

The regional economy sits in a challenging economic environment. Even as federal workforce reductions have largely plateaued in recent months, knock-on effects for the broader economy are affecting private-sector employment and overall economic growth. With the broader U.S. economy continuing to show modest growth, the region risks falling behind major peer markets if it fails to become more competitive and diversify.

Key Takeaways

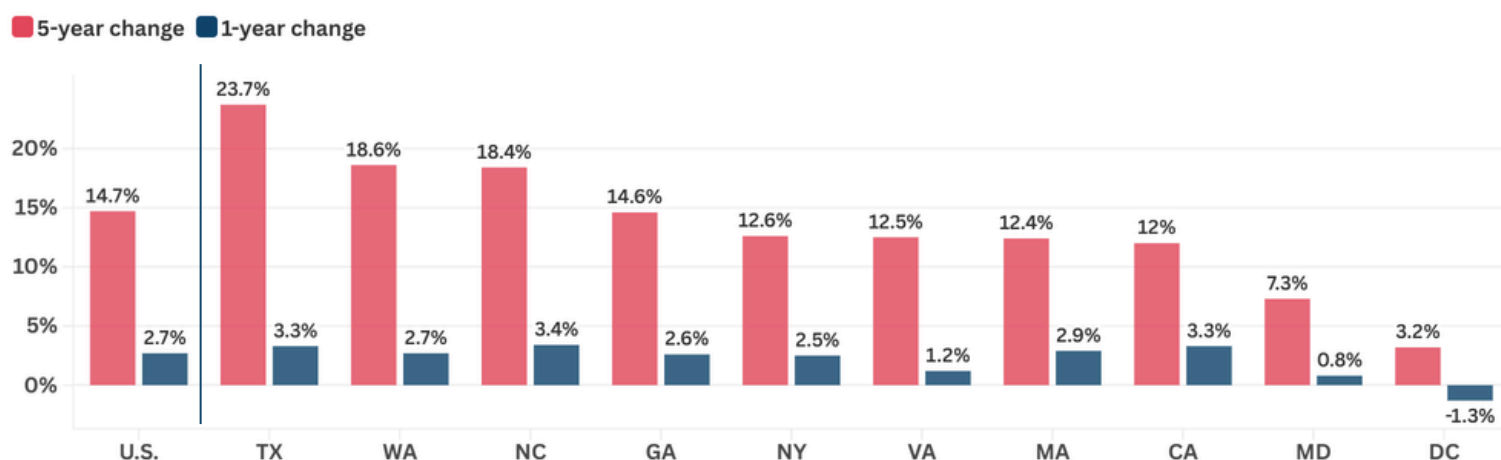
- **DC recorded an outright decline in real economic output over the past year (-1.3%).**
Growth in Maryland and DC in particular has trailed most competitors over the past five years.
- **All three jurisdictions have fewer jobs now than in January 2025 – driven by significant federal cutbacks, but private-sector employment also remains lower.**
Maryland has nearly recovered its private-sector losses, while DC still faces the steepest recovery.
- **AI is already used by a majority of regional firms in their business operations.**
Professional services firms lead AI adoption, with nearly half expecting to spend over 10% of their capital expenditures on the technology in the coming year.
- **Elevated office vacancy rates and retail contraction are pressuring tax bases across the region.**
But vacancy rates have declined in Northern Virginia and Richmond over the past two years.
- **Housing permits authorized across metro Washington are on the rise, but still down from their 2023 peak.**
Recent trends suggest positive momentum for the metro area, however, while other regions remain flat.
- **Transit ridership growth has slowed over the past 12 months across the region's major systems, most of which remain significantly below pre-pandemic levels.**

Economic Output

Relative to major peer state economies, the region has recorded exceptionally weak GDP growth over the past year, with DC experiencing an outright decline in real economic output (-1.3%).

Maryland (0.8%) and Virginia (1.2%) also grew well below the U.S. (2.7%) over the past year. Weak GDP growth for Maryland and DC is not a new trend, with their five-year growth also trailing most peers. But Virginia's recent weakness is new, given significant federal impacts. Texas, Washington, and North Carolina are the fastest-growing peer states – each topping 18% over five years.

Real GDP Change, by State 2026 Q1



State & Metro Employment

All three jurisdictions lost jobs between January 2025 and July 2026, driven by significant federal cutbacks.

DC's loss was the steepest by rate at -5.6%, while Virginia's -43,300 decline was slightly larger by count. DC currently has the highest unemployment rate in the country (5.9%), but it has seen a modest decline over the past year. Maryland's rate is on par with the U.S. overall, while Virginia has the lowest rate in the region (3.7%) – but also the only to increase over the past year.

Employment Change, by State January 2025 to July 2026

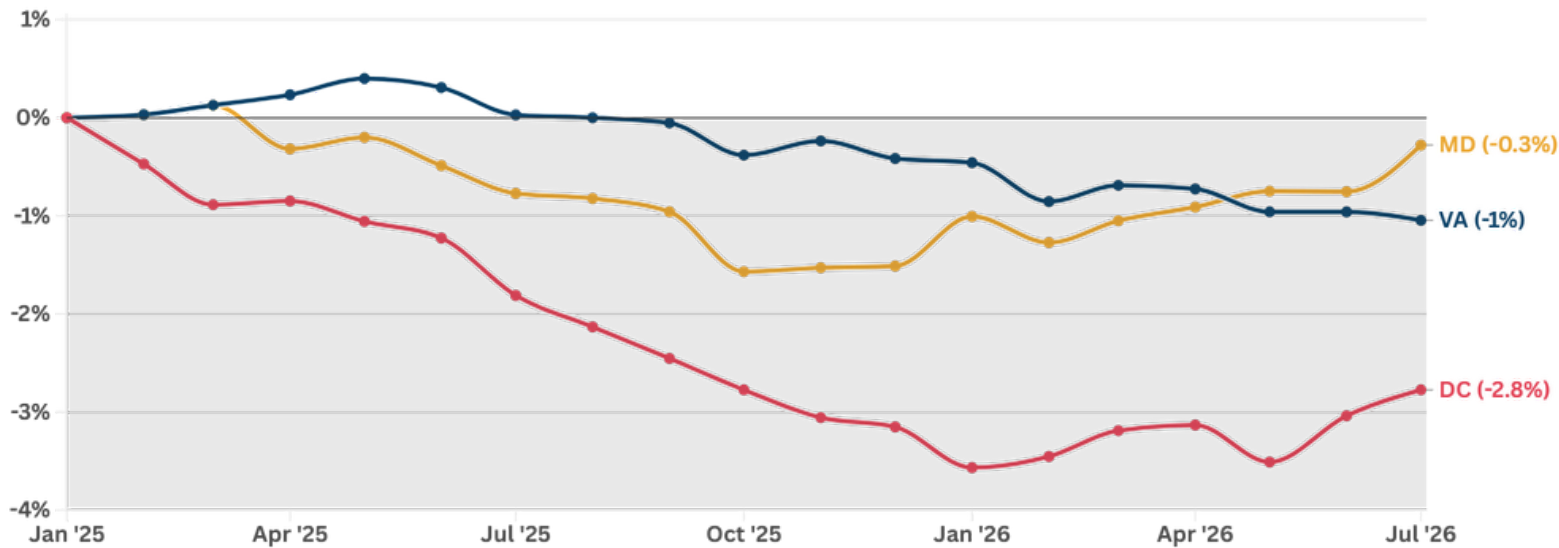
Geography	Employment Change	% Employment Change	Fed Employment Change	% Fed Employment Change
DC	-43,100	-5.6%	-27,500	-14.3%
MD	-24,000	-0.8%	-28,500	-17.6%
VA	-43,300	-1.0%	-25,800	-13.2%
US	+807,000	+0.5%	-336,000	-11.2%

Source: BLS

Private-sector employment also remains below January 2025 levels across the region.

Maryland has recovered the most ground since its trough in late 2025, nearly erasing the losses recorded since the start of 2025. In DC, private-sector employment remains the furthest from breaking even, still down by 2.8% with little improvement from its low point. Virginia experienced the smallest decline initially, but its trend continues to move in the wrong direction.

Private-sector Employment Change, Relative to January 2025



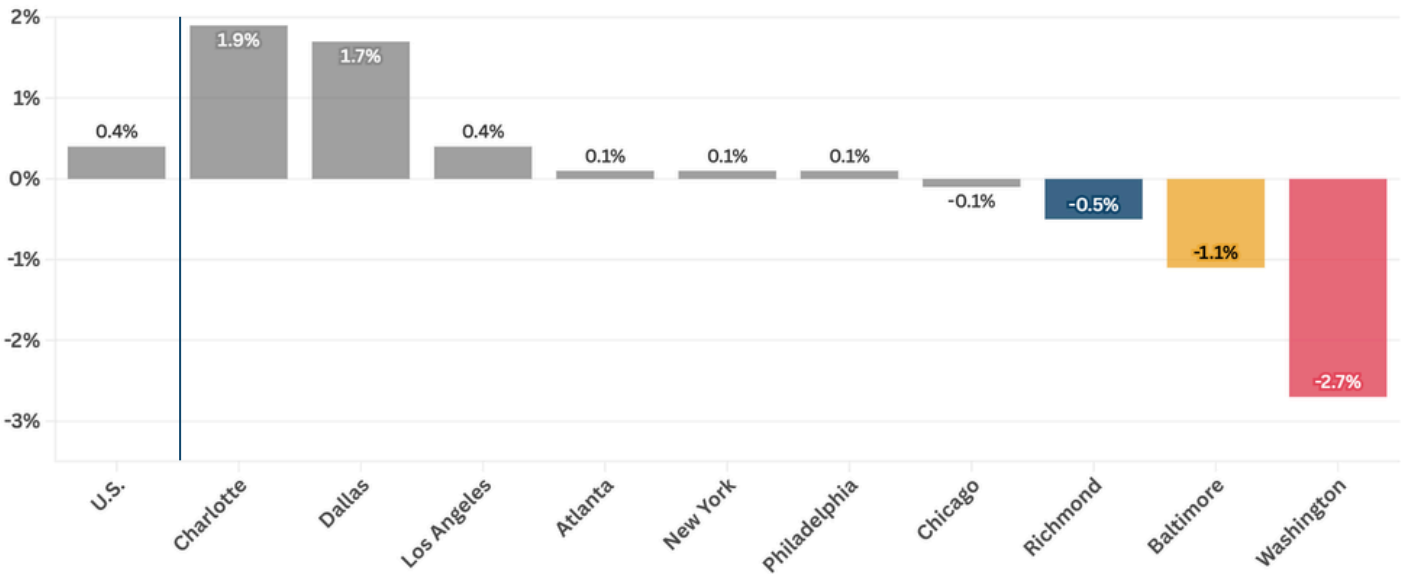
Source: BLS

Metro-level job markets are significantly underperforming peers, with DC recording the biggest losses.

Leading peer markets Charlotte (+1.9%) and Dallas (+1.7%) sit at the opposite end: CBRE's 2026 headquarters-relocation tracking puts those metro areas among the top destinations nationally for corporate HQ moves, likely contributing to their strong job growth.

Federal job losses have largely plateaued since the start of this year. The large professional services industry, with its many federal contractors and grant recipients, also remains down significantly across metro Washington and Richmond. Education & healthcare along with leisure & hospitality remain relative hiring bright spots across the region.

Total Employment Change, by Metro Area Relative to January 2025



Source: Federal Transit Administration

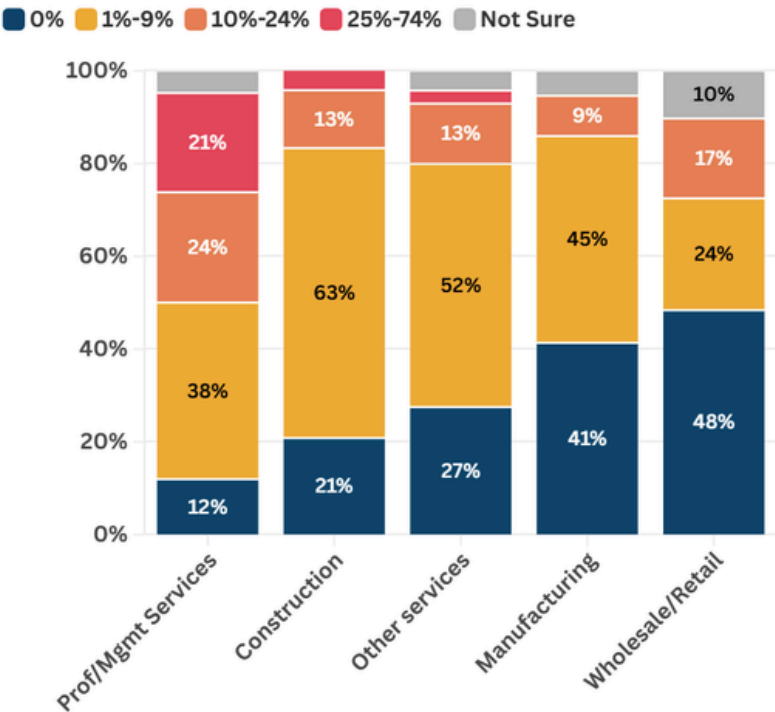
AI Adoption

Professional services firms lead AI adoption, with nearly half expecting to spend over 10% of their capital expenditures on the technology in the coming year.

In a June survey from the Richmond Fed, 83 percent of firms across industries reported that they used AI in one of their formal business operations – most commonly for tasks such as summarizing, writing, and data analysis. Other common uses include marketing, management, and strategy. Notably, very few firms said they expect a net negative impact from AI on employment.

Professional services firms are driving investment in the technology in the upcoming year, while many construction firms also see benefits. DC already has the highest share of job postings listing AI skills in the country.

Share of Upcoming Capital Expenditures Dedicated to AI, by Industry



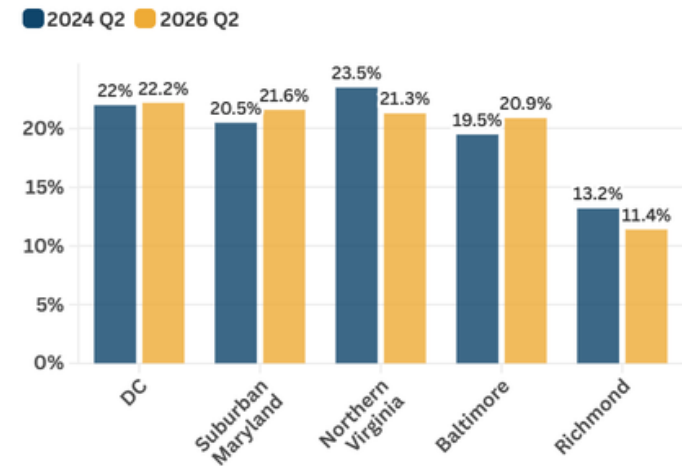
Source: Richmond Fed • June 2026 survey of 250+ firms in the Fifth District (MD, VA, DC, NC, SC, and WV)

Real Estate & Transit

Elevated office vacancy rates and retail contraction are pressuring tax bases across the region.

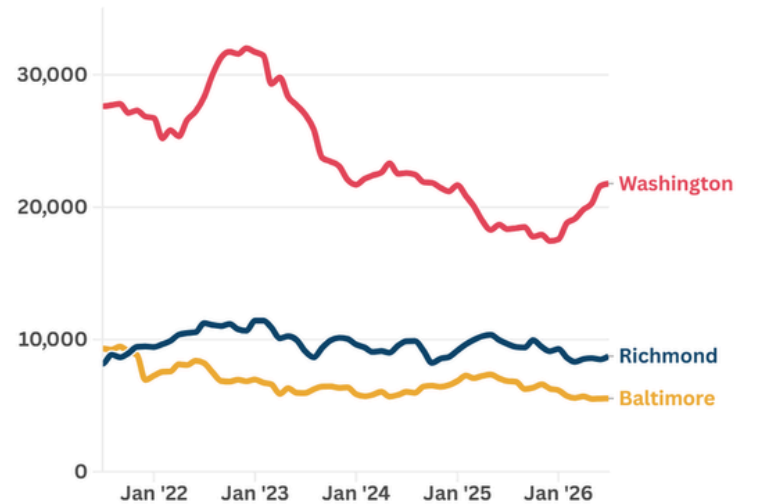
Office vacancy inched up across most of the region between 2024 Q2 and 2026 Q2, but the significant increases experienced several years ago have largely halted. Northern Virginia and Richmond are the exceptions, both improving over the period, though Northern Virginia (21.3%) still carries the highest vacancy rate in the region, while Richmond (11.4%) is performing the best by a wide margin.

Office Vacancy Rate, by Regional Market



Source: CBRE

Housing Units Authorized by Building Permits, 12-month Rolling Total by Metro Area



Source: U.S. Census Bureau, Building Permits Survey

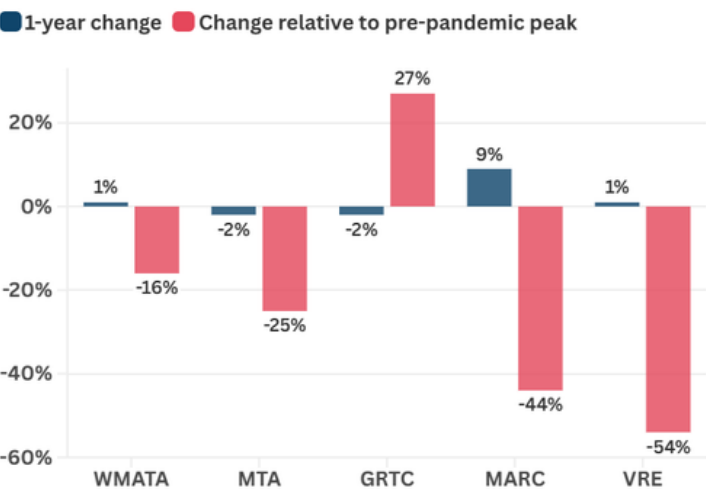
Washington metro permitting has fallen sharply from its early-2023 peak of roughly 31,000 units over a 12-month period, but the trend over recent months suggests positive momentum.

Richmond and Baltimore, by contrast, have stayed comparatively flat this year, showing far less volatility than Washington's swing. The DC metro ranks among the most regulated major metro areas for residential development — elevated financing costs and land-use constraints are the two factors most commonly cited for the slowdown.

Transit ridership growth has slowed over the past 12 months across the region's major systems, most of which remain significantly below pre-pandemic levels.

Slowing return-to-work policies and a significant drop in employment since early 2025 has reduced ridership growth on WMATA rail and bus across metro Washington: bus ridership recorded year-over-year declines and rail ridership growth was the slowest since the pandemic recovery began. Richmond's GRTC is the outlier, running 27% above its pre-pandemic peak thanks in part to fare-free bus rides since 2020.

Major Transit System Ridership, 12-month Rolling Total, July 2026



Source: Federal Transit Administration