Washington Economy Watch

Choppier for Longer

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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.

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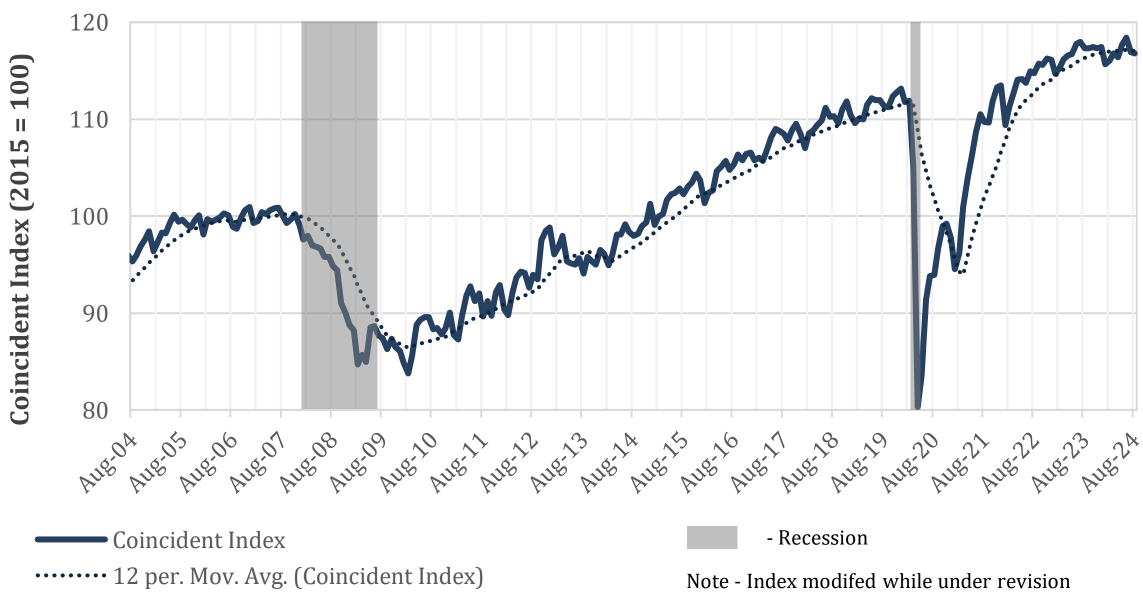
Choppier For Longer September 2024

Washington Area Economy:
Choppier For Longer

The Coincident Index decreased 0.5% from August 2023 to August 2024, continuing the choppy stagnation that has characterized the region since April 2024.

The moderating decline in the Coincident Index this month, after a downward revision of the July Coincident Index, is strongly indicative of the choppy stagnation that we have forecast since the outset of the year. Looking forward, data suggest a continuation of the present circumstance. Total wage and salary growth is nearly flat, unemployment has been steadily rising, and the region's most important job sub-sector sector, Professional, Scientific, and Technical is once again recording employment losses (see Near-Term Outlook). While declining mortgage rates will work to increase economic activity nationally, given the region's tight housing supply, reduced rates are likely to have a more muted impact in the Washington Region. Given housing constraints, there is little likelihood that the region's stalled labor force growth can support robust increases in employment growth. Thus, it appears the region's economy will be choppier for longer, with future readings of the Coincident Index being more negative than positive.

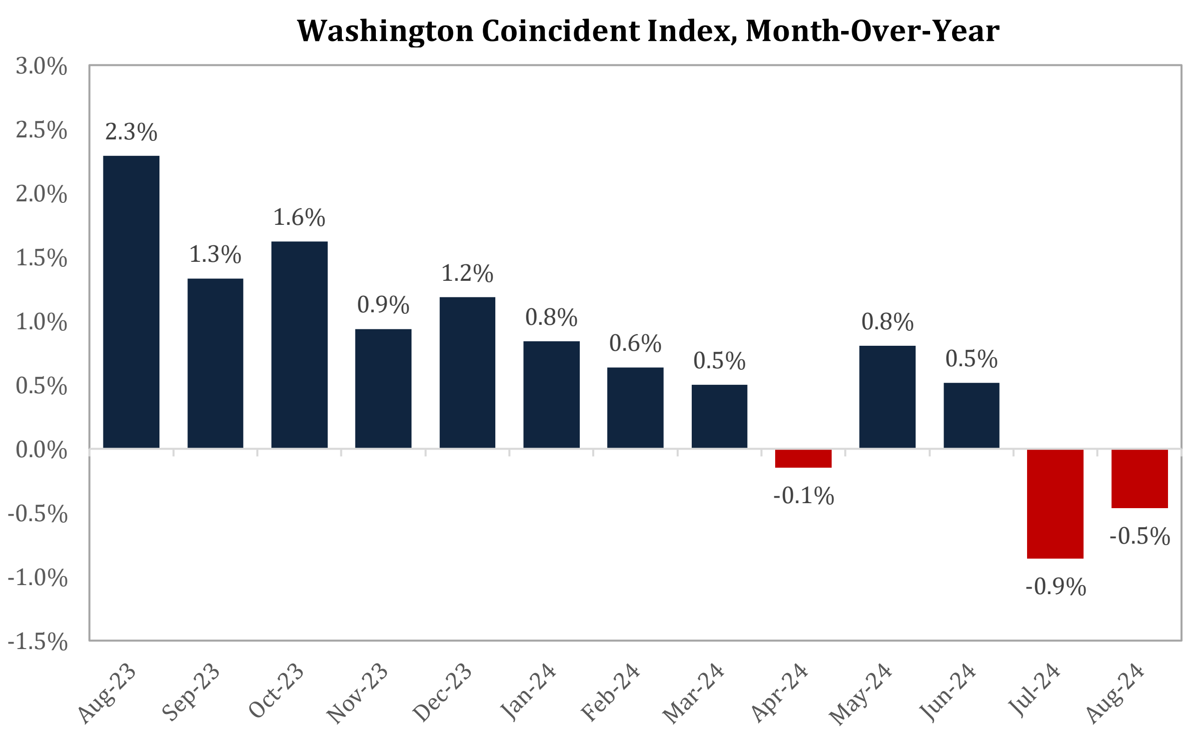


The **Washington Coincident Index**, which represents the current state of the Washington region's economy, decreased 0.5% from August 2023 to August 2024. The decline in the Coincident Index in August represents a moderation of declines after a revised July decrease of 0.9%. The decline is well within the deterioration forecast in July, and well within the anticipated increases and decreases forecast through the end of the year. Growth in all three components have trended towards zero during 2024. The fact that growth has trended towards zero for all components suggests the Coincident Index will continue to exhibit the present situation, with a higher likelihood of more negative readings than positive readings in the coming months. Despite the composition of negative and positive prints being reweighted more towards the negative prints. Overall, the region is stuck in the choppy stagnation and has no conviction on a path forward through the end of the year.

- *Domestic passenger volume at Reagan National and Dulles Airports* increased 3.3% month-over-year in August, slightly below the annual average of 4.2%; and,

- *Wage and salary employment* in the Washington region increased 0.4% from August 2023 to August 2024, also below the annual average of 0.6%; while,

- *Consumer confidence (current circumstances)* decreased 14.1% month-over-year, a modest paring of declines in consumer confidence after the 19.4% decline in July 2024.



Near Term Outlook

National economic data, while generally slowing, have started giving mixed signals again. While the unemployment rate is rising, national employment growth recently surprised to the upside. While inflation is moving towards the Federal Reserve's 2 percent target, it remains elevated. The 50-basis point reduction in the Federal Reserve's target rate will work to increase economic activity, but it is less certain that the target rate will be reduced again in November. Even if they Federal Reserve reduces interest rates, reductions are likely to be smaller and drawn out over a longer time horizon than anticipated even a month ago. Looking forward towards regional tailwinds and headwinds, there remain more headwinds than tailwinds in the region, suggesting that even if the Federal Reserve continues to reduce rates, the region is likely to miss out on much of the economic activity generated.

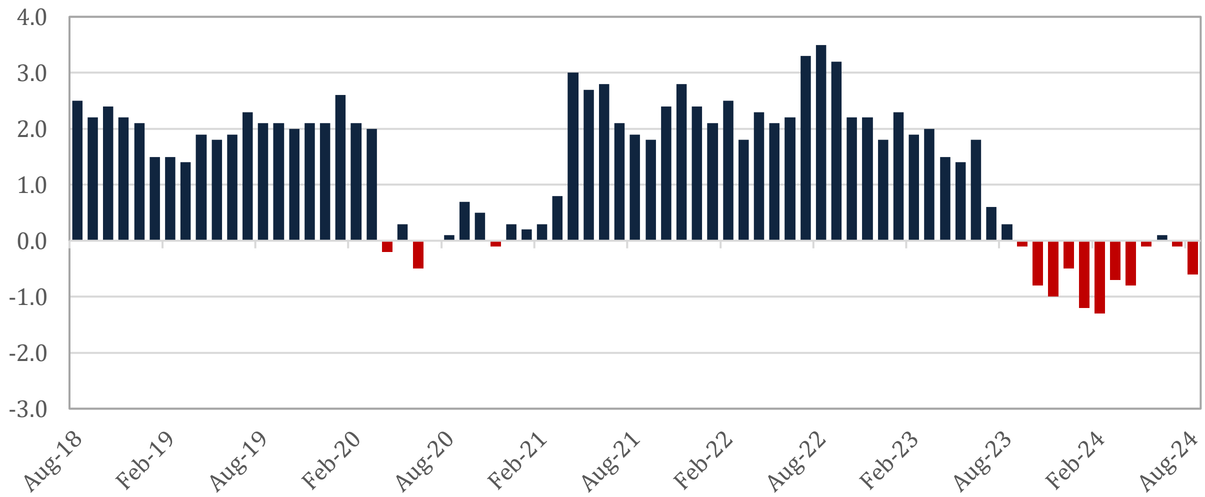
Tailwinds

The primary tailwind for the region is the reduction in mortgage rates and steady growth in active listings discussed last month. Overall, the average 30-year fixed-rate mortgage in the US has continued to decline, currently at 6.12%. Active listings continue to increase as well, with supply up 22.6% in the Washington region from August 2023 to August 2024. Active supply increases averaged 22.3% between April 2024 and August 2024, among the steadiest increases over the past ten years. Despite the increased inventory, however, supply remains at just under 10,000 units, down from over 25,000 units in the summer of 2015. Furthermore, as the region has a larger population than in 2015, the region's housing congestion is even worse than the active listing number suggests. Overall, the region's economy has few tailwinds and remains constricted by a lack of housing, which constrains the labor force and thus job growth.

Headwinds

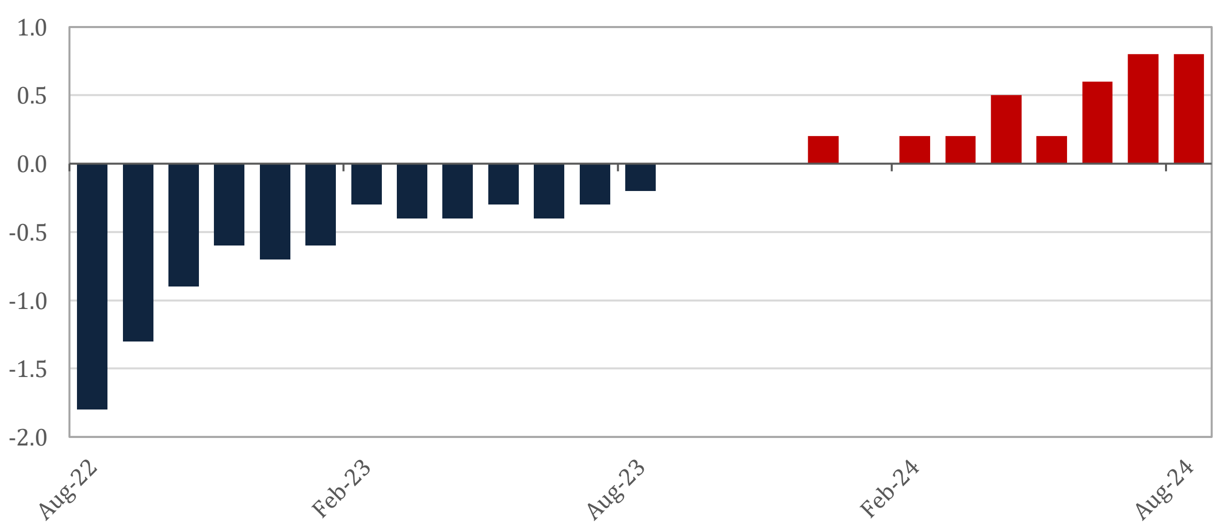
Headwinds discussed in previous editions of Economy Watch include stalling labor force growth, fewer job openings and rapidly declining multi-family construction starts. Unfortunately, a potential tailwind identified in the June and July editions of Economy Watch, wage and salary employment in the Professional, Scientific and Technical sector was mild and fleeting. After one month of month-over-year employment growth, the sector has returned to losses. The sector recorded employment increases of 0.1% from June 2023 to June 2024. After the small increase, the sector recorded month-over-year employment losses of 0.1% in July and 0.6% in August. While employment revisions have been notable in data releases recently, the return to month-over-year employment losses in the Professional, Scientific and Technical sector are a concerning development as this sector has the capacity to spill into the rest of economic activity in the region.

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



Perhaps an even more concerning headwind is the steady increase in the region's unemployment rate. Prior to September 2023, the region's unemployment rate had been declining (improving) month-over-year, as shown in the column chart below. However, improvements steadily moderated before stalling in September 2023. In December 2023, the unemployment rate increased month-over-year for the first time since 2020. While the change in the unemployment rate remained unchanged from January 2023 to January 2024, the rate increased month-over-year every month from February through August. The steady increase in the unemployment rate is faster than the rise nationally, despite the region's unemployment rate being slightly lower.

Washinton Region Unemployment Rate
Month-Over-Year Change



Outlook

As has been the case for much of the year, the region's economy remains in a choppy stagnation. Despite the steady increases in active listings of housing units and slowly declining mortgage rates, more headwinds than tailwinds remain. Most notably, potential employment increases in the Professional, Scientific and Technical sector moderated before turning negative once more. Given the importance of this sector to the region's economy, the potential for this sector to drag down the remainder of the economy is high. Indeed, the spillover may already be underway as the region's unemployment rate has been rising steadily since February. While it has been the case that those looking for a job were likely to find one, this is no longer certain. Furthermore, given the declines in job openings discussed in July, the rise in unemployment is not particularly surprising and is unlikely to change in the coming months. Overall, the region appears to be headed for a choppier for longer scenario with an increased likelihood that near-term monthly changes will be more negative than positive.