

The background features a large, faint seal of the Oregon State Board of Economic Analysis. The seal is circular and contains an eagle with spread wings 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 inscribed. The words "STATE OF OREGON" are written around the top inner edge of the seal.

May 2021 Economic and Revenue Forecast

May 19th, 2021

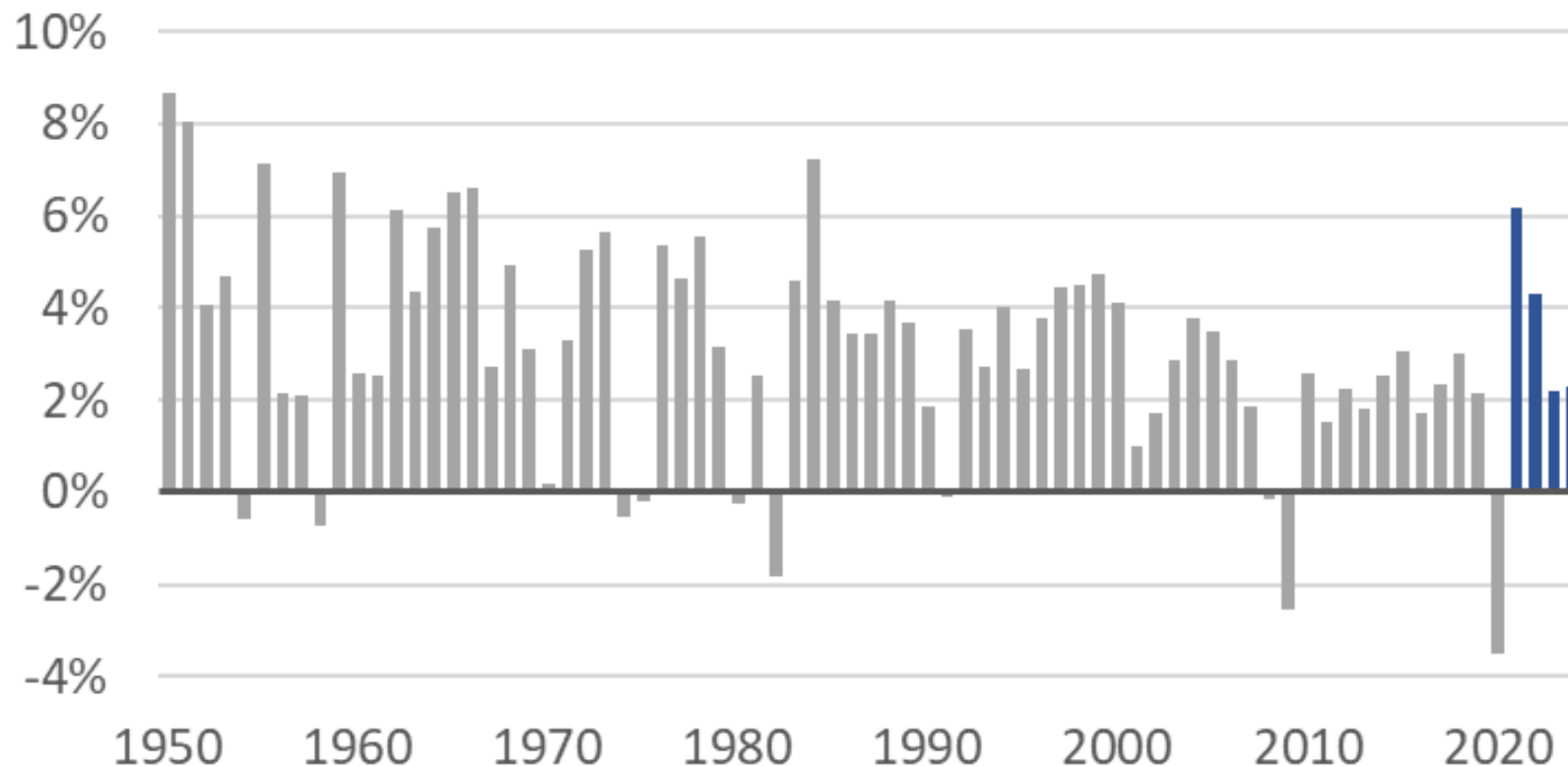
Oregon Office of Economic Analysis
Mark McMullen
Josh Lehner



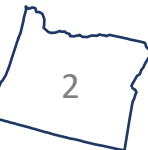
Near-term outlook is very bright

Strong GDP Growth Ahead

Annual Percent Change in Real U.S. GDP



- Near-term economic consensus is for very strong growth, the fastest since “Morning in America” in 1984
- Federal fiscal policy during the pandemic is equal to ~25% of GDP

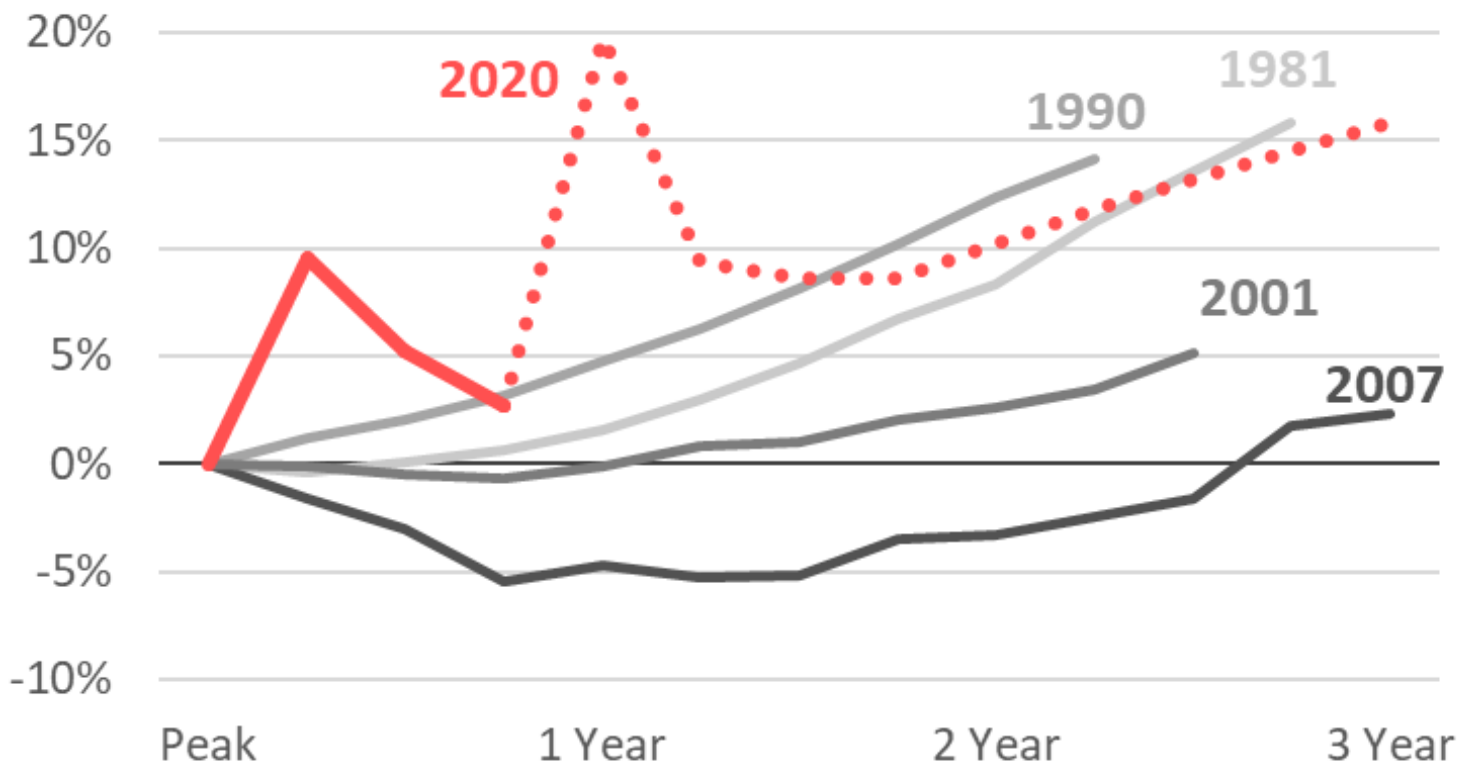




Strong household finances

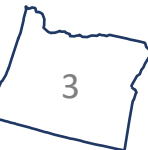
Total Oregon Personal Income

Nominal, Percent Change from Pre-Recession Peak



Quarterly data. Latest data 2020q4 | Source: BEA, Oregon Office of Economic Analysis

- Unprecedented federal aid has boosted incomes higher today than before the pandemic
 - \$12 billion in UI
 - \$12 billion in recovery rebates
 - \$10 billion in PPP
- Income excluding direct federal aid now back to pre-pandemic levels as well
- Nationally, households have accumulated \$2.3 trillion in excess savings as of March 2021
- Pent-up demand will be unleashed as economy continues to reopen
- Shift in spending back into in-person services will drive strong employment gains

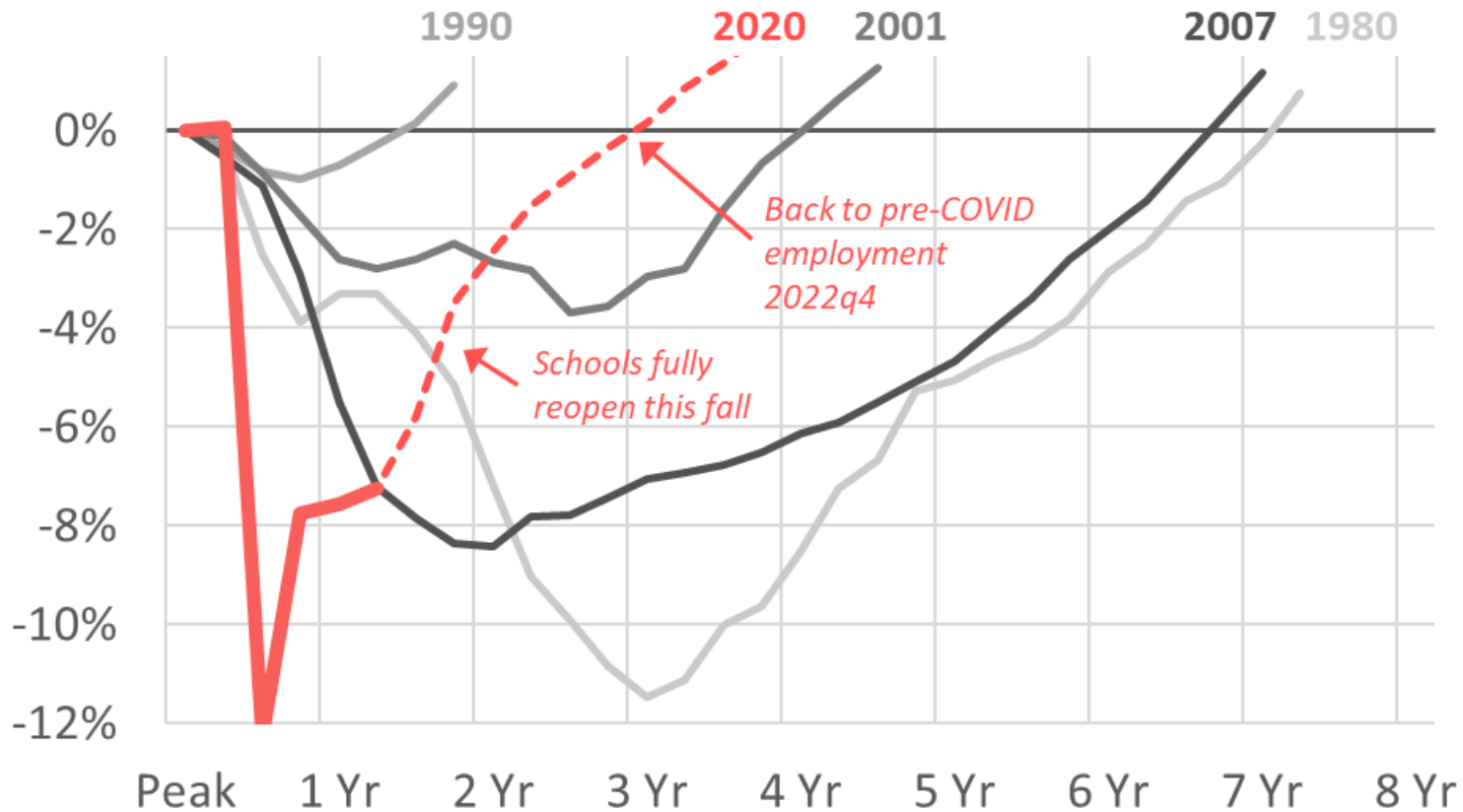




Front-loaded growth

Oregon Recession Comparison

Employment Percent Change from Pre-Recession Peak



- Oregon's labor market will return to full health during 2021-23
- Pandemic continues to wane as vaccinations increase
- Inventories are lean and demand is strong
- Risks lie primarily to the downside should supply constraints slow the pace of growth

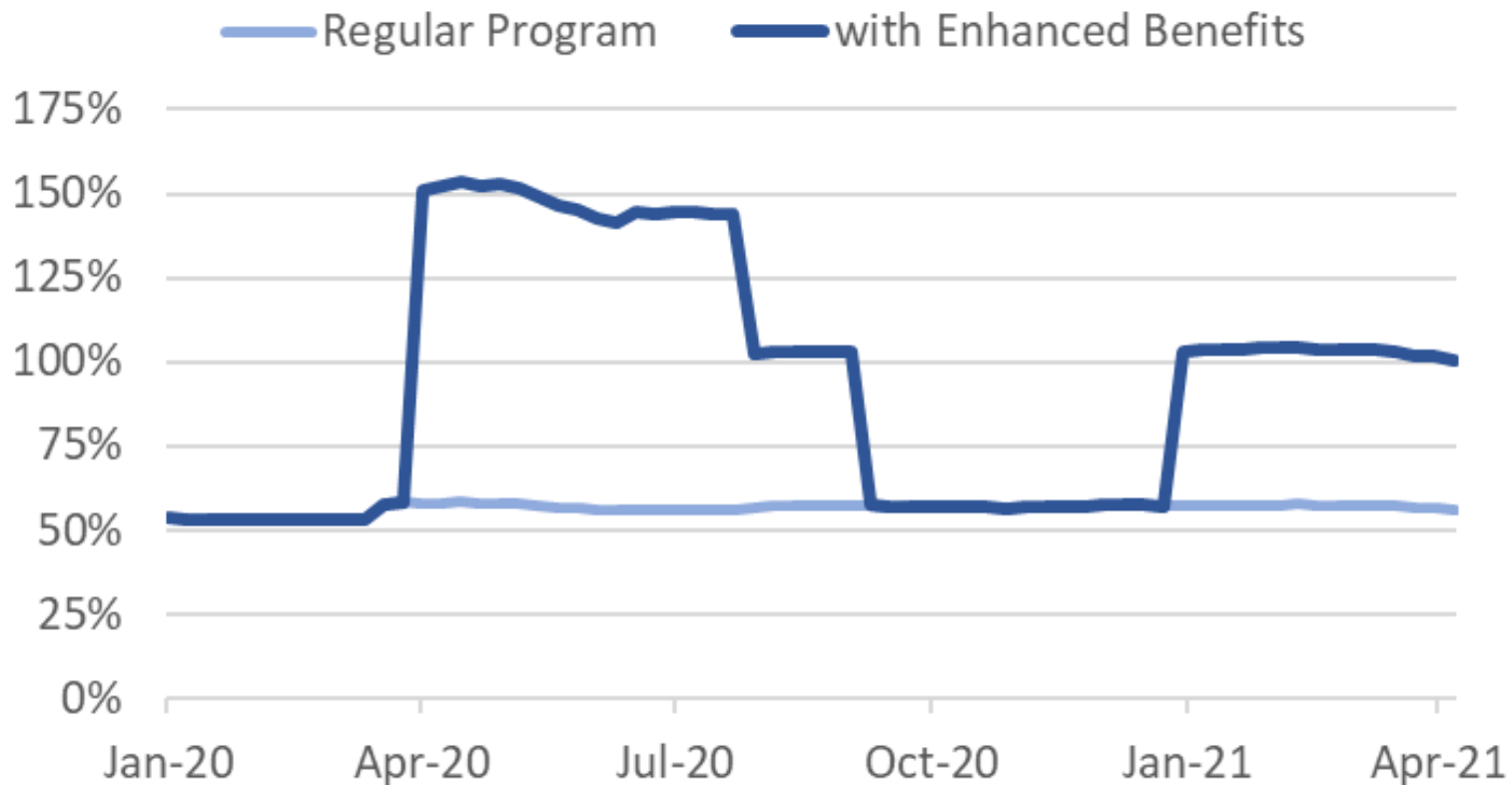




Supply constraints emerge

Oregon UI Replacement Rates

Weekly Benefit as Share of Base Wage



Source: Oregon Employment Department, Oregon Office of Economic Analysis

- Production and logistic constraints have emerged
- Labor is tight
 - Job openings and wage growth remain strong despite a severe recession a year ago
- Reasons it is harder to find workers
 - Strong household finances
 - Recovery rebates + UI
 - Pandemic Fears
 - 45,000 Oregonians not looking due to the virus
 - Hard-hit industries all trying to rehire the same labor pool at the same time
 - Everything else
 - Retirements
 - Lack of in-person schooling



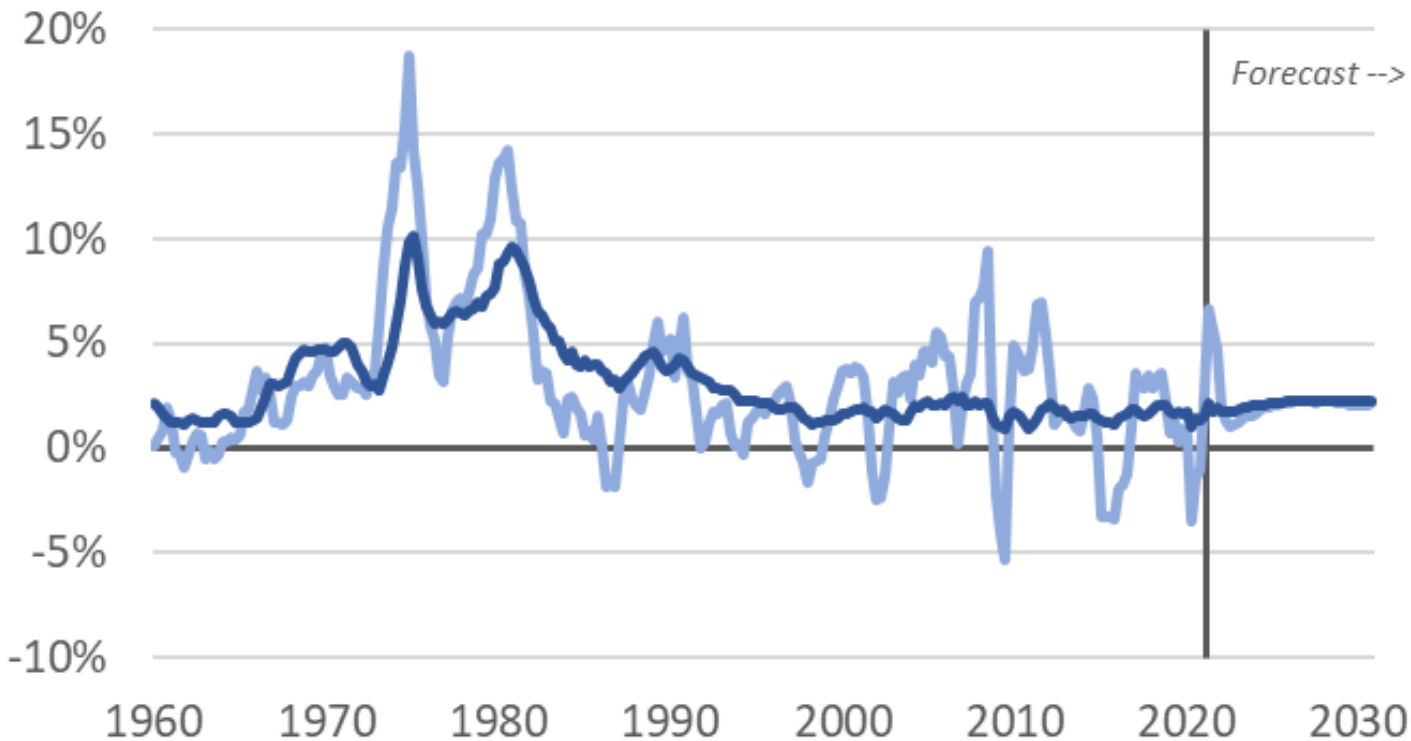


Prices will increase, but will inflation?

Production Costs are Volatile

Year-over-Year Percent Change

— Producer Price Index — Core PCE



Latest Data: 2021q1 | Source: IHS Markit, Oregon Office of Economic Analysis

- Inflation is inevitable in the near term due to higher production costs and strong consumer demand
- Federal Reserve: inflation pressures are transitory, need full employment for persistent
- Some analysts are expressing fears of runaway inflation due to loose fiscal and monetary policy
- Silver linings: tax collections and borrower relief

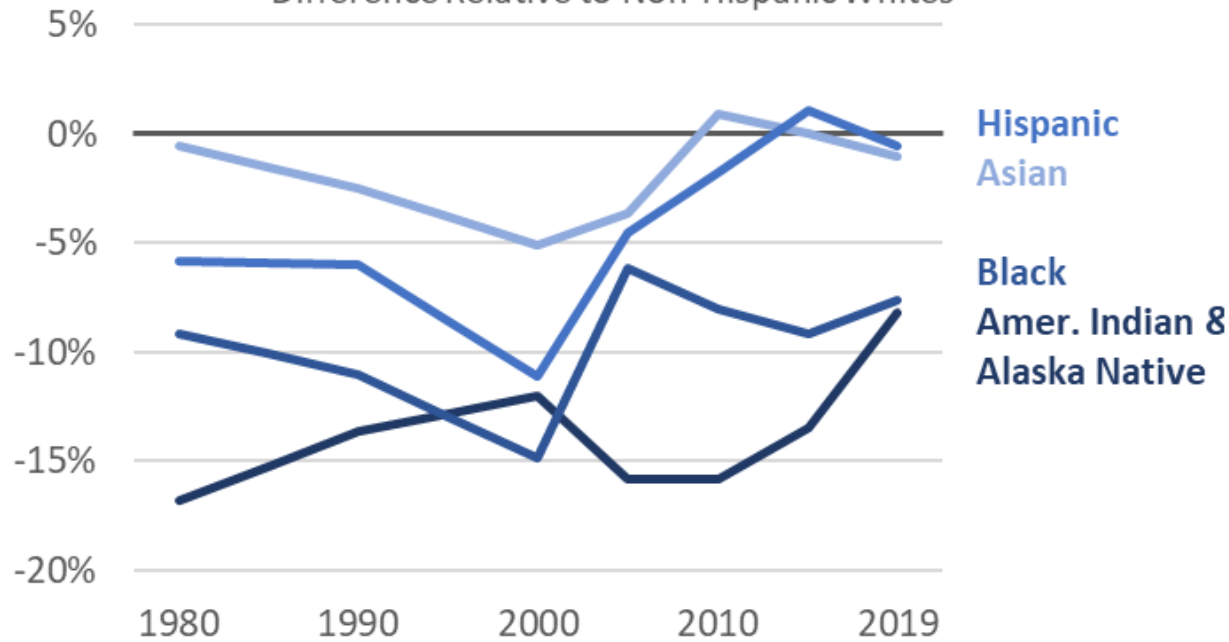




Full employment disparities

Prime-Age Employment in Oregon

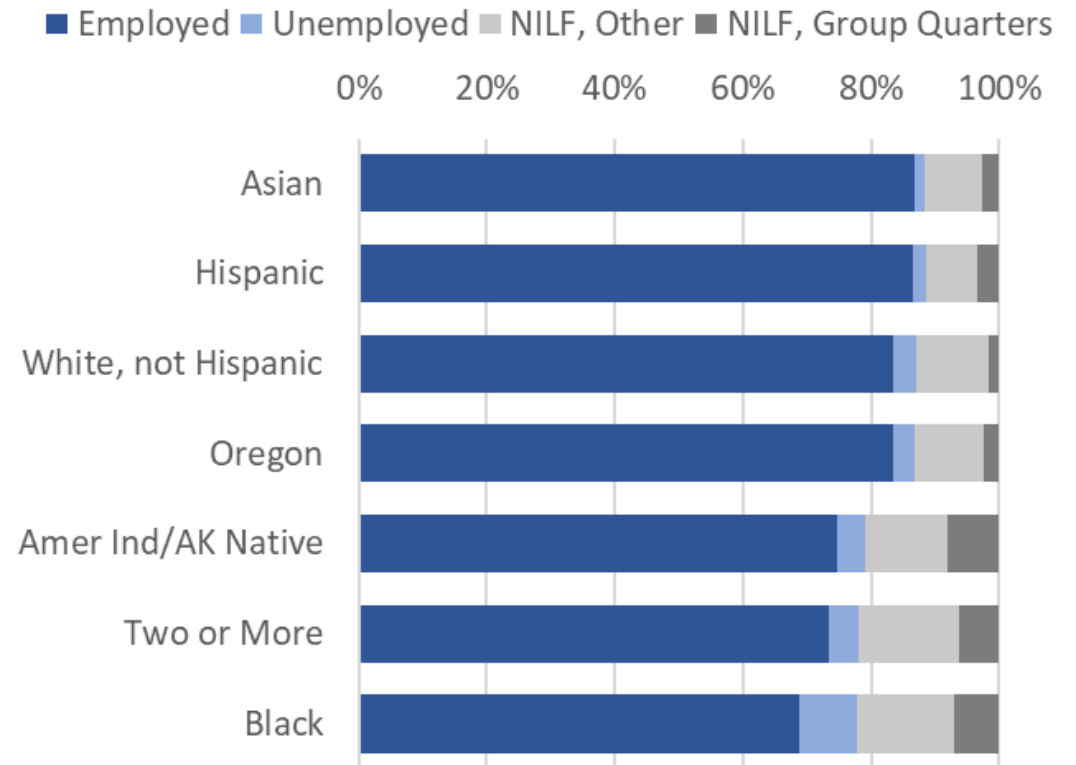
Share of 25-54 Year Olds with a Job, Percentage Point Difference Relative to Non-Hispanic Whites



Source: IPUMS-USA, Oregon Office of Economic Analysis

Prime-Age Oregon Men

25-54 Year Olds



Data: 2019 ACS | Source: IPUMS-USA, Oregon Office of Economic Analysis



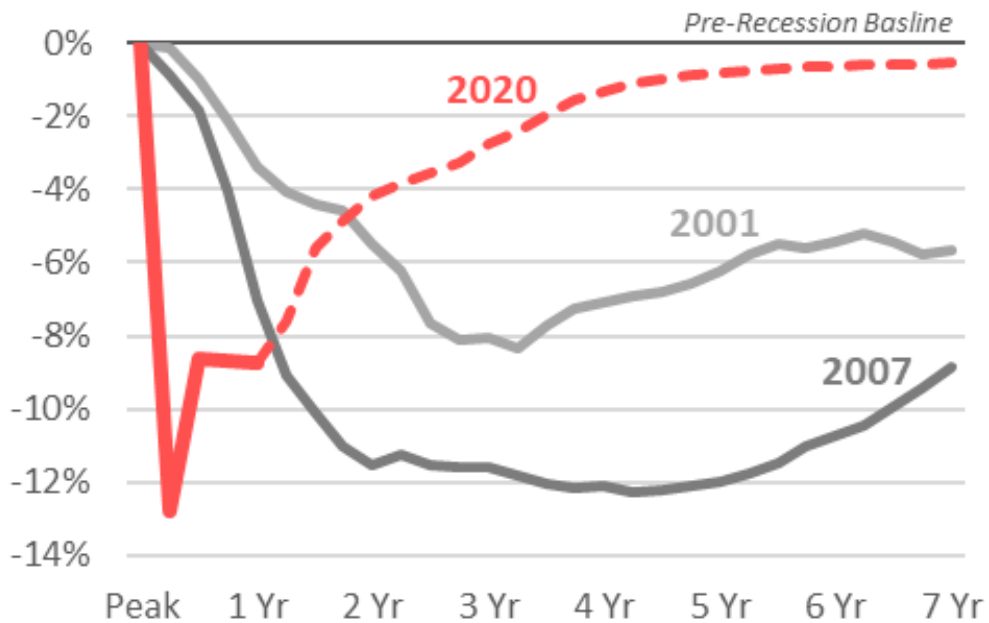


This cycle is different

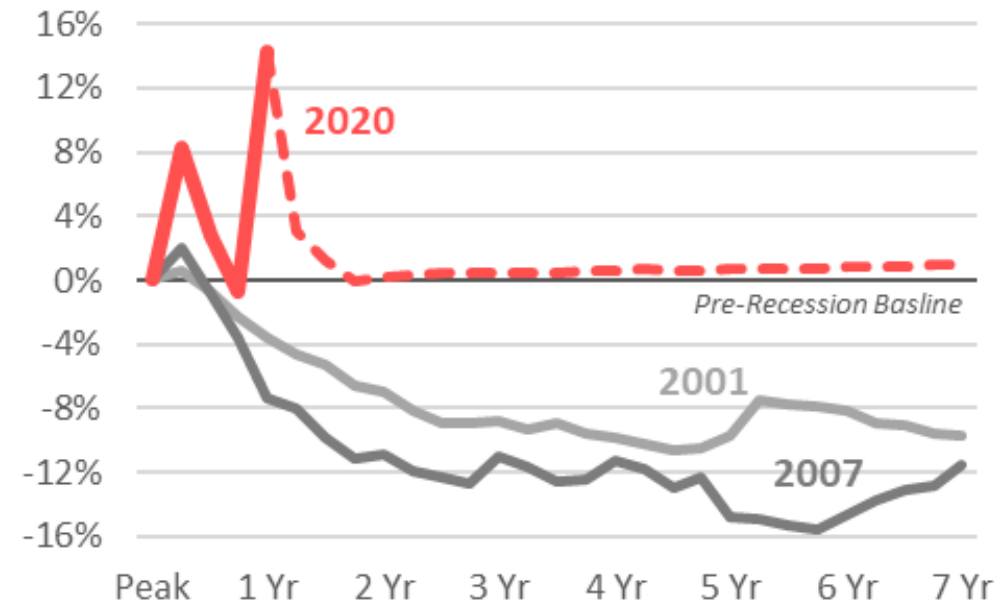
No Permanent Damage Expected

Economic outcomes relative to pre-recession baselines

Oregon Total Nonfarm Employment



Oregon Total Personal Income



Oreg
Econo

Source: BLS, BEA, Oregon Office of Economic Analysis



The background of the slide features 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 at the bottom; and the motto 'THE UNION' on a banner. The words 'STATE OF OREGON' are written around the top inner edge, and '1859' is at the bottom.

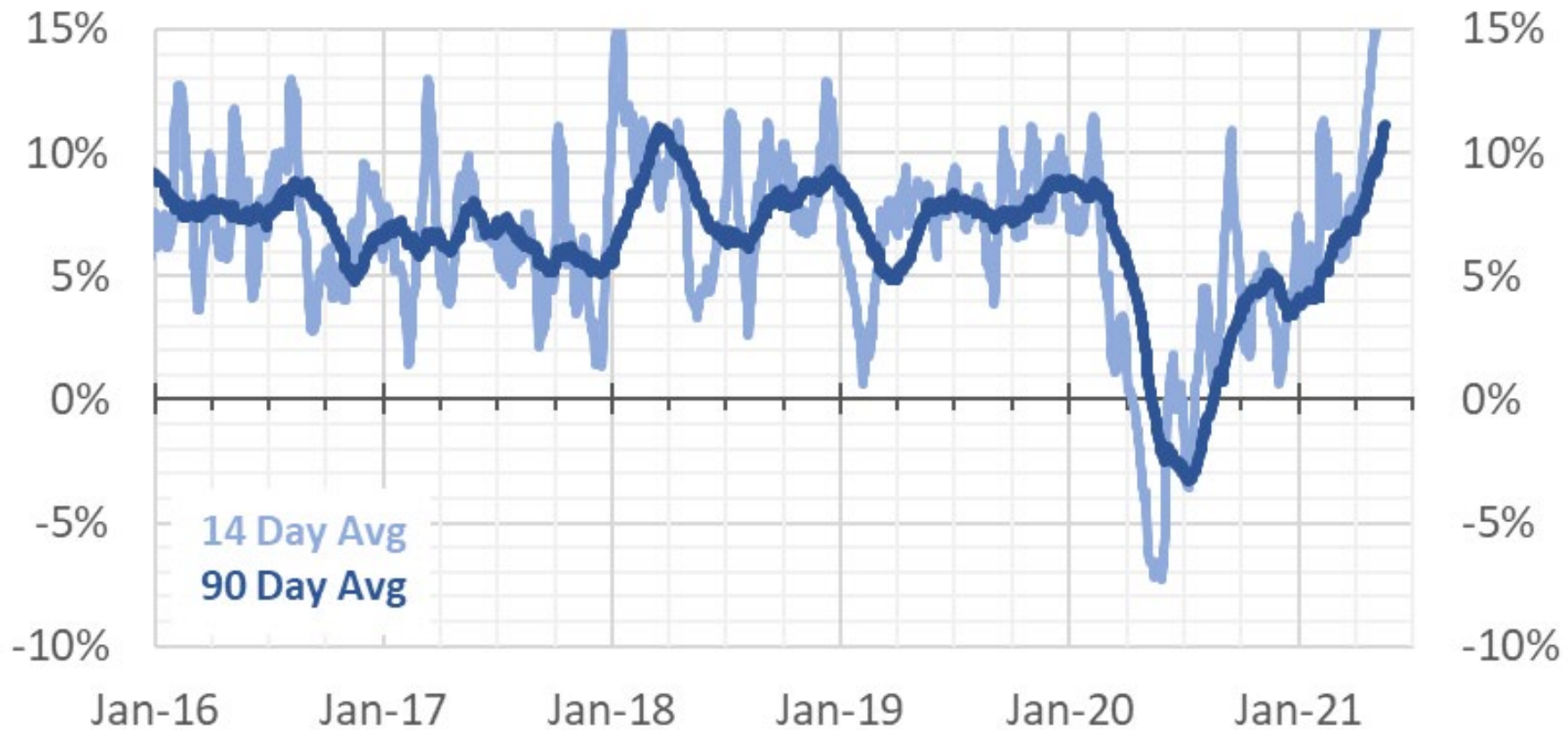
Revenue Outlook



Double-digit growth in Personal Income Tax withholdings

Oregon Withholding

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



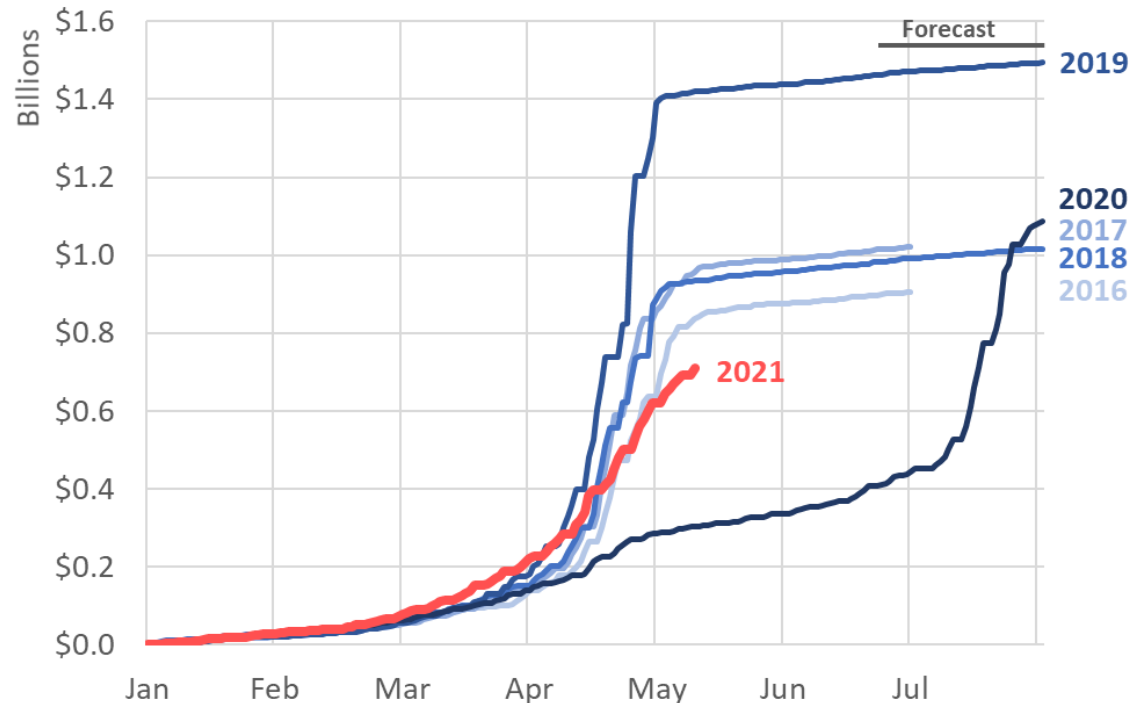
Latest Data: May 17, 2021 | Source: Oregon Dept. of Revenue, Oregon Office of Economic Analysis



Extended tax filing deadline creates uncertainty

Year-End Payments Still to Come

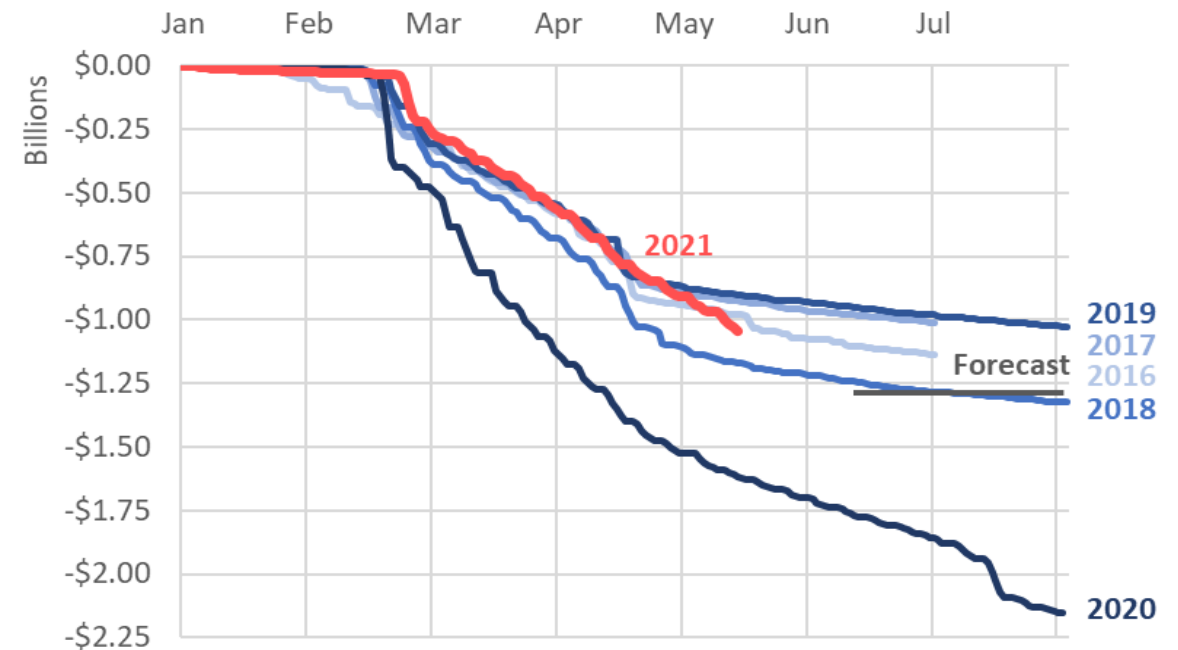
Oregon Cumulative Personal Income Tax Payments



Latest Data: May 10, 2021 | Source: Oregon Dept of Revenue, Oregon Office of Economic Analysis

Refunds Are Winding Down

Personal Income Tax Refunds, Cumulative



Latest Data: May 14, 2021 | Source: Oregon Dept of Revenue, Oregon Office of Economic Analysis

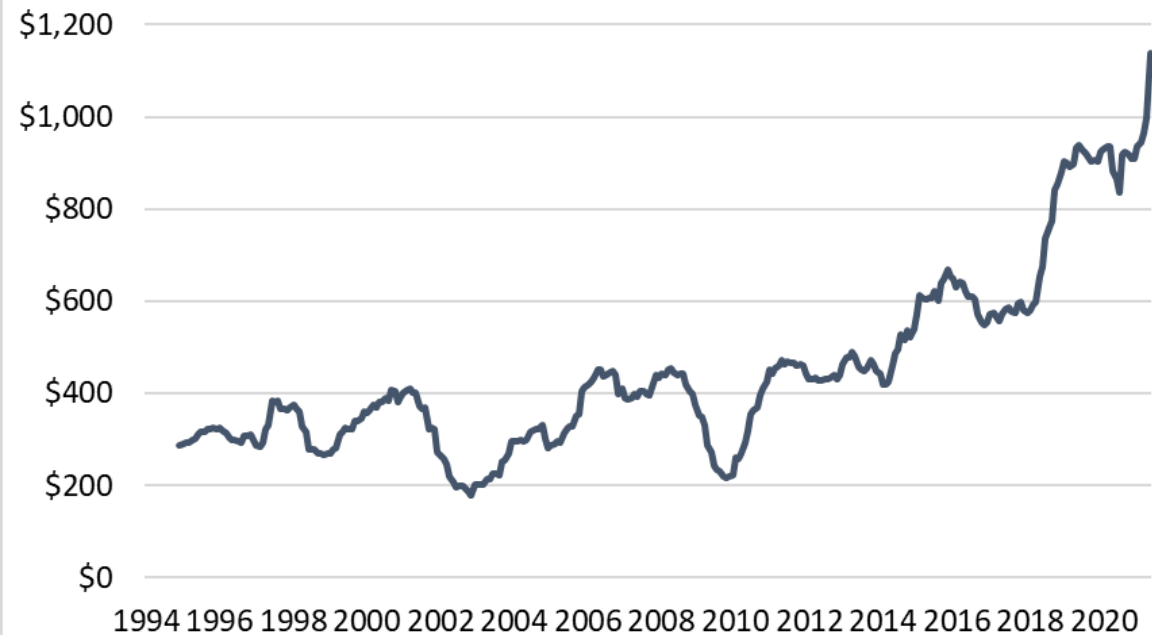
In a typical year, the tax filing season is winding down when the May forecast is released. This year, only around half of payments have been processed. The 2019-21 ending balance and kicker amount could change by hundreds of millions of dollars by the time the books have closed.



Corporate taxes keep setting records

Corporate Excise Taxes

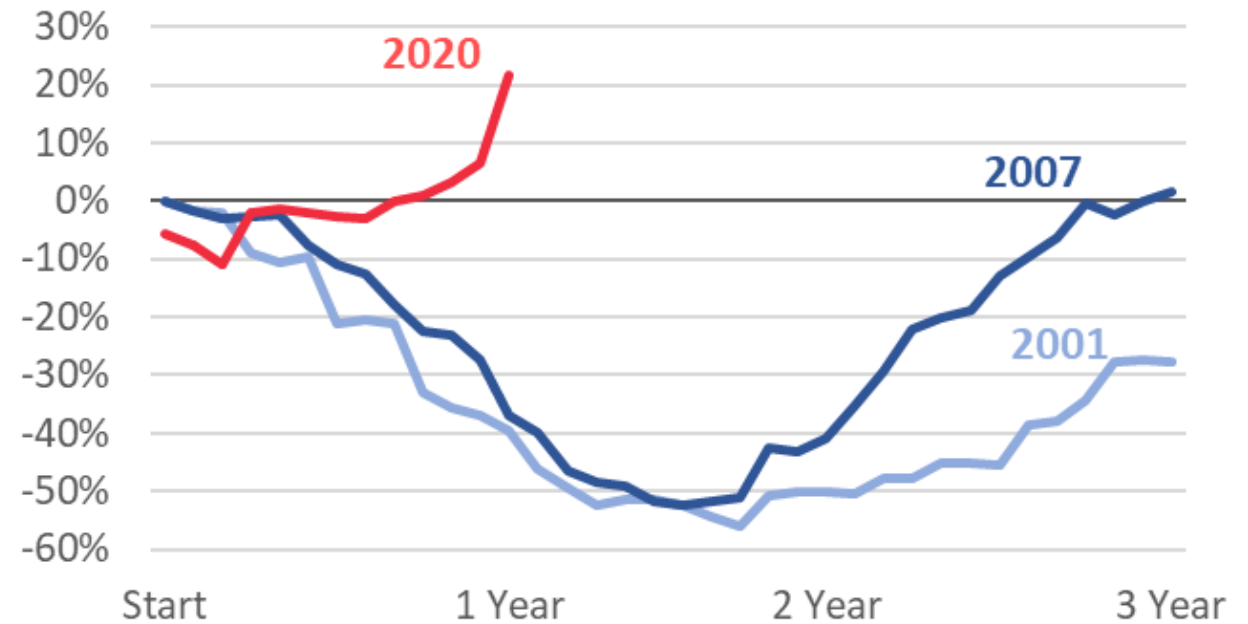
\$ millions, 12 month sum



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

Oregon Corporate Excise Tax

Nominal, Percent Change from Start of Recession

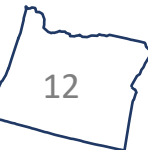


Latest: April 2021 | Source: Oregon Department of Revenue, Oregon Office of Economic Analysis



Oregon Office of
Economic Analysis

Note: CAT collections are on track, but few returns have been filed

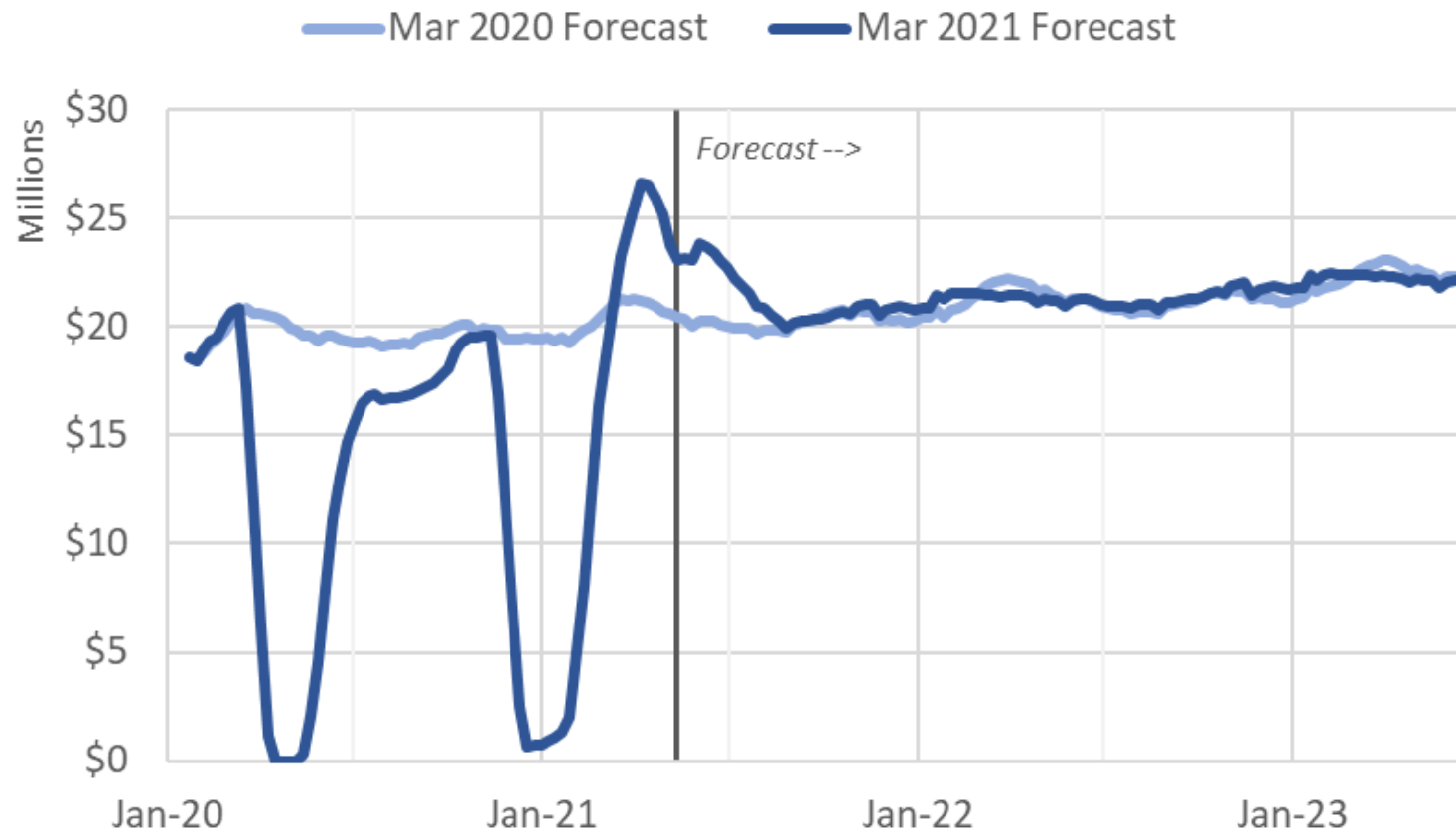




Lottery outlook is fully recovered

Oregon Video Lottery Sales

4 Week Average



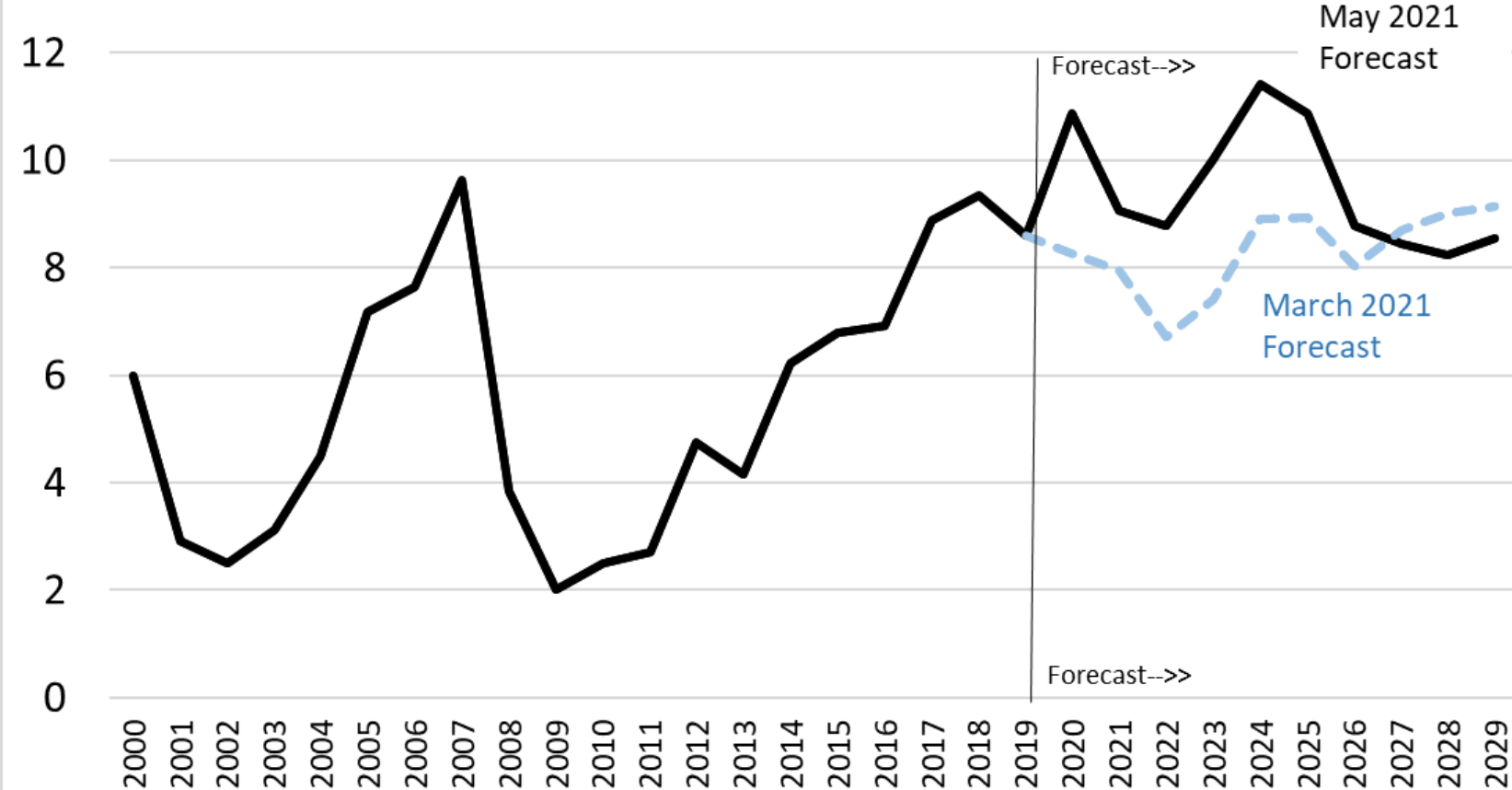
- Record-setting video sales proves consumers are not hesitant, that pent-up demand is real
- Overall outlook revised higher due to strong economy and underlying strength in sales
- 2021-23 revenues are now 2.4% *above* pre-pandemic expectations





Asset markets are the wildcard

Oregon Realized Capital Gains
\$ billions, Tax Years, Full-Year Filers



- Unlike previous recessions, asset prices, business income and profits keep growing
- The baseline outlook assumes underlying economic conditions will catch up gradually (no crash)
- Swings in nonwage income have an outsized impact due to higher tax rates
- Taxpayer reaction to federal and Washington tax reforms

The background of the image is a dark blue gradient. Centered in the background is a large, faint, light blue circular seal of the State of Oregon. The seal features an eagle with wings spread at the top, a ship on the left, a sun with rays in the center, a plow and sheaves of wheat on the right, and a banner at the bottom that reads "THE UNION". The words "STATE OF OREGON" are written around the top inner edge of the seal, and the year "1859" is at the bottom. The text "Bottom Line" is overlaid in the center of the seal in a white, bold, sans-serif font.

Bottom Line



Types of forecast errors

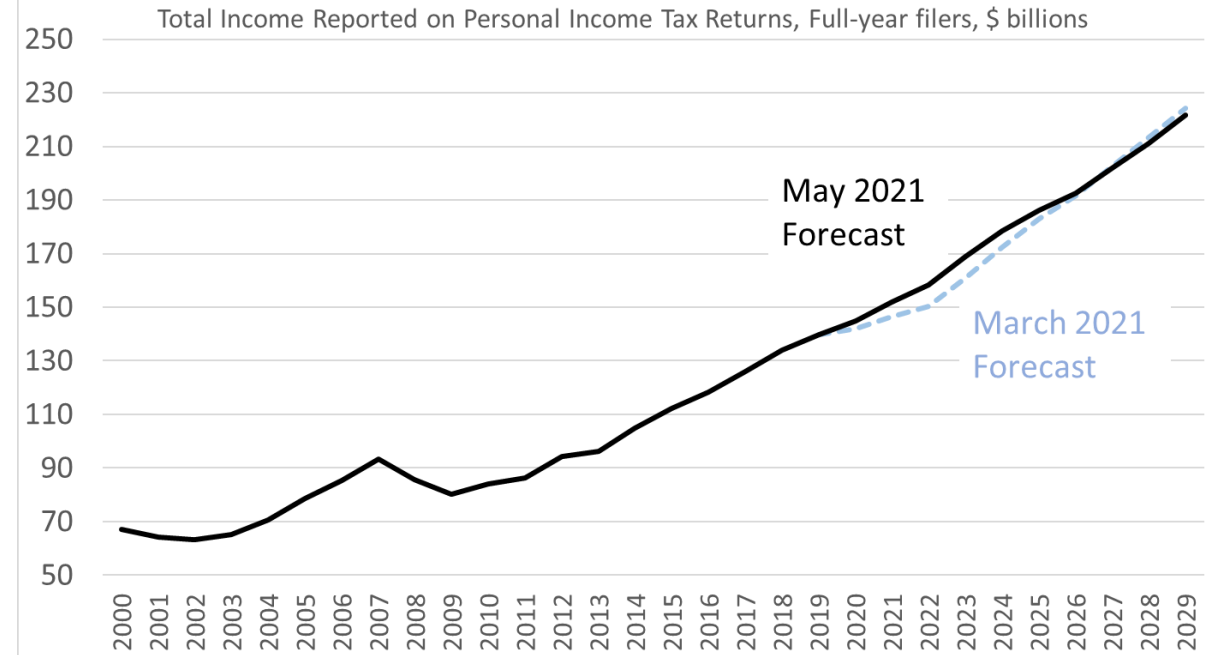
Economy in Recession

Undershoot	Overshoot
2019-21	1981-83
	1991-93
	2001-03
	2007-09
	2009-11

Economy in Expansion

Undershoot	Overshoot
1983-85	
1985-87	
1989-91	
1993-95	
1995-97	
1999-01	
2003-05	
2005-07	
2011-13	
2013-15	
2015-17	
2017-19	

Full Speed Ahead

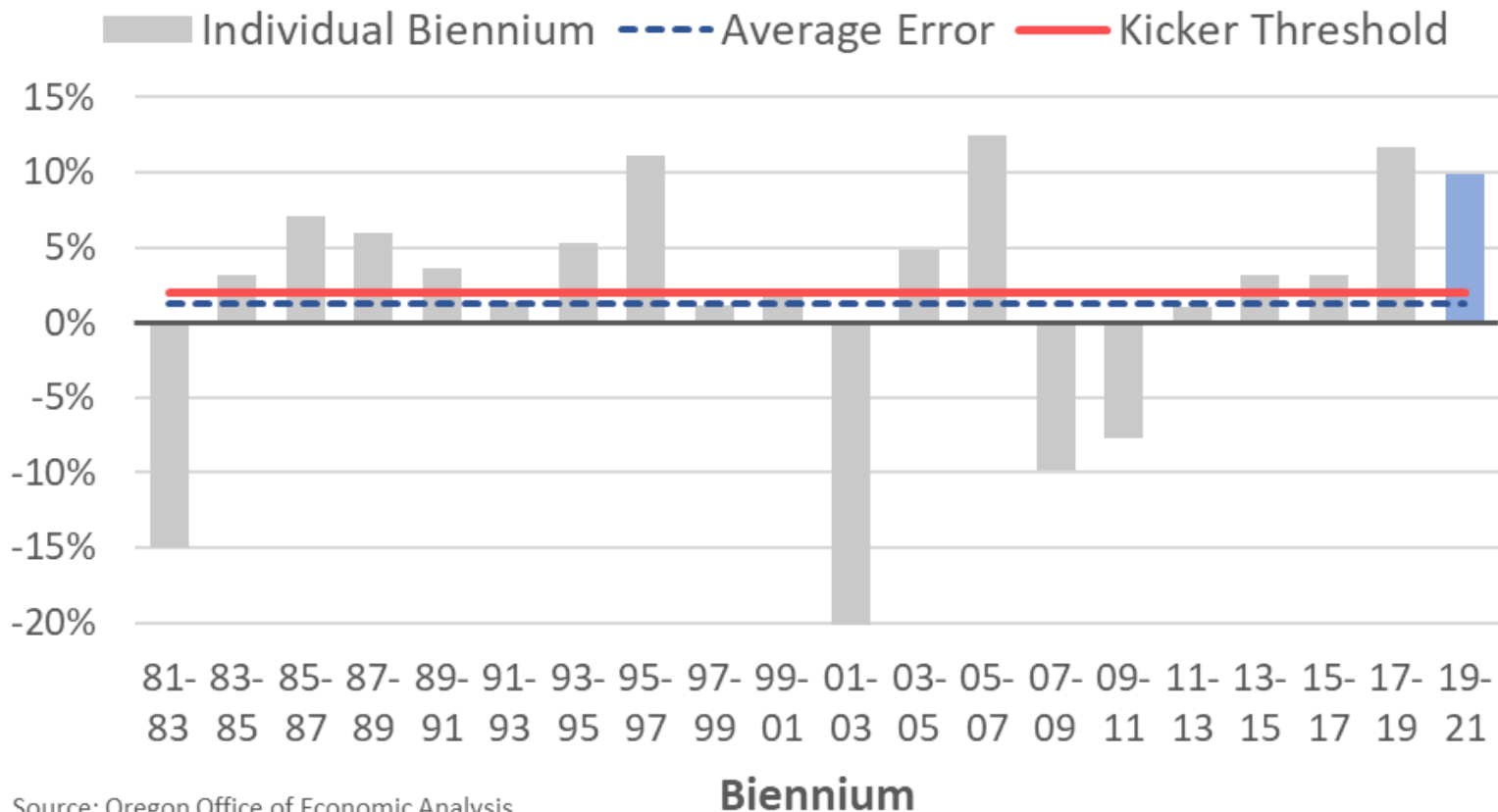




Oregon's unique kicker law

Oregon General Fund Forecast Errors

Percent Difference between Close of Session and Actuals



- Projected 2019-21 Kickers
 - Personal kicker \$1.4 billion
 - Corporate kicker \$664 million (dedicated to K-12)
- Final kicker numbers will be certified later summer after the accounting books are closed



Source: Oregon Office of Economic Analysis





What is your cut?

Income Group	Adjusted Gross Income*	Rough Estimate of Kicker Size**
Bottom 20%	< \$12,300	\$25
Second 20%	\$12,300 - \$28,900	\$149
Middle 20%	\$28,900 - \$51,800	\$326
Fourth 20%	\$51,800 - \$94,100	\$588
Next 15%	\$94,100 - \$193,200	\$1,182
Next 4%	\$193,200 - \$441,700	\$2,803
Top 1%	> \$441,700	\$12,856
Average	\$67,400	\$636
Median	\$35,000-\$40,000	\$312

- Total kicker \$1.407 billion
- Kicker paid out as equal share of tax liability (13.6%), meaning the largest dollar payments go to the highest earners
- Economic impact of increased consumer spending from kicker is affected by higher-income households having higher savings rates, and lower marginal propensity to consume

* Based on 2018 actual tax returns

** Based on OEA's 2020 tax liability





Revenue bottom line: significantly more resources are expected

May 2021 Forecast Changes

General Fund Revenues	\$ Millions from March		
	19-21	21-23	23-25
Personal Income Taxes	809	871	1,407
Corporate Income Taxes	245	104	99
Other	27	73	81
Total	1,081	1,047	1,587

Other Revenues	\$ Millions from March		
	19-21	21-23	23-25
Lottery	22	106	40
Corporate Activity Tax	77	76	-13
Marijuana Tax	2	21	31
Total	101	203	58

	\$ Millions from March		
	19-21	21-23	23-25
Total Sum	1,182	1,250	1,645

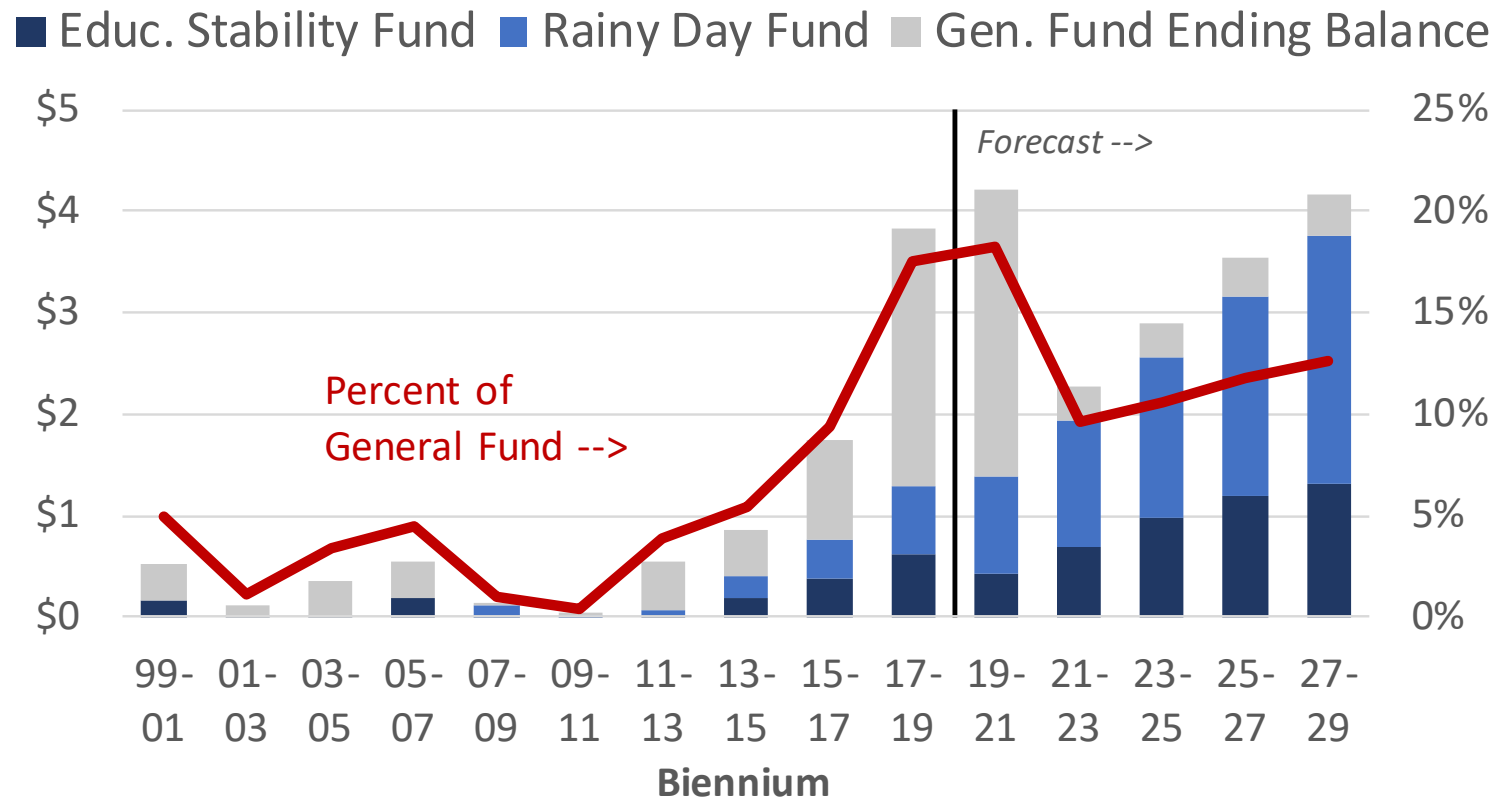
- Available resources have increased by more than \$1 billion per biennium through 25-27
- FY2021 Revenue Growth: PIT 30% CIT 22%
- More income=more sales: pushing up CAT, lottery and marijuana revenues
- This outlook is contingent upon asset markets, business income and corporate profits remaining near their record levels





Sizable reserves remain

Oregon Budgetary Reserves (billions)



Effective Reserves (\$ millions)

	Apr 2021	End 2019-21	End 2021-23
ESF	\$415	\$414	\$682
RDF	\$887	\$962	\$1,256
Reserves	\$1,301	\$1,377	\$1,937
Ending Balance	\$2,824	\$2,824	\$323
Total	\$4,126	\$4,201	\$2,260
% of GF	17.9%	18.2%	9.7%

Source: Oregon Office of Economic Analysis



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