Washington Economy Watch
A Soft Landing?

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Washington Area Economy:
A Soft Landing?

The Coincident Index recorded the smallest positive in nearly three years, while the Leading Index recorded the third consecutive month-over-year decline.

- The Coincident Index increased 1.6% from November 2022 to November 2023.

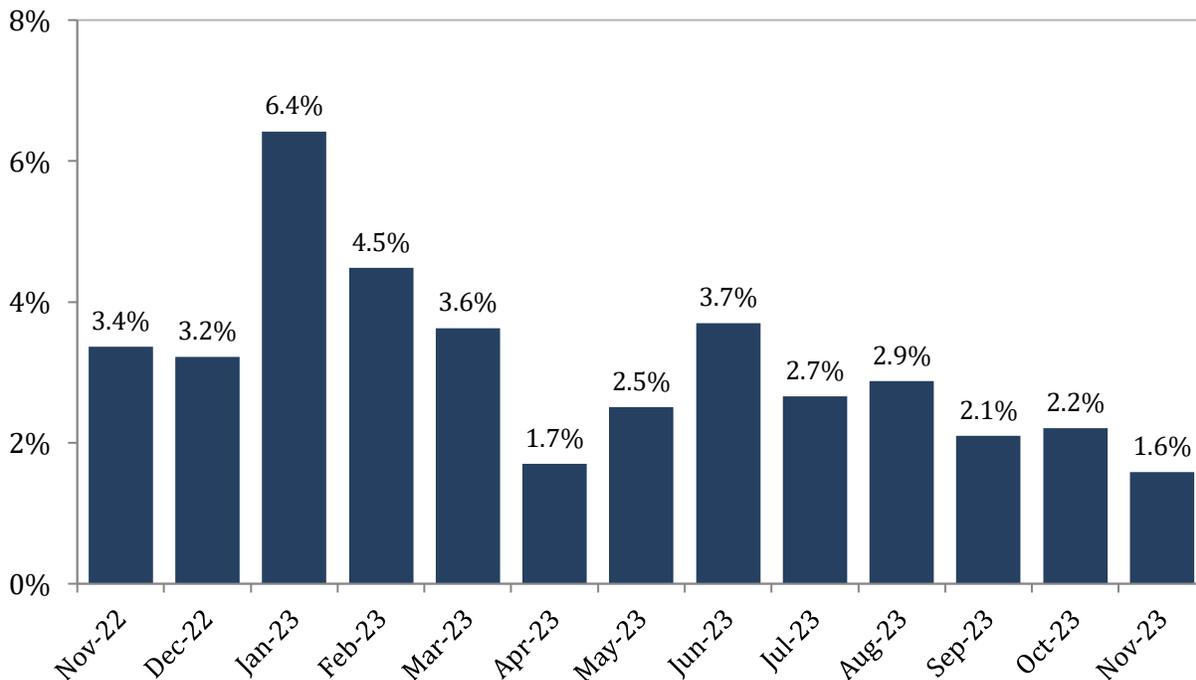- The Leading Index decreased 2.5% from November 2022 to November 2023.

Despite being in a new year, the same uncertainty remains. The Leading Index has recorded three consecutive month-over-year declines, and the Coincident Index slowed notably, as was forecast by the Leading Index in early 2023. It may be the case that we are in the midst of a soft landing, but it has been frequently noted that the outsets of recessions often appear to be soft landings. As things stand, the Washington Region is performing well, though considerably lagging peer metros in job growth. The unemployment rate is historically low among all three sub-state areas of the Washington Region. The near-term, however, appears less rosy. The labor force of Suburban Maryland shrank in the wake of the pandemic and remains stagnant. The District's labor force increased has been accompanied by an increased unemployment rate, and Northern Virginia's labor force contracted in the second half of 2023. The coming months will provide the answer as to whether we are in the midst of a soft landing or the start of a recession.

The Washington, D.C. Area Economic Indices
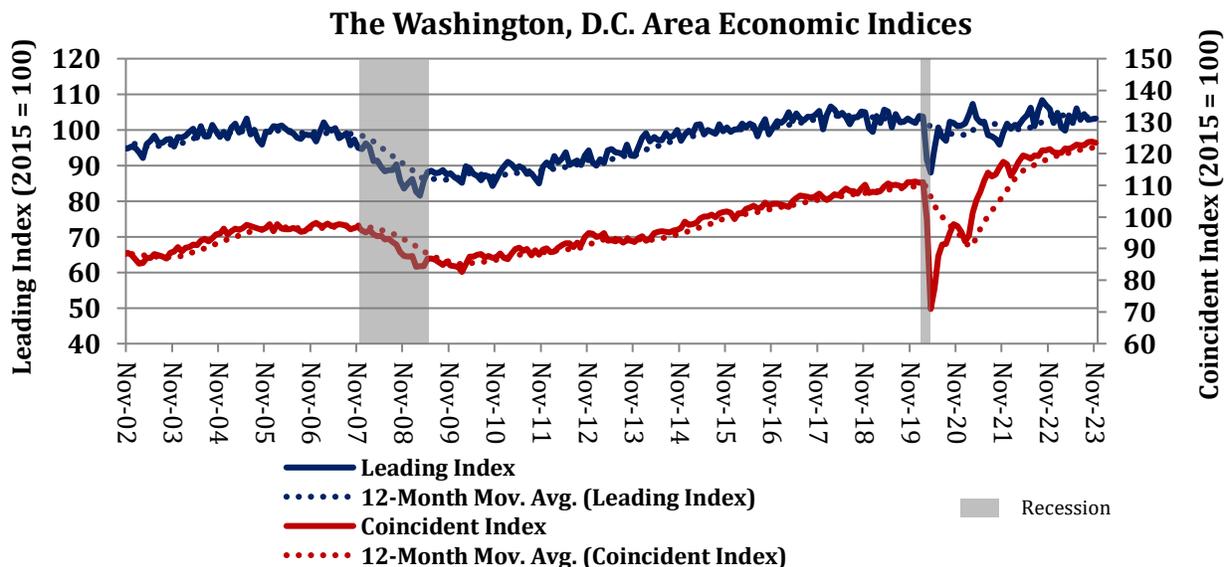
The **Washington Coincident Index**, which represents the current state of the Washington region's economy, increased 1.6% from November 2022 to November 2023, the smallest increase in nearly three years. While three of the four components of the Coincident Index remained positive, employment and domestic airport passengers recorded the smallest gains in over a year. Furthermore, Consumer confidence recorded a notable decline. Overall, the Coincident Index provides evidence that the Federal Reserve's efforts to slow the economy began to take hold in the Washington Region at the end of 2023. Furthermore, the slowing of the Coincident Index is in-line with the predictions of the Leading Index, which first turned negative in February 2023.

- *Non-durable goods retail sales* increased 3.5% from November 2022 to November 2023, the seventh consecutive positive reading; and,

- *Domestic passenger volume at Reagan National and Dulles Airports* increased 1.5% month-over-year; and,

- *Wage and salary employment* in the Washington area increased 1.4% from November 2022 to November 2023, the second smallest increase in the past year; while,

- *Consumer confidence (current circumstances)* decreased 2.5% month-over-year, the largest month-over-year decrease since April 2023.

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, decreased 2.5% month-over-year in November 2023. The decline in the Leading Index was the fourth consecutive decline, though smaller than the declines of -5.0% and -3.6% in the two preceding months. The moderated decline was primarily the result of a smaller increase in initial UI claims from the year prior. While the prospects of a soft landing have increased dramatically as a result of a strong national economy, the Leading Index continues to indicate that the region's economy will contract in the coming months.

- *Initial claims for unemployment insurance* increased (worsened) 51.4% from November 2022 to November 2023; and,

- *Total residential building permits* decreased 18.7% month-over-year, the seventh consecutive decline; and,

- *Consumer expectations (consumer confidence six months hence)* decreased 11.1% from November 2022 to November 2023, the third consecutive decline; while,

- *Durable goods retail sales* increased 5.2% month-over-year, tied for the second largest month-over-year increase with May, behind only the 5.4% increase recorded in January.

Washington Leading Index, Month-Over-Year Changes
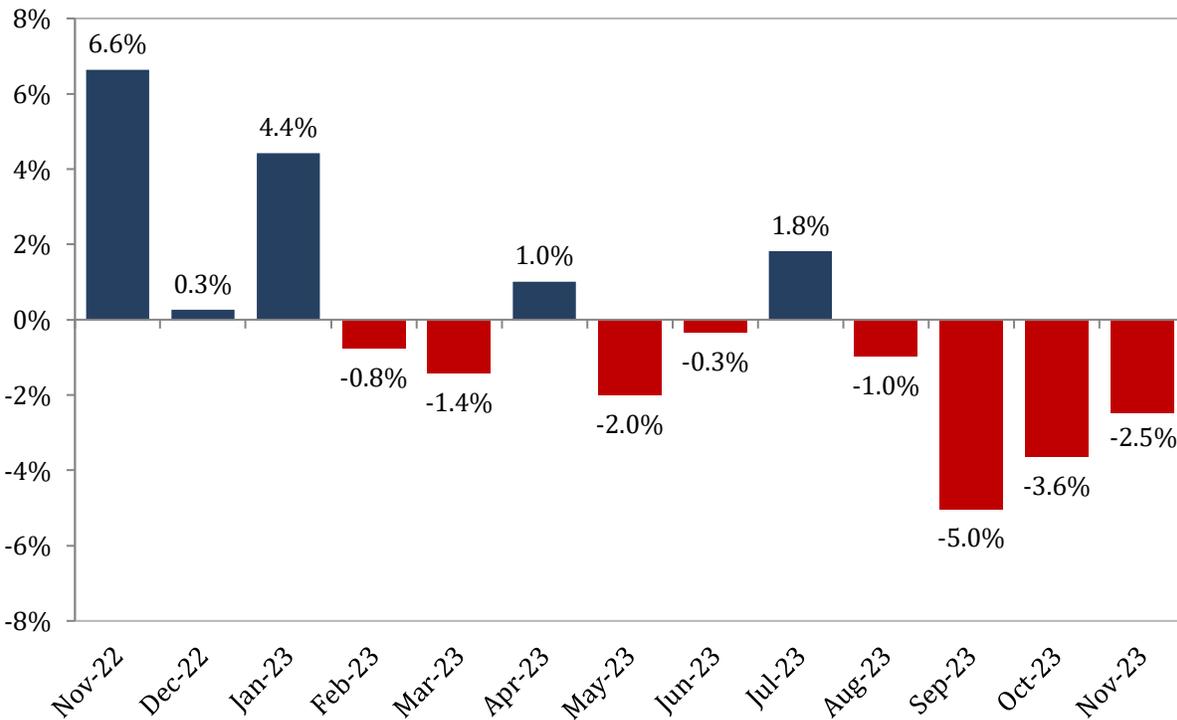
Current Performance

The current performance of the Washington Region remains relatively strong. The unemployment of the current labor market is on-par with pre-pandemic levels. In November 2023, the District had an unemployment rate of 4.8%, the exact same unemployment rate as it had in November 2019. The Unemployment rate in Northern Virginia was 2.6% in November 2023, 0.5 percentage points above the unemployment rate of 2.1% in November 2019. While the unemployment rate in Northern Virginia remained marginally higher than in 2019, the rate did reach 1.9% in November 2021, and has remained relatively low over the past two years. Suburban Maryland currently has the lowest unemployment rate of the three regions, at a remarkably low 1.7%, notably lower than 3.1% recorded in November 2019. The labor market in all three sub-state regions remains historically tight, indicating a strong current economy.

Unemployment in Sub-State Areas of the Washington Region
January 2013 to November 2023


Source: BLS, Not Seasonally Adjusted
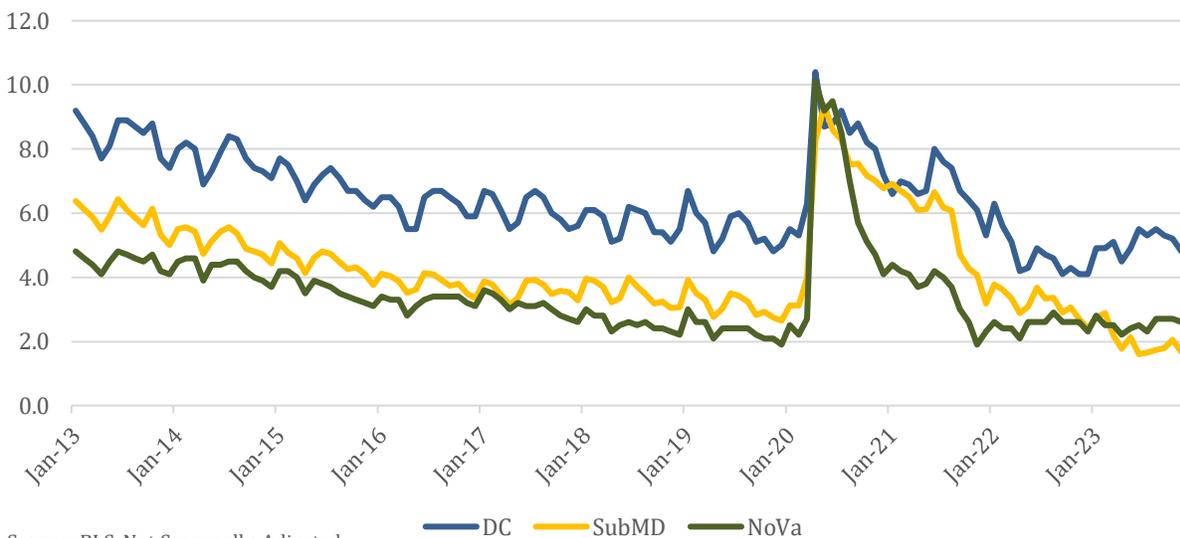
Near-Term Outlook

Despite the current strength, an examination of the labor force reveals reason for concern in the near-term as well as longer-term economic competitiveness. The graph below indexes the labor forces of the sub-state areas of the Washington Region to January 2019. While the labor forces of all three sub-state areas were hit by the pandemic, Northern Virginia fully recovered by the end of 2021 and the District fully recovered by June 2023. In contrast, suburban Maryland has remained at approximately 3.0% below its January 2019 labor force levels since January 2021.

Focusing first on Northern Virginia, by far the largest labor force in the Washington region, reveals that the labor force began to decline after reaching a peak in July 2023. While there

is typically a seasonal decline after the summer, the slightly increasing unemployment rate over the same period suggests that the labor market in Northern Virginia is truly softening. The District may also be softening. While the labor force increased during the second half of 2023, the increase coincided with a rise in the unemployment rate. Thus, while workers may have finally started to be enticed back into the labor market, they are not finding jobs as plentiful and showing up in the unemployment numbers. Suburban Maryland's labor force has remained stagnant for two full years.

Labor Force in Sub-State Areas of the Washington Region
January 2013 to November 2023

Source: BLS, Not Seasonally Adjusted
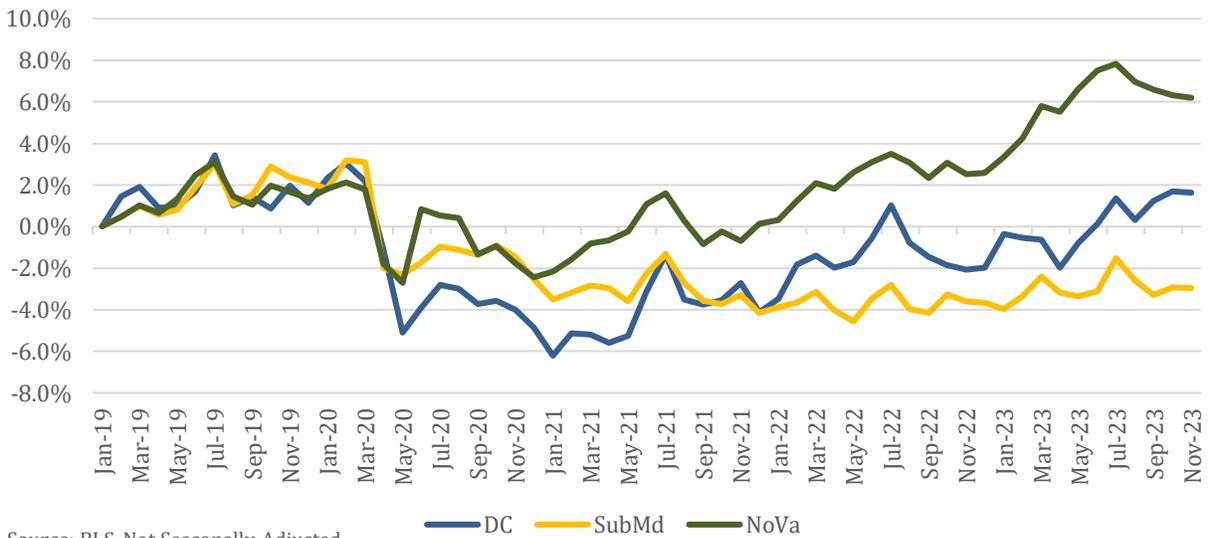
Overall, the near-term remains notably uncertain. The leading index has recorded three consecutive month-over-year declines and the labor market, while currently tight, may be finally starting to show signs of weakness as the Northern Virginia labor force shrinks and the DC unemployment rates rises as workers look to re-enter the labor force.

Washington Area Economic Indicators
Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Nov-23 Prelim.	Oct-23 Final	Nov-22 Final	Oct-23 to Nov-23	Nov-22 to Nov-23
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	123.4	123.8	121.5	-0.34%	1.59%
Leading Index (2015 = 100)	103.3	103.0	105.9	0.20%	-2.48%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000)[a]	3,411.1	3,405.4	3,363.8	0.17%	1.41%
Consumer Confidence (South Atlantic)[a]	144.5	147.0	148.2	-1.70%	-2.50%
Domestic Airport Passengers ('000)[b]	2,444.7	2,548.7	2,408.9	-4.08%	1.49%
Nondurable Goods Retail Sales ($000,000)[c]	4,245.6	4,211.5	4,102.0	0.81%	3.50%
Washington Area Leading Index Components					
Total Residential Building Permits[a]	1,505.0	1,848.0	1,852.0	-18.56%	-18.74%
Consumer Expectations (South Atlantic)[a]	75.8	72.6	85.3	4.41%	-11.14%
Initial Unemployment Claims[b]	1,806.0	1,669.2	1,192.8	8.19%	51.41%
Durable Goods Retail Sales ($000,000)[c]	4,088.7	4,067.2	3,884.9	0.53%	5.25%
Wahington Area Labor Force[a]					
Total Labor Force ('000)	3,506.2	3,513.9	3,423.2	-0.22%	2.43%
Employed Labor Force ('000)	3,418.8	3,418.1	3,327.0	0.02%	2.76%
Unemployed Labor Force ('000)	87.5	95.8	96.2	-8.71%	-9.08%
Unemployment Rate	2.5%	2.7%	2.8%	--	--
Washington Area Wage and Salary Employment[a]					
Total ('000)	3,411.1	3,405.4	3,363.8	0.17%	1.41%
Construction ('000)	167.3	168.9	164.4	-0.95%	1.76%
Manufacturing ('000)	56.9	57.0	58.2	-0.18%	-2.23%
Transportation & Public Utilities ('000)	80.7	78.1	79.7	3.33%	1.25%
Wholesale & Retail Trade ('000)	330.8	325.5	329.9	1.63%	0.27%
Services ('000)	2,031.9	2,036.4	2,001.7	-0.22%	1.51%
Total Government ('000)	743.5	739.5	729.9	0.54%	1.86%
Federal Government ('000)	371.3	370.7	374.5	0.16%	-0.85%

[a]Unadjusted data

[b]Seasonally adjusted data

[c]Seasonally adjusted constant (1996) dollars