

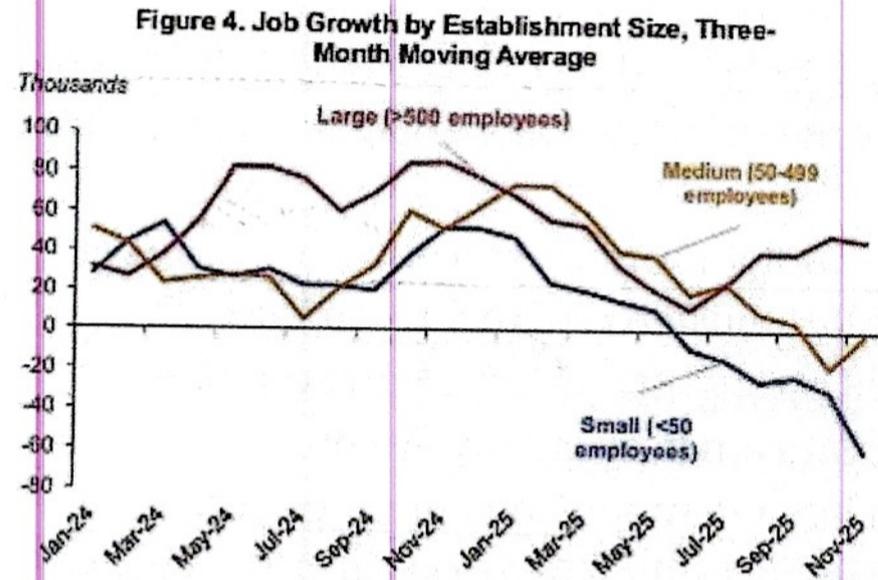
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# Economic outlook: stability, minus renewed optimism

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Recent data continues to point to an economy that is expanding but vulnerable to shifts in confidence and labor market conditions. The third-quarter 2025 GDP release was revised up in January to show real GDP growth rate of 4.4% (previously at 4.3%), with the year-over-year rate holding at 2.3%.



As I have consistently noted, I place more weight on the year-over-year measure, as the annualized figure can be distorted by short-term dynamics. From that perspective, underlying trend growth remains neither recessionary nor particularly robust.

What gives me pause is not the level of growth, but the sources sustaining it. Household spending has remained resilient, yet this resilience is increasingly occurring alongside stalling job growth, slower income growth and declining savings with a troublingly low November rate of 3.5% (versus the approximately 8% historical trend).

Consumption-related indicators appear to be holding up despite broader signs of cooling. This combination suggests that growth is being supported by past momentum rather than by improving fundamentals. Historically, this type of configuration can persist for some time, but it is less stable than growth driven by broad-based income gains and the virtuous economic cycle where solid household income fuels business growth, new investment, home buying and so on.

Sentiment indicators reinforce this concern. The University of Michigan Consumer Sentiment Index rose modestly in January to 56.4, up from 52.9 in December, but remains extremely low by historical standards and well below pre-pandemic norms.

Because sentiment surveys capture perceptions about prices and job prospects — not just current conditions, this increase signals stabilization rather than renewed optimism. Meanwhile, the Conference Board's Consumer Confidence Index fell sharply in January for both present conditions and expectations around income, business activity and labor markets, to levels often associated with recession risk.

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Inflation continues to moderate in rate-of-change terms, but cumulative price increases remain a central constraint, as reflected in consumer survey responses. Headline CPI (Consumer Price Index) was 2.7% year over year in December, with core inflation at 2.6%, yet overall price levels remain roughly 30% higher than pre-pandemic. ← Note ↘

Looking ahead, business-pricing behavior bears close watching: The ISM "prices paid" index remained elevated at 58.5, and 30% of small businesses report plans to raise prices in the next six months.

While lower gasoline prices have helped restrain headline inflation, pressure from essentials like shelter, food and insurance suggests that relief from gas prices alone will be limited. Note ↑

With price levels still elevated and the labor market cooling but stable, the Federal Reserve maintained a cautious stance at its January meeting, holding the federal funds rate at 3.50%–3.75% after three prior 25 basis-point cuts. Only two Federal Open Market Committee members dissented in favor of further easing, signaling a shift toward patience rather than urgency. Fundamentals rather than counterfactual pressures. Dour labor market data from this past week makes me think two more 0.25% cuts for 2026 are definitely on the table now. Note ↘

The labor market continues to cool, though not in a way that would normally precede a recession. Monthly unemployment rates show the U.S. rate (not seasonally adjusted) fell to 4.1% in December, while Colorado's remained at 3.6% and El Paso County's edged up slightly to 3.7%. However, these headline rates mask a meaningful shift beneath the surface that I am keeping my eye on.

That shift is evident in labor demand. That shift is evident in labor demand. Job openings at the national level declined sharply in December to 6.5 million (from 7.1 million in November), the lowest level in over five years, while planned layoffs in January hit the highest level for that month since 2009. Hiring intentions are also weak.

Locally, job openings in the Colorado Springs Metropolitan Statistical Area fell materially in December, pushing the number of workers per opening above one for the first time in several years. This is a critical transition point. It suggests that labor-market rebalancing is occurring primarily through reduced hiring rather than layoffs, which historically tends to dampen wage growth and slow income gains before it shows up as higher unemployment.

Business conditions across the state appear cautiously stable, with adjustment increasingly visible in firm behavior. The Leeds Business Confidence Index, a quarterly survey-based index of Colorado business leaders (where 50 indicates neutral expectations), rose to 43.1 in January 2026, up from late-2025 lows of 36.0 but still below neutral. This suggests easing pessimism rather than renewed optimism. Note ↘  
Firms appear to be managing higher costs and slower growth by scaling back hiring intensity.

In the housing market, home sales in the Pikes Peak region increased modestly in December to 909 (from 837 in November). At the same time, single-family permits edged up in December, while multi-family residential permits decreased from 1,206 in November to 704 in December. Both November and December had massive increases in multifamily permits. But even with these end-of-year increases, the total permits issued over the course of the year came in well below (by about 2,800 units) the estimated "healthy" level needed to accommodate population growth and address the existing housing shortfall.

This continued underbuilding suggests that affordability constraints are structural and unlikely to resolve quickly, even if demand cools further.

Housing affordability remains especially consequential for young adults at the start of their wealth-building years. While recent efforts, such as the \$12.8 million from Proposition 123 earmarked for a downtown affordable housing project are encouraging, barriers to entry remain extremely high. The Colorado Springs Housing Needs Assessment, completed with El Paso County, DDES and Matrix Design Group, documents the structural challenges facing the local housing market. The assessment is intended to serve as a foundation for a broader community housing action plan.

Looking ahead, U.S. real GDP growth is expected to remain below trend, while unemployment is projected to drift modestly higher but stay relatively low. Current forecasts hover around roughly 4.5% unemployment nationally and in Colorado, but GDP projections vary meaningfully — from about 1.2% to 2.4% — reflecting ongoing uncertainty.

Overall, recent data suggest an economy that still expanding, but is increasingly reliant on past momentum rather than new growth drivers. I do not see evidence of an imminent recession, but I do see an economy with less margin for error and greater sensitivity to shifts in confidence, labor demand, and policy uncertainty as we move further into 2026. *Note*

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