



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



Washington Economy Watch

An Uncertain Start

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

Washington Economy Watch

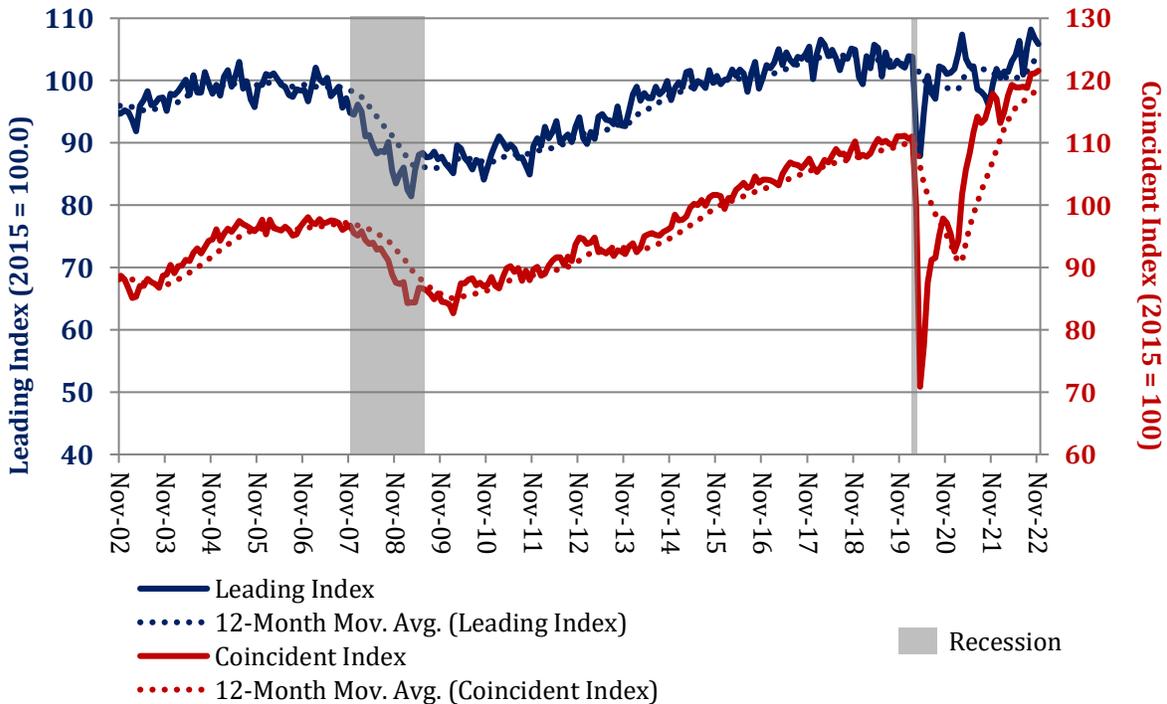
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Washington Area Economy: Slowing Growth Will Continue With Increasing Uncertainty

While the Washington area's economy, as tracked by the Washington Coincident Index, continues to grow, having reached pre-pandemic job counts, the pace of growth has slowed. Slowing growth is partially attributable to the Federal Reserve Board increasing interest rates and persistent tightness in the local labor market. Still, the near term outlook remains positive based on the Washington Leading Index showing positive trends for 7 consecutive months with sharp increases in September and October. Expectations remain that the nation, and perhaps the region, will experience negative economic growth sometime this year, but that will likely be later in the year than we expected two months ago.

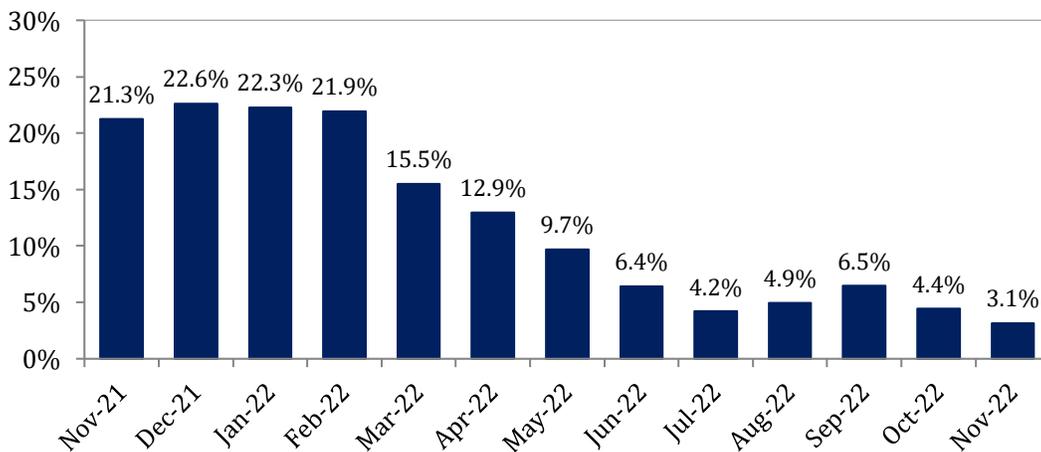
Washington DC, Area Economic Indices



The **Washington Coincident Index**, which represents the current state of the metropolitan area economy, extended its positive upward trend in November for the twenty first consecutive month dating back to March 2021. This positive trend follows the deep economic decline that occurred in spring and early summer of 2020, which resulted in lasting economic disruptions for some sectors of the regional economy like leisure and hospitality and retail. However, recent trends in the Coincident Index show that the region’s job recovery is slowing. Month-over-year change in the coincident index was 2.0 percentage points lower in October 2022 than September 2022, and 1.3 percentage point lower in November 2022 than October 2022. We are concerned that regional economic activity is reaching a plateau, while growth continues in many other metro areas across the nation. Despite the slowing growth, the Index increased 3.1 percent from November 2021 to November 2022, with two of the four indicators being positive.

- *Wage and salary employment* growth in the Washington area increased 1.9% between November 2021 and November 2022; and,
- *Domestic passenger volume at Reagan National and Dulles Airports* increased 24.3 percent between November 2021 and November 2022; while,
- *Non-durable goods retail sales* declined 1.8 percent for a sixth consecutive month on a monthly over-the-year basis; and,
- *Consumer confidence (current circumstances)* declined for the second consecutive month after only recording a single gain in the past seven months.

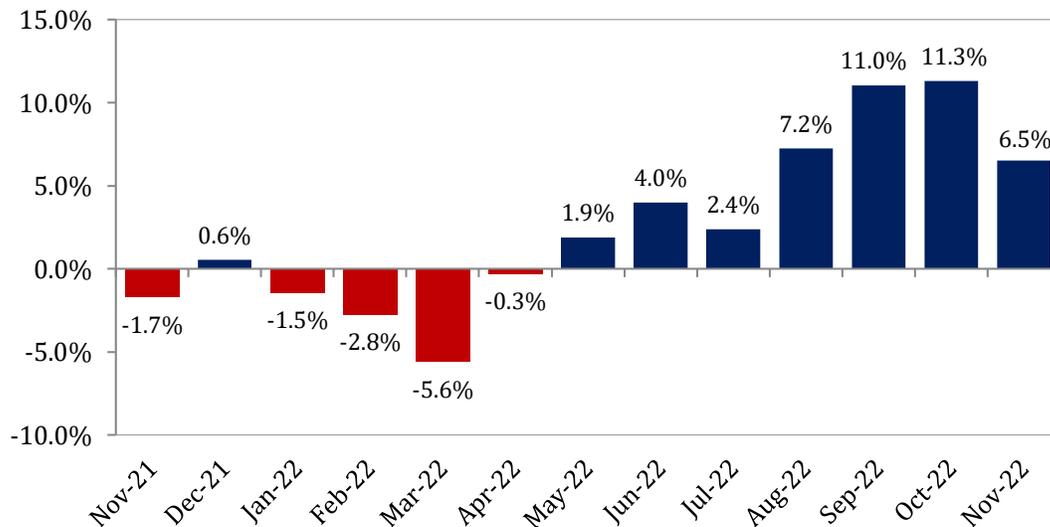
Washington Coincident Index, Monthly Over-the-Year Changes



The **Washington Leading Index**, which is designed to forecast the performance of the metropolitan area economy six to eight months in advance, rose 6.5 percent month-over-year in November 2022, a notably smaller increase than was recorded in September (+11.0%) and October (+11.3%). Despite being of smaller magnitude, the reading was the seventh consecutive increase on a month-over-year basis. While the Leading Index is continuing to suggest that the Washington area's economy may enter the start of 2023 on a solid growth path, three components of the index worsened in November. Importantly, the volatility in the leading index seems to be calming somewhat, but with the overall national economy showing signs of slowing, we remain in a cautious stance on near term economic performance.

- *Total residential building permits* declined in November from their same-month 2021 levels for the first time since April 2022;
- *Initial claims for unemployment insurance* continued to decrease (improve) for a tenth consecutive month with only a single month-over the year increase recorded in 2022, underscoring the tightness of the labor market; and,
- *Durable goods retail sales* declined 2.2 percent in November, the third consecutive month-over-year decline and a continuation of the declines recorded for almost all of the first half the year; and,
- *Consumer expectations (consumer confidence six months hence)* also declined for a tenth consecutive month in November.

Washington Leading Index, Monthly Over-the-Year Changes



Components of the Coincidence Index and the Leading Index provide mixed signals. However, the composite Coincidence Index continued its trajectory of moderating growth after large gains at the end of 2021 and start of 2022. However, those gains were the result of a normalization process in the wake of the COVID-19 pandemic. In contrast, the Leading Index increased for the seventh consecutive month in November, suggesting that the Washington region will continue to grow well into the second quarter of 2023. Individual leading indicators of forthcoming economy weakness include total building permits, consumer expectations, and durable goods, which are all down month over year. The only component of the Leading index that improved was initial claims for unemployment insurance, which continued to decline (improve) for the tenth consecutive month, reflecting the tight labor market.

Current Performance

The Washington Region may be reaching the conclusion of a long rebound in the wake of the pandemic. Following the initial disruption to the region's economy, the Coincident Index grew robustly until the middle of 2022, when increases began to moderate. The moderation is driven partly by declines in consumer confidence and non-durable goods sales but is also tied to growth being inhibited by labor availability and the effects of higher interest rates on key market sectors, such as real estate. Total wage and salary employment increased 4.0 percent month-over-year in November 2021 and just 1.9 percent month-over-year in November 2022. While some of the slowing in the local labor market is likely attributable broader economic conditions, some of the slowing pace of higher is directly caused by a lack of available workers with in-demand skills.

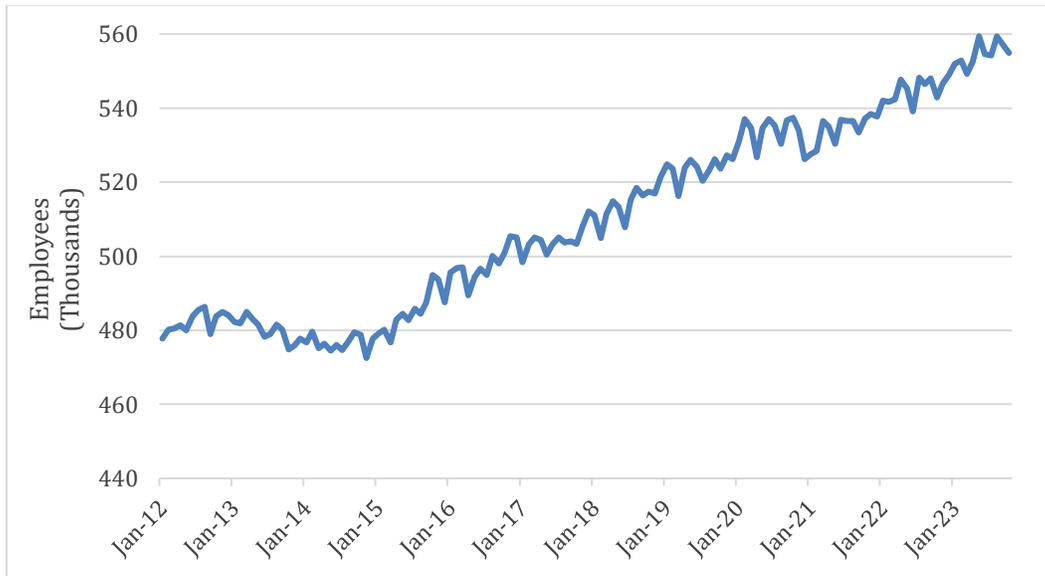
The unemployed labor force declined 21.6 percent from November 2021 to November 2022, and the unemployment rate stood at 3.1 percent in November 2022. However, the tight labor market is partially the result of fewer people participating. The unemployed labor force in 2022 decreased from the same month in 2017. Similarly, the labor force in November 2022 was 4.8% *smaller* than in November 2019. Thus, the tight labor market that is likely slowing the region's economy is partially the result of fewer people participating in the labor market.

Near-Term Outlook

The near-term outlook for the Washington area economy is reliant on the underlying growth of its component sectors. While the Washington region may be known for the federal government, the region is predominately based on professional and business services. In particular, the region specializes in the high-skilled sub-sector of professional, scientific, and technical services. This sub-sector pays high wages and represents a bright spot in the economy. The professional, scientific, and technical services sub-sector added an annual average of 542.9 thousand jobs in 2021, up from 530.3 thousand in 2019. The strong growth in 2021 continued throughout 2022. That is, the professional, scientific, and technical

services sub-sector added *more* jobs after the onset of the pandemic than before. Despite the professional, scientific, and technical services sub-sector representing a bright spot moving forward, the region continues to face headwinds in the labor market as evidenced by the fact that the labor market is smaller than it was prior to the pandemic.

Professional, Scientific, and Technical Services Employment Washington Region (000's)



Washington Area Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Nov-22 Prelim.	Oct-22 Final	Nov-21 Final	Oct-22 to Nov-22	Nov-21 to Nov-22
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	121.6	121.1	117.9	0.38%	3.15%
Leading Index (2015 = 100)	105.8	106.8	99.3	-0.91%	6.52%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,357.1	3,338.9	3,293.1	0.55%	1.94%
Consumer Confidence (South Atlantic) ^a	148.2	145.2	162.0	2.07%	-8.52%
Domestic Airport Passengers ('000) ^b	2,408.9	2,411.2	1,937.9	-0.10%	24.30%
Nondurable Goods Retail Sales (\$000,000) ^c	4,179.6	4,193.6	4,255.8	-0.33%	-1.79%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	1,852.0	2,129.0	2,001.0	-13.01%	-7.45%
Consumer Expectations (South Atlantic) ^a	85.3	79.6	93.3	7.16%	-8.57%
Initial Unemployment Claims ^b	1,192.8	795.4	10,095.9	49.96%	-88.19%
Durable Goods Retail Sales (\$000,000) ^c	3,898.8	3,965.7	3,985.4	-1.69%	-2.17%
Washington Area Labor Force					
Total Labor Force ('000)	3,353.3	3,375.4	3,375.6	-0.65%	-0.66%
Employed Labor Force ('000)	3,249.0	3,264.2	3,242.6	-0.47%	0.20%
Unemployed Labor Force ('000)	104.3	111.2	133.0	-6.20%	-21.56%
Unemployment Rate	3.1%	3.3%	3.9%	--	--
Washington Area Wage and Salary Employment					
Total ('000)	3,357.1	3,338.9	3,293.1	0.55%	1.94%
Construction ('000)	167.0	167.4	163.0	-0.24%	2.45%
Manufacturing ('000)	57.6	57.2	55.6	0.70%	3.60%
Transportation & Public Utilities ('000)	83.7	80.5	79.8	3.98%	4.89%
Wholesale & Retail Trade ('000)	334.2	328.4	331.6	1.77%	0.78%
Services ('000)	1,992.2	1,988.4	1,938.6	0.19%	2.76%
Total Government ('000)	722.4	717.0	724.5	0.75%	-0.29%
Federal Government ('000)	366.1	367.4	378.0	-0.35%	-3.15%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars