



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.

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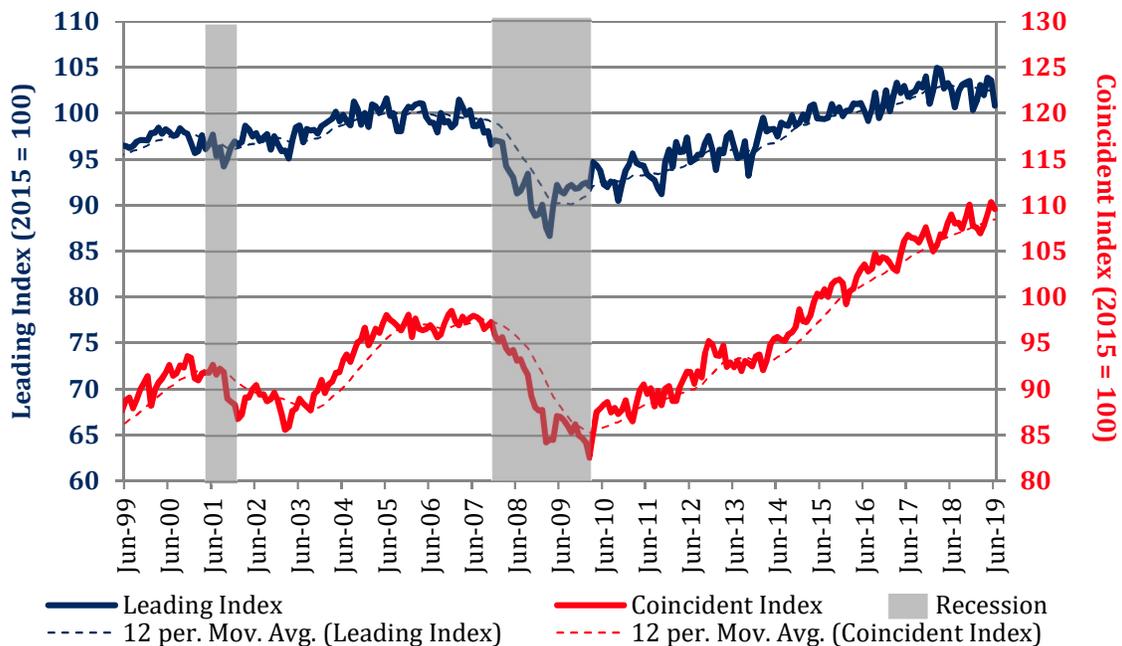
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The Washington Region's Economy Experiences Broad-Based Slowing in June

The Washington region's Coincident and Leading Indices both revealed weaknesses in the economy's performance in June: the Coincident Index registered its smallest gain since March 2014 managing to extend its consecutive monthly over-the-year increase to a 63rd month and the Leading Index resumed its downward trend following gains in April and May. June's weak economic performance was reflected in all eight of the Indices' component indicators; even the two indicators that were positive showed weakness. Nondurable goods retail sales, which continue their positive trend spanning 28 consecutive months, have slowed since April as consumer confidence has weakened. And, job growth in the region at 0.8 percent continues to underperform its beginning-of-the-year projection of 1.1 percent growth. With the U.S. economy slowing, global trade tensions continuing, and consumer confidence slipping there is growing concern that consumer spending, which has been fueling the economy's performance, will not sustain it going forward.

Figure 1. Washington Region Economic Indices



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

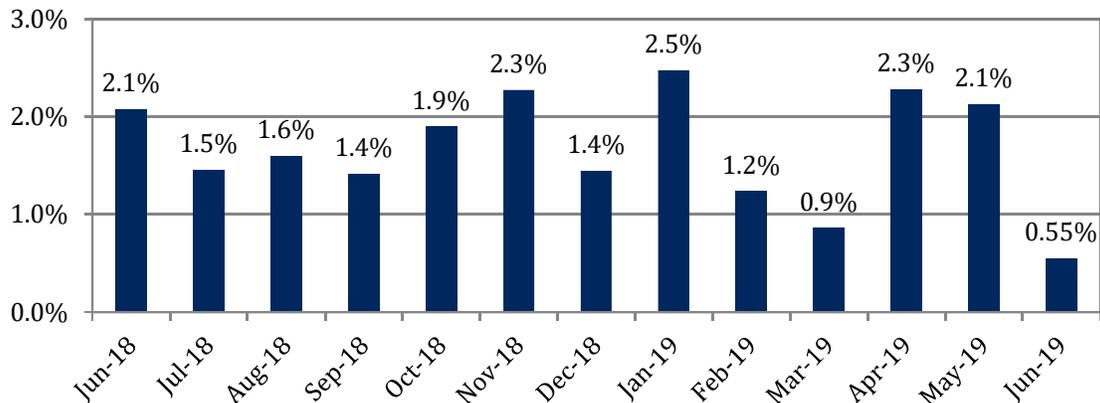
The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, decreased 0.70 percent in June following three consecutive monthly gains, on a month-to-month basis. The region's economic performance in June diverged from its monthly pattern in both April and May in which all four of the Coincident Index's component indicators were positive, in part reflecting the economy's rebound from the effects of the 35-day federal shutdown at the beginning of the year.

On a monthly over-the-year basis, June's Coincident Index managed an increase of only 0.55 percent from June 2018. This was the Index's smallest increase since March 2014. Still this increase extended the Index's upward trend to 63 consecutive months, dating from April 2014. This month's weakness in the Coincident Index reflects a decrease in consumer confidence (in the present) and a decrease in total airport passenger traffic at Dulles and Reagan National Airports, reversing both indicators' performances in recent months.

In June, two of the Index's four components were positive on a monthly over-the-year basis:

- *Wage and salary employment* in the Washington region increased 0.8% between June 2018 and June 2019; and,
- *Non-durable goods retail sales* were up 2.8% from June 2018 gaining for a 28th consecutive month on a monthly over-the-year basis although this month's gain was smaller than in April or May; while,
- *Domestic passenger volume at Reagan National and Dulles Airports* decreased 2.1% from June 2018; and,
- *Consumer confidence (in the present)* decreased by 3.7% from June 2018.

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



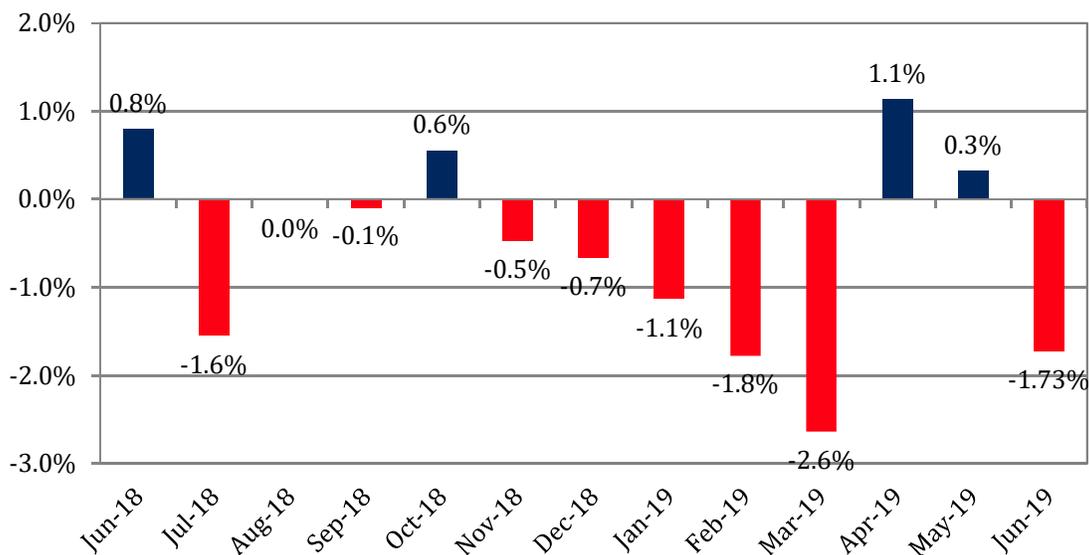
Source: The Stephen S. Fuller Institute at the Schar School, GMU

The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy six to eight months in advance, decreased by 1.73 percent in June on a monthly over-the-year basis resuming its downward trend from spanning the second half of 2018 and extending through March of 2019 and raising new concerns regarding the region’s economic performance going forward into 2020. While April’s strong gain in the Leading Index followed by a marginal increase in May had generated a sense that this negative performance might be giving way to positive forces that would carry the economy into a stronger position entering 2020, the weaknesses revealed by June’s Leading Index, spanning all four component indicators, suggests that these weaknesses may be more long term than short term.

In June, all four of the Leading Index’s four components contributed to its decrease.

- *Consumer expectations (consumer confidence six months hence)* decreased 11.5% from June 2018 after register two monthly gains and have now been down four times in the last six months;
- *Total residential building permits* decreased 25.0% in June following two strong monthly gains and have now declined in three of the year’s first six months;
- *Durable goods retail sales* declined 1.7% from their June 2018 level, also down for the third time in the year’s first six months; and,
- *Initial claims for unemployment insurance* slowed their increased to 2.6%, but still worsened for the thirteenth consecutive month.

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



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

Current Performance

The Washington region's economy has sustained its expansion (recovery) from the negative impacts of the 2014 Sequester for 63 consecutive months; that is, the Washington region's Coincident Index, which is designed to measure the region's current economic performance, has increased each month since April 2014 (on a monthly over-the-year basis) through June 2019. However, the weak performance of the Coincident Index's component indicators raises new concerns regarding its ability to sustain its growth into 2020 let alone to achieve a stronger performance over the full year compared to 2018 as beginning-of-the-year forecasts had indicated.

Job growth has been the one the indicators that has been a constant in the region's long recovery from the negative impacts of the Sequester beginning in April 2014. However, after registering strong gains in 2015, 2016, and 2017, averaging more than 50,000 jobs annually, job growth has continued to slow over the past one and half years and is growing even more slowly in 2019 than in 2018. Through seven months, the region is averaging 26,100 new jobs, well off the January forecast of 38,200 jobs as well as last year's gain of 35,300 jobs.

The sectoral patterns of job growth remain similar to last year's with one or two exceptions. Where in recent years, three sectors (professional and business services, education and health services and leisure and hospitality services) have accounted for 70 percent or more of the total job growth, so far in 2019, two sectors (professional and business services and leisure and hospitality services) have been the dominant sources; through seven months these two sectors together have generated 26,800 jobs, actually exceeding the total gain of 26,200 jobs. The retail trade sector is losing jobs this year at an accelerating rate, down by 6,900 jobs after losing 3,000 jobs last year. Job losses in the federal sector have moderated this year, down 1,300 jobs compared to 4,100 jobs in 2018.

This year's job growth has extended last year's sub-state area pattern, with Northern Virginia accounting for almost all of the net new jobs gains with job gains in the District of Columbia balancing the job losses in Suburban Maryland. While job growth in all three sub-state areas of the region has slowed over the past eighteen months, job gains registered in Suburban Maryland during the first half of 2018 turned to losses during the year's second half and were negative for five consecutive months between February and June in 2019. Year-to-date, Suburban Maryland is down 2,100 jobs where its beginning-of-the-year forecast was for a gain of 11,000.

National Economic Outlook

Over the past month there have been additional signs pointing to the national economy's slide towards a possible recession. The manufacturing sector is technically in recession. Manufacturing production declined 1.9 percent in the first

quarter and 1.2 percent in the second quarter; two negative quarters is defined as constituting a recession. In 2018, manufacturing production increased 1.3 percent.

Fifty years ago, if the manufacturing sector had been contracting for six months, a recession would have been inevitable. Today, while the manufacturing sector remains important to the economy's overall health, the focus is on consumer spending that accounts for approximately 70 percent of GDP. With low unemployment, growing wages, and easy credit, consumers are projected to increase their spending this year by 2.7 percent.

Still, consumers remain the wild card. With consumer debt at record levels, the ability of consumers to continue their spending depends on price stability and continuing strength in the labor market that will push wages higher. Unemployment remains at a near fifty-year low but job growth has slowed this year. Payroll employment growth averaged 166,250 jobs in 2018, down from 189,333 in 2017, and is projected to slow to an average 140,000 jobs per month over the second half of 2019. Still, this job growth should be sufficient to support the current 3.5% unemployment rate and to push personal income up to a projected 4.9% this year.

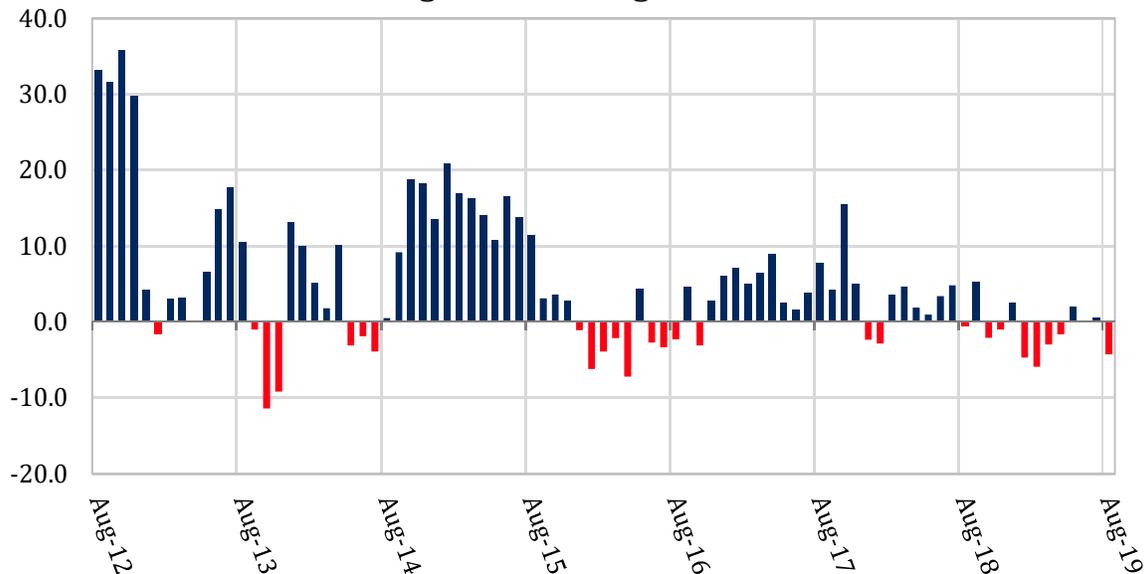
So what could undermine consumer spending? The simple answer is, uncertainty. Uncertainty is not as easily quantified as manufacturing production or job growth. However, the signs of economic uncertainty are increasingly apparent. They are generated by the President's tweets. The on-going and possibly intensifying trade war with China, potentially higher prices on consumer goods due to increased tariffs, the increased volatility of the stock markets, the inverted yield curve, July's higher inflation report, the growing federal deficit, confusion resulting from misinformation describing the economy's health and performance, reports that Germany and possibly eight other countries are flirting with recession, all of these and other daily headlines are causing consumers to reassess their comfort levels.

Consumer confidence surveys provide a measure of how consumers are processing the information they are receiving about the economy. The Consumer Sentiment Survey, conducted by the University of Michigan, clearly shows consumers to becoming more concerned regarding how current factors will shape their economic status; it fell to a seven-month low in August. However, the Conference Board's Consumer Confidence Indices—Present Situation and Expectations—were both higher in July (the survey cut off date was July 17th) after being driven lower in June by increasing trade and tariff tensions. How this survey performs in August (released on the 27th) in view of renewed trade and tariff tensions could be telling.

The outlook for the economy remains clouded. The most recent forecasts have the economy growing 2.3% for the year, down from 2.9% GDP growth in 2018. And, this forecast could be worse; it does not reflect President Trump's latest tariff threats in his trade dispute with China or retaliation by China to these threatened tariffs. According to research from JP Morgan Chase, the new 10% tariffs, targeting consumer goods going into effect September 1st, will cost American households up

to \$1,000 in additional costs offsetting the gains they received in 2018 from lower taxes under the Tax Cuts and Jobs Act of 2017. If the threatened 25% tariff goes into effect December 15th, these annual costs to consumers are estimated to be \$1,500 per household.

**Figure 4. U.S. Consumer Sentiment, Monthly Over-the-Year Change
August 2012 – August 2019**



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

Beyond the trade war, there remains uncertainty regarding federal spending after October 1st. Even though there was a budget and debt ceiling agreement just as Congress was leaving Washington for its August recess, the appropriations bills to run the federal government still need to be passed and signed by the President before October 1st in order to avoid a government shutdown.

The good news is that once these appropriations bills are enacted, next fiscal year's spending increases will add new fiscal stimulus to the economy's performance in 2020 and 2021. This new stimulus, in the absence of a trade war with China, could strengthen the economy's performance in both 2020 and 2021 raising their growth rates above 2 percent; these growth rates had previously been projected to fall below trend in 2020. Now, this new fiscal stimulus would push the economy's below-trend growth performance to at least 2022.

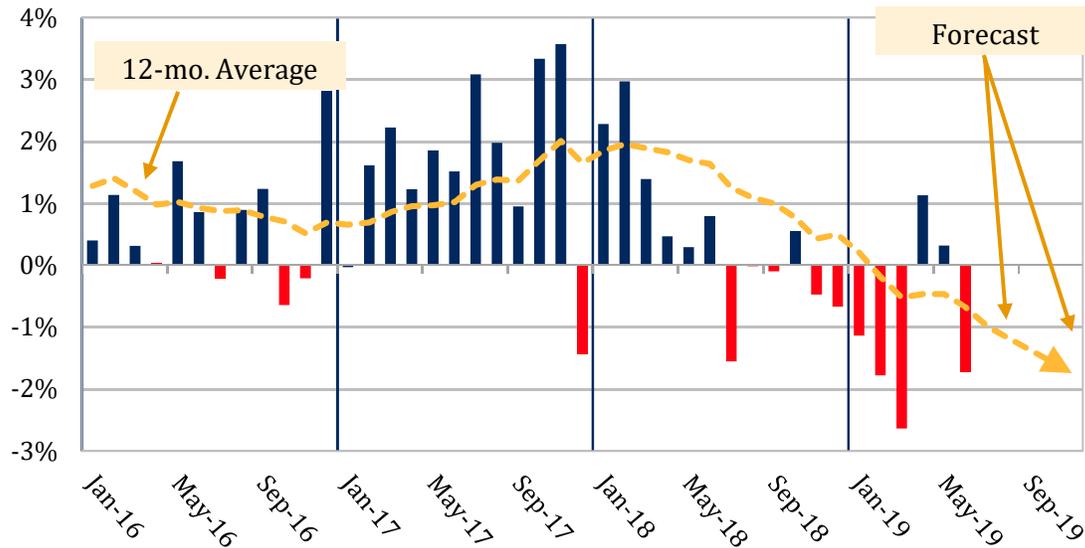
Still, the uncertainty that hangs over the economy has resulted in renewed forecasts of a recession happening sooner than later. A recent report cited in the Washington Post (August 20, 2019) states that "nearly 3 out of 4 economists surveyed by the National Association for Business Economics National Association for Business Economics expect a recession by 2021."

Washington Region's Near-Term Outlook

The Washington Leading Index has had a negative trajectory since March 2018, as seen in Figure 5. June's 1.7 percent monthly over-the-year decline reinforces this negative trajectory following a two-month interruption that was not sufficient to overcome a long-term pattern with broad-based decreases that has slowed the region's economic advance that mirrors the slowdown in the national economy.

In June all four of the Leading Index's components contributed to its decline, as was the situation in both February and March. Having all four indicators contributing to the Index's decline is unusual especially at a time the economy is still expanding. In ordinary times, having this situation occurring in three of the most recent five months would send a strong signal of impending economic contraction. But these are not ordinary times when national and global economic policy is being formulated on the fly, communicated via Twitter, and can be reversed on a whim. Still there can be no disputing the trends towards slower growth until the conditions undermining the economy's growth potentials are reversed.

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



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

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

Economic Indicator	Estimates			Percent Change	
	Jun-19 Prelim.	May-19 Final	Jun-18 Final	May-19 to Jun-19	Jun-18 to Jun-19
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	109.6	110.3	109.0	-0.70%	0.55%
Leading Index (2015 = 100)	100.8	103.6	102.6	-2.69%	-1.73%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,359.7	3,335.7	3,334.0	0.72%	0.77%
Consumer Confidence (South Atlantic) ^a	168.0	183.2	174.5	-8.30%	-3.72%
Domestic Airport Passengers ('000) ^b	2,238.7	2,333.5	2,286.0	-4.06%	-2.07%
Nondurable Goods Retail Sales (\$000,000) ^c	3,352.4	3,395.6	3,260.8	-1.27%	2.81%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	1,945.0	2,350.0	2,595.0	-17.23%	-25.05%
Consumer Expectations (South Atlantic) ^a	104.3	123.7	117.8	-15.68%	-11.46%
Initial Unemployment Claims ^b	2,164.6	2,025.6	2,109.9	6.86%	2.59%
Durable Goods Retail Sales (\$000,000) ^c	3,581.1	3,777.0	3,643.8	-5.19%	-1.72%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,477.7	3,435.6	3,425.3	1.23%	1.53%
Employed Labor Force ('000)	3,360.7	3,328.3	3,300.9	0.97%	1.81%
Unemployed Labor Force ('000)	117.1	107.4	124.5	9.03%	-5.92%
Unemployment Rate	3.4%	3.1%	3.6%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,359.7	3,335.7	3,334.0	0.72%	0.77%
Construction ('000)	162.8	160.3	162.0	1.56%	0.49%
Manufacturing ('000)	56.2	55.7	56.1	0.90%	0.18%
Transportation & Public Utilities ('000)	71.9	70.3	69.0	2.28%	4.20%
Wholesale & Retail Trade ('000)	333.9	332.3	338.5	0.48%	-1.36%
Services ('000)	2,028.7	2,006.0	2,002.7	1.13%	1.30%
Total Government ('000)	706.2	711.1	705.7	-0.69%	0.07%
Federal Government ('000)	365.0	362.7	365.9	0.63%	-0.25%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars