

Oregon

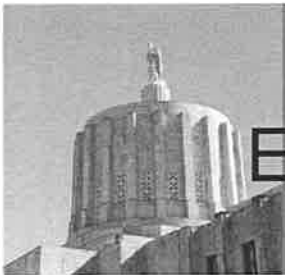
House & Senate Revenue Committees

Economic and Revenue Forecast March 2011

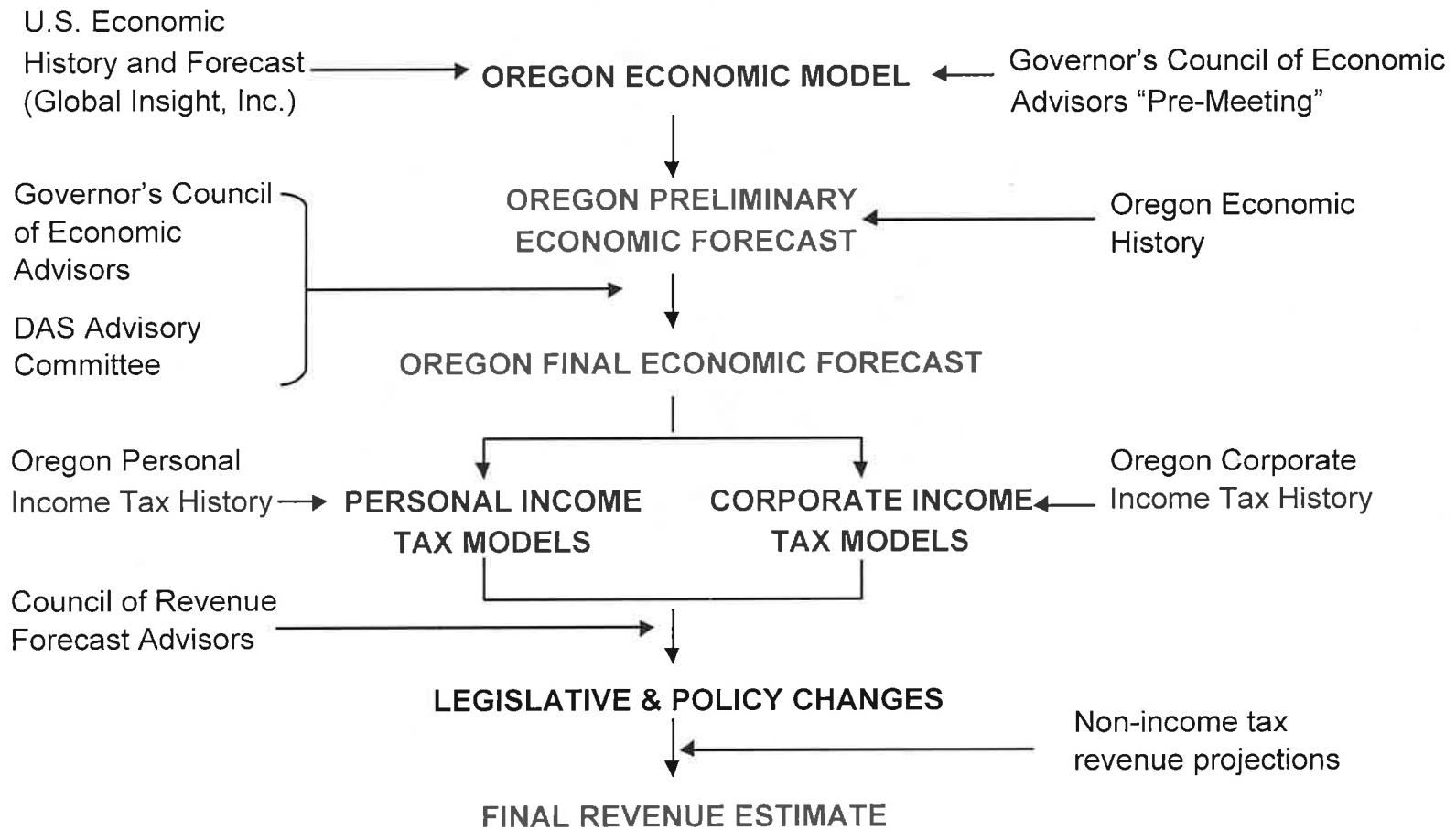
Presented by: Office of Economic Analysis

Date: February 15, 2011

MEASURE: INFORMATIONAL
EXHIBIT: A
HOUSE REVENUE COMMITTEE
DATE: 2/15/2011 PAGES: 28
SUBMITTED BY: TOM BOITOVSKY



Economic and Revenue Forecast





Ever Changing Picture for the US Economy...

“The outlook for growth in the U.S. economy looks more positive now than it did just three months ago, according to 43 forecasters surveyed by the Federal Reserve Bank of Philadelphia.” February 11, 2011.

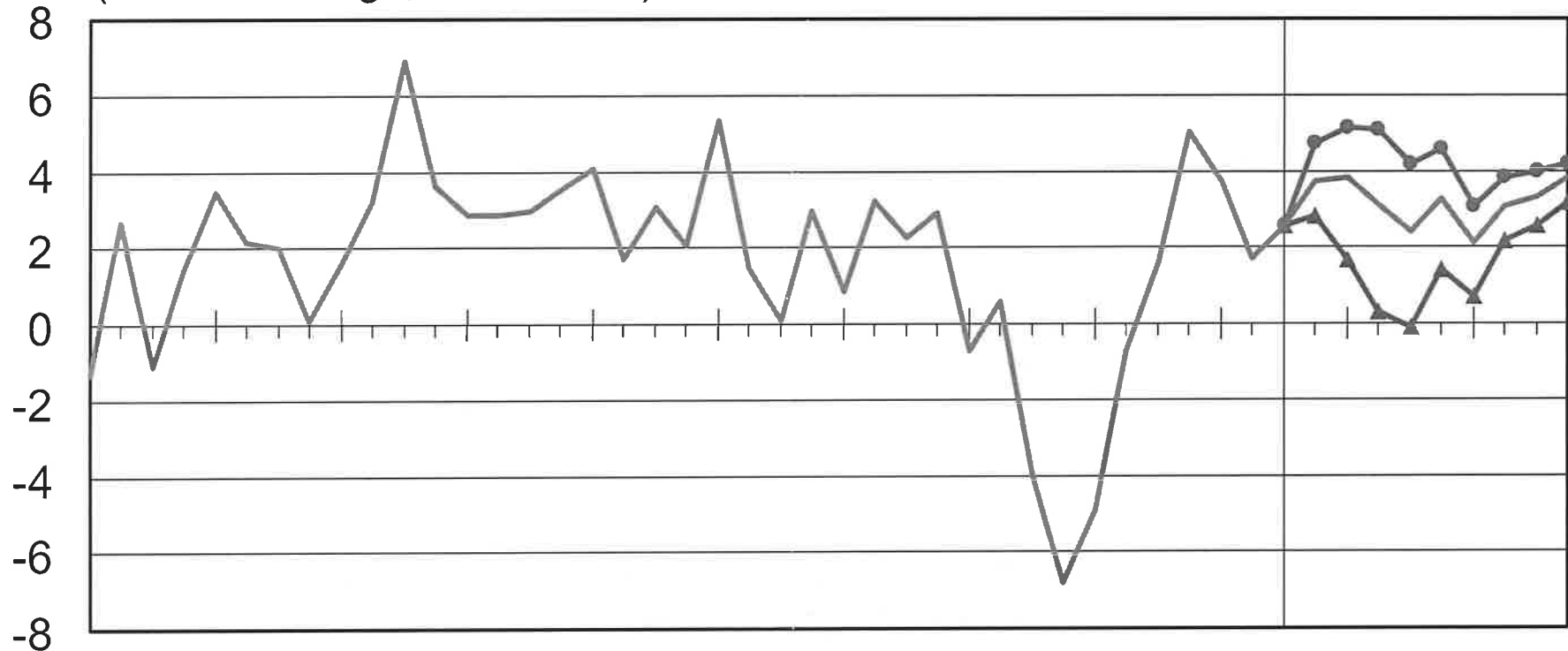
	Real GDP (%)		Unemployment Rate (%)		Payrolls (000s/month)	
	Previous	New	Previous	New	Previous	New
<i>Quarterly data:</i>						
2011:Q1	2.4	3.6	9.5	9.3	104.2	129.1
2011:Q2	2.7	3.5	9.4	9.2	144.3	188.3
2011:Q3	3.3	3.1	9.2	9.0	139.8	201.1
2011:Q4	2.9	3.4	9.0	8.8	170.6	213.1
2012:Q1	N.A.	3.1	N.A.	8.7	N.A.	201.4
<i>Annual data (projections are based on annual-average levels):</i>						
2011	2.5	3.2	9.3	9.1	105.5	134.9
2012	2.9	3.1	8.7	8.5	N.A.	226.1
2013	3.0	3.0	7.9	7.8	N.A.	N.A.
2014	N.A.	3.4	N.A.	7.3	N.A.	N.A.





Real GDP Growth in Alternative Scenarios

(Percent change, annual rate)



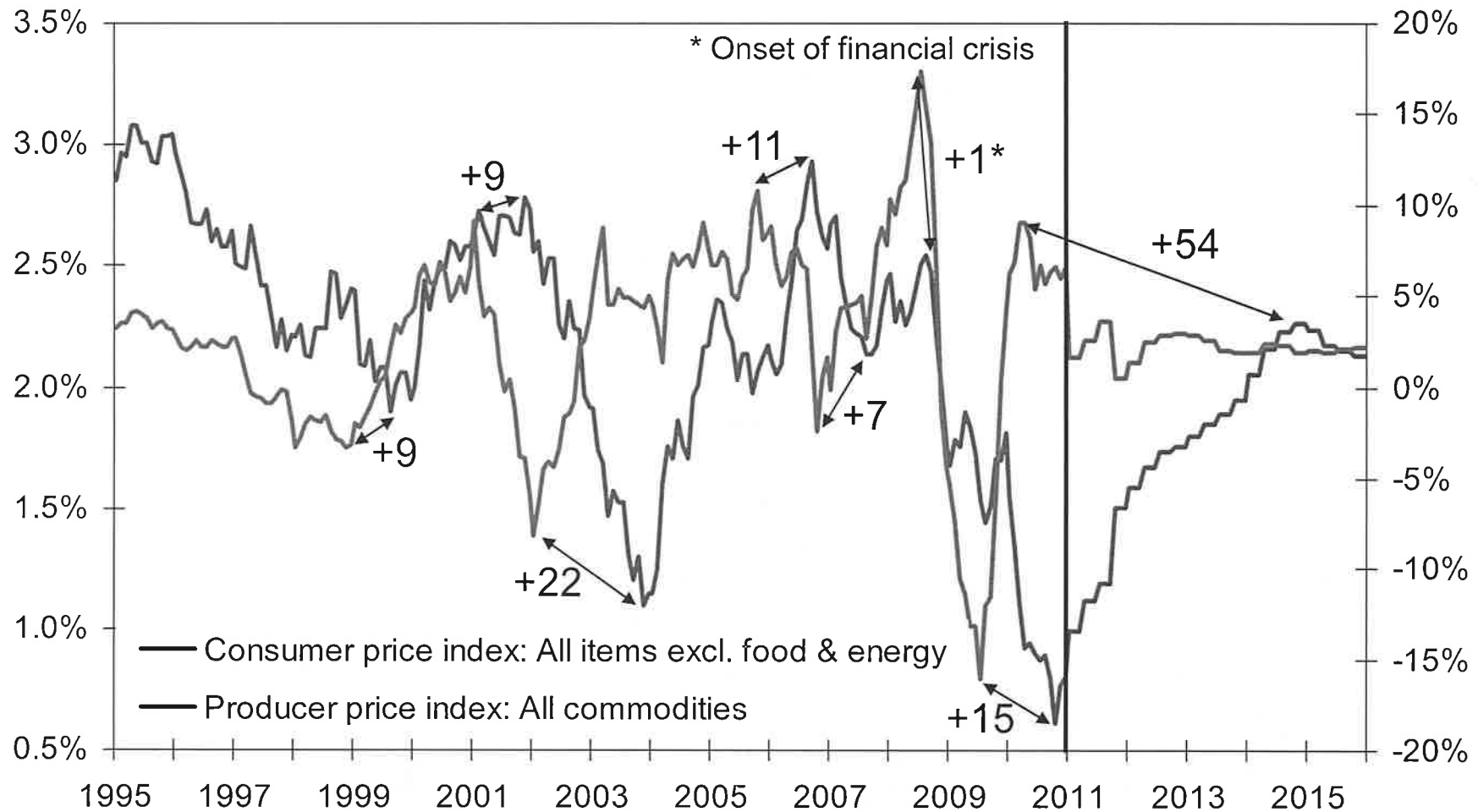
— Baseline (65%) ▲ Pessimistic (15%) ● Optimistic (20%)





Turning Points for Inflation

% change year ago, NSA





Bottom Line for US Economy

- The “recovery-recession” is in its second year. Technical recession in the U.S. ended June 2009, with the unemployment rate toping out at 9.8% in the fourth quarter of 2010. The labor market will remain weak with unemployment averaging 9.3% in 2011.
- Credit markets are slowly returning to pre-Lehman collapse days but risk premiums are still present. Residential and commercial real estate still tight.
- The housing market will continue to remain fragile. Housing starts marginally improved in the past year off their historic lows. But recent months point to a bumpy road this year. Prices declined throughout 2010 and will continue to gradually fall in 2011.
- Inflation is not a threat today or possibly next year but the stage is set for carefully executed exit strategies to avoid inflation in the future.
- After an initial surge of economic growth in late 2009/early 2010, the recovery stalled during the summer. Expectations are for GDP growth at, or even slightly above, potential for the next year, however no strong rebound to close the output gap.





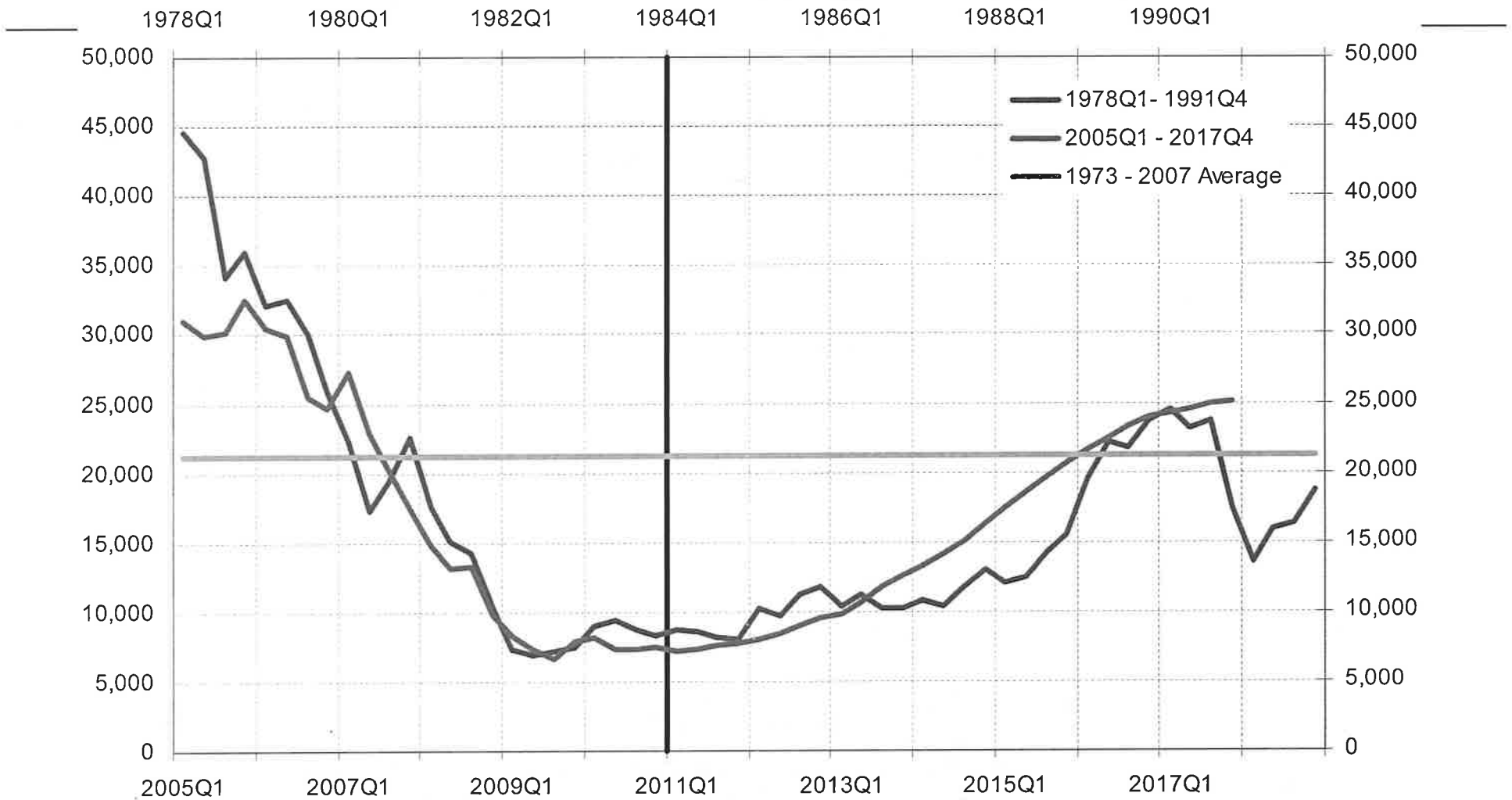
Recent Oregon Economy Facts

- 10.6% unemployment rate for December 2010 (Dec US rate is 9.4%) is down from the highest rate of 11.6% in May and June 2009, but essentially unchanged the past fourteen months.
- 26th fastest job growth at 0.75% for all states for Dec 2010 over Dec 2009.
- Total nonfarm employment increased 0.67% year-over-year for the 4th quarter of 2010. S.A. job gains in six months of 2010. Total nonfarm up 11,900 since Dec with the private sector up 13,200.
- 3.4% personal income growth for 3rd quarter of 2010 over 3rd quarter of 2009. Annualized 3rd quarter 2010 growth at 3.1%.
- Oregon exports increased 20.5% in the first eleven months of 2010 compared to the same period last year and have regained the majority of their losses from late 2008 and early 2009.





Oregon Housing Starts



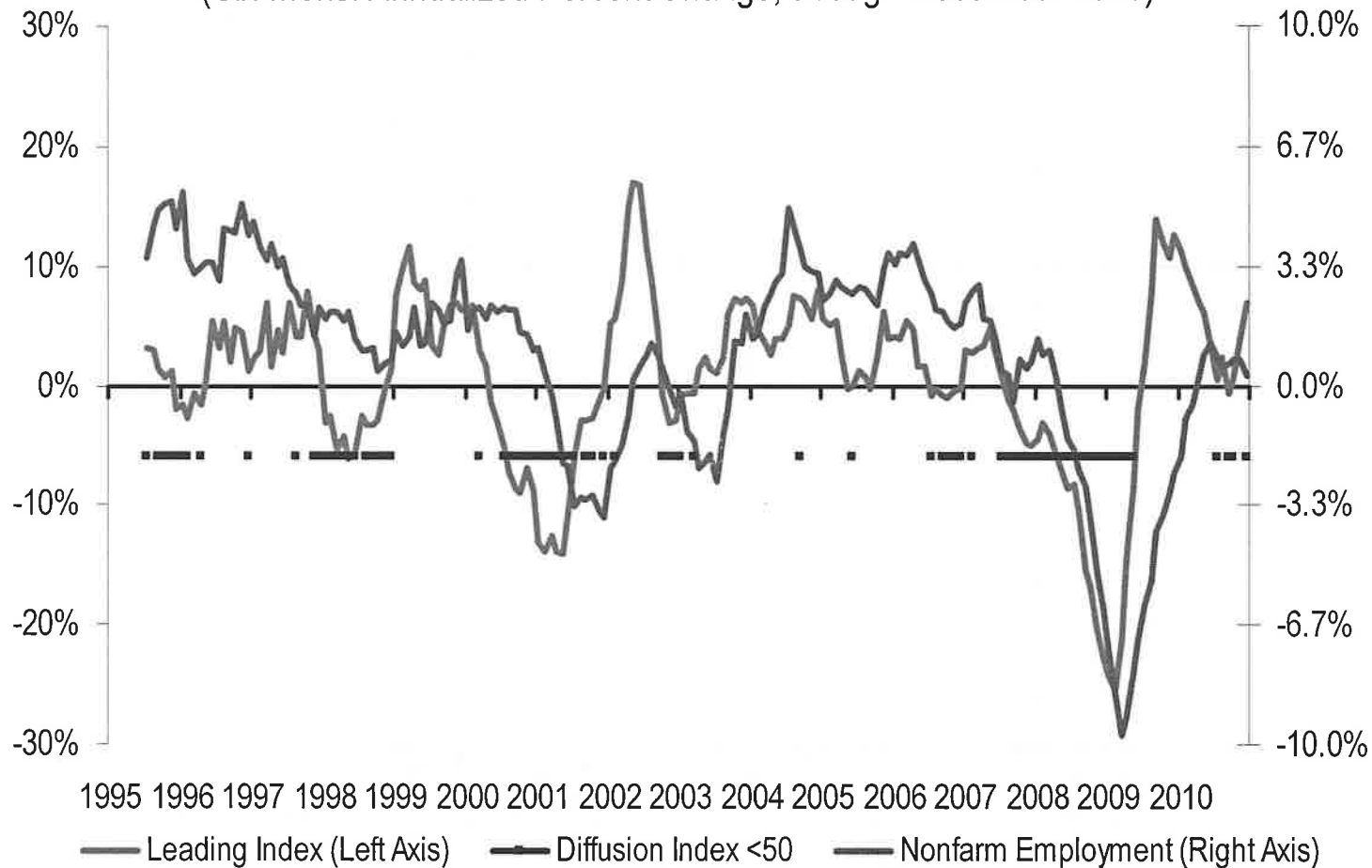


Leading Indicators

5 of 11 Indicators are Positive

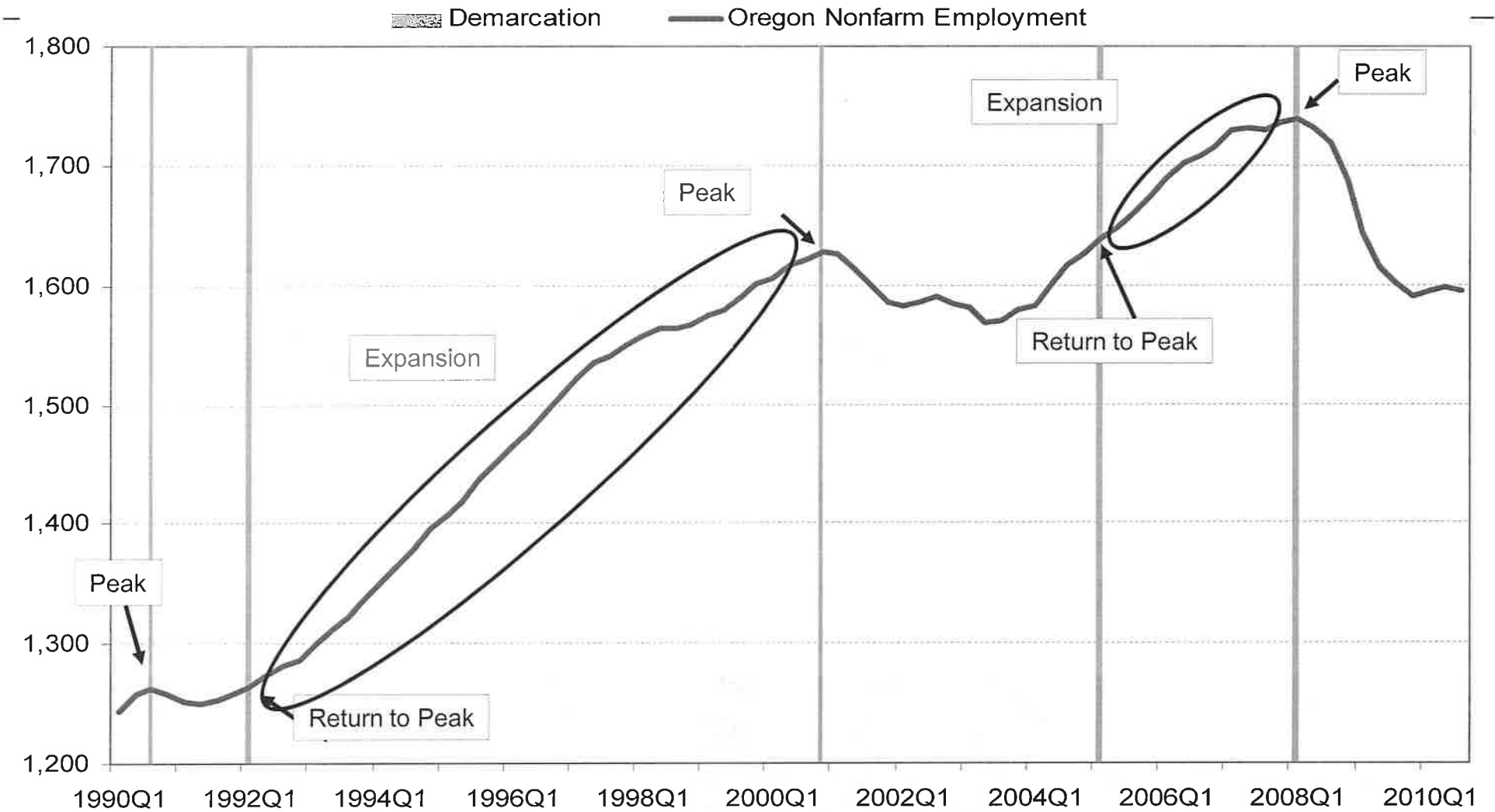
Oregon Index of Leading Indicators

(Six-Month Annualized Percent Change, through December 2010)





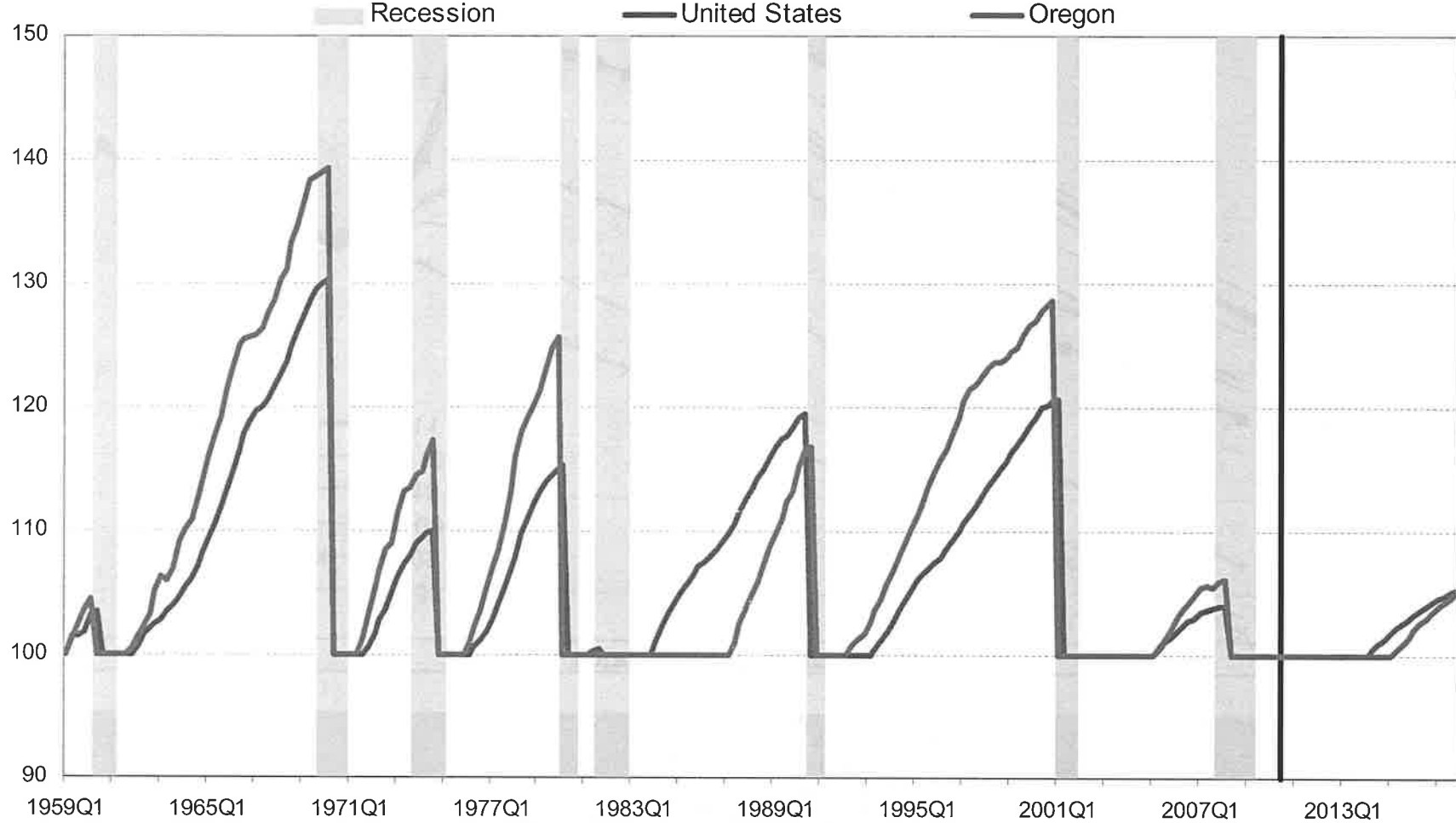
Total Non-farm Employment (Strength of the Expansion)





Total Non-farm Employment (Strength of the Expansion)

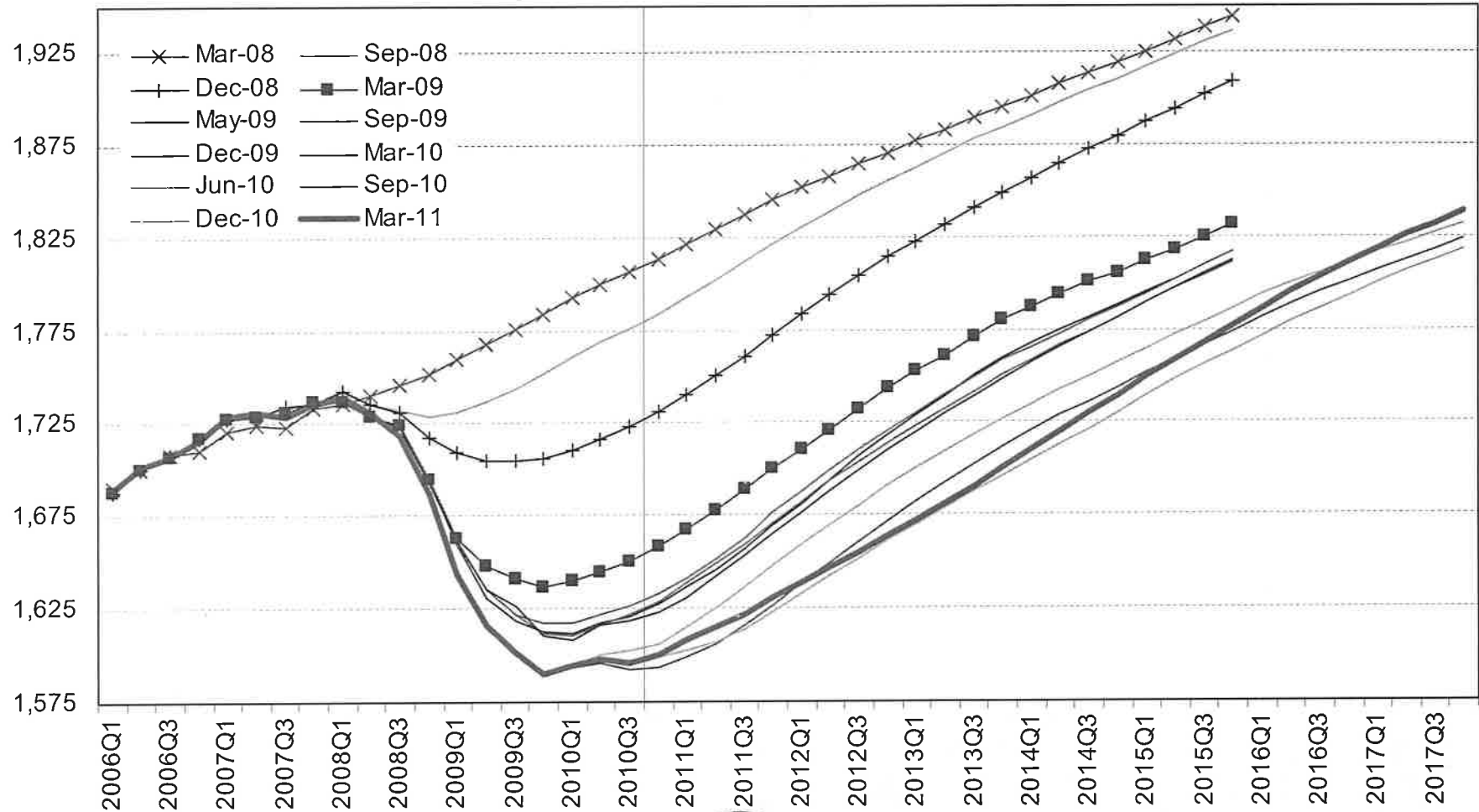
Employment: Percent Growth from Previous Peak, 2010 Q4





Forecast Changes

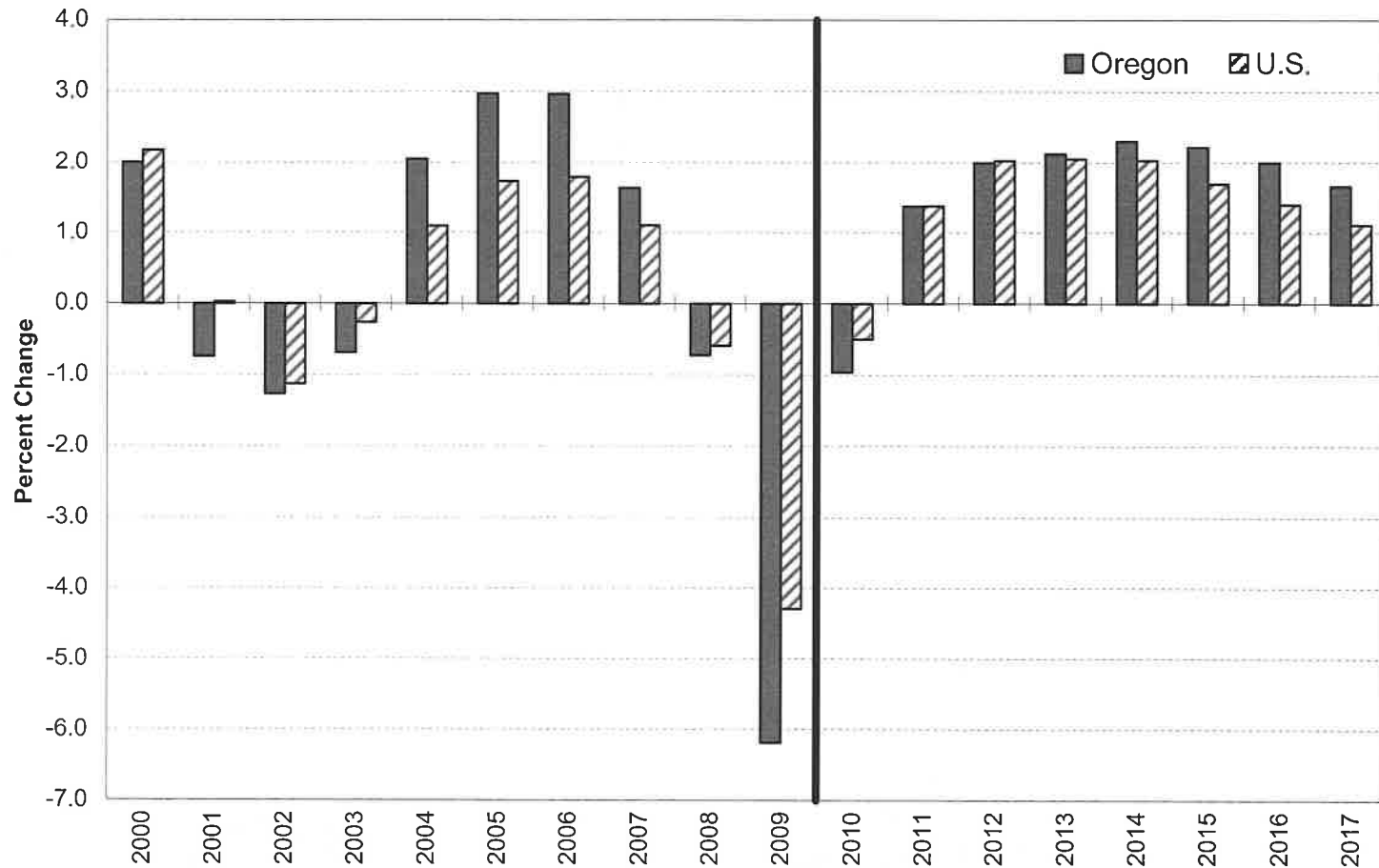
Oregon Total Nonfarm Employment (000s)





Total Non-farm Employment (Annual Percent Change)

Total Nonfarm



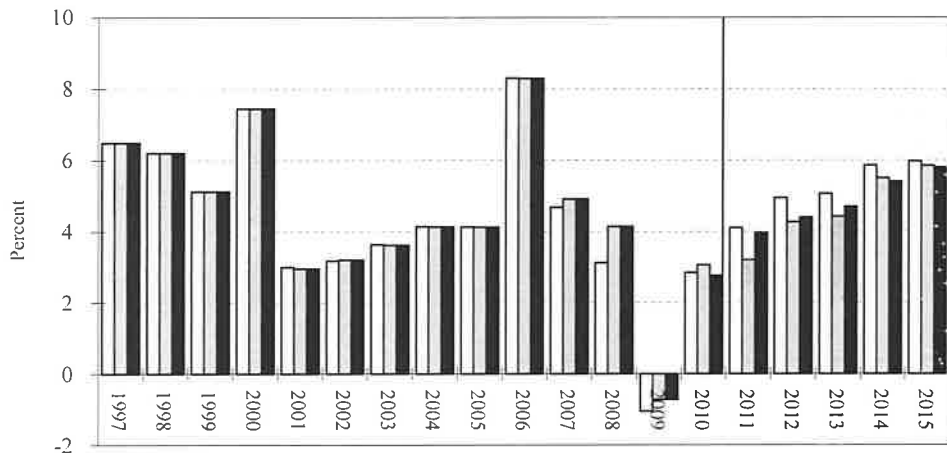


Forecast Comparisons

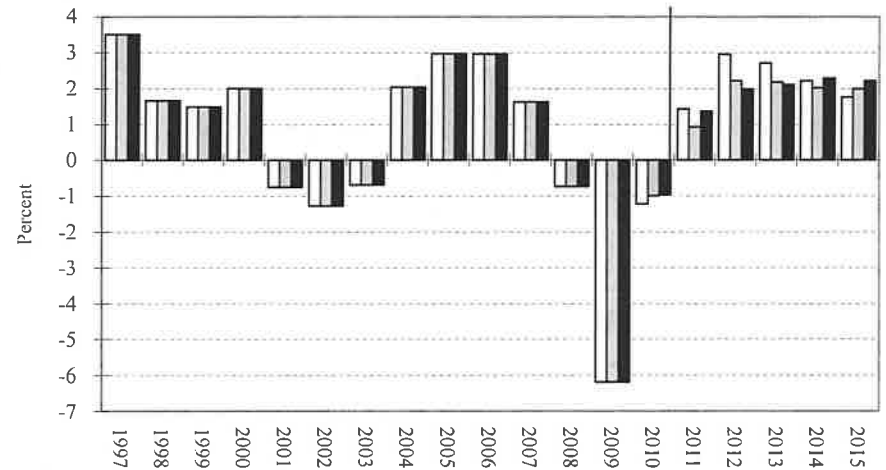
GRAPH O.2
COMPARISON OF LAST THREE FORECASTS

□ Sep 2010 □ Dec 2010 ■ Mar 2011

PERSONAL INCOME GROWTH



EMPLOYMENT GROWTH





Risks to the Forecast...

▲ Upside

- ▲ Financial markets return more quickly to normal
- ▲ Greater Business and Consumer optimism and spending
- ▲ More robust global growth

▼ Downside

- ▼ Deeper Housing Corrections
- ▼ Policy Mistakes, Fiscal and Monetary timing and strength
- ▼ Spikes in Commodity Prices; Inflation in Emerging Markets





Bottom Line for the Oregon Economy

- The “technical” recession in Oregon ended in 2009 late summer or fall. The “jobless” recovery has taken hold.
- Job losses (though mild) continued into the third quarter of 2010, but the fourth quarter showed job gains across most sectors. Expectations are for improving job growth through 2011.
- Housing prices will still decline though at a lesser pace throughout 2011 but looking more like a bottom has been reached in housing permits.
- Housing will not lead during the recovery. First sectors likely to come back: profession and business services, health care services, computer and electronic products, retail.





Recent Performance

- **Revenue Recovery Sticking to Script**
 - PIT growth is accelerating
 - Corporate taxes still strong, but losing steam
 - Video lottery revenues have stabilized, but remain weak
- **FY 2011 3rd quarter and preliminary January figures are looking up**
 - Estimates and refunds have been better than expected
 - Withholdings surged in January following a change in withholding tables
 - Corporate tax collections are decelerating rapidly





2010 Oct-Dec Revenue Tracking

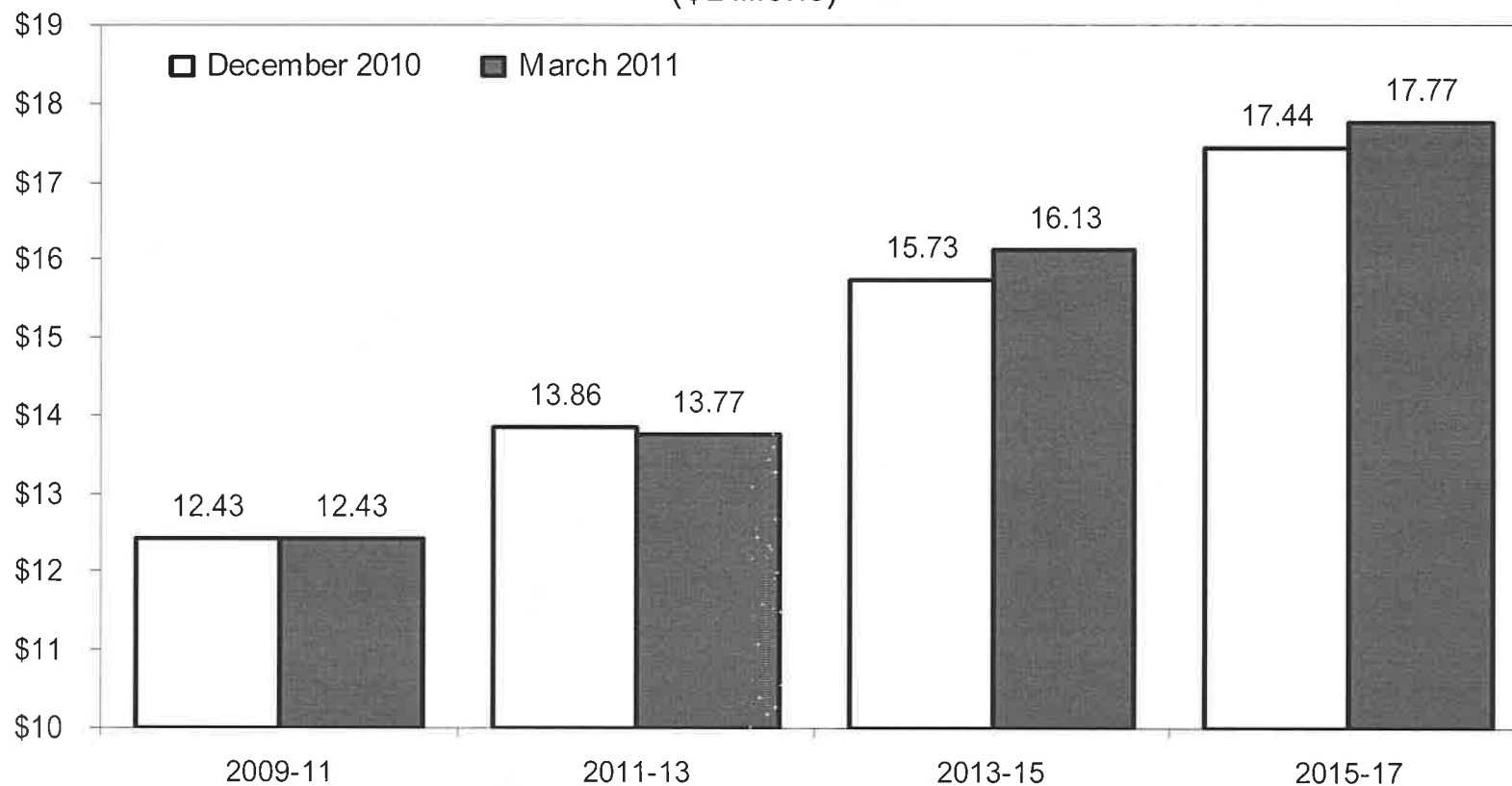
	(thousands)	Forecast	Actual	Difference	Year ago	%change	
Personal Income Tax	Withholding	\$1,199,450	\$1,196,214	-\$3,236	-0.27%	\$1,151,673	3.9%
	Estimated Payments	\$126,528	\$148,589	\$22,061	17.44%	\$162,937	-8.8%
	Final Payments	\$73,038	\$81,728	\$8,690	11.90%	\$75,834	7.8%
	Refunds	-\$166,738	-\$151,515	\$15,222	-9.13%	-\$188,704	-19.7%
	Total	\$1,232,278	\$1,275,015	\$42,737	3.47%	\$1,201,740	6.1%
Corporate Income Tax	(thousands)	Forecast	Actual	Difference	Year ago	%change	
	Advanced Payments	\$183,761	\$175,561	-\$8,200	-4.46%	\$163,877	7.1%
	Final Payments	\$34,254	\$21,206	-\$13,048	-38.09%	\$24,009	-11.7%
	Refunds	-\$100,094	-\$89,877	\$10,217	-10.21%	-\$137,244	-34.5%
	Total	\$117,921	\$106,890	-\$11,031	-9.35%	\$50,642	111.1%





General Fund Overview

Comparison of General Fund Resource Forecasts
(\$Billions)





2009-11 GF Revenue

2009-11 General Fund Forecast Summary

(Millions)	2009 COS Forecast	December 2010 Forecast	March 2011 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	\$11,545.7	\$10,443.0	\$10,458.2	\$15.2	-\$1,087.5
Corporate Income Tax	\$831.6	\$855.2	\$841.3	-\$13.9	\$9.7
All Other Revenues	\$1,198.4	\$1,128.0	\$1,130.0	\$2.0	-\$68.4
Gross GF Revenues	\$13,575.7	\$12,426.2	\$12,429.4	\$3.3	-\$1,146.2
Administrative Actions ¹	-\$43.7	-\$15.7	-\$15.7	\$0.0	\$28.0
Legislative Actions	\$0.0	\$123.0	\$123.0	\$0.0	\$123.0
Net Available Resources	\$13,532.0	\$12,533.5	\$12,536.7	\$3.3	-\$995.3
Confidence Intervals					
67% Confidence	+/- 1.7%		\$211.3	\$12.22B to \$12.64B	
95% Confidence	+/- 3.4%		\$422.6	\$12.01B to \$12.85B	

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





Extended Revenue Outlook

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

Revenue Source	Forecast 2007-09		Forecast 2009-11		Forecast 2011-13		Forecast 2013-15		Forecast 2015-17	
	Biennium	% Chg	Biennium	% Chg	Biennium	% Chg	Biennium	% Chg	Biennium	% Chg
Personal Income Taxes	10,090.6	-8.6%	10,458.2	3.6%	12,032.7	15.1%	14,077.5	17.0%	15,621.5	11.0%
Corporate Income Taxes	684.5	-18.9%	841.3	22.9%	897.9	6.7%	1,156.2	28.8%	1,195.3	3.4%
All Others	948.9	10.6%	1,130.0	19.1%	843.8	-25.3%	898.1	6.4%	949.0	5.7%
Total General Fund	11,723.9	-8.0%	12,429.4	6.0%	13,774.4	10.8%	16,131.8	17.1%	17,765.9	10.1%
<i>Kicker Distributions</i>	<i>1,084.2</i>		-		-		-		-	
Total Revenue	12,808.1	0.5%	12,429.4	-3.0%	13,774.4	10.8%	16,131.8	17.1%	17,765.9	10.1%

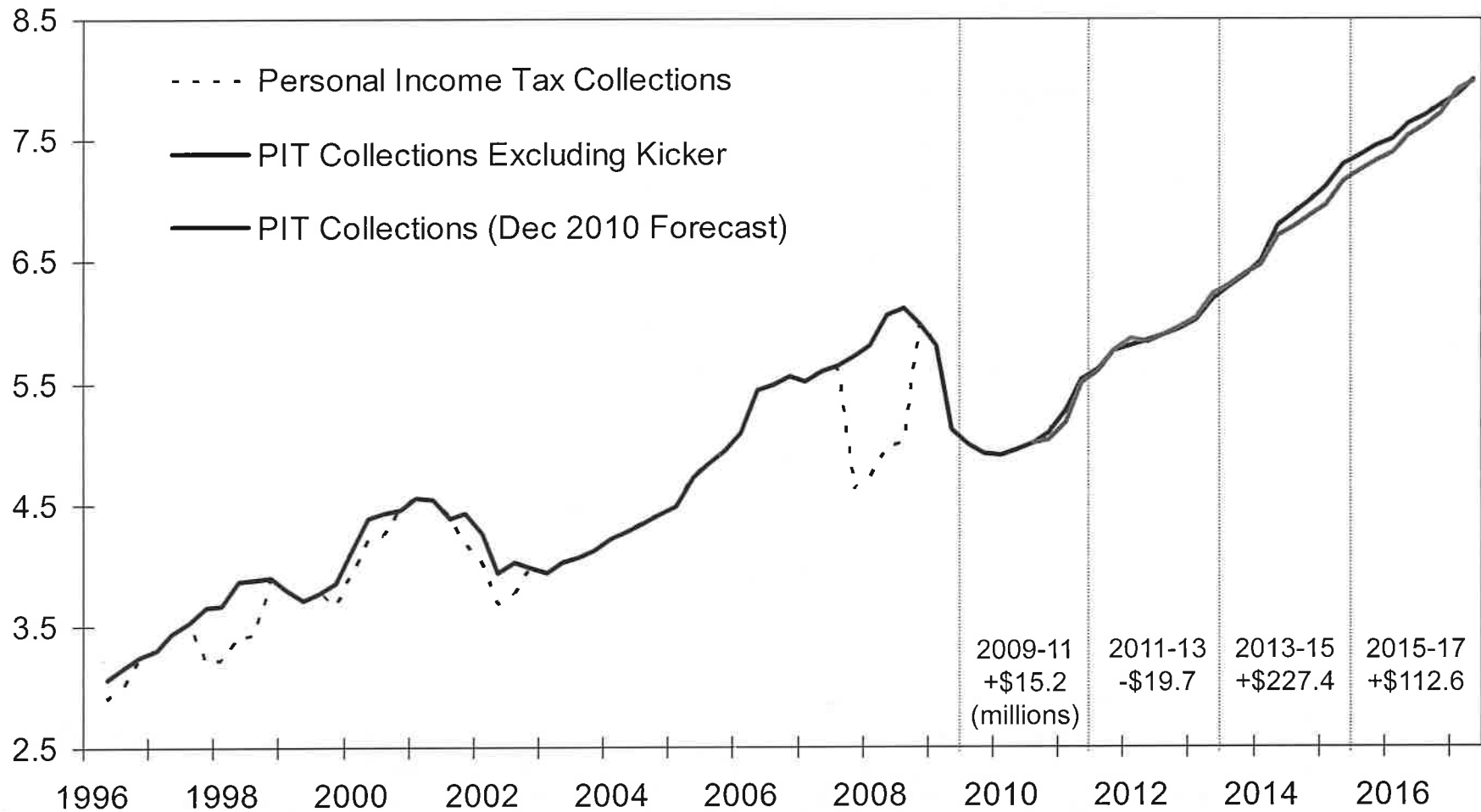
Other taxes include General Fund portions of the Eastern Oregon Severance Tax, Western Oregon Severance Tax and Amusement Device Tax. Commercial Fish Licenses & Fees and Pari-mutual Receipts are included in Other Revenues





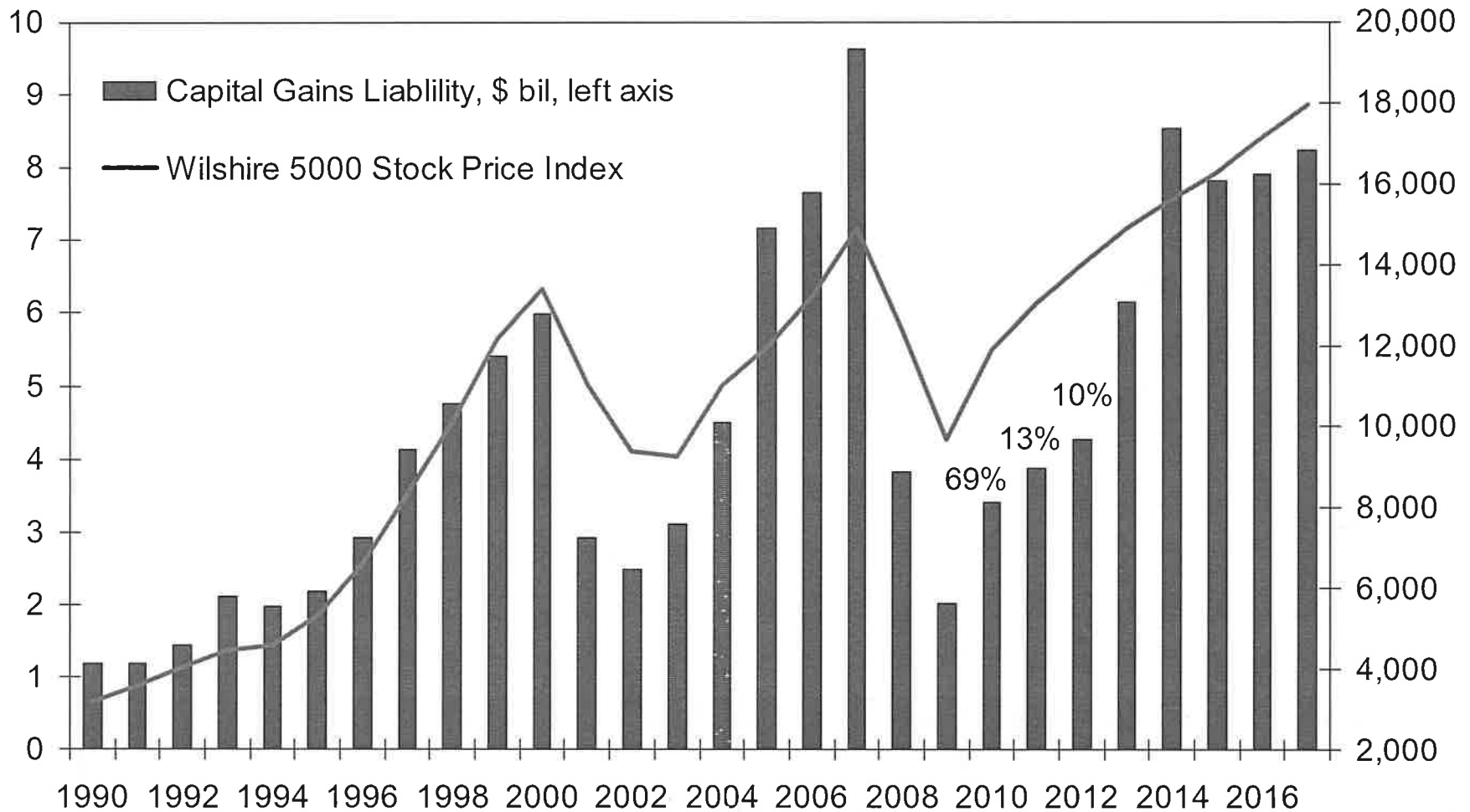
Stable Outlook for PIT

\$ billions, 4 quarter moving sum





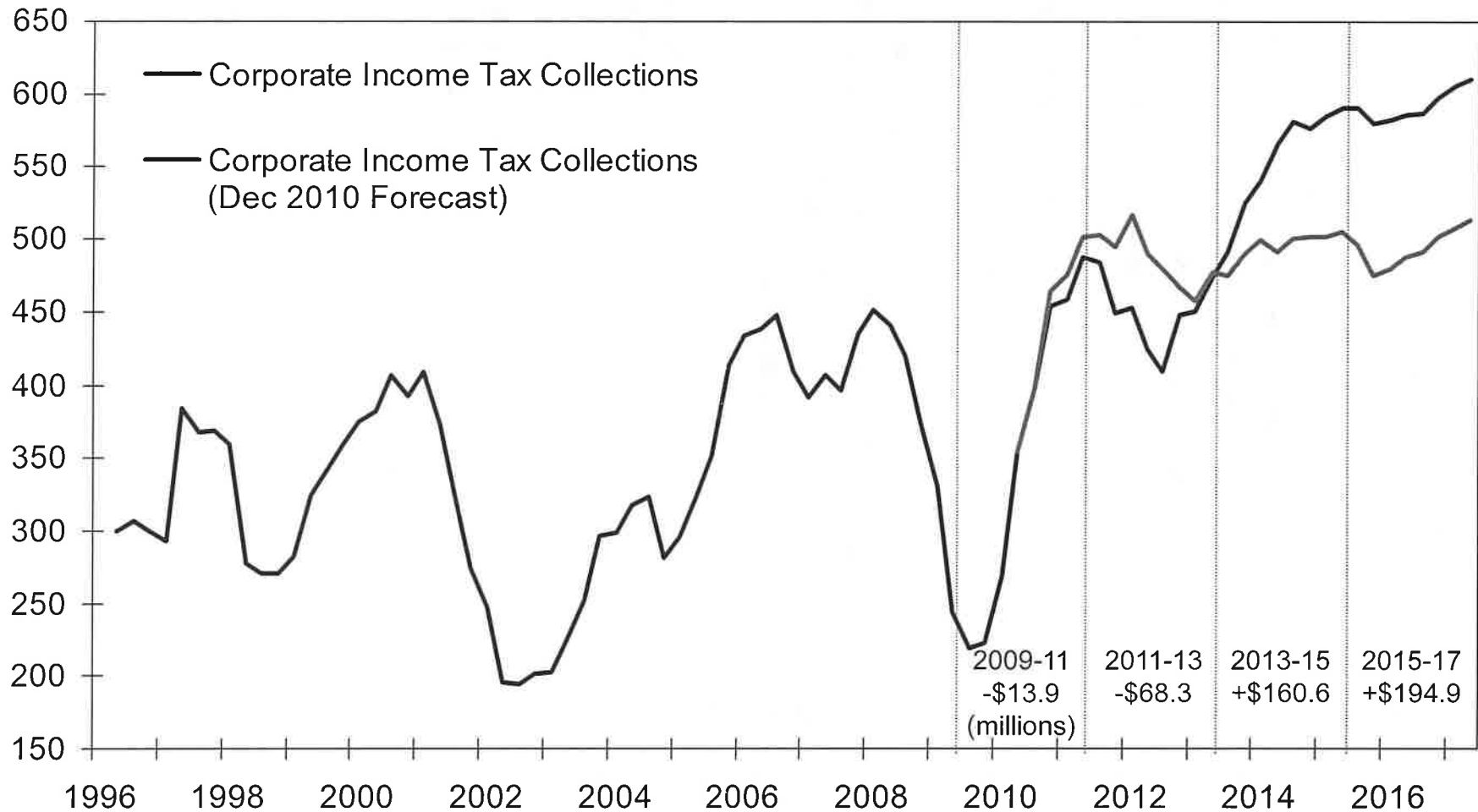
Capital Gains & Stock Prices





Corporate Income Tax Forecast

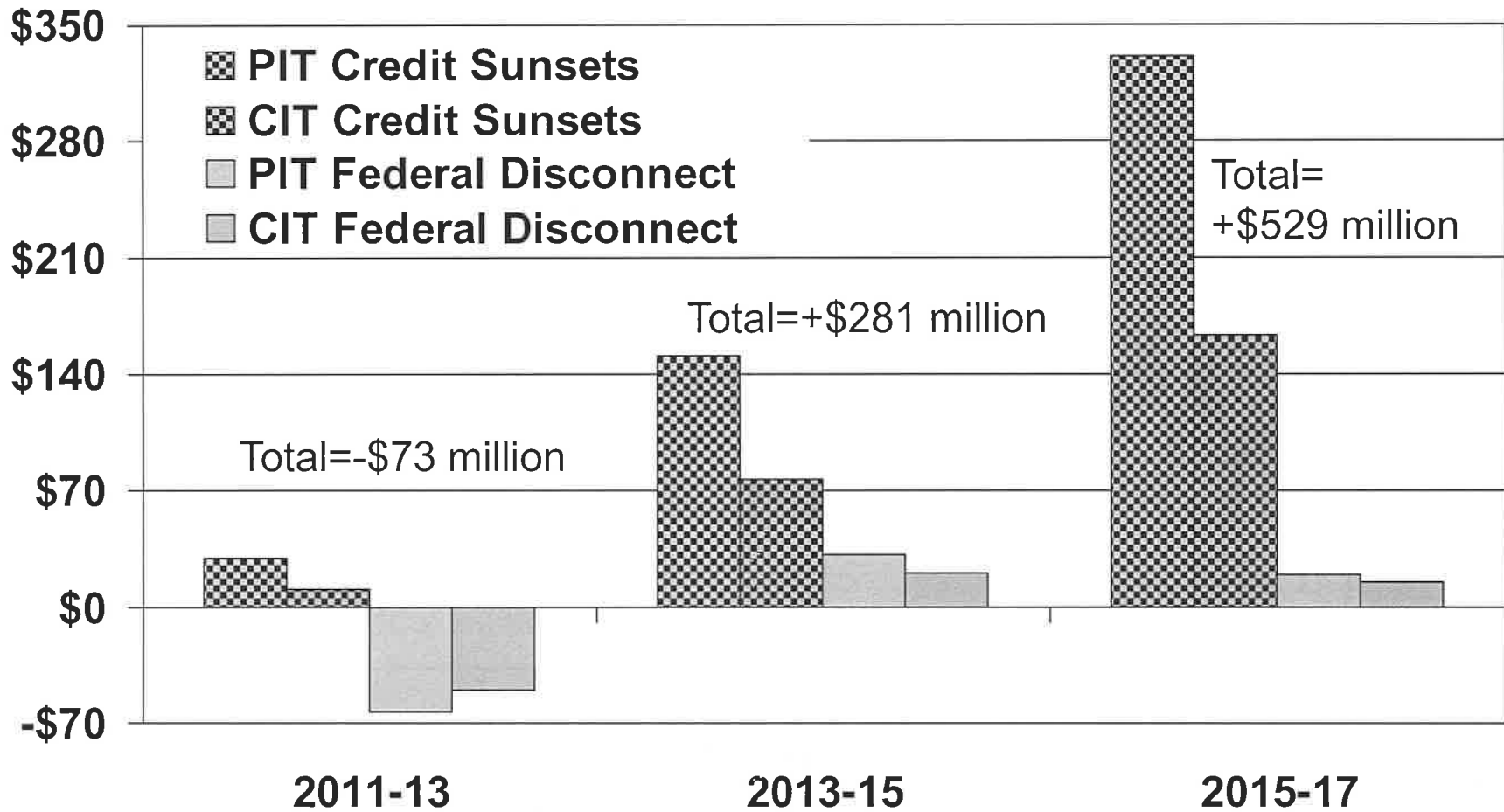
\$ millions, 4 quarter moving sum





Policy Choices Have Large Revenue Impacts

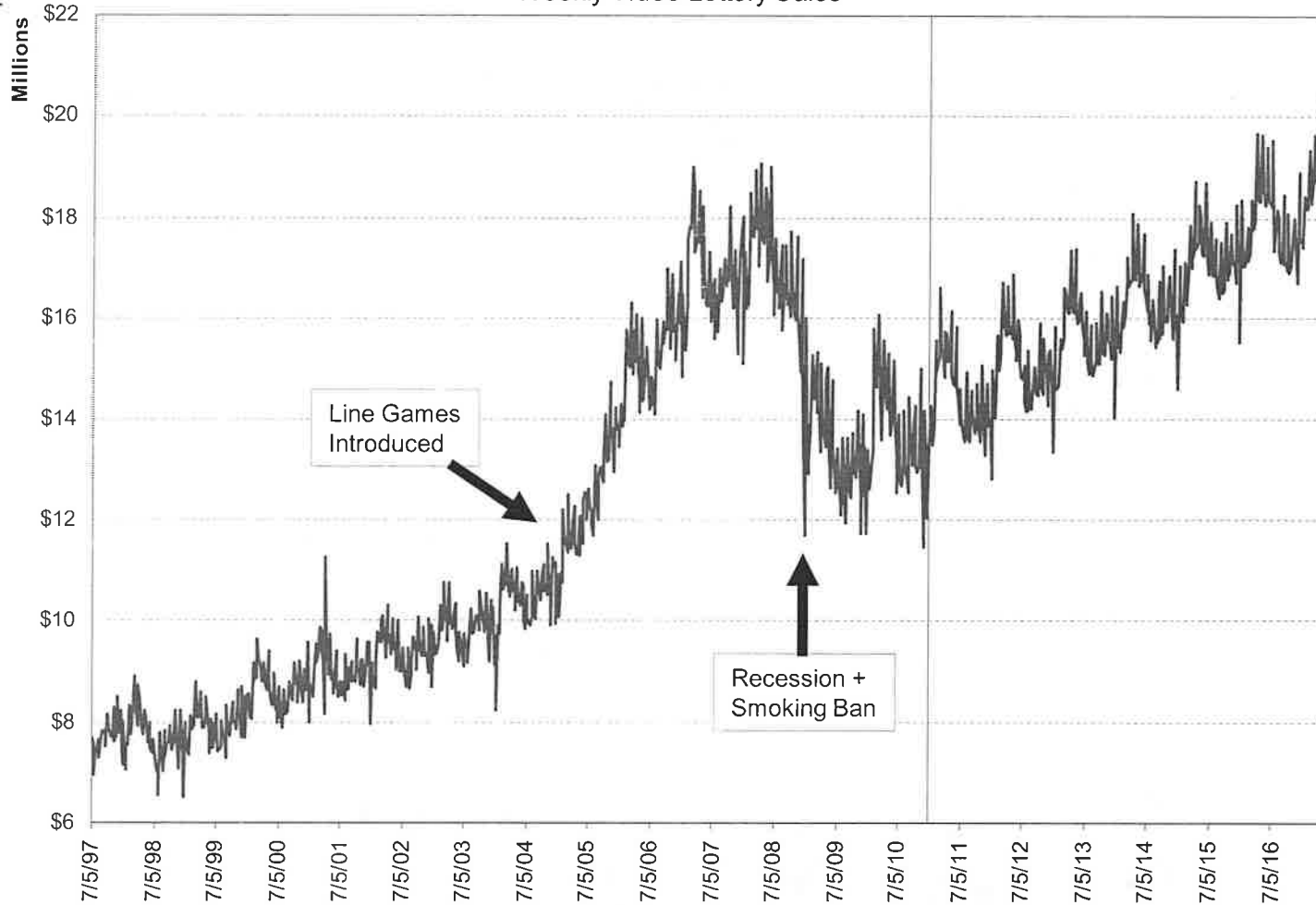
\$ millions Source: Legislative Revenue Office





Video Lottery Sales

Weekly Video Lottery Sales





Lottery Revenue Forecast

2009-11 Lottery Fund Forecast Summary

	<u>December 2010 Forecast</u>	<u>March 2011 Forecast</u>	<u>Changes from: December 2010 Forecast</u>
Transfers of Lottery Earnings			
Traditional Games	\$131.5	\$131.9	\$0.4
Video Lottery	\$928.8	\$923.7	-\$5.1
Administrative Savings	\$29.3	\$29.3	\$0.0
Total Transfers	\$1,089.6	\$1,084.9	-\$4.7
Economic Development Fund			
Beginning Balance	\$1.4	\$1.4	\$0.0
Transfers from Lottery	\$1,089.6	\$1,084.9	-\$4.7
Other earnings ¹	\$0.9	\$0.9	\$0.0
Total Available Resources	\$1,091.9	\$1,087.2	-\$4.7
Dedicated Distributions ²	\$627.4	\$634.2	\$6.8
Other Legislatively Adopted Allocations	\$443.1	\$443.1	\$0.0
Total Distributions	\$1,070.5	\$1,077.3	\$6.8
Ending Balance	\$21.4	\$9.9	-\$11.6





For More Information

Office of Economic Analysis
155 Cottage Street NE, U20
Salem, OR 97301-3966
(503) 378-3405

Email: oea.info@state.or.us

Website: <http://oregon.gov/das/oea>

Blog: <http://oregoneconomicanalysis.wordpress.com/>

Twitter: http://twitter.com/OR_EconAnalysis

