



Oregon Economic and Revenue Forecast Summary

March 2013

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EXECUTIVE SUMMARY

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Oregon Economic Forecast

Current Conditions and Outlook

In 2012, Oregon's economic performance was very similar to both 2010 and 2011 before it. In each case there have been some cautious hopes for stronger growth and more jobs as momentum was building near the end of the previous year. However, each time the regional economy has encountered headwinds that slowed growth near mid-year. The usual suspects have been flare-ups in the ongoing European recession and sovereign debt crisis, weak housing-related industries, and cuts at all levels of government. The end result in each of the past three years has been slow, lackluster growth.

Unfortunately, there is little hope that Oregon will see much immediate improvement in economic growth. Federal government cutbacks and tax increases are weighing on the economy, and the pipeline of future orders has slowed among many local manufacturing industries.

Despite the weak near-term outlook, the stage is set for stronger growth should the economy manage to successfully navigate the next few months. The primary reason for optimism is the strength of balance sheets for businesses and consumers alike. With financing costs low and corporate profits high, a great deal of spending and investment stands to be unleashed as soon as some of the uncertainty that is obscuring the near-term outlook is cleared away. Although household net worth is not back to pre-recession levels, it has been growing strongly. Home prices are rising once more, and stock markets have regained all of their recessionary losses.

Delinquencies on consumer debt are near record lows for auto loans and credit cards. Even rates of mortgages 1 or 2 payments behind have fallen below historical norms. The only bad news for household balance sheets is that payments for student debt are worsening and mortgages 90+ days past due remain stubbornly high.

All told, many businesses and consumers now have the resources with which to drive growth. Broad-based improvement in indicators of business and consumer sentiment suggests that the clouds many now be parting, paving the way for an acceleration in growth.

The baseline (most likely) outlook calls for growth rates to improve modestly during the 2013-15 biennium. Although Oregon's economic expansion is not expected to match the pace seen during past periods of growth, it is likely that growth will improve somewhat relative to the crawling pace of recent years.

Oregon's Employment Trends

Getting a handle on the health of Oregon's labor market is being somewhat complicated by technical issues within the underlying payroll jobs data. Technical issues aside, employment in Oregon continued to increase throughout 2012, approximately in line with the gains seen at the U.S. level. While the gains continued to be slow and subdued, 2012 was somewhat better than 2011 as employment growth picked up from 1.2 percent to 1.4 percent. While this slight increase in employment (from 18,500 job gains in 2011 to 22,000 in 2012) is an improvement, it still is only enough to bring the unemployment rate down slowly from 9.6 percent in 2011 to 8.6 percent in 2012, a rate that remains high above historical trends.

Total nonfarm employment in Oregon rose by 1.2 percent from the fourth quarter of 2011 to the fourth quarter of 2012. This marked the state's ninth consecutive quarter of positive year-over-year employment growth. Job gains were less consistent at the regional level. The Portland area has outpaced statewide growth over the year in each of the last nine quarters, while employment trends in other regions have been mixed.

In the fourth quarter of 2012, six regions experienced quarterly employment gains from the previous year: the Portland area; Southern Oregon; the Willamette Valley; Central Oregon; the Northeastern region; and the South Central-Southeast region. Employment declined between the fourth quarters of 2011 and 2012 in the Columbia Gorge, the North Coast, and along the South Coast.

Every region posted lower unemployment rates (not seasonally adjusted) in the fourth quarter of 2012 than during the fourth quarter of 2011. Rates ranged from a low of 7.1 percent in the Columbia Gorge to a high of 10.8 percent in Central Oregon during the fourth quarter of 2012. Statewide, the unadjusted unemployment rate was 8.1 percent.

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 during the decade of 2000 to 2010 was 12.0 percent, down from 20.4 percent growth from the previous decade. Oregon's rankings in terms of decennial growth rate dropped from 11th between 1990-2000 to 18th between 2000 and 2010. 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, Oregon's decennial population growth rate during the most recent decade was the second lowest since 1900. The slowest, actually negative, was during the 1980s when Oregon was hit hard by another recession. As a result of recent economic downturn and sluggish 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 4.25 million in the year 2020 with an annual rate of growth of 1.03 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 immigration. Working-age adults come to Oregon as long as we have favorable economic and employment environments. During the 1980s, which 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 32 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 73 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 of negative net migration. 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. Demographics are the major budget drivers, which are modified by policy choices on service coverage and delivery. 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 1990s and early 2000s, 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 3.9 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, averaging 5.0 percent annual rate of growth due to the direct impact of the baby-boom generation entering the 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. A faster pace of growth of population in this age group will begin once the baby-boom generation starts to mature. 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. The average annual rate of growth for this oldest elderly over the forecast horizon will be 1.4 percent.

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 below zero percent rate of growth by 2012 and will remain at slow or below zero growth phase for several years. The size of this older working-age population will remain virtually unchanged at the beginning to the end of the decade. The 25-44 age group population is recovering from several years of declining and slow growing trend. 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 1.2 percent annual average rate during the forecast horizon. The young adult population (aged 18-24) will change only a little over the forecast period and remain virtually unchanged for most of the years into the future. Although the slow or stagnant growth of college-age population (age 18-24), in general, 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 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 in recent years and will grow in the future at well below the state average. 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 2013. 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 and poverty rates of the parents. Overall, elderly population over age 65 will increase rapidly whereas population groups under age 65 will experience slow growth in the coming decade. Hence, based solely on demographics of Oregon, demand for public services geared towards children and young adults will likely to increase at a slower pace, whereas demand for elderly care and services will increase rapidly.

Revenue Forecast

Oregon's economic outlook has not changed much in recent months. Even so, expectations for 2011-13 General Fund revenue growth have become somewhat stronger since the last forecast. Both personal and corporate income tax collections have been coming in larger than was expected, and by all accounts, the April tax filing season will bring with it a big jump in payments relative to last year.

Although the revenue forecast has become somewhat stronger in the near term, the overall flavor of the outlook has not changed. Along with underlying economic growth, taxes paid out of wages and salaries are expected to remain weak for several months. Afterward, a long awaited acceleration in revenue growth is expected to take place during the 2013-15 biennium.

Although revenue growth will improve going forward, it will remain modest from an historical perspective. Revenue growth is expected to fall in between the rates Oregon has become accustomed to during past periods of economic expansion, and the slow gains we have seen in recent years.

The primary downside risk facing the near-term revenue forecast is the uncertain future of the nationwide economic expansion. Should federal government austerity or economic weakness abroad derail the U.S. economy, the expected growth in Oregon's tax collections will not materialize.

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 in the past.

2011-13 General Fund Revenue

Healthy recent tax collections and expectations for a strong April 2013 of tax collections have put us back on track with the Close of Session's relatively optimistic outlook.

General Fund revenues have outperformed expectations in recent months, but the jury will remain out for the 2011-13 biennium until year-end personal income tax returns are processed in April. Personal income taxes are growing due to a mix of both labor and investment income. However, gains from labor income slowed at the end of 2012 as the job market cooled off. Collections of corporate excise taxes have accelerated sharply in recent months.

Table R.1

2011-13 General Fund Forecast Summary

(Millions)	2011 COS Forecast	December 2012 Forecast	March 2013 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	\$12,193.6	\$11,974.8	\$12,044.9	\$70.1	-\$148.7
Corporate Income Tax	\$894.2	\$855.9	\$898.3	\$42.4	\$4.0
All Other Revenues	\$944.2	\$1,130.4	\$1,179.1	\$48.7	\$234.9
Gross GF Revenues	\$14,032.0	\$13,961.1	\$14,122.2	\$161.2	\$90.2
Offsets and Transfers	\$0.0	-\$12.0	-\$12.0	\$0.0	-\$12.0
Administrative Actions ¹	-\$23.1	-\$4.4	-\$4.4	\$0.0	\$18.7
Legislative Actions	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
Net Available Resources	\$14,008.9	\$13,944.7	\$14,105.9	\$161.2	\$97.0
Confidence Intervals					
67% Confidence	+/- 1.7%		\$237.3	\$13.88B to \$14.36B	
95% Confidence	+/- 3.4%		\$474.5	\$13.65B to \$14.60B	

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

The revenue outlook for the 2011-13 biennium has improved somewhat relative to the December 2012 forecast. The forecast for General Fund revenues for 2011-13 is now \$14,122 million. This represents an increase of \$161 million (1.2%) from the December 2012 forecast.

The forecast for the 2011-13 biennium is now \$90 million (0.6%) above the Close of Session forecast. Some of this improvement can be traced to legislative actions taken during the February 2012 session. If not for these actions, the outlook for General Fund revenues would remain slightly below the Close of Session forecast.

Personal Income Tax

Personal income tax collections were \$1,505 million for the second quarter of fiscal year 2013, \$41.8 million (2.9%) above the latest forecast. Compared to the year-ago level, total personal income tax collections grew by 7.3% relative to a forecast that called for 4.3% growth. Appendix B presents a comparison of actual and projected personal income tax revenues for the October-December quarter.

Personal income tax collections are expected to grow strongly during the April 2013 filing season as the 2012 gains seen in stock markets and across other investments are realized for tax purposes. In addition to asset appreciation, a considerable amount of taxable investment income has been generated by taxpayers choosing to cash in their assets ahead of federal tax increases in 2013. Due largely to this pulling forward of income, year-end personal income tax payments are expected to come in 20% higher than last tax season.

Although the outlook for year-end payments is an aggressive one, it remains possible that payments will still outstrip the forecast. Oregon has seen many large April surprises in past years. Should we see a revenue surge of the magnitude seen at the peak of the housing boom in 2008, the personal income tax kicker would come into play.

Corporate Excise Tax

Corporate excise tax collections equaled \$113.8 million for the second quarter of fiscal year 2013, \$25.5 million above the December forecast. Compared to one year ago, net corporate receipts were up 26.6% with the forecast calling for a 1.8% decline.

Rapid growth in corporate tax collections have brought them back in line with the Close of Session forecast. Given how closely the forecast is tracking with the Close of Session outlook, the odds are roughly even that a kicker payment will be generated this biennium.¹

Even before the recent surge in corporate tax collections, collections were very large from an historical perspective. Near-record corporate profits have yet to go away. Given that corporate tax collections and underlying profits are subject to boom-bust cycles, there is a considerable amount of downside risk to the outlook.

Nevertheless, strong growth is expected during the 2013-15 biennium, since Oregon's economy is expected to continue to grow, and corporate tax collections are sensitive to the business cycle. However, these growth rates, while large, will remain less than half of what has been seen during recent profit booms.

Other Sources of Revenue

All other General Fund revenues are expected to total \$1,179.1 million for the 2011-13 biennium, an increase of \$48.7 million (4.3%) relative to the December forecast. Most revenue sources are tracking ahead of the previous forecast, including large contributions from estate taxes, judicial-related revenues and some tobacco products.

All other General Fund revenues are now expected to be \$235 million larger than the Close of Session forecast. These additional revenues are included in the personal income tax kicker calculation. Much of the change relative to the Close of Session outlook can be traced to changes in policy. In particular, the February 2012 legislative session generated additional General Fund revenues, as did reforms to liquor apportionment and judicial revenues.

¹ Voters approved reforms to the corporate kicker in November 2012, but these changes will not be in effect until BN2013-15.

Extended General Fund Revenue Outlook

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

Table R.2

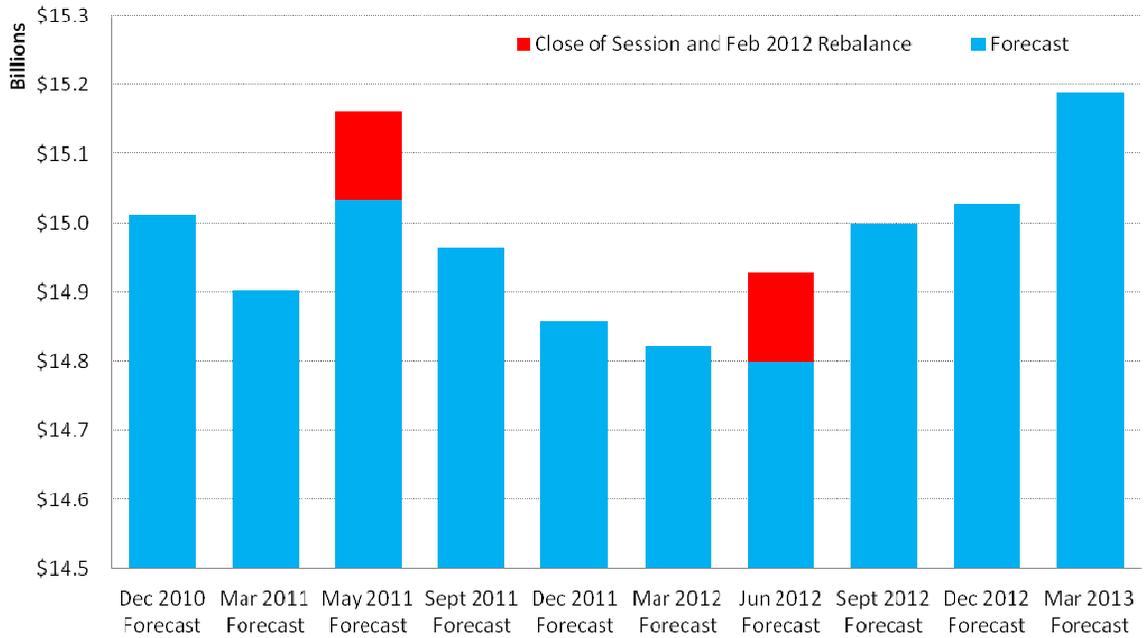
General Fund Revenue Forecast Summary (Millions of Dollars, Current Law)

Revenue Source	Forecast 2009-11		Forecast 2011-13		Forecast 2013-15		Forecast 2015-17		Forecast 2017-19		Forecast 2019-21	
	Biennium	Chg	Biennium	Chg	Biennium	Chg	Biennium	Chg	Biennium	Chg	Biennium	Chg
Personal Income Taxes	10,467.2	3.7%	12,044.9	15.1%	13,452.7	11.7%	15,199.8	13.0%	16,715.8	10.0%	18,471.5	10.5%
Corporate Income Taxes	827.6	20.9%	898.3	8.5%	1,026.8	14.3%	1,082.3	5.4%	1,039.8	-3.9%	1,031.4	-0.8%
All Others	1,226.6	29.8%	1,179.1	-3.9%	965.8	-18.1%	1,024.0	6.0%	1,092.5	6.7%	1,176.4	7.7%
Gross General Fund	12,521.4	6.8%	14,122.2	12.8%	15,445.3	9.4%	17,306.1	12.0%	18,848.2	8.9%	20,679.3	9.7%
<i>Offsets and Transfers</i>	-		(12.0)		(101.5)		(119.8)		(126.8)		(135.4)	
Net Revenue	12,521.4	-2.2%	14,110.3	12.7%	15,343.8	8.7%	17,186.3	12.0%	18,721.4	8.9%	20,543.9	9.7%

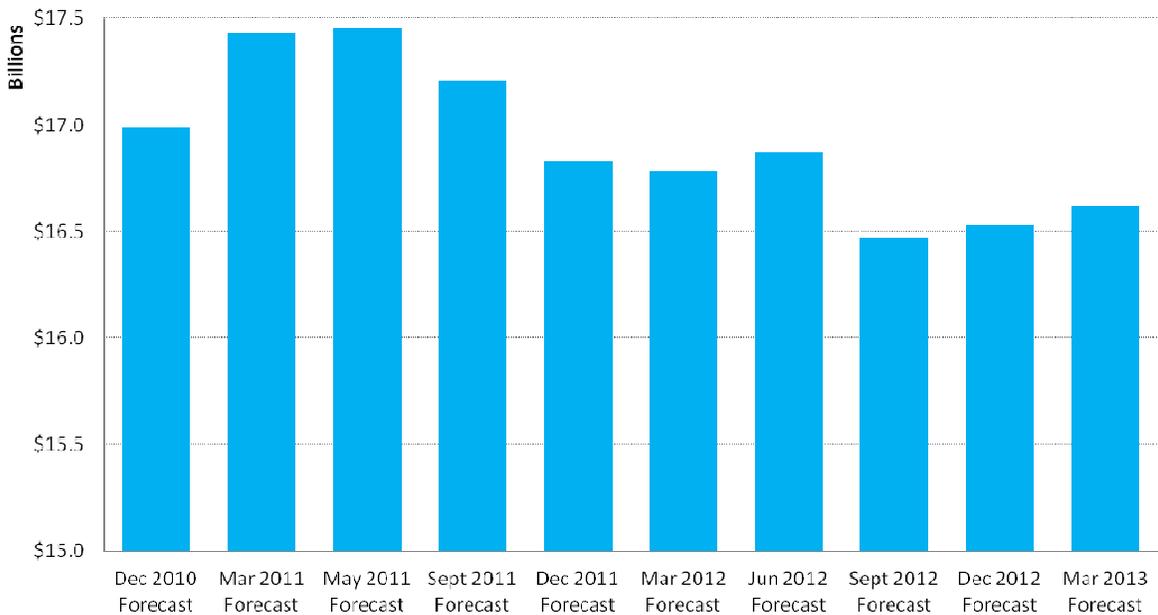
Other taxes include General Fund portions of the Eastern Oregon Severance Tax, Western Oregon Severance Tax and Amusement Device Tax. Commercial Fish Licenses & Fees and Pari-mutual Receipts are included in Other Revenues

General Fund revenues will total \$15,445 million in 2013-15, an increase of 9.4% percent from the prior period, and \$72 million (0.5%) below the December forecast. In 2015-17, revenue growth is expected to accelerate to 11.0%, followed by slower rates of 9% to 10% in subsequent biennia. The slowdown in long-run revenue growth is largely due to the impact of demographic changes. Table B.2 in Appendix presents a more detailed look at the long-term General Fund revenue forecast.

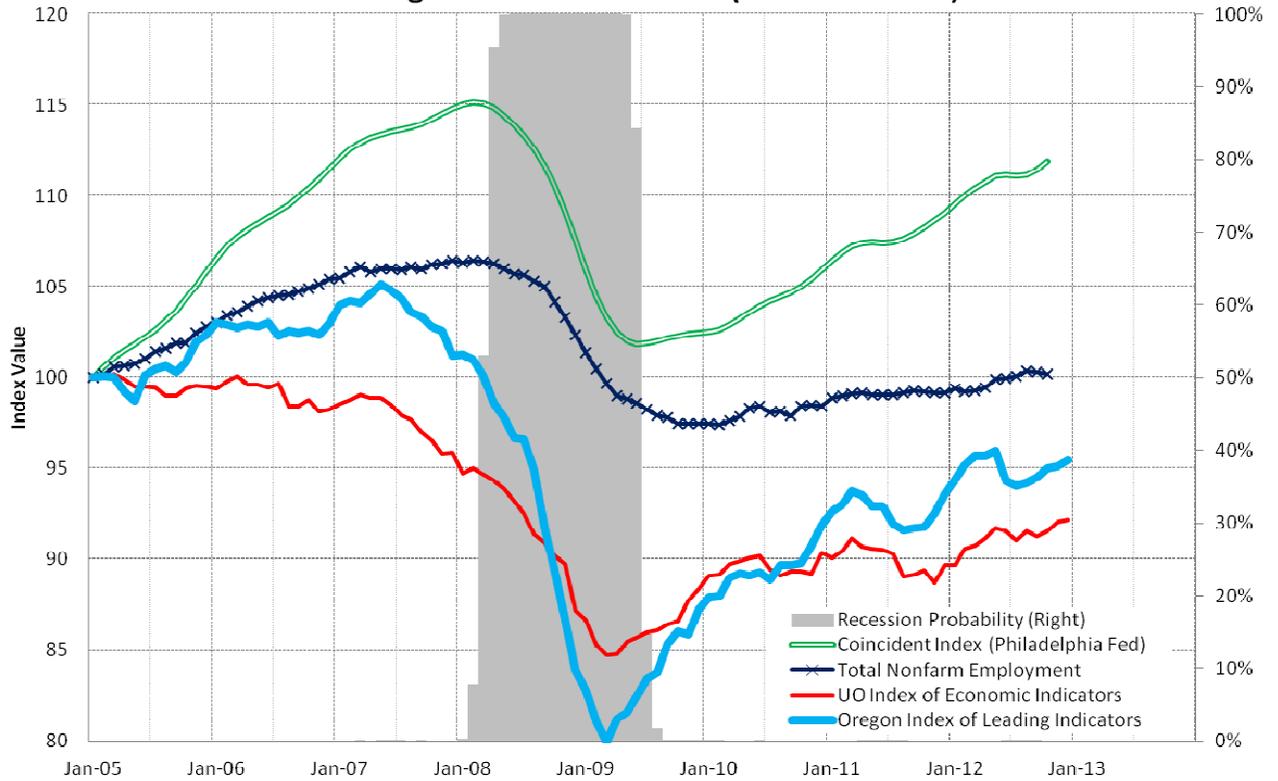
Combined General Fund and Lottery Fund Revenues (2011-13 BN)



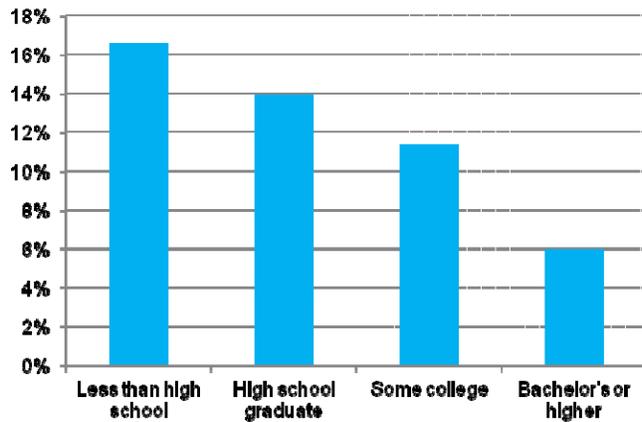
Combined General Fund and Lottery Fund Resources (2013-15 BN)



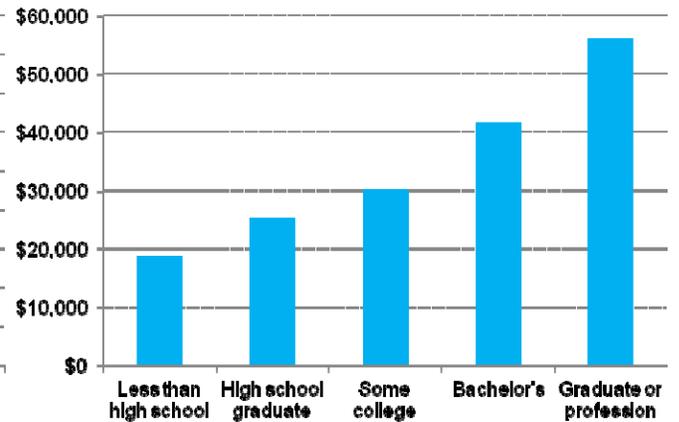
Oregon Economic Indexes (Jan 2005 = 100)



Oregon Unemployment Rates ACS, 2009-11

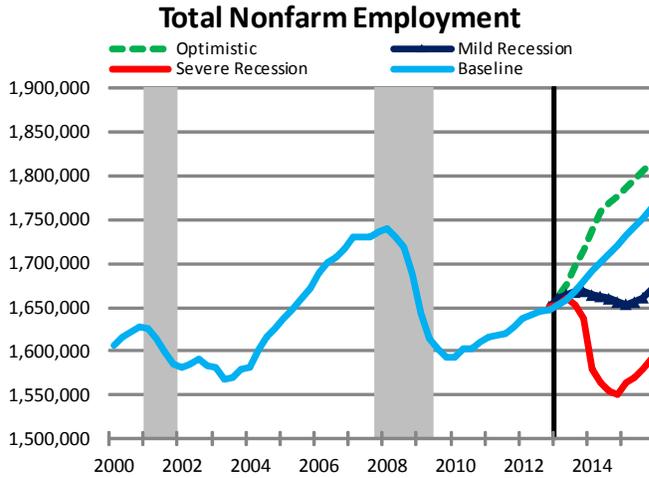


Oregon Median Earnings ACS, 2009-11



Alternative Scenarios

March 2013

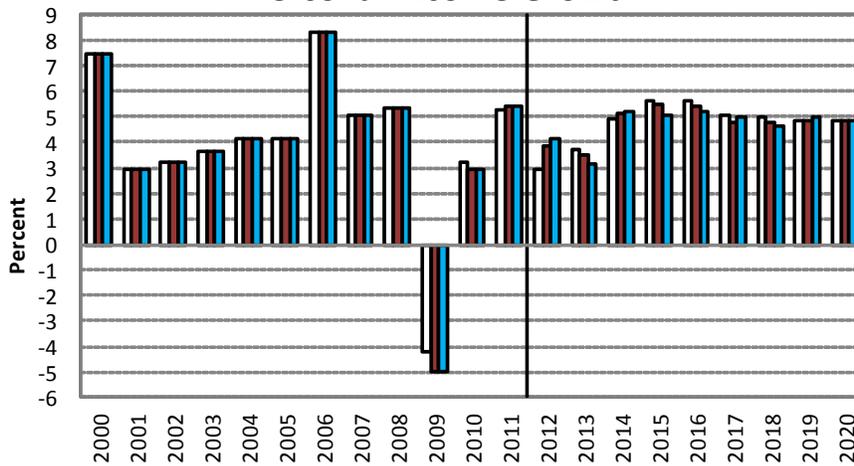


	2012	2013	2014	2015
Employment				
Baseline	1.4%	1.4%	2.5%	2.4%
Optimistic	1.4%	2.7%	4.3%	2.2%
Mild Recession	1.4%	1.4%	-0.3%	0.0%
Severe Recession	1.4%	0.5%	-5.4%	0.9%
Personal Income				
Baseline	4.1%	3.1%	5.2%	5.1%
Optimistic	4.1%	6.4%	7.1%	5.1%
Mild Recession	4.1%	3.1%	2.3%	3.2%
Severe Recession	4.1%	2.8%	-3.9%	4.1%

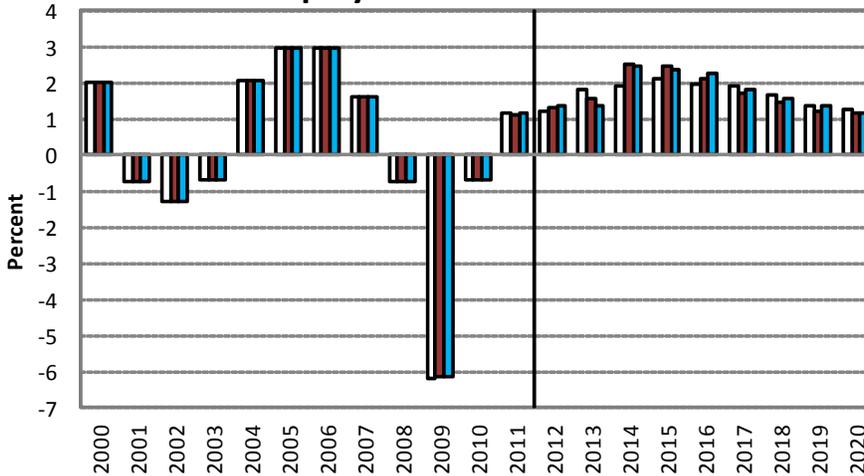
Comparison of Last Three Forecasts

□ Sep 2012 ■ Dec 2012 ■ Mar 2013

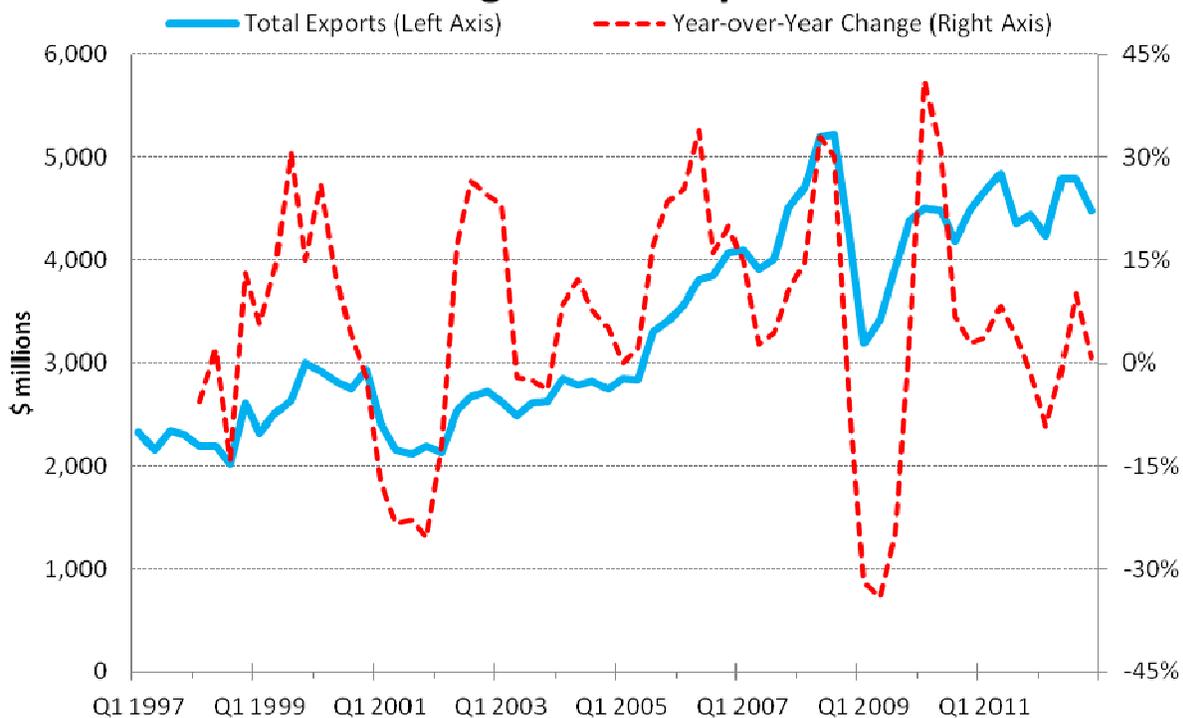
Personal Income Growth



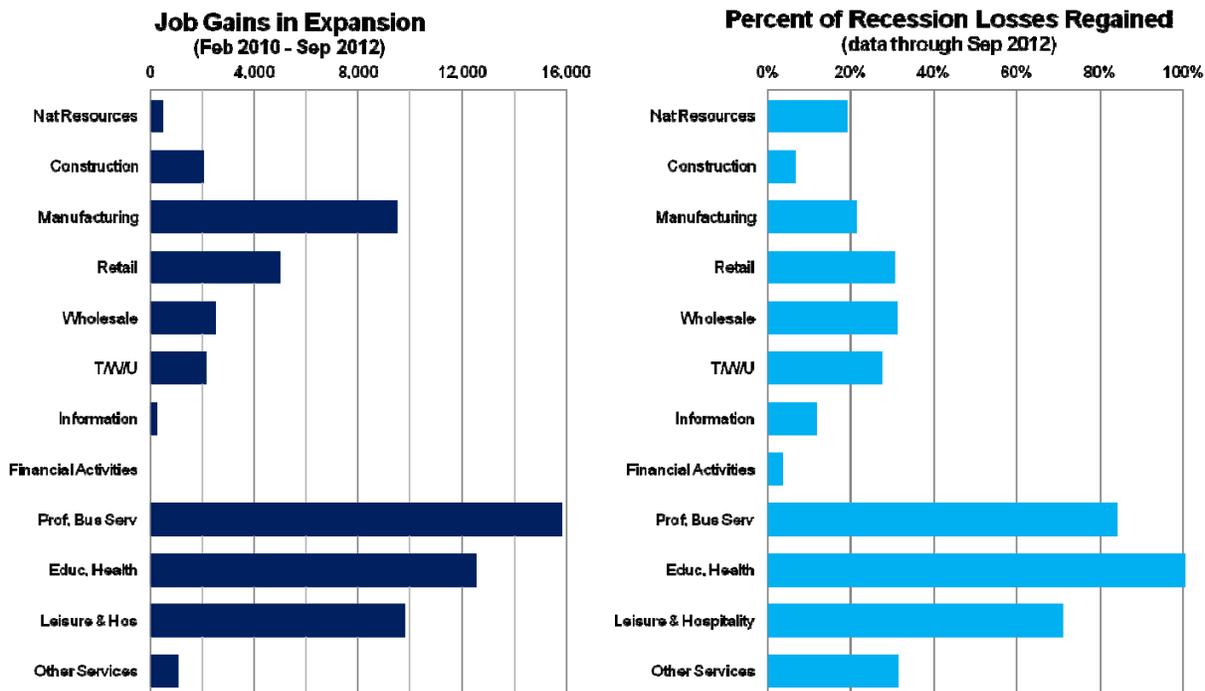
Employment Growth



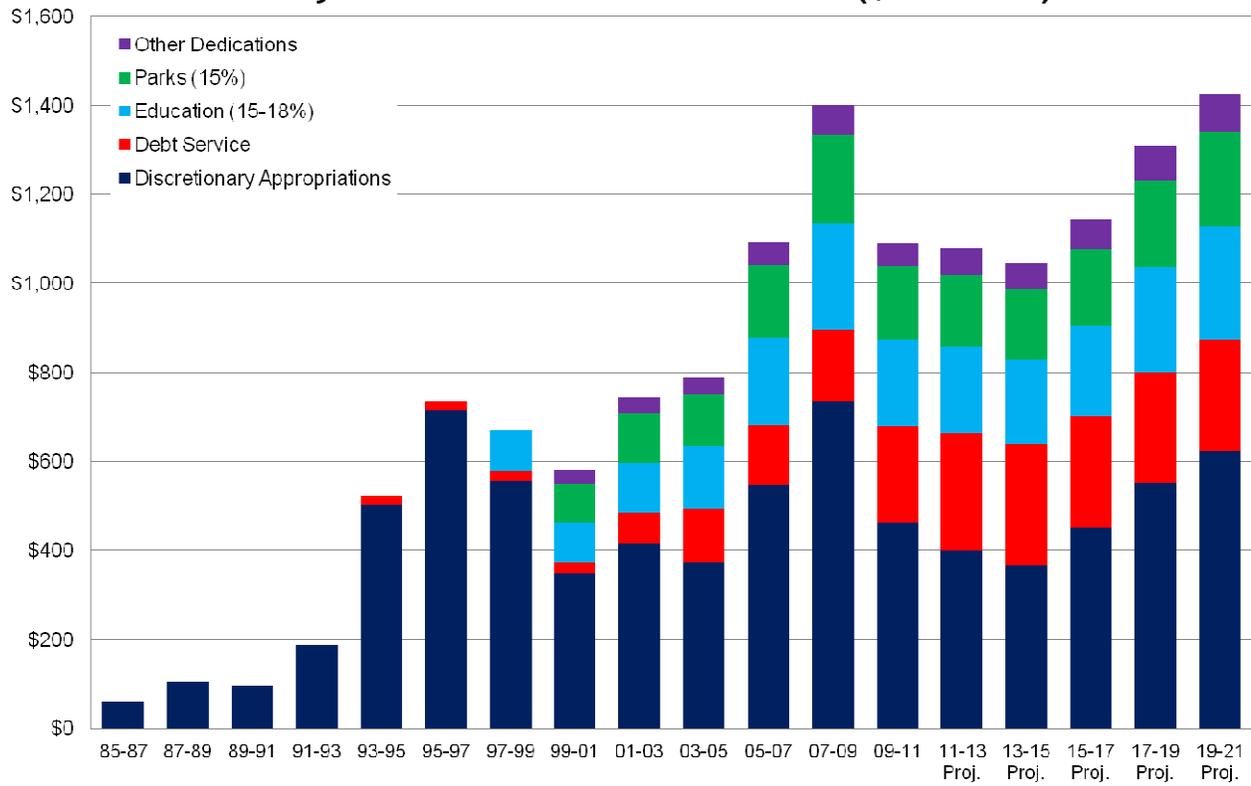
Oregon Total Exports



Job Growth based on Quarterly Census of Employment and Wages, data through 2012q3



Lottery Resources and Distributions (\$ millions)



Gambling and the Great Recession Losses Since Peak, SA

