



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



Washington Economy Watch

Mixed Signals

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The Stephen S. Fuller Institute
for Research on the Washington Region's Economic Future
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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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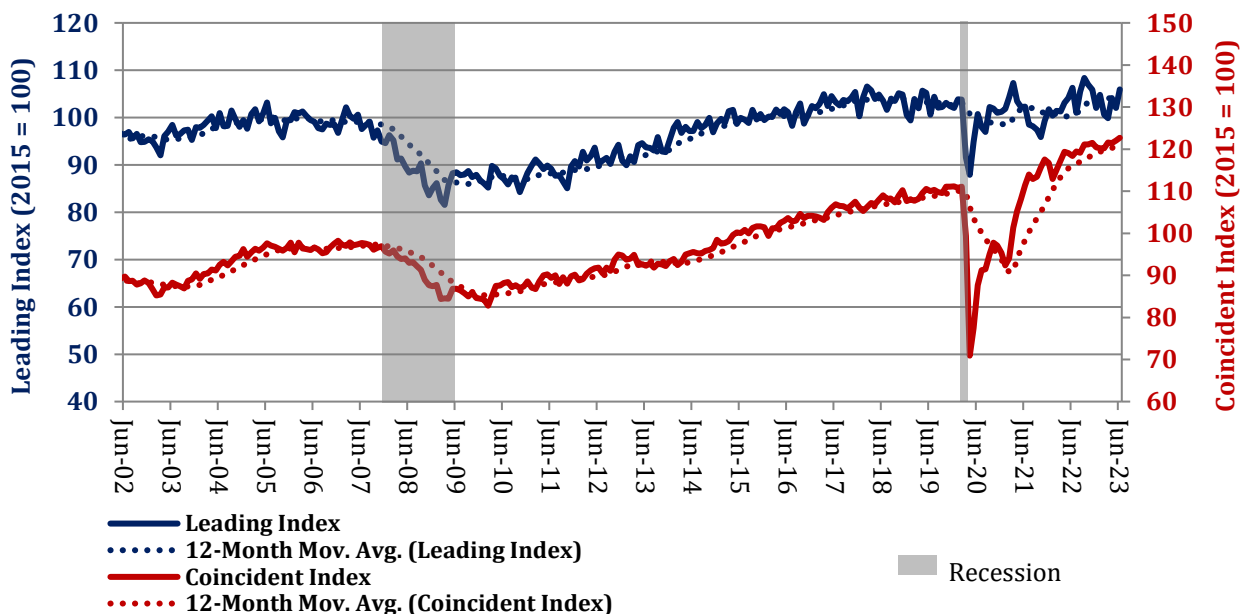
Washington Area Economy: Mixed Signals

The Washington Coincident Index continues to show resilience in the DC regional economy, despite rising interest rates as the Federal Reserve attacks inflation. However, the Washington Leading Index still forecasts an economic contraction.

- The Coincident Index increased 3.6% from June 2022 to June 2023, the second consecutive reacceleration, up from 1.7% in April and 2.5% in May.
- The Leading Index decreased 0.3% in June, the fourth month-over-year decline of 2023.

The Coincident Index and Leading Index are currently providing mixed signals. While all four components of the Coincident Index improved month-over-year in June, initial claims for unemployment insurance, a component of the Leading Index, increased markedly. Apart from regional conditions, the national economy continues to confound policymakers, with the Federal Reserve recently reasserting that they will raise rates further if inflation remains above their 2% target. (Inflation has cooled to about 4% on an annual basis in recent months, but most experts say the “last-mile” of the inflation fight will be the hardest.) Despite the mixed signals at the regional level however, it remains our expectation that the Washington region will record a short and shallow contraction, perhaps towards the beginning of 2024, as opposed to early fall as previously anticipated.

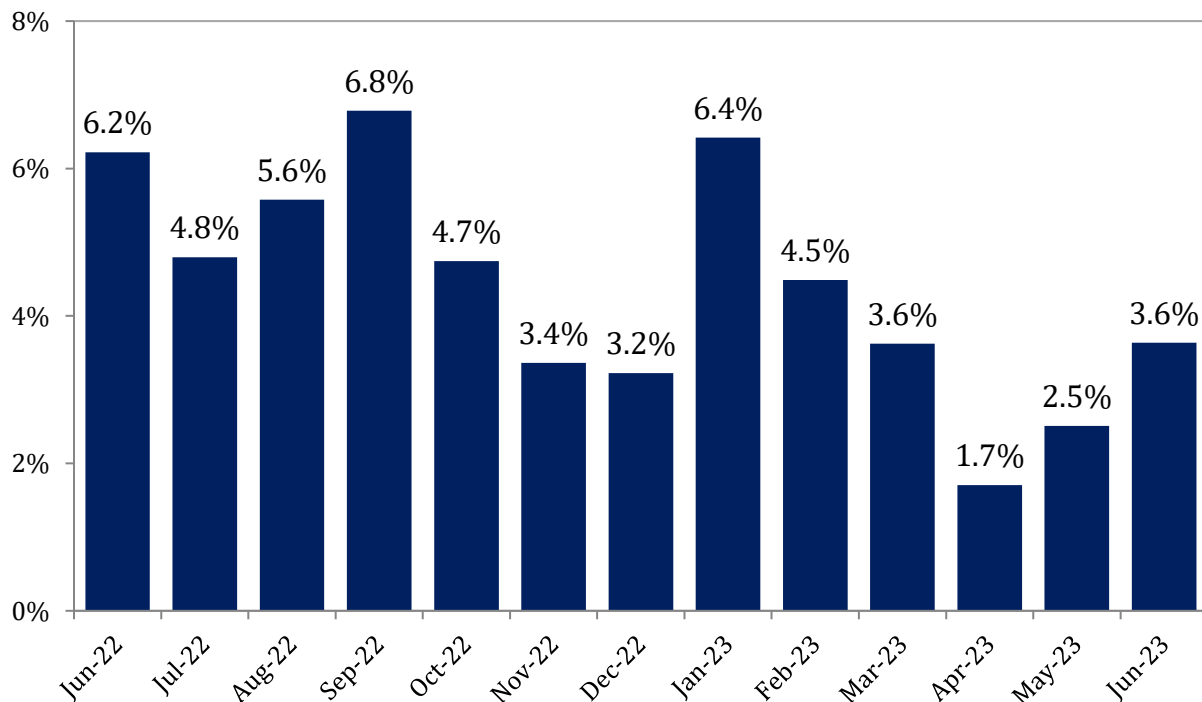
Washington DC, Area Economic Indices



The **Washington Coincident Index**, which represents the current state of the Washington region's economy, increased 3.6% from June 2022 to June 2023. This was the second month of reacceleration, up from 1.7% in April and 2.5% in May. All four components of the Washington Coincident Index increased month-over-year from June 2022 to June 2023, with a sharp increase in consumer confidence. While the Coincident index indicates reacceleration, the increases remain muted in compared with month-over-year increases from 2022.

- *Consumer confidence (current circumstances)* increased 11.0% from June 2022 to June 2023, a marked change from May's reading (-2.3%); and,
- *Domestic passenger volume at Reagan National and Dulles Airports* increased 8.1% from June 2022 to June 2023, with month-over-year growth having stabilized in the past three readings; and,
- *Non-durable goods retail sales* increased 2.7% month-over-year, for the second consecutive positive reading after a negative month-over-year reading in May; and,
- *Wage and salary employment* in the Washington area increased 2.5% from June 2022 to June 2023, a second consecutive month-over-year acceleration.

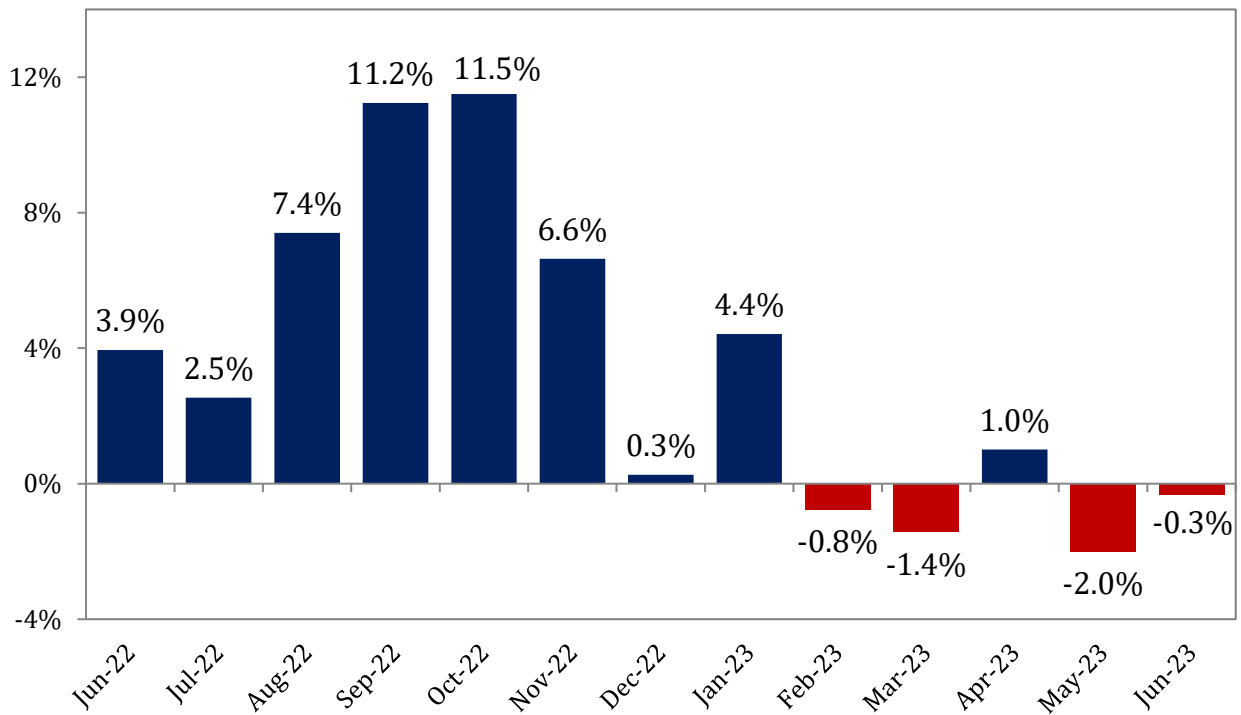
Washington Coincident Index, Month-Over-Year Changes



The **Washington Leading Index**, designed to forecast the performance of the metropolitan area economy six to eight months in advance, decreased 0.3% month-over-year in June 2023, continuing to indicate the region's economy will deteriorate. Two of the four components worsened month-over-year. Most notably, initial claims for unemployment insurance increased (worsened) dramatically. While unemployment claims had declined month-over-year, they increased 73.4% from June 2022 to June 2023, a troubling sign for the region's economy. Although the Leading Index was only marginally negative in June, the index has recorded 4 negative readings in the past 5 months. While the expectation remains that the Washington region's economy will tip into recession during the second half of 2023, the decline may be small and geographically isolated to DC and Suburban Maryland.

- *Initial claims for unemployment insurance* increased (worsened) 73.4% from June 2022 to June 2023, the first increase in over a year; and,
- *Total residential building permits* decreased 23.8% month-over-year, the fifth negative reading in the first six months of 2023; while,
- *Durable goods retail sales* increased 3.6% month-over-year, the second consecutive month-over-year increase; and,
- *Consumer expectations (consumer confidence six months hence)* increased 22.9% from June 2022 to June 2023, only the second positive reading in over a year and the largest by a wide margin (+2.0% in March 2023).

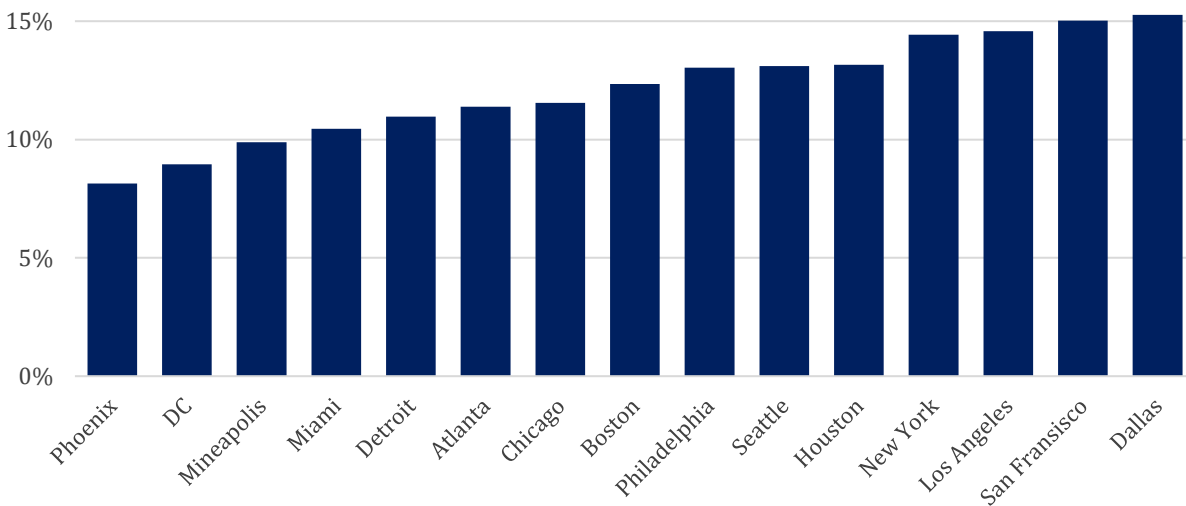
Washington Leading Index, Month-Over-Year Changes



Current Performance

Like the nation, the region’s economy is currently outperforming expectations from earlier in the year, growing despite higher rates set by the Federal Reserve. In particular, wage and salary employment in the region and nation continues to expand. Total wage and salary employment in the Washington region has increased month-over-year unabated, as the region healed from the recession. During the first half of 2023, wage and salary employment has increased month-over-year by an average of 2.2%, with only two readings below 2%. Despite the consistent wage and salary employment growth in the region, the Washington region underperformed nearly all other metro areas in terms of wage and salary growth in the post-pandemic era.¹ Employment in the Washington region increased 9.0% from January 2021 through June 2023, compared with 15.3% in the Dallas. If the Washington region had matched Dallas’s growth rate, it would have nearly 200,000 more wage and salary jobs. While the region is currently continuing to grow, it is underperforming compared to other large metropolitan areas.

**Wage and Salary Employment Percent Change in the 15 Largest Metro Areas
January 2019 to June 2023**



Source: Bureau of Labor Statistics (Not Seasonally Adjusted), GMU Center for Regional Analysis

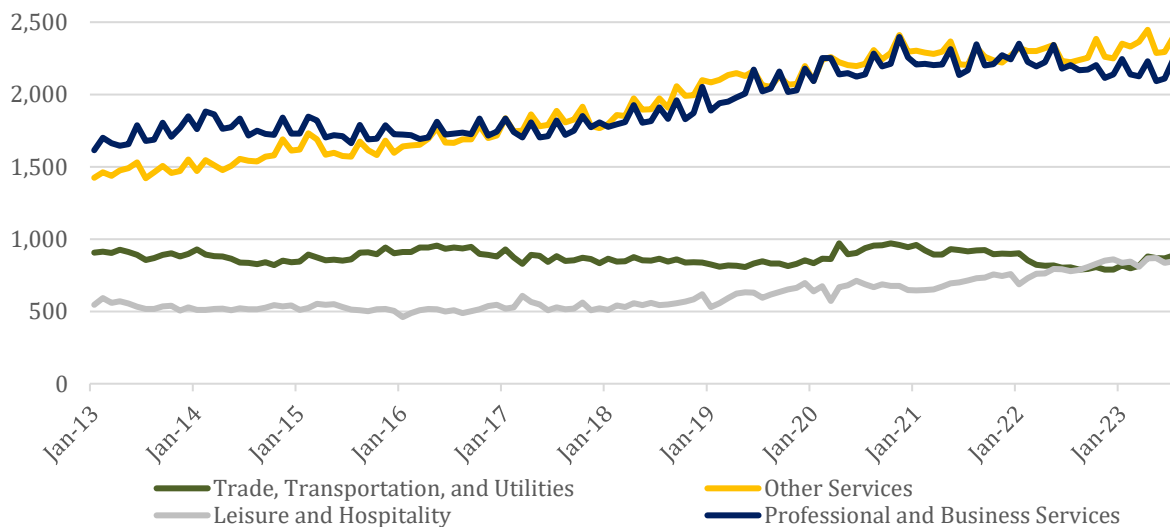
Near-Term Outlook

In addition to slow employment growth following the pandemic, the Washington Region’s economic output (GRP) has grown more slowly than the national economy for more than a decade. While data on regional output for 2022 or 2023 are not available, estimates of earnings, a component of GRP, are available through July 2023. Weekly earnings by super-sector in Washington D.C. are shown below. Sector data for Northern Virginia and Suburban Maryland are suppressed for privacy (SFI regional economic note on total sub-regional

¹ Here the post-pandemic era is defined as starting January 2021, after the first vaccines became available.

earnings: [here](#)). Weekly earnings in the region's most important economic sector, Professional and Business Services, peaked at \$2,397 in November of 2020 in Washington D.C., before slowly declining to approximately \$2,170 in 2023. While weekly earnings in the Trade, Transportation, and Utilities sector increased sharply at the outset of the pandemic to roughly \$970 per week, earnings in the sector slowly declined to approximately \$800 in late 2022 before stabilizing. In contrast, weekly earnings in the Leisure and Hospitality sector have been growing while employment in the sector has been rebounding. Finally, earnings in Other Services have been gaining in 2023, despite the slow decline in the Professional and Business Services sector.

Weekly Earnings in Washington, D.C. by Super-Sector January 2013 to July 2023

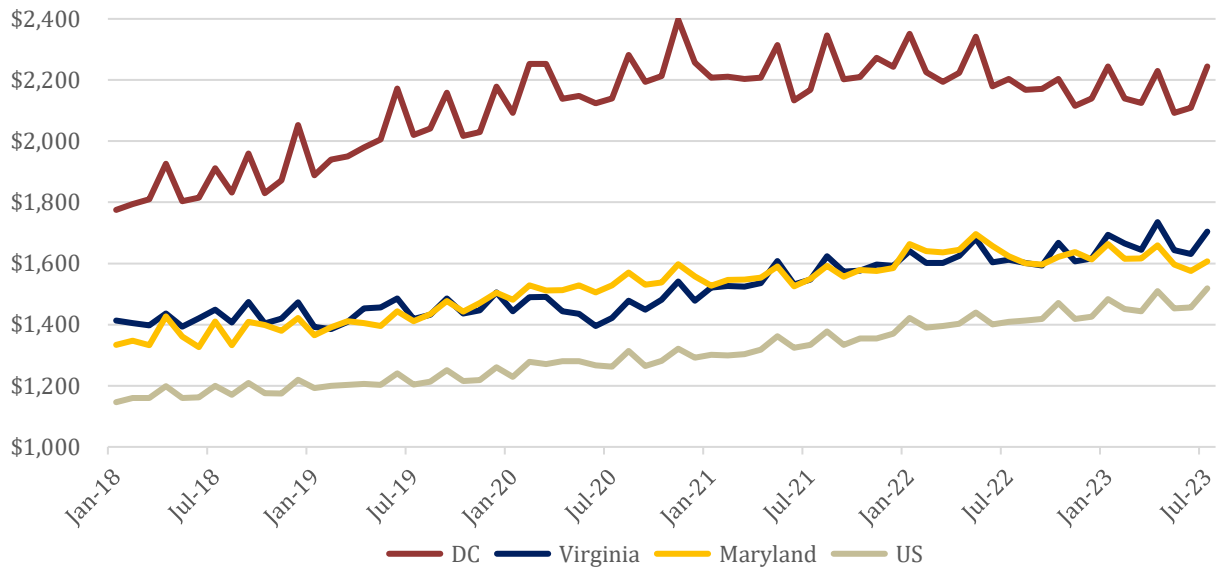


Source: Stephen S. Fuller Institute, Bureau of Labor Statistics (Not Seasonally Adjusted)

Given that the Professional and Business Services sector is the region's most important sector, state level earnings data are provided below as a proxy for regional changes. Although state level data mask the region's true performance, in 2022, Suburban Maryland accounted for 39.3% of Professional and Business Services employment in Maryland and Northern Virginia accounted for 55.5% in Virginia. Thus, state level data are largely informed by activity in the region and can be used as a timely proxy. As noted, average weekly earnings for Professional and Business Services peaked at \$2,397 in November of 2020 in Washington D.C. before steadily declining. In Maryland, average weekly earnings for Professional and Business Services peaked at \$1,696 in May 2022 before steadily declining. In fact, average earnings in Maryland declined month-over-year in 5 of the first 7 months of 2023. In contrast, average weekly earnings in the Professional and Business Services in Virginia have continued to increase, with only two month-over-year declines since 2021. While the differences between Maryland and Virginia are currently small, the stagnation in Maryland is troublesome as earnings in the two states have been comparable since 2018.

Decreasing Professional and Business Service earnings in DC and Maryland, in concert with continuously rising average weekly earnings in the Professional and Business Services nationally, is another worrisome sign that the region is less competitive than it has been historically. The Washington region's economy is likely to be growing more slowly than the nation, due to slow growth in DC and Maryland. The trend of stalled Professional and Business Service wages, the region's most crucial economic sector, in two of the three sub-regions of the Washington region appears likely to continue, suggesting continued slow growth for the region in the near-term.

**Weekly Earnings in Professional and Business Services by State and
January 2019 to July 2023**



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

Washington Area Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jun-23 Prelim.	May-23 Final	Jun-22 Final	May-23 to Jun-23	Jun-22 to Jun-23
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	122.7	122.0	118.4	0.56%	3.64%
Leading Index (2015 = 100)	106.0	102.0	106.3	3.86%	-0.34%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,392.3	3,367.7	3,308.8	0.73%	2.52%
Consumer Confidence (South Atlantic) ^a	158.9	148.2	143.2	7.22%	10.96%
Domestic Airport Passengers ('000) ^b	2,315.5	2,371.7	2,141.2	-2.37%	8.14%
Nondurable Goods Retail Sales (\$000,000) ^c	4,234.2	4,229.7	4,122.1	0.11%	2.72%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	2,081.0	1,528.0	2,730.0	36.19%	-23.77%
Consumer Expectations (South Atlantic) ^a	90.8	73.4	73.9	23.71%	22.87%
Initial Unemployment Claims ^b	1,434.8	1,994.6	827.6	-28.07%	73.38%
Durable Goods Retail Sales (\$000,000) ^c	4,022.8	4,034.3	3,883.6	-0.28%	3.58%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,529.8	3,508.3	3,448.4	0.61%	2.36%
Employed Labor Force ('000)	3,441.8	3,418.4	3,335.5	0.69%	3.19%
Unemployed Labor Force ('000)	88.0	90.0	112.9	-2.16%	-22.02%
Unemployment Rate	2.5%	2.6%	3.3%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,392.3	3,367.7	3,308.8	0.73%	2.52%
Construction ('000)	171.4	166.0	161.7	3.25%	6.00%
Manufacturing ('000)	57.0	56.5	56.5	0.88%	0.88%
Transportation & Public Utilities ('000)	76.9	76.0	75.3	1.18%	2.12%
Wholesale & Retail Trade ('000)	322.7	322.1	323.9	0.19%	-0.37%
Services ('000)	2,033.4	2,014.3	1,976.6	0.95%	2.87%
Total Government ('000)	730.9	732.8	714.8	-0.26%	2.25%
Federal Government ('000)	369.0	370.4	374.2	-0.38%	-1.39%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars