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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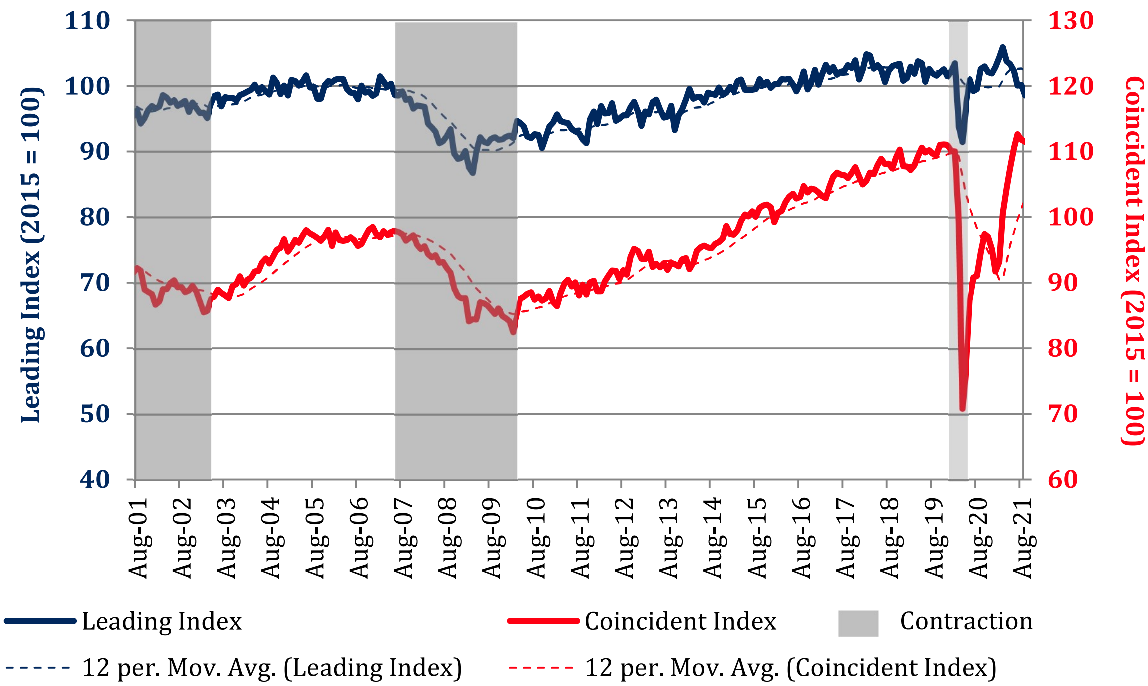
The Washington Region's Economic Activity Moderated in September 2021

The Washington region's economic activity, as measured by the Coincident Index, peaked in July 2021 and moderated in August and September 2021. The slowdown in economic activity coincided with the emergence of the third local wave of COVID-19. In September 2021, the Coincident Index decreased 0.3 percent from August 2021, and the decline was driven by decreases in consumer confidence and non-durable goods sales. The Washington region's Leading Index decreased 1.6 percent between August 2021 and September 2021, marking its fifth month-to-month decline in six months. The Leading Index also decreased 4.0 percent from September 2020 for its largest monthly over-the-year decline since May 2020. However, the recent decline in the Leading Index is less indicative of future conditions as it disproportionately reflects pandemic-specific changes to the initial unemployment program. Overall, preliminary data suggest that economic conditions stabilized in October 2021 and remained subdued for both October and November.

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 August 2021 and September 2021 for its second consecutive month-to-month decline. In September, two of the Index's four components decreased from August: consumer confidence (-3.5%) and non-durable goods sales (-3.2%). Domestic airport passenger volume increased 2.1 percent from August 2021, while wage and salary employment increased 0.3 percent.

Between September 2020 and September 2021, the Coincident Index increased 17.82 percent. The Index was 1.2 percent larger than its February 2020 level and the Index has been larger than this pre-pandemic reading since June 2021. Even though the Index was fully recovered in recent months, only one of its four components had recovered and the overall Index is disproportionately reflecting the unusually large month-to-month gains that occurred in the spring and summer of 2021. Compared to September 2020, all four components improved:

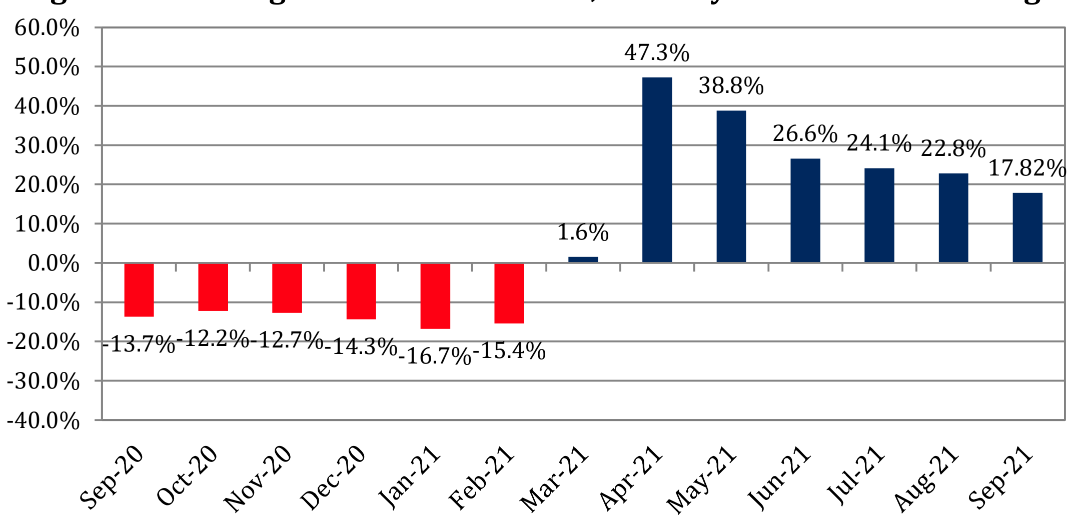
- *Domestic passenger volume at Reagan National and Dulles Airports* increased 153.4% from September 2020 but was 35.4% smaller than in September 2019; and

- *Consumer confidence (in the present)* increased 44.9% from September 2020 but decreased 13.4% from its September 2019 level; and

- *Non-durable goods retail sales* increased 7.5% from September 2020 and continued to be the only component to exceed its 2019 levels, increasing 11.5% from September 2019; and

- *Wage and salary employment* in the Washington region increased 3.4% from September 2020 but decreased 3.4% from September 2019.

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 1.6 percent between August 2021 and September 2021, marking its fifth month-to-month decline in six months. This decline was driven entirely by an increase in initial unemployment insurance claims, which increased (worsened) 152.3 percent for its largest month-to-month gain since the start of the pandemic in March 2020. The remaining three components increased from August 2021: residential building permits (+41.8%), durable goods sales (+1.5%), and consumer expectations (+0.7%).

Between September 2020 and September 2021, the Leading Index decreased 4.0 percent for its largest monthly over-the-year decline since May 2020. For the first time since August 2020, three of the Index's components decreased on a monthly over-the-year basis. The Leading Index has now trended down since March 2021 and the reading in September 2021 was its smallest since May 2020. While much of the decline in September was due to changes to the initial unemployment program instead of a true deterioration of conditions, the overall pattern of the Index still suggests that economic conditions will slow in the spring and early summer of 2022, absent any changes in the health crisis. In September 2021, three of the Index's four components worsened compared to September 2020:

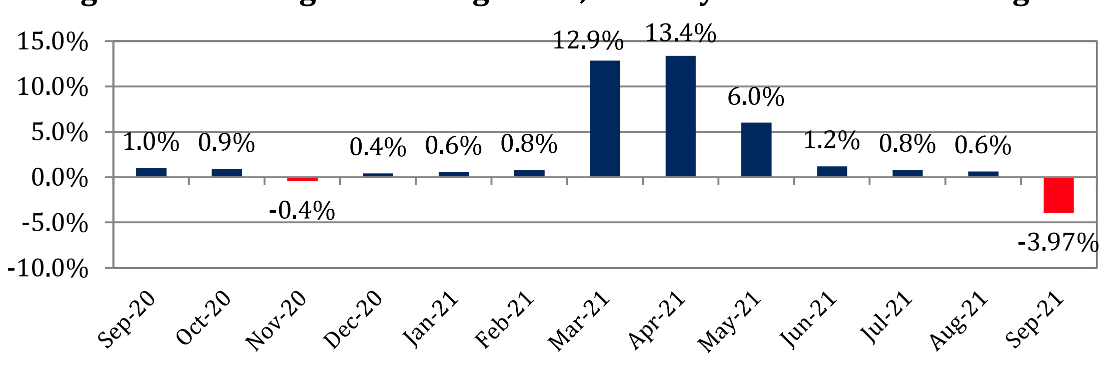
- *Total residential building permits* increased 4.2% from September 2020 and increased 18.7% from September 2019; while

- *Initial claims for unemployment insurance* increased 221.1% (worsened) compared to September 2020 and increased 1,178.8% (worsened) from September 2019; and

- *Consumer expectations (consumer confidence six months hence)* decreased 6.9% from September 2020 and decreased 4.0% from September 2019; and

- *Durable goods retail sales* decreased 2.2% from September 2020 and increased 7.7% from September 2019.

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



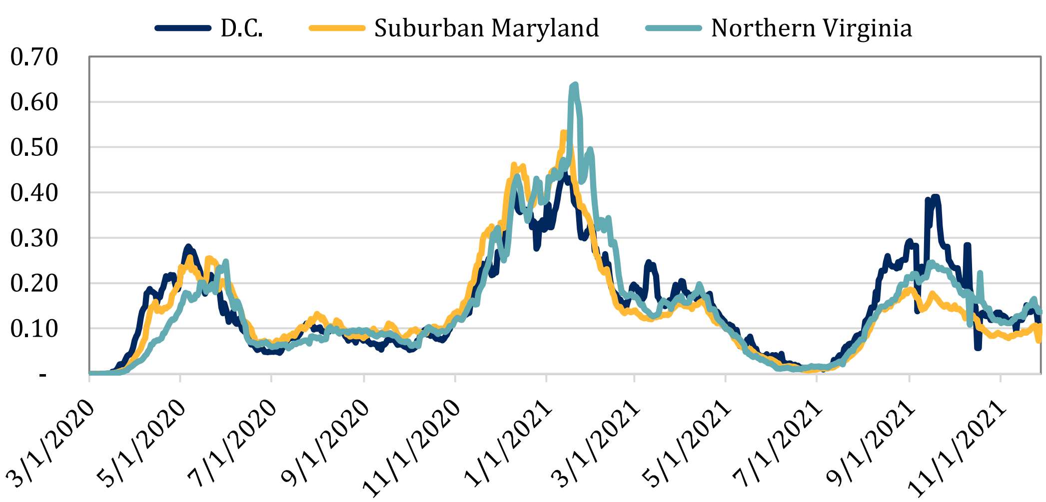
Source: The Stephen S. Fuller Institute at the Schar School, GMU

Current Performance

Economic activity in the Washington region peaked in July 2021 and moderated in August and September. The slowdown in the economic recovery corresponded with the emergence of the third local wave of COVID-19, which began in August and peaked in September. The moderation was concentrated in two of the Index's four components: consumer confidence and domestic air passenger volume. Regional consumer confidence improved and national air travel increased in October, suggesting that the Coincident Index stabilized in October. Non-durable goods retail sales continued to be strong in September, a trend that is likely to continue through the end of the year. Wage and salary employment continued its slow and incremental return in both September and October 2021. Altogether, economic activity reflected by the Coincident Index should stabilize in October but is unlikely to register any significant gains for the rest of 2021.

The Washington region's third wave of COVID-19 began in August 2021 and peaked in the middle of September 2021. At its peak, the new daily case rate was 42.6 percent of that during the second wave but 107.3 percent of the magnitude of the first wave. Between the middle of September and early November, the new case rate in the region decreased steadily, declining 57.6 percent. However, this decline was not sustained and case rates increased between November 6, 2021 and November 23, 2021. While case rates decreased between November 23 and November 26, this decline was the result of a pause in reporting during the Thanksgiving holiday. The Centers for Disease Control and Prevention publishes forecasts of new cases by county in the next two weeks. The median forecast for the Washington region projects that new case rates will quickly return to their pre-Thanksgiving levels and remain relatively stable through early December.

Figure 4. New Daily COVID-19 Cases per 1,000 Residents by Sub-State Area
Washington Region, 7-Day Average, 3/1/20 – 11/27/21



Sources: Johns Hopkins University Center for Systems Science and Engineering; U.S. Census Bureau (2020 Decennial Census); The Stephen S. Fuller Institute at the Schar School, GMU

During the third wave of COVID-19, the Coincident Index decreased, declining 0.8 percent in August 2021 and 0.3 percent in September on month-to-month bases. This two-month decline of 1.1 percent was smaller than the three-month decline that occurred during the second wave between October 2020 and January 2021 (-5.9%). So far, the third wave of COVID-19 has been less severe than the second, which, in addition to the region's relatively large vaccination rates, suggests that the slowdown in economic activity for the duration of the third wave will be smaller, albeit longer, than that during the second. Still, the increasingly frequent emergence of COVID-19 variants, the potential for an extended third wave that worsens this winter, and the ongoing questions about the effectiveness of boosters against new strains, may alter the region's economic prospects.

Between July 2021 and September 2021, two of the four components in the Coincident Index decreased: consumer confidence in the South Atlantic region (-11.2%) and domestic air passenger volume at Reagan National and Dulles airports (-6.7%). Consumer confidence decreased 8.0 percent in August 2021 and decreased 3.5 percent in September on month-to-month bases. This is the first two-month period of decline since the summer of 2020 and was likely the result of the emergence of the Delta variant and the third wave of COVID-19. While consumer confidence increased 8.4 percent between September 2021 and October 2021, this gain was temporary and confidence levels declined 2.2 percent between October 2021 and November 2021. This pattern likely reflects the moderation of the third wave of COVID-19 in October, followed by increased concerns over inflation in November.

Domestic air passenger volume in the Washington region decreased 8.6 percent in August 2021 and increased 2.1 percent in September 2021 on month-to-month bases. Even with the increase in September, air passenger volume was 6.7 percent smaller than its peak in July 2021. Nationally, the number of passengers traveling through Transportation Security Administration checkpoints also peaked in July 2019 and decreased 19.1 percent between July 2021 and September 2021. A similar decline occurred nationally in 2019 and this two-month pattern reflects seasonal trends in travel and tourism. Overall, the Washington region's air passenger volume continues to be less recovered than national air travel but has typically followed a similar month-to-month pattern. Compared to September 2019, the Washington region had 35.4 percent fewer passengers in September 2021; nationally, there were 23.7 percent fewer passengers during the same period. The national month-to-month changes air passenger travel in October and November reflected seasonal patterns and travel increased in modestly in October and decreased in November. However, compared to the same month 2019, national passenger volume improved modestly in October and rebounded in November 2021. A similar pattern should have occurred in the Washington region, with air travel contributing to a modest short-term improvement in economic activity in October and a contributing to a longer-term gain in November.[1]

Non-durable goods retail sales in the Washington region recovered quickly during the pandemic and are the only component that has returned to pre-pandemic levels. Non-durable sales recovered in June 2020 and have had 14 monthly over-the-year increases in the past 16 months. In September 2021, sales increased 7.5 percent compared to September 2020 but decreased 3.2 percent from August 2021. In August, consumers may have increased spending in anticipation of the emergent third wave of COVID-19 and the month-to-month decline in September appears to be temporary. Nationally, spending on non-durable goods sales continued to increase in October 2021, possibly driven in part by early holiday spending. In combination with the overall strength in national personal income levels, non-durable goods spending will likely remain strong for the remainder of 2021 but may moderate in early 2022.

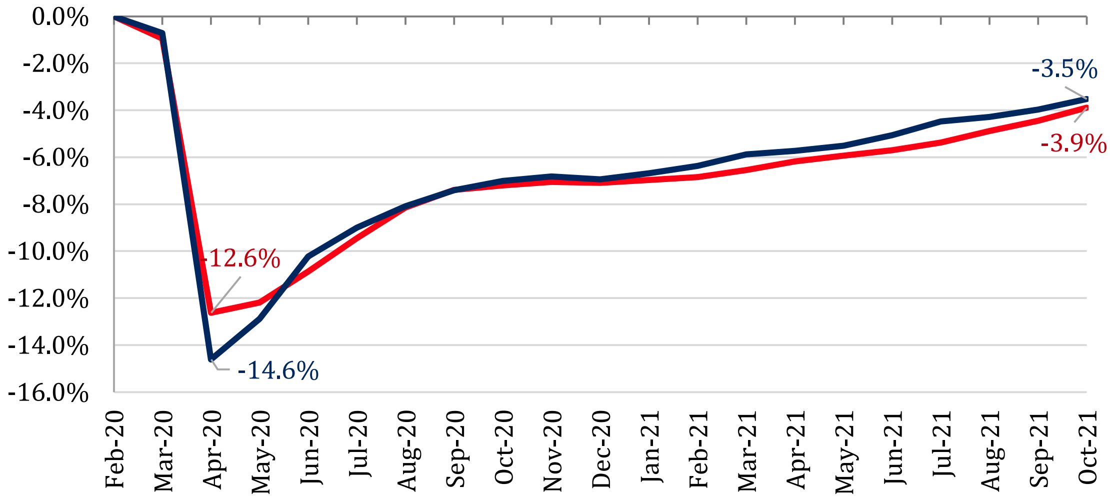
Wage and salary employment in the Washington region continued to recover in September 2021, increasing 0.5 percent from August 2021 after adjusting for seasonal patterns. The increase in October was 0.6 percent and was the largest month-to-month gain since September 2020. With this increase, the region had recovered about 69 percent of its jobs. Even with this recovery, the region had 3.9 percent fewer jobs than in February 2020 and the region continued to be less recovered than the U.S. Nationally, jobs were 76 percent recovered in October 2021 and the U.S. had 3.5 percent fewer jobs compared to February 2020. The Washington region's initial jobs losses were milder than the U.S.'s and the region's early recovery was similar to that of the nation's. However, since the spring of 2021, after the second wave of COVID-19 had subsided, the region's jobs recovery has significantly lagged the national recovery. This underperformance is primarily due to a slower-than-average return of local consumers to their pre-pandemic activities. With the recent concerns about the Omicron variant and the vaccines efficacy against it and future variants, local consumers will likely continue to be cautious when resuming activities.

Compared to October 2019, the region had 90,800 fewer jobs in October 2021, or a decrease of 2.7 percent. Three of the region's 13 major sectors have fully recovered and had more jobs that in October 2019. The Federal Government added 11,300 jobs (+3.1%) and has added jobs during each month in 2021 compared to the same month in 2019. The Professional & Business Services added 16,900 jobs (+2.1%) during this period, marking its largest gain since the pandemic began; between September 2019 and September 2021, this sector increased by 1.2 percent (+9,100 jobs) and this sector had the largest acceleration in gains in October. The gain was driven by the Professional, Scientific & Technical Services & Management sub-sector

[1] While the Washington region Coincident Index uses seasonally adjusted domestic passenger volumes, the seasonality of air travel during the pandemic appears to be larger than in the past and seasonal adjustment factors, based on past trends, are not fully accounting for recent patterns.

which increased by 23,300 jobs (+4.0%) from 2019. The Administrative & Waste Management sub-sector decreased by 6,400 jobs (-3.1%). The third sector that had more jobs in October 2021 compared to October 2019 was Wholesale Trade, which increased by 400 jobs (+0.6%).

Figure 5. Percent Change in Jobs from February 2020
Washington Region and U.S.



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

The Leisure & Hospitality sector continued to have the largest losses and had 16.2 percent fewer jobs in October 2021 compared to October 2019, or a total of 54,400 fewer jobs. In this sector, the Accommodation sub-sector had the largest percentage losses during this period, decreasing by 37.1 percent. The Accommodation sub-sector was about 38 percent recovered in October 2021, the least of any sub-sector. The Arts, Entertainment & Recreation sub-sector decreased 15.4 percent compared to October 2019, while the Food Services & Drinking Places sub-sector decreased 12.3 percent. Both the Arts, Entertainment & Recreation and Food Services & Drinking Places sub-sectors were about 75 percent recovered in October 2021. The sector with the second largest percentage losses was Other Services, which includes personal care services, repair and maintenance, and associations. Compared to October 2019, this sector had 8.1 percent fewer jobs (-17,000 jobs) and was about 48 percent recovered. The third largest percentage loss was in the Financial Activities sector, which decreased by 4.9 percent and by 8,000 jobs during this period. The Financial Activities sector was one of the two sectors, along with the Information Services sector, that has not substantially recovered any jobs that were lost during the pandemic.

The Washington region's economic activity peaked in July 2021 and moderated in August and September 2021, with the emergence of the third wave of COVID-19. Based on preliminary data and national trends, economic activity in October and November was relatively stable and may have increased modestly. Still, the region's economic recovery is unlikely to resume in earnest until the third wave has fully subsided and the full effect of the winter weather and the emerging variants is better understood.

Washington Region's Near-Term Outlook

The Washington region's Leading Index projects economic performance six to eight months in advance based on economic indicators. During the health crisis, this Index disproportionately reflects near-term, pandemic-specific changes and is less predictive of the economic recovery. Still, the Leading Index peaked in March 2021 and has decreased in five of the past six months on a month-to-month basis. This suggests that the economic recovery peaked this fall and that the recovery in 2022 will slow. The Coincident Index peaked in August 2021, which is consistent with the Leading Index's peak in March 2021 after incorporating COVID-19 patterns. While the Leading Index suggests that this slowdown will continue into the second quarter of 2022, some of the recent decline in the Leading Index is not representative of a true decline in activity and the underlying factors indicate a potential for growth.

Between September 2020 and September 2021, the Leading Index decreased 4.0 percent for its largest monthly over-the-year decline in 16 months. While three of the Index's four components worsened compared to last year, initial claims for unemployment insurance have had the largest deterioration. Initial claims increased (worsened) 221.1 percent from September 2020; between March 2021 and July 2021, initial claims had monthly over-the-year declines (improvements) and the pivot that occurred was large and fast. Other labor force and employment indicators do not support this sharp increase in layoffs. Instead, the increase is the result of the end of all Federal Pandemic Unemployment Compensation programs in the District of Columbia on September 4, 2021. On the day of September 5, 2021, 2,229 initial unemployment claims were filed, the largest single-day count since April 6, 2020. Even with the large number of new filers, the number of continued filers (for regular state programs) continued to trend down. This pattern indicates that when the Federal Pandemic Unemployment Compensation programs ended, individuals refiled for regular unemployment and that most of these claimants did not qualify. That is, the increase in new claimants was not because of new layoffs and was the result of individuals that were laid off earlier in the pandemic attempting to claim a different type of benefit. The number of new daily filers remained relatively large through the end of October and declined in November. This trend is entirely administrative in nature and does not reflect changes in the labor or employment markets. As such, the Leading Index readings in September and October will be artificially weak and these declines should be discounted.

Durable goods retail sales also decreased between September 2020 and September 2021 but, like initial claims, the decline was overstated relative to the true trend. In September 2021, retail sales decreased 2.2 percent, but this decline was because of unusually strong sales in September 2020. However, compared to September 2019, sales increased 7.7 percent and the overall pattern of sales has been strong. In the first nine months of 2021 durable goods sales increased 64.3 percent from the same period in 2019 and increased 64.0 percent from the same period in 2020. National consumption of durable goods remained strong in October 2021 and relatively large levels of local sales are likely to continue through the end of the year.

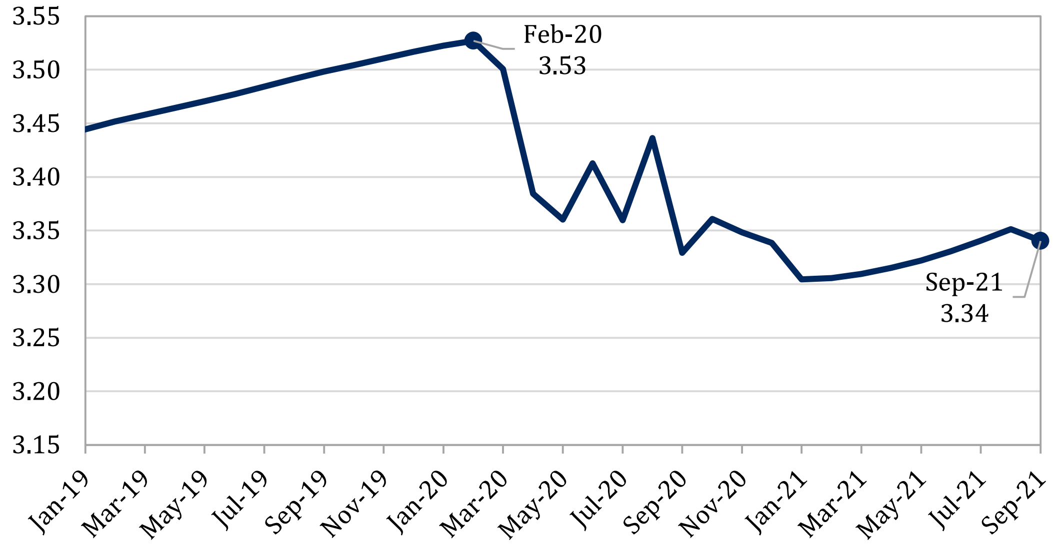
Consumer expectations in the South Atlantic region reached an eight-month low in August 2021, likely in anticipation of the third wave of COVID-19. In September 2021, expectations increased modestly from August, rising 0.7 percent, but were weaker than in September 2020 (-6.9%). Expectations in October were similarly subdued, increasing 4.3 percent from September 2021 but remaining 7.5 percent smaller than in October 2020. Consumer expectations worsened in November 2021, declining 5.7 percent compared to October 2021. This decrease brought expectations to its smallest level since August 2020 and indicates that consumers anticipate that COVID-19, inflation, and supply chain bottlenecks have subdued economic prospects in the first and second quarters of 2022. Overall, expectations have weakened in general since June 2021, when the consumers were most optimistic about the pandemic's trajectory. The temporary improvement in September and October was modest and expectations during 2021 have continued to be smaller than compared to the same month in 2019.

Residential building permits were the only component to increase between September 2020 and September 2021. Total permits increased 4.2 percent and this gain was driven entirely by multi-family permits, which increased 31.4 percent. Single-family permits decreased 17.1 percent from September 2020. Compared to September 2019, both types of permits increased: multi-family (+28.5%) and single-family (+8.4%). In October, permits decreased compared to both 2020 and 2019, including declines in both property types. Compared to October 2020, total permits decreased 28.6 percent; compared to October 2019, permits decreased 24.6 percent. In the first ten months of 2021, permits increased 13.5 percent from the same period in 2020 and were unchanged (-0.03%) from the same period in 2019. Permit activity, especially in the fall and winter months, is frequently uneven and will likely continue to be so for the rest of the year.

The largest near-term threat to the Washington region's recovery continues to be the availability of labor. Between February 2020 and January 2021, the region's labor force decreased by 222,400 residents, after adjusting for seasonal factors. Between January 2021 and August 2021, the labor force slowly returned and 46,550 more residents were either employed or actively looking for a job in August compared to January. This trend reversed in September and the labor force decreased by 10,660 residents. By contrast, the jobs market is both more recovered than the labor force and has consistently improved during 2021. In combination, this suggests that the availability of jobs, alone, is not a strong enough force to induce a labor force recovery; in other words, residents in the region that left the labor force have not yet returned even as the employment market has recovered.

This delayed recovery of the labor force will moderate job growth in the upcoming months.

Figure 6. Labor Force in the Washington Region
January 2019 - September 2021 (in millions)



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

The Leading Index has moderated since March 2021 and suggests that a robust economic recovery will not resume until at least the spring of 2022. The Index's reading in September 2021 was disproportionately affected by pandemic-specific issues with initial unemployment claims and its large monthly over-the-year decline is less indicative of the second quarter 2022 trajectory. This data oddity will continue in October and the Index's reading in November, along with the health trends, will be a strong indication of the early 2022 growth trajectory.

Washington Area Economic Indicators
Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Sep-21 Prelim.	Aug-21 Final	Sep-20 Final	Aug-21 to Sep-21	Sep-20 to Sep-21
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	111.4	111.8	94.6	-0.32%	17.82%
Leading Index (2015 = 100)	98.5	100.2	102.6	-1.64%	-3.97%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000)[a]	3,230.6	3,221.2	3,125.5	0.29%	3.36%
Consumer Confidence (South Atlantic)[a]	149.5	155.0	103.2	-3.55%	44.86%
Domestic Airport Passengers ('000)[b]	1,489.5	1,458.6	587.8	2.12%	153.43%
Nondurable Goods Retail Sales ($000,000)[c]	3,746.8	3,870.5	3,484.5	-3.20%	7.53%
Washington Area Leading Index Components					
Total Residential Building Permitsa	2,341.0	1,651.0	2,246.0	41.79%	4.23%
Consumer Expectations (South Atlantic)[a]	92.4	91.8	99.2	0.65%	-6.85%
Initial Unemployment Claims[b]	25,635.5	10,162.7	7,982.6	152.25%	221.14%
Durable Goods Retail Sales ($000,000)[c]	4,044.8	3,985.1	4,135.1	1.50%	-2.18%
Washington Area Labor Force[a]					
Total Labor Force ('000)	3,335.5	3,377.5	3,311.4	-1.24%	0.73%
Employed Labor Force ('000)	3,193.9	3,208.5	3,084.5	-0.45%	3.55%
Unemployed Labor Force ('000)	141.6	169.0	226.9	-16.21%	-37.58%
Unemployment Rate	4.2%	5.0%	6.9%	--	--
Washington Area Wage and Salary Employment[a]					
Total ('000)	3,230.6	3,221.2	3,125.5	0.29%	3.36%
Construction ('000)	161.6	162.4	161.5	-0.49%	0.06%
Manufacturing ('000)	56.0	56.0	54.4	0.00%	2.94%
Transportation & Public Utilities ('000)	74.5	72.9	73.2	2.19%	1.78%
Wholesale & Retail Trade ('000)	316.1	318.1	307.1	-0.63%	2.93%
Services ('000)	1,916.2	1,919.3	1,825.5	-0.16%	4.97%
Total Government ('000)	706.2	692.5	703.8	1.98%	0.34%
Federal Government ('000)	374.8	374.1	376.1	0.19%	-0.35%

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