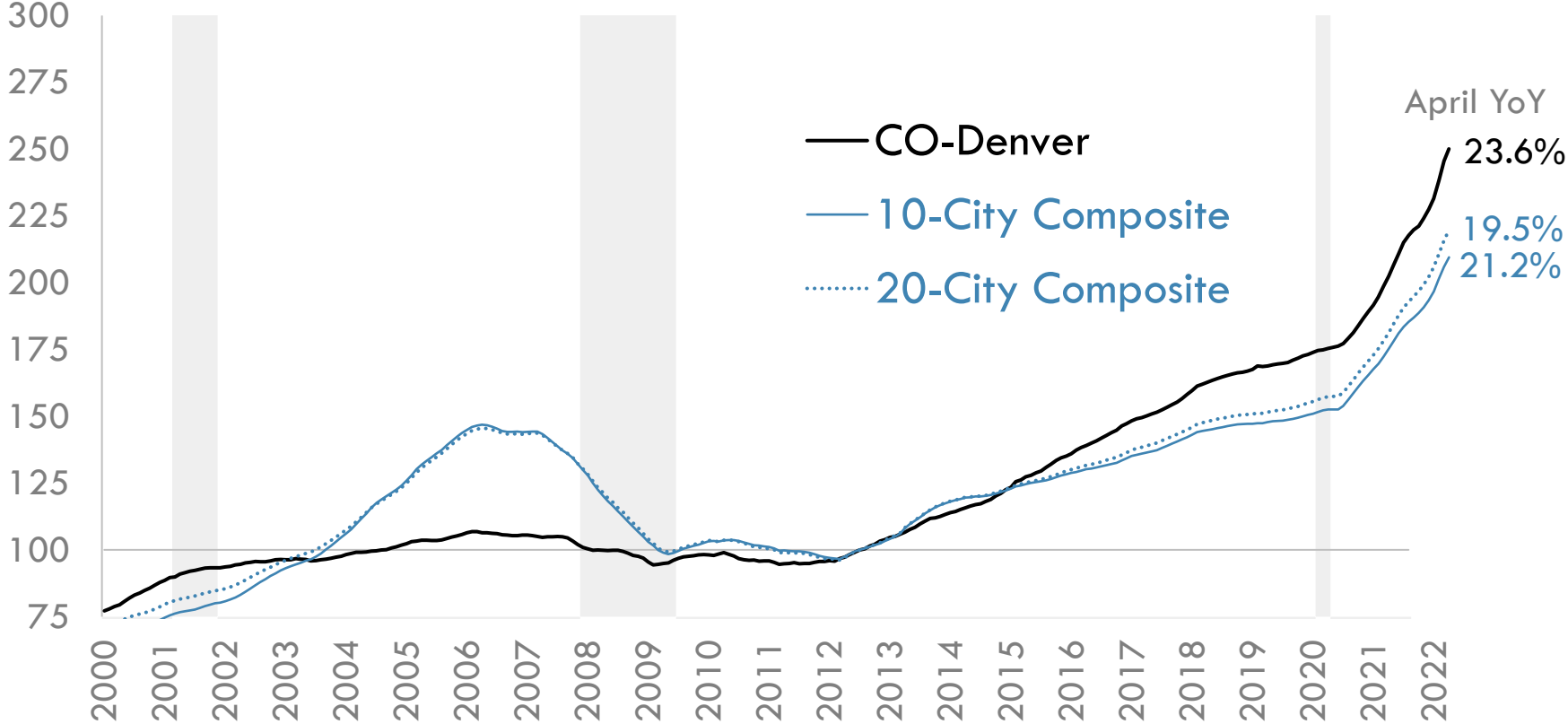
# Inflation outpacing wage gains, real wages decline

Real Average Hourly Wages  
2022 Dollars



# Home prices accelerated during the pandemic but are expected to level off in the years ahead

Case-Shiller Home Price Indices  
Index 100 = July 2012



Source: S&P Dow Jones Indices, LLC. Data are seasonally adjusted and through April 2022.

# Pandemic challenges compounded by emerging risks, risks remain weighted to the downside

- Lingering pandemic-related disruptions compounded by accelerating inflation and the war in Ukraine
- **Downside:** inflation and more aggressive monetary policy response, geopolitical uncertainty and trade disruptions, financial market instability
- **Upside:** resolution to war in Ukraine and price pressure relief, rapid return to spending on services
- Near-term risks are weighted to the downside with an elevated risk of recession during the forecast period

# General Fund Budget Outlook



# We upgraded our revenue forecast on impressive spring 2022 collections

## Gross General Fund Revenue

Billions of Dollars

Percentages show year-over-year changes

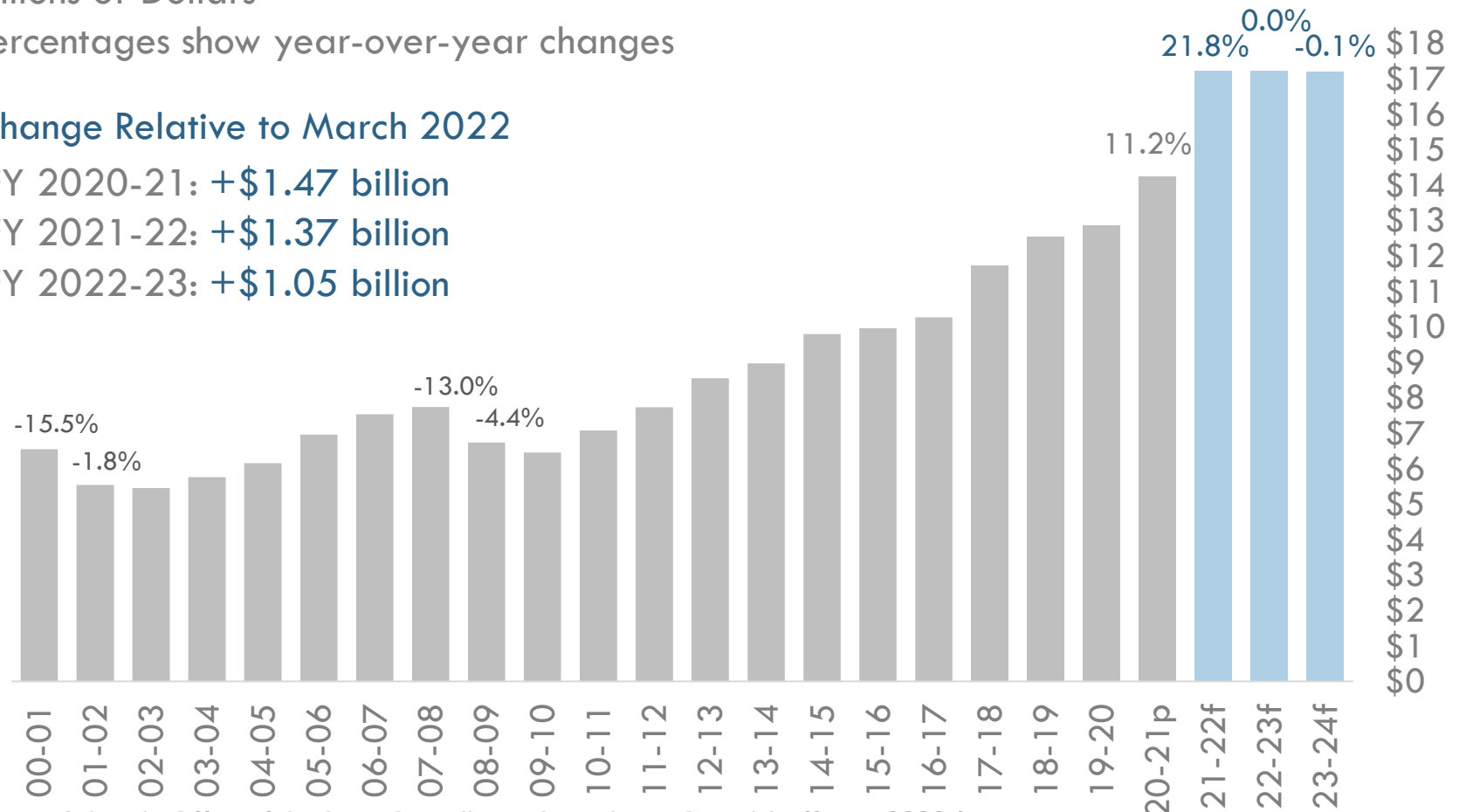
### Change Relative to March 2022

FY 2020-21: +\$1.47 billion

FY 2021-22: +\$1.37 billion

FY 2022-23: +\$1.05 billion

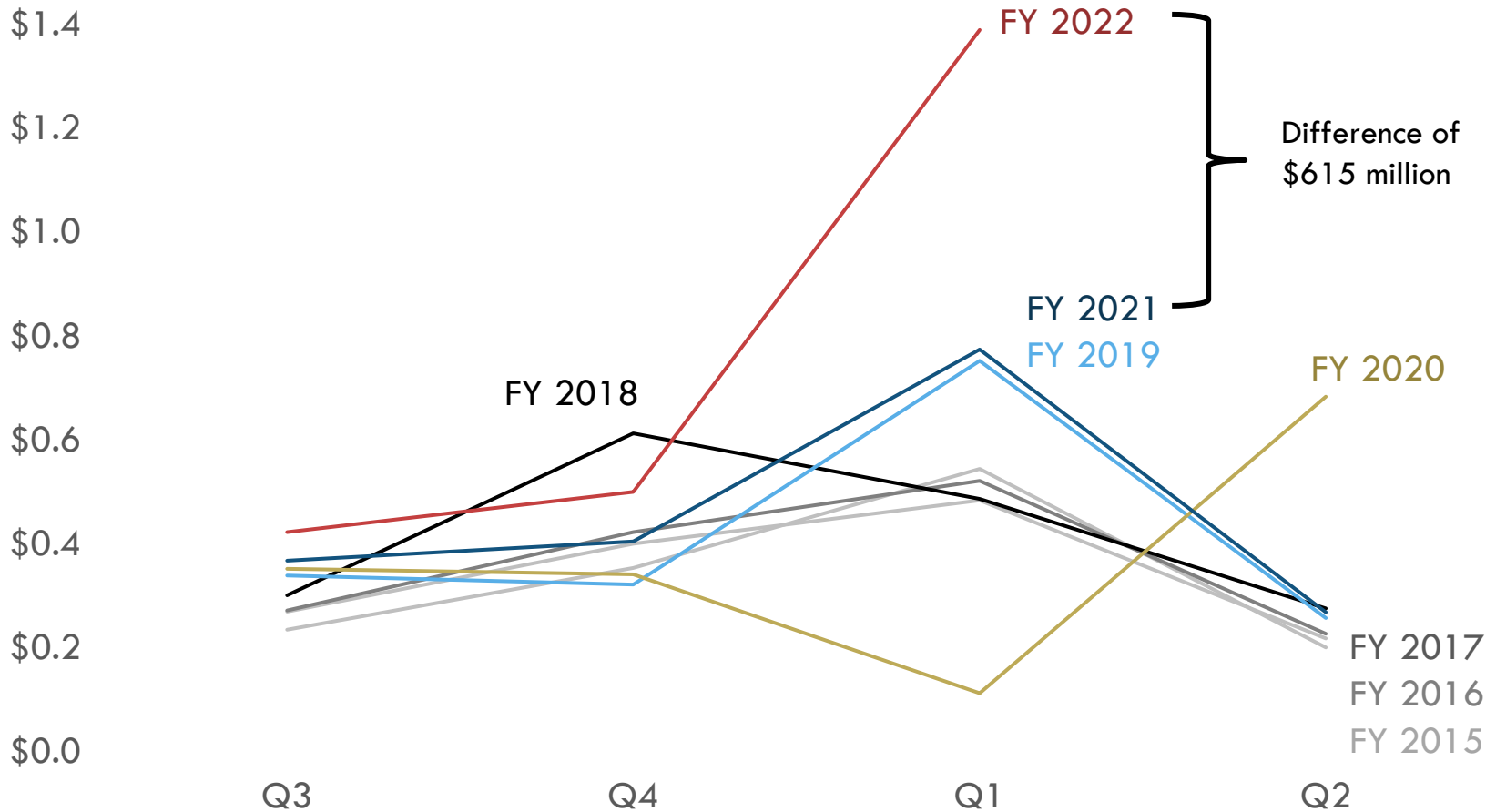
June 2022  
Expectations



Source: Colorado Office of the State Controller and Legislative Council Staff June 2022 forecast.

# Estimated income tax payments suggest that revenue is being accelerated

\$1.6 Billions of Dollars



Source: Department of Revenue, Office of Research and Analysis; and Office of the State Controller.



# Income Tax Surprises Nationwide

**Colorado:** individual income tax forecast revised up \$868 million, or 8.2%, March to June

- Corporate revised up \$454 million; Sales up \$171 million

**Delaware:** income tax revised +9% from March to June<sup>1</sup>

**Hawaii:** individual income revised +7% from March to May<sup>2</sup>

**Michigan:** General Fund revenue revised 2.8 billion, +21%, from January to May, “largely” due to individual income tax<sup>3</sup>

**New Jersey:** individual income revised +10% from March to May; April income tax receipts surpassed record by \$1.5 billion or 43%<sup>4</sup>

**North Carolina:** \$1.4 billion surprise in April final payments<sup>5</sup>

**Oregon:** individual income revised +17% from March to June<sup>6</sup>

<sup>1</sup>[Delaware Economic and Financial Advisory Council, June 2022.](#)

<sup>2</sup>[Hawaii Council on Revenues, May 2022.](#)

<sup>3</sup>[Michigan House Fiscal Agency, May 2022.](#)

<sup>4</sup>[New Jersey Department of the Treasury, May 2022.](#)

<sup>5</sup>[North Carolina General Assembly Fiscal Research Division, May 2022.](#)

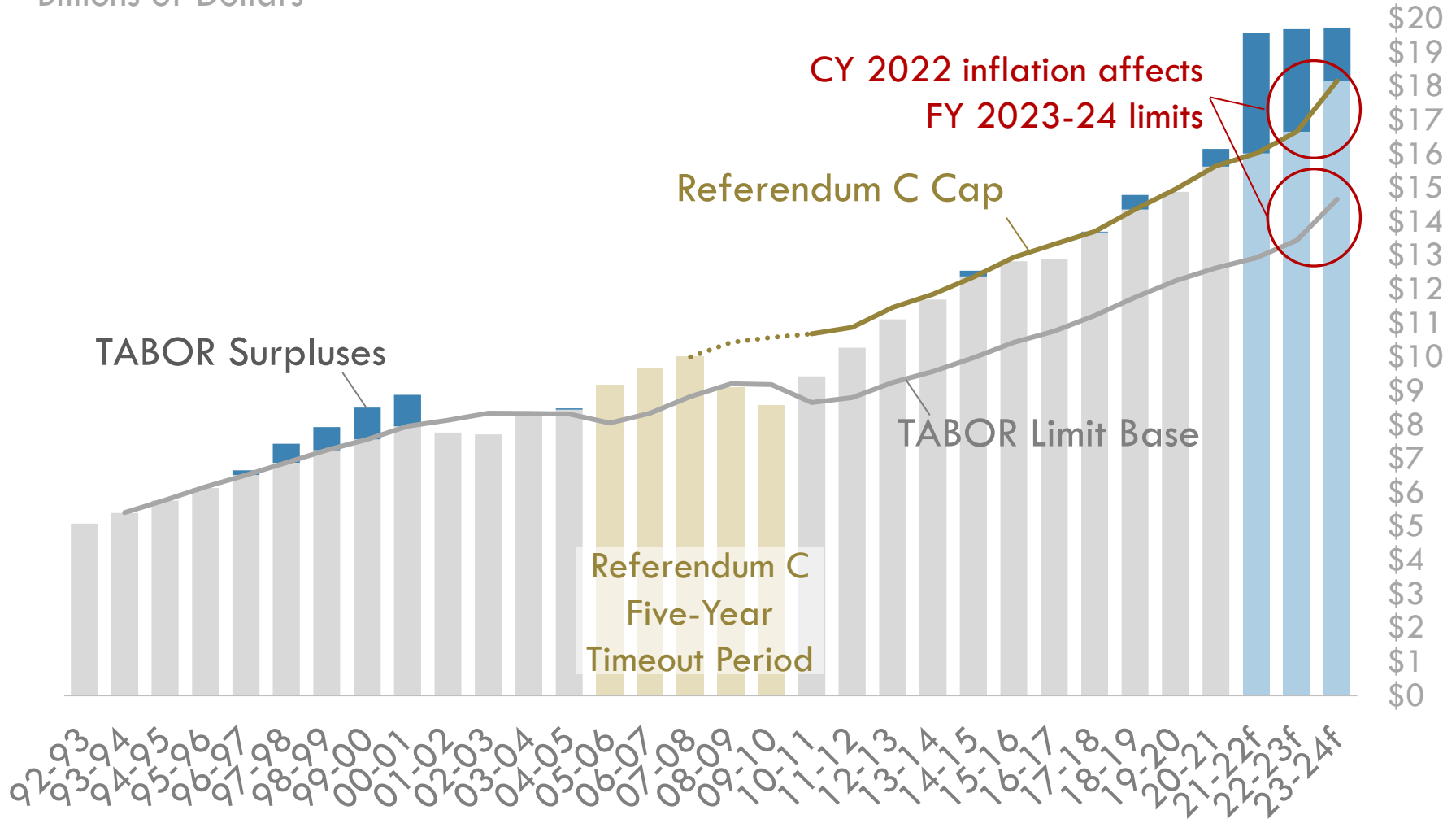
<sup>6</sup>[Oregon Office of Economic Analysis, June 2022.](#)

# TABOR Outlook

Revenue Subject to TABOR  
Billions of Dollars

## Revenue Above the Ref C Cap

FY 2021-22: \$3.65 billion  
FY 2022-23: \$3.02 billion  
FY 2023-24: \$1.57 billion

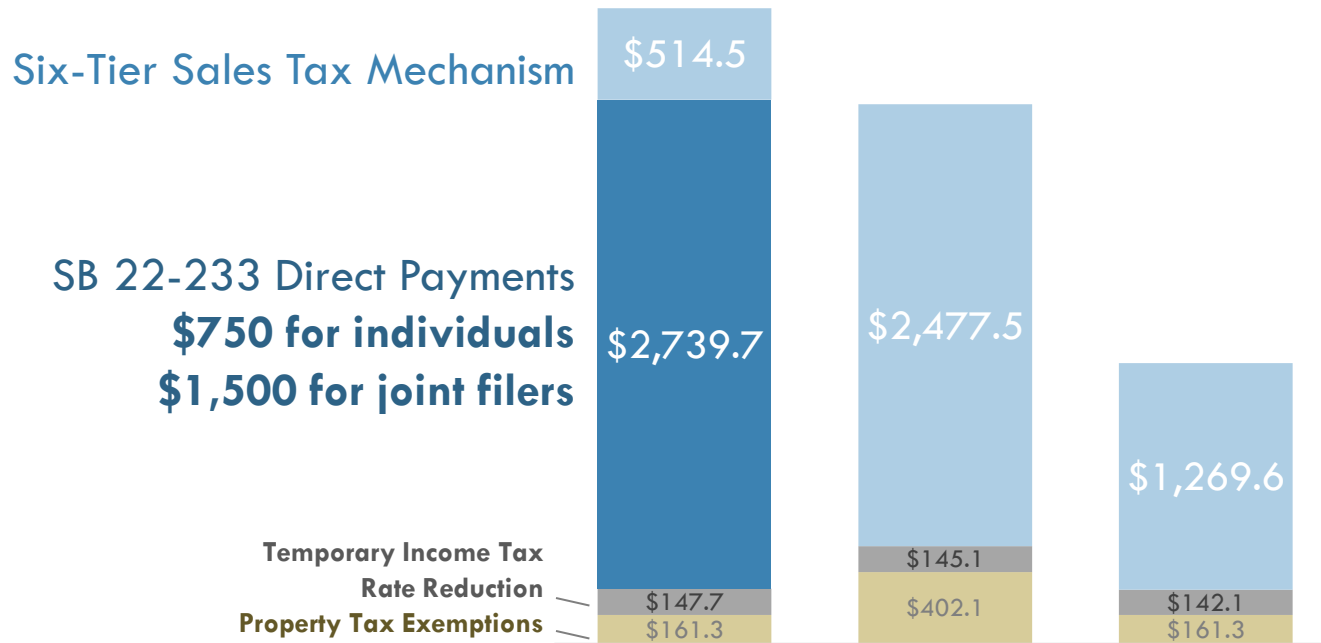


Source: Colorado Office of the State Controller and Legislative Council Staff June 2022 forecast.

# TABOR refunds are expected through the forecast period

## Expected TABOR Mechanism Amounts

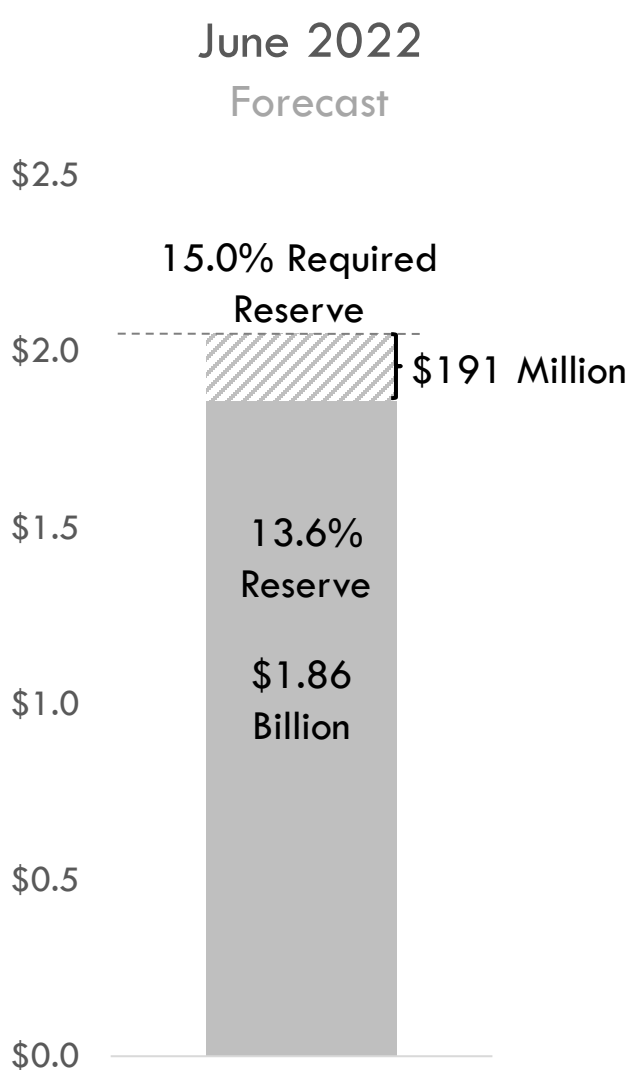
Millions of Dollars



TABOR Surplus & Set Aside:	2021-22	2022-23	2023-24
Refunded in Fiscal Year:	2022-23	2023-24	2024-25

Source: Legislative Council Staff June 2022 forecast.

# Next Year | FY 2022-23 General Fund Revenue



Changes since the  
March 2022 forecast:

Beginning balance \$336 million lower  
from changes in FY 2021-22

Revenue and TABOR refund expectations  
both increased; on net, \$87.9 million  
more in TABOR refund obligation

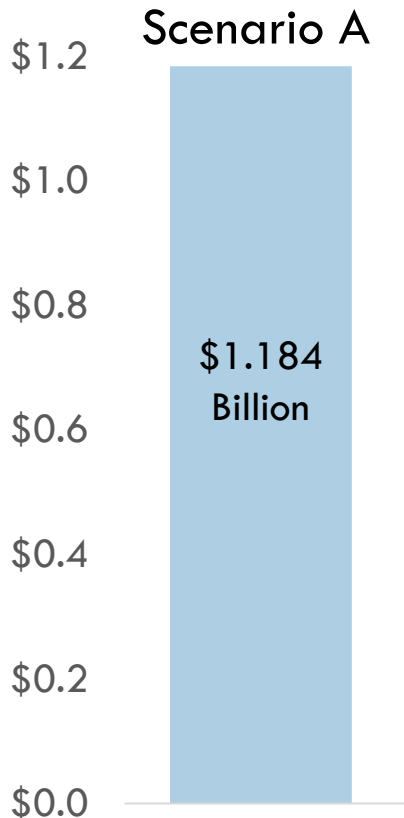
Net transfers from the GF increased  
\$1.31 billion

GF appropriations \$1.48 billion higher  
than FY 2021-22 (increases reserve)

Source: Legislative Council Staff June 2022 forecast. See Table 3 for additional detail.

# Out Year | FY 2023-24 Budget Outlook

**Scenario A:** Additional revenue available to spend or save above FY 2022-23 spending levels. Amounts hold FY 2022-23 appropriations constant and incorporate the revenue forecast, current law transfers, rebates and expenditures, and the 15% reserve requirement.



## Scenario B Assumptions

- Reserve requirement increases by \$77 million
- **Controlled maintenance:** \$141 million
- **IT capital projects:** \$44 million
- **Capital construction:** \$194 million
- **Community provider rates** increase by \$60 million
- **Employee compensation** increases by \$98 million
- Appropriations increase by a net of \$352 million
  - +\$238 million for HCPF
  - +\$168 million for school finance
  - -\$63 million for OIT
  - +\$9 million across other agencies

# Risks to the Forecast

## Elevated recession risk

- Inflation outpacing incomes for most households
- Robust Fed response risks economic contraction
- Other economic risks from supply chains, war in Ukraine, COVID-19

## Risks to the budget outlook

- Revenue will be constrained by the Referendum C cap throughout the forecast period
- Immediate risks to the budget are on the expenditures side
- Regular forecast error can be absorbed by TABOR refunds; a recession would likely constrain revenue available for the budget
- Higher (or lower) cash funds revenue subject to TABOR means more (or less) budget pressure

# Questions?

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[www.leg.colorado.gov/lcs](http://www.leg.colorado.gov/lcs)

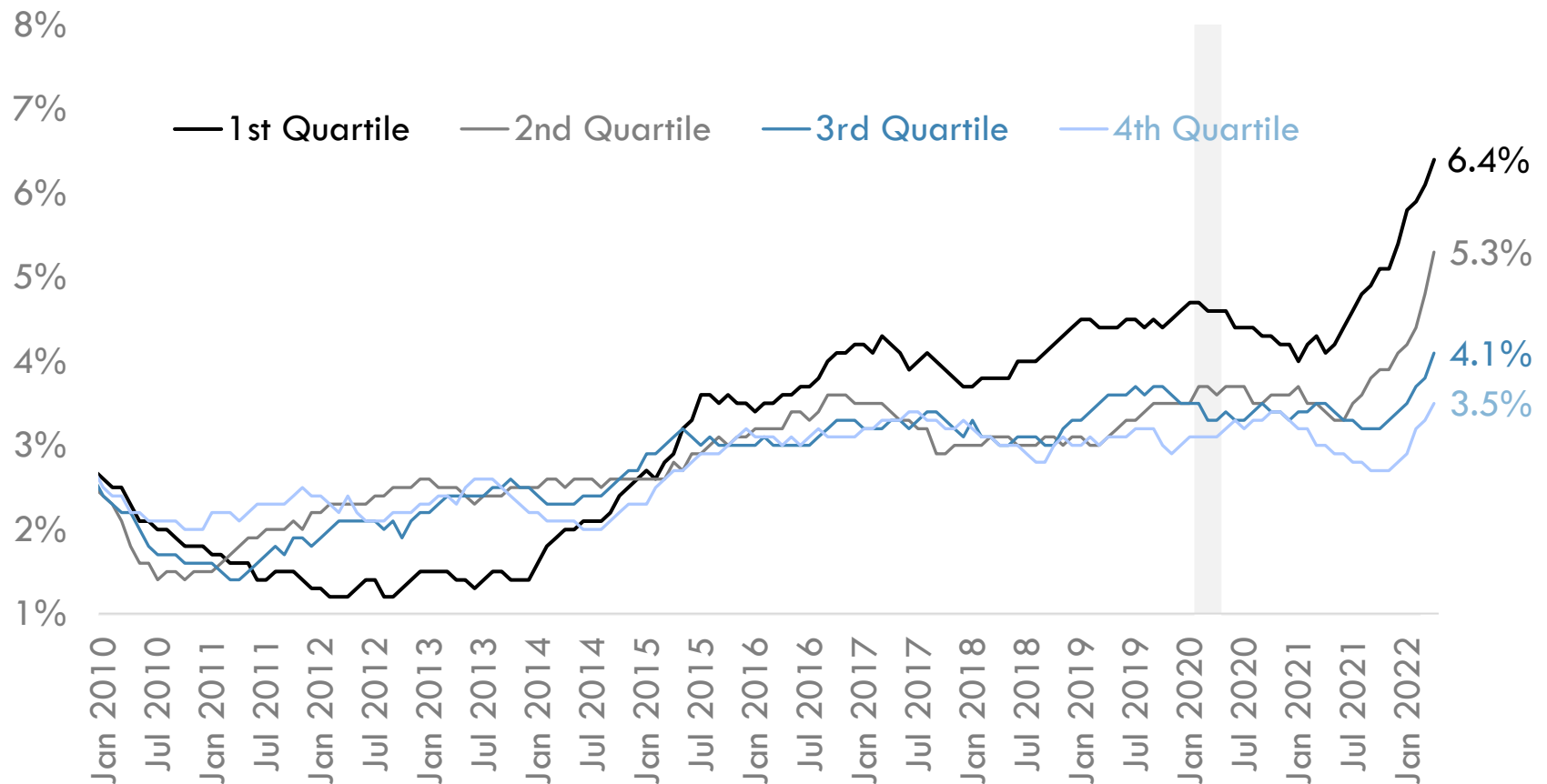


# Supplemental Economic Outlook Slides



# U.S. wage growth varies by wage quartile

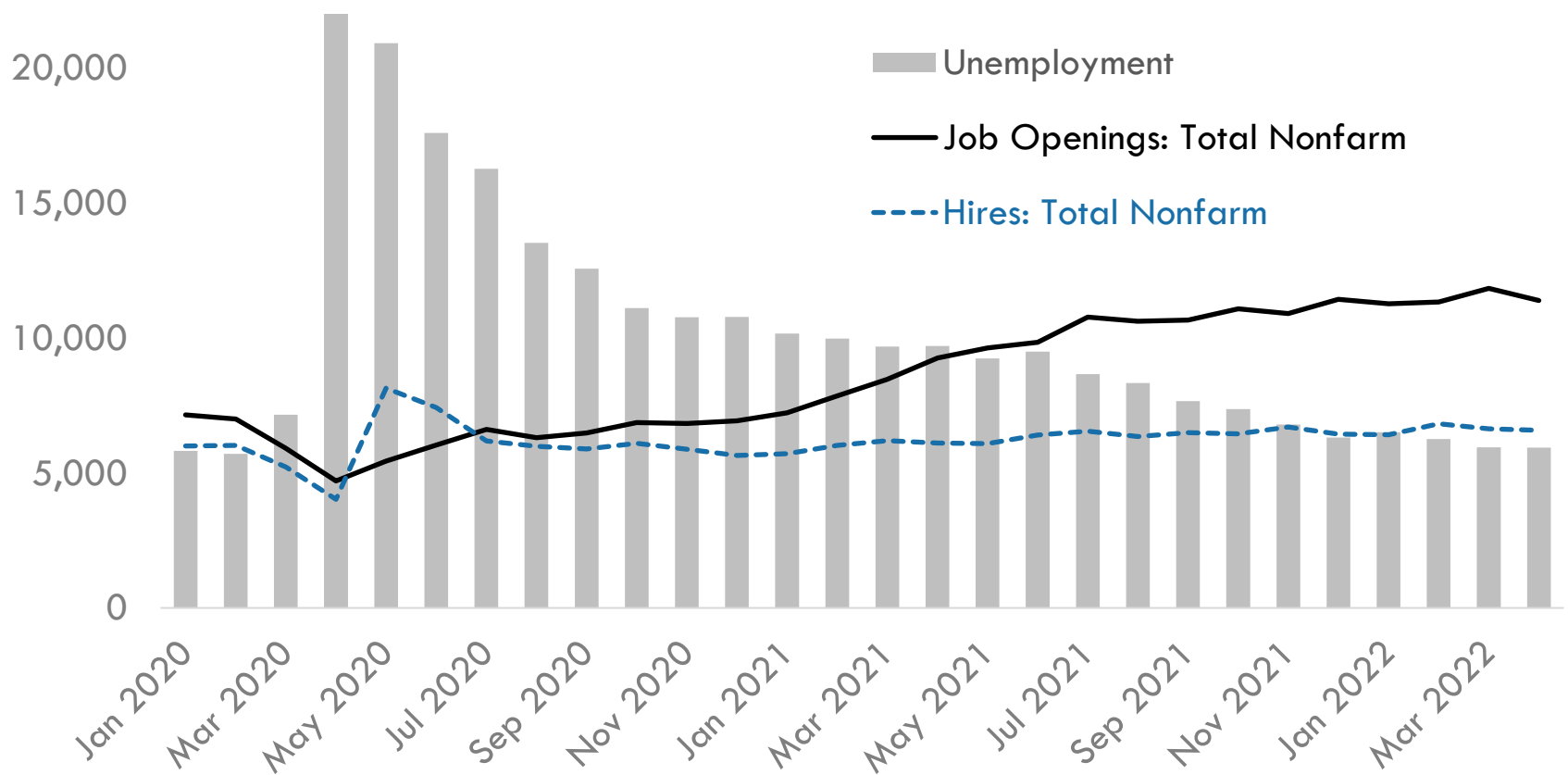
12 month moving averages of monthly median wage growth, lowest 25 percent (1<sup>st</sup> quartile) to highest 25 percent (4<sup>th</sup> quartile)



Source: Federal Reserve Bank of Atlanta Wage Growth Tracker. Data through April 2022.

# Job openings surpass unemployed, outpace hiring activity

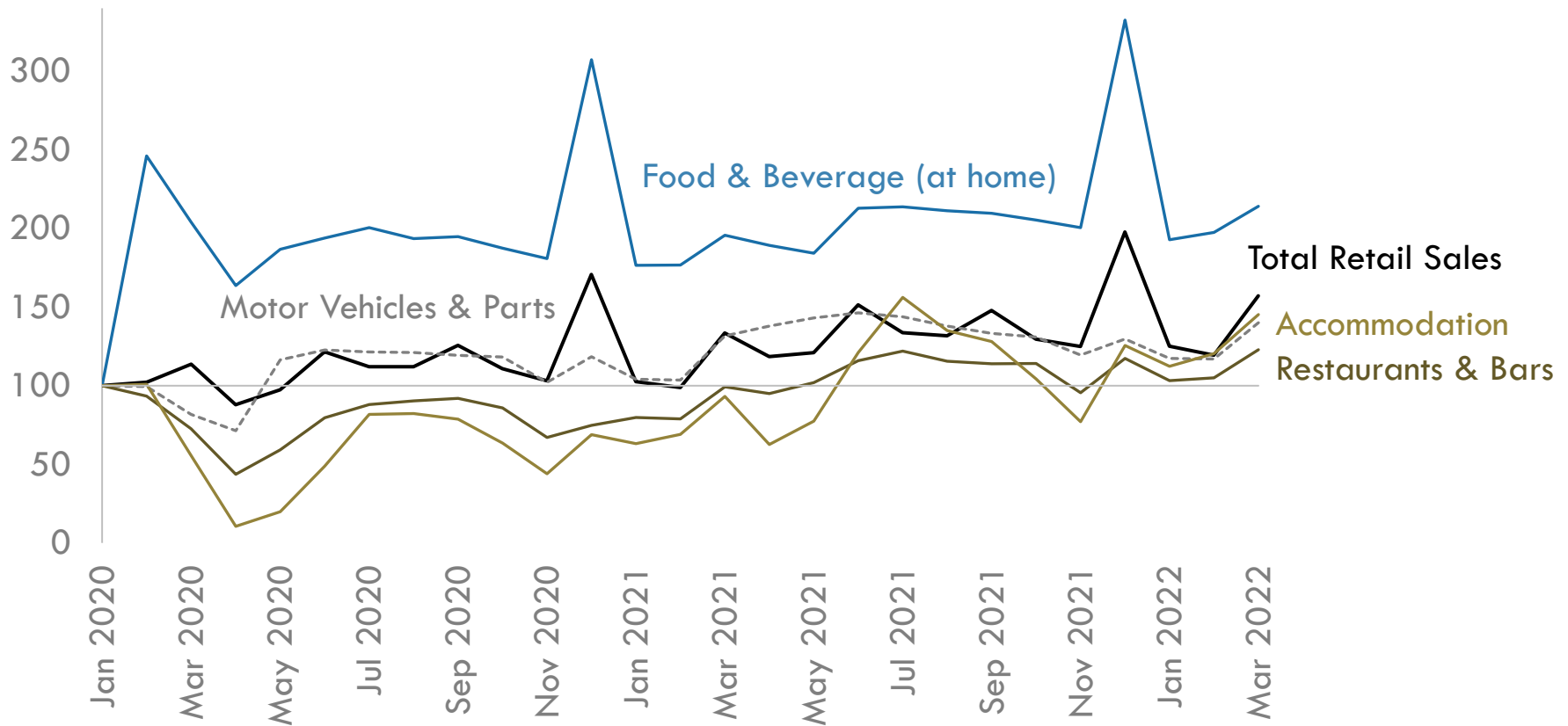
U.S. Unemployment, Job Openings, and Hires  
*Thousands*



Source: U.S. Bureau of Labor Statistics, Current Population Survey (CPS) and Job Openings and Labor Turnover Survey (JOLTS). Seasonally adjusted. Data through April 2022.

# Colorado's retail sales start the year strong, expected to moderate

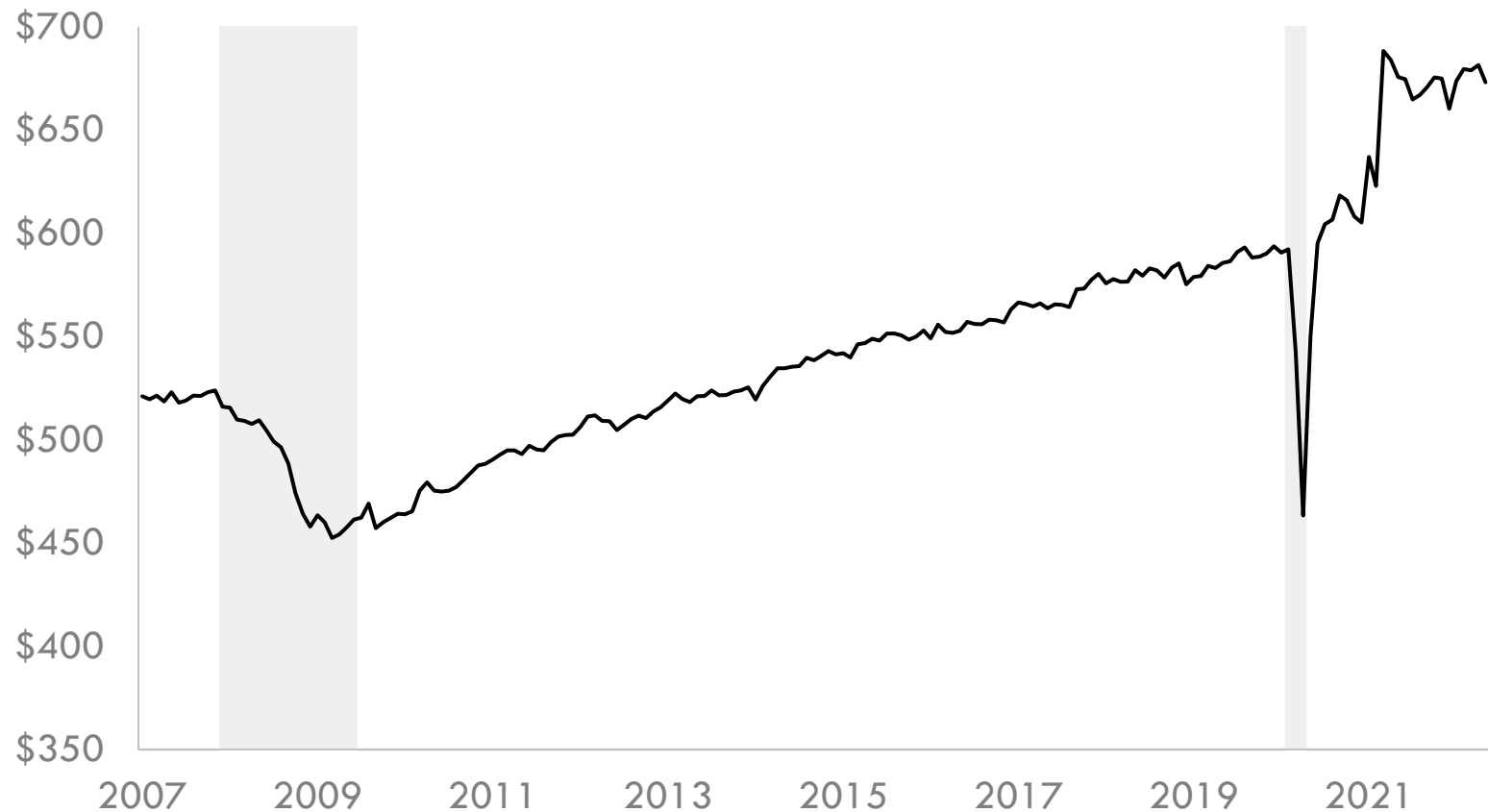
Colorado Retail Sales  
Index January 2020 = 100



# Inflation outpacing sales in several retail categories, goods consumption shifting toward services

## Real U.S. Retail and Food Service Sales

*Billions of 2022 Dollars*

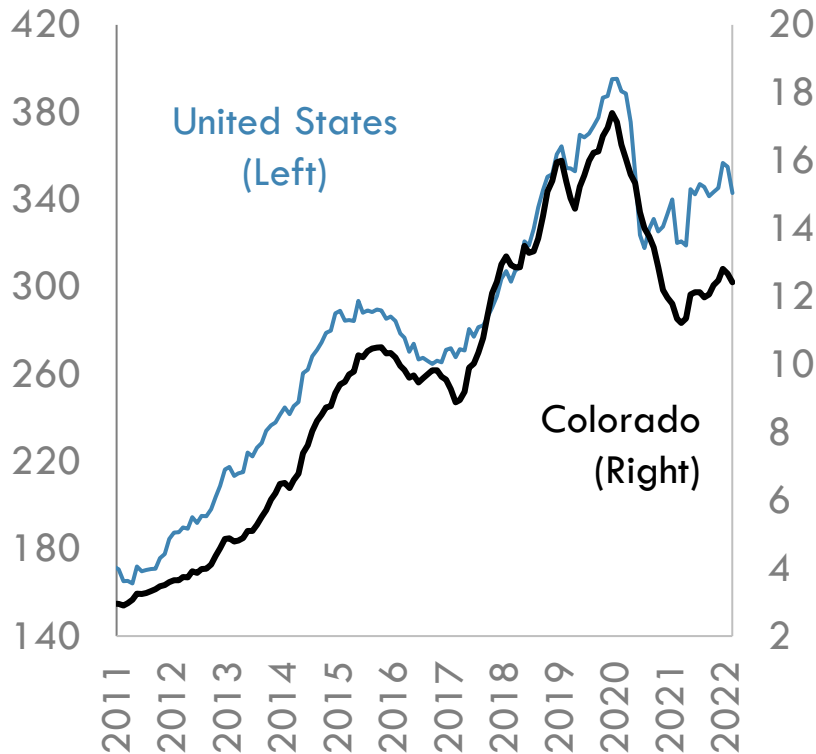


Source: U.S. Census Bureau. Adjusted for inflation using the consumer price index for all urban areas (CPI-U). Data are seasonally adjusted and through May 2022.

# Energy market dynamics

## Crude Oil Production

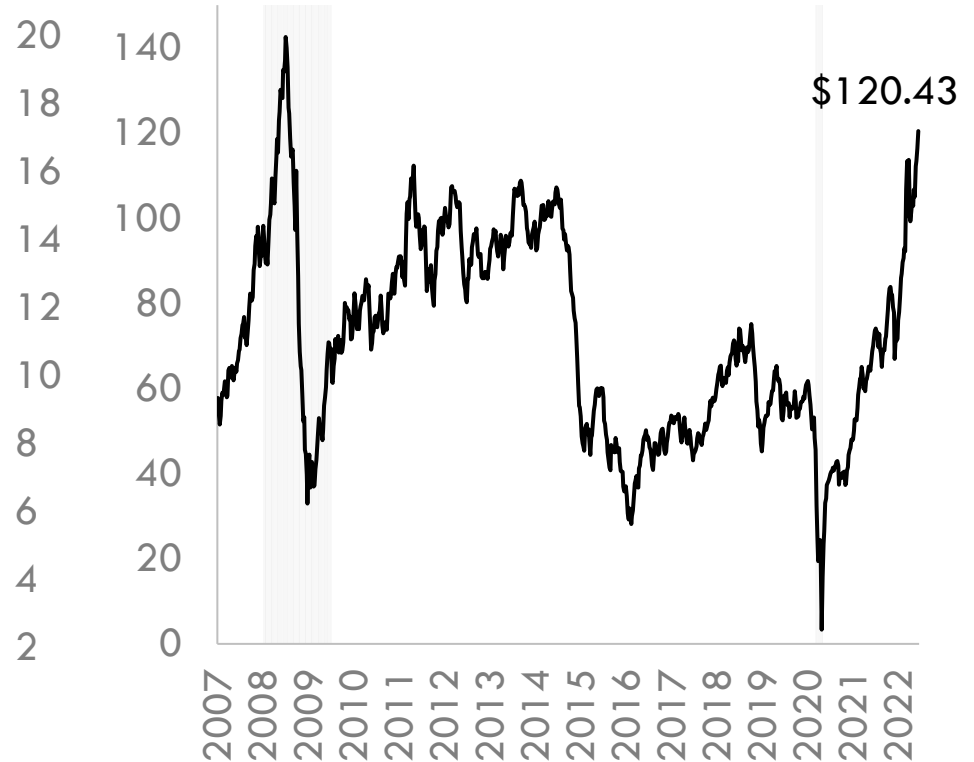
Millions of Barrels per Month



Source: U.S. Energy Information Administration. Data are shown as three-month moving averages and are not seasonally adjusted. Data are through February 2022.

## Crude Oil Price, West Texas Intermediate

Dollars per Barrel



Source: U.S. Energy Information Administration. Weekly average prices. Data are not seasonally adjusted. Data through June 10, 2022.