



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

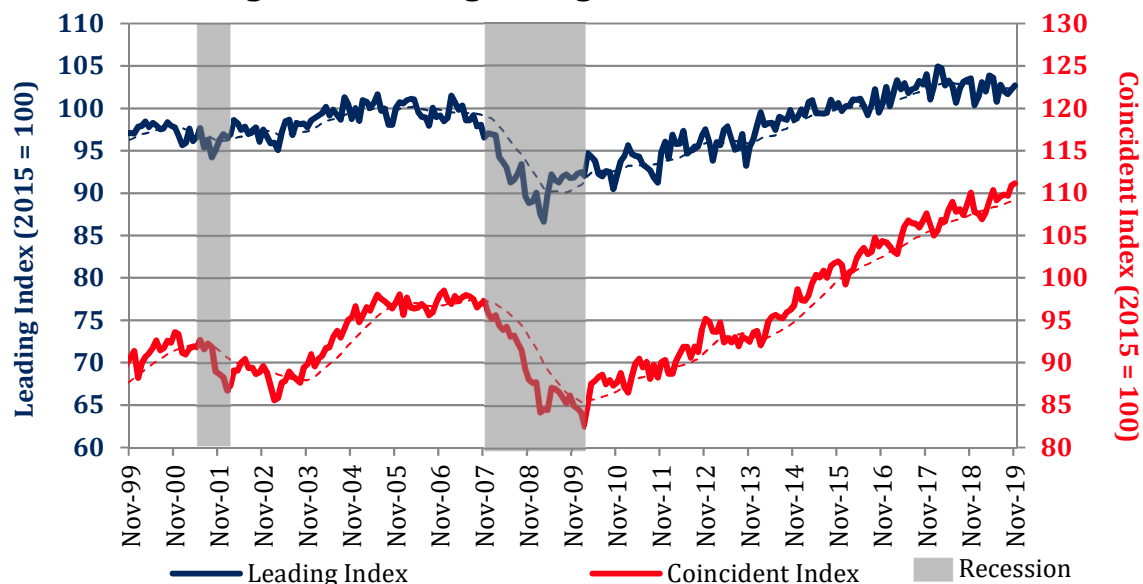
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The Washington Region's Economy Continues to Expand While Its Outlook Weakens

In November, the Washington region's Coincident Index registered its smallest gain in five months while the Leading Index decreased for the fourth consecutive month. For the Coincident Index, this gain extended its consecutive monthly over-the-year increase to a 68th month. For the Leading Index, its November decline reflected weakness in three of its four components. In spite of the Leading Index's year-long downward trend, job growth in the region remained solid and accelerated in November. Similarly, while consumer expectations continue to weaken, durable goods sales have continued to rise, suggested that consumers' concerns about the future have not yet resulted in broad-based changes to their longer-term spending patterns. The FY 2020 budget appropriations agreements from Dec. 20, 2019 and the recent China trade deals have reduced the uncertainty around federal policy that the region faced at this time last year. However, with upcoming federal election, the possibility of a shutdown threat related to the FY 2021 budget, and the underlying weakness expressed by consumers, the near-term improvements are likely to short-lived.

Figure 1. Washington Region Economic Indices



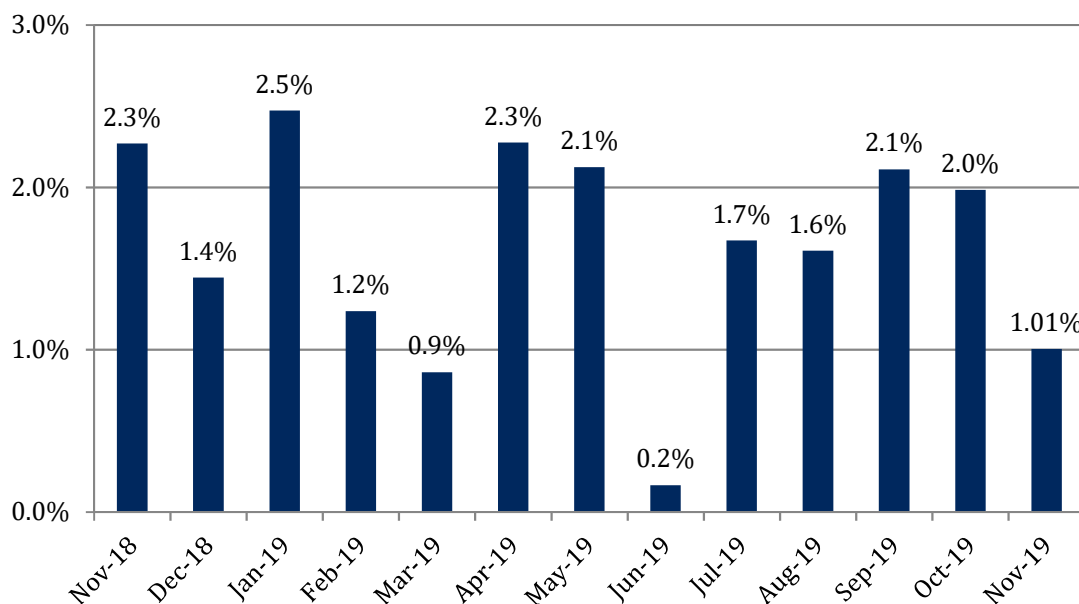
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, increased 0.2 percent in November after a 1.1 percent gain in October 2019 on a month-to-month basis. The index has now had positive monthly gains for four of the past six months. In November, only one of the four indicators decreased compared to October 2019; domestic airport passengers declined 3.3 percent after two months of gains.

On a monthly over-the-year basis, the Coincident Index increased 1.01 percent between November 2018 and November 2019, following a gain of 2.0 percent in October 2019. This increase extends the Index's growth trend to 68 months dating from April 2014. The increase in November was the smallest gain in five months as two of Index's four indicators worsened compared to last year:

- *Wage and salary employment* in the Washington region increased 1.8% between November 2018 and November 2019;
- *Non-durable goods retail sales* increased 1.4% from November 2018 gaining for a 33rd consecutive month on a monthly over-the-year basis;
- *Consumer confidence (in the present)* decreased by 3.8% from November 2018, marking its second consecutive year-over-year decline; and,
- *Domestic passenger volume at Reagan National and Dulles Airports* decreased 1.9% from November 2018.

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



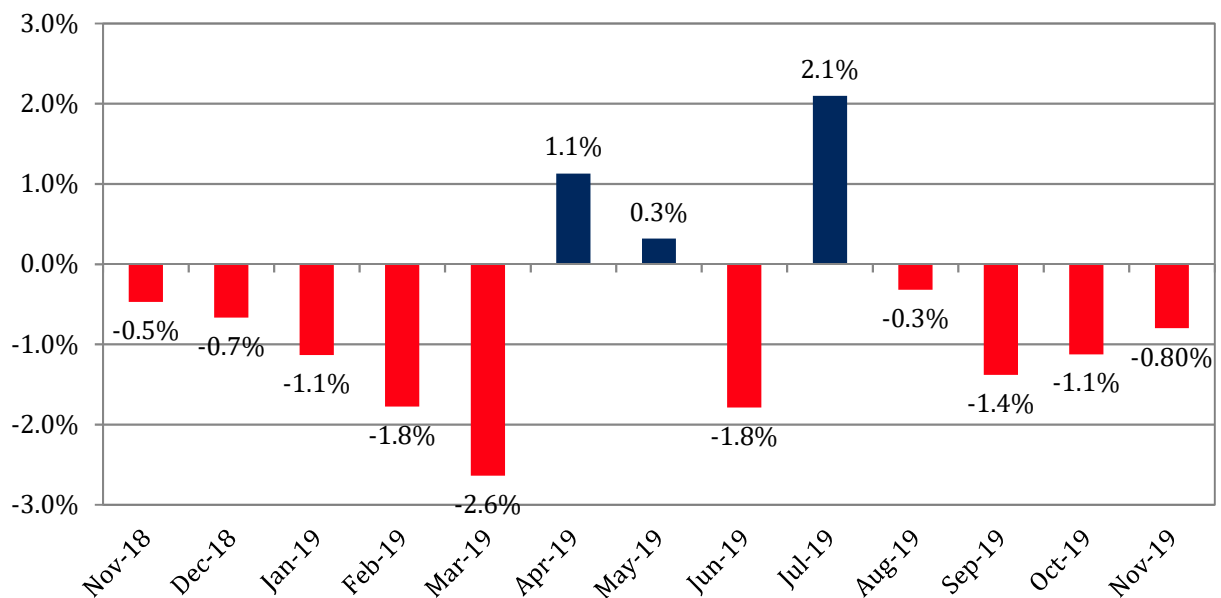
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy by six to eight months, decreased by 0.80 percent in November on a monthly over-the-year basis. The Leading Index has now been trending downward for more than a year and has been positive in only four of the last seventeen months. This downward trajectory has been uneven, which partially reflects volatility in consumer expectations that have had five double-digit declines and two double digit increases in the past 12 months on a monthly over-the-year basis.

In November, three of the Leading Index's four components contributed to its decrease.

- *Consumer expectations (consumer confidence six months hence)* decreased 3.6% from November 2018, falling less sharply than in September and October, which had double-digit declines;
- *Total residential building permits* decreased 30.9% in November following its 8.9 percent decrease in October on a monthly over-the-year basis; and,
- *Initial claims for unemployment insurance* increased 5.5% (worsened) after decreasing 13.6% (improving) in October on a monthly over-the-year basis; while,
- *Durable goods retail sales* increased 4.0% from their November 2019 level and have now gained for five consecutive months.

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



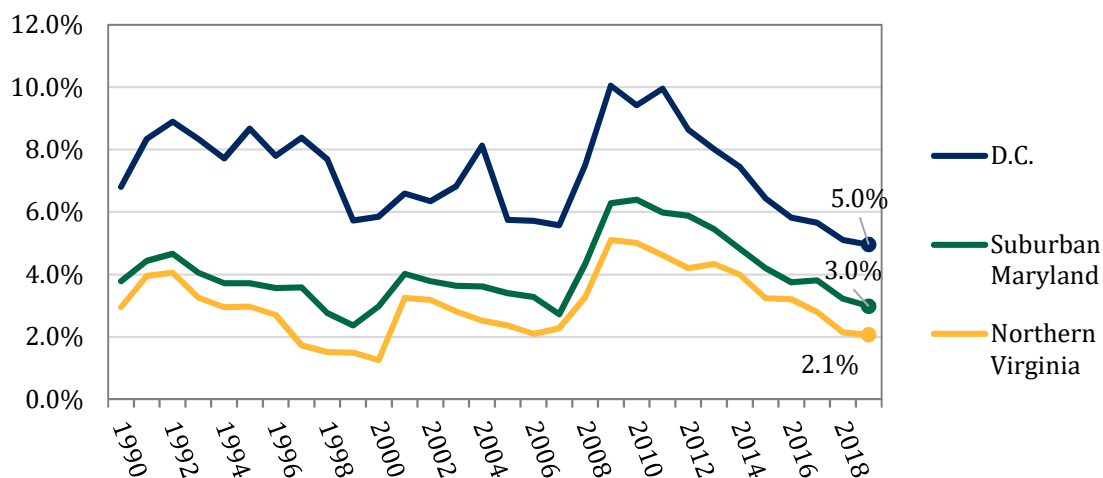
Source: The Stephen S. Fuller Institute at the Schar School, GMU

Current Performance

Through October, the Washington region is estimated to have added 40,300 jobs in 2019, after the Bureau of Labor Statistics (BLS) releases revised data in March 2020. This increase is modestly stronger than the beginning-of-the-year projected gain of 38,200 and the long-term average increase since 1990 of 37,300. While this gain is strong relative to both prior expectations and the historic norm, it lags the growth that occurred during both the 1992 and 2002 economic expansions, which averaged a gain of 61,300 jobs.

Job growth in November accelerated compared to gains earlier in 2019 and the region added 51,700 jobs from November 2018.¹ This strengthening pattern has occurred since the end of 2018 and is likely to continue in December 2019; those data will be released on January 24, 2020. The job growth acceleration in November was the result of stronger gains in the District and in Suburban Maryland that each had a strengthening in two sectors. Both sub-state areas had larger increases in the Professional & Business Service sector compared to earlier in the year. The District also had a nominal year-over-year gain (+600) in Federal Government jobs, marking a reversal from the losses that averaged 1,400 jobs in the first ten months. Suburban Maryland also had strong gains from State Government, which averaged +1,200 in the first ten months but increased by 4,300 between November 2018 and November 2019. Altogether, the jobs data show that 2019 is ending with stronger and more geographically robust growth compared to earlier in the year.

Figure 4. The Unemployment Rate in the Washington Region by Sub-State Area November of Each Year



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

¹ According to the preliminary release of the sub-state areas.

In keeping with job patterns, the regional unemployment rates continue to decline (Figure 4 on page 4). The region-wide unemployment rate was 2.8 percent in November 2019 and was the smallest November-rate since 2000. In absolute terms, the region had the fewest unemployed residents since November 2007 despite having 15.9 percent more people participating in the labor force. Each of the sub-state areas had historically low levels of unemployment and reach multi-year lows, measured as of November of each year: the District reached its lowest level since 1989; Northern Virginia reach its lowest level since 2000; and, Suburban Maryland reached its lowest level since 2007. This unusually tight labor force may pose a threat to upcoming job growth unless in-migration and population growth, more broadly, sufficiently increase the labor pool.

In contrast with recent job and labor force patterns, regional consumer confidence (in the present) has been weakening after peaking in the first half of 2019; November's year-over-year decrease of 3.8 percent was the sharpest decline in the past year. This weakness in consumer confidence is affecting consumer spending on nondurable goods, as households modify their spending to reflect their changing perceptions about the economy. Sales of nondurable goods, while positive, reflected the weakest growth in November (+1.4%) since March 2019. In December 2019 and January 2020, these metrics will be distorted by the 35-day partial federal shutdown that occurred in December 2018 and January 2019 and moderated both the consumer confidence and nondurable goods sales patterns. The upcoming months will reflect an improvement relative to the shutdown but not necessarily represent a pivot from current trends.

Washington Region's Near-Term Outlook

The Leading Index forecasts economic performance six to eight months in advance and has now been trending down for more than one year (Figure 5). The Coincident Index continues to reflect positive economic growth, although the rate of growth has been moderating in the past year: the 12-month average gain in November was the weakest since October 2014 when the region was recovering from Sequestration.

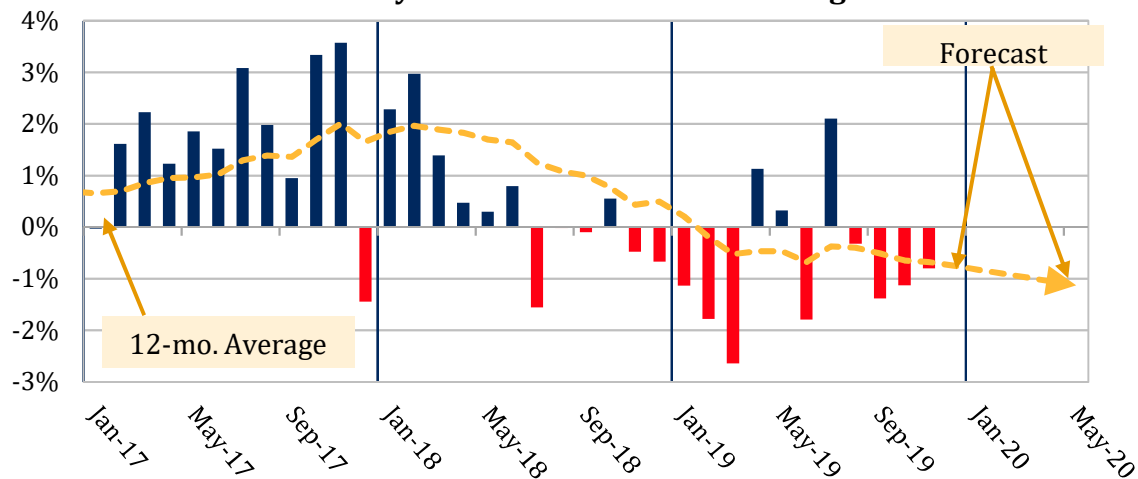
In November, the Leading Index continued to point towards slower growth, with consistent weakness in two of the four components for most of the past year. Initial unemployment claims have increased (worsened) in 11 of the past 12 months on a monthly over-the-year basis, indicating either firm or labor force weakness that could threaten future growth. Consumer expectations have decreased in eight of the past 12 months and have generally had more volatility, with the largest declines typically occurring when discussions about a federal shutdown or federal budget impasse occur.

The remaining two indicators have been less consistent. Building permits have decreased in seven of the past 12 months on a monthly-over-the-year basis. The five months with gains, however, all increased by more than 40 percent, and permits

issued through October 2019 increased 11.5 percent compared to the same period in 2018. This suggests that weather effects and the unevenness of permitting activity that results from large multi-family buildings may be distorting the pattern shown by the monthly-over-the-year data.

Durable goods sales have increased for five consecutive months, although it registered declines in three of the past 12 months. Consumer spending on durable goods often corresponds to consumer expectation; durable goods are usually higher-cost purchases that households may postpone or forgo when the future economy is more uncertain. Despite the double-digit decreases in consumer expectations and the recent weakness in nondurable goods sales, durable goods sales have continued to increase, with the November 2019 gain (4.0%) being the strongest in at least one year. Low interest rates and the ability to get financing for these purchases may be playing a role but, for now, the declines in consumer expectations have not resulted in commensurate declines in durable goods sales.

**Figure 5. Washington Region Leading Index
Monthly Over-the-Year Percent Change**



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

In the near-term, at least two of the four Leading Index components will improve: consumer expectations and initial unemployment claims. These components were negatively affected by the December 2018-January 2019 partial federal shutdown and the relative strength in upcoming months will reflect last year's weakness rather than this year's strength. Still, federal policies have been more favorable to the Washington region in recent period and 2020 is starting on modestly stronger footing than 2019. The December 20, 2019 budget appropriations agreements that funded 12 agencies have removed budget uncertainty that the region has frequently faced at this time of the year. The January 15, 2020 "Phase One" trade deal and discussions of a "Phase Two" trade deal with China may also bolster consumer sentiment. These factors, alone, will not be sufficient to counteract the slowdown given the persistent weakness in two of the four components in the Leading Indicators.

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

Economic Indicator	Estimates			Percent Change	
	Nov-19 Prelim.	Oct-19 Final	Nov-18 Final	Oct-19 to Nov-19	Nov-18 to Nov-19
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	111.2	110.9	110.1	0.23%	1.01%
Leading Index (2015 = 100)	102.7	102.2	103.5	0.49%	-0.80%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,384.9	3,363.7	3,323.8	0.63%	1.84%
Consumer Confidence (South Atlantic) ^a	173.7	170.3	180.5	2.00%	-3.77%
Domestic Airport Passengers ('000) ^b	2,331.6	2,410.0	2,377.6	-3.25%	-1.93%
Nondurable Goods Retail Sales (\$000,000) ^c	3,407.7	3,385.8	3,361.5	0.65%	1.37%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	1,529.0	2,265.0	2,213.0	-32.49%	-30.91%
Consumer Expectations (South Atlantic) ^a	118.6	99.0	123.0	19.80%	-3.58%
Initial Unemployment Claims ^b	2,408.2	2,011.8	2,282.8	19.70%	5.49%
Durable Goods Retail Sales (\$000,000) ^c	4,019.5	3,929.7	3,863.6	2.28%	4.03%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,492.1	3,487.7	3,385.1	0.13%	3.16%
Employed Labor Force ('000)	3,395.3	3,389.3	3,286.3	0.18%	3.32%
Unemployed Labor Force ('000)	96.8	98.4	98.8	-1.66%	-2.03%
Unemployment Rate	2.8%	2.8%	2.9%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,384.9	3,363.7	3,323.8	0.63%	1.84%
Construction ('000)	164.9	164.6	163.0	0.18%	1.17%
Manufacturing ('000)	56.2	55.8	55.2	0.72%	1.81%
Transportation & Public Utilities ('000)	71.8	70.6	70.3	1.70%	2.13%
Wholesale & Retail Trade ('000)	342.3	332.3	343.4	3.01%	-0.32%
Services ('000)	2,038.5	2,034.3	1,984.3	0.21%	2.73%
Total Government ('000)	711.2	706.1	707.6	0.72%	0.51%
Federal Government ('000)	363.7	363.1	363.0	0.17%	0.19%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars