



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



Washington Economy Watch

Forecast: A Flat Economy After Sharp Decline

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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

Forecast: Flat After Decline

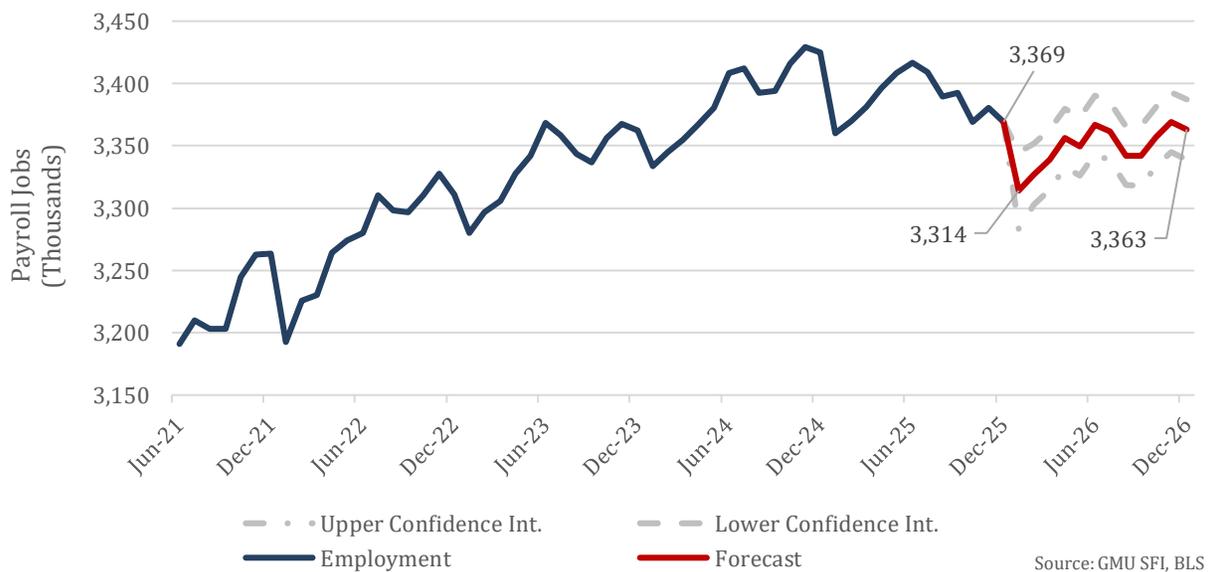
March 2026

Washington Area Economy: Forecast: A Flat Economy After Sharp Decline

The Washington Employment Forecast predicts flat employment month-over-year through 2026. Overall, there will be no change between December 2025 and December 2026. The muted forecast is rooted in a minor rebound in federal employment, a resilient housing market, and a flattening office market. The unfolding conflict in Iran has substantial implications for oil and related supply chain disruptions, which will have macro-economic effects in the U.S. and the DC region.

Notably, the following employment forecast is based on the premise of a 2 percent increase in direct federal employment throughout. The overall prediction for 2026 is a steadying of regional employment, with modest growth after the typical seasonal low in January. Total regional employment levels stood at 3.369 million in December 2025. Washington Area employment forecast calls for employment to be 3.314 million in January 2026 before rising to 3.363 million by December 2026. The year-end forecast is no growth from December 2025.

Washington Area Employment Forecast

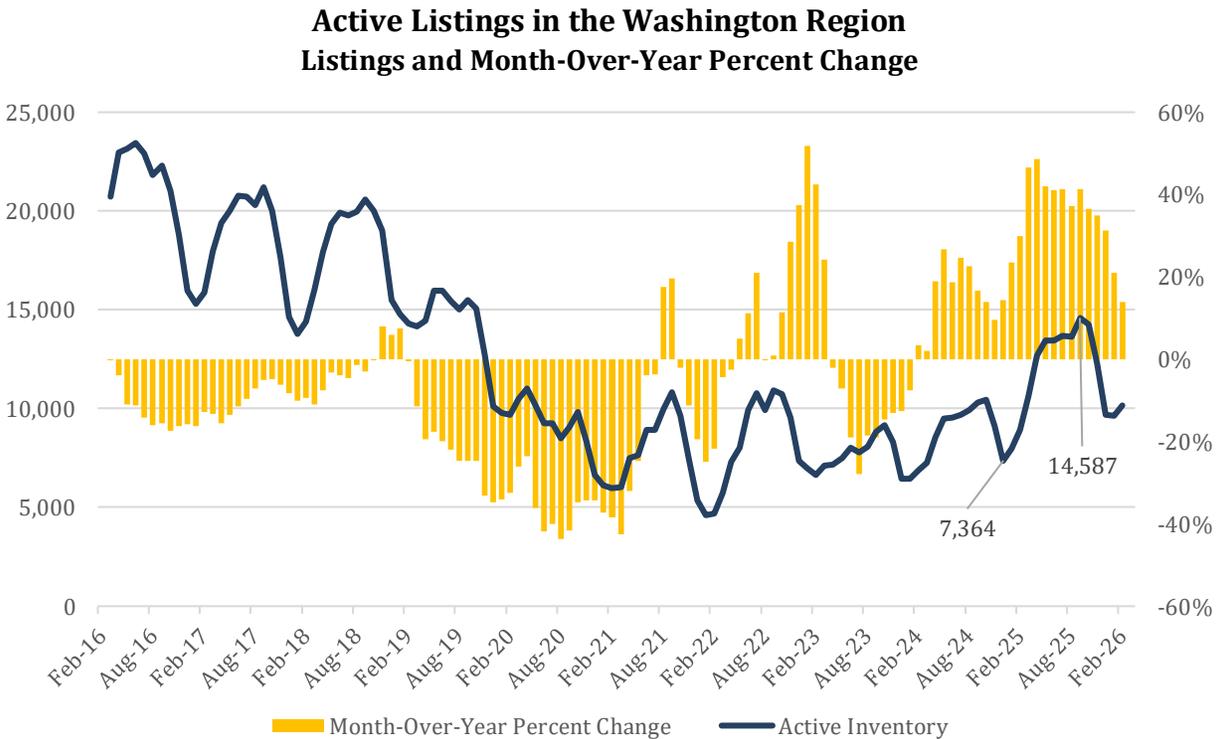


Source: GMU SFI, BLS

The spillover effects of the dramatic reduction in federal jobs and contract spending last year have not been fully realized in the regional economy. We expect the retail, leisure, and hospitality sectors to be under downward pressure through spring, then to stabilize by summer. Anecdotally, we are hearing more instances of federal procurement contract renewals being issued after pauses and delays that lasted from a few weeks to several months. This is encouraging news and suggests that the professional business services sector will stabilize and may start to grow again in the coming months.

Notable Trends

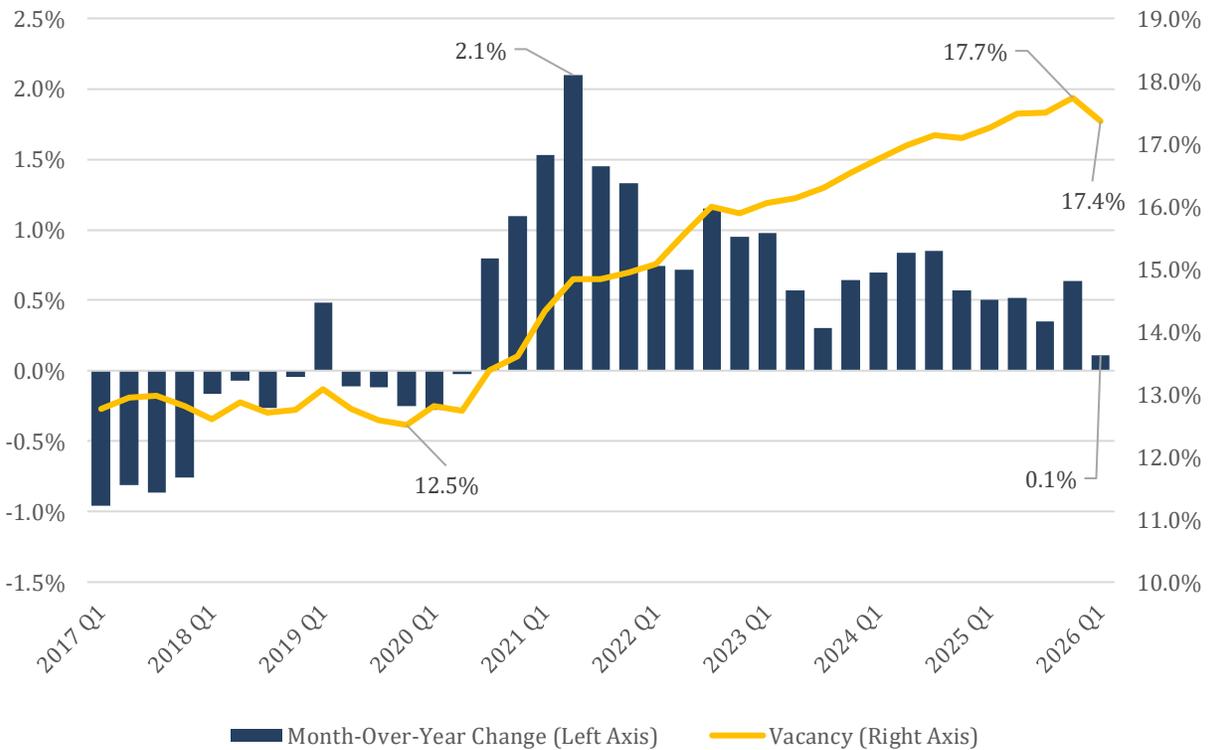
One of the most interesting trends to watch in the first half of 2026 will be the impact of regional job contraction on the housing market. In the wake of the change of administration at the federal level, active listing growth saw a sizeable increase. While active inventory growth had been waning towards the end of 2024, it reaccelerated from 9.5% month-over-year growth in November 2024 to 48.6% in April 2025 and held above 30% growth throughout the remainder of the year. In level terms, active inventory rose from 7,364 in December 2024 to 14,587 in April 2025. Despite the increase, active inventory remains reasonably resilient and remains below pre-pandemic levels. The coming months should reveal how much the softening job market impacts the for-sale housing market.



Source: BightMLS via GetSmartCharts. GMU SFI.

Finally, there are some emerging bright spots for the region’s economy. Most notably, the office market may be signaling that we have passed the valley in office vacancy rates. A combination of work-from-home and slowing professional and business services jobs resulted in the region’s office vacancy rate increasing from 12.5% in the 4th quarter of 2019 to 17.7% in the 4th quarter of 2025. However, data from the first two months of 2026 suggest that office vacancy rates may have peaked. In the first quarter of 2026 (quarter-to-date data), the office vacancy rate declined to 17.4%. While one data point doesn’t make a trend, examining the month-over-year change in the vacancy rate reveals that the region’s office vacancy rate has been increasing at an increasingly slow pace. That is, while the vacancy rate has been rising, it has been doing so more and more slowly. If this trend continues, the vacancy rate will have started a period of decline. Finally, this appears at least partially driven by a decline in supply, either through removal or conversion, as the supply of office peaked at 5.12 million square feet in the 2nd Quarter of 2023 and stood at 5.06 million square feet in the first Quarter of 2026.

**Office Vacancy in the Washington Region
Listings and Month-Over-Year Percent Change**



Source: BightMLS via GetSmartCharts. GMU SFI.

Conclusion

While the recent declines in direct federal employment resulted in a historic regional employment contraction, the Washington Employment Forecast calls for no growth month-over-year through the end of the year. The flat forecast is premised on a 2 percent increase in direct federal employment following the substantial losses, as some jobs are refilled, which will keep the situation from deteriorating further than otherwise may have been the case. While the region's housing market has clearly softened, it has thus far remained resilient given the size of the employment shock the region is working through. While outside the scope of Economy Watch, the region's sub-regional housing markets certainly have sizeable variation, with particular submarkets substantially underperforming. Finally, the office market may have reached a peak regarding vacancy rates. While one data point doesn't make a trend, vacancy rates have been increasing more slowly over the past several years. Assuming the trend continues, the region's office vacancy rate may start declining in a meaningful way starting in 2026.

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