

Economic Forecast for Virginia

QUARTERLY REPORT
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of VIRGINIA

Weldon Cooper Center
for Public Service

Economic Forecast for Virginia

developed by the Weldon Cooper Center for Public Service as a resource for the good of the Commonwealth

This forecast is part of our ongoing commitment to provide timely, accessible, and actionable data to policymakers, industry leaders, and community stakeholders across the Commonwealth.

Our goal is to support informed decision-making and long-term planning in a rapidly evolving environment. However, economic forecasts are inherently sensitive to changes in national and state-level policies, which can have unpredictable consequences on business conditions, public budgets, and labor markets. As such, projections presented here are subject to revision and will increase in accuracy as new data becomes available and recent trends are better understood. The next update will be released in July 2025.

Key findings for the remainder of FY2025

- 1** Virginia's labor market is contracting—employment is expected to decline throughout 2025, bucking the national trend.
- 2** The unemployment rate in Virginia will rise as job losses accumulate and will reach its highest rate since 2021.
- 3** Despite the national trend, Virginia continues to experience lower price growth than the U.S. average.
- 4** Despite the labor market strain, Virginia's GDP will remain in positive territory, driven by productivity gains and sectoral resilience—but growth will slow.
- 5** The economic slowdown is steeper and more persistent in Virginia than anticipated, with signs of continued weakness across multiple sectors.

About the Economic Forecast Model

This comprehensive model incorporates over three hundred variables and equations, leveraging national data from Moody's Forecast as well as more than thirty diverse data sources to tailor Virginia-specific estimates. Key inputs include data from the Bureau of Economic Analysis (BEA), the Bureau of Labor Statistics' (BLS) Quarterly Census of Employment and Wages (QCEW), Virginia Realtors, the Virginia Department of Taxation, the U.S. Census Bureau, the Energy Information Administration (EIA), and the Cooper Center's demographic data.

By integrating these datasets and using advanced econometric techniques, the Cooper Center created a powerful tool for analyzing trends, assessing risks, and supporting data-driven decision-making.

For more detailed information about the model, see the short appendix at the end of the report.

National Outlook

Some key predictions for the nation that contextualize Virginia’s projections

Labor market weakness dominates the outlook - Employment growth is expected to slow

Between the final quarters of 2024 and 2025, employment gains in the United States are projected to slow to 0.5%, with approximately 832,000 jobs added nationwide. This modest growth is expected to stall entirely in 2026, with zero net job creation, before rebounding slightly to a 0.4% increase in 2027. A major driver of this slowdown is uncertainty across global supply chains driven by the cost of imported intermediate goods, which leads to growing instability in financial markets. These dynamics are beginning to weigh on labor demand and are expected to impact job growth and the national unemployment rate. Federal budget cuts are expected to affect multiple sectors, posing a particular risk for Virginia due to its reliance on both public sector and federal contracting jobs.

Unemployment expected to rise in 2025 and 2026

Moody’s April 2025 baseline forecast anticipates U.S. real GDP growth to slow from 2.5% in 2024 to just 0.6% in 2025. While a modest recovery is projected in 2026, it will not fully offset the slowdown. As job growth is stunted, the national unemployment rate is expected to rise to 4.2% in 2025 and 4.8% in 2026.

Table 1—National projections from Moody’s

Annual Percentage Change*	2023	2024	2025	2026	2024-2034 (average)	2034-2050 (average)
Non-Agriculture Employment	1.7%	1.2%	0.5%	0.0%	0.4%	0.2%
Real GDP	3.2%	2.5%	0.6%	1.9%	2.3%	2.2%
Population	0.9%	0.9%	0.5%	0.3%	0.3%	0.2%
Consumer Price Index	3.2%	2.7%	3.7%	2.3%	2.6%	3.0%
Unemployment Rate (average)	3.6%	4.0%	4.2%	4.8%	4.2%	4.0%

*Same quarter (Q4 to Q4) comparison. Source: Moody’s National Analytic Forecast (April 2025)

Consumer Price Increases Are Projected to Rise Again

After peaking at an average annual increase of 7.1% in 2022, inflation moderated in 2024, closing the year at 2.7%. Inflationary pressures are expected to mount again in 2025 as the trade friction continues. As a result, the Consumer Price Index (CPI) is projected to increase by 3.7% in 2025, before easing to 2.3% in 2026, largely due to a cooling economy.

Virginia Forecast

Growth without jobs?

Employment drops as GDP holds below national level

Virginia’s GDP will lag behind the United States’ in 2025

After underperforming in late 2024, Virginia’s economy is expected to post modest GDP growth of 0.4% in 2025, but still below the national rate. This lagging performance in 2025 will be largely driven by shifting federal policies that influence the Commonwealth more directly than most states, given Virginia’s deep economic ties to the federal government. Looking ahead, Virginia’s economy is projected to slightly recover in 2026, with real GDP growth reaching 2.1%, although this forecast remains highly sensitive to evolving national and global conditions.



Table 2—Virginia economic forecast: Annual percentage change

Annual Percentage Change*	2023	2024	2025	2026	2024-2034 (average)	2034-2050 (average)
Employment	1.8%	1.7%	-0.8%	0.4%	0.4%	0.4%
Real GDP	2.4%	1.9%	0.4%	2.1%	2.1%	2.6%
Population	0.6%	0.7%	0.7%	0.7%	0.7%	0.8%
Consumer Price Index	2.4%	2.5%	2.6%	2.1%	2.6%	3.1%
Unemployment Rate <i>(annual average values)</i>	2.7%	2.8%	3.9%	4.7%	3.2%	3.1%

*Same quarter (Q4 to Q4) comparison. Source: Weldon Cooper Center Forecast (April 2025)

Employment in Virginia: Already showing signs of contraction

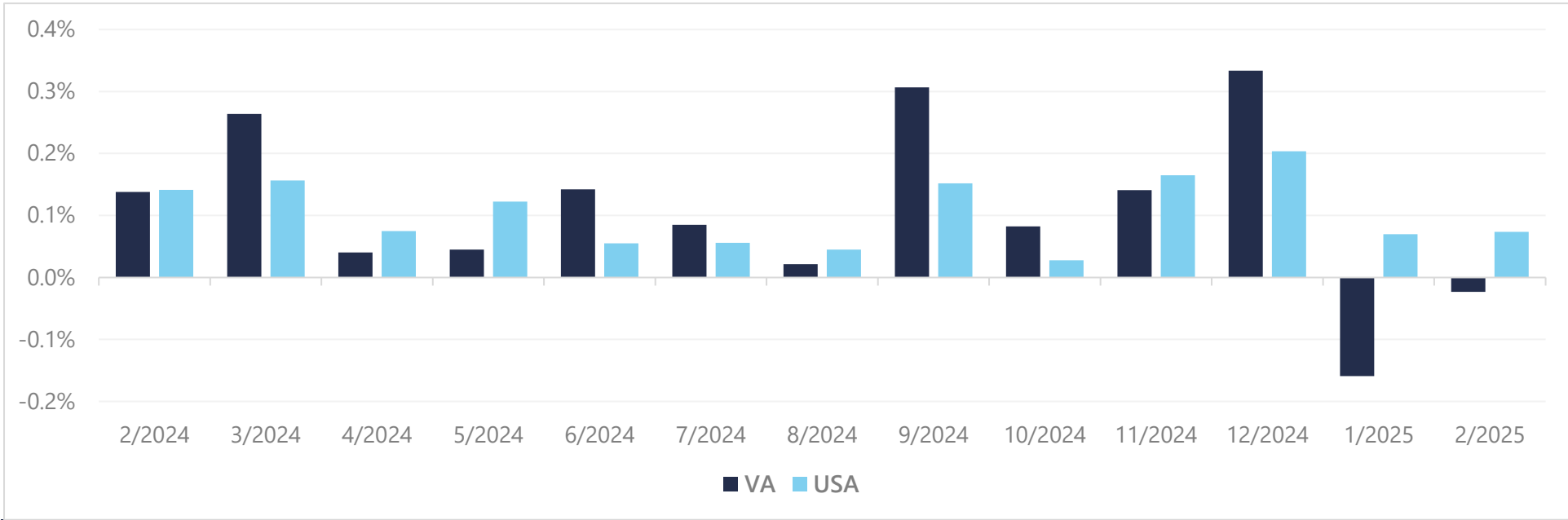
The Weldon Cooper Center’s quarterly employment model draws from monthly job data to assess near-term labor market changes. While national employment grew by over 228,000 jobs in January and February 2025, Virginia saw a net loss of nearly 8,000 jobs over the same period, signaling a clear divergence from national trends.

Since January 2022, Virginia has recorded job losses in only three other months, making this dip significant. Our short-term forecast suggests that this weakness will persist across Q2–Q4 2025.

net loss of nearly
8,000 jobs
in Jan & Feb 2025

Figure 1 – Total nonfarm employment change: Virginia vs. U.S.

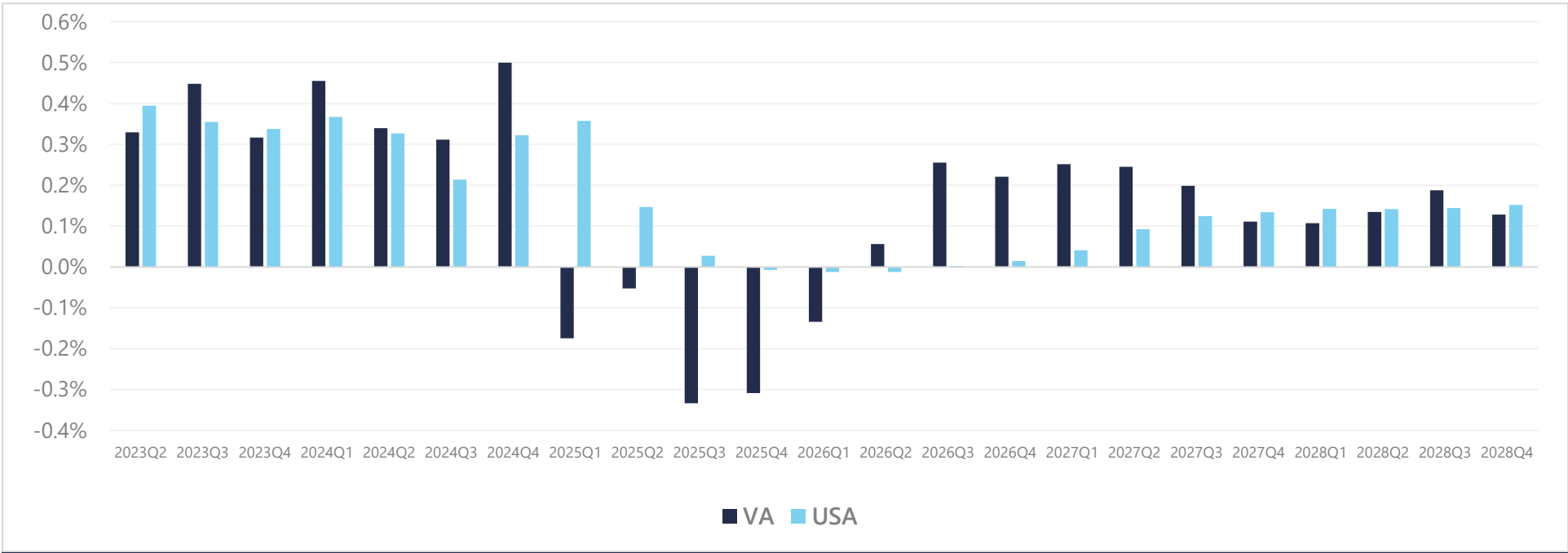
February 2024-February 2025 | month-over-month | %



Source: CES - Bureau of Labor Statistics

Figure 2 – Forecasted Employment Growth: Virginia vs. U.S.

2023-2028 | quarter-over-quarter | %



Source: Moody's National Analytics Forecast and Weldon Cooper Center

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Employment in Virginia is expected to decline in 2025

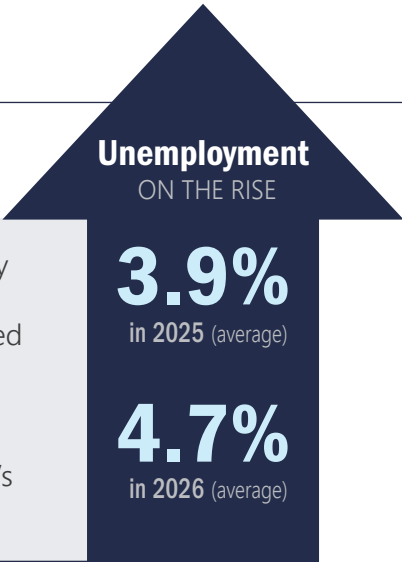
The February 2025 forecast noted that slowing economic growth would put pressure on employment, particularly in sectors that depend more on federal spending, such as Government and Professional, Scientific, and Technical Services. That pressure is now translating into job losses. Virginia is expected to shed **32,000 jobs in 2025, a 0.8% decline** from the previous year. Losses are projected to deepen in the second half of the year and extend into early 2026. Recovery is expected to begin late that year, with a net gain of approximately 17,000 jobs in 2026, or 0.4% growth.

32,000
total jobs lost
Jan. 1 - Dec. 31, 2025

VIRGINIA FORECAST

Unemployment rate set to rise

While Virginia’s unemployment rate has historically remained below the national average, the 2025 projection marks a shift. Unemployment is expected to climb to 3.9% in 2025, a full percentage point above the previous year’s observed value. The trend will likely continue into 2026, reaching 4.7%, the highest rate since 2020, but still below Moody’s national forecast of 4.8% for that year.

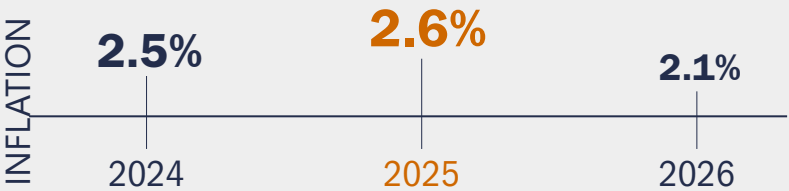


Virginia expected to lag in 2025, but will recover more quickly

Based on current conditions, the WCC forecast projects that Virginia will underperform compared to the United States in 2025, losing more than 30,000 jobs. However, should national conditions improve in 2026, Virginia is likely to rebound faster due to its sectoral composition.

Inflation projected to tick up

Inflation in Virginia is forecasted to increase to 2.6% in 2025, up from 2.5% in 2024. This result is a mix of rising input costs and uncertainty due to tariffs but also a slowing economy that cools down inflationary pressures. That is why price pressures are expected to ease in 2026, with inflation falling to 2.1%, returning closer to the Fed’s target range.



Virginia Employment per Sector

Losses spread across the economy

Job Losses & Downward Trends

- **Government employment**—a major driver of Virginia’s economy—will see a net loss of more than 9,000 jobs.

This follows two years of growth, largely reversing those gains, and is directly tied to new federal spending cuts.

- **Administrative Services is expected to lose over 5,000 jobs (-2.0%); Manufacturing will shrink by approximately 4,500 jobs (-3.0%).**

Both sectors are affected because they are tied to federal contracting, but manufacturing job losses are also a continuation of a longer-term trend of industrial decline.

- **Tourism-related sectors will take a significant hit:**

Accommodation and Food Services: -7,740 jobs (-2.2%)

Arts, Entertainment, and Recreation: -6,486 jobs (-8.7%)

- **Professional, Scientific, and Technical Services, the largest private-sector employer in Virginia, will add just 3,000 jobs.**

This will be the smallest year-over-year increase since 2014.

Job Gains

- **Finance and Insurance is projected to add 1,899 jobs (+1.2%); Retail shows resilience with a small gain of 213 jobs (+0.1%).**

For Retail, this is a positive job creation when compared to the last decade.

Slowdown is expected in most major sectors

Virginia’s labor market outlook for 2025 reflects a broad-based slowdown. After several years of moderate expansion, almost every major sector is projected to shrink or stagnate, with only a few exceptions. This contrasts sharply with the average annual growth observed between 2014 and 2024. The state is expected to lose nearly 32,000 jobs in 2025, representing a 0.8% decline in total employment. While some sectors are more exposed than others, the slowdown is widespread and reflects both national economic softening and federal budgetary constraints.

VIRGINIA EMPLOYMENT PER SECTOR

Table 3 – Historical and forecasted job growth in Virginia by sector

This table provides a detailed view of industry job projections for 2025.

Sector	Jobs	Job growth in 2025		Annual average growth	
		n	%	2014-2024	2024-2034
Mining and Logging	7,350	-168	-2.3%	-2.1%	-1.9%
Construction	229,950	-1,202	-0.5%	2.8%	0.3%
Manufacturing	149,200	-4,493	-3.0%	0.7%	-0.9%
Wholesale	114,000	-976	-0.9%	0.4%	0.0%
Retail	394,300	+213	+0.1%	-0.4%	0.4%
Transportation and Warehousing	169,250	+955	+0.6%	3.8%	1.3%
Information	69,900	-297	-0.4%	-0.1%	-0.4%
Finance and Insurance	159,200	+1,899	+1.2%	1.1%	1.5%
Real Estate	61,600	+163	+0.3%	1.9%	0.3%
Professional, Scientific, and Technical Services	477,250	+2,999	+0.6%	2.3%	1.0%
Management of Companies	89,500	-74	-0.1%	1.9%	0.0%
Administrative Support	250,400	-5,018	-2.0%	1.3%	1.5%
Private Education	103,200	-588	-0.6%	1.5%	0.7%
Health Care Services	504,050	+293	+0.1%	2.3%	0.7%
Arts, Entertainment and Recreation	74,550	-6,486	-8.7%	4.4%	0.1%
Accommodation and Food Services	348,450	-7,740	-2.2%	0.8%	0.7%
Other Services	202,850	-2,355	-1.2%	0.5%	-0.1%
Government (Local, State, Federal)	753,350	-9,099	-1.2%	0.6%	0.1%
Total Nonfarm Employment	4,158,350	-31,974	-0.8%	1.2%	0.4%

Source: Weldon Cooper Center

Appendix

Technical aspects of the economic forecast model

The Cooper Center's forecast model relies on a simultaneous equation model based on a time series that is designed to capture the intricate interdependencies within and across sectors of the economy. In other words, a simultaneous equation model is used to demonstrate how different parts of an economy influence each other over time. Unlike simple models that assume one or several variables directly influence only one dimension, this approach recognizes that many economic factors—like jobs, inflation, income, housing prices, electricity prices, and household spending—affect each other simultaneously.

This class of models represents a robust econometric framework and is particularly suited to systems where variables are both endogenous (originating within the system) and exogenous (originating from without) and recognizes that complex feedback mechanisms drive economic dynamics. For example, higher employment can increase spending, which boosts business growth, leading to more jobs and creating a feedback loop, which is concurrently and differently affected by increasing prices. By analyzing historical data at regular intervals (e.g., quarterly), the model can forecast future trends while accounting for these interconnected relationships. This helps policymakers and businesses anticipate changes and make informed decisions based on how the economy is expected to evolve.

By leveraging national-level data from Moody's Forecast and aligning it with Virginia-specific data, the model solves a system of over three hundred equations iteratively, using quarterly time intervals. The model incorporates structural relationships that account for lagged effects, dynamic adjustments, and cross-sectoral spillovers, making it a powerful tool for analyzing not just static outcomes but the trajectory of economic variables such as employment, GDP, inflation, and sectoral growth over time. The rigorous estimation process ensures that parameter values are statistically significant and consistent, while model simulations allow for policy-relevant scenario testing – providing a detailed, quantitative backbone for understanding Virginia's economic evolution within the context of broader national trends.

For more information about the model design and elements, **contact the Cooper Center at coopercenter@virginia.edu**. Stay tuned for future 2025 releases.

ABOUT THE WELDON COOPER CENTER

The University of Virginia's Weldon Cooper Center for Public Service provides leadership development, consulting and mediation services, and unbiased research and data analysis to state and local officials, policy makers, community leaders, and the public in urban and rural areas alike. The Cooper Center's experts pride themselves in helping build strong communities in Virginia and beyond. For more information, please visit www.coopercenter.org.



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