Washington Economy Watch

Tricks, No Treats, for the Washington Economy

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The Stephen S. Fuller Institute
for Research on the Washington Region's Economic Future
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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.

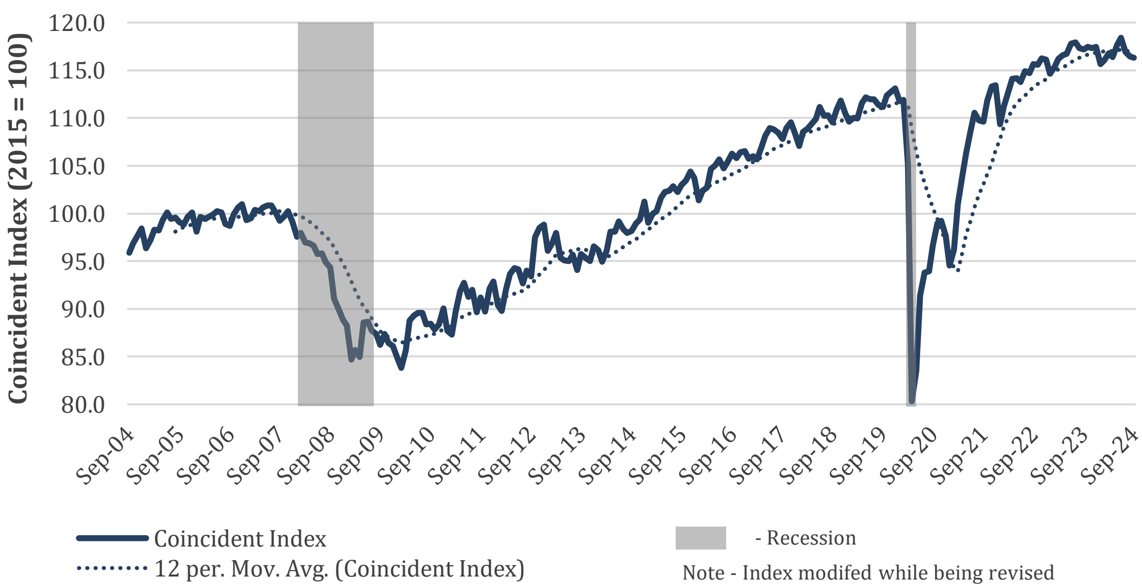
Washington Economy Watch

Tricks not Treats October 2024

Washington Area Economy:
Tricks, No Treats, for the Washington Economy

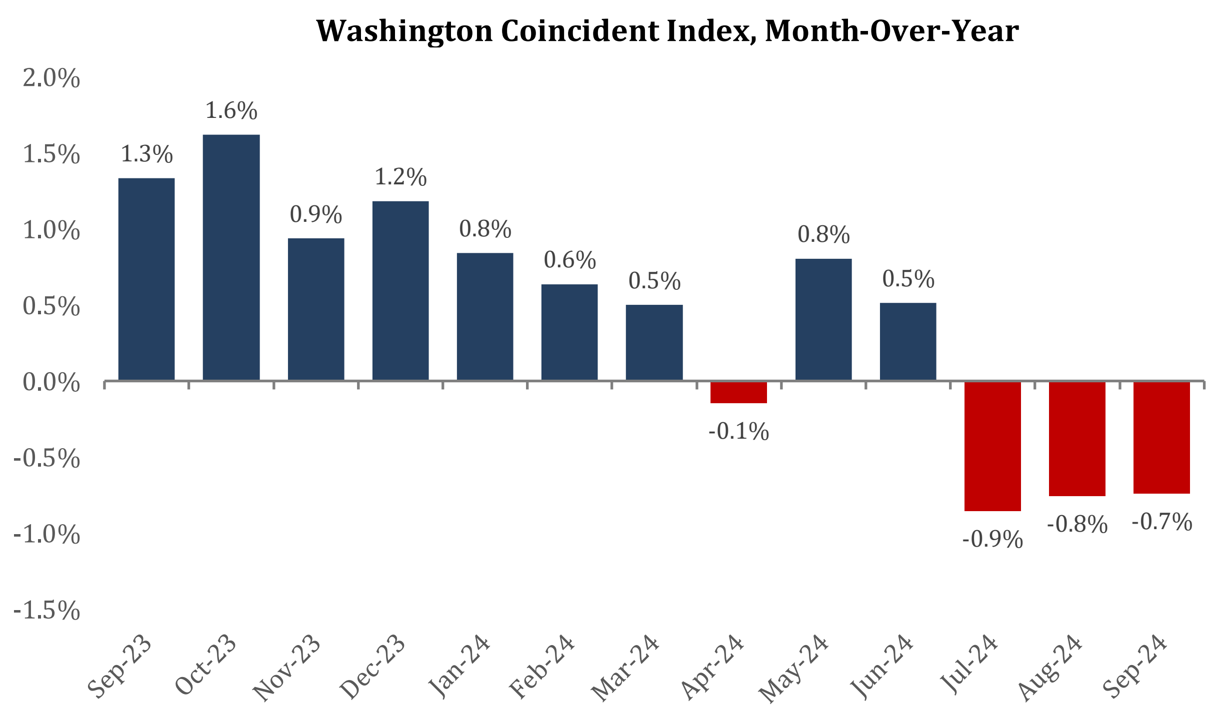
The Coincident Index decreased 0.7% from September 2023 to September 2024 and is unlikely to record any positive readings through the end of 2024.

Two of the three components of the Coincident Index have turned negative. While employment growth remains positive, it has been trending towards zero for over a year. Unfortunately, headwinds to the region's economy continue to outweigh the tailwinds. The most notable tailwind is the continued expansion of the region's active housing listings. However, active listings are more than offset by a contraction in multi-family construction starts. Given that multi-family vacancy rates have returned roughly to pre-pandemic levels, available housing in the region is limited. Limited housing supply paired with nearly flat labor force growth suggests that the region's employment growth will further contract. Unfortunately, these trends will likely result in continued negative readings of the Coincident Index. Our near-term outlook for the region's economy is slightly more negative than flat.



The **Washington Coincident Index**, which represents the current state of the Washington region's economy, decreased 0.7% from September 2023 to September 2024. The decline in the Coincident Index represents an anticipated continued deterioration in the region's economy, though perhaps more negative than expected. Two of the three components were negative month-over-year in September, and it is anticipated that the modest reacceleration of employment growth will lose steam in the coming months. If the region's labor market does start to deteriorate, month-over-year changes in the Coincident Index will be even more negative for the remainder of the year. Given that we do not forecast a reacceleration in the labor market, it is likely that the remainder of Index readings will be negative, with the only uncertainty around how negative the readings will be.

- *Consumer confidence (current circumstances)* decreased 16.8% from September 2023 to September 2024, a continuation of deteriorating consumer confidence that began a decisive negative turn in the fall of 2023; and,
- *Domestic passenger volume at Reagan National and Dulles Airports* decreased 1.0% month-over-year in September for the second consecutive decline since 2021 when pandemic effects were still strongly influencing trends; while,
- *Wage and salary employment* in the Washington region increased 0.6% month-over-year in September, a modest reacceleration after two consecutive months of month-over-year increases of 0.4%.

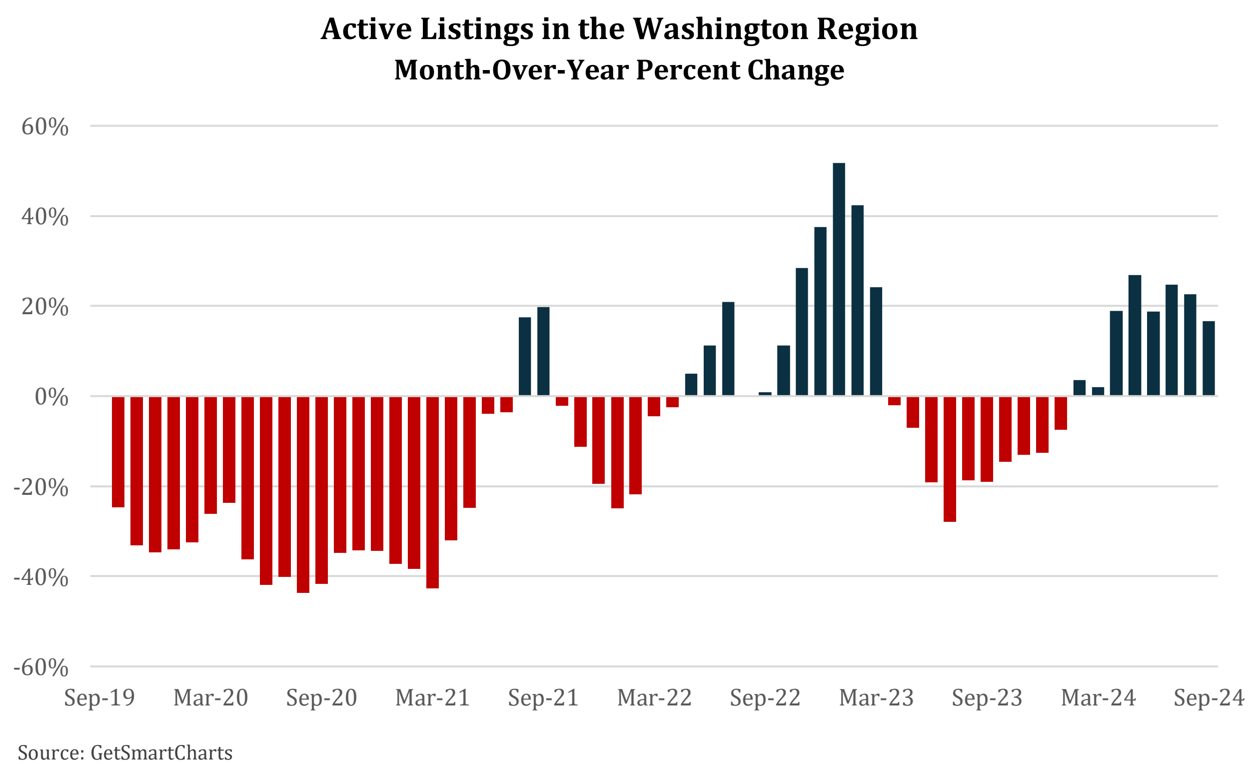


Near Term Outlook

As indicated by the Coincident Index, the region's economy has been contracting for several months. Unfortunately, the region continues to record more headwinds than tailwinds, and the near-term outlook has turned more negative.

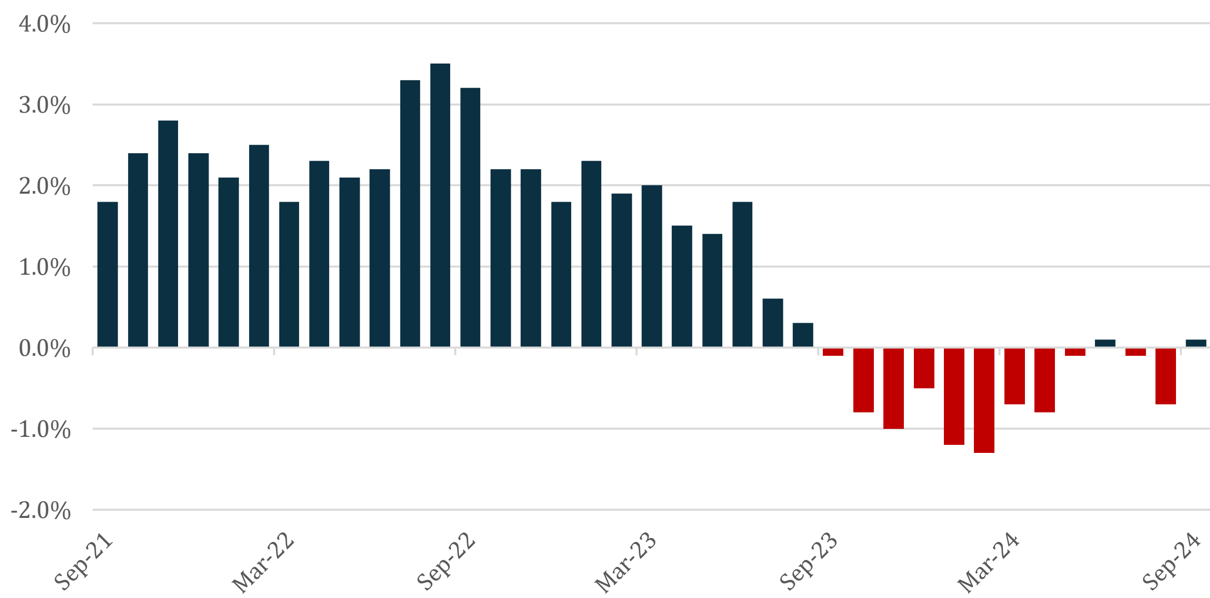
Tailwinds

A notable tailwind for the region's economy is that the number of active listings has been increasing at a relatively steady pace. The number of active listings has increased month-over-year for 8 consecutive months, the longest consecutive gains since a stretch ending in November 2015. While the number of active listings was dramatically lower than in 2015, the 10,319 active home listings in the Washington region in September 2024 was 1,993 above the post-pandemic monthly average of 8,326. In fact, the number of active listings in the Washington region has been above the post-pandemic monthly average for 6 consecutive months. The increased housing stock should slow housing price increases and make the Washington region more competitive relative to peer metros nationally and represent a notable tailwind, especially if inventory continues to increase.



A second, not fully developed, tailwind are employment gains in the profesional, scientific, and techincal services sector. While not yet be a fully developed tailwind, employment losses the last 2 months have turned into employment gains. Employment in the professional, scientific, and technical sector declined 0.7 percent from August 2023 to August 2024, mirroring sizeable employment declines recorded in the early months of 2024. In September 2024, employment in the sector *increased* 0.1 percent month-over-year. While employment losses in the sector were anticipated to remain a headwind last month, they have turned into a minor tailwind. While minor, it is worth noting given the anticipated continued employment losses.

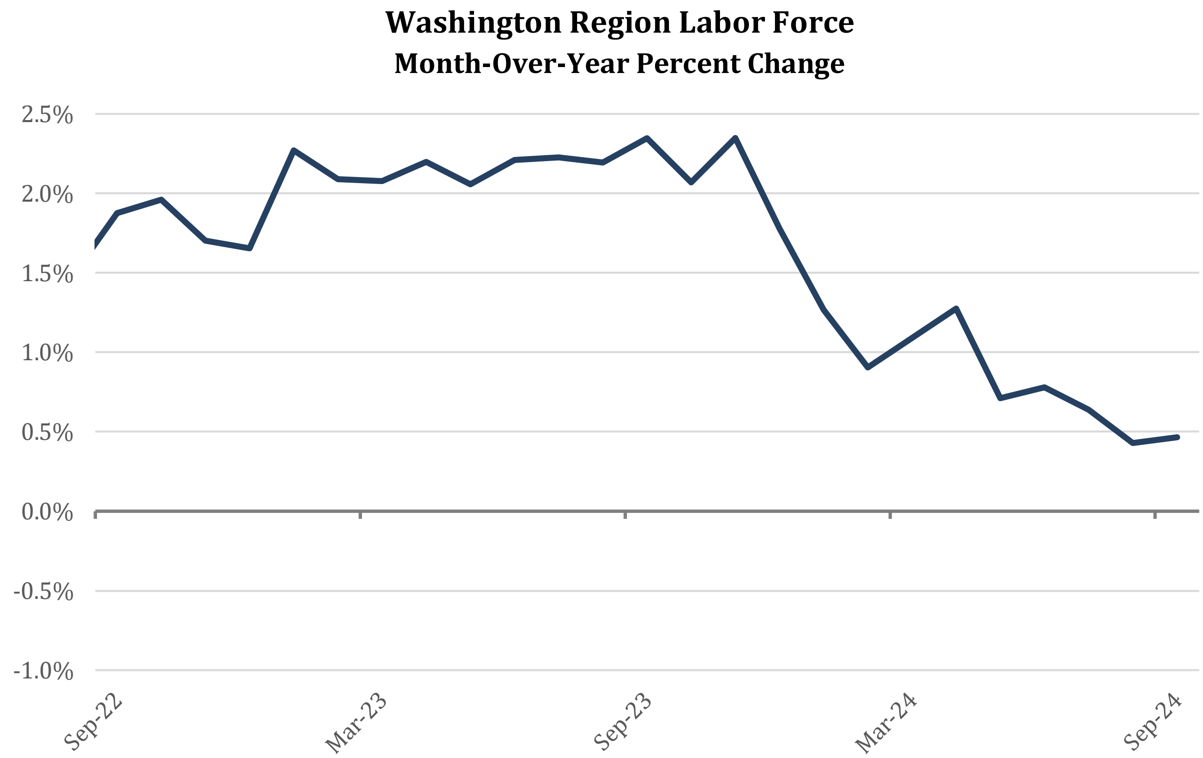
Professional, Scientific, and Technical Employment
Month-Over-Year Percent Change



Source: Bureau of Labor Statistics

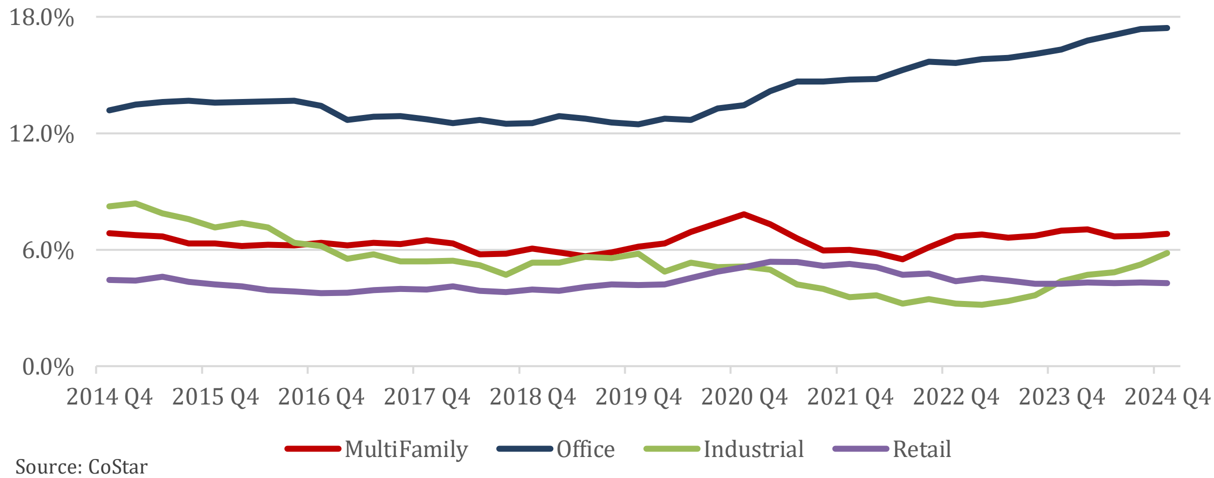
Headwinds

While numerous headwinds discussed in previous editions of Economy Watch (fewer job openings, declining multi-family construction starts, etc.) remain, we focus on two here. First, the labor force in the Washington region appears to have nearly stalled. In September 2024, the region's labor force stood at 3.50 million, 0.5 percent higher than in September 2023. While there is monthly variation in reported numbers due to sampling variability, it is notable that the 0.5 percent increase was 0.1 percentage points higher than the month-over-year increase in August. Even if labor force growth in the Washington region eventually settles at zero or turns negative for a short stretch, the region's labor force appears to have settled around 3.5 million. Given how common hybrid work has become, the region's labor force is unlikely to increase markedly without meaningful expansion in the region's housing stock. Moving forward, this implies that regional businesses will have to compete more intensely over the existing labor force, likely reducing their competitiveness against peer metros with expanding labor forces.



Vacancy rates in the region's buildings represent headwinds for differing reasons. As with other metro areas around the country, the Washington region is recording notable increases in office vacancy rates as workers have switched to hybrid and fully remote work structures. Even when workers are in the office, many companies have reduced space requirements by various methods (hot-desking, etc.). The increase in vacancy rates has impacted valuations and is having notable impacts on localities who are working on ways to help developers repurpose these assets. Industrial vacancy is also beginning to rise, after contracting for nearly a decade. Increased industrial vacancy may be an indication of slowing economic activity more broadly, something that will be explored in a future economic note. The relatively stable multi-family vacancy rates are a headwind for the region as they are another form of housing congestion, which ultimately limits the ability of new workers to join the region's labor force. Furthermore, low vacancy rates appear unlikely to change in the near future as multi-family construction starts declined from an average of 5,456 units per quarter in 2022 to 2,025 in 2024. Unfortunately, the decline multi-family starts also more than offsets the increase in active listings of for-sale housing.

Washinton Region Vacancy Rates
Selected Building Types



Source: CoStar

Outlook

The region's headwinds continue to outnumber the tailwinds. Despite the increase in active listings on the region's MLS, multi-family vacancy rates have stabilized at levels near pre-pandemic levels. Without an expansion in housing stock, the region's labor force will not be able to expand markedly. Given that multi-family starts are currently less than half of those in 2023, lack of expansion in the region's housing stock and corresponding labor force growth implies that the labor force will remain constricted. The constricted labor force will put downward pressure on employment growth, the only component of the Coincident Index that increased month-over-year in September. Overall, this suggests that the region's economy will remain flat for the foreseeable future.