Washington Economy Watch

Regional Economic Stabilization Quickening

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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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Stabilization Quickens — July 2026

Washington Area Economy

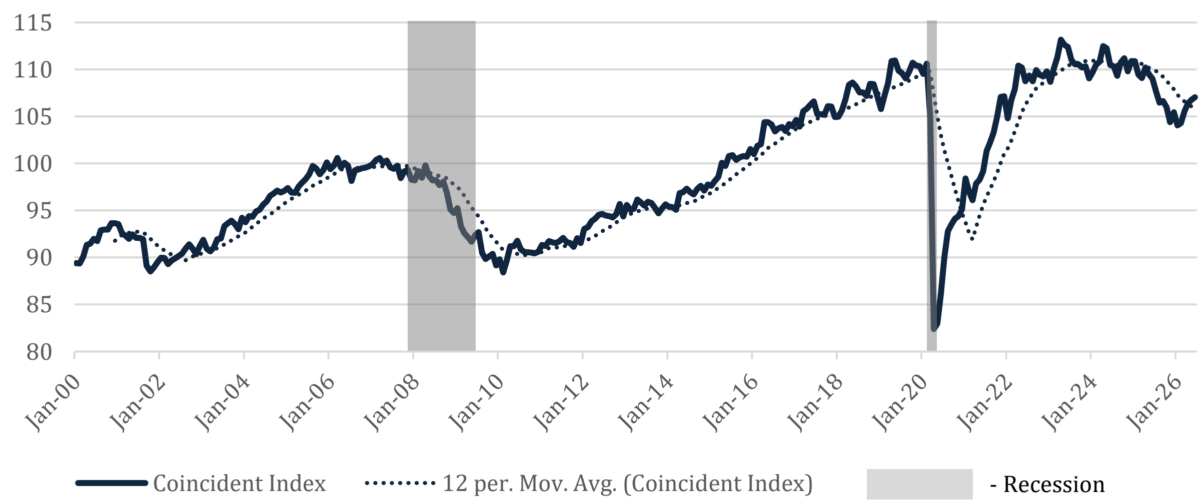
Regional Economic Stabilization Quickening

The Washington Area Coincident Index and Employment forecasts both point to a stabilizing economy that appears set to grow later this year. While the Coincident Index recorded a 1.8% month-over-year decline in June, the smallest in roughly 5 years. Looking forward, the Employment Forecast predicts that payroll jobs in the Washington Area will increase on a month-over-year basis in October, an outcome that would have positive ramifications for the region's broader economy. Barring any further dramatic shifts in federal policy, the region's economy has nearly stabilized and appears set for near-term growth.

Washington Area Coincident Index

The June 2026 reading of the Coincident Index was 107.0, down 1.8% from 109.0 in June 2025 but a marginal increase from the revised reading of 106.8 in May 2026. Perhaps most notably is the fact that the Coincident Index has recorded 5 consecutive month-over-month increases, with the July reading being 2.9% higher than the low of 104.1 recorded in January 2026. Despite an abundance of developing issues (inflation, interest rates, oil, elections, etc.) that could slow the region's recovery, for now the worst of the impacts of DOGE appear to have taken hold and the region appears on a path of recovery into early 2027.

Washington Area Coincident Index



While the Washington Coincident Index declined 1.8% from June 2025 to June 2026, this was the smallest decline since June 2025 (-1.3%). The more modest contraction is a continuation of a trend from prior months, as the Washington Region's economy continues to find its footing after an employment shock larger than any other recorded in the region's history. As mentioned, the Coincident Index has also recorded five consecutive positive month-over-month increases, a streak not seen since mid-2021, when the region was recovering from the pandemic. Changes in the components of the Coincident Index are as follows:

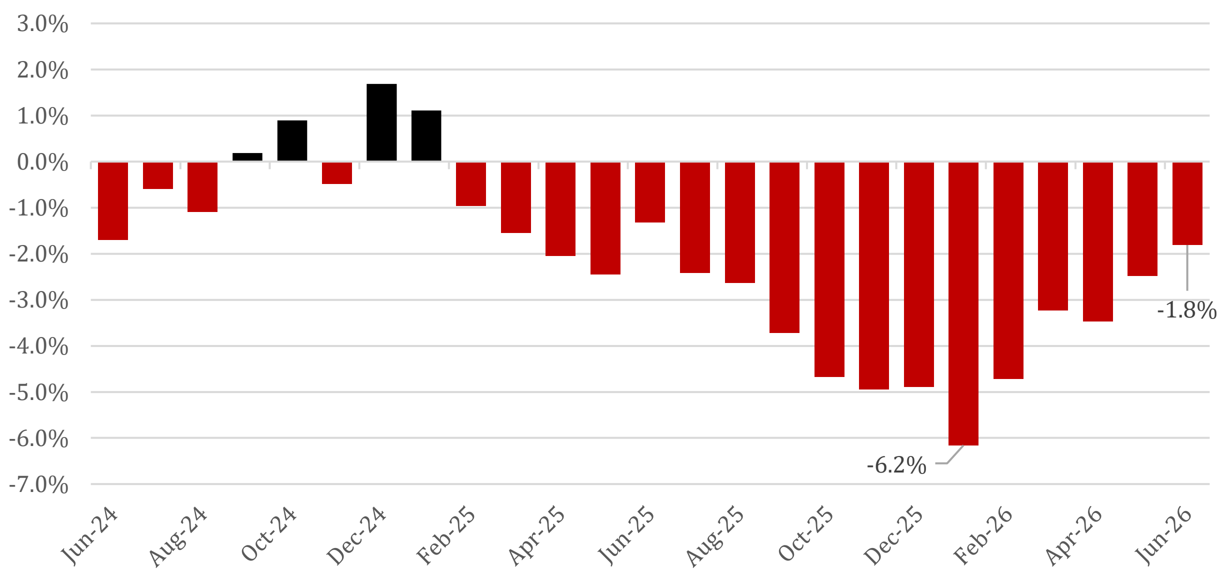
- *Unemployment Rate* increased 0.2 percentage points from 3.9% in June 2025 to 4.1% in June 2026, the 31st consecutive month-over-year increase but the smallest month-over-year increase since January 2024; and,

- *Wage and Salary Employment* in the Washington region decreased 2.4% month-over-year in June, the lowest month-over-year decline since October 2025 and consistent with slowing employment losses; while,

- *Home Sales* increased 4.4% from June 2025 to June 2026, markedly slower than the May reading (+8.7%) but far stronger than might have been anticipated given the employment losses; and,

- *Hotel RevPAR*[1] increased 13.1% from June 2025 to June 2026, the fifth consecutive month-over-year increase, the strongest growth since the Inauguration in January 2025.

Washington Coincident Index
Month-Over-Year Percent Change

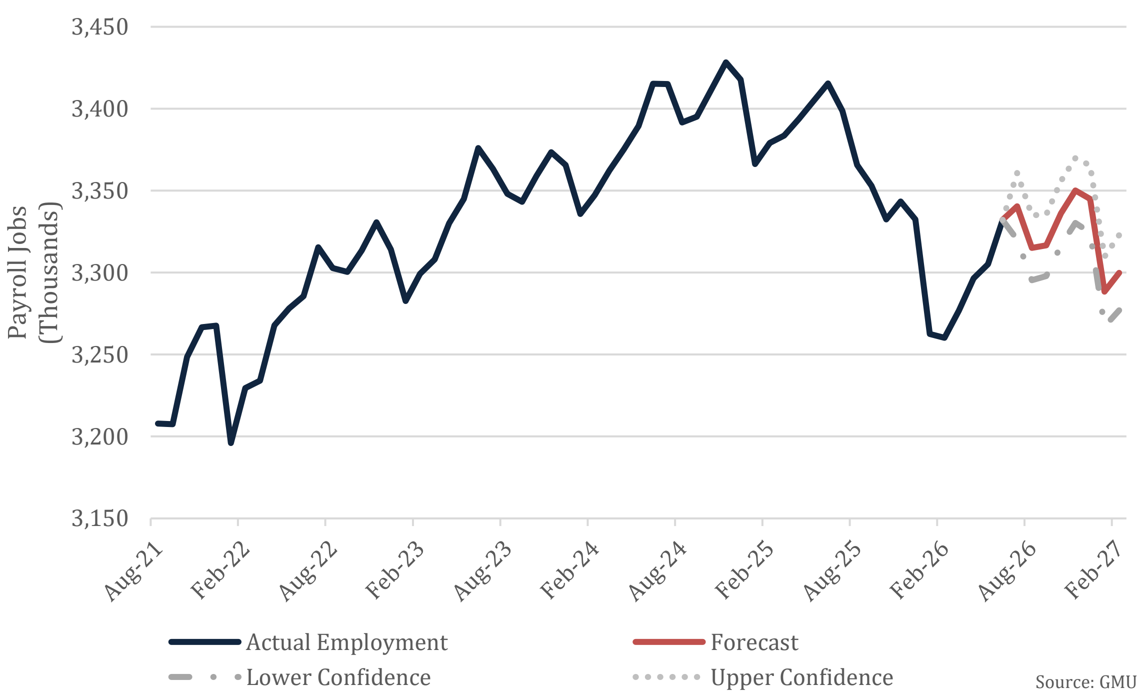


[1] RevPAR is a hotel performance measure that accounts for both revenue and vacancy rates.

Washington Area Employment Forecast

Another sign that the region has likely recorded the worst impacts from the dramatic shift in federal employment and spending policies is that the Washington Area Employment Forecast continues to indicate the region will see modest growth through year-end. In June (the last month with observed data), employment in the Washington Region stood at 3,332,000 (the number predicted last month). The Washington Area Employment Forecast projects employment will increase 13,000 jobs to 3,345,000 in December, before a typical seasonal pull-back in January and February. The December employment forecast is actually 10,000 jobs higher than in last month's edition of Economy Watch, signaling that the Region's economy appears to be improving at a modestly faster rate than anticipated last month. While the modestly longer term appears to be brightening, the fact that the June reading was exactly forecast in last month's edition suggests the model is performing well. In any case, the steadily strengthening economy appears set to continue into the near term, barring any additional major impacts.

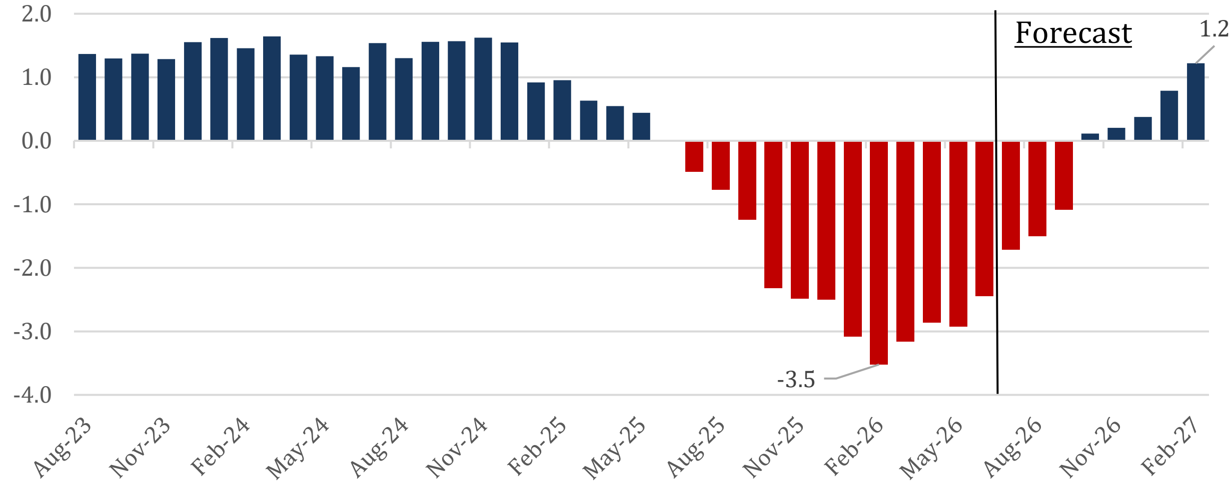
Washington Area Employment Forecast



Source: GMU SFI, BLS

Examined in month-over-year percent terms, the forecast continues to predict that month-over-year losses will moderate before turning to increases. However, as another sign that the region's economy is steadying faster than anticipated, the month-over-year increase may arrive sooner than forecast. The forecast now calls for regional employment to grow on a month-over-year basis in October, two months earlier than predicted last month.

Washington Area Employment Forecast
Month-Over-Year Percent Change



Conclusion

The Washington Region's economy has held up remarkably well, given the magnitude of the economic shock experienced last year from direct federal employment reductions and reduced federal grants. While employment levels have contracted and the unemployment rate has increased at a faster rate than the nation, the region is finding its footing.

The Coincident Index indicates that the current situation is deteriorating at a slower rate than late in 2025, led by a robust housing market and notable increases in hotel RevPAR. Looking ahead, the Employment Forecast indicates that the employment situation may be improving faster than previously thought. The Employment Forecast now suggests that the region may return to month-over-year growth in October, two months earlier than previously forecast.

Overall, while the region's economy has sustained twin economic shocks to both direct federal spending and federal spending, it is acclimating. While resetting at a lower base, the region's employment appears set to grow through the remainder of the year and into early next year. As employment is the basis for healthy regional economies, employment growth should lead to economic growth through the early part of 2027.

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