Economic Outlook
## How Oregon Stacks Up Today

### Business Cycle Dynamics
- Historically Oregon’s economy is more volatile than the typical state
- This cycle Oregon is in the middle of the pack

### Composition of Growth
- In the 1990s and 2000s, Oregon saw fast job and population gains while relative incomes lagged
- Starting late 2010s and through the pandemic, relative incomes are outpacing the typical state, while jobs and population are slower

### Pandemic Economic Recovery

<table>
<thead>
<tr>
<th>Category</th>
<th>U.S.</th>
<th>Oregon</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment (Feb '20 to Mar '23)</td>
<td>30th</td>
<td>11th</td>
</tr>
<tr>
<td>Real Personal Income (2019q4 - 2022q4)</td>
<td>21st</td>
<td></td>
</tr>
<tr>
<td>Real GDP (2019q4 - 2022q4)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*Source: BEA, BLS, Oregon Office of Economic Analysis*
Oregon is at or near full employment

Oregon's Labor Force Participation
Share of all Oregonians 16 years and older with a job or looking for work

Oregon's Industry Outlook
Percent change 2023q1 to 2025q1

Latest Actual: March 2023 | Source: BLS, Census, Oregon Office of Economic Analysis
Baseline outlook is the soft landing, but recession risks remain real

• Bad News
  • Inflation remains too high, economy suffered a goods recession last year and banking turmoil this year, full force of interest rate increases yet to impact economy

• Good News
  • Inflation is slowing some, Fed is looking to pause rate hikes, housing and manufacturing are stabilizing, consumers on solid footing

• Alternative Boom/Bust Scenario
  • Moderate sized recession starting in 2024
Zero Migration Alternative Scenario

Oregon Budget Driver Demographics
Percent change 2022-2030 in underlying demographics impacting each cohort

Baseline Forecast | Net Zero Migration Scenario

-15% -10% -5% 0% 5% 10% 15% 20% 25%

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

• Migration is the key reason Oregon’s economy grows faster than the typical state

• Net migration slowed, and maybe even turned negative during the pandemic

• Initial Findings
  • Demographics
  • Labor Force
  • Housing Demand

• Future Work
  • Industry Employment Forecast
  • Personal Income and Components
  • Revenue Impacts

Source: Oregon Office of Economic Analysis
Revenue: Recent Performance
Tax season tracking: Refunds & Payments

Big Refund Year, Not as Big as Expected

Year-End Payments Strong Again

Latest Data: May 12, 2023 | Source: Oregon Dept of Revenue, Oregon Office of Economic Analysis
Capital gains have returned to earth

- Taxpayers have flexibility over when they realize capital gains for tax purposes
- Realized capital gains declined by around 50% this year matching expectations
- These declines have an outsized impact on tax collections given that most are claimed by high-income households
- The drag on revenues will persist due to losses carried forward into future tax years
Withholdings have slowed

Withholding is mostly from wages, and retirements, but there are other impacts.

Withholding has been unusually weak to start 2023, although picking up in recent weeks.

Aggregate labor income will slow as job growth slows in a full employment economy, even if per worker wage gains remain strong.
Revenue: Outlook
Forecast Changes

Oregon Personal Income Tax Liability
March Forecast vs May Forecast

Oregon Corporate Excise Tax
4-QTR sum, $ billions

Latest Actual: 2021 | Full-year filers Source: Oregon DOR, Oregon Office of Economic Analysis

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

More High-Income Filers
Share of personal income tax returns subject to the top rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Share</th>
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</thead>
<tbody>
<tr>
<td>2010</td>
<td>1.5%</td>
</tr>
<tr>
<td>2011</td>
<td>1.6%</td>
</tr>
<tr>
<td>2012</td>
<td>1.9%</td>
</tr>
<tr>
<td>2013</td>
<td>2.0%</td>
</tr>
<tr>
<td>2014</td>
<td>2.4%</td>
</tr>
<tr>
<td>2015</td>
<td>2.6%</td>
</tr>
<tr>
<td>2016</td>
<td>2.8%</td>
</tr>
<tr>
<td>2017</td>
<td>3.0%</td>
</tr>
<tr>
<td>2018</td>
<td>3.5%</td>
</tr>
<tr>
<td>2019</td>
<td>3.6%</td>
</tr>
<tr>
<td>2020</td>
<td>3.9%</td>
</tr>
<tr>
<td>2021*</td>
<td>5.3%</td>
</tr>
</tbody>
</table>

Oregon Effective Personal Income Tax Rate
March Forecast vs May Forecast

Full-year filers | Single and Married Filing Separately with income above $125K, and Married, Head of Household, and Qualified Widow(er) with income above $250K Sources: Oregon Department of Revenue, Oregon Office of Economic Analysis

2022 based on returns processed through May 4 | Full-year filers Source: Oregon DOR, Oregon Office of Economic Analysis
Corporate taxes have become more effective as well.

- The traditional correlation between Oregon’s corporate taxes and underlying profits has broken down in recent years.
- The timing suggests that federal tax reform has played a role.
- With more than four years of post-reform data, the impact of the Tax Cuts and Jobs Act is now being explicitly modeled.

OR Corporate Excise Taxes & US Profits
Level relative to 2005, SAAR

Latest Data: 2023q1 | Source: OR Dept of Revenue, Oregon Office of Economic Analysis
General Fund Interest Earnings

**Interest Earning Dynamics**

- Monthly Account Balance
- Short-Term Interest Rate

**Interest Earnings by Fiscal Year**

- Source: Oregon Treasury, Oregon Department of Revenue, Oregon Office of Economic Analysis
Aside: Ballot Measure 110 Transfer

• Ballot Measure 110, passed by Oregon voters in November 2020, reduced the penalties for simple possession of controlled substance convictions from misdemeanors and felonies to violations. The measure directed that the savings from these reductions be transferred from the General Fund to the Drug Treatment and Recovery Fund.

• The Oregon Legislature enacted Senate Bill 755 (2021) to codify and amend BM 110. SB 755 directed the Department of Administrative Services to calculate the savings from the sentence reductions. The statute is prescriptive about how the calculation is made:
  • Only direct savings to the state budget are to be considered.
  • The 2017-19 biennium is used as the baseline calculating the savings resulting from the measure. In other words, the rates of felony and misdemeanor convictions are assumed to have continued at 2017-19 rates in perpetuity.
  • The assumed savings and resulting transfer will not be reduced over time.

• A majority of the savings flow from reduced caseloads for probation and post-prison supervision, with some additional savings from smaller local control populations.

• Theoretically, BM 110 could potentially result in savings in other State of Oregon agencies. These include the Judicial Department, which runs the state’s circuit courts, the Oregon State Police and Public Defense Services Commission. No reductions were made to any of these departments’ Legislatively Adopted Budgets specifically in response to BM 110.

• Savings calculated for the 2019-21 biennium, amounting to $2,157,766, amount to probation, jail and supervision days avoided in the community corrections budget at the Department of Corrections.

• The savings estimate for the 2021-23 biennium, which would be transferred by June 30, 2024, currently stands at $37,069,455.
Bottom Line
# May 2023 Forecast Changes

## General Fund Revenues

<table>
<thead>
<tr>
<th></th>
<th>$ Millions from Mar</th>
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<tbody>
<tr>
<td></td>
<td>21-23</td>
</tr>
<tr>
<td>Personal Income Taxes</td>
<td>1,474</td>
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<tr>
<td>Corporate Income Taxes</td>
<td>272</td>
</tr>
<tr>
<td>Other</td>
<td>125</td>
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<tr>
<td>Total</td>
<td>1,871</td>
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## Other Revenues

<table>
<thead>
<tr>
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<th>$ Millions from Mar</th>
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<tbody>
<tr>
<td></td>
<td>21-23</td>
</tr>
<tr>
<td>Lottery</td>
<td>-3</td>
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<tr>
<td>Corporate Activity Tax</td>
<td>90</td>
</tr>
<tr>
<td>Marijuana Tax</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>89</td>
</tr>
</tbody>
</table>

## Total Sum

<table>
<thead>
<tr>
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<th>$ Millions from Mar</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>21-23</td>
</tr>
<tr>
<td>Total Sum</td>
<td>1,960</td>
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### Personal Kicker: $5.5 billion
### Corporate Kicker: $1.8 billion
Sizable reserves remain

**Effective Reserves ($ millions)**

<table>
<thead>
<tr>
<th></th>
<th>Current Apr-23</th>
<th>End of 2021-23</th>
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<tbody>
<tr>
<td>ESF</td>
<td>$675</td>
<td>$708</td>
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<tr>
<td>RDF</td>
<td>$1,213</td>
<td>$1,352</td>
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<tr>
<td>Reserves</td>
<td>$1,887</td>
<td>$2,060</td>
</tr>
<tr>
<td>Ending Balance</td>
<td>$7,002</td>
<td>$7,002</td>
</tr>
<tr>
<td>Total</td>
<td>$8,889</td>
<td>$9,062</td>
</tr>
<tr>
<td>% of GF</td>
<td>29.1%</td>
<td>29.7%</td>
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Source: Oregon Office of Economic Analysis
Contact

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

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

www.OregonEconomicAnalysis.com
@OR_EconAnalysis