

The background of the slide features a large, faint, circular seal. The seal contains an eagle with spread wings perched on a shield, with the words "OFFICE OF ECONOMIC ANALYSIS" around the top and "1859" at the bottom. The text "THE UNION" is visible on a banner within the seal.

# March 2021 Economic and Revenue Forecast

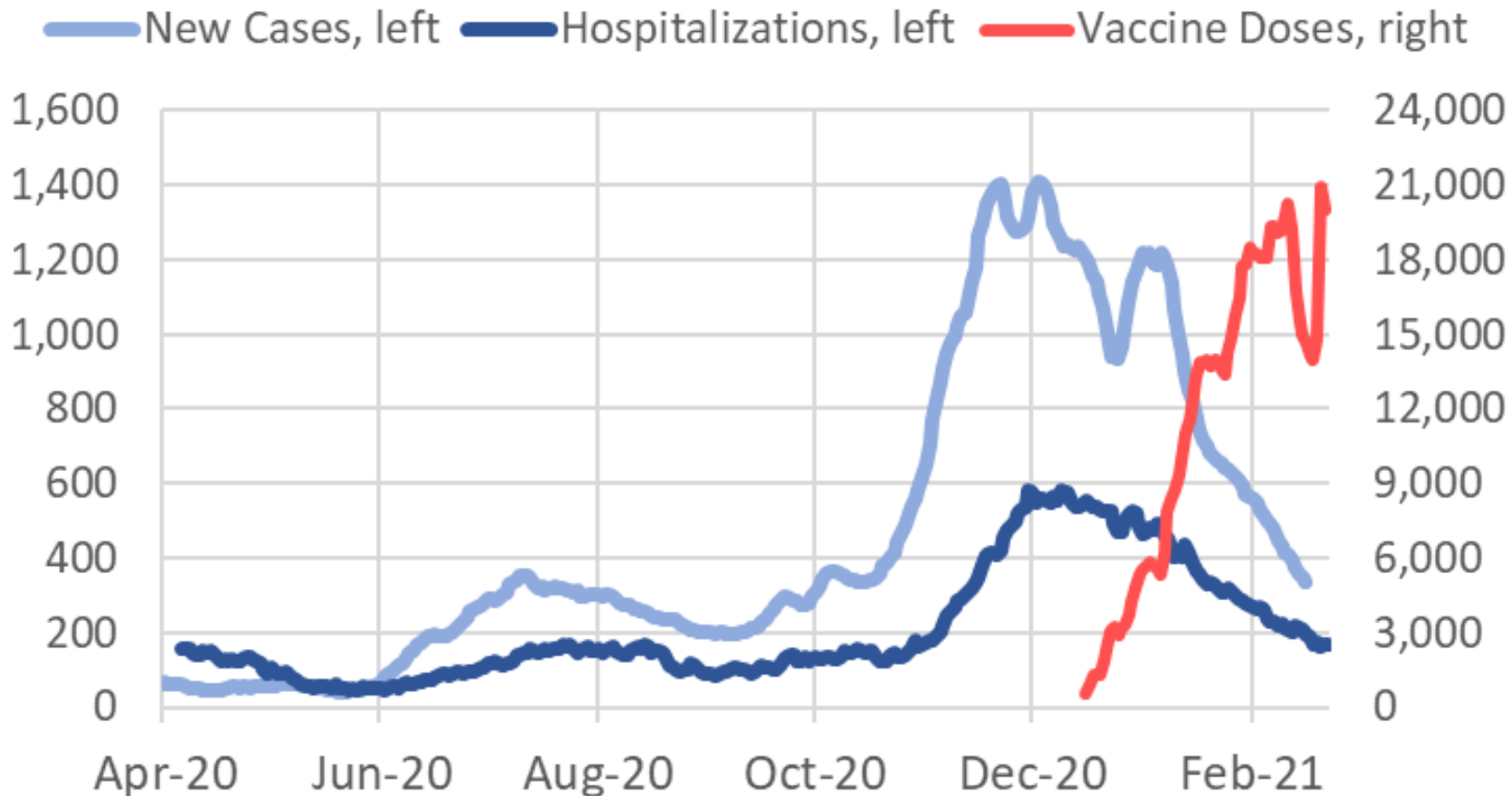
February 24<sup>th</sup>, 2021

Oregon Office of Economic Analysis  
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Josh Lehner



# Encouraging pandemic progress

## COVID-19 in Oregon



- New cases and hospitalizations down by more than two-thirds
- Nearly 550,000 Oregonian adults have received at least one dose of the vaccine (16% of total)
- Key assumptions
  - Pandemic continues to wane
  - Economy continues to reopen
  - Households feel increasingly confident in their ability to safely resume activities



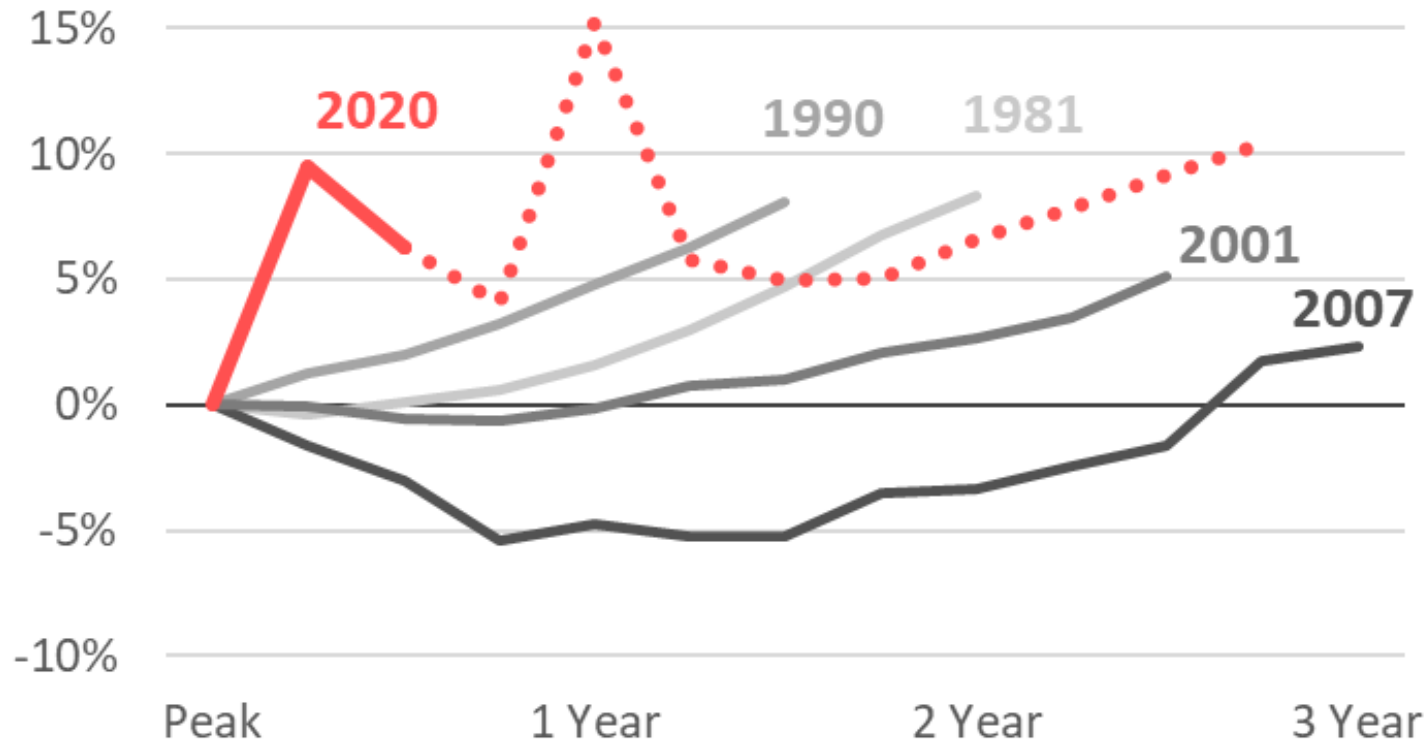
Source: Oregon Health Authority, Oregon Office of Economic Analysis



# Overall income is up sharply

## Total Oregon Personal Income

Nominal, Percent Change from Pre-Recession Peak



- Unprecedented federal aid has boosted incomes higher today than before the pandemic
- Oregonians expected to receive \$12 billion in UI, \$11 billion in PPP and \$8 billion in rebates
- Economy proving more resilient as well. Income excluding direct federal aid has returned to pre-pandemic levels.
  - Investment income remains healthy



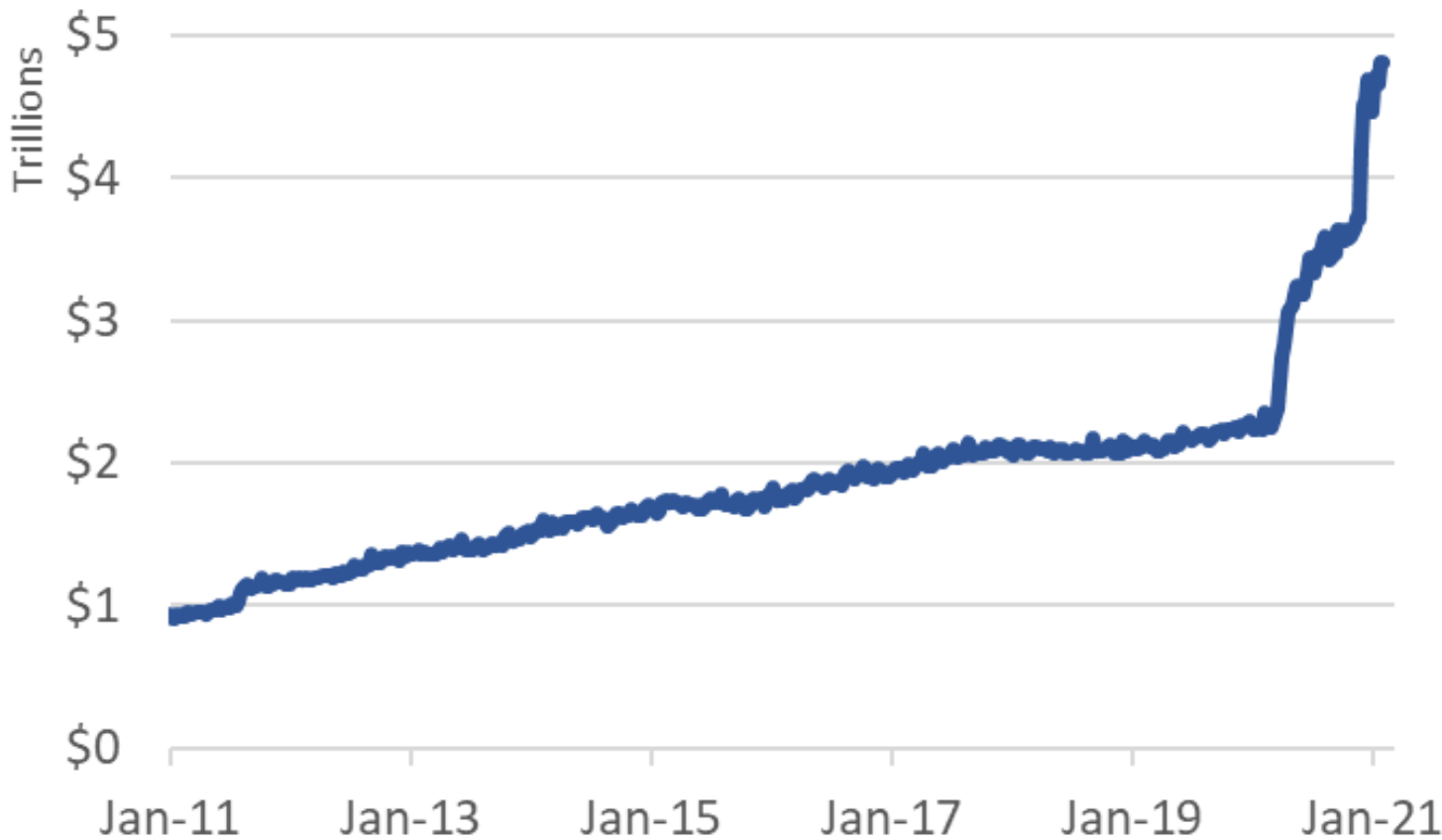
Quarterly data. Latest data 2020q3 | Source: BEA, Oregon Office of Economic Analysis





# Savings will support spending

## U.S. Checkable Deposits



- Households have built up considerable savings in the past year
- Concentrated among middle- and high-income households
- Lower-income households continue to struggle
  - Job prospects remain dim
  - Federal aid has lapsed at different points
- Pent-up demand will be unleashed as pandemic wanes and economy reopens
- Mix of consumer spending will shift back to labor-intensive, in-person services, driving strong employment gains



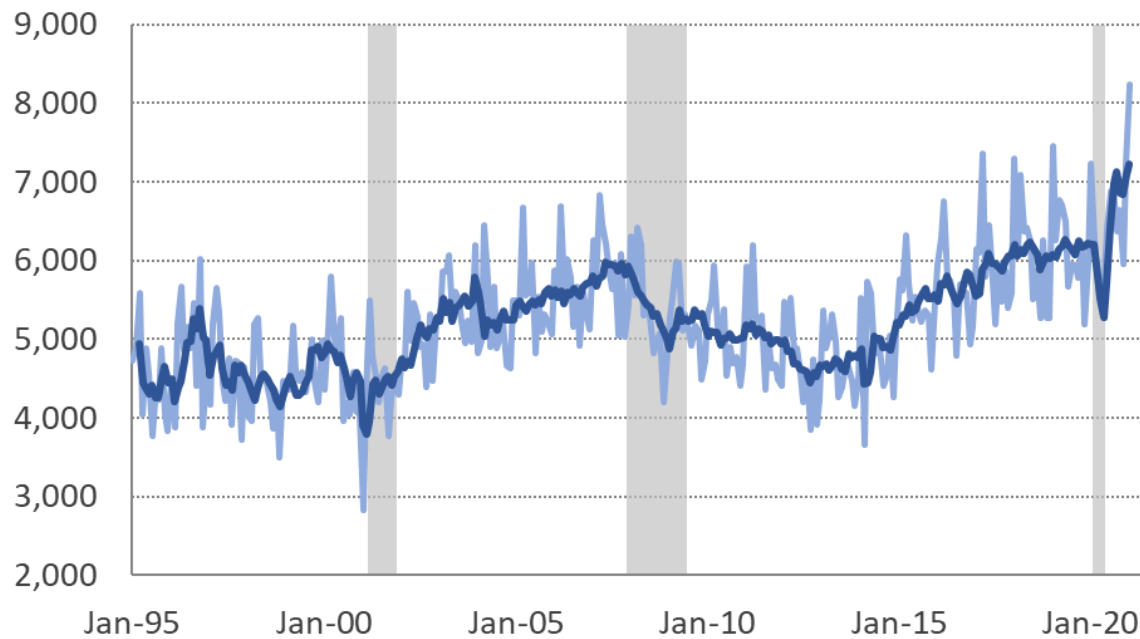


# Risk: Economic scarring

## New Business Formation

Oregon Business Applications

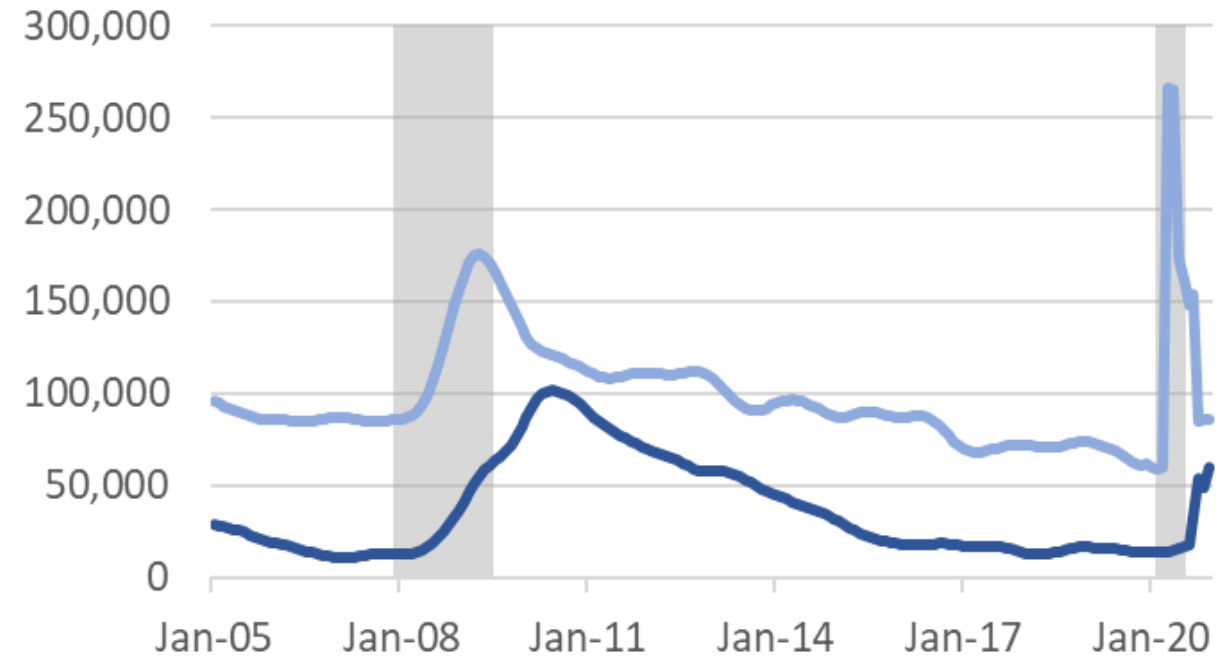
Monthly Data | Seasonally-Adjusted 3 Month Moving Average



Latest Data: January 2021 | Source: Oregon Secretary of State, Oregon Office of Economic Analysis

## Unemployed Oregonians

Short-Term (<6 Months) | Long-Term (>6 Months)



Latest Data: December 2020 | Source: Oregon Employment Department, Oregon Office of Economic Analysis



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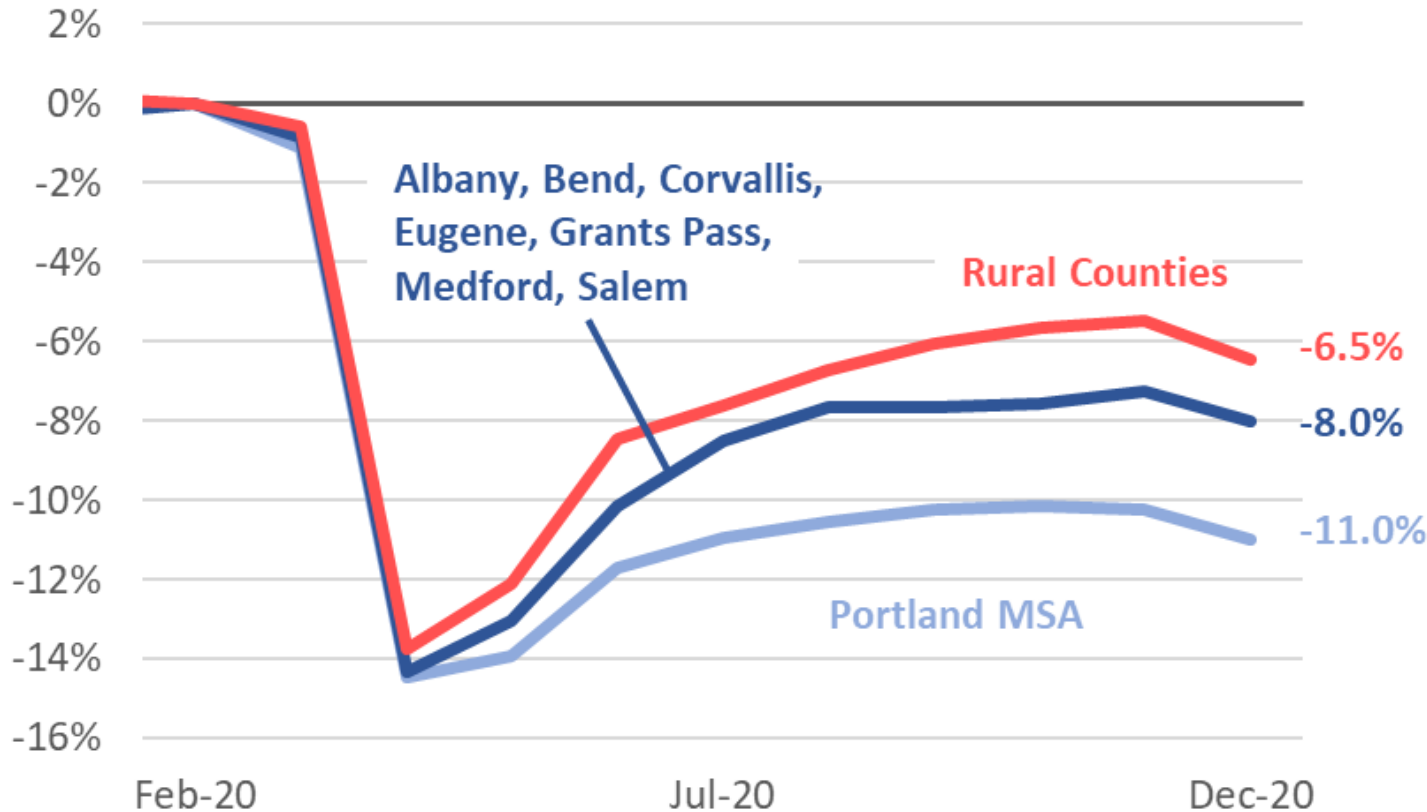




# Regional performance varies

## Oregon Employment: Metro and Nonmetro

Percent Change from February 2020



- Initial severity of recession affected by exposure to tourism and travel
- Rural economies supported by transfer payments to a greater degree
- Urban economies impacted by lack of business travel and working from home

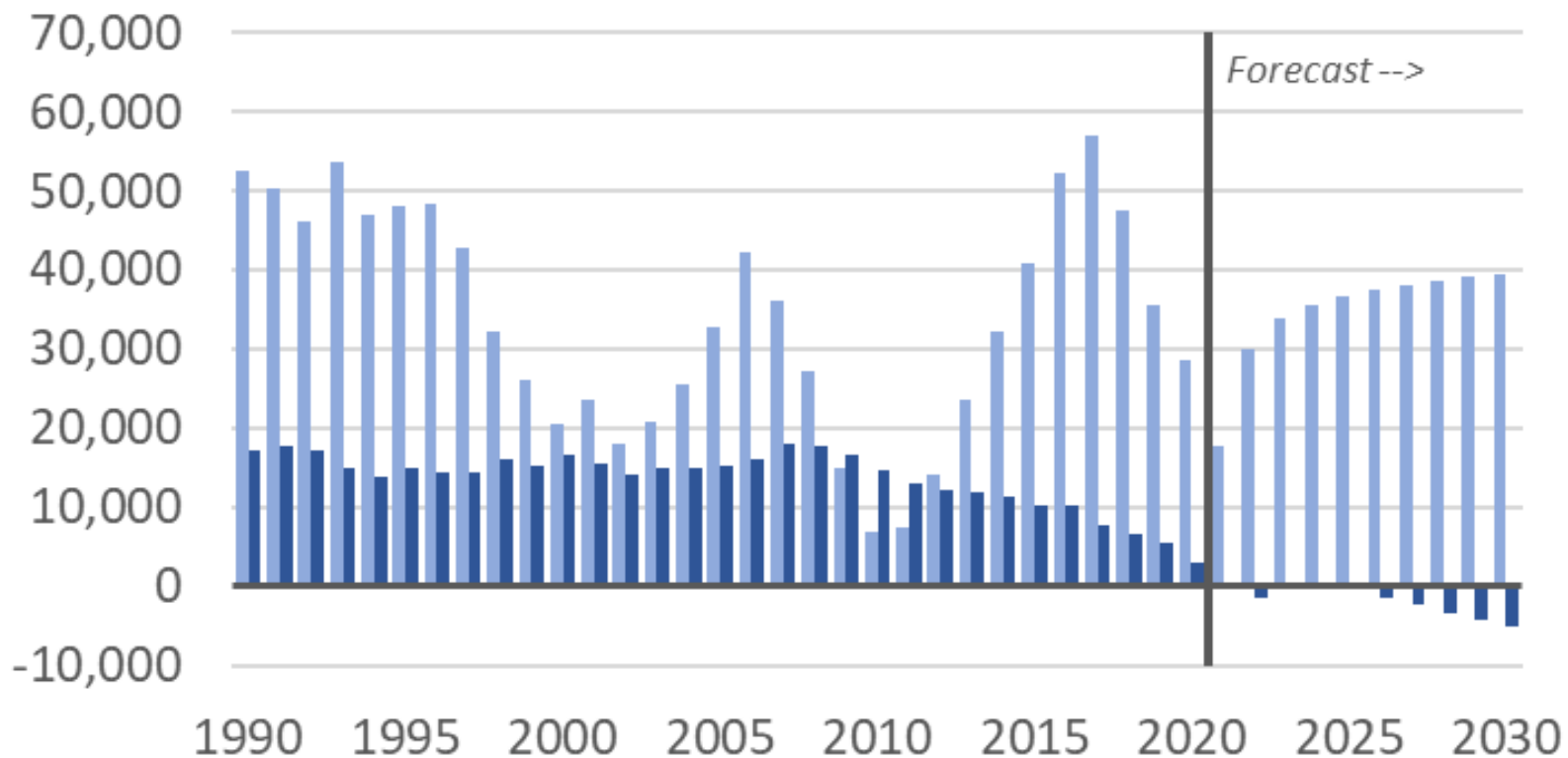




# Oregon's comparative advantage

## Oregon Population Growth

Natural Increase (Births minus Deaths) | Net Migration



- Population growth entirely reliant on net migration
  - Birth remain below replacement rate and deaths are rising
- What 2020 and now 2021 hath wrought could impact migration
  - Pandemic
  - Working from home
  - Wildfires
  - Drought
  - Ice storms
  - Protests

Latest Data: 2020 | Source: Census, Portland State PRC, Oregon Office of Economic Analysis



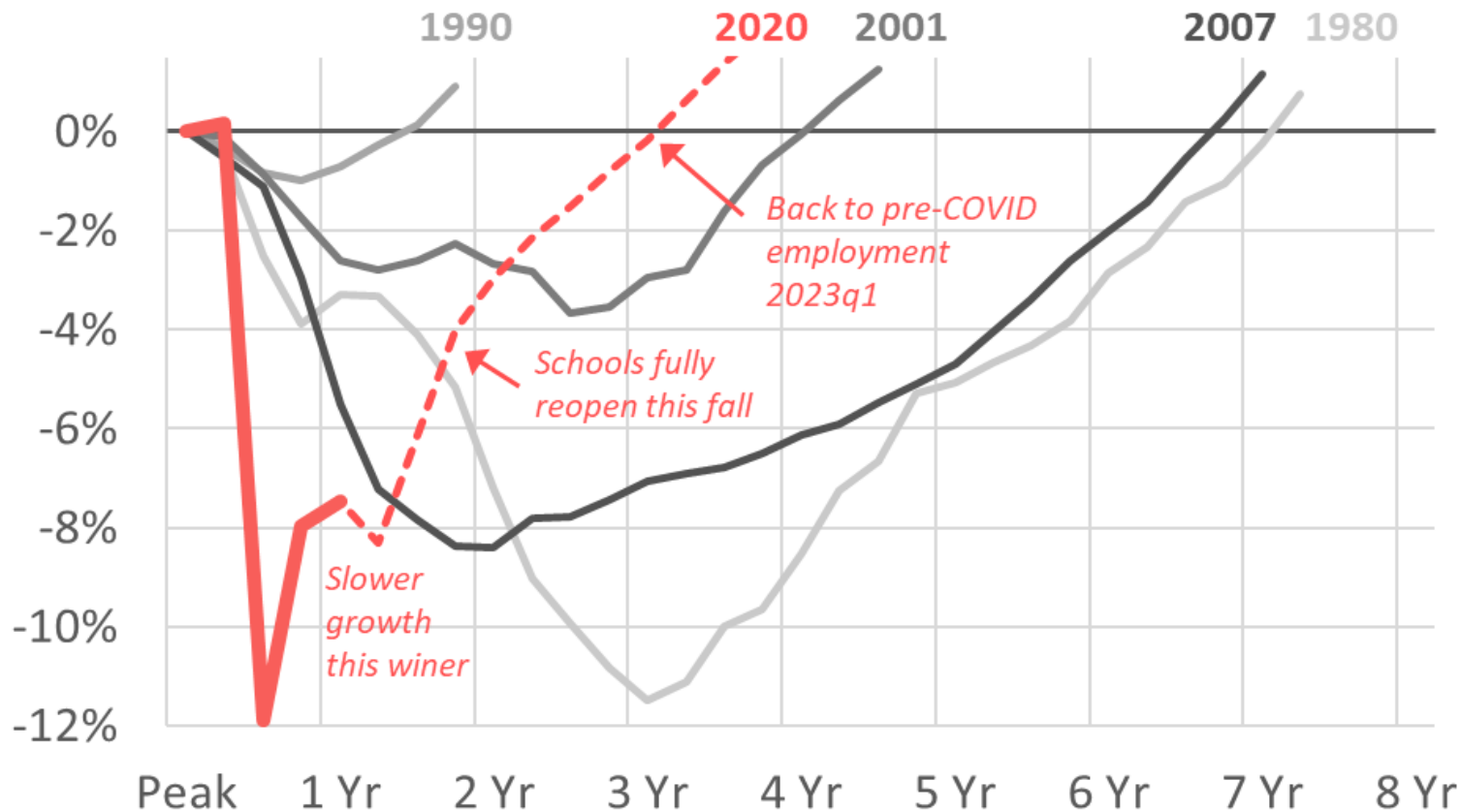




# Bottom line

## Oregon Recession Comparison

Employment Percent Change from Pre-Recession Peak



- Growth stalled over the winter as expected, but stage is set for rapid improvement
- COVID infections down, and vaccine rollout progressing
- Full return to in-person learning next fall
- Return to full employment expected in early 2023, 6-9 months earlier than in the December outlook



Source: Oregon Employment Department, Oregon Office of Economic Analysis





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# Revenue Outlook

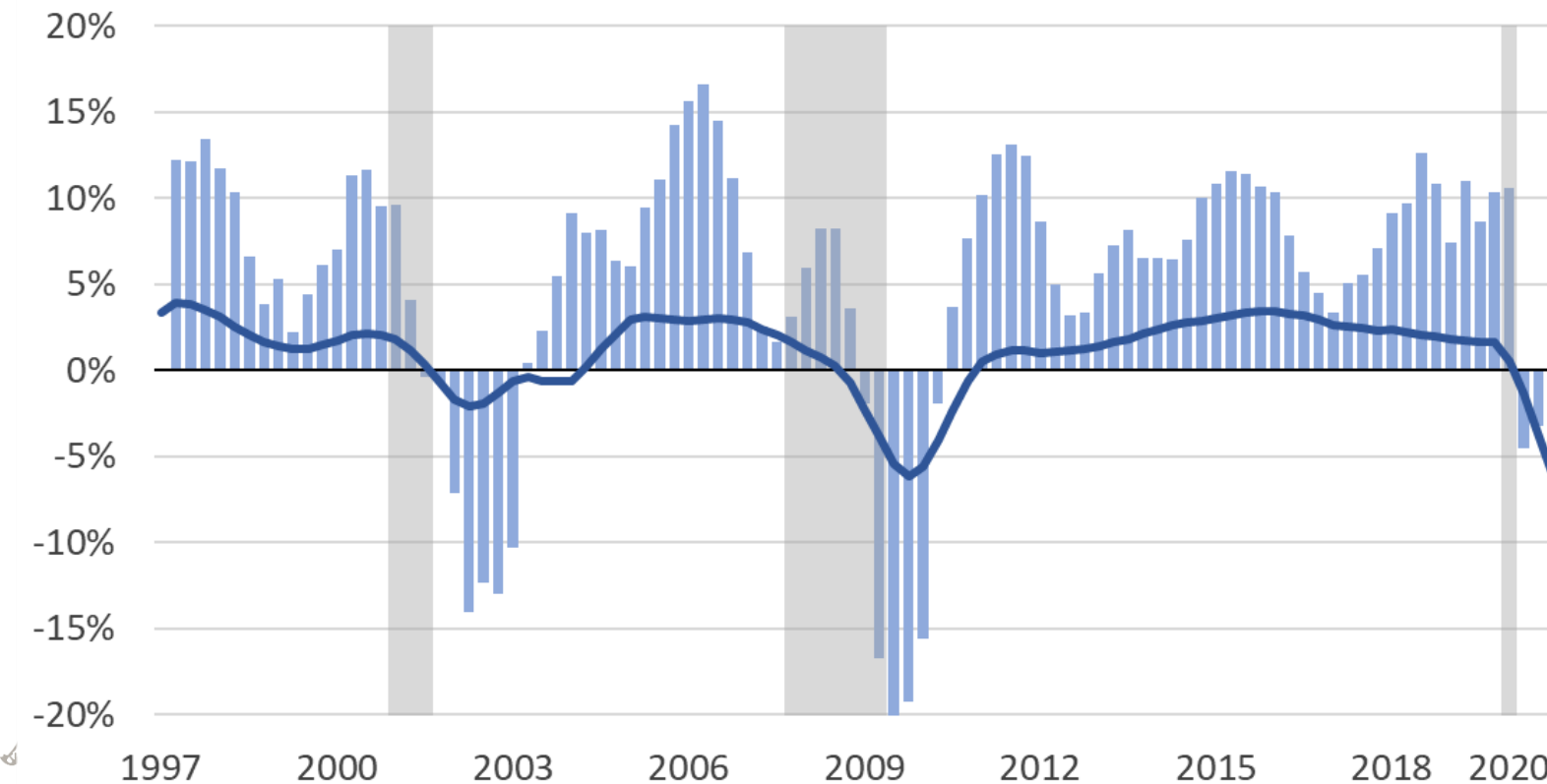


# Not a typical recession for tax revenue

## Oregon Tax Collections and Job Growth

Personal Income and Corporate Excise Tax and Employment

year-over-year percent change



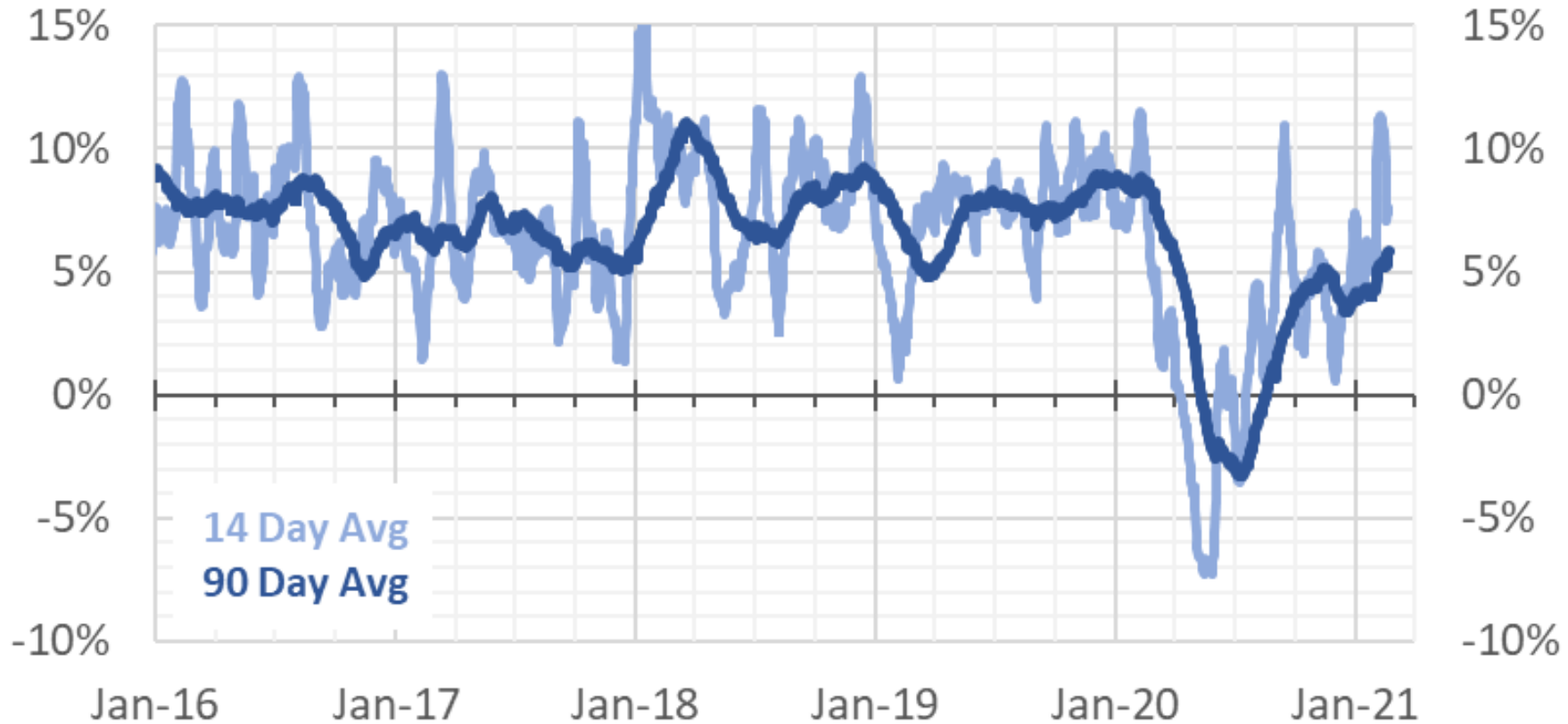
- To date, revenue losses in the current recession pale in comparison to Oregon's recent experiences
- Job losses over the past year match the worst of the Great Recession yet revenue declines are much less severe
- Federal aid and strong investment and business income are factors



# Personal Income Tax withholdings strengthen further

## Oregon Withholding

30 Day Rolling Sum of Collections, Year-over-Year Change



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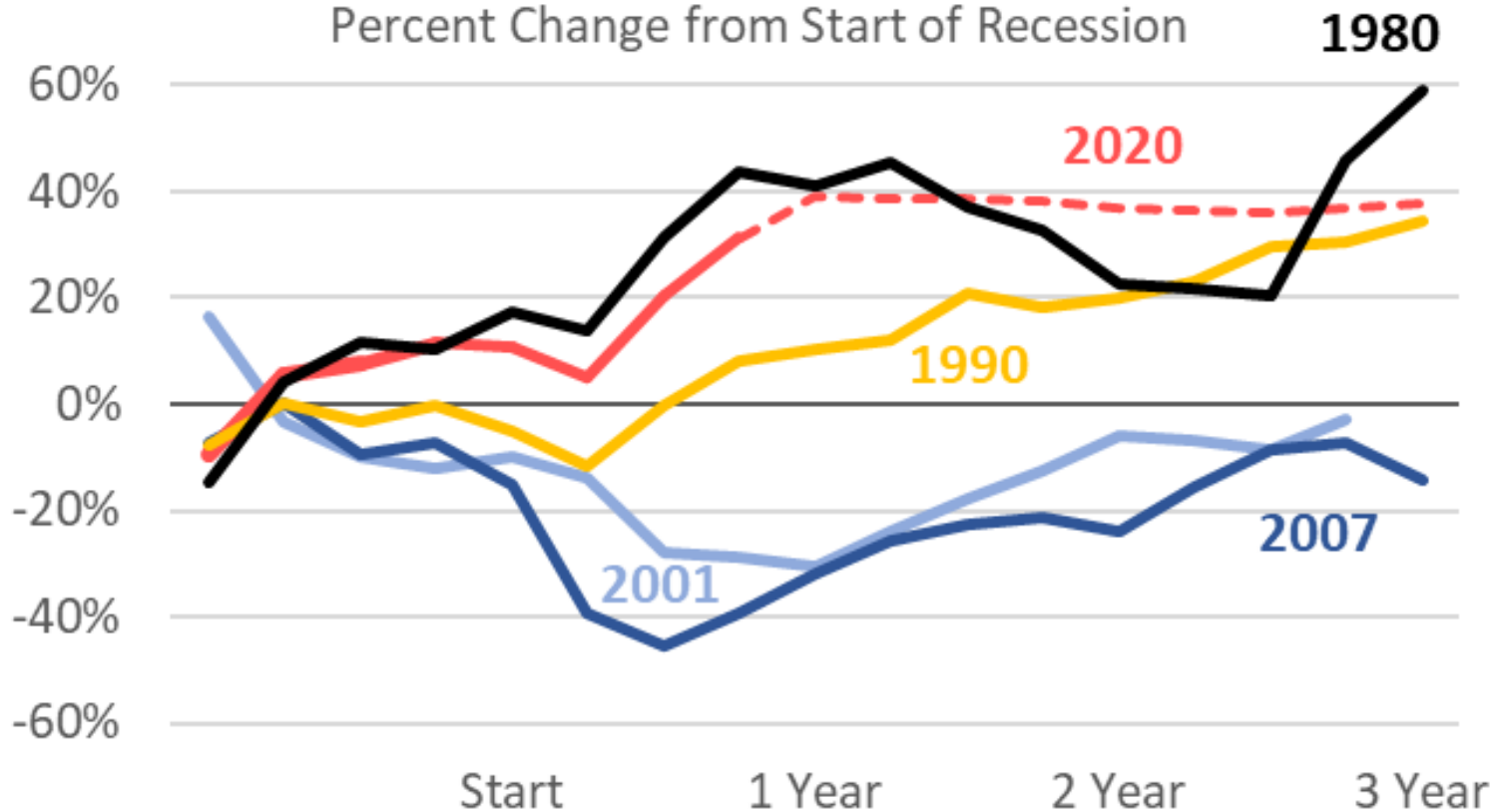
Latest Data: Feb 19, 2021 | Source: Oregon Dept. of Revenue, Oregon Office of Economic Analysis



# Asset markets are still healthy

## Wilshire 5000 Stock Price Index

Percent Change from Start of Recession



- Nonwage forms of personal income represent a wildcard for this April's collections
- Equity prices are up 20% since the start of the recession
- Last recession, losses in capital gains, rental and business income resulted in over \$1 billion less in tax revenues

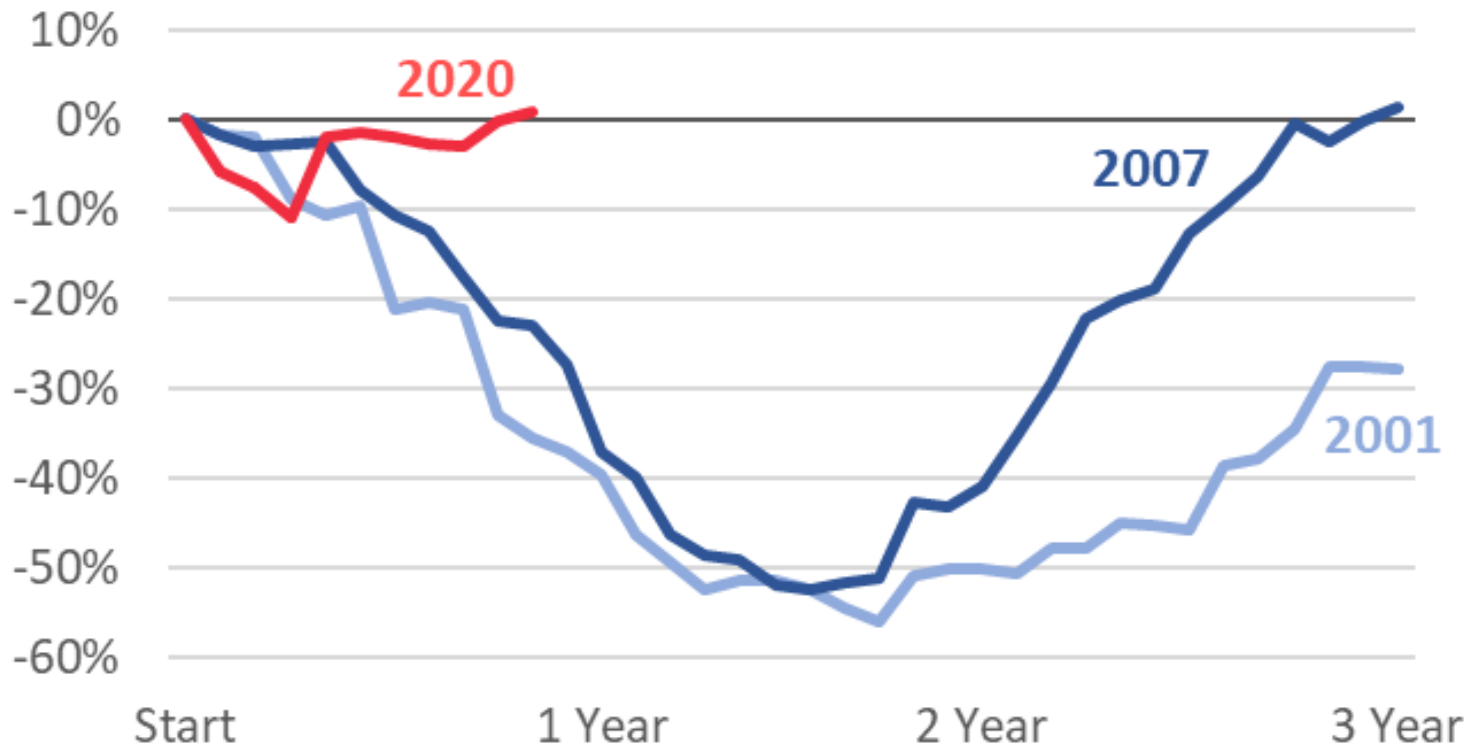




# Corporate taxes are holding up

## Oregon Corporate Excise Tax

Nominal, Percent Change from Start of Recession



- Corporate income and excise taxes have not yet collapsed as in previous recessions
- A 50% decline today would result in a loss of \$450 million per year
- Corporate Activity Taxes appear to be tracking with the post-COVID outlook (20% below original estimates)

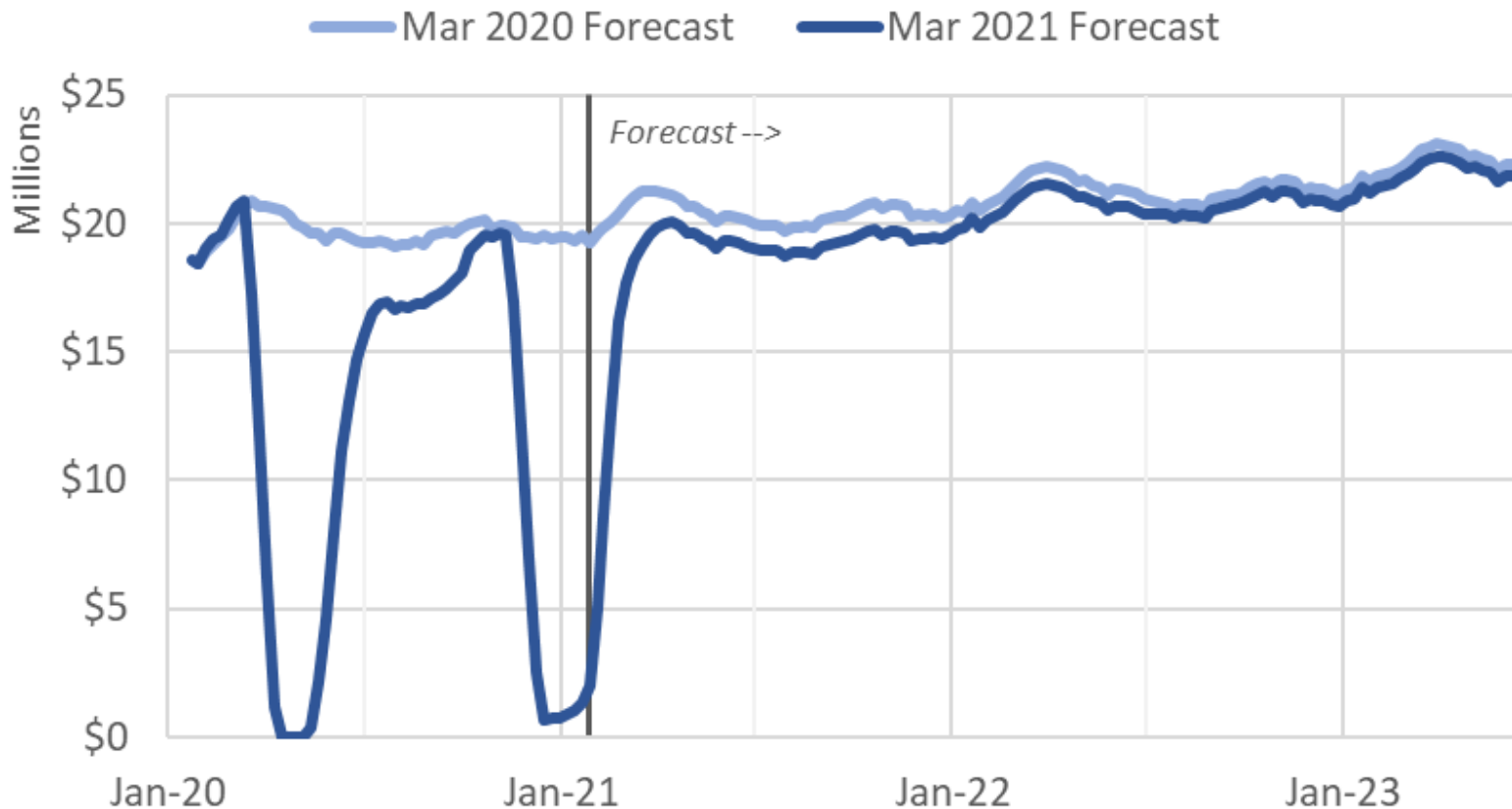




# Lottery outlook improves

## Oregon Video Lottery Sales

4 Week Average



- 2019-21 revised down due to health restrictions over the winter
- 2021-23 and beyond revised upward due to improving economic outlook and strong lottery sales in recent weeks
- Risks:
  - Pent-up demand for entertainment stronger than anticipated
  - Future health restrictions due to hot spots
  - Competition for entertainment dollars as economy reopens



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# Bottom Line





# Revenue bottom line

## March 2021 Forecast Changes

| General Fund<br>Revenues | \$ Millions from Dec |           |            |
|--------------------------|----------------------|-----------|------------|
|                          | 19-21                | 21-23     | 23-25      |
| Personal Income Taxes    | 498                  | 135       | 600        |
| Corporate Income Taxes   | 223                  | -120      | -1         |
| Other                    | 23                   | -5        | 6          |
| <b>Total</b>             | <b>743</b>           | <b>10</b> | <b>605</b> |

| Other Revenues         | \$ Millions from Dec |            |           |
|------------------------|----------------------|------------|-----------|
|                        | 19-21                | 21-23      | 23-25     |
| Lottery                | -101                 | 46         | 46        |
| Corporate Activity Tax | 40                   | 56         | 13        |
| Marijuana Tax          | -5                   | -1         | 0         |
| <b>Total</b>           | <b>-66</b>           | <b>101</b> | <b>59</b> |

|                  | \$ Millions from Dec |            |            |
|------------------|----------------------|------------|------------|
|                  | 19-21                | 21-23      | 23-25      |
| <b>Total Sum</b> | <b>677</b>           | <b>111</b> | <b>665</b> |

- Including resources from the current biennium, budget writers are expected to have nearly \$800 million in additional revenue to work with this session
- The outlook for most major tax instruments has been revised upward
- Lottery sales are an exception due to restrictions

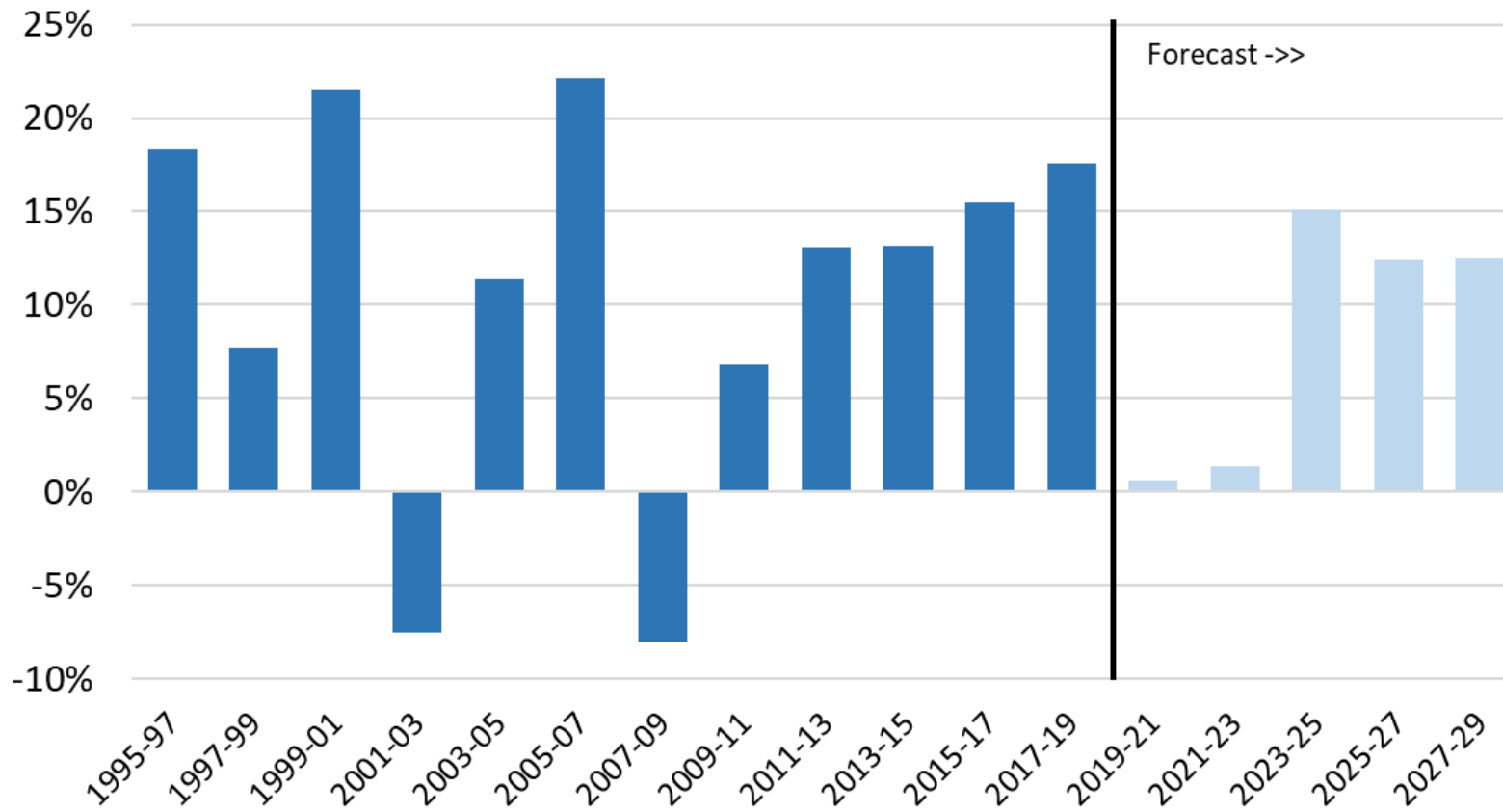




# Revenue bottom line

## Net General Fund and Lottery Revenue

% change over biennium



- Overall resources expected to be roughly flat over three budget cycles (excluding CAT)
- While much better than in most recessions, revenue gains are not fast enough to keep up with rising need and cost of public services
- Significant downside risks over the next two budget cycles

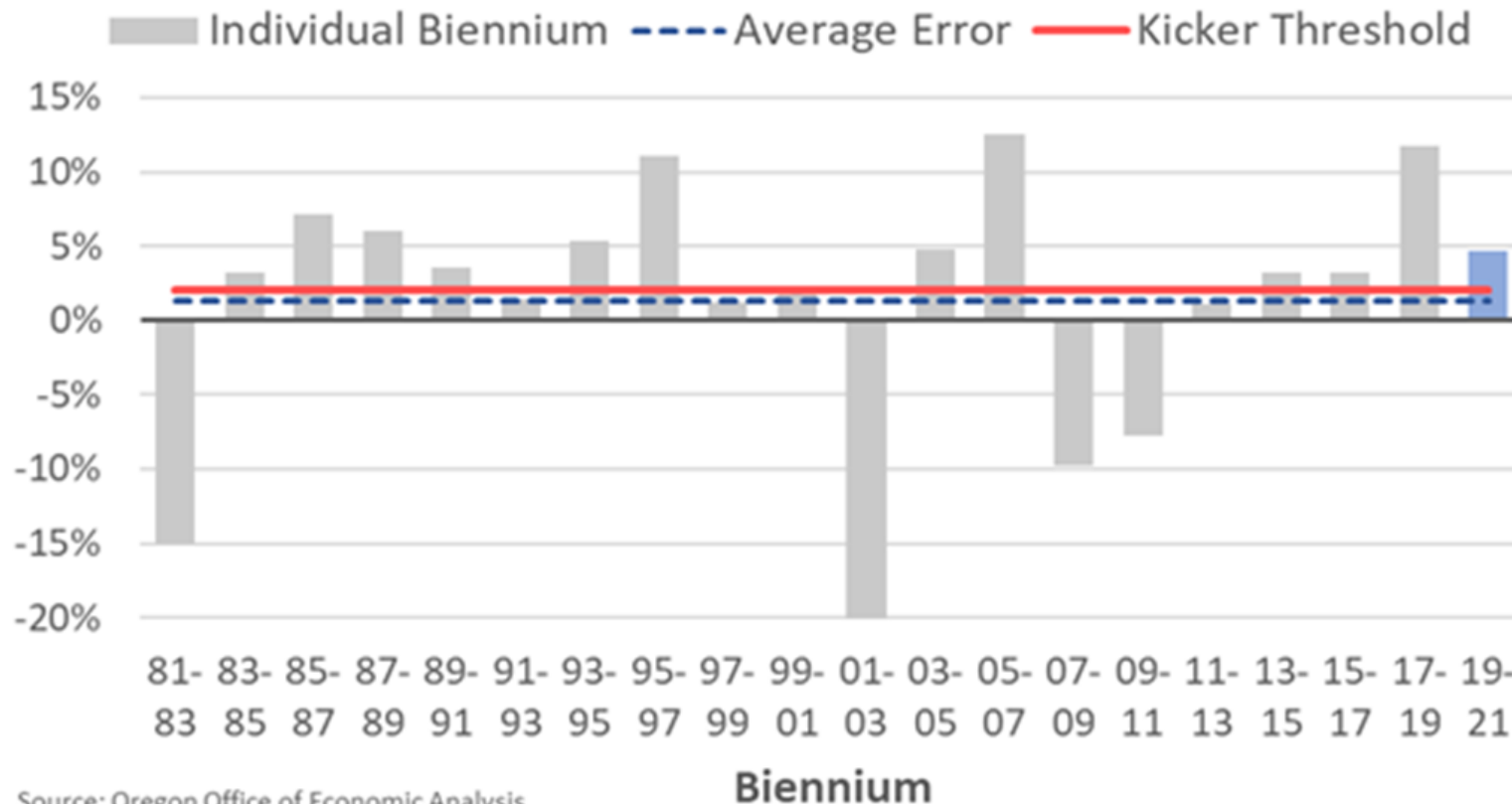




# Oregon's unique kicker law

## Oregon General Fund Forecast Errors

Percent Difference between Close of Session and Actuals



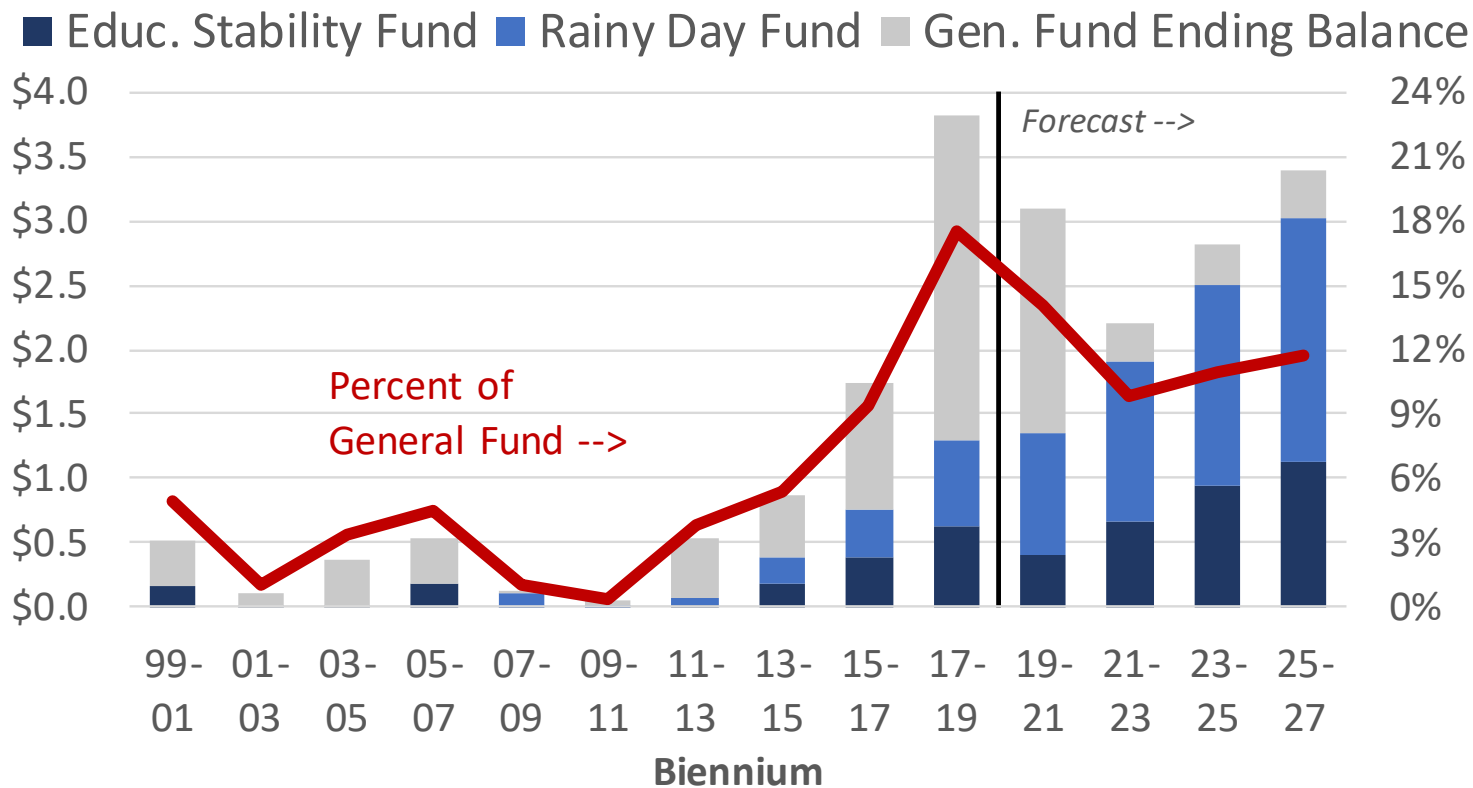
- March forecast puts kicker credit back in play
- Kicker credit is far from a sure thing since the tax season has yet to get under way
- Projected Kickers
  - Personal kicker \$571 million (2.88%)
  - Corporate kicker \$420 million (dedicated to K-12)





# Sizable reserves remain

## Oregon Budgetary Reserves (billions)



Source: Oregon Office of Economic Analysis

## Effective Reserves (\$ millions)

|                   | Dec<br>2020    | End<br>2019-21 |
|-------------------|----------------|----------------|
| ESF               | \$771          | \$411          |
| RDF               | \$885          | \$946          |
| Reserves          | \$1,656        | \$1,357        |
| Ending<br>Balance | \$1,737        | \$1,737        |
| <b>Total</b>      | <b>\$3,393</b> | <b>\$3,094</b> |
| % of GF           | 15.4%          | 14.1%          |





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