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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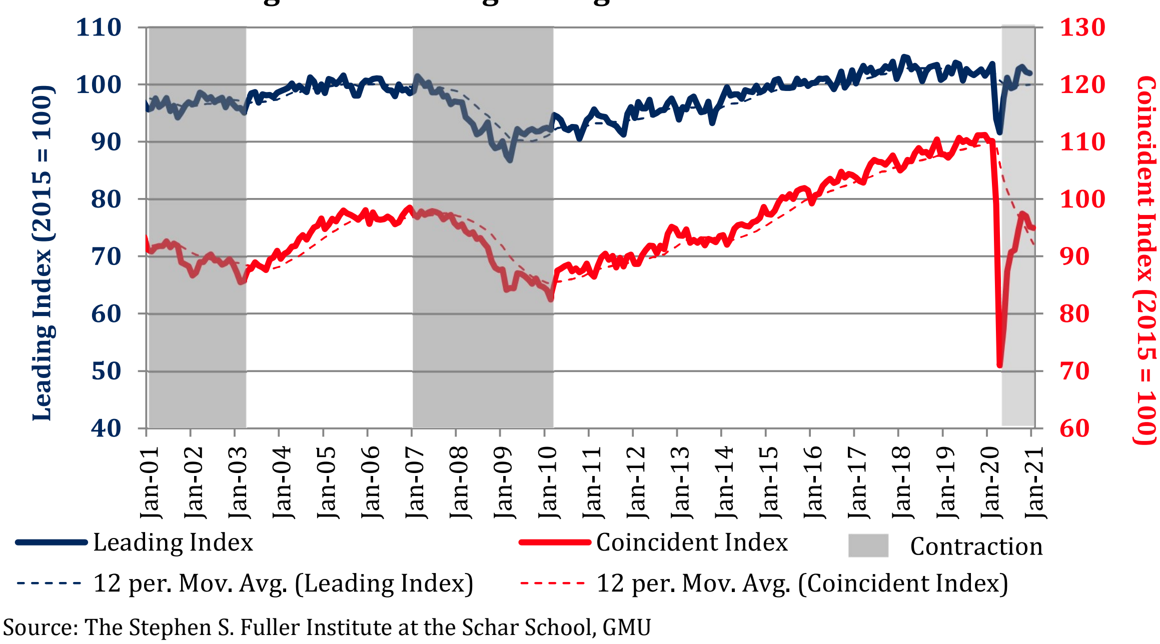
The Washington Region's Economy Remained Stagnant in January 2021

In January 2021, the Washington region's economic recovery did not resume and conditions remained weak. The Coincident Index decreased 0.3 percent from December 2020 and 13.8 percent from January 2020. The Index also decreased 2.6 percent from October 2020, which was its most recovered month. The Leading Index increased 0.8 percent from December 2020 and 0.4 percent from January 2020. Even with this modest improvement, conditions for the Leading Index remain mixed. Total building permits and durable goods sales had recovered, while initial unemployment insurance claims and consumer expectations had not recovered as of January 2021. The region's economic performance continued to lag in February 2021, and job losses were modestly larger than in January 2021. Preliminary data for March indicate that the economic situation improved. Both consumer confidence in the present and consumer expectations rebounded, which will bolster growth going forward. In combination with the decreasing COVID-19 rates and increasing vaccination rates, the economic stagnation that occurred during the fall and winter should reverse in March and April, leading to economic growth.

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 0.3 percent between December 2020 and January 2021. This is the third consecutive decline and brings the Index to its smallest reading since October 2020. Two components of the Index decreased from December: domestic airport passenger volume (-5.3%) and wage and salary employment (-1.6%). Consumer confidence increased modestly (+3.2%) after decreasing 21.2 percent between November 2020 and December 2020. Nondurable goods sales increased 7.7 percent, reversing the prior two months of losses.

Between January 2020 and January 2021, the Coincident Index decreased 13.79 percent and continued to be weak compared to its fall readings. The Index has declined 2.6 percent from its most recovered reading in October 2020 but was still 33.9 percent larger than its trough in April 2020. In January, the two components that lagged their fall performance most significantly were wage and salary employment and consumer confidence. These components should improve this spring as the second wave of COVID-19 subsides. Overall, the economic recovery in the Washington region continued to lag in January 2021 and three of its four components decreased compared to January 2020:

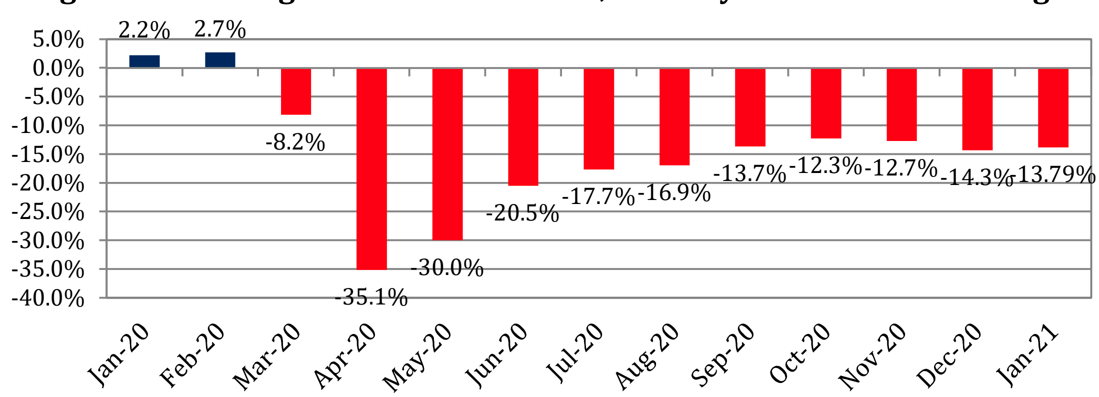
- *Non-durable goods retail sales* increased 4.8% from January 2020 for its strongest monthly over-the-year gain since September 2020; while

- *Wage and salary employment* in the Washington region decreased 6.7% between January 2020 and January 2021 after decreasing 6.4% in December 2020 on a monthly over-the-year basis;

- *Consumer confidence (in the present)* decreased 47.4% from January 2020 and continued to have the least consistent recovery; and

- *Domestic passenger volume at Reagan National and Dulles Airports* decreased 73.1% from January 2020 after a monthly over-the-year decline of 73.7 % in December.

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 0.8 percent between December 2020 and January 2021. The Index decreased 0.9 percent in November and 0.2 percent in December on month-to-month bases and the Index remains smaller than its October reading. In January, two components contributed to its improvement: durable goods retail sales (+5.7%) and initial unemployment insurance claims (-25.8%). Total building permits decreased 12.3 percent, while consumer expectations declined by 0.2 percent.

Between January 2020 and January 2021, the Leading Index increased 0.44 percent, marking its second consecutive monthly over-the-year gain. These gains continue to reflect a mixed outlook, with building permits and durable goods sales having recovered, and consumer expectations and initial unemployment insurance claims remaining weak. In January, two of the four components contributed to this decline on a monthly over-the-year basis:

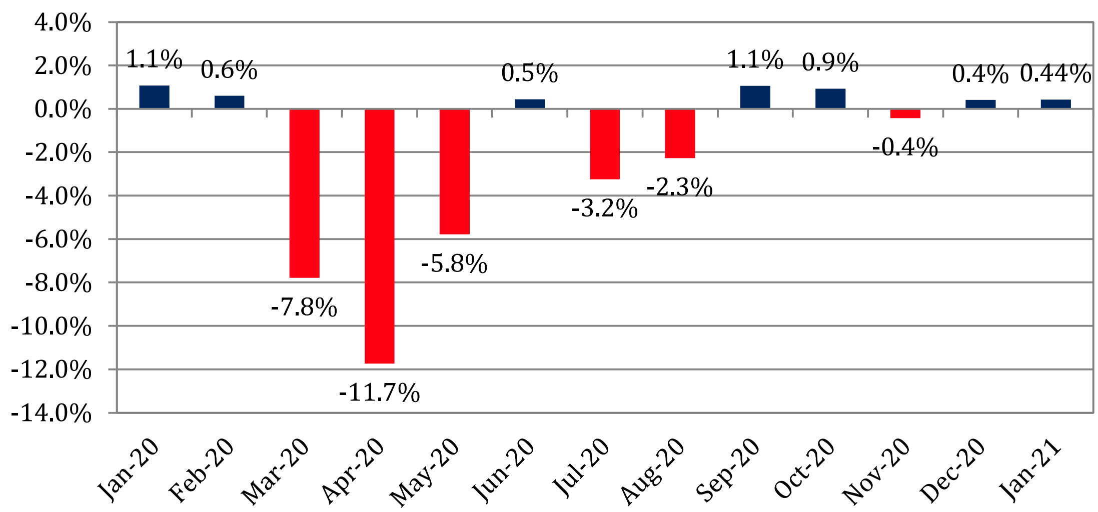
- *Total residential building permits* increased 14.0% from January 2020, with gains for both single-family (+20.3%) and multi-family (+7.2%) permits;

- *Durable goods retail sales* increased 8.7%, marking its eighth consecutive gain; while

- *Consumer expectations (consumer confidence six months hence)* decreased 20.7% from January 2020 for its third consecutive month of monthly over-the-year declines; and

- *Initial claims for unemployment insurance* increased 150.7% (worsened), after increasing 233.9% in December.

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



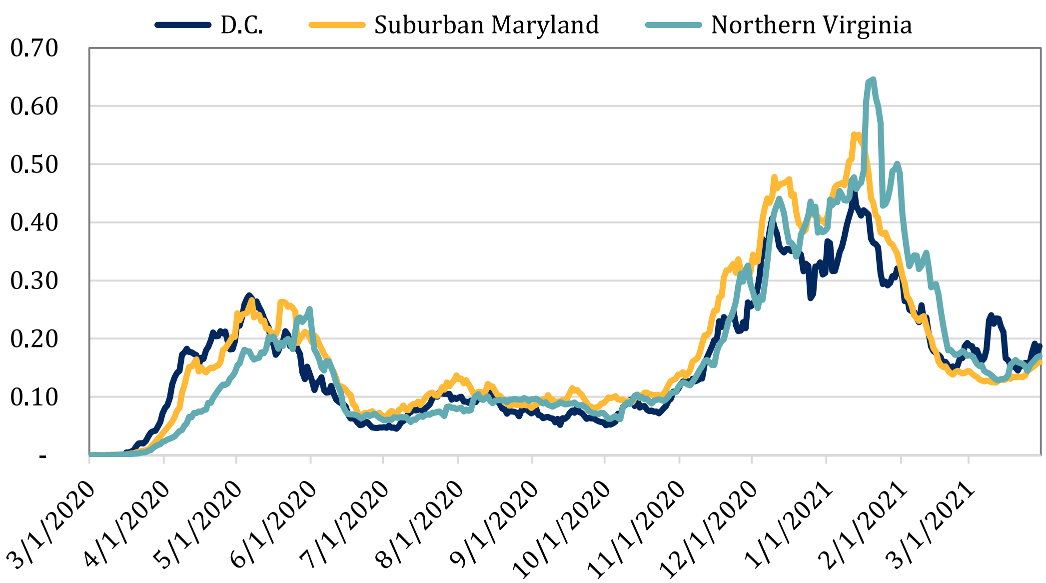
Source: The Stephen S. Fuller Institute at the Schar School, GMU

Current Performance

In January 2021, the economy continued to be affected by the second local wave of COVID-19. Compared to its performance prior to the second wave, the economy was modestly less recovered and the Coincident Index decreased by 2.6 percent between October 2020 and January 2021. Compared to its pre-pandemic reading in February 2020, the Index decreased by 13.8 percent. Altogether, the Index was about 61 percent recovered in January compared to its April trough. The economic situation in February 2021 did not substantially improve and the region's jobs losses worsened modestly. Still, the COVID-19 trends suggest that the economic recovery will resume in March as new daily cases have declined sharply from their peak level in mid-January.

The second local wave of COVID-19 peaked in mid-January and has since substantially declined. As of the end of March, new daily case rates in the region decreased 71.6 percent from their peak in January and rates and each of the sub-state areas have had a similar level of decline: Northern Virginia (-73.7%), Suburban Maryland (-59.0%), and the District (-59.0%). Even with this decrease, rates remain larger than their average level during the of summer 2020. The region's case rates were nearly twice (+92.1%) as large at the end of March and all sub-state areas had elevated rates compared to their stabilized rates after the first wave: the District (+142.7%), Northern Virginia (+108.5%), and Suburban Maryland (+64.0%). The overall pattern suggests that the recent decline in case rates should lead to an improvement in economic conditions in March, but the rebound may be modest compared to the rebound during the summer of 2020.

Figure 4. New Daily COVID-19 Cases per 1,000 Residents by Sub-State Area
Washington Region, 7-Day Average, 3/1/20 – 3/30/21

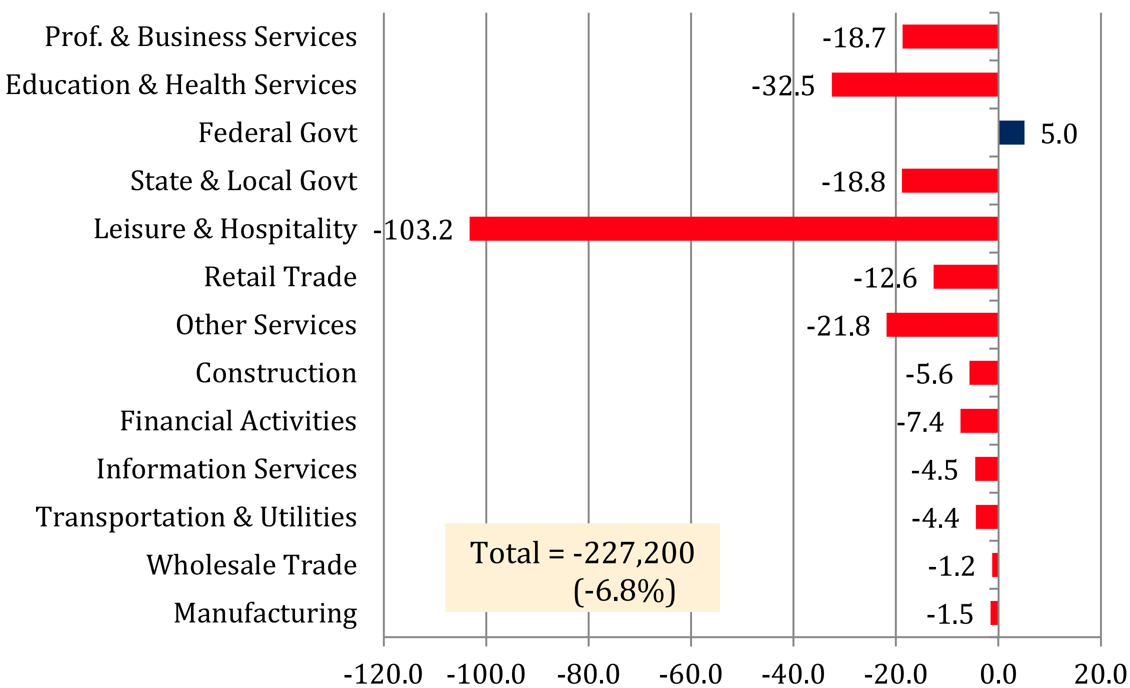


Sources: Johns Hopkins University Center for Systems Science and Engineering; U.S. Census Bureau (v2019 Population Estimates); The Stephen S. Fuller Institute at the Schar School, GMU

The second local wave of COVID-19 had the largest direct effect on consumer confidence in the present and wage and salary employment. These components reached multi-month lows during the second wave and are likely to improve this spring. Consumer confidence in the present condition in the South Atlantic region has been relatively volatile during the pandemic. It reached its trough in May 2020 and improved in June and July but weakened in August. Beginning in September, consumer confidence improved again and reached its most recovered level in November. Consumer confidence decreased significantly in December and did not substantially through February 2021. Consumer confidence improved in March, rising 30.2 percent from February 2021. This rebound will bolster the economic recovery this spring.

Wage and salary employment reached its trough in April 2020 and the region lost 375,000 jobs (-11.2%) compared to April 2019. The employment situation stabilized in May, during the peak of the first local wave of COVID-19, and improved consistently between July 2020 and October 2020. The recovery stagnated between October and November and reversed in January and February. At its most recovered point in October 2020, the region had regained about 43 percent of the jobs lost in April. As of February 2021, the region was about 40 percent recovered.

Figure 5. Change in Jobs in the Washington Region February 2020 to February 2021 (in thousands)



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

Between February 2020 and February 2021, the region lost 227,200 jobs for a decline of 6.8 percent. The largest absolute losses continue to be in the Leisure & Hospitality sector and this sector continues to have the largest effect on the region's overall jobs trends. In February, this sector decreased by 103,200 jobs (-31.6%) compared to last February; in November 2020, this sector decreased by 97,100 jobs (-29.1%) and the sector has had modest losses since then. As of February, this sector had recovered about 40 percent of its jobs. The sector with the second largest absolute losses in February was Education & Health Services, which decreased by 32,500 jobs. On a percentage point basis, this sector decreased by 7.1 percent and ranked third to last (11th out of the 13 major sectors) in terms of percentage change. As of February 2021, this sector had recovered about 42 percent of the jobs it lost at its peak in April 2020. The third largest absolute losses in February were in the Other Services sector, which includes personal care services, repair and maintenance, and associations. This sector decreased by 21,800 jobs between February 2020 and February 2021, or a decline of 10.4 percent. This percentage decline ranked second to last (12th of the 13 major sectors). Altogether, these three sectors accounted for 69.3 percent of all the losses in February, despite accounting for 27.1 percent of all the region's jobs prior to the pandemic in 2019. As the region recovers, these sectors will continue to disproportionately affect the employment trends.

The remaining two components were less affected by the second local wave of COVID-19 but for different reasons. Domestic airport passenger volume was the least recovered component prior to the second wave and was therefore the least affected by the reversal in COVID-19 conditions in the fall. As of February 2021, this component was about 23 percent recovered. Nationally, air travel was stable in February and improved modestly in March. Local trends have broadly followed the national trends and air travel should continue to be flat in February and its recovery should resume in March. Nondurable goods sales, by contrast, were the first component to recover and have had eight consecutive months of monthly over-the-year gains. The rate of growth did moderate in November and December during the second local wave, but sales remained larger than their 2019 levels. In January 2021, nondurable goods sales increased 4.8 percent and were the only component to improve from last year.

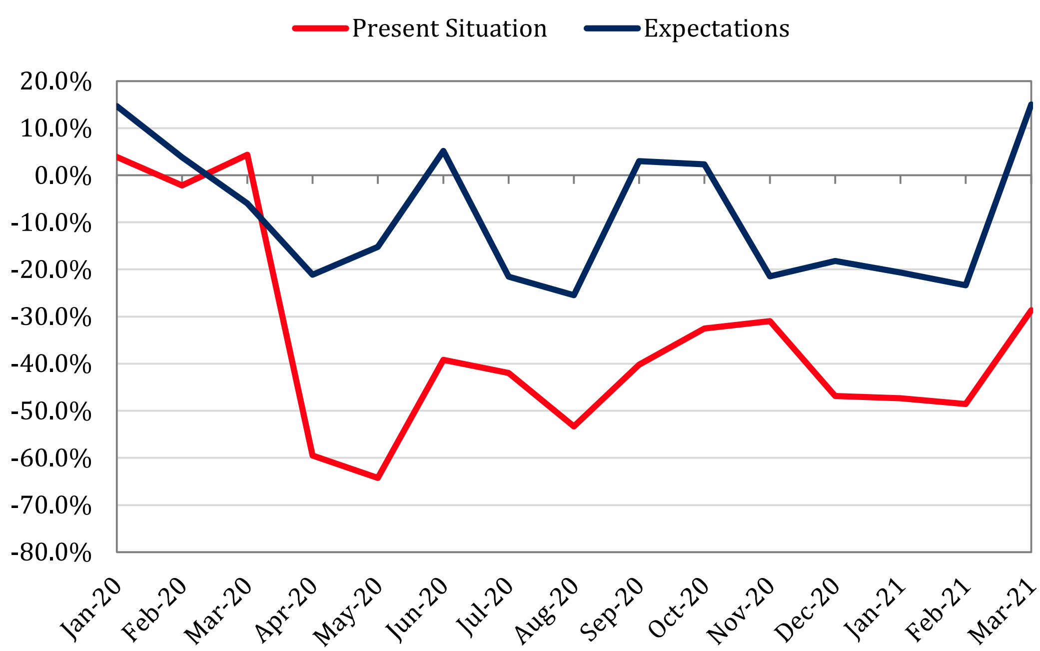
Washington Region's Near-Term Outlook

The Washington region's Leading Index projects economic performance six to eight months in advance based on business cycle indicators. This recession is the result of the health crisis, which will continue to determine the region's future economic performance more than traditional business cycle indictors. Instead, the components in the Leading Index primarily reflect expectations about which components of the economy were least affected and when the health crisis will abate. The components that correspond with conditions for higher income households or longer-term economic prospects continue to be the most recovered, while those that correspond with medium-term prospects for the broader economy remained weak in January 2021.

Two components of the Leading Index recovered relatively quickly and continued to have growth in January 2021 on a monthly over-the-year basis. Total building permits recovered in September 2020 and have increased on a monthly over-the year basis through February 2021. Permits increased 14.0 percent between January 2020 and January 2021 and included relatively strong gains for both multi-family and single-family permits. In February 2021, permits increased 77.5 percent from last year driven by gains for multi-family permits. This suggests that developers and investors generally expect housing demand for new supply to recover in 2021. Similarly, durable goods sales recovered in June 2020 and increased 8.7 percent between January 2020 and January 2021. Durable goods typically last longer than three years, suggesting that consumers expect economic conditions to improve by mid-2022. New construction and durable goods are frequently disproportionately consumed by higher income households, which likely also contributed to their relatively quick recovery.

The two components that continue to lag were also more affected by the second local wave of COVID-19. Initial unemployment insurance claims increased (worsened) 150.7 percent in January 2021 compared to last January. While new claims reached their lowest (most improved) level since before the pandemic began, new claims are the least recovered component and their recovery was interrupted in December, when new claims accelerated. In combination with continued claims and labor force participation rates, these indicators suggest that labor market conditions will continue to be weak in early 2021.

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

Consumer expectations in the South Atlantic region have been the most volatile component of the Leading Index and had the largest decline during the second local wave of COVID-19. At the start of the pandemic, expectations decreased for three consecutive months on a monthly over-the-year basis. Expectations increased in June, but this improvement was followed by two months of declines. In September and October, expectations were higher than their 2019 levels, but this recovery was temporary. Expectations declined sharply in November and decreased for four consecutive months through February 2021. This period of decline was the longest during the pandemic to date and reflected consumer's expectations about a recovery in the next 6-8 months, which were subdued by the second wave of COVID-19 and pandemic fatigue.

Consumer expectations rebounded in March, increasing 22.0 percent from February 2021 and increasing 15.0 percent compared to March 2020. This monthly over-the year increase was the largest since July 2019 and consumer expectations are now just 6.6 percent smaller than their pre-pandemic reading in February 2020. This improvement in consumer expectations will bolster the economic recovery in the upcoming months. Going forward, the sharp decline in new COVID-19 cases will contribute to the economic rebound that will likely occur in March and April. Vaccination rates will determine the degree to which the recovery accelerates during the summer and fall.

Washington Area Economic Indicators
Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jan-21 Prelim.	Dec-20 Final	Jan-20 Final	Dec-20 to Jan-21	Jan-20 to Jan-21
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	95.0	95.2	110.2	-0.26%	-13.79%
Leading Index (2015 = 100)	102.8	102.0	102.4	0.83%	0.44%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000)[a]	3,113.4	3,165.6	3,335.9	-1.65%	-6.67%
Consumer Confidence (South Atlantic)[a]	97.5	94.5	185.2	3.17%	-47.35%
Domestic Airport Passengers ('000)[b]	623.5	658.6	2,317.8	-5.33%	-73.10%
Nondurable Goods Retail Sales ($000,000)[c]	3,532.0	3,279.1	3,370.9	7.71%	4.78%
Washington Area Leading Index Components					
Total Residential Building Permitsa	2,483.0	2,832.0	2,178.0	-12.32%	14.00%
Consumer Expectations (South Atlantic)[a]	91.0	91.2	114.7	-0.22%	-20.66%
Initial Unemployment Claims[b]	5,869.4	7,910.4	2,341.0	-25.80%	150.72%
Durable Goods Retail Sales ($000,000)[c]	4,286.0	4,054.8	3,941.5	5.70%	8.74%
Washington Area Labor Force[a]					
Total Labor Force ('000)	3,303.5	3,362.9	3,490.7	-1.76%	-5.36%
Employed Labor Force ('000)	3,105.8	3,175.7	3,383.1	-2.20%	-8.20%
Unemployed Labor Force ('000)	197.7	187.1	107.6	5.65%	83.70%
Unemployment Rate	6.0%	5.6%	3.1%	--	--
Washington Area Wage and Salary Employment[a]					
Total ('000)	3,113.4	3,165.6	3,335.9	-1.65%	-6.67%
Construction ('000)	158.5	162.5	162.7	-2.46%	-2.58%
Manufacturing ('000)	53.5	54.8	56.2	-2.37%	-4.80%
Transportation & Public Utilities ('000)	75.2	78.2	78.1	-3.84%	-3.71%
Wholesale & Retail Trade ('000)	317.1	326.8	332.7	-2.97%	-4.69%
Services ('000)	1,813.1	1,838.6	2,003.4	-1.39%	-9.50%
Total Government ('000)	696.0	704.7	702.8	-1.23%	-0.97%
Federal Government ('000)	372.0	374.7	364.9	-0.72%	1.95%

[a]Unadjusted data

[b]Seasonally adjusted data

[c]Seasonally adjusted constant (1996) dollars