Economic Update and Outlook
Outlook Concerns Rising

Risk of Recession

Percent Probability U.S. Entering Recession in Next Year

Bond Market Signals Weakness

U.S. Treasury Yield Curve

- Dec 11, 2015
- Dec 20, 2018
- Aug 26, 2019

Source: Tim Duy, Federal Reserve, Oregon Office of Economic Analysis
Cracks Starting to Show? Changes Since 2017q2

**Industry Output**
- Oregon Manufacturing GDP
- U.S. Manufacturing GDP
- U.S. Industrial Production

**Manufacturing Employment**
- Oregon
- U.S.

**Oregon Export Volume**
- High-Tech & Chemicals
- All Other

**Weekly Hours Worked**
- U.S. Durable Manufacturing
- Oregon Durable Manufacturing

Sources:
- BEA, Federal Reserve
- BLS, OED, Oregon Office of Econ Analysis
- WISERTrade, Oregon Office of Econ Analysis
- BLS, Oregon Emp Dept
Room to Run or Tapped Out?

Prime-Age EPOP: Share of 25-54 Year Olds with a Job

Data: 12 Month Average  |  Latest: June 2019  |  Source: BLS, IPUMS-CPS, Oregon Office of Economic Analysis
Oregon’s Tight Labor Market Isn’t All Bad

Oregon Wages
Share of U.S. Average

Latest data: 2019q1 | Source: BEA, IHS Global Insight, Oregon Office of Economic Analysis
Forecast is Stable, but Outlook Uncertain

Total Nonfarm Employment
Year-over-Year Percent Change

Structural Drags
- Demographics

Cyclical Drags
- Supply Constraints
- Less Slack

Policy Drags
- Interest rates
- Trade War
- No more tax cuts

Latest Data: 2019q2 | Source: IHS Global Insight, Oregon Office of Economic Analysis

ECONOMIC ANALYSIS
Revenue Update and Outlook
## Tax Collections Surged at the End of the Biennium...

### Track Record for the May 2019 Forecast
(Quarter ending May 30, 2019)

<table>
<thead>
<tr>
<th>Personal Income Tax</th>
<th>Forecast Comparison</th>
<th>Year/Year Change</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Actual Revenues</td>
<td>Latest Forecast</td>
</tr>
<tr>
<td>Withholding</td>
<td>$1,999.0</td>
<td>$1,969.7</td>
</tr>
<tr>
<td>Dollar difference</td>
<td></td>
<td>$29.3</td>
</tr>
<tr>
<td>Estimated Payments*</td>
<td>$532.3</td>
<td>$472.1</td>
</tr>
<tr>
<td>Dollar difference</td>
<td>$60.2</td>
<td></td>
</tr>
<tr>
<td>Final Payments*</td>
<td>$1,385.6</td>
<td>$1,252.8</td>
</tr>
<tr>
<td>Dollar difference</td>
<td>$132.8</td>
<td></td>
</tr>
<tr>
<td>Refunds</td>
<td>-$445.6</td>
<td>-$483.6</td>
</tr>
<tr>
<td>Dollar difference</td>
<td>$38.0</td>
<td></td>
</tr>
<tr>
<td><strong>Total Personal Income Tax</strong></td>
<td><strong>$3,471.3</strong></td>
<td><strong>$3,211.0</strong></td>
</tr>
</tbody>
</table>
...Resulting in a Larger Kicker

**Oregon Personal Income Tax Kicker**
Kicker Credit or Refund, % of Liability

![Graph showing the percentage of Kicker Credit or Refund from 1979-81 to 2017-19.]

- Median: $346
- Average: $739
- Top 1%: $15,214

Corporate Kicker ($676 million: Up $60 million from May)

Source: Oregon Legislative Revenue Office, Oregon Office of Economic Analysis
## What Is Your Cut?

<table>
<thead>
<tr>
<th>Income Group</th>
<th>Adjusted Gross Income*</th>
<th>Rough Estimate of Kicker Size**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bottom 20%</td>
<td>&lt; $11,700</td>
<td>$28</td>
</tr>
<tr>
<td>Second 20%</td>
<td>$11,700 - $27,500</td>
<td>$169</td>
</tr>
<tr>
<td>Middle 20%</td>
<td>$27,500 - $49,700</td>
<td>$373</td>
</tr>
<tr>
<td>Fourth 20%</td>
<td>$49,700 - $90,500</td>
<td>$679</td>
</tr>
<tr>
<td>Next 15%</td>
<td>$90,500 - $184,500</td>
<td>$1,379</td>
</tr>
<tr>
<td>Next 4%</td>
<td>$184,500 - $418,500</td>
<td>$3,248</td>
</tr>
<tr>
<td>Top 1%</td>
<td>&gt; $418,500</td>
<td>$15,214</td>
</tr>
<tr>
<td>Average</td>
<td>$64,300</td>
<td>$739</td>
</tr>
<tr>
<td>Median</td>
<td>$37,000-$38,000</td>
<td>$346</td>
</tr>
</tbody>
</table>

* Based on 2017 actual tax returns  
** Based on 2017 actual tax returns, PIT kicker amount ($1.57 billion) and the Oregon Office of Economic Analysis’ forecast for tax liability in 2018
Looking Ahead to 2019-21: General Fund Tax Cuts

2019-21 Revenue Forecast Evolution

*millions of dollars*

<table>
<thead>
<tr>
<th></th>
<th>2019 Close of Session Changes</th>
<th>Sep '19 Forecast Changes Relative to COS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Taxes</td>
<td>-421.6</td>
<td>8.9</td>
</tr>
<tr>
<td>Corporate Income Taxes</td>
<td>-55.0</td>
<td>85.9</td>
</tr>
<tr>
<td>Insurance Taxes</td>
<td>-14.9</td>
<td>-0.2</td>
</tr>
<tr>
<td>Estate Taxes</td>
<td>0.0</td>
<td>4.3</td>
</tr>
<tr>
<td>State Court Fees</td>
<td>15.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Securities Fees</td>
<td>0.0</td>
<td>-0.5</td>
</tr>
<tr>
<td>Criminal Fine Account</td>
<td>13.2</td>
<td>0.0</td>
</tr>
<tr>
<td>Central Service Charges</td>
<td>-0.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Liquor</td>
<td>5.2</td>
<td>0.0</td>
</tr>
<tr>
<td>One-time Transfers</td>
<td>155.2</td>
<td>0.0</td>
</tr>
<tr>
<td><strong>Subtotal Revenue</strong></td>
<td><strong>-303.3</strong></td>
<td><strong>98.5</strong></td>
</tr>
<tr>
<td>Beginning Balance</td>
<td>-3.2</td>
<td>213.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>-306.5</strong></td>
<td><strong>312.3</strong></td>
</tr>
</tbody>
</table>
Slow Revenue Growth Ahead

- Even without the onset of recession, revenue growth is facing major headwinds during the current biennium
- State & federal tax policies, the big kicker refund and slower economic growth will all weigh on General Fund revenues in the near term

Table R.2

General Fund Revenue Forecast Summary (Millions of Dollars, Current Law)

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>Forecast 2017-19</th>
<th>% Chg</th>
<th>Forecast 2019-21</th>
<th>% Chg</th>
<th>Forecast 2021-23</th>
<th>% Chg</th>
<th>Forecast 2023-25</th>
<th>% Chg</th>
<th>Forecast 2025-27</th>
<th>% Chg</th>
<th>Forecast 2027-29</th>
<th>% Chg</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Income Taxes</td>
<td>18,705.1</td>
<td>16.5%</td>
<td>18,292.4</td>
<td>-2.2%</td>
<td>21,660.6</td>
<td>18.4%</td>
<td>23,647.0</td>
<td>9.2%</td>
<td>25,534.1</td>
<td>8.0%</td>
<td>28,139.0</td>
<td>10.2%</td>
</tr>
<tr>
<td>Corporate Income Taxes</td>
<td>1,752.7</td>
<td>44.8%</td>
<td>1,270.0</td>
<td>-27.5%</td>
<td>1,283.8</td>
<td>1.1%</td>
<td>1,442.7</td>
<td>12.4%</td>
<td>1,643.4</td>
<td>13.9%</td>
<td>1,821.1</td>
<td>10.8%</td>
</tr>
<tr>
<td>All Others</td>
<td>1,339.3</td>
<td>3.9%</td>
<td>1,549.8</td>
<td>15.7%</td>
<td>1,400.7</td>
<td>-9.6%</td>
<td>1,466.5</td>
<td>4.7%</td>
<td>1,537.8</td>
<td>4.9%</td>
<td>1,622.6</td>
<td>5.5%</td>
</tr>
<tr>
<td>Gross General Fund</td>
<td>21,797.2</td>
<td>17.5%</td>
<td>21,112.1</td>
<td>-3.1%</td>
<td>24,345.0</td>
<td>15.3%</td>
<td>26,556.3</td>
<td>9.1%</td>
<td>28,715.3</td>
<td>8.1%</td>
<td>31,582.7</td>
<td>10.0%</td>
</tr>
<tr>
<td>Offsets and Transfers</td>
<td>(129.5)</td>
<td></td>
<td>(196.8)</td>
<td></td>
<td>(100.1)</td>
<td></td>
<td>(101.4)</td>
<td></td>
<td>(113.6)</td>
<td></td>
<td>(117.4)</td>
<td></td>
</tr>
<tr>
<td>Net Revenue</td>
<td>21,667.6</td>
<td>17.0%</td>
<td>20,915.3</td>
<td>-3.5%</td>
<td>24,244.9</td>
<td>15.9%</td>
<td>26,454.9</td>
<td>9.1%</td>
<td>28,601.7</td>
<td>8.1%</td>
<td>31,465.3</td>
<td>10.0%</td>
</tr>
</tbody>
</table>
• Lottery
  • Included sports betting for first time
    • Dedicated to PERS Employer Incentive Fund
  • Alternative scenario work

• Corporate Activity Tax
  • Start with LRO analysis of revenue and economic impacts
  • As real data begins in 2020, will adjust forecast as needed, but not for some time
### Effective Reserves ($ millions)

<table>
<thead>
<tr>
<th></th>
<th>End 2017-19</th>
<th>End 2019-21</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESF</td>
<td>$621.1</td>
<td>$858.1</td>
</tr>
<tr>
<td>RDF</td>
<td>$666.6</td>
<td>$902.4</td>
</tr>
<tr>
<td>Reserves</td>
<td>$1,287.7</td>
<td>$1,760.5</td>
</tr>
<tr>
<td>Ending Balance</td>
<td>$2,534.8</td>
<td>$819.8</td>
</tr>
<tr>
<td>Total</td>
<td>$3,747.1</td>
<td>$2,580.3</td>
</tr>
<tr>
<td>% of GF</td>
<td>17.2%</td>
<td>12.2%</td>
</tr>
</tbody>
</table>

Source: Oregon Office of Economic Analysis
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