EXECUTIVE SUMMARY

September 2021

The economic outlook remains bright. Strong household incomes, boosted considerably by federal aid during the pandemic, are the underlying driver. Consumers have no shortage of firepower if they want to and feel safe enough to spend. The key to the outlook remains translating this firepower into actual consumer spending, particularly in the hard-hit service industries. Firms today are trying to staff up as quickly as possible to meet this increasing demand. The actual number of jobs created this year will be the largest on record in Oregon. The state’s labor market is now expected to regain all of its lost jobs by next summer, or one quarter sooner than in the previous forecast.

While these dynamics remain intact, the risks are weighted toward the downside. Growth in a supply-constrained economy is challenging. Firms are struggling with supply chains and a tight labor market. Wages are rising quickly to attract and retain workers. Prices are increasing as demand continues to outstrip supply. On top of this the current delta wave of the pandemic complicates the immediate term outlook. What matters most economically are shutdowns. A modest pullback in consumer spending in a few categories will not lead to mass layoffs. If anything, any slowing in spending today will likely turn into stronger gains in coming quarters.

This cycle is different. The current recovery will be faster, more complete, and more inclusive than recent experiences coming out of the tech and housing bubbles. As some of the pandemic-specific challenges fade, the underlying economy is on solid footing due to the strength of corporate and household balance sheets.

In September of odd-numbered years, the revenue forecast closes out the biennium than ended on June 30th. At this time, the Close of Session forecast is calculated by folding any tax law changes made during the legislative session into the May 2021 outlook. This sets the bar for Oregon’s balanced budget requirement and its unique kicker law. Changes to tax law were relatively small in the 2021 session, with a net revenue impact of -$3.6 million to General Fund resources in the 2021-23 budget period.

The September forecast also reveals where revenues landed in the prior budget period. In a typical year, there are few surprises, since tax collections are relatively small during the early summer. This year was different. Due to a delayed tax filing deadline, much uncertainty remained following the May forecast. When the forecast was developed, the peak tax season had just begun.

By the end of the fiscal year, the 2021 tax season turned out to be a very big one. Collections of personal income taxes, corporate income taxes, lottery sales and the new Corporate Activity Tax all surged. Recent withholdings of personal income taxes are up 17% relative to last year. Payments during the tax season were strong as well, led by collections from high-income taxpayers. A $1.9 billion personal income tax kicker credit is slated for tax year 2021. The median taxpayer can expect to receive a credit of $420, while the average is estimated to be $850.

The strong revenue growth seen during the 2019-21 biennium put a cap on a decade of unprecedented expansion in Oregon’s General Fund revenues. Over the past decade, General Fund revenues have almost doubled from around $12 billion per year to around $24 billion. Over the decade as a whole, kicker payments amounted to $2.6 billion, reducing cumulative General Fund resources by 2.6 percent. Last biennium, kicker payments took away half of the General Fund growth. Looking forward, the current $1.9 billion kicker reduces 2021-23 revenues as well.