Washington Economy Watch

Vol. IV, No. 3
March 2020

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

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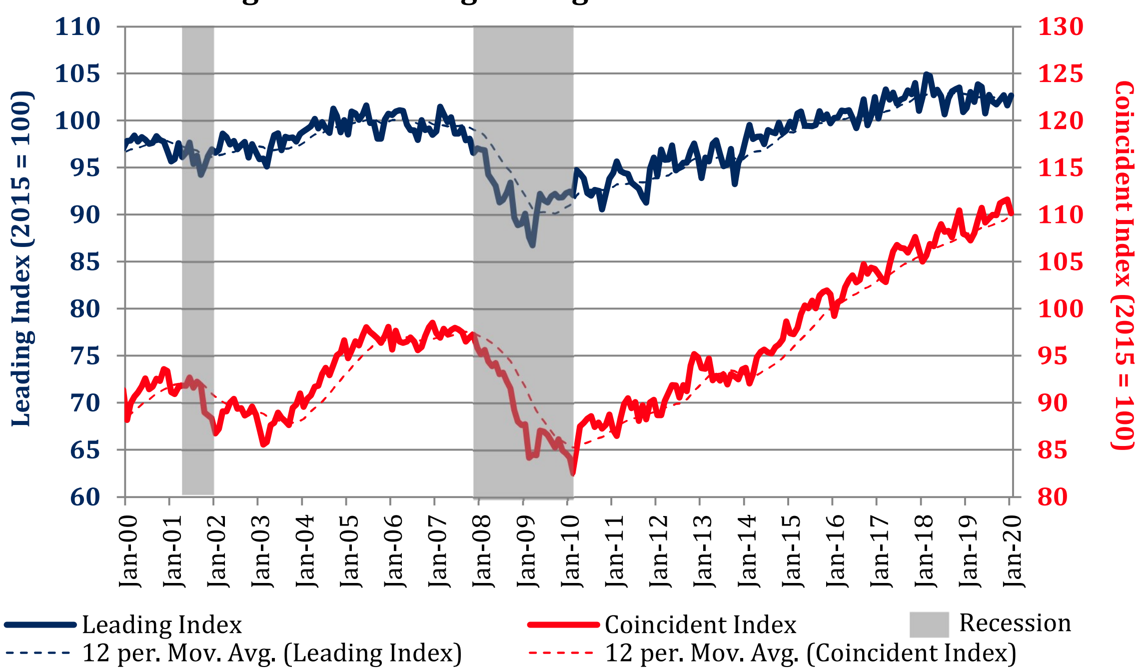
The Washington Region's Economic Expansion Continues through January 2020

In January 2020, Washington region's Coincident Index and Leading Index increased on a monthly over-the-year basis. The Coincident Index increased 2.2 percent, bolstered by gains in all four components. The Leading Index increased 1.3 percent and reflected a rebound compared to the shutdown-effected economy in January 2019. The strength of the Coincident Index and job growth in January showed that the coronavirus pandemic had not slowed regional growth for the month. The Leading Index projects economic activity six to eight months in advance based on business cycle indicators. The upcoming contraction will be the result of a health crisis and its length will be determined by severity and longevity of the pandemic, rather than traditional business cycle indicators. As a result, the Leading Index will be less predictive of future growth and more likely to correspond to current conditions in the near-term.

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 1.3 percent in January compared to December 2019. This decrease does not yet reflect the effects the coronavirus pandemic; instead, this decline is related to seasonal changes in activity levels and 28 of the past 30 December-to-January changes were negative Two of the Index's four components contributed to its decline this year: domestic airport passengers (-7.3%) and wage and salary employment (-1.9%).

Compared to last January, the Coincident Index increased 2.17 percent, continuing its strong gains relative to the shutdown period last year. This increase extends the Index's growth trend to 70 months dating from April 2014 and reflects the Washington region's continued economic expansion through January 2020. For the second consecutive month, all four components increased on a monthly over-the-year basis:

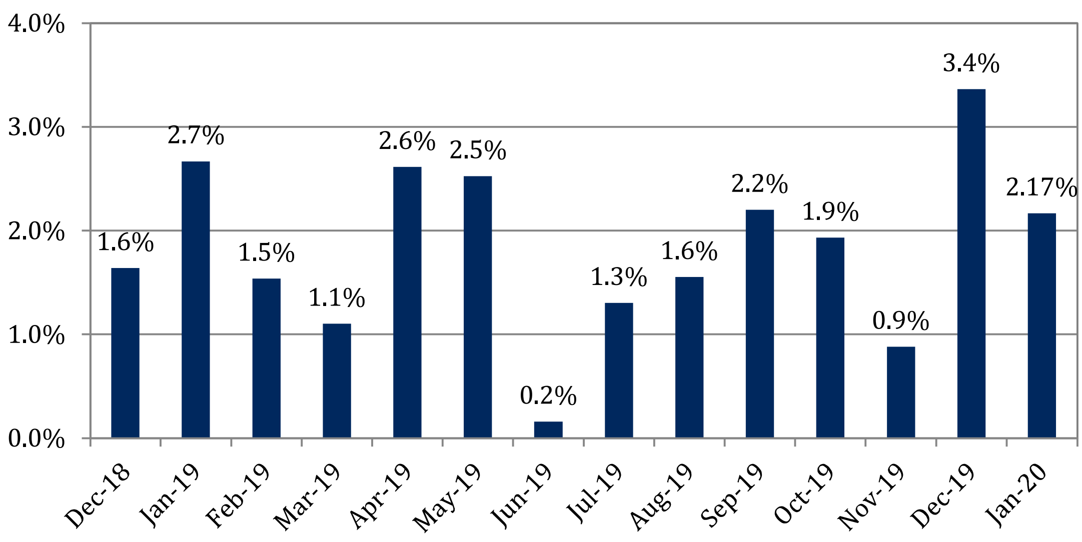
- *Consumer confidence (in the present)* increased by 3.9% from January 20 for its second consecutive gain;

- *Domestic passenger volume at Reagan National and Dulles Airports* increased 5.9% from last year, marking its ninth increase in the past 12 months;

- *Non-durable goods retail sales* increased 2.0% from January 2020 and extended its pattern of gains to a 35th consecutive month on a monthly over-the-year basis; and

- *Wage and salary employment* in the Washington region increased 1.4% between January 2019 and January 2020.

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



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

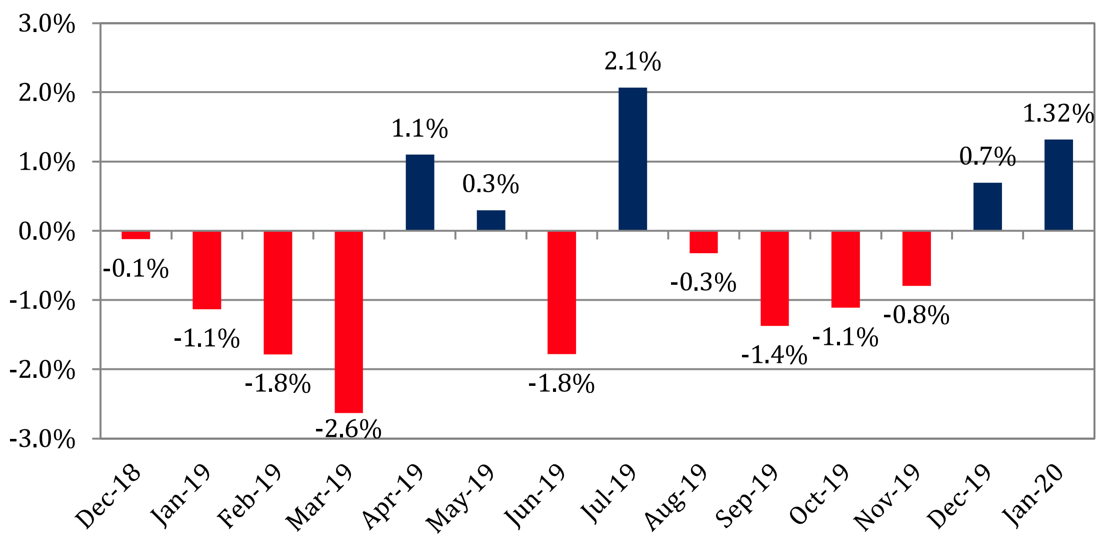
The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy in six to eight months, increased 1.0 percent between December 2019 and January 2020, and all four components contributed to this gain.

Compared to January 2019, the Leading Index increased by 1.3 percent for its second consecutive monthly over-the-year gain and the sixth increase in the past 18 months. This month's gain largely reflects the shutdown-related weakness that occurred last year instead of a pivot in the Index's recent performance. The Index continues to be inconsistent, which primarily reflects the volatility in consumer expectations: consumer expectations has had nine double-digit decrease and three double-digit increases on a monthly over-the-year basis.

In January, two of the Leading Index's four components contributed to its improvement:

- *Consumer expectations (consumer confidence six months hence)* increased 14.7% from last January, marking its second consecutive increase;
- *Durable goods retail sales* increased 6.3% from January 2020 and have now gained for seven consecutive months; while
- *Initial claims for unemployment insurance* increased 2.5% (worsened) and have increased in ten of the past 12 months; and,
- *Total residential building permits* decreased 9.3% in January for its sixth consecutive monthly over-the-year decline.

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



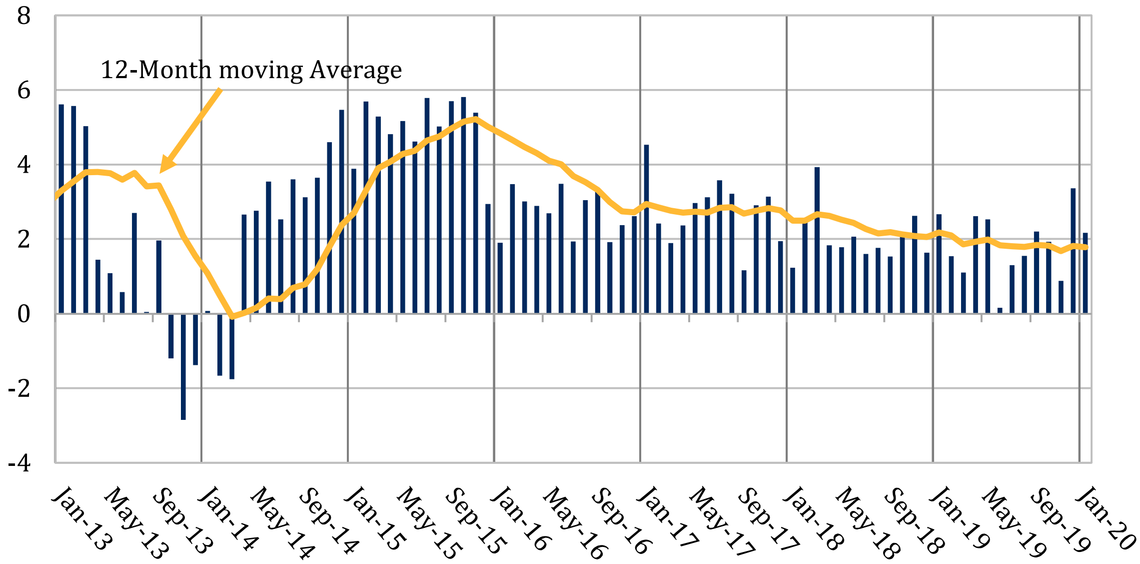
Source: The Stephen S. Fuller Institute at the Schar School, GMU

Current Performance

Through January 2020, the Washington region's economy continued to expand and job growth was consistent and above average. National data in February 2020 reflected positive, but slowing, economic growth for the month. High-frequency data indicate that that the Leisure & Hospitality industry, consisting of accommodations, food and drinking places and entertainment, contracted sharply in the first two weeks of March, likely marking the beginning of the national and regional economic slowdown.

The last economic contraction in the Washington region began in October 2013 and extended through March 2014 (Figure 4). The first monthly over-the-year decline coincided with a 16-day federal government shutdown but growth had been weak since the second quarter of 2013 due to sequestration. The economy, as measured by gross regional product (GRP), decreased 0.5 percent in 2013 for the year and real per capita personal income decreased 3.5 percent. Because sequestration affected the region's main, high value-add industry, the federal government and federal contractors, economic growth continued to lag in 2014 and the region's recovery was slow; per capita income did not recover until 2015 and the average wage did not return to its pre-sequestration peak until 2017.

Figure 4. Washington Coincident Index
Monthly Over-the-Year Percent Change, January 2013 – January 2020



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

For the past three years, the region has had consistent growth that, like the nation, has exceeded long-term average gains but underperformed the gains of prior economic expansions. This economic expansion continued in January 2020 and the Coincident Index increased 2.2 percent, with all four of its components improving. Two of the components, nondurable goods sales and wage and salary employment, have had consecutive monthly gains for the past three years on a monthly over-the-year basis. Domestic airport passenger volume has also had relatively consistent gains. The fourth component, consumer confidence in the present, improved in 2017 and 2018 but began to weaken in 2019. Consumer confidence also became inconsistent and less predictive of changes in consumer spending; the high-level threats to the economy through January 2020 did not come to fruition and consumers did not change their economic activities.

In January 2020, the Washington region added 46,100 jobs compared to last January. The average gain in 2019 was 44,600, which was slightly less than the 2015-2018 average increase of 51,250 but still above the long-term average since 1990 of 37,720. In January, the Professional & Business Service sector added 14,400 jobs and accounted for the largest share of gains. Jobs data indicate that the key sectors that will be affected by the coronavirus pandemic remained stable in January. The Leisure & Hospitality sector added 6,200 jobs compared to January 2019. This increase was larger than the average gain in 2019 (+3,700). The Other Service sector, which includes associations, personal care services, repair and maintenance services and in-home services, also had strong growth, increasing by 5,800 jobs in the 12-months ending in January 2020 compared to an average 2019 gain of 2,000. The Retail sector has had job losses since the middle of 2016, and the losses in January (-2,200 jobs) were somewhat milder than recent trend.

Looking ahead, limited higher frequency data will likely show that the regional economy pivoted in March. However, these data do not reflect all economic activity and are not fully representative. Instead, the region's Coincident Index will continue to be the most comprehensive, real-time estimate of overall economic performance. Next month's issue may show a modest slowdown but the impact of coronavirus pandemic will not be fully incorporated until the May 2020 Economy Watch released the week of May 25.

Washington Region's Near-Term Outlook

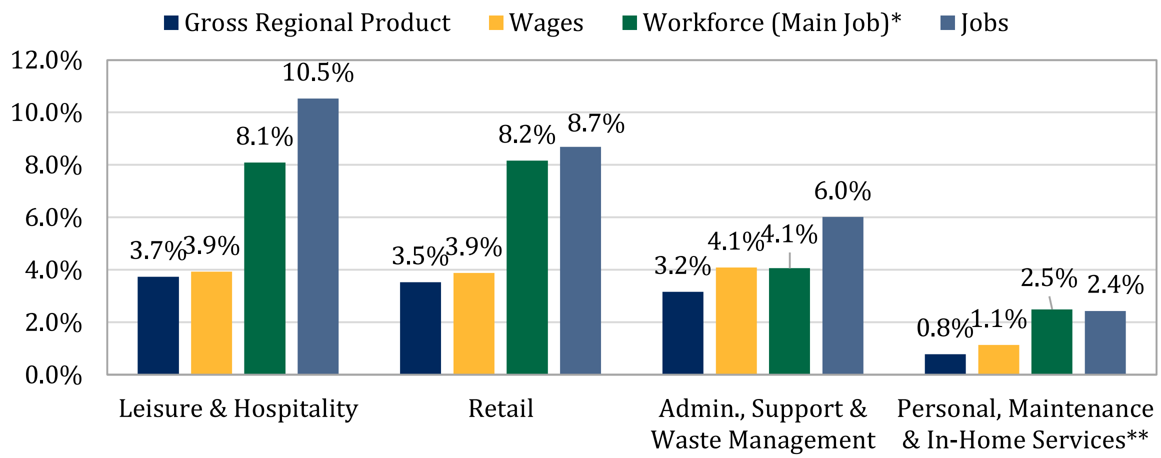
The Washington region's Leading Index projects economic performance six to eight months in advance based on economic indicators. The Index in December 2019 and January 2020 showed that the regional economic outlook was stronger than the outlook during the partial, 35-day federal shutdown. Still, the Index has been trending down since the middle of 2018. The ability to attract and retain workers and consumer expectations, and their spending, were the most likely drivers of a slowdown in growth based on factors that typically affect the business cycle.

The upcoming slowdown will not be the result of the business cycle or federal government spending patterns. Rather, this slowdown will be the result of a health crisis and either the short-term actions that are needed to stem it or the long-term ramifications of an uncontrolled pandemic. Because of this, the Leading Index will be less predictive of future economic performance. Rather, shifts in the Coincident

Index will best represent these changes. The Leading Index will also decrease during the pandemic but it will most likely not forecast the end of the recession, as it has for prior business cycles. Similar to how the Index performs during a federal shutdown, the Leading Index will only rebound after the pandemic has been controlled and normal activities resume.

Starting in March, the pandemic will result in a sharp, immediate decline in travel and discretionary spending, particularly for in-person transactions. The main industries that will be affected are shown in Figure 5. These industries account for 27.7 percent of the regions jobs, 22.8 percent of the main source of employment for the region's workforce, 13.0 percent of wages earned in the region, and 11.2 percent of the region's economic activity (GRP). These vastly different shares illustrate how contradictory some of the upcoming data points may appear. A large number of jobs and workers will be affected. These jobs are more likely to be part-time and their workers are more likely to be multiple jobholders. These jobs are also more likely to be lower wage and have correspondingly smaller economic spin-off effects. Overall, the aggregate wage and economic effects will be about one-half the size of the impact to jobs or workers and the topline changes to jobs or unemployment will not have the same economic impact as similar change did during either sequestration or the 2008/2009 recession.

Figure 5. Main At-Risk Industries as a Share of Economic Activity Washington Region, 2018



Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; American Community Survey; The Stephen S. Fuller Institute at the Schar School, GMU *Reflects the share of workers with a main job in the industry and counts part-time workers one time. **GRP is an estimate

Aside from non-local tourism, the majority of these industries derive their revenue from local residents and businesses; these industries are critical for households and businesses and support the region's export-based activities. If the pandemic ends quickly, the region's core economic activities and the household wealth that they generate will be relatively insulated; by extension, the underlying revenue source for the most vulnerable sectors will also be able to return in the long run.

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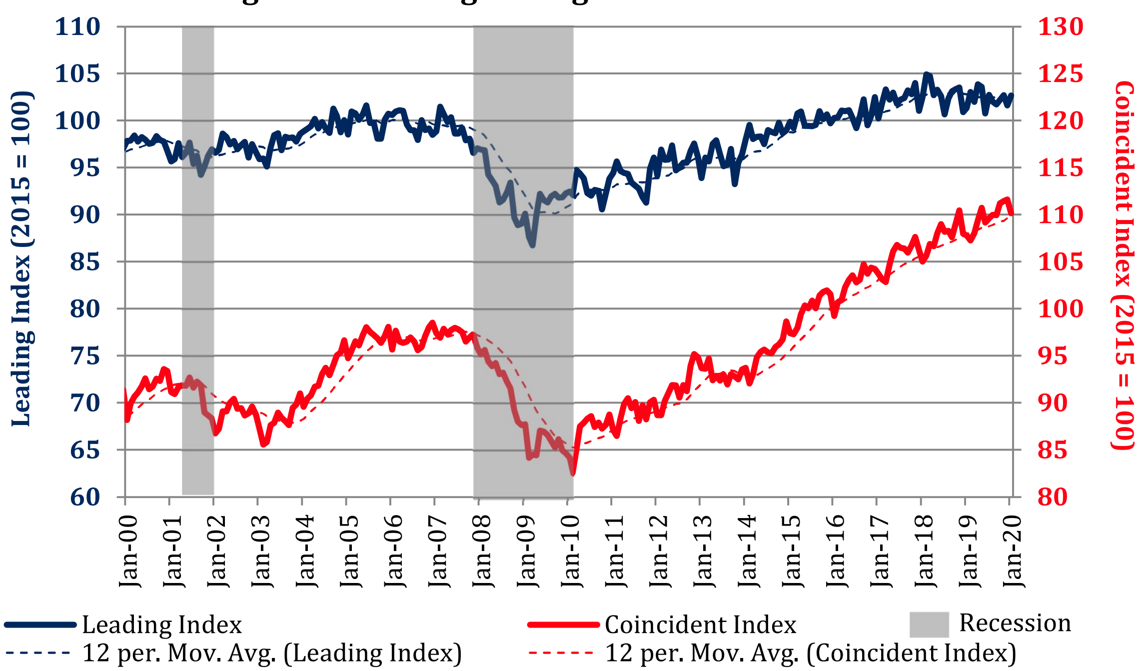

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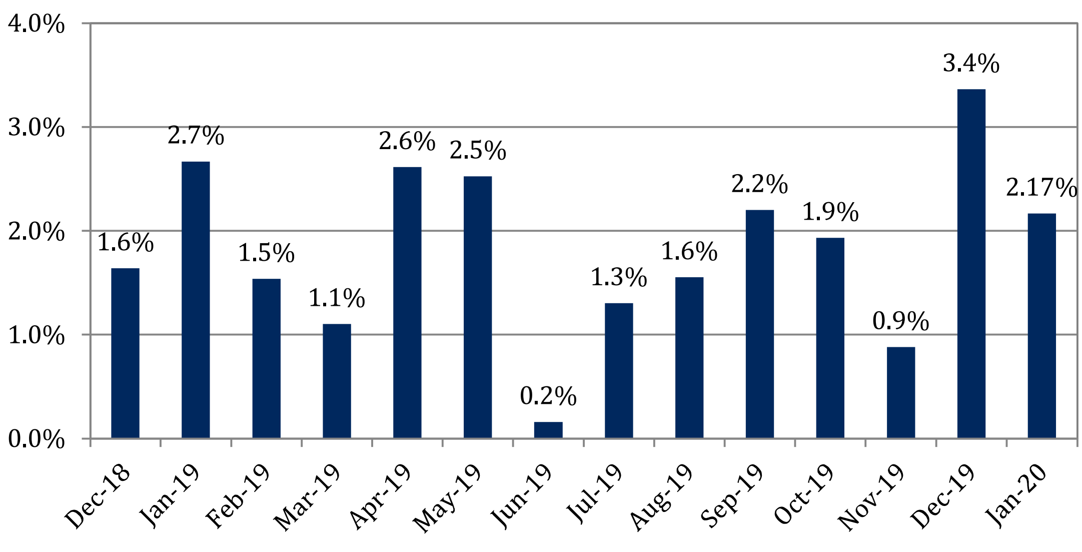

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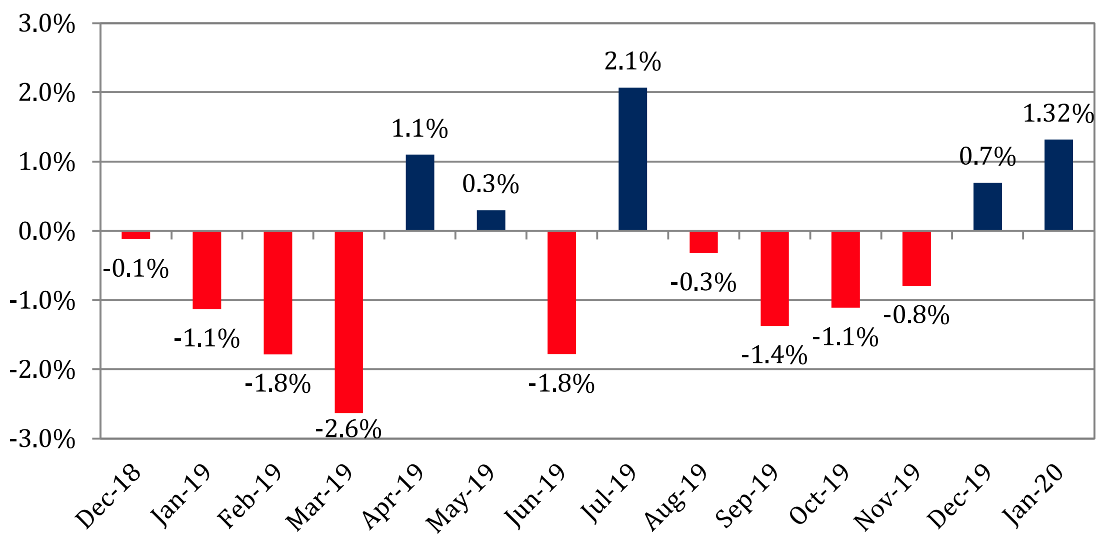

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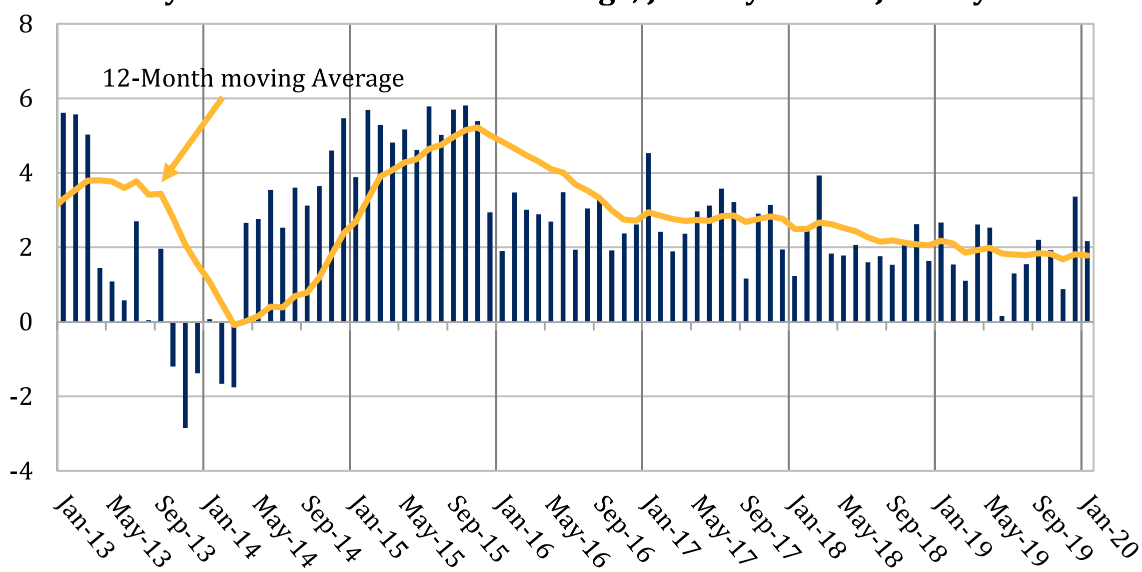

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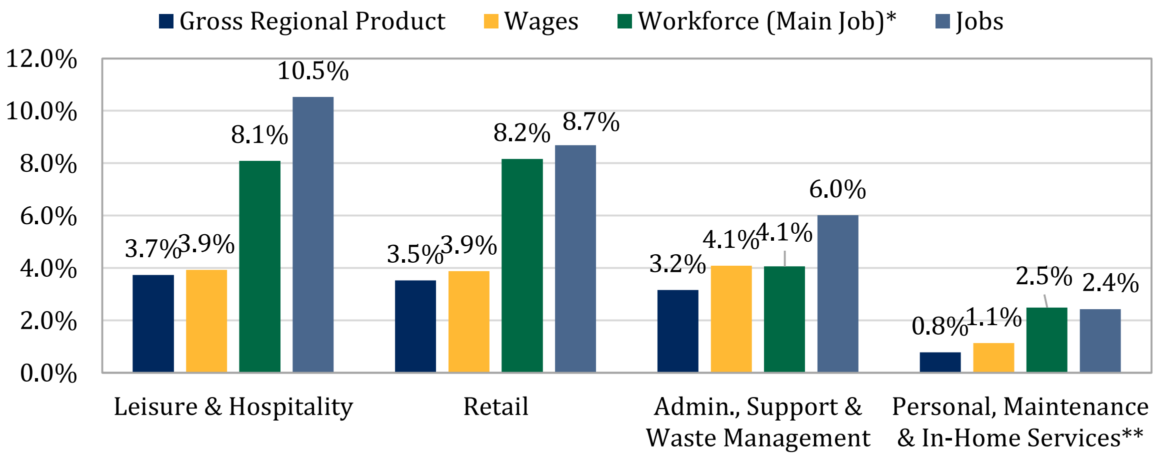

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