



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



Washington Economy Watch

Uncertain Strength

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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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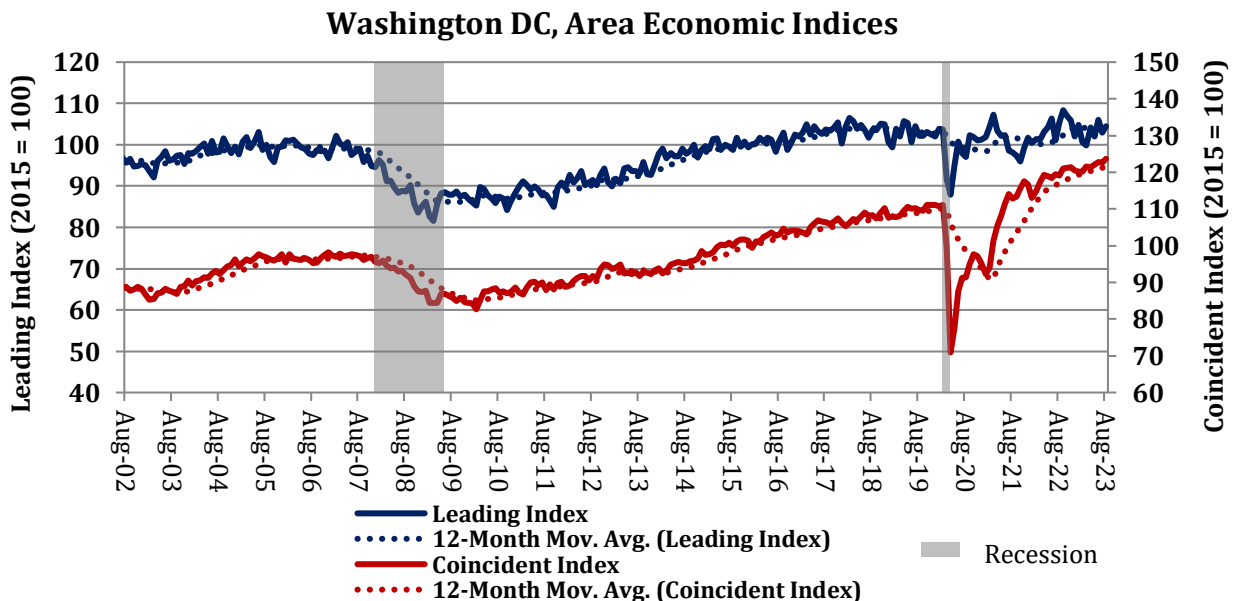
October 2023

Washington Area Economy: Uncertain Strength

As has been the case for the past few months, the Coincident Index has remained strong while the Leading Index has been generally negative despite intermixed positive readings.

- The Coincident Index increased 3.8% from August 2022 to August 2023.
- The Leading Index decreased 1.0% from August 2022 to August 2023.

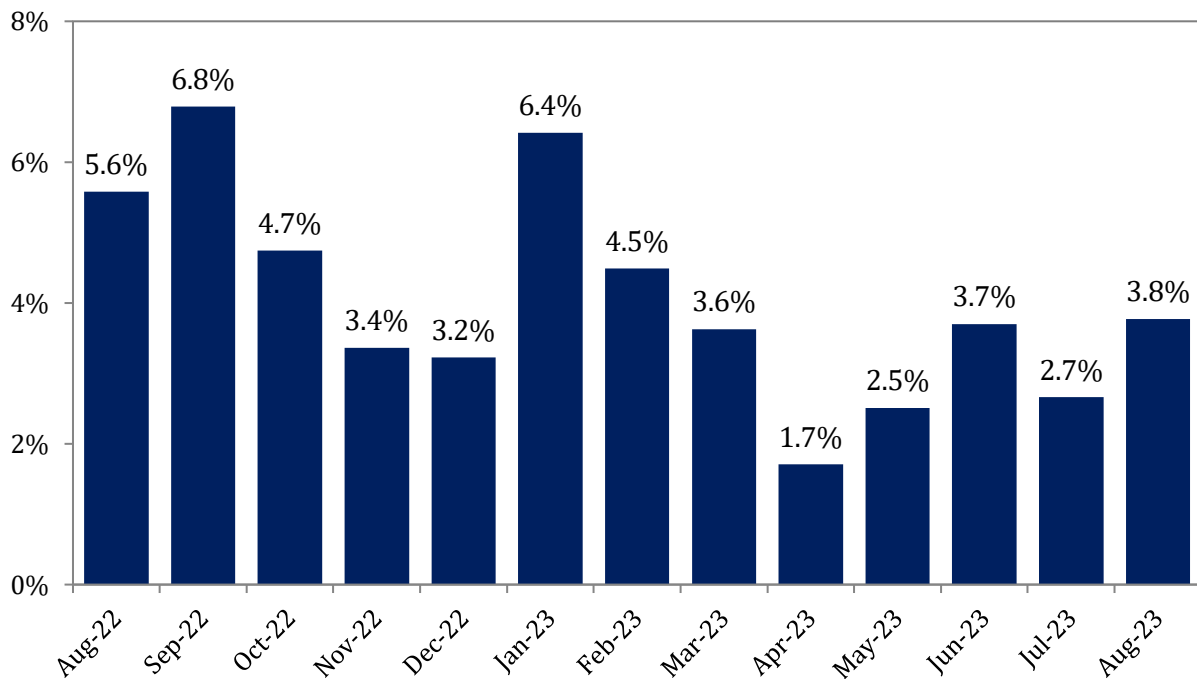
As has been the case nationally, the region's economy has held up against higher rates far better than anticipated. Nationally, Gross Domestic Product increased 4.9% from the second quarter to the third quarter, well above the second quarter's increase of 2.1%. Commerce Department data showed that inflation adjusted spending increased 0.4% from August to September, an acceleration from the 0.1% increase from July to August. Regionally, given the continued split between the Washington Coincident Index and the Washington Leading Index and continued strength nationally, a local recession appears less likely. However, the region's economy will likely slow throughout next year with a few consecutive months of jobs losses likely.



The **Washington Coincident Index**, which represents the current state of the Washington region's economy, increased by 3.8% from August 2022 to August 2023. The largest month-over-year increase since February (+4.5%). All four components of the Coincident Index increased from August 2022 and August 2023. Furthermore, two of the four components recorded larger month-over-year increases in August than in July. While non-durable goods sales and consumer confidence increased less in August than July, both increased more than their respective 2023 average. Overall, the Coincident Index continues to suggest that the Washington region's economy continues to expand slowly, despite interest rates increases.

- *Domestic passenger volume at Reagan National and Dulles Airports* increased 17.5% from August 2022 to August 2023, the largest month-over-year increase since March 2023; and,
- *Consumer confidence (current circumstances)* increased 7.2% from August 2022 to August 2023, the third consecutive strong positive reading; and,
- *Wage and salary employment* in the Washington area increased 1.8% from August 2022 to August 2023, a small reacceleration from the 1.3% growth in July; and,
- *Non-durable goods retail sales* increased 1.4% month-over-year, the fourth consecutive positive reading.

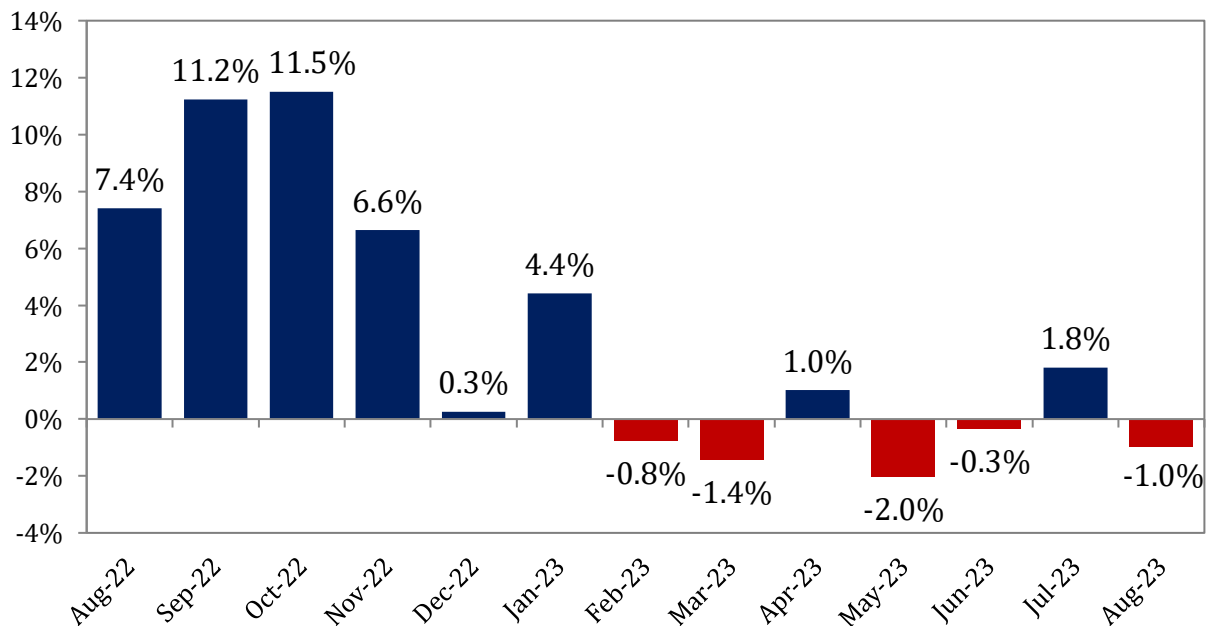
Washington Coincident Index, Month-Over-Year Changes



The **Washington Leading Index**, designed to forecast the performance of the metropolitan area economy six to eight months in advance, decreased 1.0% month-over-year in August 2023. The return to a negative reading is a continuation of mixed, but mostly negative, signals from the Leading Index in 2023. While only two of the four components were negative in August, all four components worsened from July to August. As mentioned last month, the Leading Index in August and September 2022 was elevated over July 2022 and thus a negative reading in August as expected. Looking forward it is expected that the Leading Index will remain negative in September. Given the resilience of both the regional and national economy, we no longer expect a recession as the base case. However, a notable slowdown with several months of jobs losses appears the most likely scenario.

- *Total residential building permits* decreased 33.4% month-over-year, the seventh negative reading in the first eight months of 2023, and the largest decrease since May; and,
- *Initial claims for unemployment insurance* increased (worsened) 32.6% from August 2022 to August 2023, the third consecutive month-over-year increase; while,
- *Durable goods retail sales* increased 4.0% month-over-year, the fourth consecutive month-over-year increase with only one decrease in the first eight months of 2023; and,
- *Consumer expectations (consumer confidence six months hence)* increased 8.5% from August 2022 to August 2023, a sharp decline from the 38.3% increase in July.

Washington Leading Index, Month-Over-Year Changes



Current Performance

While employment growth in the Washington Region has stabilized around pre-pandemic levels, individual sectors are currently performing at varying rates. Three sectors, Wholesale & Retail Trade, Federal Government, and Manufacturing contracted from August 2022 to August 2023. Among these sectors, Wholesale and retail trade employment decreased the most, declining 1.4% from August 2022 to August 2023. While total government employment increased from August 2022 to August 2023, Federal government employment decreased 1.2% over the period. Although manufacturing employment also declined, it remains among the region's smallest sectors and thus has little impact on total employment. Employment in the region's most important sector, Services, increased 2.0% month-over-year in August. Notably, construction employment increased the most out of any sector, up 4.3% month-over-year, just as the number of permits (see Leading Index) sank over the same period. This suggests that while construction employers are currently ramping up construction employment, the sector appears likely to contract over the next 6 to 8 months unless commercial construction increases to offset the decline in residential permitting activity.

Wage and Salary Employment Percent Change August 2022 to August 2023

Sector	% Change
Total ('000)	1.8%
Construction ('000)	4.3%
Manufacturing ('000)	-0.7%
Transportation & Public Utilities ('000)	1.1%
Wholesale & Retail Trade ('000)	-1.4%
Services ('000)	2.0%
Total Government ('000)	2.3%
Federal Government ('000)	-1.2%

*Unadjusted data

Near-Term Outlook

Is the DC Region on a Path to Economic Mediocrity?

This was the eyebrow-raising question posed at the recent regional economic event co-hosted by the Northern Virginia Transportation Alliance and the Center for Regional Analysis/Stephen Fuller Institute. Dr. Terry Clower and a panel of regional and national experts on housing, local governance, transportation, and other areas presented to a full house of leaders from business, government, and non-profit sectors on pressing challenges that are impacting regional economic performance in the Washington, DC metropolitan area.

The data presented reflect what you have been reading in Economy Watch for a long time – economic performance in the nation’s capital area is trailing the nation and many of our competitor regions.

As shown in this month’s data, the region continues to add jobs at a modest pace, but the SFI Leading Index continues to show building weakness in our outlook. There are many factors that are contributing to our lackluster economic performance, but none more important than the lack of available workers with the skills to meet the needs of regional employers. Over the past two decades, much of economic development, particularly in services and technology sectors, was driven by a region’s ability to attract and retain labor. As was pointed out in the NVTA/CRA/SFI event, the DC region is now losing the battle for talent.

The SFI economic note on population change in the Washington region issued earlier this year ([Report Link](#)) shows discouraging Census Bureau data on population dynamics. In the most recent reporting period, net domestic migration decreased by more than 66,000. Many of these movers represent relatively young workers who have decided that housing availability, regional mobility, affordable childcare are better found – elsewhere. As Dr. Clower pointed out, this phenomenon is talented labor “voting with their feet.” If we do not address these challenges, even with the underpinning of federal workers and government contractors, then the Washington region will descend into perpetual economic mediocrity. However, we have the capabilities and means to address these challenges, but it will require data-driven solutions and the engagement of leaders from all sectors acting with purpose and determination.

To support this required change agenda, CRA/SFI will be collaborating with NVTA and other regional entities over the next 18 months in developing actionable policy solutions to business and government leaders that address a growing list of challenges and return to being a destination of choice for talented workers to build a career and life. We hope all of the readers of Economy Watch will join in supporting these efforts. First up, how do we address the looming Metro fiscal cliff? Stay tuned!

Washington Area Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Aug-23 Prelim.	Jul-23 Final	Aug-22 Final	Jul-23 to Aug-23	Aug-22 to Aug-23
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	123.7	122.6	119.2	0.83%	3.77%
Leading Index (2015 = 100)	104.4	102.9	105.5	1.52%	-0.98%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,380.1	3,375.7	3,321.0	0.13%	1.78%
Consumer Confidence (South Atlantic) ^a	160.1	168.3	149.3	-4.87%	7.23%
Domestic Airport Passengers ('000) ^b	2,572.3	2,332.6	2,189.4	10.28%	17.49%
Nondurable Goods Retail Sales (\$000,000) ^c	4,168.4	4,211.0	4,109.4	-1.01%	1.44%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	2,249.0	1,924.0	3,375.0	16.89%	-33.36%
Consumer Expectations (South Atlantic) ^a	82.9	89.7	76.4	-7.58%	8.51%
Initial Unemployment Claims ^b	1,835.2	2,306.8	1,384.1	-20.44%	32.59%
Durable Goods Retail Sales (\$000,000) ^c	3,963.6	3,854.7	3,809.7	2.82%	4.04%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,525.0	3,556.2	3,441.5	-0.88%	2.43%
Employed Labor Force ('000)	3,431.8	3,470.1	3,329.3	-1.11%	3.08%
Unemployed Labor Force ('000)	93.2	86.1	112.2	8.29%	-16.90%
Unemployment Rate	2.6%	2.4%	3.3%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,380.1	3,375.7	3,321.0	0.13%	1.78%
Construction ('000)	171.6	170.5	164.5	0.65%	4.32%
Manufacturing ('000)	56.8	56.6	57.2	0.35%	-0.70%
Transportation & Public Utilities ('000)	76.6	75.9	75.8	0.92%	1.06%
Wholesale & Retail Trade ('000)	321.2	322.9	325.9	-0.53%	-1.44%
Services ('000)	2,034.3	2,034.9	1,994.2	-0.03%	2.01%
Total Government ('000)	719.6	714.9	703.4	0.66%	2.30%
Federal Government ('000)	370.1	370.2	374.7	-0.03%	-1.23%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars