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## Budget pressures shrink federal contract spending by 11 percent

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Following a year of widespread budget uncertainty, federal contract spending fell by 11 percent, according to a [new analysis](#) by Bloomberg Government.

All told, agency contract spending tumbled from \$516.3 billion in fiscal 2012 to \$462.1 billion last year, the report found.

Agency belt-tightening was one of a handful of factors that constrained federal contract spending last year, according to the report.

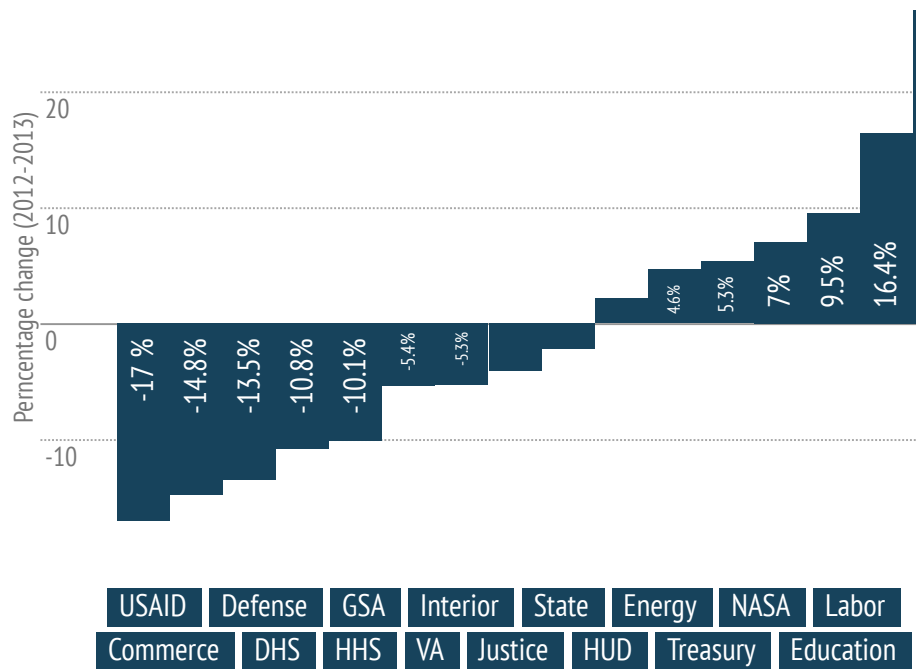
"Fiscal 2013 represented the culmination of a number of long-building forces in federal contracting," the BGOV 200 Federal Industry Leaders report stated. "Sequestration, the sustained drawdowns in Iraq and Afghanistan, and increasing budget pressures continued the downward trajectory of federal spending on contractors."

For many agencies, contracting outlays were down last year, said Evan Croen, Bloomberg Government's director of government sales research, in an interview on the [Federal Drive with Tom Temin and Emily Kopp](#).

"There were only a few agencies that were actually up, but the biggest cuts were by far in Defense," he said.

*(Story continues below chart)*

# Agency contract spending



Source: Bloomberg Government

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The drop in the Defense Department's contract spending — about 15 percent — was even larger than the overall decline, the report found.

In addition to DoD, USAID, the General Services Administration and the Interior Department also saw double-digit declines in contract spending.

However, some agencies bucked the trend.

Both the departments of Veterans Affairs and Health and Human Services saw steady growth of 5 percent last year, which Croen attributed to a growing federal focus on health spending.

Meanwhile, the Treasury Department's contract spending increased by 16 percent and the Education Department's shot up 27 percent, which Croen said stemmed from the department's absorbing of the student loan program, which had previously been administered by some banks.

"There was a lot of work to stand that up within the agency," he said.

**Not all contractors had a bad year**

Despite the overall drop in federal contract spending, "not all contractors had such a bad year," Croen said.

In fact, among the top 10 earning contractors, three actually grew their revenue last year, according to the report: Lockheed Martin, Huntington Ingalls and McKesson Corp. Of the total top 200 contractors, 106 saw declines from 2012, but 94 actually increased their government obligations year-to-year even as overall contract spending declined.

The key to success for many companies in a difficult year like 2013 was [diversification](#), Croen said — branching out into more protected markets that saw less of a decline in federal spending, such as health IT, cybersecurity, and intelligence services and capabilities.

Despite an uptick in "diversification plays," Croen said, major company mergers and acquisitions actually slowed last year.

"One of the reasons why we didn't see as much as M&A was there was just a lot of uncertainty as to where the dollars were actually going to end up," he said.

The two-year budget framework negotiated by Congress and the 2014 appropriations bill providing current funding will provide more stability this year, Croen said.

Many companies, though, are still adjusting to "the new normal," he added.

"This is no longer the era of the mid-2000s when everything's going up and there's room for everyone," he said. "So, I think we're going to see a lot of restructuring, a lot of changing of cost structures, a lot of changing of strategies to try to win in a very difficult environment."

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