



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

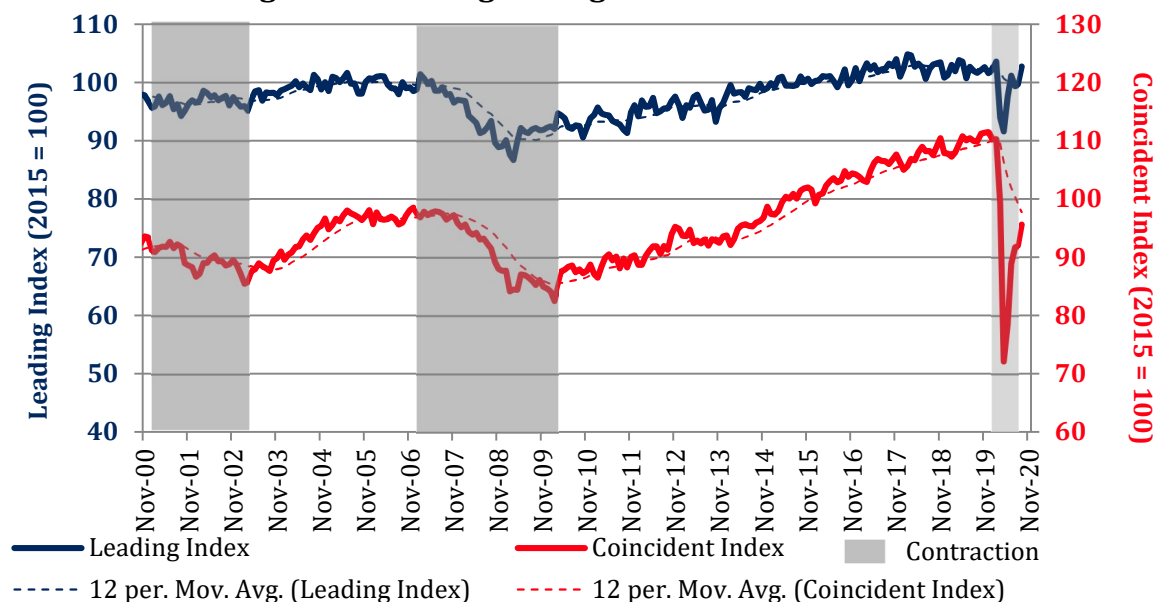
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The Economic Recovery Stalled in November 2020

In November 2020, the Coincident Index decreased 11.5 percent from November 2019 after declining 11.4 percent in October on a monthly over-the-year basis. The stagnation in the economic recovery was reflected by each of the four components, either through month-to-month declines or through a slowdown in the rate of improvement. Similarly, the Leading Index decreased 0.5 percent between November 2019 and November 2020, bringing the Index to its lowest level since September. The recent stagnation of the economic recovery was primarily driven by the emergence of the second local wave of COVID-19 and the colder weather, which affected indoor and outdoor activities, respectively. In December, the employment data weakened and, in December and January, consumer sentiment softened. Consumer confidence in present conditions decreased sharply in December and did not recover in January, even with the positive news about the vaccines. Consumer expectations had double-digit monthly over-the-year decreases in November, December, and January. These declines were the sharpest and most prolonged of the pandemic so far and indicate that pandemic fatigue may alter the upcoming rate of recovery. Altogether, the data indicate that the recovery stalled in November, that it has not resumed as of January, and that it is unlikely to do so until this spring.

Figure 1. Washington Region Economic Indices



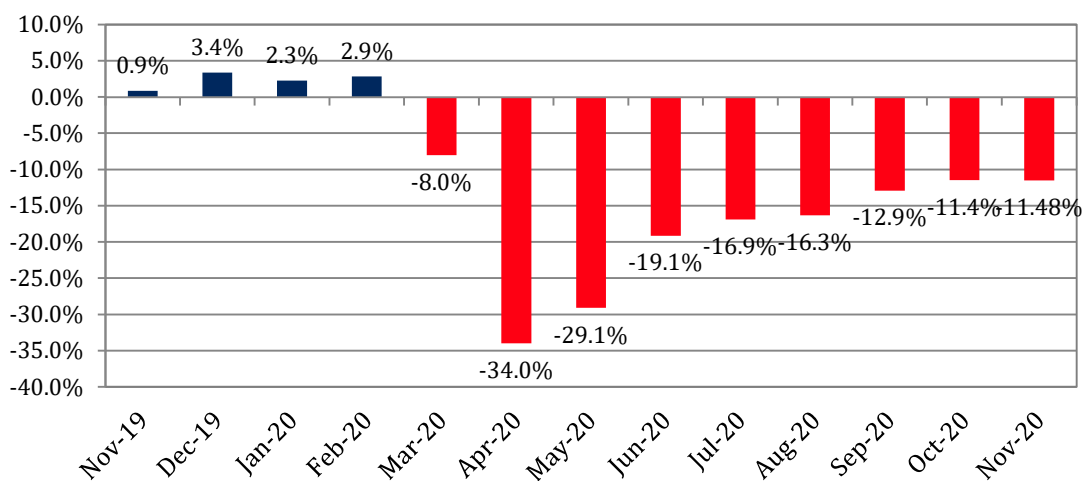
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, increased 0.09 percent between October 2020 and November 2020. This gain was the smallest month-to-month gain since the recovery began, driven by month-to-month declines in two of the Index's four components. Non-durable goods sales decreased 1.9% from October 2020, marking its first decline in three months. Domestic airport passengers decreased 0.5% from October 2020, marking its first monthly decline in seven months. Two components had month-to-month gains in November: consumer confidence (+4.4%) and wage and salary employment (+0.4%).

Between November 2019 and November 2020, the Coincident Index decreased 11.48 percent, after decreasing 11.44 percent in October on a monthly-over-the-year basis. Overall, the economic recovery stalled in November with the onset of the second local wave of COVID-19 and the winter weather. Three of the four components decreased from November 2019:

- *Non-durable goods retail sales* increased 2.1% from last November after increasing 4.2% in October on a monthly over-the-year basis; while
- *Wage and salary employment* in the Washington region decreased 5.3% between November 2019 and November 2020 after a monthly over-the-year decline of 5.1% in October;
- *Consumer confidence (in the present)* decreased 31.0% from last November after decreasing 32.5% between October 2019 and October 2020; and
- *Domestic passenger volume at Reagan National and Dulles Airports* decreased 71.4% from November 2019 after a monthly over-the-year decline of 72.2% in October.

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



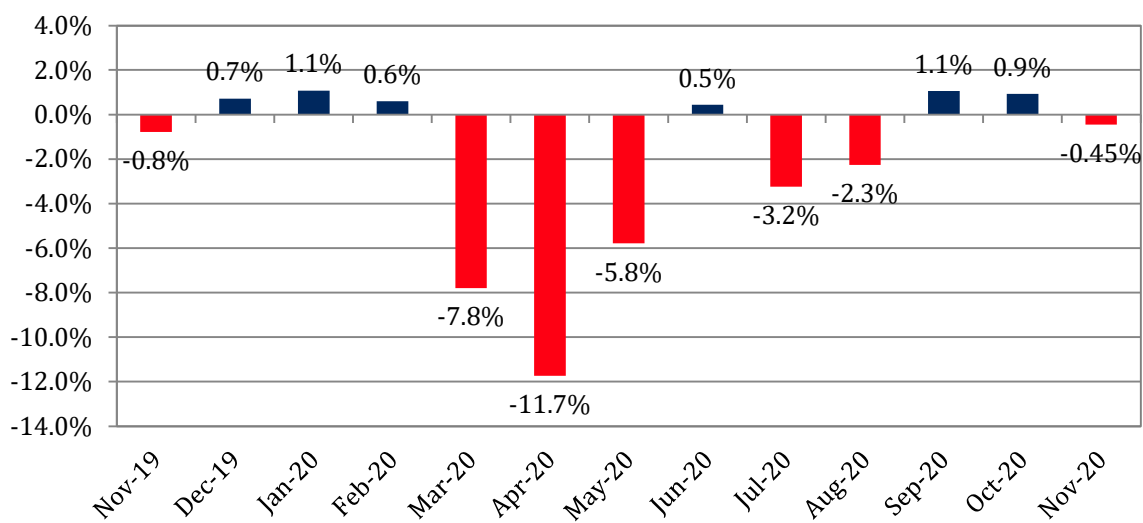
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy in six to eight months, decreased 0.9 percent between October 2020 and November 2020. This is the first month-to-month decline for the Index in four months as three of the Index's four components worsened: residential building permits (-24.2%), consumer expectations (-8.1%), and durable goods retail sales (-4.1%). Initial unemployment insurance claims declined (improved) 9.0 percent compared to October 2020.

Between November 2019 and November 2020, the Leading Index decreased 0.45 percent, reversing the gains of the prior two months. This reversal was largely due to the sharp decline in consumer expectations, which also contributed to the Index's improvement in September and October. Consumer expectations were likely reacting to the emergence of the second wave of COVID-19. In November, two of the four components contributed to this decline on a monthly over-the-year basis:

- *Total residential building permits* increased 18.6% from last November, with gains for both multifamily permits (+22.2%) and single-family detached permits (+16.2%);
- *Durable goods retail sales* increased 0.9%, marking its sixth consecutive gain but the smallest during the recovery; while
- *Consumer expectations (consumer confidence six months hence)* decreased 21.5% in November and reserved two months of improvement; and
- *Initial claims for unemployment insurance* increased 155.8% (worsened), after increasing 236.5% in October.

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



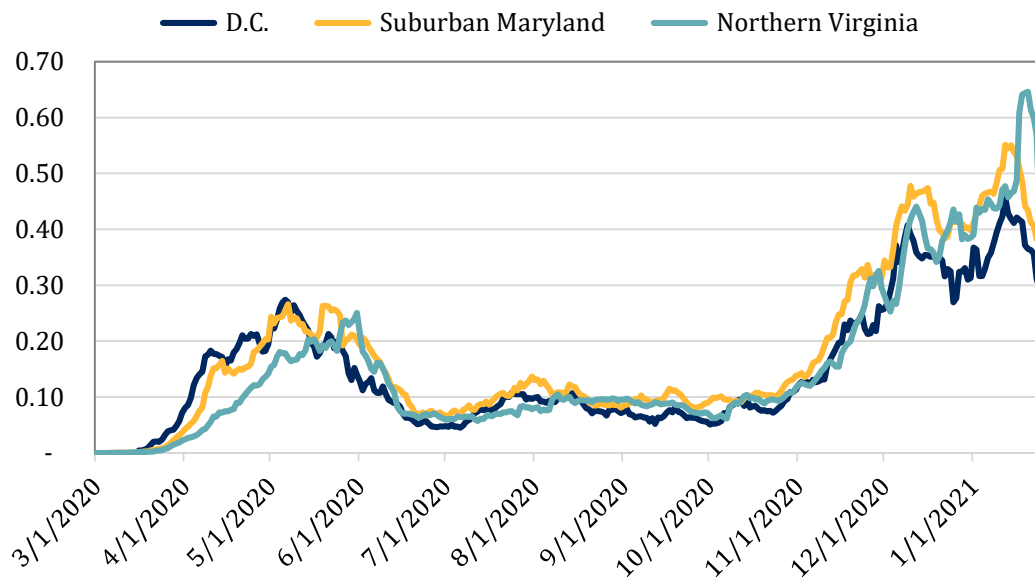
Source: The Stephen S. Fuller Institute at the Schar School, GMU

Current Performance

The economic recovery stalled in November 2020 and Coincident Index was substantially unchanged from its October level. The Index has recovered 36.5 percent compared to its April trough, but remains 10.6 percent smaller than its pre-pandemic reading in February 2020. The jobs trends indicate that the situation deteriorated in December and the COVID-19 and consumer confidence trends suggest that the Washington region's economy has had little improvement in January.

In late October, the COVID-19 case rates began to rise in each sub-state areas of the Washington region. By the middle of November, case rates had exceeded their April/May peaks. Compounding this trend was the onset of colder weather and shorter daylight hours, which discouraged many from the outdoor activities that are now playing a larger role in the economy. Cases have remained elevated through the end of January and it is too soon to know if the decline that have occurred in the past week represents a short-term trend, as it was in mid-December, or a longer-term decline indicating that the second wave has peaked. As a result, the economic recovery has likely continued to stall through January.

Figure 4. New Daily COVID-19 Cases per 1,000 Residents by Sub-State Area
Washington Region, 7-Day Average, 3/1/20 – 1/27/21



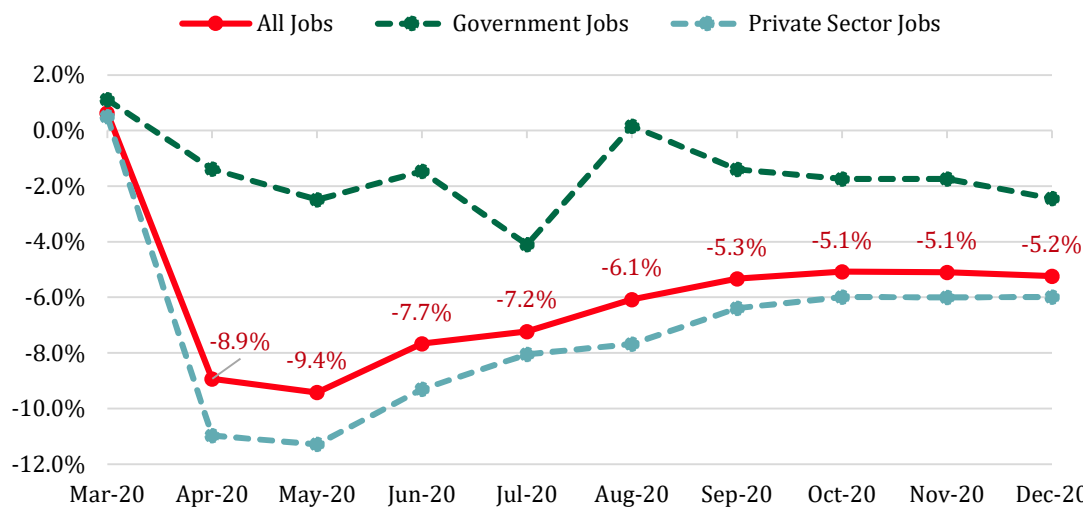
Sources: Johns Hopkins University Center for Systems Science and Engineering; U.S. Census Bureau (v2019 Population Estimates); The Stephen S. Fuller Institute at the Schar School, GMU

As of November, only one of the Coincident Index's components has fully recovered and durable goods sales have been larger than their 2019-levels since June. Domestic airport passenger volume continued to have the largest declines compared to 2019 and remained the least recovered; still, passenger volume has had consistent, incremental gains for most of the recovery period. The recovery

trajectory for consumer confidence and wage and salary employment has been less consistent. Consumer confidence in present conditions spiked in June, when the first wave of COVID-19 subsided, before decreasing sharply in July and August. Confidence improved again between September and November, but the rate of improvement moderated during this period. In December, confidence decreased and remained weak in January 2021, most likely due to the confluence of the second wave of the pandemic, the federal election uncertainty and the disruption on January 6. Altogether, consumer confidence has been volatile and reactive to current events. This pattern will continue and will affect the rate of recovery going forward.

The jobs recovery stalled in November and the number of jobs in the Washington region remained substantially unchanged from its October level. In December, the situation worsened and the number of jobs in region decreased by about 0.1 percent (-3,800 jobs) from to November 2020. Compared to December 2019, the number of jobs in the region decreased by 177,800, or 5.2 percent. This monthly over-the-year decline is the largest since September. This reversal was primarily driven by government jobs. The federal government hired temporary Decennial Census workers during the summer and these workers were off payrolls by December in Virginia, Maryland and the District. State and local government jobs also weakened in November and December, possibly because of the decline in onsite school activities.

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

While the private sector jobs base was stable in December compared to November, two sectors had an acceleration in jobs losses: Leisure & Hospitality and Other Services. The Leisure & Hospitality sector lost 83,500 jobs (-25.0%) between December 2019 and December 2020, marking the largest monthly over-the-year decline since September. This reversal was the result of larger declines in the Accommodation sub-sector and the Food Services & Drinking Places sub-sector,

which declined 39.1 percent and 21.7 percent, respectively. The second sector that had an acceleration in jobs losses was Other Services, which includes both associations and personal care services. This sector decreased 4.9 percent (-10,500 jobs) between December 2019 and December 2020, marking the largest monthly over-the-year decline since May.

These losses were offset by the continued improvement in the Professional & Business Service and the private Education & Health Services sectors. The Professional & Business Service decreased by 1.4 percent (-11,100 jobs) in December compared to 2019 and has regained about one-half of all the jobs that were lost during the early months of the pandemic. Within this sector, the Professional, Scientific, Technical & Management sub-sector has had gains throughout the pandemic, rising 0.9 percent (+5,600 jobs) in December on a monthly over-the-year basis. The Administrative, Support & Waste Management sub-sector lost 16,700 jobs (-8.2%) and has continued its recovery during the fall and winter. The private Education & Health Service sector also continued to recover in December. Compared to December 2019, this sector lost 31,200 jobs (-6.9%), and has now recovered about 34 percent of the jobs lost early in the pandemic. Both sub-sectors had milder losses in December compared with those in prior months. The Health Care Services sub-sector decreased 6.9 percent (-23,000 jobs) in December, while the Education sub-sector declined by 7.0 percent (-8,200 jobs).

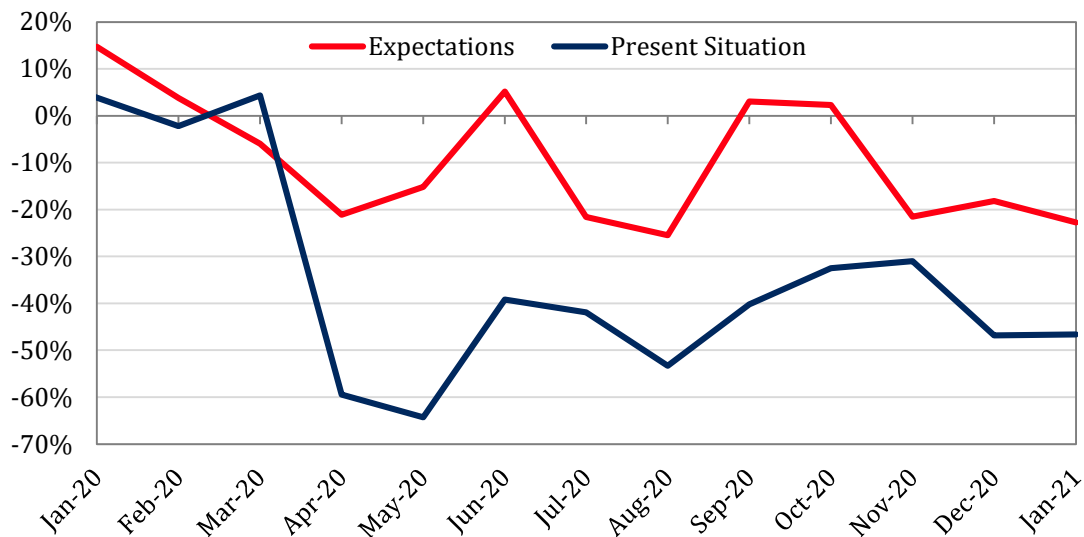
Economic conditions recovered between May and October but this recovery stalled and reversed for some components between October and December. The initial data for January also indicate that the recovery has yet to resume. The Leisure & Hospitality sector, in particular, lost jobs in December and reversed the gains of the fall months. This sector also was disproportionately affected by the loss of the inauguration activities, further reducing economic activity compared to pre-pandemic expectations. The roll-out of the vaccination has yet to materially improve either consumer confidence or the economic recovery as of January 2021 and will not do so until it affects the COVID-19 case rates.

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, the Leading Index has reflected short-term trends related to the pandemic and has yet to have consistent gains. Between May and June, the Index improved in response to the end of the first wave of COVID-19. The Index moderated through August, with the emergence of COVID-19 in parts of the U.S. that had not yet been affected. The Index improved again in September and October, bolstered by stronger-than-average building permitting activity and durable goods sales. However, these gains were eliminated in December and the Index now stands at its lowest level since August 2020.

Consumer expectations reflect what consumers think economic conditions will be in 6-8 months. In general, consumer expectations correspond with durable goods sales and longer-term changes in spending and savings rates. Large changes in consumer expectations portend larger structural changes to the economy, as household spending accounts for a significant share of economic activity. During the pandemic, consumers have been consistently more optimistic about future conditions than the current conditions, which are measure by consumer confidence in the present. This has been reflected in the fast recovery in both durable goods sales and home sales. However, consumer expectations weakened in November 2020, December 2020 and January 2021. This three-month period of double-digit monthly over-the-year declines was larger than the losses during any other point in the pandemic and occurred in spite of the news about the vaccine. Either consumers were focused on the second wave of COVID-19 and the discord relating to the federal elections, or they have been affected by pandemic fatigue. Because consumer confidence in the present situation stabilized in January, while consumer expectations continued to deteriorate, it seems increasingly likely that pandemic fatigue has set-in and will pose a threat to the upcoming recovery.

**Figure 6. Percent Change in Consumer Confidence in the South Atlantic Region
Monthly Over-the-Year Change**



Sources: The Conference Board; The Stephen S. Fuller Institute at the Schar School, GMU

The economic recovery stalled this fall and will continue to lag until at least this spring. If consumer sentiment improves in the spring, the economy will register modest, consistent gains through the late summer or early fall. By the fourth quarter, the current projections are that the vaccine will have been broadly distributed or be universally available, which will accelerate the rate of the economic recovery. If the production or distribution of the vaccine slows, this acceleration will be delayed and further weaken consumer expectation.

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

Economic Indicator	Estimates			Percent Change	
	Nov-20 Prelim.	Oct-20 Final	Nov-19 Final	Oct-20 to Nov-20	Nov-19 to Nov-20
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	98.6	98.5	111.4	0.09%	-11.48%
Leading Index (2015 = 100)	102.2	103.1	102.6	-0.89%	-0.45%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,218.8	3,205.7	3,398.5	0.41%	-5.29%
Consumer Confidence (South Atlantic) ^a	119.9	114.9	173.7	4.35%	-30.97%
Domestic Airport Passengers ('000) ^b	666.4	669.5	2,330.2	-0.46%	-71.40%
Nondurable Goods Retail Sales (\$000,000) ^c	3,463.9	3,530.5	3,394.2	-1.89%	2.05%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	1,813.0	2,391.0	1,529.0	-24.17%	18.57%
Consumer Expectations (South Atlantic) ^a	93.1	101.3	118.6	-8.09%	-21.50%
Initial Unemployment Claims ^b	6,159.2	6,768.8	2,408.2	-9.01%	155.76%
Durable Goods Retail Sales (\$000,000) ^c	4,036.5	4,208.5	4,001.8	-4.09%	0.87%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,362.3	3,372.1	3,491.7	-0.29%	-3.70%
Employed Labor Force ('000)	3,166.0	3,151.0	3,395.1	0.48%	-6.75%
Unemployed Labor Force ('000)	196.3	221.0	96.6	-11.20%	103.20%
Unemployment Rate	5.8%	6.6%	2.8%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,218.8	3,205.7	3,398.5	0.41%	-5.29%
Construction ('000)	167.6	167.3	166.0	0.18%	0.96%
Manufacturing ('000)	54.4	54.6	58.0	-0.37%	-6.21%
Transportation & Public Utilities ('000)	68.1	65.1	76.7	4.61%	-11.21%
Wholesale & Retail Trade ('000)	336.5	326.8	341.2	2.97%	-1.38%
Services ('000)	1,888.0	1,886.3	2,033.2	0.09%	-7.14%
Total Government ('000)	704.2	705.6	723.4	-0.20%	-2.65%
Federal Government ('000)	376.0	376.6	367.0	-0.16%	2.45%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars