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Experts: Recession risk growing

State budget picture remains dire, with $1B gap projected

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Colorado faces a heightened recession risk heading into 2026, state economists said Friday, as recent data — still murky because of the recent federal government shutdown — cast broad uncertainty over the state economy's health.

Consumer spending from lower- and middle-income households has slowed, according to legislative economists. They said job growth this year in Colorado, through September, has been about a third of what it was before the pandemic — about 0.6%, compared with 2.2%. But mass layoffs haven't materialized, and the effect of President Donald Trump's extensive tariffs this year has been "pretty muted," said the legislature's senior economist, Emily Dohrman, on Friday morning.

However, a disruption in data collection caused by the government shutdown this fall significantly clouded the overall economic picture, legislative Chief Economist Greg Sobetski told the legislature's Joint Budget Committee as officials delivered the final quarterly forecast of 2025.

"I just have less knowledge right now that the U.S. economy is in the position that available data says that it is — because I have a lot less available data," Sobetski said. "That means that, for example, if the economy is actively receding now, I would have less information to suggest that to me because of the data not being published."

The committee, which will write the state's budget for the next fiscal year, which begins July 1, also received more bad news about the state's financial footing. The forecast for the current fiscal year now has the state dipping $90 million deeper into its cash reserves, for a total of about $399 million, as the state navigates repercussions from the federal tax bill passed this summer — money the committee will be tasked with replenishing with the next budget.

Forecasters predicted that budget writers will need to find $1 billion in cuts compared with this year's spending to keep up with rising costs, particularly in Medicaid spending. It will be the latest in a series of cuts made by lawmakers in recent years to make room for soaring costs.

The 2026 legislative session begins Jan. 14. The committee will continue meeting in coming months and use the next forecast, scheduled for March, to write the budget for the next fiscal year.

"That just starts us off even more in a hole," state Rep. Rick Taggart, a Grand Junction Republican on the committee, said of the new forecasts. "That's worrisome, to say the least."

Clint Saloga, a senior analyst for the governor's budget office, warned of "growing signs of distress" in the economy, even if overall economic growth was higher than expected. Much of the economic growth has been driven by huge investment in artificial intelligence technologies across the country.

If that investment proves unprofitable, it could have wide economic consequences.

In a statement Friday, Gov. Jared Polis blamed Trump's trade wars and the summer overhaul of federal tax policy for the economic woes in the forecast.

"The White House's destructive trade wars continue to hurt our economy, skyrocket costs, and worsen inflation ahead of the holidays," Polis said.

He said state reserves remain flush enough to help weather the worst of economic uncertainty, however.

Overall, the Office of State Planning and Budgeting expects slowing consumer demand and a weakening job market.

Job growth has been uneven, Saloga told lawmakers on the Joint Budget Committee. Large companies, with 500 or more employees, have been adding jobs, while small businesses are shedding workers, apparently to afford the rising tariff costs.

The new state budget forecast predicts that next year's deficit will be $47 million worse than the September forecast, which was used for the governor's November budget proposal. The state's general fund budget is about $18 billion.

This year's budget shortfall will result in some marquee tax credits being put on hold when Coloradans file their taxes in 2027.

The expanded Earned Income Tax Credit and Family Affordability Tax Credit, both of which can give hundreds of dollars to low-income families, are projected to be shut off for the next tax year.

"Consumer growth is being driven by the top 20 percent earners, while low-income earners struggle to make ends meet and dig into their savings," Rep. Emily Sirota, a Denver Democrat and the leader of the JBC, said in a statement.

"While our legislative efforts have successfully reduced housing costs in Colorado, cuts to federal clean-energy tax credits and rising tariffs are leading to higher bills. This will be a very challenging budget year."

She said lawmakers will aim to "protect funding for our schools and core services and seek responsible solutions to address the shortfall."