Federal Workforce Reduction:
Impact on the Single-Family Housing Market

Recently mandated downsizing in employment across virtually all government agencies, and the corresponding budget cuts are expected to have a limited impact on the overall Single-Family housing, but may affect the prevailing supply-demand dynamics in areas that heavily depend on government employment.

At the end of 2024, federal workforce amounted to 2.2MM or 1.9% of total employment (Figure 1) in the U.S. According to economists at Goldman Sachs, federal employment is likely to fall by a total of 450,000 or 20% and will be spread across the country, given that the vast majority of federal employees (over 80%) reside and work outside of Washington, D.C., Maryland and Virginia (Figure 2).

Figure 1. Share of total employment: Federal government

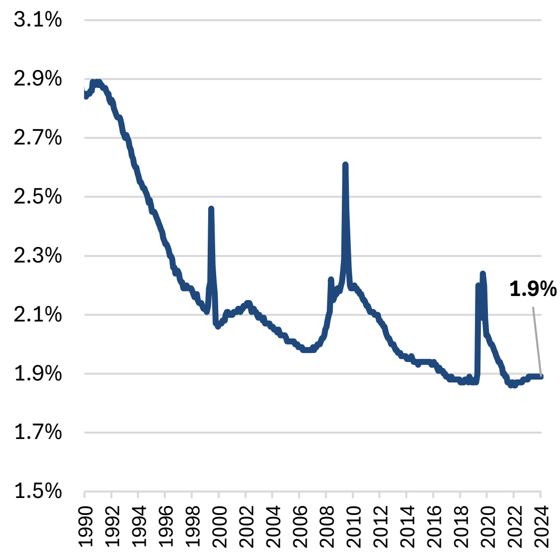
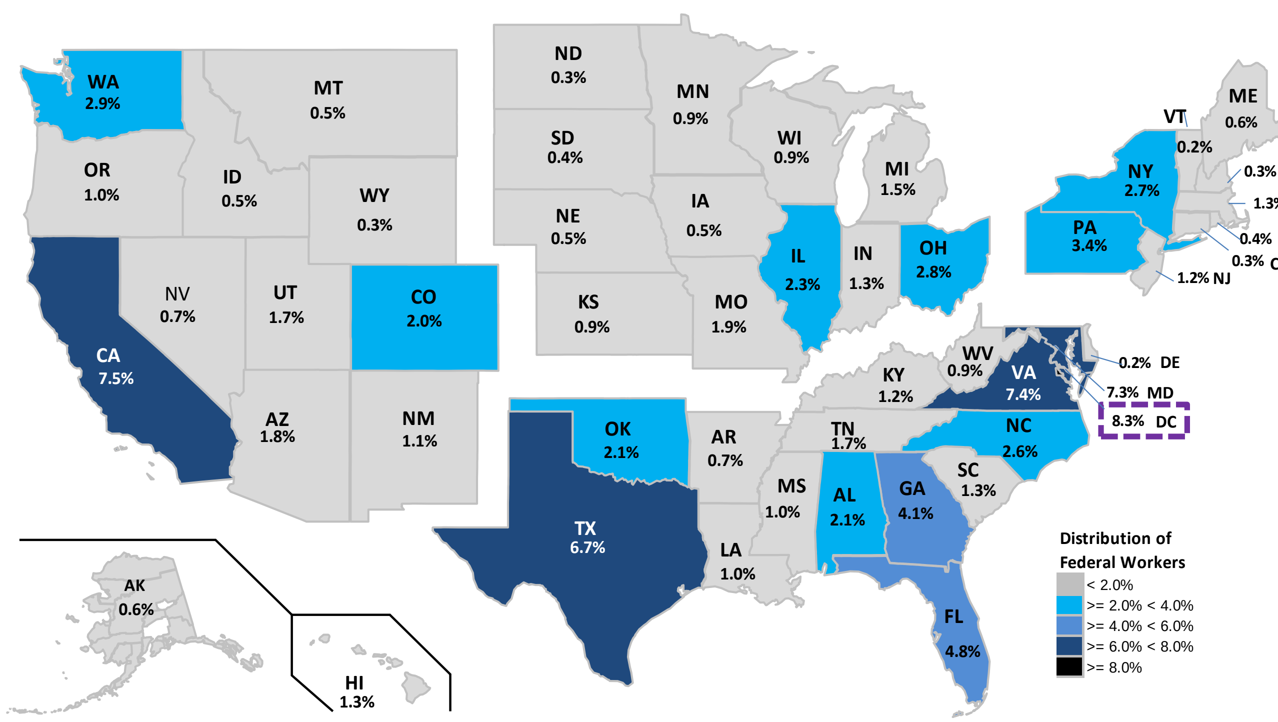


Figure 2: Distribution of federal workforce by state



Source: FedScope - Federal Workforce Data, Goldman Sachs FBC.

Local Impact: Washington, D.C.

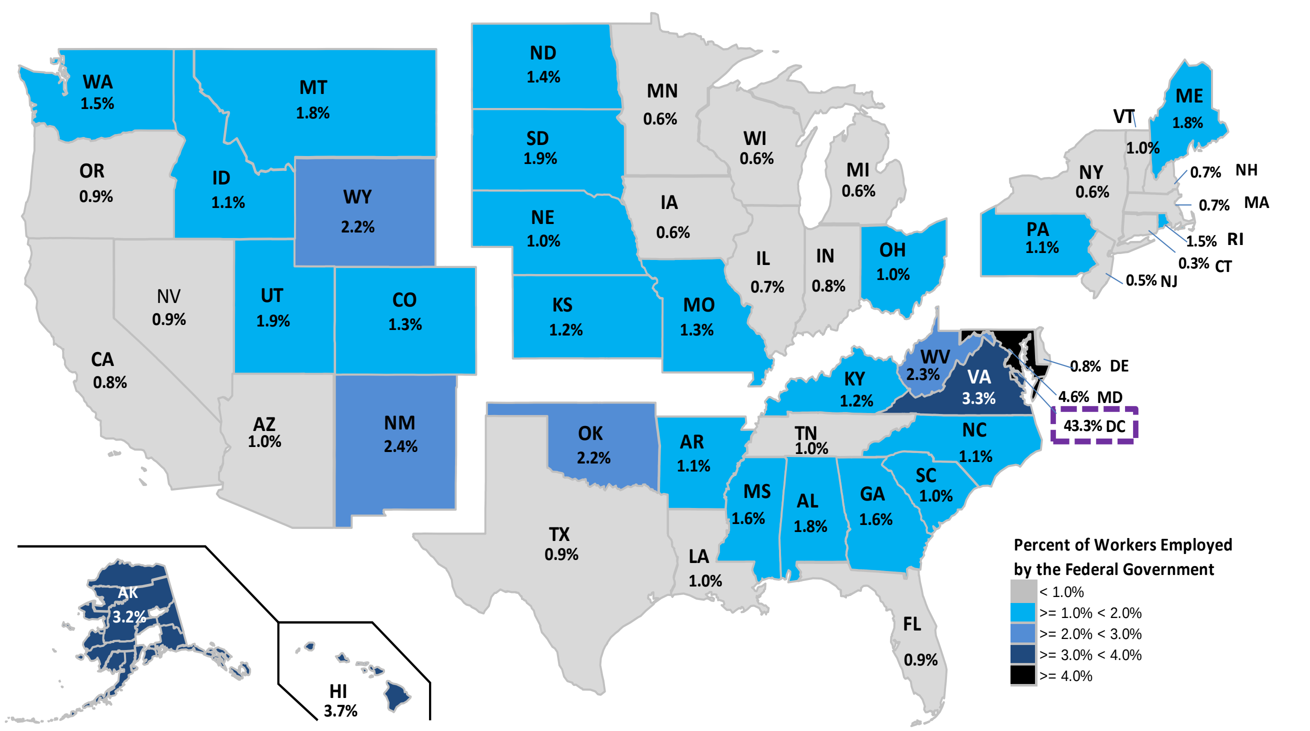
Unsurprisingly, government-heavy areas may experience short-term disruptions. Most notably, a large percentage (43.3%) of workers in Washington, D.C. are employed by the federal government.

A significant drop in employment in the area may spread through the local economy, potentially magnifying its effects.

Figure 3. States with the largest share of federal workforce

#	State	% of civilian workers employed by the federal government	# of federal workers (Thousands)	% of total federal workforce
1	DC	**43.3%**	162	8.3%
2	MD	4.6%	143	7.3%
3	HI	3.7%	25	1.3%
4	VA	3.3%	144	7.4%
5	AK	3.2%	11	0.6%
6	NM	2.4%	22	1.1%
7	WV	2.3%	17	0.9%
8	OK	2.2%	42	2.1%
9	WY	2.2%	6	0.3%
10	UT	1.9%	33	1.7%

Figure 4: Share of civilian workers employed by the federal government



Source: FedScope - Federal Workforce Data, Bureau of Labor Statistics, FBC..

The Contractor Workforce

The impact of current administration's policies on the sizeable contractor workforce will likely be mixed. Those focused on consumer and environmental protections, research and development, or education may be negatively affected, while defense and infrastructure contactors may see additional demand for their services. Overall, budget cuts are likely to reduce the overall contractor workforce as well.

Employment Ramifications

In January, Washington, D.C. recorded a jobless rate of 5.3%, with the unemployment claims rising sharply in February and March.

As illustrated by Figure 6, jobless claims in the D.C. area have more than doubled so far this year and are expected to rise in the coming months as more cuts are underway.

- Over 75,000 employees opted for the deferred resignation offer, while tens of thousands have been placed on short-term administrative leave, meaning they are not yet eligible for unemployment benefits. Some of the former federal workers will be absorbed into the state or private sectors, while others will eventually appear in the unemployment numbers.
- If we assume that all 450,000 federal workers file for jobless claims, in proportion to the current distribution of federal employees by state (ignoring the potential impact on contractors), the unemployment rate in D.C. could reach ~15%.

Figure 5. Estimated Federal And Contractor Workforce (in millions)

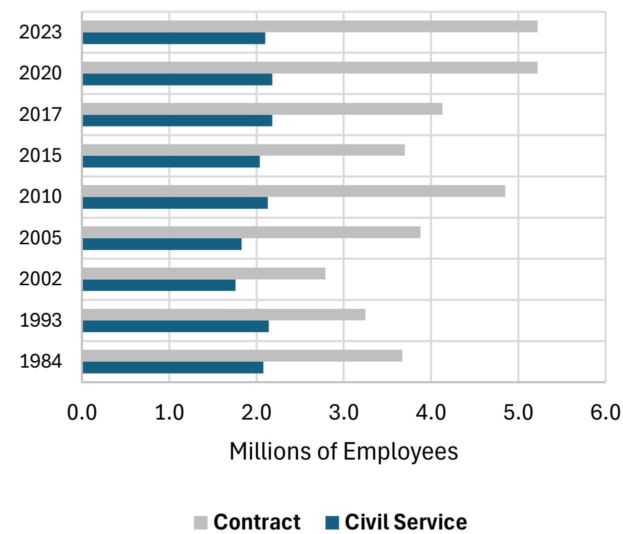
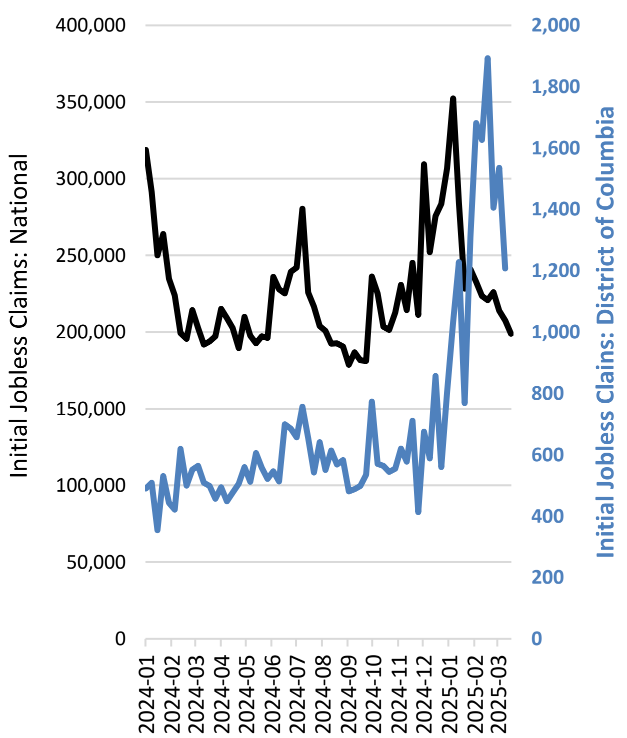


Figure 6. Initial Jobless Claims: District of Columbia



Source: FedScope - Federal Workforce Data, Bureau of Labor Statistics, The Brookings Institution, FBC.

Single-Family Housing Implications: Low Housing Inventory Levels Persist

On the positive side, local Single-Family housing supply-demand dynamics continue to point to a very tight housing market, especially when compared to historical norms (Figure 7).

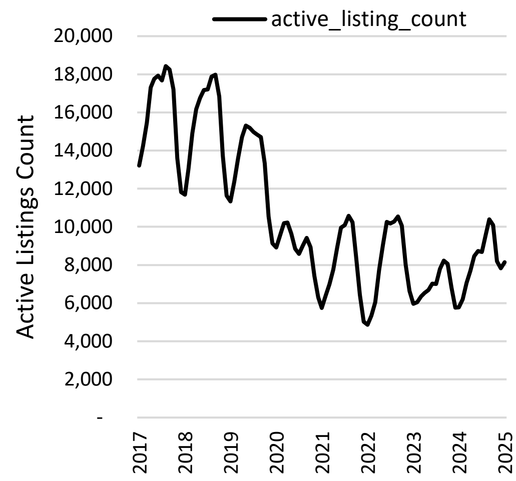
We expect home valuations to remain largely unchanged over the next two years.

Mortgage Credit likely to remain strong

We don't expect mortgage credit performance to deteriorate, absent any widespread and significant economic weakness and/or additional policy factors.

- The layoffs have primarily targeted probationary employees, who typically have less than a year of tenure, a group that tends to be more inclined to rent.
- Delinquencies may rise in the short-term, but the available loss mitigations programs, including payment forbearance and deferral, as well as the available modification options are expected to prevent any meaningful increases in defaults and losses.

Figure 7. Active Listings have increased in Washington, D.C. this year, but remain low relative to pre-pandemic levels.



Source: FedScope - Federal Workforce Data, FBC.

Company Background & Disclosures

Firm Overview

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