



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



Washington Economy Watch

Storm Clouds Return

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The Stephen S. Fuller Institute
for Research on the Washington Region's Economic Future
Schar School of Policy and Government
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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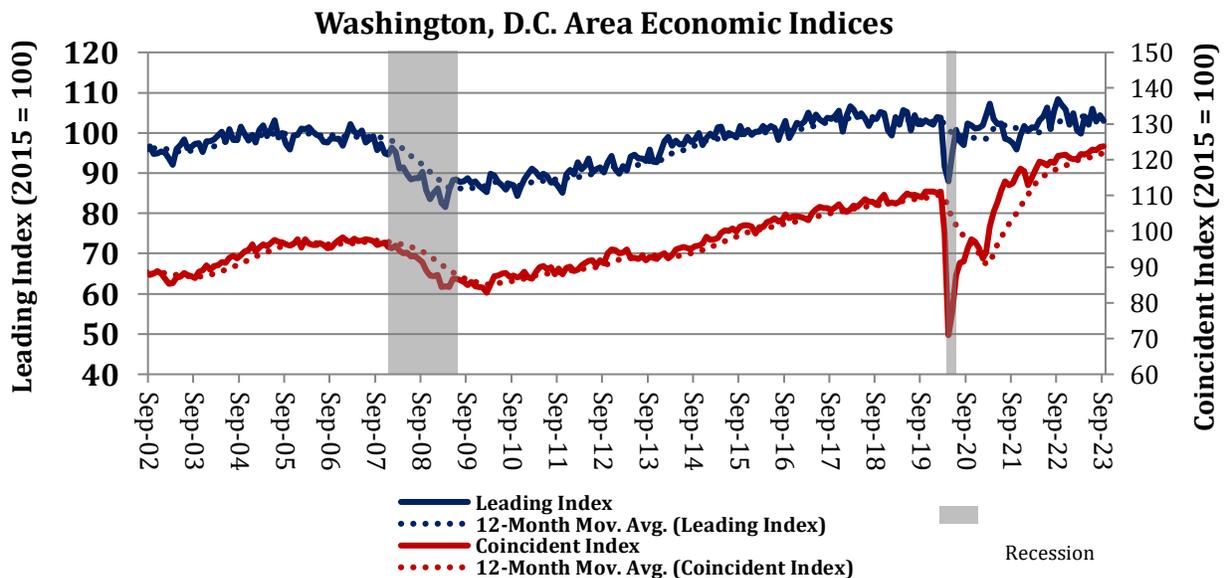
November 2023

Washington Area Economy: Storm Clouds Return

While the Coincident Index recorded another positive reading, the Leading Index decreased markedly from September 2022 to September 2023.

- The Coincident Index increased 2.2% from September 2022 to September 2023.
- The Leading Index decreased 5.0% from September 2022 to September 2023.

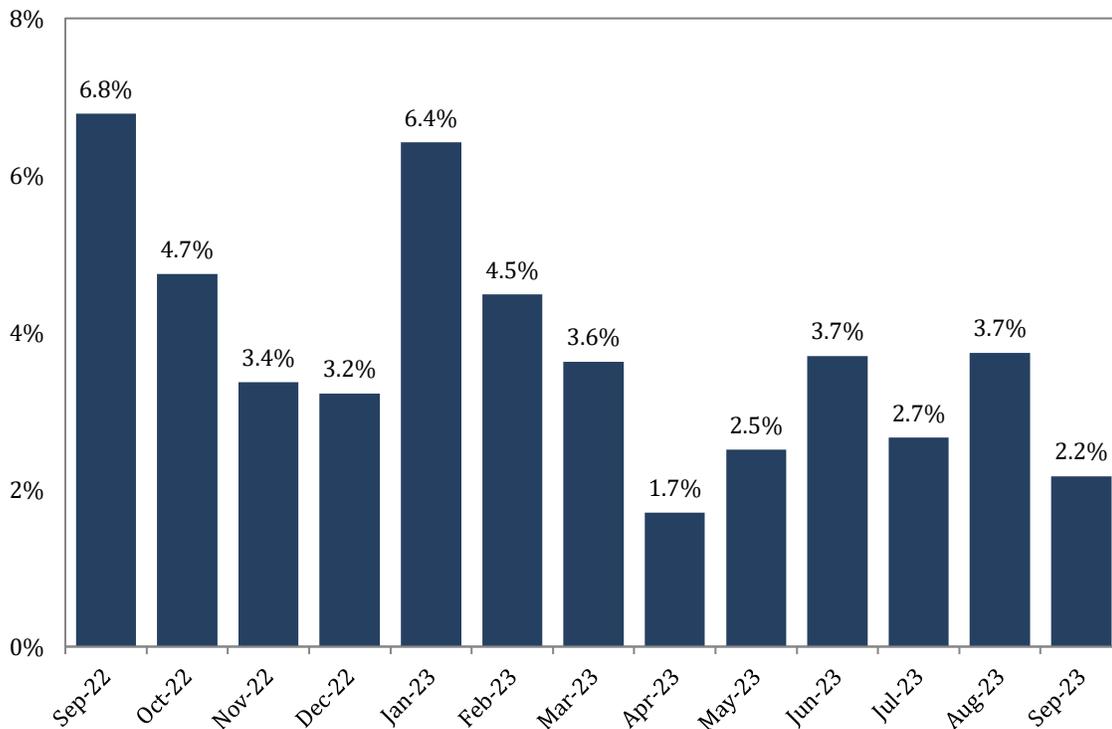
While the continuation of mixed signals is likely to continue through October, given the strong Leading Index reading in October 2022, the crystal ball becomes far hazier further out. The Leading Index could either turn positive or continue to decline if interest rate impacts broaden to further slow the economy. Nationally, interest rates have worked well to slow existing home sales, which have plummeted from recent highs. Regionally, closed sales through October are the lowest in over a decade, which has broad impacts on the region's economy through the loss of revenue for real estate agents, movers, and other related sectors. Moving forward, the region appears set for a notable slowdown, with only time revealing the depth. While the uncertainty of 2023 will not be missed, we await the new year with optimism, despite the return of economic storm clouds on the horizon.



The **Washington Coincident Index**, which represents the current state of the Washington region's economy, increased by 2.2% from September 2022 to September 2023, the smallest increase since April 2023. The reading is in accordance with broader national signals that show the economy holding up. Three of the four components increased from September 2022 to September 2023, with consumer confidence recording its first month-over-year decline since May. Despite the moderation in growth, the Coincident Index continues to indicate that the Washington region's economy is expanding modestly.

- *Domestic passenger volume at Reagan National and Dulles Airports* increased 7.4% from September 2022 to September 2023, a notable pull-back after a 17.5% month-over-year increase in August 2023; and,
- *Wage and salary employment* in the Washington area increased 2.1% from September 2022 to September 2023, the average increase in the 12 months prior; and,
- *Non-durable goods retail sales* increased 1.0% month-over-year, the fifth consecutive positive reading; while,
- *Consumer confidence (current circumstances)* decreased 4.2% from September 2022 to September 2023, the first decline after three consecutive positive readings.

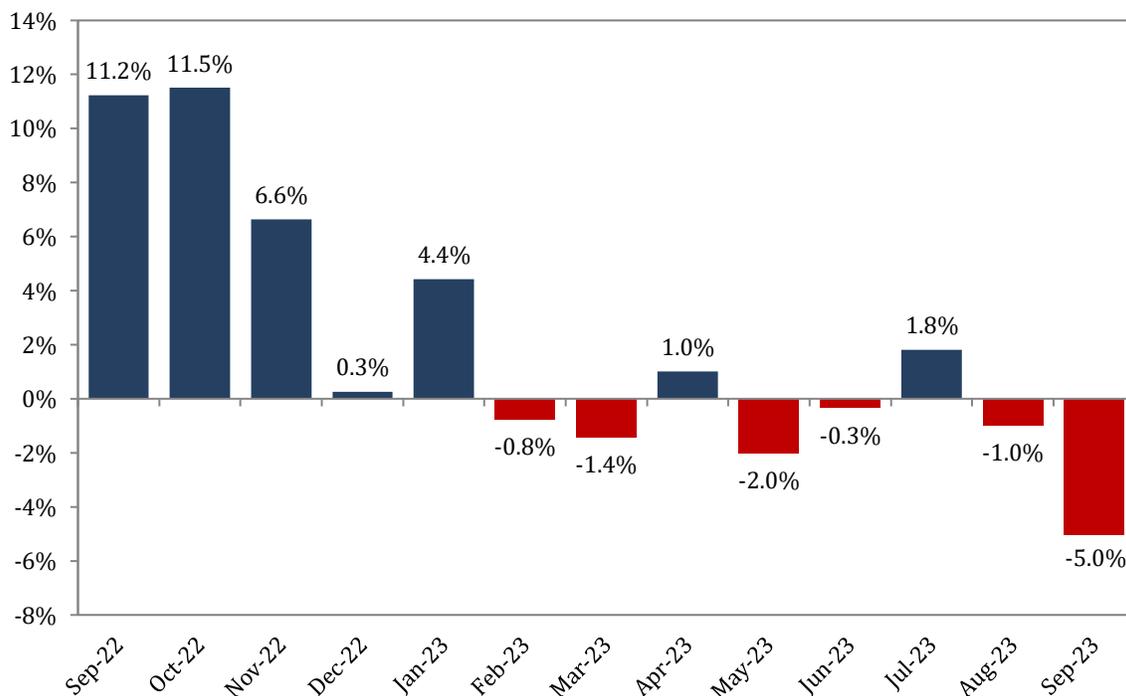
Washington Coincident Index, Month-Over-Year



The **Washington Leading Index**, designed to forecast the performance of the metropolitan area economy six to eight months in advance, decreased 5.0% month-over-year in September 2023. The accelerated negative reading is the strongest signal yet from the Leading Index in 2023 that a recession looms. The negative reading was anticipated, as noted last month, given elevated readings in September 2022. Despite being anticipated, the magnitude of the decline is notable. Three of the four components were negative in August, including a marked increase (worsening) of initial claims for unemployment insurance. Looking forward, while the Leading Index is likely to be negative in October, November expectations are highly uncertain, and thus will provide a strong reading on the depth and severity of the likely slowdown in 2024.

- *Initial claims for unemployment insurance* increased (worsened) 114.3% from September 2022 to September 2023, a remarkably sharp increase from the 32.6% month-over-year increase in August and the *decline* recorded in May; and,
- *Total residential building permits* decreased 59.4% from September 2022 to September 2023, the fifth consecutive decline and largest decrease in over a year; and,
- *Consumer expectations (consumer confidence six months hence)* decreased 1.9% from September 2022 to September 2023, the first decline since May; while,
- *Durable goods retail sales* increased 5.0% month-over-year, the fourth consecutive month-over-year increase with only one decrease in the first eight months of 2023.

Washington Leading Index, Month-Over-Year Changes



Current Performance

As indicated by the coincident index, the Washington Region's economy continues to outperform expectations from the beginning of the year, as with the rest of the nation. Unemployment in the Washington Region declined from January through April 2023 before increasing modestly through September. Despite the increase over the past few months, unemployment in the Washington Region remains subdued from 2022 levels. However, the increase in initial claims for unemployment may indicate that unemployment levels are set to rise in the coming months, despite the currently subdued levels.

**Unemployment in the Washington Region
January 2022 to September 2023**



BLS. Not Seasonally adjusted

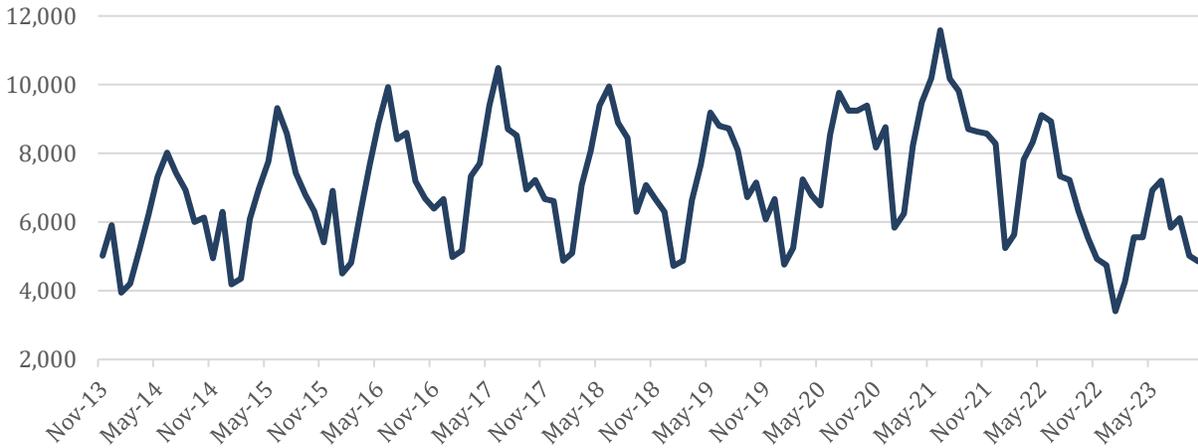
Near-Term Outlook

Preliminary data from the National Association of Realtors showed that national existing homes sales declined to a seasonally adjusted rate of 3.79 million. This was the lowest recorded rate dating back to August 2010. Closed sales in the Washington Region have generally mirrored national trends over the past 9 years.

From 2013 through 2017, closed sales in the Greater DC Area¹ were on an upward trajectory before contracting slightly in 2018, 2019, and 2020. Following the pandemic disruption, however, the number of closed sales surged on demand for homes that fit the new reality of hybrid work-life and ultra-low interest rates. The number of closed sales reached a decade record of 11,584 closed sales in June 2021, representing \$7.2 billion in total home sales. As the Federal Reserve began to raise interest rates, however, the number of closed sales in the Greater DC Area quickly began to contract. Total year-to-date closed sales through October contracted from 88,904 in 2021 to 71,496 in 2022 (-20%) and to 54,746 in 2023 (-23%). The 54,746 closed sales through October 2023 is the fewest closed sales year-to-date in over 10 years.

¹ Greater DC Area includes the following VA counties (or ind. city): Alexandria City, Arlington, Clarke, Culpeper, Fairfax City, Fairfax, Falls Church City, Fauquier, Fredericksburg City, Loudoun, Manassas City, Manassas Park City, Prince William, Rappahannock, Spotsylvania, Stafford, Warren; the following MD counties: Calvert, Charles, Frederick, Montgomery, Prince George's; Jefferson County (WV); and Washington, DC.

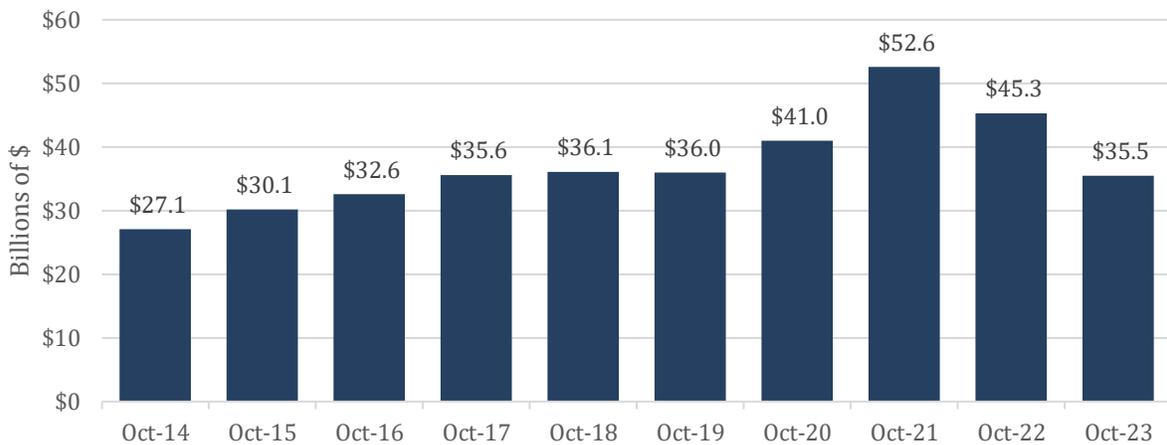
Monthly Closed Sales November 2013 to October 2023



BrightMLS via SmartCharts

Examining total sales value of closed sales through October from 2014 through 2023 clearly shows the economic loss associated with the decline in home sales. The total nominal dollar values of year-to-date closed sales through October peaked at \$52.6 billion in 2021 before declining to \$45.3 billion in 2022 (-14%) and to \$35.5 billion in 2023 (-22%). Total sales year-to-date in October 2023 were \$9.8 billion lower than in 2022. The loss has broad ramifications for the region’s economy. For example, assuming a 5% commission on the sales price suggests that real estate agents received approximately \$489 million less in commissions year-to-date in 2023 than in 2022, even before accounting for inflation. Losses would also be anticipated for other industries reliant on real estate churn such as moving companies, furniture stores, and contractors making home repairs and updates. In addition to the Leading Index, the real estate market in the Greater DC Area is providing strong evidence of a slowdown in the near term.

Total Close Sale Value Year-To-Date Through October (Nominal Dollars)



BrightMLS via SmartCharts

Washington Area Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Sep-23 Prelim.	Aug-23 Final	Sep-22 Final	Aug-23 to Sep-23	Sep-22 to Sep-23
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	123.7	123.6	121.1	0.09%	2.17%
Leading Index (2015 = 100)	102.9	104.4	108.4	-1.46%	-5.03%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,387.0	3,380.1	3,318.4	0.20%	2.07%
Consumer Confidence (South Atlantic) ^a	152.2	160.1	158.8	-4.93%	-4.16%
Domestic Airport Passengers ('000) ^b	2,548.6	2,572.3	2,373.9	-0.92%	7.36%
Nondurable Goods Retail Sales (\$000,000) ^c	4,238.2	4,162.1	4,195.6	1.83%	1.01%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	1,475.0	2,249.0	3,631.0	-34.42%	-59.38%
Consumer Expectations (South Atlantic) ^a	77.1	82.9	78.6	-7.00%	-1.91%
Initial Unemployment Claims ^b	2,189.8	1,835.2	1,021.8	19.32%	114.30%
Durable Goods Retail Sales (\$000,000) ^c	4,147.9	3,964.4	3,952.2	4.63%	4.95%
Washington Area Labor Force					
Total Labor Force ('000)	3,510.8	3,523.2	3,418.5	-0.35%	2.70%
Employed Labor Force ('000)	3,418.6	3,429.6	3,320.5	-0.32%	2.95%
Unemployed Labor Force ('000)	92.2	93.6	98.0	-1.47%	-5.91%
Unemployment Rate	2.6%	2.7%	2.9%	--	--
Washington Area Wage and Salary Employment					
Total ('000)	3,387.0	3,380.1	3,318.4	0.20%	2.07%
Construction ('000)	169.1	171.6	164.3	-1.46%	2.92%
Manufacturing ('000)	56.6	56.8	57.0	-0.35%	-0.70%
Transportation & Public Utilities ('000)	76.5	76.6	75.7	-0.13%	1.06%
Wholesale & Retail Trade ('000)	319.8	321.2	321.6	-0.44%	-0.56%
Services ('000)	2,030.7	2,034.3	1,980.9	-0.18%	2.51%
Total Government ('000)	734.3	719.6	718.9	2.04%	2.14%
Federal Government ('000)	370.6	370.1	375.2	0.14%	-1.23%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars