

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 globe. 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 written around the top inner edge of the seal, and "BOARD OF ECONOMIC ANALYSIS" is written around the bottom inner edge.

June 2022 Economic and Revenue Forecast

May 18th, 2022

Oregon Office of Economic Analysis

Mark McMullen

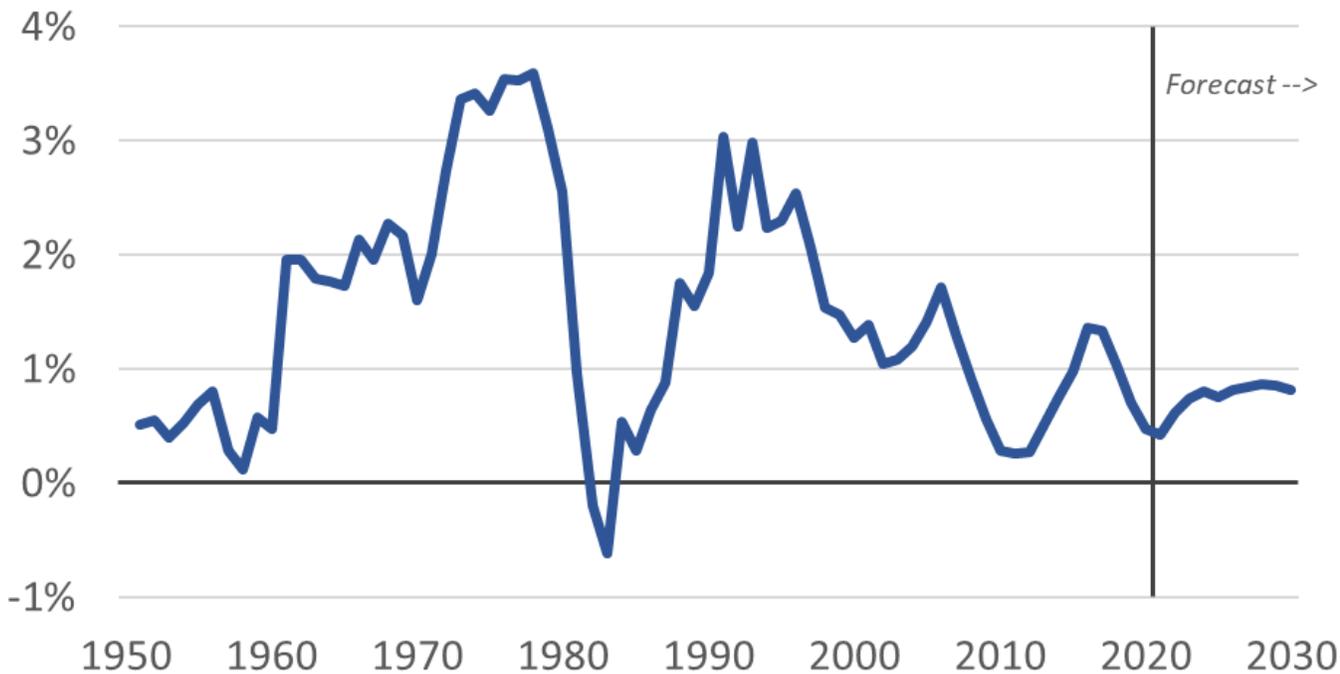
Josh Lehner



Cyclical economic recovery complete, structural labor challenges remain

Labor Force Growth is Slower

Annual Growth Rate of Oregon's Potential Labor Force



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

Oregon Office of
Economic Analysis



- 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





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.



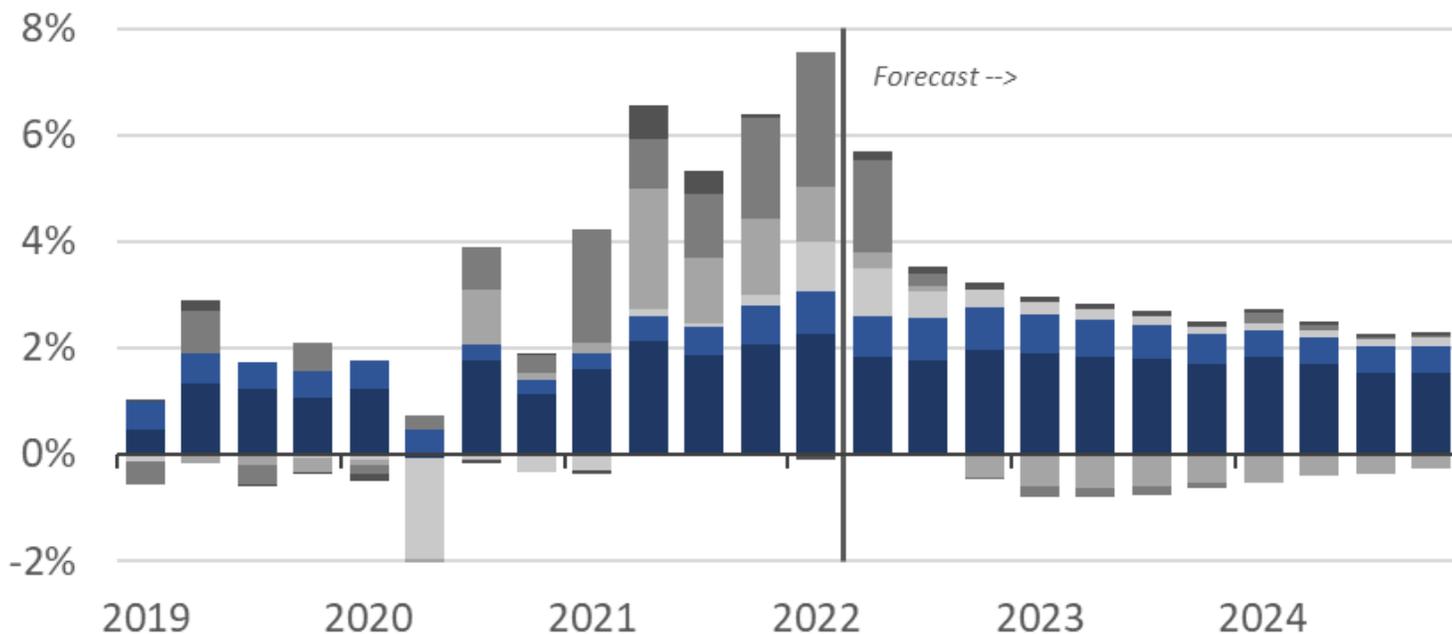


Inflation is a moderate risk

Inflation Will Slow, but How Much?

PCE Price Index, Quater-over-Quarter at Annualized Rate

Constrained Goods | Food/Energy | Travel | **Housing** | **Other Services** | Other Goods



Latest: 2022q1 | Source: BEA, IHS Markit, Oregon Office of Economic Analysis

- 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

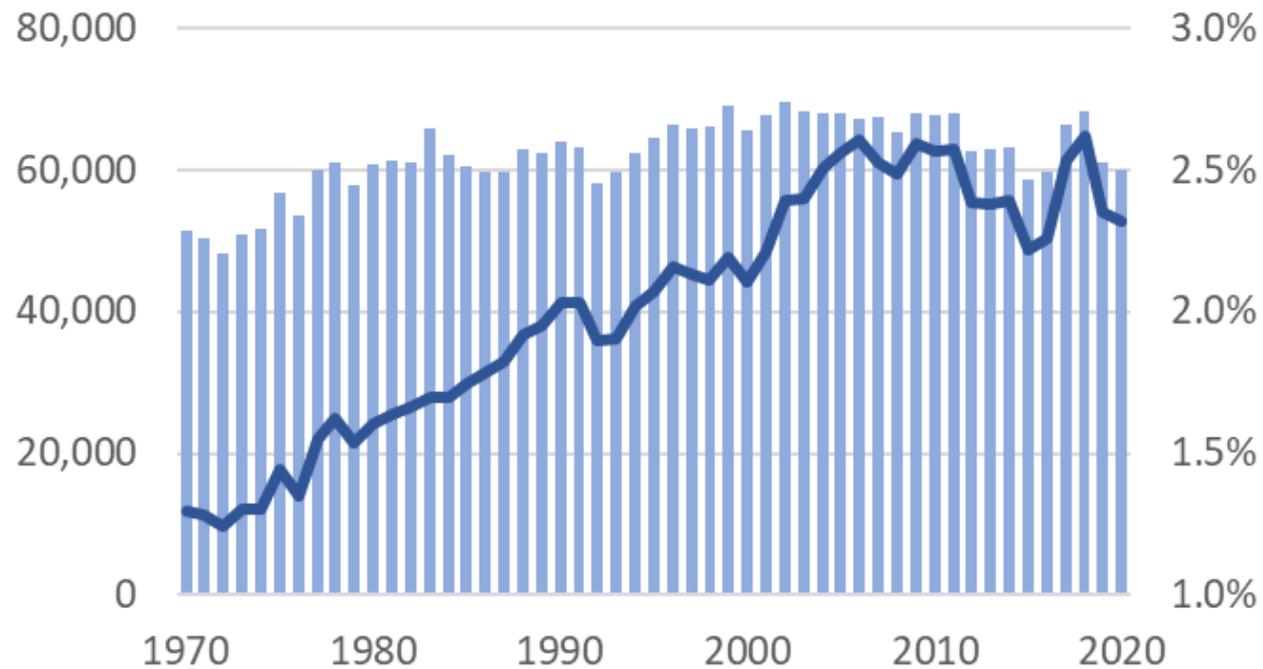




HB 4002: Agricultural Workers

Oregon Farm Employment

<- No. of Jobs | Oregon Share of U.S. Farm Jobs ->

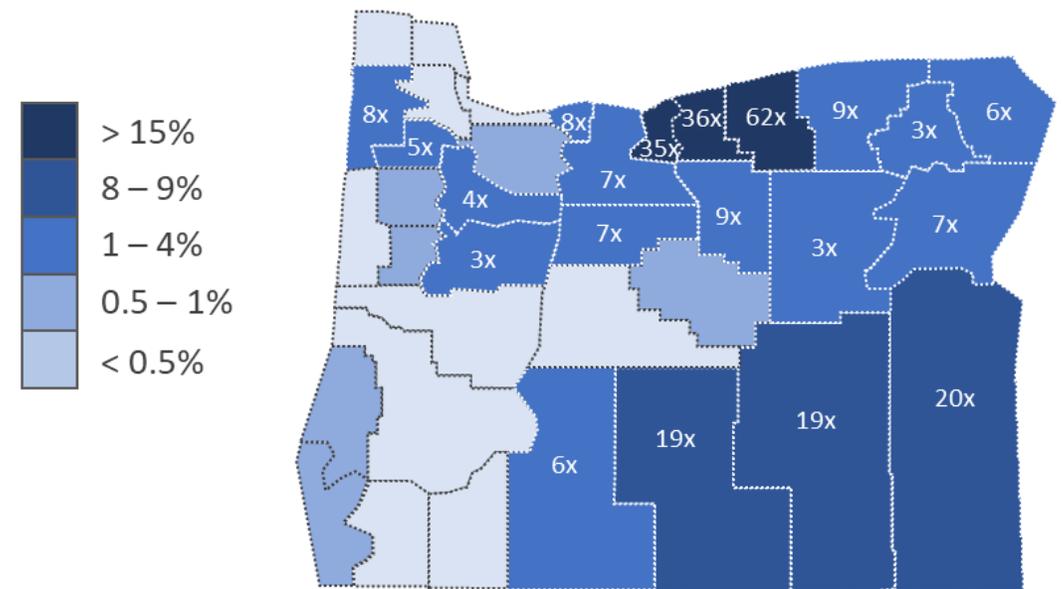


Latest Data: 2020 | Source: BEA, Oregon Office of Economic Analysis

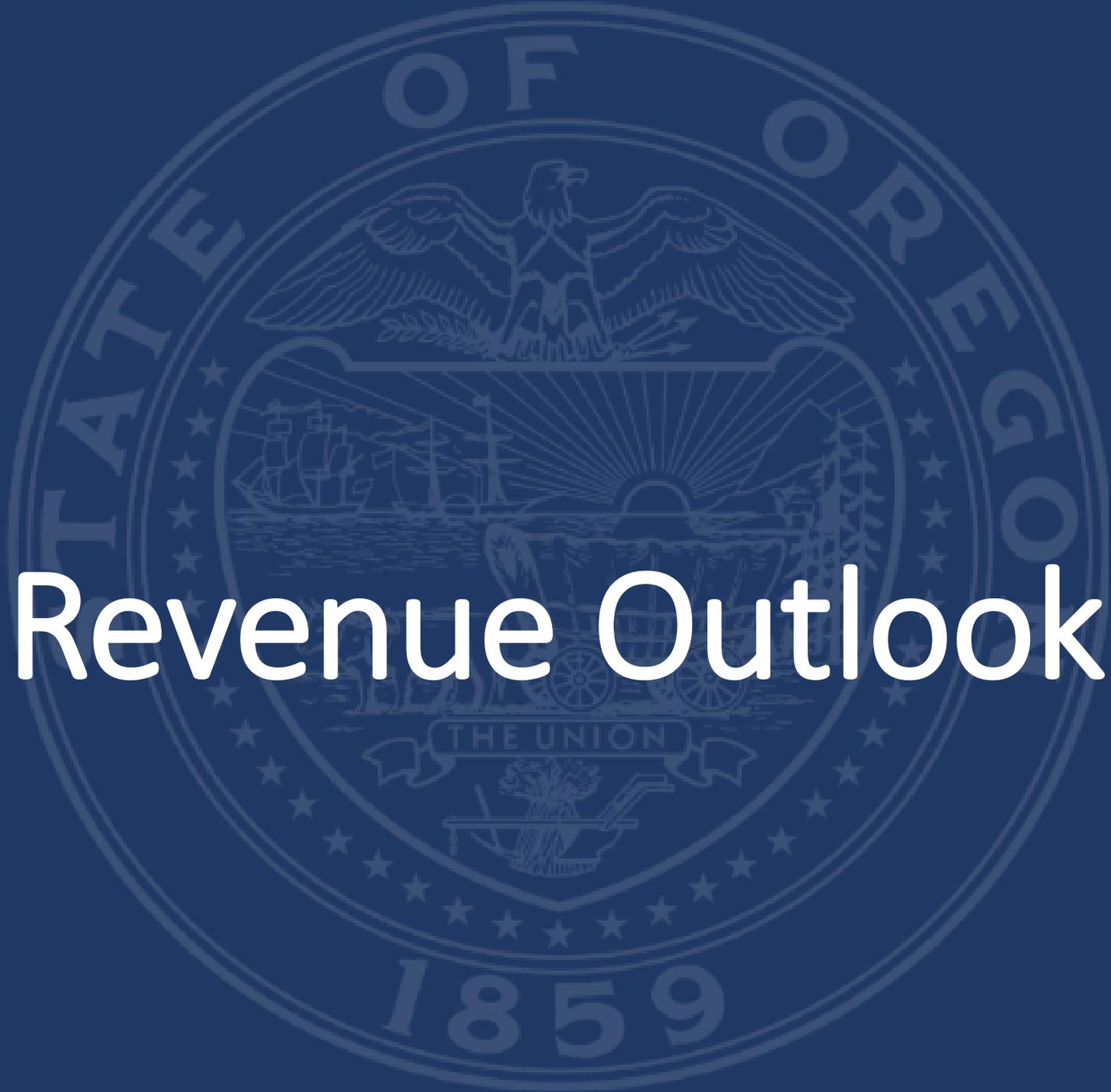
Farm Earnings

Share of Total Personal Income, 2018-20 Average

US: 0.4% OR: 0.8%



Source: BEA, Oregon Office of Economic Analysis

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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.

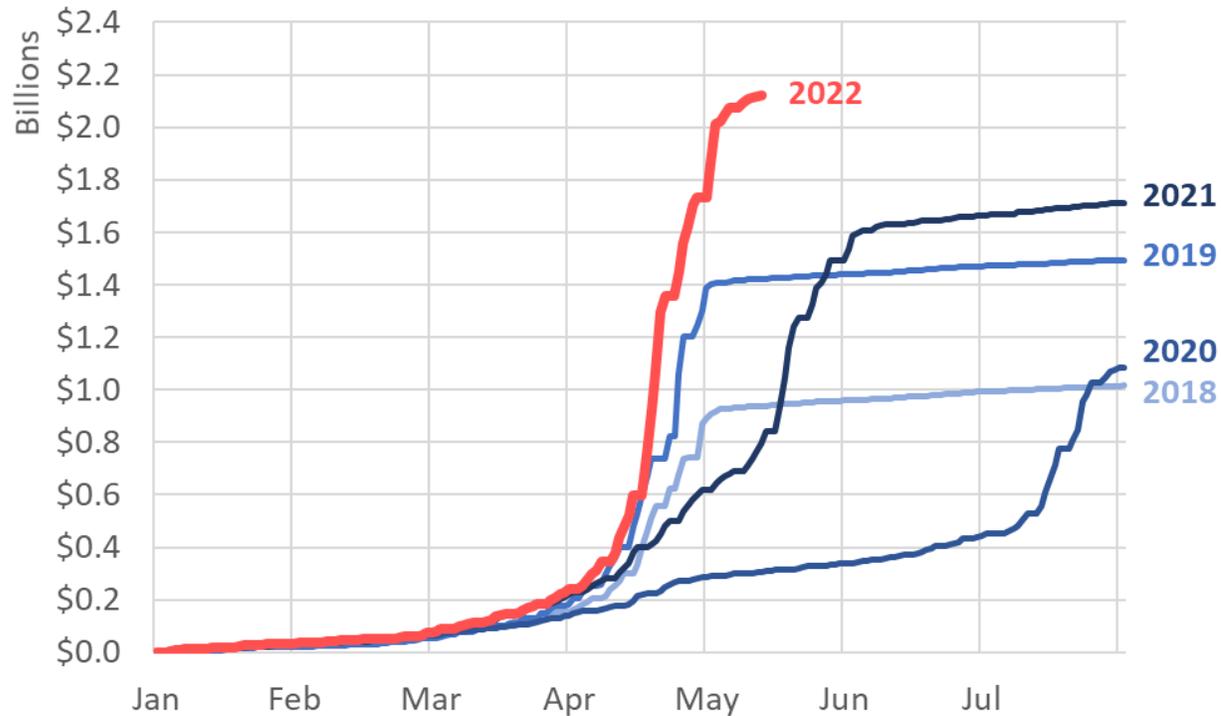




Astronomical Tax Season

Record Year-End Payments

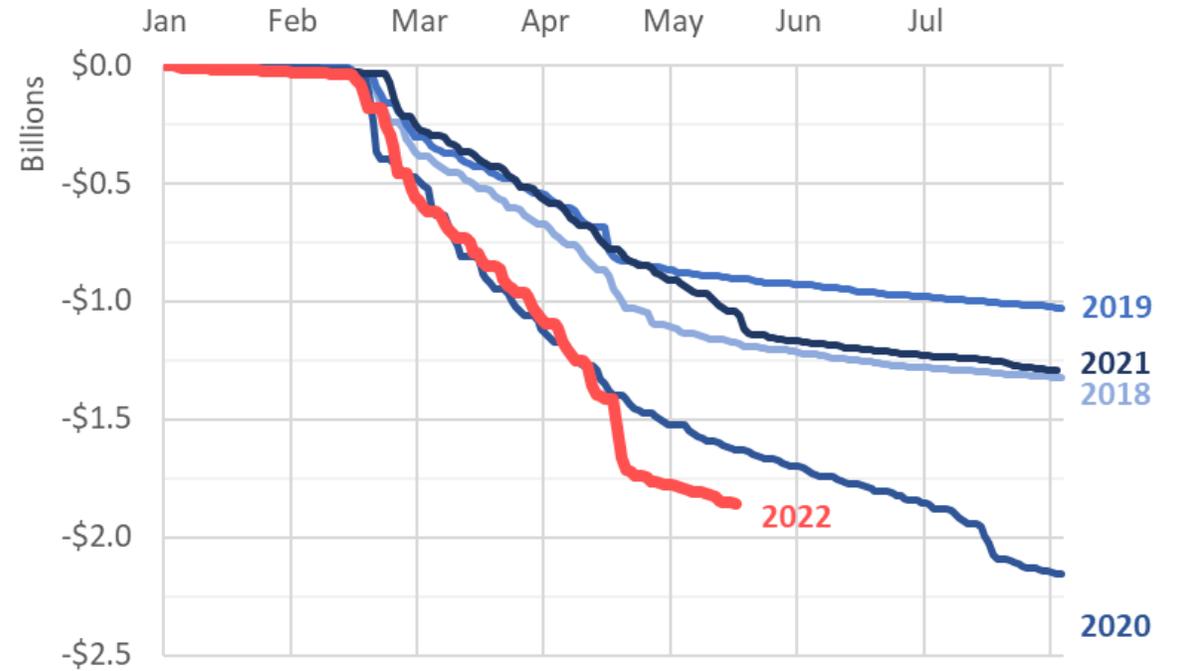
Oregon Cumulative Personal Income Tax Payments



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

Kicker Results in Record Refunds

Personal Income Tax Refunds, Cumulative



Latest Data: May 16, 2022 | Source: Oregon Dept of Revenue, Oregon Office of Economic Analysis



Oregon Office of
Economic Analysis

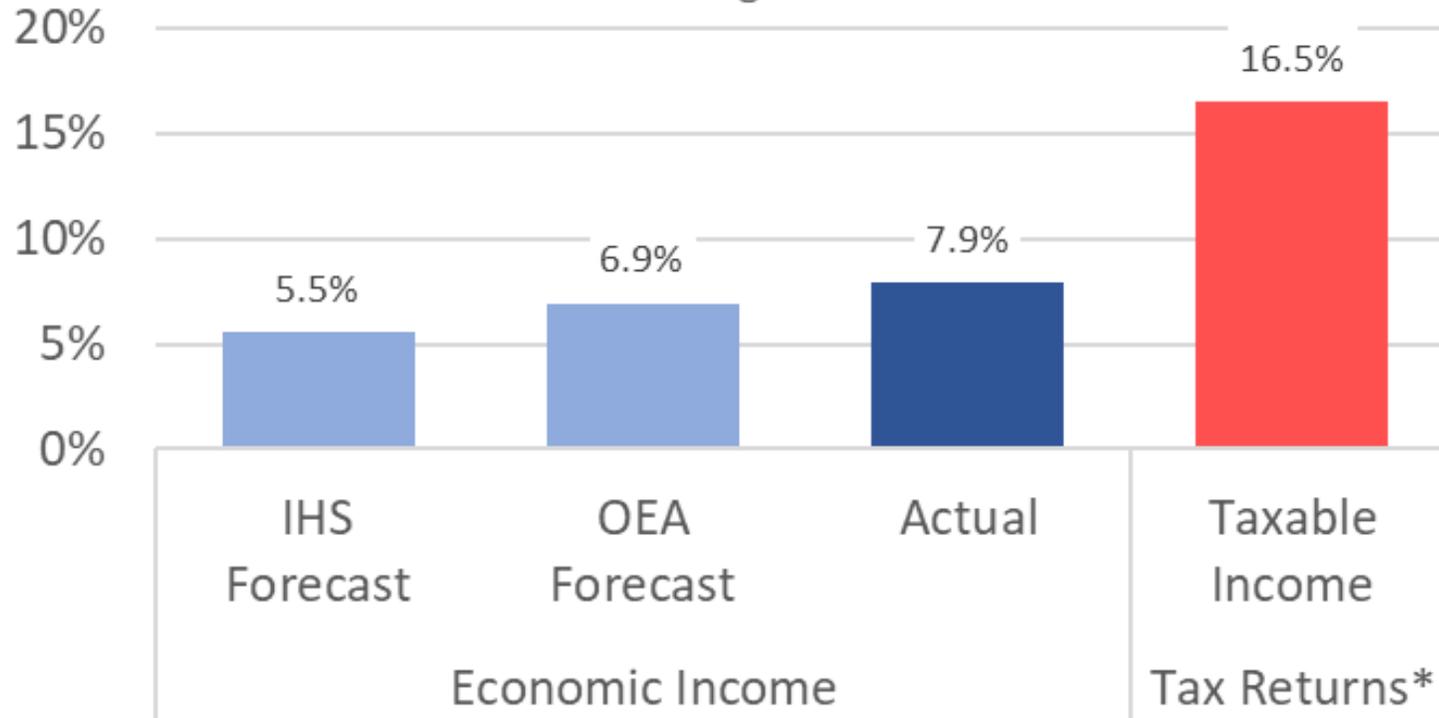




Tax collections outstrip personal income

2021 Oregon Income

Percent Change from 2020



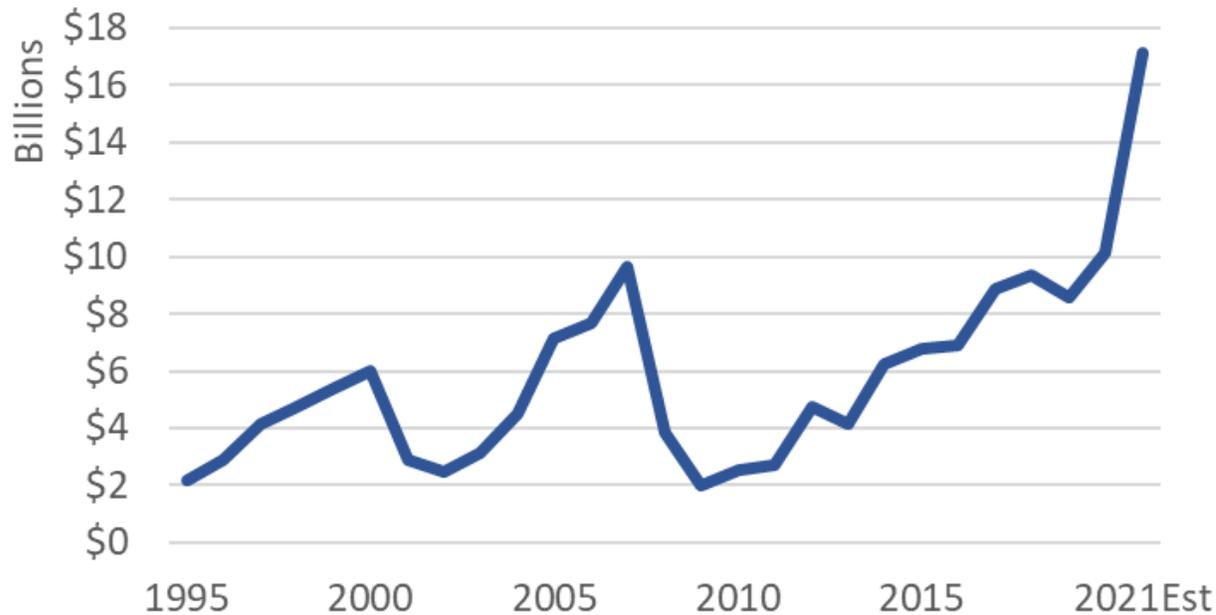
- Investment and business income are not always realized for tax purposes at the same time as they are earned in the market
- High-income filers chose to cash in a wide range of assets in 2021
- With recessionary risks rising, a steep revenue decline of the sort Oregon experienced during the technology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

* Matched returns as of 5/10 | Source: BEA, Oregon Dept of Revenue, OR Office of Econ Analysis



Cashing in capital gains

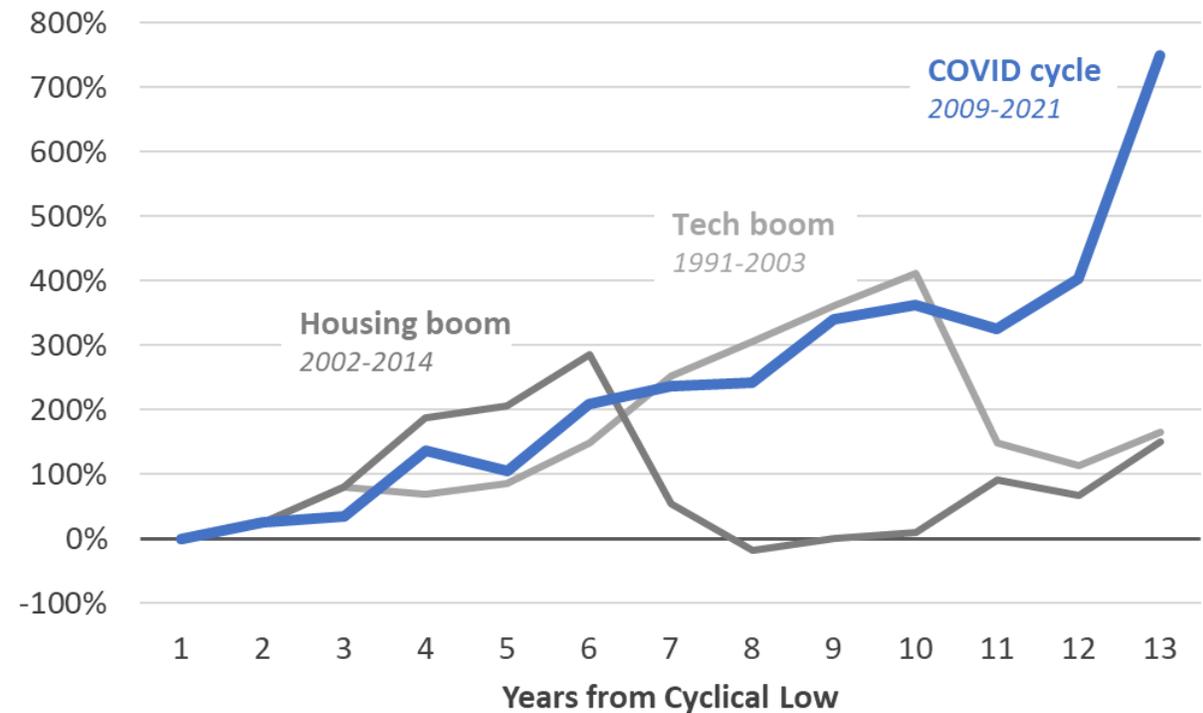
Oregon Realized Capital Gains



Source: Oregon Dept of Revenue, Oregon Office of Economic Analysis Full-year filers

Oregon Capital Gains Income Booms

As Reported on Tax Returns, Percent Change from Cyclical Low



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



Oregon Office of Economic Analysis

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.

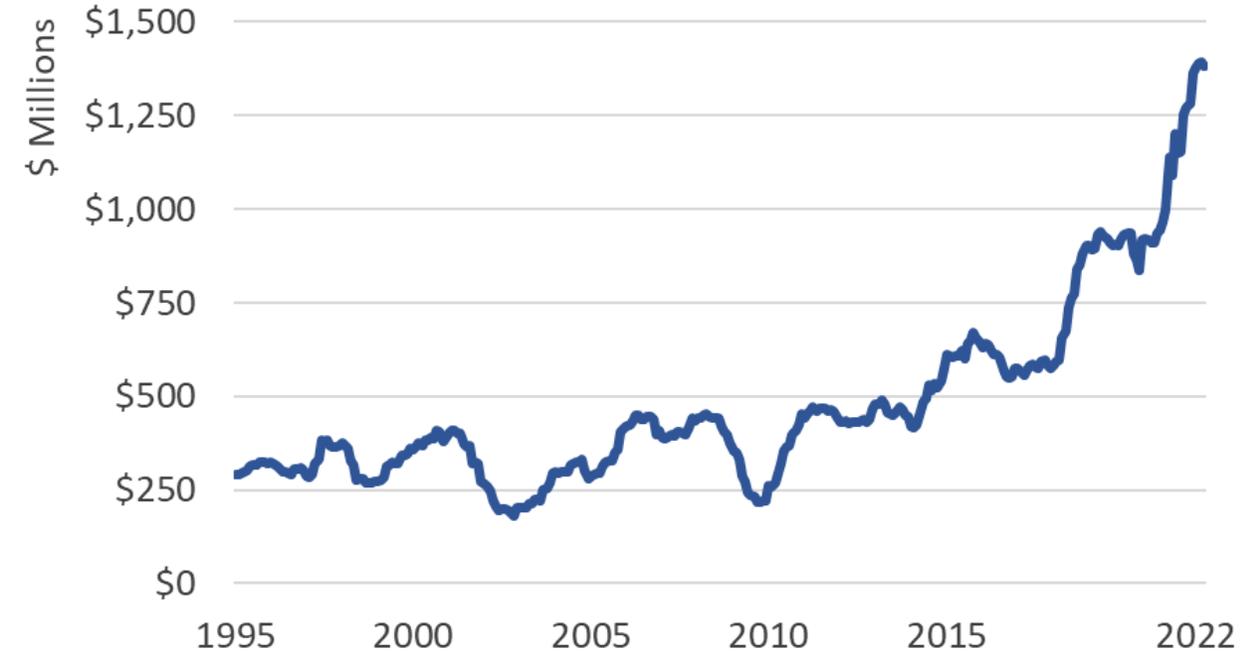




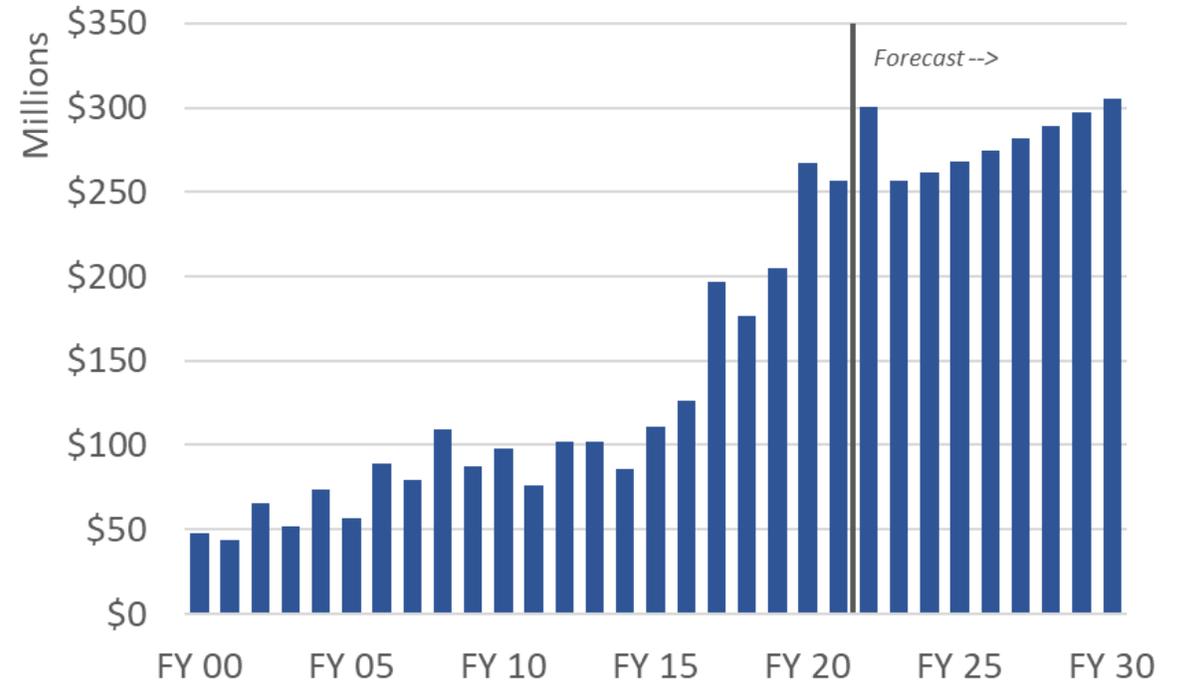
Not all revenue booms are temporary

Corporate Excise Taxes

12 month sum



Oregon Estate Taxes



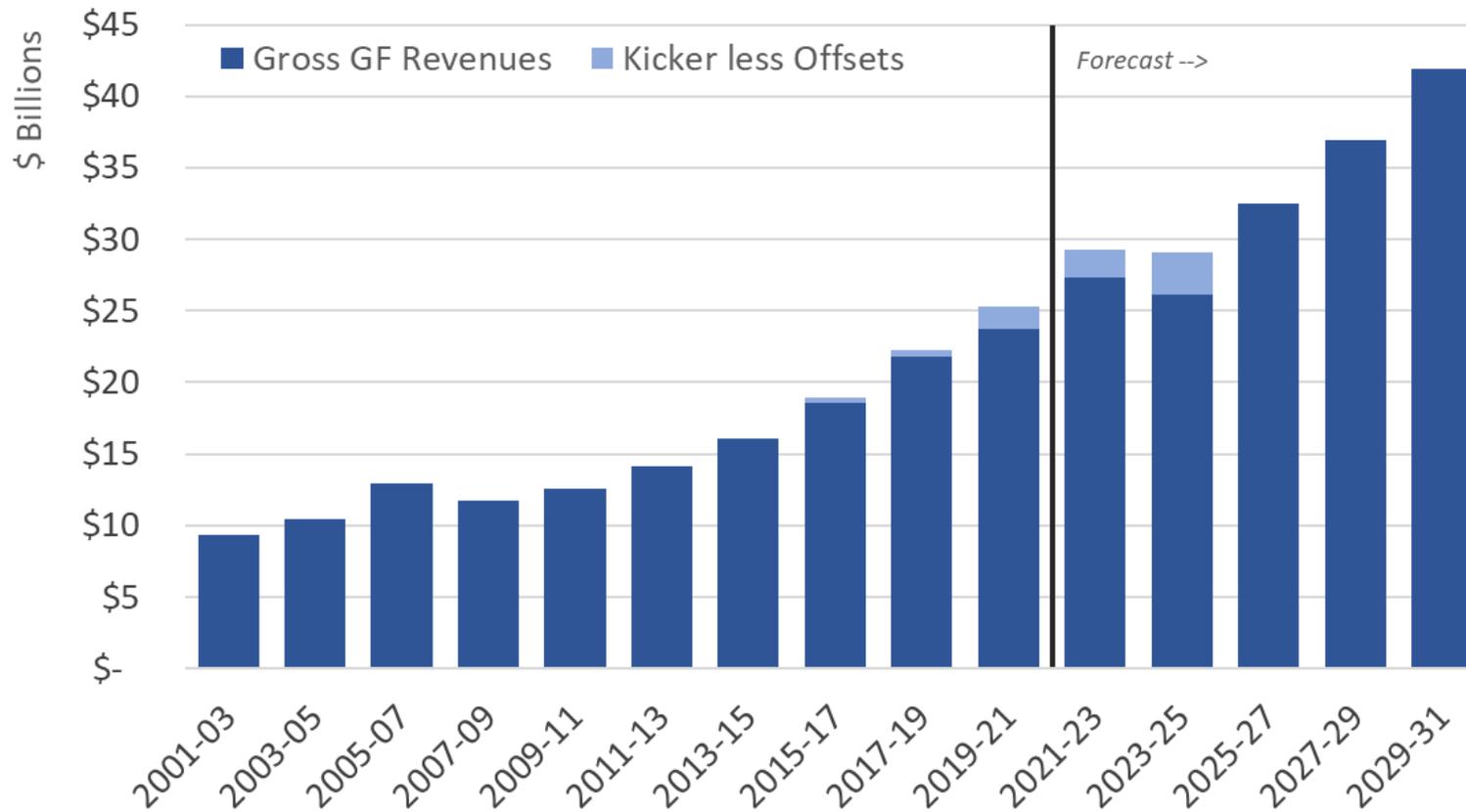
Latest Data: FY 2021 | Source: Oregon Office of Economic Analysis

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



General Fund forecast: Near-term stall

Oregon General Fund Revenues

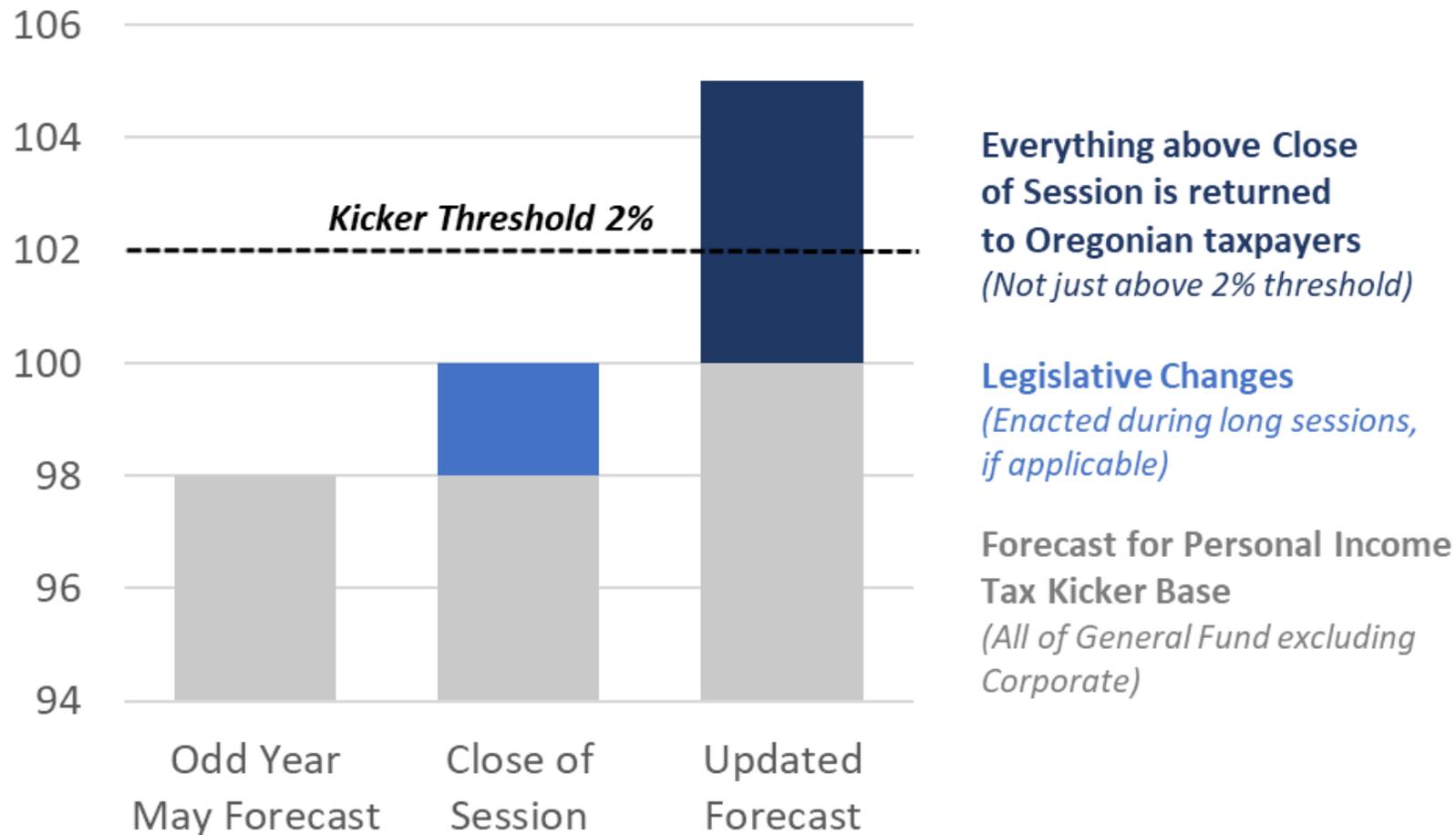


- General Fund resources have continued to expand in recent years despite large kicker credits being issued
- Gross General Fund revenues have doubled since the Great Recession and took a big step up after the pandemic hit.
- This growth is expected to pause in the near term, as nonwage forms of income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



Oregon's unique kicker law

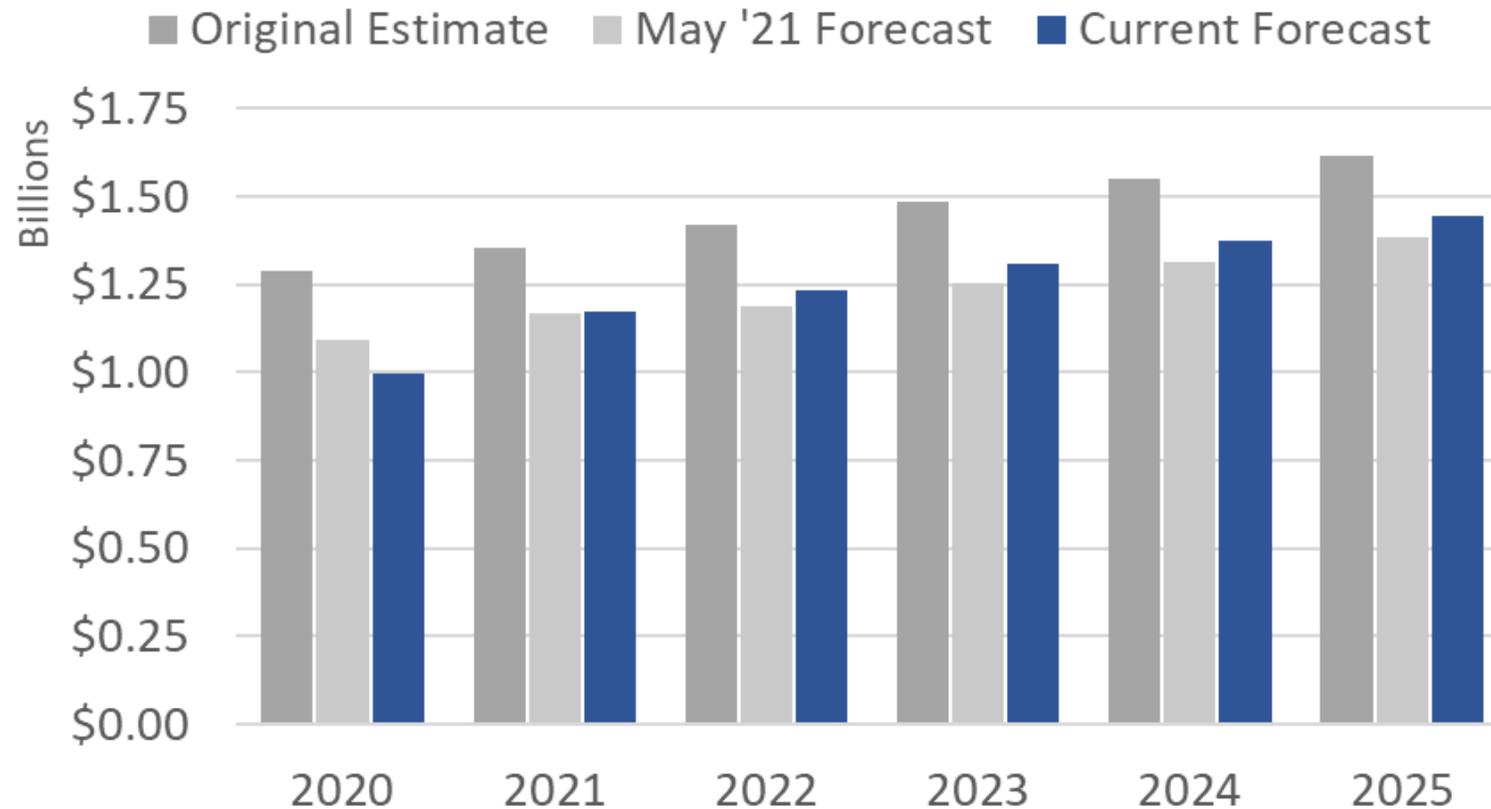
Oregon Kicker 101





Corporate Activity Tax Forecast

CAT Liability Forecast Comparisons



2021 adjusted for fiscal year filing change.



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Bottom Line



Changes relative to the March Forecast

June 2022 Forecast Changes

General Fund Revenues	\$ Millions from Mar		
	21-23	23-25	25-27
Personal Income Taxes	2,073	-2,093	69
Corporate Income Taxes	297	97	130
Other	-3	21	17
Total	2,367	-1,975	215

Other Revenues	\$ Millions from Mar		
	21-23	23-25	25-27
Lottery	49	32	35
Corporate Activity Tax	52	-48	-44
Marijuana Tax	-4	0	0
Total	97	-16	-9

	\$ Millions from Mar		
	21-23	23-25	25-27
Total Sum	2,464	-1,991	206

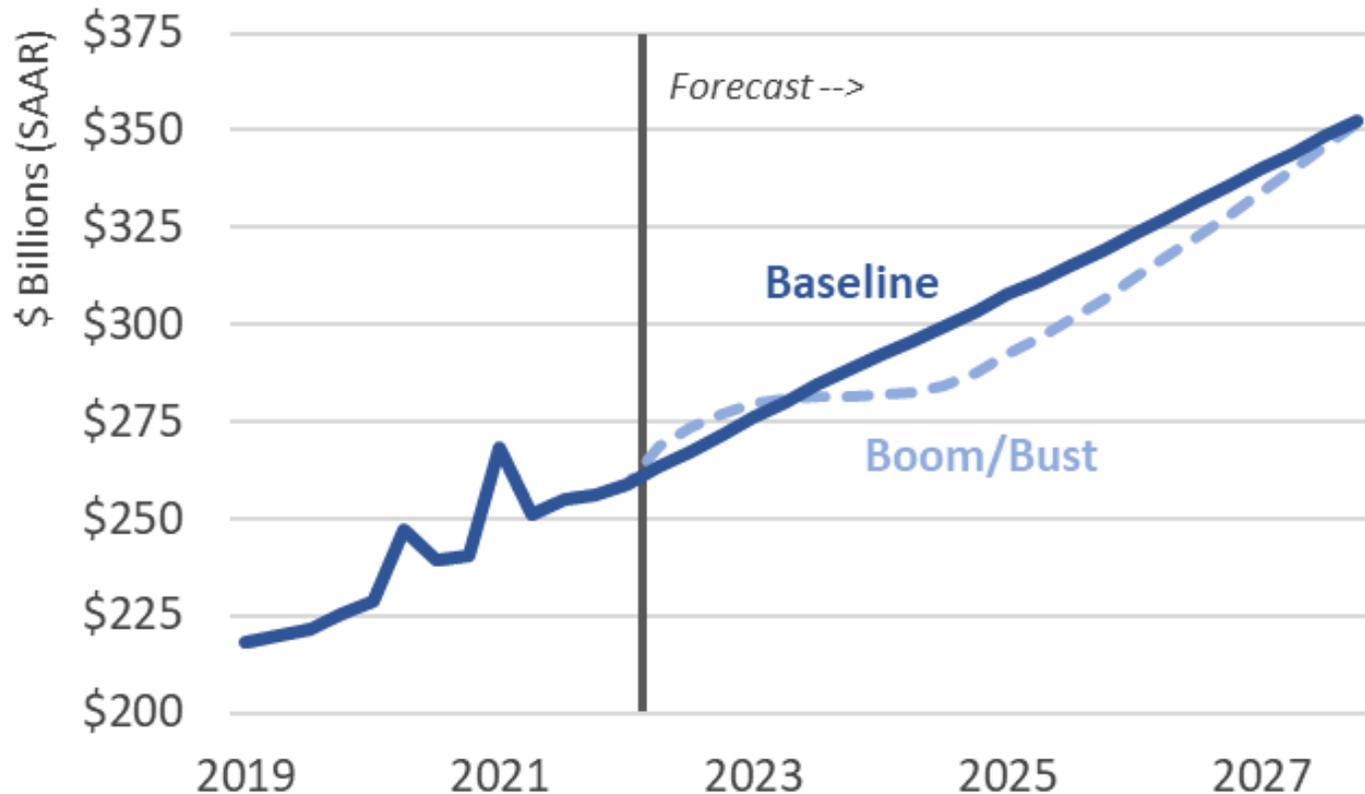
- Data in the table show how the revenue outlook has changed since the March forecast (released 2/8/22)
- Most of the spike in personal income taxes is expected to be temporary. Gains in 2022 are largely offset by a larger kicker credit in 2023-25
- Including changes in expenditures, combined resources 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

Oregon Total Personal Income



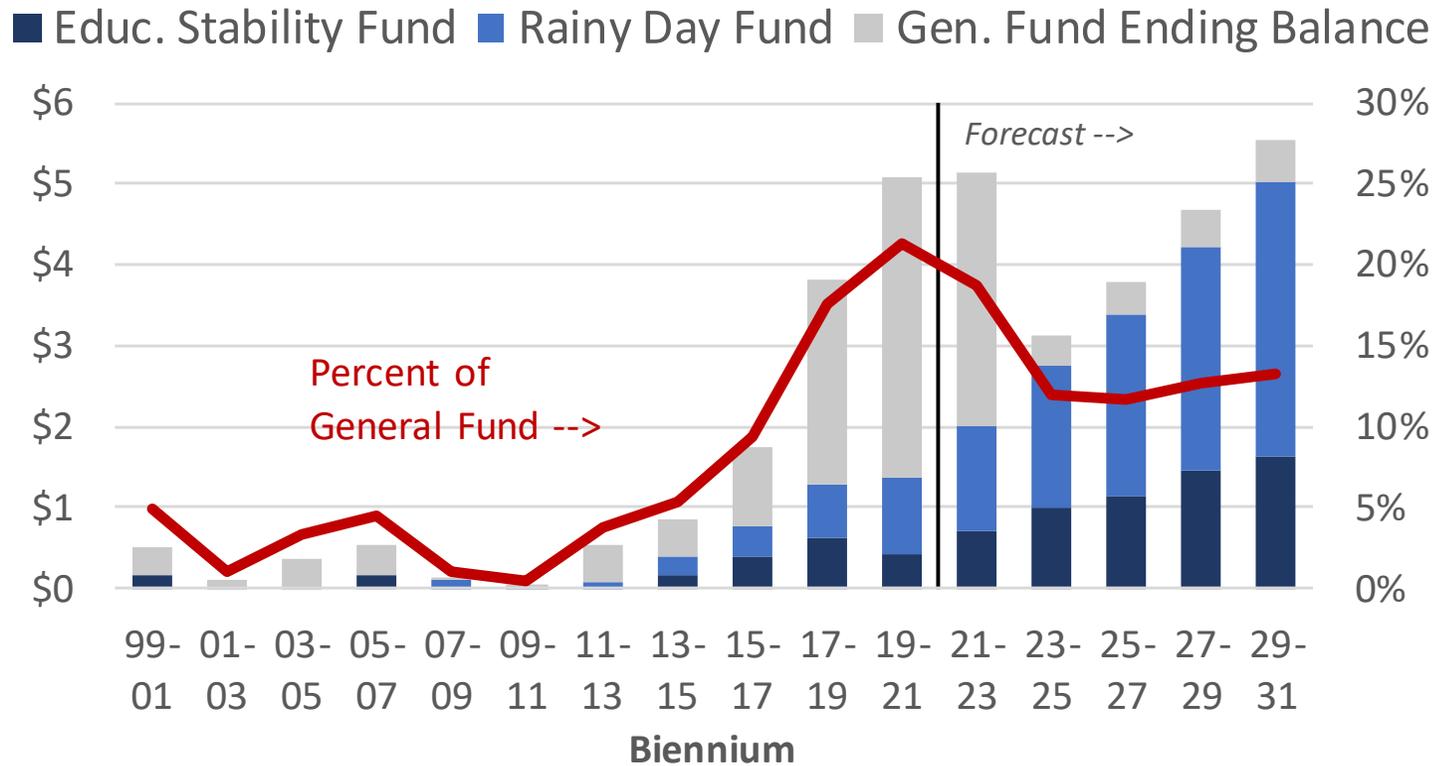
- Severity of cycle depends on leverage, and how entrenched inflation is in the economy
- Likely timing: 2023 or 2024
- Boom/Bust Impacts
 - Employment losses: 97,000 (-4.9%)
 - General Fund revenues \$2.6 billion below baseline (10%)





Sizable reserves remain

Oregon Budgetary Reserves (billions)



Source: Oregon Office of Economic Analysis

Effective Reserves (\$ millions)

	Current Apr-22	End of 2021-23
ESF	\$526	\$703
RDF	\$1,187	\$1,300
Reserves	\$1,713	\$2,003
Ending Balance	\$3,122	\$3,122
Total	\$4,835	\$5,125
% of GF	17.7%	18.7%





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