



The
STEPHEN S. FULLER INSTITUTE
for Research on the Washington Region's Economic Future



Washington Economy Watch

Regional Economic Contraction Broadens

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The Stephen S. Fuller Institute
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Center for Regional Analysis
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The Washington Economy Watch is a monthly report issued by The Stephen S. Fuller Institute that is intended to inform its readers regarding the current and near-term performance of the Washington area's economy. The Leading and Coincident Indices were first reported in February 1991. Given changes brought from the switch to hybrid and remote work in the wake of the pandemic, the Coincident Index has been temporarily modified, and the Leading Index has been replaced with an econometric jobs forecast.

Washington Economy Watch

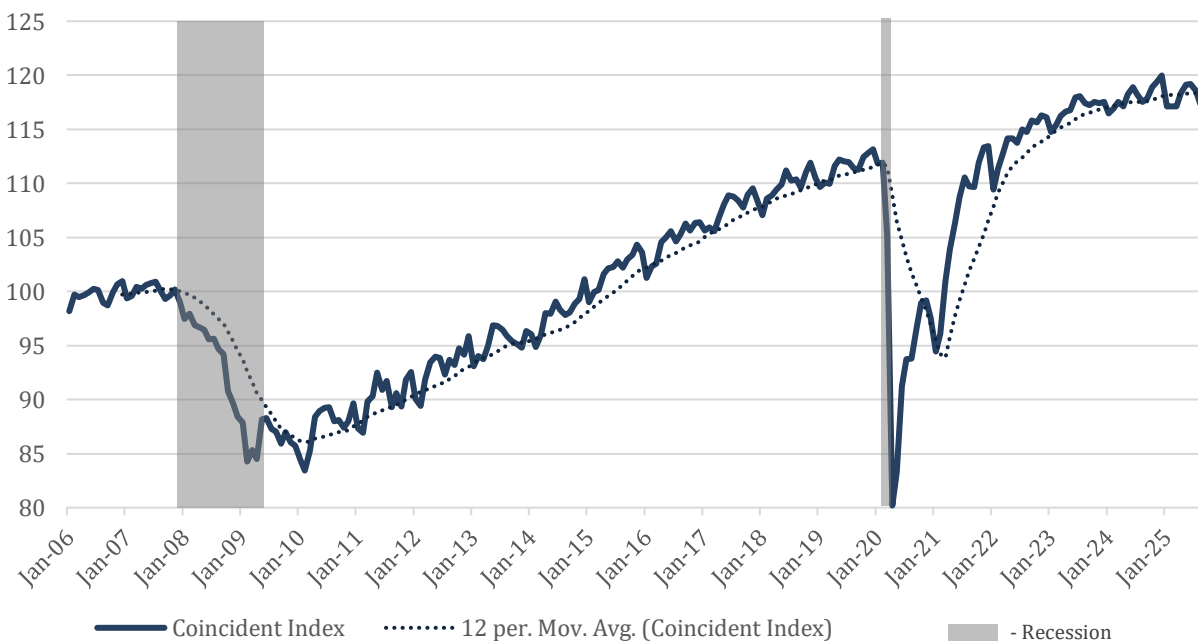
Economic Contraction Broadens

September 2025

Washington Area Economy: Regional Economic Contraction Broadens

The Coincident Index decreased 0.2% from August 2024 to August 2025, the first negative reading since March and likely the first in a series given labor market contraction.

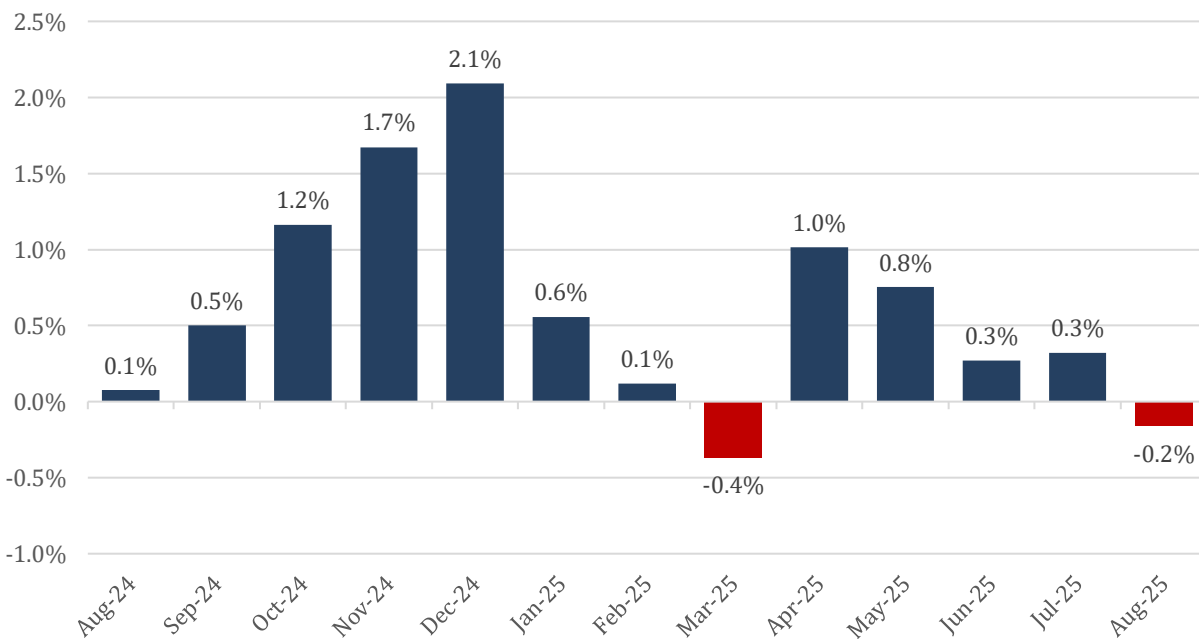
As anticipated, the Coincident Index turned negative as two of the three components turned negative. The negative reading is expected to continue for the foreseeable future, as federal employment in the region continues to contract sharply. Employment forecasts from prior editions of Economy Watch continue to perform well, which, regrettably, indicate that regional employment will continue to decline in September, even before the wave of employees who took the deferred resignation are removed from federal payrolls in October. As discussed in notable trends, the rapidly rising unemployment rate recorded in 2025 is expected to continue into the foreseeable future. Adding to the concerns around unemployment is the fact that the labor market continues to contract, implying that workers are leaving the workforce rather than looking for alternative opportunities.



The **Washington Coincident Index**, which represents the current state of the Washington Region's economy, decreased 0.2% from August 2024 to August 2025. The contraction in the Coincident Index is the first of what will likely be a string of negative readings, which are expected to continue at least through the end of the year and the first several months of 2026. The anticipated contraction in September is expected to be of roughly the same magnitude as the August contraction. However, the reading for October, released in November, is likely to be substantially larger, as federal workers who took the deferred resignation are removed from payroll. Examining components:

- *Domestic passenger volume at Reagan National and Dulles Airports* increased 5.4% from August 2024 to 2025, the largest month-over-year increase in 2025; while,
- *Wage and salary employment* in the Washington region decreased 0.3% month-over-year in August, the second consecutive month-over-year decline, which is anticipated to continue; and,
- *Consumer confidence (current circumstances)*¹ decreased 4.3% month-over-year in August, a reversal from the positive reading last month, but a continuation of the longer-term trend of deteriorating confidence that began in Fall of 2021.

Washington Coincident Index, Month-Over-Year



¹ Consumer Confidence reflects the South Atlantic region. Due to substantially different economic conditions than when the C.I. was introduced in 1991, as well as newly available datasets, this component will be removed from the Coincident Index in 2026.

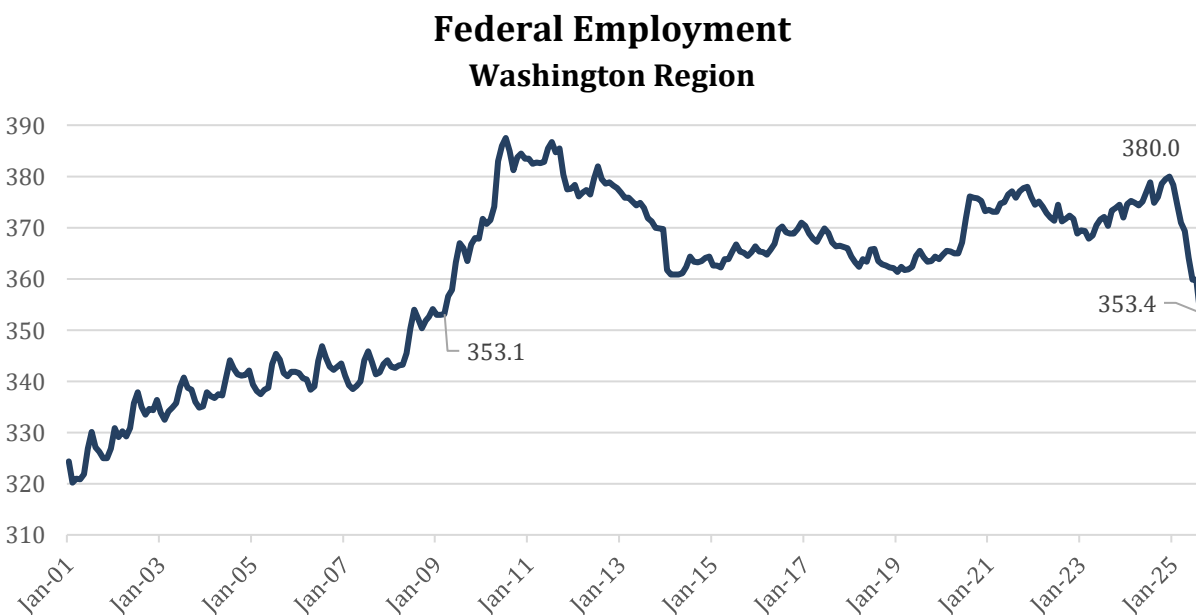
Washington Employment Forecast

Typically, the SFI Washington employment forecast predicts regional employment levels six months ahead based on underlying labor market trends. However, this has been suspended due to uncertainty surrounding the number of federal employees who have taken the deferred resignation to be removed from federal payroll at the end of September. However, it is still informative to examine previous forecasts before moving on to notable trends.

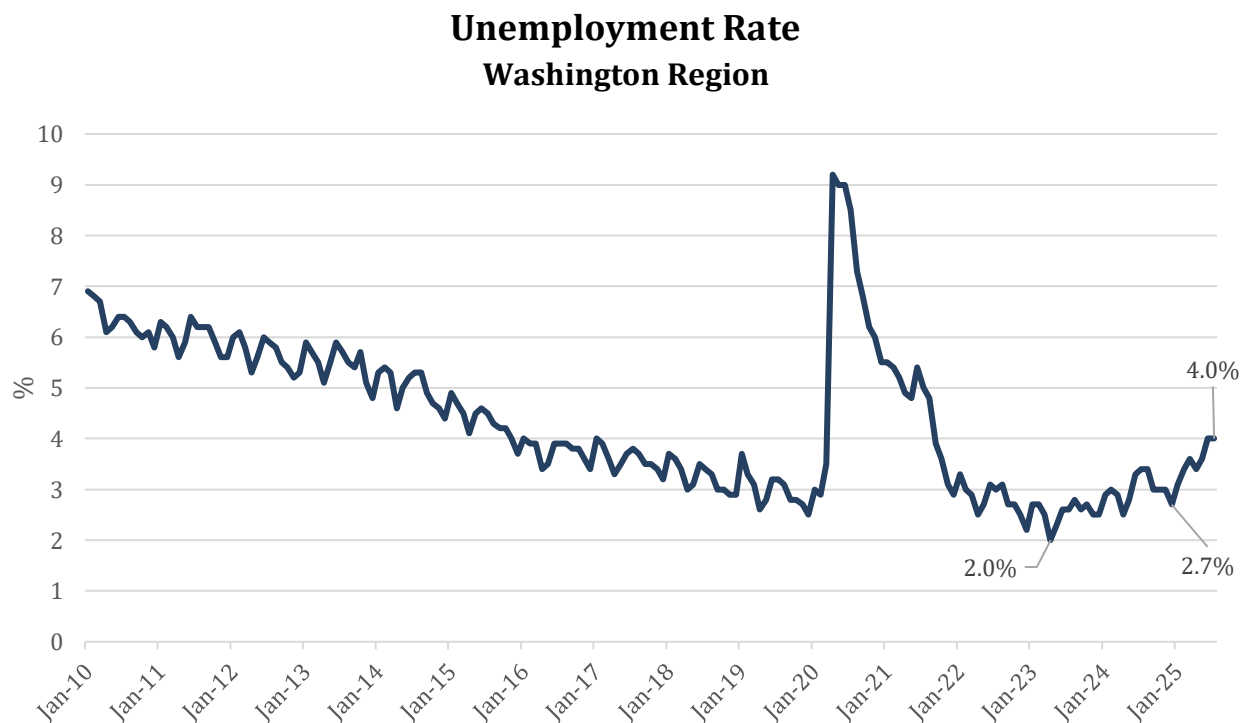
As noted in the previous edition of Economy Watch, the April forecast ([here](#)) has been the best-performing forecast, potentially due to some of the notable revisions from the BLS that were released in the summer months. The April forecast continues to perform well, with the August employment forecast estimate of 3,380,800 being only 2,500 jobs below the initial estimate of 3,381,300, only 0.1% different. The accuracy of the estimate is well within the confidence intervals that ranged from 3,359,000 to 3,403,000. Given the continued accuracy of the April forecast, the anticipated preliminary number of payroll jobs in September remains 3,381,000 for the Washington region. These data will be released towards the end of October and will be the last read on the region's economy before the number of deferred resignations becomes clearer in early November when national data are released.

Notable Trends

Federal employment, which will be the headline trend through the end of the year, continued to contract in the Washington Region. Direct federal employment in the Washington Region declined to 353,400 in August, a decrease of 26,600 (-7.0%) from the recent peak of 380,000 in December 2024. The number of direct federal jobs in the Washington Region in August was effectively on par with the number of jobs regionally in March 2009.

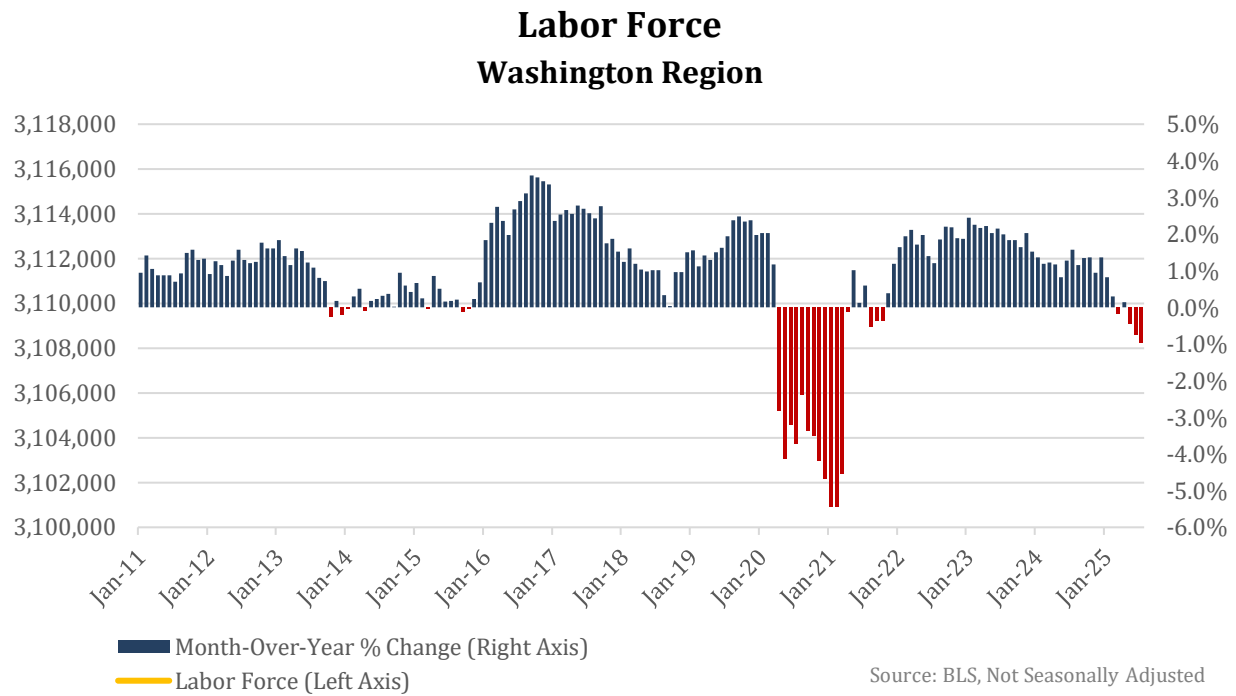


As discussed in the August edition of Economy Watch ([here](#)), the region's labor market has cooled across the private and public sectors. The slow growth in county and state government, alongside flat private sector growth, implies that unemployed workers may find limited opportunities. Increasing delays between a previous job and future jobs is likely one reason that the unemployment rate in the Washington Region increased from 2.7% in December 2024 to 4.0% in July 2025. Despite the quickening rise in the unemployment rate in 2025, the unemployment rate had been increasing from a low of 2.0% in April 2025. The sharp contraction in federal employment accelerated an underlying trend in the region.



Source: BLS, Not Seasonally Adjusted

Adding to alarm about the rising unemployment is the simultaneous contraction of the labor force. The Washington Region's labor force had been growing at around 1.0% throughout most of 2024 before growth sharply contracted and turned negative in March 2025. The labor force in July 2025 was 1.0% smaller than in July 2024. The contraction in the labor market makes the rapid rise in unemployment even more concerning, as it means workers are dropping out of the labor force rather than continuing to look for work and, therefore, being counted as unemployed. The labor force contraction is likely to be a drag on the region's economy for the foreseeable future, as businesses become less able to find qualified workers.



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