



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



Washington Economy Watch

Vol. V, No. 4
2Q 2021

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

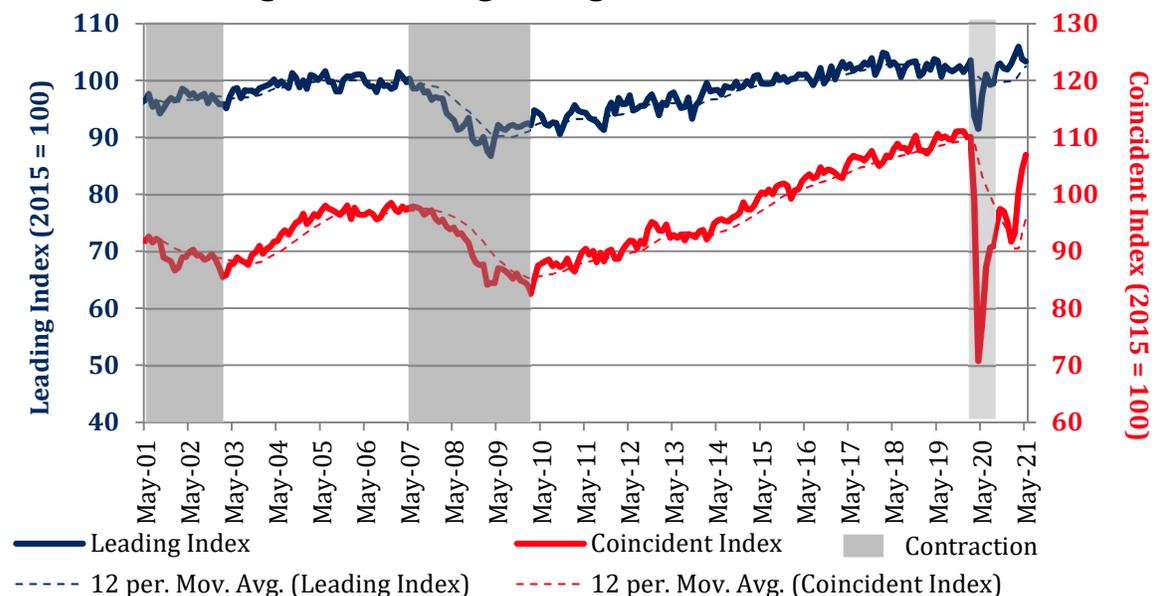
Vol. V, No. 4

2Q 2021

The Washington Region's Economic Recovery Resumed in February 2021 and Continued Through May 2021

The Washington region's economic recovery resumed in February 2021 after faltering due to the second wave of COVID-19. The Coincident Index had strong increases between February 2021 and May 2021, reaching 97.1 percent of its pre-pandemic level from May 2019. The gains in recent months have been uneven and not all components were equally recovered in May 2019, with non-durable goods sales being completely recovered while domestic air passenger volume significantly lagged the overall recovery. The Leading Index also strengthened during the spring of 2021 and three of its four components reached pre-pandemic levels during at least one month of 2021: durable goods retail sales, total residential building permits, and consumer expectations. The fourth component, initial claims for unemployment insurance, remained elevated and had not yet neared pre-pandemic levels as of May 2021. In combination with recent patterns in the labor force and wage and salary employment, this suggests that labor force availability may be increasingly important for the rate of the economic recovery in upcoming months.

Figure 1. Washington Region Economic Indices



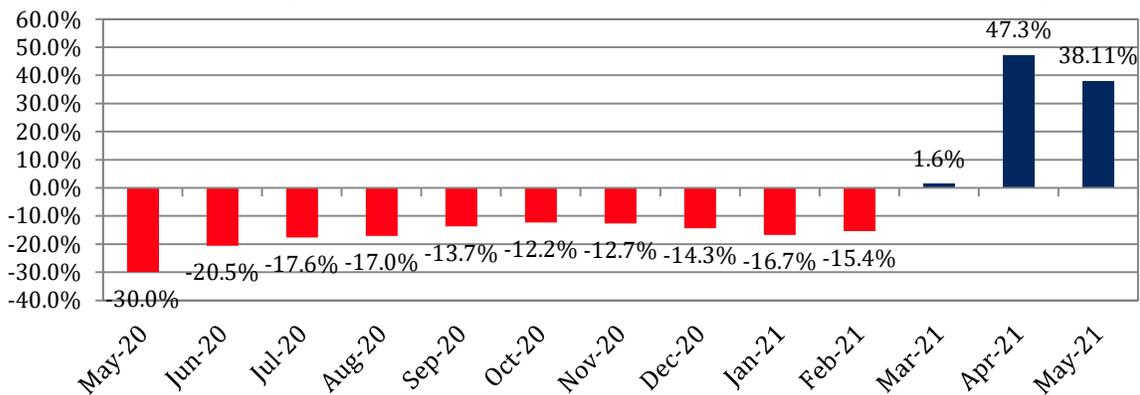
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, increased 2.5 percent between April 2021 and May 2021 and has had four consecutive month-to-month gains. The increase in May was driven by three of the four components: domestic airport passenger volume (+16.2%), consumer confidence (+12.8%), and wage and salary employment (+0.4%). While nondurable goods sales decreased 1.1 percent between April and May 2021, this component had returned to its pre-pandemic level by September 2020 and this month-to-month change primarily reflects strong sales in March 2021 and April 2021.

Between May 2020 and May 2021, the Coincident Index increased 38.11 percent after increasing 47.3 percent in April on a monthly over-the-year basis. With these gains, the Index reached 97.1 percent of its pre-pandemic reading in February 2020, or a decrease of 2.9 percent. The Index decreased 3.3 percent compared to May 2019, suggesting that some of the improvement from February 2020 was the due to seasonal factors, particularly for consumer confidence and domestic air travel. Each of the four components increased compared to May 2020, while one had gains compared to May 2019:

- *Domestic passenger volume at Reagan National and Dulles Airports* increased 496.9% from May 2020, but remained 51.3% smaller than its May 2019 level;
- *Consumer confidence (in the present)* increased 137.6% from May 2020 but was 15.1% smaller than its May 2019 reading;
- *Non-durable goods retail sales* increased 15.1% from May 2020 and was the only component to exceed its May 2019 level, rising 8.8%; and
- *Wage and salary employment* in the Washington region increased 38.1% between May 2020 and May 2021 but decreased 4.8% compared to May 2019.

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

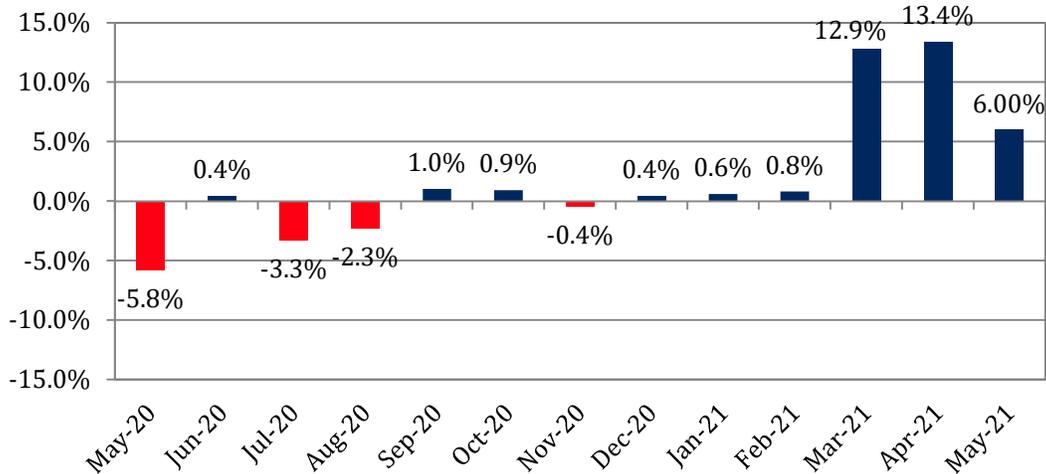


Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy in six to eight months, reached its largest reading on record, with data starting in 1997 in March 2021, as it became clear to firms and consumers that the economy would recover quickly in the upcoming months. Between March 2021 and April 2021, the Index decreased 2.0 percent. In May 2021, the Index declined 0.5 percent on a month-to-month basis. Even with these decreases, the Leading Index remains strong and indicates that the economic expansion will continue through the end of 2021. Three of its four components contributed to the decline in May 2021: total building permits (-23.7%), durable goods sales (-9.3%), and consumer expectation (-6.7%). Initial unemployment insurance claims decreased (improved) 48.1 percent between April 2021 and May 2021.

Between May 2020 and May 2021, the Leading Index increased 6.00 percent, marking its sixth consecutive monthly over-the-year gain. The Index had its largest gains in March and April, rising 12.9 percent and 13.4 percent, respectively, with all four components improving compared to the same month in 2020 for two consecutive months. While some of the gain in the spring of 2021 was because of the large declines in 2020, the Index also improved compared to the same month in 2019 for each month from January 2021 through April 2021.

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



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

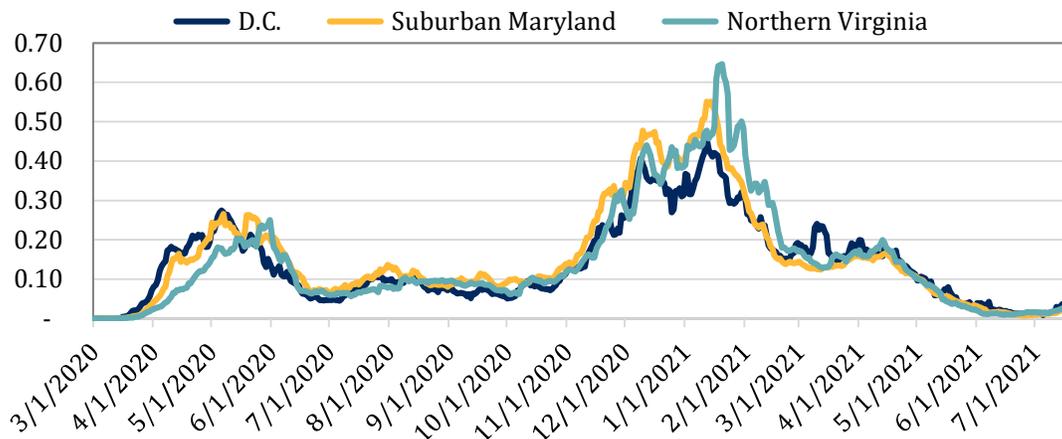
In addition to these sustained gains, three of the four components have reached pre-pandemic levels in recent months (durable goods retail sales, total residential building permits, and consumer expectations), although these levels were only sustained for durable goods sales. Still, the length and breadth of the gains indicates that the economic expansion will continue to accelerate in upcoming months. In May 2021, three of the four components improved compared to 2020 and one improved compared to May 2019:

- *Initial claims for unemployment insurance* decreased 73.0% (improved) compared to May 2020 but increased 213.9% (worsened) compared to May 2019;
- *Durable goods retail sales* increased 18.6% from May 2020 and increased 14.5% from May 2019;
- *Total residential building permits* increased 0.9% from May 2020 and, while permits declined 25.1% from May 2019, this is the result of volatility of multi-family permits and they remain larger than the average monthly permitting level in 2019; while,
- *Consumer expectations (consumer confidence six months hence)* decreased 0.5% from May 2020, after reaching pre-pandemic levels in March 2021.

Current Performance

After stagnating in November 2020, the economic recovery in the Washington region resumed in February 2021. While the Index strengthened in through May 2021 and had nearly returned to pre-pandemic levels, the recovery was uneven and not all components were equally recovered. Non-durable goods sales were the only component to have completely recovered. Wage and salary employment was the second most recovered, but data for June 2021 show a plateau in gains. Consumer confidence in the present situation lagged in May 2021 and did not rebounded until June 2021. Domestic air passenger boardings continued to be the least recovered component, even after having had consistent gains since January 2021. This pattern of economic expansion, and its uneven gains, has likely continued through June 2021.

Figure 4. New Daily COVID-19 Cases per 1,000 Residents by Sub-State Area
Washington Region, 7-Day Average, 3/1/20 – 7/20/21



Sources: Johns Hopkins University Center for Systems Science and Engineering; U.S. Census Bureau (v2019 Population Estimates); The Stephen S. Fuller Institute at the Schar School, GMU

The second wave of COVID-19 peaked in mid-April 2021 and declined swiftly in May and June. During the week ending July 20, 2021, there were an average of 0.04 new daily cases per 1,000 residents; while this rate was minimally larger than the post second-wave low of 0.01 cases, this rate remains smaller than all other periods after March 2020 when the pandemic began and testing was less prevalent. Overall, with the precipitous decline in new cases and the large increase in vaccination rates, the pandemic appears to be broadly under control in the Washington region, which has allowed for a more robust rebound in June 2021.

The Coincident Index had nearly returned to its pre-pandemic levels in May 2021, decreasing 3.3 percent from May 2019. This recovery did not occur equally for all components, though, and the recovery remains uneven. Non-durable goods sales was the only component to have fully recovered, rising 8.8 percent between May 2019 and May 2020. Sales levels were recovered in June 2020 and have now had ten monthly over-the-year gains in the past year. In general, the net demand for goods that last fewer than three years faltered only during the early months of the pandemic and consumers quickly returned to their prior spending levels for consumable items. Despite the total recovery, the composition of this spending has changed and not all industries have recovered, as shown indicated by wage and salary employment levels.

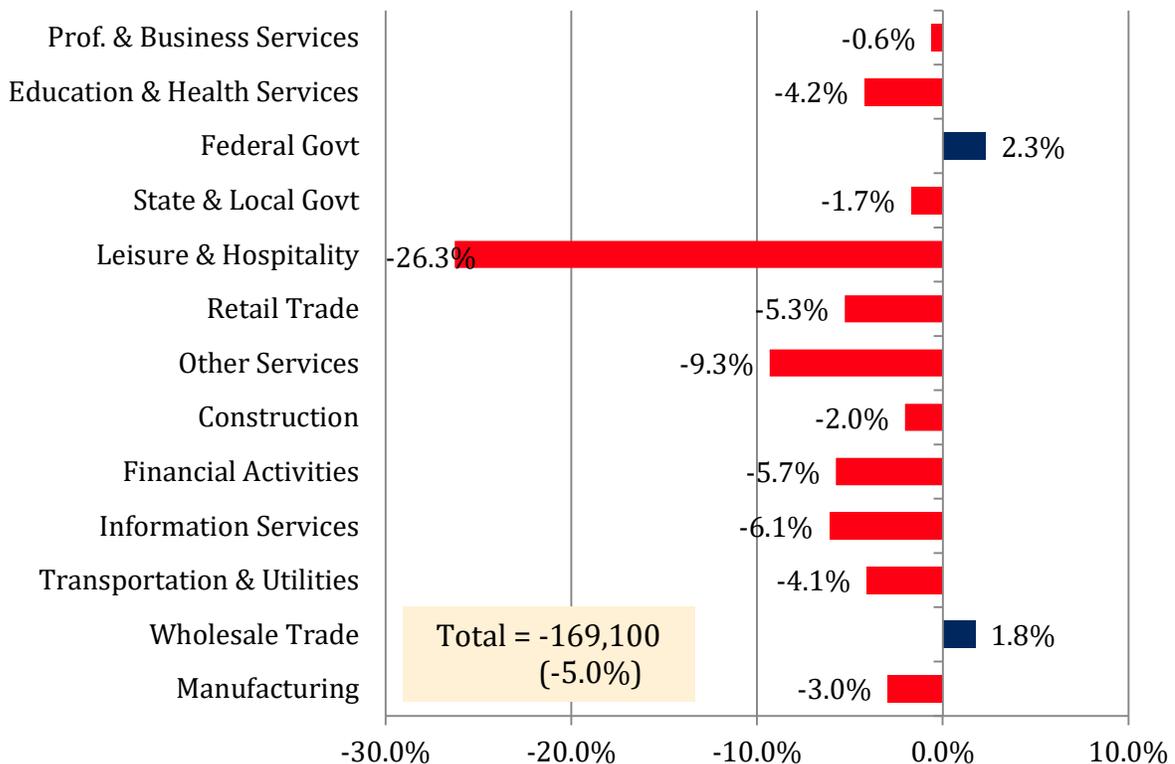
Wage and salary employment was the second most recovered component, but remained 4.8 percent smaller than its May 2019 levels. The employment situation in June 2020 was essentially unchanged; the region had 5.0 percent fewer jobs compared to June 2019. The stagnation in the recovery was primarily the result of two sub-sectors and the majority of other major sectors in the region continued to recover. Firstly, the losses in the Ambulatory Health Care, Nursing & Residential Care in the Education & Health Services sector accelerated in June compared to prior months. This sub-sector lost 5,800 jobs between May 2019 and May 2021, while the decline between June 2019 and June 2021 was 11,800. Secondly, the gains in the Professional, Scientific & Technical Services & Management sub-sector slowed. This sub-sector was minimally affected by the pandemic and continued to add jobs during most months of the pandemic. In May 2021, this sub-sector added 14,300 jobs compared to the same month in 2019; in June, this sector added 10,600 jobs and the rate of gains decreased. The deceleration of these sub-sectors may be temporary, possibly the result of post-pandemic vacations that slowed hiring. However, this slowdown could be the result of a tight labor force and suggests that the employment recovery may be uneven for many sectors in upcoming months.

In total, as of June 2021, the Washington region had 169,100 fewer jobs than its pre-pandemic level in June 2019 (-5.0%). The losses remain heavily concentrated in the Leisure & Hospitality sector, which decreased by 26.3 percent (-93,000 jobs) during this period. This sector has had a consistent recovery since the second wave of COVID-19 and this recovery should continue during the summer months. The sector with the second largest losses compared to pre-pandemic levels, both on a percentage and absolute basis, was Other Services. This sector includes personal

care services, repair and maintenance, and associations and decreased by 9.3 percent (-19,800 jobs) compared to June 2019. The recovery in this sector has accelerated in recent months, a trend that should extend into the summer.

Two sectors had gains compared to 2019: the Federal Government (+2.3%, 8,400 jobs) and Wholesale Trade (+1.8%, 1,100 jobs). Federal Government jobs did not decrease during the pandemic and had been bolstered by temporary Decennial Census hires. This sector, along with the Professional, Scientific & Technical Services & Management sub-sector in the Professional & Business Services sector, stabilized the overall employment trends in the Washington region and have created the base for a stronger mid- to long-term economic recovery. The second sector with gains was Wholesale Trade. Employment in this sector was affected by the pandemic but recovered in full in April 2021. This sector was the first major sector with pandemic-induced losses to recover and may reflect the continued strength of online retail.

**Figure 5. Percent Change in Jobs in the Washington Region by Sector
June 2019 to June 2021**



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

Consumer confidence levels in the South Atlantic region were the second least recovered component in May 2021. Confidence levels declined December 2020 and were subdued through February 2021 as the second wave of COVID-19 began. Improving vaccination rates and a relatively small second wave likely bolstered

confidence, which improved sharply between February 2021 and May 2021. Even with this improvement, consumer confidence was 15.1 percent smaller than in May 2019. This improvement continued in June 2021 and reached its largest reading since March 2020, when confidence had decreased only slightly at the early stage of the pandemic. Compared to June 2019 consumer confidence decreased 3.8 percent. This consistent improvement suggests that consumer confidence will return fully in July or August 2021 which will solidify a more complete economic recovery later this year.

Domestic airport passenger volume continued to be least recovered component in May 2021. Passenger volume was less than one-half of its May 2019 levels, declining 51.3 percent. Still, volume has increased more than ten-fold (1,040%) from its trough in April 2020 and the gains since the second wave of COVID-19 have been consistent and suggest that domestic travel will recover in 2022. Altogether, each of the four components has trended upwards from their fall levels, albeit at varying rates. This pattern of net gains for the Index with larger variation in the trends by industry and component will continue this summer, especially as leisure activities increase in line with more typical seasonal patterns.

Washington Region's Near-Term Outlook

The Washington region's Leading Index projects economic performance six to eight months in advance based on business cycle indicators. Because of the nature of this recession and the ensuing recovery, the Leading Index has reflected shorter-term trends relating to the health crisis. During the spring of 2021, the Leading Index had broadly recovered from the pandemic and three of its four components had reach pre-pandemic levels during at least one month so far in 2021: total building permits, consumer expectations, and durable goods sales. Initial claims for unemployment insurance remain elevated and, along with labor force patterns, indicate that the availability of labor may be a short-term challenge for the economic recovery.

Total building permits recovered from the pandemic in September 2020 and have increased on a monthly over-the-year basis for nine consecutive months. In May 2021, permits increased 0.9 percent compared to May 2020. This is the smallest gain in nine months and is because of a decrease in multi-family permits (-32.8%). Multi-family permits are typically uneven so one monthly over-the-year decline does not indicate a long-term shift in activity. Closed sales and new pending sales of existing homes in June 2020 suggests that the demand for housing in upcoming months will continue to increase and permitting activity is likely to remain strong.

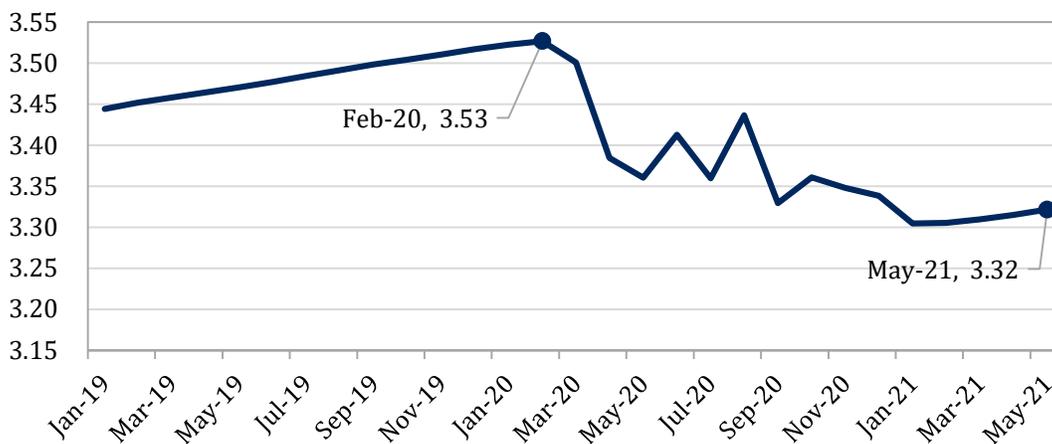
Consumer expectations in the South Atlantic region have been the most volatile component in the Leading Index as consumers reacted to short-term changes in COVID-19 rates and vaccination progress. Expectations declined during the second wave in December 2020 and remained low through February 2021. Expectations rebounded sharply in March 2021 and reached levels consistent with pre-pandemic

readings. Even though expectations moderated in April and May 2021, they improved in June and were 2.8 percent larger compared to June 2019. Expectations will likely continue to be volatile as consumers watch any potential COVID-19 variants, supply shortages and price increases.

Durable goods sales were the first component to recover and sales had monthly over-the-year growth starting in June 2020. Sales have now increased for 12 consecutive months through May 2021. Growth in upcoming months may be limited by two factors. Durable goods sales are items that last longer than three years and these sales had several months of above-average gains during the pandemic. These large increases may indicate that households bought items earlier than previously planned or bought items that were needed or desired specifically because of the pandemic like home office equipment. This may reduce upcoming spending on durable goods, as these purchases have either already been made or household budgets for durable goods, in general, have been spent. The second potential issue that may slow sales growth is supply shortages and price increases. Supply shortages are likely to be temporary in most industries and the result of bottlenecks and lags in the ability to increase production as demand shifts. As these bottlenecks subside, prices should stabilize for most items including durable goods. Still, these constraints may further moderate durable goods sales in 2021.

A key bottleneck in production that may also affect near-term economic growth patterns in the Washington region is the availability of labor. Initial claims for unemployment insurance remain elevated. Under normal economic conditions, large numbers of new claims would indicate that there were more workers looking for work than jobs. However, labor force patterns indicate that there could be an underlying mismatch between the types of jobs that are being added and workers that are available to fill them.

**Figure 6. Labor Force in the Washington Region
January 2019-May 2021 (in millions)**



Sources: U.S. Bureau of Labor Statistics (Seasonally Adjusted); The Stephen S. Fuller Institute at the Schar School, GMU

Between February 2020 and May 2021, the total number of residents that were unemployed and actively looking for a job in the Washington region increased by 86,300, after adjusting for seasonal patterns. More than twice as many residents left the labor force; that is, they were no longer employed or actively looking for a job. Between February 2020 and May 2021, the number of residents in the labor force decreased from 3.53 million to 3.32 million (-205,500 residents). In spite of the gains in wage and salary employment, the number of residents in the labor force continues to decline. Instead, the jobs in the region that have been recovered have been filled primarily by people that stayed in the labor force as unemployed residents. This pattern suggests that some industries have had difficulty attracting the labor that they need in order to expand. Even if this bottleneck is temporary and workers return to the labor force at a lag, the delay in will have a ripple effect on employment growth causing a slowdown in overall economic gains. If the decline in the labor force is because of increased retirement or for another reason that is permanent, then employment gains will become increasingly limited by the lack of labor in the near-term.

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

Economic Indicator	Estimates			Percent Change	
	May-21 Prelim.	Apr-21 Final	May-20 Final	Apr-21 to May-21	May-20 to May-21
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	106.9	104.4	77.4	2.47%	38.11%
Leading Index (2015 = 100)	103.3	103.8	97.4	-0.45%	6.00%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,187.0	3,175.3	2,979.9	0.37%	6.95%
Consumer Confidence (South Atlantic) ^a	155.6	138.0	65.5	12.75%	137.56%
Domestic Airport Passengers ('000) ^b	1,137.5	978.9	190.6	16.20%	496.87%
Nondurable Goods Retail Sales (\$000,000) ^c	3,698.1	3,739.9	3,212.4	-1.12%	15.12%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	1,759.0	2,304.0	1,743.0	-23.65%	0.92%
Consumer Expectations (South Atlantic) ^a	104.4	111.9	104.9	-6.70%	-0.48%
Initial Unemployment Claims ^b	6,358.2	12,240.3	23,509.7	-48.06%	-72.96%
Durable Goods Retail Sales (\$000,000) ^c	4,313.6	4,755.5	3,638.3	-9.29%	18.56%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,340.8	3,325.4	3,347.5	0.46%	-0.20%
Employed Labor Force ('000)	3,173.3	3,157.6	3,057.4	0.50%	3.79%
Unemployed Labor Force ('000)	167.5	167.8	290.2	-0.20%	-42.27%
Unemployment Rate	5.0%	5.0%	8.7%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,187.0	3,175.3	2,979.9	0.37%	6.95%
Construction ('000)	160.7	159.8	156.7	0.56%	2.55%
Manufacturing ('000)	55.5	55.3	51.9	0.36%	6.94%
Transportation & Public Utilities ('000)	72.0	71.2	69.6	1.12%	3.45%
Wholesale & Retail Trade ('000)	316.8	316.5	274.8	0.09%	15.28%
Services ('000)	1,872.4	1,863.6	1,729.0	0.47%	8.29%
Total Government ('000)	709.6	708.9	697.9	0.10%	1.68%
Federal Government ('000)	372.5	372.5	365.2	0.00%	2.00%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars