Economic Outlook

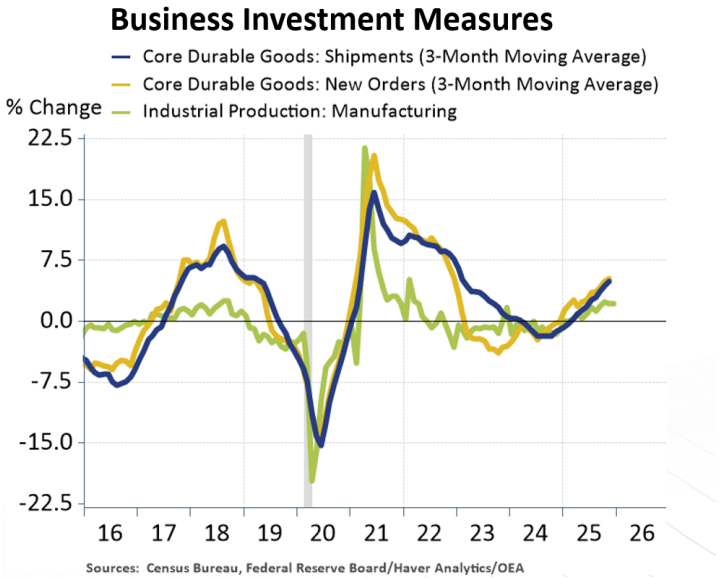
Macroeconomic Setting

Key theme of 2026: Faster growth versus labor malaise

The national economy largely defied the pervasive pessimism among forecasters in 2025, and now this positive momentum is manifesting upgraded projections for 2026 as well. This does not mean "off to the races" for growth, hiring and tax receipts — more likely, the economy will witness a moderate pickup in activity.

Accelerating output growth will be welcome news in terms of lowering recession risks, but open questions remain regarding two critical themes for the year ahead: the fate of what looks to be an increasingly entrenched labor market malaise and the direction of prevailing pressures on still-elevated inflation.

The improving trajectory of the economy is not a coincidence, but instead is the response to a few major factors. The impact of tariffs was delayed and ultimately reduced. The Federal Reserve supported financial conditions by continuing to lower interest rates. Tax cuts for businesses and households — some of which had retroactive elements — are providing significant fiscal stimulus. In fact, the tax cuts are offsetting much of the tariff-related economic drag. Lastly, seemingly insatiable demand in sectors related to hyperscalers, artificial intelligence, data centers, semiconductors, etc. is driving a sizeable capital expenditure and investment boom — and this in turn is lifting financial asset valuations, thereby banking a "wealth effect" among investors.

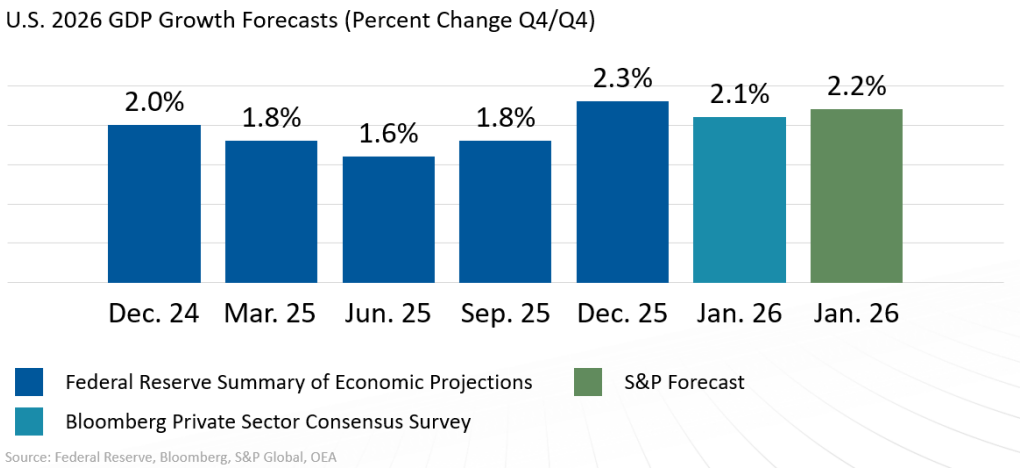


Shortly after the so-called Liberation Day tariffs were unveiled in April 2025, the consensus among forecasters downgraded growth forecasts for the year to an unsustainably slow pace (of just 0.7% Q4/Q4) — which, if realized, would have put the economy dangerously close to a recessionary stall. Forecasters assessed the probability of recession to be near 45%.

Forecasters were ultimately surprised to the upside by the pace of economic output in Q2 and Q3, and they have now lifted full-year forecasts for 2025 by threefold (to 2.3%). Similarly, they have trimmed recession odds to 30%. The forecaster consensus sees momentum carrying into the current year, as well, and now anticipates GDP gains averaging 2.7% in the first half of 2026.

This improving sentiment is also shared by Federal Reserve officials, who upgraded their characterization of the pace of economic activity from "modest" to "solid" at their January policy

meeting. The Fed Chair, Jerome Powell, noted a clear growth improvement since their December meeting and described a strengthening forecast.



A heady growth environment should coincide with firming labor market conditions (i.e. faster hiring and lower unemployment), but the economic data are not yet reflecting such a translation. Instead, the "low hire/low fire" employment dynamic which loomed over much of 2025 seems to remain entrenched at the start of 2026.

Labor market economists are struggling to explain this growth-employment disconnect.

The Federal Reserve estimates the longer-run potential growth rate of the economy to be close to 1.8%. If the economy exceeds this pace, it should result in tightening labor conditions—but this has not occurred in recent quarters. Gross domestic product handily surpassed this trend rate in Q2 and Q3, and it seems to have been the case in Q4 based on available data. Furthermore, the consensus forecast expects this outperformance to persist into at least the first half of 2026, as well. Even so, labor conditions seemingly remain unresponsive, as job creation has dwindled over this same period.

Is Artificial Intelligence to blame?

The pace of economic output can deviate from labor conditions for a variety of reasons, thereby resulting in changes in the amount of output produced per worker (or more precisely output per hour of labor input). Economists refer to this relationship as labor productivity.

Fluctuations in productivity can occur for a variety of reasons: Structural, or long-term, changes in productivity can result from capital investment, adoption of new technology or workforce development. Short-term, or cyclical, variation can stem from factors such as hiring sentiment. For example, firms may hoard labor through an economic soft patch if they expect business conditions to recover quickly, or they may hire or fire excessively if they panic in response to an unexpected and/or sharp change in conditions.

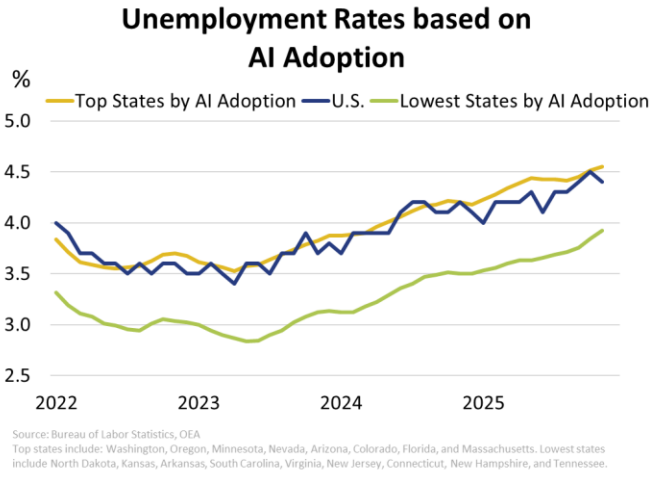
Typical cyclical fluctuations in productivity mean that various parts of an economic cycle are characterized by high and low productivity periods. For example, productivity tends to run high coming

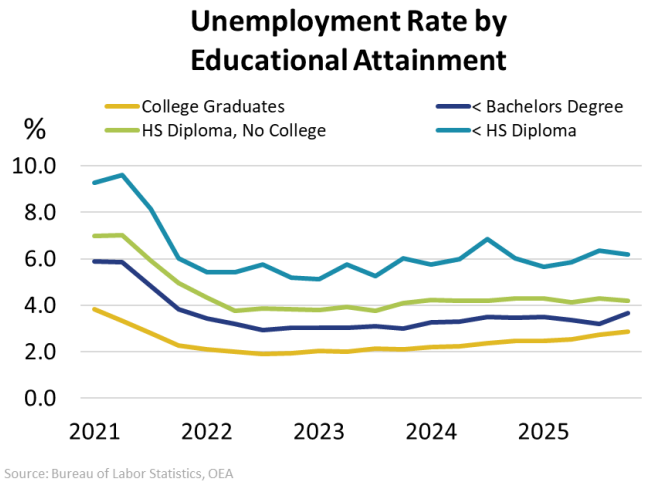
out of recession when output rebounds amid ample spare capacity, and then it slows as labor demand catches up. As a cycle matures, businesses facing tight labor conditions may invest in labor-reducing capital investments and, in turn, drive a late-stage rebound in productivity. Just such a development occurred in the final years of the long expansions of 1991-2001 and 2009-2020, and it may be occurring presently.

In the current economic cycle, productivity surged as the economy reopened from the pandemic, yielding a string of quarterly gains which were among the strongest on record. Much of this was attributable to a particularly dramatic cyclical swing, but some of it was also the result of rapid technological adoption foisted upon businesses during lockdowns. A roaring hiring rebound in 2021-22 similarly drove an unusually severe productivity stall, while also creating the tightest labor conditions in over 50 years.

Now labor economists are trying to understand whether the recent output-hiring disconnect is cyclical or structural, particularly given the massive focus on artificial intelligence (AI). A cyclical explanation suggests employers are merely right-sizing staffing levels after over-hiring during the post-pandemic growth surge. The structural narrative sees mounting job displacement caused by AI adoption and other technology. The correct answer is likely a combination of the two, but the proportional contributions will have huge consequences for the employment outlook.

This office sees tremendous potential for massive economic disruption in the future from AI, but it is our assessment based on the data at hand that widespread job dislocation is not yet occurring — at least not outside of a narrow concentration of sectors. For example, the unemployment trend in states with the highest AI adoption rates does not look to be appreciably different from the national trend (or the lowest adoption states). Similarly, the notion that AI disruption will be more prevalent in sectors which are service-oriented and generally require higher education levels does not appear to be reflected in data showing unemployment based on educational attainment.





Survey data from the US Census Bureau and the Conference Board confirm that firms are increasingly exploring AI as a potential resource with a rising share (nearly 25%) planning to use AI over the next six months. Even so, academic research — including analysis from the Yale Budget Lab — suggests that

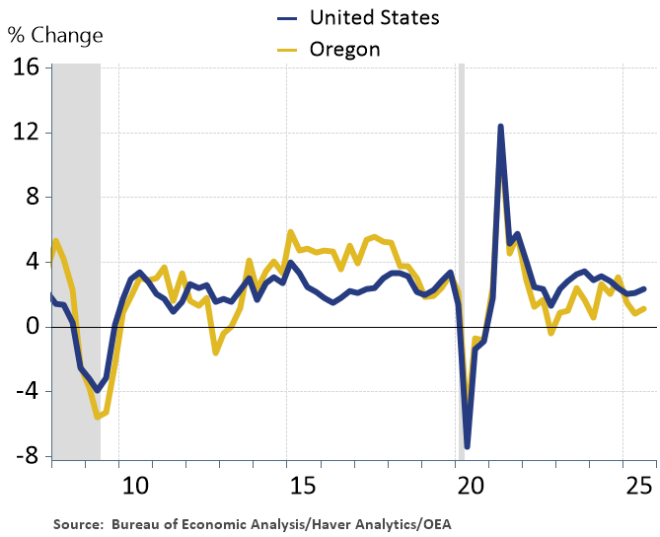
the extent of labor market disruption from AI is not materially different from that which occurred when personal computers and the internet were rapidly and widely adopted in the mid-1980s and mid-1990s, respectively.

As a result, the Office of Economic Analysis concludes that much of the recent spike in productivity is cyclical in nature, which leads to the more optimistic conclusion that labor conditions will ultimately be boosted by above-trend growth. The recent leveling off in the national unemployment rate is an encouraging, albeit tentative, signal in this regard. Conversely, if the low-hire/low-fire labor dynamic persists while GDP runs above trend, a reassessment of our conclusion could be warranted. Truly, time will tell.

Oregon's Economic Outlook

National economic activity defied expectations with robust growth through most of 2025, while Oregon's output growth underperformed in comparison. The tepid growth experienced in the first half of 2025 is consistent with our office's view of a 'hockey-stick' shaped growth profile that has been used in prior quarters to characterize the state outlook. This characterization remains relevant as it pertains to Oregon's economic output. Due to the considerable delay of government data releases, we are unsure of how the entire second half of last year unfolded for the state, though a pickup in activity was noted in the third quarter. It is the view of this office that this momentum will continue to build into 2026, thereby continuing to follow the contours of the hockey-stick profile.

Real Gross Domestic Product (Year over Year)



Source: Bureau of Economic Analysis/Haver Analytics/OEA

As illustrated in the accompanying figure, Oregon consistently outpaced national GDP growth for four consecutive years between the two most recent recessions of 2008 and 2020. However, following the recovery of the pandemic, Oregon lagged the national economy — with the exception of the fourth quarter of 2024. Therefore, it is not unusual in this moment to see the state maintain its underperformance to national trends.

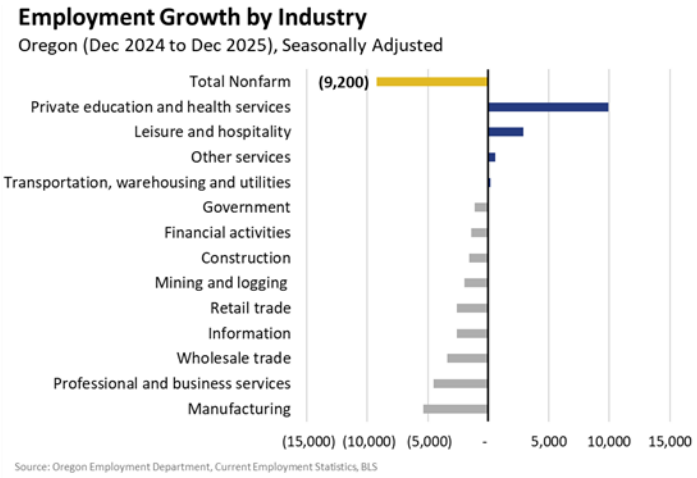
On a year-over-year basis, Oregon's GDP growth rate for the third quarter of 2025 was 1.1%, while the U.S. had a growth rate of 2.3%. However, looking specifically at Oregon's GDP growth from the second to third quarter of 2025 shows the state outpaced the national growth trend in that period. Oregon has lagged U.S. GDP growth by an average of one percentage point from the first quarter of 2025 through the third quarter. Compared to the same time period in 2024, when the gap averaged 1.2 percentage points, the state currently appears to be in a better position.

With faster growth expected in the U.S. for 2026 and Oregon's seemingly improving position, we would typically expect to see an increase in the demand for labor, through either the existing workforce (increase in hours worked) or by tapping into additional labor supply (new hires). However, hiring in the state has remained muted and weekly hours per worker have declined.

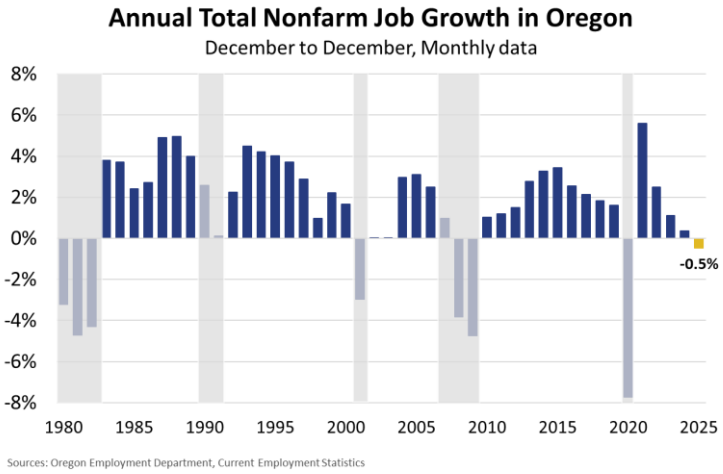
Recent employment data published by the Oregon Employment Department further illustrates this disconnect between economic output and labor demand. The state has continued to experience a slowdown in hiring, with an average monthly gain of 650 jobs over the second half of 2025. The slow hiring has been widespread as employment conditions have weakened across most industries, with year-over-year job growth remaining negative through most of 2025.

Health care and social assistance continue to be the engine of job creation in the state, a pattern that is also seen nationally, in part due to our country's aging demographics. The two other industries that have experienced positive job growth for the state over the year are leisure and hospitality, and other

services. Again, a reflection of what is occurring at the national level, as these two industries are also experiencing employment gains over the past 12 months.

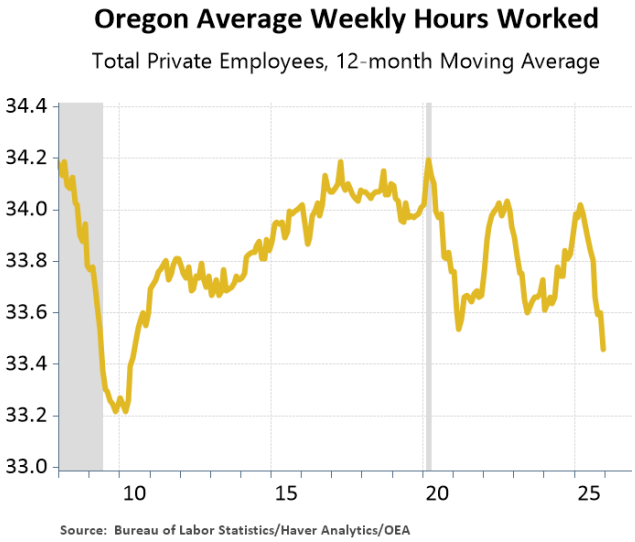


With more industries in Oregon experiencing persistent job losses and the high concentration of job gains in a few industries, the overall employment situation has softened. As shown in the accompanying chart, Oregon has lost 9,200 (-0.5%) jobs from December 2024 to December 2025. This is quite unusual for the state as it has historically been the case to only see year over year payroll declines during recessionary periods. The slowdown in job creation can also be seen in the national data, although national employment levels have not turned negative in year-over-year terms.

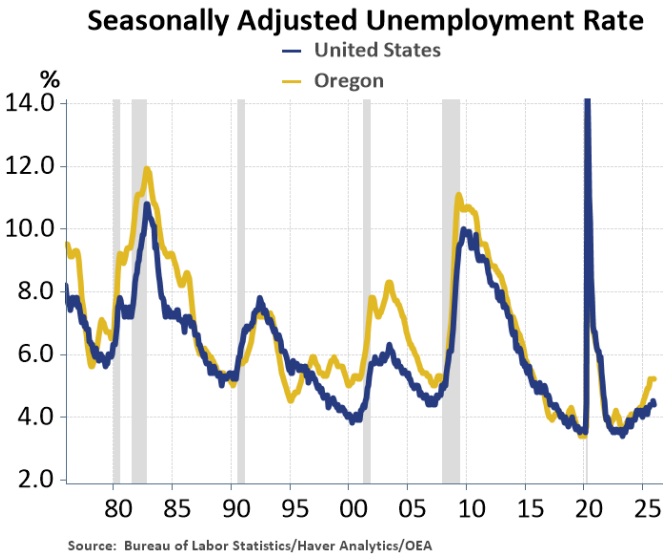


The disconnect between output and labor demand is further highlighted with the number of hours worked per private sector employee. In Oregon, the 12-month moving average of weekly hours worked has been trending downwards since March of 2025. December's reading of 33.46 is the lowest level seen since mid-2010, during the recovery period following the 2008 recession. This metric warrants close attention in the coming months as we monitor incoming data to see whether average weekly hours rebound or if the decline continues alongside tepid employment gains.

Despite the faster growth in economic output, hiring and average hours worked have yet to keep pace with expectations. At the moment, it is unclear whether this disconnect reflects a temporary lag in which a hiring rebound or expanding workweek will take place later on, or if it is a signal of impaired business confidence and deeper structural changes prevalent in the economy. Our expectation is that firmer growth is likely to be sustained and will ultimately boost labor conditions down the road. By the time of our next quarterly update, we will have more insights surrounding the state of labor conditions in the first few months of 2026.



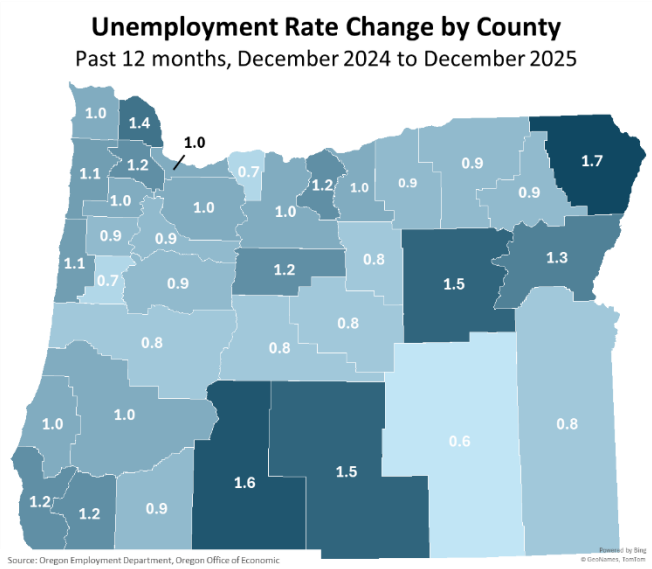
A consequence of this slack in the labor market is the increasing unemployment rate seen at both the state and national level. Although, Oregon's unemployment rate has continued to edge higher than the national average through 2025.



At the time of publication last quarter, Oregon had registered a 5.0% unemployment rate for the month of August, which has increased to 5.2% in December. Similarly, the U.S. was at 4.3% in August and slightly increased to 4.4% in December. To be sure, it is not unusual for Oregon's unemployment rate to drift higher than the U.S., which is most often the case as illustrated in the historical data presented above.

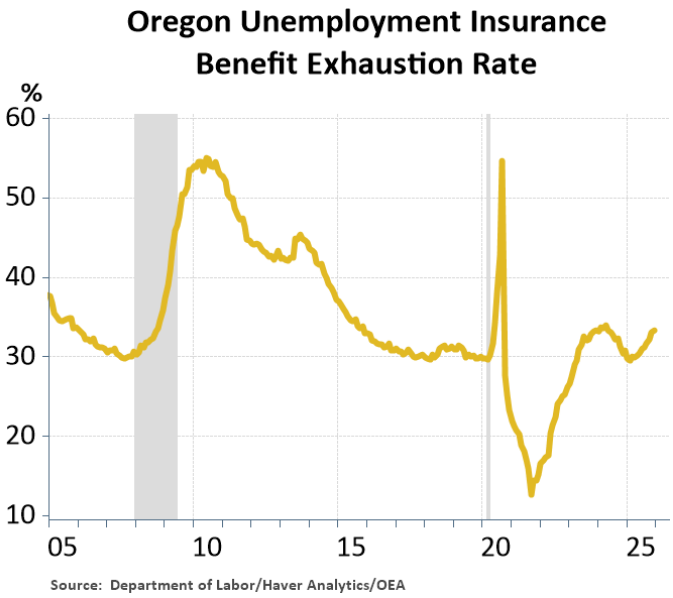
While Oregon and U.S. unemployment rates increase during recessions, there is not significant evidence that a widening gap in rates signals the beginning of a recession. In 2012, the gap occurred during a recovery period following a recession, similar to the separation of rates in 2002. This office will continue to monitor the trend to see if the unemployment rates continue to diverge outside of a recovery period, or if it is just a temporary anomaly in the labor market.

Not only do we see deviations between Oregon and the national trend, but also significant variation across counties. The accompanying figure shows the unemployment rate change by county over the past 12 months. The change for the state overall is 0.9 percentage points. Nearly 40% of the statewide change in the number of unemployed persons is attributable to Multnomah and Washington counties, which have rate increases of 1.0 and 1.2 percentage points, respectively.



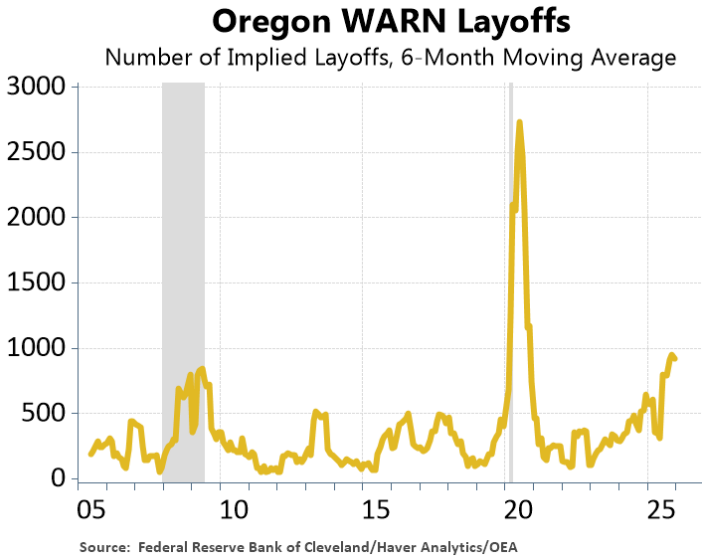
No counties in the state saw an improvement in their unemployment rate, with all counties worsening over the past year. The largest increase in the unemployment rate during this period, 1.7 percentage points, was observed in Wallowa County. The county that saw the smallest increase in their unemployment rate was Harney County (0.6 percentage point change). However, the total number of unemployed persons in these two counties constitute a small share of the state's total.

The benefit exhaustion rate is another valuable barometer of labor market conditions. This rate measures the share of Oregonians who have received their maximum allotment of UI benefits (following 26 weeks). An elevated exhaustion rate is an indicator of labor market fragility and difficulties for displaced workers to find new sources of employment. To date, the Oregon unemployment insurance benefit exhaustion rate has risen to a similar level to what was seen in the first half of 2024. Although the benefit exhaustion rate seems to have ticked up through 2025, the rate is still low by historical standards – an indication that the labor market has slowed but remains functional. This echoes the "low hire-low fire" characterization that many labor economists have applied to their current assessment of national conditions.



One leading indicator for Oregon's unemployment rate is the volume of WARN notices. Currently, the monthly number of implied layoffs in the state seem to have come incrementally off their recent high. The six-month moving average remains elevated compared to historical trends. The relatively high number of WARN notices experienced in 2025 highlight potential vulnerabilities to employment across certain industries.

Although WARN notices are at levels slightly surpassing those seen during the Great Recession, other indicators such as fairly stable initial unemployment claims and only moderately higher continuing claims (which have not experienced typical recessionary increases), point to underlying resilience in Oregon's labor market. While the state continues to underperform national employment trends, there are some signs that Oregon's economy is moving toward stabilization.



The next quarterly publication will provide a full picture of Oregon's economic performance in 2025 along with its implications with the Q4 GDP release.

Topline Forecast Changes	
Labor Conditions	The unemployment rate is little changed across the forecast horizon. The rate is revised slightly higher in the near term as Oregon continues to experience an elevated unemployment rate. Anticipated job creation is revised higher in the short term relative to the previous 2025 Q4 outlook, in part due to recent tracking and improving economic conditions (GDP).
Personal Income	Total personal income is expected to grow by an annual average of 4.8% through 2035. This forecast incorporates the most recent Q3 BEA release.
Population	Population growth for Oregon has been revised slightly higher resulting from new estimates for 2025 and an upward revision of the past estimates by Portland State University, Population Research Center. This forecast incorporates the latest revisions released by PSU/PRC in December 2025. The population is expected to grow by an annual average of 0.5% through 2035.

Underpinning the economic outlook is a continued rebound in migration leading to slow, but positive, population gains in the state. This office continues to anticipate improving conditions in the later part of the biennium.

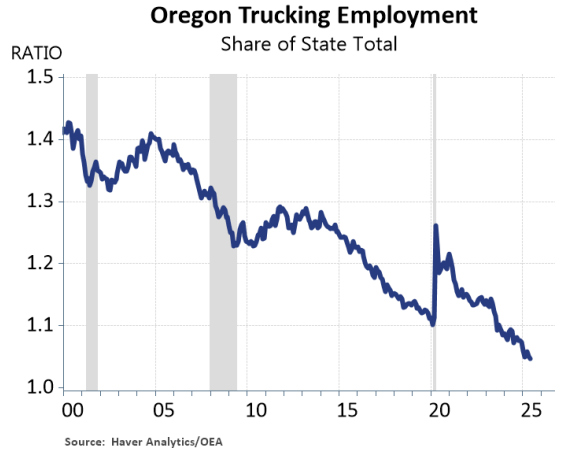
The economic and revenues forecasts are developed using inputs from our national forecast vendor, Standard & Poor's. Key assumptions included in their forecast are below.

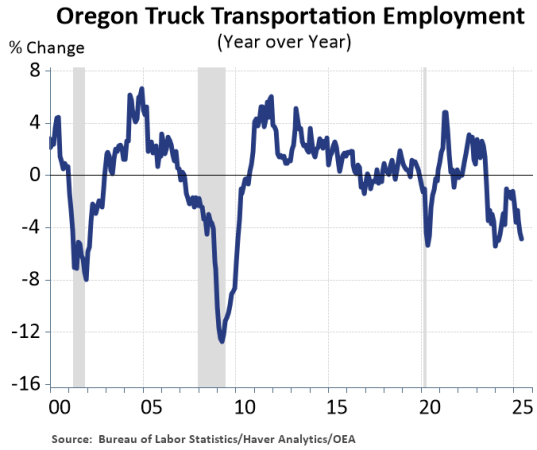
Key Forecast Assumptions	
Federal Fiscal Policy	The forecast incorporates the direct effects of the partial government shutdown that ended on Nov. 12, 2025. The forecast also includes provisions in the One Big Beautiful Bill Act (OBBBA)/HR1.
State and Local Fiscal Policy	States are assumed to take on a larger share of provisions for Medicaid benefits in response to reduced federal grants.
Population	Net international migration assumptions are 500,000 lower per year, relative to Census projections, for the four years of the Trump presidency.
Monetary Policy	The Fed is expected to pause rate cuts over the first half of 2026 before resuming in June 2026. The federal funds rate reaches a range of 3.00%-3.25% in September 2026, very close to estimates of the long-run "neutral" range.

Tariffs and Trade	Assumptions include new Section 232 tariffs on critical minerals of 10% effective in first-quarter 2027, and the additional section 232 tariffs on furniture-and-cabinetry and semiconductors do not take place. IEEPA tariffs on imports from China (10%), Canada (35%) and Mexico (25%), with the latter two step down to 15% by mid-2026. Reciprocal tariffs are held at the rates announced on August 1st, which range from 10% to 40%.

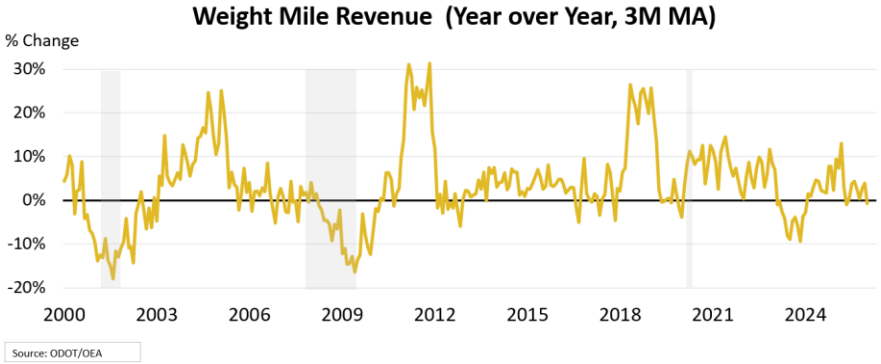
Industry Insight: Trucking and Freight

The trucking and freight industry is a vital part of the Oregon economy and can be a good barometer of economic health among both households and businesses. This has been of particular interest to OEA in 2025 amid heightened uncertainty surrounding trade and tariff policy. Tariff rates rose sharply and changed frequently, so understanding the impacts on freight traffic yielded valuable insight into economic conditions. This issue remains at the forefront in 2026 as the Supreme Court weighs the legality of the International Emergency Economic Powers (IEEPA) tariffs.





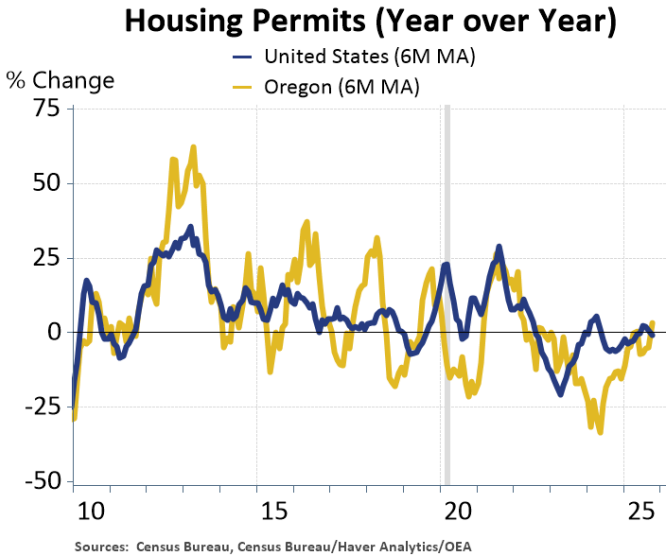
Historically, trucking in Oregon has not comprised a large share of total employment, less than 1.5%, since 2000, and has been trending down. This continued downward trend makes it difficult to see recessionary effects. The year-to-year change within trucking employment, however, shows clearer cyclical behavior. Not all downswings happen during recessions, but the 2001, 2008, and 2020 recessions all saw steep and continued drops. The decline apparent in the first half of 2025 is not as steep as those seen in recessionary downturns and is unlikely to persist given the upturn in growth metrics.



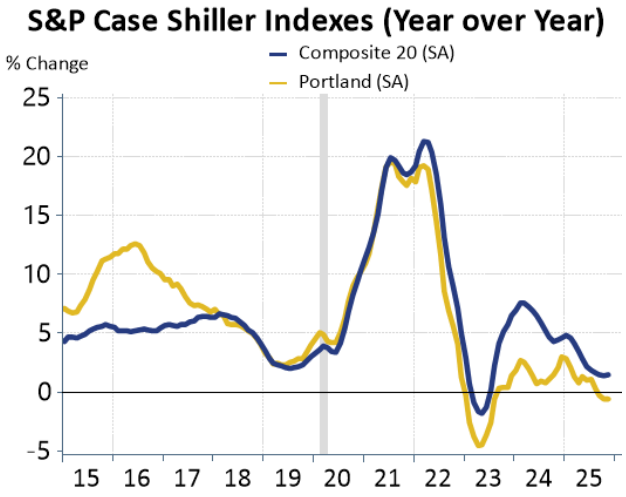
Changing economic trends are often slow to be reflected in official government economic statistics for a variety of reasons. As a result, a gauge of truck traffic/freight volumes, provided by the Oregon Department of Transportation (ODOT) in its weight-mile revenue collections, serves as an important real-time indicator of economic activity. In Oregon, vehicles weighing over a particular weight must pay a tax to use the highways which are based on their weight and distance driven. As illustrated above, revenue often drops sharply during recessions. Critically, this was not the case in 2025—despite many forecasters elevated recession concerns for much of the year.

Industry Insight: Residential Construction and Housing

Trends in housing affordability and residential construction activity provide valuable insight into the health of the economy. The 2026 Oregon Housing Needs Analysis (OHNA) calculated a 20-year need at 491,347 units, and an annual production target of 29,259. Oregon Housing permits have not seen much growth over the last few years, and are instead tracking with the US. Through the first three quarters of 2025, Oregon issued permits for 10,694 privately owned housing units.

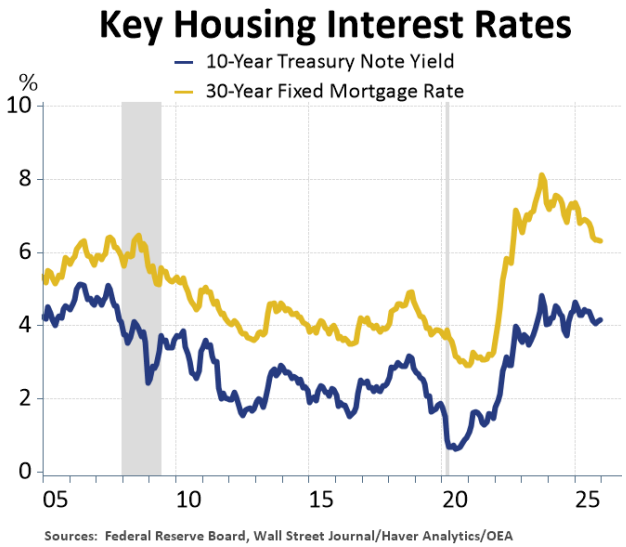


With an improved overall economic outlook for 2026, housing permits may see an increase as companies that had projects on hold due to uncertainty regain momentum in the new year under stabilizing conditions.



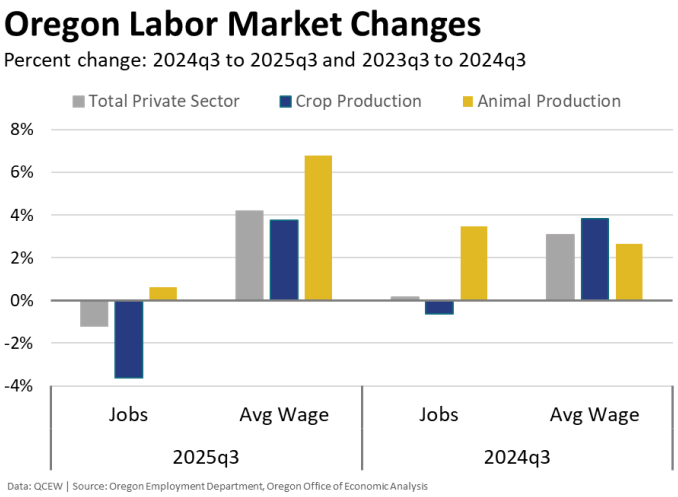
The S&P Case-Schiller House Price Index is a measure of residential prices. The composite score is a measure of 20 major metros taken together, of which Portland is one. As can be seen, Portland prices largely move with the composite index. Prior to housing price surges during the pandemic, Oregon saw its prices rise at a faster rate than the US. However, post-pandemic Oregon has seen housing prices continue to rise, with the exception of 2023, but at a slower rate than other major cities across the US. In 2025, the year ended with prices essentially flat.

While there has been much attention on potential Federal Reserve interest rate reductions, the two rates most crucial to the housing industry are the 10-year Treasury note and 30-Year fixed mortgages. The 10-year yield is market-determined, and mortgages rates are highly correlated with this benchmark. In recent years, the Treasury Note yield has stayed near four percent, and in turn mortgage rates have remained between six and seven percent. This elevated level of mortgage rates serves as a headwind to housing and construction-related activity.



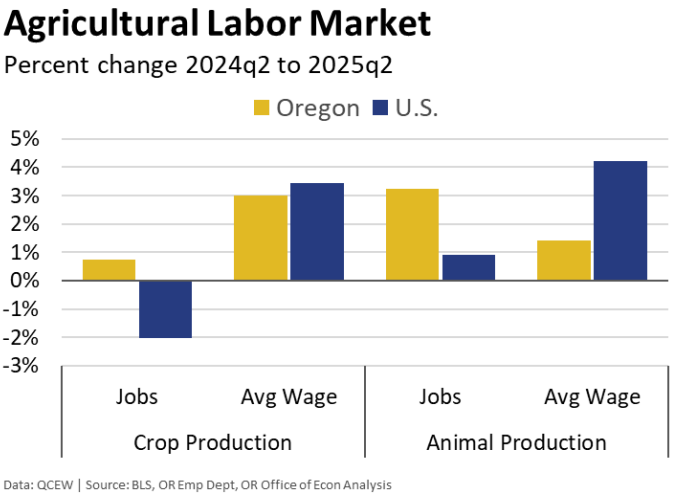
Industry Insight: Agriculture

The Oregon Legislature passed HB 4002 (2022) which establishes maximum hour and overtime compensation requirements for agricultural workers. The law went into effect starting at the beginning of 2023. Moving forward, our office will analyze and monitor the economic and labor market data to assess any impacts from the law. Our office will work to incorporate these changes, if any, in the broader context of the state's agricultural economy.



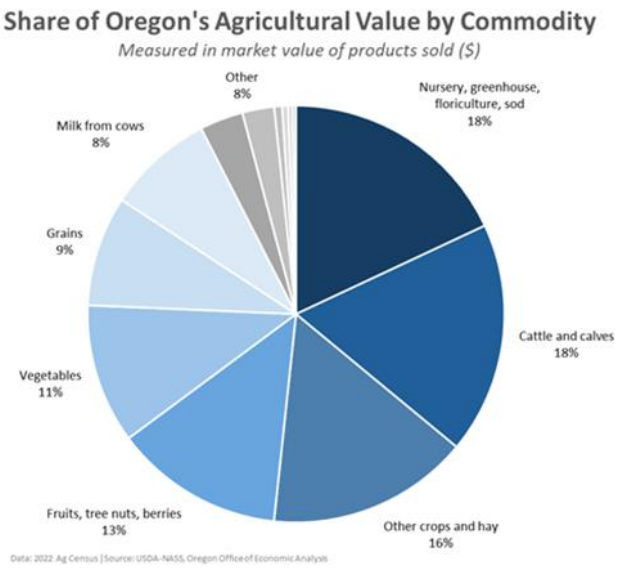
In recent quarters this office has highlighted QCEW data, the nearly real-time data coming from businesses submitting records for unemployment insurance purposes. However, in Oregon, many agricultural employers are not subject to pay unemployment insurance taxes. As a result, the agricultural sector has a less robust employment representation in the covered employment statistics, when compared to other sectors. It's also important to note that agricultural data is highly seasonal due to harvests, which makes interpreting trends more challenging. However, OEA will continue to report on the latest information as it becomes available. As of this forecast, the third quarter of 2025 Oregon data and the second quarter of 2025 U.S. (all states) data are available.

From 2024 Q2 to 2025 Q2, Oregon's average wage growth in crop production has trailed slightly behind the national average, while wage gains in animal production have been notably weaker than those seen nationally. Interestingly, while average wages have increased for these sectors, they have also experienced job gains. Crop production and animal production are both outpacing the U.S. in terms of job gains but are falling short of the average wage growth. In prior publications, we had noted the pattern of weaker employment paired with stronger wage growth fit the expected patterns of the impact of the new law.

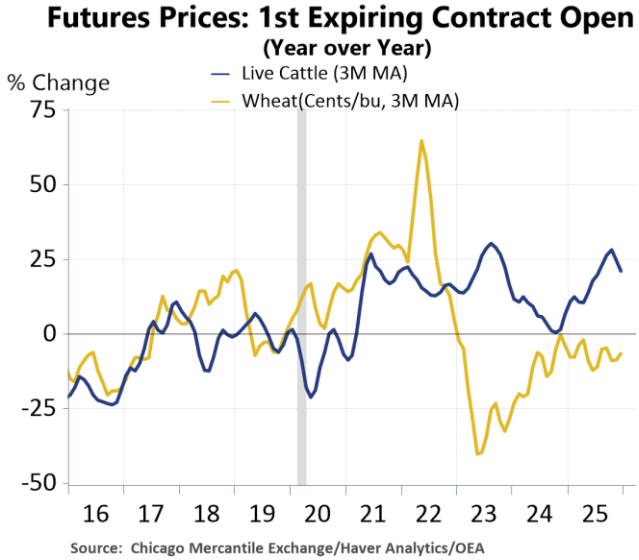


Keep in mind that this is still preliminary data and is far from enough information to make any strong assessments of how the law is impacting the state economy, given the changing dynamics. It is a big picture analysis using a simple year-over-year comparison. As such, it is hard to say whether Oregon's experiences are due to the new law or more a reflection of broader industry trends given commodity prices, tariffs and other factors.

According to the United States Department of Agriculture (USDA), Oregon's agricultural sales were nearly $6.8 billion, or approximately 1% of all U.S. sales in 2022. Oregon's agriculture sector has grown slower than the industry nationally in terms of its output and job gains. The next census will not be conducted until 2027, so this data source is significantly lagged.

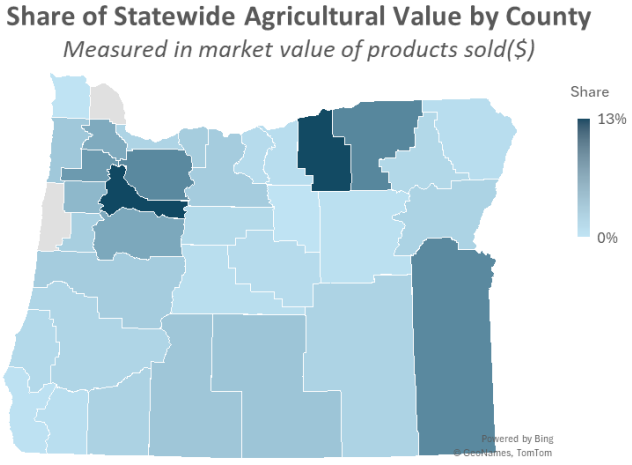


Although the agricultural industry is not large in terms of employment for the state, at about 3.8% of all private jobs in 2025 Q3, it remains a critical pillar of Oregon's economy. The state excels in the production of a diverse range of crops, including berries, wine grapes, nursery plants and hay, as well as livestock and dairy.



Live cattle and wheat are two of Oregon's largest agricultural staple goods. The Chicago Mercantile Exchange's data show that wheat prices have been in decline since the beginning of 2023. Decreasing prices on futures contracts can be a projection of continued hardships for those farming and selling those commodities. In contrast to wheat, live cattle prices have a more optimistic outlook and have been growing since 2020, when prices dropped concurrently with the recession. With an improved outlook for 2026, we may see the current strength continue or grow through the year.

Although Oregon is recognized for certain commodities, the state produces a wide array of agricultural products. These vary across the region as counties differ in both agricultural value-added and by specializations in the product produced. The largest contributors to statewide value are Marion and Morrow counties. The western part of the state emphasizes fruits, berries and nursery products. The eastern region focuses on hay, cattle and specialty crops like grains and oilseeds.



Source: USDA-NASS, Office of Economic Analysis

Near- to Medium-Term Forecast Risks

Oregon faces a multitude of near- to medium-term economic risks ranging from commodity price shocks to geopolitics. Brief synopses are included below:

- *Immigration*: Large-scale deportations of undocumented immigrants are straining key industries such as agriculture, construction, hospitality, timber and food processing.

- *Geopolitical tensions:* Global instability — including conflicts in Eastern Europe and the Middle East, strained U.S.-China relations, and uncertainty around North American trade agreements — poses risks to Oregon's export-reliant economy. Semiconductor and advanced manufacturing sectors remain particularly exposed to supply chain disruptions and retaliatory trade measures.

- *Productivity/AI*: Increased use of AI could lead to a substantial rise in labor productivity and/or large-scale labor force displacement if rapidly adopted. Additionally, there is growing concern about an AI-driven investment bubble, where speculative capital inflows could inflate valuations and create systemic risk if expectations fail to materialize.

- *Federal policy/shutdowns*: The risk of federal government shutdowns or prolonged budget negotiations remains a concern. Such disruptions could delay critical funding for infrastructure, wildfire prevention, and social programs.

- *Income and Wealth Inequality*: Accelerating income and wealth inequality could slow overall growth and undermine economic resilience.

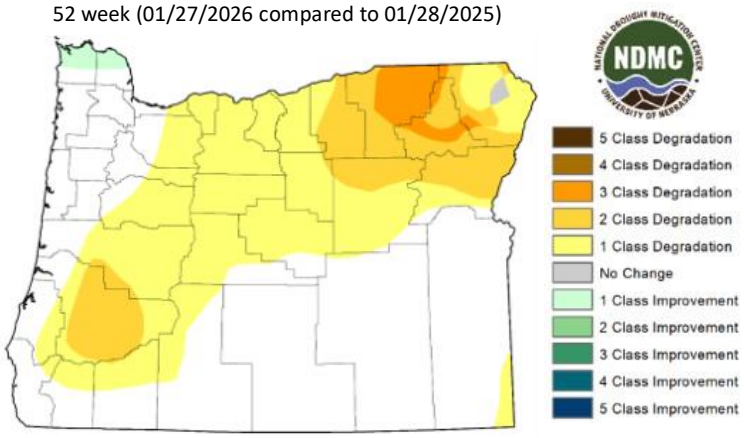
- *Oil prices*: Geopolitical tensions in regions including the Middle East, Africa and Venezuela are creating supply uncertainties which are in turn contributing to price volatility.

- *Drought*: Drought conditions in Oregon have worsened slightly, with lower than average snowpack combined with drier conditions in northeastern and southwestern regions posing risks to water supply.

- *Wildfires*: Wildfire risk remains elevated, and a federal funding freeze on prevention programs heightens concerns about the 2026 season.

U.S. Drought Monitor Class Change – Oregon

52 week (01/27/2026 compared to 01/28/2025)



Source: droughtmonitor.unl.edu

- *Flooding*: Atmospheric rivers have bolstered water supplies but increased flood risks.

- *Cascadia earthquake*: Oregon also faces the ever-present risk of a Cascadia Subduction Zone earthquake - an event with the potential to devastate the region's infrastructure.

Alternative Economic Scenarios

The baseline outlook is our forecast for the most likely path of the Oregon economy. However, as with any forecast, many other scenarios are possible. The alternative scenarios below are not the upper or lower bounds to all outcomes, but rather various plausible scenarios modeled on what OEA determines to be realistic assumptions for tail risks. For the revenue implications, see page 31.

The previous sources of uncertainty that had reduced confidence surrounding the baseline scenario have subsided in recent months. However, at the state level, labor conditions remain soft, with an unemployment rate that has continued to rise throughout the past year and a persistent underperformance of the national economy. Baseline conditions continue to manifest, leaving less time for the impact of the alternative paths to be realized in the current biennium. Overall, these factors contribute to higher confidence in the baseline scenario. While the probability of downside risks remains slightly more elevated than in normal times, they have been marked down since last quarter.

Alternative Scenarios			March 2026		
	2026	2027	2028	2029	2030
Employment					
Opt: Boom	2.0%	1.4%	1.1%	1.0%	1.1%
Opt: Solid Growth	1.1%	1.4%	1.3%	1.2%	1.2%
Baseline	0.6%	0.8%	0.5%	0.6%	0.8%
Pes: Moderate Recession	-1.5%	1.3%	1.3%	0.8%	0.8%
Pes: Severe Recession	-2.0%	-5.5%	0.4%	2.8%	4.1%
Unemployment Rate					
Opt: Boom	4.8%	4.5%	4.3%	4.2%	4.1%
Opt: Solid Growth	5.0%	4.6%	4.4%	4.4%	4.3%
Baseline	5.3%	5.2%	5.1%	4.9%	4.9%
Pes: Moderate Recession	7.9%	6.2%	5.4%	5.0%	4.9%
Pes: Severe Recession	10.6%	11.0%	9.9%	7.5%	5.7%
Personal Income					
Opt: Boom	6.6%	7.4%	5.7%	5.6%	5.1%
Opt: Solid Growth	5.4%	7.0%	5.8%	5.6%	5.2%
Baseline	5.1%	6.5%	5.1%	4.8%	4.7%
Pes: Moderate Recession	1.8%	7.6%	5.3%	5.0%	4.9%
Pes: Severe Recession	-0.5%	1.2%	6.3%	7.6%	7.8%

As such, our baseline forecast is assigned a 62% probability, which is an increase of two percentage points from the prior forecast. With the continued elevated recession risks, two additional alternative scenarios are included compared to previous editions: an extreme upside/boom scenario and a severe recession.

Pessimistic Scenario: Moderate and Severe Recession

The distribution of economic outcomes for this forecast exhibits greater certainty, with more confidence in the baseline than compared to the prior iteration. While the weight of the baseline remains somewhat lower than is typical during normal times, it has improved since the Q4 forecast. The pessimistic scenarios have gotten somewhat less likely but remain larger than the potential upside.

Downside economic risk accounts for 20% of the distribution, compared to 25% previously. For now, the most likely pessimistic scenario is a moderate recession. This has an 18% chance of occurring or being exceeded in severity, though that includes outcomes that are roughly in the same range (not statistically different) of a moderate recession. A severe recession is associated with a probability of 2%, including outcomes similar in severity.

The moderate recession scenario is for a three-quarter decline in employment totaling 2.2%, followed by a five-quarter recovery period, more in line with the so-called jobless recoveries following the 1990 and 2001 cycles. The 2.2% decline in employment is a loss of nearly 44,000 jobs. The unemployment rate increases to a high of 8.3% in the first half of 2026. In the 2025-27 biennium, total personal income in Oregon is approximately 2.1% below the baseline.

The severe recession scenario is for a seven-quarter decline in employment totaling 7.8%, followed by a 12-quarter recovery period. The 7.8% decline in employment is a loss of about 155,000 jobs. The unemployment rate increases to a high of 12.2% towards the end of 2026.

Optimistic Scenario: Solid Growth/Population Rebound

Some factors which could mark a critical break from the baseline forecast could come from a substantial rise in labor productivity (defined as output per hour worked) and an increasing labor force participation rate. Rising productivity enables the existing workforce to accomplish higher levels of output, all else equal. While the labor force participation rate is not particularly contingent on higher population growth and net in-migration, it can be an important contributor to higher employment levels. Oregon has experienced periods where employment growth has exceeded population growth, mainly driven by changes in the labor force participation rate.

Pandemic migration patterns differ from recent history substantially. There is good reason to think some of those changes will remain in the decade ahead, particularly when it comes to the combination of housing affordability and working from home resulting in lower migration to Oregon than in decades past. However, such a slow growth baseline does leave upside risks. What would happen if Oregon were to see a typical cyclical rebound in migration in the years ahead? By 2035, Oregon’s employment and total personal income are roughly 72,000 and 3.4% higher than in the baseline forecast, respectively.