



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



Washington Economy Watch

Warning Signs

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The Stephen S. Fuller Institute
for Research on the Washington Region's Economic Future
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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 area'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 six complete business cycles in addition to the Post-COVID 19 cycle that began in May 2020.

Washington Economy Watch

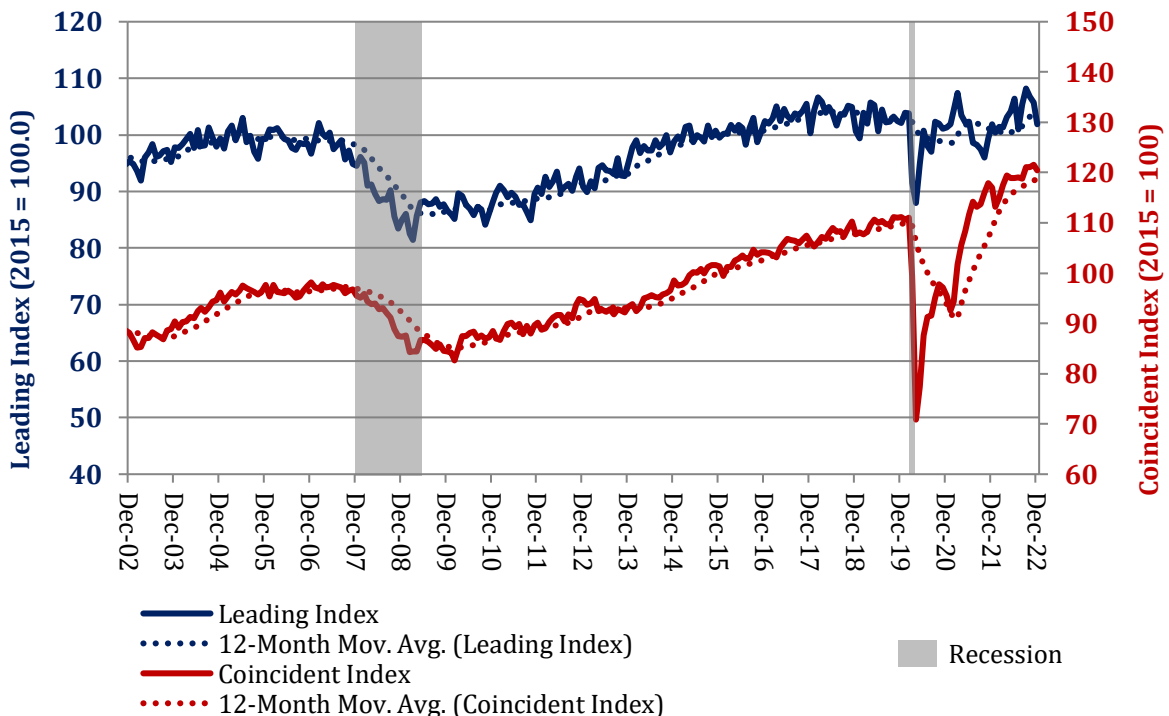
Warning Signs

February 2023

Washington Area Economy: Warning Signs Appear as Growth Slows Further

The pace of the Washington area's economic growth, as tracked by the Washington Coincident Index slowed for the third consecutive month. The driving force behind the slowing growth of the Coincident Index is the tight labor market. The near term outlook, based on the Washington Leading Index, deteriorated faster than anticipated in December, after being robustly positive in prior months. The deterioration of the Leading Index is now signaling stalled economic growth for the first half of 2023 in the Washington region.

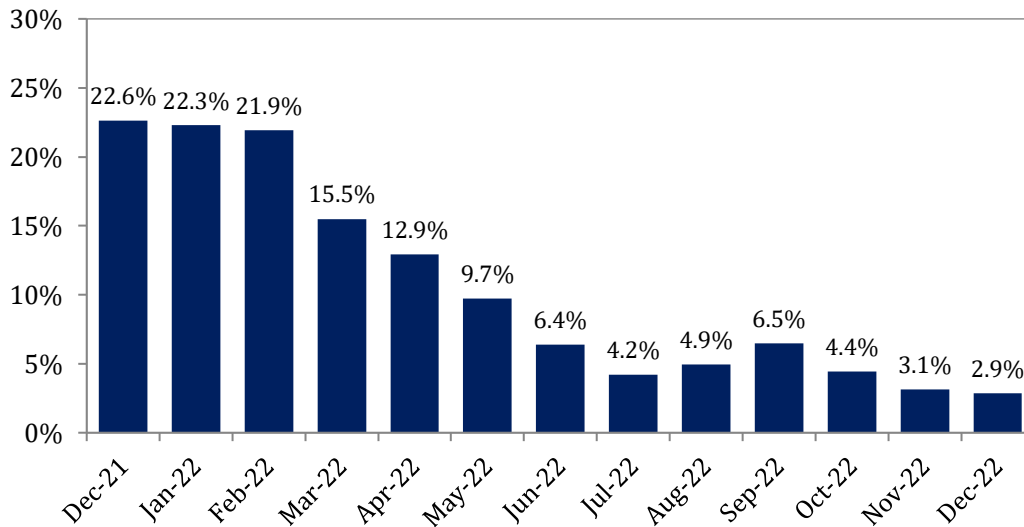
Washington DC, Area Economic Indices



The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, extended its positive upward trend in November for the twenty second consecutive month. Despite continuing to increase, the 2.9% month-over-year increase was smaller than the prior month for the third consecutive month, implying that the region's economic growth is slowing, perhaps plateauing.

- *Wage and salary employment* growth in the Washington area increased 1.6% between December 2021 and December 2022, down from 2.2% in August; and,
- *Domestic passenger volume at Reagan National and Dulles Airports* increased 18.0 percent from December 2021 to December 2022, down from 37.5% in August; while,
- *Non-durable goods retail sales* declined 1.0 percent for a seventh consecutive month on a month-over-year basis; and,
- *Consumer confidence (current circumstances)* declined for the third consecutive month.

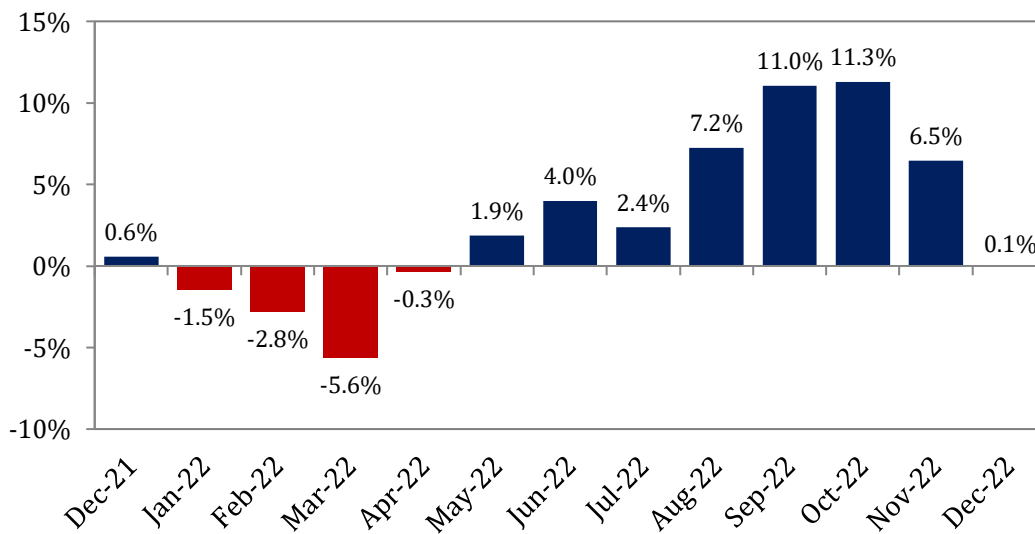
Washington Coincident Index, Monthly Over-the-Year Changes



The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy six to eight months in advance, increased just 0.1 percent month-over-year in December 2022, down sharply from month-over-year increases of 11.0 percent in September, 11.3 percent October, and 6.5 percent in November. Despite strong readings in prior months, the rapid deterioration in the Leading Index suggests that the Washington region's economy will stall in the first half of 2023. Although two of the four components improved in December, initial claims for unemployment claims improved by less than prior months and the volatility of the change in the number of building permits increased in the fourth quarter compared to the second and third quarter. We continue to remain in a cautious stance on near term economic performance.

- *Total residential building permits* became recently volatile with a month-over-year increase of 17.7% in December that came after a decline of 7.4% in November and a 24.7% increase in October; and,
- *Initial claims for unemployment insurance* continued to decrease (improve) for an eleventh consecutive month, but the decrease of 38.5% was notably smaller than the decrease of 88.2% in November, suggesting the region's tight labor market has little room left to tighten further; and,
- *Durable goods retail sales* declined 1.0 percent in December for the fourth consecutive month, resulting in only one month-over-year increase for all of 2022; and,
- *Consumer expectations (consumer confidence six months hence)* declined for an eleventh consecutive month by 21.2%, the largest decline since July 2022 (-35.5%).

Washington Leading Index, Monthly Over-the-Year Changes



Current Performance

The Washington regional economy has recovered from the COVID-19 pandemic in aggregate, though some sectors continue to struggle. For example, the leisure and hospitality sector in December still had 20,400 fewer jobs than February of 2020 caused by a combination of lagging business travel and former L&H workers taking jobs in other sectors of the economy. Private education and health services jobs remain below pre-pandemic highs and in recent months finance and real estate employers have shed workers as rising interest rates take a huge bite out of home sales. In contrast, business and professional services employment is up 17,000 jobs and there has been net growth in construction, information services, and transportation.

Job Change from February 2020 to December 2022

Sub-Sector	Job Change
Professional Business Services	17.1
Transportation and Utilities	10.1
Retail Trade	6
Construction	5.4
State & Local Govt	3.5
Wholesale Trade	3.3
Information	2.3
Manufacturing	1.4
Federal Government	-1.8
Other Services	-8.6
Education and Health Services	-11
Financial Activities	-11.7
Leisure and Hospitality	-20.4

Near-Term Outlook

The near-term outlook for the Washington region, reflected in the Leading Index, has quickly worsened. While the number of initial claims for unemployment continued to decline, consumer expectations and durable goods sales worsened. Durable goods sales declined 1.0 percent month-over-year while consumer expectations decreased 21.2 percent. Both of these deteriorations are expected outcomes of the continuing interest rate increases by the Federal Reserve. With national labor markets remaining robust in the face of rising interest rates, it is likely that the Federal Reserve will continue monetary tightening beyond current Wall Street expectations, which increases the likelihood of a national recession in the second half of 2023. Though the Washington region is usually resilient in the face of a national economic downturn, our most likely scenario for 2023 is for a slowing economy.

Washington Area Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Dec-22 Prelim.	Nov-22 Final	Dec-21 Final	Nov-22 to Dec-22	Dec-21 to Dec-22
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	120.4	121.5	117.1	-0.94%	2.85%
Leading Index (2015 = 100)	101.9	105.8	101.8	-3.67%	0.05%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,348.1	3,357.1	3,295.2	-0.27%	1.61%
Consumer Confidence (South Atlantic) ^a	155.3	148.2	156.8	4.79%	-0.96%
Domestic Airport Passengers ('000) ^b	2,417.5	2,408.9	2,048.3	0.36%	18.02%
Nondurable Goods Retail Sales (\$000,000) ^c	3,938.3	4,174.3	3,976.6	-5.65%	-0.96%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	2,793.0	1,852.0	2,372.0	50.81%	17.75%
Consumer Expectations (South Atlantic) ^a	73.5	85.3	93.3	-13.83%	-21.22%
Initial Unemployment Claims ^b	2,309.0	1,192.8	3,753.5	93.58%	-38.48%
Durable Goods Retail Sales (\$000,000) ^c	3,724.0	3,885.6	3,761.4	-4.16%	-0.99%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,364.6	3,352.8	3,360.2	0.35%	0.13%
Employed Labor Force ('000)	3,269.2	3,247.9	3,238.1	0.65%	0.96%
Unemployed Labor Force ('000)	95.4	104.8	122.1	-8.97%	-21.88%
Unemployment Rate	2.8%	3.1%	3.6%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,348.1	3,357.1	3,295.2	-0.27%	1.61%
Construction ('000)	168.2	167.0	161.6	0.72%	4.08%
Manufacturing ('000)	57.7	57.6	56.5	0.17%	2.12%
Transportation & Public Utilities ('000)	86.3	83.7	83.6	3.11%	3.23%
Wholesale & Retail Trade ('000)	337.1	334.2	334.9	0.87%	0.66%
Services ('000)	1,981.6	1,992.2	1,939.5	-0.53%	2.17%
Total Government ('000)	717.2	722.4	719.1	-0.72%	-0.26%
Federal Government ('000)	363.9	366.1	377.6	-0.60%	-3.63%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars