

# Oregon's Economic and Revenue Forecast



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*March 2025*

# Economic Outlook



# US Macro Forecast:

*Distribution of outcomes widens, as "soft-landing" vulnerable to exogenous shocks*



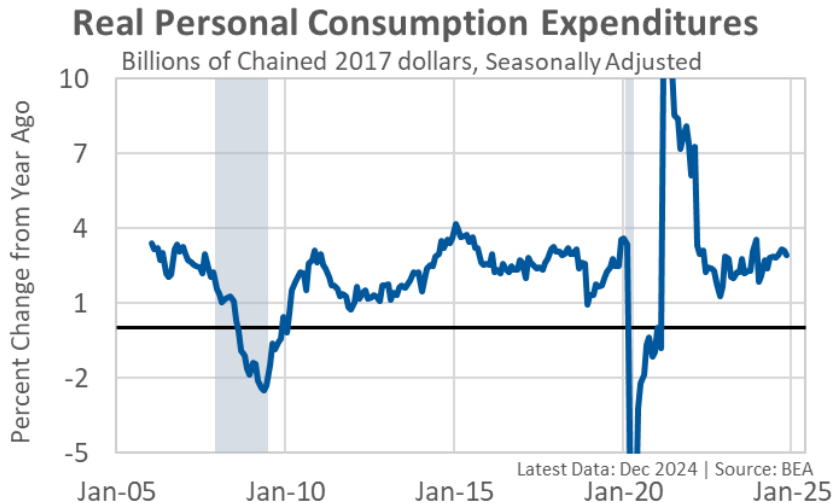
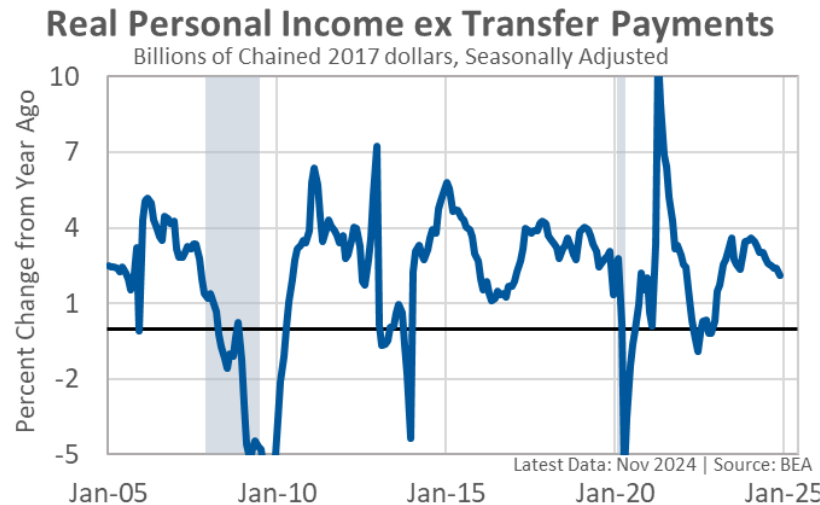
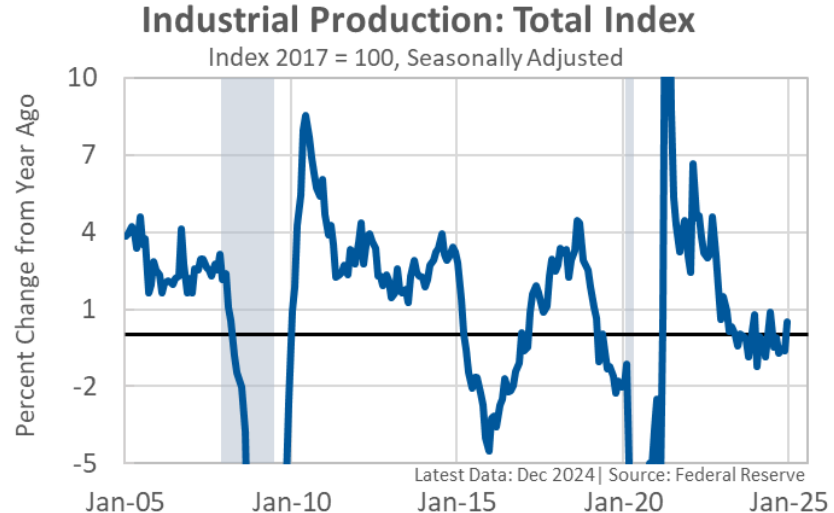
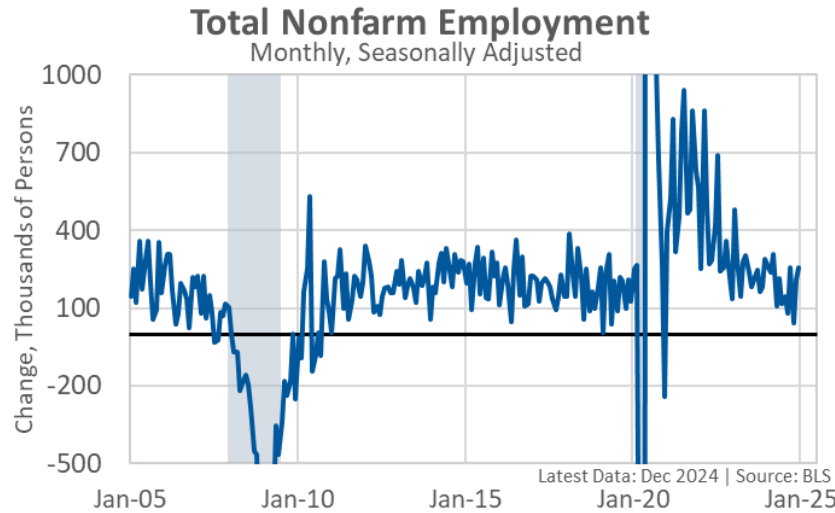
- Consensus of forecasters anticipates 2025 inflation-adjusted **growth** (real GDP) at 2.0%, **inflation** steady at 2.8% and **unemployment** slightly higher at 4.2%
- Forecasters persistently underestimated growth post-pandemic
  - Watch ‘animal spirits’—economic sentiment is a powerful catalyst
  - Fiscal cliff could stall economic growth
  - Risks are elevated, but recession probability is low (Consensus at 20%)
- Inflation appears stuck above 2% target
  - Mild pickup recently, pressures concentrated in services/housing
  - Inflation expectations rising (partly on tariff concerns)
- Labor market reaccelerating, wages look sticky

# Oregon Economic Outlook: Momentum has faded, watch demographics



- State economy is increasingly bound to national trends for growth and inflation
- Heightened sensitivity to trade tensions given geography and industry composition
- Labor conditions are healthy, but hiring has sputtered and breadth of job creation is weak
- Magnitude of demographic rebound will be critical to growth outcome

# Soft-ish landing supported by consumers



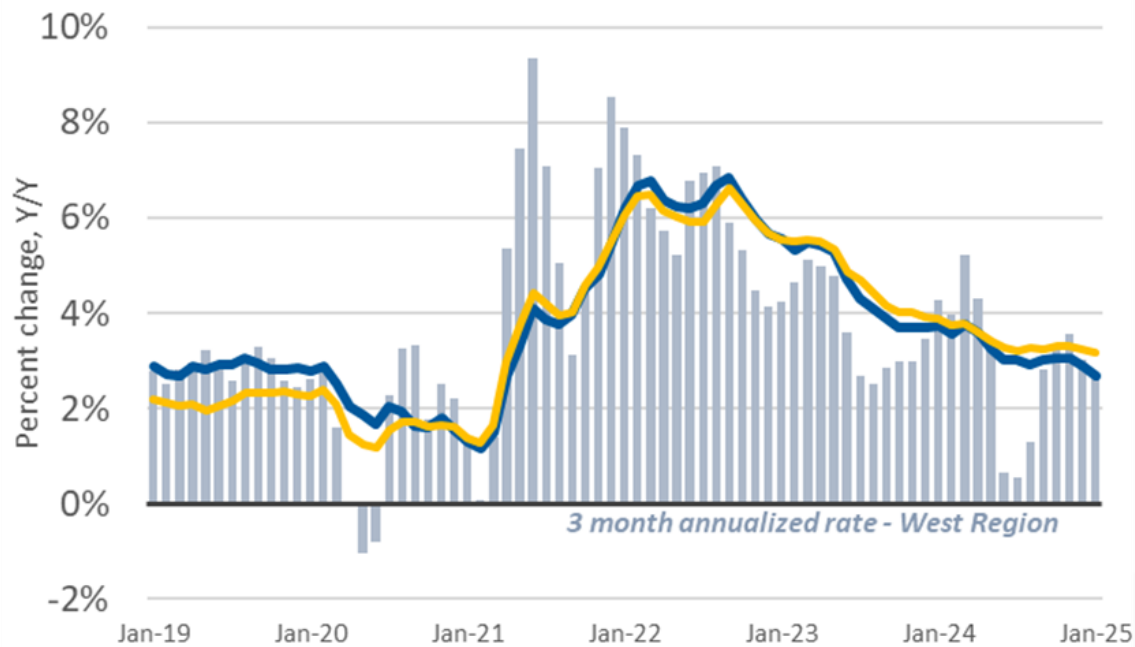
# Soft Landing In Progress

## *Inflation has slowed, unemployment stable*



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

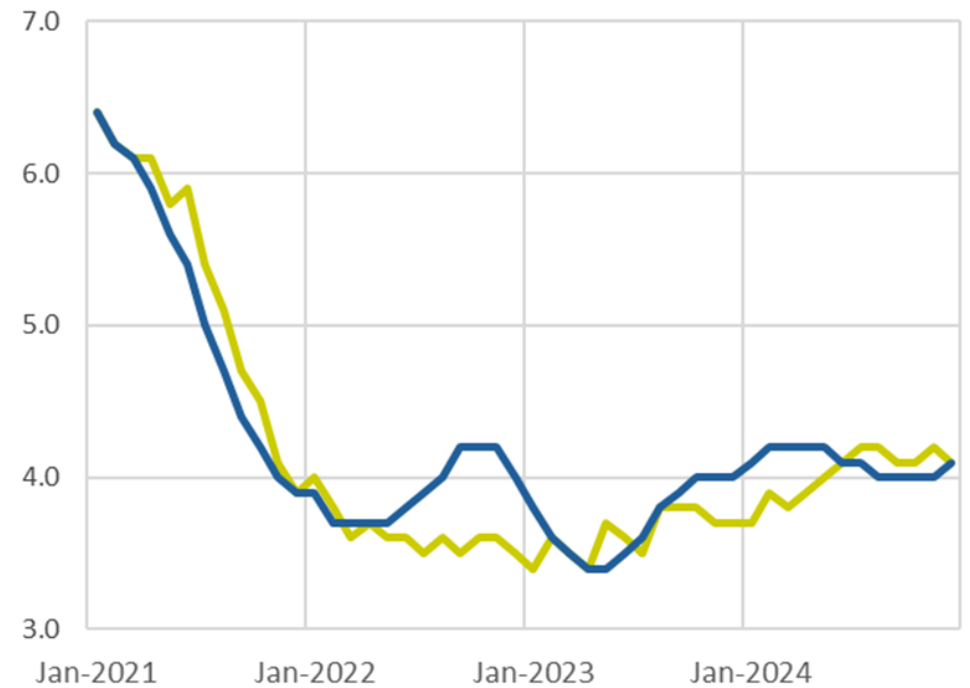
Consumer Price Index excluding food and energy



Latest: Jan '25 | Source: BEA, BLS, Oregon Office of Economic Analysis

### Oregon and U.S. Unemployment Rate

Monthly, Seasonally Adjusted



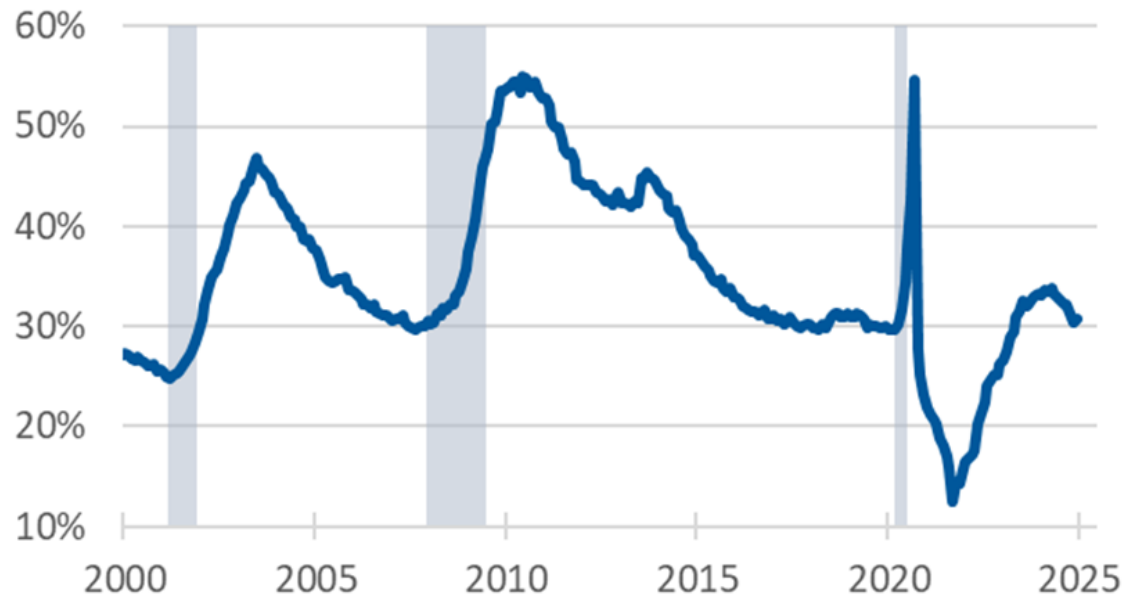
Data: Dec 2024 | Source: Oregon Employment Department



# Oregon labor dynamics look favorable



## Oregon Unemployment Insurance Benefit Exhaustion Rate



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

## Near Record High E-Pop Rate for Oregonians

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



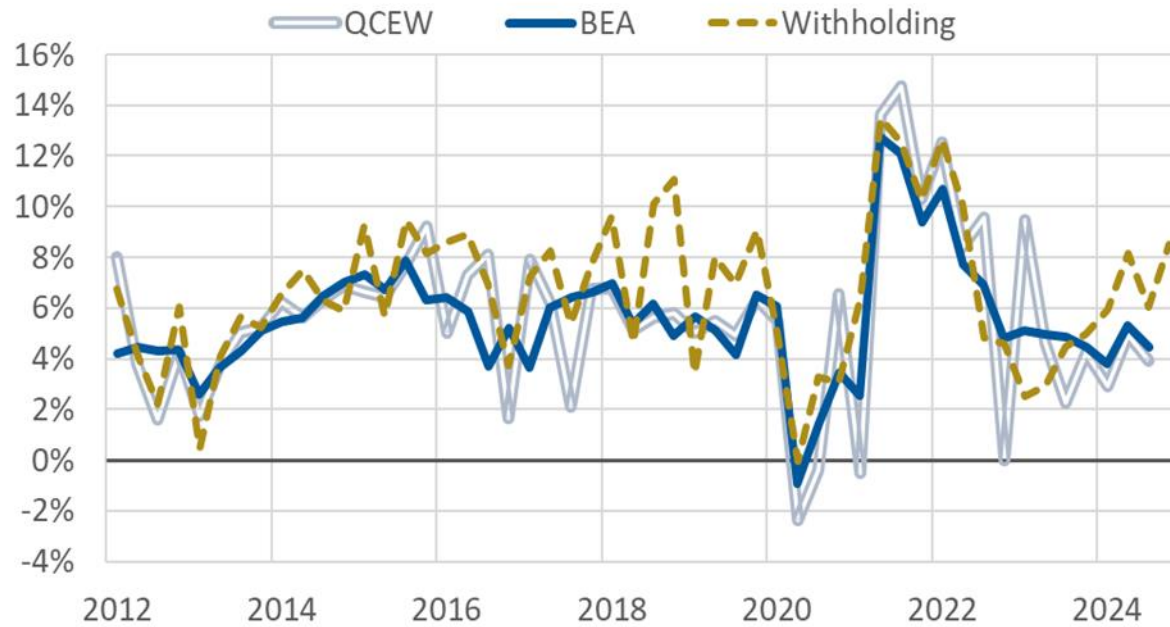
Latest Data: Nov 2024 | Source: Oregon Employment Dept, Oregon Office of Economic Analysis

# Oregon labor conditions looking stable



## Oregon Wage Growth

Year-over-year percent change



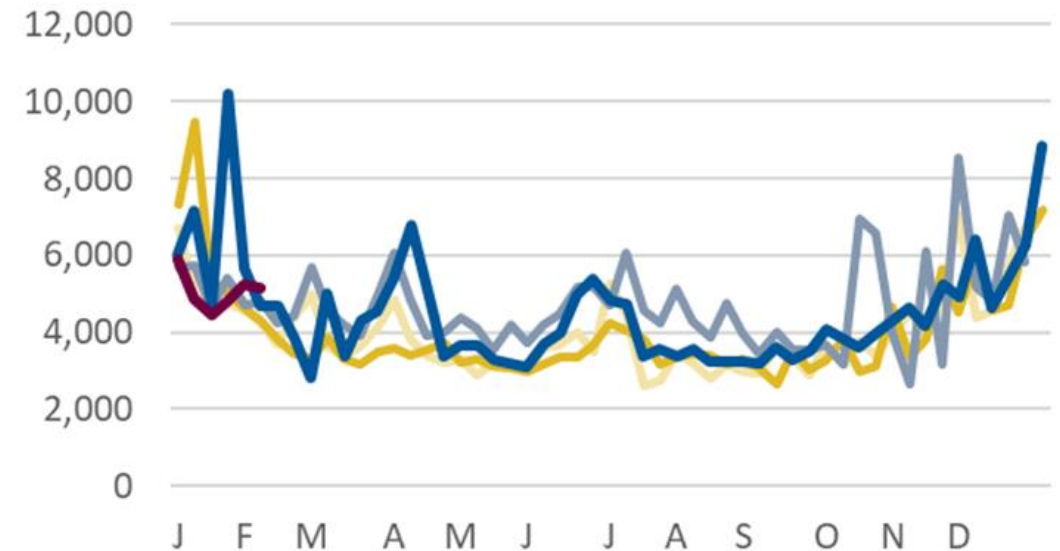
Latest Withholding 2024q4, Latest BEA and QCEW 2024q3

Source: BEA, Oregon Employment Dept, Oregon Dept of Revenue, Oregon Office of Economic Analysis

## Oregon Claims

Unemployment insurance claims for 2018, 2022, 2023, 2024, 2025

Initial Claims



Data: Not seasonally adjusted | Latest: Feb 8<sup>th</sup>, 2025, | Source: US Dept of Labor, Oregon Employment Department, OEA

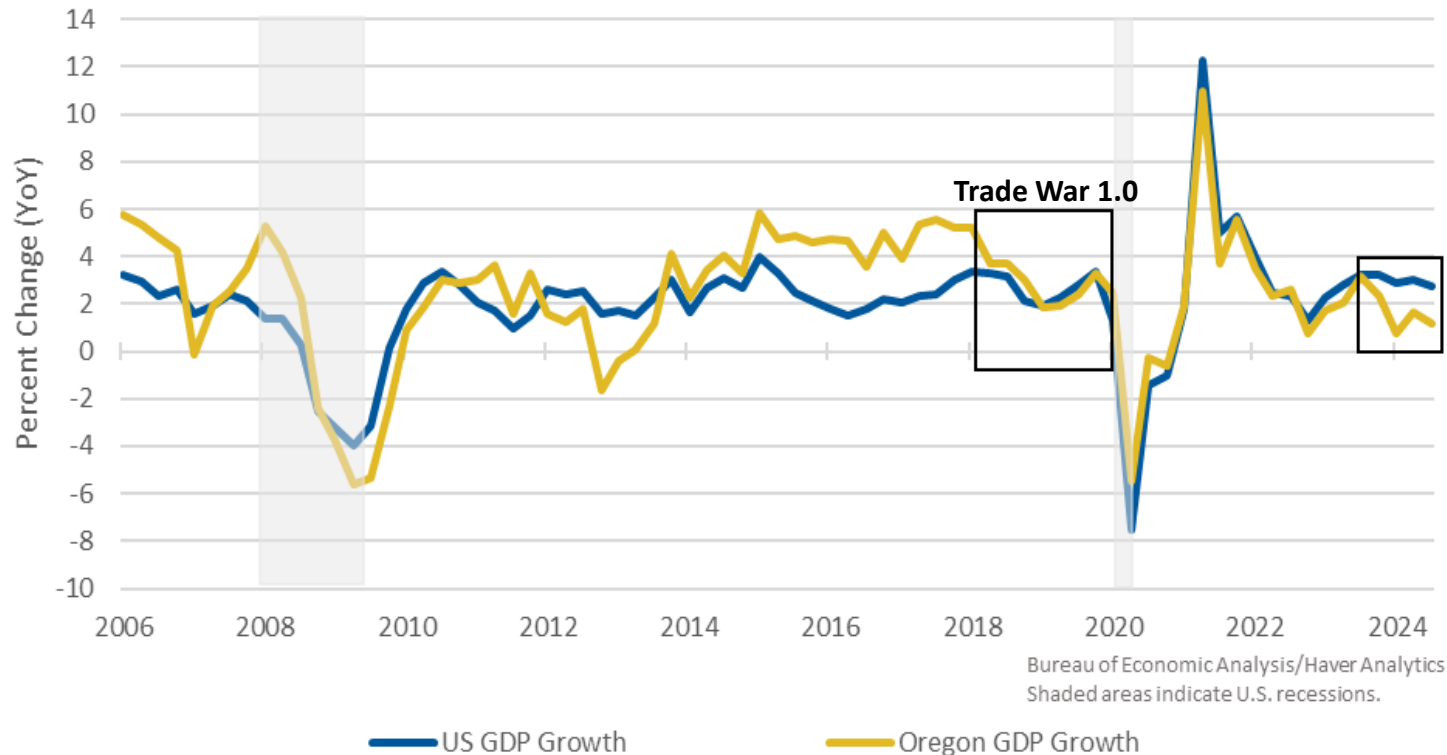




# Loss of momentum in OR over past year—will it continue?



Oregon and US Real GDP Growth Over Time



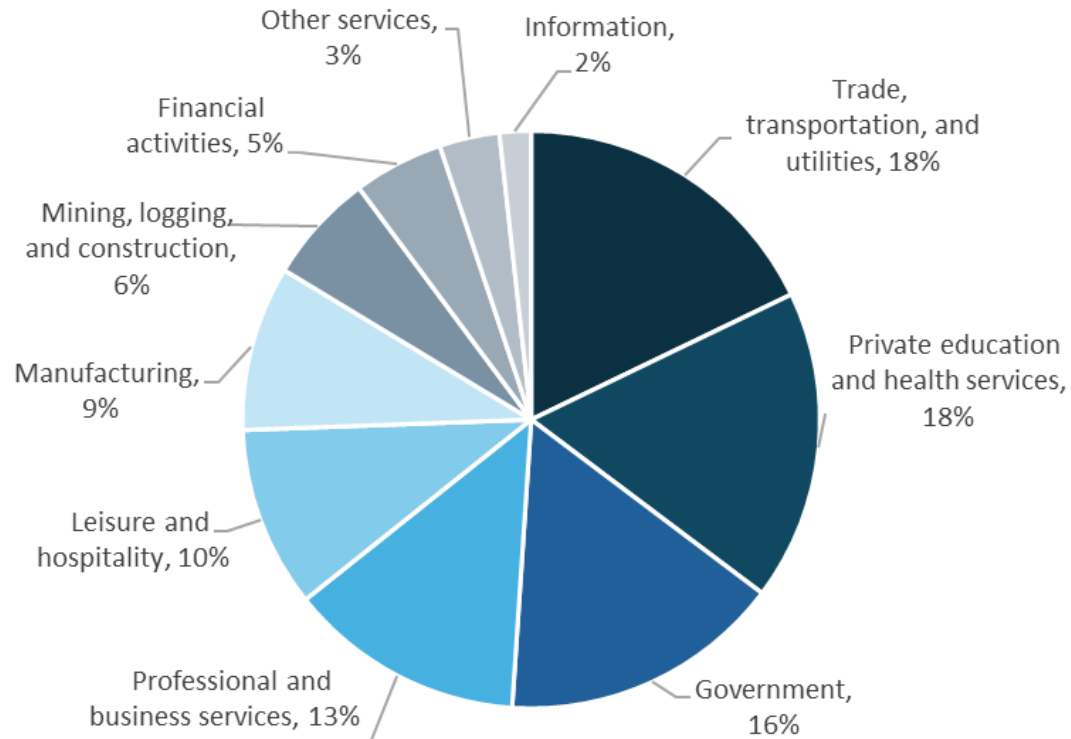
- In the last year, Oregon GDP growth has fallen below US by an average of 1.5 percentage points
- If this deviation continues and US GDP grows by 2.0% in 2025, Oregon GDP would be expected to grow by just 0.5%



# Current Employment

## Industry Share in Oregon

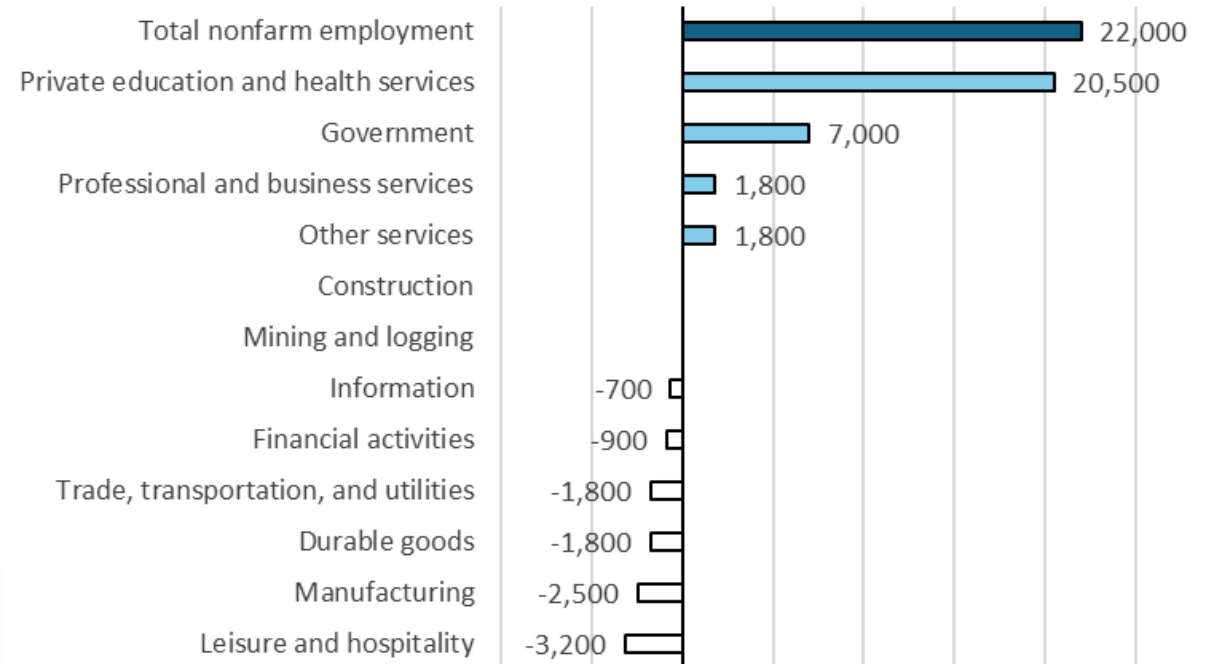
Share of Dec' 2024 Total Nonfarm Employment (SA)



Source: Oregon Employment Department

## Oregon Net Employment Change by Industry

December 2023 to December 2024, Seasonally Adjusted



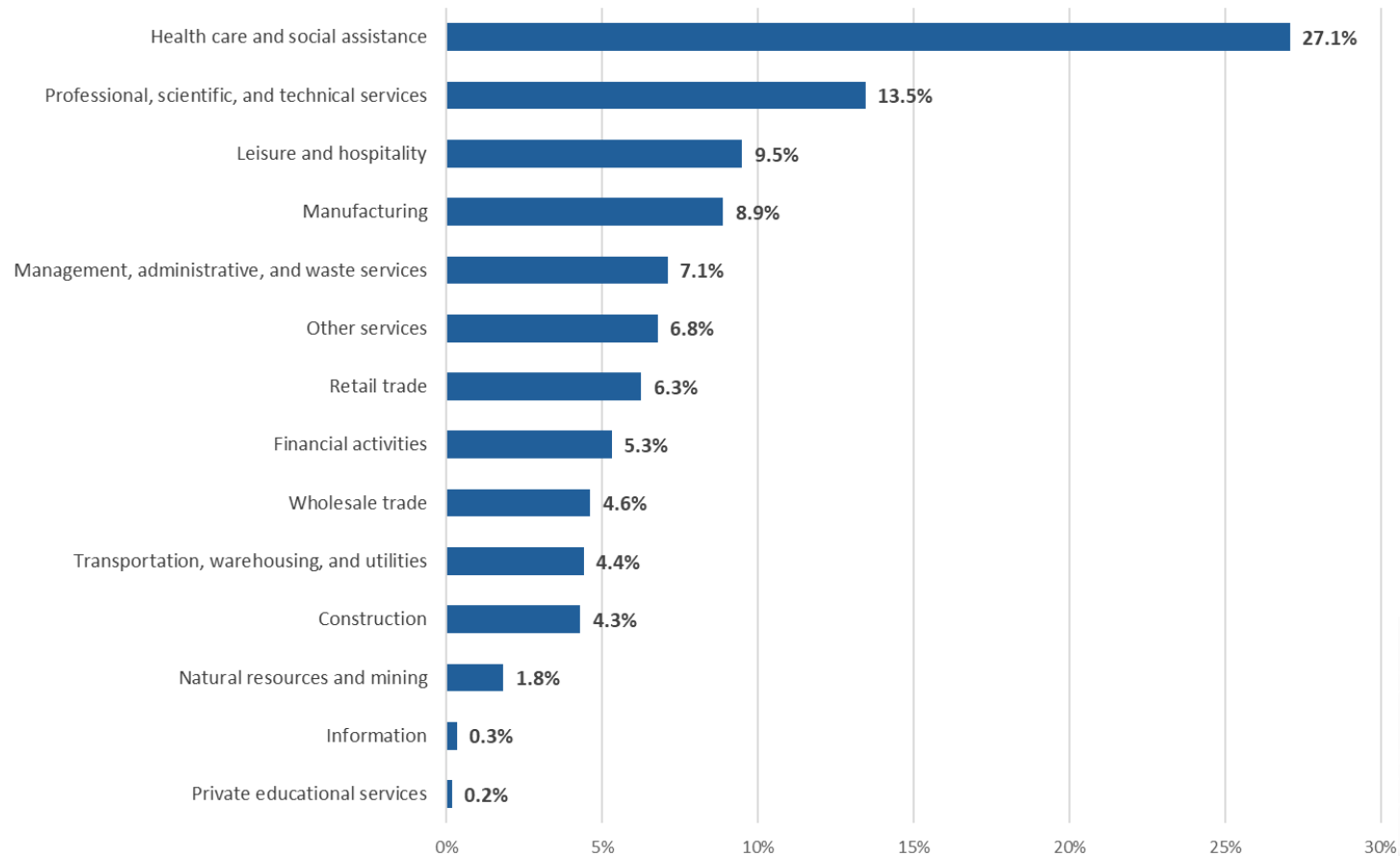
Source: Oregon Employment Department

# Industry hiring



## Oregon Job Vacancies by Industry, Fall 2024

Survey of private-sector businesses with 2+ employees



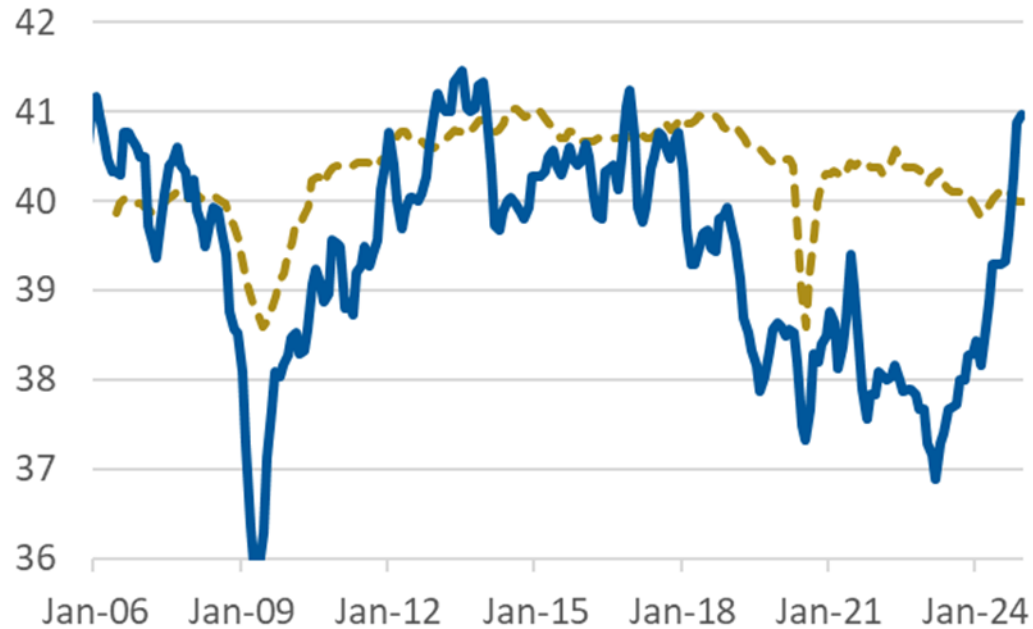
- The average starting wage among this group of vacancies was \$26.50 per hour
- A typical job vacancy tends to be for a full-time, permanent position.
- Portland tri-county area accounted for 45% of all vacancies

# Labor market health varies greatly by sector



## Manufacturing Hours Worked

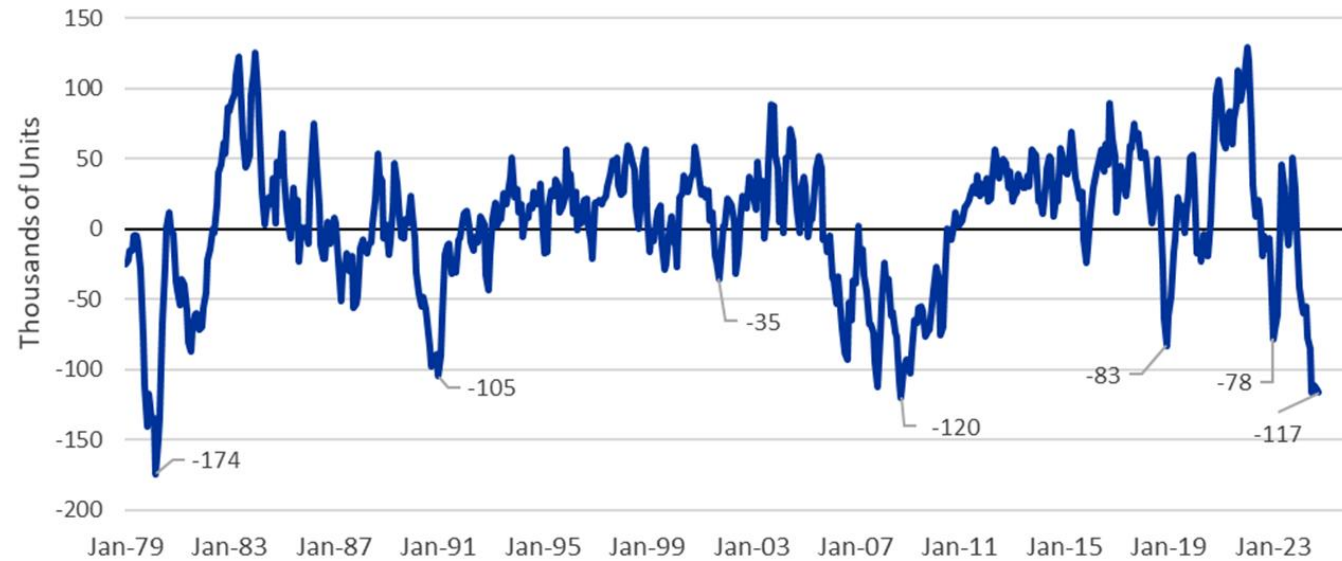
Number of hours worked per week in the USA and Oregon



Data: 3 month avg | Latest: Nov 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



Data : Dec '2024 | Source: US Census Bureau, New Residential Construction



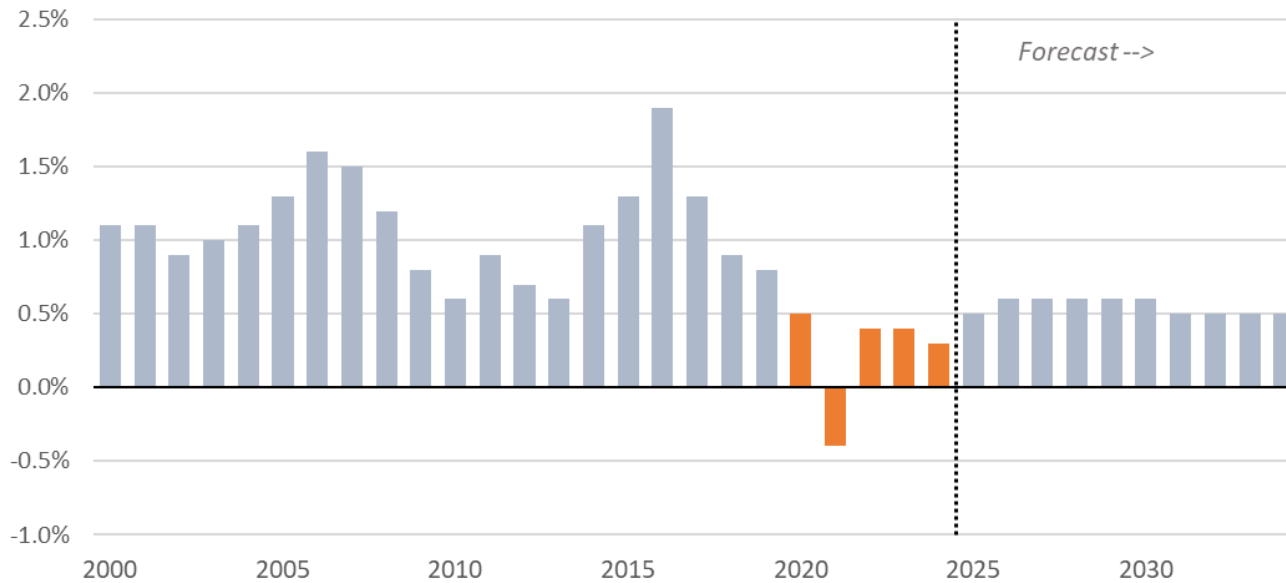
# Longer-term outlook depends on demographics and productivity



## Oregon Population Growth

Annual change in total state population

History/Forecast and PSU Estimates



Latest: 2024 | Source: U.S. Census Bureau, Portland State Research Center, Oregon Office of Economic Analysis

## Oregon is growing slower than the U.S

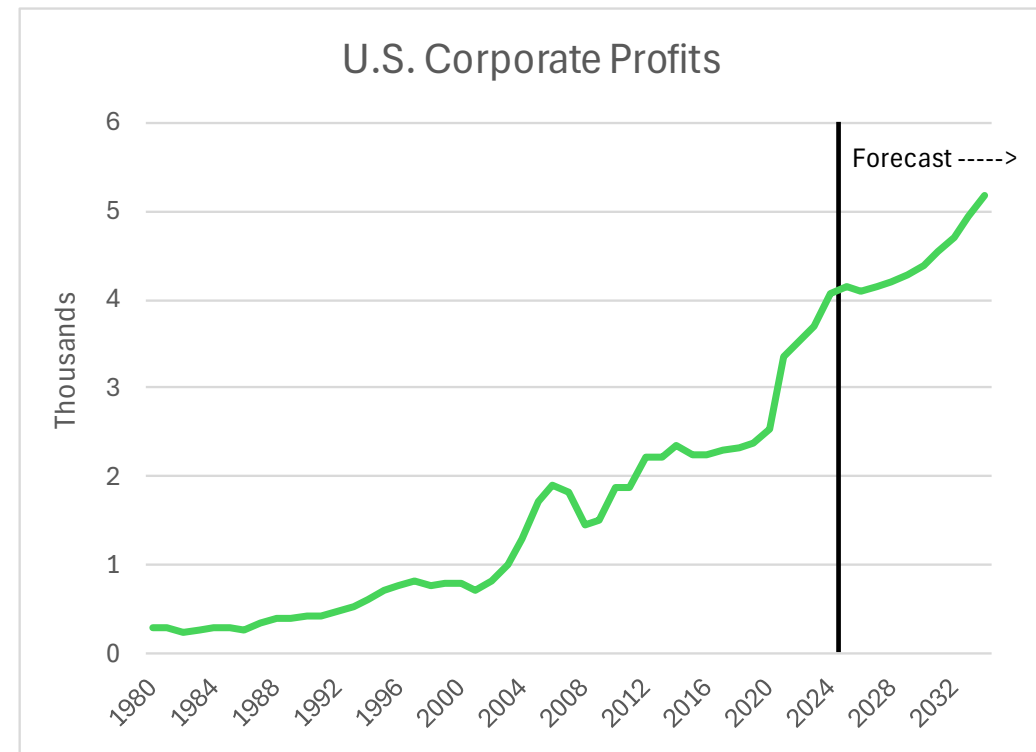
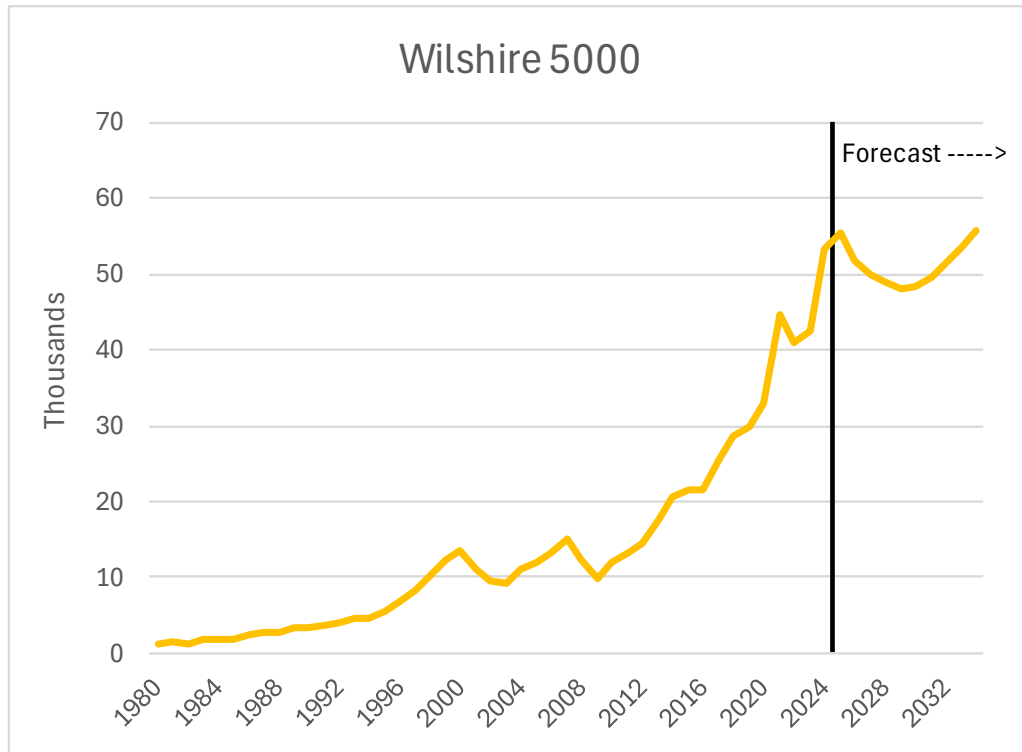
- Total growth slower in part due to deaths outnumbering births
- As the number of deaths exceeds the number of births, Oregon's entire population growth will come from net migration
- Migration has historically been pro-cyclical

*Forecast – based on PSU's estimates*

Population expected to grow by average of 0.6% through 2034.

# Equities & Profits Outlook

## *Mild growth expected*



	2011-24	2024-34 Fcst
Annualized Growth:	11.2%	0.5%
Previous Fcst:		0.7%

	2011-24	2024-34 Fcst
Annualized Growth:	6.1%	2.5%
Previous Fcst:		2.1%



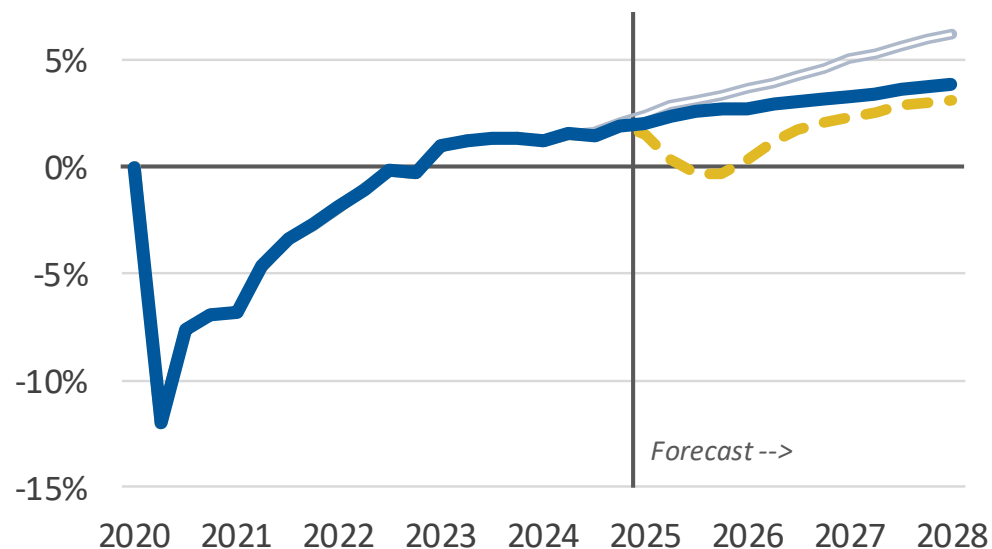
# Alternative Outcomes Possible

## Alternative Scenarios

March 2025

### Oregon Employment

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



### Employment

	2023	2024	2025	2026	2027	2028
Opt: Solid Growth	2.1%	0.4%	1.3%	1.2%	1.3%	1.1%
<b>Base: Soft Landing</b>	2.1%	0.3%	0.9%	0.6%	0.5%	0.5%
Pes: Recession	2.1%	0.3%	-1.2%	1.0%	1.3%	0.7%

### Unemployment Rate

Opt: Solid Growth	3.7%	4.1%	3.9%	3.8%	3.9%	3.9%
<b>Base: Soft Landing</b>	3.7%	4.1%	4.1%	4.3%	4.4%	4.4%
Pes: Recession	3.7%	4.1%	6.5%	6.5%	6.1%	4.8%

### Personal Income

Opt: Solid Growth	5.7%	5.5%	6.1%	6.4%	6.2%	6.0%
<b>Base: Soft Landing</b>	5.7%	5.5%	6.0%	5.9%	5.6%	5.2%
Pes: Recession	5.7%	5.5%	3.8%	5.2%	6.5%	5.4%

# Revenue Update



# Bottom line (change from December)



- 2023-25 Biennium
  - Revenues Decreased \$89 million
  - Appropriations up \$110 million
  - Ending Balance projected \$2.59 billion
- 2025-27 Biennium
  - Revenues Increased \$551 million
  - Beginning balance down \$200 million
  - Available resources increased \$350 million





# Tracking weak in 4<sup>th</sup> quarter:

## Tracking: Quarter Ending 12/31/2024

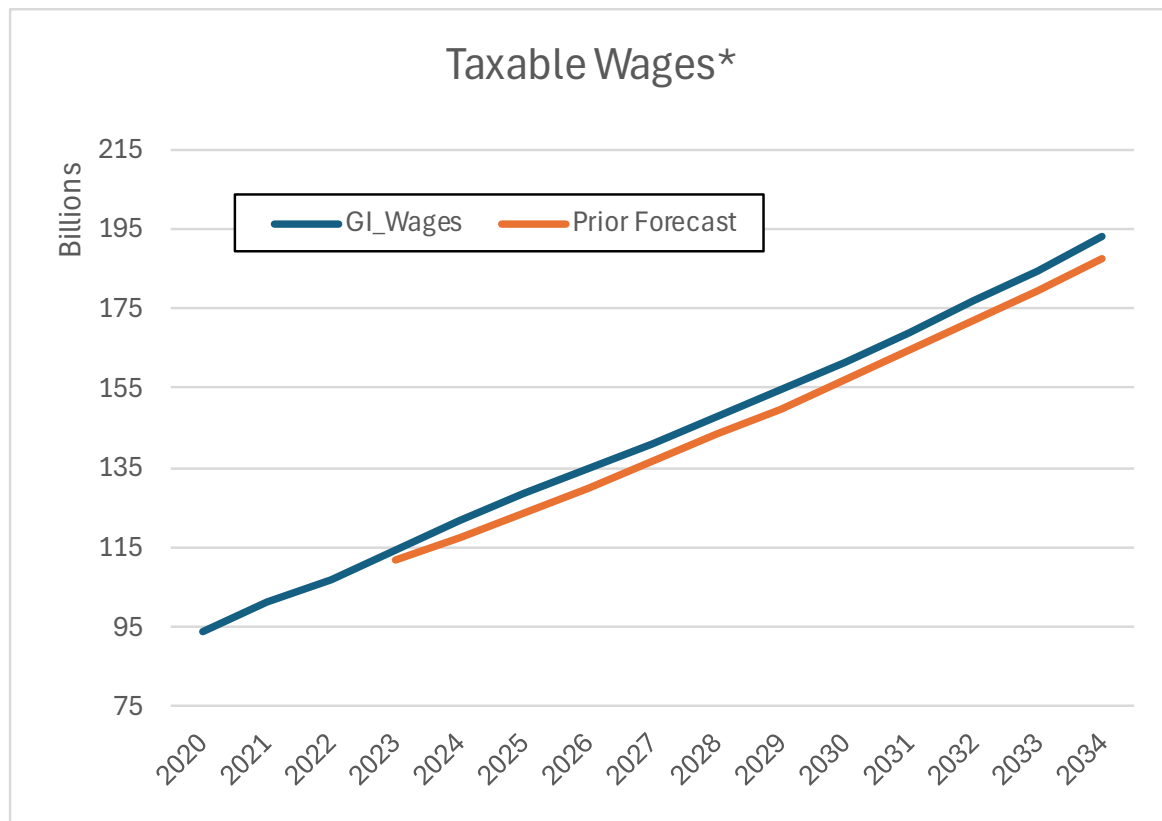
Personal Income Tax (mil.)	December			Y/Y Change
	Actuals	Forecast	Deviation	
Withholding	\$3,009.0	\$3,000.7	\$8.3	8.5%
Estimated Payments	\$626.4	\$464.4	\$162.0	19.5%
Return Payments	\$190.2	\$193.5	-\$3.2	-27.1%
Refunds	-\$1,066.4	-\$791.1	-\$275.3	85.5%
<b>Total</b>	<b>\$2,759.3</b>	<b>\$2,867.5</b>	<b>-\$108.2</b>	<b>-7.5%</b>

Corporate Income Tax (mil.)	December			Y/Y Change
	Actuals	Forecast	Deviation	
Estimated Payments	\$598.9	\$571.7	\$27.1	2.5%
Return Payments	\$73.4	\$129.7	-\$56.3	-4.7%
Refunds	-\$333.6	-\$304.9	-\$28.7	12.3%
<b>Total</b>	<b>\$338.6</b>	<b>\$396.5</b>	<b>-\$57.9</b>	<b>-7.0%</b>

- Refunds subject to “timing” effects:
  - Refund reviews
  - Kicker magnitude
  - PTE-E



# Taxable Wages Strong



- Final tax return data available for tax year 2023.
- Initial tax return data available for tax year 2024.
- Wage growth revised upward significantly.
- Wage growth persistent (compared to CapGains or business income)

	<u>Dec Fcst</u>	<u>March Fcst</u>
TY 2023	4.6%	6.4%
TY 2024	4.8%	6.7%

# Slower growth ahead



Gross Income-Liability Model Summary			
Component	2023 Distribution	2011-23 Annualized Change	2023-34 Annualized Change
Wages & Salaries	65.6%	5.5%	4.9%
Dividends	2.8%	8.7%	6.2%
Interest	1.7%	7.5%	2.6%
Capital Gains	4.6%	9.5%	5.1%
Retirement	14.8%	5.9%	3.5%
Proprietors	2.8%	4.3%	5.2%
Schedule E	7.0%	8.8%	3.0%
Other	0.6%	3.9%	-2.8%
<b>Total</b>	<b>100.0%</b>	<b>6.0%</b>	<b>4.6%</b>
	Effective Tax Rate	2011-23 Annualized Change	2023-34 Annualized Change
Liability	7.0%	7.4%	6.0%

- Demographics:
  - Overall slowing
  - Boomers age
- High income earners out-migration.

# Mild decrease in 2023-25



## 2023-25 General Fund Revenue Statement

	<u>March 2025 Forecast</u>	<u>Change from Prior Forecast</u>	<u>Change from COS Forecast</u>
Revenues (millions)			
Personal Income Tax*	\$22,469.2	-\$120.1	\$1,486.6
Corporate Income Tax*	\$3,090.7	-\$31.1	\$953.4
All Other Revenues	\$2,216.2	\$61.9	\$204.9
<b>Net General Fund</b>	<b>\$27,776.1</b>	<b>-\$89.3</b>	<b>\$2,644.8</b>
Beginning Balance	\$8,082.5	\$0.0	\$589.0
Appropriations	-\$33,272.1	-\$110.2	-\$1,090.1
<b>Projected Ending Balance</b>	<b>\$2,586.5</b>	<b>-\$199.5</b>	<b>\$2,143.7</b>

\* includes offsets and RDF transfers

- Personal Income Tax:
  - Refunds higher in Nov/Dec
- Corp:
  - Tracking negative
- Other
  - Estate and Liquor revised upward



## 2025-27 General Fund Revenue Statement

	<u>March 2025 Forecast</u>	<u>Change from Prior Forecast</u>
Revenues (millions)		
Personal Income Tax*	\$30,766.7	\$544.9
Corporate Income Tax*	\$3,268.1	-\$26.7
All Other Revenues	\$1,872.9	\$32.4
<b>Net General Fund</b>	<b>\$35,907.7</b>	<b>\$550.7</b>
Beginning Balance	\$2,586.5	-\$199.5
<b>Available Resources*</b>	<b>\$38,164.2</b>	<b>\$350.1</b>

- Personal Income Tax
  - Wages/Retirement increased
  - Smaller kicker offset (\$68m)
- Corporate
  - Profits revised downward
- Other
  - Interest Earnings increased due to rate outlook
- **Does not include potential “reversion” adjustment**

\* includes offsets and RDF transfers

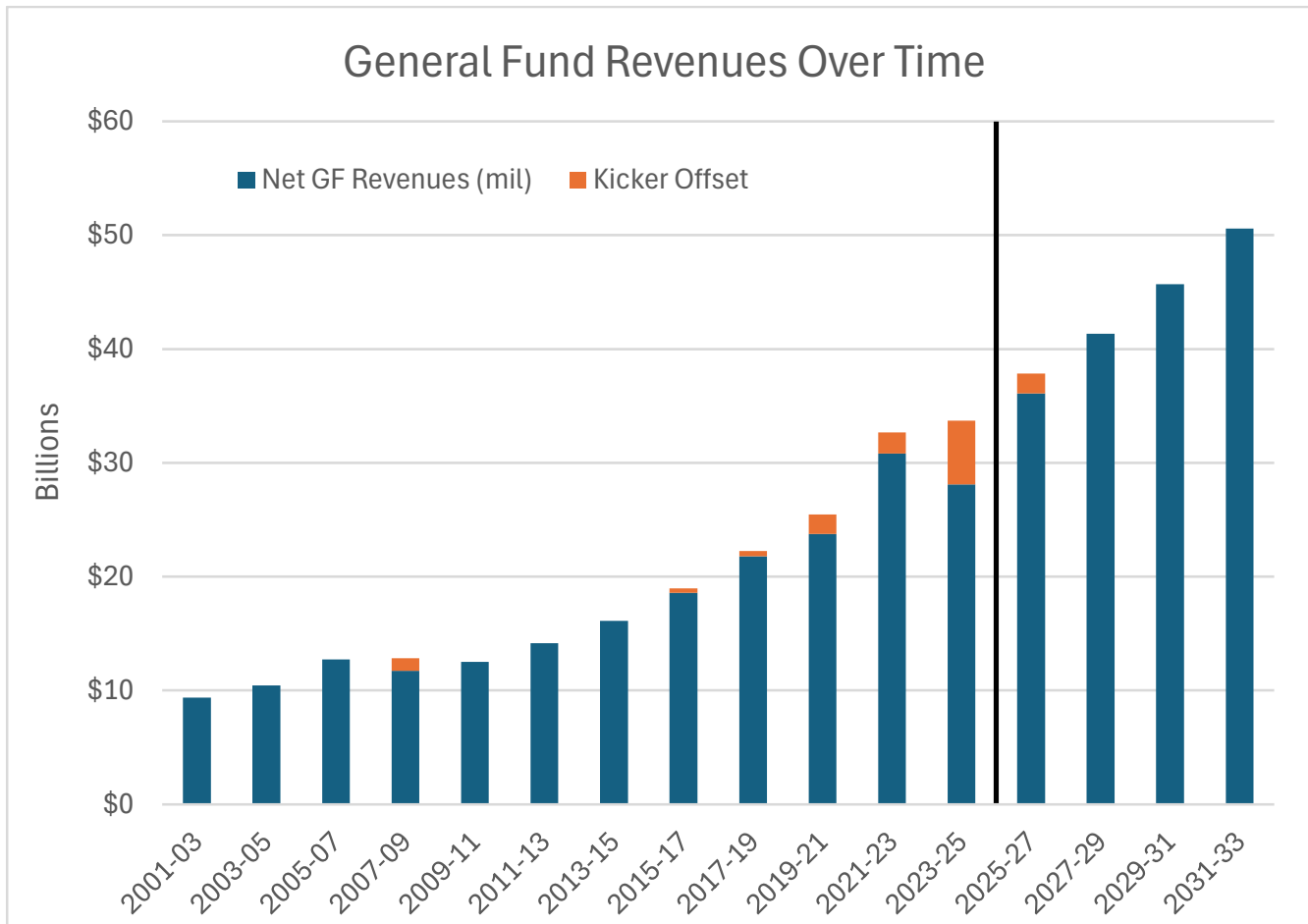


# Risks to the forecast



- Reconciliation on tax year 2024 just underway.
  - Withholding and Estimated Payments known.
  - December and March forecasts assume robust “return” payments relative to refunds.
  - Potential variance up to \$500 million either way.
  - Tracking data daily

# Long-run Outlook Subdued



Regime Change for GF Revenues	
Period	Biennial Growth *
1979-2021	12.5%
2021-2025	15.1%
2025-2033	10.7%

\* Gross revenues (excluding kicker)

# Non-GF Revenues



## 2023-25 Non-GF Revenue Statement

Source of Revenue (millions)	March 2025 Forecast	Change from Prior Forecast	Change from COS Forecast
Lottery	\$1,859.8	-\$19.8	\$26.8
Corp. Activity Tax	\$2,735.8	-\$31.6	-\$22.0
Marijuana	\$291.8	-\$1.7	-\$6.7
<b>Total Other Revenues</b>	<b>\$4,887.4</b>	<b>-\$53.1</b>	<b>-\$1.9</b>

## 2025-27 Non-GF Revenue Statement

Source of Revenue (millions)	March 2025 Forecast	Change from Prior Forecast
Lottery	\$1,922.0	-\$65.6
Corp. Activity Tax	\$3,092.4	-\$9.5
Marijuana	\$308.9	-\$0.3
<b>Total Other Revenues</b>	<b>\$5,323.4</b>	<b>-\$75.4</b>

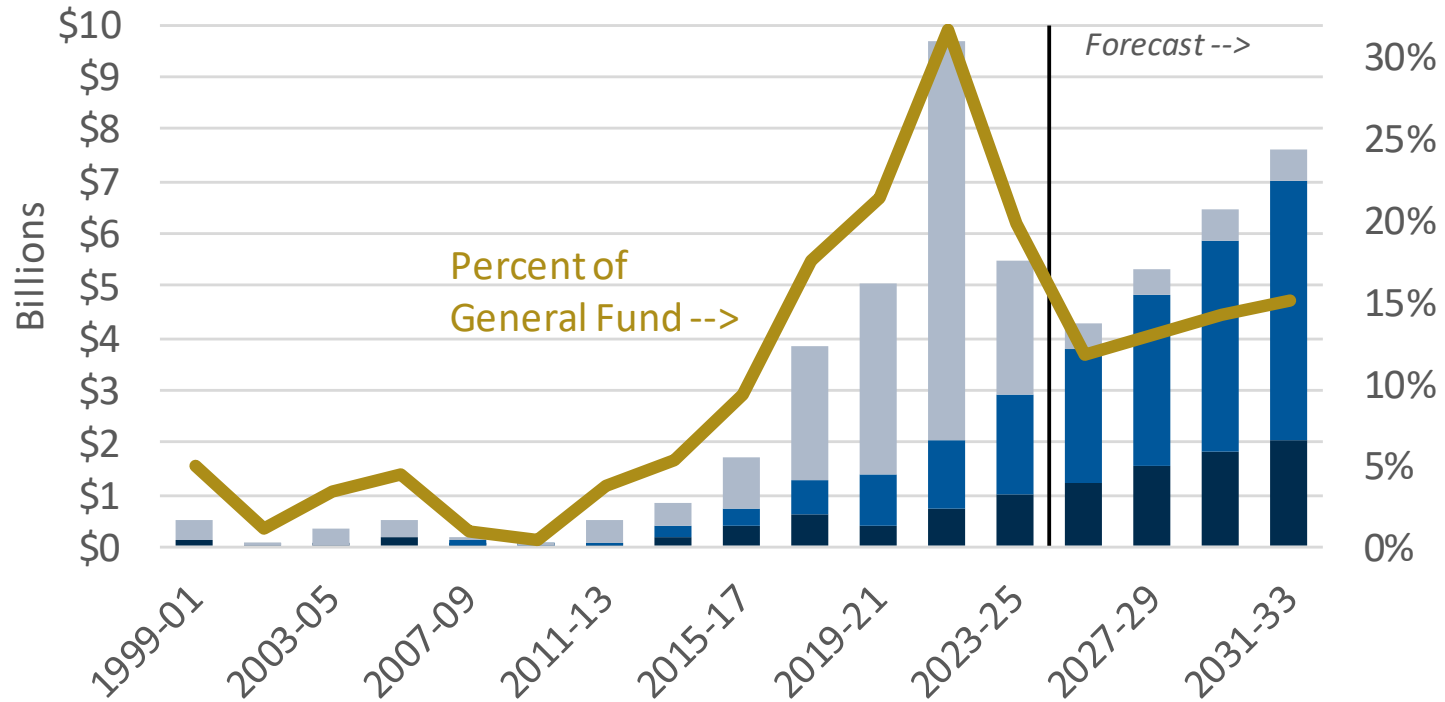
- Lottery:
  - Unclaimed prize correction
  - Video weaker
- CAT refunds higher (timing issue?)
- Marijuana virtually unchanged.

# 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)

	<i>End of 2023-25</i>	<i>Estimated 2025-27</i>
ESF	\$1,010	\$1,242
RDF	\$1,906	\$2,539
<b>Reserves</b>	<b>\$2,916</b>	<b>\$3,782</b>
% of GF	10.5%	10.5%
Ending Balance	\$2,587	\$500
<b>Total</b>	<b>\$5,503</b>	<b>\$4,282</b>
% of GF	19.8%	11.9%

# Contact Information

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