

The background features a large, faint, circular seal of the Oregon Office of Economic Analysis. The seal contains an eagle with wings spread, a plow, and a sheaf of wheat. The text 'OFFICE OF ECONOMIC ANALYSIS' is written around the top inner edge, 'OREGON' is at the top outer edge, and '1859' is at the bottom. A banner across the middle reads 'THE UNION'.

May 20<sup>th</sup>, 2020

Oregon Office of Economic Analysis  
Mark McMullen  
Josh Lehner

The background features a large, faint, circular seal of the State of Oregon. The seal contains an eagle with wings spread, a ship on the water, a plow, and a sheaf of wheat. The text "STATE OF OREGON" is written around the top inner edge, and "1859" is at the bottom. A banner in the center reads "THE UNION".

# Economic Outlook



# Health Assumptions

- Uncertainty abounds. Our office is translating a public health crisis into an economic and revenue forecast. Two key health assumptions in the baseline:
  - Social distancing policies begin lifting this summer. Phase 1 reopening is just a first step.
  - Health crisis wanes by end of 2021 due to some available treatment or vaccine

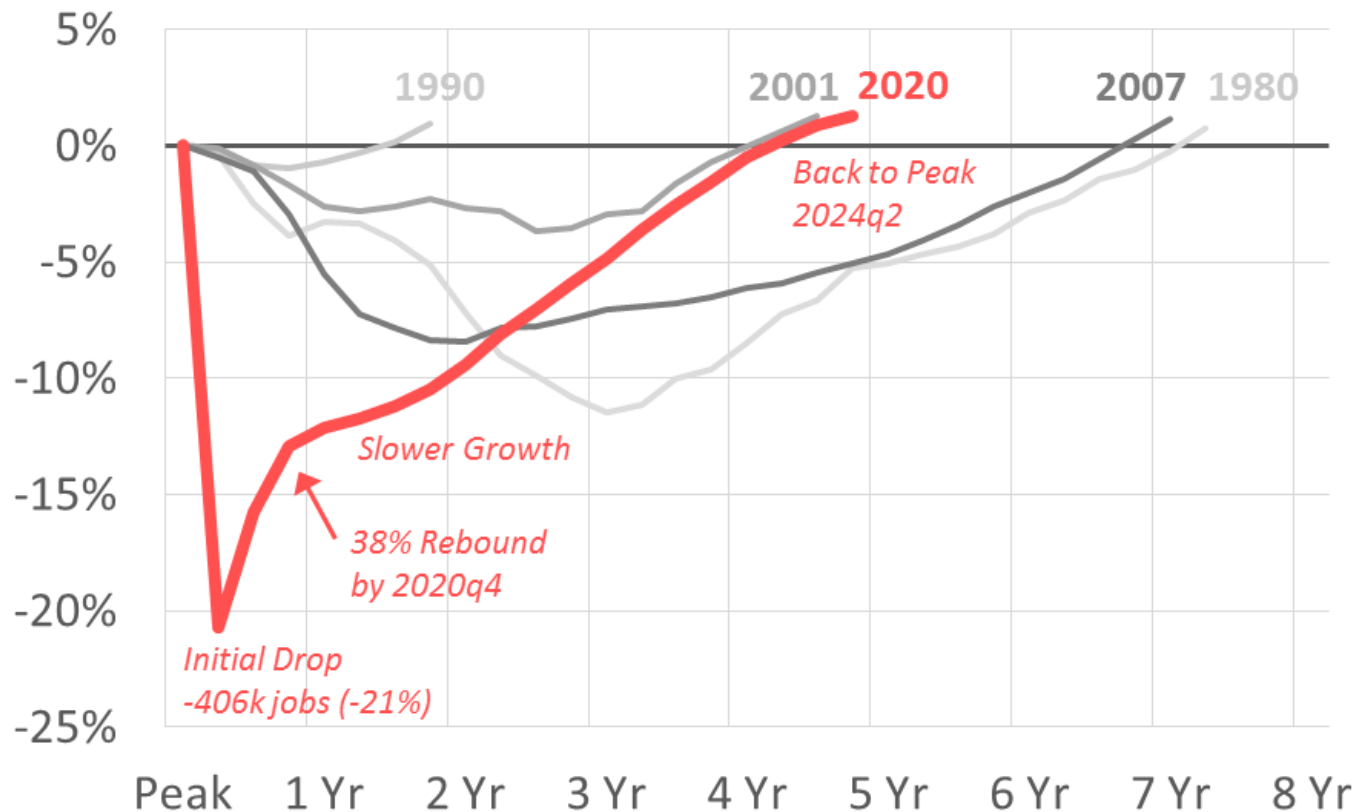




# It Takes Years to Recover from Severe Recessions

## Oregon Recession Comparison

Employment Percent Change from Pre-Recession Peak



- When restrictions lift, strong initial rebound, but incomplete
- Slower growth next year due to uncertainty over virus and income losses
- Once medical treatment widely available, stronger recovery expected
- Economy returns to health by mid-decade



Source: Oregon Employment Department, Oregon Office of Economic Analysis

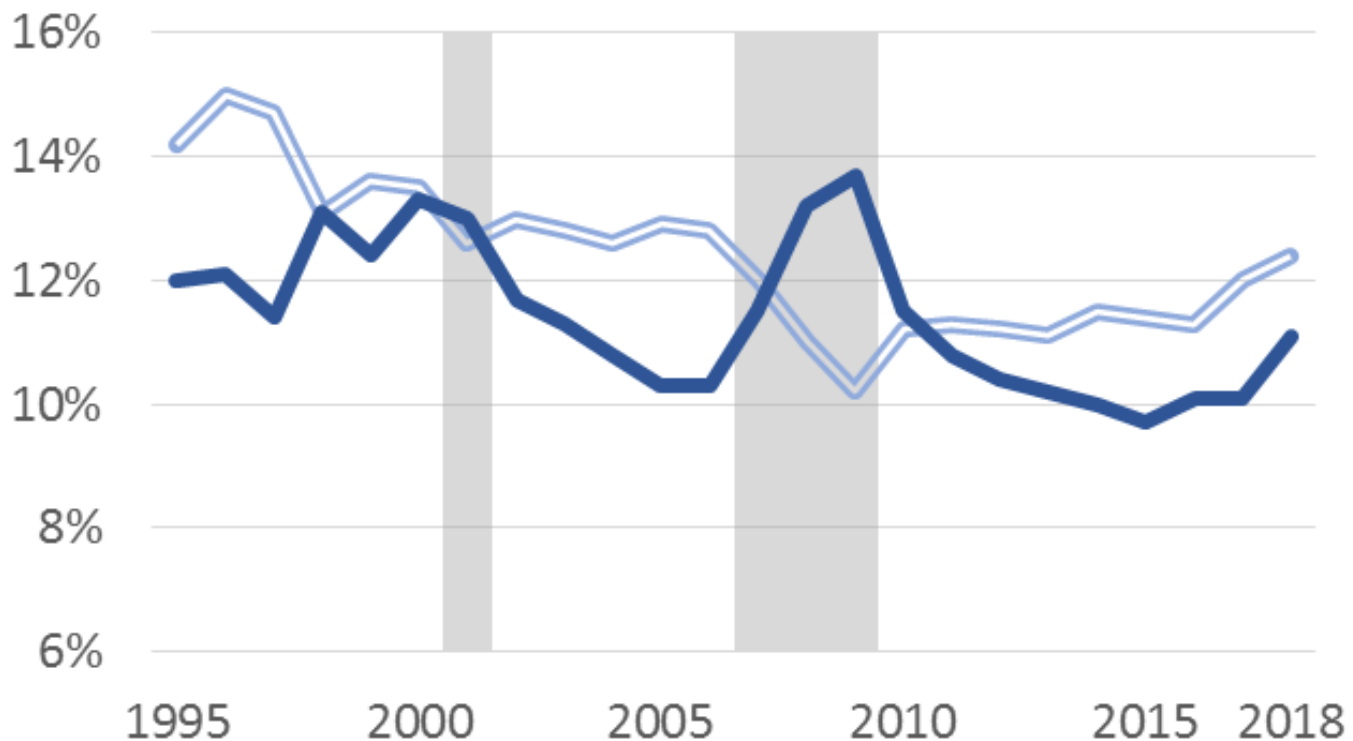




# Permanent Damage & Federal Policy

## Oregon Business Dynamics

Establishment **Births** and **Deaths**, Share of Total



Latest Data: 2018 | Source: BLS, Oregon Office of Economic Analysis

- Recovery Rebates
  - Nearly \$4b to Oregon households
- Unemployment Insurance
  - Nearly \$7b total given recession and expanded program
- Paycheck Protection Program (PPP)
  - 49,900 small Oregon businesses have been approved for \$6.83b in loans through 5/1/2020

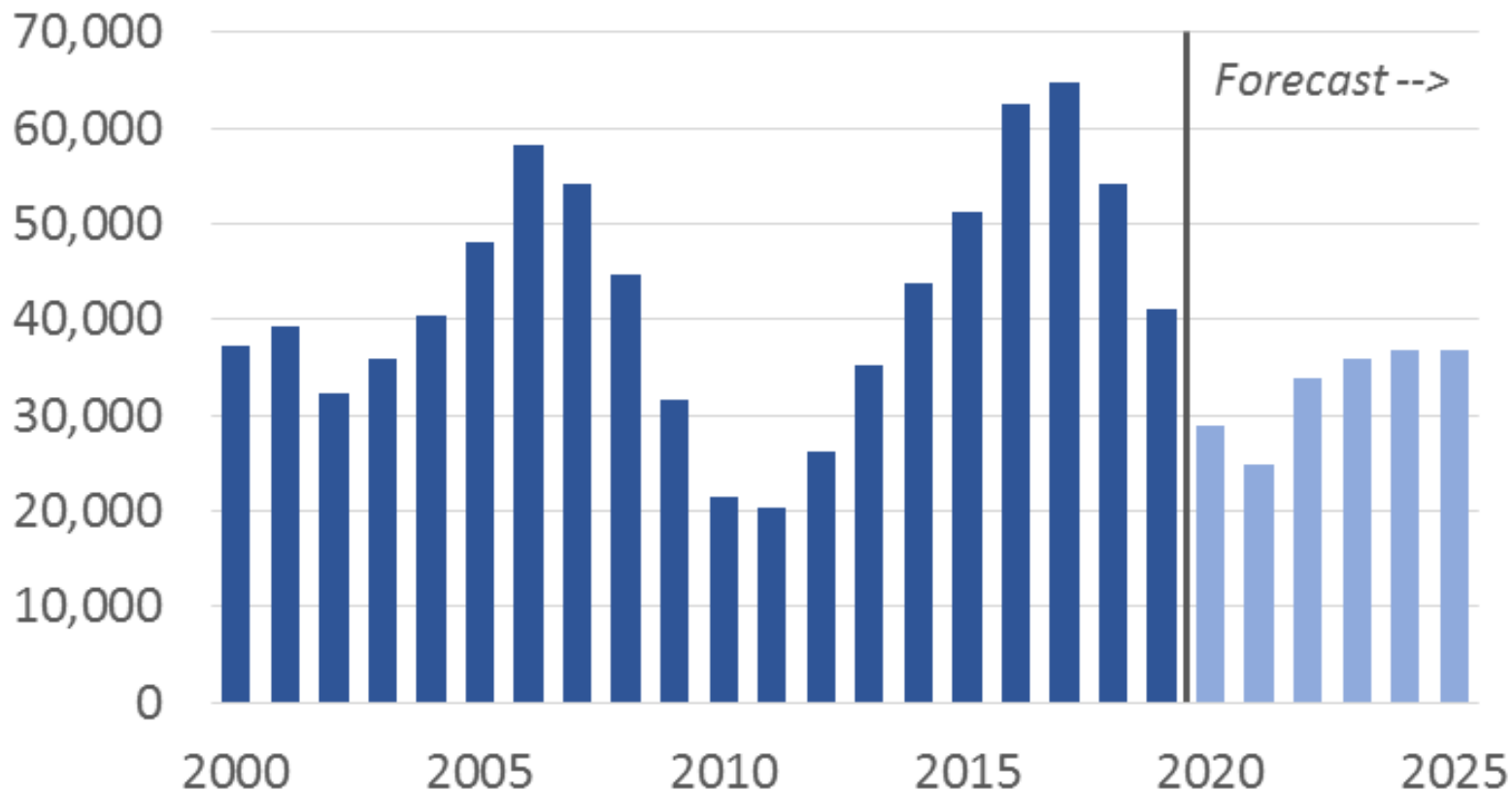




# Migration is Pro-cyclical

## Oregon Population Growth

Annual Change in the Total Population



- Near Term: no one is moving during the pandemic
- Medium Term: migration reduced due to recession
- Long Term: Oregon's ability to attract and retain working-age households is expected to remain intact

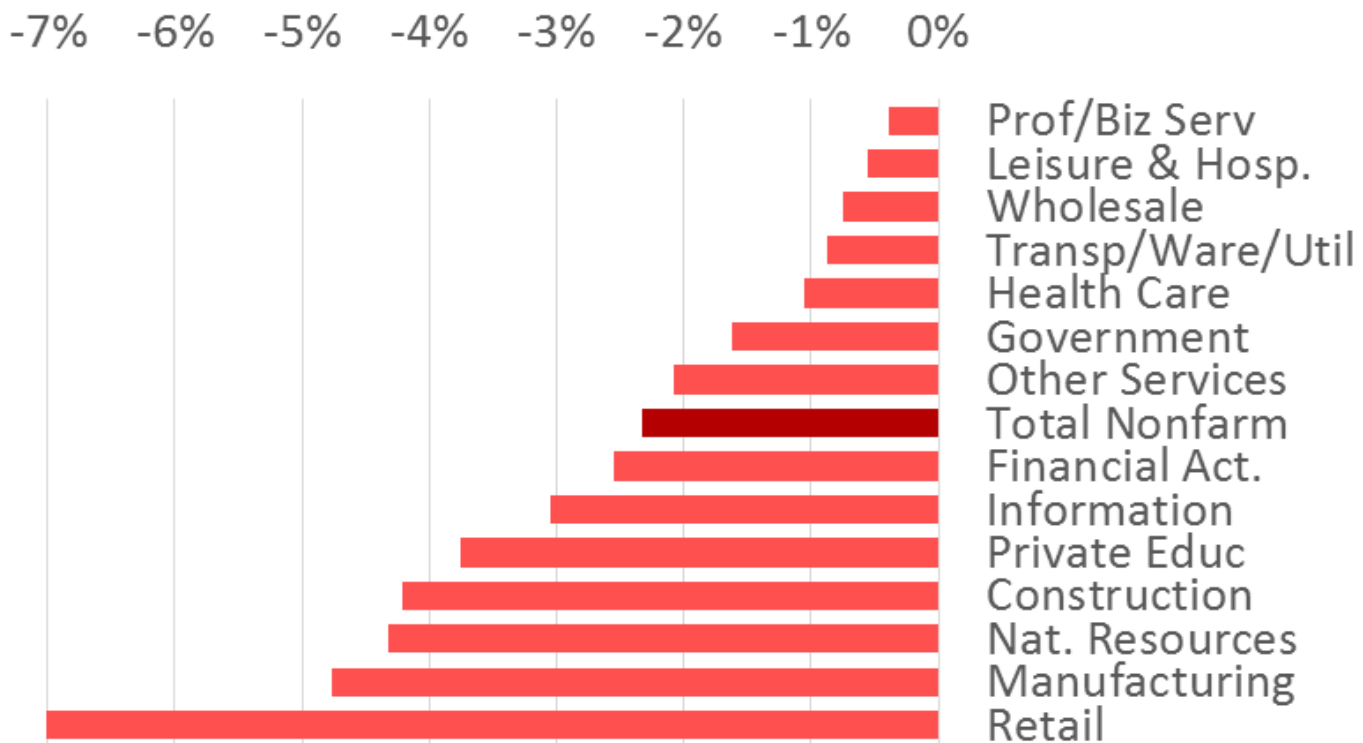




# Industrial Structure Likely to Change

## Structural Changes

Oregon Employment in 2027 in June 2020 Forecast  
Compared to March 2020 Forecast



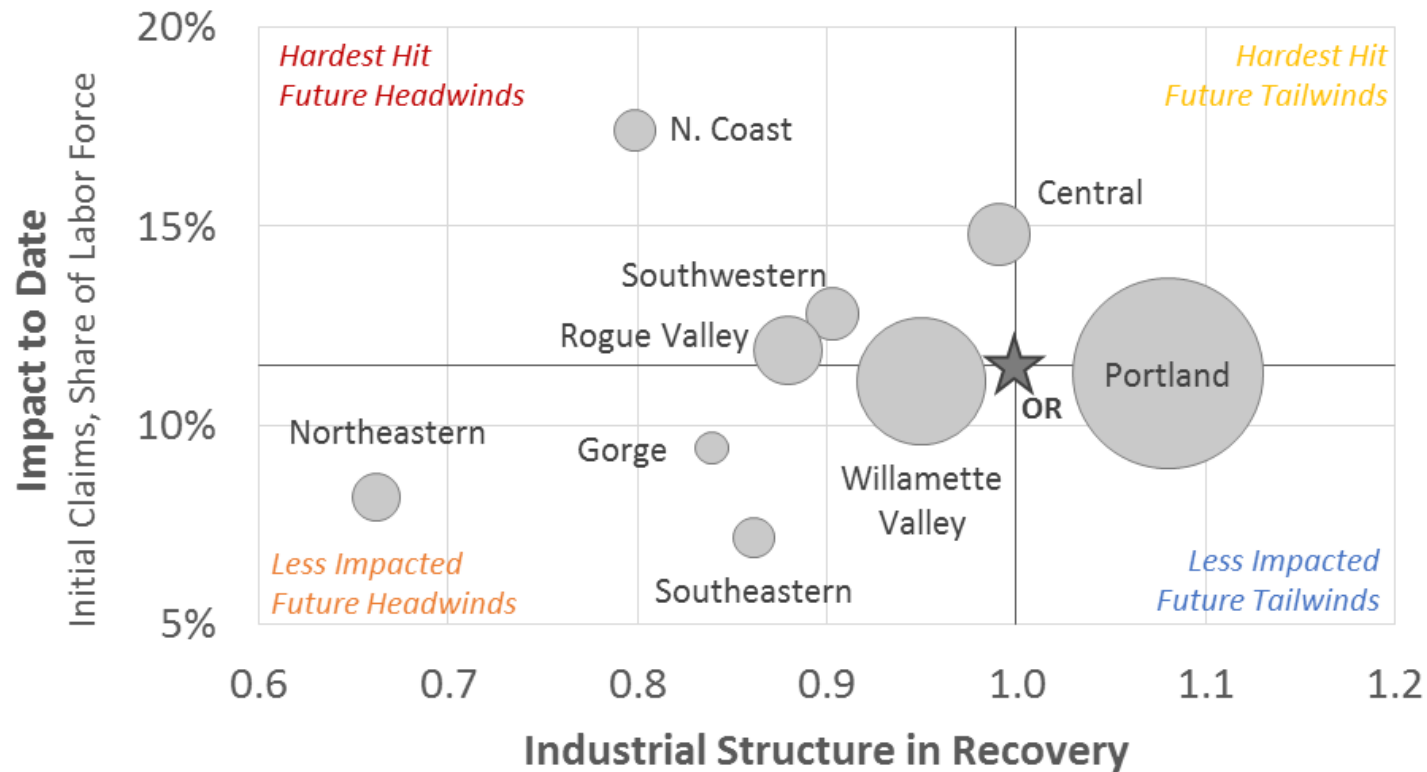
- Oregon's long-run trajectory is lower due to the recession
  - Fewer jobs, less income, smaller population
- Largest relative changes expected in goods-producing industries plus retail





# Regional Outlook: Recession Severity and Future Growth

## Oregon's Regional Economies Impacted by COVID-19



- Initial impacts largest in tourism-reliant regions
- Future headwinds based on larger reliance on goods-producers, and fewer office-based jobs that are concentrated in metro areas



Impact to Date: Number of initial claims 3/15 - 5/9 above baseline as share of labor force. Industrial Structure: impact of industry mix on job growth through 2027 using statewide industry growth rates. | Source: BLS. Oregon Employment Dept, Oregon Office of Econ Analysis





The background features a large, faint, light blue seal of the State of Oregon. The seal is circular and contains the text "STATE OF OREGON" at the top and "1859" at the bottom. The central emblem depicts an eagle with wings spread, perched on a shield. Below the eagle is a landscape with a sun rising over a body of water, with a ship on the left and a plow on the right. A banner at the bottom of the emblem reads "THE UNION".

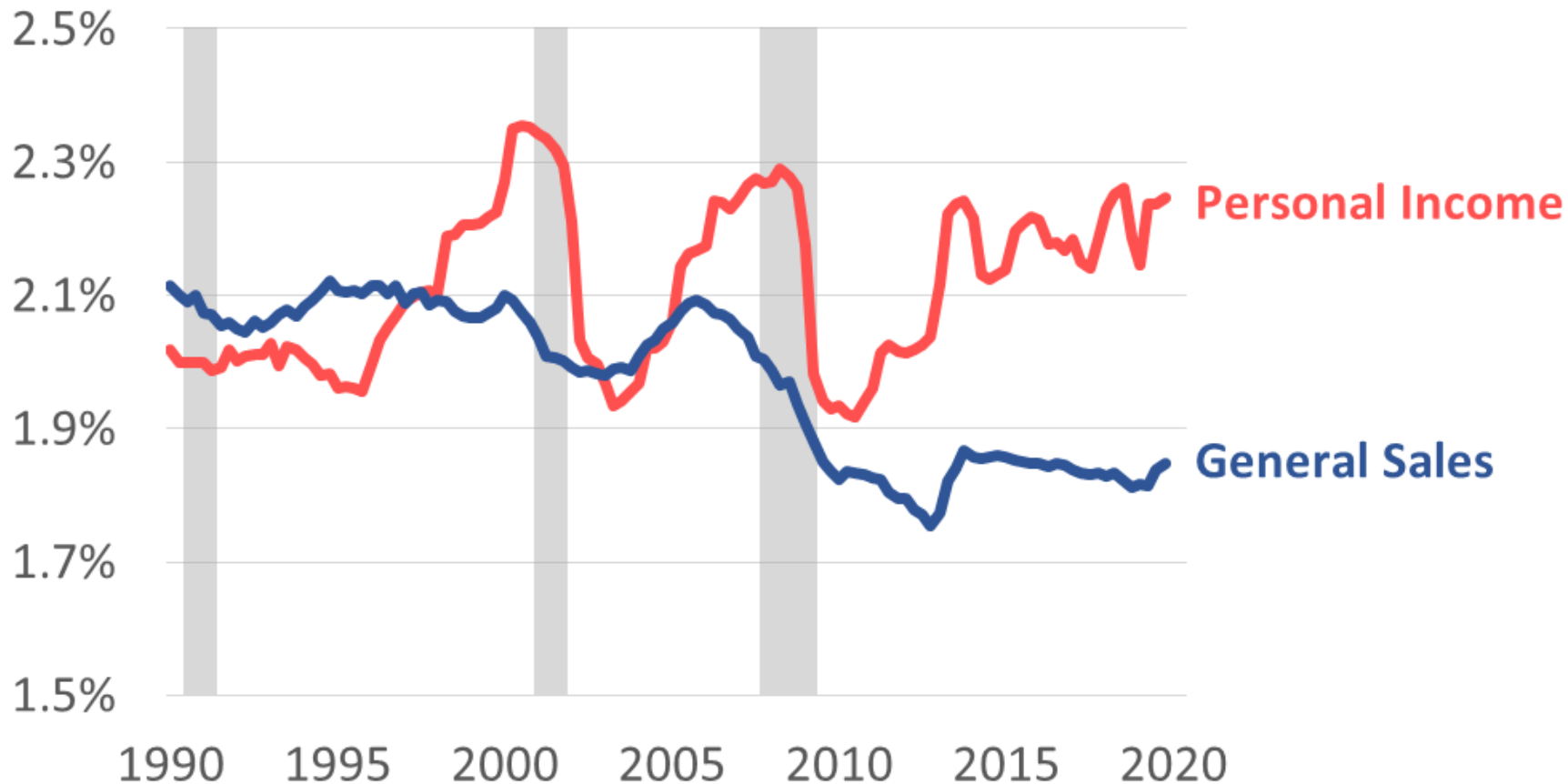
# Revenue Outlook



# Mix of Tax Instruments Matters

## State Tax Collections: Risk vs Return

All States Tax Collections as Share of Personal Income, 4 Qtr Avg



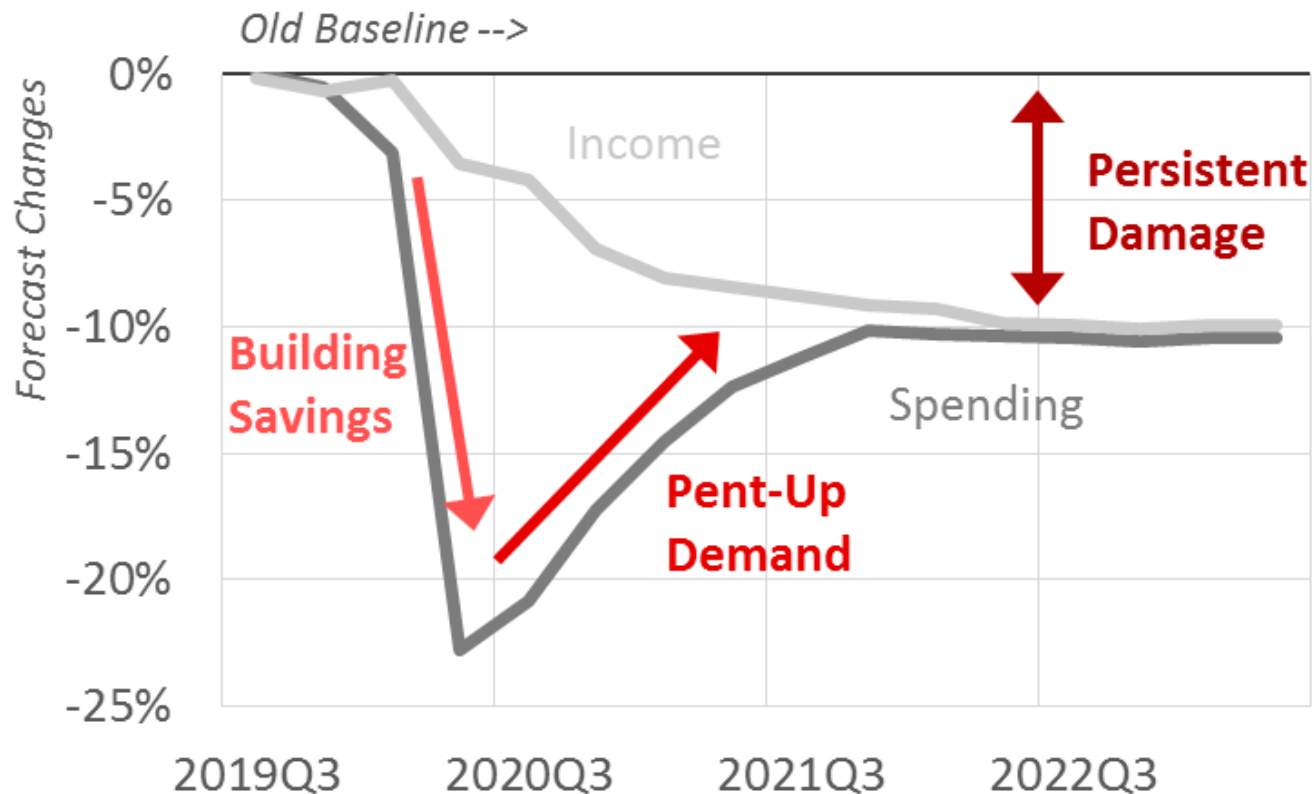
- Oregon's reliance on personal and corporate income taxes has made its revenues more volatile than in most states
- This recession may be different given the oversized impact on spending
- Oregon's revenue system has become far more dependent on sales in recent years: (CAT, lodging, gasoline, vehicle privilege, video lottery, marijuana)



# Oregon revenues have never been more exposed to consumer spending, Part 1

## Spending and Income Revised Lower

Changes from Previous Forecast



| Corporate Activity Tax Revenue Changes (\$ million) |          |
|---|----------|
| 2019-21   | -\$414.1 |
| 2021-23   | -\$599.0 |
| 2023-25   | -\$489.1 |

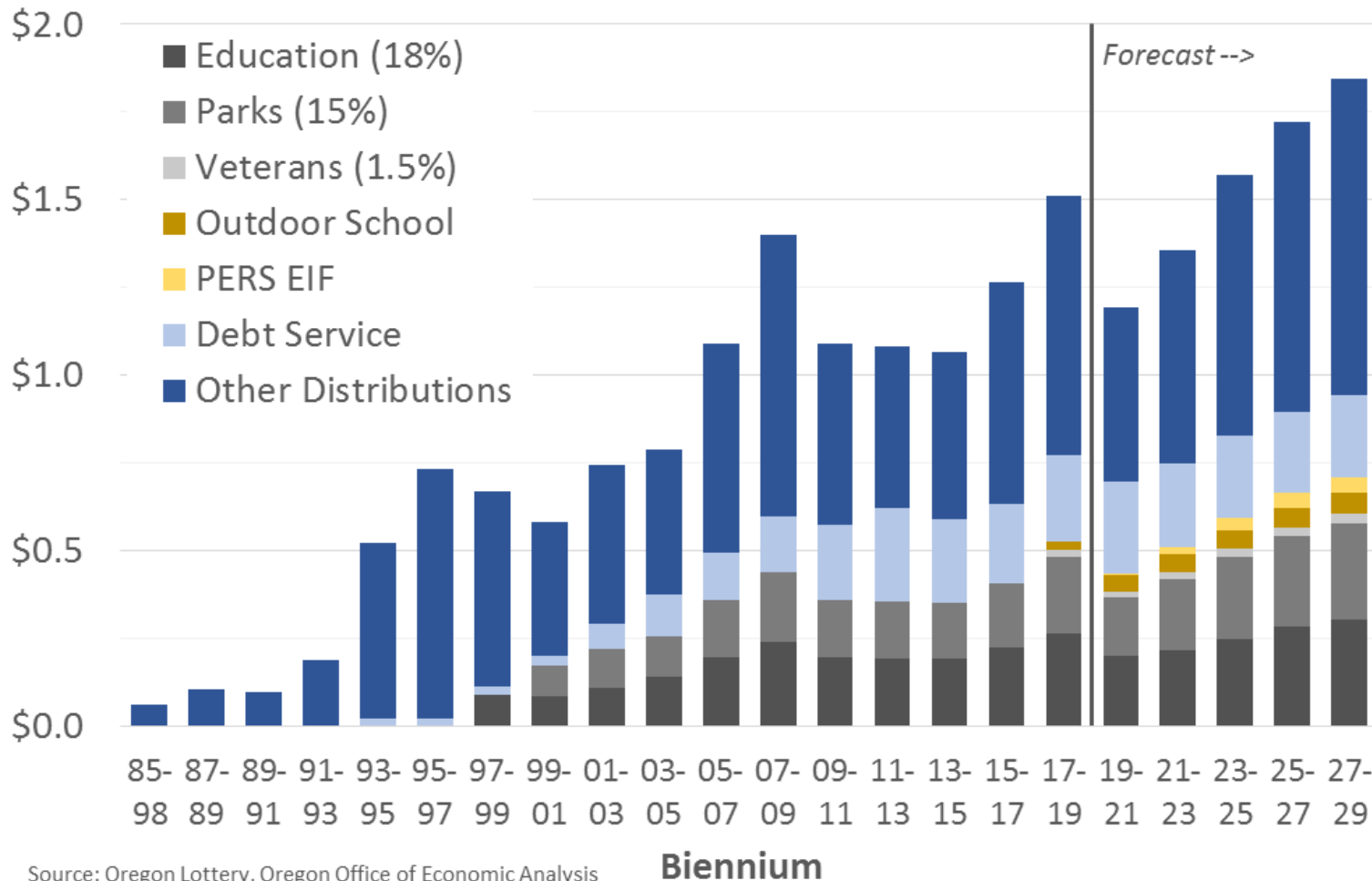


Source: Oregon Office of Economic Analysis



# Oregon revenues have never been more exposed to consumer spending, Part 2

## Lottery Resources and Distributions (\$ billions)



- Lower revenues today due to social distancing
- There is pent-up demand for gaming
- Long-run growth lowered due to smaller economy and less personal income

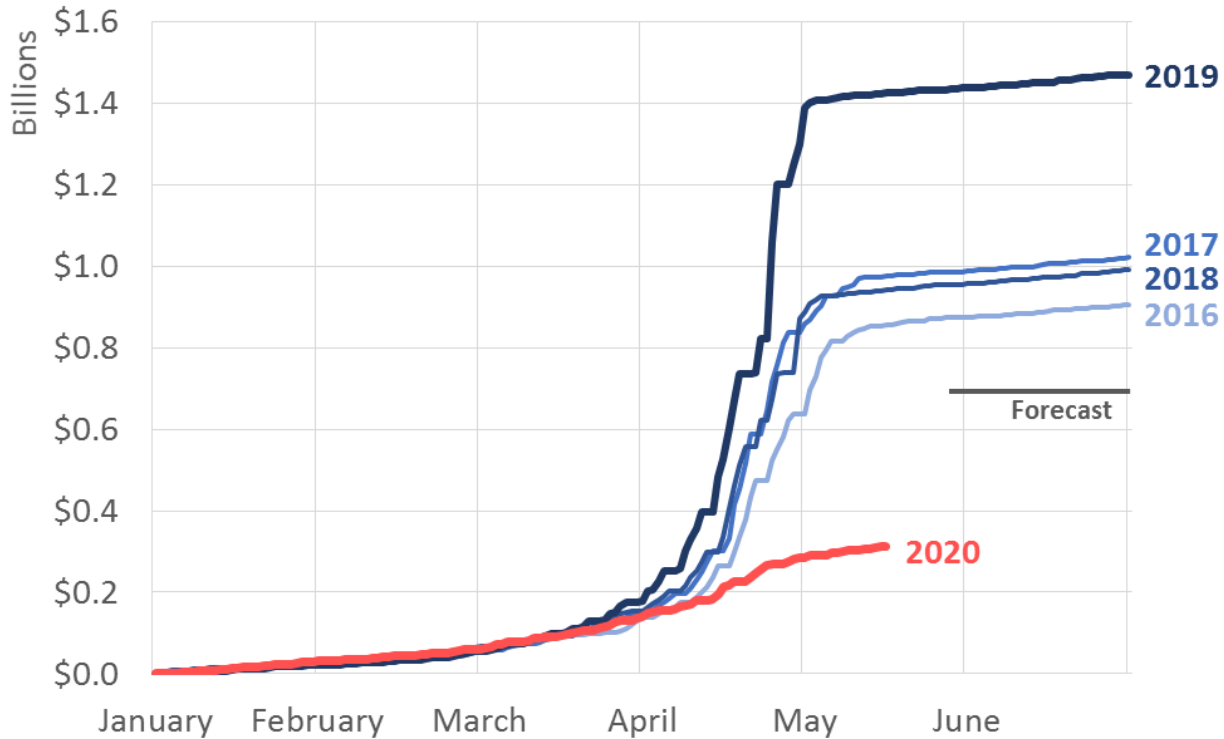




# COVID-19 Messes with Tax Season

## Year-End Payments Delayed

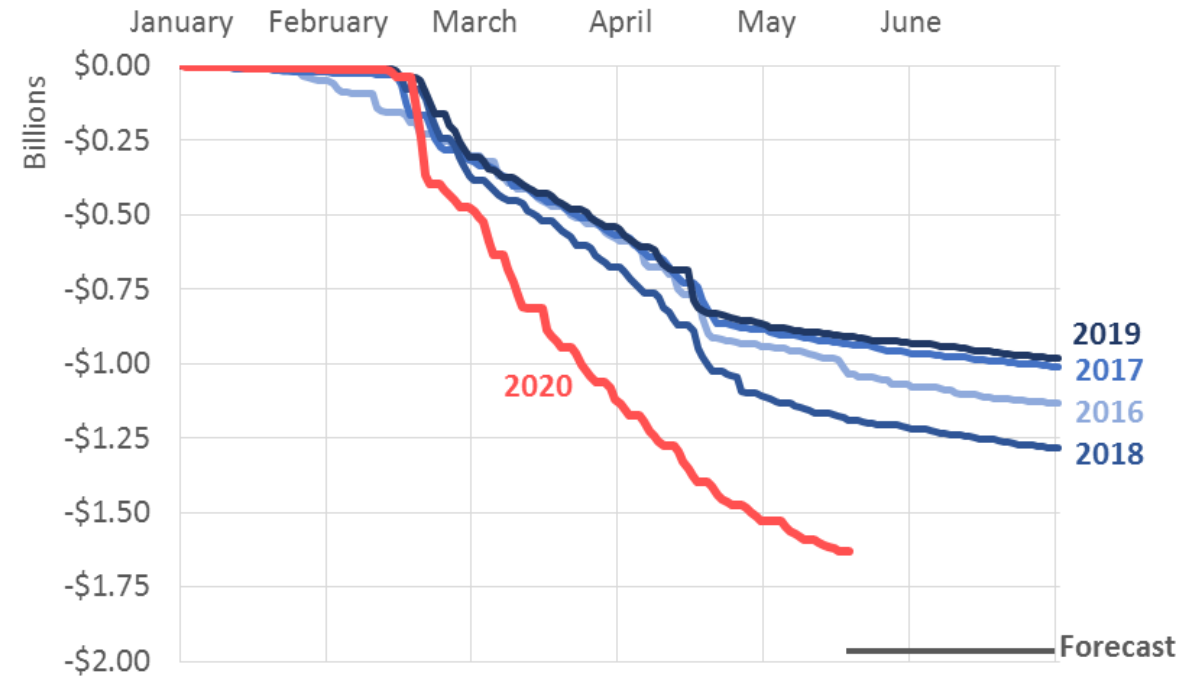
Oregon Cumulative Personal Income Tax Payments



Latest Data: May 15, 2020 | Source: Oregon Dept of Revenue, Oregon Office of Economic Analysis

## Refunds Probably Still on Track

Personal Income Tax Refunds, Cumulative

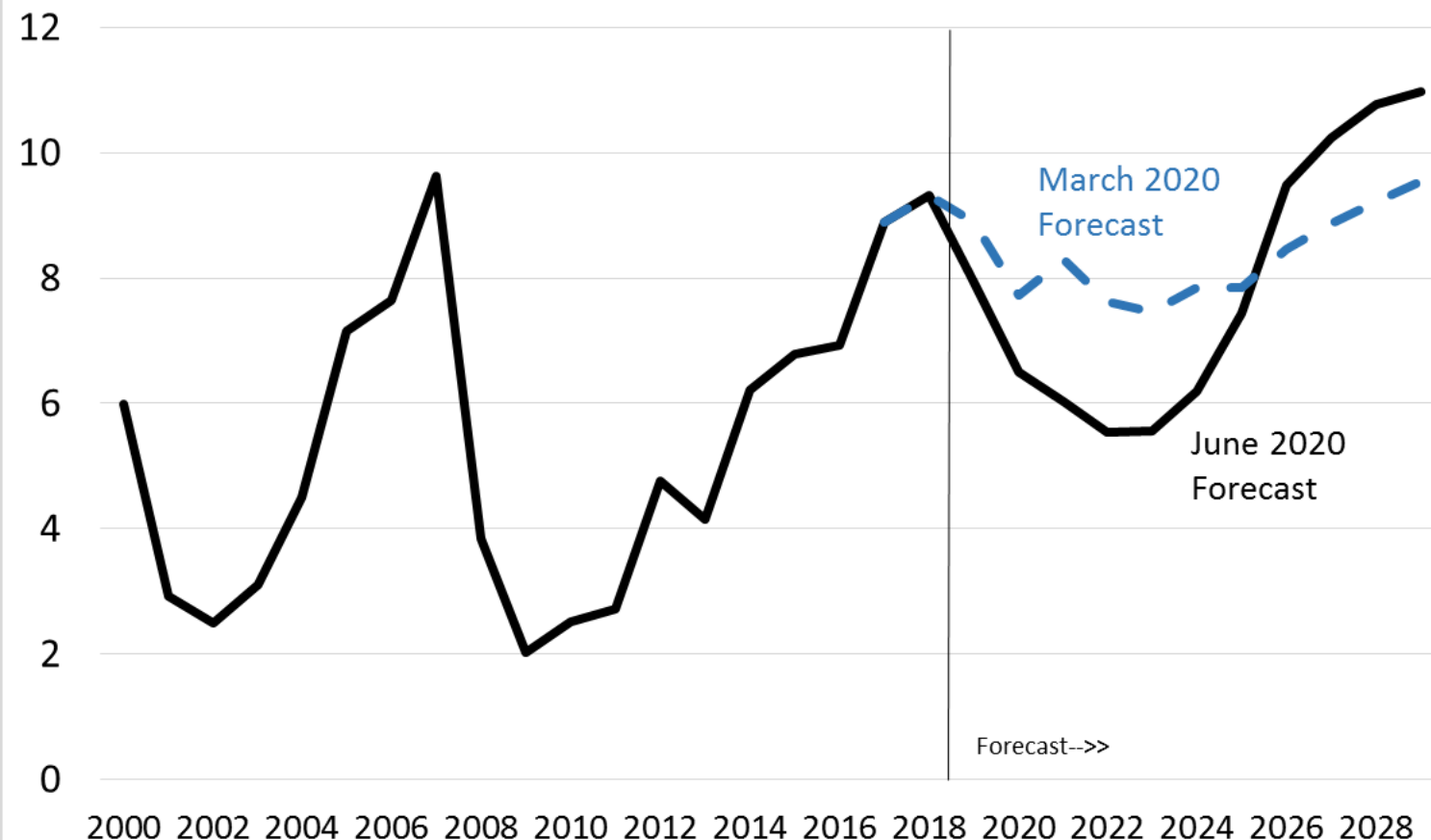


Latest Data: May 15, 2020 | Source: Oregon Dept of Revenue, Oregon Office of Economic Analysis



# Volatile Income Steams

**Oregon Realized Capital Gains**  
*\$ billions, Tax Years, Full-Year Filers*



- Income Tax Volatility is led by large swings in business and investment income
- Some weakening of capital gains was expected prior to the market correction
- IHS vendor forecast incorporates fast recoveries for profits and equity markets
- Stock market correction is expected to be less than half as deep and less than half as long as in 2007



# Revenue bottom line

| General Fund Revenues  | Biennium (\$ Million) |               |               |
|------------------------|-----------------------|---------------|---------------|
|                        | 2019-21               | 2021-23       | 2023-25       |
| Personal Income Taxes  | -1,588                | -3,231        | -2,429        |
| Corporate Income Taxes | -233                  | -137          | -118          |
| Other                  | -108                  | -152          | -140          |
| <b>Total</b>           | <b>-1,929</b>         | <b>-3,520</b> | <b>-2,687</b> |

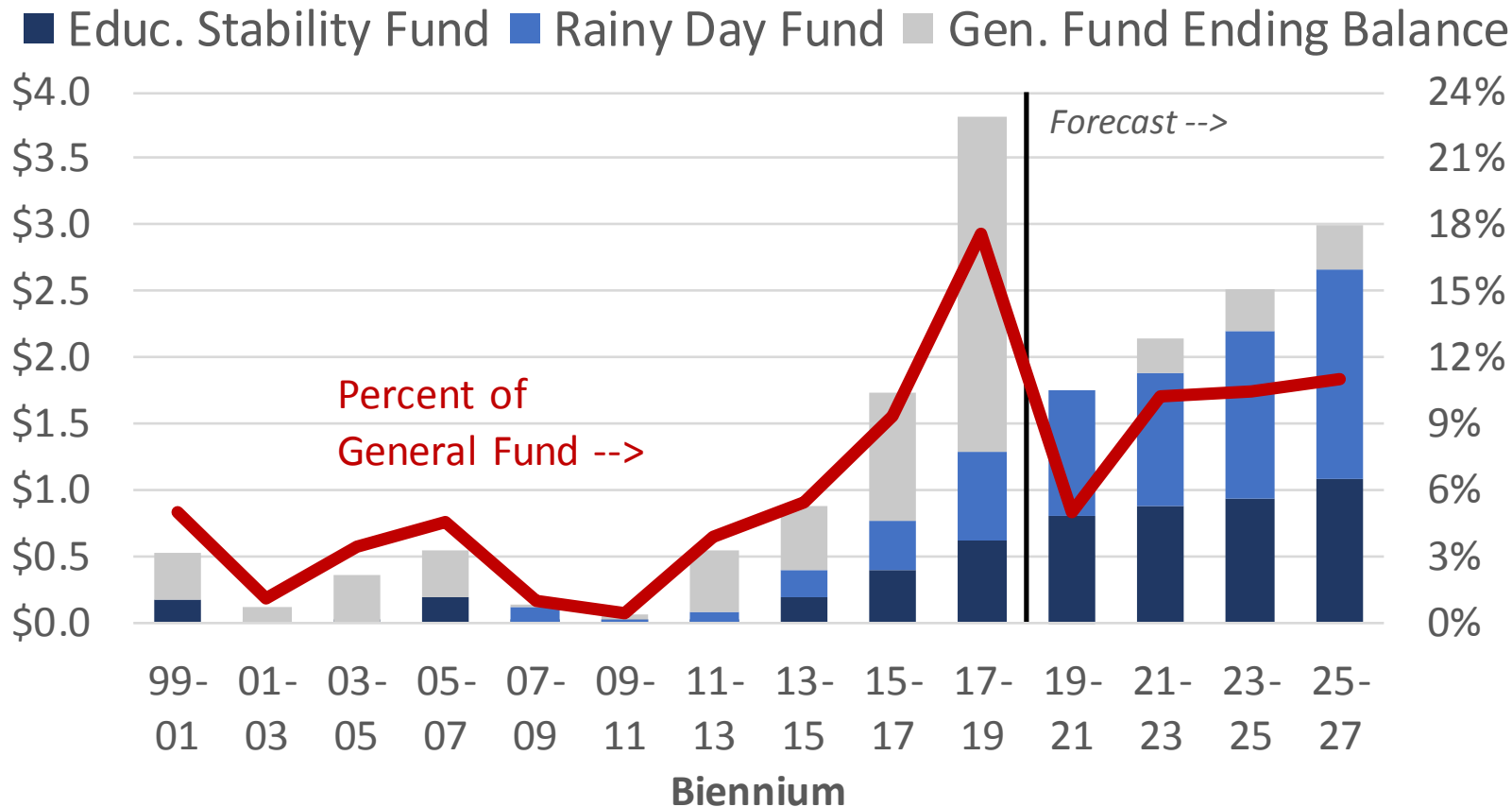
| Other Revenues         | Biennium (\$ Million) |             |             |
|------------------------|-----------------------|-------------|-------------|
|                        | 2019-21               | 2021-23     | 2023-25     |
| Lottery                | -364                  | -260        | -187        |
| Corporate Activity Tax | -414                  | -599        | -489        |
| Marijuana Tax          | 9                     | -5          | -18         |
| <b>Total</b>           | <b>-769</b>           | <b>-864</b> | <b>-694</b> |

|                  | Biennium (\$ Million) |               |               |
|------------------|-----------------------|---------------|---------------|
|                  | 2019-21               | 2021-23       | 2023-25       |
| <b>Total Sum</b> | <b>-2,698</b>         | <b>-4,384</b> | <b>-3,381</b> |



# Sizable Reserves Will Help Some

## Oregon Budgetary Reserves (billions)



## Effective Reserves (\$ millions)

|          | April 2020 | End 2019-21 |
|----------|------------|-------------|
| ESF      | \$708      | \$800       |
| RDF      | \$878      | \$949       |
| Reserves | \$1,586    | \$1,750     |
| % of GF  | 8.1%       | 9.0%        |

Source: Oregon Office of Economic Analysis





# Contact



mark.mcmullen@oregon.gov  
(503) 378-3455

joshua.lehner@oregon.gov  
(971) 209-5929



[www.OregonEconomicAnalysis.com](http://www.OregonEconomicAnalysis.com)



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