

# Oregon's Economic and Revenue Forecast



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# Economic Outlook



# Economy not yet normalized, major policy shifts cloud outlook



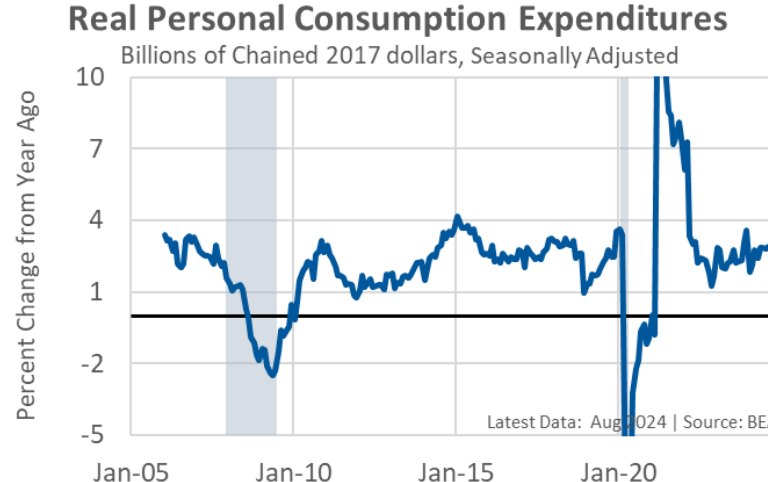
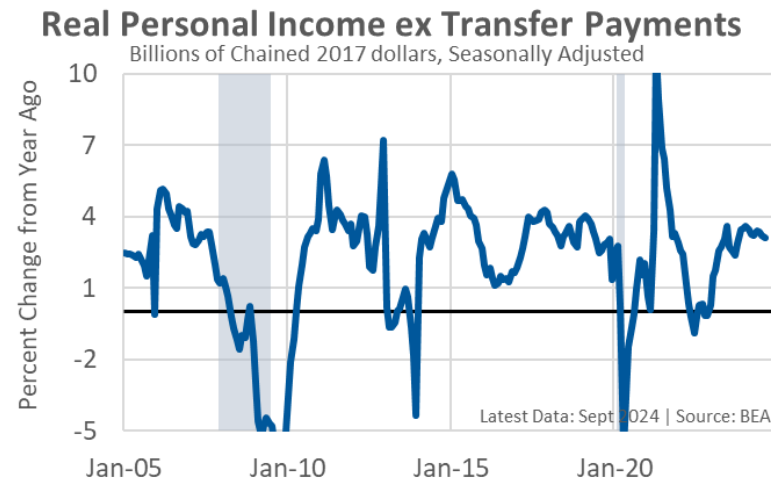
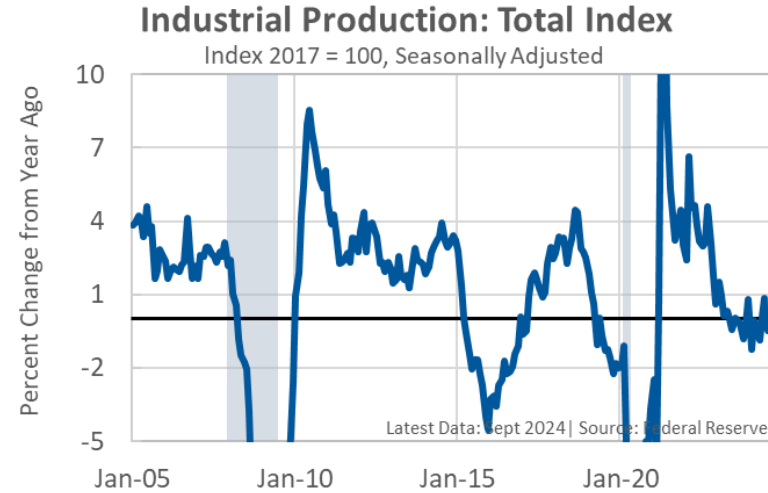
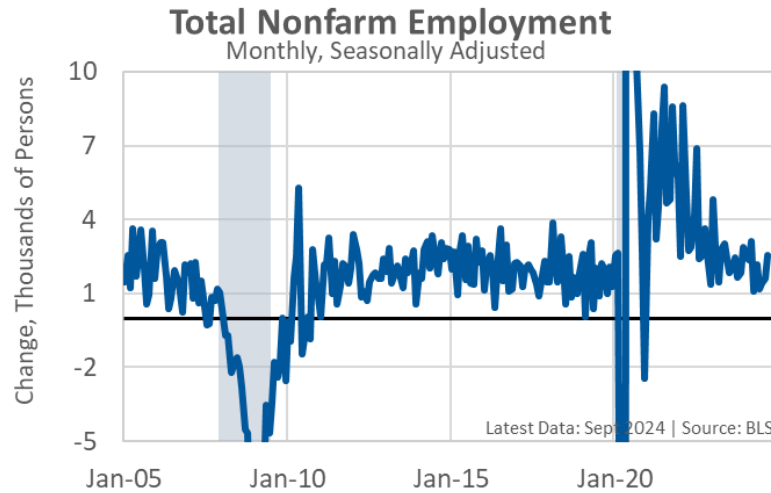
- Economic “soft landing” not yet fully realized, “no landing” could complicate policy
  - Growth: Surprises in recent economic data have consistently leaned toward firmer growth
  - Labor market appears to be stabilizing, despite factory-sector weakness
  - Inflation: Significant progress toward 2% target has shown recent signs of stalling
  - Interest rate cutting cycle has begun, but economic resilience necessitates fewer reductions
- Slower economic growth ahead relative to post-pandemic period, but recession risks remain low
  - Oregon demographics look weaker relative to pre-pandemic period
  - S&P’s equity market and corporate profit scenario characterized as “tepid”
- Alternative scenarios – “no landing” versus recession
  - Baseline = “soft landing”: Slower growth (2.1%) and cooler inflation (2.4%) [55%]
  - Upside = “no landing”: Firmer growth (~2.5%) and little inflation progress (~3%) [25%]
  - Downside = Recession: Growth stalls (1% or less) and inflation falls below 2% [20%]

# Economic resilience stemming from consumer health



Consumers resilient

Manufacturing recession?



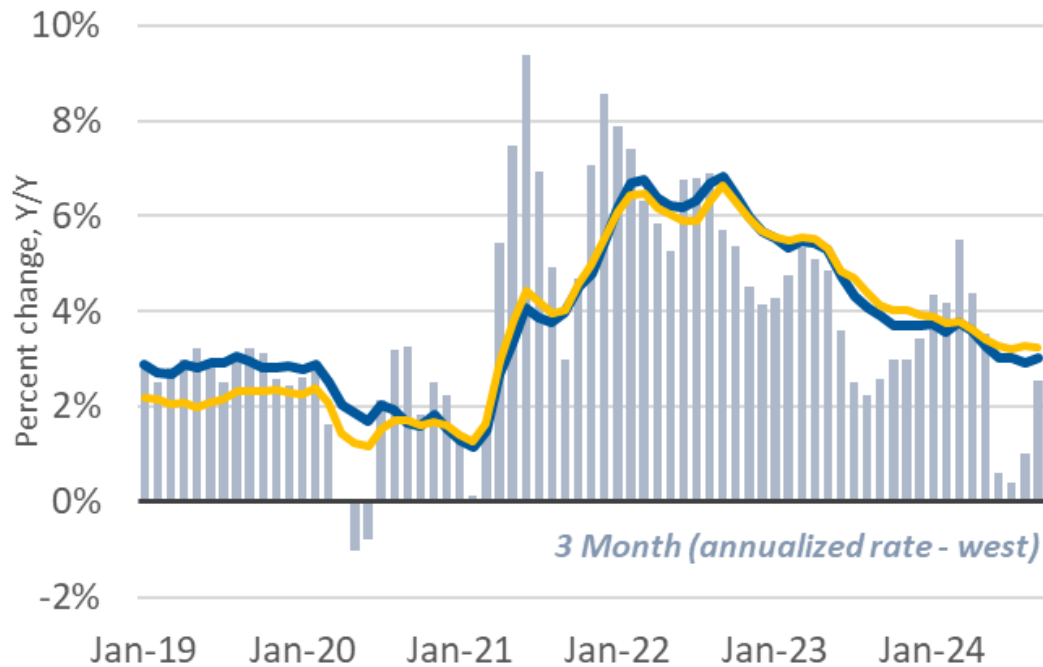
# Soft Landing In Progress

## *Inflation slowing, unemployment stable*



### West Region & U.S. Core CPI

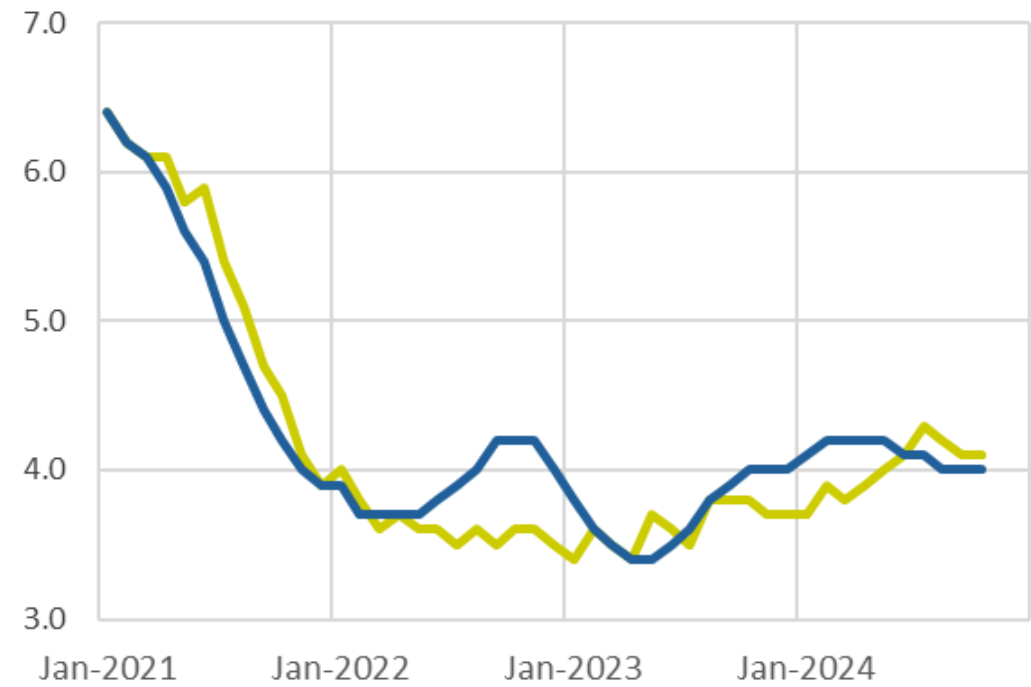
Consumer Price Index excluding food and energy



Latest: Sept '24 CPI, Sept '24 PCE | Source: BEA, BLS, Oregon Office of Economic Analysis

### Oregon and U.S. Unemployment Rate

Monthly, Seasonally Adjusted

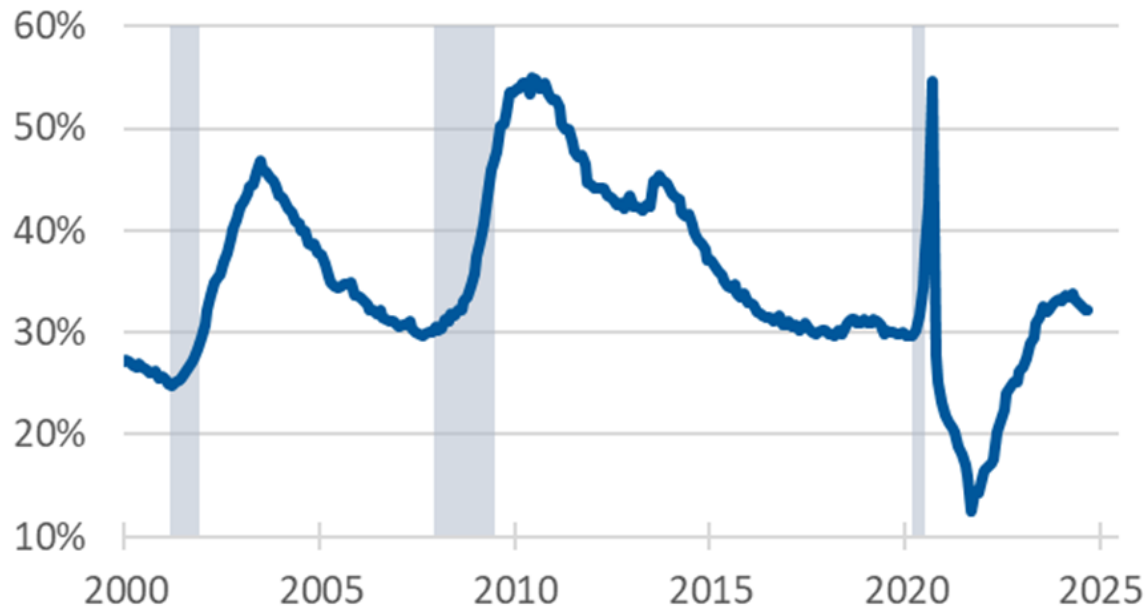


Data: Oct 2024 | Source: Oregon Employment Department

# Oregon labor dynamics look favorable



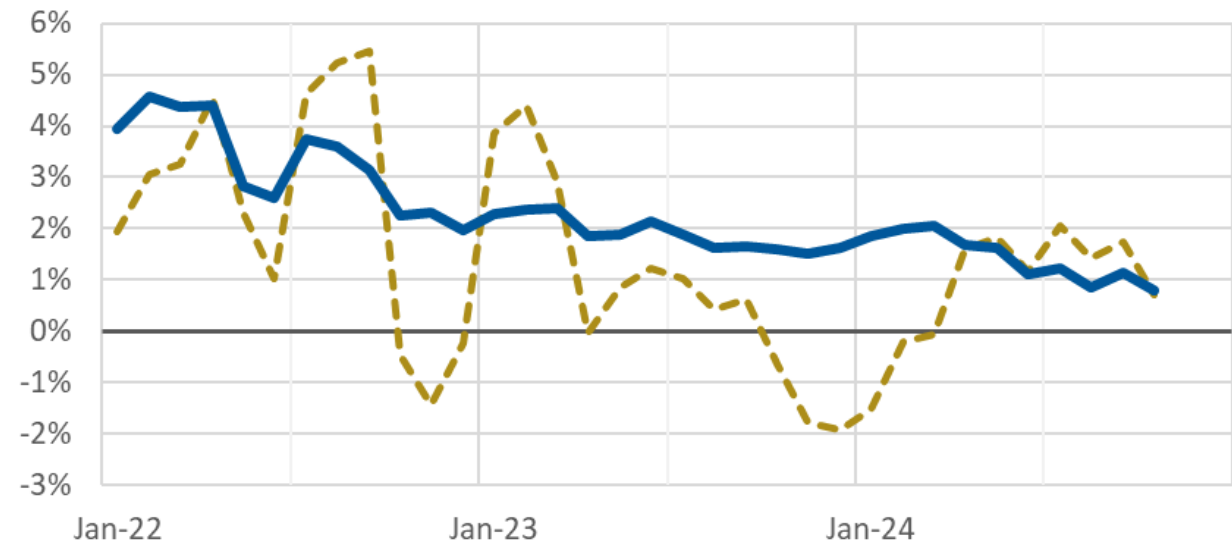
## Oregon Unemployment Insurance Benefit Exhaustion Rate



Latest Data: Sep 2024 | Source: US Dept of Labor, Oregon Office of Economic Analysis

## Payroll Job Growth (3 mth annualized rate)

USA | Oregon



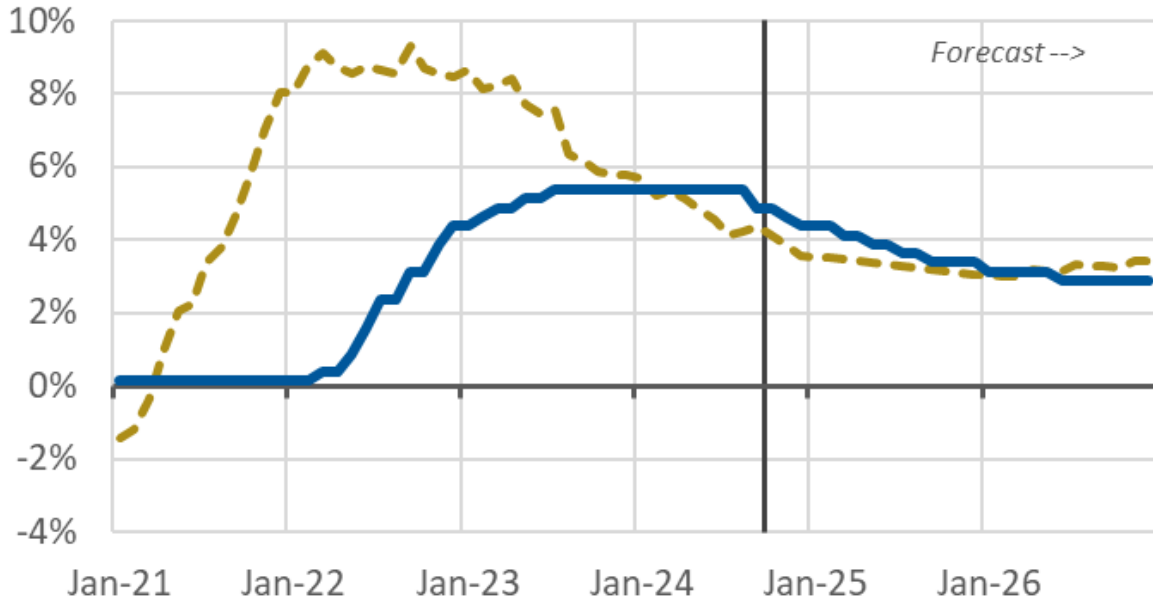
Latest Data: US Oct '24, Oregon Oct '24 | Source: BLS, Oregon Employment Department

# Mid-cycle adjustment of interest rates means shallower path of rate cuts



## Fed Funds Rate

Fed Funds Rate Target | Taylor Rule (U-3)



Latest Data: Sept 2024 | Source: BEA, BLS, Federal Reserve, RenaissanceMacro, Oregon Office of Econ Analysis

## Near Record High E-Pop Rate for Oregonians

Share of 25-54 year olds with a job (Prime-Age Employment-to-Population Ratio)



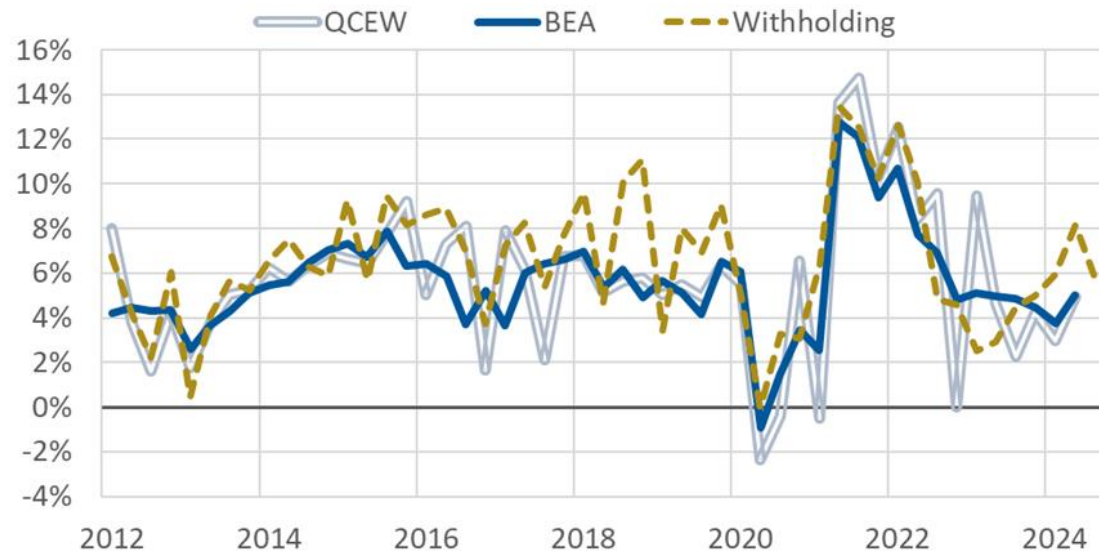
Latest Data: Oct 2024 | Source: Oregon Employment Dept, Oregon Office of Economic Analysis

# Oregon labor conditions looking stable



## Total Oregon Wage Growth Reaccelerating

Year-over-year percent change

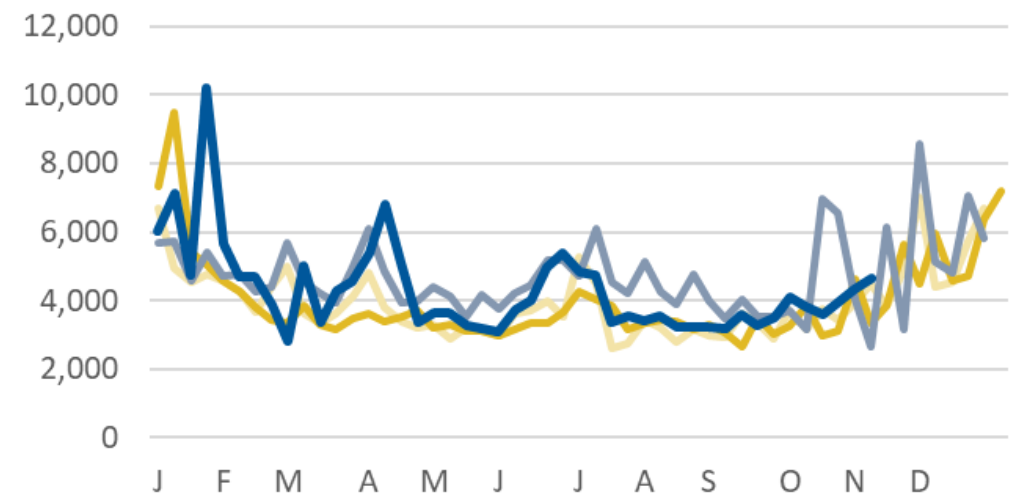


Latest Withholding 2024q3, Latest BEA and QCEW 2024q2  
Source: BEA, Oregon Employment Dept, Oregon Dept of Revenue, Oregon Office of Economic Analysis

## Oregon Claims: Typical H2 Labor Market Behavior

Unemployment insurance claims for 2018, 2022, 2023, 2024

### Initial Claims



Data: Not seasonally adjusted | Latest: Oct 5, 2024 | Source: US Dept of Labor, Oregon Employment Department, Oregon Office of Economic Analysis

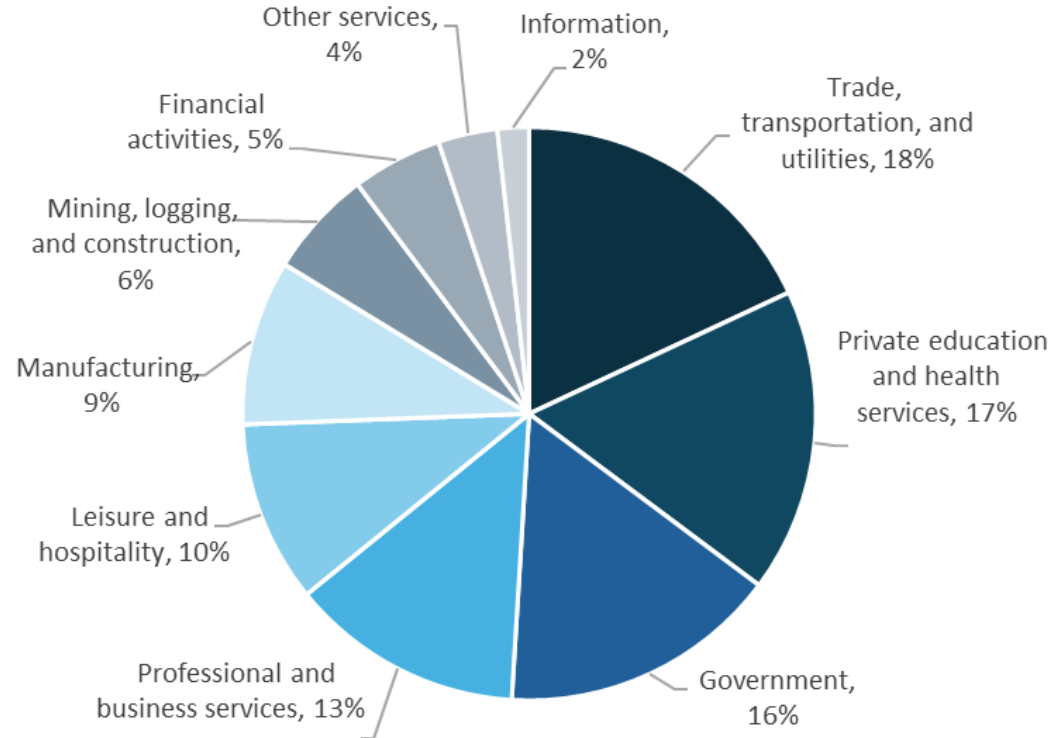


# Current Employment



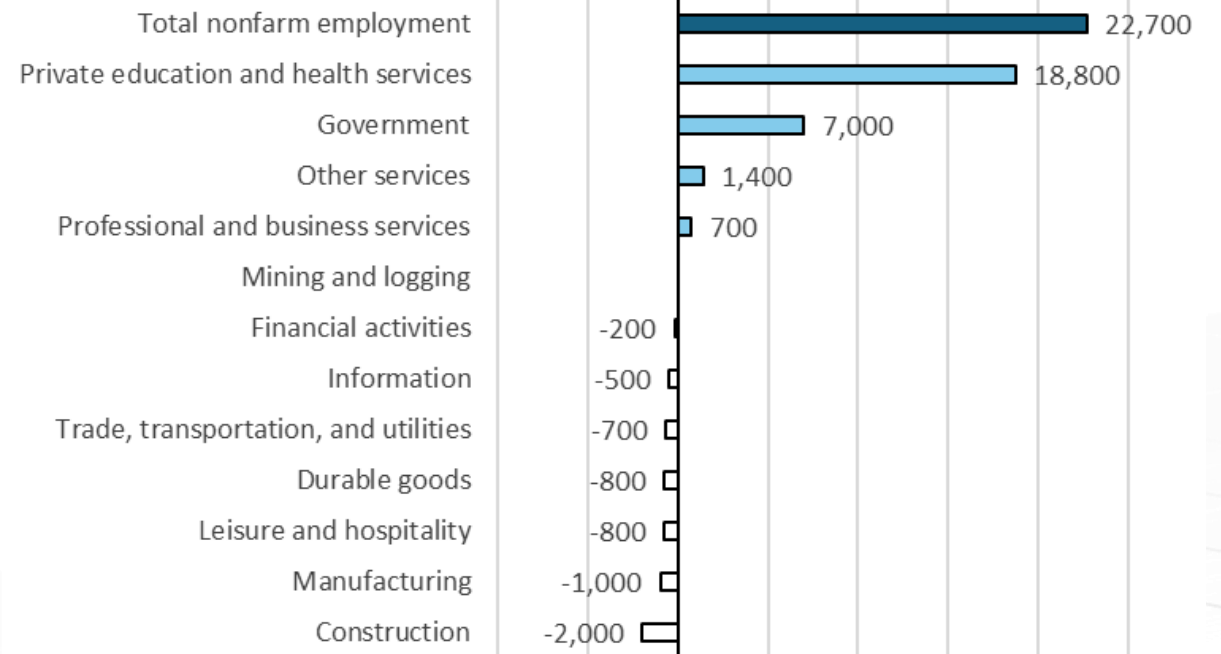
## Industry Share in Oregon

Share of Oct' 2024 Total Nonfarm Employment (SA)



## Oregon Net Employment Change by Industry

October 2023 to October 2024, Seasonally Adjusted



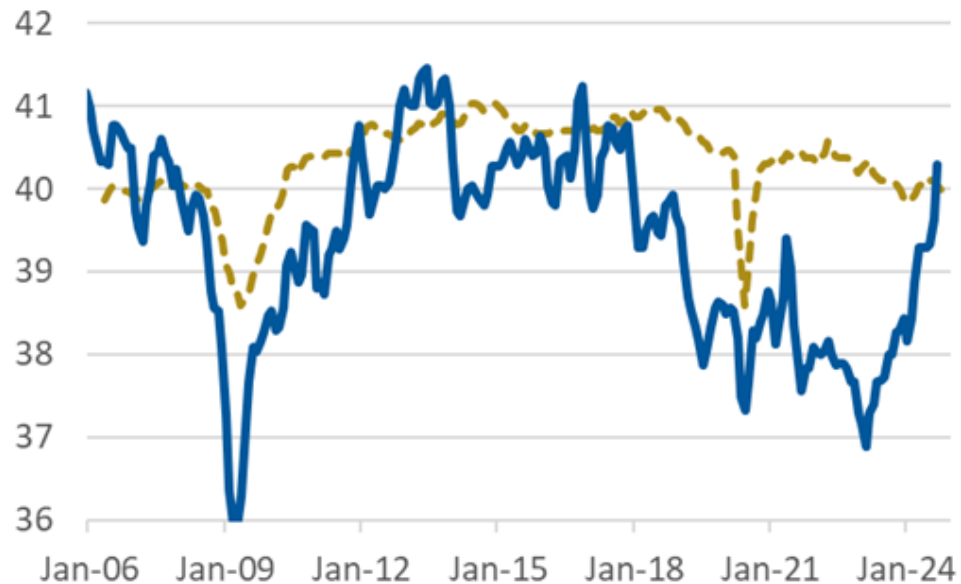
Source: Oregon Employment Department

# Labor market health varies greatly by sector



## Manufacturing Hours Worked

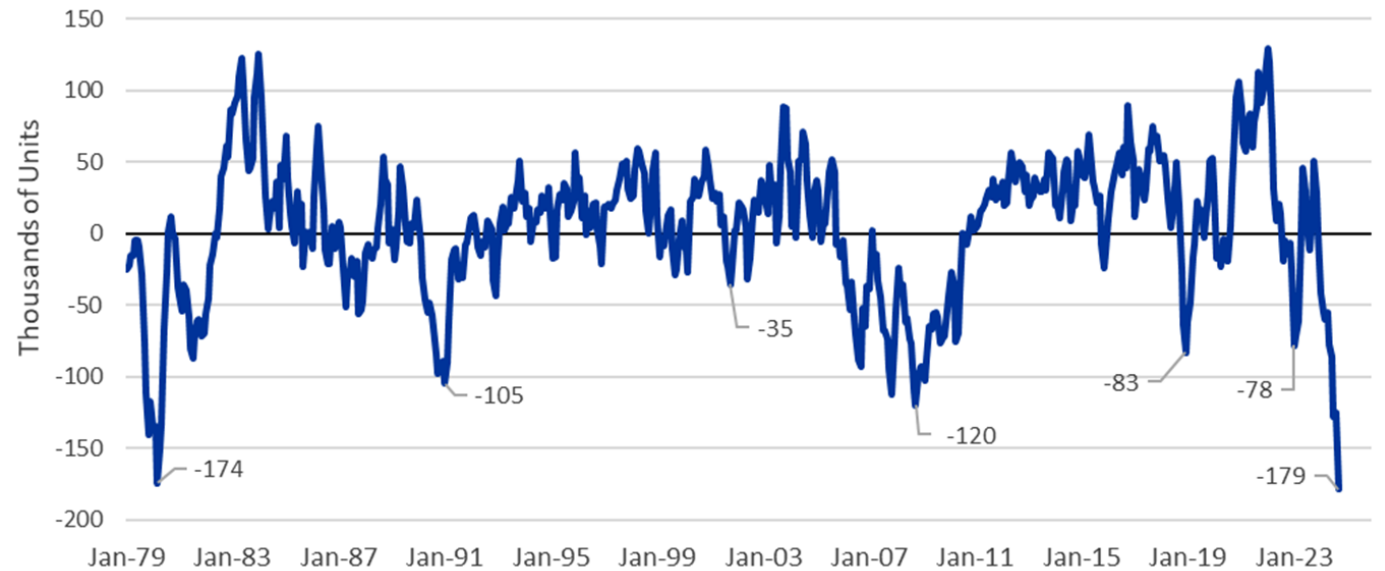
Number of hours worked per week in the USA and Oregon



Data: 3 month avg | Latest: Sept 2024 | Source: BLS, Oregon Emp Dept, Oregon Office of Economic Analysis

## West Region - Housing Starts minus Completions

Seasonally Adjusted Annualized Rate, 3-Month Moving Average



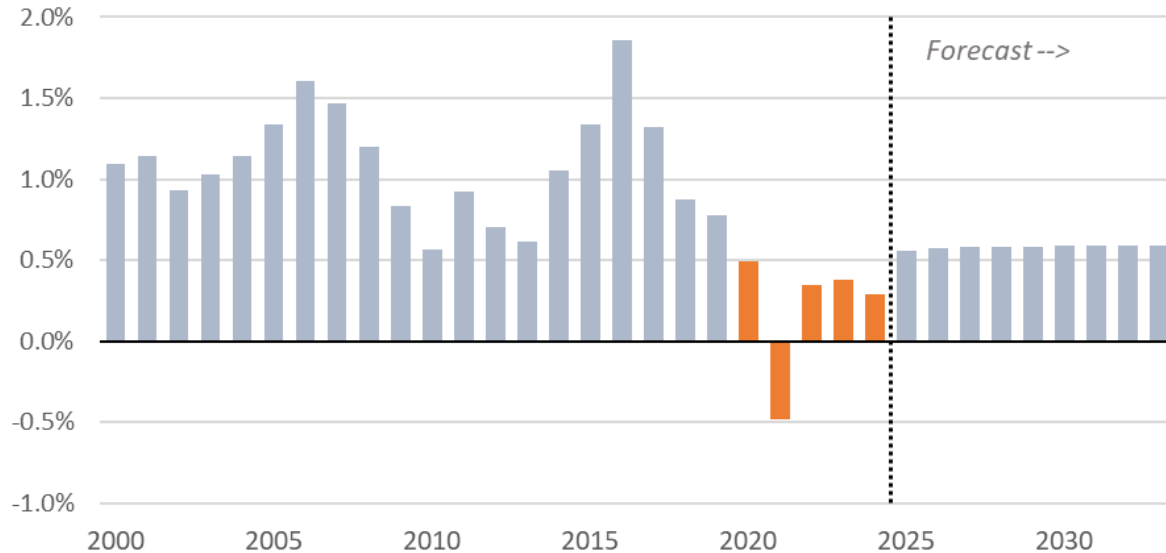
Source: US Census Bureau, New Residential Construction

# Longer-term outlook depends on demographics and productivity



## Oregon Population Growth

Annual change in total state population  
History/Forecast and PSU Estimates



Latest: 2023 | Source: U.S. Census Bureau, Portland State Research Center, Oregon Office of Economic Analysis

## Oregon Surrendered Driver Licenses

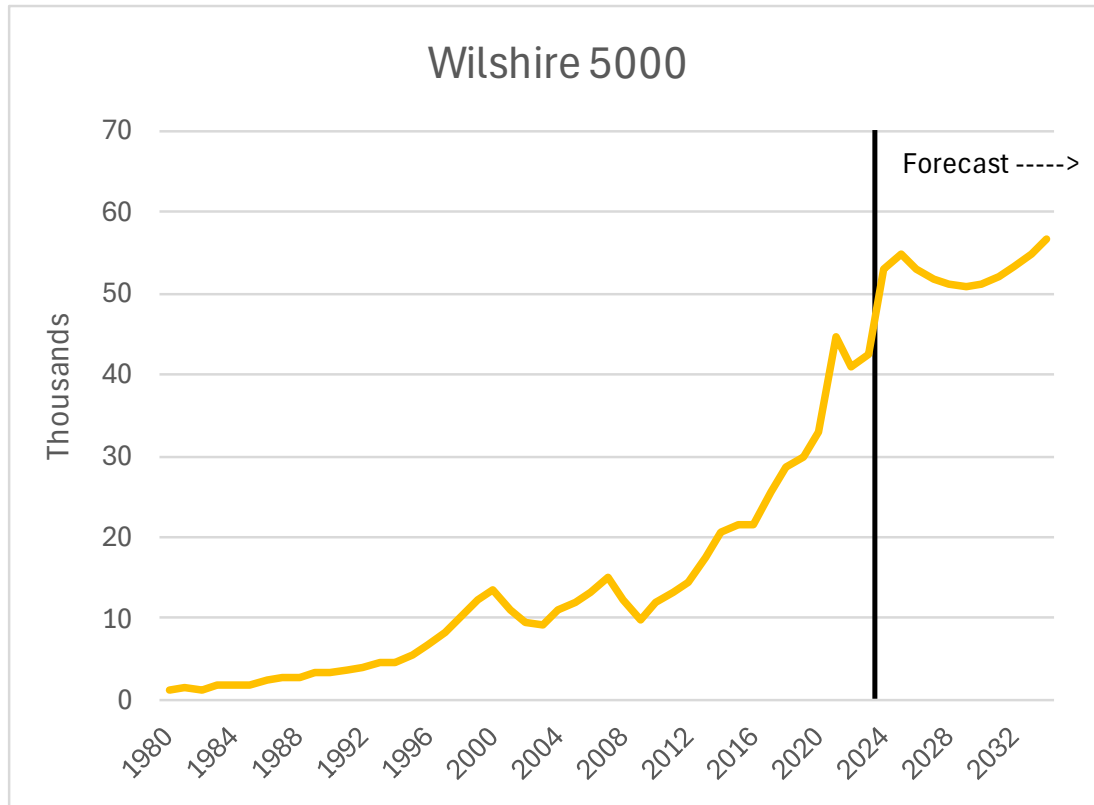
Average of 3 months ending September for each year



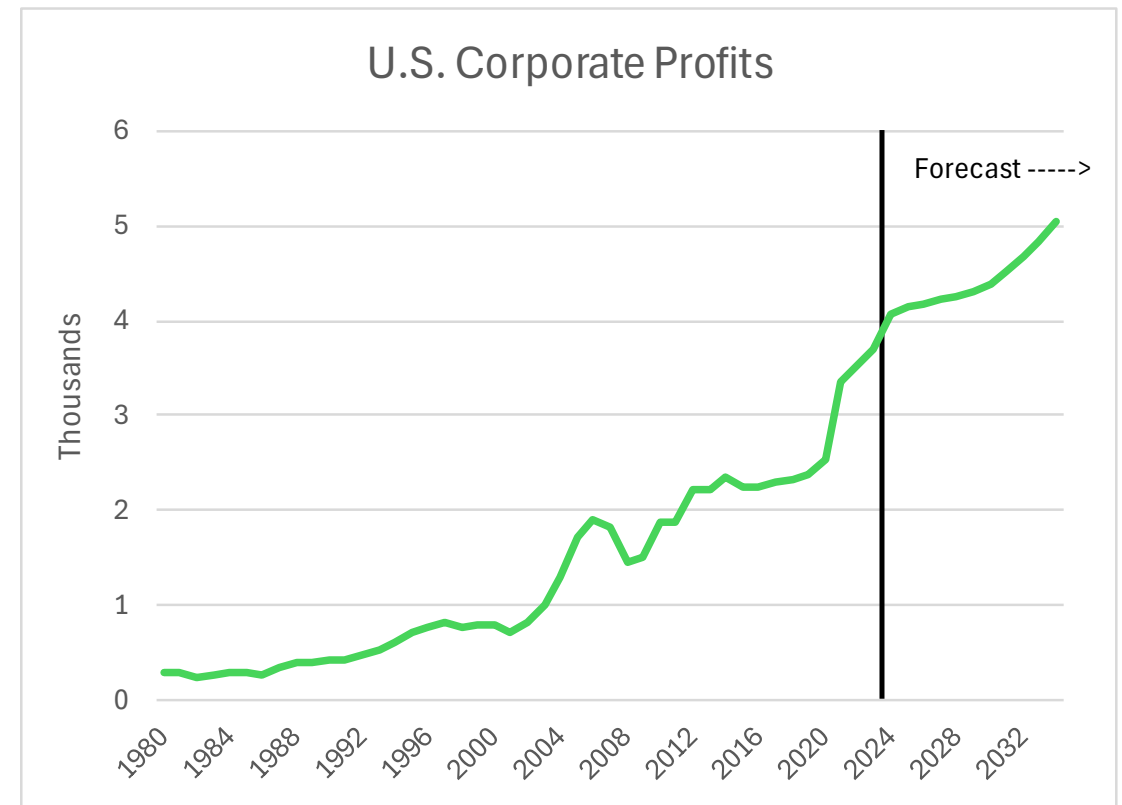
Source: Oregon Dept of Transportation, Oregon Office of Economic Analysis

# Equities & Profits Outlook

## *Mild growth expected*



Annualized Growth: 2011-23 10.1% 2023-34 Fcst 2.7%



Annualized Growth: 2011-23 5.8% 2023-34 Fcst 2.9%



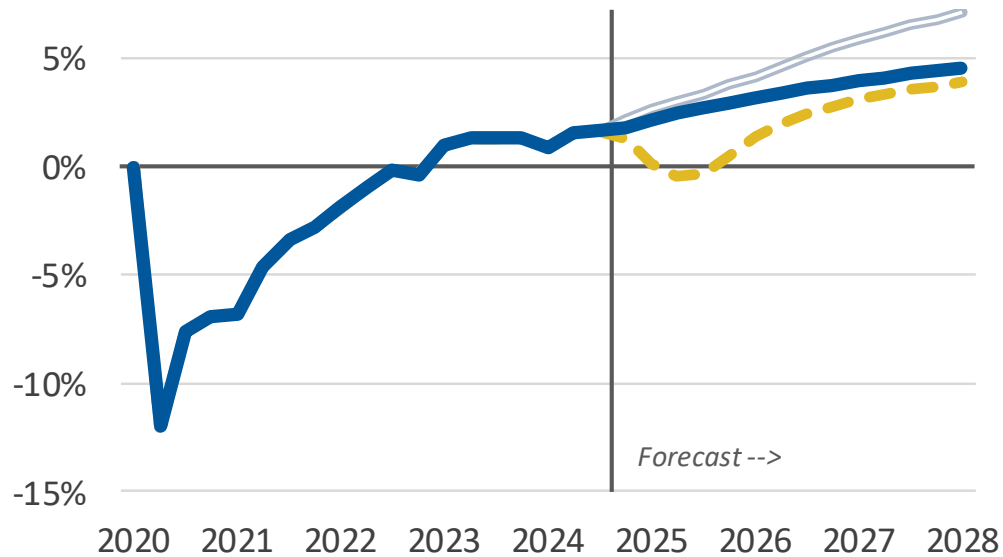
# Alternative Outcomes Possible

## Alternative Scenarios

December 2024

### Oregon Employment

Percent change from pre-COVID peak in the **Baseline Soft Landing**, the **Pessimistic**, and **Optimistic Solid Growth/Population Rebound**



	2023	2024	2025	2026	2027	2028
<b>Employment</b>						
Opt: Solid Growth	2.1%	0.3%	1.6%	1.6%	1.4%	1.1%
<b>Base: Soft Landing</b>	2.1%	0.2%	1.0%	0.9%	0.7%	0.6%
Pes: Recession	2.1%	0.1%	-1.4%	2.2%	1.3%	0.7%
<b>Unemployment Rate</b>						
Opt: Solid Growth	3.7%	4.2%	3.9%	3.8%	3.9%	3.9%
<b>Base: Soft Landing</b>	3.7%	4.2%	4.2%	4.3%	4.4%	4.4%
Pes: Recession	3.7%	4.7%	6.7%	6.5%	6.1%	4.8%
<b>Personal Income</b>						
Opt: Solid Growth	5.7%	5.3%	5.4%	6.1%	6.0%	5.8%
<b>Base: Soft Landing</b>	5.7%	5.3%	5.3%	5.6%	5.4%	5.0%
Pes: Recession	5.7%	5.2%	2.4%	6.0%	5.9%	5.2%

# Revenue Update



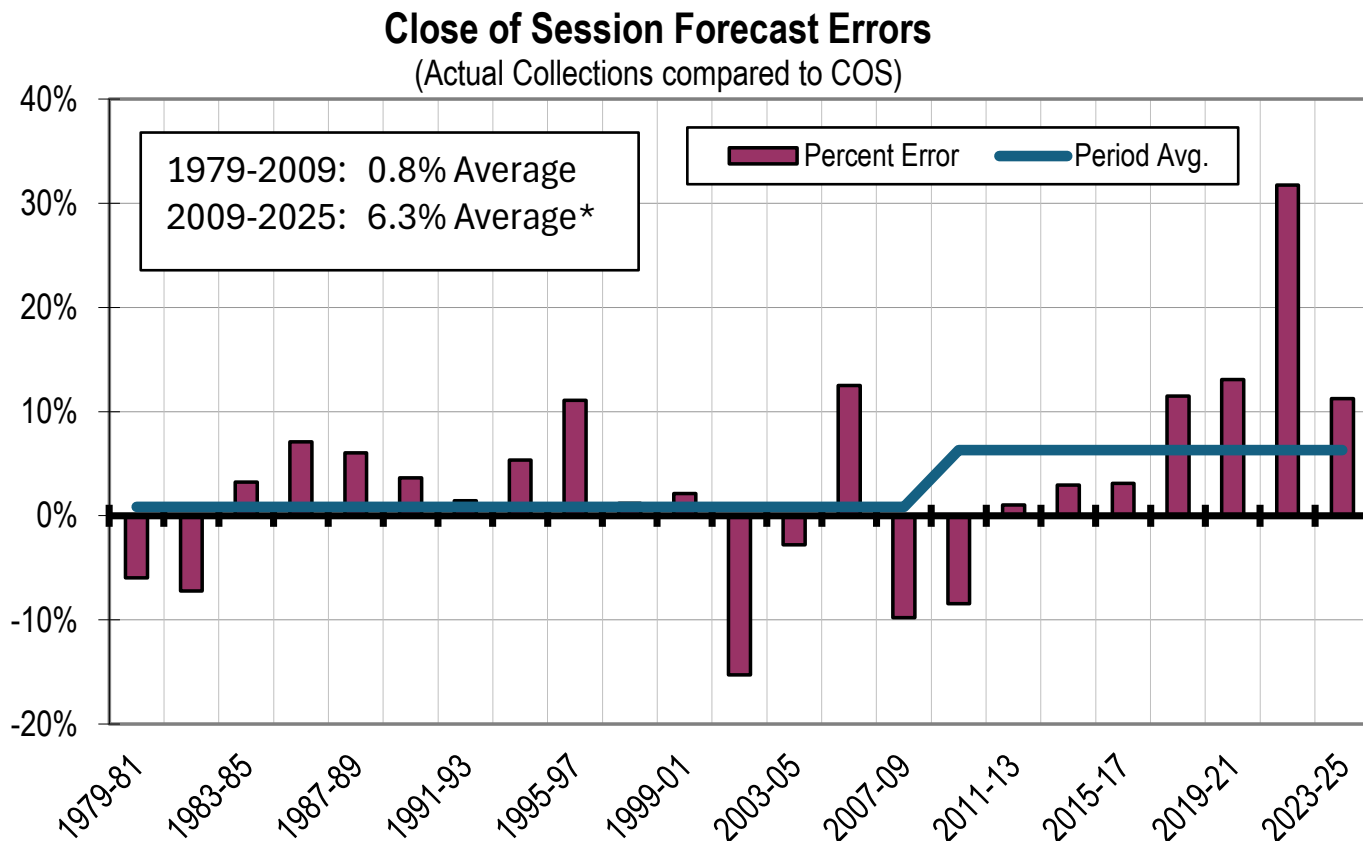
# Bottom line



- 2023-25 Biennium
  - Revenues Increased \$945 million\*
  - Ending Balance projected \$2.79 billion
- 2025-27 Biennium
  - Revenues Increased \$1.3 billion\*
  - Beginning balance up \$945 million
  - Available resources increased \$2.27 billion

\*since September forecast.

# Forecast Accuracy Over Time

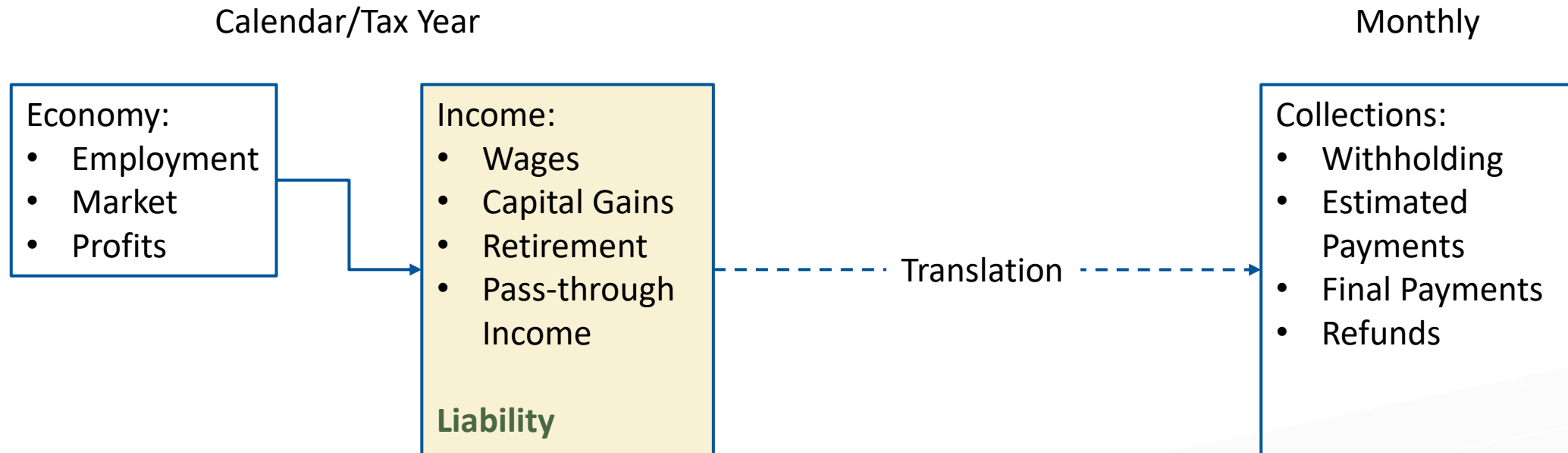


\* Includes December 2024 forecast, assumes 50 percent of 2021-23 error is structural.

- 1979 -2009 average error was 0.8 percent.
- Since 2009, the average biennial error has been 6.3 percent.
- Goal: 0.0 percent.
- From tax years 2015 to 2025 (proj.), kicker credits have totaled \$11.8 billion.



# Personal Income Tax Model



## Advantages:

- Tie forecast changes to economic changes
- Incorporate LRO impacts on a liability basis

# Forecast Model Adjustments



## **Kicker Factor**

### **Previously:**

Kicker adjustments done outside the Personal Income Tax model.

### **Moving Forward:**

Personal Income Tax model to reflect true tax liability and collections, including adjustments for the kicker.

## **Objective Reflection of National Economic Data**

### **Previously:**

Overly cautious bias identified in revenue projections

### **Moving Forward:**

All aspects of the forecast reflect national economic underpinnings, making the forecast internally consistent.

# Significant Increase for 2023-25



## 2023-25 General Fund Revenue Statement

	<u>December 2024 Forecast</u>	<u>Change from Prior Forecast</u>	<u>Change from COS Forecast</u>
Revenues (millions)			
Personal Income Tax*	\$22,589.3	\$804.5	\$1,606.7
Corporate Income Tax*	\$3,121.8	\$137.0	\$984.5
All Other Revenues	\$2,154.2	\$3.9	\$142.9
<b>Net General Fund</b>	<b>\$27,865.4</b>	<b>\$945.4</b>	<b>\$2,734.1</b>
Beginning Balance	\$8,082.5	\$0.0	\$589.0
Appropriations	-\$33,161.9	\$0.0	-\$980.0
<b>Projected Ending Balance</b>	<b>\$2,786.0</b>	<b>\$945.4</b>	<b>\$2,343.2</b>

- Personal Income Tax:
  - 60 percent due to proper accounting for tax years in progress.
  - 40 percent due to stronger 2024.
- Corp: Alignment with S&P Profits outlook.

\* includes offsets and RDF transfers



## 2025-27 General Fund Revenue Statement

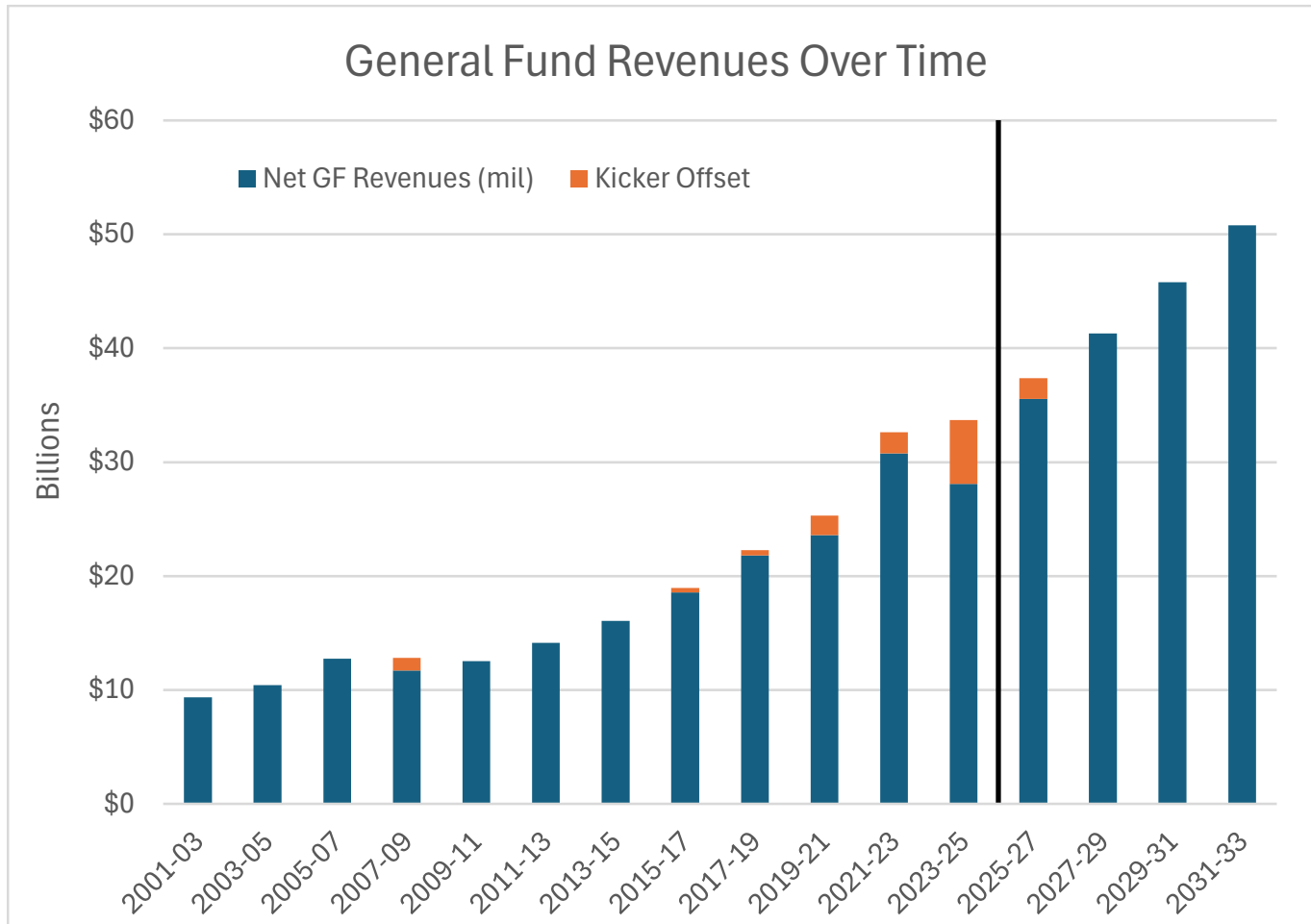
	<u>December 2024 Forecast</u>	<u>Change from Prior Forecast</u>
Revenues (millions)		
Personal Income Tax*	\$30,221.8	\$1,006.8
Corporate Income Tax*	\$3,294.8	\$301.3
All Other Revenues	\$1,840.5	\$14.1
<b>Net General Fund</b>	<b>\$35,357.0</b>	<b>\$1,322.1</b>
Beginning Balance	\$2,786.0	\$945.4
<b>Available Resources*</b>	<b>\$37,814.0</b>	<b>\$2,267.5</b>

\* includes offsets and RDF transfers

- Personal Income Tax forecast is net of \$1.8 billion kicker credit in tax year 2025.



# Long-run Outlook Subdued



Regime Change for GF Revenues	
Period	Biennial Growth*
1979-2021	12.4%
2021-2025	15.4%
2025-2033	10.8%
* Gross revenues (excluding kicker)	

# Non-GF Revenues



## 2023-25 Non-GF Revenue Statement

Source of Revenue (millions)	December 2024 Forecast	Change from Prior Forecast	Change from COS Forecast
Lottery	\$1,879.6	\$37.1	\$46.6
Corp. Activity Tax	\$2,767.4	-\$5.9	\$9.6
Marijuana	\$293.5	\$0.7	-\$5.0
<b>Total Other Revenues</b>	<b>\$4,940.5</b>	<b>\$31.9</b>	<b>\$51.2</b>

## 2025-27 Non-GF Revenue Statement

Source of Revenue (millions)	December 2024 Forecast	Change from Prior Forecast
Lottery	\$1,987.7	\$41.3
Corp. Activity Tax	\$3,101.9	-\$27.6
Marijuana	\$309.2	\$0.7
<b>Total Other Revenues</b>	<b>\$5,398.8</b>	<b>\$14.3</b>

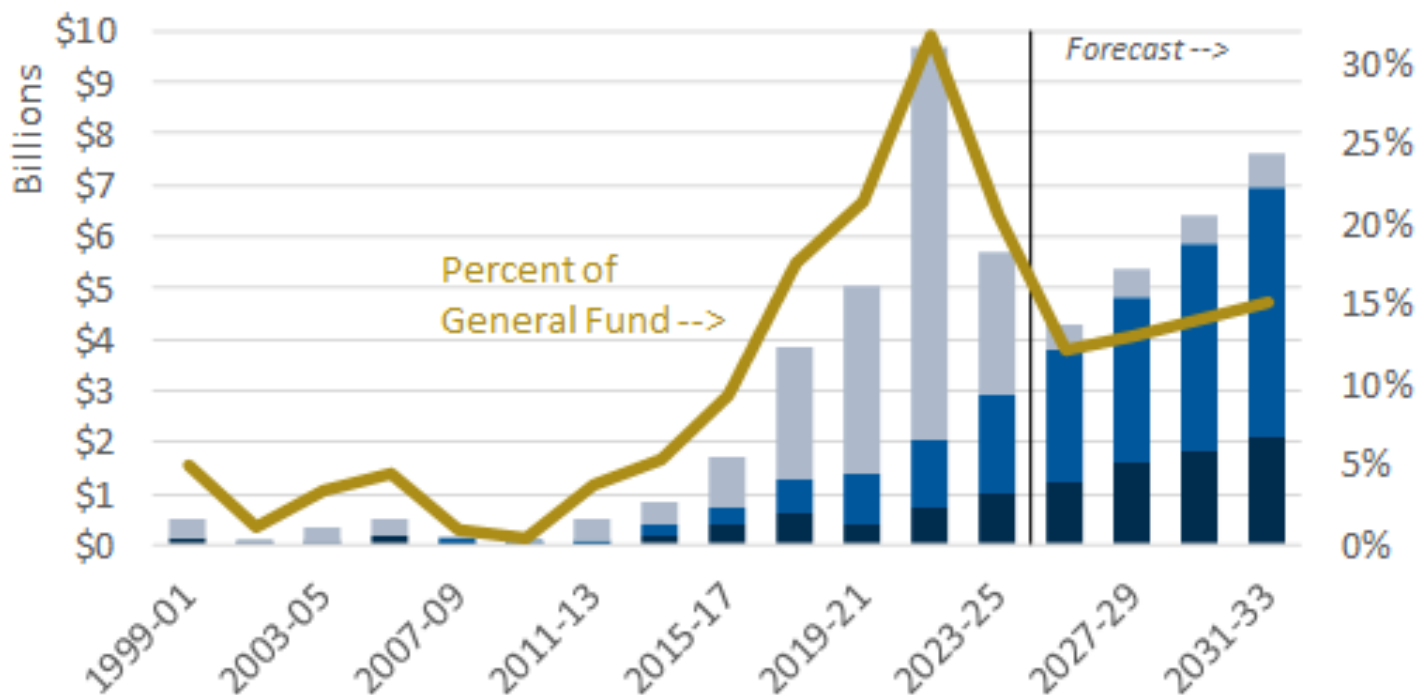
- Lottery sales somewhat stronger.
- CAT receipts a tad weaker.
- Marijuana virtually unchanged.

# Reserve situation healthy



## Oregon Budgetary Reserves

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



Source: Oregon Office of Economic Analysis

## Effective Reserves (\$ millions)

	End of 2023-25	Estimated 2025-27
ESF	\$1,009	\$1,252
RDF	\$1,908	\$2,554
<b>Reserves</b>	<b>\$2,917</b>	<b>\$3,806</b>
% of GF	10.5%	10.8%
Ending Balance	\$2,786	\$500
<b>Total</b>	<b>\$5,703</b>	<b>\$4,306</b>
% of GF	20.5%	12.2%

# Contact Information

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