



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



Washington Economy Watch

Leading Index Trend Turns Negative

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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 area'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 six complete business cycles in addition to the Post-COVID 19 cycle that began in May 2020.

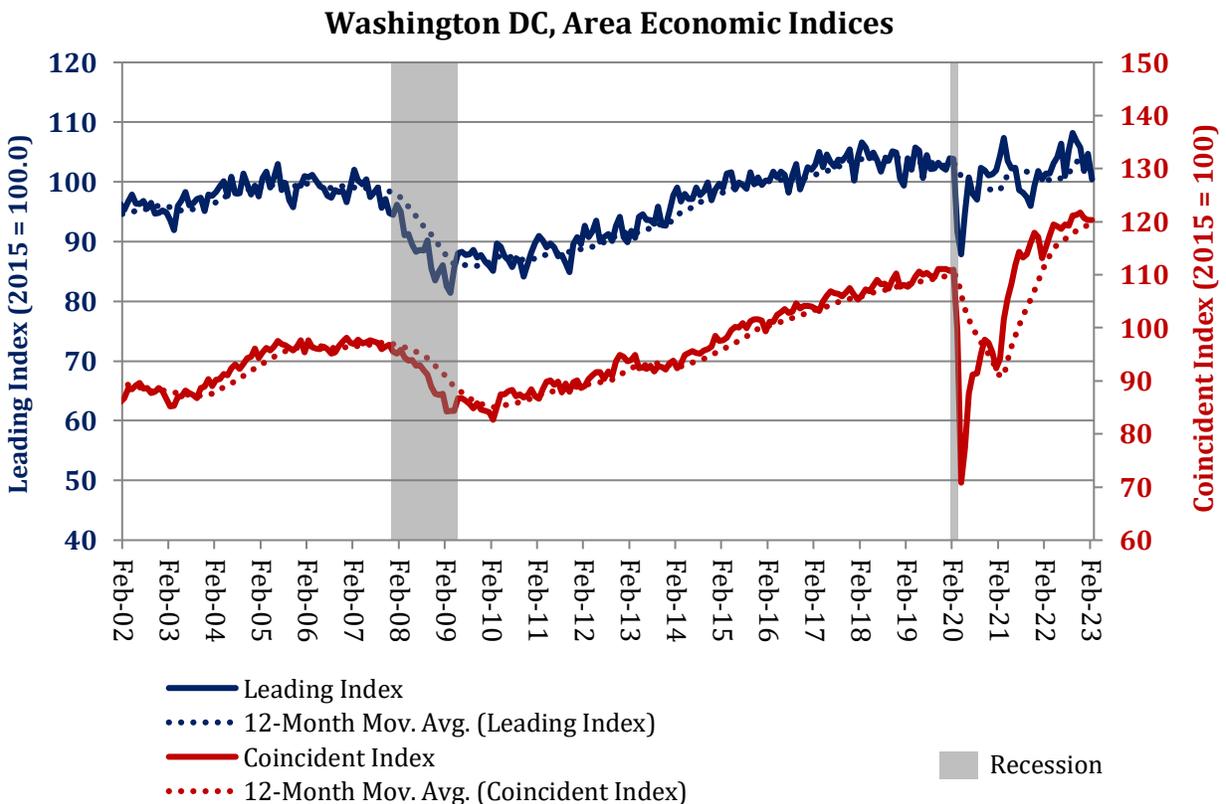
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Washington Area Economy: Leading Index Trend Turns Negative

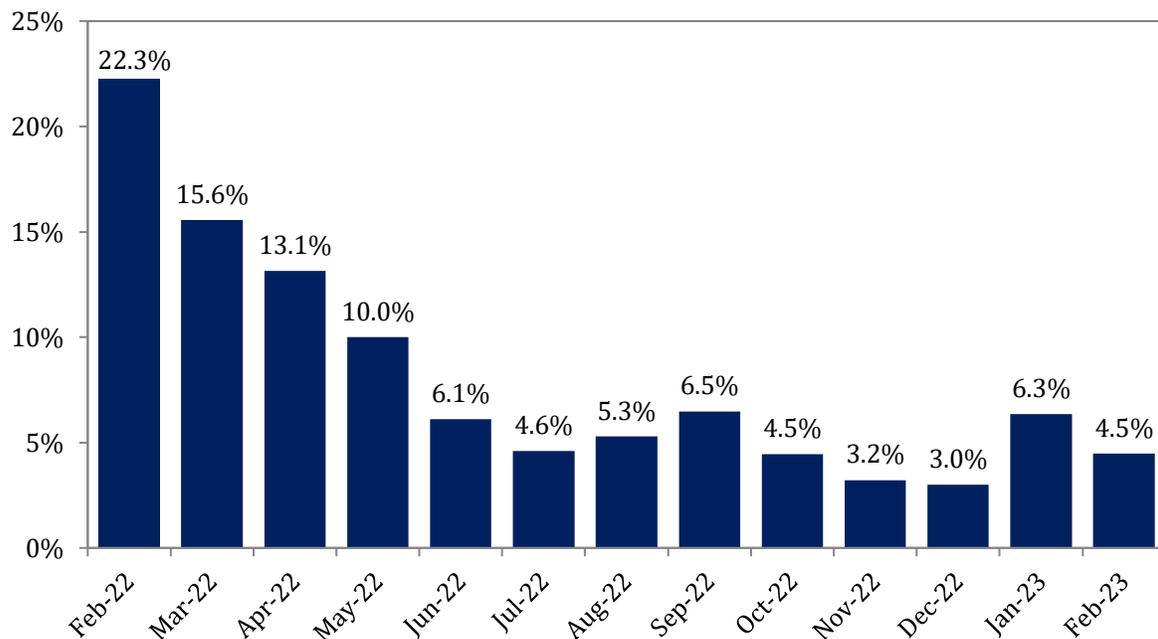
The pace of the Washington area's economic growth, as tracked by the Washington Coincident Index, returned to trend in February. The Coincident Index increased 4.5%, a slower pace than observed last month, but in line with longer run trends. Despite the slower increase as compared with January, all four components of the index increased for the first time since February 2022. However, the near-term outlook, based on the Washington Leading Index, weakened in February with a month-over-year decline of 1.0%. The decline is the first negative month-over-year percent change since April 2022. The smaller increase in the Coincident Index and negative trend for the Leading Index fits within our expectations that the regional economy is slowing and may turn negative in the second half of 2023 as Federal Reserve Bank interest rate policies slow consumption and output in the U.S. economy.



The **Washington Coincident Index**, which represents the current state of the Washington region's economy, increased 4.5% month-over-year in February, a reading that caps off two complete years of month-over-year increases. While the month-over-year increase was smaller than the increase of 6.3% in January, it is at the top-end of readings for the third quarter of 2022. Additionally, all four components were positive for the first time since February 2022. In level terms, the Coincident Index has remained between 119 and 121 since April 2022.

- *Wage and salary employment* in the Washington area increased 1.9% from February 2022 to February 2023, below the revised increase of 2.6% in January and in-line with December's 1.8% month-over-year job growth; and,
- *Domestic passenger volume at Reagan National and Dulles Airports* increased 27.6% from February 2022 to February 2023, also down from the strong January reading; and,
- *Non-durable goods retail sales* increased 0.9% month-over-year, the second consecutive month-over-year increase; and,
- *Consumer confidence (current circumstances)* increased 1.0% in February, the first month-over-year increase after four consecutive month-over-year declines.

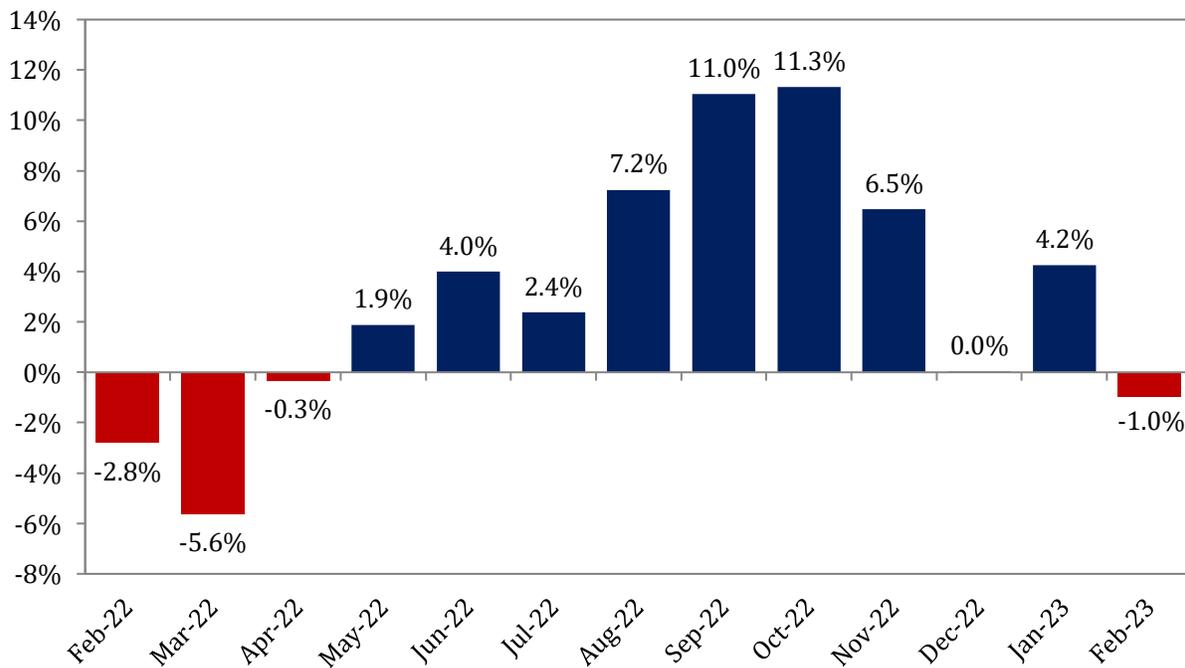
Washington Coincident Index, Monthly Over-the-Year Changes



The **Washington Leading Index**, designed to forecast the performance of the metropolitan area economy six to eight months in advance, decreased 1.0% month-over-year in February 2023, the first decline since April 2022. The decline in the Leading Index was led by declines in residential permits and consumer expectation declines. The decreased February reading reasserts the deterioration of the Leading Index that began in November. As expected, the bounce in January's Leading Index reading proved to be transitory.

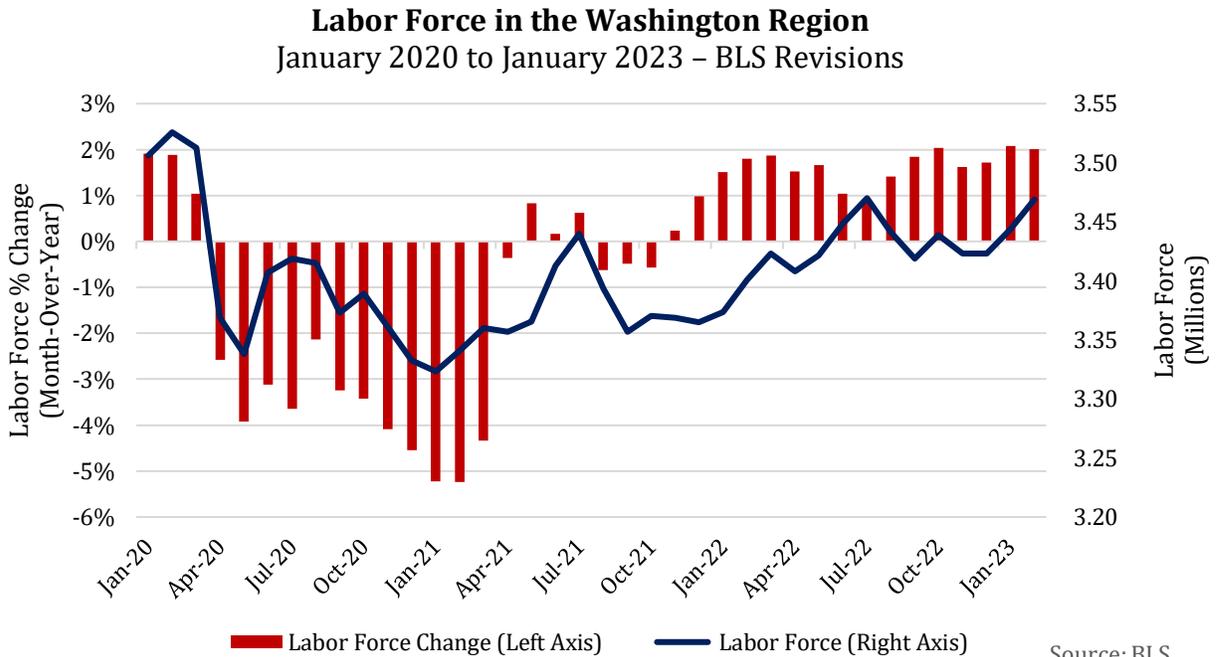
- *Initial claims for unemployment insurance* decreased (improved) in February for a thirteenth consecutive month – however, the decline of just 6.2% was the smallest in almost a year; and,
- *Durable goods retail sales* increased 2.0 percent in February for a second consecutive month; while,
- *Total residential building permits* declined 14.5% month-over-year for a second consecutive month after little consistency in the data; and,
- *Consumer expectations (consumer confidence six months hence)* declined 11.4% for a thirteenth consecutive month.

Washington Leading Index, Monthly Over-the-Year Changes



Current Performance

As noted in the March edition, the region’s labor force unexpectedly increased from December 2022 to January 2023. However, after the Bureau of Labor Statistics performed regularly-scheduled revisions to 2022 monthly estimates, the increase no longer appears unexpected. The revised December 2022 numbers increased the estimated size of the labor force by 58,172 workers. The revisions reveal that the region’s labor market performance was notably underestimated during 2022.



Near-Term Outlook

Despite the stronger than previously reported labor market data, the near-term outlook remains moderately negative. Overall consumer prices increased 5% month-over-year in March, down from a 6% month-over-year increase in February and the smallest increase since May 2021. This suggests that interest rates are starting to slow the economy, but this improvement is not enough to reasonably expect that the Fed will shift to a more accommodating monetary policy — even with mounting concerns about stress among some banks. As the effects of past interest rate increases continue to take hold in the broader economy, and inflation remains substantially higher than target rates, we see mounting headwinds for the regional economy in the coming months.

Washington Area Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Feb-23 Prelim.	Jan-23 Final	Feb-22 Final	Jan-23 to Feb-23	Feb-22 to Feb-23
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	120.3	120.4	115.1	-0.06%	4.47%
Leading Index (2015 = 100)	100.4	104.7	101.4	-4.02%	-0.96%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,321.9	3,308.3	3,260.0	0.41%	1.90%
Consumer Confidence (South Atlantic) ^a	154.7	150.9	153.1	2.52%	1.05%
Domestic Airport Passengers ('000) ^b	2,316.6	2,305.5	1,816.2	0.48%	27.55%
Nondurable Goods Retail Sales (\$000,000) ^c	4,146.8	4,264.7	4,108.2	-2.77%	0.94%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	1,654.0	2,098.0	1,935.0	-21.16%	-14.52%
Consumer Expectations (South Atlantic) ^a	77.3	84.2	87.2	-8.19%	-11.35%
Initial Unemployment Claims ^b	4,553.0	1,853.9	4,852.2	145.59%	-6.17%
Durable Goods Retail Sales (\$000,000) ^c	4,096.5	4,213.0	4,015.9	-2.77%	2.01%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,469.1	3,443.8	3,374.2	0.73%	2.81%
Employed Labor Force ('000)	3,368.6	3,339.4	3,252.1	0.87%	3.58%
Unemployed Labor Force ('000)	100.5	104.4	122.1	-3.73%	-17.67%
Unemployment Rate	2.9%	3.0%	3.6%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,321.9	3,308.3	3,260.0	0.41%	1.90%
Construction ('000)	161.9	160.9	158.8	0.62%	1.95%
Manufacturing ('000)	55.9	57.0	55.3	-1.93%	1.08%
Transportation & Public Utilities ('000)	77.0	78.1	76.9	-1.41%	0.13%
Wholesale & Retail Trade ('000)	319.0	323.9	319.4	-1.51%	-0.13%
Services ('000)	1,980.9	1,968.1	1,931.8	0.65%	2.54%
Total Government ('000)	727.2	720.3	717.8	0.96%	1.31%
Federal Government ('000)	370.8	371.5	376.8	-0.19%	-1.59%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars