



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



Washington Economy Watch

Modest Acceleration Despite Building Headwinds

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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. Given changes brought from the switch to hybrid and remote work in the wake of the pandemic, both are undergoing alterations. The Coincident Index has been temporarily simplified and the Leading Index has been temporarily discontinued.

Washington Economy Watch

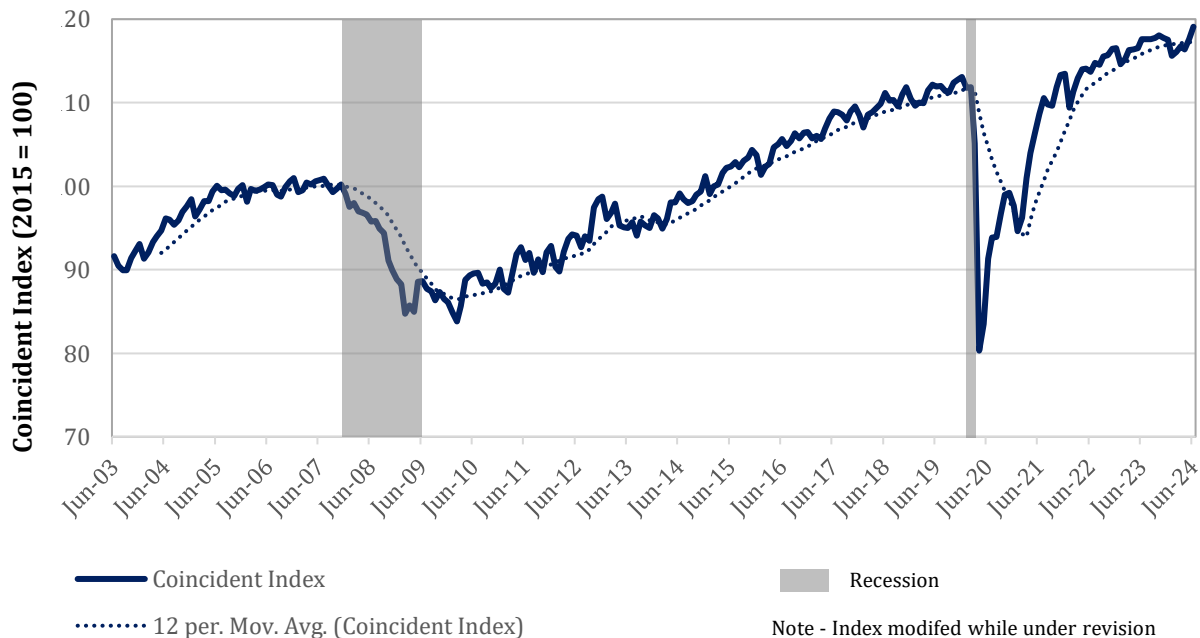
Accelerating Into Headwinds

July 2024

Washington Area Economy: Modest Acceleration Despite Building Headwinds

The Coincident Index increased 1.2 from June 2023 to June 2024, a second consecutive month-over-year increase.

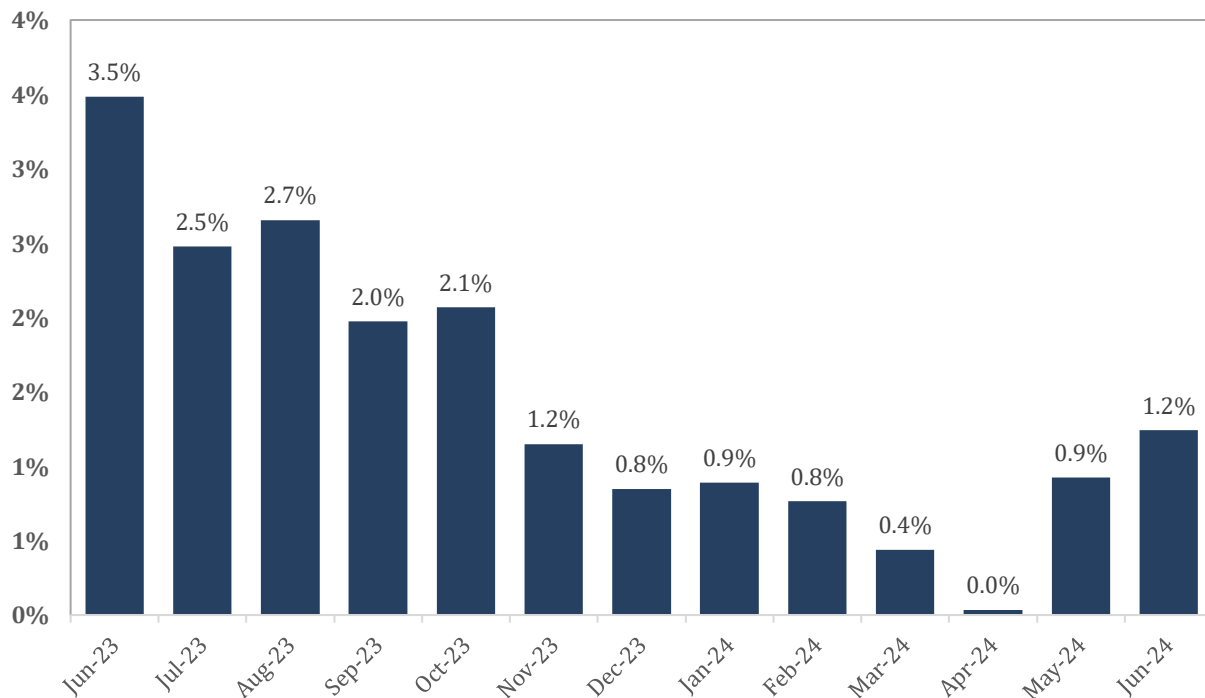
Even though the Coincident Index has increased for two consecutive months, the region remains in an uncertain position. Positively, employment in the Professional, Scientific, and Technical sector began to increase in June. Providing mixed messages is the fact that while total employment is increasing, the increases continue to lag the nation. Additionally, while Federal employment has been increasing, the growth rate has slowed over the past several months. Unfortunately, labor market churn appears to be a building headwind. Openings, layoffs, and quits all point to a softening labor market, that may show up in employment numbers in the coming months. See the near-term outlook for more. Additional headwinds such as the slowing multi-family housing construction and the ever-increasing uncertainty around Federal elections continue to support our near-term outlook that the Washington region's economy will remain relatively flat for the rest of 2024.



The **Washington Coincident Index**, which represents the current state of the Washington region’s economy, accelerated for the second consecutive month, increasing 1.2% from June 2023 to June 2024. The month-over-year increase is 0.3 percentage points higher than the revised May increase of 0.9% and the largest increase since November 2023. While a second month of acceleration is welcomed, it continues to be our base case that the Coincident Index will flatten or decelerate in the near term. While employment in the Washington region increased, employment growth continued to lag national increases. Furthermore, while national employment continues to outpace the Washington region, the growth rate for national employment has been steadily declining. It seems inevitable that that slowing national economy will eventually drag down the region’s growth as well. This combined with slower hiring, discussed in the near-term outlook, provide enough evidence that the region’s economy will decelerate once again.

- *Domestic passenger volume at Reagan National and Dulles Airports* increased 7.9% month-over-year in June, a notable gain on the revised 4.4% increase in May; and,
- *Wage and salary employment* in the Washington area increased 1.0% from June 2023 to June 2024, a slight reacceleration over the previous five months as the May estimate was revised downward; while,
- *Consumer confidence (current circumstances)* decreased 2.5% month-over-year, Notably worse than in the 0.6% year-over-year decline in May a smaller decline than the 11.7% month-over-year decrease recorded in April.

Washington Coincident Index, Month-Over-Year



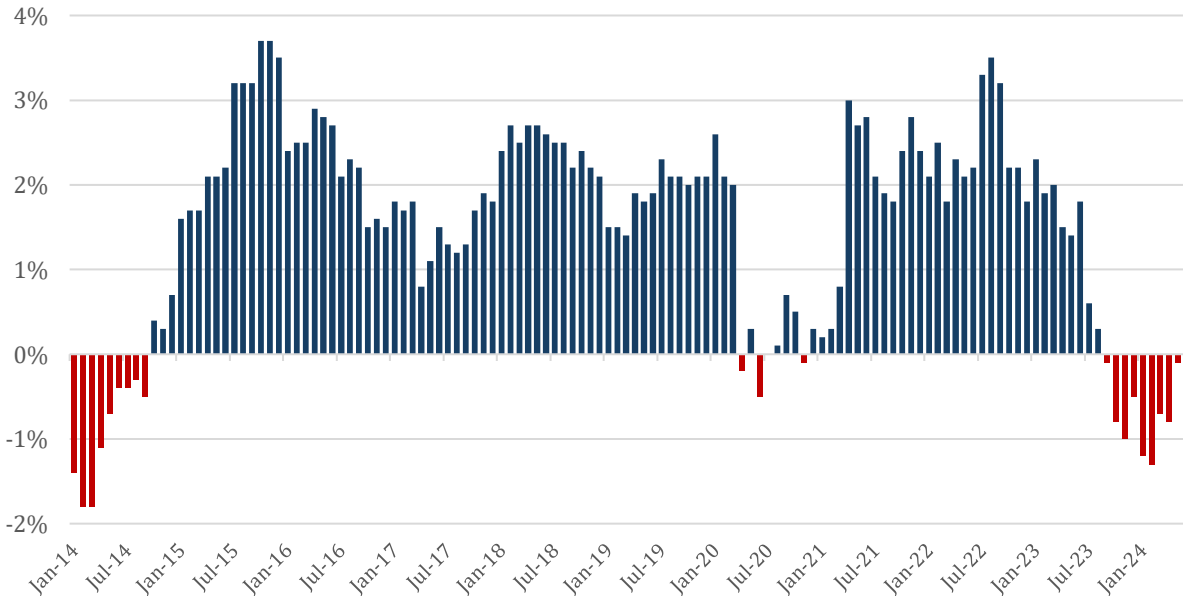
Near Term Outlook

While we highlight an employment tailwind for the Washington region's economy that provides reason to be optimistic, additional signals suggest that the region's labor market is not as strong as employment statistics suggest. Adding in the fact that the national economy has been consistently cooling and increased uncertainty around the Federal election this fall, our near-term forecast remains that the region's economy will remain stagnant through the end of 2024.

Tailwinds

While we reported on employment in the Professional, Scientific, and Technical subsector last month, given its importance to the region, it is worth revisiting. This subsector (comprised of lawyers, architects, engineers, and computer services) accounts for the bulk of federal contractors and is arguably the region's most important subsector. As reported last month, month-over-year employment declines were narrowing. In June 2024, the sector began to grow again for the first time since August 2023, albeit at a modest 0.4%. If the subsector can regain momentum as quickly as it lost momentum in the spring of 2024, this will represent a significant tailwind for the region moving forward. Developments in this subsector for the remainder of the year will have a substantial impact on our outlook for the first half of 2025.

**Professional, Scientific, and Technical Employment
Month-Over-Year Percent Change**

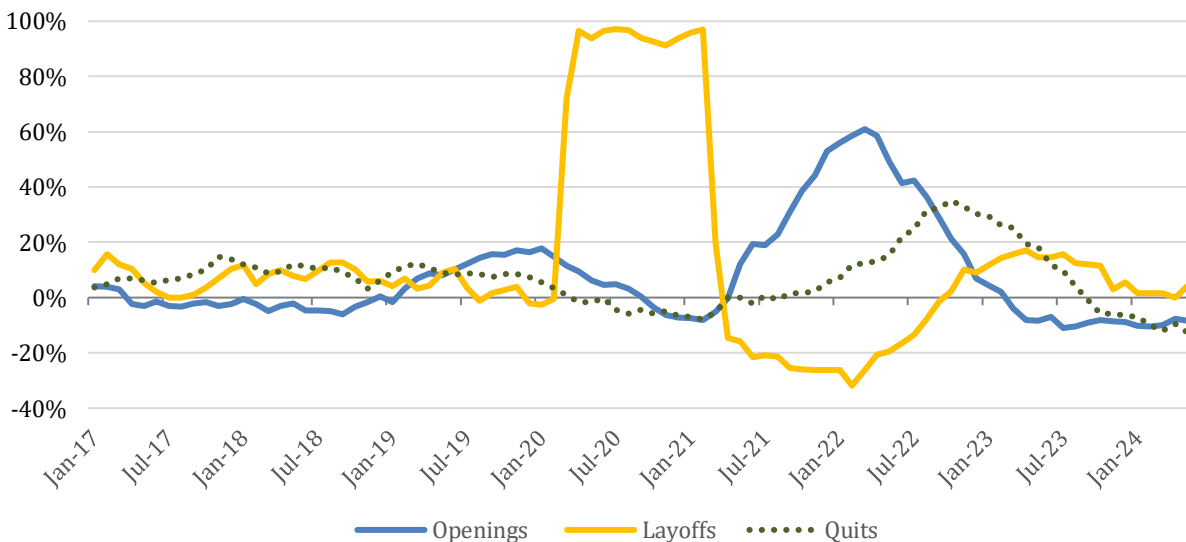


Source: BLS. Not Seasonally Adjusted

Headwinds

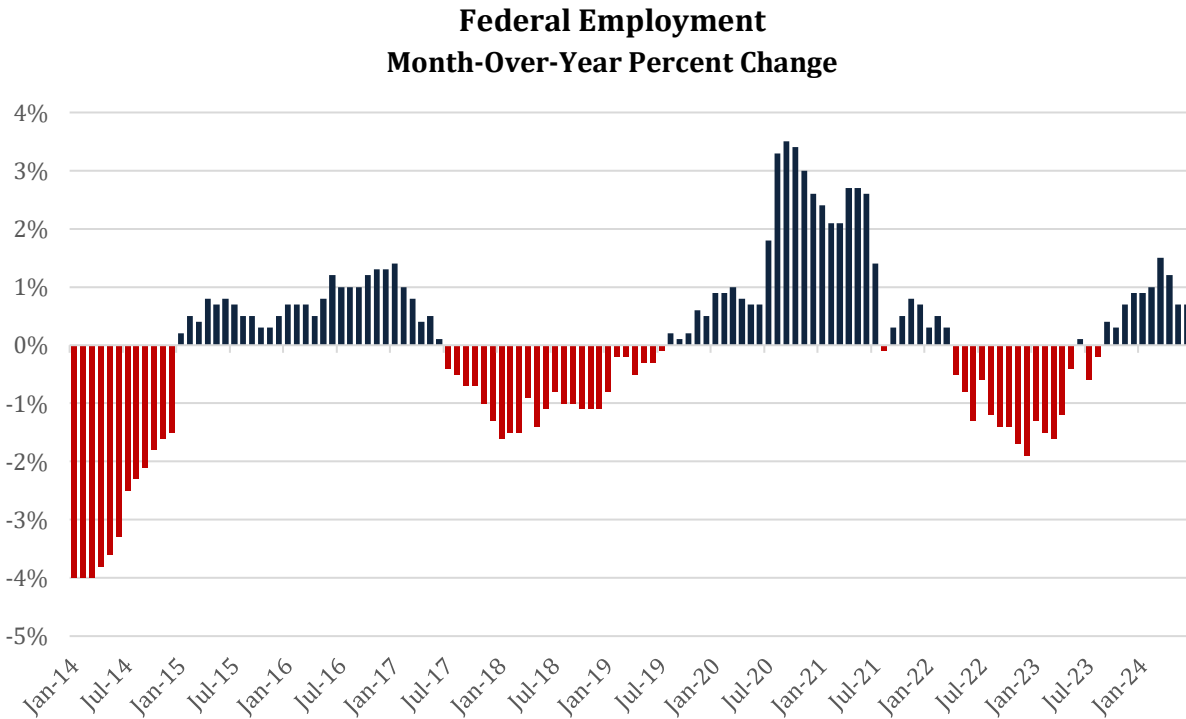
Among the headwinds the Washington Region's economy faces is, are openings, layoffs, and quits, as reported in the JOLTS data from the Bureau of Labor Statistics (BLS). Following the stunning increase in layoffs induced by the pandemic, openings began to surge to unprecedented levels followed by quits as workers felt more comfortable leaving their jobs. Following these dramatic gyrations, the region's labor market has broadly returned to pre-pandemic levels. Unfortunately, however, they have also developed into a headwind. While regional layoffs increased less than 2% month-over-year for the first four months of 2024, they increased 4.1% in May. The quickened layoff increase is coupled with weakness in openings and quits. The number of openings turned negative month-over-year in March 2023 and has remained negative since. While jobs are growing in the region, the number of openings has been contracting for over a year, suggesting that employment growth may slow beyond its already modest performance. Furthermore, it appears that workers are feeling the tighter labor market as the month-over-year quits rate turned negative in September 2023 and has remained negative since. Taken as a whole, companies are reporting fewer openings, laying off more workers, which is likely resulting in the reduced quits rate as workers feel less confident about finding another job.

Washington Region Openings, Layoffs, Quits
Month-Over-Year Percent Change, 12-Month Moving Average



While not currently a tailwind, federal employment in the Washington region is worth highlighting. In the wake of winding down Census and COVID-19 programs, direct federal employment underwent a substantial contractionary period. Federal employment in the Washington Region declined month-over-year nearly every month from April 2022 through August 2023. In September 2023, the sector started to record modest gains. The month-over-year increases peaked at 1.5% in March 2024 before paring back to 0.7% in June. While federal employment in the region is currently growing at a modest pace, the slowing growth rate is concerning. As noted in the April edition of *Economy Watch* ([Here](#)), federal

employment has been increasing as a strong pace nationally while lagging in the Washington region. This has resulted in the region's region of federal employment to decline. This trend has strong implications given that it represents perhaps the region's primary competitive advantage.



Outlook

The region's economy appears to be stuck in mild whirlwinds. The Professional, Scientific, and technical services sector has returned to employment growth, providing a notable tailwind that may yet reignite the region's economy. Despite this positive sign, worker churn points to a much softer labor market. Companies have increased the rate of layoffs and reduced the rate of hiring. Workers appear to be cognizant of the employment squeeze and are quitting at a slower rate. Additionally, federal employment growth in the region has slowed over the past few months and has not been keeping pace with national federal employment growth. The softness from the JOLTS data and slowing federal employment growth coupled with a slowing housing market reported last month, provide reason to believe that the region's economy faces more headwinds than tailwinds. The near-term outlook remains that the region's economy will be flat through the rest of the year, with the prospect of some month-over-year employment losses.