



The
STEPHEN S. FULLER INSTITUTE
for Research on the Washington Region's Economic Future



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 mid-2009.

Washington Economy Watch

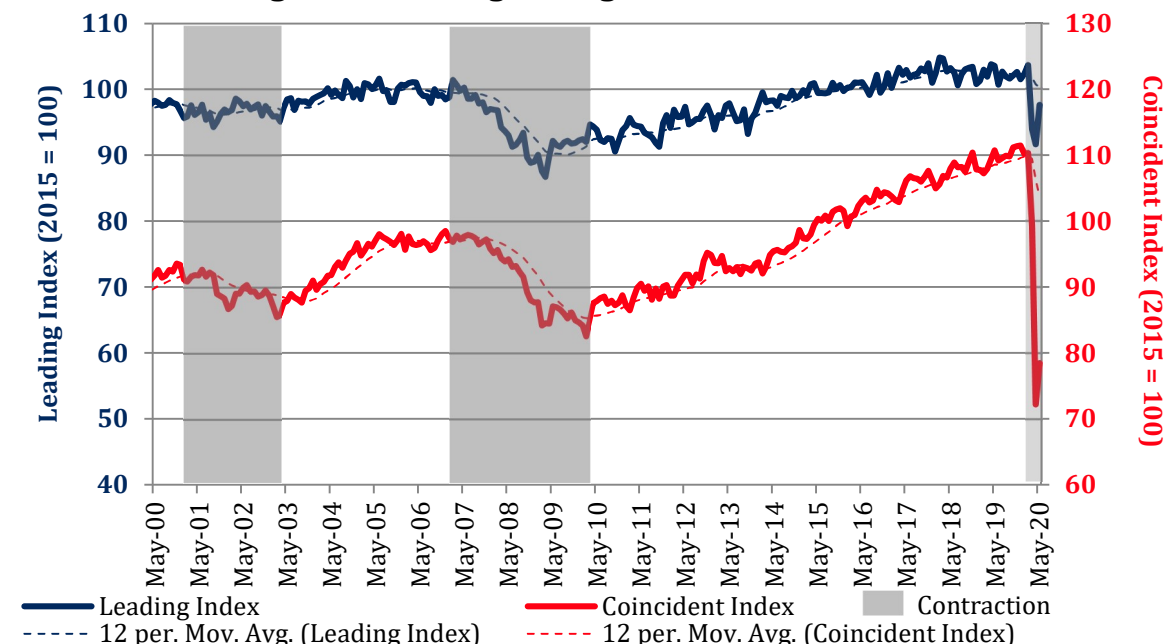
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Recessionary Conditions Continued in the Washington Region in May

In May 2020, Washington region's Coincident Index and Leading Index continued to have significant declines compared to last year. The Coincident Index decreased 29.1 percent and the Leading Index decreased 5.8 percent; all four components of both indices contributed to these declines. On a month-to-month basis, both indices improved modestly. These gains were small and isolated relative to the breadth of the initial declines and do not yet reflect a broad-based recovery. Employment data for June indicate that the economic recovery was more widespread but remained subdued in June, which is consistent with regional health metrics. Altogether, the data indicate that the economic trough was reached during the month of May, likely in the first few weeks of the month, and that through June economic conditions have stabilized and begun to register gains. In the upcoming months, the regional recovery will primarily be determined by local health metrics, although there are signs that the worsening conditions elsewhere in the U.S. may also affect consumer behavior in the region and slow the rate of recovery.

Figure 1. Washington Region Economic Indices



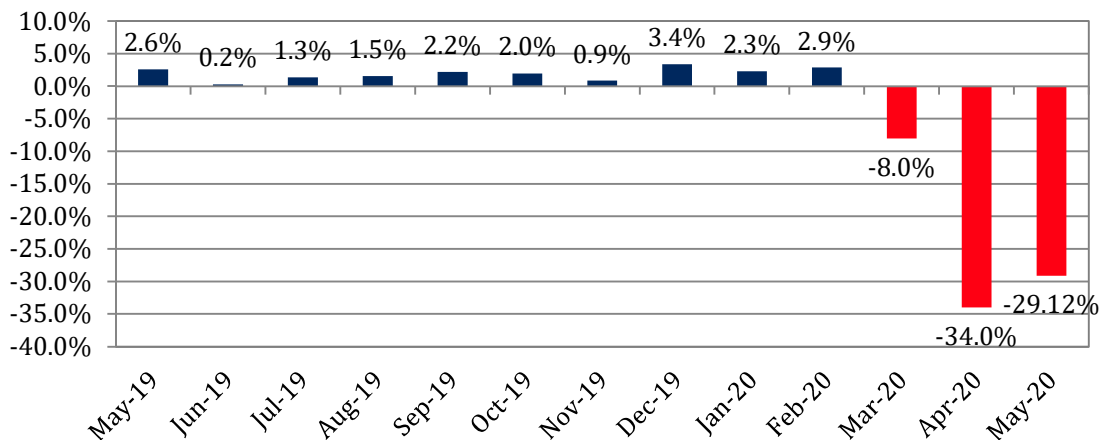
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, increased 8.7 percent between April 2020 and May 2020. While this is the largest month-to-month increase on record with data starting in 1990, it reflects only a modest improvement in economic conditions compared to the pandemic-induced declines in earlier months. Two of the four components improved between April and May: domestic airport passengers (+90.9%) and non-durable goods sales (+9.3%). Wage and salary employment and consumer confidence both continued to decline in May on a month-to-month basis.

Compared to May 2019, the Coincident Index decreased 29.12 percent, marking its second largest decline on record behind April 2020's decrease of 34.0 percent. The index is now at its lowest level since 1996. Compared to the monthly over-the-year change in April, the decline in May moderated and reflected the month-to-month improvement in domestic airport passengers and non-durable goods sales. Even with the month-to-month gains, all four components continued to decline on a monthly over-the-year basis:

- *Non-durable goods retail sales* decreased 5.3% compared to last year for its third consecutive decline;
- *Wage and salary employment* in the Washington region decreased 9.4 between May 2019 and May 2020, its largest decline since this data series began in 1990;
- *Consumer confidence (in the present)* decreased 64.2% from last year for its largest decline since 2009; and
- *Domestic passenger volume at Reagan National and Dulles Airports* decreased 91.8% from May 2019, which is the second largest decrease since 1978, behind April's decline of 95.5%.

Figure 2. Washington Coincident Index, Monthly Over-the-Year Changes



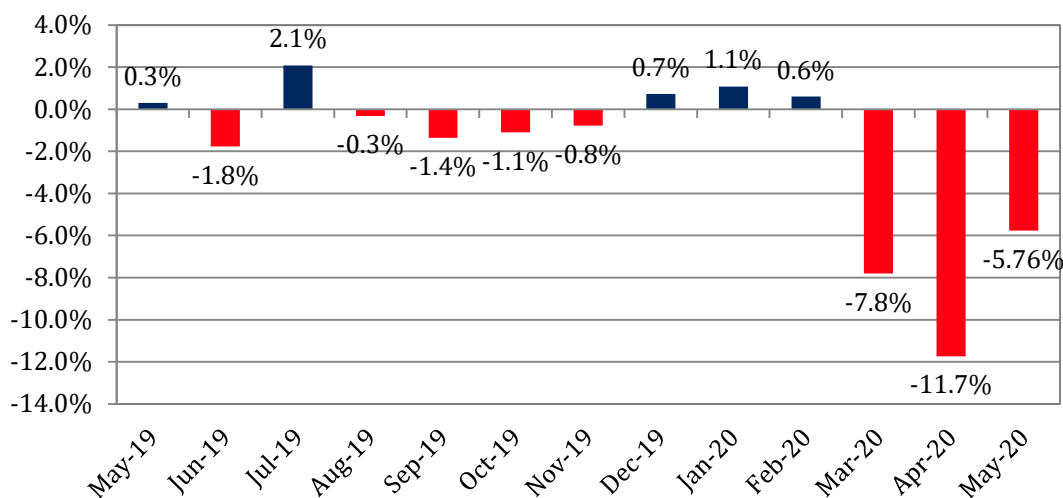
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy in six to eight months, increased 6.5 percent between April 2020 and May 2020. While this gain was the largest monthly-to-month increase on record, the index has not yet returned to pre-pandemic levels. All four components improved compared to April 2020: initial unemployment insurance claims (-53.1%), durable goods retail sales (+36.8%), residential building permits (+16.2%), and consumer expectations (+6.7%).

Compared to May 2019, the Leading Index decreased 5.76 percent. The rate of decline moderated compared to April, driven by the month-to-month improvement in each of its four components. In general, economic activities that relate to future conditions have had smaller declines and have improved more quickly than those relating to current conditions. Despite the month-to-month gains, all four components declined compared to last year:

- *Durable goods retail sales* decreased 2.2% and were the most recovered component in either index;
- *Consumer expectations (consumer confidence six months hence)* decreased 15.2% compared to last May, marking its third consecutive monthly over-the-year decline;
- *Total residential building permits* decreased 25.8 percent, with nearly equal declines in both single-family (24.4%) and multi-family units (27.1%); and
- *Initial claims for unemployment insurance* increased 1,060.7% (worsened), a gain that was about one-half the size of the monthly over-the-year gains in both March and April.

Figure 3. Washington Leading Index, Monthly Over-the-Year Changes



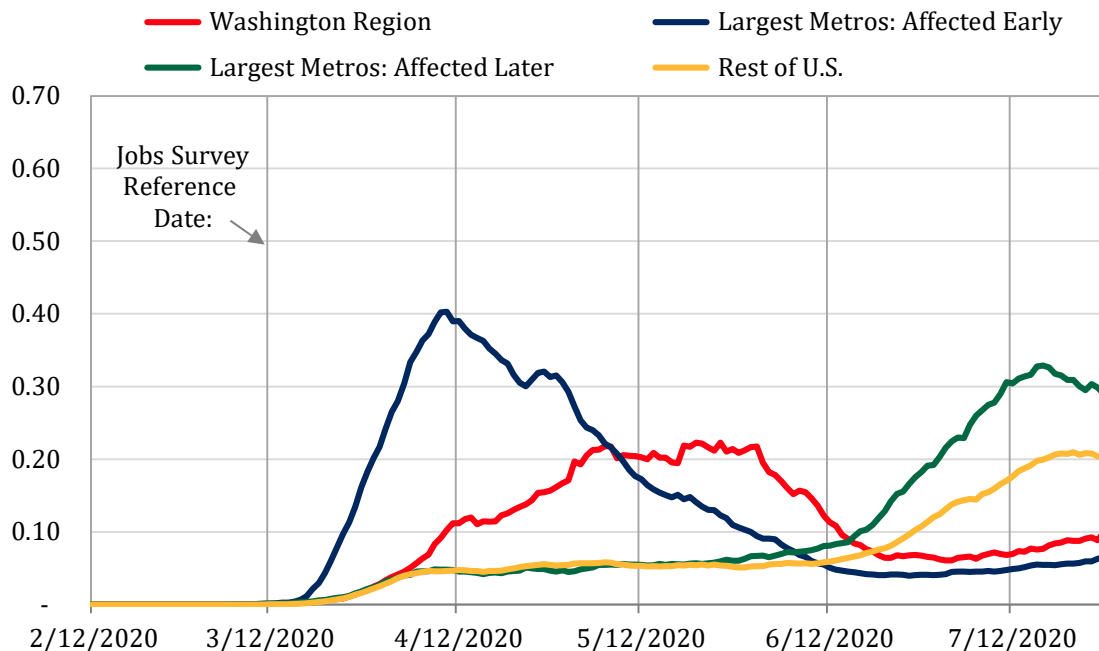
Source: The Stephen S. Fuller Institute at the Schar School, GMU

Current Performance

The pandemic-induced economic contraction in the Washington region continued in May 2020 and the Coincident Index decreased 29.1 percent compared to last year. This decline was milder than April's monthly over-the-year decrease of 34.0 percent, driven by smaller losses in air passenger travel and non-durable goods sales. All four components continue to have significant declines and the moderation of the rate of decline in May does not yet reflect a broad-based recovery. Employment data for June indicate that the economic recovery was more widespread but remained modest in June, which is consistent with regional health metrics.

The health conditions have dictated the economic trajectory of the recession, both in the Washington region and in other parts of the U.S. In March, consumer spending and behavior data suggest that households and businesses throughout the U.S. changed their preferences in response to the health conditions in the areas that were affected first. As a result, the timing and magnitude of initial declines in activity by industry or spending type were similar, regardless of the local health conditions. In April, the economic trends began to diverge and more closely mirror local health trends and this divergence has continued into July.

Figure 4. New Daily COVID-19 Cases per 1,000 Residents,
 Largest 15 Employment Metros & Rest of the U.S., 7-Day Average, 2/12/20 – 7/27/20



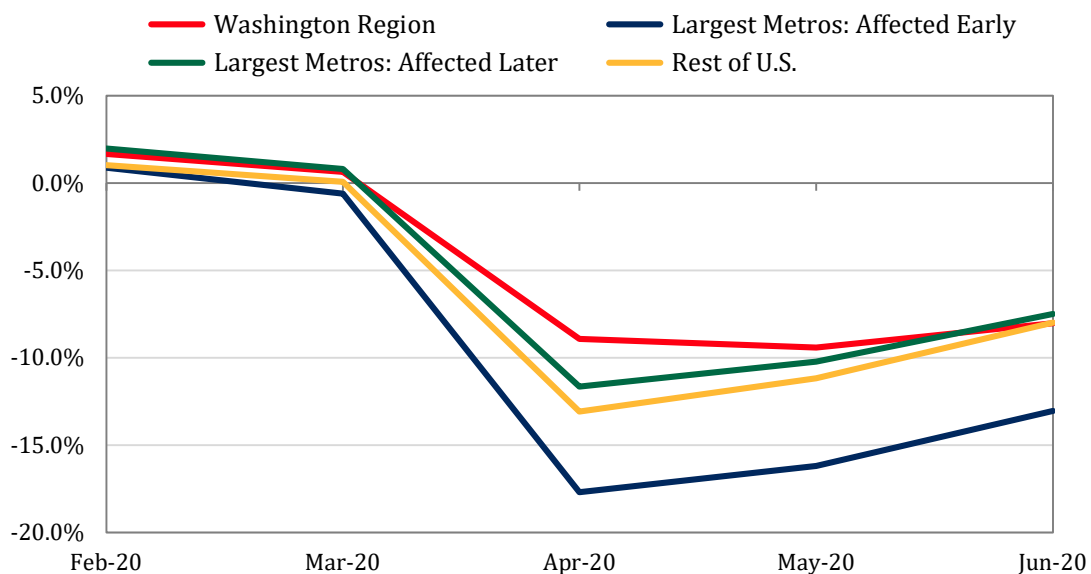
Sources: Johns Hopkins University Center for Systems Science and Engineering; U.S. Census Bureau (v2019 Population Estimates); The Stephen S. Fuller Institute at the Schar School, GMU

Figure 4 shows new COVID-19 cases per 1,000 residents for the largest 15 employment metropolitan statistical areas (metros), including the Washington region, and the rest of the U.S. Of these 15 metros, six had a defined peak that

occurred prior to July and were most affected by the pandemic in the early months: Boston, Chicago, Detroit, Philadelphia, New York and the Washington region. Some of these metros had modestly elevated rates in late July; however, the case rates have remained below one-half of their pre-July peaks as of 7/27/20 and the new case rates remained small. The Washington region had a peak that occurred prior to July, but its peak was later and/or longer than that in most of the other metros that were affected in early months. The remaining nine metros either had a smaller initial peak prior to July (Minneapolis and Seattle) or had flat case rates until mid-June. The rest of the U.S., overall, has had a similar trend of flat case rates through mid-June followed by a significant increase in cases.

Of the largest 15 employment metros, those that were most affected by the pandemic in the early months had the largest job losses in April, as measured in the middle of the month (Figure 5). These metros were also the least recovered as of mid-June. This trajectory corresponds with the local health conditions as of the survey reference day, shown in Figure 4. The Washington region had a longer period of declines that lasted through mid-May and was less recovered as of mid-June compared to the other largest metros, mirroring the pattern of the COVID-19 cases. The metros that were less affected by the pandemic as of mid-June and the rest of the U.S. had somewhat milder jobs losses in April and had the most improvement through June. Initial data for July indicate that the national economic recovery stalled in July, with this shift most likely concentrated in geographies that currently have their highest levels of case rates to date.

Figure 5. Jobs in the Largest 15 Employment Metros & Rest of the U.S.
 Monthly Over-the-Year Percent Change



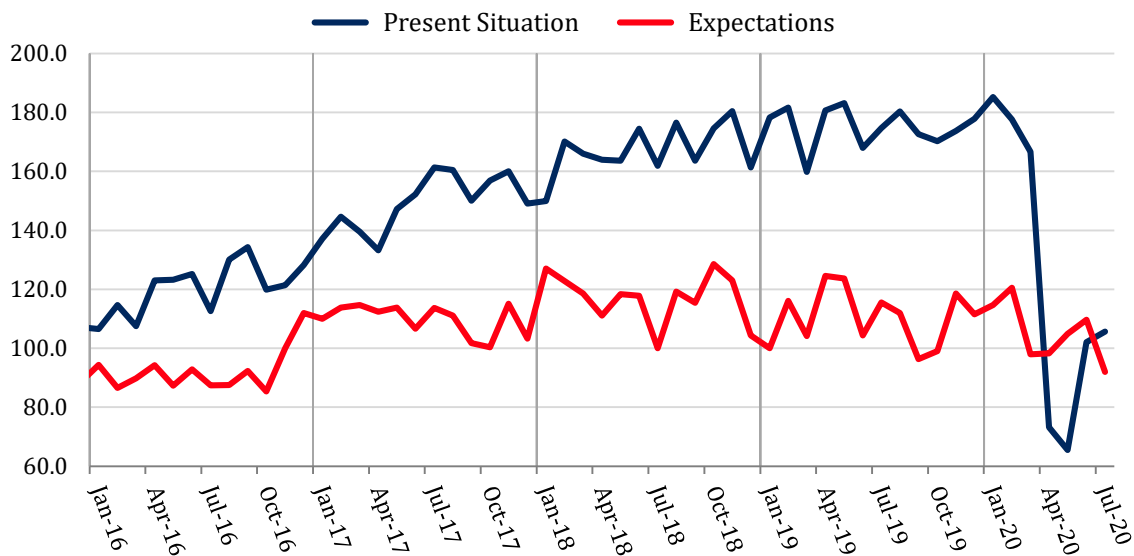
Sources: U.S. Bureau of Labor Statistics; The Stephen S. Fuller Institute at the Schar School, GMU

The June jobs data, in conjunction with the COVID-19 case rates, suggests that the Washington region's contraction reached its trough in May, most likely in the first few weeks of the month. As of mid-May, jobs in the region decreased by 9.4 percent (-315,700 jobs) on a monthly over-the-year basis. In June, the number of jobs in the region decreased 8.0 percent (-270,900 jobs) compared to last June. The majority of this improvement was the result of the sectors that have been most affected by the pandemic: Leisure & Hospitality and Retail Trade. In June, the Leisure & Hospitality sector decreased by 37.3 percent and the Retail Trade sector decreased by 9.3 percent on a monthly over-the-year basis, a total loss of 157,000 jobs. Compared to their troughs, these sectors have recovered by approximately 20 percent and regained about 33,000 jobs.

Washington Region's Near-Term Outlook

The Washington region's Leading Index projects economic performance six to eight months in advance based on business cycle indicators. During this health crisis, these indicators are less predictive of future conditions and most likely reflect current conditions and the presumptive longer-term, post-pandemic conditions. In general, these forward-looking metrics have had modestly smaller declines and a somewhat faster recovery compared to the Coincident Index components, through May, and have been bolstered by post-pandemic needs. As with the Coincident Index, the trajectory of the Leading Index will continue to mirror the conditions related to the health crisis.

Figure 6. Consumer Confidence in the South Atlantic Region (100 = 1985)



Sources: The Conference Board; The Stephen S. Fuller Institute at the Schar School, GMU

Through the end of July, the COVID-19 case rates in the Washington region remained well below their peak levels but have increased from their trough in early July (Figure 4 on page 4). Separately, the U.S.-wide new case rate has exceeded its

April-peak, increasing concerns over the potential for a second wave; disaggregating the data by metro area shows that the majority of the recent increase is best described as a delayed “first wave” in other parts of the U.S. and that most regions that had elevated case rates prior to July have continued to have relatively low case rates. Still, the potential for a second wave may alter local consumer behavior and slow the recovery, even if a second wave does not occur in the Washington region.

Consumer expectations for economic conditions six months hence weakened in July 2020, in contrast to the small gain in consumer confidence in present conditions (Figure 6 on page 6). Consumer expectations are now at their lowest level since 2016. This recent decline was larger in regions that had rising case rates and reflects the prolonged uncertainty over the timing and magnitude of the recovery. As consumer expectations decline, businesses and households may alter their longer-term plans and reduce or reallocate their spending for the upcoming 1-2 years. If this occurs, the recovery will occur more slowly, even after the health metrics stabilize or improve, and the post-pandemic economy may be altered more fundamentally.

In addition to a potential warning sign in consumer expectations, two other data points are pointing to a continuation of a slow recovery, at best, or the potential for a stagnation even in absence of a second wave regionally. Firstly, the number of households in the region that anticipate losing employment income has increased modestly since reaching its trough. The week of July 16, 29.2 percent of residents in the region expected that someone in their household would lose employment income, an increase of 8.3 percentage points from the responses during the week of June 11.¹ Even if this loss does not come to fruition, it further supports a slower return in consumer spending that is consistent with consumer expectations. Secondly, the number of continued unemployment insurance claims for the District of Columbia had not declined as of early July. Nationally, continued claims peaked for those experiencing unemployment in early May and had decreased by about one-quarter as of early July, in spite of elevated numbers of new filers. This indicates a modest improvement in labor force conditions. In D.C., continued claims plateaued in late May but have yet to have sustained declines, suggesting that the general labor force conditions in the region had not improved as of early July.

Overall, economic conditions in the Washington region have improved modestly through June. Data for July indicate that this improvement will continue to be slow, with the potential for a stagnation in upcoming months. Even if local health metrics continue to improve, the deterioration of health conditions in other parts of the U.S. may spur local consumers to become more cautious and moderate the near-term recovery.

¹ This difference is significant at the 90 percent level. Data are from the U.S. Census Bureau's Household Pulse Survey.

**Washington Area Economic Indicators
Current and Previous Months**

Economic Indicator	Estimates			Percent Change	
	May-20 Prelim.	Apr-20 Final	May-19 Final	Apr-20 to May-20	May-19 to May-20
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	78.5	72.2	110.7	8.69%	-29.12%
Leading Index (2015 = 100)	97.6	91.6	103.5	6.50%	-5.76%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,038.1	3,043.6	3,353.8	-0.18%	-9.41%
Consumer Confidence (South Atlantic) ^a	65.5	73.2	183.2	-10.52%	-64.25%
Domestic Airport Passengers ('000) ^b	190.6	99.8	2,333.5	90.95%	-91.83%
Nondurable Goods Retail Sales (\$000,000) ^c	3,218.5	2,945.7	3,399.6	9.26%	-5.33%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	1,743.0	1,500.0	2,350.0	16.20%	-25.83%
Consumer Expectations (South Atlantic) ^a	104.9	98.3	123.7	6.71%	-15.20%
Initial Unemployment Claims ^b	23,509.7	50,142.2	2,025.6	-53.11%	1060.65%
Durable Goods Retail Sales (\$000,000) ^c	3,686.2	2,693.7	3,768.8	36.85%	-2.19%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,363.9	3,377.7	3,435.6	-0.41%	-2.09%
Employed Labor Force ('000)	3,060.4	3,048.0	3,328.3	0.41%	-8.05%
Unemployed Labor Force ('000)	303.5	329.6	107.4	-7.94%	182.60%
Unemployment Rate	9.0%	9.8%	3.1%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,038.1	3,043.6	3,353.8	-0.18%	-9.41%
Construction ('000)	157.5	156.5	165.4	0.64%	-4.78%
Manufacturing ('000)	54.2	52.9	56.9	2.46%	-4.75%
Transportation & Public Utilities ('000)	65.7	65.4	73.8	0.46%	-10.98%
Wholesale & Retail Trade ('000)	297.3	296.5	331.2	0.27%	-10.24%
Services ('000)	1,769.2	1,771.2	2,014.2	-0.11%	-12.16%
Total Government ('000)	694.6	701.1	712.3	-0.93%	-2.48%
Federal Government ('000)	366.7	365.8	362.7	0.25%	1.10%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars