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Federal nondefense spending has boosted recent DC job gains

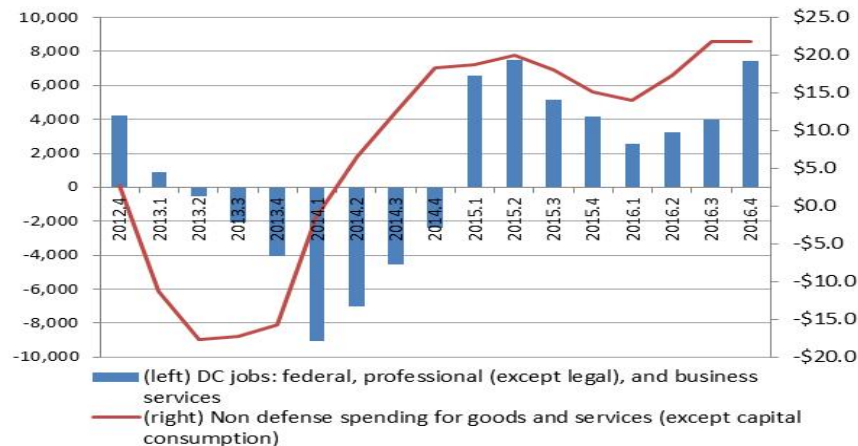
The sectors recently gaining the most jobs in DC are also vulnerable to federal policy shifts

According to the National Income Accounts prepared by the US Bureau of Economic Analysis, purchases of goods and services by the federal government for nondefense programs increased \$55 billion from 2013.4 to 2016.4. (This spending is for direct operations, and excludes transfer payments to individuals such as Social Security and to other levels of government for things like Medicaid and highway construction.) Over this three year period dating from the end of the sequester period, this nondefense portion of federal spending grew 14.3%, faster than the US economy’s 11.2%.

The annualized rate of growth of federal nondefense spending went from negative 3.9% in the 2013.4 quarter to 5.2% in the last quarter of 2016, a rate well above the rest of the economy’s 3.6%. (See graphs on p. 2.)

One might suppose an increase in purchases of goods and services by the federal government for nondefense purposes would benefit the economy of the nation’s capital. This indeed seems to have been the case. As federal purchases of goods and services increased, so did employment in two sectors of the District’s economy that have close connection to federal activities: (1) the federal government and (2) professional and business services (excluding the legal services sector). (Continued on p. 2)

Changes from the prior year in (1) DC federal and professional and business service jobs and (2) federal nondefense spending for goods and services (\$billion): 2012.4 to 2016.4 [Sources: BLS and BEA]



This briefing document was prepared by Stephen Swaim, DC Office of Revenue Analysis

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The following discussion takes a closer look at characteristics of the federal government’s purchases of goods and services for nondefense programs, their connection to the District’s employment, and implications for future DC employment should federal fiscal and spending policies change.

Federal purchases. In 2016.4 the federal government spent \$437 billion on goods and services related to non-defense programs. Of the total, 42% (\$183 billion) was for compensation of employees. The biggest portion (\$101 billion) of the remainder was purchases of a variety of services. Over the past three years the biggest dollar amounts of increase have been for personnel compensation and services.

Federal purchases of goods and services for nondefense programs: 2013.4 to 2016.4 (\$billion)

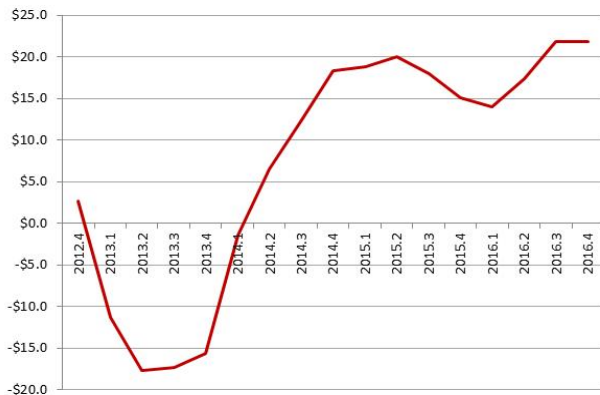
Category of purchases	2013.4	2016.4	ch	% ch
Consumption expenditures				
Compensation of employees	161.6	182.8	21.2	13.1
Non durable goods	3.4	4.2	0.8	23.5
Durable goods	21.3	25.7	4.4	20.7
Services	81.6	100.9	19.3	23.7
Gross investment				
Structures	11.5	13	1.5	13.0
Equipment	16.1	21.3	5.2	32.3
Software	17.6	19.2	1.6	9.1
Research and development	69.6	70.3	0.7	1.0
Total	382.7	437.4	54.7	14.3

Addendum:

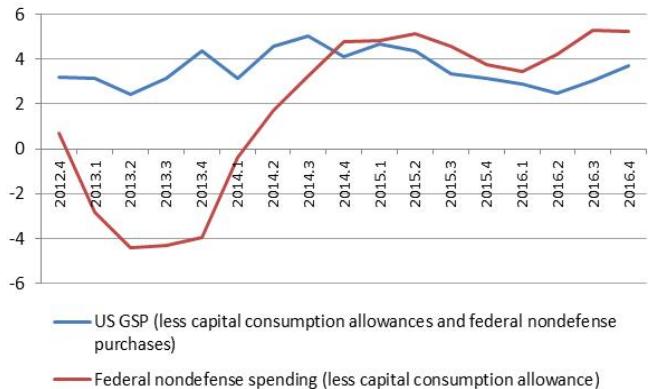
Total other than personnel compensation	221.1	254.6	33.5	15.2
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Source: BEA. Excludes capital consumption allowance.

Change from the prior year in federal spending for nondefense program operations: 2012.4 to 2016.4 (\$billion) [Source: BEA]



Federal spending for non-defense program operations and the rest of US GDP: % change from the prior year from 2012.4 to 2016.4 [Source: BEA]

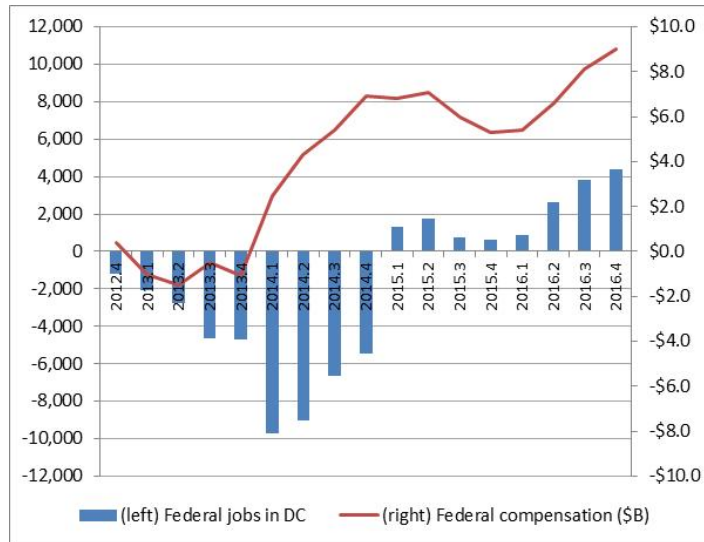


Relation to DC employment. Federal spending for goods and services for nondefense programs is a relatively small part of the demand for the nation’s output—about 2.7%. Its share is far less than personal consumption (which makes up about two thirds of the total), investment, net exports, state and local government purchases, and defense spending for goods and services. It is, however, quite important for the District’s economy even though the influences from the much larger economy are important as well.

The most obvious connection between federal nondefense purchases of goods and services and DC’s economy is federal employment. Here the connection is fairly direct. DC’s federal employment declined in 2013 and federal spending for compensation fell. With the rise in federal compensation spending that began in 2014, DC’s federal employment, with a lag, also began to increase steadily through 2015 and 2016. In the last quarter of 2016 there were 6,633 more federal employees working in DC than there were in the first quarter of 2014, a 3.4% increase.

Change from the prior year in federal sector jobs in DC and federal compensation for employees (\$billion): 2012.4 to 2016.4

[Source: BLS and BEA]

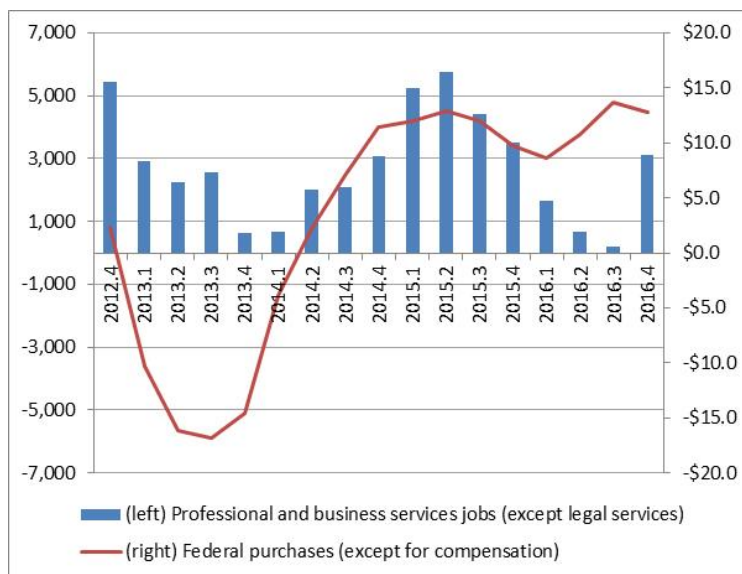


Another place to look for a close connection between federal spending for goods and services and DC employment is in the professional and business service sector. This sector provides a number of services including such things as computer systems and software, analytical studies, and human resource and procurement services. (Legal services is excluded from professional services because federal contracting is generally less likely in this area.) This sector serves many clients in addition to the federal government, but changes in federal spending seem to have had a direct impact on how DC employment changed in these areas over the past 4 years.. The accompanying chart compares changes in professional and business services (excluding legal services) and federal purchases of goods and services (excluding compensation) for nondefense programs. As noted earlier, federal spending for purchases of services increased particularly rapidly from 2013.4 to 2016.4.

Change from the prior year in professional and business service jobs in DC and federal nondefense purchases of goods and services (\$B): 2012.4 to 2016.4

Note: DC jobs exclude legal services, and federal purchases exclude employee compensation

[Source: BLS and BEA]



Implications for the future. The sectors most directly affected by federal nondefense spending—the federal sector, professional services (other than legal services), and business services—are a major part of the District’s economy, accounting for 43% of all jobs located in the city. During 2013 and 2014, however, these sectors lost jobs. It was growth in the rest of the economy that enabled DC to achieve 15,000 yearly job growth in two quarters of 2013 and that enabled DC to maintain positive job growth in 2014.

In 2015 and 2016, the years in which federal nondefense spending increased, there was also a notable shift in the composition of DC job growth. The federal sector and professional and business services pushed total job growth higher, more than offsetting a slowing of growth in all other sectors. In the last quarter of 2016 increases in the federal sector and professional and business services accounted for 47% of DC’s job growth.

Looking ahead, there is considerable uncertainty as to the nature of the federal spending policies of the new Administration and the Congress that might affect the District of Columbia, both as to the total amount of spending and changes in its composition. If it turns out that spending for goods and services for nondefense programs is reduced this could have a negative impact on the sectors that have been so instrumental in DC’s recent job growth. Job growth in DC would then depend heavily on (1) the ability of all of the other sectors of the District’s economy to add jobs, such as occurred during 2013, and (2) the extent to which DC would benefit from federal defense-related expenditures should they be increased.

Jobs located in DC by sector: 2014.1 to 2016.4

sector	2014.1	2016.4	change	% ch
Federal government	196,267	202,900	6,633	3.4
Professional services (except legal)	78,633	86,300	7,667	9.7
Business services	46,833	50,767	3,933	8.4
Subtotal	321,733	339,967	18,233	5.7
All other jobs in DC	421,833	447,967	26,133	6.2
Total	743,567	787,933	44,367	6.0
Addendum: Subtotal as % of all jobs	43.3	43.1	41.1	

Source: BLS Legal services are excluded because federal contracts are less likely in this sectors.

Change from the prior year in all jobs in DC and in jobs in the federal, professional services, and business services sectors: 2012.4 to 2016.4 [Source: BLS]



Change from the prior year in jobs located in DC in the (1) federal, professional services, and business services sectors, and in (2) all other sectors: 2012.4 to 2016.4 [Source: BLS]

