Cyclical economic recovery complete, structural labor challenges remain

- Strong, inclusive recovery
  - Disparities did not widen based on age, gender, geographic location, or race and ethnicity
  - Disparities did widen based on educational attainment and wealth

- Job vacancies near record highs
  - More self-employment
  - Fewer multiple jobholders
  - More worker quits

- Structural labor challenges
  - Pandemic deaths
  - International migration
  - Demographics

Latest Data: 2021 | Source: Census, Portland State PRC, Oregon Office of Economic Analysis
Peak pessimism

• Negative Real GDP in 2022q1
  • Imported products and reduction in business inventories subtracted from GDP growth. Both due to consumer spending being stronger than firms can currently produce. Spending and investment accelerated.

• War in Ukraine
  • Direct economic ties are minimal, but indirect impact from oil shock is large.

• Supply Chains Struggle
  • New lockdowns in China set to temporarily exacerbate supply chain issues.

• Inflation at Multi-Decade Highs
  • Consumers are pessimistic despite rising incomes.
Inflation is a moderate risk

- Inflation is not costless

- Outlook
  - Goods prices slow and oil shock fades
  - Risk is service inflation acceleration
  - Medium-term slowing due to slower income growth

- Federal Reserve
  - Raise interest rates to neutral
  - Impacts credit-sensitive sector, and slows economy with a lag

Inflation Will Slow, but How Much?
PCE Price Index, Quater-over-Quarter at Annualized Rate

Latest: 2022Q3 | Source: BEA, IHS Markit, Oregon Office of Economic Analysis
HB 4002: Agricultural Workers

Oregon Farm Employment

No. of Jobs | Oregon Share of U.S. Farm Jobs

- 80,000
- 60,000
- 40,000
- 20,000
- 0

- 1970
- 1980
- 1990
- 2000
- 2010
- 2020

Farm Earnings
Share of Total Personal Income, 2018-20 Average

US: 0.4% OR: 0.8%

Source: BEA, Oregon Office of Economic Analysis
Revenue Outlook
Unprecedented Revenue Boom

• Oregon and other income tax states experienced a flood of collections during the 2022 tax filing season, far outstripping projections

• Following a record year for payments during the 2021 tax season, final payments this year came in $1.2 billion (70%) larger*

• High-income tax filers account for much of the growth, with a wide range of investment and business sources of income booming

• Along with large personal income tax collections, corporate and estate tax collections continue to set records as well

• **Bottom Line:** The unexpected revenue growth has left us with unprecedented balances in the current biennium, followed by a record kicker in 2023-25. If balances are not spent, net resources for the 2023-25 biennium will have increased by $427 million relative to the March 2022 forecast.

*after adjusting for kicker credits
Astronomical Tax Season

Record Year-End Payments
Oregon Cumulative Personal Income Tax Payments

Kicker Results in Record Refunds
Personal Income Tax Refunds, Cumulative

Latest Data: May 13, 2022 | Source: Oregon Dept of Revenue, Oregon Office of Economic Analysis

Latest Data: May 16, 2022 | Source: Oregon Dept of Revenue, Oregon Office of Economic Analysis
Tax collections outstrip personal income

- Investment and business income are not always realized for tax purposes at the same time as they are earned in the market.
- High-income filers chose to cash in a wide range of assets in 2021.
- With recessionary risks rising, a steep revenue decline of the sort Oregon experienced during the technology and housing busts is increasingly likely going forward.
Cashing in capital gains

The March 2022 forecast called for a $2 billion (16%) increase in capital gains for tax year 2021. We now know that gains grew by at least $7 billion.
Not all revenue booms are temporary

Corporate Excise Taxes

12 month sum

Oregon Estate Taxes

Latest Data: FY 2021 | Source: Oregon Office of Economic Analysis

Source: Oregon Dept. of Revenue, Oregon Office of Economic Analysis
General Fund forecast: Near-term stall

- General Fund resources have continued to expand in recent years despite large kicker credits being issued.
- Gross General Fund revenues have doubled since the Great Recession and took a big step up after the pandemic hit.
- This growth is expected to pause in the near term, as nonwage forms of income and corporate profits return to earth, and gains in the labor market slow.
Oregon’s unique kicker law

Oregon Kicker 101

- Everything above Close of Session is returned to Oregonian taxpayers (Not just above 2% threshold)
- Legislative Changes (Enacted during long sessions, if applicable)
- Forecast for Personal Income Tax Kicker Base (All of General Fund excluding Corporate)

Kicker Threshold 2%
Corporate Activity Tax Forecast

CAT Liability Forecast Comparisons

- Original Estimate
- May '21 Forecast
- Current Forecast

2021 adjusted for fiscal year filing change.
Bottom Line
Changes relative to the March Forecast

### June 2022 Forecast Changes

<table>
<thead>
<tr>
<th>General Fund Revenues</th>
<th>$ Millions from Mar</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>21-23</td>
</tr>
<tr>
<td>Personal Income Taxes</td>
<td>2,073</td>
</tr>
<tr>
<td>Corporate Income Taxes</td>
<td>297</td>
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<tr>
<td>Other</td>
<td>-3</td>
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<tr>
<td><strong>Total</strong></td>
<td>2,367</td>
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</table>

<table>
<thead>
<tr>
<th>Other Revenues</th>
<th>$ Millions from Mar</th>
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<tbody>
<tr>
<td></td>
<td>21-23</td>
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<tr>
<td>Lottery</td>
<td>49</td>
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<tr>
<td>Corporate Activity Tax</td>
<td>52</td>
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<tr>
<td>Marijuana Tax</td>
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<tr>
<td><strong>Total</strong></td>
<td>97</td>
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<table>
<thead>
<tr>
<th>$ Millions from Mar</th>
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</thead>
<tbody>
<tr>
<td>21-23</td>
</tr>
<tr>
<td><strong>Total Sum</strong></td>
</tr>
</tbody>
</table>

- Data in the table show how the revenue outlook has changed since the March forecast (released 2/8/22)
- Most of the spike in personal income taxes is expected to be temporary. Gains in 2022 are largely offset by a larger kicker credit in 2023-25
- Including changes in expenditures, combined resources for the 2021-23 and 2023-25 budget cycles have increased by $427 million
- Personal Kicker
  - $3.033 billion
- Corporate Kicker
  - $931 million
Inflationary booms usually don’t end well

- Severity of cycle depends on leverage, and how entrenched inflation is in the economy
- Likely timing: 2023 or 2024
- Boom/Bust Impacts
  - Employment losses: 97,000 (-4.9%)
  - General Fund revenues $2.6 billion below baseline (10%)
Sizable reserves remain

Oregon Budgetary Reserves (billions)

- **Educ. Stability Fund**
- **Rainy Day Fund**
- **Gen. Fund Ending Balance**

### Effective Reserves ($ millions)

<table>
<thead>
<tr>
<th></th>
<th>Current Apr-22</th>
<th>End of 2021-23</th>
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<tbody>
<tr>
<td>ESF</td>
<td>$526</td>
<td>$703</td>
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<tr>
<td>RDF</td>
<td>$1,187</td>
<td>$1,300</td>
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<tr>
<td>Reserves</td>
<td>$1,713</td>
<td>$2,003</td>
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<td>Ending Balance</td>
<td>$3,122</td>
<td>$3,122</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>$4,835</strong></td>
<td><strong>$5,125</strong></td>
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</tbody>
</table>

% of GF: 17.7% to 18.7%

Source: Oregon Office of Economic Analysis
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