

The Washington Region's Jobs Forecasts: 2017-2021

April 12, 2017

By Stephen S. Fuller, Ph.D.
Director, the Stephen S. Fuller Institute

Recent reports have shown that the Washington region's economy has underperformed its growth potentials over the past two years with these slower growth trends dating back to 2010. These trends include declining population growth (2.1% in 2010 down to 0.9% in 2016) and lagging economic growth (5.3% cumulative growth over the 2010-2016 period compared to 10.7% for Boston, 15.3% for Atlanta, 18.9% for Seattle, and 25.7% for Dallas).

The Washington region's continuing dependence on federal spending as its principal source of growth as negated the performances of its non-federally dependent sectors. These consequences were convincingly demonstrated during The Sequester that resulted in decreased federal spending and employment in the region and resulted in the region's gross regional product (GRP) declining 0.5% in 2013 and the economy generating only 18,600 net new jobs in 2014, the smallest gain of any of the nation's largest 15 metropolitan areas (Washington metro ranks 5th largest by GRP value). This slower growth is also attributed to the region's non-federally dependent clusters, identified as having strong growth potential and for which the Washington region has a competitive advantage, experiencing weak job growth during the March 2014-March 2016 period; compared to their respective national clusters, they registering only a 1.9 percent gain while nationally they grew 6.1 percent.

Given the Washington region's below-average recovery from the Great Recession and The Sequester, what are its job growth prospects for the next five years? The analysis reported herein presents three job growth forecasts. The first forecast reflects baseline job growth, an extension of current trends over the next five years adjusted only for the forecast for the national economy. The second forecast reflects the region's job growth assuming the adoption of federal spending reductions authorized under the Budget Control Act of 2011 that mandated budget controls through FY 2021 that would reduce federal employment and federal contracting outlays impacting the Washington region and the nation. The third forecast reflects the federal spending reductions outlined in the FY 2018 Budget Blueprint released by the Trump administration on March 16, 2017. All of these forecasts show the region's job growth slowing significantly from its 2015 peak level of 57,700.

The job growth forecasts presented in Table 1 reflect the continuation of the downward job growth trend extending through the full forecast period. The baseline forecast, which reflects the continuation of current trends in the region's economy adjusted only by the national forecast for this period, reveals a significant slowdown from the 55,600 net new jobs added in 2016 ranging down to 24,000 net new jobs in 2021. The job growth pattern by sector of the forecast period is shown in Table 3.

The key drivers of this forecast will be expansion of professional and business services. This sector is projected to gain 100,800 net new jobs for an increase of 24.7 percent and account for 58.6 percent of the region's overall five-year job gain. Other large job generators will be: leisure and hospitality services, adding 24,400 jobs for a gain of 14.2 percent, construction adding 23,000 jobs for a gain of 13.3 percent, and education and health services, up 21,300 jobs for a gain of 12.4 percent. Construction is still the only one of these fast growing sectors that has not recovered all of the jobs it lost during the recession so the projected growth are "recovery" jobs and not net new as in the cases of professional and businesses services, education and health services and leisure and hospitality services. These three sectors all have many more jobs currently than they had at their pre-recession peak.

Table 1

Job Growth Forecasts for the Washington Region, 2017-2021
(in thousands)

Year	Baseline ¹	2011 ²	Trump ³
2017	45.9	35.7	28.7
2018	41.3	28.0	20.8
2019	33.1	27.8	26.1
2020	27.9	22.9	21.5
2021	24.0	22.1	20.2
Totals	172.2	136.5	117.3
% Change	5.3	4.2	3.6

Sources: IHS Markit, The Stephen S. Fuller Institute at the Schar School, GMU.
¹IHS with adjustments to Loudoun County's projections based on MWCOG Cooperative Forecasts. ²Incorporating spending reductions providing for in the Budget Control Act of 2011. ³Reflecting federal spending reductions in Trump FY 2018 Budget Blueprint released March 16, 2017.

Declining federal employment (in combination with static federal procurement outlays) is the major drag on the region's economy over the forecast period. The federal sector is projected to shed 16,500 jobs between 2016 and 2021 for a loss of 4.5 percent. These projected losses are continuation of long-term trends and do not reflect any federal policy shifts of the Trump Administration or actions by Congress in 2017. The other services sector, a diverse sector dominated by consumer services, is also projected to lose jobs, declining by 2,600 or 1.3 percent over the forecast period.

The remainder of the Washington region's sectors—manufacturing, transportation, trade and utilities, information services, financial activities, and state and local government, accounting for approximately 1.03 million of the region's jobs (31.7% of all jobs)—are projected to experience below-average growth.

The Washington region’s economy remains narrowly specialized in government services and activities closely tied to the region’s national capital functions. And, with little or no real growth projected in federal spending under the baseline forecast scenario, the regional economy is projected to slow down as its non-federally dependent business base is too small to overcome the dampening effects of flat or decreasing federal spending.

The alternative job growth forecasts reflect federal policy changes that could impact the Washington region’s economic performance beginning in 2017 and continuing through the forecast period. These federal policies could be imposed by Congress with its re-introduction of the budgetary constraints incorporated in the Budget Control Act of 2011 that would have significant regional impacts on federal employment and federal contracting. Alternatively, the Trump Budget Blueprint (March 16th), by proposing to eliminate many small agencies, make \$58 billion in spending reductions in non-defense and security agencies and increase spending by the same amount (making these changes budget neutral) in DOD, Homeland Security and Veteran Affairs, would have even greater impacts on federal jobs and additional impacts on federal contracting. The Stephen S. Fuller Institute’s analysis can be found at <http://sfullerinstitute.gmu.edu/2017/03/20/direct-effect-trump-budget-federal-activity-washington-region/>.

The principal differences between the baseline forecast and the jobs forecasts reflecting the Budget Control Act of 2011 and Trump Budget Blueprint are the increased losses of federal and federal contractor jobs; the latter are almost entirely found within the professional and business services sector. These forecast differences are presented in Table 2.

Table 2

Major Forecast Differences By Sector, 2017-2021
(in thousands)

Forecast	Total Job Growth	Federal Jobs	Professional & Business Service Jobs
Baseline	172.2	(16.5)	100.8
2011 ¹	136.5	(26.7)	75.5
Trump ²	117.3	(36.5)	68.4

Sources: IHS Markit, The Stephen S. Fuller Institute at the Schar School, GMU.

¹The Budget Control Act of 2011 constrained forecast.

²The Trump Budget Blueprint released March 16, 2017.

The outlook for the Washington region’s economy is inextricably linked to changes in federal spending. While the Washington region’s economy has diversified since 2010, this diversification has occurred principally in local-serving sectors and has not expanded its non-federally dependent, export-based, high-value added business base sufficiently to counterbalance downward shifts in federal spending. This continued dependence on

federal spending to generate growth in the Washington region's economy makes it vulnerable to changing federal budget policies should these be enacted during the forecast period.

Table 3

Baseline Job Growth Projections by Sector, 2017-2021
(in thousands)

Sector	2017	2018	2019	2020	2021	Total	%
Construction	1.9	7.1	6.1	3.8	4.1	23.0	14.6%
Manufacturing	0.7	0.1	0.1	(0.0)	(0.3)	0.6	1.1%
Transp., Trade, & Utilities	3.3	2.2	1.4	(0.2)	0.0	6.8	1.7%
Information	(1.5)	0.2	0.5	0.6	0.3	0.1	0.1%
Financial Activities	0.7	1.0	(0.05)	(0.4)	(0.6)	0.7	0.4%
Professional & Business Svcs	24.0	27.1	17.6	15.9	16.2	100.8	13.6%
Educational & Health Svcs	7.3	4.6	3.6	2.8	3.0	21.4	5.0%
Leisure & Hospitality	6.9	5.2	5.0	3.9	3.4	24.4	7.6%
Other Services	0.4	(1.6)	(1.1)	(0.5)	0.1	(2.6)	(1.3)%
Federal Govt	(0.9)	(5.8)	(4.1)	(1.1)	(4.6)	(16.5)	(4.5)%
State & Local Govt	2.9	1.3	3.9	3.2	2.3	13.6	4.1%
Total	45.9	41.3	33.1	27.9	24.0	172.2	5.3%

Sources: IHS Markit, The Stephen S. Fuller Institute at the Schar School, GMU.

Note: May not sum due to rounding.

Table 4

Baseline Job Growth Projections by Sub-State Area, 2017-2021
(in thousands)

Sub-State Area	2016	2017	2018	2019	2020	2021
District of Columbia	13.0	8.9	5.3	4.9	4.5	3.5
Suburban Maryland	14.4	14.4	12.7	10.9	8.0	5.7
Northern Virginia	31.0	21.5	26.6	19.7	13.7	12.9
Washington Region¹	55.6	45.9	41.3	33.1	27.9	24.0

Sources: U.S. Bureau of Labor Statistics, IHS Markit, The Stephen S. Fuller Institute at the Schar School, GMU. ¹Includes Jefferson, West Virginia