

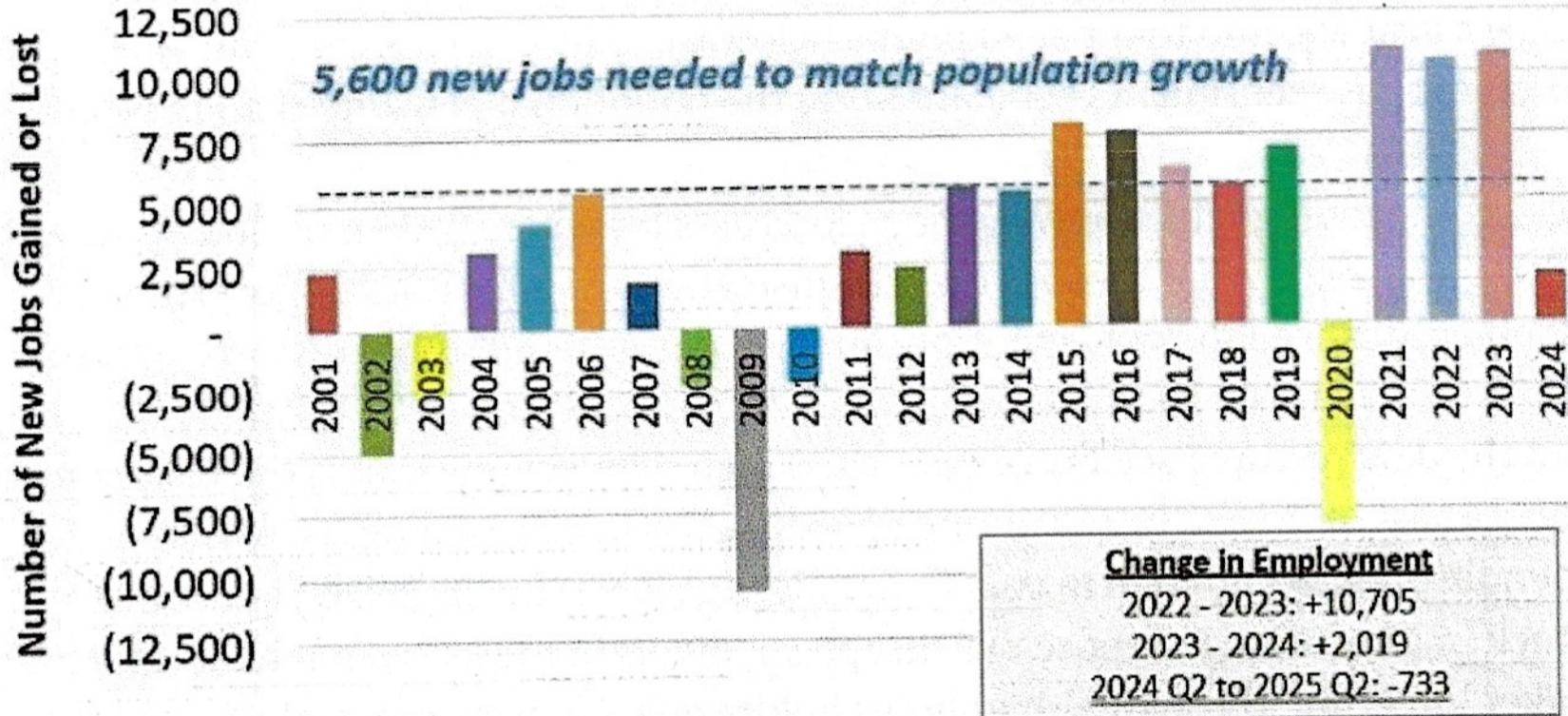
Looking back to 2025 and what's ahead for the economy

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A joke I've heard many a time throughout the years is that economists are as good as weathermen in terms of forecasting. Fair, but somehow that never detracted me from loving my discipline and trying to put the pieces of the grand puzzle together. There are indeed too many variables relative to the constants to "solve" the equation, so it's a losing battle if we look for exactitudes. And we have even more variables right now — transformative innovation, a massive demographic transition, political polarization and hatred between fellow Americans as I've never seen, and a seemingly smaller opportunity set for younger/poorer Americans relative to decades past — to rattle off a few monkey wrenches.

El Paso County Annual Job Changes



Sources: U.S. Department of Labor, Wells Fargo Economics, Data-Driven Economic Strategies (DDES)

All to say, I'll share the (2025) yearend data with my humble interpretations, which I warn are not nearly as rosy as past years. My perspectives are colored by looking to the longer term, as I see some of the foundational pillars of our capitalist system at risk. There are also opportunities, but only if there is a collective understanding (using data) that our best allies will always be fellow Americans who fundamentally all want the same thing — prosperous lives, the liberty for all to reach for and obtain those lives with an understanding that we all strive as humans for the pursuit of happiness.

The recently delayed third-quarter GDP release showed an outsized increase in gross domestic product with an annualized real GDP growth rate of 4.3% and a year-over-year rate of 2.3%. I've always paid more attention to the year-over-year rate because the annualized rate takes one quarter and assumes an annual growth rate based on that one quarter. Suffice it to say that 2025, in particular, has had outsized distortions that make a quarterly annualization particularly problematic. But either way you look at the data, "trend" growth is in the 2.0% range, so the Q3 data would normally excite me -- except the reas-

GDP

(1)

ons for the quarterly growth are rarely structural and therefore difficult to sustain. They mostly represent three things that either reflect past distortions or current boosts that are not likely to hold. First, we had tariff-fearing upswings in imports (a subtraction on GDP), which resulted in a 0.6% GDP contraction in Q1. This has been followed by a rebound effect with lower imports (down 29.3% in Q2), which props up GDP.

Second, AI investments in data centers and information-processing equipment are off the charts. Analysts say the first half of 2025 would have had almost contractionary levels of GDP had it not been for AI investments. It's never good to have too many eggs in one basket, so even though I believe in the productivity-enhancing, grand potential of AI, the overemphasis of AI investments reflected in GDP and the stock market worries me, as all major transformations are disruptive and the adoption time is typically long.

Third, household expenditures continue to be decent, but savings rates are subpar (4.7% versus ~8% trend rate) and large swaths of middle/lower income consumers are using credit cards for necessities. After the holidays (which will likely increase credit card debt), robust consumption patterns will likely fade given that prices are not moderating and the labor market is softening. While the December consumer sentiment index increased to 52.9 in December (from 51.0 in November), the index is still roughly 30 points below a year ago and roughly 50 points below the 2015-2020 range — and prices and job prospects are central to those sentiments substantiating the notion that consumerism may sputter in 2026.

Looking forward, the accompanying table shows various forecasts for where 2025 may end up, as well as GDP forecasts for 2026 and 2027. What I read is that the distortions of 2025 (tariffs, government shutdowns, etc.) undoubtedly caused the wild gyrations in quarterly GDP, but those distortions will “level out and play out” more so in 2026 and 2027.

I hope I am wrong, but the data picture I see is one where the incredible engine that is the U.S. economy will struggle to ride on its past momentum. Consumer spending has been resilient due to higher-income household spending and wealth tied to past tailwinds (e.g., lower house prices, lower interest rates and a roaring stock market). None of those will disappear, but as home prices moderate and the (AI-driven) stock market levels out, those wealthier households could cut back modestly. Since the top 10% are fueling 50% of all expenditures, the U.S. economy would moderate as well.

I would normally look to younger cohorts forming families, buying homes and spending, but there are far fewer younger people, their debt loads are higher, and their job prospects are lower (e.g., the unemployment rate for 20- to 24-year-olds is astonishingly 8.3%, according to the Bureau of Labor Statistics). The unemployment rate only measures those actively looking for work, so adult children living with relatives and who are not looking for work don't count, and neither do full-time college students. The higher entry-level worker unemployment rate is another structural issue that's multi-dimensional, including AI impacts and outdated college majors and training, to name just a couple.

My caution around U.S. growth also relates to persistent inflation, which moderated in November to 2.7%, but what consumers gripe most about is that overall price levels are roughly 30% higher than in January 2020. Manufacturing and small business surveys show that producers are buckling under higher input costs and plan to increase prices (+30% already have and +30% plan to in the next three

months), stating that they cannot continue to absorb their higher costs, mostly due to tariffs, higher employee health care benefit payments and higher insurance costs. Note

Smaller employers appear to be particularly affected, with 64% also (still) citing supply chain disruptions. This also seems to be true at a local level. I will be doing a presentation for the local Women's Chamber in January, and I asked them to survey their members about business conditions. Their comments included "ongoing difficulty finding qualified applicants, lower discretionary spending, need for more marketing to maintain sales, rising costs, etc." Note

Higher producer prices have shown up not only in the prices we pay, but in employers' reluctance to hire new workers and make new capital investments. Remember — most of the new investment in the U.S. in 2025 was tied to AI. Even manufacturing, with the emphasis on reshoring, has seen a decline in employment (-73,000 jobs) from November 2024 to November 2025, according to the Bureau of Labor Statistics. Employers in any industry hire when profit margins and prospects look good and don't hire in the antithetical situation.

It is good news and overall helpful to investment levels and the economy overall that interest rates were cut by 0.25% last month, and two cuts are tentatively penciled in for 2026. Hopefully, we will not have a government shutdown in late January (with the concomitant data delays), and hopefully, we can reverse the decades-in-the-making erosion of our economic reporting agencies. Solid data is always important, but we must have full access to and confidence in key indicators such as inflation and employment, as those two dictate the trajectory of interest rate decision-making. Interest rate manipulations are a blunt (monetary policy) tool, but we wouldn't want to move in the wrong direction with too few or too many cuts, which would exacerbate an already tenuous economic situation for households and businesses.

Another worrisome reason for my forecasting pessimism is the increased costs to lower/middle-income households due to the expiration of the Affordable Care Act premium tax credits. Whether we agree or disagree with ACA, Reuters cites a per enrollee rise in cost of health care of between \$900 and \$1,900 per year (e.g., for a family of four estimates are almost +\$15,000 per year). Approximately 24 million individuals would be directly affected and between 4 million to 5 million are expected to become uninsured (which insured individuals pay for anyway through increased cost shifting).

Honestly, it's frustrating to hear about how broken Medicare/Medicaid and ACA are because I hear just as much, if not more, about atrocious private health insurance rejections, increasing deductibles and premiums. It's a part-time job dealing with public and private health insurance alike. The vast majority of Americans feel it's the entire health care system that's dysfunctional. I wrote an editorial, "Tragedy of the Commoners," about how crippling health care is for the U.S. economy, with relevant health spending stats as well as commentary about the unfortunate United Healthcare CEO homicide. My kids said, "That article was a doozy, Mom!" Note

U.S. job openings remained steady through October, consistent with the notion that demographics is destiny. While we may have some cooling of the labor market with unemployment rates that are inching up, the steady job openings reinforce the notion that we simply do not have enough working-age people and as such, businesses struggle to find and keep qualified workers. We also now have 1.2 million fewer immigrant workers. Note

The labor market is something else to watch closely. The quits rate has been quite low, and layoffs have been inching up, which is consistent with a softening labor market. Workers realize a new job is not Note

easy to find, so they are staying put, and some businesses are struggling with input costs and are discharging workers (in addition to holding off on hiring). All in, I would characterize the U.S. labor market as steady but not infallible in 2026.

New El Paso County jobs data for 2025 Q2 was just released, and once again, our local job situation isn't looking nearly as rosy as the first 10 years since I moved here (in 2014). Local job growth in 2024 dropped off significantly to only +2,019 new jobs, which is less than half of what we need to match population growth.

Unfortunately, 2024 Q1 to 2025 Q1 only saw 1,290 new jobs and the recent data for 2024 Q2 to 2025 Q2 saw a drop in the number of local jobs (-733). I have not seen this in the 11 years I've lived here. If you were at my annual economic update at Garden of the Gods, you heard from the state's budget director that our state is experiencing a similar scenario. State economists have confirmed that job growth this past year in Colorado, through September, has been roughly a third of what it was before the pandemic - about 0.6%, compared to 2.2%.

At a state and local level, there are some fascinating forecast changes from the State Demography Office showing a meaningful shift in population. These demographic shifts undoubtedly play into the subpar jobs conundrum.

Eleven 11 years ago, the state was projected to surpass 8 million residents by 2050, and El Paso County was projected to reach 1 million residents. The SDO has been revising population growth downward for a few years, and the November release now shows about 800,000 fewer residents in 2050 in Colorado (7.2 million) and roughly 40,000 fewer residents in El Paso County (965,622). (Note that the updated tables in the DDES monthly economic reports now go through 2060).

Like the rest of the U.S., there are notable downward revisions among children (ages 0-17) and, to a lesser extent, adults 65 and older as the "boomer" effect dwindle (my husband — a boomer — says that "dwindle" is a polite, veiled way of me saying "croaked.") The absolute number of people determines the number of workers (and consumerism/business growth), the demand for housing, the demand for K-12 and higher education, Social Security and Medicare expenditures (~40% of the federal budget) relative to new worker tax revenues, and therefore everything related to our national and local economies.

This is much of the reason I believe that our economic model and system as a whole will need to pivot to one based less on "new bodies" and their demand while relying more on other ways to grow the economy. These include productivity gains per worker (AI/robotics), higher labor participation to increase our tax base, which we can obtain via subsidized higher education/training for those who can't afford it, higher innovation levels from all groups, a later (Social Security) retirement age, responsible immigration,

and policies that make it easier for parents to work and buy homes (which I personally think would raise fertility rates more than any other lever).

In the local housing market, home sales declined to 837 in November, which is seasonally expected, and home prices remain relatively steady. In Q3, the Colorado Springs median existing single-family price reached \$474,100, essentially unchanged from last year (+0.2%) maintaining its position as the 49th most expensive metropolitan area nationally.

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Denver remained the 22nd most expensive at \$651,900, which was 0.4% below its 2024 level. Boise, Idaho, which we use as one of our comparison cities, continued to see stronger appreciation, with a 3.7% annual increase to \$509,800 and a ranking rise from 40th to 39th.

Nationally, home prices rose 1.7% to \$426,800. With our prices staying flat and the U.S. continuing to increase somewhat, we are now "only" 11% higher in median home price relative to the U.S. That is a lot of the reason our local cost of living index (addressed below) has moderated so much. This is a good thing.

U.S. new vehicle sales were down 6.1% from November 2024 to November 2025. This slowdown has been expected as the market has faced headwinds from tariffs driving up prices as well as fewer subsidies for electric vehicles. Cox Automotive released a forecast for 2026 showing 16 million fewer auto sales (down 2.4%). Locally, new registrations in El Paso County fell 7.3% in September compared to a year earlier, yet luxury utility vehicle registrations rose 17.4%, suggesting higher-income households remain comparatively resilient and validating the notion of a "K-shaped economy."

To wrap up, I've been thinking as the year closed out about my first several years in Colorado and how I felt like the ebullient, optimistic economist when I presented and when I wrote.

Now feel I am always giving bad news, and I don't like it. When I try to step back and "smooth out the outliers," I still land in a foggy, somewhat perilous place mostly because I have concerns about the long term.

We need more workers (and immigration reform), the outlook for future workers isn't good with a 1.6 fertility rate, our deficit is only growing with \$1 trillion a year in interest alone, which crowds out the investments we need, higher education (universities) aren't adapting quickly enough, you know what I think about the health care system, and I see persistent inflationary pressures for a host of reasons. Colorado is still one of the best states in the nation for a plethora of reasons, but we are not growing like we used to.

Fiscal pressures are mounting, and they are structural — we cannot just blame who is in office or the current business cycle, as all politicians face the same harsh demographic and other realities.

But wait! I do have some glimmers of hope. There are some aspects of the federal tax reforms enacted in 2025 that help middle and lower-income households. More aggressive interest rate cuts in 2026/27 could stimulate some much-needed (not just AI) investment, and home prices should continue to moderate. Locally, the cost of living in Colorado Springs was 101.1% of the U.S. average in the third quarter, down slightly from 101.5% in the prior quarter, and much lower than the ~108% range we had during the pandemic — mostly due to moderating home prices.

Perhaps we can once again be attractive to new individuals and families who wish to join our awesome city and state. On that note, I wish you and yours a truly wonderful 2026 full of life, the liberty to obtain what you want and work for, as well as abounding fulfillment in your pursuit of happiness.

