

The **Washington D.C.** metro area enjoyed a robust expansion at mid-decade, but for much of the past two years the rate of job growth there can be described as only average (see [Chart 1](#)). Starting in late 2005, and extending through 2007, Washington created jobs at a rate on par with the U.S. average. Labor markets in the D.C. area have remained much tighter than the U.S. norm, as shown by the consistently low unemployment rate (see [Chart 2](#)).

The area also has exposure to cutbacks in financial services industries. First Horizon is just one of many firms with a D.C. presence that are cutting back home mortgage related jobs. The recent collapse of Washington-based Carlyle Group's Carlyle Capital Fund also shows the downside risk associated with the Washington's financial services sector. In contrast, Volkswagen is set to move its U.S. headquarters, and 400 jobs, to its new building on the Dulles Toll Road.

Even as job growth improved through 2007, relative to the U.S. average, income growth has cooled somewhat (see [Chart 3](#)). This implies that there has been a shift in the mixture of jobs being created lately, toward lower paying jobs. Despite the cooler income growth, the area boasts very high household and per capita incomes relative to the national average, and this will keep demand for goods and services strong in the near term.

The availability and location of affordable housing is an issue for middle-to-low income households. The median house price for the District of

Columbia, at \$437,700 in 2006, was nearly two and half times the national average. House prices ramped up significantly in 2004 and 2005, gaining about 25% per year at the peak appreciation (see [Chart 4](#)). Rapidly accelerating prices encouraged a significant amount of speculative buying, which has since cooled down rapidly. As a result, D.C. area house prices are now declining and are expected to show moderate losses for 2008. Declining residential property values will be a drag on the local economy over 2008 as homeowners feel less wealthy and are constrained in their ability to access home equity as a source of funding for consumer expenditures.

Even with stalled or declining home prices, most eastern metro areas, including Washington, are not seeing as sharp a drop in residential construction as is the nation as a whole (see [Chart 5](#)). Solid job creation is expected to continue to support positive immigration to the area, and this in turn will provide fundamental support to the housing market.

Commercial construction has been an economic engine for the D.C. area. Washington's office vacancy rate was low through most of the current decade, but has recently ramped up (see [Chart 6](#)). On the nonresidential side, the aggressive expansion of office space in the area threatens to push net absorption negative as office job creation is stuck in low in 2008. Vacancy rates are unlikely to fall this year, weighing on rent growth.

Over the long-term, high wages, low

unemployment, high house prices, and strained transportation systems will tend to push many lower value added industries out of the D.C. area, and this will have a dampening effect in net-migration and population growth.

Also, Washington has significant exposure to federal budget constraints and the threat of tightening budgets adds some downside risk for area economic growth. The next presidential administration will likely need to address the structural problems with social security and Medicare and Medicaid and this may lead to cutbacks in staffing at federal agencies. Also, at some point, there will be a wind down from military operations in the Iran and Afghanistan that will also tend to constrain federal budgets. BRAC related adjustments will also be increasingly visible over the next years, having both positive and negative impacts for parts of the Washington metro area.

**Economic growth in the Washington metro area will cool substantially this year as the U.S. economy slides into recession. However, the area's broadening array of private-sector economic drivers is expected to keep job creation positive for the year. The area's highly skilled workforce, strong tourism industry, a growing cluster of technology and life sciences industries, and healthy demographic trends form a foundation for solid growth over the long term that will provide some buffer against the vagaries of federal spending.**

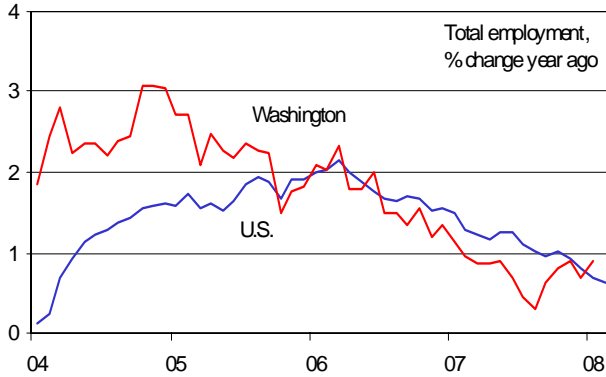
Annual Data			Washington Metro Area	Percentage Change		
2006	2007	2008 <sup>f</sup>		2006	2007	2008 <sup>f</sup>
2,967.0	2,989.9	2,998.4	Payroll Employment (000)	1.7	0.8	0.3
63.7	62.3	61.2	Manufacturing Employment (000)	-2.7	-2.2	-1.8
923.0	930.1	939.2	Office-Using Employment (000)	1.8	0.8	1.0
2,963.7	2993.8	3028.0	Civilian Labor Force (000)	2.3	1.0	1.1
2,871.3	2901.8	2919.6	Resident Employment (000)	2.7	1.1	0.6
3.1	3.1	3.6	Unemployment Rate (percent)	----	----	----
\$225,635	\$230,236	\$231,334	Real Total Personal Income (\$2000 millions)	1.9	2.0	0.5
27,958	22,402	17,505	Housing Permits (total units)	-24.0	-19.9	-21.9
18,471	14,321	11,124	Single-Family Permits (total units)	-28.7	-22.5	-23.3
278.8	280.2	267.2	House Price Index <sup>1</sup> (1995 Q1 = 100)	13.0	0.5	-4.6
12,071	8,927	10,758	Personal Bankruptcies	-32.4	-26.0	20.5
128.8	133.0	137.8	Consumer Price Index <sup>2</sup> (1982-84 = 100)	3.6	3.3	3.6

<sup>f</sup> = forecast

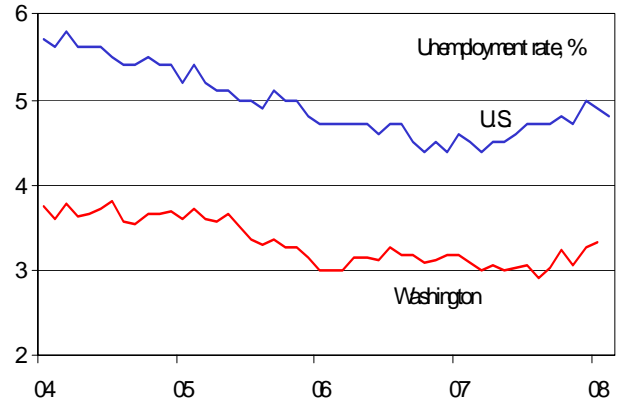
Notes: 1 OFHEO estimate for Washington Metro Division  
2 CPI data is estimated by Moody's Economy.com for the Washington Metro Division

*The Washington-Arlington-Alexandria DC-VA-MD-WV metro area consists of: the District of Columbia; Arlington, Clarke, Fairfax, Fauquier, Loudoun, Prince William, Spotsylvania, Stafford, and Warren Counties, VA; Calvert, Charles, Frederick, Montgomery, and Prince George's Counties, MD; and Jefferson County, WV.*

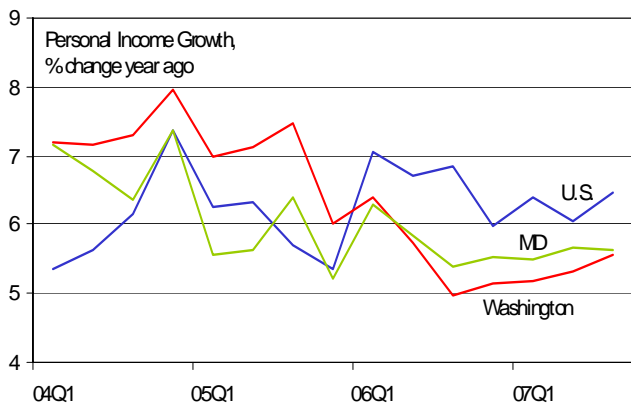
**Chart 1**  
**Washington Job Growth Tracks U.S. Average**



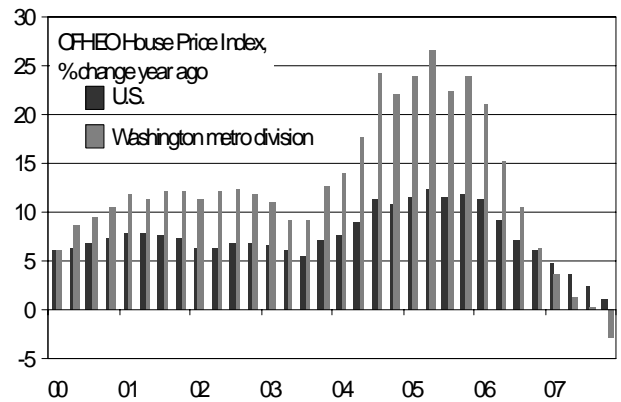
**Chart 2**  
**Washington Labor Markets Remain Tighter**



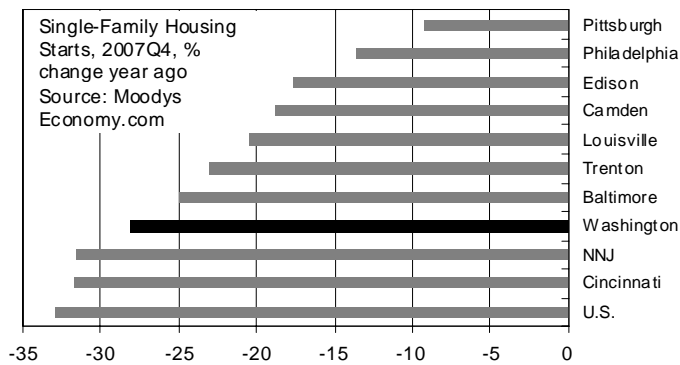
**Chart 3**  
**Income Growth Slides Below U.S.**



**Chart 4**  
**House Price Appreciation On The Skids**



**Chart 5**  
**Washington Residential Construction Is Declining**



**Chart 6**  
**Washington Office Markets Stable**

