

The background features a large, faint, circular seal of the Oregon State Board of Economic Analysis. The seal contains an eagle with wings spread, a plow, and a sheaf of wheat. The text "STATE OF OREGON" is arched at the top, and "1859" is at the bottom. A banner across the center reads "THE UNION".

March 2023 Economic and Revenue Forecast

February 22nd, 2023

Oregon Office of Economic Analysis
Mark McMullen
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OEA Forecast Process

Historical U.S. and Oregon economic data

OREGON ECONOMIC MODEL

IHS Macro Forecast

OREGON PRELIMINARY ECONOMIC FORECAST

Governor's Council of Economic Advisors
+
DAS Economic Advisors

OREGON FINAL ECONOMIC FORECAST

LEGISLATIVE & POLICY CHANGES

Oregon Personal and Corporate Tax History

PERSONAL & CORPORATE TAX MODELS

OTHER REVENUE MODELS

Other Tax History
e.g. Estate, Lottery, Marijuana, Tobacco, etc

Council of Revenue Forecast Advisors

OREGON FINAL REVENUE FORECAST



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

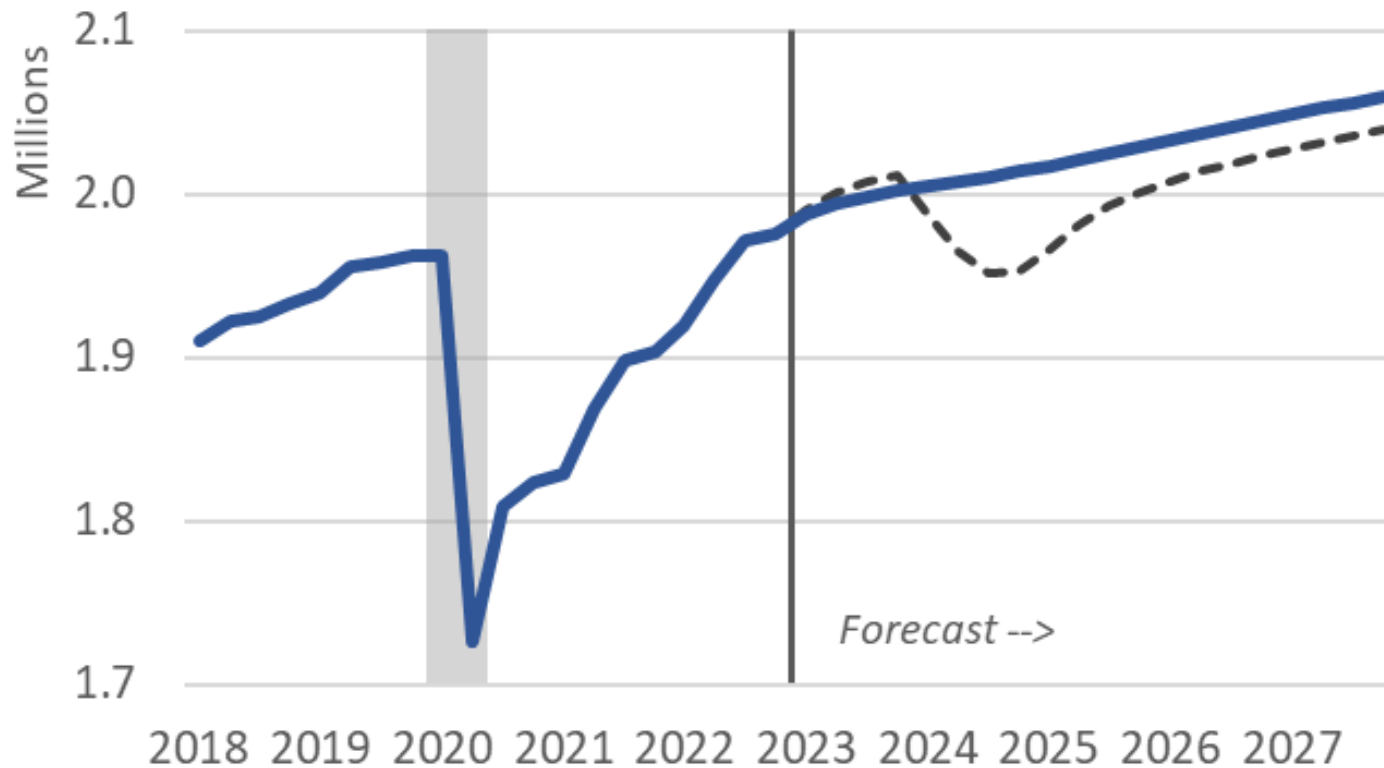
Economic Outlook



Recession no longer in the baseline, even as risks remain high

Oregon Employment

Baseline **Soft Landing** and Boom/Bust Alternative Scenario



Latest Data: 2022q4 | Source: Oregon Office of Economic Analysis

- With some improvement in inflation, a slow growth/soft landing scenario is the most likely in the near term
- The Fed has more work to do, but the recent slowing buys the economy time to continue to readjust to post-pandemic life
- Alternative Boom/Bust Scenario
 - Moderate sized recession starting in 2024



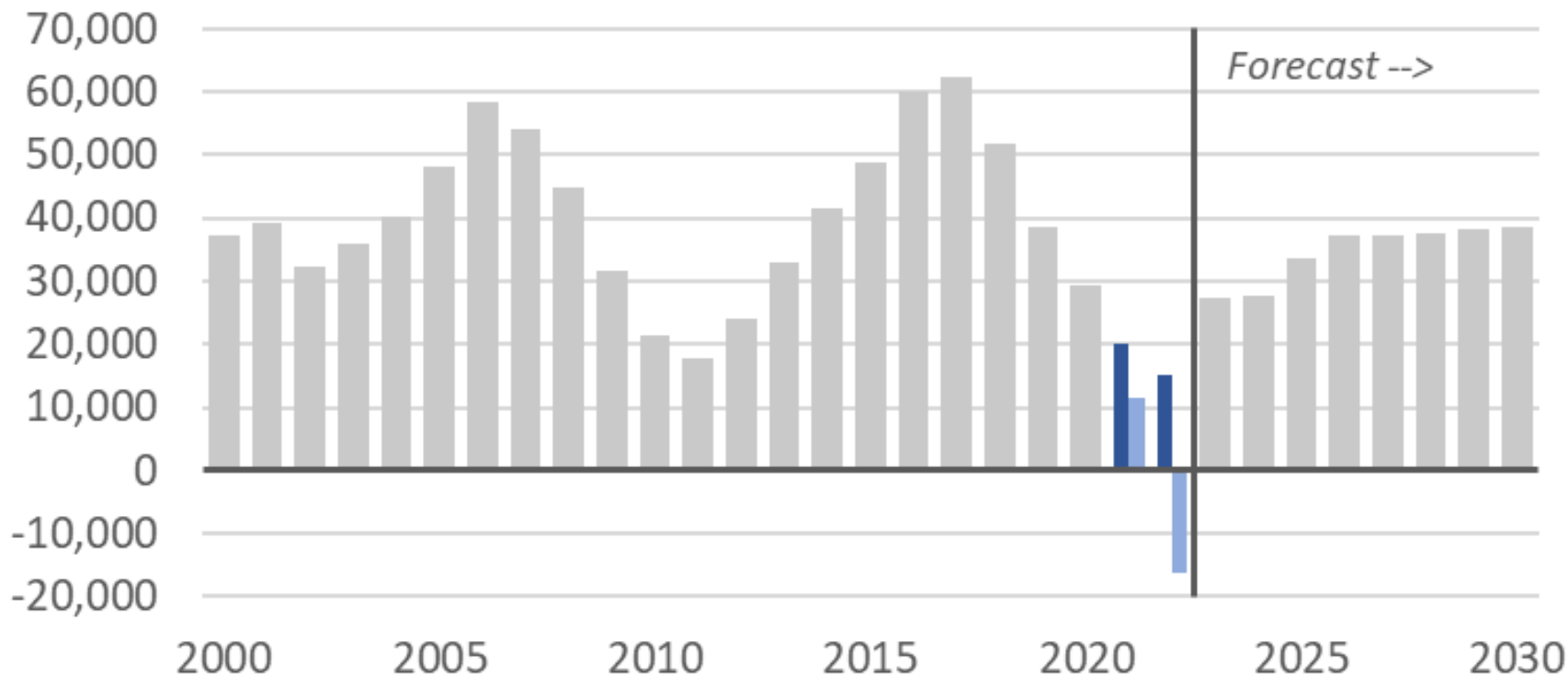


No rebound in migration

Oregon Pandemic Population Growth

Annual change in total state population

OEA History and Forecast, [Portland State Estimates](#), [Census Bureau Estimates](#)



- Primary reason Oregon grows faster than U.S.
 - Local businesses can hire and expand at faster rate
- Weakness has been in urban cores of large metros nationwide
- Forecast
 - Migration has historically been pro-cyclical
 - Surrendered driver licenses at Oregon DMVs are strong
 - Deaths are rising, and birthrate is very low

Source: Census, Portland State Population Research Center, Oregon Office of Economic Analysis

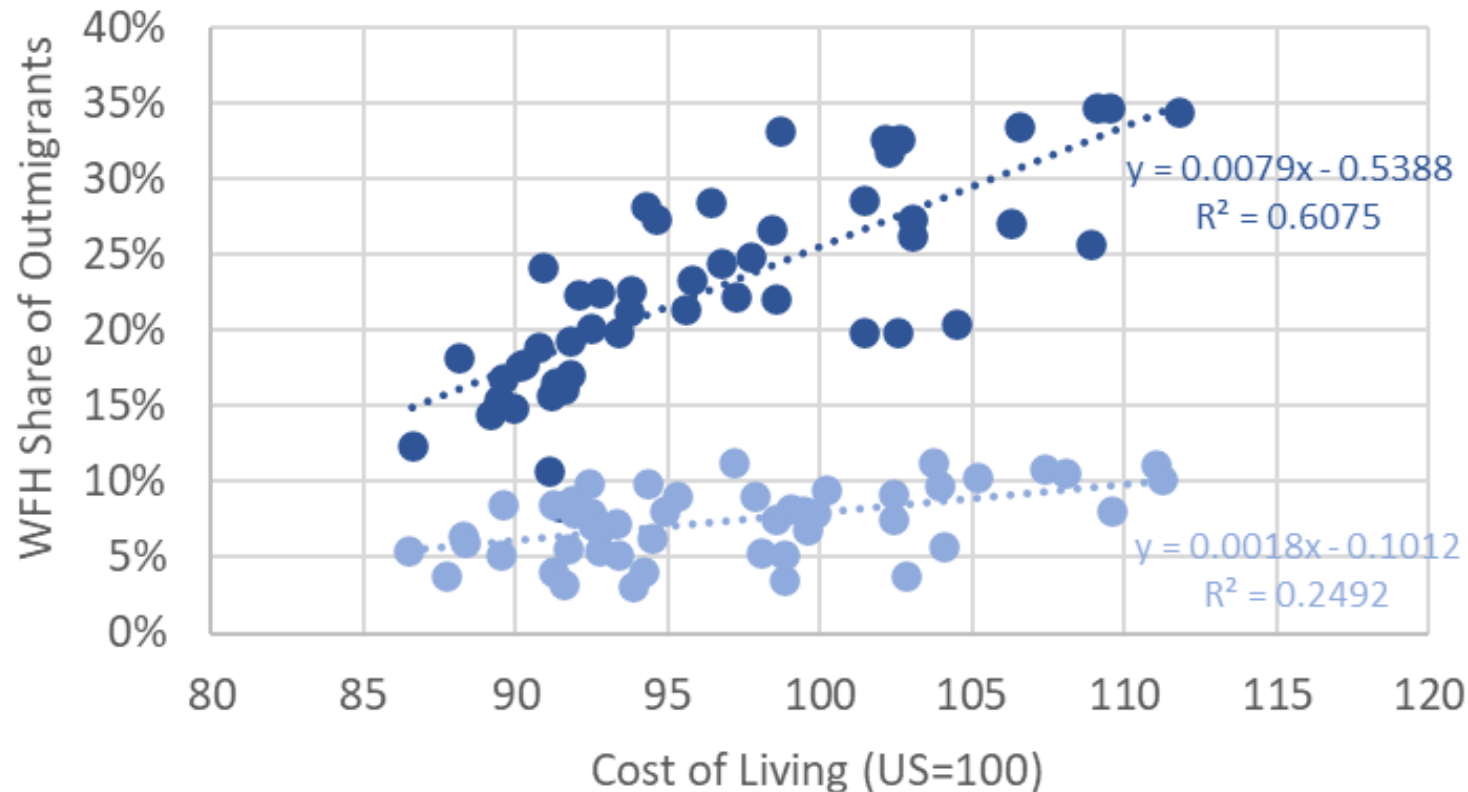




Out-of-state WFH migration a larger share in high-cost states

WFH Outmigration from High-Cost States

Share of workers leaving each state who work from home in 2019 and 2021



- Focus only of employed workers moving out of state
- The higher the cost of living, the higher the share of workers leaving that are WFH
 - A 1% increase in the relative cost of living correlates with a 0.8% increase in the share of WFH outmigrants
- From 2019 to 2021 the correlation strengthened considerably
 - Essentially the coefficient quadrupled and the goodness of fit doubled

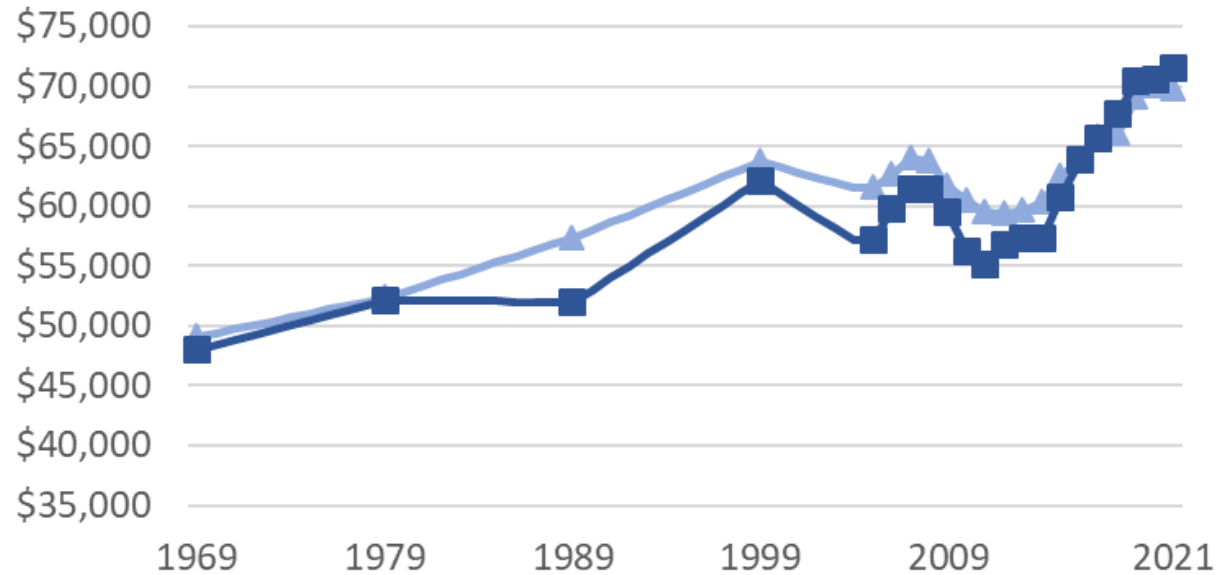




Oregon household distribution update

Median Household Income

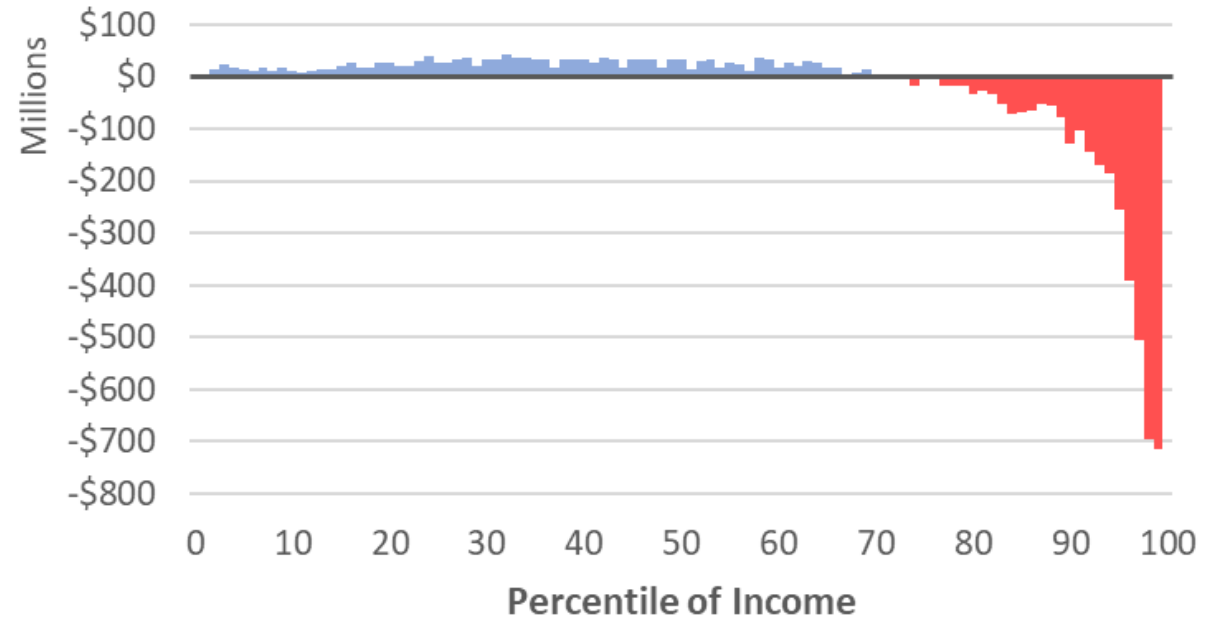
Inflation-Adjusted 2021\$ for the **United States** and **Oregon**



Deflator: PCE Price Index | Source: BEA, Census, Oregon Office of Economic Analysis

Oregon Household Income Distribution

2021, \$ difference between Oregon and the U.S.



Data: 2021 ACS | Source: IPUMS-USA, Oregon Office of Economic Analysis



Oregon Office of
Economic Analysis

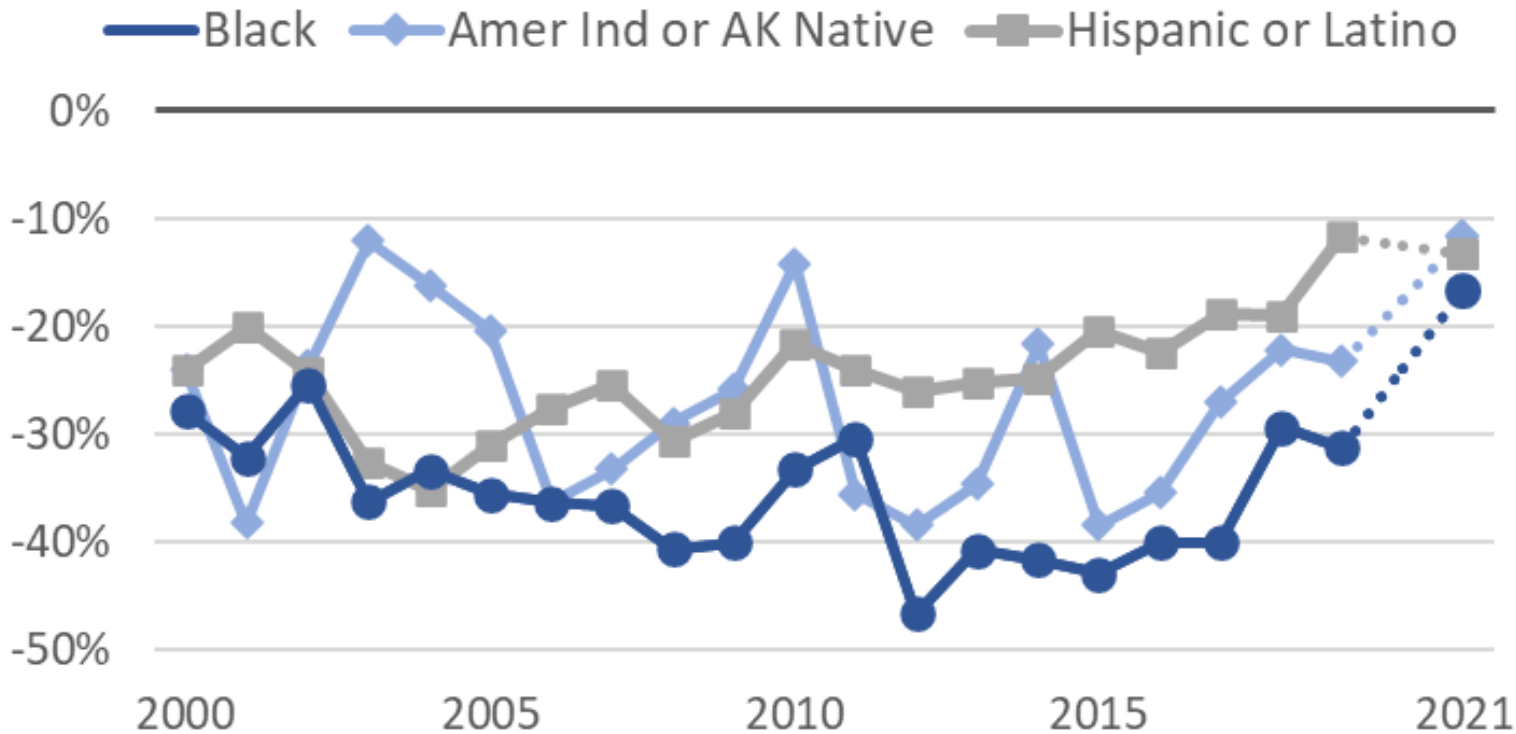




Income disparities remain

Median Household Income Gap in Oregon

Percent difference compared to White, Not Hispanic households



Source: Census, IPUMS-USA, Oregon Office of Economic Analysis

- Urban-Rural
 - In 1980 the typical rural household in Oregon earned 10 percent less than the typical urban household
 - In 2021 the gap was 25 percent
- Race and Ethnicity
 - Black, Indigenous, and Hispanic or Latino households in Oregon historically have incomes 20-40% lower than their white, non-Hispanic neighbors
 - In 2021 the gap is 10-20%

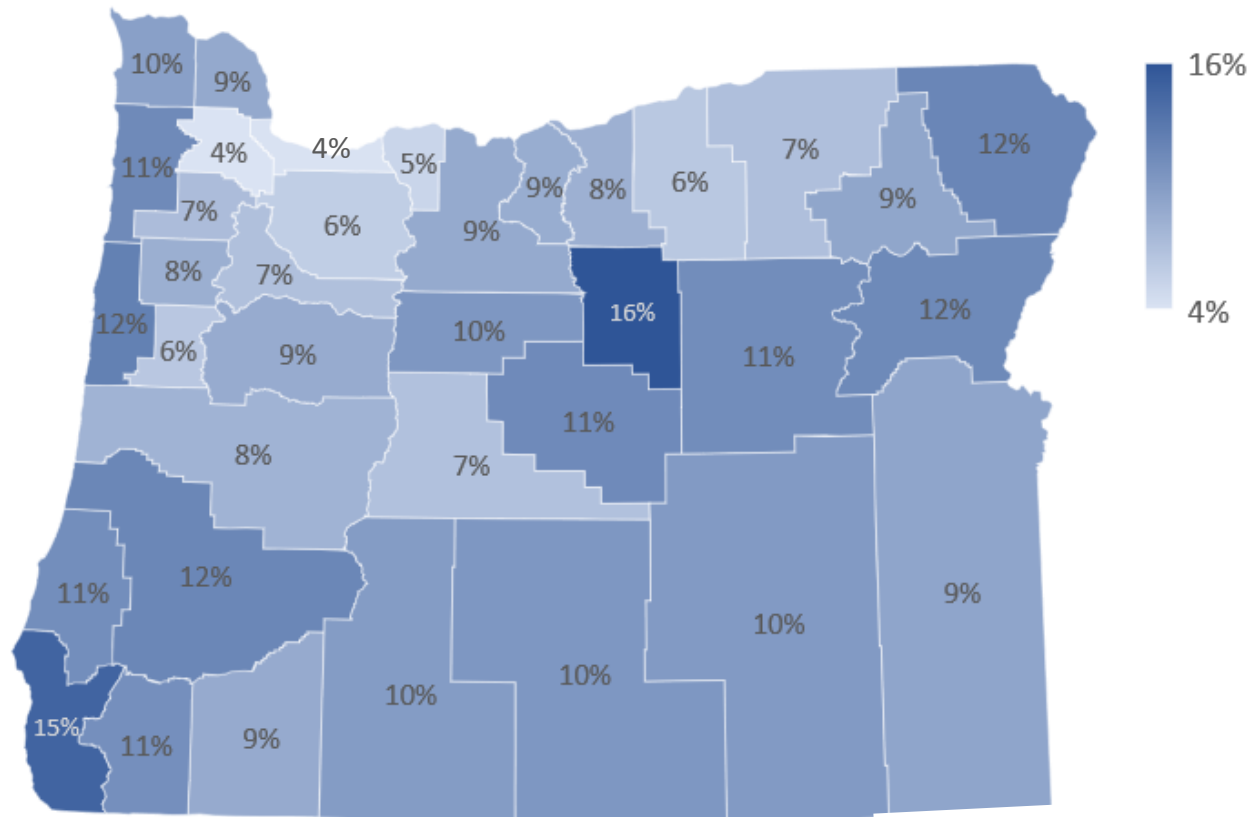




Social Security's Macro Impact

Social Security Share of Total Personal Income

2017-2021 Average



- 3 in 10 Oregon seniors essentially rely entirely on Social Security for their income, for nearly 6 in 10 it accounts for more than half of their income
- The 2023 Cost-of-Living-Adjustment is 8.7% for Social Security
- With inflation slowing, and the COLA accelerating it provides a macroeconomic tailwind for consumers
- COLA boosts *total* personal income in Oregon by 0.6 percent, equivalent to the income and spending power of about 22,000 jobs paying the statewide average wage

Source: BEA, Oregon Office of Economic Analysis



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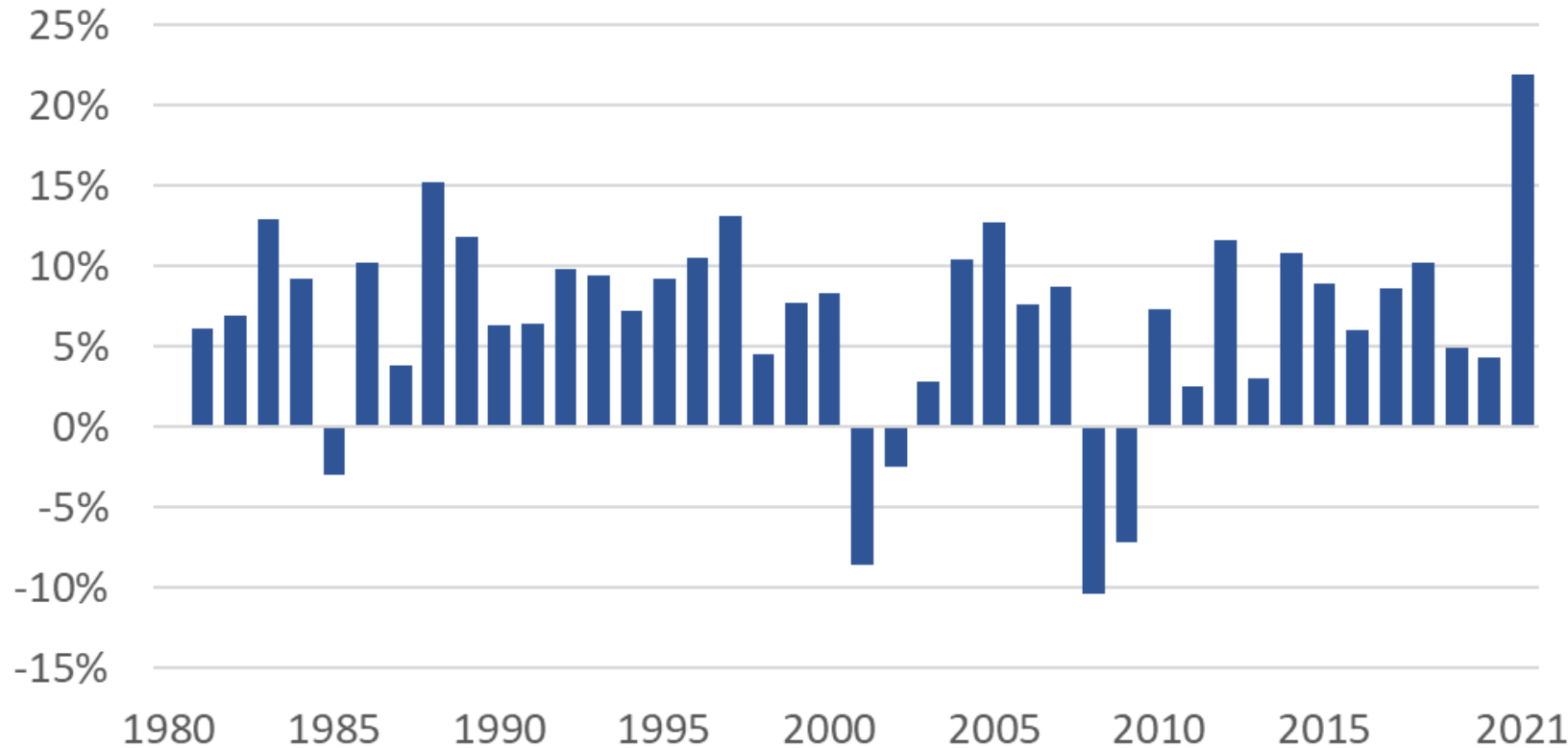
Revenue Outlook



Taking stock of tax year 2021

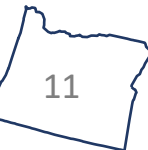
Oregon Personal Income Tax Liability

Year-over-year percent change



- Management is playing a role
 - Record 21.9% liability growth
 - Next highest were after Reagan tax cuts (1983:12.9% 1988:15.2%) and before Bush cuts expired (2005:12.8%)
- Tax liability among filers subject to the top rate grew by 49%, more than double the overall average

Latest Data: 2021 | Source: Oregon Department of Revenue, Oregon Office of Economic Analysis



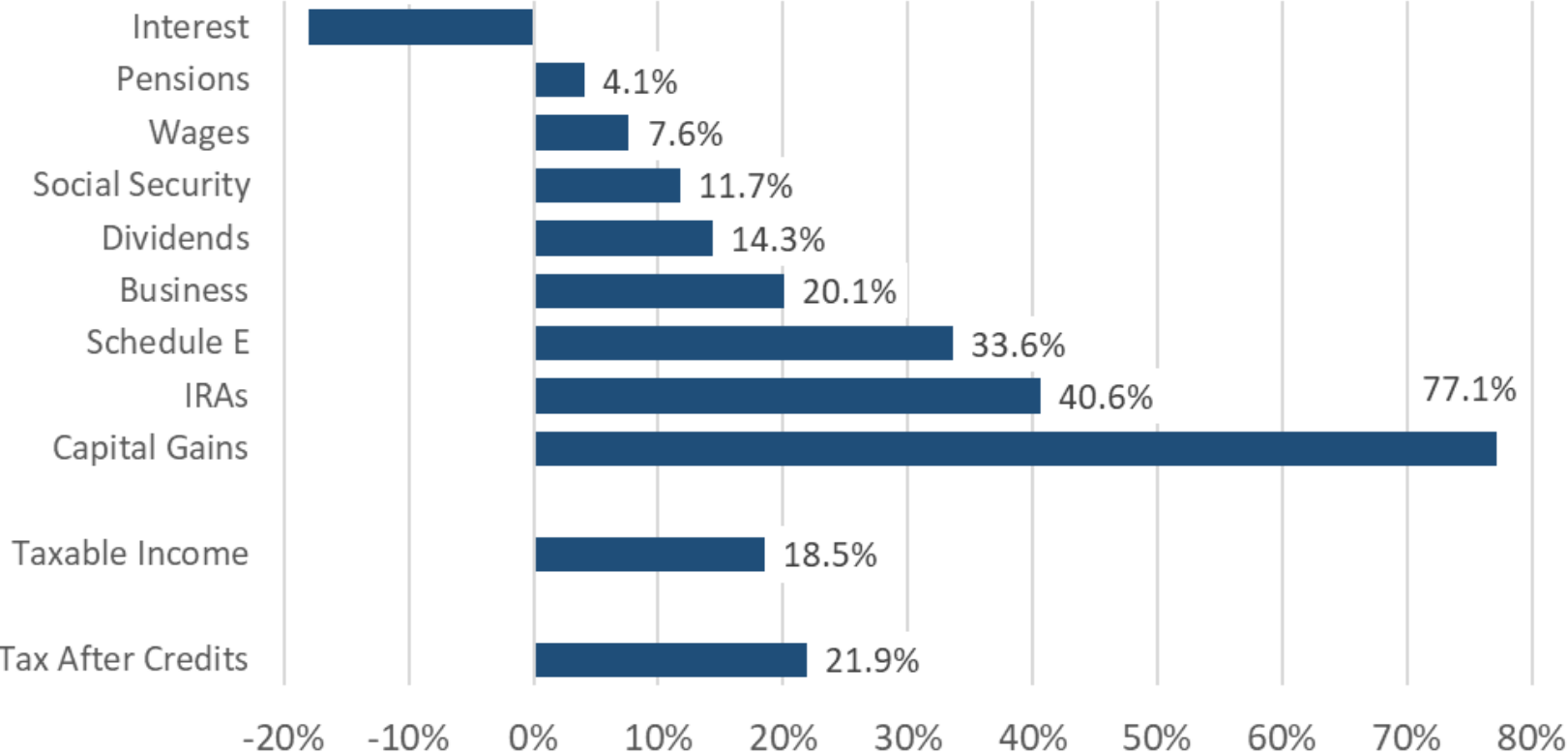


Taking stock of tax year 2021

Broad-based Income Boom

2021 growth in reported income, full-year filers

-18.0%



Sources: Oregon Department of Revenue, Office of Economic Analysis

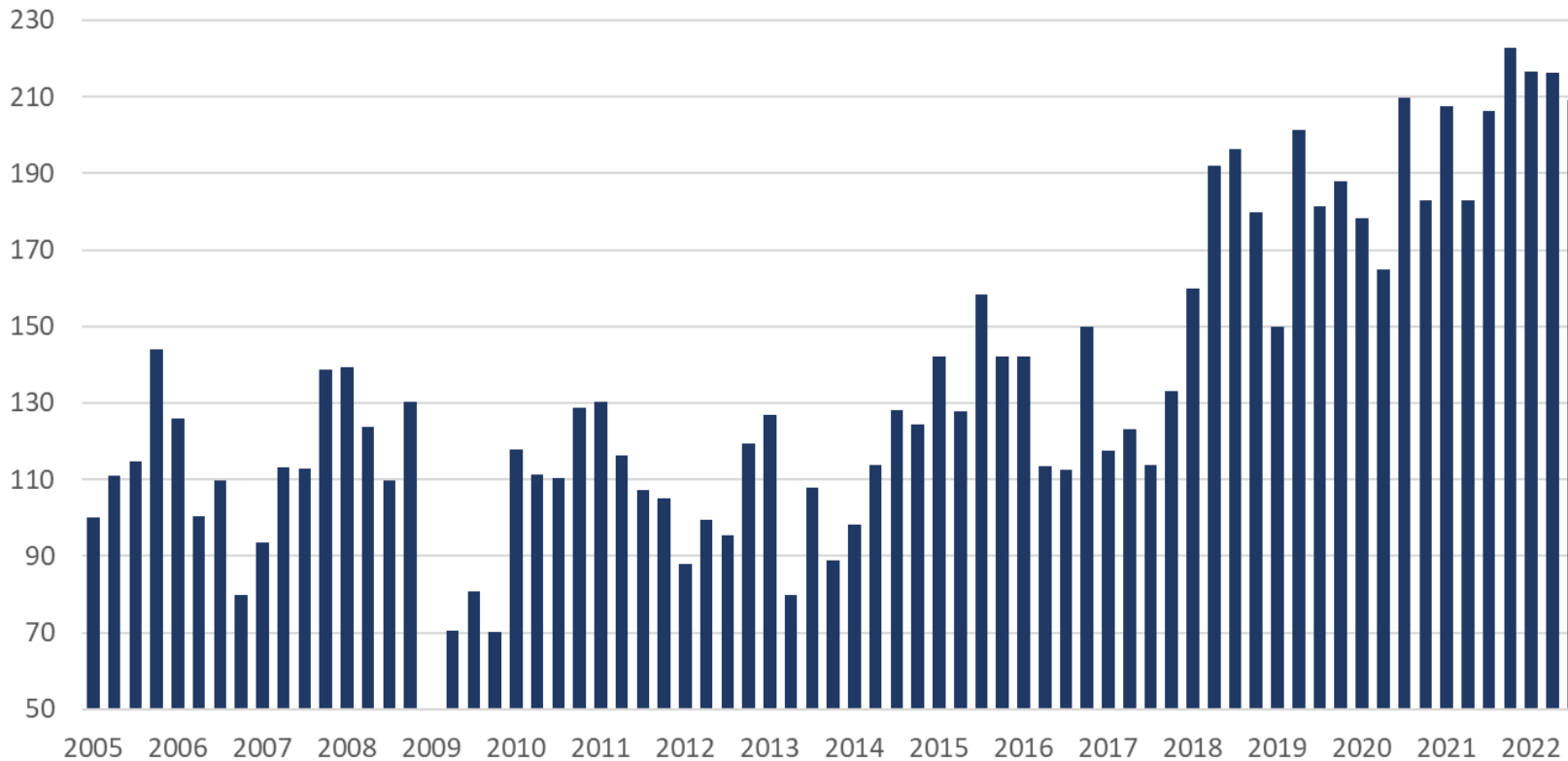
- While income growth was broad based, business and investment income boomed
- A few weak income sources
 - Alimony: -12.5%
 - Unemployment Insurance: -42.9%
 - State Tax Refund: -44.8%
- A record 5.9% of filers were subject to the top rate, accounting for 44% of tax liability



Traditional corporate taxes expected to pull back

Oregon Corporate Income & Excise Taxes: Collections-to-Profit Index

Seasonally adjusted, 2005Q1=100, U.S. corporate profits



Sources: Oregon Department of Revenue, U.S. Bureau of Economic Analysis, Oregon Office of Economic Analysis

- Corporate excise and income taxes have grown by 25% per year over the past five years, far faster than underlying measures of profits would suggest
- Although federal tax reforms have increased the Oregon tax base, much of the recent gains are assumed to be temporary
- Although early, collections in 2023 have shown some weakness

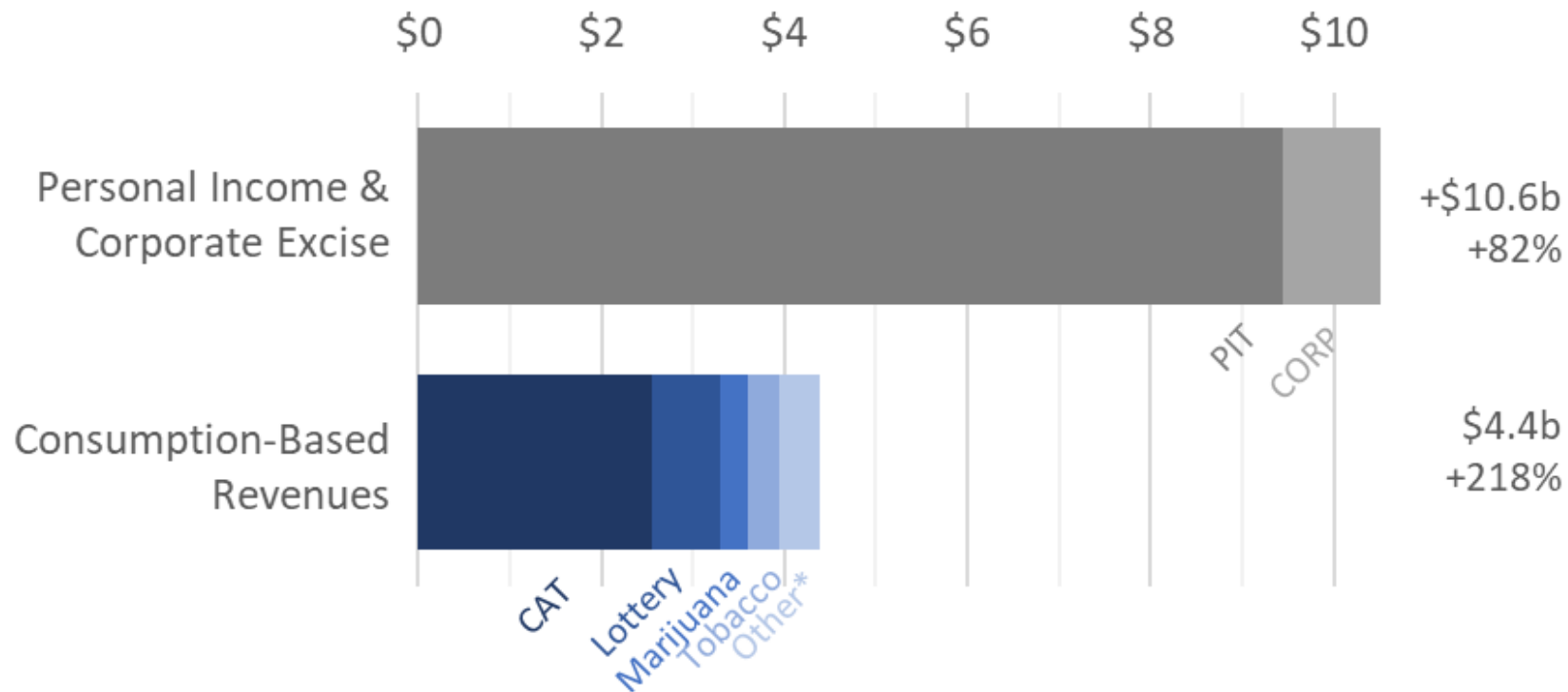




Consumption-based revenues will reduce overall revenue volatility

Oregon Revenues are More Diversified

Increase in state revenues from 2011-13 to 2023-25, \$ billion



*Other includes Liquor, Lodging, Vehicle Privilege and Use, and Bicycle Excise taxes

Source: Oregon Dept of Revenue, Oregon Dept of Transportation, Oregon Office of Econ Analysis

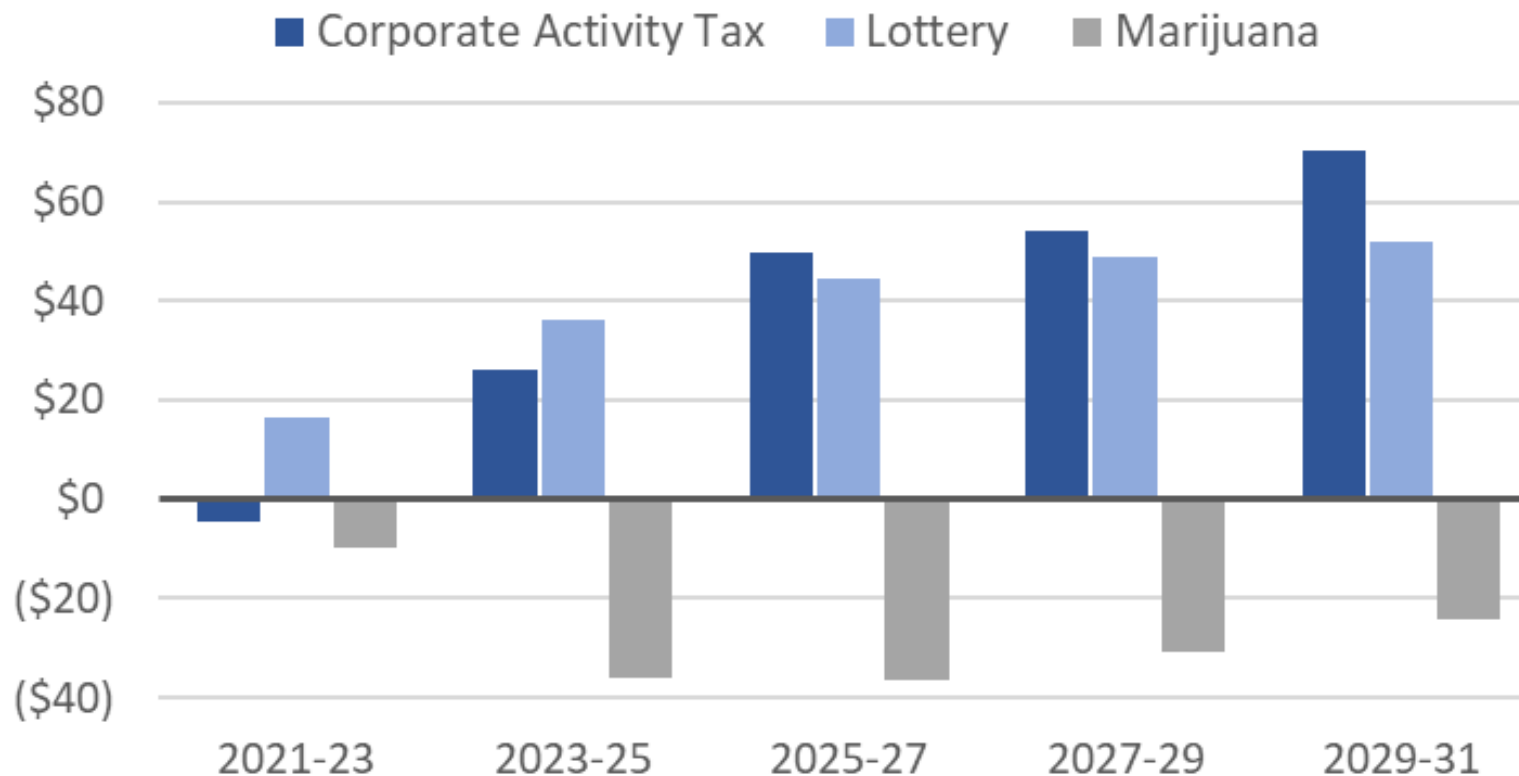




Consumption-based revenues improve with better economy, except marijuana

Consumption Revenues Generally Improve

Forecast change from December 2022 to March 2023 (\$ millions)

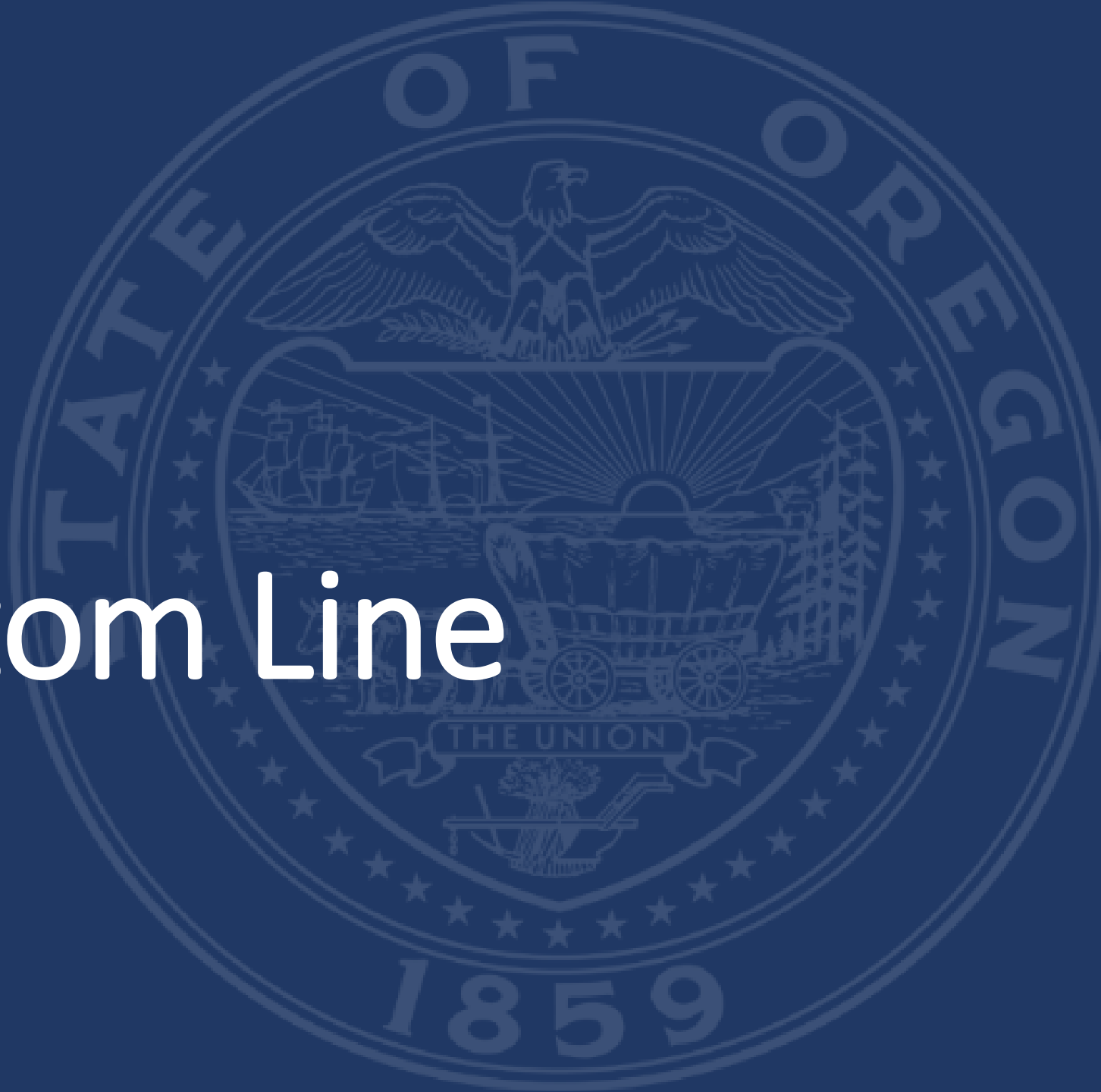


- Economic soft landing improves jobs, income, and consumer spending
- Forecast Changes
 - Corporate Activity Tax and Lottery raised approximately 2% per biennia
 - Marijuana lowered 11% in 2023-25, and 5-9% in future biennia

Source: Oregon Office of Economic Analysis



Bottom Line





Changes relative to the Dec Forecast

March 2023 Forecast Changes

General Fund Revenues	\$ Millions from Dec			
	21-23	23-25	25-27	27-29
Personal Income Taxes	240	29	-14	-127
Corporate Income Taxes	232	99	-37	-63
Other	15	52	14	17
Total	487	180	-36	-173

Other Revenues	\$ Millions from Dec			
	21-23	23-25	25-27	27-29
Lottery	16	36	44	49
Corporate Activity Tax	-5	26	50	54
Marijuana Tax	-10	-36	-37	-31
Total	2	27	58	72

	\$ Millions from Dec			
	21-23	23-25	25-27	27-29
Total Sum	489	207	21	-101

- Data in the table show how the revenue outlook has changed since the December forecast (released 11/16/22)
- Collections of personal income and traditional corporate taxes continue to outstrip expectations
- With the improved baseline economic outlook, additional gains in most taxes are expected through 2023-25
- One exception is the marijuana tax, which is expected to fall by 11% due to low prices (drug treatment funds)
- Combined resources for the 2021-23 and 2023-25 budget cycles have increased by **\$696 million**
- Personal Kicker
 - \$3.938 billion
- Corporate Kicker
 - \$1.545 billion





Sizable reserves remain

Oregon's Budgetary Reserves (millions)

	2017-19	2019-21	2021-23	2023-25	GRB Proposal 2023-25
Rainy Day Fund					
Beginning Balance	\$376.4	\$666.6	\$962.2	\$1,342.6	\$1,342.6
Net Deposits	\$266.7	\$272.8	\$338.4	\$362.4	\$0.0
Interest	\$23.5	\$22.8	\$42.0	\$126.9	\$0.0
Triggered Withdrawals					
Ending Balance	\$666.6	\$962.2	\$1,342.5	\$1,831.9	\$1,342.6
Education Stability Fund					
Beginning Balance	\$384.2	\$621.1	\$414.6	\$708.4	\$708.4
Net Deposits	\$235.9	\$194.7	\$294.1	\$294.1	\$0.0
Interest	-\$22.4	-\$19.9	-\$24.3	-\$71.9	-\$60.5
Withdrawals	\$0.0	\$400.0	\$0.0	\$0.0	\$0.0
Ending Balance	\$621.1	\$414.6	\$708.4	\$1,002.5	\$708.4
Total Reserves	\$1,287.7	\$1,376.8	\$2,051.0	\$2,834.4	\$2,051.0
% of GF Revenues	5.9%	5.8%	7.2%	11.2%	8.1%

- Under the current forecast, Oregon's reserve funds are expected to hit their statutory caps at the end of fiscal year 2026

- RDF: 7.5% of GF (Retained in GF)
- ESF: 5% of GF (Capital Matching Account)



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