The background of the slide features a large, faint, circular seal of the State of Oregon. The seal contains an eagle with spread wings perched on a shield, with a banner below it reading "THE UNION". The words "STATE OF OREGON" are arched across the top, and "1859" is at the bottom. The entire slide has a dark blue background.

# March 2018 Economic & Revenue Outlook

February 16<sup>th</sup>, 2018

Oregon Office of Economic Analysis

Mark McMullen

Josh Lehner

The background of the slide features a large, faint, circular seal of the State of Oregon. The seal contains an eagle with spread wings at the top, a ship on the left, a rising sun in the center, and a plow on the right. The words "STATE OF OREGON" are written around the top inner edge, and "1859" is at the bottom. A banner across the middle reads "THE UNION".

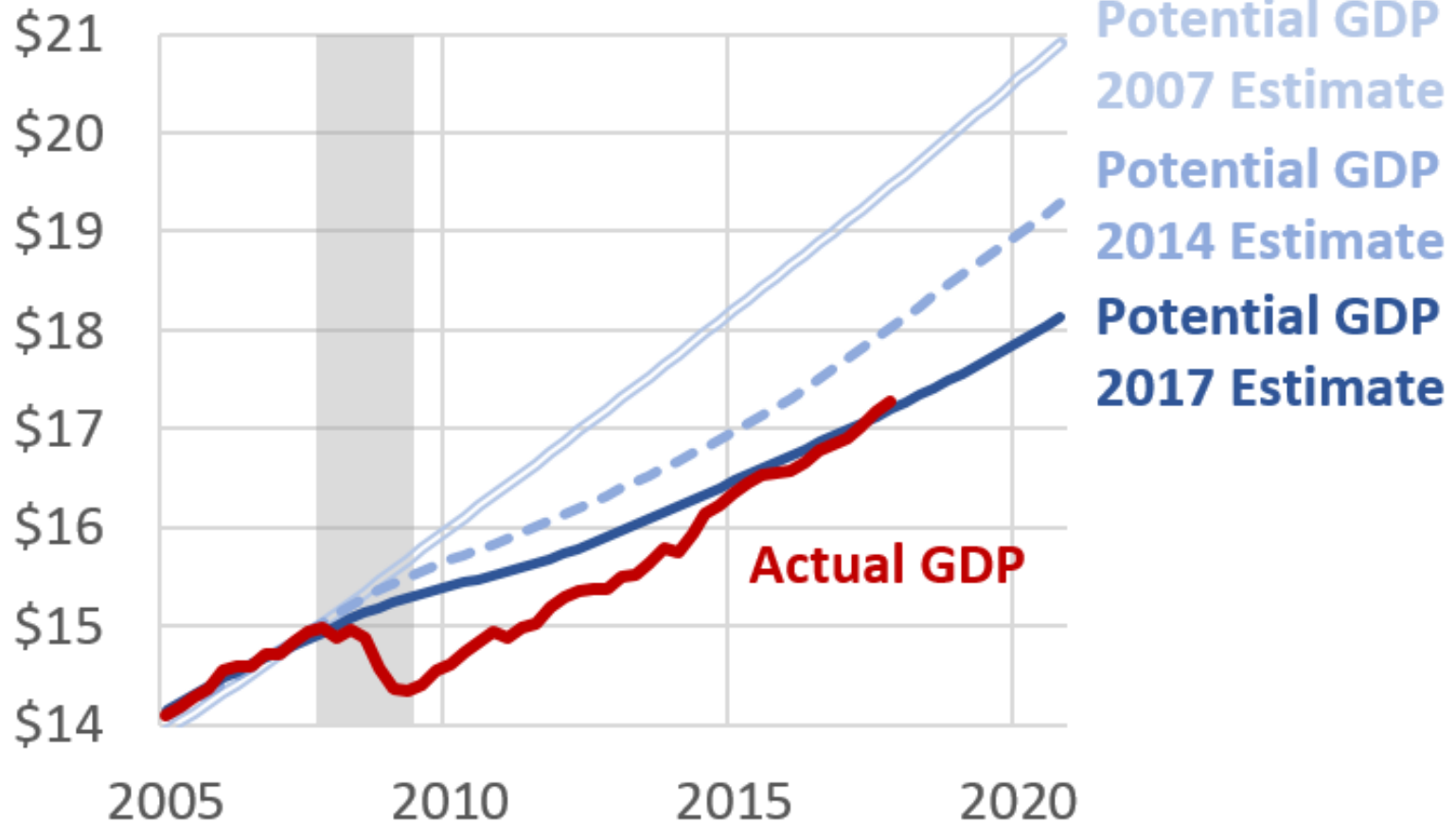
# Economic Backdrop



# Economy at Potential, Maybe

## U.S. Real GDP

Trillions, 2009\$



Latest Actual: 2017q4 | Sources: BEA, CBO, Oregon Office of Economic Analysis

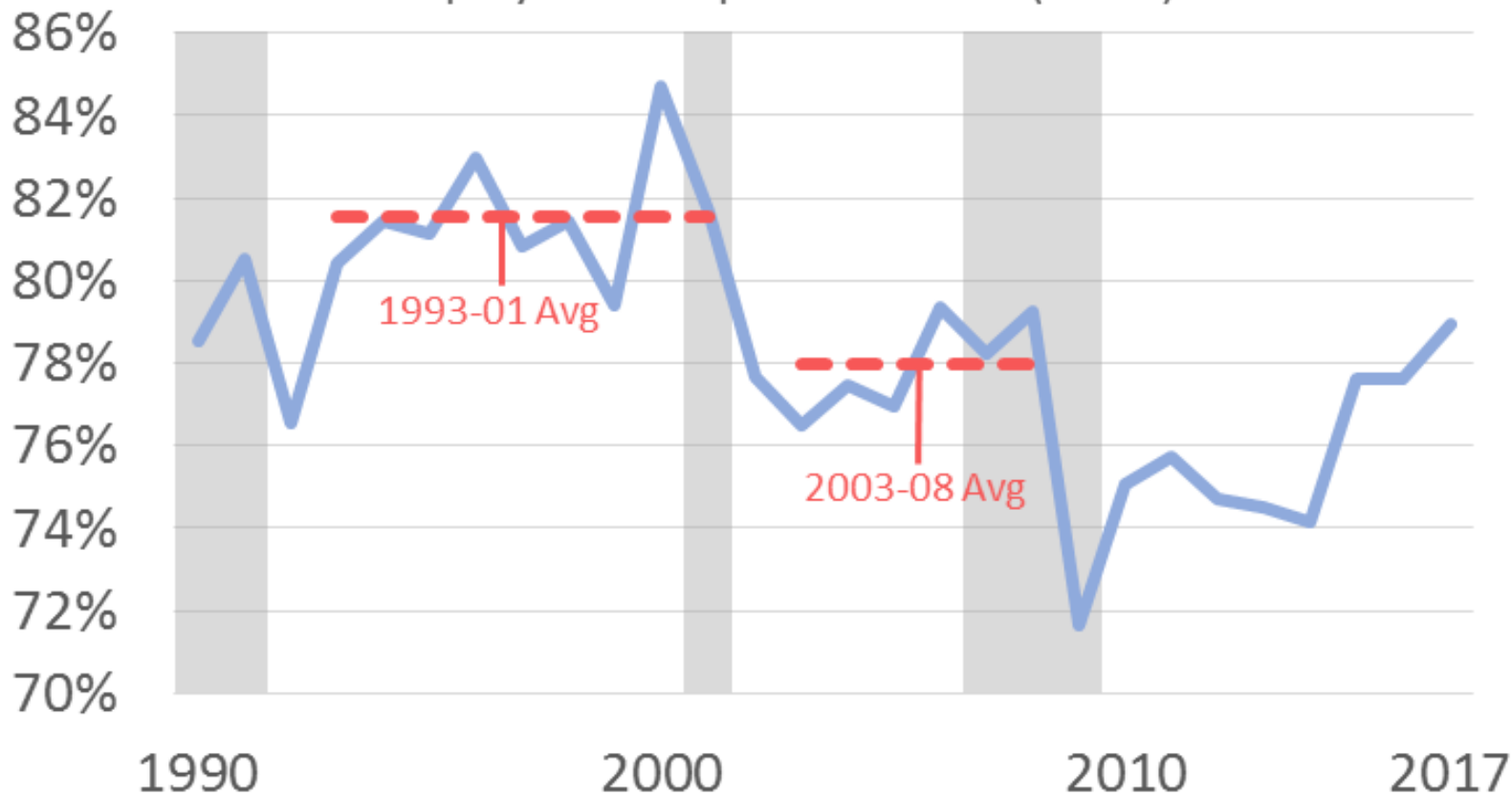


# Labor Market is Tight

Impacted by Strong Economy and Demographics

## Oregon Prime-Age Employment

Share of 25-54 Year Olds with a Job  
Employment-Population Ratio (EPOP)



Data: ASEC | Source: IPUMS-CPS, Oregon Office of Economic Analysis

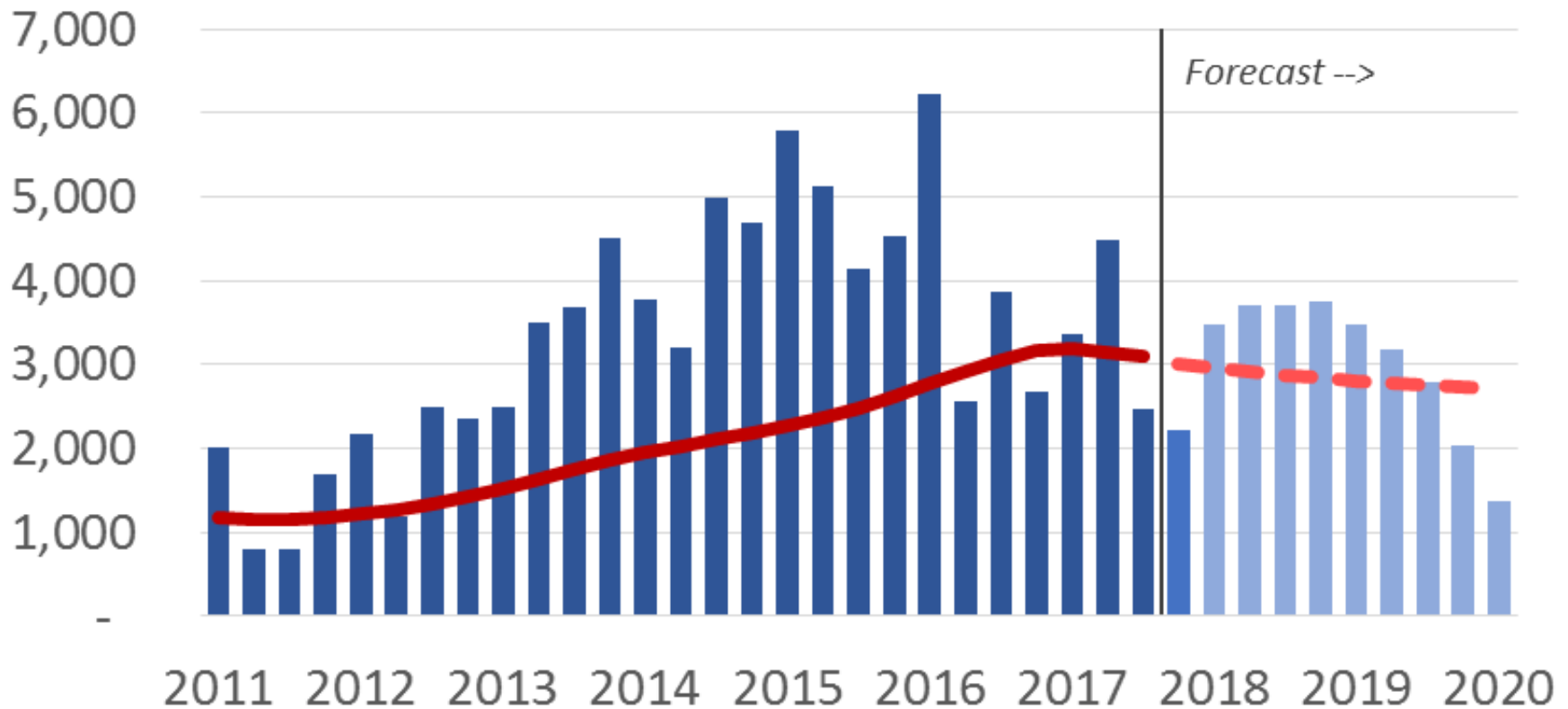




# Outlook: Growth, but Slower

## Oregon Employment Gains

■ Monthly Job Gains    — Needed to Keep Pace with Population

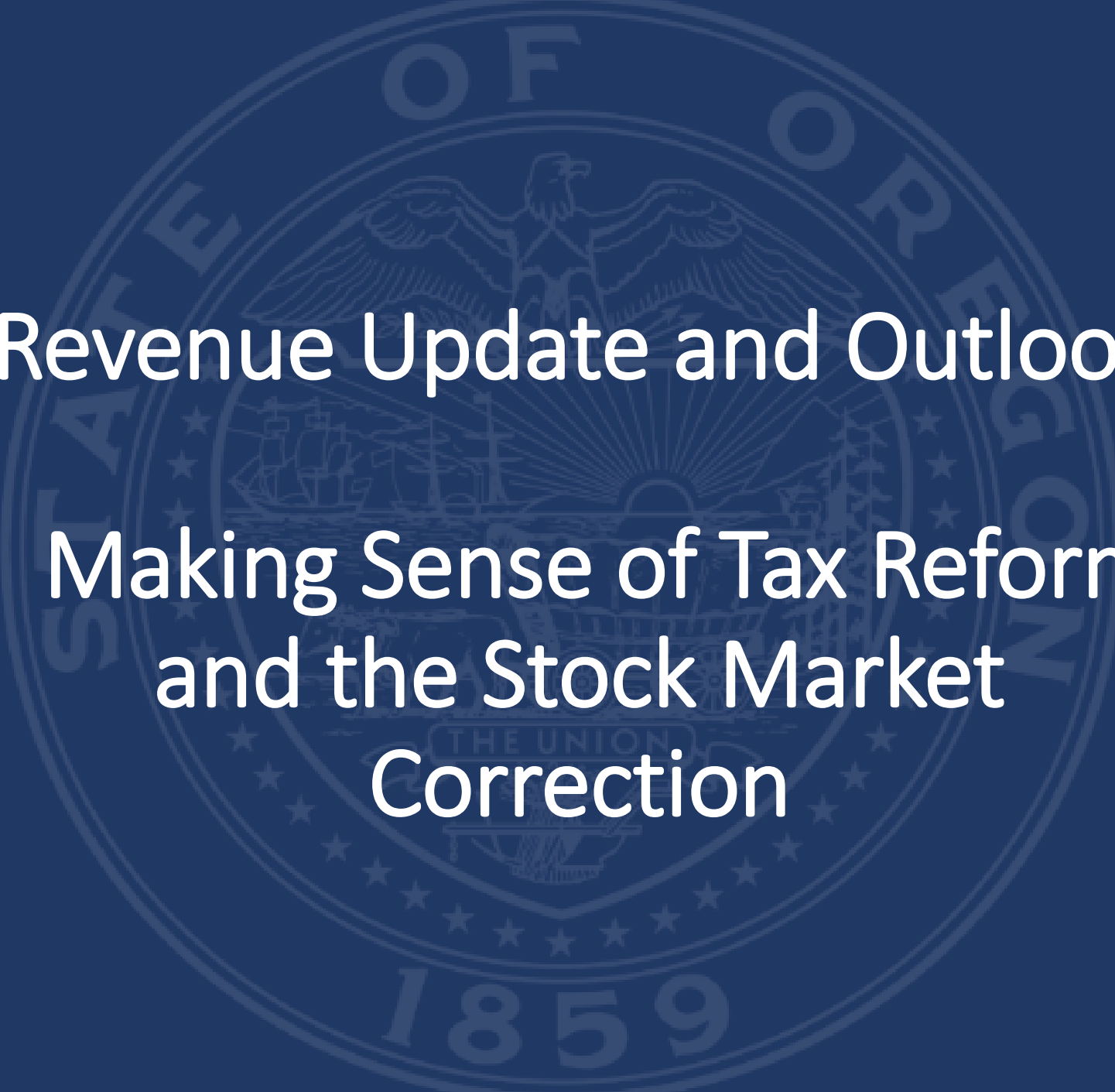




# For Next Forecast Release

- Migration Trends
- Homelessness



The background of the slide features a large, faint, circular seal of the State of Oregon. The seal contains an eagle with spread wings perched on a shield, with a ship and a plow below it. The words "STATE OF OREGON" are written around the top inner edge, and "1859" is at the bottom. The text "THE UNION" is visible on a banner within the seal.

# Revenue Update and Outlook: Making Sense of Tax Reform and the Stock Market Correction

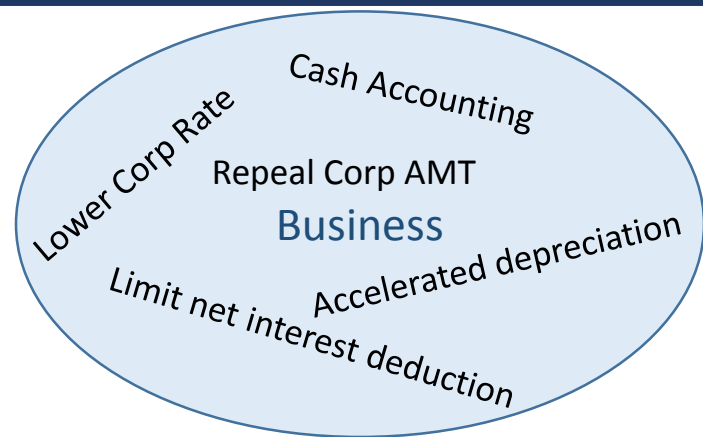
The background of the slide features a large, faint, light blue seal of the State of Oregon. The seal is circular, with the words "STATE OF OREGON" around the top and "1859" at the bottom. The central shield depicts an eagle with spread wings at the top, a ship on the left, a plow and sheaf of wheat on the right, and a banner at the bottom that reads "THE UNION".

# Federal Tax Reform





# Incorporating Changes: OEA's Role



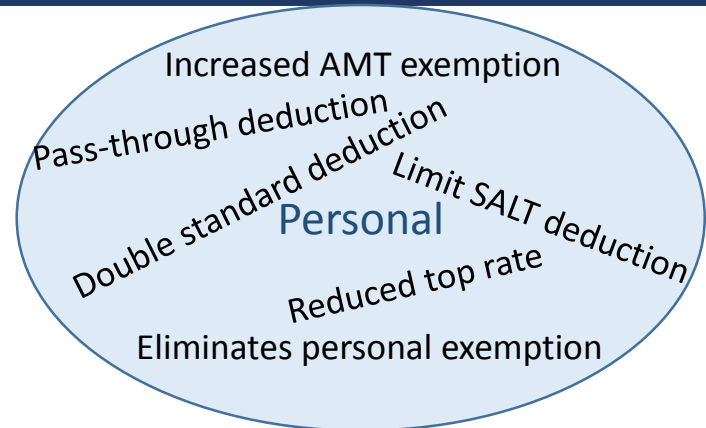
## Starting Point:

DOR and LRO  
static impact  
estimates for  
selected tax  
provisions



## OEA's Role:

Incorporate behavioral changes (dynamic effects) to arrive  
at assumptions to use in the economic & revenue forecast



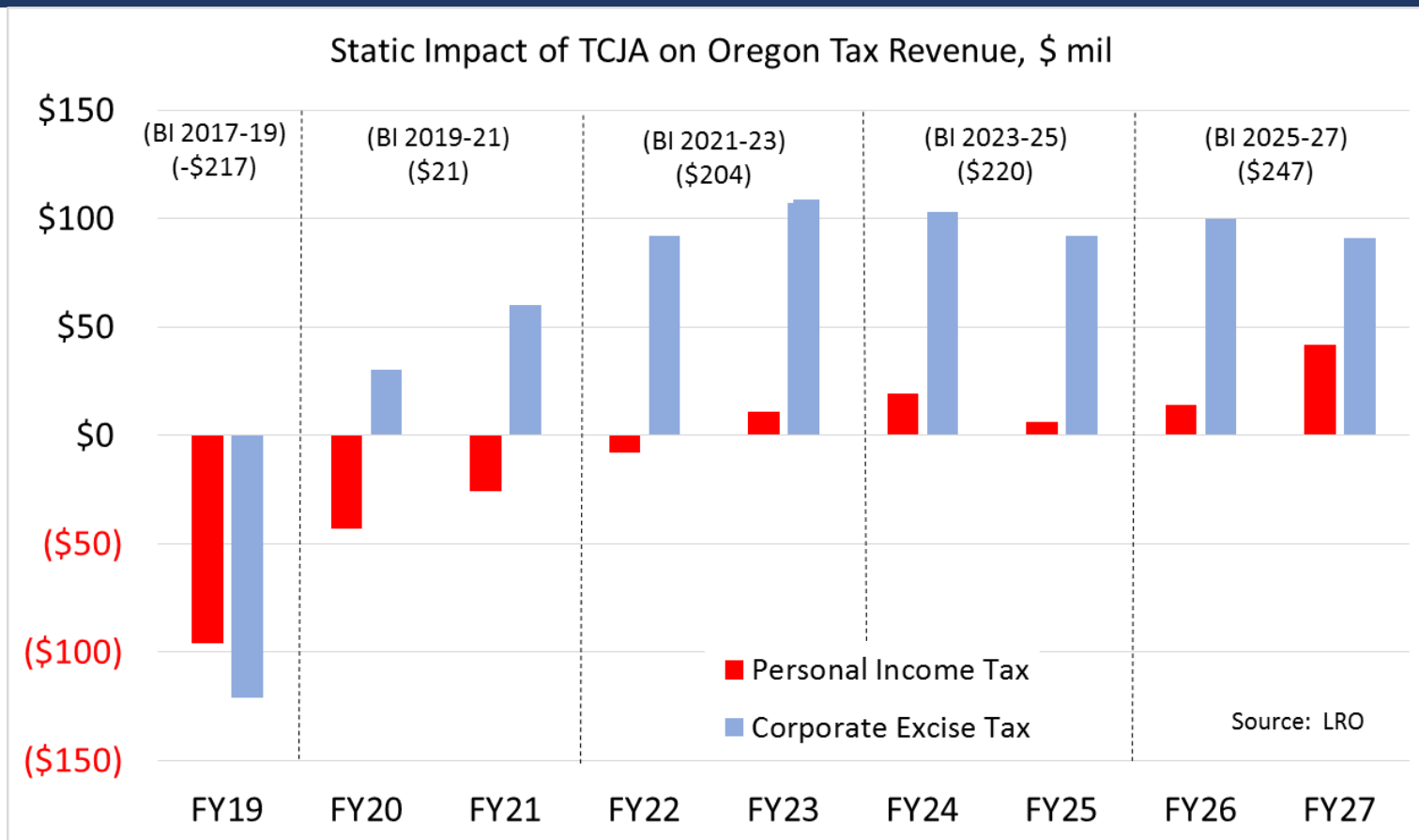
## Consider Behavioral Changes Among:

1) Firms 2) Workers 3) Tax Planners





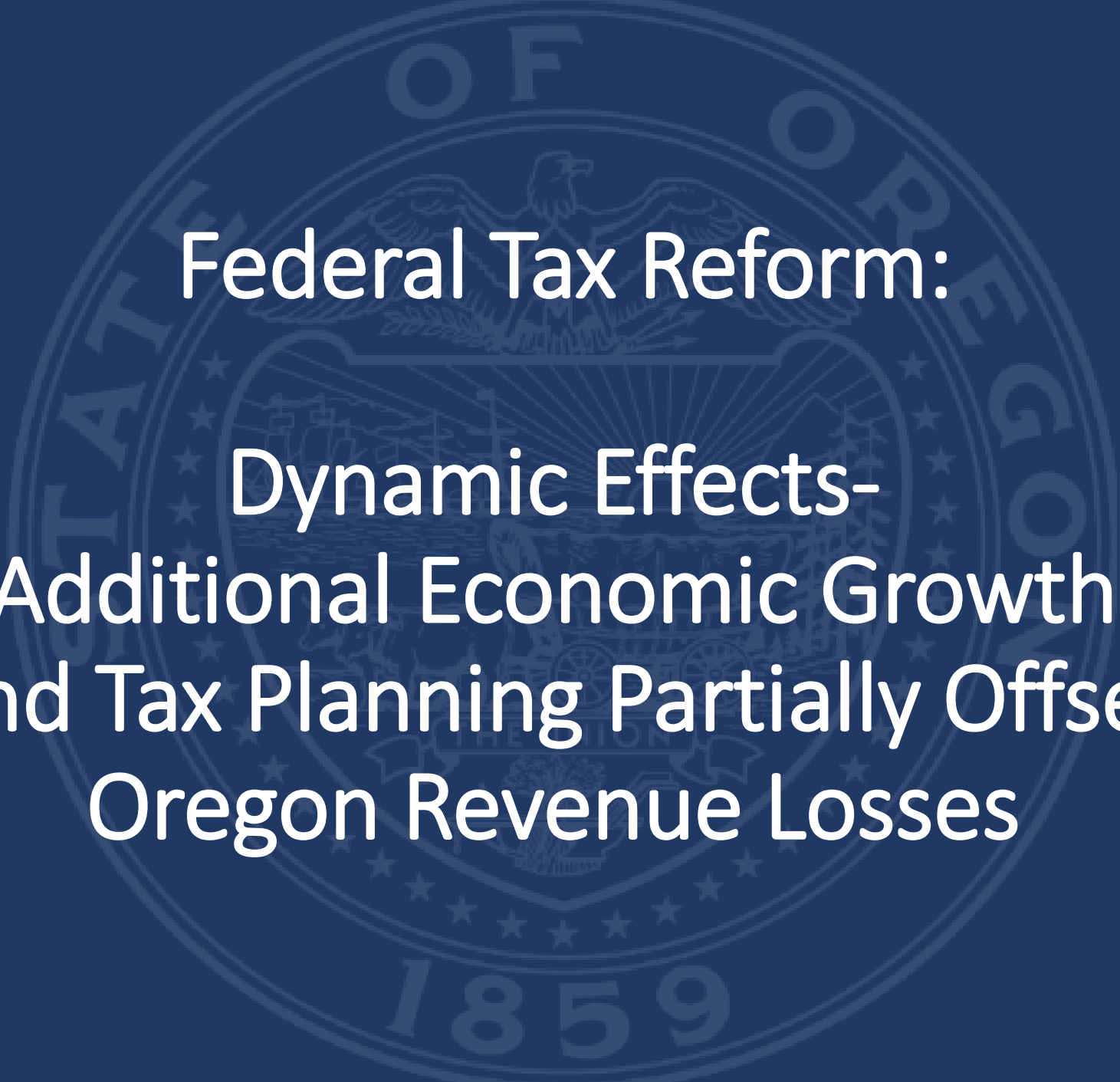
# The Starting Point



## Down Today, Up Tomorrow?

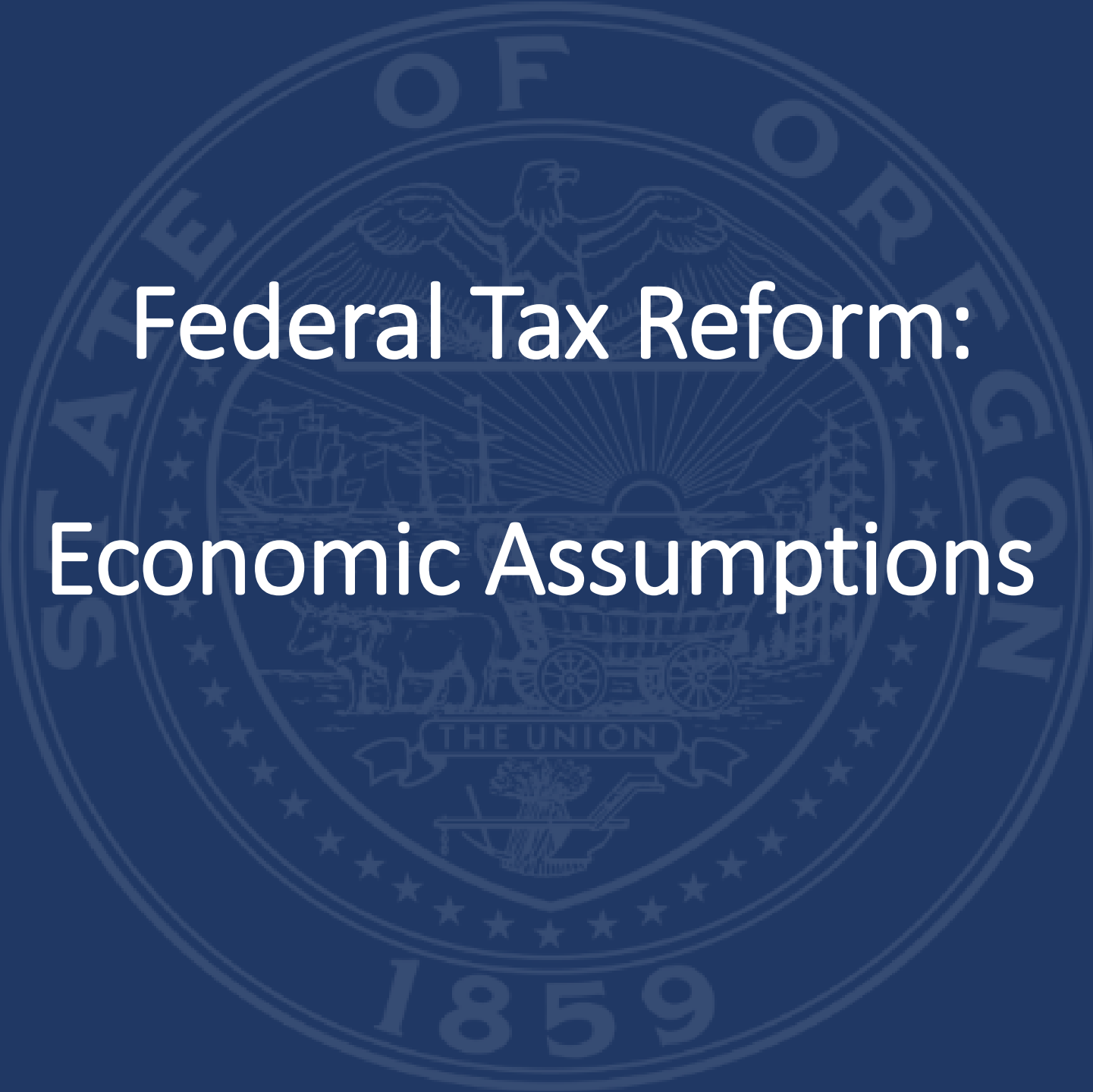
- Accelerated Depreciation (Expensing)
- Repatriation
- Inflation Factors
- Expiring Individual Provisions



The background of the slide features a large, faint, circular seal of the State of Oregon. The seal contains an eagle with spread wings perched on a shield, with a sunburst behind it. The words "STATE OF OREGON" are written around the top inner edge of the seal, and the year "1859" is at the bottom. The entire slide has a dark blue background.

# Federal Tax Reform:

## Dynamic Effects- Additional Economic Growth and Tax Planning Partially Offset Oregon Revenue Losses

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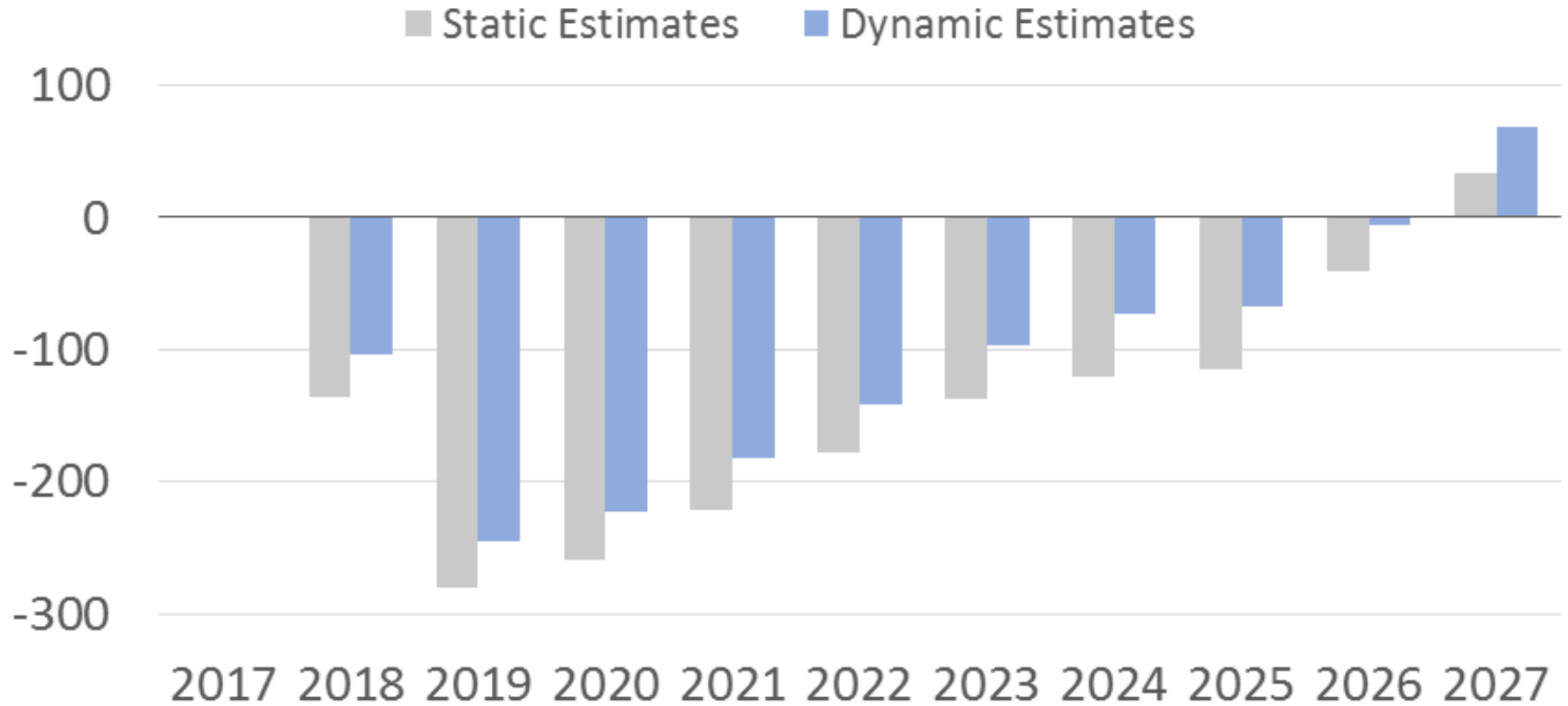
# Federal Tax Reform: Economic Assumptions



# Tax Cuts and Timing

## TCJA Budget Effects

Revenue Changes, \$ Billions



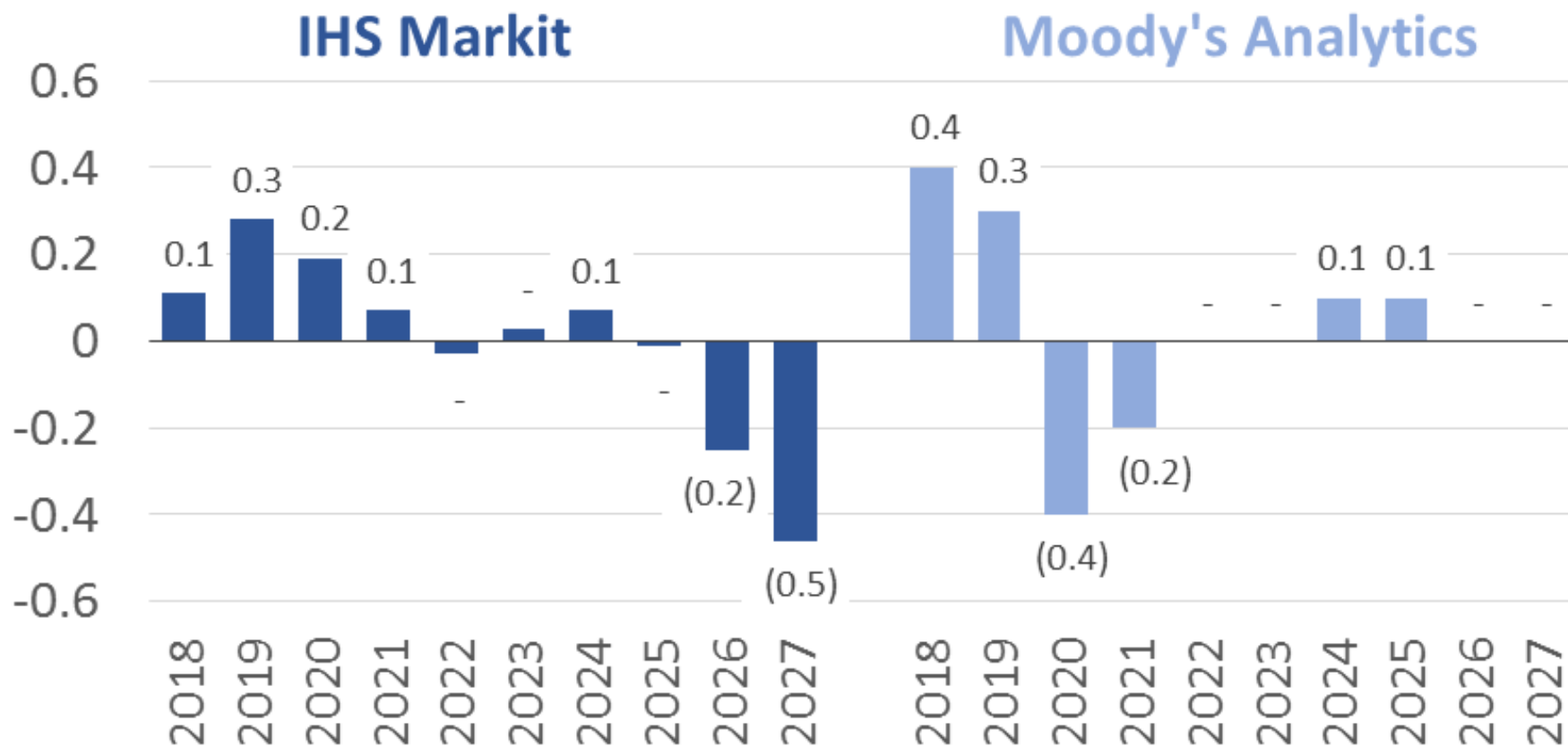
Source: Joint Committee on Taxation, Oregon Office of Economic Analysis



# Near-Term Boost, Long-Term Wash

## Tax Cut and Jobs Act Economic Impact

Policy Impact on Real GDP Growth, Percentage Points



Source: IHS Markit, Moody's Analytics, Oregon Office of Economic Analysis



# Long-Term Impact Muted

## Estimated Growth Effects of the Tax Cuts and Jobs Act

	Plan Modeled	Change in Ten-Year Annual Growth Rate	Change in Long-run Output Level
Tax Policy Center	TCJA	0.00 p.p.	0.00%
Joint Committee on Taxation	TCJA	0.01 to 0.02 p.p.	~ 0%
Moody's Economy.com	TCJA	0.05 p.p.	N/A
Penn Wharton Budget Model	TCJA	0.06 to 0.12 p.p.	0.7 to 1.6%
Tax Foundation	TCJA	N/A	1.7%
IHS Global Insight		0.05 p.p.	
AEI (Mathur and Kallen 2017)	20% Corporate Rate	0.09 p.p.	1.8%
Barro et al. 2017	20% Corporate Rate	N/A	3%
Feldstein (2017)	20% Corporate Rate	0.17 p.p.	N/A
Council of Economic Advisers	20% Corporate Rate	N/A	3 to 5%

Note: Long-run estimate for Penn Wharton Budget Model is for 2040. Long-run estimate for Tax Policy Center is for 2037. Based on sources listed and author's calculations.



Source: Furman, Jason. "Some Preliminary Macroeconomics of the Tax Cuts and Jobs Act." *American Economic Association ASSA Annual Meeting*, January 5-7, 2018, Philadelphia, PA. <https://piie.com/system/files/documents/furman20180106ppt.pdf>

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# Federal Tax Reform: Taxpayers Adapt





# Selected Tax Planning Issues

The TJCA gives preference to certain taxpayers and activities while increasing the burden on others. As such, there will be a considerable amount of tax planning as taxpayers adapt to the provisions of the bill. Notable issues include:

- **Shifting Across Tax Years.** Taking advantage of expiring tax breaks in 2017, and pushing other net income into future years.
- **Changing Filing Status.** Workers and investors filing as businesses? Businesses changing from C-Corporations to Passthroughs? From Passthroughs to C-Corporations?
- **Distributing Repatriated Income.** What will multinational corporations do with repatriated income after they bring it home? Continue to sit on it? Reinvest in the business either here or abroad? Pay it out to shareholders via dividends or stock buybacks?





# Surge In 2017 Year-End Tax Payments

Tax Year	Dec-Jan Estimated Payments (\$ mil)	Growth	Non-Withholding Income* (\$ mil)	Growth	Dec-Jan Est Pmts/ NWHInc
<b>2007</b>	375		23,275		1.6%
<b>2008</b>	268	-28.5%	15,027	-35.4%	1.8%
<b>2009</b>	227	-15.3%	11,696	-22.2%	1.9%
<b>2010</b>	253	11.5%	12,974	10.9%	2.0%
<b>2011</b>	268	5.9%	13,085	0.9%	2.0%
<b>2012</b>	345	28.7%	17,797	36.0%	1.9%
<b>2013</b>	346	0.3%	16,878	-5.2%	2.1%
<b>2014</b>	416	20.2%	20,822	23.4%	2.0%
<b>2015</b>	465	11.8%	22,424	7.7%	2.1%
<b>2016</b>	486	4.5%	23,786	6.1%	2.0%
<b>2017*</b>	688	41.6%	23,796	0.0%	2.9%
* Non-withheld Income Includes: Interest, Dividends, Cap Gains, Schedule E and Business, 2017 Data through 1/25					

- Median state in FTA survey saw 46% growth in estimates
- January payments rapidly fell off
- Tax Planning or Underlying Income Growth?

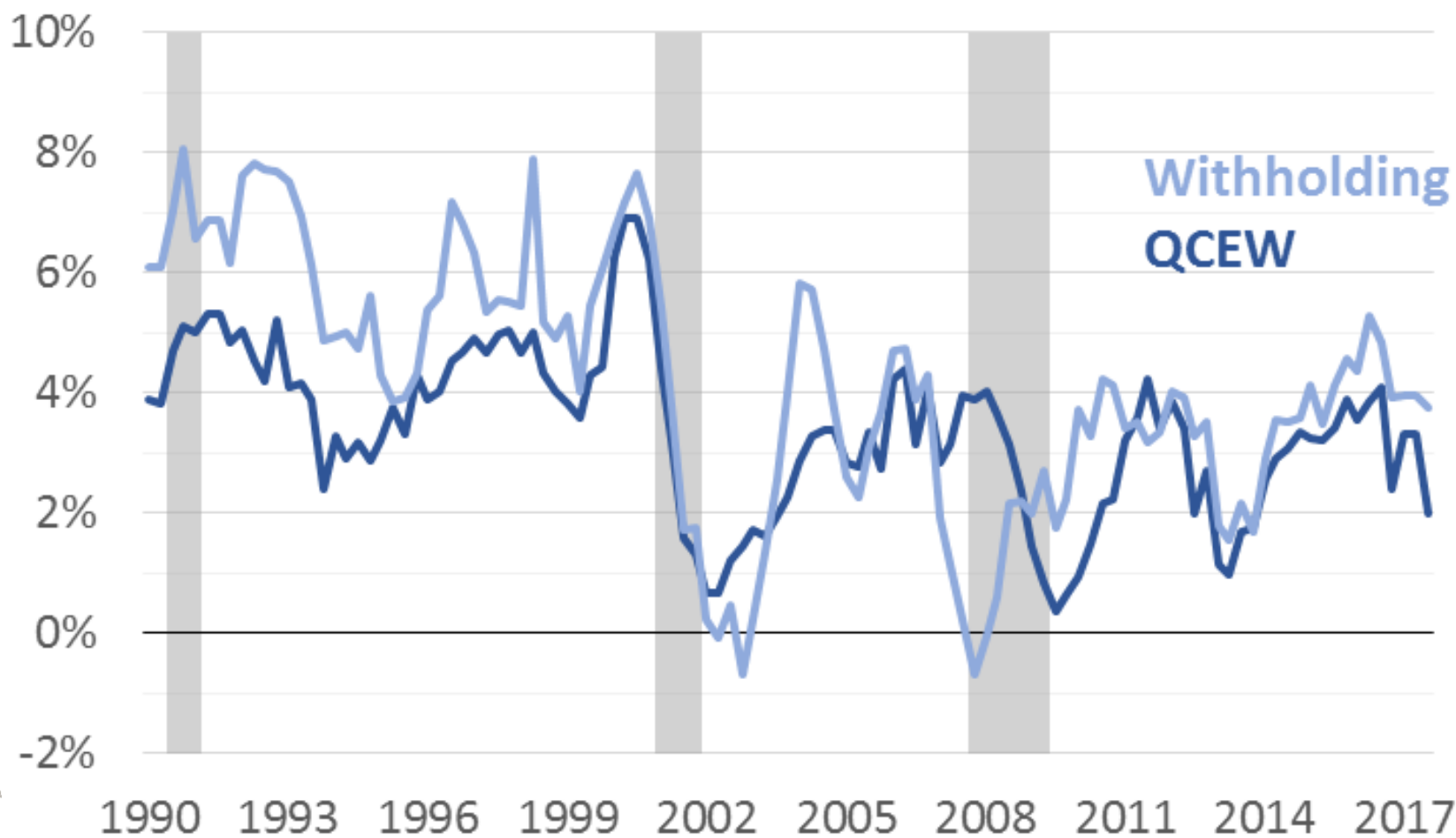




# Withholding Looks Better Than Employment Records

## Oregon Average Wage Growth

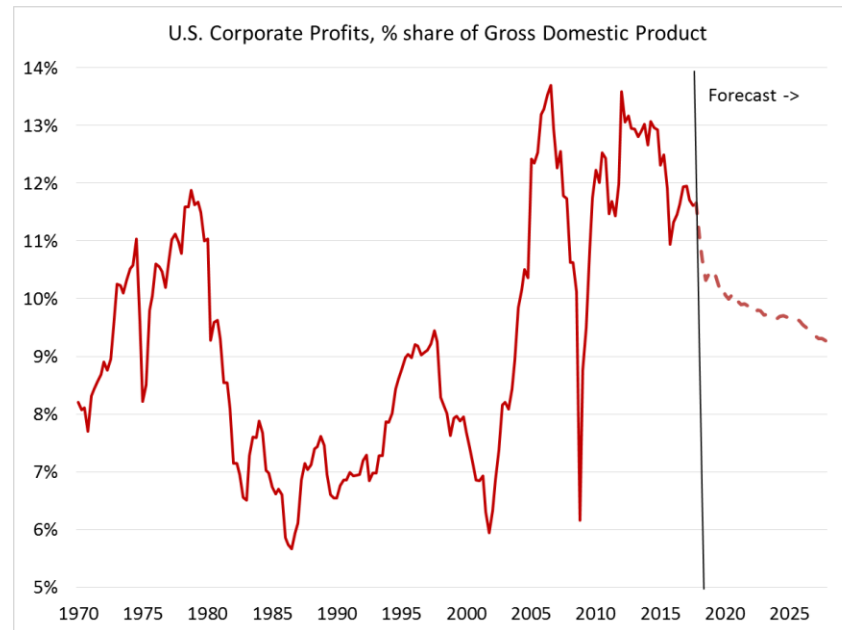
4 Qtr Moving Average, Y/Y





# Filing Status: Contracting, Stuffing, Packing & Cracking

- **Workers turning wages into passthrough or corporate income?** You, Inc. or partners & contractors vs employees.
- **C-Corps becoming passthroughs?** Limits on interest expenses and deductibility of highly paid execs.
- **Cracking and Packing?** Passthrough deduction is limited for high incomes and “specified service businesses”
- **Stuffing a C-Corp?** Housing personal investments in a C-Corp. Both ordinary investment income and dividends can benefit from the dividends received deduction.



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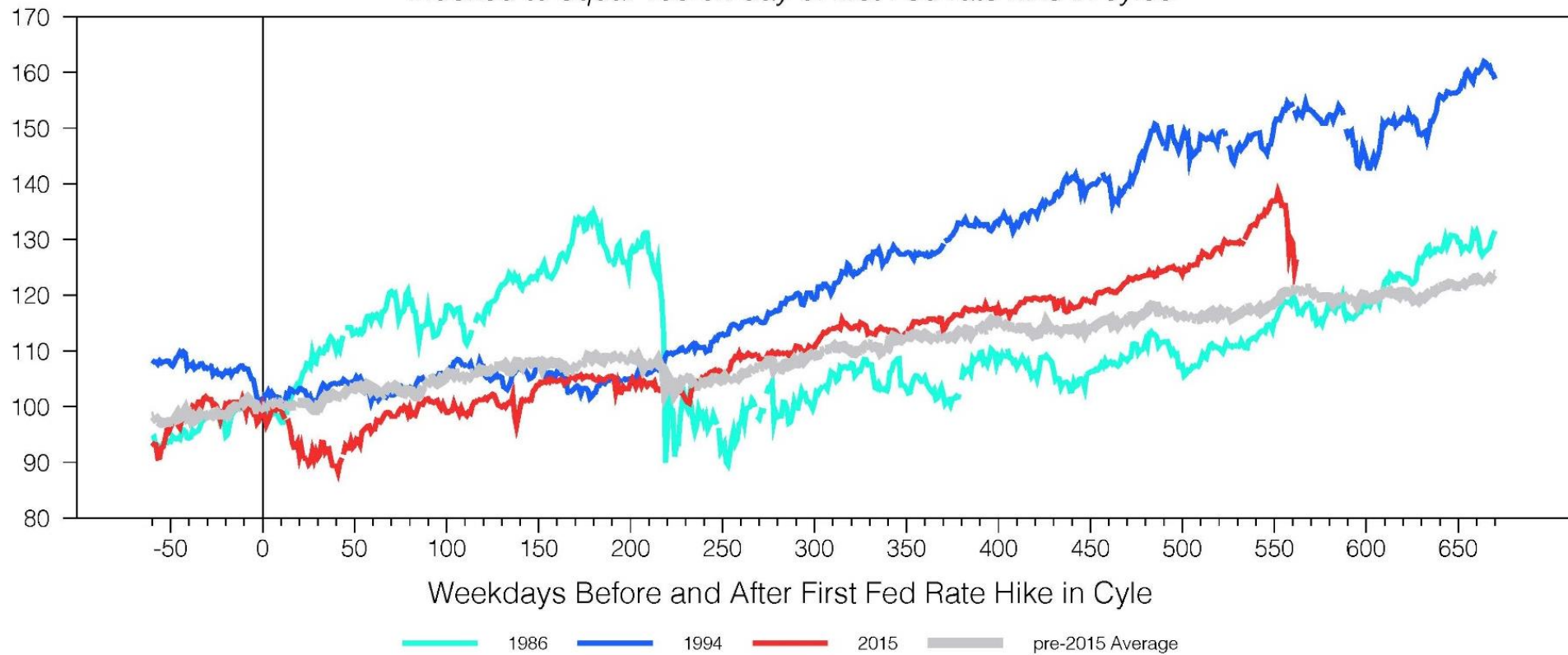
# Equity Market Correction



# Stock Markets and the Fed

## SP500 Stock Index

*Indexed to equal 100 on day of first Fed rate hike in cycle*



Web: [economistsview.typepad.com/timduy/](http://economistsview.typepad.com/timduy/) \* Twitter: @TimDuy \* Data via FRED and author's calculations \* Chart created: 02/11/2018 17:38

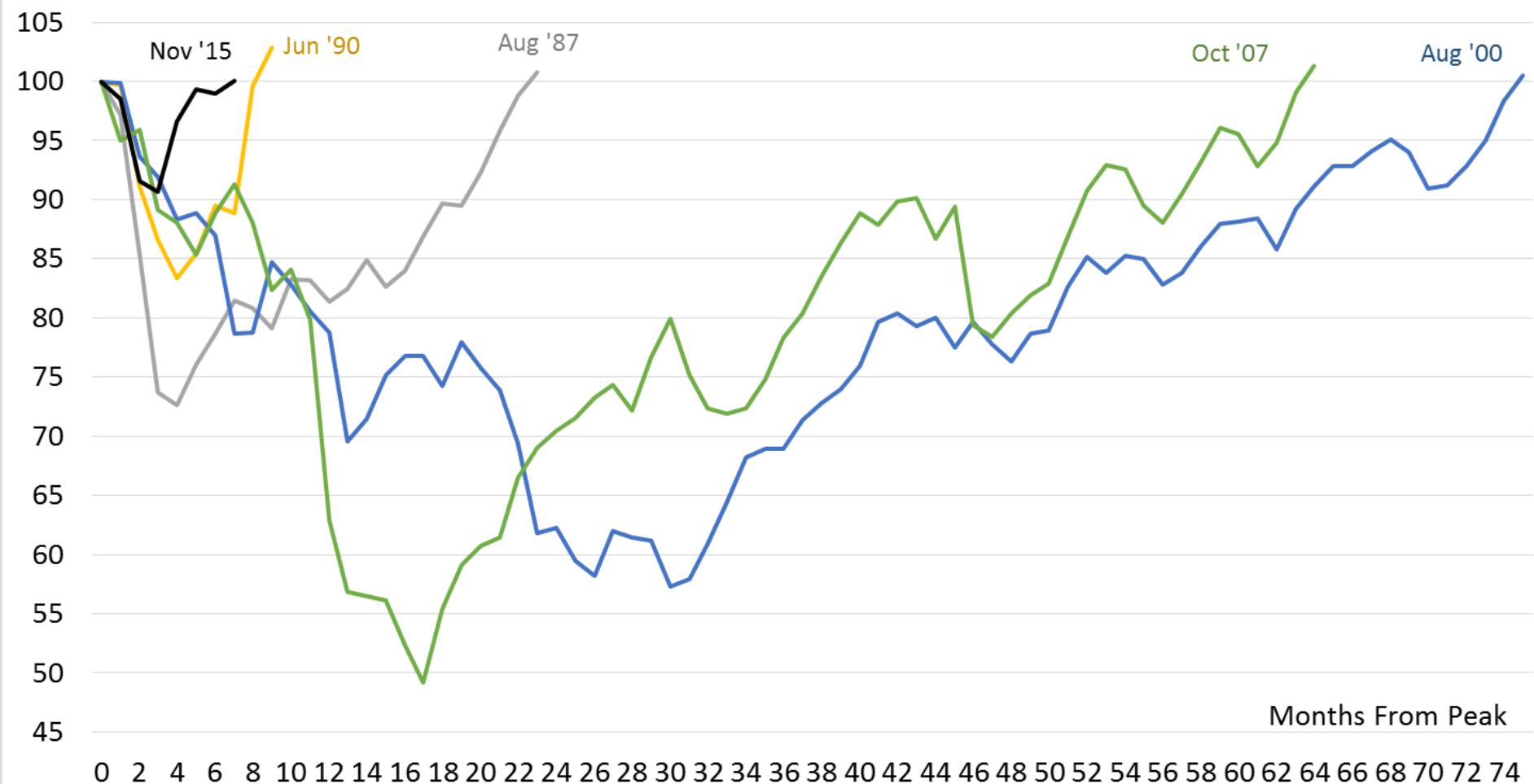




# Time Will Tell

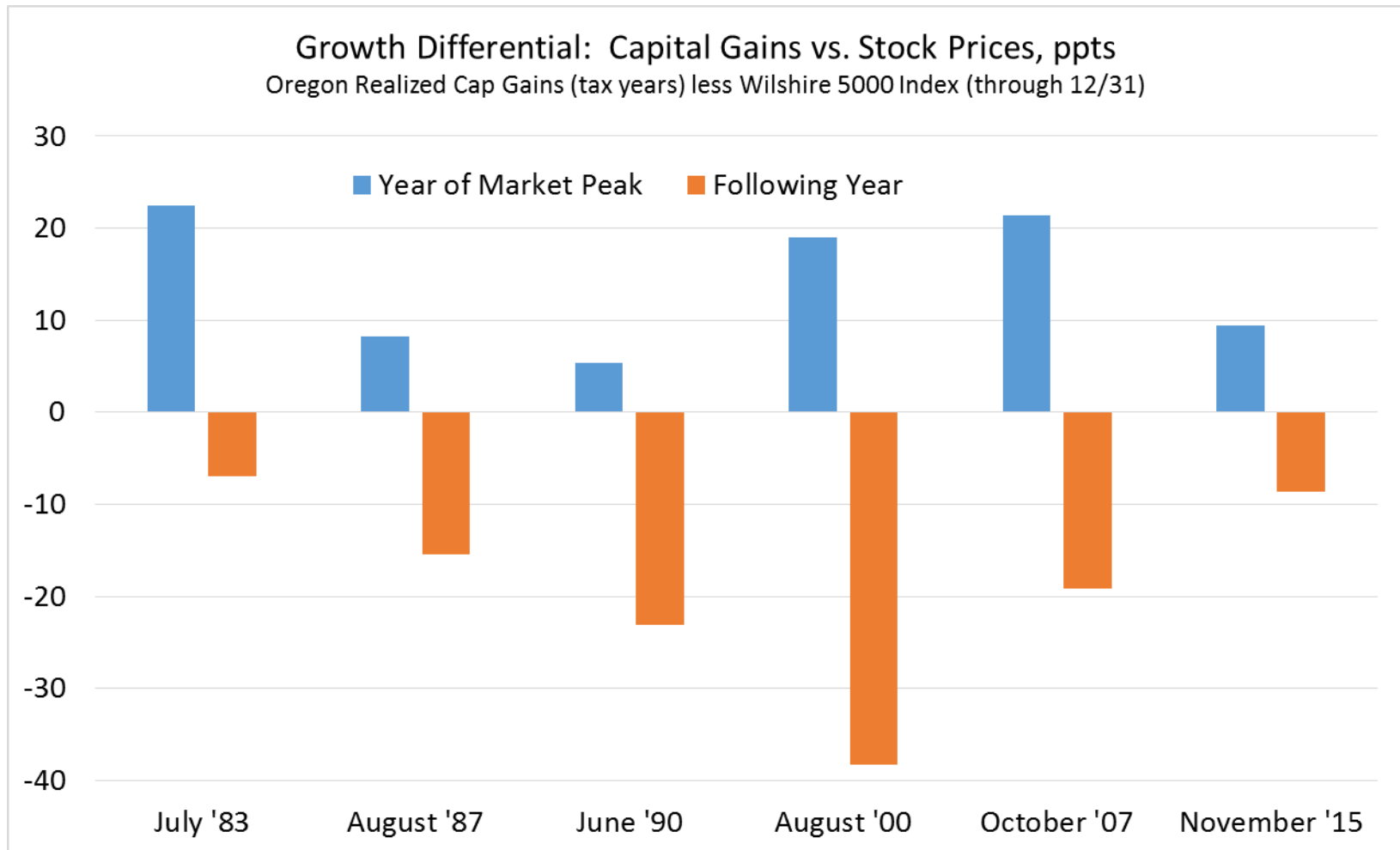
## Three Decades of Stock Market Corrections:

*Wilshire 5000 Index, % share of peak level*





# Revenues Swing More Than Stock Prices





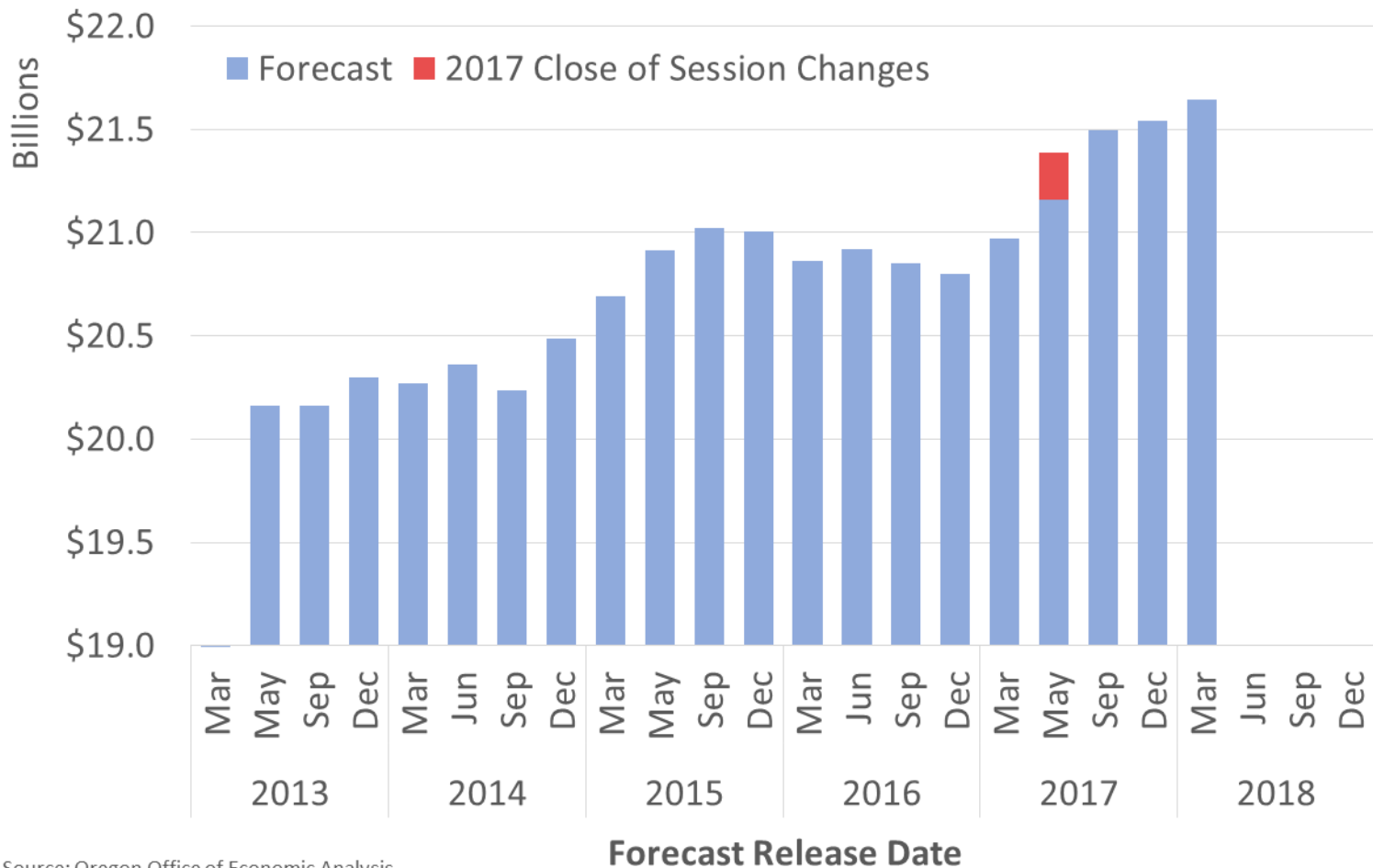
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# Bottom Line: Revenue Outlook Changes



# Stable Outlook for BI2017-19

## General and Lottery Fund Resources 2017-19





# General Fund Forecast Summary

**Table R.1**

## 2017-19 General Fund Forecast Summary

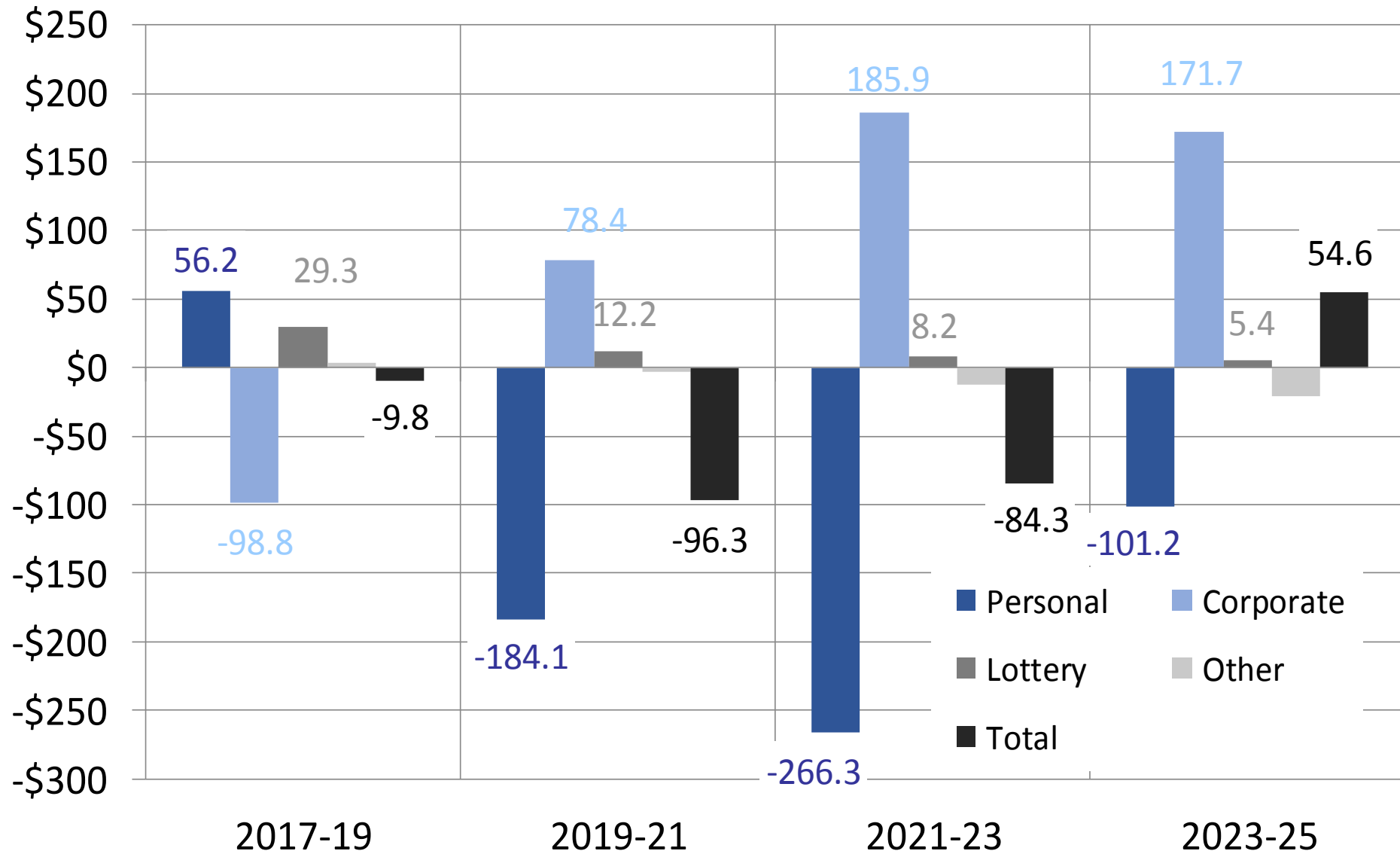
(Millions)	2017 COS Forecast	December 2017 Forecast	March 2018 Forecast	Change from Prior Forecast	Change from COS Forecast	Positive Factor	Negative Factor
Structural Revenues						Recent Collections: PIT and CIT	Federal Tax Law Changes (repatriation, expensing & passthroughs)
Personal Income Tax	\$17,147.4	\$17,118.5	\$17,174.8	\$56.2	\$27.4		
Corporate Income Tax	\$1,077.0	\$1,078.0	\$978.2	-\$99.8	-\$98.8		
All Other Revenues	\$1,327.6	\$1,334.3	\$1,337.8	\$3.5	\$10.2		
Gross GF Revenues	\$19,551.9	\$19,530.8	\$19,490.7	-\$40.1	-\$61.2	Year-End Accounting	Stock Market Downturn
Offsets and Transfers	-\$75.5	-\$73.9	-\$67.0	\$7.0	\$8.5		
Administrative Actions <sup>1</sup>	-\$21.5	-\$21.5	-\$21.5	\$0.0	\$0.0	Lottery	Liquor
Legislative Actions	-\$180.1	-\$180.1	-\$179.4	\$0.7	\$0.7		
Net Available Resources	\$20,055.7	\$20,130.9	\$20,200.8	\$69.8	\$145.0	Repatriation: Payouts to investors	
Confidence Intervals							
67% Confidence	+/- 6.2%		\$1,206.3	\$18.28B to \$20.70B			
95% Confidence	+/- 12.4%		\$2,412.7	\$17.08B to \$21.90B			

<sup>1</sup> Reflects cost of cashflow management actions, exclusive of internal borrowing.



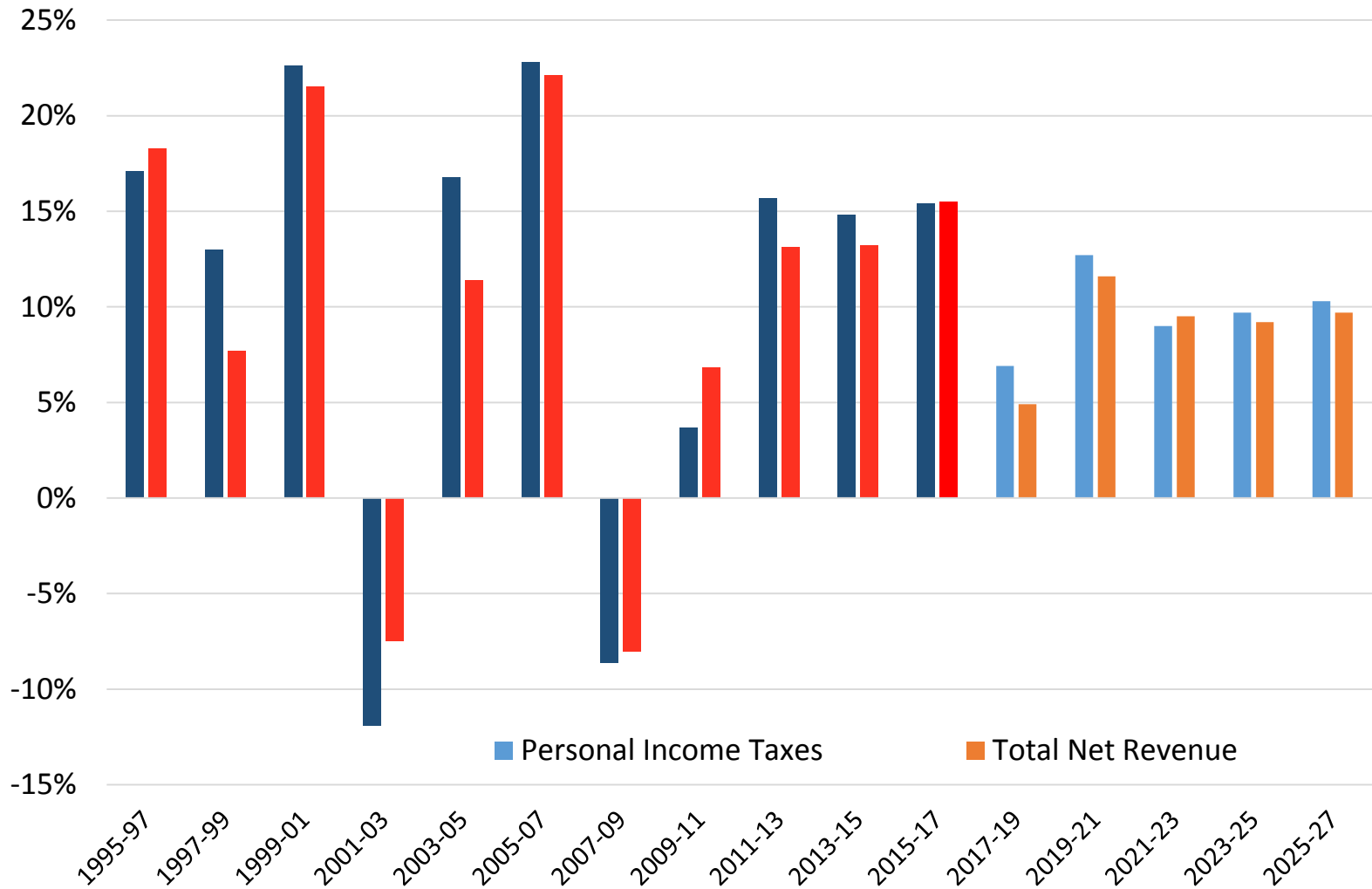
# Forecast Changes

Difference from December Forecast, \$ millions





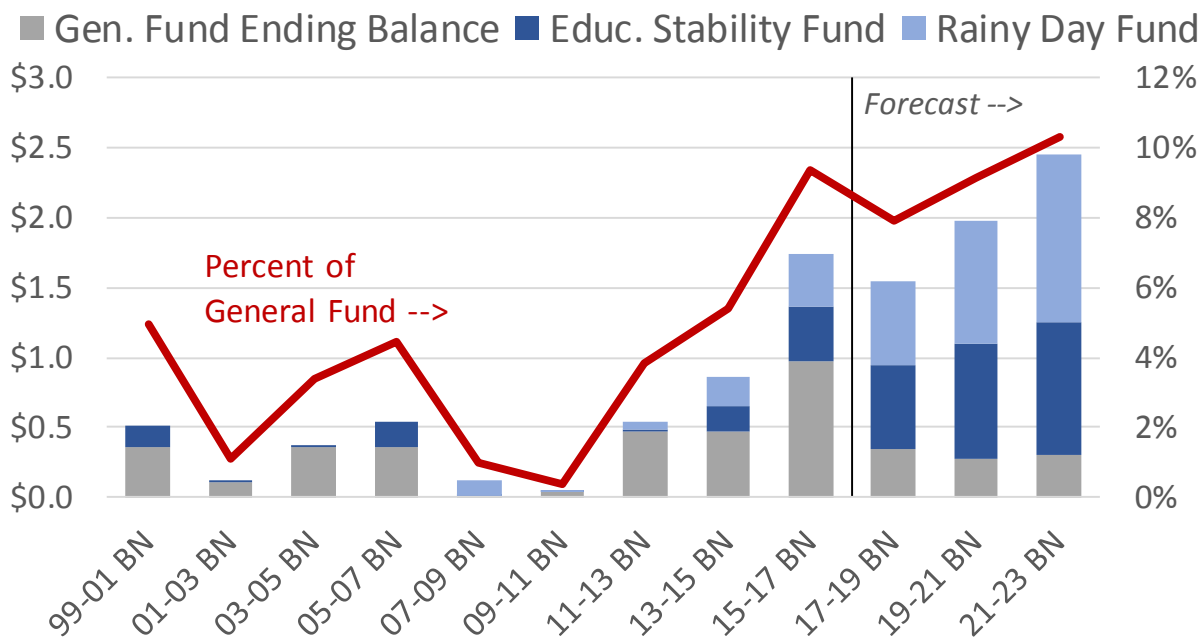
# Biennial Revenue Growth





# Reserves

## Oregon Budgetary Reserves (billions)



Source: Oregon Office of Economic Analysis

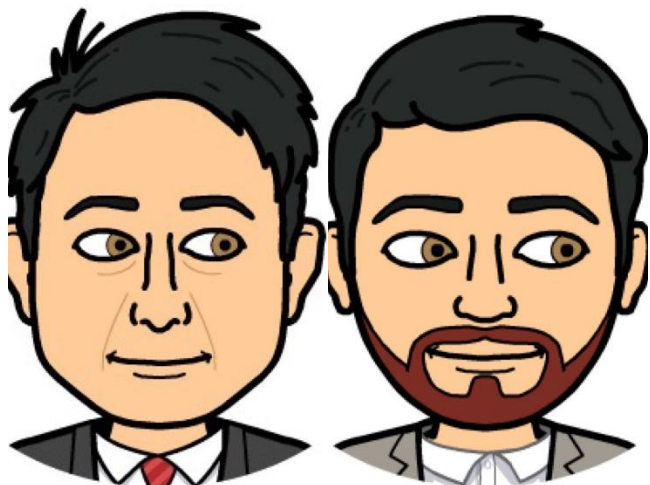
## Effective Reserves (\$ millions)

	Jan 2018	End 2017-19
ESF	\$445.0	\$608.5
RDF	\$575.4	\$594.5
Reserves	\$1,020.4	\$1,203.0
Ending Balance	\$342.0	\$342.0
<b>Total</b>	<b>\$1,362.4</b>	<b>\$1,545.0</b>
% of GF	7.0%	7.9%





# Contact



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