Economic Outlook

Macroeconomic Setting

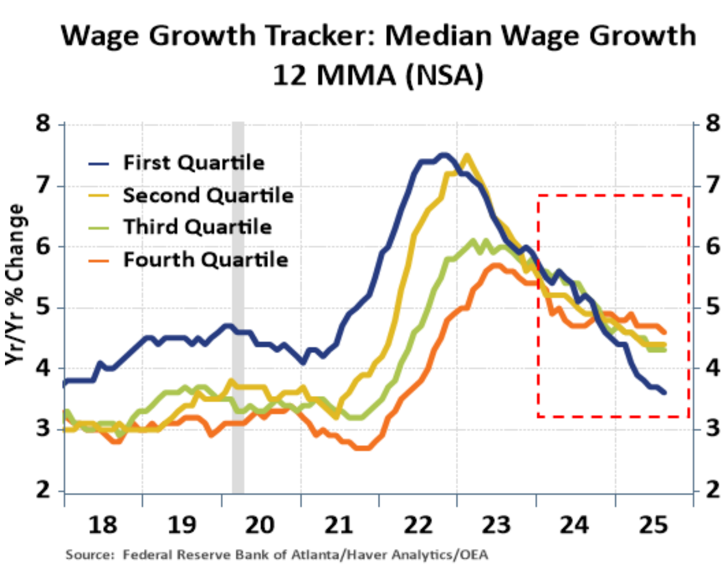
Economic inflection point: Backing away from the cliff-edge of recession

A key theme of the national economy in 2025 has been resilience in the face of considerable headwinds and uncertainty. Forecasters anticipated heightened recession risks for much of the year, particularly after the initial tariff announcements in April which resulted in a rapid and acute souring of financial conditions. However, the economy appears to be successfully skirting past a downturn. An output deceleration still appears intact through year end, but to a much lesser degree than forecasters anticipated earlier this year. A more modest slowdown alleviates the risk of growth dipping to a critical "stall speed." The broad consensus among forecasters now expects growth to reaccelerate (moderately) in 2026.

The improved outcome is not a coincidence, but rather the confluence of a few major factors: The tariff impact was delayed and ultimately reduced. The Federal Reserve has supported financial conditions by reengaging in an interest rate cutting campaign, which is expected to continue into next year. Lastly, tax cuts for businesses and households — some of which had retroactive elements — are helping to offset the effective tax increase imposed through tariffs. In fact, the price tag (i.e. expected revenue) of tariffs is smaller in magnitude compared to that of the tax reform package, which should therefore impart a net positive fiscal impulse, all else equal.

Post-pandemic "rising tide" gives way to K-shaped economy

Importantly, top-line economic resilience nationally does not assure economic resilience of underlying entities, be it states or various cohorts of the income strata. In prior years, the post-pandemic growth surge was so powerful that it broadly boosted economic fortunes, but as activity has subsequently moderated, fortunes have diverged across income and demographic spectrums.

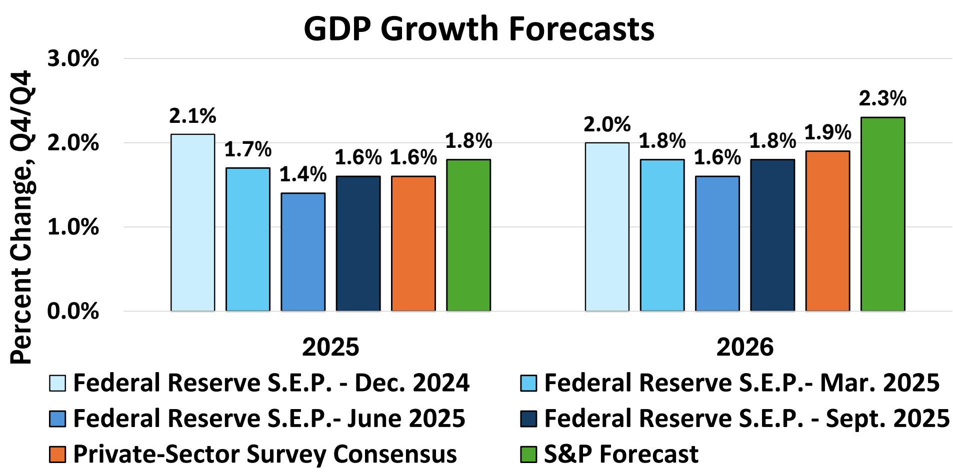


For example, upper income households continue to benefit from comparably tighter labor conditions and buoyant asset prices, whereas lower income households are realizing notably softer economic conditions while still facing persistent inflation pressures. This unequal, or K-shaped, dynamic also applies across industries, as sectors related to tech, semi-conductors, artificial intelligence and data centers witness an ongoing boom, while other sectors such as commercial real estate, homebuilding and manufacturing continue to struggle.

2026 breaks the trend

While the economic resilience displayed to date is impressive, an equally remarkable development may be materializing in 2026—a growth rebound. The overarching narrative post-pandemic has been the application of policy brakes to restrain inflation by slowing the economy and rebalancing conditions. As a result, a broad swath of economic indicators, spanning growth, labor and inflation, have consistently looked cooler in any given year compared to the preceding year. This is likely to be true again in 2025, with real GDP projected near 1.6% (Q4/Q4) compared to 2.4% in 2024.

However, the 2026 economic profile is set to break this trend, marked by faster economic growth and a rebound in job creation - all of which are likely to limit any relief on the inflation front to only incremental improvement. The broad parameters of this outlook are not unique to our national forecast provider; it matches that of the Federal Reserve as well as the consensus survey of private sector economists.



The pause that refreshes

If such a forecast profile is realized, this could reflect the economy undergoing a mid-cycle refresh whereby it re-organizes, rebalances and, to some degree, reaccelerates. This is not uncommon in longer economic cycles, particularly following interest rate reductions from the Federal Reserve. Similar scenarios occurred in 1987, 1996 and 2019, and the respective expansions endured for several additional years. (The 2020 downturn is an exception, but this was due to non-economic factors).

Re-invigorated growth will be welcome news to a labor market which has lost momentum in recent quarters—a situation which the Federal Reserve Chair has recently characterized as low hire/low fire. However, stronger demand could also create upward inflation pressures, particularly with households' and businesses' inflation expectations destabilized by the post-pandemic inflation experience in general and, more recently, due to tariffs.

The consumer price index has reaccelerated over the last six months and is currently running a full percentage point above monetary policymakers' target of 2%. Fed officials are wary of reducing interest rates too quickly or by too much until they have greater confidence that tariff pressures are a one-time price shock and not contributing to a more persistent feedback loop. That said, President Trump stands to have greater influence over monetary policy as he appoints new members to the Federal Reserve Board of Governors, including replacement of the Fed Chair in 2026. The collective temperament of his nominees could alter the resolve of officials to combat inflation via higher interest rates.

The inflation outcomes from prior mid-cycle refreshes are mixed, as both 1987 and 2019 saw rising inflation but 1996 witnessed an inflation-reducing productivity boom. A reprise of the latter could be possible given the scale of AI investment occurring presently, although it is worth nothing that it has yet to manifest meaningfully in the official economic statistics.

Greater uncertainty — reduced transparency

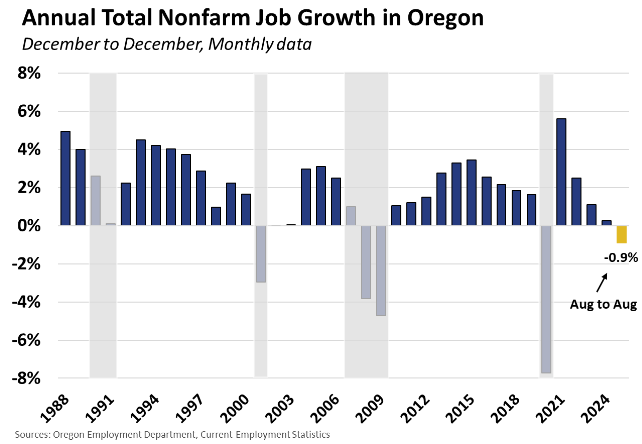
The risk profile around the outlook remains atypical — as it continues to be plagued by heightened recession risk. The probability of a downturn has receded from earlier this year but remains elevated relative to an ordinary year. A growth reacceleration may loom on the horizon, but until this turn occurs, the final stage of deceleration is fraught with risk — particularly given the dearth of official statistical releases due to the federal government shutdown. If the growth deceleration is overshooting or the vulnerability of the low hire/low fire labor market dynamic is greater than expected, these potentially critical stressors could go unrecognized and unreported until the data are finally released. A deluge of economic reports in the coming weeks could materially reshape the outlook.

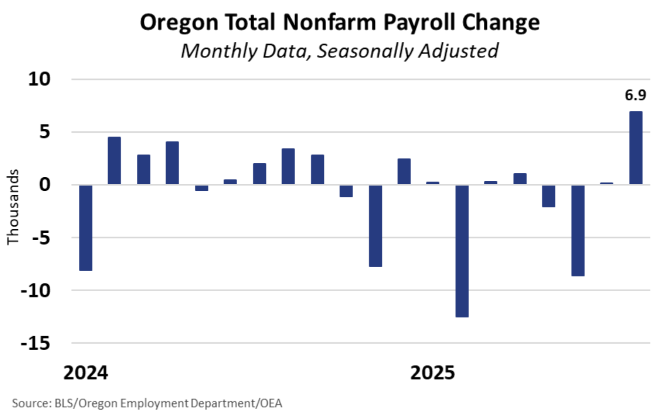
While any given year holds unique economic risks, it is rare for a single major risk to be known so explicitly and with such a digital outcome as the looming Supreme Court ruling on the legality of President Trump's IEEPA (International Emergency Economic Powers Act) tariffs. Not only will this have significant consequences for foreign trade and the concomitant pledges of foreign direct investment, but it will massively affect federal borrowing needs which have already increased due to the H.R. 1 tax cuts.

Confronted with heightened uncertainty, which will resolve somewhat in the near future, the Office of Economic Analysis has proceeded with heightened caution and deliberate gradualism in adjusting the economic and revenue forecast this quarter. As Federal Reserve Chair Jerome Powell noted in his October post-FOMC meeting press conference: "What do you if you're driving in the fog? You slow down."

Oregon's Economic Outlook

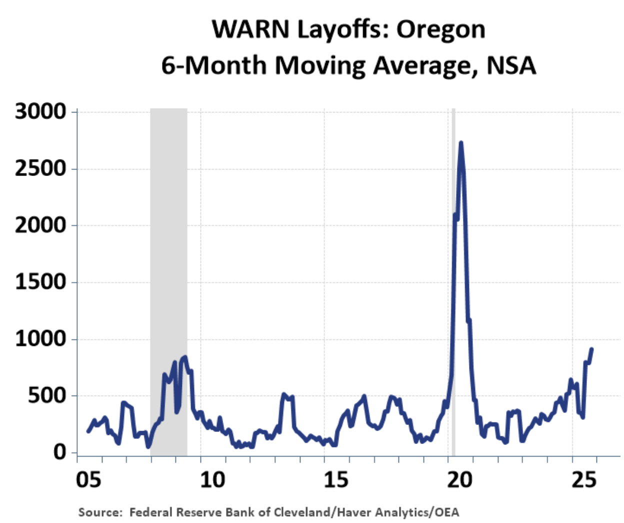
Oregon's economy deteriorated in the first half of 2025, with growth continuing to underperform the national economy. Revisions from the Oregon Employment Department show employment conditions weakening across most industries, with year-over-year job growth remaining negative. As it stands, year-over-year net job creation declined by 0.9% in August. Year-to-date job creation also remains negative, reflecting the persistent job losses that have occurred since the beginning of 2025.





However, the August jobs report showed a positive monthly gain of 6,900 jobs, the largest monthly increase Oregon has experienced since 2022. The large job gains may be a signal of a potential turning point for the state. Should these gains persist through the remainder of the year — which will be assessed once the production of employment estimates is resumed — it would suggest that Oregon's economy has turned the corner and is in the rebound portion of the "hockey stick" profile highlighted in prior forecasts. This coincides with a firmer rebound expected in the first half of 2026. The respective September and October employment reports will provide further insight into where Oregon currently stands on the hockey stick profile and will be assessed in upcoming reports.

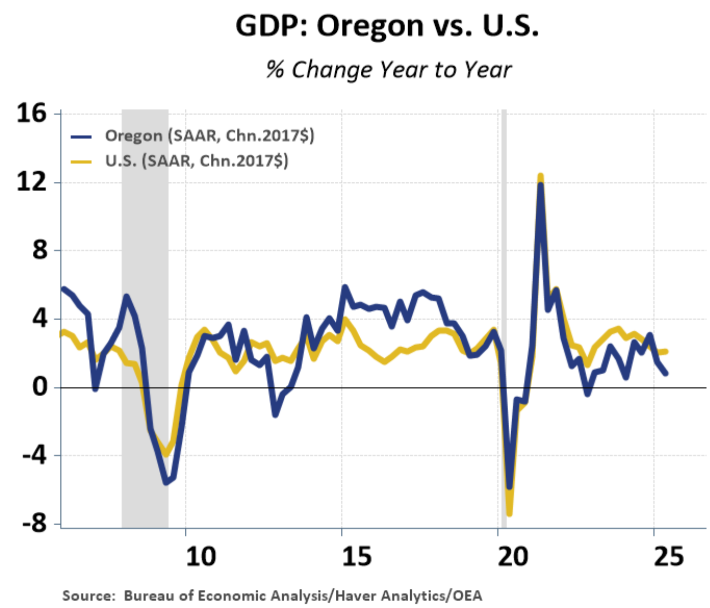
Furthermore, Oregon's unemployment rate has continued to increase, edging higher than the national average through the latest reported month of August. This points to an ongoing deviation in labor market performance between the U.S. and Oregon. The recent uptick in WARN notices also raises concern for the state, highlighting potential vulnerabilities to employment across certain industries.



Although WARN notices are at levels not seen since 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), along with the recent positive job gains, 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 despite the recent soft patch.

In the aftermath of the pandemic, the state's economic fortunes have been closely correlated with national trends. This pattern broke down at the start of 2024 as growth decelerated more sharply in Oregon due to a conflux of weak population growth and microeconomic factors among core industrial entities in the state. Historically, the state has grown at an above-average rate by virtue of outsized exposure to faster growing sectors such as tech/semiconductors, and favorable demographics; namely sturdy population growth underpinned by solid in-migration.

Oregon GDP growth was slower than U.S. GDP growth across most of 2024, and state job creation lagged the national average as a result. The year-over-year GDP growth rate for Oregon was 0.8% in the second quarter of 2025, while the U.S. grew 2.1%. Oregon had closed the gap in growth rates in the third quarter of 2024 and outpaced the U.S. in the fourth quarter. This was the first instance of Oregon outpacing the U.S. since the first quarter of 2021. Through 2025 thus far, Oregon has lagged the national economy.



As illustrated in the accompanying figure, Oregon has continuously lagged national GDP growth in the post-pandemic recovery. State GDP growth downshifted at a slightly faster pace than the U.S. in 2022 and has maintained a lag thus far (2024 Q4 is an exception). Oregon GDP growth has averaged 1.6% over the last four years, compared to 2.7% nationally. However, firmer growth expected in the U.S. for 2026 should provide critical support to state-level activity, thereby bolstering output.

Recent federal government budget cutbacks and layoffs are also likely to impact state economic activity, particularly in eastern counties where federal employment accounts for a larger share of total payrolls. House Resolution 1 (H.R. 1) also makes significant changes to existing federal programs, which are expected to impact federal and health services employment in the state.

Topline Forecast Changes

- *Hiring:* Anticipated job creation is revised higher relative to the previous 2025 Q3 outlook by an annual average of 0.6%. This is in part due to recent tracking and a more optimistic outlook in the later years of the forecast horizon.

- *Unemployment:* 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.

- *Population:* Population growth for Oregon has been revised higher resulting from the new preliminary estimate for 2025 and upward revision of the past estimates by Portland State University, Population Research Center. This forecast incorporates latest revisions released by

PSU/PRC. The population is expected to grow by an annual average of 0.5% through the forecast horizon.

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

Key forecast assumptions

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

- ***Federal Fiscal Policy:*** The forecast includes provisions in the One Big Beautiful Bill Act (OBBBA). The OBBBA extends indefinitely the cuts to marginal personal tax rates enacted in the 2017 Tax Act and includes new deductions for tips and overtime pay, among other personal tax provisions. Federal employment is lowered with an assumed 255,000 federal layoffs through October 2025.

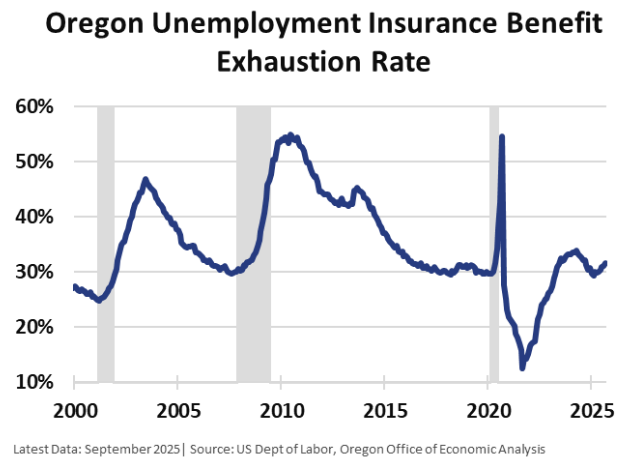
- ***State & local fiscal policy:*** Unspent pandemic-era funds as well as monies authorized under the Infrastructure Investment & Jobs Act (IIJA) mitigate pressures to reduce state and local spending. States are assumed to take on a larger share of provisions for Medicaid benefits in response to reduced federal grants.

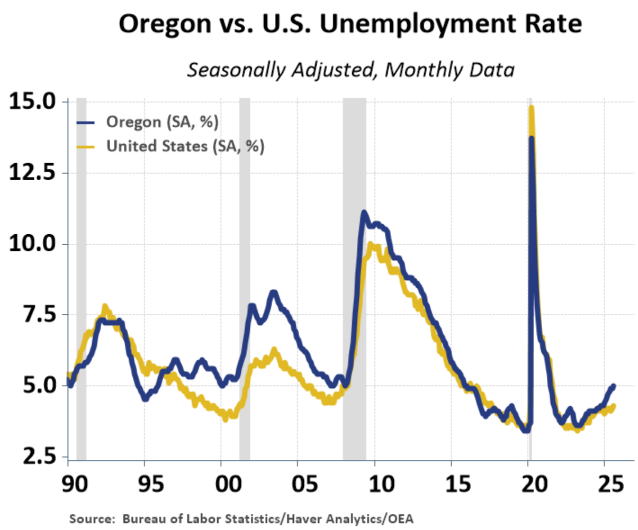
- ***Monetary Policy:*** The Federal Reserve cuts the federal funds rate by 25 basis points at the December FOMC meeting. The Fed then pauses before resuming rate cuts in June 2026. The federal funds rate reaches a range of 3.00%-3.25% in September 2026, very close to estimates of the long-run "neutral" range.

- ***Tariffs and trade:*** Assumptions include new Section 232 tariffs on semiconductors and critical minerals, ranging from 10% to 25%, effective in the first quarters of 2026 and 2027. International Emergency Economic Powers Act tariffs on imports from China (10%), Canada (45%) and Mexico (25%), the latter two step down to 15% by early 2026. Reciprocal tariffs are held at the rates announced on August 1st, which range from 10% to 40%.

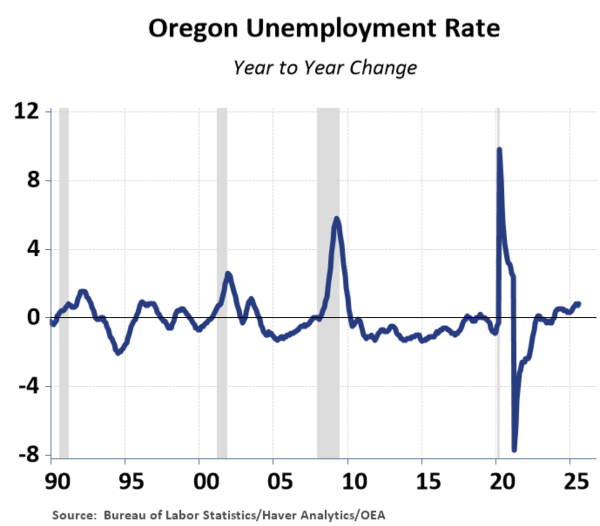
Update on Oregon Unemployment

To date, the Oregon unemployment insurance benefit exhaustion rate has risen slightly above pre-pandemic levels. This 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. Although the benefit exhaustion rate seems to be ticking up in recent months, the rate is still low by historical standards – an indication that the labor market has slowed but remains functional.





At the time of publication last quarter, Oregon had registered a 4.9% unemployment rate. In August (the latest state employment data available), the rate increased to 5.0%. This is the highest rate observed since the summer of 2021. Excluding the pandemic recovery, the most recent time in history Oregon had an unemployment rate of 5.0% was in January of 2016. Although the unemployment rate drifted higher in August, it was the first month since April that registered a monthly job gain rather than job loss.

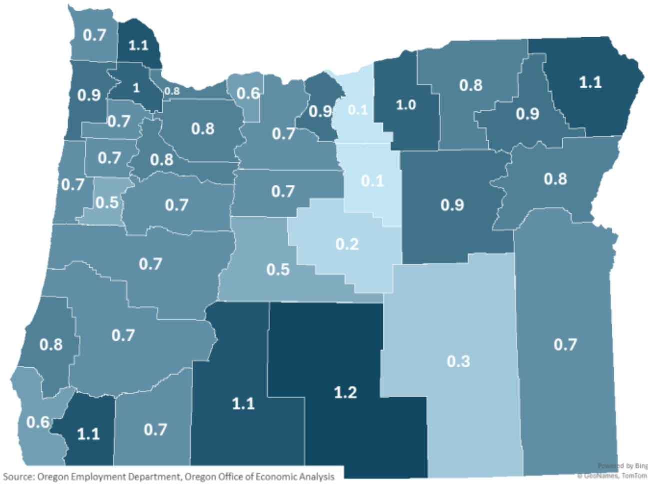


An ongoing trend from the unemployment data is the divergence of Oregon from the national unemployment rate. Since August 2024, Oregon's unemployment rate has risen gradually, while the U.S. unemployment rate has remained relatively constant. Typically, Oregon trends with the national unemployment pattern, which has not been the case thus far into the year. The most recent instance of the unemployment rate gap between the U.S. and Oregon being this large was in 2012.

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. OEA will monitor this trend to see if the unemployment rates continue to diverge outside of a recovery period, as they did in 1996, or if it is just a temporary anomaly in the labor market.

Unemployment Rate Change by County

Past 12 months, August 2024 to August 2025



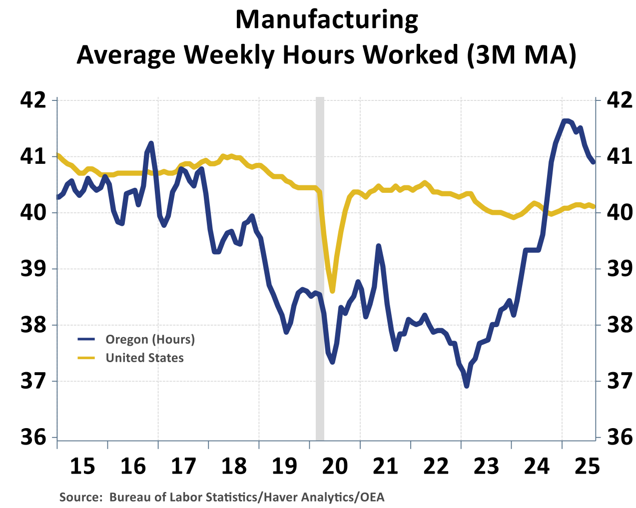
Source: Oregon Employment Department, Oregon Office of Economic Analysis

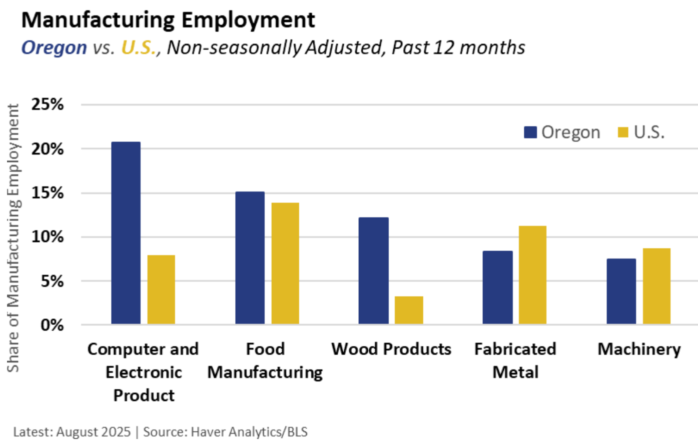
The accompanying figure on the right shows the unemployment rate change by county over the past 12 months. The change for the state overall is 0.8 percentage point. Nearly 40% of the statewide unemployment change is attributable to Multnomah and Washington counties, which have rate increases of 0.8 and 1 percentage points, respectively.

No counties in the state saw an improvement in their unemployment rate, with all counties remaining relatively stable or worsening. The largest increase in the unemployment rate during this period, 1.2 percentage points, was observed in Lake County. The two counties that saw the smallest increase in their unemployment rate were Gilliam and Wheeler Counties (0.1 percentage point change). However, the total number of unemployed persons in these three counties constitutes a small share of the state’s total.

Industry Insight: Manufacturing

Manufacturing in Oregon has seen fluctuations over the last two decades. Historically a strength for the regional economy, the industry has seen its share of jobs decline over time. In 2025, Oregon manufacturing saw continuous job losses persisting into the third quarter. While there was a small uptick in manufacturing hours worked during the second quarter, concurrent with initial tariff increase announcement, that growth was short-lived. The current direction of manufacturing hours worked per week in Oregon, coupled with ongoing job losses, raises concerns for the sector.

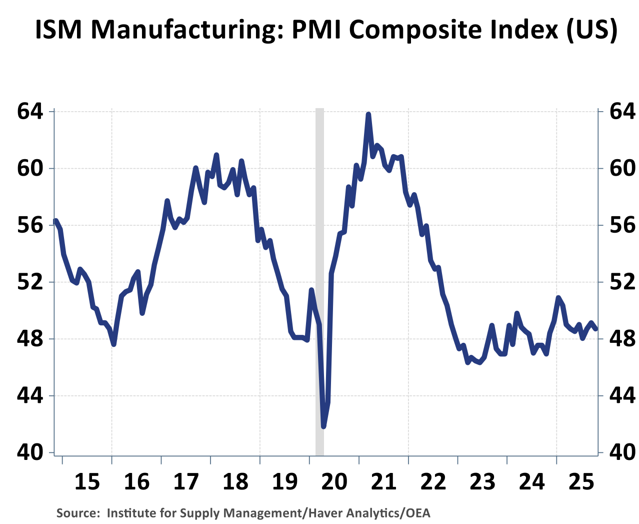




Oregon has a larger share of manufacturing jobs compared to the U.S. overall and is therefore more sensitive to changes in trade policy. Over the past 12 months, manufacturing accounted for 9.1% of total nonfarm employment in Oregon, compared to 8.0% nationally. The differing mix in the manufacturing industry composition may explain why Oregon has seen a distinct decrease in manufacturing hours worked, while the United States has held steady.

One indicator that can provide additional insights into the manufacturing sector is the Institute for Supply Management Manufacturing Purchasing Managers' Index. The ISM Manufacturing PMI® is based on survey data compiled monthly from purchasing and supply executives nationwide on new orders, production, employment, supplier deliveries and inventories.

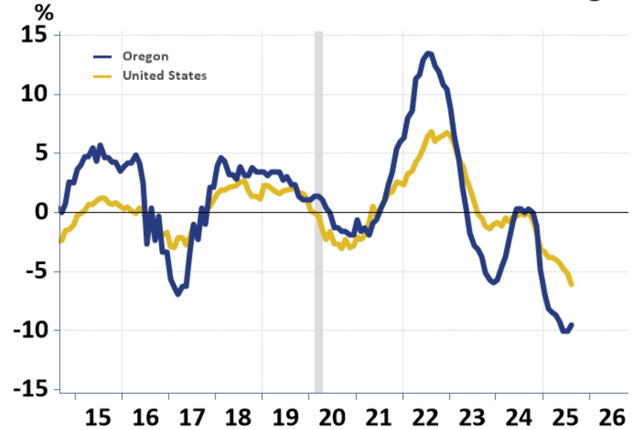
A reading above 50 indicates that the manufacturing sector is generally growing compared to the previous month, while a reading below 50 indicates that it is generally declining. The average Manufacturing PMI for Quarter 3 is 48.8, up from 48.5 in Quarter 2. This suggests that while overall U.S. manufacturing activity has been contracting over the last two quarters, it is not worsening and is holding well above the levels seen during recessionary periods.



Industry Insight: Semiconductor & Other Electronic Component Manufacturing

Semiconductors are found in almost all modern technology and affect the operability of most Oregon industries. The semiconductor industry is one of the state's strengths, even while being buffetted by continued job losses.

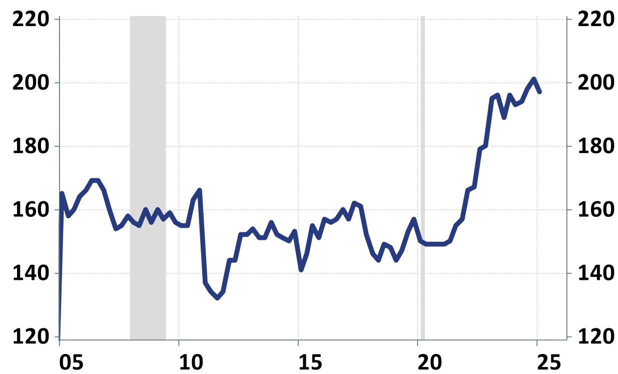
Employment Y/Y Percent Change
Semiconductors & Other Electronic Mfg



Source: Bureau of Labor Statistics/Haver Analytics/OEA

Employment in semiconductor and other electronic component manufacturing has been declining in Oregon since it's peak in 2022 of 34,000 jobs. The first half of 2025 saw that decline continue, with a slight uptick in the early summer. While this slight increase could be a positive sign of the semiconductor industry stabilizing, the data are only available through August. It is likely that third quarter layoffs reported through WARN notices in the industry, particularly in Oregon, will turn the trend downward again over the next few months.

Establishments
Semiconductor & Electronic Mfg

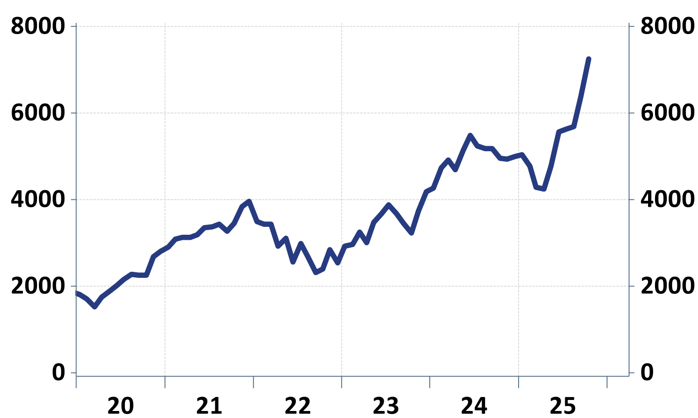


Source: Bureau of Labor Statistics/Haver Analytics/OEA

The number of establishments in the semiconductor industry had reached a high of nearly 200 in the last quarter of 2024. Following the pandemic, there have been notable gains in the industry. This appears to have stalled, as the first quarter of 2025 saw Oregon lose four establishments. While this reflects the job losses in the industry seen in the beginning of 2025, employment is not tied tightly to the number of establishments, which is evident over the last five years. Employment losses may simipily indicate shifting industry dynamics.

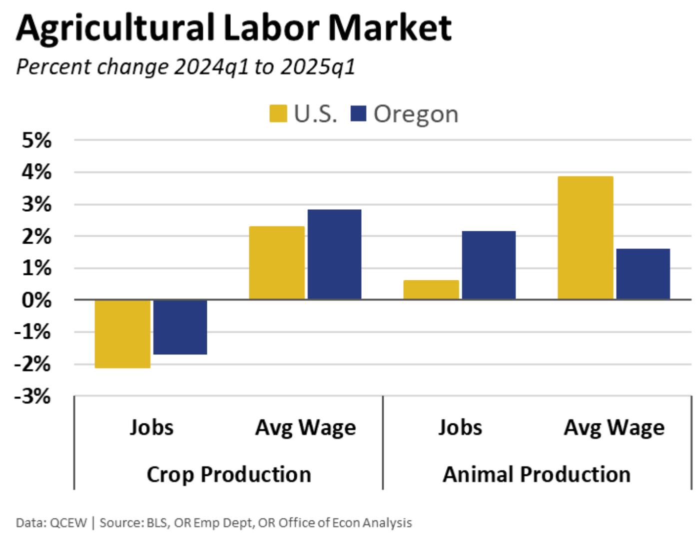
A useful measure of economic conditions in the semiconductor industry is the Philadelphia Stock Exchange Semiconductor Sector Index (SOX)—a market capitalization-weighted index that measures the performance of the 30 largest semiconductor and semiconductor equipment manufacturing firms. After sustained growth through 2024, the index began 2025 with a sharp decline that coincided with heightened tariff and trade uncertainty. The industry has rebounded strongly beginning in May 2025, potentially due to a stabilizing tariff environment. The strong growth continued through the third quarter, with the SOX reaching a new high in October.

PHLX Semiconductor Index
(EOP, Dec 1-93=100)



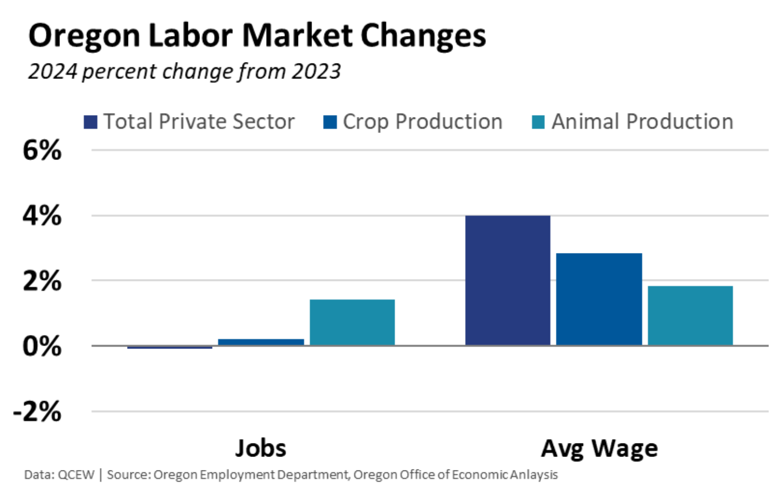
Source: Wall Street Journal/Haver Analytics/OEA

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 we have 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 very 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 second quarter of 2025 Oregon data and the first quarter of 2025 U.S. (all states) data are available.

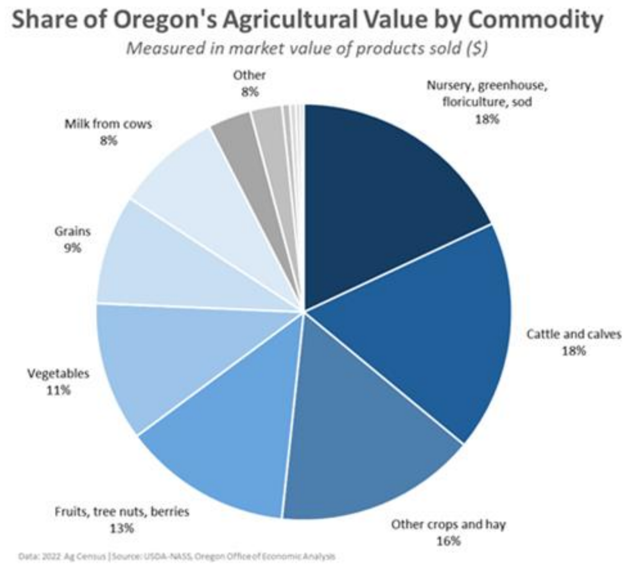


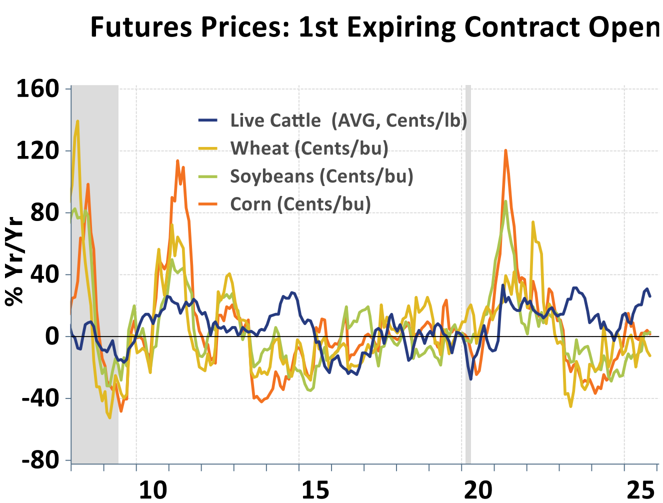
From 2024 Q1 to 2025 Q1, Oregon's average wage growth for crop production is slightly outpacing the national average, whereas the average wage gains in animal production are significantly lower than those seen nationally. While average wages have increased for those in crop production, the sector has has also continued to experience job losses. In contrast, there has been slower growth in average wages for the animal production sector, but greater job gains than seen nationally. In past forecasts, we had noted the pattern of weaker employment and strong wage gains 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, without further detailed analysis, 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 and the like.

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.

Although the agricultural industry is not large in terms of employment for the state, at about 3.1% of all private jobs in 2024, 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.



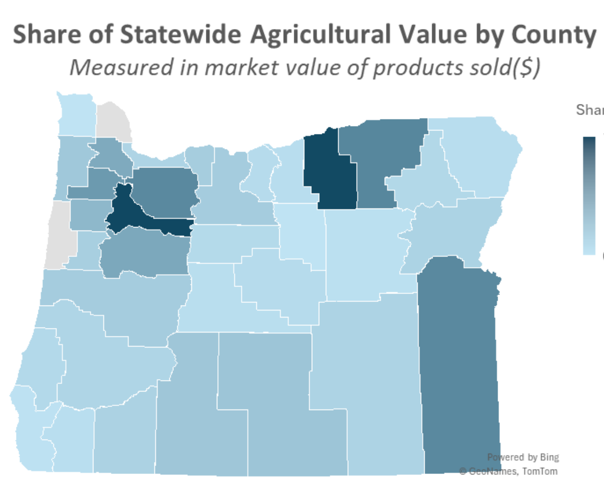


Source: Chicago Mercantile Exchange/Haver Analytics/OEA

Live cattle, wheat, soybeans and corn are Oregon's largest agricultural staple goods. The Chicago Mercantile Exchange's data show that two of those goods (soybeans and corn) have continued to see increased prices over the past three quarters, while wheat has not. Decreasing prices on futures contracts can be a projection of continued hardships for those farming and selling those commodities. In contrast, live cattle prices have a more optimistic outlook and have been growing since 2021.

While drops in the growth rates don't necessarily indicate a recession, all four goods typically see sharp declines during recessions, especially cattle. Of the commodities listed, wheat is the only one thus far who has seen a decline in 2025.

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:

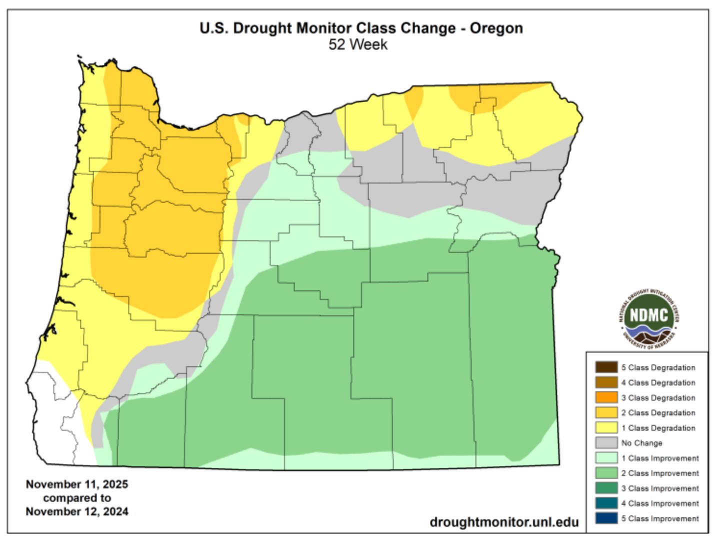
- *Immigration*: Large-scale deportations of undocumented immigrants is straining key industries such as agriculture, construction, hospitality, timber and food processing.

- *Trade shock/tensions*: While major sources of uncertainty pertaining to tariffs and federal fiscal policy have been resolved or diminished, ongoing tensions with major trade partners like China, Canada and Mexico continue to pose risks to Oregon's export-reliant economy.

- *Productivity/AI*: One factor that could mark a critical break with the recent past may come from a substantial rise in labor productivity—due to technological innovations, such as AI. This could lead to large-scale labor force displacement if rapidly adopted.

- *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 global supply uncertainties which are in turn contributing to price volatility.



- *Drought*: Drought conditions show regional variation across Oregon, with southern and southeastern areas experiencing improvements while the coast, Willamette Valley, Columbia River Gorge and northeastern Oregon are seeing worsening conditions.

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

- *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 27.

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 (through August) 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. These factors contribute to higher confidence in the baseline scenario while probability of downside risks remain slightly elevated, but lower than last quarter.

As such, our baseline forecast is assigned a 60% probability, which is an increase of three 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.

Alternative Scenarios	December 2025					
	2025	2026	2027	2028	2029	2030
Employment						
Opt: Boom	0.4%	1.2%	1.3%	1.4%	1.2%	1.2%
Opt: Solid Growth	-0.1%	1.2%	1.4%	1.4%	1.2%	1.1%
Baseline	-0.3%	0.5%	0.6%	0.8%	0.8%	0.8%
Pes: Moderate Recession	-1.5%	-1.9%	-0.1%	1.0%	1.8%	2.8%
Pes: Severe Recession	-2.3%	-1.5%	-1.9%	-0.1%	1.0%	1.8%
Unemployment Rate						
Opt: Boom	4.6%	4.5%	4.3%	4.2%	4.2%	4.1%
Opt: Solid Growth	4.7%	4.7%	4.5%	4.4%	4.3%	4.2%
Baseline	4.8%	5.1%	5.1%	5.0%	4.9%	4.8%
Pes: Moderate Recession	6.3%	6.5%	6.1%	5.3%	4.9%	4.8%
Pes: Severe Recession	6.4%	10.9%	10.7%	9.2%	7.0%	5.2%
Personal Income						
Opt: Boom	5.0%	6.3%	7.5%	6.0%	5.7%	5.2%
Opt: Solid Growth	4.8%	5.5%	7.2%	6.2%	5.6%	5.3%
Baseline	4.3%	5.6%	6.7%	5.4%	4.9%	4.8%
Pes: Moderate Recession	3.5%	3.1%	7.8%	5.6%	5.1%	5.0%
Pes: Severe Recession	3.4%	0.9%	1.4%	6.6%	7.8%	7.9%

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 Q3 forecast. The pessimistic scenarios have gotten somewhat less likely but remain larger than the potential upside.

Downside economic risk accounts for 25% of the distribution. For now, the most likely pessimistic scenario is a moderate recession. This has a 23% 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 2.5%, followed by a five-quarter recovery period, more in line with the so-called jobless recoveries following the 1990 and 2001 cycles. The 2.5% decline in employment is a loss of nearly 49,500 jobs. The unemployment rate increases to a high of 7.9% in the beginning of 2026. In the 2025-27 biennium, total personal income in Oregon is approximately 2.6% below the baseline.

The severe recession scenario is for a five-quarter decline in employment totaling 8.6%, followed by a 12-quarter recovery period. The 8.6% decline in employment is a loss of about 170,000 jobs. The unemployment rate increases to a high of 11.8% in the second half 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 nearly 75,000 and 3.4% higher than in the baseline forecast, respectively.