

Oregon's Economic and Revenue Forecast



DAS
DEPARTMENT OF
ADMINISTRATIVE
SERVICES

June 2024

Economic Outlook

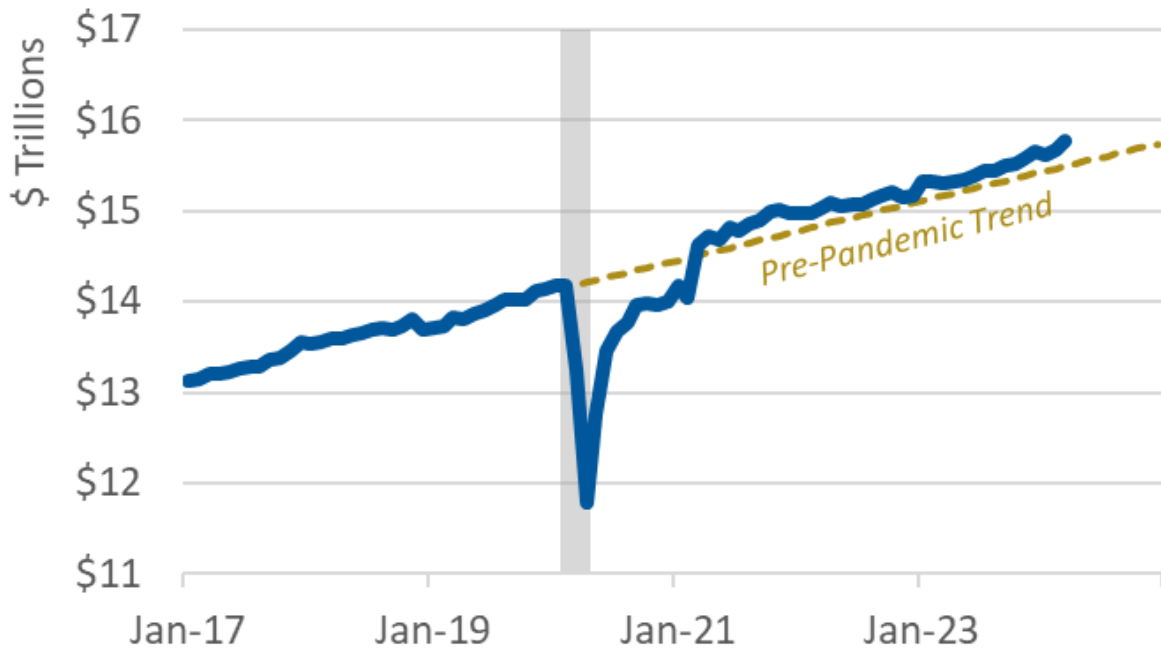


Economy: Growth remains strong, inflation still too high, Fed delays cuts



Real Consumer Spending

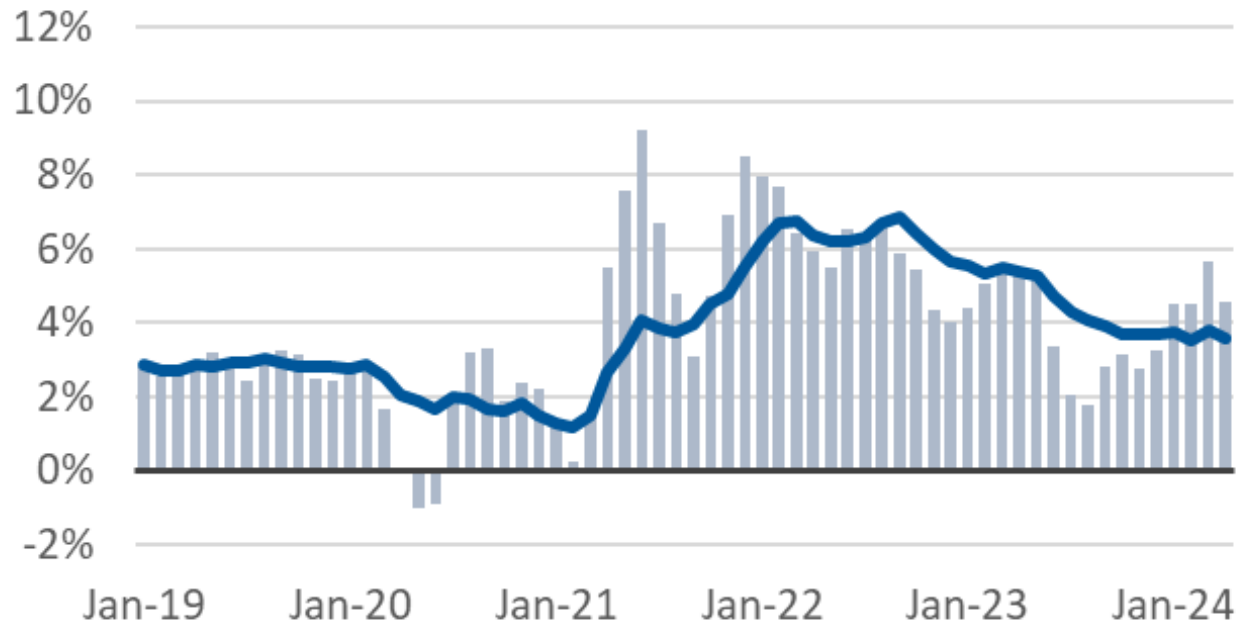
Inflation-adjusted personal consumption expenditures



Latest Data: Mar 2024 | Source: BEA, Oregon Office of Economic Analysis

Inflation progress stalled

*West Region Consumer Price Index excluding Food and Energy (Core CPI) Percent change, **Year-over-Year** and **3 Month (annualized rate)***

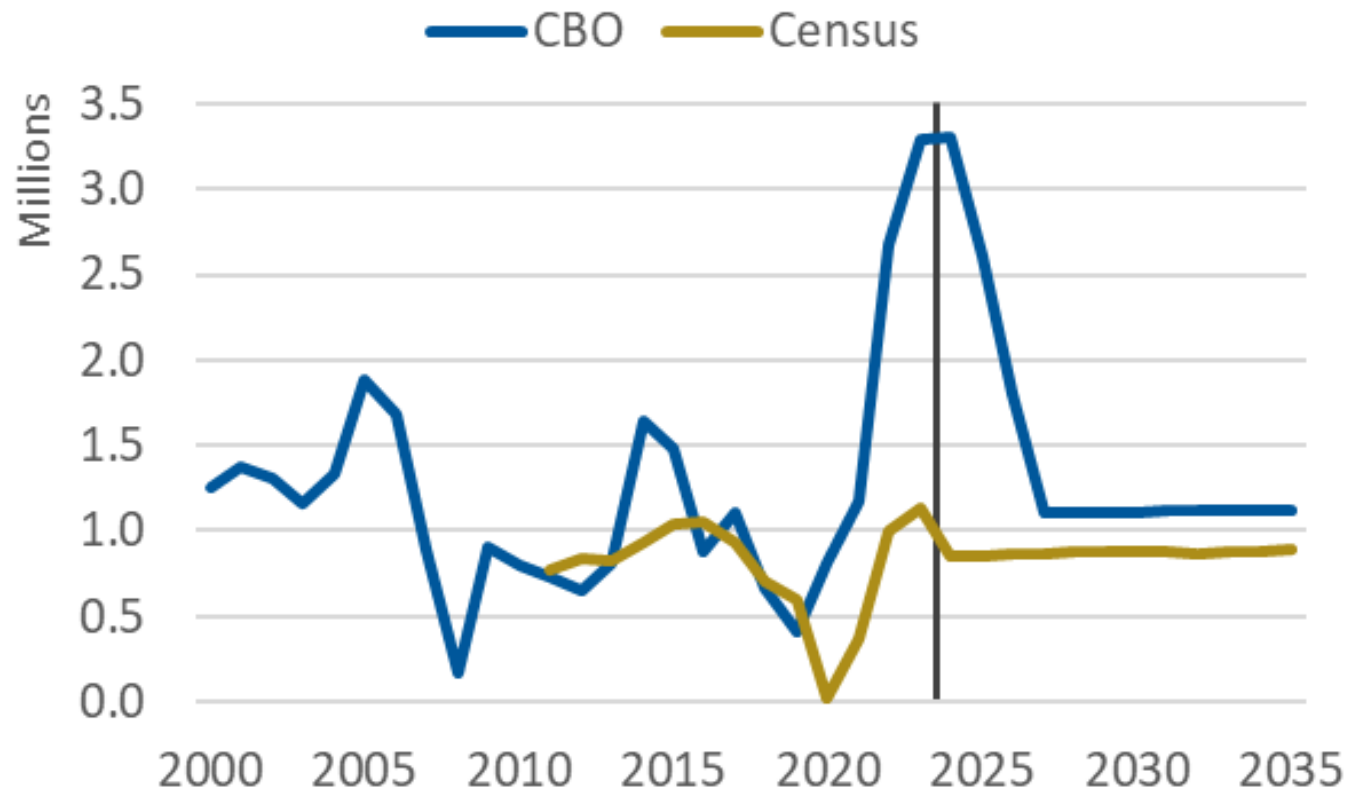


Latest: April 2024 | Source: BLS, Oregon Office of Economic Analysis

U.S. Macro Forecast Change



U.S. Net International Immigration



Latest data: 2023 | Source: Census, CBO, Oregon Office of Economic Analysis

- The Congressional Budget Office (CBO) released their U.S. Demographic Outlook back in January 2024
- Sizable difference between CBO and the Census on U.S. international immigration
 - Difference primarily in “other foreign national” per CBO
- Economists and forecasters took note, as more research has been done, some are adjusting their outlook, including our office’s main macroeconomic vendor, S&P Global as of April 2024
- The U.S. economic forecast is raised noticeably as a result of the national population forecast increasing

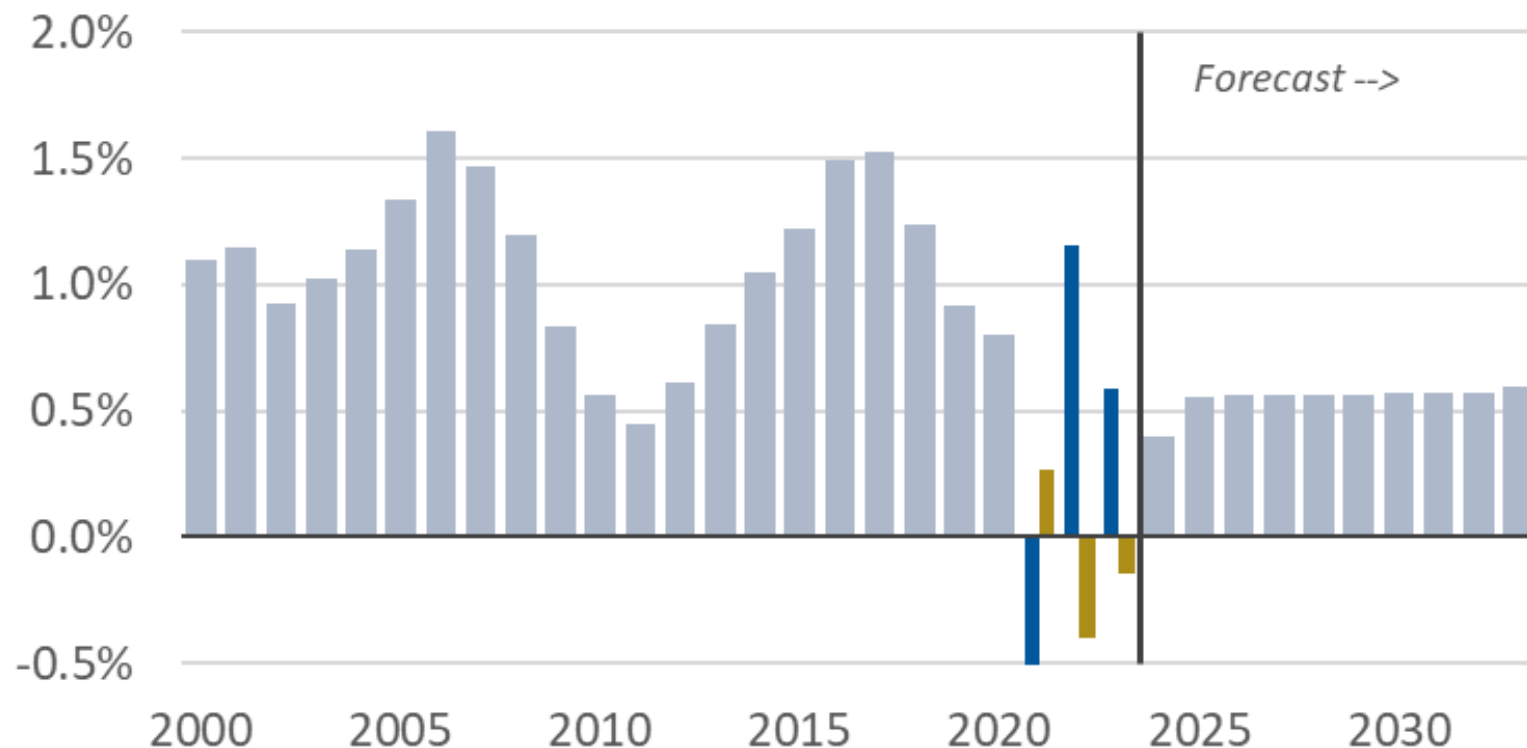
Oregon's population forecast is essentially unchanged, at least for now



Oregon Population Growth

Annual change in total state population

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



Latest: 2023 | Source: Census, Portland State Population Research Center, Oregon Office of Economic Analysis

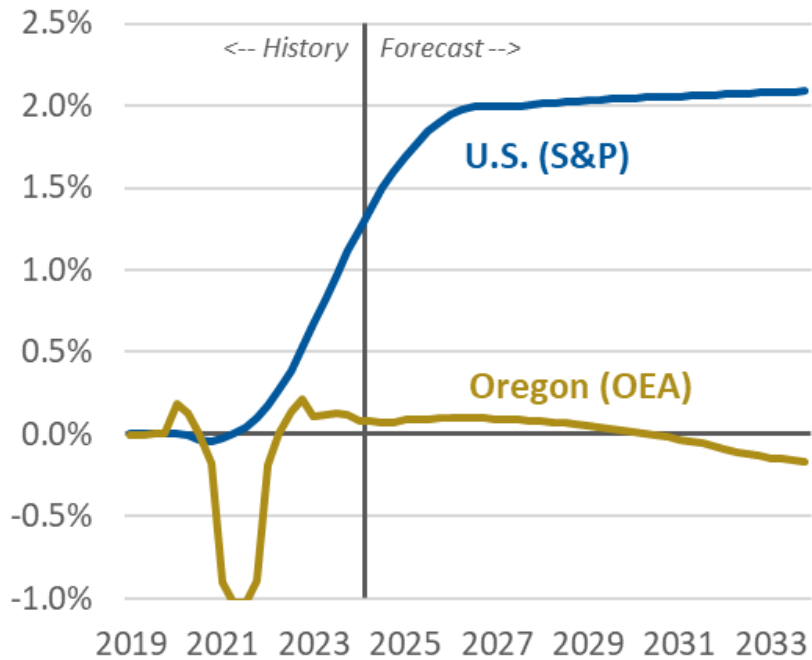
- Migration is the primary reason Oregon grows faster than the U.S. It allows local businesses to hire and expand at a faster rate
- 2023 population estimates differed again with PSU up, Census down
 - Losses driven by out-migration across most socio-economic groups, except 18-24 yr olds
- Forecast
 - Migration has historically been pro-cyclical
 - Total growth slower in part due to deaths outnumbering births
 - Average annual growth 2023-2033 is 0.6%
- Developed a Zero Migration demographic alternative scenario

Topline economic forecast changes



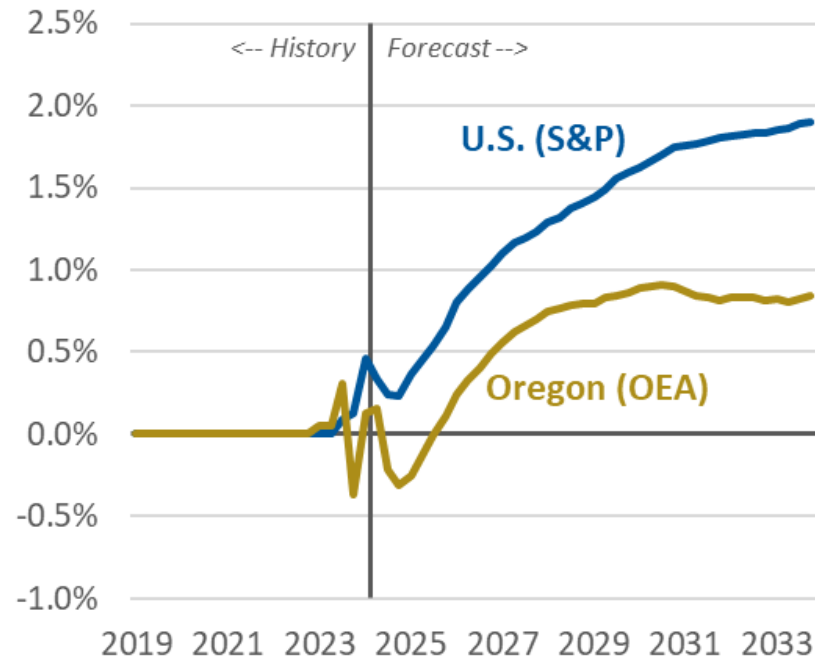
Population Forecast Change

Prelim Jun '24 compared to Mar '24



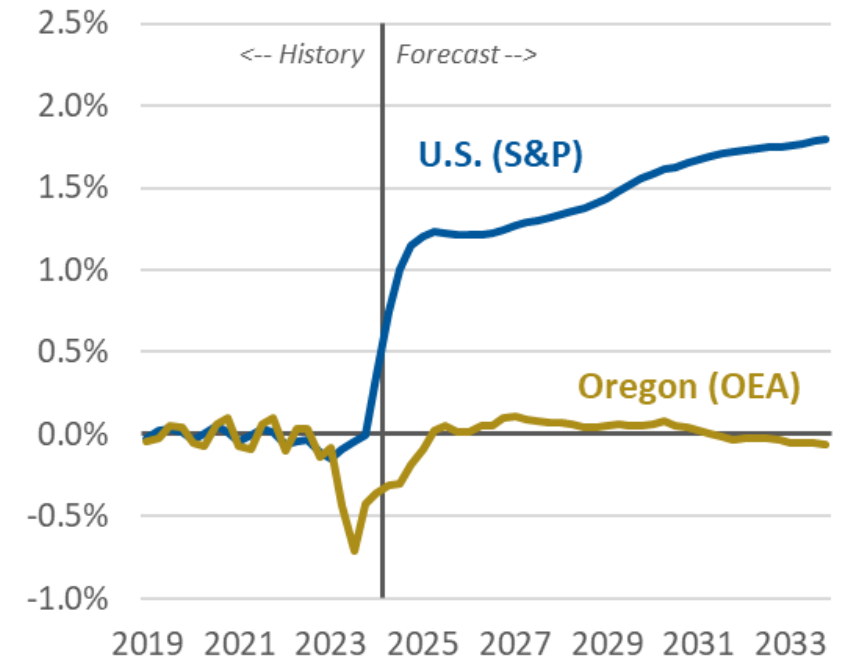
Income Forecast Change

Prelim Jun '24 compared to Mar '24



Employment Forecast Change

Prelim Jun '24 compared to Mar '24

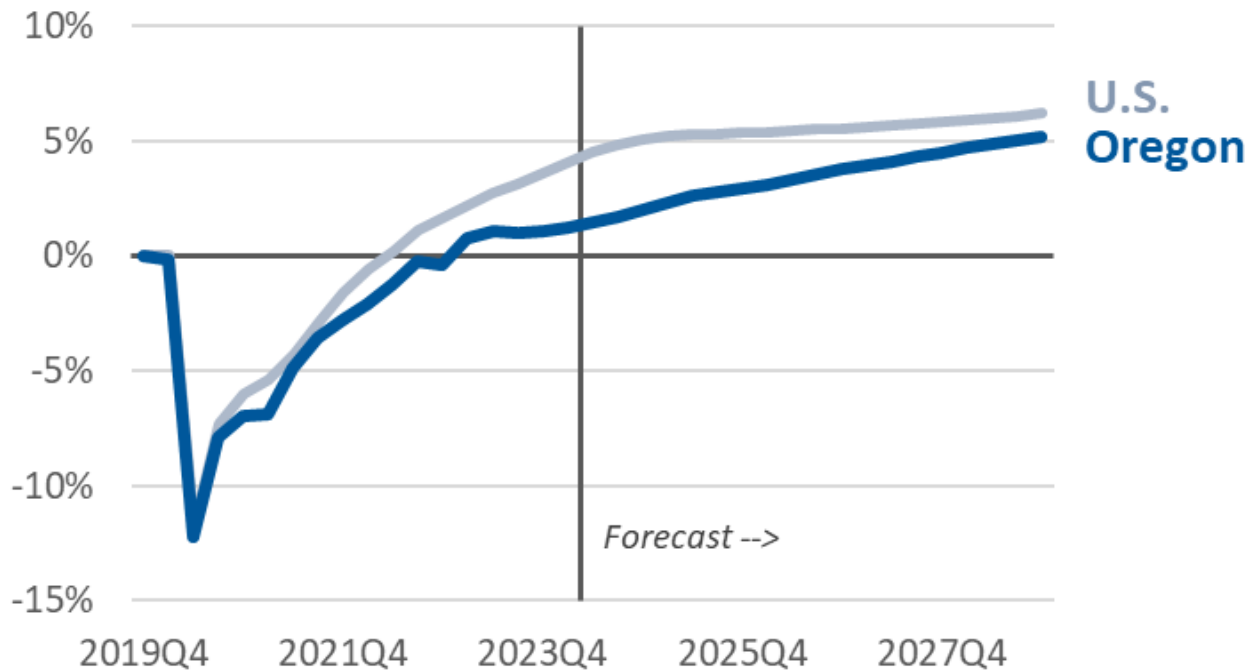


Macro vs Micro: Labor Market



Job Growth Since the Pandemic

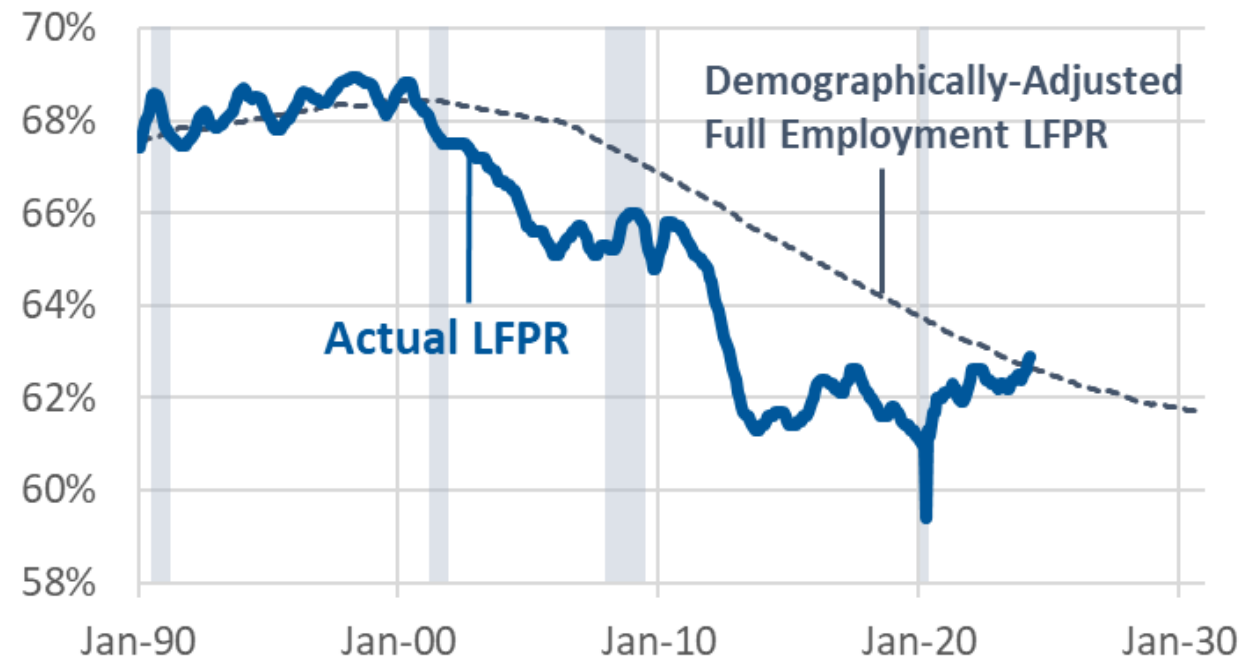
Percent change in employment from 2019q4



Latest Data: 2024q1 | Source: BLS, Oregon Office of Economic Analysis

Oregon's Labor Force Participation

Share of all Oregonians 16 years and older with a job or looking for work



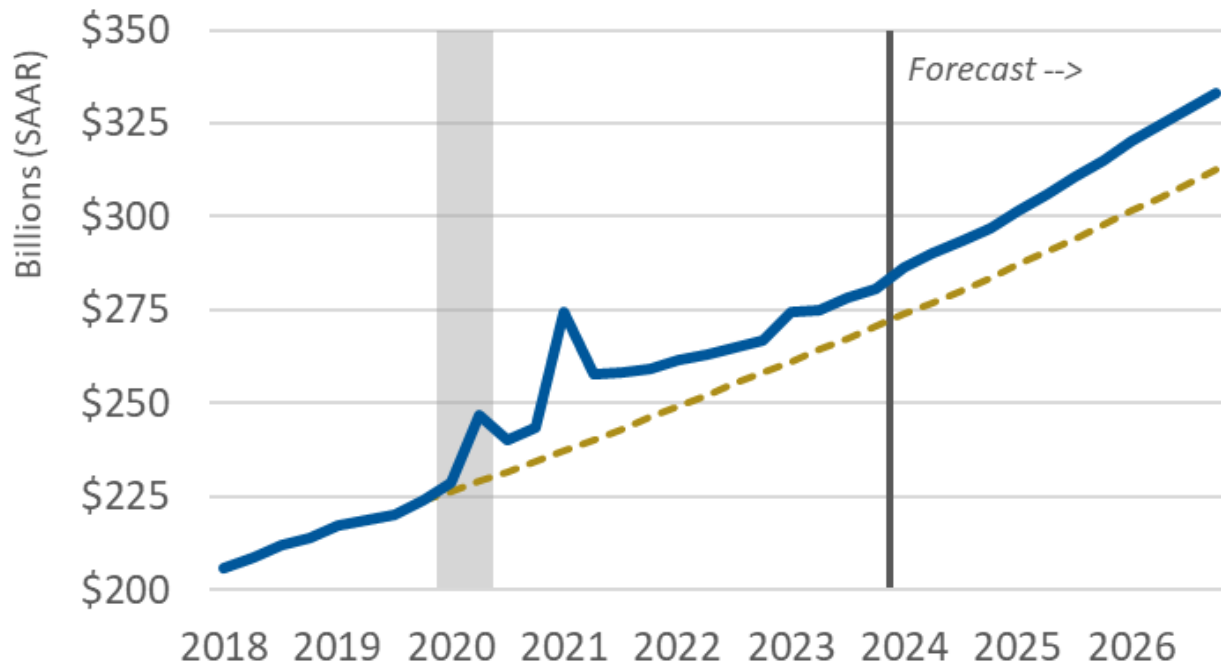
Latest Actual: April 2024 | Source: BLS, Census, Oregon Office of Economic Analysis

Macro vs Micro: Personal Income



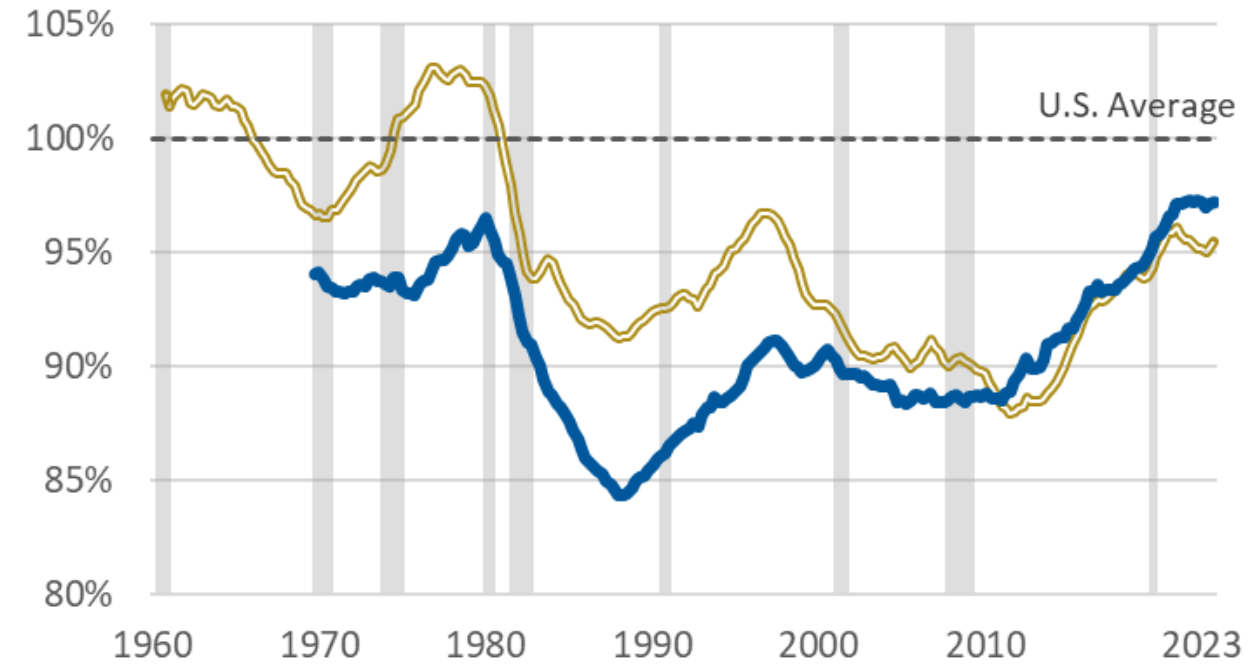
Oregon Personal Income

Current Forecast | Pre-Pandemic Forecast



Oregon Income, Share of U.S. Average

Per Capita Personal Income | Average Wage



Latest Data: 2023q4 | Source: BEA, Oregon Office of Economic Analysis

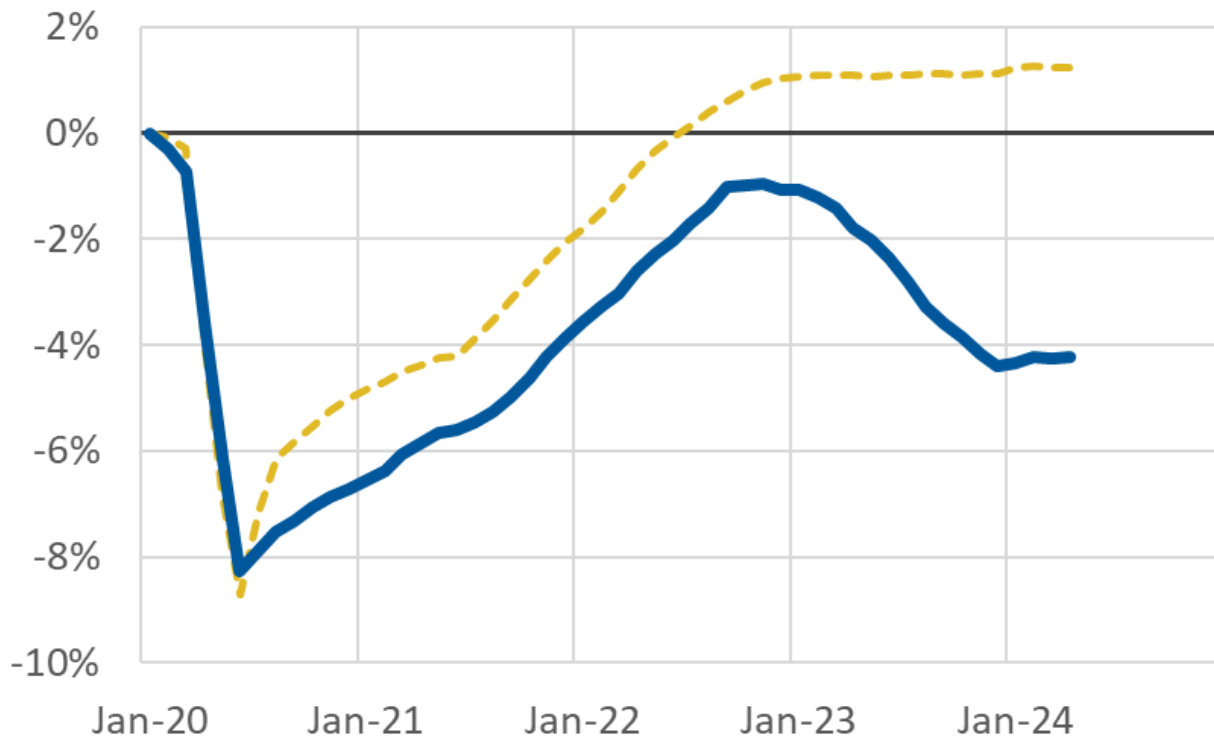
Latest data: 2023q4 | Source: BEA, S&P Global, Oregon Office of Economic Analysis

Oregon's productivity is strong, manufacturing employment is not



Manufacturing Employment

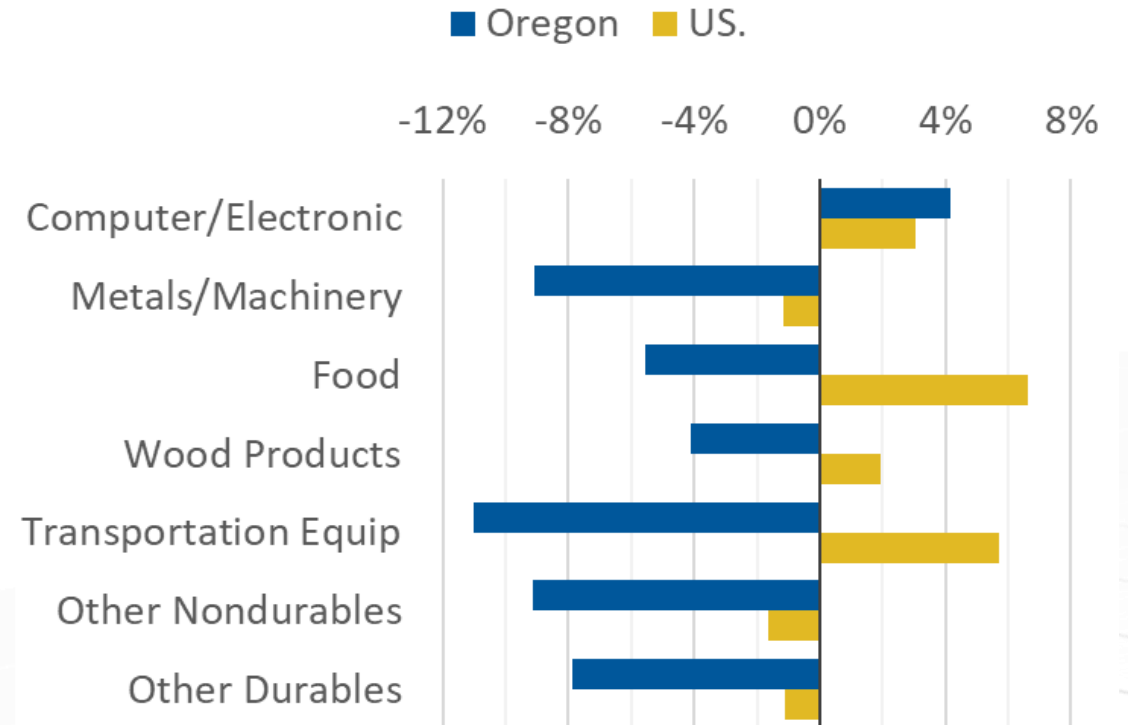
Percent change since January 2020 for **U.S.** and **Oregon**



Latest Data: April 2024 | Source: BLS, Oregon Employment Dept, Oregon

Manufacturing Subsectors

Percent change in employment from April 2019 to April 2024



Data: 3 month average | Source: BLS, Oregon Employment Dept, Oregon Office of Economic Analysis

Revenue Outlook

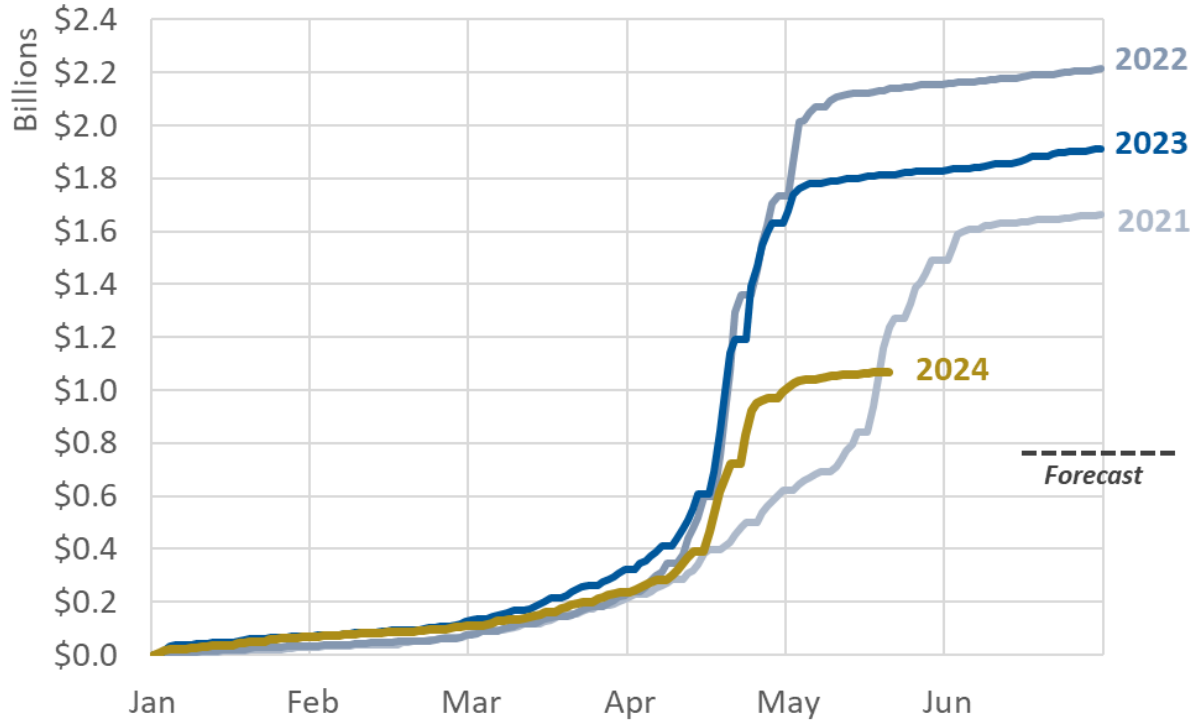


Personal Income Tax Filing Season



Kicker Means Weak Year-End Payments

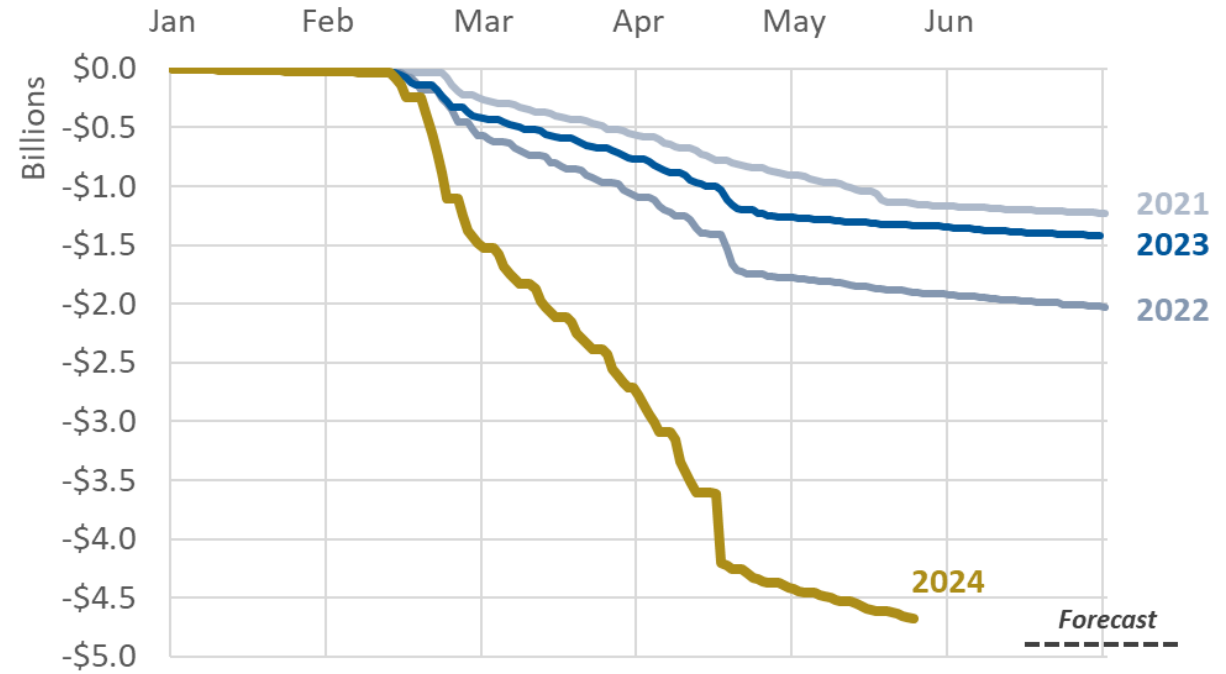
Oregon cumulative personal income tax payments



Latest Data: May 17, 2024 | Source: Oregon Dept of Revenue, Oregon Office of Economic Analysis

Record Kicker Drives Record Refunds

Personal Income Tax Refunds, cumulative



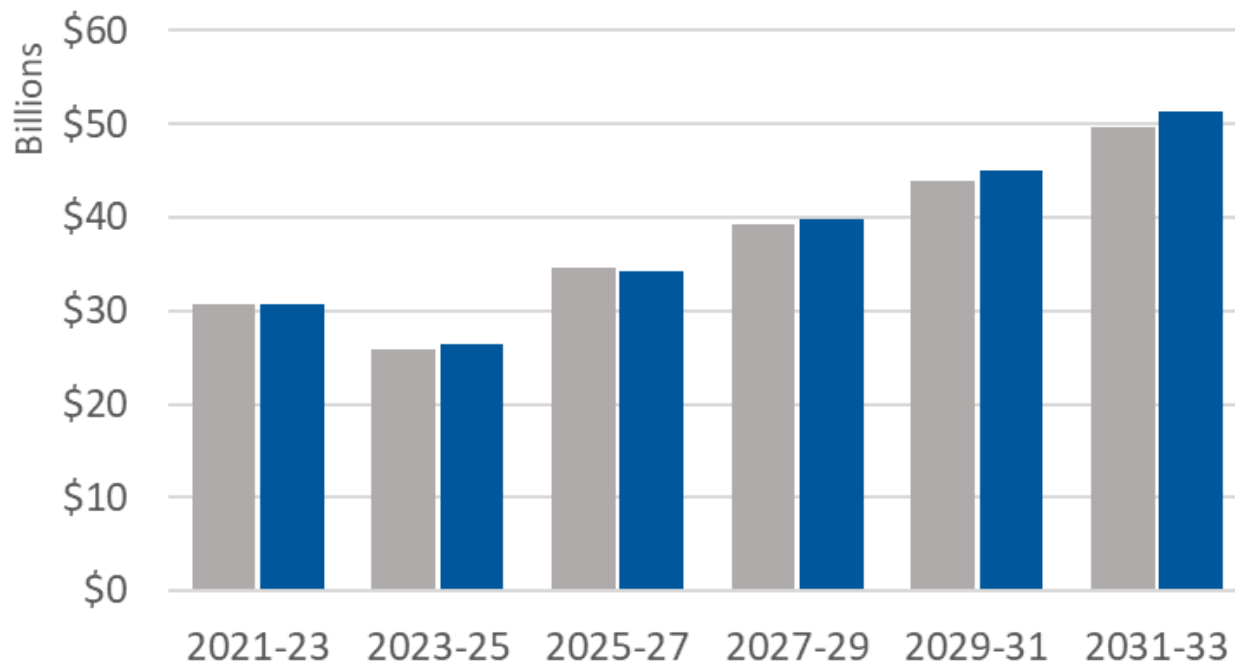
Latest Data: May 24, 2024 | Source: Oregon Dept of Revenue, Oregon Office of Economic Analysis

Revenue growth expected to return to trend in 2025-27



Oregon General Fund Forecast

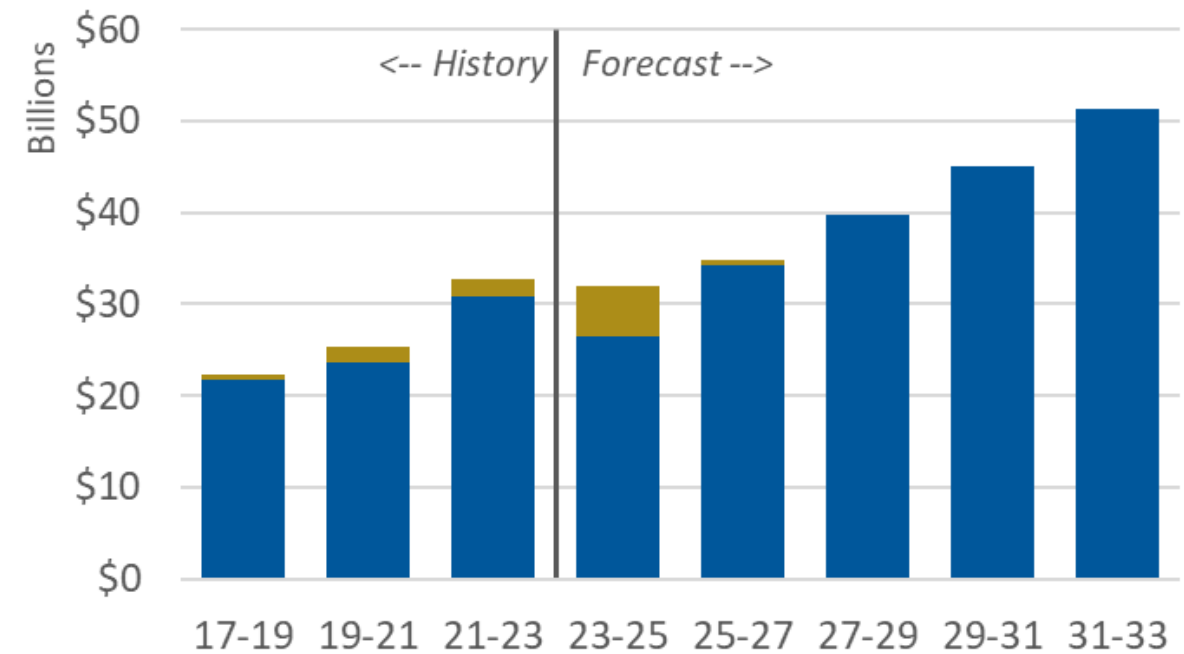
■ March 2024 Forecast ■ June 2024 Forecast



Source: Oregon Office of Economic Analysis

Oregon General Fund Forecast

Current Revenue Forecast | Last Biennium's Kicker Being Paid Out



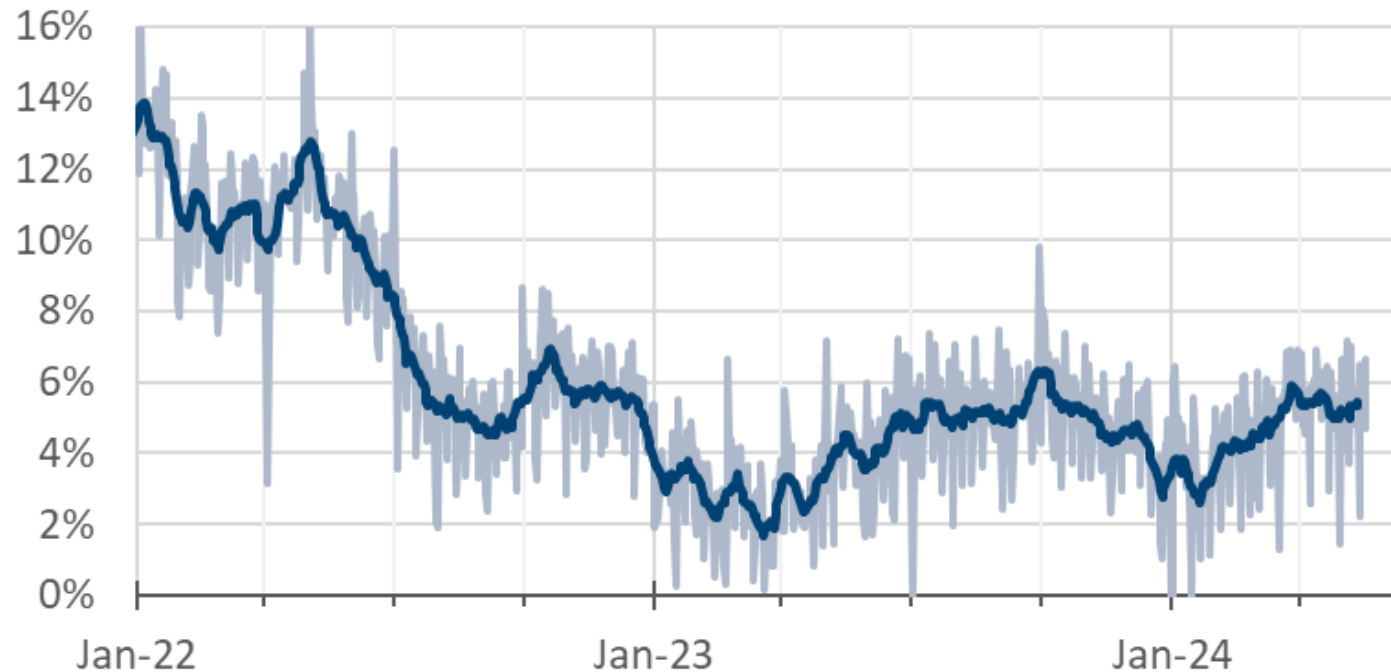
Source: Oregon Office of Economic Analysis

Income Tax Withholdings Reflect Solid Labor Market Gains



Oregon Withholding

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



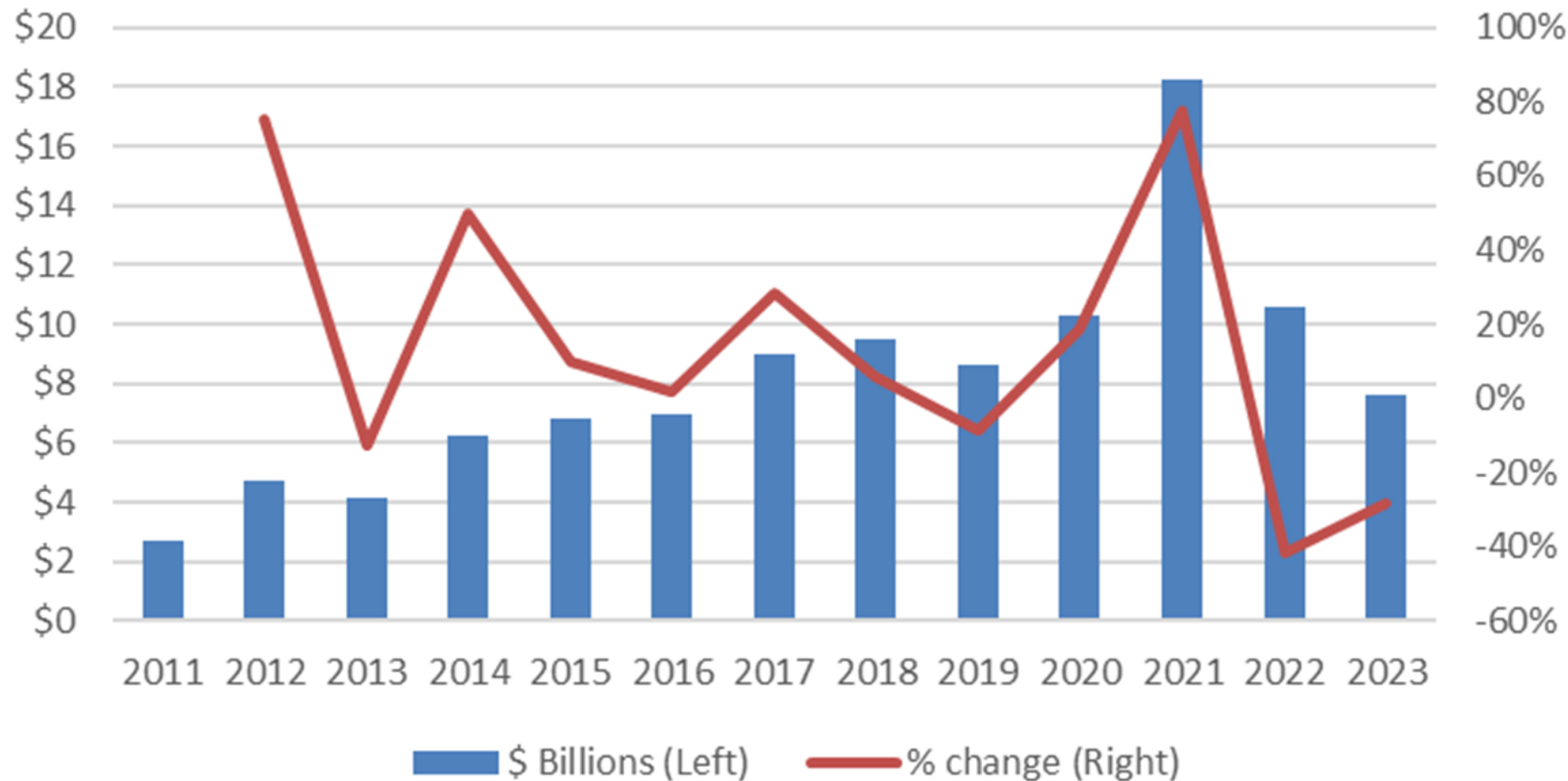
Latest Data: May 17, 2024 | Source: Oregon Dept. of Revenue, Oregon Office of Economic Analysis

- Growth in withholdings of personal income taxes have picked up in recent months
- Underlying economic forecast remains relatively unchanged with higher interest rates expected to weigh on wage growth going forward
- Growth in withholdings have remained strong despite a step back in retirement earnings

Capital gains retreat from record high



Realized Capital Gains



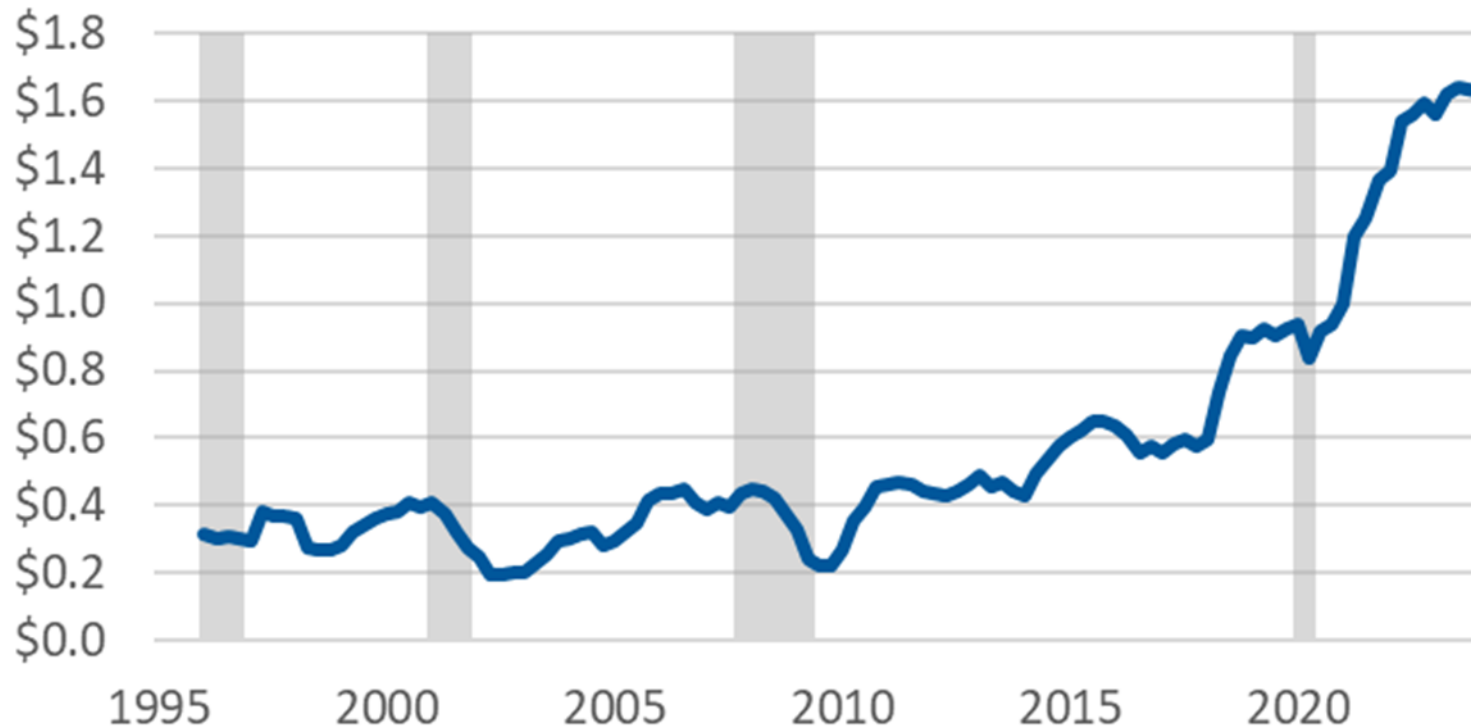
- Realizations of taxable capital gains have been cut by more than half since their peak in 2021
- Even after recent declines, downside risk remains given the persistent strength of equity markets
- Expectations over federal tax policy changes will play a large role in the years ahead

Corporate Income and Excise Taxes Finally Cooling Off?



Oregon Corporate Excise Tax

4-QTR sum, \$ billions



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

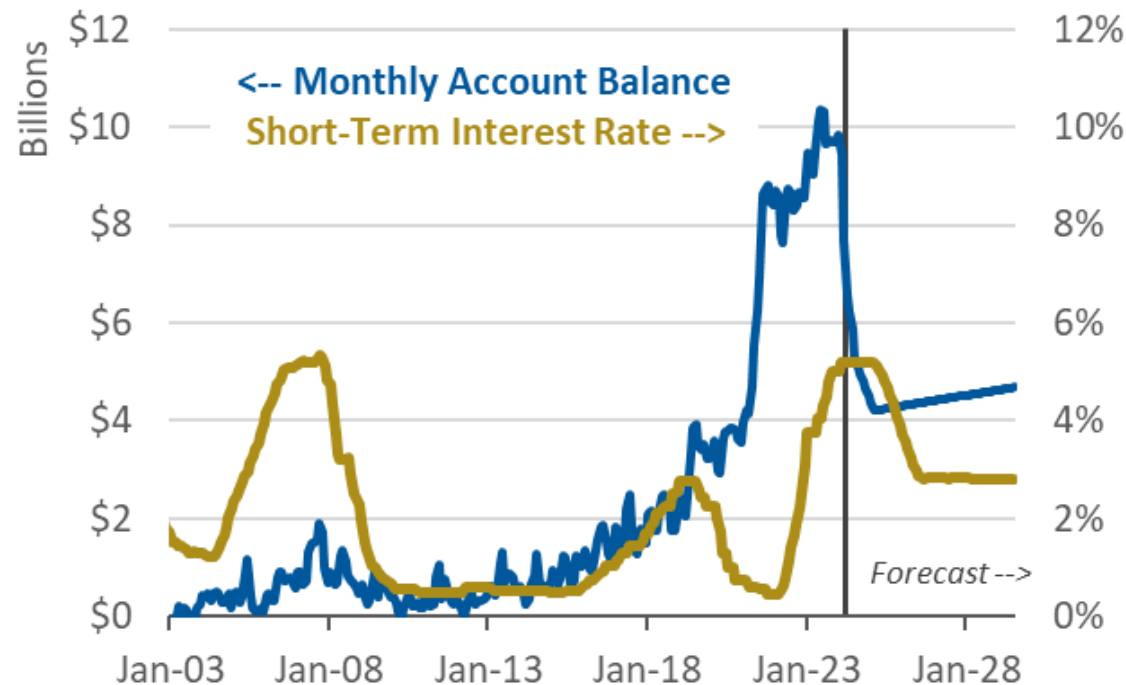
- After another strong year collections in 2023, traditional corporate income and excise taxes have nearly tripled over the past 5 years
- Growth in collections has far outstripped underlying growth in corporate profits
- Given the timing of major tax reforms in 2017 (Federal TCJA, Oregon SB28) it is likely that the corporate tax base has become permanently larger
- The number of corporate filers has been rising in recent years after eroding as a share of overall businesses for decades



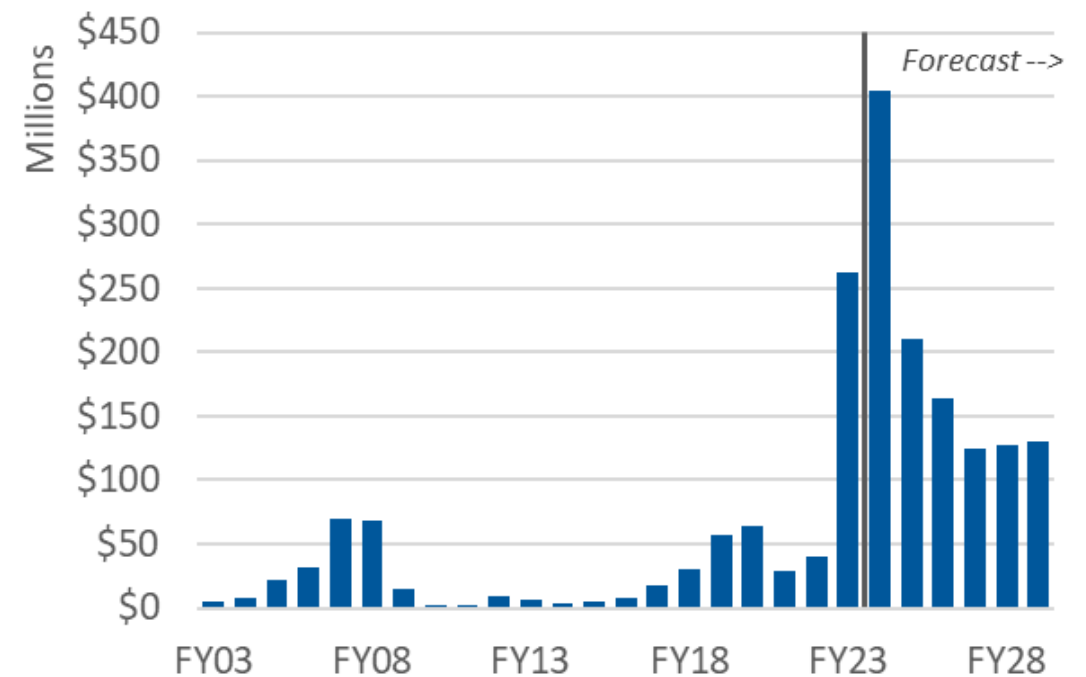
Interest Earnings Raised Again

Oregon General Fund Interest Earnings

Interest Earning Dynamics



Interest Earnings by Fiscal Year

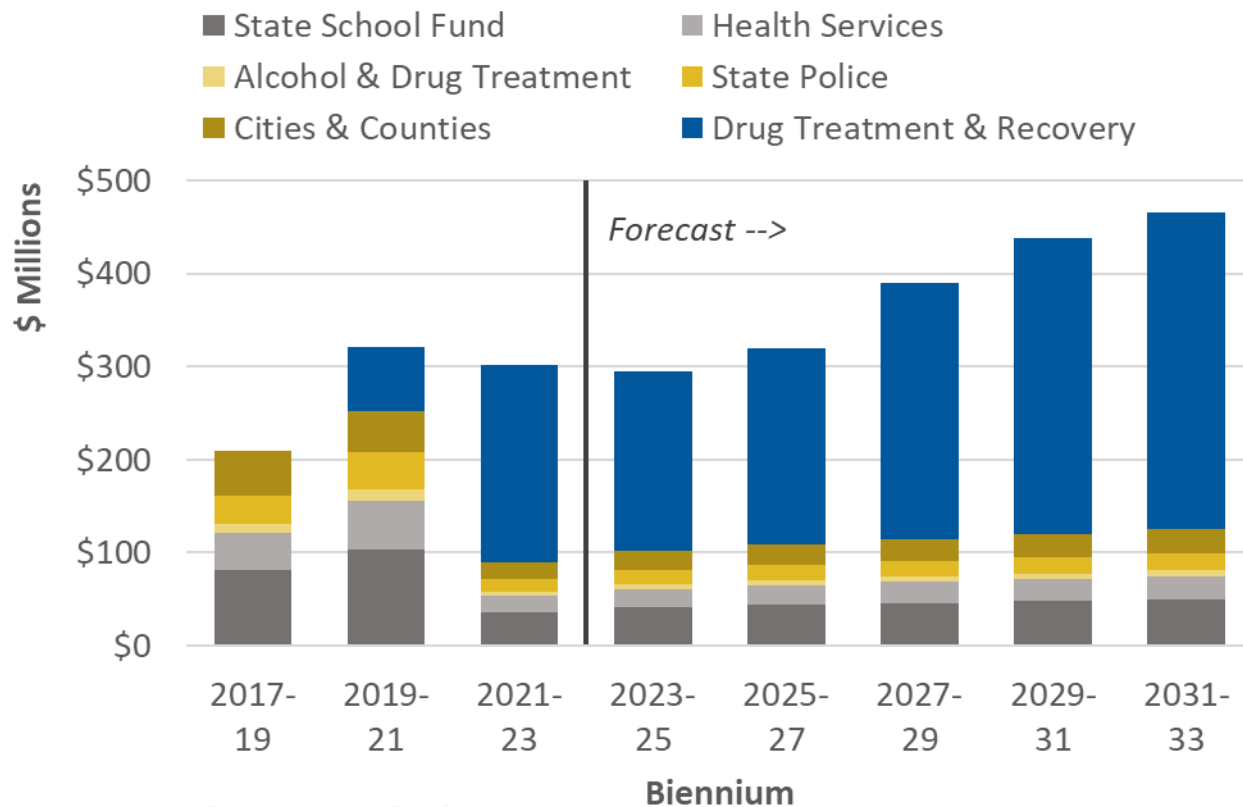


Source: Oregon Treasury, Oregon Department of Revenue, Oregon Office of Economic Analysis

Marijuana outlook lowered



Marijuana Resources and Distributions



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

- Sales, and tax collections have stabilized in past year
- Forecast is for consumption and tax collections to grow over time
- Forecast trajectory lowered
 - Revenue impact builds over time, with forecast lowered 13% (\$69m) in 2031-33
 - Latest usage survey data shows large increase in regular consumers (during same time period as stable sales)
 - Prices remain at or near historic lows
 - Market remains saturated with product and retailers

2023-25 Forecast Changes



2023-25 General Fund Forecast Summary

(Millions)	2023 COS Forecast	March 2024 Forecast	June 2024 Forecast	Change from Prior Forecast	Change from COS Forecast
Structural Revenues					
Personal Income Tax	\$21,019.7	\$21,180.1	\$21,567.1	\$387.0	\$547.4
Corporate Income Tax	\$2,228.9	\$2,762.1	\$2,817.0	\$54.9	\$588.0
All Other Revenues	\$2,011.3	\$1,953.1	\$2,046.0	\$93.0	\$34.7
Gross GF Revenues	\$25,259.9	\$25,895.2	\$26,430.1	\$534.9	\$1,170.2
Offsets, Transfers, and Actions ¹	-\$437.0	-\$447.8	-\$450.3	-\$2.5	-\$13.3
Beginning Balance	\$7,493.5	\$8,082.5	\$8,082.5	\$0.0	\$589.0
Net Available Resources	\$32,316.4	\$33,529.9	\$34,062.3	\$532.4	\$1,745.9
Appropriations	\$31,873.6	\$31,873.6	\$32,897.2	\$1,023.6	\$1,023.6
Ending Balance	\$442.8	\$1,656.3	\$1,165.1	-\$491.2	\$722.3
Confidence Intervals					
67% Confidence	+/- 6.8%		\$1,785.1	\$24.65B to \$28.22B	
95% Confidence	+/- 13.5%		\$3,570.3	\$22.86B to \$30.00B	

¹ Reflects personal and corporate tax transfers, Rainy Day Fund transfer, and Dept of Ag transfer

- Expected General Fund Revenues have increased by \$532 million relative to the March forecast, largely due to personal income tax collections
- The 2021-23 ending balance now projects at \$1.17 billion following the 2024 legislative session and forecast changes
- Potential federal tax legislation is not incorporated into this forecast
- Revenue uncertainty remains high as there is still one income tax filing season to go for the biennium

General Fund Bottom Line



General Fund Revenue Forecast Changes

\$ millions, change from March 2024 to June 2024

	2023-25	2025-27	2027-29	2029-31	2031-33
Personal Income Tax	\$387	-\$227	\$660	\$1,012	\$1,548
Corporate Excise Tax	\$55	-\$111	\$6	\$107	\$178
Other General Fund	\$93	\$34	-\$13	-\$26	-\$32
Net GF Revenue Total	\$532	-\$300	\$653	\$1,089	\$1,695

- Personal Income taxes tracked above forecast during tax filing seasons, forecast is raised due to the economic outlook
- Corporate taxes are tracking forecast closely, forecast is relatively unchanged
- The outlook for interest earnings and estate taxes is raised, while liquor revenues lowered
- Note that the 2025-27 PIT forecast change is due to paying out the expected \$582 million kicker. If not for the kicker, revenues would be up.

Other Revenues Bottom Line



Other Forecast Changes

\$ millions, change from March 2024 to June 2024 in available resources

	2023-25	2025-27	2027-29	2029-31	2031-33
Lottery	-\$0	-\$8	-\$13	-\$5	-\$10
Corporate Activity Tax	\$54	-\$38	-\$59	-\$94	-\$156
Marijuana	\$2	-\$10	-\$27	-\$46	-\$69
Sum	\$56	-\$56	-\$99	-\$145	-\$235

- Oregon's consumption-based revenues are tracking the forecast closely in recent months, while the outlooks are all lowered
- Lottery is effectively unchanged (-0.5%) as stronger traditional and sports betting offset weaker video sales
- CAT is lowered 1-3% in part due to ongoing impact of CY to FY shifts on tax collection and processing timing, in addition to new state GDP data
- Marijuana's forecast trajectory is lowered noticeably (-13% in 2031-33) due to steady sales while updated usage data indicates strong user gains, indicating future user growth likely slower, plus lowering price outlook

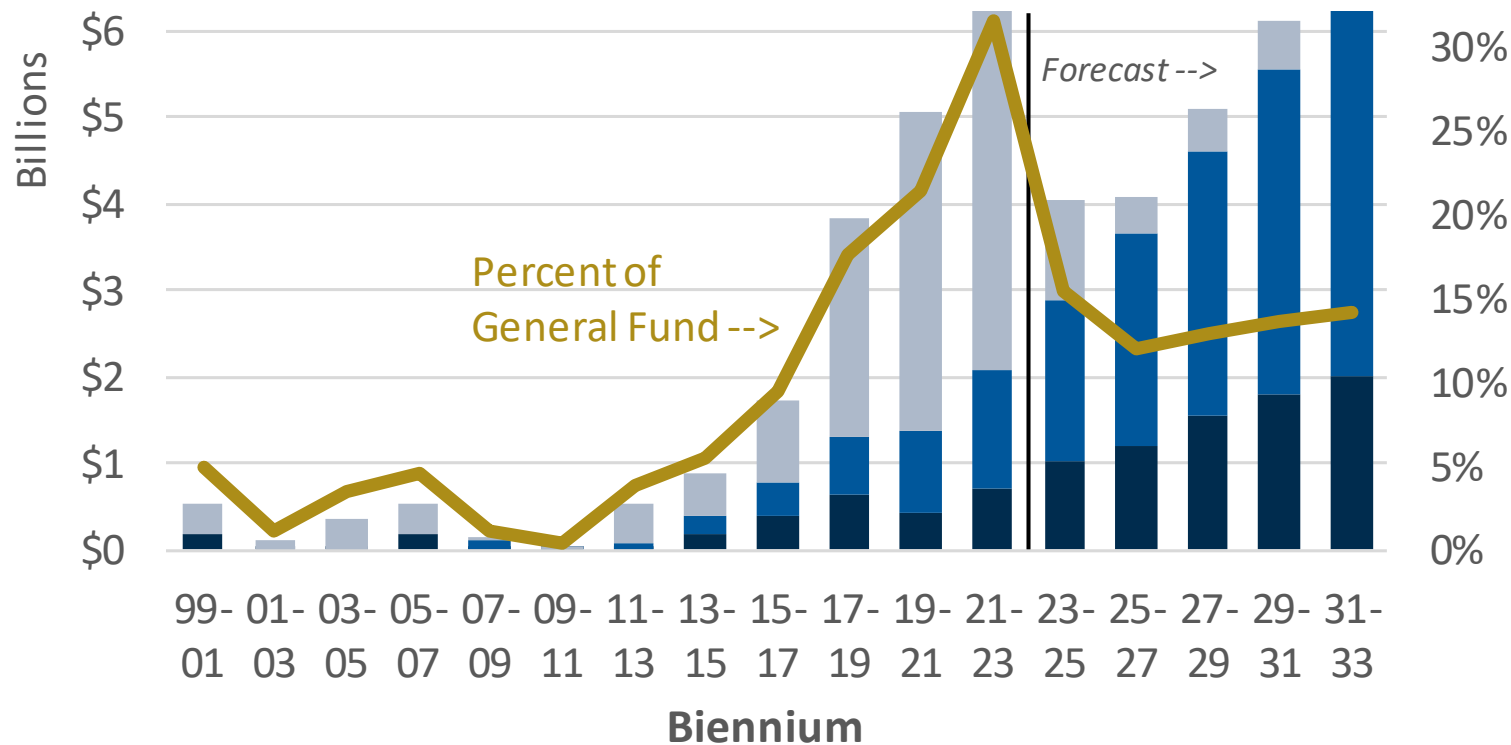
Sizable reserves remain

ESF expected to hit its statutory cap in FY28, ORDF is not expected to hit its new cap within the 10 year forecast horizon



Oregon Budgetary Reserves

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



Effective Reserves (\$ millions)

	<i>Current Apr-24</i>	<i>End of 2023-25</i>
ESF	\$825	\$1,007
RDF	\$1,671	\$1,872
Reserves	\$2,495	\$2,879
Ending Balance	\$1,165	\$1,165
Total	\$3,660	\$4,044
% of GF	14.0%	15.4%

Source: Oregon Office of Economic Analysis

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