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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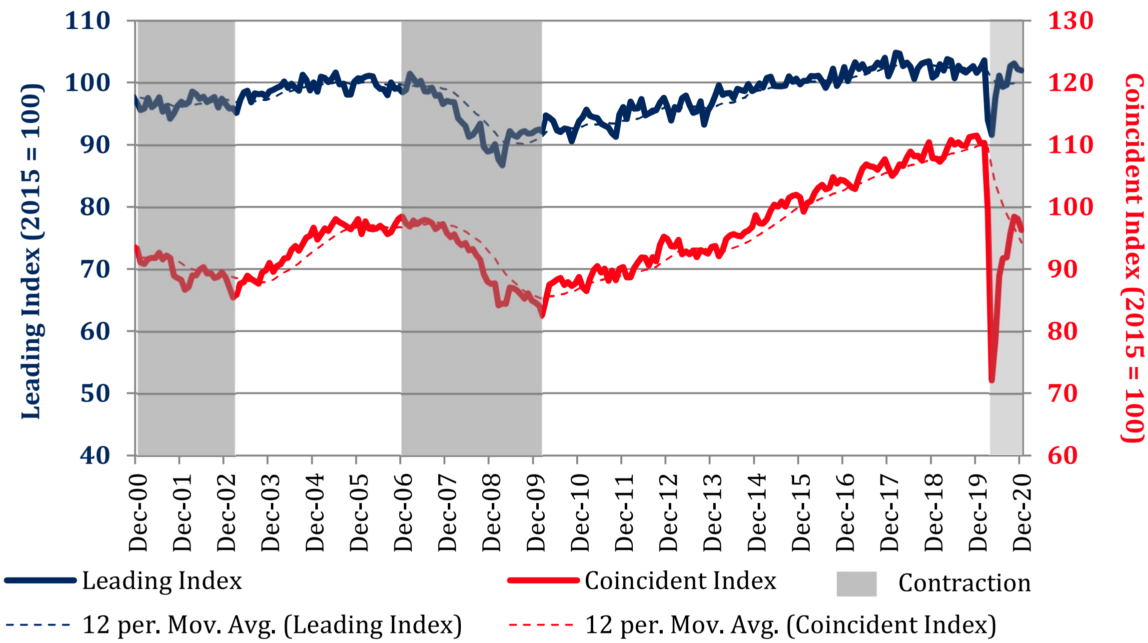
The Economic Recovery Faltered in December 2020

In December 2020, the Washington region's economic recovery faltered. The Coincident Index decreased 1.8 percent from November 2020 and 13.6 percent from December 2019. The Coincident Index registered its smallest reading since September 2020 and each of its four components decreased in either November or December. In December, the Leading Index decreased 0.2 percent from November 2020 and increased 0.4 percent compared to December 2019. Two of its four components had gains compared to both the prior month and the prior year: total building permits and durable goods sales. The remaining two decreased on both month-to-month and monthly over the year bases: initial unemployment insurance claims and consumer expectations. The pattern of these components points to an uneven recovery, with higher income households recovering faster and a stronger recovery for activities that relate to longer-term economic prospects. The economic conditions likely stabilized in January and, with the decline of the region's second wave of COVID-19, the economy is positioned to improve in March.

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 1.8 percent between November 2020 and December 2020, after decreasing 0.3 percent between October 2020 and November 2020. The Index is now at its lowest level since September 2020. In December, three of the Index's four components decreased from November: consumer confidence (-21.1%), non-durable goods sales (-5.0%) and wage and salary employment (-0.2%). Domestic airport passengers increased 3.6 percent in December 2020 after decreasing 5.1 percent in November on a month-to-month basis.

Between December 2019 and December 2020, the Coincident Index decreased 13.56 percent, marking its largest monthly over-the-year decline since August 2020. Each of the Index's four components had their weakest monthly over-the-year changes since either August or September. Overall, the economic recovery faltered in December and conditions modestly worsened. In December, three of the four components decreased from December 2019:

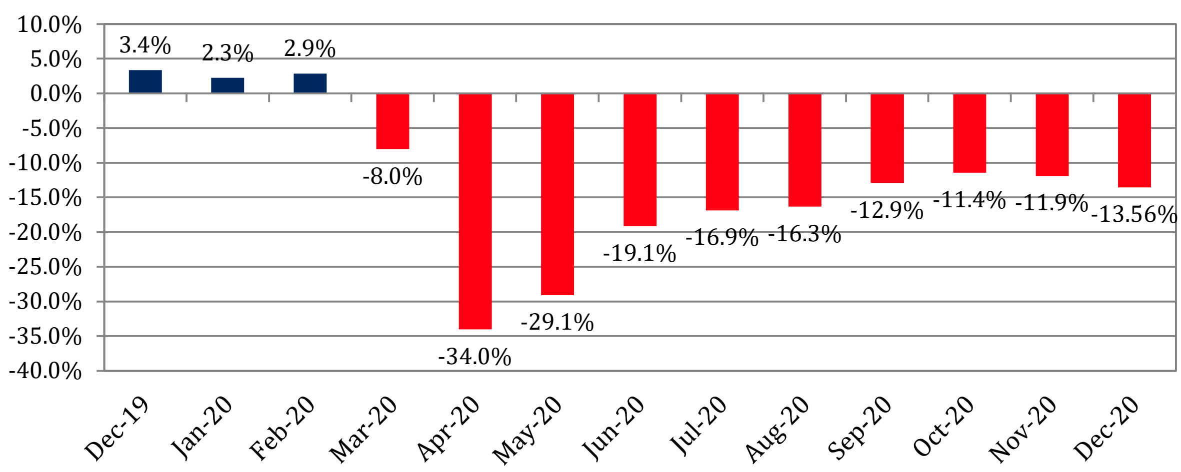
- *Non-durable goods retail sales* increased 1.5% from December 2019 after increasing 2.0% in November on a monthly over-the-year basis; while

- *Wage and salary employment* in the Washington region decreased 5.2% between December 2019 and December 2020 after a monthly over-the-year decline of 5.1% in November;

- *Consumer confidence (in the present)* decreased 46.9% from December 2020, marking its largest monthly over-the-year decline since August 2020; and

- *Domestic passenger volume at Reagan National and Dulles Airports* decreased 73.7% from December 2019 after a monthly over-the-year decline of 72.7% in November.

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



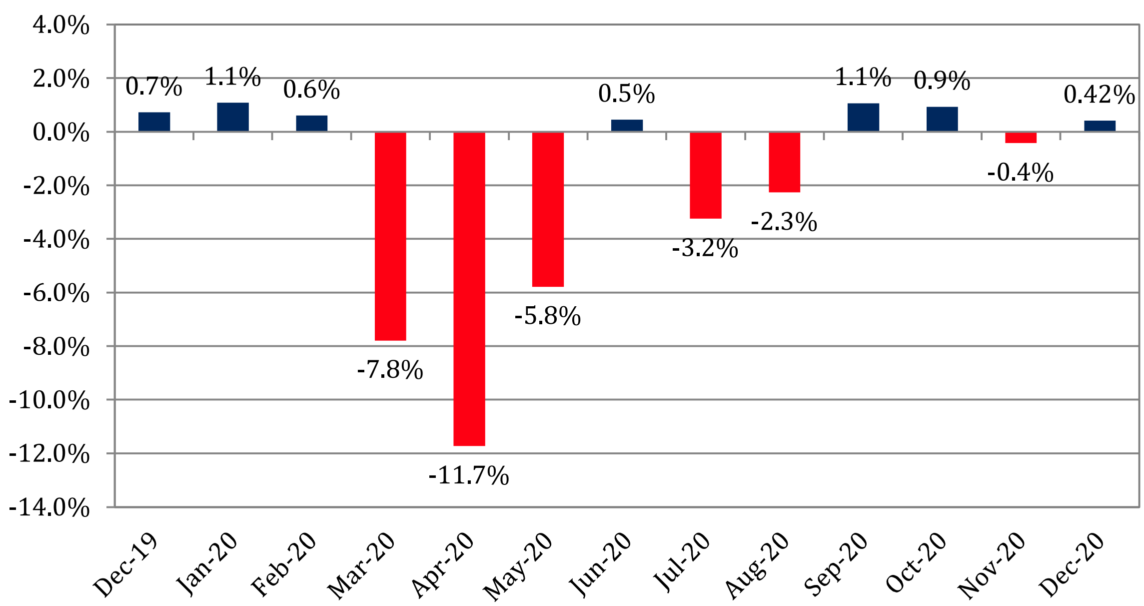
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy in six to eight months, decreased 0.2 percent between November 2020 and December 2020, marking its second consecutive month-to-month decline. This decline was driven by two of its four components: initial unemployment insurance claims (+28.4%), and consumer expectations (-2.0%). Durable goods retail sales increased modestly (+0.3%) compared to November 2020, while total building permits increased 56.2 percent.

Between December 2019 and December 2020, the Leading Index increased 0.42 percent. Even with this monthly over-the-year gain, the Index has not substantially improved since this summer and continues to suggest a slow recovery in upcoming months. In December, two of the four components contributed to this decline on a monthly over-the-year basis:

- *Total residential building permits* increased 56.2% from December 2019, driven primarily by gains in multifamily permits (+77.1%);
- *Durable goods retail sales* increased 8.0%, marking its seventh consecutive gain; while
- *Consumer expectations (consumer confidence six months hence)* decreased 18.2% from December 2019, reaching its lowest level since August 2020; and
- *Initial claims for unemployment insurance* increased 233.8% (worsened), after increasing 155.8% in November.

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



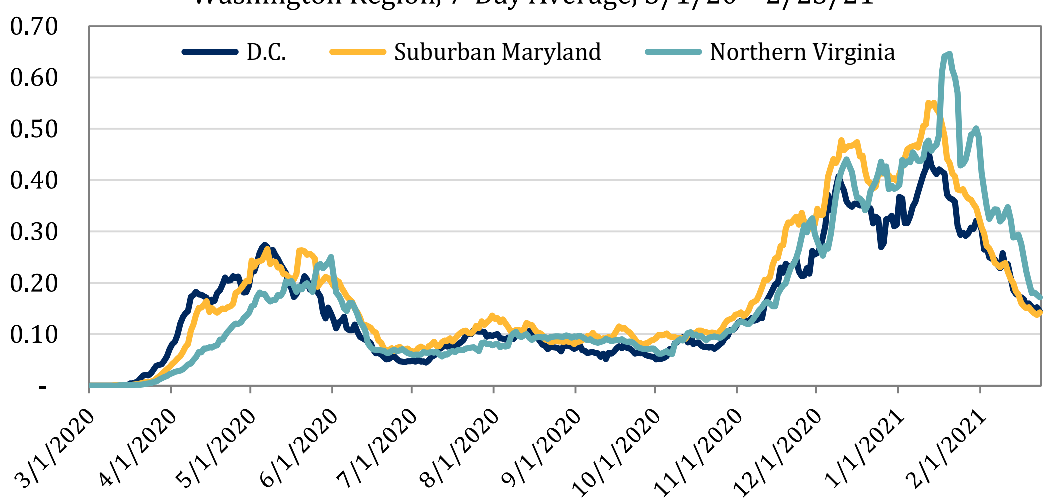
Source: The Stephen S. Fuller Institute at the Schar School, GMU

Current Performance

The economy worsened in November and December 2020 and the Coincident Index decreased 2.2 percent from October 2020. This economic decline primarily reflects the onset of the second local wave of COVID-19 and each of the Index's four components moderated compared to prior months. Compared to its pre-pandemic reading in February 2020, the Index was 12.6 percent smaller in December 2020 but the Index was 33.5 percent larger than its April 2020 trough. Initial data suggest that the economy stabilized in January 2021 and was positioned for modest gains as of late February 2021.

The Washington region's second wave of COVID-19 began in November for each of the sub-state areas. By mid-November, case rates in the region exceeded their prior peaks and rates continued to increase through January. The region's cases peaked in mid-January and were more than twice as large (+151.8%) than during the first wave. Northern Virginia's cases peaked in late January and the peak of the second wave was 217.7 percent larger than that of the first wave. The rates in Suburban Maryland and the District peaked in mid-January and were 107.1 percent and 66.6 percent larger than their first waves, respectively. While the local economic data for January have not yet been released, these rates and national data suggest that the region's economy did not substantially change in January compared to December.

Figure 4. New Daily COVID-19 Cases per 1,000 Residents by Sub-State Area
Washington Region, 7-Day Average, 3/1/20 – 2/23/21



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 the result of the second wave, the region's Coincident Index decreased between October and December 2020 and each of its four components weakened in either one or both months. Domestic airport passenger volume decreased 5.1 percent between October 2020 and November 2020 and had the sharpest initial reversal, after adjusting for seasonal patterns. In December, volume increased 3.6 percent compared to November 2020. Even with this increase, passenger volume remained

1.6 percent smaller than its October 2020 level and the improvement in December was not large enough to offset the November decline. Air passenger volume remains the least recovered component of the Index and national data indicate that this will continue through late February. Passenger trends in the Washington region have mirrored national trends, although the fall months were modestly weaker. Nationally, air passenger travel as measured by the Transportation Security Administration's checkpoint data did not improve significantly in either January or early February, suggesting that air passenger travel in the Washington remained weak during these months as well.

Wage and salary employment decreased 0.12 percent between November and December after adjusting for seasonal patterns. This decline was driven by the Leisure & Hospitality and Other Services sectors. In December 2020, the Leisure & Hospitality sector decreased by 25.0 percent (-83,500 jobs) compared to the prior year and continued to have the largest losses. The Other Services sector declined by 4.9 percent (-10,500 jobs) compared to December 2019, which includes the losses in the personal services and repair and maintenance sub-sectors. Nationally, wage and salary employment increased 0.3 percent between December 2020 and January 2021 and it is likely that the situation in the Washington region was similar.

Consumer confidence in present conditions in the South Atlantic region has been the most volatile component in the Coincident Index as consumers react to short-term changes or concerns. Between October 2020 and November 2020, consumer confidence increased 4.4 percent and the rate of improvement moderated compared to the double-digit gains of the two prior months. Between November 2020 and December 2020, consumer confidence decreased 21.1 percent, registering its smallest reading since August 2020. This decline is most likely due to the worsening employment market and, nationally, consumers were more likely to say that both the business conditions and jobs availability were poor in December. Consumer confidence in the South Atlantic region was relatively stable in January and February 2021, increasing a total of 3.6 percent compared to December 2020, but remained weak compared to its rebound earlier during the recovery.

Non-durable goods sales decreased for two consecutive months on a month-to-month basis and was the only component to do so. Between October 2020 and November 2020, non-durable goods sales decreased 1.9 percent after adjusting for seasonal patterns. Sales in December decreased 5.0 percent from November, for a total October-to-December decline of 6.8 percent. This decline is the largest and most sustained decrease since the beginning of the pandemic and brings non-durable sales to its lowest level since May 2020. This decline is likely related to the decrease in consumer confidence in present conditions in addition to the second wave of COVID-19. Consumers frequently alter their spending patterns depending on how optimistic they are about current or future economic conditions. When consumers are less optimistic about current conditions, they often decrease spending on non-durable goods, which are items that are consumed quickly (food, toiletries) or typically have a lifespan of fewer than three years (clothing, office supplies). Because consumer confidence stabilized in January and February, non-durable goods sales are likely to have done so as well.

As of February 23, 2021, the region's COVID-19 case rates have decreased 71.6 percent since peaking in January, with significant declines in each of the three sub-state areas: Suburban Maryland (-74.2%), Northern Virginia (-73.4%), and the District (-68.4%). Despite this decline, the region has not yet returned to the rates that occurred during the summer 2020 months, when the regional economy had the fastest recovery. Still, the declining rates bode well for the economy and suggest that the recovery will resume in late February or early March.

Washington Region's Near-Term Outlook

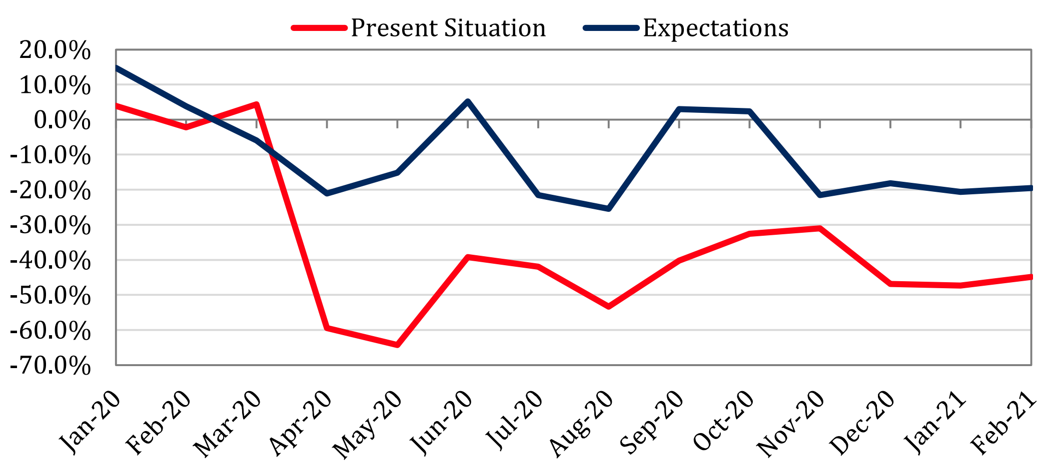
The Washington region's Leading Index projects economic performance six to eight months in advance based on business cycle indicators. During the pandemic, the Leading Index is generally less predictive of future growth, which will depend on the trajectory of the health crisis. In December, the Leading Index decreased 0.2 percent from November 2020 but increased 0.4 percent compared to December 2019. The components in the Index also had a mixed performance. In particular, the components that correspond with conditions for higher income households or longer-term economic prospects recovered first and continued to improve in December, while those that reflect medium-term economic prospects were the least recovered and decline in recent months.

In December 2020, durable goods sales increased compared to November 2020 and December 2019. Durable goods sales have increased compared to 2019 levels since May 2020 and were the first component to recover. Durable goods are those that last longer than three years, typically, suggesting that consumers generally expect conditions to recover before 2023. Additionally, durable goods purchases are likely being driven by higher income households that were the least affected economically by the pandemic. Building permits also increased on both month-to-month and monthly over-the-year bases in December. The increase was driven by multifamily permits, which are typically less consistent each month. Building permits have also broadly recovered compared to 2019 levels since September. Building permits likely correspond with builder expectations about new housing demand in 6-24 months, depending on the length of construction and when the project begins construction. New construction is also typically occupied by higher income households, again suggesting that the recovery for higher income households occurred first.

By contrast, initial unemployment insurance claims and consumer expectations worsened in December 2020 compared to both November 2020 and December 2019. Initial unemployment insurance claims increased (worsened) in December as more workers lost their jobs. Generally, new claims correspond with upcoming economic conditions as these newly unemployed workers decrease their expenditures and typically remain unemployed until the employment market improves. Because of the unusual pace of this recession, workers have been reemployed at a faster rate: the number of continued unemployment insurance claimants has decreased by one-half since peaking in July, including those that have been unemployed for between 11 and 24 weeks and are now receiving the expanded Pandemic Emergency Unemployment Compensation. As a result of this unusual turn-over, initial unemployment claims are likely related to conditions in the next 4-8 months, suggesting that labor market conditions will be weak for the first half of 2021.

Consumer expectations in the South Atlantic region decreased significantly in November 2020 and remained weak through February 2021. Consumer expectations correspond to business conditions, job prospects, and income six month hence. Nationally, fewer consumers were optimistic about growth in each of these metrics starting in November 2020, but the largest decline was for general business conditions. Overall, consumer expectations had the largest and most sustained decline during the winter months and consumers were increasingly pessimistic about a recovery in by the first or second quarter of 2021. Typically, consumer expectations correspond with durable goods sales: as consumers change their projections about upcoming economic growth, they alter their spending on items that are typically planned and more expensive. Durable goods sales remained strong during this period of weakening expectations and consumer have not yet altered their longer-term purchases. This suggests that the decline in expectations may have been due to intangible or psychological factors that have already or will abate in spring including the second wave of COVID-19, concerns about the federal election, pandemic fatigue, and colder weather.

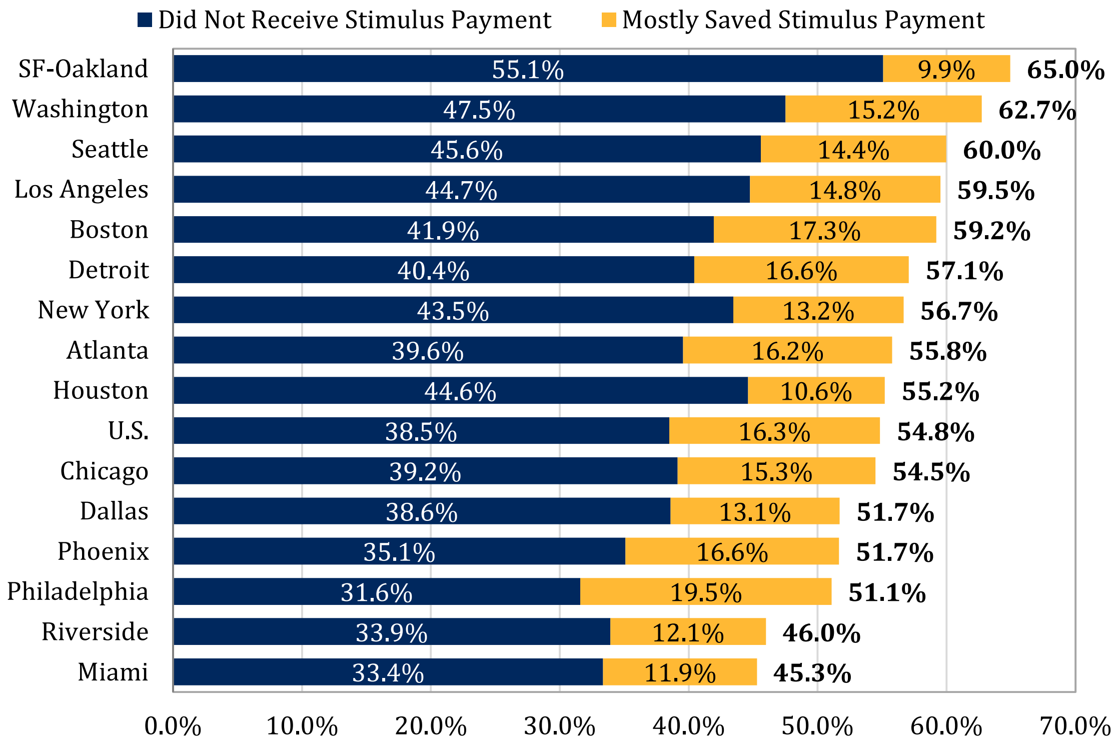
Figure 5. Percent Change in Consumer Confidence in the South Atlantic Region Monthly Over-the-Year Change



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

The upcoming stimulus and the prolonged debate around the amount and timing are less likely to have a pronounced effect on the Washington region's residents, overall. As of January 2021, 38.5 percent of all households in the U.S. reported that they received an Economic Impact Payment (EIP or stimulus). In the Washington region, nearly one-half (47.5%) of all households did not. Nationally, 16.3 percent of all households reported that they received an EIP but that they primarily saved it instead of spending it or using it to pay off debt. In the Washington region, 15.2 percent reported saving their EIP. Altogether, 62.7 percent of all households either did not spend the federal stimulus, either because they did not receive one or they chose to save it. Nationally, this share was 54.8 percent and the Washington region ranked second of the 15 most populous metro areas. While this relative concentration of households that did not spend EIP lessens the net effect of any upcoming stimulus, the effect of this payment for lower income households will still be important, even if it may not alter the aggregate economic statistics.

Figure 6. Share of Households by Receipt & Use of Economic Impact Payment
15 Most Populous Metro Areas, January 6 – January 18, 2021



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

Increasing vaccination rates will bolster the return of economic activity this spring. As of early February, 19.5 percent of adults in the Washington region reported that they had received at least one dose of a COVID-19 vaccine and an additional 55.1 percent of all adults reported that they would definitely get a vaccine.[1] In combination with the decreasing rate of new COVID-19 cases and the warmer weather, the region's economy should rebound in March 2021. After the initial rebound, the rate of improvement will depend on the vaccination rates. As these vaccination rates are projected to increase incrementally, the economic recovery is likely to do so as well after the initial spring rebound.

[1] According to the U.S. Census's Household Pulse Survey during the February 3 – February 15, 2021 period

Washington Area Economic Indicators
Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Dec-20 Prelim.	Nov-20 Final	Dec-19 Final	Nov-20 to Dec-20	Dec-19 to Dec-20
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	96.4	98.1	111.5	-1.82%	-13.56%
Leading Index (2015 = 100)	102.0	102.2	101.5	-0.21%	0.42%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000)[a]	3,218.5	3,225.4	3,396.3	-0.21%	-5.24%
Consumer Confidence (South Atlantic)[a]	94.5	119.9	177.8	-21.18%	-46.85%
Domestic Airport Passengers ('000)[b]	658.6	635.4	2,500.7	3.65%	-73.66%
Nondurable Goods Retail Sales ($000,000)[c]	3,291.8	3,463.7	3,242.9	-4.96%	1.51%
Washington Area Leading Index Components					
Total Residential Building Permitsa	2,832.0	1,813.0	1,813.0	56.21%	56.21%
Consumer Expectations (South Atlantic)[a]	91.2	93.1	111.5	-2.04%	-18.21%
Initial Unemployment Claims[b]	7,910.4	6,159.2	2,368.9	28.43%	233.93%
Durable Goods Retail Sales ($000,000)[c]	4,055.4	4,042.4	3,753.6	0.32%	8.04%
Washington Area Labor Force[a]					
Total Labor Force ('000)	3,362.9	3,364.9	3,482.3	-0.06%	-3.43%
Employed Labor Force ('000)	3,175.7	3,169.4	3,390.4	0.20%	-6.33%
Unemployed Labor Force ('000)	187.1	195.5	91.9	-4.30%	103.60%
Unemployment Rate	5.6%	5.8%	2.6%	--	--
Washington Area Wage and Salary Employment[a]					
Total ('000)	3,218.5	3,225.4	3,396.3	-0.21%	-5.24%
Construction ('000)	166.5	167.2	163.5	-0.42%	1.83%
Manufacturing ('000)	54.8	54.5	58.2	0.55%	-5.84%
Transportation & Public Utilities ('000)	70.2	68.1	79.0	3.08%	-11.14%
Wholesale & Retail Trade ('000)	342.0	335.8	347.4	1.85%	-1.55%
Services ('000)	1,882.5	1,889.0	2,028.1	-0.34%	-7.18%
Total Government ('000)	702.5	710.8	720.1	-1.17%	-2.44%
Federal Government ('000)	375.8	376.0	366.6	-0.05%	2.51%

[a]Unadjusted data

[b]Seasonally adjusted data

[c]Seasonally adjusted constant (1996) dollars