Executive Summary

September 2023

The economy continues to be in an inflationary boom. Growth is outpacing expectations. The good news is inflation has slowed considerably in the past year. The consensus of economic forecasters is now that the economic soft landing is the most likely scenario. The challenge today is twofold. First, there are emerging signs that the economy is reaccelerating which means inflation could re-heat at some point in the quarters ahead. Second, this leaves the Federal Reserve in a tough position of trying to thread the needle of raising interest rates just enough to cool the economy and bring inflation down, but not too much that chokes off growth. The initial descent appears to have gone as good as can be expected. However, navigating the crosswinds of waiting for the full impact of past interest rate increases to slow growth even as inflation remains above target is challenging.

Oregon’s economic outlook remains effectively unchanged from last quarter. The labor market is tight, albeit less so than during the reopening phase of the cycle. And as inflation slows, income gains are once again outpacing price increases, leading to rising living standards. With the economy at full employment, future growth will come from labor force gains driven by a return of positive net migration in the years ahead, along with productivity gains driven by capital investment. The combination of the post-pandemic rise in start-up activity, large increase in federal investment, including in semiconductors, and the potential of generative AI should all help to boost productivity in the years ahead. Oregon is well-positioned to benefit.

After several quarters of unexpectedly rapid growth in tax collections, Oregon’s state revenue outlook appears to have stabilized. Collections in recent months have tracked closely with the May forecast. Even so, Oregon has yet to go through its first personal income tax filing season of the biennium, and as such, everything remains at risk.

This revenue forecast represents the last look at the 2021-23 biennium and reveals the Close of Session (COS) forecast for the current 2023-25 biennium. The Close of Session forecast sets the bar for Oregon’s constitutionally required balanced budget, as well as its unique kicker law. The COS incorporates any legislative changes enacted during the legislative session that impact General Fund revenues and folds them into the mid-session (May) revenue forecast that covers the next two years, and forms the basis of the legislatively adopted budget. This session’s legislative changes were relatively modest in scope, totaling a reduction of $48.6 million in expected General Fund revenues relative to the May forecast.

Total General Fund resources in 2023-25 are increased $437 million compared to the Close of Session forecast. Most of the increase can be attributed to collections of corporate income taxes, which continue to outstrip underlying profit earnings. Additionally, a larger beginning balance increases resources, a direct result of a larger ending balance last biennium as the accountants closed the books this summer. That increase in revenues at the end of 2021-23 does result in a larger personal income kicker than previously estimated. Our office will certify the kicker in the coming weeks, but currently $5.6 billion will be returned to Oregon taxpayers next filing season. The median, or typical Oregonian is expected to receive a $980 credit.