Washington Economy Watch

Vol. IV, No. 10
November/December 2020

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.

The STEPHEN S. FULLER INSTITUTE for Research on the Washington Region's Economic Future

SCHAR School of Policy and Government GEORGE MASON UNIVERSITY

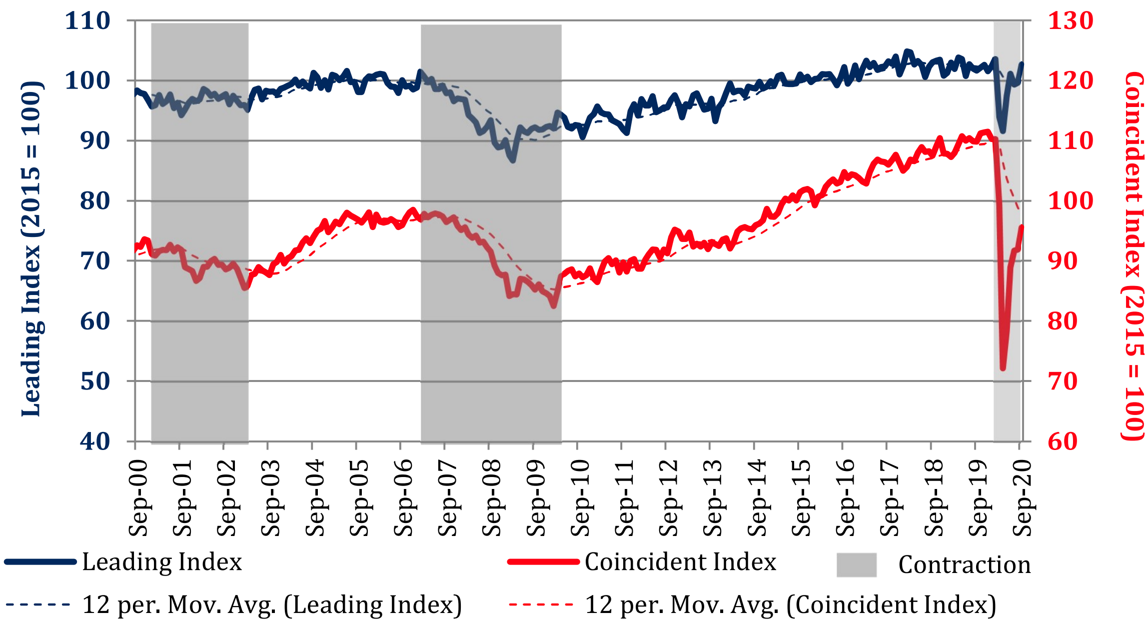
Washington Economy Watch

Vol. IV, No. 10 November & December 2020

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

In September 2020, the Coincident Index increased 4.0 percent compared to August 2020 for its fifth consecutive month-to-month increase. The Coincident Index has increased 32.4 percent from its trough in April 2020 but remained 13.3 percent smaller than its pre-pandemic level in February 2020. The Leading Index increased 3.1 percent between August 2020 and September 2020 and has increased four of the past five months on a month-to-month basis. Compared to last September, the Leading Index increased 1.1 percent, driven by gains in three of its four components. This increase is the first substantial gain since the pandemic began suggested that, as of September, businesses and consumers were positioning for economic growth to return in spring or early summer of 2021. In late October, the second wave of COVID-19 began in the Washington region, subduing the recovery. However, the near- and medium-term economic prospects improved because of approval and distribution of the vaccine. The economic recovery will continue to be slow as the vaccination rates increase incrementally and the threat of a government shutdown in December and January may exacerbate the slowdown in the economic recovery.

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 4.0 percent between August 2020 and September 2020, following a 0.2 percent gain in August. This marks the fifth consecutive month-to-month increase and the Index has increased a total of 32.4 percent since its trough in April. The strongest gains occurred in May and June and the rate of improvement has slowed since. In September, each of the four components increased compared to August: consumer confidence (+22.6%), domestic airport passengers (+16.0%), non-durable goods sales (+2.7%), and wage and salary employment (+0.9%).

Between September 2019 and September 2020, the Coincident Index decreased 12.96 percent, after decreasing 16.3 percent in August on a monthly-over-the-year basis. The losses compared to 2019 continue to moderate and the September decline was about one percentage point sharper than the largest decline prior to the pandemic of -12.0 percent in February 2009. Still, the rate of improvement has slowed since this summer and three of the four components decreased from last September:

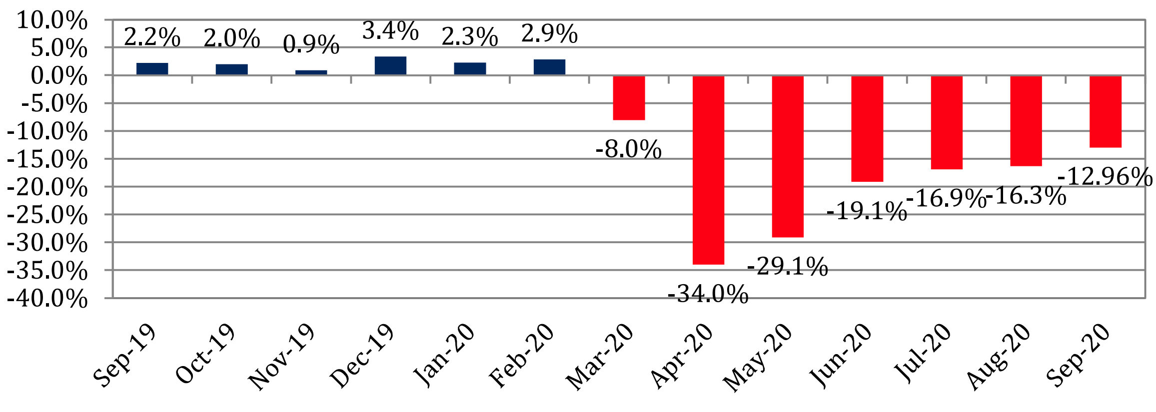
- *Non-durable goods retail sales* increased 4.6% from last year for its fourth consecutive gain; while

- *Wage and salary employment* in the Washington region decreased 5.3% between September 2019 and September 2020 after a monthly over-the-year decline of 6.1% in August;

- *Consumer confidence (in the present)* decreased 40.2% from last September and continues to have the least consistent recovery; and

- *Domestic passenger volume at Reagan National and Dulles Airports* decreased 74.5% from September 2019 after a monthly over-the-year decline of 77.3% in August.

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



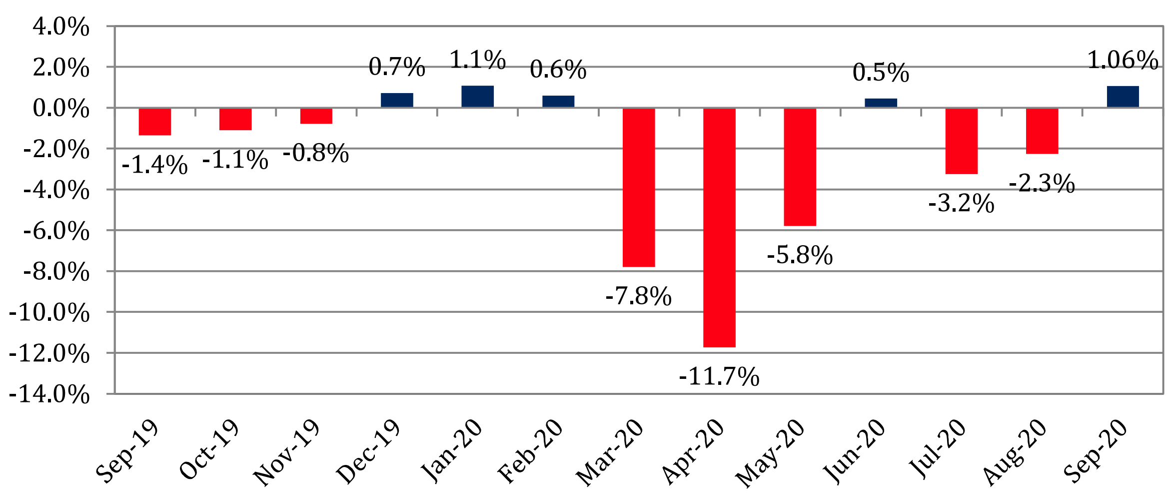
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy in six to eight months, increased 3.1 percent in September 2020 on a month-to-month basis, following a 0.3 percent gain in August. The Leading Index has increased four of the past five months on a month-to-month basis. In September 2020, three of the four components improved compared to August 2020: residential building permits (+43.2%), consumer expectations (+18.8%), and durable goods retail sales (+9.0%). Initial unemployment insurance claims increased (worsened) 14.5 percent after four month-to-month declines.

Between September 2019 and September 2020, the Leading Index increased 1.1 percent, after decreasing 2.3 percent in August on a monthly over-the-year basis. This is the second monthly over-the-year gain since the pandemic began in March and the magnitude and breadth of the improvement suggests that consumers and businesses were positioning for economic growth to return in spring or early summer of 2021. This reading was prior to the second local wave of COVID-19 and reflects the stable COVID-19 case rates in September. In September, three of the four components contributed to this improvement on a monthly over-the-year basis:

- *Total residential building permits* increased 13.9% from last September, driven by a gain in single-family detached permits (+30.8%);
- *Durable goods retail sales* increased 11.8%, marking its fourth consecutive gain;
- *Consumer expectations (consumer confidence six months hence)* increased 3.0% in September after decreasing 25.4% in August; while
- *Initial claims for unemployment insurance* increased 298.2% (worsened), after increasing 265.9% in August.

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 continued in September and the Coincident Index increased 32.4 percent from its trough in April 2020 but remained 13.3 percent smaller than its pre-pandemic level in February 2020. Two of the Index's four components have had consistent improvement since June but remain at recessionary levels: employment and domestic airport passenger volume. Consumer confidence in present conditions has not recovered as consistently, while non-durable goods sales recovered by June and are the only component to have done so.

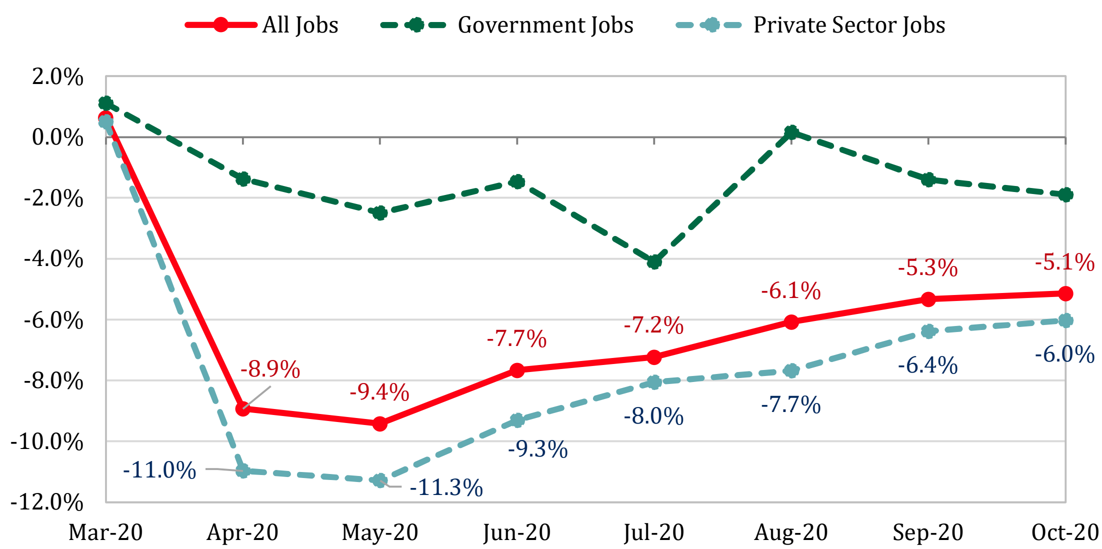
The recovery of domestic airport passenger volume and jobs in the Washington region was strongest in the summer and has since moderated. Airport volume decreased by 95.5 percent between April 2019 and April 2020. In July, volume decreased by 79.8 percent on a monthly over-the-year basis. In September, volume declined by 74.5 percent from last year and was minimally recovered compared to it July levels. Long distance travel, including international travel, has had one of the largest decreases in demand and its recovery will continue to lag.

The number of payroll jobs in the Washington region decreased 5.1 percent between October 2019 and October 2020, after a 5.3 percent decline in September. The overall jobs base was about 45 percent recovered as of October 2020 compared to its May trough. The trend for government jobs differed significantly from the private sector. The federal government gained jobs throughout the pandemic, bolstered by temporary Decennial Census hiring. State and local government jobs had milder losses early in the pandemic but have had relatively sharp declines since this summer; state and local government jobs have not yet had a consistent recovery and are unlikely to do so in upcoming months.

The number of jobs in the private sector was also about 45 percent recovered as of October. More than one-half the private sector jobs recovered to-date were added to payrolls by July and the recovery since has generally been slower and less consistent. As of October, the number of payroll jobs in the region decreased 6.0 percent and by 173,700 jobs compared to last year. The largest losses continue to be in the Leisure & Hospitality sector, which decreased by 77,800 jobs and 23.2 percent in between October 2019 and October 2020. This sector had recovered about one-half of the jobs lost as of October, but its recovery has likely slowed with the onset of colder weather.

In October, the second largest percentage decline was in the Transportation & Utilities sector, which decreased by 15.4 percent (-11,600 jobs) compared to last year. This sector has had larger losses in recent months and has not yet begun to recover. The third largest percentage decline was the Education & Health sector, which decreased by 7.5 percent (-33,800 jobs) between October 2019 and October 2020. Prior to the fall, the losses in this sector had been concentrated in non-hospital health care jobs, but jobs in the private Education Services sector had sharper declines in October: jobs in the Hospital sector decreased 3.7 percent, all other health care jobs decreased 8.2 percent, and jobs in the private Education Services sector decreased 8.4 percent in October on a monthly over-the-year basis.

Figure 4. 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

Private sector companies in the Washington region were approved for $12.3 billion of Paycheck Protection Program (PPP) funds between April and August 2020, the equivalent of 6.6 percent of all private sector wages paid in 2019. Nationally, PPP approvals were equal to 7.0 percent of all private sector wages in 2019 and PPP approved by sector (or sub-sector) in the Washington region was broadly similar to that approved nationally. In absolute dollars, the Professional & Business sector was approved for the largest amount of PPP, at $4.2 billion. However, this sector is the largest in the region and was more than three times the size of the second largest sector (Education & Health Services) as measured by wages in 2019. After adjusting for its size, the Professional & Business sector was approved for a relatively small amount of PPP, the equivalent of 5.4 percent of its 2019 wages. This sector has also had smaller declines in demand and jobs. Nationally, this sector was approved for PPP amounting to 5.7 percent of its 2019 wages.

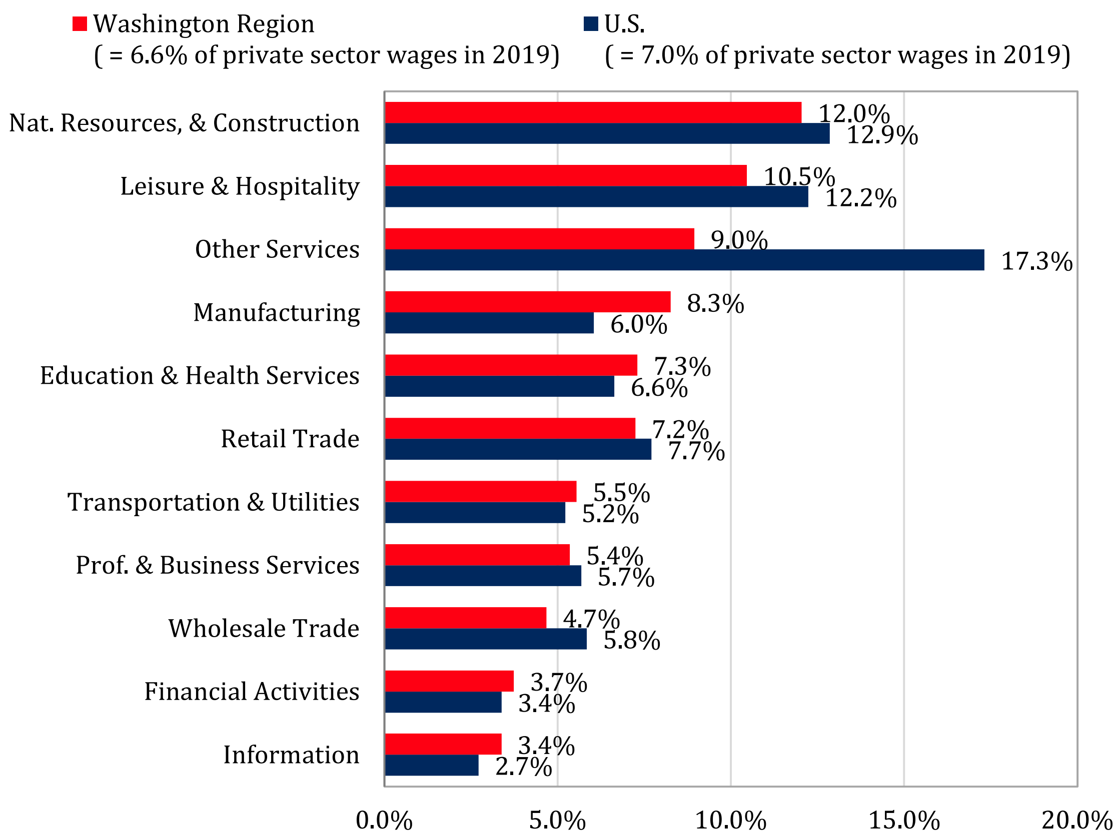
The largest amount of PPP funds after adjusting for industry size were approved for the Construction sector.[1] This sector was approved for $1.4 billion of PPP, accounting for 12.0 percent of its wages in 2019. Nationally, the share of PPP funds was similar, at 12.9 percent of the wage base. The second largest size-adjusted share of PPP was approved for the Leisure & Hospitality sector. Regionally, this sector was approved for $1.0 billion of PPP and 10.5 percent of the wages paid in 2019.

[1] This sector includes the natural resources related industries of mining & logging. In the Washington region these sectors account for nominal activity.

Nationally, the PPP approved was the equivalent of 12.2 percent of this sector's 2019 wages and was slightly, but not substantially, larger.

The Other Service sector received the third largest amount of PPP, after adjusted for its size as measured by wages. Other Service businesses in the Washington region were approved for $1.1 billion of PPP, accounting for 9.0 percent of the wages paid in 2019. Nationally, this sector was approved for PPP that was equal to 17.3 percent of its 2019 wage base. The difference in the regional and national share is the result of the underlying sub-sector mix. The Other Services sector includes personal and laundry services, repair and maintenance, and grantmaking, civic, professional organizations (associations). In general, associations have been less affected by the pandemic and have had smaller decreases in demand compared to other personal care services. Regionally, associations constitute a larger share of this sector than and accounted for 77.8 percent of all Other Service sector wages in 2019; nationally, associations accounted for 36.3 percent of wages. Altogether, the PPP funds approved by sub-sector in Other Services were similar in the Washington region and the nation.

Figure 5. Paycheck Protection Program in the Washington Region & U.S.: Approved Dollars as a Percentage of Private Sector Wages in 2019



Sources: U.S. Small Business Administration; U.S. Bureau of Labor Statistics; The Stephen S. Fuller Institute at the Schar School, GMU NOTE: PPP data include all 24 jurisdictions in the Washington region and were aggregated by ZIP code

Economic conditions have continued to recover at a slower rate through September and October, reflecting the slowing recovery of jobs and air passenger volume. Consumer confidence continues to have the least consistent recovery and improved somewhat in October but plateaued in November. The recovery in November and December has likely reflected this slowing trend, as the onset of cold weather and the second local wave of the COVID-19 further reduce demand for in-person consumer activities. The announcement and distribution of the vaccine has likely offset some of the potential near- and medium-term effects of the second wave, primarily by improving consumer sentiment and creating more certainty that the pandemic will be controlled in 2021.

Washington Region's Near-Term Outlook

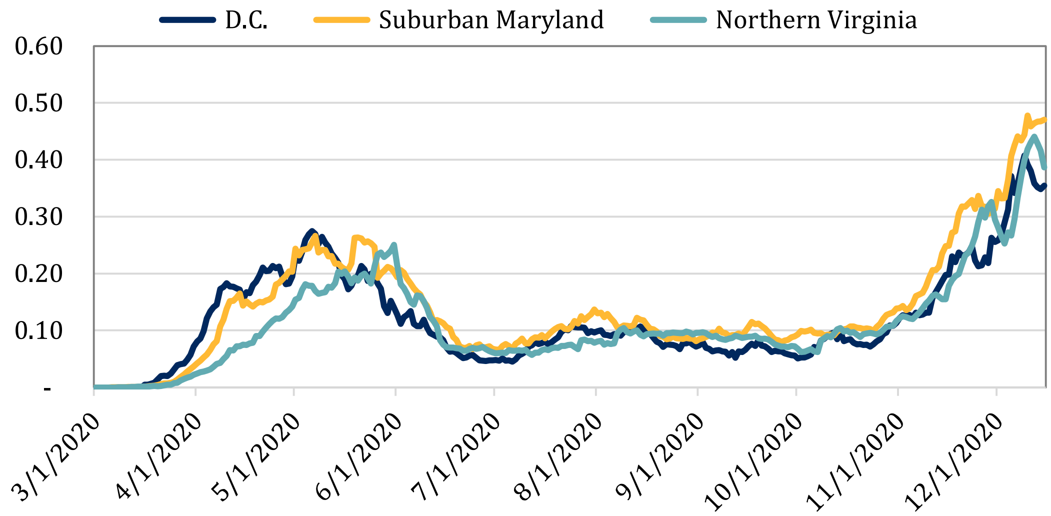
The Washington region's Leading Index projects economic performance six to eight months in advance based on business cycle indicators. Throughout the pandemic, however, the Leading Index has primarily reflected consumer and business expectations about the trajectory of the health crisis, which are less predictive of future growth and have been less consistent in recent months. In September, the Leading Index registered its first notable gain, increasing 1.1 percent from last year and including an improvement in three of its four components.

Durable goods sales have had the most consistent gains during the pandemic and increased 11.8 percent compared to last September. Durable goods sales have increased for four consecutive months on a monthly over-the-year basis. In conjunction with large and consistent gains in home sales, this pattern suggests that consumers have generally viewed the pandemic as temporary and have not fundamentally adjusted their spending on long-term needs. By contrast, consumer expectations about economic conditions six months hence have been uneven, primarily reflecting the conditions related to the pandemic.

The Washington region began its second local wave of COVID-19 in late October and each of the sub-state areas had increasing case rates. As of late November, the case rates had surpassed their summer peaks, although increased testing rates mean that a larger share of cases are likely being reported than during the summer. While the current health metrics continue to deteriorate, the near- and medium-term prospects improved significantly, firstly because of the successful completion of several vaccine trials in mid-November and then with the administration of the first vaccines in the U.S. on Dec. 14, 2020. Because of the recent success of the vaccine, consumer expectations will likely improve in upcoming months, stabilizing the underlying consumer and business activities that would have declined during the second wave in absence of this development. The vaccine will mitigate the pandemic fatigue and increasing uncertainty caused by the second wave, allowing for consumers and businesses to prepare for a more robust health recovery later in 2021.

Even with the distribution vaccine, the economic recovery will continue to be slow. The production and distribution of the vaccine will take months and any unexpected side effects or other production/distribution delays, including winter weather disruptions, will prolong the process. A more robust economic recovery will not occur until vaccination rates reach levels that health experts deem sufficient for the resumption of the majority pre-pandemic activities.

Figure 6. New Daily COVID-19 Cases per 1,000 Residents by Sub-State Area
Washington Region, 7-Day Average, 3/1/20 – 12/15/20



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

The Washington region is also facing an economic disruption pertaining to the federal government. While the uncertainty caused by the federal election has subsided, the potential for a government shutdown in December/January remains. The effect of the shutdown will depend on its length, even assuming federal workers are paid retroactively. A shutdown pauses a large share of federal economic activity. For shorter shutdowns, the majority of this paused activity occurs post-shutdown and the net economic effect is small. The longer the shutdown lasts, the more likely it is that not all of the economic activity is caught up, which results in larger absolute economic losses for the region. The pandemic will alter the economic effects of a shutdown in two ways. Firstly, the households and businesses that are disrupted by the loss of wages or revenue are less likely to have the same savings or reserves available to them because of the pandemic. For some of these households and businesses, the shutdown will compound the effect of the pandemic and result in long-term losses in consumer spending and business activity, even with retroactive pay and contract activity. Conversely, the short-term decline in federal worker spending in restaurant and retail that typically occurs during federal shutdowns will cause fewer disruptions relative to the decline that has already resulted from the pandemic.

The economic recovery going forward will continue to be slow until the spring and summer months. As vaccination rates in the region and nation increase, economic conditions will improve incrementally, but the preponderance of gains will not occur until the vaccination threshold for herd immunity, as determined by health experts, is reached.

Washington Area Economic Indicators
Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Sep-20 Prelim.	Aug-20 Final	Sep-19 Final	Aug-20 to Sep-20	Sep-19 to Sep-20
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	95.6	92.0	109.8	3.97%	-12.96%
Leading Index (2015 = 100)	102.7	99.6	101.6	3.08%	1.06%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000)[a]	3,172.0	3,142.6	3,350.4	0.94%	-5.32%
Consumer Confidence (South Atlantic)[a]	103.2	84.2	172.6	22.57%	-40.21%
Domestic Airport Passengers ('000)[b]	587.8	506.5	2,304.4	16.04%	-74.49%
Nondurable Goods Retail Sales ($000,000)[c]	3,495.9	3,404.3	3,342.1	2.69%	4.60%
Washington Area Leading Index Components					
Total Residential Building Permitsa	2,246.0	1,568.0	1,972.0	43.24%	13.89%
Consumer Expectations (South Atlantic)[a]	99.2	83.5	96.3	18.80%	3.01%
Initial Unemployment Claims[b]	7,982.6	6,972.4	2,004.6	14.49%	298.21%
Durable Goods Retail Sales ($000,000)[c]	4,177.7	3,832.2	3,737.8	9.02%	11.77%
Washington Area Labor Force[a]					
Total Labor Force ('000)	3,331.1	3,437.7	3,460.5	-3.10%	-3.74%
Employed Labor Force ('000)	3,108.6	3,200.7	3,360.6	-2.88%	-7.50%
Unemployed Labor Force ('000)	222.5	237.0	99.9	-6.11%	122.68%
Unemployment Rate	6.7%	6.9%	2.9%	--	--
Washington Area Wage and Salary Employment[a]					
Total ('000)	3,172.0	3,142.6	3,350.4	0.94%	-5.32%
Construction ('000)	165.9	166.7	166.9	-0.48%	-0.60%
Manufacturing ('000)	54.9	54.3	56.8	1.10%	-3.35%
Transportation & Public Utilities ('000)	66.1	65.7	75.0	0.61%	-11.87%
Wholesale & Retail Trade ('000)	319.5	317.4	330.1	0.66%	-3.21%
Services ('000)	1,865.1	1,854.8	2,011.2	0.56%	-7.26%
Total Government ('000)	700.5	683.7	710.4	2.46%	-1.39%
Federal Government ('000)	376.5	377.2	364.4	-0.19%	3.32%

[a]Unadjusted data

[b]Seasonally adjusted data

[c]Seasonally adjusted constant (1996) dollars