



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



Washington Economy Watch

A Stalling Economy with Looming Cuts

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The Stephen S. Fuller Institute
for Research on the Washington Region's Economic Future
Schar School of Policy and Government
George Mason University

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, both are undergoing alterations. The Coincident Index has been temporarily modified and the Leading Index has been replaced with an econometric jobs forecast.

Washington Economy Watch

Stalled Economy, Looming Cuts

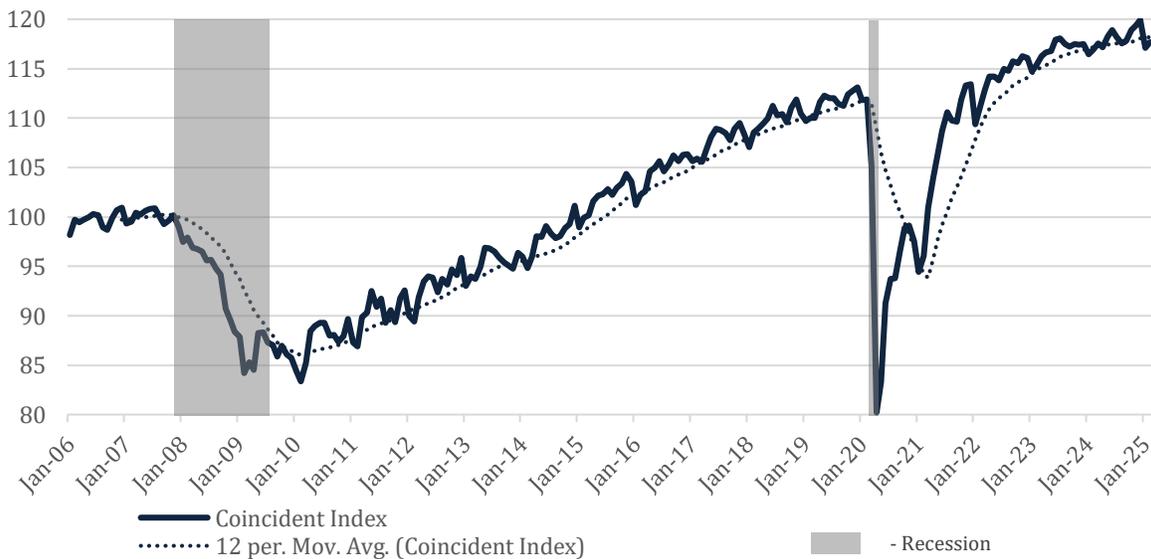
March 2025

Washington Area Economy: A Stalled Economy with Looming Cuts

The Coincident Index increased 0.7% from February 2024 to February 2025, a modestly positive reading after upward revisions in 2024.

Despite notable employment revisions from the Bureau of Labor Statistics (BLS), discussed at length prior to the employment forecast, the Coincident Index remains qualitatively consistent with the overall trend of a slowing economy. In general, the BLS revisions increased month-over-year employment growth for 2024 but showed a contraction on a month-over-month basis for January 2025 and a modest increase in February 2025. The Coincident Index through 2025 continues to indicate that the Washington region's economic performance has been modest at best over the past three years.

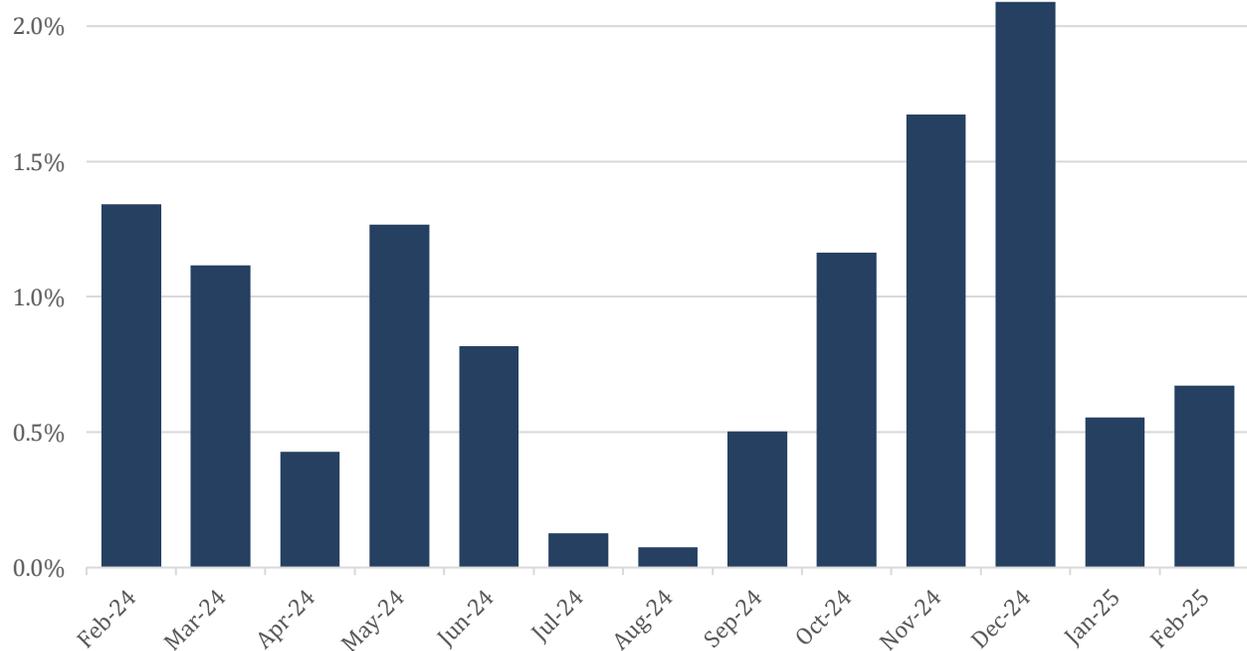
The SFI Employment forecast anticipates that the region's economic performance will become even more tepid over the coming months as job growth stalls. Additionally, the current forecast for flat employment growth has not fully considered the recent changes in federal policies. When factoring in modest reductions in federal employment and procurement spending, the model suggests that employment growth may turn negative. These impacts are discussed at length in the SFI Employment Forecast.



The **Washington Coincident Index**, which represents the current state of the Washington region's economy, increased 0.7% from February 2024 to February 2025. Revisions by the Bureau of Labor Statistics (BLS) to employment levels in the Washington region were notable, particularly in the second half of 2024, which is discussed in more detail below. Data revisions resulted in notable changes to the month-over-year changes, particularly in November and December of 2024. In January and February, however, the Coincident Index slowed markedly, increasing just 0.6% from January 2024 to January 2025 and 0.7% from February 2024 to February 2025. Although the Trump Administration and the Department of Government Expenditures (DOGE) are pursuing sweeping changes to federal jobs and spending, ongoing court cases will likely delay their full impact from appearing in economic data until later this year. Month-over-year changes in the Coincident Index are as follows:

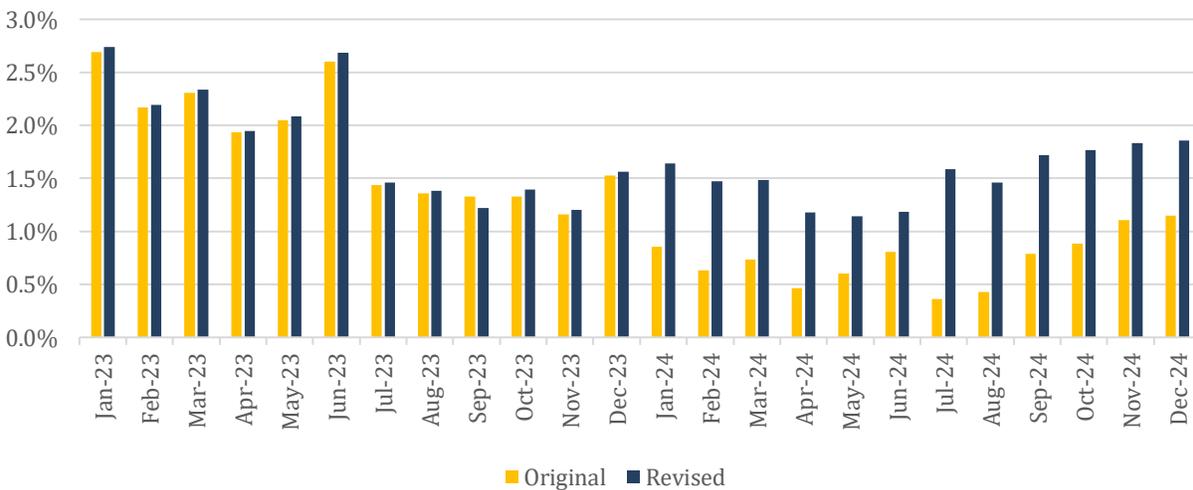
- *Domestic passenger volume at Reagan National and Dulles Airports* increased 2.0% month-over-year in February, the third consecutive increase; and,
- *Wage and salary employment* in the Washington region increased 0.7% month-over-year in February, in line with the January increase of 0.8% but markedly lower than the revised increases of 1.8% in November and 1.9% in December; while,
- *Consumer confidence (current circumstances)* decreased 1.1% from February 2024 to February 2025 after a 5.5% decline month-over-year in January and two modestly positive readings in November and December 2024.

Washington Coincident Index, Month-Over-Year



Each year, the BLS undertakes a benchmark revision to employment data, but this year's revisions are particularly substantive. To provide a sense of the revisions that impact the Coincident Index, month-over-year employment changes in the original data are compared with revised data for 2023 and 2024 below. Note that while month-over-year employment changes in 2023 remained relatively unchanged, 2024 data are notably different, particularly in the past 6 months. For instance, the estimate of the month-over-year employment change for December 2024 increased from 1.1% originally to 1.9% in the revised data. Despite the notable revisions, the BLS data remains the definitive source of metro-level employment data.

Washington Region Month-Over-Year Change, Original vs Revised Data



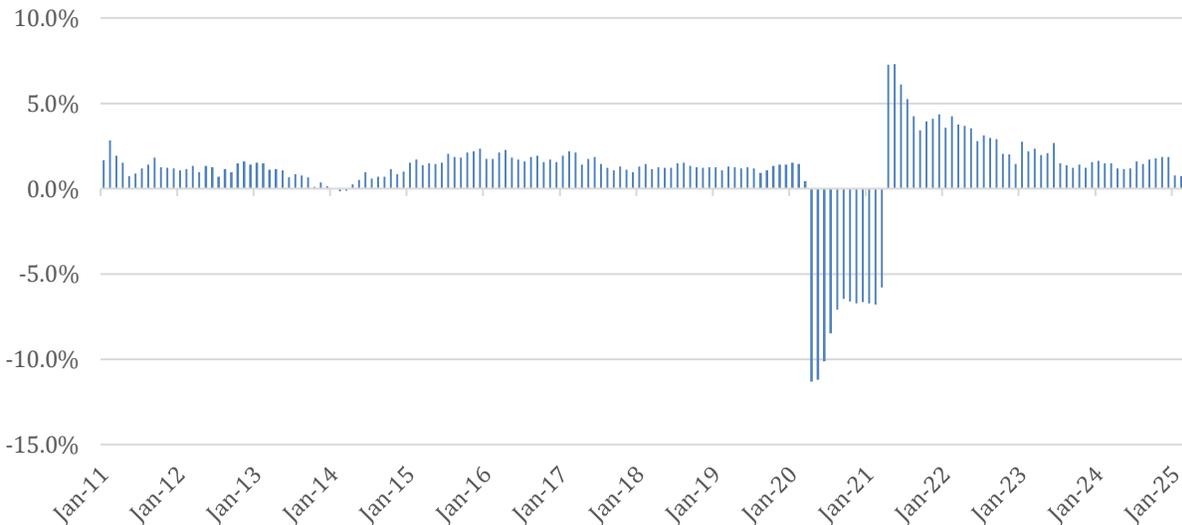
Washington Employment Forecast

The SFI Washington employment forecast predicts regional employment levels six months out by considering a myriad of data such as sector employment, rental vacancy, procurement spending, and housing permits. As noted in the January edition, forecasts falling outside the confidence intervals are examined. Note that the January edition only had data through December 2024, and there was no February edition due to annual benchmark revisions. While the forecast for the number of January jobs was within the confidence interval, the preliminary number of jobs in the Washington Region in February is much lower than forecast, well outside the confidence interval. The number of jobs forecast was 3,399,400 with a lower confidence interval of 3,378,300. The preliminary reported number of jobs in February 2025 was 3,369,200. The forecast was 9,100 lower than the preliminary estimate from the March jobs report. While the annual benchmark revisions explain some differences, it does not explain all of the difference.

	Actual *preliminary	January Forecast (000s)	Jan. Lower Confidence Interval	Jan. Upper Confidence Interval
1/1/2025	3,359.7	3,367.4	3,347.4	3,387.5
2/1/2025	3,369.2*	3,399.4	3,378.3	3,420.5

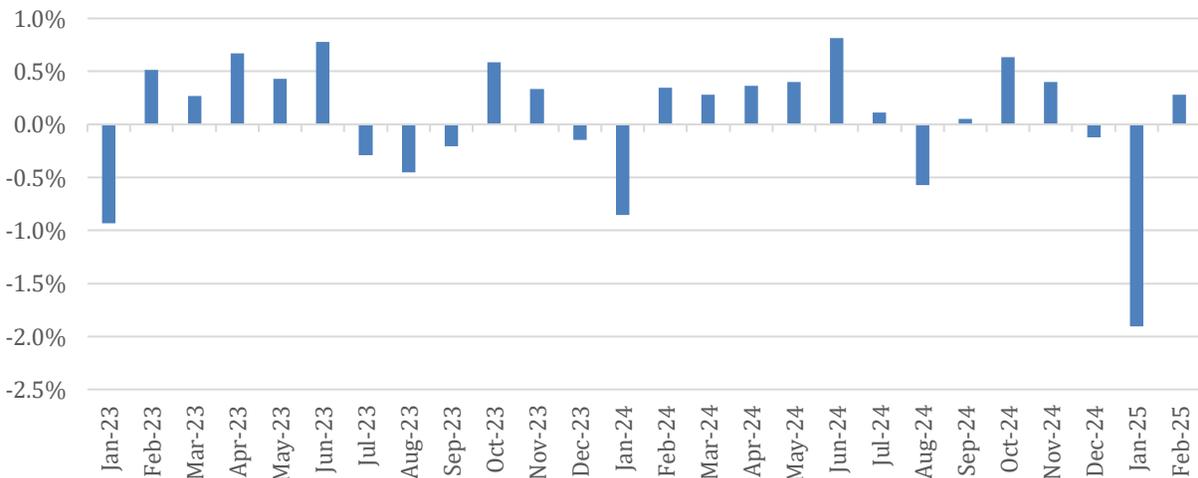
To further examine the difference, month-over-year job change since 2011 is provided below. Apart from the disruption resulting from the pandemic, the most notable trend is that job growth in the Washington region has been slowing over the past several years, and importantly, month-over-year job growth in January and February contracted sharply.

Washington Region Month-Over-Year % Change



To provide a clearer sense of the sharpness of the contraction, below is the month-over-month percent change. From December 2024 to January 2025, employment in the Washington region declined 1.9% and increased 0.3% from January 2025 to February 2025. While it is usually the case that the region records employment contractions in January due in part to a reduction in seasonal holiday jobs, as seen in January 2023 and January 2024. The January 2025 contraction appears to be notably larger than the prior two years.

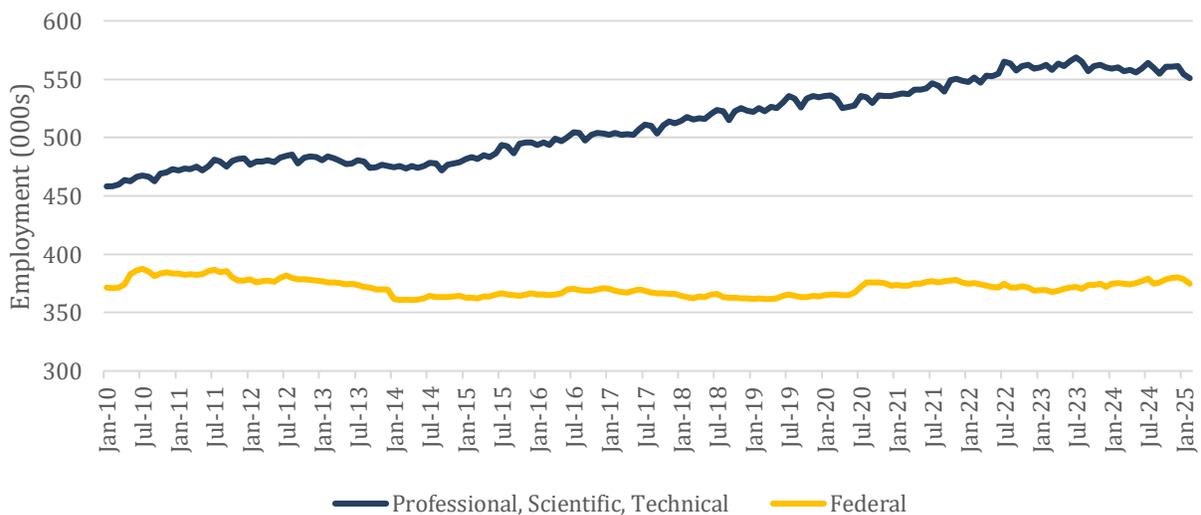
Washington Region Month-Over-Month % Change



To put the drop into greater perspective, below is a table of the average month-over-month percent changes from January 2011 through December 2024. The January 2025 contraction is excluded from the calculation. Over the 13 years analyzed, the average January contraction was 1.7%, followed by a 0.5% increase from January to February. In January 2025, the contraction was only slightly steeper than in previous years, while the rebound into February was weaker. This suggests that additional factors are contributing to the decline.

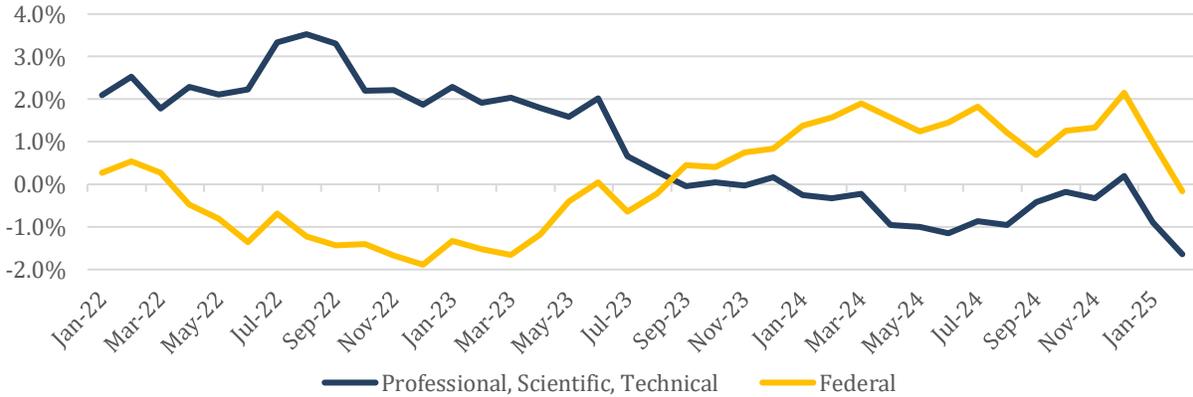
Month	Average of M-o-M % Change
January	-1.7%
February	0.5%
March	0.4%
April	-0.1%
May	0.4%
June	0.7%
July	0.0%
August	-0.4%
September	0.2%
October	0.6%
November	0.5%
December	-0.2%

Another source of deviation are changes emanating from policy shifts from the new administration. Employment in both the Professional, Scientific, and Technical Services sector, as well as employment in the federal government are examined below. While the first broadly captures procurement contracts, the second is direct federal employment. Two trends stand out. First, employment in Professional, Scientific, and Technical Services has been declining since late summer 2023, with the pace of decline accelerating in 2025. Second, while reasonably flat over the past 15 years, direct federal employment saw modest growth over the past two years but now appears to be declining in 2025.



Source: Bureau of Labor Statistics, Stephen S. Fuller Institute

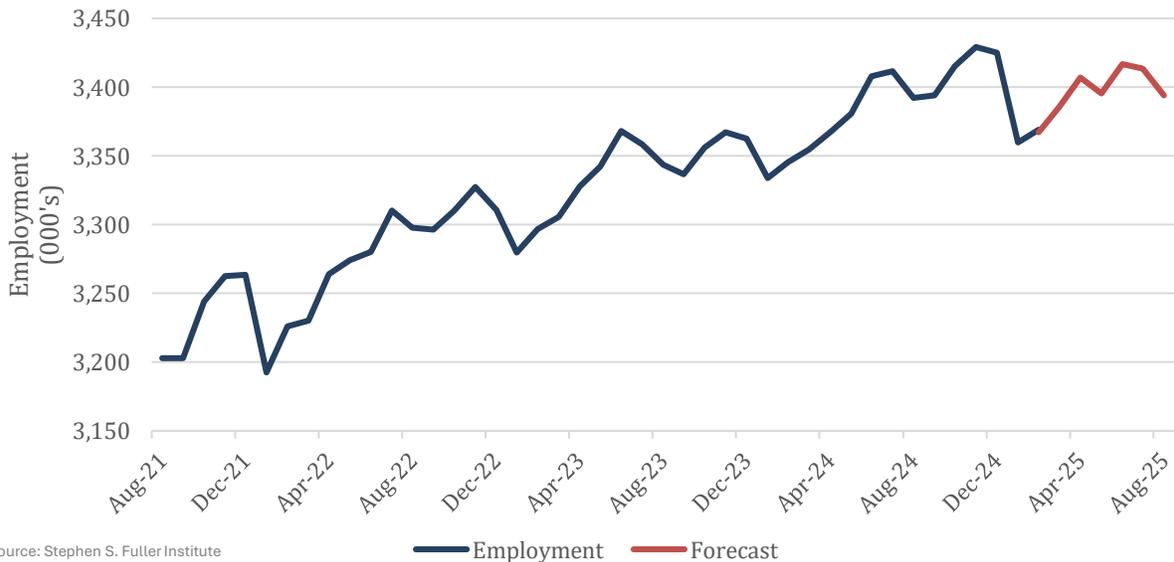
Both changes are more easily seen when examining month-over-year percent changes. First, employment declines in Professional, Scientific, and Technical Services sank to -1.6% in February, while direct federal employment growth switched from a 2.2% increase in December to a 0.2% decline in February. These are nearly assuredly the result of changes from the new administration and will be tracked closely in the coming months.



Source: Bureau of Labor Statistics, Stephen S. Fuller Institute

Keeping with the longer trend of declining employment growth, employment growth in the Washington region is forecast to continue to slow through August 2025. While the region is forecast to record a usual seasonal increase following the typical January contraction, growth will be more muted in the coming months. Over the next six months, the SFI employment forecast predicts an employment peak in the next 6 months of 3,416,800 in June 2025 before moderating slightly. Note that these forecasts are based on trends in underlying data and only include changes in federal policy through February 2025. Forecast data and confidence intervals are provided below.

Washington Employment Forecast



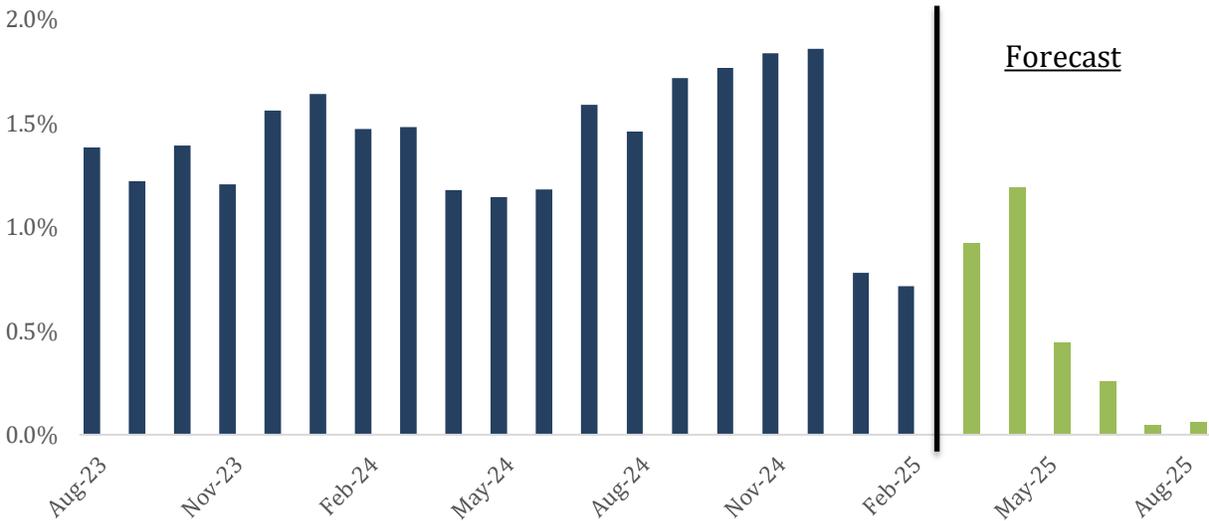
Source: Stephen S. Fuller Institute

Washington Employment Forecasts with Confidence Intervals

Forecast Month	Forecast (000s)	Lower Confidence Interval	Upper Confidence Interval
Mar-25	3,386	3,361	3,410
Apr-25	3,407	3,384	3,431
May-25	3,395	3,375	3,416
Jun-25	3,417	3,396	3,438
Jul-25	3,413	3,392	3,435
Aug-25	3,394	3,371	3,417

On a month-over-year basis, employment growth in the Washington Region is forecast to increase from 0.7% in February 2025 to 0.9% in March and 1.2% in April before sinking to just 0.4% in May and eventually 0.04% in July and 0.06% in August.

Washington Employment Forecast, Month-Over-Year



Source: Stephen S. Fuller Institute

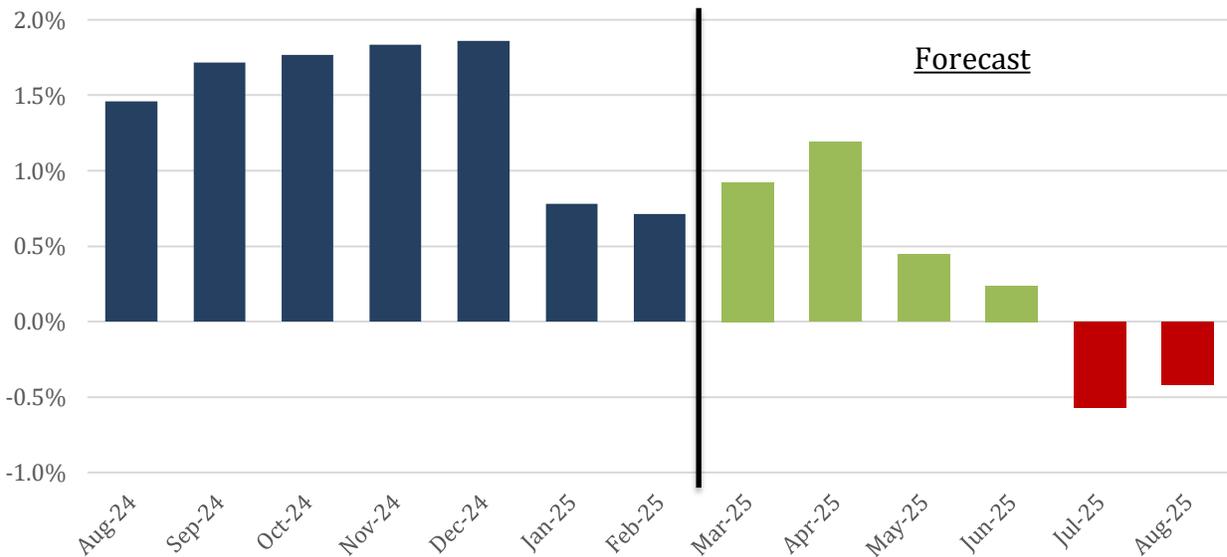
Importantly, the barely positive job growth in July and August does not account for the reductions in direct federal employment and procurement spending being pursued by the Trump Administration. To date, the Trump Administration has worked to considerably scale back federal employment across agencies such as USAID, Voice of America, and the Department of Education, with the goal of closing the agencies and reallocating core functions to other federal departments. In addition, the Administration has cancelled thousands of federal contracts with private sector contractors, including almost 600 contracts from the Department of Veterans Affairs.

To examine DOGE's impact on the Washington region's economy, the forecast below incorporates a modest 5% reduction in both direct federal employment and federal procurement forecasts starting in June 2025. These are conservative assumptions given the

actions being taken by the federal Administration. While the forecast through June remains effectively unchanged, employment for July and August decline 0.4% and 0.6% month-over-year, respectively. Overall, given that the employment forecast without federal employment or procurement reductions is forecast to be effectively flat month-over-year, any reductions in direct federal employment and procurement spending will result in month-over-year employment declines.

Washington Employment Forecast, Month-Over-Year

5% Reduction in Federal Employment and Procurement Spending Starting 6/2025



Source: Stephen S. Fuller Institute

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