Executive Summary

February 2026 — The Big Question: Does Growth Rebound Mean Jobs Pickup?

One of the consequences of the 43-day government shutdown spanning October and November of 2025 was a partial blackout of a wide array of economic indicators. This was particularly risky, given uncertainties around the degree to which the economy was continuing to slow and labor conditions further deteriorate.

The economy looked to be potentially encountering a critical loss of momentum, akin to an aircraft reaching "stall speed", at just the same time that many vital gauges in the cockpit went dark. The risk was that the economy could be in distress, and policymakers — lacking clear and timely evidence — would be slow to respond.

Recession risks were elevated for much of 2025, in large part due to a murky understanding of how consumers and businesses were responding to a rapidly changing tariff environment. Monetary stimulus from ongoing interest rate reductions from the Federal Reserve and fiscal stimulus resulting from federal tax cuts (H.R. 1) were expected to support economic activity — but the timing and magnitude of impact of both tariffs and these offsetting factors was unclear.

Much of the missing data has since been tabulated, and we now know the economy has proved resilient during this period. At the national level, growth in economic output exceeded most forecasters' expectations, labor conditions remained stable and price pressures, while elevated, did not spike to the degree many forecasters feared.

Economic output, as measured by real GDP (i.e. adjusted for inflation), surprised forecasters sharply to the upside in both the second and third quarters of 2025, rising 3.8% and 4.4% respectively. These results exceeded the initial median forecasts (of 2.6% for Q2 and 3.3% for Q3) by more than a full percentage point. This stronger-than-expected momentum appears to be carrying into fourth quarter activity as well — due to be reported later this month. The consensus among forecasters expects a gain of 2.1% for Q4 2025; meanwhile, a widely followed real-time estimate produced by the Atlanta Federal Reserve is currently tracking above 4%.

At the state level, output also appears to be rebounding. After suffering a sharp contraction at the start of 2025, Oregon's growth was below average in the second quarter, but the state ranked 20th for growth in Q3 — exceeding the national trend.

The growth figures resolve some important questions pertaining to tariff impacts and recession risks, but they also raise some important questions relating to employment conditions. Ordinarily, faster output growth (both nationally and at the state level) should translate into increasing demand for labor — as reflected in both an expanding workweek and a faster pace of job creation. The follow-through of faster growth into hiring remains unclear thus far, both nationally and in Oregon.

During the second half of 2025, a period where economic output appears to have grown two times faster than its normal (i.e. potential) rate, private sector job gains for the US averaged only 43,000 jobs per month, slightly less than one-third of the prevailing pace in the back half of 2024 (135,000 per month), when growth was appreciably slower. Hiring conditions in Oregon were also tepid, netting only 650 jobs per month between July and December. In short, impressive growth numbers have yielded less-than-impressive hiring gains and, as a result, the unemployment rate for both the US and Oregon has increased.

Economists have not yet definitely concluded why this occurring, but there are a few plausible explanations. If growth is not picking up on a sustained basis, then it is possible for labor conditions to be unresponsive to a short-term acceleration, particularly if business confidence is impaired. However, if the economy is sustainably reaccelerating — which is certainly fathomable in response to tax cuts and interest rate reductions — then it may merely be the case that a hiring rebound will occur with a lag.

A third possible explanation leans toward a structural shift in the economy, whereby technology is supplanting labor. If the economy can produce more goods and services with fewer workers, it may be witnessing an increase in productivity. It is possible that massive investment in artificial intelligence in recent years and accelerating adoption rates are starting to bear results in terms of labor displacement. If so, faster growth may not translate into faster hiring.

It is the view of this office that it is probably too soon to see such rapid adoption of new technology result in such a meaningful displacement of labor—but this potential impact will need to be carefully considered over a longer time horizon. Instead, our expectation is that firmer growth is likely to be sustained, and this will ultimately boost labor conditions. The economic data released between now and our Q2 forecast update on May 20 should yield considerable insight into the mystifying disconnect between output and labor demand.

The most significant revelation regarding revenues is that the recent strength in Corporate Income Tax receipts, which were discussed in the prior forecast release, turns out to have persistent consequences for the forecast. Prior interpretations regarded this bump as one-time phenomenon. However, additional information in recent months has augmented our understanding of these trends. When combined with improved readings for economic output and profits, this results in a healthy increase in corporate tax revenues. Somewhat negating this effect, personal income tax data for tax year 2024 revealed softer growth than previously expected. The net impact is that net General Fund revenues have increased $120.9 million from the previous forecast.

Agencies have until December 31 following the end of the biennium to finish expending their appropriations. With the books now closed on the 2023-25 biennium, the ending balance (which becomes the beginning balance for 2025-27) is now known. The beginning balance has increased $147.1 million from the prior forecast. Combined with the increase in revenues, total available General Fund resources have improved by $252.7 million. The ending balance projected for the General Fund at the end of the current biennium is now $197.9 million.

Outside the General Fund, projected revenues have improved since the last forecast. Lottery earnings increased by $33.8 million, due both to the recent Powerball jackpot spike and improving Video lottery sales. The Corporate Activity Tax is raised $17.9 million as recent activity related to prior tax years has beaten expectations. Marijuana taxes are reduced $3.4 million to a projected $285.7 million for the biennium.