Washington Economy Watch

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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 region's economy. The Leading and Coincident Indices were first reported in February 1991 and have been calculated each month since that first release and reflect an underlying data base that dates from 1978 covering five complete business cycles in addition to the current cycle that began in mid-2009.

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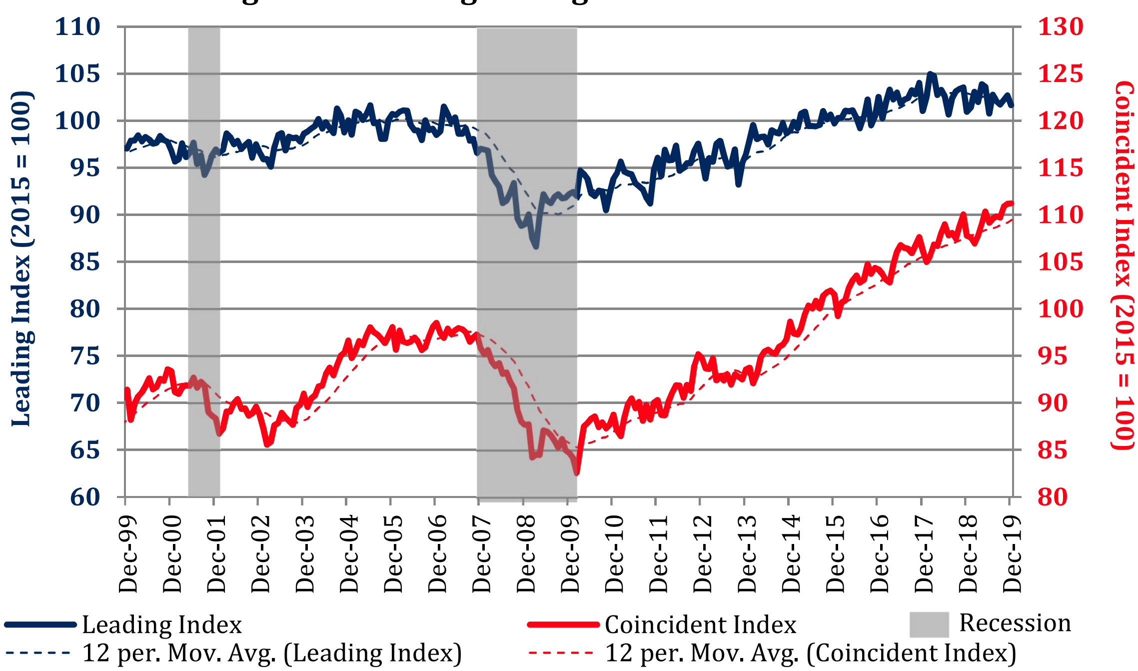
The Washington Region's Economy Continues to Expand While Its Outlook Remains Mixed

In December 2019, both the Washington region's Coincident Index and Leading Index increased on a monthly over-the-year basis. The Coincident Index increased 3.2 percent from last December with all four components contributing to this gain. The Coincident Index's increase was the largest in 21 months, reflecting the Index's subdued performance in December 2018 caused by the 35-day partial federal government shutdown. Similarly, the Leading Index increased 0.7 percent from last December, with improvement in three of its four components; however, the Leading Index remains below its December 2016 levels because of weaker consumer expectations and elevated initial unemployment insurance claims. While the region's economic outlook is modestly improved from last December as a result of the FY 2020 budget agreements, consumer expectations and a tight labor force continue to pose a risk to future growth.

Figure 1. Washington Region Economic Indices



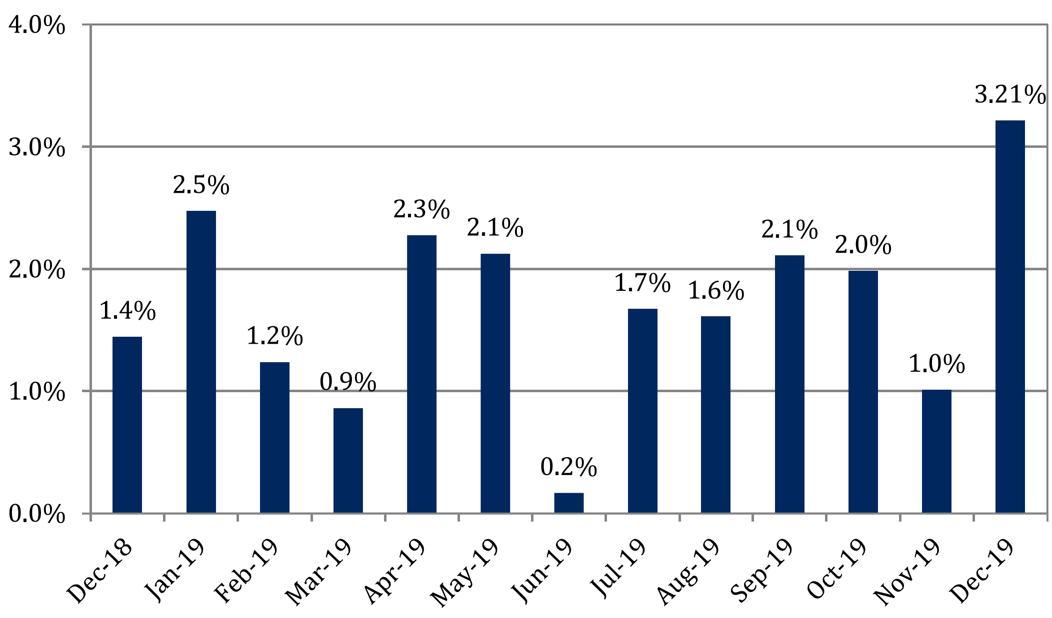
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, increased modestly (+0.05%) between November 2019 and December 2019, marking its third consecutive month-to-month increase. Two of the Index's four components contributed to its gain from November: consumer confidence (+2.4%) and domestic airport passengers (+7.3%).

Between December 2018 and December 2019, the Coincident Index increased 3.21 percent, following a gain of 1.0 percent in November 2019. This increase extends the Index's growth trend to 69 months dating from April 2014 and reflects the Washington region's continued economic growth through the end of 2019. The monthly over-the-year increase in December was the largest since March 2018 as all four components increased:

- *Consumer confidence (in the present)* increased by 10.2% from December 2018 after two consecutive monthly over-the-year declines;
- *Domestic passenger volume at Reagan National and Dulles Airports* increased 7.8% from December 2018 which was its largest monthly-over-the year gain in 21 months;
- *Non-durable goods retail sales* increased 4.3% from December 2018 gaining for a 34th consecutive month on a monthly over-the-year basis; and
- *Wage and salary employment* in the Washington region increased 1.6% between December 2018 and December 2019.

Figure 2. Washington Coincident Index, Monthly Over-the-Year Changes



Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy in six to eight months, decreased 1.0 percent on a month-to-month basis in December, with two of the four components contributing to this decline: consumer expectations (-6.0%) and durable goods sales (-6.1%).

Compared to December 2018, the Leading Index increased by 0.70 percent in December 2019. This was the first monthly over-the-year gain since July and the fourth increase in the past 18 months. The Index continues to have an uneven trend, with this month's gain partially reflecting the weakness that occurred at the end of December 2018 resulting from the partial federal shutdown.

In December, three of the Leading Index's four components contributed to its improvement:

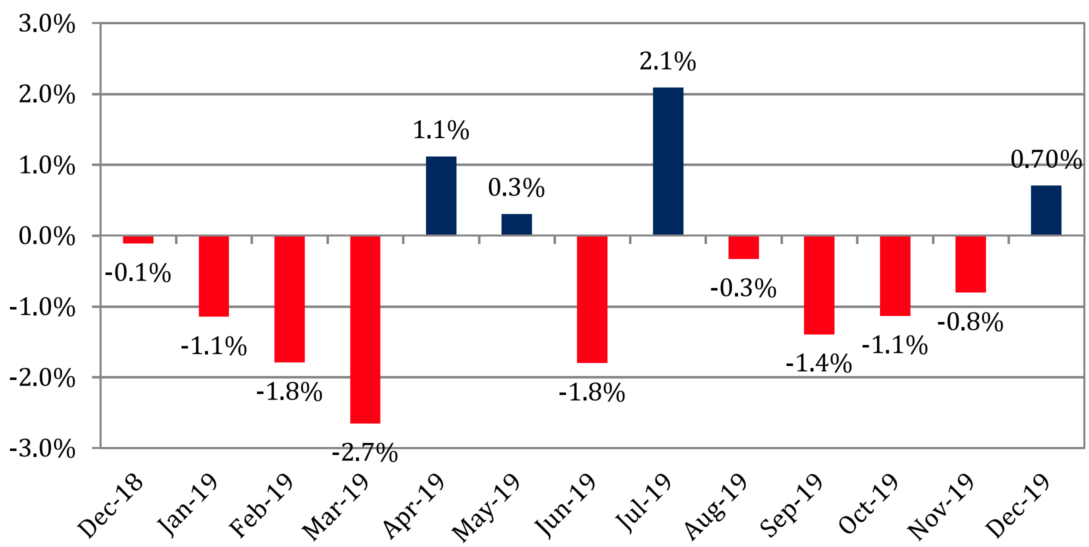
- *Consumer expectations (consumer confidence six months hence)* increased 6.9% compared to December 2018, marking the first increase since July 2019;

- *Durable goods retail sales* increased 3.0% from December 2018 and have now gained for six consecutive months;

- *Initial claims for unemployment insurance* decreased 1.7% (improved) after increasing 5.5% (worsening) in November on a monthly over-the-year basis; while,

- *Total residential building permits* decreased 6.1% in December following its 30.9% decrease in November on a monthly over-the-year basis.

Figure 3. Washington Leading Index, Monthly Over-the-Year Changes



Source: The Stephen S. Fuller Institute at the Schar School, GMU

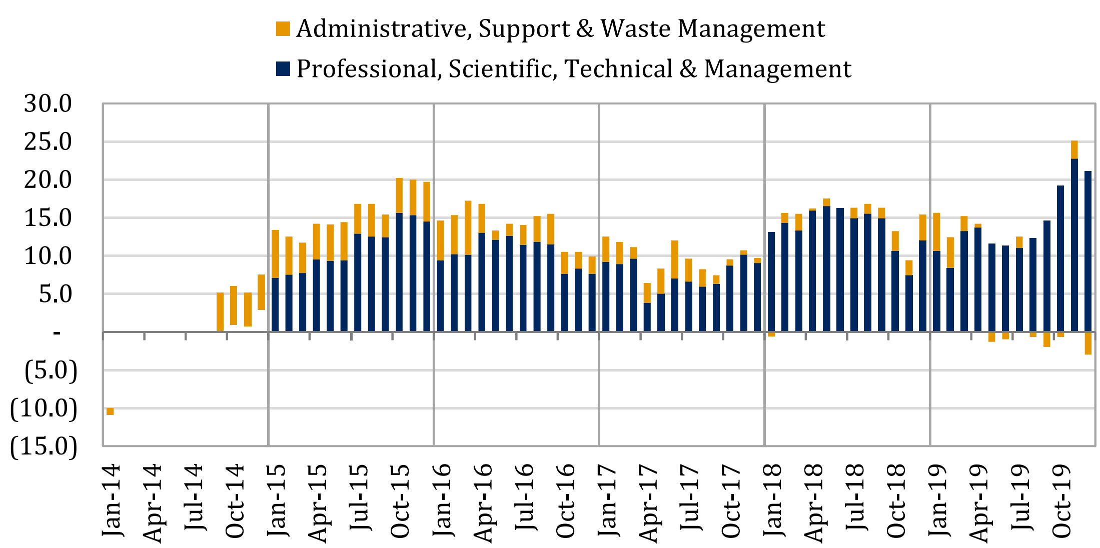
Current Performance

Job growth at the end of 2019 was stronger than earlier in the year and this strengthening pattern is likely to continue in early 2020. The average monthly over-the-year gain in the fourth quarter of 2019 was 46,100, based on the preliminary estimate from the U.S. Bureau of Labor Statistics (BLS).[1] For comparison, the average gain in the first quarter of 2019 was 39,500 jobs and growth in the fourth quarter was 16.8 percent larger.

Between December 2018 and December 2019, the Washington region added 45,900 jobs, including above-average gains in all three sub-state areas. The District added 10,700 jobs compared to last December, led by the Professional & Business Service sector (+3,800). Suburban Maryland added 13,600 jobs including an increase of 4,100 jobs in the State & Local Government sector. The number of jobs in Northern Virginia increased by 21,600 on a monthly over-the-year basis with the largest gains in the Professional & Business Service sector (+11,800).

The geographic distribution of job growth in December was more balanced and in line with historic norms compared to earlier in 2019. Northern Virginia accounted for 47.1 percent of the job growth in December and had 45.2 percent of all the region's jobs in 2018. Suburban Maryland accounted for 29.6 percent of the gains in December and was the location of 30.7 percent of the region's jobs in 2018. The District accounted for 23.3 percent of job growth in December and 24.1 percent of the jobs base in 2018.

Figure 4. Professional & Business Service Jobs by Sub-Sector
Monthly Over-the-Year Percent Change, January 2014 – December 2019



Source: Bureau of Labor Statistics; The Stephen S. Fuller Institute at the Schar School, GMU

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[1] Based on preliminary data by sub-state area

For the region, overall, the Professional & Business Service sector continued to outperform the other major sectors, increasing by 16,600 jobs between December 2018 and December 2019 (Figure 4 on page 4). This sector accounted for 36.1 percent of the growth in December despite being 23.1 percent of the jobs base. This sector was also the main driver of the acceleration in job growth in the fourth quarter 2019, adding an average of 20,600 jobs compared to the first quarter average increase of 14,400. In 2019, the annual increase in Professional & Business Service jobs was 14,700, based on preliminary data. While this total gain was slightly smaller than the increase in 2018 of 15,100, growth in 2019 was disproportionately driven by the Professional, Scientific & Technical Services & Management sub-sector. This sub-sector, with an average wage of $125,085 in 2018, increased by 14,100 jobs in 2019 for the largest annual gain since 2011. The Administrative, Support & Waste Management sub-sector, with an average wage of $52,360 in 2018, increased by 600 jobs in 2019. The recent pattern of growth and the sub-sector mix further illustrates the improved economic performance at the end of 2019.

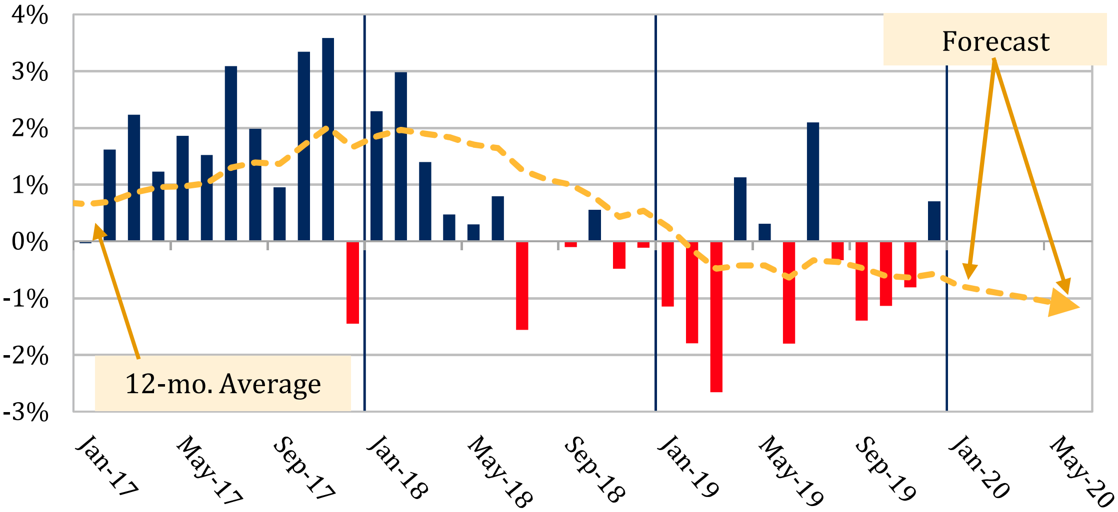
In addition to improved job growth in December, the monthly over-the-year changes of the other three components of the Washington region's Coincident Index reached multi-month highs December. Consumer confidence (in the present) continues to be volatile, increasing by 10.2 percent in December after two consecutive monthly over-the-year declines. The increase in consumer confidence was the largest in seven months. The 12-month increase in domestic airport passengers (7.8%) was the largest in 21 months, while the gain in nondurable goods sales (4.3%) was the largest in five months. However, last December's data were modestly subdued by the beginning of the 35-day partial federal shutdown which partially contributed to the above-trend growth for this month.

Washington Region's Near-Term Outlook

The Leading Index forecasts economic performance six to eight months in advance and increased in December on a monthly over-the-year basis (Figure 5). However, like the Coincident Index, this gain partially reflects the weakness in December 2018 that resulted from the partial federal shutdown and does not yet reflect a broad-based improvement in the regional outlook.

The Washington region's near-term economic growth was threatened in both December 2017 and December 2018 because of federal budget gridlock. In December 2017, Congress passed two, last-minute continuing resolutions that prevented a federal shutdown. Largely due to the threat of a shutdown, consumer expectations for the Washington region decreased 7.7 percent compared to December 2016. This was the first decrease in consumer expectations in 15 months and contributed to the monthly over-the-year decline in the Leading Index. The Leading Index fell 1.4 percent in December 2017, which was the largest decline since 2013. The Leading Index decreased again in December 2018 (0.1%), corresponding to the partial federal government shutdown which started December 22, 2018.

Figure 5. Washington Region Leading Index Monthly Over-the-Year Percent Change



Source: The Stephen S. Fuller Institute at the Schar School, GMU

While the Leading Index increased 0.7 percent in December 2019 compared to December 2018, it remains below its December 2016 level because of weaker consumer expectations and elevated initial unemployment insurance claims. Consumer expectations have been increasingly volatile in the past two years but have been trending down since late 2018. In spite of this pullback, consumer spending on both durable and non-durable goods increased consistently for the last seven months in 2019 compared to the same month of the 2018 and consumers have not yet altered their spending to reflect their concerns about future growth.

Initial unemployment insurance claims have been increasing since the summer of 2018, even after adjusting for the short-term spike in claims caused by the partial federal shutdown. Typically, rising claims indicates a softening employment market and is followed by corresponding increases in the number of continued claims and the unemployment rate. Continued unemployment insurance claims and the unemployment rate have continued to decrease even after 18 months of increases in new claims. In combination, these trends indicate that a tight labor force is the likely cause of rising claims that have not translated to rising unemployment.

Altogether, the Leading Index suggests that the region is better positioned for growth compared to this time last year but the risk of an economic slowdown resulting from decreases in consumer spending or an unsustainably tight labor force remains. In January 2020, consumer expectations and initial unemployment claims will improve compared to their shutdown-effected levels last year. Similar to this month, the improvement in January is likely to be temporary and not represent a fundamental shift in economic conditions.

Washington Area Economic Indicators
Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Dec-19 Prelim.	Nov-19 Final	Dec-18 Final	Nov-19 to Dec-19	Dec-18 to Dec-19
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	111.2	111.2	107.8	0.05%	3.21%
Leading Index (2015 = 100)	101.6	102.7	100.9	-1.05%	0.70%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000)[a]	3,377.2	3,386.1	3,324.6	-0.26%	1.58%
Consumer Confidence (South Atlantic)[a]	177.8	173.7	161.3	2.36%	10.23%
Domestic Airport Passengers ('000)[b]	2,500.7	2,330.2	2,318.8	7.32%	7.85%
Nondurable Goods Retail Sales ($000,000)[c]	3,266.0	3,405.5	3,132.8	-4.10%	4.25%
Washington Area Leading Index Components					
Total Residential Building Permitsa	1,813.0	1,529.0	1,931.0	18.57%	-6.11%
Consumer Expectations (South Atlantic)[a]	111.5	118.6	104.3	-5.99%	6.90%
Initial Unemployment Claims[b]	2,368.9	2,408.2	2,409.2	-1.63%	-1.67%
Durable Goods Retail Sales ($000,000)[c]	3,775.2	4,020.8	3,664.8	-6.11%	3.01%
Washington Area Labor Force[a]					
Total Labor Force ('000)	3,482.3	3,491.7	3,375.7	-0.27%	3.16%
Employed Labor Force ('000)	3,390.4	3,395.1	3,278.5	-0.14%	3.41%
Unemployed Labor Force ('000)	91.9	96.6	97.2	-4.84%	-5.44%
Unemployment Rate	2.6%	2.8%	2.9%	--	--
Washington Area Wage and Salary Employment[a]					
Total ('000)	3,377.2	3,386.1	3,324.6	-0.26%	1.58%
Construction ('000)	161.6	163.4	161.5	-1.10%	0.06%
Manufacturing ('000)	56.7	56.6	55.2	0.18%	2.72%
Transportation & Public Utilities ('000)	73.4	72.3	74.7	1.52%	-1.74%
Wholesale & Retail Trade ('000)	347.0	342.0	343.9	1.46%	0.90%
Services ('000)	2,031.4	2,040.6	1,985.2	-0.45%	2.33%
Total Government ('000)	707.1	711.2	704.1	-0.58%	0.43%
Federal Government ('000)	363.3	363.7	362.9	-0.11%	0.11%

[a]Unadjusted data
[b]Seasonally adjusted data
[c]Seasonally adjusted constant (1996) dollars