



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



Washington Economy Watch

The Region Appears on the Precipice of Decline

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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 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

Precipice of Decline

May 2023

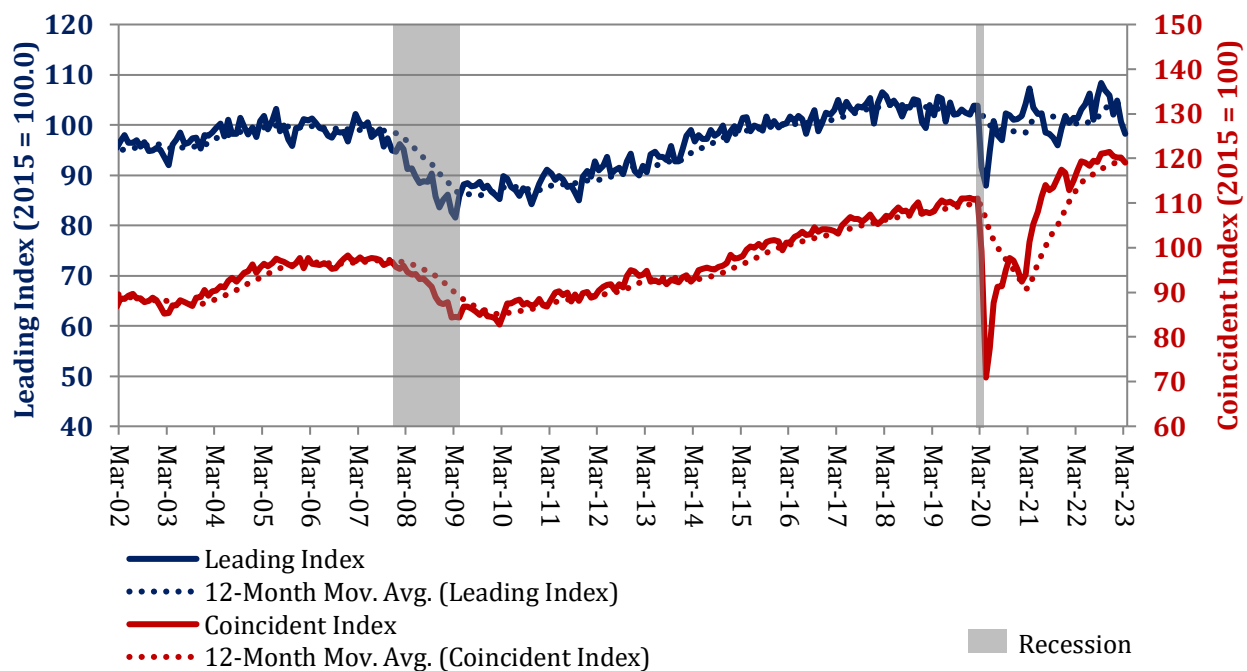
Washington Area Economy: The Region Appears on the Precipice of Decline

The Washington area's economic growth appears to be on the precipice of decline, with the Washington Coincident Index marginally positive and the Washington Leading Index negative for a second consecutive month.

- The Coincident Index increased just 1.5% from March 2022 to March 2023, the smallest increase in over a year.
- The Leading Index decreased 3.0% in March, the second consecutive month-over-year decrease.

The marginally positive Coincident Index confirms our prior expectation that the Washington region's economy would slow through the first half of 2023, and the second negative month-over-year reading of the Leading Index reaffirms our expectation that the region's economy is likely to experience a shallow recession in the second half of 2023 – assuming the debt ceiling and federal budget issues are resolved.

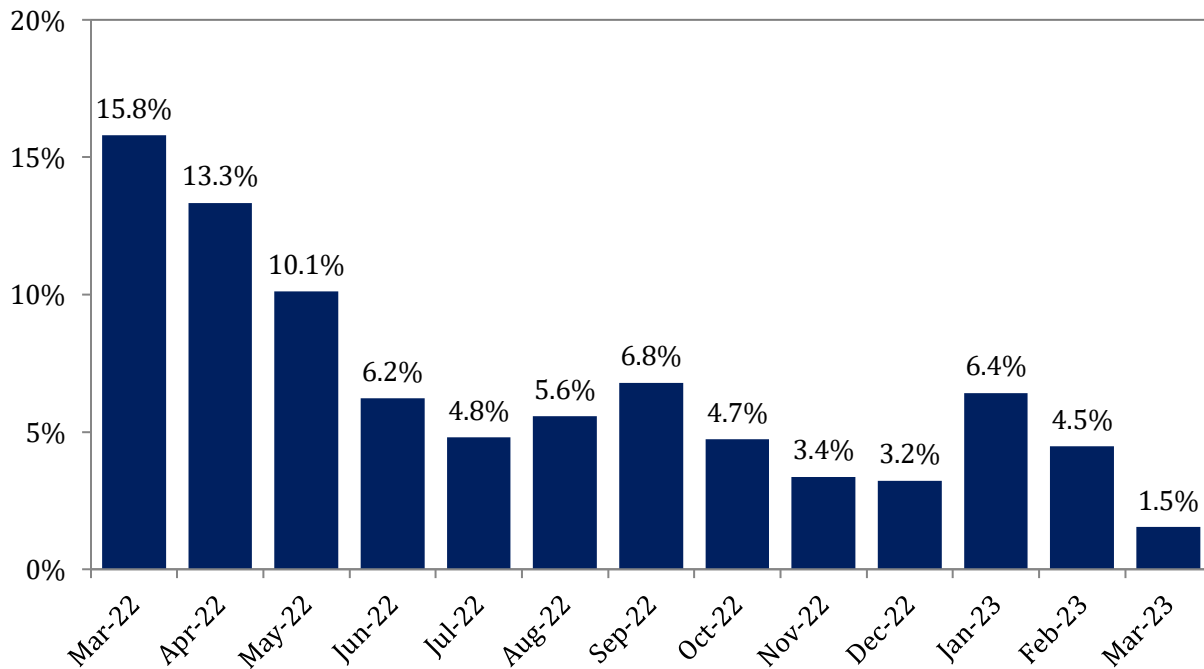
Washington DC, Area Economic Indices



The **Washington Coincident Index**, which represents the current state of the Washington region's economy, increased just 1.5% from March 2022 to March 2023, the smallest increase in over a year. Three of the four components worsened from February to March, with the most notable drop coming from non-durable goods sales. While the month-over-year increase in total wage and salary employment was larger in March than in February, several important sectors of the region's wage and salary employment are deteriorating. We expect total salaries and wages to turn negative in the coming months in line with our forecasts for a recession later this year. It is not unusual for job numbers to continue rising in the early months of a recession.

- *Wage and salary employment* in the Washington area increased 2.3% from March 2022 to March 2023, above the 1.9% increase in February but below the 2.6% increase in January; and,
- *Domestic passenger volume at Reagan National and Dulles Airports* increased 18.6% from March 2022 to March 2023, the second smallest increase in the past year; while,
- *Non-durable goods retail sales* decreased sharply 9.7% from March 2022 to March 2023, the largest month-over-year decrease by a wide margin; and,
- *Consumer confidence (current circumstances)* decreased 2.6% in March, resuming the trend of declining consumer confidence after a single month increase in February.

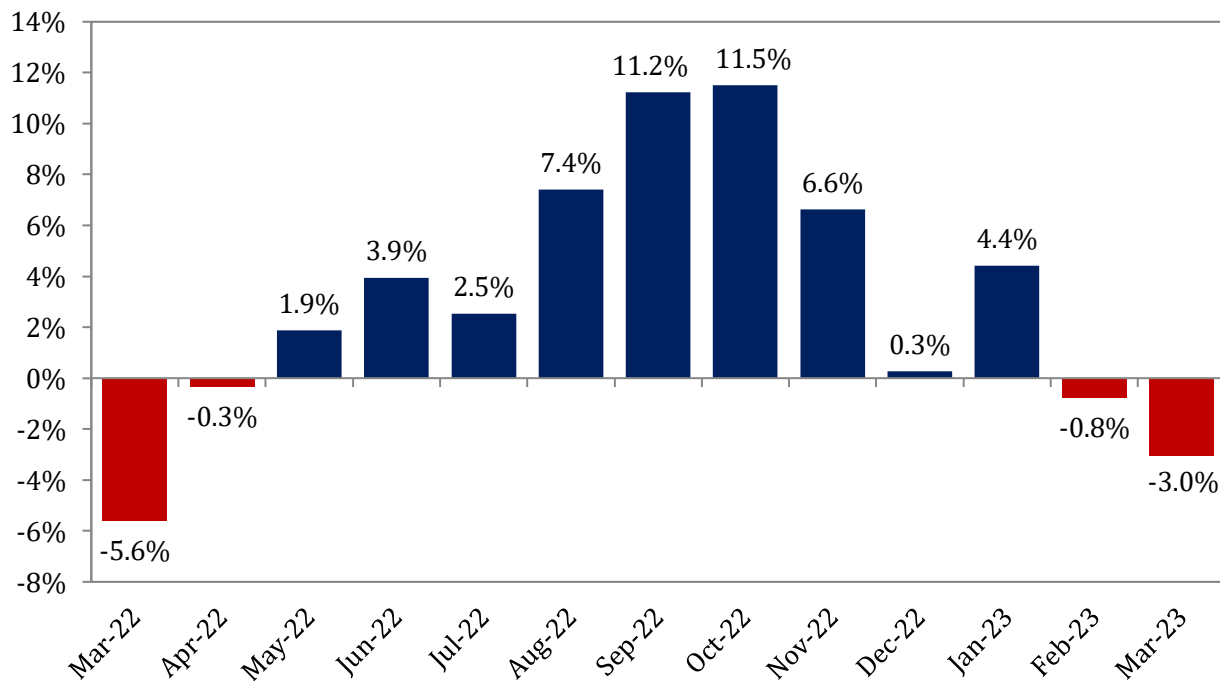
Washington Coincident Index, Monthly Over-the-Year Changes



The **Washington Leading Index**, designed to forecast the performance of the metropolitan area economy six to eight months in advance, decreased 3.0% month-over-year in March 2023, the second consecutive decrease after a negative 0.8% reading in February. The drop in the overall index is the result of sharp decreases in both durable goods sales as well as total building permits. The small improvements in the other two components were not substantial enough to offset the large decreases in durable goods sales and building permits. The second negative reading in the Leading Index suggests that the region is on the precipice of an economic downturn.

- *Durable goods retail sales* decreased severely in March, declining 16.5 % month-over-year, the largest month-over-year decline in more than a year after a positive change in February; and,
- *Total residential building permits* also declined sharply, decreasing 37.6% month-over-year, the third consecutive decline and the largest in over a year; while,
- *Initial claims for unemployment insurance* decreased (improved) 22.8% in March, a smaller decline than the preceding 10 months with the exception of the unexpectedly low February decrease; and,
- *Consumer expectations (consumer confidence six months hence)* increased 2.0% from March 2022 to March 2023, the first increase in over a year.

Washington Leading Index, Monthly Over-the-Year Changes

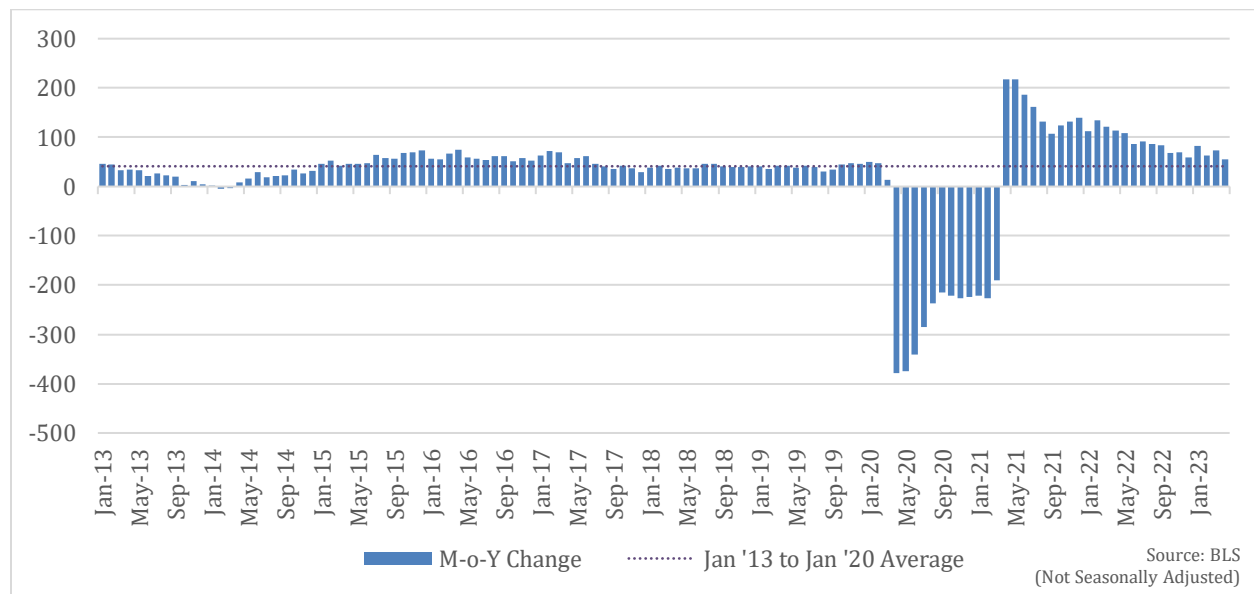


Current Performance

Despite the continued efforts by the Federal Reserve to slow the national economy, the labor market continues to outperform expectations. While economists surveyed recently by the Wall Street Journal expected a month-over-month increase of 180,000 jobs from March to April, the BLS reported that employers added 253,000 jobs in that period. The April jobs report was just one in a series of jobs reports that surprised to the upside. Even with this growth, companies are increasingly seeing eroding profits, in general, and the tech layoffs announced in recent months are coming to fruition. The good news is that inflation is moderating with notable drops in the Producer Price Index indicating that consumer price measures should continue to improve – though remaining well above the Federal Reserve’s target rate through 2024.

As with the nation, total job growth in the Washington region remains robust. Employers in the Washington region added 55,400 thousand jobs from April 2022 to April 2023, above the region’s month-over-year average of about 41 thousand from January 2013 through January 2020. Indeed, the region’s job growth was the only component of the Washington Coincident Index that accelerated from February to March, helping keep the Coincident Index marginally positive. However, many of these jobs are in the comparatively low paying hospitality sector that is still recovering from pandemic lows. To be clear, a lack of available skilled workers remains a key challenge for many DC area employers, but the competition for workers may be subsiding.

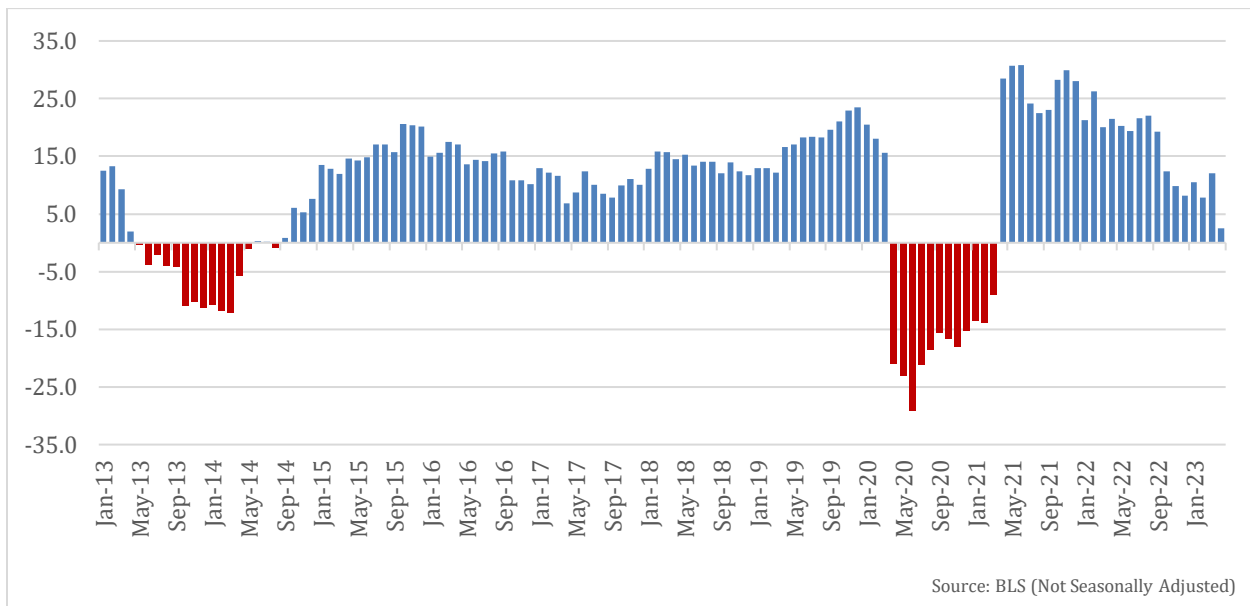
**Washington Region Total Job Change
Month-Over-Year**



Near-Term Outlook

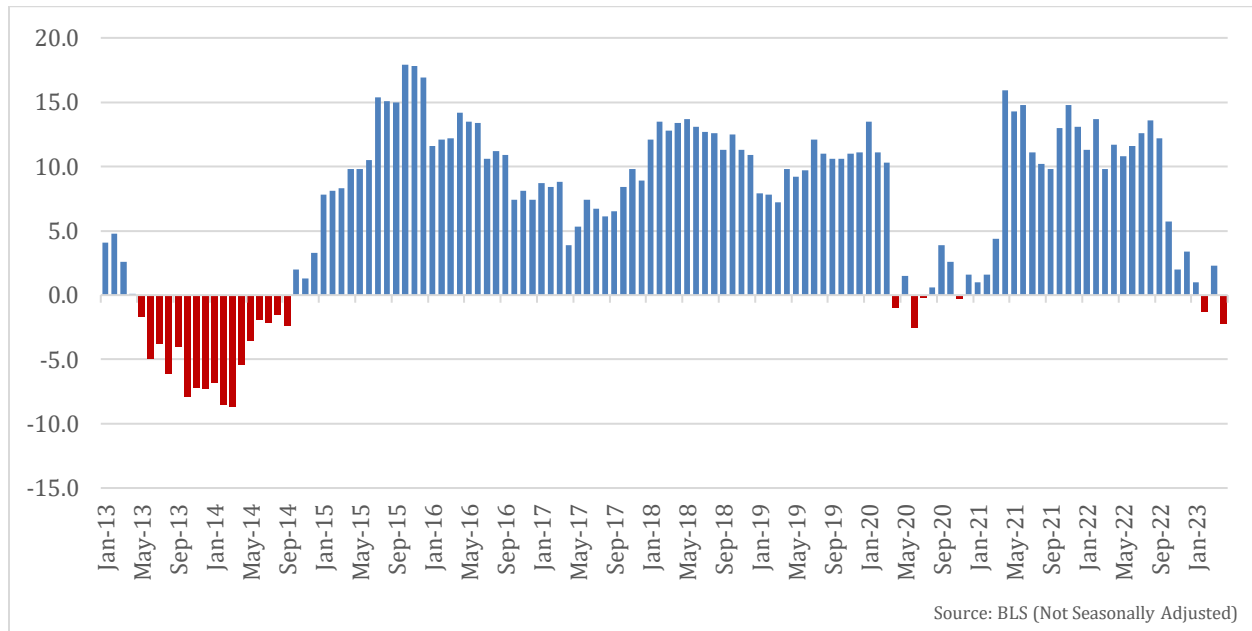
While the Coincident Index was marginally positive for March, primarily due to continuing job growth, sector-level employment trends reveal some worrying developments. In particular, job growth in the Professional and Business Services sector, the base of the Washington region's economy, has ground to a halt. While employers in the Professional and Business Services sector added more than 20,000 jobs in 2022, the pace of growth in this sector has plummeted in recent months.

Washington Region Professional & Business Services Job Change
Month-Over-Year



Job change in the high value-added Professional, Scientific, and Technical Services sub-sector component of Professional and Business Services is even more worrying with negative growth in two of the last three months covered in this report. This important sub-sector includes legal services, accounting, architecture, computer system design, and scientific research, among others, and collectively provide the high-paying private jobs pivotable for the regional economy. Economy Watch founder, Dr. Stephen Fuller, once observed that it takes five to seven Hospitality or Retail sector jobs to create the economic impact of one Professional, Scientific and Technical Services job in the DC region. If we start losing these high wage jobs, the impacts will flow across all sectors of the economy. As shown in the chart below, the last time this region endured a sustained economic downturn was in the aftermath of the Budget Control Act/Sequestration in federal budgeting, which directly impacted professional services employment and resulted in a broader downturn in the regional economy.

Washington Region Professional, Scientific, & Technical Job Change Month-Over-Year



Overall, the Washington Coincident Index increased only marginally from March 2022 to March 2023 and the Washington Leading Index declined for the second consecutive month. Furthermore, the Coincident Index was partly kept positive by an increase in wage and salary employment that will sooner or later respond to Federal Reserve interest rate increases. Examining job growth by sector reveals that jobs in the best-paying sub-sector of our region’s economy declined month-over-year for two of the past three months. Losses in the Professional, Scientific, and Technical Services sub-sector will likely spill over to other sectors in the coming months.

Unfortunately, this pessimistic near-term outlook does not account for longer-term challenges facing the region. Negotiations between the White House and House of Representatives appear to be on the path of capping federal spending growth for several years with implications across most sectors of the regional economy. With the region’s economy appearing to have stalled, such changes in fiscal policy will be realized following any shallow recession, suggesting that growth won’t return to the region for several years. Moreover, our continuing concerns regarding the ability of the DC region to attract and retain highly skilled workers suggest that now is the time for action on issues of housing affordability, transportation infrastructure and services, and a host of other issues related to regional economic competitiveness.

Washington Area Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Mar-23 Prelim.	Feb-23 Final	Mar-22 Final	Feb-23 to Mar-23	Mar-22 to Mar-23
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	119.1	120.2	117.3	-0.87%	1.53%
Leading Index (2015 = 100)	98.2	100.6	101.3	-2.40%	-3.04%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,339.8	3,322.9	3,266.0	0.51%	2.26%
Consumer Confidence (South Atlantic) ^a	158.3	154.7	162.6	2.33%	-2.64%
Domestic Airport Passengers ('000) ^b	2,398.5	2,316.6	2,022.3	3.54%	18.60%
Nondurable Goods Retail Sales (\$000,000) ^c	3,720.0	4,094.6	4,120.0	-9.15%	-9.71%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	2,332.0	1,654.0	3,735.0	40.99%	-37.56%
Consumer Expectations (South Atlantic) ^a	80.7	77.3	79.1	4.40%	2.02%
Initial Unemployment Claims ^b	5,764.4	4,553.0	7,466.2	26.61%	-22.79%
Durable Goods Retail Sales (\$000,000) ^c	3,427.5	4,111.0	4,103.2	-16.63%	-16.47%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,503.0	3,466.1	3,422.9	1.06%	2.34%
Employed Labor Force ('000)	3,409.6	3,364.9	3,318.4	1.33%	2.75%
Unemployed Labor Force ('000)	93.3	101.2	104.5	-7.77%	-10.67%
Unemployment Rate	2.7%	2.9%	3.1%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,339.8	3,322.9	3,266.0	0.51%	2.26%
Construction ('000)	163.8	161.9	160.1	1.17%	2.31%
Manufacturing ('000)	55.9	55.7	55.6	0.36%	0.54%
Transportation & Public Utilities ('000)	75.6	76.2	75.9	-0.79%	-0.40%
Wholesale & Retail Trade ('000)	319.1	319.7	319.6	-0.19%	-0.16%
Services ('000)	1,997.0	1,980.6	1,935.5	0.83%	3.18%
Total Government ('000)	728.4	728.8	719.3	-0.05%	1.27%
Federal Government ('000)	369.5	370.7	376.2	-0.32%	-1.78%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars