



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



Washington Economy Watch

Federal Employment Stagnation May Force Diversification

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The Stephen S. Fuller Institute
for Research on the Washington Region's Economic Future
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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.

Washington Economy Watch

Federal Employment Stagnation

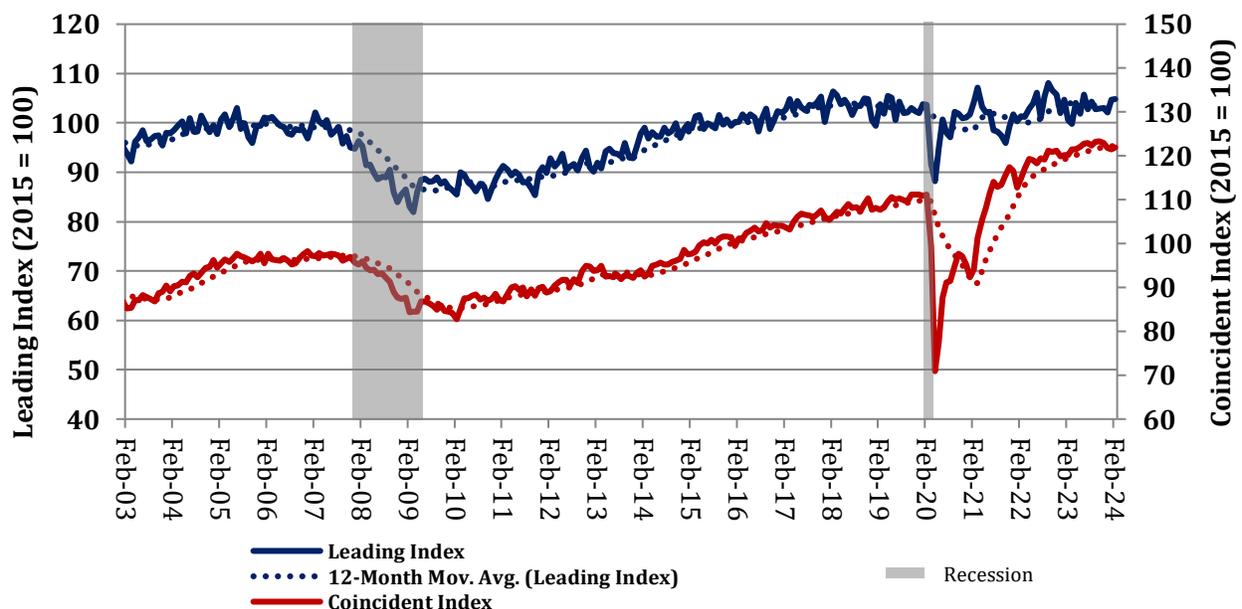
April 2024

Washington Area Economy: Federal Employment Stagnation May Force Diversification

The Coincident Index recorded another modest increase, while the Leading Index increased sharply from January, indicating that the region's economy is set to improve later this year.

- The Coincident Index increased 1.4% from February 2022 to February 2023.
- The Leading Index increased 4.3% from February 2022 to February 2023.

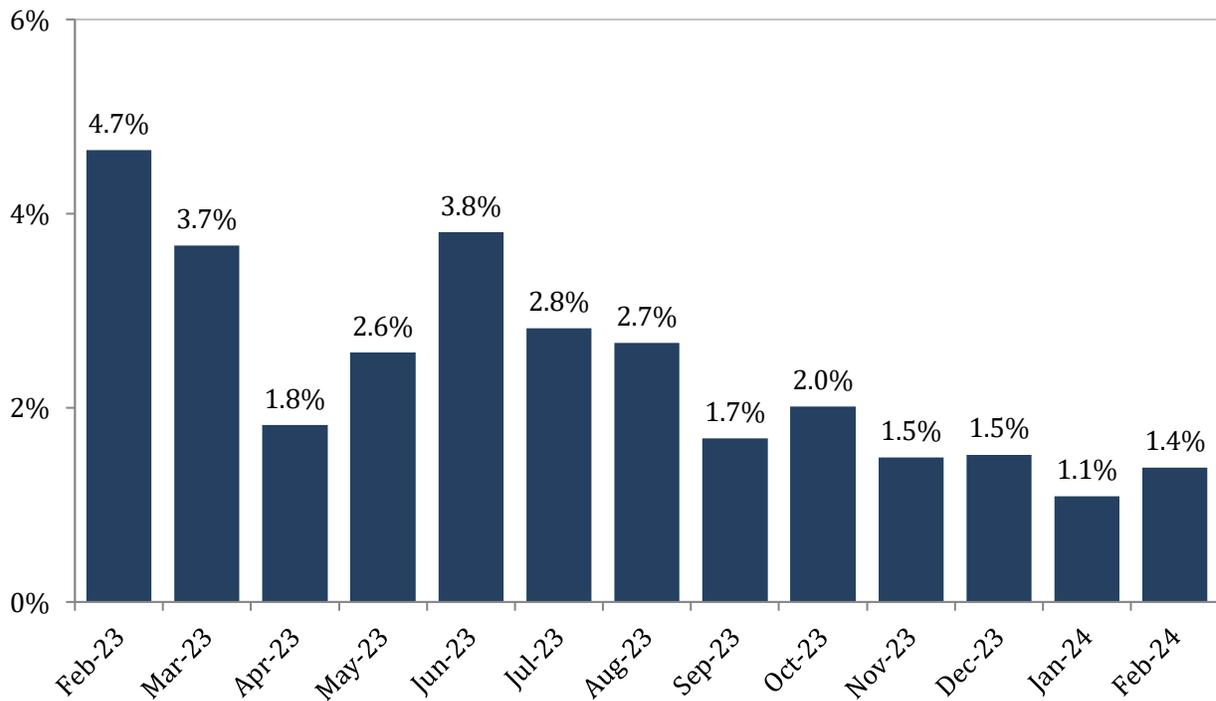
The Coincident Index has remained relatively stable over the past four readings, indicating that the Washington Region's economy has stabilized. The Leading Index, in contrast, improved markedly from January to February, accelerating from a 0.1% month-over-year-increase in January to 4.3% in February, indicating that the region is set to improve later this year. Despite this, major risks for the region remain. Compared to peer metros, the Washington region continues to underperform in private sector employment. Perhaps most problematically, federal employment has stagnated in the Washington region even as it grows nationally (see near-term outlook). Federal employment stagnation implies that unless the Washington region begins to diversify economically, it will not only languish but become increasingly exposed to economic shocks it has historically been protected from.



The **Washington Coincident Index**, which represents the current state of the Washington region's economy, increased 1.4% from February 2022 to February 2023, a slight reacceleration from January. The slight reacceleration resulted from a notable increase in non-durable goods retail sales. Consumer confidence, however, recorded a substantial decline. Overall, the index remained in-line with January, indicating that the region's economic growth has slowed to a crawl. It may be the case that the high interest rates stemming from Federal Reserve policies have finally worked to slow the economy, and a soft-landing appears likely.

- *Non-durable goods retail sales* increased 6.1% from February 2022 to February 2023, a notable acceleration from January (+2.0%); and,
- *Domestic passenger volume at Reagan National and Dulles Airports* increased 1.6% month-over-year in February, a slight reacceleration from the January reading; and,
- *Wage and salary employment* in the Washington area increased 0.6% from February 2022 to February 2023, a continuation of slowing wage and employment growth; while,
- *Consumer confidence (current circumstances)* decreased 5.6% month-over-year, the third negative reading in the past four months.

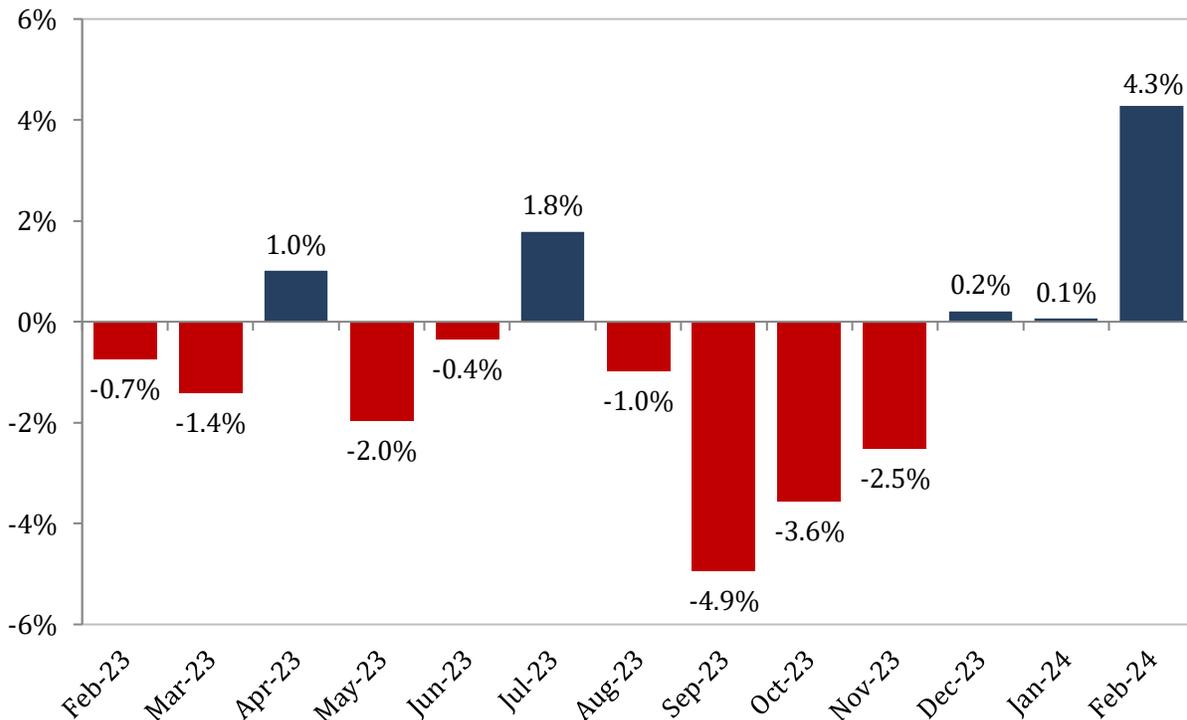
Washington Coincident Index, Month-Over-Year



The **Washington Leading Index**, designed to forecast the performance of the metropolitan area economy six to eight months in advance, increased 4.3% month-over-year in February 2024. The reading was a sharp increase from the 0.1% month-over-year gain in January, and represented the third consecutive positive reading. The sharp increase resulted from notable improvements in three of the four indicators included in the index. While the positive reading bodes well for the region's economy throughout the summer month, caution is warranted given continuing inflation as well as trends regarding federal employment discussed in the near-term outlook.

- *Initial claims for unemployment insurance* decreased (improved) 50.1% from February 2022 to February 2023, a marked improvement from fall 2023 when initial claims were rising; and,
- *Total residential building permits* increased 27.1% month-over-year, the first increase since April 2023; and,
- *Durable goods retail sales* increased 6.3% month-over-year in February, a reversal from the negative reading in January; and,
- *Consumer expectations (consumer confidence six months hence)* increased 1.7% from February 2022 to February 2023, the third consecutive increase.

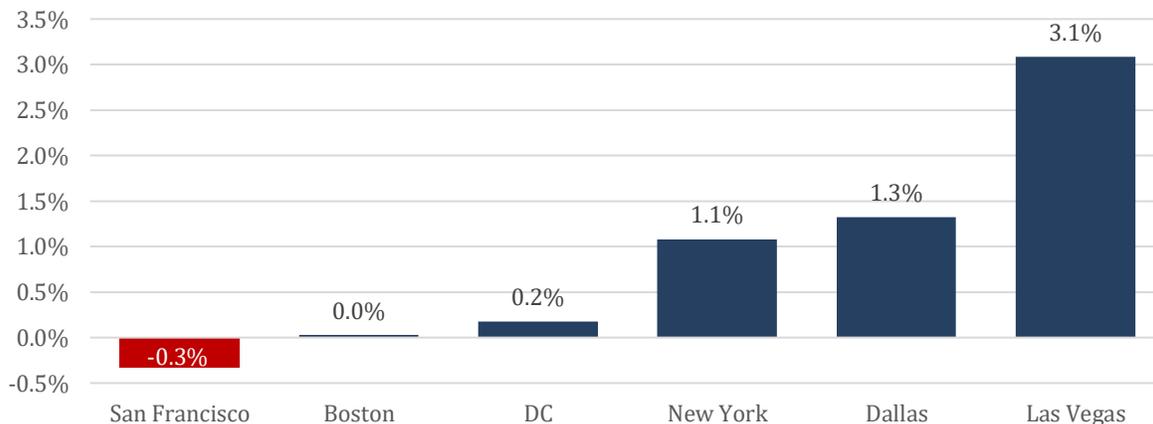
Washington Leading Index, Month-Over-Year Changes



Current Performance

Compared to peer metro areas, the Washington region has underperformed since the outset of the pandemic. Comparing the private sector employment in the Washington region to a subset of peer metros highlights the underperformance. Among six select metro areas, the Washington region ranks 4th in terms of private sector employment growth from the first quarter (Q.1) of 2023 to Q.1 2024. Employment in the Washington region increased 0.2% over this period. Comparing the Washington region San Francisco and Boston, given their similar employment mixes in technology and biotech, reflects well on the Washington region. Employment in San Francisco declined 0.3% from Q.1 2023 to Q.1 2024. Employment in Boston was flat. Comparing the Washington region to economically similar New York City, however, is less favorable as private sector employment in the Big Apple increased 1.1% over the period. Dallas, which has a notably different employment mix increased private employment by 1.3% over the period. Las Vegas, which like the Washington region has a large Leisure and Hospitality sector, increased employment by 3.1%. Overall, while focusing on San Francisco and Boston gives the appearance that the Washington region is performing well in the wake of the pandemic, some regions have aspects of the Washington region's employment mix that are substantially outperforming the Washington region. Furthermore, while Dallas has a markedly different economy, it is outperforming the Washington region by a wide margin. This begs the question – does the Washington region need to start examining Dallas' economic playbook?

Total Private Employment Percent Change: Q.1 2023 – Q1. 2024
Selected Metro Areas



Source: BLS, and Stephen S. Fuller Institute. Not Seasonally Adjusted. Quarter is average of Jan – March employment.

Near-Term Outlook

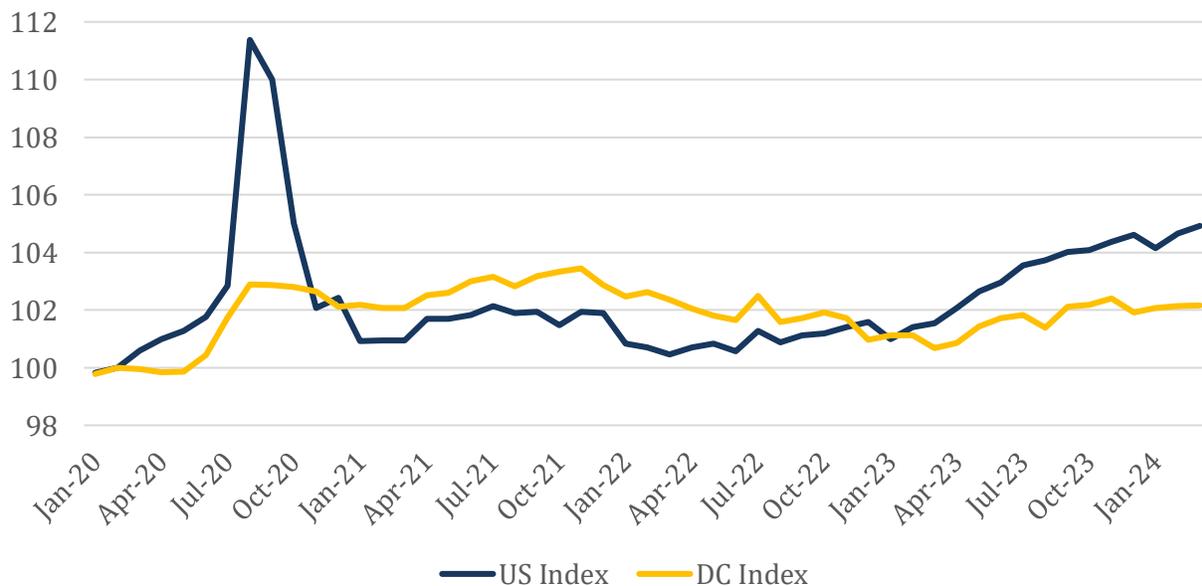
While the Washington region has historically been buffered from national economic shocks by federal employment, this is changing as the federal government increases employment out of the Washington region at a faster rate than in the Washington region. Indexing federal employment in both the US and the Washington region to February 2020 makes the divergence clear. In early 2020, both the US and the Washington region benefited from an increase in federal employment due to the 2020 decennial census and other federal

programs related to the federal response to COVID-19. While the employment increase faded quickly nationally, it persisted through the end of 2021 before fading in the Washington region.

Since 2022, however, federal employment trends nationally and regionally have diverged. Federal employment in the Washington region contracted by 1,100 from January 2022 to March 2024. In contrast, total federal employment nationally (inclusive of the Washington region) was 116,000 greater in March 2024 than in January 2022. Throughout the majority of 2021 and 2022, the Washington region accounted for at least 13.0% of total federal employment. As federal employment began to expand outside of the Washington region, however, the share accounted for in the Washington region declined. In March 2023 the region accounted for just 12.5% of total federal employment.

Unfortunately, these data clearly indicate that the federal government is hiring more employees outside the region than inside the region. Given this, the region appears less able to rely on the federal government to stabilize the region's economy, should a recession develop. Moving forward, it seems likely that the region's economy will either be forced to diversify away from the federal government or languish as federal employment slowly leaks out of the region. This is particularly problematic as it is already occurring, and it is happening largely unnoticed. The slow leaking of federal employment comes without media coverage that occurs when a department relocates a large number of workers, as was the case when the Economic Research Service moved to Kansas City.

**Federal Employment in the US and the Washington Region
Indexed to February 2020**



Washington Area Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Feb-24 Prelim.	Jan-24 Final	Feb-23 Final	Jan-24 to Feb-24	Feb-23 to Feb-24
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	121.8	121.5	120.2	0.31%	1.38%
Leading Index (2015 = 100)	104.8	104.7	100.5	0.11%	4.28%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,348.8	3,338.4	3,327.8	0.31%	0.63%
Consumer Confidence (South Atlantic) ^a	146.1	151.2	154.7	-3.37%	-5.56%
Domestic Airport Passengers ('000) ^b	2,353.1	2,335.0	2,316.6	0.78%	1.58%
Nondurable Goods Retail Sales (\$000,000) ^c	4,324.6	4,279.4	4,076.6	1.06%	6.08%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	2,102.0	1,713.0	1,654.0	22.71%	27.09%
Consumer Expectations (South Atlantic) ^a	78.6	87.0	77.3	-9.66%	1.68%
Initial Unemployment Claims ^b	2,271.9	1,555.8	4,553.0	46.03%	-50.10%
Durable Goods Retail Sales (\$000,000) ^c	4,350.1	4,195.6	4,092.6	3.68%	6.29%
Washington Area Labor Force					
Total Labor Force ('000)	3,485.7	3,476.6	3,454.0	0.26%	0.92%
Employed Labor Force ('000)	3,380.1	3,378.9	3,358.6	0.04%	0.64%
Unemployed Labor Force ('000)	105.6	97.7	95.4	8.10%	10.74%
Unemployment Rate	3.0%	2.8%	2.8%	--	--
Washington Area Wage and Salary Employment					
Total ('000)	3,348.8	3,338.4	3,327.8	0.31%	0.63%
Construction ('000)	157.9	160.2	161.5	-1.44%	-2.23%
Manufacturing ('000)	57.3	57.1	56.6	0.35%	1.24%
Transportation & Public Utilities ('000)	80.1	80.2	78.2	-0.12%	2.43%
Wholesale & Retail Trade ('000)	321.5	325.5	320.0	-1.23%	0.47%
Services ('000)	1,997.8	1,990.5	1,995.8	0.37%	0.10%
Total Government ('000)	734.2	724.9	715.7	1.28%	2.58%
Federal Government ('000)	373.5	373.3	369.8	0.05%	1.00%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars