

The background features a large, faint, circular seal of the Oregon State Board of Economic Analysis. The seal contains an eagle with wings spread, perched on a shield. Below the eagle is a banner with the text "THE UNION". At the bottom of the seal, the year "1859" is visible. The words "STATE OF OREGON" are arched across the top of the seal.

Dec 2021 Economic and Revenue Forecast

November 17th, 2021

Oregon Office of Economic Analysis

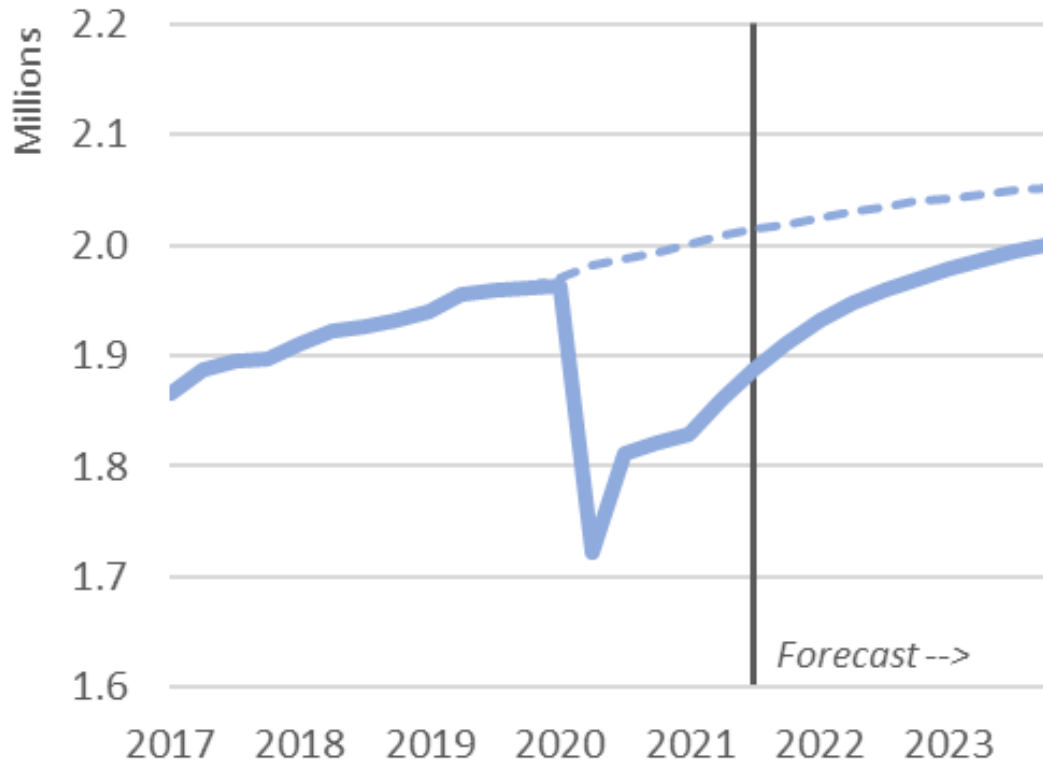
Mark McMullen

Josh Lehner

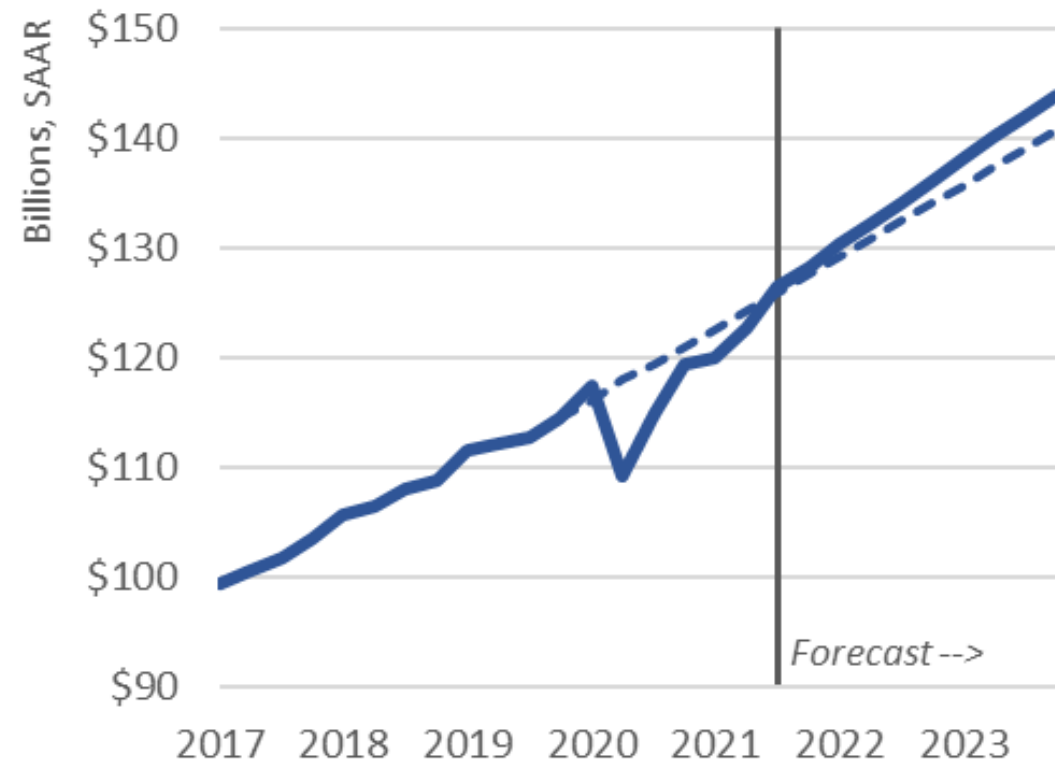


Labor income is booming

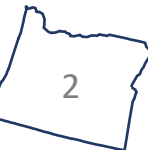
Employment 4% below peak



Wages and Salaries 8% above peak



Dotted lines are pre-pandemic forecast | Latest data: 2021q3 | Source: BLS, Oregon Employment Dept, Oregon Office of Economic Analysis

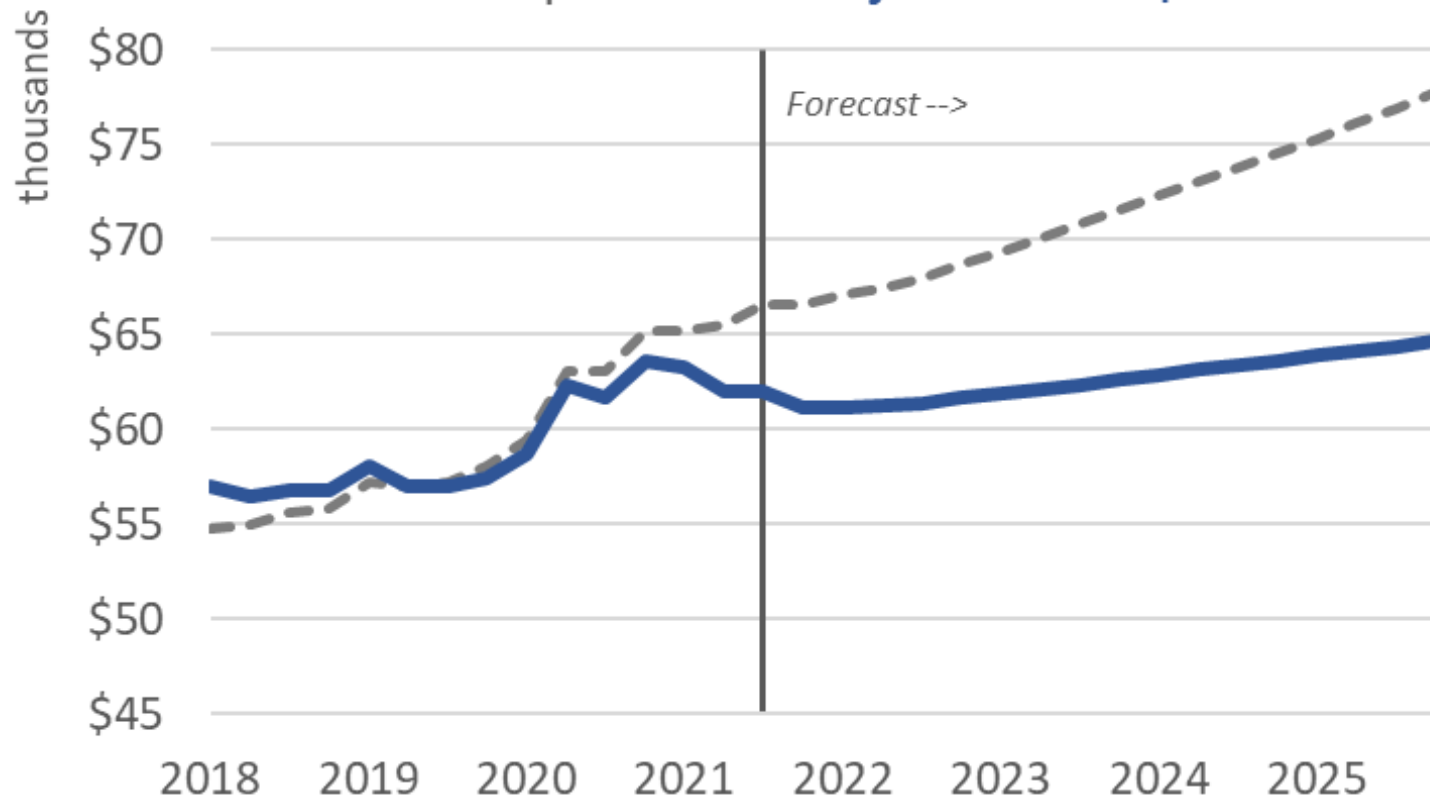




Risk: Persistent inflation

Oregon Average Wage Outlook

Nominal | **Inflation-Adjusted 2019\$**



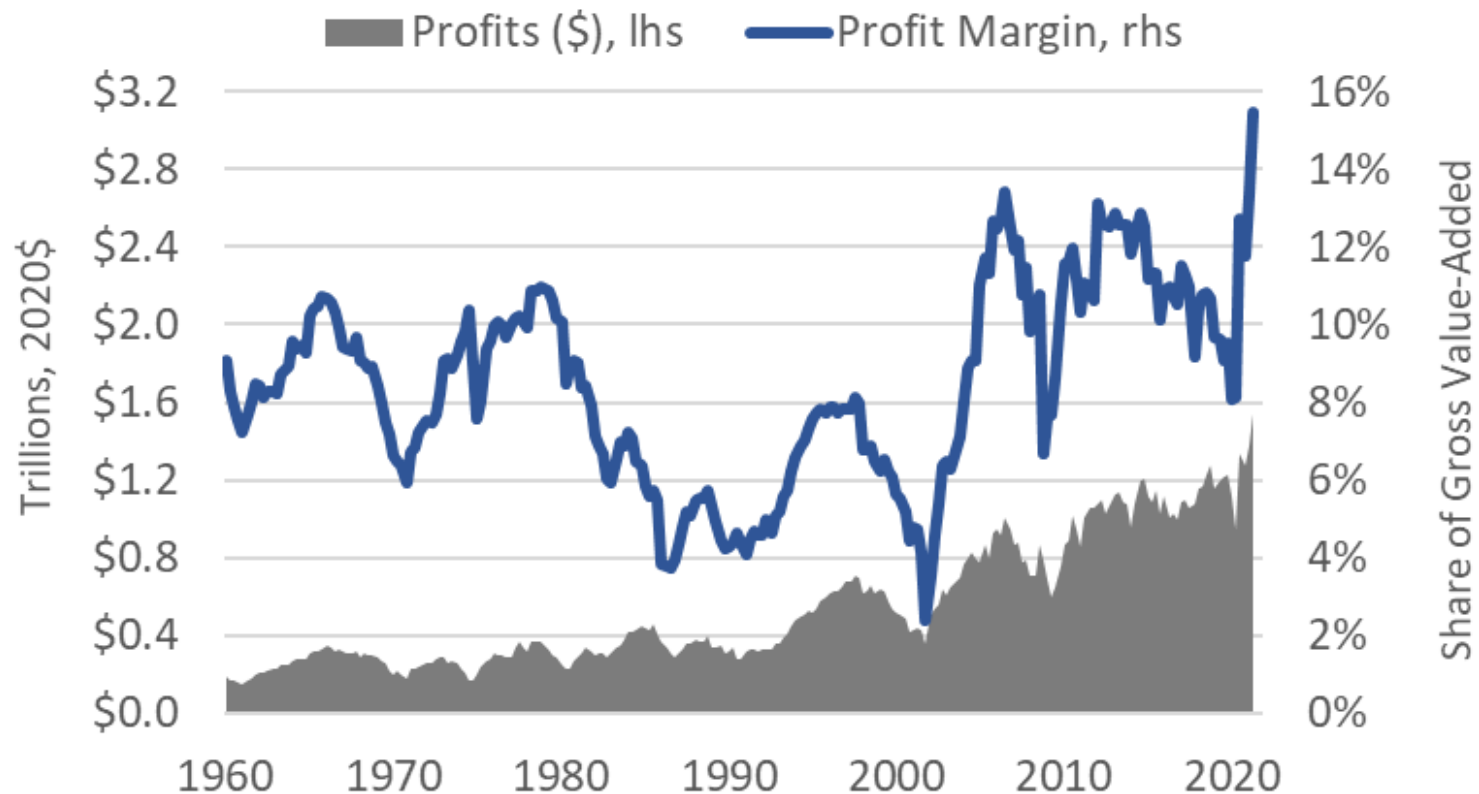
- Inflation continues to run hot
- Expectations are it will moderate as economy reopens and supply chains normalize
- Inflation is not without impacts and risks
- Ultimate risk is a boom/bust cycle as Federal Reserve raises rates quickly to cool the economy
- Interplay between actual inflation, inflation expectations, and wages and income important





Record pricing environment

U.S. Corporate Profits



- Strong incomes and demand allow businesses to pass along cost increases, raising total sales revenue and even increasing profit margins
- Stock prices are, in part, a function of future earnings
- Tax collections from business-related revenues and valuations boom as well (Corp, PIT, CAT, e.g.)
- At some point firms will no longer be able to pass along price increases and profit margins will compress, likely due to rising labor costs

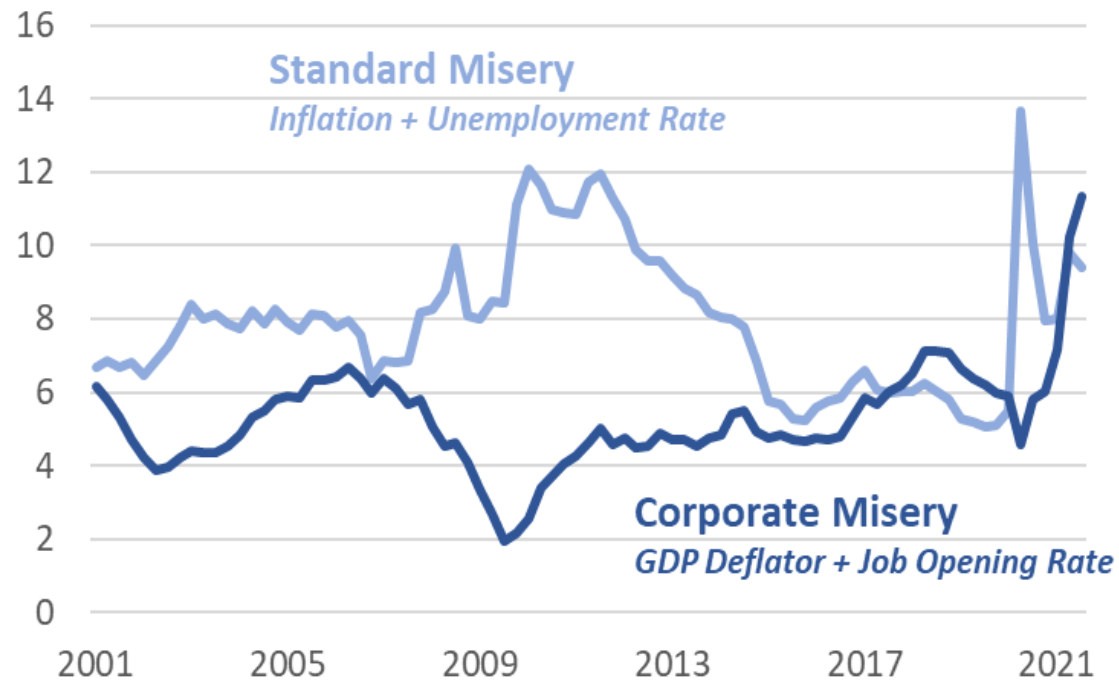


Profit margin defined as after-tax profits as share of gross value-added for nonfinancial corporate businesses
Source: BEA, Oregon Office of Economic Analysis



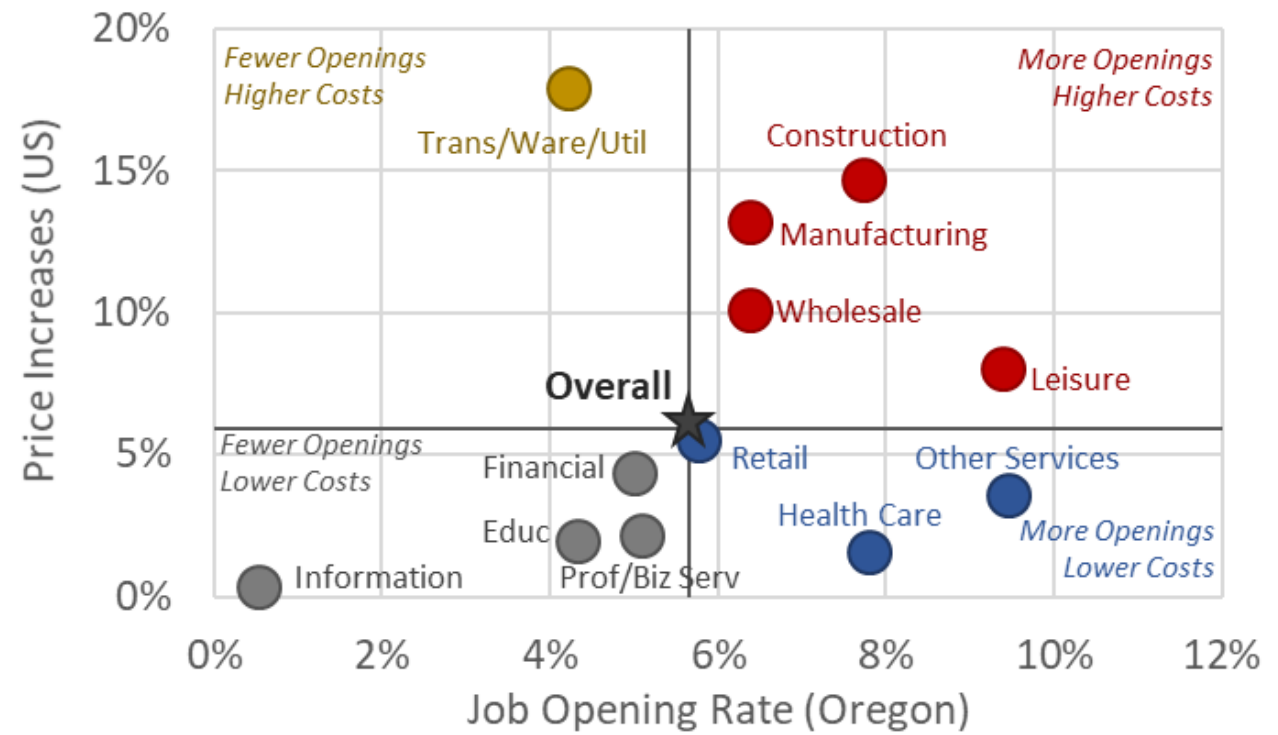
Inflationary booms are challenging

U.S. Misery on the Rise



Latest Data: 2021q3 | Source: BEA, BLS, Oregon Office of Economic Analysis

Corporate Misery Index



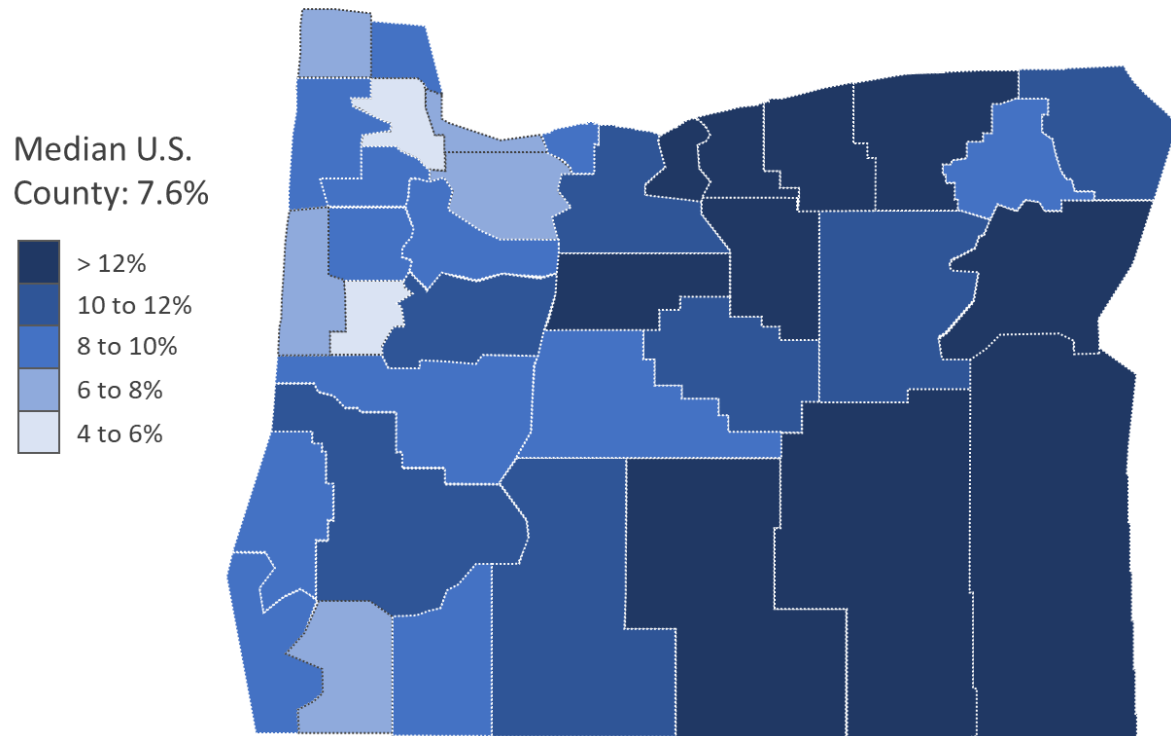
Source: BEA, Oregon Employment Dept, Oregon Office of Economic Analysis





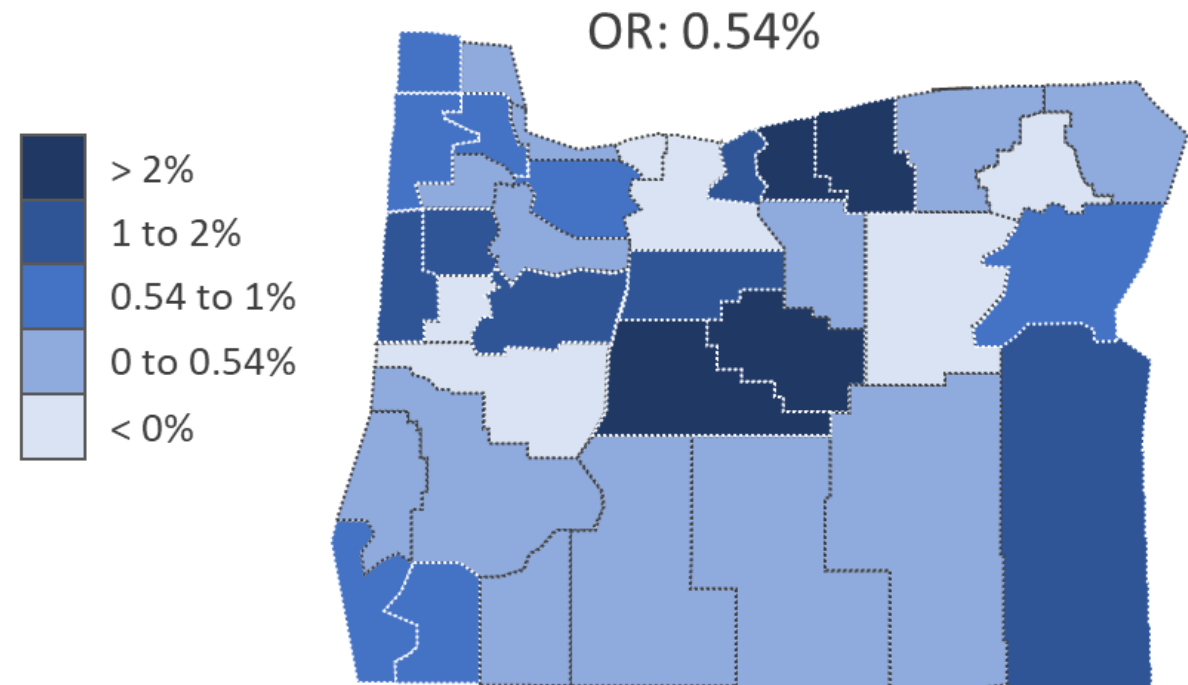
Urban areas trail rural so far, but future drivers of growth generally favor urban

2020 Personal Income Growth



Source: BEA, Oregon Office of Economic Analysis

2021 Population Growth



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

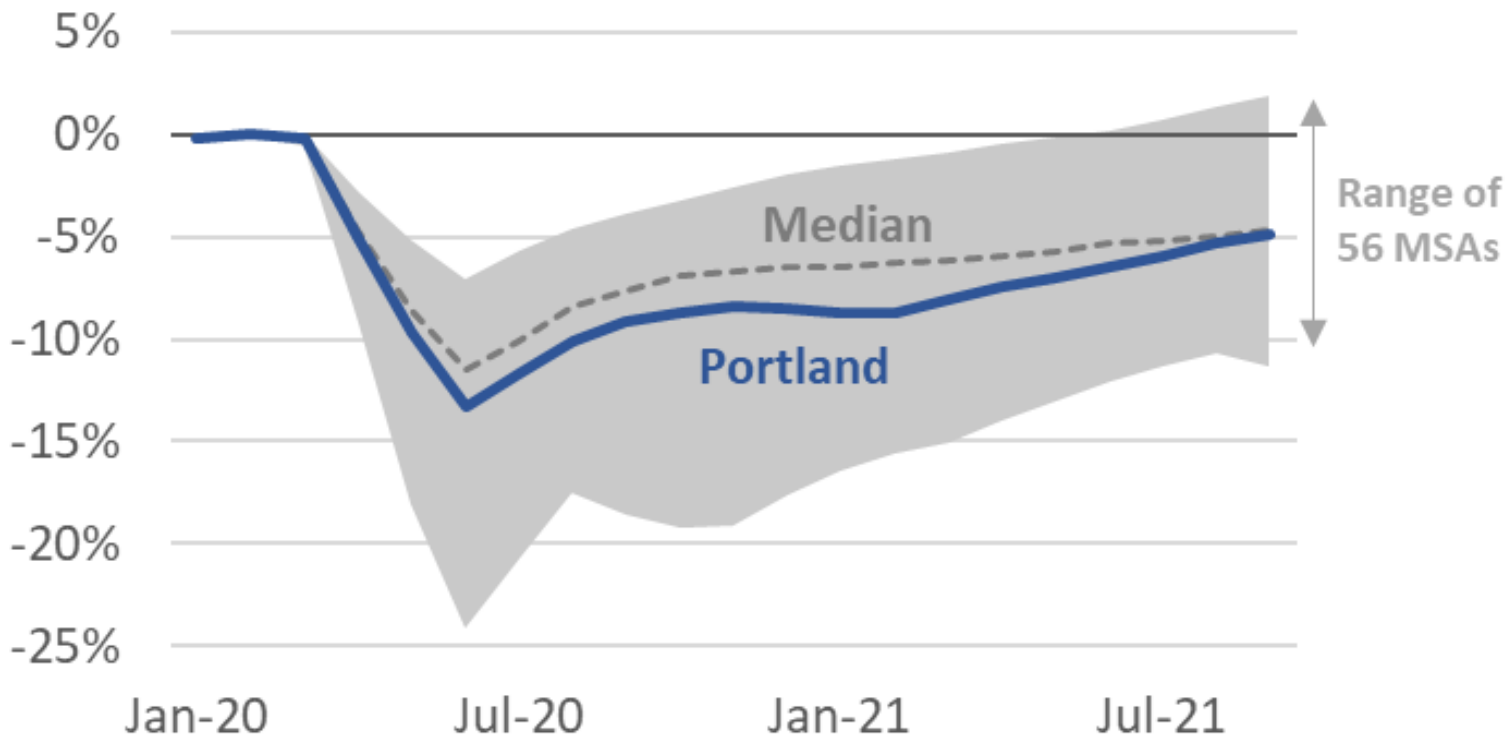




What's wrong with Portland?

Portland and Large Metros

Percent Change Since February 2020 among the 56 MSAs with Population Greater than 1 million



- Smaller metros and suburbs outperforming urban cores nationwide
 - Loss of business travel, and daily commuters
- Portland Metro and Multnomah County essentially mirroring national patterns
- Good News/Bad News
 - Portland did not suffer noticeably worse recession like usually do
 - Portland trails all of its peer comparison metros: Austin, Indianapolis, Nashville, Salt Lake, Seattle



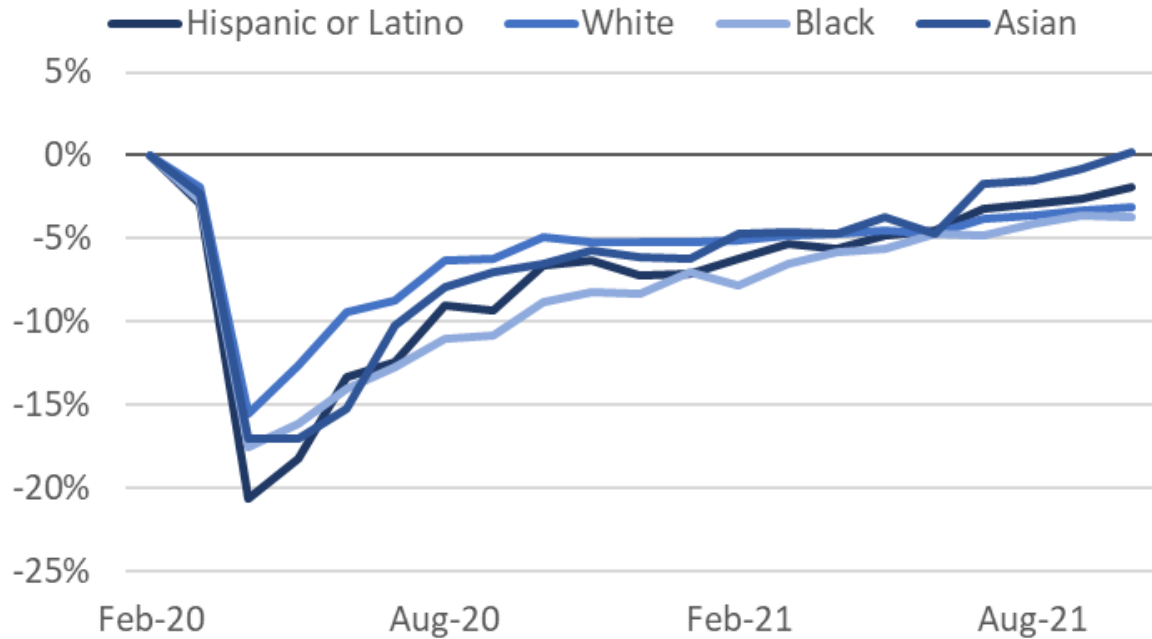


Update on disparate economic impacts

(Data note: Hopefully the 2020 experimental ACS estimates will be useful)

U.S. Employment by Race and Ethnicity

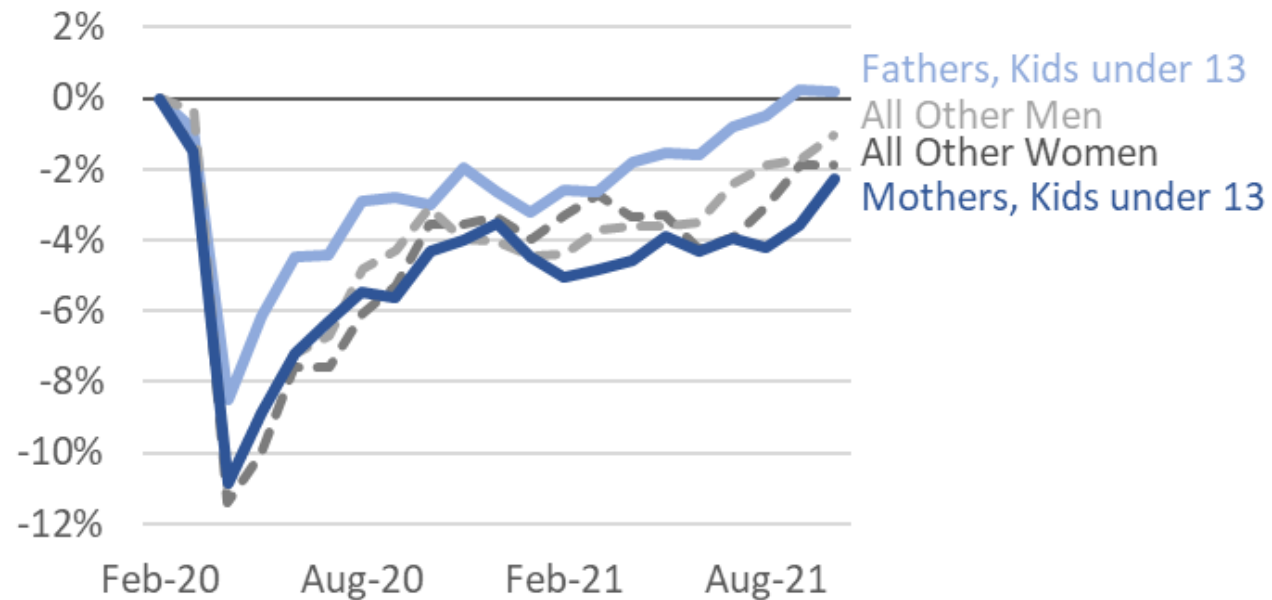
Percent Change from February 2020



Latest Data: October 2021 | Source: BLS, Oregon Office of Economic Analysis

U.S. Parent Gap

Percentage Point Change in the Employment-Population Ratio of 25-54 Year Olds



Latest Data: October 2021 | Source: IPUMS-CPS, Oregon Office of Economic Analysis



The background features a large, faint, light blue seal of the State of Oregon. The seal is circular and contains the text "STATE OF OREGON" at the top and "1859" at the bottom. The central emblem depicts an eagle with wings spread, perched on a shield. Below the eagle is a landscape with a sun rising over mountains, a river with a ship, and a plow. A banner at the bottom of the emblem reads "THE UNION".

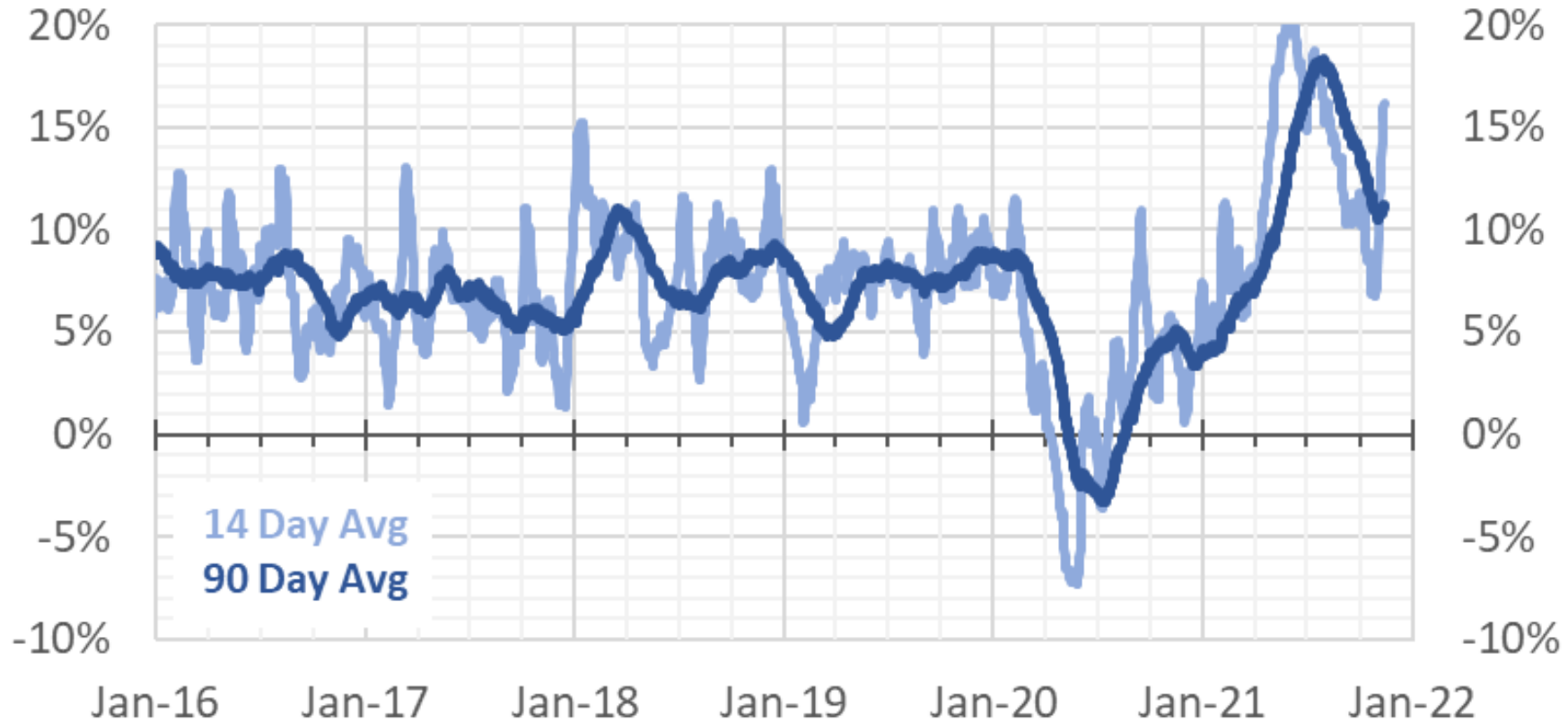
Revenue Outlook



Withholdings continue to boom

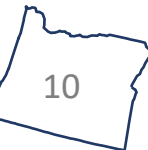
Oregon Withholding

30 Day Rolling Sum of Collections, Year-over-Year Change



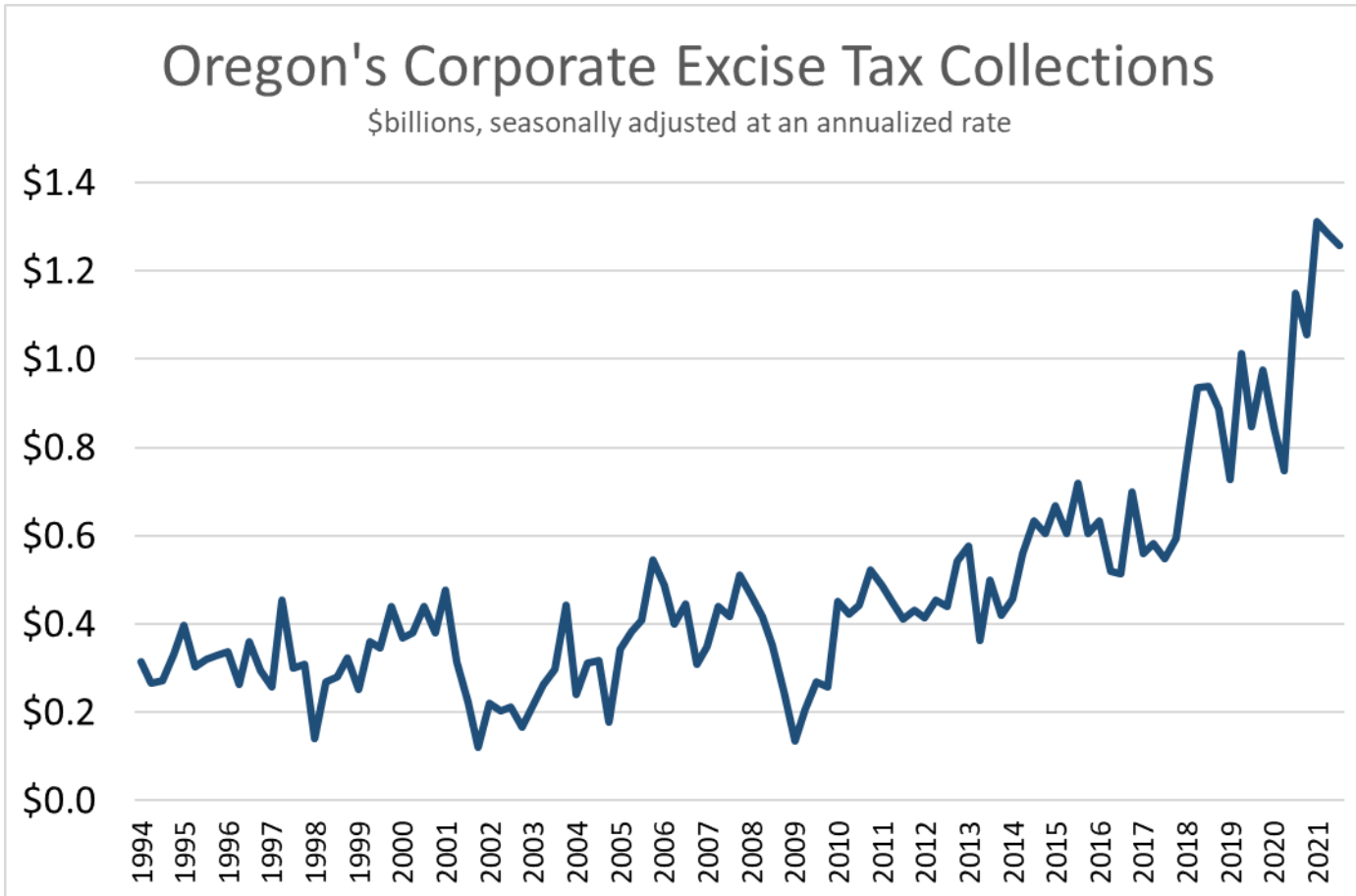
Oregon Office of
Economic Analysis

Latest Data: Nov 12, 2021 | Source: Oregon Dept. of Revenue, Oregon Office of Economic Analysis





No end to the boom in business taxes



- Corporate Income taxes doubled over the past two budget cycles, with 44% growth in FY2021
- The Commercial Activity Tax and pass-through income reported on personal tax returns are above forecast as well
- Pricing power is allowing firms to pass cost increases to their customers
- A corporate kicker of \$250 million is currently estimated for 2023-25 (spent on K-12)

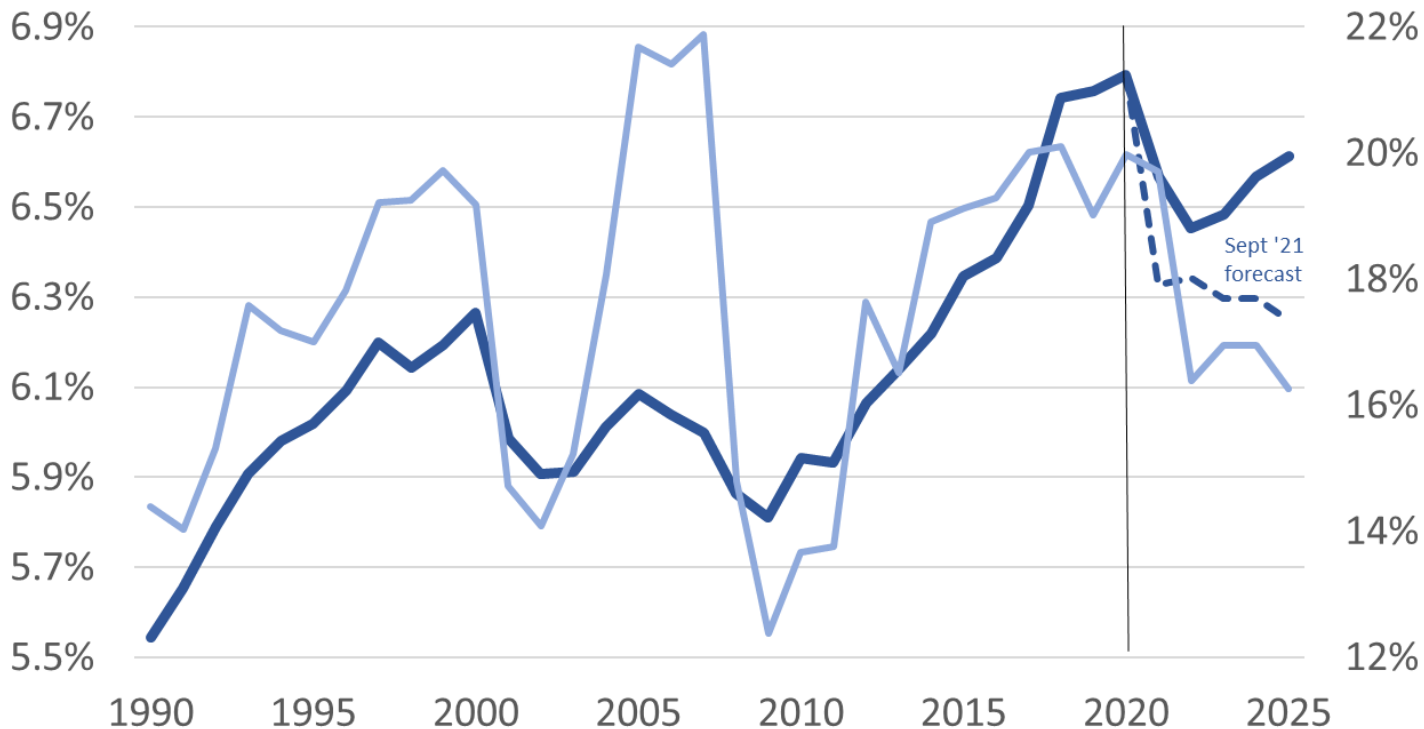




Bracket Creep

Changing Tax Rate Assumptions

<-- Effective Tax Rate | Investment/Business Share of Income -->



Investment & business = capital gains, proprietors, partnerships, S-corps, rents, royalties & dividends
Effective tax rate = Oregon personal tax liability/total reported income

- High-income filers have been doing particularly well, with business and investment income strong despite the pandemic-related downturn.
- When high-income filers do well, the support to tax collections becomes supercharged. As a larger share of income is taxed at Oregon's top rate, the average tax rate increases. In this environment, aggregate tax liability grows faster than underlying income gains.
- If the average tax rate matched what we saw in 2015, annual revenues would be around \$1 billion lower today.

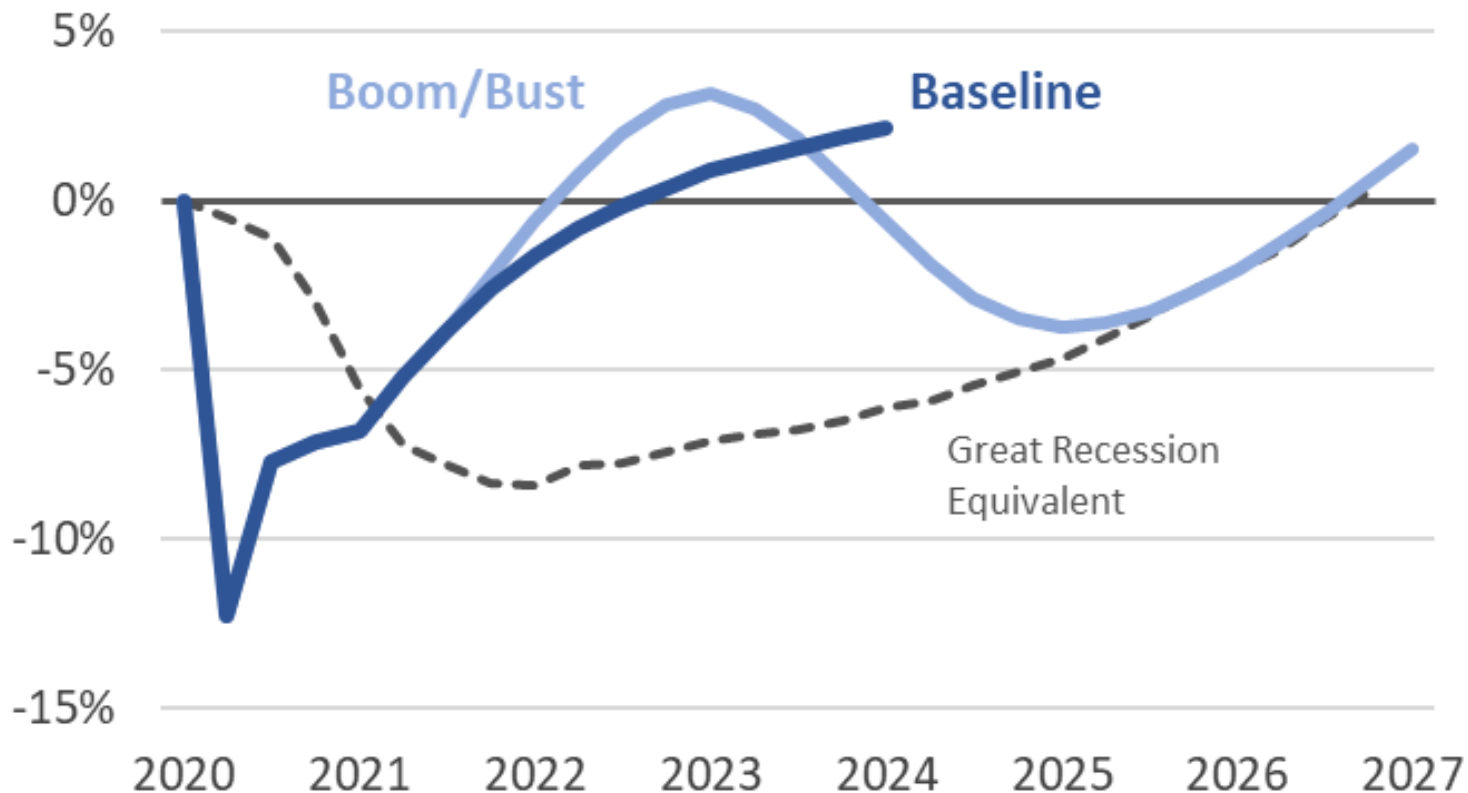




Not the baseline outlook, but a Boom/Bust scenario is a possibility

Oregon Employment Alternative Scenarios

Percent Change from Pre-Recession Peak



- Given the strength of the inflationary boom we are experiencing, there is an increased risk of the economy overheating
- The average rate dynamic is reversed during a downturn, leading to revenue losses in excess of income losses
- A downturn in the second half of the current biennium would likely lead to a large budget hole in 2023-25



The background of the image is a dark blue gradient. Centered in the background is a large, faint, light blue watermark of the Seal of the State of Oregon. The seal is circular and contains the following elements: an eagle with wings spread at the top; a central scene with a sun rising over a body of water with a ship; a plow and a sheaf of wheat below the water; and a banner with the words "THE UNION" across the bottom of the central scene. The words "STATE OF OREGON" are written in a circular path around the inner border, and the year "1859" is at the bottom.

Bottom Line



Changes relative to the September Forecast

December 2021 Forecast Changes

General Fund Revenues	\$ Millions from Sept		
	21-23	23-25	25-27
Personal Income Taxes	502	481	968
Corporate Income Taxes	184	-21	-70
Other	23	14	25
Total	710	474	923

Other Revenues	\$ Millions from Sept		
	21-23	23-25	25-27
Lottery	22	9	8
Corporate Activity Tax	16	122	143
Marijuana Tax	3	0	0
Total	41	131	151

	\$ Millions from Sept		
	21-23	23-25	25-27
Total Sum	751	605	1,074

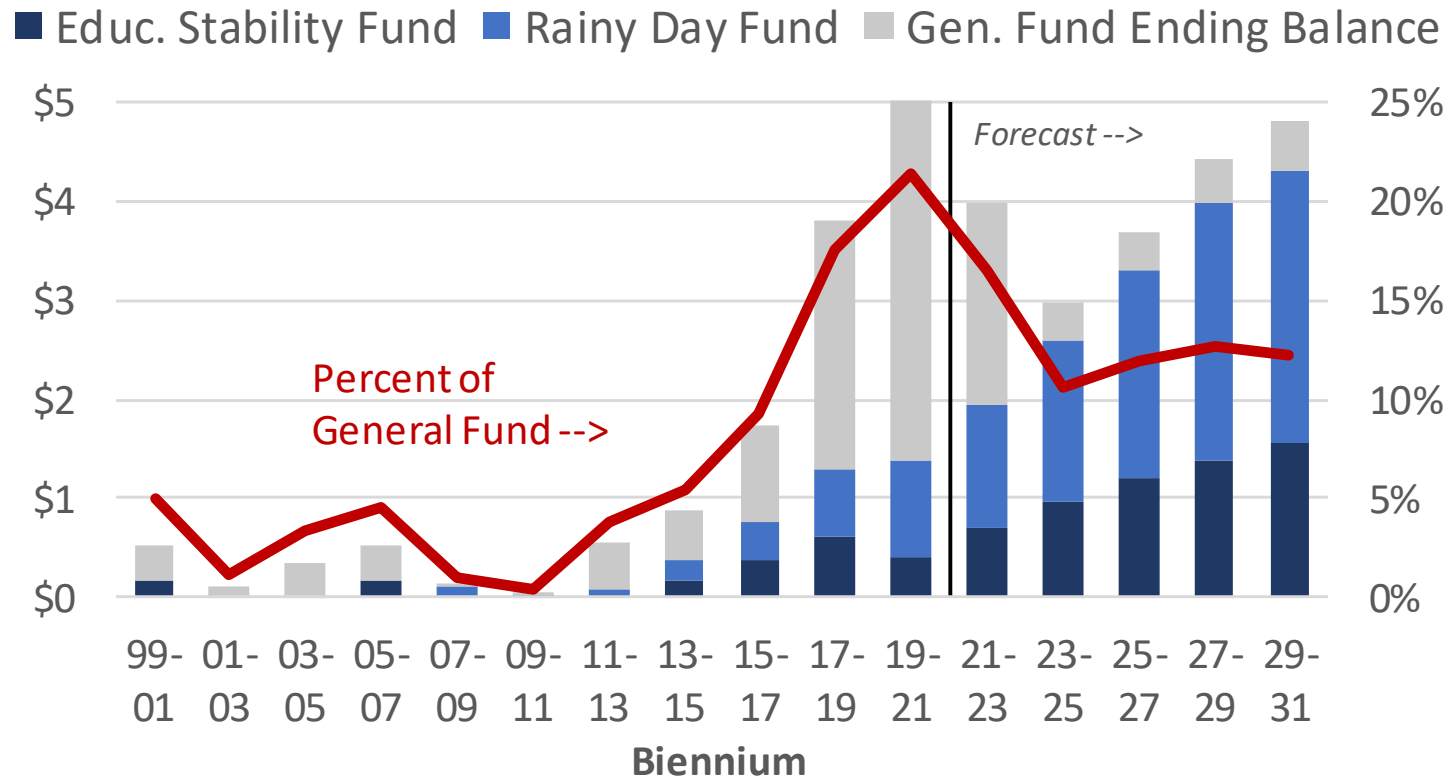
- The baseline revenue outlook has strengthened in recent months, with income growth having accelerated further rather than normalizing
- Personal and corporate tax collections are both setting records, with collections during the extension filing season particularly strong
- In addition to General Fund resources, Lottery and CAT revenues have come in larger than expected
- Although much uncertainty remains, non-corporate GF revenues are now 2.5% above the COS forecast, which would lead to a \$558 million kicker payment starting in 2024





Sizable reserves remain

Oregon Budgetary Reserves (billions)



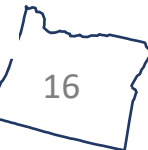
Effective Reserves (\$ millions)

	<i>Current Nov-21</i>	<i>End 2021-23</i>
ESF	\$451	\$693
RDF	\$964	\$1,265
Reserves	\$1,415	\$1,958
Ending Balance	\$2,040	\$2,040
Total	\$3,456	\$3,999
% of GF	14.5%	16.5%

Source: Oregon Office of Economic Analysis



Oregon Office of
Economic Analysis





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