

The background of the slide features a large, faint, circular seal of the State of Oregon. The seal contains an eagle with wings spread, perched on a shield. Below the eagle is a banner with the text "THE UNION". At the bottom of the seal, the year "1859" is inscribed. The words "STATE OF OREGON" are written around the perimeter of the seal.

# Dec 2019 Economic & Revenue Outlook

November 20<sup>th</sup>, 2019

Oregon Office of Economic Analysis

Mark McMullen

Josh Lehner

The background of the slide features a large, faint, light blue seal of the State of Oregon. The seal is circular and contains the text "STATE OF OREGON" around the top and "1859" at the bottom. In the center, there is an eagle with wings spread, perched on a shield. Below the eagle is a banner with the words "THE UNION". The seal also depicts a plow, a sheaf of wheat, and a ship.

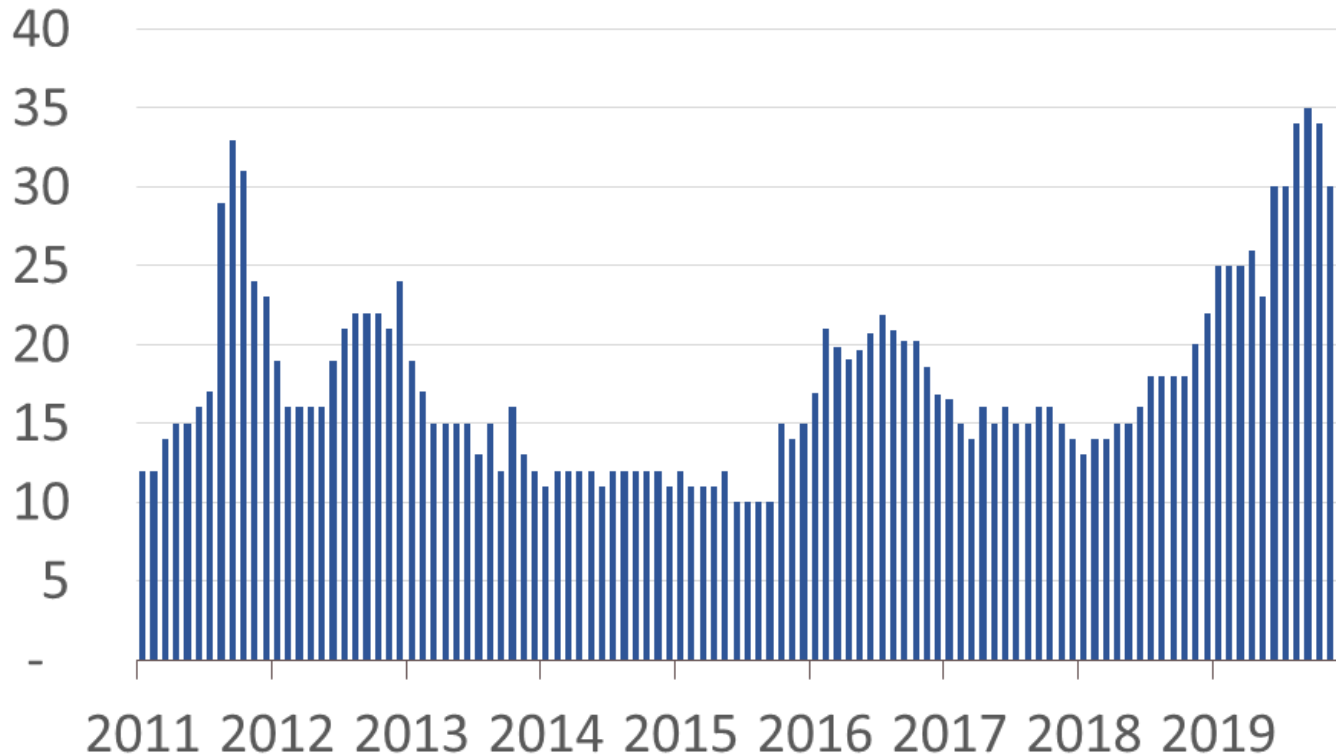
# Economic Update and Outlook



# Outlook Concerns Still Elevated but Improving

## Risk of Recession

Percent Probability U.S. Entering Recession in Next Year



### Issues and Risks

- Trade War
- Yield Curve
- Business Investment

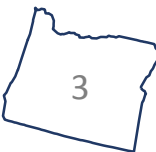
### Bright Spot

- Consumer Spending
- Labor Market Leading Indicators Still Good

Latest Data: November 2019 | Source: Wall Street Journal



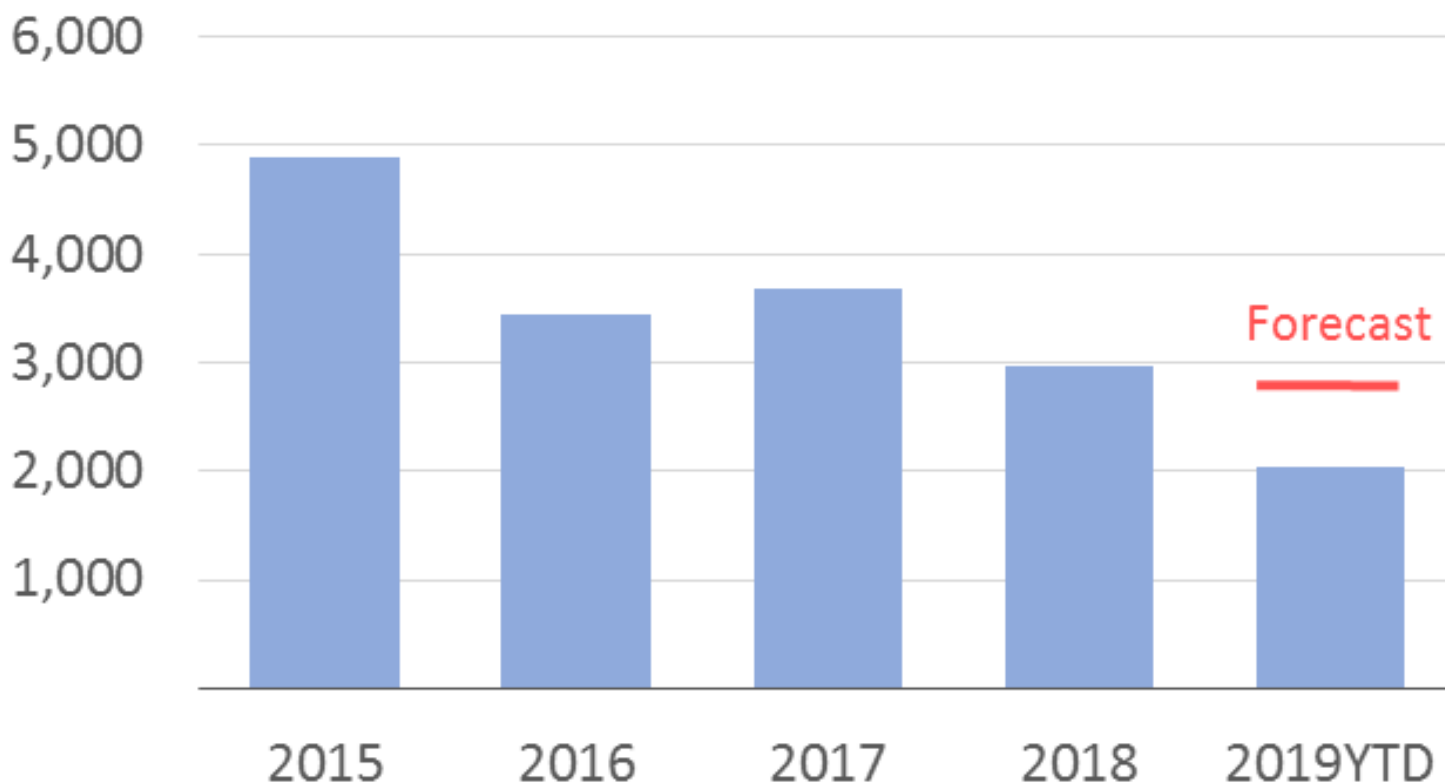
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# Oregon Job Growth Slowing a Bit More than Expected

## Oregon Total Nonfarm Average Monthly Employment Change



Latest: Oct '19 | Oregon Emp Dept, Oregon Office of Econ Analysis



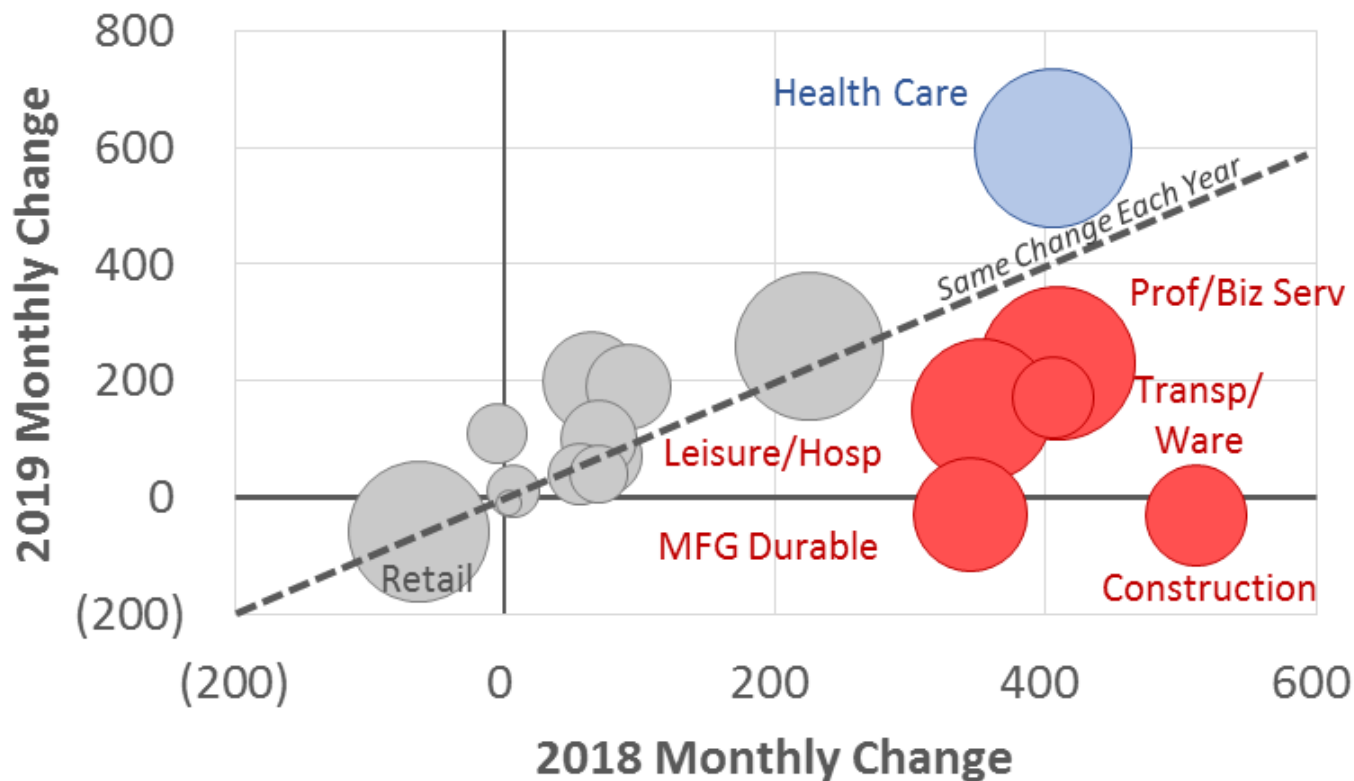
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# Slowdown Driven by Handful of Industries

## Decomposing Oregon's Slower 2019 Employment Growth



Latest Data: Oct '19 | Source: Oregon Employment Department, Oregon Office of Economic Analysis





# Potential Sources of Slowing

## Demand Side

- Slower sales growth
  - Domestic
  - International
- Rising business costs

## Supply Side

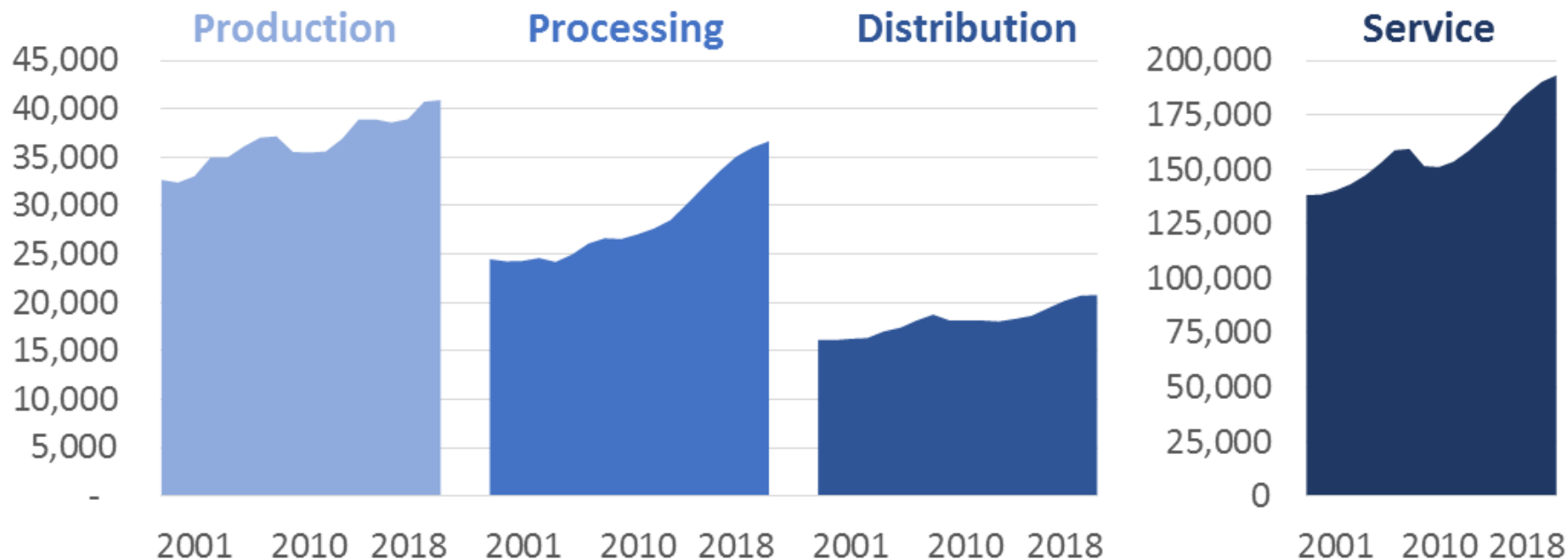
- Firms
  - Uncertain policy
    - Federal or State
- Labor
  - Slack is gone
  - Migration dries up
  - Retirements





# In the News: Mid-Valley Food Processor Closings

## Oregon's Food Economy Employment by Segment



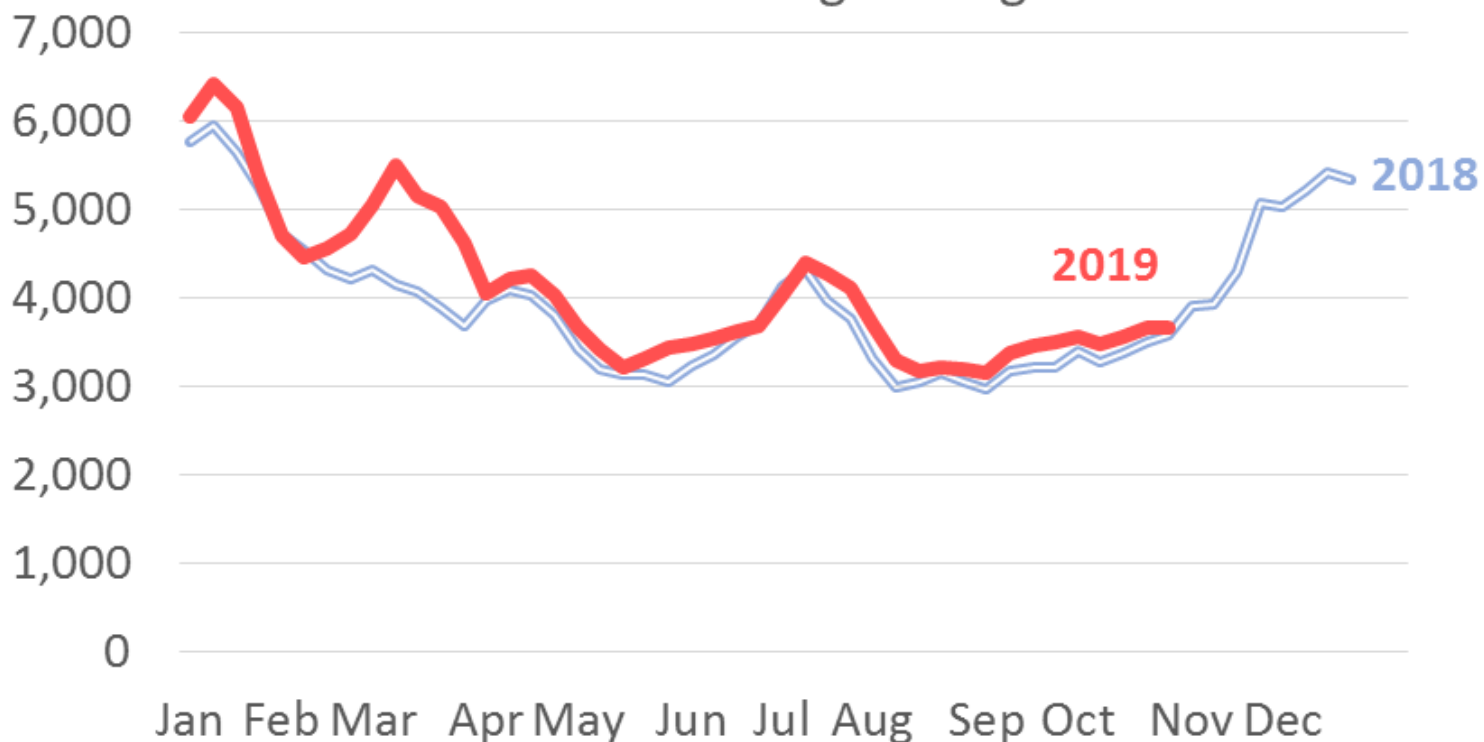
Data: QCEW | Source: BLS, Portland State NERC, Oregon Office of Economic Analysis





# Layoffs Remain Near Historic Lows So Far

## Oregon Initial Claims Slightly Higher 4 Week Moving Average



Latest Data: Nov 2, 2019 | Source: U.S. Dept of Labor, Oregon Office of Economic Analysis



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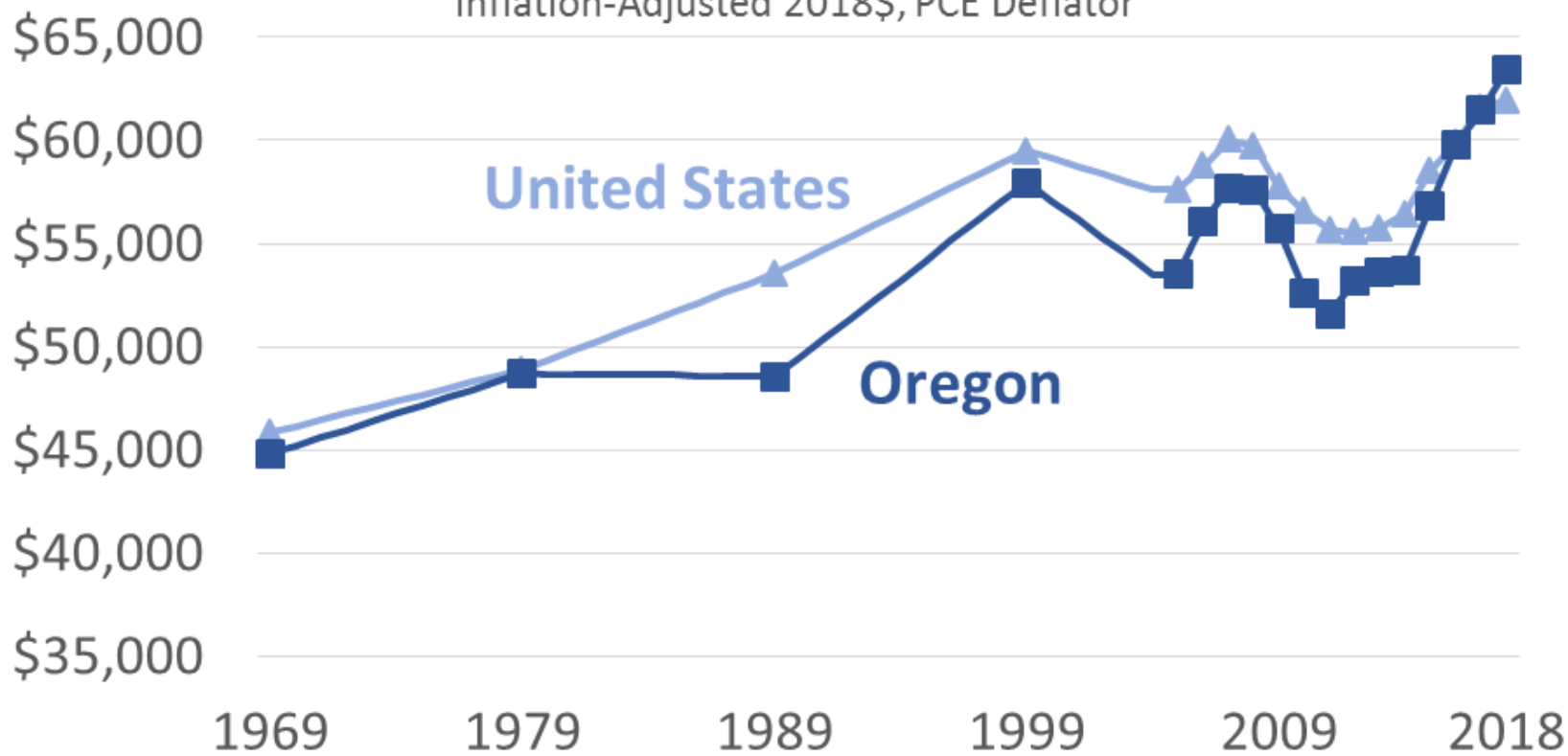




# Oregon Incomes Surpass National Figures

## Median Household Income

Inflation-Adjusted 2018\$, PCE Deflator



Data: 1970, 1980, 1990, 2000 Decennial Census, 2005-2018 American Community Survey; Inflation adjustment uses the Personal Consumption Expenditure (PCE) deflator | Source: BEA, Census, Oregon Office of Economic Analysis



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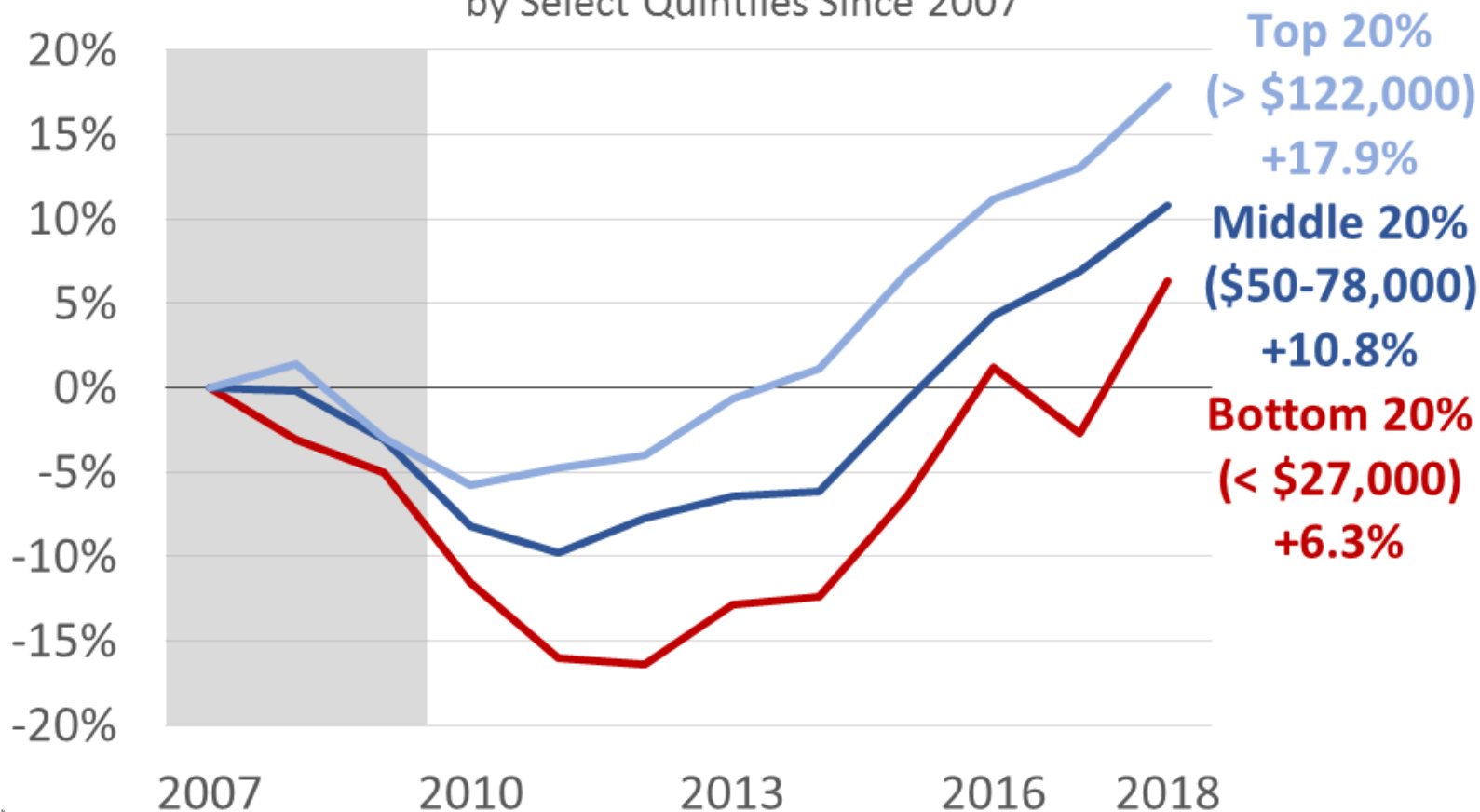




# Growth Across the Entire Income Distribution...

## Oregon Household Incomes Rising

Inflation-Adjusted Change in Average Household Income  
by Select Quintiles Since 2007



Oregon  
Econor

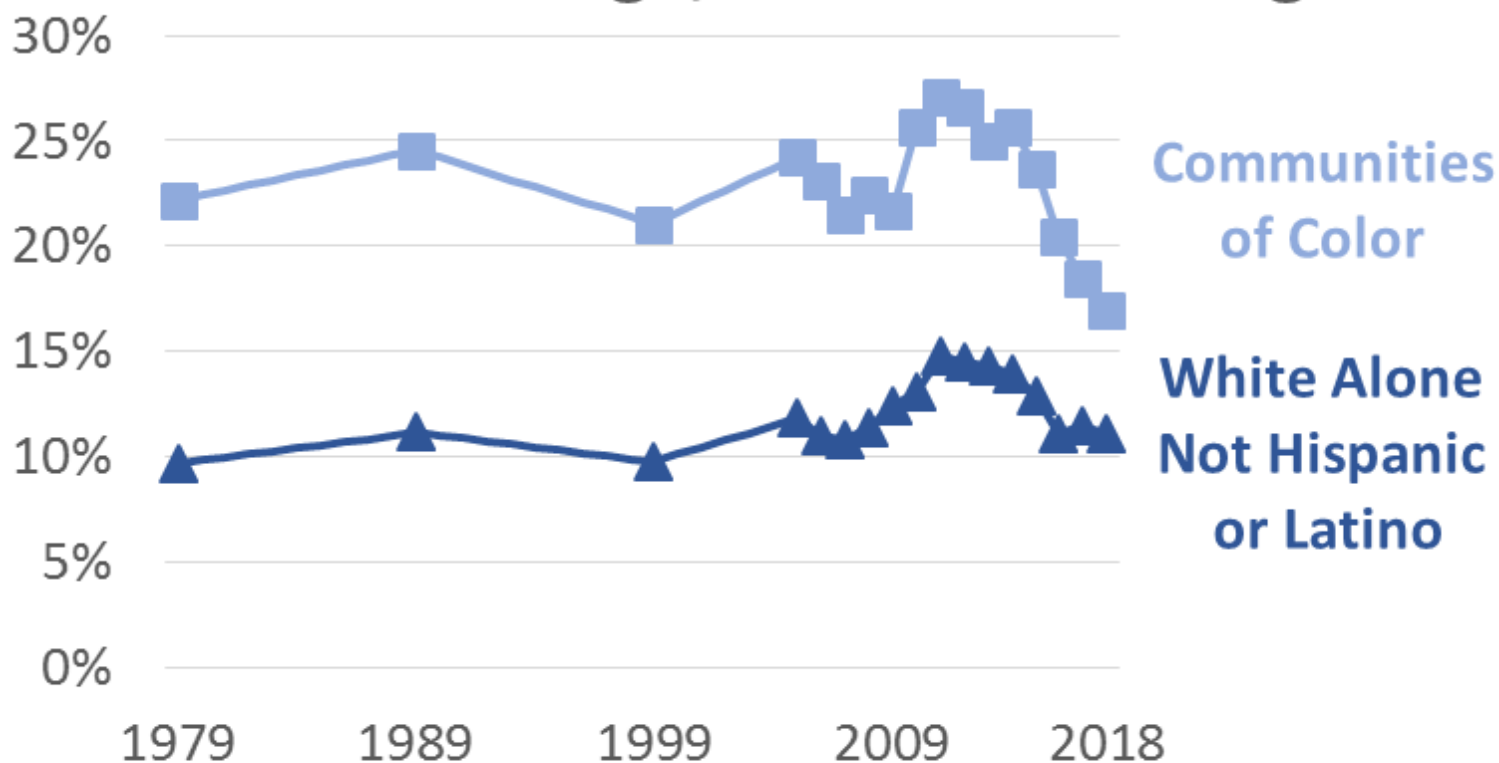
Inflation adjusted using PCE deflator. | Source: BEA, Census, Oregon Office of Economic Analysis





# ...And Reaching All Populations

## Oregon's Racial Poverty Gap Remains Large, But is Narrowing



Source: Census, IPUMS-USA, Oregon Office of Economic Analysis



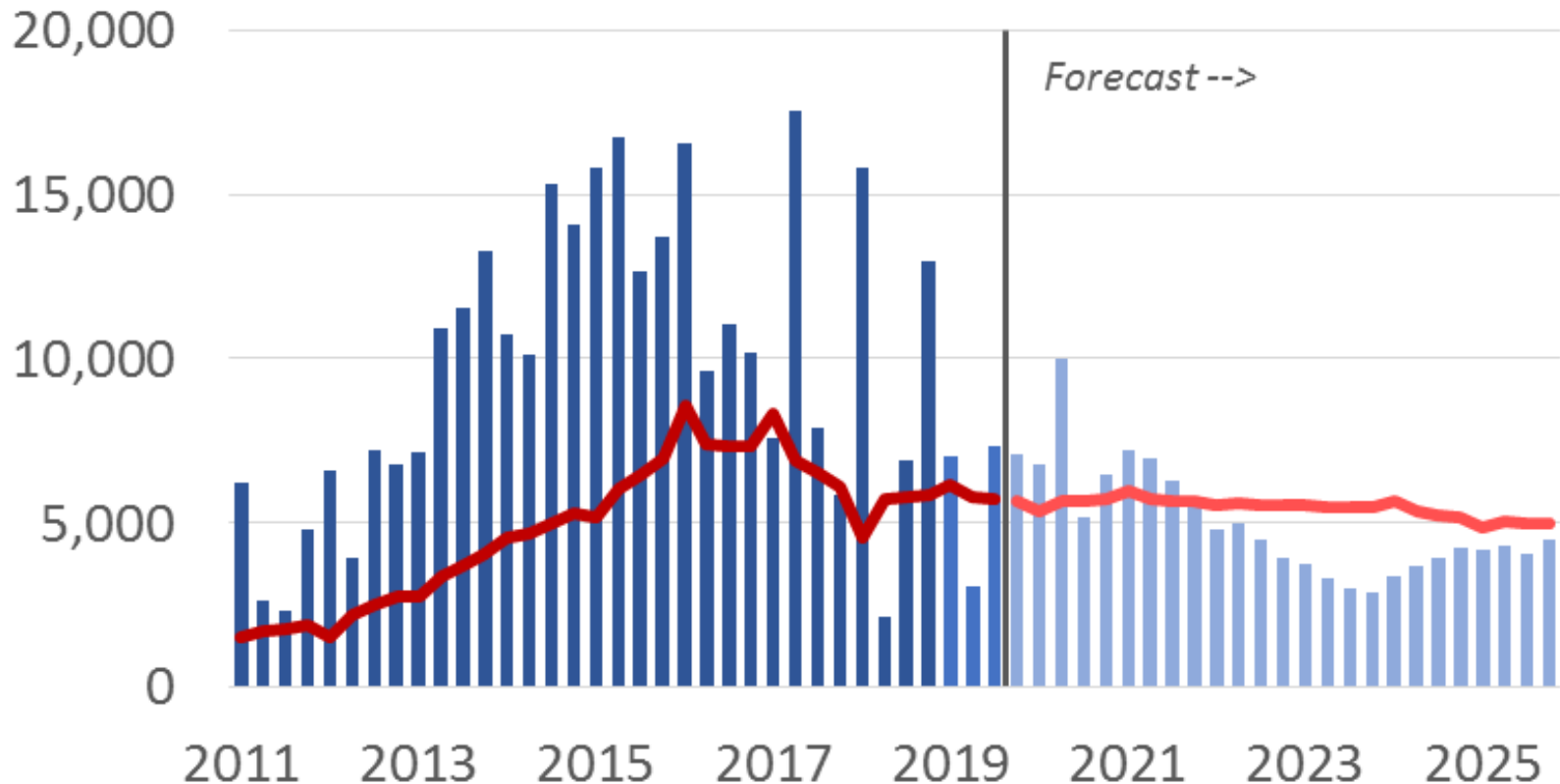
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# Oregon Growing at Potential

## Oregon Employment Gains

■ Quarterly Job Gains    — Needed to Match Population



Latest Actual: 2018q3 | 2018q4-2019q3 Estimated | Source: OR Employment Dept, OR Office of Econ Analysis



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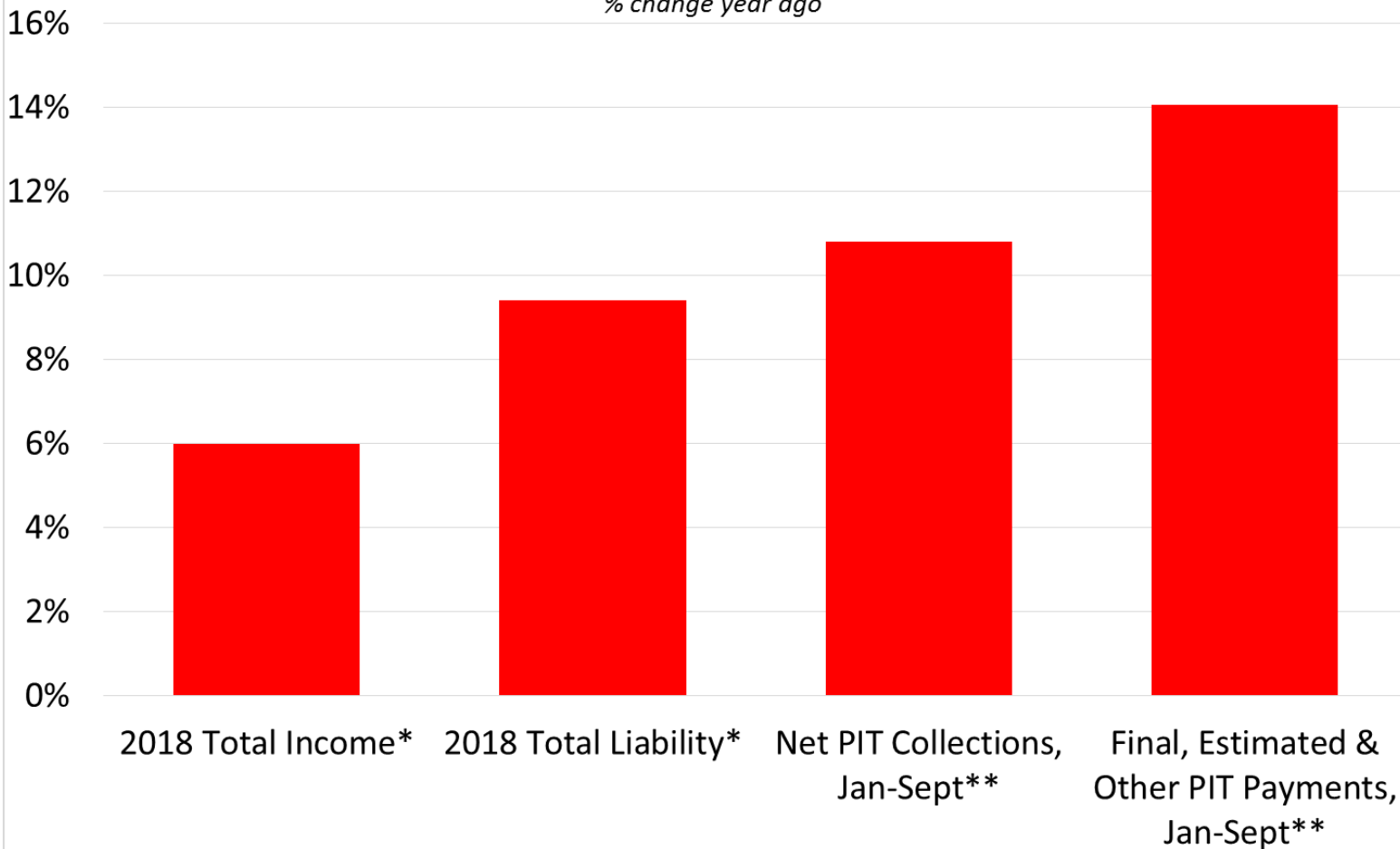
# Revenue Update and Outlook



# This Is the Puzzle

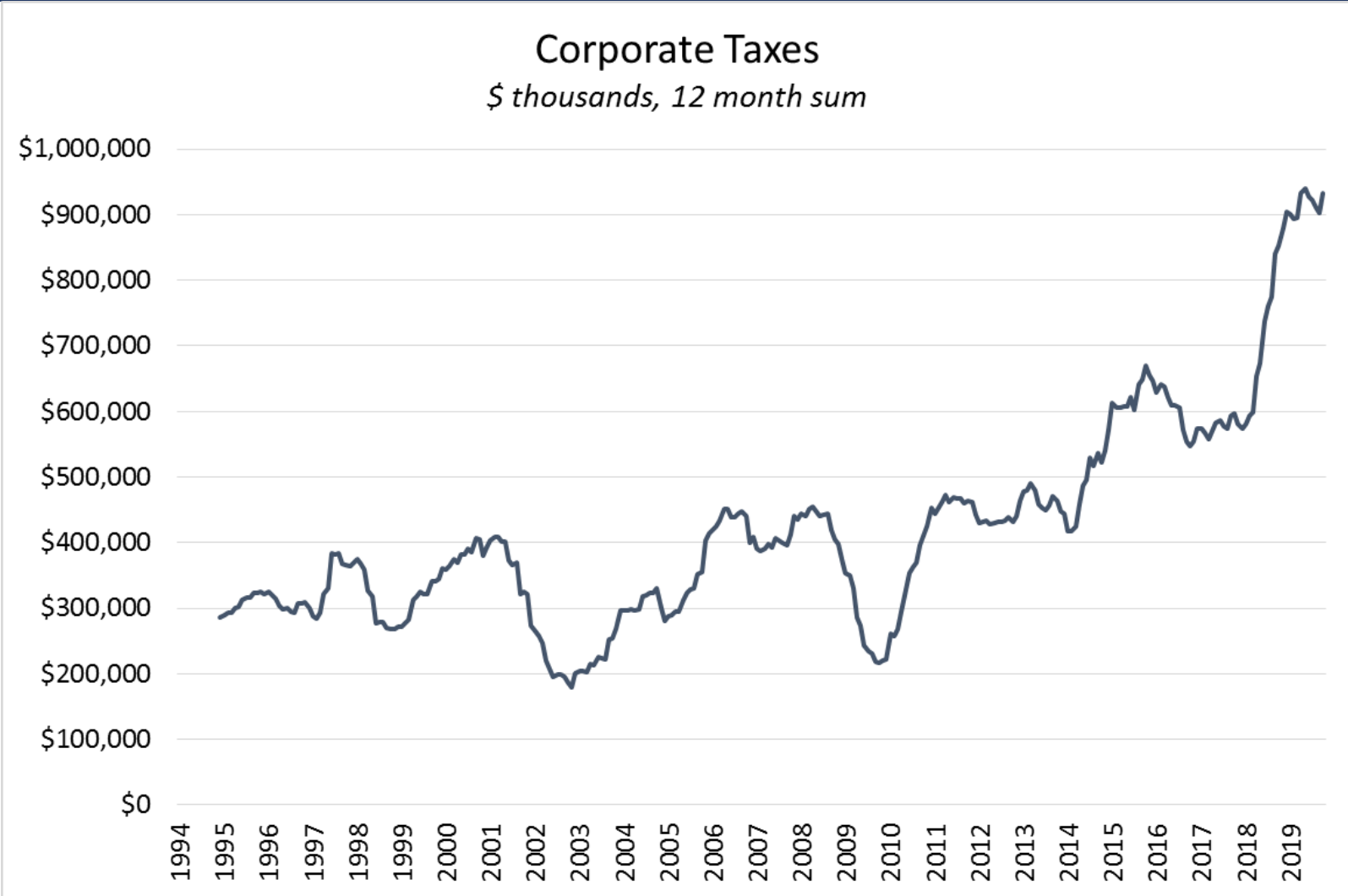
## PIT Payments Outstrip Income Growth

*% change year ago*



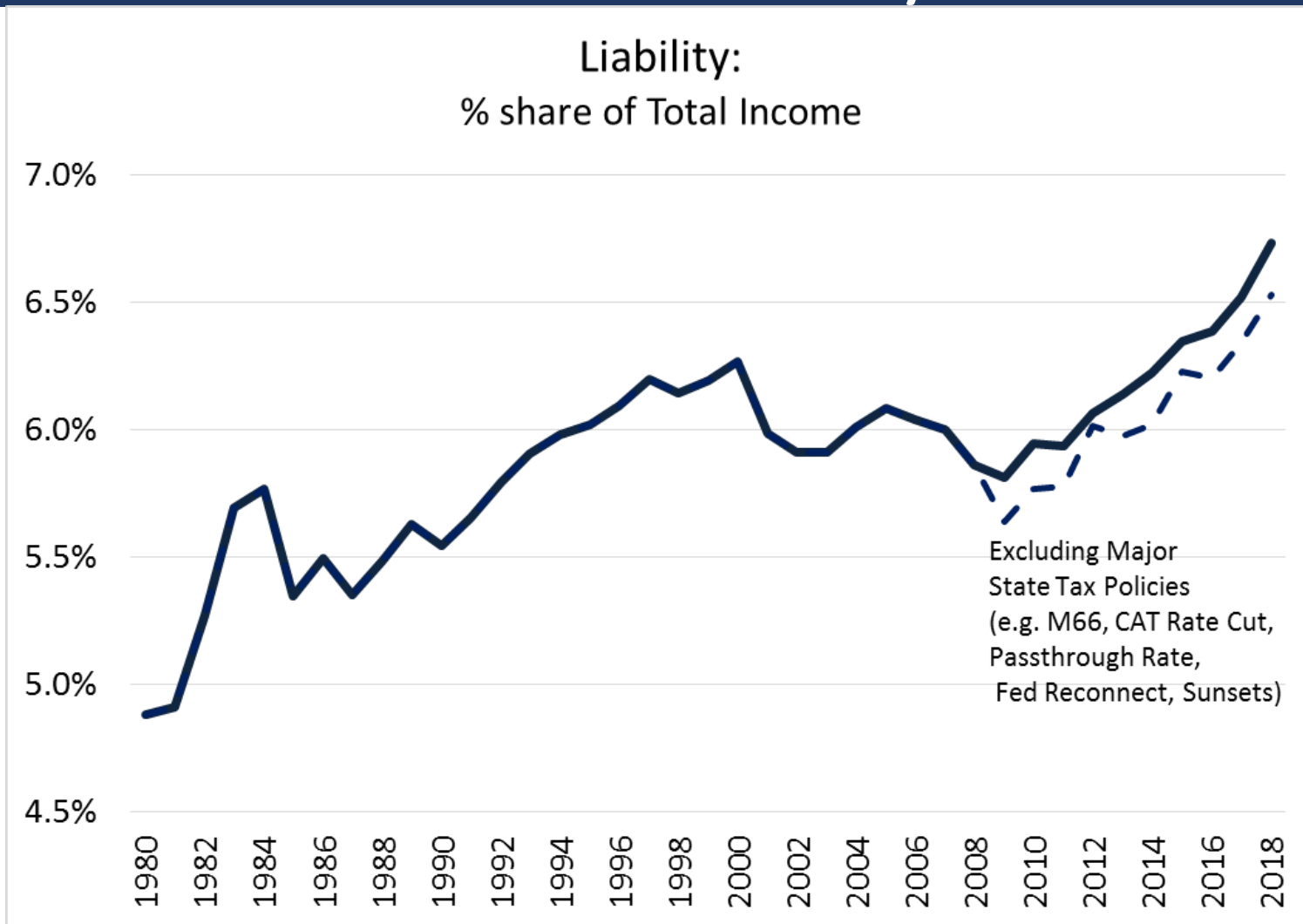


# Corporate Collections Outstrip Earnings As Well





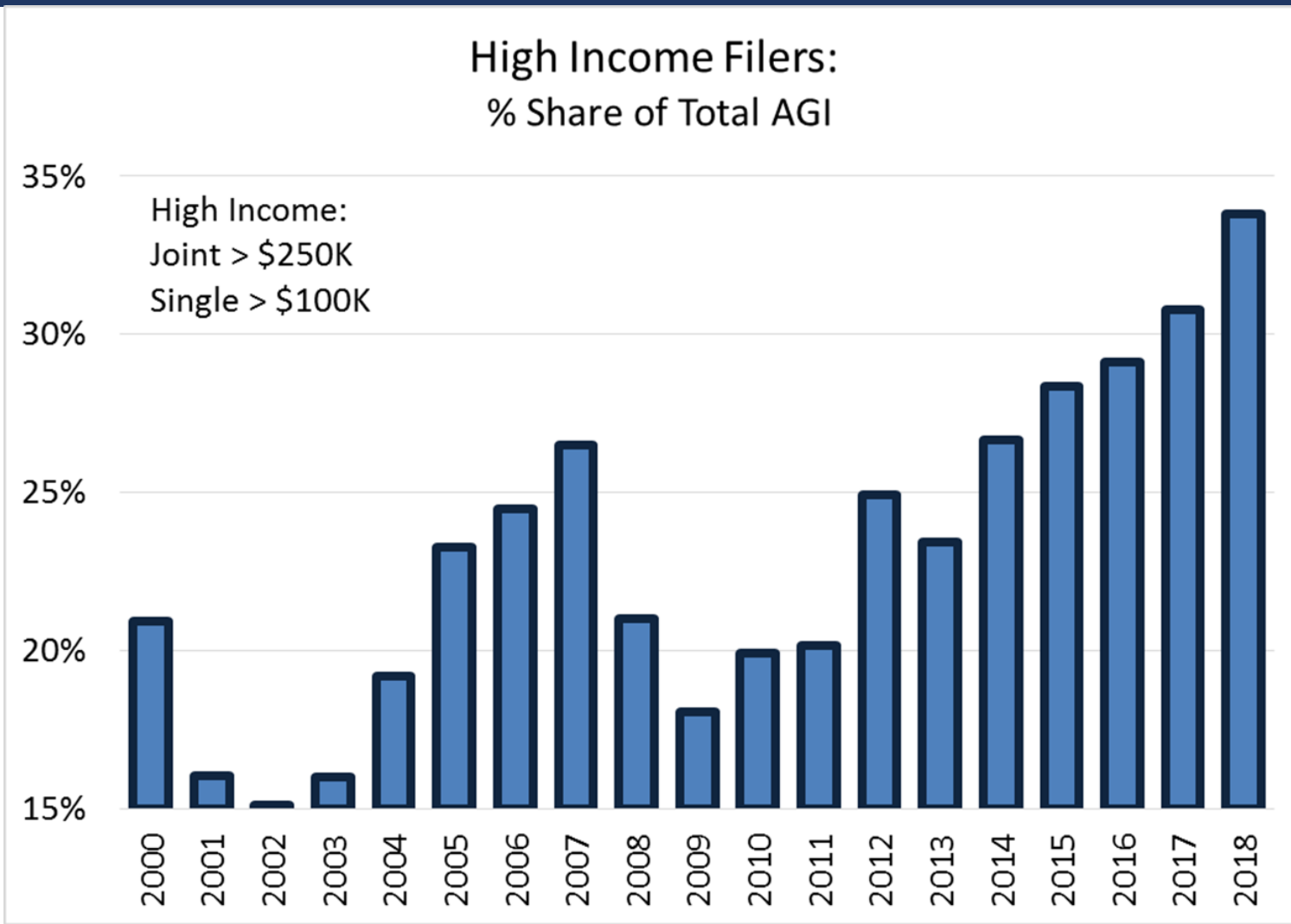
# State Policy Changes Are Part of the Story...







# ...As Is Bracket Creep...





# ...and Federal Tax Policy Is Clearly Playing a Large Role

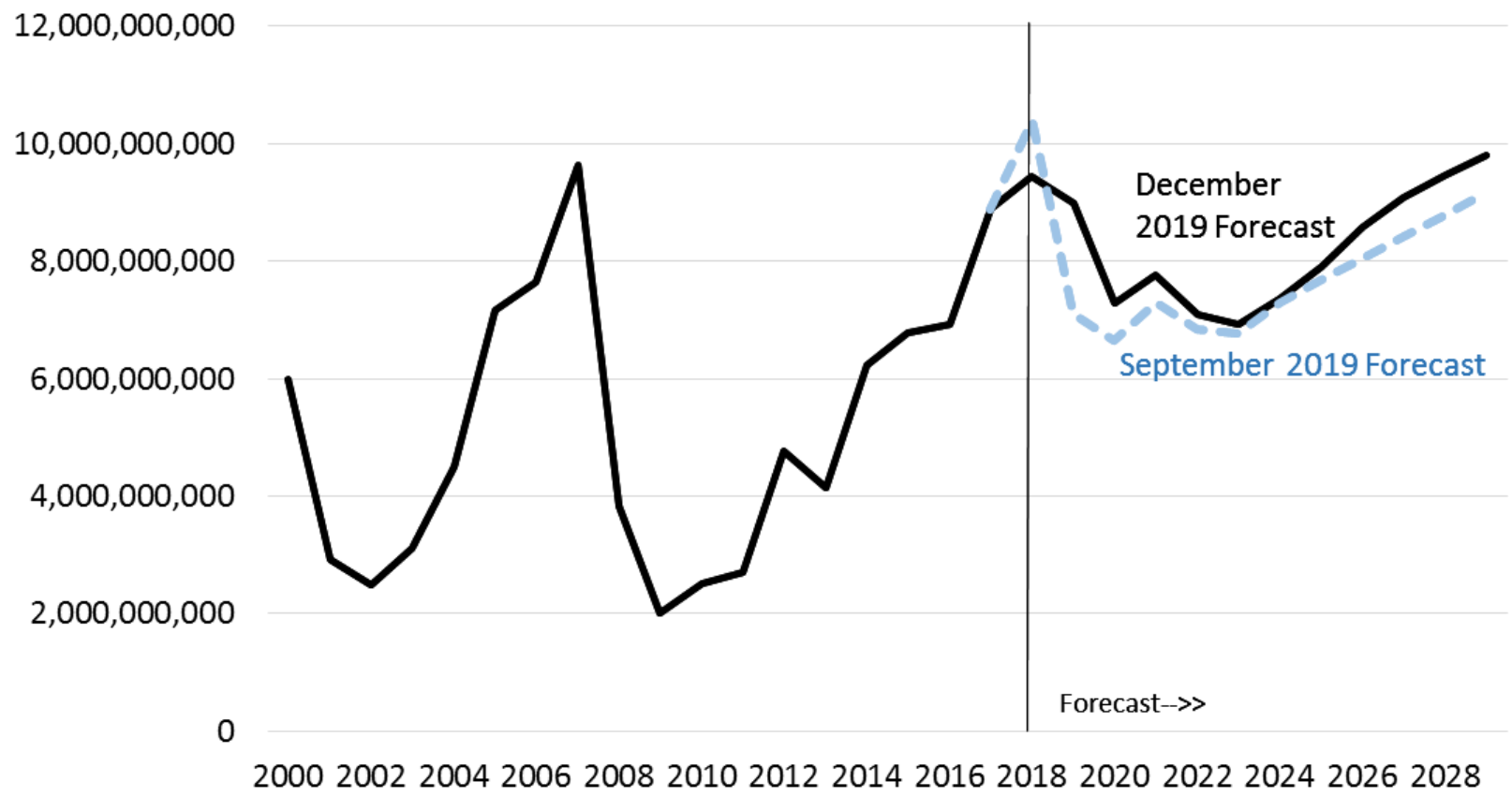
- Timing Shifts
  - Pulling Costs Into 2017, and Pushing Income Into 2018
  - Taking Advantage of Expiring/Limited Deductions
  - Bonus Depreciation, Section 179
- Tax Management Strategies
  - Changing business structure: Switching to C-Corps or Passthroughs? Wages to Business Income? Packing or Cracking? Corporate Cash Accounting?
  - Tax Professionals' Learning Curve and Uncertainty
- Permanent Base Broadening
  - Corp deduction limits, e.g. net interest deduction
  - PIT Deduction Limits (operating losses, itemized, SALT)
  - International Taxation (GILTI, Territorial System)





# At Least One More Year of Healthy Investment Income

## Realized Capital Gains by Tax Year, Full-Year Filers





# Additional Resources for the Current Biennium

**2019-21**

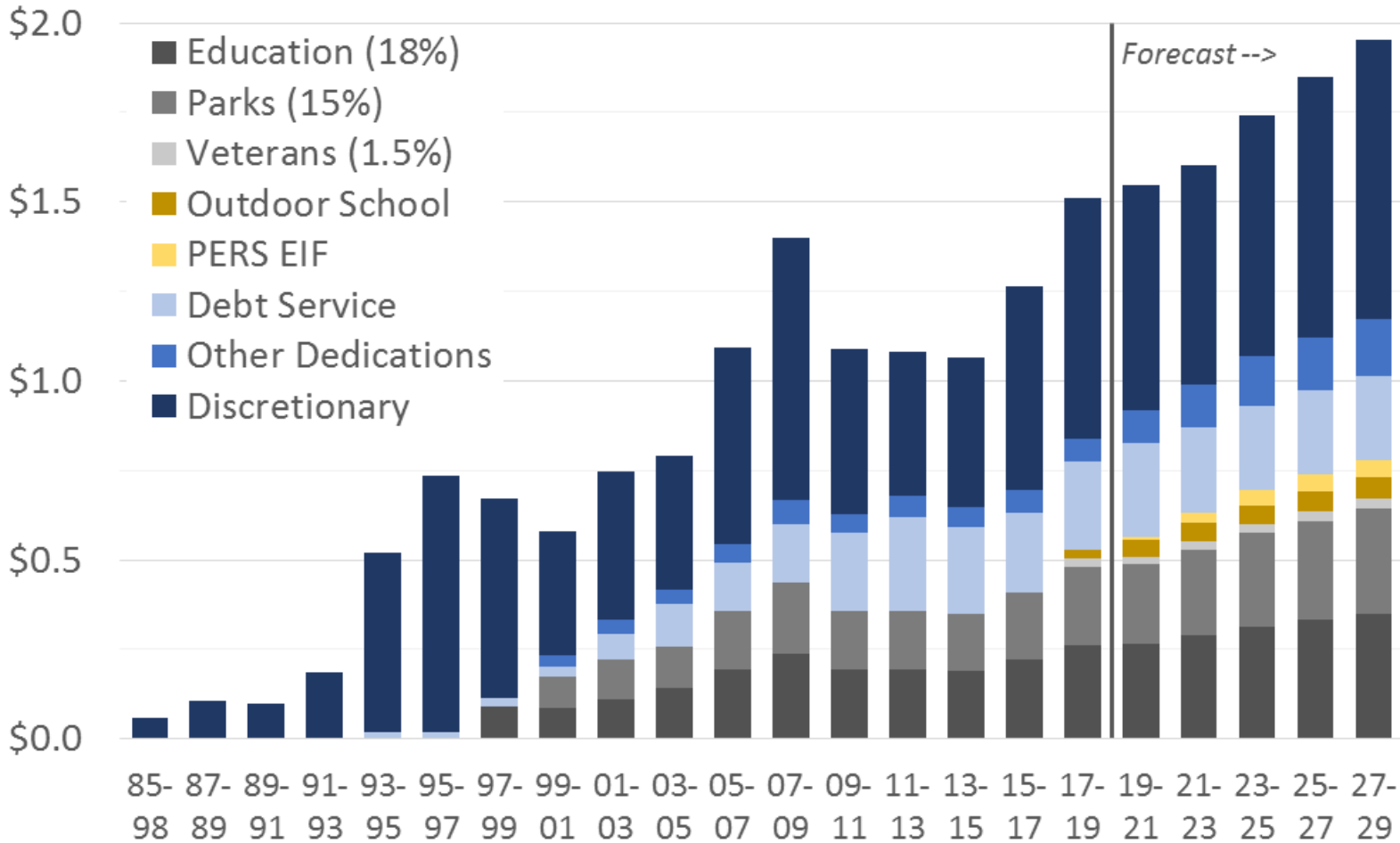
	Dec Forecast 2019-21	Difference	
		December Less Sept	December Less COS
<b>Taxes</b>			
Personal Income Taxes	18,285,768,000	(6,655,000)	2,260,000
Film and Video and Transfer to Counties	(45,262,000)	0	0
Corporate Income Taxes	1,325,876,000	55,918,000	135,071,000
Transfer to Rainy Day Fund & PERS UAL	(163,803,000)	(12,262,000)	(5,549,000)
Other Revenues	1,557,364,000	7,610,000	11,282,000
<b>Net General Fund Revenues</b>	<b>20,959,943,000</b>	<b>44,611,000</b>	<b>143,064,000</b>
Plus Beginning Balance	2,650,498,712	118,177,000	332,054,000
Appropriations	22,409,455,625	0	0
<b>Estimated Ending Balance</b>	<b>980,055,052</b>	<b>162,788,000</b>	<b>475,118,000</b>





# Lottery Growth Expected, but Forecast Largely Unchanged

## Lottery Resources and Distributions (\$ billions)



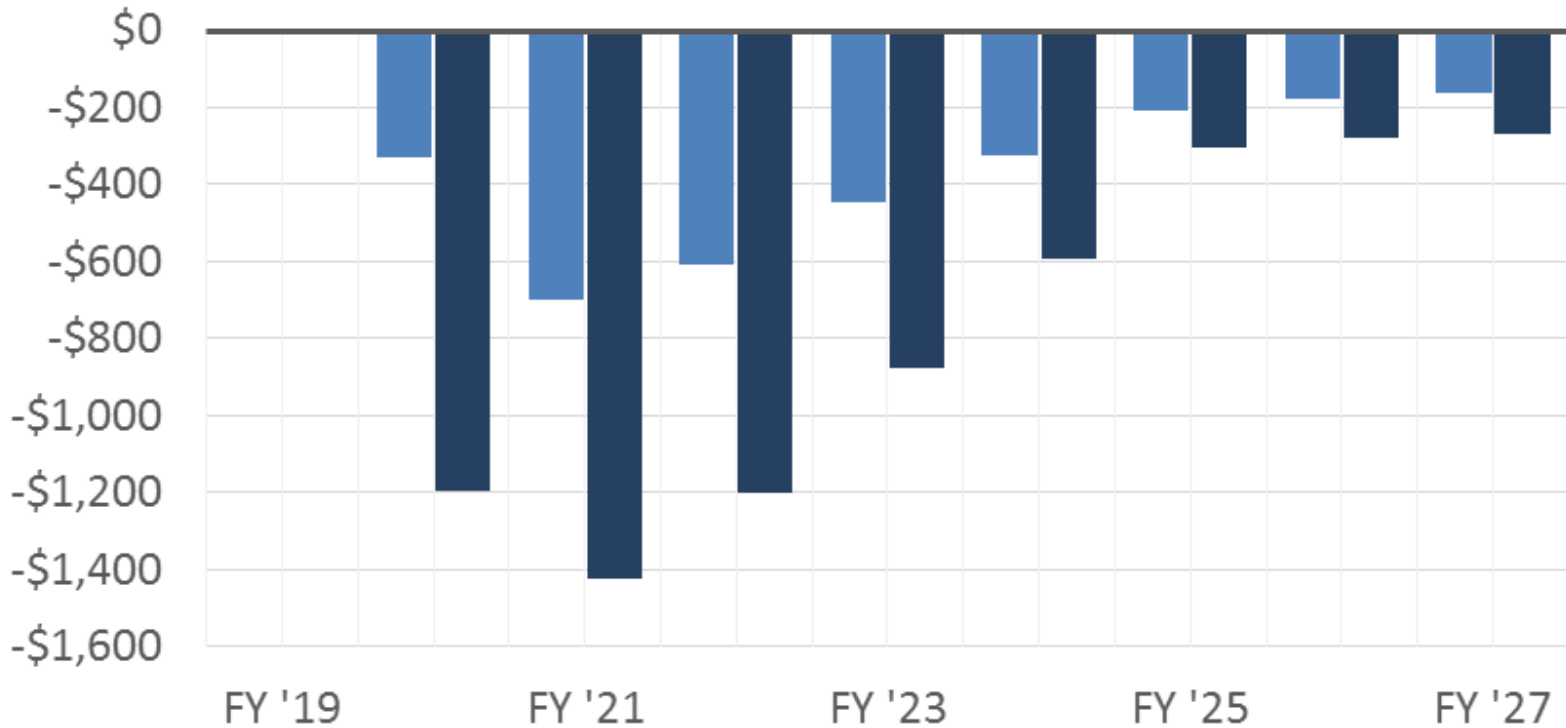


# Recession Planning

## General Fund Alternative Scenario Forecasts

Deviations from Baseline (\$ millions)

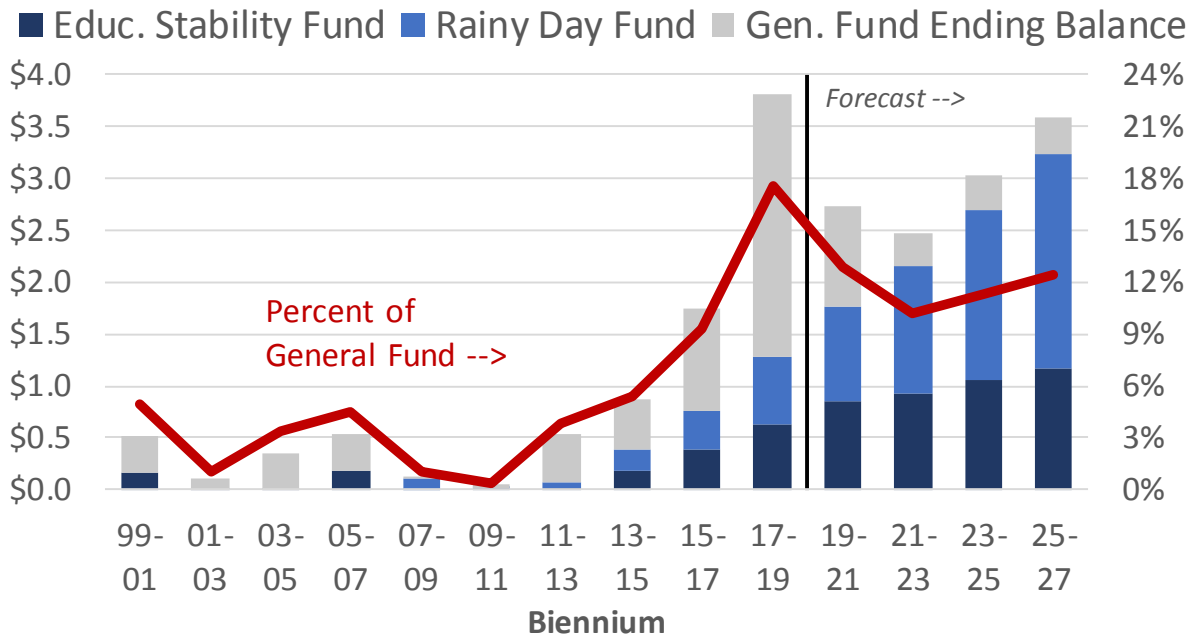
Moderate Recession    Severe Recession





# Recessionary Buffer

## Oregon Budgetary Reserves (billions)



Source: Oregon Office of Economic Analysis

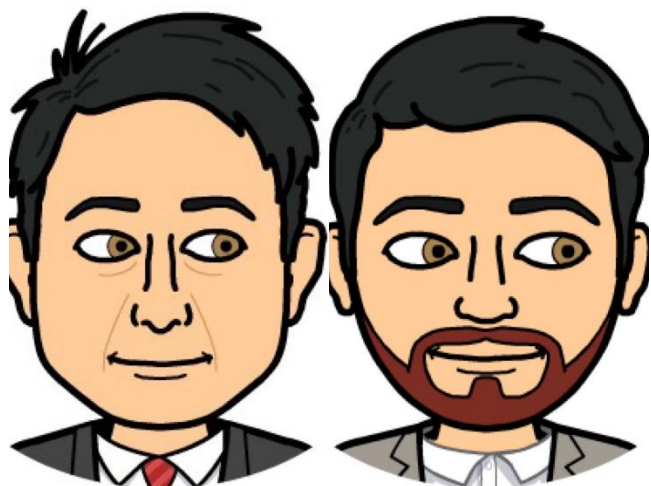
## Effective Reserves (\$ millions)

	October 2019	End 2019-21
ESF	\$650.2	\$858.7
RDF	\$671.1	\$899.4
Reserves	\$1,321.3	\$1,758.1
Ending Balance	\$980.1	\$980.1
<b>Total</b>	<b>\$2,301.3</b>	<b>\$2,738.1</b>
% of GF	10.9%	12.9%





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