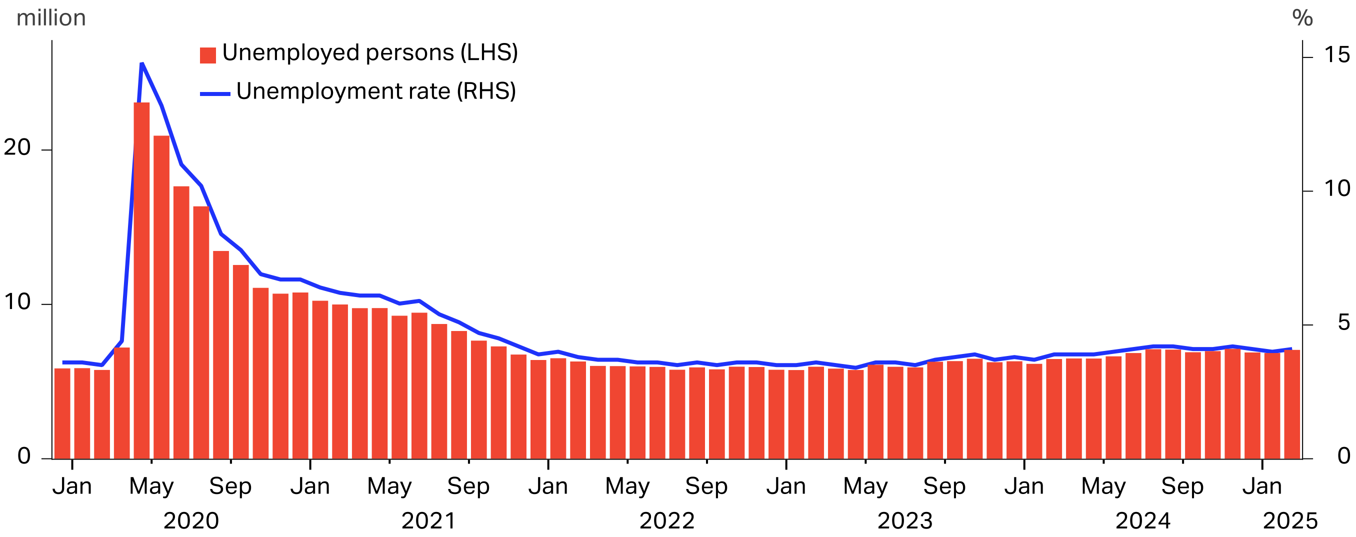
Chart of the Week

7 March 2025

US federal worker layoffs and their potential impacts



Source: IATA Sustainability and Economics, using data from MacroBond. The chart shows US unemployment rate (in blue) and the number of unemployed persons (in red) for population aged 16 and over, seasonally adjusted.

- Around 26,500 persons had been fired from 17 US agencies and administrations, according to CNN, as of 28 February 2025. The Office of Personnel Management said that 75,000 federal employees had accepted the "deferred resignation" offer as of 12 February. Probationary staff firings could affect 200,000 employees (The Hill, 20 February). This would bring the total number to around 300,000 but backtracking and lawsuits make it very difficult to know what the tally might be. Moreover, the US administration also targets contractors with layoffs, which could arguably double or triple the number of persons affected. In the February US jobs release, the unemployment rate edged up to 4.1% and 10,000 federal jobs were lost.
- The total number of government employees is around 2.3 million, making up 1.4% of the US workforce, close to the historic low. The salaries and benefits of civilian federal workers amount to about USD 271 billion of the total federal spending of USD 6.75 trillion in 2024. Firing hypothetically 300,000 of the 2.3 million in the sector would represent 13% of total federal workers. In that case, the savings on the wage bill would be USD 35 billion (13% of USD 271 billion), not including any severance pay or litigation costs.
- Adding 300,000 to the current 6.8 million unemployed would lift the unemployment rate by 0.2 percentage points, all other things being equal. Unemployment benefits last for a maximum of 26 weeks in most states, and national average weekly payments were USD 387 in 2022, according to the Peterson Foundation. If 300,000 fired persons were to receive the average compensation, USD 3 billion more would be spent on unemployment benefits.
- In economics, Okun's law is an empirically observed relationship between unemployment and GDP whereby a 1% increase in the former would cut the latter by 2%. Hence, adding 0.2% to unemployment would reduce GDP by USD 119 billion (0.4%). The net effect of this stylized case of 300,000 fired federal workers would be a negative USD 87 billion [USD 35 bn – USD 3 bn – USD 119 bn], not including the second-round effects stemming from reduced government services. That would be an outcome that is bad for everybody.

IATA Sustainability and Economics
economics@iata.org