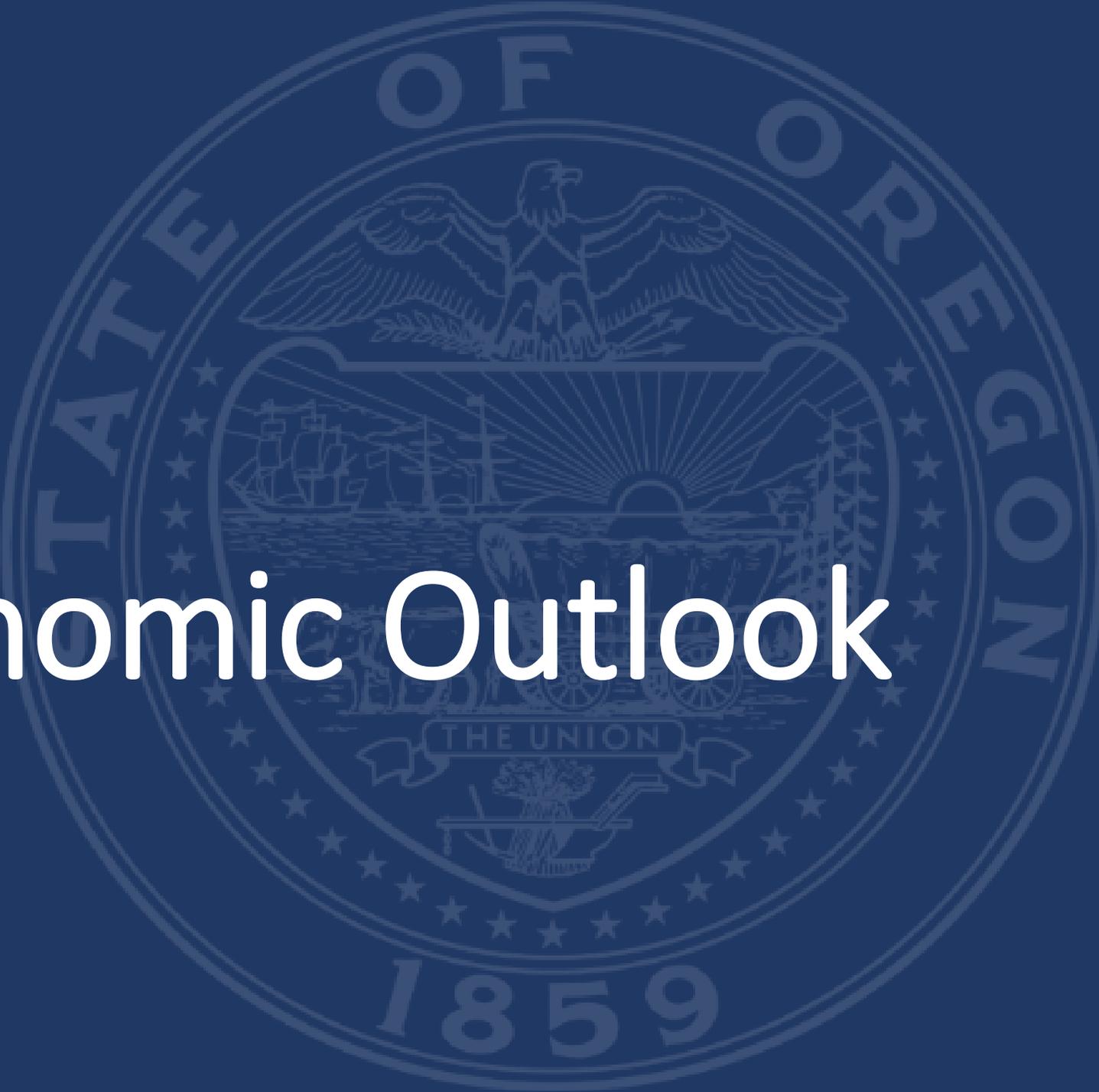


The background features a large, faint, circular seal of the Oregon State Board of Economic Analysis. The seal contains an eagle with wings spread, a banner with the text "THE UNION", and the year "1859" at the bottom. The words "STATE OF OREGON" are visible around the top edge of the seal.

# December 2022 Economic and Revenue Forecast

November 16<sup>th</sup>, 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 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" in the center. The outer ring of the seal contains the text "STATE OF OREGON" at the top and "1859" at the bottom, with small stars separating the words.

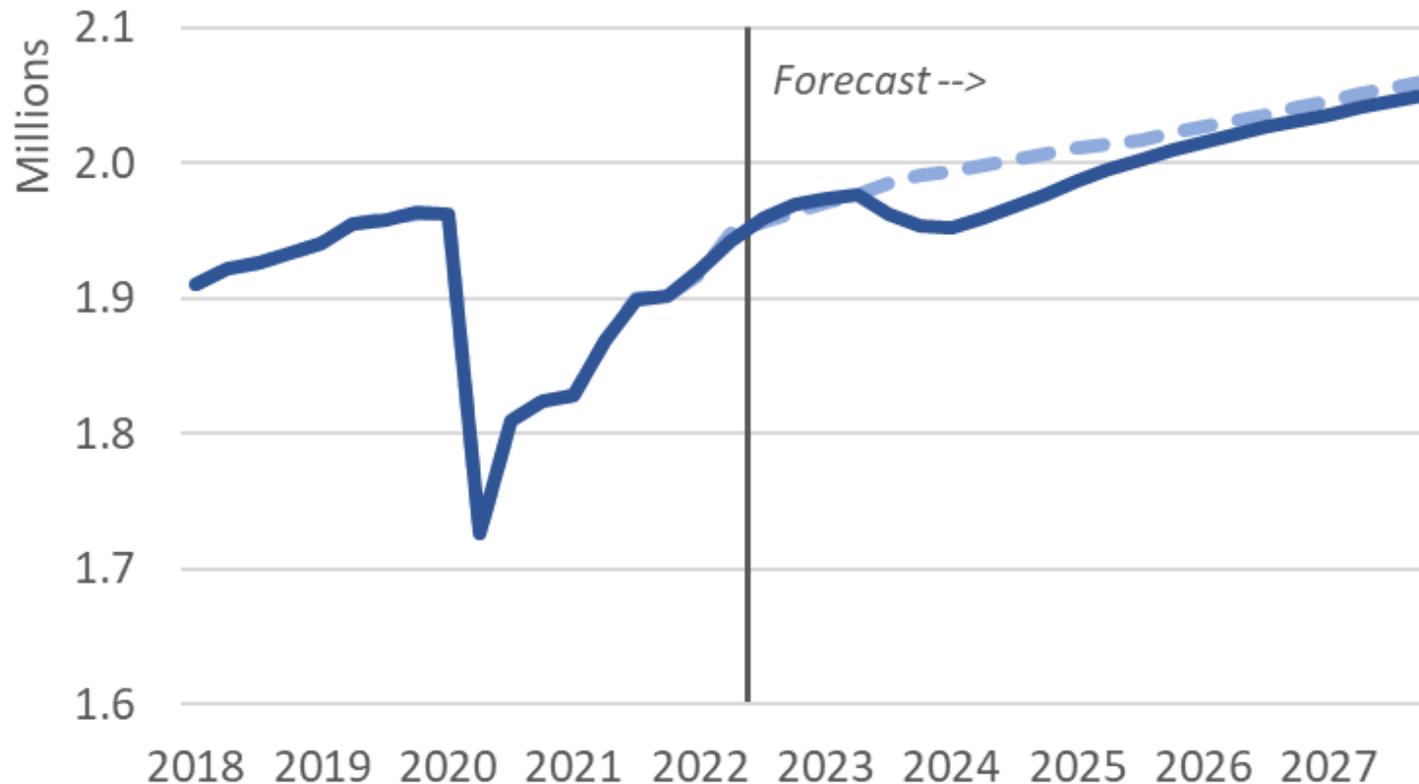
# Economic Outlook



# Inflationary booms do not end well

## Oregon Employment

December 2022 Forecast | September 2022 Forecast



- Mild Recession
  - Job losses begin 2023q3
  - Oregon loses 24,000 jobs, for a 1.2% decline
  - Income and spending slow, but remain positive
- Nature of Recession
  - More technical than fundamental, driven by declines in housing and business investment due to high interest rates
  - Larger expected losses in construction, finance, manufacturing, transportation and warehousing
  - Smaller expected losses in health care and leisure and hospitality

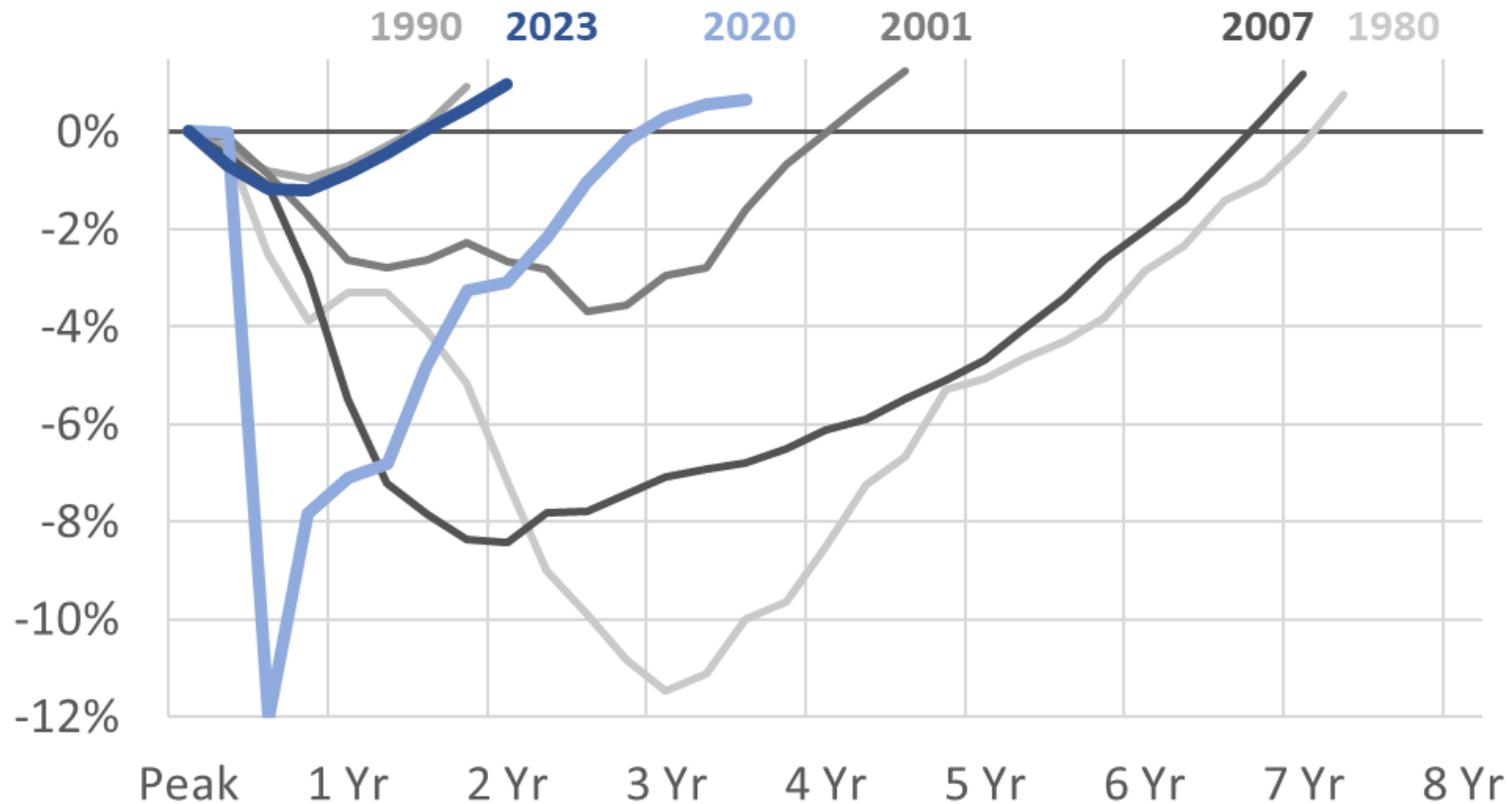




# As mild as they come

## Oregon Recession Comparisons

Employment percent change from pre-recession peak



### • Why a Mild Recession

- Inflation expectations
  - Businesses, financial markets, and households all expect inflation to slow
- Labor hoarding
  - Labor market is structurally tight, firms will not want to let go of workers even if sales slow
- Household finances
  - Strong finances and higher savings keep spending strong



Source: Oregon Employment Department, Oregon Office of Economic Analysis



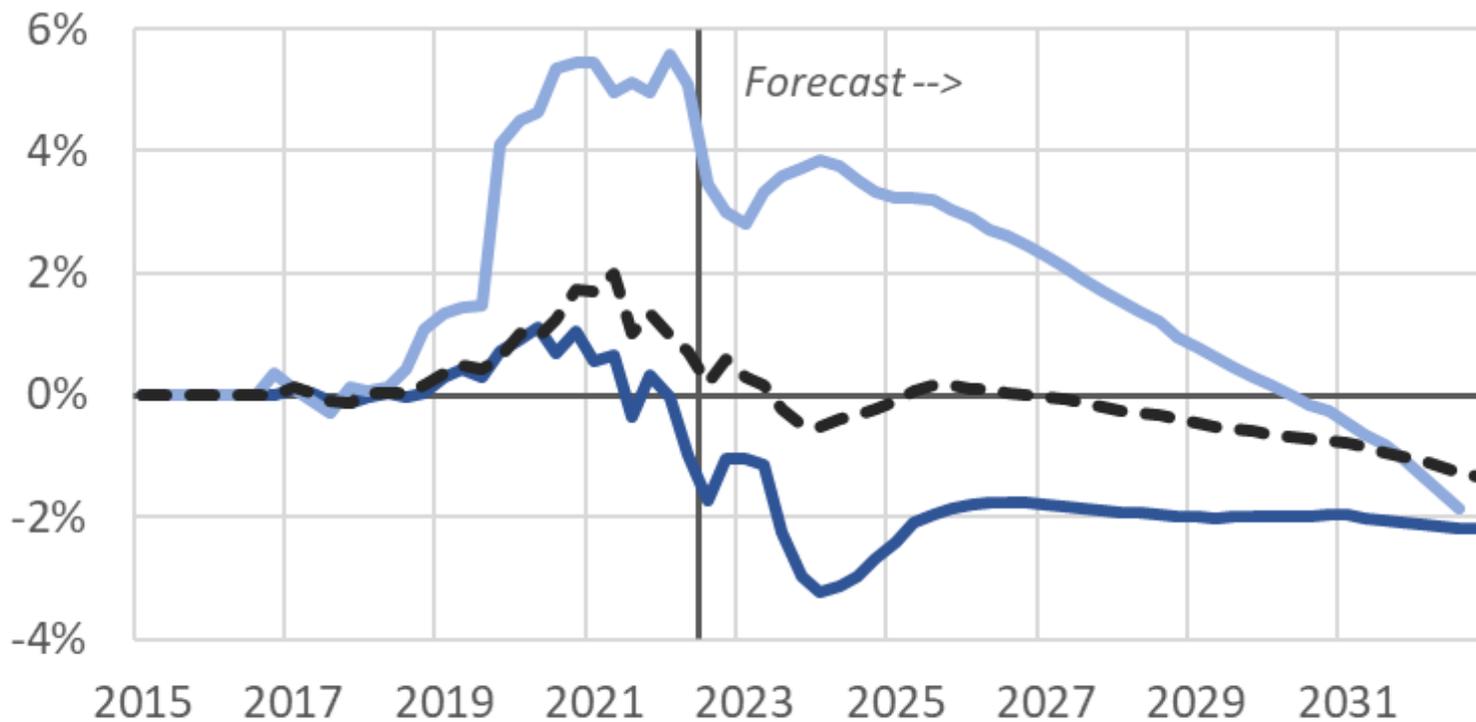


# Little impact on income

## Oregon Personal Income Forecast Revisions

Percent change from current forecast compared to previous

**Total Income** | Labor Income | Non-wage Income



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

- Total personal income in Oregon is relatively unchanged from last quarter, even with a recession in the baseline
- Historical revisions from the BEA complicate the picture as it adjusts the starting point of the forecast

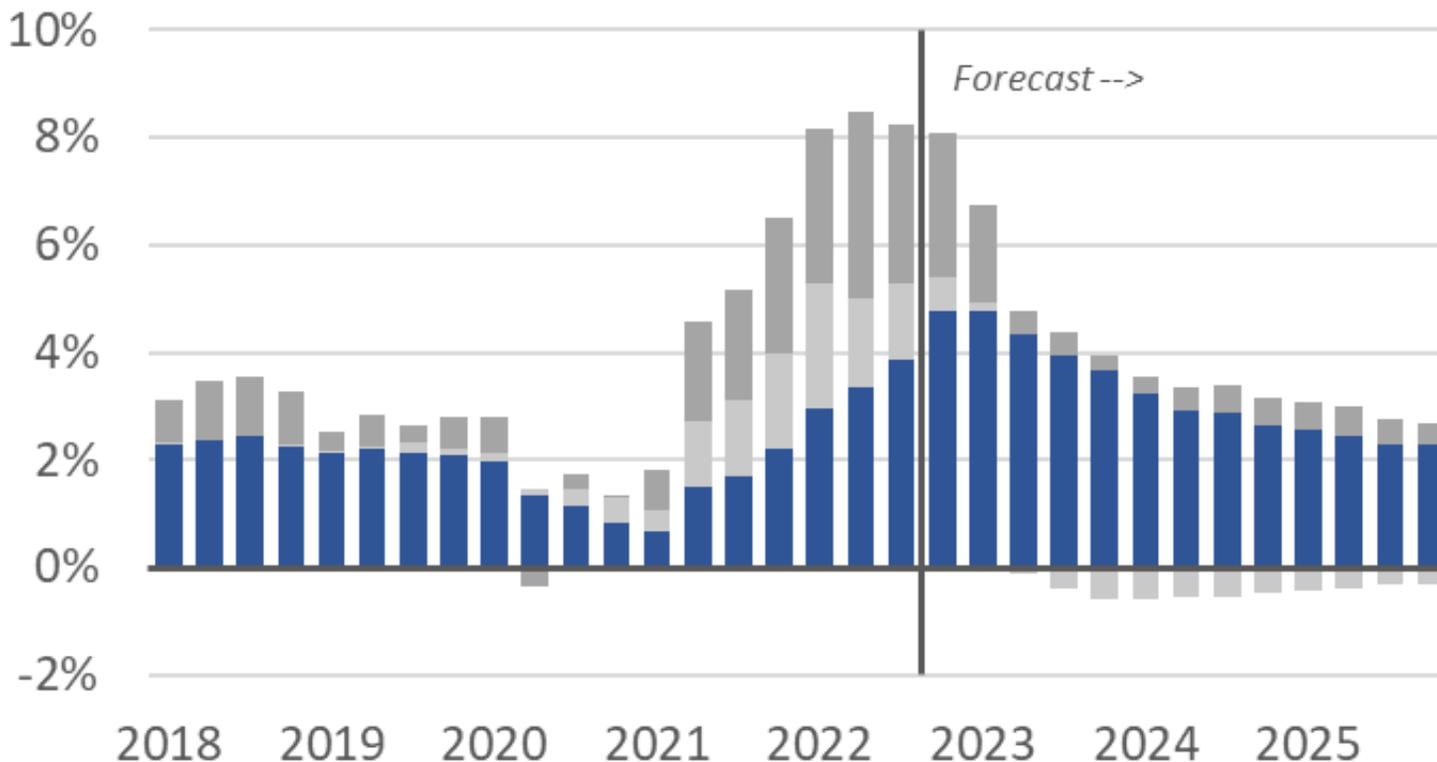




# Inflation is the key macroeconomic issue

## West Region Consumer Price Index

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



Goods and services are excluding food and energy | Latest: 2022q3 | Source: BLS, IHS Markit, OR Office of Econ Analysis

- Inflation is not costless
- Federal Reserve
  - Higher rates slow economy, but with a 1–2 year lag
  - Chair Powell admits path to the soft landing has narrowed
- 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
- Oregon public policies
  - Fees indexed for inflation, public wage negotiations, minimum wage, rent stabilization, etc

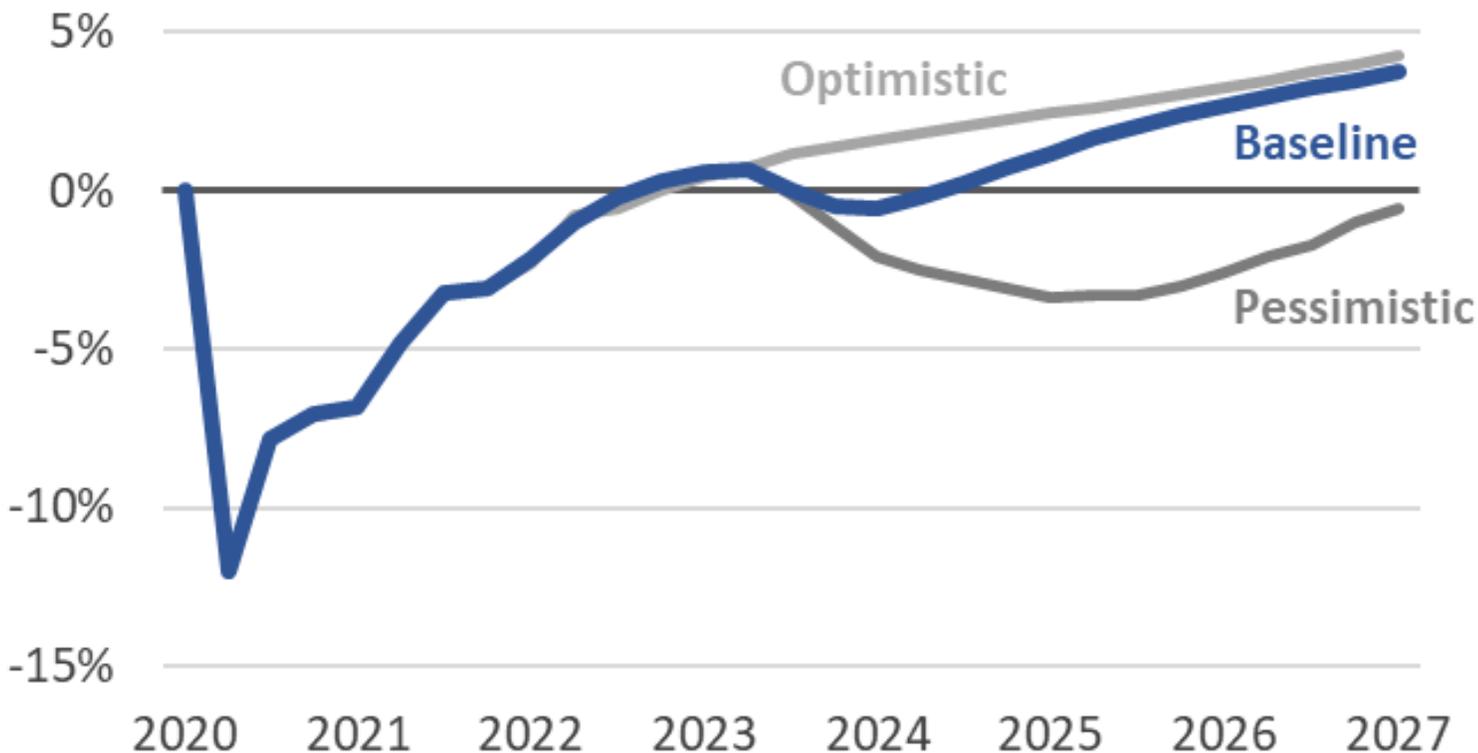




# No forecast is certain

## Oregon Alternative Scenarios: Employment

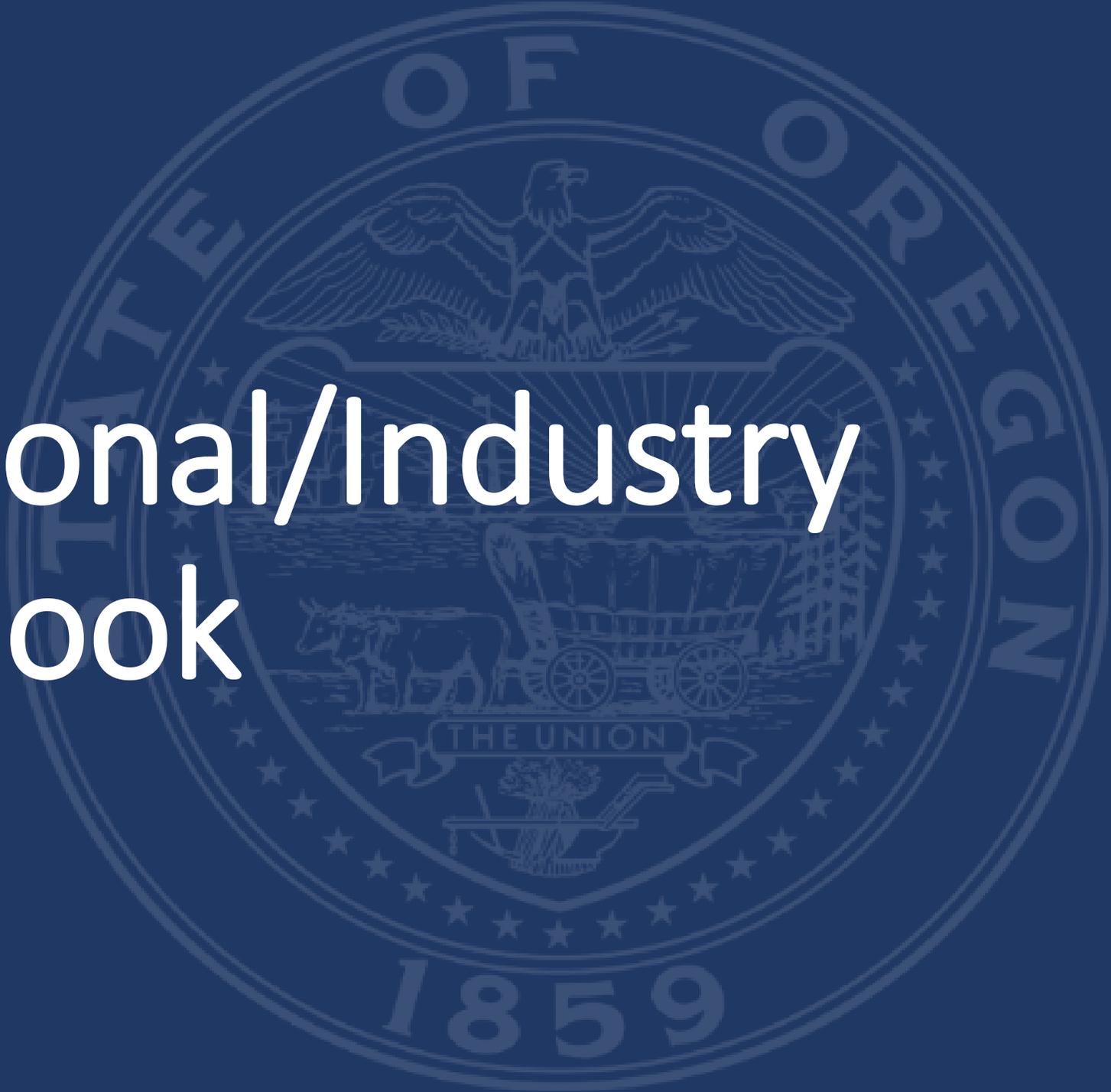
Percent change from pre-COVID peak in the **Baseline Boom/Bust**, the **Optimistic Soft Landing**, and **Pessimistic Moderate Recession**



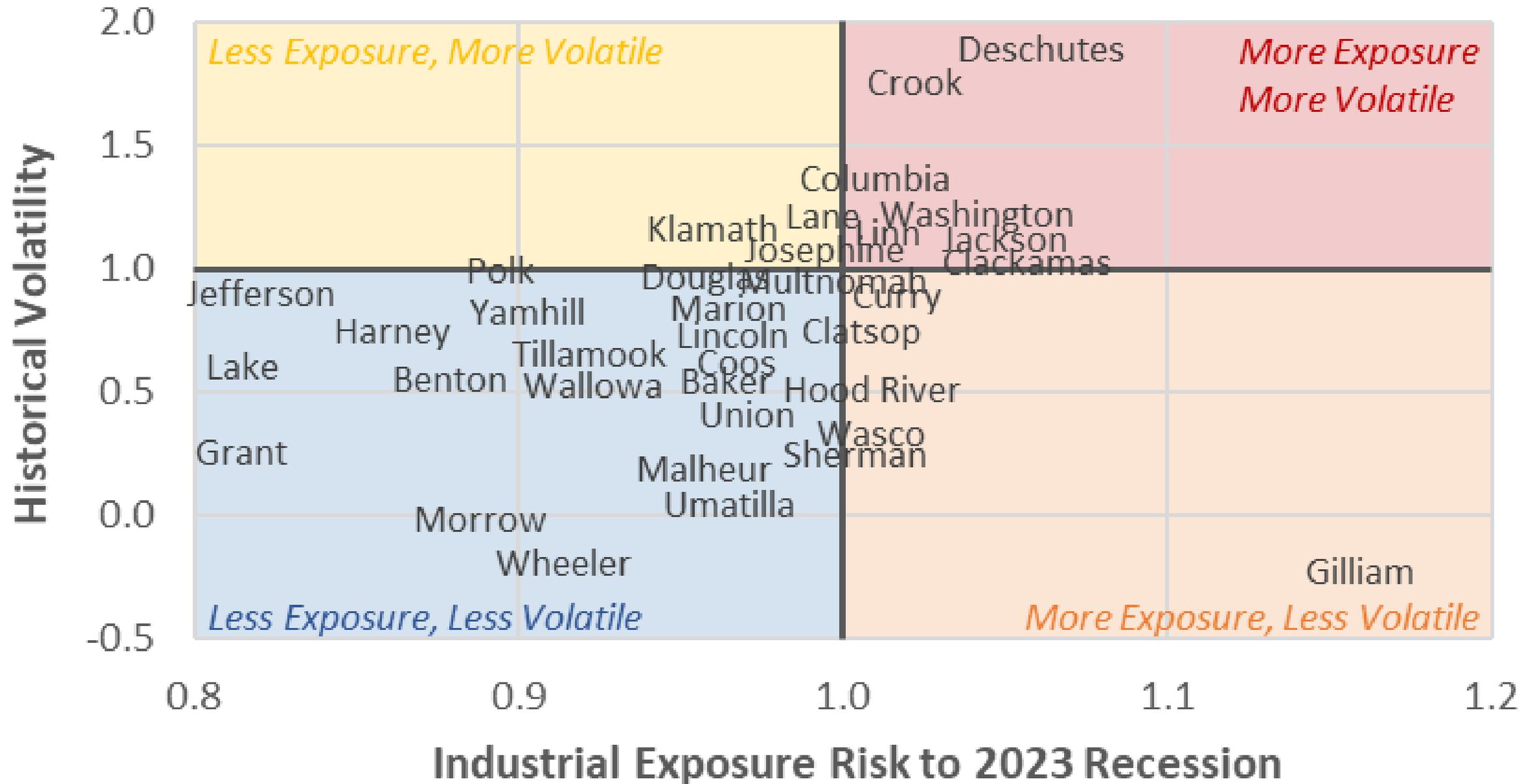
- **Optimistic Scenario**
  - Inflation cools faster than expected, allowing Fed room to breathe
  - Economy still slows, goods-producing industries weak, but no overall job loss
- **Pessimistic Scenario**
  - High inflation is more entrenched in the economy, Fed continues higher for longer policy
  - Economy suffers a moderate recession



# Regional/Industry Outlook



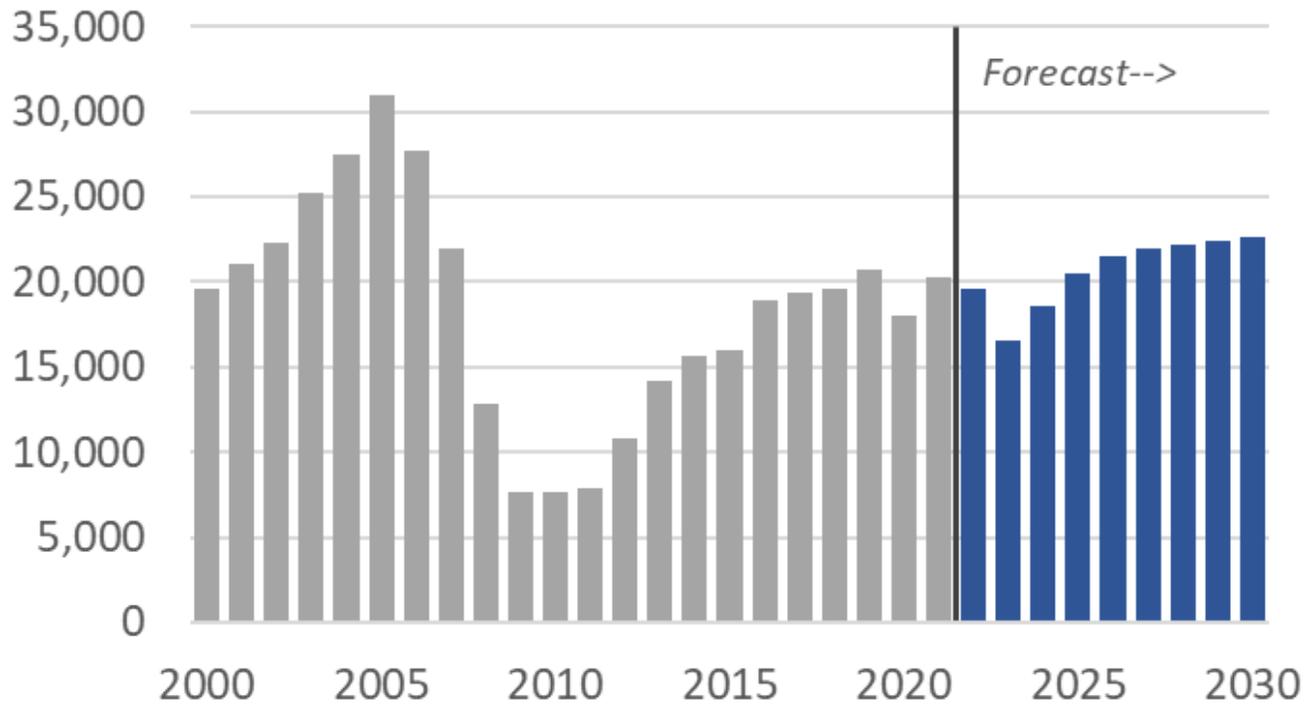
# Oregon Counties and Recession





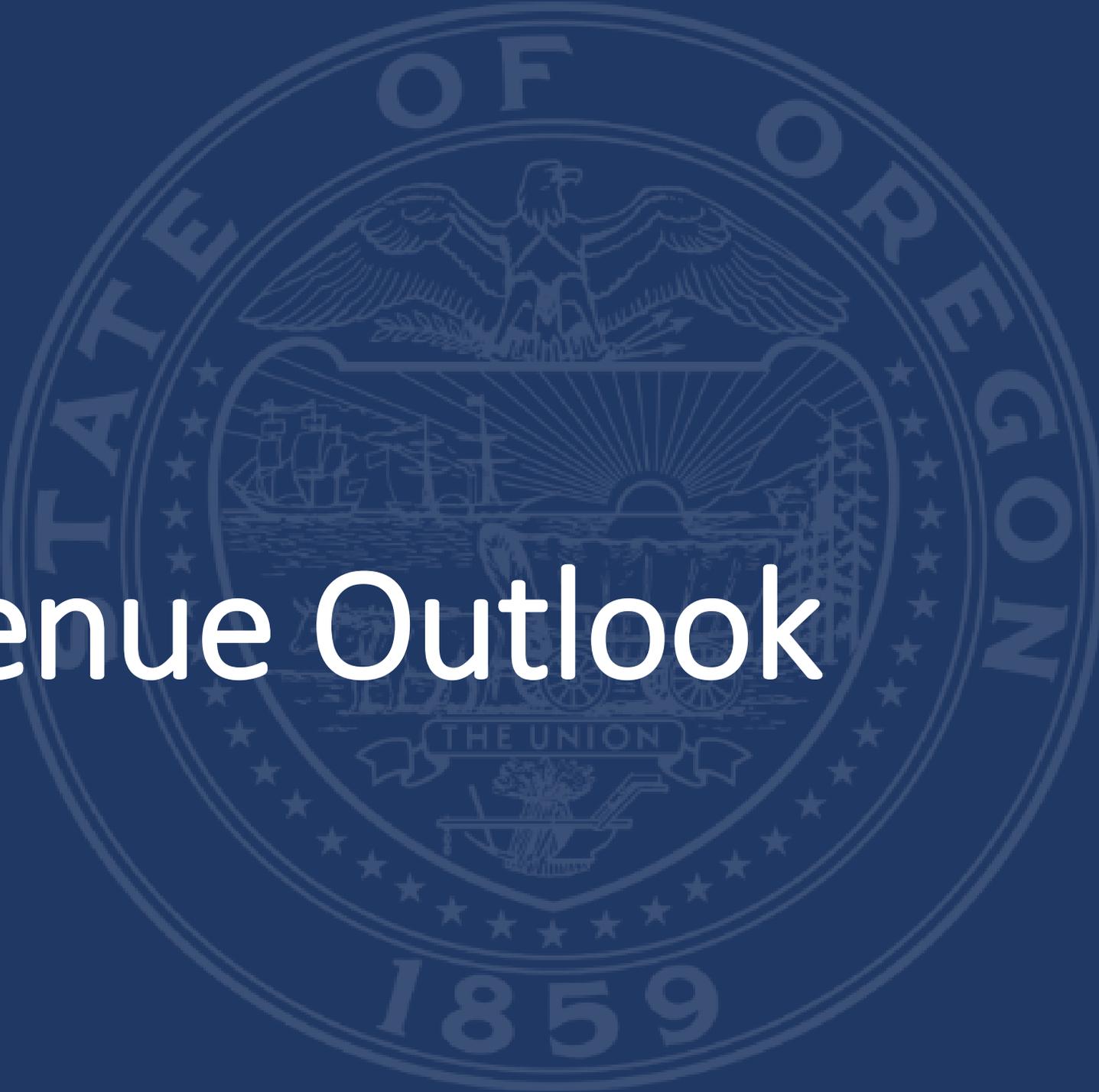
# Housing is macroeconomic risk

## Oregon Housing Starts



Source: Census, Oregon Office of Economic Analysis

- Oregon has underbuilt housing in recent decades, worsening affordability and contributing to homelessness
- Housing recession today
  - Starts will rebound with population growth, demographics, and improving affordability
  - Affordability improves with rising incomes, declining home prices, falling mortgage rates
- Boosting production tomorrow
  - Land, Lots, Zoning, SDCs, Workforce

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".

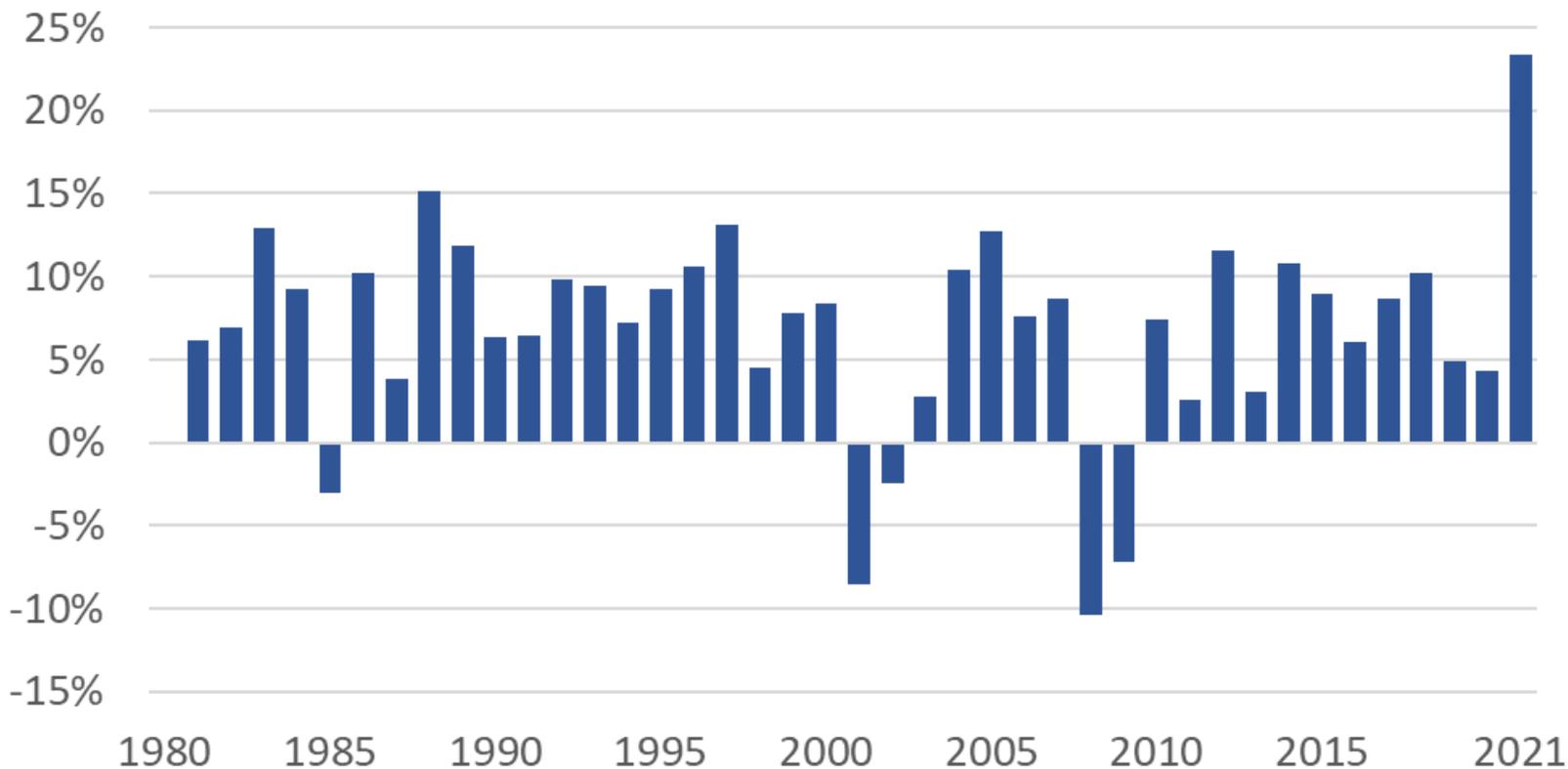
# Revenue Outlook



# Unprecedented revenue growth

## Oregon Personal Income Tax Liability

*Year-over-year percent change*



- The extension filing season is now over, with income tax liability having posted record gains
- Growth was nearly double what was seen during the peak of the housing and tech booms

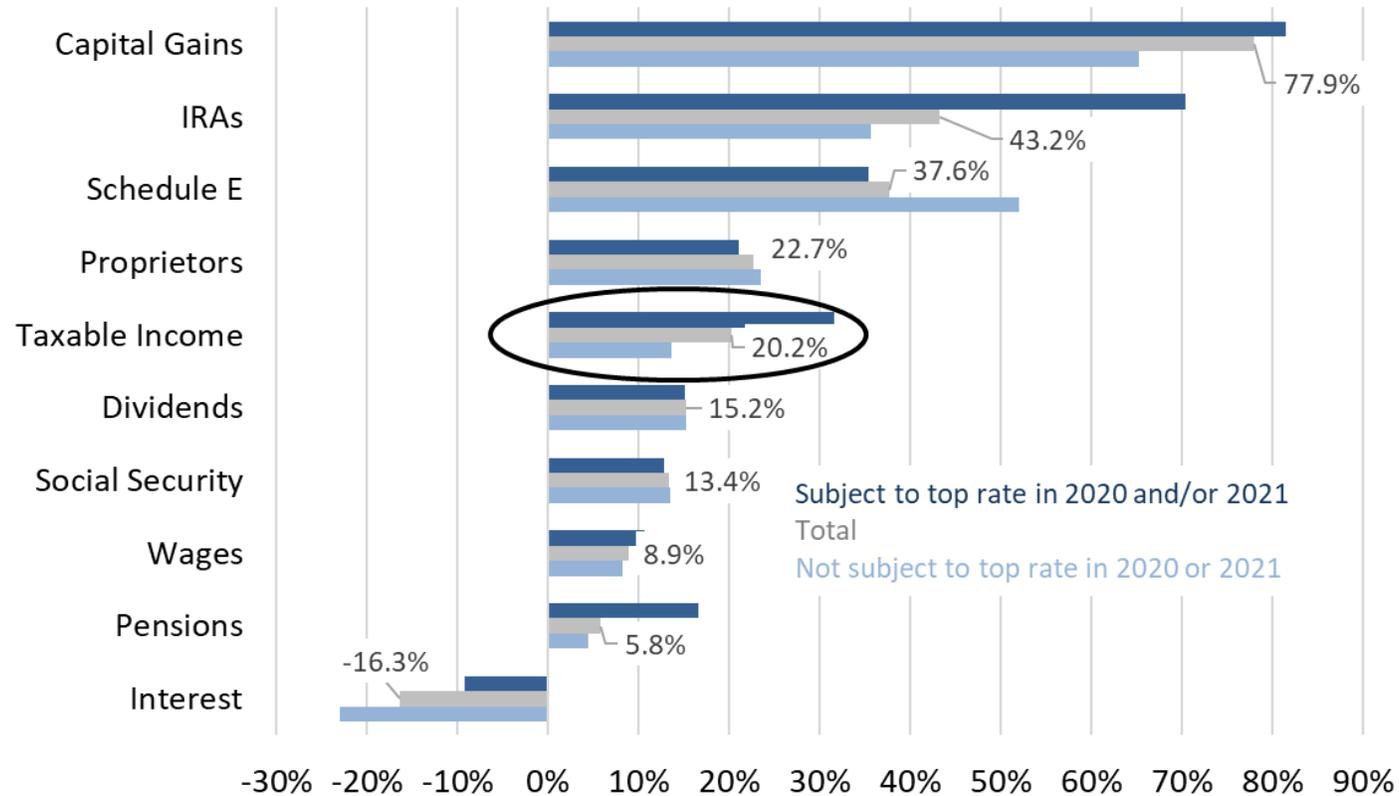




# Growth across the board

## Oregon's booming income

2021 reported income, % change, full-year filers

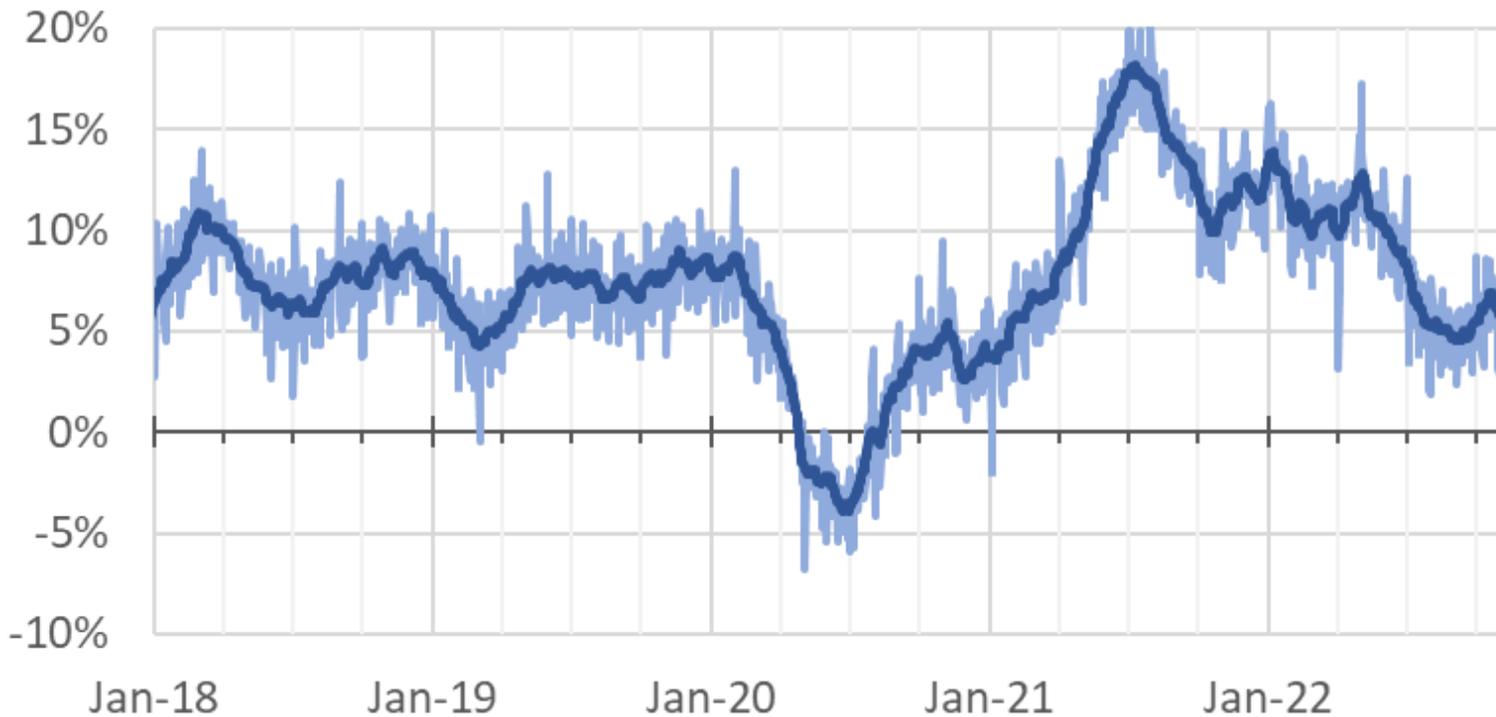




# Labor income remains healthy

## Oregon Withholding

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



- Income tax withholdings have returned to earth in recent weeks but are still strong
- A cooling of the labor market is the goal of monetary policy

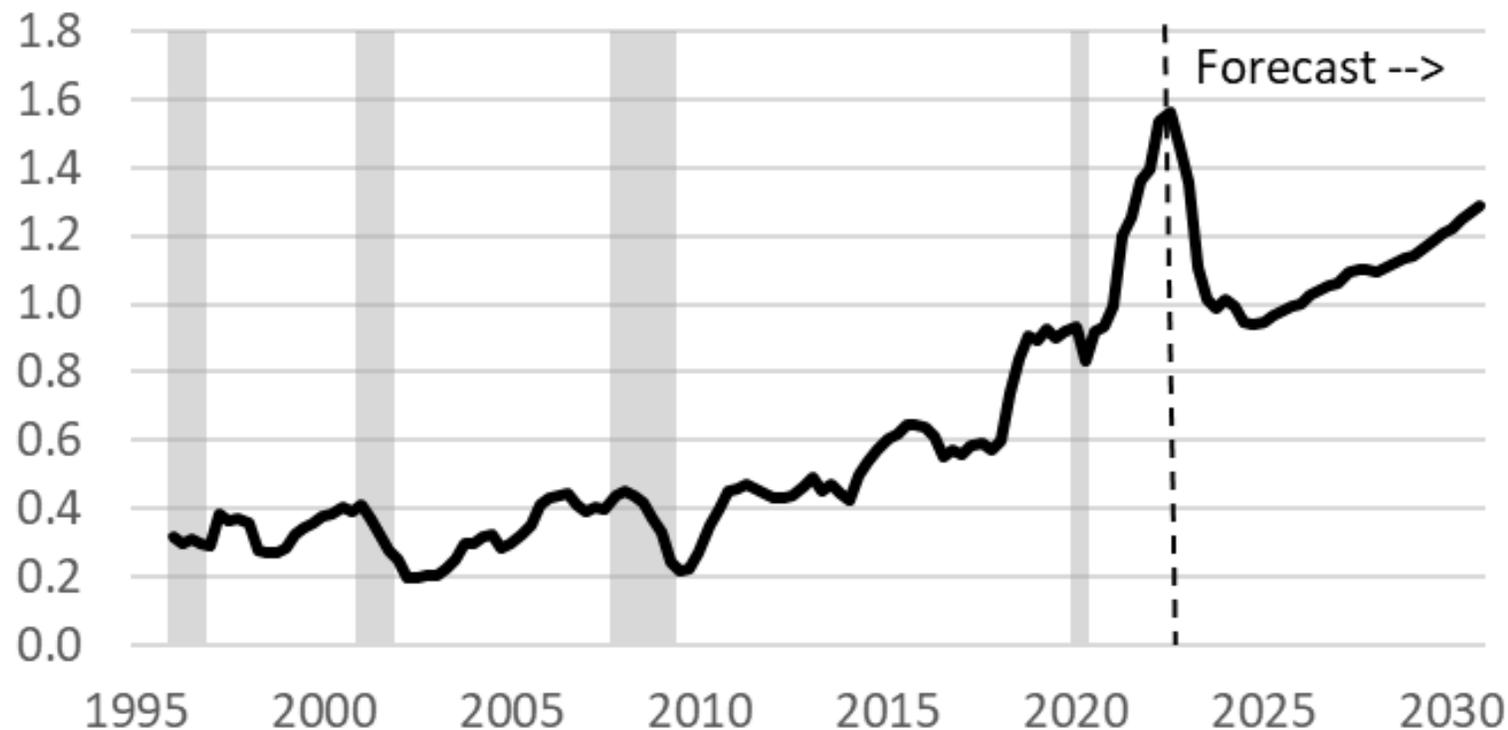




# Traditional corporate taxes expected to pull back

## Oregon Corporate Excise Tax

4-QTR sum, \$ billions



- Corporate excise and income taxes have grown by 14% per year over the past decade
- 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



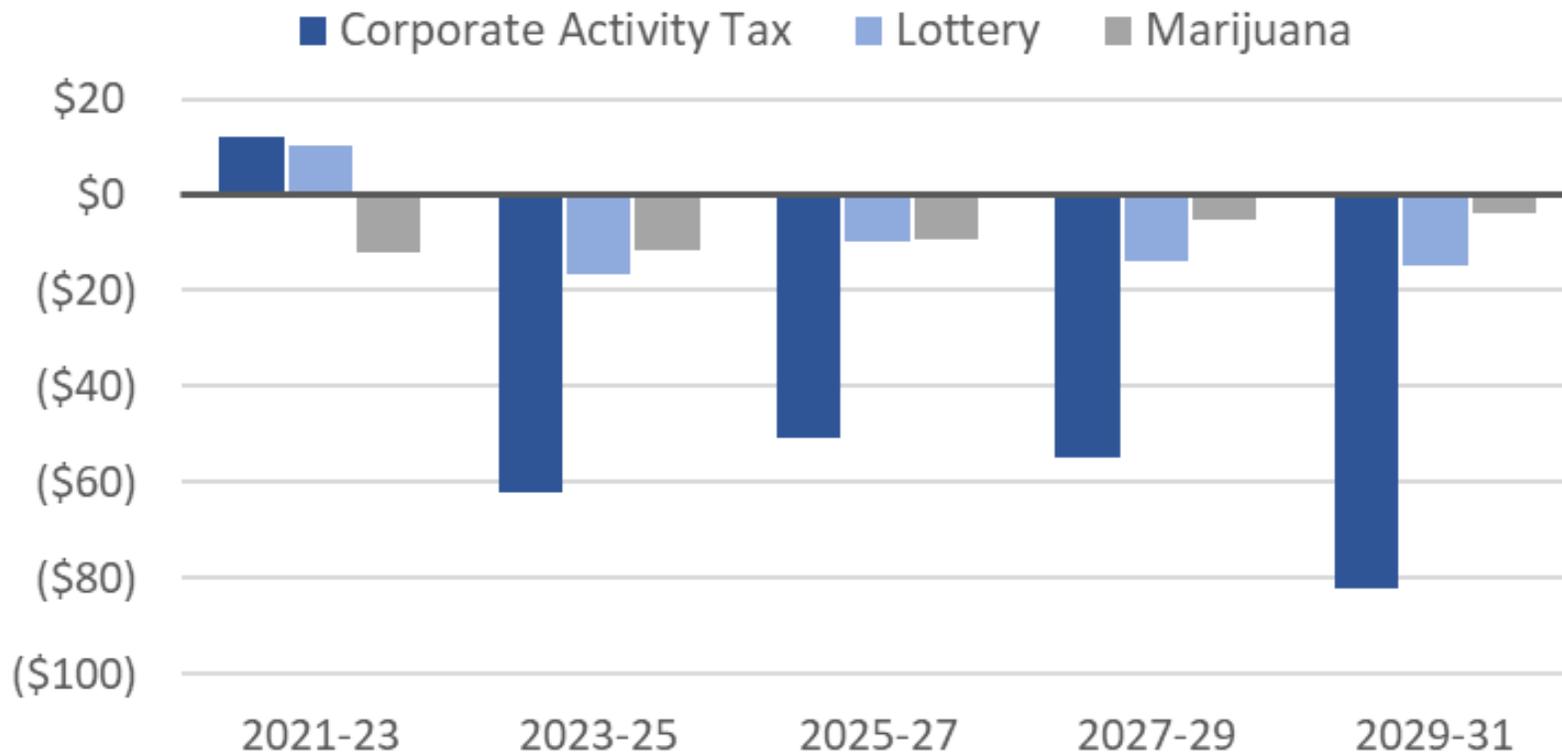
Source: OR Dept of Revenue, Oregon Office of Economic Analysis



# Non-General Fund revenues impacted by slowdown in spending

## Consumption Revenues Grow Slower in Recession

Forecast change from September 2022 to December 2022 (\$ millions)

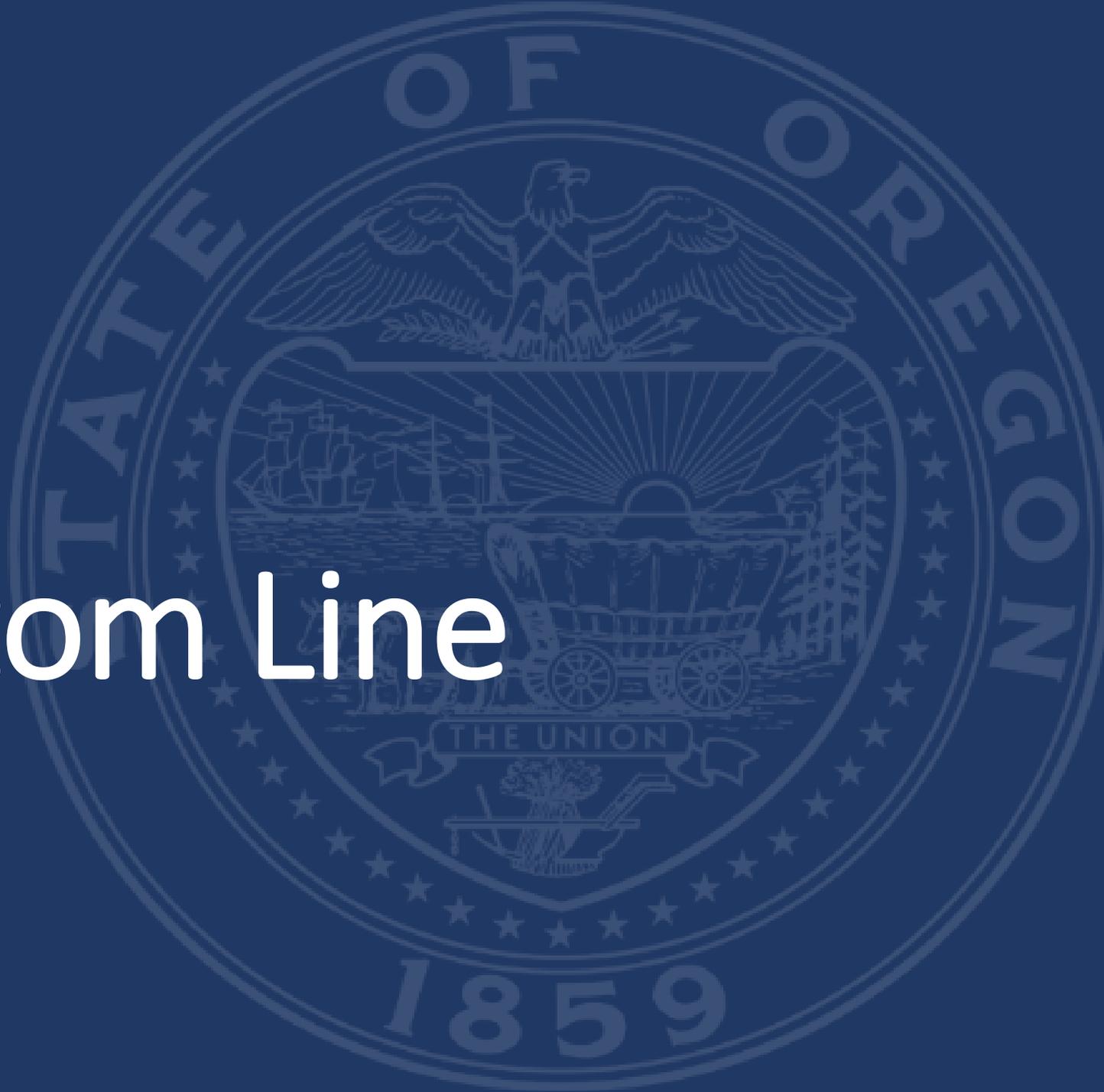


- Revenues continue to grow, just slower in a mild recession
- Forecast Changes
  - Lottery lowered by 0.5-1%
  - CAT lowered by 1-2%
  - Marijuana lowered by a larger 3-4% due to industry price declines

Source: Oregon Office of Economic Analysis



Bottom Line





# Changes relative to the Sept Forecast

## December 2022 Forecast Changes

| General Fund Revenues  | \$ Millions from Sept |             |            |            |
|------------------------|-----------------------|-------------|------------|------------|
|                        | 21-23                 | 23-25       | 25-27      | 27-29      |
| Personal Income Taxes  | 117                   | -591        | 303        | 459        |
| Corporate Income Taxes | 187                   | 150         | 88         | -20        |
| Other                  | 104                   | 103         | -21        | -16        |
| <b>Total</b>           | <b>408</b>            | <b>-339</b> | <b>371</b> | <b>423</b> |

| Other Revenues         | \$ Millions from Sept |            |            |            |
|------------------------|-----------------------|------------|------------|------------|
|                        | 21-23                 | 23-25      | 25-27      | 27-29      |
| Lottery                | 10                    | -17        | -10        | -14        |
| Corporate Activity Tax | 12                    | -62        | -51        | -55        |
| Marijuana Tax          | -14                   | -12        | -9         | -5         |
| <b>Total</b>           | <b>8</b>              | <b>-90</b> | <b>-70</b> | <b>-74</b> |

|                  | \$ Millions from Sept |             |            |            |
|------------------|-----------------------|-------------|------------|------------|
|                  | 21-23                 | 23-25       | 25-27      | 27-29      |
| <b>Total Sum</b> | <b>416</b>            | <b>-429</b> | <b>301</b> | <b>350</b> |

- Data in the table show how the revenue outlook has changed since the Sept forecast (released 8/23/22)
- 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 **\$13 million**
- Personal Kicker
  - \$3.683 billion
- Corporate Kicker
  - \$1.304 billion

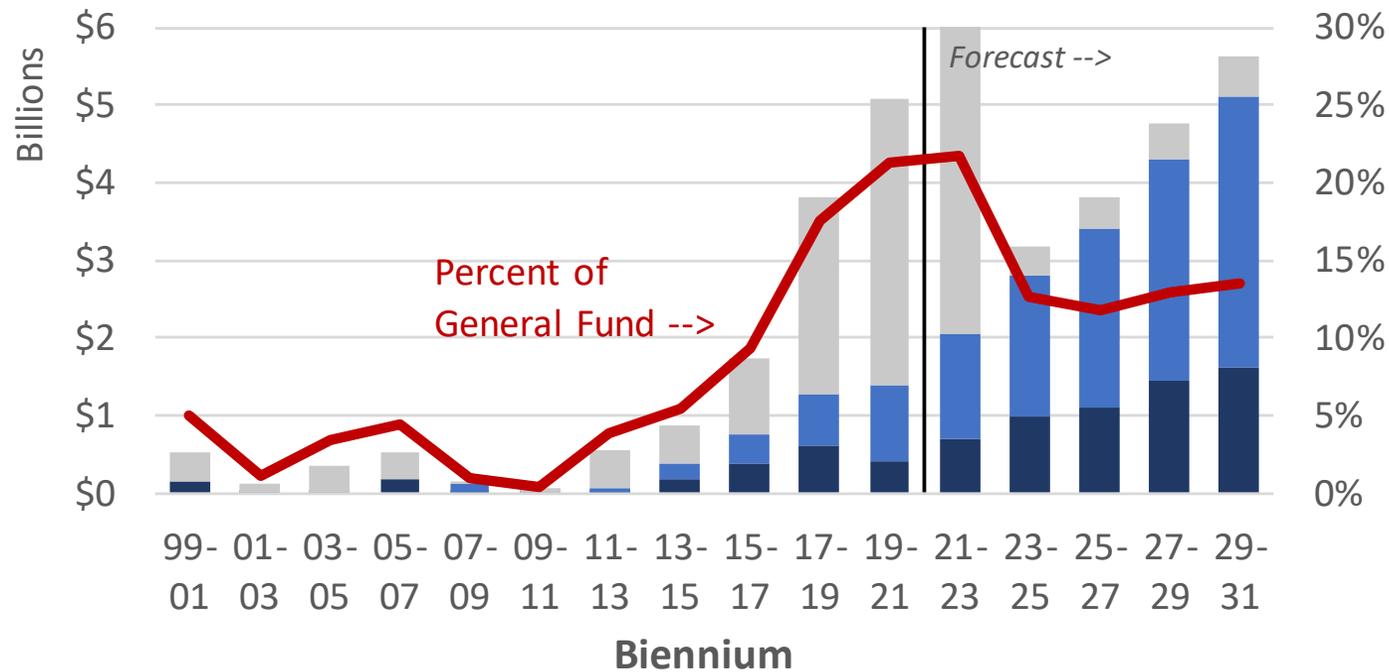




# Sizable reserves remain

## Oregon Budgetary Reserves

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



## Effective Reserves (\$ millions)

|                | <i>Current<br/>Oct-22</i> | <i>End of<br/>2021-23</i> |
|----------------|---------------------------|---------------------------|
| ESF            | \$600                     | \$706                     |
| RDF            | \$1,194                   | \$1,334                   |
| Reserves       | \$1,794                   | \$2,040                   |
| Ending Balance | \$4,141                   | \$4,141                   |
| <b>Total</b>   | <b>\$5,935</b>            | <b>\$6,181</b>            |
| % of GF        | 20.9%                     | 21.8%                     |

Source: Oregon Office of Economic Analysis





# Contact



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