



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

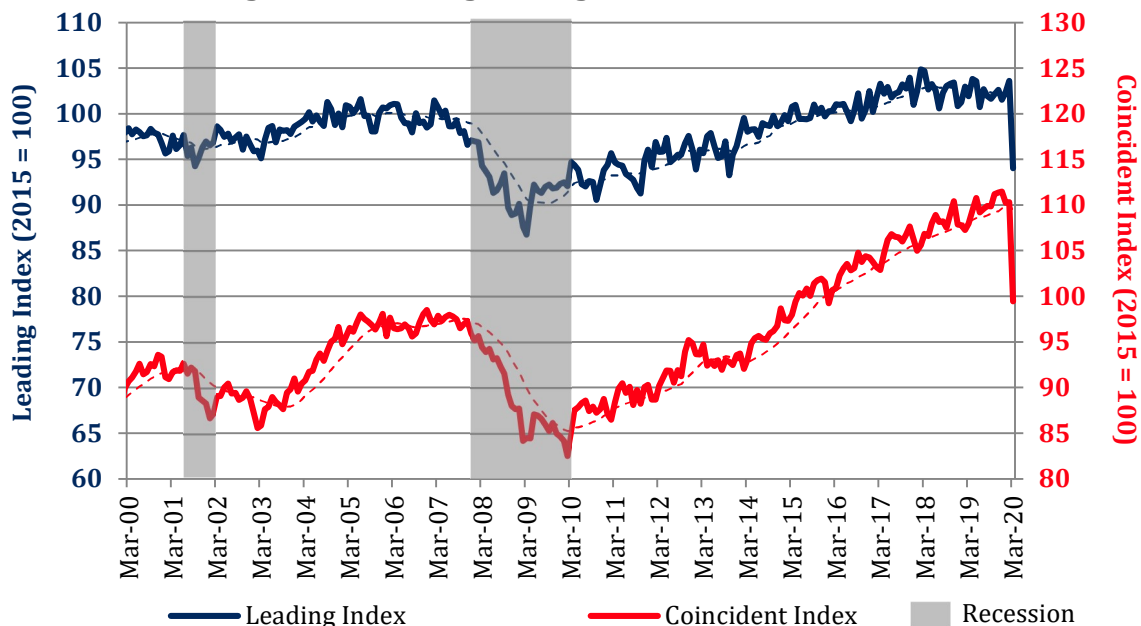
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The Washington Region's Economic Expansion Ended in March 2020

In March 2020, Washington region's Coincident Index and Leading Index decreased compared to both February 2020 and March 2019, reflecting the end of the economic expansion that began in April 2014. The Coincident Index decreased 7.9 percent compared to last March, with two of the four components contributing to its decline. The two components that continued to increase on a monthly over-the-year basis reflect conditions as of mid-March and both decreased as of mid-April. The Leading Index decreased 7.7 percent between March 2019 and March 2020, with declines in three of its four components. Economic conditions continued to deteriorate in April. The Washington region lost 301,000 jobs (-9.0%) between April 2019 and April 2020, including nearly one-half (46.7%) of the Leisure & Hospitality sector. Overall, the Washington region's economy is projected to contract between 5.3 percent and 6.0 percent in 2020, depending on how quickly consumer confidence returns.

Figure 1. Washington Region Economic Indices



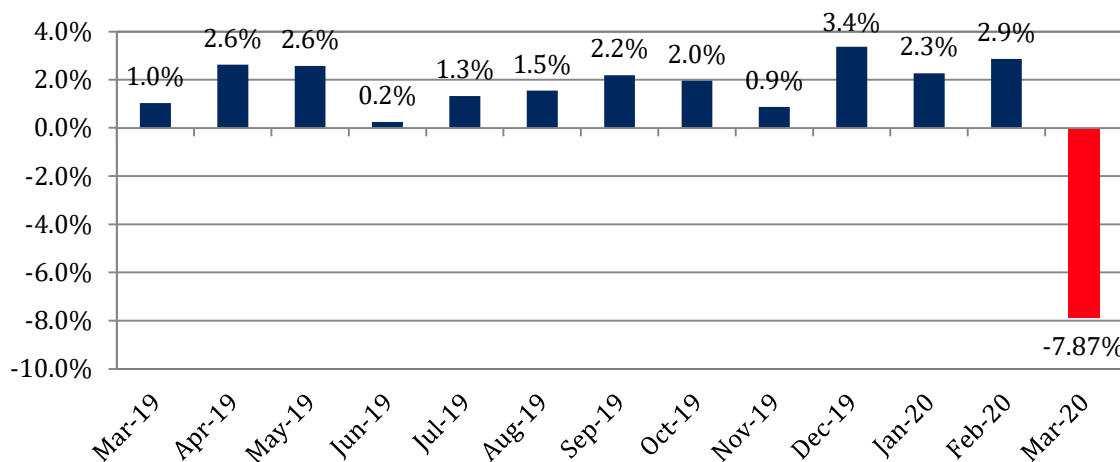
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, decreased 9.8 percent between February 2020 and March 2020. This is the largest month-to-month decrease on record, with data starting in 1990, and reflects the sharp pivot in economic conditions caused by the pandemic. All four of the Index's components decreased compared to last month: domestic airport passengers (-56.2%), consumer confidence (-6.1%), non-durable goods sales (-3.2%), and wage and salary employment (-0.2%).

Compared to March 2019, the Coincident Index decreased 7.87 percent, ending its 71-month trend of gains that began in April 2014. Even though the decrease in March 2020 was the ninth largest since 1990 on a monthly over-the-year basis, it does not fully capture the economic effects of the pandemic. Of the four components, the two that measured conditions through mid-March, consumer confidence and employment, had gains.¹ However, the two components that reflect the totals for March, passenger volume and retail sales, had significant declines:

- *Consumer confidence (in the present)* increased 4.3% from last year, reflecting conditions through March 19, 2020; and,
- *Wage and salary employment* in the Washington region increased 0.9% between March 2019 and March 2020; while,
- *Domestic passenger volume at Reagan National and Dulles Airports* decreased 54.3% from March 2019, which is the largest decrease since 1978; and
- *Non-durable goods retail sales* decreased 1.2% compared to last year, marking its first decline in 37 months on a monthly over-the-year basis.

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



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

¹ The survey of consumers was closed on March 19 and wage and salary employment is measured as of the March 12 pay period of each month.

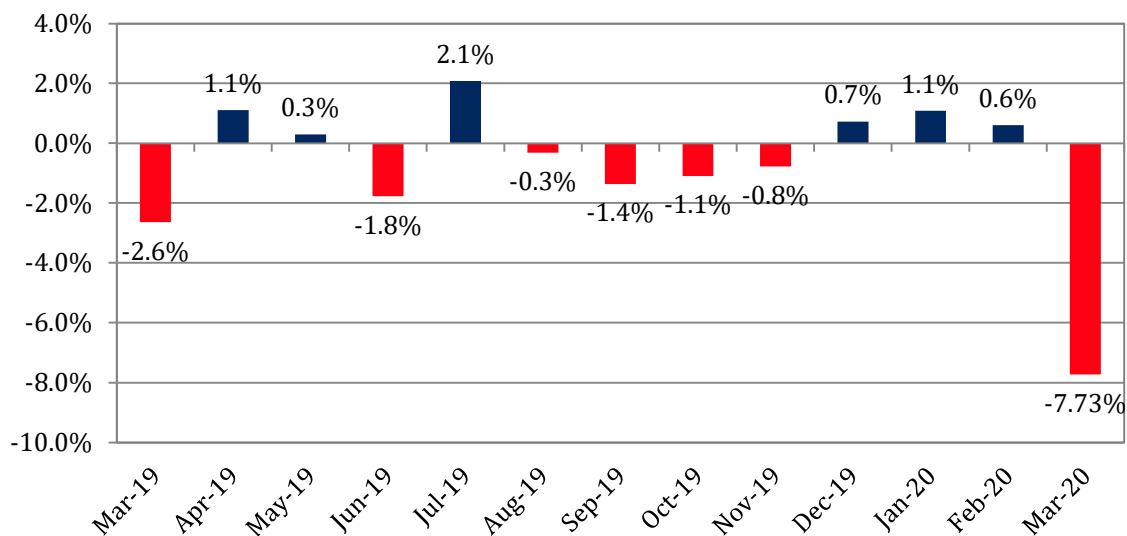
The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy in six to eight months, decreased 9.2 percent between February 2020 and March 2020, marking the largest decline since 1990 on a month-to-month basis. Three of the four components contributed to this contraction and only building permits increased, reflecting seasonal patterns.

Compared to March 2019, the Leading Index decreased by 7.73 percent. This is its largest monthly over-the-year decrease since 2009 and the seventh largest decline on record. Under normal business cycle conditions, this decrease would suggest a sharp economic contraction in the fall or winter of 2020; however, the current contraction primarily reflects the immediate effects of the pandemic, especially on durable goods retail sales and initial unemployment claims, and is less indicative of future conditions.

In March, three of the Leading Index's four components contributed to its decline:

- *Total residential building permits* increased 13.8 percent, reversing its seven-month trend of monthly over-the-year declines; while
- *Consumer expectations (consumer confidence six months hence)* decreased 6.0% compared to last March, marking its first decrease in four months;
- *Durable goods retail sales* decreased 17.2% for its first decline in nine months; and
- *Initial claims for unemployment insurance* increased 2,126.5% (worsened) for its largest monthly over-the-year increase on record.

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



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

Current Performance

The Washington region's economy contracted in March 2020, ending the economic expansion that began in April 2014. This recent economic expansion was the second longest on since 1990, behind the 1992-2001 expansion that lasted for 107 months.² Overall, the Washington region's Coincident Index showed a rapid, broad-based deterioration in the economy during the month of March. The Index decreased 9.8 percent compared to February 2020 and 7.9 percent compared to March 2019. On a month-to-month basis, all four components decreased. On a monthly over-the-year basis, the two components that were measured as of mid-March continued to increase, while the two that reflected conditions for all of March decreased. The economic deterioration continued into April and economic activity will remain weak until the health crisis abates.

The two components of the Coincident Index that had registered gains on a monthly over-the-year basis as of mid-March were consumer confidence and wage and salary employment. As of mid-April, both components decreased. Consumer confidence in present economic conditions for the South Atlantic region decreased 59.5 percent compared to April 2019, marking the largest decrease since the 2008 Recession and bringing the confidence level to its lowest point since 2014. The number of jobs in the Washington region decreased by 301,000 (-9.0%) from April 2019 and the number of jobs in the region reached its lowest April-level in nine years.

Between April 2019 and April 2020, every sector except the Federal Government³ lost jobs but the losses were primarily concentrated in three sectors: Leisure & Hospitality, Retail Trade and Education & Health Services. These sectors accounted for 82.8 percent of the total decline in April and just 31.6 percent of the jobs base. The largest decrease was in the Leisure & Hospitality sector, which lost nearly one-half (46.7%) of its jobs for a total decline of 157,000 jobs. Within this sector, the Arts, Entertainment & Recreation sub-sector decreased by 51.2 percent, or 23,500 jobs, and had the sharpest percentage decrease. The Food Service & Drinking Places sub-sector decreased by 48.6 percent (-118,700 jobs) and had the largest absolute decline of all sub-sectors in any industry. The Accommodation sub-sector decreased by 32.0 percent, or 14,800 jobs. Altogether, the decrease in this sector was in line with the national decline of 47.2 percent.

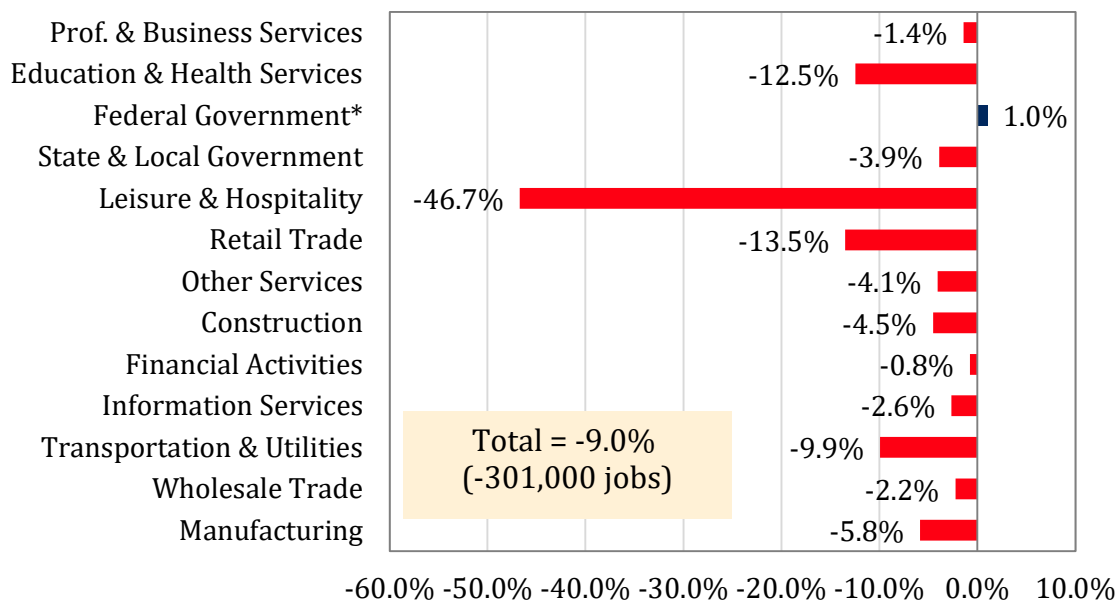
The Retail Trade sector had the second largest percentage decrease (-13.5%) and declined by 35,900 jobs in the Washington region. Nationally, this sector decreased by 13.4 percent and had losses in every sub-sector except Warehouse Clubs & Supercenters. The largest percentage decline in the U.S. was in the Clothing & Clothing Accessory sub-sector, which decreased by 59.7 percent. Nationally, these

² Excluding the two months of mild, temporary declines in early 1996 that were likely due to the 1995-1996 federal government shutdown

³ The Federal Government increase was likely due to temporary Decennial Census hires.

losses were consistent with retail spending estimates for April from the U.S. Census; retail spending excluding Food & Drinking Places (restaurants and bars) decreased 17.3 percent while retail spending in Clothing & Clothing Accessories Stores decreased by 89.3 percent.

**Figure 4. Percent Change in Jobs by Sector
April 2019 to April 2020, Washington Region (Ranked by Size in 2019)**



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

*Includes temporary Decennial Census hires.

The Education & Health Services sector had the third largest percentage decline and lost 12.5 percent of its jobs, or 56,400 jobs in total. These losses were concentrated in the Health Services sub-sector (-15.3%, -50,500 jobs). The Ambulatory Health Care Services sub-sector lost one-fifth (20.9%) of its jobs, declining by 29,600 jobs, while the Residential Care and Social Assistance sub-sector lost 15.9 percent of its jobs (-17,900 jobs). Hospital employment had smaller losses, decreasing by 4.0 percent or by 3,100 jobs. Overall, both the Education & Health sector and Health Services sub-sector had sharper losses in the Washington region compared to the U.S. The Education & Health Services sector decreased by 8.7 percent nationally, while the Health Services sub-sector decreased by 8.3 percent.

The largest sector in the Washington region, Professional & Business Services, lost 10,800 jobs (-1.4%) as a result of the pandemic. These losses were concentrated in the Administrative Support & Waste Management sub-sector, which decreased by 18,700 jobs (-9.5%) and includes Temporary Employment Services. The Professional, Scientific & Technical Services & Management sub-sector continued to add jobs in March, increasing by 7,900 jobs (+2.6%). Overall, this sector significantly outperformed the nation in April. Nationally, the Professional & Business Service sector decreased by 9.0 percent, including a 16.7 percent decrease in the

Administrative Support & Waste Management sub-sector and a 3.2 percent decrease in the Professional, Scientific & Technical Services & Management sub-sector.

Altogether, the Washington region's job losses in April were somewhat milder than those in the U.S. overall. The number of jobs in the U.S. decreased by 13 percent⁴ while those in the Washington region decreased by 9.0 percent. This difference is largely due to the industrial composition of the Washington region, but also partly reflects the ability of the regional workforce, overall, to work from home and the stability in business revenue provided by federal contracting and the knowledge- or management-based services provided by region.

Washington Region's Near-Term Outlook

The Leading Index typically projects economic performance six to eight months in advance based on underlying economic conditions. As a result of the pandemic, this Index has become less indicative of future conditions and, instead, is primarily reflecting current economic conditions. In March 2020, the Leading Index mirrored the trend of the Coincident Index, decreasing 9.2 percent from February 2020 and 7.7 percent from March 2019. Also like the Coincident Index, the Leading Index will continue to decline until the health crisis improves. In past recessions, the Leading Index reaches a trough and begins to improve before the recession ends. During this recession, it is unlikely that the Leading Index will pivot prior to the Current Index. Instead, the health crisis will determine consumer demand and economic conditions.

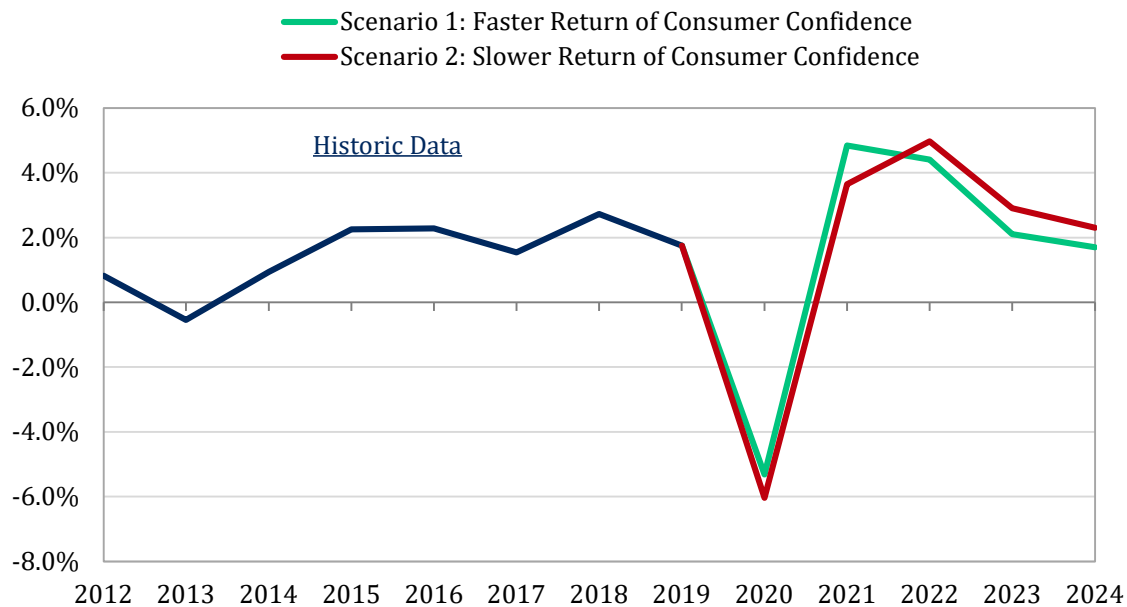
The pandemic has now affected the Washington region for nearly three months, starting in early March and lasting through the end of May. Once health experts deem it safe, the region is planning to follow a three-phase reopening. Assuming that this reopening occurs starting in June 2020 and that a vaccine is available in June 2021, the Washington region's economy is projected to contract between 5.3 and 6.0 percent in 2020. This range assumes the same underlying pandemic and reopening conditions but different consumer confidence trajectories. The speed at which consumer confidence rebounds will determine how quickly consumer demand, and their spending, returns. Consumer confidence will reflect how consumers feel about how institutions and governments addressed the pandemic, the likelihood of additional pandemics or economic disruptions, overall attitudes about near-terms risk, and a variety of other household-specific factors.

If consumer confidence rebounds quickly, the economic contraction in 2020 will be slightly milder (-5.3%) and the economy would increase in 2021 by 4.8 percent as measured by Gross Regional Product (GRP). Even with this growth, the economy would not fully recover until 2022, when the economic is projected to increase 4.4 percent. Economic growth in 2023 and 2024 would then moderate to 2.1 percent and 1.7 percent, respectively.

⁴ The U.S. estimate (-12.9%) differs slightly from the estimate of state-level data (-13.2%).

If consumer confidence returns slowly, the economic contraction in 2020 is projected to be larger (-6.0%) because consumer spending, and the recovery, would remain weak even as the health crisis subsides. Economic growth would return in 2021 (+3.6%) and would be stronger in 2022 (+5.0%) as the rebound in consumer spending would be delayed. Economic growth would also be moderately stronger in 2023 and 2024, as demand would continue to catch-up.

**Figure 5. Annual Change in the Washington Region's GRP
2012 – 2019 – 2024**



Sources: U.S. Bureau of Economic Analysis; The Stephen S. Fuller Institute at the Schar School, GMU (forecast as of May 26, 2020)

This forecast continues to have significant downside risk. The first phase of the economic reopening will coincide with a modest increase in consumer demand that is related to improving health situation. This initial, incremental increase in demand will not be evenly distributed across industries or geographies. Economic uncertainty will remain until there is clarity on the risk, treatment, and prevention of COVID-19 on an individual basis. Until then, consumer demand will remain subdued and businesses and households will have difficulty planning. This uncertainty will be compounded by the continued loss of firms and household income, which will continue for the duration of the health crisis.

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

Economic Indicator	Estimates			Percent Change	
	Mar-20 Prelim.	Feb-20 Final	Mar-19 Final	Feb-20 to Mar-20	Mar-19 to Mar-20
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	99.5	110.3	107.9	-9.84%	-7.87%
Leading Index (2015 = 100)	94.0	103.6	101.9	-9.23%	-7.73%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,354.1	3,361.1	3,322.6	-0.21%	0.95%
Consumer Confidence (South Atlantic) ^a	166.7	177.6	159.8	-6.14%	4.32%
Domestic Airport Passengers ('000) ^b	991.8	2,264.4	2,169.8	-56.20%	-54.29%
Nondurable Goods Retail Sales (\$000,000) ^c	3,286.7	3,395.0	3,326.5	-3.19%	-1.20%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	2,057.0	1,961.0	1,807.0	4.90%	13.84%
Consumer Expectations (South Atlantic) ^a	97.9	120.5	104.1	-18.76%	-5.96%
Initial Unemployment Claims ^b	43,567.8	2,132.6	1,956.8	1942.93%	2126.50%
Durable Goods Retail Sales (\$000,000) ^c	3,078.5	3,960.8	3,716.2	-22.28%	-17.16%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,504.9	3,514.0	3,422.9	-0.26%	2.40%
Employed Labor Force ('000)	3,390.2	3,409.5	3,309.7	-0.56%	2.43%
Unemployed Labor Force ('000)	114.7	104.5	113.2	9.70%	1.26%
Unemployment Rate	3.3%	3.0%	3.3%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,354.1	3,361.1	3,322.6	-0.21%	0.95%
Construction ('000)	163.9	163.6	161.5	0.18%	1.49%
Manufacturing ('000)	57.3	58.7	56.2	-2.39%	1.96%
Transportation & Public Utilities ('000)	73.5	74.0	72.4	-0.68%	1.52%
Wholesale & Retail Trade ('000)	330.3	329.7	329.4	0.18%	0.27%
Services ('000)	2,011.0	2,018.7	1,992.8	-0.38%	0.91%
Total Government ('000)	718.1	716.4	710.3	0.24%	1.10%
Federal Government ('000)	364.4	365.3	361.9	-0.25%	0.69%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars