

The background features a large, faint, circular seal of the Oregon Office of Economic Analysis. The seal contains an eagle with wings spread, a plow, and a sheaf of wheat. The text "OFFICE OF ECONOMIC ANALYSIS OF OREGON" is written around the top inner edge, and "1859" is at the bottom. A banner across the center reads "THE UNION".

May 2023 Economic and Revenue Forecast

May 17th, 2023

Oregon Office of Economic Analysis
Mark McMullen
Josh Lehner

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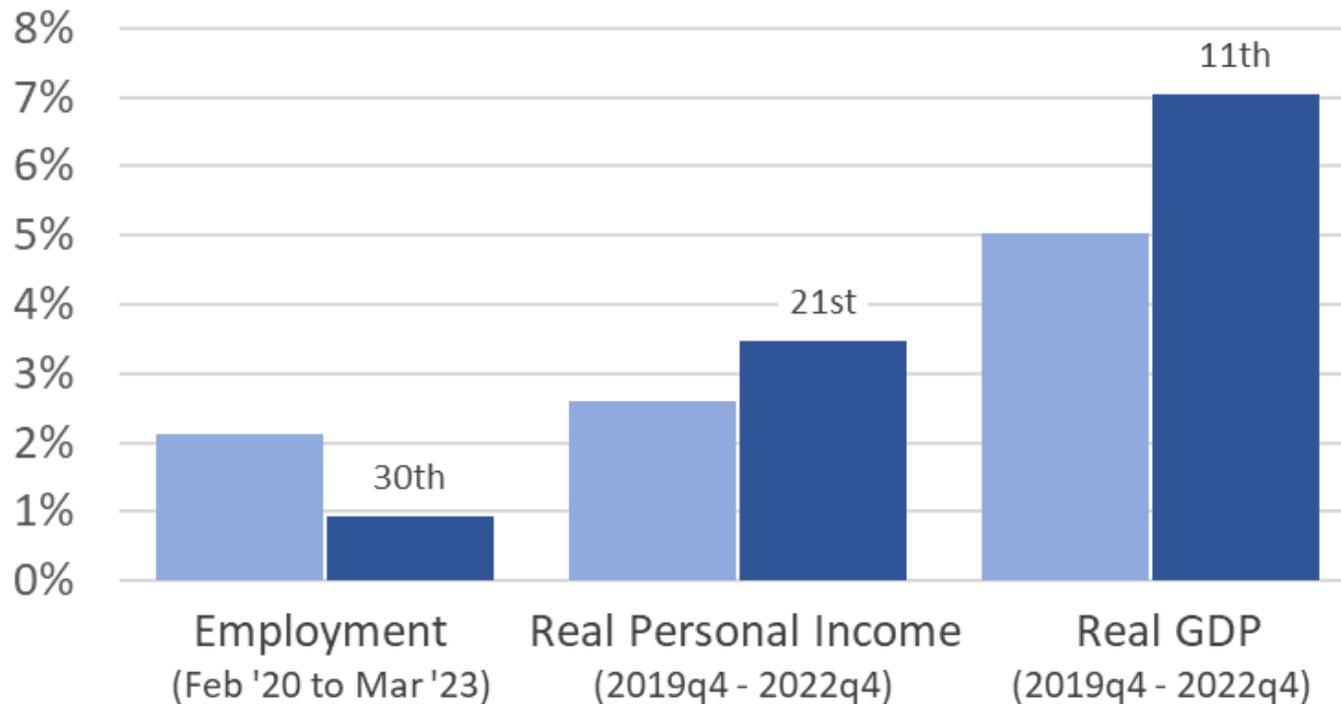
Economic Outlook



How Oregon Stacks Up Today

Pandemic Economic Recovery

Percent change from pre-pandemic for **U.S.** and **Oregon**



- Business Cycle Dynamics
 - Historically Oregon's economy is more volatile than the typical state
 - This cycle Oregon is in the middle of the pack
- Composition of Growth
 - In the 1990s and 2000s, Oregon saw fast job and population gains while relative incomes lagged
 - Starting late 2010s and through the pandemic, relative incomes are outpacing the typical state, while jobs and population are slower

Source: BEA, BLS, Oregon Office of Economic Analysis





Oregon is at or near full employment

Oregon's Labor Force Participation

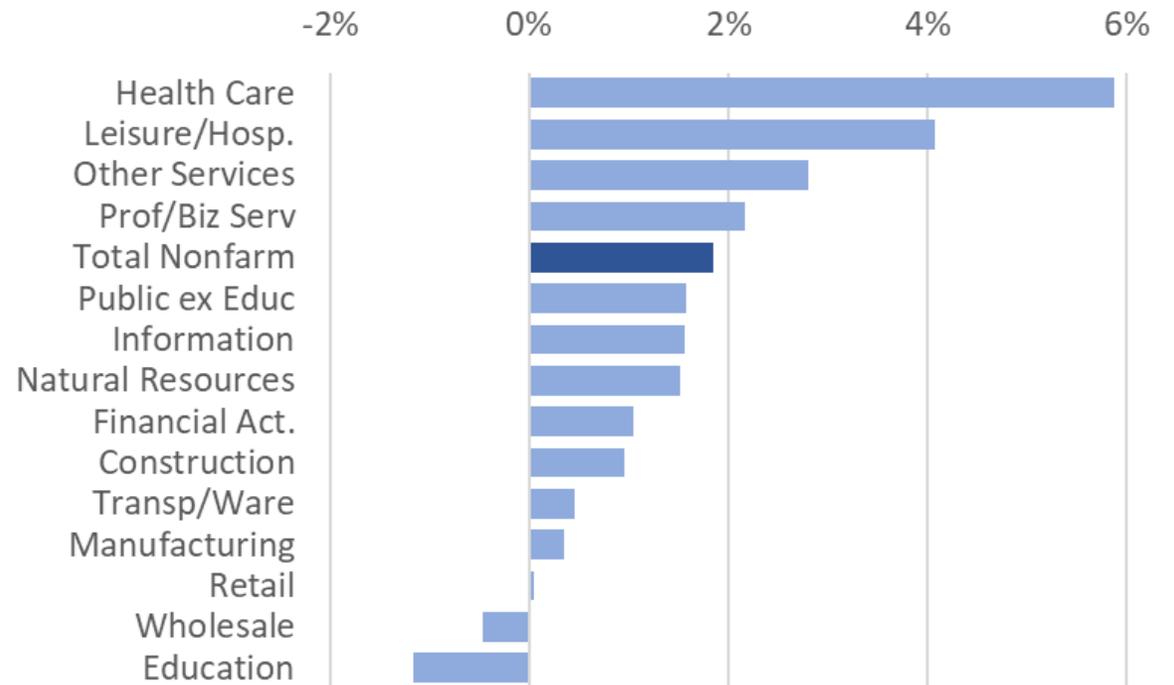
Share of all Oregonians 16 years and older with a job or looking for work



Latest Actual: March 2023 | Source: BLS, Census, Oregon Office of Economic Analysis

Oregon's Industry Outlook

Percent change 2023q1 to 2025q1



Oregon Office of
Economic Analysis

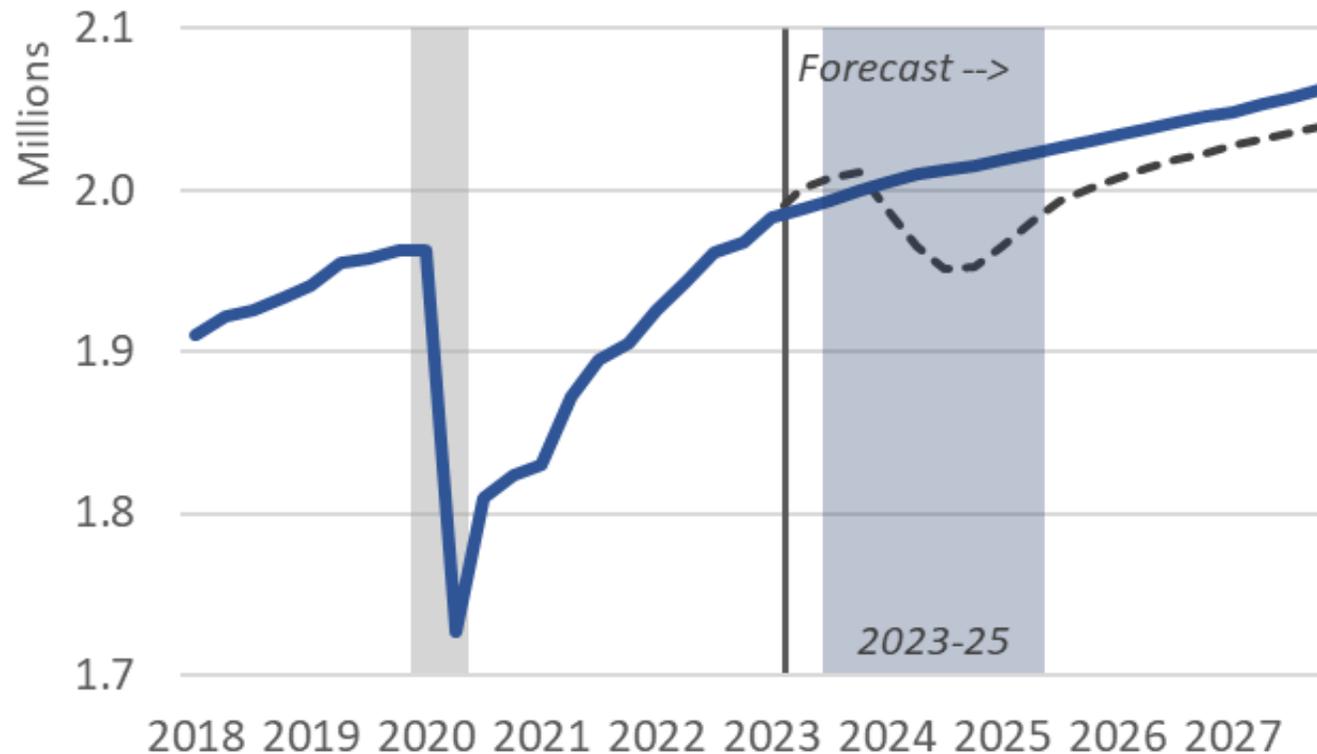




Baseline outlook is the soft landing, but recession risks remain real

Oregon Employment

Baseline Soft Landing and Boom/Bust Alternative Scenario



Latest Data: 2023q1 | Source: Oregon Office of Economic Analysis

- **Bad News**

- Inflation remains too high, economy suffered a goods recession last year and banking turmoil this year, full force of interest rate increases yet to impact economy

- **Good News**

- Inflation is slowing some, Fed is looking to pause rate hikes, housing and manufacturing are stabilizing, consumers on solid footing

- **Alternative Boom/Bust Scenario**

- Moderate sized recession starting in 2024



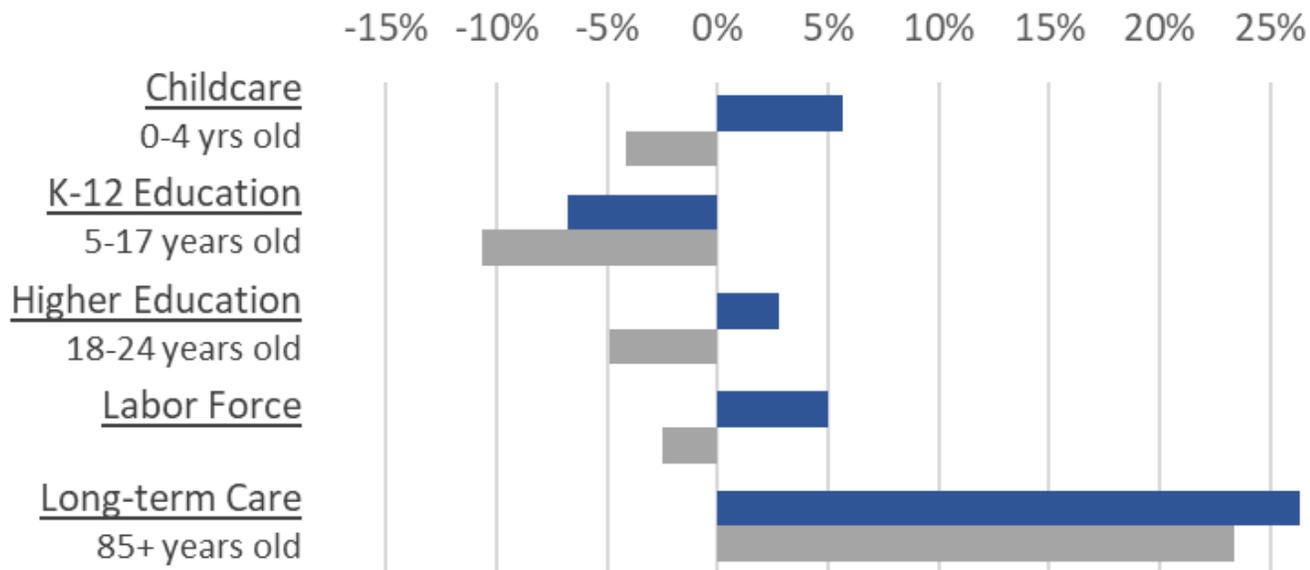


Zero Migration Alternative Scenario

Oregon Budget Driver Demographics

Percent change 2022-2030 in underlying demographics impacting each cohort

Baseline Forecast | Net Zero Migration Scenario



Source: Oregon Office of Economic Analysis

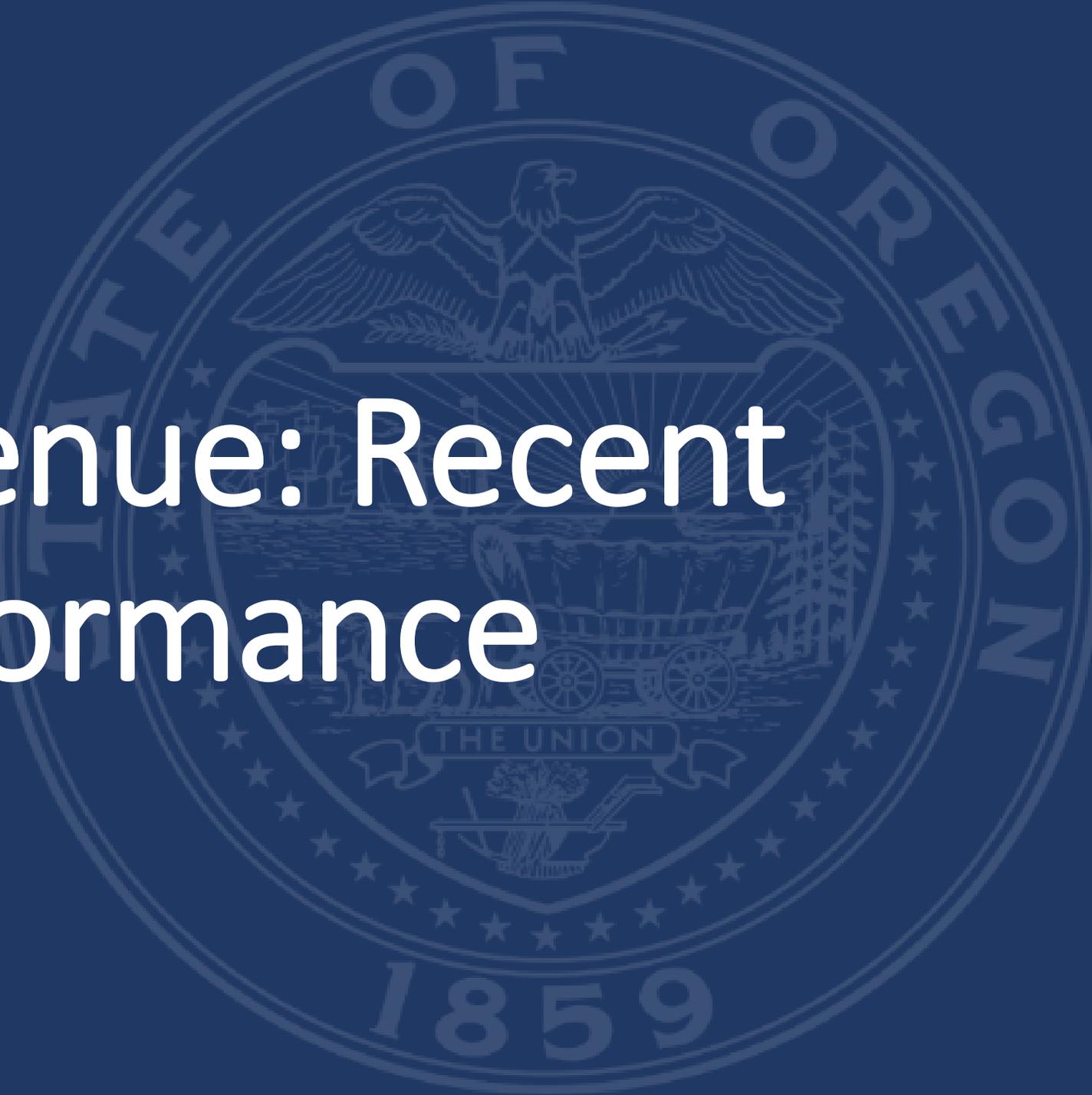


Oregon Office of Economic Analysis

- Migration is the key reason Oregon's economy grows faster than the typical state
- Net migration slowed, and maybe even turned negative during the pandemic
- Initial Findings
 - Demographics
 - Labor Force
 - Housing Demand
- Future Work
 - Industry Employment Forecast
 - Personal Income and Components
 - Revenue Impacts



Revenue: Recent Performance

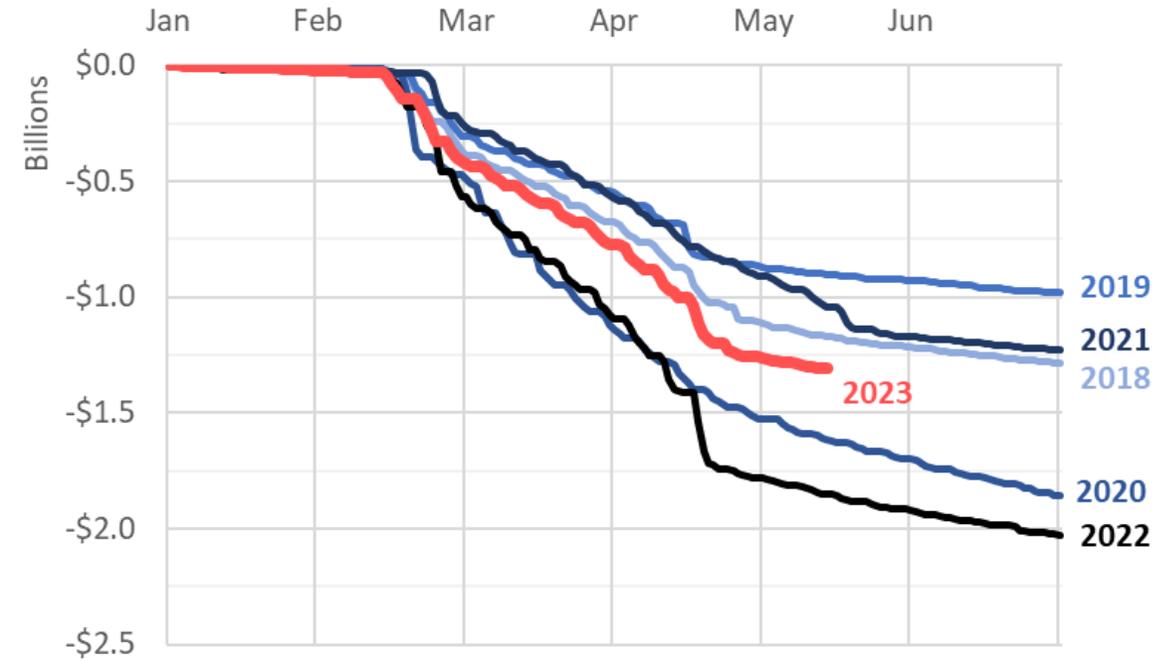




Tax season tracking: Refunds & Payments

Big Refund Year, Not as Big as Expected

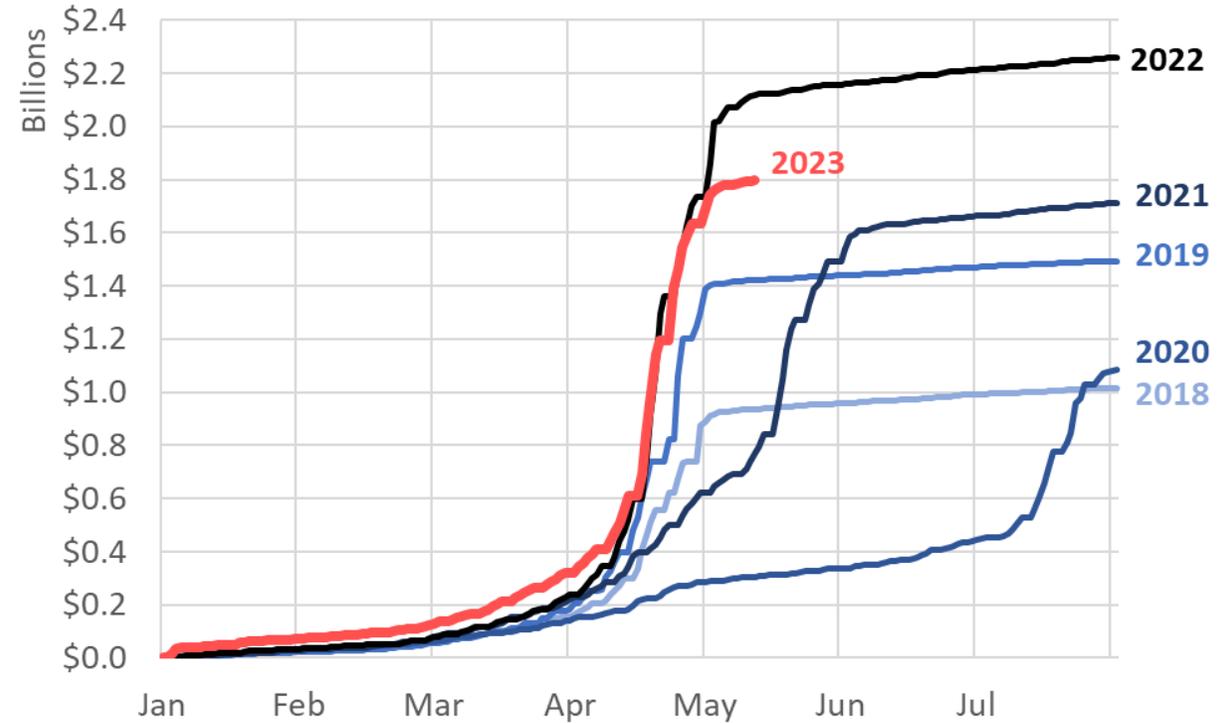
Personal Income Tax Refunds, cumulative



Latest Data: May 12, 2023 | Source: Oregon Dept of Revenue, Oregon Office of Economic Analysis

Year-End Payments Strong Again

Oregon cumulative personal income tax payments



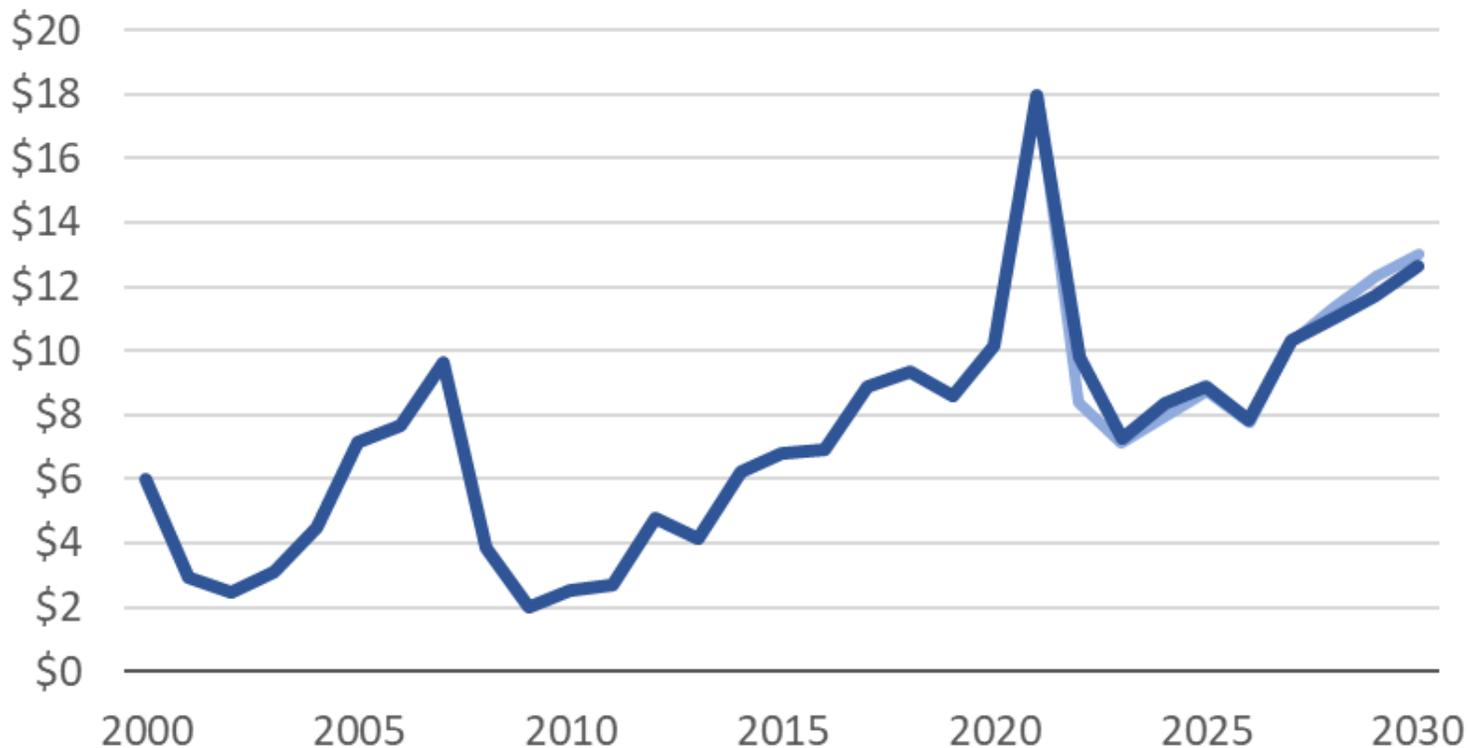
Latest Data: May 12, 2023 | Source: Oregon Dept of Revenue, Oregon Office of Economic Analysis





Capital gains have returned to earth

Oregon Realizations of Capital Gains March Forecast vs May Forecast



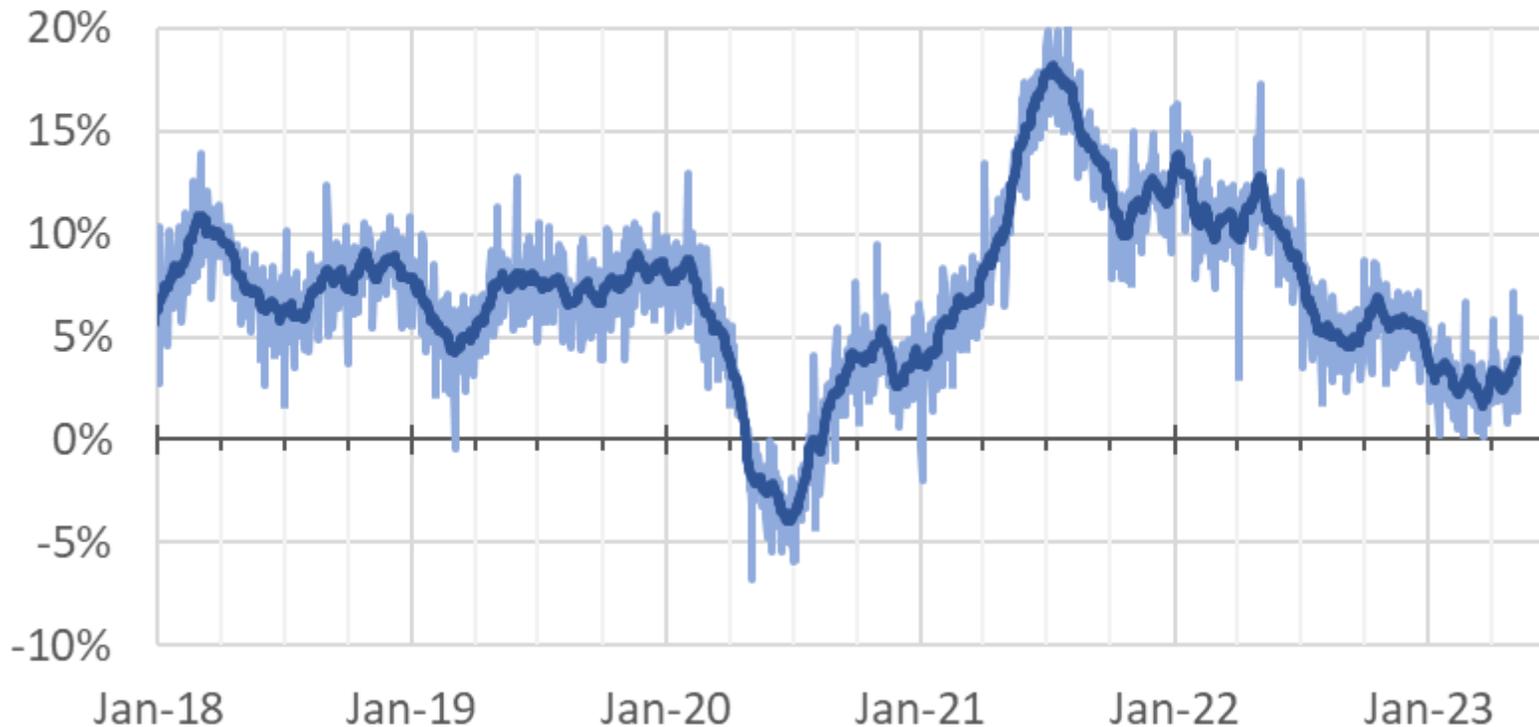
- Taxpayers have flexibility over when they realize capital gains for tax purposes
- Realized capital gains declined by around 50% this year matching expectations
- These declines have an outsized impact on tax collections given that most are claimed by high-income households
- The drag on revenues will persist due to losses carried forward into future tax years



Withholdings have slowed

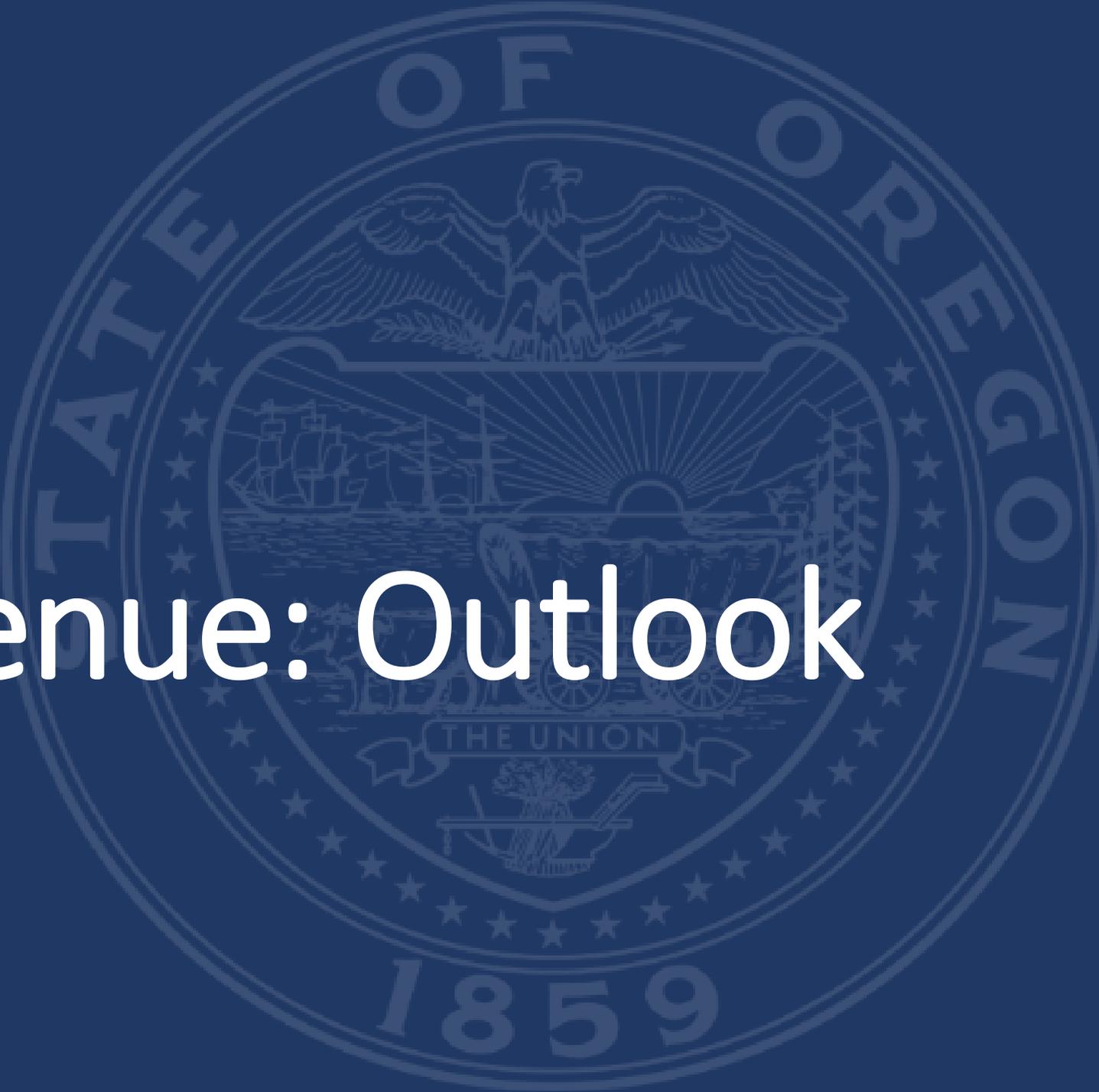
Oregon Withholding

90 Day Rolling Sum of Collections: [Year-over-Year Change](#) | [Moving Average](#)



- Withholding is mostly from wages, and retirements, but there are other impacts
- Withholding has been unusually weak to start 2023, although picking up in recent weeks
- Aggregate labor income will slow as job growth slows in a full employment economy, even if per worker wage gains remain strong



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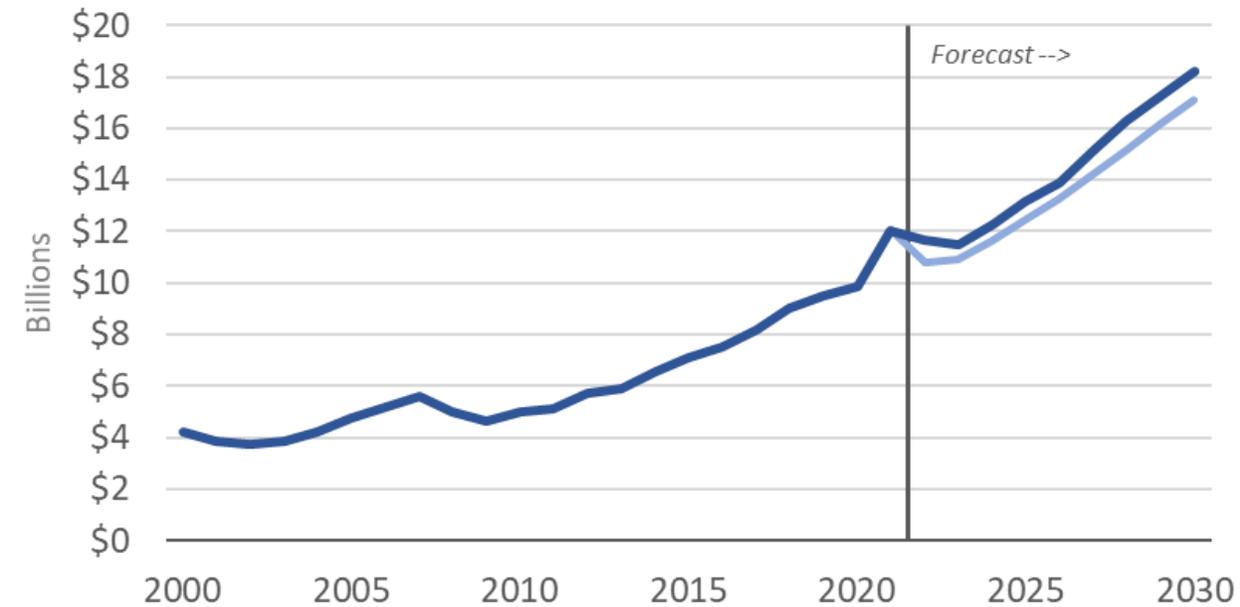
Revenue: Outlook



Forecast Changes

Oregon Personal Income Tax Liability

March Forecast vs May Forecast



Oregon Corporate Excise Tax

4-QTR sum, \$ billions



Source: OR Dept of Revenue, Oregon Office of Economic Analysis

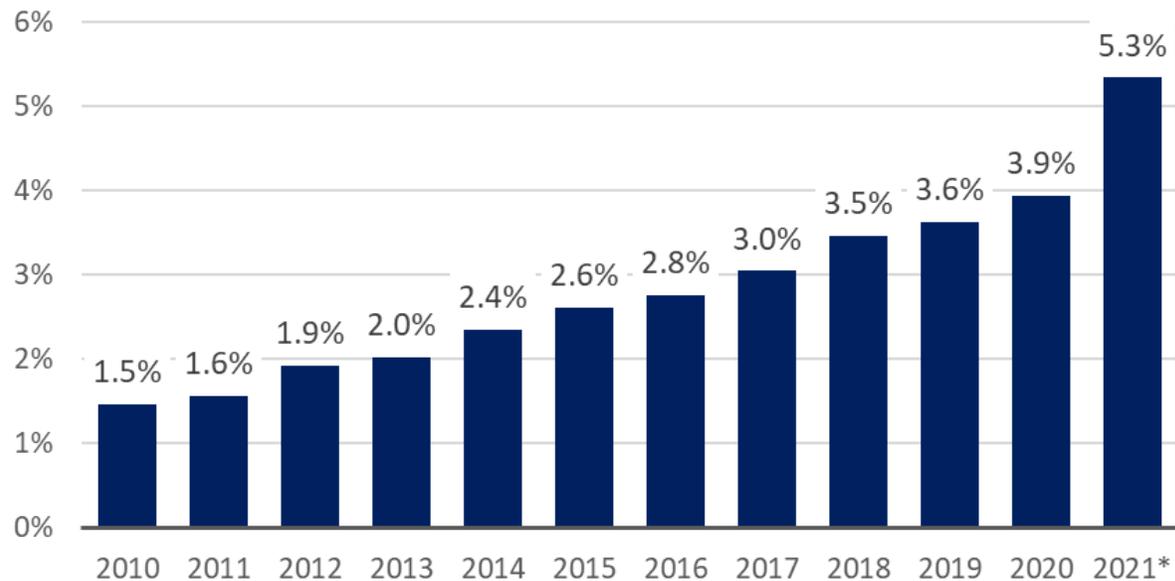
Latest Actual: 2021 | Full-year filers Source: Oregon DOR, Oregon Office of Economic Analysis



Bracket Creep

More High-Income Filers

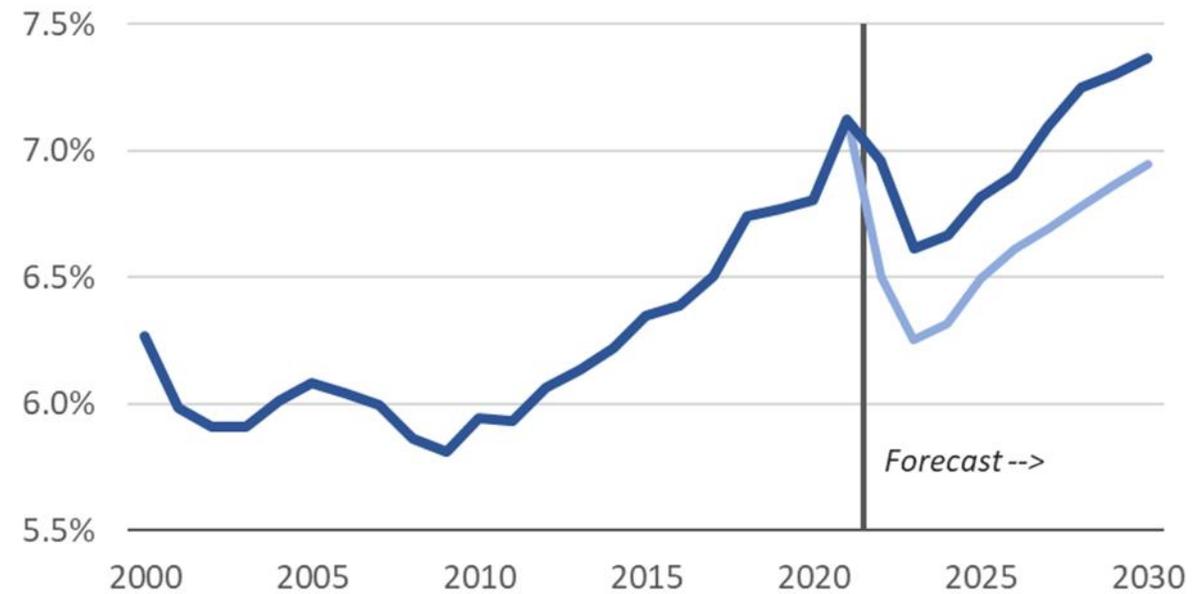
Share of personal income tax returns subject to the top rate



Full-year filers | Single and Married Filing Separately with income above \$125K, and Married, Head of Household, and Qualified Widow(er) with income above \$250K Sources: Oregon Department of Revenue, Oregon Office of Economic Analysis

Oregon Effective Personal Income Tax Rate

March Forecast vs May Forecast



2022 based on returns processed through May 4 | Full-year filers Source: Oregon DOR, Oregon Office of Economic Analysis

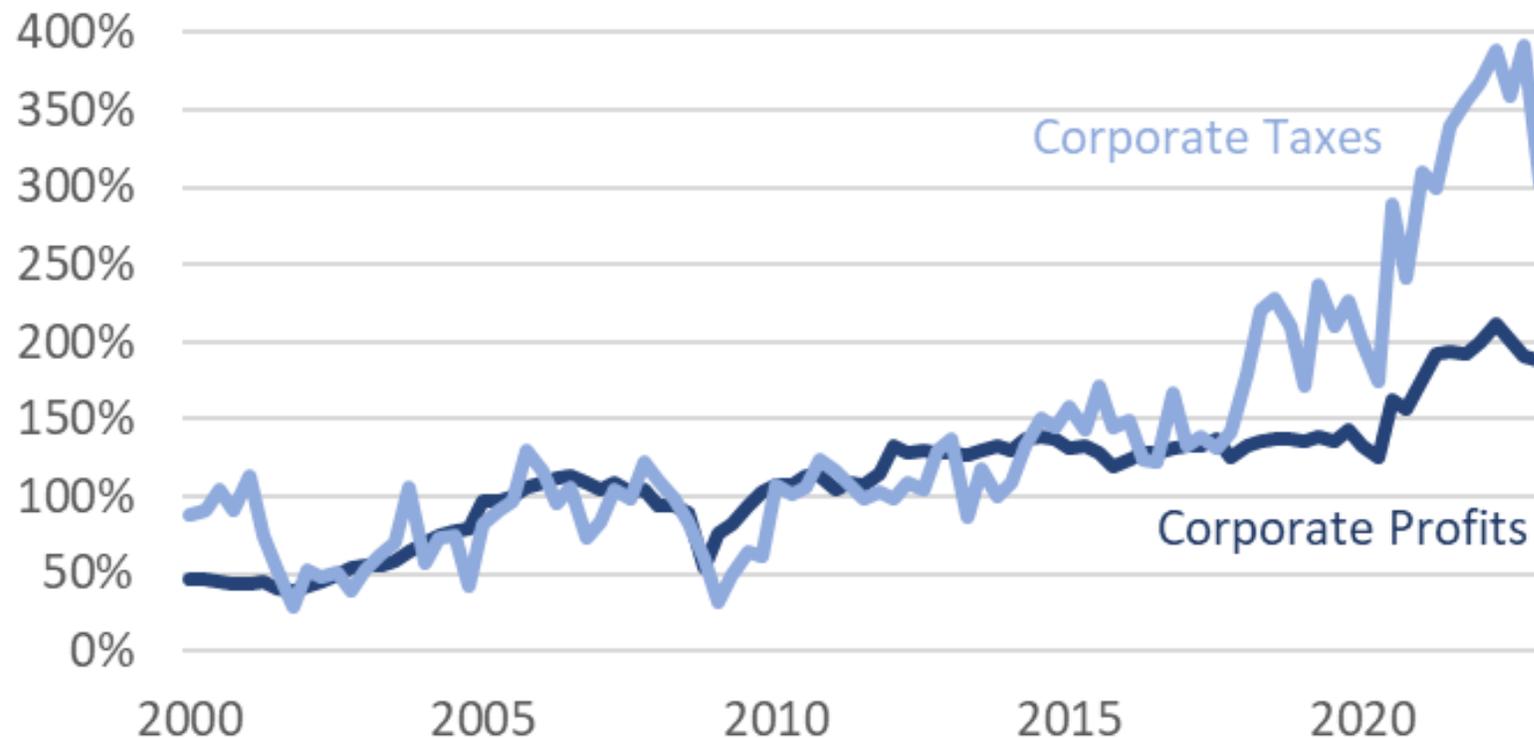




Corporate taxes have become more effective as well

OR Corporate Excise Taxes & US Profits

Level relative to 2005, SAAR

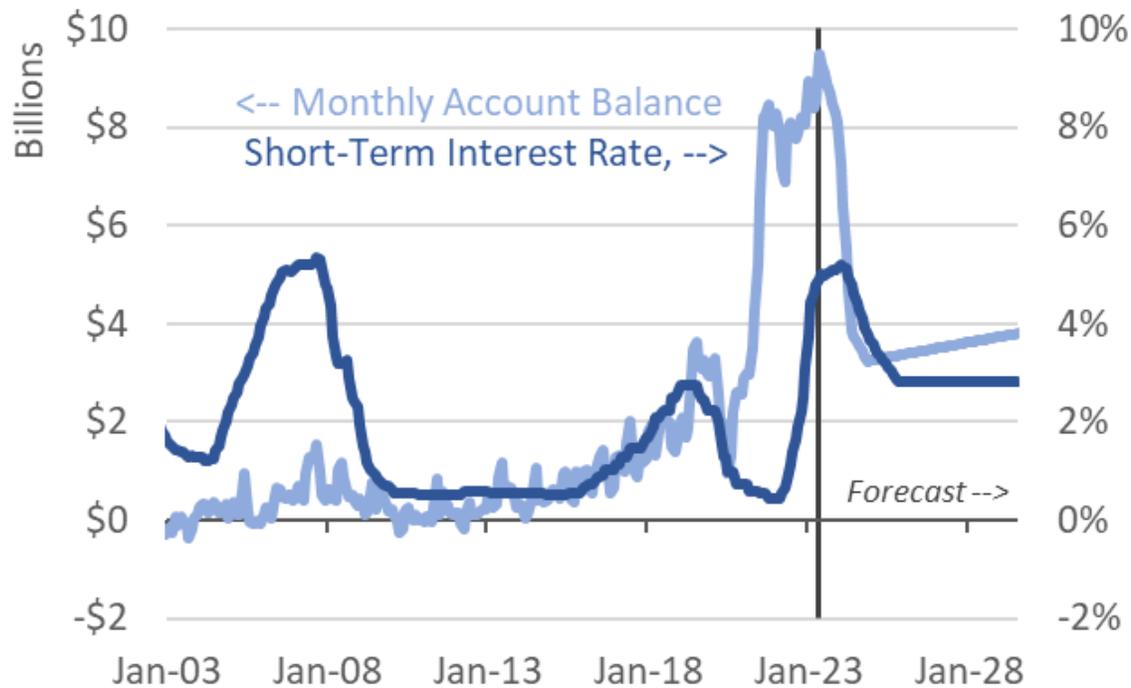


- The traditional correlation between Oregon's corporate taxes and underlying profits has broken down in recent years
- The timing suggests that federal tax reform has played a role
- With more than four years of post-reform data, the impact of the Tax Cuts and Jobs Act is now being explicitly modeled

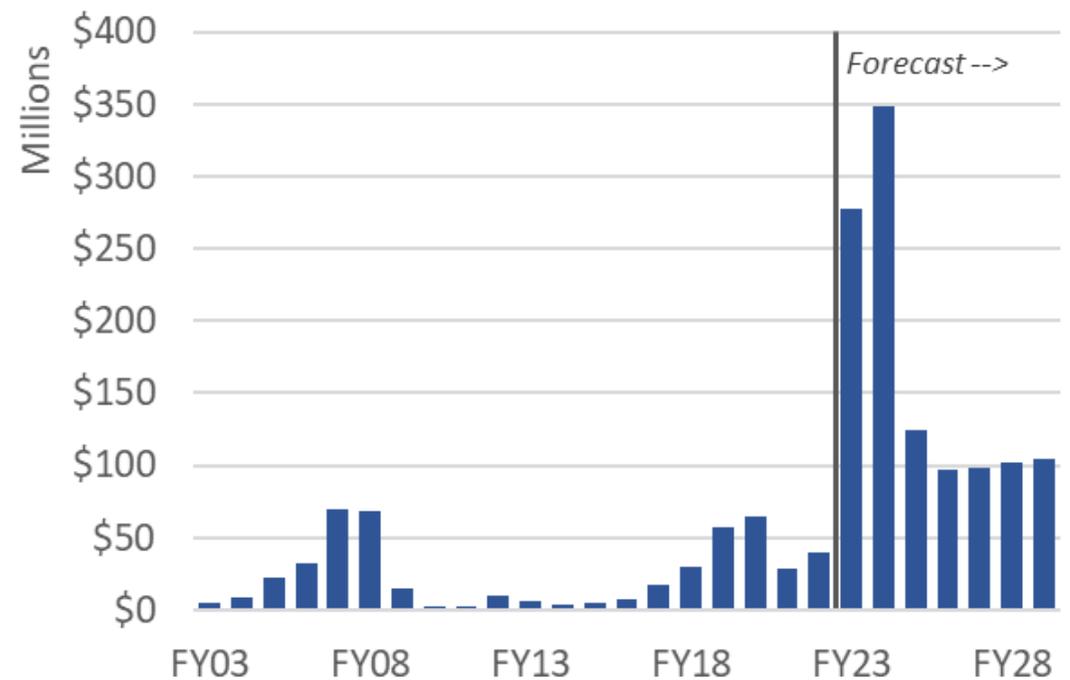


General Fund Interest Earnings

Interest Earning Dynamics



Interest Earnings by Fiscal Year



Source: Oregon Treasury, Oregon Department of Revenue, Oregon Office of Economic Analysis



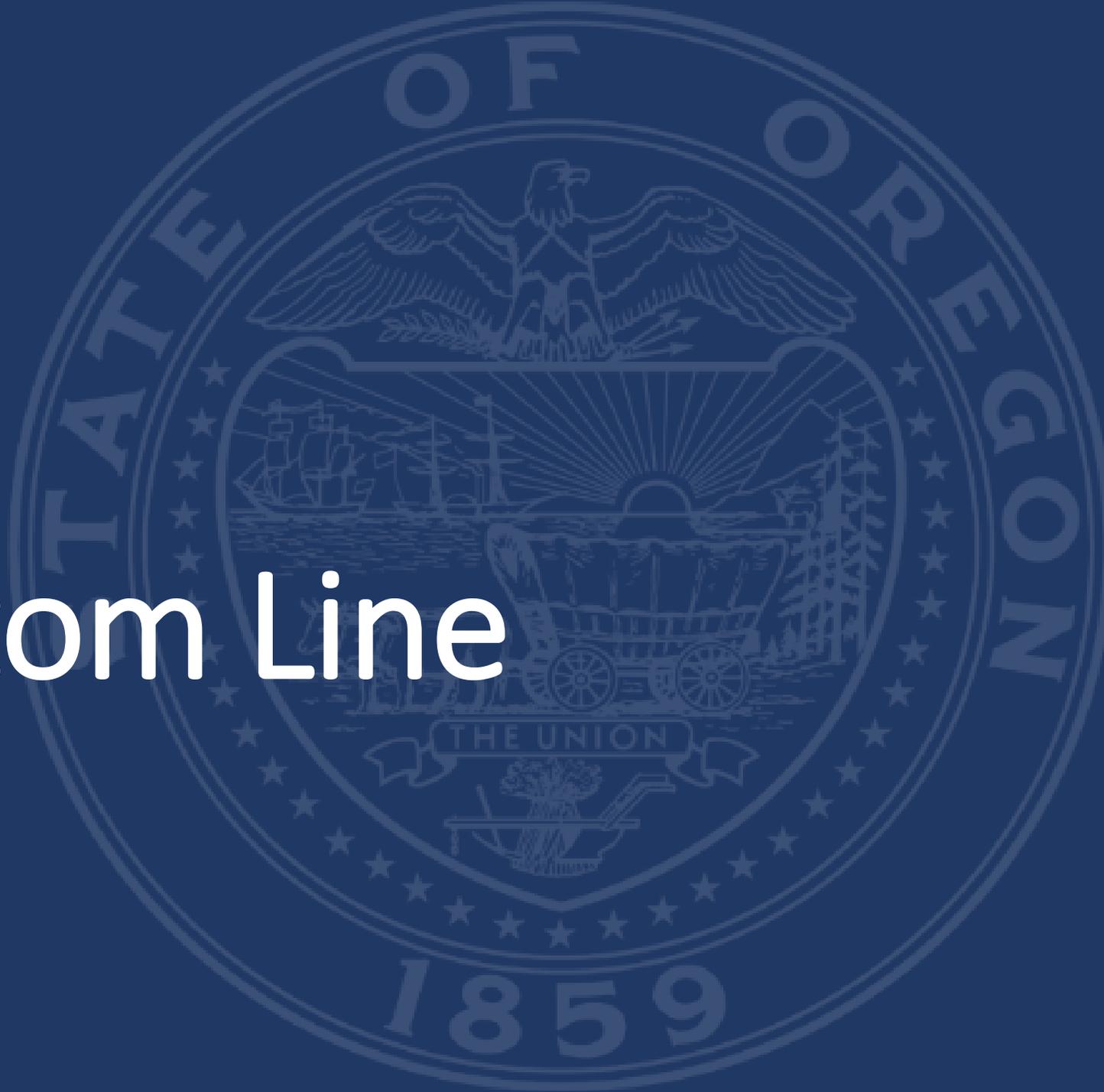


Aside: Ballot Measure 110 Transfer

- Ballot Measure 110, passed by Oregon voters in November 2020, reduced the penalties for simple possession of controlled substance convictions from misdemeanors and felonies to violations. The measure directed that the savings from these reductions be transferred from the General Fund to the Drug Treatment and Recovery Fund.
- The Oregon Legislature enacted Senate Bill 755 (2021) to codify and amend BM 110. SB 755 directed the Department of Administrative Services to calculate the savings from the sentence reductions. The statute is prescriptive about how the calculation is made:
 - Only direct savings to the state budget are to be considered.
 - The 2017-19 biennium is used as the baseline calculating the savings resulting from the measure. In other words, the rates of felony and misdemeanor convictions are assumed to have continued at 2017-19 rates in perpetuity.
 - The assumed savings and resulting transfer will not be reduced over time.
- A majority of the savings flow from reduced caseloads for probation and post-prison supervision, with some additional savings from smaller local control populations.
- Theoretically, BM 110 could potentially result in savings in other State of Oregon agencies. These include the Judicial Department, which runs the state's circuit courts, the Oregon State Police and Public Defense Services Commission. No reductions were made to any of these departments' Legislatively Adopted Budgets specifically in response to BM 110.
- Savings calculated for the **2019-21 biennium**, amounting to **\$2,157,766**, amount to probation, jail and supervision days avoided in the community corrections budget at the Department of Corrections.
- The savings estimate for the **2021-23 biennium**, which would be transferred by June 30, 2024, currently stands at **\$37,069,455**.



Bottom Line





Changes relative to the March Forecast

May 2023 Forecast Changes

General Fund Revenues	\$ Millions from Mar				
	21-23	23-25	25-27	27-29	29-31
Personal Income Taxes	1,474	-481	1,374	1,815	2,085
Corporate Income Taxes	272	186	300	467	464
Other	125	273	116	125	146
Total	1,871	-22	1,790	2,408	2,695

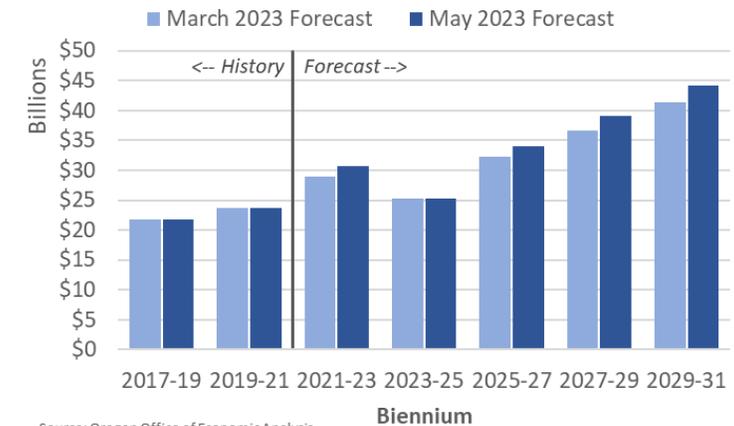
Other Revenues	\$ Millions from Mar				
	21-23	23-25	25-27	27-29	29-31
Lottery	-3	18	13	12	12
Corporate Activity Tax	90	176	202	225	246
Marijuana Tax	2	1	0	0	0
Total	89	195	214	237	257

Total Sum	\$ Millions from Mar				
	21-23	23-25	25-27	27-29	29-31
	1,960	173	2,004	2,645	2,952

Personal Kicker: \$5.5 billion
Corporate Kicker: \$1.8 billion



Oregon General Fund Forecast



Oregon General Fund Forecast

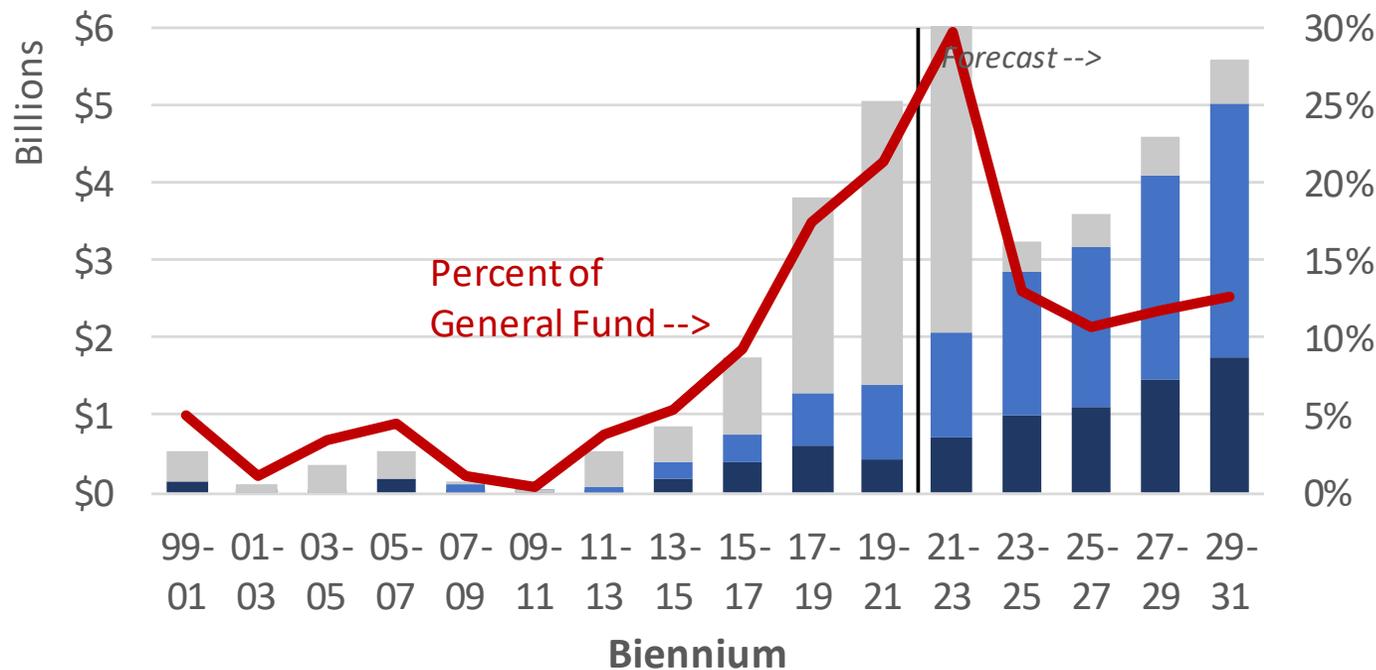




Sizable reserves remain

Oregon Budgetary Reserves

Education Stability Fund | Rainy Day Fund | General Fund Ending Balance



Source: Oregon Office of Economic Analysis

Effective Reserves (\$ millions)

	<i>Current Apr-23</i>	<i>End of 2021-23</i>
ESF	\$675	\$708
RDF	\$1,213	\$1,352
Reserves	\$1,887	\$2,060
Ending Balance	\$7,002	\$7,002
Total	\$8,889	\$9,062
% of GF	29.1%	29.7%





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