

Oregon's Economic and Revenue Forecast



December 2023

Economic Outlook

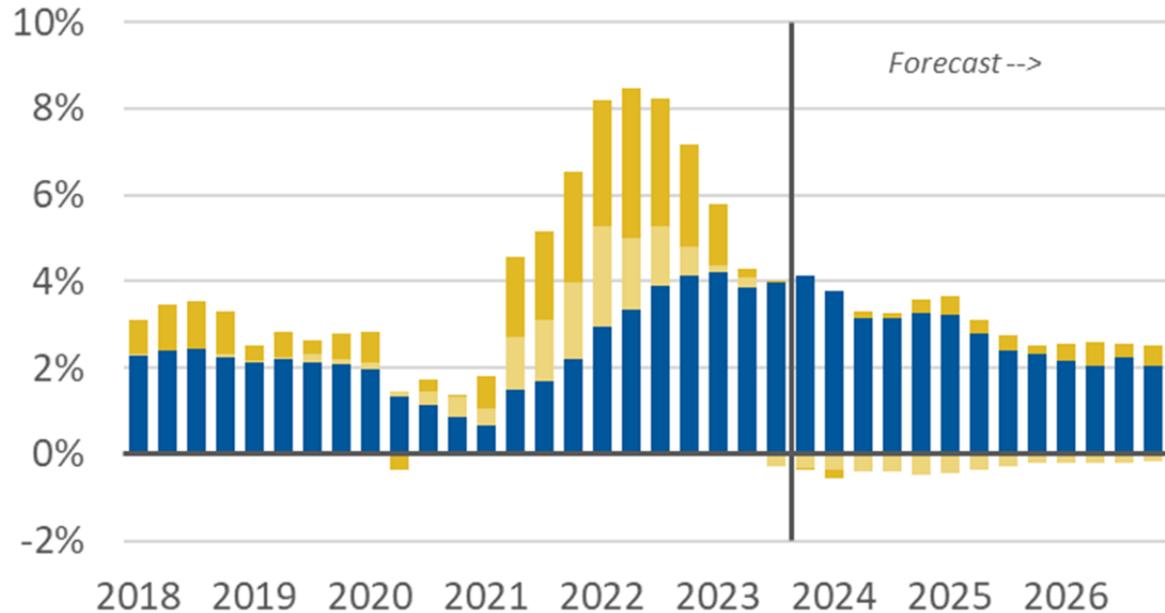


Progress on cooling the economy



West Region Consumer Price Index

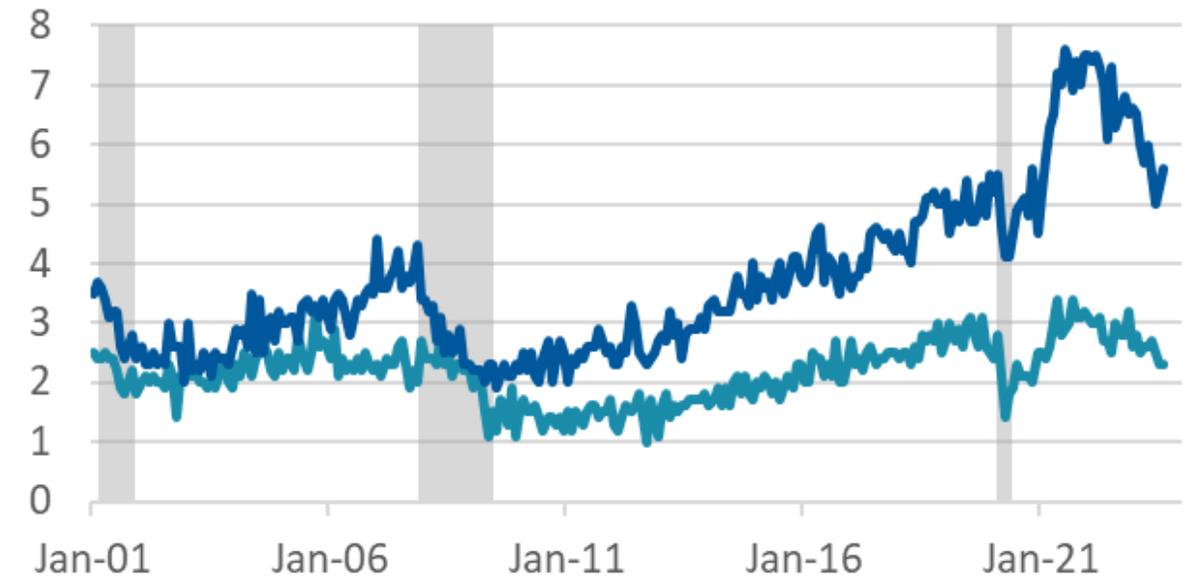
Decomposing year-over-year inflation: **Food and Energy**, **Goods**, and **Services**



Goods and services are excluding food and energy | Latest: 2023q3 | Source: BLS, IHS Markit, OR Office of Econ Analysis

Labor Market is Rebalancing

Job Opening rate and Worker Quits rate (percent) in Oregon

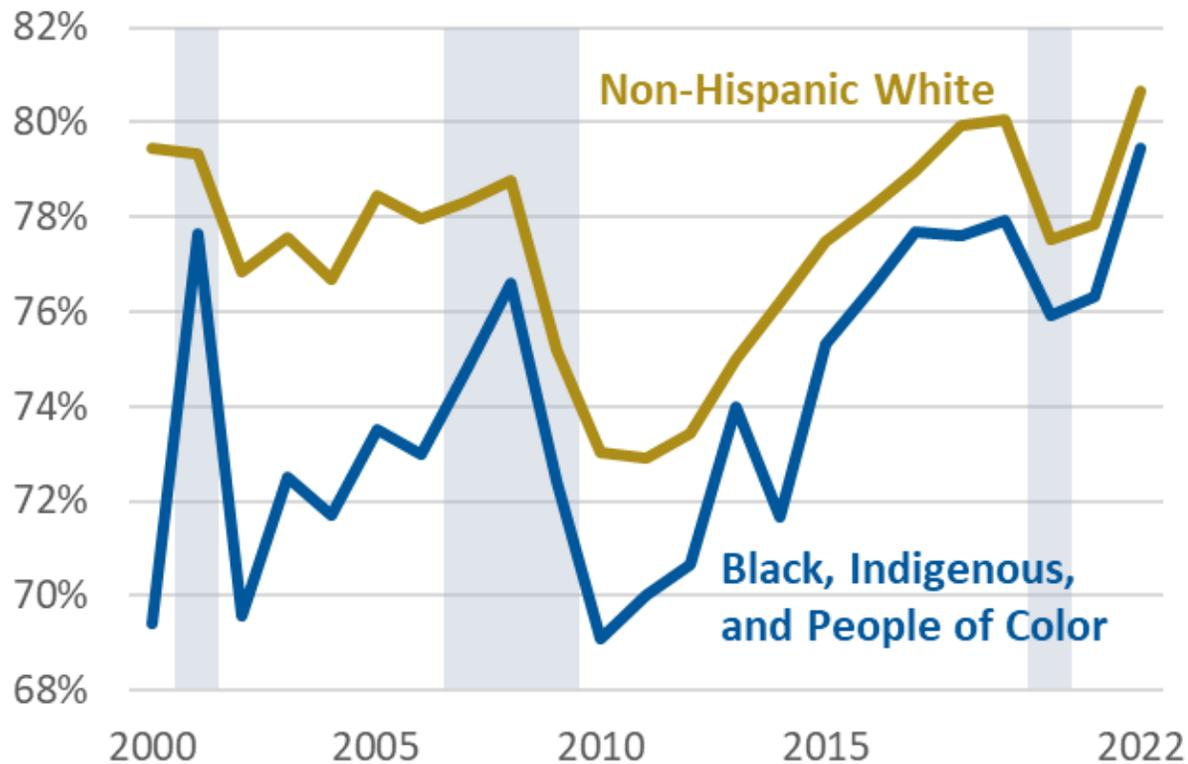


Latest Data: August 2023 | Source: BLS, Oregon Office of Economic Analysis

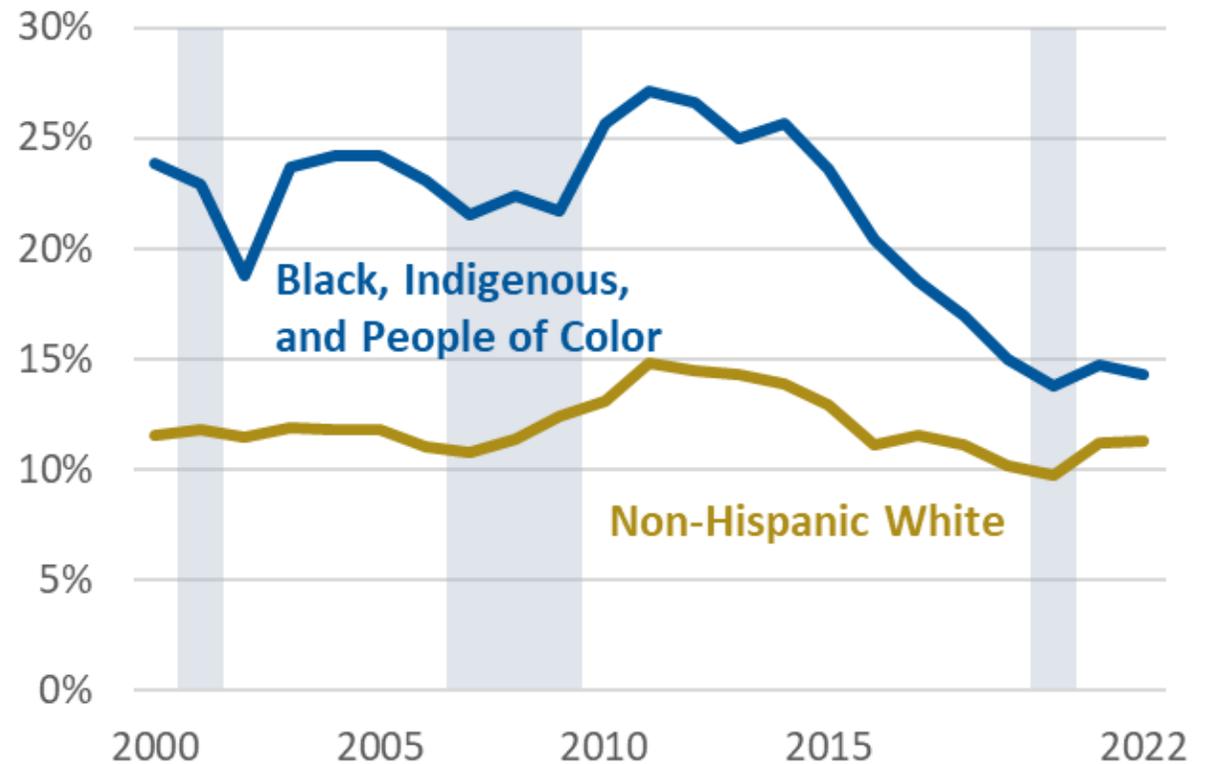
Oregon's inclusive economic recovery from the pandemic



Prime-Age Employment Rate (25-54 yrs)



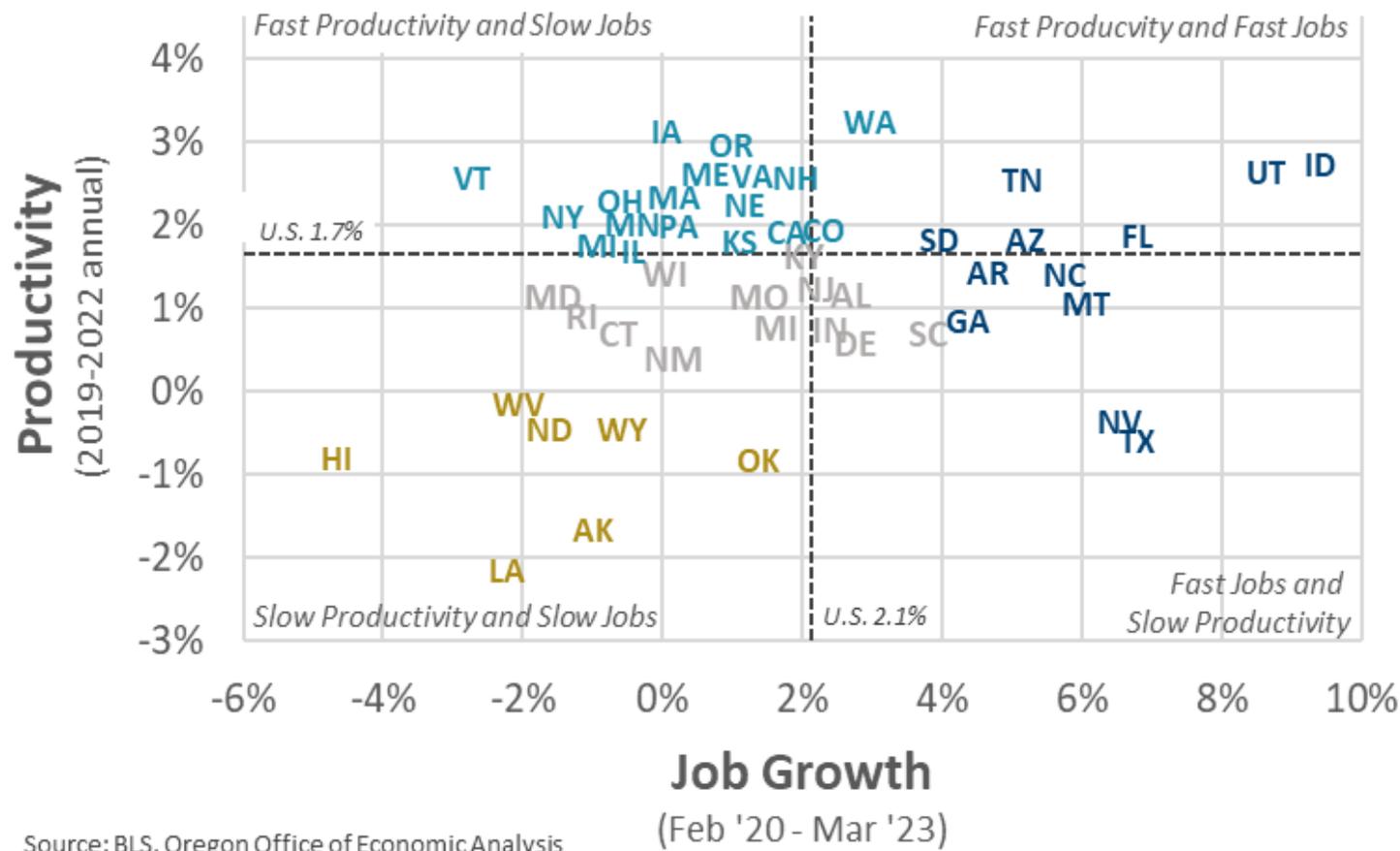
Poverty Rate



Economies rely on labor and capital



Pandemic Economic Growth Across States



- Oregon's experience during the current budget cycle is remarkably different from what we have experienced in the past
- During periods of nationwide economic expansion, Oregon has consistently outperformed other states due to above-average population and job gains
- This cycle, Oregon has seen population growth stall, but has seen large economic gains due to more output and income per worker
- Productivity gains should persist going forward, with large capital investments planned among both public and private sources, and vibrant start-up activity

Source: BLS, Oregon Office of Economic Analysis

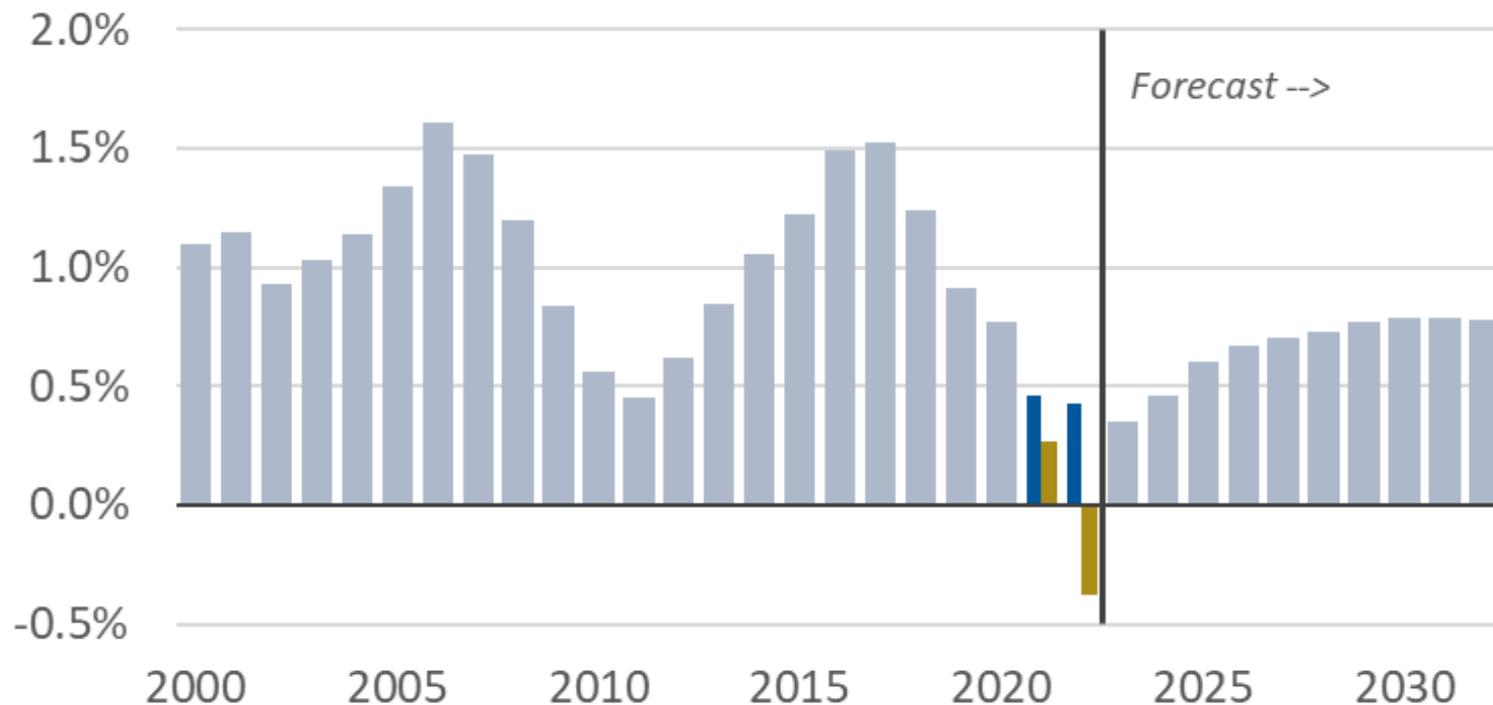
Population growth slowly returns



Oregon Population Growth

Annual change in total state population

OEA History and Forecast, **Portland State Estimates**, **Census Estimates**



Latest: 2022 | Source: Census, Portland State Population Research Center, Oregon Office of Economic Analysis

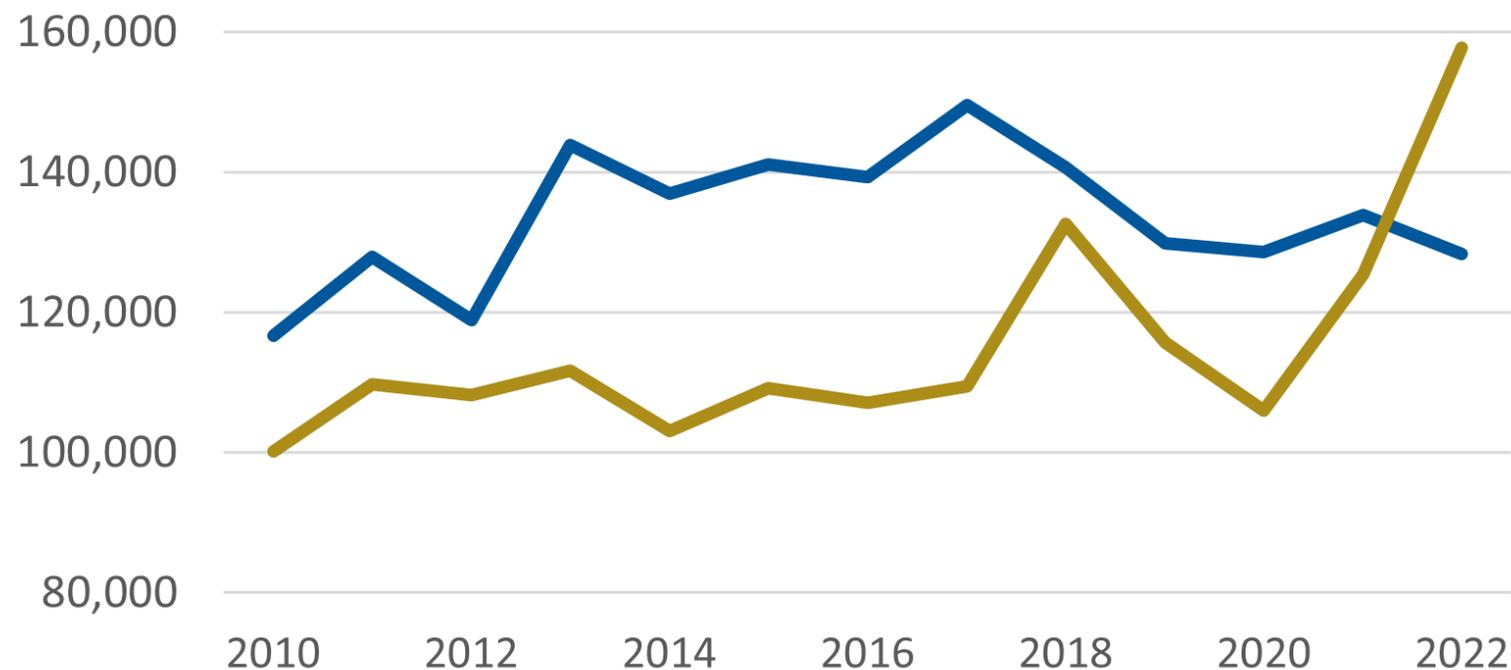
- 2023 population estimates released in Nov (PSU) and Dec (Census)
- Migration is the primary reason Oregon grows faster than the U.S. It allows local businesses to hire and expand at a faster rate.
- Updated Population Data
 - Deaths continue to outnumber births
 - Surrendered driver licenses at Oregon DMVs continues to match levels seen last decade
 - New data from the Cleveland Fed based on credit reports, shows the Portland metro population may be stabilizing, even as the urban core continues to lose residents

Who Left in 2022?



Oregon Domestic Migration

Number of people moving *Into Oregon* and *Out of Oregon*



Data: ACS 1 year estimates | Source: Census, IPUMS-USA, Oregon Office of Economic Analysis

- Population declines driven not by fewer people moving to Oregon, but due to more people packing up and leaving Oregon
- Net out-migration was evident across the board, broadly speaking
 - Half children, half adults
 - Half college graduates, half non-college graduates
 - Nearly 50/50 for white, non-Hispanic, and BIPOC Oregonians
 - Out-migration across all major income brackets
- Positive in-migration among 18-24 year olds
- Some low-cost rural areas in Oregon have also bucked the trend

Revenue Outlook

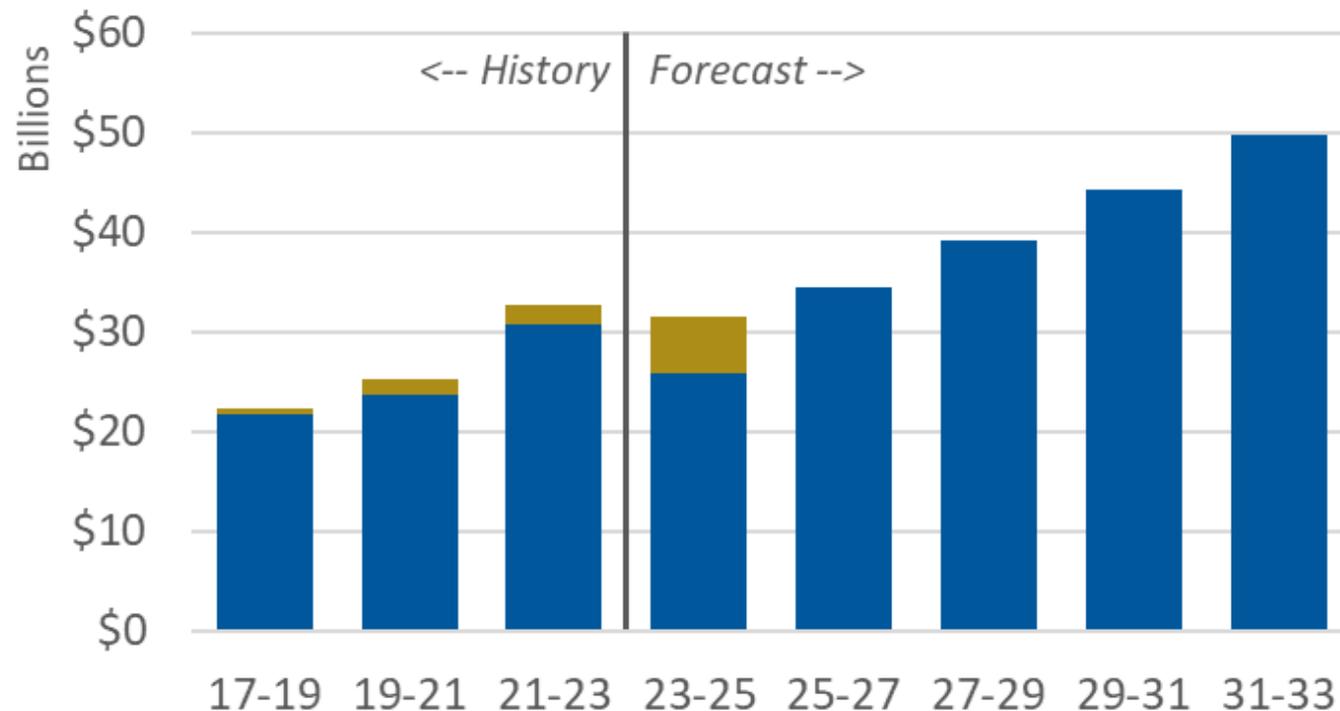




General Fund revenue growth expected to return to trend in 25-27

Oregon General Fund Forecast

Current Revenue Forecast | Last Biennium's Kicker Being Paid Out



Source: Oregon Office of Economic Analysis

- General Fund revenues are slowing as expected, and will slow further as the record kicker credit is realized during the upcoming tax filing season
- Even excluding the kicker payment, GF revenues were expected to be relatively unchanged relative to the 21-23 budget period since the boom of tax year 2021 is unlikely to be repeated
- The kicker will begin to weaken collections at the end of the year due to reduced estimated income tax payments
- Early next year, larger refunds will be paid, with smaller year-end payments to follow as April 15th approaches

Revenue Forecast Changes

\$ millions, change from September 2003 forecast



December 2023 Forecast Changes					
General Fund Revenues	\$ Millions from Sept				
	23-25	25-27	27-29	29-31	31-33
Personal Income Taxes	101	-242	-891	-772	-600
Corporate Income Taxes	97	-38	-93	-141	-177
Other	75	18	1	1	1
Total	274	-261	-983	-911	-776
Other Revenues	\$ Millions from Sept				
	23-25	25-27	27-29	29-31	31-33
Lottery	8	-5	-7	-8	-10
Corporate Activity Tax	-11	-26	-11	-6	0
Marijuana Tax	4	-2	-2	-2	-3
Total	1	-33	-21	-17	-12
Total Sum	\$ Millions from Sept				
	23-25	25-27	27-29	29-31	31-33
Total Sum	275	-295	-1,004	-928	-788

- Most General Fund and consumption-based revenues have tracked the forecast relatively well in recent months
- Upward revisions to 23-25 include large increases of insurance taxes, and additional interest earnings
- Future biennia are lowered ~1-3% due to downwardly revised outlook for spending as well as personal and business income
- Removal of an expected Estate Tax transfer to PERS fund retains an additional \$62 million in the General Fund in 23-25
- Marijuana: Recent collections outpacing underlying sales for first time in more than a year. Large harvest this fall, oversupply still biggest market factor.
- Bottom Line: **\$42 million** in additional expected resources for 23-25 and 25-27 combined

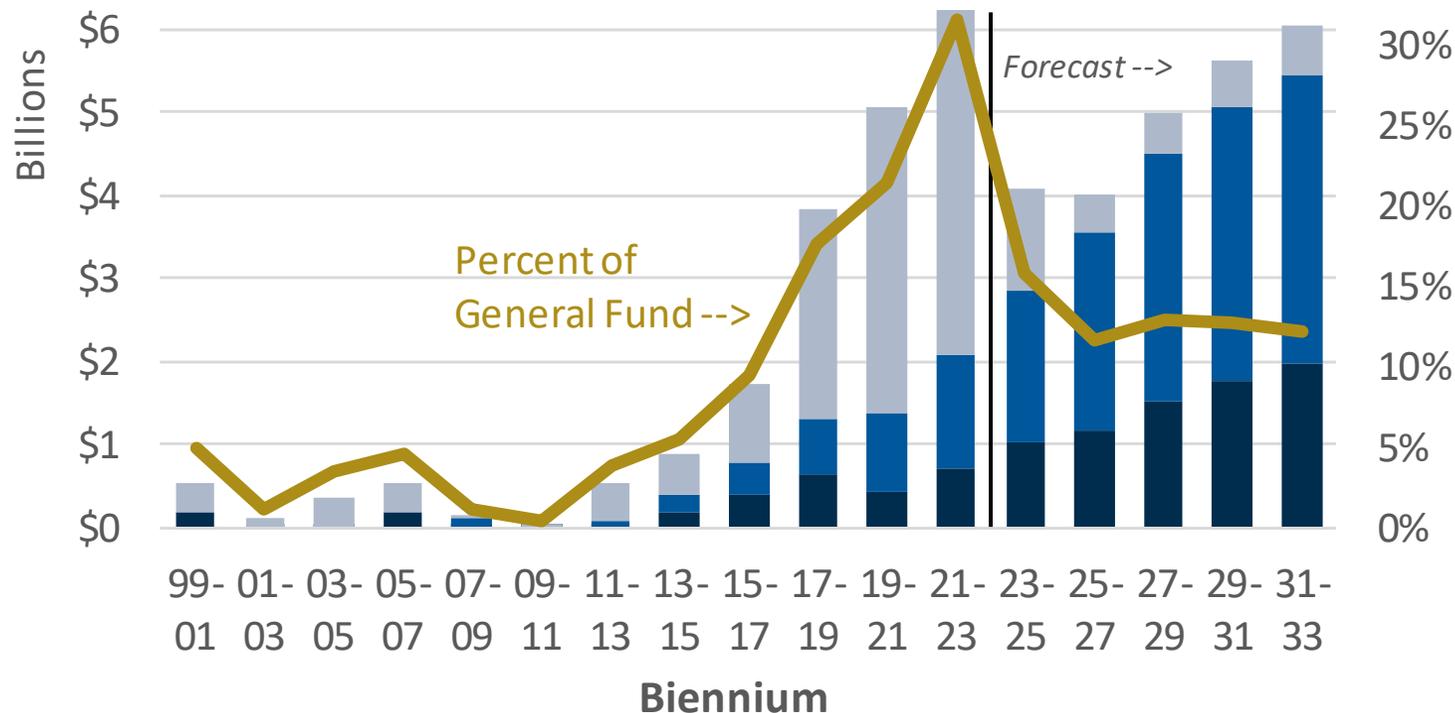
Sizable reserves remain

ESF expected to hit its statutory cap in FY27, ORDF in FY30



Oregon Budgetary Reserves

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



Effective Reserves (\$ millions)

	<i>Current Oct-23</i>	<i>End of 2023-25</i>
ESF	\$750	\$1,008
RDF	\$1,368	\$1,856
Reserves	\$2,118	\$2,864
Ending Balance	\$1,216	\$1,216
Total	\$3,334	\$4,079
% of GF	13.0%	15.9%

Source: Oregon Office of Economic Analysis

Zero Migration

Demographic Alternative Scenario



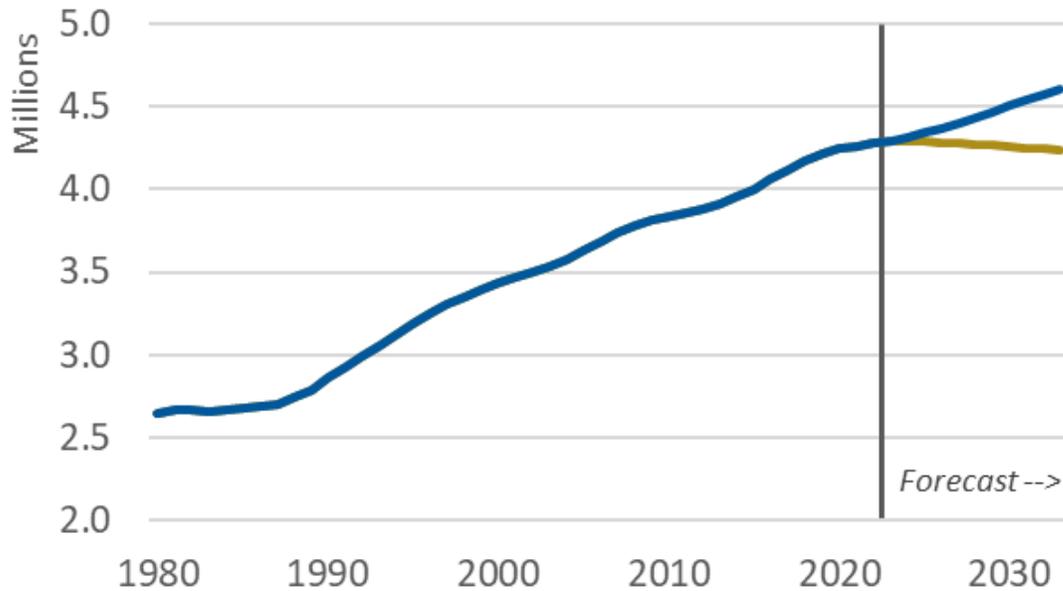
Demographic Changes



Oregon Population

Number of Oregon residents, all ages

Baseline Forecast | Zero Migration Scenario

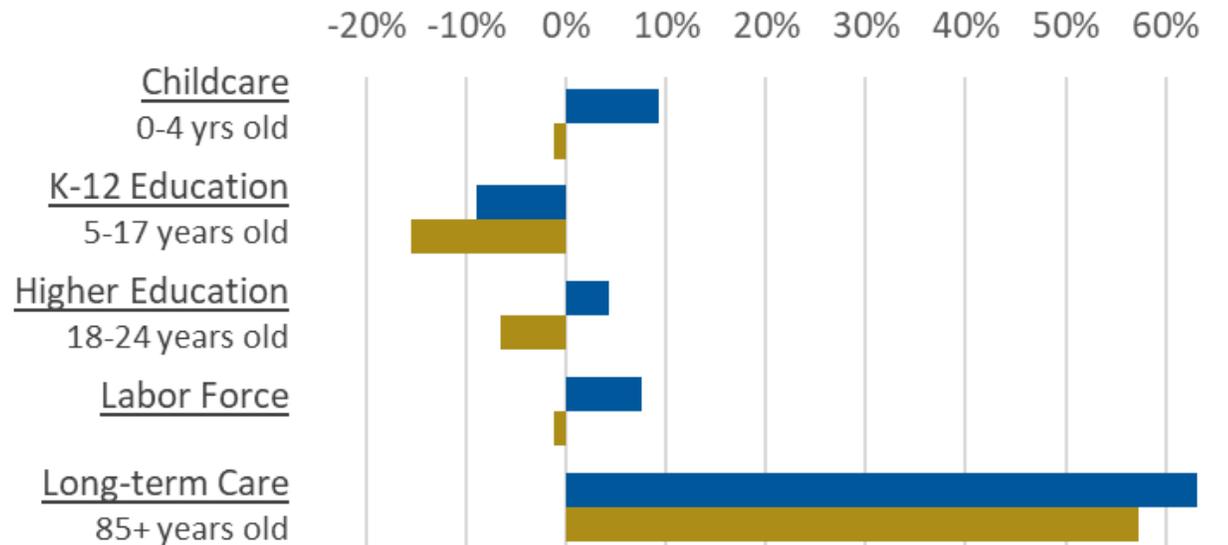


Latest Data: 2022 | Source: Oregon Office of Economic Analysis

Oregon Budget Driver Demographics

Percent change 2023-2033 in underlying demographics impacting each cohort

Baseline Forecast | Zero Migration Scenario



Source: Oregon Office of Economic Analysis

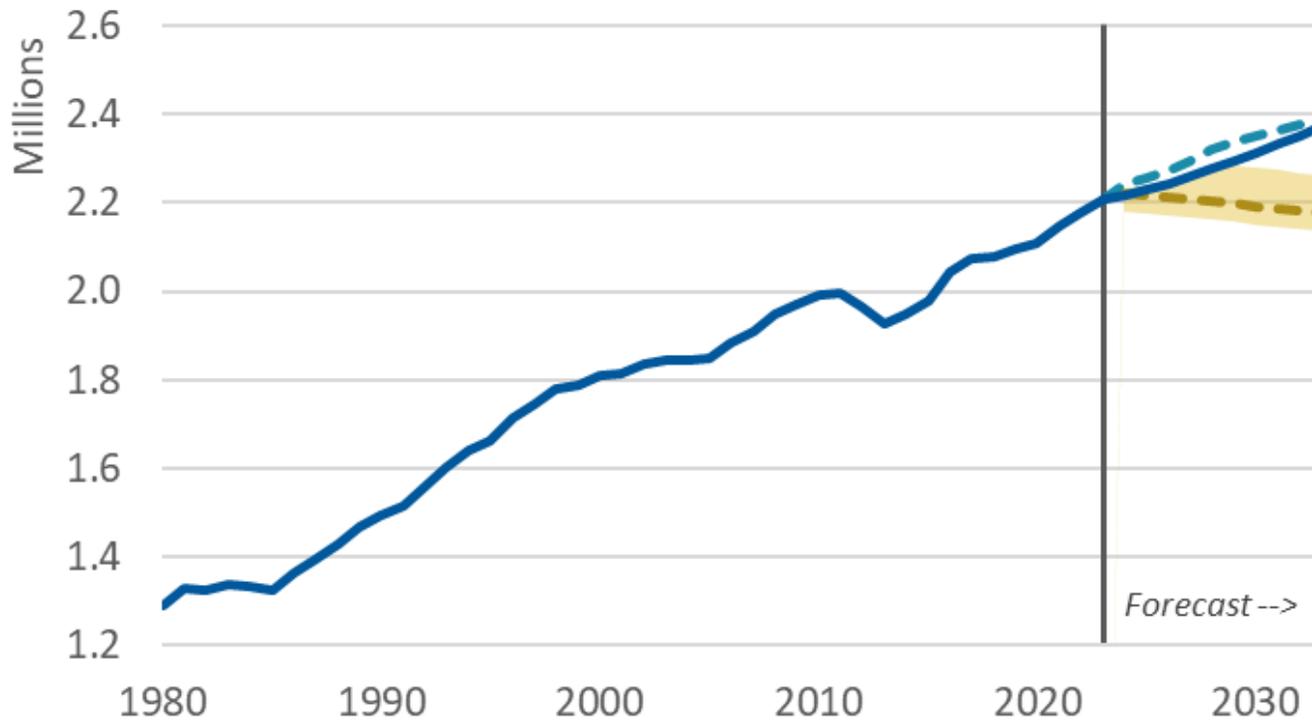
Labor Market Implications



Oregon's Labor Force

Number of Oregon residents with a job or actively looking for work

Baseline | Zero Migration | Zero Migration Latent Labor Force



Latest Data: 2022 | Source: Oregon Office of Economic Analysis

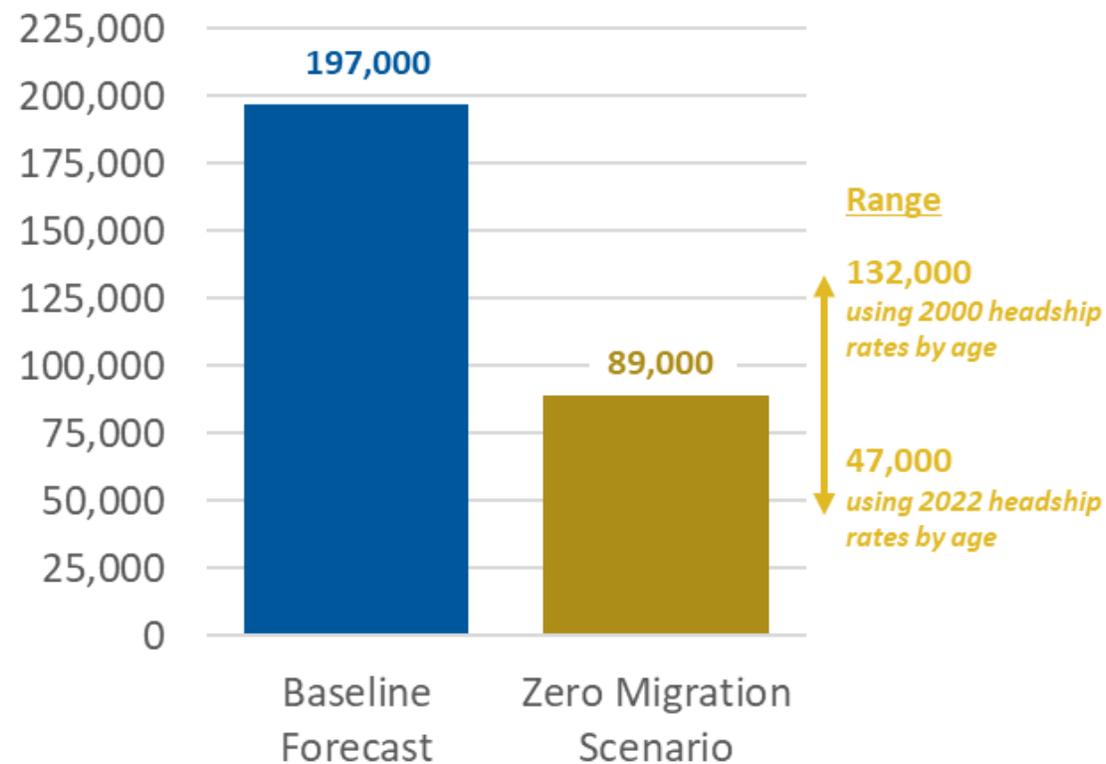
- With a smaller working-age population, Oregon's labor force is likely to decline in the years ahead, putting increased pressure on local businesses looking to hire or expand
- From 2023 to 2033, Oregon's potential labor force will decline by 1.4 percent (30,000 workers), leaving it 8.3% (196,000) below the baseline
- Increases in the Latent Labor Force based on historical disparities by age, educational attainment, race and ethnicity, and sex could more than offset underlying population losses



Housing Demand Impacts

Oregon Housing Demand

Change in the number of households from 2023 to 2033



Source: IPUMS-USA, Oregon Office of Economic Analysis

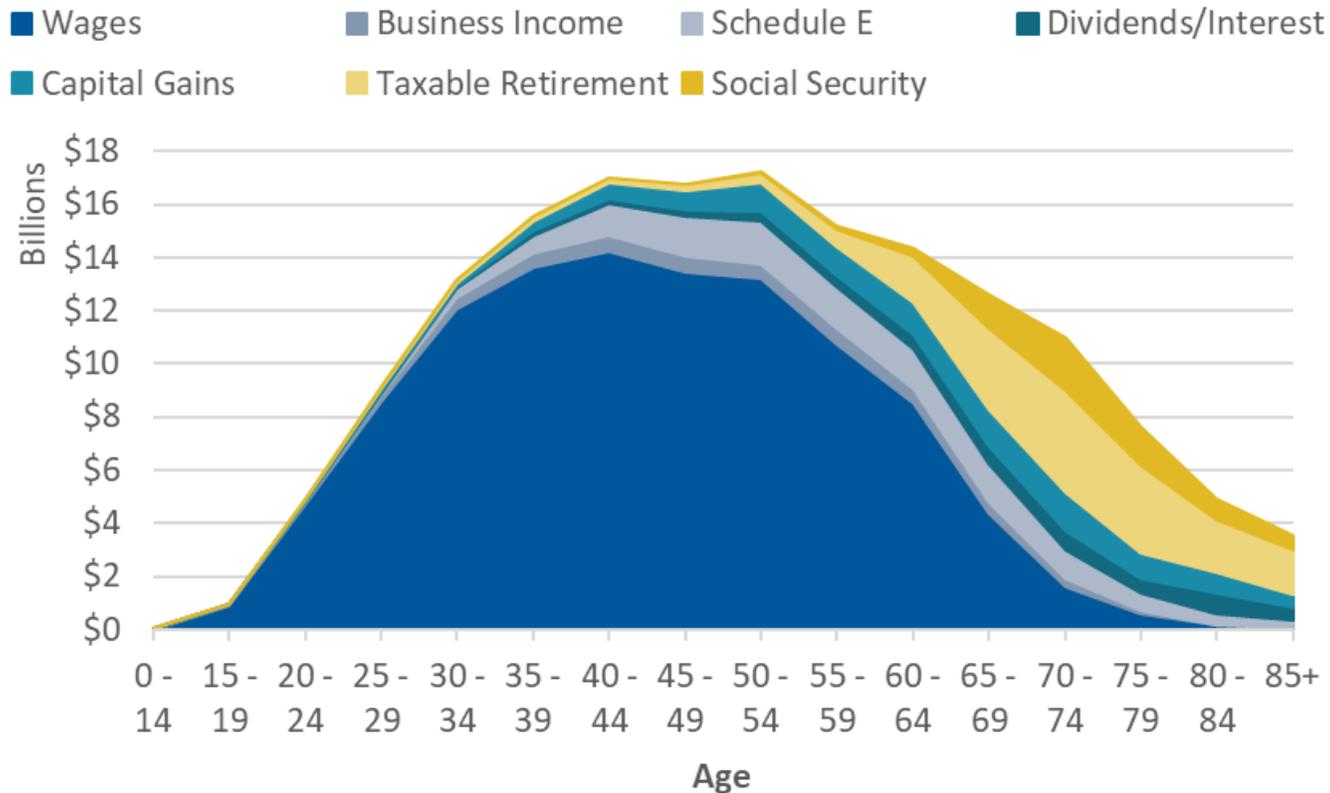
- Household formation will still increase even in a Zero Migration scenario given underlying demographics as the Millennials continue to age into their higher household formation and homebuying years
- Household formation will be lower relative to the baseline, indicating the state's future housing needs will be smaller as well
- However, given the state's historical underproduction of housing, even in a Zero Migration scenario, the pace of new construction still need to increase compared to recent trends

General Fund Revenue Impacts



Oregon Adjusted Gross Income by Age

2022 Full-Year Returns by Component of Income



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

- The overall revenue impacts in a zero-migration scenario are not terribly severe
- Revenue losses are limited by the fact that the baseline outlook for migration is already weak, and that most migrants are young and will not hit their peak earning years until the end of the 10-year outlook
- Reductions in corporate income taxes are limited as well given that not all C-Corporations are in consumer-based industries
- Out-migration of wealthy residents presents a risk to capital gains and estate tax collections

Revenue Impacts



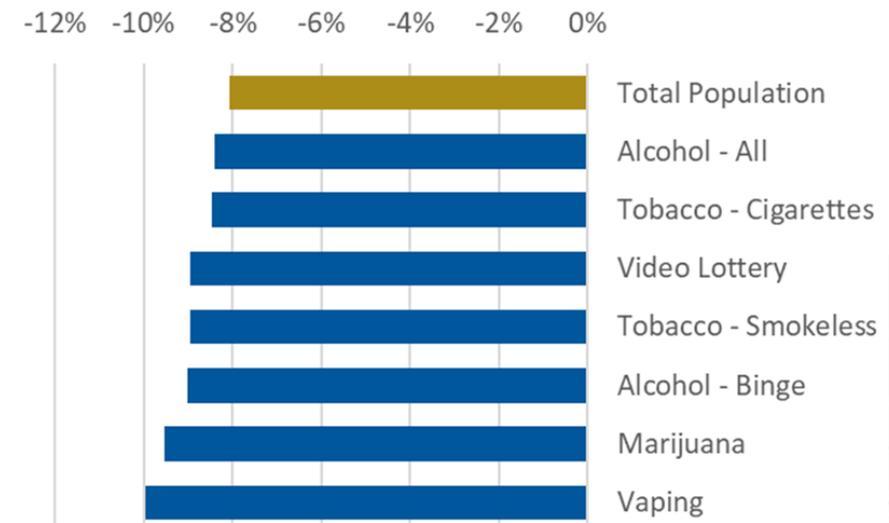
Zero Migration Alternative Scenario

\$ millions, change from the baseline forecast

	23-25	25-27	27-29	29-31	31-33	Cumulative
General Fund	-\$120	-\$604	-\$1,267	-\$2,149	-\$3,242	-\$7,382
Lottery	-\$5	-\$31	-\$68	-\$113	-\$164	-\$380
CAT	-\$19	-\$61	-\$124	-\$204	-\$302	-\$710
Marijuana	-\$1	-\$6	-\$14	-\$25	-\$38	-\$85
Total Revenue	-\$145	-\$702	-\$1,473	-\$2,491	-\$3,747	-\$8,558
	0%	-2%	-3%	-5%	-7%	-4%

Oregon Vice and Zero Migration

Percent difference in 2033 consumer base in the Zero Migration Scenario compared to the Baseline Forecast



Source: Oregon Office of Economic Analysis

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