Tracking Business Cycles: The Washington Economic Index

National Business Cycles: Then and Now

The current business cycle, as measured from the beginning of the expansion, started in June 2009 according to The National Bureau of Economic Research (NBER). Therefore, as of December 2016, this cycle was seven and one-half years, or 90 month, long.

According to the NBER, there have been eleven business cycles since World War II, excluding the current one, and these averaged 69 months in length from trough to trough (consisting of an average expansion of 58 months and an average contraction of 11 months). The three most recent business cycles had an average expansion phase of approximately 95 months and a contraction phase of 11 months with the recession of 2007 (December) to 2009 (June) being the longest at 18 months. By these reference points, the current expansion at 90 months falls in between the averages and might be considered aging in the sense that all business cycles eventually decelerate and turn negative completing their life cycle.

The longest business cycle, among the 66 documented dating back to 1854, occurred between March 1991 and November 2001, lasting a total of 128 months of which 120 months constituted its expansion phase. The second longest business cycle in history totaled 117 months and occurred between February 1961 and November 1970 with an expansion of 106 months. The current expansion will become the second longest in history if it continues to July 2017; this appears likely with The Conference Board’s National Leading Index report, issued December 22, 2016, declaring that “the economy will expand into the first half of 2017....”

Tracking the Washington Economy’s Business Cycle

The Washington region’s economy has become less dependent on federal spending to drive its economic growth since federal spending in the region peaked in 2010. As the region’s economy has pivoted away from this federal dependency, it has become more sensitive to national and global economic performance. Consequently, greater attention needs be given to the predictive patterns of National Leading Index, issued each month by The Conference Board, as it tracks the likely performance of the business cycle providing an early warning of deceleration and possible contraction six months (plus or minus) before these economic trends can be actually measured.

The Washington Economic Index has a similar capability as the National Leading Index but is tailored to the Washington region’s economy. The Washington Economic Index was developed in 1990, with the support of the Greater Washington Board of Trade, following the onset of the 1990 recession (in July) to provide a region-specific early warning analytical framework that would assist the private and
public sectors better anticipate changes in the direction of the local economy. The Washington Economic Index was constructed on a database that tracked the monthly performance of nine economic indicators back to 1978 inclusive of two full business cycles and today provides documentation of the Washington region’s monthly economic performance for 38 years covering five full business cycles and the current expansion.

The Washington Economic Index is the only metropolitan–level Index (consisting of Leading and Coincident Indices) that has been calculated each month since February 1991 when the first issue of Washington Economy Watch was published by the Greater Washington Research Center. This monthly report was distributed initially in print and, with the coming of the Internet, was available online for 20 years (240 consecutive months); since March 2011, the monthly results of the Washington Index calculations have been posted on the GMU Center for Regional Analysis website. With the release of the January 2017 issue of the new Washington Economy Watch, this report will be available as a public service on the Stephen S. Fuller Institute website, sfullerinstitute.gmu.edu.

**Future Turning Points**

As the current business cycle moves into record longevity the Washington economy’s future performance will need to be carefully monitored. This will be the principal objective of each month’s Washington Economy Watch that will report both the national and regional indicators that provide historical precedence for tracking future economic turning points.

Economic uncertainty can disrupt economic expansions. With the uncertainty accompanying the incoming Trump Administration the next year may be particularly vulnerable to unexpected stimuli ranging from changing fiscal policy—tax code revisions and increased federal spending for infrastructure, defense and homeland security and accelerating inflationary pressures and accompanying increases in interest rates. These and other economic conditions will be monitored continuously and reported out as appropriate to assure that the Washington region’s decisionmakers needing to be “in the know” have access to the most recently available and carefully analyzed information on the Washington region’s economy.

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