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

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

- **Non-Hispanic White**
- **Black, Indigenous, and People of Color**

**Poverty Rate**

- **Black, Indigenous, and People of Color**
- **Non-Hispanic White**

Data: 2000 Census, 2001-2022 ACS | Source: Census, IPUMS-USA, Oregon Office of Economic Analysis
Economies rely on labor and capital

- 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.

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**Pandemic Economic Growth Across States**

- Productivity growth is measured from 2019-2022 annual.
- Job growth is measured from Feb '20 - Mar '23.
- States are plotted on a grid based on productivity and job growth.
- Oregon is located in the top right quadrant, indicating strong productivity and job growth.

Source: BLS, Oregon Office of Economic Analysis
Population growth slowly returns

- 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*

- 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

Data: ACS 1 year estimates | Source: Census, IPUMS-USA, Oregon Office of Economic Analysis
Revenue Outlook
General Fund revenue growth expected to return to trend in 25-27

- 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.

Oregon General Fund Forecast

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

Billions

<table>
<thead>
<tr>
<th>17-19</th>
<th>19-21</th>
<th>21-23</th>
<th>23-25</th>
<th>25-27</th>
<th>27-29</th>
<th>29-31</th>
<th>31-33</th>
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<tbody>
<tr>
<td>$0</td>
<td>$0</td>
<td>$10</td>
<td>$15</td>
<td>$20</td>
<td>$25</td>
<td>$30</td>
<td>$35</td>
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</table>

Source: Oregon Office of Economic Analysis
**Revenue Forecast Changes**

$ millions, change from September 2003 forecast

### December 2023 Forecast Changes

<table>
<thead>
<tr>
<th>General Fund Revenues</th>
<th>$ Millions from Sept</th>
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<tbody>
<tr>
<td></td>
<td>23-25</td>
</tr>
<tr>
<td>Personal Income Taxes</td>
<td>101</td>
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<tr>
<td>Corporate Income Taxes</td>
<td>97</td>
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<tr>
<td>Other</td>
<td>75</td>
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<tr>
<td><strong>Total</strong></td>
<td>274</td>
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<table>
<thead>
<tr>
<th>Other Revenues</th>
<th>$ Millions from Sept</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>23-25</td>
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<tr>
<td>Lottery</td>
<td>8</td>
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<tr>
<td>Corporate Activity Tax</td>
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<tr>
<td>Marijuana Tax</td>
<td>4</td>
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<tr>
<td><strong>Total</strong></td>
<td>1</td>
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<table>
<thead>
<tr>
<th>$ Millions from Sept</th>
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</thead>
<tbody>
<tr>
<td>23-25</td>
</tr>
<tr>
<td><strong>Total Sum</strong></td>
</tr>
</tbody>
</table>

- 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)

<table>
<thead>
<tr>
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<th>Current Oct-23</th>
<th>End of 2023-25</th>
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<tbody>
<tr>
<td>ESF</td>
<td>$750</td>
<td>$1,008</td>
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<tr>
<td>RDF</td>
<td>$1,368</td>
<td>$1,856</td>
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<td>Reserves</td>
<td>$2,118</td>
<td>$2,864</td>
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<td>Ending Balance</td>
<td>$1,216</td>
<td>$1,216</td>
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<tr>
<td>Total</td>
<td>$3,334</td>
<td>$4,079</td>
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</table>

% of GF: 13.0% to 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

-20% -10% 0% 10% 20% 30% 40% 50% 60%

- Childcare
  0-4 yrs old
- K-12 Education
  5-17 years old
- Higher Education
  18-24 years old
- Labor Force
- Long-term Care
  85+ years old

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

- 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.

**Oregon Housing Demand**

*Change in the number of households from 2023 to 2033*

- **Baseline Forecast**: 197,000
- **Zero Migration Scenario**: 89,000

**Range**
- 132,000 using 2000 headship rates by age
- 47,000 using 2022 headship rates by age

Source: IPUMS-USA, Oregon Office of Economic Analysis
General Fund Revenue Impacts

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.
### Zero Migration Alternative Scenario

$ millions, change from the baseline forecast

<table>
<thead>
<tr>
<th></th>
<th>23-25</th>
<th>25-27</th>
<th>27-29</th>
<th>29-31</th>
<th>31-33</th>
<th>Cumulative</th>
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<tbody>
<tr>
<td>General Fund</td>
<td>-$120</td>
<td>-$604</td>
<td>-$1,267</td>
<td>-$2,149</td>
<td>-$3,242</td>
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<tr>
<td>Lottery</td>
<td>-$5</td>
<td>-$31</td>
<td>-$68</td>
<td>-$113</td>
<td>-$164</td>
<td>-$380</td>
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<tr>
<td>CAT</td>
<td>-$19</td>
<td>-$61</td>
<td>-$124</td>
<td>-$204</td>
<td>-$302</td>
<td>-$710</td>
</tr>
<tr>
<td>Marijuana</td>
<td>-$1</td>
<td>-$6</td>
<td>-$14</td>
<td>-$25</td>
<td>-$38</td>
<td>-$85</td>
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<tr>
<td>Total Revenue</td>
<td>-$145</td>
<td>-$702</td>
<td>-$1,473</td>
<td>-$2,491</td>
<td>-$3,747</td>
<td>-$8,558</td>
</tr>
</tbody>
</table>

0% -12% -10% -8% -6% -4% -2% 0%

**Source:** Oregon Office of Economic Analysis
Contact Information

Mark McMullen
(971) 345-1003
mark.mcmullen@das.oregon.gov

Josh Lehner
(971) 209-5929
joshua.lehner@das.oregon.gov

www.OregonEconomicAnalysis.com
@OR_EconAnalysis