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Oregon's economy appears to be in a real soft spot. While we believe the State will barely avoid a double-dip, the difference is not likely to be much appreciated.

The next few quarters are likely to feel like a recession. Job growth will be negative for several quarters, only turning positive late next year. Unemployment will reflect the job situation and remain elevated throughout the forecast horizon. In fact most of the forecasted decline in unemployment will reflect discouraged workers leaving workforce, rather than any underlying strength.

Economic output, because of increasing productivity, will increase more reliably than jobs. Gross product will mostly be flat in the short run, and will likely even decline for at least one quarter. However, after the immediate weakness, we expect Oregon's economy to then start growing steadily, but slowly. We don't expect to see Oregon's gross product growth reaching 3 percent until the last quarter of our forecast horizon, two years out.

Anemic economic growth implies continued weak real estate markets. We see no reason to anticipate any significant changes in Oregon's real estate markets throughout the forecast horizon.

Unfortunately, there are significant risks to the forecast, and they are predominantly on the downside. Europe is the most pressing risk. We believe the Eurozone must breakup, and when it does, a new financial crisis is almost certain.

Credit swaps and other financial instruments turn out to be very good at sharing risk. The result is that Europe's problems will become our problems. Credit markets are likely to freeze up, just as they did after Lehman's collapse in September 2008. The result will likely be a new worldwide recession that could be worse than the past recession, because institutions worldwide are still much weaker than they were in September 2008.

The Middle East is the other major source of forecast risk. Our economy is still hostage to Middle Eastern oil. In fact, the day that a significant supply interruption occurs is the day the recession starts. Current Middle Eastern instability makes a supply interruption that much more likely.

There is some risk that our forecast is too pessimistic. Events could unfold in a far better sequence than we or our models predict. While we like to be correct, we would welcome outcomes significantly better than our forecast. This has been a long painful period, and we are as tired of it as anyone. Let's hope we're wrong.