

# Oregon's Economic and Revenue Forecast



September 2023

# Economic Outlook

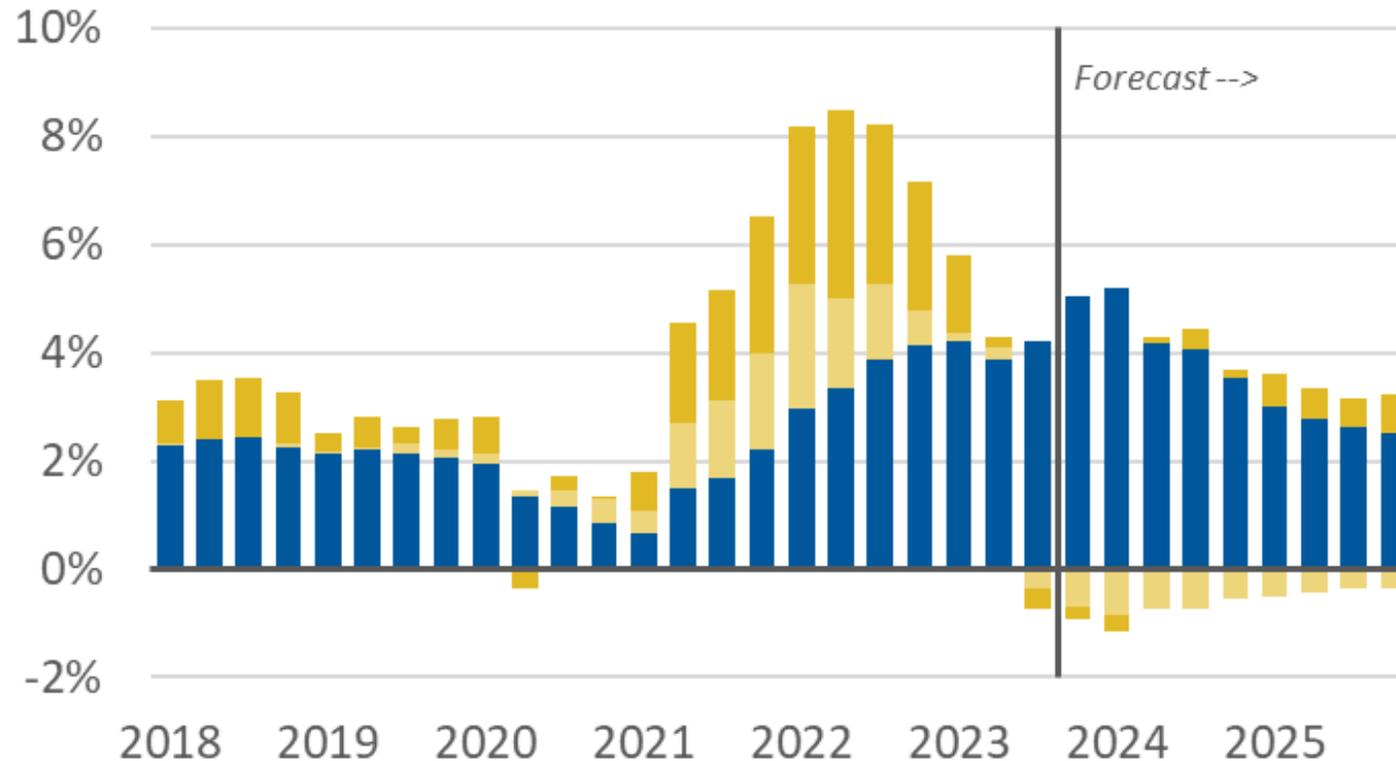


# Inflation is slowing, now the hard part for the Federal Reserve



## West Region Consumer Price Index

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



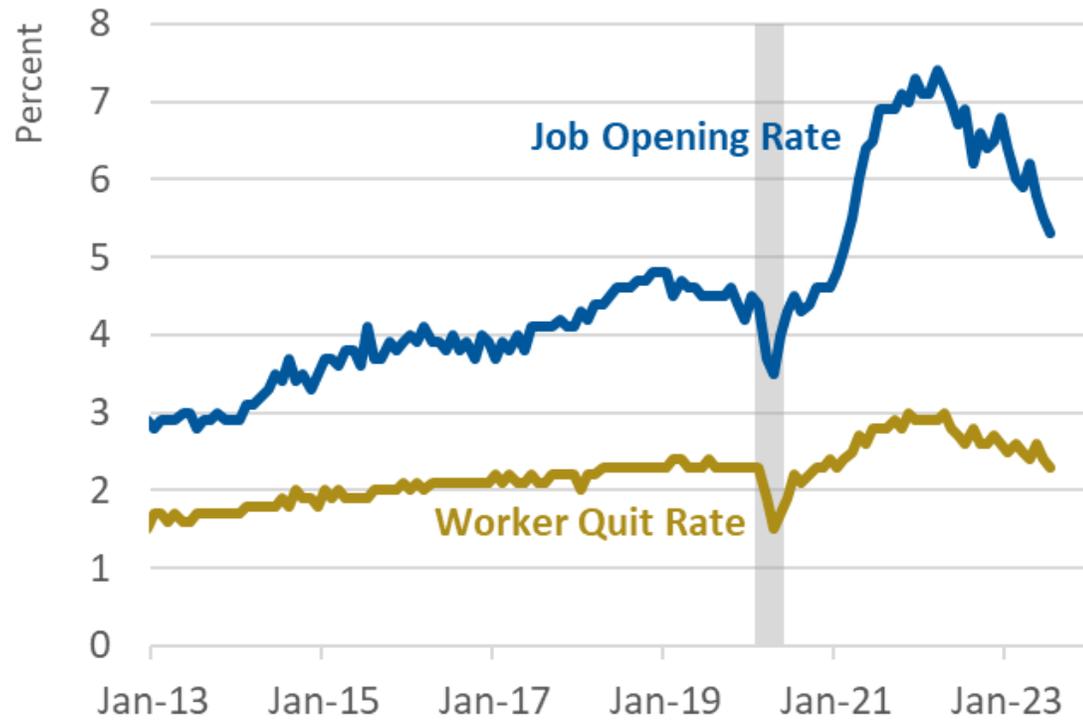
Goods and services are excluding food and energy | Latest: 2023q2 | Source: BLS, IHS Markit, OR Office of Econ Analysis

- Good News: Inflation has slowed from 9 percent last summer to closer to 3 or 4 percent today
- Bad News: Getting sustainably back down to the Federal Reserve's 2 percent target is harder
- The full impact of past interest rate hikes may still slow growth in the year ahead
- Higher interest rates today do not pack the same punch given many households and business have locked in low fixed term rates, government debt is an exception

# Macroeconomic View: Halfway Back



## U.S. Labor Market Cooling Some



Latest Data: July 2023 | Source: BLS, Oregon Office of Economic Analysis

## U.S. Average Hourly Earnings

*Year-over-year percent change*



Latest: July 2023 | Source: BLS, Oregon Office of Economic Analysis

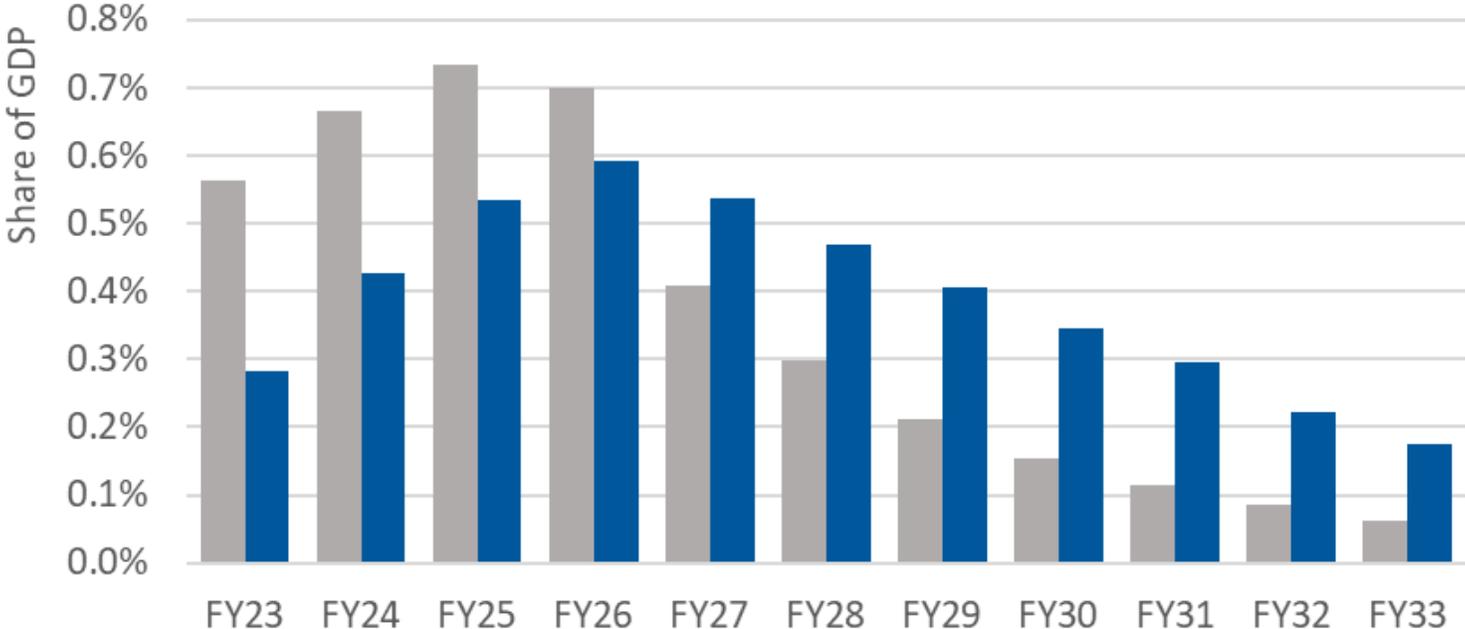
# Federal investment boost



## U.S. Federal Investment

Author's calculation of increases in federal spending from the Infrastructure Investment and Jobs Act, Inflation Reduction Act, and CHIPS Act based on CBO estimates

Federal Budget Impact | **Delayed Effect of Spending in Real Economy**



Source: CBO, S&P Global, Oregon Office of Economic Analysis

# CHIPS Act Impacts Expected



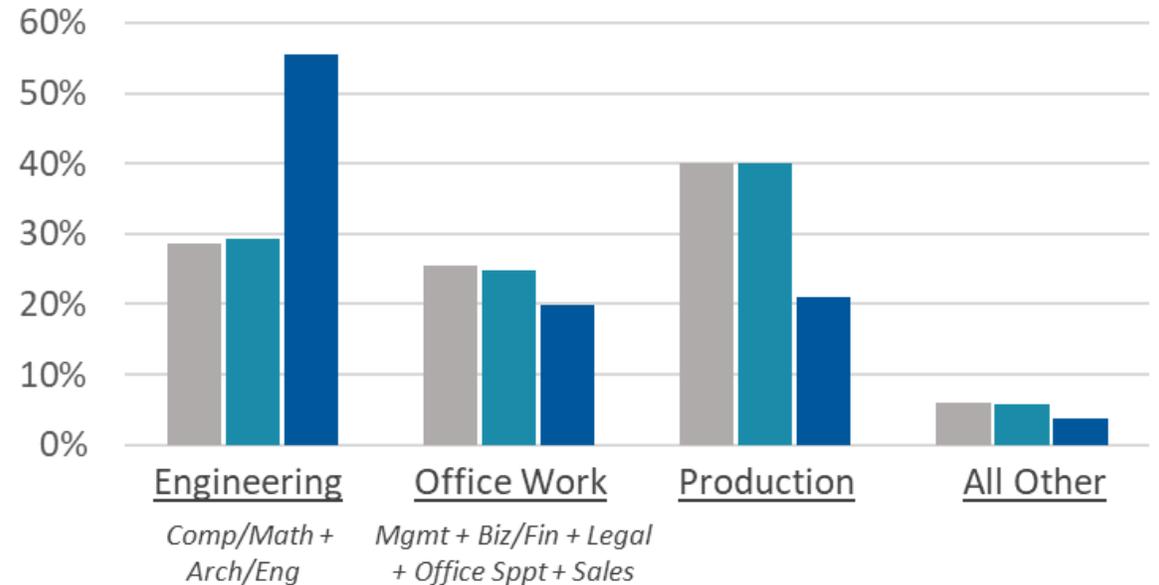
## Oregon Computer and Electronic Product Manufacturing Employment



Latest Actual: 2023q2 | Source: Oregon Office of Economic Analysis

## Semiconductor Workforce

Share of all jobs by occupation in the *United States*, the *10 States with the Largest Semiconductor Workforce*, and *Oregon*



Data: 2022 | Source: BLS, Oregon Office of Economic Analysis

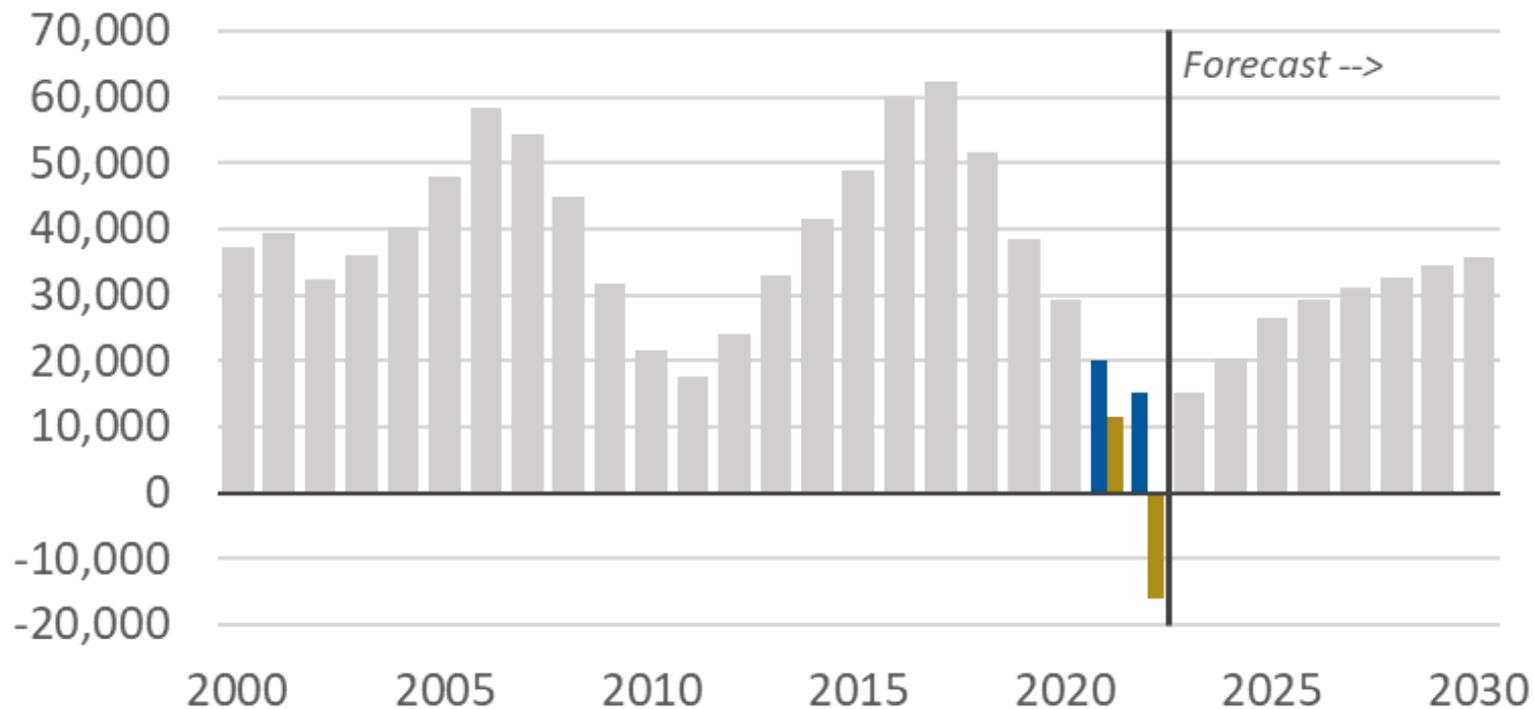
# Population growth slowly returns



## Oregon Population Growth

Annual change in total state population

OEA History and Forecast, **Portland State Estimates**, **Census Estimates**



Latest: 2022 | Source: Census, Portland State Population Research Center, Oregon Office of Economic Analysis

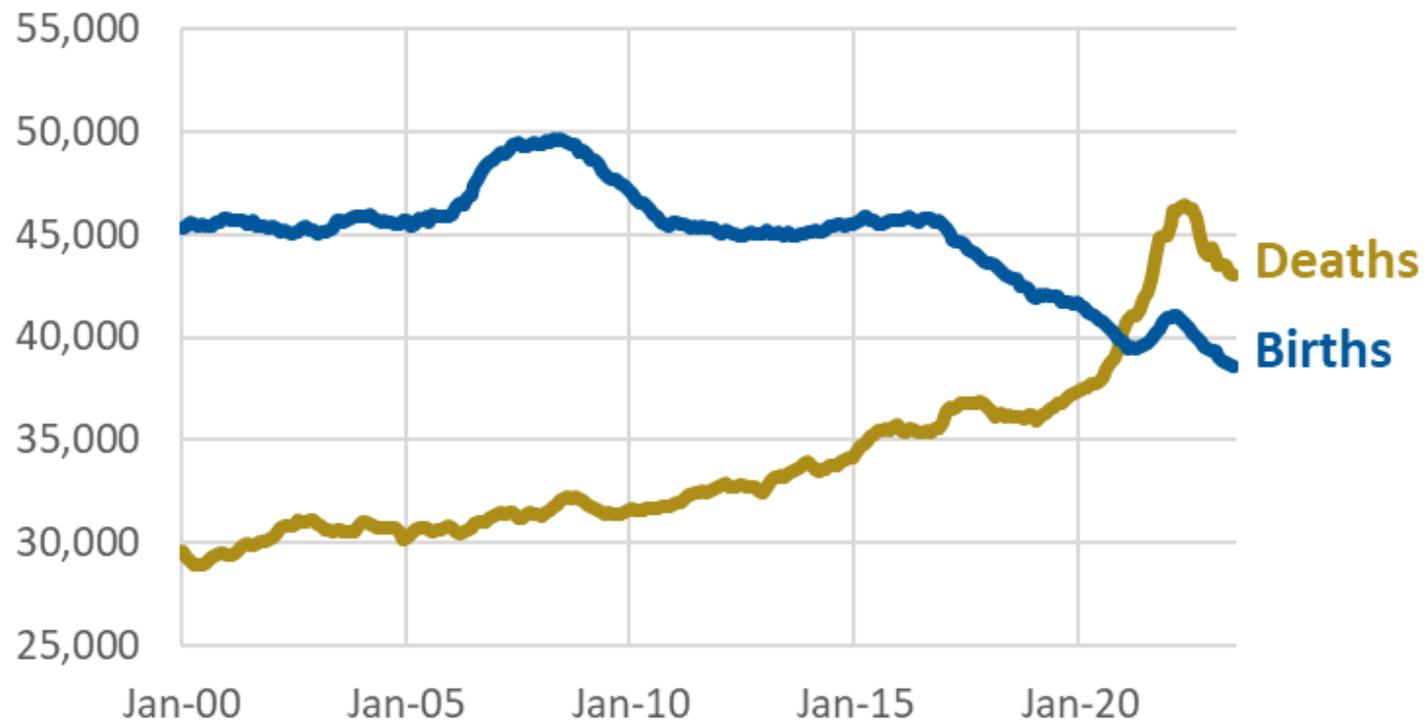
- Important Upcoming Data Releases:
  - Sept 2023: 2022 ACS data, first look at characteristics of 2022 migrants, in addition to household income, poverty, employment by race and ethnicity, household formation, etc
  - Nov/Dec 2023: Total 2023 population estimates from PSU and Census
- Migration is the 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

# Migration is needed to offset Oregon's natural population decline



## Oregon's Natural Population Change

*Births Continue to Decline, Deaths Reverting to Trend*



Data: 12 month average | Latest: June 2023 | Source: Oregon Health Authority, Oregon Office of Economic Analysis

- Deaths are expected to outnumber births in Oregon for decades to come
- Oregon's total fertility rate (TFR) ranks 5<sup>th</sup> lowest nationally at 1.5 for 2017-2021
- Oregon's population 0-4 years old has already declined by 10%, in the decade ahead the K-12 (5-17 years old) population is expected to decline 10%
- Deaths are reverting to the pre-pandemic trend, but over the years ahead will increase with a growing older adult population

# Revenue Outlook

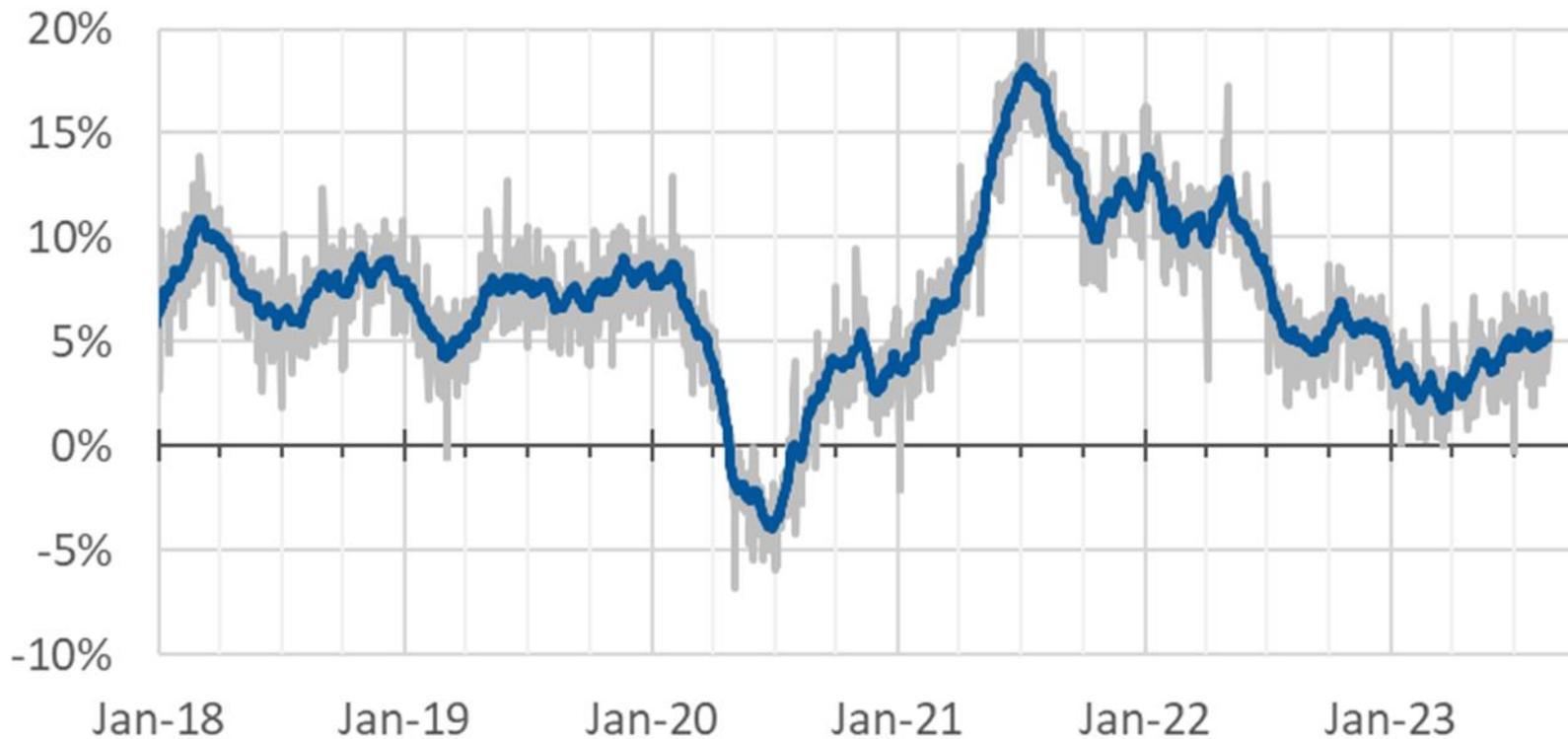


# PIT withholdings have picked back up



## Oregon Withholding

90 Day Rolling Sum of Collections: Year-over-Year Change | **Moving Average**



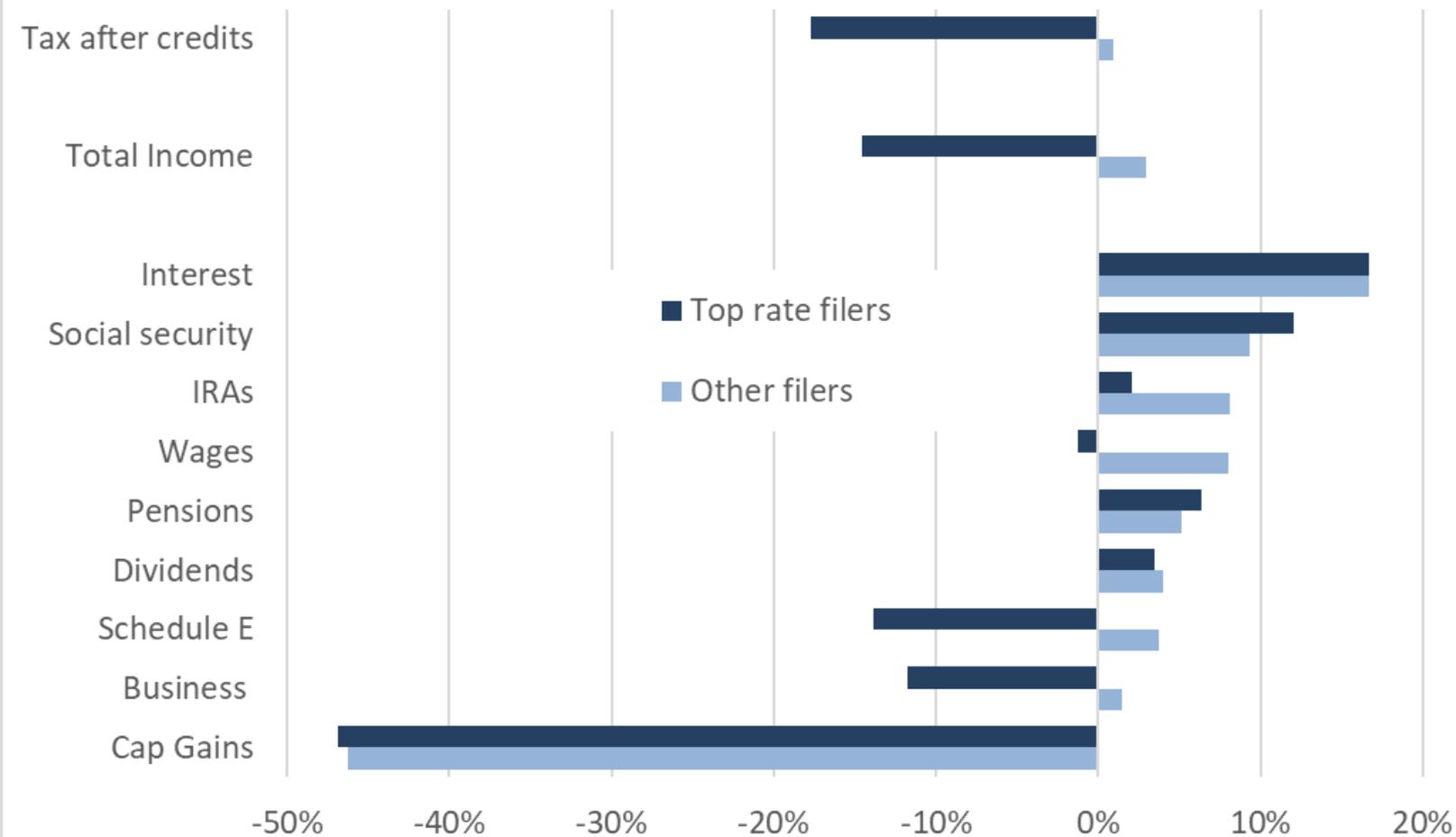
Latest Data: August 25, 2023 | Source: Oregon Dept. of Revenue, Oregon Office of Economic Analysis

- Personal income tax withholdings have accelerated some in recent weeks
- Withholdings are now in line with what is typically seen during economic expansions
- Withholdings are driven primarily by labor earnings, but withholdings out of retirement income are starting to play a larger role

# High-income filers pulled income into 2021, leading to a hangover in 2022



2022 Income Reported on Matched Returns



- Reported income and tax liability were roughly unchanged in 2022, but down sharply among high-income filers
- Throughout 2022, personal income tax collections grew faster than did reported income/liability
- It is possible that reported income/liability will better reflect recent collections after the extension filing season in the fall

# Capital gains have returned to earth



## Oregon Realizations of Capital Gains

May 2023 Forecast | September 2023 Forecast



2022 estimate based on returns through May 4 | Full-year filers Source: Oregon DOR, Oregon Office of Economic Analysis

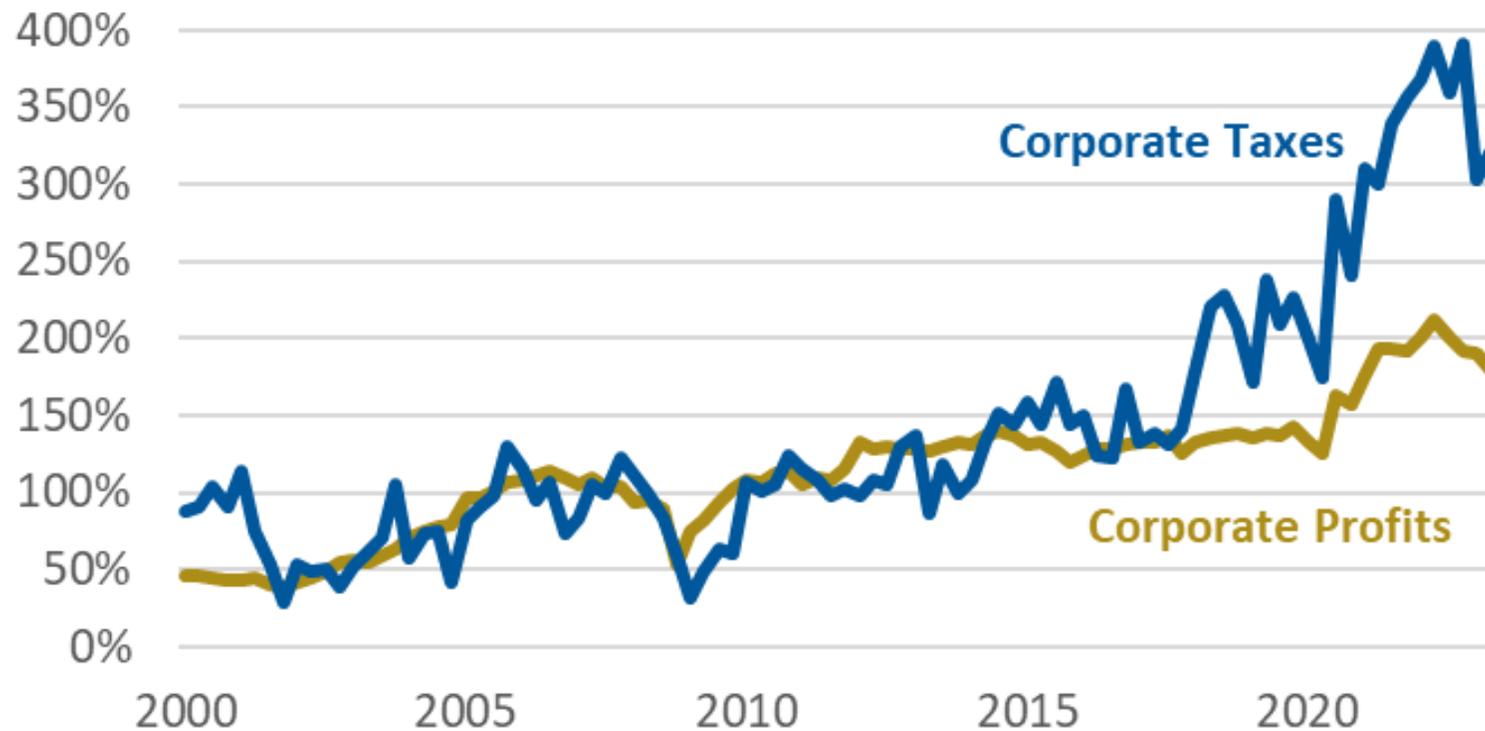
- Taxpayers have flexibility over when they realize capital gains for tax purposes
- Realized capital gains declined by nearly 50% this year matching expectations
- These declines have an outsized impact on tax collections given that most are claimed by high-income households
- The drag on revenues will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

# Corporate taxes are more effective post-TCJA



## Oregon Corporate Excise Taxes & U.S. Profits

Level relative to 2005, SAAR



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

- The traditional relationship 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 Tax Cuts and Jobs Act is now being explicitly modeled

# General Fund Bottom Line



## General Fund Forecast Changes

*\$ millions*

	2021-23	2023-25
Personal	\$78	\$44
Corporate	-\$4	\$321
Other	\$4	\$38
Gross Revenues	\$78	\$403
Offsets/Other	\$65	-\$109
Beginning Balance		\$143
Available Resources	\$143	<b>\$437</b>

- 2021-23 underlying revenue collections were on target, but two accounting accruals increased revenues, raising the kicker to \$5.6 billion and increasing the ending balance
- With two tax filing seasons to come, there remains a lot of uncertainty with the 2023-25 outlook
- 2023-25 resources are raised primarily due to a stronger corporate outlook, plus a larger beginning balance
- Future biennia are raised approximately 2.5 percent, or about \$1 billion each

# What's Your Cut?



Income Group	Adjusted Gross Income*	Rough Estimate of Kicker Size**
Bottom 20%	< \$11,400	\$60
Second 20%	\$11,400 - \$28,900	\$440
Middle 20%	\$28,900 - \$52,400	\$1,000
Fourth 20%	\$52,400 - \$96,200	\$1,900
Next 15%	\$96,200 - \$201,300	\$3,800
Next 4%	\$201,300 - \$466,700	\$9,200
Top 1%	> \$466,700	\$44,600
Average	\$69,400	\$2,100
Median	\$35-40,000	\$980

\* Based on 2020 actual tax returns

\*\* Based on 2020 actual tax returns, PIT kicker amount (\$5.6 billion) and the Oregon Office of Economic Analysis' forecast tax liability

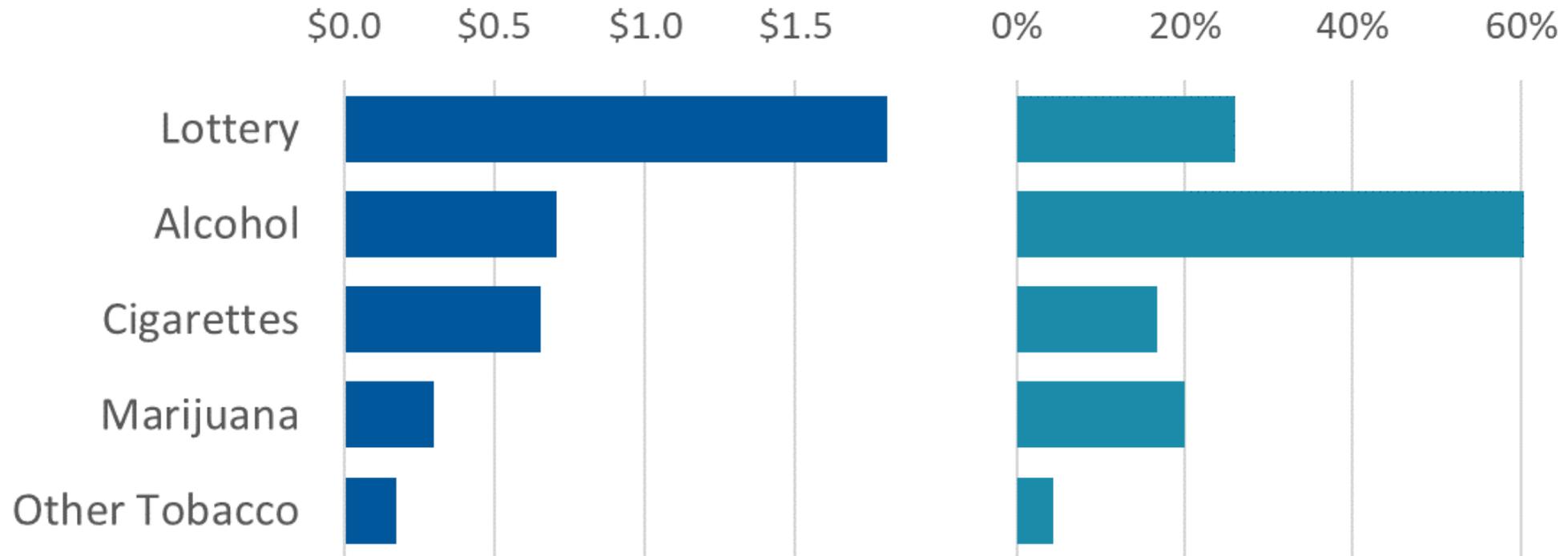
# Consumption-based revenues largely unchanged from previous forecast



## Oregon Vice

2023-25 Revenue, \$ Billions

Played or Used in Past Month



Source: NSDUH, Oregon Health Authority, OLCC, Oregon Lottery, Oregon Office of Economic Analysis

# Other Revenues Bottom Line



## Other Revenue Forecast Changes

*\$ millions, change from May 2023 to September 2023*

	2023-25	2025-27	2027-29	2029-31	2031-33
Lottery	\$10	-\$11	-\$13	-\$14	-\$15
Corporate Activity Tax	\$3	\$24	\$15	-\$3	NA
Marijuana	-\$3	\$0	\$0	-\$1	NA
<b>Sum</b>	<b>\$10</b>	<b>\$13</b>	<b>\$1</b>	<b>-\$19</b>	<b>NA</b>

- Oregon's consumption-based revenues are tracking forecast closely in recent months
- Lottery lowered slightly due to slower video lottery sales gains expected, which are offset in 23-25 by administrative savings and record jackpots
- CAT raised slightly due to stronger personal income
- Marijuana unchanged as the market appears to be finding a bottom with harvest levels down, sales steady, and prices firming

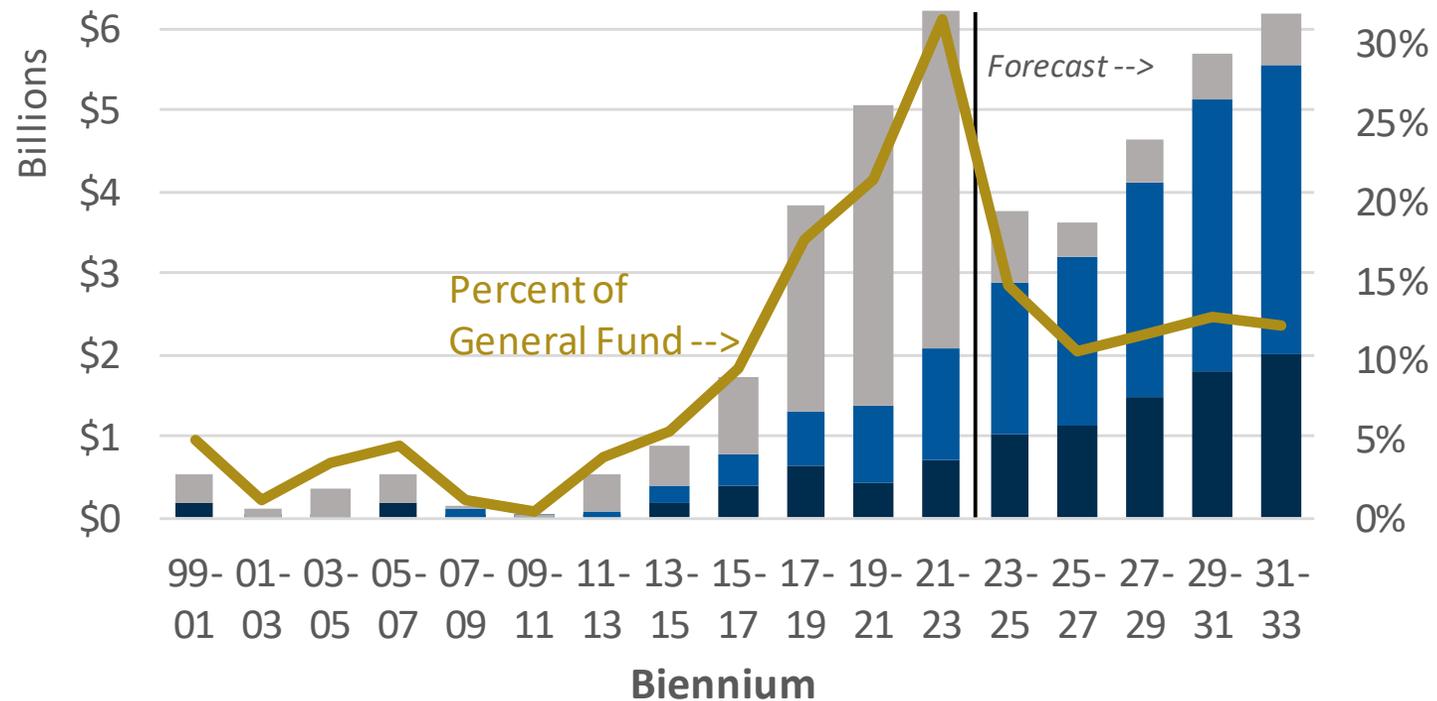
# Sizable reserves remain

Both the ORDF and ESF expected to hit their statutory caps in 2026



## Oregon Budgetary Reserves

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



Source: Oregon Office of Economic Analysis

## Effective Reserves (\$ millions)

	<i>Current Jul-23</i>	<i>End of 2023-25</i>
ESF	\$713	\$1,009
RDF	\$1,358	\$1,863
Reserves	\$2,071	\$2,872
Ending Balance	\$880	\$880
<b>Total</b>	<b>\$2,952</b>	<b>\$3,752</b>
% of GF	11.6%	14.8%

# Contact Information

Mark McMullen

(971) 345-1003

[mark.mcmullen@das.oregon.gov](mailto:mark.mcmullen@das.oregon.gov)

Josh Lehner

(971) 209-5929

[joshua.lehner@das.oregon.gov](mailto:joshua.lehner@das.oregon.gov)

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

[@OR\\_EconAnalysis](#)

