The Economic Outlook

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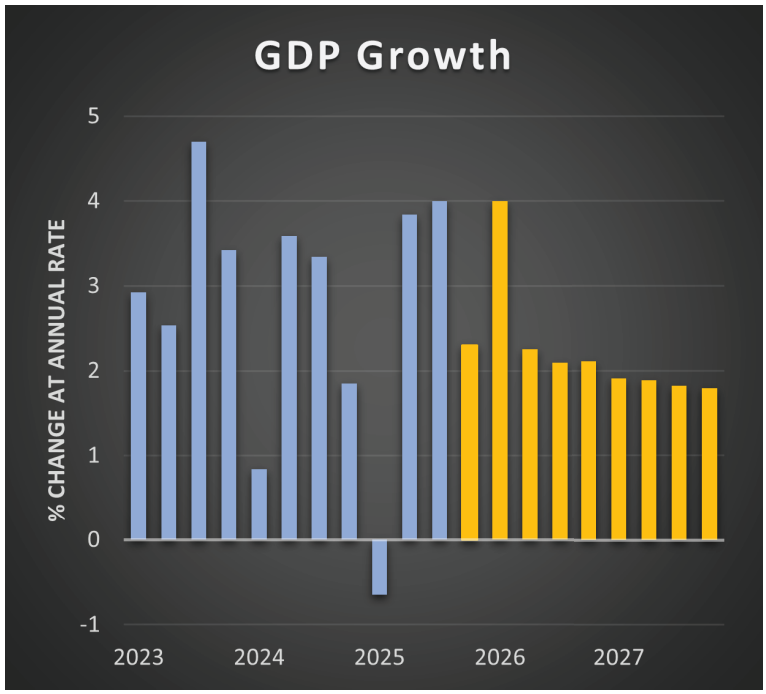
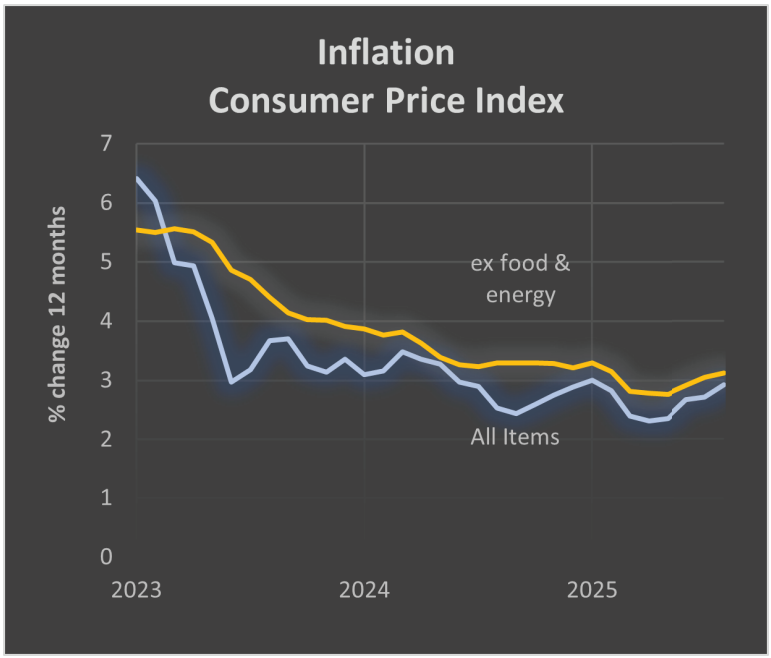
The United States economy probably slowed its growth rate in recent months, though the government shutdown limits our statistical understanding. But we have enough information to see that growth in 2026 will be positive though not as strong as in the first part of 2025. That is likely the case in Oregon and Washington as well.

The government shutdown came at a time of private sector deceleration. The shutdown itself cut economic activity, as federal employees reduced their expenditures and as some contracts were suspended or delayed. Most of this activity will bounce back in the first quarter of 2026, so the net effect of the shutdown will be that we end up close to where we would have been anyway.



However, private sector layoffs are taking their toll across the country as well as in the Pacific Northwest. Uncertainty about tariffs had led companies to drag their feet filling vacant positions. Now some are trimming staff. Tech companies in particular had kept many people because they were afraid of not having enough. Now they are seeing weaker prospects for cash flow and, in a few cases, higher productivity per worker. The effect is not particularly large, but it will trim a fraction of a percentage point off the growth rate of gross domestic product (GDP). On top of these recent changes, the labor force stopped growing due to immigration enforcement.

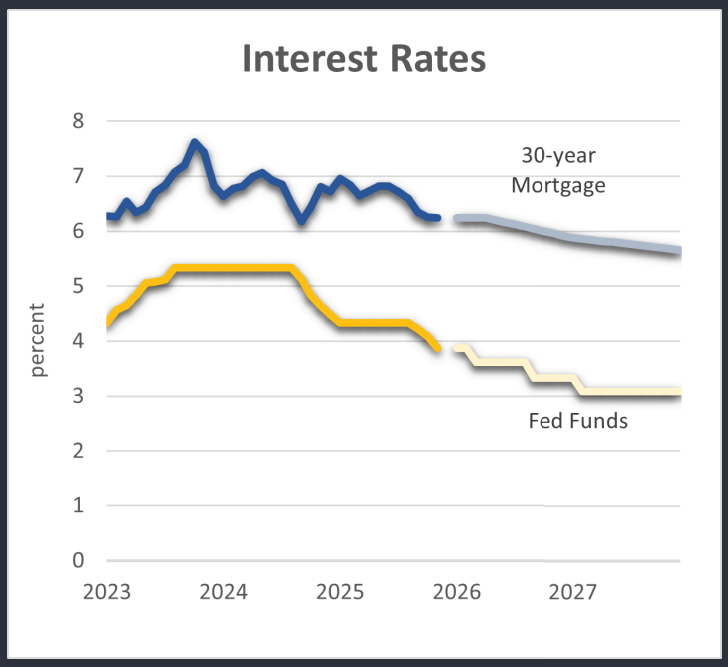


The net effect of all of these factors will be slower growth of the economy in 2026, though it will be growth rather than recession. Eventually artificial intelligence will boost productivity, enabling more output per worker, but that benefit will take a few years to accrue.

Inflation seems to be continuing at about its recent pace of three percent. Estimates of the impact of tariffs are coming out, suggesting that the underlying inflationary pressure has eased, though tariffs offset that easing. If the Federal Reserve concurs, then they can continue cutting

interest rates without risking acceleration of inflation. That's because the Fed believes, along with most economists, that tighter monetary policy is not appropriate when prices rise just because of tariffs.

Before jumping into a full forecast of falling interest rates, though, many economists as well as members of the Fed policy-making committee are doubtful that underlying inflationary pressures have dropped much. The Fed will probably be cautious, and thus less likely to cut interest rates, until we see a decline in actual inflation.

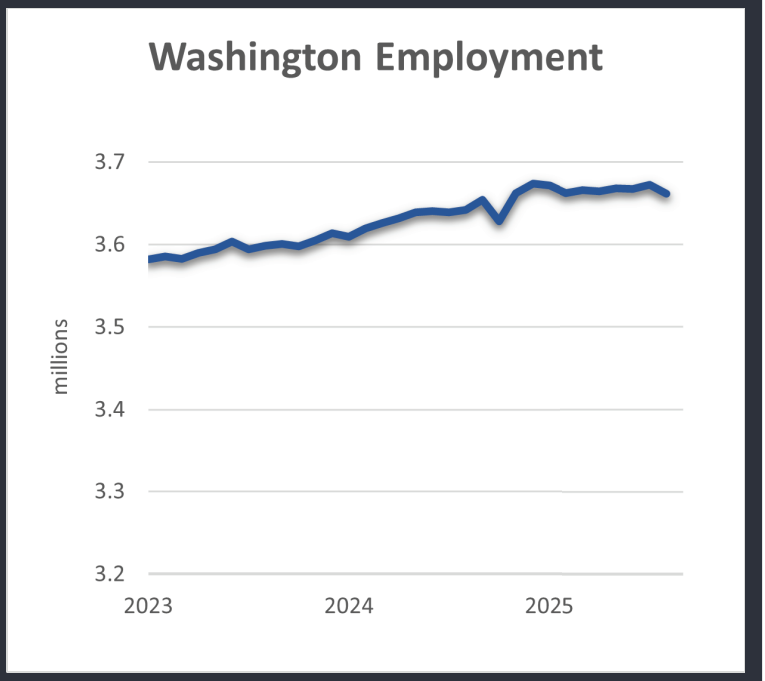


The Fed's limited rate cuts will bring longer-maturity interest rates, such as bonds and mortgages rates, down only a little. Gradually declining global interest rates will nudge U.S. rates down a bit more, but not enough to really change business conditions.

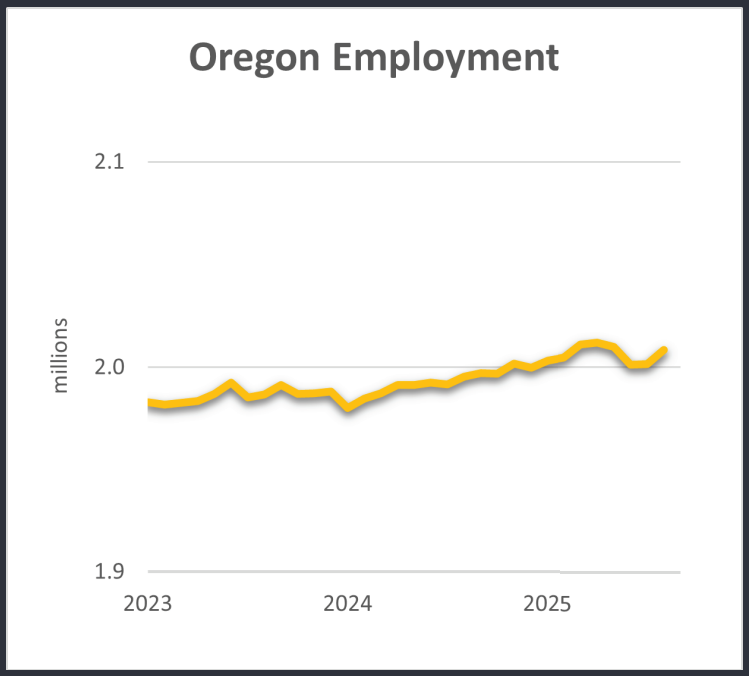
Although the economy appears likely to expand, the recent turmoil makes forecasts less reliable. The likelihood of a recession beginning some time in 2026 is probably about 25%, justifying contingency planning by most businesses.

In Washington, official layoff notices have been filed in the second half of 2025 by Amazon and Microsoft as well as many smaller companies. Total employment in the state had been roughly flat from January through August, the latest official data shows.
Real estate measures are more up-to-date. Home value estimates from Zillow indicate very small declines in the 12 months through October for the state, with some variation by area. Yakima and Walla Walla enjoyed above-average increases. ApartmentList.com reports that rents have increased a small amount in Washington, in contrast to the small decline nationwide. Vacancy has been about level in the past year.

In Oregon, job growth had been somewhat positive in the data through August. Recent layoff announcements have come from Wells Fargo and Intel in addition to seasonal and small job cuts at other companies.



Home prices in Oregon edged down a small amount according to Zillow (whose index looks at mid-priced homes). Apartment rents have dropped in line with the national trend, with vacancies about even with a year ago.



In sum, the Pacific Northwest is faring about as well as the rest of the country, with mild growth likely in 2026 and 2027.

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