# Washington Economy Watch

### Soft Landing into Stagnation?

Vol VIII No. 2
February 2024

The Stephen S. Fuller Institute
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# Washington Area Economy:
## Soft Landing into Stagnation?

The Coincident Index recorded another modest increase, while the Leading Index recorded the first positive reading since July 2023.

- The Coincident Index increased 1.2% from December 2022 to December 2023.

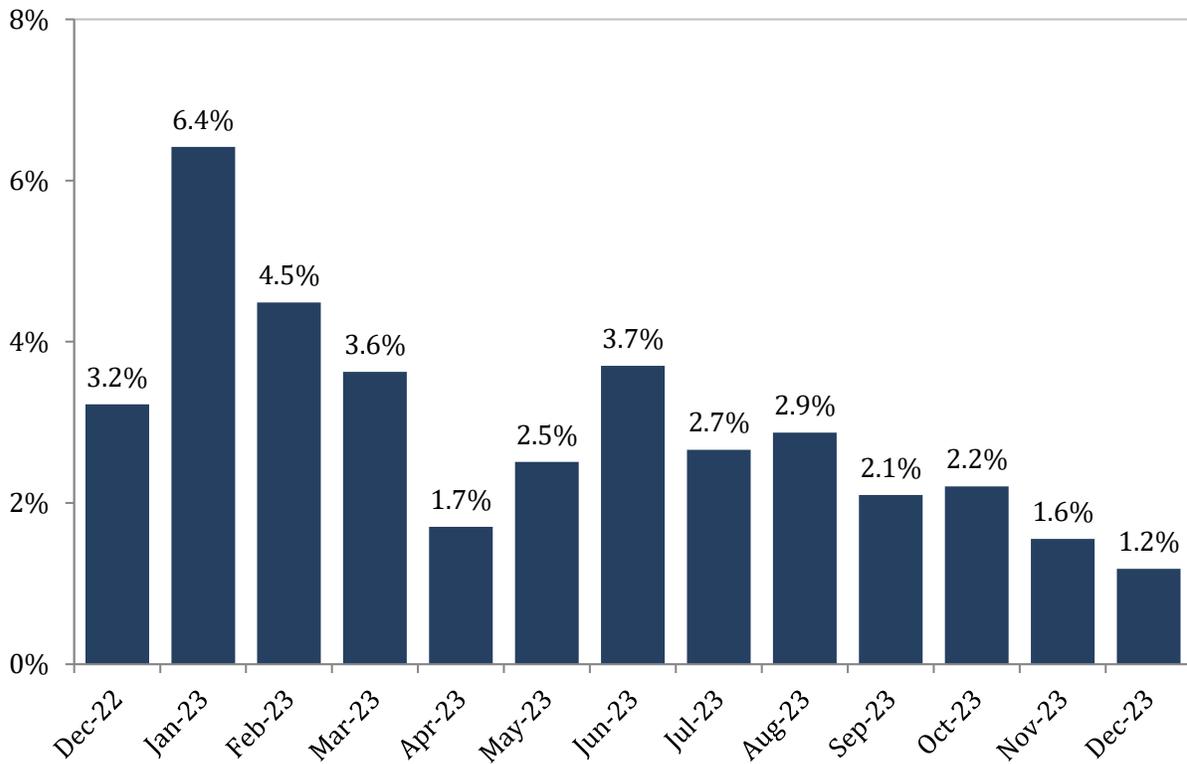- The Leading Index increased 0.2% from December 2022 to December 2023.

The odds of a soft landing in the region appear to be increasing, which at the regional level might be defined as little net growth in the labor market over the next several months, perhaps with some month-to-month contraction. The Leading Index points to some growth 6 to 8 months out and the Coincident Index suggests the region has slowed but remains positive. Despite the increased prospects of a soft landing, the current performance among sub-regions is mixed. Unemployment is low, but for Suburban Maryland, this is primarily due to a smaller labor force. The labor force will continue to be a constraint for Suburban Maryland in the near-term, which has under supplied housing relative to DC and Northern Virginia. Such constraints on any sub-region unfortunately dampen near-term growth prospects for the region as a whole. Will a soft landing be a harbinger of economic stagnation?
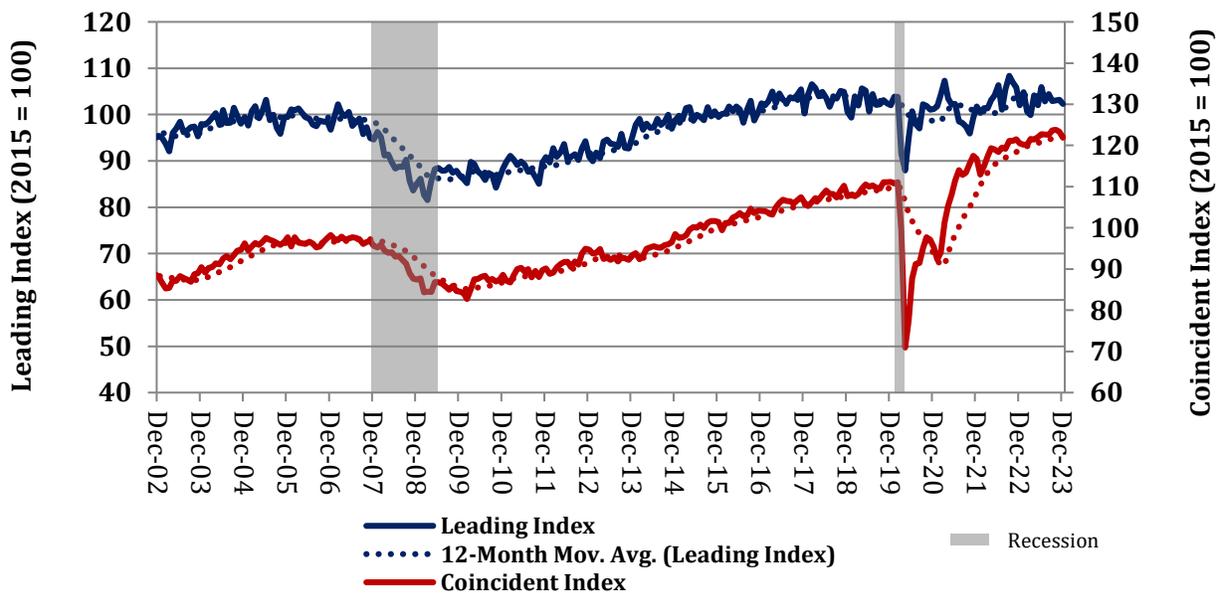
The **Washington Coincident Index**, which represents the current state of the Washington region's economy, increased 1.2% from December 2022 to December 2023 but reflects a trend of slowing of economic growth since November 2021. It appears that the region's economy is headed towards a no/slow-growth situation. We consider such an outcome to be the regional equivalent of a soft landing.

- *Non-durable goods retail sales* increased 2.4% from December 2022 to December 2023, the eighth consecutive month-over-year increase; and,

- *Domestic passenger volume at Reagan National and Dulles Airports* increased 1.8% month-over-year in December, a slight deceleration from the 1.4% month-over-year increase in November; and,

- *Wage and salary employment* in the Washington area increased 1.2% from December 2022 to December 2023, the smallest month-over-year increase in over a year; while,

- *Consumer confidence (current circumstances)* decreased 3.9% month-over-year, the second largest month-over-year decline in over a year.
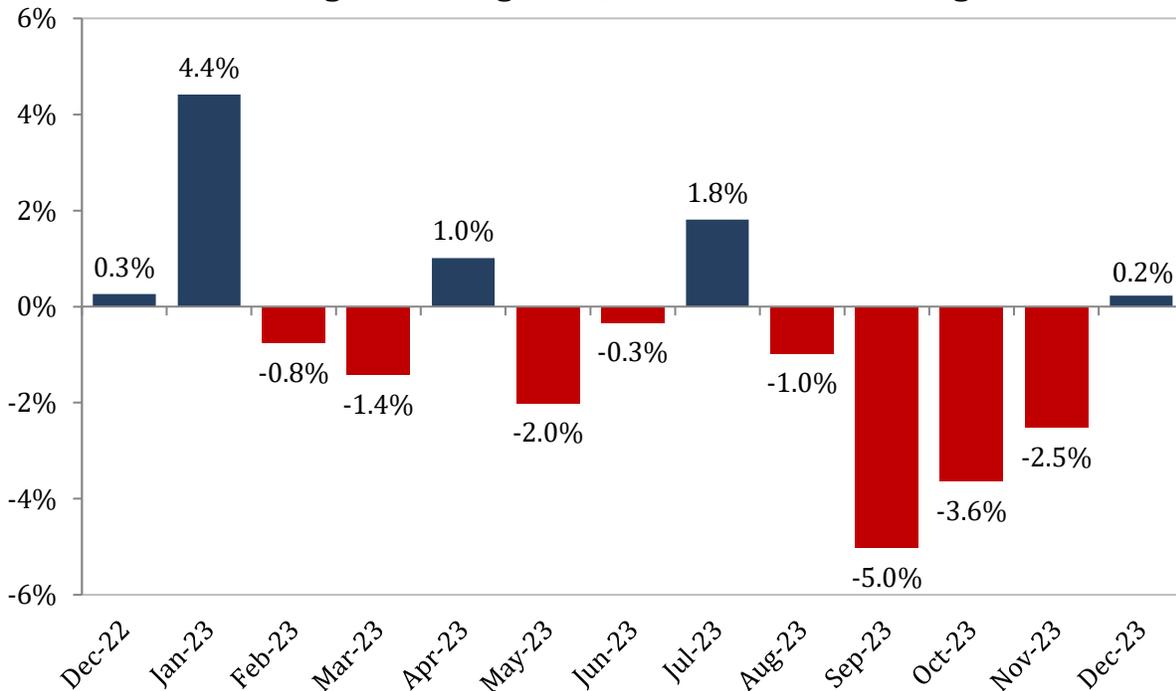
## Washington Coincident Index, Month-Over-Year

The **Washington Leading Index**, designed to forecast the performance of the metropolitan area economy six to eight months in advance, increased 0.5% month-over-year in December 2023. While the month-over-year increase in durable goods is a continuation of recent increases, improvements in initial claims for unemployment insurance and consumer expectations were unexpected. If consumer expectations and initial claims for unemployment insurance continue to improve, which appears likely given the strength of the US labor market, the improvement in the Leading Index may prove durable in the coming months. With a strong labor market in concert with continued declines in PCE inflation, the odds of a soft landing are increasing. The only caveat is that a contributing factor to lower unemployment claims is tied to a lack of workers in the region.

- *Initial claims for unemployment insurance* decreased (improved) 12.0% from December 2022 to December 2023, the first decline since May 2023; and,

- *Consumer expectations (consumer confidence six months hence)* increased 9.3% from December 2022 to December 2023, the first increase since August 2023; and,

- *Durable goods retail sales* increased 5.2% month-over-year in December, 0.5 percentage points above the 2023 month-over-year average of 3.1$%; while,

- *Total residential building permits* decreased 36.4% month-over-year, resulting in 11 month-over-year declines in 2023, with April being the only recorded month-over-year increase.

**Washington Leading Index, Month-Over-Year Changes**

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## Current Performance

Examining the unemployment rate in the Washington region suggests the region's economy is faring well. The Washington Region's unemployment rate in December 2023 was 2.5%, marginally below the unemployment rate in 2019, immediately prior to the onset of the pandemic. Of the three sub-regions, Suburban Maryland had the lowest unemployment rate in December 2023, at just 2.0%. Northern Virginia had the second lowest unemployment rate of 2.4%. While the District remains elevated above Suburban Maryland and Northern Virginia, at 4.8%, it is on par with the 4.5% recorded in December of 2019. As of the fall of 2023, unemployment in the Washington region was generally equivalent to that of the US as a whole, driven up by the elevated unemployment in the District.

**Unemployment By Sub-State**
**December 2015 through December 2023**
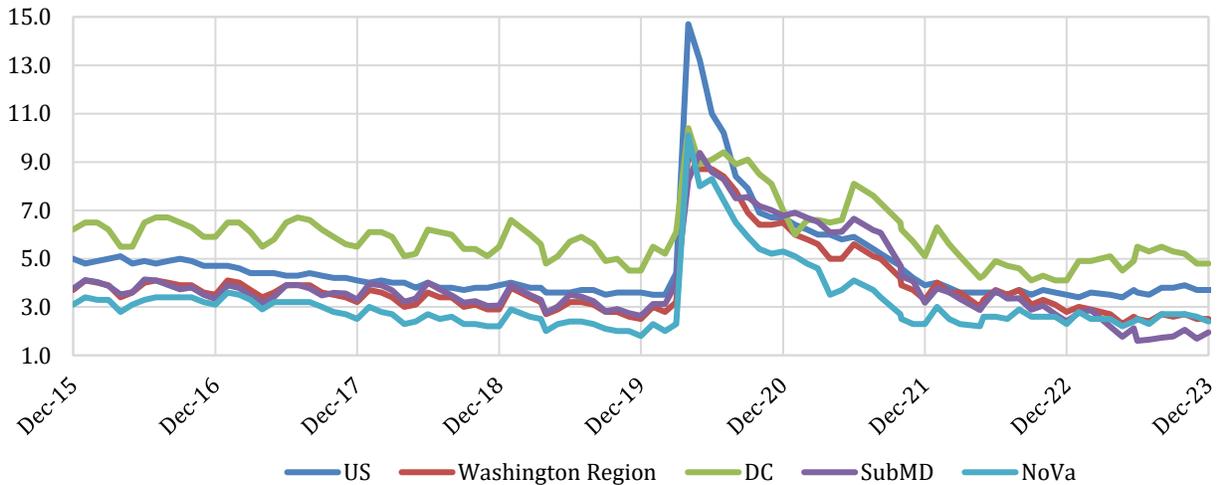


Despite the fact that Suburban Maryland has the lowest unemployment rate, it is the result of the labor force contracting from a high of roughly 1.4 million in February 2020 to approximately 1.3 million in December 2021 and remaining essentially flat through December 2023.

**Unemployment By Sub-State**
**December 2015 through December 2023**

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## Near-Term Outlook

Housing continues to be a major constraint for the region's economic prospects. Active listings of existing homes remain historically low, and the region is continuing its multi-decade trend of not building enough housing units – especially those affordable for working families. Focusing on the number of total housing units illustrates part of why Suburban Maryland has struggled to regain its pre-pandemic labor force. From 2020 to 2022, the two largest jurisdictions in Maryland, Montgomery County and Prince George's County increased their housing stock by just 0.4% and 1.0%, respectively. Frederick County Maryland did increased its housing stock by 4.8%, (4,982 units) and recorded the largest population growth in the region. The DC also increased its housing stock by 2.7% from 2020 to 2022 (9,458 units) and recorded population growth over the period. Apart from the exceptions of Fairfax County and Alexandria, nearly every large jurisdiction in Northern Virginia increased its housing stock by over 2% from 2020 to 2022. The largest increases in level terms were Loudoun County (+4,315), Prince William (+3,270), Arlington (+3,263), and Spotsylvania (+2,901). Stafford County, which had just 13.1% of Montgomery County's housing units in 2020 increased the number of housing units by 1,825, more than Montgomery County over the period. In spite of any permits that may have been issued, housing development continues to constrain the economy, particularly in Suburban Maryland. It is unlikely that the labor force in Suburban Maryland will return to pre-pandemic levels until more housing becomes available, constraining the near-term outlook.

**End of Month For-Sale Housing Supply by Jurisdiction**
**Select Largest Jurisdictions - 2015 to 2023**

| Jurisdiction | Housing Units | | | % Change from 2020 | |
|---|---|---|---|---|---|
| | 2020 | 2021 | 2022 | 2021 | 2022 |
| DC | 351,432 | 357,435 | 360,890 | 1.7% | 2.7% |
| Montgomery | 405,008 | 405,728 | 406,801 | 0.2% | 0.4% |
| Prince George's | 360,387 | 362,334 | 364,027 | 0.5% | 1.0% |
| Frederick | 104,030 | 106,397 | 109,012 | 2.3% | 4.8% |
| Fairfax | 427,500 | 428,425 | 429,828 | 0.2% | 0.5% |
| Prince William | 158,846 | 160,104 | 162,116 | 0.8% | 2.1% |
| Loudoun | 142,770 | 145,113 | 147,085 | 1.6% | 3.0% |
| Arlington | 119,183 | 119,443 | 122,446 | 0.2% | 2.7% |
| Alexandria City, Va | 80,440 | 80,357 | 80,361 | -0.1% | -0.1% |
| Spotsylvania | 52,589 | 53,933 | 55,490 | 2.6% | 5.5% |
| Stafford | 53,004 | 53,907 | 54,829 | 1.7% | 3.4% |
| Fauquier | 28,283 | 28,433 | 28,633 | 0.5% | 1.2% |
| Source: Census Population Estimates Program | | | | | |

# Washington Area Economic Indicators
## Current and Previous Months

| Economic Indicator | Estimates | | | Percent Change | |
|---|---|---|---|---|---|
| | Dec-23 Prelim. | Nov-23 Final | Dec-22 Final | Nov-23 to Dec-23 | Dec-22 to Dec-23 |
| **Washington Area Business Cycle Indicators** | | | | | |
| Coincident Index (2015 = 100) | 121.9 | 123.4 | 120.5 | -1.19% | 1.18% |
| Leading Index (2015 = 100) | 102.3 | 103.2 | 102.0 | -0.92% | 0.23% |
| **Washington Area Coincident Index Components** | | | | | |
| Total Wage & Salary Employment ('000)[a] | 3,394.0 | 3,411.1 | 3,355.9 | -0.50% | 1.14% |
| Consumer Confidence (South Atlantic)[a] | 149.3 | 144.5 | 155.3 | 3.32% | -3.86% |
| Domestic Airport Passengers ('000)[b] | 2,462.0 | 2,444.7 | 2,417.5 | 0.71% | 1.84% |
| Nondurable Goods Retail Sales ($000,000)[c] | 3,982.8 | 4,238.2 | 3,889.8 | -6.03% | 2.39% |
| **Washington Area Leading Index Components** | | | | | |
| Total Residential Building Permits[a] | 1,775.0 | 1,505.0 | 2,793.0 | 17.94% | -36.45% |
| Consumer Expectations (South Atlantic)[a] | 80.3 | 75.8 | 73.5 | 5.94% | 9.25% |
| Initial Unemployment Claims[b] | 2,032.9 | 1,806.0 | 2,309.0 | 12.57% | -11.96% |
| Durable Goods Retail Sales ($000,000)[c] | 3,863.5 | 4,078.1 | 3,728.9 | -5.26% | 3.61% |
| **Wahington Area Labor Force[a]** | | | | | |
| Total Labor Force ('000) | 3,462.7 | 3,504.5 | 3,422.8 | -1.19% | 1.17% |
| Employed Labor Force ('000) | 3,376.1 | 3,416.9 | 3,336.6 | -1.19% | 1.18% |
| Unemployed Labor Force ('000) | 86.7 | 87.6 | 86.2 | -1.06% | 0.48% |
| Unemployment Rate | 2.5% | 2.5% | 2.5% | -- | -- |
| **Washington Area Wage and Salary Employment[a]** | | | | | |
| Total ('000) | 3,394.0 | 3,411.1 | 3,355.9 | -0.50% | 1.14% |
| Construction ('000) | 165.9 | 167.3 | 165.7 | -0.84% | 0.12% |
| Manufacturing ('000) | 56.9 | 56.9 | 58.5 | 0.00% | -2.74% |
| Transportation & Public Utilities ('000) | 81.4 | 80.7 | 82.6 | 0.87% | -1.45% |
| Wholesale & Retail Trade ('000) | 335.1 | 330.8 | 332.9 | 1.30% | 0.66% |
| Services ('000) | 2,019.4 | 2,031.9 | 1,990.1 | -0.62% | 1.47% |
| Total Government ('000) | 735.3 | 743.5 | 726.1 | -1.10% | 1.27% |
| Federal Government ('000) | 369.6 | 371.3 | 372.3 | -0.46% | -0.73% |

[a]Unadjusted data

[b]Seasonally adjusted data

[c]Seasonally adjusted constant (1996) dollars