

December 2025 — Economy shows hints of pickup amid data blackout

National economic activity surged dramatically post-pandemic — and, largely by policymakers' design, the pace of growth broadly decelerated in subsequent years as monetary and fiscal brakes were applied in an effort to snuff out inflation. This slowdown appears likely to continue for 2025, with inflation-adjusted economic output projected to again grow more slowly than the prior year. However, an expanding consensus among forecasters anticipates stable-to-faster growth in 2026. It appears the multi-year, post-pandemic growth slowdown has reached an inflection point.

Importantly, the expectation of firmer growth in 2026 is hardly novel — instead, it is reflected in forecasts from the Federal Reserve, the private sector consensus and OEA's national forecast provider. Not only have current year forecasts backed away from the brink of recession, the outlook for 2026 has also firmed.

Signs of a reacceleration are presenting in a myriad of indicators: Financial conditions are providing a constructive backdrop, marked by favorable credit terms and equity markets near all-time highs. Survey data show small business uncertainty declining and purchasing manager indices in both the manufacturing and service sectors point to improving conditions.

It is premature to gauge the magnitude of reacceleration in the economy — to be sure, the tracking estimates of Q3 GDP pointing toward topline growth near 4% are likely overstating the extent of a sustainable pickup in activity. Nonetheless, this is welcome news following the growth/recession scare earlier this year.

An improving growth outlook is hardly coincidence. Rather it follows naturally from three main factors: Fiscal stimulus (i.e. tax cuts), interest rate reductions and a lower effective tariff rate relative to projections earlier this year.

In recent years, slowing growth and modestly higher unemployment bore some resemblance to the proverbial economic “soft-landing” pursued by policymakers — i.e. a slowdown that does not progress into recession but does lower inflation. The goal line remains uncrossed, as it does not appear the landing was soft enough for long enough to sufficiently restrain inflation pressures. Instead, recent inflation trends suggest price pressures are potentially re-emerging across a wide spectrum of goods and services, and at a pace that remains stubbornly above the Federal Reserve's target of 2%.

In summary, the national and state economic trajectory appears to be largely in line with, if not slightly better than, the forecast trajectory described in the preceding quarter. By some metrics, Oregon has underperformed national trends related to output and labor conditions, but resilient national economic performance should provide critical support to state-level activity. In addition, robust financial market performance to date is set to bolster one of the most volatile sources of state revenue: capital gains taxes. As such, the current translation of economic and financial conditions into a revenue forecast drifts in a moderately favorable direction.

OEA continues to view the economic profile for the current biennium as resembling a checkmark or hockey stick — and it appears that a rebound in growth is catalyzing. Improving conditions later in the biennium are expected to mitigate weakness in the earlier period.

Despite a stall in net job creation in the first half of the year, aggregate income generation has proven resilient, which is reflected in both personal and corporate income tax collections. This is an important real-time signal suggesting the economy is not in recession at present. It is also a reflection of persistent and elevated inflation, which lifts nominal activity and in turn tax revenues.

A partial blackout of vital economic statistics stemming from the federal government shutdown has impaired forecasters' ability to assess economic performance, but the message from alternative data sources — both in Oregon and at the national level — corroborate the Federal Reserve's recent assessment that economic activity has been expanding at a moderate pace. Recession risk remains elevated, but it appears to be diminishing.

The first six months of the biennium are generally quiet in terms of eye-opening revenue data, particularly when compared to spring tax filing seasons. In addition, the impact of significant structural shocks, namely House Resolution 1 (H.R. 1), tariffs and the federal government shutdown, won't be known for at least another 12-18 months. Thus, the only major change to the General Fund forecast concerns unanticipated revenue activity for Corporate Income Tax that relates to prior tax years. Due to the concentration of a large fraction of tax liability among relatively few taxpayers, Corporate Income Tax exhibits significant historic volatility. Large swings such as those seen in recent months are not uncommon. Outside of this change, the General Fund forecast is only mildly increased for the current biennium.

The General Fund revenue forecast for 2025-27 has increased \$309.5 million for the December forecast. Of this, \$266.9 million owes to Corporate Income Tax. Personal Income Tax has been revised upward \$48.0 million, while all other revenues have declined \$5.8 million. The projected ending balance as of June 30, 2027 is a negative \$63.1 million.

For non-General Fund revenues, the change to the outlook is both mixed and modest, reflective of how recent economic forecast narratives are generally panning out. Projected Lottery earnings have been increased \$9.2 million, driven by run-ups in jackpots and a moderate improvement to the Video Lottery Forecast. Corporate Activity Tax revenues are down \$31.1 million, or 1.0 percent for the biennium, owing to recent weakness in estimated payments. Finally, Marijuana taxes continue to soften from the robust growth rates seen in prior years. The forecast has decreased \$5.9 million from the previous iteration and \$12.1 million from the Close-of-Session forecast.