



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



Washington Economy Watch

Stagnation or Reallocation?

Vol VIII No. 3
March 2024

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.

Washington Economy Watch

Stagnation or Reallocation?

March 2024

Washington Area Economy: Stagnation or Reallocation?

The Coincident Index recorded another modest increase, while the Leading Index recorded a second consecutive positive reading.

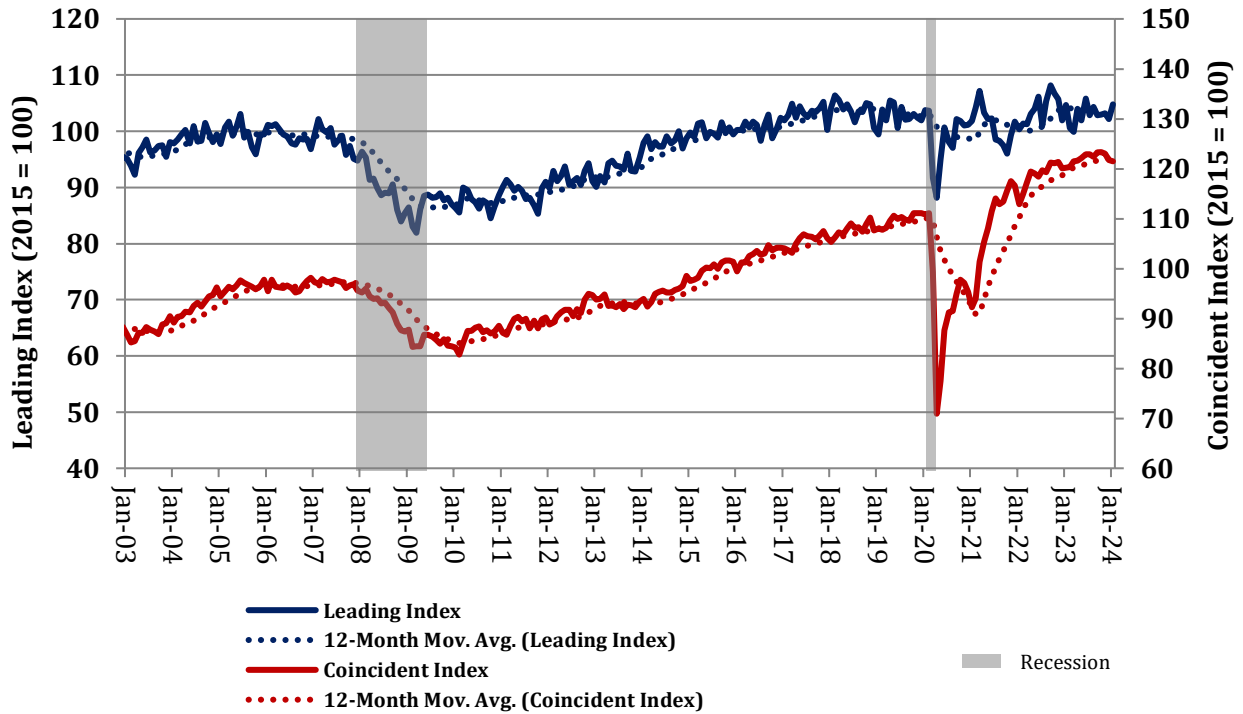
- The Coincident Index increased 1.0% from January 2022 to January 2023.
- The Leading Index increased 0.1% from January 2022 to January 2023.

The coming months will reveal whether the economic soft-landing scenario plays out or whether higher-for-longer interest rates will spark a slowdown. National level economic signals remain mixed with the stock market showing very bullish trends but industrial inventories and the pace of hiring suggesting increasing softness that may turn the economy downward. In either case, the Washington region is showing resilience but not impressive growth. Labor availability in the National Capital Region remains a constraint on growth and recently released data indicate that economic stagnation may be masking a geographic reallocation of economic activity within the region. Although DC recorded the largest population increase in the area from 2022 to 2023, the District has issued far fewer residential construction permits year-to-date in 2024 than in 2023 while other area jurisdictions have issued more (see Near-Term Outlook). This suggests that the coming years could bring slower growth to the District but while outer suburbs capture a larger share of growth. Much will depend on the District's ability to better control crime, redevelop vacant office space, create a more competitive business environment – and effectively leverage their win in the battle for sports teams.

Notice: Economic shifts that accelerated during the pandemic have altered some of the relationships among the variables included in the Washington Leading and Coincident indices that require minor modeling adjustments. These “new” indices, along with historical trends, will be released in the coming months.

The Coincident Index recorded another modest increase, while the Leading Index recorded a second consecutive positive reading.

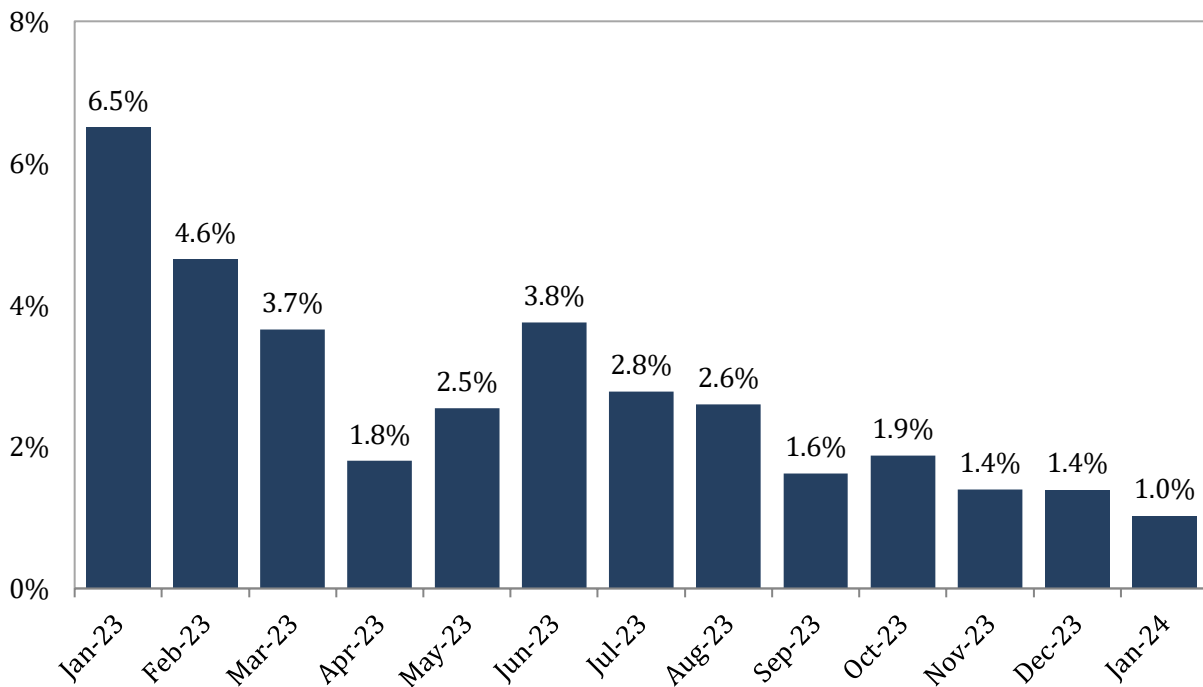
- The Coincident Index increased 1.0% from January 2022 to January 2023.
- The Leading Index increased 0.1% from January 2022 to January 2023.



The **Washington Coincident Index**, which represents the current state of the Washington region's economy, increased 1.0% from December 2022 to December 2023, the smallest increase since prior to the onset of the pandemic. The month-over-year increase is a continuation of recent trends that suggest the region's economy is beginning to stall, but not yet contracting. As mentioned last month, a soft landing for the national economy is the odds-on bet among economists; however, the region's economy appears more likely to transition directly into a no/very slow growth scenario. Moving forward, job growth and economic output increases are positive, but near zero.

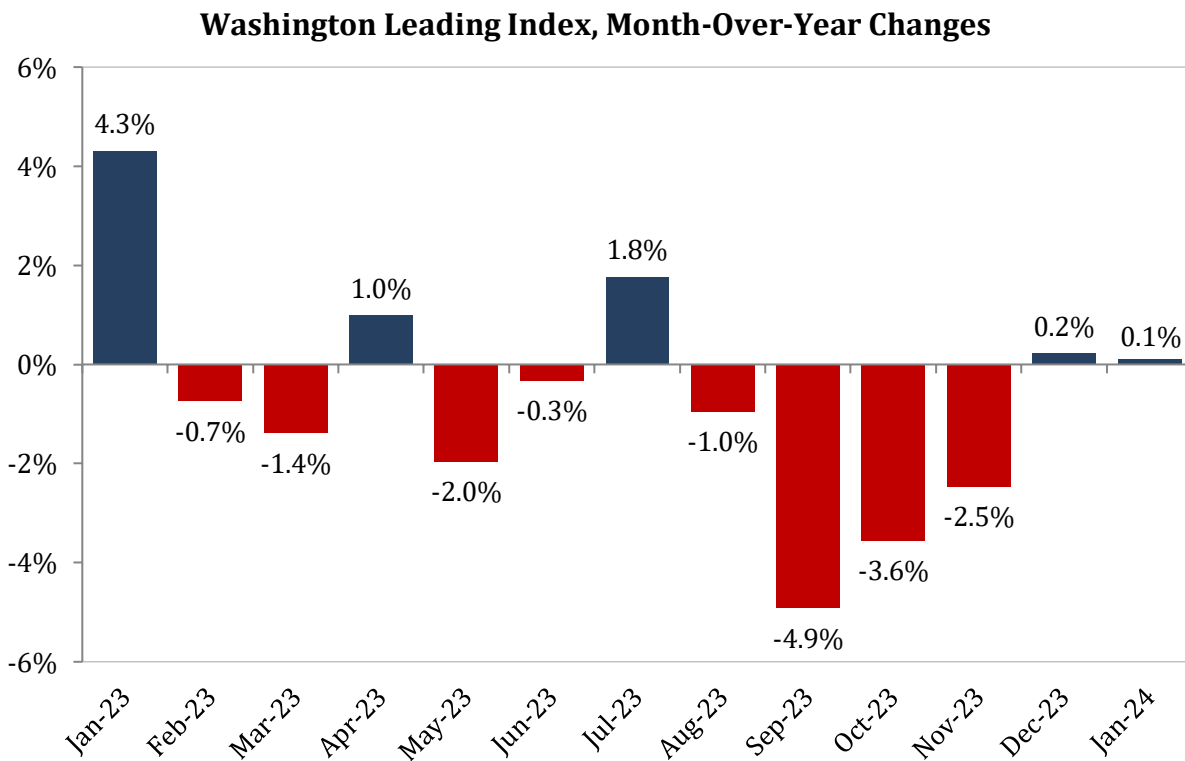
- *Non-durable goods retail sales* increased 1.7% from January 2022 to January 2023, the ninth consecutive month-over-year increase; and,
- *Domestic passenger volume at Reagan National and Dulles Airports* increased 1.3% month-over-year in January, in line with the prior two months but notably below summer and fall 2023; and,
- *Wage and salary employment* in the Washington area increased 0.9% from January 2022 to January 2023, the smallest month-over-year increase in over a year; while,
- *Consumer confidence (current circumstances)* increased 0.2% month-over-year, after declining in the prior 2 months.

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 0.1% month-over-year in February 2024. This is the second consecutive increase in the Leading Index, albeit an extremely modest one. Given the negative readings in late 2023, the prospects of a soft landing are improving, but this latest reading suggests more of a no-growth scenario for the near-term.

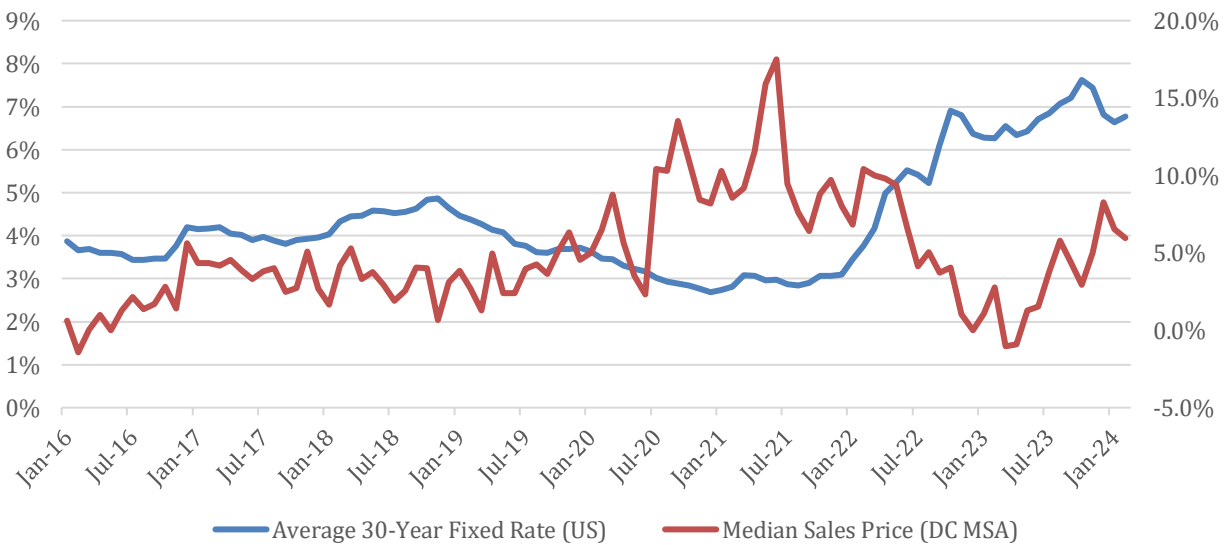
- *Initial claims for unemployment insurance* decreased (improved) 16.1% from January 2022 to January 2023, the second consecutive decline; and,
- *Consumer expectations (consumer confidence six months hence)* increased 3.3% from January 2022 to January 2023, the second consecutive increase; while,
- *Durable goods retail sales* decreased 0.2% month-over-year in January, the first decrease since April 2023; and,
- *Total residential building permits* decreased 18.4% month-over-year, the ninth consecutive decline.



Current Performance

The region's economy has been performing unexpectedly well over the past year. Following the Federal Reserve's interest rate increases, the national average 30-year fixed mortgage climbed from 3.1 percent in early 2022 to a recent peak of 7.6 percent in October 2023. Locally, this had the intended effect of slowing down price increases, as seen below in month-over-year increases in the median sales price of homes sold in the DC region. As mortgage rates increased, month-over-year median home sale increases declined from 10.4 percent in February 2022 to -1.0 percent in March 2023. However, positive economic growth and a persistent housing shortage led to a resumption of home price increases after the March 2023 low. From December 2022 to December 2023, the median price of homes sold increased 8.2 percent, even though mortgage rates were higher in December 2023 than in March 2023. It is unclear if this is an indicator of regional economic strength or an artifact of failed housing policies, especially in the core jurisdictions.

Average 30-Year Fixed Mortgage Rate (%) and Month-Over-Year Median Sales Price



Near-Term Outlook

Looking forward, the number of new residential unit construction permits gives an indication of potential housing starts and economic expansion. Year-to-date in February 2024¹, there were 3,800 new residential permits authorized in the Washington region, of which, just 83 (2.2%) were awarded by the District. The District's share of regional permitting activity is down sharply over the past year. In February 2023, the District permitted 1,099 units, accounting for 33.4% of the 3,391 units permitted in the Washington region. For all of 2023, the District issued permits for 3,020 of the total 23,034 units (13.1%)

¹ Note that the leading index for this month uses January data. Permit data is released more expeditiously than other data.

permitted in the region. Notably, while the District permitted fewer units year-to-date through February 2024 than February 2023, the total number of units permitted for the region increased 12.1 percent from 3,391 to 3,800. This shows that as of late, the District has begun to trail the region in the development process for critically needed housing units which could have several implications moving forward. First, housing development appears to be shifting to suburban jurisdictions, especially outer ring suburbs, compared to 2023. This has implications for getting downtown workers to return to the office more often, with attendant effects on overall economic activity in the District. Second, the dwindling number of permits in the District and greater share of residential permits issued in the suburbs suggests that recent population gains in the District may not be sustainable in the coming years. Recent research by SFI/CRA researchers in collaboration with the Northern Virginia Association of Realtors® shows shifting housing market activity further from downtown, which will impact future economic activity in the District and core suburbs. This report also shows the significant contribution that new housing has on the regional economy. Look for that report in the coming weeks.

**DC and Washington Region Residential Housing Permits
Year-to-Date February 2023, February 2024, and Full Year 2023**

	Year-to-Date February 2023	Full Year 2023 (Preliminary)	Year-to-Date February 2024
DC	1,099	3,020	83
Rest of Washington Area (less DC)	2,292	20,014	3,717
Washington Region Total	3,391	23,034	3,800
D.C. as % of Area Total	32.4%	13.1%	2.2%

Source: Census Bureau

Washington Area Economic Indicators Current and Previous Months

Economic Indicator	Estimates			Percent Change	
	Jan-24 Prelim.	Dec-23 Final	Jan-23 Final	Dec-23 to Jan-24	Jan-23 to Jan-24
Washington Area Business Cycle Indicators					
Coincident Index (2015 = 100)	121.4	121.8	120.2	-0.28%	1.03%
Leading Index (2015 = 100)	104.8	102.2	104.7	2.54%	0.10%
Washington Area Coincident Index Components					
Total Wage & Salary Employment ('000) ^a	3,338.4	3,392.6	3,310.1	-1.60%	0.85%
Consumer Confidence (South Atlantic) ^a	151.2	149.3	150.9	1.27%	0.20%
Domestic Airport Passengers ('000) ^b	2,335.0	2,462.0	2,305.5	-5.16%	1.28%
Nondurable Goods Retail Sales (\$000,000) ^c	4,277.6	3,972.8	4,205.0	7.67%	1.73%
Washington Area Leading Index Components					
Total Residential Building Permits ^a	1,713.0	1,775.0	2,098.0	-3.49%	-18.35%
Consumer Expectations (South Atlantic) ^a	87.0	80.3	84.2	8.34%	3.33%
Initial Unemployment Claims ^b	1,555.8	2,032.9	1,853.9	-23.47%	-16.08%
Durable Goods Retail Sales (\$000,000) ^c	4,211.7	3,864.0	4,221.5	9.00%	-0.23%
Washington Area Labor Force^a					
Total Labor Force ('000)	3,478.0	3,462.7	3,443.8	0.44%	0.99%
Employed Labor Force ('000)	3,380.5	3,376.1	3,339.4	0.13%	1.23%
Unemployed Labor Force ('000)	97.6	86.7	104.4	12.59%	-6.54%
Unemployment Rate	2.8%	2.5%	3.0%	--	--
Washington Area Wage and Salary Employment^a					
Total ('000)	3,338.4	3,392.6	3,310.1	-1.60%	0.85%
Construction ('000)	160.2	164.5	160.8	-2.61%	-0.37%
Manufacturing ('000)	57.1	57.9	56.4	-1.38%	1.24%
Transportation & Public Utilities ('000)	80.2	86.2	79.1	-6.96%	1.39%
Wholesale & Retail Trade ('000)	325.5	336.0	324.8	-3.13%	0.22%
Services ('000)	1,990.5	2,018.0	1,984.5	-1.36%	0.30%
Total Government ('000)	724.9	730.0	704.5	-0.70%	2.90%
Federal Government ('000)	373.3	372.7	369.8	0.16%	0.95%

^aUnadjusted data

^bSeasonally adjusted data

^cSeasonally adjusted constant (1996) dollars