Oregon Economic and Revenue Forecast SUMMARY

May 2011

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State of Oregon
Department of Administrative Services
Office of Economic Analysis

EXECUTIVE SUMMARY

May 2011

Oregon Economic Forecast

Job growth surged in the first quarter of 2011. The preliminary estimate of the first quarter job gain in Oregon is 5.2 percent at an annualized rate. With the new industry classification system that takes data back to 1990, this is the third strongest quarterly job growth. On a year-over-year (Y/Y) basis, job growth is up 1.8 percent. This the best Y/Y growth rate since the first quarter of 2007. The unemployment rate has edged down slowly and stands at 10.0 percent for March, a full percentage point below the March 2010 rate of 11.0 percent.

The job gains in the first quarter are broad based with virtually all sectors seeing strong growth. Natural resources, construction, manufacturing, and services experienced healthy growth. The government sector on net had positive job gains but less so compared to the private sector. Still, some individual sectors struggled in the first quarter. Job losses were reported at wood products, other durable and nondurable goods, and the federal government.

The strong boost in the first quarter came mainly from February's job gains. Jobs increased 9,700 in February - the largest monthly increase since November 1996. For the last six months, job gains have been averaging over 4,500 jobs per month. Compared to the first six months of job recovery following the previous recession, job gains averaged over 3,300 per month from July to December 2003. If February's job gains were half as strong, then the average monthly job increases would be comparable to the second half of 2003

In this space for the March 2011 forecast, we had a list of risks, both downside and upside, that are likely to face the US economy in 2011. Nowhere on that list will you find "earthquake". The risk list does contain oil prices but not the wave of protests in the Middle East. Just as the US economy appears to be on "firmer footing", events beyond anyone's control adds a touch of uncertainty to the economic outlook.

Similar to the US economy, the Oregon economy appears to be on "firmer footing". The job growth picture has improved since last September, even though the March 2011 job report was a bit disappointing. Oregon had the 7th fastest job growth Y/Y for March among the 50 states. The unemployment rate is now a full percentage point below a year ago. Various state leading economic indicators point to continued improvement in the economy.

Impacts from the natural disaster in Japan are expected to have small but temporary impact on Oregon's economy. Japan exports are 7.8 percent of Oregon's total exports in 2010 and these are expected to be temporarily disrupted as port activity is delaying shipping into Japan. Once the reconstruction phase begins, Oregon could see a small and temporary bump up in exports to Japan. Supply chain disruptions may occur for various firms but Intel states that their production process should be able to continue with short-term sourcing from other suppliers, if that need arises.

The other two headwinds, Middle East and Europe, have the same cautious impacts for the Oregon economy as for the US economy. Gasoline prices taking up a greater portion of household budgets, inflation and higher interest rates slow economic growth and add pressure to a struggling real estate market.

Against this background, OEA (Office of Economic Analysis) forecasts an increase of 2.6 percent in total employment in the second quarter and 2.2 percent in the third quarter of 2011. The year 2001 ends with growth above 2.0 percent and continues into 2012.

The year average for 2011 is an employment increase of 2.4 percent. This growth pattern is maintained through 2012 and 2013 with job growth of 2.5 and 2.4 percent, respectively.

The wood products industry will slowly recover along with the housing sector, but will not regain all the lost jobs during the recession over our forecast period (forecast out to 2021). The wood products industry is still projected to lose 3.3 percent of its employment in 2011. As housing starts to slowly rebound, jobs will grow 2.8 percent in 2012 and reach 6.7 percent growth in 2013. But even with this more robust growth for 2013, wood product jobs are still down 35.4 percent compared to their recent high in 2005.

Computer and electronic product sector is set to add jobs in 2011 after 4 years of job declines. The computer and electronic product sector is projected to add jobs at a rate of 2.5 percent in 2011. Job growth will continue at an annual rate of 2.9 percent in 2012 and 3.6 percent in 2013.

The transportation equipment sector has been especially hard hit by the recession. A rebound is forecasted to begin this year with job growth of 3.4 percent. Job growth continues to climb with rates of 6.1 percent in 2012 and 8.0 percent in 2013. The growth rates in the next two years appear to be quite strong but do little to raise the level of employment. Job levels are expected to reach an average of 12,100 in 2013 compared to 17,400 in 2007 just before the start of the recession.

Metals and machinery job levels increased during 2010 as the manufacturing sector was doing marginally better. This sector will add jobs at a healthy clip in 2011 with growth of 7.5 percent. Job growth continues with rates of 5.7 percent in 2012 and 2.0 percent in 2013.

Other durables are forecasted to add jobs at a rate of 0.9 percent in 2011. Job growth increases to 3.7 percent in 2012 and 3.1 percent in 2013. This sector includes industries involved in electrical equipment, appliance, and component manufacturing, furniture and cabinet making, and other types of manufacturing such as medical and dental equipment.

Employment in food processing is forecast to increase 1.0 percent in 2011. Employment is expected to fall at a rate of 2.1 percent in 2012 and return to job growth of 1.6 percent in 2013.
This sector is subject to wide employment swings due to seasonal factors.

Other nondurables, which includes paper and allied products, is projected to have job declines of 3.7 percent in 2011, then increases of 1.3 percent in 2012 and 0.8 percent in 2013.

Construction is expected to follow the housing market with slow improvements over the next couple of years. With a relatively weak growth expected for housing and commercial real estate, the federal and state stimulus dollars directed at highways and other public works is winding down.

This sector is projected to add jobs at the rate of 1.7 percent in 2011, 1.9 percent in 2012, and 5.5 percent in 2013.

Trade, transportation, and utilities, is projected to add jobs at a rate of 2.5 percent in 2011, 3.2 percent in 2012, and 2.5 percent in 2013. Retail trade job growth will be 2.9 percent in 2011, 1.8 percent in 2012, and 1.7 percent in 2013. Wholesale trade will see job growth of 1.3 percent in 2011, 5.1 percent in 2012, and 3.1 percent in 2013.

The information sector, which includes traditional publishers such as newspapers and publishers of software, will add jobs at a rate of 5.5 percent in 2011. This sector had a strong start to 2011 and is expected to carry this into 2012. Job growth is forecasted at 4.8 percent in 2012 and 1.5 percent in 2013.

The financial sector, which includes banks, real estate, and rental activities, will see a slow recovery this year. Financial activities are projected to gain jobs at 1.4 percent rate in 2011 followed by growth of 3.4 percent in 2012. Growth continues in 2013 with job gains of 3.6 percent.

Professional and business services are projected to strongly increase 6.2 percent in 2011, with continued increases of 3.8 percent in 2012, and 2.5 percent in 2013.

Education and health services was the only broad job sector to add jobs every year through the recession. This sector was not immune from the recession as job growth did slow during these years. This sector is projected to add jobs at a rate of 3.3 percent in 2011, 3.5 percent in 2012, and 3.2 percent in 2013.

Leisure and Hospitality had a strong initial start to 2011 after a rough time through the recession. This sector is projected to increase 4.4 percent in 2011 and 3.4 percent in 2012. Job growth will continue in 2013 with growth of 2.0 percent.

The government sector will decline by 1.4 percent in 2011 and 1.1 percent in 2012, before adding jobs at 0.5 percent in 2013. The government sector is a relatively late comer to recessions. State government is forecasted to grow 0.6 percent in 2011, mainly due to increased demand at state higher education. Job losses are expected at 1.0 percent in 2012 and relatively flat growth of 0.3 percent in 2013. Local government is expected to lose jobs at the rate of 1.3 percent in 2011 and 1.1 percent in 2012. Mild job growth returns in 2013 with 0.8 percent.

Population growth will slowly pick up along with the economic recovery. Population growth is forecasted to be 0.7 percent in 2011, 0.9 percent in 2012, and 1.0 percent in 2013.

Forecast Risks

In a speech to the New England Society (December 22, 1876), Mark Twain commented on the weather: “In the spring I have counted one hundred and thirty-six different kinds of weather inside of four-and-twenty hours.” Economic conditions seem to follow the old adage that sprang from this speech: “If you don’t like the weather, just wait a minute.” But we liked the economic conditions last January and in just a short three months, a very sunny outlook has become a bit more clouded. IHS Global Insight increased their pessimistic outlook chances from 15 percent to 20 percent, matching the optimistic outlook. One would have been hard pressed to find any articles discussing a double-dip recession back in January. That search is easier today.

What may have seemed an isolated event in Tunisia in early January quickly spread like fire throughout the Middle East. Nature unleashed its deadly force in early March as the earthquake and ensuing tsunami swept through Japan. The stability of the European Union is being challenged by sovereign debt issues in Greece, Ireland, and Portugal. The oversea headwinds are finding their way to the US economy. And at home, we still have questions about the health of our housing market and the resiliency of the economy as federal rescue programs come to an end. The weak advanced measure of 1.8 percent first quarter real GDP growth is confirming our fears of commodity inflation impacting household’s budgets.

Although the above passage paints a picture of concern, not all is doom and gloom. It’s hard to imagine that oil prices can continue to rise if wages and salaries are not going up at the same pace. Both the US and Oregon economies have been producing better job gains the last few months. Even though the Federal Reserve has announced the end to the Quantitative Easing Part II this summer, financial markets have barely budged. The resiliency of the US economy has fooled forecasters in the past and this recovery may have better strength than realized.

The Oregon economy is facing the same headwinds. We know that some industries will not come back during this recovery while others may surge ahead. The Oregon housing market will likely be slow to recovery compared to other parts of the economy. Unknowns still exist as to the oversupply of houses and degree of foreclosures yet to come. Still, the job performance among a number of sectors in the first quarter of 2011 is nothing short of impressive. Once again, the prospective look forward is more cautionary but not without hope. The recovery is happening, but the green go ahead has a bit more yellow caution.

We will continue to monitor and recognize the potential impacts of risk factors on the Oregon economy. We have identified the major risks now facing the Oregon economy in the list below:

- *Contagion of the credit crunch and financial market instability*. As more time passes, this downside risk becomes less likely to occur. Credit markets are easing, but consumers and businesses still have difficulty getting loans. To the extent that credit markets take longer to come back to some sort of state of normalcy, the current recovery could be slower than projected or thrown off track. Housing and commercial real estate may take longer for credit conditions to improve. Oregon will suffer the consequences along with the rest of the nation.

- *Prolonged housing market instability.* Signs are starting to emerge that the housing market has hit bottom, at least in terms of housing starts, but prices may have further to fall. Foreclosures and delinquency rates are still relatively high. Oregon, with the rest of the nation, will still see corrections to the housing market in 2011. The question is whether the job growth will kick in to alleviate the downward pressures from declining housing prices and oversupply of homes. The housing market appears to be the biggest threat to a sustained economic recovery in Oregon.

- *Commodity price inflation.* With world economies starting to recover and emerging markets still strong, the stage is set for higher commodity prices. Food prices are near their 2008 highs. Oil prices have topped a $100 a barrel. Industrial metals are also on the rise. This could be a repeat of commodity price spikes that took place in 2007-2008. The risk is how disruptive this will be on businesses and whether the commodity price inflation will lead to general inflation. With a weak recovery that needs to build strength, the commodity inflation could throw this off track. Then again, if this is only a change in relative prices and wages costs do not accelerate, this commodity inflation could be short lived.

- *Loss of federal timber payments to Oregon counties*. President Obama included a reduced federal timbers payment package in the 2012 federal budget. The amount has been reduced by 10 percent and reduces by 20 percent over five years. Questions remain as to whether this item will survive further budget changes from Congress. If the federal timber payments do not survive, the last payments to counties will be this October. While this temporary reinstatement helps cover short term budgets for Oregon counties, finding or replacing this dwindling revenue source will be imperative as any loss of public services could have adverse impacts on economic activity.

- *Global Spillovers Both Up and Down.* The international list of risks seems to change by the day. Sovereign debt problems in Europe, equity and property bubbles in places like South America and Asia, political unrest in the Middle East, and commodity price spikes and inflationary pressures in emerging markets. The natural disaster in Japan may cause some supply chain disruptions to Oregon firms but the coming reconstruction phase may bring new business. Also internationally we have economies recovering, incomes rising, and demand for U.S. and Oregon exports are rising. Whether the downside risks will dissipate and the recoveries take hold will influence the direction of strength of U.S. and Oregon economic recoveries. With China now the top destination for Oregon exports, the state of the Chinese economy has spillover effects to the Oregon economy.

- *State and Local Governments*. The Center on Budget and Policy Priorities finds that 44 states and the District of Columbia are projecting budget shortfalls totaling $125 billion for fiscal year 2012 which generally starts this summer. Local government budget shortfalls add to this total. Oregon is among the states facing a budget shortfall. Given that further tax increases are unlikely in Oregon, balancing budgets will mainly be through spending cuts. In a mixed private-public economy, this will be a drag on the economic recovery. The question is whether the building strength of the private sector will be enough to continue the recovery through the state and local government budget crises.

- *Undoing the Federal Policy Used to Combat the Financial Crisis and Recession*. Bailouts, tax cuts, monetary quantitative easing, and other fiscal packages most likely prevented a more serious economic downturn. But the clean up after the storm can have its own risks to the economy. Exit strategies will have to be carefully implemented to prevent premature tightening and choking off the recovery or acting too late to avoid an inflationary environment. All states, including Oregon, face the same risks.

- *Initiatives, referendums, and referrals*. Generally, the ballot box brings a number of unknowns that could have sweeping impacts on the Oregon economy.

Demographic Forecast

Oregon's population count on April 1, 2010 was 3,831,074. Oregon gained 409,550 persons between the years 2000 and 2010. The population growth between 2000 and 2010 censes was 12.0 percent, down from 20.4 percent growth between 1990 and 2000 censuses. Slow population growth during the most recent decade due to double recessions probably cost Oregon one additional seat in the U.S. House of Representatives. Actually the decennial population growth rate during the most recent decade was the second lowest since 1900. The slowest was during the 1980 when Oregon was hit hard by another recession. As a result of recent economic downturn and slow pace of recovery, Oregon's population is expected to continue a slow pace of growth in the near future. Based on the current forecast, Oregon's population will reach 4.29 million in the year 2020 with an annual rate of growth of 1.1 percent between 2010 and 2020.

Oregon's economic condition heavily influences the state's population growth. Its economy determines the ability to retain local work force as well as attract job seekers from national and international labor market. As Oregon's total fertility rate remains below the replacement level and deaths continue to rise due to ageing population, long-term growth comes mainly from net in-migration. Working-age adults come to Oregon as long as we have good economic and employment situations. During the 1980s, that included a major recession and a net loss of population, net migration contributed to 22 percent of the population change. On the other extreme, net migration accounted for 73 percent of the population change during the booming economy of 1990s. This share of migration to population change declined to 56 percent in 2002 and it was further down to 28 percent in 2010. As a sign of slow to modest economic gain, the ratio of net migration-to-population change will increase gradually and will reach 76 percent by the end of the forecast horizon. Although economy and employment situation in Oregon look stagnant at this time, migration situation is not expected to replicate the early 1980s pattern. Potential Oregon out-migrants have no better place to go since other states are also in the same boat in terms of economy and employment.

Age structure and its change affect employment, state revenue, and expenditure. Growth in many age groups will show the effects of the baby-boom and their echo generations during the period of 2010-2020. It will also reflect demographics impacted by the depression era birth cohort combined with diminished migration of the working age population and elderly retirees. After a period of slow growth during the first half of the last decade, the elderly population (65+) has picked up a faster pace of growth and will surge as the baby-boom generation continue to enter this age group. The average annual growth of the elderly population will be 4.2 percent during the forecast period as the boomers continue to enter retirement age. However, the youngest elderly (aged 65-74) will grow at an extremely fast pace during the forecast period, even exceeding 6 percent annual rate of growth due to the direct impact of the baby-boom generation entering retirement age. Reversing several years of shrinking population, the elderly aged 75-84 will start a positive growth as the effect of depression era birth-cohort will dissipate. The oldest elderly (aged 85+) will continue to grow at a moderately but steady rate due to the combination of cohort change, continued positive net migration, and improving longevity. However, the annual growth rate will continue to taper off as the depression era small birth cohort transitions from the younger age group.

As the baby-boom generation matures out of oldest working-age cohort combined with slowing net migration, the once fast-paced growth of population aged 45-64 will gradually taper off to a below zero percent rate by 2012 and will remain at slow growth phase for several years. The young adult population (aged 18-24) will remain virtually unchanged for several years into the future. Although the slow or stagnant growth of college-age population (age 18-24) tend to ease the pressure on public spending on higher education, college enrollment typically goes up during the time of high unemployment and scarcity of well paying jobs when even the older people flock back to college to better position themselves in a tough job market. The growth rate for children under the age of five will remain below zero percent in the near future and will see positive growth only after 2014. Although the number of children under the age of five will decline slightly in the near future, the demand for child care services and pre-Kindergarten program will be additionally determined by the labor force participation of the parents. The growth in K-12 population (aged 5-17) will remain low which will translate into slow growth in school enrollments. This school-age population has actually declined in size. The 25-44 age group population has reversed several years of declining trend during the early part of the last decade and before. The decline was mainly due to the exiting baby-boom cohort. This age group has seen positive growth starting in the year 2004 and will increase by 1.1 percent annual average rate during the forecast horizon. Overall, elderly population over age 65 will increase rapidly whereas population groups under age 65 will experience slow growth in the coming decade.

II. REVENUE FORECAST

Summary

The recovery in Oregon’s general fund revenues is well under way. Personal income tax collections have grown at double-digit rates since the beginning of the year. Although many households are still struggling, payrolls are now expanding in the state’s largest population centers. As a result, long-awaited growth in taxable wages has arrived to supplement the considerable gains in profits and other nonwage forms of taxable income that local investors and firms earned throughout tax year 2010.

The revenue recovery’s fast start comes as no surprise given Oregon’s experiences over the past two decades. The state’s volatile income tax collections have spiked when buoyed by a combination of job gains and growth in asset prices. Collections in the current biennium are exceeding those in most other states. For Oregon, revenues are tracking close to the aggressive outlook assumed in the March and November forecasts.

Looking forward into the 2011-13 biennium and beyond, the improved outlook for job growth has resulted in an upward revision to the revenue forecast. In particular, withholdings of personal income taxes out of paychecks are now expected to be larger. However, these additional collections out of labor income will be offset to some degree by a weaker outlook for a wide range of asset-based income sources (e.g. profits, inheritance, individual retirement accounts and capital gains). Although the overall upward revision to the revenue outlook for future years is a significant one, it is not large enough to make much of a dent in the budget pressures currently faced by Oregon's policymakers.

After the smoke clears, revenue growth in Oregon and other states will face considerable downward pressure over the 10-year extended forecast horizon. As the baby boom population cohort works less and spends less, traditional state tax instruments such as personal income taxes and general sales taxes will become less effective, and revenue growth will fail to match the pace seen during recent periods of economic expansion.

A. 2009-11 General Fund Revenues

Growth in general fund revenues has accelerated throughout the current biennium. In particular, personal income tax collections have picked up noticeably in 2011 in step with the improvement in labor market conditions. During the peak processing season so far this year, final personal income tax collections are coming in 30% larger than in 2010. In contrast, final personal income tax collections were 30% down on the year as the 2007-09 biennium drew to a close. Although some of the recent strength in personal income tax collections can be traced to changes in the 2011 withholding schedules rather than to increases in tax liability, underlying growth in taxable income is easily the strongest Oregon has seen since the housing boom.

Despite the strong start to the revenue recovery, the outlook for the 2009-11 biennium is somewhat weaker than what was predicted in the March 2011 forecast. The forecast for General Fund revenues for 2009-11 is now $12,380 million. This represents a decrease of $49.0 million from the March 2011 forecast. This downward revision is primarily the result of a weaker outlook for final and estimated personal income tax payments, together with a weaker outlook for collections of inheritance taxes

Table R.1

2009-11 General Fund Forecast Summary

(Millions)	2009 COS Forecast	March 2011 Forecast	May 2011 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	$11,545.7	$10,458.2	$10,431.0	-$27.2	-$1,114.7
Corporate Income Tax	$831.6	$841.3	$842.1	$0.7	$10.4
All Other Revenues	$1,198.4	$1,130.0	$1,107.4	-$22.6	-$91.0
Gross GF Revenues	$13,575.7	$12,429.4	$12,380.4	-$49.0	-$1,195.3
Administrative Actions[1]	-$43.7	-$15.7	-$8.2	$7.5	$35.5
Legislative Actions	$0.0	$123.0	$123.0	$0.0	$123.0
Net Available Resources	**$13,532.0**	**$12,536.7**	**$12,495.2**	**-$41.5**	**-$1,036.8**
Confidence Intervals					
67% Confidence	**+/- 1.7%**		**$210.5**	**$12.17B to $12.59B**	
95% Confidence	**+/- 3.4%**		**$420.9**	**$11.96B to $12.80B**	

1 Reflects cost of cashflow management actions, exclusive of internal borrowing.

After incorporating the use of Rainy Day Funds and other legislative actions, total available resources amount to $12,495 million. Table B.1 in Appendix B presents detailed revenue information for the 2009-11 biennium.

The forecast for the 2009-11 biennium is now $1,115 million below the Close of Session forecast. Year-end personal income tax payments, particularly those related to nonwage forms of income, remain much lower than what was expected at the onset of the recession.

Although the biennium is winding to a close, uncertainty remains, since a large share of tax payments have yet to be processed. In the average biennium, 10% of personal income tax revenues and 13% of corporate income tax revenues are collected over the final six weeks. Given that such a large share of corporate tax payments remain outstanding, and that corporate tax collections have closely matched the Close of Session forecast to date, a significant shortfall or a corporate kicker payment both remain in play for this biennium should conditions change.

The latest revenue forecast for the current biennium represents the most probable outcome given available information. OEA feels that it is important that anyone using this forecast for decision-making purposes recognize the potential for actual revenues to depart significantly from this projection. Table R.1 presents the May forecast for the 2009-11 biennium, including guidelines for budgetary purposes. Section D discusses explicit risks that might cause actual revenues to differ substantially from the forecast. Appendix Table B.8 compares the past quarter receipts with what was forecasted, as well as with what happened a year prior.

Personal Income Tax

On a cash basis, personal income tax collections totaled $1,152 million for the third quarter of fiscal year 2011, $22.0 million below the latest forecast. Withholding receipts of $1,263 million came in $4.1 million below the forecast. Estimated payments and refunds were $8.5 million and $26.2 million below the forecast respectively. Final and other personal income tax payments were $27.6 million larger than expected. Compared to the year-ago level, total personal income tax collections were up 16.3 percent relative to a forecast of 18.5 percent growth. Table B.8 in Appendix B presents a comparison of actual and projected personal income tax revenues for the third quarter of fiscal year 2011.

The forecast for total personal income tax receipts during the current biennium was reduced by $27.2 million from the March forecast. Most of this revision was due to the lower than expected third quarter collections. Unexpected weakness in payments from tax returns processed during early May has also lowered expected fourth quarter collections slightly. In recent years, as electronic filing of tax returns has become more widespread, more and more year-end tax returns are being processed before May. Under the updated outlook, personal income tax collections during the current biennium will be 3.4% higher than in 2007-09.

Corporate Income Tax

Corporate income taxes equaled $73.1 million for the third quarter of fiscal year 2011, $3.6 million above the March forecast. Quarterly corporate receipts were 12.9% higher than figures from a year ago. Table B.8 in Appendix B presents a comparison of actual and projected corporate income tax revenues for the third quarter of fiscal year 2011.

Corporate profits, and associated tax collections, are cooling off rapidly after reaching record highs earlier in the fiscal year. In most states, corporate tax collections are down sharply compared with year ago levels. In Oregon, corporate tax collections are still higher than they were last year at this time, but growth has rapidly leveled off. Strong earnings reports from many of Oregon's largest taxpaying entities suggest that collections will remain healthy for a while. However, corporate tax collections are likely to return to earth at some point during the next fiscal year.

The corporate income tax forecast for the biennium as a whole is now $10.4 million above the Close of Session forecast. If this outlook is realized, collections would fall a mere $6.2 million below the 2% kicker threshold.

Non-income Tax Sources of Revenue

All other revenues will total $1,107.4 million for the biennium, a decrease of $22.6 million from the prior forecast. Most of the forecast changes for non-income tax sources of revenue can be traced to lower than expected collections of inheritance taxes. Although collections of inheritance taxes are not closely tied to contemporaneous economic activity, falling asset prices and federal tax law changes contributed to the low revenues.

B. Extended General Fund Revenue Outlook

Table R.2 exhibits the long-run forecast for General Fund revenues through the 2019-21 biennium. It bears repeating that the potential for error in the forecast increases substantially the further ahead we look.

General Fund revenues will total $13,901 million in 2011-13, an increase of 12.3 percent from the prior period, and $127 million above the March forecast. In 2013-15, revenue growth will accelerate to 16.1%, followed by 12.0% growth in 2015-17 and slower rates of 10% to 11% growth in subsequent biennia. Revenues in 2015-17 and beyond are expected to be significantly larger than in the March forecast, largely due to the improved outlook for job growth. The outlook for revenues in 2013-15 has not been revised upward by much, due to downward revisions in the outlook for nonwage sources of taxable income. Table B.2 in Appendix presents a more detailed look at the long-term General Fund revenue forecast

The forecast for total personal income tax receipts during the 2011-13 biennium was increased by $169.3 million from the March forecast. Much of this increase comes from additional tax withholdings out of wages and salaries. With the labor market rebound now expected to take less time, personal income tax collections are expected to show additional strength.

The forecast for total personal income tax receipts during the 2013-15 budget period was revised upward only modestly ($24.0 million) from the March forecast. Although the expectation of more jobs continues to support the outlook for collections in 2013-15, this support is offset by weaker expectations for nonwage income sources. Among the factors constraining collections in 2013-15 include the pull-forward of realizations of capital gains in response to future federal tax law changes, fewer taxable IRA withdrawals following the depletion of assets in 2011-13, lower profits, the decline in tax rates among Oregon's high-income households and a downward revision to inheritance taxes due to wealth losses.

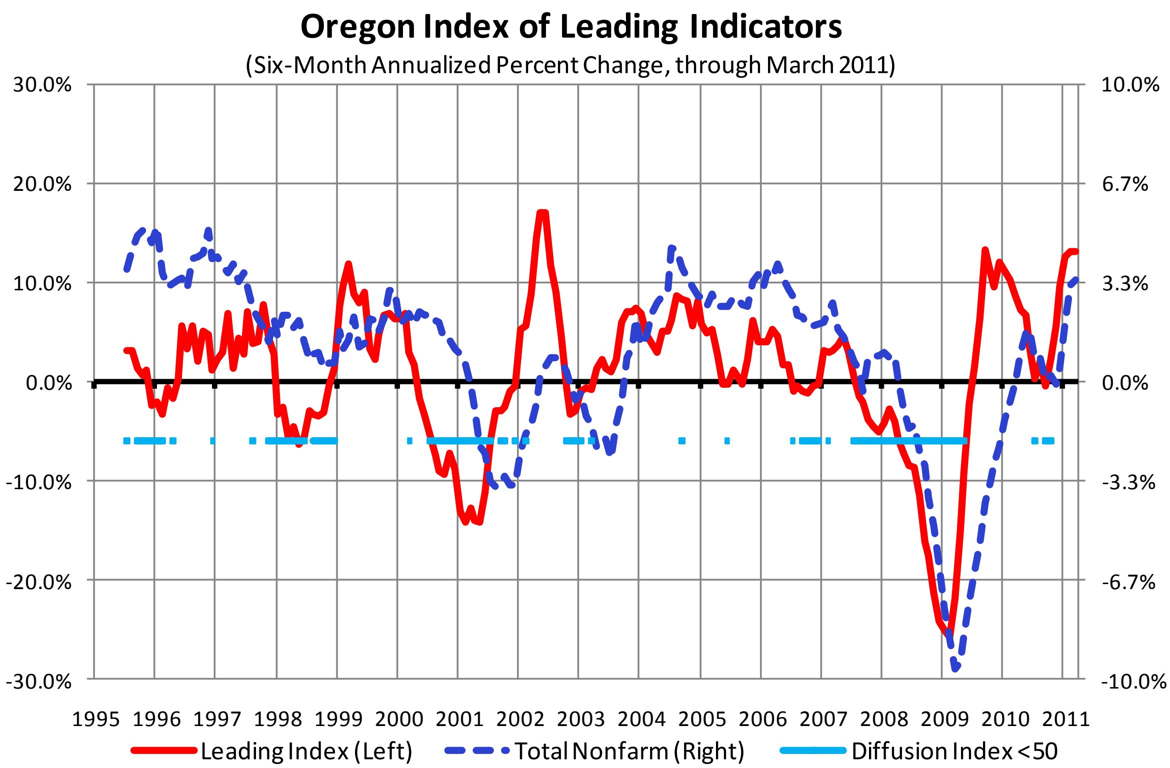
Over the extended forecast horizon, the additional job gains in the forecast lead to very large increases in the general fund revenue forecast. Even so, growth in the out years will be slower than what Oregon has become used to during recent economic expansions.

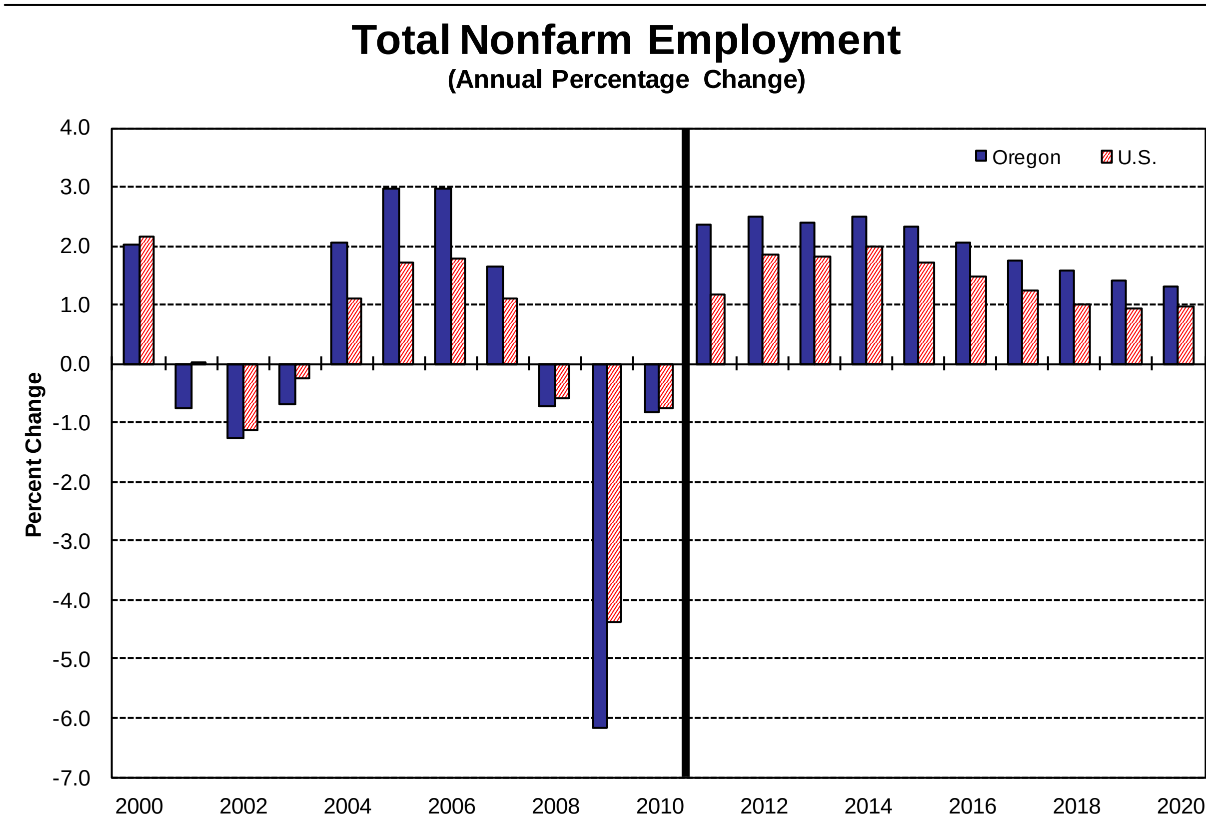
Table R.2

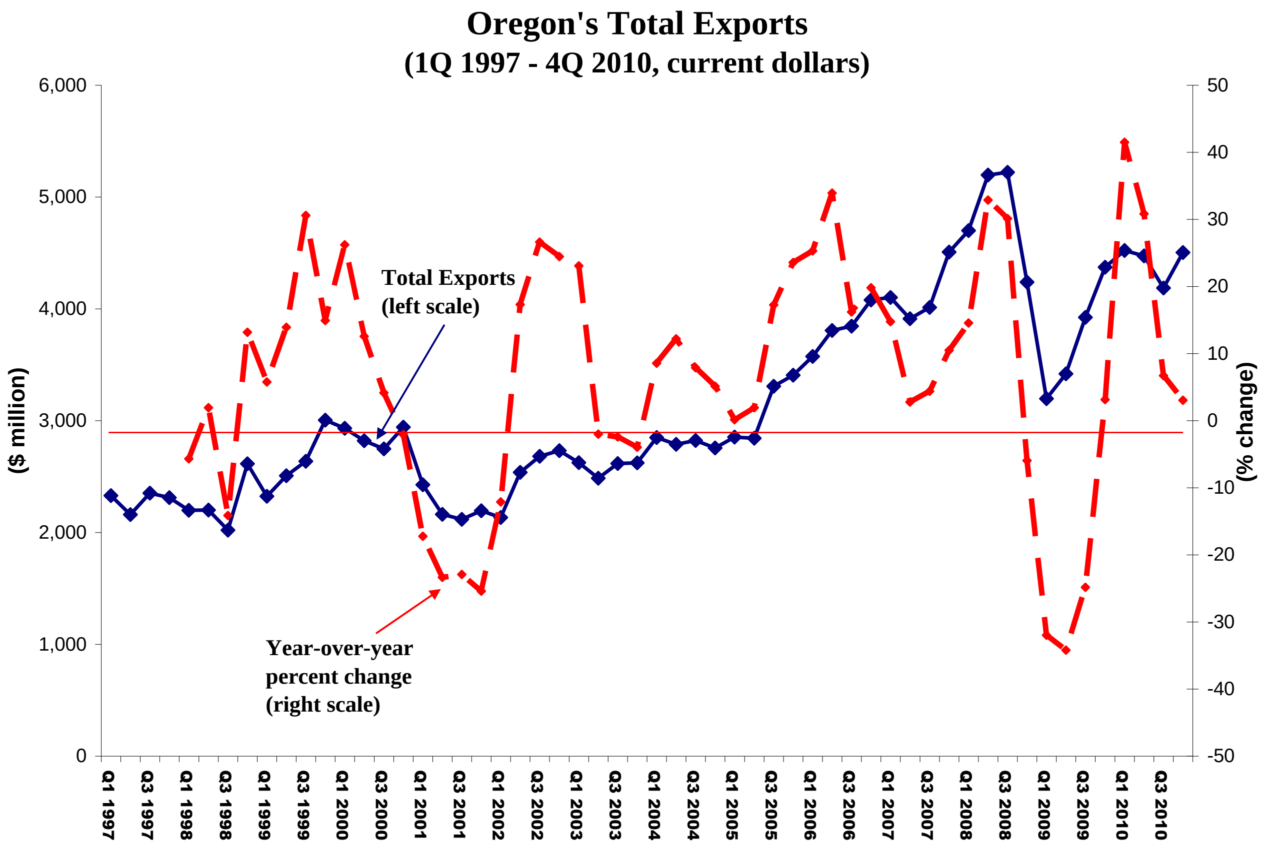
General Fund Revenue Forecast Summary (Millions of Dollars, Current Law)

Revenue Source	Forecast 2007-09 Biennium	% Chg	Forecast 2009-11 Biennium	% Chg	Forecast 2011-13 Biennium	% Chg	Forecast 2013-15 Biennium	% Chg	Forecast 2015-17 Biennium	% Chg	Forecast 2017-19 Biennium	% Chg	Forecast 2019-21 Biennium	% Chg
Personal Income Taxes	10,090.6	-8.6%	10,431.0	3.4%	12,202.1	17.0%	14,101.5	15.6%	15,991.8	13.4%	17,677.4	10.5%	19,615.7	11.0%
Corporate Income Taxes	684.5	-18.9%	842.1	23.0%	863.3	2.5%	1,145.9	32.7%	1,134.5	-1.0%	1,138.5	0.4%	1,221.1	7.3%
All Others	948.9	10.6%	1,107.4	16.7%	836.0	-24.5%	891.2	6.6%	944.3	6.0%	934.6	-1.0%	985.4	5.4%
Total General Fund	11,723.9	-8.0%	12,380.4	5.6%	13,901.4	12.3%	16,138.6	16.1%	18,070.7	12.0%	19,750.5	9.3%	21,822.3	10.5%
Kicker Distributions	*1,084.2*		-		-		-		-		-		-	
Total Revenue	12,808.1	0.5%	12,380.4	-3.3%	13,901.4	12.3%	16,138.6	16.1%	18,070.7	12.0%	19,750.5	9.3%	21,822.3	10.5%

Other taxes include General Fund portions of the Eastern Oregon Severance Tax, Western Oregon Severance Tax and Amusement Device Tax.
Commercial Fish Licenses & Fees and Pari-mutual Receipts are included in Other Revenues


Oregon Index of Leading Indicators
(Six-Month Annualized Percent Change, through March 2011)
30.0%
20.0%
10.0%
0.0%
-10.0%
-20.0%
-30.0%
10.0%
6.7%
3.3%
0.0%
-3.3%
-6.7%
-10.0%
1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011
Leading Index (Left)
Total Nonfarm (Right)
Diffusion Index < 50


Total Nonfarm Employment
(Annual Percentage Change)
Oregon
U.S.
Percent Change
4.0
3.0
2.0
1.0
0.0
-1.0
-2.0
-3.0
-4.0
-5.0
-6.0
-7.0
2000 2002 2004 2006 2008 2010 2012 2014 2016 2018 2020



Oregon May 2011 Forecast Comparison:

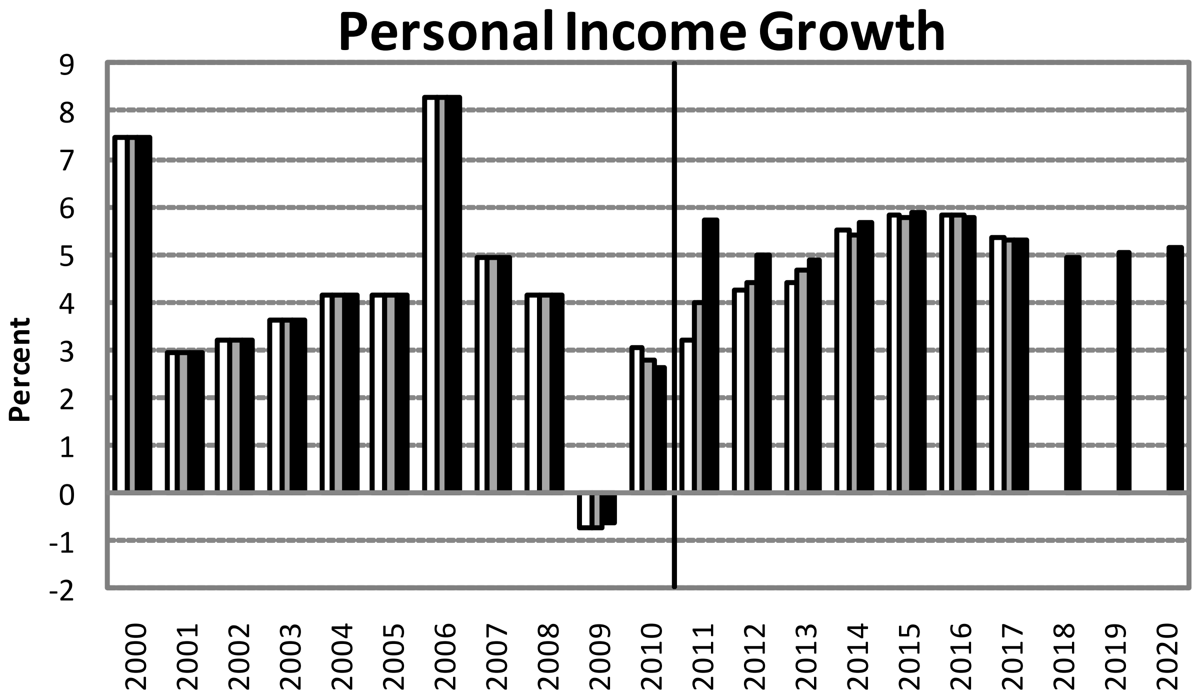
Alternative Scenarios

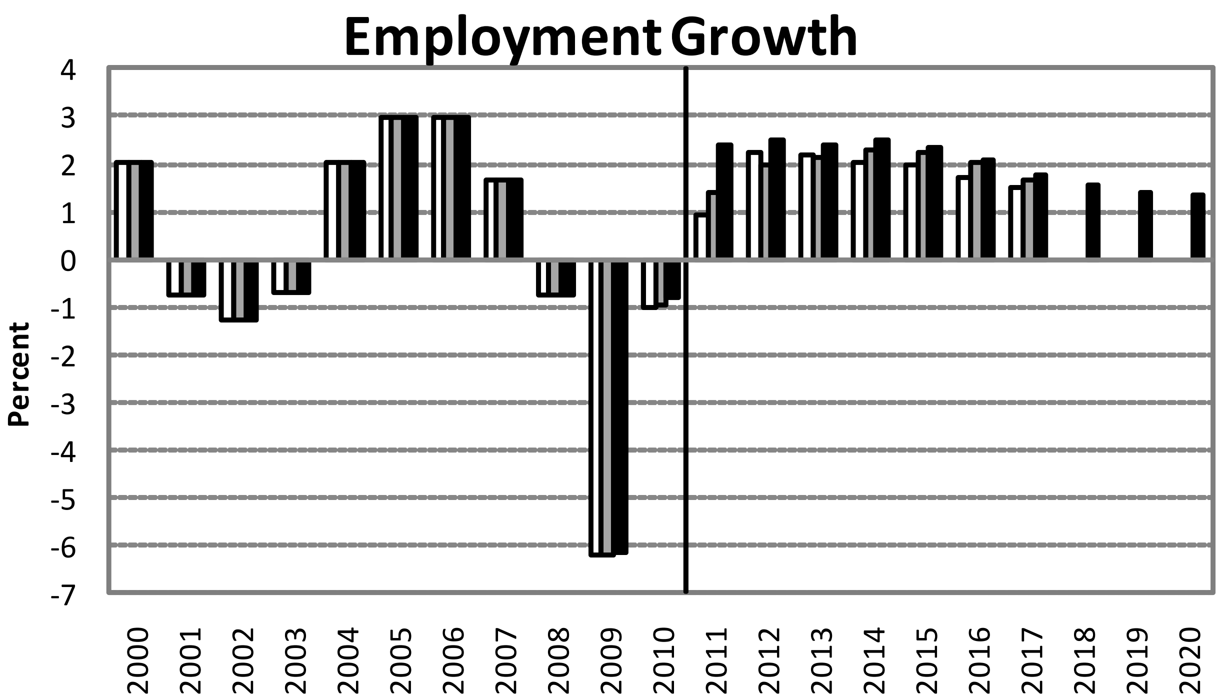
	(Percent Change)		
Employment	2011	2012	2013
Baseline	2.4	2.5	2.4
Pessimistic	1.8	1.2	2.3
Optimistic	2.7	3.2	2.8

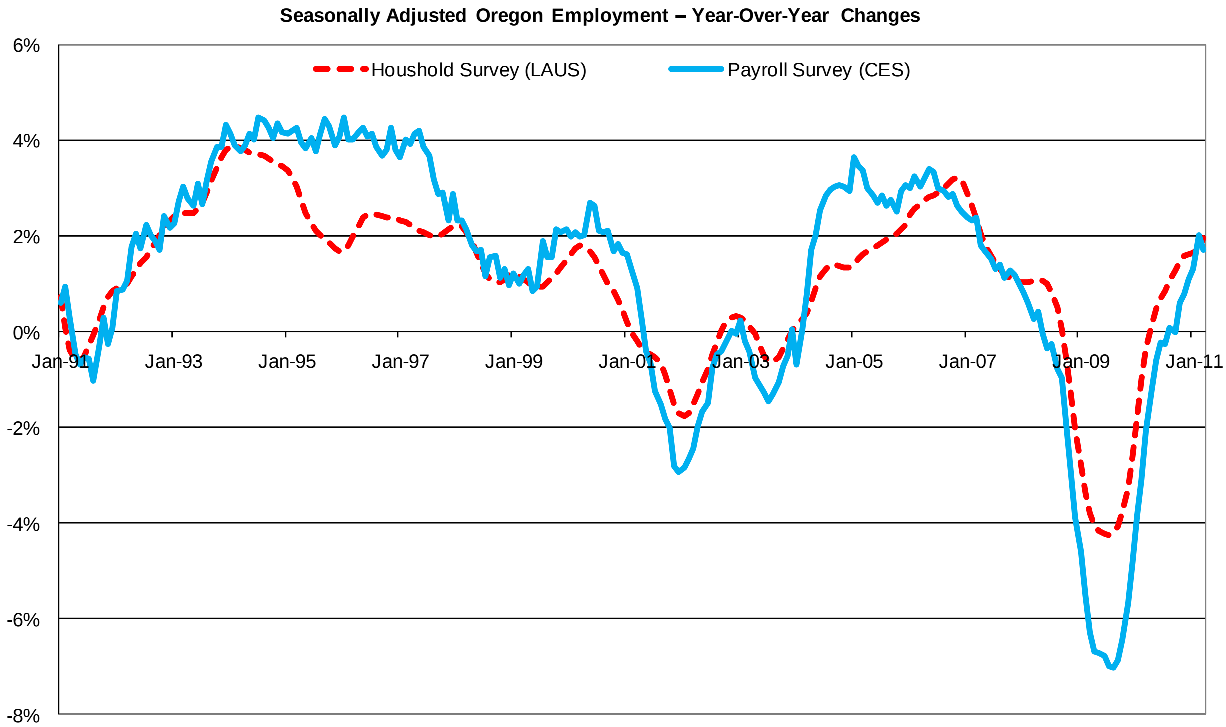
Personal Income	2011	2012	2013
Baseline	5.7	5.0	4.9
Pessimistic	5.1	3.4	4.8
Optimistic	6.1	6.1	5.3

Comparison of Last Three Forecasts

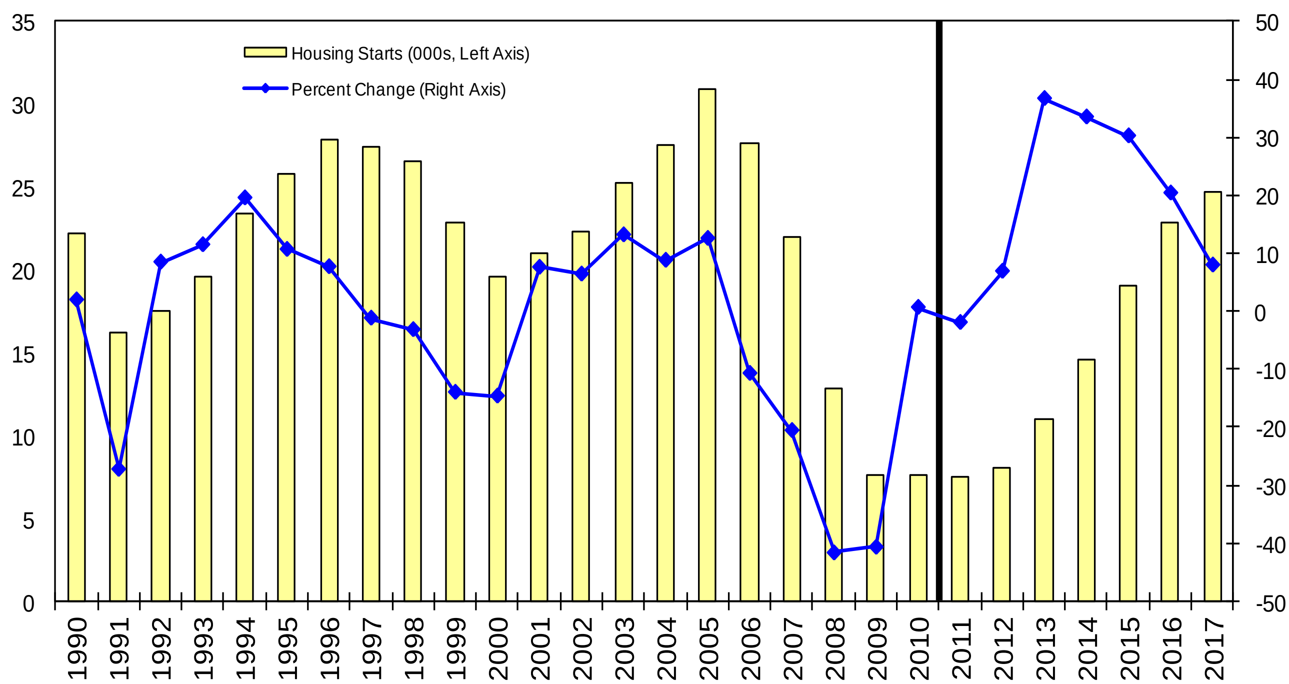
Dec 2010 Mar 2011 May 2011







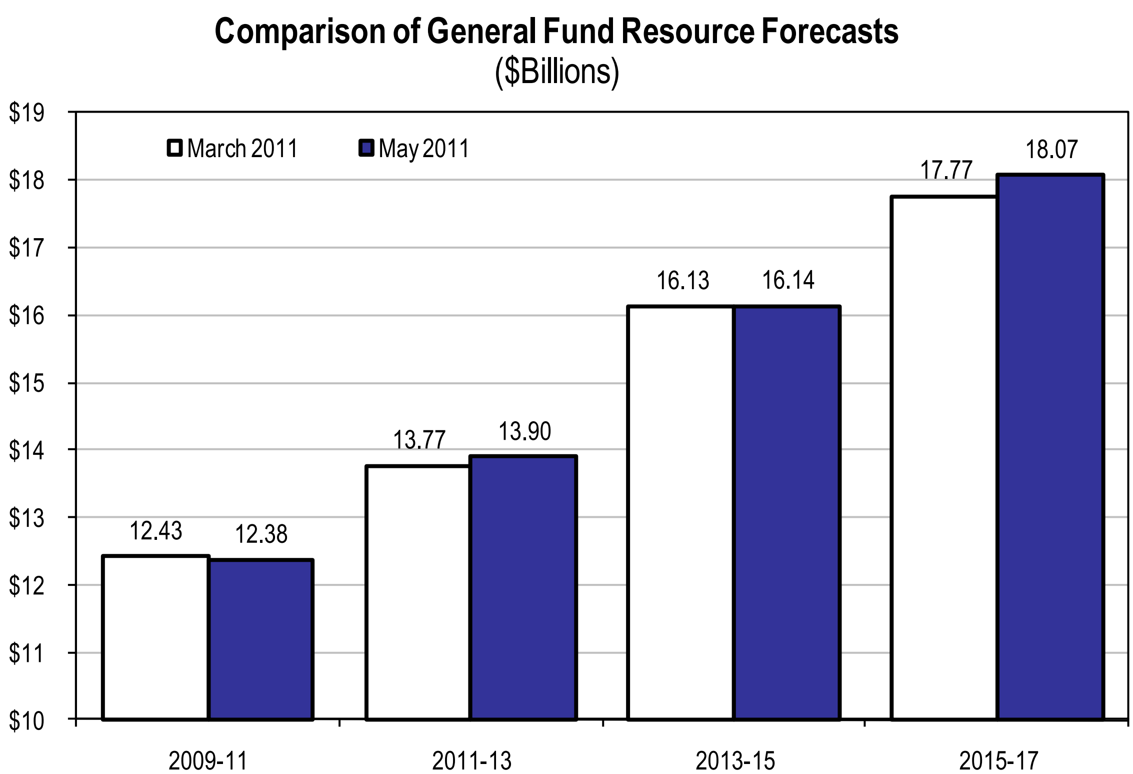
Oregon Housing Starts



General Fund Resources

2009-11 Biennium

General Fund (Millions)	COS Forecast	Mar 2011 Forecast	May 2011 Forecast	Change from March	Change from COS 2009
Personal Income Tax	$11,545.7	$10,458.2	**$10,431.0**	-$27.2	**-$1,114.7**
Corporate Income Tax	$831.6	$841.3	**$842.1**	$0.7	**$10.4**
Other Revenues	$1,198.4	$1,130.0	**$1,107.4**	-$22.6	**-$91.0**
Total GF Resources	$13,575.7	$12,429.4	**$12,380.4**	-$49.0	**-$1,195.3**
Less: Anticipated Administrative Actions	$43.7	$15.7	$8.2	-$7.5	-$35.5
Plus: Legislative Actions	$0.0	$123.0	$123.0	$0.0	$123.0
Proj. Expenditures	$13,298.1	$12,471.5	**$12,510.9**	$39.4	**-$787.3**
Ending Balance	$233.8	$65.2	**-$15.7**	-$80.9	**-$249.5**



Oregon's Budgetary Reserves

(Millions)	2007-09 Biennium	2009-11 Biennium	2011-13 Biennium	2013-15 Biennium
Rainy Day Fund				
Beginning Balance	$0.0	$112.5	$10.4	$10.7
Net Deposits[3]	$94.3	-$103.4	$0.0	$198.1
Interest	$18.3	$1.3	$0.4	$9.7
Ending Balance[1]	**$112.5**	**$10.4**	**$10.7**	**$218.5**
Education Stability Fund				
Beginning Balance	$178.9	$0.0	$101.4	$194.4
Net Deposits	-$178.9	$101.4	$92.9	$198.5
Interest[2]	$17.2	$1.1	$5.0	$21.9
Triggered Withdrawals	-$17.1	-$1.1	-$5.0	-$21.9
Ending Balance	**$0.0**	**$101.4**	**$194.4**	**$392.9**
Total Reserves	**$112.5**	**$111.8**	**$205.1**	**$611.3**

Footnotes:

1. Under current law, only 2/3rds of the beginning balance is available for withdrawal. Withdrawal subject to economic and financial triggers.
2. Education Stability Fund interest is distributed to the Oregon Education Fund (75%) and the State Scholarship Commission (25%).
3. Includes transfer of ending General Fund balances, up to 1% of budgeted appropriations, as well as private donations.

2 Percent Surplus Kicker History

		Personal		Corporate	
Biennium	**Tax Year**	**Surplus / (Shortfall)**	**Credit Refund**	**Surplus / (Shortfall)**	**Credit**
1979-81	1981	(141.0)	none	(25.1)	none
1981-83	1983	(115.2)	none	(109.9)	none
1983-85	1985	88.7	7.7%	13.4	10.6%
1985-87	1987	224.2	16.6%	6.8	6.2%
1987-89	1989	175.2	9.8%	36.2	19.7%
1989-91	1991	185.9	suspended	(23.0)	none
1991-93	1993	60.1	none*	17.9	suspended
1993-95	1994/5	162.8	6.3%	167.0	50.1%
1995-97	1996/7	431.5	14.4%	202.7	42.2%
1997-99	1997/8	167.3	4.6%	(68.6)	none
1999-01	2000	253.6	6.0%	(43.9)	none
2001-03	2002	(1,249.4)	none	(439.5)	none
2003-05	2004/5	(401.3)	none	101.0	36.0%
2005-07	2006	1,071.2	18.6%	344.1	suspended
2007-09	2008	(1,113.1)	none	(236.4)	none

Dollar figures in millions

*1991-93 personal surplus was less than 2%

Data Source: Legislative Revenue Office, Office of Economic Analysis