



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

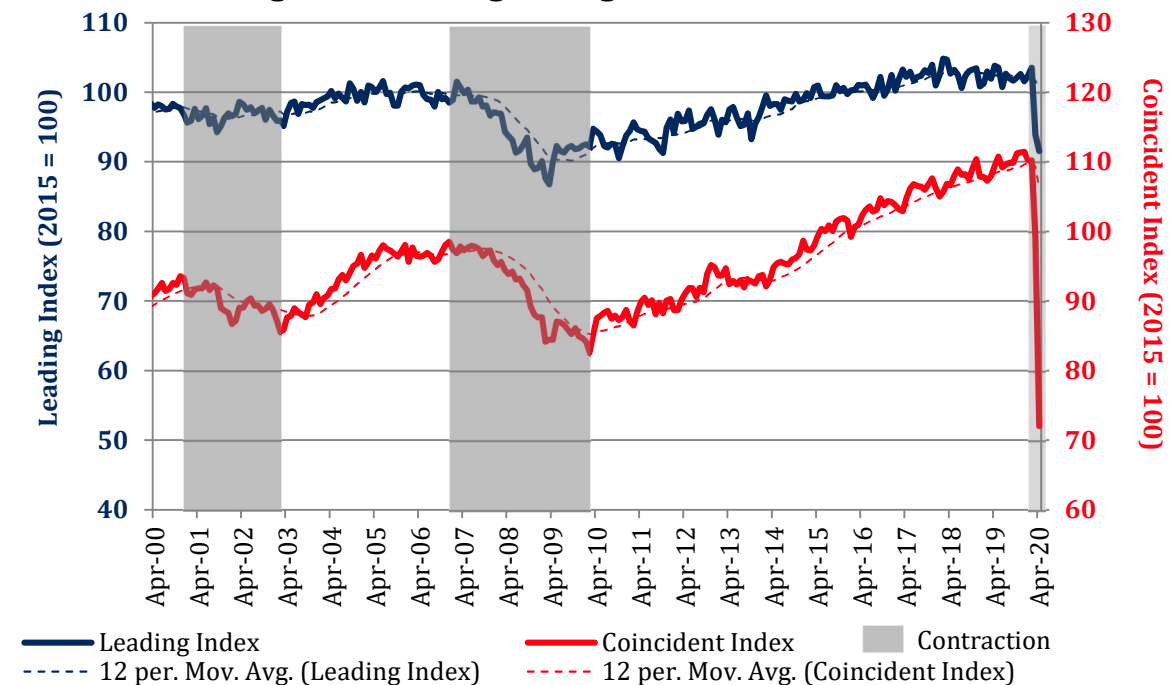
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The Washington Region's Economic Conditions Registered Record-Breaking Declines in April

In April 2020, Washington region's Coincident Index and Leading Index registered record-breaking declines as the health crisis has caused an economic contraction of unprecedented speed and severity. In April 2020, the Coincident Index decreased 27.3 percent compared to March 2020 and 34.0 percent compared to April 2019; both declines were the largest on record with data starting in 1990. The Leading Index decreased 2.5 percent from March 2020 and 11.7 percent from April 2019, with the monthly over-the-year change being the largest on record. The employment market continued to deteriorate in May. The region lost 9.5 percent of its jobs between May 2019 and May 2020 while the monthly over-the-year decline was 8.9 percent in April. Overall, the data suggest that the regional economic contraction is on track to reach its trough in June or early July, as long as the health metrics continue to improve and consumer confidence in the economy returns.

Figure 1. Washington Region Economic Indices



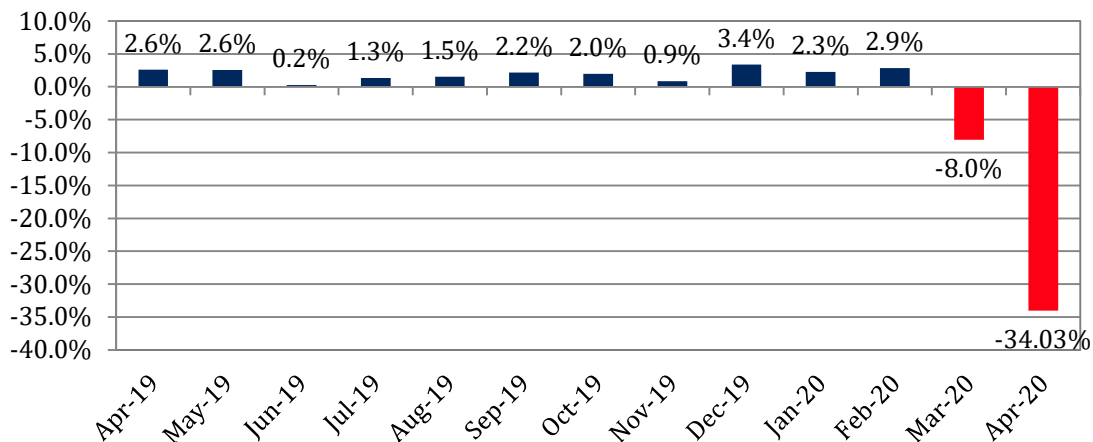
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, decreased 27.3 percent between March 2020 and April 2020. The largest two month-to-month decreases on record, with data starting in 1990, have occurred as a result of the pandemic; the change in April was the largest on record, while the change in March (-10.0%) now ranks second. All four of the Index's components decreased compared to last month: domestic airport passengers (-89.9%), consumer confidence (-56.1%), non-durable goods sales (-10.6%), and wage and salary employment (-9.1%).

Compared to April 2019, the Coincident Index decreased 34.03 percent, marking the largest monthly over-the-year decline on record with data starting in 1990. The prior record had been in February 2009, when the Index decreased 12.0 percent; the pandemic-induced decline was 2.8 times as large and brought the Index to its lowest level since 1993. For the first time since the Great Recession, all four components decreased on a monthly over-the-year basis and three components registered their largest decreases in 30 years:

- *Wage and salary employment* in the Washington region decreased -9.0 between April 2019 and April 2020, its largest decline since this data series began in 1990;
- *Non-durable goods retail sales* decreased 12.0% compared to last year, marking its largest decline since 1990;
- *Consumer confidence (in the present)* decreased 59.5% from last year and was the only component to have had larger decreases during the prior contractions in 2008-2009 and 2001-2002; and
- *Domestic passenger volume at Reagan National and Dulles Airports* decreased 95.5% from April 2019, which is the largest decrease since 1978.

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



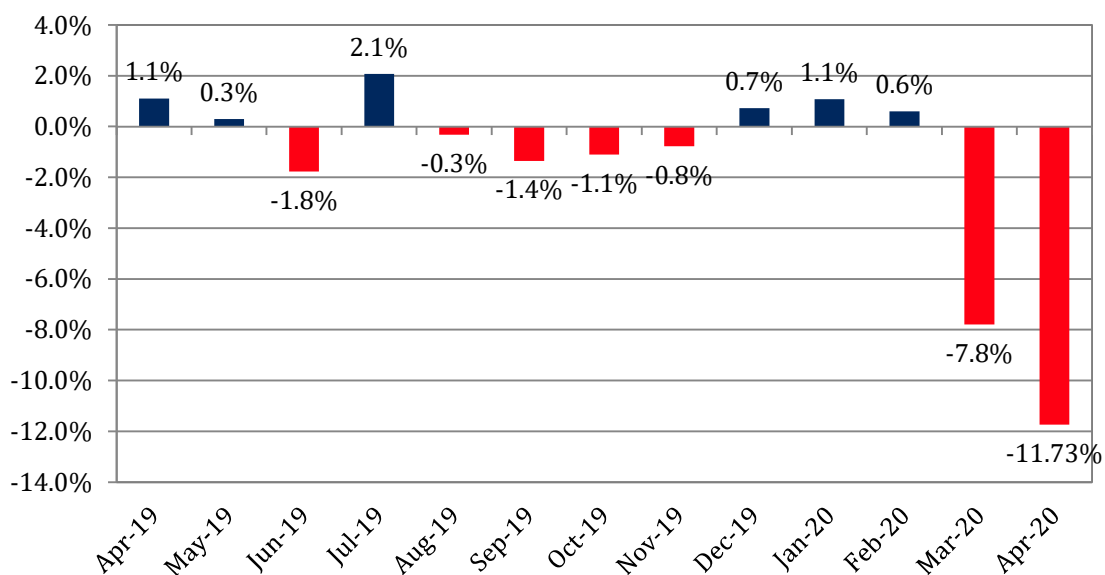
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy in six to eight months, decreased 2.5 percent between March 2020 and April 2020, following its 9.3 percent decrease in March. Three of the four components contributed to this contraction in April and only consumer expectation modestly improved compared to March 2020 (+0.4%).

Compared to April 2019, the Leading Index decreased by 11.73 percent, marking the largest monthly over-the-year decline on record with data starting in 1990. The prior record had been in February 2009, when the Index decreased 9.5 percent. As a result of the pandemic, the Index is now at its lowest level since October 2011. However, this decrease reflects the current economic conditions instead of future conditions and future economic conditions will be determined more by health conditions than business cycle factors. In April, all four components contributed to its decline and two components registered their largest declines in 30 years:

- *Consumer expectations (consumer confidence six months hence)* decreased 21.7% compared to last April, marking its largest decrease in six months;
- *Durable goods retail sales* decreased 26.9% and registered its largest decrease on record;
- *Total residential building permits* decreased 42.8 percent, its largest decrease since 2015; and
- *Initial claims for unemployment insurance* increased 2,334.5% (worsened) for its largest monthly over-the-year increase on record.

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



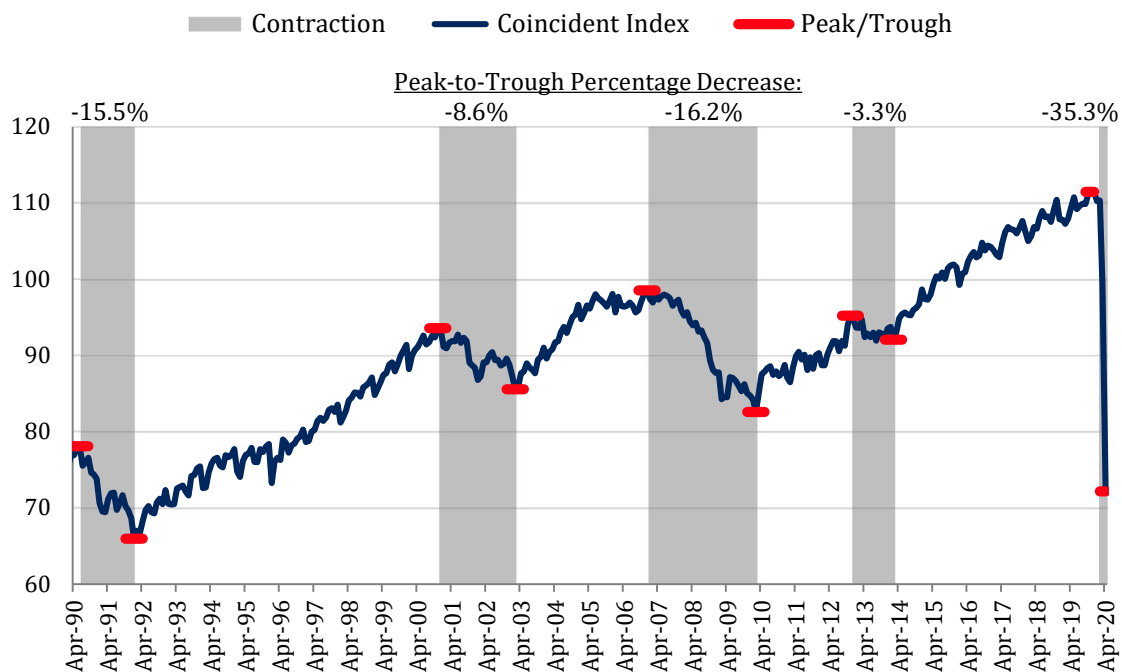
Source: The Stephen S. Fuller Institute at the Schar School, GMU

Current Performance

The Washington region's economic contraction worsened in April 2020, with the Coincident Index registering record-breaking, broad-based declines on both month-to-month and monthly over-the-year bases. Each of the four components had month-to-month and monthly over-the-year declines and three of the four components had decreases that were the largest on record, with data starting in 1990. As of mid-April, the pandemic had resulted in a deterioration in economic conditions that was twice as severe as the three-year decline during the Great Recession.

The Coincident Index had four periods of sustained decline between 1990 and 2019 (Figure 4).¹ On average, these contractions lasted for two years before reaching their troughs. The shortest contraction began in 2012 (the Sequester-induced recession) and lasted for about 1.5 years. The longest contraction began in 2006 (the Great Recession) and lasted for about three years before the Coincident Index registered consistent gains. The average size of the total contraction of the Coincident Index, as measured by the change between the peak and the trough, was 10.9 percent, ranging from a decline of 3.3 percent during the Sequester-induced recession to a decrease of 16.2 percent during the Great Recession.

Figure 4. Washington Region Coincident Index, 1990-2020 (100 = 2015)



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

¹ While the Coincident Index does correspond to changes in economic output, as measured by Gross Regional Product (GRP), it does not measure it directly. Therefore, declines in the Coincident Index correspond to general economic conditions and are not necessarily indicative of a recession as measured by a decrease in GRP.

During the first month of the pandemic-induced contraction (March 2020), the Coincident Index decreased 10.9 percent from its peak in December 2019. This decrease is the equivalent of the average peak-to-trough decline in the past four contractions; that is, the economic contraction that occurred in March 2020 brought the region to trough-like conditions in an average business cycle.

The decline in April was sharper and the Coincident Index decreased 35.3 percent from its peak in December 2019. This is the largest peak-to-trough decline on record and more than twice (2.18) as large the decrease during the Great Recession. Similarly, the month-to-month and monthly over-the-year decreases were the largest on record. Between March 2020 and April 2020, the Coincident Index decreased 27.3 percent. Prior to the pandemic, the largest month-to-month decline on record had been in January 1996 when the Index decreased 6.5 percent as a result of a 21-day federal government shutdown that ended January 6, 1996; the largest recession-related decline was -4.3 percent in January 1991. Between April 2019 and April 2020, the Coincident Index decreased 34.0 percent. Prior to the pandemic, the largest monthly over-the-year decline was -12.0 percent in February 2009.

The effect of the first two months of the pandemic on economic conditions has been five times larger than the effect of the 1996 federal government shutdown, four times larger than the effect of the 9/11/2001 terrorist attacks, and two times larger than the full effect of the Great Recession. Three components of the Coincident Index – wage and salary employment, domestic passenger volume, and non-durable goods sales – and three components of the Leading Index – durable goods sales, building permits and initial unemployment claims – each registered their largest losses on record, further demonstrating the breadth of the declines.

Washington Region's Near-Term Outlook

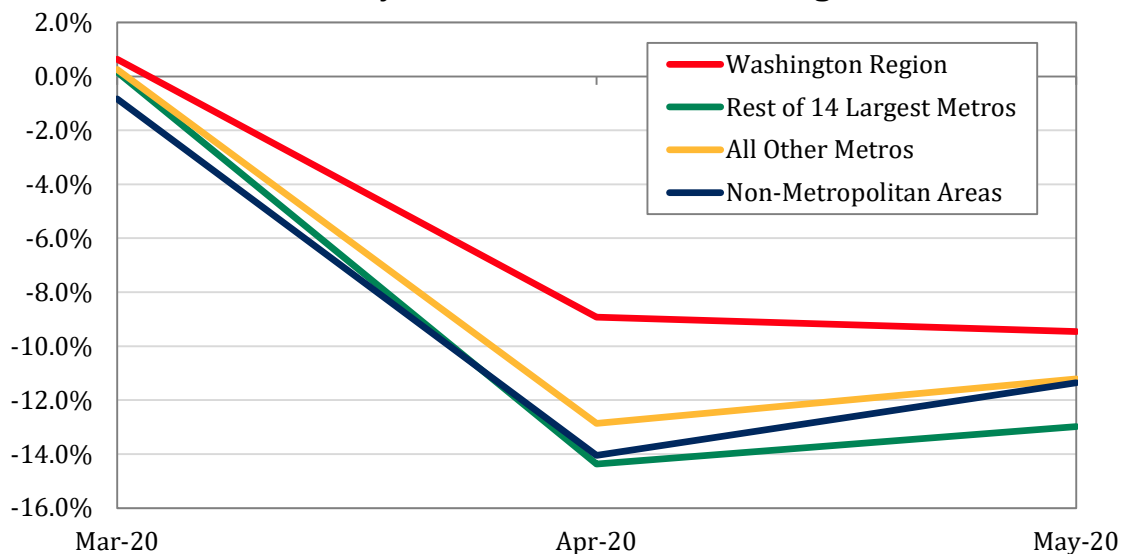
The Washington region's Leading Index projects economic performance six to eight months in advance based on business cycle indicators. However, the current health crisis has affected these indicators and the declines in the Leading Index primarily reflect current conditions. As such, the Leading Index tracked the Coincident Index in April 2020. The Leading Index and three of its four indicators registered monthly over-the-year losses that were the largest on record, with data starting in 1990, mirroring the magnitude and scope of the contraction as measured by the Coincident Index. Neither the Leading nor Coincident Indices will register significant improvement until the health crisis abates.

The jobs data suggest that the economic contraction in the Washington region had not yet reached its trough as of April and job losses accelerated in May 2020. Between May 2019 and May 2020, the Washington region lost 9.5 percent of its jobs (-317,000 jobs), bringing the total number of jobs in the region to its lowest May-level since 2011. Between April 2019 and April 2020, the number of jobs in the

Washington region decreased 8.9 percent (-298,300 jobs). Two sectors drove the accelerated declines in the Washington region in May. State & Local Government jobs decreased 5.9 percent in May on a monthly over-the-year basis, while the decline in April was -3.9 percent. Despite its continued decline, the losses in this sector remain milder than those in the U.S., which had declines of 7.1 percent in May. The Leisure & Hospitality sector also continued to shed jobs in the Washington region between May 2019 and May 2020 and decreased by 47.4 percent, 1.2 percentage points greater than the 46.2 percent decline between April 2019 and April 2020. Nationally, this sector began to recover in May and had losses that were smaller, at 40.1 percent.

While the region's jobs losses in May were larger than those in April, the region continues to outperform the U.S. and its peer metros (Figure 5). Nationally, the employment market showed improvement in May. The monthly over-the-year decrease in May was 11.8 percent compared to a decline in April of 13.4 percent. The region's peer metros, the other 14 largest employment metros, continue to have the most acute jobs losses, declining 13.0 percent in May, reflecting a modest improvement compared to the April decline of 14.4 percent. Jobs losses outside of metropolitan areas showed the most improvement between April and May and the May decrease of 11.4 percent was significantly smaller than the April losses of 14.0 percent.

**Figure 5. Jobs by Select Geography
Monthly Over-the-Year Percent Change**

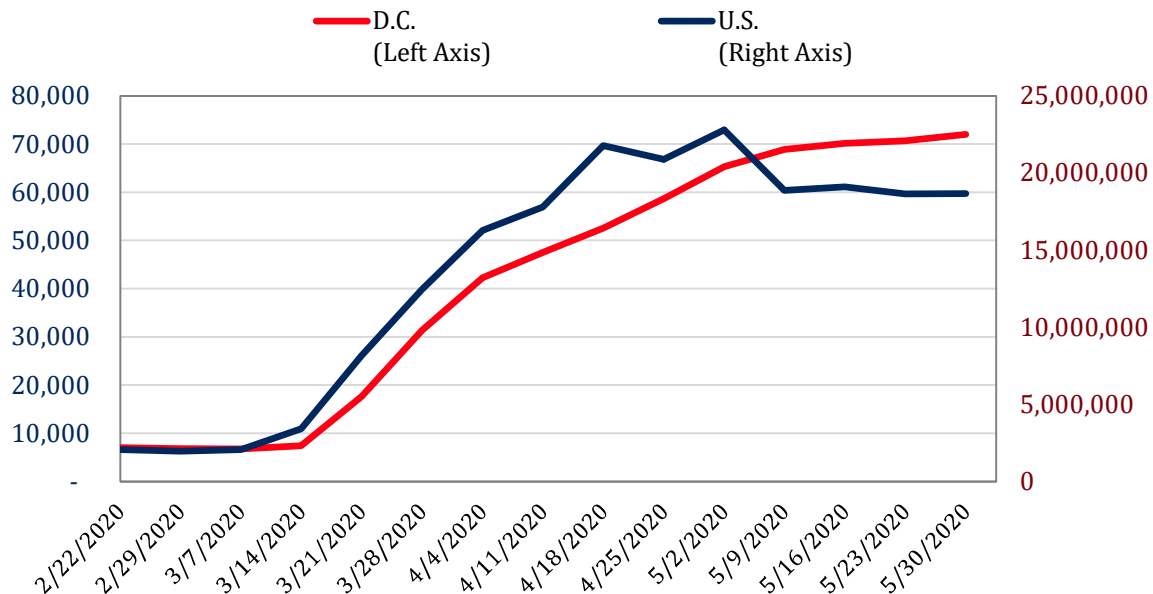


Source: Bureau of Labor Statistics; The Stephen S. Fuller Institute at the Schar School, GMU

Continued unemployment claims indicate that the regional employment market stabilized at the end of May. The number of continued claims in D.C. continued to rise, but the rate of increase was a modest 1-2 percent instead of the double- and triple-digit gains that occurred earlier in the pandemic. In the U.S., this plateau occurred at the end of April. By the end of May, the number of people filing for

continued unemployment insurance had decreased 18.2 percent from the peak nationally.

Figure 6. Continued Unemployment Insurance Claims, D.C. & U.S.



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

NOTE: Date reflects the week that unemployment occurred.

Both the jobs data and the unemployment claims data show that the initial decline in the employment market was smaller in the Washington region compared to the U.S., but that the Washington region had a more prolonged period of decline. Initial data suggest that the regional contraction will reach its trough during in June or early July; however, a worsening of the health crisis or a second wave of the virus, a continued weakening of consumer confidence or further disruption to the financial markets would extend and deepen the region's economic contraction.

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

Economic Indicator	Estimates			Percent Change	
	Apr-20 Prelim.	Mar-20 Final	Apr-19 Final	Mar-20 to Apr-20	Apr-19 to Apr-20
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	72.2	99.3	109.4	-27.32%	-34.03%
Leading Index (2015 = 100)	91.6	94.0	103.8	-2.49%	-11.73%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,040.9	3,343.7	3,341.9	-9.06%	-9.01%
Consumer Confidence (South Atlantic) ^a	73.2	166.7	180.7	-56.09%	-59.49%
Domestic Airport Passengers ('000) ^b	99.8	991.8	2,209.8	-89.94%	-95.48%
Nondurable Goods Retail Sales (\$000,000) ^c	2,943.8	3,293.7	3,345.5	-10.62%	-12.01%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	1,500.0	2,057.0	2,622.0	-27.08%	-42.79%
Consumer Expectations (South Atlantic) ^a	98.3	97.9	124.6	0.41%	-21.11%
Initial Unemployment Claims ^b	50,142.2	43,567.8	2,059.7	15.09%	2334.49%
Durable Goods Retail Sales (\$000,000) ^c	2,694.8	3,059.5	3,687.9	-11.92%	-26.93%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,343.6	3,506.5	3,412.3	-4.65%	-2.01%
Employed Labor Force ('000)	3,013.5	3,390.6	3,314.9	-11.12%	-9.09%
Unemployed Labor Force ('000)	330.0	115.9	97.4	184.85%	238.97%
Unemployment Rate	9.9%	3.3%	2.9%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,040.9	3,343.7	3,341.9	-9.06%	-9.01%
Construction ('000)	156.3	163.7	163.7	-4.52%	-4.52%
Manufacturing ('000)	53.3	57.2	56.6	-6.82%	-5.83%
Transportation & Public Utilities ('000)	65.4	72.7	72.6	-10.04%	-9.92%
Wholesale & Retail Trade ('000)	291.8	332.6	329.1	-12.27%	-11.33%
Services ('000)	1,773.1	1,999.3	2,009.0	-11.31%	-11.74%
Total Government ('000)	701.0	718.2	710.9	-2.39%	-1.39%
Federal Government ('000)	365.8	364.7	362.1	0.30%	1.02%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars