

Growth Across Region Shows Signs of Slowing

Post-Sept. 11 Expansion Fueled by Security Spending May Be at End, Report Shows

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Economic growth in the Washington area is slowing as the federal government begins to temper spending on local goods and services, according to a report released yesterday by George Mason University's Center for Regional Analysis.

In its mid-year survey and forecast for the local economy, the center found that federal contract spending in the area increased 2.5 percent in 2005, compared with increases of 19 percent in 2004 and 16.9 percent in 2003.

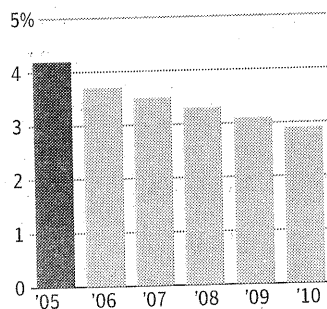
Coupled with higher oil prices, higher interest rates and a downturn in the housing market, the regional economy is expected to grow this year by 3.5 to 3.8 percent, compared with more than 4 percent last year.

The local economy is still outpacing the nation as a whole and is expected to add about 60,000 jobs this year, the study concludes.

But the era of heady growth that followed the Sept. 11, 2001, terrorist attacks, fueled by billions of dollars in federal security spending, may be on the wane, said Stephen

Losing Steam

Gross regional product, annual percentage change*



* Data for 2006-2010 is projected.
SOURCE: GMU Center for Regional Analysis

THE WASHINGTON POST

S. Fuller, an economist and a director of the GMU center.

"Homeland Security, for example, has basically bought what it needs to do their job, so spending by them has been moderated," he said. "So we're not going to have as many jobs because there is nothing else to pick up the pace."

Fuller added: "We're a little more vulnerable than we used to be, but we have cushion. What we're see-

ing is that the economy slowed down in the summer, it will accelerate in the fall and be more moderate in the winter."

The study said the local economy would continue to be supported by federal contracting dollars, which have increased every year since 1979 and totaled a record \$52.4 billion last year.

The new figures renewed concerns about the dependence of area companies on federal spending.

"The challenge is that we have to return to growing business-to-business ventures, which is something we were doing very well before 9/11, and develop commercial non-governmental applications and diversify our economy," said Bobbie Kilberg, president and chief executive of the Northern Virginia Technology Council.

The report estimates that 7,000 jobs are created for every additional \$1 billion of federal contract spending. A moderation in spending translates into slower job growth.

Job growth over the next few years is expected to exceed the national average, but will steadily decelerate, compared with previous years, the study says. Compared

with job growth of 2.3 percent in 2005, the center expects annual job growth to decline to 2.2 percent this year and fall to 1.3 percent by 2010.

That, in turn, could affect the housing market, Fuller said. In 2006, the report forecasts housing prices to increase 5 percent to 9 percent, compared with an increase of 20 percent in 2005.

Separately, a new compensation survey released yesterday found that wage increases among government contractors lagged the rest of the market, with a change in median pay of 2.5 percent last year, compared with 3.3 percent for all of the jobs included in the survey. The study was conducted by the Human Resource Association of the National Capital Area and covered 313 companies in the Washington area.

"The salary increases are getting smaller each year," said Alan Chvotkin, senior vice president of the Professional Services Council of Arlington, which represents companies that provide services for the federal government. "There are more companies chasing fewer dollars. That translates into bidding wars, which usually means lower prices."