# Washington Economy Watch

Region's Economy Continues to Stabilize

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The Stephen S. Fuller Institute
for Research on the Washington Region's Economic Future
Center for Regional Analysis
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 over the more than 30 years of Economy Watch, the Coincident Index was recently modified and the Leading Index was replaced with jobs forecast.*

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# Washington Area Economy

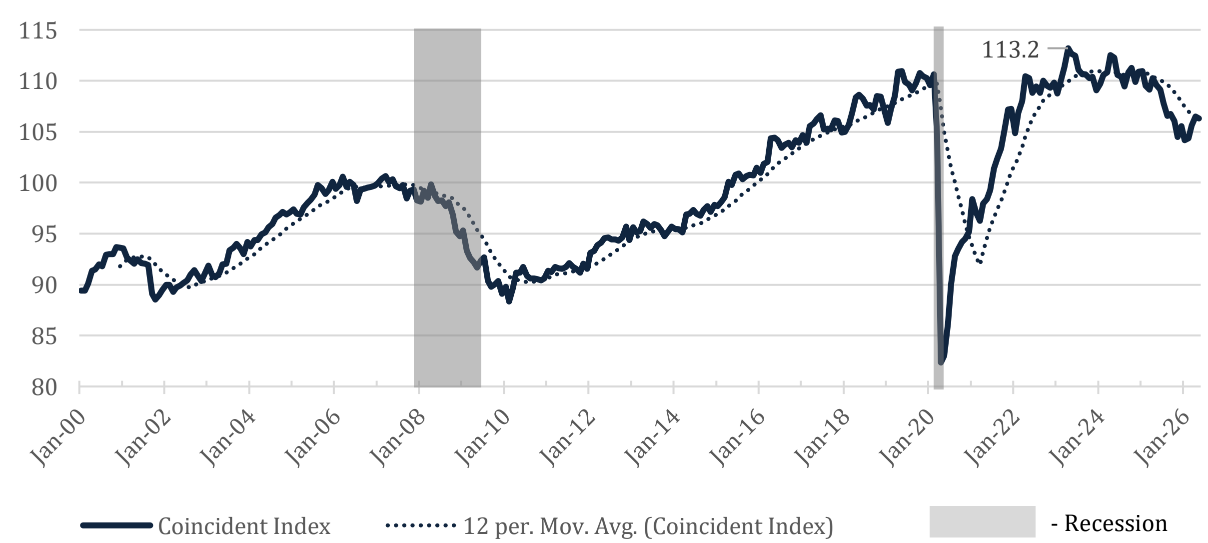
## Region's Economy Continues to Stabilize

While the Washington Area Coincident Index contracted 3.0% from May 2025 to May 2026, the declines have been moderating after reaching -6.1% in January 2026. Looking forward, the Washington Area Employment Forecast anticipates that month-over-year employment losses will continue to moderate before turning positive in December and January. The overall picture is that the Washington Area's economy is stabilizing after a historic shock impacting the region far worse than peer regions around the country.

### Washington Area Coincident Index

In May 2026, the Washington Area Coincident Index came in at 106.3, down from 106.5 in April 2026 and below the 109.6 reading in May 2025. Despite being down from the prior month as well as the same month last year, the Coincident Index remains above the recent low of 104.1 recorded in January 2026. The impacts of DOGE are clearly seen as the index remained around 110 from August 2023 through June 2025, before contracting sharply through the end of 2026 as the full impacts of federal layoffs and the extent of federal workers who took deferred resignation packages became clear through 2025.

**Washington Area Coincident Index**



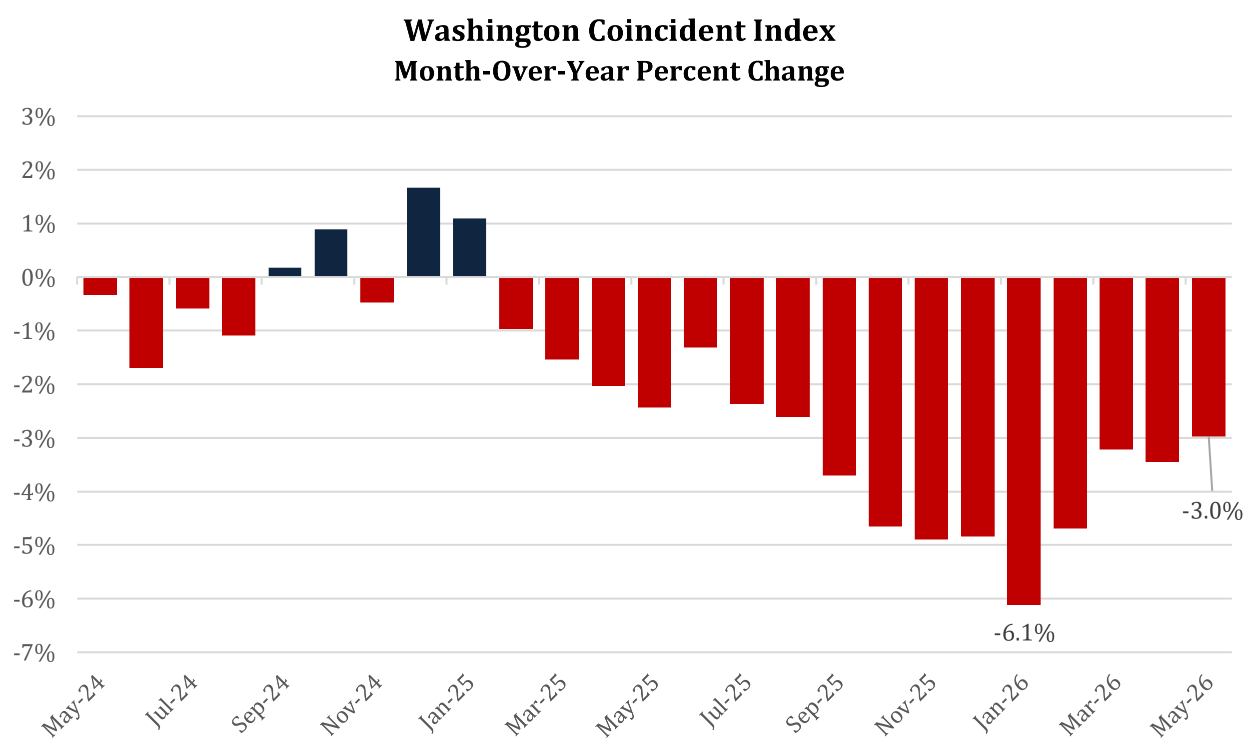
In percentage terms, the Washington Coincident Index declined 3.0% from May 2025 to May 2026. Despite being among the largest contractions over the past 26 years, the month-over-year decreases in the Coincident Index are moderating after the Index fell 6.1% from January 2025 to January 2026. The slowing decline in the Coincident Index is consistent with the employment forecast in the next section. Changes in the components of the Coincident Index are as follows:

- *Unemployment Rate* increased 0.3 percentage points from 3.6% in May 2025 to 3.9% in May 2026, the 30th consecutive month-over-year increase; and,

- *Wage and Salary Employment* in the Washington region decreased 3.0% month-over-year in May, a marginally greater decline than the 2.9% month-over-year contraction in April but consistent with an overall trend of slowing employment losses; while,

- *Home Sales* increased 8.7% from May 2025 to May 2026, a notable acceleration from -2.2% in February and +2.9% in April, which are notably stronger than anticipated home sales given the softening labor market; and,

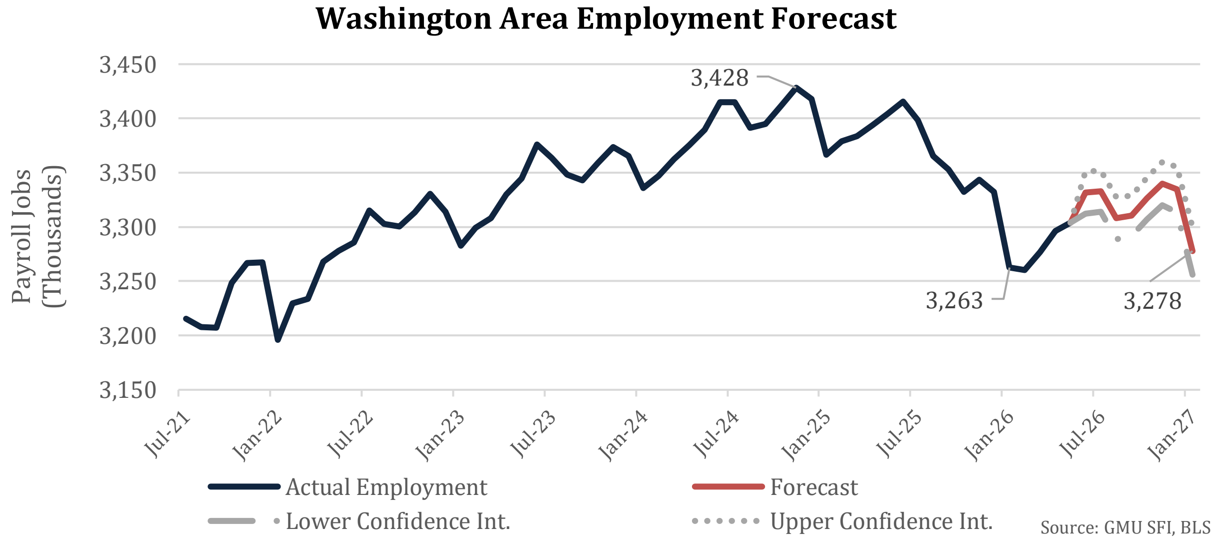
- *Hotel RevPAR*[1] increased 7.0% from May 2025 to May 2026, the fourth consecutive month-over-year increase and third consecutive month-over-year increase greater than 7.0%.



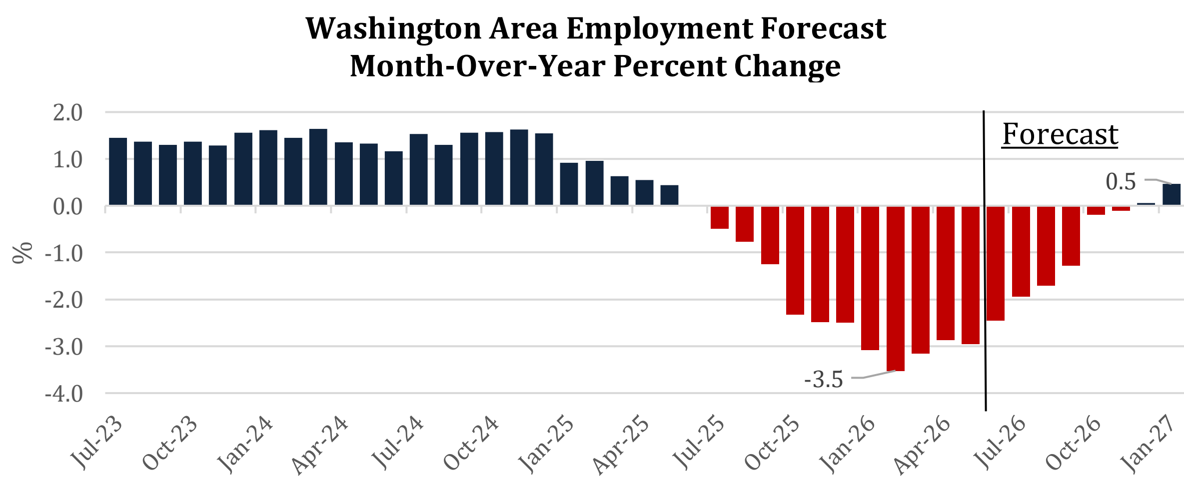

[1] RevPAR is a hotel performance measure that accounts for both revenue and vacancy rates.

## Washington Area Employment Forecast

The Washington Area Employment Forecasts continues to predict tepid growth through the end of the year. After contracting sharply from a recent peak of 3,428,000 in November 2024 to a recent low of approximately 3,260,000, the employment forecast continues to call for growth through the end of the year (below). Perhaps visually misleading, the forecast period includes January 2027, which shows a typical seasonal contraction. However, actual employment in January 2026 stood at 3,263,000, and employment in January 2027 is forecast at 3,278,000, a month-over-year increase of approximately 15,000.




The month-over-year percent change in the employment forecast clearly reveals the forecast shift to growth. The month-over-year employment contraction bottomed out at -3.5% in February 2025. Through the end of the year, month-over-year employment losses will continue to subside before turning to a month-over-year employment increase of 0.1% from December 2025 to December 2026, before rising to 0.5% from January 2025 to January 2026. While growth is welcomed, the employment gains will be from a lower base.



## Conclusion

Both the Washington Area Coincident Index and the Washington Area Employment Forecast are indicating that the Washington Area's economy have reached a bottom for the moment and appear set to improve through the remainder of the year, albeit slowly. Employment losses are forecast to slow through the remainder of the year before turning positive in December 2026 and January 2027.

Despite a cautiously optimistic economic outlook, considerable uncertainty remains. A prolonged conflict involving Iran could keep oil prices elevated, contributing to broader inflationary pressures. In turn, this could prompt the Federal Reserve to maintain higher interest rates for longer or raise rates further, putting upward pressure on mortgage rates. Although these risks have not yet significantly weighed on the regional single-family and townhome markets, they could dampen demand if they persist. The condominium market, however, has already experienced a noticeable slowdown (CRA-NVAR Forecast). The weakened condo market is very plausibly due to those impacted by the federal workforce reductions looking for different living situations in tandem with a new job, either within or outside of the area.

Overall, while the economy seems to be acclimating at a new lower level, significant risks remain that could weaken things further.