February 4, 2026: Oregon's Revenue Forecast Sets Stage for Remainder of Session

The Q1 Oregon Revenue Forecast was released this morning in the Senate Committee on Finance and Revenue and the situation has improved since the 4th quarter forecast. While still down from the close of session forecast in 2025, it will seemingly allow more flexibility for budget changes to close out the 2025-2027 biennium. Despite the improved forecast, legislators are continuing to move forward with a proposal to disconnect from certain provisions of the federal tax code that were amended in HR 1 (the One Big Beautiful Bill Act) that passed in 2025, resulting in Oregon income tax increases for some businesses and individuals. The current tax proposal is contained in SB 1507 (update: this bill passed out of the Senate Finance and Revenue Committee on 2-9-26 with the -7 amendment).

As outlined in the revenue forecast, the U.S. economy is expected to strengthen modestly in 2026, reducing the risk of a recession. Real GDP growth is forecast at about 2.1 percent, inflation is still above the Federal Reserve's target but easing to around 2.7 percent, and unemployment is expected to remain mostly steady at 4.4 percent. Forecasters have become more optimistic over the past year, and the Office of Economic Analysis now estimates the chance of a recession at 20 percent. Business investment is accelerating, and rising household wealth, supported by a strong stock market, is helping sustain consumer spending and tax revenues. Even so, labor market conditions have not yet fully reflected the improvement in growth.

Oregon's economy continues to lag the U.S. overall, with slower growth and slightly higher unemployment, much of which is concentrated in Washington and Multnomah counties. Population growth is expected to stay slow and rely entirely on net migration. The state's revenue outlook has improved meaningfully. For the 2025–27 biennium, General Fund revenues are now forecast to be about 106 million dollars higher than in the prior forecast, and the beginning balance improved by 147 million dollars. Together, these changes pushed the projected ending balance from a $63 million dollar deficit to a $198 million dollar surplus, an improvement of roughly 261 million dollars. This reflects a total of an increase of $286 million dollars since the 4th quarter revenue forecast a couple months ago. Corporate tax collections were revised upward based on stronger economic activity and newly available tax data, but future revenues remain sensitive to whether economic conditions turn out better or worse than expected.

Looking ahead, attention will remain on whether labor market conditions begin to reflect the improvement in economic growth, how inflation evolves relative to expectations, and whether business investment continues to support expansion. For Oregon, employment trends in the Portland metro area and patterns of net migration will be important indicators of underlying momentum. While the economic and revenue outlooks have improved and recession risk has moderated, uncertainty remains, and outcomes will continue to depend on broader national and global conditions. Read the full revenue forecast here, watch the hearing here, or review the summary and presentation materials here.