



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



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.

Washington Economy Watch

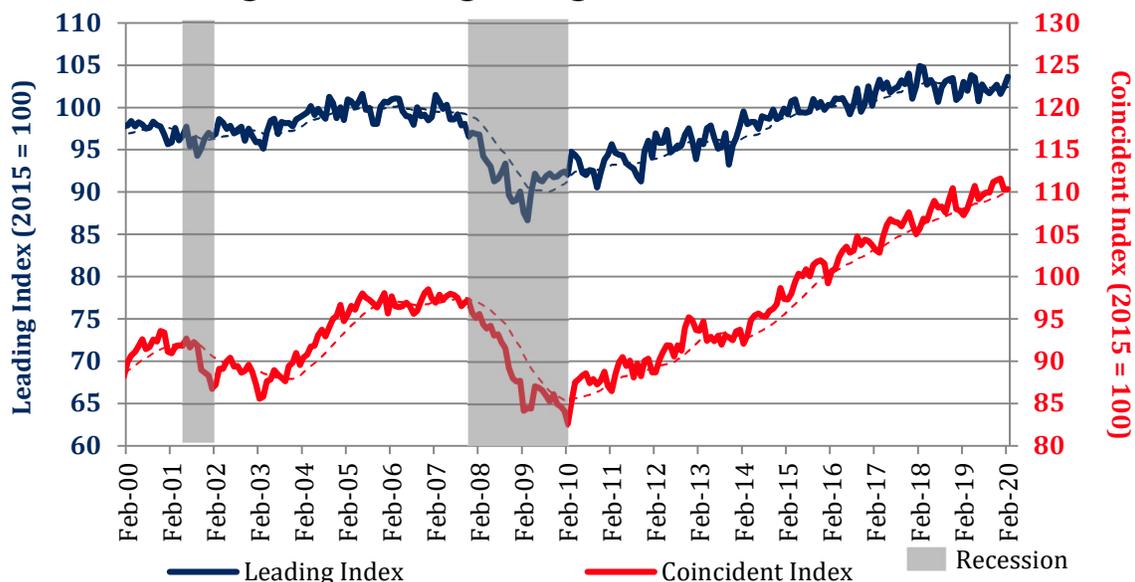
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The Washington Region's Economic Expansion Continues through February 2020

In February 2020, Washington region's Coincident Index and Leading Index increased compared to both January 2020 and February 2019. The Coincident Index increased 2.9 percent from last February with gains in three of its four components. The Leading Index increased 0.6 percent from last year, driven by increases in two of its four components. Job growth also remained strong in February and the region added 55,400 jobs compared to last year. Aside from modest changes in consumer spending, the pandemic did not result in any major economic changes in the Washington region as of February 2020. However, March data will begin to show its effects. Job growth moderated and the 12-month gain of 31,500 was 44.0 percent smaller than the average increase of the prior three months. New unemployment insurance claims increased to unprecedented levels, although these claims are not yet reflected in the payroll jobs or unemployment rate data that reflect mid-month conditions. Altogether, the Washington region's economic expansion has lasted for 71 months, beginning April 2014 and continuing through February 2020. It is unlikely that this expansion will continue into March.

Figure 1. Washington Region Economic Indices



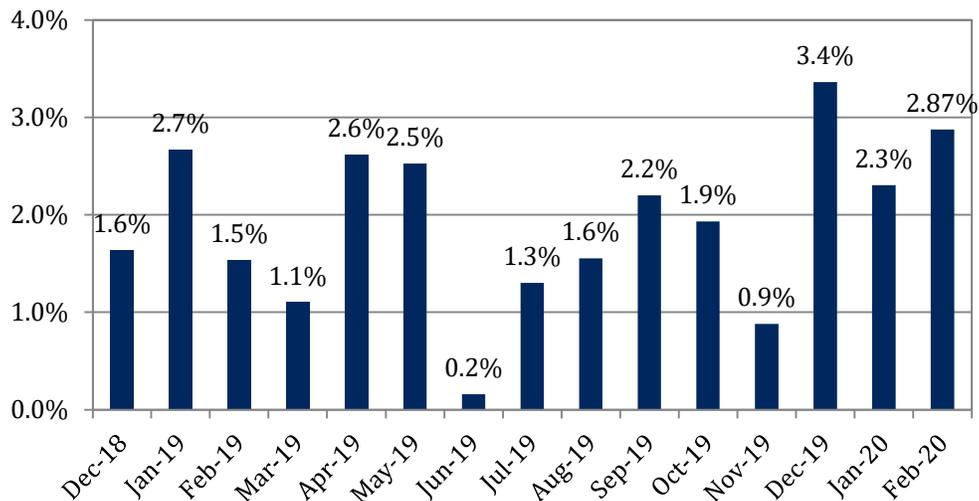
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, increased 0.1 percent between January 2020 and February 2020. This month-to-month increase indicates that the region's economy continued to grow in February, with this gain in keeping with prior January-to-March changes. Two of the Index's four components contributed to this gain: wage and salary employment (+0.7%) and nondurable goods sales (+0.6%).

Compared to last February, the Coincident Index increased 2.87 percent and extending its growth trend to 71 months dating from April 2014. February's gain marks the third consecutive above-average increase on a monthly over-the-year basis, partly reflecting the milder weather and the leap year. Still, the regional economy expanded in February compared to last year and from the prior month and remained unaffected by the pandemic. Compared to last February, three components contributed to the Index's improvement:

- *Domestic passenger volume at Reagan National and Dulles Airports* increased 8.6% from last year for its third consecutive monthly over-the-year increase;
- *Non-durable goods retail sales* increased 5.1% from February 2019 and extended its pattern of gains to a 36th consecutive month on a monthly over-the-year basis; and
- *Wage and salary employment* in the Washington region increased 1.7% between January 2019 and January 2020; while,
- *Consumer confidence (in the present)* decreased by 2.2% from February 2019 for its fifth decrease in the past 12 months; and

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



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

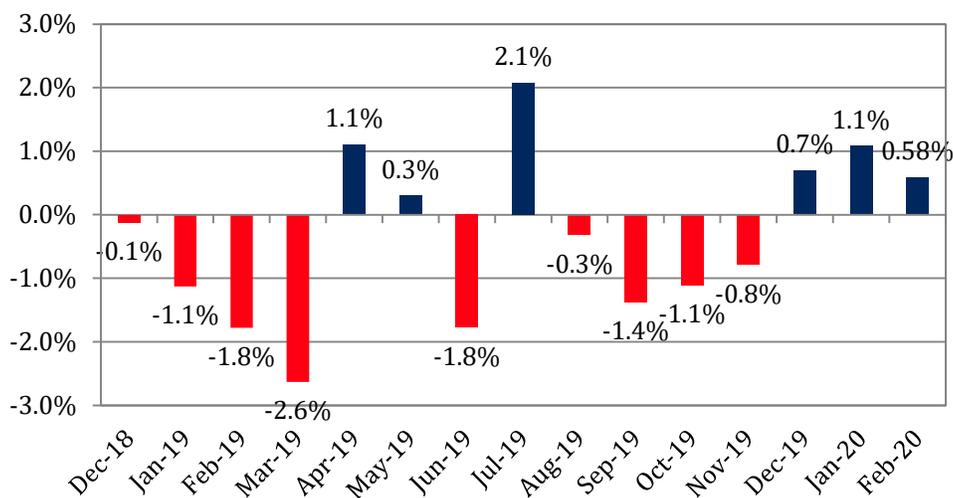
The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy in six to eight months, increased 1.2 percent between January 2020 and February 2020 for its sixth month-to-month increase in the past 12 months. In January, three of the four components contributed to this gain, while building permits declined.

Compared to February 2019, the Leading Index increased by 0.58 percent for its third consecutive monthly over-the-year gain and the sixth increase in the past 20 months. This month's gain partly reflects the shutdown-related weakness that occurred last year and does not yet include the effects of the pandemic on the Washington region. As in prior months, consumer expectations have contributed to the Index's volatile trend and both rose modestly in February.

In February 2020, two of the Leading Index's four components contributed to its improvement:

- *Durable goods retail sales* increased 9.9% from February 2019, marking its eighth consecutive gain on a monthly over-the-year basis; and
- *Consumer expectations (consumer confidence six months hence)* increased 3.8% from last February for its third consecutive monthly over-the-year increase; while,
- *Initial claims for unemployment insurance* increased 4.5% (worsened) and have increased in ten of the past 12 months; and
- *Total residential building permits* decreased 22.9% from last February for its seventh consecutive monthly over-the-year decline.

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



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

Current Performance

As of February 2020, the Washington region's economy continued to expand and the region's Coincident Index increased compared to both January 2020 and February 2019. Job growth also continued at levels that were comparable to pre-pandemic rates through February. The pandemic slowed job growth in March but, with these data recorded as of the middle of the month, jobs estimates do not fully reflect the downturn that has occurred.

Between February 2019 and February 2020, the Washington region added 55,400 jobs (+1.7%). This 12-month gain was consistent with recent trends and led by the Professional & Business Services sector (+18,900 jobs), followed by the Leisure & Hospitality sector (+7,600 jobs). For the first time since 2000, no sector lost jobs on a monthly over-the-year basis. While many sectors have had periodic losses during the past two decades, the recent declines were in the Retail Trade sector, which has been on the decline for more than two years. In February, the number of jobs in Retail Trade increased by 700 (+0.3%); in 2019, this sector lost 4,800 jobs and the reversal in this trend is likely because households were preparing to stay at home more than usual.

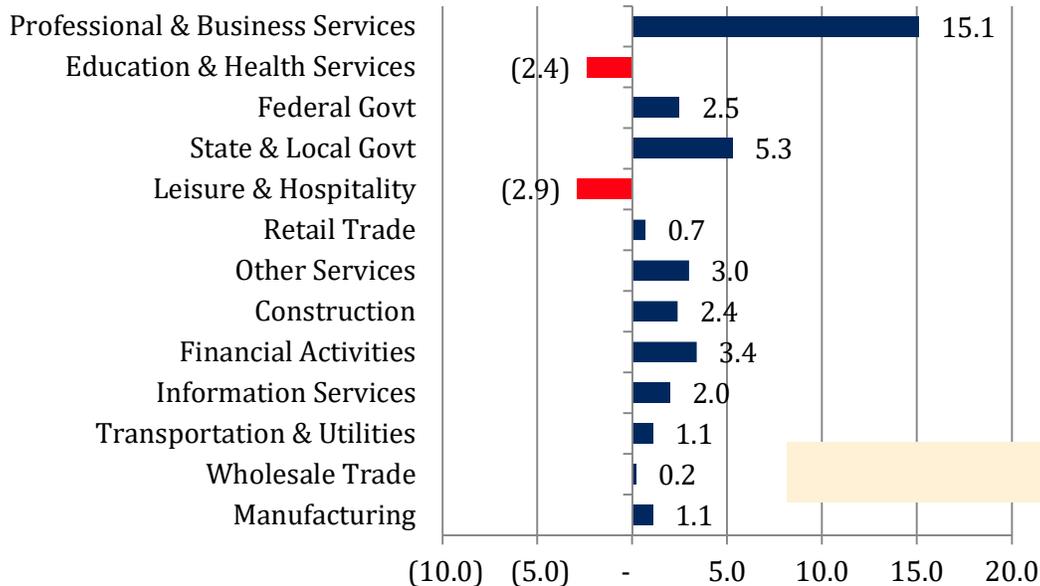
Nondurable goods sales also increased significantly in February on a monthly over-the-year basis. The 5.1 percent increase was the largest since February 2016. While the leap year partially accounts for the outsized gain, national sales data reflect a larger share of retail sales in food and beverage stores and warehouse clubs and superstores compared to last February, suggesting that consumers were shifting their buying patterns in February to support staying at home.

In March 2020, the region added 31,500 jobs (+0.9%) compared to March 2019. These estimates reflect the change in jobs between the pay periods that include the 12th of each month and only shows the early effects of the pandemic on employment. Still, this gain is 44.0 percent smaller than the average 12-month gain of the prior three months and this magnitude of decline was consistent with the national slowdown. Regionally, the largest slowdown was in the Leisure & Hospitality sector, which lost 2,900 jobs compared to last March (-0.9%). In the prior three months, this sector had been adding more than 6,000 jobs on a monthly over-the-year basis. Within this sector, the Food Services & Drinking Places sub-sector lost 1,900 jobs (-0.7%) and the Entertainment sub-sector lost 700 jobs (-1.6%), while the Accommodation sub-sector lost 300 jobs (-0.7%).

The sector with the second largest losses was Education & Health Services, which had 2,400 fewer jobs (-0.5%) in March 2020 than in the prior March. For comparison, this sector added 6,500 jobs in 2019. The losses were concentrated in the private Educational Services sub-sector (-3,500 jobs or -1.6%). Nationally, these losses were from the Child Day Care Services sub-sector, which is likely true

regionally as well.¹ Regionally, the Health Care Services sub-sector had modest gains (1,100 jobs, 0.3%), but gains in the Ambulatory Health Care Services sub-sector moderated significantly.

**Figure 4. Change in Jobs by Sector
March 2019 to March 2020, Washington Region (in 000s)**



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

The Professional & Business Services Sector also had slower growth in March compared to prior months. Between March 2019 and March 2020, this sector added 15,100 jobs. In the prior three months, this sector had an average 12-month gain of 21,200 jobs. This slowdown was the result of losses in the Administrative & Support & Waste Management Services sub-sector (-1,900 jobs, -0.9%). The Professional, Scientific & Technical Services sub-sector continued to have strong gains and added 16,700 jobs in March 2020 compared to last March.

Washington Region's Near-Term Outlook

The Washington region's Leading Index projects economic performance six to eight months in advance based on economic indicators. The Index in February continued to show improved conditions compared to last year's shutdown-affected economy and continued to indicate that a tight labor force and slower population growth could potentially threaten the expansion. With next month's release reflecting March data, the Index will likely decline and reflect the current conditions related to the pandemic.

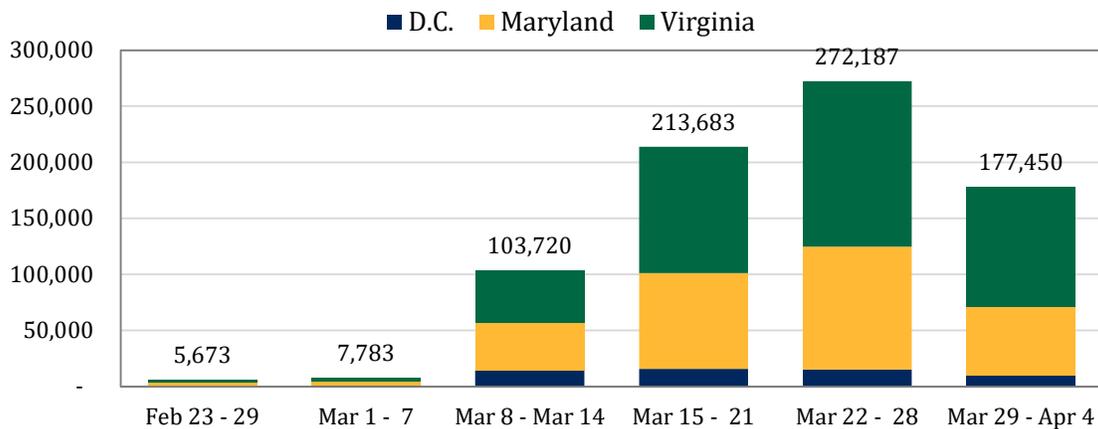
¹ More detailed is available for national data than is published for the Washington region.

Two of the four components contributed to the Index's improvement in February on a monthly over-the-year basis: durable goods sales (+9.9%) and consumer expectations (+3.8%). In March consumer expectations decreased modestly in the region while durable good sales decreased nationally. Both will remain weak until there is clarity about how and when the pandemic will end.

The two components that weakened in February will also likely continue to decline in March. Building permits have decreased for seven consecutive months on a monthly over-the-year basis and this trend is likely to continue in the near term. Lastly, new unemployment claims for D.C. increased 4.5 percent on a seasonally adjusted basis between February 2019 and February 2020. This increase was because of a tight labor force, not a weakening of the employment market, and the region's 2.9 percent unemployment rate was unchanged from January after adjusting for seasonal patterns.

The pandemic resulted in increased unemployment insurance claims starting in March. During the first week, new claims increased 157.5 percent in D.C., 44.4 percent in the state of Maryland and 7.1 percent in the Commonwealth of Virginia compared to the prior week. Unemployment claims are filed based on the location of the job (not where the worker lives) so the filings do not directly correspond to unemployment rates that are recorded by place of residence.

Figure 5. New Weekly Unemployment Insurance Claims



Sources: Department of Labor; The Stephen S. Fuller Institute at the Schar School, GMU

In the following four weeks, a total of 767,040 claims were filed in D.C., Maryland and Virginia. This four-week total equaled the number of new claims filed over the peak 39-week period of the 2008/2009 Recession, in total; that is, the pandemic has already resulted in the same degree of joblessness as the recession did over the course of three quarters of the year. However, unlike the 2008/2009 Recession, not all of these claims represent the permanent loss of a job. Going forward, the resolution of the health crisis will determine how and when these jobs return. The longer the pandemic, the slower their return will be.

**Washington Area Economic Indicators
Current and Previous Months**

Economic Indicator	Estimates			Percent Change	
	Feb-20 Prelim.	Jan-20 Final	Feb-19 Final	Jan-20 to Feb-20	Feb-19 to Feb-20
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	110.3	110.3	107.3	0.06%	2.87%
Leading Index (2015 = 100)	103.6	102.4	103.0	1.18%	0.58%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,361.3	3,338.7	3,305.7	0.68%	1.68%
Consumer Confidence (South Atlantic) ^a	177.6	185.2	181.6	-4.10%	-2.20%
Domestic Airport Passengers ('000) ^b	2,264.4	2,317.8	2,085.8	-2.30%	8.57%
Nondurable Goods Retail Sales (\$000,000) ^c	3,400.9	3,379.8	3,236.3	0.62%	5.09%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	1,961.0	2,178.0	2,543.0	-9.96%	-22.89%
Consumer Expectations (South Atlantic) ^a	120.5	114.7	116.1	5.06%	3.79%
Initial Unemployment Claims ^b	2,132.6	2,341.0	2,040.2	-8.90%	4.53%
Durable Goods Retail Sales (\$000,000) ^c	3,975.8	3,966.8	3,618.5	0.23%	9.87%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,515.4	3,490.7	3,412.0	0.71%	3.03%
Employed Labor Force ('000)	3,410.8	3,383.1	3,292.4	0.82%	3.60%
Unemployed Labor Force ('000)	104.7	107.6	119.7	-2.73%	-12.52%
Unemployment Rate	3.0%	3.1%	3.5%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,361.3	3,338.7	3,305.7	0.68%	1.68%
Construction ('000)	163.0	161.6	159.4	0.87%	2.26%
Manufacturing ('000)	58.7	57.6	55.9	1.91%	5.01%
Transportation & Public Utilities ('000)	74.1	74.1	71.9	0.00%	3.06%
Wholesale & Retail Trade ('000)	330.1	332.6	328.3	-0.75%	0.55%
Services ('000)	2,019.0	2,006.6	1,982.4	0.62%	1.85%
Total Government ('000)	716.4	706.2	707.8	1.44%	1.22%
Federal Government ('000)	365.3	365.7	362.5	-0.11%	0.77%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars