



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



Washington Economy Watch

Vol. V, No. 5
August 2021

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

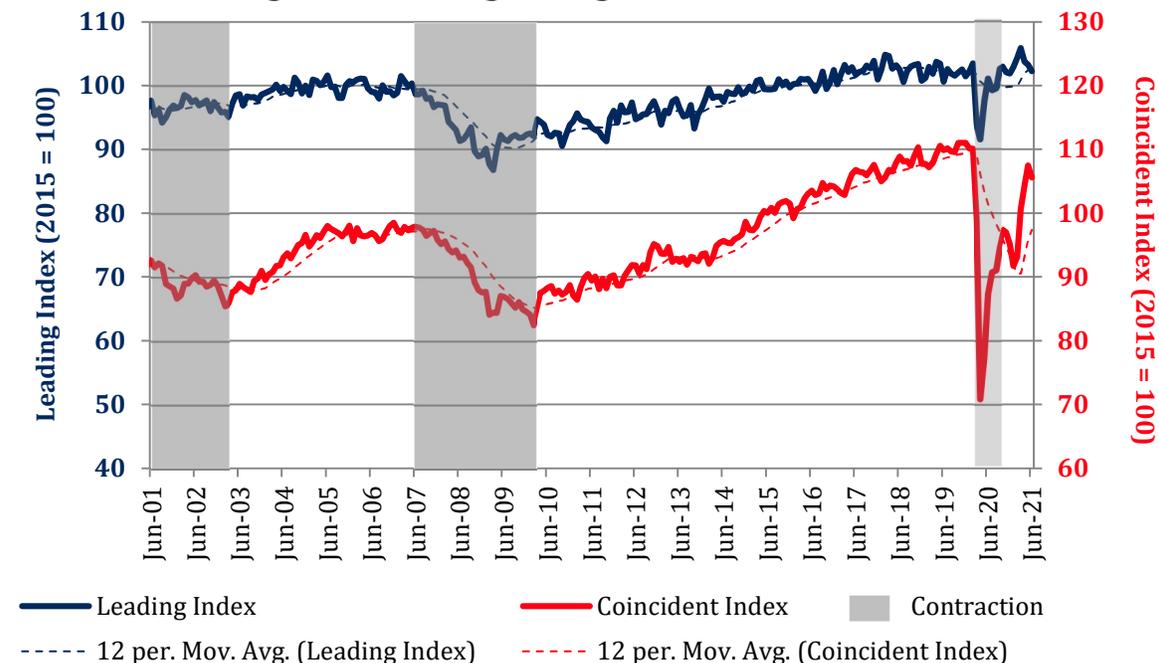
Vol. V, No. 5

August 2021

The Washington Region's Economic Recovery Slowed in June 2021

The Washington region's economic recovery slowed in June 2021 and preliminary data suggest that this moderation continued in July and August. The Coincident Index decreased 1.0 percent between May 2021 and June 2021, driven by a decline in domestic air passenger volume. This decline was indicative of weak tourism activity that was also apparent in the jobs data. Local consumer activity increased incrementally in June and July and may have plateaued in August. Even with the improvement in the health metrics, the region's rate of recovery was modest in June and July, overall. The Leading Index also decreased between May 2021 and June 2021, declining 1.0 percent with two of its four components weakening. All components also had smaller monthly over-the-year gains than in prior months. Altogether, the economic data indicate that the economic recovery will continue to be slow and incremental in upcoming months.

Figure 1. Washington Region Economic Indices



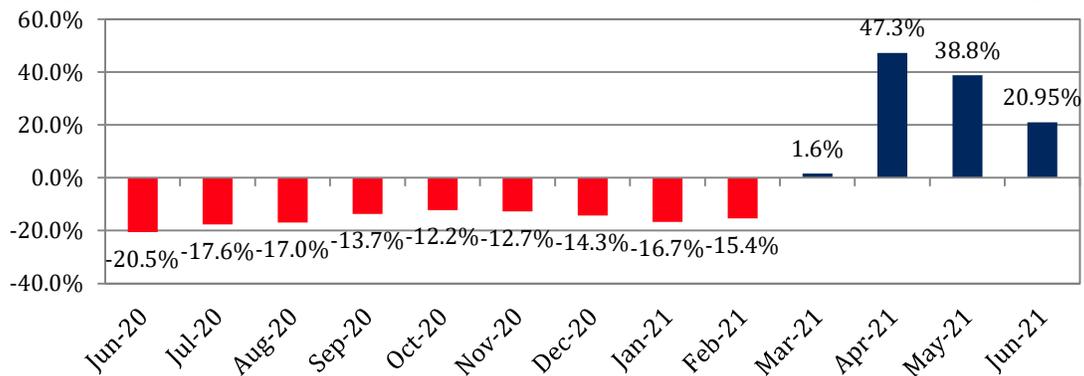
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, decreased 1.8 percent between May 2021 and June 2021, marking its first month-to-month decline since January. The decrease in June was the result of a decrease in domestic airport passenger volume (-19.8%) and smaller gains in consumer confidence, which increased 5.6 percent between May 2021 and June 2021 after increasing 12.8 percent in May. Nondurable goods sales increased 1.2 percent, which was a stronger increase than in the prior two months. Wage and salary employment increased 0.5 percent from May 2021 and matched with the monthly increase in May of 0.5 percent.

Between June 2020 and June 2021, the Coincident Index increased 20.95 percent for its fourth consecutive monthly over-the-year gain. This increase is smaller than in prior months and the Index was 4.1 percent smaller than its pre-pandemic level in February 2020; in May 2021, the Index was 2.4 percent smaller than February 2020 and the Index was less recovered in June compared to May. While each of the four components improved compared to June 2020, every component had its smallest monthly over-the-year gain increase since March:

- *Domestic passenger volume at Reagan National and Dulles Airports* increased 156.4% from June 2020, but remained 58.0% smaller than its June 2019 level;
- *Consumer confidence (in the present)* increased 60.9% from June 2020 but was 2.2% smaller than its June 2019 level;
- *Non-durable goods retail sales* increased 11.1% from June 2020 and continued to be the only component to exceed its 2019 levels, rising 11.9% from June 2019; and
- *Wage and salary employment* in the Washington region increased 5.5% between June 2020 and June 2021 but decreased 4.8% compared to June 2019.

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



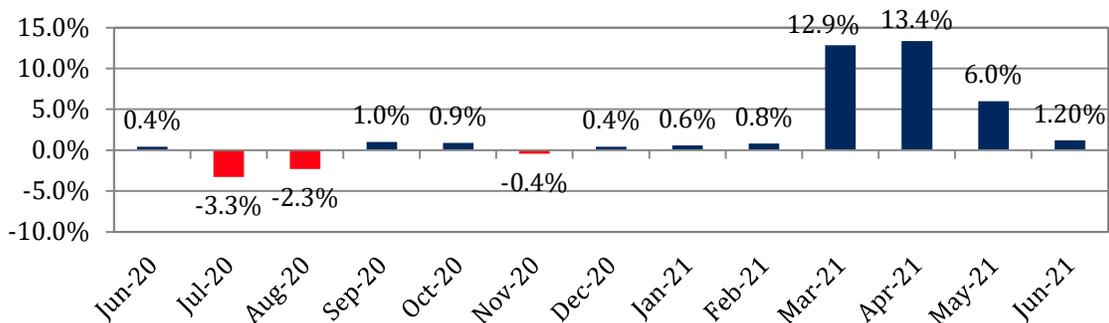
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy in six to eight months, decreased 1.0 percent between May 2021 and June 2021. This was its third consecutive month-to-month decline, after the Index reached its largest level on record in March 2021. Compared to May 2021, two of the Index's four components worsened: initial unemployment insurance claims increased 30.2 percent and durable goods sales decreased 4.8 percent. Total building permits improved, increasing 18.1 percent, as did consumer expectations, which increased 4.5 percent between May 2021 and June 2021.

Between June 2020 and June 2021, the Leading Index increased 1.20 percent, marking its seventh consecutive monthly over-the-year gain. Three of the Index's four components improved compared to 2019 and only initial unemployment insurance claims have yet to recover to pre-pandemic levels. Still, even with this multi-month and broad-based improvement, the Index weakened compared to its readings during the spring and two of its components decreased on a monthly over-the-year basis in June. This slowdown is partly the result of the historically large levels reached during the spring but also indicates that the recovery will moderate towards the end of 2021. In June 2021:

- *Total residential building permits* decreased 14.6% from June 2020 for its first decline in ten months; the decline was the result of fewer multi-family permits (-35.5%) and single-family permits increased (+9.6%); and
- *Consumer expectations (consumer confidence six months hence)* decreased 0.5% from June 2020 for its second consecutive decrease on a monthly over-the-year basis; while
- *Durable goods retail sales* increased 2.7% from June 2020 after increasing 18.6% in May; and
- *Initial claims for unemployment insurance* decreased 35.5% (improved) compared to June 2020 but increased 273.8% (worsened) compared to June 2019.

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



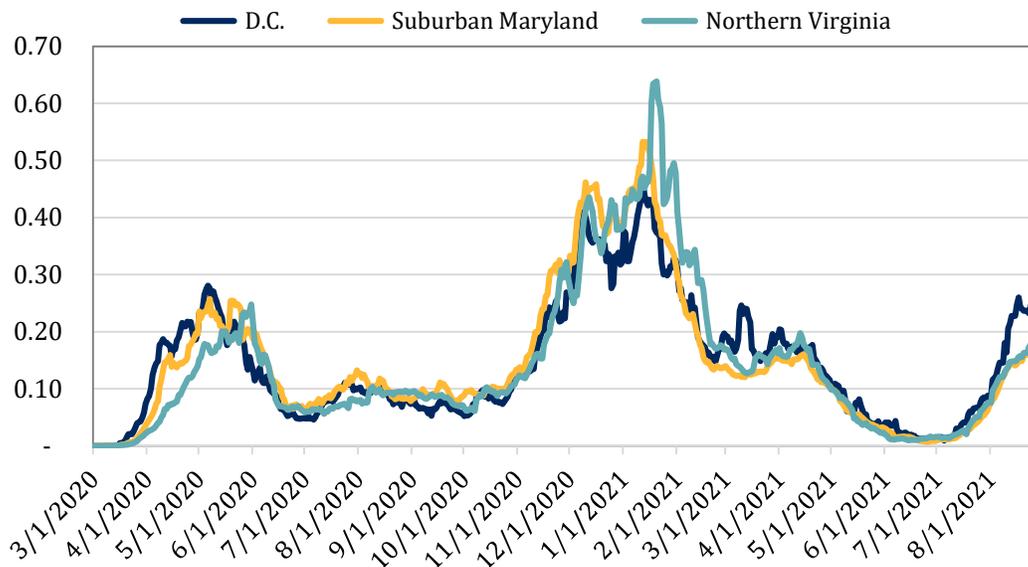
Source: The Stephen S. Fuller Institute at the Schar School, GMU

Current Performance

Economic activity in the Washington region generally increased in June 2021 but the rate of recovery continued to slow, in spite of the significant improvement in the health metrics. The improvement in the health metrics in June and July did not translate to a rebound in economic activity and the Coincident Index had its first month-to-month decline in five months in June. This decline was the result of a decrease in domestic airport passenger volume and other travel and tourism metrics remained weak. The recovery in local consumer activity was not strong enough to compensate for the weakness in tourism and preliminary data suggests that July and August will follow a similar pattern.

The rate of new daily COVID-19 cases in the Washington region reached its smallest level in the middle of June 2021 with rates generally small and stable from the end of May through July. Each sub-state area followed a similar pattern and, in combination with rising and strong vaccination rates in the region, the health metrics suggested that June and July would have a relatively large rebound in economic activity. The Washington region's third wave of COVID-19 began in August 2021, bringing the case rate to its largest level since February 2021 and nearly equaling the peak case rate during the first wave of COVID-19 in April and May 2020. In absence of the vaccine, this increase would slow economic activity as it did at the beginning of the second wave in the October 2020. With the vaccine, the rising case rate may not reduce economic activity by the same degree, unless local consumers are significantly concerned about the vaccine efficacy against COVID-19 variants.

Figure 4. New Daily COVID-19 Cases per 1,000 Residents by Sub-State Area
Washington Region, 7-Day Average, 3/1/20 – 8/29/21

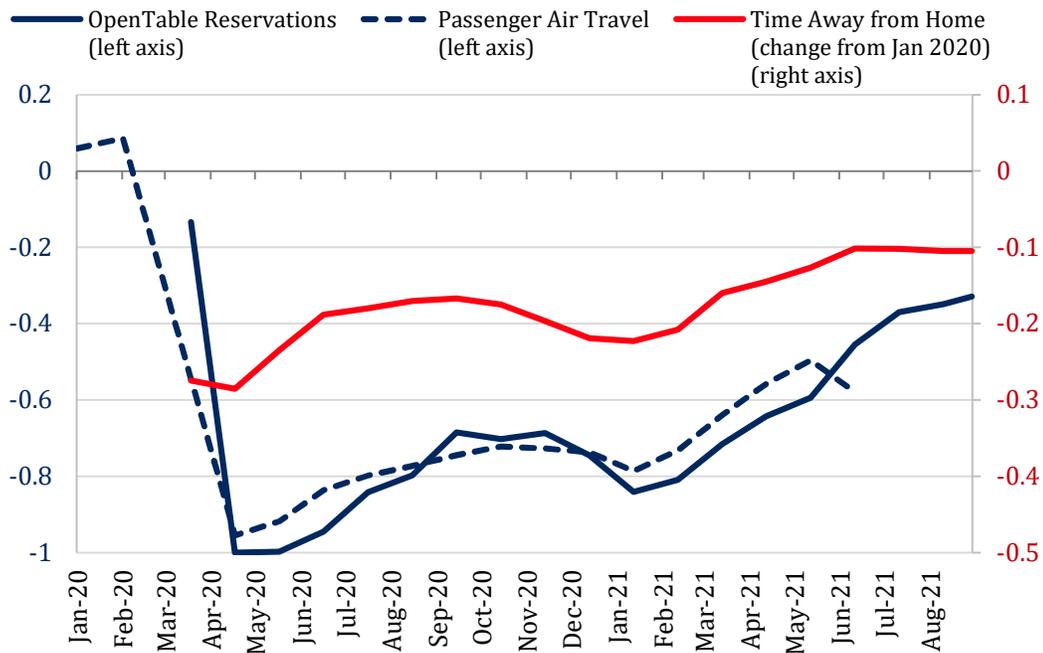


Sources: Johns Hopkins University Center for Systems Science and Engineering; U.S. Census Bureau (2020 Decennial Census); The Stephen S. Fuller Institute at the Schar School, GMU

The health metrics suggest that the economic recovery would be strong in June and July 2021. However, that rebound did not occur and the economic recovery continued to moderate from its spring trajectory. The divergence between the health metrics and the economic recovery may be because local consumers are reluctant to return to pre-pandemic activities, as they were last summer, even with the vaccine. Additionally, the economic activity associated with summer tourism was weak in June and indicates that tourism will not bolster the economic recovery this summer. Preliminary data indicate that the economic recovery in July and August was similar to that in June.

Of the four components of the Coincident Index, domestic passenger volume at Reagan National and Dulles Airports had the largest slowdown in June 2021 after adjusting for seasonal patterns. Nationally, air passenger travel continued to improve in both June and July and moderated in August 2021. Air travel to the Washington region has increasingly lagged national travel since the recovery began. The month-to-month decline in June 2021 could be a temporary shift but the tepid recovery relative to the nation indicates that the region's tourism industry will continue to be weak this summer.

Figure 5. Change in Select Consumer Activities, District of Columbia*



Sources: OpenTable; Metropolitan Washington Airports Authority; Opportunity Insights Economic Tracker; The Stephen S. Fuller Institute at the Schar School, GMU

*Open Table reservations reflect the 30-day average of daily change compared to the same day in 2019 for D.C. reservations as of the middle of the month; Passenger Air Travel is change from the same month in 2019; Dulles & Reagan National Airports; Time Away from Home is the 30-day average change compared to January 2020 for D.C. residents as of the middle of the month; data are not available for every month due to dataset differences.

Local consumer activity, as shown through OpenTable reservations in D.C. and the amount of time spent away from home by District residents, improved modestly in June 2021 but plateaued in July and August. OpenTable reservations decreased 45.5 percent as of the middle of June (using a 30-day average) compared to the same period in 2019; in July, the decline was 37.1 percent and as of the end of August the decline was 33.0 percent. District residents spent 10.2 percent less time away from their homes in June 2021 compared to June 2019; as of the end of August, the percent of time spent away from home decreased modestly to 10.5 percent. Altogether, these metrics reflect a smaller-than-expected recovery in June 2021 and stable activity levels through the end of August.

Consumer confidence levels in the South Atlantic region improved in June 2021 and plateaued in July 2021, in line with the consumer activity levels. In June 2021, consumer confidence increased 60.9 percent from June 2020 but remained 2.2 percent smaller than its June 2019 reading. In July 2021, consumer confidence increased 68.7 percent from July 2020 and decreased 2.1 percent from July 2019. In other words, consumer confidence had nearly recovered to pre-pandemic levels in June but did not improve in July. Consumer confidence has been volatile during the pandemic, primarily reacting to shifts in the health metrics. Given the rising case rates and increasing potential for concerns (or confusion) over vaccine efficacy that occurred in August 2021, confidence levels likely decreased in August.

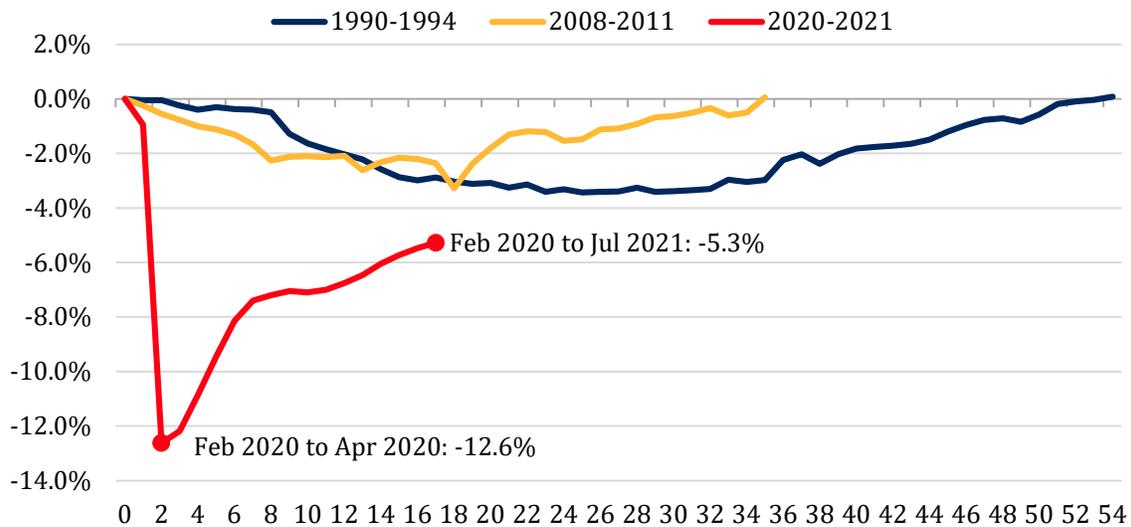
Prior to the pandemic, consumer confidence frequently corresponded with consumer spending on non-durable goods. During the pandemic, confidence has not affected consumer spending to the same degree and spending levels were more stable than confidence levels. Non-durable goods sales had recovered by June 2020 and have now increased in 11 of the past 13 months on a monthly over-the-year basis. In June 2021, non-durable goods sales increased 11.1 percent from June 2020 and 11.9 percent from June 2019. This is the only component of the Coincident Index that has fully recovered.

Wage and salary employment continued to recover in June and July 2021, although its rate of recovery continued to slow. In June 2021, the region had 5.5 percent fewer jobs compared to prior to the pandemic in February 2020 and had recovered about 57 percent of all the jobs lost during the pandemic. In July, the region had 5.3 percent fewer jobs than in February 2021 and was about 58 percent recovered. Even with this recovery, the region's job losses continued to be larger than during the past two recessions. During the 2008 Recession, jobs losses peaked after 18 months of declines and the region lost 3.4 percent of its jobs. During the 1990 Recession, jobs losses peaked after 23 months and the region had 3.4 percent fewer jobs compared to its pre-recession level. The losses as of July 2021 were about 1.5 times larger than the peak losses during these recessions.

Between July 2019 and July 2021, the number of jobs in the Washington region decreased by 4.5 percent (-152,400 jobs) and the largest losses continued to be in the Leisure & Hospitality sector. This sector decreased by 21.7 percent and by

76,600 jobs. Within the Leisure & Hospitality sector, the Food Services & Drinking Places sub-sector was the most recovered, decreasing by 17.0 percent from its July 2019 level. This sub-sector was about two-thirds (67%) recovered as of July and was the only sub-sector with a modest acceleration of gains during the early summer months. The Entertainment sub-sector had 26.8 percent fewer jobs compared to July 2019 and was about 56 percent recovered. The Accommodation sub-sector was the least recovered sub-sector and was about 32 percent recovered in July. Compared to July 2019, the Accommodation sub-sector had 40.5 percent fewer jobs. The rate of recovery for both the Entertainment and Accommodation sub-sectors remained slow in June and July, further indicating that local tourism levels have yet to substantially recover.

Figure 6. Cumulative Job Change by Recession, Washington Region



Sources: Bureau of Labor Statistics (Seasonally Adjusted); The Stephen S. Fuller Institute at the Schar School, GMU

The sector with the second largest percentage losses was Other Services, which includes personal care services, repair and maintenance, and associations. This sector decreased by 9.0 percent (-19,200 jobs) compared to July 2019 and its rate of recovery accelerated modestly. The sector with the third largest losses was State & Local Government (-6.1%). However, this decline was primarily driven by temporary July-specific trends; losses during July are typically larger than during other months, likely due to differences in schoolteacher payrolls. The fourth largest losses were in the Financial Activities sector, which decreased 5.4 percent and by 8,700 jobs. Both main sub-sectors, Finance & Insurance and Real Estate & Rental Leasing, had similar percentage declines: Finance & Insurance (-5.3%) and Real Estate & Rental Leasing (-5.4%).

Three sectors had fully recovered and had job growth compared to July 2019. The largest gain was Wholesale Trade, which had 3.0 percent more jobs in July 2021 than in July 2019 or a gain of 1,900 jobs. This sector fully recovered in April 2021,

likely driven by the increase in online sales. The number of Federal Government jobs increased 2.5 percent (9,300 jobs) between July 2019 and July 2021. This sector did not decrease on a monthly over-the-year basis during the pandemic and this sector increased by 0.8 percent between July 2020 and July 2021. The summer of 2020 included temporary Decennial Census hires, so the 12-month gains will be smaller than the 24-month gains for the next several months. The third sector to have fully recovered was Professional & Business Services, which increased by 0.1 percent and 600 jobs between July 2019 and July 2021. The gains in this sector were driven by the Professional, Scientific & Technical Services sub-sector, which increased by 2.4 percent from July 2019. This sub-sector also continued to add jobs during the pandemic. The Administrative, Support & Waste Management sub-sector had 5.6 percent fewer jobs in July 2021 compared to July 2019 and was about 54 percent recovered.

The overall pattern of economic activity suggests that local consumers continued to incrementally return to their pre-pandemic activities in the Washington region in June and July but that the region did not benefit from increased tourism or seasonal leisure activities. The moderating rate of recovery that occurred in June has likely continued in July and August and will contribute to a slower, longer recovery for the Washington region.

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 the pandemic, the Leading Index has reflected the health crisis conditions and is somewhat less predictive of growth. The Index had sustained growth beginning in December 2020 and reached its largest reading on record in March 2021. Since March, the Index has decreased and the slowdown in June was large and broad-based. This pattern indicates that the economic recovery will be strongest this fall and moderate during the first quarter of 2022, in absence of any major changes to the health trends.

In June 2021, two of the four components decreased from June 2020. Total building permits decreased 14.6 percent, marking the first monthly over-the-year decline in ten months. This decline was driven by multi-family permits which decreased 35.5 percent. While multi-family permits are more volatile and sensitive to single-building differences, multi-family permits decreased in July for its third consecutive monthly over-the-year decline. Single-family permits increased 9.6 percent between June 2020 and June 2021. In July, single-family permits decreased 11.6 percent for its first 12-month decline in five months. Building permits recovered from the pandemic relatively quickly and registered consistent gains starting in September 2020. The two consecutive monthly over-the-year declines in June and July suggest that permitting activity is slowing for reasons other than permitting volatility, possibly due to labor shortages.

Consumer expectations in the South Atlantic region decreased 0.5 percent between June 2020 and June 2021 and were the second component with declines. Expectations continue to be volatile and change based on the most recent information pertaining to the health crisis and other national events. In July, expectations increased 14.5 percent from July 2020 but decreased 10.2 percent from July 2019. The local COVID-19 case rate were small and vaccination rates were strong in June and July, so the weakening of consumer expectations is likely due to non-health concerns. Inflation, labor market mismatches, and pandemic fatigue may have all played a role in the recent decline in consumer expectations. The increasing concerns around vaccine efficacy, the need for booster shots, and rising case rates will most likely moderate expectations in August and September and further subdue the near-term rate of recovery.

The two components that improved compared to last summer were durable goods sales and initial claims for unemployment insurance. Durable goods sales were the first component to recover and increased 2.7 percent between June 2020 and June 2021. Sales have now increased for 13 consecutive months and reflect but the monthly over-the-year increase in June was the smallest in seven months. The rate of growth has slowed since March 2021 and this slowdown in gains is likely to continue in upcoming months. Durable goods sales are those that last longer than three years and have had a full year of strong gains. Once these items are purchased, they do not need to be repurchased and some of the upcoming moderation will be the direct result of the strength of earlier sales. Supply chain bottlenecks may also reduce the available supply of some goods, contributing to the slowdown.

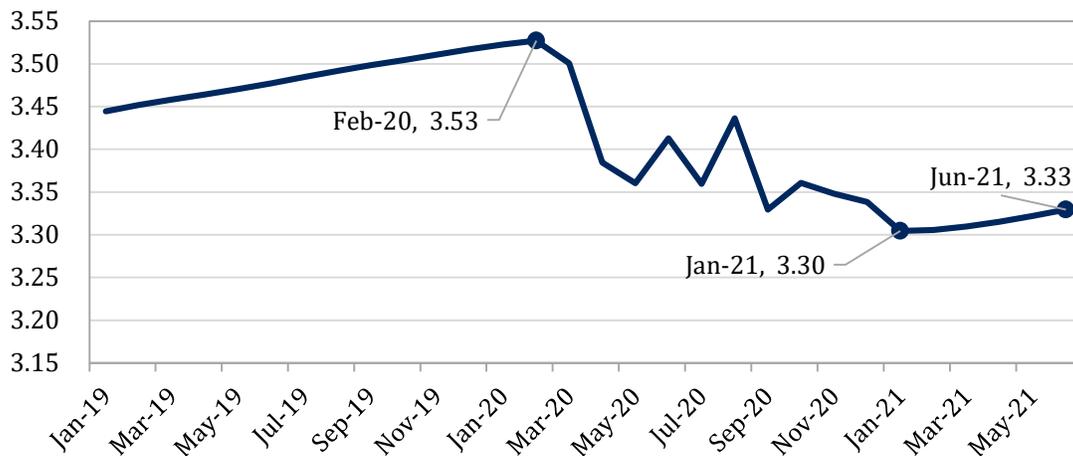
Initial claims for unemployment insurance decreased (improved) 35.5 percent between June 2020 and June 2021, marking its fourth consecutive improvement. Even with this decline, claims were 273.8 percent larger than in June 2019 and this component remains the only component of the Index that has not returned to pre-pandemic levels.

In spite of the large levels of claims and broader unemployment, the availability of labor may pose a threat to the upcoming recovery. Compared to February 2020, the Washington region had 197,500 fewer people in the labor force in June 2021, either employed or actively looking for work. While much of this decline will be temporary and workers will return to the labor force as jobs are recovered, the current labor force recovery has been weaker than the jobs recovery. Between January 2021 and June 2021, 25,000 workers returned to the labor force. During this same period, the region added 51,600 jobs.

The discrepancy between the employed worker and the jobs recoveries the result of two key trends. Firstly, the region has fewer multiple jobholders than it did prior to the pandemic. In 2019, the region had 4.0 percent more jobs than employed residents as a small share of residents held more than one job. As of June 2021, the region had 4.8 percent fewer jobs than employed residents, reflecting below-average rates of multiple jobholding and out-commuting. In other words, the region

can add jobs without adding more employed residents because some of these residents may take another, typically part-time, job as they become available. The second reason for the slow increase in the labor force is because jobs are being filled by people that stayed in the labor market as unemployed residents. This pattern indicates that relatively few residents have returned to the labor market, in general, and that the ability to attract workers may not depend solely on the availability of jobs. If this trend continues, the region only has enough unemployed workers to recover about 80 percent of its jobs with the currently available labor.

**Figure 7. Labor Force in the Washington Region
January 2019 - June 2021 (in millions)**



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

Overall, the Leading Index is pointing to a strengthening recovery this fall and slower recovery during the beginning of 2022, as long as the health metrics continued to improve. Now that the region has entered its third wave of COVID-19 and the nature of the pandemic may have change with virus variants and break-through cases, the stronger economic recovery this fall may be delayed. Additional bottlenecks with both supply chains and the labor market are likely to contribute to a slower-than-anticipated recovery this fall.

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

Economic Indicator	Estimates			Percent Change	
	Jun-21 Prelim.	May-21 Final	Jun-20 Final	May-21 to Jun-21	Jun-20 to Jun-21
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	105.6	107.5	87.3	-1.76%	20.95%
Leading Index (2015 = 100)	102.3	103.3	101.0	-1.01%	1.20%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,206.8	3,190.0	3,038.3	0.53%	5.55%
Consumer Confidence (South Atlantic) ^a	164.3	155.6	102.1	5.59%	60.92%
Domestic Airport Passengers ('000) ^b	943.3	1,175.6	367.9	-19.75%	156.41%
Nondurable Goods Retail Sales (\$000,000) ^c	3,755.1	3,710.5	3,381.0	1.20%	11.06%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	2,078.0	1,759.0	2,432.0	18.14%	-14.56%
Consumer Expectations (South Atlantic) ^a	109.1	104.4	109.7	4.50%	-0.55%
Initial Unemployment Claims ^b	8,275.3	6,358.2	12,836.3	30.15%	-35.53%
Durable Goods Retail Sales (\$000,000) ^c	4,107.8	4,316.5	3,999.6	-4.83%	2.71%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,374.0	3,344.2	3,434.6	0.89%	-1.76%
Employed Labor Force ('000)	3,185.0	3,176.1	3,134.3	0.28%	1.62%
Unemployed Labor Force ('000)	189.0	168.1	300.3	12.42%	-37.05%
Unemployment Rate	5.6%	5.0%	8.7%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,206.8	3,190.0	3,038.3	0.53%	5.55%
Construction ('000)	164.4	161.3	160.3	1.92%	2.56%
Manufacturing ('000)	55.5	55.5	53.5	0.00%	3.74%
Transportation & Public Utilities ('000)	72.3	71.7	71.5	0.84%	1.12%
Wholesale & Retail Trade ('000)	320.6	317.9	291.2	0.85%	10.10%
Services ('000)	1,885.3	1,874.3	1,771.8	0.59%	6.41%
Total Government ('000)	708.7	709.3	690.0	-0.08%	2.71%
Federal Government ('000)	373.1	372.5	367.3	0.16%	1.58%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars