Washington Economy Watch

Choppy Stagnation

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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. 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 modified and the Leading Index has been temporarily discontinued while being revised.

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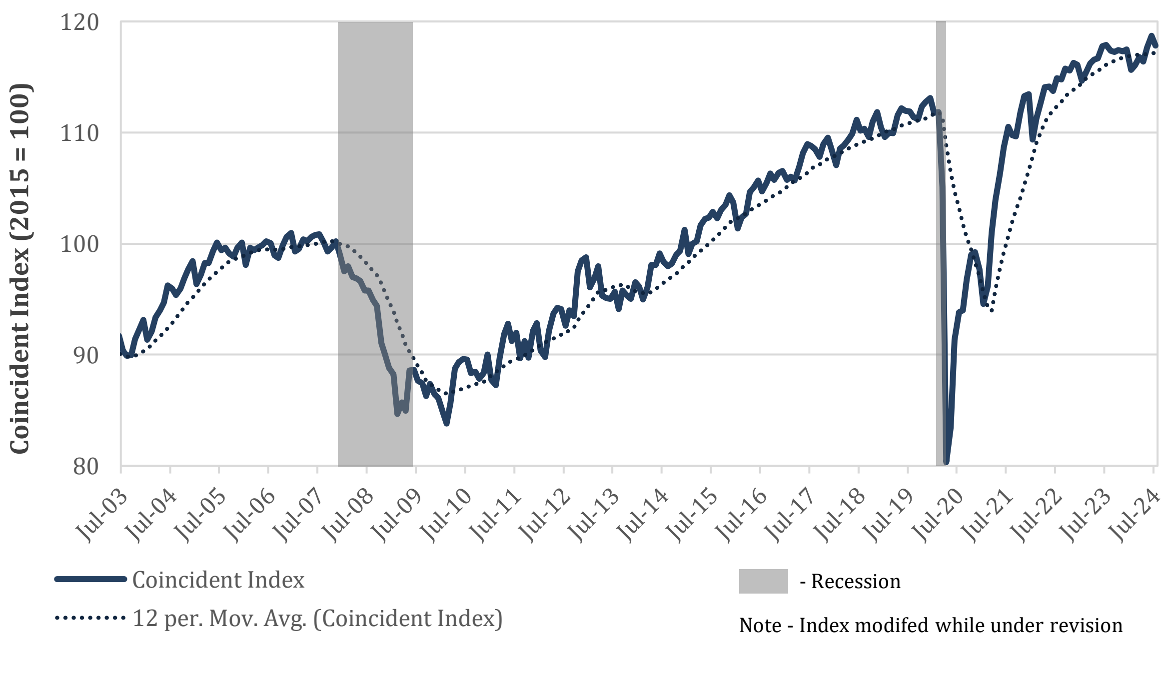
Choppy Stagnation — August 2024

Washington Area Economy:

Choppy Stagnation

The Coincident Index decreased 0.1% from July 2023 to July 2024, entering a period of anticipated choppy stagnation marked by moderate increases intermixed with moderate declines.

The modest decline in the Coincident Index is a strong indication the region has fully stagnated. While employment continues to increase, the increases are modest even after having notably underperformed the nation the past several years. The region's labor force expansion has also nearly stalled (see Near-Term Outlook), which is likely to constrain employment expansion for the remainder of the year. Weak employment and labor activity, alongside soft data discussed in prior editions of Economy Watch (Professional, Scientific, and technical employment; Federal employment; openings, layoffs, and quits; and multi-family construction) all support our near-term outlook that the Washington Region's economy is set to remain in a state of choppy stagnation through the end of the year.



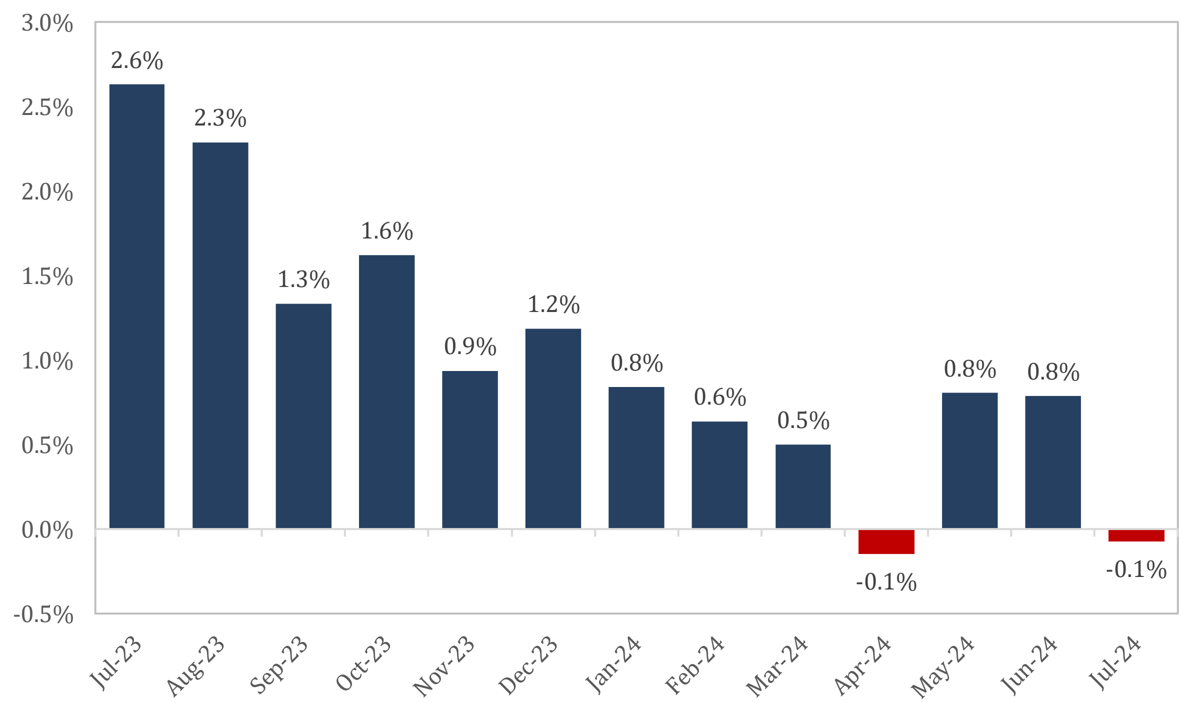
The **Washington Coincident Index**, which represents the current state of the Washington region's economy, decreased 0.1% from July 2023 to July 2024. The month-over-year decrease is 0.9 percentage points lower than the June increase of 0.8% and in line with the revised decrease of 0.1% in April. As had been anticipated, the month-over-year increases recorded in June and July gave way to a deterioration in the index. Employment growth continued to lag national increases in July, with employment growth in the Washington region increasing at 0.8% compared to 1.6% nationally. Slowing national employment gains are nearly certain to continue to weigh on the region's economy. The current situation of choppy stagnation, defined as small month-over-year increases intermixed with small decreases, is likely to continue throughout the remainder of the year.

- *Domestic passenger volume at Reagan National and Dulles Airports* increased 9.5% month-over-year in July, the largest increase since August 2023; and,

- *Wage and salary employment* in the Washington region increased 0.8% from July 2023 to July 2024, unchanged from the revised June month-over-year percent change; while,

- *Consumer confidence (current circumstances)* decreased 19.5% month-over-year, the largest month-over-year decline in consumer confidence since 2021 while the economy was still dealing with the acute aftermath of the pandemic.

Washington Coincident Index, Month-Over-Year



Near Term Outlook

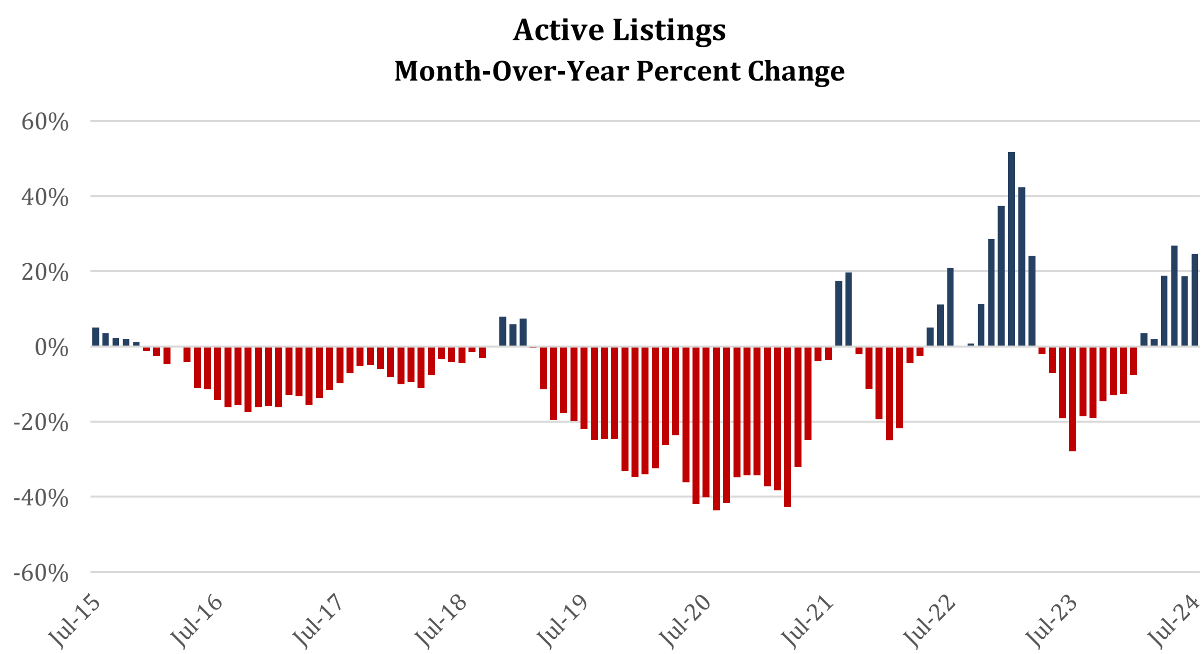
As incoming national economic data have been consistently soft in recent months, the expectation the Federal Reserve will cut interest rates in September has become nearly certain. The prospect of lower interest rates has filtered into mortgages, with the average rate on a 30-year fixed mortgage declining notably in recent months. While lower interest rates may provide a tailwind for the region's economy, we continue to highlight that the region's labor market is stagnating, despite missing much of the growth experienced nationally in the last few years. While political uncertainty will decline in the coming months, it currently remains extremely elevated, resulting in businesses delaying major decisions.

Tailwinds

As expectations of the Federal Reserve cutting interest rates increased over the past several months, the 30-year fixed rate mortgage declined from a peak of 7.80% in late November 2023 to just 6.46% the week ending August 22nd. The lower mortgage rates are welcomed by home buyers in the region who may have previously been unable to afford a home in the region at rates recorded earlier this year. As rates have come down, the pool of potential buyers in the region has expanded, which has started to result in increased sales activity after a severe contraction during much of 2021 and 2022.

Mortgage Rates
Average 30-Year Fixed Rate Mortgage

In addition to the buyer pool expansion, the reduced morgtage rates appear to have supported a supply increase that began to take shape as interest rates declined from their November peak. After contracting for the majority of 2023 and January 2024, the number of active listings in the Washington region increased modestly in February and March of 2024 before increasing sharply in April. The number of month-end active listings increased 18.9% from April 2023 to April 2024. Month-over-year increases in active listings have remained elevated, at 26.8% in May, 18.7% in June, and 24.7% in July. The recent decreases in mortgage rates have made it marginally more attractive for potential sellers to list their homes in order to either move out of the region or to move into a home that fits their current needs. These sellers have been holding off selling their homes after locking in historically low interest rates in the wake of the pandemic. As interest rates slowly march lower, the number of sellers holding onto their home solely for their mortgage interest rate will slowly decline. This should lead to additional churning in the housing market that would be a notable tailwind for the region's economy.

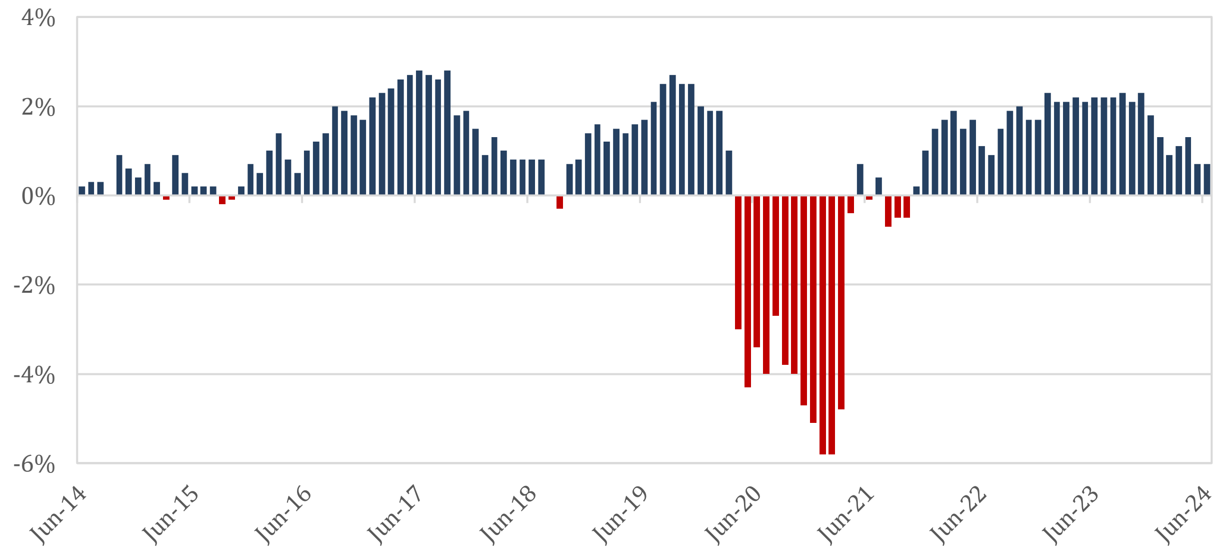


Headwinds

Despite potential tailwinds from declining interest rates and increased active listings of for-sale housing, notable headwinds to the region's economy remain. Among the most constraining headwinds is slowing growth in the region's labor force. In February 2020, the region's labor force stood at 3.53 million people. In the wake of the pandemic, the labor force contracted to 3.33 million in May 2020. In June 2023, the region's labor force was 3.54, marginally above the pre-pandemic level.

Despite having effectively recovered to pre-pandemic levels, the region's labor force is a headwind for the region for two reasons. First, the Washington region's labor force has dramatically underperformed the nation's labor force. From February 2020 to June 2024, the region's labor force increased 0.2%. In comparison, the US labor force increased 2.9% over the same period. The region has dramatically underperformed the nation regarding labor force growth. Second, the modest increases in the labor force that began in late 2021 began slowing in November 2023. The region's labor force increased 2.3% from November 2022 to November 2023. In May and June 2024, the labor force increased month-over-year by a meagre 0.7%. These small gains, in line with recent national labor force increases, mean that the region is now slowing with the nation after having not benefited from the national expansion of the last few years. Unfortunately, stalling labor force growth will likely constrain employment growth in coming months, weighing on the coincident index in coming months.

Washinton Region Labor Force
Month-Over-Year Percent Change



Outlook

The region's economy has undeniably entered a period of choppy stagnation. After an unusually long wait for the impacts of higher interest rates to fully slow the national economy, the region's economy is cooling along with the nation. The region's employment growth is slowing faster than nationally, despite having missed much of the employment expansion in the wake of the pandemic. Looking forward, the region's economy appears to have little room for any reacceleration as the region's labor force growth has also slowed. The lack of an available labor force in the region will handcuff businesses looking to expand. Despite the developing tailwinds of lower interest rates and an expansion of active listings, the headwinds are more numerous and stronger, implying that the region's economy will continue to experience choppy stagnation for the remainder of the year.