Washington Economy Watch

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The Stephen S. Fuller Institute
for Research on the Washington Region's Economic Future
Schar School of Policy and Government
George Mason University

The Washington Economy Watch is a monthly report issued by The Stephen S. Fuller Institute that is intended to inform its readers regarding the current and near-term performance of the Washington region's economy. The Leading and Coincident Indices were first reported in February 1991 and have been calculated each month since that first release and reflect an underlying data base that dates from 1978 covering five complete business cycles in addition to the current cycle that began in 2009.

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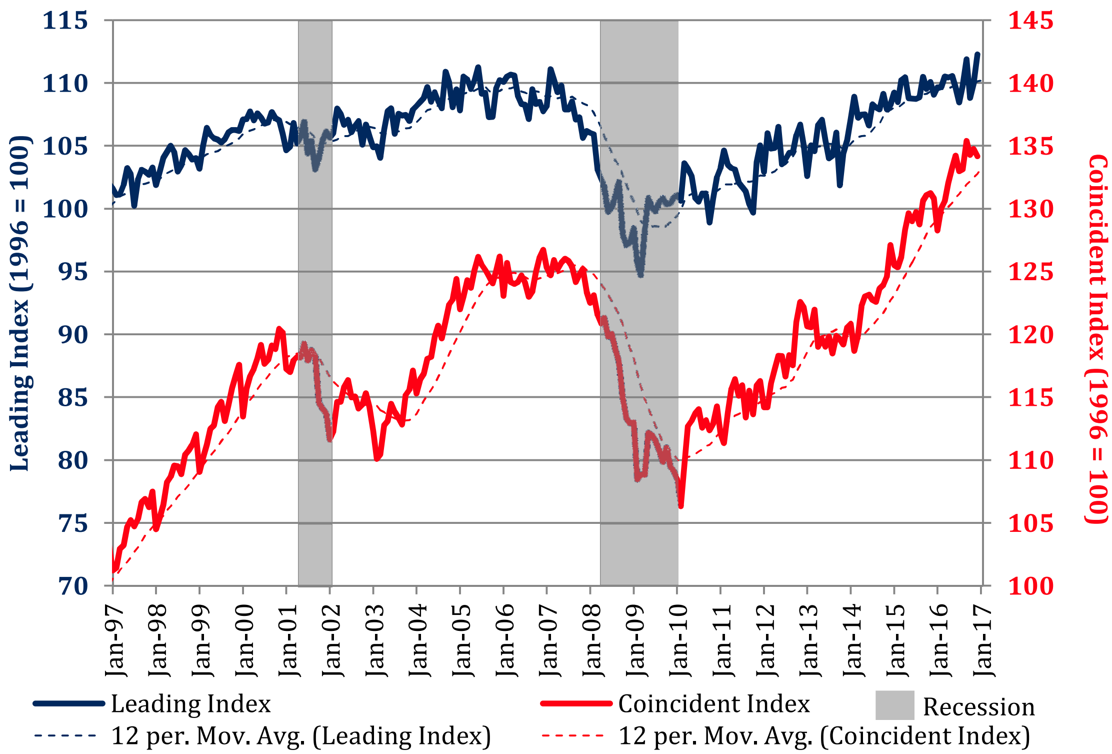
The Washington Region's Economy Registers A Strong December and Outlook Strengthens

The Washington Leading Index experienced a strong year-end bounce that may be pointing to renewed economic acceleration during 2017. However, December's strong economic performance may be more hope than promise reflecting the expectations for the new Trump Administration. Still, the Leading Index is pointing to continuing gains well into the year building on the region's strongest job growth since 2004. The Washington region's Coincident Index trended higher over 2016 and started 2017 at near its all-time peak value. This strong pattern of growth is expected to continue in 2017 although the region's continued federal dependency makes it vulnerable to changes in federal policy under the new Administration.

Washington DC, Area Economic Indices



Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, decreased 0.4 percent in December 2016 to 134.2 from its November value for its second decline in three months. Even with its slowing in October and December, the Coincident Index was 2.57 percent higher than its December 2015 level, extending this positive trend to 33 consecutive months dating back to March 2014. This unbroken string of monthly over-the-year gains in the Coincident Index tracks the Washington region's recovery from the year-long impacts of The Sequester that sharply reduced federal procurement spending during 2013 (down 8.8% from 2012 and 15.5% from their peak in 2010). In December, three of the Index's four components were greater than in December 2015; only Domestic Airport Boardings at Reagan National and Dulles Airports declined from December 2015. Passenger traffic has been declining on a month-to-month basis since July (only September reported an increase).

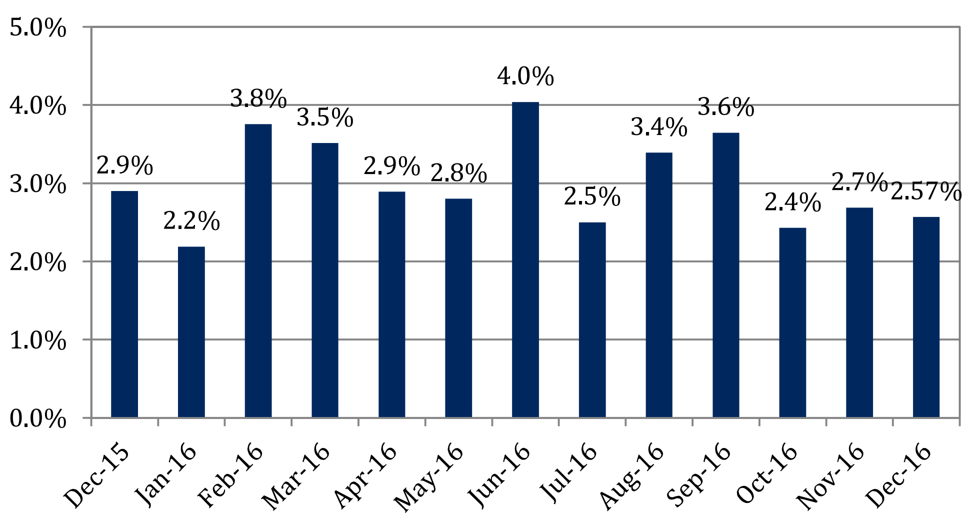
- *Wage and salary employment* growth in the Washington region increased 2.1% between December 2015 and December 2016, and registered its strongest annual growth since 2004;

- *Consumer confidence (in the present)* ended the year up sharply increasing on a monthly over-the-year basis in all twelve months;

- *Non-durable goods retail sales* outperformed same-month sales in all twelve months during 2016 compared to 2015; while,

- *Domestic passenger volume at Reagan National and Dulles Airports was weaker in December but revised data show it had registered a strong gain in November*.

Washington Coincident Index, Monthly Over-the-Year Changes



Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy six to eight months in advance, experienced a 2.94 percent monthly over-the-year gain in December 2016 following two consecutive monthly declines. This monthly over-the-year increase in December re-establishes the Index's upward trend for the year, following six months of little or no growth. The Leading Index ended 2016 having registered a modest monthly average gain of 0.7 percent. Where the Leading Index had been signaling a possible slowing of the economy's growth during the second half of 2017, December's strong performance suggests the economy may be in for a Trump Effect bounce instead. It will be important to monitor the Index's trend in the coming months to determine if this strong performance at the end of the year is sustained. In December, three of the Index's four components contributed to its gain.

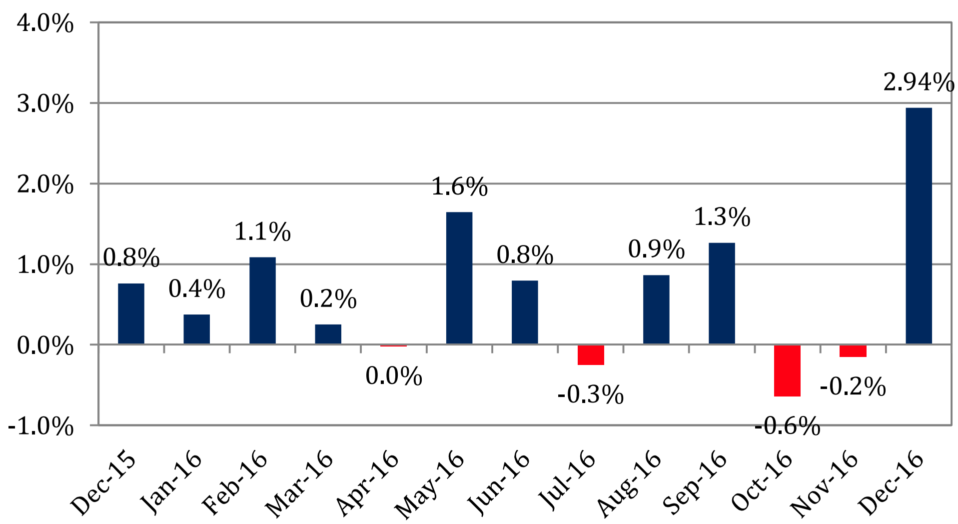
- *Durable goods retail sales* increased in December, as they have each month in 2016 compared to its same month in 2015 averaging, 5.7 percent growth for the year;

- *Total residential building permits* rose sharply in December following two monthly declines and continued an uneven pattern that has characterized the residential building industry's recovery dating back to 2011;

- *Consumer expectations (consumer confidence six months hence)* continued its upward trend with a sharp gain in December; while,

- *Initial claims for unemployment insurance* increased (worsened) for a second consecutive month, reversing what had been a year-long decrease and a tightening of the labor market.

Washington Leading Index, Monthly Over-the-Year Changes



Source: The Stephen S. Fuller Institute at the Schar School, GMU

The Washington region's economy started 2017 having generated more net new jobs in 2016 than in any year since 2004 and, as measured by most other indicators, the region's 2016 economic performance was the strongest since The Sequester in 2013-2014. The Leading Index ended 2016 with a strong positive bounce and renewed upward movement suggesting the region's economic expansion has not yet run its course and that further growth is in store for 2017. This upward growth trend is seen in the trajectory of the Coincident Index that has moved higher for 33 consecutive months (on a monthly over-the-year basis).

Current Performance

Washington region's economy ended 2016 in a stronger position than it started. Overall, the Coincident Index was up 2.6 percent in December 2016 from its December 2015 level. Underlying this increase has been strong job growth, up by an estimated 72,400 net new jobs, for a gain of 2.3 percent (2016 job numbers are undergoing their annual revisions by the U.S. Bureau of Labor Statistics with final numbers scheduled to be released in Mid-march). Increased job growth since 2014 has steadily reduced unemployment, with the region's unemployment rate standing at 3.4 percent in December compared to 4.7 percent at the national level and one-half percentage point lower than in December 2015.

This tightening of the labor market has boosted wage growth and, in combination with job growth, this supported continuing gains in consumer spending within the regional economy. Retail sales in the region were higher each month in 2016, compared with their respective months in 2015, for both nondurable goods and durable goods.

The one indicator that underperformed in 2016, following a pattern that extends back to the Recession, is the continued weakness in air passenger traffic at Reagan National and Dulles Airports. December's total (although still an estimate) for the two airports was 37,900 boardings less than in December 2015. This air passenger trend (fewer boardings) reflects the consolidation of carriers flying in and out of the region's airports, changes in travel demand and the air fleet serving Washington's two airports, and changing patterns of business and leisure tourism with demographic economic, and behavioral factors likely to continue shaping this trend for many years going forward. Still, the region's airports have growth capacity and will continue to be assets for the region's economy as it disconnects from its federal dependency and establishes stronger business linkages nationally and globally.

Near-Term Outlook

Strong job growth, low unemployment, and growing wages have supported the growth of consumer confidence both "in the present" and "expectations." Consumer confidence has been further enhanced by the positive reaction of the financial markets to the outcome of the presidential election in November with the stock market indices gaining 10 percent or more since Election Day through mid-February. There are many factors, some hard earned and others transitory, that contribute to consumer confidence. Consumers can change their outlook quickly and alter their economic behavior accordingly if their economic hopes turn into concerns. Given the continuing uncertainty regarding federal policies of the new Administration that may affect health care, personal and business taxes, federal program priorities, international trade, and immigration, to list a few, uncertainty is likely to remain a major factor that could impact the Washington region's and nation's economies during 2017.

That said, the forecast for the Washington region's economy is for continuing strong performance in 2017 with the region's gross regional product (GRP) growing faster than in 2016 and out-performing the 2017 U.S. GDP growth rate (2.3% in IHS Economics February forecast). The current forecast, absent any adjustments for the Trump Effect, is that the region's fundamentals will support a 3.3 percent GRP increase in 2017 following its 2.9 percent gain in 2016 and 1.3 percent gain in 2015.

These early post-election gains and the up-tick in consumer and business confidence could carry the economy over its traditional first quarter slowdown but this first quarter usually does not make the year. Whether 2017 achieves and even exceeds its projected growth path will depend on the economy's performance over the 2nd and 3rd quarters. Over this period, it should become clear whether the new Administration's policies and actions are hurtful or helpful to the Washington region's economy. Currently, either a good news or bad news case could be argued. Will hiring restrictions on the federal government's non-defense and non-security agencies be offset by increased spending for defense and homeland security? Will federal agencies increase their outsourcing—federal procurement—in order to compensate for reductions in federal hiring? Will non-federally dependent businesses accelerate their growth thereby offsetting the decreases in local federal spending? These and other important questions will be addressed in coming issues of Washington Economy Watch.

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Washington Area Economic Indicators
Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Dec-16 Prelim.	Nov-16 Final	Dec-15 Final	Nov-16 to Dec-16	Dec-15 to Dec-16
Washington Area Business Cycle Indicators					
Coincident Index (1996 = 100)	134.2	134.8	130.8	-0.44%	2.57%
Leading Index (1996 = 100)	112.3	109.9	109.1	2.13%	2.94%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000)[a]	3,288.8	3,286.7	3,222.2	0.06%	2.07%
Consumer Confidence (South Atlantic)[a]	128.2	121.4	107.2	5.60%	19.59%
Domestic Airport Passengers ('000)[b]	2,159.7	2,239.8	2,197.6	-3.57%	-1.72%
Nondurable Goods Retail Sales ($000,000)[c]	3,045.6	3,101.3	2,960.4	-1.79%	2.88%
Washington Area Leading Index Components					
Total Residential Building Permits[a]	1,766.0	1,202.0	1,250.0	46.92%	41.28%
Consumer Expectations (South Atlantic)[a]	111.9	100.0	88.3	11.90%	26.73%
Initial Unemployment Claims[b]	1,457.1	1,820.0	1,365.7	-19.94%	6.69%
Durable Goods Retail Sales ($000,000)[c]	3,635.0	3,596.2	3,410.6	1.08%	6.58%
Wahington Area Labor Force[a]					
Total Labor Force ('000)	3,347.5	3,337.2	3,285.4	0.31%	1.89%
Employed Labor Force ('000)	3,232.1	3,213.6	3,157.1	0.58%	2.38%
Unemployed Labor Force ('000)	115.3	123.6	128.2	-6.67%	-10.06%
Unemployment Rate	3.4%	3.7%	3.9%	--	--
Washington Area Wage and Salary Employment[a]					
Total ('000)	3,288.8	3,286.7	3,222.2	0.06%	2.07%
Construction ('000)	154.7	156.8	153.8	-1.34%	0.59%
Manufacturing ('000)	54.4	54.8	53.5	-0.73%	1.68%
Transportation & Public Utilities ('000)	66.6	65.8	66.4	1.22%	0.30%
Wholesale & Retail Trade ('000)	361.8	357.9	353.6	1.09%	2.32%
Services ('000)	1,935.0	1,934.6	1,892.7	0.02%	2.23%
Total Government ('000)	716.3	716.8	702.2	-0.07%	2.01%
Federal Government ('000)	374.3	372.6	366.8	0.46%	2.04%

[a]Unadjusted data

[b]Seasonally adjusted data

[c]Seasonally adjusted constant (1996) dollars