

The background features a large, faint, circular seal of the Oregon Office of Economic Analysis. The seal contains an eagle with wings spread, a plow, and a sheaf of wheat. The text "OFFICE OF ECONOMIC ANALYSIS" is written around the top inner edge, "OREGON" around the bottom inner edge, and "1859" at the very bottom. A banner across the center of the seal reads "THE UNION".

# September 2022 Economic and Revenue Forecast

August 31<sup>st</sup>, 2022

Oregon Office of Economic Analysis  
Mark McMullen  
Josh Lehner

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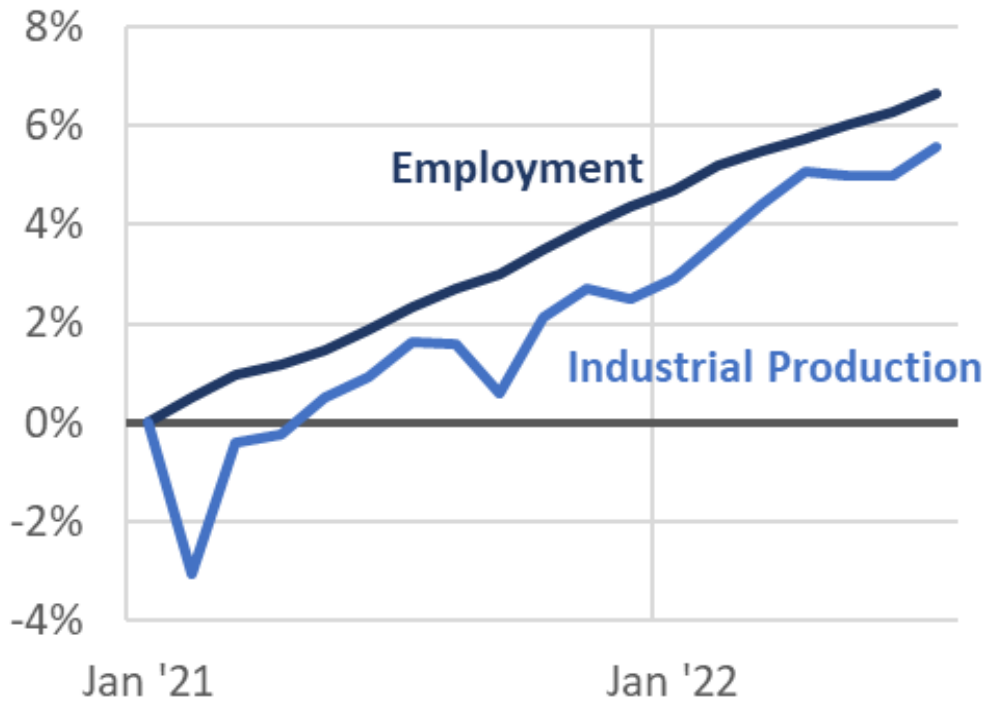
# Economic Outlook



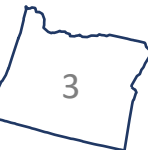
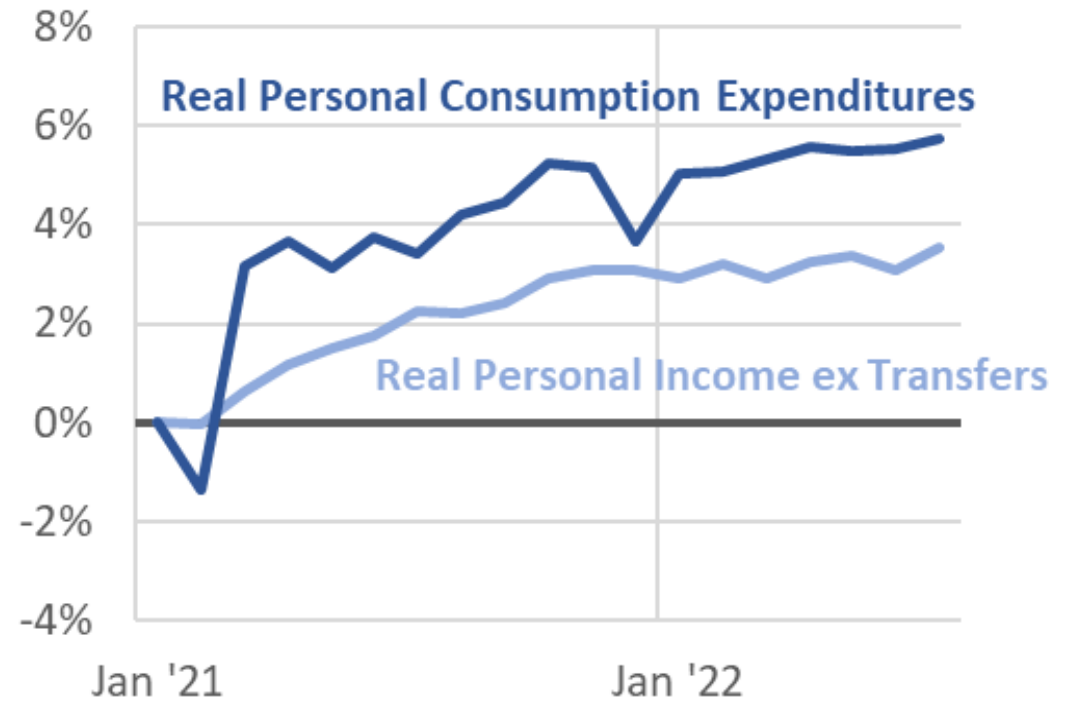
# U.S. economy unlikely in recession

Percent change from Jan '21 in key recession metrics

*Jobs and Production are Growing*



*Income and Sales Growth Holding Up but Struggling to Outpace Inflation*

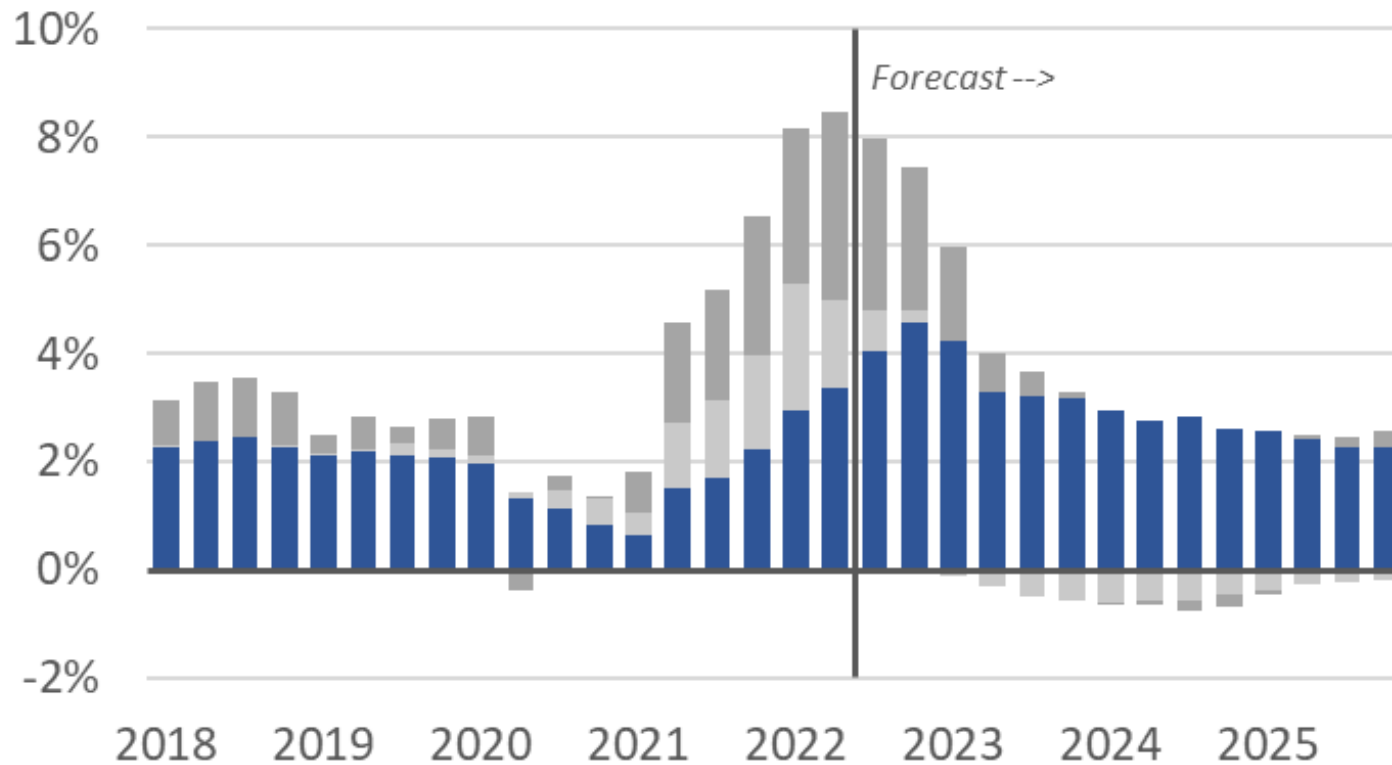




# Inflation is the key macroeconomic issue

## West Region Consumer Price Index

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



- Inflation is not costless
- Federal Reserve
  - Higher rates slow economy, but with a 1–2 year lag
- Inflation Outlook
  - Headline inflation slows some due to gas prices and easing supply chains
  - Full return to 2% Fed target is harder and a multiyear process
  - Longer-term inflation expectations remain anchored
- Oregon public policies
  - Fees indexed for inflation, public wage negotiations, minimum wage, rent stabilization, etc
- Recession risks are real

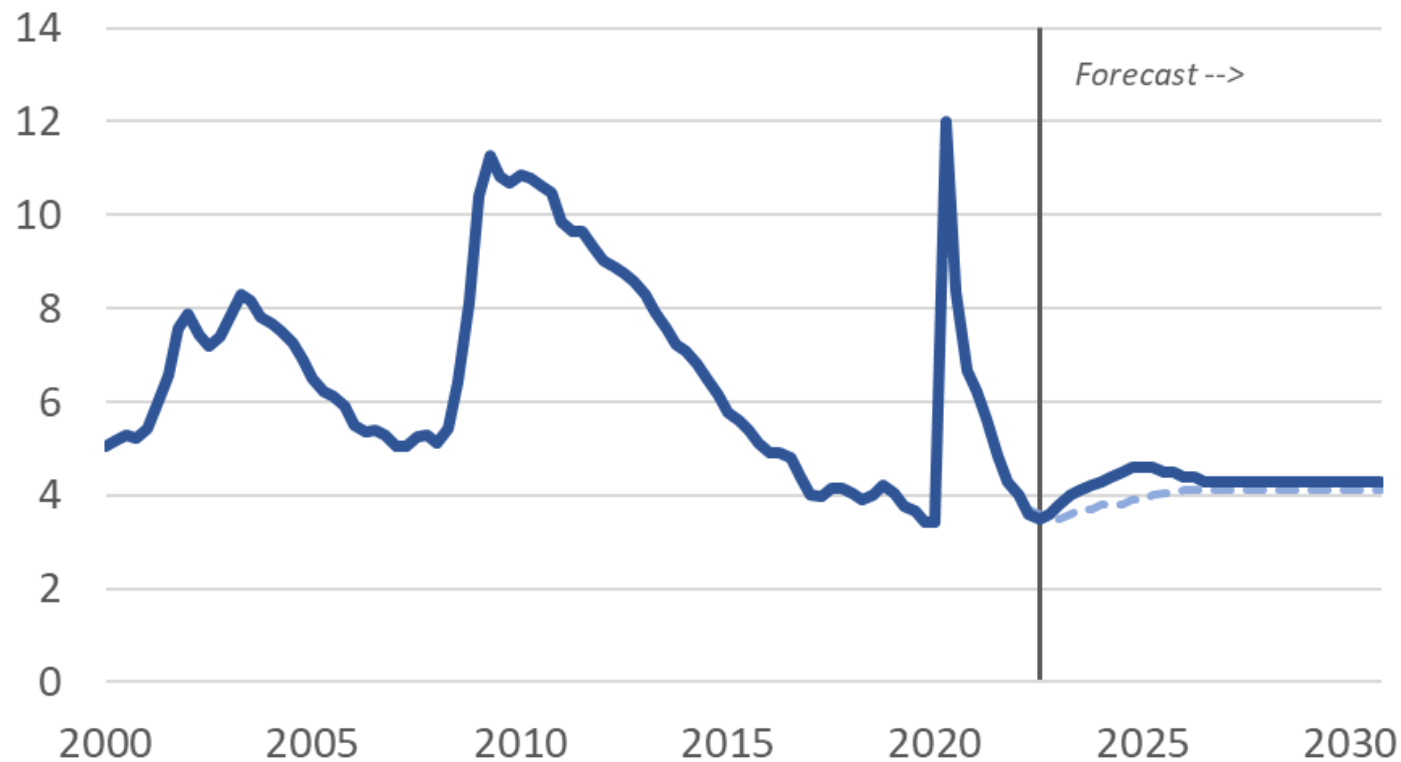




# Better labor market balance needed

## Oregon's Unemployment Rate

Current Forecast | Previous Forecast



Latest Data: 2022q2 | Source: Oregon Employment Dept, Oregon Office of Economic Analysis

- Labor market is extremely tight
  - Labor supply in Oregon is high, labor demand is even higher
  - In June 2022, there were 1.6 job openings for every unemployed Oregonian
- Soft Landing Scenario (Baseline)
  - Fewer job openings and slower job growth leads to somewhat higher unemployment rate
  - Economic forecast is revised down relative to last quarter
  - Overall result is slower wage growth and inflation

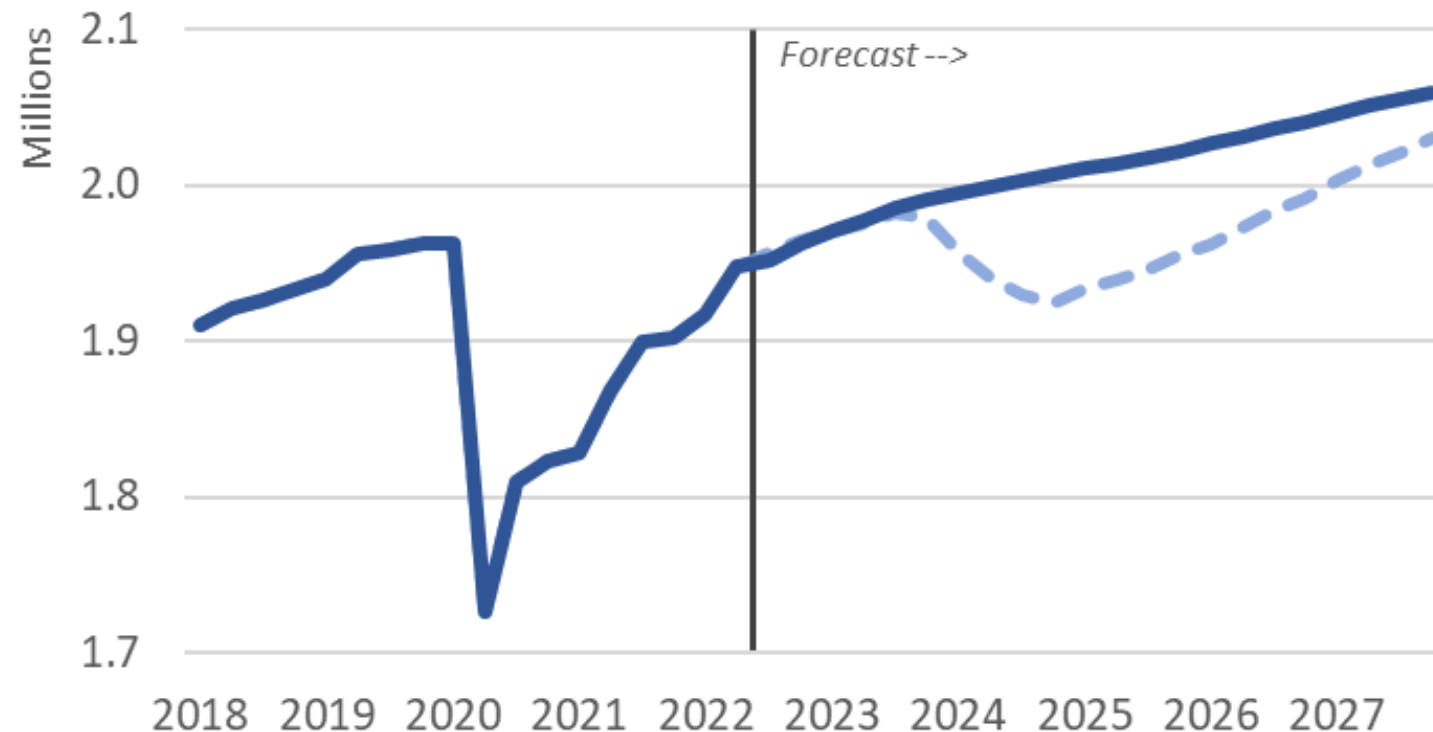




# Risk: Inflationary booms don't end well

## Alternative Scenario Employment

Oregon Nonfarm Employment, **Baseline** vs **Boom/Bust**



- Fine tuning policy just right to engineer a soft landing is difficult
- Usually when the unemployment rate increases, it does so a lot, not a little like the baseline
- Recession Scenario
  - Timing: late 2023/early 2024
  - Severity: mild
  - Oregon more volatile than nation
  - Risks are recession could start a bit earlier, and/or need to be more severe to truly bring inflation down

Latest: 2022q2 | Source: BLS, Oregon Office of Economic Analysis

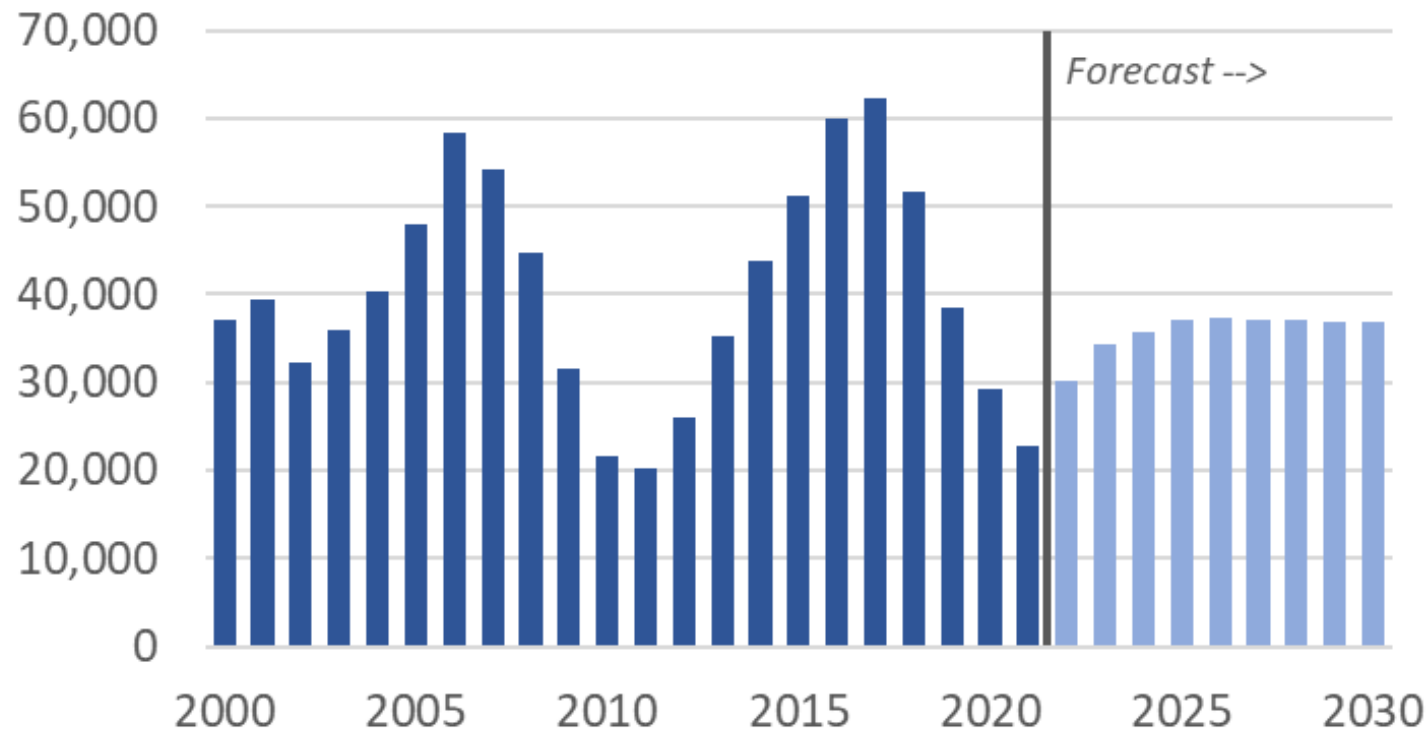




# Population is the key Oregon issue

## Oregon Population Growth

Annual Change in the Total Population



- Faster population growth is the primary reason why Oregon's economy outperforms the nation over the entire business cycle
- Population growth usually slows in recessions and accelerates in expansions
- Expectations are population growth rebounded in 2022
  - Surrendered driver licenses remain high
  - 2022 population estimates will be released in November (PSU) and December (Census)
- Important Data Release
  - 2021 American Community Survey data released September 14<sup>th</sup>, can begin to analyze
    - Household income and poverty
    - Socio-economic characteristics of employment and migration
    - Household formation and much more!

Latest Data: 2021 | Source: Census, Portland State PRC, Oregon Office of Economic Analysis



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# Revenue Outlook

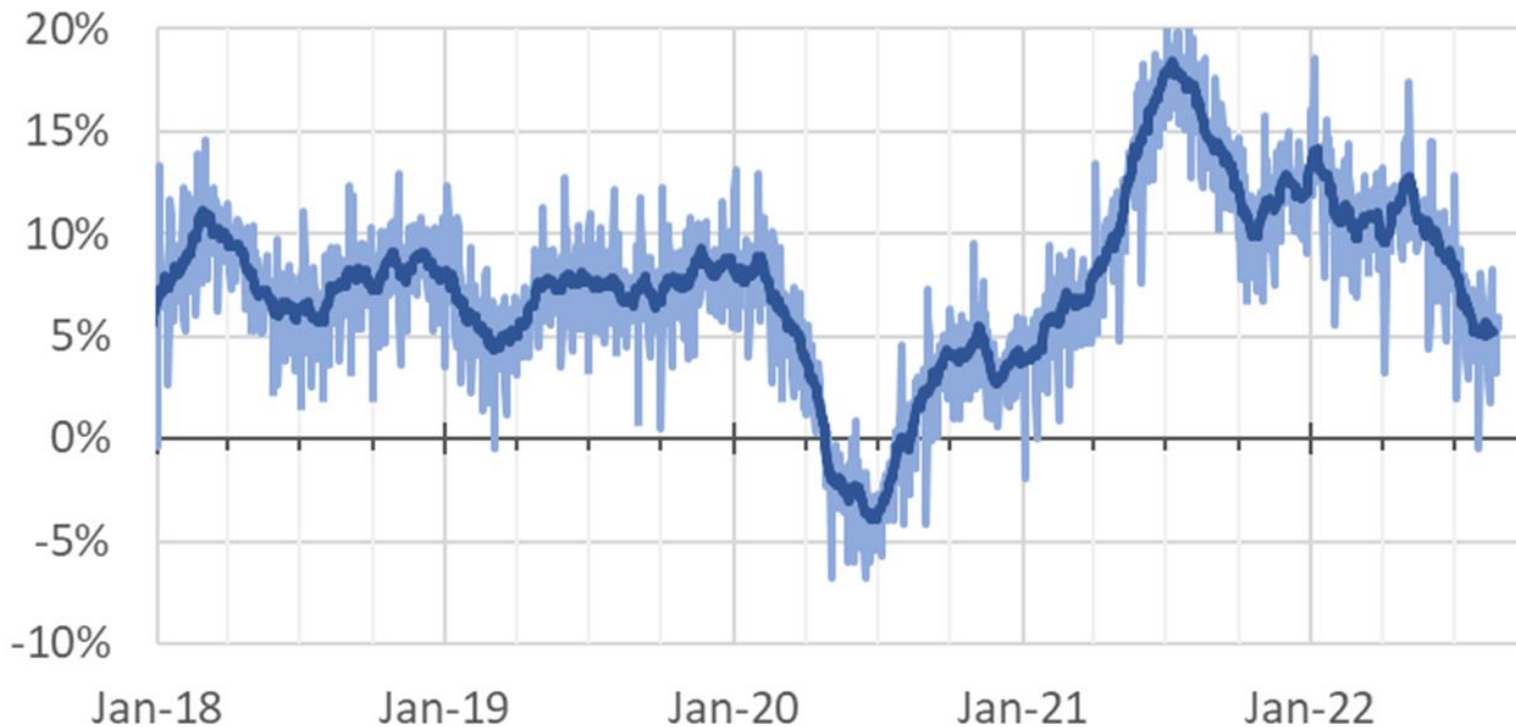




# Income tax withholding: First sign of slowing?

## Oregon Withholding

90 Day Rolling Sum of Collections: [Year-over-Year Change](#) | [Moving Average](#)



- Income tax withholdings have returned to earth in recent weeks
- Other measures of labor income have yet to show any weakness
- Estimated and other personal income tax payments continue to outstrip expectations, suggesting nonwage income growth remains strong

Latest Data: August 26, 2022 | Source: Oregon Dept. of Revenue, Oregon Office of Economic Analysis

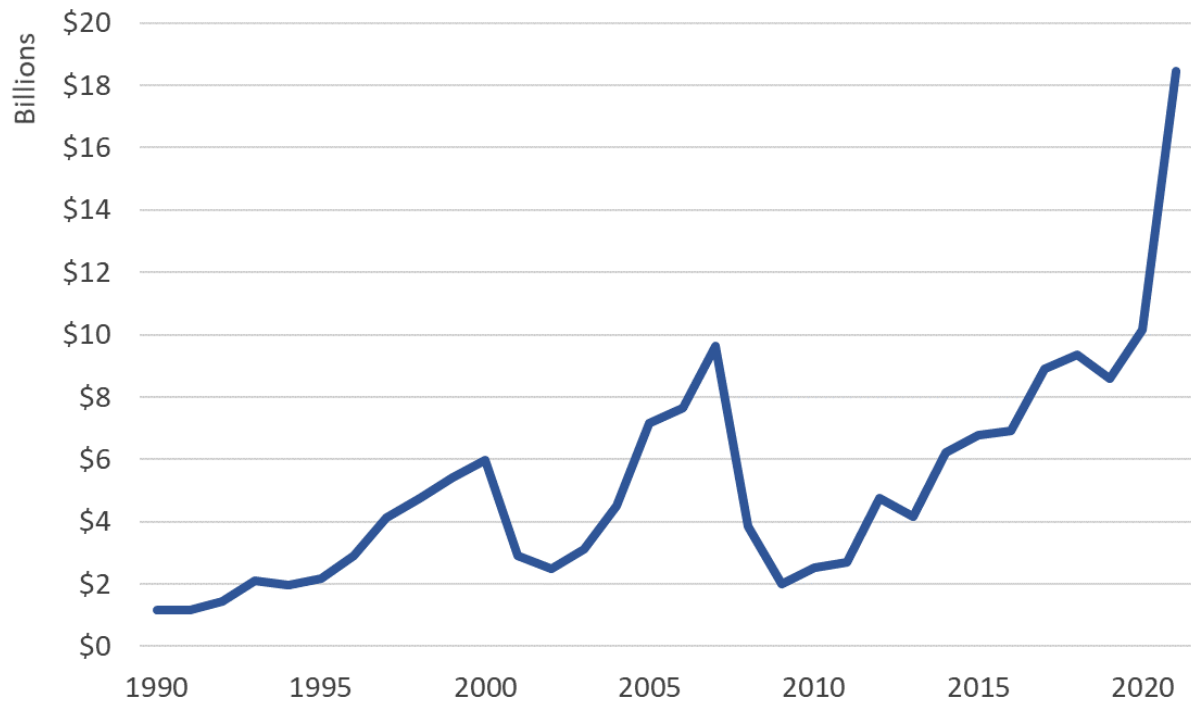




# Unsustainable growth in nonwage forms of taxable income

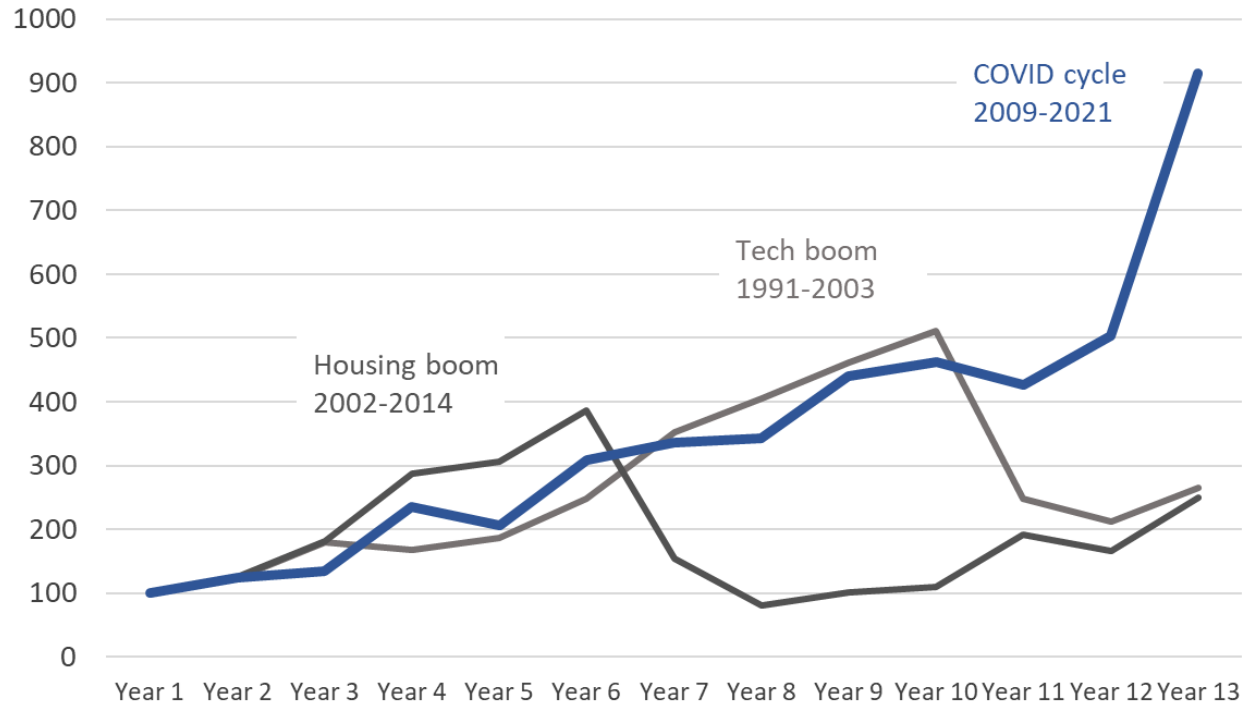
## Oregon Realizations of Capital Gains

Fully-year income tax filers



## Capital Gains Income Reported on Oregon Tax Returns

Index, Cyclical Low=100

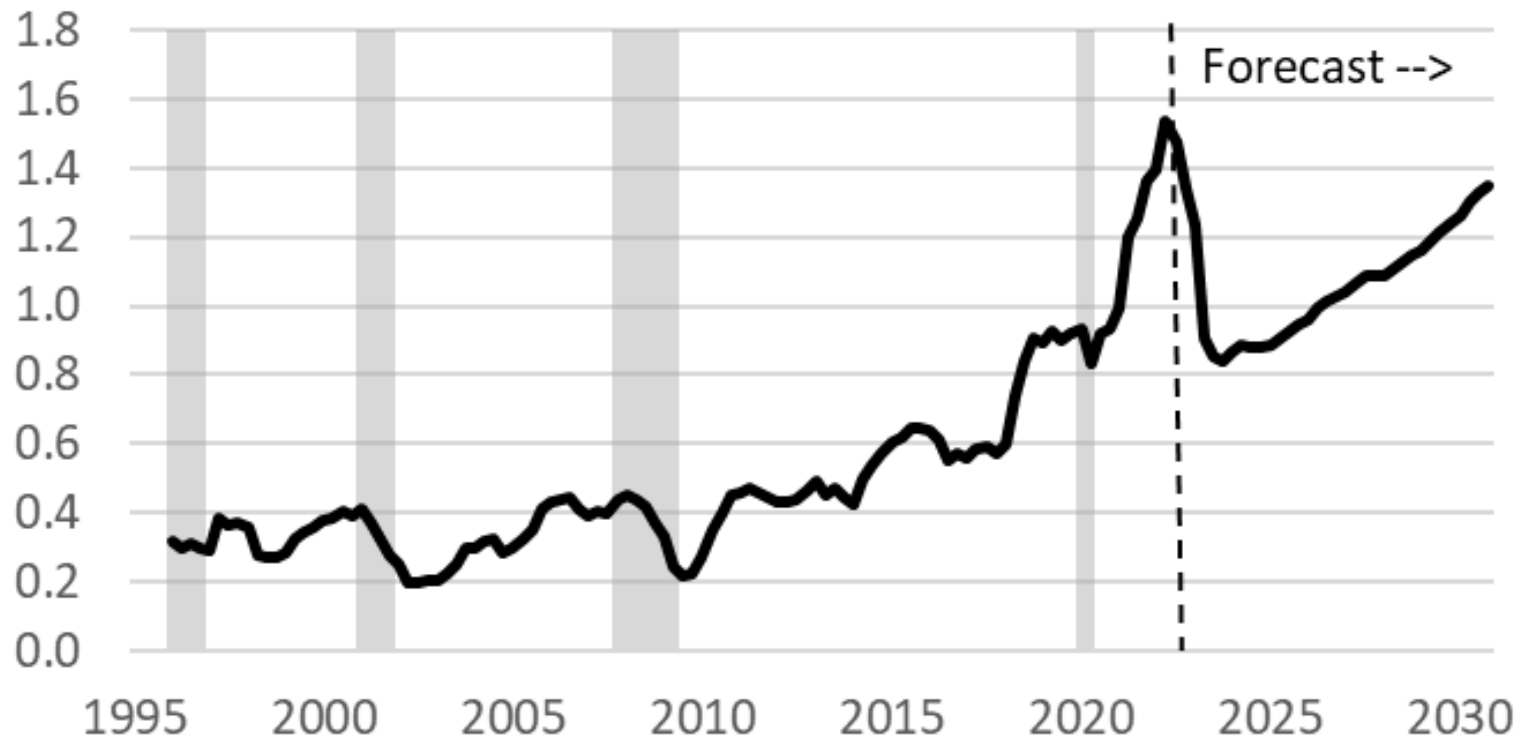




# Traditional corporate taxes will return to earth as well

## Oregon Corporate Excise Tax

4-QTR sum, \$ billions



- Corporate excise and income taxes have nearly tripled over the past decade, and are 70% higher than before the pandemic
- Although federal tax reforms have increased the Oregon tax base, much of the recent gains are assumed to be temporary
- With labor costs and interest rates rising, corporate profits are expected to fall even if the economic expansion persists

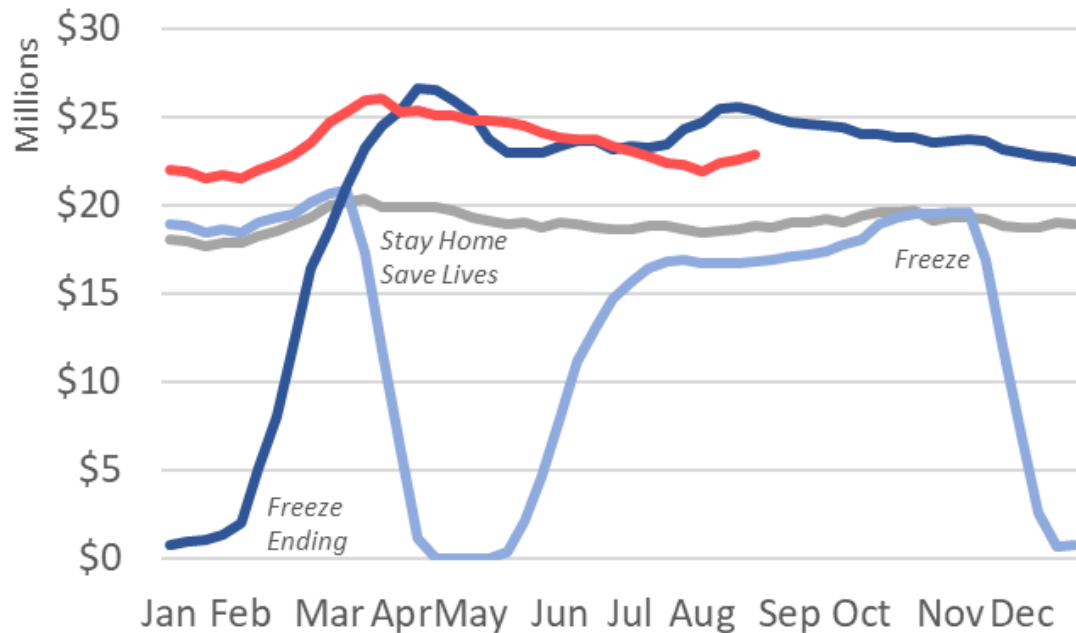


# Vice revenues have slowed as expected

Forecasts revised down in keeping with soft landing

## Oregon Video Lottery Sales

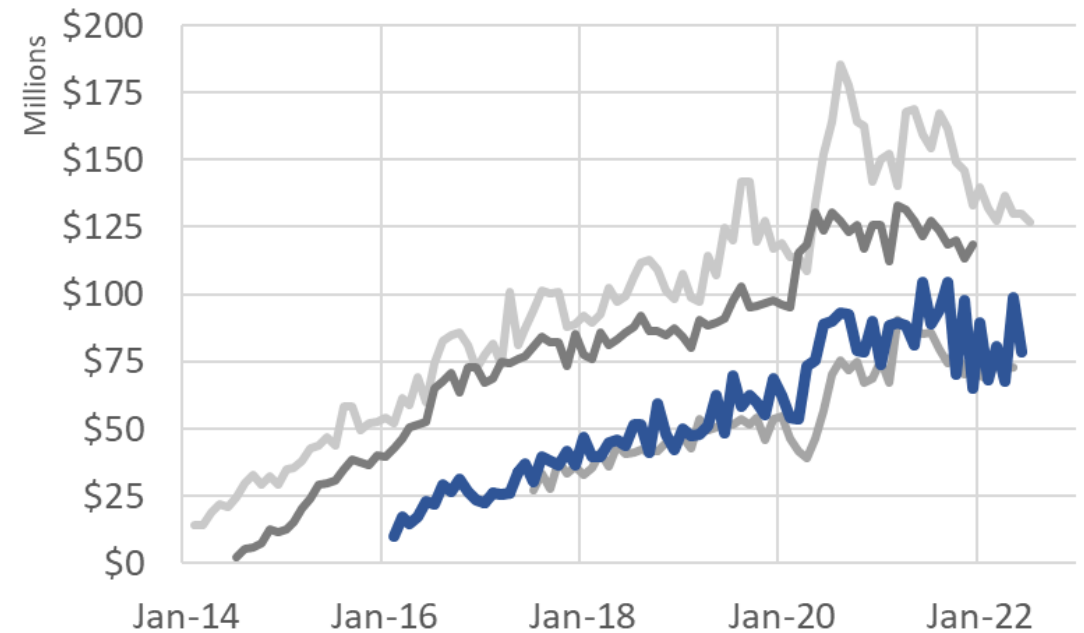
2019 | 2020 | 2021 | 2022



Latest Data: August 20, 2022 | Source: Oregon Lottery, Oregon Office of Economic Analysis

## Recreational Marijuana Sales

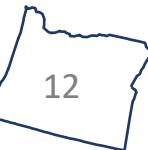
Colorado Washington Nevada Oregon



Source: Oregon Office of Economic Analysis calculation from state tax collections



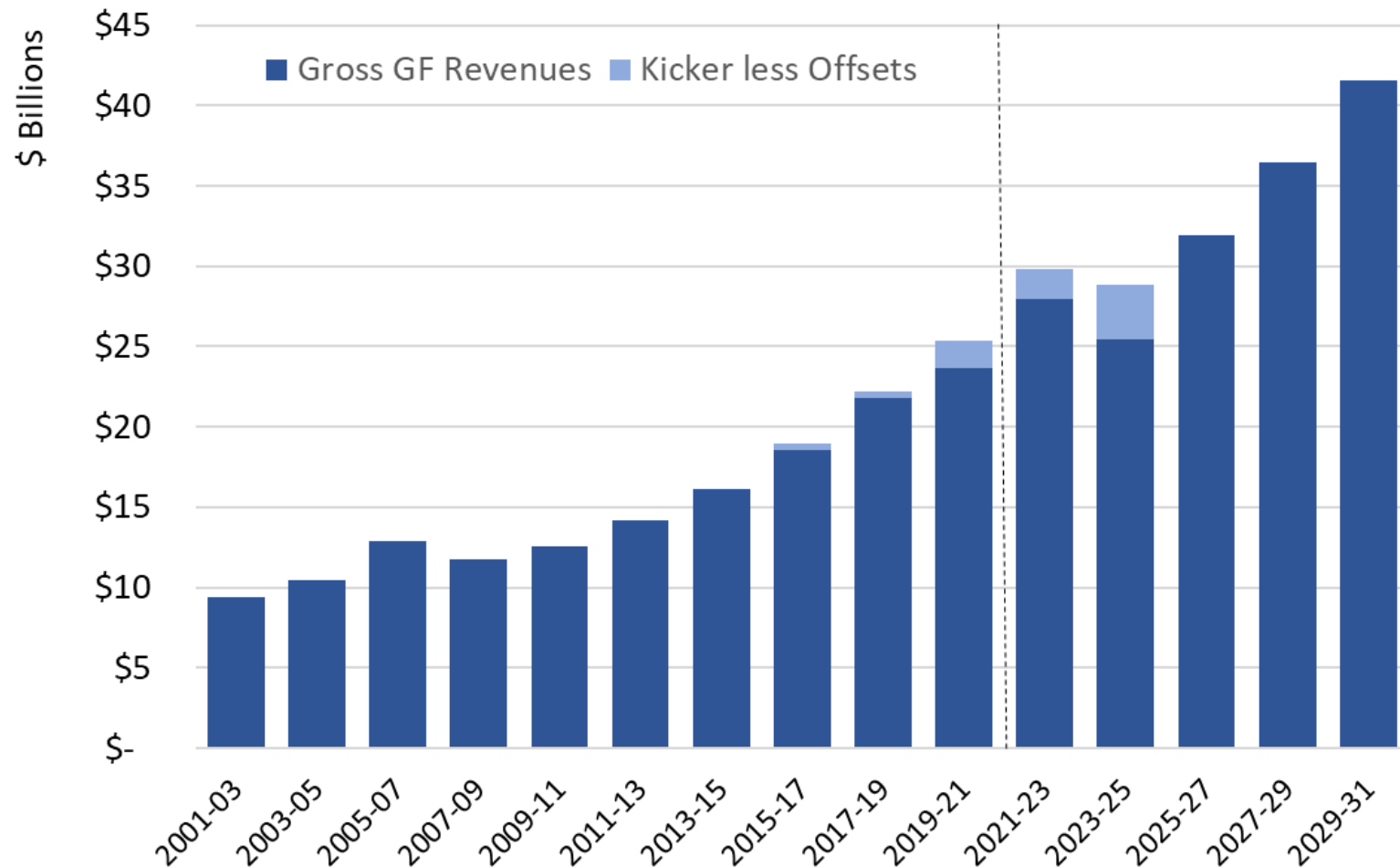
Oregon Office of  
Economic Analysis





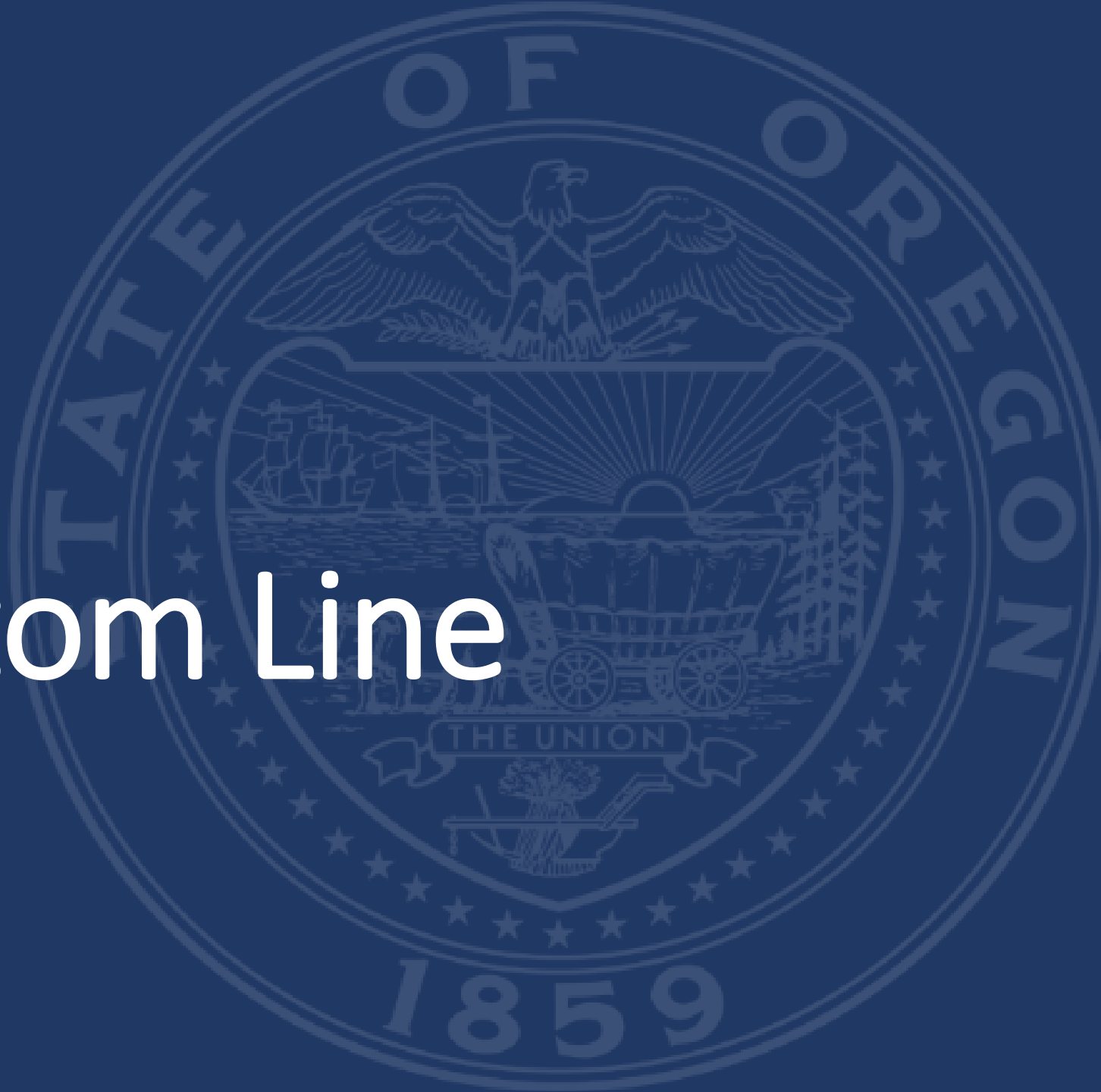
# General Fund forecast: Hangover expected in 2023-25

## Gross General Fund Revenues



- General Fund resources have continued to expand in recent years despite large kicker credits being issued
- Gross General Fund revenues have doubled since the Great Recession and took a big step up after the pandemic hit.
- This growth is expected to pause in the near term, as nonwage forms of income and corporate profits return to earth, and gains in the labor market slow

Bottom Line







# Changes relative to the June Forecast

## September 2022 Forecast Changes

General Fund Revenues	\$ Millions from June			
	21-23	23-25	25-27	27-29
Personal Income Taxes	367	-707	-530	-493
Corporate Income Taxes	174	33	-57	-57
Other	60	50	35	34
<b>Total</b>	<b>601</b>	<b>-625</b>	<b>-552</b>	<b>-516</b>

Other Revenues	\$ Millions from June			
	21-23	23-25	25-27	27-29
Lottery	7	-19	-25	-24
Corporate Activity Tax	4	-54	-81	-61
Marijuana Tax	-12	-17	-17	-16
<b>Total</b>	<b>-1</b>	<b>-90</b>	<b>-123</b>	<b>-101</b>

	\$ Millions from June			
	21-23	23-25	25-27	27-29
<b>Total Sum</b>	<b>600</b>	<b>-715</b>	<b>-675</b>	<b>-617</b>

- Data in the table show how the revenue outlook has changed since the June forecast (released 5/15/22)
- FY2023 is now underway, with personal and corporate income taxes continuing to outstrip expectations
- Gains in 2021-23 are offset by slower economic growth and a larger kicker credit in 2023-25
- Combined resources for the 2021-23 and 2023-25 budget cycles have decreased by **\$115 million**
- Personal Kicker
  - \$3.46 billion
- Corporate Kicker
  - \$1.10 billion

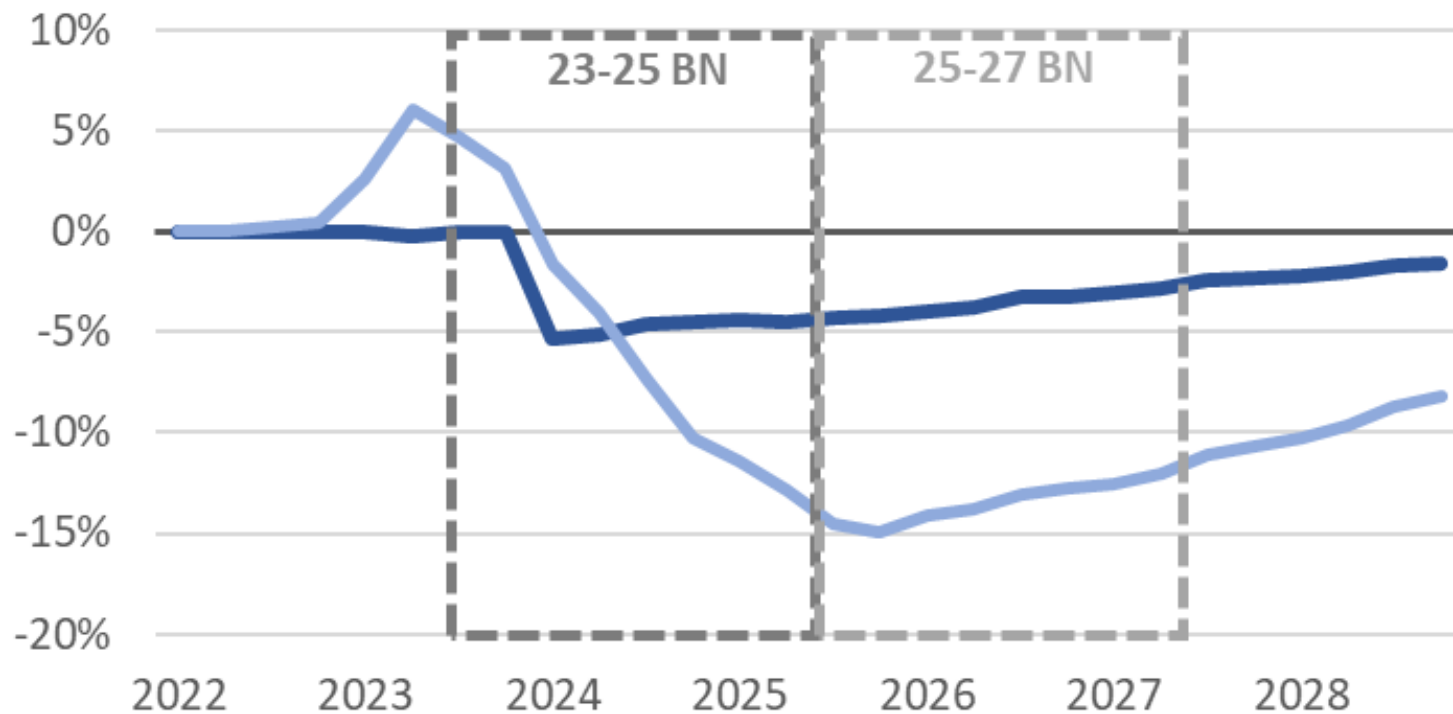




# Risk: Inflationary booms don't end well

## Alternative Scenario Revenues

Percent Change Relative to Baseline for **Corporate Excise Taxes** and **Personal Income Tax**



- Oregon's primary tax instruments are even more volatile than is the underlying economy
- Tax collections will fall sharply even in a mild recessionary scenario
- Losses from a recession beginning at the end of 2023 would straddle both the 2023-25 and 2025-27 budget periods
- Detailed alternative revenue estimates are included as an appendix to the September 2022 economic and revenue report

Source: Oregon Office of Economic Analysis







# Recession changes relative to the September Forecast

## Recession Forecast Changes

General Fund Revenues	\$ Millions from Baseline			
	21-23	23-25	25-27	27-29
Personal Income Taxes	-7	-776	-979	-584
Corporate Income Taxes	25	-115	-277	-207
Other	9	-98	-87	-46
<b>Total</b>	<b>27</b>	<b>-989</b>	<b>-1,344</b>	<b>-838</b>

Other Revenues	\$ Millions from Baseline			
	21-23	23-25	25-27	27-29
Lottery	0	-25	-42	-27
Corporate Activity Tax	26	-222	-70	-3
Marijuana Tax	0	-4	-9	-5
<b>Total</b>	<b>26</b>	<b>-252</b>	<b>-121</b>	<b>-36</b>

	\$ Millions from Baseline			
	21-23	23-25	25-27	27-29
<b>Total Sum</b>	<b>53</b>	<b>-1,241</b>	<b>-1,465</b>	<b>-873</b>

- Data in the table show how today's baseline revenue outlook would change under a recessionary scenario
- It is assumed that a mild recession begins at the end of calendar year 2023
- Large revenue losses straddle both the 2023-25 and 2025-27 budget periods
- Combined resources for the 2021-23 and 2023-25 budget cycles would be reduced by **\$1.19 billion**

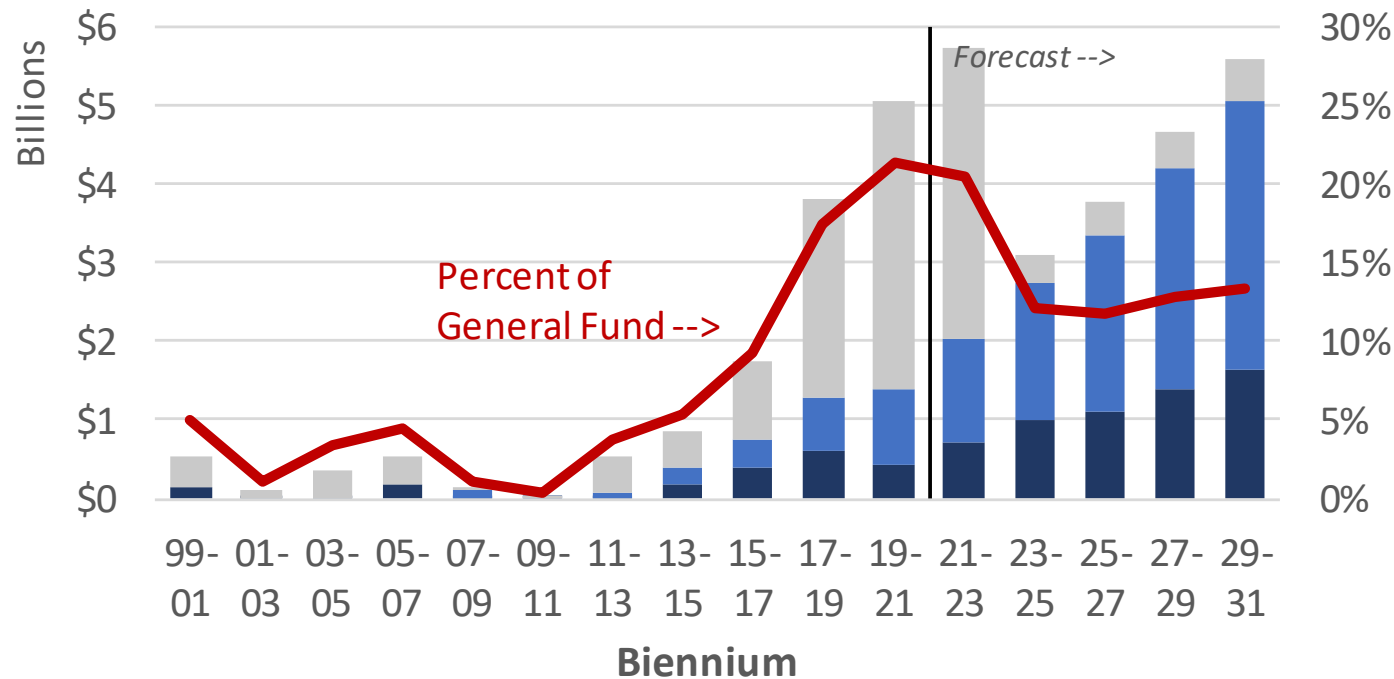




# Sizable reserves remain

## Oregon Budgetary Reserves

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



Source: Oregon Office of Economic Analysis

## Effective Reserves (\$ millions)

	Current Jul-22	End of 2021-23
ESF	\$562	\$704
RDF	\$1,189	\$1,315
Reserves	\$1,752	\$2,019
Ending Balance	\$3,711	\$3,711
<b>Total</b>	<b>\$5,462</b>	<b>\$5,730</b>
% of GF	19.5%	20.5%





# Contact



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



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



[www.OregonEconomicAnalysis.com](http://www.OregonEconomicAnalysis.com)



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