



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



# Washington Economy Watch

## Soft Landing into Stagnation?

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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

Soft Landing into Stagnation?

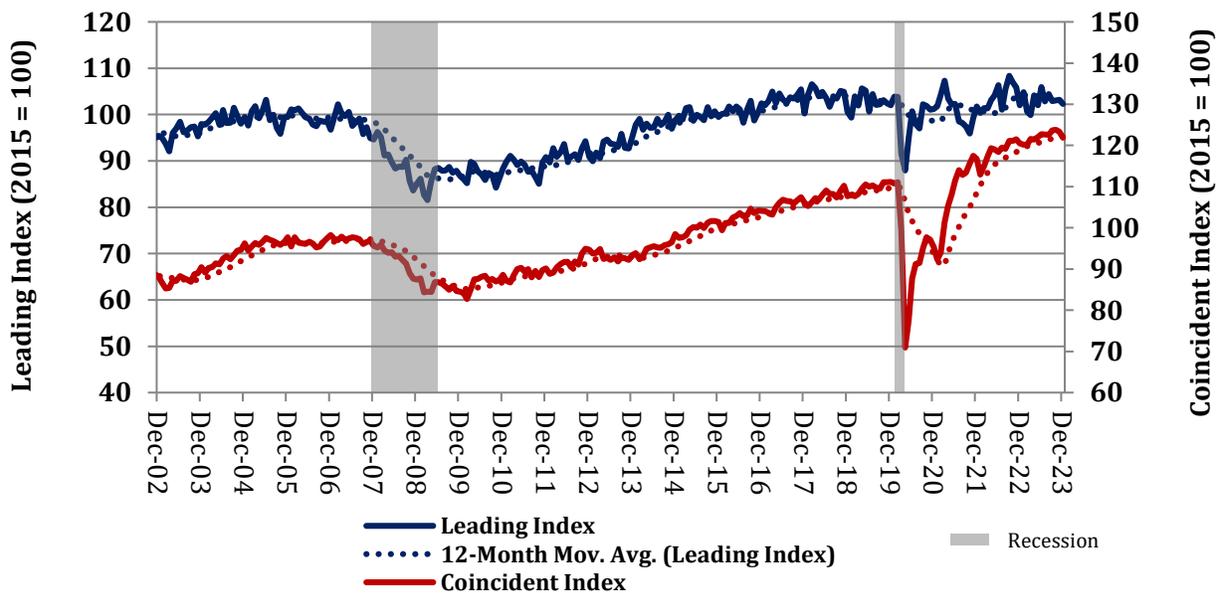
February 2024

## Washington Area Economy: Soft Landing into Stagnation?

The Coincident Index recorded another modest increase, while the Leading Index recorded the first positive reading since July 2023.

- The Coincident Index increased 1.2% from December 2022 to December 2023.
- The Leading Index increased 0.2% from December 2022 to December 2023.

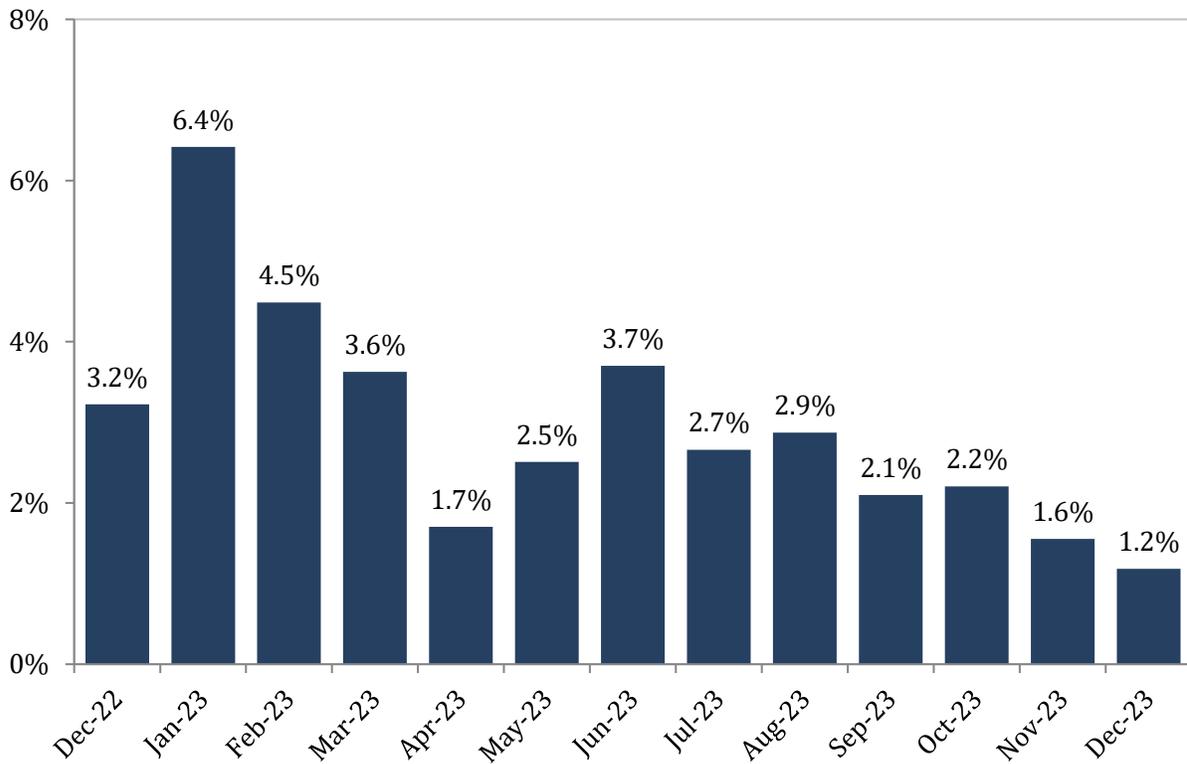
The odds of a soft landing in the region appear to be increasing, which at the regional level might be defined as little net growth in the labor market over the next several months, perhaps with some month-to-month contraction. The Leading Index points to some growth 6 to 8 months out and the Coincident Index suggests the region has slowed but remains positive. Despite the increased prospects of a soft landing, the current performance among sub-regions is mixed. Unemployment is low, but for Suburban Maryland, this is primarily due to a smaller labor force. The labor force will continue to be a constraint for Suburban Maryland in the near-term, which has under supplied housing relative to DC and Northern Virginia. Such constraints on any sub-region unfortunately dampen near-term growth prospects for the region as a whole. Will a soft landing be a harbinger of economic stagnation?



The **Washington Coincident Index**, which represents the current state of the Washington region's economy, increased 1.2% from December 2022 to December 2023 but reflects a trend of slowing of economic growth since November 2021. It appears that the region's economy is headed towards a no/slow-growth situation. We consider such an outcome to be the regional equivalent of a soft landing.

- *Non-durable goods retail sales* increased 2.4% from December 2022 to December 2023, the eighth consecutive month-over-year increase; and,
- *Domestic passenger volume at Reagan National and Dulles Airports* increased 1.8% month-over-year in December, a slight deceleration from the 1.4% month-over-year increase in November; and,
- *Wage and salary employment* in the Washington area increased 1.2% from December 2022 to December 2023, the smallest month-over-year increase in over a year; while,
- *Consumer confidence (current circumstances)* decreased 3.9% month-over-year, the second largest month-over-year decline in over a year.

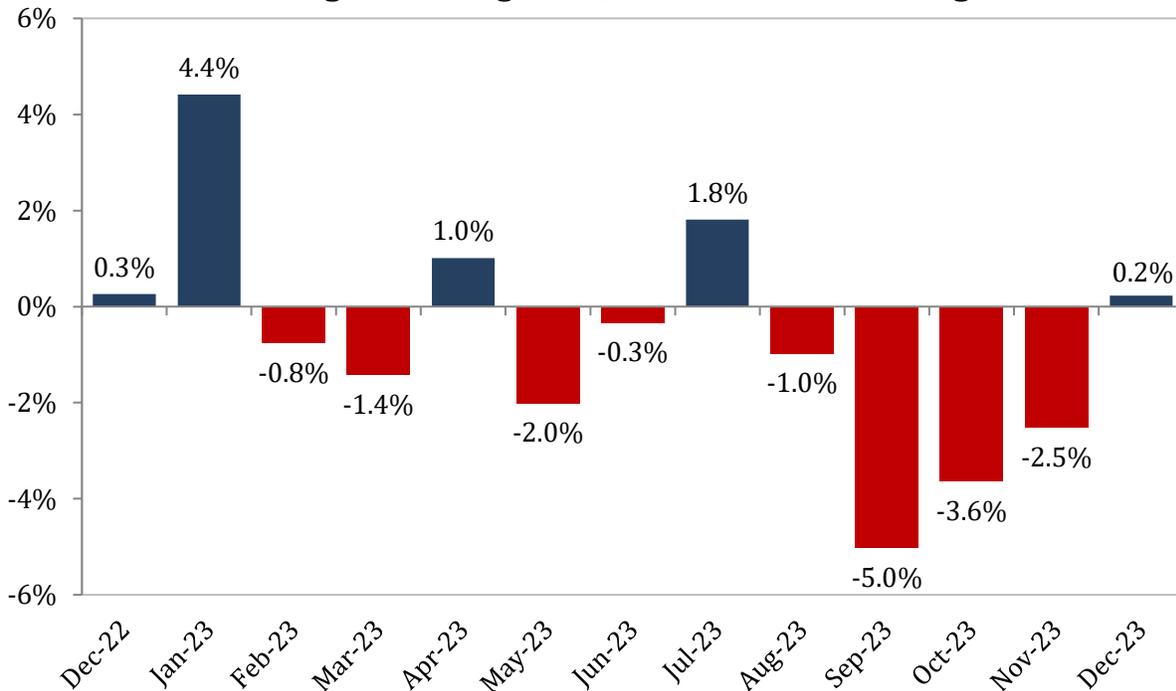
**Washington Coincident Index, Month-Over-Year**



The **Washington Leading Index**, designed to forecast the performance of the metropolitan area economy six to eight months in advance, increased 0.5% month-over-year in December 2023. While the month-over-year increase in durable goods is a continuation of recent increases, improvements in initial claims for unemployment insurance and consumer expectations were unexpected. If consumer expectations and initial claims for unemployment insurance continue to improve, which appears likely given the strength of the US labor market, the improvement in the Leading Index may prove durable in the coming months. With a strong labor market in concert with continued declines in PCE inflation, the odds of a soft landing are increasing. The only caveat is that a contributing factor to lower unemployment claims is tied to a lack of workers in the region.

- *Initial claims for unemployment insurance* decreased (improved) 12.0% from December 2022 to December 2023, the first decline since May 2023; and,
- *Consumer expectations (consumer confidence six months hence)* increased 9.3% from December 2022 to December 2023, the first increase since August 2023; and,
- *Durable goods retail sales* increased 5.2% month-over-year in December, 0.5 percentage points above the 2023 month-over-year average of 3.1\$%; while,
- *Total residential building permits* decreased 36.4% month-over-year, resulting in 11 month-over-year declines in 2023, with April being the only recorded month-over-year increase.

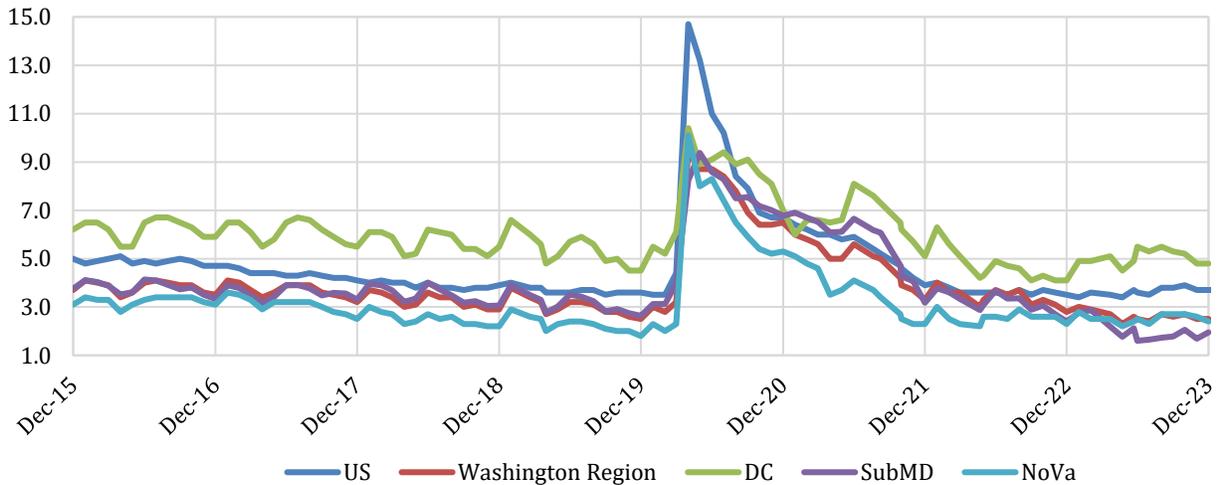
**Washington Leading Index, Month-Over-Year Changes**



## Current Performance

Examining the unemployment rate in the Washington region suggests the region's economy is faring well. The Washington Region's unemployment rate in December 2023 was 2.5%, marginally below the unemployment rate in 2019, immediately prior to the onset of the pandemic. Of the three sub-regions, Suburban Maryland had the lowest unemployment rate in December 2023, at just 2.0%. Northern Virginia had the second lowest unemployment rate of 2.4%. While the District remains elevated above Suburban Maryland and Northern Virginia, at 4.8%, it is on par with the 4.5% recorded in December of 2019. As of the fall of 2023, unemployment in the Washington region was generally equivalent to that of the US as a whole, driven up by the elevated unemployment in the District.

**Unemployment By Sub-State  
December 2015 through December 2023**



Despite the fact that Suburban Maryland has the lowest unemployment rate, it is the result of the labor force contracting from a high of roughly 1.4 million in February 2020 to approximately 1.3 million in December 2021 and remaining essentially flat through December 2023.

**Unemployment By Sub-State  
December 2015 through December 2023**



## Near-Term Outlook

Housing continues to be a major constraint for the region’s economic prospects. Active listings of existing homes remain historically low, and the region is continuing its multi-decade trend of not building enough housing units – especially those affordable for working families. Focusing on the number of total housing units illustrates part of why Suburban Maryland has struggled to regain its pre-pandemic labor force. From 2020 to 2022, the two largest jurisdictions in Maryland, Montgomery County and Prince George’s County increased their housing stock by just 0.4% and 1.0%, respectively. Frederick County Maryland did increased its housing stock by 4.8%, (4,982 units) and recorded the largest [population growth](#) in the region. The DC also increased its housing stock by 2.7% from 2020 to 2022 (9,458 units) and recorded population growth over the period. Apart from the exceptions of Fairfax County and Alexandria, nearly every large jurisdiction in Northern Virginia increased its housing stock by over 2% from 2020 to 2022. The largest increases in level terms were Loudoun County (+4,315), Prince William (+3,270), Arlington (+3,263), and Spotsylvania (+2,901). Stafford County, which had just 13.1% of Montgomery County’s housing units in 2020 increased the number of housing units by 1,825, more than Montgomery County over the period. In spite of any permits that may have been issued, housing development continues to constrain the economy, particularly in Suburban Maryland. It is unlikely that the labor force in Suburban Maryland will return to pre-pandemic levels until more housing becomes available, constraining the near-term outlook.

### End of Month For-Sale Housing Supply by Jurisdiction Select Largest Jurisdictions - 2015 to 2023

Jurisdiction	Housing Units			% Change from 2020	
	2020	2021	2022	2021	2022
DC	351,432	357,435	360,890	1.7%	2.7%
Montgomery	405,008	405,728	406,801	0.2%	0.4%
Prince George's	360,387	362,334	364,027	0.5%	1.0%
Frederick	104,030	106,397	109,012	2.3%	4.8%
Fairfax	427,500	428,425	429,828	0.2%	0.5%
Prince William	158,846	160,104	162,116	0.8%	2.1%
Loudoun	142,770	145,113	147,085	1.6%	3.0%
Arlington	119,183	119,443	122,446	0.2%	2.7%
Alexandria City, Va	80,440	80,357	80,361	-0.1%	-0.1%
Spotsylvania	52,589	53,933	55,490	2.6%	5.5%
Stafford	53,004	53,907	54,829	1.7%	3.4%
Fauquier	28,283	28,433	28,633	0.5%	1.2%

Source: Census Population Estimates Program

## Washington Area Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Dec-23 Prelim.	Nov-23 Final	Dec-22 Final	Nov-23 to Dec-23	Dec-22 to Dec-23
<b>Washington Area Business Cycle Indicators</b>					
Coincident Index (2015 = 100)	121.9	123.4	120.5	-1.19%	1.18%
Leading Index (2015 = 100)	102.3	103.2	102.0	-0.92%	0.23%
<b>Washington Area Coincident Index Components</b>					
Total Wage & Salary Employment ('000) <sup>a</sup>	3,394.0	3,411.1	3,355.9	-0.50%	1.14%
Consumer Confidence (South Atlantic) <sup>a</sup>	149.3	144.5	155.3	3.32%	-3.86%
Domestic Airport Passengers ('000) <sup>b</sup>	2,462.0	2,444.7	2,417.5	0.71%	1.84%
Nondurable Goods Retail Sales (\$000,000) <sup>c</sup>	3,982.8	4,238.2	3,889.8	-6.03%	2.39%
<b>Washington Area Leading Index Components</b>					
Total Residential Building Permits <sup>a</sup>	1,775.0	1,505.0	2,793.0	17.94%	-36.45%
Consumer Expectations (South Atlantic) <sup>a</sup>	80.3	75.8	73.5	5.94%	9.25%
Initial Unemployment Claims <sup>b</sup>	2,032.9	1,806.0	2,309.0	12.57%	-11.96%
Durable Goods Retail Sales (\$000,000) <sup>c</sup>	3,863.5	4,078.1	3,728.9	-5.26%	3.61%
<b>Washington Area Labor Force<sup>a</sup></b>					
Total Labor Force ('000)	3,462.7	3,504.5	3,422.8	-1.19%	1.17%
Employed Labor Force ('000)	3,376.1	3,416.9	3,336.6	-1.19%	1.18%
Unemployed Labor Force ('000)	86.7	87.6	86.2	-1.06%	0.48%
Unemployment Rate	2.5%	2.5%	2.5%	--	--
<b>Washington Area Wage and Salary Employment<sup>a</sup></b>					
Total ('000)	3,394.0	3,411.1	3,355.9	-0.50%	1.14%
Construction ('000)	165.9	167.3	165.7	-0.84%	0.12%
Manufacturing ('000)	56.9	56.9	58.5	0.00%	-2.74%
Transportation & Public Utilities ('000)	81.4	80.7	82.6	0.87%	-1.45%
Wholesale & Retail Trade ('000)	335.1	330.8	332.9	1.30%	0.66%
Services ('000)	2,019.4	2,031.9	1,990.1	-0.62%	1.47%
Total Government ('000)	735.3	743.5	726.1	-1.10%	1.27%
Federal Government ('000)	369.6	371.3	372.3	-0.46%	-0.73%

<sup>a</sup>Unadjusted data

<sup>b</sup>Seasonally adjusted data

<sup>c</sup>Seasonally adjusted constant (1996) dollars