

The 2026 Economic Outlook: From National Trends to Local Reality

Wells Fargo's national perspective and WWU's local analysis chart a course for Whatcom County business

December 3, 2025 | Whatcom Business Alliance

Each December, the Whatcom Business Alliance gathers the county's business community for its signature event: the Economic Forecast Breakfast. This year's edition delivered what local leaders needed most — a clear-eyed view of where the national economy is heading, followed by an unflinching look at what that means for Whatcom County specifically. The message from both presentations: 2026 will bring growth, but navigating it requires understanding both the macro forces at play and the unique challenges we face at home.

Part One: The National Outlook



Jackie Benson

Vice President & Economist, Wells Fargo

The story of America's economy in 2025 reads like a thriller — dramatic twists, unexpected volatility, and a cliffhanger ending that sets up 2026 as a year of cautious optimism. "The US economy has been volatile as of late," Jackie Benson tells the capacity crowd, gesturing to a chart that tells the story in stark visual terms. The economy contracted by roughly 1% in Q1 2025, only to boom by nearly 4% in Q2. For business owners trying to plan inventory, staffing, and investment, this roller coaster has been anything but helpful.

But here's the crucial insight Jackie wants business leaders to grasp: much of that volatility is noise, not signal. "What happened with businesses — everyone knew tariffs were coming," she explains. Companies imported record amounts of goods in Q1 to get ahead of tariffs, then pulled back sharply in Q2 once inventories were filled.

Strip away these trade and inventory swings, and you find something more reassuring. "Through all of the chaos and uncertainty, the data show us that demand held up in the first half of the year amid these tariffs," Jackie notes. Real final sales to private domestic purchasers — a measure of underlying consumption and investment — continued to grow at nearly 3% annualized.

U.S. Real GDP Growth

U.S. Economy

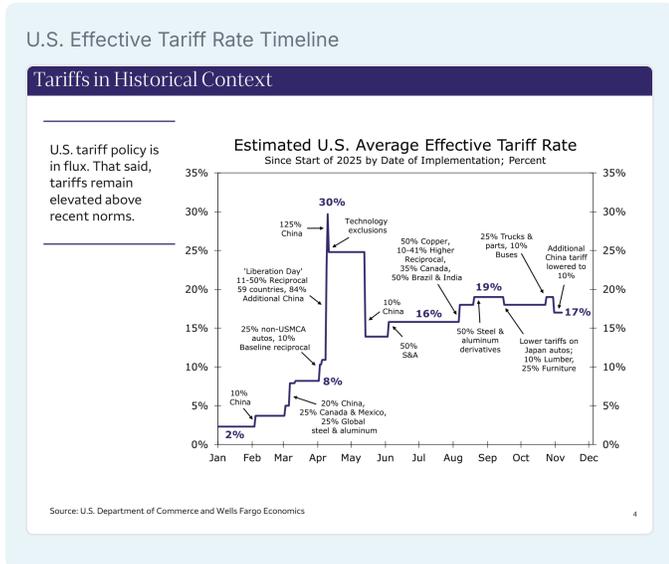
The U.S. economy has been volatile as of late.



Source: U.S. Department of Commerce and Wells Fargo Economics

The Tariff Reality

No conversation about 2026 can ignore tariffs. Beginning 2025 with an effective tariff rate below 3%, the US saw rates spike to 30% by April's "Liberation Day," before moderating to roughly 17% by year's end.



"It's been a very choppy ride," Jackie says. "That's a bad thing for business planning and investment." The evidence is seeping through to consumers: household furnishings saw prices rising at 3.8% in September, more than double the 1.4% rate for core goods overall.

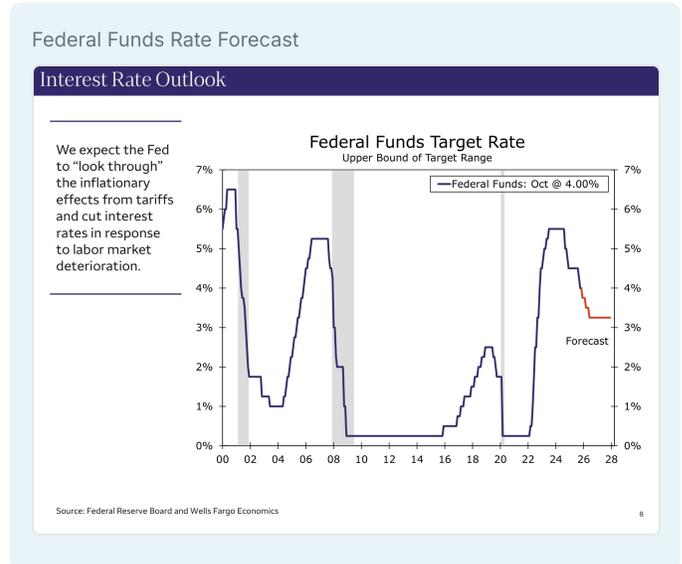
"Tariffs are a one-time price shock. We expect inflation to peak at around 3% in early 2026 and then come back down through the year."

— Jackie Benson

The inflation forecast for 2026 reflects this reality. Wells Fargo expects Core PCE — the Fed's preferred inflation measure — to peak around 3% in early 2026 before gradually declining. But here's what matters for business planning: tariffs will push prices up, but then stabilize rather than creating an endless inflationary spiral.

The Fed's Balancing Act

Despite inflation pressures, Jackie forecasts continued Fed rate cuts — 75 additional basis points through June 2026, bringing rates to 3.25%. The Fed is increasingly focused on labor market deterioration rather than inflation.



Job growth has decelerated from over 100,000/month to just 62,000 by September. "There's a lot of weakness in the labor market under the surface," Jackie warns. Yet unemployment remains at 4.4% due to labor supply constraints — declining foreign-born workers, aging population, increased retirements.

For Whatcom County businesses struggling to find workers, this dynamic means the tight labor market isn't going away soon — regardless of what wages employers offer.

17%
EFFECTIVE TARIFF RATE

3.25%
TARGET FED RATE

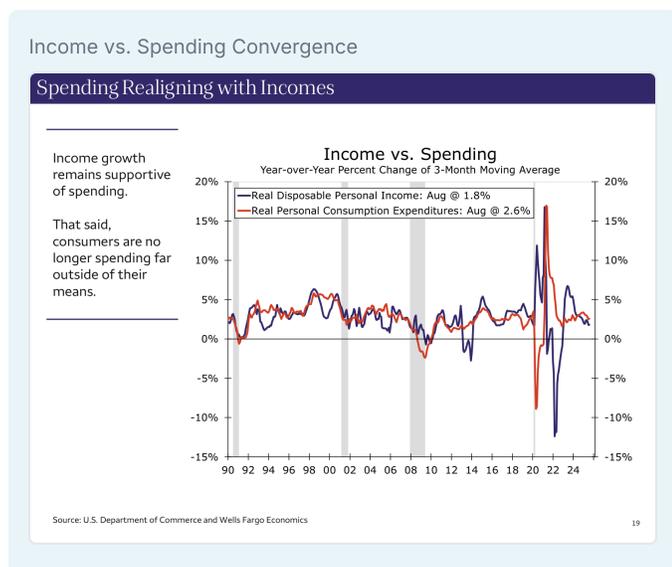
Tariffs are expected to settle around 15-17%, but the damage to business confidence has already been done.

Construction's Waiting Game: Both residential and non-residential construction remain suppressed by high interest rates. Mortgage rates at 6.35% are forecast to decline only modestly to 6.15% — hardly the dramatic drop needed to unleash pent-up demand. Relief will be gradual, with growth not expected until mid-2026.

The Consumer Conundrum

Perhaps the biggest surprise of 2025: consumer resilience. Despite tariff fears and labor market concerns, spending has held up — though it's evolving. "Consumer spending has been surprisingly resilient," Jackie notes, pointing to strong Black Friday and Cyber Monday numbers.

But fundamentals are shifting. After years of spending beyond their means using excess savings and credit cards, consumers are realigning spending with income. Excess savings have run out, credit card usage has declined, and there's now a more sustainable one-to-one ratio between income and spending growth.



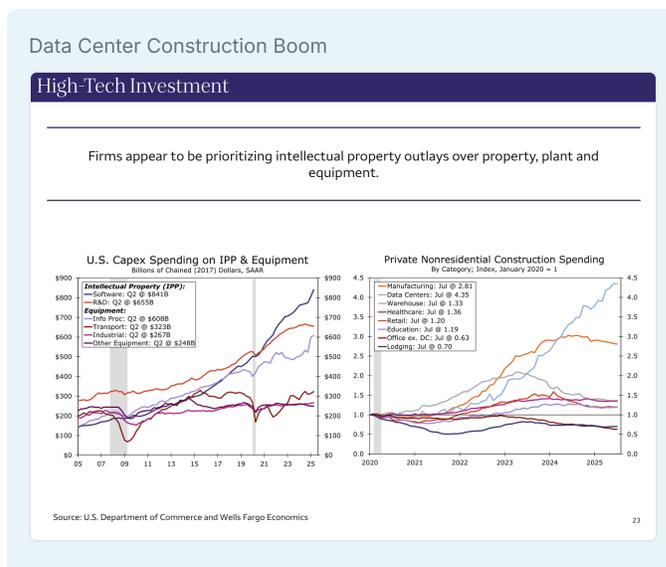
There's a troubling K-shaped divide. Lower-income households face higher effective inflation (3.0% vs 2.7%) and slower wage growth (3.6% vs 4.6% for top earners). "About half of consumer spending economy-wide is driven by the top 10% of earners," Jackie explains. This bifurcated economy means business owners need to think carefully about their target customers — value retailers serving lower-income consumers face very different dynamics than those catering to affluent buyers.

"Not worrying, definitely not recession territory."

— Jackie Benson, on 2% consumer spending growth forecast

Technology Transformation

If there's a bright spot in the forecast, it's the technology-driven investment boom reshaping the American economy. Businesses are prioritizing spending on AI, IT, software and R&D over traditional property, plant and equipment. The numbers are staggering: data center construction has grown 335% since January 2020, reaching an index level of 4.35.



High-tech manufacturing is surging too. While overall manufacturing output barely exceeds 2017 levels, production of semiconductors, computers and communications equipment is growing at 13.8% year-over-year — versus just 0.6% for everything else. This technology shift will drive productivity gains that support economic growth in 2026 and beyond.

When asked about AI's sustainability, Jackie draws parallels to the early-2000s internet boom: "There will be an end point to that boost," she acknowledges, but adds, "on net, the AI spend is going to be a positive effect" through Wells Fargo's forecast horizon. Businesses that invest strategically now will be positioned to capitalize.

2.3%

GDP GROWTH
2026

4.5%

UNEMPLOYMENT

~3%

PEAK INFLATION

Part Two: The Local Outlook



Dr. Hart Hodges & James McCafferty
 WWU Center for Economic and Business Research

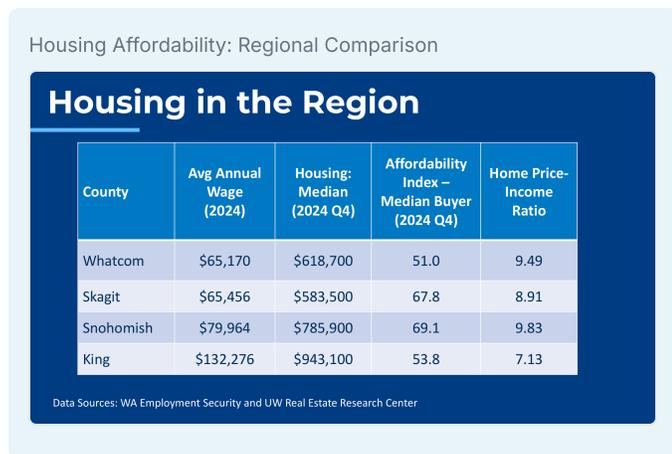
With the national picture established, Hart Hodges and James McCafferty took the stage to answer the question on everyone’s mind: what does all of this mean for Whatcom County? When they titled their presentation “The Fog of Uncertainty,” they weren’t just being dramatic. For Whatcom County business owners facing 2026, the forecast is decidedly mixed: modest employment growth returning after a difficult 2025, but accompanied by persistent affordability challenges that threaten our competitive position in the region. After employment actually contracted in 2025, CEBR forecasts approximately **1% employment growth** for 2026 — positive, but well below our historical 2% trend.

The Housing Affordability Crisis

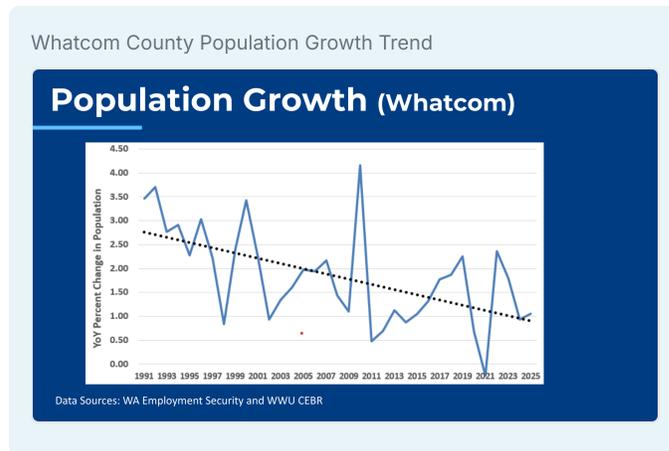
The most alarming finding in CEBR’s analysis isn’t about employment — it’s about housing. Whatcom County now has the **worst housing affordability in the entire Puget Sound region** when comparing home prices to local incomes. With a median home price of \$618,700 and average wages of just \$65,170, the home price-to-income ratio stands at 9.49.

Population & Labor Constraints

Population growth tells a concerning long-term story. The 30-year downward trend from 2.5–3.5% annual growth in the 1990s to today’s 1% suggests structural demographic weakness.



“Home prices are going to be highly correlated with local incomes. Not true anymore,” Hart states flatly. Skagit County, with nearly identical wages (\$65,456), has homes averaging \$35,200 less. Even King County has a better affordability index because wages there are twice as high.



“Where are additional workers going to come from?”
 — James McCafferty

This connects directly to Jackie’s national observation about labor supply constraints. If workers can’t afford to live here, businesses can’t hire them. With labor markets tight and declining foreign-born worker availability, businesses face continued wage pressure.

Cross-Border Headwinds: The Canadian retail spending decline is measurable. “We think the Canadian boycott has a little bit to do with that,” Hart notes. For businesses dependent on cross-border customers, this represents an ongoing challenge.

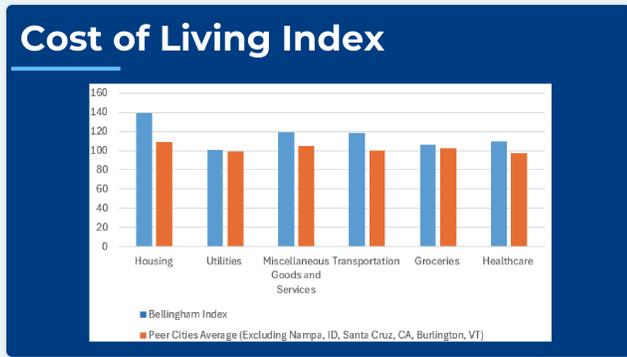
The Cost of Living Squeeze

The housing crisis is part of a broader affordability problem threatening our competitive position. When CEBR compares Bellingham to peer cities nationwide — places like Burlington, Vermont; Santa Cruz, California; and Flagstaff, Arizona — our cost of living is elevated across nearly every category:

- Housing: **27% above** peer average
- Transportation: **19% higher**
- Healthcare: **12.5% higher**
- Groceries: **5% higher**

Yet our wages are squarely average for similar-sized college towns. "Really, quite average for places like us," Hart acknowledges, somewhat reluctantly. "Hard for me to market, come to Bellingham. We're average."

Cost of Living Index: Bellingham vs. Peer Cities



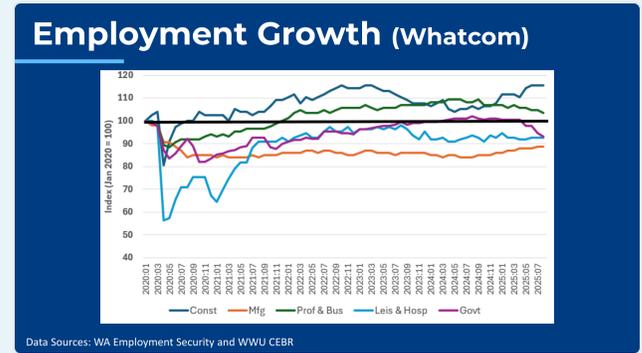
"We just showed you wages are NOT really higher and costs ARE higher. That's why peer cities matter — comparing apples to apples."

— James McCafferty

Sectoral Employment Shifts

The sectoral employment data reveals worrying trends beneath the surface. Since January 2020, only **two sectors** have recovered to pre-pandemic employment levels: construction (up 17%) and professional business services (up 3%). Manufacturing has lost 12% of its jobs — representing the loss of well-paying positions that averaged \$78,000 annually. Leisure and hospitality remains 7% below 2020 levels.

Employment Growth by Sector (Since Jan 2020)



The concentration in government employment (which includes K-12 education, WWU, and all tribal employment including casino workers) makes Whatcom County particularly vulnerable to state budget cuts. When you add healthcare and social services as the second-largest employer at 14% of jobs, you realize that nearly one-third of local employment depends on sectors facing significant budget pressure in 2026.

"Cuts to Medicaid and State Budget present problems for two large employers," the forecast states plainly. PeaceHealth's announced 2.5% payroll reductions are just the beginning of what could ripple through the entire local economy.

9.49

PRICE-TO-INCOME RATIO

~1%

2026 EMPLOYMENT GROWTH

27%

HOUSING ABOVE PEERS

-12%

MANUFACTURING JOBS LOST

Charting the Course Ahead

The 2026 outlook from the WBA Economic Forecast Breakfast paints a consistent picture at both the national and local level: growth will return, but it will be uneven, and the old playbooks may not apply. For Whatcom County business owners, understanding this interplay between national trends and local realities is essential for strategic planning.

National Takeaways

- **Prepare for bumpy Q4 2025 and Q1 2026** — tariff cost pass-through and potential government shutdown effects weigh on growth near-term. Wells Fargo expects GDP to dip again in Q4 before recovering.
- **Position for late 2026 acceleration** — tax cuts, lighter regulation, and AI-driven productivity gains should drive growth in the second half of 2026 and into 2027.
- **Adjust to the new normal** — this isn't your father's economy. Labor supply constraints, technology transformation, and bifurcated consumer spending represent structural changes requiring adaptation.

Local Takeaways

- **Plan for slow, steady growth** — not a boom; approximately 1% employment growth forecast, well below historical 2% trend.
- **Housing affordability constrains growth** — worst in Puget Sound by price-to-income ratio (9.49). If workers can't afford to live here, businesses can't hire them.
- **Watch budget-dependent sectors** — government (16.5%) and healthcare (14%) face pressure from state budget cuts and Medicaid reductions.
- **Long-term thinking required** — structural challenges won't resolve quickly; strategic adaptation is essential.

"We expect fiscal stimulus and sturdy productivity growth to be supportive of economic activity in 2026."

— Jackie Benson

"We lack the conversations that have that long term approach and it keeps manifesting in the data over and over again."

— James McCafferty

Nationally, Jackie Benson's message is one of cautious optimism — GDP growth of 2.3%, unemployment holding around 4.5%, gradually declining inflation, and supportive Fed policy. The volatility of 2025 was largely noise; the underlying economy remains resilient.

Locally, Hart Hodges and James McCafferty remind us that national trends manifest differently in Whatcom County. Our housing affordability crisis, our dependence on government and healthcare employment, and our demographic challenges mean the path forward requires strategic thinking specific to our community.

The businesses that will thrive in 2026 are those that can navigate tight labor markets, absorb cost pressures without losing customers, weather uneven sectoral recovery, and — perhaps most importantly — understand that volatility doesn't equal weakness. Those who can see through the noise to the underlying fundamentals will be best positioned for what lies ahead.

The WBA Economic Forecast Breakfast was held December 3, 2025. Jackie Benson presented the national economic outlook on behalf of Wells Fargo, the event's title sponsor. Dr. Hart Hodges and James McCafferty presented the local outlook on behalf of Western Washington University's Center for Economic and Business Research.