OHIO CHAMBER OF COMMERCE
RESEARCH FOUNDATION

OHIO CHAMBER ECONOMIC ADVISOR COUNCIL

OHIO ECONOMIC OUTLOOK REPORT
JANUARY 2026

Ohio Economic Outlook Report

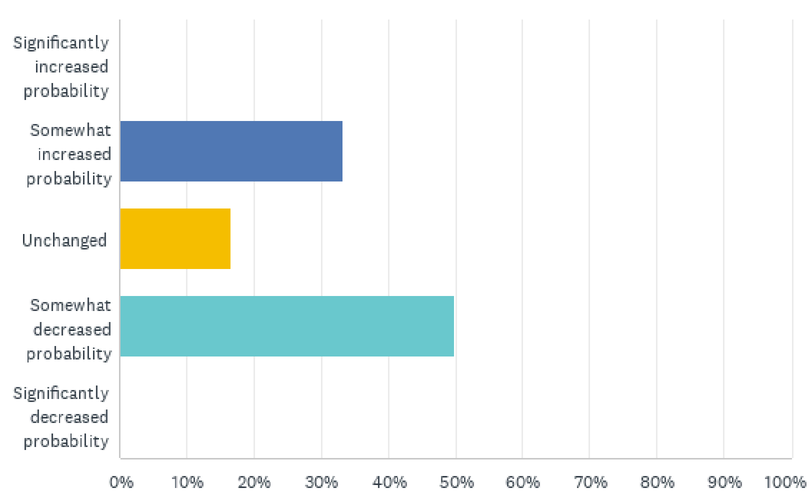
January 2026

Executive Summary

The Ohio Chamber of Commerce's Economic Advisor Council presents this January 2026 economic outlook as businesses prepare for a year of continued uncertainty and moderate growth. Following a tumultuous 2025 marked by policy volatility and mixed economic signals, council members project modest U.S. GDP growth around 2% for 2026, with Ohio expected to slightly underperform the national average.

The December jobs report reinforced concerns about labor market softening, with payrolls rising just 50,000. For the full year 2025, payroll gains averaged only 49,000 per month, compared with 168,000 in 2024, leading some economists to characterize 2025 as a "hiring recession." The unemployment rate fell to 4.4% from a downwardly revised 4.5%, but this decline appears to reflect temporary factors including workers returning after the government shutdown and compressed holiday hiring, rather than fundamental labor market strength. Notably, the broader U6 measure of unemployment—which includes marginalized workers and those forced into part-time work—remains more than 1% above pre-pandemic levels at 8.4%.

How has your assessment of recession risk for 2026 changed since our August survey?



Key findings include:

- **Federal Funds Rate**: Council members project the federal funds rate to end 2026 between 3.0% and 3.5%, with expectations for 2-3 rate cuts
- **Recession Risk**: Probability estimates average 30-40%, with one member projecting as high as 60%
- **U.S. GDP Growth**: Consensus projection of approximately 2.0% for 2026
- **Ohio GDP Growth**: Projected at 1.2-2.0%, continuing to lag national performance
- **Core PCE Inflation**: Expected to moderate to 2.1-2.5% by end of 2026
- **Ohio Unemployment**: Forecast at 4.5-5.0%, remaining above the national rate

The transition in Federal Reserve leadership, with Chair Powell's term expiring in May 2026, adds another layer of uncertainty to an already complex economic environment. Council members express concern about potential politicization of monetary policy while hoping institutional norms will preserve Fed independence.

Monetary Policy and Fed Leadership Transition

Interest Rate Outlook

Council members project the federal funds rate to end 2026 between 3.0% and 3.5%, representing a meaningful shift toward accommodation compared to the current 3.5-3.75% range. This reflects growing consensus that labor market softening will compel the Fed to ease policy despite inflation remaining slightly above target.

"A year-end 2026 federal funds rate target of 3.25%–3.50% remains the base case—roughly one 25 bp cut from today's range—but there is meaningful upside risk to the number of cuts depending on how the Trump administration reshapes Fed leadership in 2026," one member noted, highlighting the interplay between economic conditions and political dynamics.

The weak December jobs report appears to have shifted council members' views toward expecting more rate cuts:

- "2.75-3.00%. So, 3 cuts next year. I believe that the labor market is weaker than the data currently suggests and that the Fed will have a clearer path to more aggressive cuts after the annual benchmark revisions to the jobs data in February."
- "3.0 - 3.25%. Increasingly weak unemployment data and the significant likelihood of a recession lead to most likely 2 cuts."

Several members cited increased political pressure on the Fed as a factor, with one noting "too much political pressure on FED. I expect at least one cut."

Fed Leadership Transition: Risks and Implications

Chair Powell's term expires in May 2026, creating significant uncertainty about monetary policy continuity. Council members expressed a range of views on the implications, from confidence in institutional resilience to concern about potential politicization.

The optimistic view holds that "the consensus view is that the institution's long-standing credibility, internal checks, and the distributed voting structure of the FOMC significantly limit the likelihood of destabilizing shifts." Another member noted that "The Fed is a well established organization. Whoever the next leaders are will respect the data and make the decisions accordingly."

However, several members expressed concern about "Fed capture" if new leadership appears politically aligned rather than independent. "There's no reason to assume that the new Fed leadership will do anything other than follow the White House's lead," one member warned. "By definition, non-independent central banks exist in communist and state-controlled socialist economies."

The concept of a "shadow chair" being named before Powell's departure drew particular attention. One member noted this "is not particularly dangerous--the markets will simply begin accounting for Chair X's views," but added concern that "if the pick is partisan and viewed as unqualified--this could rock the bond markets."

Economic Growth and Recession Risk

U.S. GDP Outlook

Council members project U.S. Real GDP growth for 2026 at approximately 2.0%, reflecting moderate expansion amid easing financial conditions and ongoing AI-driven investment. This consensus masks significant uncertainty about the path ahead.

Factors supporting 2% growth:

- Gradual easing of inflation pressures
- Federal Reserve rate cuts providing stimulus
- Continued AI and data center investment
- Improved fiscal tailwinds
- Stabilization of trade policy (relative to 2025 volatility)

Key risks to growth:

- Labor market cooling faster than expected
- Consumer spending weakness, particularly among lower-income households
- Policy uncertainty continuing to dampen business investment
- Tariff-driven cost pressures

- Potential for geopolitical disruptions

"I anticipate real GDP growth in 2026 to come in at roughly 2%. This outlook reflects an economy that continues to expand—albeit modestly—as inflation gradually eases, labor-market conditions cool but remain stable enough to support consumption," one member explained.

However, the range of forecasts reveals significant disagreement, with one member projecting "Flat to -0.5. The gimmicks that were used to juice 2025 GDP won't play out in 2026 due to a weak population growth rate (i.e. labor shortages), increasing consumer debt, and persistent inflation."

Recession Probability

Recession risk for 2026 averages 30-40% across council responses, though estimates range from as low as 5% to as high as 60%. This represents a meaningful downside risk that businesses must consider in their planning.

The bearish case emphasizes labor market deterioration: "60%. The unemployment rate has risen 0.5 percentage points since June 2025. Such a move over a short period of time is often a precursor to a recession."

The moderate view acknowledges elevated risk while maintaining a baseline of continued growth: "A reasonable estimate is that the probability of a U.S. recession in 2026 is around 30–40%, reflecting lingering uncertainty despite expected moderate growth and ongoing policy support."

The optimistic perspective emphasizes policy support: "5%. Almost zero because the U.S. is aggressive in terms of promoting economic growth."

Most members indicated their recession risk assessment had either remained unchanged or increased somewhat since the August survey, suggesting persistent concern about the economy's trajectory.

Key Growth Risks

Council members identified several critical risks to economic expansion in 2026:

1. Policy and Tariff Uncertainty "I see tariff driven inflation, shifting trade policies, and overall policy unpredictability as major headwinds. These factors raise input costs, suppress business planning confidence, and extend supply chain pressures."

2. Labor Market Softening "Slowing job creation, rising layoffs (particularly in tech, telecom, and retail), and elevated continuing unemployment claims all point to a cooling labor market. A softer labor market threatens consumer spending—the primary engine of U.S. GDP."

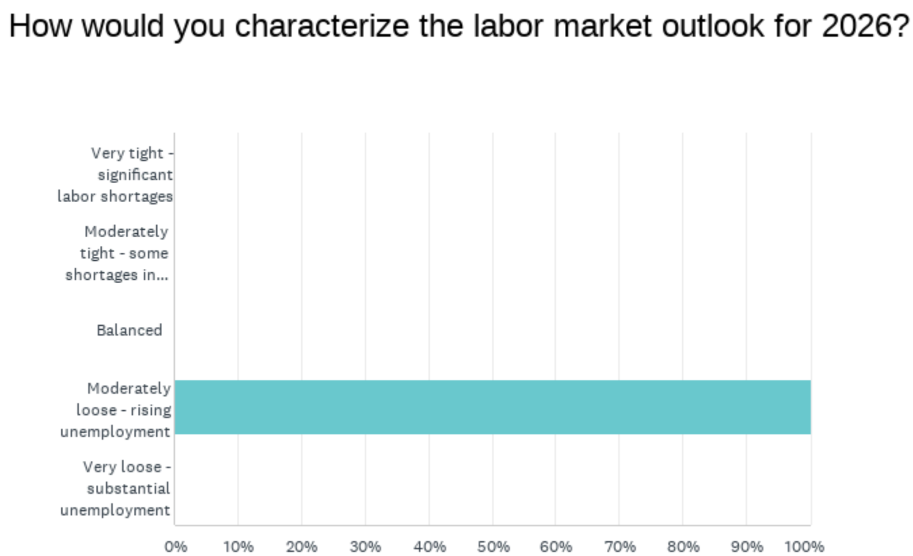
3. AI Bubble Risks Multiple members cited concerns about an AI bubble bursting: "Decline in AI confidence leading to a financial market correction" and "AI bubble bursting and having domino effects on rest of economy."

4. Consumer Spending Vulnerability With high-income consumers driving much of aggregate spending, an equity market correction could have outsized effects: "We have elevated P/E ratios and national consumption growth being driven by high end consumers, who are in turn fueled by the wealth effect."

Labor Market: A "Hiring Recession"

December Jobs Report Analysis

The December 2025 jobs report painted a concerning picture of the labor market, with nonfarm payrolls rising just 50,000—well below the 73,000 expected and representing the continuation of weak hiring trends. For the full year 2025, monthly payroll gains averaged only 49,000, compared with 168,000 in 2024. A staggering 84% of the year's job gains occurred in the first four months, with hiring coming to "a virtual standstill" thereafter.



As Navy Federal Credit Union's chief economist characterized it: "It's fair to say that 2025 was a hiring recession in the United States. The United States is experiencing a jobless boom where growth is strong, but hiring is not. It's a great scenario for Wall Street, but an uneasy feeling on Main Street."

The Unemployment Rate Paradox

The unemployment rate fell to 4.4% from a downwardly revised 4.5%, creating an apparent disconnect with the weak establishment survey data. However, this decline appears driven by temporary factors rather than fundamental labor market improvement:

- Government Shutdown Effects: "Many of those who were temporarily laid off in the wake of the government shutdown were able to return to work," providing a one-time boost to employment in the household survey.
- Compressed Holiday Hiring: Leisure and hospitality dominated job gains with 47,000 positions, "reflecting a catch-up after disruptions due to the government shutdown and a later-than-usual start to the holiday shopping and travel season. Much of holiday shopping and travel was compressed into the last month of the year."
- Declining Labor Force Participation: The labor force participation rate edged lower to 62.4% from 62.5%, with losses concentrated among those with high school diplomas. This decline mechanically reduces the unemployment rate even as fewer people are working.

Wage Pressures and Composition Effects

Average hourly earnings rose 0.3% for the month, with the annual increase of 3.8% coming in 0.2 percentage points higher than expected. However, "some of that acceleration reflects a loss in low-wage workers relative to high-wage workers, especially in places like retail. Management is losing jobs faster than front-line workers."

This composition effect—where job losses are concentrated among lower-wage workers—creates an upward bias in average wage growth that may not reflect genuine wage pressures. Entry-level workers have been particularly hard hit, though minimum wage increases in 19 states affecting an estimated 8.3 million workers may provide some offset in early 2026.

Council Members' Labor Market Assessment

All six council members who answered the labor market characterization question selected "Moderately loose - rising unemployment," reflecting consensus that the tight labor market of recent years has shifted decisively.

For Ohio specifically, council members project the average U-3 unemployment rate for 2026 between 4.5% and 5.0%, with most estimates clustering around 5.0%. This represents a meaningful increase from current levels and continues Ohio's pattern of unemployment rates above the national average.

"Based on the latest available data, a reasonable forecast for Ohio's average U-3 unemployment rate in 2026 is approximately 5.0%. National indicators point to a labor market cooling through 2026, with the U.S. unemployment rate rising toward 4.9% under the Moody's baseline. Ohio historically tracks slightly above the national rate during periods of manufacturing softness and policy driven uncertainty."

Critical Workforce Challenges

Council members identified several workforce challenges Ohio businesses will face in 2026:

Labor Supply Constraints: "Ohio businesses are expected to face tight labor supply, skills mismatches, and demographic headwinds as they move into 2026. Immigration crackdowns and slowing population growth threaten to further shrink the available workforce—an issue that could directly constrain Ohio's job growth."

Skills Mismatches: "Employers continue to report difficulty finding qualified workers, with labor quality cited as the single most important problem for many firms, reflecting a persistent shortage of skilled talent even as overall hiring slows."

Demographic Pressures: "Immigration is slowing dramatically and declining workforce population. In recent years net population growth in Ohio has occurred because of immigration. If immigrants are taken out (net migration) then Ohio has suffered a decrease in population."

Sector-Specific Shortages: Expected shortages in:

- Advanced manufacturing (semiconductors, aerospace)
- Construction trades (electricians, welders, pipefitters)
- IT and cybersecurity
- Healthcare (especially nurses and allied health)
- Skilled manufacturing roles

Expected surpluses in:

- Low-skill, low-wage service roles
- Traditional clerical/administrative positions
- Entry-level, non-technical roles facing automation

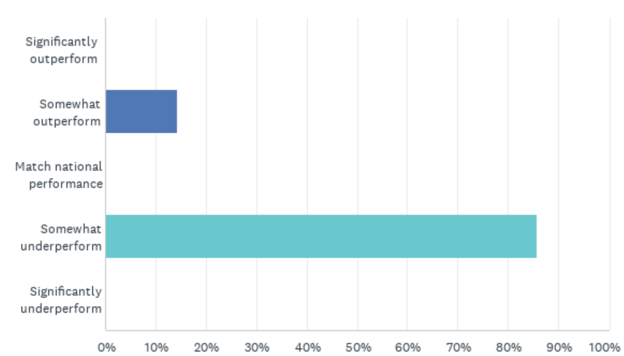
Ohio Economic Outlook

GDP Growth Projections

Council members project Real Ohio GDP growth for 2026 between 1.2% and 2.0%, with most estimates in the 1.5-2.0% range. This continues Ohio's pattern of growing slightly below the national average, a trend attributed to the state's manufacturing concentration and trade exposure.

"Based on the latest data, a reasonable estimate for Ohio's real GDP growth in 2026 is around 1.5%–2.0%. Given Ohio's historical pattern of growing slightly below the national rate—especially during periods of

How do you expect Ohio's economic performance in 2026 to compare with the national average?



manufacturing softness and tariff driven uncertainty—state growth is likely to come in a touch lower than the U.S. figure."

Six of the seven council members expect Ohio to "somewhat underperform" relative to national economic performance, reflecting structural challenges including:

- Manufacturing sector vulnerability to tariffs
- Trade exposure and supply chain pressures
- Demographic headwinds
- Labor market cooling

One member offered a slightly more optimistic view: "1.75%-2.25%. Should outperform the US somewhat due to some large construction projects in central Ohio," highlighting how mega-projects can provide meaningful regional economic support.

Ohio's Opportunities in 2026

Despite headwinds, council members identified significant opportunities for Ohio's economy:

Data Centers and AI Infrastructure: "Ohio enters 2026 with several compelling opportunities for growth, led foremost by the massive build out of data centers and AI infrastructure, which has positioned Columbus as one of the top data center markets."

Major Manufacturing Investments:

- Intel's $28 billion semiconductor facility (though execution risk remains)
- SoftBank's $3 billion modular data center production facility in Lordstown
- Other advanced manufacturing commitments

Cost Competitiveness: "Ohio also benefits from its affordable real estate and relative cost stability, making it an attractive destination for both business investment and workforce relocation."

Infrastructure Investment: "Ongoing workforce and infrastructure investments—including transportation, water systems, and broadband—outlined in statewide budget planning support broader economic competitiveness."

Ohio's Risks and Headwinds

Council members emphasized several significant challenges facing Ohio in 2026:

Tariff and Trade Exposure: "Ohio's most significant economic headwinds in 2026 stem from a combination of tariff driven pressures, labor market softening, and policy uncertainty. High and volatile tariffs remain a central risk: they are already dampening consumer demand and business investment."

Labor Market Challenges: "Ohio faces a cooling labor market, with rising layoffs, slower job growth, and immigration related labor force constraints—conditions that weigh especially heavily on goods producing sectors like manufacturing and logistics."

Megaproject Concentration Risk: "We have a significant amount of activity in relatively few projects, so protecting those projects is a must." This creates vulnerability if any major investments fail to materialize or are scaled back.

Policy Uncertainty: "Policy uncertainty—spanning trade, immigration, federal budgeting, and regulatory shifts—continues to cloud business planning, leading firms to delay hiring and investment."

Trade Policy and Economic Uncertainty

Continued Volatility Expected

Council members overwhelmingly expect trade policy to remain volatile rather than stabilize in 2026, with the potential for further disruption despite hopes for increased certainty.

"Trade and tariff policy is likely to remain volatile rather than settle. 2025's 'roller coaster of tariff announcements' has hardened into a structural feature of U.S. economic policy, with average U.S. tariff rates rising from ~2% in early 2025 to above 10% and still subject to further changes in 2026."

Key factors driving continued uncertainty include:

- Pending U.S. Supreme Court ruling on tariff authority
- CUSMA/USMCA renewal and review in 2026
- Ongoing trade negotiations with multiple partners
- Geopolitical tensions affecting trade relationships

One member characterized the outlook starkly: "Even though some analysts see a chance of reduced tariff uncertainty late in 2026, the year will be defined by continued policy unpredictability, episodic volatility, and the potential for sudden shifts in trade, regulatory, and geopolitical environments. Businesses should expect another year in which uncertainty is the baseline."

Economic Policy Uncertainty

Multiple council members emphasized that economic policy uncertainty remains extraordinarily elevated—a defining feature of the current environment.

This uncertainty affects business decision-making across multiple dimensions:

- Investment timing and magnitude

- Hiring decisions
- Supply chain planning
- Pricing strategies
- Geographic expansion

"Economic policy uncertainty continues to be very elevated, even 8 months after Liberation Day. Gauges of economic policy uncertainty are over 3 times higher today than in the last 3 months of the previous Administration."

Deglobalization Trend

One member highlighted an important structural shift: "One additional point the council should consider is the accelerating shift toward deglobalization, which is increasingly shaping the 2026 outlook. Multiple analyses highlight that U.S. policy is trending toward higher tariffs, reshoring incentives, tighter immigration rules, and a more explicitly protectionist posture."

This shift has implications for:

- Supply chain restructuring costs
- Inflationary pressures
- Business model adaptation
- Long-term competitiveness

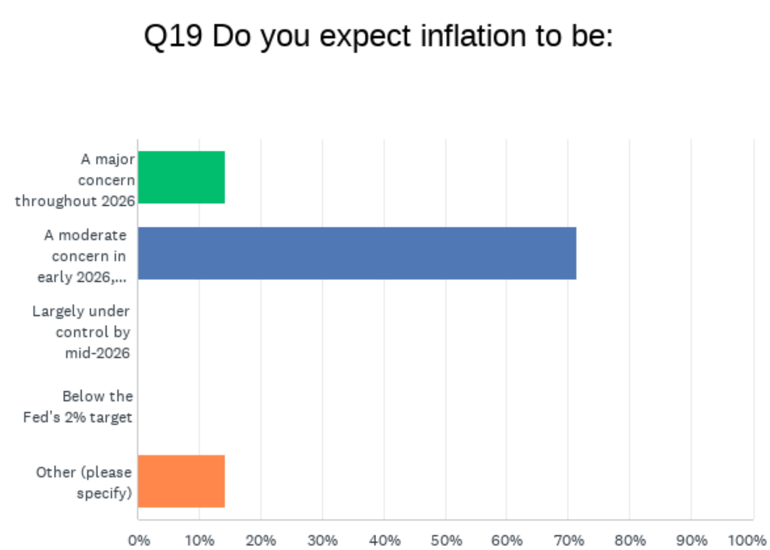
"As the council refines its 2026 forecast, it may be important to account not only for the direct effects of tariffs and reshoring, but also for second order risks: lower business confidence, delayed investment, heightened supply chain volatility, and the potential for retaliatory measures abroad."

Inflation Outlook

Core PCE Projections

Council members project U.S. core PCE inflation to moderate toward the Federal Reserve's 2% target, with year-end 2026 estimates ranging from 2.1% to 2.5%. This reflects broad agreement that inflation will continue to ease but remain slightly elevated.

"Based on current Fed projections and economic trends, U.S. core PCE inflation is expected to ease toward



the Federal Reserve's 2% target, landing at roughly 2.1% by the end of 2026."

Most members (5 of 7) expect inflation to be "a moderate concern in early 2026, diminishing later," with only one member viewing it as "a major concern throughout 2026."

The inflation outlook reflects several competing forces:

Disinflationary factors:

- Federal Reserve policy remaining restrictive
- Cooling labor market reducing wage pressures
- Productivity gains from AI adoption
- Declining shelter inflation
- Rising unemployment weakening aggregate demand

Inflationary pressures:

- Ongoing tariff impacts working through supply chains
- Accommodative fiscal policy
- Persistent services inflation
- Potential for supply chain disruptions

Inflation Trajectory Through 2026

Council members generally expect inflation to peak in early 2026 as remaining tariff impacts flow through, then moderate in the second half of the year.

"I expect inflation to be highest in Q1 and cool through the year. Inflation is still rising (less than expected, but still rising) and is expected to peak in Q1 as businesses are still pushing through tariff related price hikes. It should cool Q2-Q4 and end the year approaching the target."

However, one dissenting view warns of persistent inflation: "3-3.25. Inflation is being underreported, and has been underreported since the end of the 2008 Global Financial Crisis."

Consumer Spending and Household Health

Bifurcated Consumer Landscape

A dominant theme in council responses is the growing divide between high-income and low-income consumers—what several members characterized as a "K-shaped economy."

"Consumer confidence is highly bifurcated. The top 10% income earners in the U.S. now account for 50% of all consumption (historically high). The bottom 90% of households are breaking even or struggling in their consumption behavior."

This bifurcation creates both opportunities and risks:

For businesses serving high-income consumers: "There will be significant growth in revenue and profits for businesses that are discounters, liquidators, and otherwise sell excess inventory at below-market prices. The same can be said for those who provide luxury goods and services to wealthy clientele."

Vulnerability to wealth effect: "The previously underappreciated wealth effect is the result of housing wealth (but median home prices peaked in Q4 2022 and are falling) and stock market wealth (top 10 stocks account for almost 40% of the S&P 500 but are very expensive on a valuation basis, thus making them extremely fragile in the event of a Black Swan event)."

Consumer Spending Outlook

Council members expect consumer spending to remain positive but grow more slowly in 2026, with significant variation by income level.

"I expect consumer spending in 2026 to remain positive but noticeably cooler than in prior years, as households grow more cautious amid labor market softening, persistent affordability pressures, and elevated uncertainty. Our baseline projects slower real spending growth—approximately 1.5%."

Key factors affecting consumer spending:

- Labor market cooling reducing income growth
- Persistent affordability pressures, especially for essentials
- Elevated uncertainty dampening confidence
- Wealth effects from equity market performance
- Lower-income consumers pulling back while higher-income consumers moderate

"Lower income households are expected to retrench further, while higher income consumers continue to spend but with more selectivity."

Consumer Confidence

Heading into 2026, consumer confidence remains fragile, with households exhibiting caution despite relatively stable headline economic indicators.

"I expect consumer confidence and household financial health to enter 2026 on weaker footing, with most indicators pointing to heightened caution and growing financial strain. While higher income households still benefit from wealth effects and accumulated savings, lower and middle income consumers face worsening real purchasing power, elevated debt burdens, and limited buffers."

The outlook for consumer confidence depends critically on:

- Labor market stability
- Inflation trajectory
- Policy clarity
- Equity market performance
- Real wage growth

Strategic Priorities for Ohio Businesses

Top Strategic Priorities

Council members identified three overarching strategic priorities for Ohio businesses in 2026:

1. Workforce Resilience and Development

"Strengthen workforce resilience — focus on retention, upskilling, and navigating labor shortages."

Specific actions include:

- Investing in employee retention programs
- Developing upskilling and reskilling initiatives
- Integrating AI and digital tools into workforce training
- Building partnerships for talent development

"Retention of skilled employees and investing in reskilling/upskilling them in market-relevant areas, with a focus on interaction with digital tools, integration of AI tools into business use cases, and literacy in machine learning/data science."

2. Managing Policy and Cost Volatility

"Prepare for policy and cost volatility — manage risks related to tariffs, regulation, and shifting economic conditions."

Key considerations:

- Diversifying supply chains to reduce vulnerability
- Building flexibility into business models
- Developing contingency plans for multiple scenarios
- Monitoring policy developments closely

"Assess the risk of and manage your supply chains. Plan how you will respond to continued economic policy uncertainty in general, and tariff policy, in particular."

3. Technology Adoption and Innovation

"Invest in strategic growth — particularly technology/AI adoption."

The AI opportunity is viewed as critical: "The entire economy is trying to figure out how to squeeze productivity out of AI. If you don't try, you may be at a disadvantage if your competitor is."

Contingency Planning

Council members emphasized the importance of preparing for multiple economic scenarios:

Tariff-driven inflation and supply chain disruptions: "Ohio businesses should prepare for several plausible 2026 scenarios, including tariff driven inflation and higher supply chain costs."

Consumer spending pullback: Businesses should prepare for the possibility of "slower economic growth paired with rising unemployment" and "a possible consumer spending pullback."

K-shaped economy persistence: "If this sticks around--how does your business respond to a bifurcation in the consumer markets?"

Recession scenario: "The likelihood of recession due to weak aggregate demand is significant."

AI bubble concerns: "AI bubble bursting on a macro level will be disruptive but ultimately does not take away from the value of the technology - businesses should be ready to keep investing similarly to Internet after dot com bubble."

Lessons from 2025

Surprising Developments

Council members reflected on what surprised them most about 2025's economic performance:

Delayed Tariff Pass-Through: "I had assumed that tariff driven inflation would be significantly higher and more immediate, but many firms delayed passing through cost increases, keeping consumer inflation more moderate than I anticipated."

Business Resilience: "U.S. businesses did a remarkably good job at maintaining profitability while faced with dramatic increases in tariffs and economic policy uncertainty."

Consumer Spending Strength: "Surprised how quickly we have appeared to forget what business-friendly economic policy actually looks like... but the other side of that coin is Positive - surprising resilience of US consumer spending."

Geopolitical Volatility: Multiple members cited unexpected geopolitical developments, particularly "the sudden escalation of global conflicts and especially the dramatic events in Venezuela."

Key Lessons for 2026

Council members emphasized several critical lessons from 2025:

1. Agility is Essential

"Businesses heading into 2026 should carry forward several clear lessons from 2025: the year underscored how essential it is to stay agile amid tariff driven uncertainty."

2. Geopolitical Risk Management

"It also highlighted the need to prepare for geopolitical volatility that can shift suddenly and dramatically...all of which can reshape markets far faster than traditional planning cycles assume."

3. Operational Resilience

"Resilient operations—built on diversified supply chains, flexible planning, and clear risk governance—are no longer optional but foundational to navigating a more fragmented and unpredictable economic environment."

4. Technology Adoption is Imperative

"Machine learning and AI tools are the real deal, even if the bubble pops they are here to stay and are productivity force multipliers for people and companies that know how to use them."

5. Volatility is the New Normal

"Volatility is the new norm - can't wait to make plans forever and so need to find solutions that minimize exposure to risk rather than taking a wait and see attitude forever."

6. Diversification Matters

"Never put your eggs into one basket."

Financial Markets and Conditions

Treasury Yield Outlook

Council members project the 10-year U.S. Treasury yield to end 2026 between 3.5% and 4.2%, with most estimates clustering around 4.0%. This "higher for longer" environment reflects persistent inflation concerns and elevated federal debt levels.

"I would expect the 10 year U.S. Treasury yield will end 2026 close to 4%, with estimates ranging from roughly 4.0% to 4.2%, reflecting a 'higher for longer' rate environment supported by resilient economic data."

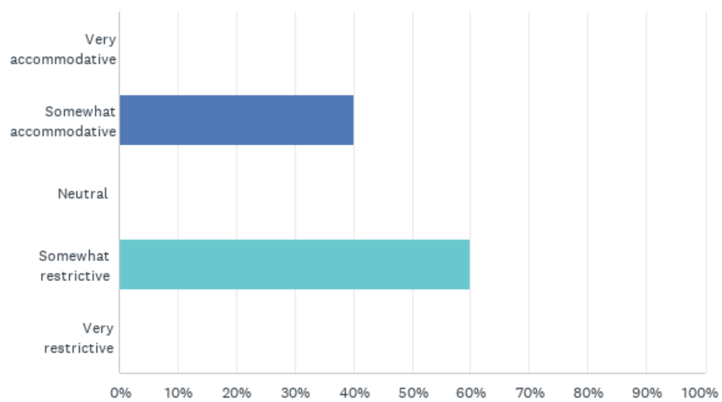
One member offered a more optimistic view: "~3.5%. We're at ~4.2% right now, and I expect slower growth and Fed cuts. Money should flow toward bonds as a risk buffer, lowering the yield."

Financial Conditions

Most council members (3 of 5 who answered) characterized financial conditions heading into 2026 as "somewhat restrictive," with the remainder viewing them as "somewhat accommodative." This reflects ongoing tightness despite expected Fed rate cuts.

"Financial conditions are likely to remain somewhat restrictive in early 2026, with elevated interest rates keeping borrowing costs high, tight credit standards limiting access for smaller firms and lower credit quality borrowers, and ongoing uncertainty around trade and fiscal policy weighing on business confidence."

How would you characterize financial conditions for businesses heading into 2026?



Key Financial Market Risks

Council members identified several financial market developments Ohio businesses should monitor:

Interest rate and Fed policy: "Ohio businesses should keep a close eye on interest rate policy and Treasury market movements, as the Fed remains divided on the 2026 rate path and even small shifts in inflation or labor data could alter borrowing costs and credit conditions."

Equity market valuations: With elevated P/E ratios and heavy concentration in AI-related stocks, correction risk remains significant.

Credit availability: "Availability of credit and credit risk spreads" will be critical to monitor as economic conditions evolve.

Input costs: Particularly those "impacted by tariffs would be a big one."

Policy Recommendations

For Ohio Businesses

Council members emphasized several actionable recommendations:

Supply Chain Management: "Assess the risk of and manage your supply chains" with focus on diversification and resilience.

Workforce Investment: Prioritize "retention, upskilling, and navigating labor shortages" through systematic workforce development programs.

Technology Integration: Accelerate "integration of core IT and data gathering infrastructure into business processes" even before full AI implementation.

Scenario Planning: Develop robust contingency plans for multiple economic outcomes, from continued moderate growth to recession scenarios.

Cost Management: "How to maintain profit margins while continuing to try to increase revenue" in an environment of elevated costs and uncertain demand.

For State Policymakers

Council members identified several actions state policymakers can take to strengthen Ohio's economic position:

Workforce Development: "Doubling down on workforce development—expanding childcare access, upskilling programs, and career-technical training—to help employers fill in-demand jobs."

Housing and Infrastructure: "Accelerating housing development through pro-housing incentives, investing in infrastructure and site-ready land (including brownfields cleanup), and ensuring reliable, affordable energy for manufacturers."

Innovation Investment: "Ambitious investment in Tech Hubs-like ecosystem initiatives that build on existing Ohio research and industry cluster strengths."

Energy Infrastructure: "Expansion of ambitious alternative energy generation sources/projects including things like small nuclear and on-site fuel cell technologies to bolster current generation gaps."

Immigration Policy: "State policymakers should be pushing for more immigration (legal) of skilled and unskilled workers into this state."

Conclusion

The Economic Advisor Council's January 2026 outlook reflects an economy navigating significant crosscurrents. Moderate growth remains the baseline expectation, supported by Federal Reserve easing, ongoing AI investment, and gradual inflation moderation. However, meaningful downside risks persist, including labor market deterioration, policy uncertainty, and potential consumer spending weakness.

Ohio faces particular challenges given its manufacturing concentration and trade exposure, with most council members expecting the state to underperform national economic growth. The December jobs report's revelation of a "hiring recession"—where GDP growth continues but job creation has stalled—underscores the unusual dynamics of the current economy.

For Ohio businesses, 2026 will demand continued agility, resilience, and strategic focus on workforce development, supply chain management, and technology adoption. The lessons of 2025—particularly the importance of operational flexibility and scenario planning amid persistent uncertainty—will be critical to navigate successfully.

The Federal Reserve leadership transition in May adds another element of uncertainty to an already complex environment. While institutional norms may preserve policy continuity, businesses should prepare for the possibility of shifts in both the pace and communication of monetary policy.

As one council member summarized: "Volatility is the new norm - can't wait to make plans forever and so need to find solutions that minimize exposure to risk rather than taking a wait and see attitude forever."

This report represents the collective views of the Ohio Economic Advisor Council based on survey responses collected in December 2025 and January 2026, along with analysis of recent economic data including the December 2025 employment report. Individual opinions may vary.

Summary of Verbatim Responses

These responses have been edited for clarity while preserving the core insights from council members.

On Federal Reserve Policy and Leadership Transition

Federal Funds Rate Projections:

- "A year-end 2026 federal funds rate target of 3.25%–3.50% (midpoint ≈ 3.375%) remains the base case—roughly one 25 bp cut from today's 3.50%–3.75% range—but there is meaningful upside risk to the number of cuts depending on how the Trump administration reshapes Fed leadership in 2026."
- "3.10 - 3.20. There's too much noise in the economic data and not enough Fed independence to assume that rates will be anything but lower by year-end."
- "depends on inflation and unemployment data. I expect it to be about 3.25%."
- "2.75-3.00%. So, 3 cuts next year. I believe that the labor market is weaker than the data currently suggests and that the Fed will have a clearer path to more aggressive cuts after the annual benchmark revisions to the jobs data in February."
- "3.0 - 3.25%. Increasingly weak unemployment data and the significant likelihood of a recession lead to most likely 2 cuts."

Changes Since August Survey:

- "I've increased rate cut expectations, as the Fed appears to be either ignoring persistent inflation that is having a severely negative impact on those living at the bottom of the K shaped economy."
- "too much political pressure on FED. I expect at least one cut."
- "I now expect more cuts than I previously did. Inflation is slightly better than I expected and the labor market is slightly worse than I expected."
- "More accommodative due to weak labor market and slower economic growth. Don't be surprised if we see 3 cuts in the Fed funds rate."

Fed Leadership Transition:

- "A mid-2026 leadership transition at the Federal Reserve would normally be expected to follow the institution's well-established norms—committee-based policymaking, transparency, and a strong commitment to the dual mandate, which together help preserve continuity in monetary policy and market confidence. That said, there is a non-zero risk of 'Fed capture' if new leadership were perceived as unusually aligned with political priorities or external pressures rather than independent, data-driven judgment."
- "There's no reason to assume that the new Fed leadership will do anything other than follow the White House's lead. By definition, non-independent central banks exist in communist and state-controlled socialist economies, so it's very unclear if or how near-term changes at the Fed will promote long-term economic stability."

- "FED is a well established organizations. Whoever the next leadership are, they will respect the data and make the decisions accordingly."
- "I am wondering if Trump will name Powell's successor well before May and in essence create a 'shadow chair.' This, in a vacuum, is not particularly dangerous--the markets will simply begin accounting for Chair X's views. I am more concerned that the pick will be partisan and viewed as unqualified--this is not my base case, but if this were to happen it could rock the bond markets."
- "Most likely outcome seems to be preference for lower rates assuming he is replaced by politically-aligned successor, but at potential cost of perception that the Fed is responding to political pressure rather than data which could undermine its credibility and make it harder to control inflation expectations."
- "Emphasis on more accommodative monetary policy. Fed credibility may be put to the test (depending on who is appointed). This could potentially set off a period of financial market instability in the stock and bond markets with interest rates going higher."

On Economic Growth and Recession Risk

U.S. GDP Growth Projections:

- "I anticipate real GDP growth in 2026 to come in at roughly 2%. This outlook reflects an economy that continues to expand—albeit modestly—as inflation gradually eases, labor‑market conditions cool but remain stable enough to support consumption, and financial conditions loosen slightly as the Fed maintains a cautious easing path."
- "Flat to -0.5. The gimmicks that were used to juice 2025 GDP won't play out in 2026 due to a weak population growth rate (i.e. labor shortages), increasing consumer debt, and persistent inflation."
- "about 2%. I expect a loose monetary and fiscal policy as well as productivity increases due to AI."
- "2.2%, Continuation of strong productivity growth, tailwinds from fiscal policy, and stabilization of trade policy."
- "1.25-1.75%. Weaker than this year on weaker consumption and still-uncertain business environment. Still positive growth but below potential. Stronger H2 than H1."
- "2.0%. It's a tug-of-war. Accommodative monetary and fiscal policy, and AI implementation versus rising unemployment, continued policy uncertainty, and tariffs."

Recession Probability:

- "A reasonable estimate is that the probability of a U.S. recession in 2026 is around 30–40%, reflecting lingering uncertainty despite expected moderate growth and ongoing policy support."
- "33%... given the combination of persistent affordability issues and inflationary policies, recession has become more a structural risk that can expose itself at any moment, rather than a situational risk that wouldn't be a concern unless something in the economy were to blow up."

- "5%. Almost zero because the U.S. is aggressive in terms of promoting economic growth."
- "28%, I think this is pretty close to an average risk. If not, whatever about average is."
- "50%. I think it's higher if there is no 'big' fiscal or other policy change this year (beyond what's already assumed). And lower if there is. 'Big' changes could be tariff reimbursement checks, transferrable mortgages, spending associated with a national housing emergency, etc."
- "60%. The unemployment rate has risen 0.5 percentage points since June 2025. Such a move over a short period of time is often a precursor to a recession."

Greatest Risks to Growth:

- "1. Policy & Tariff Uncertainty - I see tariff driven inflation, shifting trade policies, and overall policy unpredictability as major headwinds. 2. Labor Market Softening - Slowing job creation, rising layoffs, and elevated continuing claims all point to a cooling labor market. 3. Depressed Consumer & Business Sentiment."
- "Persistent inflation due to a combination of poor policymaking and declining population growth. GDP is function of how many people you have and the productivity of each person. AI investments are only producing a 10% return on each dollar invested, so the economy is in for a big shock if this ends up being a repeat of the .com bubble."
- "Decline in AI confidence leading to a financial market correction. Weakening consumer. Delayed negative effects due to tariff policy."
- "1) Equities price correction. We have elevated P/E ratios and national consumption growth being driven by high end consumers, who are in turned fueled by the wealth effect. 2) Rates too high for too long. 3) Slower than expected productivity gains."
- "Tariff uncertainty continue to hamper business ability to make long term investment decisions, potential rapid declines in the labor market triggering potential negative feedback loop, bad fiscal policy, escalation of major conflicts, AI bubble bursting and having domino effects on rest of economy, perception or reality of loss of Federal Reserve independence."

Greatest Opportunities:

- "The most promising upside comes from the ongoing AI and data center build out, which is catalyzing capex across cloud, fiber, and power infrastructure and can lift productivity beyond tech."
- "Successful realization of AI benefits"
- "1) More certainty around policy. Fiscal and trade, primarily. 2) Knowledge investment. Spending on AI and data centers is doing some of the heavy lifting right now re: economic growth."
- "Ongoing reshoring of critical manufacturing industries in semiconductors and biopharma, achieving soft landing and subsequent easier monetary policy spurring investment, novel AI-driven scientific breakthroughs leading to emerging industry sectors."

On Ohio Economic Outlook

Ohio GDP Growth:

- "Based on the latest data, a reasonable estimate for Ohio's real GDP growth in 2026 is around 1.5%–2.0%. Given Ohio's historical pattern of growing slightly below the national rate—especially during periods of manufacturing softness and tariff driven uncertainty—state growth is likely to come in a touch lower than the U.S. figure."
- "+/- 0.5 of broader US economy. There are a number of offsetting relative advantages and disadvantages Ohio has that make it a bit of a wash."
- "About 1.5%. Ohio trails the U.S. economy and still in transition from the bad shock in the state's manufacturing industry"
- "2%, I'm expecting that growth in OH will slightly lag the US as a whole, primarily due to aging population dynamics."
- "1.75%-2.25%. Should outperform the US somewhat due to some large construction projects in central Ohio."
- "Below 2.0%. Tariffs, retaliatory tariffs and immigration policy hurt Ohio businesses, particularly on the supply side via higher costs. Ohio economy continues to be one of the most manufacturing oriented economies in the U.S."

Ohio Unemployment:

- "Based on the latest available data, a reasonable forecast for Ohio's average U-3 unemployment rate in 2026 is approximately 5.0%. Ohio historically tracks slightly above the national rate during periods of manufacturing softness and policy driven uncertainty."
- "1.0 above US average. Ohio policymakers should be skeptical of future economic development projects that come with a high price tag (i.e. Intel) and don't have a clear path to hit their employment projections."
- "About 4.5% slightly higher than the national average."
- "4.5%. I'm expecting a gradual retracing of the unemployment rate rise as labor markets recover."
- "~5%, roughly in line with the nation; Ohio's UR has been running higher than the nation. If it grows more than the rest of the country does on average, the unemployment rate should come closer in line."

Ohio's Opportunities:

- "Ohio enters 2026 with several compelling opportunities for growth, led foremost by the massive build out of data centers and AI infrastructure, which has positioned Columbus as one of the top data center markets. This transformation is reinforced by major tech manufacturing commitments, including Intel's $28 billion semiconductor 'mega fab' and SoftBank's new $3 billion modular data center production facility in Lordstown."
- "business friendly policies; policies promoting innovation and economic growth"
- "Enormous projects in process or in planning."

- "Opportunity to build out more electronics manufacturing value chain if ongoing investment support is there from state/federal side, major data center expansions position Ohio as growing midwest hub for AI/edge computing, AI adoption across traditional sectors, defense and aerospace tech growth building on momentum from Anduril announcement."

Ohio's Risks:

- "Ohio's most significant economic headwinds in 2026 stem from a combination of tariff driven pressures, labor market softening, and policy uncertainty. High and volatile tariffs remain a central risk: they are already dampening consumer demand and business investment, raising import intensive prices, and creating supply chain friction for manufacturers across the state."
- "We have a significant amount of activity in relatively few projects, so protecting those projects is a must."
- "Labor market mismatch and skills gaps, particularly in tech/advanced manufacturing; Heavy dependence on mega site place-based attraction risks crowding out smaller firms and startups; Higher input costs and ongoing uncertainty from tariffs; Need for affordable energy for shovel-ready project sites."
- "Inflation as well as the Administration's tariff and immigration policies are significant headwinds. A recession in the overall U.S. economy is also a significant possibility."

On Trade Policy and Uncertainty

Trade Policy Evolution:

- "Trade and tariff policy is likely to remain volatile rather than settle. 2025's 'roller coaster of tariff announcements' has hardened into a structural feature of U.S. economic policy, with average U.S. tariff rates rising from ~2% in early 2025 to above 10% and still subject to further changes in 2026."
- "continued volatility; looks like the U.S. moving away from globalization and carving out its own economic zone. the transition brings volatility."
- "It would be hard to see more policy uncertainty than we saw in 2025. It is still an uncertain year ahead."
- "Continued volatility at this point is the expectation until proven otherwise, businesses still very hesitant to make long term decisions until there are more 'adults in the room' in terms of policy"
- "Economic policy uncertainty continues to be very elevated, even 8 months after Liberation Day. Gauges of economic policy uncertainty are over 3 times higher today than in the last 3 months of the previous Administration. It is highly unlikely that policy uncertainty will return to normal levels in 2026."

International Factors:

- "Recent global developments point to a 2026 environment where geopolitical tension, slowing global growth, and currency volatility create both risks and selective opportunities for the U.S. and Ohio. Forecasts emphasize that conflict flashpoints—including Ukraine, the Middle East, and broader U.S.–China strategic competition—will continue to elevate energy, shipping, and supply chain risk."
- "Ukrainian crises; South China Sea problems; trade wars"
- "As noted above, significant ongoing opportunities to reshore more of the value chain in highly advanced industries, but also elevated risks of conflict in Middle East, Russia-Europe border, Taiwan, and others, any of which could destabilize global supply chains with significant knock on effects"

On Inflation

Core PCE Projections:

- "Based on current Fed projections and economic trends, U.S. core PCE inflation is expected to ease toward the Federal Reserve's 2% target, landing at roughly 2.1% by the end of 2026."
- "3-3.25. Inflation is being underreported, and has been underreported since the end of the 2008 Global Financial Crisis. A house triples in value in 10 years, but the BLS uses owners equivalent rent and ignores the change in value of the asset... that's joke that isn't funny."
- "about 2.5%. loose monetary and fiscal policy"
- "2.5 Tariffs are still working their way through the economy"
- "~2.2%, down from 2025 but still above the Fed target. I expect inflation to be highest in Q1 and cool through the year."
- "2.3% core PCE. Rising unemployment weakens aggregate demand. AI adoption and integration by businesses increases productivity. Shelter inflation continues to decline. All of this offsets tariff-induced inflation and accommodative monetary and fiscal policies."

On Consumer Spending and Confidence

Consumer Spending Outlook:

- "I expect consumer spending in 2026 to remain positive but noticeably cooler than in prior years, as households grow more cautious amid labor market softening, persistent affordability pressures, and elevated uncertainty. Our baseline projects slower real spending growth—approximately 1.5%—driven by cooling wage gains, higher costs for essentials, and widening divergence between high and low income consumers."
- "I'm watching the equities market closely. Consumption is being driven by high end consumers, who are impacted by the wealth effect. If high P/E ratios become 'normal' P/E ratios, I think consumption takes a dive."

- "Expect ongoing caution by consumers in nonessential spending and ongoing K-shaped recovery trends - spending driven by top income consumer base presents risks and ongoing income inequality is an eventual driver of market instability."
- "Consumer spending in 2026 will be highly dependent upon an increasingly fragile wealth effect. The top 10% income earners in the U.S. now account for 50% of all consumption (historically high). The bottom 90% of households are breaking even or struggling in their consumption behavior."

Consumer Confidence:

- "I expect consumer confidence and household financial health to enter 2026 on weaker footing, with most indicators pointing to heightened caution and growing financial strain. While higher income households still benefit from wealth effects and accumulated savings, lower and middle income consumers face worsening real purchasing power, elevated debt burdens, and limited buffers."
- "Consumer confidence is weak going into 2026, but I suspect that it will recover as policy stabilizes and labor markets recover. Household financial health is pretty good in aggregate and should only improve with labor market recovery."
- "Consumer confidence is likely to remain lower than average held back by elevated inflation and job market uncertainty. Overall household financial health is relatively strong on paper, but the gap between high‑ and low‑income households continues widening and credit stress is rising in subprime segments"
- "Consumer confidence is highly bifurcated."

On Workforce Challenges

Critical Workforce Challenges:

- "Ohio businesses are expected to face tight labor supply, skills mismatches, and demographic headwinds as they move into 2026. Employers continue to report difficulty finding qualified workers, with labor quality cited as the single most important problem for many firms. Immigration crackdowns and slowing population growth threaten to further shrink the available workforce."
- "the transition from a manufacturing industry dominant economy to a more diversified economy. supply chain issues"
- "Shrinking pipeline of young workers due to demographics and outmigration; growing mismatch between employer needs (electronics/systems integration, AI, digital manufacturing) and available skills; difficulty attracting and retaining talent in higher-cost, higher-demand hubs like Columbus and Cleveland."
- "Immigration is slowing dramatically and declining workforce population. In recent years net population growth in Ohio has occurred because of immigration. If immigrants are taken out (net migration) then Ohio has suffered a decrease in population."

Labor Shortages and Surpluses:

- "Advanced manufacturing (semiconductors, advanced subsystems, aerospace), construction trades (electricians, welders, pipefitters), IT and cybersecurity, and healthcare (especially nurses, home health, other allied health), while facing a relative surplus in low-skill, low-wage service roles and some traditional clerical/administrative positions."
- "healthcare and skilled workers in the manufacturing industry"
- "Skilled trades will continue to experience labor shortages. Gluts are more likely in some professional business services positions."

On Strategic Priorities

Top Priorities for Ohio Businesses:

- "1. Strengthen workforce resilience — focus on retention, upskilling, and navigating labor shortages. 2. Prepare for policy and cost volatility — manage risks related to tariffs, regulation, and shifting economic conditions. 3. Invest in strategic growth — particularly technology/AI adoption."
- "(i) promote innovation and economic growth; help start ups (ii) diversify the economy (iii) continue to invest in human capital"
- "I have 1: The entire economy is trying to figure out how to squeeze productivity out of AI. If you don't try, you may be at a disadvantage if your competitor is."
- "Workforce, workforce, and workforce - kidding, kind of. 1. Retention of skilled employees and investing in reskilling/upskilling them in market-relevant areas. 2. Try to diversify supply chain risk. 3. Accelerate integration of core IT and data gathering infrastructure into business processes."
- "1. Assess the risk of and manage your supply chains. 2. Plan how you will respond to continued economic policy uncertainty in general, and tariff policy, in particular. 3. How to maintain profit margins while continuing to try to increase revenue."

Contingency Planning:

- "Ohio businesses should prepare for several plausible 2026 scenarios, including tariff driven inflation and higher supply chain costs, slower economic growth paired with rising unemployment, and potential labor shortages intensified by immigration policy changes."
- "1) K-shaped economy. If this sticks around--how does your business respond to a bifurcation in the consumer markets? 2) Prepare for the possibility of higher than expected input costs."
- "'Hard' landing rather than 'soft' landing if Fed decisions become more politicized, AI bubble bursting on a macro level will be disruptive but ultimately does not take away from the value of the technology."
- "The likelihood of recession due to weak aggregate demand is significant. Economic policy uncertainty will likely continue in 2026 as it has in 2025."

State Policy Actions:

- "State policymakers can strengthen Ohio's economic position in 2026 by doubling down on workforce development—expanding childcare access, upskilling programs, and career-technical training. They can also boost competitiveness by accelerating housing development through pro-housing incentives, investing in infrastructure and site-ready land."
- "business friendly policies and investment in infrastructure"
- "Ambitious investment in Tech Hubs-like ecosystem initiatives that build on existing Ohio research and industry cluster strengths, expansion of ambitious alternative energy generation sources/projects including things like small nuclear and on-site fuel cell technologies."
- "State policymakers should be pushing for more immigration (legal) of skilled and unskilled workers into this state."

On Reflections from 2025

Most Surprising Developments:

- "Looking back at 2025, I was most surprised by how differently two major forces played out compared with my expectations. First, I had assumed that tariff driven inflation would be significantly higher and more immediate, but many firms delayed passing through cost increases. Second, I didn't expect geopolitical developments to become as volatile as they did, with the sudden escalation of global conflicts and especially the dramatic events in Venezuela."
- "The atypical long slow rise in the unemployment rate."
- "1) Inflation being above target but not as high as (most) expected 2) Consumers, at least the high end, remaining so chipper"
- "Negative - surprised how quickly we have appeared to forget what business-friendly economic policy actually looks like. Positive - surprising resilience of US consumer spending and ongoing investment in regional/state economic development activity."
- "U.S. businesses did a remarkably good job at maintaining profitability while faced with dramatic increases in tariffs and economic policy uncertainty."

Key Lessons:

- "Businesses heading into 2026 should carry forward several clear lessons from 2025: the year underscored how essential it is to stay agile amid tariff driven uncertainty. It also highlighted the need to prepare for geopolitical volatility that can shift suddenly and dramatically. And across industries, companies were reminded that resilient operations—built on diversified supply chains, flexible planning, and clear risk governance—are no longer optional but foundational."
- "Never put your eggs into one basket."
- "Economic policy takes a long time to flow through the data, e.g. tariffs and inflation. Even if some of the headwinds to economic growth fall to the wayside, we may not see all of those benefits in 2026--be patient."

- "Machine learning and AI tools are the real deal, even if the bubble pops they are here to stay and are productivity force multipliers. Volatility is the new norm - can't wait to make plans forever and so need to find solutions that minimize exposure to risk rather than taking a wait and see attitude forever"
- "The ability to maintain profitability in the facing of tariff policy and economic policy uncertainty will again be tested in 2026. These challenges are not going away soon."

Additional Considerations

Deglobalization:

- "One additional point the council should consider is the accelerating shift toward deglobalization, which is increasingly shaping the 2026 outlook. U.S. policy is trending toward higher tariffs, reshoring incentives, tighter immigration rules, and a more explicitly protectionist posture, all of which raise the risk of structurally slower growth and stickier inflation."

K-Shaped Economy:

- "Two things I have talked about for much of the last year that, unfortunately, have been flying under the radar but are now garnering more attention. 1. Economic policy uncertainty is over 3 times higher today than it was in the last 3 months of the previous Administration. It will not return to normal in 2026 but will remain significantly elevated. 2. The wealth effect in this highly bifurcated economy (some call it the K economy) leaves overall economic growth vulnerable to any significant economic or financial shock."

This report represents the collective views of the Ohio Economic Advisor Council based on survey responses collected in December 2025 and January 2026, along with analysis of recent economic data including the December 2025 employment report. Individual opinions may vary.

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