



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



Washington Economy Watch

Risks Despite Reacceleration

Vol VII No. 3
March 2023

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.

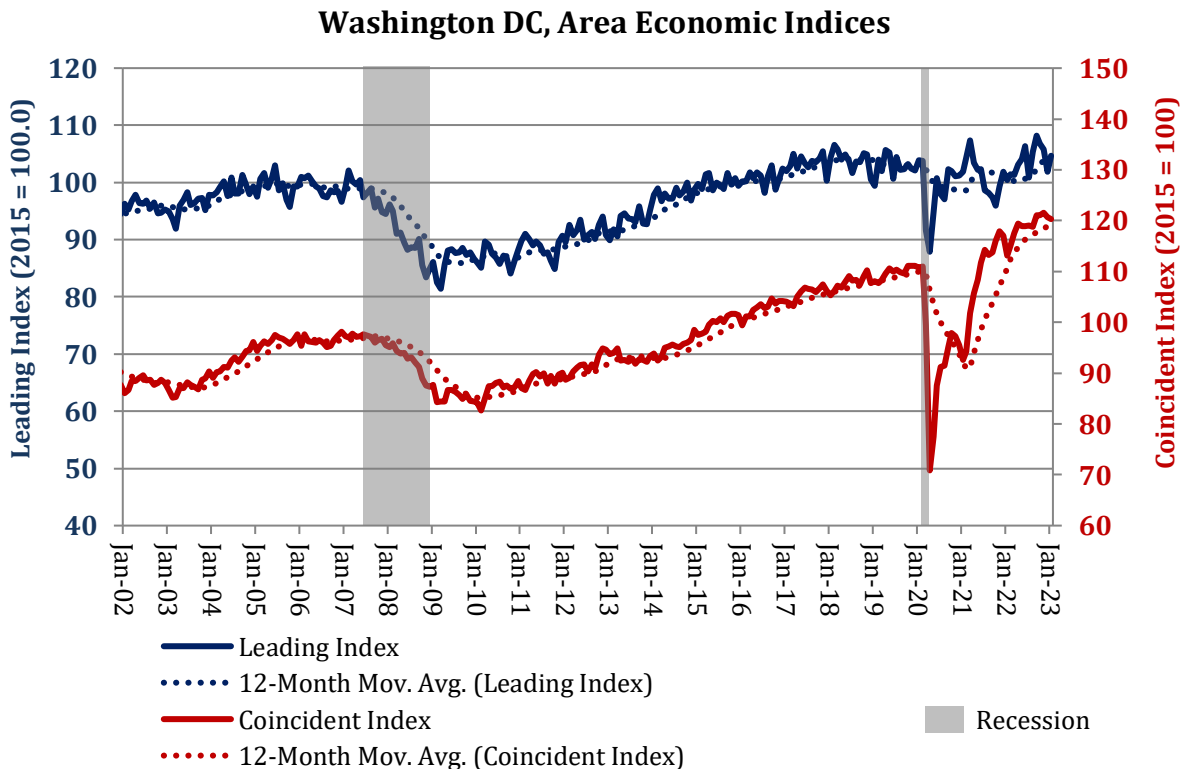
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Washington Area Economy: Unexpected Reacceleration Alongside Downside Risks

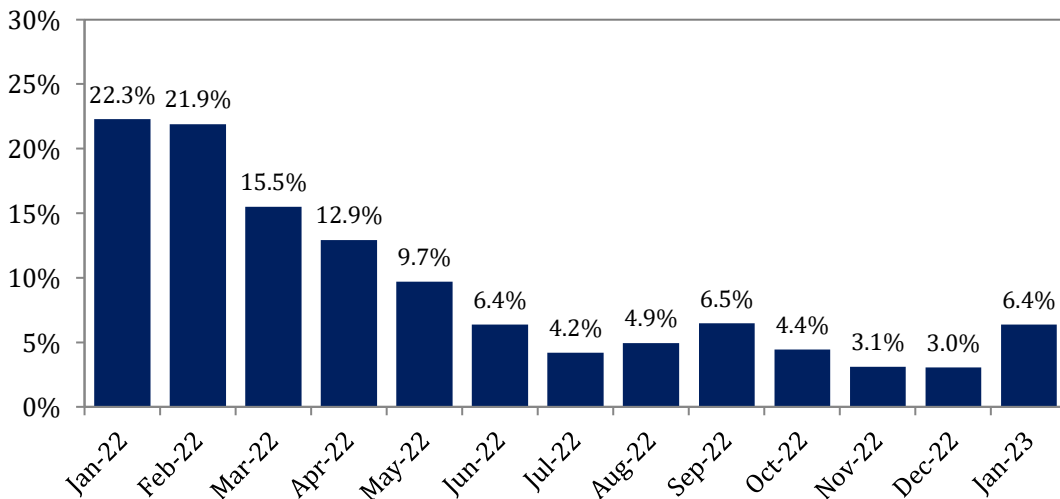
The pace of the Washington area's economic growth, as tracked by the Washington Coincident Index, reaccelerated in January after a declining sharply in December. The reacceleration was driven by increased wage and salary employment and domestic air travel. Increased wage and salary employment coincided with the largest month-over-year increase in the region's labor force since the outset of the pandemic. The near-term outlook, based on the Washington Leading Index, also reaccelerated after deteriorating slowly for three consecutive months. Despite reacceleration of both indices, the substantial downside risks to Washington region's economy remain, with a regional slowdown for the first half of 2023 the most likely scenario.



The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, increased 6.4% month-over-year in January. The month-over-year increase was greater than the prior month-over-year increase for the first time since September 2022, indicating a reacceleration. Additionally, the increase was the 23rd consecutive month-over-year increase. The reacceleration of the Coincident Index was due to greater month-over-year gains in employment and air travel, as well as a reversal of declines in retail sales of non-durable goods.

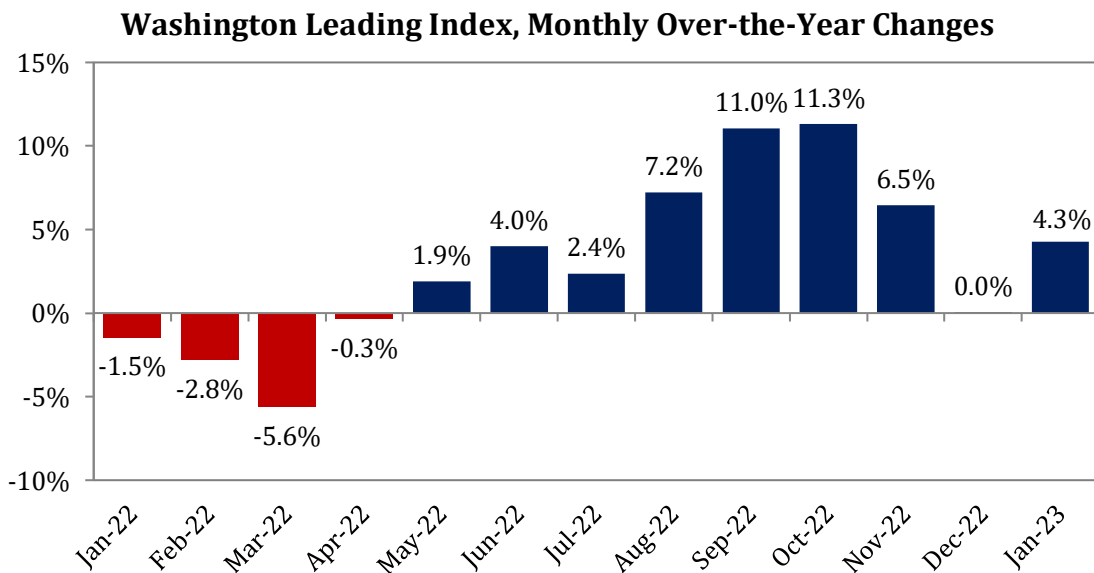
- *Wage and salary employment* in the Washington area increased 6.3% from January 2022 to January 2023, a sharp gain from December's revised 1.8% month-over-year job growth; and,
- *Domestic passenger volume at Reagan National and Dulles Airports* increased 43.3% from January 2022 to January 2023, also up sharply from the large month-over-year increase in December 2022 (18.0%); and,
- *Non-durable goods retail sales* increased 1.3% month-over-year, the first month-over-year increase since April 2022; while,
- *Consumer confidence (current circumstances)* declined 0.9%, the fourth consecutive month-over-year decline.

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 4.3% month-over-year in January 2023, a notable boost after a flat December number. Despite the fact that the Leading Index bounced back from December, it remains below the month-over-year change recorded in November, and well below strong readings in September and October. Even with this improvement in the Leading Index, we continue to remain in a cautious stance on near term economic performance.

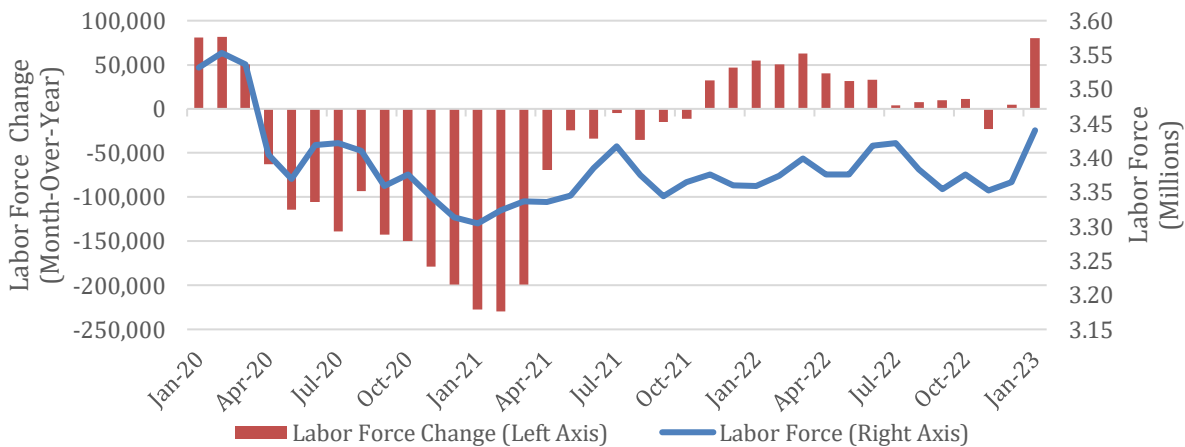
- *Initial claims for unemployment insurance* decreased (improved) in January 2023 compared to January 2022 for a twelfth consecutive month – initial claims were almost 75% fewer than 2022 levels; and,
- *Durable goods retail sales* increased 4.5 percent in January, only the second increase since January 2022; and,
- *Total residential building permits* continued their volatility with a month-over-year decrease of 11.8% in January, a reading that follows a month over-year increase in December, decline in November, and increase in October; while,
- *Consumer expectations (consumer confidence six months hence)* declined 12.0% for a twelfth consecutive month.



Current Performance

As noted, the total wage and salary employment in the Washington region increased 6.3% from January 2022 to January 2023, up sharply from a 1.8% month-over-year gain in December. While the gain in jobs is good news, the better news is the unexpected jump in the region's labor force. At the outset of the pandemic, the region's labor force declined from 3.53 million in February 2020 to a low of 3.30 million in January 2021 and had only recovered to 3.36 million by December 2022. However, the region's labor force increased by 75,285 participants month-over-month to 3.44 million in January 2023. Getting workers who had been on the job market sidelines back into jobs explains the gains in total employment as our regional unemployment rate remains very low. We are hopeful that this is a harbinger for a broader recovery in regional labor force participation that will allow our companies to grow.

Labor Force in the Washington Region
January 2020 to January 2023



Near-Term Outlook

Although the Leading Index rebounded some from late 2022 readings, the near-term outlook remains moderately negative. The actions of the Federal Reserve to combat inflation appear to be finally working as intended, but recent banking industry stresses caused by rising interest rates are complicating the Fed's task of slowing inflation without causing a recession or new financial crisis. Nationally, existing homes sales declined rapidly through 2022 and the median price of existing homes declined year-over-year in February 2023 for the first time in nearly 11 years according to the National Association of Realtors®. While real estate prices in the Washington region have not declined, they recorded no change from December 2021 to December 2022 – though when including mortgage rates, the cost of homeownership continues to rise. While the Washington region is usually resilient to downturns experienced nationally, our most likely scenario for 2023 remains that the Washington region's economy will slow, and that job growth may turn negative in the second half of this year.

Washington Area Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jan-23 Prelim.	Dec-22 Final	Jan-22 Final	Dec-22 to Jan-23	Jan-22 to Jan-23
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	120.3	120.6	113.2	-0.24%	6.32%
Leading Index (2015 = 100)	104.7	101.9	100.4	2.77%	4.28%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,307.0	3,355.9	3,225.7	-1.46%	2.52%
Consumer Confidence (South Atlantic) ^a	150.9	155.3	152.3	-2.83%	-0.92%
Domestic Airport Passengers ('000) ^b	2,305.5	2,417.5	1,609.3	-4.63%	43.26%
Nondurable Goods Retail Sales (\$000,000) ^c	4,266.2	3,943.4	4,211.4	8.19%	1.30%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	2,098.0	2,793.0	2,378.0	-24.88%	-11.77%
Consumer Expectations (South Atlantic) ^a	84.2	73.5	95.7	14.56%	-12.02%
Initial Unemployment Claims ^b	1,853.9	2,309.0	7,355.4	-19.71%	-74.80%
Durable Goods Retail Sales (\$000,000) ^c	4,223.5	3,722.0	4,041.5	13.47%	4.51%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,439.9	3,364.6	3,359.4	2.24%	2.40%
Employed Labor Force ('000)	3,336.0	3,269.2	3,226.7	2.04%	3.39%
Unemployed Labor Force ('000)	103.9	95.4	132.7	8.92%	-21.70%
Unemployment Rate	3.0%	2.8%	4.0%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,307.0	3,355.9	3,225.7	-1.46%	2.52%
Construction ('000)	161.4	165.7	156.9	-2.60%	2.87%
Manufacturing ('000)	56.8	58.5	55.1	-2.91%	3.09%
Transportation & Public Utilities ('000)	78.0	82.6	77.5	-5.57%	0.65%
Wholesale & Retail Trade ('000)	324.0	332.9	320.4	-2.67%	1.12%
Services ('000)	1,967.8	1,990.1	1,909.7	-1.12%	3.04%
Total Government ('000)	719.0	726.1	706.1	-0.98%	1.83%
Federal Government ('000)	370.9	372.3	375.8	-0.38%	-1.30%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars