Washington Economy Watch

Growth Softens Further

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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.

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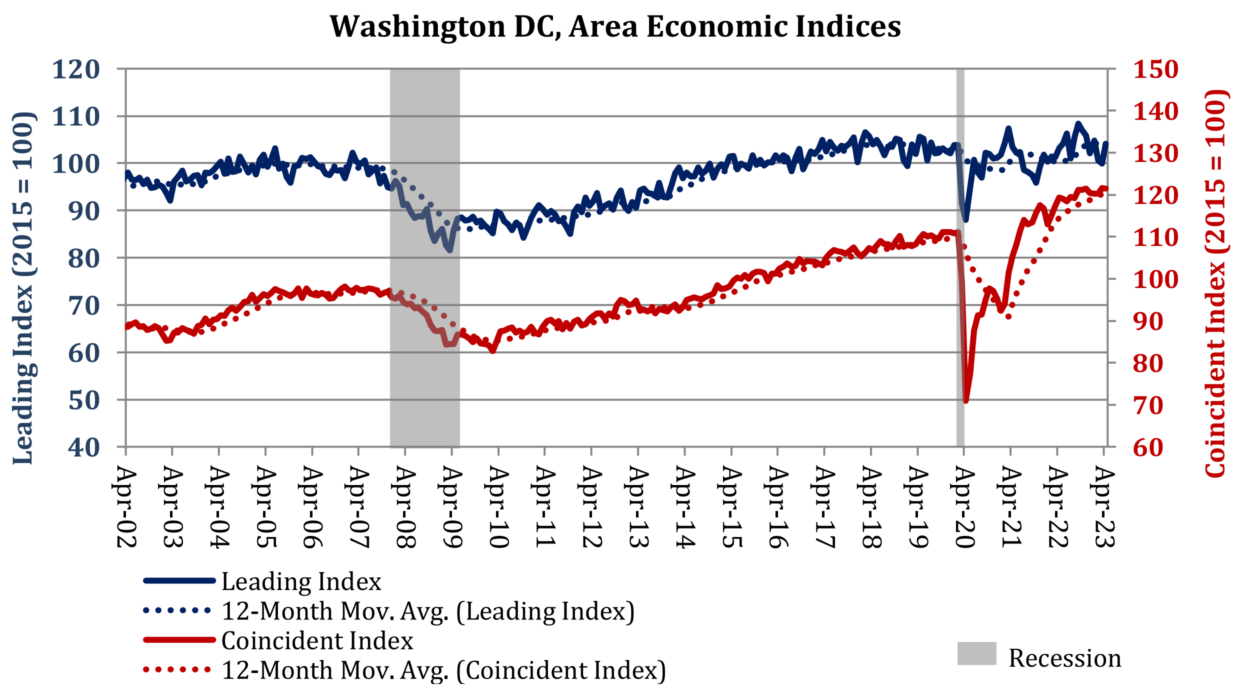
Washington Area Economy: Growth Softens Further

The Washington area's economic growth continues to slow, as measured by the Washington Coincident Index and the Washington Leading Index.

- The Coincident Index increased just 1.7% from April 2022 to April 2023, the smallest increase in over a year.
- The Leading Index increased 1.0% in April, a modest increase after two consecutive month-over-year decreases.

The Leading Index and Coincident Index were marginally positive in April. The Coincident Index has thus far confirmed our outlook that the Washington region's economy would slow through the first half of 2023. Despite the small increase in the Leading Index, our expectation remains that the region will undergo a shallow recession late in the second half of 2023. While the federal debt ceiling issue was resolved, a government shutdown remains a possibility and a likely flat federal budget dampens growth prospects.



The **Washington Coincident Index**, which represents the current state of the Washington region's economy, increased 1.7% month-over-year in April, the smallest increase since March 2021. While three of the four components of the Coincident Index are positive, the increases for wage and salary employment as well as airport passenger growth are the smallest increases in over a year. Furthermore, the increase in consumer confidence is only marginally positive. Overall, the Coincident index continues to indicate that the region's economy is flattening and may stall, if it has not already.

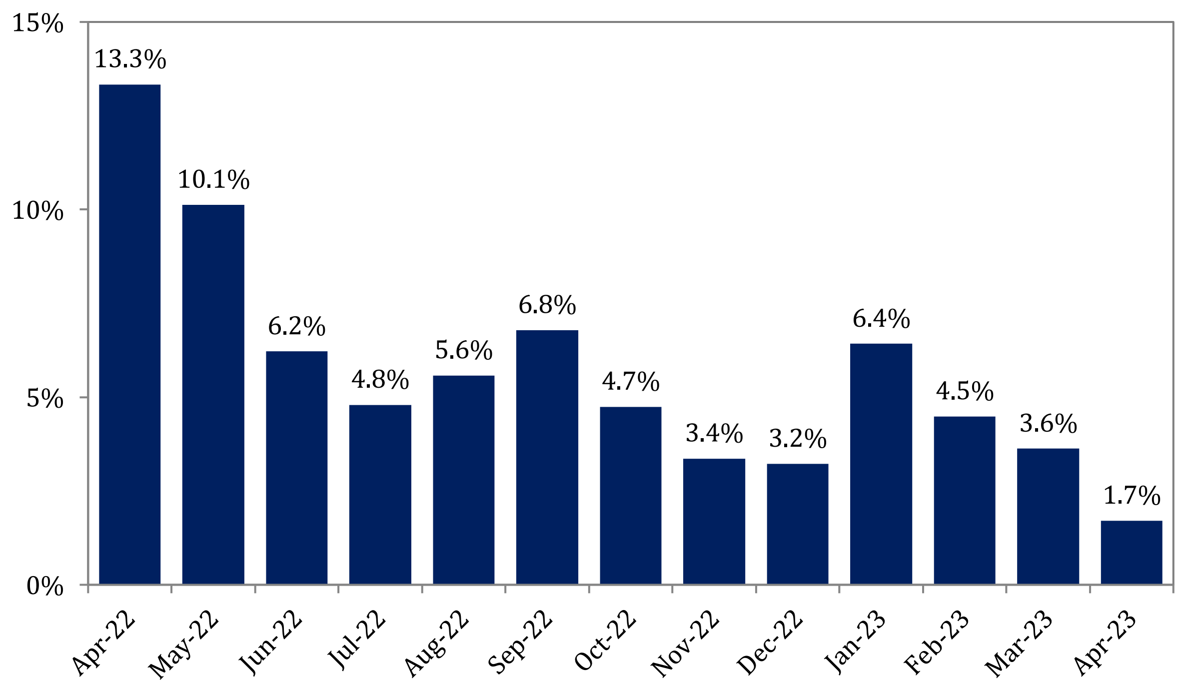
- *Domestic passenger volume at Reagan National and Dulles Airports* increased 7.1% from April 2022 to April 2023, by far the smallest increase in the past year and a continuation of slowing growth; and,

- *Wage and salary employment* in the Washington area increased 1.8% from April 2022 to April 2023, tied for the lowest month-over-year employment growth in the past year; and,

- *Consumer confidence (current circumstances)* increased just 0.2% in April, a modest month-over-year increase after a revised 2.6% decline in March; while,

- *Non-durable goods retail sales* decreased 1.6% month-over-year, the first decrease since November 2022.

Washington Coincident Index, Month-Over-Year Changes



The **Washington Leading Index**, designed to forecast the performance of the metropolitan area economy six to eight months in advance, increased 1.0% month-over-year in April 2023, a small increase after two month-over-year decreases. The modest increase in the Leading Index was the result of increased building permits and reduced initial claims for unemployment insurance. The increased number of residential building permits was both unexpected and large. Overall, given that two components remain negative, the modestly positive reading may prove to be transitory and return negative in May. However, a recent trend is showing that issuing building permits does not mean that economy-boosting construction is about to happen. Higher interest rates and lender caution are challenging the financing for many construction projects. Remember, some of these permits may be based on applications filed more than a year ago and market forces have changed.

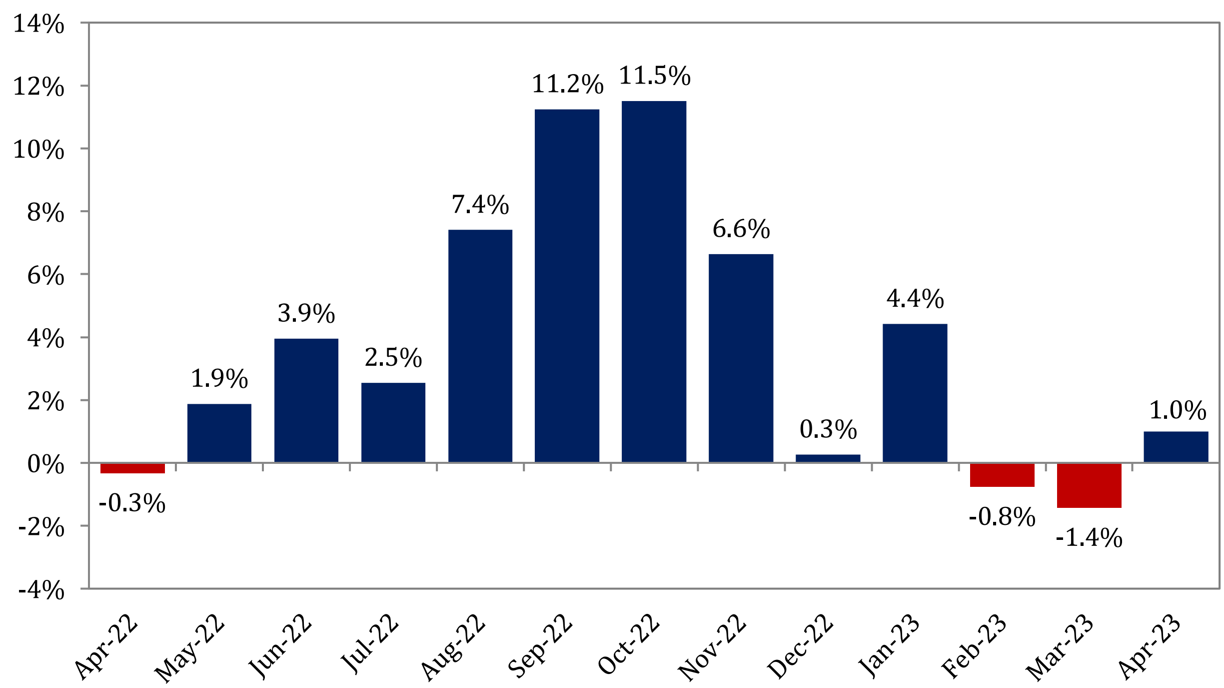
- *Initial claims for unemployment insurance* decreased (improved) 46.5% in April, the largest decline since January; and,

- *Total residential building permits* increased 26.6% month-over-year after three consecutive month-over-year decreases; while,

- *Durable goods retail sales* decreased 4.3% in April after four consecutive months of month-over-year increases; and,

- *Consumer expectations (consumer confidence six months hence)* declined 12.8%, resuming the declining trend after a small increase in March.

Washington Leading Index, Month-Over-Year Changes

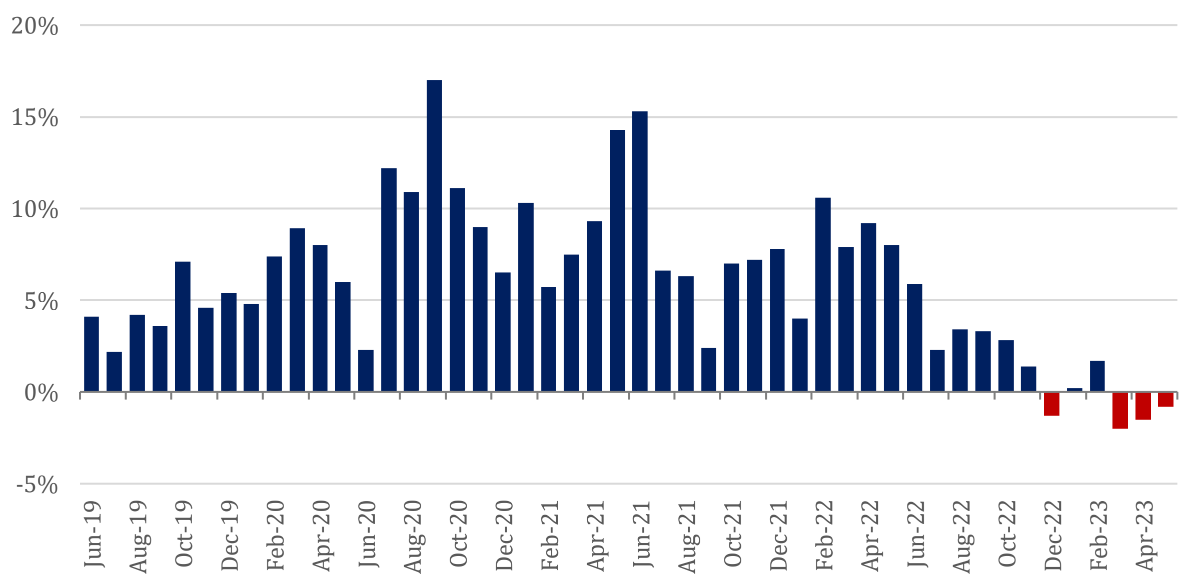


Current Performance

The Washington region's current economic performance remains marginally positive. The region's labor force and employment have continued to grow, and the region's unemployment rate remains below the national rate. Despite continued growth, we are seeing uneven or anemic growth across a wide range of sectors and geographies. While the labor force increased 2.2% month-over-year in April, its growth has been geographically uneven. A recent post from the Stephen S. Fuller Institute (here) documents that the region's labor force growth is almost solely due to trends in Northern Virginia. The labor force in DC has stalled and Suburban Maryland has trended downwards. Furthermore, while month-over-year employment growth in April 2023 was 2.5%, this increase was 1.5 percentage points smaller than the same month in 2022. Finally, although the region's unemployment is below the national average, this is likely working only to constrict employment growth. Thus, the low unemployment rate is not as positive of a sign as would usually be the case.

The simultaneously robust, but soft, regional economy is perhaps most clearly seen in the region's housing market. Month-over-year increases of the median price of sold homes remained around 8% for nearly all of 2020 and 2021. However, as the federal reserve increased the target federal funds rate the region's economy slowed. As the region's economy has softened, housing price growth stalled before turning negative. In December 2022, the median price of sold homes was 1.3% lower than in December 2021. Despite two modest increases in January and February, the median price of sold homes decreased month-over year in March, April, and May.

Washington Region Median House Sales Price, Month-Over-Year Changes

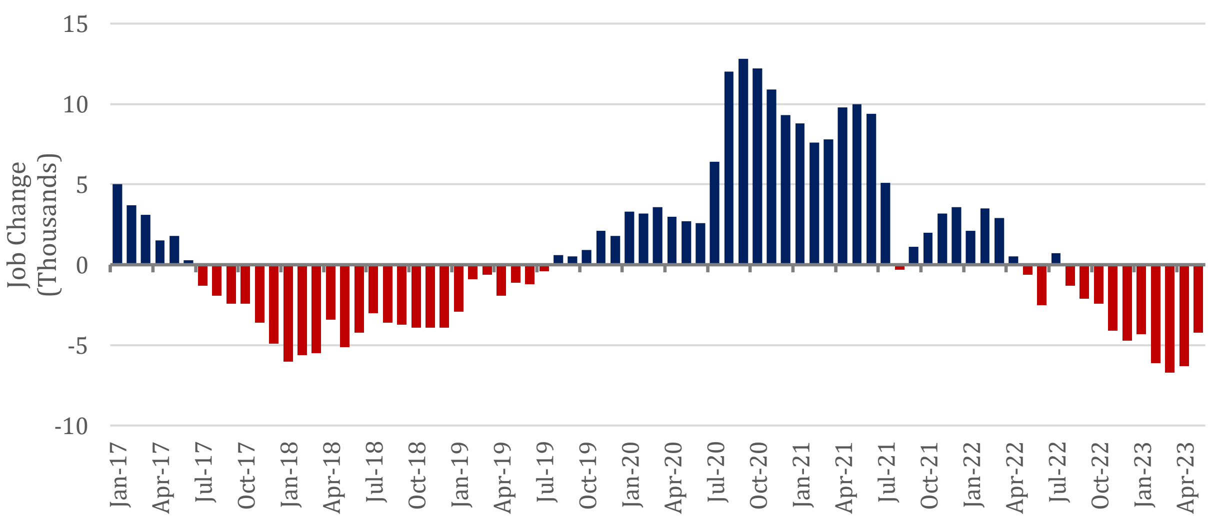


Source: Stephen S. Fuller Institute, MarketStats by ShowingTime

Near-Term Outlook

Unfortunately, the near-term outlook remains negative, with a number of headwinds facing the region. First, the Federal Reserve has shifted tone recently and is now indicating that further Federal Funds rate increases will be necessary to slow inflation. Additional interest rate increases will further weaken housing demand in the Washington region, prolonging housing price stagnation. Second, as discussed in the May edition of Economy Watch, employment growth in the high value-added Professional, Scientific, and Technical Services (PST) sub-sector is currently negative. Recent data from the Bureau of Labor Statistics reveal that month-over-year employment change in this important sub-sector was negative for a second consecutive month, and three out of the first five months of 2023 (February, April, and May). This sector provides the most high-paying jobs in the region, which means any downturn in PST employment is magnified across many sectors of the regional economy. Third, federal employment in the Washington region began declining in August 2022 and has continued to drop. While the rate of the decline moderated somewhat in the two most recent months of data, the region continues to lose federal employment. Thus, two of the region's most important employment bases, Federal employment and Professional, Scientific, and Technical Services employment are simultaneously eroding, and neither appear likely to grow in the near-term.

Federal Government Employment in the Washington Region, Month-Over-Year Changes



Source: Stephen S. Fuller Institute, Bureau or Labor Statistics (Not Seasonally Adjusted)

Finally, despite the recent debt ceiling agreement, federal budget negotiations appear to be a storm cloud on the horizon for the Washington Region. The likely outcomes of the upcoming budget negotiations are flat spending, decreased spending, or a government shutdown. At best, these scenarios point to federal spending contributing less to the region's economic growth in the coming year(s). Given that the region's most important sub-sector of the private sector (professional, scientific, and technical service) is declining, the near-term outlook for the Washington region remains pessimistic.

Washington Area Economic Indicators
Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Apr-23 Prelim.	Mar-23 Final	Apr-22 Final	Mar-23 to Apr-23	Apr-22 to Apr-23
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	121.4	121.6	119.4	-0.15%	1.71%
Leading Index (2015 = 100)	104.1	99.9	103.1	4.28%	1.00%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000)[a]	3,351.1	3,339.8	3,292.2	0.34%	1.79%
Consumer Confidence (South Atlantic)[a]	156.8	158.3	156.5	-0.95%	0.19%
Domestic Airport Passengers ('000)[b]	2,315.8	2,398.5	2,163.0	-3.45%	7.07%
Nondurable Goods Retail Sales ($000,000)[c]	4,189.4	4,164.5	4,256.7	0.60%	-1.58%
Washington Area Leading Index Components					
Total Residential Building Permits[a]	2,332.0	1,606.0	1,842.0	45.21%	26.60%
Consumer Expectations (South Atlantic)[a]	81.8	80.7	93.8	1.36%	-12.79%
Initial Unemployment Claims[b]	2,245.9	5,764.4	4,196.5	-61.04%	-46.48%
Durable Goods Retail Sales ($000,000)[c]	3,973.9	4,106.9	4,153.2	-3.24%	-4.32%
Wahington Area Labor Force[a]					
Total Labor Force ('000)	3,482.2	3,503.8	3,408.2	-0.62%	2.17%
Employed Labor Force ('000)	3,402.8	3,409.6	3,318.3	-0.20%	2.55%
Unemployed Labor Force ('000)	79.4	94.2	90.0	-15.66%	-11.69%
Unemployment Rate	2.3%	2.7%	2.6%	--	--
Washington Area Wage and Salary Employment[a]					
Total ('000)	3,351.1	3,339.8	3,292.2	0.34%	1.79%
Construction ('000)	165.0	163.8	160.5	0.73%	2.80%
Manufacturing ('000)	56.0	55.9	55.6	0.18%	0.72%
Transportation & Public Utilities ('000)	75.4	75.6	74.9	-0.26%	0.67%
Wholesale & Retail Trade ('000)	319.3	319.1	320.2	0.06%	-0.28%
Services ('000)	2,006.4	1,997.0	1,959.7	0.47%	2.38%
Total Government ('000)	729.0	728.4	721.3	0.08%	1.07%
Federal Government ('000)	369.1	369.5	375.4	-0.11%	-1.68%

[a]Unadjusted data

[b]Seasonally adjusted data

[c]Seasonally adjusted constant (1996) dollars