Do Federal Layoffs Have Ripple Effects on Local Economies?

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Key Takeaways

- We investigate the extent to which low-skill job openings have accompanied reductions in the federal workforce.
- As of May 31, 2025, we find small effects.
- Our findings suggest that the local demand channel identified in the economic literature — whereby high-skill jobs sustain low-skill ones via high-skill workers' demand for nontradable goods and services — is rather muted so far for federal jobs.

Recent federal workforce reductions raise questions about potential broader labor market implications. Federal employees — which total about 3 million workers nationwide — represent a relatively small fraction of total U.S. employment (1.8 percent of the total U.S. workforce). Because of this, government layoffs are unlikely to generate significant macroeconomic effects. However, they may create substantial regional labor market disruptions in areas with high concentrations of government workers. Understanding these localized impacts requires examining the spillover effects that occur when changes in one sector ripple through the broader regional economy.

The literature on employment spillovers provides theoretical grounding for this analysis. Enrico Moretti's research on local employment multipliers demonstrates that, when local economies attract new businesses and create high-skilled jobs, additional employment opportunities emerge primarily through increased demand for local goods and services. These positive employment effects arise as high-wage workers increase their consumption of local, nontradable services — restaurants, fitness centers, cleaning services, etc. His

2010 paper "Local Multipliers" shows that each new high-skilled job generates approximately 2.6 additional positions in the nontradable sector. Most of these new jobs are low-skilled and medium-skilled positions.

This established relationship between high-wage employment and local low-skill job creation suggests that the reverse dynamic — federal workforce reductions — may generate negative spillovers in local labor markets. Motivated by Moretti's findings on employment multipliers and the concentration of induced effects on low-wage workers, we examine how federal government layoffs affect demand for low-skill jobs in local labor markets.

Data and Key Variables

Our analysis uses data from the largest job search and application website specializing in low-skill employment (Snagajob). The key measure of local demand for low-wage workers is the monthly number of posted vacancies by location. We focus on vacancy postings rather than actual employment for three reasons:

- Vacancies directly reflect employers' immediate willingness to hire workers.
- The real-time nature of these data allows us to measure current market conditions, unlike employment statistics that are published with significant delays.
- Vacancy postings are inherently forward-looking, capturing employers' expectations about future demand.

We also use data from the Current Population Survey, measuring federal government employment across metropolitan areas as of January 2023. We selected this period because it occurs before the current administration's tenure and announced layoff plans, thus representing typical labor market conditions. Our analysis is robust to using October 2024 as a baseline.

Our analysis employs two federal employment measures:

- The share of federal government workers in January 2023
- The change in this share between January 2023 and May 2025

The federal employment share serves as our primary exposure measure to planned layoffs and offers significant advantages over relying solely on observed employment changes. For one, federal employment data suffer from reporting lags and measurement challenges unique to government layoffs, where workers often receive extended notice periods of several months before separation. During these transition periods, affected workers continue to appear as employed in survey data, obscuring the true magnitude of workforce reductions. In addition, employment of both federal and low-wage workers may be influenced by common macroeconomic factors, confounding the impact of changes in

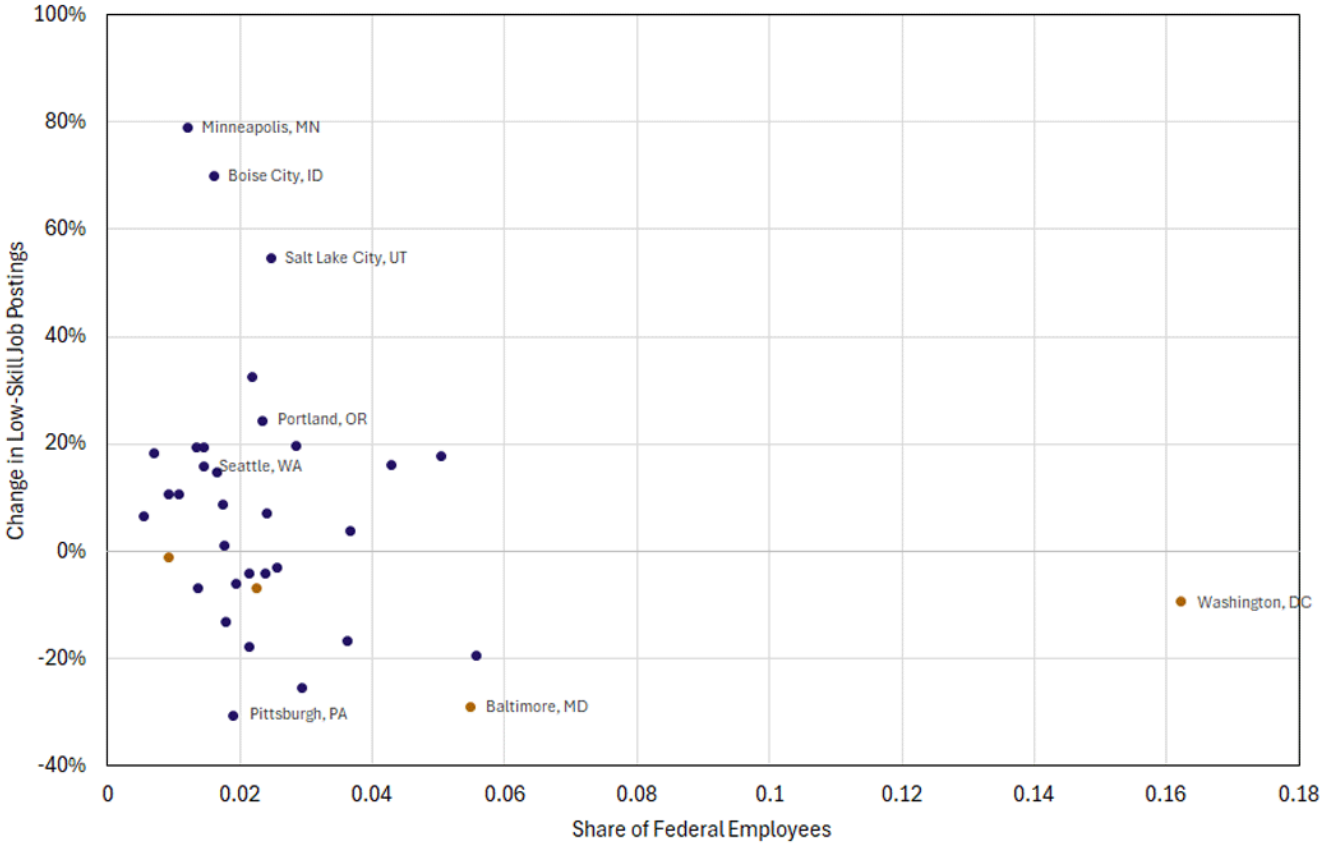
one on the changes in the other. The exposure measure circumvents both these limitations by capturing the underlying risk of job loss based on preexisting employment concentration.

We also perform robustness exercises in which we use different weighting schemes to account for the fact that our vacancy data is not a representative sample of the national labor market. The effects we retrieve can be interpreted as "aggregate" and show even smaller effects.

Visualizing the Demand Channel

To illustrate the mechanism through which federal layoffs reduce demand for low-wage workers, Figure 1 examines the relationship between exposure to announced layoffs and local labor demand decline in areas with the highest federal employment concentrations. Exposure is measured by the share of federal employees in the local workforce, while demand decline is captured by changes in low-skill job postings. The figure reveals a negative correlation: Areas with greater exposure to federal layoffs experience smaller increases (or even declines) in local low-skill job demand.

Figure 1: Change in Local Labor Demand and Exposure to Federal Layoffs



Notes: The share of federal employees is from January 2023, and the change in blue-collar job postings is over the period January 2023-May 2025. The brown dots signify cities located in the Fifth Federal Reserve District.
Source: Snagajob, Current Population Survey and authors' calculations.

Enlarge

Regression Analysis With Local Controls

The correlation shown in Figure 1 may be influenced by several confounding factors. For instance, areas with a higher concentration of federal employees are often larger metropolitan labor markets that may have been disproportionately affected by adverse economic shocks to other industries. To address this, we control for local economic conditions in our subsequent analysis.

To isolate the impact of federal layoffs on local labor demand, we control for the overall regional employment change. That is, we regress the percentage change in low-skill job postings from January 2023 to May 2025 on the change in the share of federal employees from January 2023 to May 2025.

Our analysis reveals a statistically significant elasticity of 0.03, indicating that a 1 percent decline in federal employment corresponds to a 0.03 percent decrease in low-skill job postings in the local area. This relationship suggests the existence of spillover effects from the public to private sector, consistent with theories of fiscal multipliers operating through local spending channels.

We also uncover some heterogeneity across locations. In particular, this effect is more pronounced in "government towns" — localities with high concentrations of federal employees. In areas where federal employment exceeds the 75th percentile (representing 3.8 percent of total local employment) of our sample distribution, the elasticity reaches 0.043. Focusing specifically on the Fifth Federal Reserve District[1] — which includes several government-heavy metropolitan areas, including Washington, D.C. — we estimate an elasticity of 0.04, which is similar in magnitude to that observed in government-concentrated cities.

To provide concrete context for these estimated elasticities, consider Baltimore, which employed approximately 12,000 federal workers and posted about 1,500 blue-collar vacancies in 2023. Applying our estimated elasticity, a hypothetical reduction of 10 percent in federal positions would generate downstream effects resulting in a monthly decline of approximately 6.5 posted vacancies for low-skill positions in the private sector.

Conclusion

Our analysis provides new empirical evidence on the local labor market effects of federal employment reductions, evaluating spillover effects on low-skill job demand. Our findings demonstrate that federal layoffs do generate negative multiplier effects in local economies, but these spillover effects have been small, with their magnitude equal to about one-tenth of the positive employment multipliers documented in previous research.[2]

Several factors likely explain why we observe such modest effects. First, government layoffs typically require extended implementation periods due to administrative processes, union negotiations and statutory requirements. Consequently, even with considerable

uncertainty about future employment, relatively few federal workers had actually been laid off as of May 31, 2025. This would naturally diminish the magnitude of observable responses in our data, which may attenuate short-term spillover effects.

Additionally, the strong labor market conditions prevalent through the beginning of 2025 likely provided alternative employment opportunities for both displaced federal workers and affected private sector employees. This tight labor market may have cushioned local economies against the negative spillovers. However, as we now observe signs of labor market weakening, the negative spillover effects are expected to be stronger.

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1 *The Fifth District includes Maryland, North Carolina, South Carolina, Virginia, Washington, D.C., and most of West Virginia.*

2 *This research includes the previously mentioned paper "Local Multipliers" as well as the 2012 book "The New Geography of Jobs," also by Enrico Moretti.*

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