# EXECUTIVE SUMMARY

**December 2019**

The longest running U.S. economic expansion marches on. Growth has slowed in 2019 and downside risks remain elevated. However, a recession is not yet seen in the data. Importantly, the two primary causes for concern are either improving – the yield curve is no longer inverted – or at least not getting worse – the trade war escalation is on hold for the time being. That said, while slower growth this year was expected, the question is whether or not the composition of and factors behind the slowdown point to something more worrisome.

Nationwide economic growth has slowed to potential as business investment remains weak, but the consumer is strong. Of course consumption is not a leading indicator, but provided the labor market holds up, so too should spending. Here in Oregon, job growth has slowed to gains seen in our underlying population. For the eleventh year of expansion, such gains remain solid. To date, Oregon's slowdown is driven more by fewer hirings and a tight labor market, rather than an increase in layoffs. These dynamics, when combined with ongoing strong income growth keep the outlook intact. As confirmed by recently released Census data, current economic conditions in Oregon have rarely been better. The expansion endures even as risks remain elevated.

Oregon's General Fund tax collections continue to outstrip gains in the underlying economy so far in the 2019-21 biennium. The largest part of Oregon's General Fund, personal income tax collections, surged during the peak tax season and continued to post strong gains as extension filers submitted their tax returns in the fall. Both income tax payments net of refunds, as well as withholdings out of paychecks, have been posting growth rates above what economic gains would call for. Corporate tax collections have slowed a bit in recent months, but remain elevated above their typical size as well.

The primary forecasting challenge for the current biennium is to determine how much of the recently strong tax collections are due to temporary factors that will fade away in the months ahead. Even without the onset of recession, revenue growth is facing major headwinds during the current biennium. State & federal tax policies, a big kicker refund and slower economic growth will all weigh on General Fund revenues in the near term.

While there is a great deal of uncertainty about the staying power of recent revenue growth, the December forecast reflects a stable economic outlook, with the expected size of General Fund collections increasing slightly over what was expected at the Close of Session.

Going forward, the uncertain path of the nationwide economy will dominate the revenue outlook. Fortunately, Oregon is better positioned than ever before to weather a revenue downturn. Automatic deposits into the Rainy Day Fund and Education Stability Fund have added up over the decade-long economic expansion. When the projected ending balance for the current biennium is included, Oregon is expected to end the biennium with more than $2.7 billion in reserves set aside, amounting to almost 13% of the two-year budget.