Greater Washington Research at BROOKINGS

Metro D.C. Monitor

Tracking Economic Recession and Recovery in the Greater Washington Region

December 2009

Most economists report that the recession is technically over. Gross domestic product returned to positive growth in the third quarter, housing prices are rising, and job losses may be stabilizing. Yet the recovery is fragile and could be reversed, and unemployment continues to be a major problem.

In many ways the greater Washington region has been spared the worst of the crisis. Based on an index of economic performance in the nation's 100 largest metropolitan areas over the course of the recession and recovery, tracked in Brookings' *MetroMonitor*, the Washington metropolitan area has ranked as one of the twenty strongest-performing metros in each of the last three quarters. The regional labor market remained relatively strong and gross metropolitan product (GMP) has recorded positive growth throughout much of the last two years. In fact, the D.C. region is one of only 13 metros which experienced growth in both GMP and jobs in the third quarter of 2009.

The 20 strongest-performing metro areas	
Austin, TX	Little Rock, AR
Baton Rouge, LA	Madison, WI
Buffalo, NY	Oklahoma City, OK
Columbia, SC	Omaha, NE-IA
Dallas, TX	Rochester, NY
Des Moines, IA	San Antonio, TX
El Paso, TX	Syracuse, NY
Houston, TX	Tulsa, OK
Jackson, MS	Virginia Beach, VA-NC
Kansas City, MO-KS	Washington, D.C.-VA-MD-WV

However, the regional housing market was weaker than most, with significantly higher rates of bank owned properties and falling housing prices. Moreover, economic recovery within the region was uneven as several jurisdictions continued to face multiple challenges.

This *Metro D.C. Monitor,* the second edition in a quarterly series, tracks five key indicators of economic health in the Washington, D.C. metropolitan area: employment, unemployment, gross metropolitan product, housing prices, and real-estate owned properties (REO). It is a supplement to the *MetroMonitor* produced by the Brookings Metropolitan Policy Program, which examines the nation's 100 largest metropolitan areas. For each economic indicator, *Metro D.C. Monitor* shows how the greater Washington area ranks among those 100 metro areas nationwide, provides interpretive analysis, and—where detailed data are available—examines variation in performance within the region. This edition of the *Metro D.C. Monitor* finds that:

- **Employment began to recover after falling for four consecutive quarters.**[1] Since peaking in the third quarter of 2008, employment in greater Washington has fallen by 1.1 percent. Employment rose 0.1 percent during the third quarter of this year, after falling the two previous quarters.

  Percent change in employment, peak to 2009Q3 rank: 5 out of 100.
  Rank percent change in employment, 2009Q2 to 2009Q3 rank: 9 out of 100.

  The presence of the federal government has insulated metropolitan Washington from some of the dramatic losses experienced by other metros; over the course of the national recession employment in the D.C. region has only fallen by 0.7 percent. In fact, employment in the government sector as a whole in the D.C. region has grown 3.5 percent since the beginning of the national recession compared to a weighted average of 1.1 percent in the top 100 metros. In the third quarter of 2009 alone, the number of government jobs in the D.C. region increased 0.9 percent. The government sector now makes up 24.4 percent of all employment, up a full percentage point since the fourth quarter of 2007. Much of this new employment is likely related to the federal response to the recession (Troubled Asset Relief Program, American Recovery and Reinvestment Act, aid for first-time homebuyers, etc.) and related reporting and program management needs. This is especially true as state and local governments have been forced in many cases to cut payrolls in order to balance their budgets. Other sectors with positive job growth in the third quarter of 2009 included: educational services, management, hospitality, health care, and administrative/support services.

[1] The methodology used to determine the peak quarter for employment and GMP has changed. The peak is now defined as the peak prior to the most recent decline. Unlike previous iterations of the Monitor, the peak can no longer be defined as the previous quarter. Additional information is available in the methodology section.

Employment by industry, by performance during national recession 2007Q4 to 2009Q3[2]

Employment sector	Percent change, 2009Q2 to 2009Q3	Percent change, 2008Q3 (peak) to 2009Q3	Percent change, 2007Q4 (start of recession) to 2009Q3
Total Payroll Employment	**0.1%**	**-1.1%**	**-0.7%**
Positive job growth industries			
Management of Companies and Enterprises	3.6%	9.8%	9.4%
Educational Services	3.7%	1.4%	6.1%
Government	0.9%	1.5%	3.5%
Health Care and Social Assistance	0.4%	1.2%	3.5%
Professional, Scientific, and Technical Services	-0.2%	0.1%	1.9%
Accommodation and Food Services (Hospitality)	1.1%	-0.4%	1.4%
Other Services (except Public Administration)	-0.2%	-1.5%	0.5%
Negative job growth industries			
Utilities	-0.5%	-1.1%	-1.2%
Transportation and Warehousing	-0.8%	-0.5%	-1.3%
Administrative and Support and Waste Management and Remediation Services	0.2%	-0.3%	-2.2%
Agriculture, Forestry, Fishing, and Hunting	0.0%	-2.0%	-2.9%
Wholesale Trade	-1.0%	-3.6%	-4.2%
Arts, Entertainment, and Recreation	-5.1%	-7.4%	-5.1%
Finance and Insurance	-0.6%	-3.3%	-6.4%
Retail Trade	-1.1%	-5.1%	-6.5%
Real Estate and Rental and Leasing	-1.3%	-6.2%	-7.3%
Manufacturing	-1.7%	-5.1%	-7.4%
Information	-1.6%	-6.8%	-9.3%
Construction	-0.8%	-8.9%	-14.4%
Mining	-0.8%	-17.5%	-16.3%

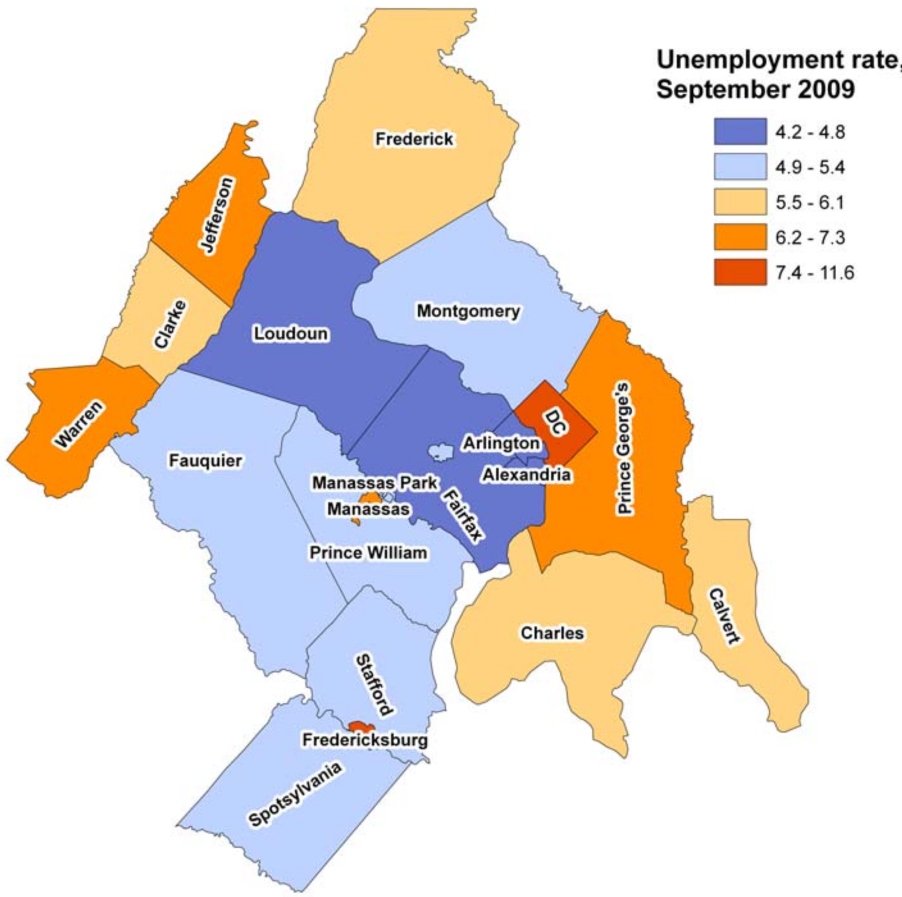
- **Unemployment continued to rise, although the rate for greater Washington remained lower than the average for the top 100 metros.** The unemployment rate for the D.C. region was 6.1 percent in September 2009, compared to an average of 9.6 percent across the 100 largest metros. The unemployment rate in greater Washington rose 2.2 percentage points from September 2008 to September 2009, compared to 3.6 percentage points across the 100 largest metros.
  Unemployment rate, Sep 2009 rank: 8 out of 100.
  Change in unemployment, Sep 2008 to Sep 2009 rank: 14 out of 100.

- **Unemployment rates continued to vary significantly across the region.** The unemployment rate in the District of Columbia stood at 11.6 percent in September 2009, the highest rate of any major jurisdiction in the region. Elsewhere in the region, the unemployment rate varied from 4.2 percent in Arlington to 7.3 percent in Prince George's County and 9.2 percent in Fredericksburg, VA. Within the District, the

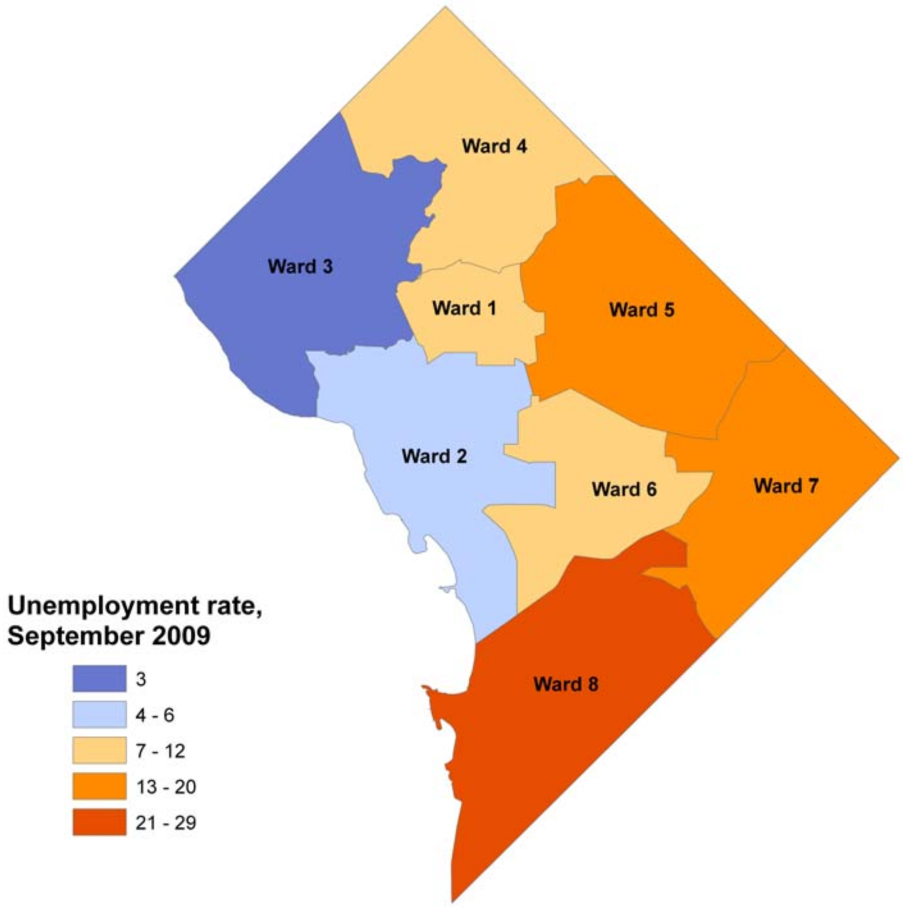
[2] Employment data reported by Economy.com includes sectors not reported by the Bureau of Labor Statistics.

unemployment rate varied even more, from roughly 3 percent in Ward 3 to roughly 28 percent in Ward 8.

Unemployment rate by county/county equivalent, September 2009



Unemployment rate by ward in the District of Columbia, September 2009



Source: D.C. Department of Employment Services, Office of Labor Market Research and Information

- **Gross metropolitan product (GMP) in the Washington region expanded for the second consecutive quarter, at a faster rate in the third quarter than the second quarter.** Since the fourth quarter of 2008 output (GMP) has risen 1.6 percent after dipping slightly in the first quarter of 2009. This was the second strongest performance among the top 100 metros after Austin, TX. Only six other metros have surpassed their previous output peaks. During the third quarter, Washington-area GMP increased by 1.6 percent in the Washington region, up from 0.6 percent in the second quarter of 2009. Ninety-one (91) other metros among the 100 largest also experienced positive GMP growth in the third quarter of 2009, up from a total of 20 metros in the previous quarter.
  Percent change in GMP, peak to 2009Q3 rank: 2 out of 100.
  Percent change in GMP, 2009Q2 to 2009Q3 rank: 10 out of 100.

- **Housing prices were still down from their levels one year ago, though by a smaller margin than in previous quarters.** Housing prices in the Washington region fell 3.4 percent between the third quarter of 2008 and the third quarter of 2009. This is smaller than the annual declines registered in the first quarter (8.6 percent) and second quarter (5.6 percent) of 2009. The first time homebuyer tax credit (which has now been expanded and extended to April 2010) appeared to increase activity in the real estate sector in metro areas across the country, including the Washington region, and may also have helped to bolster the housing market.

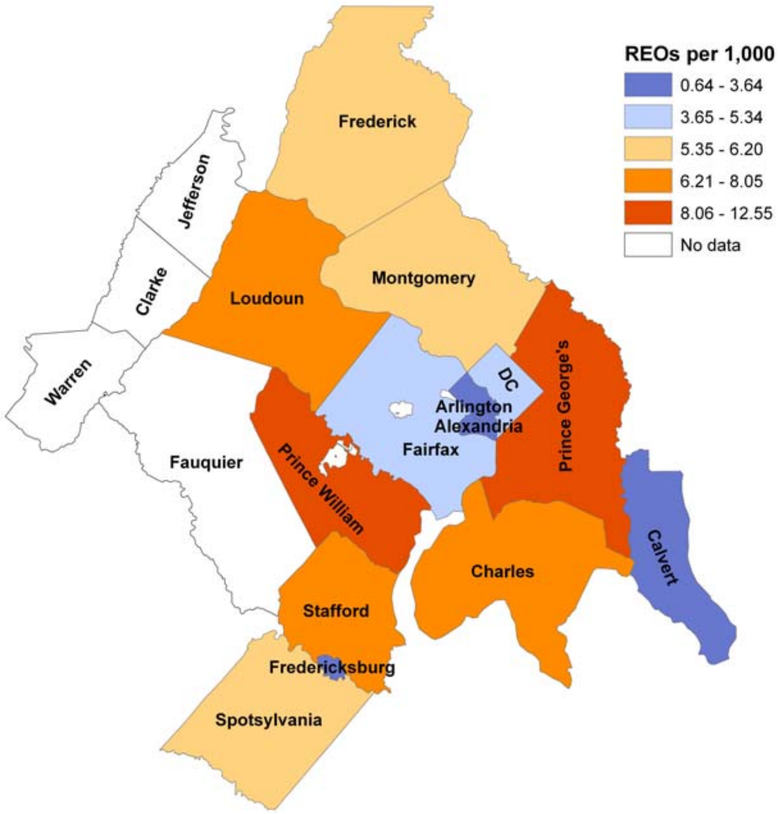
Percent change in real housing prices, 2008Q3 to 2009Q3 rank: 65 out of 100.

- **Greater Washington continued to struggle with a high proportion of real estate owned properties (REOs).** Once again, the D.C. metro ranked among the bottom twenty metro areas among the 100 largest metros on its REO rate. There were 7.04 REOs per 1,000 mortgageable properties in the region in September 2009, up 0.17 percentage points from the rate in June. More encouragingly, the growth rate for REOs may be slowing; last quarter the one-quarter change in the REO rate was 0.45. Overall, REOs rose in 79 of the top 100 metros between June and September 2009.

  REOs per 1,000 mortgageable properties, Sep 2009 rank: 88 out of 100.
  Change in REO rate, June 2009 to Sep 2009 rank: 43 out of 100.

- **Real-estate owned properties were concentrated in the suburbs, due to a variety of factors including the concentration of sub-prime loans and the overbuilding that occurred in the period immediately prior to the housing crisis.** Prince George's and Prince William counties had the highest rates at more than 12 REOs per 1,000 mortgageable properties in September 2009. Housing in the core of metropolitan Washington continued to be in high demand: the District of Columbia's ratio was 5.34 REOs per 1,000 mortgageable properties, Arlington's ratio was 2.13 REOs per 1,000 mortgageable properties, and Alexandria came in at 3.64 REOs per 1,000 mortgageable properties.

Number of REOs per 1,000 mortgageable properties



Conclusion

On the whole, the Washington region has reason for optimism about its prospects for recovery. However, policymakers and community stakeholders should note the variations in how different jurisdictions within the region are faring regarding unemployment and housing, both of which indicate that some areas are more distressed and vulnerable than others. Additionally, while the region as a whole is relatively strong on most of the economic indicators examined in this report, that is not the case for the housing market. If the other indicators weaken, the housing market will likely further erode.

Appendix. Top 20 metros performance across four key indicators

Metro	Percent change in employment, metro peak to 2009Q3	Rank	Percentage point change in the unemployment rate, Sep 2008 to Sep 2009	Rank	Percent change in real GMP, metro peak to 2009Q3	Rank	Percent change in the real HPI, 2008Q3 to 2009Q3	Rank
Austin, TX	-0.8%	2	2.6%	28	2.0%	1	2.2%	22
Baton Rouge, LA	-1.5%	6	1.3%	2	-1.2%	22	3.5%	11
Buffalo, NY	-2.8%	24	2.5%	24	-1.4%	24	4.3%	5
Columbia, SC	-1.7%	8	2.8%	32	-1.6%	28	1.7%	25
Dallas, TX	-2.0%	13	3.1%	43	-0.2%	9	2.9%	17
Des Moines, IA	-1.8%	10	2.2%	12	-3.2%	49	2.6%	19
El Paso, TX	-1.1%	4	3.2%	48	-0.5%	15	0.9%	35
Houston, TX	-3.3%	30	3.4%	55	-0.1%	8	3.7%	9
Jackson, MS	-2.1%	14	1.3%	1	-1.4%	23	4.4%	2
Kansas City, MO-KS	-2.3%	18	2.8%	35	-0.3%	10	1.5%	29
Little Rock, AR	-2.0%	11	1.6%	6	-1.0%	20	3.3%	13
Madison, WI	-2.5%	21	2.3%	16	-1.5%	26	1.7%	26
Oklahoma City, OK	-2.0%	12	2.3%	18	-1.2%	21	3.4%	12
Omaha, NE-IA	-1.6%	7	1.4%	3	-2.3%	37	3.6%	10
Rochester, NY	-2.1%	15	2.3%	15	-0.5%	16	4.3%	3
San Antonio, TX	-0.9%	3	2.2%	13	0.5%	5	3.9%	7
Syracuse, NY	-1.8%	9	2.4%	21	-1.4%	25	4.3%	4
Tulsa, OK	-2.3%	17	3.4%	53	-0.4%	13	3.9%	8
Virginia Beach, VA-NC	-2.2%	16	2.4%	20	0.7%	4	-2.0%	57
Washington, D.C.-VA-MD-WV	**-1.1%**	**5**	**2.2%**	**14**	**1.6%**	**2**	**-3.4%**	**65**

Overall metropolitan performance, and performance on each component indicator, is grouped by quintile (20 metro areas each) and indicated by the following shading:

Strongest	Second-strongest	Middle	Second-weakest	Weakest

Methodology

The *MetroMonitor* tracks quarterly indicators of economic recession and recovery in the nation's 100 largest metropolitan areas—those with at least 500,000 residents in 2007—which collectively contain two-thirds of the nation's jobs and generate three-quarters of GDP. These indicators include:

- **Employment**: Total wage and salary jobs, seasonally adjusted. Percentage change in employment is shown from each metro area's peak employment quarter to the most recent quarter, measuring the extent to which employment has recovered from the recession's impact. Peaks are defined as the highest employment level attained since the first quarter of 2004; in some metro areas where this peak occurred in the most recent quarter, the peak was defined as the highest level attained between 2004 and its most recent quarter of employment losses. Percentage change in employment is also shown from the previous quarter to the most recent quarter, measuring the extent to which employment is moving toward recovery. Source: Moody's Economy.com

- **Unemployment rate**: Percentage of the labor force that is currently unemployed, not seasonally adjusted, last month of quarter. Because the data are not seasonally adjusted, change in the unemployment rate is shown from the same month in previous year. Source: Bureau of Labor Statistics.

- **Gross metropolitan product (GMP)**: Total value of goods and services produced within a metro area. The percentage change in GMP is shown from each metro area's peak GMP quarter (defined in the same way as the peak employment quarter, described above) to the most recent quarter, and from the previous quarter to the most recent quarter. Source: Moody's Economy.com.

- **Housing prices**: Prices of single-family properties whose mortgages have been purchased or securitized by Fannie Mae or Freddie Mac, not seasonally adjusted. Because the data are not seasonally adjusted, the percentage change in housing prices is shown from the same quarter in the previous year to the most recent quarter. Source: Federal Housing Finance Agency House Price Index.

- **Real estate-owned (REO) properties**: Foreclosed properties that fail to sell at auction and thus become owned by the lending institution. Shown as the share of all mortgageable properties in each metro area in the last month of the most recent quarter, and change in share from last month in previous quarter. Source: McDash Analytics.

This *MetroMonitor*'s Overall Performance index combines metropolitan rankings on four key indicators:

- Percent employment change from peak quarter to 3rd quarter 2009
- Percentage point change in unemployment rate from September 2008 to September 2009
- Percent GMP change from peak quarter to 3rd quarter 2009
- Percent change in House Price Index from 3rd quarter 2008 to 3rd quarter 2009

Metropolitan areas are then grouped into quintiles (groups of 20) based on their average ranking across all four indicators, among the 100 largest metro areas.

Interactive *MetroMonitor* maps, underlying indicator data, and one-page profiles of each of the 100 largest metro areas are also available at www.brookings.edu/metromonitor.

About the Metropolitan Policy Program at the Brookings Institution

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Greater Washington Research at Brookings

Greater Washington Research at Brookings is devoted to helping policy makers in the Washington metropolitan area understand the issues facing the region and make better decisions. We conduct research and analysis and bring together policy-makers, the press and the public to discuss alternative policies. Our emphasis is on helping the region become more prosperous and inclusive. Learn more at www.brookings.edu/washington

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For More Information on the *Metro D.C. Monitor*

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