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.

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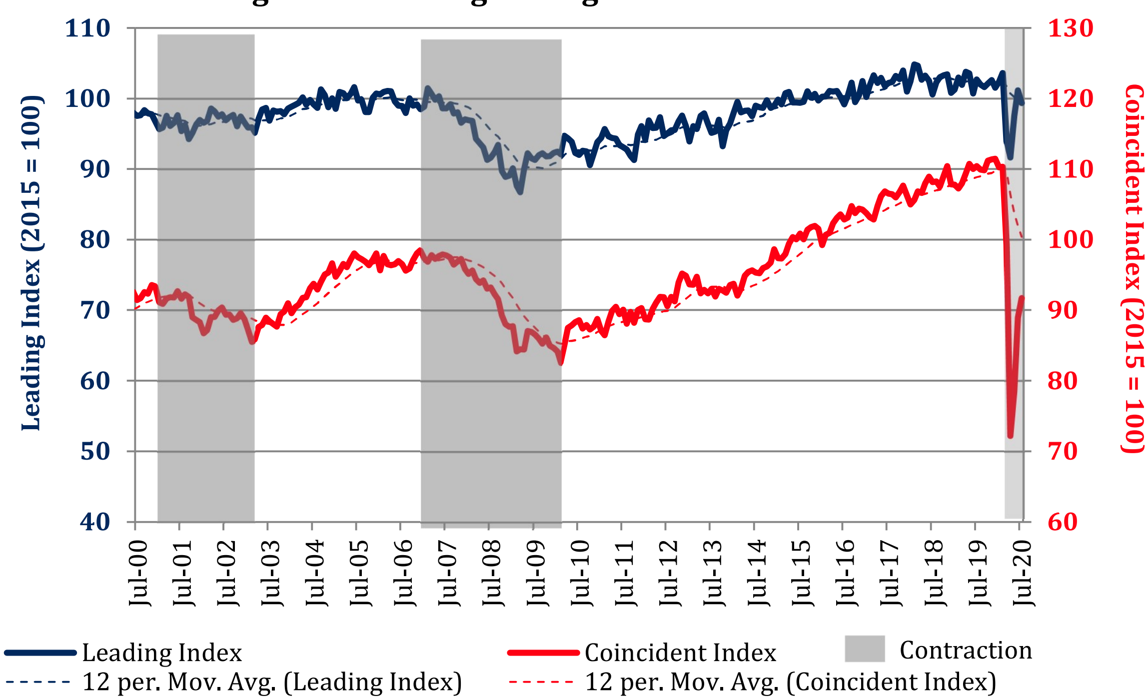
The Economic Recovery Continued in July But the Rate of Recovery Slowed

In July 2020, the Washington region's Coincident Index increased 3.1 percent from June 2020, marking its third consecutive month-to-month gain. The July increase was smaller than the month-to-month gain in June (+13.3%) and the rate of improvement slowed in July. The Coincident Index decreased 16.9 percent from last July and this economic contraction remains sharper than those during prior recessions. The Leading Index decreased 1.8 percent on a month-to-month and 3.2 percent on monthly over-the-year basis and reversed the gains that occurred in June. In August, the region's employment market improved at a faster rate than in July but national data and consumer confidence estimates suggest that the recovery slowed in September. This fall, the rate recovery will slow further due to the continued uncertainty about the pandemic will be compounded by the uncertainty from the federal election, the timeliness of its results, and the potential for a deferred federal stimulus until 2021.

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 3.1 percent between June 2020 and July 2020. This is the third consecutive month-to-month gain and the Index has now increased 27.0 percent since its trough in April. The majority of this increase occurred in June and the rate of improvement slowed in July. Three of the four components had month-to-month gains in July: domestic airport passengers (+24.1%), non-durable goods sales (+2.1%), and wage and salary employment (+0.3%). Consumer confidence decreased 0.7 percent from June 2020 and continues to be the most volatile component.

Compared to July 2019, the Coincident Index decreased 16.93 percent. While this is the smallest decline since April, this loss is 5.0 percentage points sharper than the largest monthly over-the-year decrease outside of the pandemic (February 2009). The rate of improvement slowed in July and three of the four components decreased from last July:

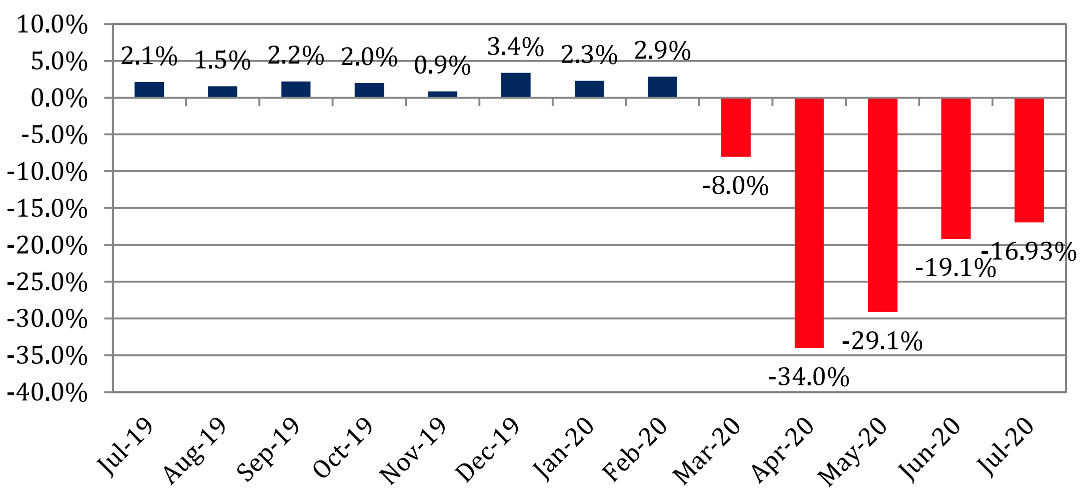
- *Non-durable goods retail sales* increased 2.4% from last year for its second consecutive gain; while

- *Wage and salary employment* in the Washington region decreased 7.3% between July 2019 and July 2020 and the losses continued to moderate since their trough in May;

- *Consumer confidence (in the present)* decreased 42.0% from last July and was the only component to worsen compared to its June monthly over-the-year performance of -39.2%; and

- *Domestic passenger volume at Reagan National and Dulles Airports* decreased 79.8% from July 2019 and continues to be the least recovered component.

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 1.8 percent between June 2020 and July 2020 after two consecutive months of gains on a month-to-month basis. This reversal was driven by month-to-month declines in three of the four components: residential building permits (-29.5%), consumer expectations (-17.4%), and durable goods retail sales (-0.1%). Initial unemployment insurance claims decreased 16.5 percent and have improved for three consecutive months.

The Leading Index decreased 3.25 percent compared to July 2019 and decreased 4.1 percent compared to its pre-pandemic reading in February 2020. The Index had improved in June on a monthly over-the-year basis but this gain was temporary, driven by an increase in multifamily building permits and consumer expectations. Consumer expectations continued to weaken in August; however, initial unemployment claims had a smaller increase and total building permits had a smaller decrease in August. Altogether, the Leading Index is likely to improve modestly in August but remain below its 2019 level. In July, three of the four components contributed to this improvement on a monthly over-the-year basis:

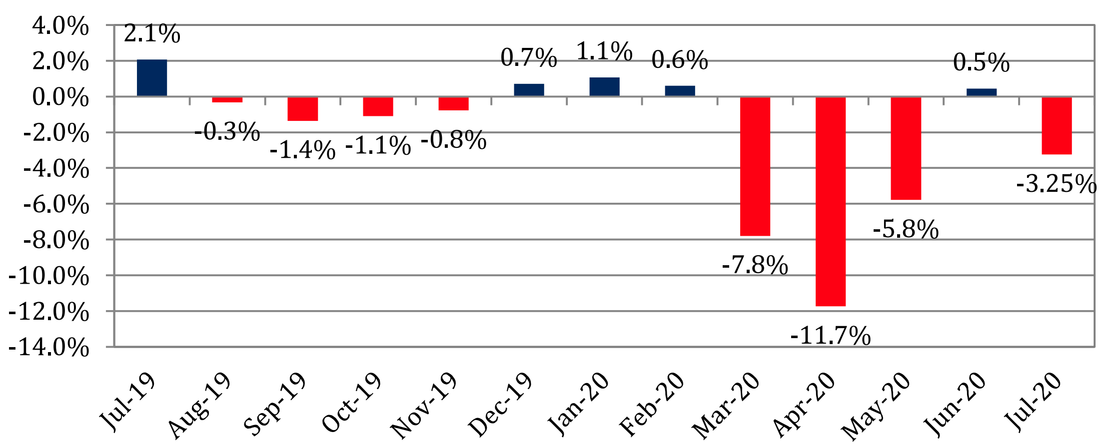
- *Durable goods retail sales* increased 9.0% for its second consecutive increase; while

- *Consumer expectations (consumer confidence six months hence)* decreased 21.6% from last July, reaching its lowest level since 2016;

- *Total residential building permits* decreased 40.3 percent, primarily because of a decrease in multi-family permits (-66.4%);

- *Initial claims for unemployment insurance* increased 425.3% (worsened), after increasing 479.8% in June.

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

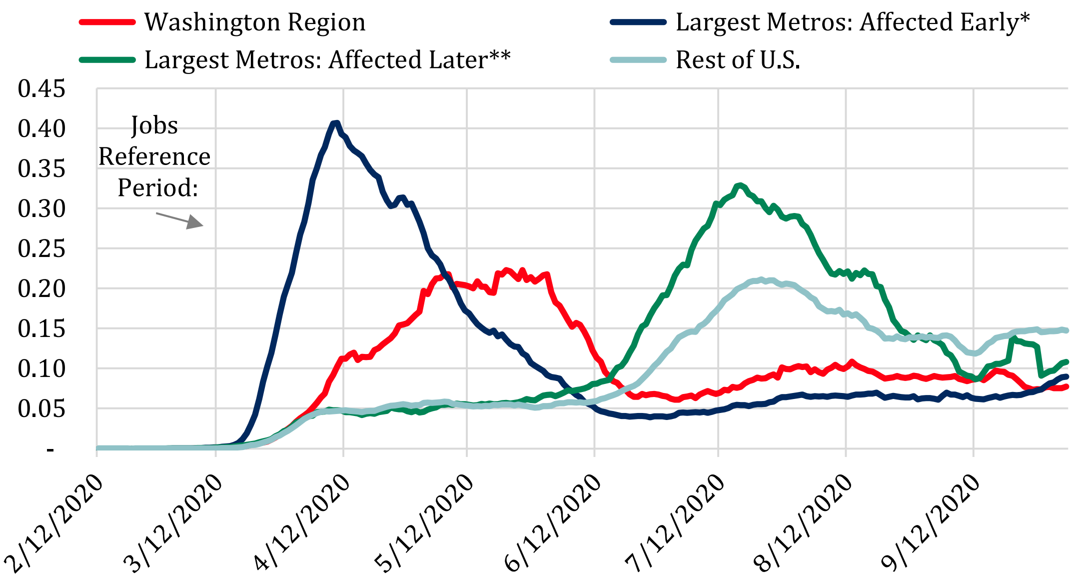


Source: The Stephen S. Fuller Institute at the Schar School, GMU

Current Performance

The economic recovery slowed in July and the Coincident Index increased 3.1 percent between June 2020 and July 2020 after increasing 13.3 percent in June and 8.8 percent in May on a month-to-month basis. Three of its components had smaller gains in July than in June and one component, consumer confidence in the present, decreased between June 2020 and July 2020. In August, consumer confidence weakened further in spite of continued improvement in the employment market.

Figure 4. New Daily COVID-19 Cases per 1,000 Residents,
Largest 15* Employment Metros & Rest of the U.S., 7-Day Average, 2/12/20 – 10/4/20

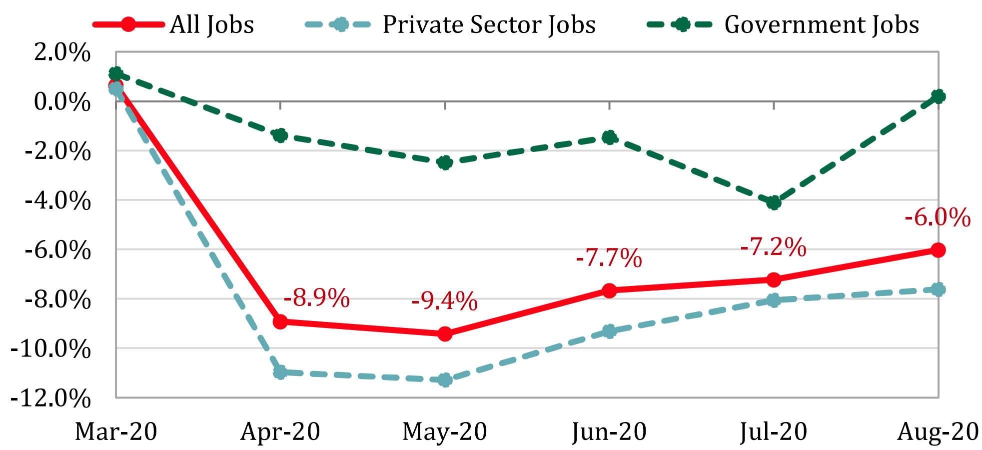


Sources: Johns Hopkins University Center for Systems Science and Engineering; U.S. Census Bureau (v2019 Population Estimates); The Stephen S. Fuller Institute at the Schar School, GMU
*Reflects reporting changes alter the trend for the Boston MSA in mid-August **Reflects laboratory reporting backlog in Texas that were reported in September.

The health conditions continued to affect the local and national economies in July and August. The improvement in confirmed COVID-19 case rates that occurred for most of June in the Washington region and nationally bolstered local consumer sentiment and durable goods sales. These conditions were not sustained and case rates spiked in July in nine of the 15 largest employment metropolitan statistical areas (metros) and in many areas elsewhere in the U.S. As a result, the national economic recovery slowed and both national and local consumer confidence weakened in July and August. The jobs recovery also faltered for most regions that had rising case rates in August. Of the nine largest metros that had rising case rates, three of these metros had job losses between June and August and three had no appreciable improvement. By contrast, in the six large metros that were most affected by the pandemic in April or May, including the Washington region, case rates were modestly elevated in August but were generally stable in August. These metros typically had a more consistent jobs recovery through August.

The Washington region's economic recovery began in May and job losses began to moderate in June. The May-to-June rebound was relatively strong: the region had lost 9.4 percent of its jobs in May on a monthly over-the-year basis and 7.7 percent of its jobs in June. The recovery stalled in July before accelerating in August; this pattern was primarily the result of temporary changes to state and local government employment, which is often more variable during summer months because of schoolteacher employment. The private sector recovery was more consistent in June and July and slowed modestly in August. Overall, the regional employment market was about 35 percent recovered from its trough in August but remained 6.0 percent (201,400 jobs) lower than its 2019 level.

Figure 5. Jobs in the Washington Region, Monthly Over-the-Year Percent Change



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

The Leisure & Hospitality sector continues to account for about one-half of the decrease in the region's jobs. This sector decreased by 104,200 jobs between August 2019 and August 2020 (-30.0%). The second largest absolute decrease in August was Education & Health Services, which had 35,200 fewer jobs in August 2020 compared to last year; the losses in this sector were primarily driven by non-hospital health care services (-27,800 jobs, -10.9%).[1] The Professional & Business Service sector decreased by 17,300 jobs (-2.2%) on a monthly over-the-year basis in August and accounted for the third largest absolute decline. This decrease was driven by the Administrative, Support & Waste Management sub-sector, which decreased by 22,600 jobs (-10.9%). The Professional, Scientific & Technical Services sub-sector added 7,200 jobs (+1.3%) between August 2019 and August 2020 and did not decrease during the pandemic.

Altogether, economic conditions continued to improve through August in the Washington region. Local consumer confidence estimates and the national employment data in September suggest that the recovery continued in the in September, but that the rate of improvement slowed. COVID-19 case rates in the

[1] These consist of ambulatory health care services, nursing and residential care, and social assistance.

region were relatively stable in August and September but remained elevated from their June level, further supporting the likelihood of a slowdown in the economic recovery during the beginning of fall.

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. During this health crisis, these indicators primarily reflect what consumers and business expect conditions to be in 6-8 months and are less predictive than during a business cycle recession. In June, the Leading Index rebounded as a result of the promising health metrics and stronger gains in economic metrics that measure current conditions. These conditions were temporary and the Leading Index decreased in July. Three of the four components declined between June 2020 and July 2020, and only initial unemployment insurance claims improved. The economic recovery in the Washington region is likely to slow for the remainder of 2020 as a result of the continuing uncertainty about the course of the pandemic, the improbability of an additional federal stimulus this fall, and the federal election.

Consumer expectations is an indication of potential long-term changes to consumer spending. Consumer expectations in the South Atlantic region had shaper declines in July and August than it did at the beginning of the pandemic, suggesting that upcoming spending on durable goods and other larger, planned purchases may begin to slow or be postponed in the upcoming months. While consumer expectations improved modestly in September, they are likely to remain subdued for the rest of the fall as a result of the uncertainty about the pandemic's trajectory and the federal election.

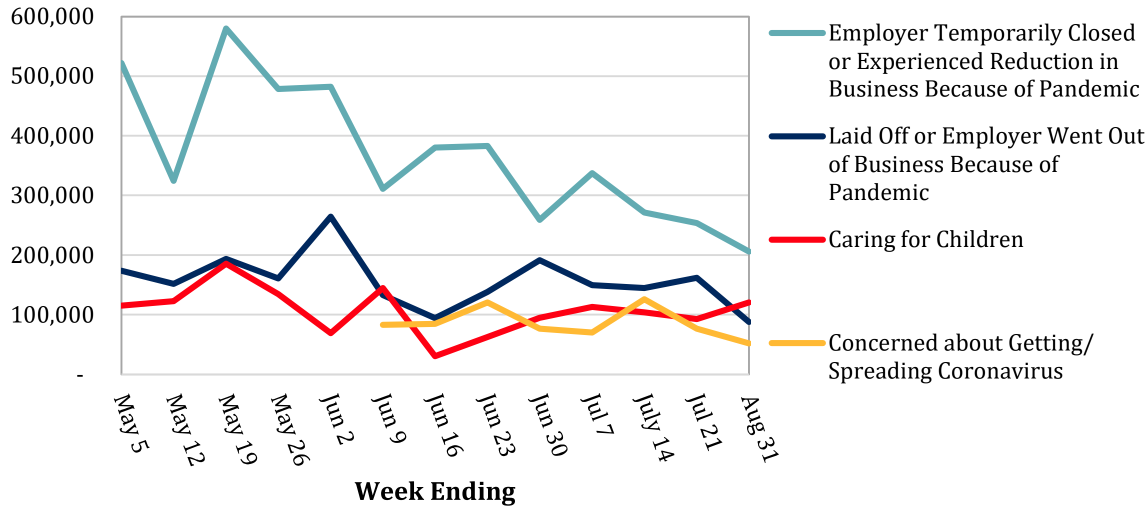
Beyond health conditions and consumer demand, labor force bottlenecks are likely to continue to slow the recovery. As of the end of September, the operations of 10.4 percent of small businesses in the Washington region were constrained by the availability of employees to work and 7.1 percent of small businesses were constrained by their ability to re-hire or hire employees, suggesting that access to labor was an issue.[2] Additionally, nearly one-fourth (23.9%) of small businesses anticipated needing to identify and hire new employees in the next six months, indicating that labor force mismatches and bottlenecks will become a larger issue as the recovery progresses.

The pandemic has significantly increased the number of residents in the Washington region that were either unemployed or not in the labor force. The majority of this increase was the result of employer-based cuts and these workers will likely return to work once their positions are reinstated, with many of them having done so in the past several months. As of the end of August, 205,000 residents aged 18-64 were out of work because their employer either closed

[2] U.S. Census Small Business Pulse Survey Week 9/20/2020-9/26/2020

temporarily or had reduced business because of the pandemic and an additional 90,000 were out of work because they had been laid off or their employer closed permanently. The number of residents that were without a job for either of these reasons has decreased over the course of the pandemic, with the number of temporarily unemployed residents decreasing by more than one-half since peaking in late May/early June and the number of laid off workers decreasing about one-third.[3]

Figure 6. Persons Aged 18-64 Without a Job by Select Reason
Washington Region (Select Weeks between 4/23/2020 and 8/31/2020)



Sources: U.S. Census Bureau (Household Pulse Survey); The Stephen S. Fuller Institute at the Schar School, GMU

About 55,000 residents in the Washington region did not have a job at the end of August because they were concerned about getting or spreading COVID-19. The number of residents with this concern has been fairly consistent and an average of 85,000 residents have noted this as their main reason since this reason was first allowed in June. These residents are unlikely to work until the pandemic has subsided. Similarly, 120,000 residents did not have a job in late August because they were taking care of children and those that may be interested in working will not return to work until schools and daycare are open.

This fall, the continued uncertainty about the potential for a second wave of COVID-19 will be compounded by the federal election, the potential for a prolonged ballot counting process, and the increasing unlikelihood of an additional federal stimulus or any other pandemic-specific changes prior to the election results. As a result of the overall uncertainty, the economic recovery will continue to slow this fall. After the election results are known, the economic recovery will continue to be limited by labor force issues and other pandemic-specific constraints until a permanent solution to the health crisis is available.

[3] These data are from the U.S. Census Bureau's Household Pulse Survey. The margins of error on these survey data are large and this survey does not align with statistics reported by the U.S. Bureau of Labor Statistics.

Washington Area Economic Indicators
Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jul-20 Prelim.	Jun-20 Final	Jul-19 Final	Jun-20 to Jul-20	Jul-19 to Jul-20
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	91.7	89.0	110.4	3.11%	-16.93%
Leading Index (2015 = 100)	99.3	101.2	102.7	-1.80%	-3.25%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000)[a]	3,127.0	3,119.2	3,371.8	0.25%	-7.26%
Consumer Confidence (South Atlantic)[a]	101.4	102.1	174.7	-0.69%	-41.96%
Domestic Airport Passengers ('000)[b]	456.7	367.9	2,261.8	24.13%	-79.81%
Nondurable Goods Retail Sales ($000,000)[c]	3,472.6	3,401.8	3,392.9	2.08%	2.35%
Washington Area Leading Index Components					
Total Residential Building Permitsa	1,714.0	2,432.0	2,870.0	-29.52%	-40.28%
Consumer Expectations (South Atlantic)[a]	90.6	109.7	115.5	-17.41%	-21.56%
Initial Unemployment Claims[b]	10,719.4	12,836.3	2,040.7	-16.49%	425.27%
Durable Goods Retail Sales ($000,000)[c]	4,040.6	4,045.1	3,705.6	-0.11%	9.04%
Washington Area Labor Force[a]					
Total Labor Force ('000)	3,453.6	3,442.3	3,512.6	0.33%	-1.68%
Employed Labor Force ('000)	3,181.7	3,155.6	3,395.7	0.83%	-6.30%
Unemployed Labor Force ('000)	271.9	286.7	116.9	-5.16%	132.67%
Unemployment Rate	7.9%	8.3%	3.3%	--	--
Washington Area Wage and Salary Employment[a]					
Total ('000)	3,127.0	3,119.2	3,371.8	0.25%	-7.26%
Construction ('000)	165.8	162.9	167.9	1.78%	-1.25%
Manufacturing ('000)	54.4	54.4	57.4	0.00%	-5.23%
Transportation & Public Utilities ('000)	66.4	66.8	75.2	-0.60%	-11.70%
Wholesale & Retail Trade ('000)	314.8	307.8	332.8	2.27%	-5.41%
Services ('000)	1,856.3	1,830.8	2,038.6	1.39%	-8.94%
Total Government ('000)	669.3	696.5	699.9	-3.91%	-4.37%
Federal Government ('000)	372.3	369.2	366.5	0.84%	1.58%

[a]Unadjusted data
[b]Seasonally adjusted data
[c]Seasonally adjusted constant (1996) dollars