



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



Washington Economy Watch

Slow Growth and Storm Clouds

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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.

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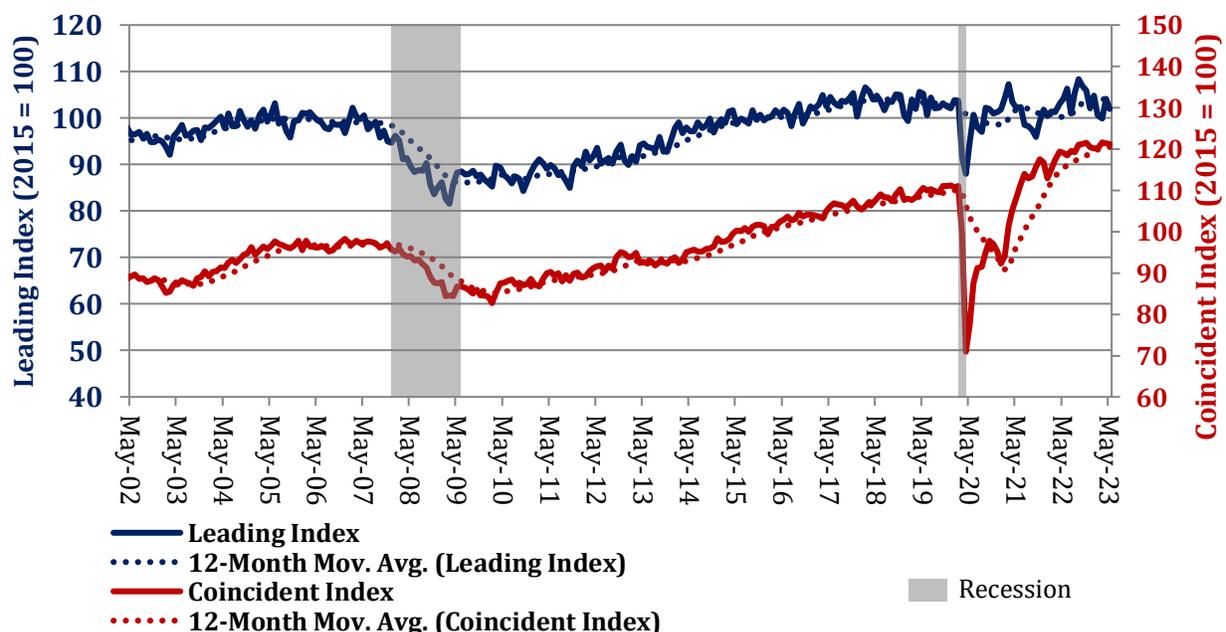
Washington Area Economy: Slow Growth and Storm Clouds

The Washington area's economy continues to grow slowly but remains at risk of a recession in the coming months, as measured by the Washington Coincident Index and the Washington Leading Index.

- The Coincident Index increased 1.8% from May 2022 to May 2023, a modest reacceleration from the 1.7% month-over-year increase in April.
- The Leading Index decreased 2.0% in May, a return to a worsening forecast after a modest increase last month.

The essentially stagnant Coincident Index in May confirms the forecast from the Leading Index, which decelerated sharply from 11.5 month-over-year growth in October 2022 to just 0.3 percent month-over-year growth in December 2022. The reversion of the Leading Index to negative month-over-year growth reaffirms our expectation the region will record a shallow contraction in the coming months. While there are continued signals that storm clouds are on the horizon, the labor market has remained remarkably resilient for the past several months nationally as well as regionally. Regionally, while the professional, scientific, and technical services employment as well as direct federal employment remain drags on the region's economy, construction has become a notable bright spot.

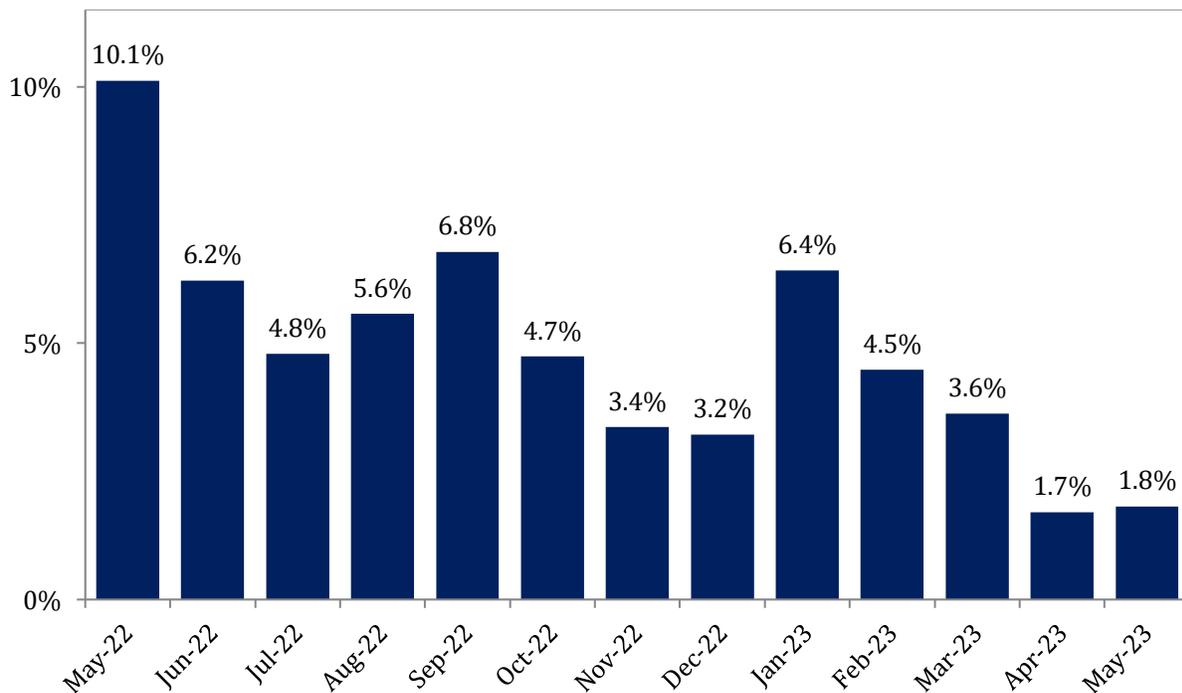
Washington DC, Area Economic Indices



The **Washington Coincident Index**, which represents the current state of the Washington region's economy, increased 1.8% month-over-year in May, a reacceleration of 0.1 percentage points from the 1.7% reading in April. While three of the four components of the Washington Coincident Index increased month-over-year from May 2022 to May 2023, only two of the four components increased from April 2023 to May 2023 (Employment and non-durable goods retail sales). Despite the optimistically leaning components, the Coincident index remains consistent that region's economy is currently growing at a modest pace.

- *Domestic passenger volume at Reagan National and Dulles Airports* increased by a marginal 3.2% from May 2022 to May 2023, continuing a pattern of moderating growth; and,
- *Wage and salary employment* in the Washington area increased 2.0% from May 2022 to May 2023, a slight uptick from the 1.8 increase in April; and,
- *Non-durable goods retail sales* increased 1.4% month-over-year in May after turning negative in April; while,
- *Consumer confidence (current circumstances)* decreased 2.3% from May 2022 to May 2023, up from April's reading but continuing to be volatile.

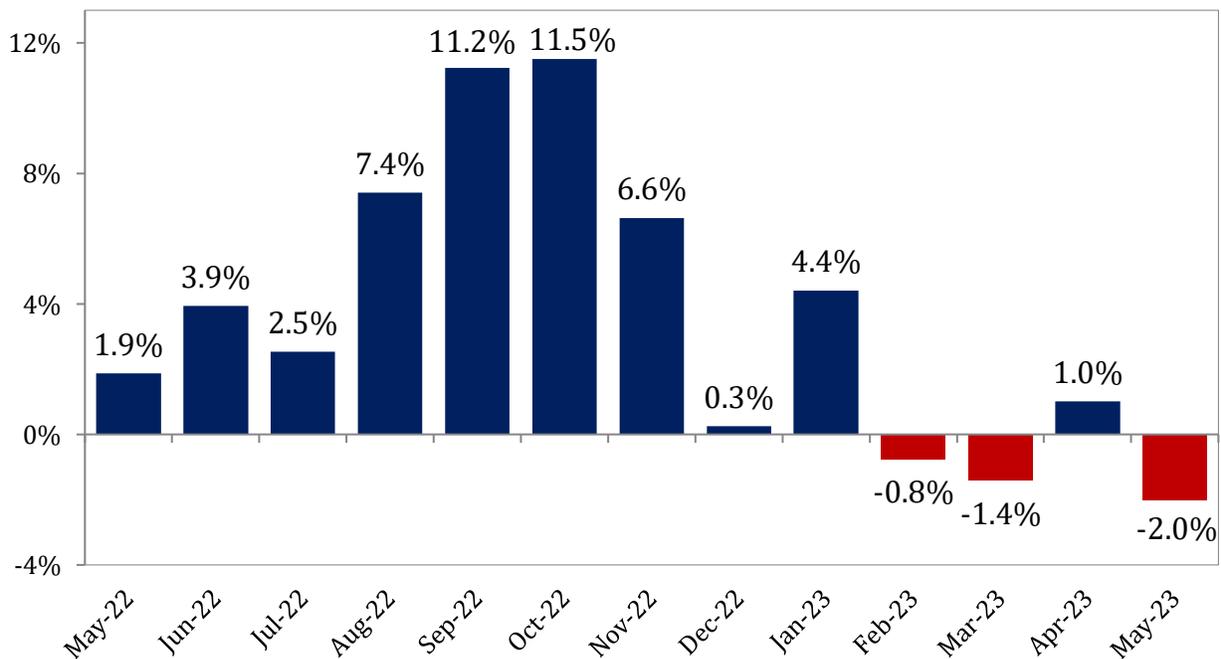
Washington Coincident Index, Month-Over-Year Changes



The **Washington Leading Index**, designed to forecast the performance of the metropolitan area economy six to eight months in advance, decreased 2.0% month-over-year in May 2023, resuming the deteriorating trend after a modest increase of 1.0% in April. While two components improved in May, the improvement in initial claims for unemployment insurance is the smallest improvement in over a year. Furthermore, total building permits issued returned to month-over-year declines after an unexpected positive reading in April. Overall, the Leading Index has been deteriorating since October 2022 and reaffirms the expectation that the Washington region’s economy will tip into recession during the second half of 2023.

- *Total residential building permits* decreased 48.8% month-over-year, the fourth negative reading in the first five months of 2023; and,
- *Consumer expectations (consumer confidence six months hence)* declined 7.3% from May 2022 to May 2023, the second consecutive negative reading and the 12th negative reading in 13 months; and,
- *Initial claims for unemployment insurance* decreased (improved) 2.0% in May, the smallest decline in over a year; while,
- *Durable goods retail sales* increased 5.1% from May 2022 to May 2023, the second largest increase in 13 months.

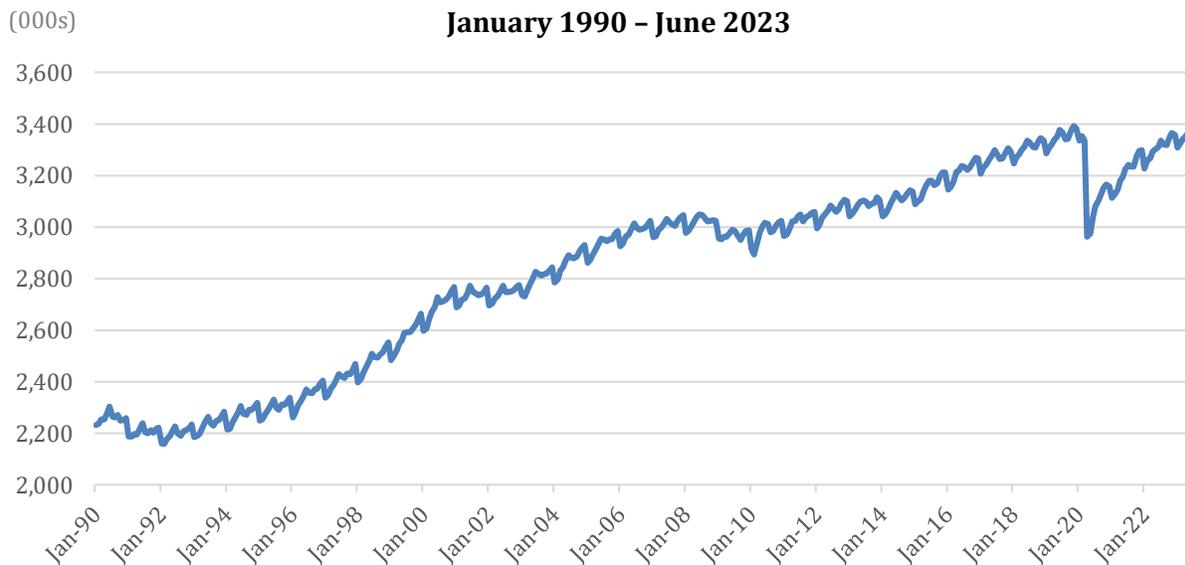
Washington Leading Index, Month-Over-Year Changes



Current Performance

The region's current performance continues to remain marginally positive, despite deteriorating over the past year. At the highest level, month-over-year changes in consumer confidence and non-durable retail goods sales have switched between positive and negative for the past year while domestic passenger airline growth has steadily slowed and was nearly unchanged from May 2022 to May 2023. Given this, it is the case regionally as it is nationally that the region's labor force is the surprisingly resilient and positive component of the Current Performance index. While employment growth in the DC region has lagged other metro areas nationally, the region's employment situation has proven to be surprisingly resilient in the face of interest rate increases from the Federal Reserve. In fact, preliminary June 2023 employment of 3,394,000 million finally surpassed the pre-pandemic record of 3,390,400 set in November 2019. Thus, while the region lags others around the country, regional employment remains a notable strength.

Washington Region Wage and Salary Employment
January 1990 – June 2023



Source: Stephen S. Fuller Institute, Bureau of Labor Statistics (Not Seasonally Adjusted)

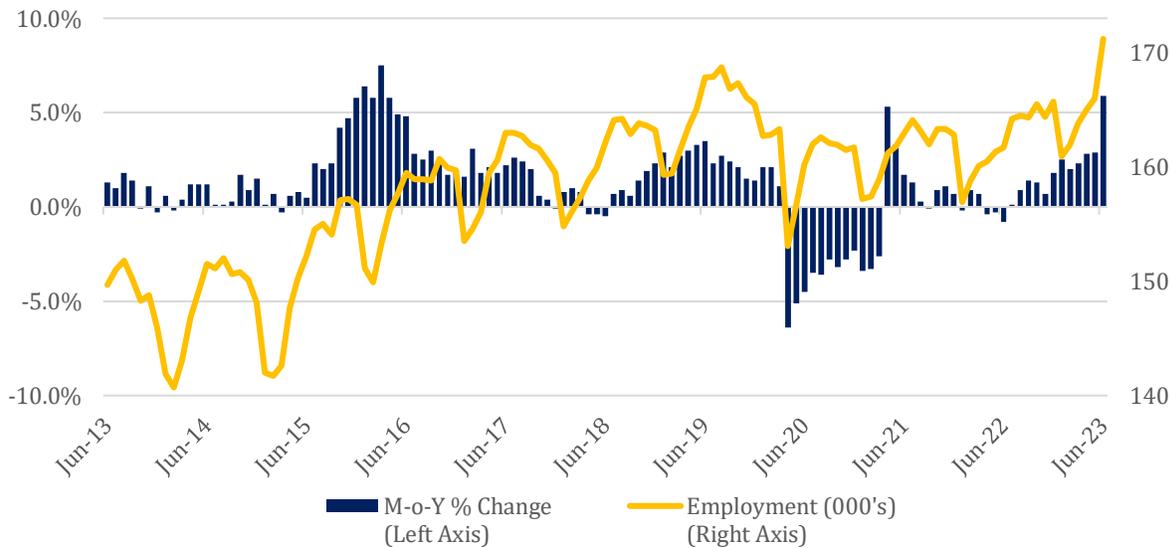
Near-Term Outlook

Real gross domestic product (GDP) increased by 2.4 percent in the second quarter of 2023. The increase was well above the 2 percent expected by a survey of economists from the [WSJ](#), [but is a preliminary estimate that will be revised in the coming months](#). Examining the percent changes of the components of GDP reveals that investment in Non-Residential structures increased 9.7 percent, among the strongest components. Despite this, investment in residential structures declined 4.2 percent from the previous quarter.

Despite the conflicting data on investments in structures nationally, construction employment in the Washington region has been increasing steadily over the past several months and increased sharply from June 2022 to June 2023. After recording a pandemic era low of 153,100 in April 2020, construction spending initially rebounded through summer of 2020 before stagnating through summer of 2022. Starting in September 2022, however, construction employment steadily increased month-over year. From January 2023 through May 2023, month-over-year increases in the construction sector topped 2.0 percent each month. From June 2022 to June 2023, construction employment increased 5.9 percent. Despite the slowdowns in various other industries, construction appears to be a bright spot.

While construction is currently a bright spot, many public projects have been underway for a while, and we may see employment in this sector soften as we enter fall. For example, in the next few weeks construction of the Fredericksburg extension of the I95 managed toll lanes will be completed. In addition, lending for new commercial projects has become more challenging in the high-rate environment. However, previously approved residential projects are boosting construction activity. Moreover, we expect federally supported infrastructure investment projects to boost construction activity in the region, especially after the first of the year.

Construction Employment in the Washington Region
June 2013 to June 2023



Washington Area Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	May-23 Prelim.	Apr-23 Final	May-22 Final	Apr-23 to May-23	May-22 to May-23
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	121.2	121.4	119.0	-0.18%	1.82%
Leading Index (2015 = 100)	102.0	104.1	104.1	-2.05%	-2.03%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,367.7	3,351.1	3,301.9	0.50%	1.99%
Consumer Confidence (South Atlantic) ^a	148.2	156.8	151.7	-5.48%	-2.31%
Domestic Airport Passengers ('000) ^b	2,243.6	2,315.8	2,173.1	-3.12%	3.25%
Nondurable Goods Retail Sales (\$000,000) ^c	4,228.7	4,189.0	4,168.4	0.95%	1.44%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	1,528.0	2,332.0	2,985.0	-34.48%	-48.81%
Consumer Expectations (South Atlantic) ^a	73.4	81.8	79.2	-10.27%	-7.32%
Initial Unemployment Claims ^b	1,994.6	2,245.9	2,035.6	-11.19%	-2.01%
Durable Goods Retail Sales (\$000,000) ^c	4,028.7	3,975.3	3,834.9	1.34%	5.05%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,508.9	3,486.2	3,421.5	0.65%	2.55%
Employed Labor Force ('000)	3,419.2	3,406.2	3,320.4	0.38%	2.97%
Unemployed Labor Force ('000)	89.7	79.9	101.1	12.25%	-11.25%
Unemployment Rate	2.6%	2.3%	3.0%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,367.7	3,351.1	3,301.9	0.50%	1.99%
Construction ('000)	166.0	165.0	161.3	0.61%	2.91%
Manufacturing ('000)	56.5	56.0	55.9	0.89%	1.07%
Transportation & Public Utilities ('000)	76.0	75.4	75.0	0.80%	1.33%
Wholesale & Retail Trade ('000)	322.1	319.3	321.7	0.88%	0.12%
Services ('000)	2,014.3	2,006.4	1,965.9	0.39%	2.46%
Total Government ('000)	732.8	729.0	722.1	0.52%	1.48%
Federal Government ('000)	370.4	369.1	374.6	0.35%	-1.12%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars