



Oregon

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Economic Conditions

The current recession is now 13 months long and is expected to end around mid-2009. This would be the longest post-WWII recession. The U.S. recession centered in the housing market spread deeply into other sectors starting in September/October of last year. The subprime mortgage problem became a world-wide financial markets problem, pushing the world, the U.S., and Oregon into a deeper recession.

Employment. The U.S. has lost around 1.9 million jobs, with 73 percent of job losses occurring from September through December 2008. Oregon has lost around 35,000 jobs, with 64 percent of job losses occurring from September through November 2008. The U.S. unemployment rate is projected to reach over 9 percent. If Oregon follows this trend, unemployment could reach above 10 percent. Oregon unemployment rate peaked at 12.1 percent in November 1982 and reached 8.5 percent during the last recession. The Oregon unemployment rate for November 2008 is 8.1 percent.

Oregon Outlook. The outlook for the Oregon economy is for a deeper recession than in the December forecast. Job losses are expected to be larger and lasting longer into the second half of 2009. Housing markets may take still longer to adjust. Inflation should be lower contributing to slow personal income growth. Figure 1 illustrates the vast changes to Oregon's employment outlook over the last year.

Revenue Outlook

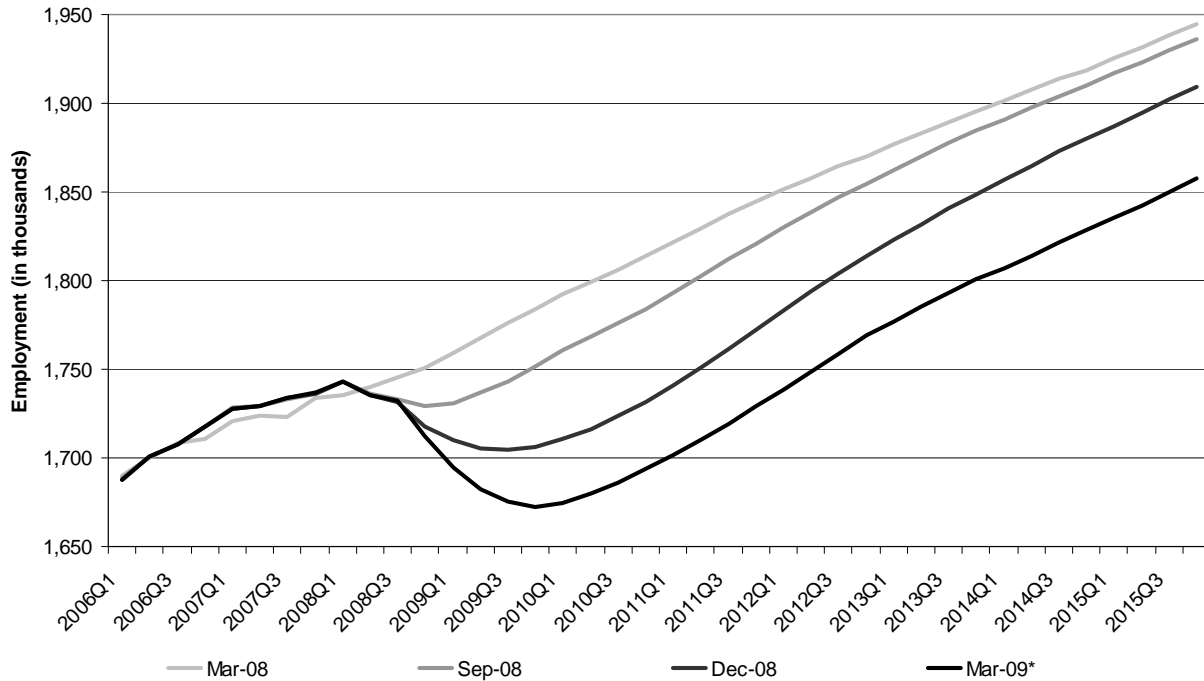
General Fund Revenue. Though withholding tax revenue and corporate income taxes have, thus far, remained relatively steady, other sources of General Fund revenue are hemorrhaging. While there is little doubt that the overall decline in the stock market will result in a loss of capital gains income relative to the 2007 tax year, the impact of relative volatility of the markets and nature of those losses are unknown. Early indications from Department of Revenue reports show that fourth quarter estimated payments for the 2008 tax year have fallen off by record levels. As a result, we can likely expect that reconciliation activity in March and April will be significantly more negative than the view contained in the December forecast.

Ultimately, we expect the forecast for General Fund revenue in the current biennium to be dramatically lowered. We cannot put out a precise dollar amount because we have not gone through a complete forecasting process. But given recent economic conditions and tracking of tax revenues, a further decrease of \$300 to \$600 million is possible. The risks are on the downside with decreases that could exceed \$600 million. The economy continues to deteriorate so rapidly that the downside risk for the 2009-11 biennium is well over \$1 billion relative to the December General Fund revenue forecast.

Lottery Revenues. Consistent with national and international lottery and gambling revenues, Oregon Lottery revenue has been hit especially hard by the recent consumer spending downturn. This, in conjunction with sales declines due to inclement weather, has contributed to Lottery sales well under previously forecasted levels. While data is still being evaluated with respect to the impact of smoking restrictions, a positive ending balance for the current biennium is not expected for the Economic Development Fund.

March Revenue Forecast. In the coming weeks our office will have a succession of meetings with various government and private economists and CPAs in advance of the release of the March forecast on February 20th. These meetings will serve to not only gauge the depth of the current recession, but also attempt to drive consensus regarding expectations for when we think things will begin to swing back.

Figure 1. Oregon Nonfarm Employment Forecasts



Mar-09*: preliminary