

The background features a large, faint, circular seal of the Oregon Office 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 seal is surrounded by a ring of stars and the words "OFFICE OF ECONOMIC ANALYSIS" and "OREGON" are partially visible.

September 2022 Economic and Revenue Forecast

August 31st, 2022

Oregon Office of Economic Analysis
Mark McMullen
Josh Lehner

The background of the slide features a large, faint, light blue seal of the State of Oregon. The seal is circular and contains the text "STATE OF OREGON" around 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 a body of water, with a ship on the left and a plow on the right. A banner at the bottom of the emblem reads "THE UNION".

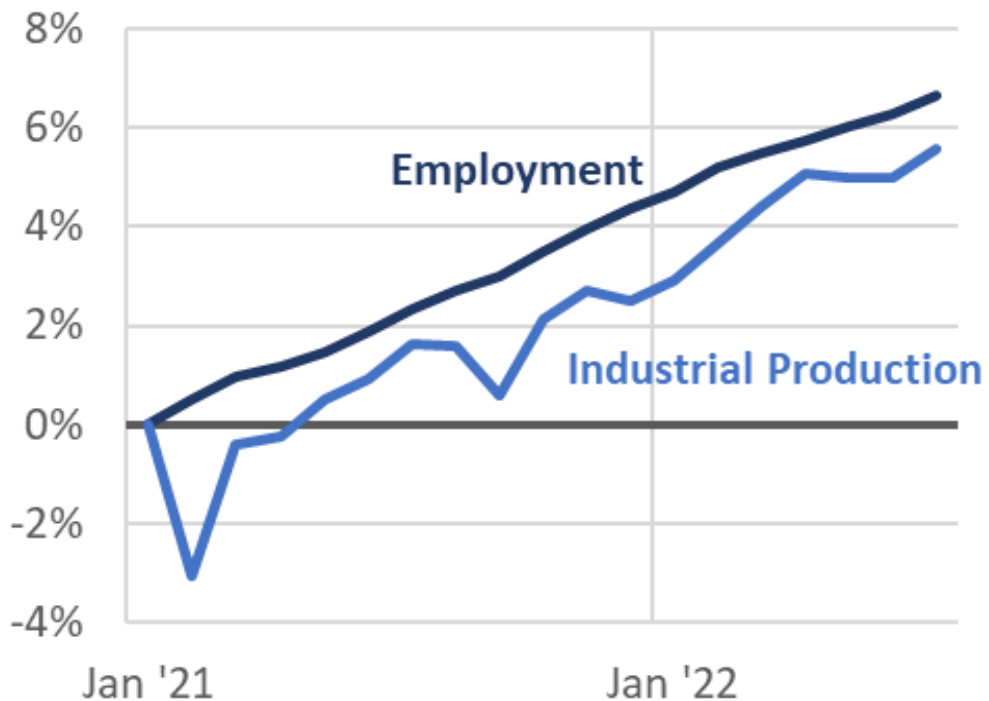
Economic Outlook



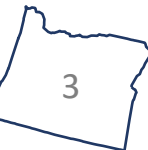
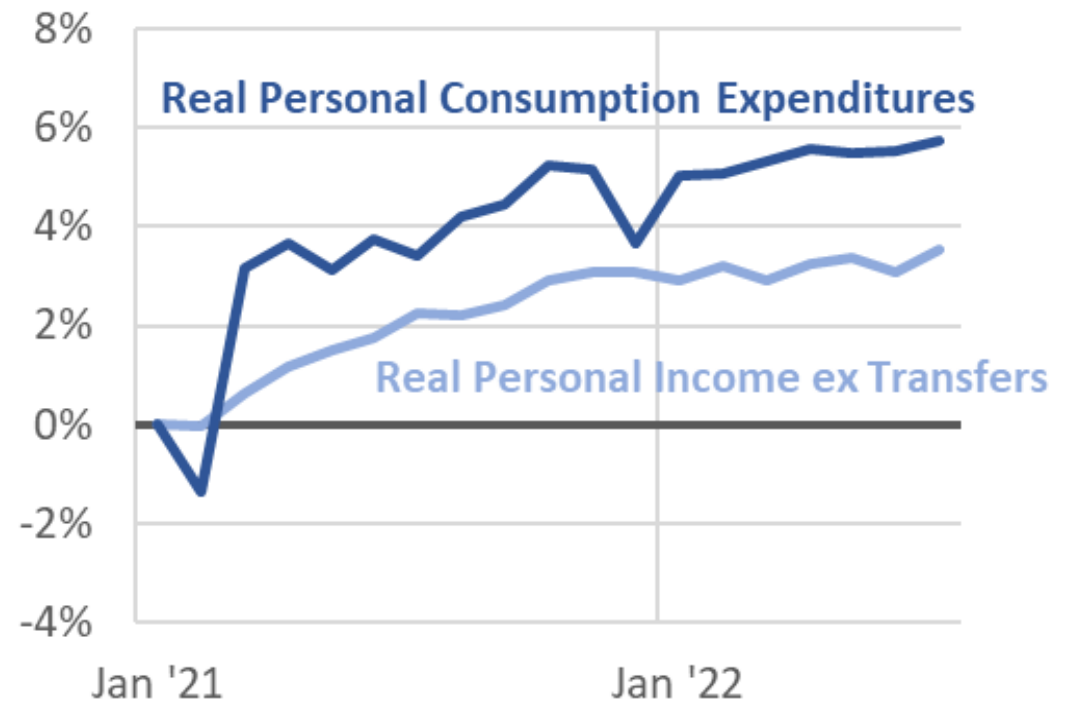
U.S. economy unlikely in recession

Percent change from Jan '21 in key recession metrics

Jobs and Production are Growing



Income and Sales Growth Holding Up but Struggling to Outpace Inflation

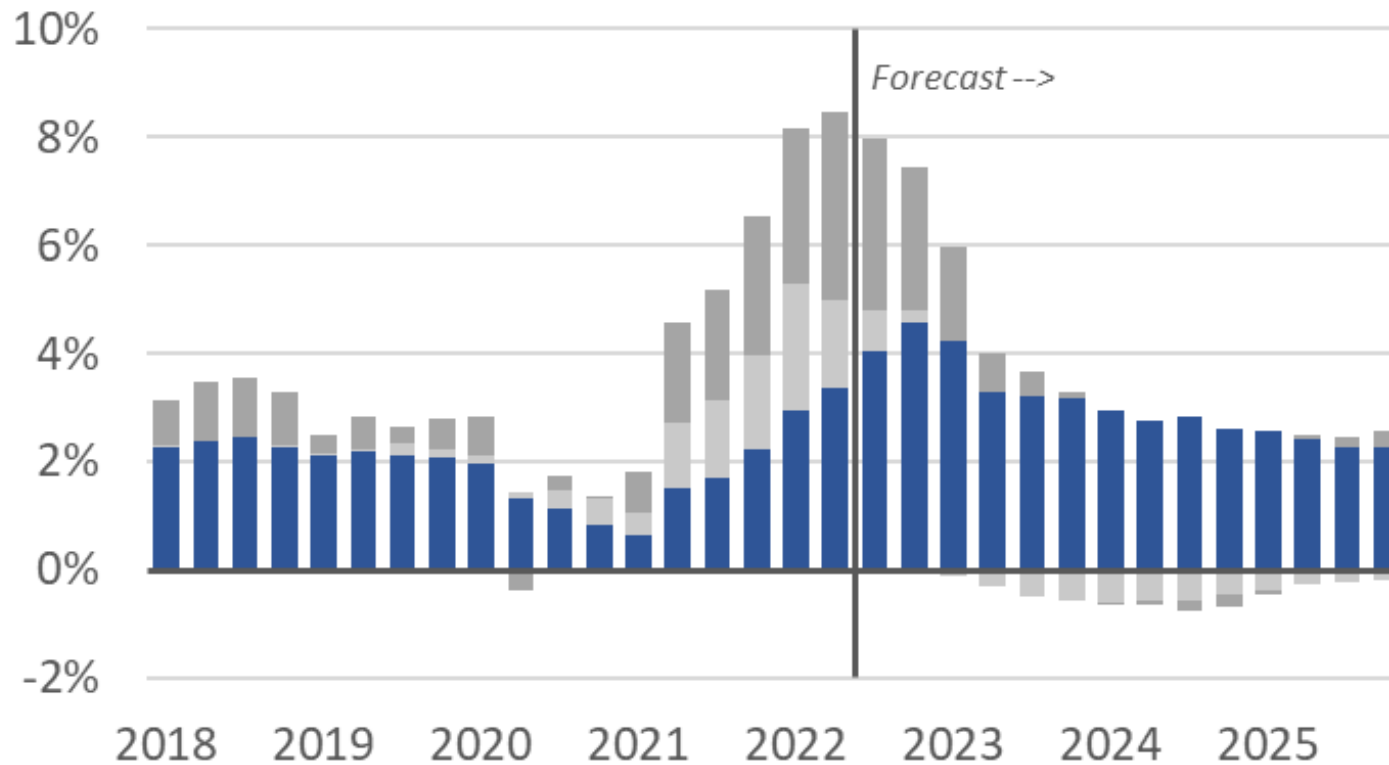




Inflation is the key macroeconomic issue

West Region Consumer Price Index

Decomposing year-over-year inflation: Food and Energy, Goods, and **Services**



- Inflation is not costless
- Federal Reserve
 - Higher rates slow economy, but with a 1–2 year lag
- Inflation Outlook
 - Headline inflation slows some due to gas prices and easing supply chains
 - Full return to 2% Fed target is harder and a multiyear process
 - Longer-term inflation expectations remain anchored
- Oregon public policies
 - Fees indexed for inflation, public wage negotiations, minimum wage, rent stabilization, etc
- Recession risks are real

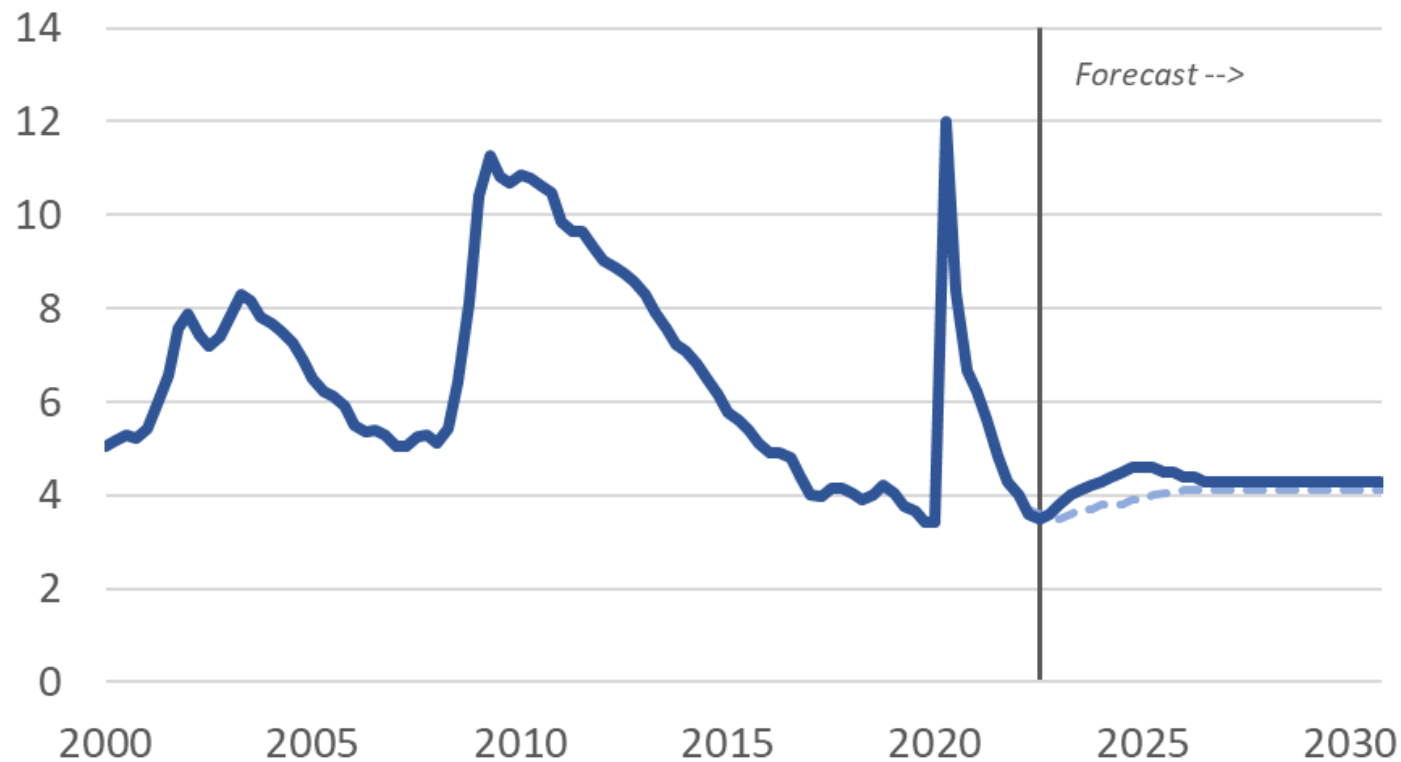




Better labor market balance needed

Oregon's Unemployment Rate

Current Forecast | Previous Forecast



Latest Data: 2022q2 | Source: Oregon Employment Dept, Oregon Office of Economic Analysis

- Labor market is extremely tight
 - Labor supply in Oregon is high, labor demand is even higher
 - In June 2022, there were 1.6 job openings for every unemployed Oregonian
- Soft Landing Scenario (Baseline)
 - Fewer job openings and slower job growth leads to somewhat higher unemployment rate
 - Economic forecast is revised down relative to last quarter
 - Overall result is slower wage growth and inflation

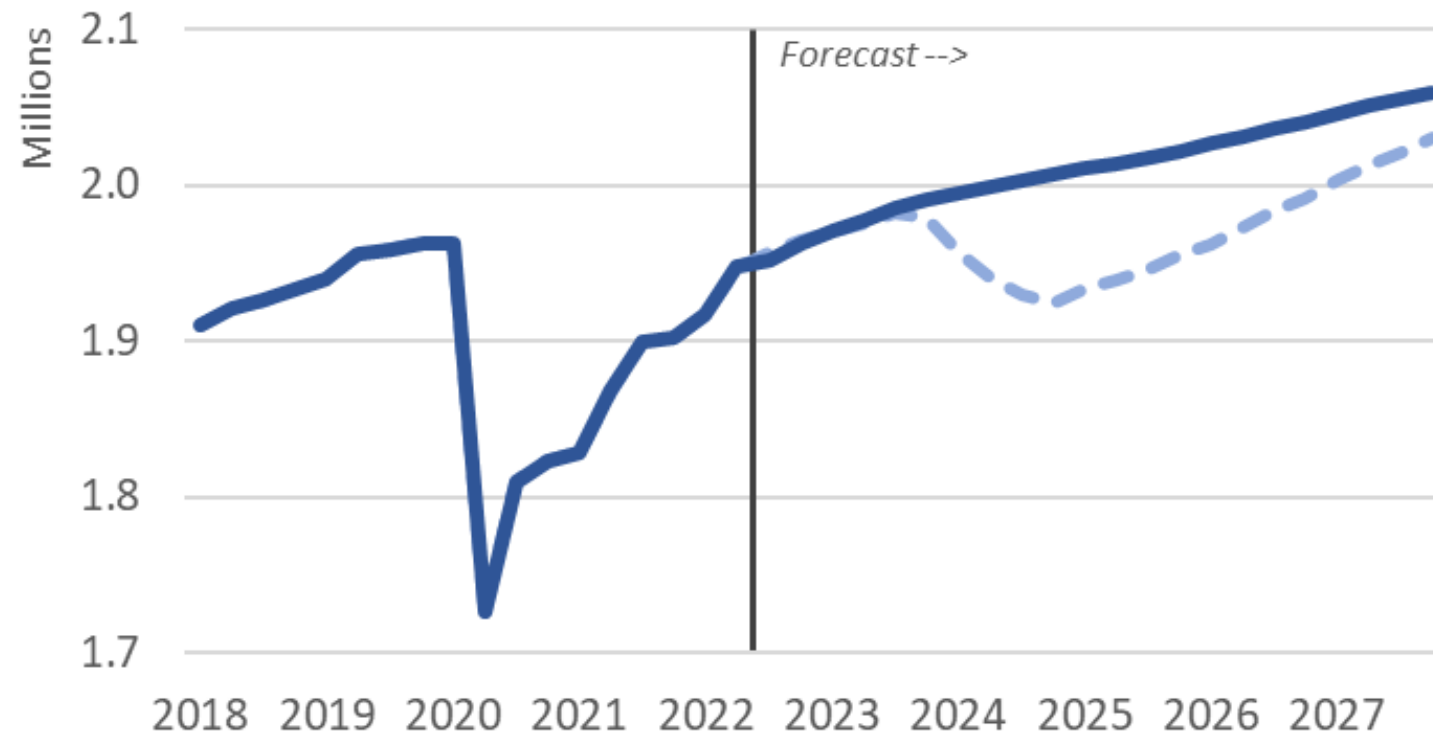




Risk: Inflationary booms don't end well

Alternative Scenario Employment

Oregon Nonfarm Employment, **Baseline** vs **Boom/Bust**



- Fine tuning policy just right to engineer a soft landing is difficult
- Usually when the unemployment rate increases, it does so a lot, not a little like the baseline
- Recession Scenario
 - Timing: late 2023/early 2024
 - Severity: mild
 - Oregon more volatile than nation
 - Risks are recession could start a bit earlier, and/or need to be more severe to truly bring inflation down

Latest: 2022q2 | Source: BLS, Oregon Office of Economic Analysis

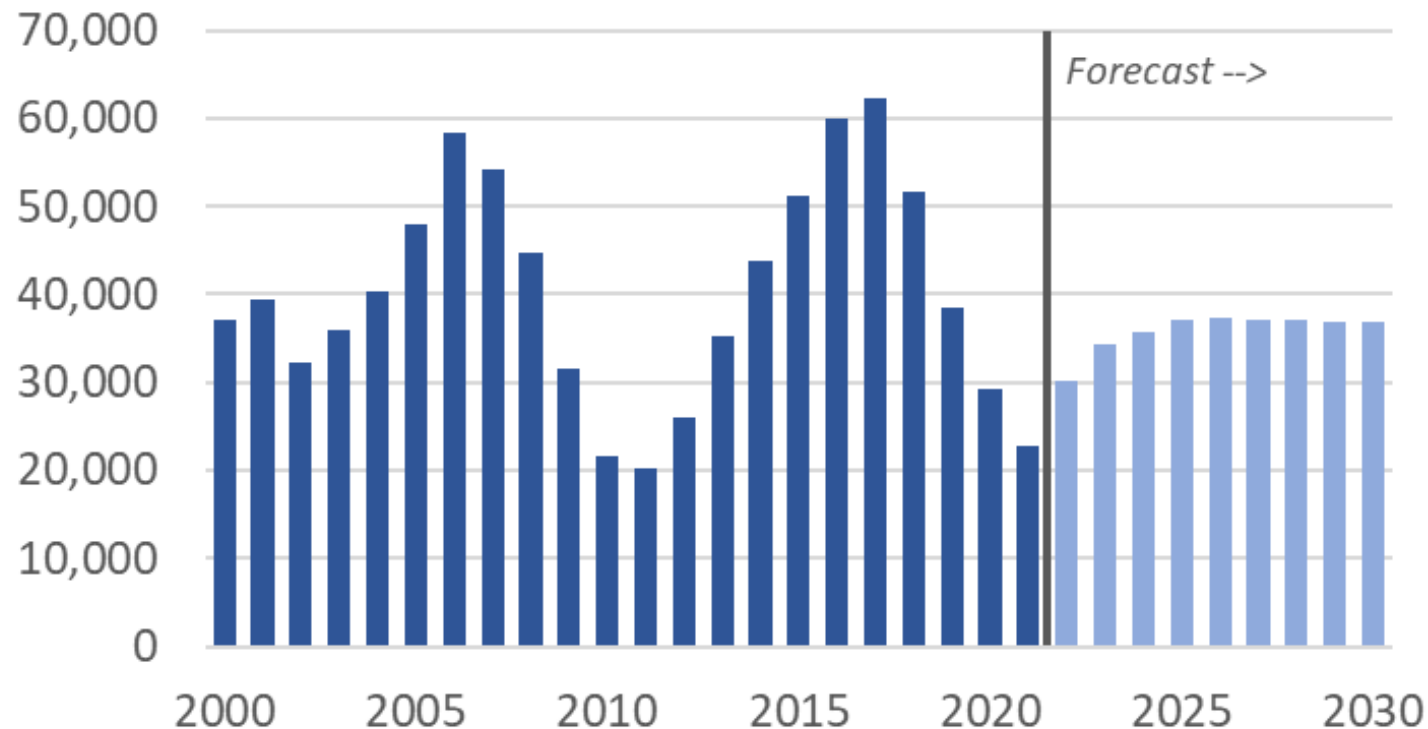




Population is the key Oregon issue

Oregon Population Growth

Annual Change in the Total Population



- Faster population growth is the primary reason why Oregon's economy outperforms the nation over the entire business cycle
- Population growth usually slows in recessions and accelerates in expansions
- Expectations are population growth rebounded in 2022
 - Surrendered driver licenses remain high
 - 2022 population estimates will be released in November (PSU) and December (Census)
- Important Data Release
 - 2021 American Community Survey data released September 14th, can begin to analyze
 - Household income and poverty
 - Socio-economic characteristics of employment and migration
 - Household formation and much more!

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



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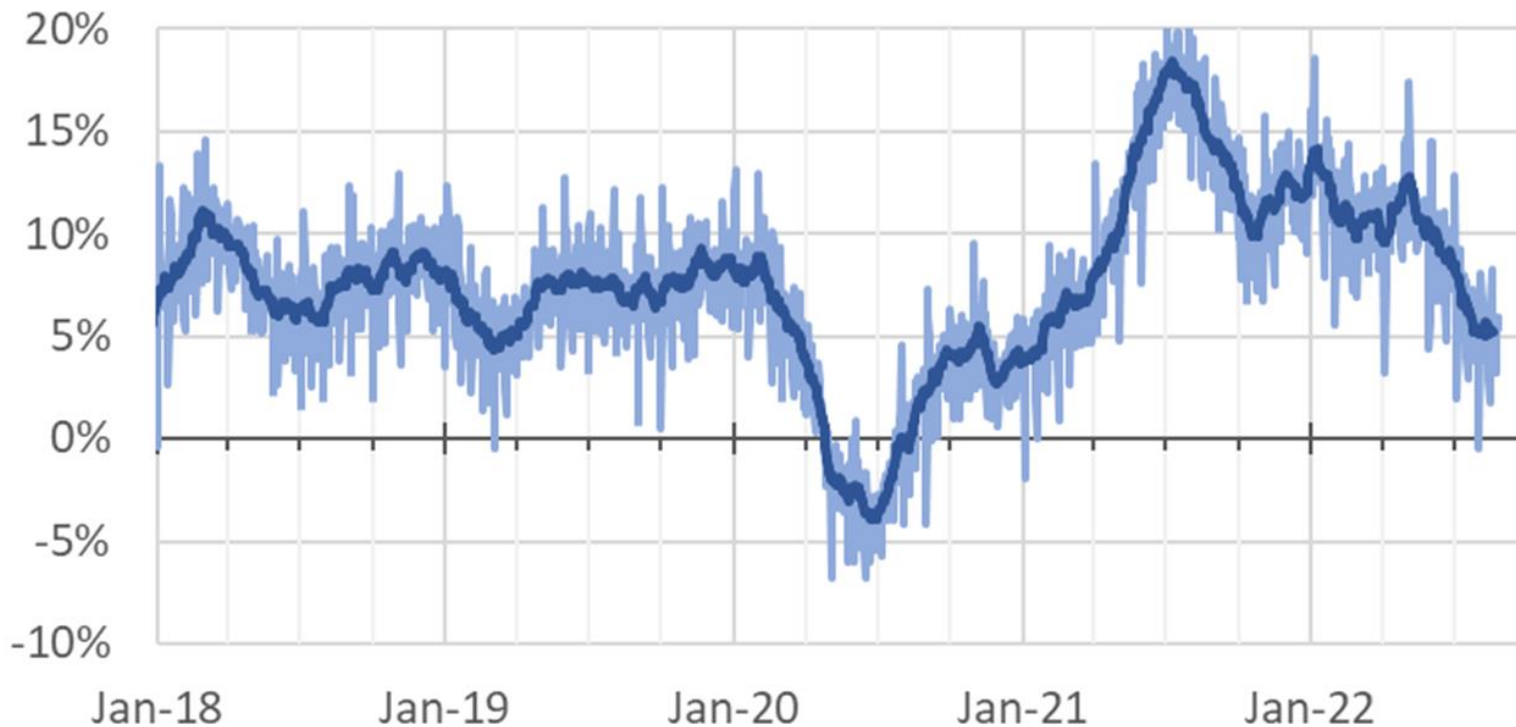
Revenue Outlook



Income tax withholding: First sign of slowing?

Oregon Withholding

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



- Income tax withholdings have returned to earth in recent weeks
- Other measures of labor income have yet to show any weakness
- Estimated and other personal income tax payments continue to outstrip expectations, suggesting nonwage income growth remains strong

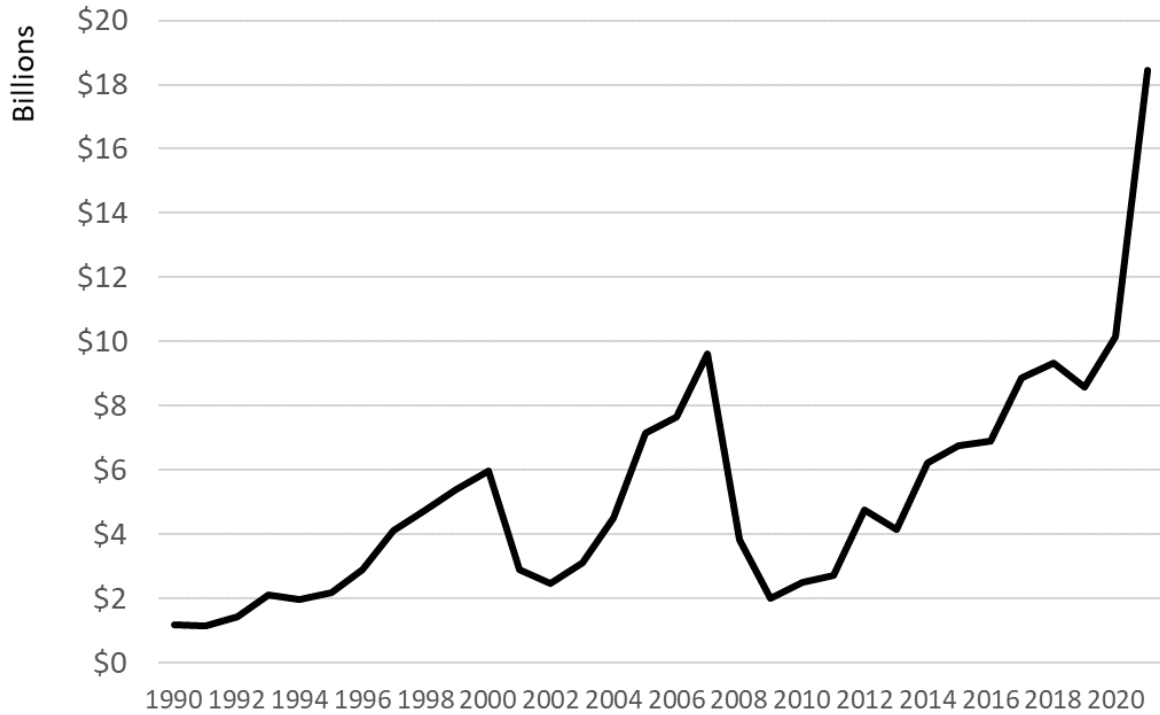
Latest Data: August 26, 2022 | Source: Oregon Dept. of Revenue, Oregon Office of Economic Analysis



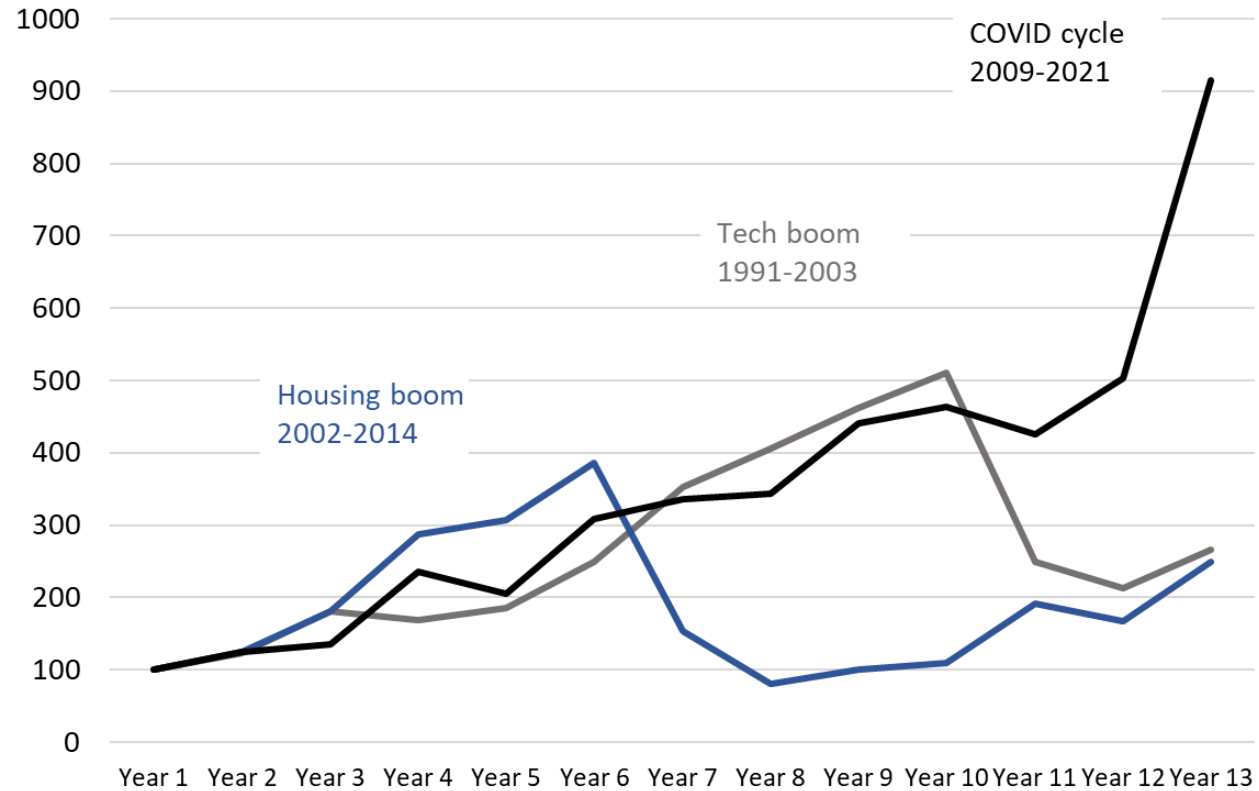


Unsustainable growth in nonwage forms of taxable income

Oregon Realizations of Capital Gains
Full-year income tax filers



Capital Gains Income Reported on Oregon Tax Returns
Index: Cyclical Low=100

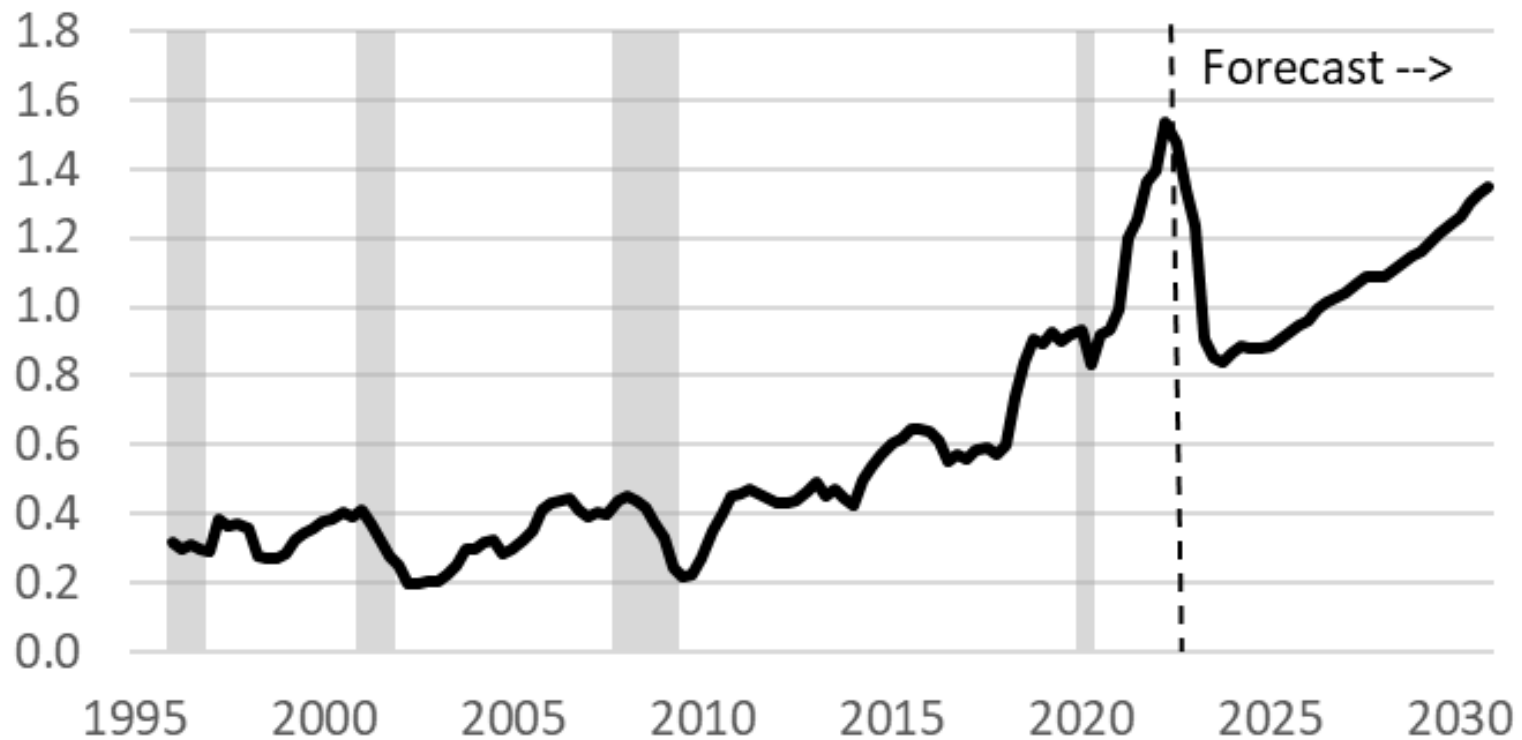




Traditional corporate taxes will return to earth as well

Oregon Corporate Excise Tax

4-QTR sum, \$ billions



- Corporate excise and income taxes have nearly tripled over the past decade, and are 70% higher than before the pandemic
- Although federal tax reforms have increased the Oregon tax base, much of the recent gains are assumed to be temporary
- With labor costs and interest rates rising, corporate profits are expected to fall even if the economic expansion persists

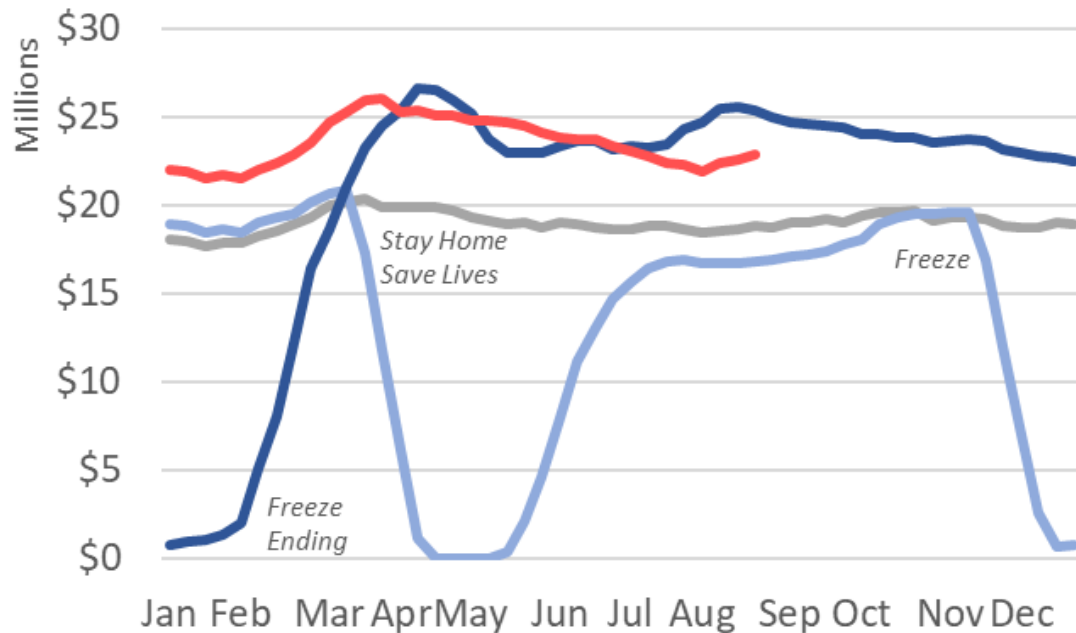


Vice revenues have slowed as expected

Forecasts revised down in keeping with soft landing

Oregon Video Lottery Sales

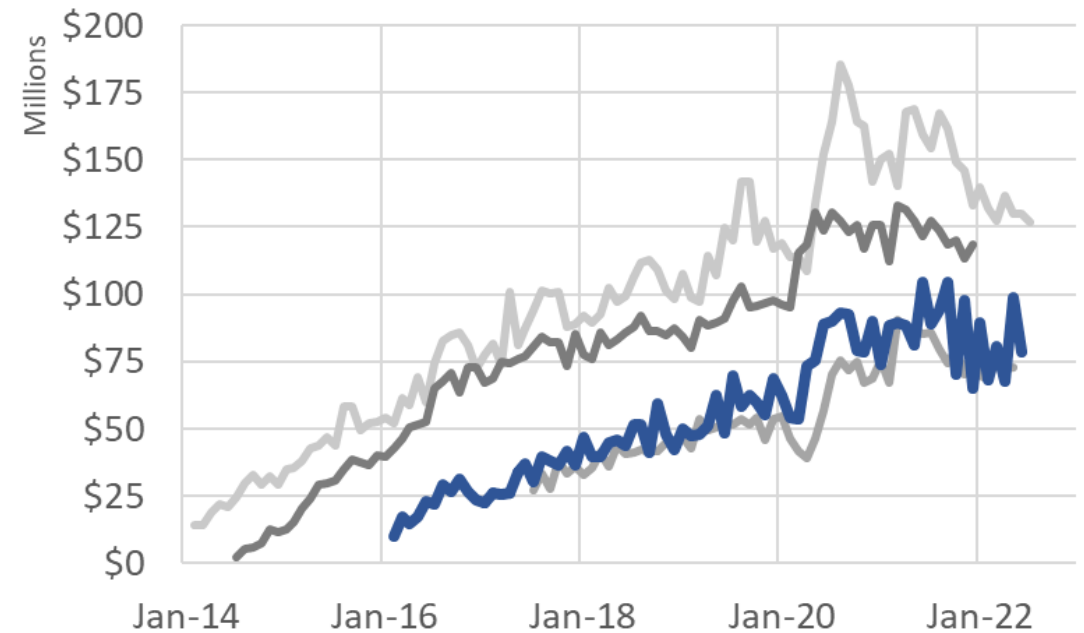
2019 | 2020 | 2021 | 2022



Latest Data: August 20, 2022 | Source: Oregon Lottery, Oregon Office of Economic Analysis

Recreational Marijuana Sales

— Colorado — Washington — Nevada — Oregon



Source: Oregon Office of Economic Analysis calculation from state tax collections



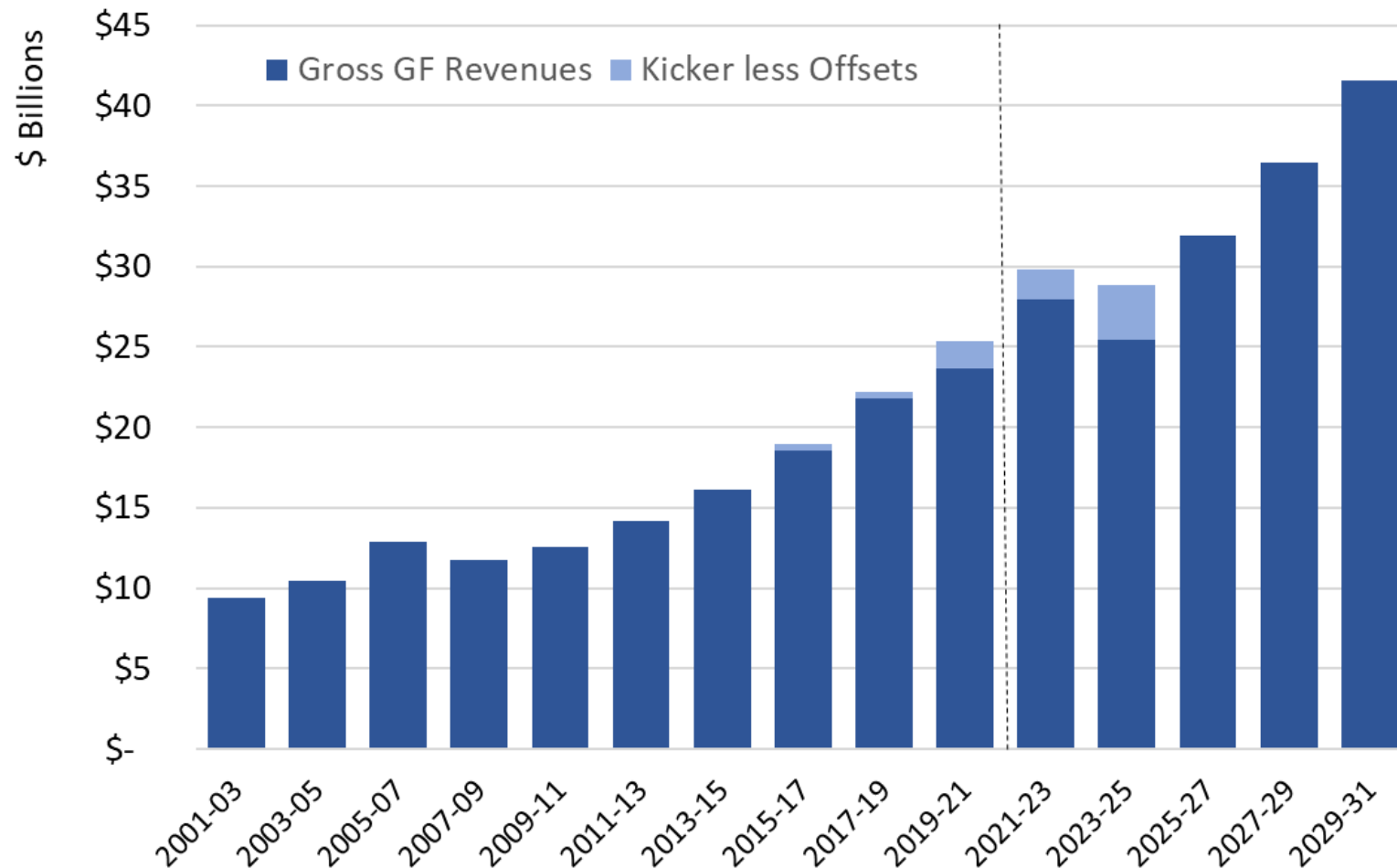
Oregon Office of
Economic Analysis





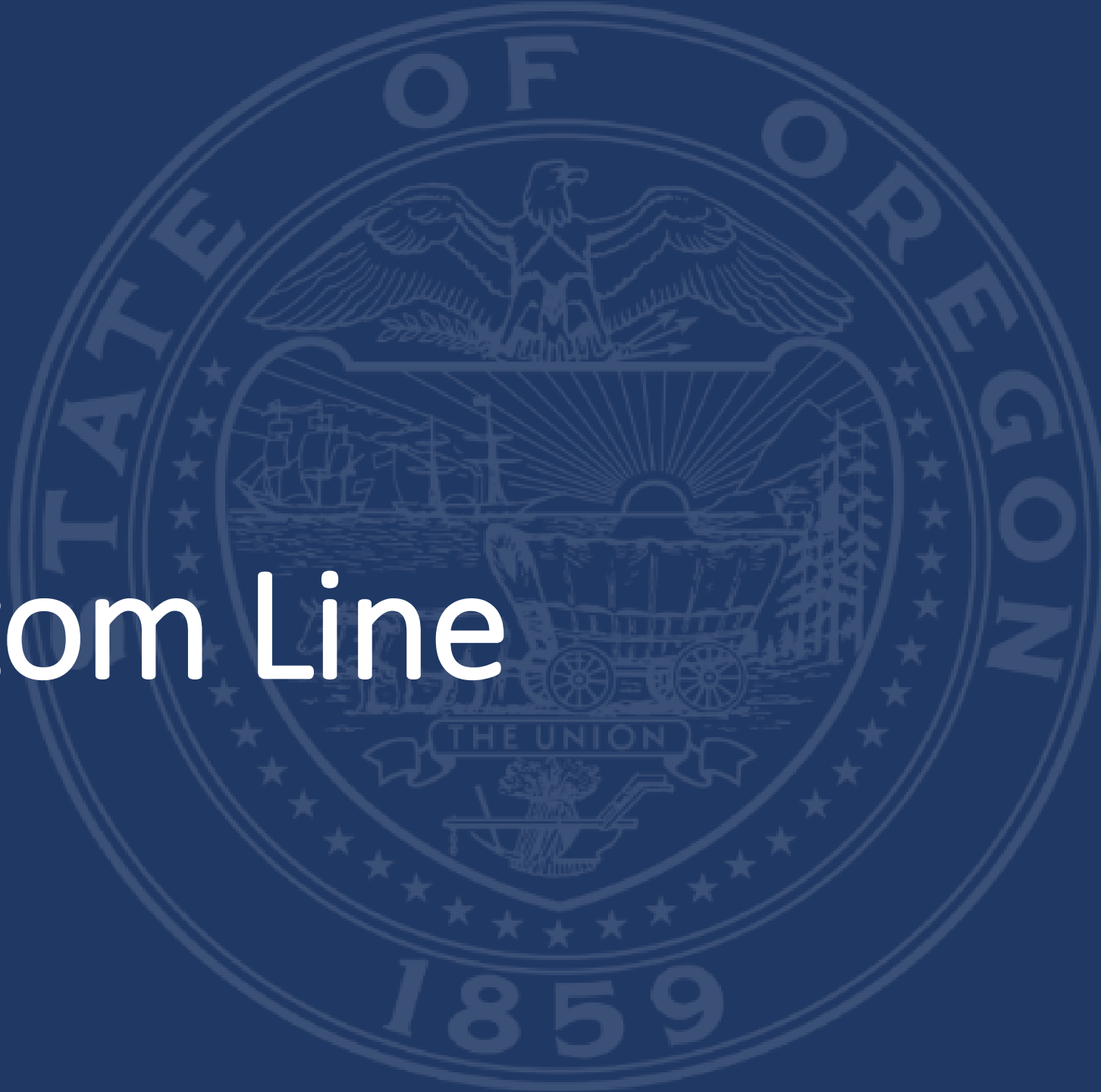
General Fund forecast: Hangover expected in 2023-25

Gross 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

Bottom Line





Changes relative to the June Forecast

September 2022 Forecast Changes

General Fund Revenues	\$ Millions from June			
	21-23	23-25	25-27	27-29
Personal Income Taxes	367	-707	-530	-493
Corporate Income Taxes	174	33	-57	-57
Other	60	50	35	34
Total	601	-625	-552	-516

Other Revenues	\$ Millions from June			
	21-23	23-25	25-27	27-29
Lottery	7	-19	-25	-24
Corporate Activity Tax	4	-54	-81	-61
Marijuana Tax	-12	-17	-17	-16
Total	-1	-90	-123	-101

	\$ Millions from June			
	21-23	23-25	25-27	27-29
Total Sum	600	-715	-675	-617

- Data in the table show how the revenue outlook has changed since the June forecast (released 5/15/22)
- FY2023 is now underway, with personal and corporate income taxes continuing to outstrip expectations
- Gains in 2021-23 are offset by slower economic growth and a larger kicker credit in 2023-25
- Combined resources for the 2021-23 and 2023-25 budget cycles have decreased by **\$115 million**
- Personal Kicker
 - \$3.46 billion
- Corporate Kicker
 - \$1.10 billion

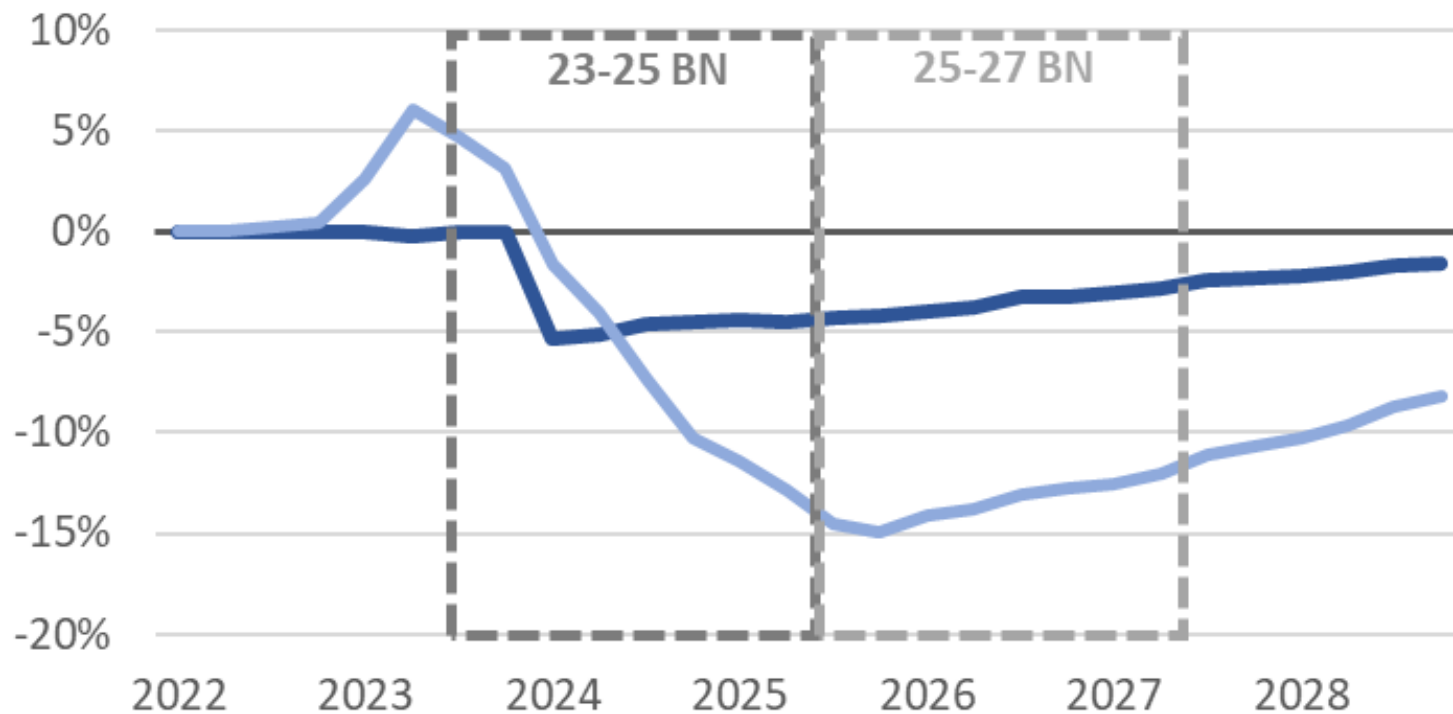




Risk: Inflationary booms don't end well

Alternative Scenario Revenues

Percent Change Relative to Baseline for **Corporate Excise Taxes** and **Personal Income Tax**



- Oregon's primary tax instruments are even more volatile than is the underlying economy
- Tax collections will fall sharply even in a mild recessionary scenario
- Losses from a recession beginning at the end of 2023 would straddle both the 2023-25 and 2025-27 budget periods
- Detailed alternative revenue estimates are included as an appendix to the September 2022 economic and revenue report

Source: Oregon Office of Economic Analysis





Recession changes relative to the September Forecast

Recession Forecast Changes

General Fund Revenues	\$ Millions from Baseline			
	21-23	23-25	25-27	27-29
Personal Income Taxes	-7	-776	-979	-584
Corporate Income Taxes	25	-115	-277	-207
Other	9	-98	-87	-46
Total	27	-989	-1,344	-838

Other Revenues	\$ Millions from Baseline			
	21-23	23-25	25-27	27-29
Lottery	0	-25	-42	-27
Corporate Activity Tax	26	-222	-70	-3
Marijuana Tax	0	-4	-9	-5
Total	26	-252	-121	-36

	\$ Millions from Baseline			
	21-23	23-25	25-27	27-29
Total Sum	53	-1,241	-1,465	-873

- Data in the table show how today's baseline revenue outlook would change under a recessionary scenario
- It is assumed that a mild recession begins at the end of calendar year 2023
- Large revenue losses straddle both the 2023-25 and 2025-27 budget periods
- Combined resources for the 2021-23 and 2023-25 budget cycles would be reduced by **\$1.19 billion**

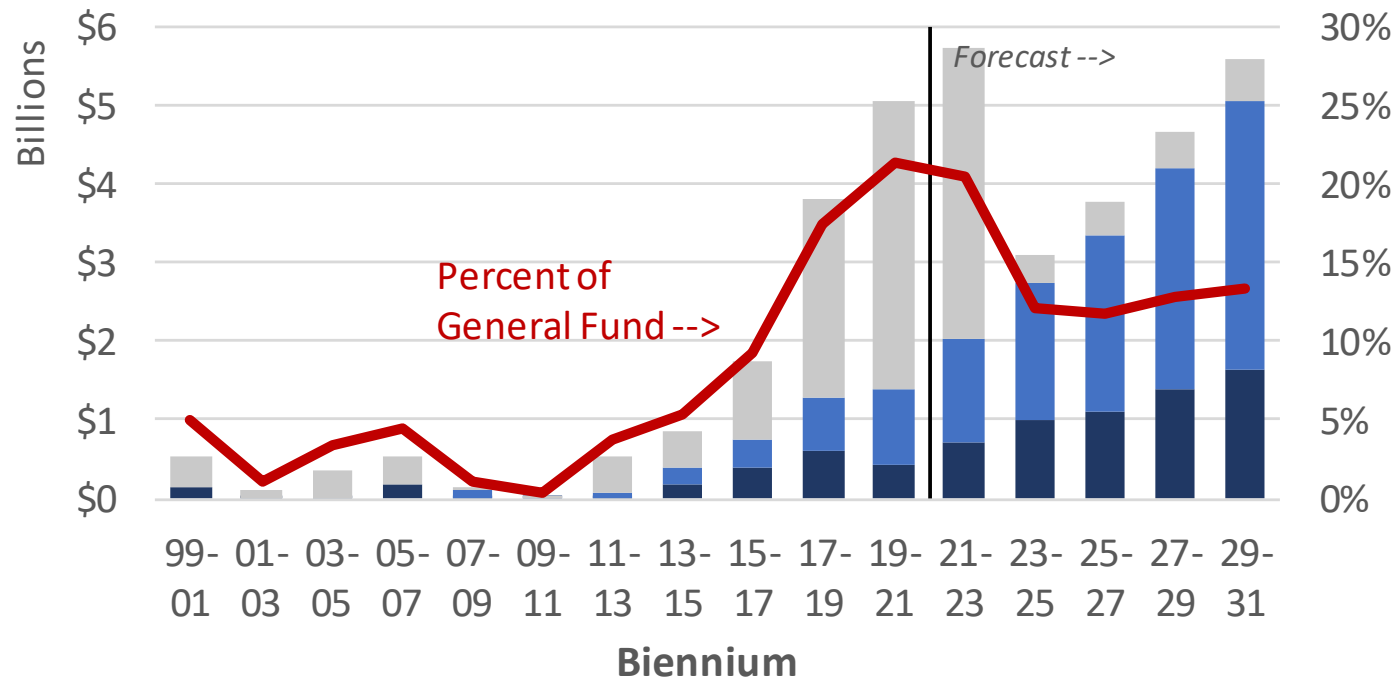




Sizable reserves remain

Oregon Budgetary Reserves

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



Effective Reserves (\$ millions)

	Current Jul-22	End of 2021-23
ESF	\$562	\$704
RDF	\$1,189	\$1,315
Reserves	\$1,752	\$2,019
Ending Balance	\$3,711	\$3,711
Total	\$5,462	\$5,730
% of GF	19.5%	20.5%

Source: Oregon Office of Economic Analysis





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